



Other information to the Quarterly Report of  
LiveChat Software  
for the period of 3 months ended June 30, 2018

August 28, 2018

# Quarterly report Q1 2018/19 –LiveChat Software Capital Group

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## Management Discussion and Analysis

In 1Q of the fiscal year 2018/19, LiveChat Software Group generated sales of PLN 25.5m, an 18% y-o-y increase, with a net profit of PLN 14.2m, or 28.5% more than the year before. EBITDA totaled PLN 18.4m and was 28.6% higher than in the same period last year. The group maintained very strong profitability ratios, with 1Q EBITDA margin of 72%, EBIT margin at 69% and net margin of 56%. At the same time the Group generated very strong cash flows of PLN 13.2m. As of June 30, 2018, LiveChat Software Group had at its disposals cash and cash equivalents of PLN 43.3m.

Each month, an increasing number of users is taking advantage of the LiveChat product. As of July 1, 2018, it had nearly 25,000 clients, including corporations, institutions and educational facilities. Over the year this number grew by approximately 20%, which translated directly into revenue growth. It is worth highlighting that the USDPLN exchange rate has a key impact on Group results and is the reason for the discrepancy between the user base growth rate and the revenues generated by the Company.

LiveChat Software remains an expert in text-based communications and wants to deliver its users a number of solutions for an all-around handling of contacts with present and potential clients. The communications platform that is being developed around the Company's products since some time now, is set to accelerate the development of these solutions and the implementation of their new functionalities. In 1Q 2018/19, the Group focused on developments related to changes in the appearance and usability of its flagship LiveChat product and on the implementation of new features and functions of the BotEngine solution. All the implementations completed are described in more detail in part of the report discussing Group's activities.

In terms of marketing activities, LiveChat Software continues to develop its present customer acquisition channels and is working hard to develop new ones. Although the Group's main strategy is based on organic acquisition of new users (without paying advertising expenses), in view of market changes, the Company decided to also test paid efforts and a pilot development of a sales team.

LiveChat Software team also grew strongly during the reporting period, numbering 99 staff at the end of June. This development allows the Company to manage a much larger number of projects, but is still insufficient to launch all the initiatives it has planned. As of the publication of this report, the Group is recruiting for over 40 vacancies.

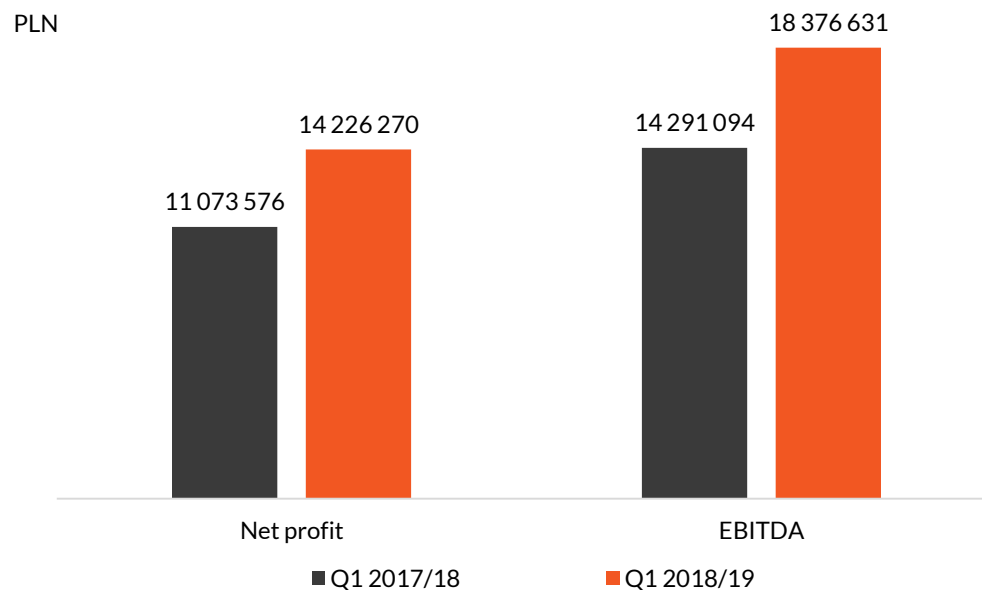
The growth of results reached last quarter confirms that the Company remains an effective operation and has a strong market position. New marketing efforts and a fast-paced product development will contribute to better customer satisfaction and to further growth of the value of LiveChat Software.

# Operating summary

## Selected consolidated financial data

[PLN]	Q1 2018/19	Q1 2017/18	Change
Net sales of products, goods and materials	25 514 952	21 584 947	<b>+18.2%</b>
EBITDA	18 376 631	14 291 094	+28.6%
Operating profit (loss)	<b>17 615 503</b>	<b>13 741 462</b>	<b>+28.2%</b>
Gross profit (loss)	17 665 292	13 767 920	+28.3%
Net profit (loss)	14 226 270	11 073 576	<b>28.5%</b>
Net cash flow	13 197 074	9 452 505	39.6%
cash flow from operating activities	14 534 449	10 636 107	36.7%
cash flow from investing activities	-1 337 375	-1 183 602	13.0%
cash flow from financial activities	0	0	-
Number of shares	25 750 000	25 750 000	-
Profit (loss) per ordinary share	0.55	0.43	28.5%

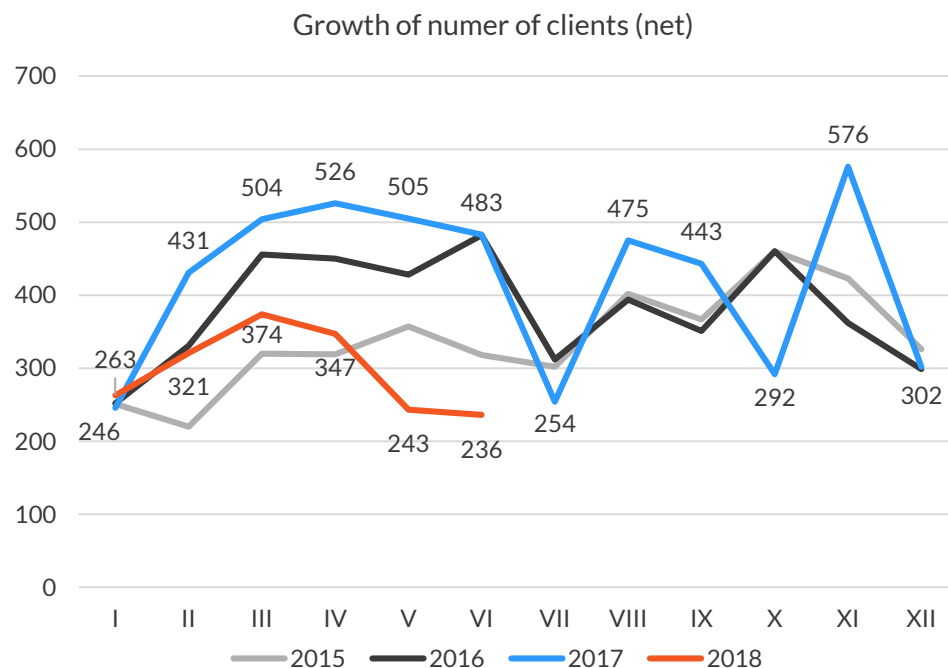
[PLN]	June 30, 2018 r.	March 31, 2018 r.	Change
Total assets	63 690 364	48 643 508	+30.9%
Liabilities and provisions	4 227 049	3 409 595	+24.0%
Long-term liabilities	0	0	-
Short-term liabilities	4 227 049	3 409 595	+24.0%
Net equity	59 463 315	45 233 913	+31.5%
Initial equity	515 000	515 000	-
Number of shares	25 750 000	25 750 000	-
BVPS	2,31	1,76	+31.5%



# 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 1Q 2018/19. The figures relating to new clients and their growth rate are shown on the diagram below.



