

Year-end report January - December 2019

October - December 2019

- Net sales increased by 34 percent to SEK 1,540.7 million (1,151.3). Organic growth in local currency was 17 percent.
- Gross profit increased by 42 percent to SEK 439.9 million (309.9). Organic growth in local currency was 23 percent.
- Adjusted EBITDA¹ increased by 82 percent to SEK 199.5 million (109.4).
- Adjusted EBIT² amounted to SEK 185.7 million (104.1).
- Profit after tax for the quarter amounted to SEK 94.7 million (103.5).
- Diluted earnings per share were SEK 1.73 (1.93).

January - December 2019

- Net sales increased by 26 percent to SEK 5,035.6 million (3,986.6). Organic growth in local currency was 17 percent.
- Gross profit increased by 38 percent to SEK 1,394.1 million (1,008.4). Organic growth in local currency was 26 percent.
- Adjusted EBITDA¹ increased by 56 percent to SEK 573.5 million (367.1).
- Adjusted EBIT² amounted to SEK 523.6 million (344.8).
- Profit after tax for the year amounted to SEK 274.5 million (179.5).
- Diluted earnings per share were SEK 5.06 (3.35).

“Our strategy is to grow our business both organically and through acquisitions. In the fourth quarter we pulled both these levers and delivered record gross profit and EBITDA.” – Oscar Werner, CEO

Significant events during the quarter

- Sinch acquired 100 percent of the share capital in myElefant SAS on 4 October. Based in Paris, myElefant has built a cloud-based software platform for mobile engagement. The company pioneered the use of mobile landing pages and was an early adopter of conversational messaging technologies like RCS, Facebook Messenger and WhatsApp. Upfront cash consideration amounted to EUR 18.8 million (SEK 203.3 m) with an additional cash earnout of up to EUR 3 million if certain gross profit targets are met. The acquisition was financed with Sinch’s available credit facilities.
- Sinch acquired 100 percent of the share capital in TWW do Brasil S.A. on 23 October. The company is the third-largest provider of enterprise messaging services in Brazil. TWW serves more than 3,000 businesses including leading Brazilian companies in banking and finance, retail and education. The purchase consideration was BRL 180.8 million (SEK 422.4 m) on a cash- and debt-free basis. The acquisition was financed with Sinch’s available credit facilities.
- Sinch issued senior unsecured bonds on 19 November in the total amount of SEK 750 million. The bonds have a tenor of five years and a floating interest rate of 3 months STIBOR plus 250 bps. The transaction generated strong investor interest and the issue was oversubscribed. Sinch’s existing bank loan was renegotiated in connection with the issue and the parent company’s shares in subsidiaries are no longer pledged as collateral.

¹ EBITDA excluding items affecting comparability. See page 3 for a specification of items affecting comparability.

² EBIT excluding items affecting comparability and amortization of acquisition-related assets. See Note 4 for a specification of amortization.

Invitation to phone conference

Sinch will present the interim report in a phone conference on 20 February at 9:00 CET. To participate in the phone conference, please call any of the following numbers and enter the code 137 392 85#.

Sweden: +46 (0) 8 566 426 51
 UK: +44 (0) 333 300 08 04
 USA: +1 631 913 14 22

Register here to watch the presentation via Webcast: investors.sinch.com/webcast.

Message from the CEO

Record gross profit and EBITDA

Businesses across the globe rely on Sinch technology to engage with their customers through mobile messaging, voice and video. We have built a platform that scales and a global connectivity network that sets us apart from the competition.

Our strategy is to grow our business both organically and through acquisitions. In the fourth quarter we pulled both these levers and delivered record gross profit and EBITDA.

Gross profit in the quarter was 42 percent higher than the same period the year before. The acquisitions of TWW and myElefant contributed 14 percentage points of this increase, currency tailwind added 4 percentage points and organic growth was 23 percent. Since pass-through fees vary significantly between products and geographies, we believe growth in gross profit is a more meaningful metric than revenue growth to track our performance.

Adjusted EBITDA in the fourth quarter was 82 percent higher than the year before. Our superior scale means that we can grow our profits despite sizable investment in sales, product development and engineering. We are now more than 700 colleagues who design, build and market the cloud communications platform of choice for demanding businesses with global needs. With nearly all development efforts booked as OPEX, the conversion of adjusted EBITDA to cash flow remains at a high level.

Gross profit organic growth in Messaging reached 27 percent in the quarter. We continue to see strong demand from large, US-based tech companies who rely on Sinch for high-quality messaging to multiple countries. We are also seeing signs of progress in our work to drive broader growth across our full customer base.

The Messaging segment was also bolstered by the addition of TWW and myElefant in October 2019. It is encouraging to see positive customer reactions already at this early stage, with myElefant enabling rich and immersive messaging experiences that work on all smartphones and TWW bringing end-to-end connectivity to one of the world's largest and most dynamic mobile markets.

Voice & Video continued its strong growth trajectory with 72 percent gross profit growth compared to the fourth quarter 2018. We see great potential for further growth in both Number Verification and Number Masking and are adding resources both in sales, product development and engineering.



Performance in Operators is volatile between quarters and developed less favorably in the end of 2019. Revenues and gross profit was lower than the same period last year and EBITDA turned negative due to delayed customer projects, adverse currency movements, and new product development. Order intake nonetheless developed favorably in the quarter with strong traction not least for Sinch's products in Fraud & Security.

People throughout the world have embraced mobile messaging as their preferred way to interact with friends and family. Nevertheless, most businesses still rely on email for outbound communications and ask their customers to call a contact center if they need help or assistance.

We're committed to helping businesses engage with customers through the channels they prefer most. We do that through cloud-based technology that is easy to deploy, easy to scale and easy for end users to appreciate.

Sinch, after all, is a synonym for easy.

Stockholm, 20 February 2020

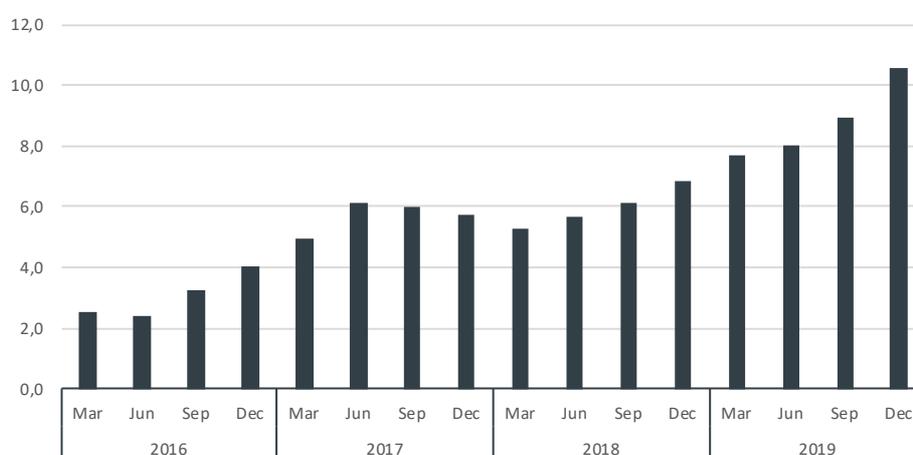
Oscar Werner
President and Chief Executive Officer

Sinch overview

For a list and definitions of financial measurements defined or not defined under IFRS and for operational measurements, please refer to page 21. The transition to IFRS 16 took place on 1 January 2019 and figures for earlier periods have not been restated, see Note 1.

Sinch Group, SEK million	Q4		2019		2018	
	2019	2018	2019	2018	2019	2018
Net sales	1,540.7	1,151.3	5,035.6	3,986.6		
Gross profit	439.9	309.9	1,394.1	1,008.4		
Gross margin	28.6%	26.9%	27.7%	25.3%		
Operating profit, EBITDA	194.3	140.4	555.5	373.3		
EBITDA margin	12.6%	12.2%	11.0%	9.4%		
Adjusted EBITDA	199.5	109.4	573.5	367.1		
Adjusted EBITDA margin	13.0%	9.5%	11.4%	9.2%		
Adjusted EBITDA/gross profit	45.4%	35.3%	41.1%	36.4%		
Operating profit, EBIT	142.9	107.7	371.6	217.8		
EBIT margin	9.3%	9.4%	7.4%	5.5%		
Adjusted EBIT	185.7	104.1	523.6	344.8		
Adjusted EBIT margin	12.1%	9.0%	10.4%	8.6%		
Profit for the period	94.7	103.5	274.5	179.5		
Net margin	6.1%	9.0%	5.5%	4.5%		
Cash flow from operating activities	135.9	92.6	327.3	304.6		
Net debt	958.7	405.6	958.7	405.6		
Net debt/adjusted EBITDA R12M, multiple	1.7	1.1	1.7	1.1		
Equity ratio	40.0%	45.9%	40.0%	45.9%		
Adjusted EBITDA per share, diluted SEK	3.64	2.04	10.57	6.85		
Diluted earnings per share, SEK	1.73	1.93	5.06	3.35		
Average number of employees	517	391	457	385		
Average number of employees and consultants	654	469	572	453		
Items affecting comparability and adjustments, SEK million	Q4 2019	Q4 2018	2019	2018		
Acquisition costs	-2.2	-0.2	-15.1	-9.4		
Restructuring costs	-	-	-	8.9		
Integration costs	-3.0	-2.7	-3.0	-27.2		
Proceeds from sale of PSMS business	-	-8.1	-	-8.1		
Income adjusted earnout	-	42.0	-	42.0		
Total items affecting EBITDA comparability	-5.2	31.0	-18.0	6.2		
Impairment tangible and intangible IoT assets	-	-	-	-9.2		
Amortization of acquisition-related assets	-37.7	-27.4	-134.0	-124.0		
Total adjustments in EBIT	-42.8	3.6	-151.9	-127.0		

