



**FY2017 Consolidated Results  
&  
Strategic Guidelines for 2018-2019**

26<sup>th</sup> March 2018

# Agenda

- **BUSINESS HIGHLIGHTS**
- **2017 CONSOLIDATED RESULTS**
- **STRATEGIC GUIDELINES 2018 – 2019**

# 2017 Business highlights

**New customers** with a combined revenues of **more than 100 billion** with a **better mix** between license and services compared to recent years (**70-80% license** and 20-30% services)

Key strategic wins in **Insurance, Banking, US Federal** and **Media** in **USA, UK, Switzerland, Italy, Spain** and **France**

**New use cases** and **successful implementations:**

- Cognitive RPA for Insurance and Banking
- Fighting fake news
- AI based customer profiling
- GDPR regulation
- Chatbot

From “**Annual results 2017 at a glance**” Zurich Feb 8th 2018

“...These investments have been supported by continuing business transformation and a commitment to adopt new technologies. Zurich is investing about USD 700 million per year to enhance customer service, modernize its IT and deliver sustainable savings. **For example, in April 2017 Zurich signed a global agreement with Expert System to supply cognitive computing solutions that significantly accelerate response times to processing claims and improve how they are evaluated.**”

# From one of our Federal customer

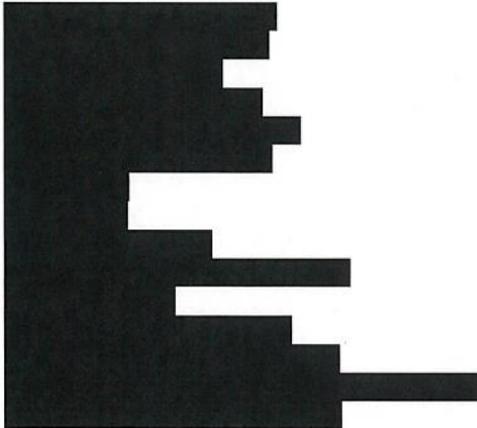


**DEFENSE THREAT REDUCTION AGENCY**  
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FORT BELVOIR, VA 22060-6201

## **JUSTIFICATION FOR OTHER THAN FULL AND OPEN COMPETITION**

This combination of Cogito products are uniquely capable of providing an unmatched number of out-of-the-box visualization dashboards, a prepopulated Defense and Intelligence taxonomy library, while also offering rapid deployment capabilities. These features are not available through any other source.

In March of 2017, Cogito was reevaluated to determine if it was the only product that could meet DTRA's requirements. Fifteen (15) companies that could provide Insight Engines were examined against DTRA's requirements. The companies evaluated are:



Cogito is the most complete product examined and is able to satisfy all eighteen (18) requirements listed above. The product in second place to Cogito only satisfied thirteen (13) of the eighteen (18) criteria. It is significant to note that of the criteria listed above, "Unstructured Data, Structured Data, Data Tagging, Data Visualization, Geographical Mapping, Related Documents, Relevancy, and Expertise Discovery" have been deemed highly critical and necessary by DTRA. Of the fifteen (15) companies that were examined, Cogito is the only product that meets every single one of these needs.

# 2017 technology highlights

Full integration of **semantic** and **machine learning** techniques to have **the best hybrid cognitive/AI platform** on the market

**Richer and deeper coverage of languages:** 14 different languages covered

**Cloud and APIs:** implementation on different platforms

**From technology to products:** implementation of **vertical components** for **specific industries** and **use cases** to reduce sales cycle duration and increase margins



Google Cloud Platform



English  
Italian  
French  
German  
Spanish

Portuguese  
Dutch  
Polish  
Arabic  
Russian

Korean  
Japanese  
Chinese  
Greek

# Market Validation



**Gartner**

**Gartner**

Magic Quadrant for Insight Engines - 2017

**Forrester Wave**

Big Data Text Analytics Platforms - 2016

**Forrester Report**

Artificial Intelligence Can Finally Unleash Your Business Applications' Creativity - 2015



