

## H1 2017 Results

### Netgem accelerates its development in the *cloud* and proposes a public share buyback offer of €25 million

Paris - La Défense, 27, July 2017.

#### Results for the 1st half 2017

##### Activity, results and financial position

The first half of 2017 was characterized by a very good performance with our European customers, all of which are continuing to recruit new subscribers to their entertainment offerings built on Netgem's platform.

The product offering for European customers continues to strengthen thanks to the increasing penetration of the virtual set-top-box platform (**Diamond**) and the first positive feedback for the **Soundbox** solution.

**Soundbox** combines the **Diamond** virtual set-top-box software with an enhanced version of a soundbar designed with specialist audio partners. This unique system combines audio and video services within a single application and a single device for all screens and rooms in a home. Netgem's Telco customers see it as a way to differentiate their offers, increase their income and reduce their capex since the system no longer requires set-top boxes. The consumer gains an innovative solution offering maximum simplicity, limiting the number of devices, applications and remote controls necessary to implement a complete digital entertainment system.

Netgem also announced two new market gains in the Middle East European region during the past six months, in particular the opening of the German market where Netgem intends to strengthen its position in the months and years ahead.

This performance in Europe has offset a temporary slowdown in Asia and the impact of the transition to software licenses in Mexico.

Consolidated IFRS, in millions of euros	H1 2017	H1 2016	Change	
Revenue	32.9	39.1	-6.2	-16%
<b>Gross profit</b>	<b>12.7</b>	<b>14.6</b>	<b>-1.9</b>	<b>-13%</b>
<b>Current operating income</b>	<b>2.7</b>	<b>3.4</b>	<b>-0.7</b>	<b>-20%</b>
<b>Operating income</b>	<b>3.1</b>	<b>3.3</b>	<b>-0.2</b>	<b>-6%</b>
Financial income	0.0	1.0	-1.0	-104%
Equity method result	-0.8	0.0	-0.8	ns
Taxes	-0.9	-1.6	+0.6	-40%
<b>Net profit</b>	<b>1.3</b>	<b>2.7</b>	<b>-1.3</b>	<b>-50%</b>

For the six months ended June 30, 2017, Netgem announces a consolidated revenue of € 32.9 million and a gross profit of € 12.7 million. Revenue and gross profit for the period were impacted by the strategic agreement for software license signed with ZTE and Totalplay in Mexico.

The participation in Vitis (service provider of *La Fibre VideoFutur*) is not included anymore in the consolidation perimeter for 2017, contrary to 2016. If Vitis had not been consolidated in 2016, the turnover and the gross profit for H1 2016 would have amounted to respectively € 36.7 million and € 14.0 million<sup>1</sup>.

Operating income in the first half of the year reached € 3.1 million, confirming the solid return to profitability observed in 2016.

After taking account of an income tax charge of € 0.9 million, and the share of losses under the equity method of € 0.8 million for Vitis, the Group recorded a net profit of € 1.3 million for the period.

The sales momentum in our Vitis participation is materializing. The triple-play "La Fibre Videofutur" service is now available on an addressable park of 318,000 fiber plugs, expected to increase by 180,000 additional plugs in the second half of the year. The capital contributions of Caisse des Dépôts and Océinde took place as planned during the semester to finance marketing investments.

<sup>1</sup> Because of its nature, such pro forma financial information addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.

Consolidated IFRS, in millions of euros	H1 2017	H1 2016
<b>Cash flow related to operations - after tax (A), of which:</b>	<b>9.3</b>	<b>-3.1</b>
- before tax and changes in working capital	2.6	4.9
- taxes paid	-0.6	-0.3
- decrease (increase) in working capital	7.3	-7.6
<b>Cash flow related to investments (B)</b>	<b>-4.5</b>	<b>-0.9</b>
<b>Operating cash flow (A + B)</b>	<b>4.8</b>	<b>-4.0</b>
<b>Cash flow related to financing</b>	<b>-7.5</b>	<b>-6.0</b>
<b>Net change in cash</b>	<b>-2.7</b>	<b>-10.1</b>

Operating activities generated € 9.3 million of cash after tax in H1 2017. The decrease in working capital of € 7.3 million over the six months is mainly due to the repayment of VAT credits and the implementation of financing solutions. Cash flow related to investments includes the implementation of financing solutions and their regular repayment.

Given the strategic decision to migrate to a software model, the Group does not anticipate having to set up financing operations and outstanding amounts on past operations should regularly decline due to monthly repayments.

Cash flow related to financing includes a dividend distribution of € 5.7 million for the year 2016, share repurchases during the semester and a refund of € 1.9 million of factoring backing the financing mentioned above.

The Group's net cash position reached € 30.1 million, down € 2.7 million in the first half. The Group held 7.9% of its capital in treasury at end of June 2017.

