

30 August 2018

## Matomy Reports 2018 Interim Results

### *Matomy furthers its aggressive move to focus on its core platforms.*

Matomy Media Group Ltd. ("Matomy" or the "Company"), a global leader in data-driven advertising and monetization platforms, announces its interim results for the six-month period ended 30 June 2018.

#### **Liam Galin, Chief Executive Officer of Matomy, said:**

"Matomy has covered tremendous ground in its journey of transition. We remained laser-focused on our core, high potential activities and exited cash bleeding ones that distracted us from this focus. As such, revenue sources and associated expenses have changed dramatically, and year-to-year comparisons do not tell the whole story and require clarification.

Our main activities, domain monetization (Team Internet) and in-app advertising (Mobfox), once adjusted for special occurrences\*, grew by 29% and 11% respectively in H1 2018 compared to H1 2017.

The industry is threatened by rapidly growing fraudulent traffic that misrepresents online advertising impressions, clicks or data events. Matomy took, and continues to take decisive non-compromising actions, including the use of internal and external tools, technology and partner cooperation, to ensure high quality, sustainable, and "clean" revenue. These efforts to proactively eradicate traffic that may not meet compliance requirements from the Group's platforms, including the removal of suspected publishers and advertisers and their associated income, affected the H1 revenues. At the same time, these same efforts significantly raised industry confidence in Matomy's platforms, as demonstrated in recently published market trust indexes.

We are encouraged by the growth and potential of our core business units and are working to scale these activities even further, as we reshape our company and technologies and evolve with our industry."

#### **Sami Totah, Matomy Non-Executive Chairman of the Board, commented:**

"Matomy has evolved as a company and is focused with tenacity and determination on core activities. The changes we have implemented will be the foundation for a stronger growth company."

#### **Business and operating highlights**

- Liam Galin succeeded Sagi Niri as Matomy's President and Chief Executive Officer in January 2018.
- The Company remains focused on its core activities in which it has a competitive edge and has continued to cut aggressively underperforming activities in H1 2018.
  - Our main activities of Domain Monetization and In-app Advertising, once adjusted for special occurrences\*, grew by 29% and 11% respectively.
  - Following the significant decrease in revenues of the non-core activities, as demonstrated in part by the overall fall in revenue by 48% compared to H1 2017, the Company:
    - Closed the Optimatic video programmatic platform in June 2018
    - [Sold the Whitedelivery email marketing platform](#) in August 2018
    - Signed an agreement for the sale of myDSP media buying platform in July 2018

## MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

- In February 2018, the [Company raised 103 million NIS](#) (approx. \$30 million) in convertible bonds.
- In March 2018, the Company increased its holding of Team Internet to 90%, with an agreement to acquire the final 10% of Team Internet in H2 2018, bringing the holding to 100%.
- The Company's platforms took all required steps to be compliant with the new regulation of General Data Protection Regulation (GDPR) that came into effect on May 25, 2018.
- Matomy took aggressive measures to ascertain high quality, sustainable, and "clean" revenue. Non-compliant traffic sources were expunged from its platforms, affecting the H1 revenues while strengthening the Company's long-term position.

(\$ thousands)	H1 2018	H1 2017	GAP	GAP %
<b>Total revenue (GAAP)</b>	<b>73,263</b>	<b>141,020</b>	<b>-67,757</b>	<b>-48.0%</b>
Email and Video – exiting in 2018	11,757	64,317		
<b><u>Total core activities</u></b>	<b><u>61,506</u></b>	<b><u>76,703</u></b>	<b><u>-15,197</u></b>	<b><u>-19.8%</u></b>
<i>Adjustments</i>				
Team Internet - non compliant traffic	0	13,080	-13,080	
Mobfox SSP - non compliant traffic	0	3,800	-3,800	
DSP shutdown	2,067	8,228	-6,161	
<b><u>Total core activities Revenue after Special Occurrences</u></b>	<b><u>59,439</u></b>	<b><u>51,595</u></b>	<b><u>7,844</u></b>	<b><u>15.2%</u></b>
<b><i>Team Internet adjusted</i></b>	<b><i>42,659</i></b>	<b><i>38,593</i></b>	<b><i>4,066</i></b>	<b><i>10.5%</i></b>
<b><i>Mobfox adjusted</i></b>	<b><i>16,780</i></b>	<b><i>13,002</i></b>	<b><i>3,778</i></b>	<b><i>29.0%</i></b>

\* *Special Occurrences*

*Special Occurrences refer to adjustments made in connection with: (i) one-time decisive eradication of non-compliant traffic from the Group's core platforms; and (ii) adjustments for the sale of Mobfox's myDSP media buying platform, as demonstrated in the table above.*

*As this is the first time that Matomy is reporting H1 results of its core activities, Mobfox and Team Internet, comparative figures have been adjusted where required. Full comparative numbers will be reported in 2019 reports.*

**Matomy Media Group Consolidated Results H1 2018 (non-GAAP):**

(Million USD)	Core Activities	Non-core Activities	Total Matomy
Revenue before bad debt	61.9	13.5	75.4
Bad Debt	0.4	1.8	2.2
Revenue	61.5	11.8	73.3
Direct Media Costs*	44.2	7.4	51.6
Adjusted Gross Profit**	17.3	4.4	21.7
Adjusted Gross Margin**	28%	37%	30%
Direct Adjusted EBIDTA***	5.4	-3.2	2.1
Total Corporate Allocations****			1.4
Adjusted EBIDTA*****			0.7

**\* Direct Media Costs**

Direct Media Costs are the direct costs associated with the purchase of digital media. These costs include: payments for digital media based on the revenues Matomy generates from its customers on a revenue-sharing basis; payments for digital media on a nonrevenue-sharing basis (CPC or CPM); and serving fees for third-party platforms.

**\*\*Adjusted Gross Profit / Margin**

Adjusted gross profit is a non-GAAP financial measure that Matomy defines as revenues less Direct Media Costs.

Matomy believes that adjusted gross profit is a meaningful measure of operating performance because it is frequently used for internal management purposes, indicates the performance of Matomy's solutions in balancing the goals of delivering results to its customers whilst meeting margin objectives, and facilitates a more complete understanding of factors and trends affecting Matomy's underlying revenues performance.

**\*\*\*Direct Adjusted EBIDTA**

Direct Adjusted EBIDTA is a non-GAAP financial measure that Matomy defines as Adjusted EBIDTA directly attributable to a specific business less the applicable Corporate Allocations assigned to such activity.

**\*\*\*\*Total Corporate Allocations**

Total Corporate Allocations is a non-GAAP financial measure that Matomy defines as indirect costs which are allocated across the various business units, consisting mainly of: (i) cost of corporate headquarters, including labor costs and related overheads; and (ii) costs associated with being a publicly traded Company, such as directors' compensation and expenses, costs relating to investor relations, shareholder meetings and reports to

**\*\*\*\*\*Adjusted EBIDTA**

Adjusted EBIDTA is a non-GAAP financial measure that Matomy defines as net income before taxes on income, financial expenses (income), net, equity losses of affiliated companies, net, depreciation and amortisation, share-based compensation expenses (cash and non-cash) and exceptional items (as described below). Adjusted EBIDTA is a key measure Matomy uses to understand and evaluate its core operating performance and trends, to prepare and approve its annual budget, to develop short- and long-term operating plans and to determine bonus payments to management. In particular, Matomy believes that by excluding share-based compensation expenses, adjusted EBIDTA provides a useful measure for period-to-period comparisons of Matomy's core business.

