

## Interim report January to June 2017

### High and profitable growth

#### Second quarter

- Net sales increased during the second quarter by 145,0% to 50,5 MSEK (20,6)
- Result before depreciation (EBITDA) increased during the second quarter by 206,1% to 5,2 MSEK (-4,9), corresponding to a margin of 10,3% (-23,8)
- Net result after tax was 4,1 MSEK (-5,2)
- Result per share was 0,02 (-0,03)
- Cash flow from the business for the period was 4,3 MSEK (-2,0)
- TagMaster acquired CA Traffic Ltd from Hill & Smith Holdings PLC with access on April 27 2017. At a purchase price of 34 MSEK TagMaster is taking over a business with 50 MSEK in sales on a yearly basis and with a positive result from the business.
- The issue of shares with preferential rights for existing shareholders, which was approved by the annual general meeting on April 27 was concluded successfully. The share issue was subscribed to approximately 199%.

#### First half year

- Net sales increased during the period by 104,6% to 92,6 MSEK (45,2)
- The result (EBITDA) was 10,0 MSEK (-2,9), corresponding to a margin of 10,8% (-6,4)
- Result after tax was 7,1 MSEK (-4,3)
- Result per share was 0,04 (-0,03)
- Cash flow from the business was 11,6 MSEK (-2,2)

#### About TagMaster

*TagMaster is an application driven technology company that designs and markets advanced identification systems and solutions based on radio, radar & vision technology (RFID & ANPR) for demanding environments. Business areas include Traffic Solutions and Rail Solutions sold under the brands TagMaster, CitySync, Balogh & CA Traffic with innovative mobility solutions in order to increase efficiency, security, convenience and to decrease environmental impact within Smart Cities. TagMaster has dedicated agencies in the US and in China and exports mainly to Europe, The Middle East, Asia and North America via a global network of partners, systems integrators and distributors. TagMaster was founded in 1994 and has its headquarters in Stockholm. TagMaster is a public company and its shares are traded on First North stock exchange in Stockholm, Sweden. TagMasters certified advisor is Remium AB.*

[www.tagmaster.com](http://www.tagmaster.com)

## Comments by the CEO

Our sales during the second quarter has been satisfactory with good volumes for TagMaster as well as for Balogh while CitySync still underperforms against budget. CA Traffic has been close to budget during the two months it has been consolidated and has generated a positive result.

During the quarter the turnaround work with Balogh has continued. The work is intended to lower both personnel costs and other costs, to reduce the number of products and to simplify the business processes. We estimate the work to be done during 2017, which is a bit later than previously communicated and the delay mainly depends on the work on reducing the product assortment and to start a more efficient product supply requires more efforts. The delay also depends on that the order intake has been higher than expected, which means that we adopt the changes to a higher volume.

CitySync is in discussions about a number of parking projects with several large international customers and deliveries have started during the end of the second quarter. We see a strong trend among other in Scandinavia that ANPR becomes a key component in future parking systems where barriers and ticket machines disappear.

CA Traffic will during the third quarter start a change work to make the business more scalable and more profitable also for lower sales volumes. We will outsource production and assembly and we will move the ANPR development to the same facilities as CitySync. We will also simplify the product assortment and invest more in the newer and more profitable products.

Our rail business has been good during the quarter, but we see a somewhat lower level for the quarters to come. We are approaching the end of the development of a new RailTag, with 20 year lifetime, which should be used in ongoing projects but also for future projects. We already see indications that our acquisition of Balogh will increase our total offering to the rail market and that our complementary product assortment is well received by our common customers. Balogh has during the quarter had an even flow of new projects for delivery during 2017 and 2018 and we expect volumes to stay during the remainder of 2017 mostly driven by our new, simplified and upgraded product assortment.

Our Traffic business has had an acceptable volume development during the quarter with a continued positive margin development. The US market has continued to do well and the Indian market has been strong in products for toll road solutions. We have during the quarter continued the launch of our UHF products in the French market through the sales channels of Balogh and during 2017 we will let our local sales forces sell our complete assortment, which means RFID and ANPR products. We see that we with three home markets (The Nordics, UK & France) are able to integrate and streamline our sales work and we have therefore during the quarter created an EMEA sales organization with responsibility for the whole region. We will also continue the work with developing more products in RFID and ANPR and several of these will be launched already during 2017.

Our quarterly result of 5,2 MSEK (-4,9) and our cash flow from the running business of 4,3 (-2,0) is an acceptable result to be satisfied with, while we still have work to do and it is always worth mentioning that the variation could be significant since especially our rail business is volatile to its character.

