2022 RESULTS

Management's Discussion & Analysis

GROUP RESULTS

In 2022, three of the Group's four business segments were able to grow their revenues in constant currency. The Cybersecurity segment saw double-digit growth in margin after cost of material and a reduction of USD 3.8 million in EBITDA loss. Meanwhile, the IoT segment more than doubled its revenues from the previous year, driven by the robust adoption of RecovR, its asset tracking product, resulting in a reduction of USD 2.2 million in EBITDA loss. The Public Access segment also reverted to positive revenue growth, recovering after two years of COVID-19 related revenue contraction with a 7.5% growth in constant currency. However, increased operating expenses in local currencies were incurred to ensure the delivery of its growing backlog, resulting in a USD 1.9 million decline in EBITDA compared to the prior year. On the other hand, the Digital TV business saw lower-than-expected sales, mainly in European markets. Revenues in constant currency compared to the previous year decreased by 11.0%, resulting in a USD 32.2 million decline in EBITDA.

In 2022, the Group's total revenues and other operating income decreased from USD 778.8 million to USD 715.9 million. Net revenues decreased by 0.6% in constant currency and by 6.4% to USD 705.9 million on an as-reported basis. Additionally, other operating income decreased by USD 14.9 million to USD 10.0 million in 2022, which is largely due to the base effect of the USD 13.7 million net gain booked by the Group in 2021 from sale and leaseback transactions.

Margin after cost of material decreased from USD 554.1 million to USD 515.4 million in 2022. The relative margin after cost of material increased from 71.1% to 72.0% with the higher margins in the Cybersecurity segment offsetting the shift in revenue share from the Digital TV segment, which has higher margins, to the Cybersecurity and IoT segments.

In 2022, the Group saw a decrease of USD 11.8 million in personnel expenses compared to the previous year, which was mainly driven by favorable exchange rate effects. Headcount decreased by seven Full Time Equivalents (FTEs) to 3,233 by the end of 2022. The Group aligned its workforce with market demand by increasing headcount in the Cybersecurity and IoT segments, which grew during the reporting period, while the Digital TV and Public Access segments marginally reduced their headcount.

The Group increased other operating expenses by USD 12.4 million in 2022. The easing of pandemic-related restrictions led to an increase of USD 3.0 million in travel expenses and USD 5.7 million in marketing and sales expenses. The higher operating expenses included USD 3.6 million of additional bad debt provisions compared to the prior year.

The Group generated an operating income before depreciation and amortization of USD 33.2 million in 2022, which was a significant decrease from the USD 72.4 million in the previous year. Depreciation, amortization, and impairment for the period amounted to USD 32.3 million, which was USD 9.8 million lower than in 2021, as the Group has reduced capital expenditures systematically in recent reporting periods. Overall, the Group generated an operating income of USD 0.9 million, a decrease of USD 29.4 million compared to 2021.

Interest expense was USD 0.2 million higher than in the prior year, totaling USD 10.0 million. The Group posted USD 2.9 million of net finance expenses, primarily due to net foreign exchange losses. Income tax expenses for the period were at USD 5.9 million, resulting in a net loss of USD 16.3 million for the year.

DIGITAL TV

Digital TV revenues in constant currency decreased by 11.0% in 2022. On an as-reported basis, revenues reached USD 300.6 million, which corresponds to a decline of 15.3%. This decline can be attributed to both foreign exchange factors and the relatively strong performance of Digital TV revenues in 2021, which had a base effect on results in 2022.

Over the past years, the Digital TV business has shifted from a hardware-based model, heavily relying on smart cards, to a more resilient software and service-oriented model. In 2022, Nagravision facilitated the deployment of a cutting-edge streaming service for GTPL Hathway. Meanwhile, Claro Colombia implemented the OpenTV Video Platform solution from the Group, which harmonizes the administration of content, subscription packages, and accounts, resulting in a novel SaaS-based video aggregation service. In Peru, Hispasat empowered local video distributors to offer a superior over-the-top user experience by leveraging the OpenTV Video Platform. And in the Netherlands, United Group capitalized on the Group's NexGuard forensic watermarking technology to eliminate piracy at its root, effectively safeguarding rightholders' intellectual property. The shift to a software and service-oriented model is reflected in the sales figures for the Digital TV business, with smart card sales declining from USD 61.4 million in 2019 to USD 30.0 million in 2021 and USD 12.8 million in 2022. Hardware sales also followed a similar pattern, peaking at USD 52.2 million in 2021 and declining to USD 39.0 million in 2022, similar to the level in 2019. On the other hand, service, royalties, and software sales were more resilient, reflecting the positive momentum of emerging product lines.

