

NINGI RESEARCH

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NINGI RESEARCH

List of abbreviations

A2P	Application-to-person messaging
ECL	Expected credit loss
ICR	Interest coverage ratio
IFRS	International Financial Reporting Standards
P2P	Person-to-person messaging
RTM	Rolling twelve month

List of references

All citations, references and sources are publicly available. Annual reports and other company documents were obtained through the respective issuer's website, through regulatory filings and commercial registries. Documents are cited as follow:

< company name > < year of publication >, < document title >, < page >, (for online source) < url >

Some SEC filings were retrieved through direct URLs within the EDGAR system and those filings are quoted directly. As annual reports sometimes have the same ubiquities title, we may have added the year for better distinction.

The phrase "company filings" indicates that we aggregated the specific metrics from the respective filings.

List of Figures

If not stated otherwise all figures are obtained through the quoted references in the footnotes and can be found in the respective source.

Table rows and columns highlighted in yellow are used to enable better visual comparison between published and reconciled metrics.

All amounts in thousands unless otherwise stated.

Important Notice

This is a research note and is based on our July 11 research report on the Swedish telecommunications company Sinch AB. We assume that you have read the report and have a basic knowledge of our analysis. Before reading any publication, it is obliged to read the disclaimer on the first page.

Sinch AB – research note

We are short Sinch AB (Ticker: SINCH.ST) because, in our opinion, the company acquired noxious assets and misstated its accounts to beat analysts' estimates and pump its share price. We have found material misstatements within the company's reporting and think past interim reports and the 2021 annual report do not present an accurate or fairly picture of the financial position of Sinch AB. We think Sinch restated financials for its own benefit and fabricated its adjusted EBITDA to avoid a covenant breach of its 2019 senior unsecured bond retrospectively. We question Deloitte's unqualified opinion for the 2021 annual report and if the company complied with its bond covenants in the past.

Sinch Aktiebolag
 Ticker: SINCH.ST
 Market Cap: SEK 20.9bn
 Share Price: SEK 24.96
 Consensus: SEK 60.67



Misstatements are more than just errors

Next to its Q2 earnings report, Sinch also published a ten-page response to our report.¹ Their response acknowledges our analysis and restated several tables as well as financial metrics at which basic math is our evidence. But the company rejected all of our findings in which logical thinking was applied to analyze different information and data points to draw conclusions.

This behavior is funded by the repeated rejection from Sinch's executives for an independent audit as suggested by journalists and analysts.^{2 3}

Before we address Sinch's response, we would first like to define a clear distinction between an error and a misstatement, as the public, the company's executives, and Board members have labeled misstatements as errors.⁴

In our opinion, the definition of an error is an inconsistency in the presentation of information that can be inferred by independent thinking to be incorrect. As an example from the Annual Report 2021, we refer to page 111 regarding financial liabilities:

Maturity structure, financial liabilities								
SEKm	31 Dec 2021				31 Dec 2020			
	< 1 year	> 1 < 2 years	> 2 < 3 years	> 3 years	< 1 year	> 1 < 2 years	> 2 < 3 years	> 3 years
Bank loan	10,883,698	4,093	1,754	1,170	110,576	225,923	2,896	2,924
Senior unsecured bonds	18,630	18,630	768,630		18,661	18,661	18,661	768,661
Derivatives (liability)	136				10			
Accounts payable	1,418,444				679,783			
Funds belonging to a third party	-1,832				2,132			
Accrued interest	9,532				1,940			
Additional purchase consideration (earnouts)	-				44,018	13,110	14,633	14,273

Figure 1 maturity structure with SEKm as the unit of measurement, source: Sinch 2021 annual report, p. 111

¹ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, <https://investors.sinch.com/static-files/9e7d5a84-361b-413a-849d-d0c4c21c612d>

² Karen Kwok (2002), Sinch swats aside short-seller a little too easily, <https://www.reuters.com/breakingviews/sinch-swats-aside-short-seller-little-too-easily-2022-07-12/>

³ As suggested by Berenberg analyst Mr. Andreas Markou in the call on July 12th 2022 and on July 21st 2022

⁴ Martin Rex (2022), Sinch ordforande om turbulensen: maste fokusera pa kontroll, <https://www.di.se/nyheter/sinch-ordforande-om-turbulensen-maste-fokusera-pa-kontroll/>

NINGI RESEARCH

The figure reported SEKm as its unit of measurement (see Figure 1).⁵ The public knows, that it is unlikely Sinch has SEK 10.8 trillion in financial obligations due within a year. The unit of measurement has to be SEK thousand instead of SEKm. Despite errors in the financial statements, the public will draw the same conclusion in their decision-making process.

It is different regarding misstatements. Misstatements are not recognizable to the public as such or without extensive knowledge and in-depth analysis. Misstatements are material because the public does not expect any information to be false, especially if financial statements, hence the annual report, have been prepared in accordance with generally accepted accounting principles. It's an auditor's responsibility to qualify that the information is free from material misstatements and is a true and fair presentation.⁶ Ultimately, misstatements significantly change the conclusions in the decision-making process without the public being aware that their decision would be different based on the correct information.

Note 28 with the breakdown of financial assets should be used as a superb example:

Group 31 Dec 2021	Financial assets and liabilities measured at amortized cost	Other financial liabilities	Obligatory measurement at fair value through profit or loss	Fair value hedge instruments	Carrying amount	Fair value
Financial assets at fair value						
Derivatives, Level 2, Note 18	-	-	-	-	-	-
Financial assets not recognized at fair value						
Deposits paid, Note 16	20,381	-	-	-	20,381	20,381
Accounts receivable, Note 17	2,275,126	-	-	-	2,275,126	2,275,126
Accrued revenue from contracts with customers, Note 19	1,941,006	-	-	-	1,941,006	1,941,006
Cash and cash equivalents	1,870,990	-	-	-	1,870,990	1,870,990
Total financial assets	6,107,503	-	-	-	6,107,503	6,107,503

Figure 2 extract from Note 28, source: Sinch 2021 annual report, p. 109

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			
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

Figure 3 extract from Sinch's response, source: Sinch response, p. 6

The false numbers were not recognizable to the public as such, especially since Sinch stated in an opening remark to Note 22, that the presentation was made in accordance with IFRS 9.⁷ In its response, the company claimed that they are IFRS compliant based on the corrections, but to this date, false information

⁵ Sinch AB (2022), annual report 2021, p. 111

⁶ Sinch AB (2022), annual report 2021, p. 124

⁷ Sinch AB (2022), annual report 2021, p. 108

can be found in the audited annual report with the reference to its IFRS compliance.^{8 9} In our opinion, therefore it remains a misstatement and not IFRS compliant. Likewise, Sinch's response to our research report was only published in English, it does not indicate any faithful representation.¹⁰ The Swedish public continues to be presented with false information in Sinch's audited annual report and it is not possible for the non-English speaking public to incorporate the new information into its decision-making process.

