



# Quarterly report LiveChat Software for the period of 9 months ended December 31, 2018

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## Management comment

In the three quarters of the financial year, LiveChat Group recorded PLN 79.9 million of revenue and PLN 42.1 million of consolidated net profit. These are results by 20.3% and 18.6%, respectively, higher than those recorded a year ago. In the third quarter alone, the Group generated PLN 27.8 million revenue and PLN 13.7 million net profit - these are also better than the results recorded a year earlier (by 22% and 11%).

The past three quarters is the period of a dynamic growth of our organization. Employment increased from 80 people to 140 people, which is mainly related to the increase of the team working on the development of our flagship "LiveChat" product, as well as work on new products.

The introduction of new options and opportunities to LiveChat will allow this tool to better respond to the needs and requirements of users. It will also enable it to better integrate with other solutions and communication channels.

Increasing the employment translates into higher operating costs, however LiveChat Software still generates very high operating margins. In Q1-Q3, the gross profit margin totalled 83.3%, the operating margin was 65.1% and the net margin amounted to 52.8%.

What's more, the Group maintains the ability to efficiently generate cash. Within nine months, net cash flows from operating activities amounted to PLN 46.4 million. The excellent financial situation allowed the Management Board, after approval by the Supervisory Board, to decide on the payment of an advance on the estimated dividend. At the end of the third quarter of the financial year, the Group had cash in the amount of PLN 34.5 million. The Management Board maintains the dividend policy, which assumes devoting all profits to the dividend (provided that there are no investments that would provide the Shareholders with a higher rate of return), and intends to continue paying out advances in the same way as in the previous year.

At the end of the third quarter, 26,010 customers used LiveChat, which is 12.5% more than the year before. The number of LiveChat clients is still an important indicator of the Company's business development, however, it should be noted that average revenue per user (ARPU) may vary greatly depending on the subscription plan chosen and the number of licenses purchased. The number of LiveChat clients grew in each and every month of the previous year - however the annual growth rate is lower than in previous years. The company undertakes activities aimed at changing this trend. However, it should be emphasized that the Company's revenues grew faster in this period than the number of clients.

The growth in the number of LiveChat customers in future periods may be affected by the development of this product, including new LiveChat functionality and its integration with external tools. Their introduction will be possible, among others thanks to the new version of LiveChat, which is the effect of more than two years of development work, including the chat.io project. At the time of approving this report for publication, the new version of LiveChat is at the "soft launch" stage and is being used by about a thousand clients.

At the same time, the Company is developing new products: ChatBot, KnowledgeBase and HelpDesk. The initiation of the HelpDesk product monetization is planned for the first quarter of 2019/20 (April - June).

In August 2018, the Company commenced a review of strategic options. Its objective is to choose the best way to achieve our long-term goal - to become the global leader in live chat software. Until the publication of this report, we have not made a decision on the choice of a particular strategic option and the review of options is being continued.

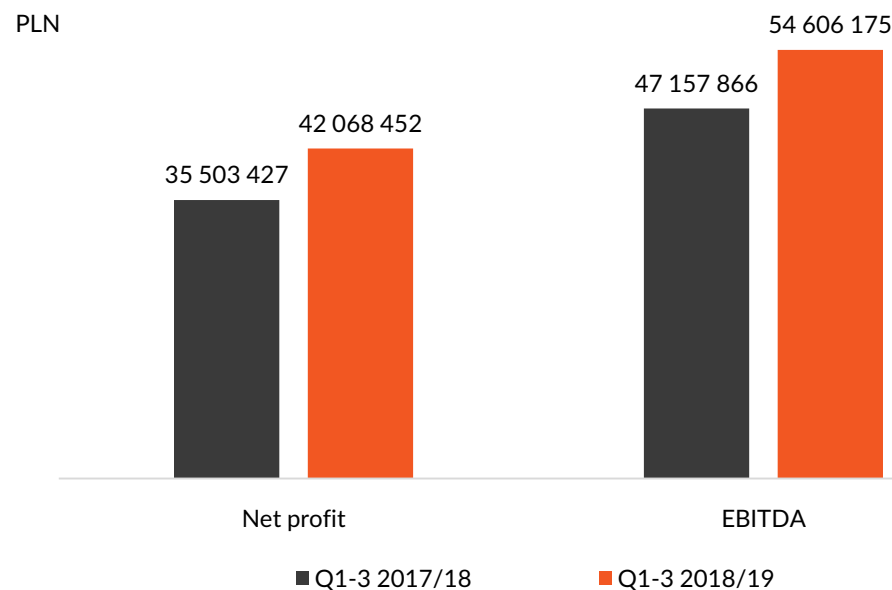
# Operating summary

## Selected consolidated financial data

[PLN]	Q1-3 2018/19	Q1-3 2017/18	Change
Net sales of products, goods and materials	79 875 386	66 443 988	20%
EBITDA	54 606 175	47 157 866	16%
Operating profit (loss)	52 008 698	45 379 519	15%
Gross profit (loss)	52 133 327	44 099 863	18%
Net profit (loss)	42 068 452	35 503 427	18%
Net cash flow	4 336 160	-4 108 751	-206%
cash flow from operating activities	46 356 145	36 020 131	29%
cash flow from investing activities	-7 772 485	-3 821 382	103%
cash flow from financial activities	-34 247 500	-36 307 500	-6%
Number of shares	25 750 000	25 750 000	-
Profit (loss) per ordinary share	1,63	1,38	18%

[PLN]	Q3 2018/19	Q3 2017/18	Change
Net sales of products, goods and materials	27 779 615	22 830 143	22%
EBITDA	17 909 569	16 041 994	12%
Operating profit (loss)	16 966 643	15 543 022	9%
Gross profit (loss)	17 006 719	15 420 560	10%
Net profit (loss)	13 740 063	12 407 451	11%
Net cash flow	14 666 304	12 123 261	21%
cash flow from operating activities	17 596 730	13 666 124	29%
cash flow from investing activities	-2 930 426	-1 542 863	90%
cash flow from financial activities	0	0	-

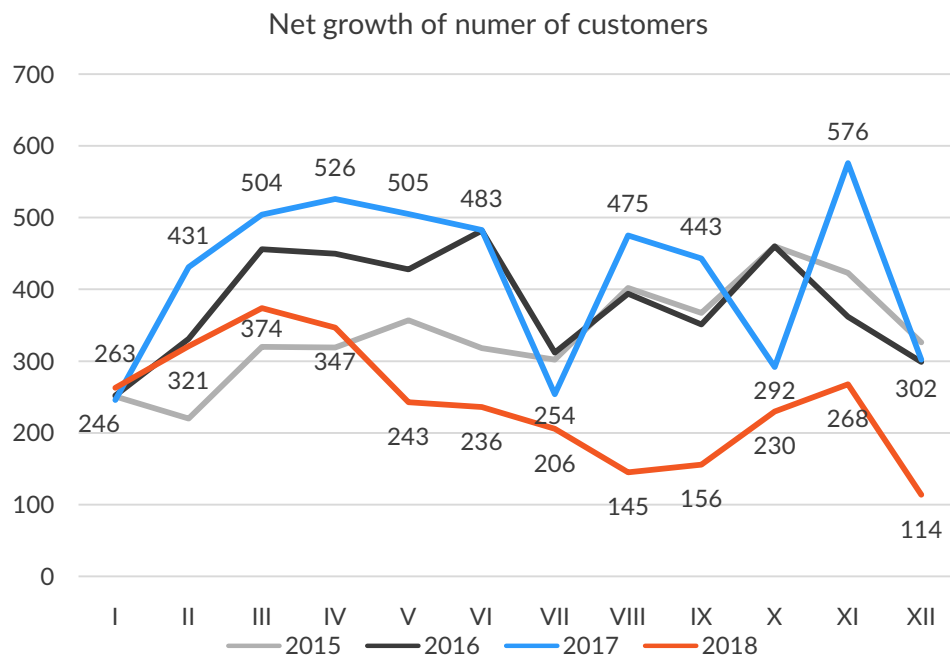
[PLN]	31 December 2018 r.	31 March 2018 r.	Change
Total assets	59 801 149	48 643 508	23%
Liabilities and provisions	6 624 349	3 409 595	94%
Long-term liabilities	0	0	-
Short-term liabilities	6 624 349	3 409 595	94%
Net equity	53 176 800	45 233 913	18%
Initial equity	515 000	515 000	0%
Number of shares	25 750 000	25 750 000	-
BVPS	2,07	1,76	18%



# Operating summary

## Key events in the three months of the fiscal year

The Company reported an increase in the number of customer using the LiveChat solution in each month of 1-3Q 2018/19. The figures relating to new clients and their growth rate are shown on the diagram below.



The annual growth dynamics are falling due to the rapidly growing comparative base. Despite the increase in the number of customers, the Company maintains the churn rate at a very stable level of 3% (with very small oscillations in individual months). The separation rate is significantly lower for larger clients (companies using more expensive subscription plans and purchasing a larger number of licenses).

At the end of 2018 calendar year, the Company served 26,010 active and paying users of Chat LiveChat solutions, compared to 23,107 customers a year ago.

The Company's offer is addressed to business customers - companies that have their own websites. Currently, LiveChat Software customers choose from four subscriber plans.

The final revenue per one customer depends on the selected plan, as well as the number of licenses purchased by them.

On 7 August 2018, the Company's shareholders decided to distribute the profit for the financial year ended 31 March 2018, according to which the Company paid a dividend in the amount of PLN 45,577,500, the remaining part of the profit in the amount of PLN 2,495,833,49 was allocated to supplementary capital.

On 14 August 2018, the Group completed the purchase of the helpdesk.com domain. The purchase of the domain is a consequence of the implementation of operations related to the expansion of the product range. The Company plans to start work on launching a new product in the area of communication with the client. Then on 20 September 2018, the Group completed the transaction of acquiring the chatbot.com domain. The purchase of the domain was a consequence of the implementation of operations related to the expansion of the product range. Both domains will constitute a significant support for the Company's marketing strategy.

On 24 August 2018, the Management Board of the Company decided to initiate a review of strategic options supporting the further development of the Group's operations. The options review is aimed at selecting the best way to achieve the Company's long-term goal, which is the Group's development leading to the position of a global leader in live chat software and related customer service, including support services, by analyzing ways that can significantly affect the current business model of the Group.

