

September 28, 2020



# NETSOL Technologies Reports Fiscal Fourth Quarter and Full Year 2020 Financial Results

- *Company Drives Another Year of Profitability Amidst Challenging Market Conditions*
- *Introduction of Global Subscription Pricing Model, Key Hires and Strong Initial Traction within Otoz Innovation Lab Provide Near-Term Catalysts*
- *COVID-19 Driven Purchasing Delays Lead to Significant Pipeline of Opportunities in Fiscal 2021*

CALABASAS, Calif., Sept. 28, 2020 (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, 2020.

## Fiscal Fourth Quarter 2020 and Recent Operational Highlights

- Introduced Software-as-a-Service (SaaS) subscription-based pricing for new and existing customers as an alternative to the traditional license model, which is now available for all cloud-based NETSOL products and services globally, including NETSOL's flagship offering NFS Ascent®.
- Announced the successful implementation of the Company's first North American cloud-based NFS Ascent Contract Management System (CMS) for [SCI Lease Corp.](#), a Canadian-based national automotive leasing company.
- Generated \$800,000 in SaaS subscription revenues within the Company's NETSOL Technologies Americas (NTA) region from contracts with new and existing customers.
- Appointed Peter Minshall as Executive Vice President (EVP) of NTA. The EVP role will report directly to the Company CEO and is responsible for the entire NTA portion of NETSOL's business operations.
- Appointed industry veteran Chris Mobley as the new Head of NFS Ascent Wholesale operations in Europe with the goal of leading the rollout of NETSOL's new, subscription-based pricing strategy, orchestrating the company's European-focused growth plans and leading pre-sales of the company's Wholesale operations globally.
- In response to the economic slowdown caused by the current global pandemic, implemented a series of cost reduction initiatives and temporary salary reductions.
- Made further advancements in certain Otoz Innovation Lab initiatives, leading to multiple discussions, demonstrations, and potential engagements with a several tier one customers in the U.S. and Asia Pacific (APAC) regions.
- 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.

- 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.
- Successfully implemented and launched NFS Ascent Wholesale platform with a tier-one German auto captive finance company in China as part of \$30 million contract signed in September 2018.

### **Fiscal Fourth Quarter 2020 Financial Results**

Total net revenues for the fourth quarter of fiscal 2020 were \$13.6 million, compared to \$17.3 million in the prior year period. The decrease in total net revenues was primarily due to a decrease in total license fees of \$2.3 million and a decrease in total services revenues of \$1.8 million, which was offset by an increase in total maintenance fees of \$312,000.

- Total license fees were \$1.2 million, compared with \$3.5 million in the prior year period.
- Total maintenance fees were \$4.7 million, compared with \$4.4 million in the prior year period.
- Total services revenues were \$7.7 million, compared with \$9.4 million in the prior year period.

Gross profit for the fourth quarter of fiscal 2020 was \$7.0 million (or 51.8% of net revenues), compared to \$8.9 million (or 51.5% of net revenues) in the fourth quarter of fiscal 2019. The increase in gross profit as a percentage of net revenues was primarily due to a decrease in cost of revenues of \$1.8 million compared to the prior year period. The decrease in cost of revenues was predominantly driven by decreases in salaries and consultants, travel, and depreciation and amortization.

Operating expenses for the fourth quarter of fiscal 2020 decreased 26.4% to \$5.9 million (or 43.2% of net revenues) from \$8.0 million (or 46.0% of net revenues) for the fourth quarter of fiscal 2019. The decrease in operating expenses was primarily due to a decrease in selling and marketing as well as general and administrative expenses.

GAAP net income attributable to NETSOL for the fourth quarter of fiscal 2020 totaled \$1.2 million or \$0.10 per diluted share, compared with a net income of \$3.5 million or \$0.30 per diluted share in the fourth quarter of fiscal 2019.

Non-GAAP adjusted EBITDA for the fourth quarter of fiscal 2020 totaled \$2.0 million or \$0.17 per diluted share, compared with \$4.4 million or \$0.38 per diluted share in the fourth quarter of fiscal 2019 (see note regarding "Use of Non-GAAP Financial Measures," below for further discussion of this non-GAAP measure).

At June 30, 2020, cash and cash equivalents were \$20.2 million, an increase from \$17.4 million at June 30, 2019.