**GAAP Financial Highlights**

(\$ millions)	H1 2018 GAAP	H1 2017 GAAP	Change
Revenue	73.3	141.0	(48%)
Gross profit	11.8	30.2	(61%)
Operating loss	(15.1)	(8.1)	(87%)
Pre-tax loss	(17.0)	(9.3)	(82%)
Net loss	(19.1)	(6.5)	(194%)
Loss per share	(0.20)	(0.15)	(33%)

## MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

Matomy will host an analyst conference call at 12:30 pm BST / 2:30 pm IST Thursday, August 30, 2018, to discuss these results. Matomy President and CEO Liam Galin, and CFO Keren Farag Krygier will host the call. The conference call can be accessed at 0-808-101-2717 (UK), 1-866-744-5399 (US) or 03-9180692 (Israel).

### **About Matomy Media Group Ltd.**

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is the global leader in data-driven platforms empowering advertising and media partners to meet their evolving growth-driven goals. Matomy's programmatic platforms include [Team Internet](#) and the [MobFox](#) SSP. Founded in 2007 with headquarters in Tel Aviv and seven offices around the world, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges.

A copy of this announcement and the financial report will be available on the Matomy website: <http://investors.matomy.com/rns.aspx>.

### **For more information:**

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**CHAIRMAN and CHIEF EXECUTIVE OFFICER'S STATEMENT**

If 2017 was a year of transition for Matomy, then 2018 is the year of implementation. The Company announced on May 8, 2017, a [restructuring](#) of the Company to focus on core activities while significantly reducing operational costs moving forward. While the [sale of non-core activities started in 2017](#) with the sale of the Company's performance advertising activities, Matomy continued aggressively cutting underperforming activities while developing the core activities that demonstrate sustainable growth.

In the first half of 2018, Matomy witnessed a sharp drop in revenue from its non-core activities and a healthy rise (once adjusted) in its main activities Team Internet and Mobfox. As a result, and in line with the Company's aggressive focus on its core activities, the Company exited its video and [email](#) activities, as well as its media buying platform activity branded myDSP.

Traditionally, Matomy's first-half results are more moderate than the second half results. The Management and Board are encouraged by the growth prospects through the end of 2018 and beyond, as the Company continues to focus on core activities with competitive edge, and maximize value for its stakeholders.

**Sami Totah**  
**Non-executive Chairman**

**Liam Galin**  
**President & CEO**

**OPERATING REVIEW**

**Revenues by Business Unit**

The following table demonstrates Matomy’s revenues by unit for the six-month period ended 30 June 2018 and 2017. The table appears to demonstrate decreases in revenue for both the domain monetization and mobile in-app advertising activities. This apparent decrease is due to Special Occurrences, and are not representative of these core activities’ growth and sustainability as described below.

<b>Six-month period ended 30 June</b>			
(\$ millions)	2018	2017	% change
Domain monetisation (Team Internet)	42.7	51.7	(17%)
Mobile in-app (Mobfox and myDSP)	18.8	25.0	(25%)
Activities exiting in 2018 (Email and Video)	11.8	42.6	(72%)
Activities sold in July 2017	-	21.7	(100%)
<b>Total</b>	<b>73.3</b>	<b>141.0</b>	<b>(48%)</b>

**Domain monetisation**

As shown in the table below, Team Internet demonstrated an adjusted gross profit of \$11.88 million in the first half of 2018, with a direct adjusted EBITDA of \$8.46 million.

Team Internet’s domain advertising and monetisation platforms enjoyed a one-time peak in activity in 2017, valued at approximately \$13 million in revenue, following the drop in business of a close rival and the absorption of a significant amount of its activity. Team Internet has very strict compliance standards and a deep commitment to protecting its strong relationships with its partners. As such, following its internal automated and manual compliance processes, as well as new, stricter guidelines from its leading partner, redefining its quality requirements, Team Internet decided not to continue in 2018 with part of the absorbed activity that represented a level of risk.

Discounting the revenues associated with this possibly risk-related activity, estimated at around \$13 million in 2017 based on internal analysis, Team Internet’s revenue was \$38.7 million in H1 2017. Revenues of \$42.7 million in H1 2018 demonstrates a 10.5% rise, continuing Team Internet’ steady and healthy growth full year CAGR trend of 15%-20%.

<b>H1 2018 (\$ millions)</b>	<b>Team Internet</b>
Revenues	42.66
Direct Media Costs*	30.78
Adjusted Gross Profit**	11.88
Adjusted GP %**	28%
Direct Adjusted EBITDA***	8.46

**Mobile in-app advertising**

As shown in the table below, Mobfox demonstrated an adjusted gross profit of \$5.42 million in the first half of 2018. This represents a perceived decrease compared to the year before, in part explained by the following:

- The figures include the activities of the media buying platform myDSP, which underperformed in H1 2018, earning \$2.07 million in H1 2018 compared to \$8.23 million in H1 2017. myDSP was sold in August 2018 and therefore will no longer appear in financial reporting from Q4 2018.
- Matomy is committed to protecting its partners, clients and their users from fraudulent advertising activity, to the best of our knowledge and abilities. To this end, once discovered, the Company removed suspected publishers and advertising partners and their associated income, which accounted for approximately \$3.8 million in H1 2017.

Therefore, discounting the fraud-related and myDSP revenue, together totaling \$12.0 million in 2017, Mobfox’s revenue (without myDSP) of \$16.78 million in H1 2018 demonstrates a 29% rise from \$13 million in H1 2017.

<b>H1 2018 (\$ millions)</b>	<b>Mobfox with myDSP</b>	<b>Mobfox without myDSP</b>
Revenues	18.85	16.78
Direct Media Costs*	13.43	12.00
Adjusted Gross Profit**	5.42	4.79
Adjusted GP %**	29%	28.5%
Direct Adjusted EBIDTA***	(3.10)	(2.83)

It should be noted that mobile advertising is seasonal, with spending growing significantly in Q3, and peaking in Q4, in line with the distribution of ad spend within the programmatic space.

**Email**

Matomy’s email marketing platform revenues decreased by \$2.13 million, or 28%, to \$5.37 million for the six-month period ended 30 June 2017 from \$7.5 million in the same period last year. The Company decided to exit this declining activity and sold the Whitedelivery email marketing platform in August 2018.

**Video**

Matomy’s video revenue of \$6.4 million in H1 2018 represents a decrease of 82% compared to \$35.1 million in H1 2017. The drop was driven by changes across the video industry, reducing the amount and price of available video advertising inventory from sellers, together with the introduction of stricter quality requirements by video advertisers. The Company decided to exit this declining activity and closed the Optimatic programmatic platform in April 2018.

**Revenues by Geography**

The United States remains Matomy’s strongest market overall, as the source of 63% of revenues. The European market is the second strongest market generating 23.7% of overall revenues, and the Asian market generates 4.7% of overall revenues.

