

# Inside Secure

## Half-year 2018 financial results

Amedeo D'Angelo, Chairman & CEO

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*July 26, 2018*

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

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## First-half 2018 results: 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 (vs. \$43.9 million at June 30, 2017)
- 2018 objective confirmed

## First-half 2018: leveraged our assets

**Our core  
security  
solutions**

**+44%** *: core business  
revenue growth*

**Our  
customers**

*New significant agreements  
with existing customers*

**Our NFC  
Patent  
Portfolio**

**\$1.8M** *revenue*

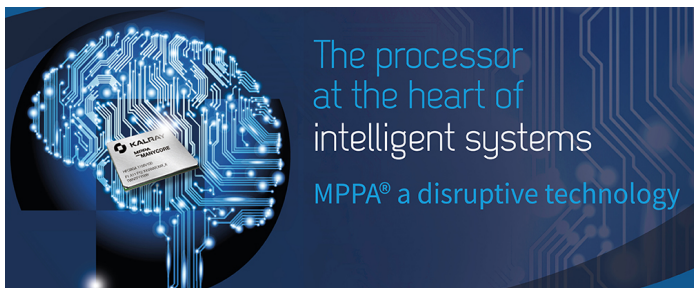
**+57%: consolidated H1'18 revenue to \$22.5M**



# Executing our strategic roadmap: Increasing footprint of embedded security



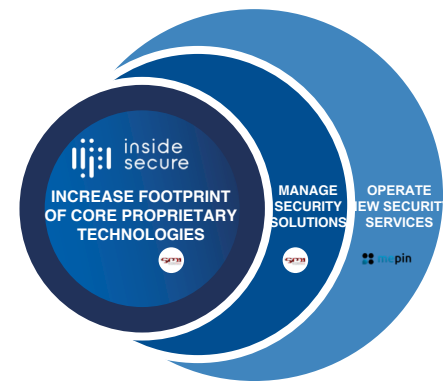
NationalChip choses Inside Secure's secure provisioning solution to build robust security into its system-on-chips during the chip manufacturing process



Inside Secure chosen by fabless semiconductor company Kalray to embed security into their new intelligent processors for data centers and autonomous cars



Inside Secure selected by Andes to deliver secure IoT solutions to chipmakers in Asia



----- COMBINING ORGANIC INITIATIVES AND BOLT ON ACQUISITIONS ----->

## First-half 2018 in a nutshell

- Executed our strategy
- Leveraged our assets: core security solutions, customers, NFC
- Leveraged our resources to pursue investments in R&D, notably on developing bundled solutions
- Growing traction in IoT and automotive markets
- Keeping on building a strong balance-sheet to fund growth and acquisitions

