



# Inside Secure

## *2016 Earnings Presentation*

Amedeo D'Angelo,

President & CEO

Richard Vacher Detournière,

GM & CFO

*February 20, 2017*

[www.insidesecondure.com](http://www.insidesecondure.com)



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## Key Highlights

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# Key Highlights

- Strategic transformation completed:
  - Sale of the semiconductor business and focus on security software and silicon IP
- Consolidated<sup>1</sup> revenue: \$49.9 million for FY2016, up 86% vs. 2015:
  - Revenue from the core software and silicon IP business of \$35.8 million for FY2016, up 35% vs. 2015, driven by exceptionally high royalties
  - NFC patent license revenue of \$14.2 million in 2016 (compare to nil in 2015)
- Adjusted<sup>2</sup> operating income from continuing operations: \$10.9 million in FY2016, vs. a loss of \$7.4 million in 2015
- EBITDA from continuing operations: \$12.3 million in FY2016, vs. a loss of \$6.1 million in 2015
- Net consolidated income (IFRS): \$12.3 million in FY2016, vs. a loss of \$44.6 million in 2015, explained by (i) operating income from continuing business, (ii) profit on the sale of the semiconductor business, and (iii) despite restructuring expenses
- Strengthened liquidity and solid financial position
  - \$27.1 million in cash at December 31, 2016, due to improved operating performance

1) IFRS, continuing operations, excluding semiconductor business – see definition in Appendix

2) Definitions of adjusted measures in Appendix

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## Q4 2016 Revenue

in thousands of US\$	Q4-2016	Q4-2015	Q4-2016 vs. Q4-2015	Q4-2016 vs. Q3-2016
Licenses	2 889	2 223	30%	321%
Royalties	5 982	2 827	112%	-41%
Maintenance, development agreements and other	1 138	1 027	11%	0%
<b>Total Revenue from software and IP</b>	<b>10 008</b>	<b>6 077</b>	<b>65%</b>	<b>-16%</b>
Unallocated	323	-	-	-
<b>Total Revenue</b>	<b>10 331</b>	<b>6 077</b>	<b>70%</b>	<b>-13%</b>

- Consolidated revenue in 4Q 2016 up 70% year-on-year
- Core software and silicon IP business revenue up 65% year-on-year
- Exceptionally high level of revenue from royalties
- New license revenue significantly up vs. Q3 2016
- Maintenance and development agreements revenue in line with expectations

# FY 2016 Revenue

in thousands of US\$	2016	2015	Y-o-Y %
Licenses	6 573	9 906	-34%
Royalties	24 160	12 304	96%
Maintenance, development agreements and other	5 021	4 364	15%
<b>Total Revenue from software and IP</b>	<b>35 754</b>	<b>26 574</b>	<b>35%</b>
Unallocated	14 190	345	
<b>Total Revenue</b>	<b>49 944</b>	<b>26 919</b>	<b>86%</b>

- Core business up 35% vs. 2015: strong royalty revenue and robust performance of the content protection business line. Around 70% of these revenues relate to contracts signed prior to 2016 demonstrating the Company's ability to generate strong recurring revenue
- Silicon IP business: on top of traditional networking for data-centers market, traction in the Internet of Things market (8 design wins globally in 2016)
- Content protection market: traction remains strong with high quality digital contents requiring always more protection, together with an increasing number of devices and file formats to support
- Application protection business: focus and traction on vertical solutions to secure and enable applications for mobile banking and mobile payments



# Adjusted\* Income Statement

(continuing operations)

in thousands of US\$	12 months 2016 consolidated	12 months 2015 consolidated
<b>Revenue</b>	<b>49 944</b>	<b>26 920</b>
<b>Cost of sales (adjusted)</b>	(5 421)	(2 783)
<b>Adjusted Gross profit</b>	<b>44 523</b>	<b>24 137</b>
<i>in % of revenue</i>	<b>89,1%</b>	<b>89,7%</b>
<b>R&amp;D expenses (adjusted)</b>	(14 352)	(9 874)
<i>in % of revenue</i>	-29%	-37%
<b>Selling &amp; marketing expenses (adjusted)</b>	(11 152)	(10 516)
<i>in % of revenue</i>	-22%	-39%
<b>General &amp; administrative expenses (adjusted)</b>	(7 757)	(9 655)
<i>in % of revenue</i>	-16%	-36%
<b>Other (losses)/gains, net (adjusted)</b>	(367)	(1 505)
<b>Total adjusted operating expenses</b>	<b>(33 628)</b>	<b>(31 551)</b>
<b>Adjusted operating income</b>	<b>10 895</b>	<b>(7 414)</b>
<i>in % of revenue</i>	<b>21,8%</b>	<b>-27,5%</b>
<b>EBITDA</b>	<b>12 264</b>	<b>(6 126)</b>
<i>in % of revenue</i>	<b>24,6%</b>	<b>-22,8%</b>