**FINANCIAL REVIEW**

**Revenue**

In the first half of 2018 Matomy's revenue decreased by 48% to \$73.26 million (H1 2017: \$141.02 million). However, excluding the revenues from closed, fraud and Special Occurrences, revenues increased by 15.2%, from \$51.58 million in H1 2017 to \$59.44 million in 2018.

**Cost of revenue and other expenses**

<u>\$ millions, except as otherwise indicated</u>	<u>H1 2018</u>	<u>H1 2017</u>
Direct media costs.....	51.6	97.9
Other cost of revenue .....	9.9	12.9
<b>Cost of revenue.....</b>	<b>61.5</b>	<b>110.8</b>
Gross margin (%).....	16%	21%
Adjusted gross margin (non-GAAP) (%)	30%	31%

Cost of revenue for all of Matomy's activities decreased by \$49.3 million, or 44%, to \$61.5 million for the six-month period ended 30 June 2018 from \$110.8 million in the same period last year.

Other cost of revenue, including allocated costs, server expenses and amortisation of capitalised R&D and intangible assets, decreased in part from the reduction of server and other technical infrastructure expenses.

**Operating expenses, excluding exceptional items**

<u>\$ millions</u>	<u>H1 2018</u>	<u>H1 2017</u>
Research and development .....	4.3	6.7
Sales and marketing.....	7.0	15.6
General and administrative.....	5.0	7.8
<b>Total operating expenses.....</b>	<b>16.3</b>	<b>30.1</b>
Total operating expenses as a percentage of revenues .....	22%	21%

Following the closure of underperforming platforms, and the introduction of specific cost-cutting strategies, operating expenses decreased by \$13.8 million, or 45%, to \$16.3 million (H1 2017: \$30.1 million). Operating expenses as a percentage of revenues were 22% (H1 2017: 21%).

Research and development expenses decreased by \$2.4 million, or 36%, to \$4.3 million (H1 2017: \$6.7 million), as the Company discontinued development of closing platforms.

Sales and marketing expenses dropped 55% to \$7 million (H1 2017: \$15.6 million). This drop reflects cost-cutting of sales professionals of exited products, as well as reduced investment in marketing efforts that are no longer relevant to the Company's activities.

General and administrative expenses decreased 36% to \$5.0 million (H1 2017: \$7.8 million), due to continued success in introducing efficiencies at the corporate level, streamlining and reducing overheads.

**Financial expenses**

Financial expenses decreased by \$0.9 million, or (300%), to \$0.3 million (H1 2017: \$1.2 million). This decrease is mainly attributable to high income from foreign exchange rate fluctuations, net of hedging transactions, and the resulting required adjustments regarding the Bond, which is denominated in Israeli Shekel.



**Taxes on income**

Taxes on income shifted to \$2.1 million expense for the six-month period ended 30 June 2018 (12.5% of loss before taxes), from an income of \$2.9 million for the same period last year.

The negative effective corporate tax rate in H1 2018 is due to a \$2.1M tax expense in Team Internet, without creating any tax benefit in other subsidiaries due to current year and prior year losses.

**Loss per share**

Matomy's basic loss per share increased by \$0.05 to \$0.20 loss per share for the six-month period ended 30 June 2018 (H1 2017: \$0.15 loss per share), reflecting primarily the increased GAAP net loss (which does not exclude the exceptional items).

**Amortisation of intangible assets**

Amortisation expenses amounted to \$5.3 million for the six-month period ended 30 June 2018, a decrease of \$2.2 million from amortisation expenses of \$7.5 million for the same period last year. This reflected a decrease in amortisation of capitalized R&D assets, as well as the decreasing amortisation rate in connection with previous acquisitions.

**Exceptional items**

Matomy views the following items, which were recorded in profit and loss either as expense or income, as exceptional items which are material to the financial statements and non-recurring and therefore were excluded from non-GAAP measures:

- Impairments of goodwill and intangible assets amounting to \$10.2 million in H1 2018, as detailed herein below.
- Earnout adjustments income of \$0.6 million in H1 2018.
- Convertible Bond issuance costs of \$1.6 million in H1 2018.
- Restructuring costs relating to the exiting non-core activities amounting to \$0.9 million in H1 2018.

The Company recorded an impairment of goodwill and capitalised R&D of \$10.2 million, out of which \$9.4 million goodwill impairment is related to its Mobfox activity, mainly in connection with the exit of the myDSP activity which showed a dramatic drop in revenue compared to H1 2017, and \$0.8 million is related to non-core activity.

## Liquidity and cash flows

The following table sets out selected cash flow information for Matomy for the six-month periods ended 30 June 2018 and 2017.

\$ millions	H1 2018	H1 2017
Net cash provided by (used in) operating activities.....	(11.8)	6.6
Net cash used in investing activities .....	(2.6)	(2.9)
Net cash used in financing activities .....	(0.6)	(3.8)
Effect of exchange rate differences on cash .....	-*	-*
Decrease in cash and cash equivalents .....	(15.0)	(0.1)
Cash and cash equivalents at beginning of period.....	29.4	22.0
Cash and cash equivalents at end of period .....	14.4	21.9

-\* Represents amounts less than \$0.1 million.

Cash and cash equivalents decreased by \$6.4 million, or 31%, to \$14.4 million as at 30 June 2018, compared to \$21.9 million as at 30 June 2017.

Cash flows used in operating activities were (\$11.8) million in H1 2018. Discounting the \$3.3 million in withholding tax on dividends, to be received in late 2018 and 2019, the H1 2018 cash outflow for operating activities is (\$8.5) million, compared to a net inflow of \$6.6 million in H1 2017. This exceptionally high cash flow usage is mainly a result of the decrease in revenues and increase in costs related to the underperforming non-core and exiting activities which won't be part of Matomy's activity going forward.

Net cash used in investing activities of \$2.6 million (H1 2017: \$2.9 million) was mainly related to capitalisation of R&D costs and domains investments, reflecting an aggregate decrease of \$0.3 million compared to H1 2017.

Cash flows used in financing activities decreased to \$0.6 million (H1 2017: \$3.8 million), primarily due to payments made in connection with acquiring additional shares in Team Internet (\$20.1 million) and repayment of bank loans (\$7.5 million net of short-term bank credit), offset by an increase of \$29.9 million in convertible bond. As at 30 June 2018, Matomy had \$3.7 million in term loans, of those, \$1.6 million are due within one year.

## Going concern

The Directors confirm that, after making an assessment, they have reasonable expectation that the Company has adequate resources to meet its obligations for the foreseeable future.

Such assessment is based, inter-alia, on the fact that the Company may require additional capital to fund future liabilities such as liability to non-controlling interest, bank loans, and bond liability. In December 2017, major shareholders of the Company agreed to provide funding, to the extent needed, through December 2018. The Company and the Board expect that the existing capital resources and other future measures that may be implemented, to the extent required, will be adequate to satisfy the expected liquidity needs of the Company in the foreseeable future. There is no assurance regarding raising additional capital in the future if needed.

