



Interim Report

Q1
2023

Consolidation and integration leading to resilient revenue growth and increased profitability

Highlights of Q1 2023

- Resilient growth in the Platform and Premium Games segments, with Net revenue of almost € 113 million, up from € 94 million in Q1 2022. Adjusted EBITDA of almost € 9 million up by 48% compared to Q1 2022, reflecting improved margins due to accelerated integration of previous acquisitions, as well as cost optimisation.
- Upgraded expected annualised cost savings to at least € 15 million from at least € 10 million, excluding any effects from foreign exchange. The expected savings are compared to the January 2023 baseline.
- Launch of *Performance* by Azerion, enriching campaigns across all features and platforms, driving increased performance across the full advertisement funnel.
- Roll out of proprietary ad format *Oneskin*, an integrated rich media native product that creates a highly scalable feature on the Azerion Platform.
- Expanded brand licensing partnerships with SmileyWorld, Mattel and L.O.L. Surprise! O.M.G. Fashion House™ to create engaging in game branded advertising content in metaverse social games Habbo, Hotel Hideaway and Wooworld.
- Successfully completed the legal merger between Azerion Holding B.V. and Azerion Group N.V. to simplify financial reporting.

Selected Financial KPIs

Financial results – Azerion Group N.V.

in millions of €

	Q1	Q1
	2023	2022
Net revenue	112.7	94.4
Gross profit	42.0	32.8
Operating profit / (loss)	(7.7)	(144.9)
Adjusted EBITDA	8.7	5.9
Net revenue growth %	19.4%	
Gross profit margin %	37.3%	34.7%
Adjusted EBITDA growth %	47.5%	
Adjusted EBITDA margin %	7.7%	6.3%

Message from the CEO



"I am pleased with our continued growth in underlying profitability in Q1 2023. We made significant progress integrating previous acquisitions and further optimising our operations, whilst releasing new products and services to our current and new advertising and publisher partners. We are working hard to make our platform more efficient, better serving our clients, increasing our resilience and positioning us to capture exciting market opportunities. We expect to continue improving our underlying profitability in Q2 2023, which provides us confidence in achieving our strategic and financial objectives for 2023 and beyond." – Umut Akpinar

Financial overview

Net revenue

Net revenue for the quarter amounted to € 113 million an increase of approximately 19%, compared to Q1 2022, mainly due to growth in the Platform segment.

Earnings

Adjusted EBITDA was € 8.7 million for the quarter compared to € 5.9 million in Q1 2022, an increase of approximately 48%, reflecting improved margins due to accelerated integration of previous acquisitions as well as cost optimisation.

The operating loss for the quarter amounted to € (7.7) million, compared to a loss of € (144.9) million in Q1 2022 mainly explained by € 141.6 million of one-off De-SPAC related expenses incurred in Q1 2022.

Cash flow

Cash flow from operating activities in Q1 2023 was an inflow of € 27.4 million, Cash flow from investing activities was an outflow of € (24.9) million, mainly due to acquisitions. Cash flow from financing activities totalled an outflow of € (3.1) million.

Capex

Azerion capitalizes development costs related to asset development, a core activity to support innovation in its platform. These costs primarily relate to developers' time devoted to the development of games, platforms, and other new features. In Q1 2023 Azerion capitalized € 4.6 million, equivalent to 15.9% of gross personnel costs, which is broadly in line with previous quarters.

Financial position and financing

Our net interest-bearing debt^{*} amounted to € 177.4 million as of 31 March 2023, mainly comprising our outstanding bond loan with a nominal value of € 200 million (part of a total € 300 million framework) and lease liabilities with a balance of € 19.9 million less the cash and cash equivalents position of € 50.3 million.

^{*} As defined in section 1.1 of the Terms & Conditions of the Senior Secured Callable Fixed Rate Bonds ISIN: SE0015837794. Please also refer to the Definitions section and the notes of this Interim Report for more information.

