FACTS AND FIGURES OF THE FIRST QUARTER

NFON AG Quarterly Report for 1 / 2019

Who we are

Headquartered in Munich and founded 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 30,000 companies across 14 European countries as customers and more than 2,000 partners across Europe. With Cloudya, NFON offers an easy-to-use, independent and reliable solution for advanced cloud business communications. Further premium and industry solutions complete the portfolio in the field of cloud communications. With our intuitive communications solutions, we enable European companies to improve their work a little, every single day. NFON is the new freedom in business communication.

Key figures

in mEUR	Q1 2019	Q1 2018	Change in %
Revenue	12.1	10.0	21.2
Recurring revenue	10.4	8.0	29.9
in % from total revenue	86	81	
Non recurring revenue	1.7	1.9	-10.7
in % from total revenue	14	19	
Seats	390,826	269,392	45.1

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Dear shareholders,
Dear readers,

NFON has been listed on the stock exchange for almost exactly one year now and we have since reached all of the targets we set ourselves. In operating terms, we achieved our 2018 guidance and expect the pace of growth to accelerate again significantly in 2019. Our performance in the first quarter of 2019 shows that we are well on track!

An example of this is the number of seats installed by our customers, which rose by 45% year on year to over 390,000. This upturn was driven by organic growth and the acquisition of Deutsche Telefon Standard AG (DTS), which was fully consolidated in the NFON Group for the first time as at 1 March 2019. But the SIP-trunk technology specialists have not just helped us further boost the number of seats and complemented our cloud product portfolio. Thanks to this acquisition, we also have over 35,000 SIP-trunk channels and have expanded our European partner network to include over 2,000 partners.

Revenue totalled EUR 12.1 million in the first three months of 2019, up around 21% on the previous year. DTS revenue is included only for the month of March in Q1 2019. From the second quarter onwards, DTS will contribute in full to growth targets in 2019. We once again bolstered the NFON Group's recurring revenue, with an upturn of around 29% to EUR 10.4 million. At 86%, recurring revenue's share of total revenue exceeded the range anticipated for 2019, a testimony to our customers' high degree of satisfaction and loyalty.

Hans Szymanski.
Chief Executive Officer

Jan-Peter Koopmann.
Chief Technology Officer

César Flores Rodríguez.
Chief Sales Officer

This performance in the first three months of 2019 sets an excellent basis for the dynamic growth expected this year. Over the last year, we have laid the foundations to achieve this by systematically implementing our strategy, including the new NFON core product Cloudya, the international expansion launched in Italy and France and the acquisition of DTS.

Our aim is to become the number 1 in cloud telephony in Europe. As the only pan-European cloud PBX provider, we already serve over 30,000 corporate customers in 14 European countries. We are confident that we have set the right strategic course for successful company performance in the long term in the interests of all our shareholders. The company's success to date reaffirms this belief and we would be delighted for you to continue supporting us as we rise to the top of the European cloud telephony.

Best regards,

Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez

Business performance

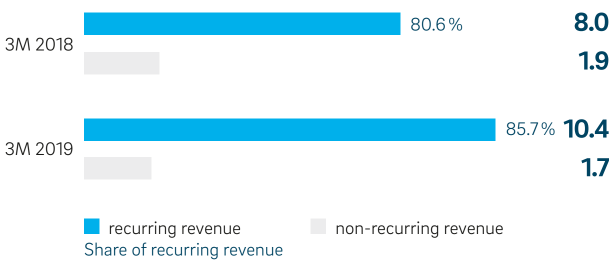
in mEUR	3M 2019	3M 2018
Revenue	**12.1**	**10.0**
Cost of materials	–2.7	–2.6
Gross profit	**9.4**	**7.4**
Other operating income	0.1	0.2
Personnel costs	–5.5	–4.2
Other operating expenses	–5.6	–3.9
EBITDA	**–1.7**	**–0.5**
Adj. EBITDA	**–0.9**	**0.1**
Amortisation and depreciation	–0.5	–0.2
EBIT	**–2.3**	**–0.7**
Net interest expense	–0.1	0
Income tax expense/income	0.3	0
Consolidated loss	**–2.0**	**–0.8**