At the beginning of 2019 (the Payment Date - 9 January), the Company paid an advance on the estimated dividend from the profit for the current financial year. PLN 13,905 million was allocated to the payment, which meant a payment of PLN 0.54 per share.

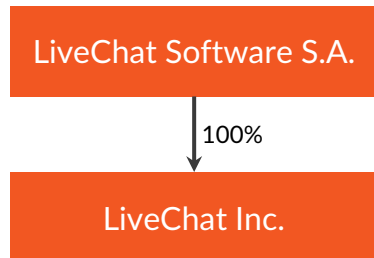
In the fourth quarter of the financial year, the Management Board decided to stop supporting the chat.io. product, which will be implemented in the first quarter of the next financial year. The decision is related to the use of the achievements and experiences of this project in the next version of LiveChat. For the Company chat.io was a base for development work on a new version of the company's main product. Development of chat.io in real business conditions allowed the Company to eliminate the risk of introducing drastic changes to the main product. The team also gained confidence that the implemented solution or technology is well received by users.

In connection with the above, the Company expects that expenses incurred for the chat.io application will be returned through increasing the functionality, and hence, the revenue from the sale of LiveChat applications. Therefore, the Management Board does not plan any write-downs related to the ending to support this project.

# Structure of LiveChat Software Group

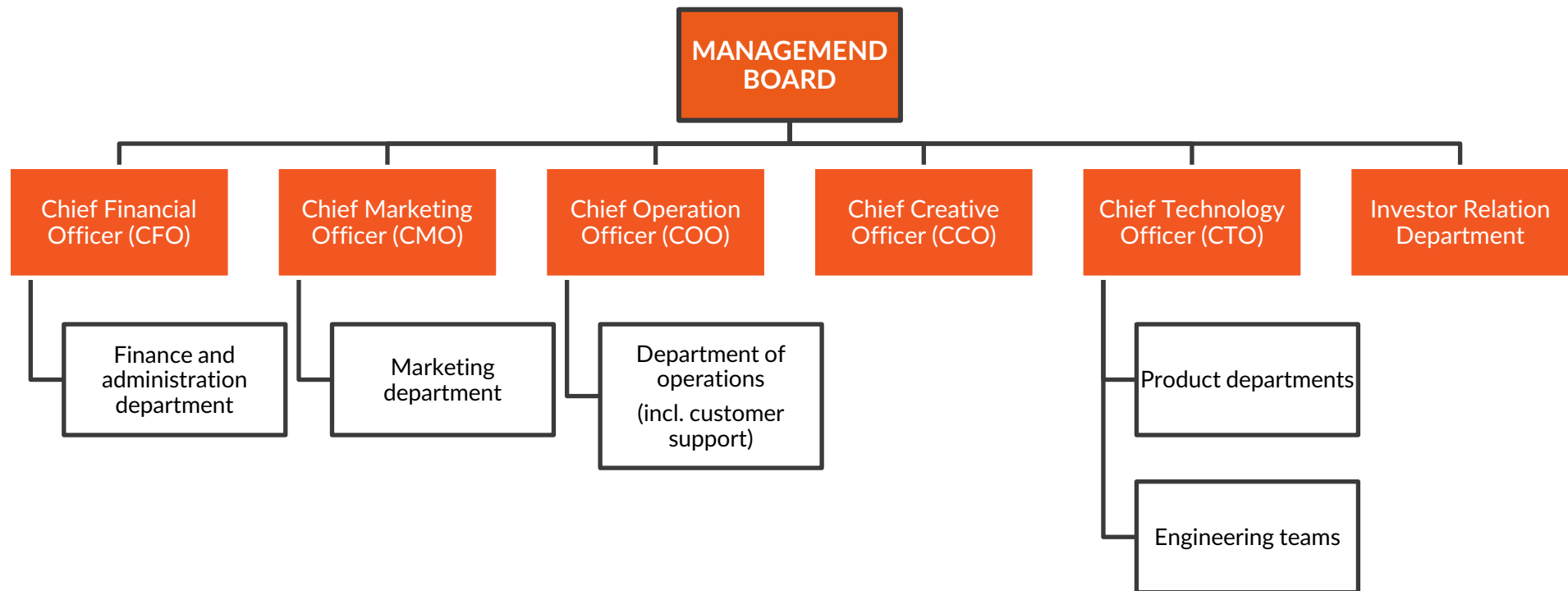
## Structure of LiveChat Software Capital Group

LiveChat Software S.A. is a parent company which consists of itself and its wholly owned US subsidiary LiveChat, Inc. which is subject to full consolidation. The Company has no branch offices.



## Structure of the organization LiveChat Software

The diagram below presents the organizational structure of the LiveChat Software Group:



# Description of the activities of LiveChat Software Group

## Description of Group's activities

LiveChat Software is a developer and a global provider of LiveChat software. Its corporate portfolio includes solutions such as [chat.io](#) (a live chat-type solution whose structure allows the integration with other chat platforms), [ChatBot](#) (a chatbot building platform) and [KnowledgeBase](#) (a knowledge base application).

The Company is a developer and a distributor of products sold in a Software-as-a-Service model), used in business-to-consumer (B2C) and business-to-business (B2B) text-based communications. At present, LiveChat Software focuses on the development of new products and on perfecting the ones already on the market, offering top-quality customer service (users of LiveChat product can contact the Company on a 24/7/365 basis) and the development of new customer acquisition channels.

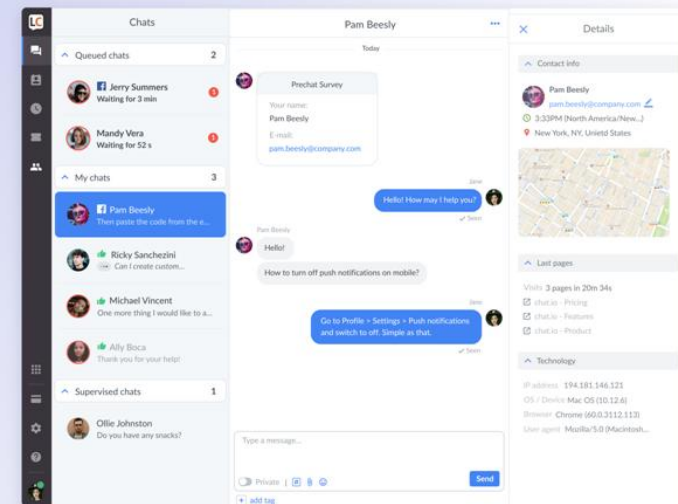
The Company has a proven business model with a marginal, close to zero customer acquisition cost. The relatively low level of recurring expenses and the marginal ultimate variable cost of new clients coupled with the absence of the need for additional CAPEX, gives LiveChat Software a high degree of scalability of its business while retaining strong profit margins.

Leveraging the right marketing policy, including pricing, LiveChat product is addressed primarily to SMEs, but the Company is also reaching out to corporations which operate on a larger scale, through product development, introduction of new features and pricing schemes. A progressive price list gives the Company an opportunity to generate higher revenues from clients who use a greater number of LiveChat functionalities.

LiveChat Software also runs a number of other projects, whose joint trait is the potential to accelerate customer acquisition growth rate. Its solutions are dedicated to business users from all industries. At present, IT companies account for the greatest number of clients. Other large sectors represented among clients include retailing, education, marketing, gaming and gambling, automotive, entertainment, financial services, health care and tourism. As of June 31, 2018, a total of 24,891 companies from 150 countries were using the LiveChat product.

The Company focuses on organic acquisition of new users for its products and this applies both to LiveChat solution and to ChatBot, KnowledgeBase or chat.io. Its clients originate from various sources, including Google search engine (SEO and content marketing), LiveChat Partners Program or the collaboration with other tech companies and mutual listing on Marketplace.

In recent months the Company reported lower than before increases in the number of clients using the LiveChat product. This was due to, among other factors, the introduction of new business models by software comparison sites, mainly by Capterra, GetApp, SoftwareAdvise, which are one of LiveChat Software's most important customer acquisition channels. After the takeover of these portals by Gartner, they changed their operating method which now focuses on paid auction model, contrary to the cost-free customer acquisition strategy. At the time of publication of this report, the Company is using the paid collaboration model proposed by these portals only to a limited extent.



# Description of the activities of LiveChat Software Group

## LiveChat

LiveChat product is a tool for quick contact between clients and the Company using a chat application embedded on the company's website. The solution is used mainly for customer service and online sales.

