2024 RESULTS

Management's Discussion & Analysis

OPERATING RESULTS

The sale of SKIDATA represents a transformative change for the Group and its operations. The transaction was completed in September 2024 at an enterprise value of EUR 340 million. After settling SKIDATA loans of approximately EUR 30 million and accounting for transaction costs and other adjustments, the sale generated net cash proceeds exceeding EUR 300 million. The 2023 profit and loss statement has been restated to reflect the SKIDATA divestment.

This transaction significantly strengthened the Group's balance sheet, and was partially used for the repayment of the outstanding CHF 145.9 million bond in September 2024 and all remaining bank debt, resulting in a cash position net of debt of USD 125.7 million at the end of the year.

Until the reorganization announced in early 2025, the Group operated through three business segments following the decision to divest SKIDATA: Digital TV, Cybersecurity, and IoT. During 2024, Digital TV revenues declined by 11.6%, leading to reduced profitability. Growth rates in the Cybersecurity segment were in the low single digits as management prioritized gross margin improvement to minimize segment losses and approach EBITDA break-even. The IoT segment maintained revenue levels following two years of strong growth, though EBITDA losses increased due to accelerated investments to support future growth.

The Group's net revenues decreased by 6.8% to USD 383.7 million in 2024, representing a 7.1% decline in constant currency terms. Other operating income increased by USD 1.7 million to USD 9.3 million, primarily driven by a one-time payment of USD 5.3 million from a tenant of the Group's San Francisco office building. Following the divestment of a 24.95% stake in the entity holding this building, this entity is no longer consolidated.

Margin after cost of material decreased from USD 338.6 million to USD 314.7 million. As a percentage of total revenues, this margin declined from 80.8% to 80.1%, reflecting the shift in revenue mix from Digital TV to other segments.

Personnel expenses decreased from USD 258.2 million to USD 251.2 million compared to 2023. Following SKIDATA's deconsolidation, the Group's headcount decreased to 1,774 Full Time Equivalents (FTEs), representing a reduction of 131 FTEs at constant perimeter from the previous year-end. The IoT segment more than doubled its headcount to 212 FTEs through the transfer of R&D personnel from Digital TV and increased investments. Digital TV headcount decreased to 907 FTEs, while Kudelski Security headcount increased by 6 to 406 FTEs. Geographically, 53% of the Group's headcount is based in Europe, with Switzerland representing the largest location at 30% of total headcount. Asia-Pacific accounts for 28% and the Americas 19%. The Group reduced other operating expenses by USD 7.2 million to USD 76.6 million, including a USD 4.6 million release of provisions due to improved receivables collection.

The Group recorded an operating loss before depreciation and amortization of USD 13.1 million, compared to a USD 3.4 million loss in the previous year. Depreciation, amortization, and impairments increased from USD 14.4 million to USD 107.1 million. While ordinary depreciation and amortization declined by USD 2.1 million to USD 12.3 million, the Group recognized an impairment charge of USD 82.1 million on Digital TV goodwill in 2024. This impairment reflects the segment's revenue decline and subsequent strategic reassessment, with revised projections based on the lower 2024 base. Additionally, depreciation and amortization includes a USD 12.7 million impairment related to the San Francisco office building. Consequently, for continuing operations, the Group reported a USD 120.2 million EBIT loss in 2024.

NET RESULT

Interest expense increased by USD 11.4 million to USD 18.5 million. This increase primarily reflects USD 12.6 million of one-off interest expenses related to a senior secured bridge loan, which was obtained as a contingency measure for the bond repayment in case of timing delays with the SKIDATA sale. Finance expenses amounted to USD 2.0 million, mainly comprising a net foreign exchange gain and financial costs associated with the Group's receivables securitization program. The Group recorded a USD 2.7 million gain from the sale of its 22.5% interest in the entity holding its Cheseaux, Switzerland headquarters building, contributing to the USD 3.2 million share of results of associates. Income tax expenses totaled USD 13.7 million, including a USD 10.4 million charge from the impairment of a deferred income tax asset, reflecting lower projected earnings from Digital TV activities.

