# TXT e-solutions: Q1 2020

## STRONG GROWTH IN REVENUES AND EBITDA CONTINUES, WHILE INITIAL EFFECTS OF THE COVID-19 CRISIS ARE LIMITED

## Revenues € 16.3 million (+36.8%)

## EBITDA € 2.0 million (+52.0%).

## Significant growth in revenues from software (+50.2%).

## Positive Net Financial Position of € 42.1 million.

- *Revenues € 16.3 million (+36.8%), of which € 2.3 million from software (+50.2%) and € 14.0 million from services and projects (+34.8%).*
- *EBITDA € 2.0 million (+52.0%) after having increased investments in research and development (€ 1.8 million, +55.0%) and commercial investments (€ 1.9 million, +18.1%).*
- *Net profit of € 0.3 million, after amortisation, depreciation and write-downs (€ 0.8 million), financial charges (€ 0.7 million) and tax charges (€ 0.2 million).*
- *Positive Net Financial Position of € 42.1 million (€ 41.4 million as at 31 December 2019).*
- *Impact of COVID-19 on Q1 limited, thanks to the prompt action to increase efficiency and to the digital nature of the services, with almost total continuity of operations (via smart working).*
- *Possible effects of COVID-19 over the mid/long-term, with main impact on the growth rate. Effects linked to the crisis of the civil aviation market mitigated by the type of supply (digital transformation sector) and by the diversification strategy over several markets.*

Milan, Italy, 12 May 2020 – 5.35 p.m.

TXT e-solutions' Board of Directors chaired by Alvise Braga Illa has approved today the operating results as at 31 March 2020.

*"In the current economic and industrial context, solid companies with high technological content, able to read the moment and quickly adapt to the needs of the market and its customers, are rewarded"* comments Enrico Magni, CEO of the Group. *"The TXT Group is recognised as a strategic partner also during this particular period by its clients, who are confirming their trust with new contracts and multi-year projects. We are working intelligently to adapt, compensating sectors in crisis with growth in other divisions or*

*market segments. The Management Team is cohesive and is facing the crisis with courage and determination, ready to seize market and growth opportunities, both organic and inorganic".*

The main operating and financial results for the first quarter of 2020 were as follows:

**Revenues** amounted to € 16.3 million, up +36.8% compared to € 11.9 million in first quarter of 2019. In the first quarter of 2020 revenues from software amounted to € 2.3 million, up +50.2% compared to first quarter of 2019 . Revenues from services and projects amounted to € 14.0 million, up +34.8% compared to first quarter of 2019. Total international revenues represent 26.4% of total revenues.

Revenues in the Aerospace & Aviation (A&A) Division amounted to € 10.5 million, up +18.8% compared to the first quarter of 2019, entirely due to organic growth. Revenues from software in the A&A Division amounted to € 2.0 million, up +52.5% compared to the first quarter of 2019, thanks to recurring projects in the defence sector and multi-year contracts entered into with the main North American OEMs and Airlines at the end of 2019 which guarantee a significant revenue backlog (IFRS 15) for the current and subsequent years. Revenues in the Fintech Division amounted to € 5.7 million, up +89.5% compared to the first quarter of 2019. Revenues from software in the Fintech Division amounted to € 0.3 million, up +36.9% compared to first quarter of 2019 .

The **Gross Margin**, net of direct costs, increased from € 5.2 million to € 7.3 million, an increase of 39.5%. As a percentage of revenues, the gross margin in the first quarter of 2020 amounted to 44.7%, compared to 43.9% in the first quarter of 2019 due to the positive contribution of the rising revenues from software.

**EBITDA** was € 2.0 million, up +52.0% compared to the first quarter of 2019 (€ 1.3 million), following significant investments in research and development (+55.0%) and commercial investments (+18.1%). The increase in general and administrative costs linked to the organic growth and for purchases was fully absorbed by the increase in sales volumes. The margin on revenues was 12.1% compared with 10.9% in the first quarter of 2019, thanks to the favourable revenue mix and the streamlining of the costs structure obtained further to the internal reorganisation process implemented in 2019.

**EBIT** (Operating profit) was € 1.2 million, up +60.9% compared to the first quarter of 2019 (€ 0.7 million). The amortisation and depreciation of intangible and tangible assets amounted to € 0.8 million, up € 0.2 million compared to the first quarter of 2019 due to the acquisition of the Assioma group.

