



Appendix 4D & Financial Report

For the half year ended 30 June 2020

Appendix 4D

Company Details

NAME OF THE ENTITY	NITRO SOFTWARE LIMITED
ACN	079 215 419
REPORTING PERIOD	FOR THE HALF YEAR ENDED 30 JUNE 2020
PREVIOUS PERIOD	FOR THE HALF YEAR ENDED 30 JUNE 2019

Results for Announcement to the Market

FOR THE SIX MONTHS ENDED 30 JUNE	2020	2019	Movement	Movement
	US\$'000	US\$'000	US\$'000	%
Revenue	19,058	16,694	2,364	14%
Loss from ordinary activities after tax attributable to members	(2,068)	(2,783)	715	26%
Loss attributable to members	(2,068)	(2,783)	715	26%

The detailed analysis of the results is included in the Operating and Financial Review for the period on page 9 of the Appendix 4D.

Net Tangible Assets per Ordinary Share

FOR THE SIX MONTHS ENDED 30 JUNE	2020	2019
	US\$	US\$
Net tangible assets	0.30	0.30

Dividends

No dividends were declared or paid for the half year ended 30 June 2020.

Basis of Preparation

This report is based on the Consolidated Financial Statements of Nitro Software Limited which have been reviewed by PricewaterhouseCoopers (“PwC”). PwC’s review report is included within the Group’s 2020 Half Year Report which accompanies this Appendix 4D.

Other information requiring disclosure to comply with Listing Rule 4.2A is contained in the 2020 Half Year Report (which includes the Directors’ Report).

NITRO SOFTWARE LIMITED

2020 HALF YEAR REPORT

Nitro Software Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company's registered office is Level 4, 246 Bourke Street, Melbourne, Victoria, Australia and principal place of business is 150 Spear Street, Suite 1500, San Francisco, California, United States of America.

This Interim Financial Report (2020 Half Year Report) has been prepared in accordance with Australian Accounting Standards and the *Corporations Act 2001*.

The 2020 Half Year Report incorporates the assets and liabilities of Nitro Software Ltd ("the Company" or "Nitro") and of all its subsidiaries as at and during the half year 30 June 2020 (collectively referred to as "the Group").

The 2020 Half Year Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with:

- the 2019 Annual Report for the year ended 31 December 2019 available at: <https://ir.gonitro.com/investor-centre/?page=annual-reports>
- public announcements made in compliance with continuous disclosure obligations under the *Corporations Act 2001* and the Listing Rules issued by the Australian Securities Exchange ("ASX"), which are available at: <https://ir.gonitro.com/investor-centre/?page=asx-announcements> or <https://www.asx.com.au/> (ASX: NTO)

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DIRECTORS' REPORT

Introduction

The Directors submit their report on the consolidated entity consisting of Nitro Software Limited (“Nitro” or “the Company”) and the entities it controlled entities (“the Group”) at the end of, or during the half year ended, 30 June 2020. All amounts are presented in USD unless otherwise stated.

Details of Directors

As at the date of this report, the details of the directors of the Company are as follows:

NAME	POSITION
KURT JOHNSON	EXECUTIVE CHAIRMAN AND ACTING CHIEF FINANCIAL OFFICER ('CFO')
SAM CHANDLER	EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER ('CEO')
ANDREW BARLOW	INDEPENDENT NON-EXECUTIVE DIRECTOR (resigned 25 August 2020)
MICHAEL BROWN	NON-EXECUTIVE DIRECTOR
JOHN DYSON	NON-EXECUTIVE DIRECTOR
LISA HENNESSY	LEAD INDEPENDENT NON-EXECUTIVE DIRECTOR
SARAH MORGAN	INDEPENDENT NON-EXECUTIVE DIRECTOR
RICHARD WENZEL	NON-EXECUTIVE DIRECTOR

The Directors listed above each held office as a Director of the Company throughout the period and until the date of this report, other than:

- Kurt Johnson, who was appointed as an Executive Chairman and acting CFO effective 1 April 2020;
- Richard Wenzel, who ceased to be an Executive Director effective 31 March 2020;
- Lisa Hennessy, who was appointed as the Lead Independent Director effective 1 April 2020; and
- Andrew Barlow, who resigned from his position as Non-Executive Director on 25 August 2020.

Performance Highlights 1H2020

KEY OPERATING METRICS (\$US unless otherwise stated)

Revenue

\$19.1m

Ending ARR

\$20.2m

Subscription Revenue Growth

(1H2019 - 1H2020)

60%

ARR Growth

(1H2019 - 1H2020)

