

Q3

Interim report
January-September 2020



NETENT

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Q3

INTERIM REPORT JANUARY–SEPTEMBER 2020

Third quarter 2020

- Revenues for the third quarter amounted to 521 (443) SEKm
- EBITDA* was 310 (196) SEKm, corresponding to a margin of 59.4 (44.3)%
- EBIT* was 204 (112) SEKm, corresponding to a margin of 39.2 (25.3)%
- Excluding non-recurring costs, EBITDA was 313 (221) SEKm and EBIT was 207 (137) SEKm
- Earnings after tax* amounted to 167 (76) SEKm, earnings per share was 0.68 (0.32) SEK after dilution

First nine months 2020

- Revenues for the first nine months amounted to 1,611 (1,281) SEKm
- EBITDA was 838 (594) SEKm, corresponding to a margin of 52.0 (46.4)%
- EBIT was 517 (368) SEKm, corresponding to a margin of 32.1 (28.7)%
- Excluding non-recurring costs, EBITDA was 880 (619) SEKm and EBIT was 559 (393) SEKm
- Earnings after tax amounted to 338 (316) SEKm, earnings per share was SEK 1.38 (1.32) after dilution

Important events in the third quarter

- Continued focus on integration with Red Tiger
- Several important customer contracts were signed with operators for the US market
- 16 new slot games were released, 5 from NetEnt and 11 from Red Tiger

Quote from Therese Hillman, Group CEO

"During the quarter we continued to invest in our strategic growth areas USA, Red Tiger and Live Casino, while driving cost and revenue synergies from the ongoing integration between NetEnt and Red Tiger. Underlying EBITDA amounted to SEK 313 (221) million, corresponding to a record margin of 60% (50%). Given our new lower cost base, the operating leverage of our business and our strong product pipeline, we expect continued strong growth in earnings and cash flow for the rest of the year and beyond."

Summary in figures (SEKm)	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Operating revenues	521	443	1,611	1,281	1,793
EBITDA*	310	196	838	594	855
EBITDA margin	59.4%	44.3%	52.0%	46.4%	47.7%
EBIT*	204	112	517	368	529
EBIT margin	39.2%	25.3%	32.1%	28.7%	29.5%
Earnings after tax*	167	76	338	316	429
Earnings per share (SEK), after dilution	0.68	0.32	1.38	1.32	1.79
Cash flow from operations	282	102	805	478	575
Net debt at end of period	1,940	2,465	1,940	2,465	2,418

*After non-recurring transaction costs of 3.0 SEKm in Q3 2020 related to Evolution Gaming's public tender offer.

Tables and calculations in the report do not always correspond exactly to the stated totals due to rounding.

Comments by Therese Hillman, Group CEO

Revenues for the third quarter of the year amounted to SEK 521 (443) million. On a proforma basis, including Red Tiger fully in the previous year's figures, the Group's total revenues increased organically by 9% Y/Y in euro compared to the same period in 2019. The return of sports betting and the general easing of lockdowns in key markets resulted in a normalization of revenue growth to pre Covid-19 levels. Our continued focus on costs started to have a notably positive effect on profitability in the quarter. Underlying earnings before interest, tax, depreciation and amortization (EBITDA) amounted to SEK 313 (221) million, corresponding to a record margin of 60% (50%).

Gross gaming revenues (GGR) from the US market increased by 313% Y/Y and accounted for more than 10% of total Group GGR in the quarter. We remain very excited about the US opportunity and have continued to expand our footprint by signing important customer deals with operators such as DraftKings, William Hill, Tipico, Wind Creek, BetMGM and The Cordish Companies.

Red Tiger had its best quarter ever with continued strong revenue growth and several great game releases. Of the 16 new slot titles released during the quarter for the Group, Gonzo's Quest Megaways™ stood out as an exceptionally strong game launch. Three months after its release, the game is by far the best performing new game ever launched for the NetEnt Group in terms of gross gaming revenues (GGR). Our second new game collaboration this year, Piggy Riches Megaways™, was recently recognized by Slot Catalog Awards as the most popular slot game in the UK so far in 2020.

Our continuous product improvements in Live Casino resulted in continued growth, albeit at a slower pace than in the second quarter, with GGR up 109% Y/Y. Growth with existing customers continued at a high pace, while we noticed a slowdown in new sales.

During the quarter we continued to invest in our strategic growth areas USA, Red Tiger and Live Casino, while driving cost and revenue synergies from the ongoing integration between NetEnt and Red Tiger. A number of important activities in the third quarter are expected to have a positive effect on earnings in Q4 and onwards, including:

- Market entry in West Virginia in October as the first third-party supplier.
- Expected early entry in Michigan when the market opens.
- Launching Red Tiger's games in Pennsylvania under NetEnt's license. Go-live is expected in November.
- Red Tiger's games are now available through NetEnt's platform at Veikkaus, further expanding Red Tiger's reach into regulated markets and Tier 1 customers.
- Launch in December of Roulette Max, an innovative high-volatility game version for Live Casino.
- Further expansion of our Live studio in Malta.

The revenue outlook for Q4 remains positive, supported by the list of actions mentioned above. Further, our product pipeline looks very promising with Megaways™ versions of such classic titles as Kulta Jaska, Twin Spin and Divine Fortune. Given our new lower cost base, the operating leverage of our business and our strong product pipeline, we expect continued strong growth in earnings and cash flow for the rest of the year and beyond.

