

Net Insight Interim Report January–March 2018

Net Insight AB (publ) reg.no. 556533-4397



“Launch of new generation Nimbra in the first quarter.”

Fredrik Tumegård, CEO, Net Insight

First quarter 2018

- Net sales amounted to SEK 110.5 MSEK (110.4)* million, in line with the corresponding quarter in the previous year. The increase in comparable currencies was 2.7 percent.
- Operating earnings amounted to SEK 2.4 (6.8)* million, corresponding to an operating margin of 2.2 (6.1) percent.
- Net income was SEK 3.0 (11.2)* million. Net financial items were positively affected by SEK 1.1 (6.0) million for the revaluation of synthetic options.
- Earnings per share, basic and diluted, was SEK 0.01 (0.03).
- Total cash flow was SEK -13.5 (15.3) million.

FINANCIAL SUMMARY

SEK millions	Jan–Mar 2018	Jan–Mar 2017	Change	Apr 2017– Mar 2018	Jan–Dec 2017	Change
Net sales by region						
Western Europe	48.2	48.0	0.3%	194.2	194.1	0.1%
Americas	36.9	33.8	9.2%	137.3	134.2	2.3%
Rest of World	25.4	28.6	-11.1%	95.5	98.7	-3.2%
Net sales	110.5	110.4	0.0%	427.1	427.0	0.0%
Operating earnings	2.4	6.8	-63.9%	-11.9	-7.5	57.3%
Operating margin	2.2%	6.1%		-2.8%	-1.8%	
Net income	3.0	11.2	-73.5%	-4.7	3.5	
EBITDA	-1.0	-3.9	-73.5%	-20.8	-23.7	-12.2%
EBITDA margin	-0.9%	-3.5%		-4.9%	-5.5%	
Total cash flow	-13.5	15.3		-65.5	-36.8	78.1%

*) Recalculated comparable periods, see page 12-13.

CEO's statement

Launch of new generation Nimbra in the first quarter

2018 started with several highlights, even if market conditions remained cautious. The global media industry is undergoing a major realignment, both in terms of equipment and media networks. Customers need to continue to increase capacity to be able to produce relevant content and meet changing viewing patterns. One example of this rapid progress is the roll-out of 4K video, which increases the demands on quality and flexibility. Other examples include OTT, 360° video and virtual reality, as well as new services to viewers using multiple screens simultaneously.



Revenues were SEK 110.5 million.

In order to satisfy our customers' need for increased capacity, we launched Nimbra 1060, the next generation platform for media transport, in the first quarter. The development has taken place in close collaboration with customers in order to ensure the platform meets their future needs. This is one of our biggest launches ever, and has been very well received to date. Nimbra 1060 will help our customers to increase capacity in their media networks for a long time ahead. Increased capacity is a pre-requisite for creating more content, introducing new business models and increasing flexibility for the media production of the future. Nimbra 1060 was recently awarded "Best of Show by TV Technology" at the NAB trade fair in Las Vegas.

Revenues in the first quarter were SEK 110.5 (110.4) million, in line with the first quarter of 2017. Operating margin in the first quarter was 2 (6) percent, generating operating earnings of SEK 2.4 (6.8) million. Cash flow was SEK -13.5 (15.3) million, influenced by factors including investments in product development and the launch of Sye (Net Insight's live OTT solution).

The commercialization of Sye is continuing, and in the first quarter we announced that our live OTT streaming solution Sye will be available on Microsoft Azure. This means that Sye will be available as a service on Microsoft Azure from the second quarter 2018. In addition, Net Insight will be included in Microsoft's partner network, an important step towards increasing reach and accessibility on the global market.

In connection with the winter Olympics in South Korea, we contributed ScheduALL solutions for resource and transmission planning for TV production for NBC Olympics, a division of NBC Sports Group. The deal included software and staff on site. The project was very successful and the technology worked flawlessly.

Our assessment is that demand has stabilized, but that the transformation will continue to affect the market further.



As previously communicated, I will be leaving Net Insight this summer. It has been a real pleasure to work at Net Insight together with all our customers and competent staff. Even though I am leaving Net Insight, I think it has never been more exciting to be a part of the global media industry. A great deal remains to be done at Net Insight and I can guarantee that the level of activity is high throughout the company.

Stockholm, Sweden, April 24, 2018

Fredrik Tumegård, CEO

MARKET PROGRESS

The global media industry continued to experience a high level of structural activity, with operators re-positioning themselves in the new market landscape. Disney's USD 52 billion bid for 21st Century FOX and ComCast's USD 31 billion bid for SKY were the two main recent examples. Within the media tech industry, Grass Valley (Belden Group) placed a USD 92 million bid for their competitor SAM (Snell Advanced Media).

According to data from sector organization IABM, the global media technology market had a relatively slow start to 2018. Customers' changing business models and purchasing behavior of buyers are having a significant impact on market prospects. Based on early 2018 data (IABM), revenues for media tech companies continue to grow but by a small margin, and profitability remains under pressure.

Media companies' CAPEX are generally flat to declining. Investments are moving towards OPEX as the companies try to make their businesses more flexible. Whilst 2017 was a year without major sporting events, 2018 is a large event year which bodes well for suppliers who provide media technology for live production.

Market growth for OTT is strong and shows no signs of abating. At the same time, the trend continues for content owners to launch proprietary OTT services. The sports service ESPN+ (Disney) was launched on April 12, with ESPN's program offering and live sports. Turner also announced plans to launch a proprietary OTT service (B/R Live) broadcasting live sports content, and Viacom is expected to launch its service in the US towards the end of 2018.

Net Insight's position and significant events

Net Insight has a strong market position through its competitive customer offering, both in the core and the OTT business. During the quarter, Net Insight released several important product launches. The biggest release was Nimbra 1060, the next generation terabit platform for media transport over IP networks, which enables Net Insight's customers to produce more high-quality events cost effectively. This is one of Net Insight's largest product developments and secures our future position as the leading network transport supplies. In April 2018, Nimbra 1060 was awarded "Best of Show by TV Technology" at the NAB trade fair in Las Vegas.

We also launched the CPN-in-a-box solution, which brings together the core elements of Net Insight's portfolio (Nimbra and ScheduALL), pre-packaged with product and support services. The solution will reduce the time to market for customers who wish to launch media services.

