



Expert System: the Board of Directors approves the Consolidated Half-Year

Financial Report as of 30 June 2019

Main consolidated results as of 30/06/2019

- Value of production: € 15.4 million (€ 15.9 million at 30/06/2018)
- Revenues from recurring licences increase to 91% of total license revenue (compared to 79% at 30/06/2018)
- EBITDA: € -0.43 million (€ 0.07 million at 30/06/2018)
- Net profit (loss): € -4.0 million (€ -3.7 million at 30/06/2018)
- Net Financial Position: € 5.7 million, a significant improvement (€ 12.4 million at 31/12/2018)
- Shareholders' equity: € 17.9 million (€ 15.1 million at 31/12/2018)

Modena, September 27, 2019

The Board of Directors of Expert System, a leading company in the Artificial Intelligence market, listed on the AIM Italia market, organized and managed by Borsa Italiana, met today and approved the Consolidated Half-Year Financial Report as of 30 June 2019.

Stefano Spaggiari, the Chief Executive Officer of Expert System, declared:

"We are pleased with our performance in this first half of the year, which is in line with our expectations and the seasonal nature of our business. The revenue of the first six months accounts for roughly one-third of forecasted annual revenue, compared to the revenue for the particularly strong first half of 2018 that instead accounted for 45% of the total revenue for that year. The most significant figure for this period is the growth from 79% to 91% of new recurring licence agreements. This makes the perpetual licence sales component, which accounted for 33% of revenue in 2017, now marginal and it validates the success of our commercial strategy. We also achieved important results in some international markets, such as the UK with a +62% increase in revenue, and +23% in France



The indirect channel continued to grow and develop with an increase in the number of partners certified in the use of Cogito and its customization tools. Thanks also to the launch of our new e-learning platform last April, many professionals from companies in 18 countries have already been certified. The growth of the indirect channel is a fundamental element in terms of revenue generation for the next few years and also for the creation of a partner ecosystem that can support customers in the development of projects based on our cognitive artificial intelligence platform.

On the technology front, we announced the new version of Cogito, which optimizes the capabilities to expand our knowledge graph through a faster and streamlined acquisition of new concepts and domain knowledge, accelerates the application of machine learning and simplifies integration with the most important RPA (Robotic Process Automation) solutions. This last feature will enable the effective automation of increasingly more complex processes, requiring advanced cognitive capabilities.

From a financial perspective, the share capital increase of last April is a tangible sign of equity strengthening in view of investments, especially in sales and marketing in the US and in Europe, to grow our share in the AI, cognitive computing and Text Analytics market.”

Main consolidated financial results as of 30 June 2019

The **Value of production** came to € 15.4 million, compared to € 15.9 million recorded in the first half of the previous year. In the first half of 2019, **Revenues reached** € 11.9 million (€ 12.9 million at 30 June 2018). Revenues generated overseas account for 58% of total revenues (54% at 30 June 2018) and, in particular, 35% are generated in Europe and 23% in the US. In terms of absolute value, international revenues are essentially stable; however, significant growth was recorded in France, the result of the restructuring activities carried out in previous years, and in the United Kingdom, confirmation of the gradual penetration of the local market. Revenues from recurring licences accounted for 91% of total revenues from licences as of 30 June 2019, compared to 79% in the last half; this represents a significant increase for the company, as it makes the revenue flows and cash flows more stable over the years.

EBITDA was a negative € 0.43 million (compared to positive € 0.07 million at 30 June 2018), with operating costs remaining in line with the first half of the previous year.

EBIT was a negative € 4.2 million (compared to a negative € 3.6 million at 30 June 2018), after amortization, depreciation and provisions of € 3.8 million.

A **Net loss** of € 4.0 million was recorded (compared to a net loss of € 3.7 million in the first half of 2018).

The **Net financial position** amounted to € 5.7 million, a clear improvement compared to € 12.4 million at 31 December 2018.

Shareholders' equity rose to € 17.9 million, compared to € 15.1 million at 31 December 2018, therefore supporting greater Group equity strength.