Annual growth rates are slowing due to the rapidly growing benchmark. Despite the increase in customer figures, the Company is keeping its churn ration at a very stable, 3% level (with very minor variations in individual months). The churn rate of major clients (companies which use more expensive subscription plans and purchase a greater number of licenses) is much lower.

At the end of 1Q the Company had 24,891 active and paying clients of LiveChat solution vs. 20,765 clients the year before. The net increase in the number of clients (including churn) totaled 347 in April, 243 in May and 236 in June.

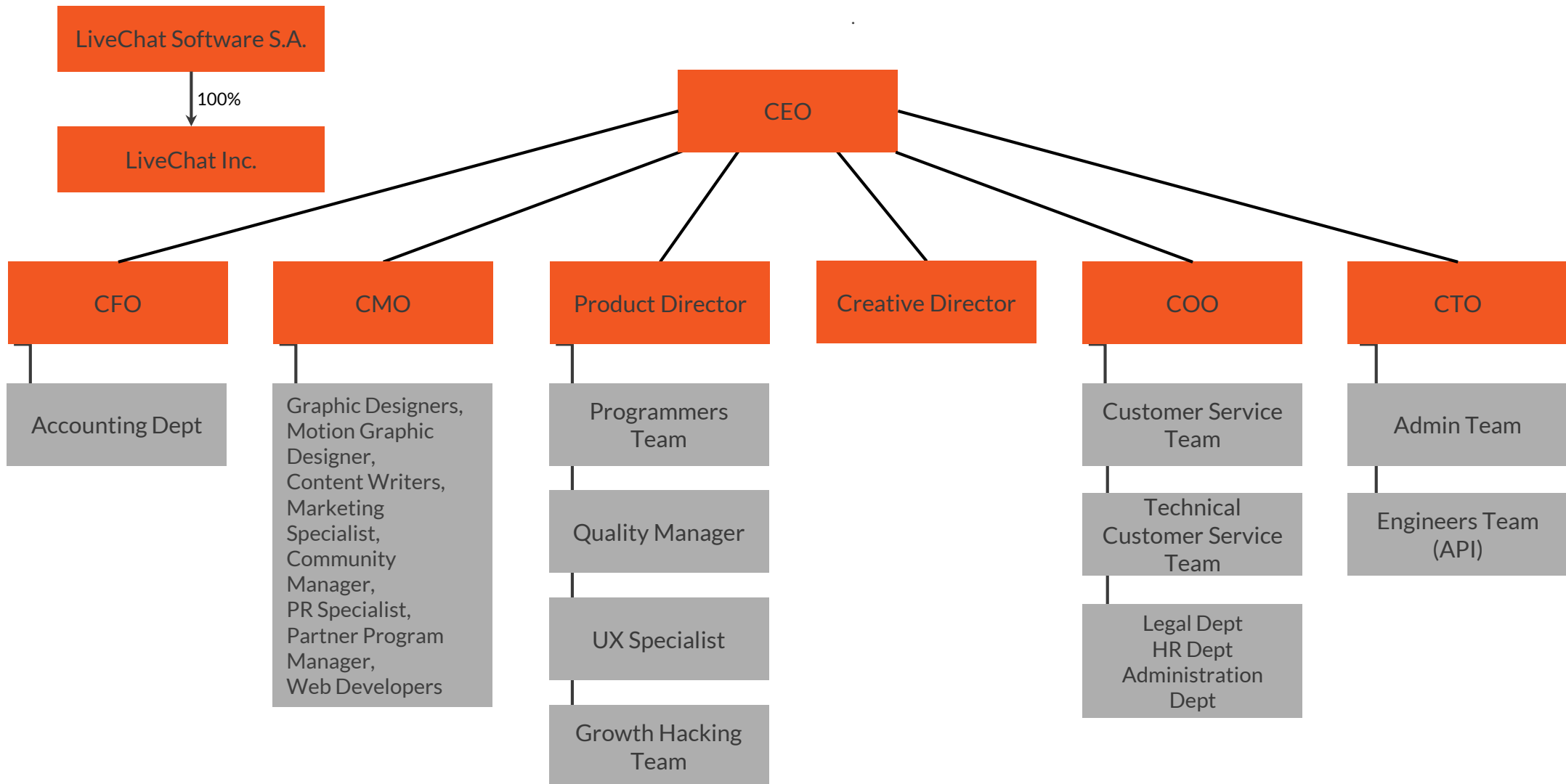
The Company's offer is addressed to business clients, companies which have their own website. At present, LiveChat Software clients can choose between four subscription plans. The final revenue per client depends on the plan selected, as well as the number of licenses purchased.

Since April 1, 2018, LiveChat Software has a new organizational structure, which is shown on page 5.

# 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, which is in force since April 2018.

# 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), [BotEngine](#) (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.

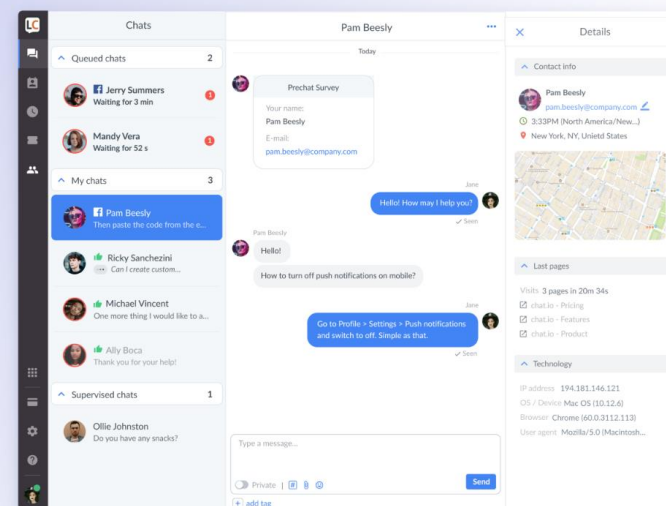
The Company has a proven business model with a marginal, close to zero customer acquisition cost. The relatively low level of recurring expenses and the marginal ultimate variable cost of new clients coupled with the absence of the need for additional CAPEX, gives LiveChat Software a high degree of scalability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