### **Full Year Fiscal 2020 Financial Results**

Total net revenues for fiscal 2020 were \$56.4 million, compared to \$67.8 million in fiscal 2019. The decrease in total net revenues was primarily due to a decrease in total license fees of \$12.2 million and a decrease in total service fees of \$2.7 million, which was offset by

an increase in total maintenance fees of \$3.4 million.

- Total license fees were \$4.6 million, compared with \$16.8 million in the prior fiscal year.
- Total maintenance fees were \$19.0 million, compared with \$15.5 million in the prior fiscal year.
- Total services revenues were \$32.9 million, compared with \$35.5 million in the prior fiscal year.

Gross profit for fiscal 2020 decreased to \$27.0 million (or 47.8% of net revenues) from \$34.9 million (or 51.4% of net revenues) for fiscal 2019. The decrease in gross profit as a percentage of net revenues was primarily due to a greater rate of decrease in total net revenues compared to the related total cost of revenues.

Operating expenses for fiscal 2020 decreased to \$25.9 million (or 45.9% of net revenues) from \$28.1 million (or 41.4% of net revenues) for fiscal 2019. The decrease in operating expenses was primarily due to decreases in selling and marketing expenses, salaries and wages and research and development cost, offset by an increase in general and administrative expenses.

GAAP net income attributable to NETSOL for fiscal 2020 totaled \$937,000 or \$0.08 per diluted share, compared with a net income of \$8.6 million or \$0.74 per diluted share for fiscal 2019.

Non-GAAP adjusted EBITDA for fiscal 2020 totaled \$4.3 million or \$0.37 per diluted share, compared with \$12.9 million or \$1.11 per diluted share in fiscal 2019 (see note regarding “Use of Non-GAAP Financial Measures,” below for further discussion of this non-GAAP measure).

### **Management Commentary**

“While we are still working through a challenging market environment, during the fiscal fourth quarter we recorded meaningful sales milestones, drove incrementally improved results and were able to generate another year of profitability,” said NETSOL Co-Founder, Chairman and Chief Executive Officer Najeeb Ghauri. “We entered fiscal 2020 coming off a record top and bottom line performance and in the strongest position in our history. At that same time, we introduced a multi-pronged growth strategy designed, during regular economic conditions, to diversify and expand our total and recurring revenue streams, ultimately propelling NETSOL to its next phase of commercial prosperity. Over the past few months, we, like most businesses, were forced to adapt to a radically different working environment than we had planned. Despite these unfavorable conditions, we have continued to forge a path ahead and, in the meantime, have taken decisive actions to reduce costs, which will support our long-term sustainability.

“Looking ahead to fiscal 2021, we have many reasons for cautious optimism. We’ve made encouraging progress in expanding our sales footprint in North America and Europe, driving year-over-year growth, respectively, and have also made key leadership additions to head up both regions. Last month, we went live with the first North American customer for our subscription, cloud-based NFS Ascent offering, which we expect to leverage toward additional agreements in the future. With several COVID-19 driven purchasing delays

beginning to move ahead, we also have a significant pipeline of opportunities in the coming year. As our global operations conservatively pick back up, we will look to regain the prior year's momentum and resume our plans for a diversified, progressive growth strategy. NETSOL remains a digital-first and SaaS-focused organization, and we will continue to lead with our technology to deliver innovative ways to help our customers improve their operations today and prepare for the many, disruptive challenges of the new mobility economy."

### **Sales Outlook**

Ghuri continued: "While we continue to see strong traction and engagement globally for Ascent, our SaaS offering has been particularly well received in Europe and North America. Our platform is being validated with initial sales in both regions and a number of deals that are currently in our pipeline. The overall sales environment remains challenging due to the travel restrictions in place and uncertainty around the global economy, which has, in some cases, delayed our ability to close deals over the last quarters, but we are continuing to move forward."

### **Conference Call**

NETSOL Technologies management will hold a conference call today (September 28, 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 October 12, 2020.

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

International replay number: 1-412-317-6671

Replay ID: 13710936

### **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 operating 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.

