2019 results

Decrease in activity from telecom operators

Continuation of strategic repositioning in favor of private network players

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Update on activity during the COVID-19 crisis

PRESS RELEASE

Thorigné-Fouillard, April 28, 2020, 5.45 p.m.

Thorigné-Fouillard, France - Kerlink (AKLK - FR0013156007), a specialist in solutions dedicated to the Internet of Things (IoT), is today publishing its 2019 consolidated full-year results and revenue for Q1 2020.

The 2019 financial year saw incumbent telecom operators continue to take a wait-and-see stance, which automatically impacted the Group's activity and results. To tackle this situation, the Group took the necessary steps to adapt its organization to these new market conditions, bolster its cash position and step up efforts to expand business in the private players' segment (cities, industries, utilities, enterprises and new entrants).

Consolidated financial statements

On April 24, 2020, the Board of Directors approved the consolidated financial statements for the financial year ended December 31, 2019.

International accounting standard IFRS 16, concerning the treatment of leases in the consolidated financial statements, came into force on January 1, 2019. Kerlink Group chose to apply this standard using the simplified retroactive approach, in which there are no adjustments for the previous year. Note that the implementation of IFRS 16 requires a change in the presentation of the consolidated financial statements as approved at December 31, 2019, with the balance sheet showing a liability in respect of future lease payments and an asset in respect of rights of use. On the income statement, the lease expense previously recognized under operating costs is now to be recognized partly as a depreciation charge and partly as a financial cost.

In thousands of euros	2019	2018
Revenue	**13,038**	**17,068**
Gross margin (amount)	**5,956**	**7,578**
Gross margin rate	*45.7%*	*44.4%*
Other operating expenses	-10,981	-11,014
EBITDA	**-5,027**	**-3,436**
Depreciation and amortization	-3,636	-2,037
Operating profit	**-8,663**	**-5,472**
Net financial expense	-79	-79
Corporation tax	-1,817	-221
Group net profit/loss	**-9,861**	**- 5,773**

IFRS – Audited financial statements

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Slight increase in activity in the private players' segment
No large new rollouts among telecom operators

Revenue for the 2019 financial year decreased by 24% compared with 2018, at €13.0m.

This trend reflects the **ongoing slowdown** in the rollout of major IoT projects for **telecom operators**. Bear in mind that activity in this client segment had been particularly strong in 2018, especially with the second stage of the contract for the rollout of the state-of-the-art IoT network for Tata Communications in India. After adjustment for sales of infrastructure equipment for this rollout, FY 2019 revenue declined slightly (-4%).

In the **private operators'** segment, in which clients prefer to implement proprietary IoT networks, 2019 revenue showed a **slight increase** of 2% to €10.4m.
In 2019, the Group embarked on a strategic repositioning to step up its growth in this segment, by extended its partner ecosystem to be able to offer the end-to-end solutions expected by such players.

Increase in the sale of value-added services

Revenue from **services** (operation and maintenance in operating condition of IoT networks, administration and geolocation of connected equipment, Reference Design expertise, and professional services) came to €3.3m in 2019, an **increase of 10%** compared with the previous year.
At the end of 2019, revenue from these value-added services accounted for **25% of total revenue** compared with 17.5% in 2018.

Return to positive momentum in international markets since mid-2019

Revenue **in France** reached €7.7m, accounting for 59% of total revenue.
As a reminder, revenue in France in 2018 (€8.9m) incorporated significant deliveries for a leading telecom operator. After adjustment for these deliveries, the Group cemented its positions in its domestic market.

The Group generated **40% of its revenue in international markets** in 2019. Revenue in the EMEA region (Europe, Middle East, Africa) excluding France increased by 23% compared with 2018 while sales show a decline in the APAC (Asia Pacific) and NCSA (Americas) regions.

The Group shows good activity momentum in international markets, with **revenue in the second half of the year surpassing that of the first half** (+17%).

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2019: a lower volume of activity impacted the results despite an increase in the gross margin rate

The strategic shift made by the Group in favor of private network operators led to a **change in the product mix** with a significant increase in the contribution from value-added services to total revenue. This naturally led to an **increase in the gross margin rate** to 45.7% of revenue in 2019 versus 44.4% in 2018.
However, this increase did not offset the fall in activity. **In value terms, the gross margin decreased** to €6m versus €7.6m in 2018, but this was smaller than the decrease recorded in revenue (-21%).

This resulted in **negative EBITDA** of €5m versus a negative €3.4m in 2018.

The Group made an **operating loss** of -€8.7m in 2020 compared with -€5.5m, incorporating a €1m increase in the amortization of research and development expenses for previous financial years (€3.6m versus €2.6m in 2018).
In 2019, research and development expenses were recognized in the amount of €0.8m compared with €1.8m in 2018.

The Group made a net loss of -€9.9m, which incorporates a reversal of deferred tax assets of €1.7m, which was already communicated during the publication of the half-year results.

Operating expenses remained stable between 2018 and 2019

Operating expenses (factoring in IFRS 16) remained **stable** at €11m in relation to the previous year.
They mainly include:

- A €1m increase in **research and development costs**, an automatic occurrence linked to the recognition of amortization on research and development expenses;
- A 2% increase in **payroll expenses** to €8.9m in 2019 versus €8.7m in 2018. This increase incorporates the 11 additional employees brought on board following the acquisition of Wyres in January 2019 for €0.8m;
- A decrease in the use of **external personnel**. Costs in respect of the latter came to €0.3m compared with €1.1m in the previous year, reflecting the efforts made during the year to reduce these expenses.