The Group completed the SKIDATA divestment at an enterprise value of EUR 340 million. The transaction generated gross proceeds of USD 359.3 million, with net proceeds of USD 339.3 million after adjusting for SKIDATA's cash position. The disposal resulted in a net gain of USD 147.2 million. Including SKIDATA's USD 14.6 million net result contribution, the net result from discontinued operations amounted to USD 161.7 million.

Consequently, the Group reported a net income of USD 10.6 million in 2024, representing a USD 35.1 million improvement compared to the previous year.

DIGITAL TV

Digital Television segment revenues experienced a decline of 11.6% to USD 227.8 million, primarily attributable to the ongoing contraction of the traditional Conditional Access System business. Notwithstanding the current challenging revenue trajectory of the segment, several product lines demonstrated strong performance and potential. Notably, the Advanced Security Platform product line achieved revenue growth of 47%. This suite of anti-piracy solutions secured multiple strategic contracts, including agreements with France Television to replay content securely across devices and FanCode for Active Streaming Protection implementation. Additional contract wins include Telefonica, RAI, Sun NXT, and HBBTV. The OpenTV platform exhibited robust growth of 15%, while securing a new contracts with ERT in Greece. A significant milestone was achieved with the Canal+ entering into a 10-year strategic partnership with the Group to strengthen its fight against streaming piracy. Through this long-term collaboration, Canal+ will leverage the Group’s comprehensive 360° streaming security solution, Active Streaming Protection, to combat content theft, prevent service fraud, and significantly reduce piracy across its consumer offerings.

The European Digital Television business generated revenues of USD 105.3 million, representing a 9.7% decrease compared to 2023. Revenue decline from major accounts including Liberty Global, Vodafone, and Altice was primarily driven by reduced Connect fees and SSP platform utilization. Additionally, the comparative period benefited from a non-recurring set-top box transaction with Bulsatcom completed in 2023.

In the Americas region, Digital Television revenues declined by 15.7%, primarily impacted by continued subscriber attrition at Dish in North America. The South American market experienced material revenue deterioration, particularly from key accounts America Movil and Telefonica, relative to the prior year.

The Asia Pacific and Africa region recorded a revenue decline of 8.8%, primarily attributable to reduced license fees from operators such as Essel and the absence of significant set-top box transactions in 2024, compared to prior year sales to Starhub and TBC in Taiwan. The region benefited from positive contributions from smart card and royalty revenues generated by the Bakhresa Group in East Africa.

Digital Television segment margin after cost of material contracted from 90.3% to 87.6%, reflecting a shift in revenue mix toward CAMs and hardware components. Operating expenses decreased by USD 23.2 million before and USD 18.7 million after restructuring cost compared to the prior year, primarily due to ongoing efficiency enhancement initiatives. The segment generated EBITDA of USD 26.2 million, compared to USD 40.7 million in 2023. Depreciation and amortization of USD 90.0 million includes a goodwill impairment charge of USD 82.1 million, resulting in a negative EBIT of USD 63.7 million for the segment.

CYBERSECURITY

During 2024, the Group executed a strategic transformation of its Cybersecurity business, concentrating operational focus on areas demonstrating sustained value creation potential. A key initiative involved the implementation of a unified Enterprise Resource Planning system across European and American operations, enabling enhanced granularity and precision in revenue recognition methodologies. Consequently, the Group has adopted net revenue reporting for specific technology reselling transactions, replacing the previous gross basis approach. To facilitate meaningful comparative analysis, 2023 net revenues have been correspondingly restated. This restatement does not affect gross profit, operating income, cash flows, or other financial metrics.

The segment reported net revenues of USD 108.5 million, representing an increase of USD 1.9 million compared to 2023, while margin after cost of material improved by USD 2.3 million to USD 84.5 million. Revenue performance exhibited regional variability. European operations achieved growth of 9.1%, with revenues reaching USD 60.0 million, while the Americas region experienced a revenue decline of 6.5%, attributable to reduced technology reselling activity and the strategic consolidation of service offerings aimed at margin enhancement.

