

NFON AG

Annual General Meeting

28th of May 2020

Speech of the Board of Management



NFON
Cloud Telephone System

The spoken word applies.

Good morning, ladies and gentlemen, dear shareholders, dear guests!

Culture, attitude or just technology?!

Such is the title story of the latest issue of our magazine Clouds. A topic that became more current than it has ever been when in March 2020 the question of digitalisation suddenly changed from "why?" and "what for?" to: "Why only now?"

And with this topic that truly affects us all in this unusual as much as unfamiliar situation, I would like to welcome you viewing on screen, to our first virtual general meeting.

When we have talked about the future of communication in recent years, key terms have always been flexibility, mobility, accessibility and scalability. Suddenly, from one day to the next, these concepts gained essential importance for everyone, without exception. It is very fortunate that in recent years companies around the world have started to put a big emphasis on digitalisation. Without their efforts, the economic landscape would look completely different from what we know today. Of course, we have all come across critical voices, too, that claim that without globalisation and digitalisation the situation we are witnessing now would have never occurred.

But, ladies and gentlemen, would it even possible to bring this development to a halt now - and is that really what we want?

Is it not that we find ourselves in exactly the kind of situation that requires us to analyse it carefully, minimise risks, take advantage of the opportunities that are arising and act accordingly?

Let's focus on Germany for a moment, the market NFON was founded in thirteen years ago.

In terms of digitalisation, compared to the overall global development, Germany is lagging behind. The primary reason for that seems to be a predominant attitude towards digitalisation which, across many companies' executive floors and state agencies, still moves within a range from a certain scepticism to an aversion to the inevitable digitalisation and digital transformation of work environments.

Taking in account that, when it comes to cloud-based telephone systems, the penetration rate in Germany is just 4 percent, the big question is how to create a corporate culture that is leaning towards the idea of innovation and digital progress.

Many of us are currently experiencing – maybe even enduring - profound different levels of progress the process of digitalisation that have been achieved in Germany. All starts with an educational system that forces “digital natives” to work with tools from the paper ages and, in most cases, had to start entirely from scratch when home schooling became a necessity.

It continues with the state itself that has consistently failed to create the much needed infrastructure, let alone digitise itself – if you haven’t already made up your mind about its "digital agenda" yet, you are probably doing it now.

Finally, there are the German companies that – let’s say in order to maintain their conservative values - stick to old habits. However, under current circumstances doubters are being contradicted. Gaps and omissions in digitalisation , that were whitewashed until now, have finally come into everybody’s consciousness with full force and relentless clarity.

As is so often the case, it took a crisis to create a general willingness to act. Now at last there is justified hope that the stance on digitalisation will change to be less dismissive and that the cultural change will finally start on a big scale.

At NFON we realised the importance of digitalisation very early on. The advantage this brings for companies: With our products and services, companies can act more cost-effectively and flexibly, regardless of their location. In the current situation, this enables them to uphold their operation, have their staff work from their home offices without any problems, and by that save additional money. Our advantage: companies have come to understand and know what we can offer them. We no longer have to explain the benefits. They are obvious.

Ladies and Gentlemen, usually the subject of the speech by the Management Board at the annual general meeting is the business’s development of the past year. However, when we published the preliminary results for the 2019 financial year, we already noticed that

our shareholders are less concerned with what has been than with the impact the development in times of COVID-19 has on the current business. They want to know how we can cope with the associated challenges. This impression was confirmed by the questions that were submitted. I therefore assume that I have your approval to take a detailed position, also and in particular, on the current situation and the future development of NFON.

Growth in the first quarter of 2020 once again underlined the strength of our business model and clearly emphasised the momentum just described.

In the first three months of 2020, we generated total revenues of EUR 16.4 million, compared to EUR 12.1 million in the same quarter of 2019. This is equivalent to a growth of around 36 percent. After deducting the inorganic revenue contribution from Deutsche Telefon Standard GmbH (DTS) in January and February 2019, total revenue increased by around 23 percent.