57%

Subscription Retention Rate

88%

Net Revenue Retention

118%

EBITDA

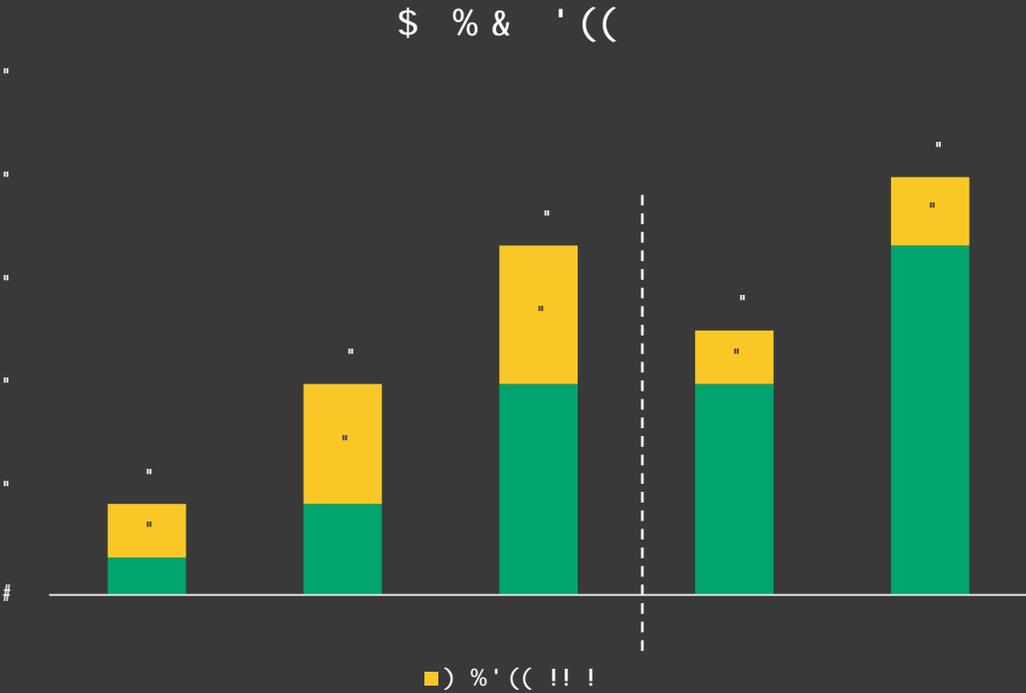
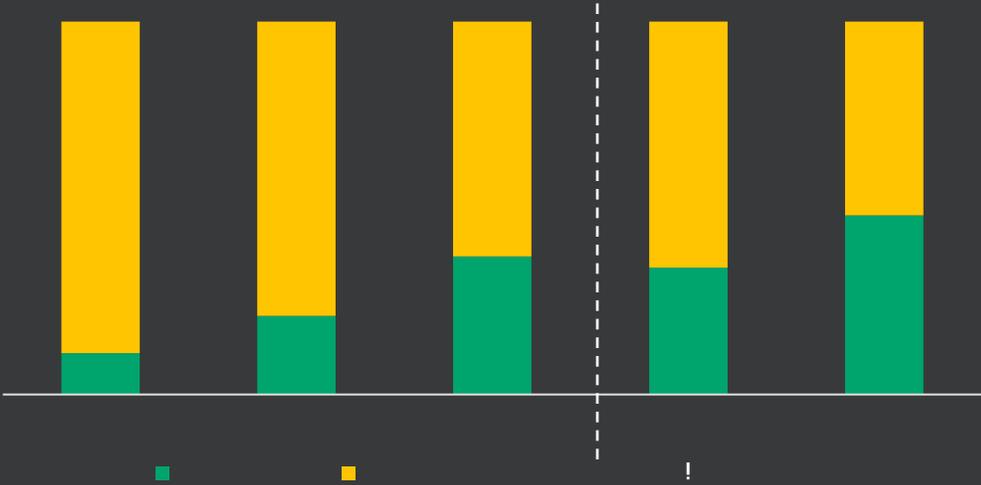
(\$1.6m)

Ending Cash Balance

\$43.9m

Performance Highlights 1H2020 (continued)

KEY FINANCIAL METRICS



Operating and Financial Review

This operating and financial review ('OFR') is designed to assist shareholders understand the Group's business performance and the factors underlying its results and financial position. It complements the financial disclosures in the 2020 Half Year Report on page 18 to 33. The OFR covers the period from 1 January 2020 to 30 June 2020, including the comparative prior period and the prospectus forecast for the year ending 31 December 2020. To conform to the current period presentation, comparative figures have been reclassified where appropriate.

The OFR also includes Software-as-a-Service ('SaaS') metrics that we believe are critical to the understanding of the performance of the business. These SaaS metrics are non-IFRS measures and the manner in which these are calculated and trends they convey are explained in Appendix 1 to the Annual Report 2019 available at:

<https://ir.gonitro.com/investor-centre/?page=annual-reports>.

Operating and Financial Review

“We’re thrilled to report our first half as an ASX company, with at-or-above plan performance on all key metrics and strong subscription sales growth. We’ve managed successfully through the initial disruption caused by the COVID-19 pandemic and are seeing all-new and increasing demand for the digital document solutions we provide.”

Sam Chandler – Co-Founder & CEO

SUMMARY OF FINANCIAL RESULTS (UNAUDITED)	FOR THE HALF YEAR ENDED				FULL YEAR PROSPECTUS FORECAST
	30 JUNE 2020	30 JUNE 2019	Change	Change %	2020F ²
US\$ MILLIONS ¹					
Subscription	9.1	5.7	3.4	60%	20.2
Perpetual licence, maintenance and support	9.9	11.0	(1.0)	-9%	20.2
Total revenue	19.1	16.7	2.4	14%	40.5
Cost of revenues	(1.8)	(1.9)	0.1	-5%	(4.5)
Gross profit	17.3	14.8	2.5	17%	35.9
Sales and marketing	(8.6)	(8.7)	0.1	1%	(21.3)
Research and development	(3.9)	(3.7)	(0.2)	-7%	(10.3)
General and administrative	(5.3)	(3.9)	(1.4)	-36%	(9.7)
Other income/(loss), net	(1.2)	(0.1)	(1.1)	-920%	-
EBITDA	(1.6)	(1.5)	(0.1)	-9%	(5.3)
Finance costs, net	0.0	(0.3)	0.3	117%	0.3
Depreciation and amortisation expense	(0.9)	(0.9)	(0.1)	7%	(1.8)
Loss before income tax	(2.5)	(2.7)	0.2	8%	(6.8)
Income tax benefit/(expense)	0.4	(0.1)	0.5	549%	(0.2)
Loss for the period	(2.1)	(2.8)	0.7	26%	(7.0)

