# Mid&Small 2024

3rd December 2024

# Agenda

🔍 Overview

⚙️ Business Plan 2024-2026

📊 1H 2024 Key Financials

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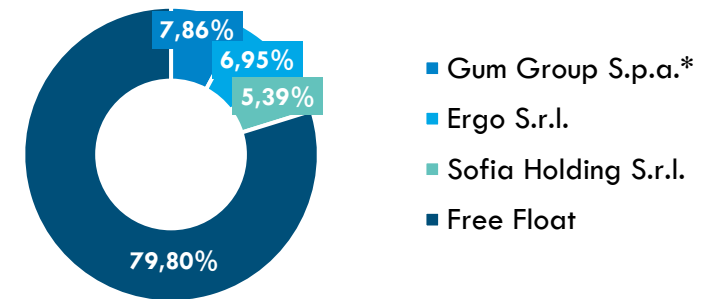
# Overview

# Expert.ai introduction

## Company overview

- Expert.ai is a leader in the field of artificial intelligence applied to Natural Language Processing (NLP) and Understanding (NLU).

- The company mission is to assist organizations in effectively harnessing the vast pool of available information to expedite business process automation and enhance any activity rooted in information analysis and knowledge management.

- Listed (EXAI.MI) on the Euronext Growth Milan market, since February 2014

- Founded in 1989 in Modena, Italy

- International presence: offices in Italy, USA, Spain, France, UK, Germany, Canada

- Revenues of ca. € 32M in 2023

- Currently ca. 220 employees globally

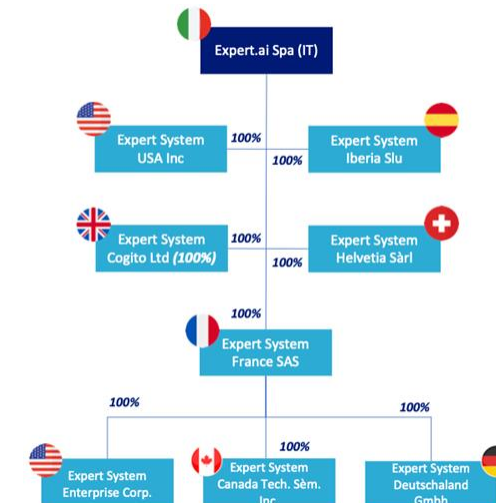- Customers: large corporations, governments and agencies

## Company shareholders**



- 7,86% Gum Group S.p.a.*
- 6,95% Ergo S.r.l.
- 5,39% Sofia Holding S.r.l.
- 79,80% Free Float

## Current company structure (under restructuring)



*Company attributable to Dario Pardi
** Press release August 6, 2024

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# Guardrails for the Adoption Path

Knowledge Models

Knowledge Graphs

Retrieval-Augmented Generation (RAG)

KM powered prompt engineering

LLM Guard Railing truth layer

Hallucination Control

Knowledge

Guard Railing

START AI Journey

Data

GenAI

Architecture

Data Sourcing Availability

Data Privacy

Data Collection, Cleaning,

Labeling Dataset Generation

Large Language Models

Enterprise Language Models

Flow Control [Boolean, Sequence, Conditional]

Work Environment [Low Code – No code]

Analytics [Quality control, regression check]

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# Products and solutions developed on expert.ai platform

- **3 approaches** in applications and solutions development

- Domain and **enterprise specific** applications

- **NLP general purpose platform**

- **Open and scalable** platform, LLM agnostic

- **Cost effective and flexible Hybrid AI technology:**
  - **Symbolic AI** (explainable, not data dependent, human in the loop)
  - **Machine learning** (scalable, optimal for simple use cases and large data)
  - **LLM** (rapid implementation, answers generation, applicable on general knowledge)

**Clients applications** → **Expert.ai solutions** → **Partners solutions**

## expert.ai Platform

- Authoring
- NLFlow Runtime

**Hybrid AI Technology**
- Knowledge Graph
- Symbolic Logic
- Machine Learning
- Enterprise Language Model for Insurance
- 3rd Party LLM Connectors
- Layout Understanding

