Inside Secure announces significant growth in Q1 2018

- **+45% year-on-year revenue[1] growth to $10.1 million**
- **+37% year-on-year organic growth[2]**
- **+23% year-on-year revenue growth in license revenue**
- **2018 objectives confirmed**

Aix-en-Provence, France, April 19, 2018 – Inside Secure (Euronext Paris: INSD), at the heart of security solutions for mobile and connected devices, is today reporting its revenue for the first quarter ended March 31, 2018.

(in thousands of US$)	Q1-2018	Q1-2017	Q1 2018 vs. Q1 2017
Licenses	2 854	2 329	23%
Royalties	5 998	3 455	74%
Maintenance and other	1 264	1 184	7%
Total revenue from software and technology licensing	**10 116**	**6 968**	**45%**
Total consolidated revenue	**10 116**	**6 968**	**45%**

Note: figures for 2018 and 2017 have been prepared in accordance with IFRS 15 (see appendix 1).

Commenting on these results, Amedeo D'Angelo, president and chief executive officer of Inside Secure, stated: *"We are very pleased with our significant revenue growth during the first quarter due to the strong performance in our core products and solutions. We grew our license revenue in the quarter by taking advantage of new upselling opportunities. We also realized the initial benefits of bundling our products together to deliver more overall value to our customers, starting with high speed communication networking for data centers.*

We are making progress in combining our core security products with those of the two acquisitions we completed in 2017, positioning our complete portfolio higher in the value chain. For example, we are leveraging provisioning wins at chipmakers to win provisioning deals at service providers.

Based on our strong performance in first quarter, we confirm our objective to accelerate year-on-year revenue growth in our core business in 2018 while accelerating our investments to leverage our strategic position in key markets such as Automotive and IoT."

[1] on core business. Core business being software and silicon intellectual property business, i.e. excluding contribution of the company's NFC patent licensing program
[2] i.e. excluding revenue of the two businesses acquired in 2017. On a pro forma basis, company's revenue was up 34% in Q1 2018

Core business revenue

Core security software and technology licensing business revenue was $10.1 million in Q1 2018, up 45 percent year-on-year. Excluding contribution of the two businesses acquired in 2017, revenue was $9.5 million in Q1 2018, up 37 percent year-on-year.

License revenue grew significantly in Q1 2018 to $2.9 million, up 23 percent vs Q1 2017, primarily driven by the silicon IP product line and new licenses in application protection software while continuing to upsell its customers. On the networking market (MACsec), the company increasingly addressed needs of high speed communication for data centers. On Silicon IP, the company continued to win new designs to embed security functions into general purpose chips dedicated to home automation (root-of-trust[3]) and virtual and augmented reality applications.

Revenue from royalties was $6.0 million in Q1 2018, up 74 percent vs. Q1 2017, boosted by the contribution of a U.S. customer in the defense sector, and driven by growth at customers in digital content. Revenue from royalties excluding this U.S. customer were up by 30 percent during the quarter.

Maintenance and other revenues in Q1 2018 increased by 7 percent year-on-year at $1.3 million, in line with the company's increased business perimeter.

The company also saw its first tangible results of the integration of the two companies acquired in 2017, notably with wins in provisioning (ALi Corp. and Kiwisat) and strong authentication.

Consolidated revenue (IFRS)

Consolidated revenue in Q1 2018 was $10.1 million comprised solely of core security software and technology licensing business revenue since the company did not generate revenue from its NFC patent portfolio this quarter.

Business outlook for 2018

In the first quarter of 2018, Inside Secure achieved significant revenue growth, leveraging notably strong traction in licenses.

In this context, the company confirms to anticipate sustaining strong revenue growth with accelerated growth of its core business in 2018 over 2017 (excluding the contribution of a U.S. customer driving significant royalties).

As expected, the Company has started to accelerate its investments in research and development and sales and marketing. These investments combined with operating expenses derived from the two 2017 acquisitions ($3.5 million) and a stronger euro vs. dollar (estimated $2.0 million of incremental cost), the Company anticipates operating expenses to increase to between $38.5 million and $40.0 million in 2018, before getting back to a normative EBITDA margin greater than 20 percent.

