

## ANNUAL RESULTS 2019

### HIGHLIGHTS:

- USD 827.3 million total revenues and other operating income, with EBITDA of USD 81.4 million ex restructuring costs
- In-depth transformation of Group operations enabling future cross-segment synergies, and delivering USD 56.8 million total reduction of Group recurring operating expenses in 2019
- Good resilience of Digital TV in mature markets, further portfolio optimization, extension of key customer relationships and deployment of cloud security platforms
- Shift of Cybersecurity business to high margin activities and 30% year-on-year growth in EMEA region, particularly in Germany and France
- Growing recognition for the Group's offering in IoT, initial launches completed both on-premise and on leading cloud platforms, including AWS and Azure
- Completed first set of restructuring measures and launching further transformation program in Public Access
- Outlook for 2020: EBITDA between USD 70 and 90 million and positive net income
- Proposing a cash distribution (dividend) of CHF 0.10 per bearer share

### KEY FIGURES 2019

(In million USD)	2019	2018
<b>Revenues and Other Operating Income</b>	<b>827.3</b>	<b>919.7</b>
<b>EBITDA *</b>	<b>81.4</b>	<b>76.0</b>

\* *Ex restructuring costs*

**Cheseaux-sur-Lausanne, Switzerland, and Phoenix (AZ), USA – February 27, 2020** – The Kudelski Group (SIX: KUD.S), the world leader in digital security, announced today its 2019 annual results.

In 2019, total revenues and other operating income decreased from USD 919.7 million to USD 827.3 million. This evolution was mainly driven by the Digital TV segment, which posted a USD 61.3 million decline, reflecting the trend seen in emerging markets. In the Public Access segment, European sales increased by 8.8% in constant currency, while in the Americas, sales decreased 16.5% compared to the previous year. Cybersecurity revenues shifted from lower margin technology reselling to higher margin advisory services, managed security services and proprietary technology sales. IoT generated marginal revenues as the segment's primary focus continues to be the development of a secure IoT platform solution for the market.

Overall, the Group reduced 2019 operating expenses by USD 81.7 million, including USD 56.8 million of cost savings achieved with the ongoing restructuring program, net of the cost of additional investments in the Group's key growth areas. Group EBITDA, excluding restructuring costs, was USD 81.4 million, a USD 5.5 million increase over the previous year.

The Group booked a USD 38.6 million net loss for 2019, including a total of USD 45.0 million of one-off costs from restructuring and from the tax effect of such restructuring measures.

In 2019, the Group generated USD 34.2 million of cash flow from operating activities, compared with a USD -4.7 million in 2018. Cash generation significantly improved in the second half to USD 36.2 million compared to a first-half operating cash flow of USD -2.0 million. The main driver of the year-on-year improvement is the reduction of trade accounts receivable, which generated USD 58.8 million of cash in 2019.

## **IN-DEPTH TRANSFORMATION OF GROUP OPERATIONS**

The Group continued the transformation of its Digital TV organization to further enhance its operational efficiency, lay the foundation for future growth and consolidate its position as a world leader in this sector. Several key structural changes were made to the organization, including the merger of product units into a consolidated entity to deliver a more coherent offering to the market. In June 2019, the Group appointed Nancy Goldberg as Executive Vice President and Chief Marketing Officer, DTV, succeeding Pierre Roy.

The Group united its security brands for the first time at the 2020 CES, demonstrating the compelling value proposition of its end-to-end digital security ecosystem, which spans content protection, IoT and cybersecurity and leverages the strong synergies between Group entities.

The Group initiated a turnaround plan for SKIDATA in July 2019 and appointed David Luken as the new CEO of SKIDATA, with the objective of improving both cash flow generation and profitability.

The Group completed an in-depth review of SKIDATA's operations, defining a blueprint for operating improvements aimed at building an optimized operating model. A first wave of measures was completed with a focus on SKIDATA's US operations, including, in particular, the merger of formerly independent entities, the introduction of Group ERP and supply chain tools, a clean-up of the project portfolio, and the integration and streamlining of critical functions. To accelerate the implementation of its restructuring plan, the Group also replaced SKIDATA's General Manager for the US.