International recognition and main events in the first half of 2019

20 June: Fuels Advances in Artificial Intelligence by Integrating Machine Learning and Knowledge Graphs: The company announces new advancements in applying knowledge graphs and machine learning to natural language processing. The results, as published in the Semantic Web journal, are endorsed by the largest empirical study on AI and demonstrate how the Expert System approach outperforms competing efforts and establishes a new state of the art in the field of AI.

4 June: Expert System joined IBM, Microsoft and other industry experts to present at the event "Artificial Intelligence and Big data: Tools for the Digital Transformation of the Public Administration. European prospects and regional development scenarios."

23 April: €7 million capital increase subscribed by private investors, including Claudio Costamagna, Diego Piacentini and Francesco Caio, through the company Ergo Srl.

18 April: enhanced the Cogito artificial intelligence platform training and certification program to guarantee partners with an even more valuable training experience.

12 April: Expert System participates in the 11th edition of CyCon, the International Conference on Cyber Conflict (Tallin, Estonia). Organized by the NATO Cooperative Cyber Defence Centre of Excellence, it is among the most important international events dedicated to the cyber defence sector, with the participation of decision makers, legal and technology experts, private companies and military and government organizations.



19 March: Released Cogito® 14.4: the new version of Expert System’s artificial intelligence platform makes it easier and faster to expand the knowledge graph through the acquisition of new knowledge, improves the machine learning functionalities and makes it easier to add intelligence to process automation (*Robotic Process Automation, RPA*).

11 March: Expert System is included among “100 Companies That Matter in Knowledge Management,” a prestigious recognition awarded by analysts, experts and journalists of the US publication KMWorld.

26 January: Expert System is among the key players at the Applied Machine Learning Days (AMLDD) fair, an international conference devoted entirely to linguistic technologies organized by EPFL, École Polytechnique Fédérale de Lausanne,.

10 January: AXA XL Risk Consulting (AXA Group) chooses Cogito® to enhance its capabilities in Property Risk Engineering through artificial intelligence. The selection of Cogito confirms the unique value of AI in optimizing knowledge-intensive business processes.

Significant events after the close of the first half of 2019

17 September: Expert System is included among the top 15 companies in the search and information analysis sector in the Gartner Magic Quadrant for Insight Engines for the third year in a row.

16 September: The program for the third “Cogito AI Day,” the Expert System Conference dedicated to the applications and advantages of AI, is defined. which will see The event, which will be held on October 24th in Milan, will be led by Francesco Caio, President of Saipem, Marco Varone, President and CTO of Expert System, Mike Gualtieri, VP & Principal Analyst of Forrester Research, and will involve leading companies including Unipol, Illimity Bank and Regione Emilia Romagna.

12 September: Cogito is cited among the best insurance technologies by *Intelligent Insurer* experts, a benchmark for excellence and technological innovation in the UK, with reference to its artificial intelligence solutions for insurance (“*15 ways technology is transforming insurance—and five to watch*”).

2 August: Expert System announces the successful placement of a non-convertible 7-year bond, fully subscribed by Unicredit S.p.A., for a total nominal value of € 5 million, expiring on 2 August 2026. The



bond issue, known as “Obbligazioni Expert System 2019-2026,” is represented by 50 non-divisible bonds with a unit nominal value of € 100,000.

28 July: the Cogito technology is the protagonist at the annual event of the *Association for Computational Linguistics (ACL)* , the international association that brings together the leading experts in the field of computational linguistics.

26 July: the collaboration with Swiss Re is announced, based on the use of Cogito for managing “high intensity information” processes. Once again, the advanced functionalities of Cogito and the ability to understand natural language (*NLU – Natural Language Understanding*) are certified as a strategic business tool.

23 July: Expert System enters the world of cinema and TV thanks to the implementation of Cogito in the ontology developed by MovieLabs, the non-profit R&D joint venture started by the major Hollywood studios. Cogito will help media organizations apply MovieLabs’ ontology to their assets and develop interoperable data systems.

11 July: for the sixth consecutive year, Expert System is a “trend setter” in the Knowledge Management market, confirming Cogito among the “Trend Setting Products” chosen by the US publication KMWorld.