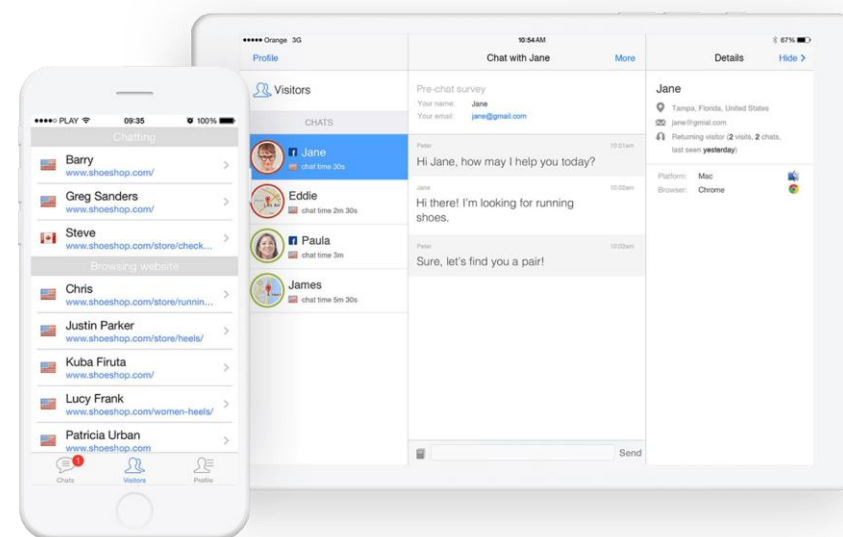
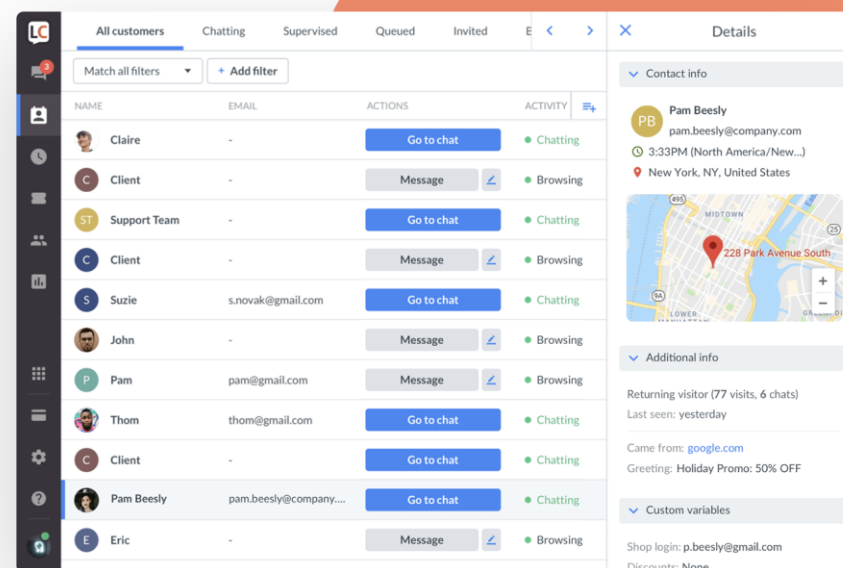
LiveChat product is a tool for quick contact between clients and the Company using a chat application embedded on the company's website. The solution is used mainly for customer service and online sales.

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 BotEngine 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

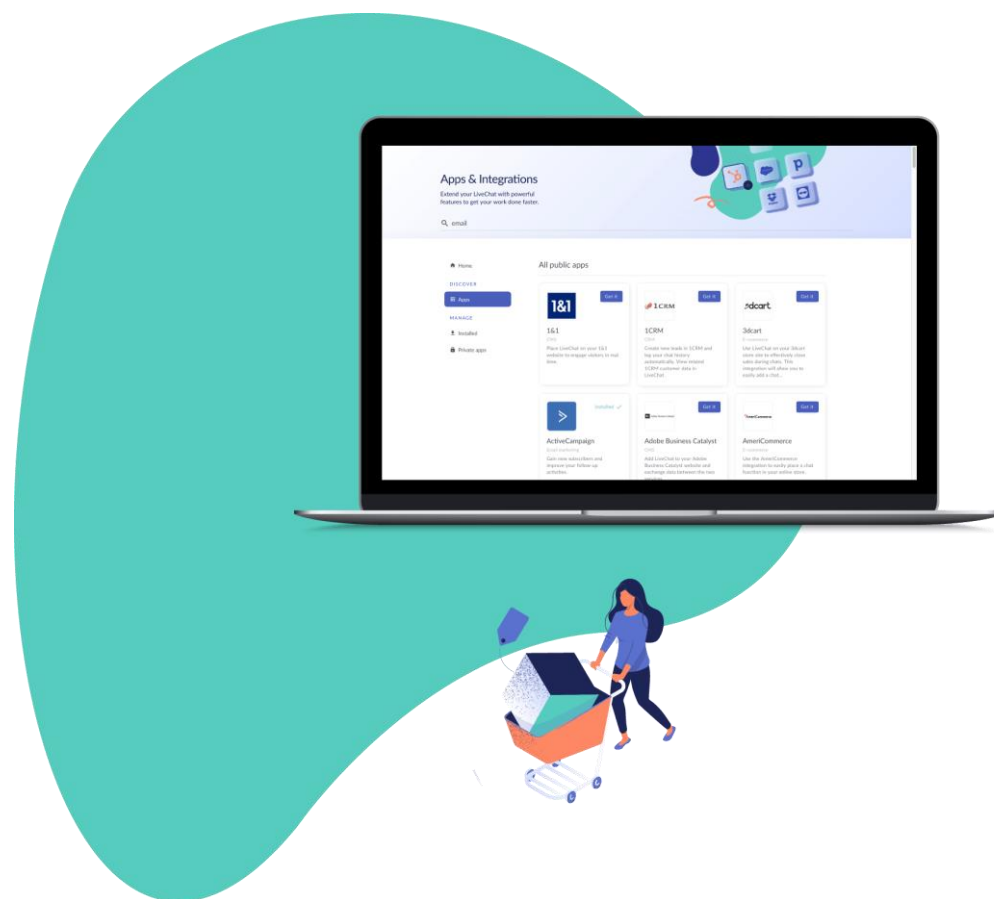
### LiveChat product as a platform

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.





# Description of the activities of LiveChat Software Group

## BotEngine

BotEngine 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.

