

SimiGon Ltd

("SimiGon" or the "Company")

Interim Results for the six months ended 30 June 2019

SimiGon Ltd (LSE: SIM), a global leader in providing simulation and training solutions, announces its interim results for the six months ended 30 June 2019 (the "Period").

Financial Highlights

- Revenues increased by 12% to \$2.68 million (H1 2018: \$2.40 million)
- Operating loss decreased by 32% to \$0.44 million (H1 2018: \$0.65 million)
- Loss decreased by 39% to \$0.43 million (H1 2018: \$0.71 million)
- Basic and diluted loss per share of \$0.01 (H1 2018: Basic and diluted loss per share of \$0.01)
- Cash, cash equivalent, short term investment and deposits of \$6.15 million as at 30 June 2019 (30 June 2018: \$6.00 million)
- Trade receivables decreased by 9% to \$2.30 million (H1 2018: \$2.57 million)

Operational Highlights

- During the Period, SimiGon has continued to demonstrate its ability to capture new business and expand product capabilities in its core defense-related market:
 - Secured additional \$0.85 million contracts in aggregate with key European customers to provide licenses, maintenance and support services for the Customer's simulation training centers.
 - Signed a Blanket Purchase Agreement with the U.S. Department of Defense Enterprise Software Initiative to establish agreed pricing and processes for government customers to purchase the Company's products and services.
 - Secured an additional year of software and hardware warranties and support services for the United States Air Force T-6A Level 5 FAA Compliant Flight Training Device, valued at up to \$1.41 million over the next twelve-month period.
- Continued to support major military flight training programmes including:
 - The USAF Air Education and Training Command Undergraduate Remotely Piloted Aircraft Training ("URT");
 - Support for Lockheed Martin's UK Military Flight Training System ("UKMFTS");
 - Provide software and services as part of long-term relationship with a strategic European customer.
- Completed multiple delivery milestones for the \$2 million Israeli Air Force ("IAF") F-16 Maintenance Trainer Program ("IAF F16 Maintenance Trainer") contract announced in June 2016 and for the T6A Simulation Based Trainers to the IAF Flight Academy contract ("IAF T6A") announced in September 2018.
- During the Period, SimiGon has continued its ongoing R&D efforts to enhance simulation-based training across all hardware devices and position the Company to capitalize on new high growth market opportunities.

Post Period Events (previously announced)

- Awarded a strategic contract by the United States Air Force ("USAF") to provide SIMbox-based T-6A Mixed Reality ("MR") training devices for USAF Undergraduate Pilot Training ("UPT") at Laughlin Air Force Base.
- SimiGon has been awarded with a strategic contract with the USAF to provide Virtual Reality ("VR") systems for Columbus Air Force Base.
- SimiGon won an USAF contracts to provide VR Solutions for Vance Air Force Base and Sheppard Air Force Base.
- Successful completion of systems delivery milestones for US\$1.1 million contract announced in Sep 2018 with the IAF.
- Awarded a BPA from the USAF for the supply of VR and MR Systems.
- SimiGon was awarded a USAF contract to provide SIMbox-based F-15E MR training devices for USAF Air Combat Command ("ACC").
- Appointment of a Chief Operating Officer of SimiGon Inc., the main trading subsidiary of the Company, and a further change to the composition of the Company's Non-Executive board.

Ami Vizer, SimiGon's Chief Executive Officer and Executive Chairman, commented: "We were able to report higher revenues for the Period as compared to the 6 months ended 30 June 2018, together with a reduction at the operating loss level. Our true achievement is the foundation we have created for future growth and return to profitability.

The Company is executing its strategy to deliver program milestones of long-term strategic contracts and continuing to position itself in the market as a leading technology provider for VR and MR training solutions. We entered 2019 with more clients, more partners, stronger technology and greater utilization of our SIMbox technology across more domains than any other year in our history. SimiGon's ability to identify new markets and their need for cost effective training is exemplified throughout the Period and post-Period with multiple SIMbox-based MR training systems contracts awarded to the Company by the USAF and other customers. This positive year positions the Company to deliver improved financial performance over the long term."

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

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Overview

During the Period, SimiGon's ability to identify new markets and their requirements for cost effective personal training systems was further demonstrated as the Company was able to secure new business and expand product capabilities. In addition, the Company achieved successful delivery milestones of its strategic contracts. This includes milestones on the IAF F-16 Maintenance Trainer and T-6A Simulation Based Trainers programs, Onsite/Offsite and logistics support provided to the USAF under their T-6A program and continued the support for the UK Military Flight Training System program.

