

CRAYON GROUP HOLDING AS
FINANCIAL REPORT
Q1 2017

Management commentary – Q1 2017

In Q1 2017, Crayon continued to demonstrate strong commercial momentum with a year-over-year (“YoY”) organic revenue and gross profit growth of 9% and 8%, respectively. The most strategically important business areas, SAM, Cloud consulting and XSP/SW Indirect⁶, delivered the strongest growth. Further, profitability in the form of EBITDA¹ increased with MNOK 13 in Q1 2017 compared to Q1 2016 (+162%). The profitability increase is a continuation of the profitability momentum Crayon experienced in Q4 2016, both across established and relatively newly entered markets. The latter is the primary catalyst for the EBITDA increase in Q1 2017, fuelled by the US which grew its EBITDA with around MNOK 12 in Q1 2017 compared to the same period last year. In addition, the established Nordic markets² continued its solid track record with EBITDA growing MNOK 2 in Q1 2017 compared to Q1 2016. This showcases that Crayon has reached plateau with regards to the significant geographic investments done, and is now in position to generate positive EBITDA development across its entire geographic portfolio.

In March 2017 the company successfully completed the issuance of a MNOK 600 senior secured bond in the Nordic market. The bond issue was significantly oversubscribed, and has a coupon of 3 months NIBOR +5.5% p.a. Settlement was April 6th 2017, with final maturity April 6th 2020. An application will be made for the bond to be listed on the Oslo Stock Exchange (Oslo Børs). Net proceeds from the bond issue was used to refinance the outstanding MNOK 650 bond issued in July 2014. In light of the refinancing mentioned above, the Group has also successfully increased its revolving credit facility to MNOK 200. Quarterly covenant tests will be attached to the new credit facility, and as of Q1 2017 Crayon is within the thresholds.

Financials

Q1 2017

Gross profit grew from MNOK 249.3 in Q1 2016 to MNOK 269.8 in Q1 2017, i.e. +8% YoY, driven by strong momentum across all key markets and business segments. Gross profit growth YoY in Q1 2017 from a geographical perspective was primarily driven by:

- 1) Established Nordic Markets² had a negative gross profit growth from MNOK 186.5 in Q1 2016 to MNOK 175.1 in Q1 2017, i.e. -6% YoY. The YoY decline in Q1 is primarily driven by Inmeta Consulting in Norway which experienced relatively low utilization in Q1. Remaining Nordic markets delivered positive growth fuelled by Sweden which experienced more than 16% YoY gross profit growth in Q1 2017.
- 2) Growth Markets³ grew its gross profit growth from MNOK 40.6 in Q1 2016 to MNOK 42.3 in Q1 2017, i.e. +4% YoY. The positive YoY growth was mainly driven by Middle East and France, growing 74% and 24% respectively.
- 3) Start-ups 2014⁴ grew its gross profit from MNOK 12.0 in Q1 2016 to MNOK 15.6 in Q1 2017, i.e. +30% YoY.
- 4) Start-ups 2015 excl. US⁶ grew its gross profit from MNOK 0.9 in Q1 2016 to MNOK 3.3 in Q1 2017, i.e. +249% YoY.
- 5) US (incl. Anglepoint) grew its gross profit from MNOK 19.7 in Q1 2016 to MNOK 32.1 in Q1 2017, i.e. +63% YoY.

Q1 2017 EBITDA¹ was MNOK 4.9 compared to MNOK -8.0 in Q1 2016 (MNOK +12.9, or +162% YoY). The YoY increase in Q1 2017 EBITDA was primarily driven by:

- 1) Increased profitability in the Established Nordics Markets², growing EBITDA from MNOK 27.1 in Q1 2016 to MNOK 29.3 in Q1 2017.
- 2) Increased profitability in Start-ups 2014⁴, growing EBITDA from MNOK -4.4 in Q1 2016 to MNOK -2.3 in Q1 2017.
- 3) Increased profitability in Start-ups 2015⁴, growing EBITDA from MNOK -6.5 in Q1 2016 to MNOK -5.0 in Q1 2017. The positive YoY development is in line with historical vintage development of new countries signifying the future embedded EBITDA among the relatively new markets entered.
- 4) Increased profitability in the US (incl. Anglepoint), growing EBITDA from MNOK -16.3 in Q1 2015 to MNOK -4.1 in Q1 2017.

