



ZignSec

Interim report Q3

1 July to 30 September 2022



ZignSec

ZignSec AB (publ) Interim report Q3 • 2022 | Reg. No. 559016-5261

www.zignsec.com

Report highlights



Financial overview Q3 2022

- Net revenue amounted to SEK 21.4 (19.5) million, an increase of 10% compared with the corresponding quarter the year before.
- Operating profit/loss before depreciation and amortization EBITDA amounted to SEK -6,7 (-7.4) million.
- Cash and cash equivalents amounted to SEK 33.9 (34.9) million.

Significant events during the third quarter

- ZignSec has signed a partnership agreement with Mastercard's subsidiary Ethoca that enables the company to offer its platform for processing payment claims to failing banks as an official Mastercard Collaboration Service Provider.
- ZignSec has, through its subsidiary Web Shield, signed a customer agreement with Deutsche Bank regarding the use of solutions to automate the due diligence process for merchants.
- ZignSec AB has carried out a rights issue that has provided the company with SEK 59.2 million, before issue costs.

Significant events after the end of the third quarter

- ZignSec AB (publ) has hired Glenn Mac Donald as the new Chief Sales Officer to be responsible for coordinating the sales strategy across the ZignSec group, focusing on growth and continuing client development.
- ZignSec has secured growth financing of SEK 20 million with DBT Capital AB as lender for the purpose of enabling further growth and working towards a positive operational cashflow in the coming year.

Summary A word from the CEO

During the third quarter we generated a net revenue of SEK 21.4 (19.6) million, an increase of 10% against the corresponding quarter of last year. We continue to secure customers worldwide with new contracts signed with customers across Europe, Asia, the US and I am pleased to report that our partnership with Ethoca is already bearing fruit, with the first two customers signed and awaiting implementation.

With customers starting to be onboarded onto our portal, a new sales organization in place and new products launched, we intend to continue to invest in driving revenue growth to reach a positive operational cashflow during next year.



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About the Group

ZignSec is a technology group in the fast-growing RegTech industry. The company provides SaaS platform with digital real-time solutions for customer due diligence and ID verification with global reach.

The solutions are used by companies that in turn can optimize their processes for “onboarding” both corporate customers and consumers and at the same time ensure compliance with ever-changing local and global regulatory requirements for Know Your Customer (KYC) and Anti Money Laundering (AML).

Financial summary

(mSEK)	Jul 1 - Sep 30 2022	Jul 1 - Sep 30 2021	Jan 1 - Sep 30 2022	Jan 1 - Sep 30 2021	Jan 1 - Dec 31 2021
Total revenue	21.8	19.6	70.3	30.8	53.5
Net revenue	21.4	19.5	69.1	30.6	52.9
Net revenue growth	10%	374%	126%	211%	278%
EBITDA	-6.7	-7.4	-17.8	-21.1	-24.8
Operating profit/loss (EBIT)	-27.4	-27.6	-86.0	-49.6	-78.9
Net cash	33.9	33.2	33.9	33.2	24.3
Equity/Assets ratio	76%	59%	76%	59%	73%
Average number of employees	71	81	78	53	58
Number of shares	46,451,960	33,831,244	38,084,379	33,831,244	33,831,244
Earnings per share (SEK)	-0.568	-0.713	-2.238	-1.623	-2.150



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A Word from the CEO

During the quarter, we generated net revenue of SEK 21.4m. Comparing Q3, 2022 net revenue against the same period the prior year, 2021, ZignSec achieved growth of 10%. During the quarter, our business is impacted by some level of seasonality over the prime summer months where we typically witness a slowdown in sales activity by the market. This resulted in lower net revenue in July and August 2022, which we have seen increase by 7% in September 2022.

The increase in sales is not enough to make us cash-flow positive in Q4 2022. In our updated plan, we expect to become cash-flow positive in the second half of 2023. The way we intend to do that is by increasing our sales and we have ramped up our organization to meet these goals. During the quarter we hired Glenn McDonald who has started to centralize the sales team and will be adding members to the company.

