

Lemonsoft Oyj's Interim Report for 1 January - 30 September 2022



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Growth continued and profitability improved from first half

JULY-SEPTEMBER 2022

- Net sales increased 30.6% and were EUR 5,781 thousand (4,427)
- EBITDA was EUR 1,930 thousand (1,545), 33.4% (34.9) of net sales
- Adjusted EBITDA was EUR 1,956 thousand (1,709), 33.8% (38.6) of net sales
- EBIT was EUR 1,234 thousand (1,209), 21.4% (27.3) of net sales
- Adjusted EBIT was EUR 1,889 thousand (1,661), 32.7% (37.5) of net sales
- Profit of the review period was EUR 861 thousand (943), 14.9% (21.3) of net sales

JANUARY-SEPTEMBER 2022

- Net sales increased 31.1% and were EUR 16,101 thousand (12,284)
- EBITDA was EUR 4,626 thousand (4,179), 28.7% (34.0) of net sales
- Adjusted EBITDA was EUR 4,671 thousand (4,367), 29.0% (35.5) of net sales
- EBIT was EUR 3,167 thousand (3,366), 19.7% (27.4) of net sales
- Adjusted EBIT was EUR 4,510 thousand (4,204), 28.0% (34.2) of net sales
- Profit of the review period was EUR 2,252 thousand (2,635), 14.0% (21.4) of net sales

Key Figures

EUR 1,000	7-9/2022	7-9/2021	Change	1-9/2022	1-9/2021	Change	1-12/2021
Net sales	5,781	4,427	30.6 %	16,101	12,284	31.1 %	17,227
SaaS	4,490	3,574	25.6 %	12,408	9,269	33.9 %	12,996
Transaction	288	274	5.1 %	863	786	9.9 %	1,084
Consulting and other	1,003	580	73.0 %	2,829	2,230	26.9 %	3,148
Gross margin	5,105	3,993	27.8 %	14,184	10,999	29.0 %	15,380
Gross margin, % of net sales	88.3 %	90.2 %		88.1 %	89.5 %		89.3 %
EBITDA	1,930	1,545	25.0 %	4,626	4,179	10.7 %	4,231
EBITDA, % of net sales	33.4 %	34.9 %		28.7 %	34.0 %		24.6 %
Adjusted EBITDA ¹⁾	1,956	1,709	14.5 %	4,671	4,367	7.0 %	5,635
Adjusted EBITDA, % of net sales	33.8 %	38.6 %		29.0 %	35.5 %		32.7 %
EBIT	1,234	1,209	2.1 %	3,167	3,366	-5.9 %	3,070
EBIT, % of net sales	21.4 %	27.3 %		19.7 %	27.4 %		17.8 %
Adjusted EBIT ²⁾	1,889	1,661	13.7 %	4,510	4,204	7.3 %	5,411
Adjusted EBIT, % of net sales	32.7 %	37.5 %		28.0 %	34.2 %		31.4 %
Profit (Loss) of the period	861	943	-8.6 %	2,252	2,635	-14.5 %	2,272
Profit (Loss) of the period, % of net sales	14.9 %	21.3 %		14.0 %	21.4 %		13.2 %
Equity ratio, %	71.4 %	51.9 %		71.4 %	51.9 %		75.0 %
Net debt	-7,734	-787	882.7 %	-7,734	-787	882.7 %	-15,760
Gearing, %	-33.1 %	-10.7 %		-33.1 %	-10.7 %		-71.7 %
Earnings per share (EPS) ³⁾	0.05	0.06	-15.5 %	0.12	0.15	-20.7 %	0.13
Number of employees at the end of the period	187	143	30.8 %	187	143	30.8 %	153
Outstanding shares at the end of the period	18,393,440	17,000,000		18,393,440	17,000,000		18,273,726
Average outstanding shares during the period	18,393,440	5,667,120		18,326,932	1,889,493		5,879,408

1) Adjusted EBITDA is EBITDA adjusted by costs related to the acquisitions and the IPO as well as certain extraordinary items (Business Finland's aid)

2) Adjusted EBIT is EBIT adjusted by goodwill amortizations, costs related to the acquisitions and the IPO as well as certain extraordinary items (Business Finland's aid)

3) The share split has been considered in 2021 figures

CEO Kari Joki-Hollanti

During the third quarter of 2022, profitability improved compared to the early part of the year and our growth continued, however slightly more moderately than expected. Net sales were 5.8 million euros, an increase of 30.6% from the corresponding period of the previous year. Adjusted EBIT margin rose from the beginning of the year as expected and was 32.7% of net sales.