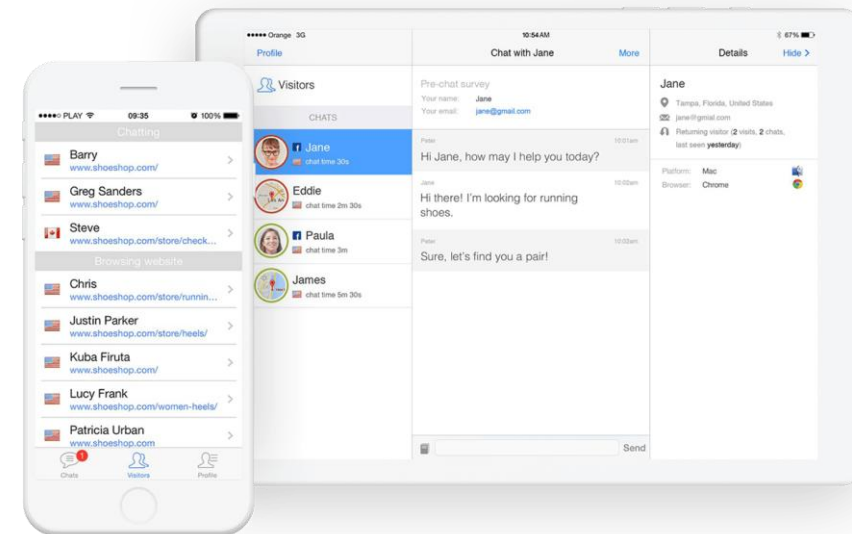
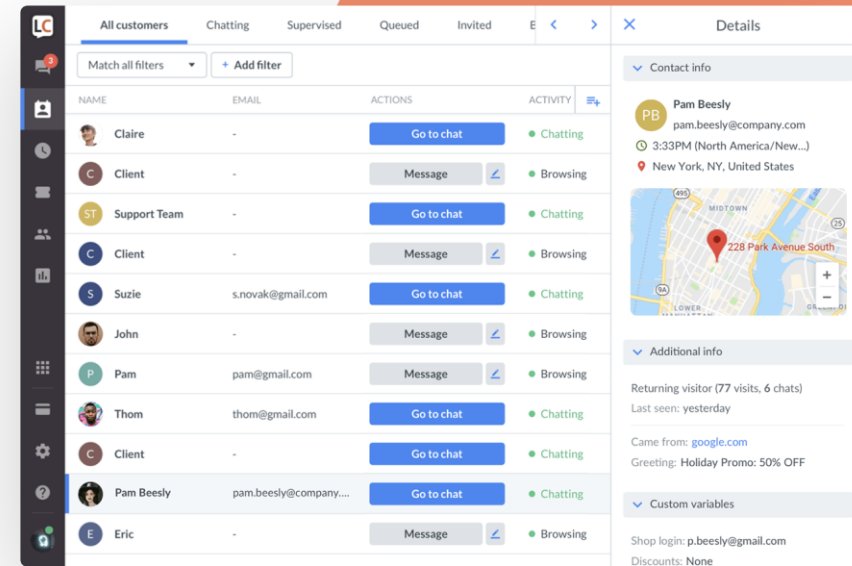
The company offers mobile application and desktop versions of the product and it is also possible to use it in a browser-based form. This gives users of the product an ability to chat with clients virtually anywhere and anytime.

Examples of the product's use are very varied. LiveChat solution can facilitate sales processes in e-commerce, serve as a recruitment supporting tool in education and HR and as a contact channel in industries which require personalized communications, such as real estate. The Company pays a lot of attention to insuring that the product's implementation on clients' websites, adopting it to clients' needs and the subsequent use be simple and intuitive, despite the advanced functionalities it offers. The onboarding process is also conducted in such a way, as to answer as many users' questions as possible early on. Thanks to this approach, the product can be used by SMEs, but also by large corporations.

The product offers numerous functionalities, not just facilitating conversation with clients, but also making communications management easier. Users are offered features which engage their clients (e.g. automatic invitations to start a conversation), a ticketing system (which makes it possible for clients to leave a message after hours), tracking the behavior of website visitors and an analytical panel. All the data collected using the LiveChat application are an attractive source of knowledge, to be used in the sales, service and customer support process.

The product's structure makes it possible for users to integrate it with other instruments, vastly expanding its usability. Clients have at their disposal one-click integrations (integrating the product with the specific tool virtually in a single click), or the more advanced features which require the use of documentation provided by the Company,

e.g. the Application Programming Interface (API) and programming know-how. One of the more interesting integrations is the ability to activate chatbots created using ChatBot as part of the product. This gives companies the ability to communicate with clients both using live agents and AI-based mechanisms.





# Description of the activities of LiveChat Software Group

## LiveChat

### LiveChat product as a platform

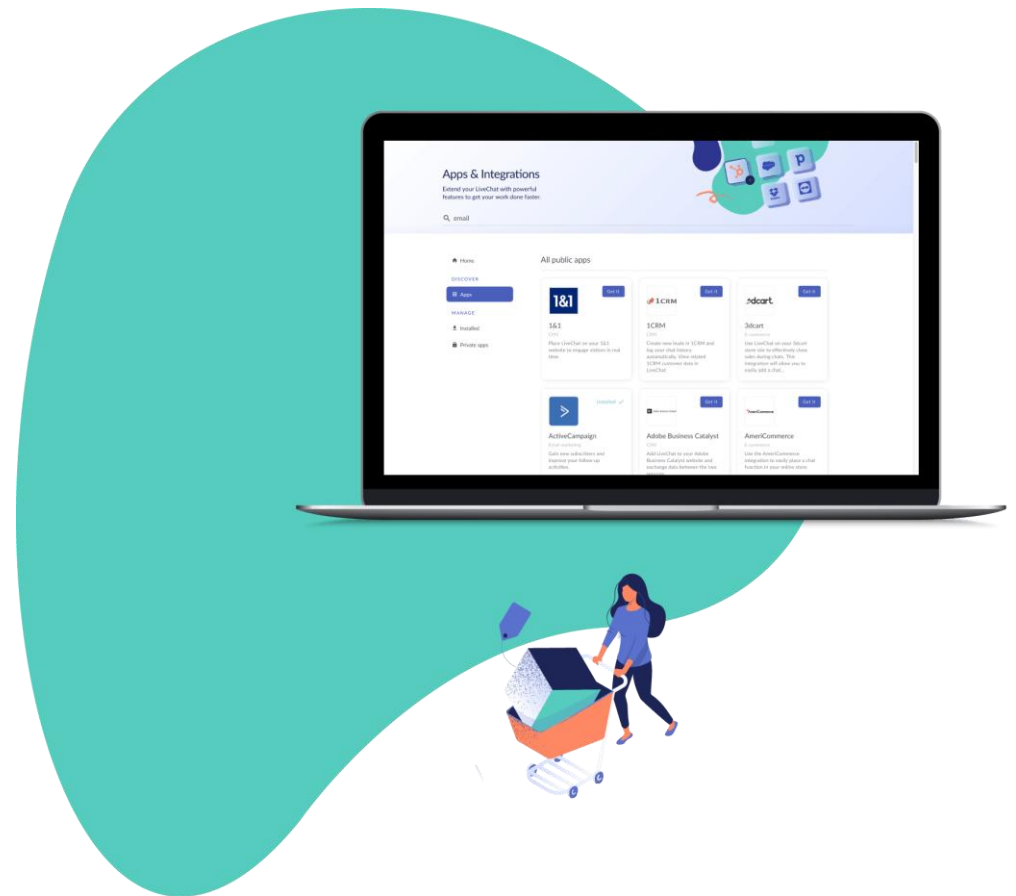
The idea of changing the direction of development of LiveChat product came in response to growing number of individual demands made by clients with respect to the application. LiveChat Software is developing the ecosystem around its solution in order to address and foresee client expectations.

The change of a business model to a platform will, over time, speed up the development of solutions created by the Company and will also facilitate the introduction of new functionalities. The platform will allow the creation and provision of new features not just to Company employees, but also to external parties (developers, software houses, partners and the users themselves). Thanks to the platform and the tools it makes available, everyone outside the Company is able to design their own add-ons or applications based on LiveChat technology. This way, it is possible to introduce solutions which the product lacks and which are key for that specific user.

The platform build around LiveChat solution consists of two closely tied parts. The first is the Developer Console, in which the Company is providing users with the tools (instructions, API documentation, sample code) for the creation of plug-ins and expansions. The other one is the Marketplace, the place where all the products which are designed, are stored and made available to users of LiveChat product (in both paid and free version). The third part is the community build around the platform, comprising all of its participants, as well as Company's clients. The purpose of the community is to share the experiences, develop new applications together and to make mutual contacts.

The main benefits from product development in a platform model is that these solutions become more flexible, which makes it possible to adopt their functionalities to user requirements in virtually any manner required. This strengthens user's relations with the product and makes it more difficult for them to quit. The platform also allows users to discover previously unknown uses of the given solution and the experience-sharing process.

Further development of LiveChat as a platform will be possible thanks to the users of the new version of this product, based on the experience of the chat.io project. The new version of LiveChat enables, among others, an easy integration with various communication channels and applications, or opening to product customization by customers using API.





# Description of the activities of LiveChat Software Group

## ChatBot

ChatBot is a product which allows the creation of conversational chatbots to handle various business scenarios. Their main goal is to automate corporate communications and to improve the effectiveness of customer service teams by addressing repeatable customer inquiries. The solution, introduced to the market, fits into the Company's strategy to develop the offering of products for text-based customer communications. At the same time it responds to the now popular trend towards automation of communications using AI-based mechanisms.

Bots are created by preparing a detailed tree-schemed script of the conversation. The script is based on drag&drop method, it is simple and intuitive and thus is also accessible to people who lack specialist programming knowhow.

Chatbots developed by ChatBot are based on two phrase matching systems used in the interaction with the client. The main one, machine learning, analyzes the entire phrase and the second is based on key words. They can be used alternately or even combined within

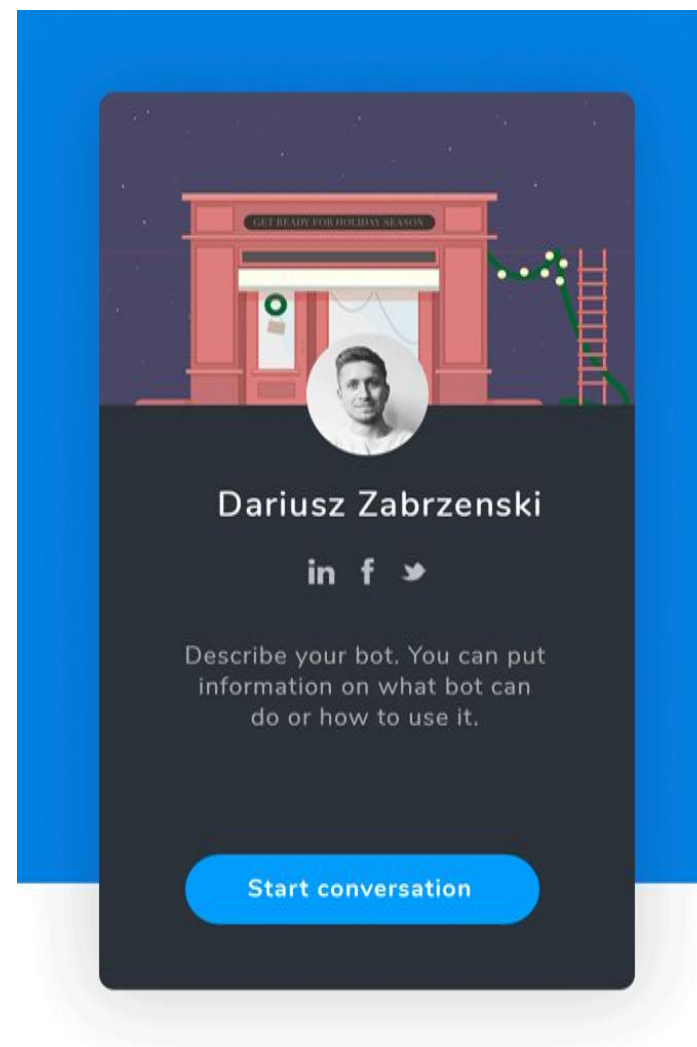
a single script.