SaaS METRICS ³	FOR THE HALF YEAR ENDED		FULL YEAR PROSPECTUS FORECAST
	30 JUNE 2020	30 JUNE 2019	2020F ¹
Gross margin	91%	89%	89%
Net Revenue Retention	118%	127%	NA
Annual Recurring Revenue (ARR) \$million	20.2	12.8	24.4
New Annual Recurring Revenue (New ARR) \$million	3.3	2.6	7.9
Lifetime value per customer (LTV) \$'000	155.0	153.0	NA
Customer acquisition costs (CAC) \$'000	33.0	42.0	NA
LTV/CAC (ratio)	4.7x	3.6x	NA

¹ Totals may not add due to rounding errors caused by the figures being rounded to the nearest tenth of million dollars.

² As per the IPO prospectus.

³ Refer to Appendix 1 of the 2019 Annual Report for detailed explanations of SaaS metrics. Non-IFRS information has not been audited or reviewed in accordance with Australian Auditing Standards.

Revenue

Subscription revenue

For 1H2020, subscription revenue increased by \$3.4 million or 60% to \$9.1 million compared to \$5.7 million for the same period in 2019. Subscription revenue was 48% of total revenue in 1H2020 as compared to 34% in 1H2019. This increase was primarily driven by new customer wins, including many large enterprise customers, and expansions from existing subscription customers. Only 3% of our subscription revenue in the period was derived from perpetual customers with maintenance and support contracts who transitioned to our subscription offering.

The Company measures growth in subscription revenue through New ARR added. New ARR added measures growth in subscription licence revenue during the period as a result of sales of subscription licences to new customers, additional subscription licence sales to existing subscription customers, and the conversion of maintenance and support contracts to subscription licensing. New ARR added during 1H2020 was \$3.3 million compared to \$2.6 million for the same period in 2019. Consequently, ending ARR rose 58% during 1H2020 to \$20.2 million from \$12.8 million at the end of the same period last year.

Perpetual licence, maintenance and support revenue

As the Company continues to transition perpetual license customers with maintenance and support contracts to our subscription offering, perpetual revenue, which includes maintenance and support revenues, is forecast to decline as a percentage of total revenue. For 1H2020, perpetual licence sales and maintenance and support revenue declined 9% to \$9.9 million or 52% of total revenue. For 1H2019, perpetual license, maintenance and support revenue was \$11.0 million or 66% of total revenue. The Company expects perpetual revenue to continue to reduce as a percentage of total revenue given the rapid growth in subscription sales and the success of the Company's Nitro Productivity Suite.

Gross profit and gross profit margin

Gross profit increased by \$2.5 million or 17%, to \$17.3 million in 1H2020 compared to \$14.8 million during 1H2019. The gross margin was 91% for 1H2020, compared to 89% for 1H2019. Cost of revenues decreased during 1H 2020 as a percentage of total revenue compared to 1H2019 primarily due to the growth in and dominance of subscription licensing, which has a lower cost-of-sale than perpetual licensing.

Cost of revenues includes the cost of third-party technologies that are used to host Nitro's cloud-based products, third-party technologies that are embedded in the Company's products, third party hosting and transaction services for the Company's online storefront, and employee and other operating costs associated with the Company's customer support organisation.

Operating Expenses

Sales and marketing

Sales and marketing expenses were \$8.6 million in 1H2020, a decrease of \$0.1 million or 1% as compared to \$8.7 million in 1H2019. As a percentage of total revenue, sales and marketing expenses were 45% and 52% of total revenue in 1H2020 and 1H2019, respectively. The very slight decrease in sales and marketing expense was primarily due to hiring deferrals, travel and event cost reductions and general expense caution as a result of the COVID-19 pandemic. These reductions were partially offset by an increase in advertising during 1H2020.

The Company measures the efficiency of sales and marketing by monitoring LTV/CAC ratios. The LTV/CAC ratio was 4.7x for 1H2020 versus 3.6x for 1H2019 largely due to a reduction in CAC.

Research and development

Research and development expenses were \$3.9 million in 1H2020, an increase of \$0.2 million or 7% compared to \$3.7 million in 1H2019. As a percentage of total revenue, research and development expenses were 21% of total revenue in 1H2020 compared to 22% in 1H2019. The increase was primarily due to increased personnel cost. Total research and development employees at the end of 1H2020 were 51, as compared to 36 at the end of 1H2019. Activities during the half year included the development and launch of Nitro Sign™, and several new product integrations and enhancements.

General and administrative expenses

In 1H2020, general and administrative expenses were \$5.3 million, an increase of \$1.4 million or 36% compared to \$3.9 million in 1H2019. As a percentage of total revenue, general and administrative expense increased to 28% of total revenue in 1H2020 from 23% of total revenue in 1H2019. This was primarily due to increased costs associated with being a public Company and investments ahead of anticipated growth and scale. We expect this cost base to normalise as a percentage of revenue as we continue to grow.

