

Interim report January to September 2019

Profitable integration with high growth

Third quarter

- Net sales increased during the third quarter by 88,1% to 82,4 MSEK (43,8)
- Adjusted EBITDA amounted to 8,5 MSEK (3,2), corresponding to a margin of 10,4% (7,3)
- EBITDA for the third quarter amounted to 4,3 MSEK (3,2), corresponding to a margin of 5,2% (7,3)
- Net result after tax was -13,0 MSEK (0,1) whereof amortizations of goodwill in accordance with the standard accounting principles (K3) applied by TagMaster amounted to -9,6 MSEK
- Result per share was -0,04 (0,00)
- Cash flow from operating activities before changes in working capital for the period was 5,4 MSEK (2,9)

January - September

- Net sales increased during the period by 18,4% to 179,4 MSEK (151,5)
- Adjusted EBITDA amounted to 13,7 MSEK (11,8), corresponding to a margin of 7,6% (7,8)
- EBITDA was 8,5 MSEK (11,8), corresponding to a margin of 4,8% (7,8)
- Net result after tax was -15,8 MSEK (3,8) whereof amortizations of goodwill in accordance with the standard accounting principles (K3) applied by TagMaster amounted to -15,9 MSEK
- Result per share was -0,06 (0,02)
- Cash flow from operating activities before changes in working capital for the period was 9,2 MSEK (10,5)
- The acquisition of Sensys Networks was completed on June 13. The purchase price was USD 16 million on a debt and cash free basis with adjustment of net working capital as of the closing date against normalized net working capital.
- Share capital increased by 5 534 530,50 SEK and the number of shares by 110 690 610 shares by a directed equity issue. An issue of equity with preferential rights for existing shareholders increased the share capital by 2 581 250 SEK by issuing 51 625 000 shares.

About TagMaster

TagMaster is an application driven technology company that designs and markets advanced sensor systems and solutions based on radio, radar, vision and magnetic technology for demanding environments. Business areas include Traffic Solutions and Rail Solutions sold under the brands TagMaster, CitySync, Balogh, CA Traffic, Magsys, Hikob and Sensys Networks with innovative mobility solutions in order to increase efficiency, security, convenience and to decrease environmental impact within Smart Cities. TagMaster has subsidiaries in UK, France and US and exports mainly to Europe, The Middle East, Asia and North America via a global network of partners and systems integrators. TagMaster was founded in 1994 and has its headquarters in Stockholm. TagMaster is a public company and its shares are traded on Nasdaq First North Growth Market in Stockholm, Sweden. TagMasters certified advisor is Erik Penser Bank phone +4684638300, E-mail: certifiedadviser@penser.se
www.tagmaster.com

Comments by the CEO

Sales during the third quarter came to 82,4 (43,8) MSEK, which is almost double compared to the third quarter 2018. The strong growth is firstly explained by the acquisition of Sensys Networks finalized during June, but also other business had a positive impact. Gross margin is still on a good level with 64,8% (64,2) with an adjusted EBITDA margin of 10,4% (7,3).

We have during the period streamlined the structure of the Group and our businesses in Great Britain, France and Sweden will from now on act under the name of TagMaster UK, TagMaster France and TagMaster Nordic. Sensys Networks will continue under the established name Sensys Networks.

Our British business – **TagMaster UK** – has developed well in gross margin as well as in result during the period and show increasing profits. The cost savings have been executed and we now continue the work to increase our sales and marketing resources to speed up growth.

Our French business – **TagMaster France** – has had a somewhat weaker quarter with lower sales and somewhat lower gross margin but with continued profits. The integration of all parts of our French business continues, but it will take some more time due to formalities when merging companies. We expect to be ready with the integration during Q1 2020. With a fully integrated business and further recruitments in sales we will enable a powerful attack on the French market.

Sensys Networks has had a quarter according to plan regarding sales as well as gross margin, while cost level has been somewhat higher due to reorganization and integration work. We have among other replaced a number of consultants with own employees. It has during the quarter generated double costs during part of the period, but will mean lower cost in the future. Integration work is going forward and Sensys Networks and the other TagMaster companies have already identified and started a number of initiatives to cooperate in sales and development.

