

## 2018 HALF YEAR RESULTS

### Highlights:

- Total revenues and OOI\* decreased by 10.3% to USD 446.1 million, with an operating loss ex-restructuring costs of USD 2.2 million
- Further streamlining of DTV Operations, in line with cost reduction plan
- Divestment of SmarDTV's Conditional Access Module (CAM) and Set-Top Box businesses
- Broadened relationships with long-standing DTV customers; expanded product portfolio in high potential areas
- Stronger cybersecurity offering of proprietary solutions, increased footprint and further new customer acquisitions
- Continued investments in IoT Security, with strong industry-specific partnerships
- Pursued efforts in managing patent portfolio; licence agreement with NFL Enterprises
- Continued revenue and portfolio momentum in Public Access, despite higher seasonality
- Expected improvement in second half 2018 and confirmation of full year 2018 guidance with operating income of USD 30 to 45 million before restructuring costs

### KEY FIGURES HALF YEAR 2018

(in million USD)	1H2018	1H2017
Revenues & Other Operating Income*	446.1	497.2
Operating Income ex restructuring costs *	-2.2	15.4
Net Income *	-36.5	-5.3

\* from continuing operations

**Cheseaux-sur-Lausanne, Switzerland and Phoenix (AZ), USA – August 15<sup>th</sup>, 2018** – The Kudelski Group (SIX: KUD.S), a leading provider of media content protection and value-added service technology, announced today its 2018 half year results.

In the first half 2018, total revenues and other operating income decreased to USD 446.1 million from USD 497.2 million in the first half 2017. Operating income, before restructuring costs, was at USD -2.2 million, compared to USD 15.4 million in the first half 2017. Overall, the Group generated a USD 36.5 million net loss from continuing operations in the first half 2018, impacted by USD 28 million of restructuring costs.

In the first half 2018, revenues in the integrated digital TV (iDTV) segment decreased compared to the first half of the previous year. Reported iDTV revenues decreased by 16.4% to USD 280.0 million. The Group's core digital TV business was resilient in advanced economies, while it declined in emerging markets. Due to its exposure to emerging markets, Conax has seen its revenues materially decrease compared to the first half of last year.

Cybersecurity gross profit increased during the first half, driven by growing sales of high value-added solutions, while the resale of third party products was lower than in H1 2017. The shift toward higher margin advisory services, managed security services and proprietary technology sales is an integral part of Kudelski Security's strategy.

In this first half 2018, revenue contribution from IP licensing was a fraction of the previous half year's, when the Group completed several licensing transactions.

In the Public Access segment, SKIDATA is experiencing a higher seasonality than in previous years, resulting in first half 2018 revenues substantially at the same level of the previous first half and an operating loss for this reporting period. SKIDATA's constant currency revenues declined by 3.3% compared to the same period of last year, with revenues of USD 162.9 million in the first half 2018.

## **ACHIEVING SYNERGIES AND IMPROVING EFFICIENCIES OF DTV OPERATIONS**

As part of the measures taken by the Group to achieve synergies among entities and align digital TV operations with the new market realities, the Group completed the integration of its Conax and NAGRA organizations. As a result, the Group benefits from a stronger product portfolio while maintaining each brand's specific focus. The Group continues to streamline its operations to further improve efficiency.

Following its strategy to focus on core activities reaching critical mass and profitability, the Group has announced the sale of SmarDTV's Conditional Access Module (CAM) and Set-Top Box businesses to an affiliate of Neotion SA. This transaction will be accounted for in the second half of 2018.

## **EXTENDING CORE DIGITAL TV CUSTOMER FOOTPRINT**

During the first half 2018, the Group entered into several new contracts and completed new deployments in the digital TV segment:

- In Europe, Vodafone and NAGRA have been working together to integrate NAGRA's security solutions into the Vodafone Group TV architecture, which is being deployed across several operating companies. Telefonica Spain, another key NAGRA customer, launched a new 4K IPTV set-top box that includes NAGRA's latest Conditional Access technology, CONNECT.
- In Africa, the NAGRA PROTECT cardless conditional access secures the new HD premium channels launched by CANAL+ International in Africa.