Results of operations

NFON AG generates revenue by providing telephone services and selling hardware and other services. Revenue in the first quarter of 2019 was EUR 12.1 million, representing a 21.2% year-on-year rise. Revenue growth in the first three months of 2019 stemmed primarily from the acquisition of new customers, a rise in the number of installed seats within the existing customer base - in particular in Germany, the UK and Austria - and the expansion of the product portfolio. In addition, the acquisition of all shares in Deutsche Telefon Standard AG, Mainz (DTS) as at 1 March 2019 means that the company's business figures have been fully consolidated in the Group financial statements since this time. Figures for the first quarter of 2019 thus show an initial effect of integrating DTS into the NFON Group.

Share of recurring revenue significantly over forecast range

Recurring/non-recurring revenue in mEUR



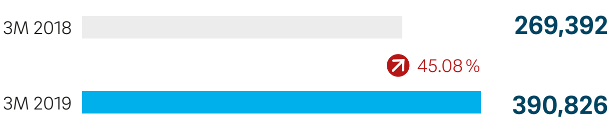
Recurring revenue essentially comprises monthly payments of a fixed license fee per seat plus a fixed or volume-based fee for voice telephony usage. At 85.7% of total revenue (previous year: 80.6%), the share of recurring revenue is currently clearly above the range anticipated for 2019 as a whole of between 75% and 80%.

The cumulative effect typical for revenue performance in relation to seats gained throughout the year is evident from the performance of the recurring revenue generated in the individual quarters of the reporting period. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones) and the one-time activation fee per seat when it is first connected. The decline in non-recurring revenue against the previous year (down 10.7%) chiefly reflects lower sales of devices.

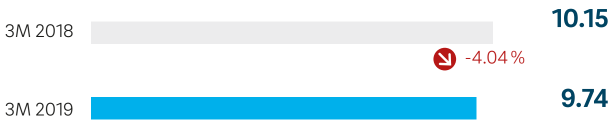
Seat growth develops in line with expectations

In total, there were 390,826 seats at the end of Q1 2019, up 45.08% on the end of Q1 2018. This growth testifies to the increasing demand for cloud telephone systems among corporate customers, as well as underlining the high degree of satisfaction on the part of NFON's extremely loyal customers. Seats from Deutsche Telefon Standard AG were integrated for the first time.

Seat growth in line with expectations



ARPU develops as expected in EUR



NFON uses the average recurring revenue across all services, sales channels and countries per user (seat), known as the "ARPU" (average revenue per user) method, to measure current operating performance in NFON AG's core business.

Due to the first-time consolidation of Deutsche Telefon Standard AG (DTS or DTS AG), NFON AG considers it necessary to provide more specific details on the ARPU performance indicator used to date. The acquisition of DTS AG has unlocked additional potential for NFON AG, allowing the company to bolster its seat base. The seat base is the result not only of attracting new cloud telephony users, it also reflects the potential transformation of the existing SIP trunk channels into seats, which will not be counted as seats until the transformation. If the transformation goes ahead, the licence fee will change but the use of voice minutes will not.

ARPU is calculated by taking the average recurring revenue from seats and SIP trunks per month minus recurring revenue from SIP trunk licence fees in relation to the average number of seats per month (including revenue and seats from customers who maintain contractual relations with NFON's wholesale partners).

