Nasdaq First North Premier: SDS

Interim report Q3

January - September 2019

Seamless Distribution Systems

Interim report Q3

January – September 2019

SUMMARY

JULY - SEPTEMBER 2019

- Net sales totalled MSEK 63.4 (17.6), an increase of 260.2 % compared to the same period the preceding year.
- EBITDA amounted to MSEK 12.8 (2.4).
- EBITDA margin amounted to 20.1% (13.5%).
- EBITDA excluding acquisition and restructuring costs amounted to MSEK 9.0.
- EBITDA margin excluding acquisition and restructuring costs amounted to 14.2%.
- Profit after tax amounted to MSEK 3.6 (-0.9).
- Profit after tax without acquisition and restructuring costs amounted to MSEK -0.1.
- Earnings per share amounted to SEK 0.47 (-0.12).
- Total cash flow amounted to MSEK 4.7 (-2.0).

SUMMARY

JANUARY - SEPTEMBER 2019

- Net sales totalled MSEK 169,0 (48,7), an increase of 247,1 % compared to the same period the preceding year.
- EBITDA amounted to MSEK 22,3 (1,7).
- EBITDA margin amounted to 13,2% (3,5%).
- EBITDA excluding acquisition and restructuring costs amounted to MSEK 20,3.
- EBITDA margin excluding acquisition and restructuring costs amounted to 12,0%.
- Profit after tax amounted to MSEK 5,1 (-5,1).
- Profit after tax without acquisition and restructuring costs amounted to MSEK 3,1.
- Earnings per share amounted to SEK 0,66 (-0,71).
- Total cash flow amounted to MSEK 2,5 (-0,6).

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
Net sales	63,358	17,590	169,036	48,694
Net sales excluding withholding tax	60,162	15,923	161,150	43,666
Operating profit/loss	5,930	22	9,628	-5,164
Operating margin (EBIT)	9.4%	0.1%	5.7%	-10.6%
Operating profit excluding acquisition costs	2,163	-	7,600	-
Operating margin (EBIT) excluding acquisition costs	3.4%	-	4.5%	-
EBITDA	12,763	2,373	22,284	1,725
EBITDA margin	20.1%	13.5%	13.2%	3.5%
EBITDA excluding acquisition costs	8,996	-	20,256	-
EBITDA margin excluding acquisition costs	14.2%	-	12.0%	-
Profit/Loss for the period after tax	3,648	-927	5,108	-5,136
Profit for the period after tax, excluding acquisition costs	-119	-	3,080	-
Total cash flow	4,777	-1,986	2,501	-633
Earnings per share, before and after dilution	0.47	-0.12	0.66	-0.71
Equity/assets ratio	14.0%	25.4%	14.0%	25.4%

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FINANCIAL CALENDAR

Year-end Report Q4 2019	2020-02-13
Interim report Q1 2020	2020-04-22
Annual General Meeting	2020-04-23

CEO's comments

The third quarter of the year has been very important for our long-term growth ambitions. Revenue increased by 260 percent to SEK 63.4 million. Of these, just under SEK 13 million is attributable to our acquisition of eServGlobal, which was completed at the end of July. Underlying growth in the Group remains strong even though order flows remain uneven throughout the quarters.

In terms of profit, we achieve a positive operating profit of SEK 2.2 million. The quarter was affected by restructuring costs, goodwill and acquisition costs, which is essentially a one-off effect.

During the quarter SDS has worked hard to meet with customers and employees regarding our acquisition of eServGlobal, which in one stroke doubles sales in the system sales segment. Work on realizing the synergies from the acquisition has begun, which I expect will have a good effect on the result. Furthermore, there is an expectation that these synergies will contribute to a positive cash flow already sometime in the next year. At the same time, steady growth in sales and profitability in the distribution segment continues, where more and more retailers and chains are actively seeking our Nordic distribution business, SDD. We also aim for our recurring support and revenue share revenues to pass fixed costs next year.

THE ACQUISITION OF ESERVGLOBAL

The acquisition of eServGlobal has now reached the integration phase where we carry out a review of finances, organization, products and expertise. We have also met a number of customers and prospectus where we have confirmed that they continue their ongoing support service with us and also look very positively at SDS's ability to help them increase their revenues and results. For many years SDS has been investing in increased productivity in low-cost countries where resources have now been released for innovation, a venture which can now also be appliable to eServGlobal's customer base. A first published example of confidence in SDS as a new owner came in the form of a larger order from an eServGlobal customer in the largest market in the Middle East. In addition, we see a continuous influx of smaller additional orders to eServGlobal.

THE NORDIC DISTRIBUTION OPERATIONS

Our distribution business within the subsidiary SDD is growing steadily and has been delivering a positive net result to the Group for a number of months. We are steadily recruiting new retailers, both individual and chains, which is largely due to the fact that, unlike some competitors, products are always in stock available for sale at SDD. This is made possible by good systems and processes. The growth is evidence that the market is responding positively to us as a competent player.

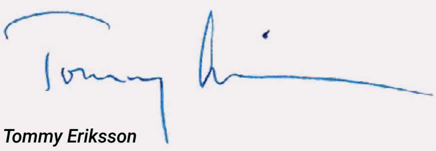
DEVELOPMENTS IN THE AFRICAN MARKET

After a sluggish start to the quarter when our customers focused on budgeting for the coming years, we have had some recovery during the last month of the quarter. Much was expected and therefore we have been able to prepare so that we have thus recorded large parts of the income directly. We continue to work on a number of promising and large prospects where the challenge is the customers' slow decision-making processes. We are now actively working to further increase our pipeline and sales methods in order to increase the likelihood of a more even flow of business and revenue in the future.

An important key figure we follow with the operators is their growth in the number of transactions handled by our systems. Here we can see an increase in the annual rate from just over 5 billion to 10 billion transactions, not counting the contribution from eServGlobal. The explanation lies in the fact that we started a number of new large customers during the year and that several of our existing customers succeeded well with their digitization.