# Signed significant contracts with world top companies while enabling new customers to manage new security challenges



Silicon IPs

## Security at the heart of chips



Major Semiconductor Companies



Data &  
communication

## Security of communication



Top IT Companies



Application  
protection

## Security of application



Banks and payment systems



Content  
protection

## Security of content



Content distributors





# Inside Secure

## First-half 2018 financials

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GM & CFO

*July 26, 2018*

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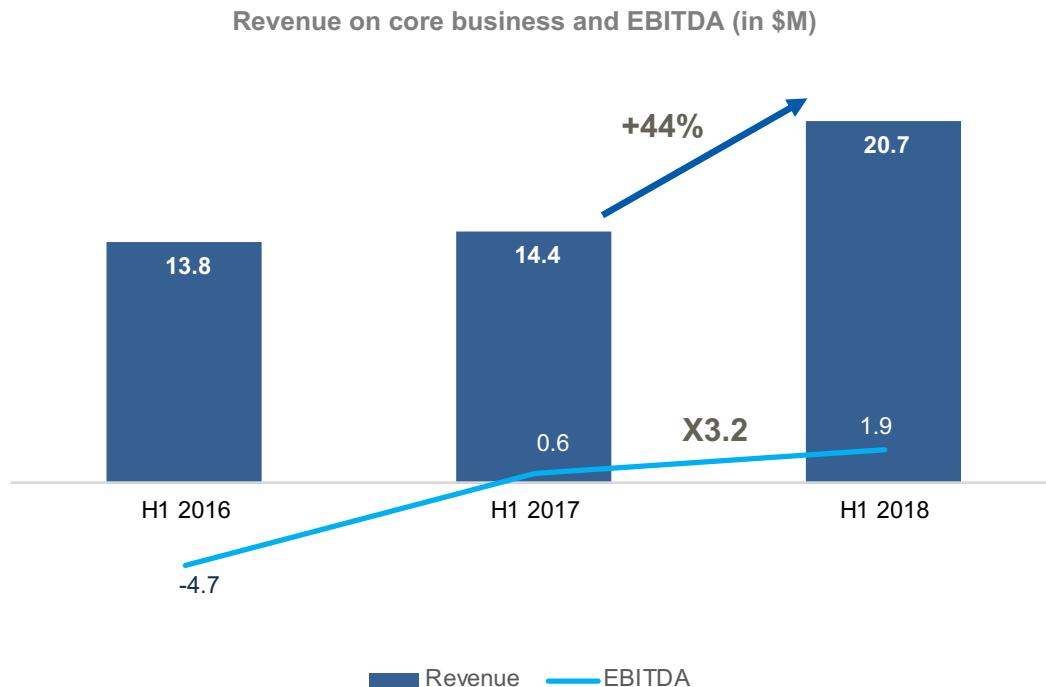
# Basis of presentation of H1 2018 financials

The revenue and results for 2017 and first half 2018 have been prepared in accordance with **IFRS 15** "Revenue from Contracts with Customers", which was mandatory from January 1, 2018. 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

For a better understanding of the company's performance, operating performance and income statements in this presentation are primarily presented:

- On an **adjusted basis**, i.e. IFRS excluding amortization of acquired intangible assets; or share-based payment charges, of non-recurring expenses (cost of acquisition of companies, restructuring charge) – definitions in Appendix hereof
- On **core business**, i.e. the company's software and silicon intellectual property product offering; excluding contribution of revenues derived from NFC patent license agreement signed by France Brevets

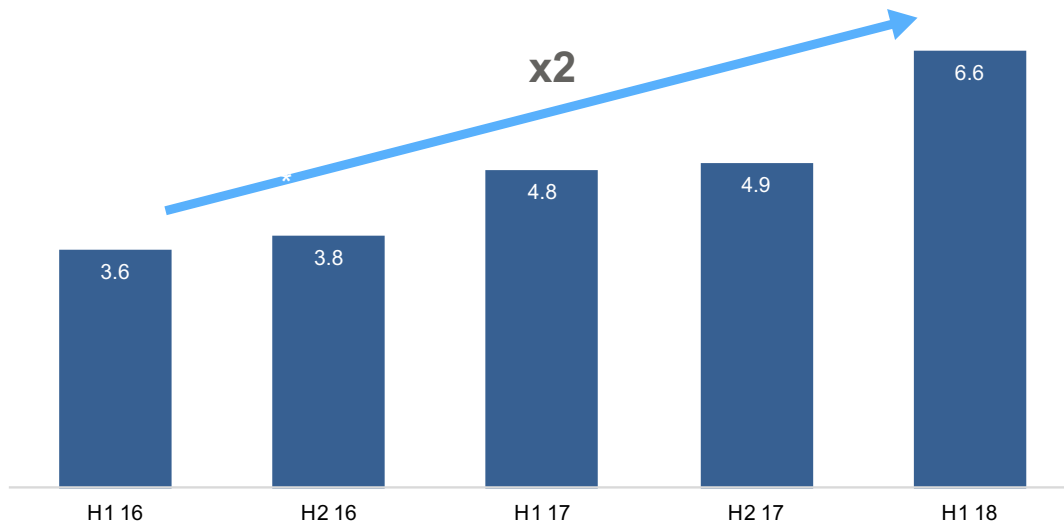
## Software-based activity driving strong operating leverage



