



**EXPERT SYSTEM: The Board of Directors approves the Half-Yearly Financial Report as at 30 June 2018. Revenues posted strong growth of +52% and margins showed considerable improvement.**

- Sales revenues totalled € 12.9 million, +52% compared to 30/06/2017 (€ 8.4 million), with foreign turnover amounting to 54% of total (up 33%)
- Value of production totalled € 15.9 million, +35% compared 30/06/2017 (€ 11.7 million)
- EBITDA positive for € 0.1 million, an increase of € 4.1 million compared to 30/06/2017 (negative for € 4.0 million) Adjusted EBITDA of € 0.6 million as at 30/06/2018
- EBIT negative for € 3.6 million (negative for € 7.3 million as at 30/06/2017)
- Net loss of € 3.7 million, an improvement compared to 30/06/2017 (loss of € 7.6 million)
- Net financial position of € 10.0 million (€ 8.8 million as at 31/12/2017)

**Modena, 28 September 2018**

The Board of Directors of Expert System, a leading company in the Artificial Intelligence market, listed on the AIM Italia market organised and managed by Borsa Italiana, approved the Half-Yearly Financial Report as at 30 June 2018 in its meeting held today.

**Stefano Spaggiari, Chief Executive Officer of Expert System,** commented:

*"The excellent results achieved in the first half of 2018 confirm that the Cogito-based solutions are unique, effective and useful, as they are adopted by an increasing number of customers in Europe and the United States for process automation and for all information intelligence needs. The growth in revenues was much higher than that seen in the reference market and the considerable improvement in margins demonstrates the significant increase in efficiency within all the Group's functions, positioning Expert System as the reference leader for all companies who want to begin or continue their process of applying Artificial Intelligence to an increasingly greater number of processes and activities.*

*The growth in the recurring license component compared to perpetual licenses is another very important element to highlight. Recurring licences, which grew to 79% of the total compared to 21% for perpetual*



*licences (as at 30 June 2017, recurring licences were 33% and perpetual were 67%), ensure customer loyalty and greater predictability of future revenues.*

*The considerable improvement in margins allowed us to achieve a positive EBITDA already in the first half of the year compared to a negative result of € 4 million in the same period of 2017. We are extremely optimistic about the results of the current year and next year, as a result of strengthening our organisational structure and the commercial offer, as well as consolidating partnerships with market leaders to guarantee greater distribution of Cogito through the indirect channel. The awards achieved around the world in the first half confirm our leadership in technology and customer satisfaction. In fact, Expert System is one of the very few global leaders to be simultaneously among the 8 top vendors in Artificial Intelligence for Text Analytics (The Forrester Wave™: I-based Text Analytics Platforms, Q2 2018) and in the top 13 vendors for Insight Search (Gartner Magic Quadrant for Insight Engines, 2018)."*

#### **KEY CONSOLIDATED ECONOMIC AND FINANCIAL RESULTS AS AT 30 JUNE 2018**

**Sales revenues** amounted to € 12.9 million, up 52% compared to € 8.4 million at 30 June 2017, as a result of diversifying the mix, consistent with the Group's strategies that seek to increase the number of large multinational customers and European and U.S. government agencies. The portion of revenues generated abroad, which amounted to € 6.9 million, is 54% of the total, of which 36% in Europe and 18% in the U.S. (€ 5.2 million as at 30 June 2017). Foreign revenues grew +33% compared to 30 June 2017, with a considerable contribution from the United States, the United Kingdom, Switzerland and Spain. With regard to total licenses, there was a significant increase in the recurring component, equal to 79%, compared to the perpetual component 21%, compared to the figure as at 30 June 2017, which posted 33% for recurring licenses and 67% for perpetual licenses.

The **value of production** amounted to € 15.9 million, reflecting growth of 35% from 30 June 2017 (€ 11.7 million).