These positive EBITDA Q1 2017 YoY drivers were partially offset by:

- 1) Decreased profitability among the Growth Markets³. EBITDA decreased from MNOK -2.0 in Q1 2016 to MNOK -4.2 in Q1 2017, driven by the UK subsidiary (MNOK 2.5 YoY decline) as the entity is transforming from a declining legacy business into offering a full suite of Crayon services and products.
- 2) Increased investments in HQ to build IP, structural capital and know-how incl. phasing of co-investments from vendors in Q1 2017 vs. Q1 2016. EBITDA decreased from MNOK -5.6 in Q1 2016 to MNOK -8.0 Q1 2017.
- 3) Increased investments in Start-ups 2016. EBITDA decreased from MNOK -0.1 in Q1 2016 to MNOK -0.7 Q1 2017.

The US experienced a very strong finish of the year in 2016, with encouraging Q4 and December 2016 EBITDA results of MNOK -3.3 and +2.2, respectively (first month with positive EBITDA in US combined). In wake of weak trading YTD September 2016, several initiatives were put in motion in the US. About 25% of the workforce were terminated and stringent cost focus and savings plan are put in place. These initiatives have now started to materialize in terms of reduced cost base. On the commercial side, both Crayon US and Anglepoint continues to experience a very strong commercial momentum which is expected to yield continued improved results in 2017. This was also demonstrated by the significant YoY EBITDA improvement in Q1 2017 (MNOK 12 better than same period last year).

Business areas - Review

For Q1 2017, all business areas demonstrated a positive YoY gross profit growth, where XSP/SW Indirect⁶ (+21%), SAM (+15%) and Licensing/SW Direct (+5%) showed the largest YoY growth. Consulting experienced a gross profit growth of +1% YoY driven by Cloud consulting, but offset by Solution consulting. Cloud consulting grew its gross profit from MNOK 30.4 in Q1 2016 to MNOK 35.8 in Q1 2017 (+18% YoY), while Solution consulting decreased its gross profit from MNOK 45.1 in Q1 2016 to MNOK 40.6 in Q1 2017 (-10% YoY) driven by weak utilization in Inmeta Consulting.

Balance sheet items

Working capital is seasonal, yet fairly predictable through the year with a seasonal pattern of working capital build up in q1 and q3 and unwinding of working capital in q2 and q4. Over the last 36 months, trade working capital (incl. public duties) has on average increased with MNOK ~20 per year driven by gross profit growth and changed product mix, yet partly offset via other working capital levers incl. increased working capital management. Given the nature of Crayon's business, working capital seasonality is directly correlated with the company's cash position.

The net cash position as of 31 March 2017 was MNOK 66.5 compared to MNOK 227.9 at the beginning of the year, and MNOK 68.6 as of end Q1 2016. The YoY cash delta in Q1 2017 of MNOK -2 is largely explained by a lower ingoing cash balance for the year (MNOK -8), offset by increased cash generation from operations.

Net interest bearing debt incl. Anglepoint's interest bearing promissory note, as of end March 2017 was MNOK 608.8 (excluding restricted cash of MNOK 8.7), corresponding to a leverage ratio of 4.55x EBITDA⁷. The Company had headroom with regards to its bank covenants.