Successful deliveries and advanced proven technology has led SimiGon to be contracted with strategic programs throughout the Period which has solidified SIMbox as the major training technology platform. This includes the contract signed with the USAF for an additional year of software and hardware warranties and support services for the United States Air Force T-6A Level 5 FAA Compliant Flight Training Device, and the contract award from its key European customer for licenses, maintenance and support services for the Customer's simulation training centers.

Over the Period, the Company continued its strategic focus on three main areas:

Sustain the baseline - Continue to successfully deliver Distributed Learning Solutions to our core strategic partners worldwide. SimiGon, directly and through its partners, now has training sites in North America, Europe, Middle East and in the Asia Pacific markets.

Expand market reach - Expand the utilization of our SIMbox technology to multiple domains. This was successfully achieved by targeting several high opportunity markets such as maintenance training providers, commercial equipment operators, as well as training and research labs that utilize SIMbox as part of their research.

Strengthen our technology capabilities - Improve the technological capabilities of the SIMbox technology in order to enable the growth of the Company as detailed above. Beyond the expansion of our graphics engine, simulation and learning management system, we have added and delivered VR solutions to multiple clients around the globe.

The Company's R&D efforts are focused on utilizing commercial, consumer hardware to advance VR, MR and AR technologies for advanced training and simulation, together with continued development of the Company's simulation software development tools, high fidelity Image Generator ("IG"), user monitoring and performance tracking with simulation data analytics. This comprehensive solution developed by SimiGon not only provides an immersive, high fidelity training environment, it also provides organizations the ability to see trainee(s) progression rate and areas of difficulty, enabling the curriculum to be tweaked for better training results. SIMbox technologies accelerating training are increasing the Company's opportunities and market penetration across military and civilian training markets.

SimiGon's technology supports industry demand for more realistic training and depth perception provided with VR solutions. Integrated with our Learning Management System and Virtual Instructor, trainees receive high value, self-paced training, saving end user organizations time and money.

SimiGon's civilian training market opportunities range from maintenance, safety, energy and other industrial operations skills. The Company's efforts to grow vertical Government and Civilian training are proceeding. The Company recognizes the growth potential in VR-leveraged, as well AR training solutions and is developing and marketing relevant solutions to support this fundamental shift in the training world. The enterprise VR training market is forecasted to grow at CAGR 140% and expected to generate \$216 million in 2018 and grow to \$6.3 billion in 2022. SimiGon is well positioned to capitalize on this rapid market growth.

During the Period, revenue was \$2.68 million (H1 2018: \$2.40 million) and loss before tax expenses of \$0.43 million (H1 2018: \$0.67 million). The key contributor to the reported operating loss is the purchase of hardware in a total of \$0.5 million that was provided as part of SimiGon's programs with the USAF and with IAF (F16 Maintenance Trainer and IAF F16 T6A) and the increase in research and development expenses. The Company continues to maintain a strong balance sheet with liquid cash balances of \$6.15 million as at 30 June 2019.

Operational Review

SimiGon's core technology, SIMbox, and support services were developed for large simulation training programmes for the Government and Commercial sectors. As the Company evolves into a training systems integrator, SimiGon remains at the forefront of designing, developing, implementing and supporting advanced simulation and training solutions to accelerate learning. Increased operational proficiency lowers safety risks and better prepares operators for real operations, whether they are flights, flight line maintenance tasks or deep sea oil rig operations. Leveraging the robust SIMbox ecosystem, SimiGon and its partners can deliver VR/MR/AR capable simulation based training content across unlimited domains and across the hardware spectrum, from tablets and laptops/PCs to high fidelity training devices.

SimiGon's strategic, simulation-based training solutions offer flexible licensing models with traditional software licensing or SaaS. SimiGon's technologies and capabilities provide significant added value to multiple industries.

Markets

Aerospace and defense related industry

The Company's historical core market is the aerospace and defense arena, particularly military aviation, where the Company continues to cement its position as a preferred technology supplier for the world's largest military training programmes. The Company's track record of delivering on time and within budget has led to winning new military-related contracts around the world, as well as serving to further entrench the Company with existing customers into new programmes.

Civilian and Commercial vertical markets

The global smart education and learning market size is expected to reach \$423.2 billion by 2025 at a 15.2% CAGR, offering extensive expansion opportunities for SimiGon.

Millennials and Generation Z users learning experience is transforming the training industry as students are exposed to digital devices from a young age. Adaptive learning, simulation-based learning, blended learning, and collaborative learning, all part of SimiGon products, have subsequently evolved to offer users enhanced learning methodologies and experiences.