**EBITDA** was positive for € 0.1 million, a net improvement of € 4.1 million compared to 30 June 2017 (negative for € 4.0 million) The Company's was able to return to profitability due to efficiency improvements in all of the Group's functions and the containment of internal and external costs: personnel costs also decreased in absolute terms, as a result of the staff reorganisation and optimisation



plan. **Adjusted EBITDA**, that is, gross operating margin adjusted for non-recurring (one-off) costs, is equal to € 0.6 million.

**EBIT**, negative for €3.6 million, shows considerable improvement compared to 30 June 2017 (negative for € 7.3 million), with amortisation, depreciation, and provisions equal to € 3.6 million (of which amortisation of intangible assets for € 2.4 million for capitalised development costs and € 1.1 million for consolidation differences, primarily associated with goodwill for acquired companies).

The **Net Result**, a loss of € 3.7 million, is a significant improvement over 30 June 2017 (negative for € 7.6 million), not only due to the significant improvements in ordinary management highlighted above, but also due to the impact of the exposure in dollars on financial management, which had a positive impact of € 0.3 million related to unrealised exchange gains; at the same time, the release of deferred tax assets had a negative effect of € 0.3 million.

**Net Financial Position** is € 10.0 million compared to € 8.8 million as at 31 December 2017 (€13.8 million as at 30 June 2017). The Group continued to incur development costs of € 2.3 million and, therefore, the use of third-party capital is essentially attributable to technology investments envisaged in the plan. The financial exposure, with higher repayments compared to new loans subscribed, absorbed cash in the amount of € 0.9 million, while the net working capital generated cash of € 1.9 million.

#### **INTERNATIONAL AWARDS AND SIGNIFICANT EVENTS OF THE FIRST HALF OF 2018**

During the first half of 2018, Expert System received important awards:

- “Strong Performer” in the prestigious report, **The Forrester Wave™: AI-based Text Analytics Platforms, Q2 2018**. Moreover, Forrester Research, one of the world's leading independent research companies for innovation and the technology market, has included Expert System in the new report, **Now Tech: AI-Based Text Analytics Platforms, Q2 2018**, whose objective is to provide organisations that wish to undertake or improve their text analytics activities with an evaluation of the best functionalities and business advantages offered by leading global vendors specialised in artificial intelligence technologies;



- inclusion of Expert System in the report, **Now Tech: Social Listening Platforms, Q2 2018**, focused on the exposure of value and advantages of monitoring, analysis, and design of strategies aimed at listening to web sources (social listening);
- inclusion once again in 2018 in the “**KMWorld 100 Companies that Matter in Knowledge Management**” ranking, developed by a group of industry experts and market analysts that lists the best solutions throughout the world offered by Knowledge Management companies.

Some of the most important events for the first part of the year include:

- **New advances and successes in the insurance market:** launch of two new products (**Cogito for Claims** and **Cogito for Underwriting**) to bolster the solutions adopted in recent years by customers such as Zurich Insurance Group, Lloyd's of London, and GENERALI Group;
- **Partnership between Expert System and EIT Digital**, the **organisation supporting digital transformation processes in EU countries**, created by EIT, the European Institute of Innovation and Technology. Cogito's artificial intelligence has been included in the European CREEP project, aimed at preventing cyber-bullying;
- Achievement of a **new record in Artificial Intelligence** that confirms **Cogito's technological leadership**, using the richness, depth, and structure of **Sensigrafo®**, (Cogito's proprietary **knowledge graph**); it is now possible to surpass all previous benchmarks in terms of automated understanding of new information, through highly innovative techniques that combine machine learning and semantic recognition algorithms.