## Principal risks

The Directors assess and monitor the key risks of the business on an ongoing basis. The principal risks and uncertainties that could have a material effect on the Group's performance are set out in detail in the

## MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

section entitled "Risk Factors" of the Group's IPO prospectus (the "Prospectus") dated 9 July 2014 as updated below. These include, among other things, the following:

- Certain internet and technology companies may intentionally or unintentionally adversely affect Matomy's operations, mainly, due to announced or unannounced changes and restrictions by such companies
- The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards
- Matomy's revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business
- Seasonal fluctuations in digital advertising activity, which may historically have been less apparent due to our historical core activities and growth, could adversely affect our cash flows and operating results
- In order to meet our growth objectives, we will need to rely upon our ability to innovate, the continued adoption of our solution by buyers and sellers for higher value advertising inventory, the extension of the reach of our solution into evolving digital media, and growth into new geographic markets
- Matomy operates in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do
- The digital advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition
- In order to meet our growth objectives, we may need to rely on our ability to raise debt or utilize credit lines, which may not be sufficiently available to meet our ongoing financial needs
- Matomy is dependent on relationships with certain third parties with significant market positions
- Matomy relies on the continued compatibility of its technological platforms with third-party operating systems, software and content distribution channels, as well as newly-acquired systems.
- Matomy may be subject to third-party claims brought against it
- Matomy has historically derived the majority of its revenues from customers that use its solutions for display marketing campaigns which are now rapidly declining
- A key part of Matomy's strategy relates to acquisitions and the ability to effectively finance, integrate and manage them
- The digital advertising industry, remains susceptible to fraud
- Matomy is an Israeli-domiciled Company and as such the rights and obligations of shareholders are governed by Israeli law and differ in some respects from English law
- State, federal and foreign laws regulate the confidentiality of personal information, how that information may be collected, used, and the circumstances under which such information may be released. These standards may be interpreted by a regulatory authority in a manner that could require us to make a material change to our operations and have a material adverse impact on our results of operations.

## MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

- As a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results
- If Matomy fails to comply with the terms or covenants of its debt obligations, our financial position may be adversely affected

### **Forward-looking statements**

Certain statements in this interim results report are forward looking. Although the Group believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will be fulfilled. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Directors' responsibility**

The Directors confirm that to the best of their knowledge that the condensed set of reviewed financial statements, which has been prepared in accordance with US GAAP, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidated financial statements as a whole as required by DTR 4.2.4.

By order of the Board:

**Liam Galin**  
**President & CEO**

**Keren Farag Krygier**  
**Chief Financial Officer**

**Reconciliation of GAAP measures to non-GAAP measures**

The following table presents a reconciliation of adjusted gross profit to gross profit and to revenues, the most directly comparable financial measures calculated in accordance with US GAAP, for the periods indicated:

<b>\$ million</b>	<b>H1 2018</b>	<b>H1 2017</b>
Revenues .....	73.3	141.0
Direct media costs.....	(51.6)	(97.9)
<b>Adjusted gross profit.....</b>	<b>21.7</b>	<b>43.1</b>
Adjusted gross margin (%)	30%	31%
Other cost of revenues .....	(9.9)	(12.9)
Gross profit .....	11.8	30.2

The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable financial measure calculated in accordance with US GAAP, for the periods indicated:

<b>\$ million</b>	<b>H1 2018</b>	<b>H1 2017</b>
Net loss.....	(19.1)	(6.5)
Taxes on income (Tax benefit) .....	2.1	(2.9)
Financial expenses, net .....	0.3	1.2
Depreciation and amortisation .....	5.7	8.1
Share-based compensation expenses cash and non-cash (income).....	(0.4)	1.8
Exceptional items	12.1	8.4
<b>Adjusted EBITDA .....</b>	<b>0.7</b>	<b>10.1</b>

The following table presents a reconciliation of adjusted net loss to net loss, the most directly comparable financial measure calculated in accordance with US GAAP, for the periods indicated:

<b>\$ million</b>	<b>H1 2018</b>	<b>H1 2017</b>
Net loss.....	(19.1)	(6.5)
Share-based compensation expenses cash and non-cash (income) including tax effect .....	(0.3)	1.8
Exceptional items, including tax effect.....	12.1	3.6
<b>Adjusted net income / (loss) .....</b>	<b>(7.3)</b>	<b>(1.1)</b>

**Financial statements on following pages**

**INTERIM CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<b>30 June 2018</b>	<b>31 December 2017</b>
	<u>Unaudited</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,372	\$ 29,407
Trade receivables, net	19,908	33,353
Other receivables and prepaid expenses	<u>10,630</u>	<u>7,306</u>
<u>Total</u> current assets	<u>44,910</u>	<u>70,066</u>
LONG-TERM ASSETS:		
Property and equipment, net	6,951	8,796
Domains	11,916	10,797
Other intangible assets, net	5,366	8,397
Goodwill	74,324	83,768
Other assets	<u>138</u>	<u>204</u>
<u>Total</u> long-term assets	<u>98,695</u>	<u>111,962</u>
<u>Total</u> assets	<u>\$ 143,605</u>	<u>\$ 182,028</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

## INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<b>30 June 2018</b>	<b>31 December 2017</b>
	<u>Unaudited</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liability to non-controlling interest	\$ 20,258	\$ 41,547
Short-term bank credit and current maturities of bank loans	11,596	18,375
Trade payables	17,923	29,234
Employees and payroll accrual	2,429	4,107
Accrued expenses and other liabilities	8,359	10,811
<u>Total current liabilities</u>	<u>60,565</u>	<u>104,074</u>
LONG-TERM LIABILITIES:		
Deferred tax liabilities	2,942	3,411
Convertible bond	26,398	-
Bank loans, net of current maturities	2,137	3,001
Other liabilities	770	1,652
<u>Total long-term liabilities</u>	<u>32,247</u>	<u>8,064</u>
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	252	252
Additional paid-in capital	85,923	85,931
Accumulated other comprehensive loss	(3,174)	(3,174)
Accumulated deficit	(26,241)	(7,196)
Treasury shares	(6,231)	(6,231)
<u>Total Matomy Media Group Ltd. shareholders' equity</u>	<u>50,529</u>	<u>69,582</u>
Non-controlling interests	264	308
<u>Total equity</u>	<u>50,793</u>	<u>69,890</u>
<u>Total liabilities and equity</u>	<u>\$ 143,605</u>	<u>\$ 182,028</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands except per share data

	Six months ended	
	30 June,	
	2018	2017
	<u>Unaudited</u>	
Revenues	\$ 73,264	\$ 141,020
Cost of revenues	<u>61,503</u>	<u>110,828</u>
Gross profit	<u>11,761</u>	<u>30,192</u>
Operating expenses:		
Research and development	4,284	6,637
Selling and marketing	7,014	15,581
General and administrative	5,006	7,751
Impairment, net of change in fair value of contingent consideration	9,662	8,705
Restructuring costs	853	574
Gain from sale of activity	<u>-</u>	<u>(913)</u>
<u>Total operating expenses</u>	<u>26,819</u>	<u>38,335</u>
Operating loss	(15,058)	(8,143)
Convertible bond issuance costs	(1,588)	-
Financial expenses, net	<u>(319)</u>	<u>(1,188)</u>
Loss before taxes on income	(16,965)	(9,331)
Tax benefit (taxes on income)	(2,124)	2,885
Equity losses of affiliated companies	<u>-</u>	<u>3</u>
Net loss	(19,089)	(6,449)
Net loss (income) attributable to non-controlling interests in subsidiary	<u>(44)</u>	<u>337</u>
Net loss attributable to Matomy Media Group Ltd, before accretion of redeemable non-controlling interest (see Note 8)	<u>\$ (19,045)</u>	<u>\$ (6,786)</u>
Basic and diluted loss per ordinary share	<u>\$ (0.20)</u>	<u>\$ (0.15)</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands, except share data

