

May 13, 2020



NETSOL Technologies Reports Fiscal Third Quarter 2020 Financial Results

Company Continues Operations Uninterrupted; Responds to COVID-19 Challenge with Plan to Realize \$5 Million in Annualized Cost Savings

CALABASAS, Calif., May 13, 2020 (GLOBE NEWSWIRE) -- **NETSOL Technologies, Inc.** (Nasdaq: [NTWK](#)), a global business services and enterprise application solutions provider, reported results for the fiscal third quarter ended March 31, 2020.

Fiscal Third Quarter 2020 and Recent Operational Highlights

- Regarding previously announced 12-country, \$110 million contract with German auto manufacturing giant, the Company made continued progress with respect to additional NFS Ascent[®] implementations and anticipates Go Live events in the coming months for the following countries: Singapore and Thailand.
- Regarding the same contract mentioned above, successfully implemented NETSOL's full suite NFS Ascent Retail Platform, including its Omni Point of Sale (Omni POS) and Contract Management System (CMS), as well as the Wholesale Finance System (WFS) of its Wholesale Platform, for the same customer in Malaysia.
- Signed contract with a leading bank in the UK for the implementation of the NFS Ascent Retail platform, including Point of Sale solution and Contract Management System, in the cloud.
- Went "Live" with NETSOL's LeaseSoft application for one of the largest independently-owned finance companies in the UK.
- Otoz entered into a contract with the captive auto finance company of a leading German auto manufacturer in China to launch its pilot car sharing program in China.
- Successfully delivered Retail system to the Company's first Ascent customer in North America.
- Delivered Ascent Retail platform to the captive auto finance company of a notable Japanese equipment manufacturer in Australia and New Zealand.
- Implemented the i-OPS (i-operations) system with a leading captive finance company of a notable Japanese bank in Indonesia, allowing their call center workforce to contact prospects and act as an additional channel for lead generation.
- Successfully upsold system enhancements worth approx. \$4.0 million during implementation with the captive auto finance company of a leading German Auto manufacturer in China.
- Generated nearly \$2.0 million by providing additional services and change requests for various customers across multiple regions.

- In response to the economic slowdown caused by the current global pandemic, implemented a series of cost reduction initiatives and temporary salary reductions, which are expected to generate approx. \$5 million in annualized savings.

Fiscal Third Quarter 2020 Financial Results

Total net revenues for the third quarter of fiscal 2020 were \$13.5 million, compared with \$17.1 million in the prior year period. The decrease in total net revenues was primarily due to a decrease in total license fees of \$2.2 million and a decrease in services revenues of \$2.6 million, which was offset by an increase in total maintenance fees of \$1.2 million.

- Total license fees were \$312,000, compared with \$2.5 million in the prior year period.
- Total maintenance fees were \$4.9 million, compared with \$3.7 million in the prior year period.
- Total services revenues were \$8.3 million, compared with \$10.9 million in the prior year period.

Gross profit for the third quarter of fiscal 2020 was \$6.0 million (or 44.5% of net revenues), compared to \$8.6 million (or 50.0% of net revenues) in the third quarter of fiscal 2019. The decreases in gross profit and gross profit as a percentage of revenue were primarily due to decreases in revenue by an amount that was greater than the related decreases in cost of revenues, respectively. The decrease in cost of revenues was predominantly driven by decreases in travel, depreciation and amortization and other expenses, which were offset by a slight increase in salaries and consultants' costs.

Operating expenses for the third quarter of fiscal 2020 decreased 1% to \$6.4 million (or 47.3% of net revenues) from \$6.5 million (or 37.7% of net revenues) in the third quarter of fiscal 2019. The slight decrease in operating expenses was primarily due to decreases in sales and marketing expenses, depreciation and amortization, and research and development costs, which were offset by an increase in general and administrative expenses.

GAAP net income attributable to NETSOL for the third quarter of fiscal 2020 totaled \$1.0 million, or \$0.09 per diluted share, compared with GAAP net income of \$1.3 million, or \$0.11 per diluted share in the third quarter of fiscal 2019. GAAP net income attributable to NETSOL included a \$1.8 million gain on foreign currency exchange transactions in the third quarter of fiscal 2020, which was a significant increase compared with a gain of \$47,000 in the prior year period.

Non-GAAP adjusted EBITDA for the third quarter of fiscal 2020 totaled \$1.8 million, or \$0.15 per diluted share, compared with non-GAAP adjusted EBITDA of \$2.2 million, or \$0.19 per diluted share in the third quarter of fiscal 2019 (see note regarding "Use of Non-GAAP Financial Measures," below for further discussion of this non-GAAP measure).

At March 31, 2020, cash and cash equivalents were \$15.7 million, a decrease from \$17.0 million at the end of the prior year quarter.