The importance of remote production means that demand for efficient workflows and media transport continues to increase. Net Insight had success with global production service provider Gearhouse Broadcast's deployment of the company's remote production solution for the Australian Open tennis event at the beginning of the year.

In live OTT, one of the big milestones for Net Insight during the quarter was that Sye live OTT will be available on Microsoft Azure, as well as joining the Microsoft Partner Network which provides additional benefits to extend the reach of its solution to Microsoft customers.

In early April, we announced our second reference customer for our Sye-as-a-Service (SaaS) offering in Trippel Media, with the live and interactive trivia app Primetime broadcasting in real time. After the end of the first quarter, Net Insight also communicated a collaboration with CDNetworks, a global leader in CDN (Content Delivery Networks).

REVENUES

Net sales in the first quarter of 2018 were SEK 110.5 (110.4) million, in line with the corresponding quarter in the previous year. In comparable currencies, net sales increased by 2.7 percent, due to an appreciating SEK against the USD.

Market conditions were stable compared to the preceding quarter and in year-on-year terms.

In Western Europe net sales were SEK 48.2 (48.0) million, in line with the corresponding period in the previous year. The quarter was characterized by stable revenue streams, mainly from existing customers.

Net sales in Americas were SEK 36.9 (33.8) million, up 9.2 percent. The increase was due to the stronger US sales force, in terms of staff numbers and competences, which took place in 2017. Net Insight also won couple of major orders from existing key customers.

Net sales in Rest of World were SEK 25.4 (28.6) million, down -11.1 percent. The market was generally characterized by slightly decreased activity amongst existing customers, although sales to India were positive.

Net sales from hardware were SEK 37.0 (44.0) million and net sales from software licenses totaled SEK 30.3 (28.3) million. The decrease in hardware sales is mainly due to the North American market. Sales of support and services amounted to SEK 43.2 (38.1) million.

EARNINGS

Gross profit was SEK 65.9 (65.8) million, in line with the corresponding quarter of the previous year due to largely unchanged sales and retained gross margin of 59.6 (59.6) percent. Gross profit included amortization of capitalized development expenditure of SEK -15.2 (-13.9) million. Gross margin excluding amortization of capitalized development expenditure was strong at 73.4 (72.2) percent, due to a favorable product mix.

Operating expenses in the first quarter were SEK 64.4 (59.4) million, up SEK 5.0 million year on year. This was due to increased sales resources, particularly in Americas, and increased resources allocated to the commercialization of Sye. At the same time, expenditures for development of core products decreased gradually ahead of and in connection with the launch of Nimbra 1060. Total development expenditures were SEK 33.4 (39.5) million.

Operating earnings were SEK 2.4 (6.8) million, equating to an operating margin of 2.2 percent (6.1). The lower operating earnings year-on-year was attributable to decided increased sales and marketing expenses, both for core operations and live OTT. EBITDA was SEK -1.0 (-3.9) million, corresponding to an EBITDA margin of -0.9 (-3.5) percent.

Activities in development, sales and marketing of the company's live OTT solution Sye affected operating earnings and EBITDA by SEK -10.1 (-5.3) million and SEK -15.5 (-12.7) million respectively.

In the first quarter, net financial items were positively affected by SEK 1.1 (6.0) million for the revaluation of synthetic options programs due to a lower share price at the end of the quarter. Net financial items amounted to SEK 1.5 (5.3) million.

Profit before tax was SEK 4.0 (12.1) million, and net income for the period was SEK 3.0 (11.2) million, corresponding to a net margin of 2.7 (10.1) percent.

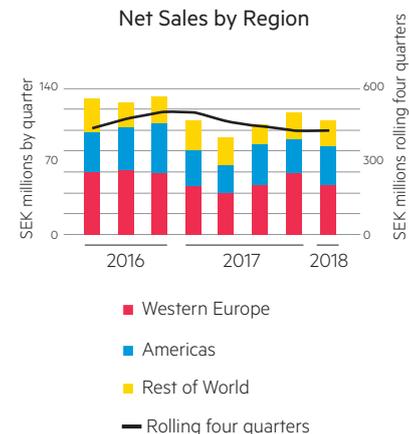
INVESTMENTS

First quarter investments were SEK 21.7 (27.3) million, of which SEK 20.0 (26.1) million related to capitalization of development expenditure. Depreciation and amortization in the period was SEK 16.6 (15.4), of which SEK 15.2 (13.9) related to amortization of capitalized development expenditure.

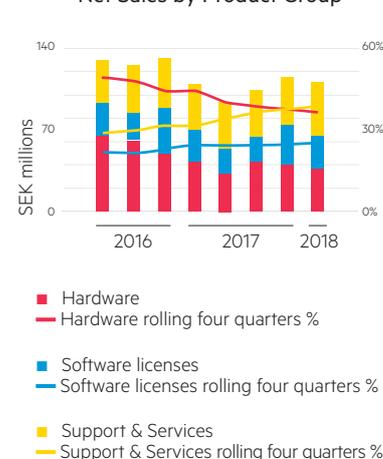
The net value of capitalized development expenditure at the end of the period was SEK 256.4 against SEK 251.6 million as of 31 December 2017.

Key Ratios	Jan-Mar 2018	Jan-Mar 2017	Apr 2017-Mar 2018	Jan-Dec 2017
Net sales, SEK millions	110.5	110.4	427.1	427.0
Gross margin	59.6%	59.6%	58.0%	58.0%
Operating margin	2.2%	6.1%	-2.8%	-1.8%
EBITDA margin	-0.9%	-3.5%	-4.9	-5.5%

Net Sales by Region



Net Sales by Product Group



Earnings trend



CASH FLOW AND FINANCIAL POSITION

Cash flow in the first quarter was SEK -13.5 (15.3) million. Adjusted for repurchases of own shares, totaling SEK -0.7 (0.0) million, cash flow was SEK -12.7 (15.3). The negative cash flow was due to accumulated trade receivables caused by positive sales focused on the latter half of the quarter, and that cash flow from operating activities does not cover R&D investment activities.

Cash and cash equivalents were SEK 164.6 million at the end of the quarter, against SEK 177.7 million as of December 31, 2017.