Recurring revenues also increased by around 36 percent to EUR 14.1 million - the purely organic growth rate is 22 percent. Overall, the share of recurring revenues in total revenue is equivalent to 86 percent!

Even when you take in account that there might be some short-term delays in some of our customers' decisions, and that we naturally cannot predict all possible consequences, such as bankruptcies, that the lockdown might hold for them, our opportunities prevail significantly. We are currently registering an increasing demand, as companies, as described, develop an understanding for the advantages of cloud-based communication solutions and a willingness to switch.

At the same time, we were able to increase the average recurring revenue per user, the so-called ARPU, in relation to the previous year. After reaching an ARPU of EUR 9.64 at the end of 2019, the ARPU at the end of the first quarter of 2020 went up to EUR 9.88. In March, the first month under the influence of extensive contact restrictions, that saw many employees being moved to the home office, the ARPU rose significantly to EUR 10.43. This was due to an increased call volume.

The positive development in revenues is also reflected in the EBITDA, earnings before interest, taxes, depreciation and amortisation. In the first quarter of 2020, we achieved an EBITDA of EUR -0.1 million compared

to EUR -1.7 million in the comparative period of 2019. Cleared out for expenses for retention bonuses and stock options, we achieved a positive EBITDA of EUR 0.2 million after EUR -0.9 million in the first quarter of 2019.

In the first quarter of 2020 it was possible to continue the already good development of the past business year. Although we did not quite achieve the very ambitious goals we had set for the financial year 2019, we were nevertheless able to increase the number of seats by 40 percent compared to the 2018 financial year. The recurring revenue was also increased by 39 percent and thus achieved a share of the total revenue of the recurring revenue of 84 percent.

Dear shareholders, we are very satisfied with this business development, especially in this exceptional situation and the related climate of uncertainty that is impacting the overall economy. This proves to us that our growth strategy is on the right track, and we are therefore continuing to implement it consistently.

We gained the financial capability to do so in one part through the IPO, but also by means of the capital increase that was carried out last year.

At this point I would like to refer back to the decision we made past summer, to utilise conditional capital and issue an option bond, excluding shareholders' subscription rights.

By resolution of the Annual General Meeting on the 9th of April 2018, the Management Board of NFON AG had been authorised to issue convertible bonds, bonds with warrants, participation rights, profit-sharing certificates or combinations of these instruments, each with the consent of the Supervisory Board, in a total amount of up to EUR 115,681,800, partially with the exclusion of the shareholders' subscription rights.

On the 1st of July 2019, based on this authorisation and with the approval of the Supervisory Board, we decided to issue an option bond with a nominal value of EUR 5,000,000 to the Active Ownership Fund, Luxembourg, AOC for short. The subscription right of the shareholders was excluded in accordance with the authorization and section 186 (3) sentence 4 of the German Stock Corporation Act. This bond was subject to an annual interest of 6,00 percent for a term until January the 2nd 2020. The bond had an option right. This option entitled the AOC to purchase 964.015 NFON AG bearer shares with a notional share in the

share capital of EUR 1.00 per share. The exercise price per share was EUR 1.00.

The exclusion of shareholders' subscription rights was very advantageous for the company for the following reasons:

First - We were able to win another large shareholder as a lender to implement our growth strategy.

And - secondly – with this capital increase we were able to generate additional financing for a possible acquisition without the high costs of issuing subscription rights.

As of the 18th of October 2019, the AOC exercised this option from the bond. The corresponding shares were issued from the contingent capital created on the 9th of April 2018. With the issue of the shares, the share capital of NFON AG increased to EUR 15,055,569, spread over 15,055,569 shares with no par value.

The capital increase from Conditional Capital I was entered in the commercial register on the 31st of October 2019. The entry of the capital increase raised the total share capital from EUR 14,091,554 to EUR 15,055,569.

The bond associated with the option with a nominal amount of EUR 5,000,000 was fully repaid in the first quarter of 2020.