The example of Note 28 also enables us to draw a clear distinction between error and misstatement. In Sinch's response to Note 28, the accounts receivable would imply being SEK 3.8 trillion as the figures reported SEKm as its unit of measurement.¹¹ It is obvious, that this is an error. But that the corrected presentation of the financial assets reported the accrued revenue net of any impairment reserve, although in prior years the accrued revenue had been reported gross of any impairment reserve, is a misstatement.¹² That is not obvious unless the public does an in-depth analysis of past financial statements.

In our opinion, Sinch's management cannot distinguish between error and misstatements - which is why, Sinch declared all misstatements as non-material errors, inaccuracies, or differences.

- 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.**

Figure 4 extract from the response regarding Deloitte's opinion, source: Sinch response, p. 2

We think, Deloitte applied the same accuracy in its assessment. After all, according to Sinch, the response was discussed with Deloitte and neither does the auditor intend to nor will they withdraw their opinion for the 2021 annual report (see Figure 4).¹³

Made-up statements and unanswered questions

What surprised us the most, was the statement in the company's response that a reconciliation of the 2021 balance sheet could not be done solely on the basis of the information in the 2021 annual report.¹⁴ In our opinion, that is a bold statement by Sinch and its CFO. Ultimately, the quality of financial reporting is measured by the public's ability to perform such a reconciliation. It is part of best-practice financial reporting. We did our reconciliation based on the 2020 balance sheet, the reported net acquired assets stated in the 2021 annual report, and the reversion of the indirect method. Except for the fact that we did not mention the application of the indirect method reversion, we have stated the basis for our

⁸ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 7

⁹ Sinch AB (2022), annual report 2021, p. 108

¹⁰ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, <https://investors.sinch.com/static-files/9e7d5a84-361b-413a-849d-d0c4c21c612d>

¹¹ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 6

¹² Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 6

¹³ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 2

¹⁴ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 7

reconciliation.¹⁵ Hence, the public was able to extrapolate the method used by studying the published figures and tables. That we used the indirect method has been unambiguous to Sinch's CFO. After all, the company itself stated in its published 2021 annual report on page 88 that the cash flow statements were prepared using the indirect method (see Figure 5).¹⁶ We think any claims that the public won't be able to reconcile any statements indicate the lack of quality within the financial reporting and any fair representation.

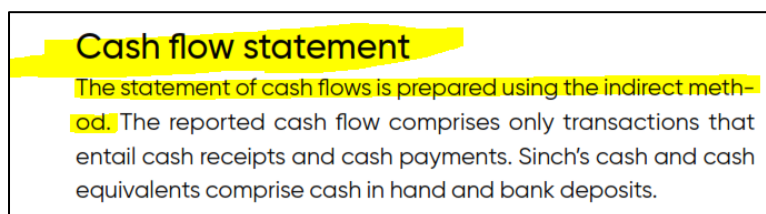


Figure 5 extract regarding cash flow statement, source: Sinch 2021 annual report, p. 88

In the company's response, Sinch claimed that:¹⁷

"[...] 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 recognizing provisions for future credit losses [...]"

We did not find this statement in the 2021 annual report and even with the benefit of the doubt any logical derivation of such a statement would not be possible for the public in any way, as Note 28 is significantly misstated.^{18 19} In our opinion, information is referenced that was never made as a written and distinguishable statement within the annual report. We think this statement is made up. Instead of fabricating statements, the company could have focused on the questions asked in the research report. Which they did not.

The conference call on July 12 ended with a remaining question from an analyst whose answer is considered by the public as a piece of important information for making decisions.²⁰

In order to make all information about the call available to the public, we wrote to the chair of the Audit Committee and we asked Sinch to post the answer to the open question, which was answered in private, online as an attachment to the recording of the call.²¹ So that no questions remain unanswered – all in the interest of the company and the public.

Our inquiry has remained unanswered to date and Sinch did not take up the specific question in its response, but an answer can be concluded for the informed public.²² In our opinion, the ambiguity in

¹⁵ NINGI Research (2022), Sinch AB – research report, p. 11

¹⁶ Sinch AB (2022), annual report 2021, p. 88

¹⁷ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 6

¹⁸ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 6

¹⁹ Sinch AB (2022), annual report 2021, p. 109

²⁰ Sinch AB (2022), Conference call - reassessment of historical COGS, <https://tv.streamfabriken.com/sinch-pressconference-2022/register>

²¹ See Annex.

²² Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, <https://investors.sinch.com/static-files/9e7d5a84-361b-413a-849d-d0c4c21c612d>

Sinch's answers leads to uncertainty in the public's conclusion about certain topics. In other words, questions are not answered in a straightforward fashion.

Instead, Sinch selectively added questions that arose in investor discussions in the period between the publication of our research report and the company's Q2 report (see Figure 6).²³

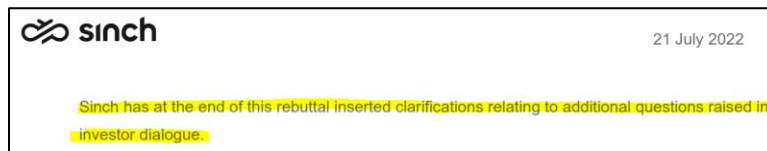


Figure 6 extract from Sinch's response about investor dialogue, source: Sinch response, p. 3

We are surprised that Sinch on the one hand refuses to discuss past disclosures and financial statements with some investors publicly in conference calls, citing the silent period, but on the other hand, based on the statement in the response, engages in conversation with other investors regarding such past financial statements and disclosures privately.²⁴ ²⁵ Especially after we heard from investors and analysts that their questions were brushed off with reference to the remaining silent period.



Figure 7 extract from Sinch's other clarifications, source: Sinch response, p. 10

Despite several misstatements, Sinch does not try to present all misstatements in a comprehensive way that would enable faithful representation. The additional question on bad debt is presented in writing, although a restated breakdown in tabular form of the expected credit losses would provide clarity the public would appreciate (see Figure 7).²⁶ In our opinion, it only raises further questions.