Remaining tax loss carry-forwards for group companies were SEK 55.2 million at the end of the period, against SEK 55.8 million as of 31 December, 2017. For more information, see the section Tax on page 13.

Equity was SEK 549.6 million at the end of the period, against SEK 546.1 million as of 31 December, 2017. The equity/assets ratio was 78.8, against 78.3 percent as of 31 December 2017. For more information see the section Share capital and other contributed equity on page 13.

EMPLOYEES

At the end of the period, Net Insight had 248 (245) employees and consultants, of which 156 (157) were employed by parent company Net Insight AB (publ).

Two new members joined management in the quarter: Marcus Sandberg, Vice President Business Development, and Gustav Grundström, Vice President Live OTT.

On March 21, 2018, the company announced that CEO Fredrik Tumegård will be resigning and that the process of recruiting his successor has begun.

Pelle Bourn was appointed CFO after the end of the quarter, on 9 April.

PARENT COMPANY

The parent company's net sales in the first quarter were SEK 125.1 (124.6) million, and net income for the period was SEK 7.7 (18.2) million. In the first quarter, intra-group sales totaled SEK 31.6 (35.2) million, and intra-group purchasing SEK -35.5 (24.6) million.

Progress in the parent company in the first quarter largely shadowed Group progress as indicated above.

RISK AND SENSITIVITY ANALYSIS

Net Insight's operations and results of operations are affected by a number of external and internal factors. The company conducts a continuous process to identify all risks present, and to assess how each risk should be managed.

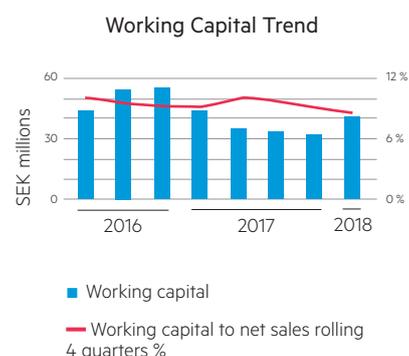
Primarily, those risks the company is exposed to are market-related risks (including competition, technological progress and political risks), operational risks (including product liability, intellectual property, disputes, customer dependency and contract risks) as well as financial risks.

No additional critical risks and uncertainty factors, other than those reviewed in the Annual Report for 2017, arose to date or are anticipated in 2018.

For a complete review of the company's risk and sensitivity analysis, and its risk management process, see pages 34-35, 37-41 and 55-56 of the Annual Report for 2017.

SEASONALITY

In the past three calendar years, average seasonality has been fairly modest. In the first, second and third quarters, net sales were 24 percent respectively, and in the fourth quarter 28 percent of yearly sales.



CONSOLIDATED INCOME STATEMENT, IN SUMMARY

SEK thousands	Jan-Mar 2018	Jan-Mar 2017*	Apr 2017-Mar 2018	Jan-Dec 2017*
Net sales	110,475	110,440	427,058	427,023
Cost of sales	-44,615	-44,632	-179,398	-179,415
Gross earnings	65,860	65,808	247,660	247,608
Sales and marketing expenses	-40,063	-34,342	-150,406	-144,685
Administration expenses	-10,927	-11,690	-48,934	-49,697
Development expenses	-13,392	-13,414	-62,363	-62,385
Other operating income & expenses	969	409	2,171	1,611
Operating earnings	2,447	6,771	-11,872	-7,548
Net financial items	1,525	5,312	9,066	12,853
Profit/loss before tax	3,972	12,083	-2,806	5,305
Tax	-1,012	-933	-1,857	-1,778
Net income	2,960	11,150	-4,663	3,527
Net income for the period attributable to the shareholders of the parent company	2,960	11,150	-4,663	3,527

Earnings per share, based on net income attributable to the parent company's shareholders during the period	Jan-Mar 2018	Jan-Mar 2017	Apr 2017-Mar 2018	Jan-Dec 2017
Earnings per share, basic (SEK)	0.01	0.03	-0.01	0.01
Earnings per share, diluted (SEK)	0.01	0.03	-0.01	0.01
Average number of outstanding shares in thousands, basic	383,538	385,658	384,527	385,057
Average number of outstanding shares in thousands, diluted	383,538	385,658	384,527	385,057

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK thousands	Jan-Mar 2018	Jan-Mar 2017	Apr 2017-Mar 2018	Jan-Dec 2017
Net income	2,960	11,150	-4,663	3,527
Other comprehensive income				
<i>Items that may be reclassified subsequently to the income statement</i>				
Translation differences	1,331	-1,394	-4,800	-7,525
Total other comprehensive income, net after tax	1,331	-1,394	-4,800	-7,525
Total other comprehensive income for the period	4,291	9,756	-9,463	-3,998
Total comprehensive income for the period attributable to the shareholders of the parent company	4,291	9,756	-9,463	-3,998

*) Restated comparative periods, see pages 12-13.

CONSOLIDATED BALANCE SHEET, IN SUMMARY

SEK thousands	Mar 31, 2018	Dec 31, 2017*
ASSETS		
Non-current assets		
Capitalized expenditure for development	256,434	251,622
Goodwill	59,289	58,452
Other intangible assets	18,168	19,458
Equipment	6,396	4,636
Deferred tax asset	13,394	14,285
Deposits	4,870	4,911
Total non-current assets	358,551	353,364
Current assets		
Inventories	40,835	43,598
Accounts receivable	112,042	106,186
Other receivables	21,367	16,551
Cash and cash equivalents	164,569	177,745
Total current assets	338,813	344,080
TOTAL ASSETS	697,364	697,444
EQUITY AND LIABILITIES		
Equity attributable to parent company's shareholders		
Share capital	15,597	15,597
Other paid-in capital	1,192,727	1,192,727
Translation reserve	198	-1,133
Accumulated deficit	-658,881	-661,102
Total shareholders' equity	549,641	546,089
Non-current liabilities		
Other liabilities	19,458	19,738
Total non-current liabilities	19,458	19,738
Current liabilities		
Accounts payable	14,075	21,841
Other liabilities	114,190	109,776
Total current liabilities	128,265	131,617
TOTAL EQUITY AND LIABILITIES	697,364	697,444

*) Restated comparative periods, see pages 12-13.

