2021 HALF YEAR RESULTS
Management Discussion & Analysis

IMPACT OF COVID-19

Overall, the COVID-19 pandemic continues to affect demand for the Group's offerings and to disrupt industry supply chains, though the severity of its impacts differs by business segment.

Digital TV began to show signs of recovery in the second half of 2020 and continued its positive development in the first half 2021, benefitting from a robust recurring business and from growing revenue contribution of new business lines. On the other hand, COVID is still affecting demand in emerging markets, and the Group is also experiencing delays on some projects due to suppliers' inability to deliver required equipment. Overall, the Group continues to adjust its capacity in line with demand. Temporary partial unemployment measures in several countries enabled a further reduction of personnel costs, and as a result, demand and supply chain disruptions had a limited impact on the first half segment's results.

The onset of COVID-19 also brought disruption to the Group's Cybersecurity business, affecting the Group's ability to engage with new clients, slowing sales activities and delaying delivery of services traditionally delivered in person. Initial signs of improvement in demand were seen in the second half 2020. This normalization accelerated in the first half 2021, resulting in solid growth rates both in Europe and in the US.

In the IoT business, semiconductor shortages are delaying the delivery of key electronic components of RecovR, the new segment's asset tracking solution. The Group issued early orders to obtain the necessary components and engaged alternative suppliers to avoid critical bottlenecks. However, as the global semiconductor industry still suffers from supply constraints, the Group may not be able to fully deliver the volume of RecovR devices forecasted in this second half.

Of the Group's business units, Public Access was the most significantly affected by COVID-19, as large customers, including in particular airports, shopping centers and stadiums, postponed new deployments and asset refreshment projects. After a partial recovery in the second half of last year, demand in Europe and other developed markets, including Australia, continued to recover in the first half 2021. Demand in the North American market, on the other hand, is still subdued, as traffic and usage of parking infrastructure in major metropolitan areas lag pre-COVID levels. As employees go back to the office, demand for paying parking solutions is expected to recover. However, due to the increasing rates of COVID infections, the Group does not expect demand to fully normalize in this calendar year.

GROUP RESULTS

In the first half 2021, total revenues and other operating income increased from USD 320.1 million to USD 340.5 million. Net revenues for the Group increased by 6.2% to USD 335.7 million, reflecting positive developments in Digital TV, Cybersecurity and IoT.

Other operating income increased by USD 0.7 million to USD 4.8 million, due to, among other factors, a USD 0.4 million earn-out from a business sale transaction completed in a prior year.
Margin after cost of material increased from USD 240.0 million to USD 248.6 million. Relative to total revenues, margin after cost of material decreased from 75.0% to 73.0%, mainly reflecting a change in product mix in the Digital TV and Cybersecurity segments.

Compared to the first half 2020, the Group's personnel expenses increased by USD 5.5 million. While streamlining measures resulted in a further reduction of Group headcount, lower savings from partial unemployment measures drove personnel costs higher. Compared to the end of 2020, total Group Full Time Equivalents (FTEs) decreased by 57 to 3'201 at the end of June. The Group further reduced Public Access headcount in this first half, while expanding headcount in the Cybersecurity and IoT segments. Total FTEs in Europe as of June 30, 2021 were 28 lower than at the end of the previous year. In the Americas, the Group reduced the number of FTEs by 38, while FTEs in Asia increased by 10 compared to the previous year.

In the first half 2021, the Group cut USD 7.0 million of other operating expenses. Tight management of travel expenses resulted in a further reduction of USD 1.1 million compared to the prior first half. The Group released USD 4.3 million of bad debt provisions in the Digital TV segment, benefitting from continued strong receivables collection.

In this first half, the Group generated USD 15.0 million of operating income before depreciation and amortization, a USD 10.1 million improvement over the previous first half. At USD 21.2 million, depreciation, amortization and impairment were USD 2.5 million lower than in the first half 2020, as the Group continuously reduced capital expenditures over the last reporting periods. Overall, the Group generated an operating loss of USD 6.2 million for the half year, representing USD 12.6 million improvement compared to the prior period.