The European Digital TV business experienced a decline in revenues from USD 177.6 million in 2021 to USD 131.5 million in 2022. In constant currency, European revenues declined by 18.5%.

Despite a challenging market environment, Digital TV was able to grow its business with Vodafone by deploying the Group's Security Service Platform and Connect content protection solution. The sales of conditional access modules (CAM) decreased due to supplier delivery issues, particularly in Italy, where revenues declined by 50% compared to the prior year. In addition, the count of active paying subscribers at Liberty Global declined following their sale of some networks.

In the United States, revenues experienced a modest uptick, while the South American market remains lackluster, struggling with the aftermath of the pandemic and sluggish demand. Specifically, smart card revenues from Telefonica markedly decreased in 2022 compared to the previous year.

In 2022, there was a decline of 10.2% in sales from the Asia Pacific and Africa region, which was primarily attributable to the base effect of a strong 2021 at Starhub in Singapore and reduced revenues from the Essel Group in India. However, there was a noticeable upswing in professional services revenues from Mediacorp in Singapore, a promising trend for the development of the Group's Digital TV system integration offering.

Digital TV's margin after cost of material improved from 86.1% to 87.4%, reflecting a more favorable revenue mix due to lower hardware sales, including conditional access modules and set-top boxes. Operating expenses for the segment were USD 10.8 million lower in 2022 compared to the previous year, as currency effects resulted in lower USD-denominated costs and the second half cost base was lower compared to the first half's. Digital TV's operating income before depreciation and amortization declined from USD 97.3 million to USD 65.1 million in 2022. As depreciation and amortization were USD 7.8 million lower, the segment's operating income decreased by USD 24.4 million to USD 51.6 million.

CYBERSECURITY

In 2022, the Group's cybersecurity business reached net revenues of USD 109.3 million, with a growth rate of 4.7% in constant currency and 1.9% on an as-reported basis. The European region exhibited robust growth, with net revenues rising to USD 43.3 million, representing an impressive year-on-year increase of 34.7% (44.2% in constant currency), following a growth by 21.4% in 2021. The growth of European revenue has resulted in a notable year-on-year increase of USD 6.8 million in margin after cost of material for the region. Cybersecurity's expansion strategy in 2022 saw the business extending its presence outside the Swiss market, with a particular focus on Germany, France, and the UK. This strategic move lays the foundation for sustained growth in the coming years.

On the other hand, revenues from the US experienced a year-on-year decline, though the quality of revenues improved substantially, with a shift from technology reselling to high value-added business lines. This improvement was reflected in a USD 6.2 million year-on-year growth in gross profit. Notably, the steady expansion in the US of the Group's managed security business contributed positively to the overall momentum of Cybersecurity's operations in the US. Additionally, the advisory business, which included significant engagements in the blockchain space, more than doubled in 2022 compared to the previous year.

The Group's Cybersecurity business is being recognized in the industry, having been included in Forrester's Now Tech: European Managed Security Service Providers, the Gartner Market Guide for Managed Security Services, MSSP Alert's '#25 MSSP' and others, such as CSI and Bloor Research.

This segment's margin after cost of material grew to USD 70.6 million, representing a 24.8% increase from the prior year. Margin after cost of material increased from 52.7% to 64.6% as the business mix continues to shift from lower margin technology reselling to higher margin advisory services, managed security services, and proprietary technology sales. Over the last three years, the margin contribution from high-value added business lines has been increasing at an annual rate of 34%, and it currently accounts for 75% of this segment's total margin after cost of material. In 2022, the Cybersecurity business won substantial new contracts in the luxury goods and healthcare sectors, as well as with energy and other critical infrastructure providers.

In the context of its European expansion, the Group launched a new cyber fusion center in Spain staffed with an experienced team of threat detection specialists and cyber response consultants to complement existing centers in Switzerland and the US. In addition, the Group continues to expand its cybersecurity offering portfolio, launching MDR ONE, a new all-in-one solution that provides cloud-native managed detection and response services based on the Group's proprietary technologies.

In the first half of 2022, segment headcount increased to support the further expansion of this business. Cybersecurity hiring in 2022 was strongly biased towards the first half in order to support the growing business activity. As a result, Cybersecurity was able to decrease EBITDA loss from USD 9.8 million in the first half to USD 3.8 million in the second half. Overall, EBITDA loss for the year amounted to USD 13.6 million, indicating an improvement of USD 3.8 million compared to the previous year.