1 Excluding non-recurring costs

2 Norway, Sweden, Finland, Denmark and Iceland

3 Germany, France, UK and Middle East

4 Newly established markets with inception point in 2014 (e.g. Austria, Netherlands, India, Malaysia and Singapore)

5 Newly established markets (excl. US) with inception point in 2015 (e.g. Spain, Portugal and Switzerland)

6 Crayon's offering towards hosters, system integrators and ISVs

7 On a LTM basis, excluding non-recurring costs and minority interest

Crayon Group Holding AS
Condensed Consolidated Statement of Income

	Note	Quarter ended 31 March,		Year to date ended 31 March,		Year ended 31 December,
		Un-audited 2017	Un-audited 2016	Un-audited 2017	Un-audited 2016	Audited 2016
(In thousands of NOK)						
Operating revenue	2,5	1 358 532	1 242 233	1 358 532	1 242 233	6 015 162
Materials and supplies		1 088 728	992 892	1 088 728	992 892	4 886 757
Gross profit		269 804	249 341	269 804	249 341	1 128 404
Payroll and related cost		228 431	221 149	228 431	221 149	870 183
Other operating expenses		36 448	36 165	36 448	36 165	153 046
EBITDA	5	4 926	(7 973)	4 926	(7 973)	105 175
Exceptional items		272	671	272	671	13 456
Depreciation and amortization	6	15 276	21 215	15 276	21 215	99 018
Operating profit/EBIT		(10 623)	(29 859)	(10 623)	(29 859)	(7 299)
Interest expense		16 320	17 757	16 320	17 757	63 022
Other financial expense, net	7	(170)	(8 816)	(170)	(8 816)	(30 503)
Ordinary result before tax		(26 773)	(38 800)	(26 773)	(38 800)	(39 819)
Income tax expense on ordinary result		(5 098)	(14 254)	(5 098)	(14 254)	(9 605)
Net income		(21 675)	(24 547)	(21 675)	(24 547)	(30 213)
Comprehensive income		604	(21 853)	604	(21 853)	(39 752)
Total comprehensive income		(21 071)	(46 400)	(21 071)	(46 400)	(69 966)
Allocation of comprehensive income						
Owners of Crayon Group Holding AS		(17 664)	(40 304)	(17 664)	(40 304)	(51 653)
Minority interest		(3 407)	(6 096)	(3 407)	(6 096)	(18 312)
Total comprehensive income allocated		(21 071)	(46 400)	(21 071)	(46 400)	(69 965)

Crayon Group Holding AS
Condensed Consolidated Balance Sheet Statement

	Note	31 March	31 December
		Un-audited	Audited
(In thousands of NOK)		2017	2016
ASSETS			
<i>Current assets:</i>			
Inventory		18 802	17 546
Accounts receivable		721 973	1 206 783
Other receivables		36 001	56 065
Cash & cash equivalents		66 515	227 905
Total current assets		843 292	1 508 299
<i>Non-current assets:</i>			
Technology, software and R&D		104 380	104 347
Contracts		96 146	101 034
Software licenses		7 421	7 421
Goodwill		829 091	827 057
Property & equipment		19 182	18 704
Investment in associates		-	0
Other long-term receivables		4 073	3 203
Total non-current assets		1 060 294	1 061 766
Total assets		1 903 586	2 570 065
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current liabilities:</i>			
Accounts payable		660 495	1 224 108
Income taxes payable		(6 104)	(1 084)
Public duties		118 988	186 949
Other current liabilities		208 837	210 026
Debt due within 12 months	3,4	661 088	661 047
Total current liabilities		1 643 305	2 281 046
<i>Long-term liabilities:</i>			
Long-term debt	3,4	-	
Deferred tax liabilities		6 343	15 174
Other long-term liabilities		1 566	1 472
Total long-term liabilities		7 909	16 646
<i>Shareholders' equity:</i>			
Share capital		52 476	52 476
Own shares		(9)	(12)
Share premium		262 334	262 320
<i>Sum paid-in equity</i>		<i>314 801</i>	<i>314 784</i>
Funds		(69 437)	(53 605)
Minority interest		7 008	11 194
Total shareholders' equity		252 372	272 373
Total liabilities and shareholders' equity		1 903 586	2 570 065