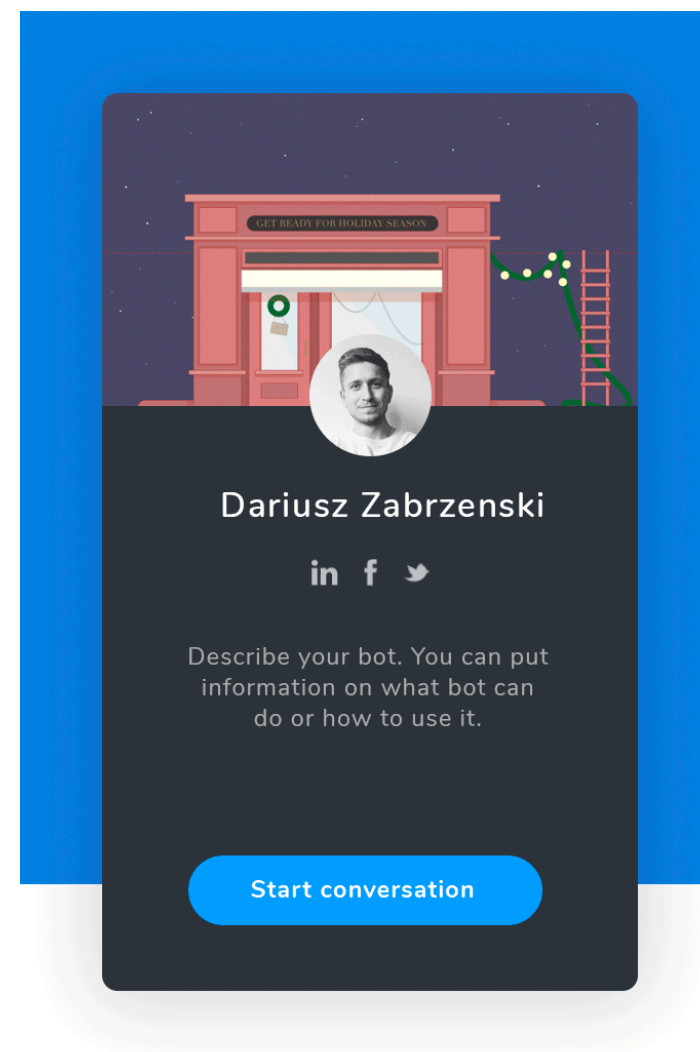
Bots are created by preparing a detailed tree-schemed script of the conversation. The script is based on drag&drop method, it is simple and intuitive and thus is also accessible to people who lack specialist programming knowhow.

Chatbots developed by BotEngine 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.

BotEngine 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. BotEngine's integration potential is virtually unlimited because the Company made available the app's API.

BotEngine 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.botengine.ai>



# Description of the activities of LiveChat Software Group

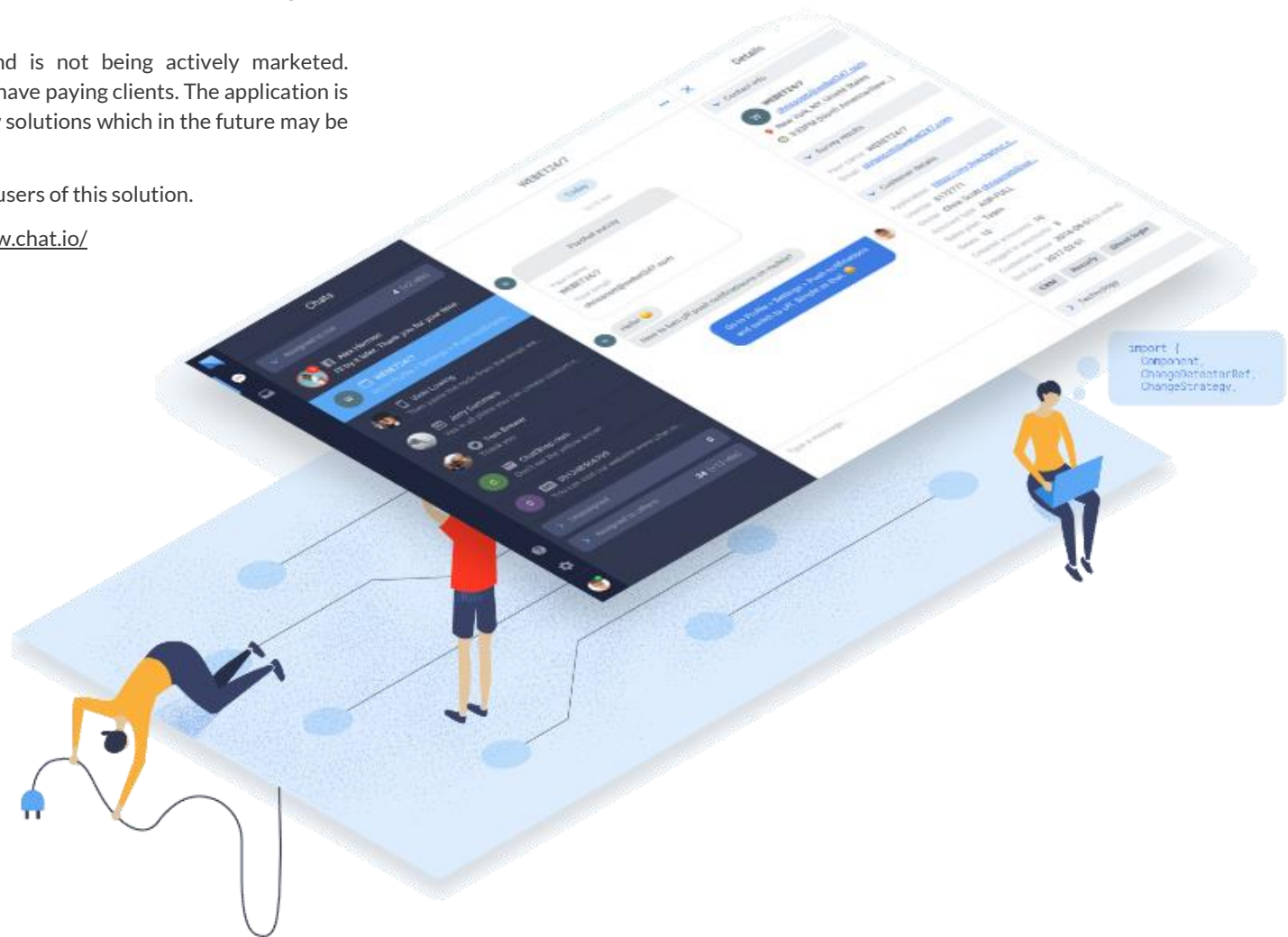
## chat.io

Chat.io is an advanced, live chat-type solution. It differs from the Company's flagship LiveChat product by not having the 'end of conversation' state. All the interactions are open-ended, the same way as an exchange of text messages. This structure makes integration with various other platforms more natural. Chat.io is a solution integrated with Facebook.

Chat.io is an early-stage development project and is not being actively marketed. However, it is offered on commercial basis and does have paying clients. The application is also used to test and collect user opinions about new solutions which in the future may be incorporated into the LiveChat tool.

The Company is not publishing the number of active users of this solution.