	<u>Ordinary shares</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained Earnings (accumulate deficit)</u>	<u>Treasury shares</u>	<u>Total Matomy Media Group Ltd. shareholders' equity</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
	<u>Number</u>	<u>Amount</u>							
Balance as of 1 January 2017	95,787,694	\$ 247	\$ 101,066	\$ (3,174)	\$ 8,795	\$ (6,231)	\$ 100,703	\$ -	\$ 100,703
Cumulative-effect adjustment from adoption of ASU 2016-09	-	-	68	-	(68)	-	-	-	-
Change in parent's ownership interest in subsidiary	-	-	-	-	-	-	-	285	285
Stock-based compensation	-	-	1,374	-	-	-	1,374	-	1,374
Exercise of options and vesting of restricted share units	1,493,229	-	522	-	-	-	526	-	526
Exercise of warrants	254,100	-	-	-	-	-	1	-	1
Accretion of redeemable non-controlling interest	-	-	(17,099)	-	-	-	(17,099)	-	(17,099)
Net loss	-	-	-	-	(15,923)	-	(15,923)	23	(15,900)
Balance as of 31 December 2017	97,535,023	\$ 252	85,931	\$ (3,174)	\$ (7,196)	\$ (6,231)	\$ 69,582	\$ 308	\$ 69,890
Stock-based compensation (benefit)	-	-	(8)	-	-	-	(8)	-	(8)
Exercise of options and vesting of restricted share units	124,500	*)	*)	-	-	-	-	-	*)
Net loss	-	-	-	-	(19,045)	-	(19,045)	(44)	(19,089)
Balance as of 30 June 2018 (unaudited)	<u>97,659,523</u>	<u>\$ 252</u>	<u>\$ 85,923</u>	<u>\$ (3,174)</u>	<u>\$ (26,241)</u>	<u>\$ (6,231)</u>	<u>\$ 50,529</u>	<u>\$ 264</u>	<u>\$ 50,793</u>

\*) represents an amount less than \$ 1.

The accompanying notes are an integral part of the interim consolidated financial statements.

**MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

	Six months ended	
	30 June	
	2018	2017
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net loss	\$ (19,089)	\$ (6,449)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,663	8,064
Impairment of intangible assets, goodwill and capitalized research and development	10,200	14,238
Stock-based compensation	(8)	852
Change in deferred tax, net	(469)	(6,428)
Decrease in trade receivables	13,353	7,382
Increase in withholding tax receivable	(3,340)	(243)
Increase in other receivables and prepaid expenses	(28)	(838)
Change in accrued interest and effect of foreign exchange differences on long term loans	(109)	330
Fair value revaluation - convertible bond	(3,532)	-
Decrease in trade payables	(11,311)	(5,602)
Changes in fair value of payment obligation related to acquisitions recognized in earnings and liability to non-controlling interest	1,030	(5,533)
Increase (decrease) in accrued expenses and other liabilities	(2,558)	992
Increase (decrease) in employees and payroll accruals	(1,678)	758
Gain from sale of activity	-	(913)
Other	79	(1)
Net cash provided by (used in) operating activities	(11,797)	6,609
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(103)	(167)
Capitalization of research and development costs	(1,499)	(1,858)
Purchase of domains	(1,139)	(1,002)
Sale of investment in affiliated company	44	-
Proceeds from sale of domains	-	114
Decrease in deposits	66	-
Net cash used in investing activities	(2,631)	(2,913)
<u>Cash flows from financing activities:</u>		
Proceeds from convertible bond issuance, net	29,930	-
Receipt of bank loans	-	2,000
Repayment of bank loans	(9,240)	(4,335)
Dividend paid to redeemable non-controlling interest	(2,711)	(3,491)
Exercise of options	*)	454
Payment of consideration with respect to acquisitions	(146)	(2,660)
Payment to non-controlling interest	(20,146)	(10,994)
Short term bank credit, net	1,706	15,305
Net cash used in financing activities	(607)	(3,721)
Effect of exchange rate differences on cash	-	(46)
Decrease in cash and cash equivalents	(15,035)	(71)
Cash and cash equivalents at the beginning of the period	29,407	21,987
Cash and cash equivalents at the end of the period	\$ 14,372	\$ 21,916

The accompanying notes are an integral part of the interim consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**U.S. dollars in thousands**

	Six months ended 30 June	
	2018	2017
	Unaudited	
(a) <u>Supplemental disclosure of cash flows activities:</u>		
Cash paid during the period for:		
Income taxes, net	4,398	\$ 2,775
Interest paid	1,044	\$ 555
(b) <u>Supplemental information and disclosures of non-cash investing</u>		
Proceeds from sale of an activity recorded as receivable	\$ -	\$ 5,642

\*) represents an amount less than \$ 1.

The accompanying notes are an integral part of the interim consolidated financial statements.

## NOTE 1:- GENERAL

- a. Matomy Media Group Ltd together with its subsidiaries (collectively - "the Company") offers and provides a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers and domain owners through access to digital media, via a vast chain of direct and indirect media partners, such as websites, mobile apps and video. With this large and diversified network of digital media source relationships, the Company reduces potential dependency on any specific digital media source and can thereby give its customers broad reach, liquidity and choice. Following the continued changes in the industry, the Company completed strategic restructuring to focus on programmatic mobile and domain monetization and streamlined the way it measures its results to reflect such operational focus (refer to Note 15).

The Company through its proprietary programmatic technological platforms provides its customers with access to a wide range of digital media channels, and enables customized performance and programmatic solutions supported by big data analytics, optimization technology, business intelligence, programmatic media buying and Real-Time-Bidding (RTB) on mobile and web, empowering advertising and media partners to meet their digital goals, which include user acquisition and revenue results for both advertisers and media partners.

Matomy Media Group Ltd. was incorporated in 2006. The Company's markets are located primarily in the United States and Europe. The Company's shares are traded in the "London Stock Exchange and also on the Tel Aviv Stock Exchange.

- b. During the first half 2018, the Company continued to implement its restructuring plan in order to focus on its core activities of programmatic mobile and domain monetization, completing certain outstanding obligation related the sale of its non-core activities in July and August 2018 (refer to Note 16).
- c. In the six month period ended 30 June, 2018, the Company incurred net loss of \$ 19,089 and used \$ 11,797 in its operations. Working capital deficiency amounted to \$15,655 as of 30 June 2018. The Company may require additional capital in order to fund future liabilities (such liabilities include, among others, liability to non-controlling interest, bank loans and bond liability). In December 2017, major shareholders of the Company agreed to provide funding, to the extent needed, through December 2018. The Company and the Board expects that its existing capital resources and other future measures that may be implemented, to the extent required, will be adequate to satisfy the expected liquidity needs of the Company, in the foreseeable future. However, there is no assurance regarding that those future measures will be achieved, if needed.