On the product side, we have focused on upgrading our existing product suite with a next generation of our platform (v5) as well as deliver additional capabilities with our portal, where we are starting to onboard the first few customers. In addition, whilst Mastercard have delayed the implementation of the new rules relating to chargebacks until Q1, 2023, I am pleased to report that we have signed the first two customers and awaiting implementation to our Chargeback Management Platform.

In order to finance these investments in sales and product, we have secured a SEK 20 million loan from DBT Capital. We believe there is a lot of upside potential to unlock during the remainder of Q4 2022 and 2023 and our plan is that the growth loan will fund us until we reach a positive result, instead of either cutting our cost base or diluting our shareholders further as we are increasing our investments for the future.

With customers starting to be onboarded onto our portal, a new sales organization in place and new products launched, we intend to continue to invest in driving our revenue growth to reach profitability next year. Despite the negative concerns in the overall market, I am confident that our strategy and team are in a good position to deliver lasting shareholder value and I am very excited for what the future has to bring.



Alex Noton
CEO, ZignSec AB
(publ)

Group development

The quarter July to September 2022

Revenue and operating profit

The Group's net sales for Q3, 2022 amounted to SEK 21.4 (19.5) million, which corresponds to an increase of 10% compared to the same quarter for the previous year.

EBITDA amounted to SEK -6.7 (-7.4) million. The change is mainly due to higher gross margin and reduced consultancy costs, offset by higher personnel costs related to the expansion of the internal development organization.

Development

During the third quarter of 2022, capitalized development expenditures after depreciation decreased by a total of SEK 0.3 million. The investments are mainly related to the development and integration of new ID verification solutions as well as work with improved user-experience in portals and product flows.

Depreciation and amortization during the third quarter amounted to SEK -20.7 (-20.2) million is due to consolidated amortization of acquired technology, customer relations and goodwill.

Financial net

Net financial items for the second quarter amounted to SEK 0.2 (0.1) million.

Tax

Estimated tax on profit for the second quarter amounted to SEK 0.8 (3.3) million.

The period January to September 2022

Revenue and operating profit

The Group's net sales for the period 2022 amounted to SEK 69.1 (30.6) million, which corresponds to an increase of 126% compared to the same period for the previous year.

EBITDA amounted to SEK -17.8 (-21.1) million. The change is mainly due to higher gross margin and reduced consultancy costs, offset by higher personnel costs related to the expansion of the internal development organization.

Development

During the period 2022, capitalized development expenditures after depreciation decreased by a total of SEK 0.4 million. The investments are mainly related to the development and integration of new ID verification solutions as well as work with improved user-experience in portals and product flows.

Depreciation and amortization during the period amounted to SEK -68.2 (-28.6) million. The change is mainly due to consolidated amortization of acquired technology, customer relations and goodwill.

Financial net

Net financial items for the period amounted to SEK -1.7 (0.1) million.

Tax

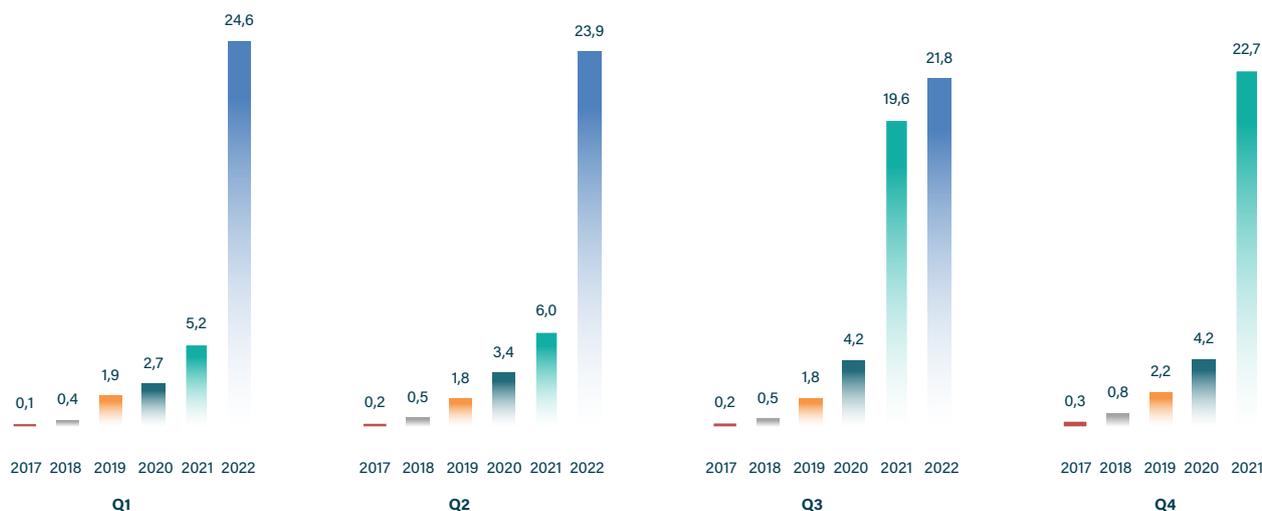
Estimated tax on profit for the period amounted to SEK 2.5 (4.4) million.