Adjusted EBITDA per share, rolling 12 months (SEK)



Quarterly summary

	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Net sales, SEK million									
Messaging	857.9	812.4	947.7	921.8	1,070.3	1,025.3	1,096.7	1,126.2	1,444.2
Voice and Video	15.3	15.0	17.8	20.5	38.2	45.0	56.9	70.0	76.9
Operators	38.3	33.2	33.6	39.5	50.6	43.4	44.2	42.0	43.7
Other and eliminations	-2.2	-2.0	-1.7	-2.5	-7.8	-11.9	-21.2	-21.8	-24.2
Total	909.3	858.6	997.4	979.3	1,151.3	1,101.8	1,176.7	1,216.4	1,540.7
Gross profit, SEK million									
Messaging	162.4	161.5	207.5	203.7	244.6	228.4	259.2	272.8	364.0
Voice and Video	9.5	8.8	10.1	11.6	20.0	21.6	21.7	31.7	34.5
Operators	28.0	29.7	30.8	35.0	45.2	39.6	40.2	39.1	41.4
Other and eliminations	-0.1	-0.1	0.3	-0.3	0.1	0.0	0.0	0.0	0.0
Total	199.8	200.0	248.6	249.9	309.9	289.5	321.1	343.6	439.9
Gross margin									
Messaging	18.9%	19.9%	21.9%	22.1%	22.9%	22.3%	23.6%	24.2%	25.2%
Voice and Video	61.8%	59.0%	56.6%	56.6%	52.4%	47.9%	38.2%	45.3%	44.9%
Operators	73.1%	89.5%	91.7%	88.6%	89.3%	91.2%	90.9%	93.0%	94.7%
Total	22.0%	23.3%	24.9%	25.5%	26.9%	26.3%	27.3%	28.2%	28.6%
EBITDA, SEK million									
Messaging	79.1	71.8	108.3	93.9	102.6	107.8	112.2	134.9	202.4
Voice and Video	-6.4	-4.5	-5.1	-3.7	2.7	2.1	1.4	12.2	10.8
Operators	0.5	1.4	3.5	8.2	10.8	9.6	4.9	4.6	-3.4
Other and eliminations	2.9	-15.4	-26.5	1.0	24.3	-7.3	-4.3	-17.0	-15.5
EBITDA, total	76.0	53.2	80.3	99.4	140.4	112.2	114.2	134.8	194.3
Items affecting comparability in EBITDA	5.9	-11.8	-17.0	4.0	31.0	-	-	-12.9	-5.2
Adjusted EBITDA	70.1	65.0	97.3	95.4	109.4	112.2	114.2	147.6	199.5
Adjusted EBITDA margin	7.7%	7.6%	9.8%	9.7%	9.5%	10.2%	9.7%	12.1%	12.9%
Adjusted EBITDA/gross profit	35.1%	32.5%	39.2%	38.2%	35.3%	38.8%	35.6%	43.0%	45.4%
Adjusted EBITDA/share diluted, SEK	1.31	1.21	1.82	1.78	2.04	2.08	2.11	2.73	3.64
Items affecting comparability and adjustments, SEK million									
Acquisition costs	-0.1	-4.6	-4.3	-0.4	-0.2	-	-	-12.9	-2.2
Restructuring costs	-	-	-	8.9	-	-	-	-	-
Integration costs	-8.9	-7.2	-12.8	-4.5	-2.7	-	-	-	-3.0
Capital gain/loss from sale of PSMS business	3.2	-	-	-	-8.1	-	-	-	-
Adjusted earnout	11.8	-	-	-	42.0	-	-	-	-
Items affecting EBITDA comparability	5.9	-11.8	-17.0	4.0	31.0	-	-	-12.9	-5.2
Impairment goodwill Xura	-11.9	-	-	-	-	-	-	-	-
Impairment tangible and intangible IoT assets	-	-	-	-9.2	-	-	-	-	-
Amortization acquisition-related assets	-27.6	-26.7	-34.3	-35.6	-27.4	-33.3	-30.9	-32.1	-37.7
Total adjustments in EBIT	-33.6	-38.5	-51.4	-40.8	3.6	-33.3	-30.9	-45.0	-42.8

October - December 2019

Net sales

Consolidated net sales grew in the period by 34 percent to SEK 1,540.7 million (1,151.3). Amounts in parentheses refer to the corresponding quarter in the preceding year.

Organic growth, in local currency and excluding acquisitions, was 17 percent. The acquisitions of myElefant and TWW contributed 13 percentage points. TWW contributed SEK 101.2 million and myElefant contributed SEK 47.5 million.

Growth was positively affected during the quarter by the depreciation of the Swedish krona (SEK), primarily against EUR, USD and GBP. The Group has significant revenues in foreign currency and if exchange rates had been the same during the quarter as in the same quarter in 2018, revenues would have been lower by about SEK 46.2 million. The positive currency effect on consolidated net sales was thus 4 percent.

Gross profit

Consolidated gross profit rose during the quarter by 42 percent to SEK 439.9 million (309.9).

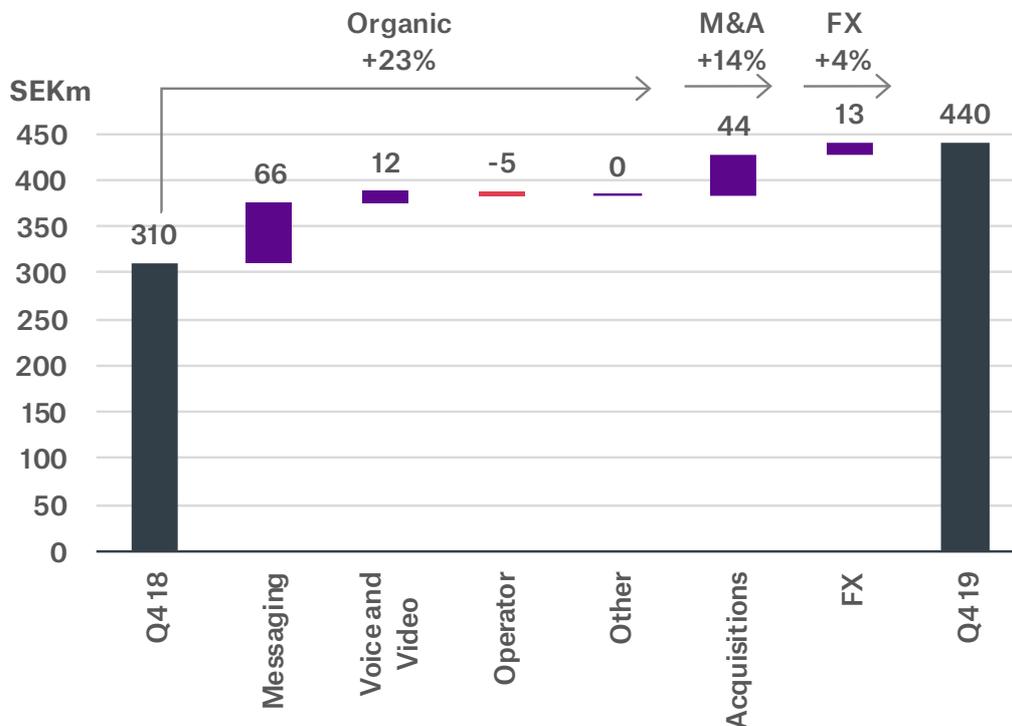
Organic growth in local currency was 23 percent. TWW and myElefant contributed with 14 percentage points. TWW contributed SEK 29.8 million and myElefant contributed SEK 14.6 million. The currency tailwind during the quarter was SEK 13.0 million, adding 4 percentage points to gross profit.

The gross margin amounted to 28.6 percent (26.9) and is affected by several factors. We deliver more messages to markets with pass-through billing to mobile operators, resulting in a higher gross margin. We also have growth in Sinch products with a higher gross margin, including personalized video messaging, which has a positive effect on the consolidated gross margin.