Therese Hillman
Group CEO, NetEnt

Revenues and earnings in the third quarter

In the third quarter, total operating revenues amounted to 521 (443) SEKm and operating expenses amounted to 317 (331) SEKm. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to 310 (196) SEKm, corresponding to a margin of 59.4 (44.3)%. Earnings before interest and tax (EBIT) amounted to 204 (112) SEKm, which corresponded to a margin of 39.2 (25.3)%. Earnings were affected by non-recurring transaction costs of 3.0 SEKm in Q3 2020 related to Evolution Gaming's public tender offer. Excluding these non-recurring costs, EBITDA was 313 (221) SEKm and EBIT was 207 (137) SEKm.

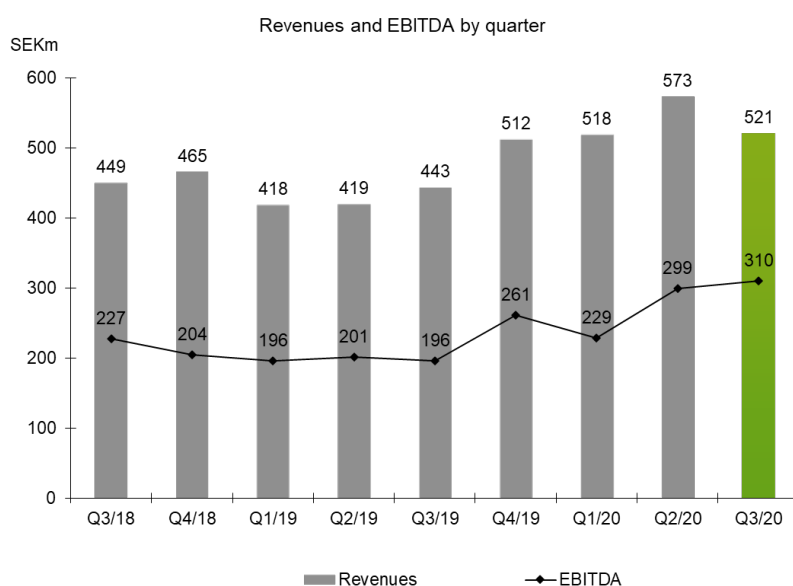
Nearly all of the company's revenues consist of software license fees, which are calculated and charged as a percentage of gaming revenues (player bets minus wins) generated by NetEnt's games for its customers.

Revenues are affected by the development of the Swedish krona in relation to other currencies, particularly euro and British pounds. The main part of revenues is invoiced and accounted for in euro, then translated and reported in Swedish krona. A weaker Swedish krona has a positive effect on reported revenues. During the third quarter of 2020, the Swedish krona strengthened by 2.8% against the euro compared to the same period in 2019. Against the British pound, the Swedish krona strengthened by 3.0% during the period.

Costs are also affected by the development of the Swedish krona against the euro, as a weaker Swedish krona leads to cost increases. For example, depreciation and amortization are affected by the development of the Swedish krona versus the euro as they are booked in euro and then translated to Swedish krona. The share of costs reported in other currencies represented approximately 58 (54)% in the third quarter of 2020.

Net financial items amounted to -20 (-28) SEKm for the period and mainly consisted of interest and amortized financing costs on bank loans.

Earnings after tax for the period amounted to 167 (76) SEKm, corresponding to fully diluted earnings per share (EPS) of 0.68 (0.32) SEK.



Breakdown of gross gaming revenues (GGR) in the third quarter

In the third quarter, locally regulated markets accounted for 52 (47)% of gross gaming revenues (GGR). The tables below illustrate the split by geographic region and product type.

NetEnt Group, GGR split by region	Q3-20	Q2-20	Q1-20	Q4-19*	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
United Kingdom	19%	21%	19%	19%	12%	14%	14%	13%	14%
Nordic region	17%	16%	18%	19%	25%	25%	26%	30%	31%
Other Europe	42%	41%	43%	43%	50%	50%	50%	48%	47%
United States	10%	10%	7%	5%	3%	2%	2%	1%	1%
Rest of world	12%	12%	13%	14%	10%	9%	8%	8%	7%

NetEnt Group, GGR split by product	Q3-20	Q2-20	Q1-20	Q4-19*	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18
Slots	90%	89%	90%	94%	91%	92%	92%	92%	92%
Table games	10%	11%	10%	6%	9%	8%	8%	8%	8%

* Red Tiger has been included as of Q4 2019.

Investments in the third quarter

The Group's investments in intangible assets amounted to -40 (-49) SEKm and investments in tangible assets totaled -4 (-6) SEKm in the quarter.

Investments in intangible assets consist of development of new games, technical adjustments related to regulatory requirements and software licenses. Notable larger investments during the quarter were development projects related to new games, platform and Live Casino.

Investments in property, plant and equipment primarily consist of servers and other computer hardware to meet new technical standards and sustain capacity and performance as the business expands and new products are being introduced.

Cash flow in the third quarter

The Group's cash flow from operating activities before changes in working capital amounted to 273 (167) SEKm in the quarter. Cash flow from operating activities after changes in working capital amounted to 282 (102) SEKm. Cash flow from investing activities amounted to -44 (-2,278) SEKm in the quarter. Cash flow from financing activities amounted to -152 (2,282) SEKm and consisted mainly of amortization of bank loans and IFRS 16 lease liabilities.

At the end of the period, the Group's net financial debt amounted to 1,940 (2,465) SEKm. Net debt includes bank loans, net present value of the earn-out liability, and lease liabilities related to IFRS 16, net of cash and cash equivalents. Funds held on behalf of licensees was 130 (118) SEKm.

Summary of the first nine months of 2020

Revenues during the period of January–September 2020 amounted to 1,611 (1,281) SEKm. Earnings before interest, tax, depreciation and amortization (EBITDA) amounted to 838 (594) SEKm, corresponding to a margin of 52.0 (46.4)%. Earnings before interest and tax (EBIT) amounted to 517 (368) SEKm, which corresponded to a margin of 32.1 (28.7)%. Excluding non-recurring costs, EBITDA was 880 (619) SEKm and EBIT was 559 (393) SEKm in the period.

