FACTS AND FIGURES FIRST QUARTER

NFON AG Quarterly Report for 1 / 2020

Who we are

Headquartered in Munich and founded in 2007, NFON AG is the only pan-European cloud PBX provider – counting more than 40,000 companies across 15 European countries as customers and 2,700 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 EUR million	Q1 2020	Q1 2020	Veränderung in %
Total revenue	16.4	12.1	35.5 %
Recurring revenue [1]	14.9	12.1	22.9 %
Recurring revenue as a share of total revenue (in %)	14.1	10.4	35.6 %
Non-recurring revenue	85.8 %	85.7 %	n/a
Non-recurring revenue as a share of total revenue (in %) [1]	12.7	10.4	22.3 %
ARPU blended (in EUR) [1]	85.3 %	85.7 %	n/a
Seats	**467,253**	**390,826**	**19.6 %**

1 The sales of DTS were not consolidated in the NFON Group in January and February 2019. To show the organic growth on a comparable basis, the Group's revenue figures in the first two months of 2020 are therefore reduced by the amount generated by DTS in the same months of 2019.

TABLE OF CONTENTS

Dear Shareholders, Dear Readers,

Even in these unusual times at the beginning of the year, NFON is still on track for growth. The current situation has made a majority of companies keenly aware of the benefits of flexible business communications. They are being won over by good practical experience of flexible telephony or cloud conference calls. This is giving the European market for cloud telephony an additional boost, which is benefiting us as the market leader in Germany and the only pan-European provider. In particular, NFON is scoring points for simplicity, data protection and costs.

Even though our customers may delay some decisions in the short term, the opportunities for us clearly have the upper hand at this time. Since the start of March, we have been seeing rising demand for our cloud-based solutions as companies are increasingly seeking out flexible telecommunications. We do not believe that this is a merely temporary phenomenon. Many companies are now just realising the opportunities, but also the necessity and the benefits entailed, which is why they are choosing this time to invest in their digital future. We firmly believe that NFON will emerge from the current situation significantly stronger than it was before with its intuitive communications solutions for companies all over Europe.

This can also be seen in our figures: Total revenue increased by 35.5% in the first three months of 2020 to EUR 16.4 million. Deducting the revenue contribution arising from the acquisition of Deutsche Telefon Standard (DTS) for January and February 2019, our total revenue climbed by 22.9%. Recurring revenue rose by 35.6% to EUR 14.1 million, with a purely organic growth rate of 22.3%. In total, recurring revenue accounts for more than 85% of total revenue.

The development in our average revenue per user (ARPU) across all sales channels and countries was especially encouraging. After having become increasingly stable in recent quarters, ARPU even rose again year-on-year in the first quarter of 2020, to EUR 9.88 for the entire reporting period after EUR 9.74 in the previous year. In particular, March – the first month with extensive contact restrictions – saw a significant increase in ARPU to EUR 10.43 as a result of increased airtime. The development in earnings as a result of increased ARPU also highlights the potential of our business model once again: Earnings before interest, taxes, depreciation and amortisation (EBITDA) is already approaching the breakeven point in the first quarter of 2020 at EUR –0.1 million. We see this as validation of our strategy of offering an ever-larger share of premium solutions through the ongoing development of our customer base and the expansion of our product portfolio.

Hans Szymanski.
Chief Executive Officer

Jan-Peter Koopmann.
Chief Technology Officer

César Flores Rodríguez.
Chief Sales Officer

We feel that NFON is well equipped for the rest of the year, though even we do not know what consequences the economic situation will bring or how this might affect NFON's ongoing development. As at the end of the first quarter, we increased the number of seats by approximately 20% as against the previous year to more than 467,000. This is a good foundation on which to continue growing recurring revenue as planned moving ahead. As part of the successful development of our company, we are therefore relying on the key strategic components of crossselling and upselling potential within our existing customer base on the one hand, and systematically continuing to acquire new customers on the other, all the time maintaining a very clear focus on indirect sales through our pan-European network of partners. This is where our strength lies. Accordingly, we have now further expanded our network to 2,700 partners, in particular on the key markets of Spain, Italy and France.