At USD 5.0 million, interest expense was USD 0.2 million higher than in the prior first half. The Group posted USD 7.6 million of net finance income, primarily due to net foreign exchange gains. The revaluation of intercompany positions and foreign exchange effects from USD-denominated working capital items booked in entities with a Swiss Franc functional currency resulted in these foreign exchange differences, which have no impact on the Group's cash flow. The capitalization of certain SKIDATA losses resulted in a positive USD 0.3 million income tax credit. The net loss for the period amounted to USD 3.1 million, compared to USD 27.1 million in the prior first half.

DIGITAL TV

Digital TV delivered a strong first half, increasing net revenues by 7.6% and EBITDA by 15.5% from the previous first half. In relative terms, the segment's EBITDA margin increased from 23.9% to 25.6%.

The Group's European Digital TV business posted a strong 27.7% growth from the first half 2020. Most large European customers continue to be resilient in spite of COVID-19-related market turbulence, and the Group continues to grow its partnerships with large operators. For example, Vodafone continues to expand its footprint, relying on the Group's SSP (Security Services Platform) technology and generated higher volumes in markets such as Germany. The Italian market recovered strongly, posting solid growth in the first half 2021, including in particular higher volumes of smart cards and conditional access modules.

At USD 51.6 million, the Americas business posted 18.9% lower revenues in this first half. South American markets remain weak, still suffering from the negative impact of the pandemic. In the US, Altice generated higher revenues in 2020. In this first half, Altice continues to expand its partnership with the Group, but compared to last year, overall revenues from this customer declined due to the base effect of a strong 2020.

The Asia Pacific and Africa region posted a 22.4% revenue growth in the first half 2021. After a weak first half 2020, revenues recovered in this first half, driven in particular by higher sales of hybrid IPTV/OTT devices at Starhub.

Digital TV margin after cost of material further decreased from 92.0% to 87.0%, due to higher hardware sales, including conditional access modules and set-top boxes. Digital TV continued to streamline operations, further reducing operating expenses by USD 3.3 million compared to the prior first half. Overall, Digital TV improved operating income before depreciation and amortization by USD 5.7 million to USD 42.6 million. As depreciation and amortization was USD 1.2 million lower, the segment's operating income increased by USD 6.9 million to USD 31.7 million in the first half 2021.

CYBERSECURITY

In the first half 2021, the Group's cybersecurity business posted USD 71.0 million of gross revenues, a 12.3% increase from the first half 2020. Net revenues were at USD 45.4 million, representing a growth of 17.3%. The business benefitted from growth across both of its regions. In Europe, net revenues grew by 29.1% to USD 14.6 million, while the Americas grew by 11.8% to USD 30.7 million. Margin after cost of material increased to USD 24.5 million, representing 11.8% growth from the prior first half. In relative terms, margin after cost of material decreased from 56.6% to 54.0%, as the relatively lower gross margin technology reselling business grew in the first half 2021. The development of Cybersecurity bookings underscores the positive momentum of this business. In the first half 2021, the Cybersecurity segment generated USD 94.2 million total bookings, growing by 25.8% compared to the first half 2020. Bookings in high value-added business lines, including managed security services, advisory and proprietary technology sales, increased by 42.7% over this same time period. Managed Detection and Response (MDR) services, including the newly launched FusionDetect cloud-native analytics platform, were among the key drivers of the first half's growth. This offering reduces the complexity of security monitoring to deliver effective threat detection and response services across environments, including endpoint, on-premises, cloud, and OT/ICS (operational technology/industrial control systems).

In the first half 2021, Cybersecurity posted a USD 9.5 million operating loss before depreciation and amortization, improving by USD 2.0 million compared to the prior year.