### **Investor Relations Contact:**

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1-949-574-3860

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## **NETSOL Technologies, Inc. and Subsidiaries**

### **Schedule 1: Consolidated Balance Sheets**

| ASSETS                                                                          | As of<br>June 30, 2020 | As of<br>June 30, 2019 |
|---------------------------------------------------------------------------------|------------------------|------------------------|
| <b>Current assets:</b>                                                          |                        |                        |
| Cash and cash equivalents                                                       | \$ 20,166,830          | \$ 17,366,364          |
| Accounts receivable, net of allowance of \$435,611 and \$192,786                | 10,131,752             | 12,332,714             |
| Accounts receivable, net of allowance of \$90,594 and \$166,075 - related party | 1,282,505              | 3,266,600              |
| Revenues in excess of billings, net of allowance of \$188,914 and \$194,684     | 17,198,281             | 14,719,047             |
| Revenues in excess of billings - related party                                  | 8,163                  | 110,827                |
| Other current assets                                                            | 3,108,180              | 3,146,264              |

|                                                 |                      |                      |
|-------------------------------------------------|----------------------|----------------------|
| Total current assets                            | 51,895,711           | 50,941,816           |
| Revenues in excess of billings, net - long term | 1,300,289            | 1,281,492            |
| Convertible note receivable - related party     | 4,250,000            | 3,650,000            |
| Property and equipment, net                     | 11,329,631           | 12,096,855           |
| Right of use of assets - operating leases       | 2,360,129            | -                    |
| Long term investment                            | 2,387,692            | 2,653,769            |
| Other assets                                    | 41,992               | 23,569               |
| Intangible assets, net                          | 5,391,077            | 7,332,950            |
| Goodwill                                        | 9,516,568            | 9,516,568            |
| <b>Total assets</b>                             | <b>\$ 88,473,089</b> | <b>\$ 87,497,019</b> |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Current liabilities:

|                                                                     |                   |                   |
|---------------------------------------------------------------------|-------------------|-------------------|
| Accounts payable and accrued expenses                               | \$ 5,680,837      | \$ 7,476,560      |
| Current portion of loans and obligations under finance leases       | 9,139,561         | 6,905,597         |
| Current portion of operating lease obligations                      | 1,111,912         | -                 |
| Unearned revenues                                                   | 4,095,472         | 5,977,736         |
| Common stock to be issued                                           | 88,324            | 88,324            |
| Total current liabilities                                           | 20,116,106        | 20,448,217        |
| Loans and obligations under finance leases; less current maturities | 1,539,975         | 564,572           |
| Operating lease obligations; less current maturities                | 1,339,965         | -                 |
| <b>Total liabilities</b>                                            | <b>22,996,046</b> | <b>21,012,789</b> |

##### Commitments and contingencies

##### Stockholders' equity:

|                                                                             |                      |                      |
|-----------------------------------------------------------------------------|----------------------|----------------------|
| Preferred stock, \$.01 par value; 500,000 shares authorized;                | -                    | -                    |
| Common stock, \$.01 par value; 14,500,000 shares authorized;                |                      |                      |
| 12,122,149 shares issued and 11,874,646 outstanding as of June 30, 2020 and |                      |                      |
| 11,911,742 shares issued and 11,664,239 outstanding as of June 30, 2019     | 121,222              | 119,117              |
| Additional paid-in-capital                                                  | 128,677,754          | 127,737,999          |
| Unexpected eval class (org.apache.poi.ss.formula.eval.MissingArgEval)       |                      |                      |
| as of June 30, 2020 and June 30, 2019, respectively)                        | (1,455,969)          | (1,455,969)          |
| Accumulated deficit                                                         | (34,269,817)         | (35,206,898)         |
| Other comprehensive loss                                                    | (34,085,047)         | (33,125,006)         |
| Total NetSol stockholders' equity                                           | 58,988,143           | 58,069,243           |
| Non-controlling interest                                                    | 6,488,900            | 8,414,987            |
| <b>Total stockholders' equity</b>                                           | <b>65,477,043</b>    | <b>66,484,230</b>    |
| <b>Total liabilities and stockholders' equity</b>                           | <b>\$ 88,473,089</b> | <b>\$ 87,497,019</b> |