The countries to which enterprise customers of Sinch send messages are a key factor that affects the gross margin. Even though Sinch's gross profit per transaction is similar in most markets, the gross margin varies widely because operator traffic tariffs differ significantly from one country to the next. Consequently, changes in traffic patterns and the volume mix can have high impact on net sales and gross margin even though there is no effect on gross profit in absolute numbers.

Accordingly, Sinch focuses mainly on gross profit and gross profit growth, rather than net sales and the gross margin.

Change in consolidated gross profit, Q4 2018 - Q4 2019



EBITDA

EBITDA amounted to SEK 194.3 million (140.4).

EBITDA excluding items affecting comparability¹ (adjusted EBITDA) increased by SEK 90.1 million to SEK 199.5 million (109.4), corresponding to an increase of 82 percent.

The transition to IFRS 16 has had a positive impact on EBITDA of SEK 7.3 million. The total effect of foreign exchange fluctuations on EBITDA was marginally negative.

Profit was reduced by future-oriented initiatives aimed at driving growth. The company is making substantial investments in product development, sales and marketing in several areas. These costs comprise mainly employee benefits expenses.

The Group's financial target is growth of adjusted EBITDA per share of 20 percent on an annual basis. Adjusted EBITDA per share was SEK 3.64 (2,04) for the quarter and SEK 10.57 SEK (6.85) for the rolling twelve months, an increase of 54 percent. Adjusted EBITDA divided by gross profit was 45.4 percent (35.3) for the quarter.

EBIT

EBIT amounted to SEK 142.9 million (107.7).

Acquisition-related amortization, which does not affect cash flow, reduced EBIT by SEK 37.7 million (27.4). The amortization arose mainly from amortization according to plan of acquired customer relationships and acquired software, see Note 4.

Adjusted EBIT, EBIT excluding items affecting comparability and amortization of acquisition-related assets¹, amounted to SEK 185.7 million (104.1).

Employees

At the end of the quarter, Sinch employed 722 (467) people including consultants. The average throughout the quarter was 654 (469) people. The average number of employees (full-time equivalents, excluding consultants) was 517 (391), of whom 25 percent (23) were women. Sinch continues to recruit in Sweden and internationally.

January - December 2019

Net sales

Consolidated net sales grew in the period by 26 percent to SEK 5,035.6 million (3,986.6). Amounts in parentheses refer to the corresponding period in the preceding year.

Organic growth, in local currency and excluding acquisitions, was 17 percent.

Gross profit

Gross profit was SEK 1,394.1 million (1,008.4) Organic growth, in local currency and excluding acquisitions, was 26 percent. The positive effect of exchange rate changes during the year was SEK 47.9 million, corresponding to 5 percent.

The gross margin amounted to 27.7 percent (25.3).

EBITDA

EBITDA amounted to SEK 555.5 million (373.3). EBITDA excluding items affecting comparability¹ (adjusted EBITDA) amounted to SEK 573.5 million (367.1). The transition to IFRS 16 has had a positive impact on EBITDA of SEK 27.6 million.

EBIT amounted to SEK 371.6 million (217.8). Adjusted EBIT, EBIT excluding items affecting comparability and amortization of acquisition-related assets¹, amounted to SEK 523.6 million (344.8).

Other income and expense items

Net financial expense was SEK -16.6 million (-16.5), with interest costs amounting to SEK -28.8 million (-22.4) and foreign exchange differences to SEK 10.9 million (15.5). The Group's effective tax rate was 22.7 percent (10.8). See Note 5 for a reconciliation of tax on profit for the year. Net profit for the year amounted to SEK 274.5 million (179.5).

Investments

Net investments in property, plant and equipment and intangible assets amounted to SEK 56.0 million (28.5). Investments relate primarily to capitalized development expenditure of SEK 38.6 million (21.7).

Cash flow, liquidity and financial position

Cash flow from operating activities amounted to SEK 327.3 million (304.6). Cash flow in relation to operating profit fluctuates from quarter to quarter because many of the company's customers maximize their liquidity by postponing payments to suppliers. Actual customer losses remain low and cash flow in relation to operating profit is stable over time.

Consolidated cash and cash equivalents at 31 December 2019 amounted to SEK 466.3 million (180.8). The bank overdraft facility amounted to SEK 200 million (200), of which none was drawn down (-). Sinch's revolving credit facility amounted to SEK 900 million (900), of which SEK 210 million (-) was drawn down. Sinch issued senior unsecured bonds on 19 November in the total amount of SEK 750 million. The bonds have a tenor of five years and a floating interest rate of 3 months STIBOR plus 250 bps.

Net debt amounted to SEK 958.7 million (405.6). The implementation of IFRS 16 on 1 January 2019 increased the company's net debt by SEK 83.8 million, see Note 1. Adjusted EBITDA R12M in relation to net debt was 1.7 (1.1). According to previously applied accounting policies the ratio was 1.6 (1.1).

Equity at 31 December 2019 amounted to SEK 1,998.6 million (1,664.2), corresponding to an equity ratio of 40.0 percent (45.9). Equity per share amounted to SEK 37.27 (31.03).

1) Details are provided in the table on page 3 and in Note 4.

Messaging

Powered by Sinch's cloud communications platform, enterprises can reach their customers and employees directly in their mobile phone within a second or two. The messages are sent as SMS (text messages) or using next-generation technologies like RCS and WhatsApp. The product segment also includes personalized video messaging where unique video messages are tailored to the individual recipient.

Messaging, SEK million	Q4 2019	Q4 2018	2019	2018
Net sales	1,444.2	1,070.3	4,692.5	3,752.3
Gross profit	364.0	244.6	1,124.4	817.3
Gross margin	25.2%	22.9%	24.0%	21.8%
Operating profit, EBITDA	202.4	102.6	557.3	376.7
EBITDA/gross profit	55.6%	41.9%	49.6%	46.1%
EBITDA margin	14.0%	9.6%	11.9%	10.0%

Sinch Messaging makes it possible for enterprises to reach consumers with automated, business-critical messages. Sinch has purposefully built up a leading market position based on quality, cost-effectiveness and economies of scale. That puts Sinch in prime position to defy fierce competition and win organic market shares and continue consolidating the market through acquisitions.

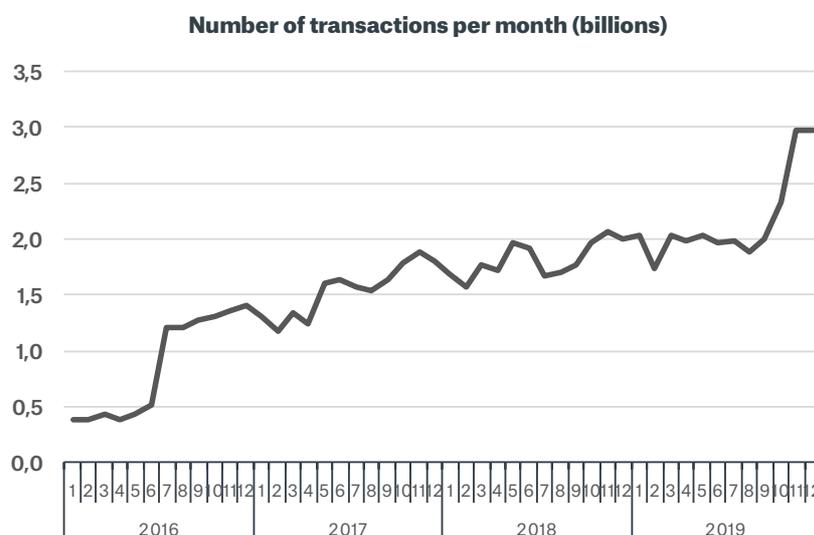
We are now making substantial investments in next-generation messaging services with that include support for multimedia and the potential for two-way interactivity. These initiatives span both communication channels like RCS and WhatsApp, as well as the overarching software required to handle advanced interactive dialogues. We see significant potential in these areas, although the market is still embryonic. Sinch is also developing the offering related to personalized video messaging and offers these services in several markets.

We have gained a strong market position in a strategically important growth market through the acquisition of TWW in Brazil. Like Sinch, TWW has built its messaging business with customer focus, quality and cost-efficiency as its guiding principles. We are now in the process of realizing several synergies and giving TWW's customers access to the wider Sinch product portfolio in messaging and voice and video calling. The acquisition also strengthens our quality of delivery, as we can now offer our global customers a direct route to Brazil with no unnecessary intermediaries.

The acquisition of myElefant strengthened our product offering in next-generation messaging. The intuitive myElefant platform makes it easy for marketers to create visual and engaging messaging experiences with no coding required. The solution combines existing technologies in an innovative way and enables advanced functionality, including for the many phones that cannot receive messages through new messaging services like RCS or WhatsApp. We have already begun cross-selling to the existing Sinch customer base in Europe and are aiming to launch the products in the US in 2020.

