NAGRA
KUDELSKI GROUP

H1 2025 RESULTS

Management's Discussion & Analysis

GROUP RESULTS

In the first half of 2025, the Group generated net revenues of USD 172.8 million, a decrease of 6.8% compared to the first half of 2024. In constant currency terms, net revenues decreased by 7.7%. Comparative figures for 2024 have been restated to reflect the strategic reorganization implemented late last year pursuant to which lab and core security activities from the IoT segment and corporate IT were integrated with the Digital TV organization. As a result, the former Digital TV segment now operates as Core Digital Security. This realignment is intended to leverage the Group's relationships in the semiconductor industry and to increase operating synergies within core security teams.

Other operating income amounted to USD 1.7 million compared to USD 6.1 million in the first half of 2024, which included a one-time USD 5.3 million payment from a tenant of the San Francisco office building. Margin after cost of material increased from 82.4% to 83.6%, supported by higher gross margins in Core Digital Security and Cybersecurity.

Personnel expenses were USD 126.4 million, a decrease of USD 4.7 million compared to the first half of 2024. Excluding USD 6.4 million of restructuring costs, the Group decreased personnel expenses by USD 11.1 million compared to the first semester of 2024. The Group reduced headcount by approximately 110 full-time equivalents since year-end, mostly in Core Digital Security and in corporate functions, with the majority of reductions in Switzerland and the United States. Other operating expenses were broadly stable at USD 38.5 million.

For the first half of 2025, the Group generated USD 19.1 million of operating loss before depreciation and amortization or USD 12.7 million net of restructuring costs, compared to a loss of USD 11.7 million in the first half of 2024. At USD 5.7 million, depreciation and amortization decreased by USD 12.9 million from USD 18.6 million in the prior-year period, which included a USD 12.7 million impairment on the San Francisco building. At USD 24.8 million, operating loss improved by USD 5.4 million compared to USD 30.3 million in the first half of 2024.

Interest expense amounted to USD 1.2 million, USD 2.2 million lower compared to the first half of 2024. Net finance expense was USD 5.1 million compared to USD 3.9 million in the same period last year, reflecting foreign exchange effects and securitization-related costs. Income tax expense was USD 2.0 million. Overall, the Group recorded a net loss of USD 32.9 million compared to a net loss of USD 37.0 million in the first half of 2024 for continuing operation, when SKIDATA's USD 14.2 million contribution was presented as discontinued operations.

CORE DIGITAL SECURITY

Core Digital Security generated revenues of USD 103.9 million, a decrease of 7.0% compared to the first half of 2024. This represents the smallest rate of decline in the past four years, which reflects the business unit's efforts to increase revenue streams from new market opportunities such as streaming. In Europe, revenues were USD 50.2 million, a decrease of 6.3%, reflecting lower product license and maintenance fees from Liberty Global, reduced smart card purchases by SES Platform Services, and lower CAM sales to Tele Columbus. Overall, revenues from key clients in the region stayed stable compared to last year. In the Americas, revenues increased by 2.7%, supported by a contract with a large technology provider in streaming, which more than offset continued, but slowing subscriber attrition at DISH. In Asia Pacific and Africa, revenues decreased by USD 5.4 million due to lower smart card and royalty revenues from Bakhresa and reduced volumes from Indian operators, including the Essel Group.

From a product-mix perspective, CAMs, set-top boxes, and smart cards generated USD 4.4 million compared to USD 10.3 million in the first half of 2024. On the other hand, Core Digital Security benefitted from contract wins in the streaming protection domain. The move toward security virtualization reduced hardware's share, supporting a gross margin increase from 89.5% to 93.1%.

The segment continued the transformation initiated in 2024. Leadership was reshaped to better align marketing, sales, and delivery; the sales organization transitioned from a geographic structure to product-centric specialist teams, including for example dedicated Media & Entertainment Asset and Revenue Protection. Consumer Experience and Streaming Security sales teams. Core Digital Security implemented a dual sales strategy, with one team focused on key-account expansion and another on new-logo acquisition in both established and new sectors. The transfer of lab and core security activities from IoT and the integration of corporate IT are designed to strengthen security capabilities in a dedicated center of excellence and improve operating efficiency.

As a result, operating expenses were reduced by USD 8.4 million compared to the first half of 2024. Excluding USD 5.1 million of restructuring costs, operating expenses decreased by USD 13.5 million compared to the first semester of 2024. EBITDA amounted to USD 0.6 million compared to USD -4.3 million in the first half of 2024. Excluding restructuring costs, first half EBITDA reached USD 5.7 million. The EBIT loss decreased by USD 5.0 million to USD 3.3 million compared to the first half of 2024.

CYBERSECURITY

As outlined in the 2024 Management's Discussion and Analysis, the Cybersecurity segment underwent a significant transformation in 2024, with operations refocused on areas demonstrating strong value creation potential. A central initiative was the rollout of a unified Enterprise Resource Planning system across both European and American operations, enabling greater precision and granularity in revenue recognition practices. As a result, the Group has transitioned to reporting net revenue for certain technology reselling transactions, replacing the previous gross reporting approach. For comparability, first-half 2024 net revenue figures have been restated accordingly. Importantly, this restatement does not impact gross profit, operating income, cash flows, or any other key financial metrics.

Cybersecurity recorded net revenues of USD 49.5 million, a decrease of 4.8% compared to the first half of 2024. Europe was broadly stable at USD 29.7 million, an increase of 0.4%. The Americas generated USD 19.0 million sales, a decrease of 14.5%, reflecting a 19% contraction in technology resell activity and the deliberate reduction of smaller, lower-margin transactional VAR deals. This reflects the Group's decision to focus on larger, multiyear and higher-margin Managed Detection and Response and advisory deals. Sales in Asia and Africa were USD 0.8 million. Overall, cybersecurity market conditions remained challenging in the first half of 2025, with many mid-market organizations deferring discretionary upgrades and refresh cycles in light of macroeconomic and geopolitical uncertainty.