Earnings after tax for the period amounted to 338 (316) SEKm, corresponding to fully diluted earnings per share (EPS) of 1.38 (1.32) SEK after dilution.

The Group's cash flow from operating activities for the period amounted to 805 (478) SEKm. Cash flow from investing activities amounted to -161 (-2,377) SEKm.

Cash flow from financing activities amounted to -566 (1,686) SEKm and consisted mainly of amortization of bank loans and payment of ordinary cash distribution to shareholders.

The Annual General Meeting on April 29, 2020, approved the Board's proposal to distribute 239 (540) SEKm to shareholders, which corresponds to SEK 1.00 (2.25) per share, by means of an automatic share redemption program. The cash was distributed to holders of redemption shares through Euroclear in June.

The Annual General Meeting also approved the nominating committee's proposal to re-elect Fredrik Erbing, Peter Hamberg, Pontus Lindwall, Maria Redin, Lisa Gunnarsson, Christoffer Lundström and Jonathan Pettemerides as members of the Board. Mathias Hedlund was elected as new Board member and new Chairman of the Board.

The Annual General Meeting further resolved to introduce a long-term incentive program intended for certain employees within the NetEnt Group. A total of 1,089,388 options were issued in June 2020, with the right to subscribe to an equal number of new shares in NetEnt AB. The options were issued at SEK 5.86 per option – the fair market value as calculated by external experts. The strike price was determined at SEK 49.60 and subscription of shares can be made during the period August 1 to September 20, 2023.

Since the acquisition of Red Tiger in September, the financial performance has exceeded the company's forecasts by a wide margin. In order to support the integration with NetEnt, in March 2020 NetEnt agreed with the sellers of Red Tiger on an addendum to the share purchase agreement (SPA). This means that the conditions for payment of the earn-out consideration are deemed to have been met. Half of the earn-out consideration was paid through a directed issue of new B-shares in the second quarter of 2020, and the rest will be paid as cash in the second quarter of 2021. The annual general meeting (AGM) of NetEnt approved a directed issue of 6,327,175 B-shares to the sellers of Red Tiger. The new shares were issued at a price of 21.34 SEK per share, which corresponded to the volume-weighted average price of NetEnt's B-shares on Nasdaq Stockholm during the period of February 24 – March 20, 2020.

Personnel and organization

At the end of the period, the number of employees was 898 (858). Including external resources such as dedicated staff with contract suppliers and subcontractors, the NetEnt Group employed 1,102 (1,069) persons.

Parent Company

Revenues in the Parent Company come from services provided to subsidiaries. Product development costs are not capitalized in the Parent Company as the development projects are ordered and owned by subsidiaries in Malta.

The Parent Company's revenues amounted to 144 (213) SEKm and EBIT was 12 (40) SEKm for the period. The margin was 8.2 (18.8)%. The margin is primarily affected by the proportion of the Parent Company's costs that are billed to other Group companies and the intercompany pricing applied. The price level is controlled by independent comparative studies of similar services and can vary over time if the general price level on the market has changed. Financial items include currency effects on inter-company balances and dividends. Earnings after tax amounted to 6 (18) SEKm for the quarter.

Investments in property, plant and equipment for the Parent Company amounted to 1 (1) SEKm and investments in intangible assets were 0 (3) SEKm for the period. Cash and cash equivalents in the Parent Company amounted to 68 (49) SEKm at the end of the period.

Recommended public offer by Evolution Gaming to the shareholders of NetEnt

On June 24, 2020, Evolution Gaming Group AB (publ) announced a public offer to the shareholders of NetEnt AB (publ). Evolution offers 0.1306 Evolution shares for each share in NetEnt. NetEnt's Board of Directors has unanimously recommended shareholders to accept the offer. The acceptance period for the offer has been extended to November 20, 2020.

About NetEnt

NetEnt AB (publ) is a global gaming company, providing premium gaming solutions to the world's most successful online casino operators. The product portfolio includes the NetEnt and Red Tiger brands. Since the start in 1996, NetEnt has been a true pioneer in driving the market with innovative games powered by a cutting-edge platform. NetEnt is committed to creating the future of gaming and employs around 1,100 people in Malta, Stockholm, Sofia, Kiev, Krakow, Gothenburg, Gibraltar, Isle of Man, London and New Jersey. The NetEnt share is listed on Nasdaq Stockholm (NET-B). For more information, please visit www.netent.com.

Risks and uncertainties

NetEnt's operations are exposed to certain risks that could have a varying impact on earnings or financial position. These can be divided into industry, operational, and financial risks. The management's general view of the risks that may affect operations has not changed compared to the description given in the most recently published annual report. For a detailed description of risks, see NetEnt's 2019 annual report, pages 24-27 and pages 80-83.

Presentation of report

On Thursday, 22 October 2020, at 10:30 a.m. (CET) the report will be presented by CEO Therese Hillman live via an audiocast and telephone conference. The audiocast can be followed in real-time on NetEnt's website, the link is: <https://tv.streamfabriken.com/netent-q3-2020>

Dial-in numbers for participants are the following:

Sweden: +46 8 566 42707. UK: +44 3333 009 263. USA: +1 833 249 8404

Financial calendar

Earnings report and report for the fourth quarter 2020

February 12, 2021

Financial reports, press releases, and other information are available from the date of publication on NetEnt's website www.netent.com.

The Board of Directors and the CEO certify that the report gives a true and fair view of the operations, position, and results of the Group and Parent Company and describes principal risks and uncertainties facing NetEnt and its group companies.