The first question is, at which past acquisition did this reduction occur. In our opinion, due to the amount, the restatement could only happen by reducing the ECL regarding the acquisition of Inteliquent. The transaction's preliminary ECL was reported as SEK 124m in the annual report (see Figure 8).²⁷ We think

²³ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 3

²⁴ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, <https://investors.sinch.com/static-files/9e7d5a84-361b-413a-849d-d0c4c21c612d>

²⁵ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 3

²⁶ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

²⁷ Sinch AB (2022), annual report 2021, p. 118

NINGI RESEARCH

this adjustment leads to a significant reduction of expected credit losses between 78% and 93%. Hence, further information and transparency would be a benefit for the public and Sinch as well.

Fair value of acquired net assets, SEKm	Wavy	Message-Media ¹⁾	Messenger-People ¹⁾	Inteliquent ¹⁾	Pathwire ¹⁾
Customer relationships	272	4,229	115	3,794	4,094
Operator relationships	45	17	-	-	-
Trademarks	8	58	2	118	751
Proprietary software	61	990	5	1,289	2,083
Other intangible assets	1	5	0	293	30
Right-of-use assets	9	13	3	697	77
Other property, plant and equipment	11	7	0	568	5
Financial assets	-	12	0	31	19
Deferred tax assets	42	-	5	366	54
Accounts receivable	198	222	4	658	83
Credit loss allowance	0	-4	0	-124	-15
Tax assets	-	-	-	10	31
Accrued income	-	38	-	62	71
Other current assets	101	15	1	0	8
Cash and cash equivalents	186	91	52	437	390

Figure 8 extract of fair value of acquired net assets, source: Sinch 2021 annual report, p. 118

And the second question, that arose is, why Sinch reported old figures for the ECL balance in its H1/2022 interim report despite the response by its CFO that it is significantly less (see Figure 7 and Figure 9).^{28 29}


INTERIM REPORT JANUARY – JUNE 2022					Page 27 of 32
					
Fair value of acquired net assets, SEKm	MessageMedia ¹⁾	MessengerPeople ¹⁾	Inteliquent ¹⁾	Pathwire ¹⁾	
Customer relationships	4,229	115	3,794	4,094	
Operator relationships	17	-	-	-	
Trademarks	58	2	118	751	
Proprietary software	990	5	1,289	2,083	
Other intangible assets	5	0	293	30	
Right-of-use assets	13	3	697	77	
Property, plant and equipment	7	0	568	5	
Financial assets	12	0	31	19	
Deferred tax assets	-	5	366	54	
Trade receivables	222	4	658	83	
Credit loss allowance	-4	0	-124	-15	
Tax assets	-	-	10	31	
Accrued income	38	-	62	71	
Other current assets	15	1	0	8	
Cash and cash equivalents	91	52	437	390	

Figure 9 extract of fair value of acquired net assets, source: Sinch Q2/2022 interim report, p. 27

²⁸ Sinch AB (2022), interim report January – June 2022, p. 28

²⁹ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

NINGI RESEARCH

Nonetheless, we've included the new numbers in tabular form for the public (see Figure 10).

Expected credit losses	2021	2020	2019	2018	2017
Balance at opening date	(29,302)	(12,986)	(9,931)	(10,925)	(17,619)
Through acquisitions of group companies	(142,499)	(9,731)	(1,308)	(692)	(1,132)
Reversals of previous provisions	128,076	14,247	5,273	8,262	16,206
Confirmed customer losses	63,913	3,880	8,212	3,853	3,179
ECL allowance for the year	(151,349)	(26,230)	(14,955)	(10,187)	(11,929)
Translation differences	(4,662)	1,519	(277)	(242)	369
Balance on the closing date	(135,823)	(29,302)	(12,986)	(9,931)	(10,925)
Net accounts receivable	3,870,255	1,926,355	1,159,641	879,891	683,747

Expected credit losses	2021	2020	2019	2018	2017
Balance at opening date	(29,302)	(12,986)	(9,931)	(10,925)	(17,619)
Through acquisitions of group companies	(28,000)	(9,731)	(1,308)	(692)	(1,132)
Reversals of previous provisions	13,000	14,247	5,273	8,262	16,206
Confirmed customer losses	63,913	3,880	8,212	3,853	3,179
ECL allowance for the year	(151,349)	(26,230)	(14,955)	(10,187)	(11,929)
Translation differences	(4,662)	1,519	(277)	(242)	369
Balance on the closing date	(136,400)	(29,302)	(12,986)	(9,931)	(10,925)
Net accounts receivable	3,869,678	1,926,355	1,159,641	879,891	683,747

Figure 10 published and restated expected credit losses based, source: NINGI Research, company filings

As stated by Sinch's CFO in the response, the ECL ending balance does not change to such an extent, which cannot be explained by rounding differences (see Figure 10).³⁰

However, in our opinion, this leads to a misstatement. In the due diligence and analysis for the first research report, we had assumed this to be an error by Sinch and therefore had not raised this issue in our research report. Sinch has increased the ECL balance for its acquisition of SDI from SEK 0.4 million to SEK 38 million according to the 2021 annual report (see Figure 11).³¹

Previous acquisitions	in-depth analysis, and intangible assets were reallocated. The value of accounts receivable was also adjusted downwards by SEK 38m. The acquisition analysis is now final.
The final consideration of EUR 12.3m (SEK 127m) for the acquisition of SDI was paid in Q1 2021. The amount has been corrected from SEK 124m to account for a foreign exchange difference of SEK 3m. The acquisition analysis for SDI was revised following	An earnout of SEK 9m was paid during the year for the acquisition of myElefant.

Figure 11 extract about higher expected credit losses for SDI, source: Sinch 2021 annual report, p. 118

We assumed that the company tried to take it into account by adjusting the acquired ECL as well as the reversals for previous provision. Due to the correction by Sinch, our past conclusions have changed and we think, that there is a misstatement of SEK 38 million in the ECL breakdown.

At first sight, it could be concluded, that SEK 38m corresponds to the realized loss of SEK 37 million in Q4/2021. However, this would be a fallacy because this loss was incurred in the segment 'Video & Voice', but SDI being consolidated in 'Messaging', 'Operators', and 'Other Segments'.^{32 33} Hence, there is no reason, why SEK 38m was not accounted for.