**Financial charges** were € 0.7 million compared to financial income of € 1.3 million in the first quarter of 2019. The prudent and diversified management with investments mainly in multi-segment insurance has made it possible to contain the losses generated by the volatility of the financial markets linked to the COVID-19 pandemic.

**Net profit** amounted to € 0.3 million, down compared to the € 1.4 million in the first quarter of 2019 due to the volatility of the financial markets described above and due to a higher tax rate in the first quarter of 2020 compared to the first quarter of 2019.

The consolidated **Net Financial Position** as at 31 March 2020 was positive for € 42.1 million, disclosing an improvement of € 0.7 million as at 31 December 2019 (€ 41.4 million), mainly due to the EBITDA for the quarter (€ 2.0 million) net of the purchase of treasury shares (€ 0.3 million) and other investment activities.

Consolidated **Shareholders' equity** as at 31 March 2020 amounted to € 82.0 million, essentially in line with 31 December 2019, due to the net profit for the quarter (€ 0.3 million), net of the purchase of treasury shares (€ 0.3 million).

As at 31 March 2020, 1,293,937 treasury shares were held (1,220,971 as at 31 December 2019), accounting for 9.95% of shares outstanding, purchased at an average price of € 3.38 per share.

## Observations on the impacts linked to COVID-19

With the global crisis linked to the COVID-19 pandemic, the TXT Group, like the entire market, found itself having to react so as to mitigate the impacts and rethink the ambitious and challenging growth targets set for the year 2020. The impact on the first quarter is not very significant. It is still early to define the overall impact of the crisis, but the mitigation plan put in place is already delivering results and management is confident with regard to the group's strongpoints, with medium/long-term results in any event positive compared to 2019.

The organisation and all operational resources responded promptly to the crisis, with actions aimed at ensuring the safety of workers and continuity in the provision of services. The digital nature of the services and the Group's solid IT infrastructure has enabled the transition to smart working of almost the entire workforce, with minimal drops in efficiency.

The positive economic results of the first quarter are attributable to the specific characteristics of the TXT Group, which is configured as a strategic digital partner for its prestigious clients, who are seeking and investing as never before in the digitalisation of processes and advanced technological solutions to benefit their efficiency and productivity. Furthermore, we are investing in order to differentiate the offer range with new technological solutions related to the digitalisation of the processes of industrial customers (not only aerospace), with focus on group skills such as artificial intelligence, social distancing, remote training & support, cybersecurity.

At Group level, a further strategic strenght in the current context consists of the differentiation of the business on different markets achieved through the investments made in the last three years; the percentage of revenues of the FinTech Division grew from 21.3% in the first quarter of 2018 to 35.2% in the first quarter of 2020, although the Aerospace & Aviation Division grew organically by 42.5% in the same period.

The Aerospace & Aviation Division is exposed to a greater impact due to COVID-19, which sees civil aviation in crisis with airlines (in 2019, 6% of Group revenues) with fleets on the ground, and a medium-long term impact on aircraft manufacturers and the entire production chain. The impact in the short/medium term is mitigated by revenues from software licences (IFRS 15) contractually agreed at the end of 2019, and by the acquisition of new multi-year contracts in the defence aeronautics sector, which is not particularly affected by the current crisis. The accounting on strategic customers, leaders in the sector even during the crisis, is being strengthened. *"The impact of the COVID-19 pandemic on the market is devastating and its repercussions are still unpredictable, particularly in the civil aviation sector,"* comments Daniele Misani, Managing Director, director of the Aerospace Division. *"We are adapting, alongside our customers, accompanying them in this market transformation. Despite the difficulties of the period, the confirmation of a solid backlog of licenses and new defence contracts, combined with the passion, resilience and professionalism of our great team, allow us to continue to plan the future with a positive attitude".*

The FinTech Division continues on its accelerated growth path, with revenues up +89.5% YoY as at 31 March 2020; in the current environment, financial markets continue their activities, with the main players in the sector increasing investments linked to Digital Transformation. In this context, the TXT Group's specialised technological expertise is furthering the acquisition of new contracts linked to specialised services and technological platforms that increase the Group's prestige and market positioning. The strategies and growth objectives of the FinTech Division have not been negatively impacted by the current COVID-19 crisis.

