



## Interim report January to June 2016

### Continued development, restructuring and cost reductions in CitySync and cost reductions in TagMaster charging the quarter

#### Second quarter

- Net sales increased during the first quarter by 10,4% to 20,6 MSEK (18,7)
- Result before depreciation (EBITDA) was -4,9 MSEK (2,5), corresponding to a margin of -23,8% (13,3)
- Net result after tax was -5,2 MSEK (1,9)
- Result per share was -0,03 (0,02)
- CitySync Ltd introduces a restructuring program including among other personnel reductions and reorganization charging the quarter with 3 MSEK in costs
- Cash flow from the business for the period was -2,0 MSEK (3,8)
- The Balogh acquisition is proceeding and is expected to be finalized in Q3

#### First half year

- Net sales increased during the period by 19,3% to 45,2 Mkr (37,9)
- Result before depreciation (EBITDA) was -2,9 Mkr (5,1), corresponding to a margin of -6,4% (13,5)
- Net result after tax was -4,3 Mkr (3,9)
- Result per share was -0,03 (0,03)
- Cash flow from the business for the period was -2,2 Mkr (7,2)

#### About TagMaster

*TagMaster is an application driven technology company that designs and markets advanced identification systems and solutions based on radio & vision technology (RFID & ANPR) for demanding environments. Business areas include Traffic Solutions and Rail Solutions providing innovative mobility solutions, sold under the brands TagMaster & CitySync, 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, 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. For more information about TagMaster, please visit [www.tagmaster.com](http://www.tagmaster.com)*

## Comments by the CEO

Our sales during the second quarter has been weak in the CitySync part and there has been much focus on product development, both general d´for the company and for specific customers.

As we have described earlier CitySync is going through a thorough change where the strategy has been totally changed and as a result of the strategy change we expect a lower sales this year before it goes into a new growth period. We have consciously left a number of bigger non profitable projects and instead focused on building a scalable business model supported by several product launches during 2016. We have also chosen to focus our market resources on fewer markets common to TagMaster's markets.

CitySync's sales during the quarter has been very weak due to both external and internal circumstances. Internally we have been delayed in product development, slow with sales synergies and locked into old project commitments, which have taken a lot of time and split up our focus.

We will therefore restructure the business and we reserve a cost of 3 MSEK for this and where also write down of project costs is included. We will reorganize the business to become more of a product department instead of an independent company and this will lead to personnel reductions and changes in product management, development, sales and administration. Several of these functions will be centralized to TagMaster and the cost reductions are estimated to 3,5 MSEK on a yearly basis.

We launched during Q1 the CitySync 50, an ANPR camera with all functionality integrated in the camera and which could work standalone making it well suited for free-flow parking and for bus lane enforcement. CitySync 50 is now after some delay expected to start delivery in August. In parallel with hardware launches we improve our software and we offer a brand new web based user interface with the purpose to simplify and shorten installation time. We intend to launch this in the beginning of Q4

Our rail business has been recognized by intensive NRE (non recurring engineering) work for the big rail project announced at the end of last year. We work on a new rail reader where prototypes have been finalized during the quarter, which is in record time for a project of this complexity. We also work on a new rail tag with 20 year lifetime to be used in the same project, but also in future projects. We have, however, had a lower speed of serial deliveries which influences our sales negatively by 2 MSEK. We still judge that further mid-size projects will come during 2016 and with serial deliveries in the years to come.

Our Traffic business has continued to develop well in several of our markets with increasing margins. The US market has continued to develop well while the markets in the ME region and in the Nordics have been disappointing. We have during the quarter increased our market activities significantly among others through participation in several fairs. We estimate that our newly launched UHF products will have a positive impact on sales and margin during the years to come. We also continue the work to develop more products in our UHF family and we will launch more new products towards the end of 2016. Our quarterly result of -5,2 MSEK (1,9) is a disappointment and in addition to the already mentioned restructuring in CitySync, also TagMaster will make personnel reductions and cost

savings. With these measures we expect to be back on the former result levels during the second half of the year.