Transaction volume

The number of sent messages increased by about 40 percent during the fourth quarter through organic and acquired growth. The largest part of the increase in October and November is due to the acquisition of TWW. In addition to the contribution from the acquisitions, transaction volume is increasing because many of our existing large customers are steadily growing their business with us, while we are continuing to gain new customers. The increase in comparable units was about 22 percent compared to the same quarter in 2018.



Net sales

During the quarter, net sales increased by SEK 373.9 million compared to the corresponding quarter in 2018 to SEK 1,444.2 million (1,070.3), an increase of 35 percent. Of this increase, acquisitions accounted for 15 percentage points and exchange rate fluctuations for 4 percentage points. Organic growth in local currency was 19 percent. The acquisition of TWW contributed SEK 101.2 million and the acquisition of myElefant contributed SEK 47.5 million.

Sinch's goal-oriented focus on large, strategic customers and growth in the sales of personalized video messaging had positive impact on organic growth in net sales. Commercial partnerships between Sinch and large, multinational cloud platform providers that use products from Sinch for automated mobile marketing are a key growth driver.

Gross profit

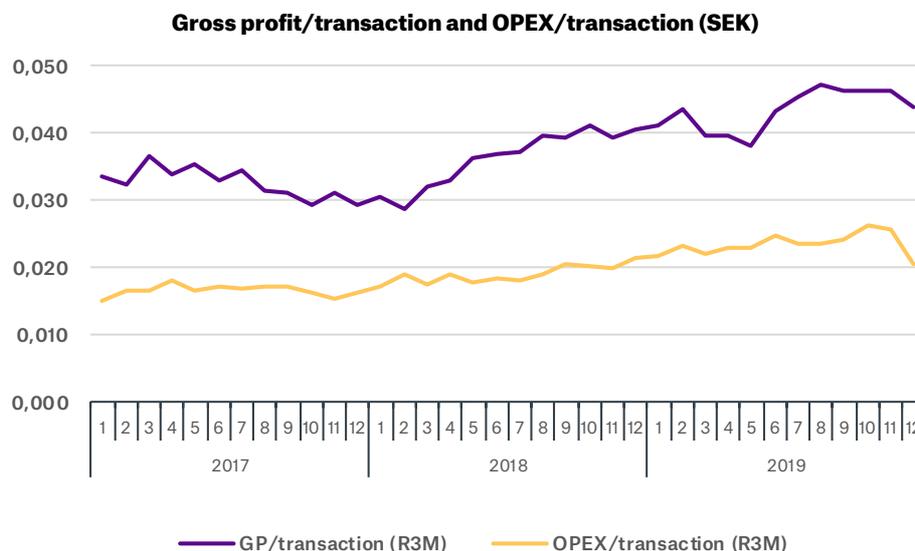
Gross profit increased during the quarter to SEK 364.0 million (244.6), an increase of 49 percent compared to the same quarter in the preceding year. Acquisitions accounted for 18 percentage points of the increase and exchange rate fluctuations for 4 percentage points. Organic growth in local currency was 27 percent. The acquisition of TWW contributed SEK 29.8 million and the acquisition of myElefant contributed SEK 14.6 million.

Overall, we are seeing a persistently strong trend in North America, more cautious growth in Europe and scope to accelerate growth in Asia. It should be noted, however, that the strong development in North America is partly due to that many large, global tech firms are based in the US. Although these companies have local operations all over the world, their revenues are reported in the US because Sinch's geographical reporting is based on the location of the customer's headquarters.

The gross margin improved during the quarter compared to the same quarter last year, due to higher traffic to countries where the gross margin is higher. Even though Sinch's gross profit per transaction is similar in most markets, the gross margin varies widely from country to country. This is because operator traffic tariffs differ substantially from one country to the next. Consequently, changes in traffic patterns and the volume mix can have high impact on net sales and gross margin even though there is no effect on gross profit in absolute numbers. For this reason, Sinch focuses on gross profit per transaction, not gross margin, as the guiding performance measurement. The acquisitions of TWW and myElefant together had a positive effect of 0.5 percentage points on the gross margin.

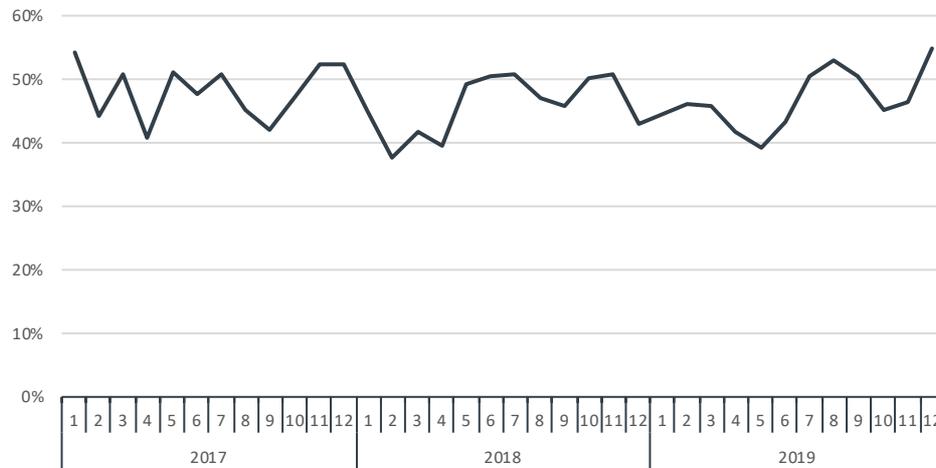
EBITDA

During the quarter, EBITDA increased by SEK 99.8 million compared to the corresponding period in 2018 to SEK 202.4 million (102.6), an increase of 97 percent. The combined effect of exchange rate fluctuations had marginally negative impact on EBITDA.



Gross profit per transaction decreased compared to the third quarter because TWW was included from October 2019. OPEX per transaction fell due to economies of scale since rising transaction volumes and gross profit do not entail a corresponding increase in the cost base. At the same time, profit continues to be reduced by several future-oriented initiatives aimed at driving growth. These costs comprise mainly employee benefits expenses. The company is developing software for interactive messaging services like WhatsApp and RCS, an upgrade of SMS that provide a richer user experience and encourage interactive customer dialogue with intuitive menu selections where users can, for example, check in or book a new appointment with a simple tap of a button.

EBITDA/gross profit (rolling 3 months)



EBITDA in relation to gross profit is a key measurement of efficiency and scalability. The measurement shows the underlying margin and is not affected by changes in operator traffic tariffs. Even though forward-looking growth initiatives are increasing product development costs, EBITDA /gross profit is relatively stable as gross profit growth has a high incremental margin.

Messaging also benefited from positive seasonal effects in the fourth quarter, with higher activity related to Black Friday and Christmas. In addition, both TWW and myElefant have a high share of sales, gross profit and EBITDA in the fourth quarter.

Voice and Video

Sinch's innovative products for cloud-based voice and video calls are found within Voice and Video. The product segment includes Number Masking, a service that provides temporary phone numbers, and Verification, where Sinch helps enterprises verify their customers' mobile phone numbers swiftly, easily and cost-effectively.

Voice and Video, SEK million	Q4	Q4	2019	2018
	2019	2018		
Net sales	76.9	38.2	248.8	91.4
Gross profit	34.5	20.0	109.5	50.5
Gross margin	44.9%	52.4%	44.0%	55.2%
Operating profit, EBITDA	10.8	2.7	26.6	-10.5
EBITDA margin	14.1%	7.2%	10.7%	-11.5%

Voice and Video is delivering very strong development as the segment is gaining customers and greater geographical reach. We are particularly successful in Number Masking for app-based ride hailing services, which allows drivers and riders to easily contact one another without revealing their private mobile phone numbers. We are also seeing good demand for our number verification offering, where we help enterprises verify their customers' mobile phone numbers.

Net sales

Net sales rose during the quarter by SEK 38.7 million to SEK 76.9 million (38.2). Focus in 2019 was on launching several deals won in 2018 and maintaining high quality of delivery as the business rapidly expands. We see strong potential to add new customers and increase our business volume with current customers in the future.

Profit

Gross profit for the quarter amounted to SEK 34.5 million (20.0). The gross margin was 44.9 percent (52.4). EBITDA amounted to SEK 10.8 million (2.7).

Operators

Sinch develops software solutions for mobile operators, as both products and services, to provide mobile value-added services (VAS), handle online charging systems (OCS) in real time, and to protect their networks and revenues.

Operators, SEK million	Q4	Q4	2019	2018
	2019	2018		
Net sales	43.7	50.6	173.3	156.8
Gross profit	41.4	45.2	160.2	140.6
Gross margin	94.7%	89.3%	92.5%	89.7%
Operating profit, EBITDA	-3.4	10.8	15.7	23.8
EBITDA margin	-7.8%	21.3%	9.1%	15.2%

The operator business is project-based and thus more volatile than the other business segments. We launched RCS-as-a-Service during the second quarter, a new offering to mobile operators intended to accelerate the use of RCS. Response to the initiative has been positive with multiple active customer dialogues, although many operators are taking a cautious approach to RCS and are waiting to invest.