High growth due to royalties and NFC patent licenses

Reallocation of certain company's resources to the core software and IP business

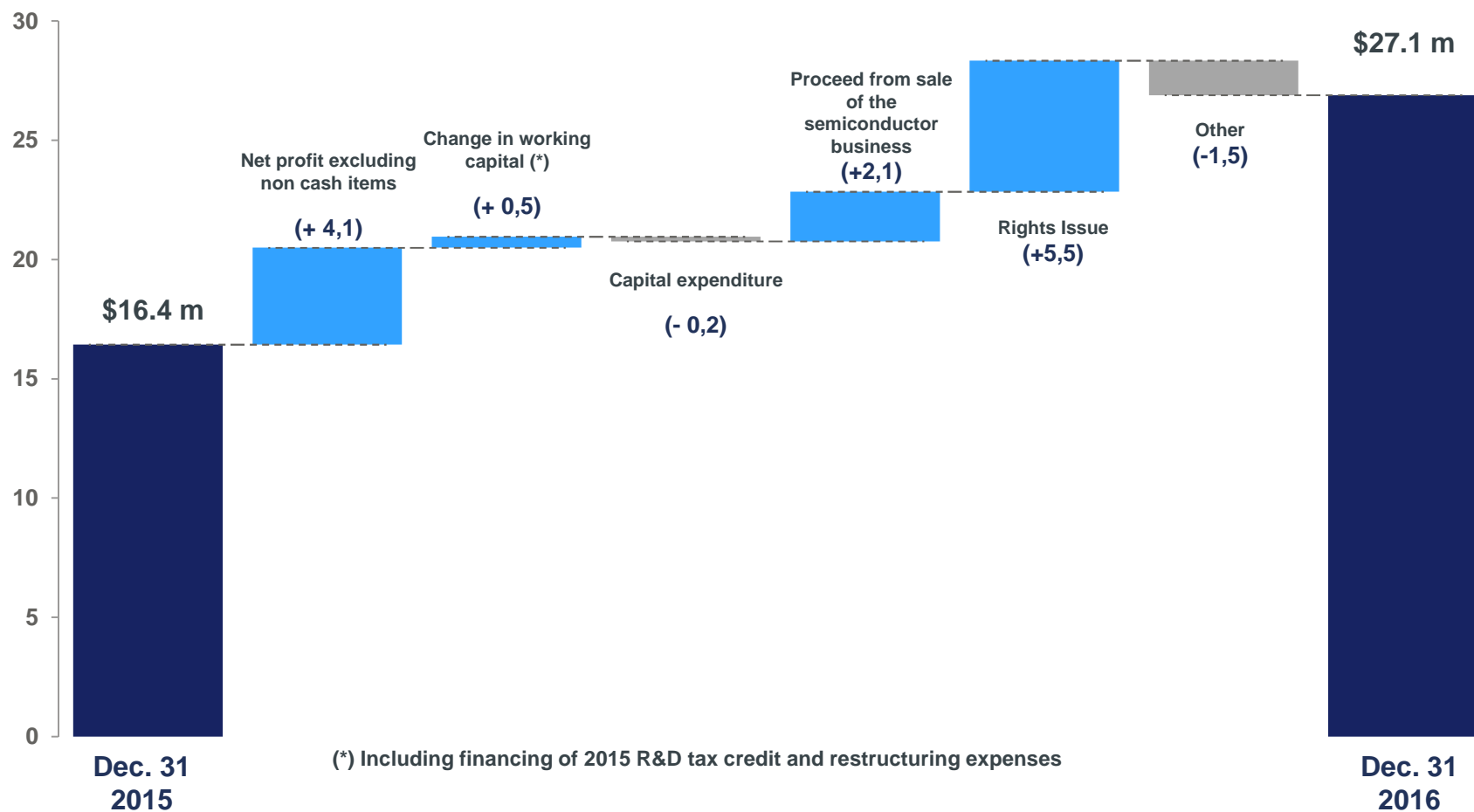
Reduction of G&A to align with new size of the business