*Jonas Svensson*  
CEO

## Comments to the result and balance sheet

### **Turnover and result**

During the quarter sales increased depending on the acquired business. Net sales for the second quarter was 20,6 MSEK (18,7), an increase of 10,4%. The result (EBITDA) was -4,9 MSEK (2,5) which corresponds to a margin of -23,8% (13,3). From the sales 3,6 MSEK and from the result -2,0 MSEK are derived from CitySync.

The costs during the quarter were 13,7 MSEK (9,1). The overall increase is related to a bigger structure coming from the acquisition of CitySync and onetime costs connected to the ongoing acquisition of Balogh, marketing costs such as fairs and development costs for our big rail project. No activation of direct development costs has been made.

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

As per June 30, 2016 available liquidity was 19,5 MSEK (49,0) of which the revolving credit is 8,0 MSEK (8,0). Solidity at the end of the period was 61,1% (73,3). Cash flow from the running business was for the period -2,0 MSEK (7,2 Q1-Q2).

Accounts receivable were 10,3 MSEK (8,3) and supplier debts were 4,7 MSEK (5,7). The inventories were 13,2 MSEK (8,9), all as per June 30, 2016. The big increase of the inventories is explained by the CitySync inventories being included.

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

The number of employees in the TagMaster Group Was at the end of the period 40 (17). The average number of employees were 40 (17). The number of employees in CitySync has been decreased by 11 full time employees since the acquisition.

## Business during the quarter

**Traffic Solutions (Access/Parking):** We continue our work and efforts with the partner program 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 our focus on North America, together with our local partner, being successful and more customers see the advantages with our products and the local service provided. We continue to actively build our brand being present at several fairs in this market, the

world's largest RFID market and during the period we participated in both IPI and PIE, the leading parking fairs in the US.

We also continue the work to strengthen our presence significantly in our European markets where we believe we have a good opportunity for profitable growth during the years to come. We participated during April in the Intertraffic fair, the world's largest fair for traffic solutions and which is held every second year in Amsterdam and there was a great interest in our total offering of both RFID and ANPR products. We have during the quarter also participated at IFSEC in London and at Parkex in Coventry.

Much focus was on the new XT-Mini directed specifically towards smaller parking and access installations, where sales started during the first quarter. XT-Mini is positioned to be used by e.g. Condominiums, company parkings and smaller parking garages. CitySync has during the quarter started to sell CitySync 30, which is an ANPR camera directed partly towards the same application areas as XT-Mini and which was followed by the CitySync 50 ANPR camera launched during the Intertraffic fair. We will continue to address existing and new customers with our combined and stronger product offering where our total competence in RFID and ANPR makes us differentiate ourselves and where we will become a more attractive partner for the system integrators building the smart cities of the future. We will during the second half of the year work intensively with the integration of our RFID and ANPR offerings and the sales force will work with our total assortment in their respective regions to implement synergies in a more natural way.

### **Rail Solutions**

We have during the period worked intensively with project work (NRE) with the ambition to deliver prototypes for our big rail project during the second quarter with which we have succeeded. We do, however, risk that there will be delays in the project due to that our customer has seen delays from other suppliers. For us this means delayed product deliveries and that some sales budgeted for this year will roll over to 2017. We have during the first half year had a low level of serial deliveries to other rail customers, but we see their project portfolios increasing which will end up in new projects. As we have mentioned before it is clear that our value proposition has become stronger with our new business model where we have the opportunity to offer our Rail customers to share our knowhow and application knowledge also in project form. . We have already today a growing share of our Rail business through project sales and we see our relations developing positively while we also get access to more income flows increasing our business. We also see that our focus, a clear focus towards signaling systems suppliers, is successful. We hope to win more business within the CBTC (communication based train control) area and with the (ongoing) acquisition of Balogh our total product offering will become much stronger, which will provide a new dimension for growth in our rail business.