Other Items Impacting the Results

Other income/(expense), net

In 1H2020, other income/ (expenses), net was a loss of \$1.2 million, which primarily represent losses from foreign currency fluctuations on cash and cash equivalents.

Finance costs, net

In 1H2020, finance costs, net were \$0.0 million, a decrease of \$0.3 million or 69% from \$0.3 million in 1H2019. The improvement was primarily due to the repayment of the Company's outstanding debt in December 2019 following the IPO and interest income of \$0.1 million in 1H2020.

Cash Flows

Cash and cash equivalents were \$43.9 million as of 30 June 2020.

Operating cash out flow of \$1.1 million in 1H2020 was lower than the operating cash outflow of \$1.4 million in 1H2019. The \$0.3 million increase in operating cash flow for the first six months of 2020 compared to the same period of 2019 was primarily due to \$1.3 million increase in cash collections partially offset by changes in other working capital. Gross receipts from customers in 1H2020 aggregated to \$19.1 million as compared to \$17.8 million in 1H2019. Investing activities included \$0.2 million in relation to premiums on foreign currency option.

Cash flow from financing activities included, payments for leases \$0.7 million, IPO transaction costs \$0.2 million and the purchase of treasury shares of \$0.1 million. This was partially offset by receipts from the proceeds from the exercise of stock options of \$0.3 million.

COVID-19 Update

Further to the update provided to the market on 29 July 2020, the impact of the COVID-19 pandemic on the Company has not been material. At the beginning of the pandemic, we observed that many customers were focused on their initial pandemic response, resulting in some cases in delays or reviews of new initiatives. More recently, however, businesses have been seeking to quickly transform practices and processes to enable fully digital or fully remote work. Quite often these are technology investments that had been planned over many years, brought forward and accelerated into 2020. Businesses are seeking solutions that deliver a positive end-user experience and are also affordable, scalable, easy to implement and manage, and future proof.

The Company has seen this new and urgent demand across a number of areas as customers request solutions for rapid digitisation to enable remote work productivity with a strong focus on document collaboration and eSigning capabilities. This demand highlights the relevance and robustness of the Company's product offering and business model.

Nitro has published the Future of Work Report, a valuable perspective on knowledge worker behaviour as companies shift to a remote working environment in response to the COVID-19 pandemic. The report leverages data from Nitro Analytics™, part of the Nitro Productivity Suite™, which provides extensive business intelligence data and actionable insights to help customers measure and manage their digital transformation journey, gain visibility of user adoption, and benchmark performance. Nitro Analytics data encompasses 197 countries, over 22 industries and tracks around 38 million daily product events. The Future of Work Report details these trends and is available at <https://www.gonitro.com/future-of-work-part-1>

Nitro's financial position is the best it has ever been. With a balance sheet free from debt, a strong cash position and low operating cash requirements, the Company is well-positioned to manage the business impact during this unprecedented period. We will continue to closely monitor business performance and the potential impact of the COVID-19 pandemic on our prospectus forecast and keep the market informed as appropriate.

Launch of Nitro Sign

In June 2020, Nitro Sign™ was launched as a standalone eSigning solution, offering customers a smarter and faster way to get documents signed from anywhere. With unlimited electronic signatures, advanced team and collaboration features, integration within the Nitro Productivity Suite, document intelligence capabilities, and cloud storage and business workflow integrations, Nitro Sign enables businesses to shift to 100% digital document workflows and be productive from any location – including while working remotely. To help organisations of all sizes and industries navigate the disruption caused by the COVID-19 pandemic, Nitro Sign has been made available free of charge for the remainder of 2020. User acquisition, growth and usage goals, including signature volumes, are already far exceeding our internal targets.

Nitro's Growth Strategy

The Company's growth strategy is founded on five primary levers:

- Expansion within existing customers
- Winning new customers
- New product development
- Mergers and acquisitions
- New markets and channels

These growth levers, combined with the very large markets in which we operate and the accompanying accelerating growth trends observable in 2020, provide enormous opportunity for the Company.

The serviceable addressable market in just the two core markets of PDF productivity and eSigning that we are focused on today exceeds \$5.5 billion³.

The COVID-19 pandemic is accelerating digital transformation around the world and increasing investments in document productivity, workflow and analytics solutions.

With Nitro's strong history in selling these solutions into the largest organisations in the world, we are excited to deploy our capital and resources to continue to grow our product offering and rapidly scale our customer base.

Other Matters

Significant changes in the state of affairs

It is the opinion of the Directors that there were no significant changes in the state of affairs of the Group during the financial period, except as otherwise noted in this report.

Subsequent events

Mr Andrew Barlow resigned as a Non-Executive Director, effective 25 August 2020.

The Directors are not aware of any matters or circumstances that have arisen since 30 June 2020 that have significantly affected or may significantly affect the operations of the Group in subsequent financial years, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Proceedings on behalf of the group

No person has sought to bring proceedings on behalf of the Group, and the Group is not a party to any proceedings, for the purpose of taking responsibility on behalf of the Group for any such proceedings, or for a particular step in any such proceedings.

Auditor independence

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is included on page 16 in this report.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instruments 2016/191. The Group is an entity to which the legislative instrument applies.

This report is made in accordance with a resolution of the Directors.



