21 July 2022

Sinch's rebuttal to questions posed in Short Seller Report

1 Executive Summary

On July 11, 2022, Ningi Research ("Ningi") posted a report ("the Short Seller Report") on Twitter and on a website with opinions about Sinch AB (publ) ("Sinch") and the Group's reporting. We had not heard about Ningi before their Short Seller Report was released. Ningi has not engaged with us prior to releasing the Short Seller Report. Neither the Short Seller Report, nor their website offers any details of Ningi's whereabouts, status, or background. Ningi does not give any company information, office address nor indeed the name of any team member or contact persons. Ningi appears to have initiated their operations in 2022 and have been criticized by the German financial market's supervisor BafFin[1] for publishing anonymous investment advice. Ningi states they are short the Sinch share, and thus Ningi aims to undermine shareholders' confidence in Sinch as it benefits from a fall in Sinch's share price. Sinch considers the Short Seller Report to be misleading, and that the conclusions drawn therein are incorrect. We recommend shareholders and potential investors to disregard the conclusions in the Short Seller Report.

Before turning to a detailed rebuttal of the allegations in the Short Seller Report, here are some overarching points regarding Sinch -

- Sinch's consolidated financial statements and related notes to the consolidated financial statements, are transparent and appropriate. They are prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been audited by Deloitte AB ("Deloitte"). Sinch has received unqualified audit reports for 2021, as has been the case in all years since formation. The key audit matters listed in the 2021 audit report included, *inter alia*, revenue recognition of messaging services. Deloitte has not withdrawn its audit opinions or indicated that it intends to withdraw its audit opinions. Our responses in this statement have been discussed with Deloitte.
- Founded in 2008, Sinch is a global leader in the large and growing global market for communications platform as a service (CPaaS) solutions and mobile customer engagement. We have more than 150,000 customers. Our products are used by global enterprises including some of the world's largest companies as well as small and medium sized local businesses.
- Apart from organic growth, Sinch grew considerably through large acquisitions in 2021. Whilst the balance sheet as of December 31, 2021, fully reflects these acquisitions, the income statement impact in 2021 is limited, as they were consolidated late in Q4 2021. Hence, when analysing Sinch, it is relevant to consider the increased size of Sinch on a proforma basis as shown below–

2021, SEKm	From Annual Report	Proforma
Net Sales	16177	23148
Gross Profit	3933	7744

1 https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Verbrauchermitteilung/weitere/2022/meldung_2022_03_25_NINGI_Research.html

Sinch has at the end of this rebuttal inserted clarifications relating to additional questions raised in investor dialogue.

2 Sinch's responses to the allegations in the Short Seller Report

1. *Allegation*: The financial position of the company is misstated and to no extent presents an accurate picture of the business.

   Response: We summarily oppose these allegations as unfounded and without basis. Our financial statements provide a true and fair view of Sinch's financial position as of the date of the Annual Report. The financial statements are audited by Deloitte, who have issued an unqualified audit opinion for 2021.

2. *Allegation*: Key business metrics like interest coverage ratio, net profit, and EBIT have been misstated by millions of Swedish kronor.

   Response: We refute the allegation that EBIT or profit for the year is misstated as unfounded and without basis. Below are clarifications regarding the other business metrics -
   Return on equity:
   The return on equity calculation can be reconciled as below:

	2021
Profit after tax, SEK million	907.5
Total equity (Average for the years 2020 and 2021), SEK million	20,783

Return on equity, %	4.4

A non-material difference in the Annual Report has resulted in a lower reported return on equity of 4.2% instead of the correct figure, which is 4.4%.

Interest coverage ratio:

	2021
Operating profit, EBIT (SEK million, Source: Income statement)	157.9
Interest income (SEK million, Source: Note 8)	11,272
Interest expenses, other than for leases (SEK million, Source: Note 8)	-52,437

Interest coverage ratio (multiple)	3.2

A non-material difference in the Annual Report has resulted in a lower reported interest coverage ratio of 2.8 instead of the correct figure, which is 3.2.

Net margin:

	2021
Profit after tax, SEK million	907.5
Net sales, SEK million	16,177

Net margin, %	5.6

We acknowledge that the reported net margin in the annual report is incorrectly based on Profit before Tax, whereas it should be based on Profit after Tax. However, this has no material influence on the correctness of the financial statements as a whole. Sinch will be reporting net margin based on Profit after Tax going forward.