## First-half 2018: Significant growth in licenses

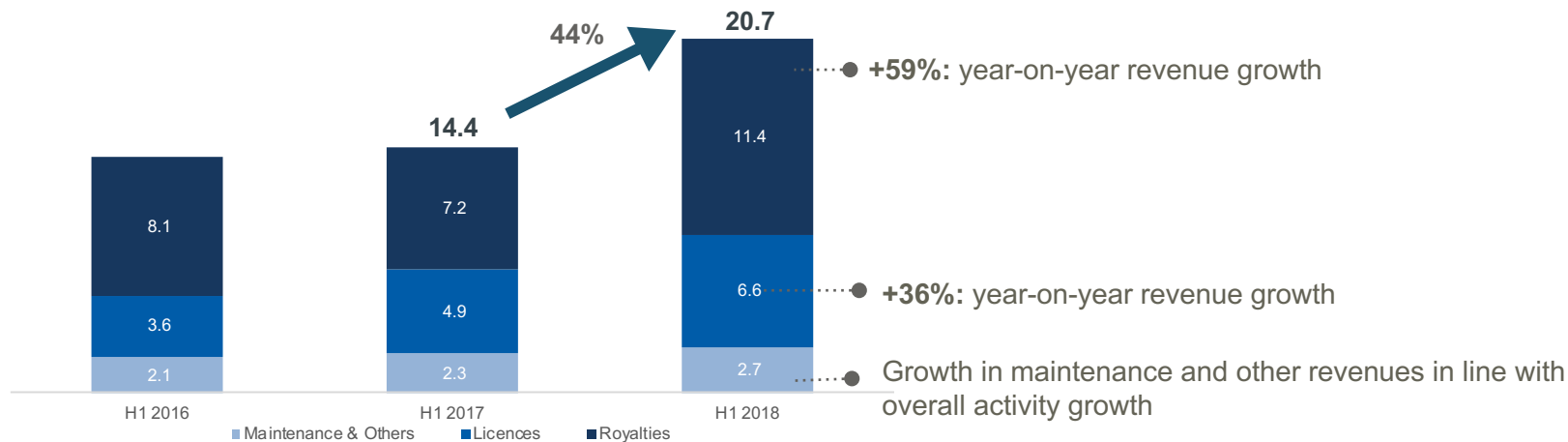
x2

HALF-YEAR LICENSE REVENUE RUN  
RATE OVER 2.5 YEARS (IN M\$)



- Reaping the benefit of investing in sales development
- Addressing new security challenges to up-sell customers
- Leveraging strong market dynamics, notably in IoT and automotive with increased design wins