Segment Platform

Our Platform segment includes our digital advertising activities and e-Commerce, which are fully integrated through our technology. It generates Net revenue mainly by displaying digital advertisements in both game and non-game content, as well as selling and distributing AAA games through our e-commerce channels. Platform is also integrated with parts of our Premium Games segment, leveraging inter-segment synergies.

Platform – Selected Financial KPIs

Financial results – Platform

in millions of €

	Q1	Q1
	2023	2022
Net revenue	89.3	72.5
Gross profit	30.0	22.4
Operating profit / (loss)	(8.4)	(11.4)
Adjusted EBITDA	3.6	2.0
Net revenue growth %	23.2%	
Gross profit margin %	33.6%	30.9%
Adjusted EBITDA growth %	80.0%	
Adjusted EBITDA margin %	4.0%	2.8%

Platform Net revenue of € 89.3 million in Q1 2023, an increase of 23.2% compared to Q1 2022, driven by increases in product offerings to advertisers across the globe, primarily due to previous acquisitions.

Adjusted EBITDA was € 3.6 million in Q1 2023, increasing by 80% compared to Q1 2022, mainly reflecting growth in revenue as well as lower operating expenses resulting from integration of previous acquisitions and related efficiencies.

Results also benefited from increased user engagement levels, with users spending more time playing casual games, as well as strong performance in e-Commerce. In addition, we have grown our casual games distribution portfolio during Q1 2023, adding approximately 437 new games and 50 new publishers partners.

Advertising – Selected Operational KPIs

Advertising – Operational KPIs¹

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Avg. Gross Revenue per Million Processed Ad Requests from advertising auction platform (€)	8.6	9.1	11.2	16.7	11.2

¹ The reporting of average digital ads sold per month has been temporarily discontinued due to ongoing integration of operational reporting data from acquisitions completed in the second half of 2022.

The **Average gross revenue per million processed ad requests** was € 11.2 in Q1 2023, compared to € 8.6 in Q1 2022, demonstrating our ability to manage the advertising auction platform efficiently and profitably.

This measure excludes ad requests that are rejected before entering our advertising auction platform Improve Digital.

Segment Premium Games

Our Premium Games segment includes social games and metaverse, comprising nine premium game titles. The segment generates revenue mainly by offering users the ability to make in-game purchases for extra features and virtual goods to enhance their gameplay experience. The aim of this segment is to stimulate social interaction among players and build communities, offering an extended value proposition to advertisers and generating cross-selling opportunities with the Platform segment.

Premium Games – Selected Financial KPIs

Financial results – Premium Games

in millions of €

	Q1	Q1
Net revenue	23.5	21.9
Gross profit	12.0	10.5
Operating profit / (loss)	0.6	(0.7)
Adjusted EBITDA	5.1	3.9
Net revenue growth %	7.3%	
Gross profit margin %	51.1%	47.9%
Adjusted EBITDA growth %	30.8%	
Adjusted EBITDA margin %	21.7%	17.8%

Premium Games Net revenue in Q1 2023 benefited from strong growth in Social Card games, in particular Governor of Poker 3 and Monopoly Poker, expanding new features and content for users to further grow and monetise the games' communities. Net revenue grew to € 23.5 million in Q1 2023, an increase of 7.3% compared to Q1 2022.

Adjusted EBITDA was € 5.1 million in Q1 2023, an increase of 30.8% compared to Q1 2022, reflecting our focus on managing for value.

Premium Games – Selected Operational KPIs

Premium Games – Operational KPIs

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Avg. Time in Game per Day (min)	81	80	80	79	84
Avg. DAUs (thousands)	607	569	556	559	601
Avg. ARPDAU (€)	0.38	0.4	0.42	0.45	0.42

- The **Average time in game per day** from our Premium Games players increased in Q1 2023 compared to Q1 2022 due to increased audience engagement with our Social Card game titles.
- The **Average daily active users (DAUs)** remained at a similar level as in Q1 2022.
- The **Average revenue per daily active user (ARPDAU)** increased by more than 10% compared to Q1 2022, primarily driven by new features and events that enhance user gameplay experience and monetisation of players.

