H1 2018 results:
Inside Secure announces strong profitable growth

- **+67%: year-on-year consolidated revenue growth in Q2 2018 to $12.4 million**
- **+57%: year-on-year consolidated revenue growth in H1 2018 to $22.5 million**
- **14%: EBITDA margin in H1 2018 ($3.2 million) vs. 4% in H1 2017**
- **Strong cash position to $49.1 million at June 30, 2018**
- **2018 objective confirmed**
  - **Robust top line growth more than off-setting the anticipated decline of a U.S. customer**
  - **Continuously monitoring operating expenses while investing in future growth**

Aix-en-Provence, France, July 26, 2018 – Inside Secure (Euronext Paris: INSD), at the heart of security solutions for mobile and connected devices, is today reporting its IFRS unaudited[1] consolidated results for the six-month period ended June 30, 2018. Figures for 2018 and 2017 have been prepared in accordance with IFRS 15 "Revenue from Contracts with Customers" since company opted in 2017 for an early adoption of IFRS 15 (see Appendix 3).

(in thousands of US$)	**H1 2018**	H1 2017
Consolidated revenue	**22 492**	14 359
EBITDA	**3 161**	585
Revenue of core business	**20 686**	14 359
EBITDA of core business	**1 918**	585

Commenting on these results, Amedeo D'Angelo, chairman and chief executive officer of Inside Secure, *stated: "This semester, we have delivered a strong performance both on revenue and profitability while continuing our investments across our portfolio to fuel future growth.*

Revenue growth was particularly high, driven by strong business fundamentals over the period, new significant agreements with existing customers in the second quarter, and NFC patent license revenue. We continued to significantly grow license revenue, leveraging our customer base and attracting new customers with bundled solutions to embed security at the heart of their products and secure their communications, as illustrated by our partnership with Kalray on intelligent processors and Andes on security processors for IoT in Asia.

As expected, we continued our research & development efforts across our portfolio to bring more value to our customers in high potential verticals such as IoT and automotive by combining embeded security into chips with provisioning capacity of the acquired company SypherMedia to monitor security during the entire life cycle. We are also developing new solutions to enable studios protecting their premium content revenue.

Thanks to strong revenue growth in the first half, we are confident that we will achieve robust top line revenue growth in 2018 while continuing to closely monitor our investments toward profitable growth and position Inside Secure in high potential markets."

[1] Statutory auditors performed a limited scope review of the IFRS consolidated condensed financial statements as of June 30, 2018 and the board of directors reviewed the financial statements on July 25, 2018

Financial Results - Key figures

	Core Business		Consolidated Adjusted		IFRS	
(in thousands of US$)	**H1 2018**	H1 2017	**H1 2018**	H1 2017	**H1 2018**	H1 2017
Revenue	**20,686**	14,359	**22,492**	14,359	**22,492**	14,359
Gross profit	**19,951**	14,020	**21,012**	13,734	**20,764**	12,953
As a % of revenue	***96.4%***	*97.6%*	***93.4%***	*95.6%*	***92.3%***	*90.2%*
Operating expense	**(18,238)**	(13,672)	**(18,342)**	(13,672)	**(19,961)**	(16,304)
Operating income	**1,713**	348	**2,670**	62	**803**	(3,351)
As a % of revenue	***8.3%***	*2.4%*	***11.9%***	*0.4%*	***3.6%***	*-23.3%*
Net income/(loss)	-	-	-	-	**1,803**	(3,894)
EBITDA	**1,918**	585	**3,161**	585	**-**	-
As a % of revenue	***9.3%***	*4.1%*	***14.1%***	*4.1%*	**-**	-

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

Q2 2018 and H1 2018 revenue

(in thousands of US$)	Q2-2018	Q2-2017	Q2 2018 vs. Q2 2017	H1-2018	H1-2017	H1 2018 vs. H1 2017
Licenses	3 718	2 518	48%	6 572	4 846	36%
Royalties	5 443	3 731	46%	11 441	7 186	59%
Maintenance and other	1 409	1 142	23%	2 673	2 326	15%
Total revenue of core business	**10 570**	**7 391**	**43%**	**20 686**	**14 359**	**44%**
Unallocated revenue (*)	1 806		-	1 806		-
Total consolidated revenue	**12 376**	**7 391**	**67%**	**22 492**	**14 359**	**57%**

(*) unallocated amounts correspond to non-recurring revenue, in particular NFC patent licenses

Q2 2018 Revenue

Consolidated revenue (IFRS)

In Q2 2018, the company generated $12.4 million in revenue, including $10.6 million from its core business revenue and $1.8 million from the company's NFC patent licensing program with France Brevets which signed a new license with a major Chinese handset and telecom equipment company.

