

## **Expert System: Half-Yearly Financial Report as at 30 June 2017 approved and first exercise period of the Expert System S.p.A. 2016-2018 Warrants opened**

- **Revenues of € 8.4 million (€ 8.6 million as at 30 June 2016) with revenues from abroad up 29% to € 5.2 million (€ 4.0 million as at 30 June 2016)**
- **Negative EBITDA of € 3.9 million (negative € 1.9 million as at 30 June 2016) and negative EBIT of € 7.3 million (negative € 4.8 million as at 30 June 2016)**
- **Net loss of € 7.6 million (loss of € 5.0 million as at 30 June 2016)**
- **Net financial position of € 13.8 million (€ 11.0 million as at 31 December 2016)**
- **First exercise period of the Expert System S.p.A. 2016-2018 Warrants**

**Modena, 29 September 2017**

The Board of Directors of Expert System, a leading company in the cognitive computing and text analytics sector, listed on the AIM Italia market organised and managed by Borsa Italiana, approved the Half-Yearly Financial Report as at 30 June 2017 in its meeting held today.

Stefano Spaggiari, Chief Executive Officer of Expert System S.p.A., commented:

*"The initial months of 2017 were characterised by a great deal of uncertainty regarding issues related to artificial intelligence and a significant interest in our cognitive computing products, but given the immaturity of the market, which is still in its early stages, the timing for conversion into projects and contracts is proving to be longer than expected. However, opportunities remain, in most cases, that are still active and evolving. In any case, revenues amounted to € 8.4 million, essentially similar to those of last year, but with a different and better mix of elements that are in line with our strategic direction. In fact, well over half of the revenue, 62%, was realised abroad in our branches in the U.S. and Europe, with significant growth of 29% compared to the first half of 2016, mainly in the United States. In addition to the foreign component, the recurring component related to licenses has also increased and this sales formula has now become a standard in our international markets where we are systematically implementing it. In the short term, this involves a certain sacrifice in terms of revenue compared to the sales of "one-off"*

*perpetual licenses, which inevitably have a higher value, but with clear advantages for long-term revenues.”*

Marco Varone, Chairman and CTO of Expert System S.p.A., noted:

*“We have worked hard over the last years as part of the listing process to achieve significant expansion of the Group, which has positioned us among the market leaders at a global level. This year, we have again increased revenue from abroad and we expect to achieve further improvement in the U.S. in the near future, where we expect 20% growth at the end of the year, and in the Spanish market, where we believe we can grow by 40%. We have achieved important results even in the UK, where we essentially began operations in 2016, including in terms of the outlook. We expect to quadruple revenue in just one year, reaching over € 500,000, as well as having started beneficial relationships with top customers which will lead to significant returns. At the same time, the Rest of World and Italian markets have experienced a temporary slowdown, and we believe that for 2017 we will be able to achieve revenue in line with 2016 but with a better balance of core markets and product mix. We are working to further enhance the use of the indirect channel of system integrators and consultants, especially abroad, allowing us to achieve growth by focusing increasingly on our products and technologies. We are also focusing our sales efforts on highly promising sectors such as banking and insurance, where we have already produced successful case histories that can be replicated worldwide. Meanwhile, in addition to developing the sales component, we implemented a cost optimisation policy following the integration of the various companies acquired, which will achieve cost savings of € 2.5 to € 3 million by 2018, with the objective of a gradual recovery of margins also linked to steady growth in revenues.”*