Outlook

Previously provided guidance remains unchanged:

- Adjusted EBITDA for 2023 is expected to be at least EUR 75 million, with annual Adjusted EBITDA margin thereafter expected to grow and be in the range of 14% to 16% in the medium term. The expected improvement in Adjusted EBITDA margin is expected to be primarily driven by gross profit margin optimisation, cost efficiencies and overall benefits of scale as the Azerion platform grows. This outlook does not include the impact of any material acquisitions or divestments.
- Net revenue for 2023 is expected to be around EUR 560 million, with expected annual growth thereafter of around 15% in the medium term. This outlook does not include the impact of any material acquisitions or divestments.

Other information

Interest Bearing Debt

Interest Bearing Debt

in millions of €

	31 March 2023	31 December 2022
Total non-current indebtedness	215.7	215.8
Total current indebtedness	12.0	12.8
Total financial indebtedness	227.7	228.6
Deduct Zero interest bearing loans	-	(0.1)
Interest Bearing Debt	227.7	228.5
Less: Cash and cash equivalents	(50.3)	(50.9)
Net Interest Bearing Debt (Bond terms)	177.4	177.6

References to the bond terms in the table above refer to the terms as defined in the senior secured callable fixed rate bond ISIN: SE0015837794

Reconciliation of net income to Adjusted EBITDA

Reconciliation of net income to Adjusted EBITDA

in millions of €

	Q1							
	2023				2022			
	Azerion Group	Premium Games	Platform	Other	Azerion Group	Premium Games	Platform	Other
Profit / (loss) for the period	(12.4)				(134.8)			
Income Tax expense	0.9				0.7			
Profit / (loss) before tax	(11.5)				(134.1)			
Net finance costs	3.8				(10.8)			
Share in profit/(loss) of joint venture	-				-			
Operating profit / (loss)	(7.7)	0.6	(8.4)	0.1	(144.9)	(0.7)	(11.4)	(132.8)
Depreciation & Amortization	10.3	3.1	7.2	-	8.1	3.1	5.0	-
De-SPAC related expenses	-	-	-	-	141.6	1.3	7.5	132.8
Other	-	0.1	-	(0.1)	1.1	0.2	0.9	-
Acquisition expenses	2.8	-	2.8	-	-	-	-	-
Restructuring	3.3	1.3	2.0	-	-	-	-	-
Adjusted EBITDA	8.7	5.1	3.6	-	5.9	3.9	2.0	0.0

Operating expenses

Breakdown of operating expenses
in millions of €

	Q1	
	2023	2022
Personnel costs	(27.8)	(39.5)
Includes:		
<i>Azerion Founder Warrants, reported as share-based payment expense</i>	-	(9.9)
<i>De-SPAC early exercised share-based payment expense</i>	-	(10.3)
Other expenses	(11.6)	(129.5)
Includes:		
<i>De-SPAC transaction related expenses</i>		(121.4)
Operating expenses	(39.4)	(169)
Of which:		
Platform	(31.2)	(28.2)
Premium Games	(8.2)	(8.1)

Restructuring

In relation to ongoing consolidation and integration, restructuring charges in Q2 2023 are expected to be in the range of € 4 million to € 5 million. These costs impact the reported operating profit / loss, but are removed from Adjusted EBITDA.

Settlement

In May 2023 a claim was settled resulting in a cash outflow of about € 0.4 million and in a gain of about € 0.7 million due to a release of a provision in segment Platform in Q2 2023.

Bond Refinancing

On 8 April 2021, the Group issued senior secured callable fixed rate bonds for a total of € 200 million, within a total framework amount of € 300 million. The maturity date of the bonds is 28 April 2024 and the bonds carry a fixed interest rate of 7.25% per annum. The management team are fully engaged in evaluating the options available to refinance the bonds. Those options include, but are not limited to, pursuing a similar repeat bond issuance, the implementation of alternative external third-party financing solutions and/or utilisation of other internally available financial resources. The refinancing strategy and execution planning will continue and be finalised in an appropriate timeframe taking into account considerations relating to business performance, strategic and operational requirements, internal cash generation, any implied deleveraging and applicable market conditions.