³⁰ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

³¹ Sinch AB (2022), annual report 2021, p. 118

³² Sinch AB (2022), year-end report January – December 2021, p. 11

³³ Sinch AB (2022), annual report 2021, p. 119

NINGI RESEARCH

Restated Expected credit losses	2021	2020	2019	2018	2017
Balance at opening date	(67,299)	(12,986)	(9,931)	(10,925)	(17,619)
Through acquisitions of group companies	(28,000)	(47,731)	(1,308)	(692)	(1,132)
Reversals of previous provisions	13,000	14,247	5,273	8,262	16,206
Confirmed customer losses	63,913	3,880	8,212	3,853	3,179
ECL allowance for the year	(151,349)	(26,230)	(14,955)	(10,187)	(11,929)
Translation differences	(4,662)	1,519	(277)	(242)	369
Balance on the closing date	(174,397)	(67,299)	(12,986)	(9,931)	(10,925)
Net accounts receivable	3,831,681	1,888,357	1,159,641	879,891	683,747

Figure 12 restated expected credit losses including higher ECL for SDI, source: NINGI Research, company filings

Within the year the difference of SEK 38 million could have been reversed or realized. It is confirmed by the company that SEK 37 million of customer losses are from a single customer. The delta of the confirmed customer losses of about SEK 26 million, which, added to the reversals of previous provisions amounting to SEK 13m, results in SEK 39m. In 2021, in our opinion, this increased acquired ECL balance of SDI would have been balanced out, so to speak, but nevertheless, the balance at the opening date would have been SEK 38m higher. Hence the ECL ending balance as well (see Figure 12). This would indicate a 28% increase in the published ECL.

Irrespective of this: another curiosity – or, in our opinion, a misstatement – is that note 4 only accounted for SEK 20.3m for the change in ECL, although according to note 17 the ECL allowance has increased by almost SEK 125m, and the change the ending balance for expected credit losses increases by almost SEK 105m (see Figure 13).^{34 35}

Other operating expenses	Group		Parent company	
	2021	2020	2021	2020
Exchange rate losses	-164,439	-167,853	-17,125	-633
Confirmed/realized credit losses	-63,913	-3,597	-	-
Change in expected credit losses	-20,317	-11,750	-	-
Total	-248,669	-183,200	-17,125	-633

Expected credit losses		
Balance at opening date	-29,302	-12,986
Through acquisitions of group companies	-142,499	-9,731
Reversals of previous provisions	128,076	14,247
Confirmed customer losses	63,913	3,880
ECL allowance for the year	-151,349	-26,230
Translation differences	-4,662	1,519
Balance on the closing date	-135,882	-29,302

Figure 13 extract of change in ECL and ECL balance, source: Sinch 2021 annual report, p. 92 and p. 106

Of course, this would also imply that EBITDA, EBIT, and net profit would drop. Likewise, the Net debt / adjusted EBITDA would increase and the interest coverage ratio would decrease.

But this is not the only adjustment the response by Sinch's CFO leads to.

³⁴ Sinch AB (2022), annual report 2021, p. 92

³⁵ Sinch AB (2022), annual report 2021, p. 106

Bond voyage

The second clarification made by Sinch, due to another investor's remark, was about Note 22 and its earnout regarding past acquisitions.³⁶ In the 2021 annual report, it has been reported, that there are no earnouts to be accounted for anymore (see Figure 14).³⁷ Hence, all earnouts have been paid. In total, the change in the accounts 'other current and non-current liabilities, non-interest bearing' were reported at about SEK 55.7m and solely SEK 83m would have been expensed as earnouts.³⁸

Other non-current liabilities, non-interest-bearing	Group	
	31 Dec 2021	31 Dec 2020
Earnout, myElefant	-	30,113
Earnout, TWW	-	53,878
Other non-current liabilities	30,599	2,287
Total	30,599	86,278

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

Figure 14 extract of published and restated Note 22, source: company filings

Because of Sinch's restatement of Note 22, the total earnout amount dropped from SEK 83m to SEK 52m and SEK 55.6m to SEK 48.8m respectively (see Figure 14).^{39 40} But Sinch also reported that SEK 18m are accounted for in Note 21 as "Other long term liabilities".⁴¹ We think, so the public should conclude that about SEK 34m of earnouts have been paid – instead of the reported SEK 83m. The changes do seem marginal relative to the balance sheet but those are material for Sinch.

First of all, we think, this question was raised by Sinch's bondholders and respective agents. So in our opinion, it is important to look at the 2019 bond prospectus and its covenants, which is the only outstanding debt security at the time. Within the prospectus, several restrictions are stated and one of them being about distributions made by the issuer, hence Sinch.⁴² It is prohibited for the company to make any distributions or so-called restricted payments.⁴³ Distributions could be dividends, share buybacks, share redemption, and other payments but most importantly similar distribution and so-called 'transfers of value' (see Figure 15).⁴⁴

³⁶ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

³⁷ Sinch AB (2022), annual report 2021, p. 107

³⁸ Sinch AB (2022), annual report 2021, p. 107

³⁹ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

⁴⁰ Sinch AB (2022), annual report 2021, p. 107

⁴¹ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

⁴² Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 58

⁴³ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 58

⁴⁴ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 58

14.3	Distributions
	The Issuer shall not, and shall ensure that none of its Subsidiaries will:
(a)	pay any dividend on shares;
(b)	repurchase any of its own shares;
(c)	redeem its share capital or other restricted equity with repayment to shareholders;
(d)	repay principal or pay interest under any shareholder loans (for the avoidance of doubt, a Market Loan is not considered to be a shareholder loan even if a shareholder is one of the creditors);
(e)	grant any loans except to Group Companies; or
(f)	make any other similar distributions or transfers of value (Sw. värdeöverföringar) to the Issuer's or the Subsidiaries' direct and indirect shareholders or the Affiliates of such direct and indirect shareholders;
	(the transactions set out in paragraphs (a) to (f) above are together and individually referred to as a "Restricted Payment"), provided however that any such Restricted Payment can be made, if such Restricted Payment is permitted by law and no Event of Default is continuing or would result from such Restricted Payment, by:

Figure 15 extract from bond prospectus regarding distributions, source: Sinch bond prospectus, p. 58

In our opinion, the earnouts are transfers of value due to being accounted as non-current and non-interest bearing liabilities. The earnouts have been reported as being paid according to Note 22 and such payment would require an incurrence test if in aggregate the threshold of SEK 50m is breached.⁴⁵ Note 22 in the annual report reported a delta of SEK 83m for earnouts.⁴⁶ Hence, the threshold is breached based on the audited financial statements. So the public and, in our opinion, especially the bondholders are curious in which quarter the missing SEK 72m, which has not been reported before in any quarterly report as being paid but has been accounted for being paid as stated in the audited 2021 annual report, were distributed to the respective recipients. We think the bondholders did not receive an incurrence test accompanied by the compliance certificate. Because in past quarterly reports only an earnout for myElephant of about SEK 9m was reported as being paid.⁴⁷

By restating liabilities in Note 22, the earnouts, that have been paid, are – retrospectively – less than SEK 50m as indicated in the response by Sinch's CFO.⁴⁸ We think, despite Sinch was not required to do so at the time because its net debt / EBITDA ratio was below a pre-defined threshold, the bondholders would have requested a certificate of compliance including an incurrence test by Sinch any way if the quarterly reports indicated that the threshold in aggregate would have been breached or will be breached in the near term at that time.