Dear shareholders! NFON has set itself a big goal: We want to become the undisputed number 1 for cloud telephony in Europe. And, as the numbers clearly show, we are on the right track. Each of us would rather not have witnessed the global crisis triggered by COVID-19. Nevertheless, despite all downsides, this crisis provides us with new opportunities. And with that I hand over to my colleague César.

Good morning, ladies and gentlemen, dear shareholders, dear viewers!

Corona divided the world, isolated countries and people, turned familiar processes upside down. We at NFON have subsidiaries not only in Germany and Austria, but also in Spain, France, Italy and Great Britain, the countries most affected by the Corona crisis in Europe. Because of this, in addition to the direct impact the situation had on us, we also experienced that there were companies and people out there, who

overnight depended on our urgent support, and were able to rely on us to keep them fit for work. Let me give you a succinct example:

We all know that even for mentally stable people it was and still is not easy to endure the corona situation, that imposed restrictions on everyone that strongly limited, in many European countries even entirely prohibited, personal contact. This situation initiated NFON's cooperation with the Vienna State Association for Psychotherapy (Wiener Landesverbandes für Psychotherapie WLP for short). By equipping WLP with our Cloudya telephone system, we enabled them to offer personal help to people in the greater Vienna area - despite profound restrictions of the public life. Over 160 psychotherapists are currently attending the WLP's psychotherapy helpline, with another 100 on the waiting list. Every day between 8:00 a.m. and 10:00 p.m., citizens can reach out to trained psychotherapists, free of charge, and receive professional help in stressful life circumstances, may it be that they cannot cope with the loneliness caused by social isolation, or that they are overwhelmed by the situation in their family: home office, home schooling, escalating partnership conflicts, diffuse fears about the future, or the impending loss of jobs, which is furthermore exacerbating the situation. For this psychological stress not to become pathological, immediate help in the form of telephone crisis talks is vital.

There are cracks in the personal sense of security of many people, and the negative effects that this crisis has on the overall mental health will presumably concern us all for a long time to come. These numbers speak for themselves: Since the helpline went into operation, more than 750 people made use of it to find support.

The application of Cloudya at the WLP clearly accounts for the advantages of cloud solutions: scalable and ready for use within 24 hours, easy to handle and highly available. The psychotherapists are able to work with the Cloudya telephone system, regardless of their own device and location. They can conduct the conversations browser-based from a Mac or PC, or through the Cloudya app via iOS or Android smartphones. Thanks to Cloudya, it was possible to quintuple the available number of helpline seats originally offered by the WLP prior to the Covid-19 pandemic!

We take great pride in the fact, that we were able to support this outstanding project in Vienna, the hometown of the three major Viennese schools of psychotherapy – Freud, Adler and Frankl – by offering easy and quick access and providing the necessary tools to make home office

and mobile work possible – even in times like this. And not only can cloud technology help in an acute, exceptional situation – it goes way beyond this! The post-Corona world will not be like it was before Corona. In our opinion, WLP showed the right attitude towards technology, which made it possible for them to create a more humane and personal way of contact for their clients than a company could have done, that invokes its human virtues but cannot bring them to fruition because of its rejection of technology.

A sensible, wise use of new, innovative products and services is key here. The preservation of old, past beliefs is not.

The WLP helpline is just one of many NFON customer examples. We have the ability to roll out additional, large projects across several thousand locations in just a few months, introducing SIP trunk, for example, a bridge technology for all those momentarily hesitant of immersing into the pure IP-based telephone world - yet. In the past few months, we have been able to sell several thousand new SIP trunks to large chain stores and roll them out successfully in a very short time. - Unfortunately, we are not allowed to give their names.

However, this can still give a good impression of what makes NFON strong: To have the solution and implement it at short notice. We are with the customers. And it is exactly that proximity to them that we are continuing to expand. It is what makes us unique in the field of cloud telephony in Europe.

A few figures to round this part off:

By now, around 2,700 partners across Europe have been integrated into our network, especially in our new countries Italy and France, as well as in Spain. Our pan-European presence in 15 countries means that working with us is very attractive to partners operating throughout Europe, such as Connexing. These partners are only just beginning to sell cloud telephone systems and they have chosen NFON because of our good reputation.