CHANGES IN CONSOLIDATED EQUITY, IN SUMMARY

SEK thousands	Attributable to parent company's shareholders				Total shareholders' equity
	Share capital	Other paid-in capital	Translation reserve	Accumulated deficit	
January 1, 2017	15,597	1,192,727	6,392	-653,385	561,331
Repurchase of own shares	-	-	-	-11,244	-11,244
Total comprehensive income	-	-	-7,525	3,527	-3,998
December 31, 2017	15,597	1,192,727	-1,133	-661,102	546,089
January 1, 2018	15,597	1,192,727	-1,133	-661,102	546,089
Repurchase of own shares	-	-	-	-739	-739
Total comprehensive income	-	-	1,331	2,960	4,291
March 31, 2018	15,597	1,192,727	198	-658,881	549,641

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK thousands	Jan-Mar 2018	Jan-Mar 2017	Apr 2017-Mar 2018	Jan-Dec 2017
Ongoing activities				
Profit/loss before tax	3,972	12,083	-2,806	5,305
Income tax paid	0	0	-247	-247
Depreciation, amortization & impairment	16,555	15,375	72,334	71,154
Other items not affecting liquidity	-452	-5,980	-6,820	-12,348
Cash flow from operating activities before changes in working capital	20,075	21,478	62,461	63,864
Changes in working capital				
Increase-/decrease+ in inventories	2,982	-1,430	4,518	106
Increase-/decrease+ in receivables	-11,282	20,362	-22,197	9,447
Increase+/decrease- in liabilities	-2,837	2,103	-7,091	-2,151
Cash flow from operating activities	8,938	42,513	37,691	71,266
Investment activities				
Investment in intangible assets	-19,703	-26,906	-82,866	-90,069
Investment in tangible assets	-2,021	-354	-4,573	-2,906
Increase-/decrease+ in financial assets, net	41	-1	-4,560	-4,602
Cash flow from investment activities	-21,683	-27,261	-91,999	-97,577
Financing activities				
Option premium	-	-	763	763
Repurchase of own shares	-739	-	-11,983	-11,244
Cash flow from financing activities	-739	0	-11,220	-10,481
Net change in cash and cash equivalents	-13,484	15,252	-65,528	-36,792
Exchange differences in cash and cash equivalents	308	-49	-49	-406
Cash and cash equivalents at the beginning of the period	177,745	214,943	230,146	214,943
Cash and cash equivalents at the end of the period	164,569	230,146	164,569	177,745

SEGMENT REPORT

SEK millions	Jan–Mar 2018				Jan–Mar 2017			
	WE	AM	RoW	Total	WE	AM	RoW	Total
Net sales	48.2	36.9	25.4	110.5	48.0	33.8	28.6	110.4
Regional contribution	15.3	7.4	3.1	25.8	16.8	8.7	6.0	31.5
<i>Regional contribution margin</i>	32%	20%	12%	23%	35%	26%	21%	28%
Administration expenses				-10.4				-11.7
Development expenses				-13.4				-13.4
Other operating income expenses				1.0				0.4
Net financial items				1.5				5.3
Profit before tax				4.0				12.1

Regional Contribution is defined as Gross earnings less Sales and marketing expenses.

The CEO reviews the business from Western Europe (WE), Americas (North and South America, AM) and Rest of World (RoW) geographic perspectives.

DISAGGREGATION OF REVENUE

SEK millions	Jan–Mar 2018				Jan–Mar 2017			
	WE	AM	RoW	Total	WE	AM	RoW	Total
Net sales by product group								
Hardware	15.8	12.3	9.0	37.0	20.9	10.0	13.1	44.0
Software licenses	13.4	8.8	8.0	30.3	9.9	9.0	9.0	28.3
Support and services	19.0	15.8	8.4	43.2	17.2	14.8	6.1	38.1
Total	48.2	36.9	25.4	110.5	48.0	33.8	28.6	110.4
Timing of revenue recognition								
Products and services transferred at a point in time	29.5	21.1	17.0	67.6	30.8	19.0	22.5	72.4
Services transferred over time	18.7	15.8	8.3	42.9	17.2	14.8	6.1	38.0
Total	48.2	36.9	25.4	110.5	48.0	33.8	28.6	110.4

FINANCIAL ASSETS AND LIABILITIES

Group's financial instruments by category	Mar 31, 2018			Dec 31, 2017		
	Value- tier	Loan receivables and accounts receivables	Assets measured at fair value through profit or loss	Value- tier	Loan receivables and accounts receivables	Assets measured at fair value through profit or loss
SEK thousands						
Assets in Balance Sheet						
Derivative instruments	2	-	-	2	-	556
Accounts receivable and other receivables, excluding non-financial assets		119 922	-		112 031	-
Cash and cash equivalents		164 569	-		177 745	-
Total		284 491	0	289 776	289 776	556

Group's financial instruments by category	Mar 31, 2018			Dec 31, 2017		
	Value- tier	Other financial liabilities	Liabilities measured at fair value through profit or loss	Value- tier	Other financial liabilities	Liabilities measured at fair value through profit or loss
SEK thousands						
Liabilities in Balance Sheet						
Synthetic options	2	-	1 948	2	-	3 003
Derivative instruments	2	595	-	2	-	-
Accounts payable and other liabilities, excluding non-financial liabilities		21 565	-		29 169	-
Total		22 160	1 948	29 169	29 169	3 003

Financial instruments in tier 2

The fair value of derivative instruments is measured using exchange rates of currency forwards on the reporting date. The closing balance for synthetic options represents the total assessed value of a number of outstanding options, which has been measured on the basis of accepted market principles and are based on Net Insight's share price.

