



basware

Simplify Operations, Spend Smarter.

INTERIM REPORT

January-March 2020

Q1/2020

Basware Interim Report January-March 2020: Positive EBIT in the first quarter; 2020 guidance updated due to Covid-19

January-March 2020

- Cloud ARR order intake amounted to EUR 3.6 million (EUR 4.9 million)
- Net sales increased 6.5 percent to EUR 38,245 thousand (EUR 35,895 thousand), which amounted to 6.6 percent organic growth at constant currencies
- Cloud revenue increased 14.4 percent to EUR 27,774 thousand (EUR 24,282 thousand), which amounted to 14.2 percent organic growth at constant currencies.
- EBIT amounted to EUR 100 thousand (EUR -7,780 thousand)
- Earnings per share (diluted) were EUR -0.25 (EUR -0.57)

Key figures

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Net sales	38,245	35,895	6.5	148,302
Cloud revenue	27,774	24,282	14.4	101,442
Cloud ARR order intake	3,617	4,937	-26.7	23,694
EBIT	100	-7,780		-14,537
EBITDA	4,070	-3,660		1,403
Gearing, % ¹	53.4	33.4	59.6	48.9
Cash and cash equivalents ¹	32,558	35,117	-7.3	31,672
Cash flows from operating activities	6,497	1,626		4,159
Free cash flow metric	-3,579	-7,816	54.2	-23,829
Earnings per share, diluted, EUR	-0.25	-0.57	55.4	-1.63
Personnel ¹	1,342	1,386	-3.2	1,325

¹At the end of the period.

The interim report is unaudited.

Guidance for 2020 updated due to Covid-19

Basware is updating its 2020 guidance to reflect the estimated impact of the Covid-19 pandemic.

Due to the Covid-19 pandemic, the current economic outlook in Basware's main markets involve significant uncertainties. Basware assumes that global business activity will be negatively impacted in the second and third quarters, and in the fourth quarter business activity will gradually head towards more normal conditions. Net Sales guidance will be given when it is possible to estimate the Covid-19 pandemic effects more precisely.

Basware's cost base is scalable and has variable cost components that can be reduced to a certain extent to maintain profitability. EBIT for 2020 is expected to be positive.

The previous guidance as given on February 4, 2020 was that Basware expects the following for 2020:

- Net Sales to grow at around the same rate as in 2019 on an organic basis at constant currencies
- Positive EBIT

Constant currencies mean that the effects of any changes in currencies are eliminated by calculating the figures for the period using 2019 exchange rates. Organic means that the figures are adjusted to remove the effects of any acquisitions or disposals within the past 12 months.

CEO Klaus Andersen:

“Basware’s revenues and profitability developed well during the first quarter of the year, despite disruption caused by Covid-19 pandemic to Basware and its customers. In the first quarter of the year EBIT was positive and cloud revenues increased 14 percent. Strong performance continued in consulting with 19 percent revenue growth. Overall net sales increased particularly in Americas and central Europe.

Cloud order intake was negatively impacted by the uncertain environment in the first quarter and amounted to EUR 3.6 million. Republic National Distributing Company in the US, Specialist Computer Centres in the UK and Groupe Dubreuil in France among others signed new deals with Basware. We continue to invest in innovations in order to provide the best-in-class Purchase-to-Pay and Accounts Payable automation solutions. We launched in this quarter the completely new and innovative AP Pro user interface and user experience which increases process automation and efficiency for Accounts Payable professionals. The new AP Pro user experience is particularly well suited for managing large invoice volumes because of its exception handling only design philosophy.

Basware activated its business continuity plan in March and all operations continued nearly unaffected, except for the validation part of the Scan and Capture service which is outsourced to a third-party service provider. Due to the lockdown in India and the consequent closure of the third-party service provider’s validation centre, the service is running with lower capacity and reduced data capture accuracy for some customers. Basware is working to restore full capacity in the validation services together with the service provider. All Basware employees are now working from home and we continue to operate our systems, execute projects, support customers and execute sales and account management through remote access, virtual meetings and events as well as digital signatures.

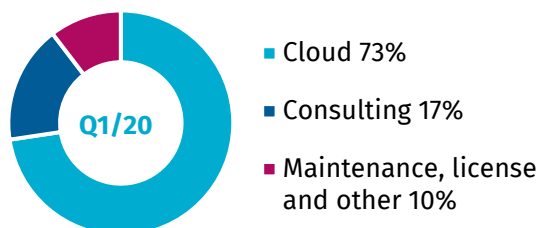
The majority of Basware’s business is recurring by nature. As invoices are typically related to purchase orders made several weeks prior, there was no notable change in Basware Network volumes until the last two weeks of March. As in any event causing macro uncertainty, we see customers delaying projects and prospects delaying decisions, which will have an impact on Basware’s business in 2020. We estimate that both the second and third quarter will be clearly impacted and in the fourth quarter business will gradually be heading towards more normal conditions. Net Sales guidance will be given when it is possible to estimate the Covid-19 pandemic effects more precisely. At the same time, we are protecting EBIT through scalability of the business model and the cost actions we are taking. In early March, we took immediate actions to address main elements of our cost base appropriately, and the cost savings will be visible in the coming quarters.”

Net sales

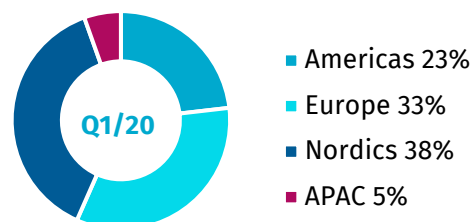
Net sales by revenue type, EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Cloud	27,774	24,282	14.4	101,442
Consulting	6,496	5,441	19.4	24,962
Maintenance, license and other	3,975	6,172	-35.6	21,899
Total	38,245	35,895	6.5	148,302

Net sales by customer location, EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Americas	8,862	7,219	22.8	31,796
Europe	12,788	11,859	7.8	50,687
Nordics	14,510	14,734	-1.5	57,441
APAC	2,085	2,083	0.1	8,379
Total	38,245	35,895	6.5	148,302

Net sales by revenue type



Net sales by customer location



Basware's net sales for the first quarter amounted to EUR 38,245 thousand (EUR 35,895 thousand), an increase of 6.5 percent. This equated 6.6 percent organic growth at constant currencies.

