

24. Aug 2022

NFON **AG**

Annual General Meeting

Q&A Session

Courtesy Translation

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Questions concerning the Annual General Meeting 2022

Questioner: Lutje, Nikolaus, Munich, representative of DSW e.V.

Question 1 (Rainer): The Supervisory Board wanted to hire a strategy consultant. For what reason? What kind of advice was to be given here? Was a consultant hired? Who was the consultant? What is its exact mandate? What will it cost?

A strategy consultant was found and hired. In close cooperation with the Management Board, the company strategy was validated and the options for positioning the company on the market and in the industry were verified. Strategic options and collaborations were also evaluated. In the meantime, the process has been successfully completed.

Question 2 (Rainer): Strategic partnerships and M&A activities were also discussed in the AR. What exactly was this about? What kind of strategic partnerships are being considered or have already been entered into? What is the status?

As already stated in the previous question, options for positioning in the market or in the industry were verified with the strategy consultant and strategic options and collaborations were evaluated. The results of this process with the strategy consultant were of course shared with the Supervisory Board and discussed in detail by the Supervisory Board. One of these strategic partnerships materialised in the acquisition of 24.9% of Meetecho s.r.l. in Naples, which operates the Janus server, which is technologically important in the industry. Due to the nature of the matter, it is necessary to maintain silence about further activities at this point in time.

Question 3: You want to become the leading provider of business communication in Europe. Who are the big competitors? Where do you stand today? When do you expect to reach this goal?

The market for integrated business communication is just forming as an intersection between UCaaS, CCaaS, business applications and CPaaS providers. As NFON, we are positioning ourselves between the so-called hyperscalers such as Microsoft on the one hand, with whom we do not want to compete directly. On the other hand, there are traditional companies such as Mitel or Avaya, providers of telephone systems. We are still at the beginning here

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in the market and have not set an exact year as our goal. But we are convinced that we took the right step at the right time with our repositioning last year.

Question 4 Klaus: In the Annual Report, you spoke about the fact that you expect the development of the seats to gain momentum in the second half of the year. What is the status here? Are you satisfied with this? How are things going here in terms of planning and figures?

We have gotten off to a good start in 2022 and have reached important milestones in our focus on Unified Communications & Collaboration and Contact Center solutions. With the launch of Cloudya Meet & Share, our platform offers a full UC Suite alongside cloud telephony. In addition, with the omnichannel product Contact Center Hub, which is available throughout Europe, we have an attractive offer for the high-growth CCaaS market in our portfolio. The implementation of our partner programme NGAGE also showed initial important results. We were able to increase the total number of our partners across Europe to nearly 3,500 and gained 1&1 Versatel as a new NFON partner, for example. In total, we now have around 55,000 corporate customers.

The past months have also shown that our typical sales cycle requires more time than usual, however, under the current circumstances and due to the fact that we are growing into the enterprise segment.

With seat growth of 9.4%, we increased the number of extensions (seats) installed with customers to 609,640 compared to the previous year. For the full year 2022, we expect to meet our forecast given the developments in the first half of the year. We expect the growth rate of the number of seats to be at the lower end of the range of 10% to 12%.

We see that growth in the market for cloud telephone systems is slowing down. At the same time, we notice that products such as Contact Center Hub or NFON Integration for MS Teams are increasingly in demand. As we just explained, we are convinced that we have taken the right step at the right time with our repositioning. In addition, it is now a matter of profitably developing the investments made for NFON and reaping the fruits of the measures already initiated. For us, this means that in the current situation we will not increase our growth investments in marketing and personnel any further. Profitability now has clear priority.

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Questioner: Wotsch, Alice, Munich, SdK e.V.

Question 1: NFON AG continued on its growth course in financial year 2021 and managed to increase its total revenue by 12.3%, with recurring revenues increasing particularly well by 14.4%, but non-recurring revenues falling by -3.5%. With which products does NFON AG generate non-recurring revenues and why did these revenues decline in 2021? Do you anticipate a further drop in these revenues in 2022?