INTERNET OF THINGS (IoT)

In the first half 2021, the Group's IoT business launched RecovR, a two-in-one lot management and theft recovery solution. RecovR enables car dealers to manage their lots efficiently, improve the sales process and create a new revenue stream, while offering consumers an advanced and reliable wireless theft recovery solution. IoT has already successfully deployed large multi-location dealerships in Arizona, Texas, California, Hawaii, Colorado and Illinois.

The Group also opened new distribution channels for keySTREAM, entering into new agreements with some of the world's most prominent contract manufacturers who will offer keySTREAM's security capabilities to their customers. The KeySTREAM security and device management system empowers IoT product developers to securely connect, manage and update their IoT devices and supports a wide variety of critical functionalities, including zero-touch provisioning, late provisioning, end-to-end data protection, remote feature enablement/monetization, and secure firmware updates over the air.

IoT Security Labs continued to acquire new customers and to grow their service portfolio in this first half.

Overall, this resulted in revenues of USD 2.6 million for the first half 2021, representing growth by a factor of 2.5 compared to the prior first half. Operational expenses increased in this first half, as the business invested in the organizational structure required to successfully launch and scale its RecovR asset tracking deployments. As a result, operating loss before depreciation and amortization increased by USD 2.6 million to USD 11.5 million.

PUBLIC ACCESS

COVID-19 continues to affect Public Access results, as investments in parking installations are only slowly recovering. At USD 121.2 million, first half 2021 revenues are USD 0.3 million lower compared to the prior first half. European sales recovered, increasing by 8.3% to USD 76.4 million. Switzerland, Spain and Italy were the best performing markets, with solid first half growth rates. France, on the other hand, continues to suffer from a low level of activity, resulting in a further decline of revenues from the previous year.

Demand in the US market remains subdued, as work-from-home in large metropolitan areas, such as New York and San Francisco, continues to affect the utilization of parking facilities. As a result, parking operators continue to postpone investments in access control infrastructure. Investment activities in the South American markets also remained soft in this first half. Overall, Public Access revenues in the Americas declined by 26.1% to USD 27.5 million in this first half. On the other hand, the Asia/Pacific and Africa markets strongly recovered, with revenues growing by 25.8% to USD 17.3 million. The Australian market increased its revenue contribution by USD 2.7 million compared to the prior first half.

Margin after cost of material relative to revenues increased from 61.5% to 63.4%, reflecting a higher share of software and service in the SKIDATA business mix. The digitalization of parking infrastructure, with the gradual replacement of traditional ticket-based systems with fully automated free-flow solutions, contributes to the increasing weight of software and service revenues in the SKIDATA revenue mix.

In the first half 2021, Public Access reduced operating expenses by USD 3.1 million compared to the previous year. From the end of 2019 to the end of the current year, SKIDATA is expected to reduce its total headcount by 250 full time equivalents. The ongoing restructuring program has enabled a consolidation of local organizations, resulting in a headcount reduction of 170 in the market units. In addition, efficiency measures, streamlining support functions and improvements in the management of the product portfolio allowed a further reduction of 80 full time equivalents.
Overall, Public Access generated a positive operating income before depreciation and amortization of USD 0.7 million, representing USD 5.1 million improvement compared to last year’s period. For this first half, Public Access posted an operating loss of USD 7.8 million.

BALANCE SHEET AND CASH FLOWS

Total non-current assets decreased by USD 31.6 million to USD 638.8 million from December 31, 2020. Foreign exchange effects increased the USD value of assets denominated in foreign currencies. However, the Group continued to reduce the overall level of investments in tangible and intangible assets compared to previous years. Tangible fixed assets decreased by USD 5.9 million and intangible assets decreased by USD 8.4 million. Financial assets at amortized costs decreased by USD 7.6 million, reflecting lower long-term trade accounts receivables due to collection and reclassification to short-term receivables.