The number of customers continued to grow and was around 7,600 at the end of Q3 2022 compared to approximately 6,800 customers at the end of year 2021. However, the average deal size has been lower than before.

Many Lemonsoft customers have expressed a need for a broader and more comprehensive solution for business forecasting. We strengthened this area by acquiring Finazilla Oy in July. With Finazilla's solutions, companies gain a considerable advantage by accurately budgeting and forecasting their business. Financial management is also made easier with comprehensive reporting solutions. Finazilla's solutions can be integrated into Lemonsoft's ERP system, complementing the overall solution.

The economic situation in Europe is currently unstable and the ongoing energy crisis will test the financial sustainability of several industrial manufacturing companies in the coming winter. Industrial customers are one of our most important customer groups, thus the economic situation may also affect the demand for ERP systems. On the other hand, the current situation is a good opportunity to develop activities and modernizing the ERP system is an excellent way to do this.

The challenging general economic situation has not yet been significantly reflected in our operations. There are plenty of customers interested in acquiring a new ERP, and the number of prospects was at the same level as in the comparison period. The general economic situation may however be reflected in the postponement of new sales. On the other hand, our customer churn has remained low, which creates a solid foundation for the continuity of our business.

We have emphasized the importance of customer experience and a great user experience. We reinforce this message by appointing our customers their own account manager. We have also clearly increased the size of our sales team and will continue recruiting to secure our growth strategy also in the future. However, with the acquisitions of Logentia and Finazilla, our staff has grown significantly, and we are taking a slightly more cautious approach to recruitments during the rest of the year.

Substantial continuous investments into product development combined with a wide range of products provide a strong base for our business. Despite the somewhat unstable market situation, we are confident in our growth opportunities in the ERP market and believe that our profitable growth will continue as planned.



Group Financial Development

Group financial result and profitability

July-September 2022

Net sales for the review period were EUR 5,781 thousand (4,427). Net sales increased by EUR 1,354 thousand, 30.6%. Organic growth of the review period was 10.3%. Net sales grew especially due to new customer acquisition and the acquisitions of Finazilla Oy (2022) and Logentia Oy (2022), whose net sales were not included in the comparison period. The net sales of PlanMill Oy, which was acquired in 2021, have not been included in the comparison period in July.

The share of SaaS income during the review period was 77.7% (80.7), the share of transaction income 5.0% (6.2), and consulting and other income 17.3% (13.1).

EBITDA was EUR 1,930 thousand (1,545), 33.4% (34.9) of net sales. Adjusted EBITDA (adjustments specified in the table EBITDA and EBIT Adjustments) was EUR 1,956 thousand (1,709), 33.8% (38.6) of net sales. As expected, adjusted EBITDA of the review period was affected by increased salary costs due to recruitments and higher administrative costs in other operating expenses.

EBIT was EUR 1,234 thousand (1,209), 21.4% (27.3) of net sales. Adjusted EBIT (adjustments specified in the table EBITDA and EBIT Adjustments) was EUR 1,889 thousand (1,661), 32.7% (37.5) of net sales. As expected, adjusted EBIT of the review period was affected by increased salary costs due to recruitments and higher administrative costs in other operating expenses.

Profit for the review period was EUR 861 thousand (943), 14.9% (21.3) of net sales.

Cash flow from operating activities during the review period was EUR 756 thousand (1,529). The weakening of cash flow during the review period has been affected by the increase in working capital and changes in the balance sheet structure caused by mergers and acquisitions, as well as various business models related to subsidiaries.