Kurt Johnson
Executive Chairman
25 August 2020



Sam Chandler
Chief Executive Officer
25 August 2020



Auditor's Independence Declaration

As lead auditor for the review of Nitro Software Limited for the half-year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nitro Software Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Niamh Hussey'.

Niamh Hussey
Partner
PricewaterhouseCoopers

Melbourne
25 August 2020

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

US\$'000	NOTE	FOR THE HALF YEAR ENDED	
		30 JUNE 2020	30 JUNE 2019
Revenue	6, 7	19,058	16,694
Cost of revenues		(1,782)	(1,884)
Gross profit		17,276	14,810
Sales and marketing		(8,583)	(8,685)
Research and development		(3,908)	(3,659)
General and administrative		(5,263)	(3,865)
Other income/(loss), net		(1,040)	(97)
Finance costs		(85)	(273)
Depreciation and amortisation expense		(864)	(925)
Loss before income tax		(2,467)	(2,694)
Income tax benefit/(expense)		399	(89)
Loss for the period		(2,068)	(2,783)
Other comprehensive income/(loss)			
<i>Item that may be reclassified to profit or loss</i>			
Adjustment from translation from foreign controlled entities		72	(52)
Total comprehensive loss for the period		(1,996)	(2,835)
<i>Loss per share attributable to equity shareholders</i>			
Earnings per share			
Basic loss per share (US\$ per share) ¹	9	(0.01)	(0.04)
Diluted loss per share (US\$ per share) ¹	9	(0.01)	(0.04)

¹Basic and diluted earnings per share in the comparative period has been restated following the 9 for 1 share split undertaken on 18 November 2019.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

US\$'000	NOTE	30 JUN 2020	31 DEC 2019 (As adjusted)
ASSETS			
<i>Current assets</i>			
Cash and cash equivalents		43,947	47,017
Trade receivables	7(b)	6,340	4,755
Current tax receivables		11	91
Other current assets		1,683	1,908
Total current assets		51,981	53,771
<i>Non-current assets</i>			
Property, plant, and equipment		541	564
Intangible assets		1	64
Deferred tax assets		433	189
Right of use assets		2,369	3,058
Other non-current assets	5	3,369	3,034
Total non-current assets		6,713	6,909
Total assets		58,694	60,680
LIABILITIES			
<i>Current liabilities</i>			
Trade payables		1,864	2,772
Deferred revenue	5, 7(b)	18,564	16,409
Lease liability		1,345	1,393
Employee benefits	8	1,714	2,090
Other current liabilities		743	707
Total current liabilities		24,230	23,371
<i>Non-current liabilities</i>			
Deferred revenue	5, 7(b)	1,174	2,028
Deferred tax liability		215	344
Lease liability		914	1,540
Total non-current liabilities		2,303	3,912
Total liabilities		26,533	27,283
Net assets		32,161	33,397
EQUITY			
Contributed equity		90,331	90,209
Other reserves		2,518	1,705
Accumulated losses		(60,688)	(58,517)
Total equity		32,161	33,397

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

US\$'000	NOTES	CONTRIBUTED EQUITY	TREASURY RESERVE	WARRANT RESERVE	EMPLOYEE EQUITY BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
As at 1 January 2020		90,209		76	4,548	(2,920)	(58,517)	33,397
Loss for the period		-		-	-	-	(2,069)	(2,069)
Other comprehensive income								
Exchange differences from translation of foreign operations		-		-	-	72	-	72
Total comprehensive loss for the period		-		-	-	72	(2,069)	(1,998)
Transactions with owners of the Company								
Share based payment expense		-	-	-	742	-	-	742
Cancellation of shares		(4)	-	-	-	-	-	(4)
Exercise of options		147	-	-	-	-	-	147
Repurchase of shares		-	(102)	-	-	-	-	(102)
Shares issued/allocated to participants		-	102	-	-	-	(102)	-
Issuance costs on shares		(21)	-	-	-	-	-	(21)
As at 30 June 2020		90,331	-	76	5,290	(2,848)	(60,688)	32,161

US\$'000	NOTES	CONTRIBUTED EQUITY	WARRANT RESERVE	EMPLOYEE EQUITY BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
As at 1 January 2019		42,555	76	3,710	(2,750)	(50,586)	(6,995)
Loss for the period		-	-	-	-	(2,783)	(2,783)
<i>Other comprehensive income</i>							
Exchange differences from translation of foreign operations		-	-	-	(52)	-	(52)
Total comprehensive loss for the period		-	-	-	(52)	(2,783)	(2,835)
<i>Transactions with owners of the Company</i>							0
Employee share options granted		14	-	263	-	-	276
Cancellation of shares		(25)	-	-	-	-	(25)
Exercise of options		7	-	-	-	-	7
Issuance cost on shares		(2)	-	-	-	-	(2)
As at 30 June 2019		42,549	76	3,973	(2,802)	(53,369)	(9,573)