Revenue growth was particularly high at 67% in Q2 2018 as compared to Q2 2017 based on strong business traction, NFC-patent revenue and, new deliveries to three significant existing customers in Silicon IP core technology, driving accelerated revenue recognition under IFRS 15 (see appendix 3 on IFRS 15).

Core business revenue

Core security software and technology licensing business revenue was $10.6 million in Q2 2018, up 43 percent year-on-year (up 36 percent organically excluding the two businesses acquired in 2017).

License revenue grew significantly in Q2 2018 to $3.7 million, up 48 percent vs. Q2 2017, primarily driven by the silicon IP product line. This quarter, the company continued to win new designs, both at existing and new customers, to embed security functions into general purposes chips, notably for IoT, cloud connectivity and connected and autonomous cars. As an example, the company was chosen by fabless semiconductor company Kalray to provide embedded security into their new intelligent processors for data centers and autonomous cars while signing an agreement with Andes to deliver secure IoT solutions to chipmakers in Asia. The Company also leveraged the businesses acquired in 2017 as reflected in the deal with NationalChip on Syphermedia's secure provisioning for device lifecycle management in China. It also integrated Meontrust strong authentication platform into its bundled solutions for markets such as entertainment and financial.

Revenue from royalties was $5.4 million in Q2 2018, up 46 percent vs. Q2 2017 (up 35 percent organically), notably driven by the contribution of the historical U.S. customer and growth at customers in digital content and in secure communications as the result of licenses signed previously with customers to secure high speed communication for data centers and IoT solutions.

Maintenance and other revenues in Q2 2018 increased by 23 percent year-on-year at $1.4 million, in line with the company's increased business perimeter.

H1 2018 Revenue

In H1 2018, consolidated revenue was $22.5 million as compared to $14.4 million in H1 2017, driven by strong growth of the core business over the period, new significant agreements with existing customers in the second quarter and NFC patent-related revenue (vs. nil in H1 2017).

Core security software and technology licensing business revenue was $20.7 million in H1 2018, up 44 percent year-on-year. Excluding contribution of the two businesses acquired in 2017, revenue was up 36 percent year-on-year as the company continued to leverage its portfolio to gain traction in high potential markets such as data centers, IoT and automotive while benefiting from low royalties revenue from the historical U.S. customer in the defense industry.

Core business adjusted gross profit >95%, reflecting the software business model

In H1 2018, adjusted gross profit of the core business grew from $14.0 in H1 2017 to $20.0 million, in line with revenue growth with a gross margin of the core business stable at 96.4 percent of revenue.

Consolidated gross profit increased from $13.7 million in H1 2017 to $21.0 million in H1 2018. Gross margin slightly decreased from 95.6 percent to 93.4 percent of revenue due to the product mix. As a reminder, the NFC patent license program generates a lower gross margin than the company's core software and technology licensing business, but bears practically no fixed cost.

Increase in operating expenses, as anticipated

As expected, the company's operating expenses increased from $13.7 million in H1 2017 to $18.3 million in H1 2018. This is the result of incremental operating expenses derived from the two acquisitions completed in 2017 ($1.9 million) and the impact of a stronger EUR vs. US in the first-half of the year ($0.9 million). At the same time, the company leveraged its resources to pursue its investments notably in research & development to expand its offer to serve high growth potential markets such as IoT and automotive.

Adjusted operating income and EBITDA reflecting operating leverage

Due to revenue growth and operating leverage, adjusted operating income of the core business increased significantly from $0.3 million in H1 2017 to $1.7 million in H1 2018 and EBITDA from $0.6 million in H1 2017 to $1.9 million in H1 2018.

Thanks to the contribution from the core business and NFC patent licensing, adjusted operating income increased from $0.1 million in H1 2017 to $2.7 million in H1 2018, and EBITDA from $0.6 million to $3.2 million. Consequently, EBITDA margin increased from 4 percent of consolidated revenue in H1 2017 to 14 percent of consolidated revenue in H1 2018.