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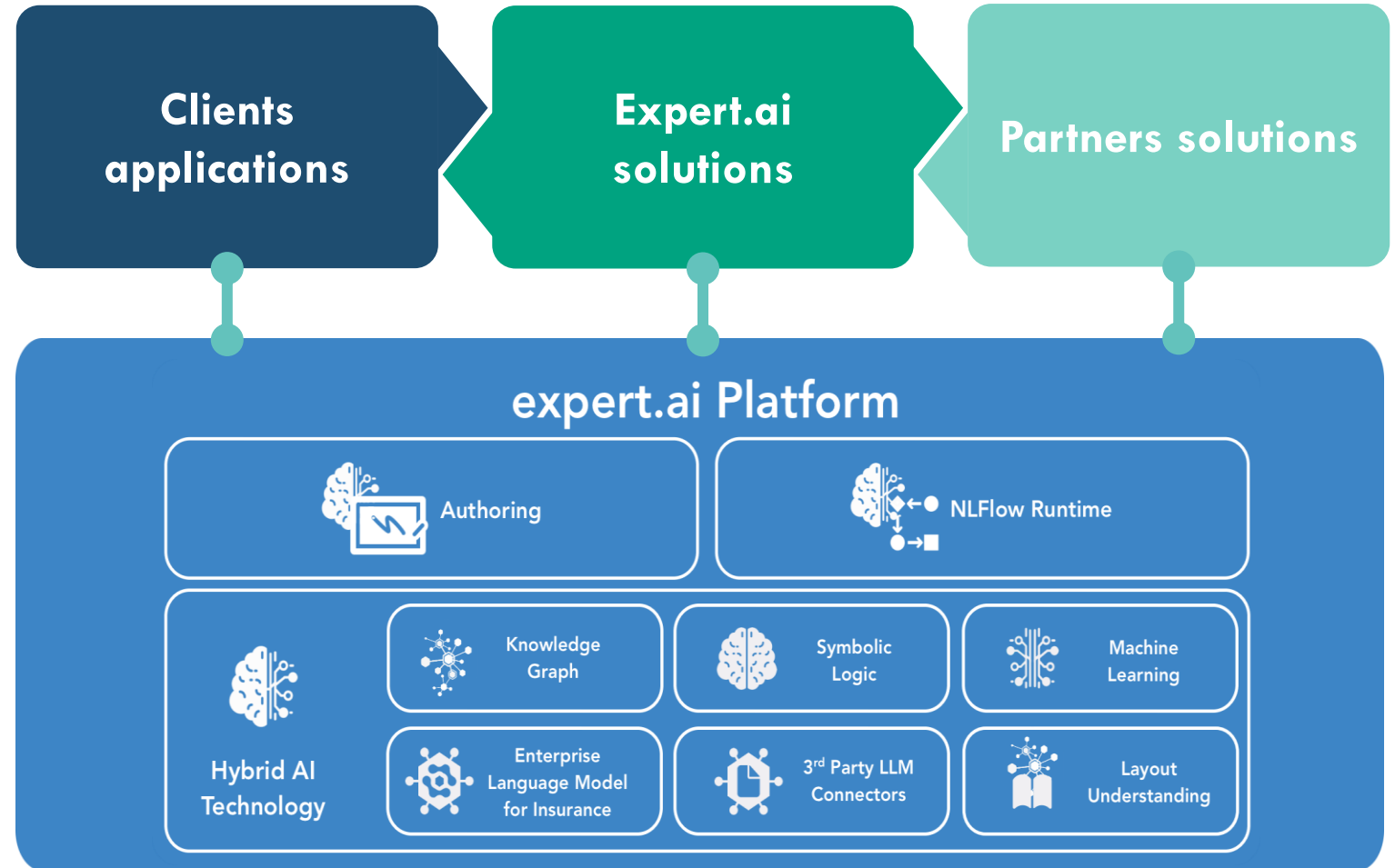
# The product and the end markets of use

The Group offers solutions based on proprietary artificial intelligence software, which allow natural language processing. The application is consolidated in the banking, insurance and media sectors, which represent over 60% of 2023 Group revenues. But its use is also present in other sectors such as energy and pharma.