PARENT COMPANY INCOME STATEMENT, IN SUMMARY

SEK thousands	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Net sales	125,071	124,622	488,628	488,179
Cost of sales	-45,858	-43,232	-204,003	-201,377
Gross earnings	79,213	81,390	284,625	286,802
Sales and marketing expenses	-33,680	-24,128	-139,596	-130,044
Administration expenses	-9,829	-9,704	-43,573	-43,448
Development expenses	-28,319	-31,414	-119,413	-122,508
Other operating income and expenses	788	362	1,317	891
Operating earnings	8,173	16,506	-16,640	-8,307
Net financial items	1,444	5,231	8,941	12,728
Profit/loss before tax	9,617	21,737	-7,699	4,421
Tax	-1,909	-3,546	3,446	1,809
Net income	7,708	18,191	-4,253	6,230

PARENT COMPANY BALANCE SHEET, IN SUMMARY

SEK thousands	Mar 31, 2018	Dec 31, 2017
ASSETS		
Non-current assets		
Other intangible assets	6,167	6,875
Equipment	6,174	4,414
Participations in group companies	295,068	295,068
Deferred tax asset	84	1,994
Deposits	4,737	4,736
Total non-current assets	312,230	313,087
Current assets		
Inventories	40,835	43,598
Accounts receivable	102,263	86,438
Receivables from group companies	140,923	132,978
Other receivables	13,364	13,809
Cash and cash equivalents	153,011	166,200
Total current assets	450,396	443,023
Total assets	762,626	756,110
EQUITY AND LIABILITIES		
Equity		
Restricted equity	128,419	128,419
Non-restricted equity	534,600	527,631
Total equity	663,019	656,050
Non-current liabilities		
Deferred tax liabilities	-	-
Other liabilities	7,103	9,246
Total non-current liabilities	7,103	9,246
Current liabilities		
Accounts payable	12,649	20,284
Other liabilities	79,855	70,530
Total current liabilities	92,504	90,814
Total equity and liabilities	762,626	756,110

ACCOUNTING POLICIES

This Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and applicable regulations of the Swedish Annual Accounts Act. The Interim Report of the parent company complies with chapter 9 of the Swedish Annual Accounts Act, Interim Financial Reporting, and RFR 2 Accounting for Legal Entities.

Disclosures in accordance with IAS 34 are presented in the interim financial statements and the associated notes as well as elsewhere in the interim financial report. Effective January 1, 2018, Net Insight applies the following new or amended International Financial Reporting Standards (IFRS):

- IFRS 9 Financial Instrument
- IFRS 15 Revenue from Contracts

IFRS 9 Financial Instruments addresses the classification, measurement, recognition, impairment and de-recognition of financial instruments as well as hedge accounting. The effect from applying IFRS 9 does not have any material impact on the group's or parent company's results or financial position and there was no opening balance adjustment in 2018.

IFRS 15 Revenue from Contracts replaces IAS 18 and IAS 11 and establishes a new mindset for revenue recognition. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer, i.e. under IFRS 15 there is a focus on the 'transfer of control' instead of 'transfer of risks and rewards' under current standards. Net Insight adopted IFRS 15 with full retrospective application. The impact on the group's earnings and financial position 2017 are presented in the restated income statements and balance sheets below. The net reduction of at January 1, 2017 was SEK -1.7 million. Applying IFRS 15 also includes extended disclosure requirements, hence the table Disaggregation of revenue on page 9.

Effective January 1, 2018, Net Insight presents exchange gains and losses from operating receivables and liabilities in the Income Statement as Other operating income and expenses. Exchange gains and losses from Cash and cash equivalents are, as before, presented as Net financial items. For a description of previous accounting principles, please refer to the note 14B in the Annual Report for 2017. The impact on the group's earnings for the 2017 are presented in the restated income statements below.

The Company adjusted in the last quarter of 2017 its calculation method for capitalized development expenditure in certain development projects. The adjustments have been applied retroactively. The impact on the group's earnings for the period January-March, 2017, are presented in the restated income statements below.

Restated consolidated income statement	Jan-Mar 2017				
	Previously reported	Impact of IFRS 15	Adj. dev.	Reclassification Income statement	Restated Income statement
SEK thousands					
Net sales	110,410	-31		61	110,440
Cost of sales	-44,517		145	-260	-44,632
Gross earnings	65,893	-31	145	-199	65,808
Sales and marketing expenses	-34,342				-34,342
Administration expenses	-11,690				-11,690
Development expenses	-12,408		-1,014	8	-13,414
Other operating income & expenses				409	409
Operating earnings	7,453	-31	-869	218	6,771
Net financial items	5,530			-218	5,312
Profit before tax	12,983	-31	-869	0	12,083
Tax	-1,131	7	191		-933
Net income	11,852	-24	-678	0	11,150

Restated consolidated income statement	Jan-Dec 2017						
	Previously reported	Impact of IFRS 15				Reclassification Income statement	Restated Income statement
		Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
SEK thousands							
Net sales	426,746	-31	360	-243	-317	508	427,023
Cost of sales	-178,707					-708	-179,415
Gross earnings	248,039	-31	360	-243	-317	-200	247,608
Sales and marketing expenses	-144,741					56	-144,685
Administration expenses	-49,680					-17	-49,697
Development expenses	-63,100					715	-62,385
Other operating income & expenses						1,611	1,611
Operating earnings	-9,482	-31	360	-243	-317	2,165	-7,548
Net financial items	15,018					-2,165	12,853
Profit before tax	5,536	-31	360	-243	-317	0	5,305
Tax	-1,829	7	-79	53	70		-1,778
Net income	3,707	-24	281	-190	-247	0	3,527

Restated consolidated balance sheet SEK thousands	Mar 31, 2017				Dec 31, 2017		
	Earlier reported	Impact of IFRS 15	Adj Dev	Restated balance sheet	Earlier reported	Impact of IFRS 15	Restated balance sheet
ASSETS							
Non-current assets							
Capitalized expenditure for development	241,894		-3,787	238,107	251,622		251,622
Goodwill	63,060			63,060	58,452		58,452
Other intangible assets	25,503			25,503	19,458		19,458
Equipment	3,109			3,109	4,636		4,636
Deferred tax asset	14,290	485	833	15,608	13,756	529	14,285
Deposits	310			310	4,911		4,911
Total non-current assets	348,166	485	-2,954	345,697	352,835	529	353,364
Current assets	388,446	0	0	388,446	344,080	0	344,080
Total assets	736,612	485	-2,954	734,143	696,915	529	697,444
EQUITY AND LIABILITIES							
Shareholders' equity	575,762	-1,721	-2,954	571,087	547,966	-1,877	546,089
Non-current liabilities	35,950	0	0	35,950	19,738	0	19,738
Current liabilities	124,900	2,206	0	127,106	129,211	2,406	131,617
Total equity and liabilities	736,612	485	-2,954	734,143	696,915	529	697,444

Except for stated above, the same accounting principles and basis of calculation as those used in the latest Annual Report have been applied to the group and parent company. For a description of these accounting principles, please refer to the Annual Report for 2017.