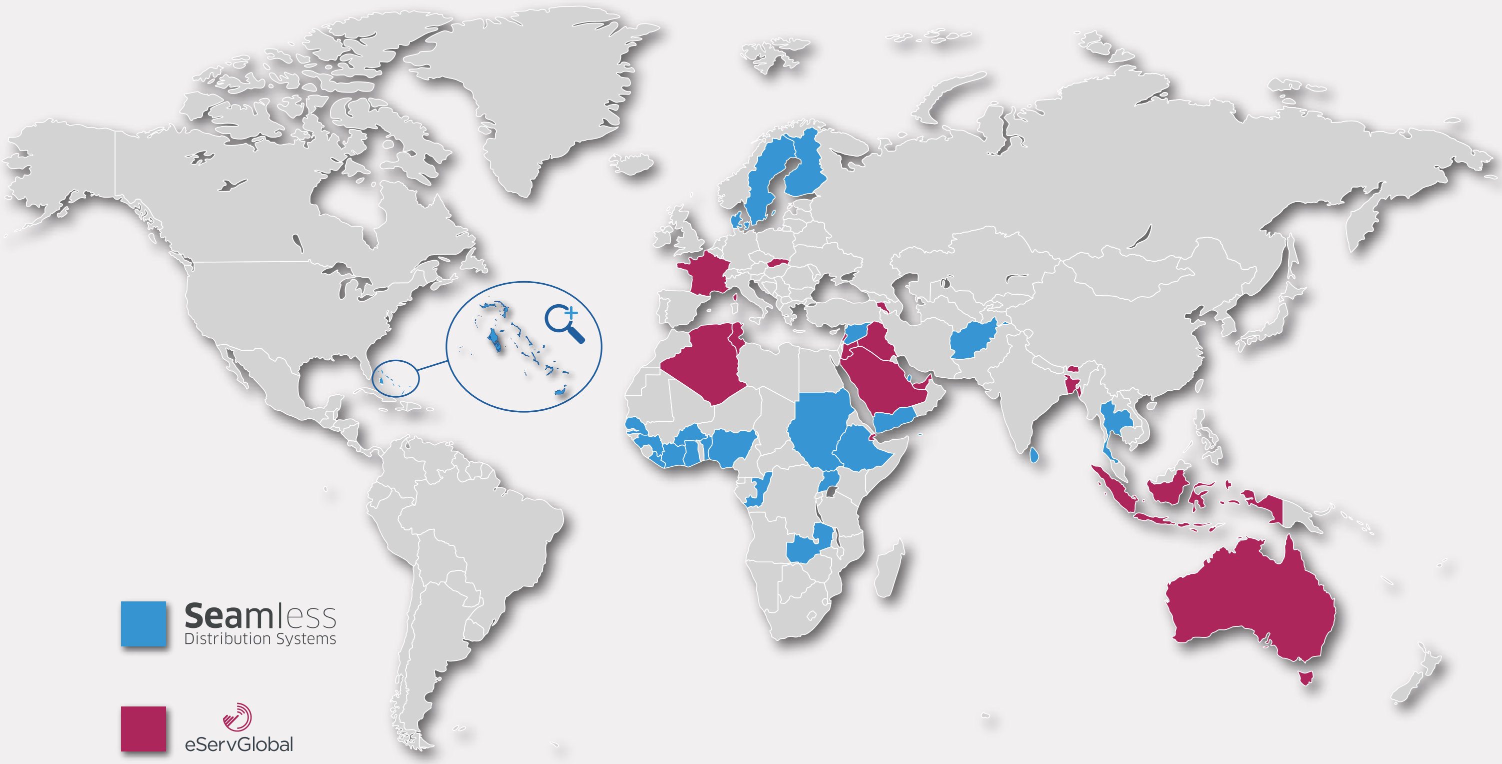
INNOVATION AND GROWTH STRATEGY

Our growth strategy consists of two main components. On the one hand, the traditional new customer sales of our base platforms where we added an accelerator in the form of an acquisition strategy. On the one hand, we sell new functions to existing customers. The new features have historically been mainly software solutions that have addressed some existing operational needs of the operator. During the year, we significantly increased our base of expertise in the area of Business Intelligence, that is, based on the billions of data points that the systems provide can generate information and draw conclusions that give the customer insight into how his business works. From the insights we create the basis for suggesting what measures should be taken to further increase the customer's revenue and profitability. This business increases our service content and takes us closer to the customer's strategic analysis and decisions. Obviously, the purpose is to sell more, but we also take a greater part in the customer's strategic process and also reach new decision groups with the customers that take us to the top management of the organization. The result is greater relevance and value of both our software and our ability to create insight with the customer from the CEO to the business owner.



Tommy Eriksson

CEO, Seamless Distribution Systems AB



eServGlobal

eServGlobal is a global provider of prepaid charging cards and mobile financial services. The operating company is located in France and development personnel are located in both France and Jakarta, Indonesia. The support staff is located in a company in Romania that is 50 percent owned. Like SDS, eServGlobal has its sales staff in Dubai. In 2018, eServGlobal had sales of MEUR 7, of which MEUR 4.3 was recurring support revenue.

THE ACQUISITION OF ESERVGLOBAL

Through the acquisition of eServGlobal, SDS has become one of the major independent players in the electronic distribution market in Africa, Asia and the Middle East. SDS has expanded its customer base with two new major operator groups. One of SDS's goals is that fixed costs should be covered by recurring revenue and through the acquisition the recurring revenue doubles, which helps to bring SDS closer to its goal.

SDS and eServGlobal have proven to match each other perfectly geographically and there is no overlap of customers, as illustrated by the map above. Regarding revenue side synergies, SDS has begun work on creating good group-level relationships with eServGlobal's two operator groups, Zain & Oreedoo. Furthermore, the company wants to show the very good results achieved at MTN. The five MTN customers who have not yet chosen SDS have increased their sales and transaction volume by 7 percent while the customers who have chosen SDS increased by 46 percent. SDS will expand its advanced product portfolio with several additional services that can quickly increase the profitability of existing customers as SDS's time-to-market rate is approximately 75 percent faster than the eServGlobal or SDS competitors' rate of development. As a result of the acquisition, the company has become a larger and more stable player in the market, which will more often be the target in the sales processes in which it is located.

On the cost side, there are synergies on the development, support and administration side. Work on streamlining the cost structure throughout the Group has begun during the quarter and the restructuring will take place in three phases with a cost of approximately SEK 32 million. A restructuring reserve of SEK 16 million was booked in the quarter and it intends to cover phase one and 50% of phase two. The restructuring will be completed during the second quarter of 2020.

The synergies in this business, in terms of profitability and growth, are expected to emerge as early as 2020, with a full effect in 2021.

eServGlobal | Seamless Distribution Systems

Products

eServGlobal

PAYMOBILE - Digital value transactions and mobile financial services
VOMS - Voucher management
PROMOMAX - Campaign management system
IVR - Voice-activated customer service
SUPPORT, OPERATIONAL MANAGEMENT AND CONSULTANCY SERVICES

Seamless Distribution Systems

ERS 360 - Digital value transactions and mobile financial services
CMS - Precision marketing
MC - Microcredits
SFO - Sales force optimization
BI - Decision support system
SUPPORT, OPERATIONAL MANAGEMENT AND CONSULTANCY SERVICES

Major customers

eServGlobal

ZAIN GROUP (4/9)
OREEDOO GROUP (4/12)
DU DUBAI (1)

Seamless Distribution Systems

MTN GROUP (16/21)
GLO GROUP (2)
ETHIO TELECOM (1)

The Group

'The Group' now refers to the new Group that contains the Seamless Distribution Systems AB (SDS) and Seamless Digital Distribution AB (SDD) segments.

NET SALES

Net sales in the third quarter amounted to KSEK 63,358 (17,590), an increase of 260.2% compared to the same period last year. Net sales excluding withholding tax amounted to KSEK 60,162 (15,923), an increase of 277.8% compared with the previous year. Other operating income amounted to KSEK 24,056 (472). Negative goodwill of KSEK 21,407 is recorded under other operating income.

Sales in the third quarter were more than three times that of the same period last year. The large revenue increase is due to the contribution from SDS's new subsidiary eServGlobal, which amounted to KSEK 12,732 and SDD which amounted to KSEK 32,007. SDS's own sales were weaker than expected as orders scheduled to arrive during the quarter were delayed.

Net sales for the nine months of the year amounted to KSEK 169,036 (48,694), an increase of 247.1% compared to the same period last year. Net sales excluding withholding tax amounted to KSEK 161,150 (43,666), an increase of 269.0% compared with the previous year. Other operating income amounted to KSEK 27,483 (1,877). Negative goodwill of KSEK 21,407 is recorded under other operating income.