3. *Allegation*: The company did *(added by Sinch: not)* report any expenses at all for R&D in 2021 while revenue in Q1 2022 grew by 96%. Extract from table in Short Seller Report below:

	2021	2020
Sinch		
Net sales, in SEK	16,177,224	8,023,308
Revenue 1yr growth, in %	**101.6**	**59.3**
Gross margin, in %	24.3	27.6
EBITDA margin, in %	**5.1**	**8.9**
R&D in %	0.0	2.2
EBIT margin, in %	**1.0**	**5.6**
Profit before tax margin, in %	7.4	4.7

Response: Total expenditure for research and development ('R&D') expensed in the income statement during 2021 amounted to SEK 459 million (2020: SEK 176.5 million), which is about 15% of total operating expenditure during the year.

In addition, a portion of development expenses are capitalized (as specified in Note 1 of the Annual Report) and amortized over 3 to 10 years. Capitalized expenditure for internal hours spent during the year amounted to SEK 98 million (2020: SEK 69.4 million). Also, the revenue growth figure quoted by Ningi is incorrect in this context since it includes growth through acquisitions.

As explained on page 65 in the 2021 Annual Report, Sinch has a large staff of software developers and other technical personnel, across several parts of the company that are involved in product development. The cloud platform was further developed in 2021 to enable even more efficient scaling and management of increased traffic volume. Investments have also been made in systems for regulatory compliance, such as spam filter systems, and further development of next-generation conversational messaging systems. The integration of acquired businesses resulted in technical projects to migrate customers of Wavy, TWW and SDI to global shared platforms. The acquired entities MessageMedia MessengerPeople, Pathwire and Inteliquent were consolidated at the end of Q4 and thus had limited impact on the company's total R&D in 2021.

4. *Allegation*: The Company's approach to recognize revenue is aggressive, since once the service or product is sold, Sinch recognizes the revenue immediately.

   Response: We refute this allegation in the Short Seller Report.
   Sinch's revenues are recognized based on the sending or delivery of a message, which is in line with our performance obligations under customer contracts and is fully compliant with IFRS 15. Sinch's revenues under 2021 arise mainly from the sales of mobile messaging services, with a smaller portion from sale of voice services and software licences. The vast majority of Sinch' customer contracts are open charge contracts, which means revenue can be recognized when the message is sent or delivered. Our accounting treatment is unchanged compared to prior year.

5. *Allegation*: The unbilled accounts receivables are not unconditional accounts receivables.

   Response: This statement is incorrect. As required under IFRS 15.105 and IFRS 15.108, the accounts receivable (both billed and unbilled) are amounts with an unconditional right to payment whereas contract assets like accrued income or accrued revenue have a conditional right to payment (for example that Sinch must first satisfy another performance obligation in the contract).

   For administrative reasons, revenue recognized may be invoiced after the period end close – most of the unbilled revenue at period end is invoiced within days after the financial closing. Consequently, revenues based on an unconditional right to payment will appear as *unbilled accounts receivables* if invoicing has not taken place at the reporting date, while revenues that have been invoiced appear as *billed accounts receivables* in the balance sheet. Both unbilled and billed accounts receivables are based on Sinch's unconditional right to receive payment. It may be worth noting from IFRS 15 BC.323-325 that "*the act of invoicing the customer for payment does not indicate whether the entity has an unconditional right to consideration. For instance, the entity may* *have an unconditional right to consideration before it invoices (unbilled receivable) if only the passage of time is required before payment of that consideration is due".*

To be transparent, Sinch decided to separately report billed and unbilled receivables in note 17 of the Annual Report for 2021. Classification of unbilled receivables existed before 2021 but were not considered material, which explains why there are no comparable amounts disclosed for 2020. As stated in the Annual Report for 2021, unbilled accounts receivables are recognized under IFRS 9 and thus treated in accordance with our Expected Credit Loss Model (ECL-model) when recognising provisions for future credit losses (i.e., Sinch make allowances for bad debt). We have no material realized bad debts during 2022 related to the balances at year end 2021.

Contract assets like *accrued income* or *accrued revenue* still have conditions that need to be fulfilled before right to payment is unconditional. Compliant with IFRS 15.105 such assets are reported separately in note 19 of the Annual Report for 2021. These contract assets are assessed for impairment under the same ECL-model, process, and scrutiny as for receivables in accordance with IFRS 9.