#### **SIGNIFICANT EVENTS AFTER THE CLOSE OF THE FIRST HALF OF 2018**

**11 July 2018:** the Shareholders' Meeting approved, on the proposal of the Board of Directors of 4 June 2018:

- the “2018-2020 Stock Grant Plan”, for the employees of Expert System and its subsidiaries, resulting in the proposal for a free share capital increase up to € 8,000, which provides for the assignment free of charge (on a personal basis without the possibility of transfer) of up to 800,000 rights to receive ordinary shares of the Issuer, free of charge (in the ratio of 1:1), subject to achieving certain performance and/or



personal objectives in each of the three years ending 31 December 2018, 2019, and 2020, respectively.

- the "2018-2020 Stock Option Plan" for members of the Board of Directors, employees, collaborators and consultants of Expert System and its subsidiaries, resulting in the proposal to increase the share capital against payment, in divisible form and with exclusion of option rights, up to € 1,260,000, which entails the free allocation of 1,200,000 option rights contingent upon subscribing, at a previously established price, Expert System ordinary shares (in the ratio of 1: 1).

- to increase the number of members of the Board of Directors to 8 and to appoint Stefano Pedrini as the new Independent Director.

**18 July 2018:** Expert System has been chosen by Gartner, global leader in strategic consulting, research and analysis in the field of Information Technology, for the **Gartner Magic Quadrant for Insight Engines**, the most prestigious international recognition dedicated to solutions for research and analysis of business information, a recognition granted to only 13 companies in the world, which rewards the unique features of Cogito's artificial intelligence technology.

**18 September 2018:** also in 2018, the American magazine "KMWorld" recognised the excellence and uniqueness of Expert System's approach to technology by including Cogito Discover among the 2018 products with increasing visibility in the "2018 Trend-Setting Products" list.

**20 September 2018:** Expert System has collaborated with Credit Agricole CIB in developing a project that leverages the potential of Cogito to automate the analysis and handling of public information flows as well as the management of unstructured content.

## **BUSINESS OUTLOOK**

The excellent performance in the first half of 2018, with improved distribution of turnover over the two half-years, enables us to feel confident that we guidance provided for 2018 will be achieved. The increasingly strong market demand combined with an offer that includes increasingly specialised products and solutions, and distributed through a network of partners that continues to be developed, makes us very confident about the company's prospects for the near future.



## TREASURY SHARES

As at 30 June 2018, the parent company Expert System S.p.A. held 76,709 treasury shares. The change from the 141,139 treasury shares held as at 31 December 2017 is attributable to the assignment of 64,430 treasury shares after the second tranche of the 2016-2020 Temis Stock Grant Plan that reached maturity on 28 June 2018. The plan had been approved by the Shareholders' Meeting held on 28 June 2016.

*The Half-Year Financial Report as at 30 June 2018 will be made available to the public in the terms and conditions provided by AIM Italia Issuers' Regulations and on the company's website at [www.expertsystem.com/it](http://www.expertsystem.com/it), in the section "Investor Relations/Financial Reports."*

*This press release is available on the Company's website [www.expertsystem.com](http://www.expertsystem.com) and [www.marketstorage.com](http://www.marketstorage.com).*

## Expert System

Leader in the Artificial Intelligence market, Expert System offers the most innovative solutions for process automation and information management. Through its Cogito® technology, based on the combination of semantic comprehension and machine learning, we ensure that our partners and customers acquire the strategic knowledge to accelerate decision-making processes and maximise ROI: from customer care to compliance, from management of risk profiles to security and intelligence. The Group has offices in Italy, the United States, France, the United Kingdom, Spain, Germany, and Canada; its key customers include businesses and government entities, such as: Zurich Group, Lloyd's of London, Intesa Sanpaolo, Chevron, Eni Group, U.S. Department of Agriculture and Department of Justice, French Interior Ministry and Economic and Finance Ministry, Wolters Kluwer, Ely Lilly, Sanofi, Dow Jones, and others. The company has been listed on the AIM market of Borsa Italiana since 2014 (EXSY:MIL).