Merger and Updated comparative figures

Azerion became listed on 1 February 2022 through a De-SPAC Transaction and from that point onwards Azerion Group N.V. results were reported alongside those of Azerion Holding B.V. As at 1 January 2023, Azerion Group N.V. and Azerion Holding B.V. merged, with Azerion Group N.V. the surviving company. As a consequence, Azerion will now report in the quarters of 2023, and for the comparative results of the quarters of 2022, only the consolidated results of Azerion Group N.V.

Next to this important change for the company, the following comparative figure changes have been and will be reflected in our quarterly press releases:

- The quarterly reporting of 2022 for the quarters of Q1 and Q3 only reflected the results of Azerion Holding B.V. This report shares the results for these quarters of Azerion Group N.V.
- Headquarter costs allocation towards the segments Platform and Premium Games have been updated to reflect Gross profit as preferred allocation methodology

- The accounting for the Azerion Founder Warrants has been updated to reflect the Annual Report 2022 accounting treatment change towards Share based payment
- The results of the full year 2022 income tax calculation finalised post Q4 2022 press release
- Listing expenses and share based payment expenses have been updated to reflect the Annual Report 2022 applied reclassification from Other gains and losses towards Other expenses and Personnel costs respectively.
- Certain statement of financial position classifications have been updated to reflect the changes applied in Annual Report 2022

Condensed consolidated statement of profit or loss and other comprehensive income

Consolidated statement of profit or loss and other comprehensive income
in millions of €

	Q1	
	2023	2022
Net revenue	112.7	94.4
Costs of services and materials	(70.7)	(61.6)
Gross profit	42.0	32.8
Personnel costs	(27.8)	(39.5)
Depreciation	(1.9)	(1.6)
Amortization	(8.4)	(6.5)
Impairment of non-current assets	-	-
Other gains and losses	-	(0.6)
Other expenses	(11.6)	(129.5)
Operating profit / (loss)	(7.7)	(144.9)
Finance income	2.9	16.7
Finance costs	(6.7)	(5.9)
Net Finance costs	(3.8)	10.8
Share in profit/(loss) of joint venture and associate	-	-
Profit / (loss) before tax	(11.5)	(134.1)
Income tax expense	(0.9)	(0.7)
Profit / (loss) for the period	(12.4)	(134.8)
Attributable to:		
Owners of the company	(12.5)	(134.6)
Non-controlling interest	0.1	(0.2)
Items that may be reclassified to profit and loss, net of tax		
Exchange difference on translation of foreign operations	0.1	(0.6)
Total other comprehensive income	(12.3)	(135.4)
Attributable to:		
Owners of the company	(12.2)	(135.1)
Non-controlling interest	(0.1)	(0.3)

Condensed consolidated statement of financial position

Consolidated statement of financial position
in millions of €

	31 March 2023	31 December 2022
Assets		
Non-current assets	429.9	429.3
Goodwill	185.2	184.2
Intangible assets	182.7	186.2
Property, plant and equipment	21.2	20.5
Non-current financial assets	39.1	36.8
Deferred tax asset	1.6	1.5
Investment in joint ventures	0.1	0.1
Current assets	188.9	209.2
Trade and other receivables ¹	136.7	157.3
Current tax assets	1.9	1.0
Cash and cash equivalents	50.3	50.9
Total assets	618.8	638.5
Equity		
Shareholders' equity	82.2	93.8
Non-controlling interest	2.4	2.4
Total equity	84.6	96.2
Liabilities		
Non-current liabilities	258.8	257.7
Borrowings	201.3	201.5
Lease liabilities	14.4	14.3
Provisions	1.5	1.6
Deferred tax liability	26.2	25.3
Other non-current liability	15.4	15.0
Current liabilities	275.4	284.6
Borrowings	6.5	7.9
Lease liabilities	5.5	4.9
Provisions	4.1	0.9
Trade, other payables and accrued liabilities	228.8	221.9
Current tax liabilities	6.6	5.4
Other current liabilities	23.9	43.6
Total liabilities	534.2	542.3
Total equity and liabilities	618.8	638.5