## Subsequent events and outlook

The second quarter of 2020 began in a context of heavy global uncertainty, with some of the main manufacturing sectors such as civil aviation and automotive experiencing a sharp drop in volumes and sales forecasts that, in some cases, are putting the survival of smaller and less solid entities to the test. In other sectors such as the financial and digital industry sector, the effects of the global COVID-19 crisis have not affected business continuity, but the focus on investments has shifted further in favour of services and technological solutions dedicated to Digital Transformation processes.

The TXT Group is still registering a positive trend, with inevitable inefficiencies mitigated by corrective action, and uncertainties on the pace of growth due to the anomalous market situation. There are also positive signs on the commercial front; in the first part of the second quarter, important new contracts were signed, among which we would like to mention the following: i) a new multi-year contract for projects worth over € 5 million over three years, entered into with a leading Italian banking group, ii) new contracts in the aeronautical defence sector, worth a total of around € 1.5 million for the current year entered into in Italy and Germany, iii) the awarding of financed projects in the Artificial Intelligence sector in consortium with industrial Market Leaders, involving financing of € 1 million over the next 3 years.

The prudent management of the considerable liquidity and the partial recovery of financial markets in the first part of the second quarter are progressively absorbing the negative impact of financial charges on the net result; net financial charges at 11 April 2020 are € 0,3 milion, lower than € 0,7 milion at March 31, 2020 .

The process of inorganic growth continues, several different opportunities are being evaluated. On 14 April 2020, TXT formalised the purchase of 60% of a FinTech start-up whose corporate name has been changed to TXT Working Capital Solutions Srl, an innovative start-up dedicated to the study and development of solutions for the Factoring and Supply Chain Finance market. The mix of more than thirty years of technical expertise re-introduced to the solution by its creator and TXT's proven expertise in software and processes, together with TXT's consolidated relationships with major Italian financial and industrial operators, are the main strategic levers of the proprietary platform we are developing for the SCF market.

The purchase of the 60% shareholding took place via the subscription by TXT of a capital increase for € 0.3 million, plus € 0.5 million of share premium, paid in cash using available liquidity. TXT e-solutions and the shareholders also entered into a Put/Call option contract to purchase the remaining 40% at a price commensurate with the financial and economic results of TXT Working Capital Solutions activities in 2024. Today the company reports negative economic results linked to the development costs of the platform in the presence of zero revenues. The first FinTech range for Supply Chain Finance will be on the market as from June 2020.

## Declaration of the designated officer in charge of drafting the company's accounting documents

The Designated Officer in charge of drafting the company's accounting documents, Eugenio Forcinito, herein declares, pursuant to Article 154-bis, Paragraph 2 of Legislative Decree no. 58 of 24 February 1998 that the accounting information contained in this press release corresponds to the documentary records, books and accounting entries

As from today, this press release is available also on the company's website www.txtgroup.com.

**TXT e-solutions** is an international software products and solutions vendor. Specialized in the most dynamic and agile markets with the highest degree of innovation and renewal that require state-of-the art solutions, TXT is focused on two main business areas: specialized software products and advanced Software-related Engineering Services for companies in the Aerospace, Aviation and Automotive; testing and quality services in Banking. The company has been listed on the Italian Stock Exchange - STAR segment (TXT.MI) - since July 2000. TXT is based in Milan and has subsidiaries in Italy, Germany, United Kingdom, France, Switzerland and USA