What happens next? The coronavirus crisis is an unprecedented global challenge. On the one hand, long established, profitable companies have been rocked and now need government support. On the other, the economy is benefiting from entrepreneurship that was open to digitisation and recognised its potential very early on. Companies in Germany and Europe are still a long way from where they could be in the digital world. The first big step is behind us, but the rate of digitisation will now accelerate even further. As the sole pan-European provider, our path to becoming Europe's number one name in cloud telephony is clearly before us.

Looking at NFON's fantastic performance, naturally we must thank our staff. These successes would not have been possible without their enthusiasm and motivation. We would also especially like to thank our partners, customers and shareholders for the trust they have shown in us. We hope that you will stay with us as we continue our journey to the top of European cloud telephony.

Stay healthy!

Yours,

Hans Szymanski, Jan-Peter Koopmann and César Flores Rodríguez

Business performance

in EUR million	3M 2020	3M 2019	Change in %
Revenue	**16.4**	**12.1**	**35.5**
Cost of materials	–3.7	–2.7	36.8
Gross profit	**12.7**	**9.4**	**35.1**
Other operating income	0.3	0.1	n/a
Staff costs	–7.2	–5.5	29.5
Other operating expenses	–6.0	–5.6	6.0
EBITDA	**–0.1**	**–1.7**	**n/a**
Adjusted EBITDA	**0.2**	**–0.9**	**n/a**
Amortisation and depreciation	–0.9	–0.5	n/a
EBIT	**–1.0**	**–2.3**	**n/a**
Net interest expense	–0.1	–0.1	n/a
Income tax income	0.0	0.3	n/a
Consolidated loss	**–1.1**	**–2.0**	**n/a**

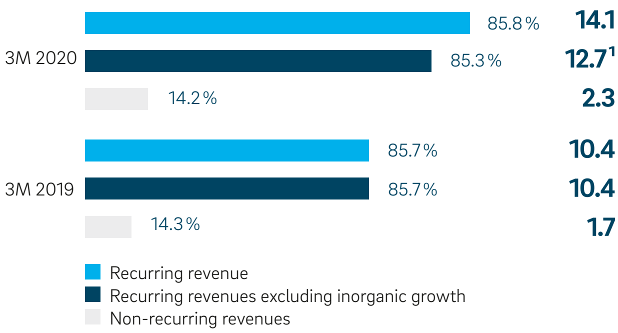
Results of operations

NFON AG generates revenue by providing telephony services and selling hardware and other services. Revenue amounted to EUR 16.4 million in the first quarter of 2020, an increase of 35.5% as against the previous year. Revenue growth in the first three months primarily resulted from the acquisition of new customers, a rise in the number of installed seats within the existing customer base, particularly in Germany, the UK and Austria, and the growth of the product portfolio. In addition, following the acquisition of all shares in Deutsche Telefon Standard GmbH, Mainz (DTS), as at 1 March 2019, that company's figures will be included in the Group's consolidated financial statements for the whole of 2020. NFON AG had acquired DTS in the same period in 2019 and immediately started to integrate the company. After deducting the inorganic revenue contribution from DTS in January and February 2019, NFON Group's total revenues increased by 22.9% in the first quarter of 2020.[1]

Share of recurring revenue significantly above forecast range

Recurring and non-recurring revenue

in EUR million



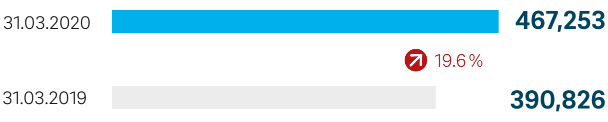
Recurring revenue essentially comprises monthly payments of a fixed license fee per seat plus a fixed or volume-based fee for voice telephony usage. At 85.8% of total revenue (previous year: 85.7%), the share of recurring revenue is at the upper end of the range anticipated for 2020 as a whole of between 80% and 85%. The cumulative effect typical for revenue performance, in relation to seats yet to be gained over the year, is evident from the trend in the recurring revenue generated in the individual quarters. Non-recurring revenue includes revenue from sales of devices (telephones, soft clients for PCs and smartphones) and the one-time activation fee per seat.

