



## PRESS RELEASE

Stockholm, Sweden, October 24, 2017

Enea® (Nasdaq Stockholm: ENEA)

# Interim Report July – September 2017

## Record profit, innovation and organizational efficiency

### Third quarter 2017

- Revenue in the third quarter was SEK 147.1 (120.7) million, equivalent to a 22 percent increase.
- Operating profit excluding non-recurring costs for the third quarter increased to SEK 38.1 (29.9) million, corresponding to an operating margin excluding non-recurring costs of 25.9 (24.8) percent.
- Operating profit for the third quarter increased to SEK 34.1 (29.6) million, equivalent to an operating margin of 23.2 (24.5) percent.
- Earnings per share increased to SEK 1.63 (1.42) for the third quarter.
- Cash flow from operating activities was SEK 30.3 (20.7) million for the quarter.
- Cash and cash equivalents and financial investments amounted to SEK 265.5 (215.8) million at the end of the quarter.

### First nine months of the year

- Revenue increased to SEK 436.5 (365.6) million for the first nine months of the year.
- Operating profit excluding non-recurring costs for the first nine months increased to SEK 94.8 (87.1) million, corresponding to an operating margin excluding non-recurring costs of SEK 21.7 (23.8) percent.
- Operating profit for the first nine months of the year decreased to 80.1 (85.3) million, equivalent to an operating margin of 18.4 (23.3) percent.
- Earnings per share decreased to SEK 3.78 (4.28) for the first nine months of the year.
- Cash flow from operating activities amounted to SEK 98.7 (100.7) million for the first nine months of the year.



## July to September 2017

*(Third quarter previous year in brackets)*

- Revenue, SEK 147.1 (120.7) million
- Revenue growth, 22 (3) %
- Revenue growth, currency adjusted, 23 (1) %
- Operating profit excluding non-recurring costs, SEK 38.1 (29.9) million
- Operating profit, SEK 34.1 (29.6) million
- Operating margin excluding non-recurring costs, 25.9 (24.8) %
- Operating margin, 23.2 (24.5) %
- Net profit after tax, SEK 28.6 (22.6) million
- Earnings per share, SEK 1.63 (1.42)
- Cash flow (from operating activities), SEK 30.3 (20.7) million
- Cash and cash equivalents and financial investments, SEK 265.5 (215.8) million

### **Anders Lidbeck, President and CEO comments:**

#### **Record profit**

Our operating profit for the third quarter was SEK 38.1 million before non-recurring costs. This is a new record, and a 27 percent increase on the corresponding period of the previous year. Operating profit including non-recurring costs was SEK 34.1 million, also a record for the third quarter, and up by 15 percent year over year. Earnings per share increased by 15 percent year over year, and cash flow from operating activities rose by 46 percent. Obviously, these are very satisfactory numbers, and what we are witnessing are foremost the effects of the successful integration of the Qosmos acquisition from December last year, a favorable revenue mix and a well-executed cost-saving program in the second quarter. All actions in this program were executed during the second quarter, and all costs for the program were charged to that quarter. The remaining non-recurring costs in the third quarter are legal expenses for the significant dispute we have with a major customer over contract interpretation. In the quarter, these legal expenses amounted to SEK 4 million. As previously reported, these expenses will remain while the dispute continues.

#### **Challenges and objectives unchanged**

We have achieved five consecutive years of earnings gains and margin expansion, but our challenge now and for some time ahead, is to transition our business. The market is migrating towards open source and the revenues from our Key Accounts are decreasing. The third quarter revenues from our largest customer was down by more than 10 percent year over year. Simultaneously, we are witnessing rapid technological progress, which is also putting pressure on our customers' businesses and accelerating rationalization and consolidation. During this shift, we are focusing primarily on developing our market positioning in emerging segments. I have said many times that during this transition, retaining the margins we have become accustomed to will be challenging. Still, we have kept our ambition to re-attain a 20 percent operating margin already by year-end 2017. That is why it is so satisfying that we in the third quarter, as we did in the second quarter, achieved an operating margin of above 20 percent. In the third quarter, we reported a 25.9 percent operating margin before non-recurring expenses, which is even better than the corresponding period of the previous year. One should not expect these margins to be



sustained during the coming quarters, but we can already now witness the earnings capacity of the new Enea. Accordingly, we will be working assiduously to achieve and secure margin expansion according to the objectives we have communicated.