The table in note 28 of the Annual Report for 2021 presents the Group's financial assets and liabilities, recognized at carrying amount and fair value, classified in the categories in accordance with IFRS 9. In note 28, a presentation error incorrectly classifies the unbilled accounts receivable as accrued revenue from contracts with customers. The amounts for note 28 should be presented as follows:

Group 2021-12-31, SEK million	Financial assets and liabilities measured at amortized cost	Carrying amount	Fair value
Financial assets at fair value			
Derivatives, Level 2, Note 18	-	0	**0**
Financial assets not recognized at fair value		0	**0**
Deposits paid, Note 16	20 381	20 381	**20 381**
Accounts receivable, Note 17	3 870 256	3 870 256	**3 870 256**
Accrued revenue from contracts with customers, Note 19	338 762	338 762	**338 762**
Cash and cash equivalents	1 870 990	1 870 990	**1 870 990**
Total financial assets	**6 100 389**	**6 100 389**	**6 100 389**

Based on the above, our presentation and classifications are compliant with IFRS. It is usual to report unbilled receivables as Accounts receivables. In fact, this is clarified by the International Accounting Standards Board ('IASB') in the Basis for Conclusion to IFRS 15 (BC242) that a right is unconditional if nothing other than the passage of time is required before payment of that consideration is due (IFRS 15.108). Contract assets such as accrued income and deferred revenue are appropriately recognized separately from receivables as the right to payment for those assets are not unconditional yet.

Our accounting treatment in the above respects are unchanged compared to prior year.

6. *Allegation*: The Short Seller Report alleges that as the Company states that note 28 is compliant with IFRS 9 other notes to the financial statements are not IFRS compliant.

   Response: As is clear from note 1 of the Annual Report, the consolidated financial statements have been prepared in accordance with IFRS issued by the IASB and interpretations issued by the IFRS Interpretations Committee (IFRIC), as adopted by the EU. The Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups have also been applied.

7. *Allegation*: An attempt to reconcile current assets based on information presented in the 2021 annual report failed, and hence, the accounts receivables are overstated.

   Response: Ningi has not approached us to discuss their reconciliation, and hence, we have no information as to their method or approach. We do not believe it is possible to recreate this reconciliation from the information in the Annual report due to various reasons. Interestingly, the table in the Short Seller report seems to indicate that we should have higher current assets than reported in the Annual report.

8. *Allegation*: The Short Seller Report alleges that Deloitte India issued a qualified opinion on the accounts of ACL Mobile Limited, Sinch's operating subsidiary in India, for the fiscal year ending March 30, 2021.

   Response: Sinch received an unqualified auditors' opinion on the financial statements for the fiscal year ending March 31, 2021. However, in an annexure to the auditor's report, there is a report on the internal control over financial reporting. The auditor qualified their opinion on the internal control over financial reporting due to inadequate controls over review and provisioning of long-term accounts receivables as of March 31, 2021. Note that this is not the same as inadequate controls over revenue recognition or relate in any way to our revenue recognition policies. This control weakness has been remediated and reserves were increased sufficiently in the same financial statements for the auditor to provide an unqualified opinion on the financial statements. ACL Mobile revenues are ca 6% of Sinch group revenues for 2021, which has significantly reduced during 2022 due to the consolidation of large acquisitions late in that year.

9. *Allegation*: The Short Seller Report makes various secretarial allegations related to the Indian subsidiary, ACL Mobile Limited.

Response: The Short Seller Report alleges that Sinch converted ACL Mobile from a public, non-listed company to private to avoid transparency and disclosures. This is blatantly incorrect, and the simple reason for conversion was that the number of shareholders in ACL Mobile reduced to less than the statutory limits for a public company in India, after it became a wholly owned subsidiary of the Group.

The Short Seller Report alleges that a Sinch letterhead was used on pre-acquisition approved resolutions and provides a screenshot as proof. Sinch rectified failures by previous owners to file, and filed certified true copies of the Board resolutions post-acquisition on the prevailing letterhead.

The Short Seller Report alleges that the accounts of ACL Mobile are kept on paper. This is not true and is based on an incorrect secretarial filing. ACL Mobile uses a computerized accounting system to keep its books of record.

10. *Allegation*: The Short Seller Report alleges that Sinch subsidiaries in Dubai, Brazil and Singapore have questionable turnover due to the markets that they operate in.

    Response: Sinch provides communications services to customers across the globe and can reach nearly 100% of mobile subscribers in a matter of seconds. Singapore is acknowledged as a highly developed country; Dubai is an important financial centre and Brazil is one of the world's fastest developing countries.

11. *Allegation*: The Short Seller Report alleges that Sinch's subsidiaries in Australia do not exist. Based on this allegation, the Short Seller Report states the Group's sales to customers in United Kingdom of SEK 1,532 million are questionable.