Stockholm, October 21st, 2020

Mathias Hedlund Chairman of the Board	Christoffer Lundström Board Member	Lisa Gunnarsson Board Member	Fredrik Erbing Board Member
Jonathan Pettemerides Board Member	Pontus Lindwall Board Member	Maria Redin Board Member	Peter Hamberg Board Member

Therese Hillman
Group CEO

Questions may be directed to:

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This report has not been subject to special review by the Company's auditor.

Publication

This information is information that NetEnt AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation (MAR). The information was submitted for publication, through the agency of the contact person set out above, at 7:30 CET on October 22, 2020.

Legal disclaimer

Certain statements in this report are forward-looking and the actual outcomes may be materially different. In addition to the factors discussed, other factors could have an impact on actual outcomes. Such factors include developments for customers, competitors, the impact of economic and market conditions, national and international legislation and regulations, fiscal regulations, the effectiveness of copyright for computer systems, technological developments, exchange rates fluctuations and interest rates and political risks.

Condensed consolidated income statement and statement of total income for the Group (kSEK)

	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
INCOME STATEMENT					
Revenues	510,440	437,427	1,576,080	1,262,145	1,766,732
Other revenues	10,479	6,011	34,929	18,764	26,183
Total operating revenues	520,920	443,439	1,611,009	1,280,909	1,792,915
Personnel expenses	-99,721	-120,423	-367,991	-368,913	-491,112
Depreciation and amortization	-105,685	-84,310	-320,973	-225,629	-326,345
Other operating expenses	-111,527	-126,701	-405,398	-318,246	-446,732
Total operating expenses	-316,932	-331,434	-1,094,361	-912,788	-1,264,189
Operating profit	203,988	112,005	516,647	368,122	528,726
Financial income	22,291	26,193	102,432	59,248	72,961
Financial expense	-42,235	-53,740	-248,141	-81,140	-128,481
Financial items	-19,944	-27,547	-145,709	-21,892	-55,520
Profit before tax	184,044	84,458	370,939	346,230	473,206
Tax on the period's profit	-16,938	-8,374	-33,384	-29,966	-44,337
Profit for the period	167,106	76,084	337,554	316,264	428,870
<i>Earnings per share before dilution (SEK)</i>	<i>0.68</i>	<i>0.32</i>	<i>1.39</i>	<i>1.32</i>	<i>1.79</i>
<i>Earnings per share after dilution (SEK)</i>	<i>0.68</i>	<i>0.32</i>	<i>1.38</i>	<i>1.32</i>	<i>1.79</i>
Average number of shares outstanding					
- before dilution	245,458,035	239,130,860	242,645,957	239,579,199	239,469,216
- after dilution	247,253,152	239,130,860	244,441,074	239,579,199	239,469,216
Profit for the period attributable to Parent Company shareholder	167,106	76,084	337,554	316,264	428,870
STATEMENT OF TOTAL INCOME					
Profit for the period	167,106	76,084	337,554	316,264	428,870
Other total income					
Other total income items that may be reclassified to net income					
Exchange rate differences from the translation of foreign operations	275	45,955	-185,250	56,666	138,038
Sum of other total income for the period, net after tax	275	45,955	-185,250	56,666	138,038
Total income for the period attributable to Parent Company shareholders	167,381	122,039	152,304	372,930	566,908

Condensed consolidated balance sheets (kSEK)

	Sep 30 2020	Sep 30 2019	Dec 31 2019
ASSETS			
Intangible assets	2,783,315	3,012,147	3,009,880
Property, plant, and equipment	71,409	101,527	94,710
Access right value assets	177,230	258,051	228,829
Deferred tax receivable	4,368	5,007	4,740
Other long-term receivables	1,369	28,585	26,106
Total non-current assets	3,037,692	3,405,317	3,364,265
Account receivables ¹⁾	232,454	151,753	219,920
Other receivables	14,679	41,231	55,664
Prepaid expenses and accrued revenues	95,554	183,076	200,957
Funds held on behalf of licensees	130,400	118,134	51,138
Cash and cash equivalents	337,309	300,208	265,458
Total current assets	810,396	794,402	793,137
TOTAL ASSETS	3,848,088	4,199,719	4,157,402
EQUITY AND LIABILITIES	Sep 30 2020	Sep 30 2019	Dec 31 2019
Share capital	1,236	1,205	1,205
Other capital contributed	307,207	95,962	95,962
Reserves	-14,954	88,924	170,297
Retained earnings including profit for the period	787,638	576,610	689,215
Total equity	1,081,128	762,701	956,678
Prepayments from customers	4,337	17,181	12,412
Bank loans	1,749,806	2,057,228	2,000,643
Other long term liabilities	66,523	281,723	300,352
Lease liabilities	102,952	178,859	152,379
Deferred tax liability	57,930	68,400	66,578
Total long-term liabilities	1,981,547	2,603,390	2,532,363
Accounts payable	39,547	39,168	36,945
Current tax liabilities	30,321	38,296	56,054
Lease liabilities	59,306	70,406	63,165
Bank loans	243,607	252,603	237,608
Other liabilities	284,166	193,001	139,067
Accrued expenses and prepaid revenues	128,465	240,154	135,522
Total current liabilities	785,413	833,629	668,361
TOTAL EQUITY AND LIABILITIES	3,848,088	4,199,719	4,157,402

1) From March 2020 NetEnt is invoicing the monthly license fees in the current month. Historically the invoices have been issued in the beginning of the next month.