The preparation of the Interim Report requires management to make judgements, estimates and assumptions that affect the company's earnings and position and information presented generally. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Figures in brackets in this report refer to comparison with the corresponding period or date in the previous year, if not stated otherwise. Divergences due to rounding may occur in this report.

CONTRIBUTED EQUITY

During the period February 16-23, the parent company acquired 160,000 of its own class B shares through purchases on Nasdaq Stockholm. The total amount paid to acquire the shares, net of income tax, was SEK 0.7 million. This corresponds to the total number of shares that the parent company has repurchased during the year.

At the end of the reporting period, the parent company had a total of 6,475,000 of its own class B shares, at an average cost of SEK 4.64 per share and with a par value of SEK 0.04 per share. The shares are held as own shares. The parent company has the right to reissue these shares at a later date. All shares issued by the parent company were fully paid.

The division of shares	Mar 31, 2018			Dec 31, 2017		
	A-shares	B-shares	Total	A-shares	B-shares	Total
Outstanding shares	1,000,000	382,458,009	383,458,009	1,000,000	382,618,009	383,618,009
Repurchased own shares	-	6,475,000	6,475,000	-	6,315,000	6,315,000
Issued shares	1,000,000	388,933,009	389,933,009	1,000,000	388,933,009	389,933,009

TAX

The group reported tax of SEK -1.0 (-0.9) million for the period January–March, 2018. Reported tax corresponds to an effective tax rate of 25 (8) percent. Profit before tax of SEK 4.0 (12.1) million includes value changes on synthetic options of SEK 1.1 (6.0) million. The value change on synthetic options is not taxable if an income, or tax deductible if a cost. Hence, the relative share the value change on synthetic options is of profit/loss before tax has a significant effect on the differences in the effective tax rates between periods. The effective tax rate is also affected by the relative effects of foreign tax rates and temporary differences.

Remaining tax loss carry-forwards for group companies amounted to SEK 55.2 million at the end of the period, compared to SEK 55.8 million as of December 31, 2017. Deferred tax assets has been recognized for the tax loss carry-forwards.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after the end of the reporting period.

AUDITORS' REVIEW

This Report has not been reviewed by the company's auditors.

ANNUAL GENERAL MEETING

The Annual General Meeting of Net Insight AB (publ) will be held on May 8, 2018 at 10 am at the company's office, Västberga Allé 9, Hägersten, Stockholm.

Notification

Shareholders who wish to participate in the annual general meeting must firstly be included in the shareholders' register maintained by Euroclear Sweden AB as of Wednesday, May 2, 2018, and secondly notify the company of their participation in the annual general meeting no later than Wednesday, May 2, 2018.

The notification shall be in writing to:

Net Insight AB (publ)
Attn: Susanne Jonasson
Box 42093
126 14 Stockholm, Sweden
E-mail: agm@netinsight.net

The notification must state: Name, Personal/corporate identity number, Address, Telephone number, Shareholding

When applicable, should state information about representatives, counsels and assistants. When applicable, complete authorization documents, such as registration certificates and powers of attorney for representatives and counsels, shall be appended the notification.

Read more at: investors.netinsight.net/corporate-governance

THIS IS NET INSIGHT

Business concept and model

Net Insight delivers products, software and services for effective, high-quality media transport, coupled with the effective management of resources, all which creates an enhanced TV experience. Net Insight's offerings stretch from the TV camera lens to the studio, right through to the TV viewer.

Net Insight's solutions offer network operators, TV and production companies the benefit of lower total cost of ownership and the potential for effective new media service launches.

Revenues are generated through direct and indirect sales of hardware, software and services. Revenues are sourced from hardware sales, software licenses, support and services.

Strategy

Net Insight's ambition is to be a growth company, and the target is to create profitable growth. On a market in fundamental transformation, growth and profitability are created through close and strategic partnerships with customers. Innovative solutions are created together that generate business benefit. To grow for the long term, we need to transform Net Insight into a more customer and market-oriented company.

Value creators

Value drivers affect Net Insight's progress and can be divided into three groups: market transformation, innovative technology and global reach. Net Insight benefits from the general increase in video traffic, live streaming and file transfers, the adoption of remote production and workflows, more widespread TV broadcasting over the internet and wider coverage of live events.

REPORTING DATES

Annual General Meeting 2018	May 8, 2018
Interim report January–June 2018	July 20, 2018
Interim report January–September 2018	October 26, 2018

Stockholm, April 24, 2018

Fredrik Tumegård, CEO

For more information, please contact:

Fredrik Tumegård, CEO, Net Insight AB (publ)
Phone: +46 (0)8-685 04 00
E-mail: fredrik.tumegard@netinsight.net

Pelle Bourn, CFO, Net Insight AB (publ)
Phone: +46 (0)8-685 04 00
E-mail: pelle.bourn@netinsight.net

Net Insight AB (publ), reg.no 556533-4397 Box 42093
126 14 Stockholm, Sweden
Phone: +46 (0)8-685 04 00 netinsight.net

This is information that Net Insight AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact persons set out above, at 8:45 am CEST on April 24, 2018.