During the nine months of the year, the company completed three major installations and although order bookings for major projects in the second and third quarters were weak in SDS, it was offset by two major hardware deliveries during the second quarter, which, however, had a lower gross margin than the company's more traditional sales mix. The large increase is mainly due to SDS's new subsidiary eServGlobals, which contributed KSEK 12,732. At the same time, SDD's sales have increased by more than 46% since January and are expected to increase further during the fourth quarter.

The business opportunities in both companies continue to increase and the number of prospects remains at a very satisfactory level as we now enter the fourth quarter of the year.

The company's business model means that larger projects affect revenue and earnings between quarters.

OPERATING EXPENSES

Operating expenses during the third quarter amounted to KSEK 81,484 (18,040), an increase of 351.7% compared to the same period last year. The increase is mainly explained by SDS's new subsidiary eServGlobal, which contributed costs of KSEK 9,771 thousand and SDD's material costs amounted to KSEK 30,744 thousand during the quarter. In addition, a restructuring reserve of KSEK 16,049 was booked.

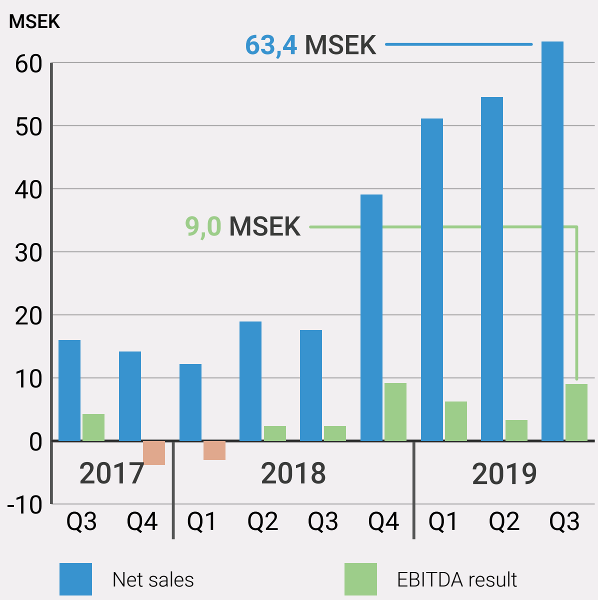
The increase in other external costs is explained by acquisition costs of KSEK 1,591. The increase in depreciation is a consequence of the acquisition in July.

The increase in personnel costs is due to the Group now having more employees as a result of the acquisition in July. The company now has 87 more employees than in the second quarter.

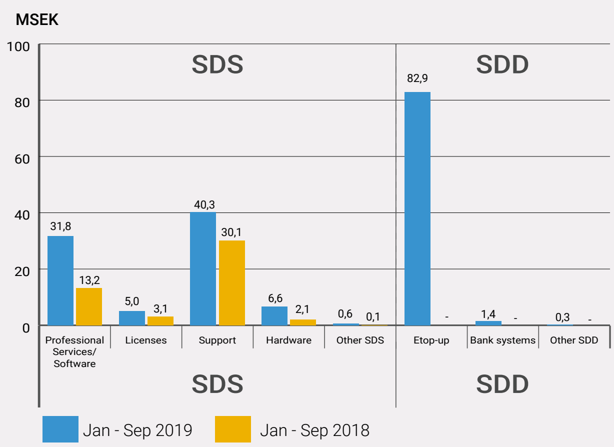
The increase in other operating expenses is due to the restructuring reserve.

Operating expenses during the nine months of the year amounted to KSEK 186,891 (55,734), an increase of 235.3% compared to the same period last year. The increase is explained by SDS's new subsidiaries, which increased costs by KSEK 9,771, SDD's material costs amounting to KSEK 81,061, acquisition costs of KSEK 3,330, restructuring reserve of KSEK 16,049 and higher material costs as SDS implemented three major hardware deliveries, higher costs for employees and consultants when the Group has more employees than the same period last year.

Net sales and EBIDTA result



Net sales per product group



OPERATING PROFIT

EBITDA for the third quarter amounted to KSEK 12,763 (2,373). EBITDA result excluding acquisition-related events & restructuring costs amounted to KSEK 8,996. (Negative goodwill amounted to SEK 21,407 thousand, acquisition costs amounted to KSEK 1,591 and restructuring costs amounted to KSEK 16,049).

Net financial items for the quarter amounted to KSEK -1,591 (-898). The increase is due to the fact that the company raised two loans as acquisition liquidity with the acquisition of eServGlobal. One loan is MSEK 10 from the commercial bank and runs for two years with quarterly repayment and 6.62% annual interest rate. The second loan is MSEK 19 and runs for 6 months with a 15% annual interest rate, where the interest is due on repayment in January 2020.

Profit before tax amounted to KSEK 4,339 (-876).

Excluding acquisition costs, profit before tax totalled KSEK 572.

Earnings per share were SEK 0.47 (-0.12).

EBITDA for the nine months for the year amounted to KSEK 22,284 (1,725). EBITDA result excluding acquisition-related events and restructuring costs amounted to KSEK 20,256 thousand. (Negative goodwill amounted to KSEK 21,407, acquisition costs amounted to KSEK 3,330, and restructuring costs to KSEK 16,049.)

Net financial items amounted to KSEK -3,625 (235). The positive net financial items in 2018 are explained by the owner's consortium, which took over Invuo's claim and postponed accrued interest of KSEK 3,000.

Profit before tax amounted to KSEK 6,003 (-4,929).

Profit before tax, excluding acquisition-related events & restructuring costs, amounted to KSEK 3,975.

Earnings per share amounted to SEK 0.66 (-0.71).

INVESTERINGAR

During the third quarter, investments in product development worth KSEK 9,316 (2,870) were made. The increase compared to previous quarters is due to the acquisition of eServGlobal. Depreciation of intangible assets amounted to KSEK -5,856 (-2,206). Investments in tangible assets amounted to KSEK 148 (494). Depreciation of tangible assets amounted to KSEK -391 (-146).

During the nine months of the year, investments in product development worth KSEK 14,928 (8,118) were made. Depreciation of intangible assets amounted to KSEK -11,009 (-6,274). Investments in tangible assets amounted to KSEK 497 (955). Depreciation of tangible assets amounted to KSEK -883 (-616).

Leases (IFRS 16)

In April 2019, the rental agreement for the new office premises in India took effect, and in addition, with the acquisition of eServGlobal, a place in France that falls under the new accounting standard IFRS 16 was added.

Under the new standard, an asset (the right to use a leased asset) and a financial liability relating to the obligation to pay leasing fees must be reported.

A right of use of KSEK 13,315 has been booked in the Group with amortization of KSEK -763 and an interest expense of KSEK -229, both of which have reimbursed the rental cost. As of last September, the financial liability amounted to KSEK 12,308.

NUMBER OF EMPLOYEES

The number of employees in the Group at the end of the period was 145 (50). The large increase compared to previous quarters is due to the acquisition of eServGlobal. The majority of employees are software developers. In addition, SDS has about 75 consultants mainly in Pakistan and Ghana.