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Attachments:



- Consolidated Income Statement as at 30 June 2018
- Consolidated Balance Sheet as at 30 June 2018
- Consolidated Net Financial Position as at 30 June 2018
- Expert System S.p.A. Income Statement as at 30 June 2018
- Expert System S.p.A. Balance Sheet as at 30 June 2018
- Expert System S.p.A. Net Financial Position as at 30 June 2018



Consolidated Income Statement	30/06/2018	30/06/2017	Change
Sales revenues	12,864,257	8,442,300	4,421,958
Change in inventories	4,272	51,258	(46,986)
Own work capitalised	2,340,337	2,524,452	(184,115)
Sundry income	694,130	728,366	(34,236)
<b>Value of operating production</b>	<b>15,902,996</b>	<b>11,746,375</b>	<b>4,156,621</b>
Cost of operating materials and overheads	(6,203,078)	(5,975,105)	(227,973)
<b>Value added</b>	<b>9,699,918</b>	<b>5,771,270</b>	<b>3,928,648</b>
Personnel costs	(9,628,941)	(9,754,059)	125,118
<b>EBITDA</b>	<b>70,977</b>	<b>(3,982,789)</b>	<b>4,053,766</b>
Amortisation, depreciation and provisions	(3,638,518)	(3,312,849)	(325,669)
<b>EBIT</b>	<b>(3,567,541)</b>	<b>(7,295,638)</b>	<b>3,728,097</b>
Financial area result	116,777	(1,369,093)	1,485,870
<b>Ordinary profit</b>	<b>(3,450,763)</b>	<b>(8,664,730)</b>	<b>5,213,967</b>
Extraordinary area result	-	-	-
<b>Pre-tax result</b>	<b>(3,450,763)</b>	<b>(8,664,730)</b>	<b>5,213,967</b>
Income taxes	(295,112)	1,031,291	(1,326,403)
<b>Net profit (loss)</b>	<b>(3,745,876)</b>	<b>(7,633,439)</b>	<b>3,887,564</b>





Consolidated Balance Sheet	30/06/2018	31/12/2017	Change
Net intangible fixed assets	15,785,909	16,944,056	(1,158,147)
Net tangible fixed assets	764,127	791,868	(27,741)
Equity investments and other non-current financial assets	4,220,702	3,826,254	394,448
<b>Fixed assets</b>	<b>20,770,737</b>	<b>21,562,177</b>	<b>(791,440)</b>
Short-term financial assets	4,583,074	4,583,074	-
Inventories	103,479	99,207	4,272
Receivables due from customers	11,052,526	12,384,149	(1,331,623)
Other receivables	6,353,678	6,018,231	335,448
Accrued income and prepaid expenses	692,226	582,304	109,922
<b>Short-term operating assets</b>	<b>22,784,983</b>	<b>23,666,965</b>	<b>(881,981)</b>
Trade payables	(2,115,454)	(2,224,541)	109,087
Payments on account	(548,559)	(869,024)	320,465
Tax and social security payables	(1,400,645)	(1,829,052)	428,406
Other payables	(2,198,593)	(2,583,753)	385,160
Accrued expenses and deferred income	(3,530,061)	(3,023,288)	(506,773)
<b>Short-term operating liabilities</b>	<b>(9,793,313)</b>	<b>(10,529,658)</b>	<b>736,346</b>
<b>Net working capital</b>	<b>12,991,671</b>	<b>13,137,307</b>	<b>(145,636)</b>
Employee severance indemnity	(2,035,178)	(1,876,192)	(158,985)
Tax and social security payables			-
Accrued expenses and deferred income after 12 months	(4,761,532)	(3,574,759)	(1,186,773)
Other medium and long-term liabilities	(1,760,020)	(1,183,398)	(576,621)
<b>Medium-term liabilities</b>	<b>(8,556,729)</b>	<b>(6,634,350)</b>	<b>(1,922,380)</b>
<b>INVESTED CAPITAL</b>	<b>25,205,678</b>	<b>28,065,134</b>	<b>(2,859,455)</b>
Shareholders' equity	(15,244,239)	(19,275,808)	4,031,569
Net medium/long-term financial position	(14,649,994)	(14,682,546)	32,552
Net short-term financial position	4,688,554	5,893,220	(1,204,666)
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(25,205,679)</b>	<b>(28,065,134)</b>	<b>2,859,455</b>