## NETSOL Technologies, Inc. and Subsidiaries

### Schedule 2: Consolidated Statement of Operations

|                               | For the Years<br>Ended June 30, |               |
|-------------------------------|---------------------------------|---------------|
|                               | 2020                            | 2019          |
| <b>Net Revenues:</b>          |                                 |               |
| License fees                  | \$ 4,564,560                    | \$ 16,768,749 |
| Maintenance fees              | 18,951,248                      | 15,521,413    |
| Services                      | 32,555,690                      | 34,892,290    |
| Services - related party      | 300,821                         | 636,731       |
| Total net revenues            | 56,372,319                      | 67,819,183    |
| <b>Cost of revenues:</b>      |                                 |               |
| Salaries and consultants      | 18,821,738                      | 19,253,364    |
| Travel                        | 4,181,742                       | 6,527,868     |
| Depreciation and amortization | 2,897,371                       | 3,525,857     |
| Other                         | 3,508,098                       | 3,625,478     |
| Total cost of revenues        | 29,408,949                      | 32,932,567    |

|                                                |             |                |
|------------------------------------------------|-------------|----------------|
| <b>Gross profit</b>                            | 26,963,370  | 34,886,616     |
| <b>Operating expenses:</b>                     |             |                |
| Selling and marketing                          | 6,450,663   | 7,831,758      |
| Depreciation and amortization                  | 834,583     | 897,800        |
| General and administrative                     | 17,138,832  | 17,357,918     |
| Research and development cost                  | 1,468,954   | 1,971,228      |
| Total operating expenses                       | 25,893,032  | 28,058,704     |
| <b>Income from operations</b>                  | 1,070,338   | 6,827,912      |
| <b>Other income and (expenses)</b>             |             |                |
| Gain on sale of assets                         | 23,103      | 81,455         |
| Interest expense                               | (346,856)   | (311,798)      |
| Interest income                                | 1,569,536   | 955,061        |
| Gain on foreign currency exchange transactions | 398,610     | 6,345,859      |
| Share of net loss from equity investment       | (605,864)   | (841,845)      |
| Other income                                   | 224,224     | 18,680         |
| Total other income (expenses)                  | 1,262,753   | 6,247,412      |
| <b>Net income before income taxes</b>          | 2,333,091   | 13,075,324     |
| <b>Income tax provision</b>                    | (1,141,068) | (1,057,784)    |
| <b>Net income</b>                              | 1,192,023   | 12,017,540     |
| <b>Non-controlling interest</b>                | (254,942)   | (3,434,141)    |
| <b>Net income attributable to NetSol</b>       | \$ 937,081  | \$ 8,583,399 - |

**Net income per share:**

Net income per common share

|         |         |         |
|---------|---------|---------|
| Basic   | \$ 0.08 | \$ 0.74 |
| Diluted | \$ 0.08 | \$ 0.74 |

Weighted average number of shares outstanding

|         |            |            |
|---------|------------|------------|
| Basic   | 11,734,648 | 11,599,290 |
| Diluted | 11,784,414 | 11,621,990 |

## NETSOL Technologies, Inc. and Subsidiaries

### Schedule 3: Consolidated Statement of Cash Flows

|                                                                                      | For the Years<br>Ended June 30, |               |
|--------------------------------------------------------------------------------------|---------------------------------|---------------|
|                                                                                      | 2020                            | 2019          |
| <b>Cash flows from operating activities:</b>                                         |                                 |               |
| Net income                                                                           | \$ 1,192,023                    | \$ 12,017,540 |
| Adjustments to reconcile net income<br>to net cash provided by operating activities: |                                 |               |
| Depreciation and amortization                                                        | 3,731,954                       | 4,423,657     |
| Provision for bad debts                                                              | 184,944                         | 474,516       |
| Share of net loss from investment under equity method                                | 605,864                         | 841,845       |
| Gain on sale of assets                                                               | (23,103)                        | (80,470)      |
| Stock based compensation                                                             | 808,616                         | 1,131,013     |
| Fair market value of stock options                                                   | -                               | 43,612        |
| <b>Changes in operating assets and liabilities:</b>                                  |                                 |               |
| Accounts receivable                                                                  | 2,035,843                       | (1,836,962)   |
| Accounts receivable - related party                                                  | 1,957,864                       | (977,445)     |