Condensed consolidated cash flow statements (kSEK)

(kSEK)	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Operating profit	203,988	112,005	516,647	368,122	528,726
<i>Adjustment for items not included in cash flows:</i>					
Depreciation, amortization and impairments	105,685	84,310	320,973	225,629	326,345
Other	-2,138	-24,599	-3,098	-15,965	-20,016
Interest paid	-24,293	-774	-51,723	-2,830	-8,811
Income tax paid	-10,674	-3,657	-64,315	-16,091	-22,016
Cash flow from operating activities before changes in working capital	272,567	167,286	718,484	558,865	804,227
Changes in working capital	9,100	-65,670	86,815	-81,171	-229,356
Cash flow from operating activities	281,667	101,616	805,299	477,694	574,871
Acquisition subsidiaries	-	-2,223,923	-	-2,223,923	-2,281,378
Acquisition of intangible assets	-39,990	-48,502	-149,994	-140,142	-188,688
Acquisition of property, plant, and equipment	-4,246	-5,531	-10,572	-12,840	-18,942
Cash flow from investing activities	-44,236	-2,277,955	-160,566	-2,376,904	-2,489,008
New bank loan	-	2,296,397	-	2,296,397	2,296,397
Amortization of bank loan	-136,458	-	-279,154	-	-
Amortization of lease liability	-16,295	-14,597	-53,285	-44,275	-61,071
Received premium for share option rights	261	-	6,243	2,150	2,150
Repurchase of share options	-	-	-283	-	-
Repurchase of own shares	-	-	-	-30,355	-30,355
Transfer to shareholders	-	-	-239,131	-538,044	-538,044
Cash flow from financing activities	-152,492	2,281,800	-565,610	1,685,872	1,669,076
Cash flow for the period	84,938	105,461	79,123	-213,336	-245,061
Cash and cash equivalents at beginning of period	254,342	193,031	265,458	500,844	500,844
FX differences in cash and cash equivalents	-1,970	1,716	-7,272	12,700	9,676
Cash and cash equivalents at end of period	337,309	300,208	337,309	300,208	265,458

Condensed consolidated changes in equity (kSEK)

2019	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
Opening equity Jan. 1, 2019	1,205	93,812	32,258	828,745	956,020
Cash distribution to shareholders	-	-	-	-538,044	-538,044
Repurchase of own shares	-	-	-	-30,355	-30,355
Received premium for share option	-	2,150	-	-	2,150
Total income for the period Jan-Dec	-	-	138,038	428,870	566,908
Closing equity Dec. 31, 2019	1,205	95,962	170,297	689,215	956,678

2020	Share capital	Other capital contributed	Reserves	Retained earnings	Total equity
Opening equity Jan. 1, 2020	1,205	95,962	170,297	689,215	956,678
Issue of new shares	32	205,285	-	-	205,317
Cash distribution to shareholders	-	-	-	-239,131	-239,131
Repurchase of own shares	-	-	-	-	-
Received premium for share option rights Total	-	6,243	-	-	6,243
Repurchase of share options	-	-283	-	-	-283
Total income for the period Jan-Sep	-	-	-185,250	337,554	152,304
Closing equity Sep. 30, 2020	1,236	307,207	-14,954	787,638	1,081,128

There is no minority interest in the Group. Thus, all equity is attributed to the Parent Company's shareholders.

Condensed Parent Company income statement (kSEK)

INCOME STATEMENT	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Operating revenues	143,619	212,645	541,783	597,456	728,738
Other external expenses	-59,530	-68,895	-209,228	-201,991	-273,084
Personnel expenses	-67,422	-99,418	-266,594	-305,164	-392,814
Depreciation and amortization	-4,926	-4,391	-15,340	-14,539	-19,373
Operating profit	11,742	39,942	50,621	75,762	43,467
Financial items	1,836	-17,076	-11,469	-2,012	310,339
Transfer to untaxed reserves	-	-	-	-	7,658
Profit before tax	13,578	22,866	39,152	73,750	361,464
Tax on the period's profit	-7,595	-5,087	-8,614	-18,406	-15,329
Profit for the period	5,983	17,779	30,539	55,344	346,134

STATEMENT OF TOTAL INCOME

Profit for the period	5,983	17,779	30,539	55,344	346,134
Other total income	-	-	-	-	-
Sum of other total income for the period.					
net after tax	-	-	-	-	-
Total income for the period	5,983	17,779	30,539	55,344	346,134

Condensed Parent Company balance sheet (kSEK)

	Sep 30 2020	Sep 30 2019	Dec 31 2019
ASSETS			
Intangible assets	8,621	8,157	10,747
Tangible assets	31,850	43,639	41,725
Long term internal receivables	2,045,496	2,057,228	2,000,643
Other long term assets	4,327	8,007	7,785
Total non-current assets	2,090,293	2,117,031	2,060,901
Account receivables	3,346	5,652	-
Receivables from group companies	506,363	393,684	755,143
Current tax receivables	46,580	939	-
Other receivables	6,700	9,289	15,791
Prepaid expenses and accrued revenues	39,885	37,184	42,764
Cash and cash equivalents	67,663	48,704	41,250
Total current assets	670,537	495,452	854,948
TOTAL ASSETS	2,760,830	2,612,483	2,915,849
	Sep 30 2020	Sep 30 2019	Dec 31 2019
EQUITY AND LIABILITIES			
Share capital	1,236	1,205	1,205
Statutory reserve	38	38	38
Share premium reserve	272,281	61,035	61,035
Retained earnings	129,107	59,676	22,111
Profit for the period	30,539	17,779	346,134
Total equity	433,201	139,733	430,523
Bank loans	1,749,806	2,057,228	2,000,643
Total long-term liabilities	1,749,806	2,057,228	2,000,643
Untaxed reserves	11,816	19,474	11,816
Accounts payable	16,193	21,845	22,979
Bank loans	243,607	252,603	237,608
Liabilities to group companies	193,893	-	114,900
Tax liabilities	22,235	-	277
Other liabilities	8,655	6,943	7,175
Accrued expenses and prepaid revenues	81,425	114,657	89,929
Total current liabilities	566,008	396,048	472,868
TOTAL EQUITY AND LIABILITIES	2,760,830	2,612,483	2,915,849

Key data and KPI's

The Company presents some financial measures in this report, which are not defined by IFRS. The Company believes that these measures provide valuable additional information to investors and management for evaluating the Company's financial performance and financial position. It should be noted that these measures, as defined, may not be comparable to similarly titled measures used by other companies. These non-IFRS measures should not be considered as substitutes to financial reporting measures prepared in accordance with IFRS. The tables below show some measures that are not defined by IFRS.