Crayon Group Holding AS
Condensed Consolidated Statement of Cash Flows

	Quarter ended		Year to date ended		Year ended
	31 March,		31 March,		31 December,
	Un-audited	Un-audited	Un-audited	Un-audited	Audited
(In thousands of NOK)	2017	2016	2017	2016	2016
Cash flows provided by operating activities:					
Ordinary result before tax	(26 773)	(38 800)	(26 773)	(38 800)	(39 818)
Taxes paid	(9 460)	(3 125)	(9 460)	(3 125)	(17 608)
Depreciation and amortisation	15 276	21 215	15 276	21 215	99 018
Net interest to credit institutions	12 267	13 144	12 267	13 144	49 384
Changes in inventory, accounts receivable/payable	(80 059)	(88 297)	(80 059)	(88 297)	77 767
Changes in other current assets	(50 352)	(44 538)	(50 352)	(44 538)	(29 080)
Net cash flow from (used in) operating activities	(139 100)	(140 401)	(139 100)	(140 401)	139 662
Cash flows used in investing activities:					
Acquisition of assets	(10 129)	(9 232)	(10 129)	(9 232)	(51 212)
Acquisition of subsidiaries	-	(1 546)	-	(1 546)	(29 620)
Divestments	-	50	-	50	146
Repurchase of own shares	-	-	-	-	-
Net cash flow from (used in) investing activities	(10 129)	(10 728)	(10 129)	(10 728)	(80 686)
Cash flow used in financing activities:					
Net interest paid to credit institutions	(12 720)	(12 309)	(12 720)	(12 309)	(51 112)
New equity	-	-	-	-	-
Change in subsidiaries	-	-	-	-	-
Proceeds from issuance of interest bearing debt	-	-	-	-	-
Repayment of interest bearing debt	-	-	-	-	(73)
Change in other long-term debt	104	(334)	104	(334)	(3 578)
Net cash flow from (used in) financing activities	(12 616)	(12 642)	(12 616)	(12 642)	(54 762)
Net increase (decrease) in cash and cash equivalents	(161 845)	(163 771)	(161 845)	(163 771)	4 214
Cash and cash equivalents at beginning of period	227 905	236 293	227 905	236 293	236 293
Currency translation	455	(3 957)	455	(3 957)	(12 602)
Cash and cash equivalents at end of period	66 515	68 565	66 516	68 565	227 905

Crayon Group Holding AS
Condensed Consolidated Statement of Changes in Shareholders' Equity

Year to date period ending
31 March,

(In thousands of NOK)	Attributable to equity holders of Crayon Group Holding AS					Total equity
	Share capital	Own shares	Share premium	Funds	Minority	
Balance at January 1, 2016	52 476	(43)	262 163	36 354	12 989	363 938
Net income	-	-	-	(18 451)	(6 096)	(24 547)
Currency translation	-	-	-	(21 853)		(21 853)
Other	-	31	157	17 188	(9 622)	7 755
Balance as of end of period	52 476	(12)	262 320	13 238	(2 728)	325 292

(In thousands of NOK)	Attributable to equity holders of Crayon Group Holding AS					Total equity
	Share capital	Own shares	Share premium	Funds	Minority	
Balance at January 1, 2017	52 476	(12)	262 320	(15 845)	(12 855)	286 085
Opening balance adj.	-	-	-	(36 711)	24 049	(12 662)
Adjustment	-	-	-	779	(779)	-
Share repurchase (net)	-	3	14	3	-	20
Net income	-	-	-	(18 498)	(3 177)	(21 675)
Currency translation	-	-	-	834	(231)	604
Other	-	0	0	0	-0	(0)
Balance as of end of period	52 476	(9)	262 334	(69 437)	7 008	252 372

Notes to the Condensed Interim Consolidated Financial Statements - Period ended 31 March, 2017

Note 1 - General

The Company is a Norwegian limited liability company and has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The consolidated condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") No. 34 "Interim Financial Reporting". The interim financial information has not been subject to audit or review.

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its Consolidated Financial Statements for the year ended 31 December 2016.

Gross profit means operating income less direct cost, i.e. raw materials and supplies.

EBIT or "operating profit" means Operating Income less Total operating expenses. EBITDA, when used by the Company, means EBIT adjusted for exceptional items, impairment of non-current assets and depreciation and amortization. EBITDA may not be comparable to other similarly titled measures from other companies. The Company has included EBITDA as a supplemental disclosure because management believes it provides useful information regarding the Company's ability to service debt and to fund capital expenditures, and provides investors with a helpful measure for comparing its operating performance with that of other companies. Exceptional items is defined as extraordinary and non-recurring items in accordance with GAAP.

Note 2 - Seasonality

As with all licensing service providers, Crayon is heavily dependent upon successful sales during the final quarter of the year. Activity normally declines again at the beginning of the new year, before normally increasing again in the second quarter. However, usually the fourth quarter outweighs the second quarter, resulting in lower revenue for the first half year and increased revenue for the second half year.

Note 3 - Issue of new Bond

Crayon Group Holding AS issued in July 2014 a NOK 650 million Bond Issue (initial loan amount) with a potential tap issue of up to NOK 350m, with maturity in July 2017. The bond is to be repaid in full at the maturity date. Interest is set quarterly at NIBOR + 500bps. The proceeds from the initial loan amount was used for refinancing and for general corporate purposes. The proceeds from any tap issue shall be used for Permitted Acquisitions and for general corporate purposes of the Group. The outstanding bond principal (NOK) has been hedged against the relevant currencies comprising underlying cash flow of the company, and is booked as the actual value representing future liabilities based on the exchange rates at the balance sheet date. The bond is listed on the Oslo Stock Exchange. For further information about the Bond we refer to the Bond agreement.