#### **Consolidated economic and financial results as at 30 June 2017**

**Sales and service revenues** amounted to € 8.4 million (€ 8.6 million as at 30 June 2016) with an improved mix that is in line with Group strategies. Note the increase in the share of revenues from abroad from 47% to 62%, which amounted to € 5.2 million, up 29% compared to the figure as at 30 June 2016 (€ 4.0 million), which confirms the success of the company’s globalisation strategy. Additionally, the recurring component of revenues related to licenses represents an important trend that will improve the multi-year prospects for the order portfolio. Both the increase in internal fixed assets of € 2.5 million (€ 2.9 million as at 30 June 2016) and sundry income, representing R&D grants and equal to € 0.7 million (€ 1.3 million

as at 30 June 2016) demonstrate a change that should be reabsorbed by the end of 2017, as they are the result of a temporary misalignment of events that will manifest in the second half of 2017. In addition to these extraordinary components, the difference in the production value of € 11.7 million (€ 13.2 million as at 30 June 2016) was caused by the non-recurring change in "contract work in progress", equivalent to € 51,000 compared to € 0.4 million as at 30 June 2016, which is relatively significant in the middle of the year, as 30 June is not an important date for the development of projects and contracts.

In the first half of the year, operating costs were largely determined by higher personnel costs (up € 0.7 million), about half of which were of a non-recurring nature due to the reorganisation and partially related to the hiring of top managers, including in sales, particularly in France and Germany, in order to consolidate the company's position in Europe.

Due to these extraordinary factors and not linked to the characteristic business activities, **EBITDA** is negative for € 3.9 million (negative for € 1.9 million as at 30 June 2016).

As a result of capitalised development costs (net € 17.7 million as at 30 June 2017) and consolidation differences of € 1.1 million, primarily associated with goodwill for the recently acquired companies, **EBIT** is negative for € 7.3 million (negative for € 4.9 million as at 30 June 2016).

The **Net Result** reflects unrealised exchange losses of € 1.1 million (€ 0.2 million as at 30 June 2016), while other financial expenses decreased to € 0.22 million (€ 0.28 million as at 30 June 2016), and is therefore in a loss position for € 7.6 million (€ 5.0 million as at 30 June 2016).

**Net financial position** is € 13.8 million compared to € 11.0 million as at 31 December 2016, primarily due to investments made.

## **Treasury shares**

As at 30 June 2017, the parent company Expert System S.p.A. held 141,139 treasury shares. The change from the 270,000 treasury shares held as at 31 December 2016 is attributable to the assignment of 128,861 treasury shares after the first tranche of the Stock Grant Temis 2016-2020 Plan reached maturity on 28 June 2017. The plan had been approved by the Shareholders' Meeting held on 28 June 2016.

## **Significant events after the close of the first half of 2017**

*On 7 July*, the Expert System Shareholders' Meeting resolved to delegate to the Board of Directors, pursuant to arts. 2443 and 2420-ter of the Italian Civil Code, the right to increase share capital, one or more times, and/or issue convertible bonds within five years from the relevant resolution, with the exclusion of the option right pursuant to art. 2441, paragraphs 4, first part, and 5 of the Italian Civil Code. The share capital increase may be divisible, up to a maximum amount of € 10,000,000 (applying, in general, to the powers for a share capital increase and bond issue), in accordance with the contents of the Prospectus already made available to shareholders.

*On 28 July*, the company communicated the new composition of share capital following the assignment of 360,623 new ordinary shares after the first tranche of the Stock Grant Temis 2016-2020 Plan reached maturity on 28 June 2017. The plan had been approved by the Shareholders' Meeting held on 28 June 2016.

*On 3 August*, the company obtained the qualification of Innovative SME from Trento Chamber of Commerce. With this qualification, which recognises the company's wide-ranging commitment to technological innovation in the evolution of its business model, investors will benefit from the tax incentives provided by the "2017 Stability Law".

## **Business outlook**

The Group expects to continue the globalisation strategy, with forecasted growth, particularly in the U.S. but also in Europe, where it will be possible to reap the benefits of the considerable commitment to developing and managing these markets. Similarly, the revenue mix is gradually being re-balanced in

favour of components linked to recurring licenses and reducing the professional services component through the creation of new partnerships with industry leaders in ICT.

