

September 23, 2019



NETSOL Technologies Reports Fiscal Fourth Quarter and Full Year 2019 Financial Results

Double-Digit Topline Growth Drives Record Revenue, Combined with Increased Operational Leverage and Enhanced Cost Structures, Leads to Record \$6.8 Million in Operating Income, an Increase of 124%, and Record Earnings Per Share of \$0.74

CALABASAS, Calif., Sept. 23, 2019 (GLOBE NEWSWIRE) -- **NETSOL Technologies, Inc.** (**NASDAQ: [NTWK](#)**), a global business services and enterprise application solutions provider, reported results for the fiscal fourth quarter and full year ended June 30, 2019.

Fiscal 2019 and Recent Operational Highlights

- Updates related to previously announced 12-country, \$110 million contract with German auto manufacturing giant:
 - Successfully implemented the full suite of NFS Ascent™ modules in China.
 - Successfully implemented NFS Ascent Wholesale Finance System (WFS) in Japan.
 - Successfully implemented NFS Ascent Contract Management System (CMS) in South Africa, a new market.
 - Made continued progress with respect to additional NFS Ascent implementations in Singapore, Malaysia, Hong Kong, India and Thailand.
- Continued to make significant strides in the ongoing implementation process for the deployment of NFS Ascent Retail and Wholesale platforms with European tier-one global auto captive in China related to the \$30 million contract signed in September 2018.
- Successfully implemented NFS Ascent Retail Platform, including Omni-Point of Sale (Omni-POS) and CMS, for a major American auto captive in China, as part of a previously announced multi-million-dollar contract.
- Secured a multi-million-dollar contract with a large independent used vehicle finance company in the UK for the implementation of the NFS Ascent Wholesale Finance Platform.
- Acquired the remaining 49% stake of Virtual Lease Services (VLS), a UK-based portfolio and risk management servicing partner for business and consumer finance providers, after initially acquiring a 51% majority stake in VLS through a joint venture partnership with Investec in 2011.

- Officially launched OTOZ Mobility Innovation Lab, which has been designed to enhance reach of NETSOL Ascent platform into car-sharing opportunities with new and existing auto captive finance customers.
- Announced strategic investment and partnership with Drivemate, the top car-sharing, peer-to-peer car rental service in Thailand, to implement new technology in exchange for future minority interest in the company, providing for a low-risk testing environment for OTOZ with a built-in customer.

Fiscal Fourth Quarter 2019 Financial Results

Total net revenues for the fourth quarter of fiscal 2019 were \$17.3 million, compared with \$16.6 million in the prior year period. The increase in total net revenues was primarily due to an increase in total license fees of \$71,000 and an increase in total maintenance fees of \$626,000, which was offset by a decrease in total services revenues of \$26,000.

- Total license fees were \$3.5 million, compared with \$3.4 million in the prior year period.
- Total maintenance fees were \$4.4 million, compared with \$3.8 million in the prior year period.
- Total services revenues were \$9.4 million, compared with \$9.4 million in the prior year period.

Gross profit for the fourth quarter of fiscal 2019 was \$8.8 million (or 50.8% of net revenues), compared to \$8.5 million (or 51.2% of net revenues) in the fourth quarter of fiscal 2018. The decrease in gross profit as a percentage of net revenues was primarily due to an increase in cost of revenues of \$394,000. The increase in cost of revenue was predominantly driven by increases in travel and other expenses associated with increased implementation needs for the significant new wins recorded in previous quarters. The increase in cost of revenues was offset by decreases in salaries and consultants' costs, decreases in depreciation and amortization costs as well as an increase in total net revenues of \$672,000.

Operating expenses for the fourth quarter of fiscal 2019 increased 5.9% to \$7.8 million (or 45.4% of net revenues) from \$7.4 million (or 44.6% of net revenues) for the fourth quarter of fiscal 2018. The increase in operating expenses was primarily due to an increase in research and development costs.