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Unaudited interim financial statements:

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results for the six-month period ended 30 June 2018 are not necessarily indicative of the results that may be expected for the year ended 31 December 2018. In the preparation of the consolidated financial information, it applied the significant accounting policies, on a consistent basis to the annual financial statements of the Company as of 31 December 2017, except as described in note 2b and 2i.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's financial statements for the year ended 31 December 2017.

b. Change in accounting policies:

The Company changed its accounting policy regarding the offsetting of bank overdraft and cash balances in the same bank account. According to the new accounting policy, the Company presents overdraft and cash balance in the same account on gross basis compared to previous presentation which was presented net. Management believes presenting on gross basis the overdraft and cash balances in the same bank account is a more appropriate presentation. Prior years amounts were reclassified to conform to current year's presentation. The reclassification had no effect on previously reported net loss or shareholders' equity. The effect on December 31 2017 is as follow:

	<b>Year ended 31 December 2017</b>	
	<b>Before</b>	<b>After</b>
Cash and cash equivalents	\$ 28,827	\$ 29,407
Short-term bank credit and current maturities of bank loans	\$ 17,795	\$ 18,375

c. Use of estimates:

The preparation of the consolidated financial information in conformity with US GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions it uses are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial information, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable, fair values of financial instruments, fair values and useful lives of intangible assets, fair values of stock-based awards, deferred taxes and income tax uncertainties and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

d. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net identifiable assets acquired. Goodwill and indefinite intangible assets are not amortized but instead are tested for impairment, in accordance with ASC 350, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company determines the fair value of its Domain Monetisation and Mobile reporting units using the income approach which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, gross margin, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discounted and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill. During the six months ended 30 June 2018 the Company recorded goodwill impairment charges of \$9,444 related to its Mobile reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 3%, accordingly. No goodwill impairment was recorded in the six months ended 30 June 2017.

The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

e. Allowance for doubtful accounts:

The Company evaluates specific accounts where information indicates the Company's customers may have an inability to meet financial obligations. Allowance for doubtful accounts amounted to \$3,818 and \$3,005 as of 30 June 2018 and 31 December 2017, respectively.

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Internal-use software development:

Costs incurred to develop software for internal use are capitalized and amortized over the estimated useful life of the software. Costs related to design or maintenance of internal-use software are expensed as incurred. For the six months ended 30 June 2018 and 2017, the Company capitalized \$1,499 and \$1,858, respectively. In the six months ended 30 June 2018 and 2017, following the recent strategic restructuring, consolidation of certain business units and adjustment to current market terms, including adequacy of certain technological products, the Company abandon certain projects, which resulted in impairments of \$756 and \$445, respectively. The impairment amount is included in impairment, net of change in fair value of contingent consideration, in the statement of operations for the six months ended 30 June 2018 and 2017.

g. Fair value of financial instruments:

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, trade receivables, prepaid expenses and other receivables, trade payables, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- **Level 1** - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2** - Other inputs that are directly or indirectly observable in the market place.
- **Level 3** - Unobservable inputs which are supported by little or no market activity.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

h. Standards issued but not yet effective:

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) which amends the FASB Accounting Standards Codification and created Topic 842, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provides for enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU 2016-02 is effective for annual reporting periods, and interim periods within those years beginning after 15 December 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements or of the effective date in the financial statements.

Full retrospective application is prohibited and early adoption by public entities is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

i. Accounting pronouncements adopted in 2018:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). Topic 606 supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605). The Company adopted the new standard effective January 1, 2018 using the modified retrospective method. The new standard had immaterial impact on the Company's unaudited consolidated financial statements.

**NOTE 3:- FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount of cash and cash equivalents, receivables, payables and short-term bank credit approximate their carrying amount.

The following table present assets and liabilities measured at fair value on a recurring basis as of 30 June 2018 and 31 December 2017:

	<b>30 June 2018</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Liabilities:</b>				
Bonds	\$ 26,398	\$ -	\$ -	\$ 26,398
Liability to non-controlling interest	\$ -	\$ -	\$ 20,258	\$ 20,258
Derivative	\$ -	\$ 620	\$ -	\$ 620
<b>Total financial liabilities</b>	<b>\$ 26,398</b>	<b>\$ 620</b>	<b>\$ 20,258</b>	<b>\$ 47,276</b>

**NOTE 3:- FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)**

	<b>31 December 2017</b>			
	<b>Fair value measurements using input type</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Derivative asset	-	\$ 22	-	\$ 22
<b>Total financial assets</b>	<b>-</b>	<b>\$ 22</b>	<b>-</b>	<b>\$ 22</b>
<b>Liabilities:</b>				
Liability to non-controlling interest	\$ -	\$ -	\$ 41,547	\$ 41,547
Contingent consideration in connection with acquisitions	\$ -	\$ -	\$ 1,716	\$ 1,716
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 43,263</b>	<b>\$ 43,263</b>

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the six months ended 30 June 2018:

Total fair value as of 1 January 2018	\$ 43,263
Changes in fair value of payment obligation related to acquisitions recognized in earnings and liability to non-controlling interest	1,030
Payment of contingent consideration during the period	(110)
Classification of contingent obligation into current liabilities	(976)
Payment of liability non-controlling interests	(20,146)
Dividend to non-controlling interests	(2,711)
Other adjustments	(92)
Total fair value as of 30 June 2018 (unaudited)	<u>\$ 20,258</u>

**NOTE 4:- DERIVATIVE INSTRUMENTS**

The Company uses derivative instruments to hedge foreign currency fluctuations and to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in new Israeli shekels.

These instruments do not qualify and were not designated as cash flow hedges as defined by ASC 815, "Derivative and Hedging", and therefore the Company recognises the changes in fair value of these instruments in the statements of operations as financial income or expense, as incurred.

The Company had forward and options contracts that do not qualify and was not designated as a cash flow hedge under ASC 815.

**NOTE 4:- DERIVATIVE INSTRUMENTS (Cont.)**

The notional value of the Company's derivative instruments as of 30 June 2018 and 31 December 2017, amounted to \$11,172 and \$2,228, respectively. Notional values in USD are translated and calculated based on the spot rates for options. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company, however, they are used in the calculation of settlements under the contracts.

The net gains (losses) recognized in "financial expenses, net" during the six months period ended 30 June 2018 and 2017 were (\$511) and \$342, respectively.