New partners are added to our list every day; Partners, who know their customers, who are quick to spot where something can be done, partners who are on site. We are a force to be reckoned with. Due to this factor, we were able to win more than 40,000 customers and by this managed to expand our seat base to a total of 467,253 seats by the end of the first quarter!

Our goal for this year is a growth of 20 to 24 percent. And from today's perspective, we can clearly confirm that this still is a very realistic forecast.

To us, the current crisis is an opportunity and we are positive that we will emerge stronger from it. And with this I would like to hand over to Jan-Peter.

Thank you, César, and also a warm welcome on my part, ladies and gentlemen, dear viewers, to this Annual General Meeting, which is, especially from a technical point of view, quite an unusual one.

Only a year ago it would have been completely unthinkable, and the required efforts would have been enormous, to achieve what we have achieved here: a virtual general meeting. Of course, this meant that we not only had to create the necessary legal framework for this venture, but above all had to make sure that the required technology was there and ready.

You might have experienced it in your everyday life, at the very least you are feeling it today: Corona came in like a hurricane and accelerated the rate at which business communication changed exponentially.

At first, many people probably felt overwhelmed by this development. And even though humans have a great ability to adapt, in order to really do so, said framework conditions must, of course, be right and available.

It is a good and right decision to let your employees work from home in order to protect them. However, this decision must never endanger the workflow, and in those moments when the technology in place turns out to be unreliable, what started out as merely a challenge can quickly turn into a serious problem. Quite often the issue that presents itself is really "only" about telephony - a technology that we all thought to have covered because it has been around for decades.

Well then: The old world of telephony is static, inflexible, not really scalable. Companies that had so far been satisfied with good, old on-premise telephone systems have now come to recognize - sometimes painfully - that they were not at all prepared for this crisis. Sure, temporary structures can always be established as an emergency patch. The classic example: the redirection of the office number to the private mobile telephone. That may work for smaller companies. For medium-

sized or large companies, however, provisional solutions like this example lead to an inefficient workflow, which is especially aggravating because it is so unnecessary and avoidable.

Let's take a look at a few numbers. In their latest study, the Cavell Group, a market research institute with a focus on cloud communication and cloud networks in Europe, found out that the most common way of contact customers use is still email.

But a close second is telephony! 80 percent of small companies, 84 percent of medium-sized companies and 64 percent of large companies communicate with their customers via phone! Telephony and the associated services are - after email - still the strongest means of communication for our customer group. Even if we take in account the communication within the company, these numbers only change marginally.

Just last week, the Federal Network Agency in Germany published a report on the use of OTT communication services that came up with the same results. OTT is short for over-the-top and refers to services such as WhatsApp or Threema which, in addition to the transmission of image and text messages, also offer simple telephony functions. According to the agency's report, traditional telephony is still very popular. For the purpose of voice telephony, users frequently and intensively utilise mobile – 75 percent – and landline telephony - 59 percent. Mobile telephony in particular is of great importance for users, with 74 percent of all surveyed users unable to imagine foregoing this service.

One thing speaks very clearly from these numbers: developing an excellent, easy-to-use, above all flexible, location-independent and reliable cloud telephony solution, and to offer it as a core product with high quality standards, was and continues to be the right idea. Thanks to our telephone system, customers can easily move their business to their home office or other locations without any risk of the contact with the customer being interrupted.

Video, messaging and collaboration functions are of course also quickly gaining importance and the corona crisis lead to an increased usage rate in this field – that's another aspect we took from the numbers. So, we're seeing the necessity to accelerate the development of our own video, messaging and collaboration functions, as well as the integration of our cloud telephony solutions into existing so-called unified communications solutions. A pretty example for this is Nvoice for MS Teams that we

launched at the end of last year. It really offers the best of two worlds: A good collaboration platform - MS Teams - and a good telephony solution - Cloudya – merged into one.

