

Interim report January to June 2018

Strong cash flow for the quarter

Second quarter

- Net sales increased during the second quarter by 0,4 % to 50,7 MSEK (50,5)
- Result before depreciation (EBITDA) for the second quarter amounted to 3,4 MSEK (5,2), corresponding to a margin of 6,7% (10,3)
- Net result after tax was 0,8 MSEK (4,1)
- Result per share was 0,00 (0,02)
- Cash flow from the business for the period was 11,6 MSEK (4,3)

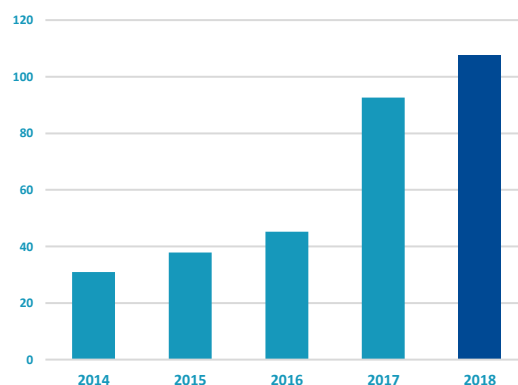
First half year

- Net sales increased during the period by 16,3% to 107,7 MSEK (92,6)
- The result (EBITDA) was 8,6 MSEK (10,0), corresponding to a margin of 8,0% (10,8)
- Result after tax was 3,7 MSEK (7,1)
- Result per share was 0,02 (0,04)
- Cash flow from the business was 8,5 MSEK (11,6)

INCREASE IN NET SALES, first six months

+16,3%

FIRST SIX MONTHS NET SALES, Mkr



About TagMaster

TagMaster is an application driven technology company that designs and markets advanced sensor systems and solutions based on radio & vision technology (RFID, Radar & ANPR) for demanding environments. Business areas include Traffic Solutions and Rail Solutions sold under the brands TagMaster, CitySync, Balogh, CA Traffic and Magsys 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 and systems integrators. TagMaster was founded in 1994 and has its headquarters in Stockholm. TagMaster is a public company and its shares are traded on First North stock exchange in Stockholm, Sweden. TagMasters certified advisor is Erik Penser Bank. www.tagmaster.com

Comments by the CEO

A large turnaround project has been conducted during the quarter, despite this we show a strong cash flow and an acceptable result.

Balogh has had a good quarter with sales in line with budget and a result somewhat over budget. We have continued to trim and change in the organization and from September we expect personnel costs to decrease further with another 1,5 MSEK on an annual basis. With a cost-efficient organization we should continue to deliver good profits even with lower volumes and we will for the future focus on strengthening the sales organization with more employees.

TagMaster has had a quarter in line with expectations and continued with more work in development of our new products for toll roads which are expected to be ready during Q4. The American market has continued well but with some slowdown during the end of the quarter. The Indian market has been reluctant, waiting for our new toll road products. TagMaster has started the launch of CA Traffic products in the Nordic markets and medium term we see a good growth for us in these markets, especially handling bicycle flows.

Our two English businesses, CitySync and CA Traffic have during the quarter delivered below plan and we have therefore worked more with the costs and synergies between the companies. We have during the quarter reduced personnel and we estimate cost reductions of around 3,5 MSEK annually to get full effect during Q3. We will also in England reinvest some of the cost savings in increased sales resources to better take care of future business opportunities. We see many exciting projects and we see more cities starting to look at ANPR systems to handle environmental zones, e.g. to classify different type of cars and to estimate pollution risk. Our core competence (ANPR) in algorithm development and in neural networks (AI) fit very well for this specific type of future projects.

Magsys has continued the launch of CA Traffic products in the French market and with good interest and we now start to test CitySyncs new ANPR products to monitor traffic flows in different places in France. Both CA Traffic and CitySync build together with Magsys solutions from our different products and synergies are developed continuously.