Taking payroll and external personnel costs together, total **personnel expenses show a decrease to** €9.3m versus €9.9m in 2018.

Effects of the Employment Protection Plan to come into play fully in FY 2020

The payroll expenses for 2019 only marginally incorporate the impacts of the Employment Protection Plan (French "Plan de Sauvegarde de l'Emploi - PSE") implemented by the Group in September to deal with the decline in activity. A cost of €0.5m in respect of the implementation of this plan was recognized in FY 2019 under operating expenses.
This plan covered the external reclassification of 22 of the 103 employees of Kerlink France at July 31, 2019.

This resizing of the cost structure is expected to have a **positive impact of around €2.6m on the EBITDA margin in 2020** versus that of 2019.

Accounting entries related to the acquisition of Wyres

As part of the repositioning of the activity in favor of private operators, back in January 2019, the Group announced it had acquired a 51% fully diluted stake in Wyres, a specialist in indoor geolocation systems and complete solutions that include beacons, tags, and business applications.

In February 2020, the Group made an accelerated acquisition of the remaining shares in Wyres from its founders and investors and owns, since that date, 100% of the shares of Wyres[1]. It is important to note that this final acquisition, which gives Kerlink ownership of 100% of the shares of Wyres, concerns the 2020 financial year.

The financial statements for the year ended December 31, 2019 show a gross amount of €1,828k relating to goodwill on the initial consolidation of Wyres. Amortization of €928k was recognized on this amount to give a net value of €900k as at December 31, 2019. In the accounts, this entry includes a charge that is not payable but which weighs on the 2019 results, and does not factor in the finalization of the operation carried out subsequent to the closing date for an amount of €80k.

The total acquisition of this asset represents a cash outflow for the Group in 2020 of just €430k, including the acquisition of the remaining shares and a related current account.

Balance sheet

The Group had **shareholders' equity** of **€12.5m** at December 31, 2019 versus €23.1m in 2018. This decrease is primarily due to the fact that it recorded a loss of €9.9m. The decline in activity gave rise to a **positive change in the WCR** of €0.9m linked mainly to a deliberate strategy to reduce **inventories** (-€1.5m over the period) and the fall in the level of trade receivables.

[1] See press release dated February 21, 2020.

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At December 31, 2019, the Group had a **cash position** of **€6.3m** versus €8.3m at end-June 2019 and €11.8m at end-2018.

New loans secured at the start of 2020

At the start of 2020, the Group took out **new loans** with BPI FRANCE and its long-standing banking partners to the tune of **€2.75m**, to bolster its cash position.

The Group's response to the impact of the COVID-19 health crisis that took hold in mid-March

After an encouraging start to the year, particularly in the NCSA (Americas) region, the Group observed a slowdown in sales trends from mid-March with the gradual implementation of confinement measures in all regions in which it operates.

Revenue for the first quarter of 2020 came out at €2.6m versus €2.9m in Q1 2019.

In view of this unprecedented situation, the Group began to implement its Business Continuity Plan from March 16 in order to be able to keep the majority of its activities in operation and guarantee quality of service for its clients and partners.
All clients using the Group's application solutions benefit from full continuity of service. Kerlink's teams have access to all of the remote tools they need to continue monitoring and maintaining in operating condition all of its service platforms, regardless of where they are located.

This includes all necessary measures to safeguard the health of its employees, the majority of whom are working remotely. The Group is also availing of government measures (partial unemployment and deferral of the payment of social security charges).

Appendices: Q1 2020 revenue
Breakdown by activity and by geographical region

Revenue by activity **In thousands of euros**	At March 31, 2020	At March 31, 2019	*Change*
Historic and alternative telecom operators	520	542	-4%
Private operators	1,983	2,329	*-15%*
Reference design	106	118	*-10%*
Total	**2,610**	**2,989**	***-13%***

IFRS – Unaudited accounts

Revenue by geographical region **In thousands of euros**	At March 31, 2020	At March 31, 2019	*Change*
NCSA (Americas)	73	25	+193%
APAC (Asia-Pacific)	183	273	-33%
EMEA excl. France	1,115	845	+32%
INTERNATIONAL	**1,371**	**1,143**	**+20%**
FRANCE	1,239	1,844	-33%
Total	**2,610**	**2,989**	***-13%***

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About Kerlink

Kerlink Group is a leading global provider of connectivity solutions for designing, launching, and operating public & private Internet of Things networks. Its comprehensive product portfolio includes industrial-grade network equipment, best-of-breed network core, operations and management software, value-added applications and expert professional services, backed by strong R&D capabilities. Kerlink specializes in enabling future-proof intelligent IoT connectivity for key verticals such as fleet management, transportation & logistics, retail, asset tracking, and smart metering, as well as smart agriculture & environment, and smart cities, buildings, and factories. More than 120,000 Kerlink installations have been rolled out with more than 330 clients in 69 countries. Based in France, with subsidiaries in the US, Singapore, India, and Japan, Kerlink is a founding and board member of the LoRa Alliance™ and the uCIFI Alliance™. It is listed on Euronext Growth Paris under the symbol ALKLK.

For more information, visit www.kerlink.com or follow us on Twitter @kerlink_news.

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Upcoming events

H1 2020 revenue
23 July 2020 after market close

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