Inside Secure announces profitable growth in first half-year 2017

- **$14.7 million: First-half 2017 revenue vs. $13.9 million in first-half 2016 excluding NFC patent license revenue**
- **+39%: New license revenue from security software and silicon IP in first-half 2017 vs. first-half 2016**
- **$0.8 million in EBITDA for core software and silicon IP business profitable in first-half 2017 vs. loss of $4.6 million[1] in first-half 2016**
- **Strong liquidity and financial position with $43.9 million in cash at June 30, 2017, due to improved operating performance and the successful issue of convertible bonds**
- **2017 objective confirmed: second half of the year to show strong sequential growth on core business**

Aix-en-Provence, France, July 26, 2017 – Inside Secure (Euronext Paris: INSD), at the heart of security solutions for mobile and connected devices, is today reporting its IFRS unaudited[2] consolidated results for the six-month period ended June 30, 2017.

(in thousands of US$, unaudited)	**H1 2017**	**H1 2016**
Revenue	**14 699**	**27 699**
Revenue from core security sofware and silicon IP	**14 699**	**13 831**
EBITDA from continuing operations	**824**	**5 320**
EBITDA from core security sofware and silicon IP	**824**	**(4 574)**
Net income (IFRS)	**(3 655)**	**(675)**

Commenting on these results, Amedeo D'Angelo, president and chief executive officer of Inside Secure, *stated: "I am very pleased with the important progress we made during the first half of the year on our core security software and technology licensing business on both revenue and profitability[3], while moving forward on our strategic development and roadmap. We saw continued traction in our mobile payments business, including a design-win at a major credit card association. We are also leading the way in the networking chip market with the release of the very first MACsec engine offering more than 400Gbps to secure the Cloud, with first customer wins.*

Our strong cash balance, thanks to our operating performance and the successful issue of a EUR 15 million convertible bond in June 2017, gives us the flexibility to consider acquisition opportunities that would strengthen our portfolio of technologies, products and solutions, in important markets such as IoT and banking and payment.

With current market trends and our ongoing business initiatives, we are confident that we can generate strong sequential growth in our core business during the second half of the year."

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[1] Excluding contribution of NFC patent licensing program
[2] Statutory auditors performed a limited scope review of the IFRS consolidated financial statements as of June 30, 2017
[3] On an EBITDA and adjusted operating income basis

Key figures

(in thousands of US$)	H1 2017	H1 2016
Revenue	14 699	27 699
Adjusted gross profit	**13 973**	**23 051**
As a % of revenue	*95,1%*	*83,2%*
Research and development expenses	(5 594)	(6 907)
Selling and marketing expenses	(6 091)	(5 922)
General and administrative expenses	(2 927)	(5 091)
Other gains / (losses), net	940	(434)
Total adjusted operating expenses	**(13 672)**	**(18 353)**
Adjusted operating income from continuing operations	**301**	**4 698**
EBITDA	**824**	**5 320**
Net income (IFRS)	**(3 655)**	**(675)**
Net cash	**43 845**	**15 937**

Note: Sums may not equal totals due to rounding.

The reconciliation of adjusted financial measures with IFRS is presented in Appendix 2 hereof.

Q2 2017 and H1 2017 revenue

(in thousands of US$)	Q2-2017	Q2-2016	Q1-2017	Q2-2017 vs. Q2-2016	Q2-2017 vs. Q1-2017	H1-2017	H1-2016	H1-2017 vs H1-2016
Licences	2 040	1 708	2 175	19%	-6%	4 215	3 034	39%
Royalties	4 164	4 690	3 415	-11%	22%	7 578	8 094	-6%
Maintenance, development agreements, and other	1 551	1 296	1 354	20%	15%	2 905	2 704	7%
Total revenue from software and silicon IP	**7 755**	**7 694**	**6 944**	**1%**	**12%**	**14 699**	**13 831**	**6%**
Unallocated (*)	-	12 577	-	-	-	-	13 868	-
Total	**7 755**	**20 271**	**6 944**	**-62%**	**12%**	**14 699**	**27 699**	**-47%**

(*) unallocated amounts correspond mainly to non-recurring NFC patent license revenue

In H1 2017, consolidated revenue was $14.7 million with no NFC-related revenue as compared to $27 million in H1 2016, including $13.9 million derived from the NFC patent license agreement signed by France Brevets with Samsung and Sony.