# 2017 at glance

**2017**, thanks to a strong H2, exceeded expectations:

- Revenues\* reached **€25.6m**, compared to €22.2m in 2016 (**+15,4%**)
- Positive EBITDA equal to **€1.0m** compared to a negative one of €2.2m in 2016 (**+€3.2m**); adjusted EBITDA after one off costs is **€1.7m**
- Value of production equal to €32.8m, compared to €29.6m in 2016 (+€3.2m)
- Negative net result for €8.3m, which includes €7.5m of depreciations and €1.6m of not realized exchanges losses (97% of which due to intercompany transactions)
- Net financial position for €8.8m with more than €11.2m of cash

\* In this document “revenues” or “sales” stand for “revenues net of change of inventories”

# Financial headlines (2017 vs 2016)

Year ended 31 December - €/m	2016	2017	Δ
Revenues	22,2	25,6	15,4%
Value of Production	29,6	32,8	11,0%
EBITDA	(2,2)	1,0	146,6%
<i>Margin%</i>	-7,6%	3,2%	
EBIT	(8,5)	(6,5)	24,0%
<i>Margin%</i>	-28,9%	-19,8%	
Net Earning	(8,1)	(8,3)	2,6%
Net Working Capital	11,7	13,1	1,4
Invested Capital	27,5	28,1	0,5
Net Financial Position	11,1	8,8	(2,3)
Shareholders' Equity	16,4	19,3	2,8
Investments	(6,8)	(6,3)	0,5
Sales abroad (%)	61%	63%	2%

**Revenues increase of €3.4m equal to EBITDA improvement €3.3m:** growing sales with stable operating costs.

**Positive EBITDA €1m in 2017**

**Adjusted EBITDA €1.7m** considering one-off costs for restructuring for €0.7m

**Improved financial position at €8.8m** thanks to capital increase

# Financial headlines (H2 2017 vs H1 2017)

€/m	H1-2017	H2-2017	Δ
Revenues	8,5	17,1	102%
Value of Production	11,7	21,1	80%
EBITDA	(4,0)	5,0	226%
<i>Margin%</i>	-34,2%	23,9%	
EBIT	(7,3)	0,8	111%
<i>Margin%</i>	-62,4%	3,8%	
Net Earning	(7,6)	(0,7)	90%
Net Working Capital	7,0	13,1	6,1
Invested Capital	23,5	28,1	4,6
Net Financial Position	13,8	8,8	(5,0)
Shareholders' Equity	9,7	19,3	9,6

**High seasonality:** historically H2 has always been much higher than H1. In 2017 the seasonality was even stronger than in the past, with a particularly high Q4.

# Financial headlines (H2 2017 vs H2 2016)

	€/m	H2-2016	H2-2017	Δ
Revenues		13.2	17.1	29%
Value of Production		16.5	21.1	28%
EBITDA		(0.2)	5.0	2156%
	<i>Margin%</i>	-1.5%	23.9%	
EBIT		(3.6)	0.8	122%
	<i>Margin%</i>	-22.2%	3.8%	
Net Earning		(3.1)	(0.7)	76%

**EBITDA in the second half 2017 was €5m** with an increase equal to €5.2m compared to the same period of the previous year, thanks to a significant growth in sales while optimizing operating costs.

The improvement is actually higher if we consider that the second half also includes one off costs of €0.7m.

# Value of Production (VoP) breakdown

€m	2016	2017	Δ%
Sales	22,2	25,6	15%
Grant	1,3	1,3	-7%
Capitalised Costs (R&D)	5,7	5,6	-2%
Other revenues	0,3	0,4	16%
<b>Value of Production</b>	<b>29,6</b>	<b>32,8</b>	<b>11%</b>

**Constant Grants.** Grants amount equal to €1.3m same amount received in 2016.

**R&D higher than €5.5m.** Continued investments in Cogito with constant R&D investments. Investments are expected to remain stable over the next two years.