CONSOLIDATED STATEMENT OF CASH FLOWS

US\$'000	NOTE	FOR THE HALF YEAR ENDED	
		30 JUNE 2020	30 JUNE 2019
Cash flows from operating activities			
Loss for the period		(2,068)	(2,784)
Add back			
Depreciation and amortisation		864	925
Share-based payments		742	263
Finance costs		85	63
Provision for doubtful debts		36	-
Net exchange differences		767	28
Change in operating assets and liabilities			
(Increase)/decrease in trade and other receivables		(1,511)	(3,045)
(Increase)/decrease in deferred tax assets		(374)	-
(Increase)/decrease in tax receivable		(9)	(104)
(Increase)/decrease in other receivables		(5)	-
Increase/(decrease) in trade and other payables		(1,040)	(126)
Increase/(decrease) in deferred income		1,302	3,470
Increase/(decrease) in provision for income taxes		88	(80)
Net cash inflow/(outflow) from operating activities		(1,123)	(1,389)
Cash flows from investing activities			
Payments for property, plant and equipment		(95)	(545)
Premiums paid for foreign currency option		(224)	-
Net cash inflow/(outflow) from investing activities		(319)	(545)
Cash flows from financing activities			
Repayment of convertible notes		(25)	-
Proceeds from issue of preference shares		-	1,750
Proceeds from exercise of share options		330	-
Transaction costs related to issue of shares		(242)	-
Finance cost paid		(85)	-
Payment for leases		(673)	(491)
Repurchase of shares		(101)	-
Repayment of borrowings		-	(1,291)
Net cash inflow/(outflow) from financing activities		(796)	(32)
Net increase/(decrease) in cash and cash equivalents		(2,237)	(1,966)
Cash and cash equivalents at the beginning of the period		47,017	4,049
Effect of movement in exchange rates on cash held		(833)	-
Cash and cash equivalents at the end of the period		43,947	2,083

NOTES TO THE FINANCIAL STATEMENTS

1. General and corporate information

Nitro Software Limited (“Nitro” or “the Company”) is a for-profit company incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (“ASX”) under the ASX code ‘NTO’.

The financial report covers the consolidated financial statements as at and for the half year ended 30 June 2020 of Nitro and its subsidiaries (together referred to as “the Group”).

2. Basis of preparation of half year report

This Interim Financial Report (‘2020 Half Year Report’) for the half year ended 30 June 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting*. The 2020 Half Year Report does not include all of the information and notes required within the Annual Report. The 2020 Half Year Report should be read in conjunction with the Group’s Annual Report for the year ended 31 December 2019 and considered together with any public announcements made by the Group during the half year ended 30 June 2020.

The 2020 Half Year Report is presented in United States Dollars (USD), the predominant functional currency of the Group’s operations. In accordance with ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191, amounts in the 2020 Half Year Report and Directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The preparation of the consolidated interim financial statements in conformity with AASB 134 *Interim Financial Reporting* requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported revenue and expense during the reporting period. All adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The estimates and assumptions used in preparing its consolidated financial statements are reasonable; however, actual results could differ from those estimates. Operating results for the half year ended 30 June 2020 are not necessarily indicative of the results that may be expected for the year ending 31 December 2020.

The 2020 Half Year Report was authorised for issue by the Board of Directors on 25 August 2020.

3. Critical accounting policies

Except for the adjustment of contract assets detailed in Note 5, there have been no material changes in the critical accounting policies compared to those disclosures in the Group's consolidated financial statements as at, and for the year ended 31 December 2019.

COVID-19 Pandemic

There has been no significant impact on our operational and financial performance and the collectability of our accounts receivable of the group due to the COVID-19 pandemic during the half year ended 30 June 2020. We also do not anticipate negative impact on our business and future revenues, and concluded no indicators of impairment were present relating to our long-lived assets and capitalised contract acquisition costs as at 30 June 2020. The full extent of the potential impacts on the Company's performance will depend on future developments, which cannot be predicted due to the uncertain nature of the continued COVID-19 pandemic. These effects could have a material adverse impact on the group's business, operations, financial condition and results of operations.

4. New and amended standards adopted by the Group

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning 1 January 2020 which are as follows:

- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material (AASB 101 and AASB 108)
- Revised Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework
- AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform (AASB 7, AASB 9 and AASB 139).

The new standards effective from 1 January 2020 have no material impact on the 2020 Half Year Report.

5. Adjustment of prior period financial information:

Previously we had recognised unbilled receivables related to multi-year, non-cancellable subscription arrangements at the contract inception. As practice has further developed since adoption of *AASB 15 Revenue from Contracts with Customers*, we have revisited this policy and concluded that we will recognise the accounts receivable when the right to consideration becomes unconditional. As such, the unbilled receivables and corresponding deferred revenue liabilities will no longer be recognised on the balance sheet; Instead, they will be disclosed in the notes to our financial statements under remaining performance obligations.

The comparative information as at 31 December 2019 has been adjusted to reflect the impact of the above change. As at that date, except as disclosed in the table below, the change does not have any impact on the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, and the consolidated statement of cash flows.

US\$'000	31 DEC 2019 (As previously reported)	Adjustments	31 DEC 2019 (As adjusted)
Trade receivables, non-current ¹	13,424	(13,424)	-
Other non-current assets ¹	4,270	(1,236)	3,034
Total non-current assets	21,569	(14,660)	6,909
Total assets	75,340	(14,660)	60,680
Deferred revenue, current	18,930	(2,521)	16,409
Total current liabilities	25,892	(2,521)	23,371
Deferred revenue, non-current	14,167	(12,139)	2,028
Total non-current liabilities	16,051	(12,139)	3,912
Total liabilities	41,943	(14,660)	27,283

¹ Comparative amounts have been reclassified to conform with current period presentation.

As at 1 January 2019, the impact of the adjustment to the consolidated balance sheet was a decrease in unbilled receivable of \$12.40 million and a decrease in deferred revenue liabilities by the same amount

6. Segment information

The Group manages its operations as a single business operation and there are no separate parts of the Group that qualify as operating segments. The CEO is the Chief Operating Decision Maker ('CODM') and assesses the financial performance of the Group on an integrated basis as a single segment.