Even though Sinch avoided the failed delivery of an incurrence test retrospectively, it's should be important to the public, what the requirements of the incurrence test are. Because these thresholds differ from the thresholds set by Sinch.⁴⁹

⁴⁵ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 54

⁴⁶ Sinch AB (2022), annual report 2021, p. 107

⁴⁷ Sinch AB (2022), year-end report January – December 2021, p. 5

⁴⁸ Sinch AB (2022), Sinch's rebuttal to questions posed in Short Seller Report, p. 10

⁴⁹ Sinch AB (2022), Q2/2022 earnings call, <https://edge.media-server.com/mmc/p/y5tc5okw>

The requirements Sinch has to meet in any case are as follows:⁵⁰

13.1.3	The Incurrence Test is met if:
(a)	the ratio of Net Interest Bearing Debt to EBITDA is equal to or lower than 3.25:1; and
(b)	the Interest Coverage Ratio exceeds 3.00:1; and
(c)	no Event of Default would result from the incurrence of the new Market Loan or Bank Loan or the making of the Restricted Payment (as applicable).

Figure 16 extract from bond prospectus, source: Sinch bond prospectus, p. 56

The last quarter did not breach its self-set threshold of 3.5x net debt / pro forma Adjusted EBITDA but already breached the threshold of 3.25x set in the bond prospectus.^{51 52 53} But this incurrence test has to be met only if certain events or actions take place.⁵⁴ The public learned about those actions – the restricted payments – but the covenants also require a successful incurrence test if the company issued a new market loan or obtained a bank loan.⁵⁵ The latter has taken place in the second half of last year and, in our opinion, should have led to an incurrence test. It was the financing for acquiring Inteliquent.⁵⁶

We think Sinch was aware of that as well that this acquisition will require an incurrence test. After all, at the announcement of the acquisition the company disclosed that it would increase the pro forma net debt / adjusted EBITDA ratio to 3.7 but at the time stated, that in the following quarters with the help of EBITDA growth would want to lower the ratio again (see Figure 17).⁵⁷

On a pro forma basis, Net debt/Adjusted EBITDA would have been -1.3x at the end of Q3 2020 if the acquisitions of SDI and Wavy and the directed new share issue had been completed already at this point. This calculation of pro forma Net debt/Adjusted EBITDA includes Adjusted EBITDA in acquired entities over the past 12 months. Had the acquisition of Inteliquent also been completed at this point, pro forma net debt/adjusted EBITDA would have been 3.7x. However, cash generation and earnings growth is expected to reduce this ratio in the time that follows before the acquisition of Inteliquent is closed.
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Figure 17 extract from press release regarding Inteliquent acquisition, source: Sinch

At the end of Q4/2021, the acquisition of Inteliquent was completed.⁵⁸ Hence, the net debt / EBITDA multiple rose to 8.1x and at the time was above the company's publicly announced target of 3.5x as well the threshold of 3.25x.^{59 60 61} Sinch discussed it several times in its earnings calls, whereby from Q4/2021 the company expanded its definition of net debt/ adjusted EBITDA to net debt/ pro forma adjusted

⁵⁰ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 56

⁵¹ Sinch AB (2022), annual report 2021, p. 10

⁵² Sinch AB (2022), interim report January – June 2022, p. 3

⁵³ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 56

⁵⁴ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 54

⁵⁵ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 56

⁵⁶ Sinch AB (2022), annual report 2021, p. 117

⁵⁷ Sinch AB (2021), Sinch establishes leadership in US voice communications through acquisition of Inteliquent, <https://investors.sinch.com/news-releases/news-release-details/sinch-acquisition-inteliquent>

⁵⁸ Sinch AB (2021), Sinch completes the acquisition of Inteliquent, <https://investors.sinch.com/news-releases/news-release-details/sinch-completes-acquisition-inteliquent>

⁵⁹ Sinch AB (2022), year-end report January – December 2021, p. 3

⁶⁰ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 56

⁶¹ Sinch AB (2022), annual report 2021, p. 10

NINGI RESEARCH

EBITDA.⁶² ⁶³ Thus the ratio fell from 8.1 in Q4/2021 to 2.9 in Q4/2021 as reported by the company's quarterly reports (see Figure 18).⁶⁴ ⁶⁵ Redlined rows indicate that Sinch first reported the metric in its interim reports.

Net debt/ EBITDA, in SEKm	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net debt	10,530	10,855	10,661	(10,879)	(11,191)	(2,053)	(1,988)	(972)	(1,494)	(639)
Lease liabilities in accordance to IFRS 16	(917)	(899)	(902)	(46)	(51)	(47)	(47)	(22)	(22)	(22)
EBITDA	528	648	330	157	152	192	179	215	146	175
EBITDA adjustment	(24)	113	141	142	132	76	199	19	54	2
Net debt/ Adj. EBITDA RTM, multiple			8.1	(8.9)	(9.6)	(2.1)	(2.2)	(1.2)	(1.3)	(1.0)
Net debt/pro forma Adj. EBITDA excl. IFRS 16 lease liabilities RTM, multiple	3.3	3.1	2.9		(4.3)	(1.8)	(2.0)			

Figure 18 financial metrics on a quarterly basis, source: NINGI Research, company filings

Until the fourth quarter, net debt was defined as interest-bearing liabilities minus cash and cash equivalents.⁶⁶ ⁶⁷ Then the company deviated from that definition and the lease liabilities were also deducted.⁶⁸ According to the covenants of the bond, the exclusion of any lease liabilities is permitted and in our opinion, the ratio would therefore fall to 7.4x.⁶⁹ But Sinch has also included the pro forma EBITDA on a rolling twelve-month basis of all acquisitions, a trick which is also permitted in the covenants (see Figure 21).⁷⁰ At first, the ratio dropped to 3.2x as stated in the Q4/2021 interim report, but in the end, the net debt/ pro forma adjusted EBITDA ratio reported in Q1/2022 for FY 2021 was 2.9x.⁷¹ ⁷² As a result, the company should have passed the incurrence test because the net debt / EBITDA was below the contractual threshold of 3.25x.

In our opinion, up to the Inteliquent acquisition, Sinch used a rather loose definition of net debt / EBITDA, since it had been negative in prior quarters and years. We think, that to ensure that the financing for Inteliquent would not trigger a covenant breach, Sinch then used all the options to lower the net debt / EBITDA ratio.