|                                                          |                      |                      |
|----------------------------------------------------------|----------------------|----------------------|
| Revenues in excess of billing                            | (3,252,704)          | (10,764,428)         |
| Revenues in excess of billing - related party            | 105,441              | (122,810)            |
| Other current assets                                     | (132,175)            | (861,128)            |
| Accounts payable and accrued expenses                    | (1,399,828)          | (47,819)             |
| Unearned revenue                                         | (1,842,313)          | 692,089              |
| <b>Net cash provided by operating activities</b>         | <b>3,972,426</b>     | <b>4,933,210</b>     |
| <b>Cash flows from investing activities:</b>             |                      |                      |
| Purchases of property and equipment                      | (1,377,145)          | (2,726,558)          |
| Sales of property and equipment                          | 106,180              | 1,170,878            |
| Convertible note receivable - related party              | (600,000)            | (1,526,500)          |
| Investment in associates                                 | (94,500)             | (250,000)            |
| Purchase of subsidiary shares                            | (89,425)             | (317,500)            |
| <b>Net cash used in investing activities</b>             | <b>(2,054,890)</b>   | <b>(3,649,680)</b>   |
| <b>Cash flows from financing activities:</b>             |                      |                      |
| Proceeds from the exercise of stock options and warrants | -                    | 85,000               |
| Proceeds from exercise of subsidiary options             | 11,621               | 2,650                |
| Purchase of treasury stock                               | -                    | (250,945)            |
| Dividend paid by subsidiary to non-controlling interest  | (1,920,618)          | (566,465)            |
| Proceeds from bank loans                                 | 4,221,203            | 1,227,158            |
| Payments on finance lease obligations and loans - net    | (611,913)            | (480,231)            |
| <b>Net cash provided by financing activities</b>         | <b>1,700,293</b>     | <b>17,167</b>        |
| <b>Effect of exchange rate changes</b>                   | <b>(817,363)</b>     | <b>(6,023,186)</b>   |
| <b>Net decrease in cash and cash equivalents</b>         | <b>2,800,466</b>     | <b>(4,722,489)</b>   |
| Cash and cash equivalents at beginning of the period     | 17,366,364           | 22,088,853           |
| <b>Cash and cash equivalents at end of period</b>        | <b>\$ 20,166,830</b> | <b>\$ 17,366,364</b> |

## NETSOL Technologies, Inc. and Subsidiaries

### Schedule 4: Reconciliation to GAAP

|                                                   | For the Year Ended<br>June 30, 2020 | For the Year Ended<br>June 30, 2019 |
|---------------------------------------------------|-------------------------------------|-------------------------------------|
| Net Income (loss) attributable to NetSol          | \$ 937,081                          | \$ 8,583,399                        |
| Non-controlling interest                          | 254,942                             | 3,434,141                           |
| Income taxes                                      | 1,141,068                           | 1,057,784                           |
| Depreciation and amortization                     | 3,731,954                           | 4,423,657                           |
| Interest expense                                  | 346,856                             | 311,798                             |
| Interest (income)                                 | (1,569,536)                         | (955,061)                           |
| EBITDA                                            | \$ 4,842,365                        | \$ 16,855,718                       |
| Add back:                                         |                                     |                                     |
| Non-cash stock-based compensation                 | 808,616                             | 1,174,625                           |
| Adjusted EBITDA, gross                            | \$ 5,650,981                        | \$ 18,030,343                       |
| Less non-controlling interest (a)                 | (1,330,352)                         | (5,140,004)                         |
| Adjusted EBITDA, net                              | \$ 4,320,629                        | \$ 12,890,339                       |
| <br>Weighted Average number of shares outstanding |                                     |                                     |
| Basic                                             | 11,734,648                          | 11,599,290                          |
| Diluted                                           | 11,784,414                          | 11,621,990                          |
| <br>Basic adjusted EBITDA                         | \$ 0.37                             | \$ 1.11                             |
| Diluted adjusted EBITDA                           | \$ 0.37                             | \$ 1.11                             |

(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 | \$ | 254,942   | \$ | 3,434,141 |
| Income Taxes                                        |    | 223,675   |    | 351,778   |
| Depreciation and amortization                       |    | 1,060,605 |    | 1,397,613 |
| Interest expense                                    |    | 100,373   |    | 99,696    |
| Interest (income)                                   |    | (391,644) |    | (229,802) |
| EBITDA                                              | \$ | 1,247,951 | \$ | 5,053,426 |
| Add back:                                           |    |           |    |           |
| Non-cash stock-based compensation                   |    | 82,401    |    | 86,578    |
| Adjusted EBITDA of non-controlling interest         | \$ | 1,330,352 | \$ | 5,140,004 |



Source: NETSOL Technologies Inc.