FINANCIAL INFORMATION

SEK millions (if not defined differently)	Jan-Mar 2018	Jan-Mar 2017	Apr 2017- Mar 2018	Jan-Dec 2017
Income				
<i>Net sales by segment</i>				
Western Europe	48.2	48.0	194.2	194.1
Americas	36.9	33.8	137.3	134.2
Rest of World	25.4	28.6	95.5	98.7
Net sales	110.5	110.4	427.1	427.0
Gross earnings	65.9	65.8	247.7	247.6
Operating expenses	64.4	59.4	261.7	256.8
Total development expenditure	33.4	39.5	143.6	149.7
EBITDA	-1.0	-3.9	-20.8	-23.7
Operating earnings	2.4	6.8	-11.9	-7.5
Profit/loss before tax	4.0	12.1	-2.8	5.3
Net income	3.0	11.2	-4.7	3.5
Balance sheet and cashflow				
Working capital	382.7	488.5	685.4	446.0
Cash and cash equivalents	164.6	230.1	164.6	177.7
Total cash flow	-13.5	15.3	-65.5	-36.8
The share				
Dividend per share, SEK	-	-	-	-
Earnings per share basic and diluted, SEK	0.01	0.03	-0.01	0.01
Cash flow per share, SEK	-0.04	0.04	-0.17	-0.10
Equity per share basic and diluted, SEK	1.43	1.48	1.43	1.42
Average number of outstanding shares, basic and diluted, thousands	383,538	385,658	384,527	385,057
Number of outstanding shares at the end of the period, basic and diluted, thousands	383,458	385,658	383,458	383,618
Share price at end of period, SEK	4.43	7.20	4.43	4.73
Employees and consultants				
Employees and consultants at the end of the period	248	245	248	249
KPI				
Net sales YoY, change in %	0.0%	0.4%	-15.3%	-15.2%
Gross margin	59.6%	59.6%	58.0%	58.0%
Total development expenditure/Net sales	30.3%	35.7%	33.6%	35.0%
Operating margin	2.2%	6.1%	-2.8%	-1.8%
EBITDA margin	-0.9%	-3.5%	-4.9%	-5.5%
Net margin	2.7%	10.1%	-1.1%	0.8%
Return on capital employed	-2.2%	8.6%	-2.2%	-1.4%
Equity/asset ratio	78.8%	77.8%	78.8%	78.3%
Return on equity	0.5%	2.0%	-0.8%	0.6%

ALTERNATIVE PERFORMANCE MEASURES AND OTHER DEFINITIONS

Non-IFRS financial measures are presented to enhance an investors and management possibility to evaluate the ongoing operating results, to aid in forecasting future periods and to facilitate meaningful comparison of result between periods. The APMs in this report may differ from similar-titled measures used by other companies.

Calculation of performance measures not included in IFRS framework

Performance measures		
Various types of performance measures and margin measures as a percentage of sales.		
Non-IFRS performance measures	Description	Reason for use of the measure
Gross margin	Gross earnings as a percentage of net sales.	The gross margin is of major importance, showing the margin for covering the operating expenses.
Operating expenses	Sales and marketing expenses, administration expenses and development expenses.	
Operating expenses/net sales	Operating expenses as a percentage of net sales.	Used in charts to illustrate trend.
Operating earnings	Calculated as operating earnings before financial items and tax.	Operating earnings provides an overall picture of earnings generated in the operating activities.
Operating margin	Operating earnings as a percentage of net sales.	The operating margin is a key measure together with sales growth and capital employed for monitoring value creation.
Net sales YoY, change in %	The relation between net sales for the period and the corresponding sales for the comparative period in previous year.	The sales growth is a key measure together with operating margin and capital employed for monitoring value creation.
Change in Net sales in comparable currencies	The relation between the net sales for the period, recalculated using the foreign currency rates from the comparative period, and the corresponding sales for the comparative period in previous year. Only sales from business combinations that's been part of the Group for the whole comparative period are recalculated.	This measure is of major importance for management in its monitoring of underlying sales growth driven by changes in volume, price and product mix for comparable currency rates between different periods.
Net margin	Net Income as a percentage of net sales.	The net margin shows the remaining share of net sales after all of the company's costs have been deducted.
Total development (R&D) expenditure	Development expenses and capitalized expenditures for development.	The measure is a good complement to development expenses, as it shows the company's total expenditure in development.
Total development (R&D) expenditure/net sales	Total development expenditure as percentage of net sales.	The development expenditures effect on income, financial position and presentation in the statement of cashflow is affected by the periods level of capitalized development expenditures.
EBITDA	Operating earnings before depreciation and amortization and capitalization of development expenditure.	The measures are good complements to operating earnings and margin as it, simplified, shows the earnings-generated cash flow in the operation and it shows operating earnings without influence of variations in the level of capitalized development expenditures in the company's development projects.
EBITDA margin	EBITDA as a percentage of net sales.	
Segment	Region corresponds to an operating segment under IFRS 8. <ul style="list-style-type: none"> • Western Europe (WE). • Americas (AM), North and South America. • Rest of World (RoW), countries outside of Western Europe and Americas. 	

KPI Income Statement SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Net sales	110.5	110.4	427.1	427.0
<i>Net sales YoY, change in %</i>	0.0%	0.4%	-15.3%	-15.2%
Cost of sales ex. amortization of capitalized development	-29.4	-30.7	-117.4	-118.8
Gross earnings ex. amortization of capitalized development	81.1	79.7	309.6	308.3
<i>Gross margin ex. amortization of capitalized development</i>	73.4%	72.2%	72.5%	72.2%
Cost of sales amortization of capitalized development	-15.2	-13.9	-62.0	-60.7
Gross earnings	65.9	65.8	247.7	247.6
<i>Gross margin</i>	59.6%	59.6%	58.0%	58.0%
Sales and marketing expenses	-40.1	-34.3	-150.4	-144.7
Administration expenses	-10.9	-11.7	-48.9	-49.7
Development expenses	-13.4	-13.4	-62.4	-62.4
Operating expenses	-64.4	-59.4	-261.7	-256.8
<i>Operating expenses/net sales</i>	58.3%	53.8%	61.3%	60.1%
Other operating income & expenses	1.0	0.4	2.2	1.6
Operating earnings	2.4	6.8	-11.9	-7.5
<i>Operating margin</i>	2.2%	6.1%	-2.8%	-1.8%
Net financial items	1.5	5.3	9.1	12.9
Profit/loss before tax	4.0	12.1	-2.8	5.3
Tax	-1.0	-0.9	-1.9	-1.8
Net income	3.0	11.2	-4.7	3.5
<i>Net margin</i>	2.7%	10.1%	-1.1%	0.8%

Change in net sales in comparable currencies SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Jan–Dec 2017
Net sales	110.5	110.4	427.0
Net currency effect of comparable currencies	2.9	-4.3	-2.1
Net sales in comparable currencies	113.4	106.2	425.0
Change in net sales in comparable currencies	2.7%	-3.2%	-15.2%