Non-recurring revenues are made up of several revenue components. These are hardware, such as desk phones or headsets that we sell to customers, activation fees and professional services that we provide and charge for in the course of customer projects.

The decline is mainly due to weaker sales of hardware, as there were delivery problems on the one hand, and on the other hand, the importance of hardware is declining slightly.

With our growth strategy corresponding to growing seat profits, we expect positive impulses in non-recurring sales again, but due to the lower margin, these are not as strategic for us as recurring sales.

Question 2: NFON AG continued to expand its growth in financial year 2021 in line with its previous strategy at the expense of profitability. EBITDA fell to EUR -2 million. Is this strategy still the right one in view of the current challenges such as the war in Ukraine, inflation, rapidly rising energy and raw material prices? Do you also intend to stick to your growth course in 2022 or is it currently not advisable to consolidate and focus more on profitability? What is NFON AG's strategy for 2022?

As you can see from the half-year figures, 2022 is still characterised by investments in growth. This is mainly due to the full-year effects of strategic new hires in the previous year. In the future, we want to continue to grow, of course, but with clear scaling effects on costs and a very clear commitment to return to EBITDA profitability, even in the short term in 2023.

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Question 3: You announced a change in strategy and a re-branding in April 2022. In the future, NFON AG wants to focus on the Unified Communications as a Service (UCaaS) and Contact Center as a Service (CCaaS) markets. In doing so, you are moving the focus away from your previous core business, telephony. What are the insights behind this change in strategy? Is telephony no longer a growth market? What market development do you expect for the new markets Unified Communications as a Service (UCaaS) and Contact Center as a Service (CCaaS) in the years ahead? What revenue do you expect from these segments in financial year 2022?

Thank you very much for this question. Obviously, we have not changed our strategy. Rather, we are focusing on the area of integrated business communication. In this respect, we are talking about a further development of the strategy.

We monitor the changes in our and neighbouring markets closely. We are in regular contact with market researchers such as Cavell and Frost & Sullivan. All of them are noticing that something is changing. In any case, it can be seen that the markets, which were originally separate from each other, are growing closer and closer together. I briefly described this in my speech. The market for integrated business communication is emerging. At the moment, we are also noticing that the market for cloud telephony is no longer growing as fast. Whether this is just a pandemic effect or a real trend remains to be seen. But regardless of this, we still assume that we can continue to grow with cloud telephony.

You also asked what market development we expect for the new markets Unified Communications as a Service (UCaaS) and Contact Center as a Service (CCaaS) in the years to come.

In the spring, we assumed average annual growth rates of around 8 percent for the collaboration market and around 16 percent for the contact center market. However, these growth rates will certainly change.

In summary, my answer to your questions about the market development and our strategic repositioning is that we made the right move at the right time and are now focusing on the market for integrated business communication. We see this market as a growth market.

Question 4: It is crucial for the further growth of NFON AG that the company continues to acquire sufficient qualified employees in the future despite the shortage of skilled workers. Is NFON AG affected by the shortage of skilled workers? If so, what measures are being taken to counteract this?

Like many other companies, we are also faced with the challenge of finding and recruiting qualified employees, especially in the area of software architects and software developers. Last year, in particular, we were very successful in this area. In figures, the team size in the area of development has grown by 41 percent. To achieve this, we have built up our own NFON recruiters, for example, who were able to approach developers in a very targeted manner.

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Our development hub in Lisbon has also developed very positively. In the meantime, we see ourselves well positioned and will be able to scale back the search for additional staff.

Question 5: Does NFON AG also have employees in or from Ukraine? If so, how do you support them? Does NFON AG have special offers for the recruitment of Ukrainian professionals?

NFON operates in Europe. However, the people who work for NFON come from all over the world. In this respect, employees from Ukraine also work for NFON. Of course, we supported these colleagues personally. There was also a fundraising campaign by our employees. Everyone who wanted to could donate part of their gross salary to the Action Alliance for Disaster Relief. This was very well received. In addition, we as NFON also provided office space with the appropriate office equipment to an aid organisation.

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