¹ Contract assets and Contract liabilities have been reclassified to Trade and other receivables and Trade and other payables to reflect the appropriate accounting treatment

Condensed consolidated statement of cash flow

Condensed consolidated statement of cash flow
in millions of €

	Q1 2023	Q1 2022
Cash flows from operating activities		
Operating profit / (loss)	(7.7)	(144.9)
Adjustments for		
Depreciation amortisation & impairment	10.3	8.1
Movements in provisions per profit and loss	3.3	-
Share-based payments expense	-	20.1
De-SPAC related expenses	-	12.5
Other non-cash items	-	(0.5)
Changes in working capital items:		
(Increase)/Decrease in trade and other receivables	19.8	20.2
Increase (decrease) in trade payables and other payables	7.9	(17.4)
Utilization of provisions	(2.1)	-
Interest paid	(4.1)	(5.3)
Income tax paid	-	-
Net cash provided by (used for) operating activities	27.4	(0.5)
Cash flows from investing activities		
Payments for property, plant and equipment	(0.5)	(0.9)
Payments for intangibles	(6.2)	(4.7)
Net cash outflow on acquisition of subsidiaries	(18.2)	(2.6)
Decrease/ (Increase) in loans and other investments	-	-
Net cash outflow from investing activities	(24.9)	(8.2)
Cash flows from financing activities		
Proceeds from external borrowings	0.1	0.1
Repayment of external borrowings	(1.5)	(1.9)
Increase in loans to related parties	-	-
De-SPAC related expenses	-	(25.7)
Payment of principal portion of lease liabilities	(1.7)	(1.4)
Proceeds from De-SPAC transaction	-	404.1
Settlement of De-SPAC transaction	-	(310.9)
Other inflows (outflows) from financing activities	-	-
Net cash inflows financing activities	(3.1)	64.3
Net increase in cash and cash equivalents	(0.6)	55.6
Effect of changes in exchange rates on cash and cash equivalents	0.2	-
Cash and cash equivalents at the beginning of the period	50.9	35.3
Cash and cash equivalents at the end of the period	50.3	90.9

Definitions

Adjusted EBITDA represents operating Profit / (Loss) excluding depreciation, amortization, impairment of non-current assets, restructuring and acquisition related expenses and other items at management discretion.

Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of Net revenue

Average gross revenue per million processed ad requests from the advertising auction platform is calculated by dividing gross advertising revenue by a million of advertisement requests running through advertising auction platform Improve Digital. Not all advertisement requests are processed and become eligible to be fulfilled as an advertisement sold, therefore this metric measures our efficiency and overall profitability of the digital advertising auction platform, demonstrating that the revenue generated by the advertisements that are sold also remunerate and more than cover the costs of all the advertisement requests.

Average time in game per day measures how many minutes per day, on average, the players of Premium Games spend in our games. This demonstrated their engagement with the games, which generates more opportunities to grow the ARPDau.

Average DAUs represents average daily active users, which is the number of distinct users per day averaged across the relevant period.

Average ARPDau represents Average Revenue per Daily Active User, which is revenue per period divided by days in the period divided by average daily active users in that period and represents average per user in-game purchases for the period.

EBITDA represents operating Profit / (Loss) excluding depreciation, amortization and impairment of non-current assets

Financial Indebtedness represents as defined in the terms and conditions of the Senior Secured Callable Fixed Rate Bonds ISIN: SE0015837794 any indebtedness in respect of:

1. monies borrowed or raised, including Market Loans;
2. the amount of any liability in respect of any Finance Leases;
3. receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
4. any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
5. any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account, provided that if any actual amount is due as a result of a termination or a close-out, such amount shall be used instead);
6. any counter indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
7. (without double counting) any guarantee or other assurance against financial loss in respect of a type referred to in the above paragraphs (a)-(f).

