## 2020 HALF YEAR RESULTS
## Management Discussion & Analysis

### IMPACT OF COVID-19

The COVID-19 global pandemic affected our first half results.

In Digital TV, most of our large customers have shown resilient total subscriber numbers. However, several operators lowered paywalls for several months to compete with an increase in streaming activities. In addition, many projects scheduled for this year have been either delayed or cancelled, and a number of customers have sought reprieve from monthly support and maintenance payment obligations in order to reduce their operating expenses. The Digital TV business was also negatively impacted by the closure of retail markets, particularly in Italy. Key markets in Asia-Pacific and the Americas continue to remain closed and under lockdown restrictions, resulting in continued pressure on Digital TV revenues in these regions.

The onset of COVID-19 also brought disruption to the Group's Cybersecurity business, affecting the Group's ability to engage with clients, slowing sales activities and delaying delivery of services traditionally delivered in person. This had a greater impact on US revenues, where a large number of clients are in verticals impacted by the pandemic and a higher proportion of services are delivered in person at client locations. The pace of growth and expansion of the Cybersecurity business in Europe was less impacted and has even continued to grow by 46% compared to first half 2019.

Of our business units, Public Access was the most significantly affected by COVID-19, as large customers, including in particular airports, shopping centers and stadiums, postponed new deployments and asset refreshment projects. Service volume dropped to nearly 25% of normal volume in April and May due to shutdowns, reflecting reduced usage of the parking infrastructure. By the end of June, service volumes within Europe were recovering to approximately 90% of the prior year volumes with other regions averaging about 75%. SKIDATA launched several product innovations to address specific COVID-19-related needs. In the events segment, in anticipation of the re-opening of stadiums around the world, SKIDATA launched the Safe Guest Solution, which helps enable a safer re-opening of events by combining full electronic ticketing with integrated automated coronavirus screening upon entry and subsequent tracking of participants to identify potential infection clusters. In the parking business, as an upgrade to existing installations, SKIDATA launched touch-free buttons and mobile payments to enable completely touch-free parking transactions.

### COVID-19 MEASURES

The Group has implemented measures aimed at mitigating the impact of COVID-19 in four areas: cost savings, reduction of capital expenditures, working capital optimization, and financing measures.

With the onset of the pandemic, the Group implemented a set of measures aimed at temporarily reducing its cost base in order to align with the reduced levels of demand in the Public Access and Digital TV segments. Partial unemployment measures in several countries enabled the Group to reduce personnel costs. At the end of June 2020, the Group's headcount was lower by 489 FTEs (Full

Time Equivalents) than at the end of December 2019, representing a 14% reduction. The Group reduced travel costs to USD 7.7 million, a 52% decrease compared to the first half 2019. Insurance, vehicle and other costs were reduced by 49% to USD 2.0 million, while marketing and sales costs were USD 2.3 million, representing a decrease of 40% from the first half 2019.

The Group is taking a very selective approach to capital expenditures, resulting in a reduction of cash flows used in investing activities from USD 10.1 million in the first half 2019 to USD 2.9 million in this period. Purchases of tangible and intangible assets for the period totaled USD 4.4 million.

As a further lever of cash generation, the Group managed to materially reduce working capital in this first half. Overall, working capital improvements allowed the Group to release USD 36.5 million of cash in this first half, in particular through the implementation of measures aimed at accelerating the collection of outstanding invoices.

In this first half, the Group obtained COVID-related loans at favorable terms for a total amount of USD 22.2 million. Further additional loans for smaller amounts were secured in the initial weeks of the second half.

**GROUP RESULTS**

In the first half 2020, total revenues and other operating income decreased from USD 400.6 million to USD 320.1 million. Net revenues for the Group decreased by 19.9% to USD 316.0 million, a 18.6% decrease in constant currency, reflecting a decline across segments.

Other operating income decreased by USD 2.1 million to USD 4.1 million, mainly due to the one-time contribution in the first half 2019 from the provision of services related to a past M&A transaction and attainment of an additional earn-out.