## H1 2018 Core business revenue growing by +44% vs. H1 2017





## Demonstrated software business model driving strong operating leverage

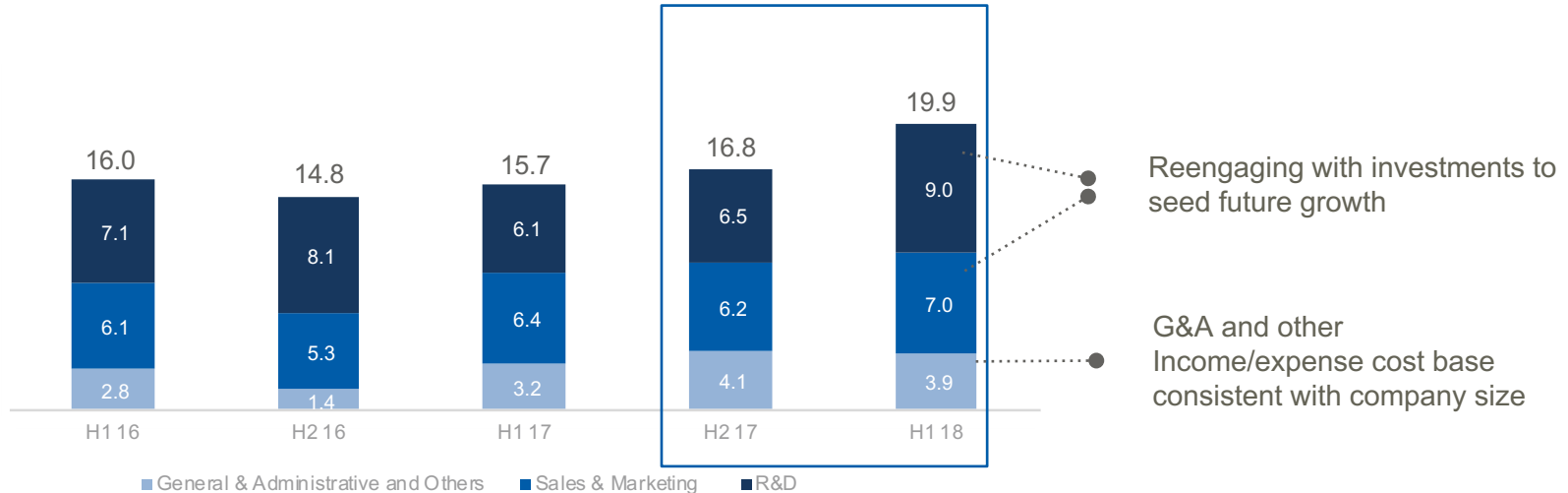
in million \$	H1 2018	H1 2017
Core business revenue	20.7	14.4
Gross profit	20.0	14.0
as % of revenue	97%	97%
Operating expenses	(18.2)	(13.7)
as % of revenue	88%	95%
Operating income	1.7	0.3
as % of revenue	8.2%	2.1%
EBITDA of core business	1.9	0.6
as % of revenue	9%	4%

## Core business operating income and EBITDA

in million \$	H1 2018	H1 2017
Revenue	20.7	14.4
Gross profit	20.0	14.0
<i>Research and development expenses</i>	(7.8)	(5.6)
<i>Selling and marketing expenses</i>	(6.7)	(6.1)
<i>General and administrative expenses</i>	(3.8)	(2.9)
<i>Other gains / (losses), net</i>	-	0.9
Operating income	1.7	0.3
EBITDA	1.9	0.6

# Restarted investments in H2 2017 to support future growth

EVOLUTION OF COMPANY OPERATING EXPENSES (in \$M)



## From Adjusted operating income (+\$2.7M) to IFRS Net Income (+\$1.8M)

in million \$	H1 2018	H1 2017	Var
<b>Adjusted operating income Core business</b>	<b>1.7</b>	<b>0.3</b>	<b>1.4</b>
Adjusted operating income NFC	1.0	(0.2)	1.2
<b>Adjusted operating income</b>	<b>2.7</b>	<b>0.1</b>	<b>2.6</b>
- Adjustments to IFRS	(1.9)	(3.5)	1.6
<b>Consolidated IFRS operating income</b>	<b>0.8</b>	<b>(3.4)</b>	<b>4.2</b>
Finance income / (loss), net	1.4	(0.3)	1.7
<b>Consolidated profit (loss) before income tax</b>	<b>2.2</b>	<b>(3.6)</b>	<b>5.8</b>
Income tax expense	(0.4)	(0.3)	(0.1)
<b>Net income/(loss)</b>	<b>1.8</b>	<b>(3.9)</b>	<b>5.7</b>

Adjustments to IFRS: amortization of acquired intangible assets, non-recurring expenses (restructuring charge, cost of acquisition of companies), share-based payment charges – see Appendix for more details)

# H1 2018: strong cash generation reflecting operating performance

in million \$	H1 2018	H1 2017
Cash generated by / (used in) operations before changes in working capital	2.1	(1.8)
Cash generated by / (used in) changes in working capital	1.9	(2.0)
Interest received, net and Income tax	(0.4)	(0.2)
<b>Net cash generated by / (used in) operating activities</b>	<b>3.6</b>	<b>(4.0)</b>
Cash flows used in investing activities, net	(0.1)	4.1
Cash flows from financing activities, net	-	16.4
<b>Net increase in cash and cash equivalents</b>	<b>3.5</b>	<b>16.5</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>45.9</b>	<b>27.1</b>
Foreign exchange impact	(0.3)	0.3
<b>Cash and cash equivalents at end of the period</b>	<b>49.1</b>	<b>43.9</b>