Consolidated key data and figures for the Group

	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Financial measures defined by IFRS:					
Operating revenues (kSEK)	520,920	443,439	1,611,009	1,280,909	1,792,915
Earnings per share before dilutions (SEK)	0.68	0.32	1.39	1.32	1.79
Earnings per share after dilutions (SEK)	0.68	0.32	1.38	1.32	1.79
Average number of outstanding shares before dilution	245,458,035	239,130,860	242,645,957	239,579,199	239,469,216
Average number of outstanding shares after dilution	247,253,152	239,130,860	244,441,074	239,579,199	239,469,216
Number of outstanding share at period's end before dilution	245,458,035	239,130,860	245,458,035	239,130,860	239,130,860
Number of outstanding share at period's end after dilution	247,253,152	239,130,860	247,253,152	239,130,860	239,130,860
Alternative Performance Measures:					
Operating revenues (kEUR)	50,344	41,585	152,606	121,234	169,316
Operating margin (percent)	39.2	25.3	32.1	28.7	29.5
EBITDA margin (percent)	59.4	44.3	52.0	46.4	47.7
Effective tax rate (percent)	9.2	9.9	9.0	8.7	9.4
Return on equity, rolling 12 months (percent)	46.2	52.6	46.2	52.6	49.8
Equity/assets ratio (percent)	28.1	18.2	28.1	18.2	23.0
Quick ratio (percent)	103.2	95.3	103.2	95.3	118.7
Net interest-bearing liabilities (SEKm) ⁽¹⁾	1,940	2,465	1,940	2,465	2,418
Net debt/equity ratio (multiple)	1.8	3.2	1.8	3.2	2.5
Equity per share before dilution (SEK)	4.40	3.19	4.40	3.19	3.99
Equity per share after dilution (SEK)	4.37	3.19	4.37	3.19	3.99
Average number of employees	886	746	888	757	779
Employees at period's end	898	858	898	858	862
Employees and external resources at period's end	1,102	1,069	1,102	1,069	1,062

1) A negative figure means that the Group has a net cash position (cash in excess of interest-bearing liabilities).

Consolidated key data and figures by quarter for the Group

	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Financial measures defined by IFRS:									
Operating revenues (SEKm)	520.9	572.6	517.5	512.0	443.4	419.4	418.1	465.4	449.3
Cash and cash equivalents (SEKm) ⁽²⁾	337.3	254.3	266.8	265.5	300.2	193.0	596.6	500.8	362.3
Funds held on behalf of licensees (SEKm)	130.4	107.3	82.9	51.1	118.1	97.8	46.4	29.5	110.3
Alternative Performance Measures:									
Operating revenues (EURm)	50.3	53.7	48.5	48.1	41.6	39.5	40.1	45.1	43.1
Operating profit (SEKm)	204.0	193.5	119.1	160.6	112.0	130.0	126.1	146.2	172.0
Operating margin (percent)	39.2	33.8	23.0	31.4	25.3	31.0	30.2	31.4	38.3
EBITDA margin (percent)	59.4	52.3	44.2	51.0	44.3	48.0	47.0	43.9	50.6
Growth in SEK vs prior year (percent)	17.5	36.5	23.8	10.0	-1.3	-4.1	-2.8	9.5	11.0
Growth in EUR vs prior year (percent)	21.1	36.0	20.9	6.6	-3.6	-6.6	-7.0	3.9	1.8
Growth in SEK vs prior quarter (percent)	-9.0	10.6	1.1	15.5	5.7	0.3	-10.2	3.6	2.8
Growth in EUR vs prior quarter (percent)	-6.3	10.7	0.9	15.6	5.2	-1.6	-11.0	4.5	1.9
Equity/assets ratio (percent)	28.1	23.7	22.1	23.0	18.2	47.7	63.2	70.7	63.5
Return on equity rolling 12 months (percent)	46.2	40.2	47.4	49.8	52.6	60.7	62.2	65.3	68.2
Net debt/equity ratio (multiple)	1.8	2.4	2.4	2.5	3.2	0.1	-0.3	-0.5	-0.4
Share price at end of period (SEK)	76.5	71.2	24.75	25.85	30.35	29.75	33.75	36.55	36.04
Earnings per share after dilution (SEK)	0.68	0.36	0.34	0.47	0.32	0.50	0.50	0.57	0.65
Book equity per share before dilution (SEK)	4.40	3.74	3.93	4.00	3.19	2.68	4.51	3.98	3.45
Cash flow from operations per share (SEK)	1.15	1.31	0.86	0.42	0.42	0.94	0.56	0.78	0.88
Average number of employees	886	895	883	858	746	730	783	808	802