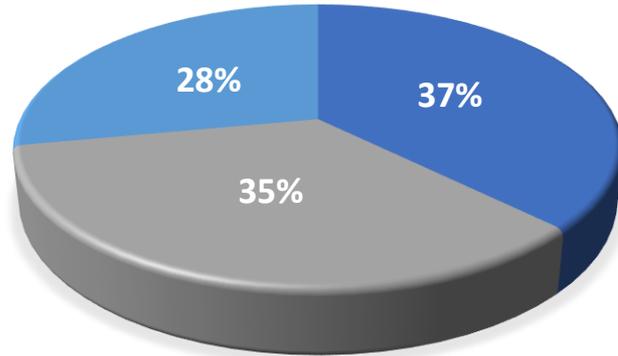
**VoP +11% vs 2016,** more than €3m higher turnover achieved

**Licence & Maintenance.** Commercial focus on major clients and annual licences. Increase in revenues mainly from banks and insurance companies.

**Professional Services.** Increase services provided to customers both in quantity and pricing, reducing not recharged hours worked.

# Revenues by region

REVENUES 2017



■ Italy ■ Europe ■ USA

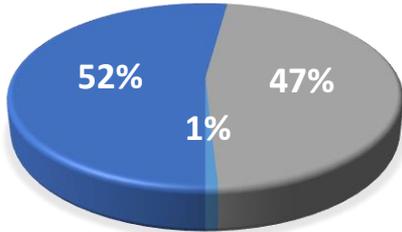
More than 63% of sales are abroad, 35% in Europe and 28% in USA.

Some growth highlights:

- USA: **+25%**
- UK: **+400%**
- Spain: **+20%**
- Switzerland: **+15%**

# Revenues by type 2017 vs 2016

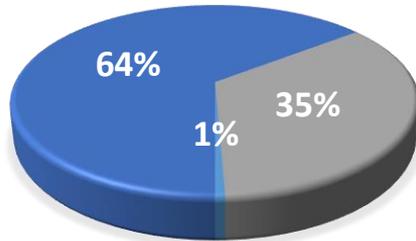
## REVENUES 2016



Annual license 28%  
Perpetual license 72%

■ License (inc. maint.) ■ Professional Services ■ Other

## REVENUES 2017



Annual license 41%  
Perpetual license 59%

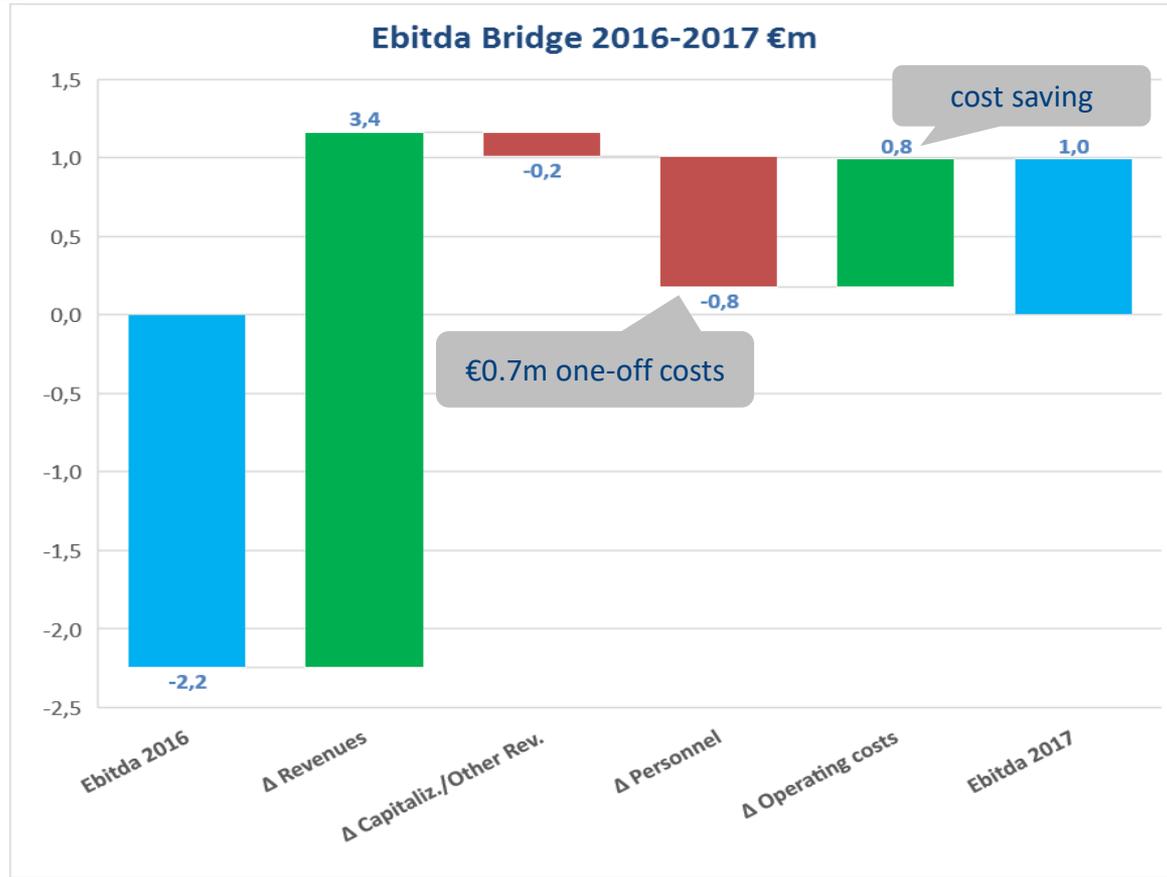
■ License (inc. maint.) ■ Professional Services ■ Other