Margin after cost of material decreased from USD 284.0 million to USD 240.0 million. Relative to total revenues, margin after cost of material increased from 70.9% to 75.0%, as the Group achieved gross margin improvements across segments.

Compared to the first half 2019, the Group reduced personnel expenses by USD 22.1 million. In addition to the ongoing rationalization of Digital TV operations, the temporary headcount reduction measures implemented in Public Access and Digital TV was the key driver enabling this reduction. Total Group FTEs decreased temporarily by 489 to 3'031 as of June 30, 2020. The main locations driving this decrease were Austria and Switzerland, with a reduction of 179 and 102 FTEs, respectively. Most of this reduction was related to the partial unemployment measures that the Group implemented in response to the pandemic. Total FTEs in Europe as of June 30, 2020 were 336 lower than at the end of the previous year. In the Americas, the Group reduced the number of FTEs by 110, mainly due to a reduction of 77 in the United States. FTEs were reduced by 43 in Asia, mainly driven by a reduction of 37 FTEs in India.

In the first half 2020, the Group cut USD 11.4 million of other operating expenses. COVID-related measures resulted in a USD 8.2 million reduction of travel expenses, USD 1.8 million reduction of insurance, vehicle and other costs, and USD 1.5 million reduction of marketing and sales expenses.

The Group generated USD 4.9 million of operating income before depreciation and amortization, a USD 10.6 million decrease over the previous first half. At USD 23.7 million, depreciation, amortization and impairment were USD 5.3 million lower than in the first half 2019, as some assets were fully depreciated in the last reporting periods. Overall, the Group generated an operating loss of USD 18.8 million for the half year, compared to a loss of USD 13.5 million in the prior period.

At USD 4.8 million, interest expense was USD 0.3 million lower than in the prior first half. The Group posted USD 6.5 million of net finance expense, mainly due to net foreign exchange losses. The capitalization of certain SKIDATA losses results in a positive USD 1.6 million income tax credit. The net loss for the period amounts to USD 27.1 million, compared to USD 20.4 million in the prior first half.

## DIGITAL TV

Digital TV revenues decreased by 18.8% to USD 154.7 million, representing a constant currency decline of 17.5%. This was driven by a strong reduction of discretionary short-term spending by operators. Recurring revenues, particularly in advanced pay TV markets, were resilient.

The Group's European Digital TV business posted 18.0% lower revenues compared to the first half 2019. While most large European customers were resilient in spite of the market turbulences, a number of projects were postponed to either the second half or to 2021. Moreover, the Group's Digital TV business was negatively impacted by the COVID-related closure of retail markets, primarily in Italy. Notwithstanding these COVID-related impacts, the Group continues to grow its partnerships with large operators. Vodafone continues to expand its footprint to additional European countries, relying on the Group's SSP (Security Services Platform) technology to integrate newly acquired operators in the Vodafone TV ecosystem.

At USD 63.7 million, the Americas business posted 9.9% lower revenues in the first half 2020. The erosion of North American satellite subscribers continued in this period, though at a slower pace than in recent prior periods. On the positive side, the Group continues to extend its partnership with Altice in the US cable business. In this first half, Altice USA and Kudelski extended their partnership in the anti-piracy domain to field investigations and forensic analysis. Altice continues to adopt Insight, the Group's business performance platform that leverages artificial intelligence to address subscriber churn and monitor and optimize quality of service and customer experience. On the negative side, Latin American markets delivered a weak first half, with the lockdown affecting the pay TV business across the region.

The Asia Pacific and Africa region posted a USD 14.6 million revenue decline. After a strong first half 2019 that was driven by the sale of hardware components, revenues from Starhub materially declined in the first half 2020.

Digital TV margin after cost of material further improved in this first half to reach 92%.

Digital TV generated USD 36.9 million of operating income before depreciation and amortization, representing a USD 3.0 million reduction from the previous first half. The USD 24.3 million reduction of operating expenses achieved in this first half enabled the Group to sustain the segment's performance in spite of the negative impact of COVID-19 on first half Digital TV revenues. Compared to the first half of last year when the Group posted USD 13.7 million restructuring costs, no such costs were booked in the first half of this year, contributing to the material year-on-year improvement of the segment's cost base. Digital TV generated USD 24.8 million operating income, representing a USD 1.9 million improvement from the first half 2019.