Results from continuing operations include software and silicon IP, NFC patent licensing program and corporate costs not intended to be transferred or discontinued with sale of semiconductor business

\* Definitions of adjusted measures and continuing operations in Appendix

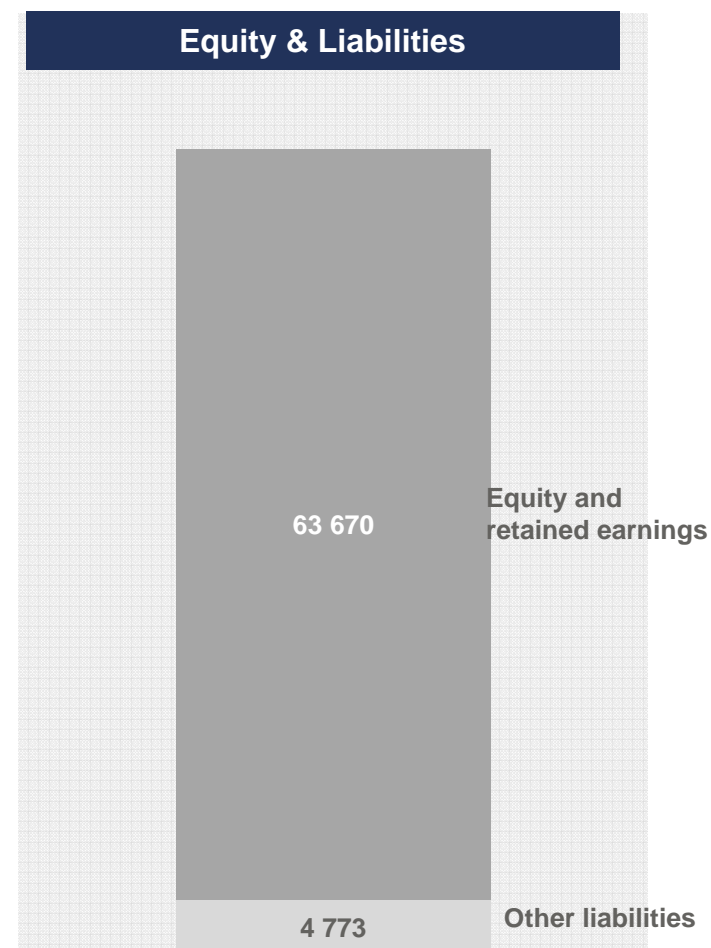
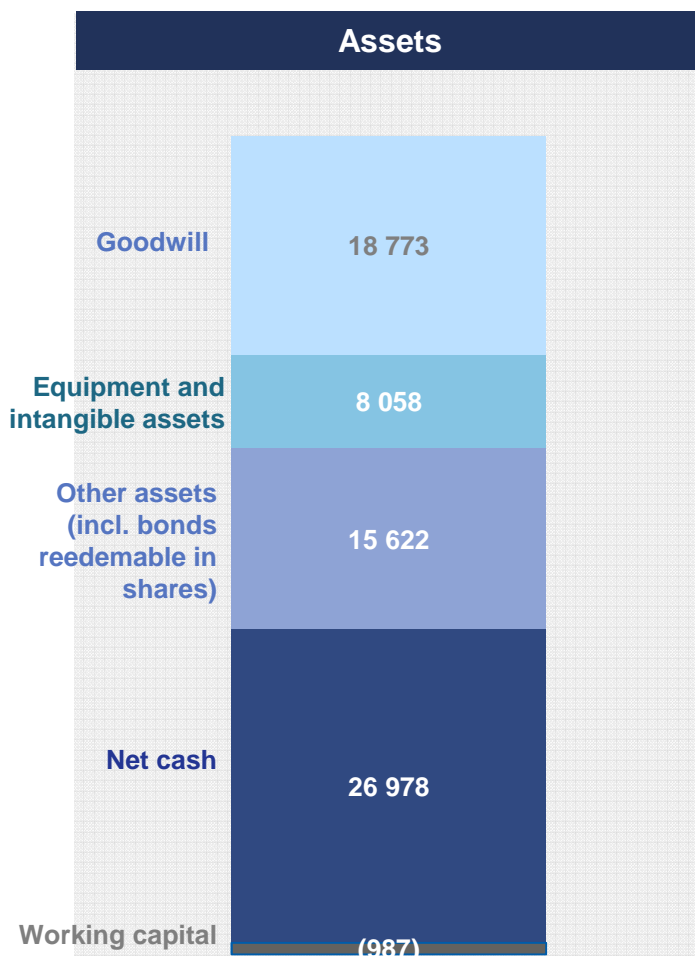
# Strong increase in cash position

