

Press release

2019 annual results - 2020 outlook

Netgem pivots to an operator model

- ✓ In 2020, Netgem pivots from its historic Box sales activity to a service operator activity in very-high-speed internet access and Fiber.
- ✓ The new Netgem should post 75% of recurring service revenues in 2020, thanks to the consolidation of its subsidiary Vitis, which recorded growth of 52% in 2019.
- ✓ The new services offer launched in July 2019 in France under the Videofutur brand serves as a reference for affiliated offers in Europe.
- ✓ The plan to reduce OPEX has absorbed the drop in revenue from Box sales, and allows Netgem to take this new step forward with a solid financial position.
- ✓ The necessary measures are being taken to limit the impact of the COVID-19 health crisis

Paris, March 20, 2020

The Netgem Board of Directors on March 19, 2020 approved the 2019 accounts, and validated the growth plan in Very High Speed internet access and Fiber services.

For Mathias Hautefort, CEO of Netgem, *"2019 was a year of profound transformation in order to position ourselves as a service provider in the Very High Speed internet access market. The group, with a solid financial situation, is ready to seize the opportunities. Its new organization and its new products are now dedicated to this new strategy and to the gradual return to a growth dynamic.*

In the difficult conditions of the Coronavirus health crisis, I would like to thank our teams and our partners who are doing everything possible in teleworking to ensure continuity of service with our different customers, who need Very High Speed internet access and Home Entertainment more than ever. Shareholders, partners, customers, be well!"

As expected, 2019 was the year of the pivot of the Netgem group to the services operator model

The market is changing at high speed in the announced direction : the construction of fiber networks for millions of homes, driven by strong political ambitions, highlights new services made possible by Very High Speed internet access such as "streaming on all the screens "and the new connected home services.

This change will make tens of millions of "ADSL Boxes" obsolete in the coming years and open up new opportunities. In France and Great Britain, Netgem's

historic markets, more than 20 million households will have access to fiber through "open" networks (funded by infrastructure operators) over the period 2020-2025, thereby independent service operators to offer consumers new innovative service packages, without having to finance the networks.

Confirming its ambition to be a reference alternative operator, Netgem has deployed its operator-type organization, articulated around customer satisfaction. The 100 employees of the *new* Group are mainly engineers and sales people. In France and in Great Britain, local subsidiaries, with their own marketing and commercial resources, ensure proximity and agility in each Very High Speed internet access market. In transverse, within the parent company Netgem SA, synergies between entities are maximized: unified approach of major partners, especially on content, development and maintenance of common technologies and infrastructures, support functions, cost control.

The commercial launch of the new offer platform took place in July 2019. Numerous international and local content partners (Amazon Prime, myTF1, etc.) are present, as innovative features essential to new uses (nPVR, multi-screen) , Replay, SVOD). This offer is deployed today in France, in Great Britain, in Finland, and is being experimented in Germany. Distribution is carried out either directly to the consumer (as in France) or in partnership (distribution or affinity model) with operators (B2B or B2B2C models). This cloud-operated offer will continue to be enriched throughout 2020.

The construction of this new Group vision is embodied in the new visual identity of Netgem. The signature "*Enjoy your connected life*" reflects the focus on customer benefit.

2019 results

Current operating income close to breakeven and solid cash position.

IFRS, in millions of euros	2019	2018	Change
Turnover	25.3	41.8	-40%
Net revenue	13.5	19.6	-31%
Gross profit	13.2	18.5	-29%
Opex	12.5	15.8	-21%
Ebitda	0.7	2.7	-72%
Current operating income	-0.1	2.3	-104%
Operating income	0.7	4.4	-83%

Consolidated turnover for 2019 amounted to € 25.3 million, down 40% compared to 2018, a consequence of the expected decrease in sales of Boxes to operators. Non-recurring sales, however, supported the activity at the end of the year. The more moderate slowdown in net revenue to € 13.5 million is due to the contributory effect of service activities.

Non-consolidated revenues from Vitis - Videofutur in 2019, mainly consisting of sales of services, increased by 52% to € 15.8 million.

Operating expenses decreased by 21% compared to the previous year (-13% on a comparable basis, excluding the effect of the transfer of the platform activity and excluding the impact of IFRS 16). This drop is the consequence of the measures taken by the organization, including the commercial refocus on strategic markets and the refocusing of R&D. It helped limit the impact of the drop in net revenue on Ebitda and on current operating income. Ebitda stood at 0.7 million and current operating income was close to breakeven, at -0.1 million.

Operating profit was 0.7 million.

IFRS, in millions of euros	2019	2018
Operating income	0.7	4.4
Financial income	-0.5	-0.9
Share of associates and discontinued operations	-3.1	-2.8
Taxes	-4.0	-0.6
Net income (Group share)	-7.0	0.2
Global net income	- 6.9	0.3

Financial income, which stands at € -0.5 million, is mainly composed of the non-cash costs of international leasing for the year.

In scope of associates, Vitis recorded a loss of € -5.4 million, due to the costs linked to the acquisition of its own subscribers base.

The group recorded an exceptional tax charge of € -4 million. No cash outflow is linked to this charge, which is the consequence of the new management's decision to write down all deferred tax assets. As a reminder, depreciating deferred tax assets does not remove the potential tax advantage of historical deficits which remain carried forward indefinitely.

After taking into account the share in Vitis losses for € -3.1 million, the financial charge of € -0.5 million and the tax charge of € -4 million, the Group records a net loss of € 7 million in 2019 (group share).