Both TagMaster and Balogh have had Rail businesses somewhat over budget during the quarter. We do, however, see a lower level for the full year compared to last year, which was an exceptionally strong year for our rail sales. Balogh has in small scale started deliveries of its new SIL4 product platform and TagMaster has during the quarter received business on its new RailTag from the London Underground project.

We have come very far with the integration work for our acquisitions, but like always we still have work to do and it is worth mentioning that the variation could be significant between quarters and years since among others our Rail business is volatile.

Jonas Svensson

CEO

Comments to the result and balance sheet

Turnover and result

During the quarter a slight increase in sales was noted. Net sales for the second quarter was 50,7 MSEK (50,5), an increase of 0,4%. The result (EBITDA) was 3,4 MSEK (5,2), a decrease of 34,6%, and a margin of 6,7% (10,3).

The costs during the quarter were 28,0 MSEK (28,6). No activation of direct development costs has been made. Included in tax on profit of the year is tax revenue of 2,3 MSEK based on R&D expenditures in Balogh SA and CitySync.

Cash flow and financial position

As per June 30, 2018 available liquidity was 43,3 MSEK (39,0) of which the revolving credit is 12,0 MSEK (12,0). Solidity at the end of the period was 57,5% (51,1). Cash flow from operating activities for the period was 11,6 MSEK (4,3). The strong cash flow is mainly due to received payments for accounts receivable attributable to the high sales at the end of the previous quarter.

Accounts receivable were 39,3 MSEK (33,2) and trade payables were 13,8 MSEK (17,5). The inventories were 38,2 MSEK (36,2), all as per June 30, 2018. The ongoing outsourcing projects in Balogh and CA Traffic and the termination of products process in which the costumers are offered a last-time-by opportunity have created temporary high inventory levels. Our assessment is that the inventories will be at normalized lower levels during the later part of 2018.

Employees, organization and personnel

The number of employees in the TagMaster Group was at the end of the period 81 (97). In connection with the turnaround processes

As part of the turnaround process in our acquired companies the number of employees in England have been reduced by 23 persons during the last 12 months. The activities to streamline our organization continue and will lead to further staff reductions However, we are investing in our sales organization which will outweigh any reductions.

Business during the quarter

Traffic Solutions

During the quarter we have continued the launch of our ANPR products in the fast-growing US market, which will continue for several quarters to come. The positive development we have seen in India for RFID readers in toll road projects has been quieter during the quarter, but we estimate that this market will grow further when we launch our toll road products towards the end of the year. We continue to recruit more sales resources in all our home markets (The Nordics, UK and France). We will during the quarters to come focus even more on the UK market since the business opportunities are big and we have positioned ourselves well after the changes and the excellent development work, both in CA Traffic and in CitySync. We are still actively building our brand through participation in several fairs in our focus markets. During the period we participated at the IPI in Orlando and at Parkex and IFSEC in England and we will during the autumn exhibit at more than 10 fairs in our own regime and together with our partners in further fairs. The next fair is the ITS World Congress taking place in Copenhagen in September this year.

CA Traffic has started launch of their products in the Nordic markets through TagMasters network and in the French market Magsys has already started sales of CA Traffics radar products. The ANPR assortment of CitySync and of CA Traffic continue to integrate and the development departments, which are now merged, have started to develop our new ANPR platform. Our ambition is to become a market leading supplier in ANPR solutions for our selected segments.

We have divided our product offerings into four subgroups showing better how our companies work together. We have **Infomobility** consisting of Magsys and CA Traffics traffic products, we have **ANPR** composed of CitySync and CA Traffic ANPR products and who are now merged and we also have **RFID Traffic** and **RFID Rail** consisting of TagMaster and Balogh. Our total competence in RFID, Radar, ANPR and traffic monitoring products (Infomobility) differentiate us, which was very visible at the IFSEC fair where we got a lot of attention. With the above offering, and with our focus on advanced sensor systems, we will become a more attractive partner for the system integrators building the smart cities of the future.