This partnership with wholesale partners, which is developing very successfully, also has a considerable impact on ARPU performance. Firstly, discounted prices are being agreed thanks to the high number of seats sold, and secondly, some of these partners do not purchase voice minutes through NFON. On average, lower ARPU is generated as the proportion of seats billed through wholesale partners increases. Given that DTS offers its seats in the mid market segment, the first-time consolidation of DTS is also reflected in a slight decline in blended ARPU. In comparison to the previous year figure of EUR 10.15 (same value under old and new calculation method), ARPU came to EUR 9.74 in the first quarter of 2019. NFON is countering this trend by increasing sales of premium solutions, which, in turn, allows the company to achieve additional ARPU.

Other operating income

At EUR 0.1 million, other operating income was only slightly below the income for the same quarter of the previous year.

Cost of materials

The cost of materials rose at a slower rate than revenue in the reporting period, increasing by around 4% from EUR 2.6 million in the prior-year period to EUR 2.7 million. This resulted in a lower cost of materials ratio in comparison to the previous year at 22.2% (previous year: 25.9%), which falls within regular fluctuations, in line with planning.

Personnel costs

Compared to last year, the number of employees increased by 63.2% from 204 to 333. In essence, staff was built in sales. This explains the significant increase in personnel expenses. Personnel costs rose by around 33% year on year in the first three months of 2019 to EUR 5.5 million (previous year: EUR 4.2 million). The sharp upturn was prompted by the steady, strategic increase in the staff headcount as well as the integration of DTS in March of the reporting period. In addition, expenses of EUR 0.2 million were recognised in the first three months of 2019 in connection with the employee stock option programme launched at the start of the year. Expenses related to share-based payments totalled EUR 0.1 million in the previous year. Personnel costs in the reporting period also included payments of EUR 0.1 million as part of a retention programme for executives. Adjusted for these non-recurring effects, personnel costs rose by 29.3% year on year to EUR 5.3 million. This represents an adjusted personnel expenses ratio in relation to revenue of 43.6%, up on 40.9% in the prior year.

Other operating expenses

Other operating expenses climbed to EUR 5.6 million in the first three months of 2019 (previous year: EUR 3.8 million), essentially a result of higher marketing expenses and a rise in sales commissions due to the increase in revenue.

Other operating expenses for Q1 2019 also include costs of EUR 0.5 million incurred as part of the acquisition of DTS as at 1 March. The previous year saw expenses of EUR 0.5 million in connection with the IPO.

Adjusted for these one-time effects, other operating expenses in the first quarter of 2019 increased by 55.6% to EUR 5.1 million, representing an adjusted ratio in relation to revenue of 42.1%, up on 32.8% in the prior year.

Marketing expenses

As planned, NFON continued to invest in marketing in the first three months of 2019. Marketing costs rose by 113% year on year to EUR 1.8 million (previous year: EUR 0.8 million).

Sales commissions

Sales commissions rose to EUR 1.4 million in the 2019 reporting period (previous year: EUR 1.0 million). Measured against revenue, this corresponds to a ratio of around 11% - stable year on year. Sales commissions include primarily commission paid to NFON AG's sales partners, which account for a percentage of the revenue.

Depreciation and amortisation

Depreciation and amortisation amounted to EUR 0.5 million in the reporting period, up EUR 0.4 million on the previous year. The primary reason behind this is the first-time application of IFRS 16 in the reporting period, under which expenses relating to certain rental and leasing agreements (for office space and vehicles) are included not, as they were previously, in other operating expenses, but instead in depreciation and amortisation and interest expenses as a result of capitalising the rental/lease agreements in question and recognising the corresponding rental/lease liabilities as liabilities. In this context, depreciation and amortisation increased by EUR 0.3 million against the prior year.

In future, depreciation and amortisation will also be impacted by write-downs of the customer base recognised as part of the DTS purchase price allocation. This effect was of minor significance in the reporting period due to the depreciation and amortisation period of just four weeks.