1 The revenue of DTS were not consolidated in the NFON Group in January and February 2019. To show the organic growth on a comparable basis, the Group's revenue figures in the first two months of 2020 are therefore reduced by the amount generated by DTS in the same months of 2019.

Recurring revenues increased by 35.6 % to EUR 14.1 million in the period under review compared to the same period of the previous year. Taking the DTS effect into account, the growth rate of recurring revenues is 22.3%[1].

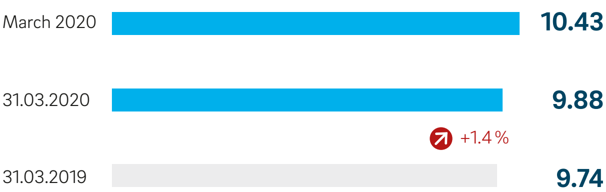
Development in seats

Seat growth in line with expectations



There were 467,253 seats in total as at the end of the first quarter of 2020, 19.6% higher than as at the end of the first quarter of 2019. This trend testifies to the growing demand for cloud telephone systems among business customers. At the same time, it underlines the high level of satisfaction felt by NFON's very loyal customers as the new seats are offset by only a very low number of terminations.

ARPU development in EURO



The partnership with wholesale partners, which is developing very successfully, also has a relevant 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 share of seats billed through wholesale partners increases. NFON is countering this trend by increasing sales of premium solutions which, in turn, allows the company to achieve a strong ARPU.

The slight improvement in ARPU in the reporting period as against the first three months of 2019 is mainly as a result of higher airtime revenue in the first quarter of 2020. Especially in March 2020 a very good ARPU of EUR 10.43 was achieved.

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Cost of materials

The cost of materials rose in line with revenue in the reporting period, by around 37% from EUR 2.7 million in the same period of the previous year to EUR 3.7 million. As a result, the cost of materials ratio is virtually unchanged year-on-year at 22.4%. This falls within regular fluctuations, in line with planning.

Staff costs

The average headcount was 397 in the first three months of 2020 as against 286 in the same period of the previous year. This sharp increase was prompted by the steady, strategic growth in headcount and the integration of DTS in March of the previous year. This explains the significant increase in staff costs, which rose by around 30% year-on-year in the first three months of 2020 to EUR 7.2 million (previous year: EUR 5.5 million).

Staff costs for the first three months of 2020 include expenses of EUR 0.2 million in connection with the employee stock option programme implemented at the start of 2019 (Q1 2019: EUR 0.2 million). In addition, staff costs also included payments of EUR 0.1 million in connection with an executive retention programme (Q1 / 2019: EUR 0.1 million).

Adjusted for these effects, staff costs rose by 30% year-on-year to EUR 6.8 million. This represents an adjusted staff costs ratio in relation to revenue of 41.7%, up from 43.6% in the previous year.

Other operating expenses

Other operating expenses increased to EUR 6.0 million in the first three months of 2020 (previous year: EUR 5.6 million). This essentially relates to the growth in sales expenses to EUR 2.0 million (previous year: EUR 1.4 million) as a result of higher revenue and the inclusion of DTS for the whole three months of 2020. DTS had been included only for one month in the same period of the previous year.

Other operating expenses for the first quarter of 2019 included costs of EUR 0.5 million incurred as part of the acquisition of DTS as at 1 March 2019.

Adjusted for these non-recurring effects, other operating expenses rose to EUR 0.9 million by 17% in the first quarter of 2020 against the first quarter of 2019. This represents an adjusted ratio in relation to total revenue of 36.4%, up from 42.1% in the previous year.

EBITDA, EBIT, consolidated profit / loss

in EUR million	3M 2020	3M 2019
EBITDA	**–0.1**	**–1.7**
Adjustments		
Retention bonus	0.1	0.1
Share options	0.2	0.2
Expenses for acquisition of DTS	0.0	0.5
Total adjustments	0.3	0.8
Adjusted EBITDA	**0.2**	**–0.9**
EBIT	–1.1	–2.3
Consolidated loss	–1.1	–2.0
Adjusted consolidated loss	**–0.8**	**–1.2**

Financial position

There were no liquidity bottlenecks in the reporting period and the company met its payment obligations punctually at all times. Cash funds amounted to EUR 28.3 million as at the end of the reporting period.