## **Future outlook**

The future outlook is unchanged and the company has good growth opportunities in Traffic Solutions as well as in Rail Solutions. TagMaster/CitySync's market shares are still small in a big and growing market, which means that future growth mainly depends on the company's own ability. We will 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 To meet the demand and to aspire for the position as market leading supplier of advanced RFID & ANPR solutions, TagMaster/CitySync 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 have therefore started 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.

## 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 2014.

### **Risks and uncertainties**

The operational and financial risks of TagMaster as well as uncertainties are described in the annual report 2015 under the section Risks and risk management.

### **Coming reports 2016-2017**

Interim report 3 July-September October 27, 2016

Yearend report January 26, 2017

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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## Consolidated income statement

KSEK	Q2		Q1 - Q2		Full year
	2016	2015	2016	2015	2015
Net sales	20 609	18 667	45 229	37 901	78 975
Cost of goods and services sold	-8 964	-7 113	-18 484	-16 280	-32 582
<b>Gross profit</b>	<b>11 645</b>	<b>11 554</b>	<b>26 745</b>	<b>21 621</b>	<b>46 393</b>
Other income and changes in value	99	46	-58	46	47
Other external costs	-5 621	-4 452	-9 830	-7 745	-18 231
Personnel cost	-8 035	-4 655	-16 737	-8 798	-25 507
Other operating expenses	-2 998	-	-2 998	-	-
<b>Operating profit before depreciation (EBITDA)</b>	<b>-4 910</b>	<b>2 493</b>	<b>-2 878</b>	<b>5 124</b>	<b>2 702</b>
Depreciation	-70	-84	-143	-92	-287
Goodwill amortization	-504	-	-1 027	-	-1 078
<b>Operating profit after depreciation (EBIT)</b>	<b>-5 484</b>	<b>2 409</b>	<b>-4 048</b>	<b>5 032</b>	<b>1 337</b>
Financial items	-66	-27	-224	-49	-50
<b>Profit before tax</b>	<b>-5 550</b>	<b>2 382</b>	<b>-4 272</b>	<b>4 983</b>	<b>1 287</b>
Tax	368	-528	0	-1 103	1 866
<b>Net profit</b>	<b>-5 182</b>	<b>1 854</b>	<b>-4 272</b>	<b>3 880</b>	<b>3 153</b>

## Key ratios

	Q2		Q1 - Q2		Full year
	2016	2015	2016	2015	2015
Net sales growth, %	10,4	15,7	19,3	23,7	26,4
EBITDA-margin, %	-23,8	13,4	-6,4	13,5	3,4
Earnings per share before dilution, SEK	-0,03	0,02	-0,03	0,03	0,02
Earnings per share after dilution, SEK	-0,03	0,01	-0,03	0,03	0,02
Number of shares, average, thousand	167 824	121 599	167 824	114 704	144 712
Number of shares, end of the period, thousand	167 824	167 824	167 824	167 824	167 824

## Consolidated balance sheet

KSEK	30 June		
	2016	2015	2015-12-31
<b>ASSETS</b>			
Non-current assets	22 751	1 262	25 580
Inventories	13 206	8 950	14 372
Trade receivables	10 265	8 326	14 786
Other receivables	4 136	2 947	2 604
Cash and cash equivalents	11 463	41 010	4 492
<b>TOTAL ASSEST</b>	<b>61 821</b>	<b>62 495</b>	<b>61 834</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	37 788	45 809	44 059
Non-current liabilities	9 228	543	1 476
Trade payables	4 727	5 705	6 042
Other current liabilities	10 078	10 438	10 257
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>61 821</b>	<b>62 495</b>	<b>61 834</b>

## Changes in consolidated equity

KSEK	30 June		
	2016	2015	2015-12-31
<i>Opening balance parent company</i>		13 493	
<b>Formation of group</b>	<b>44 059</b>		<b>13 493</b>
New emission	-	28 436	28 390
Warrant payment	170	-	697
Transaction difference	-2 169	-	-1 674
Net result	-4 272	3 880	3 153
<b>TOTAL EQUITY</b>	<b>37 788</b>	<b>45 809</b>	<b>44 059</b>