Reconciliation to IFRS

(SEKm)	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
EBITDA									
Profit for the period	167.1	88.5	82.0	112.6	76.1	119.9	120.2	136.6	155.4
Tax on profit for the period	16.9	10.0	6.5	14.4	8.4	10.9	10.7	5.4	15.0
Financial items	19.9	95.1	30.7	33.6	27.5	-0.8	-4.9	4.1	1.6
Depreciation & Amortization	105.7	105.8	109.5	100.7	84.3	71.1	70.2	58.1	55.5
EBITDA	309.7	299.3	228.6	261.3	196.3	201.1	196.3	204.3	227.5
Net interest-bearing liabilities									
Bank loan	1,993.4	2,116.7	2,239.0	2,238.3	2,300.3	-	-	-	-
Lease liability	162.3	178.6	199.2	215.5	249.3	258.2	243.6	-	-
Earn-out (net asset value)	121.2	116.8	124.1	229.8	215.6	-	-	-	-
Cash and cash equivalents ⁽²⁾	-337.3	-254.3	-266.8	-265.5	-300.2	-193.0	-596.6	-500.8	-362.3
Net interest-bearing liabilities ⁽¹⁾	1,939.5	2,157.7	2,295.5	2,418.1	2,465.0	65.2	-353.0	-500.8	-362.3
Quick ratio									
Total current assets	810.4	766.0	870.5	793.1	794.4	600.1	955.9	857.7	809.7
Total current liabilities	785.4	826.7	1,035.0	668.4	833.6	489.7	400.0	378.3	443.6
Quick ratio (percent)	103.2	92.7	84.1	118.7	95.3	122.5	239.0	226.7	182.5

(1) A negative figure means that the Group has a net cash position (cash in excess of interest-bearing liabilities).

(2) Excluding funds held on behalf of licensees.

Note 1 – Accounting Principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted for application in the EU. In addition, the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups has also been applied. This consolidated report has been prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and IAS 34 Interim Financial Reporting. The accounts for the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The accounting standards applied for the Group and the Parent Company are the same as those applied in preparation of the most recent annual report, with the exceptions described below.

For further information on the accounting standards, please see the most recent annual report at www.netent.com.

Amounts are expressed in KSEK (thousands of Swedish kronor) unless otherwise indicated. Amounts or figures in parentheses indicate comparative figures for the corresponding period last year. SEKm stands for millions of Swedish kronor.

Note 2 – Specification of revenues (kSEK)

Type of revenue	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Licenses	503,512	424,060	1,549,696	1,218,149	1,710,520
Setup fees	6,929	13,368	26,384	43,996	56,212
Other revenues	10,479	6,011	34,929	18,764	26,183
Total	520,920	443,439	1,611,009	1,280,909	1,792,915
Timing for revenue recognition	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Performance commitment fulfilled at a certain time	513,991	430,071	1,584,624	1,236,913	1,736,703
Performance commitment fulfilled over a period of time	6,929	13,368	26,384	43,996	56,212
Total	520,920	443,439	1,611,009	1,280,909	1,792,915
Geographic allocation	Jul-Sep 2020	Jul-Sep 2019	Jan-Sep 2020	Jan-Sep 2019	Jan-Dec 2019
Malta	29.9%	35.7%	30.1%	35.6%	34.8%
Sweden	1.7%	-	1.7%	-	1.8%
Other countries	68.4%	64.3%	68.2%	64.4%	63.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The geographic split shown above is based on where the customers are located.

Note 3 – Acquisition of subsidiary

In September, 2019, Red Tiger was acquired for a total purchase amount of SEK 2,552 million. Red Tiger was consolidated from the beginning of September 2019, which resulted in an increase in net assets of SEK 1,108 million, of which brand represented SEK 399 million, customer relations SEK 444 million, technology SEK 45 million, and games including daily jackpots represented SEK 244 million. The rest of the purchase price consisted of goodwill amounting to SEK 1,447 million, mainly attributable to the unique competence in games development and production, as well as the strong market position that Red Tiger contributes with.

New credit facilities related to the acquisition of Red Tiger amount to EUR 243 million, of which EUR 217.5 million have been utilized. This amount consists of two credit facilities. The first facility amounts to EUR 103.0 and will be amortized over the term of the loan until September 2023. The first amortization of EUR 12.9 million was made in March 2020.

The second facility amounts to EUR 114.5 million and is due in September 2023 with a bullet repayment. The outstanding financial debt related to these two facilities amounted to EUR 191.8 million at the end of the reporting period. The interest rates and other terms of the credit facilities are in line with overall market conditions. The terms of the credit facilities require NetEnt to meet a number of covenants.

In conjunction with the acquisition, it was announced that an additional consideration amounting to maximum GBP 23.2 million could become payable in 2022 on an earn-out basis, subject to Red Tiger's financial performance over the coming two years. Since the acquisition, Red Tiger's financial performance has exceeded the company's forecasts by a wide margin. In order to support the integration of the companies, in March 2020 NetEnt agreed with the sellers of Red Tiger on an addendum to the share purchase agreement (SPA). This means that the conditions for payment of the earn-out consideration are deemed to have been met. Half of the earn-out consideration was paid through a directed issue of new B-shares in the second quarter of 2020, and the rest is to be paid out as cash in the second quarter of 2021.

On April 29, the annual general meeting (AGM) of NetEnt approved a directed issue of 6,327,175 B-shares to the sellers of Red Tiger. The new shares were issued at a price of 21.34 SEK per share, which corresponded to the volume-weighted average price of NetEnt's B-shares on Nasdaq Stockholm during the period of February 24 – March 20, 2020.

As a result of the new share issue, the share capital of NetEnt increased by approximately 31,762 SEK to 1,237,219 SEK. The total number of shares outstanding after the share issue amounts to 245,458,035, split between 33,660,000 A-shares and 211,798,035 B-shares. These numbers are adjusted for previously repurchased shares amounting to 1,000,000 B-shares. Consequently, the share issue lead to a dilution of 2.6 percent of total shares and 1.2 percent of total votes of the company on a fully-diluted basis (i.e. based on the total number of shares and votes outstanding after the share issue).