Net sales

Net sales decreased during the quarter by SEK 6.9 million to SEK 43.7 million (50.6). Delays in customer projects and negative currency effects had adverse impact on the quarter. However, order inflow was good, particularly within Sinch Fraud & Security products.

Profit

Gross profit decreased during the quarter by SEK 3.8 million to SEK 41.4 million (45.2). EBITDA decreased by SEK 14.2 million to SEK -3.4 million (10.8).

Condensed income statement

Sinch Group, SEK million	Note	Q4 2019	Q4 2018	2019	2018
Net sales		1,540.7	1,151.3	5,035.6	3,986.6
Cost of goods sold and services		-1,100.7	-841.5	-3,641.4	-2,978.2
Gross profit		439.9	309.9	1,394.1	1,008.4
Other operating income		26.6	57.6	103.1	109.6
Work performed by the entity and capitalized		15.3	5.3	38.6	21.7
Other external costs		-90.0	-86.2	-328.7	-280.3
Employee benefits expenses		-160.6	-119.2	-537.6	-405.1
Other operating expenses		-36.7	-27.0	-113.9	-81.1
EBITDA		194.3	140.4	555.5	373.3
Depreciation, amortization and impairment	4	-51.4	-32.7	-183.9	-155.5
EBIT		142.9	107.7	371.6	217.8
Finance income		6.0	10.3	18.6	22.6
Finance expenses		-26.2	-21.5	-35.2	-39.1
Profit before tax		122.7	96.5	355.0	201.3
Current tax		-25.8	0.8	-83.8	-41.1
Deferred tax		-2.2	6.2	3.3	19.3
Profit for the period		94.7	103.5	274.5	179.5
Attributable to:					
Owners of the parent		94.7	103.5	274.6	179.5
Non-controlling interests		0.0	0.0	-0.1	0.0

Earnings per share

Sinch Group, SEK	Q4 2019	Q4 2018	2019	2018
- Basic	1.77	1.93	5.12	3.35
- Diluted	1.73	1.93	5.06	3.35

Condensed statement of comprehensive income

Sinch Group, SEK million	Q4 2019	Q4 2018	2019	2018
Profit for the period	94.7	103.5	274.5	179.5
Other comprehensive income or loss				
Translation differences	-53.1	-23.7	61.2	-12.8
Hedge accounting net investments	-2.7	1.7	-5.7	-6.3
Tax effect on items in other comprehensive income	0.6	-0.7	1.2	1.0
Other comprehensive income for the period	-55.2	-22.7	56.7	-18.0
Total comprehensive income for the period	39.5	80.7	331.2	161.5
Attributable to:				
Owners of the parent	39.6	80.6	331.4	161.7
Non-controlling interests	-0.1	0.1	-0.2	-0.2

Condensed balance sheet

Sinch Group, SEK million	Note	31/12/2019	31/12/2018
ASSETS			
Goodwill		1,753.9	1,221.8
Customer relationships		764.0	682.6
Operator relationships		106.8	102.9
Proprietary software		162.7	135.8
Other intangible non-current assets		3.9	2.3
Right-to-use assets		76.6	-
Other tangible non-current assets		29.7	18.9
Non-current financial assets		12.0	15.1
Deferred tax assets		237.6	191.9
Total non-current assets		3,147.2	2,371.4
Tax receivables		23.8	15.6
Other current receivables		1,353.6	1,058.6
Cash and cash equivalents		466.3	180.8
Total current assets		1,843.7	1,254.9
TOTAL ASSETS		4,990.9	3,626.3
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent	3	1,997.9	1,663.3
Non-controlling interests		0.7	0.9
Total equity		1,998.6	1,664.2
Deferred tax liability		270.3	218.4
Non-current liabilities, interest bearing		1,329.8	487.3
Non-current liabilities, non-interest bearing		139.8	147.5
Total non-current liabilities		1,739.9	853.2
Current liabilities, interest bearing		95.2	99.0
Provisions		21.3	27.7
Tax liabilities		9.7	35.5
Other current liabilities, non-interest bearing		1,126.1	946.7
Total current liabilities		1,252.4	1,109.0
TOTAL EQUITY AND LIABILITIES		4,990.9	3,626.3
Financial instruments measured at fair value			
Derivatives with positive fair value		6.4	0.7
Derivatives with negative fair value		2.1	4.1

The carrying amount is considered to be a reasonable estimate of the fair value of all financial assets and liabilities. The financial assets and liabilities are attributable to measurement levels 2 and 3. For information on the measurement techniques, see Note 31 in the 2018 Annual Report.

Condensed statement of changes in equity

Attributable to owners of the parent company

Sinch Group, SEK million	Share capital	Other capital contributions	Reserves	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance 1 January 2018	5.4	1,377.7	36.7	73.7	1,493.4	1.1	1,494.6
Total comprehensive income			-18.2	179.5	161.4	-0.2	161.1
Warrants issue		9.1			9.1		9.1
Issue expenses, net after tax				-0.5	-0.5		-0.5
Closing balance 31 December 2018	5.4	1,386.8	18.5	252.6	1,663.3	0.9	1,664.2
Opening balance 1 January 2019	5.4	1,386.8	18.5	252.6	1,663.3	0.9	1,664.2
Total comprehensive income			56.8	274.6	331.4	-0.2	331.2
Warrants issue		4.1			4.1		4.1
Issue expenses, net after tax				-0.9	-0.9		-0.9
Closing balance 31 December 2019	5.4	1,390.8	75.3	526.3	1,998.0	0.7	1,998.6

Condensed statement of cash flows

Sinch Group, SEK million	Note	Q4 2019	Q4 2018	2019	2018
Cash flow before changes in working capital		149.7	81.7	453.5	223.6
Changes in working capital		-13.7	10.9	-126.2	81.0
Cash flow from operating activities		135.9	92.6	327.3	304.6
Net investments in tangible and intangible assets		-22.7	-7.0	-56.0	-28.5
Change in financial receivables		11.4	-2.7	12.1	-20.4
Acquisition of subsidiaries	6	-580.6	-0.2	-668.5	-321.5
Cash flow from investing activities		-591.9	-9.9	-712.4	-370.4
New borrowing		1,453.4	585.4	1,453.4	722.2
Amortization of bank loan		-683.8	-540.9	-756.7	-654.0
Amortization lease liability		-6.9	-	-25.8	-0.2
Overdraft facility		-	-79.8	-	-
New share issue/warrants	3	1.4	-0.7	2.1	7.4
Cash flow from financing activities		764.1	-36.0	673.1	75.5
Cash flow for the period		308.1	46.8	288.0	9.8
Opening balance cash and cash equivalents		168.1	132.5	180.8	164.6
Exchange rate differences in cash and cash equivalents		-9.9	1.5	-2.4	6.4
Closing balance cash and cash equivalents		466.3	180.8	466.3	180.8

Other disclosures

Sinch Group, SEK million	Q4 2019	Q4 2018	2019	2018
Share information				
Basic earnings per share, SEK	1.77	1.93	5.12	3.35
Diluted earnings per share, SEK	1.73	1.93	5.06	3.35
Basic weighted average number of shares	53,602,089	53,602,089	53,602,089	53,602,089
Diluted weighted average number of shares	54,753,931	53,602,089	54,234,275	53,602,089
Number of ordinary shares at the end of the period	53,602,089	53,602,089	53,602,089	53,602,089
Total number of shares at the end of the period	53,602,089	53,602,089	53,602,089	53,602,089
Financial position				
Equity attributable to owners of the parent	1,997.9	1,663.3	1,997.9	1,663.3
Equity ratio	40.0%	45.9%	40.0%	45.9%
Equity per share, SEK	37.27	31.03	37.27	31.03
Net investments in tangible and intangible assets	22.7	7.0	56.0	28.5
Cash and cash equivalents	466.3	180.8	466.3	180.8
Net debt	958.7	405.6	958.7	405.6
Net debt/adjusted EBITDA R12M, multiple	1.7	1.1	1.7	1.1
Employees				
Number of FTEs	517	391	457	385
Percentage female	25%	21%	23%	21%
Key figures				
EBITDA margin	12.6%	12.2%	11.0%	9.4%
EBIT margin	9.3%	9.4%	7.4%	5.5%
Net margin, profit for the period	6.1%	9.0%	5.5%	4.5%

Segment reporting

An operating segment is defined as a business activity that is able to generate revenues and incur costs, whose operating results are regularly reviewed by the entity's chief executive officer and for which separate financial information is available. The Sinch Group's operating segments are Messaging, Operators and Voice and Video. Vehicle was previously a separate segment, but as of 2019 is included in Messaging. Earlier periods have been restated. Items below EBITDA and items affecting comparability are not allocated to the segments.