## Consolidates cash flow analysis

KSEK	Q2		Q1 - Q2		Full year
	2016	2015	2016	2015	2015
Cash flow from operating activities before change in working capital	-2 066	2 466	-430	5 075	3 109
Change in working capital	52	1 378	-1 769	2 135	2 069
<b>Cash flow from operating activities</b>	<b>-2 014</b>	<b>3 844</b>	<b>-2 199</b>	<b>7 210</b>	<b>5 178</b>
Cash flow from financing activities	0	-50	0	-50	-35 174
Cash flow from financing activities	-845	27 981	9 170	27 981	28 619
<b>Cash flow</b>	<b>-2 859</b>	<b>31 775</b>	<b>6 971</b>	<b>35 141</b>	<b>-1 377</b>
Cash and cash equivalents at beginning of period	14 322	9 235	4 492	5 869	5 869
<b>Cash and cash equivalents at end of period</b>	<b>11 463</b>	<b>41 010</b>	<b>11 463</b>	<b>41 010</b>	<b>4 492</b>

## Parent company income statement

KSEK	Q2		Q1 - Q2		Full year
	2016	2015	2016	2015	2015
Net sales	16 975	18 667	35 056	18 667	66 468
Cost of goods and services sold	-7 619	-7 113	-15 069	-7 113	-28 472
<b>Gross profit</b>	<b>9 356</b>	<b>11 554</b>	<b>19 987</b>	<b>11 554</b>	<b>37 996</b>
Other income and changes in value	-140	-114	-285	46	46
Other external cost	-3 820	-4 292	-7 083	-4 452	-12 830
Personnel cost	-5 349	-4 655	-10 612	-4 655	-17 499
<b>Operating profit before depreciation (EBITDA)</b>	<b>47</b>	<b>2 493</b>	<b>2 007</b>	<b>2 493</b>	<b>7 713</b>
Depreciation	-	-84	-	-84	-92
<b>Operating profit after depreciation (EBIT)</b>	<b>47</b>	<b>2 409</b>	<b>2 007</b>	<b>2 409</b>	<b>7 621</b>
Financial items	-162	-27	-478	-27	-311
<b>Profit before tax</b>	<b>-115</b>	<b>2 382</b>	<b>1 529</b>	<b>2 382</b>	<b>7 310</b>
Appropriations	697	-	697	-	-
Tax	368	-528	0	-528	1 866
<b>Net result</b>	<b>950</b>	<b>1 854</b>	<b>2 226</b>	<b>1 854</b>	<b>9 176</b>

## Parent company balance sheet

KSEK	30 June		
	2016	2015	2015-12-31
<b>ASSETS</b>			
Non-current assets	4 194	1 262	4 194
Shares in subsidiaries	35 224	-	35 224
Long-term receivables from group companies	4 329	-	2 847
Inventories	7 943	8 950	8 405
Trade receivables	8 271	8 326	7 891
Other receivables	3 163	2 947	1 911
Current receivables from group companies	697	-	-
Cash and cash equivalents	9 476	41 010	2 990
<b>TOTAL ASSETS</b>	<b>73 297</b>	<b>62 495</b>	<b>63 462</b>
<b>EQUITY AND LIABILITIES</b>			
Equity	53 285	45 809	51 059
Non-current liabilities	9 000	543	1 043
Trade payables	3 930	5 705	4 829
Other current liabilities	7 082	10 438	6 531
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>73 297</b>	<b>62 495</b>	<b>63 462</b>



This report has not been reviewed by the company auditor.

The information is published on July 15 at 09.00 CET.

**The assurance of the board and the CEO**

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 15, 2016

Rolf Norberg  
Chairman

Joe Grillo

Gert Sviberg

Magnus Jonsson

Örjan Johansson

Jonas Svensson  
CEO