GAAP net income attributable to NETSOL for the fourth quarter of fiscal 2019 totaled \$3.5 million or \$0.30 per diluted share, an improvement from net income of \$1.2 million or \$0.10 per diluted share in the fourth quarter of fiscal 2018.

Non-GAAP adjusted EBITDA for the fourth quarter of fiscal 2019 totaled \$4.4 million or \$0.38 per diluted share, an improvement from \$2.9 million or \$0.26 per diluted share in the fourth quarter of fiscal 2018 (see note regarding "Use of Non-GAAP Financial Measures," below for further discussion of this non-GAAP measure).

At June 30, 2019, cash and cash equivalents were \$17.4 million, a decrease from \$22.1 million at June 30, 2018.

Full Year Fiscal 2019 Financial Results

Total net revenues for fiscal 2019 were \$67.8 million, compared to \$60.9 million in fiscal 2018. The increase in total net revenues was primarily due to an increase in total license

fees of \$9.9 million and an increase in total maintenance revenues of \$721,000, which was offset by a decrease in total service fees of \$3.7 million.

- Total license fees were \$16.8 million, compared with \$6.9 million in the prior fiscal year.
- Total maintenance fees were \$15.5 million, compared with \$14.8 million in the prior fiscal year.
- Total services revenues were \$35.5 million, compared with \$39.3 million in the prior fiscal year.

Gross profit for fiscal 2019 increased to \$34.4 million (or 50.8% of net revenues) from \$29.2 million (or 47.9% of net revenues) for fiscal 2018. The increase in gross profit as a percentage of net revenues was primarily due to a greater rate of increase in total net revenues when compared to the increase in costs to support those revenues.

Operating expenses for fiscal 2019 increased to \$27.6 million (or 40.7% of net revenues) from \$26.2 million (or 42.9% of net revenues) for fiscal 2018. The increase in operating expenses was primarily due to increases in selling and marketing expenses, salaries and wages and research and development cost.

GAAP net income attributable to NETSOL for fiscal 2019 totaled \$8.6 million or \$0.74 per diluted share, an improvement from net income of \$4.3 million or \$0.38 per diluted share for fiscal 2018.

Non-GAAP adjusted EBITDA for fiscal 2019 totaled \$12.9 million or \$1.11 per diluted share, compared with \$10.3 million or \$0.92 per diluted share in fiscal 2018 (see note regarding "Use of Non-GAAP Financial Measures," below for further discussion of this non-GAAP measure).

Stock Repurchase Program

On May 29, 2019, NETSOL's board of directors approved a stock repurchase program that authorized potential repurchases of up to \$5 million of its common stock over a subsequent twelve-month period. The planned repurchase program will occur in two six-month phases. The first phase allows for execution of up to \$2.5 million in share repurchases during an initial six-month period beginning on May 30, 2019 and expiring on November 30, 2019. After the date of initial expiration, management will have the option to approve a secondary phase, which will cover up to \$2.5 million in additional share repurchases for another six-month period. During the quarter, the company has repurchased 41,650 shares of its common stock at an aggregate value of \$250,945.

Under the program, the company may repurchase its common stock in the open market from time-to-time, in amounts, at prices, and at such times as the company deems appropriate, subject to market conditions and federal and state laws governing such transactions. NETSOL expects to fund the repurchase with its existing cash balance and cash generated from operations.

Management Commentary

"Fiscal 2019 was characterized by the same, consistent financial and operational execution we've been generating for some time now," said NETSOL Co-Founder, Chairman and Chief Executive Officer Najeeb Ghauri. "More specifically, we achieved our goal of double-digit

topline growth, which led to record annual revenues. Even more encouraging has been our ability to retain a meaningful amount of the year-over-year improvement. Our annual operating income of \$6.8 million was another record for NETSOL and an increase of 124% compared to last year. Additionally, we nearly doubled our earnings on a per share basis to \$0.74, which was also our seventh consecutive quarter of profitability.