Q4 2019, SEK million	Messaging	Voice and Video	Operators	Parent company, unallocated items and eliminations	Group
External revenue	1,421.9	76.8	41.9	-	1,540.7
Internal revenue	22.3	0.1	1.8	-24.2	-
Gross profit	364.0	34.5	41.4	0.0	439.9
EBITDA	202.4	10.8	-3.4	-15.5	194.3
Depreciation, amortization and impairment					-51.4
EBIT					142.9
Net financial expense					-20.3
Profit before tax					122.7

EBITDA for the parent company was SEK -7.0 million. Unallocated items include acquisition costs of SEK -2.2 million.

Q4 2018, SEK million	Messaging	Voice and Video	Operators	Parent company, unallocated items and eliminations	Group
External revenue	1,064.1	38.1	49.1	-	1,151.3
Internal revenue	6.1	0.1	1.5	-7.7	-
Gross profit	244.6	20.0	45.2	0.1	309.9
EBITDA	102.6	2.7	10.8	24.3	140.4
Depreciation, amortization and impairment					-32.7
EBIT					107.7
Net financial expense					-11.2
Profit before tax					96.5

EBITDA for the parent company was SEK -8.0 million. Unallocated items include acquisition costs of SEK -0.2 million, integration costs of SEK -2.7 million, a capital gain of SEK 8.1 million from the sale of PSMS operations and income from the earnout adjustment of SEK 42.0 million.

2019, SEK million	Messaging	Voice and Video	Operators	Parent company, unallocated items and eliminations	Group
External revenue	4,619.8	248.5	167.3	-	5,035.6
Internal revenue	72.7	0.4	6.0	-73.1	-
Gross profit	1,124.4	109.5	160.2	0.0	1,394.1
EBITDA	557.3	26.6	15.7	-44.1	555.5
Depreciation, amortization and impairment					-183.9
EBIT					371.6
Net financial expense					-16.6
Profit before tax					355.0

EBITDA for the parent company was SEK -19.4 million. Unallocated items include acquisition costs of SEK -15.1 million.

2018, SEK million	Messaging	Voice and Video	Operators	Parent company, unallocated items and eliminations	Group
External revenue	3,744.1	91.0	151.5	-	3,986.6
Internal revenue	8.2	0.4	5.3	-13.9	-
Gross profit	817.3	50.5	140.6	0.0	1,008.4
EBITDA	376.7	-10.5	23.8	-16.7	373.3
Depreciation, amortization and impairment					-155.5
EBIT					217.8
Net financial expense					-16.5
Profit before tax					201.3

EBITDA for the parent company was SEK -24.2 million. Unallocated items include acquisition costs of SEK -9.4 million, integration costs of SEK -27.2 million, reversal of an unused restructuring reserve of SEK 8.9 million and income from the earnout adjustment of SEK 42.0 million.

Distribution of external net sales

Q4 2019, SEK million	Messaging	Voice and Video	Operators	Group
Net sales by customers country/region				
Sweden	90.3	2.8	8.6	101.8
France	144.6	0.3	-	144.9
UK	190.6	1.2	0.5	192.3
Germany	85.3	1.9	0.7	87.9
Other countries in the European Union	124.6	27.8	14.1	166.5
USA	590.1	20.1	0.0	610.3
Rest of the world	196.4	22.7	18.0	237.1
Total	1,421.9	76.8	41.9	1,540.7
Net sales by product/service				
Messaging	1,356.0	76.8	-	1,432.9
Initial software licenses and upgrades	-	-	13.6	13.6
Support	1.4	-	28.3	29.8
Other	64.4	-	-	64.4
Total	1,421.9	76.8	41.9	1,540.7
Net sales allocation per point in time				
Over time	1.4	-	41.9	43.4
At one point in time	1,420.5	76.8	-	1,497.3
Total	1,421.9	76.8	41.9	1,540.7

Q4 2018, MSEK	Messaging	Voice and Video	Operators	Group
Net sales by customers country/region				
Sweden	74.7	3.7	7.5	86.0
France	141.0	0.1	-	141.1
UK	163.2	0.9	0.5	164.6
Germany	98.9	1.0	0.7	100.6
Other countries in the European Union	130.7	9.9	11.5	152.1
USA	343.2	16.2	1.8	361.2
Rest of the world	112.4	6.2	27.1	145.7
Total	1,064.1	38.1	49.1	1,151.3
Net sales by product/service				
Messaging	1,057.0	38.1	-	1,095.1
Initial software licenses and upgrades	0.2	-	13.3	13.5
Support	2.6	-	35.8	38.4
Other	4.4	-	0.0	4.4
Total	1,064.1	38.1	49.1	1,151.3
Net sales allocation per point in time				
Over time	0.4	-	49.1	49.5
At one point in time	1,063.7	38.1	-	1,101.8
Total	1,064.1	38.1	49.1	1,151.3

2019, SEK million	Messaging	Voice and Video	Operators	Group
Net sales by customers country/region				
Sweden	325.6	12.3	32.2	370.0
France	455.2	0.5	-	455.7
UK	711.1	5.5	4.2	720.8
Germany	363.5	7.8	2.7	374.0
Other countries in the European Union	458.7	86.1	53.7	598.5
USA	1,745.8	61.2	2.6	1,809.6
Rest of the world	559.9	75.2	71.9	707.0
Total	4,619.8	248.5	167.3	5,035.6
Net sales by product/service				
Messaging	4,499.3	248.5	-	4,747.7
Initial software licenses and upgrades	-	-	64.5	64.5
Support	6.2	-	102.8	109.0
Other	114.3	-	-	114.3
Total	4,619.8	248.5	167.3	5,035.6
Net sales allocation per point in time				
Over time	4.8	-	167.3	172.1
At one point in time	4,615.0	248.5	-	4,863.4
Total	4,619.8	248.5	167.3	5,035.6

2018, SEK million	Messaging	Voice and Video	Operators	Group
Net sales by customers country/region				
Sweden	232.0	15.0	32.0	279.0
France	466.4	0.2	-	466.6
UK	603.1	2.8	1.8	607.7
Germany	363.4	1.3	3.5	368.2
Other countries in the European Union	508.3	18.4	40.4	567.1
USA	1,100.9	39.5	2.2	1,142.6
Rest of the world	470.0	13.8	71.6	555.4
Total	3,744.1	91.0	151.5	3,986.6
Net sales by product/service				
Messaging	3,730.6	91.0	-	3,821.6
Initial software licenses and upgrades	0.8	-	43.9	44.7
Support	5.7	-	107.5	113.2
Other	7.0	-	0.0	7.0
Total	3,744.1	91.0	151.5	3,986.6
Net sales allocation per point in time				
Over time	1.4	-	151.5	152.9
At one point in time	3,742.7	91.0	-	3,833.7
Total	3,744.1	91.0	151.5	3,986.6

Parent company

Sinch AB (publ) owns and manages the shares attributable to the Sinch Group. The group's operational and strategic management functions have been centralized to the parent company. At the end of the period, the parent company had 9 (13) employees. The parent company has no external business activities and the risks are mainly related to the operations of the subsidiaries.

Condensed parent company income statement and balance sheet

SEK million	2019	2018
Operating revenue	45.7	30.9
Operating costs	-80.8	-56.9
EBIT	-35.1	-25.9
Finance income & expenses	137.3	71.1
Profit after financial items	102.2	45.2
Appropriations	-35.8	-45.6
Tax on profit for the year	-14.2	0.0
Profit for the year*	52.1	-0.4

*Profit for the year coincides with comprehensive income for the year.

SEK million	31/12/2019	31/12/2018
ASSETS		
Non-current assets	2,981.7	2,133.9
Current assets	47.5	59.5
TOTAL ASSETS	3,029.2	2,193.4
EQUITY AND LIABILITIES		
Equity	1,479.9	1,425.4
Untaxed reserves	28.4	8.6
Appropriations	1.4	-
Non-current liabilities	-	11.4
Current liabilities	1,285.2	487.2
TOTAL EQUITY AND LIABILITIES	234.4	260.9
EQUITY AND LIABILITIES	3,029.2	2,193.4

Note 1 - Accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim report has been prepared in accordance with IAS 34 *Interim Financial Reporting* and applicable provisions of the Swedish Annual Accounts Act. Disclosures in accordance with IAS 34 *Interim Financial Reporting* are provided in notes and elsewhere in the interim report. The interim report for the parent company has been prepared in accordance with the Annual Accounts Act, which is in accordance with RFR 2 *Accounting of Legal Entities*. Apart from that described below, none of the new or amended IFRS standards or interpretations from the IFRS Interpretations Committee which apply from 1 January 2019 has had any material impact on Sinch's financial statements.

By reason of the transition from interbank offered rates, Sinch has chosen early application of *Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39, and IFRS 7*. The changes have had no impact on the financial statements.