| Line of Business | Key Offerings | | | | | Group Revenues |
|---|---|---|---|---|---|---|
| | Consulting | Business process analysis | Knowledge discovery | Augmented intelligence | Digitalization & Automation | |
| Banking & Finance | | | | | | 🔵 High |
| Insurance | | | | | | 🔵 High |
| Telecoms | | | | | | ⚪ Low |
| Energy and Utilities | | | | | | ⚪ Low |
| Government & Defense | | | | | | 🔵 Medium |
| Publishing & Media | | | | | | 🔵 High |
| Healthcare & Pharma | | | | | | ⚪ Low |
| Other | | | | | | 🔵 Medium |

🔵 High revenue generation for the Group    🔵 Medium revenue generation for the Group    ⚪ Low revenue generation for the Group

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# Expert.ai: the ideal 'Copilot' for GenAI adoption

## Experts in NLP & NLU

Leaders in technology, software and solutions for Natural Language Processing and Natural Language Understanding

Gartner.    FORRESTER

Main offices in Italy/US and offices in London, Paris and Madrid

## Customer Centric

Hundreds of projects in production, 2+ decades of experience in the field, the utmost attention to our clients' needs

## Strong Presence in FSI World

Half of our business comes from projects implemented for the world's leading banks and insurance companies

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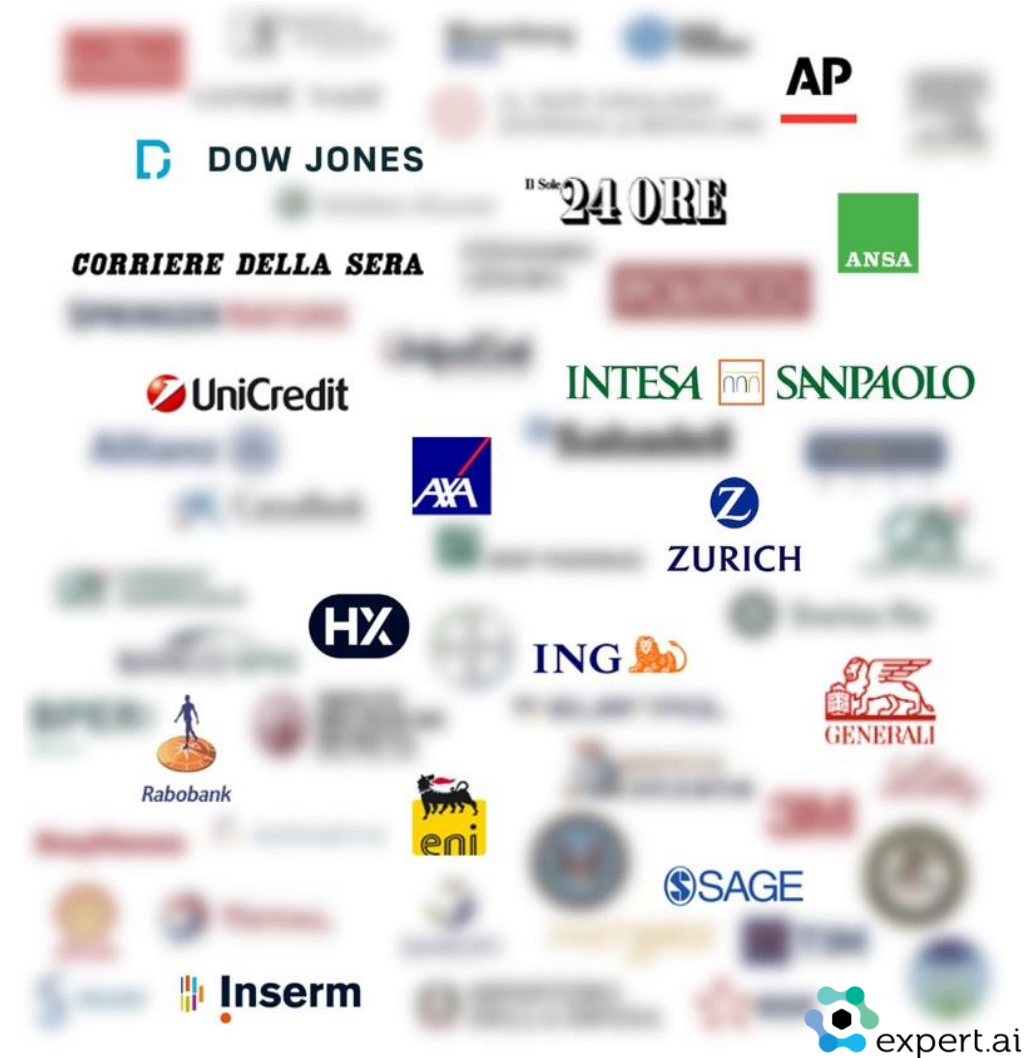
# Main developed Applications for several Markets