Our Swedish business – **TagMaster Nordic** – has had a good quarter, both volume and gross margin. Continued efforts in sales and digital marketing in all our units are judged to give positive impact on sales going forward.

With the acquisition of Sensys Networks we have created a company being almost double the size in sales. Through the acquisition we have created a platform of our own in the US market and we have also achieved a wider and deeper technology competence. The acquisition is providing for us a higher organic growth potential and we become a more interesting partner in building the smart cities of the future.

TagMaster is today an important player in a market with good potential for growth and good profits. That we every day work on improving the traffic environment in cities and metropolitan areas around the world gives us a lot of energy to continue to work hard and very focused.

Jonas Svensson

CEO

Comments to the result and balance sheet

Acquisition of Sensys Networks

The acquisition of Sensys Networks was completed on June 13. The purchase price was USD 16 million on a debt and cash free basis with adjustment of net working capital as of the closing date against normalized net working capital. Sensys Networks is headquartered in Berkeley, California, and is led by industry veterans who bring years of experience in wireless communications, carrier grade infrastructure, enterprise software and transportation management for the public sector. Fair value of acquired assets and liabilities are shown below:

Goodwill	146 336
Tangible fixed assets	285
Non-current receivables	452
Inventories	19 642
Trade receivables	22 894
Other current receivables	29 074
Provisions	-2 426
Non-current liabilities	-7 530
Trade payables	-22 430
Current liabilities	-44 348
Total acquired assets	141 948

The preliminary purchase price allocation that was prepared in connection with the acquisition of Sensys may change when the final acquisition balance is determined.

Since the date of the acquisition Sensys Networks has contributed 40,1 MSEK in net revenue. According to the accounting principles (K3) applied by TagMaster, goodwill that arises in business acquisitions should be amortized over the useful life which is considered to be a maximum of five years. Only in rare cases are longer amortization periods permitted.

Since the investment in Sensys is long-term and strengthens the Group within a strategic field of technology, and because clear synergistic effects have been identified, an amortization period of 5 years for goodwill is deemed to be appropriate.

The acquisition was funded through a combination of new debt facilities at the amount of 5,7 MUS\$D, an equity issue with preferential rights to existing shareholders and a directed equity issue to new qualified shareholders with deviation from existing shareholders preferential rights totaling to 115,5 MSEK after deducted share issue cost of 14,3 MSEK.

Turnover and result

Net sales for the third quarter was 82,4 MSEK (43,8), an increase of 88,1% attributable to Sensys Networks' additional sales. EBITDA was 4,3 MSEK (3,2), which corresponds to a margin of 5,2% (7,3). EBITDA-margin adjusted for non-recurring items directly related to the acquisition of Sensys Networks amounted to 8,5 MSEK which corresponds to a margin of 10,4%.

The costs during the quarter were 50,0 MSEK (25,3). The increase is explained by the fact that Sensys Network's expenses from the time after the takeover have been added.

TagMaster applies the cost accounting principle for development expenditure, i.e. no development costs are capitalized.

Financial items for the quarter totaled to -4,0 MSEK (0,1). Financial expenses are revaluation of bank loan nominated in USD at the amount of -3,0 and interest expenses on liabilities to credit institutions amounting to -1,1 MSEK.

The tax expense of 2,2 MSEK for the quarter mainly consists of a revaluation of previously reported tax receivables based on development expenditures in accordance with French tax regulations. The revaluation is a consequence of changed tax rules in France.

Cash flow and financial position

As per September 30, 2019 available liquidity was 81,6 MSEK (27,2) of which the revolving credit is 41,4 MSEK (12,0). Solidity at the end of the period was 59,4% (60,8). Cash flow from operating activities before changes in working capital for the period was 5,4 MSEK (2,9). The negative cash flow from changes in working capital of 13,1 MSEK (4,4) is mainly generated by payments of supplier invoices related to the acquisition of Sensys Networks.

