

# H1 2018 results

## Active users' base growth - Strong IPTV slowdown

Paris-La Défense, August 2nd 2018

### Results and Financial Position

| Consolidated IFRS, in millions of euros | H1 2018      | H1 2017     | Change       |              |
|---|--------------|-------------|--------------|--------------|
| Revenue                                 | 23.0         | 32.9        | -30%         | - 9.8        |
| <b>Net revenue</b>                      | <b>11.0</b>  | <b>12.9</b> | <b>-15%</b>  | <b>- 1.9</b> |
| <b>Ebitda</b>                           | <b>2.1</b>   | <b>3.0</b>  | <b>-30%</b>  | <b>- 0.9</b> |
| <b>Current operating income</b>         | <b>1.8</b>   | <b>2.7</b>  | <b>-33%</b>  | <b>- 0.9</b> |
| Operating income                        | 1.8          | 3.1         | -41%         | - 1.3        |
| Financial income                        | 0.0          | - 0.0       | ns.          | + 0.1        |
| Equity method result                    | - 1.6        | - 0.8       | 118%         | - 0.9        |
| Tax                                     | - 0.5        | - 0.9       | -45%         | + 0.4        |
| <b>Net profit</b>                       | <b>- 0.3</b> | <b>1.3</b>  | <b>-124%</b> | <b>- 1.7</b> |
| <b>Global net profit</b>                | <b>- 0.0</b> | <b>0.7</b>  | <b>-106%</b> | <b>-0.7</b>  |

Activity in the first half of 2018 was marked by the growth of the total active user base which reached 2.1 million at the end of June 2018, a gain of 107,000 subscribers over the semester, and by a slowdown much more pronounced than expected on traditional IPTV business. Many operators appear to be more cautious about their IPTV investments, especially in countries where ARPUs (revenue per subscriber) are the lowest and for which returns on investment are longer.

For the six months ended June 30, 2018, Netgem achieved a consolidated revenue of € 23.0 million, down 30% compared to the first half of 2017.

The Group does not see this trend improving, which legitimizes the strategy of switching to the OTT undertaken for several years. The rapid slowdown in IPTV activity could delay the moment when the contribution of OTT activity will offset this decline.

Net revenue declined more slowly than revenue, due to recurring revenue from software maintenance and services calculated on the active user base (SaaS effect). It reached € 11.0 million in the first half of 2018, down 15% compared to the previous year period.

Operating expenses decreased by 14%, from € 10.0 million in the first half of 2017 to € 8.6 million in the first half of 2018, with no decrease in R&D.

Current operating income for the first half of 2018 was € 1.8 million, down 33% compared to the same period in 2017.

Equity method result includes a loss of € 1.6 million related to Vitis, whose turnover is up 78% in the first half of 2018 compared to the first half of 2017, with 15,000 Fiber-to-the-home subscribers as of the date of this press release.

The tax expense of € 0.5 million mainly corresponds to the use of deferred tax assets relating to tax loss carryforwards (non-cash impact). The Group recorded a net loss of € 0.3 million (Group share) over the period, a loss of € 0.01 per share.

| Consolidated IFRS, in millions of euros                          | H1 2018      | H1 2017      |
|--|--------------|--------------|
| <b>Cash flow related to operations, after tax (A), of which:</b> | <b>3.3</b>   | <b>9.3</b>   |
| - Cash flow before tax and changes in working capital            | 2.2          | 2.6          |
| - Taxes paid   | 0.3          | - 0.6        |
| - Decrease (increase) in working capital                         | 0.8          | 7.3          |
| <b>Cash flow related to investments (B)</b>                      | <b>2.4</b>   | <b>- 4.5</b> |
| <b>Operating cash flow (A + B)</b>                               | <b>5.7</b>   | <b>4.8</b>   |
| <b>Cash flow related to financing</b>                            | <b>- 5.5</b> | <b>- 7.5</b> |
| <b>Net change in cash</b>  | <b>0.2</b>   | <b>- 2.7</b> |

Operations generated € 3.3 million in cash during the first half of 2018.

Cash flow related to investments includes repayments of financing solutions implemented for some customers.

Cash flow related to financing includes a dividend distribution of € 2.8 million for the year 2017, a repayment of € 1.5 million of factoring backing the financing mentioned above and share buy back for € 1.4 million. The Group holds approximately 8.2% of its capital in Treasury shares as of June 30, 2018.

The Group's cash balance reached € 10.4 million, up € 0.2 million over the semester.

| Consolidated IFRS, in millions of euros       | 30/06/2018 | 31/12/2017 |
|---|------------|------------|
| <b>Shareholders' equity and debt</b>          |            |            |
| Shareholders' equity, Group share             | 24.1       | 27.7       |
| Current and non-current financial liabilities | 4.5        | 5.9        |
| <b>Analysis of net cash</b>                   |            |            |
| A. Cash                                       | 10.4       | 10.2       |
| B. Current financial liabilities              | 3.6        | 3.0        |
| C. Current net cash (A) - (B)                 | 6.9        | 7.2        |
| D. Non-current financial liabilities          | 0.9        | 2.9        |
| E. Net cash (C) - (D)                         | 6.0        | 4.4        |

The consolidated financial statements were approved by the Board of Directors on August 1, 2018. Limited review procedures have been carried out and the Statutory Auditors' report on the half-year financial information is being issued.



### **Significant events, strategy and outlook**

Given the slowdown in IPTV business, the company will continue to rationalize its cost, started in the first semester, by focusing its investments on its most strategic markets.

In the first half, the company launched its OTT service on the UK market. This service offers a new generation TV experience and is the only one to offer in a unified interface, voice-controlled via Alexa, live and replay channels and the most popular OTT services such as Amazon Video, Youtube, Hayu or Rakuten, on all the screens of the home.

As a first step, this service is marketed as part of a "bundle" with the sale of connected equipment (smartTV adapter or smart soundbar). The distribution of the service is done through networks of Service Providers, and will, before the end of the year, be licensed in the "retail" networks.

The service and associated equipment have won several awards: "Most innovative in home device" at TV Connect 2018, The Connies 2018's "Best user experience beyond tv & video" and "Content Innovation Awards 2017" for "Consumer Equipment Innovation". The Group intends to continue to expand the range of devices compatible with its service.

The geographical extension of OTT activity beyond the UK is under study.

### **Calendar of Financial Communication**

Revenue and gross profit for Q3'2018:                      October 18th, 2018, before market opening

### **About Netgem**

*Netgem is a Television and Digital Entertainment Service Provider and Connected Digital devices vendor. Netgem connected devices and content services are used daily by millions of households around the world, and are operated under the brands of our Telecom and Entertainment Service Providers distribution partners. Netgem is long term driven by innovation, simplicity, privacy, affordability and operational excellence. Netgem is listed on Euronext Paris Compartment C (ISIN: FR0004154060, Reuters: ETGM.PA, Bloomberg: NTG:FP) [www.netgem.com](http://www.netgem.com)*