(in thousands of US$)	**6 months 2018**	6 months 2017
EBITDA	**3,161**	**585**
Amortization and depreciation of assets (*)	491	523
Adjusted operating income/(loss)	**2,670**	**62**
Business combinations (**)	(1,150)	(1,099)
Other non recurring costs (***)	(450)	(1,698)
Share based payments	(267)	(616)
Operating income/(loss)	**803**	**(3,351)**
Finance income/(losses), net	1,437	(279)
Income tax expense	(437)	(264)
Net income/(loss)	**1,803**	**(3,894)**

(*) 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 and acquisition costs

Sums may not equal totals due to rounding

Operating income (IFRS) impacted by non-cash items

Company generated an operating income of $0.8 million in H1 2018, compared with a loss of $3.4 million in H1 2017. The operating income is explained mainly by:
- the adjusted operating income of $ 2.7 million;
- net non-recurring expense in relation with acquisitions and past restructuring for $0.5 million;
- non cash items of $1.5 million including: amortization expense related to intangible assets arising upon the company's acquisitions in recent years (Metaforic in 2014 and Meontrust and SypherMedia in 2017) for $1.2 million and share-based payment expense for $0.3 million

Financial income/expense

Net financial income was $1.4 million in H1 2018, the interest expense of the convertible bonds due 2022 being offset by a non-cash financial income of $1.5 million following the change in fair value of the conversion option on the convertible bonds and interest earned on investments.

Consolidated net income

In H1 2018, the company generated a consolidated net income (IFRS) of $1.8 million against a loss of $3.9 million in H1 2017. It is derived from the operating income for $0.8 million, net financial income of $1.4 million and income tax expense of $0.4 million.

Strong cash position

As of June 30, 2018, the company's consolidated cash position was $49.1 million, significantly up from $45.9 million at December 31, 2017 and $43.9 million at June 30, 2017. The increase in cash position in H1 2018 reflects the operating performance ($3.6 million generated by operating activities including change in working capital vs. $4 million used in H1 2017).

(in thousands of US$)	**H1 2018**	**H1 2017**
Cash generated by / (used in) operations before changes in working capital	**2,139**	**(1,812)**
Cash generated by / (used in) changes in working capital	**1,926**	**(2,037)**
Interests and Income tax	(444)	(154)
Net cash generated by / (used in) operating activities	**3,622**	**(4,002)**
Cash flows from investing activites, net	(95)	4,124
Cash flows from financing activities, net (*)	-	16,428
Net increase in cash and cash equivalents	**3,527**	**16,549**
Cash and cash equivalents at beginning of the period	45,874	27,081
Foreign exchange impact	(326)	247
Cash and cash equivalents at end of the period	**49,075**	**43,878**

(*) primarily issuance of convertible bonds in June 2017

Business outlook for 2018

In the first half of 2018, the company achieved significant growth with a particularly high performance in the second quarter based on strong business traction, new significant agreements with existing customers and NFC license revenue, while royalties derived from a historical U.S. customer in defense was low.

In this context, the company reiterates its anticipation of robust top line growth in 2018, more than off-setting the anticipated decline of a U.S customer who generated an exceptionally high level of revenue from royalties in H2 2017.

Based on current investment run rate, a continuous agile monitoring of research & development resources, and a lower euro vs. dollar than anticipated, the company now anticipates adjusted operating expenses to increase to between $36 million and $37 million in 2018 vs. a range of $38.5 million and $40.0 million communicated previously. The company confirms to generate positive EBITDA in 2018 before getting back to a normative EBITDA margin greater than 20 percent.

Conference call

Inside Secure will hold a conference call to discuss its earnings results today July 26, 2018, at 6:30 pm CET. Access to the call will be by dial-in on one of the following numbers: +33 1 72 72 74 03 (France) or +44 20 7194 3759 (UK), PIN 86410143#.