INTERNET OF THINGS (IoT)

In 2022, the IoT segment more than doubled its sales, generating USD 15.7 million of revenues, compared to USD 7.4 million in 2021. The main driver of this growth was RecovR, a comprehensive asset tracking solution that combines lot management for car dealers and theft recovery for their customers. With RecovR, car dealers can optimize their lot management processes, enhance the sales process, and generate a new revenue stream. At the same time, car buyers can enjoy an advanced and reliable wireless theft recovery solution. The adoption of RecovR by 250 car dealerships in the United States as of the end of 2022 indicates a promising trajectory for this business. Furthermore, the acquisition of significant new customers at the start of this year is expected to drive further growth of the RecovR business in 2023.

In addition to RecovR, IoT's Lab and Design business generated a double-digit percentage increase in revenue in 2022, continuing its positive momentum. Similarly, IoT's keySTREAM platform gained additional traction, driving revenue growth compared to the previous year.

In 2022, IoT's margin after cost of material increased by USD 4.1 million to USD 10.9 million. Notwithstanding the doubling of revenues, segment operating expenses only increased marginally, reflecting a return on prior year investments made in the organizational structure to facilitate the successful launch and expansion of the RecovR product and confirming the scalability of RecovR's business model. These developments led to a reduction in the segment's operating loss before depreciation and amortization of USD 2.2 million to USD 19.0 million. This financial result is due to the prudent allocation of resources towards building a strong organizational structure, which enhances operational efficiency and is expected to drive improved operating performance for the future.

PUBLIC ACCESS

In 2022, Public Access benefitted from a recovery in market demand for access control infrastructure in the parking, ski, and events sectors. This reversed two years of negative impacts from COVID-19-related lockdowns. The service business, which has been historically more resilient than the project business, also experienced higher post-pandemic demand in 2022. As a result, Public Access's revenues in constant currency increased by 7.5% in 2022, but a weaker Euro negatively affected its as-reported USD-denominated revenues. In 2022, revenues in USD for Public Access declined by 1.4% to USD 280.2 million compared to the prior year.

European sales strongly recovered for SKIDATA, with Austria and France representing its best performing markets, contributing to growing revenues with solid year-on-year growth rates. In 2022, revenues from the European market grew by 2.3% to USD 173.8 million, 13.9% in constant currency, with Austria registering a robust performance and contributing USD 4.7 million to this growth. The success of both the project and service businesses in Austria, along with the solid performance of the mountain business, were the key drivers of this growth. Similarly, France reported a revenue increase of USD 3.5 million, primarily fueled by a strong service business. As in Austria, SKIDATA's business in France also gained momentum in the mountain segment.

On the other hand, SKIDATA's revenues in the American region were down by USD 9.0 million to USD 62.9 million. Though the service business recorded higher daily rates, revenues from new facilities were materially down, due to the postponement by customers of investments in new installations.

In the Asia/Pacific and Africa region, SKIDATA's revenues grew by 2.7% to USD 43.6 million. Australia continued to perform well, with both new facilities and the service business driving growth. However, China continued to underperform, leading to lower year-on-year sales and a loss of USD 0.7 million. Consequently, the company decided to exit its Chinese joint venture.

As SKIDATA's overall business mix evolves, the share of software and service in the revenue mix continues to increase. For example, the Swedish city of Linköping, in close collaboration with SKIDATA, is spearheading a series of initiatives that seek to modernize its parking infrastructure. These efforts encompass the deployment of a comprehensive digital parking guidance system, an automated ticketless access system, and the widespread incorporation of electric vehicle charging stations across 14 parking facilities throughout the city, all using SKIDATA's unified platform, which is accessible via mobile devices.

As a result of this change in business mix, SKIDATA's margin after cost of material continues to improve, rising from 60.3% in 2021 to 61.1%. In 2022, the recurring facility operations and modernization business lines exhibited solid performance, accounting for 82% of the company's total revenues. This figure represents a noteworthy increase from the 70% share recorded in 2019 and is evidence of the continued momentum of SKIDATA's cloud-based platform business.

In 2022, Public Access saw an increase of USD 1.8 million in operating expenses compared to the previous year, as the prior year benefited from cost-saving measures due to COVID-19. However, in constant currency terms, operating expenses materially increased compared to 2021, as cost-saving initiatives were postponed to ensure that the business could fulfill its backlog. The segment’s headcount at the end of 2022 declined by 18 full-time employees from the prior year, primarily in the US market.

Overall, higher operating expenses led to a decline in segment EBITDA of USD 1.9 million, resulting in an EBITDA of USD 15.4 million for 2022.