Gross margin increased to 83.0% from 80.7%, reflecting growth in higher-margin European MDR, advisory, and innovation lines of business. In the first half, investments focused on strengthening cybersecurity capabilities and expanding industry reach. Key initiatives included creating a Counter Adversary Unit to enhance threat detection and response, expanding MDR services with proactive defense, and launching an AI program to improve operational efficiency and client experience. Cybersecurity also deepened strategic partnerships with hyperscalers and global technology leaders such as CrowdStrike, leveraged expertise in Operational Technology (OT) for large-scale security assessments and monitoring, and pursued further growth in the Aerospace and Critical Infrastructure sectors. These initiatives increased operating costs by USD 1.8 million and contributed to an EBITDA loss of USD 5.5 million, compared to an EBITDA loss of USD 2.7 million in the first half of 2024.

INTERNET OF THINGS (IoT)

IoT generated revenues of USD 19.3 million, a decrease of 10.6% compared to the first half of 2024. One-off device replacement costs reduced gross margin to 39.1%, compared to 48.4% in the prior-year period.

In the IoT segment, investments are being directed toward long-term growth through the development of distribution channels with major providers of vehicle financing, leasing, insurance, protection, and extended service warranty products. Asset tracking with theft protection can be bundled with these offerings, creating a seamless value-add for end customers. This bundling model is scalable and benefits from aligned incentives. Partners enhance their customer proposition by offering improved security and potential insurance benefits, while the Group benefits from larger and more predictable sales volumes through institutional channels rather than individual transactions. However, the timing of revenue impact has been delayed, as establishing these partnerships involves complex contract negotiations, integration into partner systems, dealer deployments, and training programs. While these steps have taken longer than initially anticipated, once fully operational, the partnerships are expected to materially expand market reach and generate stable, recurring revenue streams through embedded sales.

Operating expenses increased by USD 1.1 million as the business invested in channel enablement and operational readiness. EBITDA loss was USD 7.0 million compared to an EBITDA loss of USD 2.9 million in the first half of 2024.

CORPORATE

In the first half of 2025, the Group booked other operating income of USD 0.5 million from the SKIDATA transaction. The first half of 2024 included non-recurring items related to the San Francisco building, namely USD 5.3 million of other operating income and a USD 12.7 million impairment charge. First half 2025 corporate operating expenses amounted to USD 7.8 million. As a result, corporate operating loss in this first half amounts to USD 7.3 million.

BALANCE SHEET

As of June 30, 2025, non-current assets were USD 349.5 million, an increase of USD 20.8 million compared to year-end 2024, mainly due to foreign-exchange effects. Tangible fixed assets were USD 5.9 million and remained stable. Intangible assets were USD 218.7 million and largely consisted of goodwill. Financial assets at fair value were USD 41.3 million and primarily consisted of unsettled receivables transferred to the securitization special-purpose entity.

Current assets were USD 196.3 million. Inventories were USD 18.8 million, which was USD 4.1 million higher compared to year-end, mainly reflecting higher asset-tracking inventories. Accounts receivable were USD 23.1 million, which was USD 12.7 million lower due to strong collections. Cash and cash equivalents were USD 80.4 million, which was USD 46.0 million lower compared to year-end, as the prior year's closing balance was boosted by a large prepayment for services to be delivered in 2025 and 2026.

Total equity was USD 317.7 million and increased marginally compared to year-end, as positive other comprehensive income of USD 36.1 million from pension accounting and currency translation offset the net loss. Non-current liabilities were USD 70.9 million, which was USD 16.1 million lower, reflecting a reduction in IAS 19 obligations from USD 23.0 million to USD 4.2 million driven by an increase in the discount rate from 1.05% to 1.4%. Current liabilities were USD 157.2 million, which was USD 12.5 million lower than year-end. Following the SKIDATA divestiture and subsequent debt repayments, the Group is debt-free.

CASH FLOWS

Net cash used in operating activities was USD 45.3 million, reflecting the period's net loss and an USD 11.6 million reduction in trade payables and contract liabilities. This is consistent with expectations given the higher-than-anticipated year-end 2024 cash position, which resulted from customer prepayments for services to be delivered in 2025 and 2026. Cash used in investing activities was USD 1.3 million, reflecting continued discipline in capital expenditures. Cash used in financing activities was USD 5.0 million and primarily related to lease obligations.

OUTLOOK

For the second half of 2025, management expects a stronger revenue trajectory supported by seasonality in Core Digital Security, continued conversion of Managed Detection and Response and advisory pipelines in Cybersecurity, and increasing sales from third-party channels in IoT.

Core Digital Security operating expenses are expected to improve compared to the first half, benefitting from restructuring effects. Cybersecurity expenses are expected to be stable as the Group will continue to invest in priority initiatives to support longer-term growth and margin expansion. In the second half, IoT operating expenses are projected to be lower than in the first half, resulting in a reduction compared to the restated 2024 costs.

For the full year 2025, management expects positive two-digit-million EBITDA in Core Digital Security consistent with the restated 2024 level. Cybersecurity near-term EBITDA will be affected by ongoing investments, translating in a higher full year loss compared to 2024. IoT's full-year EBITDA loss is expected to be roughly in line with 2024 as the segment continues to invest in distribution channels.

Management targets free cash flow for the second half of the year to materially improve compared to the first semester at around break-even, reflecting a material improvement in profitability compared to the first half.