**NOTE 5:- DOMAINS**

Changes in domains are as follows:

Domains as of 1 January 2018	\$ 10,797
Additions	1,139
Disposals	<u>(20)</u>
Domains asset as of 30 June 2018	<u>\$ 11,916</u>

**NOTE 6:- OTHER INTANGIBLE ASSETS, NET**

a. Other intangible assets as of 30 June 2018:

	<u>Technology</u>	<u>Customer relationships</u>	<u>Database</u>	<u>Total</u>
31 December 2017	\$ 2,006	\$ 3,655	\$ 2,736	\$ 8,397
Amortisation	<u>(1,446)</u>	<u>(1,281)</u>	<u>(304)</u>	<u>(3,032)</u>
30 June 2018	<u>\$ 560</u>	<u>\$ 2,374</u>	<u>\$ 2,432</u>	<u>\$ 5,366</u>

b. The estimated future amortisation expense of other intangible assets as of 30 June 2018 is as follows:

2018	1,602
2019	1,777
2020	1,075
2021	608
2022	<u>304</u>
	<u>5,366</u>

**NOTE 7:- GOODWILL**

Changes in goodwill for the period ended 30 June 2018 are as follows:

Goodwill as of 1 January 2018	\$ 83,768
Impairment	<u>(9,444)</u>
	<u>\$ 74,324</u>

**NOTE 8:- REDEEMABLE NON CONTROLLING INTERESTS**

The following table summarises the effect on the Company's shareholders:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<u>2018</u>	<u>2017</u>
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	\$ 19,045	\$ 6,786
Accretion of redeemable non-controlling interest	<u>-</u>	<u>7,900</u>
Net loss attributable to Matomy Media Group Ltd. shareholders after accretion of redeemable non-controlling interest	<u>\$ 19,045</u>	<u>\$ 14,686</u>

**NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES**

- a. The Company rents its facilities under operating lease agreements with an initial term expiring in 2021. As of 30 June 2018, the Company's total future minimum lease commitments under non-cancellable operating leases were as follow:

	Minimum lease payments	Minimum sublease rentals	Net future minimum lease commitment
2018	\$ 1,400	\$ 612	\$ 788
2019	2,517	1,223	1,294
2020	2,375	1,223	1,152
2021	346	249	97
	<u>\$ 6,638</u>	<u>\$ 3,307</u>	<u>\$ 3,331</u>

Rent expenses for the six months period ended 30 June 2018 and 2017, were \$716 and \$1,244, respectively.

The Company has provided guarantees for rent expenses in the amount of \$1,079.

**NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

- b. From time to time, the Company is party to ordinary and routine litigation incidental to its business. As of 30 June 2018 the Company does not expect the outcome of any such litigation to have a material effect on its consolidated financial position, results of

operations, or cash flows.

**NOTE 10:- BANK LOANS AND CREDIT LINE**

- a. On 16 June 2014, the Company signed a loan agreement with an Israeli bank in an amount of \$21,600. The loan agreement requires repayment of 85% of the principal in 12 equal payments every three months commencing 16 September 2014, and 15% of the principal in 4 equal payments every three months commencing 16 September 2017. The loan bears an interest of three months USD LIBOR plus 3.5% to be paid together with the relevant portion of the principal. The loan was repaid in full on 16 June 2018.
- b. On 3 January 2017, the Company signed a term loan agreement with an Israeli bank in an amount of \$ 2,000. In accordance with the loan agreement, repayment of the principal and the interest shall be made in 12 equal quarterly payments, commencing 10 April 2017. The loan bears an annual interest of three months USD LIBOR plus 4.6%. The remaining principal as of 30 June 2018 was \$ 1,228.
- c. As of 30 June 2018, the Company has an unsecured line of credit with Israeli banks which is available to the Company based on meeting certain trade receivable conditions, out of which, it utilized \$ 6,938. Interest rate of the credit line is USD LIBOR plus 3.25%.

In relation to the credit line and the loan described in (b) above, the Company is required to comply with certain covenants on monthly and quarterly basis, respectively, as defined in the agreement and its amendments. As of 30 June 2018, the Company was not in compliance with the loan financial covenants but obtained the bank's waiver in respect of the non-compliance

The line of credit and the loan described in (b) above secured by way of: (i) a fixed charge over the unpaid equity of the Company; and (ii) a floating charge over all the assets of the Company; and (iii) mutual guarantees between the Israeli companies.

- d. On 20 August 2015, the Company's subsidiary Team Internet signed a term loan agreement with a German bank in an amount of \$ 1,427 (EUR 1,224 thousand based on the exchange rate on 30 June 2018). In accordance with the loan agreement, repayment of the principal shall be made in 54 equal monthly payments, commencing 31 March 2016. The loan is indexed to the Euro and bears an interest of 1.8% to be paid on a monthly basis, commencing 31 August 2015. The remaining principal as of 30 June 2018 was \$ 669 (EUR 573 thousand).

**NOTE 10:- BANK LOANS AND CREDIT LINE (Cont.)**

- e. On 28 April 2016, Team Internet signed a loan agreement with a German bank in an amount of \$ 3,186 (EUR 2,733 thousand based on the exchange rate on 30 June 2018). In accordance with the loan agreement, repayment of the principal shall be made in 20 equal quarterly payments, commencing 30 September 2016. The loan is indexed to the Euro and bears an interest of 1.1% to be paid on a quarterly basis, commencing 30 June 2016.

The remaining principal as of 30 June 2018 was \$ 1,861 (EUR 1,596 thousand).

- f. On 28 September 2016, the Company's subsidiary in the US ("Matomy US") signed a loan agreement with a bank in the US in an amount of \$ 4,000, and a secured line of credit in the amount of \$ 1,000. The line of credit beared a used credit line interest rate of LIBOR plus 3.25% and was repaid in full in November 2017. The term loan agreement requires repayment of principal and interest every 3 months commencing 28 December 2016. The loan beared an interest of three months USD LIBOR plus 3.65%. In December 2017 the Company signed an addendum to the loan agreement, and repaid loan principal of \$ 500. The remaining principal of \$ 1,834 was repaid in full in February 2018.
- g. On 10 January 2017, the Company's subsidiary in the US signed a secured line of credit in the amount of \$ 5,000, all is utilized with a bank in the US. The line of credit beared an interest rate of LIBOR plus 3.25%, and an interest of 0.35% on the unused credit line. The credit line was repaid in full in May 2018.
- h. On 16 May 2018, Team Internet signed a secured line of credit in the amount of \$ 7,000 (EUR 6,000 thousand based on the exchange rate on 30 June 2018), with a German bank, out of which it utilized \$3,037 as of 30 June 2018. The line of credit bears an interest rate of 2%, and an interest of 0.5% on the unused credit line. Team internet is required to comply with certain covenants, as defined in the credit line agreement. As of 30 June 2018, Team Internet was in full compliance with the financial covenants.
- i. As of 30 June 2018, the aggregate principal annual maturities according to the loan agreement are as follows:

2018	\$	814
2019		1,624
2020		1,010
2021		<u>310</u>
Total	\$	<u><u>3,758</u></u>

#### **NOTE 11:- CONVERTIBLE BOND**

In February 2018, the Company completed a public offering in Israel of Convertible Bonds (the "Bond"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately \$29,930) issuing a total of 101,000 units of Bond, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The interest is paid on a semi-annually basis. Interest prepayment in the amount of ILS 2.3 million (approximately \$ 654) is included in other receivables and prepaid expenses in the balance sheet as of 30 June 2018. Transaction costs

amounted to \$1,588 and were expensed as incurred. The principal of the Bonds, denominated in ILS, will be repaid in two equal annual instalments commencing on December 2020. The Bonds will be convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (i.e. December 21, 2021). The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend. The Company may redeem the Bond upon delisting of the Bond from the TASE, subject to certain conditions.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the bond and therefore all unrealized gains and losses are recognized in earnings. As of 30 June 2018, the fair value of the bond, based on its quoted price at the TASE was \$26,398.

The changes of the bond in the six months ended 30 June 2018 were as follows:

	<u>\$</u>
<b>Balance 1 January 2018</b>	-
Convertible bond issuance	29,930
Change in fair value	<u>(3,572)</u>
<b>Balance as of 30 June, 2018</b>	<u><b>26,398</b></u>

As of 30 June 2018, the Company satisfies all of the financial covenants associated with the Bonds.