**For information:**

Eugenio Forcinito
CFO
Tel. +39 02 257711

## Management Income Statement as of 31 March 2020

| *€ thousand* | Q1 2020 | % | Q1 2019 | % | Var % |
|---|---|---|---|---|---|
| **REVENUES** | **16,255** | **100.0** | **11,885** | **100.0** | **36.8** |
| Direct costs | 8,981 | 55.3 | 6,671 | 56.1 | 34.6 |
| **GROSS MARGIN** | **7,274** | **44.7** | **5,214** | **43.9** | **39.5** |
| Research and Development costs | 1,803 | 11.1 | 1,163 | 9.8 | 55.0 |
| Commercial costs | 1,872 | 11.5 | 1,585 | 13.3 | 18.1 |
| General and Administrative costs | 1,634 | 10.1 | 1,174 | 9.9 | 39.2 |
| **EBITDA** | **1,965** | **12.1** | **1,292** | **10.9** | **52.1** |
| Depreciation | 487 | 3.0 | 331 | 2.8 | 47.1 |
| **CURRENT OPERATING PROFIT (EBITA)** | **1,478** | **9.1** | **961** | **8.1** | **53.8** |
| Amortization | 306 | 1.9 | 233 | 2.0 | n.m. |
| **OPERATING PROFIT (EBIT)** | **1,172** | **7.2** | **728** | **6.1** | **61.0** |
| Financial income (charges) | (672) | (4.1) | 1,278 | 10.8 | n.m. |
| **EARNINGS BEFORE TAXES (EBT)** | **500** | **3.1** | **2,006** | **16.9** | **(75.1)** |
| Taxes | (248) | (1.5) | (581) | (4.9) | (57.3) |
| **NET PROFIT** | **252** | **1.6** | **1,425** | **12.0** | **(82.3)** |

## Income Statement as of 31 March 2020

| *€ thousand* | 31.03.2020 | % | 31.12.2019 | % |
|---|---|---|---|---|
| Revenues and other income | 16,254 | 100.0 | 11,885 | 100.0 |
| **TOTAL REVENUES AND INCOME** | **16,254** | **100.0** | **11,885** | **100.0** |
| Purchases of materials and services | 3,566 | 21.9 | 2,215 | 18.6 |
| Personnel costs | 10,621 | 65.3 | 8,267 | 69.6 |
| Other operating costs | 103 | 0.6 | 110 | 0.9 |
| Amortizations, depreciation and write downs | 792 | 4.9 | 565 | 4.8 |
| **OPERATING RESULT** | **1,172** | **7.2** | **728** | **6.1** |
| Financial income/(charges) | (672) | (4.1) | 1,287 | 10.8 |
| Investor's share in the associate's profits and losses | - | 0.0 | (9) | (0.1) |
| **PRE-TAX RESULT** | **500** | **3.1** | **2,006** | **16.9** |
| Income Taxes | (248) | (1.5) | (581) | (4.9) |
| **NET INCOME** | **252** | **1.6** | **1,425** | **12.0** |

## Net Financial Position as of 31 March 2020

| *€ thousand* | 31.03.2020 | 31.12.2019 | Var |
|---|---|---|---|
| Cash | 12,274 | 11,426 | 848 |
| Trading securities at fair value | 86,630 | 87,320 | (690) |
| Other Short Term Financial Assets | - | - | - |
| Short term Financial Debts | (27,392) | (25,306) | (2,086) |
| **Short term Financial Resources** | **71,512** | **73,440** | **(1,928)** |
| Non current Financial Debts - Lessors IFRS 16 | (4,233) | (4,517) | 284 |
| Other Non current Financial Debts | (25,152) | (27,512) | 2,360 |
| Non current Financial Debts | (29,385) | (32,029) | 2,644 |
| **Net Available Financial Resources** | **42,127** | **41,411** | **716** |