This lack of transparency is also reflected in the information presented. Sinch has not published the exact amount of the pro forma adjusted EBITDA which was generated before the consolidation of the acquisitions, although this is factored into the ratio calculation. Only figures after the consolidation of the acquisitions have been published as a pro forma adjusted EBITDA. As a result, until the publication of the Q2 report, the public could not deduct, how much pro forma adjusted EBITDA, aggregated over the last 12 months, was generated within the respective quarters. It was mentioned in Q3/2021 that the total pro forma adjusted EBITDA RTM was at about SEK 3.2bn at the time, but the company never disclosed figures across all quarters.⁷³ In our opinion, the aggregate twelve-month total pro forma adjusted EBITDA in Q2/2022 was SEK 2.9bn and has been steadily declining for the last three quarters (see Figure 19). We

⁶² Sinch AB (2022), Q4/2021 earnings call, <https://edge.media-server.com/mmc/p/srg4jqzc>

⁶³ Sinch AB (2021), Q3/2021 earnings call, <https://edge.media-server.com/mmc/p/8mrnchzi>

⁶⁴ Sinch AB (2022), year-end report January – December 2021, p. 3

⁶⁵ Sinch AB (2022), interim report January – March 2022, p. 3

⁶⁶ Sinch AB (2021), interim report January – September 2021, p. 28

⁶⁷ Sinch AB (2022), year-end report January – December 2021, p. 8

⁶⁸ Sinch AB (2022), interim report January – March 2022, p. 3

⁶⁹ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 41

⁷⁰ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 57

⁷¹ Sinch AB (2022), year-end report January – December 2021, p. 8

⁷² Sinch AB (2022), interim report January – March 2022, p. 3

⁷³ Sinch AB (2021), Q3 presentation, p. 10, <https://investors.sinch.com/static-files/4141b04c-01b2-4fd8-8500-a0efa128d94a>

NINGI RESEARCH

think, prior to consolidation the total pro forma adjusted EBITDA was SEK 818m, SEK 802m, SEK 914m, SEK 666m, and SEK 209m from Q3/2021 to Q3/2020.

Reconciliation, in SEKm	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net debt	10,530	10,855	10,661	(10,879)	(11,191)	(2,053)	(1,988)	(972)
Lease liabilities in accordance with IFRS 16	(917)	(899)	(902)	(46)	(51)	(47)	(47)	(22)
Net debt excl. lease liabilities in accordance with IFRS 16	9,613	9,956	9,759	(10,833)	(11,140)	(2,006)	(1,941)	(950)
EBITDA	528	648	330	157	152	192	179	215
EBITDA adjustment	(24)	113	141	142	132	76	199	19
Adjusted EBITDA	504	760	471	298	284	269	378	234
Published Net debt/ Adj. EBITDA RTM, multiple			8.1	(8.9)	(9.6)	(2.1)	(2.2)	(1.2)
Published Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.3	3.1	2.9		(4.3)	(1.8)	(2.0)	
Reconciled pro forma Adj. EBITDA RTM	2,913	3,212	3,365	3,200	2,591	1,114	971	
Total pro forma Adj. EBITDA stated in Q2 2022 financial spreadsheet by Sinch	503.1	760.4	831.4					
Reconciled total pro forma Adj. EBITDA				818.2	801.7	914.0	666.2	208.8

Figure 19 reconciled pro forma adjusted EBITDA, source: NINGI Research, company filings

We think that the lack of transparency was on purpose, so the public was not able to make independent reconciliations and statements about the growth rate of the aggregated EBITDA key figures including the acquisitions. Otherwise, the steady decline in pro forma adjusted EBITDA would have been detected by the public. In our opinion, that would have not fit into the growth narrative of Sinch's equity story.

Bridge from consolidated to proforma	Q121	Q221	Q321	Q421	n.a.	n.a.
Consolidated Net sales	3,350	3,682	3,938	5,207		
Intelligent*	1,209	1,222	1,263	969		
MessageMedia*	313	350	377	135		
Pathwire*	238	257	280	222		
Other acquisitions**	101	14	13	6		
Total proforma Net sales	5,211	5,526	5,871	6,539		
Consolidated Gross profit	820	869	896	1,348		
Intelligent	593	596	594	455		
MessageMedia	202	221	232	84		
Pathwire	190	200	215	164		
Other acquisitions*	34	13	12	7		
Total proforma Gross profit	1,840	1,899	1,948	2,057		
Consolidated Adj EBITDA	269	284	298	471		
Intelligent*	-	-	-	242		
MessageMedia*	-	-	-	42		
Pathwire*	-	-	-	76		
Other acquisitions**	-	-	-	0		
Total proforma Adj EBITDA	-	-	-	831		

Figure 20 extract from Q2/2022 financials spreadsheet, source: Sinch

This also explains, in our opinion, why the EBITDA for the quarters before the consolidation is not shown in the spreadsheet of the financials, even though Sinch includes exactly these figures in their net debt / pro forma adjusted EBITDA calculation (see Figure 20).⁷⁴ For the public that leads to a guessing game.

This is extremely interesting in connection with the 2019 senior unsecured bond. Because based on the published information and independently of an incurrence test, the bondholders would check whether the specified threshold values are being met. We think this has not been possible or it presented a distorted picture of the financial situation up to now.

An indication of this distortion is the published net debt / adjusted EBITDA ratio of 8.1 in the Q4/2021 interim report.⁷⁵ Such value would indicate that the acquisition financing in Q4/2021 could not be taken

⁷⁴ Sinch AB (2022), Q2/2022 financials spreadsheet, <https://investors.sinch.com/static-files/e1d38c37-ef20-4a91-9e06-5e6429171896>

⁷⁵ Sinch AB (2022), year-end report January – December 2021, p. 3

at all without triggering failure of the incurrence test of the 2019 bond.⁷⁶ But by using the defined range, Sinch achieved a ratio of 2.9x net debt / pro forma adjusted EBITDA (see Figure 18).⁷⁷

- (a) the figures for EBITDA for the Reference Period ending on the last day of the period covered by the most recent Quarterly Report shall be used, but:
- (i) including the operating profit before interest, tax, depreciation and amortisation (calculated on the same basis as EBITDA) of a member of the Group (or attributable to a business or assets) acquired or contractually agreed to be acquired during or after the end of the Reference Period, pro forma, for the entire Reference Period; and

Figure 21 extract from bond prospectus regarding pro forma EBITDA, source: Sinch bond prospectus, p. 57