Rail Solutions

We have during the quarter had ongoing serial deliveries to Rail customers. Balogh has in small scale started delivery of its new SIL4 product platform and TagMaster has during the quarter received business for its new RailTag from the London Underground project. We estimate that our customers' project portfolios will increase later during 2018, which will give us new projects and more product deliveries during the years to come.

We also expect to get some more business in the CBTC (Communication Based Train Control) area and to increase our market through further business in the Chinese market. Both TagMaster and Balogh work together with their common customers to increase their presence with the Chinese joint ventures established. Medium term we also expect the US market to become more interesting.

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 results development will stop momentarily as we invest in future growth, which means costs may come before 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 our acquisitions requiring changes of different amplitude, which could also take longer than planned. To meet the demand and to aspire to the position of market leading supplier of advanced RFID, Radar & ANPR solutions, TagMaster/CitySync/Balogh/CA Traffic/Magsys 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 especially within Traffic solutions. TagMaster will continue the work to find more opportunities to acquire selective businesses in adjacent technology areas like sensors, detectors and other identification technology with the purpose of increasing our offering and becoming a more attractive supplier of information which is a prerequisite to 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 2018 and 2019 fiscal years:

Interim report, January – September:	October 25
Earnings release 2018:	January 24

This as well as previous financial reports could be found at the company homepage 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 13, 2018.

Consolidated income statement

KSEK	Q2		Q1 - Q2		Full year
	2018	2017	2018	2017	2017
Net revenue	50 715	50 498	107 694	92 557	195 394
Change in inventories of product in progress and finished goods	223	870	730	1 151	2 630
Other operating income	457	101	772	101	567
Total operating income	51 395	51 469	109 196	93 809	198 591
Goods for resale	-19 893	-17 586	-42 372	-32 293	-69 355
Other external costs	-10 212	-11 111	-21 321	-20 062	-38 913
Personnel costs	-17 830	-17 486	-36 677	-30 701	-67 797
Other operating expenses	-75	-76	-185	-736	-706
Operating profit before depreciation and amortization (EBITDA)	3 385	5 210	8 641	10 017	21 820
Depreciation	-142	-183	-400	-278	-582
Amortization	-2 617	-1 460	-5 033	-2 344	-6 645
Operating profit after depreciation and amortization (EBIT)	626	3 567	3 208	7 395	14 593
Financial items	-49	12	-104	-214	-432
Profit after financial items	577	3 579	3 104	7 181	14 161
Tax	217	477	583	-40	2 909
Net profit	794	4 056	3 687	7 141	17 070

Key ratios

	Q2		Q1 - Q2		Full year
	2018	2017	2018	2017	2017
Net sales growth, %	0,4	145,0	16,3	104,6	71,6
EBITDA-margin, %	6,7	10,3	8,0	10,8	11,2
Equity ratio, %	57,5	51,1	0,0	0,0	51,8
Earnings per share before dilution, SEK	0,00	0,02	0,02	0,04	0,09
Earnings per share after dilution, SEK	0,00	0,02	0,02	0,04	0,09
Number of shares, average, thousand	201 389	178 152	201 389	173 017	187 320
Number of shares, end of the period, thousand	201 389	201 389	201 389	201 389	201 389
Market price on closing day, SEK	1,57	2,32			1,65
Number of employees at end of period	81	97			92