Source and use of funds

The company has been listed in the Prime Standard of the Frankfurt Stock Exchange since 11 May 2018. The share capital of the company amounts to EUR 15.1 million as at 31 March 2020 with capital reserves of EUR 83.2 million.

NFON AG's main source of financing in the first three months of 2020 was proceeds from the 2018 IPO and lending agreements with banks.

The warrant bond of EUR 5.0 million issued in the previous year was repaid in full in the first quarter of 2020. As at the end of the reporting period, the company has an acquisition credit facility of EUR 10.0 million, utilised in the amount of EUR 9.0 million as at 31 March 2020.

Investments in non-current assets of EUR 1.2 million in total in the reporting period mainly relate to capitalised development costs in connection with new features for existing products in particular.

Supplementary report

There were no events after 31 March 2020 that could have a significant impact on the company's financial position or financial performance.

Forecast

Assuming recurring revenue of EUR 48.1 million in 2019, a growth rate of between 22% and 26% as against the previous year is forecast for 2020 as a whole. NFON is planning growth in seats operated at customers of between 20% and 24% for 2020 as a whole. This forecast does not conclusively take into account the effects of the COVID-19 outbreak as these cannot yet be quantified. It should be noted that NFON was able to benefit from the effects of the corona crisis in the first quarter of 2020. However, at the time of publication of this quarterly announcement, it cannot be assumed that there could be no negative impact on the business development of NFON AG in the near future due to the outbreak of COVID-19, as already anticipated in the forecast published at the end of 2019. Please refer to the comments in the report on risks and opportunities in the consolidated financial statements as at 31 December 2019. These apply unchanged as at 31 March 2020.

CONSOLIDATED INTERIM FINANCIAL STATEMENT

Consolidated statement of comprehensive income

for the period 1 Jan. to 31 Mar. 2020

in EUR thousand	01.01.–31.03.2020	01.01.–31.03.2019
Revenue	16,391	12,098
Changes in inventories of finished goods and work in progress	–4	–9
Other operating income	315	55
Cost of materials	–3,668	–2,681
Staff costs	–7,157	–5,529
Depreciation and amortisation	–853	–548
Other operating expenses	–5,979	–5,642
Impairment loss on trade and other receivables	0	3
Other tax expense	–4	–3
Income from continuing operations before net interest income and income taxes	**–959**	**–2,254**
Interest and similar income	5	4
Interest and similar expense	–117	–73
Net interest income	**–112**	**–70**
Earnings before income taxes	**–1,071**	**–2,323**
Income taxes	–29	318
Net profit/loss	**–1,100**	**–2,006**
Attributable to:		
Shareholders of the parent company	–1,100	–2,006
Non-controlling interests	0	0
Other comprehensive income (will be reclassified to profit or loss)	–180	159
Tax on other comprehensive income	0	0
Other comprehensive income after taxes	–180	159
Total comprehensive income	**–1,280**	**–1,846**
Attributable to:		
Shareholders of the parent company	–1,280	–1,846
Non-controlling interests	0	0
Net loss per share, basic	**–0.07**	**–0.14**
Net loss per share, diluted	**–0.07**	**–0.14**

Consolidated statement of financial position

as at 31.03.2020

in EUR thousand	31.03.2020	31.12.2019
Non-current assets		
Property, plant and equipment	7,342	7,606
Intangible assets	23,277	22,438
Deferred tax assets	132	132
Other non-financial assets	228	289
Total non-current assets	**30,979**	**30,467**
Current assets		
Inventories	284	208
Trade receivables	8,372	7,558
Other financial assets	390	390
Other non-financial assets	2,309	2,164
Cash and cash equivalents	28,274	36,419
Total current assets	**39,628**	**46,740**
Total assets	**70,607**	**77,206**