## Continuing and discontinued operations



# Strong Balance-Sheet

(as at December 31, 2016, in \$'000)



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# 2017 Outlook

- **2016: Inside Secure achieved profitability<sup>1</sup> through**
  - Strategic transformation,
  - Refocusing of its activities, and
  - Rightsizing of its operating cost base
- **2017 objectives:**
  - Sustain profitability<sup>1</sup> of its core software and silicon IP business on a full year basis
  - Keep on growing the new license revenue
  - Maintain a strong discipline on operating expenses
  - While investing in sustainable long-term growth

1. on an EBITDA and adjusted operating income basis

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# Definitions 1/2

## Continuing and Discontinued Operations

- Following Inside Secure's announcement on May 19, 2016 of the sale of its semiconductor business to WISeKey and in accordance with IFRS 5, Inside Secure semiconductor activity qualifies as a discontinued operation. Consequently, income and expense items for this discontinued operation are recognized directly in "net income from discontinued operations" and thus are excluded from consolidated revenue, adjusted operating income, EBITDA, and operating and net incomes from continuing operations.
- Accordingly, results from continuing operations reflect the performance of the software and silicon IP business, the NFC patent licensing program and corporate costs not intended to be transferred or discontinued with the sale of the semiconductor business (mostly general and administrative expenses and, to a lesser extent, selling & marketing expenses, and research & development expenses).
- Figures for 2015 have been restated in a similar manner to allow comparisons with the corresponding 2016 figures.



# Definitions 2/2

## Adjusted measures

Certain financial measures and performance indicators are presented on an adjusted basis. These indicators are not defined under IFRS; they should be considered to be supplementary information, not substitutable for any other indicators of operating and financial performance that are strictly accounting measures, such as those presented in the Group's consolidated financial statements

- Adjusted gross profit is defined as gross profit before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations carried out by the Company.
- Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with business combinations carried out by the Company.
- EBITDA is defined as adjusted operating income before depreciation, amortization and impairment losses not related to business combinations.

## Net cash

Net cash consists of cash on hand, cash equivalents and short-term investments, the net amount of derivatives, less obligations under finance leases, bank overdrafts, bank loans, cash received in return for the assignment of trade receivables under factoring agreements, and any deferred payments due in connection with business combinations. Debt related to the financing of research tax credit claims in relation with non-deconsolidating agreements is not taken into account because it will be extinguished when the research tax credit claims are repaid by the French government.