As of 30 June 2018, the aggregate principal annual payments of the bonds are as follows:

	<b>Repayment amount</b>
	<u>\$</u>
2020	13,836
2021	<u>13,836</u>
	<u><u>27,672</u></u>

## NOTE 12:- EQUITY

- a. A summary of the activity in options granted to employees and directors in the six months period ended 30 June 2018 is as follows:

Number of options	Weighted- average exercise price (in US dollars)	Weighted- average remaining contractual term (in	Aggregate intrinsic value
----------------------	--------------------------------------------------------------	--------------------------------------------------------------	---------------------------------

			years)	
Outstanding at 1 January 2018	4,732,659	\$ 1.50	6.09	3
Granted	195,000	0.85		
Exercised	(5,000)	0.34		
Forfeited	(1,441,822)	1.62		
Outstanding at 30 June 2018	<u>3,480,837</u>	<u>1.41</u>	<u>5.59</u>	<u>-</u>
Exercisable at 30 June 2018	<u>2,469,521</u>	<u>1.48</u>	<u>4.28</u>	<u>-</u>

As of 30 June 2018, the Company's total compensation cost relating to options granted to employees and directors and not yet recognised amounted to \$ 354.

The weighted average grant date fair values of options granted for the six months period ended 30 June 2018 was \$ 0.37.

- c. Restricted Stock Units ("RSU") issued to employees and directors:

The following table summarizes RSU activity in the six months period ended 30 June 2018:

	<u>Number of RSU</u>
Outstanding at 1 January 2018	1,094,344
Granted	-
Vested	(119,500)
Forfeited	<u>(186,028)</u>
Outstanding at 30 June 2018	<u>788,816</u>

As of 30 June 2018, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to \$ 172.

## NOTE 13:- TAXES ON INCOME

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 23% in 2018 (2017 - 24%).

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

For the six month period ended 30 June 2018, the Company had tax expenses mainly due to tax expenses on the profit of its subsidiary in Germany - Team Internet. The Company is in loss position in its other main locations, and therefore creates valuation allowance on its deferred tax assets. The Company's effective tax rate in the future will depend on the portion of our profits earned in Israel and outside of Israel.

Income (loss) before taxes on income is comprised as follows:

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
Domestic	\$ (18,997)	\$ (7,158)
Foreign	2,032	(2,173)
	<u>\$ (16,965)</u>	<u>\$ (9,331)</u>

Taxes on income (tax benefit) are comprised as follows:

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
Current:		
Domestic	\$ -	\$ 36
Foreign	2,593	3,502
	<u>2,593</u>	<u>3,538</u>
Deferred:		
Domestic	-	(109)
Foreign	(469)	(6,314)
	<u>(469)</u>	<u>(6,423)</u>
	<u>\$ 2,124</u>	<u>\$ (2,885)</u>

#### NOTE 14:- LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

	Six months ended	
	30 June	
	2018	2017
Basic and diluted net loss attributable to Matomy Media Group Ltd.	\$ (19,045)	\$ (14,686)
Weighted average number of shares used in computing basic and diluted net loss per share (in thousands)	96,399	94,771
Basic and diluted loss per ordinary shares (in dollars)	\$ (0.20)	\$ (0.15)

The total weighted average number of shares related to the outstanding options excluded from the calculations of diluted earnings per share, since they would have an anti-dilutive effect, was 4,269,653 and 9,170,748 for the six months period ended 30 June 2018 and 30 June 2017, respectively.

#### NOTE 15:- REPORTABLE SEGMENTS

a. General

Following the implementation of the strategic plan in late 2017, the Company is focusing on its two core activities Team internet and Mobfox. In 2018, the Company's chief operating decision maker ("CODM") started to review and make decisions about resources based on three reporting segments consisting of Team internet, Mobfox and the remaining non-core activities which reflect the companies updated business activity and its focus strategic. Accordingly, for management purposes, the Company is organised into operating segments based on the products and services and has operating segments as follows:

- Mobile Advertising ("Mobfox")– Mobfox is a data-driven, supply-side platform (SSP) and exchange for mobile in-app advertising. Connected to developers and publishers, along with quality demand sources, Mobfox offers comprehensive support for all major mobile ad formats.
- Domain Monetization – Team Internet serves the domain monetisation market and includes two brands which work seamlessly together to provide a complete offering. Parking Crew is a domain parking platform which integrates with many third-party applications. Tonic, the second platform, is a traffic marketplace that allows users to monetize traffic and target audiences with a variety of ad types.
- Non-core Activities – Matomy's non-core activities include email marketing under the Whitedelivery brand and video advertising services under the Video from Matomy and Optimatic Media Inc. ("Optimatic") brands.

**NOTE 15:- REPORTABLE SEGMENTS (Cont.)**

b. Segments information:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2018</b>	<b>2017</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Revenues:		
Mobile Advertising	\$ 18,848	25,030
Domain Monetisation	42,659	51,673
Non-core activities	11,757	64,317
Total revenues	<u>\$ 73,264</u>	<u>\$ 141,020</u>

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2018 (*)</b>	
	<b>Unaudited</b>	
Operating income (loss):		
Mobile Advertising	\$	(3,099)
Domain Monetisation		8,464
Non-core activities		(3,223)
Reconciling items <sup>(1)</sup>		<u>(17,200)</u>
Total loss from operations	<u>\$</u>	<u>(15,058)</u>

(1) Reconciling items are primarily related to impairment loss and depreciation and amortization costs for the six months ended June 30, 2018, as well as corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

(\*) The Company did not present comparative numbers for six months period ended June 30 2017 since it is impracticable, the necessary information is not available and the cost to develop it would be excessive.

**NOTE 15:- REPORTABLE SEGMENTS (Cont.)**

c. Geographical information:

Revenues by geography are classified based on the location where the consumer completed the action that generated the relevant revenues.

1. Revenues from external customers:

	<b>Six month ended 30 June 2018</b>	<b>Six month ended 30 June 2017</b>
United States	\$ 46,429	\$ 100,198
Europe	17,301	14,300
Asia	3,396	12,900
Other	6,138	13,622
	<u>\$ 73,264</u>	<u>\$ 141,020</u>

2. Property and equipment, net:

	<b>30 June 2018</b>	<b>31 December, 2017</b>
Israel	5,419	5,614
United states	202	1,815
Germany	1,261	1,291
Other	69	76
	<u>6,951</u>	<u>8,796</u>

- d. In the six months ended 30 June 2018 and 2017, one customer contributed 44% and 29%, respectively, of the Company's revenues, while no other customer contributed more than 10%.

**NOTE 16:- SUBSEQUENT EVENTS**

- a. On 29 July, 2018, the Company signed an agreement for the sale of "My DSP" activity for a consideration of \$850. The sale is subject to completion of certain conditions to closing and a 90 day transition agreement after closing.
- b. On 13 August, 2018, the Company signed an agreement for the sale of its Whitedelivery email marketing activity. In addition, the Company signed an agreement with the buyer for data-licensing. The maximum total consideration from the agreements amounts to \$8,500, which includes performance-based payments subject to meeting pre-defined milestones. The sale is subject to completion of certain transition processes by 1 September, 2018.