Quarterly turnover development

2017-2022

(mSEK)



Financial position

Financial position and liquidity

As of September 2022, the group had SEK 33.9 (34.9) million in cash and cash equivalents. The balance sheet total amounted to SEK 349.2 (451.4) million.

The company will continue its initiated drive towards international expansion with focus on development and sales.

Operating cash flow

Cash flow from operating activities during the third quarter 2022 amounted to SEK -9.5 (-6.7) million.

Financing

The company carried out rights issue during the third quarter, which raised SEK 59.2 million before issue costs. After the quarter end, deferred consideration for acquisitions of SEK 26.9 million was paid and an agreement for debt financing SEK 20 million was signed. Existing cash and cash equivalents are deemed sufficient to meet current capital needs.

Investments and acquisitions

ZignSec has communicated that an acquisition strategy is being applied and will keep the market updated in the future.

Significant events in the third quarter

ZignSec, through its subsidiary Web Shield, has signed a partnership agreement with Ethoca, a Mastercard's subsidiary. The agreement makes the company an official Mastercard Collaboration Service Provider and enables Web Shield to offer its ready-made chargeback management platform to acquiring banks.

ZignSec has signed a customer agreement with Deutsche Bank. The agreement means that Deutsche Bank will use Web Shield's InvestiGate and Monitor solutions to improve its merchant due diligence process. The solutions are used by risk managers and underwriting teams worldwide to assess merchant applications and monitor merchant websites.

ZignSec has carried out an issue of shares with preferential rights for the existing shareholders. The rights issue was subscribed to 110 percent with and without the support of subscription rights. ZignSec received a total of approximately SEK 59.2 million before issue costs.

Significant events after the quarter end

ZignSec AB (publ) has hired Glenn Mac Donald as the new Chief Sales Officer for the Group. Glenn was previously Chief Commercial Officer at International Card Services. He has extensive experience in the financial industry and has held management positions at Visa Europe, ING Bank, ABN Amro Bank, Adyen, Deloitte, and Smart2Pay. Glenn will be responsible for coordinating the sales strategy across the ZignSec group, focusing on growth and continuing client development.

ZignSec has secured growth financing of SEK 20 million with DBT Capital AB as lender. The financing will enable additional investments into new projects as well as expanding the sales team to enable further growth and working towards a positive operational cash-flow in the coming year. The annual interest rate is set at 9.95% + STIBOR 3M, the loan term is 42 months, and the first 6 months are interest-only.

Personnel

As per the date of report publication the group has 72 employees, which can be compared to 81 employees at the same time in 2021.

ZignSec continues to expand the organization, primarily in development and sales, to realize its growth target.

Briefly about the market

The global market value of digital ID verification solutions is expected to increase from \$ 13.7 billion in 2019 to \$ 30.5 billion in 2024, an annual growth rate of over 17%. Driving factors behind the market growth are the continuously increasing number of identity and authorization frauds that take place worldwide, as well as an increased focus on improving the user experience for the consumer.