The simulation-based learning segment is anticipated to grow at a fast pace, enabling professional organizations and educational institutions to virtually experience real world environments for trainees to practice, navigate, explore, and obtain more information through a virtual medium before they start working on real-life tasks.

Growing awareness among people and rising popularity of smart education are encouraging solution providers to invest in research and development for creating more reliable, better, and cost-effective solutions.

The Company is very excited by increased market opportunities occurring in the civilian and mass consumer training segments being supported with new technologies such as VR and AR.

As an Open System Architecture (“OSA”) software framework, SimiGon’s ability to integrate with new technologies makes it viable long-term training simulation software fully capable of leveraging the immersive training needs of the VR civilian markets. SimiGon software offers an advanced solution to organizations seeking to teach visual and interactive problem solving in far ranging markets such as civilian aviation, technician training, language training, customer service training and corporate leadership.

SimiGon’s technology, experience and personnel, place it in a unique position to take advantage of the cultural shifts democratizing learning and training to reach the wider consumer market.

The Company’s significant capabilities, proven in the defense sector, are being leveraged to pursue new civilian training contracts. Examples of potential civilian applications well within reach are aircraft maintenance training, civilian UAS training and aircraft deicing technician training.

Marketing

The Company’s marketing mix includes digital and print advertising, social media and booths at four industry symposiums, including the 2018 Singapore Airshow, ITEC in Europe, IITSEC and TSIS in the US as well as participation in smaller industry demos for select end users.

General

The Company continues to further develop its disruptive, baseline, commercial off-the-shelf (“COTS”) product with additional top layer application content and capabilities to reach more end users and vertical markets. Targeted verticals such as commercial aviation maintenance training, security training, language training and vocational training have common requirements to the defense-related industries the Company continues to target. Specifically, they are highly regulated, require complex and specialized skill training and have zero tolerance for error. SimiGon is seeking to increase market share and broaden the end user applications for its base line SIMbox software platform in new domains.

Business Model

SimiGon's strategy, in line with the industry, is to focus on long-term, high value, stable SaaS license contracts and services that provide better revenue and profit visibility as a result of distributing over the Period in which they are provided rather than on single lump sum license sales.

With SaaS-based contracts, the recurring maintenance and support stream is already included in the contract terms. In addition, the Company maintains flexibility with its traditional perpetual license fee model where the Company is paid for software license and support, as well as providing turnkey solutions for customers and partners as a Prime contractor or Sub-contractor.

Growth Strategy

SimiGon is focused on organic growth with its existing customer base, offering continuous product developments and services; leveraging its experience and IP developed from existing contracts as a Prime Contractor and Subcontractor to win new business and capture sales in established segments; and expanding its core technology’s applicability for new market domains, directly and indirectly.

SimiGon's highly scalable, COTS technology training management system makes it an ideal solution to address new training domains with little customization required. New projects and markets continue to utilize the product infrastructure and developer tools to create the new application content; once developed, they are leveraged to target the wider market.

Long term contracts

The Company maintained its solid portfolio of long term partnerships:

SimiGon continues its successful support for UKMFTS as a technology and services provider to Lockheed Martin. The Company continues to deliver under this long term contract, now in its ninth year of support, exceeding partner and end user expectations of SimiGon's technologies and performance.

Ongoing USAF contracts for the continued maintenance and support including onsite hardware and software support for the sixteen SIMbox-based T-6A Level 5 FTD's.

Check-6 Inc., one of the leading providers of training solutions to the energy and mining industries, is another example of SimiGon's ability to help companies achieve new growth. Throughout this contract, SimiGon has successfully executed on its agreed deliverables. This relationship continues to yield long term business prospects.

The Company continues to support and further expanded its long-term relationship with a major existing European customer that it has been supplying with software and services since 2009. SimiGon continues its successful support of the SIMbox-based T-6A Simulation Based Trainers units provided to the IAF Flight Academy.

Financial Performance

Revenue for the Period was \$2.68 million, compared to \$2.40 million for the six months ended 30 June 2018. Gross profit for the Period was \$1.76 million, as compared to \$1.85 million for the six months ended 30 June 2018. Accordingly, gross margins decrease to 66% for the Period as compared to 77% for the six months ended 30 June 2018. The main contributor to the reported decrease in gross margin is the purchase of hardware in a total of \$0.5 million that was provided as part of SimiGon's programs with the USAF and with IAF (F16 Maintenance Trainer and IAF F16 T6A).