### **Positive signs**

Our revenue also progressed well in the third quarter, growing by 22 percent on the corresponding quarter of the previous year.

The negative trend in US service sales levelled off somewhat in the late-summer, and combined with stable service sales in Europe, our total Global Services business was only just down year over year. It also looks as if this trend may improve again somewhat towards the end of the year. Accordingly, with low comparative numbers from the corresponding period of the previous year, we can expect service sales to return to growth later in the year. Business volume on Key Accounts is continuing to decline, to represent 40 percent of our total revenue in the third quarter, against 47 percent in the third quarter 2016, and 57 percent in the third quarter 2014.

Our global software business outside Key Accounts made stable progress in the quarter, and is in high growth as a share of our overall business. The segment we term Worldwide Software Sales represented 36 percent of total revenues in the third quarter, compared with 20 percent in the previous year. In combination with revenues from our Service business representing 24 percent of total revenue, this is creating the potential for a more stable revenue mix, and high gross margin.

### **Innovation and efficiency**

I have previously stated the need to develop our product portfolio and partnerships to address new challenges and market conditions. In September, we announced a partnership with semiconductor manufacturer Cavium on our NFV “Access” platform. This type of collaboration is an important channel for us to reach the market, and very recently, we demoed our network virtualization platforms at the SDN/NFV World Congress in The Hague. In the same month, observers of Enea could read that our DPI solution is now capable of identifying over 3,000 different protocols including most encrypted over-the-top services. In a position where over half of all mobile network traffic is already encrypted, the ability to classify encrypted traffic will be critical. Once again, we have demonstrated that we are well positioned for future network intelligence solutions. But continuing to develop our software business successfully, isn’t just about adding new product segments, but also about developing our traditional business. Our announcement of a new deal on 5G base stations with a leading Asian telecom equipment vendor using our OSE operator system at the end of the third quarter is as important as it is exciting. Our offering in embedded operating systems, combined with our network intelligence business (added through the acquisition of Qosmos), is funding our investments in the network visualization segment. In this context, having a strong and effective organizational culture is crucial. We moved into the third quarter with an improved sales and marketing organization. Our organization has coped very well with the changes we executed in the second quarter to accelerate our sales and reduce our costs. The setup time the organization needed to absorb these changes and regain efficiency was brief. This is indicative of the inherent strength of our organization and in our customer relationships, which obviously, is very satisfying.



### **Future prospects**

We continue our efforts to build a larger and stronger company with increasing value for our customers, employees and shareholders. The transformation process we are going through is fundamentally positive for Enea, reducing our dependency on a single product and a few major customers. Acquisitions that strengthen our market position and long-term earnings capacity are a key part of this process, and despite our expectation of reduced income from our largest customers, our objective remains to keep growing the company with good profitability and sound cash flows. Our objective for the full year 2017 remains unchanged – to achieve double-digit revenue growth and improved operating profit compared to 2016, before non-recurring costs.

### **Press and analyst meeting**

Press and financial analysts are invited to a press and analyst meeting where Anders Lidbeck, President and CEO, will present and comment on the report.

Time: Tuesday October 24 at 08:30 am CEST.

Link: <https://www.financialhearings.com/event/9845>

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The full report is published at [www.enea.com/investors](http://www.enea.com/investors)

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**For more information visit [www.enea.com/investors](http://www.enea.com/investors) or contact:**

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### **About Enea**

Enea is a global supplier of network software platforms and world class services, with a vision of helping customers develop amazing functions in a connected society. We are committed to working together with customers and leading hardware vendors as a key contributor in the open source community, developing and hardening optimal software solutions. Every day, more than three billion people around the globe rely on our technologies in a wide range of applications in multiple verticals – from Telecom and Automotive, to Medical and Avionics. We have offices in Europe, North America and Asia, and are listed on Nasdaq Stockholm. Discover more at [www.enea.com](http://www.enea.com) and start a conversation at [info@enea.com](mailto:info@enea.com).

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