Consolidated net financial position	30/06/2018	31/12/2017	Change
Bank deposits	9,409,685	11,221,661	(1,811,976)
Cash at bank and in hand	2,938	3,029	(90)
Cheques	-	10,000	(10,000)
Treasury shares			
<b>Cash and cash equivalents and treasury shares</b>	<b>9,412,623</b>	<b>11,234,690</b>	<b>(1,822,067)</b>
<b>Current financial assets</b>	<b>34,349</b>	<b>34,402</b>	<b>(54)</b>
Bonds and convertible bonds (within 12 months)			
Payables due to shareholders for loans (within 12 months)			
Payables due to banks (within 12 months)	(4,336,798)	(3,910,091)	(426,706)
Payables due to other lenders (within 12 months)	(421,620)	(1,465,781)	1,044,161
Advances for overseas payments			
Short-term portion of loans			
Financial receivables			
<b>Short-term financial payables</b>	<b>(4,758,418)</b>	<b>(5,375,872)</b>	<b>617,455</b>
<b>Net short-term financial position</b>	<b>4,688,554</b>	<b>5,893,220</b>	<b>(1,204,666)</b>
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	-
Payables due to shareholders for loans (after 12 months)			
Payables due to banks (after 12 months)	(7,613,196)	(7,846,031)	232,835
Payables due to other lenders (after 12 months)	(2,036,799)	(1,836,515)	(200,283)
Advances for overseas payments			
Long-term portion of loans			
Financial receivables			
<b>Net medium/long-term financial position</b>	<b>(14,649,994)</b>	<b>(14,682,546)</b>	<b>32,552</b>
<b>NET FINANCIAL POSITION</b>	<b>(9,961,440)</b>	<b>(8,789,326)</b>	<b>(1,172,114)</b>



Expert System S.p.A. Income Statement	30/06/2018	30/06/2017	Change
Sales revenues	8,956,045	4,924,421	4,031,625
Change in inventories	(18,113)	27,232	(45,344)
Own work capitalised	1,455,121	1,323,951	131,170
Sundry income	463,017	528,901	(65,883)
<b>Value of operating production</b>	<b>10,856,071</b>	<b>6,804,504</b>	<b>4,051,567</b>
Cost of operating materials and overheads	(4,185,704)	(3,759,741)	(425,963)
<b>Value added</b>	<b>6,670,368</b>	<b>3,044,763</b>	<b>3,625,604</b>
Personnel costs	(3,990,823)	(4,052,759)	61,937
<b>EBITDA</b>	<b>2,679,545</b>	<b>(1,007,996)</b>	<b>3,687,541</b>
Amortisation, depreciation and provisions	(1,574,069)	(1,392,856)	(181,213)
<b>EBIT</b>	<b>1,105,476</b>	<b>(2,400,852)</b>	<b>3,506,327</b>
Financial area result	170,829	(791,443)	962,272
<b>Ordinary profit</b>	<b>1,276,304</b>	<b>(3,192,295)</b>	<b>4,468,599</b>
Extraordinary area result	-	-	-
<b>Pre-tax result</b>	<b>1,276,304</b>	<b>(3,192,295)</b>	<b>4,468,599</b>
Income taxes	(398,982)	745,940	(1,144,922)
<b>Net profit (loss)</b>	<b>877,322</b>	<b>(2,446,355)</b>	<b>3,323,677</b>