EBITDA, EBIT, consolidated profit/ loss

in mEUR	3M 2019	3M 2018
EBITDA	**−1.7**	**−0.5**
Adjustments		
IPO costs (other operating expenses)	0	0.5
Retention bonus	0.1	0
Stock Options/ESOPS	0.2	0.1
Expenses for DTS acquisition	0.5	0
Total adjustment	0.8	0.6
Adjusted EBITDA	**−0.9**	**0.1**
EBIT	−2.3	−0.7
Consolidated loss	−2.0	−0.8
Adjusted consolidated loss	**−1.2**	**−0.1**

Financial position

There were no liquidity bottlenecks in the reporting period and the company met its payment obligations on time. As at the reporting date, cash and cash equivalents equalled EUR 31.2 million.

Source and use of funds

The Company has been listed in the Prime Standard of the Frankfurt Stock Exchange since 11 May 2018. The company's share capital is EUR 14,091,554.00.

NFON AG's main source of funds in the first three months of 2019 were proceeds from the IPO and lending agreements with banks. In Q1 2019, an existing agreement relating to overdraft facilities of EUR 4 million was dissolved and replaced by an acquisition credit facility of EUR 10 million, which was nearly used in full when acquiring DTS.

Total investments of EUR 0.5 million made in the reporting period in property, plant and equipment went chiefly to IT infrastructure and were also used to expand the new country subsidiaries in Italy and France. Investments in intangible assets relate primarily to capitalized R & D activities.

Impact of IFRS 16

NFON has applied the new regulations on lease accounting in accordance with IFRS 16 (leases) since 1 January 2019. Under this, lessees must recognise a right-of-use asset and a lease liability for all leases. Since 1 January 2019, this has resulted in rights-of-use to be accounted for in property, plant and equipment and lease liabilities to be recognised as financial liabilities.

As at 31 March 2019, rights-of-use for buildings of EUR 5.2 million and EUR 0.3 million for vehicles were reported in property, plant and equipment in connection with the first-time application of IFRS 16. Non-current financial liabilities of EUR 4.2 million and current financial liabilities of EUR 1.4 million were recognised accordingly in equity and liabilities. With regard to the impact on the results of operations, please see the information under depreciation and amortisation.

DTS acquisition

Hidden reserves resulting from the acquisition of DTS were recognised in the amount of EUR 12.1 million in goodwill and EUR 5.0 million in the customer base as at 31 March 2019. Hidden liabilities of EUR 0.3 million were also recognised in other current liabilities.

Equity

As at 31 March 2019, NFON AG's share capital was EUR 14.1 million, divided into 14,091,554 no-par value bearer shares. In the period from 31 December 2018 to 30 March 2019, equity increased by EUR 0.8 million to EUR 44.4 million, essentially due to the capital increase resulting from the DTS acquisition. This was offset by the consolidated net loss in the reporting period.

Subsequent events

There were no events after 31 March 2019 that could have a significant impact on the company's financial position or results of operations.

Guidance

Expected business performance for the NFON Group As the only pan-European provider of cloud telephone systems at present, the NFON Group has the opportunity to grow significantly more strongly than the European market as a whole. On the basis of growth strategies rolled out in the 2018 financial year, the company is therefore planning on accelerated growth for the current year. The first positive effects of the substantial ramp-up of marketing activities were felt as early as last year. These activities were stepped up again at the beginning of 2019 and expanded to cover new countries such as Italy and France. Expanding the new sales companies in these two countries will still initially require further investment, but NFON expects the first customers to join the NFON cloud as early as this year. For 2019, NFON is also planning to offer further services via the new core product Clouyda, including chat and messaging features. The integration of Deutsche Telefon Standard AG into the NFON Group will have a significant impact on business performance. This is reflected in the guidance for the 2019 financial year as a whole.