Finally, the sales strategy will focus on strengthening the presence in products and customers with ample potential for development, with particular reference to banking and insurance, where the Group has completed projects and case histories with great success.

The mix between market development and the cost optimisation policy underway will allow us to focus on the gradual recovery of margins starting next year, after an inevitable period of considerable growth, which has positioned us among the leaders at a global level in the field of artificial intelligence applied to cognitive computing.

In the light of the first half results, it is expected that, for the 2017-2019 Business Plan, revenues for the current year will be close to 2016 figures, with consequent slippage of the plan, for which the targets for subsequent years must be updated.

#### **Expert System S.p.A. 2016-2018 Warrants**

“Expert System announces that holders of the Expert System S.p.A. 2016-2018 Warrants, ISIN code no. IT0005204281, may request their exercise beginning 1 October 2017 to 31 October 2017, inclusive, (the "First Exercise Period") for each open market day, with the right to subscribe newly issued ordinary shares of Expert System S.p.A., admitted to listing on the AIM Italia market organised and managed by Borsa Italiana S.p.A., without nominal value, having regular entitlements and the same characteristics as the outstanding Expert System ordinary shares at the issue date ("Conversion Shares"), in the ratio of 1 Expert System Conversion Share for every 4 Warrants exercised. Subscription requests must be submitted to an intermediary participating in the Monte Titoli S.p.A. centralised administration system, where the Warrants are filed.

The exercise price of the Warrants for the First Exercise Period is € 2.40 (two euro forty cents) for each Conversion Share. Monte Titoli S.p.A. will issue and make available the Conversion Shares subscribed by Warrant holders during the exercise period on the settlement date following the last day of the exercise period. It is not expected that there will be any events during the First Exercise Period that will result in the suspension of the right to exercise."

For more information, refer to the Warrant Regulation available on the company's website at [www.expertsystem.it](http://www.expertsystem.it).

*The Consolidated Half-Year Financial Report as at 30 June 2017 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.it](http://www.expertsystem.it)*

**Expert System**, listed on the AIM Italia market of the Borsa Italiana, is a leader in the cognitive computing and text analytics sector. Through its proprietary Cogito technology, based on semantic analysis, Expert System innovates the way in which businesses process information, offering its artificial intelligence tool to understand the meaning of large volumes of documents, and acquire strategic knowledge from big data to increase their competitive advantage and improve decision-making processes. The group has offices in Italy, France, Spain, Germany, UK, USA, and Canada, and its customers include: Shell, Chevron, Eni Group, Telecom Italia, Intesa Sanpaolo, Il Sole 24 Ore, Eli Lilly, BAnQ, Biogen, Bloomberg BNA, Elsevier, Gannett, IMF, RSNA, Sanofi, SOQUIJ, The McGraw-Hill Companies, Thomson Reuters, Wiley, Wolters Kluwer, Networked Insights, as well as the United States Departments of Agriculture and Justice.

[www.expertsystem.com/it](http://www.expertsystem.com/it)

**Expert System**

Press Office

Francesca Spaggiari

Tel. +39 059 894011

[ufficiostampa@expertsystem.com](mailto:ufficiostampa@expertsystem.com)

**Investor & Media Relations**

IR Top

Floriana Vitale and Domenico Gentile

Tel. +39 02 45473883/4

[ir@irtop.com](mailto:ir@irtop.com)

**Nomad**

Integrae SIM S.p.A.