CASH FLOW AND FINANCIAL POSITION

Cash and cash equivalents amounted to KSEK 4,836 (1,116) at the end of the period. Of the total check credit of KSEK 10,000, SEK 0 was utilized.

SDS has three interest-bearing liabilities totaling KSEK 62,750. The oldest debt is MSEK 35 and runs at 10% interest. The debt and accrued interest will be repaid during 2022. With the acquisition on July 25, the company raised MSEK 29 in acquisition loans to finance the purchase price and capital for restructuring. One loan is MSEK 10 from Handelsbanken and runs for two years with 6.62% interest. The loan is repaid quarterly and as of last September the loan amounts to MSEK 8,750. Interest is paid quarterly. The second loan is MSEK 19 and was given by a consortium. The loan runs for 6 months with a 15% interest rate. Loans and interest are due for payment at the end of January 2020. The consortium consists of existing shareholders, which also includes the Board member Martin Roos and the Chairman of the Board Gunnar Jardelöv.

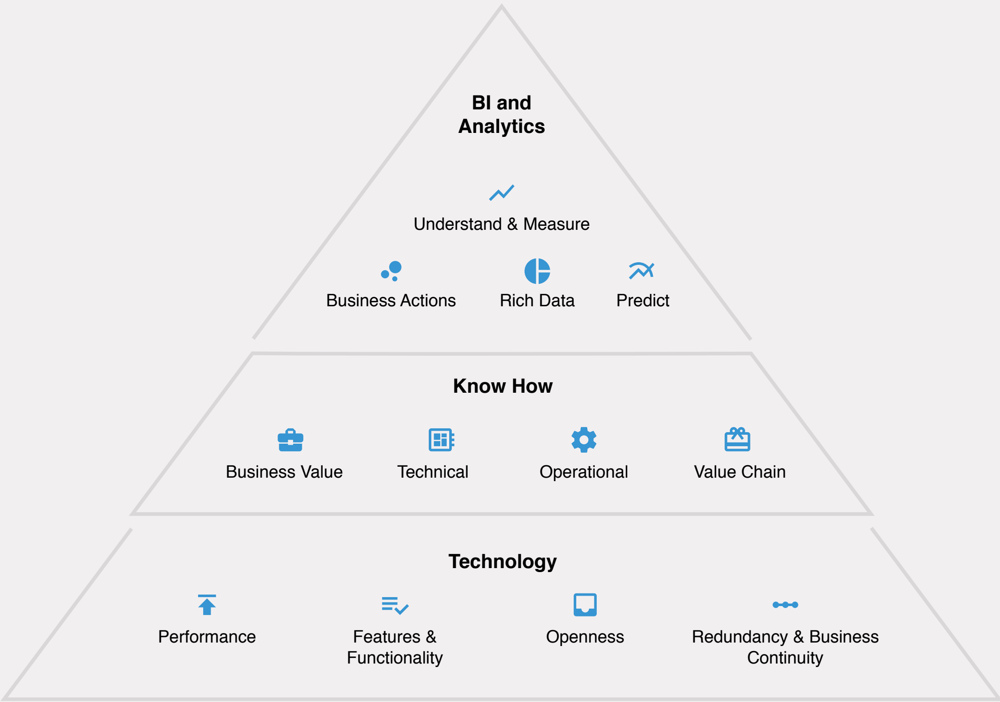
According to the company's forecasts, the company's cash flows from operating activities will not be sufficient to repay the loan to the consortium, which at September 30 amounts to MSEK 19.5, including interest in January 2020. The Board of Directors discusses and negotiates opportunities regarding external financing, any extended overdraft credit and renegotiation of loan terms. However, as of September 30, 2019, there are no guarantees that funding will be obtained.

Cash flow during the third quarter from operating activities amounted to KSEK -6,415 (2,619). Total cash flow amounted to KSEK 4,777 (-1,986).

Cash flow during the nine months of the year from operating activities amounted to KSEK 3,117 (5,154). Total cash flow amounted to KSEK 2,501 (-633).

MATERIAL EVENTS DURING THE THIRD QUARTER

- On July 4, SDS and Smart Digital Technology successfully completed the first digital sales and electronic charging of a prepaid card in Addis Ababa, Ethiopia. The parties strengthen the strategic partnership with Ethio Telecom and accelerate the introduction of digital services in the sales and distribution channel.
- On July 25, SDS AB completes the acquisition of all shares and assets in eServGlobal Holding SAS (eServGlobal). eServGlobal SAS is a global provider of prepaid charging cards and mobile financial services. The price for the shares is two (2) million Euro (MSEK 21.4). SDS thus has access to a complementary technology and a doubled geographical market coverage. EservGlobal, headquartered in Paris, France, has its own development, customer management and sales organization in Bucharest, Romania, Dubai and Jakarta, Indonesia. More than 90% of the company's revenues are from the Middle East, North Africa and Southeast Asia. The company had sales of EUR 7.1 million in 2018, of which EUR 4.3 million is recurring annual support revenues. The product portfolio contains software solutions for distribution of prepaid refills and mobile financial services.
- SDS AB has secured an order of SEK 6.3 million from one of the region's largest mobile operators, in the largest market in the Middle East. The order came from one of eServGlobal's customers. eServGlobal was acquired by SDS in July this year. This is concrete evidence of confidence in SDS's ability to consolidate its niche. The order includes the provision of functionality that improves the capacity of existing systems in terms of availability and redundancy for digital distribution management and sales of electronic vouchers for refilling prepaid cards. The central part of the delivery is the transaction switch, which holds digital accounts and processes electronic transactions and also has a number of efficiency-enhancing solutions. The system helps sales agents in the country manage digital distribution and sales to consumers. The order also includes delivery of third party hardware and software.



Customer needs in the field of digital distribution irrespective of market are extensive. Seamless delivers products and services in all areas.

MARKET NEEDS AND OFFERING

Seamless works with the digitalization of logistics flows, which entails the distribution and management of electronic transactions.

Over the past 20 years, Seamless has developed a proprietary software, which is now in its fourth generation and in operation with customers worldwide.

From a technical perspective, the platform is a so-called transaction switch which enables the handling of electronic transactions, digital products and providing value accounts for users.

From a business perspective, Seamless system handles the entire value chain regarding digital distribution and related monetary transactions, in connection with trading in the value chain.

The need extends from the stable handling of fundamental logistical flows, to advanced tools for precision marketing and enabling predictions based on the analysis of huge quantities of data.

Depending on the specific vertical application and the market, the platform can be configured to handle current business flows and a combination of products, channels, end-user tools, payment methods, different types of transactions and advanced incentive models for all participants in the value chain.

Although there are similar consumer needs for some products – such as topping up prepaid cards, paying bills, making calling plan payments – markets at different stages of maturity differ in fundamental ways. These differences affect distribution as well as monetary flows.

A developed market has well established retail infrastructures, with effective and reliable IT networks that can be used as the backbone for the distribution of digital products. In contrast, such retail networks are largely not available in emerging markets. In Africa, Seamless delivers a software product to telecommunications operators that build, manage and administrate using informal channels for selling and distributing digital products.

In Sweden, which is a mature market, Seamless operates a business that distributes topups for prepaid SIM cards for all telecommunications operators active in the country. The channels used for distribution and payments are the retail trade and existing banking channels.