    Response: Sinch has three entities in Australia, besides the legal entities added to the Group through the acquisition of Message Media in November 2021. The legal entity that is the primary operating entity for Sinch in Australia is Sinch Australia Pty Ltd. In addition, there are two holding companies – CLX Networks Pty Ltd and Sinch Australia Holding Pty Ltd, as well as several entities through the acquisition of Message Media. These entities are listed in the Annual Report (where there is an unfortunate inaccuracy regarding their corporate identity numbers). However, all these companies are active and can be found in the Australian companies' registry through a simple search -

?	Name (*indicates former name)	Number	Type	Status ?	Address ?
☐	CLX NETWORKS PTY LTD	ACN 112 676 132	Australian Propr...	Registered	DOCKLANDS VIC 3008
☐	SINCH AUSTRALIA PTY LTD	ACN 108 346 854	Australian Propr...	Registered	SYDNEY NSW 2000
☐	SINCH AUSTRALIA HOLDING PTY LTD	ACN 650 744 479	Australian Propr...	Registered	DOCKLANDS VIC 3008

12. *Allegation*: The Short Seller Report alleges that since Sinch has stated that 30% of receivable balances at year end come from five large, credit worthy customers, the remaining 70% of all

accounts receivables and contract assets come from less credit worthy customers and that the sales to all these customers are unbilled or overdue.

Response: We reject this allegation as incorrect. Sinch has an industry-leading offering, direct and indirect sales channels that reach large and small customers, with economies of scale by virtue of its size and a strong financial position. We have more than 150,000 business customers and our products are used by both small local businesses and the world's biggest tech companies. Sinch's traditional strength has been in servicing large and global enterprise customers in many jurisdictions across the globe straddling industries such as banking and financial services, insurance, technology, logistics, transportation, telecoms, energy, media, etc. Sinch continues to generate positive cash flow from operations each year and reject this allegation which lacks any supporting evidence.
Sinch applies credit control policies and processes across each of its businesses in line with common business practices. Each post-paid customer is verified using available sources including credit rating agencies and assigned a risk level and credit limit. Our teams then follow customer behaviour and adjust risk as well as credit limits based on performance and business needs. The Short Seller Report incorrectly alleges that reserves are made for customers only when confirmed by bankruptcy.
All customer receivables (including unbilled receivables, if applicable) are assessed individually for material amounts, and based on classes for smaller amounts at each monthly close. Bad debt provisions are made wherever risk for default is identified. This is standard procedure in line with IFRS. Sinch has reserved for expected credit losses of SEK 136 million for receivables and SEK 2,9 million in impairment reserves for contract assets as at year end 2021. Reserves for bad debt and realized bad debt losses continue to remain low as a percentage of revenue, due to strict credit control policies.
To exemplify the continuous assessment of receivables, in Q4 2021, we reported a significant credit loss amounting to SEK 37 million within the erstwhile Sinch Voice & Video segment.
As stated in the annual report, Sinch has historically experienced low credit losses and do not overall see any changed customer behaviour.

13. *Allegation*: Sinch has shut down its whistle-blower line.

    Response: We have not shutdown the whistle-blower line. It is called Integrity reporting line and continues to be available on the legal and compliance section of our website - https://www.sinch.com/legal-compliance/. The code of conduct document available at the same webpage contains further details regarding reporting.

3 Other clarifications to investor questions

1. Bad debt
   As per note 4 to the Annual report, we had realized and expected credit losses of 84 MSEK during 2021. Note 17 shows a specification of the total reserve for expected credit losses from Accounts receivable (both billed and unbilled). The total reserve is correctly stated at SEK 136 million, but in the breakdown, it is incorrectly shown that we have acquired SEK 142 million in reserves from acquired companies. This acquired balance should have been SEK 28 million. This also means that we have reversed only SEK 13 million of the balance as at opening date, and not the amount of SEK 128 million as shown in note 17. The reason for this difference arises due to inaccurate acquisition balances reported by the acquisitions at year end, since the acquisitions were closed very late in 2021.

2. Earnouts
   EBITDA or adjusted EBITDA for 2021 has not been positively affected by adjustment of earnouts related to previous acquisitions. However, some clarifications are needed with relation to the notes to accounts. The adjustment of earnout liability shown in note 4 is related to resolution of a debt, and hence misclassified as related to earnout.
   Note 22 in the Annual Report should be read as below.

Note 22 - Other current and non-current liabilities, non-interest bearing

	Group	
Other current and non-current liabilities, non-interest bearing	**2021-12-31**	**2020-12-31**
Earnout, myElefant	0	30 113
Earnout, TWW	31 350	53 878
Other non-current liabilities	6 029	2 287
Summa	**37 379**	**86 278**

Further, we had SEK 17 897 million of reserves for the myElefant earnout as of December 31, 2021 reported under note 21, heading “Other long term liabilities”.