Consolidated IFRS, in millions of euros	30/06/2017	31/12/2016
<b>Shareholders' equity and debt</b>		
Shareholders' equity, Group share	49.4	54.2
current and non-current financial liabilities (excluding bank overdrafts)	7.4	9.6
A. Cash net of bank overdrafts	30.1	32.8
B. Current financial liabilities	3.0	3.3
C. Current net cash (A) - (B)	27.1	29.5
D. Non-current financial liabilities	4.4	6.3
E. Net cash (C) - (D)	22.7	23.3

The consolidated financial statements were approved by the Board of Directors on 27 July 2017. Audit procedures have been conducted and the report on the certification of accounts is being finalized.

## **Strategy and Outlook**

The activity throughout the year should confirm the trends observed in the first half, with the confirmation of the strong performance in Europe, a return to normal in Asia and the first deliveries under license in Mexico, allowing the company to have a good visibility on its business to the end of the year. The company will confirm in 2017 its return to profits initiated in 2015.

At IBC in September, the Company will present a new partnership program around **Diamond**, its virtual set-top box platform. The main objective of this program is to enable the company to strengthen its indirect sales presence among operators aiming to move their historic IPTV offer to the cloud.

The transition to the Microsoft Azure cloud, underlying the **Diamond** platform, improves the mutualisation of the innovation effort between customers. As a consequence, the company is able to continue expanding the scope of services offered on its platform - TV, video, music, connected home - without a significant increase in R&D effort.

## **€25 million public share buyback offer (the "Offer")**

### **Background and key terms & conditions of the Offer**

Figures for the 1st half 2017 materialize the favorable results of the efforts by the Company to adapt its product offering to changing consumer expectations and the needs of operators.

With the **Diamond** platform, Netgem has the appropriate response to the inevitable move toward the virtualization of entertainment services and a gateway to offers addressing the whole connected home. Diamond is now deployed with several historical customers of the Group and is already enriched with music services. It has enabled the Group to expand its market to operators newly entering into entertainment services.

The strategic decision to address this market as publisher of a software-as-a-service ("SaaS") platform allows to contain R&D investment and strengthens commercial deployment through a more efficient indirect approach.

In addition, the hive-down of Vits and the strategic agreement with the ZTE Group significantly reduce the need for investment and the financing of working capital requirements.

In these circumstances, the Board considers that the Company is able to realize its development plan, serve its clients and continue to innovate with a simplified balance sheet structure in an "asset light" model, allowing it to distribute a large portion of available cash to its shareholders.

The Company will therefore convene an extraordinary shareholders' meeting in September 2017 to authorize the Offer for a total amount of € 25 million.



With the Offer, the Company intends to raise awareness of its new strategy, provide an opportunity for relation to its shareholders who wish to accompany the Company in the new stage of its development, in particular the management and employees shareholders, while providing the possibility of an organized liquidity to other shareholders.

### **Summary of key terms and conditions of the Offer subject to approval by shareholders**

The Offer will amount to ten million shares of the Company, 24.2% of its capital, at the price of €2.50 per share representing a premium of 4.6% on the closing price as at 27 July 2017.

The repurchased shares will be canceled. In addition, the Company may cancel all or part of its treasury shares. A shareholder owning 1% of the capital and not tendering his shares to the Offer will result owning 1.34% of the capital, subject to the success of the latter and before taking into account the cancellation of any treasury share.

The company will finance the Offer fully with its own funds and available cash.

The two founding shareholders, J2H and Fast Forward, will contribute together 8 million shares to the Offer, or 80% of the total shares under offer, thereby ensuring the success of the Offer.

J2H's contribution to the Offer will allow it not to cross the 30% threshold in capital or voting rights, which would result in a mandatory offer. Due to the existence of double voting rights, J2H will remain the reference shareholder and will continue supporting the development of the Group.

The Offer will be filed with the Autorités des marchés financiers ("**AMF**") in September 2017, and remains subject to (i) the authorization of the Extraordinary General Meeting of Netgem's shareholders to be convened for this purpose and (ii) obtaining the notice of compliance from the AMF.

### **About Netgem**

We develop bespoke innovative next-gen connected home digital entertainment products and services for leading Service Providers. Our extensive experience and technological assets in software, user experience and security, combined with our global partnerships in content and device manufacturing and sourcing make us a unique one-stop partner for the digital transformation of Tier1 and Tier2 players seeking to increase revenue and build loyalty on an existing consumer base. Netgem was founded in 1996, and collaborates with leading brands such as EE, Elisa, Post Luxembourg and Totalplay, which in turn address several million households in more than 20 countries. Netgem is listed on Euronext Paris Compartment C (ISIN: FR0004154060, Reuters: ETGM.PA, Bloomberg: NTG:FP) [www.netgem.com](http://www.netgem.com)