Note 4 - Net interest-bearing debt

Net interest-bearing debt means long-term interest bearing debt less cash. Net interest-bearing debt is not adjusted for normalized working capital.

(In thousands of NOK)	As of 31 March,	
	2017	2016
Long-term interest debt	666 613	671 703
Cash and cash equivalents	66 515	68 565
Net interest bearing debt	600 098	603 138

Note 5 - Segment information

"Other" includes administration costs, unallocated Global Shared Cost, intercompany transactions and corrections for exceptional items.

Depreciation and amortization, Interest expense, Other financial expense (net), income tax expense and Other comprehensive income

are not included in the measure of segment performance.

Licensing/ SW Direct is Crayon's license offering from its partners (e.g. Microsoft, Adobe, Symantec, Citrix, VMware, Oracle, IBM and others). The emphasis is towards standard software which customers use consistently year after year, and which play a key role in their technological platforms and critical commercial processes. XSP/SW Indirect is Crayon's service offering towards hosters which include license advisory/optimization, software license sale and access to Crayon's reporting portal. Software Asset Management (SAM) services include process & tools for enabling clients to build in-house SAM capabilities, license spend optimization and support for clients in vendor audits.

Consulting services is related to deployment and application services. Crayon offers IT infrastructure services (planning and analysis support related to larger IT upgrade projects) and tailored software or application development.

Established markets is defined as markets where operations begun before FY 2014, while New markets is defined as markets where the Company has been operating since FY 2014.

Gross profit by operating segment and country classification:

(In thousands of NOK)	Year to date ended 31 March,	
	2017	2016
Gross profit by operating segment:		
- Licensing /SW Direct	87 507	82 955
- XSP / SW Indirect	32 139	26 656
- SAM	68 411	59 357
- Consulting	76 349	75 515
Gross profit from operations	264 407	244 483
- Other	5 398	4 857
Total gross profit	269 804	249 341

(In thousands of NOK)	Year to date ended 31 March,	
	2017	2016
Gross profit by country classification:		
- Established markets	217 413	227 162
- New markets	50 982	32 629
Gross profit from operations	268 395	259 791
- Other	1 409	(10 450)
Total gross profit	269 804	249 341

EBITDA by operating segment and country classification:

(In thousands of NOK)	Year to date ended 31 March,	
	2017	2016
EBITDA by operating segment:		
- Licensing /SW Direct	19 878	10 219
- XSP / SW Indirect	13 545	11 025
- SAM	8 484	1 226
- Consulting	5 947	2 228
EBITDA from operations	47 854	24 697
- Other	(42 928)	(32 671)
Total EBITDA	4 926	(7 973)

(In thousands of NOK)	Year to date ended 31 March,	
	2017	2016
EBITDA by country classification:		
- Established markets	25 109	25 087
- New markets	(12 178)	(27 318)
EBITDA from operations	12 932	(2 232)
- Other	(8 006)	(5 742)
Total EBITDA	4 926	(7 973)

Note 6 -Depreciation and amortization

Depreciation and amortization consists of the following:

	Year to date ended 31 March,		Quarter ended 31 March,		Year ended 31 December,
	2017	2016	2017	2016	2016
(In thousands of NOK)					
Depreciation	2 440	3 781	2 440	3 781	9 258
Amortization of intangibles (incl. write-down)	12 836	17 434	12 836	17 434	89 760
Total	15 276	21 215	15 276	21 215	99 018

Note 7 - Other financial expense, net

Other financial expense, net consists of the following:

	Year to date ended 31 March,		Quarter ended 31 March,		Year ended 31 December,
	2017	2016	2017	2016	2016
(In thousands of NOK)					
Interest income	4 052	4 613	4 052	4 613	13 639
Other financial income	30 952	18 655	30 952	18 655	22 142
Other financial expenses	34 834	14 452	34 834	14 452	5 278
Total	(170)	(8 816)	(170)	(8 816)	(30 503)

END OF REPORT