Nicola Vulcano

Tel: +39 02 87208720

[info@integraesim.it](mailto:info@integraesim.it)

**Attachments:**

- Consolidated Balance Sheet as at 30 June 2017
- Consolidated Net Financial Position as at 30 June 2017
- Consolidated Income Statement as at 30 June 2017
- Expert System S.p.A. Balance Sheet as at 30 June 2017
- Expert System S.p.A. Net Financial Position as at 30 June 2017
- Expert System S.p.A. Income Statement as at 30 June 2017

Consolidated Balance Sheet Expert System Group	30/06/2017	31/12/2016	Change
Net intangible assets	17,745,780	18,372,463	(626,683)
Net tangible assets	872,927	914,523	(41,596)
Equity investments and other non – current financial assets	5,417,423	3,270,381	2,147,042
<b>Fixed capital</b>	<b>24,036,129</b>	<b>22,557,366</b>	<b>1,478,763</b>
Short-term financial assets	4,153,074	4,153,074	-
Warehouse inventories	678,119	627,484	50,635
Trade receivables	6,866,219	10,232,837	(3,366,618)
Other receivables	5,335,915	8,444,881	(3,108,967)
Accrued income and prepaid expenses	1,144,948	1,003,638	141,310
<b>Short-term assets</b>	<b>18,178,275</b>	<b>24,461,914</b>	<b>(6,283,639)</b>
Trade Payables	(2,010,728)	(2,698,583)	687,855
Advance payments	(1,739,290)	(2,247,323)	508,033
Tax and social security payables	(1,859,896)	(2,275,284)	415,388
Other payables	(2,091,370)	(1,962,195)	(129,176)
Accrued expenses and deferred income	(3,483,727)	(3,595,666)	111,940
<b>Short-term liabilities</b>	<b>(11,185,010)</b>	<b>(12,779,051)</b>	<b>1,594,041</b>
<b>Net working capital</b>	<b>6,993,265</b>	<b>11,682,863</b>	<b>(4,689,598)</b>
Employee severance indemnity	(1,762,623)	(1,670,520)	(92,104)
Tax and social security payables			
Accrued expenses and deferred income after 12 months	(4,102,807)	(3,640,000)	(462,807)
Other medium and long – term liabilities	(1,649,506)	(1,392,298)	(257,208)
<b>Medium/long – term liabilities</b>	<b>(7,514,937)</b>	<b>(6,702,818)</b>	<b>(812,118)</b>
<b>INVESTED CAPITAL</b>	<b>23,514,456</b>	<b>27,537,411</b>	<b>(4,022,955)</b>
Shareholders' equity	(9,666,422)	(16,437,207)	6,770,787
Net medium/long – term financial position	(15,224,801)	(15,251,917)	27,116
Net short – term financial position	1,376,766	4,151,714	(2,774,949)
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(23,514,456)</b>	<b>(27,537,411)</b>	<b>4,022,955</b>

Consolidated Net Financial Position Expert System Group	30/06/2017	31/12/2016	Change
Bank deposits	5,636,299	8,994,794	(3,358,496)
Cash at bank and in hand	3,044	68,146	(65,102)
Treasury shares			
<b>Cash and cash equivalents and treasury shares</b>	<b>5,639,343</b>	<b>9,062,940</b>	<b>(3,423,598)</b>
<b>Current financial assets</b>	<b>1,275,490</b>	<b>1,308,046</b>	<b>(32,555)</b>
Bonds and convertible bonds (within 12 months)			
Payables for shareholder loans (within 12 months)			
Payables due to banks (within 12 months)	(4,665,397)	(5,046,595)	381,198
Payables due to other lenders (within 12 months)	(872,670)	(1,172,677)	300,007
Advances for overseas payments			
Short – term portion of loans			
Financial receivables			
<b>Short-term financial payables</b>	<b>(5,538,067)</b>	<b>(6,219,272)</b>	<b>681,205</b>
<b>Net short-term financial position</b>	<b>1,376,766</b>	<b>4,151,714</b>	<b>(2,774,949)</b>
Bonds and convertible bonds (over 12 months)	(5,000,000)	(5,000,000)	
Payables for shareholder loans (over 12 months)			
Payables due to banks (after 12 months)	(8,497,674)	(8,595,385)	97,711
Payables due to other lenders (after 12 months)	(1,727,127)	(1,656,532)	(70,595)
Advances for overseas payments			
Long – term portion of loans			
Financial receivables			
<b>Net medium/long-term financial position</b>	<b>(15,224,801)</b>	<b>(15,251,917)</b>	<b>27,116</b>
<b>Net financial position</b>	<b>(13,848,035)</b>	<b>(11,100,202)</b>	<b>(2,747,833)</b>