# Reconciliation from Adjusted to IFRS - 2016

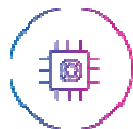
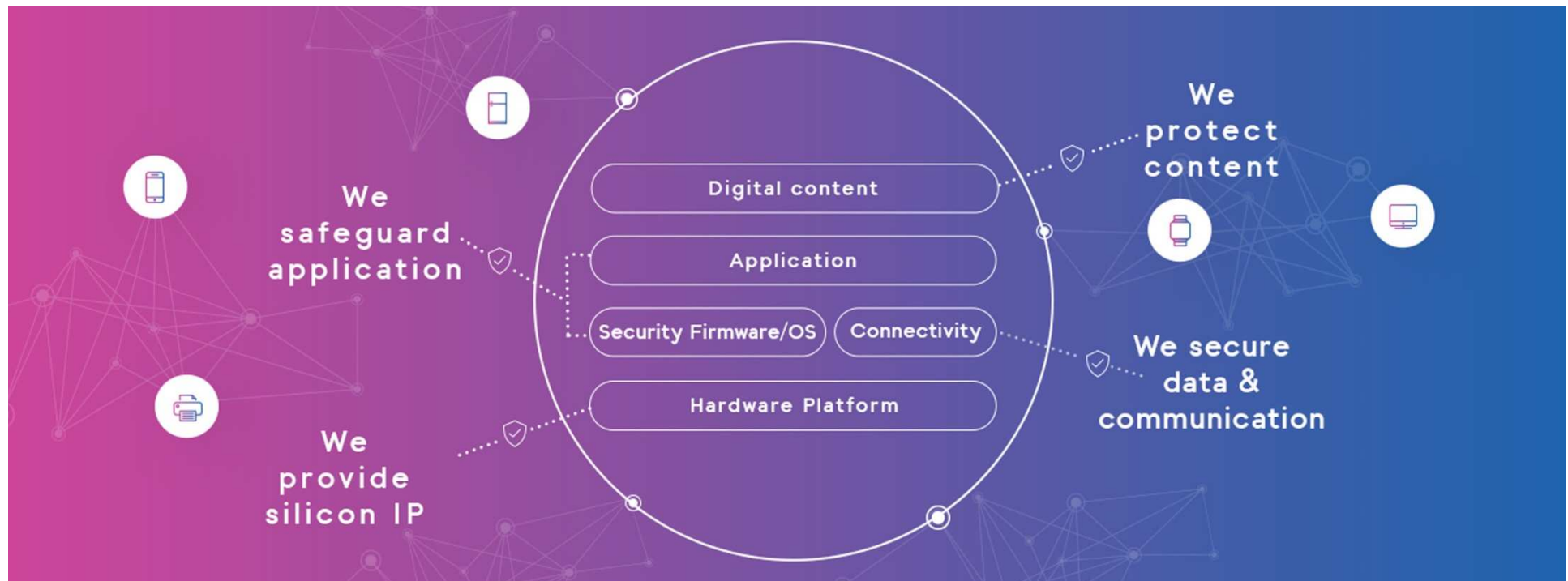
in thousands of US\$	2016 Adjusted	Business combination	Sharebased payments	Other non-recurring costs	2016 IFRS
Revenue	49 944	-	-	-	49 944
Cost of sales	(5 421)	(3 529)	(1)	-	(8 951)
Gross margin	44 523	(3 529)	(1)	-	40 993
<i>in % of revenue</i>	89,1%				82,1%
R&D expenses	(14 352)	(289)	(134)	(482)	(15 257)
Selling & marketing expenses	(11 152)	-	(196)	-	(11 348)
General & administrative expenses	(7 757)	-	(301)	-	(8 058)
Other (losses)/gains, net	(367)	-	-	(3 849)	(4 216)
<b>Total operating expenses</b>	<b>(33 628)</b>	<b>(289)</b>	<b>(631)</b>	<b>(4 331)</b>	<b>(38 879)</b>
Operating income	10 895	(3 818)	(632)	(4 331)	2 114
<i>in % of revenue</i>	21,8%				4,2%

# Reconciliation from Adjusted to IFRS - 2015

in thousands of US\$	2015 Adjusted	Business combination	Sharebased payments	Other non-recurring costs	2015 IFRS
Revenue	26 920	-	-	-	26 920
Cost of sales	(2 783)	(9 151)	(1)	-	(11 935)
<b>Gross margin</b>	<b>24 137</b>	<b>(9 151)</b>	<b>(1)</b>	<b>-</b>	<b>14 985</b>
<i>in % of revenue</i>	<i>89,7%</i>				<i>55,7%</i>
R&D expenses	(9 874)	(563)	(209)	-	(10 646)
Selling & marketing expenses	(10 516)	-	(141)	-	(10 657)
General & administrative expenses	(9 655)	-	(126)	-	(9 781)
Other (losses)/gains, net	(1 505)	-	-	(902)	(2 407)
Operating income	(7 414)	(9 714)	(477)	(902)	(18 507)
<i>in % of revenue</i>	<i>-27,5%</i>				<i>-68,7%</i>



# Inside Secure: at the heart of security solutions for mobile and connected devices

- We provide the software, silicon IP, tools and know-how needed to protect customers' transactions, content, applications, and communications.
- We are uniquely positioned to meet the advanced and evolving security needs for a connected world.



# Inside Secure: at the heart of security solutions for mobile and connected devices

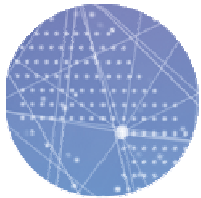
Inside Secure covers the broadest range of security solution to serve demanding and varied markets

Markets								
Layer		Mobile Banking & Financial Services	Mobile/App Security	Mobile Payment	Digital Content	Network Security	Semiconductor IP	Internet of Things
Security Implementation	Application	✓	✓	✓	✓			✓
	Security Firmware/OS Connectivity		✓			✓	✓	✓
	Hardware Platform	✓	✓	✓	✓	✓	✓	✓

Inside Secure Security Technologies

# Investor information

## Contacts



### **Inside Secure** Corporate communications

Géraldine Saunière  
Marcom Director  
+33 (0) 4 42 39 33 01

Financial Calendar  
Q1 2017 Revenue **April 20, 2016**

### **Inside Secure** Investor relations

Richard Vacher Detournière  
GM & CFO

[www.insidesecondure.com](http://www.insidesecondure.com)

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