IFRS 16 *Leases* is applied from 1 January 2019. Sinch has applied the modified retrospective approach to the transition to IFRS 16, meaning that the comparative year has not been restated. Consequently, amounts reported for the year are not fully comparable to previous years.

In brief, under IFRS 16, leases are recognized as right-of-use (ROU) assets with a corresponding lease liability. This does not apply to short-term leases and leases where the underlying asset is of low value. Lease payments are divided into payments of the lease liability and finance charges. The finance charge is apportioned over the term of the lease so that an amount is allocated to each period that corresponds to a constant periodic rate of interest on the liability recognized in the respective period. Lease liabilities are recognized at the present value of future lease payments. Future lease payments are discounted at the interest rate implicit in the lease if that rate can be readily determined; otherwise, the Group's incremental borrowing rate is used.

The Group's ROU assets are recognized at cost and constitute the initial present value of the lease liability adjusted for any prepaid or accrued lease payments. ROU assets are amortized on a straight-line basis across the shorter of the useful life of the asset and the term of the lease.

SEK million	Closing balance 31/12/2018	Effect of IFRS 16	Opening balance 1/1/2019
Non-current assets	2,371.4	88.8	2,460.2
Current assets	1,254.9	-5.0	1,249.9
Total assets	3,626.3	83.8	3,710.1
Equity	1,664.2	-	1,664.2
Non-current liabilities	853.2	58.9	912.1
Current liabilities	1,109.0	24.9	1,133.9
Total equity and liabilities	3,626.3	83.8	3,710.1

Apart from the above, the accounting policies and estimation methods are unchanged from those applied in the 2018 annual report.

Note 2 - Pledged assets and contingent liabilities

The pledge of shares in Sinch Holding AB, Sinch Sweden AB and Sinch Operator Software AB as collateral ended in conjunction with the raising of capital via senior unsecured bonds. The group value of the pledged assets on 31 December 2018 amounted to SEK 2,427.7 million. Floating charges in Sinch Sweden AB of SEK 20 million (20) and Sinch Operator Software AB of SEK 25 million (25) are no longer pledged as collateral for the loan agreement. Other guarantees amounted to SEK 8.5 million (6.5).

Note 3 - Incentive programs

Under the incentive program, LTI 2019 adopted by the AGM on 17 May 2019, 326,000 warrants have been subscribed for by senior executives and key employees within Sinch. The maximum number of warrants in LTI 2019 is 510,000.

The program is divided into three series, with exercise periods of 22 June - 22 September 2022, 22 March - 22 June 2023 and 21 March - 21 June 2024. All participants will be granted one third of their warrants in each series. The average fair value per warrant was SEK 14.98 at first grant date and SEK 21.61 at second grant date. The exercise price is SEK 174.10 per share in all series.

Participants outside the US and the UK pay a premium of SEK 14.98 and SEK 21.61 respectively per warrant. These participants will receive their warrants with no obligations, but Sinch has the right to repurchase the warrants if the participant's employment with the company ends before the respective exercise point or if the participant wishes to transfer the warrants. Participants in the US and the UK will be granted their warrants against no monetary consideration and their warrants will vest over the term of the warrant program. For these participants, the warrant program contains terms and conditions according to which the participant must be an employee of Sinch during the vesting period and that Sinch's earnings per share must have increased by a minimum of 10 percent per year to qualify to subscribe for shares.

Early 2019, 74,320 warrants of LTI 2018 have been subscribed at an average fair value of SEK 23.09 per warrant. Please refer to Note 8 of the 2018 annual report for further information concerning the group's incentive programs LTI 2016 and LTI 2018.

Warrant premiums raised SEK 5.0 million in equity for Sinch during 2019. 54,500 options from holders who have terminated their employment have been repurchased at an average value of SEK 31.39 per option, which has reduced equity by SEK 1.7 million. Payroll costs for vested warrants are included in profit and loss for 2019 in the amount of SEK -0.8 million, with a corresponding increase in equity. Social insurance costs are included in the amount of SEK -4.8 million and recognized as a provision in the balance sheet. The total cost of all warrant programs is expected to be approximately SEK 8 million distributed across the term of the programs. All warrants have been assessed as dilutive during the quarter because the exercise price has been lower than the average share price. The potential dilutive effect upon exercise of all warrants in all programs is 5.6 percent.

Note 4 - Depreciation, amortization and impairments

Depreciation, amortization and impairment, SEK million	Q4	Q4	2019	2018
	2019	2018		
Amortization acquired customer relationships	-25.8	-18.0	-92.9	-87.0
Amortization acquired operator relationships	-3.8	-3.1	-14.2	-13.7
Amortization acquired trademarks	-0.3	-0.1	-0.4	-0.3
Amortization acquired proprietary software	-7.7	-6.2	-26.5	-22.9
<i>Total acquisition-related amortization</i>	<i>-37.7</i>	<i>-27.4</i>	<i>-134.0</i>	<i>-124.0</i>
Amortization and impairment own developed software	-4.0	-2.8	-15.5	-16.0
Amortization and impairment licenses	-0.3	-0.3	-0.7	-3.9
Total amortization and impairment	-42.0	-30.5	-150.1	-144.0
Depreciation and impairment tangible fixed assets	-2.9	-2.2	-9.1	-11.5
Depreciation right-to-use assets	-6.5	-	-24.7	-
Total depreciation and impairment	-51.4	-32.7	-183.9	-155.5

Note 5 - Reconciliation of tax for the period

Reconciliation of tax expense for the period	2019	2018
Profit before tax	355.0	201.3
Tax calculated at Swedish tax rate, 21.4% (22)	-76.0	-44.3
Tax attributable to previous years	-1.2	19.9
Tax effect of non-deductible expenses	-5.7	-1.7
Tax effect of non-taxable revenue	2.7	7.7
Tax on standard interest rate, tax allocation reserves	-0.1	0.0
Tax effect of non-capitalized loss carryforwards	-0.8	-0.5
Tax effect of utilized non-capitalized loss carryforwards	2.9	0.6
Withholding taxes	-1.2	-0.3
Effect of changed tax rates	1.6	-1.8
Effect of foreign tax rates	-2.8	-1.4
Tax on profit for the period according to income statement	-80.6	-21.8

Note 6 - Acquisition of group companies

myElefant

Sinch acquired 100 percent of the share capital in myElefant SAS on 4 October. The acquired company was included in the consolidated accounts from that date in the Messaging segment. In 2018, myElefant had sales of approximately EUR 10.5 million (SEK 108 m), gross profit of about EUR 3.1 million (SEK 32 m) and adjusted EBITDA of about EUR 0.8 million (SEK 8 m). Upfront cash consideration amounted to EUR 18.8 million (SEK 203.3 m) with contingent consideration of up to EUR 3 million if certain gross profit targets are met during the first two years. The fair value of contingent consideration has been calculated based on the assumption that the maximum amount will be paid, the discount effect is considered insignificant. The payout is divided into two parts, half of which are in Q2 2021 and half in Q4 2021. The contingent consideration is reported among Non-current liabilities, non-interest bearing in the balance sheet. The acquisition was financed with Sinch's available credit facilities. As of acquisition date, the company had 41 employees and consultants. According to the preliminary acquisition analysis, non-tax-deductible goodwill of SEK 185.6 million arose upon acquisition, mainly attributable to the expertise contributed by myElefant. The estimated useful lives of assets are ten years for customer relationships, five years for proprietary software and 15 months for the myElefant brand.

TWW

Sinch acquired 100 percent of the share capital in TWW do Brasil S.A. (TWW) on 23 October. The acquired company was included in the consolidated accounts from that date in the Messaging segment. In 2018, TWW had sales of approximately BRL 134 million (SEK 326 m), gross profit of about BRL 35 million (SEK 85 m) and adjusted EBITDA of about BRL 17.5 million (SEK 43 m). The purchase consideration was BRL 180.8 million (SEK 422.4 m) on a cash- and debt-free basis. In addition to the initial purchase price, the sellers are entitled to compensation for the loss carryforwards that can be used in the next five years. Payment of the amount is made after the end of each year. Fair value has been calculated on the basis of a five-year forecast of pre-tax profit and SEK 42.6 million has been recognized as Non-current liabilities, non-interest bearing in the balance sheet. The liability corresponds to the value of the deferred tax asset that was identified at acquisition. The acquisition was financed with Sinch's available credit facilities. As of acquisition date, TWW had 37 employees. According to the preliminary acquisition analysis, non-tax-deductible goodwill of SEK 309.7 million arose upon acquisition, mainly attributable to the expertise and expanded geographic range contributed by TWW. The estimated useful lives of assets are ten years for domestic customer relationships and operator relationships and five years for international customer relationships.