ChatBot is integrated with the LiveChat solution, but also with other tools, such as Facebook Messenger. Additionally, the user is able to connect their chatbot with an internal system, making it possible to verify and transmit data acquired by the bot during the conversation to other systems used by the Company. ChatBot's integration potential is virtually unlimited because the Company made available the app's API.

ChatBot is sold without the use of a dedicated sales team. The Company is promoting its solutions using cost-free methods, growing its user base organically. The solution is on the market since June 2017 (as an open beta version, as a complete product since February 2018). Its clients include Boston University, Kayak, Calgary or Velux. At present,

the Company is not reporting the number of active users of this solution

For more information about the product, please visit <https://www.chatbot.com>



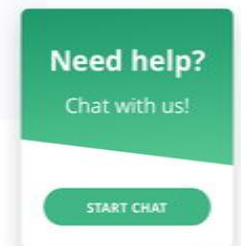
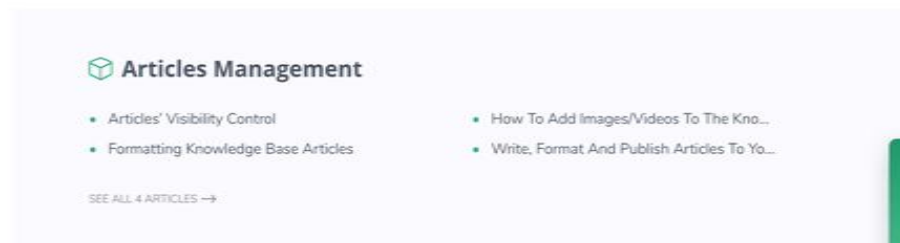
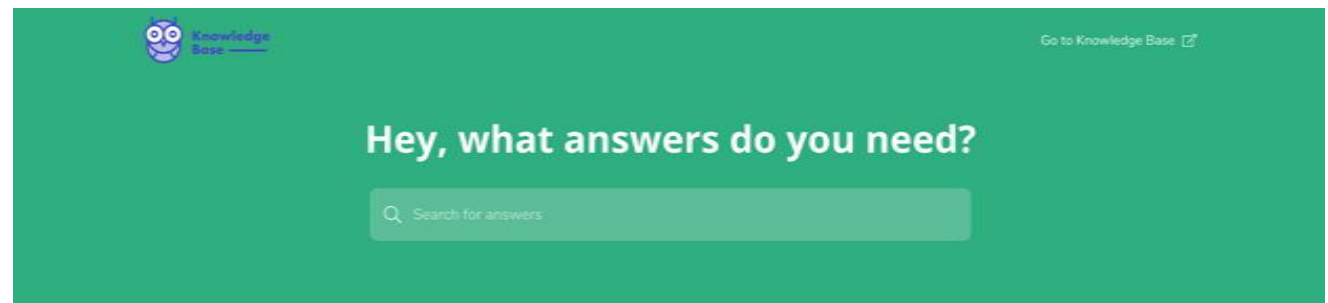
# Description of the activities of LiveChat Software Group

## KnowledgeBase.ai

The Company released this application in October 2017, initially as an open beta version and then, in March 2018 as a fully-fledged, paid product. KnowledgeBase platform lets companies create their own knowledge bases, which can be accessed by both their employees and clients.

Thanks to KnowledgeBase, articles relating to, for example, technical assistance, are all gathered in one place. This way, an employee doesn't have to switch between various browser tabs to seek out an answer to the question while dealing with customer service, but merely seeks out the information in the knowledge base. This boosts the efficiency of the customer service and speeds up communications with clients. At the same time, it lets clients seek out solutions to their problem by themselves. The application may be integrated directly with LiveChat solution.

For more information about the product please see <https://www.knowledgebase.ai>



# Description of the activities of LiveChat Software Group

## HelpDesk

HelpDesk is a solution that is supposed to support business communication with the client through various channels. In particular, HelpDesk helps to manage the so-called "Tickets", i.e. matters reported by clients via various text communication channels (e.g. mail, live chat).

The product will be systematically expanded, and its vision ultimately assumes as much automation of such processes as possible. The functions offered by HelpDesk will include support for team work, grouping and tagging of tickets, assessment of consumer satisfaction, as well as reporting and data analysis. HelpDesk will be a competitive solution for such products as Zendesk, FreshDesk, ZOHO Desk, HappyFox, or HelpScout and will constitute a valuable complement to the Company's offer.

The commercial première of the HelpDesk is planned for the first quarter of 2019/2020 (April - June). The product is offered through [helpdesk.com](https://www.helpdesk.com).

For more information about the product please see <https://www.helpdesk.com>

The screenshot displays the LiveChat HelpDesk interface. On the left is a dark sidebar with navigation icons for Chats, Customers, Archives, Tickets, Agents, and Reports. The main area is divided into two sections: 'Tickets' and 'Open tickets (10)'. The 'Tickets' section shows filters for 'Tickets to handle (245)', 'Open', 'Pending', 'Solved', and 'Spam'. The 'Open tickets' section is a table with columns for 'REQUESTER', 'SUBJECT', 'ASSIGNEE', and 'UNREPLIED SINCE'. Below the table is a detailed view of a ticket with ID '0218V' titled 'Return question'. The ticket history shows a client message from Tom asking about returns, a supervisor response from Peter stating shipping costs are not covered, and an agent response from John confirming the return but requiring shipping costs. At the bottom of the ticket view is an internal comment field with a 'Submit' button and a 'CLOSE' button.

REQUESTER	SUBJECT	ASSIGNEE	UNREPLIED SINCE
Bettina Webb bettinawebb@mail.com	{AA-2909 } Chat follow-up - iOS app issue	unassigned	Thu 13, Jan 2018
WEBET24/7 user@gmail.com	{KG} Logs for license 7521541 - agent info@we...	unassigned	Mon 13, Feb 2018
christie@livechatinc.com user@gmail.com	{Trello - KNOWN ISSUES} Issue with prechat...	Jason Statham	Web 13, Mar 2018
Emma user@gmail.com	{KK}Bug report - Chat bubble on mobile not...	Bruce	Sat 13, Apr 2018
Customer customer@gmail.com	{MK - Trello}Greings setup overlay	Pam Beesley	Sun 13, May 2018
Derrick Mitchell derrickmitchell@gmail...	Love your content (and a proposal)	unassigned	Mon 13, Jun 2018
Viola Greer user@gmail.com	Infinity Telecoms - HelpDesk Case Study	unassigned	Tue 13, Jul 2018
Derrick Shelton derrickkkk@gmail.com	ESO Support Customer Satisfaction Survery	Bruce	yesterday 16:43
WEBET24 user@gmail.com	{KG} Logs for license 4626548 - agent info@we...	Jason Statham	10 minutes ago

This block shows a detailed view of a ticket conversation. The ticket title is 'Return question' and the ID is '0218V'. The conversation history is as follows:

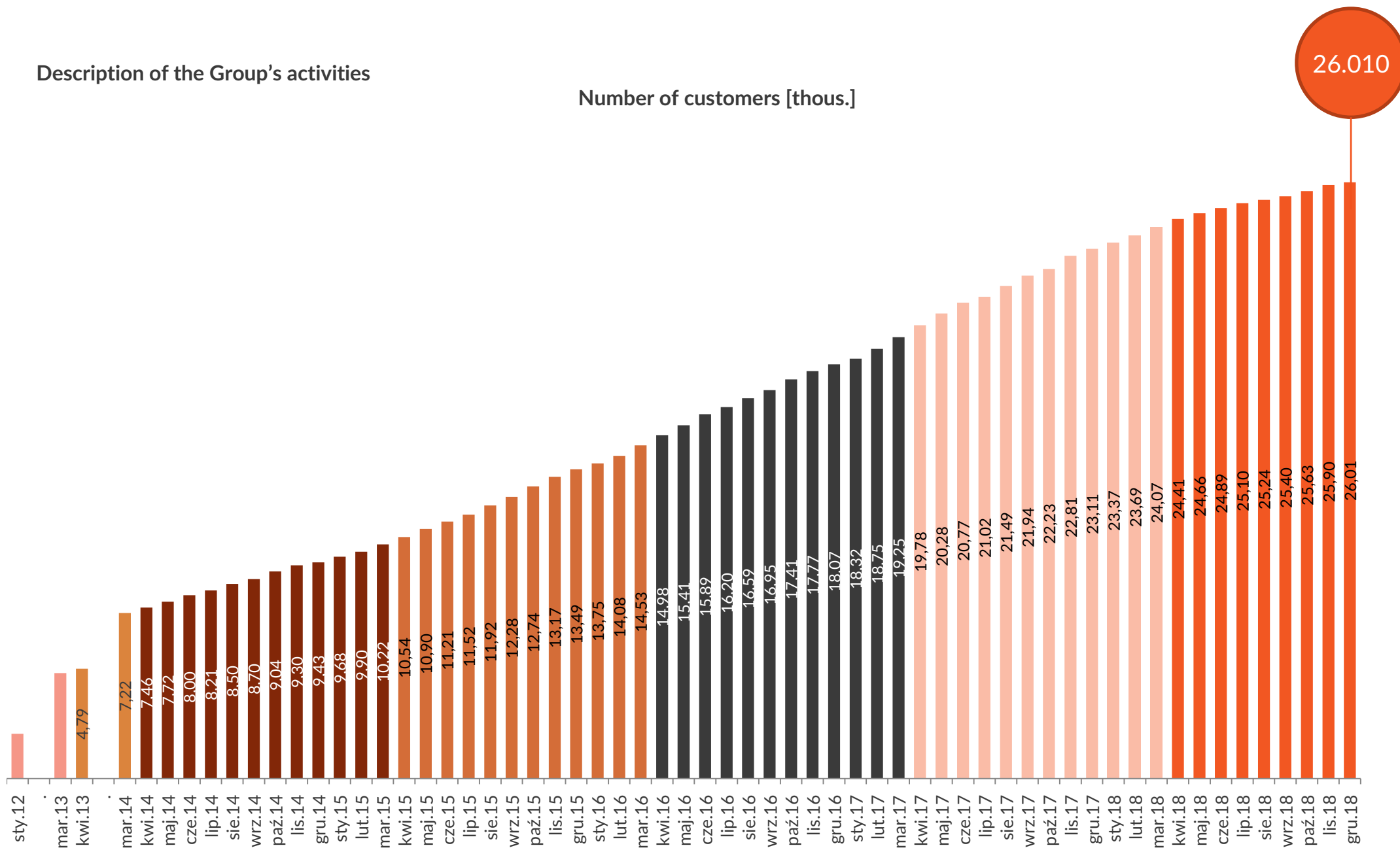
- CLIENT:** Tom asks, "Can I make a return if the product is unpacked?"
- SUPERVISOR:** Peter responds, "We can accept the return but we can't cover the shipping costs."
- AGENT:** John responds, "Hi Tom, you can make a return but you need to cover the shipping costs."