# Inside Secure

## Looking ahead

Amedeo D'Angelo, Chairman & CEO

*July 26, 2018*

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## 2018 objectives confirmed thanks to a particularly strong H1 performance

- **Robust top line growth**
  - More than off setting the anticipated decline of a U.S. customer which generated exceptionally high level of revenue from royalties in H2 2017
- **Supporting investments to capture strong market dynamics and support future growth**
- **2018 operating expenses between \$36 and \$37 million**
  - Agile monitoring of resources to accelerate R&D programs
  - Operating expenses derived from the two 2017 acquisitions (c. \$3.5m)
  - Stronger euro vs. dollar but less than anticipated initially
- **Positive EBITDA in 2018 before getting back to a normative EBITDA >20%**
- **Continue scouting acquisitions to accelerate execution of strategic roadmap**



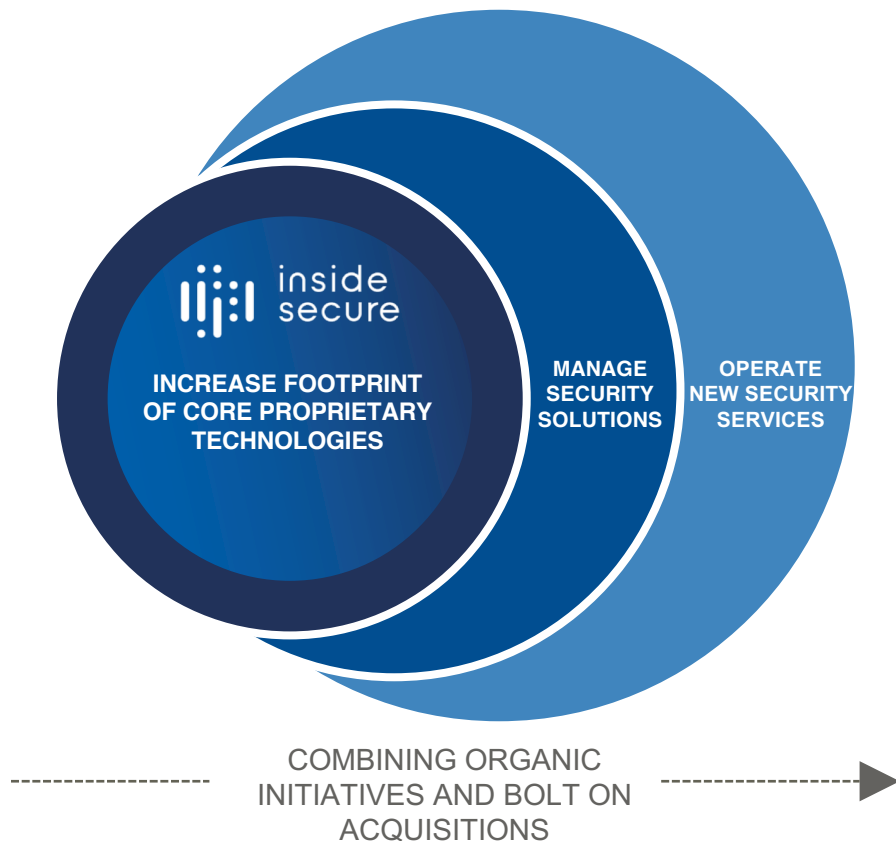
# Appendix

*July 2018*

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## 2018: Remain focus on executing our strategy



# Inside Secure: Investment Case

## A PURE PLAYER IN SECURITY

- A **pure player** in software and core technologies to secure connected devices and apps
- **Secured >2bn** devices to date
- Building a unique and strategic position at the heart of connected devices and apps