The geographically highest growth until the year 2024 is expected to take place in the APAC (Asia-Pacific) region. The outlook for the future remains positive as more companies complete their digital transformation, which includes all companies that currently manage their verification processes manually or semi-manually.

Business model

ZignSec offers a platform with digital solutions for onboarding, customer due diligence and real-time ID verification to customers in regulated industries. The company's business model is based on aggregating verification methods in different countries under one umbrella that can be used to verify users digitally in over 200 countries in the world through a single API integration or via ZignSec's customer portal.

ZignSec's business model is based on low integration costs and recurring monthly and transaction fees. The company's costs mainly consist of development and integration costs as well as ongoing verification and transaction fees. After the integration, the number of transactions for each customer can increase without driving increased personnel costs.

ZignSec's customers can also add additional solutions from the company's offering or connect more markets to verify their users. This creates an incentive for the customer to use ZignSec as a complete supplier for all markets, while at the same time driving profitability for the company.



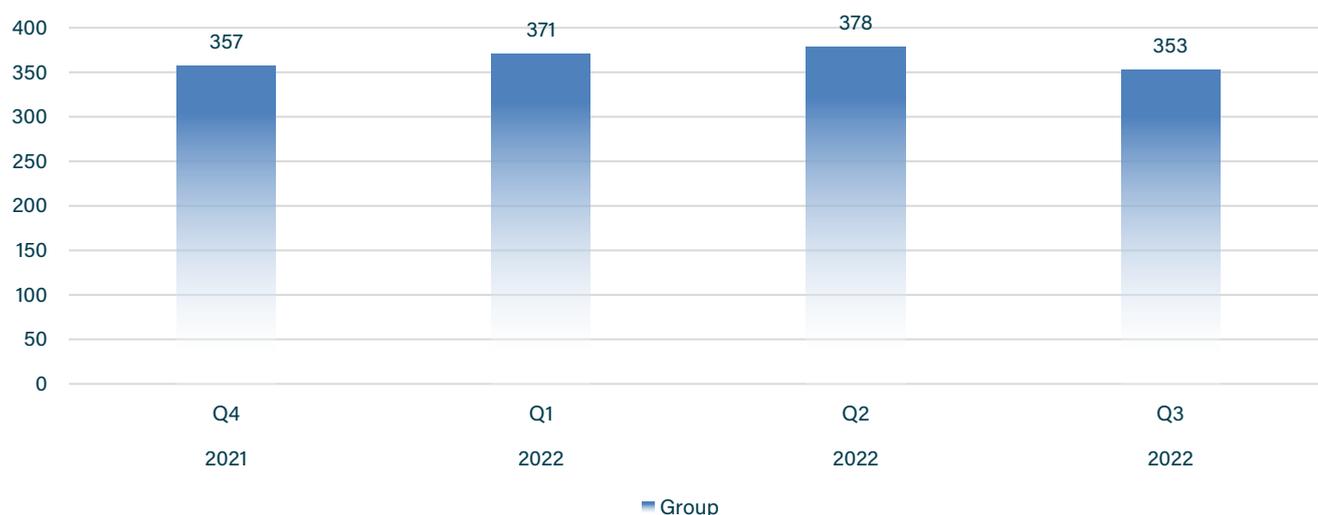
Financial and operational metrics

Net revenue (mSEK)



Net revenue decreased in the second and third quarters of the year as a result of the customer contracts we canceled in Russia and our paused sales initiatives in connection with the completion of the new SaaS portal. Furthermore, the business has a natural seasonal variation that affects the third quarter and results in lower income during July and August as a result of lower activity among our customers.