*Jonas Svensson*

*CEO*

## Comments to the result and balance sheet

### **Turnover and result**

During the quarter a sales increase was noted mainly due to the rail business in the parent company but also due to acquired business. Net sales for the second quarter was 50,5 MSEK (20,6), an increase of 145,0%. The result (EBITDA) was 5,2 MSEK (-4,9), an increase of 206,1%, and a margin of 10,3% (-23,8).

The costs during the quarter were 24,1 MSEK (13,7), The overall increase is related to a bigger structure coming from the acquisition of Balogh and CA Traffic during 2016 and 2017. No capitalization of direct development costs has been made. However, the CA Traffic acquisition balance includes capitalized R&D that is amortized. Included in tax on profit of the year is a tax revenue of 1,2 MSEK based on R&D expenditures in Balogh SA.

### **Cash flow and financial position**

As per June 30, 2017 available liquidity was 39,0 MSEK (19,5) of which the revolving credit is 12,0 MSEK (8,0). Solidity at the end of the period was 51,1% (61,1). Cash flow from operating activities for the period was 4,3 MSEK (-2,0).

Accounts receivable were 33,2 MSEK (10,3) and trade payables were 17,5 MSEK (4,7). The inventories were 36,2 MSEK (13,2), all as per June 30, 2017. The increase of the inventories and other assets is explained by Balogh and CA Traffic assets now being included and high sales during the quarter.

### **Employees, organization and personnel**

The number of employees in the TagMaster Group was at the end of the period 97 (40). The number of full time employees in Balogh has been decreased by 8 since the acquisition in August 2016 and amounts to 30 employees at the end of June. With the acquisition of CA Traffic the number of employees has increased by 33 persons. The number of employees is expected to decrease due to the planned changes within the organization.

## Business during the quarter

We continue our work with the partner program and with our efforts to identify and engage more partners in some of our most important markets. A corner stone in our strategy is to focus more on the geographical markets where we already have a presence and we have during the period continued to see that our focus on North America, together with our local partner, has been successful and that more customers see the advantages of our products and the services we are offering. During the period we have also started launching our ANPR products in the fast growing US market. We have also started to integrate the sales work in our three home markets (The Nordics, UK & France) and we work actively to become a stronger player in the DACH countries. During the quarter we established our European organization under a common sales director, who has started recruiting more sales resources for our home markets during the quarter. We continue actively to build our brand through participation in fairs in our focus markets. During the period, we participated in fairs in the US, in The UK, in Norway, in France and in Germany and during 2017 we will exhibit in our own regime at more than 10 fairs and together with our partners also in even more fairs.

CitySync has during the quarter had a slightly higher volume, while it is still behind budget. Our new assortment with CitySync 50, which is an ANPR camera partly addressing the same application areas as the Traffic products of TagMaster is looked upon with great interest both in England and in Scandinavia. We have during the period started several exciting ANPR projects in Scandinavia and we expect the UK market to grow during the second half of the year. Our new acquisition, CA Traffic, will start selling its products in the Nordic markets through TagMasters network and in the French market we plan to find local partners. The ANPR assortment of CitySync and CA Traffic will be integrated and the development departments have already moved to the same address to swiftly find both commercial and technical synergies.

We will continuously address new and existing customers with our combined and stronger offering where our total competence in RFID and ANPR will differentiate us. With this offering we will become a more attractive partner for the system integrators building the smart cities of the future. We will during the year work intensively with integration of our RFID and ANPR offerings and the sales force will work with our complete offering in their respective regions to implement synergies in a natural way.

### **Rail Solutions**

We have during the quarter continued product deliveries for our big rail project and for another smaller project. We have during the period had a low level of serial deliveries to other Rail customers, but we expect that their portfolios of projects will increase some during 2017 and 2018 which will give us new projects.

We expect also to get some more business in CBTC (Communication Based Train Control.) area during 2017 and with the acquisition of Balogh our total product offering becomes much stronger, among other through the Balogh strength in Tramway solutions and this will give us access to a new dimension of growth opportunities for our Rail business.

Balogh has during the quarter had a good inflow of projects from several customers, mostly Tramway projects, both in Europe and in the Chinese market. The work to simplify and improve Baloghs supply chain is in full force, but it will take some more time than previously announced, but it should be ready at the end of 2017.

Our business model within Rail, where we have the opportunity to offer our Rail customers to take advantage of our know-how and application knowledge also in project format will be further strengthened when we enhance our development resources with our new Rail Competence Center in Toulouse (Balogh).