Cloud revenues continued to grow during the first quarter. Cloud revenues in the first quarter were EUR 27,774 thousand (EUR 24,282 thousand), up by 14.4 percent, and accounted for 72.6 percent (67.6%) of net sales. This equated to 14.2 percent organic growth at constant currencies. As part of the productivity programme, Basware has not continued non-strategic unprofitable contracts which impacted the cloud growth rate.

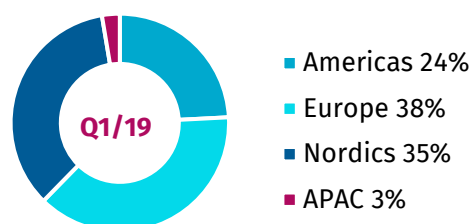
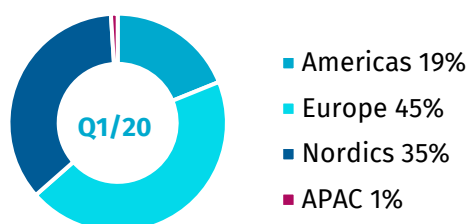
In the first quarter consulting revenues increased 19.4 percent, which equated to 20.2 percent organic increase at constant currencies. The increase was mainly due to strong order intake in 2019 and higher billable utilization.

Maintenance and license revenues declined in line with expectations as Basware transitions customers to the cloud. In the first quarter maintenance, license and other revenue decreased 35.6 percent, which equated to 35.1 percent organic decrease at constant currencies.

Cloud order intake

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Cloud	3,617	4,937	-26.7	23,694

Cloud order intake by customer location in Q1/2020 and Q1/2019



Basware's total cloud annual recurring revenue (ARR) gross order intake in the first quarter amounted to EUR 3,617 thousand (EUR 4,937 thousand), a decrease of 26.7 percent. This equated to 26.6 percent decline on an organic constant currency basis. Cloud order intake was negatively impacted in the first quarter by the Covid-19 pandemic.

There will be a time lag before order intake is visible in net sales. Historically, around one quarter of new ARR order intake converts into revenues in the year that it is won, with roughly fifty to sixty percent converting to revenues in the second year and the remainder thereafter. Further information on the definition of annual recurring revenue gross order intake is included in the section on Definitions of Alternative Performance Measures and Key Indicators.

Financial performance

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Net sales	38,245	35,895	6.5	148,302
Cost of sales	-17,473	-18,147	-3.7	-71,493
Gross profit	20,772	17,748	17.0	76,810
Sales and marketing	-10,767	-11,375	-5.3	-45,190
Research and development	-6,176	-7,404	-16.6	-26,815
General and administration	-3,575	-4,607	-22.4	-14,572
Total operating expenses	-20,518	-23,386	-12.3	-86,577
Other operating income and expenses	-153	-2,142	-92.8	-4,770
EBIT	100	-7,780		-14,537
Adjusted EBITDA	4,011	-1,699		5,185

In the first quarter, cost of sales amounted to EUR 17,473 thousand (EUR 18,147 thousand), a decrease of 3.7 percent. The cloud gross margin was 67 percent in the first quarter, up 6.4 percent points in comparison to the first quarter of 2019.

Out of total operating expenses, sales and marketing expenses decreased 5.3 percent, research and development expenses decreased 16.6 percent and general and administration expenses decreased 22.4 percent. Operating expenses were reduced as a result of actions taken as part of the 2019 productivity programme.

Basware's research and development investments including capitalizations but excluding amortizations totalled EUR 6,258 thousand (EUR 7,755 thousand), or 16.4 percent (21.6%) of net sales during the quarter.

Basware's adjusted EBITDA was EUR 4,011 thousand (EUR -1,699 thousand) in the first quarter. The adjustments to EBITDA totalled EUR -59 thousand (EUR 1,960 thousand) in the quarter. Other operating income and expenses amounted to EUR -153 thousand (EUR -2,142 thousand).

Basware's EBIT for the quarter amounted to EUR 100 thousand (EUR -7,780 thousand).

Basware's loss before tax was EUR -2,665 thousand (EUR -8,400 thousand) and loss for the quarter EUR -3,647 thousand (EUR -8,164 thousand). Taxes for the quarter impacted the result by EUR -981 thousand (EUR 236 thousand).

Diluted earnings per share were EUR -0.25 (EUR -0.57) for the quarter.

Cash flows, financing and investments

Cash flows from operating activities were EUR 6,497 thousand (EUR 1,626 thousand) in the first quarter. The improvement in cash flows was mainly due to higher profitability.

Basware's cash and cash equivalents including short-term deposits totalled EUR 32,558 thousand (EUR 35,117 thousand) at the end of the quarter.

Basware's total assets on the balance sheet at the end of the quarter were EUR 228,946 thousand (EUR 232,889 thousand). Net cash flows from investments were EUR -3,074 thousand (EUR -3,009 thousand) in the quarter.

The equity ratio was 38.8 percent (45.9%) and gearing 53.4 percent (33.4%). The company's interest-bearing liabilities excluding leasing liabilities totalled EUR 62,264 thousand (EUR 53,669 thousand), of which current liabilities accounted for EUR 1,996 thousand (EUR 19,746 thousand). The return on investment was 0.8 percent (-18.0%) and return on equity -16.0 percent (-30.2%) in the quarter.