Seamless has acquired experience and knowledge by both developing, delivering and managing the operation of software and systems. SDS also conducts distribution business in selected countries, which in essence means that SDS both builds a product and uses it itself. This has created offers that are considered unique in the knowledge and ability of existing as well as new potential customers.

A holistic solution must facilitate the management of payments between different parties to a transaction in a market based primarily on cash payments. Thus the distribution system must be able to simplify the use of locally available digital payment methods, such as mobile money. For example, as part of Seamless's solution, a reseller can order digital products via their mobile phone and pay for them using digital funds (mobile money) in a fully automated flow much like placing and paying for an order on the Internet in a mature market.

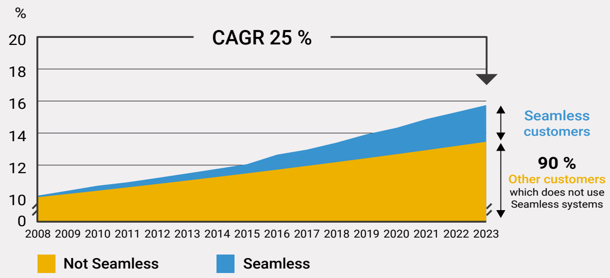
Finally, all transactions managed by Seamless's system build on a huge quantity of information and data that can provide strategic insight into the enterprise, regarding what has already happened as well as what can be expected to happened. This information and data are processed by Seamless's reporting and business intelligence tools and shared with customers in strategic discussions about enterprise management and planning for the future.

MARKET TRENDS

The fundamental purpose of the value chain for digital distribution and electronic transactions is to manage the flow of product value, from the service provider (such as a mobile operator), through distributors/resellers, to the consumer, and the monetary flow in the other direction, from the consumer to the service provider.

In developed markets, in most cases these flows take form in existing retail or banking network infrastructures. In emerging markets, these flows are built around the telecommunications operators' infrastructure. That is the principal reason that the product in focus for the past decade has been topping up talk time on a prepaid SIM card. This is one of the telecommunications operators' core products, and because the prepaid SIM card is by far the dominant type of calling plan in emerging markets, topping up talk time has been the biggest product. In 2018, prepaid SIM cards accounted for a total of 71% (5.7 billion) of all mobile connections and 32% (BUSD 265) of service revenues. In emerging markets, the numbers for prepaid SIM cards are even greater. For example, they account for 94% of connections and 80% of revenues in Africa.

Customers with Seamless system



Seamless's own surveys indicate significantly better annual growth among its own customers compared to customers with digital distribution solutions from other suppliers.

Given the great importance of a value chain for digital distribution and management of digital products and payments for telecom operators' business, the demand for systems and solutions suppliers has increased significantly in recent years. In addition to the demands placed on the system itself and the technology, in order for these to work without any interference, to handle large volumes of transactions in real time, to provide several functions, products and sales channels. A telecom operator is looking for a partner and supplier who has an understanding of business logic and their specific market reality and who can engage in a consultative role.

Seamless is one of the leading players, within the scope of its product and service offerings, which can deliver both a mature, stable and feature-rich solution, while also having the knowledge, transparency and the opportunity to engage as a business consultant in its partnership with its customers. Seamless acquisition of eServGlobal has as a basis been an identified competitor, which in the recent period had a good product offering and a broad customer base, but which has lacked consultative engagement with its customers, which has proven to be a disadvantage to grow. The market has shown a need for consolidation, where stronger players, with the competence and ability to contribute to their customers with both technology and business knowledge, and in this landscape, Seamless has taken a strong position to lead the consolidation that will take place.

Besides macroeconomic factors in emerging markets (such as population growth, GDP, mobile penetration, and higher utilization of mobile services), all of which contribute positively to Seamless's long-term development, during the past year we have observed rapidly growing interest in automating digital distribution channels and making them more efficient. This is most apparent in that new digital products are being added to the value flow, and automated processes related to payment and supply-chain management are increasing.

As smart phones are now sold in the developing markets for a few tens of dollars, there is a trend that mobile data will increase significantly and pass 20% of the total sales of prepaid card. In some countries in Africa and the Middle East, the contribution in the operator's product mix from mobile data is more than 50% of the monthly sales handled by a Seamless system. This is a significant trend for developing the market. This trend requires the ability of the operator to handle these new products at the distribution stage as well as the new user interfaces that we have become accustomed to in the developed countries.

Seamless has customers and platforms in operation in 15 African countries. These include Africa's two largest countries in terms of population, Nigeria and Ethiopia, which together have a population of nearly 350 million people. This means that Seamless platforms and solutions facilitate the sale of digital products to approximately 40% of Africa's total population and are currently present in approximately 25% of the African countries.

Seamless is one of the leading global players delivering technical platforms as well as business knowhow for the distribution and sale of digital products, commanding a strong position in Africa in terms of the number of customers, markets, size and value management in its systems. We see an opportunity to further strengthen this position, in Africa and in other places in the world, through consolidation of the industry. In the second quarter, Seamless announced the acquisition of eServGlobal, one of Seamless's peers and competitors. This acquisition augments Seamless's customer base and strength in multiple markets, especially in northern Africa, the Middle East and Southeast Asia, in part thanks to customer relationships with two of the regions' biggest mobile operator groups, Ooredoo and Zain.

For SDD, Seamless's distribution operations, the prepaid SIM card market in Sweden and Denmark was in a downtrend for many years. However, in the past year the decline stopped, and some operators have even seen an upturn. This is chiefly the result of an influx of people born abroad who have difficulty obtaining a calling plan but also because more and more products used by households today require a SIM card.

SDD has noted that the distribution market in Sweden and Denmark lags in this respect.

By transferring new advanced technology that SDS uses today in emerging markets, mature markets in Scandinavia can also be made more efficient and attractive. Thus, during the latter half of 2019, SDD will modernize its distribution so that operators will be able to communicate directly with resellers of the operators' products.

In addition, SDD sees great potential in selling vouchers from the operators that SDS works with in emerging markets, so that people in Sweden or Denmark can top up their relatives' and friends' prepaid SIM cards in their native countries.

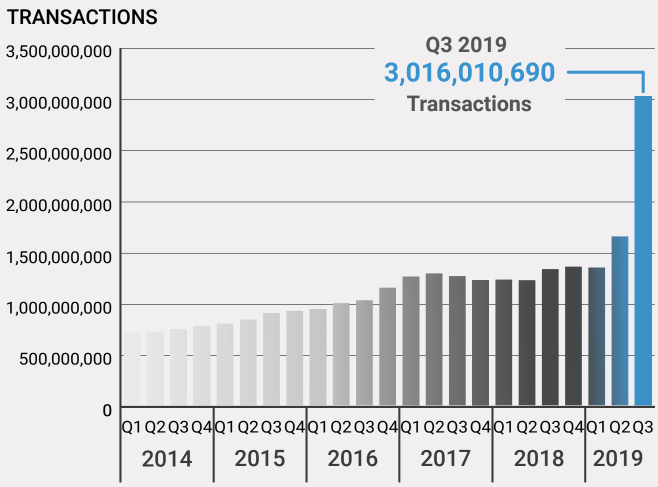
ERS 360°

The ERS 360° system handles a large number of different transaction types. The most common transactions are sales of talk time, mobile data or other digital products to end users, value transfers between distributors and resellers, and balance queries from distributors or resellers.

