

## 2020 HALF YEAR RESULTS

### Highlights:

- Total revenues and other operating income at USD 320.1 million
- Operating free cash flow at USD 37.7 million
- The COVID-19 global pandemic affected the Group's first half results mainly due to project delays and cancellations
- Measures taken to mitigate COVID-19 impacts and short-term Group's cost base reduction
- Resilience of DTV recurring revenues
- Kudelski Security delivered strong performance in EMEA
- Innovation to address specific COVID-19 needs in Public Access
- Full-year 2020 outlook with an expected EBITDA between USD 45 and 55 million

### KEY FIGURES HALF YEAR 2020

(in million USD)	1H2020	1H2019
Revenues & Other Operating Income	320.1	400.6
OIBDA*	4.9	15.5
Operating Free Cash Flow	37.7	-11.0

*\*As used herein, OIBDA refers to operating income before depreciation and amortization*

**Cheseaux-sur-Lausanne, Switzerland and Phoenix (AZ), USA – August 20<sup>th</sup>, 2020** – The Kudelski Group (SIX: KUD.S), a leading provider of media content protection and value-added service technology, announced today its 2020 half year results.

In the first half 2020, total revenues and other operating income decreased from USD 400.6 million to USD 320.1 million. Net revenues for the Group decreased by 19.9% to USD 316.0 million, a 18.6% evolution in constant currency, reflecting a decline across segments.

The Group generated USD 4.9 million of operating income before depreciation and amortization, a USD 10.6 million decrease over the previous first half.

Operating free cash flow, representing cash flow from operating activities net of investments in tangible and intangible assets, improved by USD 48.8 million from the first half 2019 to reach USD 37.7 million in the first half 2020.

Digital TV revenues decreased by 18.8% to USD 154.7 million, representing a constant currency decline of 17.5%. This was driven by a strong reduction of discretionary short-term spending by operators. Recurring revenues, particularly in advanced pay-TV markets, were resilient. The Digital TV segment generated USD 36.9 million of operating income before depreciation and amortization, representing a USD 3.0 million reduction from the previous first half.

The Group's Cybersecurity business generated USD 63.2 million of gross revenues in the first half 2020, a 13.3% decrease from the first half 2019. Net revenues were at USD 38.7 million. The Cybersecurity segment posted a USD 11.5 million operating loss before depreciation and amortization, an increase of USD 0.8 million from the previous year.

In this first half, IoT generated revenues of USD 1.0 million, mainly from the IoT Center of Excellence, and reduced operating loss before depreciation and amortization by USD 2.6 million to USD 8.9 million, reflecting a more selective development approach and a shift of focus to the commercialization of the available portfolio.

Public Access was significantly affected by COVID-19, with revenues decreasing by 23.6% in the first half 2020 to USD 121.6 million compared to the prior year period. Overall, Public Access generated an operating loss before depreciation and amortization of USD 4.5 million, compared to positive USD 4.7 million in last year's period.

## **COVID-19 IMPACTS ON THE GROUP'S FIRST HALF RESULTS**

The COVID-19 global pandemic affected the Group's first half results.

In Digital TV, most of the Group's large customers have shown resilient total subscriber numbers. However, several operators lowered paywalls for several months to compete with an increase in streaming activities. In addition, many projects scheduled for this year have been either delayed or cancelled, and a number of customers have sought reprieve from monthly support and maintenance payment obligations in order to reduce their operating expenses. The Digital TV business was also negatively impacted by the closure of retail markets, particularly in Italy. Key markets in Asia-Pacific and the Americas continue to remain closed and under lockdown restrictions, resulting in continued pressure on Digital TV revenues in these regions.

The onset of COVID-19 also brought disruption to the Group's Cybersecurity business, affecting the Group's ability to engage with clients, slowing sales activities and delaying delivery of services traditionally delivered in person. This had a greater impact on US revenues, where a large number of clients are in verticals impacted by the pandemic and a higher proportion of services are delivered in person at client locations. The pace of growth and expansion of the Cybersecurity business in Europe was less impacted and has even continued to grow by 46% compared to first half 2019.

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. Service volume dropped to nearly 25% of normal volume in April and May due to shutdowns, reflecting reduced usage of the parking infrastructure.

By the end of June, service volumes within Europe were recovering to approximately 90% of the prior year volumes with other regions averaging about 75%.

## **MEASURES TO MITIGATE COVID-19 IMPACTS AND REDUCE THE GROUP'S COST BASE**

With the onset of the pandemic, the Group implemented a set of measures aimed at temporarily reducing its cost base in order to align with the reduced levels of demand in the Public Access and Digital TV segments. Partial unemployment measures in several countries enabled the Group to reduce personnel costs. At the end of June 2020, the Group's headcount was lower by 489 FTEs (Full Time Equivalents) than at the end of December 2019, representing a 14% reduction.

The Group is taking a very selective approach to capital expenditures, resulting in a USD 7.2 million reduction of cash flows used in investing activities to USD 2.9 million. As a further lever of cash generation, the Group managed to materially reduce working capital in this first half. Overall, working capital improvements allowed the Group to release USD 36.5 million of cash. In this first half, the Group obtained COVID-related loans at favorable terms for a total amount of USD 22.2 million. Further additional loans for smaller amounts were secured in the initial weeks of the second half.

Despite COVID-19, the Group was able to ensure the continuity of its operations, in particular by transitioning employees to work from home arrangements, and to deliver its solutions and services without any disruption.