## Future outlook

The future outlook is unchanged and the company has good growth opportunities in Traffic Solutions as well as in Rail Solutions. Our market shares are still small in a big and growing market, which means that future growth mainly depends on the company's own ability. Our companies will, however, see periods ahead of us when the sales- and result development will stop momentarily because we invest in future growth, which means costs may come before the revenue. We will also see variations between quarterly volumes since our Rail business is volatile and product deliveries may vary between quarters. We will also see variations between quarters due to that our acquisitions require change work of different size and which could also take longer than expected. To meet the demand and to aspire for the position as market leading supplier of advanced RFID, Radar & ANPR solutions, TagMaster/CitySync/Balogh/CA Traffic will continue to develop and launch new innovative products, develop and expand its partner networks and recruit further competent personnel. We now also see our basic business, advanced identification technology for vehicles to demanding customers in Rail and Traffic is viable and we will therefore continue to look for products, partners and companies which in different ways could complement our offering to markets within especially Traffic solutions. TagMaster will continue the work to find more opportunities to selective acquisitions in adjacent technology areas like sensors, detectors and other identification technology with the purpose to increase our offering and become a more attractive supplier of the type of information which is a prerequisite for building the smart cities of the future. With a profitable basic business and with a positive cash flow we may also be able to finance some acquisitions by ourselves in the future.

### Reporting dates

Tagmaster will report on the following dates during the 2017 and 2018 fiscal years:

Interim report, January – September:	October 27
Earnings release 2017:	January 26

This as well as previous financial reports could be found at the company homepage [www.tagmaster.com](http://www.tagmaster.com)

### For further information, please contact

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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 July 14, 2017.

## Consolidated income statement

KSEK	Q2		Q1 - Q2		Full year
	2017	2016	2017	2016	2016
Net revenue	50 498	20 609	92 557	45 229	113 892
Other operating income	101	99	101	-	544
<b>Total operating income</b>	<b>50 599</b>	<b>20 708</b>	<b>92 658</b>	<b>45 229</b>	<b>114 436</b>
Goods for resale	-21 197	-8 964	-37 245	-18 484	-43 936
Other external costs	-10 384	-5 621	-19 142	-9 830	-26 074
Personnel costs	-13 732	-8 035	-25 518	-16 737	-35 897
Other operating expenses	-76	-2 998	-736	-3 056	-4 723
<b>Operating profit before depreciation and amortization (EBITDA)</b>	<b>5 210</b>	<b>-4 910</b>	<b>10 017</b>	<b>-2 878</b>	<b>3 807</b>
Depreciation	-183	-70	-278	-143	-316
Goodwill amortization	-1 460	-504	-2 344	-1 027	-2 554
<b>Operating profit after depreciation and amortization (EBIT)</b>	<b>3 567</b>	<b>-5 484</b>	<b>7 395</b>	<b>-4 048</b>	<b>937</b>
Financial items	12	-66	-214	-224	-432
<b>Profit after financial items</b>	<b>3 579</b>	<b>-5 550</b>	<b>7 181</b>	<b>-4 272</b>	<b>505</b>
Tax	477	368	-40	0	3 710
<b>Net profit</b>	<b>4 056</b>	<b>-5 182</b>	<b>7 141</b>	<b>-4 272</b>	<b>4 215</b>

<sup>1</sup> Other operating expenses are related to restructuring activities (CitySync 801 Ksek and Balogh 1 522 Ksek) and write down of project costs (CitySync) at the amount of 2 400 Ksek. In the first half of 2017, the item relates to exchange-rate losses on operating receivables and liabilities.

## Key ratios

	Q2		Q1 - Q2		Full year
	2017	2016	2017	2016	2016
Net sales growth, %	145,0	10,4	104,6	19,3	44,2
EBITDA-margin, %	10,3	-23,8	10,8	-6,4	3,3
Equity ratio, %	51,1	61,1			43,3
Earnings per share before dilution, SEK	0,02	-0,03	0,04	-0,03	0,03
Earnings per share after dilution, SEK	0,02	-0,03	0,04	-0,03	0,03
Number of shares, average, thousand	178 152	167 824	173 017	167 824	167 824
Number of shares, end of the period, thousand	201 389	167 824	201 389	167 824	167 824
Market price on closing day, SEK	2,32	1,08			1,13
Number of employees at end of period	97	40			69

## Consolidated balance sheet

KSEK	30 June		
	2017	2016	2016-12-31
<b>ASSETS</b>			
Intangible assets	46 552	17 748	32 325
Tangible assets	1 029	809	948
Financial assets	5 336	4 194	6 917
Inventories	36 199	13 206	22 099
Trade receivables	33 208	10 265	22 165
Other receivables	19 603	4 136	11 166
Cash and cash equivalents	26 989	11 463	9 903
<b>TOTAL ASSETS</b>	<b>168 916</b>	<b>61 821</b>	<b>105 523</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	86 268	37 788	45 707
Provisions	5 240	1 271	2 317
Long term liabilities to credit institutions	9 371	9 000	8 567
Other long term liabilities	11 473	-	11 910
Trade payables	17 492	4 727	10 594
Other current liabilities	39 072	9 035	26 428
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>168 916</b>	<b>61 821</b>	<b>105 523</b>