January-September 2022

Net sales for the review period were EUR 16,101 thousand (12,284). Net sales increased by EUR 3,817 thousand, 31.1%. Organic growth of the review period was 10.4%. Net sales grew especially due to new customer acquisition and the acquisitions of Finazilla Oy (2022), Logentia Oy (2022), Metsys Oy (2021), PlanMill Oy (2021) and Talosofta business (2021). Out of these, Metsys's net sales have been included in the comparison period since February, PlanMill's net sales have been included in the comparison period since August, and Talosofta's net sales have been included in the comparison period since July. Logentia's net sales have been included in the review period since June and Finazilla's net sales have been included in the review period since July.

The share of SaaS income during the review period was 77.1% (75.3), the share of transaction income 5.4% (6.4), and consulting and other income 17.6% (18.3).

EBITDA was EUR 4,626 thousand (4,179), or 28.7% (34.0) of net sales. Adjusted EBITDA (adjustments specified in the table EBITDA and EBIT Adjustments) was EUR 4,671 thousand (4,367), 29.0% (35.5) of net sales. As expected, adjusted EBITDA of the review period was affected by increased salary costs due to recruitments and higher administrative costs in other operating expenses.

EBIT was EUR 3,167 thousand (3,366), 19.7% (27.4) of net sales. Adjusted EBIT (adjustments specified in the table EBITDA and EBIT Adjustments) was EUR 4,510 thousand (4,204), 28.0% (34.2) of net sales. As expected, adjusted EBIT of the review period was affected by increased salary costs due to recruitments and higher administrative costs in other operating expenses.

Profit for the review period was EUR 2,252 thousand (2,635), 14.0% (21.4) of net sales.

Cash flow from operating activities during the review period was EUR 3,014 thousand (3,737). The weakening of cash flow during the review period has been affected by the increase in working capital and changes in the balance sheet structure caused by mergers and acquisitions, as well as various business models related to subsidiaries.

Balance sheet, financing and investments

The balance sheet total at the end of the review period was EUR 33,291 thousand (29,798 at the end of the year 2021). The balance sheet total was increased by the acquisitions of Logentia Oy and Finazilla Oy.

The Group has not capitalized any R&D costs during the review period or the comparison period.

Equity at the end of the review period was EUR 23,385 thousand (21,991 at the end of the year 2021), equity increased EUR 1,394 thousand.

Equity ratio at the end of the review period was 71.4% (75.0 at the end of the year 2021) and interest-bearing debt was EUR 2,850 thousand (3,300 at the end of the year 2021).

Cash and cash equivalents at the end of the review period were EUR 10,584 thousand (19,060 at the end of the year 2021).

Personnel, management and administration

The Group number of employees was 187 (143) on 30 September 2022.

Recruitments of the review period have strengthened the R&D, Sales and Customer service functions.

The personnel are divided as follows:

- R&D 100 employees
- Customer service 49 employees
- Sales 20 employees
- Other functions, a total of 18 employees

Shares and shareholders

Share capital and number of shares

The company has one series of shares, and all shares have equal rights. At the end of the review period, Lemonsoft Oyj's share capital consisted of 18,393,440 (17,000,000) shares. The average number of shares during the review period was 18,393,440 (5,667,120).

The company's share is traded on the First North Growth Market Finland marketplace maintained by Nasdaq Helsinki Oy. During the review period, the highest share price was EUR 14.68 and the lowest EUR 9.34. The closing price on 30 September 2022 was EUR 10.48. The market value of the company at the closing price of the review period was approximately EUR 192.8 million. Average daily trading volume during the review period was 596 shares (EUR 7,498).

On 30 September 2022, the company had a total of 2,403 shareholders. The company's largest shareholders can be found on the company's investor website at <https://investors.lemonsoft.fi/osakkeenomistajat/>.

Authorizations of the Board of Directors

Lemonsoft Oyj has decided in its General Annual Meeting on 5 April 2022 to authorize the Board to decide on an ordinary or bonus issue of shares and the granting of special rights. The maximum total number of shares to be issued by virtue of the authorization is 2,000,000 shares. The authorization applies to both new shares and treasury shares held by the company. The authorization entitles the Board of Directors to resolve on all the conditions of the issuance of shares and the issuance of special rights entitling to shares, including the right to deviate from the shareholders' pre-emptive subscription right.