IFRS, in millions of euros	2019	2018
Cash flow related to activity (A) (*)	1.3	1.4
CAF before tax payment	1.5	2.8
Tax paid	-0.1	0.1
Decrease (increase) in WCR	-0.1	-1.5
Cash flow linked to investments (B)	-2.0	0.1
Operating cash flow (A + B) (*)	-0.7	1.4
Cash flow related to financing (*)	-1.6	-4.8
Dividends	-1.7	-2.8
Net purchase of own shares	0.1	-2.0
Net impact international financing solutions	0.0	4.1
Discontinued operations & currency variation	-0.2	0.0
Net change in cash position	-2.5	0.7

(*) Excluding IFRS 16 restatement

Netgem's cash position at the end of 2019 amounted to € 8.5 million, a decrease of €-2.5 million compared to 2018.

The group's activity generated an after-tax cash amount of € 1.3 million in 2019, close to that of 2018 (€ 1.4 million)

The increase in investments in the financial year, at € -2 million, is the consequence of the operator model in which the "boxes" are no longer sold or financed, but rented as part of service packages operated in the cloud.

Cash flows related to financing mainly include € -1.7 million in dividends paid in 2019, the founding shareholders having opted for a payment in shares of their dividend.

The international factoring solutions linked to the financing of Boxes sold, which had a strong impact on previous years, were fully completed during the year ended. As a result, net cash at the end of 2019 stood at € 7 million, up € 3.5 million compared to the end of 2018.

IFRS, in millions of euros	12/31/19	12/31/2018
Equity and debt		
Equity, group share	15.5	24.0
Current and non-current financial liabilities	0.8	7.5
Analysis of net cash flow		
A. Liquidity	8.5	11.0
B. Liabilities financial flows	0.5	7.2
C. current net cash (A) - (B)	7.9	3.8
D. non-current financial liabilities	0.2	0.3
net cash E. (C) - (D) before the impact IFRS 16	7.7	3.5
F. Impact IFRS 16	0.7	0.0
G. net cash (E) - (F)	7.0	3.5

The growth of the Vitis subsidiary, which will be consolidated in 2020, offsets the drop in historic “box” turnover.

Data Vitis in million of euros	2019	2018	var
Turnover	15.8	10.4	52%
Net revenue	14.4	9.3	54%
Net revenue	-5.4	-5.6	
Cash position	2.0	5.1	

Vitis has secured a new financing at the beginning of 2020, to which Caisse des Dépôts has participated up to € 2,4 million.

Dividend

The Group has demonstrated in the past its attachment to a generous dividend policy but, out of prudence in the current context, the Board, on the recommendation of the Chief Executive Officer, will propose to the Annual Shareholders’ Meeting not to pay a dividend in 2020 for the 2019 financial year..

Outlook

In 2020, Netgem continues to grow in France and in Great Britain, supports the operational development of Elisa in Finland, and experiments in Germany.

Its range of services will continue to be enriched with a twofold objective of improving attractiveness and loyalty.

The Netgem Group remains attentive to possible external growth opportunities allowing, on a case-by-case basis, to strengthen its local network.

From an accounting point of view, the Vitis subsidiary will now be fully consolidated, and therefore fully integrated into the Group 2020 financial communication figures. An integrated organization will enable the best synergies to be obtained from this combination.

Measures taken to limit the impact of the Covid-19 (Coronavirus) health crisis

The Group's net revenues are linked to the use of very high-speed internet access services in the home, and as such are resilient to the current crisis. The growth comes from subscribing directly or through our partners and affiliates of new subscribers. This growth could thus be impacted in the second quarter, in particular due to the logistical and technical constraints of connecting new access points by infrastructure operators.

The company is closely monitoring the development of the epidemic and has taken

specific measures to limit the impact on its activity:

- Measures concerning the protection of the health of its employees have been taken according to government recommendations (France and UK), in particular in terms of systematic use of telework in order to maintain operational activity;
- The group does what is necessary to provide quality service to its customers during this period in terms of very high speed internet access and entertainment services. Its content platform is operational to meet growing demand (in particular for non-linear content such as Replay or VOD);
- There is no identified effect on the activity of the main customers and distribution partners, who do not seem to be experiencing a slowdown that could have an indirect impact on the company;
- Regarding supplies, Pegatron's factories in China are gradually returning to normal and BOX inventories at customers or at Netgem cover the needs of the coming months. Netgem has also asked its operational partners in France or abroad (Customer Service, Telesales) to put in place plans to meet their specific constraints;

Financial communication calendar

- Q1 2020 turnover and net revenue May 14, 2020, before market
- Annual General Meeting May 14, 2020
- Results H1 2020 July 31, 2020, before market
- Q3 2020 turnover and net revenue October 21, 2020, before market

The audit procedures of the statutory auditors on the 2019 annual accounts have been carried out and the audit reports relating to their certification are being issued.

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About Netgem

Netgem is an independent service provider for ultra broadband internet access. The Group provides its services mainly in France and Great Britain, in rural areas by using infrastructure investments supported by the public authorities to reduce the digital divide and improve regional planning. Netgem provides its services in B2C (direct to consumers) and B2B2C (via other partner operators). The Group differentiates itself by its end-to-end technological expertise of a digital TV, video and music streaming offer with a unified and unique experience on TV, mobile and with voice control, including the biggest brands of local and global content.

Netgem is listed on Euronext Paris Compartment C
(ISIN: FR0004154060, Reuters: ETGM.PA, Bloomberg: NTG: FP) www.netgem.com