9 July: a new partnership with Datlas, a Business Process Outsourcing company, is announced. Datlas will use Cogito artificial intelligence to strengthen its *Intelligent Process Automation* offering.

Business outlook

The Group is heavily committed to the process of gradual internationalization, embodied by the progressive evolution of its business model, in order to solidify its position as a supplier of cutting edge AI platforms and solutions. Last April’s share capital increase was carried out to bolster these efforts, which will deliver its results in the medium-term, following an initial implementation phase for the various activities, starting with the significant expansion of the sales force. The US market and the main European markets will see major sales and marketing investments in order to better satisfy the growing demand for Artificial Intelligence solutions in the cognitive domain.

For 2019, the Group's objective is to achieve revenues of roughly € 33 million, in line with the provisions of the 2018/2019 Strategic Guidelines, with EBITDA in the € 5-6 million range (compared to € 7-8 million as per the 2018/2019 Strategic Guidelines), influenced primarily by further investments in progress and targeted at both international development and at acquiring new market share. Management is working on drafting the new 2020-2022 business plan, which will be presented with the associated Strategic Guidelines in the next few months.

Treasury shares

As of 30 June 2019, the Parent Company Expert System S.p.A. held 12,278 treasury shares. The change compared to the 76,709 treasury shares held at 31/12/2018 is attributable to the assignment of 64,431 treasury shares following the maturity on 28/06/2019 of the third tranche of the Temis 2016-2020 Stock Grant Plan, already approved by the Shareholders' Meeting of 28/06/2016.

Documentation

The Consolidated Half-Year Financial Report as of 30 June 2019 will be made available to the public according to the terms and methods set forth in the AIM Italia Issuers' Regulation, as well as on the company's website, www.expertsystem.com/it, in the "Investor Relations/Financial Report" section.

This press release is available to the public in the [Investor Relations](#) section on the Company's website and on <https://www.emarketstorage.it/>.

Expert System

A leader in the Artificial intelligence market, Expert System offers the most innovative solutions for process automation and information management. Through the Cogito® technology, based on a combination of semantic understanding and machine learning, we ensure our partners and customers with the acquisition of strategic knowledge for accelerating the decision-making processes and maximising ROI: from customer care to compliance, from the management of risk profiles to security and intelligence. The main customers of the Group, which has offices in Italy, the United States, France, the United Kingdom, Spain, Germany and Canada, include companies and government organizations: Zurich Group, Lloyd's of London, Intesa Sanpaolo, Chevron, Gruppo Eni, Department of Agriculture and Department of Justice of the United States, French Ministry of the Interior and Ministry of Economy



and Finance, Wolters Kluwer, Ely Lilly, Sanofi and Dow Jones. The company has been listed on the AIM Italia market of Borsa Italiana since 2014 (EXSY: MIL).

Expert System

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Profit & Loss Account Consolidated Report	30/06/2019	30/06/2018	Change
Net revenue	11.872.691	12.864.257	(991.566)
Inventory change	(93.190)	4.272	(97.462)
Own work capitalized	2.762.333	2.340.337	421.997
Other income	814.099	694.130	119.969
Production value	15.355.933	15.902.996	(547.063)
External operating costs	(6.347.444)	(6.203.078)	(144.367)
Economic value added (EVA)	9.008.488	9.699.918	(691.430)
Cost of labour	(9.441.534)	(9.628.941)	187.406

EBITDA	(433.046)	70.977	(504.023)
Amortization, depreciation and other provisions	(3.790.374)	(3.638.518)	(151.856)
Net operating profit	(4.223.420)	(3.567.541)	(655.879)
Financial income and expenses	(39.944)	116.777	(156.721)
Ordinary profit	(4.263.364)	(3.450.763)	(812.601)
Net Extraordinary components	-	-	-
Pre - tax results	(4.263.364)	(3.450.763)	(812.601)
Income taxes	240.131	(295.112)	535.243
Net profit (loss)	(4.023.233)	(3.745.876)	(277.358)