The authorization is in force until the next Annual General Meeting, however, no longer than until 30 June 2023, and it replaces the previous authorizations granted regarding a directed share issue and issuance of special rights entitling to shares.

As part of the completion of the acquisition of Logentia Oy, Lemonsoft Oyj's Board of Directors decided on a directed share issue, in which a total of 119,714 (EUR 1,500 thousand) new Lemonsoft Oyj shares were offered for subscription by Logentia Oy's shareholders transferring to Lemonsoft Oyj. As a result of the share issue, the total number of Lemonsoft Oyj's outstanding shares increased to 18,393,440 shares.

Significant short-term risks and uncertainties

The deterioration of the economic situation and events with a global impact, such as the war in Ukraine, may have direct and indirect effects on Lemonsoft's business. These may be reflected in the business operations of Lemonsoft's customer companies, for example, in reduced investments by industrial manufacturing companies and decreased needs of subcontracting chains, as well as business and bankruptcy risks. In turn, customers' business challenges may affect Lemonsoft's new customer acquisition, upsells from existing customers, and customer retention.

In the longer term, the biggest challenge for our industry is the availability of skilled personnel. Success of the Group and opportunities for organic growth depend largely on how well we can recruit, motivate, and engage more skilled personnel and develop our expertise.

In Lemonsoft's cost structure, the single most significant factor is personnel costs, and an increase in the general price level may increase the pressure to increase personnel costs. Lemonsoft constantly monitors the development of the situation from a risk management perspective and strives to ensure the continuation of profitable growth by optimizing its cost structure and pricing.

The ERP market is generally a highly competitive market, and the industry is fragmented. Smaller players are primarily focused in a specific sector of SMEs and larger players do not compete directly for customers in the same market. However, competition in Lemonsoft's operating markets may intensify due to existing competitors or agile new entrants.

Risks related to information security and the IT systems of service providers are a significant factor affecting the security and continuity of the Group's business. Lemonsoft constantly invests in high reliability and high security systems and strives to ensure the high quality of the services it purchases by selecting leading players in the industry as its key partners. European data protection regulations may also bring unexpected risks to Lemonsoft's operating environment.

Success in acquisitions and related integration work is a key factor for Lemonsoft's growth. The company has made several acquisitions in recent years and aims to continue to grow through acquisitions. There may be unexpected risks associated with target companies and their integration into Lemonsoft.

Events after the review period

There were no significant events after the review period.

Outlook 2022

Lemonsoft's goal is to continue steady growth, both by increasing the number of software modules offered to its existing customer base and by expanding its customer base with new customer acquisition.

Digitalization and increasing use of ERP systems in the Group's potential customer base is expected to continue, especially in the construction industry and in industrial manufacturing and logistics. As ERP is a key system for the management and continuity of a customer's business, customer retention is also expected to remain high. However, a significant deterioration in the general economic situation may have a negative impact on new customer acquisition and additional sales to existing customers, as well as on customer retention, for example, through bankruptcies of customer companies.

Profit forecast for 2022

Lemonsoft will keep the profit forecast updated on 8 July 2022 unchanged in connection with the acquisition of Finazilla Oy:

Lemonsoft estimates that the net sales for the financial year 2022 will increase by 30-36 percent compared to the financial year 2021, and that adjusted EBIT will be 28-33 percent of net sales in 2022.

Financial information

Lemonsoft Oyj will publish the financial calendar for 2023 later this year.

Webcast for investors and media

Lemonsoft will host a live webcast for investors and the media in English on October 28, 2022 at 1:00pm EET.

The webcast can be followed online live via this link: <https://lemonsoft.videosync.fi/2022-q3-results>

A recording of the event and the presentation material will be available after the event at <https://investors.lemonsoft.fi/>.