Total operating expenses for the Period decreased by 12% to \$2.20 million as compared to \$2.50 million in the six months ended 30 June 2018, mainly as a result of an increase in R&D expenses of \$0.70 million coupled with a decrease in the doubtful debt provision of \$0.45 million during the first half of year. R&D expenses for the Period increased by 7% to \$1.10 million as compared to \$1.03 million for the six months ended 30 June 2018 mainly due to salary expenses. Marketing expenses for the Period increased by 13% to \$0.57 million as compared to \$0.50 million for the six months ended 30 June 2018 mainly due to salary expenses. This increased cost base in R&D expenses and in marketing expenses, is part of a strategic decision by the Company to ensure that it continues to be on the front foot with respect to capitalizing on the many market opportunities available to the Company. Development of our existing software ensures that we maintain our position as one of the leading providers in the market. Personnel recruitment and investment we have made into our marketing and R&D department's strengthen our future capabilities and enables us to move into new sectors. General and administration expenses for the Period decreased by 45% to \$0.53 million as compared to \$0.96 million for the six months ended 30 June 2018 mainly due to provision for doubtful debts recorded in the first half of year 2018 of \$0.45 million. Operating loss for the Period was \$0.44 million, as compared to \$0.65 million for the six months ended 30 June 2018.

As a consequence of the factors above, the Company recorded loss for the Period of \$0.43 million compared with \$0.71 million for the six months ended 30 June 2018.

Basic and diluted loss per share was to \$0.01 for the Period as compared to basic and diluted loss per share of \$0.01 for the six months ended 30 June 2018.

As at 30 June 2019 the Company had liquid cash of \$6.15 million as compared to \$6.00 million as at 31 December 2018. Trade receivables decreased by 9% to \$2.30 million as of 30 June 2019 as compared to \$2.57 million as of 30 June 2018. A total of \$1.46 million of the year end trade receivables balance has been collected since 30 June 2019.

Outlook

SimiGon's outlook is positive primarily due to its current technologies, R&D roadmap and the overwhelming need to provide millennials and Generation Z with VR, MR, AR capable, immersive training solutions. Government and Civilian requirements for proficient operators in multiple domains of zero risk tolerance such as aviation and energy, is a challenge the Company looks forward to capturing and realizing the growth foreseen by investors. The Company remains agile and able to scale rapidly to support new business and deliver its vision and business strategy.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	December 31, 2018
	Unaudited	Audited
	U.S. dollars in thousands	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	3,233	3,143
Short-term bank deposit	1,021	1,014
Short-term investments	1,894	1,845
Short-term restricted cash	22	278
Trade receivables, net	2,304	2,571
Other accounts receivable and prepaid expenses	42	93
<u>Total current assets</u>	<u>8,516</u>	<u>8,944</u>
NON-CURRENT ASSETS:		
Restricted cash	559	559
Long-term prepaid expenses	31	32
Property, plant and equipment	62	66
Right of use assets	404	-
Goodwill	1,068	1,068
<u>Total non-current assets</u>	<u>2,124</u>	<u>1,725</u>
<u>Total assets</u>	<u>10,640</u>	<u>10,669</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	December 31, 2018
	Unaudited	Audited
	U.S. dollars in thousands	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade payables	187	159
Current maturities of lease liability	288	-
Deferred revenues	233	327
Other accounts payable and accrued expenses	738	691
<u>Total current liabilities</u>	<u>1,446</u>	<u>1,177</u>
NON-CURRENT LIABILITIES:		
Lease liabilities	125	-
Employee benefit liabilities	311	287
Other non-current liabilities	704	712
<u>Total non-current liabilities</u>	<u>1,140</u>	<u>999</u>
<u>Total liabilities</u>	<u>2,586</u>	<u>2,176</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	125	125
Treasury shares	(105)	(105)
Additional paid-in capital	16,650	16,647
Accumulated deficit	(8,616)	(8,174)
<u>Total equity attributable to equity holders of the Company</u>	<u>8,054</u>	<u>8,493</u>
Non-controlling interests	*) -	*) -
<u>Total equity</u>	<u>8,054</u>	<u>8,493</u>
<u>Total liabilities and equity</u>	<u>10,640</u>	<u>10,669</u>

*) Represents an amount lower than \$ 1 thousand.