Free cash flow metric

The purpose of the free cash flow metric is to provide a clear view of all costs related to Basware's operations. From the second quarter of 2019 Basware publishes free cash flow metric on a quarterly basis to enable investors to track the progress towards the expectation that Basware reaches positive free cash flow on a run-rate basis by the end of 2020. The definition for free cashflow metric is disclosed in Definitions of Alternative Performance Measures and Key Indicators.

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
EBITDA	4,070	-3,660		1,403
Capitalizations	-3,111	-2,993	3.9	-10,617
Finance expenses	-3,021	-650		-9,091
Taxes, excl. deferred taxes	-628	-95		-1,341
Payment of lease liabilities	-1,174	-953	23.2	-4,372
Share based compensation, share part	285	534	-46.7	188
Free cash flow metric	-3,579	-7,816	54.2	-23,829

The free cash flow metric amounted to EUR -3,579 thousand (EUR -7,816 thousand) in the first quarter. The free cash flow metric improved in comparison to the first quarter of 2019 due to improved profitability, which more than offset the increase in finance expenses.

Personnel

Personnel on average by area	1-3/ 2020	1-3/ 2019	Change, %	2019
Americas	108	143	-24.5	121
Europe	366	383	-4.4	374
Nordics	427	449	-5.0	437
APAC	431	421	2.3	417
Total	1,332	1,395	-4.5	1,349

Basware employed 1,332 (1,395) people on average during the quarter and 1,342 (1,386) at the end of the quarter.

On March 31, 2020, 14.0 percent (15.6%) of the personnel worked in sales and marketing, 32.8 percent (35.2%) in R&D and production and products, 42.9 percent (39.2%) in customer services and 10.3 percent (10.0%) in administration.

Basware's personnel expenses were EUR 21,645 thousand (EUR 24,036 thousand) in the quarter.

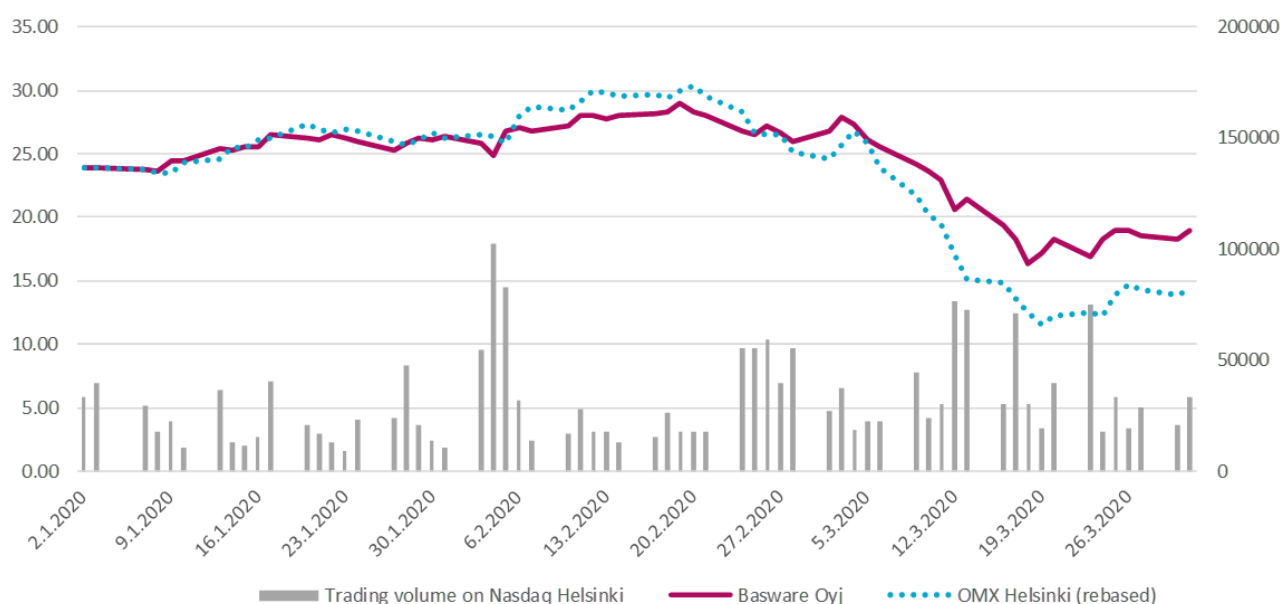
Share and shareholders

Share Indicators	1-3/2020	1-3/2019	2019
Share price performance, EUR			
- lowest price	15.66	21.30	16.76
- highest price	29.10	41.10	41.10
- average price	24.09	30.67	23.61
- closing price	18.90	22.10	23.75
Market capitalization at end of period ¹ , EUR	272,115,377	317,587,520	341,943,926
Number of shares ¹			
- at end of the period	14,397,639	14,370,476	14,397,639
- average during the period	14,397,639	14,370,476	14,388,469
- average during the period, diluted	14,659,868	14,459,511	14,473,519
Number of traded shares (share issue adjusted) in Nasdaq Helsinki	2,006,983	952,840	4,204,444
% of average number of shares	13.9%	6.6%	29.2%
Treasury shares held by the Company	4,297	31,460	4,297
% of total shares	0.0%	0.2%	0.0%
Share capital, EUR	3,528,368	3,528,368	3,528,368
Earnings per share, undiluted, EUR	-0.25	-0.57	-1.63
Earnings per share, diluted, EUR	-0.25	-0.57	-1.63
Adjusted earnings per share, undiluted, EUR	-0.26	-0.43	-1.37
Adjusted earnings per share, diluted, EUR	-0.26	-0.43	-1.37
Equity per share, EUR	6.17	7.36	6.53
Price per earnings (P/E)	-74.62	-38.90	-14.58

¹ Excluding treasury shares

Basware had 13,869 (12,225) shareholders at the end of the quarter, including nominee-registers. Nominee-registered holdings accounted for 51.4 percent (53.5%) of the total number of shares.