- In North America, NAGRA sees growth potential for multi-DRM adoption with its partner, Evolution Digital, which rolled out their platform to additional cable operators in the US.
- In the Asia Pacific region, NAGRA made further inroads into traditional broadcast networks and IP based networks. In South Korea, NAGRA was selected to protect KT SkyLife’s combined satellite and mobile TV service for vehicles, SkyLife SLT.

NAGRA’s anti-piracy services continues to be successfully adopted by major operators and content owners:

- CANAL+ and NAGRA deployed forensic, monitoring and takedown services to help fight piracy.
- NexGuard, NAGRA’s watermarking technology, was certified by the ChinaDRM Lab, the standards body that oversees digital rights management in China.

### **INCREASING ADOPTION OF USER EXPERIENCE SOLUTIONS TO POWER OPERATORS’ OTT SERVICES**

NAGRA’s OpenTV suite was adopted by several operators to power their OTT services:

- HOT Telecom, a subsidiary of the Altice Group and the leading Pay-TV operator in Israel, has extended the reach of the already deployed NAGRA OpenTV platform to power and secure all its streaming and video-on-demand services.
- NET Brazil launched a 4K set-top box with NAGRA OpenTV allowing its subscriber base to watch the World Cup on high quality 4K TV.
- In the Asia/Pacific region, NAGRA completed key upgrades to its OpenTV Platform at a number of customers in the region. In Taiwan, NAGRA’s OpenTV suite was selected and deployed to provide a new OTT platform for Taiwan Broadband Communications (TBC).

### **EXPANDING PRODUCT PORTFOLIO IN HIGH POTENTIAL AREAS**

NAGRA launched in April 2018 “myCinema” to enable the next wave of digital transformation of cinemas. myCinema serves as an on-line marketplace and scheduling tool that empowers exhibitors to benefit from an unprecedented choice of alternative and live content and to control its scheduling and promotion. myCinema provides greater control and flexibility to theater owners, along with the data insights needed to maximize revenues.

The initial commercial launch in the second half of 2018 is focused on the US market. The initial responses of both theater owners and content publishers have been very positive.

Insight, the big data and artificial intelligence platform of the Group, is progressing as planned, supporting more and more customers to improve the efficiency of their business by focusing on their critical business drivers: increasing subscriber value, managing content portfolio, improving operations and developing targeted advertising.

### **FOCUSING ON KUDELSKI SECURITY’S THREE STRATEGIC OBJECTIVES: CUSTOMER WINS, SOLUTION INNOVATION AND PROFITABILITY**

Kudelski Security, the Group’s cybersecurity division, which has focused on launching new products, services and capabilities in both Europe and the United States, reported a significant increase in new clients in the first half of 2018. These new clients are adopting a mix of Kudelski Security’s four solution pillars, Advisory, Technology, Managed Services and R&D, which provides strong validation that the company’s strategy and offerings are resonating in the market.

Launched in the United States in Q2 2018, Secure Blueprint is a SaaS-based platform that allows security executives to centralize security program management. In its first month, the product has received tremendous attention, creating a deep pipeline with large enterprise clients. Kudelski Security expects to launch Secure Blueprint in the European market in Q1 2019.

In Managed Services, Kudelski Security continues to earn industry recognition for innovation, vision and ability to deliver for clients. In the first half of 2018, Kudelski Security's Endpoint Detection and Response, Attacker Deception and Threat Hunting offerings were recognized by analysts Gartner and Frost & Sullivan. Additionally, Kudelski Security was recognized in the CRN MSP 500 list for its cutting-edge approaches to delivering managed services.

Kudelski Security's deep engineering and development capabilities continue to be a market differentiator. These engagements have also fuelled interest in the Group's broader IoT initiatives. This includes an innovative licensing relationship with a manufacturer of IoT tracking tags that will provide the Group royalties based on the sale of each tag deployed.

Kudelski Security continues to expand its business in key regions across Europe and the United States, highlighted by the opening of a new office in Zurich to support Kudelski Security's expansion in the German, Austrian and Swiss markets.