Details of the product are available here: <https://www.chat.io/>



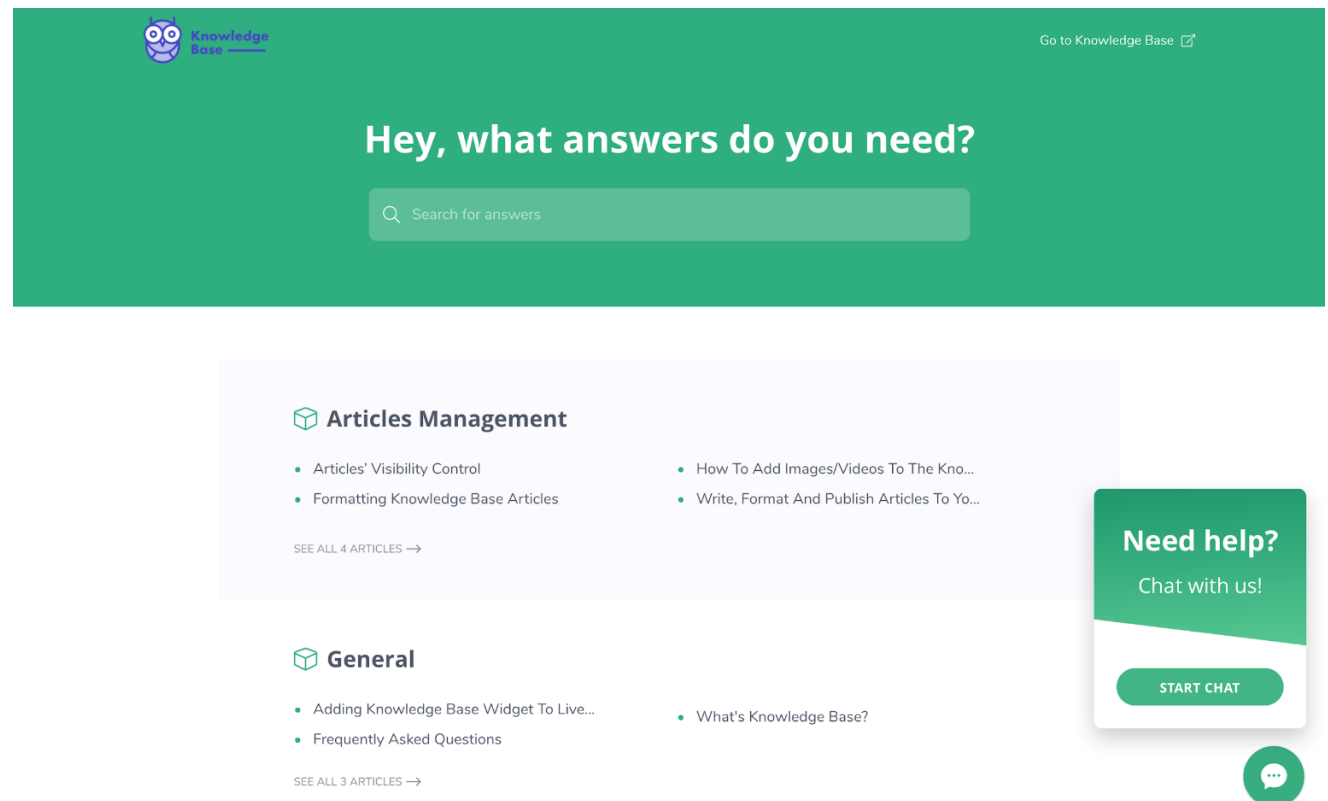
# Description of the activities of LiveChat Software Group

## 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.

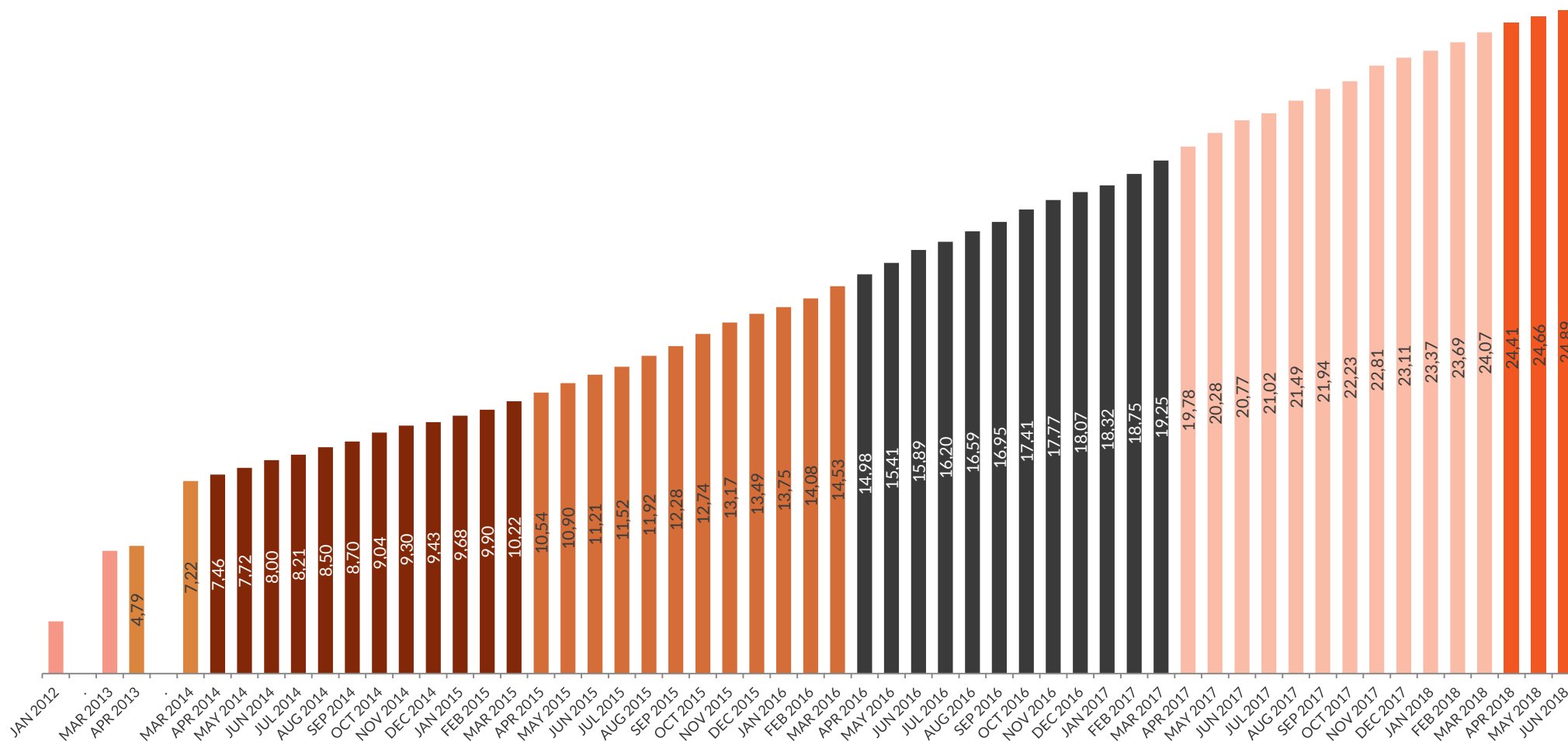
For more information about the product please see <https://www.knowledgebase.ai>



# Description of the activities of LiveChat Software Group

## Description of the Group's activities

Number of clients [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

According to the available market data and the Company's own estimates, the current value of the market for live chat type solutions may exceed USD 700m. However, these are only very approximate estimates since only some market players are publishing their financial results.