During the third quarter of 2019, we have seen an increase in the number of transactions handled by SDS ERS 360 platforms by over 38% compared to the previous quarter. In addition, eServGlobal contributes 750 million transactions in the quarter, which means that SDS handles more than 3 billion transactions in the quarter and will handle more than 12 billion transactions on an annual basis. This is strong evidence of increased use and value creation. Despite greatly increasing volumes in a short period of time, the platform is constantly connected. Today we have 99.998% uptime.

SDD also uses the ERS 360 platform for handling its distribution of call time. SDD has just over six million transactions in one year.

Number of customer transactions handled by the ERS 360 system per quarter



Growth in transactions is an indicator of increasing activity in digital channels and thus also value added for Seamless's customers.

MARKET AND SALES

During the third quarter, Seamless has been working to increase engagement with the new customers that have followed the acquisition of eServGlobal. Seamless has presented itself as a business partner who will contribute a consultative role to the customers' business. These have already generated new business, such as an order of more than SEK 6 million from a large existing customer in the Middle East.

During the quarter we continued our previous engagements and discussions with several potential new customers and after feedback and the good response we have received, we look with optimism at the opportunity to close some of these deals during the fourth quarter. This also logically fits into customers' annual budget processes, where a significant portion is spent at the end of the year. Some of these new expected transactions are based on a business model that involves profit sharing or transaction fees, which in this case means recurring revenue and a step closer to the strategic business mix that Seamless aims for.

At the same time, we have noted increased activity in the market and Seamless is constantly involved in new procurement and business discussions. We believe that this is a consequence, partly because Seamless is a well-known and respected company with stable and reliable systems and services, and partly that we experience a period of new investments and system replacements for the types of solutions and services that Seamless has developed during the past year.

During the quarter we saw a noticeable increase in the use of Seamless transaction platform among several customers. An increase corresponding to almost 40% in the number of managed transactions in all Seamless systems compared to the second quarter of the year and just over 65% more than in January 2019. This will continue to lead to the need for new functions and services, as well as strategic business planning and further engagement between Seamless and our customers.

The growth in the number of transactions handled has already led to the need for so-called license expansions, some of these converted to orders during the third quarter and some are expected to be initiated with orders during the fourth quarter.

Seamless investment in new solutions fulfills a need for customers in several industries in existing and new verticals. An example is optimization and automation of the companies logistics chain as well as sales and distribution activities. These innovative and graphically attractive digitalisation solutions have been received with great interest from several customers, some during formal procurement and others during discussions with new customers. We see increased engagement with a number of existing as well as new customers, both from Seamless's previous engagements as well as from eServGlobal's engagements. A company that Seamless acquired in July with a number of customers that for SDS can be considered new.

SDD has attracted more than 160 new dealers during the third quarter and has almost doubled its dealership levels since its inception in November 2018. Sales have increased by more than 46% since January and are expected to increase during the fourth quarter of 2019. SDD is modernizing its distribution system that will enable direct communication between telephone operators and resellers.

Financial information

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
Net sales	63,358	17,590	169,036	48,694
Other operating revenue	24,056 [1)]	472	27,483 [1)]	1,877
Total operating revenue	**87,414**	**18,061**	**196,519**	**50,570**
Material expenses	-31,902	-2,652	-92,636	-7,207
Other external expenses	-8,139	-7,648	-30,953	-23,604
Personnel costs	-13,987	-2,707	-22,480	-11,051
Depreciation and amortization	-6,833	-2,352	-12,656	-6,889
Other operating expenses	-20,623 [2)]	-2,681	-28,166 [2)]	-6,982
Total operating expenses	**-81,484**	**-18,040**	**-186,891**	**-55,734**
Operating profit/loss	**5,930**	**22**	**9,628**	**-5,164**
Financial income	4	1	4	3,000
Financial expenses	-1,596	-898	-3,629	-2,766
Net financial items	**-1,591**	**-898**	**-3,625**	**234**
Profit/Loss before tax	**4,339**	**-876**	**6,003**	**-4,930**
Income tax	-690	-52	-895	-207
Net profit/loss for the period	**3,648**	**-927**	**5,108**	**-5,137**
OTHER COMPREHENSIVE INCOME				
Translation differences	-890	-425	-688	-93
Total comprehensive income attributable to Parent Company shareholders	**2,758**	**-1,352**	**4,420**	**-5,230**

1) Other operating revenue includes a negative goodwill of KSEK 21,407
2) Other operating expenses include a restructuring reserve of KSEK 16,049

CONSOLIDATED BALANCE SHEET

KSEK	30 SEPTEMBER 2019	30 SEPTEMBER 2018	31 DECEMBER 2018
ASSETS			
Intangible assets	71,145	44,991	44,272
– IP rights	*17,528*	*21,000*	*20,466*
– capitalized development costs	*53,617*	*23,991*	*23,805*
Property, plant and equipment	16,304	1,928	2,172
Financial assets	1,044	458	480
Inventories of finished goods	2,081	863	2,450
Trade receivables	44,256	15,723	30,444
Other receivables	14,272	1,828	949
Prepaid expenses and accrued income	47,491	4,341	8,509
Cash and cash equivalents	4,836	1,116	2,266
Total assets	**201,427**	**71,248**	**91,543**
EQUITY AND LIABILITIES			
Equity	28,176	18,110	23,756
Other long-term liabilities	52,558	36,625	37,625
Overdraft	-	-	6,079
Trade payables	19,595	1,811	10,876
Current tax liabilities	142	14	43
Other current liabilities	65,819	744	933
Accrued liabilities and deferred income	35,137	13,945	12,232
Total equity and liabilities	**201,427**	**71,248**	**91,543**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
At beginning of period	**25,418**	**19,462**	**23,756**	**16,340**
Comprehensive income for the period	2,758	-1,352	4,420	-5,230
New share issue	-	-	-	7,000
Shareholder contribution	-	-	-	-
At end of period	**28,176**	**18,110**	**28,176**	**18,110**

CONSOLIDATED CASH FLOW STATEMENT

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
Cash flow from operating activities before change in working capital	-17,827	1,680	-11,121	2,068
Change in working capital	11,412	939	14,238	3,086
Cash flow from operating activities	-6,415	2,619	3,117	5,154
Cash flow from investing activities	-26,877	-3,168	-37,752	-9,119
Cash flow from financing activities	38,069	-1,437	37,136	3,332
Cash flow for the period	4,777	-1,986	2,501	-633
Cash and cash equivalents at beginning of period	2	3,341	2,266	1,847
Exchange rate differences in cash and cash equivalents	57	-240	69	-98
Cash and cash equivalents at end of period	**4,836**	**1,116**	**4,836**	**1,116**

KEY RATIOS AND FIGURES

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
Return on equity	14.0%	-5.4%	19.7%	-29.8%
Earnings per share SEK, before and after dilution	0.47	-0.12	0.66	-0.71
Operating profit/loss, KSEK	5,930	22	9,628	-5,164
Growth in net sales	260.2%	10.2%	247.1%	-13.6%
Growth in net sales excl. withholding tax	277.8%	11.1%	269.0%	-10.0%
Operating margin (EBIT)	9.4%	0.1%	5.7%	-10.6%
Average number of shares before and after dilution	7,691,343 7,691,343	7,691,343 7,691,343	7,691,343 7,691,343	6,913,565 7,216,034
Number of shares outstanding at end of reporting period	7,691,343	7,691,343	7,691,343	7,691,343
Quick ratio	92%	139%	92%	139%
Equity/assets ratio	14.0%	25.4%	14.0%	25.4%
Equity, KSEK	28,176	18,110	28,176	18,110
Equity per share	3.66	2.35	3.66	2.51
Number of employees at end of period	145	50	145	50