Lemonsoft Oyj
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About Lemonsoft Oyj

Lemonsoft is a Finnish software company that designs, develops and sells ERP software solutions to streamline its customers' processes across different business lines and administration. The extensive offering of software solutions and related services enables the company to provide its customers with holistic service. The company's standardized and scalable software solutions are delivered mainly from the cloud and are based on the SaaS model in which customers pay a monthly service fee for the use of the software. The company operates in the ERP software market primarily as a service provider for SMEs. The company's customer base includes customers from especially industrial manufacturing, wholesale and retail, professional services automation, construction and accounting.

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Distribution

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Accounting principles for the review period

The figures have been prepared in accordance with Finnish Accounting Standards (FAS).

The figures of the review period are unaudited.

CONSOLIDATED INCOME STATEMENT

EUR 1,000	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
NET SALES	5,781	4,427	16,101	12,284	17,227
Other operating income	3	30	4	44	45
Materials and services	-679	-464	-1,921	-1,329	-1,893
Personnel expenses	-2,621	-1,797	-8,043	-5,553	-8,091
Depreciation and amortization					
Depreciation	-144	-132	-384	-316	-462
Goodwill amortization	-552	-204	-1,075	-496	-699
Total depreciation and amortization	-696	-336	-1,458	-813	-1,161
Other operating expenses	-554	-651	-1,515	-1,268	-3,059
EBIT	1,234	1,209	3,167	3,366	3,070
Financial income and expenses	-5	-5	-15	-12	16
PROFIT (LOSS) BEFORE TAXES	1,230	1,204	3,152	3,354	3,086
Income taxes	-360	-238	-877	-698	-778
Minority share	8	23	23	22	35
PROFIT (LOSS) FOR THE PERIOD	861	943	2,252	2,635	2,272

CONSOLIDATED BALANCE SHEET

EUR 1,000	9/2022	9/2021	12/2021
NON-CURRENT ASSETS			
Intangible assets	16,458	6,909	6,484
Tangible assets	700	564	533
Investments	2,874	1,495	1,874
TOTAL NON-CURRENT ASSETS	20,032	8,969	8,891
CURRENT ASSETS			
Inventories	58	56	52
Current receivables	2,617	1,206	1,795
Cash at bank and in hand	10,584	4,537	19,060
TOTAL CURRENT ASSETS	13,259	5,799	20,907
Total Assets	33,291	14,768	29,798
EQUITY	23,385	7,384	21,991
Minority interest	54	23	30
LIABILITIES			
Non-current liabilities	1,950	2,750	2,400
Current liabilities	7,903	4,611	5,377
TOTAL LIABILITIES	9,853	7,361	7,777
Total equity and liabilities	33,291	14,768	29,798

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
Cash flow from operating activities:					
Profit (Loss) before taxes	1,230	1,204	3,152	3,354	3,086
Adjustments	696	349	1,459	847	1,182
Cash flow before change in working capital	1,926	1,552	4,611	4,201	4,267
Change in working capital	-775	220	-721	388	328
Cash flow from operating activities before financial items and taxes	1,151	1,772	3,890	4,589	4,595
Net financial items and taxes	-394	-243	-876	-852	-602
Net cash from operating activities (A)	756	1,529	3,014	3,737	3,994
Cash flow from investing activities:					
Acquisition of intangible and tangible assets	-950	-58	-1,122	-2,768	-2,560
Proceeds from sale of tangible and intangible assets	0	75	0	75	107
Other investments	-1,000	0	-1,000	0	-379
Acquired shares in subsidiaries	-2,046	-2,635	-6,542	-1,147	-1,236
Net cash used in investing activities (B)	-3,996	-2,617	-8,664	-3,840	-4,069
Cash flow from financing activities:					
Dividends paid	0	0	-2,376	-2,210	-2,210
Net cash flow from non-current loans	0	2,000	-450	1,750	1,300
Share issue	0	0	0	0	14,945
Net cash from financing activities (C)	0	2,000	-2,826	-460	14,035
Change in cash at bank and in hand (A + B + C) increase (+) / decrease (-)	-3,239	912	-8,476	-563	13,960
Cash at bank and in hand at the beginning of the period	13,824	3,625	19,060	5,100	5,100
Cash at bank and in hand at the end of the period	10,584	4,537	10,584	4,537	19,060
Change in cash	-3,239	912	-8,476	-563	13,960