## Intelligent Process Automation

Mortgage Onboarding

Contracts and policies Analysis

Back Office Automation

Anonymization & Pseudonymization

Claims Management

Content Enrichment

…

## Customer Interaction

Email & Ticket Automation

Chatbot & Virtual Assistants

Customer Service Automation

Customer Analytics

Q&A Search Bot

…

## Knowledge Discovery

AML/KYC Analysis

Horizon Scanning

Environmental Crimes (ESG)

Regulatory Monitoring

Risk Monitoring

Document Archive

…

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# Use Cases Maturity cross Countries

| | Industry | Offering | Technology Dependency | Country | Installation References |
|---|---|---|---|---|---|
| **Virtual assistant and chatbot** | Cross | License+PS | Platform, ELMs, Virtual Assistant (*) | IT | Fastweb, BNL, Generali, Credit Agricole, etc |
| **Email Routing** | Cross | License+PS SAAS | Platform, Elms, Insight Mail | IT, ES | Talete, Autostrade, Fineco, Aria, etc. |
| **Ticket automation** | Cross | License+PS | Platform, Elms, custom UI | IT | Intesa, Generali, Reale, Zurich |
| **Claims mgmt** | Insurance | License+PS | Platform, Elms, custom UI | IT UK NA | Unipol, Zurich, etc RSA Hartford, Traverlers, FMG |
| **Risk engineering** | Insurance | License+PS SAAS | Platform, Elms, custom UI | UK DACH NA | Starr, Aviva, Axaxl, Zurich Hamilton |
| **Policy review** | Insurance | License+PS | Platform, Elms, custom UI | UK NA | SwissRe, HX Patra |
| **UW Submission intake** | Insurance | License+PS | Platform, Elms, Insight Mail | UK DACH | - |

*Product supplied by partners*

| | Industry | Offering | Technology Dependency | Country | Installation References |
|---|---|---|---|---|---|
| **IP Shield** | Life Science | License+PS | Platform, Elms, Insight Engine | NA | Sanofi |
| **Anonimizaz.** | Cross | License+PS | Platform, Elms, custom UI | IT, ES | 3M, Camera dei Deputati, Sole24Ore, Cua recasas e Unicredit |
| **AML – KYS/KYC** | Cross | License+PS SAAS | CIP | IT | 3 MPS, ISP, BCC ICCREA, Enel, Esselunga |
| **Smart internet banking** | Banking | License+PS | Platform, ELMs | IT | ISP |
| **Content Enrichment** | Publishing, Life Science, Oil&Gas | License+PS | Platform, ELMs | NA | >5 Bloomberg, EBSCO, DJ, S&P, ALM, etc |
| **Search Engine and Knowledge management** | Cross | License+PS | Platform, ELMs, Insight Search | IT,ES | BNL, Bper, BPM, ING, Intesa, etc. |
| **Compliance – (Reg/LegTech)** | Banking | License+PS SAAS | Platform, ELMs, Insight Engine | IT | - |

Business Plan 2024-2026

# Performance of the AI market in Italy

**Expert's solution finds application in Text Analysis which is a relevant segment of the market**

**90%**
of the AI market in Italy it is due to large companies

The sectors that spend the most on AI are Telco-Media, Insurance, Energy, Banks and Finance