During 2019, Kudelski Security executed several operational changes in order to better enable the implementation of its growth strategy. Such changes include the regional alignment of management and resources for closer client relationship and support, the increased focus on the development of high added value products and increased collaboration with other Kudelski Group business entities. In August 2019, Andrew Howard was appointed as CEO of Kudelski Security.

## **DIGITAL TV: OPTIMIZATION OF PORTFOLIO AND EXTENSION OF KEY CUSTOMER RELATIONSHIPS**

The digital TV market continues to contract, mainly in emerging markets, as a number of established pay TV operators report lower subscriber numbers. However, excluding restructuring costs, the Group's Digital TV segment generated an EBITDA of USD 114.4 million, representing a USD 2.5 million improvement from the previous year. This segment's profitability benefits from the improvement of productivity enabled by the transformation and the reduction of operating expenses driven by the Group's restructuring program.

In 2019, the Group continued to strengthen its partnerships with market-leading operators, especially in developed markets. Among the highlights:

- Altice USA and the Kudelski Group expanded their partnership for both Media & Enterprise security by successfully defeating significant commercial piracy activity impacting the consumer video/broadband segment and by deploying Kudelski Security's Secure Blueprint solution and advisory service, which will help Altice USA balance complex security needs with business priorities.
- In Europe, the Group deployed its cloud-hosted and cloud-operated NAGRA Security Services Platform (SSP) to protect Vodafone's TV services across a large number of operating companies throughout Europe. This marks the first major rollout of this cloud solution at scale, supporting a major service provider operating in different countries.
- Discovery chose the Contego multi-DRM for its Video Delivery Platform (VDP) on a worldwide basis, utilizing AWS. Eurosport Player was operational throughout Europe in October 2019 and Food Network in USA went live in December 2019.
- In Spain, Telefonica's IPTV offering secured by NAGRA SSP is deployed on over 3.5 million client devices.
- The Software-as-a-Service INSIGHT platform, dedicated to improving the business performance and bottom line of pay-TV and telecom operators by using big data and artificial intelligence, bolstered its customer footprint, especially in the US cable market with its deployment at Altice USA.

## **CYBERSECURITY: REINFORCING OPERATIONAL FOCUS FOR GROWTH**

In 2019, Cybersecurity revenues were lower than in the previous year, while margin after cost of material increased.

Kudelski's cybersecurity business generated USD 137.1 million of gross revenues in 2019.

The Group's cybersecurity business continued to gain significant traction with its differentiated offerings, adding an increasing number of prestigious clients in both Europe and the United States.

European operations generated net revenue growth of 30% in 2019, solidifying Kudelski Security as the premier cybersecurity partner in Western Switzerland, establishing a strong foundation in the German-speaking region of Switzerland and winning long-term contracts with market-leading clients in both Germany and France.

Managed security services (MSS) continued to gain significant traction in 2019, representing Kudelski Security's fastest area of growth. In 2019, the Group's Managed Security Services grew by 34% from the previous year.

In addition to client adoption, Kudelski Security continued to earn recognition from industry analysts. It has been recognized in Gartner's Market Guide for the third consecutive year and was named as one of the top 10 key players in Europe for Managed Security Services.

2019 was marked by the launch of significant innovation, including the Blockchain Security Center, creating opportunities to leverage the Group's core competencies and develop high-value products and differentiated services.

2019 also saw the native integration of Kudelski Security's Cyber Fusion Center with the major cloud service providers, enabling the monitoring of AWS and Microsoft Azure environments. Release of support for Google Cloud Platform (GCP) is anticipated in 2020.

## **INTERNET OF THINGS (IOT): GROWING RECOGNITION FOR THE GROUP'S OFFERING**

The Group's IoT unit has secured an initial portfolio of customers that is starting to generate early revenues and is building a funnel of prospects.