Management Commentary

"The start of the calendar year has been a challenging time for many, but we are pushing ahead and continuing to operate efficiently in this new-normal environment," said company Co-Founder, Chairman and Chief Executive Officer Najeeb Ghauri. "Our operations in the

fiscal third quarter were meaningfully impacted by the global slowdown occurring in many of the verticals we serve, including the greater leasing, finance and automotive industries. In direct response to this macroeconomic headwind, we've made strategic cost reductions in several key areas, which has allowed us to retain our entire workforce and should result in costs savings of \$5 million on an annualized basis.

"Additionally, our team has responded capably through this trial, and we've been able to operate uninterrupted since transitioning to a remote work environment. Between system enhancements and change requests with existing customers, we were able to generate an additional \$2 million in revenue during the period with another \$4 million to be recognized in the next few quarters, which is a testament to the commitment and skill of our implementation groups. While COVID-19 has also impacted our ability to travel and meet face-to-face with prospects, our teams are still very busy in conducting virtual demos, presentations and negotiations.

"Looking ahead, while we're encouraged by the response we've seen in our Chinese operations, we also understand that the roadmap for the rest of the world's re-opening remains opaque at best. We are continuously monitoring all aspects of our global operations to maximize the health and safety of our workforce while balancing our long-term growth initiatives. As a digital-first and SaaS-focused organization, we are also constantly evaluating innovative and flexible ways to manage our cost structures without impacting the delivery and implementations of projects in all markets."

Sales Outlook

NETSOL President, Global Sales and Otoz CEO Naeem Ghauri added: "Traditionally, the fiscal fourth quarter is our strongest performance period, and we're currently tracking in this direction with a backloaded end of the year. We expect to see sequentially stronger revenues and EBITDA, allowing us to close out the year on an upward trajectory. With the global economic outlook still uncertain, we are seeing initial signs of recovery and activity picking up. Overall, we are confident in our ability to grow in fiscal 2021."

Otoz Update

"Otoz is continuing to gain interest and traction from many different types of prospects," continued Ghauri. "Auto OEMs, finance companies and dealers are all types of businesses that are looking to deploy our technology to increase fleet utilization and provide more flexible auto ownership models during a time when traditional purchasing models are coming under intense pressure. We are witnessing consumer habits undergo a fundamental change in usage behavior. Otoz is extremely well positioned to benefit from this paradigm shift. Based upon cloud native architecture, our technology can be implemented through a SaaS subscription model, allowing for a low-cost entry point to a wider market."

Conference Call

NETSOL Technologies management will hold a conference call today (May 13, 2020) at 9:00 a.m. Eastern time (6:00 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 12:00 p.m. Eastern time on the same day through May 27, 2020.

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

International replay number: 1-412-317-6671

Replay ID: 13703209

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 1300 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 finance and leasing lifecycle.

About Otoz

Otoz provides business-to-business, white-label technology solutions for new mobility. Our suite of agile and customizable mobility solutions ranges from car sharing and subscription products to AI-enabled chatbots, allowing businesses to engage consumers and facilitate the complete transaction lifecycle intelligently and digitally. Otoz technologies empower automotive companies and start-ups to launch new mobility models quickly and efficiently. The technology Otoz has developed is cloud-native and supported by artificial intelligence (AI), machine learning (ML), internet of things (IoT) and blockchain. Our technology drives utilization, while supporting robust and efficient operations.

Forward-Looking Statements

This press release may contain forward-looking statements relating to the development of the Company's products and services and future operation results, including statements regarding the Company that are subject to certain risks and uncertainties such as the effect of stay at home orders and social distancing imposed by COVID-19 and its resultant impact on our financials and the world economy 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, as well as the delay in recovery or a prolonged economic downturn that effects our Company, our customers and the world economy. 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

	As of March 31, 2020	As of June 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,743,328	\$ 17,366,364
Accounts receivable, net of allowance of \$364,383 and \$192,786	12,900,412	12,332,714
Accounts receivable, net of allowance of \$54,307 and \$166,075 - related party	1,332,575	3,266,600
Revenues in excess of billings, net of allowance of \$190,811 and \$194,684	15,301,150	14,719,047
Revenues in excess of billings - related party	8,245	110,827
Convertible note receivable - related party	4,250,000	3,650,000
Other current assets	3,593,365	3,146,264
Total current assets	53,129,075	54,591,816
Revenues in excess of billings, net - long term	1,282,898	1,281,492
Property and equipment, net	11,553,814	12,096,855
Right of use of assets - operating leases	2,690,777	-
Long term investment	2,329,706	2,653,769
Other assets	23,066	23,569
Intangible assets, net	5,880,759	7,332,950
Goodwill	9,516,568	9,516,568
Total assets	\$ 86,406,663	\$ 87,497,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,107,933	\$ 7,476,560
Current portion of loans and obligations under finance leases	8,794,858	6,905,597
Current portion of operating lease obligations	1,146,696	-
Unearned revenues	3,440,663	5,977,736
Common stock to be issued	88,324	88,324
Total current liabilities	20,578,474	20,448,217
Loans and obligations under finance leases; less current maturities	305,702	564,572
Operating lease obligations; less current maturities	1,635,866	-
Total liabilities	22,520,042	21,012,789
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 500,000 shares authorized;	-	-
Common stock, \$.01 par value; 14,500,000 shares authorized; 12,038,697 shares issued and 11,791,194 outstanding as of March 31, 2020 and 11,911,742 shares issued and 11,664,239 outstanding as of June 30, 2019	120,387	119,117
Additional paid-in-capital	128,374,098	127,737,999
Treasury stock (At cost, 247,503 shares and 247,503 shares as of March 31, 2020 and June 30, 2019, respectively)	(1,455,969)	(1,455,969)
Accumulated deficit	(35,448,063)	(35,206,898)