**+49%**
growth in investments in digital technologies from September 2022

## AI market in Italy (€m)

| Year | Value | Growth |
|------|-------|--------|
| 2018 | 210 | +23.8% |
| 2019 | 260 | +15.4% |
| 2020 | 300 | +26.7% |
| 2021 | 380 | +31.6% |
| 2022 | 500 | +52.0% |
| 2023 | 760 | |
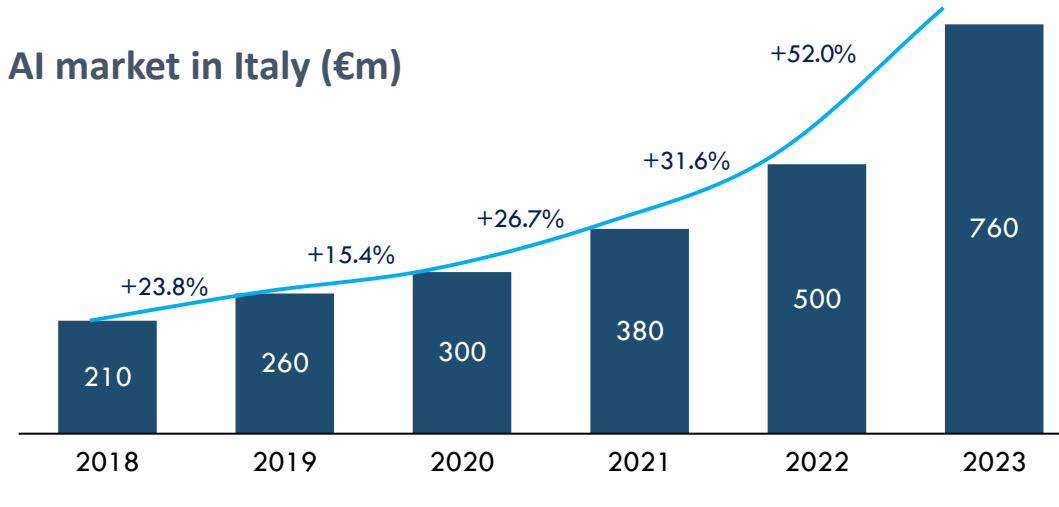
## AI market share by solution type

- Text Analysis — 27%
- Recommendation Systems — 22%
- Process Orchestration — 7%
- Image Analysis — 10%
- Generative AI — 5%
- Data Exploration & Prediction — 29%
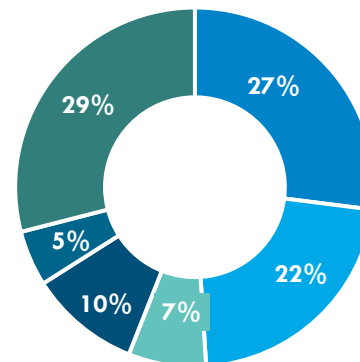
**€760m***
AI market value achieved in 2023, growing by 52%

The positioning of Expert.ai is consistent with the market in terms of market sectors covered and commercial offering.

- The main customers are insurance, publishing and banks
- The proprietary solution uses AI potential to process natural language (text analysis)

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# Artificial Intelligence market growth

## Global Artificial Intelligence market

$ 1'300-1'811 B

**CAGR +37%**

$ 150-190 B

2023  2024  2025  2026  2027  2028  2029  2030

*Sources: GrandviewResearch, Markets&Markets, IDC, Bloomberg*

- **Generative AI** market poised to explode from $40B in 2022, growing at CAGR 40% (Bloomberg Intelligence)

- **NLP market** in 2023 > $20B, CAGR 2023-2030 in range 24%-29% (various sources)

- **Software solutions** accounted for ca. 37% of 2023 market

- **North America** dominated the market (ca. 36-40%) in 2023
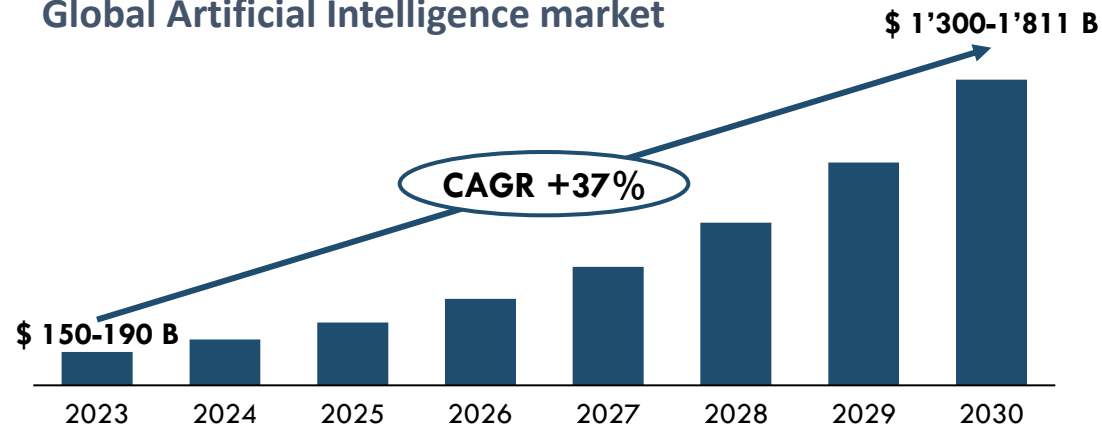
- **Italian AI market** +52% in 2023, reaching €760M (Osservatorio Artificial Intelligence, Politecnico Milano)