# Consolidated Balance Sheet as of 31 March 2020

| *€ thousand* | 31.03.2020 | 31.12.2019 | Var |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Goodwill | 19,640 | 19,640 | 0 |
| Definite life intangible assets | 4,460 | 4,741 | (281) |
| **Intangible Assets** | **24,100** | **24,380** | **(281)** |
| Buildings, plants and machinery | 7,838 | 7,929 | (91) |
| **Tangible Assets** | **7,838** | **7,929** | **(91)** |
| Investments in associates | 0 | 0 | 0 |
| Other non-current assets | 259 | 259 | 0 |
| Deferred tax assets | 2,026 | 2,067 | (41) |
| **Other non-current assets** | **2,285** | **2,325** | **(41)** |
| **TOTAL NON-CURRENT ASSETS** | **34,222** | **34,634** | **(413)** |
| **CURRENT ASSETS** | | | |
| Inventories | 5,669 | 4,156 | 1,514 |
| Trade receivables | 18,652 | 19,371 | (718) |
| Other current assets | 6,457 | 4,779 | 1,677 |
| Other short term financial assets | 0 | 0 | 0 |
| Trading securities at fair value | 86,630 | 87,320 | (690) |
| Cash and other liquid equivalents | 12,274 | 11,426 | 848 |
| **TOTAL CURRENT ASSETS** | **129,682** | **127,052** | **2,630** |
| **TOTAL ASSETS** | **163,904** | **161,686** | **2,218** |
| **EQUITY AND LIABILITIES** | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 6,503 | 6,503 | 0 |
| Reserves | 14,429 | 14,731 | (302) |
| Retained earnings | 60,618 | 60,304 | 314 |
| Profit (Loss) for the period | 237 | 314 | (77) |
| **TOTAL SHAREHOLDERS' EQUITY (Group)** | **81,787** | **81,852** | **(64)** |
| Minority shareholder’s equity | 183 | 168 | **15** |
| **TOTAL SHAREHOLDERS' EQUITY** | **81,971** | **82,020** | **(49)** |
| **NON-CURRENT LIABILITIES** | | | |
| Non-current fiancial liabilities | 29,385 | 32,029 | (2,644) |
| Severance and other personnel liabilities | 3,106 | 3,110 | (4) |
| Deferred tax liabilities | 1,200 | 1,280 | (80) |
| Provisions for future risks and charges | 119 | 119 | 0 |
| **TOTAL NON-CURRENT LIABILITIES** | **33,810** | **36,538** | **(2,728)** |
| **CURRENT LIABILITIES** | | | |
| Current financial liabilities | 27,392 | 25,306 | 2,086 |
| Trade payables | 2,276 | 2,122 | 153 |
| Tax payables | 3,142 | 3,013 | 130 |
| Other current liabilities | 15,314 | 12,688 | 2,626 |
| **TOTAL CURRENT LIABILITIES** | **48,124** | **43,129** | **4,995** |
| **TOTAL LIABILITIES** | **81,933** | **79,666** | **2,267** |
| **TOTAL EQUITY AND LIABILITIES** | **163,904** | **161,686** | **2,218** |

# Consolidated Statement of Cash Flows as of 31 March 2020

| € | 31 March 2020 | 31 March 2019 |
|---|---|---|
| **Net Income** | **252,405** | **1,424,674** |
| Non cash costs (Stock option) | 8,157 | |
| Financial interest paid | 18,574 | 42,054 |
| Variance Fair Value Financial Assets | 690,038 | (1,393,814) |
| Current income taxes | 129,587 | 454,342 |
| Variance in deferred taxes | (38,922) | (114,566) |
| Amortization, depreciation and write-downs | 785,413 | 564,721 |
| Other non cash costs | (1,739) | 33,804 |
| **Cash flows generated by operations before working capital** | **1,843,513** | **1,011,215** |
| (Increase) / Decrease in trade receivables | 718,194 | 352,281 |
| (Increase) / Decrease in inventories | (1,513,704) | (1,985,314) |
| Increase / (Decrease) in trade payables | 153,445 | (343,732) |
| Increase / (Decrease) in other current assets/liabilities | 959,565 | 1,763,069 |
| Increase / (Decrease) in severance and other personnel liabilities | (3,872) | (55,627) |
| **Changes in working capital** | **313,628** | **(269,323)** |
| **CASH FLOW GENERATED BY OPERATIONS** | **2,157,141** | **741,892** |
| Increase in tangible assets | (285,629) | (260,650) |
| Increase in intangible assets | (1,520) | (1,037) |
| Decrease in other fixed assets | 17,051 | |
| **CASH FLOW GENERATED BY INVESTING ACTIVITIES** | **(270,098)** | **(261,687)** |
| Proceeds from borrowings | 2,000,000 | 429,582 |
| (Repayment) of borrowings | (2,355,256) | (7,055,867) |
| (Repayment) of Leasing liabilities | (359,976) | (238,989) |
| (Increase) / Decrease in other financial credits | - | 9,966,194 |
| Increase / (Decrease) in other financial liabilites | - | 53,754 |
| Dividends paid | - | - |
| Financial interests paid | - | (30,401) |
| (Purchase)/Sale of Treasury Shares | (323,683) | (673,937) |
| **CASH FLOW GENERETED BY FINANCIAL ACTIVITIES** | **(1,038,915)** | **2,450,336** |
| **INCREASE / (DECREASE) IN CASH** | **848,128** | **2,930,541** |
| Difference in Currency Translation | (350) | (2,890) |
| **Cash at beginning of the period** | **11,426,083** | **5,593,125** |
| **Cash at the end of the period** | **12,273,861** | **8,520,776** |