Other comprehensive loss	(34,065,385)	(33,125,006)
Total NetSol stockholders' equity	57,525,068	58,069,243
Non-controlling interest	6,361,553	8,414,987
Total stockholders' equity	63,886,621	66,484,230
Total liabilities and stockholders' equity	\$ 86,406,663	\$ 87,497,019

NETSOL Technologies, Inc. and Subsidiaries

Schedule 2: Consolidated Statement of Operations

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2020	2019	2020	2019
Net Revenues:				
License fees	\$ 312,133	\$ 2,536,320	\$ 3,375,241	\$ 13,310,002
Maintenance fees	4,934,635	3,704,756	14,291,959	11,106,155
Services	8,222,227	10,728,983	24,923,873	25,548,451
Services - related party	61,842	156,996	202,199	561,619
Total net revenues	<u>13,530,837</u>	<u>17,127,055</u>	<u>42,793,272</u>	<u>50,526,227</u>
Cost of revenues:				
Salaries and consultants	4,850,438	4,833,611	13,931,274	14,351,227
Travel	1,052,033	1,793,964	3,967,591	4,652,143
Depreciation and amortization	737,637	874,654	2,191,654	2,692,306
Other	868,491	1,067,506	2,767,927	3,176,602
Total cost of revenues	<u>7,508,599</u>	<u>8,569,735</u>	<u>22,858,446</u>	<u>24,872,278</u>
Gross profit	<u>6,022,238</u>	<u>8,557,320</u>	<u>19,934,826</u>	<u>25,653,949</u>
Operating expenses:				
Selling and marketing	1,587,821	1,864,990	5,189,785	5,614,619
Depreciation and amortization	206,035	252,442	623,901	658,453
General and administrative	4,151,394	3,833,209	12,638,797	12,241,988
Research and development cost	453,050	513,770	1,580,625	1,256,577
Total operating expenses	<u>6,398,300</u>	<u>6,464,411</u>	<u>20,033,108</u>	<u>19,771,637</u>
Income (loss) from operations	<u>(376,062)</u>	<u>2,092,909</u>	<u>(98,282)</u>	<u>5,882,312</u>
Other income and (expenses)				
Gain (loss) on sale of assets	129	16,380	368	65,170
Interest expense	(94,395)	(70,447)	(246,064)	(233,685)
Interest income	448,368	201,084	1,283,279	680,469
Gain (loss) on foreign currency exchange transactions	1,770,894	47,218	71,765	2,594,885
Share of net loss from equity investment	(78,502)	(245,389)	(432,522)	(843,373)
Other income	17,012	3,116	243,325	12,998
Total other income (expenses)	<u>2,063,506</u>	<u>(48,038)</u>	<u>920,151</u>	<u>2,276,464</u>
Net income before income taxes	<u>1,687,444</u>	<u>2,044,871</u>	<u>821,869</u>	<u>8,158,776</u>
Income tax provision	<u>(218,351)</u>	<u>(275,476)</u>	<u>(1,067,099)</u>	<u>(777,262)</u>
Net income (loss)	<u>1,469,093</u>	<u>1,769,395</u>	<u>(245,230)</u>	<u>7,381,514</u>
Non-controlling interest	<u>(468,286)</u>	<u>(501,835)</u>	<u>4,065</u>	<u>(2,295,736)</u>
Net income (loss) attributable to NetSol	<u>\$ 1,000,807</u>	<u>\$ 1,267,560</u>	<u># \$ (241,165)</u>	<u>\$ 5,085,778</u>

Net income (loss) per share:

Net income (loss) per common share

Basic	\$	0.09	\$	0.11	\$	(0.02)	\$	0.44
Diluted	\$	0.09	\$	0.11	\$	(0.02)	\$	0.44
Weighted average number of shares outstanding								
Basic		<u>11,753,063</u>		<u>11,656,098</u>	#	<u>11,713,827</u>		<u>11,580,066</u>
Diluted		<u>11,753,063</u>		<u>11,691,342</u>	#	<u>11,713,827</u>		<u>11,615,310</u>

NETSOL Technologies, Inc. and Subsidiaries

Schedule 3: Consolidated Statement of Cash Flows

	For the Nine Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ (245,230)	\$ 7,381,514
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,815,555	3,350,759
Provision for bad debts	75,437	-
Share of net loss from investment under equity method	432,522	843,373
Gain on sale of assets	(368)	(65,170)
Stock based compensation	565,287	980,682
Fair market value of stock options	-	43,612
Changes in operating assets and liabilities:		
Accounts receivable	(651,991)	(4,249,540)
Accounts receivable - related party	1,979,232	(461,435)
Revenues in excess of billing	(1,394,184)	(6,862,451)
Revenues in excess of billing - related party	106,592	(97,359)
Other current assets	(824,068)	(1,189,909)
Accounts payable and accrued expenses	63,289	(540,615)
Unearned revenue	(2,510,954)	611,157
Net cash provided by (used in) operating activities	<u>411,119</u>	<u>(255,382)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,011,285)	(2,590,302)
Sales of property and equipment	33,820	1,005,214
Convertible note receivable - related party	(600,000)	(1,126,500)
Net cash used in investing activities	<u>(1,577,465)</u>	<u>(2,711,588)</u>
Cash flows from financing activities:		
Proceeds from the exercise of stock options and warrants	-	85,000
Proceeds from exercise of subsidiary options	11,621	2,650
Dividend paid by subsidiary to non-controlling interest	(1,920,618)	(566,465)
Proceeds from bank loans	2,312,968	1,337,092
Payments on finance lease obligations and loans - net	(422,051)	(298,610)
Net cash provided by (used in) financing activities	<u>(18,080)</u>	<u>559,667</u>
Effect of exchange rate changes	<u>(438,610)</u>	<u>(2,666,960)</u>
Net decrease in cash and cash equivalents	<u>(1,623,036)</u>	<u>(5,074,263)</u>
Cash and cash equivalents at beginning of the period	17,366,364	22,088,853
Cash and cash equivalents at end of period	<u>\$ 15,743,328</u>	<u>\$ 17,014,590</u>

NETSOL Technologies, Inc. and Subsidiaries

Schedule 4: Reconciliation to GAAP

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019	For the Nine Months Ended March 31, 2020	For the Nine Months Ended March 31, 2019
Net Income (loss) attributable to NetSol	\$ 1,000,807	\$ 1,267,560	\$ (241,165)	\$ 5,085,778
Non-controlling interest	468,286	501,835	(4,065)	2,295,736
Income taxes	218,351	275,476	1,067,099	777,262
Depreciation and amortization	943,672	1,127,096	2,815,555	3,350,759
Interest expense	94,395	70,447	246,064	233,685
Interest (income)	(448,368)	(201,084)	(1,283,279)	(680,469)
EBITDA	\$ 2,277,143	\$ 3,041,330	\$ 2,600,209	\$ 11,062,751
Add back:				
Non-cash stock-based compensation	236,702	154,551	565,287	1,024,294
Adjusted EBITDA, gross	\$ 2,513,845	\$ 3,195,881	\$ 3,165,496	\$ 12,087,045
Less non-controlling interest (a)	(729,735)	(959,955)	(885,144)	(3,600,485)
Adjusted EBITDA, net	\$ 1,784,110	\$ 2,235,926	\$ 2,280,352	\$ 8,486,560
Weighted Average number of shares outstanding				
Basic	11,753,063	11,656,098	11,713,827	11,580,066
Diluted	11,753,063	11,691,342	11,713,827	11,615,310
Basic adjusted EBITDA	\$ 0.15	\$ 0.19	\$ 0.19	\$ 0.73
Diluted adjusted EBITDA	\$ 0.15	\$ 0.19	\$ 0.19	\$ 0.73

(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	\$ 468,286	\$ 501,835	\$ (4,065)	\$ 2,295,736
Income Taxes	59,983	109,957	303,610	251,321
Depreciation and amortization	271,244	360,071	800,882	1,064,203
Interest expense	28,068	22,173	72,600	75,082
Interest (income)	(113,413)	(43,905)	(334,584)	(165,020)
EBITDA	\$ 714,168	\$ 950,131	\$ 838,443	\$ 3,521,322
Add back:				
Non-cash stock-based compensation	15,567	9,824	46,701	79,163
Adjusted EBITDA of non-controlling interest	\$ 729,735	\$ 959,955	\$ 885,144	\$ 3,600,485



Source: NETSOL Technologies Inc.