Accounts receivable were 56,5 MSEK (34,0) and supplier debts were 20,6 MSEK (9,3). The inventories were 53,7 MSEK (38,5), all as per September 30, 2019. As shown in the summary above the increase inventories and other current assets is explained by Sensys assets now being included in the group balances.

Amortization of financial liabilities of -0,5 MSEK (-0,5) and utilization of the bank overdraft facility of 3,7 MSEK are included in cash flow from financing activities, totaling to 3,5 MSEK (-1,0).

Employees, organization and personnel

The number of employees in the TagMaster Group was at the end of the period 115 (81) whereof 35 are employed by Sensys Networks.

Business during the quarter

Traffic Solutions

Traffic solutions have become a significantly bigger part of TagMaster's business in consequence of the acquisition of Sensys Networks, which is all in line with the Group strategy to focus growth in this specific segment. The segment is divided in different application areas to achieve more power and focus on product offerings for the different customer solutions requested. Below we describe the business during the quarter according to this structure.

Traffic Management/Infomobility

Following the acquisition of Sensys Networks, which further strengthens TagMaster Traffic Management business, this application area becomes the by far biggest with more than 50% of sales. Also, CA Traffic's and Magsys' product offerings are now part of the Traffic Management/Infomobility offering. Examples of products and solutions offered are systems for controlling traffic light, products for measuring and classification of traffic flows, systems to detect people on bikes and walking people, systems to measure air quality and emissions and more. During the quarter Sensys Traffic has gone from test deliveries to serial deliveries of their "Give Me Green" solution, which is a full-scale system for control of traffic lights and traffic flows with focus on people on bikes. The system is composed of hardware, management software (SNAPS) and a connection to the people on bike with a Smart Phone application. The company has also been successful in the Gulf States with several new projects. CA Traffic has continued their tests with CityRadar, a solution to measure and categorize different objects in traffic, like people on bike and walking persons. Delivery of radar equipment has also been made to Smart City projects where TagMaster's radar technology is used to dampen down street light to save energy.

Parking/Access

In this application area we find product offerings under brands TagMaster, CitySync, Balogh and Hikob. In size this business area takes about 25% of sales. The Group products are used for access to parking, guiding to free spaces and charging poles for electric cars and for short time parking in cities etc. For these solutions RFID, magnetic technology and camera technology (ANPR) are all used. During the quarter TagMaster has continued to focus the sales work in the main market, being Great Britain and the Nordic markets, and it is mostly about free float parking solutions. TagMaster is also preparing a launch in the US of newer ANPR solutions during 2020 and tests are made together presently with the local partner TagMaster North America. TagMaster's built in OCR motor has one of the fastest and most exact algorithms to read license plate in the market. The Group competence in algorithm development and neural networks (AI) is used frequently in the development of new ANPR solutions.

Tolling/Security

Tolling and security is still a smaller application area where the Group has worked on toll road projects in India and with police and security projects in England and the Middle East. Size wise the area takes up about 5% of sales but it is judged to increase in several countries midterm since more countries and cities will finance road infrastructure with toll roads. This and other factors will lead to that more cities want to monitor and charge cars used in cities. During the quarter TagMaster has continued the work to widen the product offering and to approach more customers in South East Asia.

Rail Solutions

TagMaster has during the quarter had ongoing serial deliveries to Rail customers and we have also seen new orders for 2020 and 2021 coming in. In size this business area takes about 20% of sales. Volumes have been somewhat over expectations and gross margin has been according to plan. A fair share of serial deliveries has been to China and other countries in South East Asia. Deliveries of the new product platform SIL4 has continued during the quarter, still, however, in smaller volumes. TagMaster has during the quarter continued the work to concentrate the RFID competence of the Group. For some products made in China today, production will be moved to France during 2020.

Future outlook

The future outlook is unchanged good, and through the acquisition of Sensys Networks even better. With a bigger volume and a wider assortment also reaching out towards solutions in important growth areas, the company has good growth opportunities. TagMaster's market shares are still small in a big and growing market, which means that future growth mainly depends on the company's own ability.