Previous acquisitions

Contingent consideration (earnout) of SEK 11.3 million for Sinch Voice and Video was paid during the first quarter. The purchase agreement regarding Vehicle included maximum earnouts of USD 18 million based on the company's sales and EBITDA performance. An earnout of USD 8 million (SEK 74.4 m) was paid in the second quarter. An additional earnout of USD 10 million is possible. The expected outcome is USD 6.5 million and is still recognized as a liability.

Fair value acquired net assets, SEK million	myElefant	TWW
Customer relationships	29.5	121.9
Operator relationships	-	12.3
Trademark	1.4	-
Proprietary software	28.8	-
Other non-tangible assets	0.0	1.1
Right of use assets	8.1	-
Other tangible assets	0.7	1.8
Deferred tax assets	6.9	42.6
Other financial fixed assets	0.6	-
Accounts receivable	18.9	27.4
Accrued income	0.6	9.5
Other short-term receivables	8.7	25.0
Cash and cash equivalents	11.7	46.4
Deferred tax liability	-16.7	-45.6
Provisions	-	-6.2
Leasing liability	-7.8	-
Other interest-bearing liabilities	-14.1	-
Accounts payable	-19.8	-31.3
Other short-term liabilities	-8.4	-12.5
Total acquired net assets	49.0	192.4

Allocation of purchase consideration, SEK million	myElefant	TWW
Original purchase consideration	203.3	422.4
Additional purchase consideration, debt	31.3	42.6
Settlement cash and liabilities, debt	-	37.2
Total purchase consideration	234.6	502.1
Fair value acquired net assets	-49.0	-192.4
Goodwill	185.6	309.7

Investing activities, SEK million	myElefant	TWW	Sinch	Vehicle	Total
Original purchase consideration	203.3	422.4	-	-	625.7
Additional purchase consideration	-	-	11.3	74.4	85.7
Cash and cash equivalents in acquired entity	-11.7	-46.4	-	-	-58.1
Expenses directly linked to the acquisitions	5.3	9.8	-	-	15.1
Effect on consolidated cash and cash equivalents from acquisitions	196.9	385.7	11.3	74.4	668.5

Expenses directly linked to the acquisitions are included in Other external costs in the income statement.

Contribution from acquired entities 2019, SEK million	myElefant	TWW
Net sales	47.5	101.2
Profit after tax for the period	3.6	15.7

The following table shows sales and profit as if the acquisitions had taken place on 1 January 2019

2019, SEK million	myElefant	TWW	Other entities	Amortization acquired assets	Total
Net sales	131.6	381.4	4,874.0	-	5,386.9
Profit after tax for the year	9.2	47.3	252.1	-17.7	290.9

Definitions

Financial measurements defined under IFRS:

Earnings per share, basic and diluted

Net profit for the period attributable to owners of the parent divided by the volume-weighted average number of shares outstanding in the period before/after dilution.

The company presents certain financial measurements that are not defined under IFRS. The company believes that these measurements provide useful supplemental information to investors and the company's management for reasons including that they enable evaluation of the company's performance. For instance, EBITDA is reported as a key figure because it illustrates the underlying results of operations without the effect of depreciation and amortization, which provides a more comparable measurement when depreciation and amortization refer to historical investments. The company has also chosen to report the performance measurement of adjusted EBITDA to show the underlying results of operations excluding non-recurring items such as capital gains/losses, acquisition costs, and restructuring and integration costs. Adjusted EBIT is adjusted for non-recurring items and depreciation and amortization of acquisition-related assets. Because not all companies calculate financial measurements in the same way, these are not always comparable to measurements used by other companies. These financial measurements should therefore not be considered a substitute for measurements defined under IFRS.

Financial measurements not defined under IFRS:

Gross margin

Gross profit in relation to net sales.

Gross profit

Net sales less the cost of goods and services sold.

Equity/assets ratio

Equity as a percentage of total assets.

Equity per share

Equity at the end of the period attributable to owners of the parent company divided by the number of shares at the end of the period.

Net investments in property, plant and equipment and intangible assets

Investments in property, plant and equipment and intangible assets during the period less divested property, plant and equipment and intangible assets.

Net margin

Net profit for the period in relation to net sales.

Interest-bearing liabilities

Bond, bank loans and lease liabilities.

Net debt

Interest-bearing liabilities less cash and cash equivalents.

OPEX

Other external expenses and employee benefits expenses.

Operating profit, EBIT

Profit for the period before financial income, financial expenses and tax.

Operating profit, EBITDA

Profit for the period before financial income, financial expenses, tax and depreciation, amortization and impairment of intangible assets and property, plant and equipment.

Items affecting comparability

Non-recurring items such as capital gains/losses, impairments, acquisition costs, integration costs and restructuring costs.

Adjusted EBIT

Profit for the period before financial income, financial expenses and tax, adjusted for items affecting comparability and amortization of acquisition-related assets.

Adjusted EBITDA

Profit for the period before financial income, financial expenses, tax and depreciation, amortization and impairment of intangible assets and property, plant and equipment, adjusted for items affecting comparability.

Adjusted EBITDA per share

Adjusted EBITDA divided by the volume-weighted average number of shares outstanding for the period after dilution.

EBIT margin/Adjusted EBIT margin

EBIT/Adjusted EBIT in relation to net sales.

EBITDA margin/Adjusted EBITDA margin

EBITDA/Adjusted EBITDA in relation to net sales.

Operational measurements

Percentage women

Average number of women in relation to the average total number of employees during the period.

Number of ordinary shares at the end of the period

Number of ordinary shares at the end of the period.

Average number of employees and consultants

Average number of employees and consultants during the period, recalculated as full-time equivalents.

Organic growth

Change in net sales and gross profit in relation to net sales and gross profit in the comparison period, excluding acquired units.

Total shares outstanding

Total number of ordinary shares and preference shares at the end of the period.

About Sinch

Sinch develops digital tools that enable personal interaction between enterprises and individuals. Powered by the Sinch cloud communications platform, enterprises can reach every mobile phone on the planet - within a second or two - via messaging, voice calls and video. Several of the biggest enterprises in the world are using Sinch's advanced technology platform to communicate with their customers and Sinch is an established software supplier to mobile operators worldwide. Sinch has delivered profitable growth since it was founded in 2008. The Group is headquartered in Stockholm, Sweden, and has a presence in more than 30 other countries. The share is listed on Nasdaq Stockholm, XSTO: SINCH.

Dividend

The board of directors has decided to propose to the annual general meeting that no dividend be paid for financial year 2019. It is the opinion of the board that the company is in a phase during which financial surpluses should be reinvested in continued growth, both organically and through acquisitions.

Outlook

Sinch does not publish forecasts.

Forthcoming reporting dates

Interim report Q1, Jan – Mar 2020	29 April 2020
Interim report Q2, Jan – Jun 2020	17 July 2020
Interim report Q3, Jan – Sep 2020	3 November 2020

Annual report

The annual report for the 2019 financial year will be available on the company's website at investors.sinch.com no later than three weeks before the AGM.

Annual general meeting

The Annual General Meeting will be held on Friday 15 May 2020 at 14.00 CET in Stockholm. The venue for the meeting will be communicated in connection with notice of the meeting.

Nomination committee

The members of the Sinch AB nomination committee are:

- Rikard Sallanto, representing Cantaloupe AB
- Jonas Fredriksson, representing Neqst D1 AB
- Thomas Wuolikainen, representing Fjärde AP-fonden
- Joachim Spetz, representing Swedbank Robur
- Erik Fröberg, Chairman of Sinch AB (publ)

Risk assessment

Sinch is, like all businesses, exposed to various types of risks in its operations. These include risks related to currency fluctuations, dependence on certain strategic partners, technological change, dependence on key personnel, as well as tax risks and political risks related to the multinational nature of the Group's activities. Risk management is an integral part of Sinch's management, and risks are described in more detail in Note 32 of the 2018 annual report. The risks described for the Group may also have an indirect impact on the parent company.

Forward-looking statements

This report contains statements concerning, among other things, Sinch's financial position and earnings as well as statements regarding market conditions that may be forward-looking. Sinch believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions. Forward-looking statements, however, include risks and uncertainties and actual outcomes or consequences may differ materially from those expressed. Other than as required by applicable law, forward-looking statements apply only on the day they are presented and Sinch does not undertake to update any of them in light of new information or future events.

Assurance

The board of directors and the CEO certify that the interim report gives a true and fair view of the company's and the Group's operations, position and results and describes significant risks and uncertainties faced by the company and the companies included in the Group.

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Stockholm, 20 February 2020

Erik Fröberg
Chairman of the Board

Bridget Cosgrave

Renée Robinson Strömberg

Johan Stuart

Björn Zethraeus

Oscar Werner
President and Chief Executive Officer

Note: Sinch AB (publ) is required to publish the information in this interim report pursuant to the EU market abuse regulation. The information was submitted for publication on 20 February 2020 at 07.30 CET.

This report is published in Swedish and English. In case of any differences between the English version and the Swedish original text, the Swedish version shall apply. This report has not been subject to review by the company's independent auditor.