In 2019, Kudelski's IoT Security Platform went live on Amazon Web Services (AWS), enabling device manufacturers, communication service providers and their end-customers to establish trust and

control between IoT devices and their associated applications. The Kudelski IoT Security Platform runs natively in the AWS cloud, making integration with a customer's AWS-based applications simple and secure.

The Group also integrated its IoT security platform and secure element with Deutsche Telekom's nuSIM chipset and cellular module partners and made the IoT Security Platform's Secure Client available on STMicroelectronics' STM32 family of microcontrollers.

Kudelski partnered with specialists in several key industries to develop a joint offering tuned to the market specificities of different verticals. In 2019, in addition to extending its collaboration with U-blox, the Group concluded further partnership agreements with CoreKinect in the U.S. (tracking and monitoring devices), LTTS in India (automotive and industrial sectors), Idneo in Spain (medical and automotive sectors) and SixSq in Switzerland (joint solution to protect SixSq's edge-based software and data management solution for industrial customers).

In 2019, IoT generated revenues of USD 2.8 million, mainly from the IoT Center of Excellence, reflecting the early development stage of this business.

## **PUBLIC ACCESS: ACCELERATING THE TRANSFORMATION PROGRAM**

The Public Access segment delivered a weak performance in 2019 with a year-on-year revenue decline and an operating loss. In 2019, Public Access revenues decreased by 4.3% in constant currency. Over the last two years, SKIDATA failed to adjust its management structure and processes in order to assimilate effectively its operational growth from previous years.

On the positive side, Public Access' European sales increased by 3.8%. SKIDATA continued to invest in strategic growth areas in its core segments of parking, events and mountains to develop leading-edge technical solutions with an increased focus on the ecological footprint of its customers. For example, the Dutch railway operator, NS, is using SKIDATA's products to seamlessly integrate its parking and public transport mobility chain without the need for paper tickets.

SKIDATA was further recognized in 2019 for its leadership in innovation. Its mobile contactless ticketing solution for stadiums won the "Stadium Business Summit Innovation Award 2019". The solution is based on integrated Apple Wallet and Google Pay NFC (Near Field Communication) technology.

In 2019, excluding one-off costs, reported EBITDA was USD 8.0 million, representing a USD 13.1 million decline compared to 2018. Public Access reported an operating loss of USD 10.1 million in 2019.

## **OUTLOOK FOR 2020**

For 2020, the Group expects the revenue erosion in the Digital TV segment to taper off, as the subscriber churn at established pay TV operators is slowing down and the Group will continue to benefit from multiyear contracts with large pay TV customers. The Group is also successfully introducing new solutions that are expected to drive further revenue opportunities with its clients. Following the reduction of operating expenses in the past two years, the Group expects the Digital TV cost base to remain substantially stable in 2020.

With Cybersecurity, the Group will continue to drive the development of higher value product lines and expects continued growth of margin after cost of material. Cybersecurity is expected to continue adding new clients, expanding geographical coverage and increasing profitability by leveraging strategic offerings and high-value products and services. For 2020, the Cybersecurity segment top line is expected to revert to growth, resulting in a lower operational loss compared to 2019.

Following three years of substantial investments, a secure IoT platform is now available for commercial deployment. In 2020, the Group targets a level of revenue contribution from the IoT business that is at least double the level achieved in 2019. At the same time, operating expenses will remain in the same range as in prior years.

In the Public Access segment, SKIDATA is implementing rationalization measures that are expected to result in a material reduction of operating expenses. These measures are expected to restore an EBITDA margin level in line with prior years.

For 2020, the Group expects EBITDA to be between USD 70 and 90 million and positive net income.

## **PROPOSING A CASH DISTRIBUTION (DIVIDEND) OF CHF 0.10**

Taking into account the Group's 2019 results and profitability outlook, the Board of Directors is proposing a CHF 0.10 cash distribution per bearer share for approval at the 2020 Annual Shareholders' Meeting. It is proposed that CHF 0.05 of this cash distribution be treated as a return of capital.

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

The 2019 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 business efficiency 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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