“Operationally, throughout the year we continued to win new contracts with businesses of all sizes and also announced a number of Go-Live implementations with some of our major international customers. While we continue to believe in the long-term growth opportunity provided by our next generation solution NFS Ascent, we are continuing to look for ways to augment that growth with additional, more consistent revenue streams. Going forward, our growth strategy in fiscal 2020 and beyond will take a three-pronged approach: continued focus on our core business and flagship offering with planned expansion into additional growth markets such as the US and Europe; additional energy and resources devoted to strategic partnerships and innovation-centric efforts outside our core operations, such as our OTOZ Mobility Lab; pursuing highly synergistic inorganic growth opportunities where it makes absolute sense in aiding our existing operations. We believe this new, diversified strategy will allow us to enhance our existing business while also future-proofing NETSOL in the rapidly changing auto leasing and asset financing landscape.”

Sales Outlook

“We are engaged in a number of exciting new opportunities to implement Ascent with both existing clients as well as new prospects,” added President, Head of Sales and CEO OTOZ Naeem Ghauri. “Ascent remains the first in its class platform for auto finance and leasing companies as demand for cutting-edge solutions continues to be robust.”

Conference Call

NETSOL Technologies management will hold a conference call today (September 23, 2019) at 11:00 a.m. Eastern time (8:00 a.m. Pacific time) to discuss these financial results. A question and answer session will follow management's presentation.

U.S. dial-in: 1-877-407-0789

International dial-in: 1-201-689-8562

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at 1-949-574-3860.

The conference call will be broadcasted live and available for replay [here](#) and via the Investor Relations section of NETSOL's [website](#).

A replay of the conference call will be available after 2:00 p.m. Eastern time on the same day through October 7, 2019.

Toll-free replay number: 1-844-512-2921

International replay number: 1-412-317-6671

Replay ID: 13694239

About NETSOL Technologies

NETSOL Technologies, Inc. (NASDAQ: NTWK) is a worldwide provider of IT and enterprise

software solutions primarily serving the global Leasing and Finance industry. The Company's suite of applications is backed by 40 years of domain expertise and supported by a committed team of more than 1,300 professionals placed in eight strategically located support and delivery centers throughout the world. NFS, LeasePak, LeaseSoft or NFS Ascent – help companies transform their Finance and Leasing operations, providing a fully automated asset-based finance solution covering the complete leasing and finance lifecycle.

Forward-Looking Statements

Certain statements in this press release are forward-looking in nature, including, but not limited to, expected net revenue and the demand for and sales lifecycle of NFS Ascent, and accordingly, are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. The words "expects," "anticipates," variations of such words, and similar expressions, identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, but their absence does not mean that the statement is not forward-looking. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict. Factors that could affect the Company's actual results include the progress and costs of the development of products and services and the timing of the market acceptance. The subject Companies expressly disclaim any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change in the company's expectations with regard thereto or any change in events, conditions or circumstances upon which any statement is based.

Use of Non-GAAP Financial Measures

The reconciliation of Adjusted EBITDA to net income, the most comparable financial measure based upon GAAP, as well as a further explanation of adjusted EBITDA, is included in the financial tables in Schedule 4 of this press release.

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NETSOL Technologies, Inc. and Subsidiaries

Schedule 1: Consolidated Balance Sheets

ASSETS	As of June 30, 2019	As of June 30, 2018
Current assets:		
Cash and cash equivalents	\$ 17,366,364	\$ 22,088,853
Accounts receivable, net of allowance of \$192,786 and \$610,061	12,332,714	12,775,461
Accounts receivable, net of allowance of \$166,075 and \$0 - related party	3,266,600	3,374,272
Revenues in excess of billings, net of allowance of \$194,684 and \$0	14,719,047	14,285,778
Revenues in excess of billings - related party	110,827	-
Convertible note receivable - related party	3,650,000	2,123,500
Other current assets	3,146,264	2,703,032