## **DIGITAL TV: A WELL-DIVERSIFIED CLIENT PORTFOLIO AND STRENGTHENED RELATIONS WITH OPERATORS**

Despite the macro-economic conditions created by the pandemic, the Group's partnerships with the largest pay-TV operators worldwide continue to expand; the Group's solutions and capabilities integrated within the fabric of their operations are essential for securely delivering content to their subscriber base. Highlights of activities for the first half of 2020 demonstrate that NAGRA's has a well-diversified client portfolio, with fit-for-purpose products and solutions. Highlights include:

- NAGRA and Vodafone Group have agreed on terms of reference for a long-term deal to further deploy Vodafone TV. As part of this deal, the first countries in Central and Eastern Europe have started the rollout with Vodafone TV.
- Altice USA and NAGRA have extended their partnership on antipiracy, leveraging NAGRA's antipiracy expertise in Open Source Intelligence (OSINT), field investigation and IoT forensic analysis. NAGRA's innovative approach has already demonstrated positive results. Altice USA has also extended the reach of NAGRA Insight, the advanced analytics platform that leverages artificial intelligence not only to address the business challenges associated with subscriber churn and business growth but also to help monitor and address customer quality of service and experience with the aim to continue increasing customer satisfaction.
- Claro Colombia, the largest cable operator in Colombia, has successfully deployed NAGRA Insight to define strategies based on clear and trustable data.
- In Singapore, StarHub selected and launched NAGRA's OpenTV Video Platform, OpenTV Player, and SSP for its StarHub TV+ service and to converge its IPTV and OTT platforms, replacing their legacy system.

## **KUDELSKI SECURITY DELIVERED STRONG PERFORMANCE IN EMEA**

Kudelski Security's EMEA business continued to deliver a strong performance in the first half of the year, driven by sales of managed security services and associated third party technology bundling. The EMEA region added 37 new clients while growing revenue and gross profit year over year. This includes four new clients in Germany, three in France – including the largest MSS contract to date – and one new client in the UK.

In the US, Kudelski Security is accelerating its sales transformation effort, transitioning its business to solution-oriented, higher margin contracts. Kudelski Security's US business gained 27 new clients during the first half. With the growth of the clients' pipeline during the first half, Kudelski Security has increased its visibility for the second half.

Kudelski Security continued to expand its cloud-first cybersecurity portfolio, supporting digital transformation initiatives of global enterprises using private and public cloud services. In June 2020, it launched its dedicated Microsoft Security services, enabling clients to effectively consume and configure Microsoft security capabilities and add additional monitoring to their Microsoft 365 and Azure environments.

## **INTERNET OF THINGS (IoT): EVOLVING STRATEGY TOWARDS END-TO-END SOLUTIONS**

After delivering Kudelski IoT keySTREAM (the Group's IoT solution) to its first customers in 2019, the Group has evolved its strategy with new leadership and an upgrade of its solution portfolio, while continuing to enhance keySTREAM.

Hardy Schmidbauer joined the Kudelski Group to lead the IoT business in June this year, bringing with him significant knowledge and a deep network in IoT.

Kudelski IoT continued its shift from a pure IoT security approach to offering end-to-end solutions that solve specific industry challenges and expanding its design capabilities to include designing entire devices and ecosystems for customers.

The Group launched a standalone IoT secure element, the Pico SE 800, allowing IoT device manufacturers to easily embed keySTREAM into their devices.

## **INNOVATION TO ADDRESS SPECIFIC COVID-19 NEEDS IN PUBLIC ACCESS**

SKIDATA launched several product innovations to address specific COVID-19-related needs. In the events segment, in anticipation of the re-opening of stadiums around the world, SKIDATA launched the Safe Guest Solution, which helps enable a safer re-opening of events by combining full electronic ticketing with integrated automated coronavirus screening upon entry and subsequent tracking of participants to identify potential infection clusters. The solution was first deployed in Berlin at the ABB FIA Formula E races held in early August.

In the mountain segment, SKIDATA premiered the first installation of a complete electronic ski ticket on mobile phones at the Snow Space resort in Salzburg. Based on Bluetooth technology, this solution enables a complete contactless customer journey and multiple upselling options for ski operators.

In the parking business, as an upgrade to existing installations, SKIDATA launched touch-free buttons and mobile payments to enable completely touch-free parking transactions.

## **FULL YEAR 2020 OUTLOOK WITH AN EXPECTED EBITDA BETWEEN USD 45 AND 55 MILLION**

In the second half 2020, the Group expects revenues in the Digital TV segment to be higher compared to the first half, as customers pushed projects originally scheduled for the first half into the second half. As operating expenses are not expected to significantly increase, the Digital TV segment should generate a higher second half profit, compared to the first half.

In the Cybersecurity segment, the Group expects to generate higher revenues in the second half compared to the first half. As the Cybersecurity business continues to drive the development of higher margin product lines, margin after cost of material should continue to grow. The Group is targeting a material improvement of segment operating income before depreciation and amortization compared to the first half.

The improved IoT opportunity funnel is expected to translate into additional second half revenues. As investment levels in the IoT domain have stabilized, the Group expects to continue reducing its segment operating loss.

In the Public Access segment, SKIDATA is expected to deliver higher revenues in the second half, in line with the seasonality patterns of the past years. In addition, SKIDATA is starting to recover from the negative effects of the pandemic. While full year operating income is expected to improve compared to the previous year, Public Access profitability will remain short of its structural profitability target in 2020.

For the full year 2020, the Group expects EBITDA to be between USD 45 and 55 million.

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

The 2020 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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