The CODM assesses the Group's performance on a product/service perspective:

- Subscription – being the sale of 'software-as-a-service' to businesses providing access to a licence.
- Perpetual licence maintenance and support – being the sale of perpetual licence products (including optional maintenance and support services).

US\$'000	HALF YEAR ENDED 30 JUNE 2020			HALF YEAR ENDED 30 JUNE 2019		
	SUBSCRIPTION	PERPETUAL	TOTAL	SUBSCRIPTION	PERPETUAL	TOTAL
Revenue	9,130	9,928	19,058	5,724	10,970	16,694
Cost of revenues	(660)	(1,122)	(1,782)	(571)	(1,313)	(1,884)
Gross profit	8,470	8,806	17,276	5,153	9,657	14,810
Gross margin	93%	89%	91%	90%	88%	89%

7. Revenue and contract balances

(a) Disaggregated revenue from contracts with customers

PRODUCT CHARACTERISTICS USD ('000)	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
Subscription	9,130	5,724
Perpetual licence, maintenance and support	9,928	10,971
Total revenue	19,058	16,694
<i>Subscription revenue as a % of total revenue</i>	48%	34%
<i>Perpetual licence, maintenance and support revenue as a % of total revenue</i>	52%	66%

TIMING OF REVENUE RECOGNITION USD ('000)	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
Products and services transferred at a point in time	6,695	7,248
Products and services transferred at over time	12,363	9,446
Total revenue	19,058	16,694
<i>Revenue recognised at a point in time as a % of total revenue</i>	35%	43%
<i>Revenue recognised over time as a % of total revenue</i>	65%	57%

(b) Receivables and contract liabilities

US\$'000	AS AT	
	30 JUNE 2020	31 DECEMBER 2019 (As adjusted)
Trade receivables, net	6,340	4,755
Deferred revenue	19,739	18,437
Total contract liabilities	19,739	18,437

Please see Note 5 for the adjustment related to deferred revenue as at 31 December 2019 and the related changes to the remaining performance obligations disclosure.

Remaining performance obligations represents total contractual commitments for which services will be performed. Remaining performance obligations include deferred revenue, which primarily consists of billings or payments received in advance of revenue recognition and unbilled receivable that have not yet been recognised in the financial statements. The transaction price allocated to remaining performance obligations is approximately \$38.7 million as of 30 June 2020.

Approximately 56% of the remaining performance obligations are expected to be recognised over the next 12 months with the remainder recognised thereafter.

8. Employee benefits

US\$'000	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
DISAGGREGATED BY NATURE		
Wages and salaries	10,920	10,739
Superannuation	50	36
Share-based payments	742	262
Employee benefit expenses	11,712	11,037

US\$'000	AS AT	
	30 JUNE 2020	31 DECEMBER 2019
EMPLOYEE BENEFIT LIABILITIES		
Accrued wages	1,171	1,493
Annual leave	538	593
Long service leave	5	4
Total	1,714	2,090

9. Earnings per share

US\$'000	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
Net loss attributable to ordinary equity holders	(2,068)	(2,783)
Net loss used in calculating diluted earnings per share	(2,068)	(2,783)

Weighted average number of ordinary shares on issue used in the calculation of	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
Basic earnings per share	188,981,369	65,740,934
Diluted earnings per share	188,981,369	65,740,934

Earnings per share (US\$)	FOR THE HALF YEAR ENDED	
	30 JUNE 2020	30 JUNE 2019
Basic	(0.01)	(0.04)
Diluted	(0.01)	(0.04)

For the half year ended 30 June 2020, the Group's only potential dilutive ordinary shares are share awards granted under the employee share ownership plans. Diluted earnings per share calculation excludes instruments which are considered anti-dilutive. For the half year ended year ended 30 June 2020, the effect of these shares were not included in the calculation of diluted earnings per share because they are anti-dilutive for the period(s) presented.

10. Fair value measurements of financial instruments

As at 30 June 2020, the Group did not have any financial assets or financial liabilities that were measured at fair value. During the half year ended 30 June 2020, the Company entered into a foreign currency option which was measured at fair value through the profit and loss ("FVTPL"). The foreign currency option expired in June 2020. A loss of \$0.2 million has been recognised in the statement of comprehensive income.

11. Equity shares

	EQUITY SECURITIES			
	1H FY2020		FY2019 ⁴	
	NO.	US\$'000	NO.	US\$'000 ¹
Balance at the beginning of the period	188,928,996	90,209	66,045,285	628
Exercise of options and warrants	531,873	147	1,456,854	289
Shares withheld in relation to cashless exercise of options	(35,489)	-	-	-
Cancellation of shares	(9,563)	(4)		
Issue of shares on IPO	-	-	38,249,649	44,833
Conversion of preference shares to ordinary shares	-	-	77,872,509	41,927
Issue of shares on conversion of notes	-	-	5,304,699	6,199
Expenses directly attributable to the issue of shares	-	(21)	-	(3,667)
Balance at the end of the period	189,415,817	90,331	188,928,996	90,209

⁴ Represents transactions for the year ended 31 December 2019

12. Share-based payments

Awards, in the form of the right to receive ordinary shares in the Company, have been granted under the following employee share ownership plans in the Historical Long-Term Incentive Plan (Historical LTIP) and Current Long-Term Incentive Plan (Current LTIP) Awards. Set out below are the details of the awards under the Current LTIP for the period ended 30 June 2020:

Share options:

Stock options granted to employees generally vest over a four-year period and expire ten years from the date of grant. Certain awards provide for accelerated vesting upon a change of control. Stock options are generally granted with exercise prices equal to the fair market value of its common stock on the date of grant. During the period, 2,623,215 unlisted options were issued to eligible employees. None of these options were issued to key managerial personnel ('KMP') of the Group. The following table summarises the movements in the number of options outstanding as at 30 June 2020.