## Key growth factors

- Advancements in generative AI products

- Increasing demand for automated solutions across various industries

- Rising investments in AI technologies

- Rise in adoption of big data and analytics

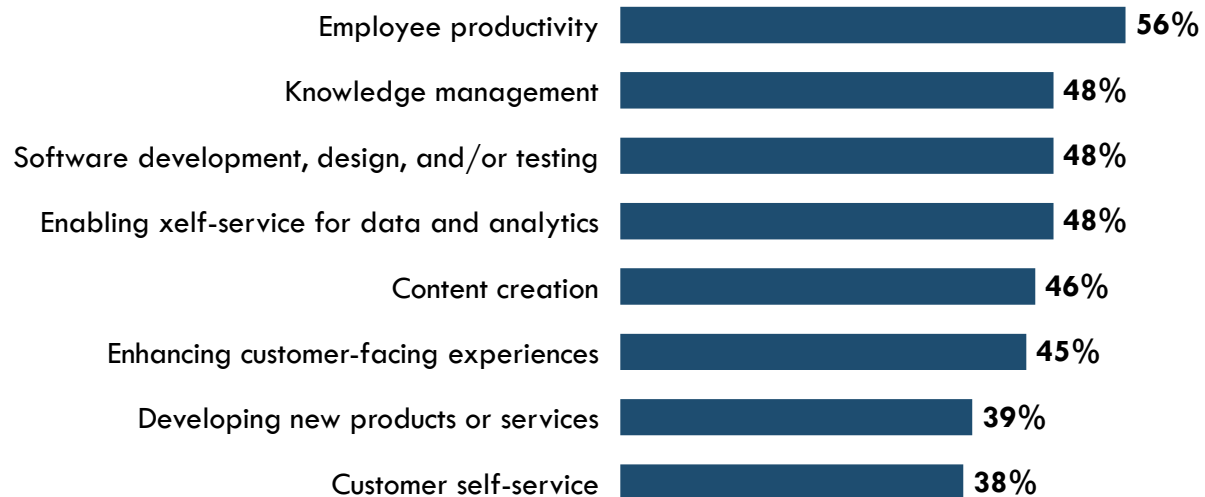- Surge in partnerships and collaborations within the industry

## Market players

- Fragmented market with several players

- Increasing of M&A activities

- High R&D investments from large players

- Still very high company valuation

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# Relevant trends in the AI market

1.  **Rising need for enterprise solutions to streamline business operations and demand for predictive analysis to reduce risks and identify growth opportunities.**

**"For which of the following do you anticipate your organization will use generative AI in the next 12 months for internal or customer-facing production applications? "**
*(Multiple responses accepted)*

| Category | Percentage |
|---|---|
| Employee productivity | 56% |
| Knowledge management | 48% |
| Software development, design, and/or testing | 48% |
| Enabling xelf-service for data and analytics | 48% |
| Content creation | 46% |
| Enhancing customer-facing experiences | 45% |
| Developing new products or services | 39% |
| Customer self-service | 38% |

2.  **Open source AI and customized enterprise generative AI models**

- Open source will be the choice for 85% of enterprise (Forrester)
- Cost effective smaller language models. (In domain-specific models we've reached the point of diminishing returns from larger parameter counts).
- Model optimization and integration is getting more accessible
- Narrow-tailored AI solutions promote the adoption of artificial intelligence, via system integration.