Consolidated balance sheet

KSEK	30 June		
	2018	2017	2017-12-31
ASSETS			
Intangible assets	51 242	46 552	53 286
Tangible assets	1 111	1 029	1 425
Financial assets	6 866	5 336	9 135
Inventories	38 194	36 199	40 210
Trade receivables	39 286	33 208	46 267
Other receivables	15 302	19 603	13 259
Cash and cash equivalents	31 342	26 989	23 276
TOTAL ASSETS	183 343	168 916	186 858
EQUITY AND LIABILITIES			
Equity	105 468	86 268	96 731
Provisions	8 469	5 240	17 604
Long term liabilities to credit institutions	6 500	9 371	7 598
Other long-term liabilities	11 390	11 473	10 766
Trade payables	13 822	17 492	18 736
Other current liabilities	37 694	39 072	35 423
TOTAL EQUITY AND LIABILITIES	183 343	168 916	186 858

Changes in consolidated equity

KSEK	30 June		
	2018	2017	2017-12-31
Opening balance	96 731	45 707	45 707
New share issue	-	34 589	34 589
Warrant payment	-	-20	-20
Transaction difference	5 050	-1 149	-615
Net result	3 687	7 141	17 070
TOTAL EQUITY	105 468	86 268	96 731

Consolidates cash flow analysis

KSEK	Q2		Q1 - Q2		Full year
	2018	2017	2018	2017	2017
Cash flow from operating activities before change in working capital	1 055	5 675	7 594	10 912	38 403
Change in working capital	10 580	-1 397	880	654	-17 865
Cash flow from operating activities	11 635	4 278	8 474	11 566	20 538
Cash flow from investing activities	-561	-29 715	-69	-28 478	-40 132
Cash flow from financing activities	-500	34 120	-1 000	34 035	32 911
Cash flow	10 574	8 683	7 405	17 123	13 317
Cash and cash equivalents at beginning of period	20 766	18 327	23 276	9 903	9 903
Effect of exchange differences	2	-21	661	-37	56
Cash and cash equivalents at end of period	31 342	26 989	31 342	26 989	23 276

Parent company income statement

KSEK	Q2		Q1 - Q2		Full year
	2018	2017	2018	2017	2017
Net revenue	21 003	23 003	42 611	49 160	90 413
Other operating income	436	101	720	101	0
Total operating income	21 439	23 104	43 331	49 261	90 413
Goods for resale	-7 902	-8 460	-15 800	-18 034	-33 587
Other external costs	-3 535	-5 694	-7 488	-11 178	-20 116
Personnel costs	-5 735	-5 746	-12 457	-11 694	-22 436
Other operating expenses	-14	0	-14	-652	-188
Operating profit (EBITDA)	4 253	3 204	7 572	7 703	14 086
Financial items	9	-195	427	-317	-263
Profit after financial items	4 262	3 009	7 999	7 386	13 823
Tax	-938	-19	-1 760	-982	-3 316
Net profit	3 324	2 990	6 239	6 404	10 507

Parent company balance sheet

KSEK	30 June		
	2018	2017	2017-12-31
ASSETS			
Shares in subsidiaries	88 930	72 423	88 930
Long-term receivables from group companies	9 837	10 059	9 288
Deferred tax asset	874	4 968	2 634
Inventories	12 759	8 625	13 053
Trade receivables	9 831	9 763	8 063
Current receivables from group companies	3 217	866	1 976
Other receivables	3 363	4 480	3 475
Cash and cash equivalents	13 346	19 904	15 382
TOTAL ASSETS	142 157	131 088	142 801
EQUITY AND LIABILITIES			
Equity	114 379	104 039	108 142
Provisions	4 753	2 093	7 819
Liabilities to credit institutions	6 500	8 500	7 500
Trade payables	4 462	5 231	7 485
Other current liabilities	12 063	11 225	11 855
TOTAL EQUITY AND LIABILITIES	142 157	131 088	142 801

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 2017.

Operational and financial risks

The operational and financial risks of TagMaster as well as uncertainties are described in the annual report 2017 under the section Risks and risk management.

This report has not been reviewed by the company auditor.

The information is published on July 13, 2018 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 13, 2018

Rolf Norberg
Chairman

Gert Sviberg

Magnus Jonsson

Örjan Johansson

Jonas Svensson
CEO