Share price development and trading January 1 – March 31, 2020



(Source: Investis Digital)

Flagging notifications

During 2020, Basware Corporation received the following notifications from major shareholders:

Announcement date	Shareholder	Threshold	Total holding, %
February 11	Briarwood Chase Management LLC	Above 5%	5.00%

Annual General Meeting and authorizations of the Board of Directors

Basware has decided to cancel and postpone the Annual General Meeting 2020 to a later date due to COVID-19 pandemic. Annual General Meeting 2020 was originally supposed to be held on March 19, 2020.

In Basware Corporation's Annual General Meeting 2019 the Board of Directors was authorized to decide on repurchasing a maximum of 1,420,000 company's own shares. The company's own shares shall be repurchased otherwise than in proportion to the holdings of the shareholders by using the non-restricted equity through trading on regulated market organized by Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The repurchase authorization shall be valid until June 30, 2020 and shall revoke the previous authorizations for repurchasing the company's own shares. On March 14, 2019, Basware announced via stock exchange release the resolutions of the Annual General Meeting 2019. The resolutions from Annual General Meetings are available on Basware's investor website at <https://investors.basware.com/en/annual-general-meeting>

Strategy

Basware is a global market leader in networked Purchase-to-Pay with the largest e-invoicing network in the world. The market opportunity is estimated to be worth EUR 15 billion annually and its driven by global megatrends such as digitalization and automation, increased regulation, rapid technological development and sustainability. Basware is focused on scalable growth and profitability, increasing operational efficiency in the strategic business and simplifying operations.

Basware's key growth markets are the US, UK, Germany and France, where the company sees the greatest opportunity to win new customers. Each of Basware's top 200 key customers brought on average approximately EUR 250 thousand annual recurring cloud revenue in 2019. Through add-on sales and geographical expansions, there is potential to increase the average revenue from customers.

Once Basware wins a new customer they typically stay with the company for many years. In 2019 Basware's gross renewal rate was 95 percent and net renewal rate was 104 percent. The gross margin for cloud revenues at the end of 2019 was 65 percent. Together these make the lifetime value of customer contracts high. In 2019 Basware had a customer lifetime value to customer acquisition cost ratio of 7 times.

Basware's long-term goal is to become the networked Source-to-Pay vendor of choice. Basware moves forward to its vision through five Must-Wins, which define strategic priorities for the period 2020-2022. The Must-Wins relate to customer satisfaction, project delivery capabilities, procurement solution, selling with advisory partners and cloud transformations. First Must-Win relates to customer satisfaction, which is a priority across all functions, from first contact to project delivery, products and support. Second Must-Win is enhancing delivery capabilities: each project should have the optimal resources for a timely customer delivery. Basware also needs to support the continuous improvement and change programs of customers. Thirdly, Basware's aim is to further strengthen its procurement solution and entire Source-to-Pay solution through partnerships and open API architecture. Fourthly, Basware aims to accelerate cloud growth through "sell with" advisory partners. Finally, the last Must-Win battle is to complete the last phase in customer cloud transformations and reallocate resources to long-term strategic areas.

Risks and uncertainty factors

Basware operates in a market where technological innovation plays a key role. While Basware is recognized as a leader within its segments by independent analysts, it is critical that Basware continues to innovate and develop its offering. Basware invests in product development to ensure the competitiveness of its product portfolio and good end-to-end quality, which impacts customer satisfaction, customer retention and expansion.

Basware has a growth strategy with high net sales growth expectations for the cloud business. Executing the strategy requires significant investments in sales and marketing and related resources in addition to optimized pricing model and efficient customer delivery. At the same time, the industry transformation from an on-premise license-based business model to a SaaS model will accelerate the decline of certain Basware revenue streams, including license sales and maintenance. The transformation will also make consulting revenues more volatile. Until the transformation is complete, this will act as a drag on Group net sales growth. The churn rate may increase as Basware consolidates its product portfolio to focus on strategic high gross margin business.

Market disruptions such as consolidation of significant competitors, aggressive entries of new competitors or emergence of disruptive technologies may be a risk to Basware's position as a market leader and to Basware's market share.

The fact that more than 50 percent of the company's sales are expected to come from non-euro countries exposes the Group's net sales growth to foreign exchange rate movements. In case there is a significant movement of USD, GBP, NOK, SEK or AUD against the euro, reported net sales may be affected. In addition, a proportion of Basware's costs are denominated in INR and RON. The uncertainty around the status of the UK in relation to the European Union may have a negative impact on Basware's ability to do business in the UK.

Basware considers acquisitions as part of its strategy. Acquisitions entail risks, such as failure in integrating acquisitions or in ensuring that the planned financial benefits and synergies of the acquisitions materialize.

Basware's biggest operational risks relate to service disruption as a result of for example data centre failures, various data security threats and non-compliance risks related to Basware's solutions and services, the company's activities or its employees' behaviour. Operational risks are actively managed by continuous improvement in risk monitoring and protection practices, external assessments as well as internal training of Basware's personnel.

The Covid-19 pandemic may have an impact on the timing of organisations' IT project decisions and implementations and on the global volume of invoices sent and received. This may impact Basware's order intake, revenues, operating profit and cash flow. Basware has a business continuity plan in place including extensive remote working capabilities across all functions, however should the Covid-19 situation materially affect employees' ability to work, this may disturb Basware's ability to serve its customers.

Future outlook

Themes affecting revenues and EBIT

Basware aims for consistent cloud revenue growth. Cloud revenues are impacted by cloud order intake, churn and network transaction volume driven revenues. Approximately thirty percent of Basware's network transaction services revenues are subscription based. Cloud churn continues to be affected by non-strategic contracts which are not renewed.