## SOLID ADVANTAGES

- Addressing security needs of billions of connected devices and apps
- Comprehensive and leading portfolio of proprietary core technologies
- **25 years** know how and experience as high barriers to entry
- Breadth of customer base / world top companies

## SUCCESSFULLY TRANSFORMED COMPANY TOWARDS PURE SOFTWARE PLAYER

- 2016: first year of **profitable growth**, ever following sale of loss making semi conductor business
- **+36%** growth in license revenue in H1 2018 and +37% in FY17
- Half-year license revenue **x2** since 2016
- Demonstrated **operating leverage** of software business model with EBITDA >20% in 2017 and 14% in H1 2018

## POSITIONED ON SELECTED NICHE GROWING MARKETS

- Emerging IoT and automotive markets requiring security
- Regulation driving stronger demand in authentication and data protection

## LONG TERM GROWTH & OPERATING LEVERAGE OPPORTUNITIES

- **Clear strategy** to enrich core security technologies with solution and service offering
- **Increasing footprint** of core security technologies
- Leveraging **tactical and value creative acquisitions** to accelerate strategic roadmap. Acquisitions of Meontrust and SypherMedia in 2017: increasing portfolio of core technologies while building a solution and service offering
- **Sound balance sheet** with disciplined cash management to execute strategy

# H1 2018 financials - Basis of preparation

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

## Core business

- Inside Secure operates with a single core business segment which is made of the company's software and silicon intellectual property product offering. It excludes the contribution of the company's NFC patent licensing program.

## Reconciliation from Adjusted to IFRS

in million \$	H1 2018	H1 2017
<b>EBITDA</b>	<b>3.2</b>	<b>0.6</b>
Amortization and depreciation of assets (*)	0.5	0.5
<b>Adjusted operating income/(loss)</b>	<b>2.7</b>	<b>0.1</b>
Business combinations (**)	(1.2)	(1.1)
Other non recurring costs	(0.5)	(1.7)
Share based payments	(0.3)	(0.6)
<b>Operating income/(loss)</b>	<b>0.8</b>	<b>(3.4)</b>
Finance income/(losses), net	1.4	(0.3)
Income tax expense	(0.4)	(0.3)
<b>Net income/(loss) (i) + (ii)</b>	<b>1.8</b>	<b>(3.9)</b>

(\*) 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

Sums may not equal totals due to rounding

# Sound balance sheet with disciplined cash management to execute the strategy

in million \$	June 30 2018	December 31 2017	
Goodwill and intangible assets	36.5	38.0	Includes the consolidation of Meontrust and SypherMedia
Property, plant & equipment	1.3	1.3	
Other receivables	1.0	1.7	
<b>Total non current assets</b>	<b>38.8</b>	<b>41.0</b>	
Trade receivables	12.6	15.5	
Other current receivables	3.0	3.8	
Cash and cash equivalents	49.1	45.9	Strong cash generation from operating activities
<b>Total current assets</b>	<b>64.7</b>	<b>65.2</b>	
<b>Total assets</b>	<b>103.5</b>	<b>106.2</b>	
<b>Equity and retained earnings</b>	<b>68.8</b>	<b>66.8</b>	
Derivatives financial instruments	3.2	4.8	Split accounting: option value of the bonds accounted for as derivatives
Convertible bonds at fair value	14.0	14.0	
Other non current liabilities	3.7	3.8	
<b>Non current liabilities</b>	<b>20.9</b>	<b>22.6</b>	
Trade and other payables	6.4	8.8	
Provisions for other liabilities and charges	3.7	4.1	
Unearned revenues	3.3	3.5	
Other current liabilities	0.4	0.4	
<b>Current liabilities</b>	<b>13.8</b>	<b>16.8</b>	
<b>Total equity and liabilities</b>	<b>103.5</b>	<b>106.2</b>	

# Investor information



## Contacts

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Financial calendar

Q3 2018 revenue: **October 18, 2018**

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