Revenue from the core secure software and technology licensing business for the first half of 2017 increased 6 percent compared with the first half of 2016, thanks to strong new license revenue which was up 39 percent. The Company experienced continued traction in mobile payments, including a design win at a major card association. On the technology licensing front, Inside Secure is demonstrating itself as a pioneer in the networking chip market with the release of the first MACsec engine offering more than 400Gbps and seeing its first customer wins for this new engine.

Consolidated revenue in Q2 2017 was $7.8 million, up 12 percent compared with first quarter of 2017 thanks to higher royalty collection.

As expected, Q2 2017 revenue is down compared with Q2 2016 which included $12.6 million related to the NFC patent license agreement signed by France Brevets with Samsung (compared to $0 in NFC-related revenue in Q2 2017).

Strong growth of adjusted gross margin

In the first half of 2017, adjusted gross profit stood at $14.0 as compared to $23.1 in H1 2016. The Company's gross margin increased by 11.8 points to 95.1% in H1 2017 against H1 2016 as a result of product mix. In H1 2017, company generated all its revenue from the core software and silicon IP business which generates higher-margins than NFC patent licensing revenue (due to the agent commission payable to France Brevets).

Tight management of operating expenses

As expected, H1 2017operating expenses decreased by $4.7 million to $13.7 million with the benefits of the cost reduction derived from the company's 2016 restructuring plan.

The evolution was primarily driven by:
- A decrease in research and development expense due to the rightsizing of the organization conducted in 2016 while preserving the product development capability.
- An increase in sales and marketing expenses, with the addition of sale resources, and a decrease in general and administrative expenses.
- Other net non-recurring income and foreign exchange gains on operating activities of $0.9 million.

For the second-half of 2017, the Company anticipates operating expenses between $17.0 million to $17.5 million with an increase vs. H1 2017 primarily due to investments in research and development, sales and marketing, in line with the Company's operating plan.

Substantial improvement of adjusted operating income on core software and silicon IP business

Adjusted operating income stood at $0.3 million in H1 2017 with $0 revenue generated from NFC patent licensing program, as compared to $4.7 million in H1 2016 with $13.9 million revenue from the NFC patent licensing program ($10.2 million contribution to the adjusted operating income).

In H1 2017, the Company substantially improved profitability on its core software and silicon IP business due to an increase in new license revenue and tight management of expenses and overall operations.

Adjusted operating income oF the core software and silicon IP business (i.e. excluding the contribution of the non-recurring NFC patent license business) was +$0.3 million in H1 2017, compared with a loss of $5.3 million in H1 2016.

EBITDA

In H1 2017, EBITDA was $0.8 million, compared with $5.3 million in H1 2016 or a loss of $4.7 million excluding the strong contribution of non-recurring NFC patent licensing program.

Operating income (IFRS) impacted by non-cash items

Operating income from continuing operations showed a loss $3.0 million in H1 2017, compared with breakeven in H1 2016. The operating loss is explained by:
- the adjusted operating income of $ 0.3 million;
- the recognition of a $1.5 million net non-recurring charge arising from the company's restructuring plan;
- amortization expense (non-cash item) related to assets arising upon the company's acquisitions in recent years (ESS in 2012 and Metaforic in 2014) for $1.1 million, showing a strong decrease compared 2016, the acquired intangible assets being now almost completely amortized according to plan;
- share-based payment expense (non-cash item) for $0.6 million which increased in 2017 in relation with the grant of performance shares and stock-options in December 2016.

Consolidated net income

In H1 2017, the Company generated a consolidated net loss (IFRS) of $3.7 million, mainly explained by the operating income (loss $3.1 million) and by net financial expense for $0.3 million of and income tax expense for $0.3 million.

Strong increase in cash position and solid balance-sheet

As of June 30, 2017, the Company's consolidated available cash stood at $43.9 million, significantly up from $27.1 million at December 31, 2016 and $20.4 million at June 30, 2016.

Net cash[4] stood at $43.8 million at June 30, 2017, compared with 26.9 million at December 31, 2016 and $15.9 million at June 30, 2016.