Building on a successful 2018 financial year with revenue of EUR 43.0 million and progress made in implementing the growth strategy, the company is entering 2019 in a stronger position and accelerating its dynamic growth. The Management Board expects the pace of growth to pick up considerably in 2019 in comparison to the past 2018 financial year, with the company planning year-on-year revenue growth of between 40% and 45%. In the 2018 financial year, most of the subsidiaries listed in the segment reporting contributed to organic revenue growth. Similar performance is expected for 2019. NFON Iberia SL, which is still in the development stage, represents an exception to this. Companies that are still developing their seat base tend to have a higher share of non-recurring revenue. NFON AG intends to boost the number of seats operated by customers by at least 45% in the 2019 financial year.

CONSOLIDATED INTERIM FINANCIAL STATEMENT

Consolidated statement of other comprehensive income

for the period 1 January to 31 March 2019

in kEUR	01.01.-31.03.2019	01.01.-31.03.2018
Revenue	12,098	9,979
Changes in inventories of finished goods and work in progress	–9	0
Other operating income	55	155
Cost of materials	–2,681	–2,580
Personnel costs	–5,529	–4,160
Depreciation and amortisation	–548	–159
Other operating expenses	–5,642	–3,893
Impairment loss on trade and other receivables	3	0
Other tax expense	–3	–1
Income from continuing operations before net interest income and income taxes	**–2,254**	**–659**
Interest and similar income	4	3
Interest and similar expense	–73	–49
Net interest income	**–70**	**–46**
Earnings before income taxes	**–2,323**	**–705**
Income taxes	318	–53
Net profit/loss	**–2,006**	**–758**
Attributable to:		
Shareholders of the parent company	–2,006	–758
Other comprehensive income (will be reclassified to profit or loss)	159	–32
Tax on other comprehensive income	0	0
Other comprehensive income after taxes	159	–32
Total comprehensive income	**–1,846**	**–790**
Attributable to:		
Shareholders of the parent company	–1,846	–790
Net loss per share, basic	**–0.14**	**–0.27**
Net loss per share, diluted	**–0.14**	**–0.27**

Consolidated statement of financial position

as at 31.03.2019

in kEUR	31.03.2019	31.12.2018
Non-current assets		
Property, plant and equipment	7,757	1,352
Intangible assets	19,725	233
Deferred tax assets	459	203
Other non-financial assets	142	99
Total non-current assets	**28,082**	**1,886**
Current assets		
Inventories	232	92
Trade receivables	6,752	5,859
Other financial assets	391	390
Other non-financial assets	2,239	1,605
Cash and cash equivalents	31,155	41,436
Total current assets	**40,769**	**49,382**
Total assets	**68,852**	**51,268**

in kEUR	31.03.2019	31.12.2018
Equity		
Subscribed capital	14,092	13,807
Capital reserves	72,498	70,131
Retained earnings	–42,755	–40,749
Currency translation reserve	604	445
Total equity	**44,438**	**43,633**
Non-current liabilities		
Non-current financial liabilities	4,170	0
Other non-current liabilities	162	172
Deferred tax liabilities	0	63
Total non-current liabilities	**4,332**	**236**
Current liabilities		
Trade payables	3,899	3,237
Current provisions	1,890	1,392
Current financial liabilities	10,512	128
Other non-financial liabilities	3,781	2,643
Total current liabilities	**20,082**	**7,399**
Total equity and liabilities	**68,852**	**51,268**

Consolidated statement of cash flows

for the period from 01 January to 31 March 2019

in kEUR	01.01.-31.03.2019	01.01.-31.03.2018
1. Cash flow from operating activities		
Profit/Loss after taxes	**-2,006**	**-758**
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	-318	53
Interest income (expense), net	70	46
Amortisation of intangible assets	81	101
Depreciation on tangible assets	467	58
Impairment loss on trade and other receivables	-3	0
Equity-settled share-based payments	151	82
Other non-cash income (expense)	-143	186
Changes in: Inventories	-18	-7
Trade and other receivables	-678	-1,774
Trade and other payables	-201	1,094
Provisions and employee benefits	498	630
Interest paid	-6	-6
Income taxes paid, net	-48	-430
Cash flows from operating activities	**-2,155**	**-725**