Expert System S.p.A. Balance Sheet	30/06/2018	31/12/2017	Change
Net intangible fixed assets	6,841,384	6,881,909	(40,525)
Net tangible fixed assets	615,259	629,668	(14,410)
Equity investments and other non-current financial assets	31,938,504	29,700,251	2,238,254
<b>Fixed assets</b>	<b>39,395,147</b>	<b>37,211,828</b>	<b>2,183,318</b>
Short-term financial assets	4,583,074	4,583,074	-
Inventories	21,096	39,209	(18,113)
Receivables due from customers	8,169,583	7,415,708	753,875
Other receivables	8,001,652	7,027,164	974,487
Accrued income and prepaid expenses	431,989	484,463	(52,473)
<b>Short-term operating assets</b>	<b>21,207,395</b>	<b>19,549,618</b>	<b>1,657,777</b>
Trade payables	(1,433,488)	(1,585,486)	151,997
Payments on account	(459,026)	(759,920)	300,894
Tax and social security payables	(791,238)	(965,347)	174,108
Other payables	(1,995,075)	(2,885,886)	890,811
Accrued expenses and deferred income	(1,752,055)	(1,230,651)	(521,404)
<b>Short-term operating liabilities</b>	<b>(6,430,881)</b>	<b>(7,427,289)</b>	<b>996,408</b>
<b>Net working capital</b>	<b>14,776,513</b>	<b>12,122,329</b>	<b>2,654,184</b>
Employee severance indemnity	(2,035,178)	(1,876,192)	(158,985)
Tax and social security payables	-	-	-
Accrued expenses and deferred income after 12 months	(1,915,281)	(1,118,738)	(796,542)
Other medium and long-term liabilities	(879,145)	(310,660)	(568,485)
<b>Medium-term liabilities</b>	<b>(4,829,603)</b>	<b>(3,305,591)</b>	<b>(1,524,012)</b>
<b>INVESTED CAPITAL</b>	<b>49,342,057</b>	<b>46,028,567</b>	<b>3,313,491</b>
Shareholders' equity	(38,051,404)	(37,187,044)	(864,360)
Net medium/long-term financial position	(13,259,700)	(13,492,536)	232,835
Net short-term financial position	1,969,047	4,651,013	(2,681,966)
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(49,342,057)</b>	<b>(46,028,567)</b>	<b>(3,313,491)</b>



Net Financial Position of Expert System S.p.A.	30/06/2018	31/12/2017	Change
Bank deposits	6,422,852	8,840,305	(2,417,453)
Cash at bank and in hand	2,404	2,796	(391)
Treasury shares			
<b>Cash and cash equivalents and treasury shares</b>	<b>6,425,257</b>	<b>8,843,101</b>	<b>(2,417,845)</b>
<b>Current financial assets</b>	<b>8,400</b>	<b>8,400</b>	<b>-</b>
Bonds and convertible bonds (within 12 months)			
Payables due to shareholders for loans (within 12 months)			
Payables due to banks (within 12 months)	(4,336,888)	(3,910,162)	(426,725)
Payables due to other lenders (within 12 months)	(127,721)	(290,325)	162,604
Advances for overseas payments			
Short-term portion of loans			
Financial receivables			
<b>Short-term financial payables</b>	<b>(4,464,609)</b>	<b>(4,200,488)</b>	<b>(264,121)</b>
<b>Net short-term financial position</b>	<b>1,969,047</b>	<b>4,651,013</b>	<b>(2,681,966)</b>
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	-
Payables due to shareholders for loans (after 12 months)			
Payables due to banks (after 12 months)	(7,613,196)	(7,846,031)	232,835
Payables due to other lenders (after 12 months)	(646,505)	(646,505)	-
Advances for overseas payments			
Long-term portion of loans			
Financial receivables			
<b>Net medium/long-term financial position</b>	<b>(13,259,700)</b>	<b>(13,492,536)</b>	<b>232,835</b>
<b>NET FINANCIAL POSITION</b>	<b>(11,290,653)</b>	<b>(8,841,522)</b>	<b>(2,449,131)</b>