The increase in cash position in H1 2017 notably reflects:
- the operating performance ($0.7 million generated by operations (before changes in working capital and excluding restructuring payments));
- the $4.4 million sale of listed WISeKey shares (see below);
- the $17.1 million (€15 million) convertible bond issue completed in June 2017 (see below);
- despite payments in relation with the completion of the 2016 restructuring plan during Q1 2017 for $2.2 million.

During the period, the Company converted 40 percent of the $11 million bond redeemable in shares received at the closing of the sale of the semiconductor business to WISeKey on September 20, 2016, and sold the shares on the Swiss stock market. The balance of 60 percent of the loan was converted into shares on July 20,2017, and is freely tradeable on the stock market.

Successful convertible bond issue

On June 27, 2017, the Company issued bonds convertible into and/or exchangeable for new or existing shares for a nominal amount of €15 million. The 4,021,447 bonds issued mature on June 29, 2022, and bear interest at a nominal annual rate of 6.00%. The issue price was € 3.73 per bond.

This convertible bond issue provides Inside Secure with enhanced financial capacity and flexibility to contemplate acquisitions to further enrich its security solutions offering while optimizing the financing cost and the shareholders' dilution.

Outlook for second-half 2017

The Company achieved profitability[5] in H1 2017 thanks to growth in the core security software and technology licensing business and as a consequence of refocusing its activities and rightsizing its operating cost base in 2016.

For the second half 2017, the Company expects to benefit from a strong royalty stream and reiterates its intention to continue growing license revenue. It should sustain the profitability[5] of its core security software and technology licensing business[6] on a full-year basis.

Looking further ahead, Inside Secure is well positioned, with its products and technology and roadmap, to continue expand in growing and important areas such as IoT and banking and payment markets while generating profitability[5].

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[4] Net cash consists of cash on hand, cash equivalents and short-term investments, the net current amount of derivatives, less bank overdrafts and the current portion of the financial debt including notably obligations under finance leases, bank loans, the debt component of the convertible bonds, and any deferred payments due in connection with business combinations. Debt related to the financing of research tax credit is not taken into account because it will be extinguished when the research tax credit claims are repaid by the French government.

[5] On an EBITDA and adjusted operating income basis.

[6] i.e. even excluding any additional potential revenue from the Company's NFC patent licensing program.

Conference call

The Company will hold a conference call to discuss its earnings results at 10:00 CET on July 27, 2017. Access to the call will be by dial-in on one of the following numbers: +33 (0)1 72 00 15 10 (France) or +44 20 30 43 24 40 (UK), PIN 27318811#.

The presentation will be available online at www.insidesecure-finance.com. An audio webcast of the presentation and the Q&A session will be available on the Inside Secure website approximately three hours after the end of the presentation and will remain posted there for one year.

Financial calendar

Third-quarter 2017 revenue: October 20, 2017 (before market opening)

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About Inside Secure

Inside Secure (Euronext Paris – INSD) is at the heart of security solutions for mobile and connected devices, providing software, silicon IP, tools and know-how needed to protect customers' transactions, content, applications, and communications. With its deep security expertise and experience, the company delivers products having advanced and differentiated technical capabilities that span the entire range of security requirement levels to serve the demanding markets of network security, IoT security, content and application protection, mobile payment and banking. Inside Secure's technology protects solutions for a broad range of customers including service providers, content distributors, security system integrators, device makers and semiconductor manufacturers. For more information, visit www.insidesecure.com

Forward-looking statements

This press release contains certain forward-looking statements concerning the Inside Secure group. Although Inside Secure believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. Accordingly, the Company's actual results may differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the "*Risk factors*" section of the 2016 registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on March 28, 2017 under number D.17-0244, available on www.insidesecure-finance.com/en

Supplementary non-IFRS financial information

The supplementary non-IFRS financial information presented in this press release are defined within the press release. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of a strictly accounting nature, as presented in the Company's Consolidated Financial Statements and the corresponding notes. The Company uses these indicators because it believes they are useful measures of its activity. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently to the Company, even though they use similar terms.

Appendix 1 - Consolidated income statement, balance sheet and cash flow statement (IFRS)

The following tables are an integral part of the consolidated financial statements prepared in accordance with IFRS.