At the bottom, there is an internal comment field with the text "Type internal comment...", a "CLOSE" button, and a "Submit" button. A note below the field states "This comment will be visible to agents only."

# Description of the activities of LiveChat Software Group

Description of the Group's activities

Number of customers [thous.]



# Description of the activities of LiveChat Software Group

## Description of the situation on the market for SaaS services and the segment of live chat type of software

The Software-as-a-Service segment is the biggest and dynamically growing part of the Cloud Computing market, which involves providing services and offering products in the area of information technology through the use of Cloud Computing. The Cloud Computing business can be divided into private cloud, used by large corporations in order to optimize their resources, and public cloud, addressed to SMEs, which facilitates better control over expenditure and gives them a chance to spread costs over time.

According to estimates by Gartner research firm, in 2017 public cloud was worth USD 153.5bn, including the SaaS segment worth more than USD 60bn. It is estimated that by 2021 both markets will roughly double in value, to USD 302.5bn and USD 117.1bn respectively. Solutions in SaaS model are rapidly replacing traditional software, allowing clients to optimize the use of their resources, improve reliability, scalability and flexibility of their solutions. The Cloud Computing market is also divided into the following segments:

- IaaS (Infrastructure-as-a-Service) – providing IT infrastructure,
- PaaS (Platform-as-a-Service) – sale of virtual work environment for programmers,
- BPaaS (Business-Process-as-a-Service) – outsourcing of business processes,
- BaaS (Backend-as-a-Service) – common backend base for the processes supporting multiple applications,
- Daas (Data-as-a-Service) – data delivered remotely upon users' request,
- FaaS (Function-as-a-Service) – a platform facilitating development, testing and launch of various features in the cloud environment.

Sale of a product in the SaaS model consists of the remote provision of software via Internet. Services sold using SaaS include enterprise management and services supporting sale of products and services. Sales of SaaS sector companies are generated mainly from subscription fees for access to such services, collected in advance. There are also other numerous fee-collection models, including fee per transaction, volume, function, limits on the use of resources.

Sale of software in a SaaS model produces significant benefits for both the client and the provider. From client's perspective, the most common benefits include:

- very simplified application implementation process (short period of implementation combined with marginal costs) - this also applies to the latest software updates, which are usually performed automatically by the provider and requires no further actions from the client,
- significant savings in the cost of support and maintenance,
- predictable, regular and relatively low subscription payments instead of a substantial, one-time, cost of purchasing the software and essential infrastructure as well as any subsequent additional costs,
- flexible payment scheme enables resignation from the service at any time,
- high degree of product scalability along with the increase of demand on client's side,
- opportunity to use the application from any place using desktop computers and mobile devices.

From the software vendor point of view, sale of software in the SaaS model is characterized by the following:

- simplified distribution process,
- global reach of the offered services,
- universal nature of the software,
- control over the quality of implementation for every client,
- reduced cost of maintenance and warranty,
- elimination of the issue of software piracy,
- developer retains all the copyrights.

The SaaS market accounts for the majority of the Cloud Computing segment. By value, North America (USA in particular) represents the biggest part of the global market.

The absence of cultural barriers associated with the use of advanced technology for business plays a significant role in the aspect of cloud solutions development. This is particularly important from the point of view of SaaS software for small and medium-sized enterprises.

# Description of the activities of LiveChat Software Group

## Description of the situation on the market for SaaS services and the segment of live chat type of software

A vast majority of software vendors offer their solutions in the freemium model. In the opinion of the Management Board of LiveChat Software, attempts to monetize clients who started using free services is a very difficult and inefficient process. The LiveChat solution is characterized by the number of available functionalities, options and integration possibilities. Quality of customer service is also key, since it is on a higher level than the majority of other providers are able to offer. For these reasons, free solutions are not seen as a direct competition, since LiveChat is addressed primarily to the more demanding clients with larger and more advanced needs both in terms of available features and the speed and effectiveness of customer support.

The list of top global suppliers of live chat type solutions is relatively stable. According to the report prepared by Chat Shop and covering 88 major providers of live chat technology, LiveChat's share in the group of 1 million largest websites is at the level of 11%. The market leader is still Zendesk Chat (27%), a significant market position is also taken by tawk.to (15%). The top 10 suppliers also include such companies as: HubSpot, JivoSite, Rocket Chat, Olark, LivePerson, Drift and SmartSupp.

According to the study, the largest live chat market is the United States, where such solutions operate on 1.112 million websites. Russia ranks second with over 232 thousand websites with live chat solutions. The next places are taken by Brazil and the United Kingdom (values below 100,000).

Comparison between the number of clients of Zendesk Chat and LiveChat (source: LiveChat Software, Zendesk)

	31.12.2017*	31.03.2018*	30.06.2018*	30.09.2018*	31.12.2018*
Zendesk Chat (paid)	47,000	47,700	47,600	46,800	46,100
Quarter-over-quarter growth	+400	+700	-100	-800	-870
LiveChat (paid)	23,107	24,065	24,891	25,398	26,010
Quarter-over-quarter growth	+1,170	+958	+826	+507	+612

\*A day later in the case of LiveChat

# Description of the activities of LiveChat Software Group

## Description of the situation on the market for SaaS services and the segment of live chat type of software

LiveChat Software estimates that market potential of live chat type of software remains very high, an expectation arising from the development of the e-commerce segment. According to eMarketer forecasts, in 2017 online retail sales reached USD 2.3 trillion, an increase of 24.8% yoy and representing 10.2% of the entire global retail sales. A strong influx of new clients means that existing players are focusing more on client acquisition rather than fighting for clients who already use competing solutions.

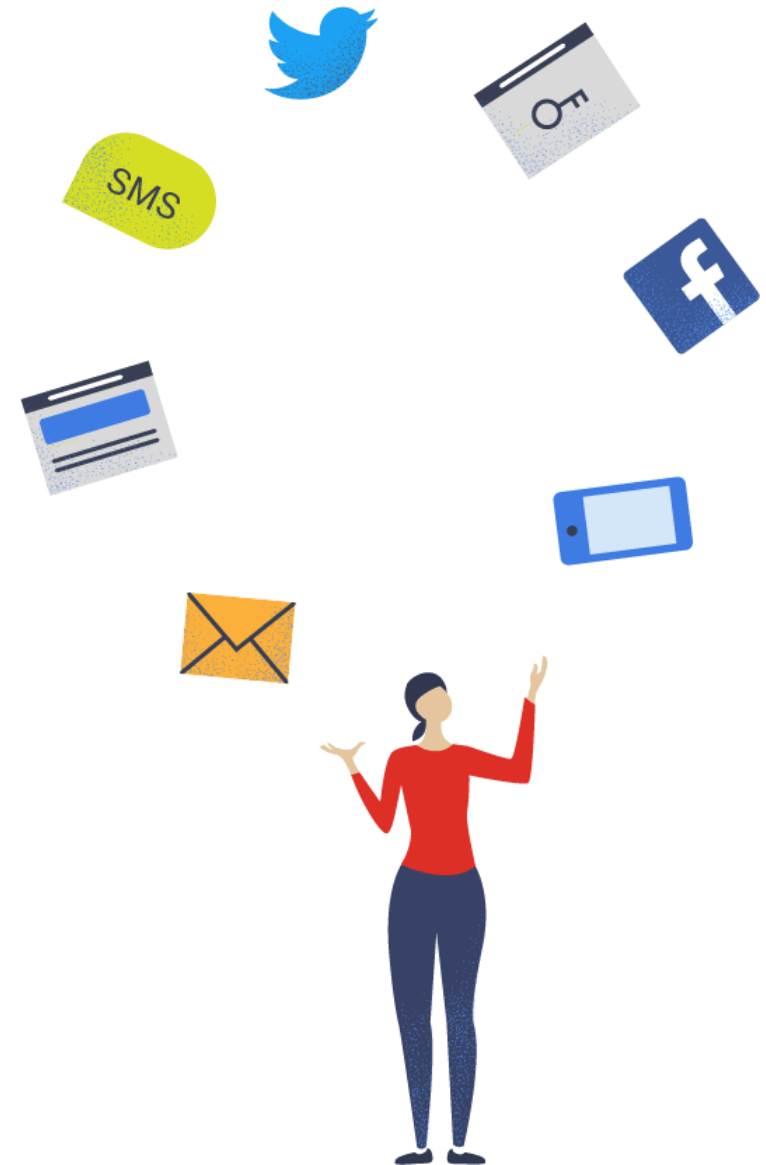
Furthermore, positioning LiveChat in the premium category and developing its market position based on features such as the variety of features and integrations available, the quality of customer service, as well as reliability and data safety instead of price-based competition, makes the company resistant to pressure from popular solutions available free of charge.

The Company is monitoring very closely new announcements of solutions for business in the text-based communications space by corporations such as Apple or Facebook and is aware of such developments from the early, software development stage, or months before they are officially announced. This was the case of Apple, as well as Facebook earlier on.