## **INTERNET OF THINGS SECURITY GAINING TRACTION WHILE STRENGTHENING MARKET OFFERING**

The Group continued to increase its commitment to the IoT space by investing in establishing a security platform ecosystem. Integration with ecosystems of key players is also growing steadily.

In the first half, the Group entered into significant partnerships, in particular with u-blox, a global leader in positioning and wireless communication technologies for the automotive, industrial and consumer markets, to bring premium-grade security to IoT devices. Kudelski and u-blox agreed to collaborate toward integrating the Kudelski IoT Security Suite into multiple u-blox product lines, thereby providing field-proven security technologies to empower businesses to sustainably secure their digital transformation.

## **PURSUING EFFORTS TO STRENGTHEN THE GROUP'S PATENT PORTFOLIO**

In the first half of 2018, the Group continued to extend the scope of its intellectual property and technology licensing activities. It entered into a comprehensive patent license agreement with NFL Enterprises.

The Kudelski Group's innovation and patent program continues to be strong, with a worldwide portfolio of thousands of issued patents and pending applications.

## **CONTINUED MOMENTUM IN PUBLIC ACCESS**

SKIDATA has achieved more than 300 installations in the first half of 2018, including its first installations in Bahrain ("the Terminal") and in Sri Lanka (Nawalkoka Hospital). Other major installations include the Everland Themepark in the greater Seoul area (event), the Asuta Hospital in Ashod, Israel, the Keflavik airport in Iceland, the Piazza Shopping Mall in Istanbul and the MGM National Harbor in Washington, DC. SKIDATA also won significant new customer deals, such as the Detroit airport, the city of San Jose and the University of Arkansas.

On the technical side, SKIDATA has deployed the first ticket integrations with Apple Pay.

## **CONFIRMATION OF FULL YEAR 2018 GUIDANCE WITH OPERATING INCOME OF USD 30 TO 45 MILLION BEFORE RESTRUCTURING COSTS**

The Group is undergoing significant transformation in order to be prepared for the future and to deliver value over the long term while guaranteeing its independence. In this second half, the Group will focus on improving profitability, further sharpening operations and continuing to develop new solutions and innovations.

In the second half 2018, the Group expects revenues in the core digital TV domain to grow compared to the first half, driven by additional sales volumes from existing customers, in particular in the Asia/Pacific and Africa regions. Second half 2018 revenues are also expected to exceed the first half's for the Group's cybersecurity activities, benefitting from positive customer acquisition momentum. In the iDTV segment, second half 2018 operating expenses are expected to be lower than the first half's, as the Group realizes the benefits of its 2018 restructuring program, including in particular the cost reduction from the completion of the restructuring of the iDTV's French operations.

In the Public Access segment, SKIDATA expects revenue acceleration in the second half, resulting in full year solid constant currency growth and higher operational profitability compared to the previous year.

Overall, the Group expects positive second half free cash flow, as cash from operating activities will reflect the improved second half profitability and cash generated from investing activities will include the proceeds related to the sale of the SmarDTV assets.

Taking into account the prospects for second half 2018, the Group confirms its original full year 2018 outlook with operating income of USD 30 to 45 million before restructuring costs.

### **Note to the editors:**

The 2018 first half Financial Statements and MD&A are available in PDF format under: [www.nagra.com](http://www.nagra.com) >> Investors >> Publications.

### **About the Kudelski Group**

The Kudelski Group (SIX: KUD.S) is a world leader in digital security and a provider of end-to-end convergent media solutions to the digital entertainment industry, including services and applications requiring access control and rights management to secure the revenue in digital television, internet, mobile and interactive applications. The Group also offers cybersecurity solutions and services focused on helping companies assess risks and vulnerabilities and protect their data and systems. It also supplies integrated solutions to manage access control of people and vehicles to sites and events. The Kudelski Group is headquartered in Cheseaux-sur-Lausanne, Switzerland and Phoenix (AZ), USA. For more information, please visit [www.nagra.com](http://www.nagra.com).

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