Overall improvements in scalability and operational efficiency are expected to continue. However due to the Covid-19 situation there may be some impact to the timing of these improvements.

Consulting business productivity is expected to improve as a result of actions taken as part of the productivity programme launched in April 2019. Demand for consulting services is driven primarily by new customer wins and expansion sales to existing customers.

Revenues from maintenance and license will continue to decline as Basware transitions existing licence customers to cloud services. The rate of decline has been increased by end-of-life actions taken during 2019.

Guidance for 2020 updated due to Covid-19

Basware is updating its 2020 guidance to reflect the estimated impact of the COVID-19 pandemic.

Due to the COVID-19 pandemic, the current economic outlook in Basware's main markets involve significant uncertainties. Basware assumes that global business activity will be negatively impacted in the second and third quarters, and in the fourth quarter business activity will gradually head towards more normal conditions. Net Sales guidance will be given when it is possible to estimate the COVID-19 pandemic effects more precisely.

Basware's cost base is scalable and has variable cost components that can be reduced to a certain extent to maintain profitability. EBIT for 2020 is expected to be positive.

The previous guidance as given on February 4, 2020 was that Basware expects the following for 2020:

- Net Sales to grow at around the same rate as in 2019 on an organic basis at constant currencies
- Positive EBIT

Constant currencies mean that the effects of any changes in currencies are eliminated by calculating the figures for the period using 2019 exchange rates. Organic means that the figures are adjusted to remove the effects of any acquisitions or disposals within the past 12 months.

Espoo, Finland, on Monday, April 20, 2020

BASWARE CORPORATION

Board of Directors

Klaus Andersen, CEO

SUMMARY OF FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS JANUARY 1 – MARCH 31, 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
NET SALES	38,245	35,895	6.5	148,302
Cost of sales	-17,473	-18,147	-3.7	-71,493
GROSS PROFIT	20,772	17,748	17.0	76,810
Sales and marketing	-10,767	-11,375	-5.3	-45,190
Research and development	-6,176	-7,404	-16.6	-26,815
General and administration	-3,575	-4,607	-22.4	-14,572
Total operating expenses	-20,518	-23,386	-12.3	-86,577
Other operating income and expenses	-153	-2,142	-92.8	-4,770
OPERATING PROFIT/LOSS	100	-7,780		-14,537
Finance income and expenses	-2,766	-620		-9,125
PROFIT/LOSS BEFORE TAX	-2,665	-8,400	68.3	-23,663
Income tax	-981	236		223
PROFIT/LOSS FOR THE PERIOD	-3,647	-8,164	55.3	-23,440
Other comprehensive income				
Other comprehensive income that will not be reclassified to profit or loss				
Remeasurement of employee benefits	-7	2		-2
Other comprehensive income that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	-2,103	1,780		1,974
Cash flow hedges	-155	165		-162
Income tax relating to components of other comprehensive income	47	145	-67.8	-86
Other comprehensive income for the year net of tax	-2,219	2,091		1,723
TOTAL COMPREHENSIVE INCOME	-5,866	-6,071	3.4	-21,716
Profit/loss attributable to:				
Equity holders of the parent company	-3,647	-8,164	55.3	-23,440
Total comprehensive income attributable to:				
Equity holders of the parent company	-5,866	-6,071	3.4	-21,716
Earnings per share				
undiluted, EUR	-0.25	-0.57	55.4	-1.63
diluted, EUR	-0.25	-0.57	55.4	-1.63

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Mar 31, 2020	Mar 31, 2019	Change, %	Dec 31, 2019
ASSETS				
Non-current assets				
Intangible assets	44,285	45,369	-2.4	44,402
Goodwill	79,293	80,351	-1.3	80,345
Tangible assets	1,110	870	27.6	1,075
Right-of-use assets	16,710	16,189	3.2	15,842
Non-current financial assets	38	38	0.0	38
Other receivables	3,716	3,985	-6.8	4,193
Contract assets	96	740	-87.0	168
Deferred tax assets	9,388	8,190	14.6	9,654
Non-current assets	154,635	155,730	-0.7	155,716
Current assets				
Trade receivables	30,263	29,735	1.8	27,424
Other receivables	9,599	8,919	7.6	7,842
Contract assets	1,386	2,728	-49.2	1,561
Income tax receivables	505	660	-23.5	366
Cash and cash equivalents	32,558	35,117	-7.3	31,672
Current assets	74,311	77,159	-3.7	68,865
ASSETS	228,946	232,889	-1.7	224,581

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR thousand	Mar 31, 2020	Mar 31, 2019	Change, %	Dec 31, 2019
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	3,528	3,528	0.0	3,528
Share premium account	1,187	1,187	0.0	1,187
Treasury shares	-98	-638	-84.7	-98
Invested unrestricted equity fund	110,388	110,928	-0.5	110,388
Other reserves	513	915	-44.0	653
Translation differences	-10,294	-8,127	26.7	-8,226
Retained earnings	-16,435	-2,057		-13,347
Shareholders' equity	88,789	105,737	-16.0	94,086
Non-current liabilities				
Deferred tax liability	5,090	4,835	5.3	5,003
Interest-bearing liabilities	60,268	33,923	77.7	58,889
Leasing liabilities, interest-bearing	13,951	13,158	6.0	13,412
Other non-current financial liabilities	0	36	-100.0	0
Contract liabilities	2,476	2,521	-1.8	3,184
Liabilities from employee benefits	387	342	13.1	377
Non-current liabilities	82,173	54,816	49.9	80,864
Current liabilities				
Interest-bearing liabilities	1,996	19,746	-89.9	1,996
Leasing liabilities, interest-bearing	3,714	3,643	1.9	3,392
Trade payables and other liabilities	27,483	26,709	2.9	28,468
Contract liabilities	24,140	22,102	9.2	15,260
Income tax liabilities	581	121		249
Current provisions	71	15		266
Current liabilities	57,985	72,337	-19.8	49,631
EQUITY AND LIABILITIES	228,946	232,889	-1.7	224,581