Total current assets	54,591,816	57,350,896
Revenues in excess of billings, net - long term	1,281,492	1,206,669
Property and equipment, net	12,096,855	16,165,491
Long term investment	2,653,769	3,217,162
Other assets	23,569	70,299
Intangible assets, net	7,332,950	12,247,196
Goodwill	9,516,568	9,516,568
Total assets	\$ 87,497,019	\$ 99,774,281

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses	\$ 7,476,560	\$ 7,873,809
Current portion of loans and obligations under capitalized leases	6,905,597	8,595,919
Unearned revenues	5,977,736	5,949,581
Common stock to be issued	88,324	88,324
Total current liabilities	20,448,217	22,507,633
Loans and obligations under capitalized leases; less current maturities	564,572	330,596
Total liabilities	21,012,789	22,838,229

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value; 500,000 shares authorized;	-	-
Common stock, \$.01 par value; 14,500,000 shares authorized; 11,911,742 shares issued and 11,664,239 outstanding as of June 30, 2019 and 11,708,469 shares issued and 11,502,616 outstanding as of June 30, 2018	119,117	117,085
Additional paid-in-capital	127,737,999	126,479,147
Treasury stock (At cost, 247,503 shares and 205,853 shares as of June 30, 2019 and June 30, 2018, respectively)	(1,455,969)	(1,205,024)
Accumulated deficit	(35,206,898)	(37,994,502)
Stock subscription receivable	-	(221,000)
Other comprehensive loss	(33,125,006)	(24,386,071)
Total NetSol stockholders' equity	58,069,243	62,789,635
Non-controlling interest	8,414,987	14,146,417
Total stockholders' equity	66,484,230	76,936,052
Total liabilities and stockholders' equity	\$ 87,497,019	\$ 99,774,281

NETSOL Technologies, Inc. and Subsidiaries

Schedule 2: Consolidated Statement of Operations

	For the Years Ended June 30,	
	2019	2018
Net Revenues:		
License fees	\$ 16,768,749	\$ 6,598,254
Maintenance fees	15,010,171	14,382,309
Services	34,185,992	33,611,982
License fees - related party	-	261,513
Maintenance fees - related party	511,242	418,444
Services - related party	1,343,029	5,657,756
Total net revenues	67,819,183	60,930,258
Cost of revenues:		
Salaries and consultants	19,253,364	21,856,162
Travel	6,527,868	1,775,327
Depreciation and amortization	3,525,857	4,610,737
Other	4,066,443	3,481,115

Total cost of revenues	33,373,532	31,723,341
Gross profit	34,445,651	29,206,917
Operating expenses:		
Selling and marketing	7,831,758	7,620,476
Depreciation and amortization	897,800	962,737
General and administrative	16,916,953	16,714,797
Research and development cost	1,971,228	853,996
Total operating expenses	<u>27,617,739</u>	<u>26,152,006</u>
Income (loss) from operations	6,827,912	3,054,911
Other income and (expenses)		
Gain (loss) on sale of assets	81,455	7,594
Interest expense	(311,798)	(422,327)
Interest income	955,061	592,153
Gain on foreign currency exchange transactions	6,345,859	5,010,383
Share of net loss from equity investment	(841,845)	(262,556)
Other income	18,680	42,847
Total other income (expenses)	<u>6,247,412</u>	<u>4,968,094</u>
Net income before income taxes	13,075,324	8,023,005
Income tax provision	(1,057,784)	(873,027)
Net income	12,017,540	7,149,978
Non-controlling interest	(3,434,141)	(2,843,090)
Net income attributable to NetSol	\$ 8,583,399	\$ 4,306,888
Net income per share:		
Net income per common share		
Basic	\$ 0.74	\$ 0.38
Diluted	\$ 0.74	\$ 0.38
Weighted average number of shares outstanding		
Basic	<u>11,599,290</u>	<u>11,197,319</u>
Diluted	<u>11,621,990</u>	<u>11,197,319</u>

NETSOL Technologies, Inc. and Subsidiaries Schedule 3: Consolidated Statement of Cash Flows