## CYBERSECURITY

In the first half 2020, Cybersecurity revenues were lower than in the previous first half, while margin after cost of material increased both in absolute amount and in percentage, as the business mix continues to shift from lower margin technology reselling to higher margin advisory services, managed security services and proprietary technology sales. The Group's Cybersecurity unit continued to expand its cloud-first cybersecurity portfolio supporting digital transformation initiatives of global enterprises using private and public cloud services. In June 2020, it launched its dedicated Microsoft security services, enabling clients to effectively consume and configure Microsoft security capabilities and add additional monitoring to their Microsoft 365 and Azure environments.

The Group's Cybersecurity business generated USD 63.2 million of gross revenues in the first half 2020, a 13.3% decrease from the first half 2019. Net revenues were at USD 38.7 million. The European region posted strong growth in this first half, increasing net revenues to USD 11.3 million, a 46.0% year-on-year improvement. The European region added 37 net new clients, including four new clients in Germany, three in France – including the largest MSS contract to date – and one new client in the UK. Due to the size of the technology reselling business in the Americas, this region was more affected by the temporary reduction of discretionary hardware sales due to the pandemic, with net revenues declining by 23.5% to USD 27.4 million.

Margin after cost of material increased to USD 21.9 million in this first half. In relative terms, margin after cost of material increased from 43.3% in the first half 2019 to 56.6% in this first half.

The Cybersecurity segment posted a USD 11.5 million operating loss before depreciation and amortization, an increase of USD 0.8 million from the previous year.

## INTERNET OF THINGS (IoT)

After delivering the Kudelski IoT keySTREAM (the Group's IoT solution) to its first customers in 2019, the Group has evolved its strategy with new leadership and an upgrade of its solutions portfolio, while continuing to enhance keySTREAM. Kudelski IoT continued its shift from a pure IoT security approach to offering end-to-end solutions that solve specific industry challenges and expanding its design capabilities to include designing devices and entire ecosystems for customers.

The Group launched a standalone IoT secure element, the Pico SE 800, allowing IoT device manufacturers to easily embed keySTREAM into their devices. Kudelski IoT partnered with ST to embed keySTREAM into ST Microelectronics' ST4SIM eSIM solutions and continued its partnership and integration into u-blox products and services. It also announced support for the GSMA's IoT SAFE initiative, which establishes guidelines for the use of mobile SIM cards to provide IoT security.

In this first half, IoT generated revenues of USD 1.0 million, mainly from the IoT Center of Excellence, and reduced operating loss before depreciation and amortization by USD 2.6 million to USD 8.9 million, reflecting a more selective development approach and a shift of focus to the commercialization of the available portfolio.

## PUBLIC ACCESS

Public Access was significantly affected by COVID-19, with revenues decreasing by 23.6% in the first half 2020 to USD 121.6 million compared to the prior year period. At USD 70.6 million, European sales decreased by 15.6%. COVID-19 effects impacted most European markets, with the main revenue losses affecting Italy (USD 3.6 million decline), Germany (USD 2.5 million), France (USD 1.9 million) and Spain (USD 1.8 million). COVID-19 is also negatively impacting demand in the Americas, where SKIDATA is in the process of restructuring its US operations. Americas revenues declined by USD 16.2 million, of which USD 10.3 million relate to the US market. Revenues for Asia/Pacific and Africa were USD 13.7 million, a decline of 37.8% over the prior year period. The Australian market delivered a weak first half, with a USD 3.6 million revenue decline from the previous year.