The sellers of Red Tiger have committed not to sell the newly issued shares during a lock-up period until March 2022. One of the sellers is Gavin Hamilton, CEO of Red Tiger and Chief Operating Officer of NetEnt Group.

Definitions

Operating profit

Operating revenues minus operating costs. Measures the Company's operating result before interest and taxes. Commonly used by investors, analysts and management to evaluate the profitability of the Company.

Operating margin

Operating profit in relation to operating revenues. This is a measure of profitability commonly used by investors, analysts and management to evaluate the profitability of the Company.

EBITDA-margin

Operating profit excluding depreciation and amortization in relation to operating revenues. This is a measure of profitability commonly used by investors, analysts and management to evaluate the profitability of the Company.

Growth in SEK compared to prior year

Percentage change of operating revenues in SEK, compared to the previous year. Commonly used by investors, analysts and management to evaluate the growth of the Company.

Growth in EUR compared to prior year

Percentage change of operating revenues in EUR, compared to the previous year. Commonly used by investors, analysts and management to evaluate the growth of the Company. The Company aims to grow faster than the market.

Growth in SEK compared to prior quarter

Percentage change of operating revenues in SEK, compared to the previous quarter. Commonly used by investors, analysts and management to evaluate the growth of the Company.

Growth in EUR compared to prior quarter

Percentage change of operating revenues in EUR, compared to the previous quarter. Commonly used by investors, analysts and management to evaluate the growth of the Company.

Average shareholders' equity

Calculated as shareholders' equity at the start of the year plus outgoing equity at the end of the year divided by two.

Return on equity

Period's profit/loss (rolling twelve months) in relation to average shareholder equity for last twelve months. This is a measure of capital returns that is commonly used by investors, analysts and management to evaluate the Company's ability to generate returns on the capital provided by its shareholders.

Financial items

Calculated as financial income minus financial expenses, adjusted for currency effects.

Equity/assets ratio

Equity at the end of period as a percentage of total assets at the end of period. This is a measure commonly used by investors, analysts and management to evaluate the capital structure of the Company and its ability to meet its short- and long-term obligations.

Quick ratio

Current assets in relation to current liabilities. This is a measure commonly used by investors, analysts and management to evaluate the short-term liquidity of the Company.

Net interest-bearing liabilities

Net of interest-bearing provisions and liabilities less financial assets and cash and cash equivalents. This is a measure commonly used by investors, analysts and management to evaluate the financial position of the Company and its ability to return cash to shareholders.

Net debt/equity ratio (multiple)

Net of interest-bearing earnings and liabilities minus financial assets and cash and cash equivalents, divided by shareholder's equity. This is a measure commonly used by investors, analysts and management to evaluate the financial position of the Company and its ability to return cash to shareholders.

Average number of employees

The average number of employees during the period defined as full-time equivalents.

Number of employees at end of period

The number of employees at the end of the period defined as full-time equivalents.

Number of employees and external resources at end of period

The number of employees and external resources such as dedicated persons with contracted suppliers and subcontractors at the end of the period defined as full-time equivalents.

Earnings per share before dilution

Profit for the period divided by the average number of shares outstanding during the period before dilution from options.

Earnings per share after dilution

Profit for the period divided by the average number of shares outstanding during the period after dilution from options.

Equity per share

Shareholders' equity divided by the number of shares outstanding at the end of the period.

Cash flow from operating activities per share

Cash flow from operating activities divided by the average number of shares outstanding after dilution for the period. This is a measure used by investors, analysts and management to evaluate the financial development of the Company and its ability to generate a positive cash flow.

Average number of shares outstanding

The average number of shares outstanding during the period adjusted for bonus issue and share split.

Number of shares outstanding

The number of shares outstanding adjusted for bonus issue and share split.

Gross gaming revenues (GGR)

Gaming industry term stating gaming revenues for gaming operators. Calculated as players bets minus player wins and bonuses. NetEnt's revenues consist mainly of license fees based on a percentage share of gaming revenues in NetEnt's games with its customers (gaming operators).

NetEnt's business idea

NetEnt operates in the digital entertainment industry and its business idea is to develop premium games and system solutions that enable online casino operators to offer their players the ultimate gaming experience.

NetEnt's business model

NetEnt is a B2B company developing and distributing premium software (games and gaming solutions) to online casino operators globally. Revenues are generated according to a licensing model based on revenue-sharing with customers. The gaming operators pay a monthly license fee to NetEnt, which is based on a certain percentage share of the gross game win that is generated in the customers' online casinos. NetEnt takes responsibility for all technical operations such as monitoring gaming transactions for its customers, known as hosting, so that the operators can focus on their core operations. NetEnt also plays an active part in the integration work for new customers.

NetEnt's strategies

NetEnt continuously develops its offering to be at the forefront in terms of technology, innovation and quality. The Company shall be a close business partner for its customers and the growth strategy is based on growth through both existing and new customers, new products, services and new markets. NetEnt shall participate in the re-regulation of the gaming market and expand globally on prioritized markets. Europe is top priority, followed by Americas and Asia. NetEnt constantly aims to optimize efficiency in all parts of the operations and shall attract, preserve and develop core expertise. The Company strives to have a corporate culture that supports growth and should be ready to invest in new business opportunities.

NetEnt's products

NetEnt offers a comprehensive gaming system comprising a full suite of world-class casino games and a powerful technological platform. The games are of high quality and provide players with an ultimate gaming experience, while the platform manages several billion transactions per month. The product also includes an advanced administration tool that enables the operator to develop successful casino operations. The gaming system is tailored to each licensee so the games form a natural, integral part of the operator's gaming site. NetEnt's game portfolio comprises a wide range of games in categories such as slot games, table games, video poker and other games. The games are offered in various channels such as desktop, tablets and mobile phones.