LiveChat Software believes these upgrades are positive news for the entire industry, thanks to promote of this type of software. Companies that offer their tools in the freemium model go to new groups of customers who have not used such solutions in the past or used their free versions. In this regard, these solutions do not constitute a direct competition for LiveChat, but they introduce new opportunities for integration and for the acquisition of new clients who want to use this type of communication. Thanks to these developments, Facebook Messenger, WhatsApp and now Apple are turning towards new development channels for the LiveChat product.

The Company is developing a business ecosystem around its products in order to be able to better address users' needs. Thanks to these developments, they will be able to communicate with their clients via multiple platforms, not just using their website, but also via text message, Apple products, mobile devices, Facebook Messenger, social media communicators and platforms.

By definition, corporations such as Facebook, Google or Apple will not be competing directly with specialized providers of B2B solutions such as LiveChat Software, Zendesk or LivePerson, which feature integration of multiple platforms and solutions, specialized customer service or access to expert customer service know-how.





# Description of the activities of LiveChat Software Group

## Information about material transactions with related parties

### Agreement with LiveChat, Inc.

LiveChat Software has a contract with LiveChat, Inc., in which the subsidiary has agreed to further resell access to LiveChat system to end users.

According to the agreement, LiveChat, Inc. purchases access to LiveChat system from LiveChat Software and then resells it to end users at a price set by LiveChat Software. LiveChat, Inc. is not generating profits on the resale of access to LiveChat system.

LiveChat Software refunds all expenses of LiveChat, Inc. in connection with the activities conducted and listed in the budget accepted by LiveChat Software, based on invoices issued by LiveChat, Inc. According to the agreement, LiveChat, Inc. has the right to add a 5% margin to selected expenses it incurs in connection with the sale, i.e. the cost of handling credit card payments, cost of banking services, accounting and marketing expenses.

These payments are made on a monthly basis based on an invoice issued by LiveChat, Inc., corresponding to the amount of expenses plus the above margins. LiveChat Software remains the owner of all intellectual property rights, including its trademark.

This agreement was signed for an unlimited period of time, with a 14-day notice.

The agreement restricts LiveChat Software's liability to the amount paid on behalf of LiveChat, Inc. over the past 12 months.

In the 9 months period ending December 31, 2018, revenue from sales of LiveChat, Inc. totaled PLN 79,716,984 and the total value of expenses invoiced by LiveChat, Inc. was PLN 13,186,347. In the corresponding period of 2017 financial year, these values were respectively PLN 66,125,155 and PLN 12,176,646. The value of the above-mentioned margin due to LiveChat Inc. amounted to PLN 178,414 in the current period.

[PLN]	Q1-3 2018/19	Q1-3 2017/18
Sales to LiveChat, Inc.	79 716 984	66 125 155
Cost of services purchased from LiveChat, Inc.	13 186 347	12 176 646

## Information about the transactions with related parties at terms other than market terms

There were no such transactions.

## Loan agreements made or terminated

The Company had no loan agreements in the period from April 1, 2018 to December 31, 2018.

## Loans granted

The Company has not made any loans.

## Guarantees made or received

The Company has not made or received any guarantees in the course of the reporting period.

## Insurance agreements

Professional liability insurance at Chubb Tech Pro signed with Chubb European Group Sp. z o.o. Oddział Polska for PLN 1m (Poland) and USD 250 000 (the US), as well as Insurance to reimburse damages arising from claims against the Company's directors and officers for a total of PLN 10m at Colonnade Insurance SA.

## Description of ongoing court or administrative proceedings

The Group has not been a party of any court or administrative proceedings during the reporting period.

## Information about the employment

At the end of the third quarter of 2018/19 financial year, the Company collaborated with with 140 persons on a regular basis. The biggest groups include software developers and the customer service department, working in a 24/7 model. The next largest group is the marketing department. The Management Board consists of persons who have spent years working on the LiveChat project.

# Description of the activities of LiveChat Software Group

## Growth prospects

### Market growth prospects

The Software as a Service sector, in which the Company is active, is growing very rapidly. The live chat for business software segment is not the same as the SaaS market. Some of the Company's competitors are offering their services in a less effective, traditional model. However, in the opinion of the Management Board, the SaaS model has by far the best growth prospects and therefore the market share of companies which offer their services using that model is expected to grow. This creates huge growth potential for the entire sector.

### Group's growth strategy

#### Product development

The Company's development strategy is based on making continuous, balanced investments into further development of the LiveChat product and new products in the field of customer services, among others ChatBot, KnowledgeBase and HelpDesk

#### Acquisitions

In the longer term, the Company is not excluding growth through selective acquisitions of entities from customer service industry.

#### Building a business ecosystem around products launched on the market

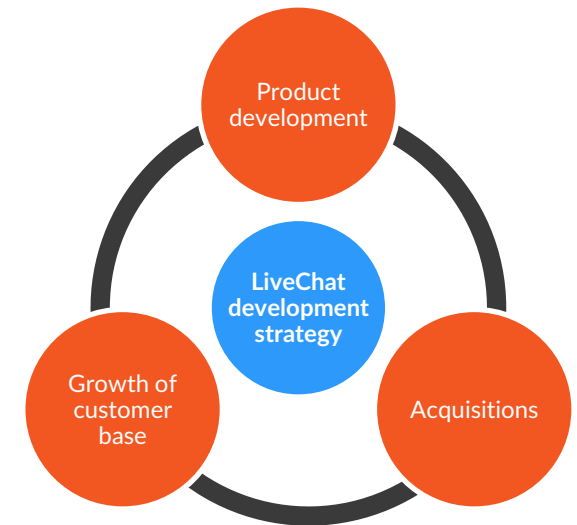
Building a larger communication platform, which brings together the Company's products and other tools in the field of customer service, e-commerce, CRM and marketing automation.

Development of the LiveChat for Developers program, for developers and technology companies, through which the Company provides the product documentation necessary to create new applications based on the LiveChat technology.

#### Increase in the customer base

The Company is foreseeing further, dynamic growth of the number of clients, based on the following factors:

- The tendency towards automation of the marketing activities and inbound marketing
- Continuous strengthening of LiveChat's market position in the area of customer service;
- Further development of the affiliate program
- Development of new channels for new users acquisition.



### Factors affecting the Company's results

In the longer perspective, Company results will be affected primarily by the situation of the global e-commerce and SaaS market.



# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Income statement

[PLN]	Q1-3 2018/19	Q1-3 2017/18	Change	Q3 2018/19	Q3 2017/18	Change
<b>Sales</b>	<b>79 875 386</b>	<b>66 443 988</b>	<b>20%</b>	<b>27 779 615</b>	<b>22 830 143</b>	<b>22%</b>
Costs of goods sold	13 375 728	10 851 186	23%	4 949 366	3 598 504	38%
<b>Gross profit (loss)</b>	<b>66 499 658</b>	<b>55 592 802</b>	<b>20%</b>	<b>22 830 248</b>	<b>19 231 639</b>	<b>19%</b>
Cost of sales	6 855 884	5 216 736	31%	2 505 377	1 660 728	51%
General management and administration	7 628 265	5 000 459	53%	3 349 996	2 029 023	65%
<b>Profit (loss) on sales</b>	<b>52 015 509</b>	<b>45 375 607</b>	<b>15%</b>	<b>16 974 876</b>	<b>15 541 887</b>	<b>9%</b>
Other operating income	10 391	9 000	15%	4 390	3 000	46%
Other operating expenses	17 201	5 088	238%	12 623	1 865	577%
<b>Operating profit (loss)</b>	<b>52 008 698</b>	<b>45 379 519</b>	<b>15%</b>	<b>16 966 643</b>	<b>15 543 022</b>	<b>9%</b>
Financial income	124 719	95 403	31%	40 088	35 464	13%
Financial expenses	91	1 375 059	-100%	12	157 926	-100%
<b>Profit (loss) before tax</b>	<b>52 133 327</b>	<b>44 099 863</b>	<b>18%</b>	<b>17 006 719</b>	<b>15 420 560</b>	<b>10%</b>
Income tax	10 064 874	8 596 437	17%	3 266 657	3 013 110	8%
<b>Net profit (loss)</b>	<b>42 068 452</b>	<b>35 503 427</b>	<b>18%</b>	<b>13 740 063</b>	<b>12 407 451</b>	<b>11%</b>

### Discussion of the factors which affect company's financial results

The Group's financial results are primarily affected by the number of clients and their growth rate. In first 9 months of 2018/19 financial year, the number of clients rose by 12.5%.

US dollar exchange rate also has a material impact on the results, which in the reporting period amounted to an average of 3.68 USD / PLN, compared to 3.69 USD / PLN in the corresponding period of the previous year. Virtually all of the Company's sales are denominated in US dollars, while most of the costs are realized in PLN.

The increase in the cost of general management and administration is related to the increase in the scale of the Group's operations, including increasing the team in connection with the implementation of new projects. Despite the rapid increase in the scale of its business, the Group is working to maintain a high degree of cost discipline.

# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Balance sheet - assets

[PLN]	December 31,2018	March 31, 2018	Change
<b>Fixed assets</b>	<b>16 861 249</b>	<b>11 438 626</b>	<b>47%</b>
Fixed real assets	1 518 638	1 230 790	23%
Intangible and legal assets	12 627 620	8 462 892	49%
Long-term receivables	154 372	187 690	-18%
Deferred income tax assets	470 242	313 937	50%
Long-term prepayments	2 090 377	1 243 318	68%
<b>Working capital</b>	<b>42 939 900</b>	<b>37 204 881</b>	<b>15%</b>
Inventories	0	0	-
Receivables for goods and services sold	645 232	577 720	12%
Other receivables	7 773 283	6 334 169	23%
Cash and cash equivalents	34 469 967	30 133 807	14%
Short-term prepayments	51 418	159 186	-68%
<b>Total assets</b>	<b>59 801 149</b>	<b>48 643 508</b>	<b>23%</b>

Liquid assets predominate in the structure of company's assets. Liquidity ratios continue to stay at very high levels, as presented in the table on page 22.

The group has no capital or other investments aside from cash on bank accounts.

# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Balance sheet - liabilities

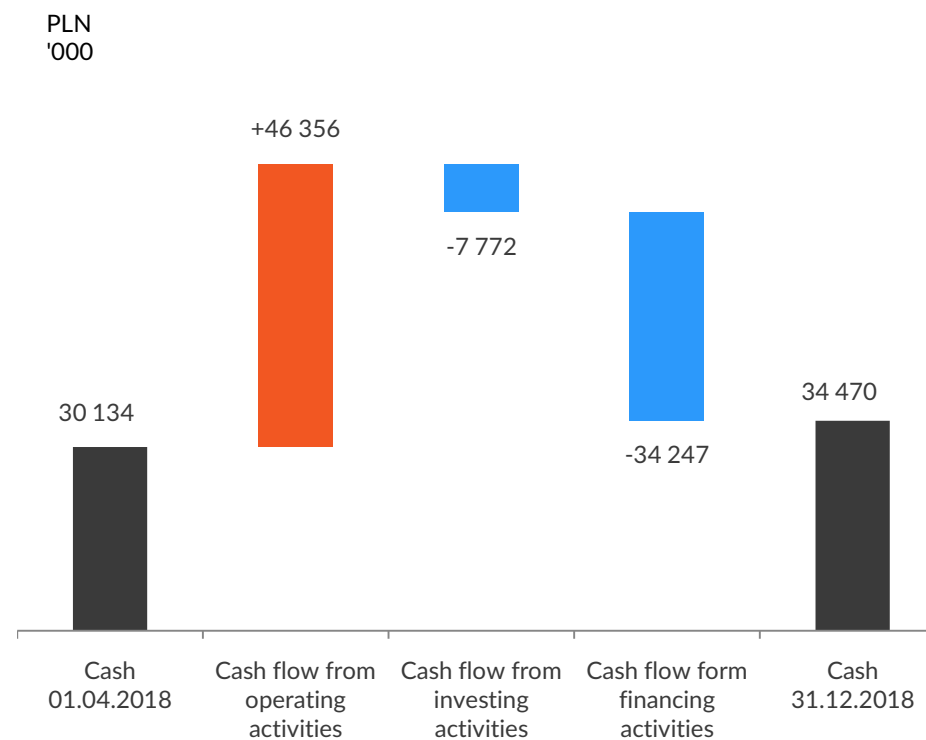
[PLN]	December 31,2018	March 31, 2018	Change
<b>Own equity</b>	<b>53 176 800</b>	<b>45 233 913</b>	<b>18%</b>
Initial equity	515 000	515 000	0%
Supplementary capital	9 806 990	7 311 156	34%
FX differences	48 719	-74 882	-165%
Advance payment for a dividend	0	-11 330 000	-100%
Unallocated equity from the previous years	737 638	507 513	45%
Net profit (loss) for the fiscal year	42 068 452	48 305 126	-13%
<b>Liabilities and provisions</b>	<b>6 624 349</b>	<b>3 409 595</b>	<b>94%</b>
<b>Long-term liabilities</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Short-term liabilities</b>	<b>6 624 349</b>	<b>3 409 595</b>	<b>94%</b>
Trade payables	4 689 997	2 807 249	67%
Current income tax	1 930 851	602 346	221%
Other payables	3 501	0	-
<b>Total liabilities</b>	<b>59 801 149</b>	<b>48 643 508</b>	<b>23%</b>

# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Cash position

[PLN]	Q1-3 2018/19	Q1-3 2017/18	Change
<b>Gross profit (loss)</b>	<b>52 133 327</b>	<b>44 099 864</b>	<b>18%</b>
<b>Total adjustments. including:</b>	<b>-5 777 182</b>	<b>-8 079 732</b>	<b>-28%</b>
<i>Depreciation and amortization</i>	2 597 477	1 778 347	46%
<i>Interest and share in profits (dividends)</i>	-124 628	-95 118	31%
<i>Change in working capital</i>	487 391	-970 872	-150%
<i>Income tax paid</i>	-8 737 422	-8 792 089	-1%
<b>Cash flow from operating activities</b>	<b>46 356 145</b>	<b>36 020 131</b>	<b>29%</b>
Investments in intangibles and in real fixed assets	-7 901 990	-3 916 500	102%
Profit from sale of real fixed assets	4 877	0	-
Interest received	124 628	95 118	31%
<b>Cash flow from investing activities</b>	<b>-7 772 485</b>	<b>-3 821 382</b>	<b>103%</b>
Dividends paid	-34 247 500	-36 307 500	-6%
<b>Net cash flow from financing activities</b>	<b>-34 247 500</b>	<b>-36 307 500</b>	<b>-6%</b>
<b>Total net cash flow</b>	<b>4 336 160</b>	<b>-4 108 751</b>	<b>-206%</b>
Cash at the beginning of the period	30 133 807	34 749 564	-13%
<b>Cash at the end of the period</b>	<b>34 469 967</b>	<b>30 640 813</b>	<b>12%</b>



# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Dividend policy

The Management Board maintains the Company's dividend policy as presented in the Issue Prospectus. According to it, the Company will spend the entire net profit on the distribution to the Shareholders, unless projects occur that would provide them with a higher rate of return.

### Group's financial projection

Managing Board of the company has not published financial projections for the fiscal year 2017/18.

### Factors that may affect the financial performance in subsequent periods

The most important drivers affecting the financial performance of LiveChat Software Group:

- Number of customers using LiveChat solution, subscription plans selected by them and the number of positions purchased.
- USDPLN rate - the Group generates revenue in the US dollar, at the same time incurs operating expenses in both the US dollar and Polish Zloty.
- The development of the economic situation on the global market, in particular on the American market.
- Situation on the global e-commerce market.
- The demand and the degree of use by companies of live chat solutions.
- Actions of companies offering competitive solutions.
- Changes in the functioning and cyclicity of customer acquisition channels.
- Introduction of new products to the market, possible success of their commercialization and the pace of acquiring new clients for these solutions.

### Basic ratios\*

Basic financial ratios of the Group in 9 months of 2018/2019 financial year were as follows:

Gross profit margin has reached 83.3%, EBITDA margin 68.4%, EBIT margin 65.1% and net margin 52.7%.

Return On Equity has reached 110.5% while Return On Assets totaled 98.2%.

In the assessment of the Managing Board, these ratios are very high and will remain so at similar high levels in the subsequent reporting periods.

	Q1-3 2018/19	Q1-3 2017/18
Gross profit margin	83.3%	83.7%
EBITDA	68.4%	71.0%
EBIT	65.1%	68.3%
Net margin	52.7%	53.4%
ROE	110.5%	112.7%
ROA	98.2%	104.8%
Current ratio	6.5	10.9
Quick ratio	6.5	10.9
Cash ratio	5.2	8.8

\* Definitions of these ratios are found on page 27



# Information about the shares and shareholders

## Structure of the initial equity

As of the date of the report, initial equity of the Company consisted of 25,750,000 (twenty five million, seven hundred and fifty thousand) ordinary shares issued and fully paid up, including 25,000,000 (twenty five million) series A shares and 750,000 (seven hundred and fifty) thousand series B shares. The nominal value of each share is PLN 0.02 (two grosze).

## Changes in the shareholder structure

During the 9 months of 2018/19, the following changes occurred in the structure of significant shareholders of the Company:

In connection with the transaction of purchase of the Company's shares concluded on 7 September 2018, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK increased its share in the total number of votes in the Company to over 5%.

After settlement of the transaction, as at 11 September 2018, Aviva OFE Aviva BZ WBK held 1,411,116 shares of the Company entitling to 1,411,116 votes at the General Meeting, which constitutes 5.48% of the total number of votes.

## Shareholder structure

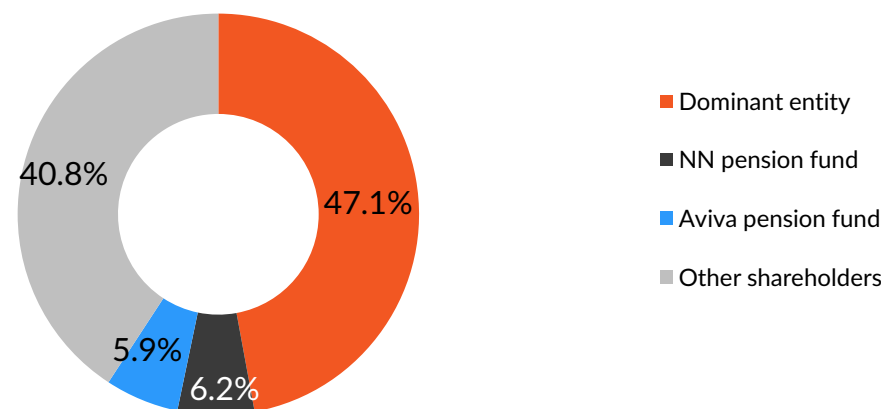
Shareholder	Number of votes	Voting state
Nationale-Nederlanden PTE (NN pension fund)*	1 590 680	<b>6.18%</b>
Aviva OFE Aviva BZ WBK (Aviva pension fund)*	1 529 490	5.94%
<b>Shareholder agreement – Dominant entity, including shareholders over 5% stake:</b>	<b>12 129 282</b>	<b>47.10%</b>
Mariusz Ciepty	4 010 000	15.57%
Maciej Jarzembowski	3 010 000	11.69%
Jakub Sitarz	3 010 000	11.69%
<b>Other shareholders</b>	<b>10 500 548</b>	<b>40.78%</b>
<b>TOTAL</b>	<b>25 750 000</b>	<b>100.00%</b>

\* data on pension funds based on their reports as at December 31, 2018.

Certain shareholders have made a formal agreement on a joint vote:

**Shareholder agreement – Dominant entity** consist of the following persons: Mariusz Ciepty, Urszula Jarzembowska, Jakub Sitarz, Maciej Jarzembowski, Szymon Klimczak, Krzysztof Górski.

As at December 31, 2018 and February 26, 2019



# Governing bodies

## Composition of the Company's Management Board

As at the date of the report, the Management Board of LiveChat Software S.A. consisted of two persons and included the following individuals:

First and last name	Role
<b>Mariusz Ciepty</b>	<b>CEO</b>
Urszula Jarzębowska	Board Member

Composition of the Management Board has not changed in the course of 9 months of 2018/19 fiscal year.