Margin after cost of material relative to revenues increased from 59.4% to 61.5%. While Public Access reduced operating expenses by USD 10.4 million from the previous first half, temporary

COVID-related measures drive most of this OPEX reduction. These measures allowed a swift reduction of SKIDATA's cost base, but also led to delays in the implementation of the structural cost reduction measures announced in December of last year. Overall, Public Access generated an operating loss before depreciation and amortization of USD 4.5 million, compared to positive USD 4.7 million in last year's period. In this first half, Public Access posted an operating loss of USD 13.0 million.

## BALANCE SHEET AND CASH FLOWS

Total non-current assets decreased by USD 22.8 million to USD 673.0 million, mainly reflecting foreign currency effects and a low level of asset acquisitions. Tangible fixed assets decreased by USD 2.7 million to USD 124.1 million. Intangible assets decreased by USD 20.4 million to USD 387.0 million.

Compared to December 31, 2019, total current assets decreased by USD 26.5 million to USD 459.9 million. The USD 8.7 million increase of inventory is mainly due to USD 7.1 million higher stock at SKIDATA. SKIDATA launched a supply chain restructuring program that is expected to drive a substantial reduction of its inventory balance. The Group decreased trade receivables by USD 42.7 million, as SKIDATA reduced outstanding receivables by USD 26.7 million. Digital TV reduced outstanding receivables by USD 9.7 million, benefitting from targeted measures aimed at preserving cash in the context of the COVID-19 pandemic. The Group reduced contract assets by USD 7.1 million to USD 50.9 million, as SKIDATA implemented measures to improve its invoicing cycles.

At the end of the period, cash and cash equivalents amounted to USD 85.0 million, representing USD 10.4 increase from December 31, 2019.

Total equity decreased by USD 66.4 million, mainly reflecting the net loss for the period and a USD 16.8 million negative currency translation adjustment.

Total non-current liabilities increased by USD 34.0 million to USD 520.7 million, with long-term financial debt increasing by USD 17.3 million to USD 410.3 million. Total current liabilities decreased by USD 16.8 million to USD 286.8 million, with short-term financial debt decreasing by USD 14.6 million to USD 59.1 million. Overall, the Group's primary interest-bearing liabilities include the CHF 200 million bond with a 1.875% interest rate maturing in August 2022, the CHF 150 million bond with a 1.5% interest rate maturing in September 2024 and USD 56.9 million of bank debt at SKIDATA.

During the first half 2020, the Group generated USD 41.9 million of cash flow from operating activities, representing a USD 43.9 million improvement from the previous first half. Working capital is the main driver of the year-on-year improvement. In particular, the Group generated USD 49.7 million cash flow from the reduction of accounts receivable and contract assets.

The Group used USD 2.9 million cash for investing activities, including USD 1.3 million to purchase intangible fixed assets and USD 3.1 million for tangible fixed assets. The Group reduced cash used for investing activities by USD 7.2 million compared to the first half 2019.

First half 2020 net cash-out for financing activities amounted to USD 28.4 million, compared to USD 13.7 million in the first half 2019. The cash outflow includes USD 8.4 million payments of lease obligations, USD 10.2 million of dividends paid to non-controlling interests and the USD 5.7 million cash distribution paid to Kudelski SA shareholders.

## OUTLOOK

In the second half 2020, the Group expects revenues in the Digital TV segment to be higher compared to the first half, as customers pushed projects originally scheduled for the first half into the second half. As operating expenses are not expected to significantly increase, the Digital TV segment should generate a higher second half profit, compared to the first half.

In the Cybersecurity segment, the Group expects to generate higher revenues in the second half compared to this first half. As the Cybersecurity business continues to drive the development of higher margin product lines, margin after cost of material should continue to grow. The Group is targeting a material improvement of segment operating income before depreciation and amortization compared to the first half.

The improved IoT opportunity funnel is expected to translate into additional second half revenues. As investment levels in the IoT domain have stabilized, the Group expects to continue reducing its segment operating loss.

In the Public Access segment, SKIDATA is expected to deliver higher revenues in the second half, in line with the seasonality patterns of the past years. In addition, SKIDATA is starting to recover from the negative effects of the pandemic. While full year operating income is expected to improve compared to the previous year, Public Access profitability will remain short of its structural profitability target in 2020.