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. Aside from LiveChat Software, it also includes among others LivePerson or Zendesk Chat. Other more important live chat solutions available on the market are Olark, JivoChat, or Tawk.to (freemium model).

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

	30.06.2017*	30.09.2017*	31.12.2017*	31.03.2018*	30.06.2018*
Zendesk Chat (paid)	45,300	46,600	47,000	47,700	47,600
Quarter-over-quarter growth	+1,300	+1,300	+400	+700	-100
LiveChat (paid)	20,765	21,937	23,107	24,065	24,891
Quarter-over-quarter growth	+1,514	+1,172	+1,170	+958	+826

\*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.

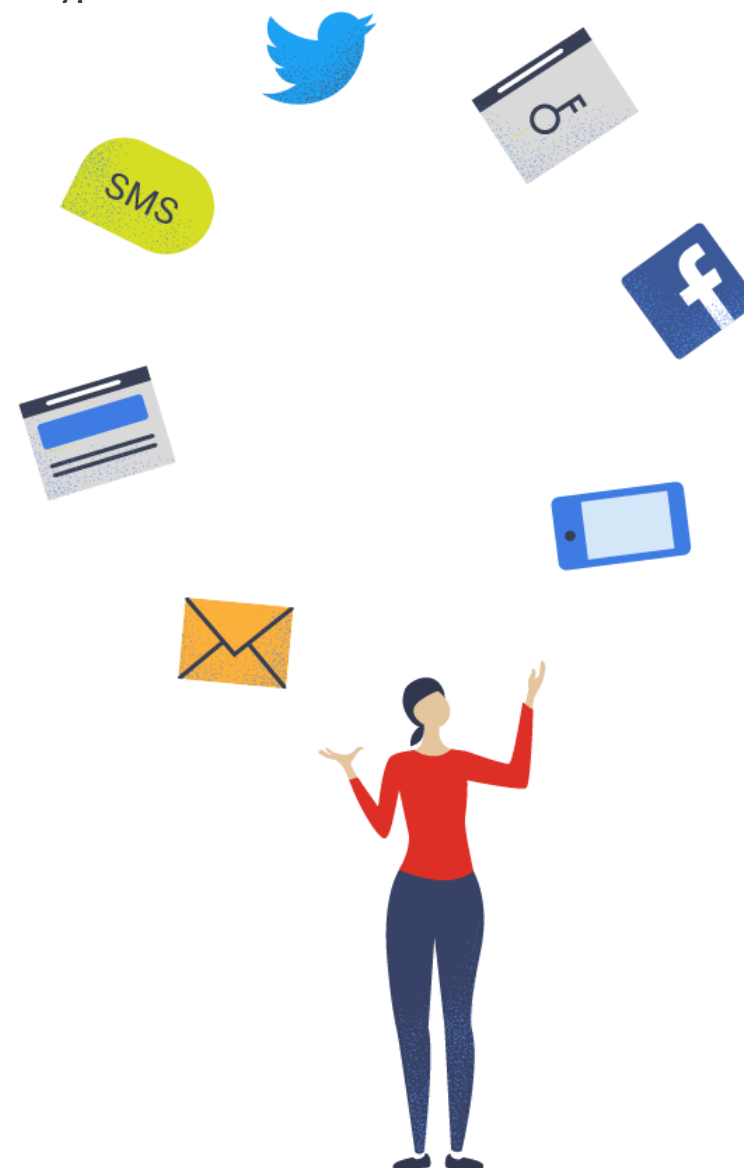
Furthermore, positioning LiveChat in the premium category and developing its market position based on features such as the variety of features and integrations available, the quality of customer service, as well as reliability and data safety instead of price-based competition, makes the company resistant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

On January 20, 2012, LiveChat Software has signed an agreement with its subsidiary LiveChat, Inc., in which the subsidiary has agreed to further resell access to LiveChat system to end users from the United States of America.

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 3 months period ending June 30, 2018, revenue from sales of LiveChat, Inc. totaled PLN 25,471,576.87 and the total value of expenses invoiced by LiveChat, Inc. was PLN 4,272,412.58. In the corresponding period of 2017 financial year, these values were respectively PLN 21,008,319.70 and PLN 3,614,818.52.

[PLN]	Q1 2018/19	Q1 2017/18
Sales to LiveChat, Inc.	25 471 576.87	21 008 319.70
Cost of services purchased from LiveChat, Inc.	4 272 412.58	3 614 818.52

## 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 June 30, 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 first quarter of 2018/19 financial year, the Company collaborated with with 99 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 BotEngine, KnowledgeBase and chat.io

#### 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.

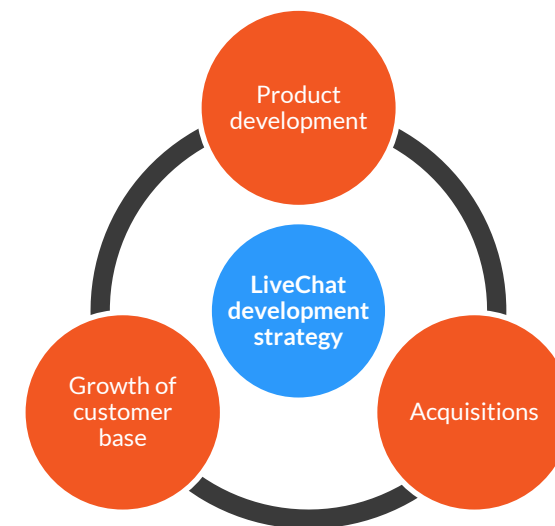
#### Increase in the customer base

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.

#### Acquisitions

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



### 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 2018/19	Q1 2017/18	Change
<b>Sales</b>	<b>25 514 952</b>	<b>21 584 947</b>	<b>+18,2%</b>
Costs of goods sold	4 007 265	4 557 450	-12,1%
<b>Gross profit (loss)</b>	<b>21 507 687</b>	<b>17 027 497</b>	<b>+26.3%</b>
Cost of sales	1 945 360	1 878 847	+3.5%
General management and administration	1 948 377	1 408 584	+38.3%
<b>Profit (loss) on sales</b>	<b>17 613 949</b>	<b>13 740 066</b>	<b>+28.2%</b>
Other operating income	3 001	3 000	0.0%
Other operating expenses	1 447	1 604	-9.8%
<b>Operating profit (loss)</b>	<b>17 615 503</b>	<b>13 741 462</b>	<b>+28.2%</b>
Financial income	49 863	26 705	+86.7%
Financial expenses	74	247	-69.9%
<b>Profit (loss) before tax</b>	<b>17 665 292</b>	<b>13 767 920</b>	<b>+28.3%</b>
Income tax	3 439 023	2 694 344	+27.6%
<b>Net profit (loss)</b>	<b>14 226 270</b>	<b>11 073 576</b>	<b>+28.5%</b>

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

The Group's financial results are primarily affected by the number of clients using LiveChat solution. In the first quarter of 2018/19 financial year, the number of clients rose by 826. At the end of June 2018, the number of clients totaled 24,891 vs. 20,765 the year before, an increase by 19.9% on a year-on-year basis.