BALANCE SHEET AND CASH FLOWS

Total non-current assets decreased by USD 39.9 million to USD 552.6 million as of December 31, 2022. Foreign exchange effects decreased the USD value of assets denominated in foreign currencies. However, the Group also continued to reduce the overall level of investments in tangible and intangible assets compared to previous years. Tangible fixed assets decreased by USD 5.9 million and intangible assets decreased by USD 21.6 million. The reduction of USD 9.1 million in financial assets at amortized cost is the result of the decline in long-term trade accounts receivables due to collections and reclassification to short-term receivables.

Compared to December 31, 2021, total current assets decreased by USD 220.5 million to USD 412.4 million. The increase in inventory by USD 16.6 million is primarily attributable to the accumulation of safety stock at SKIDATA and for the IoT business, in order to mitigate supply risks caused by the instability of semiconductor supply chains. SKIDATA added USD 6.5 million of inventory and IoT added USD 8.3 million. The Group's trade receivables decreased by USD 10.6 million, with SKIDATA reducing its outstanding receivables by USD 8.7 million. Additionally, the Group decreased its contract assets by USD 9.1 million to USD 27.6 million, which was the result of the continued enhancements to SKIDATA's invoicing cycles.

At the end of 2022, cash and cash equivalents amounted to USD 62.2 million, representing a USD 222.3 million decrease from December 31, 2021, as the Group repaid the CHF 200 million bond that matured in August 2022.

Total equity decreased by USD 35.1 million, mainly reflecting the USD 16.3 million net loss for the period and a USD 19.8 million negative currency translation adjustment. Total non-current liabilities decreased by USD 36.9 million to USD 273.4 million, with long-term financial debt declining by USD 14.7 million to USD 182.2 million, driven by currency translation effects and debt repayment. In the first half 2022, the Group repurchased a nominal amount of CHF 12.1 million of its 2022 bond and CHF 1.8 million of its 2024 bond. During the second half, the Group did not engage in any additional bond repurchases. On August 12, 2022, the Group fully repaid its 2022 bond.

The Group reduced employee benefit liabilities by USD 20.1 million to USD 4.7 million. Lower pension liabilities are mainly driven by the CHF 60.4 million favorable impact from a change of the discount rate for future liabilities from 0.35% to 2.3%, partly offset by a CHF 29.1 million plan asset loss. This reduction of liabilities is booked as other comprehensive income and has no impact on the Group’s profit and loss statements.

Total current liabilities decreased by USD 188.5 million to USD 330.0 million, with short-term financial debt decreasing by USD 163.1 million to USD 76.9 million, as the Group fully repaid its 2022 bond. The Group also reduced contract liabilities by USD 11.8 million and other current liabilities by USD 11.0 million.

In 2022, the Group generated negative operating free cash flows, reversing the strong cash generation of the past two years. 2022 cash flow from operating activities was USD 1.5 million, compared to USD 103.1 million in 2021. The Group spent USD 18.7 million to increase its inventory and reduced deferred costs and other net current working capital items by USD 29.7 million. This item included the reduction of compensation-related accruals, indirect tax payables, and contract liabilities. The Group continued to maintain strict discipline in managing capital expenditures in 2022, with cash flows for investing activities amounting to USD 4.5 million.

Net cash-out used in financing activities amounted to USD 202.5 million. This cash outflow included a USD 216.1 million debt repayment, primarily due to the repayment of the 2022 bond, USD 16.2 million in payments of lease obligations, USD 12.1 million in dividends paid to non-controlling shareholders, and a USD 6 million cash distribution to Kudelski SA shareholders.

Foreign exchange effects also resulted in a decrease of USD 16.9 million in the balance of cash and cash equivalents.

OUTLOOK

For the Digital TV segment, the Group forecasts a small single-digit percentage decline in revenue for 2023, accompanied by a small reduction in operating costs. Overall, the Group expects a moderate decrease in Digital TV EBITDA in comparison to 2022.

The Group expects a continued expansion in revenue and a double-digit percentage growth in profit after cost of material for the Cybersecurity segment. As the growth rate of operating expenses is anticipated to be lower than in previous periods, the Group expects to reduce the segment’s EBITDA loss to an amount in the single-digit millions for the full year.

The growth of IoT services and the keySTREAM platform will serve as a driver for long-term growth in the IoT segment. In 2023, IoT revenues are predicted to roughly double, driven by the strong momentum of RecovR sales, but lower margins after cost of material from asset tracking will result in less-than-proportional growth in gross profits for the segment. A moderate increase in operating expenses is anticipated, with the aim of achieving a significant reduction in operating loss in 2023 compared to the prior year.

For the full year 2023, the Group expects a mid single-digit percentage increase in both Public Access revenue and profit after cost of material. Assuming stable operating expenses, Public Access' EBITDA is expected to improve materially in comparison to 2022.