The presentation is 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

- Investor conference (H1 2018 earnings and business update): September 4, 2018 – 10am (Paris)
- Third-quarter 2018 revenue: October 18, 2018

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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, services, and know-how needed to protect customers' transactions, ID, 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 and System-on-Chip security, video content and entertainment, mobile payment and banking, enterprise and telecom. Inside Secure's technology protects solutions for a broad range of customers including service providers, operators, 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 2017 registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on April 10, 2018 under number D.18-0307, available on www.insidesecure-finance.com/en

Supplementary non-IFRS financial information

Some financial measures and performance indicators used in the press release are presented on an adjusted basis. They are defined in Appendix 2 of this press release. They should be considered as additional information, which cannot replace any other strictly accounting-based operating or financial performance measure, as presented in the consolidated financial statements, including the income statement set out in Appendix 1 hereof. The reconciliation of adjusted financial measures with IFRS is presented in Appendix 2.

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, 2018**	**2017**
Revenue	**22,492**	**14,359**
Cost of sales	(1,728)	(1,406)
Gross profit	**20,764**	**12,953**
Research and development expenses	(8,968)	(6,157)
Selling and marketing expenses	(7,015)	(6,359)
General and administrative expenses	(3,902)	(3,199)
Other gains / (losses), net	(76)	(589)
Operating profit (loss)	**803**	**(3,351)**
Finance income / (loss), net	1,437	(279)
Profit (Loss) before income tax	**2,240**	**(3,630)**
Income tax expense	(437)	(264)
Net income/(loss)	**1,803**	**(3,894)**
Net Income (loss) attributable to :		
Shareholders of the company	1,803	(3,894)
Non controling interests	-	-

Consolidated balance sheet

Assets

(In thousands of US$)	June 30, 2018	December 31, 2017
Goodwill	29,508	29,563
Intangible assets	6,960	8,478
Property and equipment	1,289	1,269
Other receivables	1,034	1,676
Non-current assets	**38,791**	**40,986**
Inventories	65	219
Trade receivables	12,635	15,531
Other receivables	2,947	3,390
Derivative financial instruments	-	215
Cash and cash equivalents	49,075	45,874
Current assets	**64,722**	**65,230**
Total assets	**103,513**	**106,216**

Equity and liabilities

(In thousands of US$)	June 30, 2018	December 31, 2017
Ordinary shares	22,504	22,056
Share premium	228,205	228,209
Other reserves	13,051	13,385
Retained earnings	(196,814)	(195,738)
Income / (loss) for the period	1,803	(1,076)
Equity attributable to equity holders of the Company	**68,750**	**66,836**
Non-controlling interests	-	-
Total equity	**68,750**	**66,836**
Derivative financial instruments - Non-current portion	3,213	4,759
Convertible bonds - Non-current portion	14,012	13,970
Borrowings	501	575
Other financial debts	3,013	3,120
Provisions for other liabilities and charges - Non-current portion	172	164
Non-current liabilities	**20,911**	**22,589**
Financial instruments	16	-
Trade and other payables	6,376	8,779
Borrowings	436	382
Provisions for other liabilities and charges	3,697	4,084
Unearned revenues	3,327	3,547
Current liabilities	**13,852**	**16,791**
Total liabilities	**34,763**	**39,380**
Total equity and liabilities	**103,513**	**106,216**

Consolidated cash flow statement

(In thousands of US$)	June 30, 2018	June 30, 2017
Income / (loss) for the period from continuing operations	**1,803**	**(3,894)**
Adjustments for:		
Depreciation of tangible assets	226	147
Amortization of intangible assets	1,415	1,475
Impairment of receivables	(88)	3
Financial result	(1,437)	279
Share-based payments	267	615
Change in retirement benefit obligation	12	(59)
Income tax	437	51
Variation in provisions for risks	(495)	(429)
Cash generated by / (used in) operations before changes in working capital	**2,139**	**(1,812)**
Changes in working capital		
Inventories	154	(18)
Trade receivables	2,962	2,529
Other receivables	264	1,038
Research tax credit and grants	656	(294)
Trade and other payables	(1,267)	(1,676)
Other payables	(842)	(3,615)
Cash generated by / (used in) changes in working capital	**1,926**	**(2,037)**
Cash generated by / (used in) by activity	**4,065**	**(3,849)**
Interest received/paid net	(93)	(13)
Income tax paid	(351)	(141)
Net cash generated by / (used in) operating activities	**3,621**	**(4,003)**
Cash flows from investing activities		
Wisekey Shares sales	-	4,377
Purchases of property and equipment	(95)	(253)
Cash flows used in investing activities	**(95)**	**4,124**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net of issuance costs	-	127
Convertible bonds (OCEANE)	-	16,276
Treasury shares	-	25
Cash flows from financing activities	**-**	**16,247**
Net increase in cash and cash equivalents	**3,527**	**16,549**
Cash and cash equivalents at beginning of the period	45,874	27,081
Effect of exchange rate fluctuations	(326)	247
Cash and cash equivalents at end of the period	**49,075**	**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 undertaken 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 undertaken by the company.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment expenses 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, 2018 and 2017 respectively:

(in thousands of US$)	2018 adjusted	Business combinations	Share-based payment	Other non-recurring expense (*)	2018 IFRS
Revenue	22,492	-	-	-	22,492
Cost of sales	(1,480)	(248)	-	-	(1,728)
Gross profit	**21,012**	**(248)**	**-**	**-**	**20,764**
As a % of revenue	*93.4%*				*92.3%*
R&D expenses	(7,850)	(781)	51	(388)	(8,968)
Selling & marketing expenses	(6,653)	(121)	(241)	-	(7,015)
General & administrative expenses	(3,825)	-	(77)	-	(3,902)
Other gains/(losses), net	(14)	-	-	(62)	(76)
Total operating expense	**(18,342)**	**(902)**	**(267)**	**(450)**	**(19,961)**
Operating income from continuing operations	**2,670**	**(1,150)**	**(267)**	**(450)**	**803**
Amortization and depreciation of assets (**)	491	-	-	-	-
EBITDA	**3,161**				

(in thousands of US$)	2017 Consolidated adjusted	Business combinations	Share-based payment	Other non-recurring costs (*)	2017 IFRS
Revenue	14,359	-	-	-	14,359
Cost of sales	(625)	(781)	-	-	(1,406)
Gross profit	**13,734**	**(781)**	**-**	**-**	**12,953**
As a % of revenue	*95.6%*				*90.2%*
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)
Total operating expense	(13,672)	(318)	(616)	(1,698)	(16,304)
Operating loss from continuing operations	**62**	**(1,099)**	**(616)**	**(1,698)**	**(3,351)**
Amortization and depreciation of assets (**)	523	-	-	-	-
EBITDA	**585**				

(*) the amounts correspond to restructuring and acquisition expenses.

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

Sums may not equal totals due to rounding.

Appendix 3 - Implementation of IFRS 15

The revenue and results of the company of the fiscal year 2017 and the half-year 2018 have been prepared in accordance with IFRS 15 "Revenue from Contracts with Customers", which was mandatory from January 1, 2018 and replacing IAS 18. The company had chosen to anticipate the implementation of the standard, in particular to be able to present a 2018 year directly comparable to 2017.

The implementation of IFRS 15 has modified some of the company's revenue recognition principles.

Under IAS 18, revenues from development agreements were recognized using the percentage-of-completion method, which consists of recognizing revenue as development progresses. The percentage of completion up to completion was based on the actual costs incurred compared to the total estimated cost of the project. Under IFRS 15, income related to a contract must be recognized over time if certain criteria are met, including the fact that the company has an enforceable right to payment of the value of the work carried out to date. If none of the criteria mentioned in the standard is met, revenue is recognized upon completion. This analysis is conducted by the company on a contract by contract basis.

Royalties payable in relation with technology licensed to some of the company's customers may be fixed and/or variable. According to the previous company's policy, fixed royalties were recognized on a straight-line basis over the contractual periods. Variable royalties are generally based on sales by customers and are therefore by definition difficult to estimate. These fees were recognized on the basis of confirmations received from customers, generally in the quarter following the delivery of the products. According to IFRS 15, licenses sold by the company correspond to a "right to use" the intellectual property as it exists on the date on which the license is granted, in which case the fixed royalties must be recognized immediately on the date from which the customer can begin to use the license. This leads to recognize revenue earlier than before. In the case of variable royalties, royalties must be recognized as revenue as they become due, on the basis of sales made by the customer, and not on the date of confirmation by the customer. The company therefore now estimates the amount pending receipt of consumption confirmations.

The application of IFRS 15 generally leads to faster recognition of revenue compared to IAS 18. For instance, in H1 2018, consolidated revenue was $22.5 million with IFRS 15 while it would have been $20.9 million using IAS 18.