Consolidated income statement

(In thousands of US$)		**as at June 30,**
	2016	**2017**
Revenue	27 699	14 699
Cost of sales	(6 413)	(1 507)
Gross profit	**21 286**	**13 192**
Research and development expenses	(7 132)	(6 157)
Selling and marketing expenses	(6 060)	(6 359)
General and administrative expenses	(5 241)	(3 199)
Other gains / (losses), net	(2 834)	(589)
Operating loss	**20**	**(3 112)**
Finance income / (loss), net	386	(279)
Loss before income tax	**406**	**(3 391)**
Income tax expense	(1 413)	(264)
Net income/(loss) from continuing operations	**(1 007)**	**(3 655)**
Net income/(loss) from discontinued operations	**332**	**-**
Net income/(loss)	**(675)**	**(3 655)**
Attributable to:		
Equity holders of the Company	(675)	(3 655)
Non-controlling interests	-	-

Consolidated balance sheet

Assets

In thousands of US$	December 31, 2016	June 30, 2017
Goodwill	18 773	19 089
Intangible assets	6 534	4 904
Property and equipment	1 523	1 480
Other receivables	5 361	1 218
Non-current assets	**32 191**	**26 691**
Inventories	65	47
Trade receivables	8 630	7 620
Other receivables	4 845	6 096
Bonds reedemable in shares	11 648	7 374
Derivative financial instruments	90	39
Cash and cash equivalents	27 081	43 878
Current assets	**52 358**	**65 054**
Total assets	**84 549**	**91 745**

Equity and liabilities

In thousands of US$	December 31, 2016	June 30, 2017
Ordinary shares	22 023	22 046
Share premium	228 029	228 156
Other reserves	12 493	12 671
Retained earnings and other reserves	(211 218)	(198 875)
Income / (loss) for the period	12 344	(3 655)
Equity attributable to equity holders of the Company	**63 670**	**60 343**
Non-controlling interests	-	-
Total equity	**63 670**	**60 343**
Derivatives financial instruments - Non-current portion	-	4 589
Convertible bonds at fair value	-	11 970
Borrowings	128	204
Provisions for other liabilities and charges	-	492
Retirement benefit obligations	336	278
Non-current liabilities	**464**	**17 533**
Financial instruments	193	4
Trade and other payables	11 524	7 365
Borrowings	670	653
Provisions for other liabilities and charges	4 308	3 387
Unearned revenues	3 719	2 460
Current liabilities	**20 414**	**13 869**
Total liabilities	**20 878**	**31 402**
Total equity and liabilities	**84 549**	**91 745**

Consolidated cash flow statement

In thousands of US$	June 30, 2016	June 30, 2017
Income / (loss) for the period from continuing operations	**(1 005)**	**(3 655)**
Adjustments for:		
Depreciation of tangible assets	779	147
Amortization of intangible assets	1 860	1 475
Impairment of receivables	(188)	3
Financial result	(386)	279
Profit / (loss) on disposal of assets	(245)	-
Share-based payments	363	615
Change in retirement benefit obligation	(103)	(59)
Income tax	1 209	51
Variation in provisions for risks	1 598	(429)
Cash generated by / (used in) continuing operations	**3 883**	**(1 573)**
Cash generated by / (used in) discontinued operations	(792)	-
Cash generated by / (used in) operations before changes in working capital	**3 091**	**(1 573)**
Changes in working capital		
Inventories	41	(18)
Trade receivables	(13 673)	2 329
Trade receivables transferred or derecognized	3 141	-
Other receivables	94	1 038
Research tax credit and grants	(2 265)	(294)
Trade and other payables	3 586	(1 715)
Other payables	1 243	(3 615)
Cash generated by / (used in) changes in working capital from discontinued operations	(2 428)	-
Cash generated by / (used in) changes in working capital	**(10 259)**	**(2 276)**
Cash generated by / (used in) operations	**(7 168)**	**(3 849)**
Interests and commissions received (paid), net	(26)	(13)
Income tax paid	-	(141)
Net cash generated by / (used in) operating activities	**(7 194)**	**(4 002)**
Cash flows from investing activities		
Sale of listed WISeKey shares	-	4 377
Purchases of property and equipment	(129)	(253)
Purchases of intangible assets	-	-
Cash flows used in investing activites from discontinued operations	(102)	-
Cash flows used in investing activities	**(231)**	**4 124**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net of issuance costs	5 375	127
Convertible bonds	-	16 276
Financing of the research tax credit	5 833	-
Principal repayment under finance lease	(58)	-
Treasury shares	58	25
Cash flows from financing activities from discontinued operations	-	-
Cash flows from financing activities	**11 207**	**16 428**
Net increase / (decrease) in cash and cash equivalents	**3 782**	**16 550**
Cash and cash equivalents at beginning of the period	16 434	27 081
Effect of exchange rate fluctuations	154	247
Effect of exchange rate fluctuations on discontinued operations	50	-
Cash and cash equivalents at end of the period	**20 420**	**43 878**