Financial calendar

- Annual shareholders meeting: May 16, 2018
- First-half 2017 earnings: July 26, 2018 (after market close)

[3] Root of trust (or RoT) is the foundation for the trustworthiness of a device or a system. Roots of trust are hardware/software components that are inherently trusted. RoT a set of functions that constitutes a common trust anchor recognized by operating systems and applications of a device. It is ensuring authentication, confidentiality and integrity of data and transactions.

Press and investor contacts

Inside Secure
Investor relations
Richard Vacher Detournière
General Manager & CFO
+33 (0) 4 42 905 905
contactinvestisseurs@insidesecure.com

Inside Secure
Corporate communications
Brigitte Foll
Marcom Director
+33 (0) 4 42 905 905
communication@insidesecure.com

About Inside Secure

Inside Secure (Euronext Paris – INSD) is at the heart of security solutions for mobile and connected devices, providing software, silicon IP, tools, services, and know-how needed to protect customers' transactions, ID, content, applications, and communications. With its deep security expertise and experience, the company delivers products having advanced and differentiated technical capabilities that span the entire range of security requirement levels to serve the demanding markets of network security, IoT and System-on-Chip security, video content and entertainment, mobile payment and banking, enterprise and telecom. Inside Secure's technology protects solutions for a broad range of customers including service providers, operators, content distributors, security system integrators, device makers and semiconductor manufacturers. For more information, visit www.insidesecure.com

Forward-looking statements

This press release contains certain forward-looking statements concerning the Inside Secure group. Although Inside Secure believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. Accordingly, the Company's actual results may differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the "*Risk factors*" section of the 2017 registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on April 10, 2018 under number D.18-0307, available on www.insidesecure-finance.com/en

Supplementary non-IFRS financial information

Inside Secure uses supplementary non-IFRS financial measures. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Company's financial performance. They should be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of a strictly accounting nature, as presented in the Company's consolidated financial statements and the corresponding notes. The Company uses these indicators because it believes they are useful measures of its activity. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently to the Company, even though they use similar terms.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment losses not related to business combinations. Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations and divestiture carried out by the Company.

Appendix 1 - Implementation of IFRS 15

The revenue for the fiscal year 2017 and 2018 are prepared in accordance with IFRS 15 "Revenue from Contracts with Customers", which is mandatory from January 1, 2018. The Company had chosen to anticipate the implementation of the standard, in particular to be able to present a 2018 year directly comparable to 2017.

The implementation of IFRS 15 has modified some of the Company's revenue recognition principles:

Under IAS 18, revenues from development agreements were recognized using the percentage-of-completion method, which consists of recognizing revenue as development progresses. The percentage of completion up to completion was based on the actual costs incurred compared to the total estimated cost of the project. Under IFRS 15, income related to a contract must be recognized over time if certain criteria are met, including the fact that the Company has an enforceable right to payment of the value of the work carried out to date. If none of the criteria mentioned in the standard is met, revenue is recognized upon completion.

Given how actual contracts signed with the Company's customers are drafted, according to IFRS 15 the revenue must be recognized upon completion.

Royalties payable in relation with technology licensed to some of the Company's customers may be fixed and / or variable. According to the Company's policy to date, fixed royalties were recognized on a straight-line basis over the contractual periods. Variable royalties are generally based on sales by customers and are therefore by definition difficult to estimate. These fees were recognized on the basis of confirmations received from customers, generally in the quarter following the delivery of the products. According to IFRS 15, licenses sold by the Company correspond to a "right to use" the intellectual property as it exists on the date on which the license is granted, in which case the fixed royalties must be recognized immediately on the date from which the customer can begin to use the license. This leads to recognize revenue earlier than before. In the case of variable royalties, royalties must be recognized as revenue as they become due, on the basis of sales made by the customer, and not on the date of confirmation by the customer. The Company therefore now estimates the amount pending receipt of consumption confirmations.

The application of IFRS 15 generally leads to faster recognition of revenue compared to IAS 18.