Compared to December 31, 2020, total current assets decreased by USD 57.2 million to USD 476.7 million. The USD 1.3 million decrease of inventory is mainly due to a reduction of stock levels at SKIDATA, resulting from the streamlining of this business' supply chain. The Group decreased trade receivables by USD 48.8 million, as SKIDATA reduced outstanding receivables by USD 34.0 million. At the end of the period, cash and cash equivalents amounted to USD 138.6 million, representing USD 14.0 million decrease from December 31, 2020.

Total equity increased by USD 13.0 million, mainly reflecting positive other comprehensive income, due to a reduction of pension fund liabilities. Total non-current liabilities decreased by USD 55.2 million to USD 475.5 million, with long-term financial debt declining by USD 29.7 million to USD 409.5 million, driven by currency translation effects and debt repayment. In this first half, the Group repurchased a nominal amount of USD 9.1 million of its 2022 bond and USD 2.0 million of its 2024 bond.

The Group reduced employee benefit liabilities by USD 20.8 million to USD 28.0 million. Lower pension liabilities are mainly driven by USD 14.8 million of plan asset gains, reflecting a favorable performance of pension fund investments and a USD 12.3 million favorable impact from a change of the discount rate for future liabilities from 0.1% to 0.35%. This reduction of liabilities is booked as other comprehensive income and has no impact on the Group profit and loss statements.

Total current liabilities decreased by USD 46.8 million to USD 270.4 million, with short-term financial debt decreasing by USD 14.5 million to USD 33.7 million, as the Group fully repaid its Kudelski SA credit lines. The Group's primary interest-bearing liabilities include the CHF 200 million bond with a 1.875% interest rate maturing in August 2022 and the CHF 150 million bond with a 1.5% interest rate maturing in September 2024. Overall, net debt (measured as aggregate short and long-term financial debt net of cash) declined by USD 30.2 million to USD 304.6 million. The Group reduced trade accounts payable by USD 18.4 million, reflecting in particular a USD 11.2 million reduction at SKIDATA.

During the first half 2021, the Group generated USD 30.5 million of cash flow from operating activities, compared to USD 41.9 million in the first half 2020. Working capital improvements contributed to the Group's cash generation, including USD 49.3 million of cash flow from the reduction of accounts receivable and contract assets. In the first half, the Group maintained a strong discipline in managing capital expenditures, using USD 3.4 million cash for investing activities.

Net cash-out for financing activities amounted to USD 38.7 million. The cash outflow includes USD 7.7 million payments of lease obligations and the USD 6.1 million cash distribution paid to Kudelski SA shareholders. In the first half 2021, the Group repaid USD 27.1 million of debt.

OUTLOOK

In the Digital TV segment, the Group expects revenues in the second half to be higher compared to the first half, maintaining the positive momentum of the last months. As the 2020 Digital TV segment cost base benefitted from a one-off positive effect from the IAS 19 plan amendment, the Group anticipates higher 2021 Digital TV operating expenses compared to 2020, resulting in a lower full year EBITDA compared to 2020.

In the Cybersecurity segment, the Group expects full year revenues to grow at a double-digit rate. Such positive momentum is expected to result in a year-on-year improvement of segment operating income before depreciation and amortization.

RecovR, the new IoT asset tracking solation for car dealerships, is expected to drive IoT revenue growth. The Group expects 2021 IoT revenues to at least double compared to 2020. Uncertainties related to supply constraint affecting the global semiconductor industry may slow down the delivery of RecovR devices in the second half. As the Group is investing to accelerate the deployment of its asset tracking solution, spending will increase compared to 2020, resulting in higher segment operating losses compared to the prior year.

The Public Access business continues to face uncertainties related to the COVID-19 impact on airports, shopping centers, stadiums and ski resorts, with demand remaining unpredictable. In 2021, the Group continues to streamline SKIDATA's operations, seeking a tighter integration with other Group segments and corporate functions and among the SKIDATA local and central entities. Despite these market uncertainties, the Group targets a higher 2021 segment EBITDA compared to the prior year.