Appendix 2 - Non-GAAP measures - Reconciliation of IFRS results with adjusted results

The performance indicators presented in this press release that are not strictly accounting measures are defined below. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered as additional information, which cannot replace any other strictly accounting-based operating or financial performance measure, as presented in the Company's consolidated financial statements and their related notes. The Company uses these indicators because it believes they are useful measures of its recurring operating performance and its operating cash flows. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently than the Company, even though they use similar terms.

Adjusted gross profit is defined as gross profit before (i) the amortization of intangible assets 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 and divestiture carried out by the Company.

Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets 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 and divestiture carried out by the Company.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment losses not related to business combinations.

The following tables show the reconciliation between the consolidated income statements and the adjusted financial indicators, as defined above, for the six-month periods to June 30, 2017 and 2016 respectively:

(in thousands of US$)	2017 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2017 IFRS
Revenue	14 699	-	-	-	14 699
Cost of sales	(726)	(781)	-	-	(1 507)
Gross profit	**13 973**	**(781)**	**-**	**-**	**13 192**
As a % of revenue					
R&D expenses	(5 594)	(318)	(76)	(169)	(6 157)
Selling & marketing expenses	(6 091)	-	(268)	-	(6 359)
General & administrative expenses	(2 927)	-	(272)	-	(3 199)
Other gains/(losses), net	940	-	-	(1 529)	(589)
Operating income from continuing operations	**301**	**(1 099)**	**(616)**	**(1 698)**	**(3 112)**
Amortization and depreciation of assets (**)	523				
EBITDA	**824**				

(in thousands of US$)	2016 adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2016 IFRS
Revenue	27 699	-	-	-	27 699
Cost of sales	(4 648)	(1 764)	(1)	-	(6 413)
Gross profit	**23 051**	**(1 764)**	**(1)**	**-**	**21 286**
As a % of revenue	*83,2%*				*76,8%*
R&D expenses	(6 907)	(151)	(74)	-	(7 132)
Selling & marketing expenses	(5 922)	-	(138)	-	(6 060)
General & administrative expenses	(5 091)	-	(150)	-	(5 241)
Other gains/(losses), net	(434)	-	-	(2 400)	(2 834)
Operating loss from continuing operations	**4 698**	**(1 915)**	**(363)**	**(2 400)**	**20**
Amortization and depreciation of assets (**)	622	-	-	-	-
EBITDA	**5 320**				

(*) the amounts correspond mainly to restructuring expenses.

(**) excluding amortization and depreciation of assets acquired through business combinations.

Sums may not equal totals due to rounding.

Appendix 2 (cont'd) - Non-GAAP measures - Reconciliation of EBITDA to Net Income/(Loss)

(in thousands of US$)	H1 2017	H1 2016	2017 vs. 2016
EBITDA from continuing operations	**824**	**5 320**	**(4 496)**
Amortization and depreciation of assets (*)	(523)	(622)	99
Adjusted operating income from continuing operations	**301**	**4 698**	**(4 397)**
Business combinations (**)	(1 099)	(1 915)	816
Other non recurring costs (***)	(1 698)	(2 400)	702
Share based payments	(616)	(363)	(253)
Operating income from continuing operations	**(3 112)**	**20**	**(3 131)**
Finance income / (losses), net	(279)	386	(665)
Income tax expense	(264)	(1 413)	1 149
Net income/(loss) from continuing operations (i)	**(3 655)**	**(1 007)**	**(2 648)**
Net income/(loss) from discontinued operations (ii)	**-**	**332**	**(332)**
Net income/(loss) (i) + (ii)	**(3 655)**	**(675)**	**(2 980)**

(*) excluding amortization and depreciation of assets acquired through business combinations. Items without cash impact.

(**) amortization and depreciation of assets acquired through business combinations and acquisition related external expenses. Items without cash impact.

(***) Restructuring expenses.

Sums may not equal totals due to rounding.