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	1-9/2022	1-9/2021	1-12/2021
Restricted equity			
Share capital at the beginning of the period	80	8	8
Increase of share capital	0	72	72
Share capital at the end of the period	80	80	80
Total restricted equity	80	80	80
Free equity			
Invested unrestricted equity reserve at the beginning of the period	14,980	36	36
Directed share issue/IPO	1,500	0	14,945
Invested unrestricted equity reserve at the end of the period	16,480	36	14,980
Invested unrestricted equity reserve total	16,480	36	14,980
Retained earnings at the beginning of the period *	6,949	6,916	6,935
Dividends distributed	-2,376	-2,210	-2,210
Increase of share capital	0	-72	-72
Retained earnings at the end of the period	4,573	4,634	4,658
Profit (Loss) for the period	2,252	2,635	2,272
Total free equity	23,305	7,304	21,911
Capital loans			
Capital loans at the beginning of the period	0	0	200
Transfer of capital loan	0	0	-200
Capital loans at the end of the period	0	0	0
Total capital loan	0	0	0
TOTAL EQUITY	23,385	7,384	21,991

* Earnings from subsidiary mergers transferred to Retained earnings in 2021

GROUP'S COMMITMENTS

EUR 1,000	9/2022	9/2021	12/2021
Rental obligations			
Rental obligations < 1 y	237	116	200
Rental obligations > 1 y	123	12	5
Total rental obligations	360	128	205
Lease obligations			
Lease obligations < 1 y	1	1	1
Lease obligations > 1 y	0	0	0
Total lease obligations	1	1	1
Collateral securities			
Cash pledges (movable object, security) *	1,073	1,073	1,073
Business mortgage, parent company	2,000	1,500	2,000
Total collateral securities	3,073	2,573	3,073

*The value of cash pledges corresponds to the purchase price of the pledged real estate shares

CALCULATION OF KEY FIGURES

Gross margin = Net sales + Other operating income – Materials and services

EBITDA = EBIT + Depreciation and amortization

Adjusted EBITDA = EBIT + Depreciation and amortization – Business Finland's aid + M&A costs + IPO costs

Operating profit (EBIT) = Net sales + Other operating income - Materials and services - Personnel expenses - Other operating expenses – Depreciation and amortization

Adjusted EBIT = EBIT – Business Finland's aid + M&A costs + IPO costs + Goodwill amortization

Equity ratio, % = Equity +/- Minority interest x100 / (Balance sheet total - Advances received)

Gearing, % = (Loans from credit institutions - Cash at bank and in hand) x100 / Equity

Net debt = Loans from credit institutions – Cash at bank and in hand

Earnings per share (EPS) = Profit (Loss) of the period / Adjusted average number of outstanding shares during the period

EBITDA AND EBIT ADJUSTMENTS

EUR 1,000	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
EBITDA	1,930	1,545	4,626	4,179	4,231
EBITDA, % of net sales	33.4 %	34.9 %	28.7 %	34.0 %	24.6 %
<i>Business Finland subsidies</i>	0	-30	0	-45	-45
<i>M&A and IPO costs</i>	26	194	45	233	1,449
Adjusted EBITDA	1,956	1,709	4,671	4,367	5,635
Adjusted EBITDA, % of net sales	33.8 %	38.6 %	29.0 %	35.5 %	32.7 %

EUR 1,000	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
EBIT	1,234	1,209	3,167	3,366	3,070
EBIT, % of net sales	21.4 %	27.3 %	19.7 %	27.4 %	17.8 %
<i>Business Finland subsidies</i>	0	-30	0	-45	-45
<i>M&A and IPO costs</i>	26	194	45	233	1,449
<i>Goodwill amortization</i>	629	288	1,298	650	937
Adjusted EBIT	1,889	1,661	4,510	4,204	5,411
Adjusted EBIT, % of net sales	32.7 %	37.5 %	28.0 %	34.2 %	31.4 %