in EUR thousand	31.03.2020	31.12.2019
Equity		
Issued capital	15,056	15,056
Capital reserves	83,165	82,987
Retained earnings	–52,774	–51,674
Currency translation reserve	598	778
Total equity	**46,045**	**47,146**
Non-current liabilities		
Non-current financial liabilities	3,239	3,436
Other non-current liabilities	162	172
Deferred tax liabilities	106	77
Total non-current liabilities	**3,506**	**3,686**
Current liabilities		
Trade payables	3,902	5,174
Short-term provisions	2,611	2,176
Tax provisions	105	125
Current financial liabilities	10,348	15,451
Other non-financial liabilities	4,090	3,449
Total current liabilities	**21,056**	**26,374**
Total equity and liabilities	**70,607**	**77,206**

Consolidated statement of cash flows

for the period from 01 January to 31 March 2020

in EUR thousand	01.01.–31.03.2020	01.01.–31.03.2019
1. Cash flow from operating activities		
Profit/loss after taxes	**–1,100**	**–2,006**
Adjustments to reconcile profit (loss) to cash provided		
Income taxes	28	–318
Interest expenses (income), net	112	70
Amortisation of intangible assets	853	548
Impairment loss on trade and other receivables	0	–3
Equity-settled share-based payments	179	151
Other non-cash income and expenses (net) and currency effects	–259	–143
Changes in: Inventories	–75	–18
Trade and other receivables	–896	–678
Trade payables and other liabilities	–792	–201
Provisions and employee benefits	416	498
Interest paid	0	–6
Income taxes paid, net	–3	–48
Cash flow from operating activities	**–1,537**	**–2,155**

in EUR thousand	01.01.–31.03.2020	01.01.–31.03.2019
2. Cash flow from investing activities		
Payments to acquire subsidiaries	0	–15,260
Payments on investments in property, plant and equipment	–208	–485
Payments on investments in intangible assets	–951	–478
Cash flow from investing activities	**–1,159**	**–16,224**
3. Cash flow from financing activities		
Lease payments (IFRS 16)	–337	–311
Proceeds from bank loans	0	8,966
Repayments of bank loans and liabilities similar to bank loans	–5,081	–583
Cash flow from financing activities	**–5,418**	**10,572**
Change in cash and cash equivalents	**–8,114**	**–10,306**
Effect of movements in exchange rates on cash held	–31	26
Cash and cash equivalents at the beginning of the period	**36,419**	**41,436**
Cash and cash equivalents at the end of the period	**28,274**	**31,156**

Cash and cash equivalents at the end of the period include bank deposits of EUR 336 thousand as at 31 March 2020 (31 March 2019: EUR 337 thousand) that cannot be repaid to the Group in full on account of collateral provided by customers with poor credit ratings. All restrictions on such deposits are of a short-term nature.

Consolidated statement of changes in equity

as at 31.03.2020

	Attributable to owners of the company						
in EUR thousand	Issued capital	Capital reserves	Currency translation reserve	Retained earnings	Total equity	Non-controlling interests	Total
As at 1 January 2020	**15,056**	**82,987**	**777**	**–51,674**	**47,146**	**0**	**47,146**
Comprehensive income for the period							
Loss (income) for the period	0	0	0	–1,100	–1,100	0	–1,100
Other comprehensive income for the period	0	0	–180	0	–180	0	–180
Total comprehensive income for the period	**0**	**0**	**–180**	**–1,100**	**–1,280**	**0**	**–1,280**
Transactions with owners of the company							
Equity-settled share-based payments	0	178	0	0	178	0	178
Total transactions with owners of the company	**0**	**178**	**0**	**0**	**178**	**0**	**178**
As at 31 March 2020	**15,056**	**83,165**	**597**	**–52,774**	**46,044**	**0**	**46,044**

FINANCIAL CALENDAR

Q2

31.03.2020	Publication of the Group Annual Financial Report 2019
18.05.2020	Presentation of the Results for the 1st Quarter 2020 (Telephone Conference)
28.05.2020	Annual General Meeting of NFON AG

Q3

20.08.2020	Presentation Half-year Results 2020 (Telephone Conference)

Q4

Nov.2020	Presentation 9 Month Results 2020 (Telephone Conference)

Imprint

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