US dollar exchange rate also has a material impact on the results, which in the reporting period amounted to an average of 3.58 USD / PLN, compared to 3.84 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, which positive effects can be seen in improving operating profitability.

# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Balance sheet

[PLN]	June 30, 2018	June 31, 2018	Change
<b>Fixed assets</b>	<b>12 190 737</b>	<b>11 438 626</b>	<b>+6.6%</b>
Fixed real assets	1 277 959	1 230 790	+3.8%
Intangible and legal assets	8 956 807	8 462 892	+5.8%
Long-term receivables	167 690	187 690	-10.7%
Deferred income tax assets	361 828	313 937	+15.3%
Long-term prepayments	1 426 454	1 243 318	+14.7%
<b>Working capital</b>	<b>51 499 626</b>	<b>37 204 881</b>	<b>+38.4%</b>
Inventories	0	0	-
Receivables for goods and services sold	1 046 824	577 720	+81.2%
Other receivables	7 076 551	6 334 169	+11.7%
Cash and cash equivalents	43 330 881	30 133 807	+43.8%
Short-term prepayments	45 370	159 186	-71.5%
<b>Total assets</b>	<b>63 690 364</b>	<b>48 643 508</b>	<b>+30.9%</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 24.

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

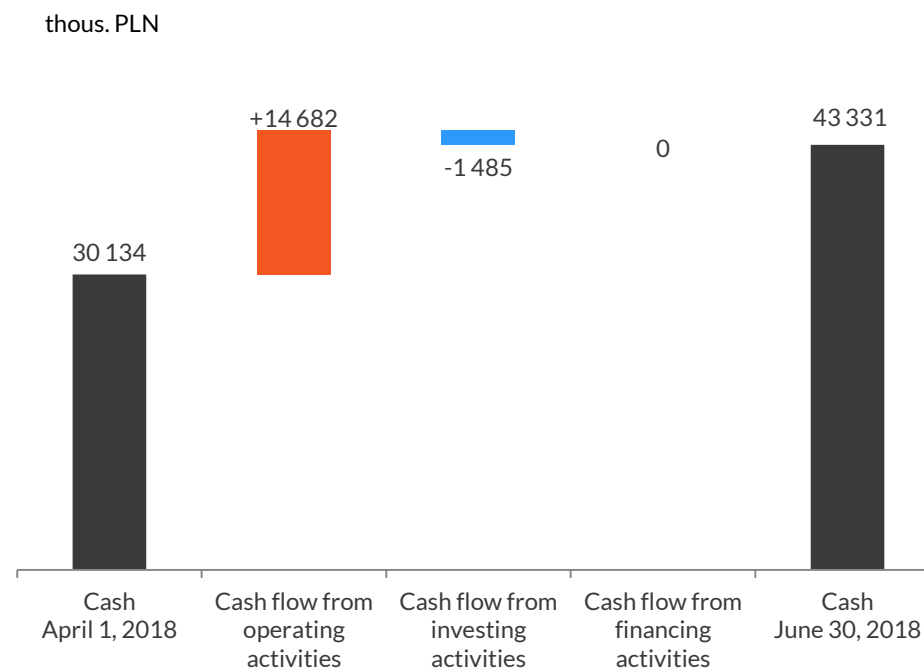
[PLN]	June 30, 2018	March 31, 2018	Change
<b>Own equity</b>	<b>59 463 315</b>	<b>45 233 913</b>	<b>+31.5%</b>
Initial equity	515 000	515 000	-
Retained earnings and equity resulting from merger transactions	7 311 156	7 311 156	-
FX differences	-70 083	-74 882	-6.4%
Advance payment for a dividend	0	-11 330 000	-100,0%
Unallocated equity from the previous years	37 480 972	507 513	+7 285.2%
Net profit (loss) for the fiscal year	14 226 270	48 305 126	-70.5%
<b>Liabilities and provisions</b>	<b>4 227 049</b>	<b>3 409 595</b>	<b>+24.0%</b>
<b>Long-term liabilities</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Short-term liabilities</b>	<b>4 227 049</b>	<b>3 409 595</b>	<b>+24.0%</b>
Trade payables	3 137 367	2 807 249	+11.8%
Current income tax	1 089 682	602 346	+80.9%
<b>Total liabilities</b>	<b>63 690 364</b>	<b>48 643 508</b>	<b>+30.9%</b>

# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Cash position

[PLN]	Q1 2018/19	Q1 2017/18	Change
<b>Gross profit (loss)</b>	<b>17 665 292</b>	<b>13 767 920</b>	<b>+28.3%</b>
Total adjustments, including:	-2 982 869	-3 131 813	-4.8%
Depreciation and amortization	761 128	549 632	+38.5%
Interest and dividends	0	0	-
Changes in working capital	-767 552	-580 511	-32.2%
Income tax paid	-2 976 445	-3 100 934	-4.0%
<b>Cash flow from operating activities</b>	<b>14 682 423</b>	<b>10 636 107</b>	<b>+38.0%</b>
Interest received	0	0	-
Investments in intangibles and in real fixed assets	-1 485 349	-1 183 602	-25.5%
<b>Cash flow from investing activities</b>	<b>-1 485 349</b>	<b>-1 183 602</b>	<b>-25.5%</b>
Dividends paid	0	0	-
<b>Net cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Total net cash flow</b>	<b>13 197 074</b>	<b>9 452 505</b>	<b>+39.6%</b>
Cash at the beginning of the period	30 133 807	34 749 564	-13.3%
<b>Cash at the end of the period</b>	<b>43 330 881</b>	<b>44 202 069</b>	<b>-2.0%</b>



# Financial situation of LiveChat Software Group

## Presentation of consolidated results

### Dividend policy

According to the current dividend policy described in the Company's issuing prospectus, the Management Board of LiveChat Software S.A. will be recommending to the meeting of shareholders to pay out the entire profit for the specific fiscal year as dividend, unless the Company sees investment opportunities that would give it, and the shareholders, a return higher than the dividend payment.

### Group's financial projection

Management Board of the Company has not published financial projections for the fiscal year 2018/19.

### 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 the first quarter of 2018/19 financial year were as follows:

Gross profit margin has reached 84.3%, EBITDA margin 72.0%, EBIT margin 69.0% and net margin 55.8%.

Return On Equity has reached 86.5% while Return On Assets totaled 80.8%.

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

	Q1 2018/19	Q1 2017/18
Gross profit margin	84.3%	78.9%
EBITDA	72.0%	66.2%
EBIT	69.0%	63.7%
Net margin	55.8%	51.3%
ROE	86.5%	80.6%
ROA	80.8%	77.2%
Current ratio	12.2	20.3
Quick ratio	12.2	20.2
Cash ratio	10.3	18.1

\* 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 first quarter of 2018/19 financial year, there were no changes in the structure of significant shareholders of the Company.