Managed Security Services revenue demonstrated robust growth of 11%, reaching USD 59.0 million, primarily driven by strong market adoption of MDR ONE Resolute, the next-generation managed detection and response service launched in December 2023. This service, which delivers AI-augmented, risk-based detection and response capabilities, has achieved market adoption by more than 60 clients, reinforcing Kudelski's leadership position in the MDR market. Managed Security Services now constitute more than 50% of segment revenues, evidencing successful execution of the strategic initiative to develop high-value, recurring revenue streams.

The Cybersecurity segment maintained strong cost discipline, achieving operating cost reductions of USD 2.8 million through effective expense management initiatives. As a result, the segment's loss before depreciation and amortization improved by USD 5.0 million to USD 4.8 million.

INTERNET OF THINGS (IoT)

The IoT segment demonstrated strong market positioning in 2024, while implementing operational enhancements to support sustainable growth. Revenue remained stable with a marginal increase of 0.2% to USD 47.4 million compared to 2023, representing a substantial 2.8-fold increase from 2022 levels. The asset tracking business maintained positive momentum throughout 2024. However, the strategic focus of the IoT division on developing and scaling this business resulted in revenue declines for Lab and IoT Security activities.

The segment's margin after cost of material increased by USD 1.3 million, improving from 50.0% in 2023 to 52.5% in 2024, demonstrating enhanced operational efficiency.

Operating expenditures increased by USD 10.0 million compared to the prior year, primarily attributable to the expansion of asset tracking operations and sales channels in the car dealership vertical and strategic investments in new asset tracking applications across multiple verticals, with particular emphasis on opportunities in sectors such as agriculture, waste management and construction. Consequently, the segment's operating loss before depreciation and amortization increased by USD 8.8 million to USD 21.7 million, reflecting strategic investments to capitalize on market growth opportunities.

CORPORATE

Corporate operating expenses comprise unallocated costs associated with corporate functions. Corporate costs in 2024 include two significant non-segmental items: other operating income of USD 5.7 million and an impairment charge of USD 12.7 million, both relating to the San Francisco office building. Operating expenses for 2024 and 2023 also include corporate costs associated with the former Public Access segment, as SKIDATA is reported as discontinued operations. SKIDATA-related expenditures of USD 5.3 million in 2023 are now reclassified as corporate costs. Such costs were only partially eliminated in 2024.

Consequently, corporate operating loss before depreciation and amortization amounted to USD 12.7 million in 2024, with net operating loss for the year totaling USD 25.4 million

BALANCE SHEET

The balance sheet as of December 31, 2024 reflects the deconsolidation of SKIDATA assets and liabilities following the divestiture of this entity.

Total non-current assets decreased by USD 262.9 million to USD 328.7 million compared to December 31, 2023. Tangible fixed assets decreased by USD 60.7 million to USD 5.9 million, primarily reflecting the deconsolidation of SKIDATA-related assets. Intangible assets decreased by USD 142.2 million to USD 206.3 million, of which goodwill represents USD 205.4 million. The USD 129.6 million decrease of goodwill is mainly attributable to an USD 82.1 million Digital TV goodwill impairment and the derecognition of SKIDATA goodwill. Financial assets at fair value of USD 34.3 million primarily comprise outstanding receivables transferred to the securitization program.

Total current assets decreased by USD 87.6 million to USD 242.3 million compared to December 31, 2023. The SKIDATA divestiture resulted in a reduction of USD 63.1 million in inventory to USD 14.7 million and USD 67.8 million in trade accounts receivables to USD 35.9 million. Cash and cash equivalents increased by USD 70.0 million to USD 126.3 million.

Total equity increased by USD 17.4 million, primarily driven by net income of USD 10.6 million and other comprehensive income of USD 25.3 million, mainly due to favorable currency translation adjustments, which was partially offset by a USD 12.5 million reduction in non-controlling interests and USD 6.1 million in dividends paid to non-controlling interests.