Consolidated Profit & Loss Account Expert System Group	30/06/2017	30/06/2016	Change
Net revenue	8,442,300	8,570,966	(128,667)
Inventory change	51,258	392,791	(341,533)
Own work capitalised	2,524,452	2,942,807	(418,355)
Other income	728,366	1,327,777	(599,411)
<b>Production value</b>	<b>11,746,375</b>	<b>13,234,341</b>	<b>(1,487,966)</b>
External operating costs	(5,975,105)	(6,034,907)	59,802
<b>Economic value added (EVA)</b>	<b>5,771,270</b>	<b>7,199,434</b>	<b>(1,428,164)</b>
Cost of labour	(9,754,059)	(9,098,116)	(655,943)
<b>EBITDA</b>	<b>(3,982,789)</b>	<b>(1,898,682)</b>	<b>(2,084,107)</b>
Amortization, depreciation and other provisions	(3,312,849)	(2,945,579)	(367,270)
<b>Net operating profit</b>	<b>(7,295,638)</b>	<b>(4,844,261)</b>	<b>(2,451,377)</b>
Financial income and expenses	(1,369,093)	(540,646)	(828,447)
<b>Ordinary profit</b>	<b>(8,664,730)</b>	<b>(5,384,906)</b>	<b>(3,279,824)</b>
Net Extraordinary components	0	0	0
<b>Pre - tax results</b>	<b>(8,664,730)</b>	<b>(5,384,906)</b>	<b>(3,279,824)</b>
Income taxes	1,031,291	335,589	695,702
<b>Net profit (loss)</b>	<b>(7,633,440)</b>	<b>(5,049,318)</b>	<b>(2,584,122)</b>

Balance Sheet Expert System S.p.A.	30/06/2017	31/12/2016	Change
Net intangible assets	6,239,431	6,251,067	(11,636)
Net tangible assets	665,818	667,181	(1,363)
Equity investments and other non – current financial assets	28,399,285	25,668,740	2,730,545
<b>Fixed capital</b>	<b>35,304,533</b>	<b>32,586,987</b>	<b>2,717,546</b>
Short-term financial assets	4,153,074	4,153,074	0
Warehouse inventories	638,132	610,900	27,232
Trade receivables	4,003,807	5,429,296	(1,425,489)
Other receivables	7,129,698	7,503,858	(374,160)
Accrued income and prepaid expenses	791,468	750,255	41,213
<b>Short-term assets</b>	<b>16,716,180</b>	<b>18,447,383</b>	<b>(1,731,204)</b>
Trade Payables	(1,236,415)	(1,396,828)	160,413
Advance payments	(1,717,445)	(2,238,142)	520,697
Tax and social security payables	(712,141)	(770,591)	58,450
Other payables	(1,894,382)	(1,669,344)	(225,038)
Accrued expenses and deferred income	(1,572,316)	(1,504,926)	(67,390)
<b>Short-term liabilities</b>	<b>(7,132,697)</b>	<b>(7,579,831)</b>	<b>447,134</b>
<b>Net working capital</b>	<b>9,583,482</b>	<b>10,867,552</b>	<b>(1,284,070)</b>
Employee severance indemnity	(1,762,623)	(1,670,520)	(92,104)
Tax and social security payables	0	0	0
Accrued expenses and deferred income after 12 months	(1,698,773)	(1,791,230)	92,457
Other medium and long – term liabilities	(1,112,030)	(854,823)	(257,208)
<b>Medium/long – term liabilities</b>	<b>(4,573,427)</b>	<b>(4,316,573)</b>	<b>(256,854)</b>
<b>INVESTED CAPITAL</b>	<b>40,314,588</b>	<b>39,137,967</b>	<b>1,176,621</b>
Shareholders' equity	(25,832,260)	(28,275,733)	2,443,473
Net medium/long – term financial position	(14,271,900)	(14,360,437)	88,537
Net short – term financial position	(210,428)	3,498,203	(3,708,631)
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(40,314,588)</b>	<b>(39,137,967)</b>	<b>(1,176,621)</b>