The range within the bond prospectus includes a pro forma EBITDA from acquisitions but excludes a self-determined adjustment of the EBITDA (see Figure 21 and Figure 22).⁷⁸ The adjustment to Sinch's EBITDA relates to various costs that are neither non-recurring in nature nor related to the operational growth strategy.⁷⁹ The company has consistently emphasized that the EBITDA adjustments are one-off, non-recurring, or non-operational costs.⁸⁰ However, Sinch has never communicated that its definition of these adjustments deviates from the definition set out in the bond prospectus.⁸¹

- "EBITDA" means, in relation to any Reference Period, the consolidated operating profit of the Group:
- (a) before taking into account corporate tax or other taxes on income or gains (whether paid or received);
- (b) before any deduction for interest payable;
- (c) after deducting (to the extent otherwise included) interest receivable;
- (d) excluding items of a one-off, extraordinary or non-recurring nature, provided that they do not in aggregate exceed 10 per cent. of EBITDA in any Reference Period, and provided that such item is reported as a one-off, extraordinary or non-recurring item in the relevant Quarterly Report;

Figure 22 extract from bond prospectus regarding 10% adjustment, source: Sinch bond prospectus, p. 37

In our opinion, the bond prospectus adjustments are defined as being one-off and non-recurring but only if these costs aggregate to less than 10% of EBITDA in total (see Figure 22).⁸² We think, that this actually eliminates a large part of the EBITDA adjustments that increase EBITDA in favor of Sinch and its net debt / EBITDA ratio. Especially because the declared non-recurring costs for acquisition, integration and stock-based compensation have been recurring for the past eight quarters (see Figure 23).⁸³ In our reconciliation, we deducted any EBITDA adjustments that were above the threshold of 10% of the unadjusted EBITDA (see Figure 23). The threshold of 10% implies that most adjustments have to be deducted retrospectively from the adjusted EBITDA published by Sinch.

⁷⁶ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 56

⁷⁷ Sinch AB (2022), interim report January – March 2022, p. 3

⁷⁸ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 37

⁷⁹ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 37

⁸⁰ Sinch AB (2021), Q3/2021 earnings call, <https://edge.media-server.com/mmc/p/8mrmchzi>

⁸¹ Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 37

⁸² ⁸² Sinch AB (2020), prospectus regarding the admission to trading of SEK 750,000,000 senior unsecured callable floating rate bonds 2019/2024, p. 37

⁸³ Sinch AB (2022), interim report January – June 2022, p. 5

NINGI RESEARCH

We think, as a result, the net interest bearing debt to pro forma EBITDA, based on the information published by the Q2 report, in Q4 2021 is veritably 3.4x (see Figure 23). In our opinion, that would indicate a covenant breach that has taken place in the fourth quarter of 2021.

Reconciliation, in SEKm	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net debt	10,530	10,855	10,661	(10,879)	(11,191)	(2,053)	(1,988)	(972)
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EBITDA adjustment	(24)	113	141	142	132	76	199	19
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Published Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.3	3.1	2.9		(4.3)	(1.8)	(2.0)	
Reconciled pro forma Adj. EBITDA RTM	2,913	3,212	3,365	3,200	2,591	1,114	971	
Total pro forma Adj. EBITDA	503.1	760.4	831.4	818.2	801.7	914.0	666.2	208.8
EBITDA adjustments								
Acquisition costs	1	(42)	(101)	(24)	(24)	(17)	(33)	(69)
Adjusted earnout	0	0	0	0	0	0	(27)	61
Integration costs	(66)	(59)	(66)	(59)	(75)	(31)	(75)	(3)
Costs of share-based incentive programs	(27)	(17)	(15)	(45)	(18)	(29)	(33)	(4)
Operational foreign exchange gains/losses	117	5	29	(14)	(15)	0	(19)	(5)
Other adjustments*	0	0	11	0	0	(1)	(11)	
Total EBITDA adjustments	25	(112)	(141)	(142)	(132)	(76)	(199)	(19)
Reconciliation w/o all adjustments <10% threshold								
10% of EBITDA, threshold in absolute terms	52.8	64.8	33.0	15.7	15.2	19.2	17.9	21.5
10% Threshold addition to pro forma EBITDA	51.0	0.0	(167.0)	(128.0)	(132.0)	(60.0)	(187.0)	(8.0)
Reconciled total pro forma EBITDA w/o adjustments <10%	554.1	760.4	664.4	690.2	669.7	854.0	479.2	200.8
Reconciled total pro forma EBITDA w/o adjustments <10%, RTM	2,669.0	2,784.6	2,878.2	2,693.0	2,203.6	1,533.9	680.0	200.8
Reconciled Net debt/ pro forma EBITDA RTM, multiple	3.60	3.58	3.39	(4.02)	(5.06)	(1.31)	(2.85)	(4.73)

Figure 23 reconciliation of net debt/ pro forma EBITDA, source: NINGI Research, company filings

Even by adjusting all published Net debt/ Adjusted EBITDA RTM multiples in two case scenarios in Sinch's favor as the numbers could be higher due to rounding, in our calculations the true multiple was still above the threshold of 3.25x (see Figure 24 and Figure 25).

case #1, in SEKm	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Published Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.3	3.1	2.9		(4.3)	(1.8)	(2.0)	
Adjusted Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.25	3.05	2.85		(4.25)	(1.75)	(1.95)	
Total pro forma Adj. EBITDA	503.1	760.4	831.4	863.0	809.5	920.4	607.2	284.1
Reconciled Net debt/ pro forma EBITDA RTM, multiple	3.54	3.51	3.32	(4.02)	(4.99)	(1.29)	(2.79)	(3.44)

Figure 24 case #1 regarding net debt/ pro forma EBITDA, source: NINGI Research, company filings

case #2, in SEKm	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Published Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.3	3.1	2.9		(4.3)	(1.8)	(2.0)	
Adjusted Net debt/ pro forma Adj. EBITDA excl. IFRS 16 liabilities RTM, multiple	3.21	3.01	2.81		(4.21)	(1.71)	(1.91)	
Total pro forma Adj. EBITDA	503.1	760.4	831.4	899.9	816.0	925.7	558.4	345.8
Reconciled Net debt/ pro forma EBITDA RTM, multiple	3.49	3.46	3.27	(4.02)	(4.93)	(1.27)	(2.74)	(2.81)

Figure 25 case #2 regarding net debt/ pro forma EBITDA, source: NINGI Research, company filings

In our opinion, Sinch adjusted the EBITDA to such an extent that the incurrence test, which had to be carried out as part of the acquisition financing and end-of-quarter compliance certificate in Q4/2021, was met.