in kEUR	01.01.-31.03.2019	01.01.-31.03.2018
2. Cash flows from investing activities		
Payments for DTS acquisition	-17,760	0
Payments on investments in property, plant and equipment	-485	-138
Payments on investments in intangible assets	-478	-35
Cash flows from investing activities	**-18,724**	**-726**
3. Cash flows from financing activities		
Leasing payments (IFRS 16)	-311	0
Proceeds from the capital increase from authorised capital	2,500	0
Proceeds from bank loans	8,966	800
Repayments of bank loans and liabilities similar to bank loans	-583	-29
Cash flows from financing activities	**10,572**	**771**
Changes in cash and cash equivalents	**-10,306**	**-127**
Effect of movements in exchange rates on cash held	26	-2
Cash and cash equivalents at the beginning of the period	**41,436**	**2,176**
Cash and cash equivalents at the end of the period	**31,156**	**2,048**

The payments for the acquisition of DTS take into account negative cash reserves of EUR 565 thousand held by DTS at the time of acquisition. Cash and cash equivalents at the end of the period include deposits with banks of EUR 337 thousand as at 31 March 2019 (31 December 2018: EUR 344 thousand), which are not freely remissible to the Group because of security deposits from customers with bad credit ratings. All restrictions on such deposits are short term in nature.

Consolidated statement of change in equity

as at 31.03.2019

in kEUR	Attributable to owners of the company						
	Subscribed capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-con-trolling interests	Total
Balance as at 01.01.2019	**13,807**	**70,132**	**444**	**–40,750**	**43,633**	**0**	**43,633**
Total comprehensive income/loss for the period							
Loss (income) for the period	0	0	0	–2,006	–2,006	0	–2,006
Other comprehensive income for the period	0	0	159	0	159	0	159
Total comprehensive income/loss for the period	**0**	**0**	**159**	**–2,006**	**–1,846**	**0**	**–1,846**
Transactions with owners of the company							
Equity-settled share-based payments	0	151	0	0	151	0	151
Increase in equity from authorised capital for partial payment of the purchase price for the DTS acquisition	285	2,215	0	0	2,500	0	2,500
Total transactions with owners of the company	**285**	**2,366**	**0**	**0**	**2,651**	**0**	**2,651**
Balance as at 31.03.2019	**14,092**	**72,498**	**604**	**–42,755**	**44,438**	**0**	**44,438**

Consolidated statement of change in equity

as at 31.03.2018

in TEUR	Subscribed capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-controlling interests	Total
	Attributable to owners of the company						
Balance as at 01.01.2018	**371**	**32,052**	**557**	**–32,637**	**343**	**0**	**343**
Total comprehensive income/loss for the period							
Loss (income) for the period	0	0	0	–758	–758	0	–758
Other comprehensive income for the period	0	0	–32	0	–32	0	–32
Total comprehensive income/loss for the period	**0**	**0**	**–32**	**–758**	**–790**	**0**	**–790**
Transactions with owners of the company							
Equity-settled share-based payments	0	82	0	0	82	0	82
Increase of share capital on the basis of the Annual General Meeting resolution on 22.02.2018	9,269	–9,269	0	0	0	0	0
Total transactions with owners of the company	**9,269**	**–9,187**	**0**	**0**	**82**	**0**	**82**
Balance as at 31.03.2018	**9,640**	**22,865**	**525**	**–33,395**	**–364**	**0**	**–364**

FINANCIAL CALENDAR

Q2

11.04.2019	Publication of the Group Annual Financial Report 2018
21.05.2019	Presentation of the Results for the 1st Quarter 2019 (Web und Telephone Conference)
05.06.2019	Annual General Meeting of NFON AG

Q3

23.08.2019	Presentation Half-year Results 2019

Q4

21.11.2019	Presentation 9 Month Results 2019 (Web und Telephone Conference)

Imprint

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