Net Financial Position Expert System S.p.A.	30/06/2017	31/12/2016	Change
Bank deposits	3,604,853	7,327,197	(3,722,343)
Cash at bank and in hand	2,793	2,680	113
Treasury shares			
<b>Cash and cash equivalents and treasury shares</b>	<b>3,607,646</b>	<b>7,329,877</b>	<b>(3,722,231)</b>
<b>Current financial assets</b>	<b>1,010,798</b>	<b>1,010,798</b>	<b>0</b>
Bonds and convertible bonds (within 12 months)			
Payables for shareholder loans (within 12 months)			
Payables due to banks (within 12 months)	(4,539,068)	(4,487,565)	(51,503)
Payables due to other lenders (within 12 months)	(289,804)	(354,906)	65,102
Advances for overseas payments			
Short – term portion of loans			
Financial receivables			
<b>Short-term financial payables</b>	<b>(4,828,872)</b>	<b>(4,842,471)</b>	<b>13,599</b>
<b>Net short-term financial position</b>	<b>(210,428)</b>	<b>3,498,203</b>	<b>(3,708,631)</b>
Bonds and convertible bonds (over 12 months)	(5,000,000)	(5,000,000)	0
Payables for shareholder loans (over 12 months)			
Payables due to banks (after 12 months)	(8,497,674)	(8,595,385)	97,711
Payables due to other lenders (after 12 months)	(774,226)	(765,052)	(9,174)
Advances for overseas payments			
Long – term portion of loans			
Financial receivables			
<b>Net medium/long-term financial position</b>	<b>(14,271,900)</b>	<b>(14,360,437)</b>	<b>88,537</b>
<b>Net financial position</b>	<b>(14,482,328)</b>	<b>(10,862,234)</b>	<b>(3,620,094)</b>

Profit & Loss Account Expert System S.p.A.	30/06/2017	30/06/2016	Change
Net revenue	4,924,421	5,380,330	(455,909)
Inventory change	27,232	88,719	(61,488)
Own work capitalised	1,323,951	1,643,177	(319,225)
Other income	528,901	584,773	(55,873)
<b>Production value</b>	<b>6,804,504</b>	<b>7,697,000</b>	<b>(892,495)</b>
External operating costs	(3,759,741)	(3,670,830)	(88,911)
<b>Economic value added (EVA)</b>	<b>3,044,763</b>	<b>4,026,169</b>	<b>(981,406)</b>
Cost of labour	(4,052,759)	(3,882,571)	(170,188)
<b>EBITDA</b>	<b>(1,007,996)</b>	<b>143,599</b>	<b>(1,151,594)</b>
Amortization, depreciation and other provisions	(1,392,856)	(1,170,010)	(222,846)
<b>Net operating profit</b>	<b>(2,400,852)</b>	<b>(1,026,412)</b>	<b>(1,374,440)</b>
Financial income and expenses	(791,443)	(415,816)	(375,627)
<b>Ordinary profit</b>	<b>(3,192,295)</b>	<b>(1,442,228)</b>	<b>(1,750,067)</b>
Net Extraordinary components	0	0	0
<b>Pre - tax results</b>	<b>(3,192,295)</b>	<b>(1,442,228)</b>	<b>(1,750,067)</b>
Income taxes	745,940	337,616	408,324
<b>Net profit (loss)</b>	<b>(2,446,355)</b>	<b>(1,104,612)</b>	<b>(1,341,743)</b>