	OPTIONS			
	1H2020		FY2019 ⁵	
	NO.	WAEP ⁶¹	NO.	WAEP ²¹
Outstanding at the beginning of the period	15,894,495	0.5500	17,375,229	0.3800
Granted during the period	2,623,215	1.2461	5,129,190	1.0100
Forfeited during the period	(1,722,422)	0.7706	(5,308,164)	0.5100
Exercised during the period	(531,873)	0.5057	(1,301,760)	0.3300
Outstanding at the end of the period	16,263,415	0.6427	15,894,495	0.5500
Exercisable at the end of the period	11,869,385	0.4336	11,644,544	0.4100

Estimation of fair value

The Company estimates the fair value of stock options on the date of grant using the Black-Scholes option-pricing model. This model requires the use of highly subjective estimates and assumptions, including expected volatility, expected term, risk-free interest rate, and expected dividend yield.

The above inputs used in the measurement of share-based payments expense include Level 1 and Level 2 inputs as per the fair value hierarchy under AASB 13 Fair value measurements:

- such as quoted prices (unadjusted) in active markets and

⁵ Represents transactions for the year ended 31 December 2019

⁶ Weighted average exercise price in AU\$

- inputs other than quoted prices included within level 1 that are observable for either directly (as prices) or indirectly (derived from prices), respectively. The fair value of options granted during the half year ended 30 June 2020 and year ended 31 December 2019 were estimated on the grant date using the assumptions set out below.

STOCK OPTIONS	Date of grant	Date of Expiry	Exercise price	Fair value at grant date	Expected price volatility %	Dividend yield %	Risk free rate	Remaining contractual life (years)
1H2020	27-Mar-20	27-Mar-30	AUD 0.9750	AUD 0.54	62%	0%	0.56%	9.75
1H2020	24-Jun-20	24-Jun-30	AUD 1.4700	AUD 0.80	62%	0%	0.53%	9.99
FY2019	25-Mar-19	24-Mar-29	USD 0.3856	USD 0.21	60%	0%	1%	9.24
FY2019	13-Nov-19	11-Dec-29	AUD 1.7200	AUD 0.69	42%	0%	1%	9.96

Restricted shares:

The Company recognises share-based payment expense over the vesting term of the restricted shares. The fair value is measured based upon the number of units and the closing price of the Company's shares on the date of the grant.

Market-based vesting conditions

During the period, 1,278,644 restricted shares were issued to the senior executives of the Group. In addition to the requisite service period, these restricted shares contain a market-based vesting condition based on relative total shareholder return.

Relative total shareholder return is defined as increases in our stock price during the performance period as compared to the Company's peer group, ASX All Technology Index (ASX: XTX), expressed as a percentile ranking to be assessed at the end of the performance periods of two and three years.

The probability of the actual shares expected to be awarded is considered in the grant date valuation.

Performance-based vesting conditions

During the period, 332,644 restricted shares were issued to the senior executives of the Group. In addition to the requisite service period, these stock units contain a performance-based vesting conditions based on internal compound revenue growth rate measure ('CAGR'). The probability of

the actual shares expected to be awarded is not considered in the grant date valuation. The share-based payment expense will be adjusted over the vesting period, as further information becomes available to reflect the actual shares awarded.

The following table summarises the movements in the number of restricted shares outstanding as at 30 June 2020.

	1H2020 NO.	FY2019 ⁷ NO.
Outstanding at the beginning of the period	-	-
Granted during the period	1,611,288	-
Forfeited during the period	-	-
Vested during the period	-	-
Outstanding at the end of the period	1,611,288	-

Share awards:

In June 2020, the Company issued 100,000 shares to the senior executive of the Group from the treasury shares. The fair value was measured based upon the closing price of the Company's shares on the date of the award. During the half year ended 30 June 2020, the Company recognised stock-based payment expense of \$0.16 million related to the share award.

Expense summary

For the half year ended 30 June 2020, the Group recognised \$0.74 million of share-based payment expense in relation to the stock options, restricted shares and share awards.

13. Events occurring after the reporting period

Mr Andrew Barlow resigned as a Non-Executive Director, effective 25 August 2020.

No other matters or circumstances have occurred subsequent to period end that have significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

⁷ Represents transactions for the year ended 31 December 2019

DIRECTORS DECLARATION

In accordance with a resolution of the Directors of Nitro Software Limited, we state that:

In the opinion of the Directors:

- a) The financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - ii. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half year ended on that date.
- b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Kurt Johnson
Executive Chairman
25 August 2020



Sam Chandler
Chief Executive Officer
25 August 2020



Independent auditor's review report to the members of Nitro Software Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Nitro Software Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Nitro Software Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Nitro Software Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Niamh Hussey'.

Niamh Hussey
Partner

Melbourne
25 August 2020

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