TagMaster will, however, also in the future see periods ahead of us when the sales and results development will stop momentarily as we invest in future growth, which means costs may come before revenue from these investments. We will also see variations between quarterly volumes since our Rail business is volatile and product deliveries may vary between quarters.

To meet the demand in the market and to aspire to the position of market leading supplier of advanced sensor solutions for traffic and rail solutions we will continue to develop and launch new innovative products, develop and expand existing partner networks and recruit further competent personnel.

TagMaster will actively continue the work to find more opportunities to acquire businesses in existing and adjacent technology areas with the purpose of increasing our product offering and our market presence. The objective is to be a more attractive supplier of real time information, which is a fundament in building the smart cities of the future.

Reporting dates

TagMaster will report on the following dates during 2020 fiscal year:

Year-end report 2020: January 24

This as well as previous financial reports could be found at the company homepage

www.tagmaster.com

For further information, please contact

Jonas Svensson, CEO, +46 8-6321950, jonas.svensson@tagmaster.com

This information is information that TagMaster AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 8.30 a.m. CET on October 24, 2019.

Consolidated income statement

KSEK	Q3		Q1 - Q3		Full year
	2019	2018	2019	2018	2018
Net revenue	82 417	43 814	179 423	151 508	195 561
Change in inventories of product in progress and finished goods	-87	-1 979	-592	-1 249	-780
Other operating income	905	438	2 308	1 210	1 215
Total operating income	83 236	42 273	181 140	151 469	195 996
Goods for resale	-28 895	-13 692	-62 266	-56 064	-72 093
Other external costs	-15 284	-10 601	-34 472	-31 922	-41 864
Personnel costs	-34 693	-14 690	-75 215	-51 367	-68 989
Other operating expenses	-92	-92	-647	-277	-318
Operating profit before depreciation and amortization (EBITDA)	4 271	3 198	8 540	11 839	12 732
Depreciation	-337	-153	-969	-553	-880
Amortization	-10 683	-2 722	-18 628	-7 755	-11 077
Operating profit after depreciation and amortization (EBIT)	-6 749	323	-11 057	3 531	775
Financial items	-4 012	-109	-3 189	-213	-356
Profit after financial items	-10 760	214	-14 246	3 318	419
Tax	-2 239	-74	-1 536	509	2 945
Net profit	-12 999	140	-15 781	3 827	3 364

Key ratios

	Q3		Q1 - Q3		Full year
	2019	2018	2019	2018	2018
Net sales growth, %	88,1	-2,6	18,4	10,2	0,1
EBITDA-margin, %	5,2	7,3	4,8	7,8	6,5
Adjusted EBITDA-margin, % ¹	10,4	7,3	7,6	7,8	6,5
Equity ratio, %	59,4	60,8			63,1
Earnings per share before dilution, SEK	-0,04	0,00	-0,06	0,02	0,02
Earnings per share after dilution, SEK	-0,04	0,00	-0,06	0,02	0,02
Number of shares, average, thousand	366 188	201 389	270 298	201 389	201 389
Number of shares, end of the period, thousand	366 188	201 389	270 298	201 389	201 389
Market price on closing day, SEK	0,73	1,47			1,15
Number of employees at end of period	113	81			79

¹Operating profit before depreciations and amortizations adjusted for non-recurring items directly related to the acquisition of Sensys Networks

Consolidated balance sheet

KSEK	30 Sept		
	2019	2018	2018-12-31
ASSETS			
Subscribed capital unpaid	-	-	2 806
Intangible assets	185 672	57 635	51 400
Tangible assets	3 264	2 427	3 008
Financial assets	11 085	6 511	7 259
Inventories	53 734	38 456	37 037
Trade receivables	56 532	34 010	32 079
Other receivables	11 399	15 633	13 172
Cash and cash equivalents	43 914	16 388	20 297
TOTAL ASSETS	365 599	171 060	167 058
EQUITY AND LIABILITIES			
Equity	217 348	103 990	105 331
Provisions	8 800	9 369	6 707
Long term liabilities to credit institutions	43 507	5 250	3 500
Other long-term liabilities	16 151	9 574	9 525
Short term liabilities to credit institutions	15 930	2 000	2 000
Trade payables	20 556	9 333	12 826
Other current liabilities	43 306	31 544	27 169
TOTAL EQUITY AND LIABILITIES	365 599	171 060	167 058