We think, that, without the significant adjustments – which are not permitted by the covenants – Sinch would not have been able to pass an incurrence test and therefore not be able to issue a compliance certificate. Non-compliance with the covenants would lead to a termination of the bond, i.e. an event of default.

We believe it's obscure that Sinch restated parts of its annual report which would be in favor of them but rejects other findings which would be not favorable for the company. On two occasions an independent

NINGI RESEARCH

audit has been rejected by the company.^{84 85} In our opinion, because the audit would lead to a significant amount of unfavorable restatements for Sinch.

So, in our opinion, much remains misstated in the 2021 Annual Report, we still question the unqualified opinion for the 2021 annual report and we question if the company has complied with its bond covenants.

For all information herein and in our first research report on Sinch AB, we are short Sinch AB.

Whistleblower

The fact that these financial misstatements went undetected for years may also be because Sinch shut down its whistleblower hotline.^{86 87} Otherwise, employees could have contacted the board and internal offices anonymously. And, in our opinion, an email box called “Integrity reporting line”, which is routed to the company's General Counsel, is not a whistleblower hotline.⁸⁸

9. Reporting

Sinch is determined to nurture a culture where employees feel confident to share ethical dilemmas and speak up about possible breaches of this Code of Conduct.

Employees shall immediately report any act that is likely to constitute a breach of this Code of Conduct directly to a manager, Human Resources, or to Sinch General Counsel. You may also send your report to **Sinch's Integrity Reporting Line** below, which is routed to the General Counsel. All reports will be handled confidentially.

Sinch does not tolerate any form of retaliation against individuals who report violations or suspected violations of this Code of Conduct in good faith.

For any Reporting, Concerns or Questions, please don't hesitate to send a message to **Sinch's Integrity Reporting Line** at compliance@sinch.com

Figure 26 extract from the code of conduct, source: Sinch code of conduct, p. 11

So, if you are a whistleblower in the Sinch case and would like to share information, you have the option of contacting the Finansinspektionen confidentially and anonymously: <https://www.fi.se/en/about-fi/contact-us/whistleblowers/>

We can only encourage you that this is the right thing to do.

⁸⁴ Sinch AB (2022), Conference call - reassessment of historical COGS, <https://tv.streamfabriken.com/sinch-pressconference-2022/register>

⁸⁵ Sinch AB (2022), Q2/2022 earnings call, <https://edge.media-server.com/mmc/p/y5tc5okw>

⁸⁶ <https://allvoices.co/employee-hotline/sinch>

⁸⁷ Sinch AB (2022), annual report 2021, p. 37

⁸⁸ Sinch AB (2021), code of conduct, p. 11, <https://www.sinch.com/sites/default/files/file/2021-11/Sinch%20Code%20of%20Conduct%202020.pdf>

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Via email: team@ningiresearch.com**Mr. Johan Stuart***Chairman of the Audit Committee, Sinch AB*By email: investors@sinch.com

Lindhagensgatan 74

112 18 Stockholm

Sweden

Mr. Johan Telander*Authorized Public Accountant*By email: jtelander@deloitte.se

Rehmsgatan 11

113 57 Stockholm

Sweden

Dear Mr. Stuart,

Dear Mr. Telander,

Sinch AB (SINCH.ST) – Questions after Q&A session

It may have come to your attention, that NINGI Research have released a research report about the financial statements of the publicly listed company Sinch AB on Monday. Within the analysis of the financial statements, NINGI Research and the public found that Sinch AB has stated several different synonyms for a contract asset. In the company's 2021 annual report this line item is rephrased as unbilled accounts receivables, accrued income, and accrued revenue on page 106. Because of heightened price volatility and a COGS assessment, Sinch set up a conference call to clarify certain things for the public.

During the Q&A session in the conference call arranged by Sinch on Tuesday, July 12, 2022, an analyst named Lloyd Jones stated:

"[...] I think, one of the key issues, raised in the report yesterday, was that the Note 17 on accounts receivables and the Note 19 on accrued income are inconsistent with the grouping that you then show on Note 28. And where you split the accrued income and accounts receivable in a very different way. [...] and the key question here is: whether the accrued income, we see here in Note 19, is a sub-set of the unbilled account receivables in Note 17? [...]"

The notes referenced by Mr. Jones can be found on page 106 (re Note 17 and Note 19) and on page 109 (Note 28 starts on the bottom of page 108) in the 2021 annual report. For your convenience, we have listed the referenced line items from the respective notes to the financial statements in Figure 1. We have

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allowed ourselves to add two delta calculations to enable a quick comprehension, of what Mr. Jones is referring to.

Sinch AB annual reports, note re 'accounts receivable' & 'accrued income'		2021	2020	2019	2018	2017
(a)	Unbilled accounts receivables	1,605,810	-	-	-	-
(b)	Total accounts receivable	3,870,256	1,926,355	1,159,641	879,891	683,747
(c)	Accrued revenue from contracts with customers	338,762	450,160	93,216	64,660	60,058
(d)	Accrued income	341,666	450,160	93,216	64,660	60,058
Sinch AB annual reports, note re 'financial assets and liabilities'						
(e)	Accounts receivable	2,275,126	1,926,355	1,159,641	879,891	683,747
(f)	Accrued revenue from contracts with customers	1,941,006	450,160	93,216	64,660	60,058
(g)	Delta for accrued revenue from contracts with customers (g) = (c) - (f)	(1,602,244)	0	0	0	0
(h)	Delta for accounts receivable (h) = (b) - (e)	1,595,130	0	0	0	0

Figure 1 yellow highlighted rows and columns are taken from the respective annual reports

At the time Mr. Werner and Mr. Saldanha were not able to provide an answer. As it is an accounting matter, we assume Mr. Werner and Mr. Saldanha have forwarded this question to you. Mr. Werner and Mr. Saldanha wanted to reach out to Mr. Jones privately to provide the answer to his question. We presume the answer has been already provided to Mr. Jones. We would like to ask you, to provide us with the answer and publish it as an attachment to the recording of the conference call. This would enable, that the public and any interested listener of the recording would be given complete knowledge of all topics discussed during the conference call. Hence so no questions remain unanswered.

Likewise, we would appreciate it, if Mr. Telander, could provide the exact classification under IFRS to the reply sent to Mr. Jones to clear up any misunderstandings for the public.

In order to allow you to ask Mr. Jones for permission of disclosing the communication, and to enable Mr. Telander to lay out, how this classification is in accordance with IFRS, it would be great if you could address this until July 22, 2022, 2:00 pm EDT. NINGI Research will refrain from publishing this letter until then.

Yours faithfully,

NINGI Research

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By email: ri@revisorsinspektionen.se

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