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Share capital	Share premium account	Treasury shares	Inv. Un-restricted equity	Other reserves	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY Jan 1, 2020	3,528	1,187	-98	110,388	653	-8,226	-13,347	94,086
Comprehensive income						-2,069	-3,650	-5,719
Share based payments							569	569
Defined benefit plan							-7	-7
Cash flow hedges					-140			-140
SHAREHOLDERS' EQUITY Mar 31, 2020	3,528	1,187	-98	110,388	513	-10,294	-16,435	88,789

EUR thousand	Share capital	Share premium account	Treasury shares	Inv. Un-restricted equity	Other reserves	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY Jan 1, 2019	3,528	1,187	-638	110,928	832	-10,131	5,042	110,749
Comprehensive income						2,004	-8,161	-6,158
Share based payments							1,060	1,060
Defined benefit plan							2	2
Cash flow hedges					83			83
SHAREHOLDERS' EQUITY Mar 31, 2019	3,528	1,187	-638	110,928	915	-8,127	-2,057	105,737

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	1-3/ 2020	1-3/ 2019	2019
Cash flows from operating activities			
Profit/loss for the period	-3,647	-8,164	-23,440
Adjustments for profit:			
Depreciation and amortisation	3,970	4,121	15,941
Unrealised foreign exchange gains and losses	139	-125	-12
Financial income and expenses	2,708	672	9,088
Tax on income from operations	981	-236	-223
Other adjustments	489	1,541	635
Total adjustments	8,287	5,973	25,428
Changes in working capital:			
Increase (-) / decrease (+) in trade and other receivables	-4,608	-3,964	557
Increase (+) / decrease (-) in trade payables	7,384	9,029	4,794
Increase / decrease in provisions	-171	-175	123
Total changes in working capital	2,604	4,891	5,474
Financial items in operating activities	-310	-937	-2,472
Income taxes paid (-) / received (+)	-442	-137	-832
Cash flows from operating activities	6,497	1,626	4,159
Cash flows used in investing activities			
Purchase of tangible and intangible assets	-3,074	-3,009	-10,587
Net proceeds from sale of tangible and intangible assets	0	0	46
Cash flows from investing activities	-3,074	-3,009	-10,541
Cash flows from financing activities			
Repayment of current borrowings	-998	-3,544	-22,296
Proceeds from non-current borrowings	0	0	43,880
Repayment of non-current borrowings	0	0	-20,000
Payment of lease liabilities	-1,174	-953	-4,372
Cash flows from financing activities	-2,172	-4,497	-2,788
Net change in cash and cash equivalents	1,250	-5,879	-9,170
Cash and cash equivalents at the beginning of period	31,672	40,747	40,747
Net foreign exchange difference	-364	250	94
Cash and cash equivalents at the end of period	32,558	35,117	31,672

ACCOUNTING PRINCIPLES

This interim report has been prepared in accordance with IAS 34. The same accounting principles have been followed as in the annual financial statements except for the adoption of new standards and amendments effective as of January 1, 2020.

Preparation of financial statements in accordance with IFRS requires Basware's management to make estimates and assumptions that have an effect on the amount of assets and liabilities on the balance sheet at the closing date as well as the amounts of income and expenses for the financial period. In addition, the management must exercise its judgement regarding the application of accounting policies. Since the estimates and assumptions are based on the views at the date of the financial statements, they include risks and uncertainties. The actual results may differ from the estimates and assumptions.

The amounts presented in the income statement and balance sheet are Group figures. The amounts presented in the release are rounded, so the sum of individual figures may differ from the sum reported. Percentage changes for net figures are shown on an absolute basis.

Free cash flow metric

EUR thousand	1-3/ 2020	10-12/ 2019	7-9/ 2019	4-6/ 2019	1-3/ 2019
EBITDA	4,070	2,395	4,913	-2,245	-3,660
Capitalizations	-3,111	-2,588	-2,072	-2,964	-2,993
Finance expenses	-3,021	-2,722	-2,933	-2,786	-650
Taxes, excl. deferred taxes	-628	-825	-152	-269	-95
Payment of lease liabilities	-1,174	-1,246	-1,093	-1,080	-953
Share based compensation, share part	285	212	-108	-450	534
Free cash flow metric	-3,579	-4,774	-1,445	-9,794	-7,816

Adjusted operating profit/loss and adjusted EBITDA

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	2019
Operating profit/loss	100	-7,780		-14,537
Adjustments:				
Acquisition, disposal and restructuring income (-) and expenses (+)	-107	1,157		1,009
Efficiency related expenses	48	803	-94.0	2,772
Total adjustments	-59	1,960		3,781
Adjusted operating profit/loss	41	-5,820		-10,756
Depreciation and amortization	3,970	4,121	-3.7	15,941
Adjusted EBITDA	4,011	-1,699		5,185
% of net sales	10.5%			3.5%

INFORMATION ON PRODUCTS AND SERVICES

Basware reports one operating segment. The reported segment is comprised of the entire Group, and the segment figures are consistent with the Group figures.

Basware reports revenues by type. Cloud revenue includes SaaS, Transaction services (consisting of e-invoicing, scan and capture services, printing services and network start-up fees) and Other cloud

revenue. Non-cloud revenue includes Maintenance, License sales, Consulting services (consisting of professional services and customer services management) and Other non-cloud revenue.