Gross Profit Margin represents Gross Profit as a percentage of Net revenue

Gross Profit represents the profit made after subtracting from Net revenue all (variable) costs that are related to manufacturing of its products or services.

Net Interest Bearing Debt as defined in the terms and conditions of the Senior Secured Callable Fixed Rate Bonds ISIN: SE0015837794 means the aggregate interest bearing Financial Indebtedness less cash and cash equivalents of Azerion Group N.V. and its subsidiaries from time to time in accordance with the Accounting Principles (for the avoidance of doubt, excluding any Bonds owned by the Issuer, guarantee, bank guarantees, Subordinated Loans,

any claims subordinated pursuant to a subordination agreement on terms and conditions satisfactory to the Agent and interest-bearing Financial Indebtedness borrowed from any Azerion Group Company) as such terms are defined in the terms and conditions of the Senior Secured Callable Fixed Rate Bonds ISIN: SE0015837794

Operating expenses are defined as the aggregate of personnel costs and other expenses as reported in the statement of Other comprehensive income. More details on the cost by nature reporting can be found in the published annual financial statements of 2022.

Disclaimer and Cautionary Statements

This communication contains information that qualifies as inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

This communication may include forward-looking statements. All statements other than statements of historical facts are, or may be deemed to be, forward-looking statements. Forward-looking statements include, among other things, statements concerning the potential exposure of Azerion to market risks and statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. Words and expressions such as aims, ambition, anticipates, believes, could, estimates, expects, goals, intends, may, milestones, objectives, outlook, plans, projects, risks, schedules, seeks, should, target, will or other similar words or expressions are typically used to identify forward-looking statements. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks, uncertainties and other factors that are difficult to predict and that could cause the actual results, performance or events to differ materially from future results expressed or implied by such forward-looking statements contained in this communication. Readers should not place undue reliance on forward-looking statements.

Any forward-looking statements reflect Azerion's current views and assumptions based on information currently available to Azerion's management. Forward-looking statements speak only as of the date they are made and Azerion does not assume any obligation to update or revise such statements as a result of new information, future events or other information, except as required by law.

The interim financial results of Azerion Group N.V. as included in this communication are required to be disclosed pursuant to the terms and conditions of the Senior Secured Callable Fixed Rate Bonds ISIN: SE0015837794.

This report has not been reviewed or audited by Azerion's external auditor.

Certain financial data included in this communication consist of alternative performance measures ("non-IFRS financial measures"), including EBITDA and Adjusted EBITDA. The non-IFRS financial measures, along with comparable IFRS measures, are used by Azerion's management to evaluate the business performance and are useful to investors. They may not be comparable to similarly titled measures as presented by other companies, nor should they be considered as an alternative to the historical financial results or other indicators of Azerion Group N.V.'s cash flow based on IFRS. Even though the non-IFRS financial measures are used by management to assess Azerion Group N.V.'s financial position, financial results and liquidity and these types of measures are commonly used by investors, they have important limitations as analytical tools, and the recipients should not consider them in isolation or as a substitute for analysis of Azerion Group N.V.'s financial position or results of operations as reported under IFRS.

For all definitions and reconciliations of non-IFRS financial measures please also refer to www.azerion.com/investors.

This report may contain forward-looking non-IFRS financial measures. We are unable to provide a reconciliation of these forward-looking non-IFRS financial measures to the most comparable IFRS financial measures because certain information needed to reconcile those non-IFRS financial measures to the most comparable IFRS financial measures is dependent on future events some of which are outside the control of Azerion. Moreover, estimating such IFRS financial measures with the required precision necessary to provide a meaningful reconciliation is extremely difficult and could not be accomplished without unreasonable effort. Non-IFRS financial measures in respect of future periods which cannot be reconciled to the most comparable IFRS financial measure are calculated in a manner which is consistent with the accounting policies applied in Azerion Group N.V.'s consolidated financial statements.

This communication does not constitute an offer to sell, or a solicitation of an offer to buy, any securities or any other financial instruments.

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