Changes in consolidated equity

KSEK	30 Sept		
	2019	2018	2018-12-31
Opening balance	105 331	96 731	96 731
New share issue	118 592	0	2 806
Translation difference	9 206	3 432	2 430
Net result	-15 781	3 827	3 364
TOTAL EQUITY	217 348	103 990	105 331

Consolidates cash flow analysis

KSEK	Q3		Q1 - Q3		Full year
	2019	2018	2019	2018	2018
Cash flow from operating activities before change in working capital	5 359	2 903	9 166	10 497	14 204
Change in working capital	-13 132	-4 447	-13 766	-3 567	-1 200
Cash flow from operating activities	-7 773	-1 544	-4 600	6 930	13 004
Cash flow from investing activities	-471	-12 079	-142 766	-12 148	-13 691
Cash flow from financing activities	3 497	-1 016	169 927	-2 016	-2 516
Cash flow	-4 747	-14 639	22 561	-7 234	-3 203
Cash and cash equivalents at beginning of period	47 465	31 342	20 297	23 276	23 276
Effect of exchange differences	1 196	-315	1 056	346	224
Cash and cash equivalents at end of period	43 914	16 388	43 914	16 388	20 297

Parent company income statement

KSEK	Q1 - Q3		Full year
	2019	2018	2018
Net revenue	56 640	57 463	73 891
Other operating income	123	956	826
Total operating income	56 763	58 419	74 717
Goods for resale	-17 834	-20 203	-25 075
Other external costs	-12 515	-12 216	-16 756
Personnel costs	-19 028	-17 713	-24 150
Other operating expenses	0	-131	-14
Operating profit (EBITDA)	7 386	8 156	8 722
Financial items	-1 558	-189	-419
Profit after financial items	5 828	7 967	8 303
Tax	0	-1 929	-1 232
Net profit	5 828	6 038	7 071

Parent company balance sheet

KSEK	30 Sept		
	2019	2018	2018-12-31
ASSETS			
Subscribed capital unpaid	-	-	2 806
Shares in subsidiaries	252 539	88 930	86 115
Long-term receivables from group companies	27 568	24 366	22 788
Deferred tax asset	4 468	705	1 402
Inventories	8 672	12 095	10 200
Trade receivables	7 656	9 224	8 365
Current receivables from group companies	9 866	866	908
Other receivables	3 843	2 807	3 300
Cash and cash equivalents	4 297	1 164	3 621
TOTAL ASSETS	318 909	140 157	139 505
EQUITY AND LIABILITIES			
Equity	242 438	114 178	118 017
Provisions	3 863	4 784	3 736
Liabilities to credit institutions	59 437	7 219	5 500
Trade payables	4 692	2 543	4 174
Other current liabilities	8 479	11 433	8 078
TOTAL EQUITY AND LIABILITIES	318 909	140 157	139 505

Accounting principles

Applied accounting and valuation principles are according to “Årsredovisningslagen” and according to expressed and general advice from the Accounting Committee. For interim reports BFNAR 2012:1 (K3) is applied. This is described more extensively in the Annual report 2018.

Operational and financial risks

The operational and financial risks of TagMaster as well as uncertainties are described in the annual report 2018 under the section Risks and risk management.

This report has not been reviewed by the company auditor.

The information is published on October 24 2019 at 08.30 CET.

Declaration

The Board of Directors and the CEO provide their assurance that the interim report gives a true and fair view of the Parent Company’s and the Group’s operations, positions and results and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Kista October 24, 2019

Rolf Norberg
Chairman

Gert Sviberg

Magnus Jonsson

Örjan Johansson

Jonas Svensson
CEO