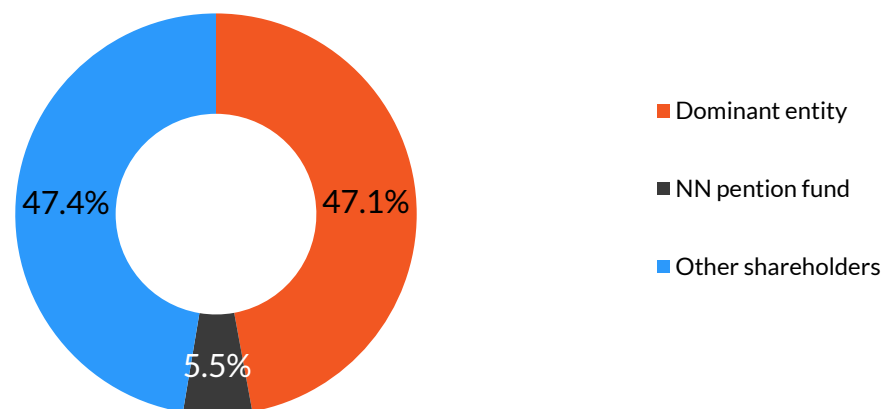
## Shareholder structure

Shareholder	Number of votes	Voting stake
Nationale-Nederlanden Powszechne Towarzystwo Emerytalne (NN pension fund)	1 425 000	5.53%
<b>Shareholder agreement – Dominant entity, including shareholders over 5% stake:</b>	<b>12 129 282</b>	<b>47.10%</b>
Mariusz Cieplý	4 010 000	15.57%
Maciej Jarzębowski	3 010 000	11.69%
Jakub Sitarz	3 010 000	11.69%
<b>Other shareholders</b>	<b>12 195 718</b>	<b>47.36%</b>
<b>TOTAL</b>	<b>25 750 000</b>	<b>100.00%</b>

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

**Shareholder agreement – Dominant entity** consist of the following persons: Mariusz Cieplý, Urszula Jarzębowska, Jakub Sitarz, Maciej Jarzębowski, Szymon Klimczak, Krzysztof Górski.

As at June 30, 2018 and August 28, 2018



# 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 Cieplý</b>	<b>CEO</b>
Urszula Jarzębowska	Board Member

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

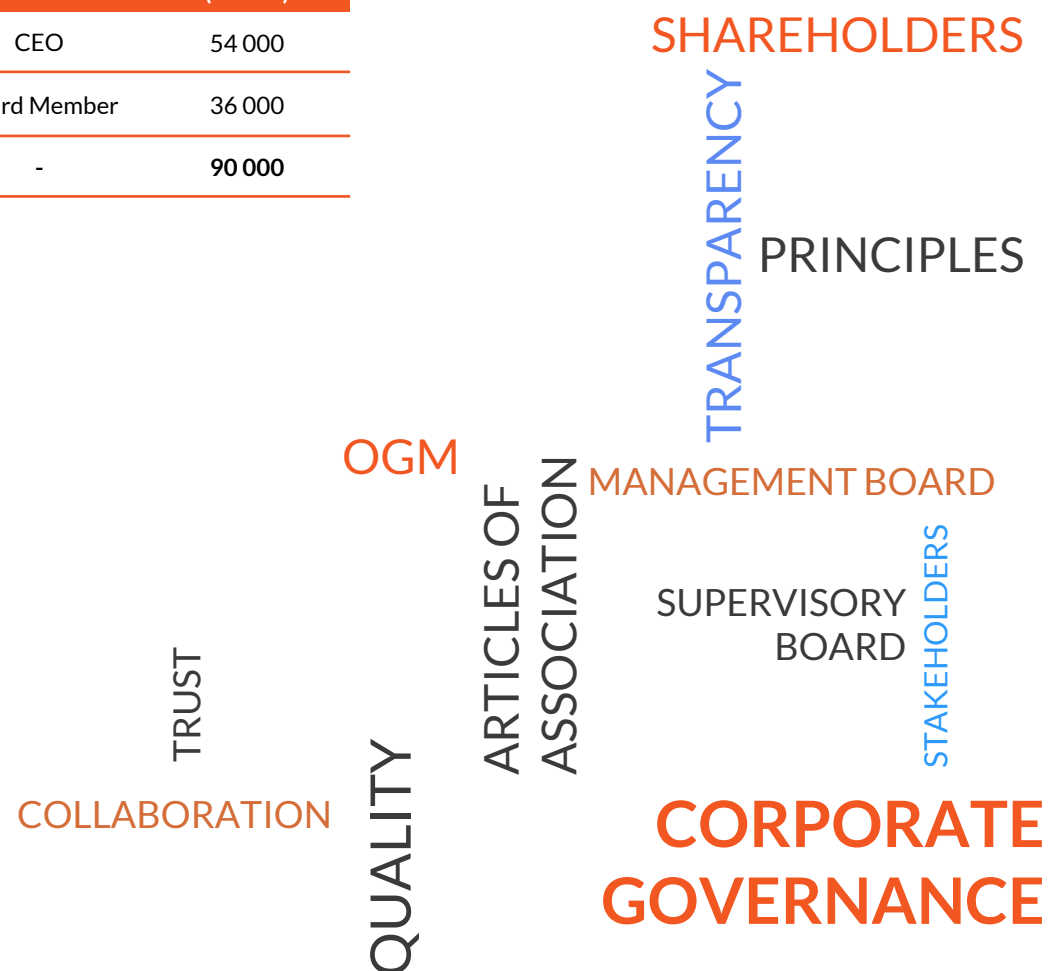
**Mariusz Cieplý** is one of the founders and core shareholders of LiveChat Software. He has been serving as the Company's CEO since 2010. Mr. Cieplý has a degree in IT engineering, specialization in the engineering of IT systems, having graduated from the Faculty of Electronics at the Technical University 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. in the period between April 1, 2018 and June 30, 2018

First and last name	Role	Remuneration (in PLN)
Mariusz Cieplý	CEO	54 000
Urszula Jarzębowska	Board Member	36 000
<b>TOTAL</b>	-	<b>90 000</b>





# Governing bodies

## Membership of the Supervisory Board

During the first quarter of 2018/19 financial year, there were no changes in the composition of the Supervisory Board. As at June 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 Ciepla	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 Ciepla** 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.

## 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 Cieply	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, August 28, 2018

The consolidated financial report of LiveChat Software Capital Group for the period of 3 months ended June 31, 2018, has been approved for publication by the Management Board on August 28, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzebowska

Wrocław, August 28, 2018

The individual financial report of LiveChat Software for the period of 3 months ended June 31, 2018, has been approved for publication by the Management Board on August 28, 2018.



Chief Executive Officer Mariusz Cieply



Board Member Urszula Jarzebowska

# 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	=	$\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$