Balance Sheet Consolidated Report	30/06/2019	31/12/2018	Change
Net intangible assets	14.002.593	14.733.649	(731.055)
Net tangible assets	718.089	715.423	2.665
Equity investments and other non – current financial assets	4.666.856	4.568.003	98.853
Fixed capital	19.387.538	20.017.076	(629.537)
Short-term financial assets	4.775.574	4.775.574	-
Warehouse inventories	16.121	109.312	(93.190)
Trade receivables	13.018.599	15.792.097	(2.773.499)

Other receivables	5.916.133	5.321.954	594.179
Accrued income and prepaid expenses	596.626	577.090	19.536
Short-term assets	24.323.053	26.576.027	(2.252.974)
Trade Payables	(2.822.413)	(2.807.819)	(14.594)
Advance payments	(353.397)	(236.256)	(117.140)
Tax and social security payables	(1.332.444)	(1.827.535)	495.091
Other payables	(1.897.666)	(2.074.263)	176.597
Accrued expenses and deferred income	(4.648.179)	(3.883.738)	(764.441)
Short-term liabilities	(11.054.098)	(10.829.611)	(224.487)
Net working capital	13.268.955	15.746.416	(2.477.461)
Employee severance indemnity	(2.261.029)	(2.143.307)	(117.722)
Tax and social security payables	-	-	-
Accrued expenses and deferred income after 12 months	(5.279.069)	(4.681.359)	(597.710)
Other medium and long – term liabilities	(1.587.150)	(1.456.729)	(130.420)
Medium/long – term liabilities	(9.127.249)	(8.281.396)	(845.853)
INVESTED CAPITAL	23.529.245	27.482.095	(3.952.851)
Shareholders' equity	(17.859.851)	(15.077.489)	(2.782.362)
Net medium/long – term financial position	(16.711.629)	(14.810.677)	(1.900.952)
Net short – term financial position	11.042.235	2.406.071	8.636.164
OWN EQUITY AND NET FINANCIAL DEBT	(23.529.245)	(27.482.095)	3.952.851

Net Financial Position Consolidated Report	30/06/2019	31/12/2018	Change
Bank deposits	16.855.528	7.880.364	8.975.164
Cash at bank and in hand	2.643	2.420	223
Cheque	-	-	-
Treasury shares	-	-	-
Cash and cash equivalents and treasury shares	16.858.171	7.882.784	8.975.387
Current financial assets	28.474	182.629	(154.155)
Bonds and convertible bonds (within 12 months)	(454.500)	-	(454.500)
Payables for shareholder loans (within 12 months)	-	-	-
Payables due to banks (within 12 months)	(5.241.679)	(4.925.611)	(316.067)

Payables due to other lenders (within 12 months)	(148.231)	(733.731)	585.500
Advances for overseas payments	-	-	-
Short – term portion of loans	-	-	-
Financial receivables	-	-	-
Short-term financial payables	(5.844.410)	(5.659.342)	(185.067)
Net short-term financial position	11.042.235	2.406.071	8.636.164
Bonds and convertible bonds (over 12 months)	(4.545.500)	(5.000.000)	454.500
Payables for shareholder loans (over 12 months)	-	-	-
Payables due to banks (after 12 months)	(10.350.244)	(8.124.081)	(2.226.164)
Payables due to other lenders (after 12 months)	(1.815.884)	(1.686.596)	(129.288)
Advances for overseas payments	-	-	-
Long – term portion of loans	-	-	-
Financial receivables	-	-	-
Net medium/long-term financial position	(16.711.629)	(14.810.677)	(1.900.952)
Net financial position	(5.669.393)	(12.404.606)	6.735.213

Balance Sheet Expert System S.p.A.	30/06/2019	31/12/2018	Change
Net intangible assets	7.398.566	6.903.124	495.442
Net tangible assets	588.934	582.182	6.752
Equity investments and other non – current financial assets	32.463.004	31.646.478	816.526
Fixed capital	40.450.504	39.131.784	1.318.720
Short-term financial assets	4.775.574	4.775.574	0
Warehouse inventories	0	0	0
Trade receivables	9.325.280	9.752.781	(427.501)
Other receivables	10.387.440	8.679.643	1.707.797
Accrued income and prepaid expenses	258.584	413.459	(154.875)
Short-term assets	24.746.878	23.621.457	1.125.421
Trade Payables	(2.092.482)	(2.015.347)	(77.136)