**Strategic Sales:** the focus is moving more and more to bigger, strategic deals with multinational companies

**Annual Licences:** the shift from perpetual license to recurring, annual fees is accelerating.

**Professional services margin:** the global PS team has been reorganized during 2017 to better balance the workload in different markets and verticals and to increase the marginality of the projects.

# Ebitda bridge 2016 – 2017



# From Ebitda to Net Result 2016 VS 2017

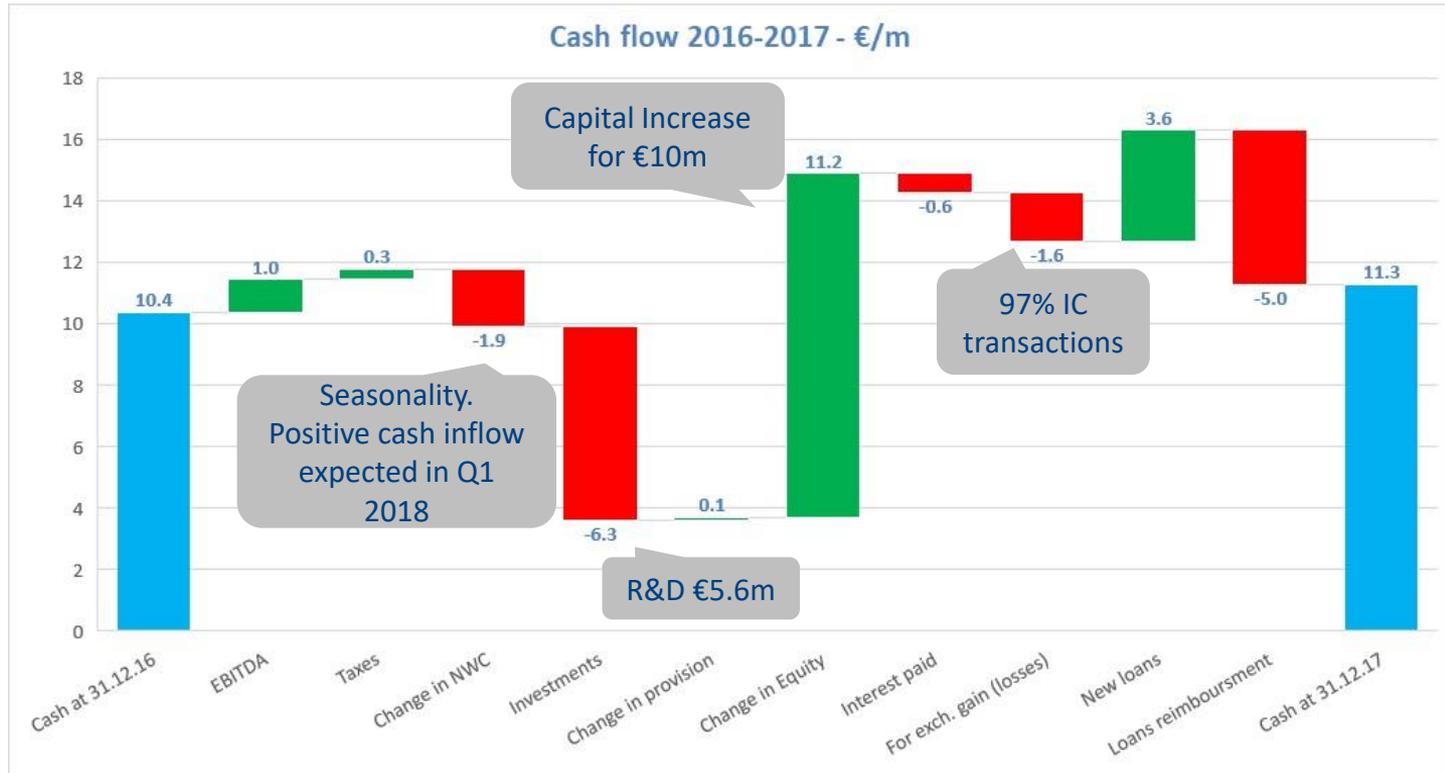
Year ended 31 December - €/m	2016	2017	Δ
<b>EBITDA</b>	<b>(2,2)</b>	<b>1,0</b>	<b>3,3</b>
Amortization of Intangible Assets	(6,1)	(7,2)	(1,1)
Amortization of Tangible Assets	(0,2)	(0,2)	0,0
Depreciation	(0,0)	(0,1)	(0,1)
<b>EBIT</b>	<b>(8,5)</b>	<b>(6,5)</b>	<b>2,1</b>
Financial Income/(Expense)	(0,5)	(0,6)	(0,1)
Exchange Losses unrealized	0,3	(1,6)	(1,9)
<b>Result before taxes</b>	<b>(8,7)</b>	<b>(8,7)</b>	<b>0,0</b>
Taxes	0,6	0,3	(0,2)
<b>Net Result</b>	<b>(8,1)</b>	<b>(8,3)</b>	<b>(0,2)</b>