	For the Years Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 12,017,540	\$ 7,149,978
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,423,657	5,573,474
Provision for bad debts	474,516	460,730
Impairment of assets	-	172,505
Share of net loss from investment under equity method	841,845	262,556
Gain on sale of assets	(80,470)	(7,594)
Stock based compensation	1,131,013	1,861,445

Fair market value of stock options	43,612	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,836,962)	(7,735,582)
Accounts receivable - related party	(977,445)	(2,735,846)
Revenues in excess of billing	(10,764,428)	6,788,580
Revenues in excess of billing - related party	(122,810)	77,128
Other current assets	(861,128)	(195,529)
Accounts payable and accrued expenses	(47,819)	1,653,778
Unearned revenue	692,089	2,388,699
Net cash provided by operating activities	<u>4,933,210</u>	<u>15,714,322</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2,726,558)	(2,449,449)
Sales of property and equipment	1,170,878	943,252
Convertible note receivable - related party	(1,526,500)	(1,923,500)
Investment in associates	(250,000)	(230,000)
Purchase of subsidiary shares	(317,500)	(33,987)
Net cash used in investing activities	<u>(3,649,680)</u>	<u>(3,693,684)</u>
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	85,000	312,311
Proceeds from exercise of subsidiary options	2,650	10,349
Purchase of treasury stock	(250,945)	(750,714)
Dividend paid by subsidiary to non-controlling interest	(566,465)	(417,853)
Proceeds from bank loans	1,227,158	1,455,250
Payments on capital lease obligations and loans - net	(480,231)	(1,626,109)
Net cash provided by (used in) financing activities	<u>17,167</u>	<u>(1,016,766)</u>
Effect of exchange rate changes	<u>(6,023,186)</u>	<u>(3,087,973)</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,722,489)</u>	<u>7,915,899</u>
Cash and cash equivalents at beginning of the period	22,088,853	14,172,954
Cash and cash equivalents at end of period	<u>\$ 17,366,364</u>	<u>\$ 22,088,853</u>

NETSOL Technologies, Inc. and Subsidiaries

Schedule 4: Reconciliation to GAAP

	Year Ended June 30, 2019	Year Ended June 30, 2018
Net Income (loss) before preferred dividend, per GAAP	\$ 8,583,399	\$ 4,306,888
Non-controlling interest	3,434,141	2,843,090
Income taxes	1,057,784	873,027
Depreciation and amortization	4,423,657	5,573,474
Interest expense	311,798	422,327
Interest (income)	(955,061)	(592,153)
EBITDA	<u>\$ 16,855,718</u>	<u>\$ 13,426,653</u>
Add back:		
Non-cash stock-based compensation	1,174,625	1,861,445
Adjusted EBITDA, gross	<u>\$ 18,030,343</u>	<u>\$ 15,288,098</u>
Less non-controlling interest (a)	(5,140,004)	(4,947,498)
Adjusted EBITDA, net	<u>\$ 12,890,339</u>	<u>\$ 10,340,600</u>
Weighted Average number of shares outstanding		
Basic	11,599,290	11,197,319

Diluted	11,621,990	11,197,319
Basic adjusted EBITDA	\$ 1.11	\$ 0.92
Diluted adjusted EBITDA	\$ 1.11	\$ 0.92

(a)The reconciliation of adjusted EBITDA of non-controlling interest to net income attributable to non-controlling interest is as follows

Net Income attributable to non-controlling interest	\$ 3,434,141	\$ 2,843,090
Income Taxes	351,778	162,419
Depreciation and amortization	1,397,613	1,817,367
Interest expense	99,696	136,445
Interest (income)	(229,802)	(180,061)
EBITDA	\$ 5,053,426	\$ 4,779,260
Add back:		
Non-cash stock-based compensation	86,578	168,238
Adjusted EBITDA of non-controlling interest	\$ 5,140,004	\$ 4,947,498



Source: NETSOL Technologies Inc.