**Mariusz Ciepty** is one of the founders and core shareholders of LiveChat Software. He has been serving as the Company's CEO since 2010. Mr. Ciepty has

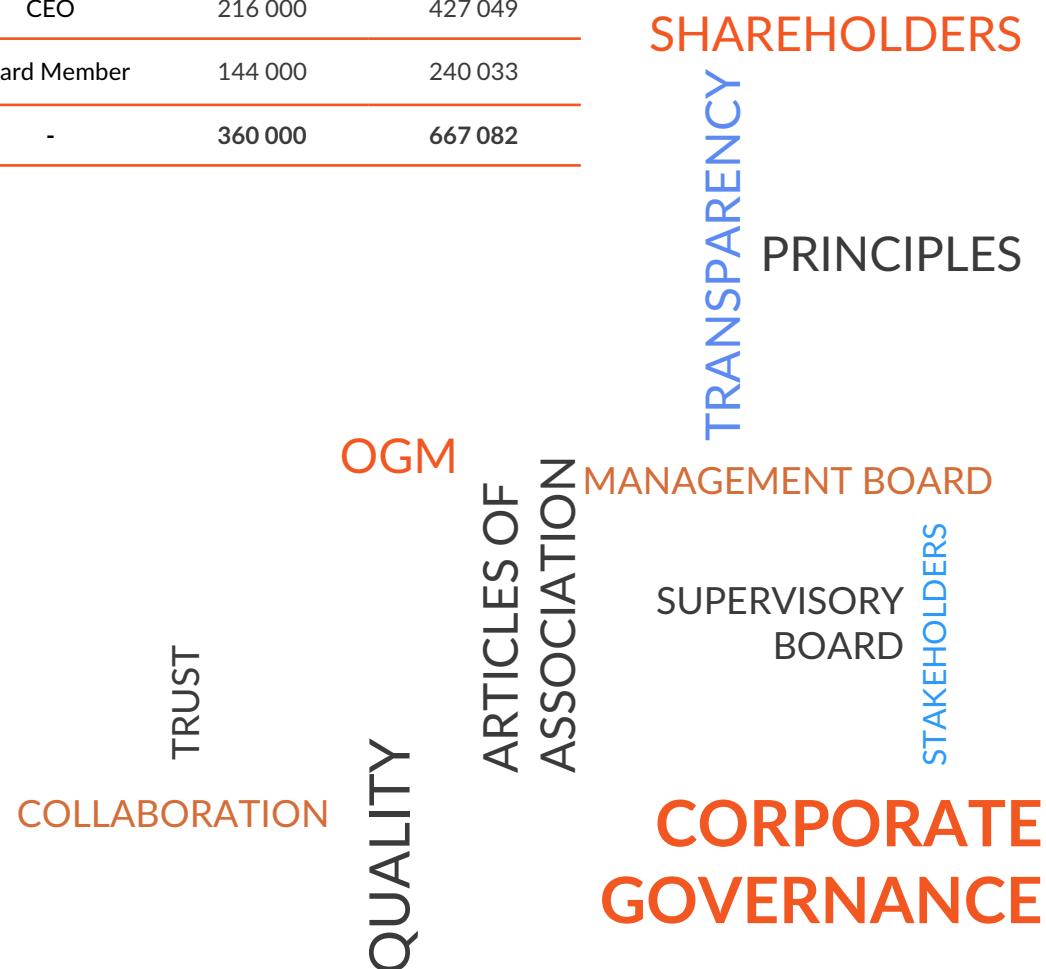
a degree in IT engineering, specialization in the engineering of IT systems, having graduated from the Faculty of Electronics at the Technical University in Wrocław. He is also a member of the supervisory boards at Time Solutions sp. z o.o. and Wakepark S.A.

**Urszula Jarzębowska** has been serving as a Board Member at LiveChat Software S.A. since 2010. She has been working at the Company since 2002. Ms. Jarzębowska has a master's degree from the Wrocław University of Economics, Faculty of the National Economy, where she presented her master's thesis at the Department of Accounting and Corporate Controlling. During her professional career she has also completed post-graduate studies in Financial Controlling at the Higher Banking School in Wrocław and studies in the International Accounting Standards (IAS/IFRS) at the Leon Koźmiński Academy in Warsaw. She also has professional experience from companies such as Bankier.pl and Internet Works.

## Remuneration

Remuneration of members of the Management Board of LiveChat Software S.A. collected in the period between April 1, 2018 and December 31, 2018,

First and last name	Role	Basic remuneration	Additional remuneration
Mariusz Ciepty	CEO	216 000	427 049
Urszula Jarzębowska	Board Member	144 000	240 033
<b>TOTAL</b>	-	<b>360 000</b>	<b>667 082</b>



# Governing bodies

## Membership of the Supervisory Board

During 9 months of 2018/19 financial year, there were no changes in the composition of the Supervisory Board. As at September 30, 2018 the composition of the Supervisory Board of LiveChat Software S.A. consisted of the following persons:

First and last name	Function
Maciej Jarzębowski	Chairman of the Supervisory Board
Marcin Mańdziak	Member of the Supervisory Board
Jakub Sitarz	Member of the Supervisory Board
Marta Ciepła	Member of the Supervisory Board
Michał Markowski	Member of the Supervisory Board

**Maciej Jarzębowski** has secondary education (specialization: catering) He has graduated from Trade School of Gastronomy in Wrocław. Between 1999 and 2001 he served as the CEO of Bankier.pl, between 2001 and 2006 he was the CEO of Internet Works. He served as the CEO of LiveChat Software S.A. until 2010.

**Jakub Sitarz** has a master's degree, having graduated from IT studies at the Faculty of Electronics at the Technical University in Wrocław. He serves as key technology adviser.

**Marta Ciepła** is a graduate of the University of Natural Science in Wrocław and post-graduate studies in human resources management. She has been involved in IT industry for over a decade, in recruitment and selection of IT staff. She is a HR manager responsible for team development of the various departments in the Company.

**Michał Markowski** is a graduate of the Wrocław University of Technology where he graduated in parallel from IT studies and financial management. At Wrocław University he also obtained a PhD in Computer Science. He obtained international qualifications in the field of finance - ACCA.

He started his professional career in 2003, running his own business and creating his own school management software. Between 2007 and 2010 he was responsible in the company InsERT for the creation of financial and personnel software for small and medium enterprises. In Deloitte, between 2010 and 2012 he managed projects in the field of financial modeling and due diligence. Then from May 2012, he advised the Minister of the Treasury, among others on the project of consolidation of the chemical sector (establishment of Grupa Azoty) and created the Polish Investments Program (currently Polish Development Fund). In 2014-2016 he was responsible for the strategy of the Warsaw Stock Exchange. From October 2016, he has been conducting M&A transactions at ProService Finteco. Michał Markowski meets the criteria of an independent Member of the Supervisory Board.

**Marcin Mańdziak** has a master's degree. He graduated from the Department of Law at the Faculty of Law, Administration and the Economy of the University of Wrocław and has been working in the stock market branch for the past ten years. He co-founded and served for several years as the deputy CEO of M.W. Trade S.A., which became the first company to transfer from microcap NewConnect market to the main board of the Warsaw Stock Exchange. Since 2013 he has been CEO and the main shareholder of EFM S.A. At the same time Mańdziak manages a consulting firm Arandela Marcin Mandziak. He is a Member of the Supervisory Board at Venture Incubator SA. Marcin Mańdziak meets the criteria of an independent Member of the Supervisory Board.

On 16 October 2018, the Extraordinary General Meeting of the Company appointed members of the Supervisory Board for the new term. The first meeting at which members of the Supervisory Board elected the Chairman and Deputy Chairman of the Supervisory Board was held on 26 October 2018. The composition of the Supervisory Board as at the date of the report is as follows:

First and last name	Function
Maciej Jarzębowski	Chairman of the Supervisory Board
Jakub Sitarz	Vice-Chairman of the Supervisory Board
Marcin Mańdziak	Member of the Supervisory Board
Marta Ciepła	Member of the Supervisory Board
Michał Markowski	Member of the Supervisory Board

## Shares held by members of Management and Supervisory bodies

The table below presents the number of shares held by members of Management and Supervisory bodies as of the date of the report.

First and last name	Function	Number of shares held
Mariusz Ciepły	CEO	4 010 000
Urszula Jarzębowska	Board Member	1 210 250
Maciej Jarzębowski	Chairman of the Supervisory Board	3 010 000
Jakub Sitarz	Member of the Supervisory Board	3 010 000

# Statements made by the Management Board

Wrocław, February 26, 2019

The consolidated financial report of LiveChat Software Capital Group for the period of 9 months ended December 31, 2018, has been approved for publication by the Management Board on February 26, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

Wrocław, February 26, 2019

The individual financial report of LiveChat Software for the period of 9 months ended December 31, 2018, has been approved for publication by the Management Board on February 26, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzembowska

# Glossary

## Financial ratios

Ratio	Description
EBITDA	= Operating profit (loss) + depreciation and amortization
Gross sales margin	= $\frac{\text{Gross profit on sales}}{\text{Net sales}}$
Operating margin	= $\frac{\text{Operating profit (loss)}}{\text{Net sales}}$
EBITDA margin	= $\frac{\text{EBITDA}}{\text{Net sales}}$
Net margin	= $\frac{\text{Net profit (loss) for the reporting period}}{\text{Net sales}}$
Return On Equity	= $\frac{\text{Net profit (loss) for the past 12 months}}{\text{Own equity}}$
Return On Assets)	= $\frac{\text{Net profit (loss) for the past 12 months}}{\text{Total assets}}$
Current ratio	= $\frac{\text{Working capital}}{\text{Short-term liabilities}}$
Quick ratio	= $\frac{\text{Working capital - inventories}}{\text{Short-term liabilities}}$
Cash ratio	= $\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$

The logo features the text "LiveChat" centered within a white speech bubble. The speech bubble has a dark grey outline and a tail pointing downwards and to the left. The background is a solid orange color. The word "Live" is in a bold, dark grey sans-serif font, and "Chat" is in a bold, orange sans-serif font.

**LiveChat**