EUR thousand	1-3/ 2020	1-3/ 2019	Change, %	Change, % ¹	2019
Cloud Revenue					
SaaS	14,191	11,387	24.6	24.2	49,133
Transaction services	12,389	11,717	5.7	5.8	47,876
Other cloud revenue	1,195	1,178	1.4	0.2	4,434
Cloud Revenue total	27,774	24,282	14.4	14.2	101,442
Non-Cloud Revenue					
Maintenance	4,089	5,713	-28.4	-27.9	20,720
License sales	79	382	-79.3	-80.2	1,202
Consulting services	6,496	5,441	19.4	20.2	24,962
Other non-cloud revenue	-193	77			-23
Non-Cloud Revenue total	10,471	11,613	-9.8	-9.2	46,861
Total	38,245	35,895	6.5	6.6	148,302

¹ Organic at constant currencies.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

EUR thousand	Mar 31, 2020		Mar 31, 2019		Dec 31, 2019	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets						
Non-current:						
Non-current financial assets	38	38	38	38	38	38
Non-current trade and other receivables	863	863	923	923	857	857
Current:						
Current trade receivables	30,263	30,263	30,179	30,179	27,424	27,424
Current other receivables	340	340	205	205	305	305
Cash and cash equivalents	32,558	32,558	35,117	35,117	31,672	31,672
Financial liabilities						
Non-current:						
Financial liabilities valued at amortized acquisition cost:						
Loans from financial institutions, interest-bearing ¹	60,268	71,252	33,923	33,923	58,889	70,059
Leasing liabilities, interest-bearing	13,951	13,951	13,158	13,158	13,412	13,412
Current:						
Loans from financial institutions, interest-bearing	1,996	1,996	19,746	19,746	1,996	1,996
Leasing liabilities, interest-bearing	3,714	3,714	3,643	3,643	3,392	3,392
Trade payables and other liabilities	9,953	9,953	10,626	10,626	10,998	10,998

¹ Fair value of loan from Bregal Milestone LLP is measured to reflect the amount Basware would need to pay if it would repay the loan in full at the end of reporting period. The loan has an exit fee which accrues evenly over the loan period. The value of the exit fee at maturity equals 40 percent of the loan amount.

Financial liabilities arising from derivative financial instruments of EUR 78 thousand are classified as level 2 and unquoted equity shares of EUR 38 thousand as level 3 in the fair value measurement hierarchy.

In March 2019, Basware entered into a loan totalling EUR 50 million with Bregal Milestone LLP due September 2024. The loan is senior unsecured with a 5.5-year maturity that significantly extends Basware's average debt maturity. The facility was drawn on April 2, 2019 and the proceeds were EUR 45 million. The loan has an exit fee which accrues over the loan period. The value of the exit fee at maturity equals to 40 percent of the loan amount. The cash interest margin on the loan is 8.75 percent annually. The company has the option to utilise PIK interest as an alternative to cash pay interest at the rate of 11.25 percent annually.

In connection with the Loan, Bregal Milestone received without consideration 1,000 freely transferable warrants convertible into 1,000,000 shares in the Company, representing approximately 6.5 percent of the fully diluted shares of the Company (6.9 percent of the current number of shares in the Company). The cash subscription price for each Warrant Share is EUR 29.9158, which represents the average of the five daily volume weighted average prices from March 13 to March 19, 2019. The subscription price will be subject to adjustments for any dividends as well as customary anti-dilution adjustments resulting from, among other things, any share issues, pursuant to the terms and conditions of the warrants. The warrants were issued to Bregal Milestone at the drawdown of the Loan, on April 2, 2019. The subscription period of the Warrant Shares commenced immediately upon the issue of the warrants and will expire on August 22, 2024. The Board of Directors of Basware decided to issue the warrants on the basis of authorization granted by the annual general meeting of Basware held on March 15, 2018.

COMMITMENTS AND CONTINGENT LIABILITIES

EUR thousand	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Own guarantees			
Guarantees	1,131	1,100	1,149
Commitments on behalf of subsidiaries			
Guarantees	282	358	298
Other commitments			
Maturing in less than 1 year	3,065	2,026	3,173
Maturing in 1-5 years	4,498	2,651	4,899
Total	7,563	4,677	8,072
Total commitments and contingent liabilities	8,975	6,135	9,518

Other commitments include leases and other rental not in scope of IFRS 16, as well as commitments arising from license agreements. Obligations from long term service agreements are not included.

RELATED PARTY TRANSACTIONS

Loans from related parties

EUR thousand	Mar 31, 2020	Mar 31, 2019	Dec 31, 2019
Arrowgrass Master Fund LTD	0	10,000	0

Loans from related parties included the share of Arrowgrass Master Fund LTD of the Group's EUR 30 million term loan financing, which was repaid in September 2019. The other lenders were Nordea Bank AB, OP Corporate Bank Plc and Ilmarinen Mutual Pension Insurance Company. Loans from related parties were provided at commercial interest rates.

Definitions of Alternative Performance Measures and Key Indicators

Organic revenue growth is calculated by comparing net sales between comparison periods in constant currencies excluding alliance fees as well as net sales from acquisitions or disposals that have taken place in the past 12 months.

Net sales in constant currencies is calculated by eliminating the impact of exchange rate fluctuations by calculating the net sales for the current period by using the comparable period's exchange rates.

Gross investments are total investments made to non-current assets including acquisitions and capitalized research and development costs.

Other capitalized expenditure consists of investments in property, plant & equipment and intangible assets excluding acquisitions and capitalized research and development costs.

EBITDA is calculated as operating profit/loss plus depreciation and amortization.

Adjusted EBITDA is calculated from EBITDA excluding any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Operating profit (EBIT) is the net sum of operating income added to net sales, less cost of sales consisting of materials and services, less the costs resulting from employee benefits, depreciation and amortization as well as other operating expenses and any impairment. Exchange rate differences and gains or losses arising from changes in the fair value of derivatives are included in operating profit, provided that they result from items related to business operations; otherwise they are recognized under financing items. All other items of the consolidated statement of comprehensive income are presented after operating profit.