## Changes in consolidated equity

KSEK	30 June		
	2017	2016	2016-12-31
<b>Opening balance</b>	<b>45 707</b>	<b>44 059</b>	<b>44 059</b>
New share issue	34 589		
Warrant payment	-20	170	170
Transaction difference	-1 149	-2 169	-2 737
Net result	7 141	-4 272	4 215
<b>TOTAL EQUITY</b>	<b>86 268</b>	<b>37 788</b>	<b>45 707</b>

## Consolidates cash flow analysis

KSEK	Q2		Q1 - Q2		Full year
	2017	2016	2017	2016	2016
Cash flow from operating activities before change in working capital	5 675	-2 066	10 912	-430	10 390
Change in working capital	-1 397	52	654	-1 769	-9 487
<b>Cash flow from operating activities</b>	<b>4 278</b>	<b>-2 014</b>	<b>11 566</b>	<b>-2 199</b>	<b>903</b>
Cash flow from investing activities	-29 715	-	-28 478	0	-4 034
Cash flow from financing activities	34 120	-845	34 035	9 170	8 670
<b>Cash flow</b>	<b>8 683</b>	<b>-2 859</b>	<b>17 123</b>	<b>6 971</b>	<b>5 539</b>
Cash and cash equivalents at beginning of period	18 327	14 322	9 903	4 492	4 492
Effect of exchange differences	-21	0	-37	0	-128
<b>Cash and cash equivalents at end of period</b>	<b>26 989</b>	<b>11 463</b>	<b>26 989</b>	<b>11 463</b>	<b>9 903</b>

## Parent company income statement

KSEK	Q2		Q1 - Q2		Full year
	2017	2016	2016	2017	2016
Net revenue	23 003	16 975	49 160	35 056	79 837
Other operating income	101	-	101	-	495
<b>Total operating income</b>	<b>23 104</b>	<b>16 975</b>	<b>49 261</b>	<b>35 056</b>	<b>80 332</b>
Goods for resale	-8 460	-7 619	-18 034	-15 069	-31 363
Other external costs	-5 694	-3 820	-11 178	-7 083	-17 382
Personnel costs	-5 746	-5 349	-11 694	-10 612	-20 977
Other operating expenses	0	-140	-652	-285	-
<b>Operating profit (EBITDA)</b>	<b>3 204</b>	<b>47</b>	<b>7 703</b>	<b>2 007</b>	<b>10 610</b>
Financial items	-195	-162	-317	-478	-591
<b>Profit after financial items</b>	<b>3 009</b>	<b>-115</b>	<b>7 386</b>	<b>1 529</b>	<b>10 019</b>
Appropriations	0	697	0	697	867
Tax	-19	368	-982	0	1 098
<b>Net profit</b>	<b>2 990</b>	<b>950</b>	<b>6 404</b>	<b>2 226</b>	<b>11 984</b>



## Parent company balance sheet

KSEK	30 June		
	2017	2016	2016-12-31
<b>ASSETS</b>			
Shares in subsidiaries	72 423	35 224	40 428
Long-term receivables from group companies	10 059	4 329	12 454
Deferred tax asset	4 968	4 194	5 291
Inventories	8 625	7 943	9 819
Trade receivables	9 763	8 271	12 390
Current receivables from group companies	866	697	867
Other receivables	4 480	3 163	3 074
Cash and cash equivalents	19 904	9 476	2 153
<b>TOTAL ASSETS</b>	<b>131 088</b>	<b>73 297</b>	<b>86 476</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	104 039	53 285	63 043
Provisions	2 093	1 043	2 093
Liabilities to credit institutions	8 500	9 000	8 500
Trade payables	5 231	3 930	5 040
Other current liabilities	11 225	6 039	7 800
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>131 088</b>	<b>73 297</b>	<b>86 476</b>

## Other

### 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, which influence comparable figures for postponed tax, depreciations and own capital. This is described more extensively in the Annual report 2016.

### Operational and financial risks

The operational and financial risks of TagMaster as well as uncertainties are described in the annual report 2016 under the section Risks and risk management.

This report has not been reviewed by the company auditor.

The information is published on July 14 at 08.30 CET.

The board and the CEO assure that this report is giving a correct overview of the Company, its business, position and result as well as it is describing major risks and uncertainties, which the Company is seeing ahead.

Kista, July 14, 2017

Rolf Norberg  
Chairman

Joe Grillo

Gert Sviberg

Magnus Jonsson

Örjan Johansson

Jonas Svensson  
CEO