Average number of customers invoiced



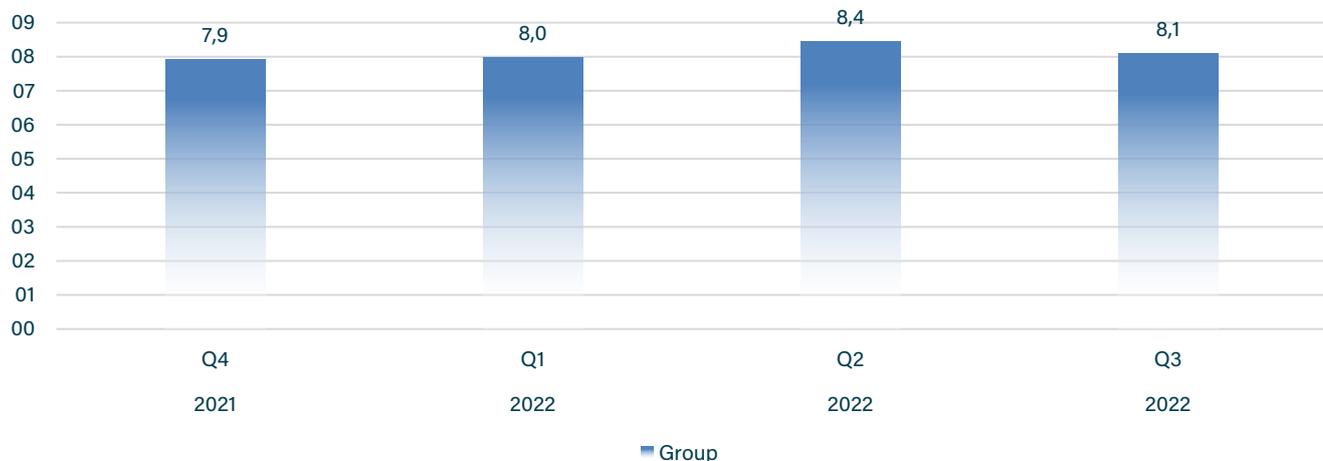
The monthly average number of invoiced customers decreased during Q3 mainly as a result of pausing and discontinuing smaller customer contracts for operations in the previously acquired Basis companies, whose products were consolidated into the group's platform during the third quarter.

Average revenue per customer (ARPC)



Average monthly revenue per customer (ARPC) has increased over the past 12 months. The reason for this is that our existing customers have increased their use of the number of solutions via the platform. During the third quarter, the average revenue per customer is affected by seasonality, which results in lower revenue during July and August as a result of lower activity among our customers.

Transactions performed (million)