Adjusted operating result (Adjusted EBIT) is calculated from operating result excluding any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Annual recurring revenue gross order intake is calculated by summing the total order intake in the period expressed as an annual contract value. For cloud order intake this includes all SaaS and Network recurring revenues including transaction revenues. For the subscription order intake this includes SaaS and other purchase-to-pay subscription types and excludes transaction revenue. Gross order intake covers new cloud customers, add-ons and renewal uplifts but excludes churn. There will be a time lag before this order intake is visible in net sales.

Cloud gross churn rate is defined as the total amount of cloud revenues lost during the period, divided by the total cloud revenues at the beginning of the period.

Cloud net churn rate is defined as the total amount of cloud revenues lost during the period minus the new cloud ARR won from add-on sales to existing customers during the period, divided by the total cloud revenues at the beginning of the period.

Cloud gross renewal rate is defined as 100 percent minus the cloud gross churn rate.

Cloud net renewal rate is defined as 100 percent minus the cloud net churn rate.

Customer lifetime is defined as 1 divided by the cloud gross churn rate.

Lifetime value of the order intake won during the period is calculated by multiplying Cloud ARR order intake during the period by the cloud gross margin and dividing by the cloud gross churn rate.

The customer acquisition cost is defined as the total expenditure on sales and marketing for the 12 months prior to the period (to account for the lead time between new sales and marketing expenditure converting to order intake).

Free cash flow metric is calculated as follows: EBITDA minus capitalizations, total debt service costs, tax and payment of lease liabilities, and excluding the share part of share-based compensation and any impact from acquisitions or disposals.

Return on equity (ROE), %

$$\frac{(\text{Profit or loss before taxes} - \text{taxes}) \times 100}{\text{Shareholders' equity (average)}}$$

Shareholders' equity (average)

Return on investment (ROI), %

$$\frac{(\text{Profit before taxes} + \text{interest and other financial expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average)}}$$

Balance sheet total – non-interest-bearing liabilities (average)

Gearing, %

$$\frac{(\text{Interest-bearing liabilities} - \text{interest-bearing assets}) \times 100}{\text{Shareholders' equity}}$$

Shareholders' equity

Equity ratio, %

$$\frac{\text{Shareholders' equity} \times 100}{\text{Balance sheet total} - \text{advance payments received}}$$

Balance sheet total – advance payments received

Earnings per share (EPS)

$$\frac{\text{Profit for the period}}{\text{Adjusted average number of shares during the period}}$$

Adjusted average number of shares during the period

Adjusted earnings per share (EPS) is calculated by excluding from the profit/loss any adjustments related to alliance fees, acquisitions and disposals, restructuring and efficiency measures, impairment losses and litigation fees and settlements.

Equity per share

$$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial period} - \text{own shares}}$$

Adjusted number of shares at the end of the financial period - own shares

Price-earnings ratio (P/E)

$$\frac{\text{Adjusted share price at the end of the financial period}}{\text{Earnings per share}}$$

Earnings per share

QUARTERLY INCOME STATEMENT

EUR thousand	1-3/2020	10-12/2019	7-9/2019	4-6/2019	1-3/2019
NET SALES	38,245	39,264	36,823	36,320	35,895
Cost of sales	-17,473	-18,294	-16,550	-18,502	-18,147
GROSS PROFIT/LOSS	20,772	20,970	20,273	17,819	17,748
Sales and Marketing	-10,767	-11,798	-9,809	-12,207	-11,375
Research and Development	-6,176	-6,597	-5,906	-6,908	-7,404
General and Administration	-3,575	-3,716	-3,576	-2,673	-4,607
Total operating expenses	-20,518	-22,111	-19,292	-21,788	-23,386
Other operating income and expenses	-153	-374	-42	-2,211	-2,142
OPERATING PROFIT/LOSS	100	-1,516	940	-6,181	-7,780
% of net sales	0.3		2.6		
Finance income and expenses	-2,766	-2,759	-2,947	-2,799	-620
Profit/loss before tax	-2,665	-4,275	-2,008	-8,981	-8,400
Income taxes	-981	251	169	-432	236
PROFIT/LOSS FOR THE PERIOD	-3,647	-4,023	-1,839	-9,413	-8,164

KEY INDICATORS

EUR thousand	1-3/ 2020	1-3/ 2019	2019
Cloud ARR order intake	3,617	4,937	23,694
Net sales	38,245	35,895	148,302
Net sales growth, %	6.5%	-0.2%	4.9%
Organic net sales growth, %	6.6%	5.7%	5.9%
EBIT	100	-7,780	-14,537
EBITDA	4,070	-3,660	1,403
% of net sales	10.6%		0.9%
Adjusted EBITDA	4,011	-1,699	5,185
Return on equity, %	-16.0%	-30.2%	-22.9%
Return on investment, %	0.8%	-18.0%	-8.6%
Interest-bearing liabilities excl. leasing liabilities	62,264	53,669	60,885
Cash and cash equivalents	32,558	35,117	31,672
Cash flows from operating activities	6,497	1,626	4,159
Free cash flow metric	-3,579	-7,816	-23,829
Gearing, %	53.4%	33.4%	48.9%
Gross investments	3,111	2,993	10,617
% of net sales	8.1%	8.3%	7.2%
R&D expenses excluding amortizations	3,793	5,306	19,138
R&D costs, capitalised	2,465	2,449	8,829
R&D investments, total	6,258	7,755	27,967
% of net sales	16.4%	21.6%	18.9%
Depreciation and amortization	3,970	4,121	15,941
Other capitalised expenditure	646	544	1,788
Personnel at end of period	1,342	1,386	1,325