Advance payments	(353.397)	(234.980)	(118.416)
Tax and social security payables	(905.687)	(1.201.166)	295.478
Other payables	(1.923.487)	(1.762.690)	(160.798)
Accrued expenses and deferred income	(1.895.808)	(908.668)	(987.140)
Short-term liabilities	(7.170.862)	(6.122.851)	(1.048.011)
Net working capital	17.576.016	17.498.606	77.410
Employee severance indemnity	(2.261.029)	(2.143.307)	(117.722)
Tax and social security payables	0	0	0
Accrued expenses and deferred income after 12 months	(2.799.392)	(2.141.052)	(658.340)
Other medium and long – term liabilities	(645.690)	(456.248)	(189.442)
Medium/long – term liabilities	(5.706.112)	(4.740.607)	(965.505)
INVESTED CAPITAL	52.320.407	51.889.782	430.625
Shareholders' equity	(44.756.480)	(38.754.162)	(6.002.318)
Net medium/long – term financial position	(15.414.004)	(13.642.341)	(1.771.664)
Net short – term financial position	7.850.077	506.720	7.343.357
OWN EQUITY AND NET FINANCIAL DEBT	(52.320.407)	(51.889.782)	(430.625)

Profit & Loss Account Expert System S.p.A.	30/06/2019	30/06/2018	Change
Net revenue	7.584.544	8.956.045	(1.371.501)
Inventory change	0	(18.113)	18.113
Own work capitalized	1.858.514	1.455.121	403.393
Other income	509.559	463.017	46.542
Production value	9.952.617	10.856.071	(903.454)
External operating costs	(4.515.965)	(4.185.704)	(330.262)
Economic value added (EVA)	5.436.652	6.670.368	(1.233.715)
Cost of labour	(4.713.485)	(3.990.823)	(722.663)
EBITDA	723.167	2.679.545	(1.956.378)
Amortization, depreciation and other provisions	(1.619.757)	(1.574.069)	(45.688)
Net operating profit	(896.591)	1.105.476	(2.002.066)
Financial income and expenses	(57.074)	170.829	(227.903)
Ordinary profit	(953.665)	1.276.304	(2.229.969)
Net Extraordinary components	0	0	0

Pre - tax results	(953.665)	1.276.304	(2.229.969)
Income taxes	(21.262)	(398.982)	377.720
Net profit (loss)	(974.927)	877.322	(1.852.249)

Net Financial Position Expert System S.p.A.	30/06/2019	31/12/2018	Change
Bank deposits	13.663.934	5.550.033	8.113.901
Cash at bank and in hand	2.167	2.144	23
Treasury shares			
Cash and cash equivalents and treasury shares	13.666.101	5.552.177	8.113.924
Current financial assets	8.400	8.400	0
Bonds and convertible bonds (within 12 months)	(454.500)		(454.500)
Payables for shareholder loans (within 12 months)			
Payables due to banks (within 12 months)	(5.241.679)	(4.925.611)	(316.067)
Payables due to other lenders (within 12 months)	(128.245)	(128.245)	0
Advances for overseas payments			
Short – term portion of loans			
Financial receivables			
Short-term financial payables	(5.824.424)	(5.053.856)	(770.567)
Net short-term financial position	7.850.077	506.720	7.343.357

Bonds and convertible bonds (over 12 months)	(4.545.500)	(5.000.000)	454.500
Payables for shareholder loans (over 12 months)			
Payables due to banks (after 12 months)	(10.350.244)	(8.124.081)	(2.226.164)
Payables due to other lenders (after 12 months)	(518.260)	(518.260)	0
Advances for overseas payments			
Long – term portion of loans			
Financial receivables			
Net medium/long-term financial position	(15.414.004)	(13.642.341)	(1.771.664)
Net financial position	(7.563.928)	(13.135.621)	5.571.693