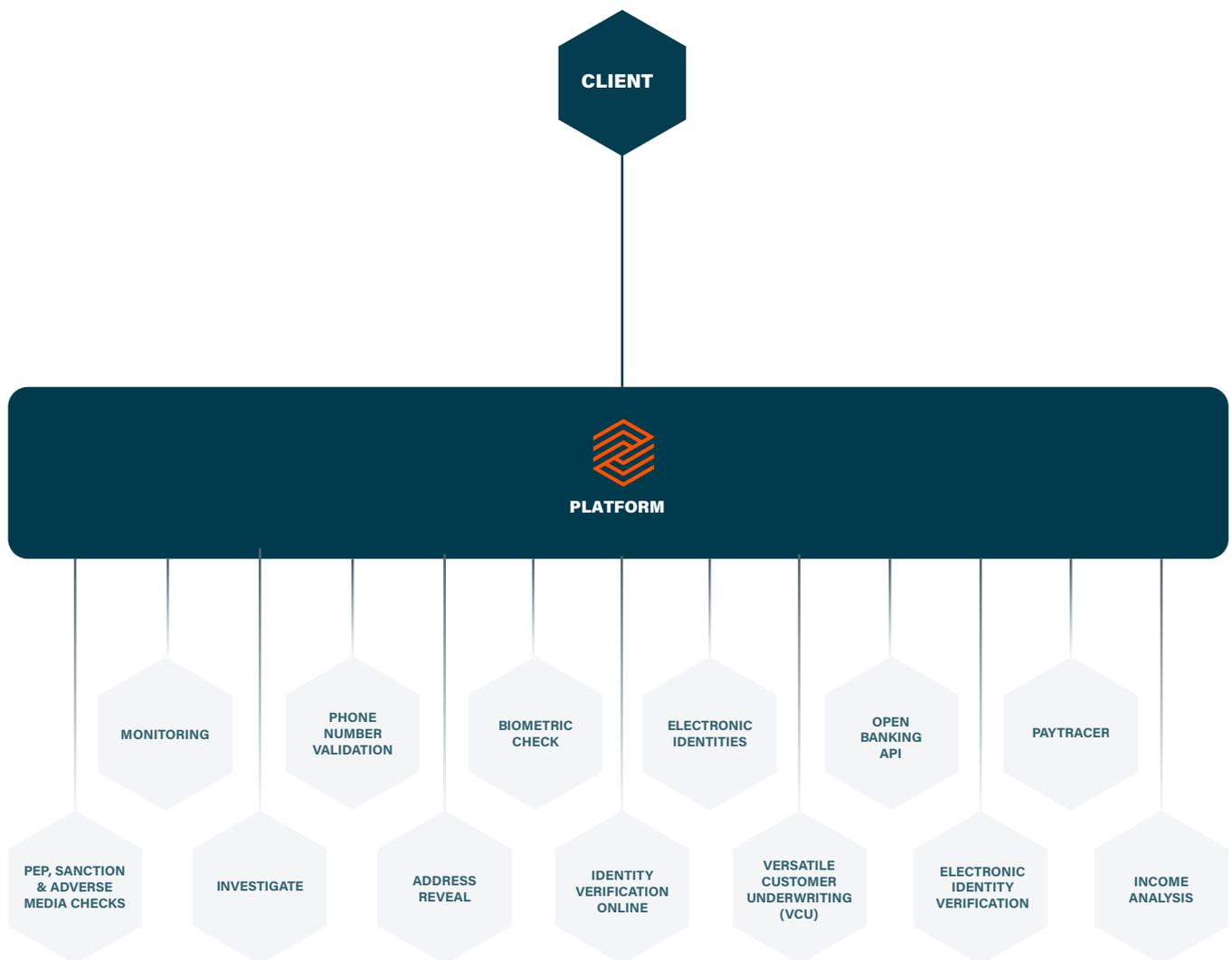
The number of executed transactions per quarter continues to increase. A natural seasonal variation due to lower activity resulted in a lower number of transactions during July and August, but we can state that the figures for September are the highest number of transactions during a month in the company's history. The majority of the increased number of completed transactions comes from new and existing customers within the KYC business area.



Our Platform

An easy to connect verification platform for your business

ZignSec connects into different suppliers globally and makes them available via one easy to consume interface. We digitize and automate onboarding, due diligence and monitoring processes so our customers can focus on their core business. Through our channels - API, No Code Compliance Manager and soon our new SaaS Management portal - we make it easy to perform complex compliance workflows with the least effort.



Platform features



Electronic Identity Verification

Match personal information such as name, address, date of birth, or national ID with various data sources to quickly verify an individual.



Online Identity Verification

Allow your customers to identify themselves by letting them scan their passports, driver's licenses, ID-cards and other documents. In real-time.



Electronic Identities

Our platform offers a rapidly growing number of digital identity solutions across - the world. All available via one connection.



Phone Number Validation

Use our phone number validation service to authenticate users around the globe via SMS. With the ability to reach over 7 billion people.



Monitoring

A powerful combination of tools that automatically updates, tracks and re-checks validated information.



PayTracer

PayTracer screens payments and analyses transactions to provide instant risk scoring of the transaction and the parties involved in the transaction



Versatile Customer Underwriting (VCU)

VCU is a complete portal solution that simplifies customer onboarding in compliance with AML legislation.



Income Analysis

Our Income analysis feature gives you access to a detailed income reports without jeopardizing the privacy of your customers.



Open Banking API

Allows you to include existing bank accounts to verify identities. It allows verifying addresses and additional user credentials (varies on country and bank).



PEP, Sanction and Adverse Media Checks

Real-time access to multiple global PEP and Sanction lists, increasing both geographic coverage and quality of service.



Address Reveal

An enhanced AML to instantly verify if customers are operating from virtual addresses.



Crypto Compliance Library

A solution that enables acquirers to maintain compliance when handling crypto-currency merchants.