The numbers also show that communication, as well as the use of communication media, is becoming increasingly differentiated and we are learning to apply the means according to their purpose:

- Telephony is used for direct and straightforward bilateral contact to quickly clarify questions or make appointments.
- Video conferences come into play when it is important to see each other, to bridge distances easily, discuss topics in detail and exchange opinions between several participants.

This is the base of our agenda.

At the same time, as NFON, we always put a big emphasis on the security of our systems. So, while we continue to develop our existing products and are working on new developments as well, we are still constantly enhancing our safety standards.

I would like to give you a few examples:

- In January 2020, three months after the launch of NCTI pro and Nvoice for MS Teams in October 2019, we introduced the two-factor authentication, or 2FA for short, for end devices and applied for a patent. When new telephones are put in operation, the one-time entry of a so-called Phone Authentication PIN (PAP) is now required.
- The announced Cloudya app for Android was successfully launched in April 2020. It is fully integrated into the Android environment. The new, improved user interface and intuitive operation ensure simple and seamless use.
- Also noteworthy at this point: We are working on our own video function to be integrated in Cloudya.

With all products and services we develop, close attention to their quality is a given. As in the case of the Android app, this occasionally leads to delays, which, in favour of the quality of the final product, we consciously accept, even though we know very well that the development of some functions and products is a time-sensitive matter. This makes good planning of the existing capacities extremely vital.

Finally, I would like to address a topic that currently affects all companies that house their own IT research and development teams: the shortage of skilled employees among software architects and developers.

At the last extraordinary general meeting we broached this issue in detail. And: we are acting on it!

In this highly competitive labour market environment, we successfully enhanced the manpower of our developer team by adding an already well-established team after the takeover of all employees of Onwerk GmbH from Mannheim last December. By this we won a team of highly qualified developers and software architects. Our Onwerk colleagues bring many years of experience in cross-technology software development to the table, so, in this respect, 2020 was off to a fantastic start. With our new team in Mannheim in addition to locations in Munich, Mainz, and Berlin, the NFON Group now has a total of four research and development centres in Germany.

But that's not all.

We are, of course, on the lookout for other software companies across Europe that, similar to Onwerk GmbH, would be suitable for a takeover. At the same time, we are planning to set up another development centre in a European country.

A sense of proportion in this matter is definitely key. We are, however, well prepared and see a great opportunity in building up such a European development centre as an important step on NFON's path to becoming the number 1 for cloud telephony in Europe.

With that, ladies and gentlemen, for the conclusion, I would like to hand over back to Hans.

Dear viewers, dear shareholders!

As board members, we gave you an overview of the development of NFON and provided you with information on where your company stands at the moment. It is our goal to continue growth in 2020 and for this we are off to a good start.

The corona crisis presented the world with challenges it has never seen before. On the one hand, long-established and profitable global players

are faltering and in need of governmental support. On the other hand, the economy benefits from the entrepreneurship, that showed to be open to and recognised the potential of digitalisation from the start.

Germany and large parts of Europe are far from where they could be in the digital world. A first big step has been accomplished, but the pace of digitalisation will continue to pick up speed. The current situation forced a majority of companies to rethink, which has fundamentally changed corporate culture and its attitude towards digitalisation - and will continue to do so. Cloud telephony is convincing in its flexibility, an excellent practical experience. To us, this is not a temporary phenomenon. Quite the opposite: today's situation will provide additional tailwind for cloud telephony on the European market, now and in the future, from which we, the only pan-European provider and market leader in Germany, want to benefit from – and we will.

Our goals for the current year remain therefore unchanged, and we have confirmed them once again with the publication of our quarterly results. We registered a seat growth of 20 to 24 percent. Recurring revenues are expected to grow by 22 to 26 percent, thereby achieving a share of total revenues between 80 and 85 percent.

With regard to the great development of NFON, we would like to thank our employees. Without their enthusiasm and motivation, these successes would not have been possible. Special thanks also go to our partners and customers as well as you, our shareholders, for the trust you have placed in us. Join us on our way to the top of the European cloud telephony!

Thank you for your attention!