PARENT COMPANY INCOME STATEMENT

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
Net sales	17,429	17,590	71,610	48,694
Other operating revenue	2,633	472	6,030	1,877
Operating expenses	-24,305	-18,392	-79,408	-56,699
Operating profit/loss	-4,244	-330	-1,768	-6,128
Net financial items	-1,641	-891	-3,582	262
Profit/Loss after financial items	-5,886	-1,221	-5,350	-5,866
Income tax	-	-	-	-
Net profit/loss for the period	**-5,886**	**-1,221**	**-5,350**	**-5,866**

PARENT COMPANY BALANCE SHEET

KSEK	30 SEPTEMBER 2019	30 SEPTEMBER 2018	31 DECEMBER 2018
ASSETS			
Non-current assets	71,140	46,867	46,484
Current assets	32,503	22,121	38,977
Total assets	**103,643**	**68,988**	**85,461**
EQUITY AND LIABILITIES			
Equity	15,249	14,982	20,599
Long-term liabilities	40,125	36,625	37,500
Current liabilities	48,269	17,380	27,362
Total equity and liabilities	**103,643**	**68,988**	**85,461**
Pledged assets	15,000	10,000	10,000
Contingent liabilities	inga	inga	inga

Segment information

Seamless's operations consist of two business units –
Seamless Distribution Systems AB (SDS) and **Seamless Digital Distribution AB (SDD)**

Net sales

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
SDS	31,970	17,590	86,151	48,694
SDD	32,007		84,711	
Intra-Group support fee[2]	-619		-1,827	
Seamless Group	**63,358**	**17,590**	**169,035**	**48,694**

Operating profit[1]

KSEK	2019 JUL-SEP	2018 JUL-SEP	2019 JAN-SEP	2018 JAN-SEP
SDS	1,889	22	7,194	-5,164
SDD	893		2,233	
Intra-Group support fee[2]	-619		-1,827	
Seamless Group	**2,163**	**22**	**7,600**	**-5,164**

1) Operating profit is excluding Negative goodwill of MSEK 21.4, acquisition costs of MSEK 3.3 and restructuring costs of MSEK 16.0.
2) SDS invoices a support fee of USD 21,750 each month to SDD in line with market rates.

ABOUT SEAMLESS DISTRIBUTION SYSTEMS (SDS)

SDS is a Swedish software company that provides digital sales and distribution solutions and services to private individuals through mobile operators in emerging countries. The company offers its corporate customers a holistic solution for digital distribution and electronic transaction management. SDS acquired eServGlobal in July 2019. The SDS Group now has customers in all parts of the world in more than 50 countries worldwide and reaches over 500 million mobile users through more than 2,000,000 active sales outlets. SDS has approximately 230 employees in Sweden, France, Romania, Belgium, Ghana, Nigeria, USA, Pakistan, India, Indonesia, South Africa, Ecuador and the United Arab Emirates. With over 20 years of experience, SDS focuses on high customer satisfaction and efficient operation. SDS handles over 10 billion transactions annually, worth more than $ 11 billion and enables the people of emerging countries to become part of the mobile revolution.

ABOUT SEAMLESS DIGITAL DISTRIBUTION (SDD)

SDD distributes electronic products via retailers, for example recharges of mobile prepaid SIM cards and funds for payment online, and uses SDS's proprietary ERS 360° platform for digital delivery. SDD also supplies the technology platform that enables topping up through the largest banks in Sweden. SDD's ERS platform manages approximately six million transactions annually with a value of MSEK 500 in the two markets where SDD operates, Sweden and Denmark. SDD has three co-workers – employees and consultants – and supports just over 2,000 sales sites.

Notes

Seamless Distribution Systems AB (publ) is a Swedish public company (corporate identity number 556979-4562) with its registered office in Stockholm, Sweden. The SDS share is listed on NASDAQ Stockholm, First North Premier.

NOTE 1 - RISKS AND ACCOUNTING PRINCIPLES

RISKS AND UNCERTAINTY FACTORS

Seamless' business is impacted by a number of external factors, where different risk factors can impact the company. These risk factors can impact the company's ability to achieve business goals and financial objectives. The risks that SDS has identified as material to the business are as follows. Market risks include political risks and dependence on a few large customers. Operative risks include increased competition, changes in laws and regulations, the ability to keep and attract key employees, technological developments, the ability to keep and attract customers, corruption and unethical business methods. Financial risks include financing, liquidity, credit, interest and currency risks.

For a detailed description of the risk factors that are assessed to be material to the Group's future development, please refer to the Annual Report for 2018, pages 27–28. Management deem that there were no material changes from the risk assessment made in the Annual Report for 2018.

ACCOUNTING PRINCIPLES

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. These have been presented in the Group's Annual Report for 2018. The Group's functional currency is Swedish krona (SEK), which is also the reporting currency. This report has been prepared in accordance with IAS 34, Interim Financial Reporting, and the Swedish Annual Accounts Act. The Parent Company's summary financial reports have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for legal entities.

CHANGED ACCOUNTING PRINCIPLES AS FROM 2019

The Group applies IFRS 16, Leases, as from 1 January 2019.

IFRS 16 Leases

IFRS 16 was published in January 2016 and is applied for financial years beginning on or after January 1, 2019. IFRS 16 Leases replaces existing IFRS related to the reporting of leases, such as IAS 17 Leases and IFRIC 4.

Implementation of the standard means that almost all lease contracts will be recognized in the lessee's balance sheet, as no distinction is made any longer between operating and finance leases. According to the new reporting standard, an asset (the right to use a leased asset) and a financial liability regarding the obligation to pay leasing fees must be reported. Short-term leases and leases for which the underlying asset is of low value are exempt.

The Group holds seven leases for office premises that are classified as operating leases. Otherwise, the Group has no other operating or financial leasing agreements. These commitments are reported as short-term leasing agreements and will be recognized as an expense in the income statement on a straight-line basis over the lease period. Furthermore, the Group has two long-term contracts for office premises, one of which was initiated on April 19, 2019 and has a term of five years and the other was added with the acquisition of eServGlobal on July 25, 2019. That premises has a term of approximately 6 years. The right of use with regard to the new office premises will be reported from 19 April 2019 and 25 July 2019.

The Group applies the simplified transition method and will not recalculate the comparative figures. Rights of use are valued at an amount corresponding to the lease liability adjusted for prepaid or accrued leasing fees.

NOTE 2 - ACQUISITION OF ESERVGLOBAL

On July 25, 2019, 100% of the shares in eServGlobal SAS were acquired. eServGlobal is a global provider of prepaid charging cards and mobile financial services. The operating company is located in France and development and support staff are located in both France and Bucharest, Romania. The company in Romania is 50% owned. In addition, there is a technical center in a wholly owned subsidiary in Jakarta, Indonesia. Like SDS, eServGlobal has its sales staff in Dubai.