Non-current liabilities decreased by USD 30.2 million to USD 87.0 million, primarily comprising long-term lease obligations, with long-term financial debt fully repaid as of December 31, 2024. Current liabilities decreased by USD 337.7 million to USD 169.6 million, reflecting a USD 230.4 million reduction in short-term financial debt to USD 0.7 million. Principal current liability components include other current liabilities, predominantly comprising accrued expenses, contract liabilities consisting mainly of deferred income, and accounts payable.

CASH FLOWS

Cash flow from operating activities was negative USD 45.4 million in 2024. Operating cash flow includes adjustments related to the SKIDATA divestment and goodwill impairment, a USD 30.9 million negative impact from reduced trade accounts payable, and a positive USD 26.3 million movement in other net working capital components. Interest payments of USD 20.7 million primarily related to the bridge loan facility secured as a contingency against potential delays in the SKIDATA transaction closing.

The Group maintained disciplined capital expenditure management, with cash outflow for tangible and intangible assets totaling USD 5.2 million. The SKIDATA divestiture generated proceeds of USD 339.3 million, recorded under disposal of subsidiaries and operations. Additional divestment proceeds include USD 5.9 million from the sale of a 24.95% stake in the entity holding the San Francisco office building. USD 5.1 million from the disposal of the Group's interest in the entity holding the property in Cheseaux is recorded as sale of associated companies. Consequently, net cash flow from investing activities was positive USD 345.2 million.

Cash used in financing activities amounted to USD 225.9 million, reflecting the full repayment of outstanding debt obligations, including the CHF 150 million bond, SKIDATA-related debt, and all outstanding credit facilities. Additional cash outflows comprise lease obligation payments of USD 14.5 million and dividend distributions to non-controlling interests of USD 6.1 million.

OUTLOOK

In early 2025, management implemented a comprehensive transformation of its operational structure. A new business segment, Core Digital Security, combines the Group’s Digital TV business line with the lab and core security activities of the IoT segment. This new business segment will be able to leverage synergies among the Group’s fundamental core security technologies as well as established industry relationships to improve its go-to-market approach and overall efficiency. The Sales organization has undergone a comprehensive transformation, transitioning from a geographic to a product-centric model and better aligning Sales and Marketing with delivery functions. Corporate IT functions have also been integrated into Core Digital Security to achieve additional operational efficiencies.

As a result of these measures, management expects to stabilize revenues from Digital TV customers in 2025, with the newly constituted Core Digital Security segment generating revenues in 2025 that are expected to be lower by an amount in the single digit millions as compared to Digital TV’s 2024 revenues. At the same time, management will continue operating expense reduction initiatives. A restructuring program implemented in early 2025 will reduce headcount by 160 positions, primarily affecting Core Digital Security and corporate functions. Consequently, while the Core Digital Security segment will incorporate the transferred activities, management expects to maintain positive EBITDA, albeit below Digital TV's 2024 EBITDA levels.

The Cybersecurity segment's strategic growth plan for 2025 and beyond encompasses three primary initiatives: expansion of managed security operations, implementation of a structured services recovery program, and strategic entry into the operational technology market. Management projects accelerated growth in 2025, targeting high single-digit growth in both revenues and gross profit. Operating expenses are expected to increase moderately to support operational scaling while maintaining focus on profitability enhancement. The segment is expected to approach EBITDA break-even in 2025.

The IoT segment's 2025 strategic focus centers on asset tracking expansion, targeting growth through the development of indirect sales channels in the car dealership market and market entry into new verticals. Consistent with this focused approach, management is transferring Lab and IoT Security activities to the Core Digital Security segment, which will enable that segment to leverage established semiconductor industry relationships and capitalize on core security team synergies. Notwithstanding the reduced operational scope, management projects moderate revenue growth for this segment. The strategic realignment is expected to significantly reduce EBITDA loss, with projected full-year loss in the low single-digit millions.