Investigate

Investigate is our merchant onboarding solution offering a suite of research tools to deliver real-time underwriting.



Biometric Check

AI technology that matches an ID document photo with a selfie or video of the person in real time, and verifies that it is not a copy or an imitation.

Profit and loss

(mSEK)	Jul 1 - Sep 30 2022	Jul 1 - Sep 30 2021	Jan 1 - Sep 30 2022	Jan 1 - Sep 30 2021	Jan 1 - Dec 31 2021
Net turnover	21.4	19.5	69.1	30.6	52.9
Activated development work for own account	0.0	0.0	0.0	0.0	0.0
Other operating income	0.4	0.1	1.2	0.2	0.6
	21.8	19.6	70.3	30.8	53.5
Cost of sales	-5.9	-5.3	-18.4	-8.8	-13.7
Other external costs	-8.7	-9.3	-28.1	-20.9	-29.7
Personnel costs	-13.9	-12.3	-41.8	-22.0	-34.9
Other operating costs	0.0	-0.1	-0.2	-0.2	-0.2
Profit/loss from shares in associated companies	0.0	0.0	0.3	0.0	0.3
Operating profit/loss (EBITDA)	-6.7	-7.4	-17.8	-21.1	-24.8
Depreciation	-20.7	-20.2	-68.2	-28.6	-54.1
Operating profit/loss (EBIT)	-27.4	-27.6	-86.0	-49.6	-78.9
Result from financial items					
Interest income, costs and similar items	0.2	0.1	-1.7	0.1	0.5
Total result from financial items	0.2	0.1	-1.7	0.1	0.5
Profit/loss before tax (EBT)	-27.1	-27.5	-87.7	-49.5	-78.3
Tax	0.8	3.3	2.5	4.4	1.0
Profit/loss for the period	-26.4	-24.2	-85.2	-45.2	-77.3
Attributable to owners of the parent	-26.4	-23.4	-85.2	-43.0	-72.7
Attributable to non-controlling interests	0.0	-0.8	0.0	-2.1	-4.6



Balance Sheet

(mSEK)	Sep 30 2022	Sep 30 2021	Dec 31 2021
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development expenditure	1.8	2.4	2.2
Customer relationships	48.3	0.0	56.6
Technology	15.5	2.6	23.2
Goodwill	210.4	190.0	252.2
Patent, trademarks, licenses	0.3	193.4	0.4
Total intangible assets	276.3	388.3	334.7
Tangible assets			
Property, plant and equipment	1.3	1.4	1.4
Total tangible assets	1.3	1.4	1.4
Financial assets			
Shares in associated companies	4.4	3.6	3.8
Total financial assets	4.4	3.6	3.8
Total non-current assets	282.1	393.4	339.9
Current assets			
Accounts receivable	11.7	8.7	9.8
Other receivables	9.1	8.3	7.8
Prepaid expenses and accrued income	12.5	6.2	8.1
Total current assets	33.2	23.2	25.7
Cash and cash equivalents	33.9	34.9	25.9
Total current assets	67.1	58.0	51.7
TOTAL ASSETS	349.2	451.4	391.6

Balance Sheet

(mSEK)	Sep 30 2022	Sep 30 2021	Dec 31 2021
EQUITY, PROVISIONS AND LIABILITIES			
EQUITY			
Share capital	2.1	1.3	1.3
Equity method reserve	1.5	0.0	0.9
Share premium reserve	416.0	0.0	358.0
New share issue in progress	0.0	317.7	0.0
Reserves (translation difference)	21.2	0.3	12.7
Retained earnings incl. profit/loss of the period	-173.6	-58.7	-88.8
Equity attributable to owners of the parent	267.1	260.6	284.2
Equity attributable to non-controlling interests	0.0	4.3	2.3
TOTAL EQUITY	267.1	265.0	286.5
PROVISIONS			
Provisions for deferred tax	7.8	43.8	10.1
Other provisions	17.3	29.4	17.3
TOTAL PROVISIONS	25.0	73.3	27.3
LIABILITIES			
Non-current liabilities			
Liabilities to credit institutions	0.0	1.6	1.7
Total non-current liabilities	0.0	1.7	1.7
Current liabilities			
Prepayments from customers	0.4	0.3	0.5
Accounts payable	3.2	5.1	3.9
Liabilities to associated companies	2.1	3.7	1.7
Tax liabilities	0.1	0.0	0.2
Other liabilities	34.4	85.2	52.5
Accrued expenses and prepaid income	16.8	17.2	17.3
Total current liabilities	57.1	111.5	76.0
TOTAL LIABILITIES	57.1	113.1	77.7
TOTAL EQUITY AND LIABILITIES	349.2	451.4	391.6