Total development expenditure/net Sales SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Development expenses	13.4	13.4	62.4	62.4
Capitalization of development expenditure	20.0	26.1	81.3	87.3
Total development expenditure	33.4	39.5	143.6	149.7
Net Sales	110.5	110.4	427.1	427.0
Total development expenditure/net sales	30.3%	35.8%	33.6%	35.1%

EBITDA margin SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Operating earnings	2.4	6.8	-11.9	-7.5
Amortization of capitalized development expenditure	15.2	13.9	62.0	60.7
Other depreciation, amortization & impairment	1.3	1.5	10.4	10.5
Capitalization of development expenditure	-20.0	-26.1	-81.3	-87.3
EBITDA	-1.0	-3.9	-20.8	-23.7
Net sales	110.5	110.4	427.1	427.0
EBITDA margin	-0.9%	-3.5%	-4.9%	-5.5%

Capital and return measures		
Shows how capital is utilized and the company's financial strength. Return is a financial term that describes how much the value of an asset changes from an earlier point in time.		
Non-IFRS performance measure	Description	Reason for use of the measure
Working capital	Current assets less cash and cash equivalents, accounts payable and other interest-free current liabilities. The Company has no interest-bearing liabilities. Changes in working capital in the cash flow statement also includes adjustments for items not affecting liquidity and changes in non-current operating assets and liabilities.	This measure shows how much working capital that is tied up in the operations and can be put in relation to sales to understand how effectively tied-up working capital is used.
Capital employed	The Company capital employed is calculated as an average of total assets, less total liabilities, excluding interest-bearing liabilities. The Company has no interest-bearing liabilities.	Return on capital employed is the central ratio for measuring the return on the capital tied up in operations.
Return on capital employed	Operating earnings plus interest income, in relation to average capital employed, rolling four quarters.	
Equity/asset ratio	Shareholders' equity divided by the balance sheet total.	A traditional measure for showing financial risk, expressing the ratio of the assets that is financed by the owners.
Return on equity	Net income as a percentage of average shareholders' equity, rolling four quarters. .	Return on equity shows the total return on shareholders' capital and reflects the effect of the company's profitability as well as the financial leverage. The measure is primarily used to analyze shareholder profitability over time.
Investments	Investments in intangible and tangible assets.	
Total cash flow	Change in cash and cash equivalents during the period, excluding exchange differences in cash and cash equivalents.	

Working capital SEK millions	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Current assets	341.4	390.4	360.5	371.2
Cash and cash equivalents	171.2	222.5	194.2	204.3
Short term liabilities	-129.9	-124.4	130.7	-129.4
Working capital	382.7	488.5	685.4	446.0

Return on capital employed SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
<i>Capital employed</i>				0
Total balance	697.4	731.1	710.4	716.5
Non-interest liabilities	-149.5	-164.0	-155.6	-159.1
Capital employed	547.8	567.1	554.8	557.4
<i>Operating earnings less interest income RQ4</i>				
Operating earnings RQ4	-11.9	48.9	-11.9	-7.5
Interest income RQ4	0.2	0.2	0.2	0.1
<i>Operating earnings less interest income RQ4</i>	<i>-12.1</i>	<i>48.7</i>	<i>-12.1</i>	<i>-7.6</i>
Return on capital employed	-2.2%	8.6%	-2.2%	-1.4%

Equity/asset ratio SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Equity	549.6	571.1	549.6	546.1
Total equity and liabilities	697.4	734.1	697.4	697.4
Equity/asset ratio	78.8%	77.8%	78.8%	78.3%

Return on equity SEK millions (if not defined differently)	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Net income	3.0	11.2	-4.7	3.5
Average equity	547.9	567.1	554.8	557.4
Return on equity	0.5%	2.0%	-0.8%	0.6%

Shareholders' information		Measures related to the share.	
Non-IFRS performance measure	Description	Reason for use of the measure	
Dividend per share	Dividend divided by the average number of outstanding shares during the period.	Measures showing the return of the business to the owners, per share.	
Earnings per share (EPS)	Net income divided by the average number of outstanding shares during the period.		
Cash flow per share	Total cash flow, divided by average number of outstanding shares during the period.		
Equity per share	Shareholders' equity divided by number of outstanding shares at the end of the period.		
Average number of outstanding shares	Total number of shares in the Parent company, less the number of group companies' holdings of shares in the Parent company (own/treasury shares).		

Employees		Measures related to employees.	
Non-IFRS performance measure	Description	Reason for use of the measure	
Employees and consultants/co-workers	The number of employees and consultants for non-temporary positions (longer than nine months) and who don't replace absent employees.	To supplement the number of employees with consultants gives a better measure of the Company's cost.	

Employees and consultants at the end of the period	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Number of employees	213	211	213	211
Number of consultants	35	34	35	38
Employees and consultants at the end of the period	248	245	248	249

MATERIAL PROFIT AND LOSS ITEMS

The group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the group:

SEK millions	Note	Jan–Mar 2018	Jan–Mar 2017	Apr 2017– Mar 2018	Jan–Dec 2017
Effects of the Net Insight share price development during the period					
Share-based benefits	(a)	0.3	1.2	2.4	3.4
Synthetic options, change in value	(b)	1.1	6.0	9.6	14.5
Total		1.3	7.3	12.0	18.0

All items in the table above effects operating earnings, except for (b) that effects net financial items.

- (a) Support revenues that ScheduALL would have recognized if they had remained a stand-alone entity, but that Net Insight is not permitted to recognize as revenue under IFRS as a result of business combination accounting rules. The effects of these business combination rules will gradually decrease.
- (b) Amortizations related to the intangible assets — trademark and customer relations — that Net Insight recognized under IFRS as a result of business combination accounting rules, but that ScheduALL would not have recognized if they had remained a stand-alone entity. These amortizations will continue to affect the income over time.

Net Insight AB (publ)

Phone: +46 (0)8 685 04 00, info@netinsight.net, www.netinsight.net

The information presented in this document may be subject to change without notice.
For further information on product status and availability, please contact info@netinsight.net
or visit www.netinsight.net ©Copyright 2018. Net Insight AB (publ), Sweden.

All rights reserved. Net Insight, Nimbra, Sye and ScheduALL are trademarks of Net Insight Intellectual Property AB, Sweden. All other registered trademarks are the property of their respective owners.