Information on purchase price, net assets acquired and negative goodwill is shown below:

Purchase price:	
Cash and cash equivalents	21,258,002
Total paid purchase price	

The assets and liabilities recognized as a result of the acquisition are as follows:	**Real value**
Cash and cash equivalents	7,461,559
Intangible assets	20,652,149
Tangible fixed assets	11,482,818
Accounts receivable and other receivables	61,371,852
Accounts payable and other liabilities	-58,303,597
Total identifiable net assets	**42,664,810**
Negative goodwill	**21,406,808**

In the consolidated report on the total profit, the amount of negative goodwill is reported as other revenue. Negative goodwill arises in an acquirer's financial report when the price paid for an acquisition is less than the fair value of its net assets. As part of the acquisition, the Group has decided to restructure the business in order to achieve the desired synergies and cost savings.

Revenues and result in acquired operations:

The acquired business contributed revenues of KSEK 12,733 and a profit of KSEK -13,281 to The Group for the period 25 July 2019 to 30 September 2019. If the acquisition had been completed on 1 January 2019, consolidated pro forma for revenues and result as of 30 September 2019 shows at KSEK 223,012 and KSEK -945 respectively.

Acquisition-related costs:

Acquisition-related costs of SEK 3,330 are included in the item Other external expenses in the Group's report on comprehensive income and in the ongoing operations in the cash flow analysis.

CONT. NOTE 2 - ACQUISITION OF ESERVGLOBAL

Cash purchase price - cash outflow	2019 JAN-SEP
Cash flow for acquiring subsidiaries:	
Cash purchase price on acquisition day	21,258,002
Deducted: Acquired cash and cash equivalents	-7,461,559
Net outflow of cash and cash equivalents - investment activities	**13,796,443**

NOTE 3 - DISTRIBUTION OF NET SALES

	SDS	
KSEK	**2019 JAN-SEP**	**2018 JAN-SEP**
Professional services/software	31,750	13,246
Licences	5,003	3,131
Support	40,308	30,134
Hardware	6,623	2,102
Other	640	81
SDS Total	**84,324**	**48,694**
Of which withholding tax	**7,886**	**5,027**

	SDD	
KSEK	**2019 JAN-SEP**	**2018 JAN-SEP**
Etop-up	82,937	-
Bank systems	1,439	-
Other	335	-
SDD Total	**84,711**	-

NOTE 4 - NET SALES BY GEOGRAPHIC AREA

	SDS	
KSEK	**2019 JAN-SEP**	**2018 JAN-SEP**
Africa	65,111	36,567
Middle East and Asia	16,516	7,513
Other	2,697	4,614
SDS Total	**84,324**	**48,694**

	SDD	
KSEK	**2019 JAN-SEP**	**2018 JAN-SEP**
Sweden	79,043	-
Denmark	5,668	-
Other	-	-
SDD Total	**84,711**	-

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

For information on related parties, please refer to the Group's Annual Report for 2018, page 64. In addition, a consortium lent MSEK 19 to the company. This loan was an acquisition liquidity for the acquisition of eServGlobal on July 25, 2019. The consortium includes the Board member Martin Roos and the Chairman of the Board Gunnar Jardelöv, who lent MSEK 2 each. The loan runs for 6 months with a 15% interest rate. The loan can be repaid in advance and interest must be paid at the time of repayment.

NOTE 6 - SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events have been reported after the reporting period.

Other information

AUDIT
This report has been reviewed by the company's auditors.

ADVISERS
The company's Certified Adviser is FNCA Sweden AB,
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DISTRIBUTION OF INFORMATION
All information is published on the company website, www.sds.seamless.se, immediately after it has been made public.

Financial reports can also be ordered from SDS AB, Box 353, SE-101 27 Stockholm, Sweden, or by e-mail to sds.info@seamless.se

Seamless Distribution Systems' interim report for January to September has been approved for publication in accordance with the Board's decision on October 16, 2019. The Board of Directors and the CEO of Seamless Distribution Systems AB (publ) ensure that the interim report provides a fair overview of the parent company's and the Group's operations, position and results and describes essential risks and uncertainty factors that the Parent Company and the companies that are part of the Group face.

Stockholm, 16 October 2019

Tomas Klevbo

Gunnar Jardelöv
Chairman of the Board

Leif Brandel

Martin Roos

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Auditor’s report

Seamless Distribution Systems AB (publ) corp. reg. no. 556979-4562

INTRODUCTION
We have reviewed the condensed interim financial information (interim report) of Seamless Distribution Systems AB (publ) as of 30 September 2019 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

SCOPE OF REVIEW
We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION
Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

EMPHASIS OF MATTER
Without impacting our opinions stated above, we wish to bring attention to the fact that in the interim report, under paragraph Cash flow and financial position, it is stated that the company’s cash flows from operating activities will not be sufficient to repay the loan to the consortium, which at September 30 amounts to MSEK 19.5 including interest and which is due for payment in January 2020. In order to secure the company’s going concern status, it is decisive that the funding going forward is secured.

Stockholm, 16 October 2019
Öhrlings PricewaterhouseCoopers AB

Henrietta Segenmark
Authorized Public Accountant

Financial definitions and alternative performance measures

Average number of shares	Weighted average number of shares outstanding during the period.
EBITDA	Operating profit/loss before depreciation and amortization and financial items.
EBITDA excluding acquisition & restructuring costs	Operating profit/loss before depreciation and amortization and financial items, less negative goodwill, acquisition & restructuring costs for the period.
EBITDA margin	Operating profit/loss before depreciation and amortization and financial items as a percentage of revenue.
EBITDA margin excluding acquisition & restructuring costs	Operating profit/loss before depreciation and amortization and financial items, less negative goodwill, acquisition & restructuring costs for the period, as a percentage of revenue.
Equity/assets ratio	Equity including minorities in relation to balance sheet total.
Equity per share	Equity in relation to the total number of shares outstanding.
Earnings per share	Profit/Loss after tax in relation to the average number of shares.
Growth in net sales	Net sales for the period in relation to net sales for the preceding period.
Operating margin (EBIT)	Profit/Loss before financial items and tax as a percentage of revenue.
Operating margin (EBIT) excluding acquisition & restructuring costs	Profit/Loss before financial items and tax, less negative goodwill, acquisition & restructuring costs for the period, as a percentage of revenue.
Operating profit/loss (EBIT)	Profit/Loss before financial items and tax.
Operating profit/loss (EBIT) excluding acquisition & restructuring costs	Profit/Loss before financial items and tax, less negative goodwill, acquisition & restructuring costs for the period.
Profit/Loss after tax	Profit/Loss after financial items and tax.
Profit/Loss after tax excluding acquisition & restructuring costs	Profit/Loss after financial items and tax, less negative goodwill, acquisition & restructuring costs for the period.
Quick ratio	Cash and cash equivalents including current investments and current receivables in relation to current liabilities.
Return on equity	Profit after tax in relation to average equity.
Withholding tax	Local withholding tax on sales of royalties, licences and consultancy services is charged in many of the African countries where SDS has customers. Withholding tax varies, at 10%–20% depending on the country, and is deducted from the invoiced amount before the customer pays the supplier. SDS recognizes net sales including withholding tax and deducts the corresponding amount as an expense under the item 'Other operating expenses'.

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