Statement of changes in equity

(mSEK)	Share capital	Share premium reserve	Reserves	Equity method reserve	Retained earnings incl. profit/loss of the period	Total	Non-controlling interests	Total equity
Statement of changes in equity								
Balance at 2022-01-01	1.3	358.0	12.7	0.9	-89.0	284.0	2.3	286.3
Profit/Loss of the period					-85.2	-85.2	0.0	-85.2
New share issue in progress						0.0		0.0
New share issue	0.8	58.0				58.8		58.8
- issue expenses		4.9						
						0.0		
						0.0		
Acquisition of non-controlling interests					0.6	0.6	-2.3	-1.7
Translation difference			8.5			8.5		8.5
Change in equity method reserve				0.5		0.5		0.5
Balance at 2022-09-30	2.1	416.0	21.2	1.5	-173.6	267.1	0.0	267.1



Statement of cash flow

(mSEK)	Jul 1 - Sep 30 2022	Jul 1 - Sep 30 2021	Jan 1 - Sep 30 2022	Jan 1 - Sep 30 2021	Jan 1 - Dec 31 2021
Operating activities					
Operating profit/loss	-27.4	-27.6	-86.0	-49.6	-78.9
Adjustments for:					
<i>Depreciation</i>	20.7	20.2	68.2	28.6	54.1
<i>Profit/loss from shares in associated companies</i>	0.0	0.0	-0.3	0.0	-0.3
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	0.0	0.0	0.0	0.0	0.0
Income tax paid	0.0	0.0	0.0	0.0	-0.5
Cash flow from operating activities before changes in working capital	-6.7	-7.4	-18.1	-21.1	-25.5
Changes in working capital					
Change in receivables	0.8	-9.0	-6.1	-7.9	-15.6
Change in short-term debts	-3.7	9.8	-2.5	8.7	12.5
Cash flow from operating activities	-9.5	-6.7	-26.7	-20.3	-28.6
Investing activities					
Investment in subsidiaries	0.0	-110.2	-1.7	-125.9	-125.9
Investment in intangible assets	-0.1	-0.1	-0.7	-0.7	-1.1
Investment in tangible assets	-0.2	-0.4	-0.2	-0.4	-0.7
Cash flow from investing activities	-0.3	-110.6	-2.7	-127.1	-127.6
Financing activities					
New share issue	37.4	0.9	37.4	133.8	133.8
Cash flow from financing activities	37.4	0.9	37.4	133.8	133.8
Total cash flow for the period	27.6	-116.4	8.0	-13.5	-22.4
Cash and cash equivalents at beginning of period	6.3	151.3	25.9	48.3	48.3
Cash and cash equivalents at end of period	33.9	34.9	33.9	34.9	25.9



Other information

Transactions with related parties

No transactions with related parties that have not been on a market basis have taken place.

Audit

The company's auditor is Ernst & Young AB. This Interim report has not been subject to review by the company's auditor.

Accounting principles

This Interim report for the group has been prepared in accordance with BFNAR 2012:1 Årsredovisning och koncernredovisning (K3).

During 2022, no new or revised accounting principles with a material impact on the group have emerged. The accounting principles have been consistent since 2019.

When recognizing development costs, the capitalization model is used.

Financial Calendar

Year-end report 2022: 24 February 2023

Important information

This information is information that ZignSec AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and Securities markets Act. The information was submitted for publication, by the contact person below, on 25 November, 2022.

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