**Amortization +€1.1m** Higher amortization for intangible assets connected to investments in R&D

**Financial Costs €0.6m.** Increase in financial costs mainly for an higher average debt outstanding but not huge amount.

**Not realized exchange Losses for €1.6m.** Not realized exchange losses mostly referred to €/ \$ rate (97% of which due to intercompany transactions)

# Cash Flow Bridge



# Financial Highlights 2018-2019

Year ended 31 December - €/m	2017	2018	2019
Revenues	25,6	28,5 - 30	33 - 34,5
Value of Production	32,8	35,5 - 37	39,8 - 41,3
EBITDA	1,0	4,0 - 5,0	7,0 - 8,0
<i>Margin%</i>	3,2%	11,3% - 13,5%	17,6% - 19,4%
EBIT	(6,5)	(3,7) - (2,7)	(1,1) - (0,1)
<i>Margin%</i>	-19,8%	-10,4% - 7,3%	-2,8% - 0,2%
Net Earning	(8,3)	(4,6) - (3,9)	(2,3) - (1,6)
Net Financial Position	8,8	13,6 - 12,9	13,0 - 12,0

## The updated BP reflects:

- the changes in market maturity and growth
- the differences in the seven main markets where Expert System Group operates and
- the changes in organization that were implemented during 2017 to better adapt every single subsidiary to the future requests coming from the market.

# Strategic guidelines 2018-2019

## Key directions:

- **grow market penetration** in existing markets with the current offering, in particular in **USA, Germany** and France
- scale marketing activities on a **global level**
- speed up the creation of the structured **indirect channel**
- **productize Cogito solutions** for specific vertical markets (like insurance) for both direct and indirect
- target **big multinational customers**, with strong focus on finance and insurance sector
- **increase recurring licenses** vs perpetual licenses
- leverage the skilled professional service team (mainly based in Italy) to **increase margins and profitability of projects**

Q&A



Thank you!

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