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended		Year ended
	June 30,		December 31,
	2019	2018	2018
	Unaudited		Audited
	U.S. dollars in thousands		
	(except per share data)		
Revenues	2,680	2,395	5,029
Cost of revenues	924	546	1,210
Gross profit	1,756	1,849	3,819
Operating expenses:			
Research and development	1,101	1,030	2,083
Selling and marketing	567	503	1,032
General and administrative	530	964	1,464
Total operating expenses	2,198	2,497	4,579
Operating loss	(442)	(648)	(760)
Financial income	88	52	27
Financial expenses	79	76	49
Loss before income taxes	(433)	(672)	(782)
Income tax expense	-	(34)	(224)
Loss	(433)	(706)	(1,006)

SIMIGON LTD. AND ITS SUBSIDIARIES

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six months ended June 30,		Year ended December 31,
	2019	2018	2018
	Unaudited		Audited
	U.S. dollars in thousands (except per share data)		
Loss	(433)	(706)	(1,007)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain (loss) from defined benefit plan	(9)	9	16
<u>Total comprehensive loss</u>	<u>(442)</u>	<u>(697)</u>	<u>(991)</u>
Loss attributable to:			
Equity holders of the Company	(433)	(714)	(1,013)
Non-controlling interests	-	8	6
	<u>(433)</u>	<u>(706)</u>	<u>(1,007)</u>
Total comprehensive loss attributable to:			
Equity holders of the Company	(442)	(705)	(997)
Non-controlling interests	-	8	6
	<u>(442)</u>	<u>(697)</u>	<u>(991)</u>
Basic and diluted loss per share attributable to equity holders of the Company (in U.S. dollars)	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.02)</u>
Weighted average number of shares used in computing basic and diluted loss per share (in thousands)	<u>51,018</u>	<u>51,399</u>	<u>51,259</u>

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total		
Balance as of January 1, 2018 (audited)	51,394,189	125	16,639	-	(7,177)	9,587	(6)	9,581
Total comprehensive loss	-	-	-	-	(997)	(997)	6	(991)
Purchase of Treasury shares	(535,571)	-	-	(105)	-	(105)	-	(105)
Share-based compensation	-	-	8	-	-	8	-	8
Balance as of December 31, 2018 (audited)	*) 50,858,618	125	16,647	(105)	(8,174)	8,493	**) -	8,493
Total comprehensive loss	-	-	-	-	(442)	(442)	-	(442)
Share issuance	5,000	**) -	1	-	-	1	-	1
Share-based compensation	-	-	2	-	-	2	-	2
Balance as of June 30, 2019 (unaudited)	*) 50,863,618	125	16,650	(105)	(8,616)	8,054	**) -	8,054

*) Includes a total of 535,571 shares held in treasury.

**) Represents an amount lower than \$ 1 thousand.

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Accumulated deficit	Total		
Balance as of January 1, 2018 (audited)	51,394,189	125	16,639	-	(7,177)	9,587	(6)	9,581
Total comprehensive loss	-	-	-	-	(705)	(705)	8	(697)
Treasury shares	-	-	-	(53)	-	(53)	-	(53)
Share-based compensation	-	-	5	-	-	5	-	5
Balance as of June 30, 2018 (unaudited)	*) 51,394,189	125	16,644	(53)	(7,882)	8,834	2	8,836

*) Includes a total of 535,571 shares held in treasury.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2019	2018	2018
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(433)	(706)	(1,007)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Income and expenses not involving operating cash flows:			
Depreciation and amortization	159	22	46
Deferred tax	-	39	226
Financial income, net	(57)	9	64
Share-based compensation	2	5	8
Change in employee benefit liabilities, net	15	2	15
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivables	267	(403)	(823)
Decrease in other accounts receivable and prepaid expenses	52	64	59
Increase (decrease) in trade payables	27	(25)	26
Decrease in deferred revenues	(94)	(88)	(74)
Increase (decrease) in other accounts payable and accrued expenses	52	37	-
	423	(338)	(453)
Net cash used in operating activities	(10)	(1,044)	(1,460)

*) Represents an amount lower than \$ 1 thousand.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	June 30,		December 31,
	2019	2018	2018
	Unaudited		Audited
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Decrease (increase) in restricted cash	256	299	(164)
Increase in long-term deposits	-	(2)	(2)
Purchase of property, plant and equipment	(15)	(10)	(16)
Net cash provided by (used in) investing activities	241	234	(182)
<u>Cash flows from financing activities:</u>			
Repayment of lease liabilities	(142)	-	-
Proceed from share issuance	1	-	-
Purchase of treasury shares	-	(53)	(105)
Receipt of refundable grants	-	22	22
Net cash provided by (used in) financing activities	(141)	(31)	(83)
Increase (decrease) in cash and cash equivalents	90	(788)	(1,725)
Cash and cash equivalents at beginning of period	3,143	4,868	4,868
Cash and cash equivalents at end of period	3,233	4,080	3,143
<u>Non-cash activities:</u>			
Right-of-use assets and corresponding lease liabilities	58	-	-