3.  **Explainable AI**

- Advancing transparency, interpretability and trustworthiness through Explainable AI methods in decision-making
- Mitigating potential risks and increasing productivity
- Allowing regulatory compliance

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# Repositioning Strategy in 2024

**Today**
Driving through
Transformation and Evolution

**2025**

*Expert.ai delivers enterprise AI solutions driving measurable business value*

**2023**

**Expert.ai** *creates technology that transforms language into knowledge and insight*

**2024**

*Introducing new solutions designed to drive measurable business value, ensuring that AI innovations align with business outcomes*

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# Focus on Vertical Solution based on horizontal framework



**Finance & Banking**

Capitalize on knowledge and streamline information-intensive processes to meet demands of customers and regulators.

**Insurance**

Reduce risk, improve win rates, and increase capacity for commercial insurance carriers and brokers.

*Vertical Solutions*

**Enterprise**

Leverage the value of information hidden in language for automation, insight and efficiency

**PIM / Information services**

Improve the process of content creation and enrichment, as well as augment manual processes and workflows

**Healthcare & Pharma**

Make the most of available data to improve R&D, prevent operational risks and enhance the quality of treatment and care.

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# Work in progress – profitability and financial sustainability

**Cost restructuring**

- Annualized savings achieved of approx. € 4M
- Confirming reaching cost savings targets

**Debt renegotiation**

- Successful renegotiation of debt terms with majors financing banks. These measures will free up over € 3.5M in 2024 and over € 3M in 2025.

**Capital increase**

- Successful capital increase of ca. € 30 M in July 2024

**Professional services "carve out"**

- Work in progress about new management approaches, new organization and new incentives on profitability

**New company infrastructure**

- Work in progress about processes analysis and optimization, new operative tools, new policies.

Achieved   Work in progress

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# Work in progress – preparing the ground for the growth

**New solutions roadmap**

- Implementation of new projects that involve GenAI integration
- Selection of verticals and use cases in progress

**New business model & strategy**

- Preliminary growth strategy defined
- Customer success program started

**Partnerships**

- First selection of partners
- Differentiated approach defined by type of partners
- Preliminary definition of combined offering

**M&A**

- M&A strategy and plan defined
- First screening of possible targets in the Italian market

**New Foundation**

- First joint venture in evaluation about offering strategic AI consulting

Achieved          Work in progress

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1H 2024
Key Financials

# Consolidated Income Statement 1H 2024

| €M | 1H 2024 | 1H 2023 | Var. | Var. % |
|---|---|---|---|---|
| Total revenues | 12.0 | 13.1 | (1.2) | (9%) |
| COGS | (4.1) | (5.9) | 1.7 | (30%) |
| **Gross Margin** | **7.8** | **7.3** | **0.6** | **8%** |
| *% Revenue* | *66%* | *55%* | | |
| | | | | |
| Sales & Marketing | (4.6) | (5.4) | 0.8 | (14%) |
| Product & R&D | (2.7) | (4.9) | 2.2 | (44%) |
| G&A and management | (3.3) | (3.9) | 0.7 | (17%) |
| **EBITDA Cash** | **(2.8)** | **(7.0)** | **4.2** | **(60%)** |
| *% Revenue* | *(23%)* | *(53%)* | | |
| | | | | |
| Capitalized R&D expenses | 2.0 | 3.8 | (1.9) | (49%) |
| **EBITDA** | **(0.8)** | **(3.2)** | **2.3** | **(74%)** |
| *% Revenue* | *(7%)* | *(24%)* | | |
| | | | | |
| Amortization & Depreciation | (3.7) | (4.1) | 0.4 | (9%) |
| **EBIT** | **(4.5)** | **(7.2)** | **2.7** | **(38%)** |
| *% Revenue* | *(38%)* | *(55%)* | | |
| | | | | |
| Financial income/expenses | (0.2) | (0.5) | 0.3 | (58%) |
| Restructuring expenses | (1.9) | 0.0 | (1.9) | |
| **Result before Taxes** | **(6.6)** | **(7.7)** | **1.1** | **(14%)** |
| Taxes | 0.1 | 0.0 | 0.0 | 9% |
| **Net Result** | **(6.6)** | **(7.7)** | **1.1** | **(14%)** |
| *% Revenue* | *(55%)* | *(59%)* | | |

**Comparison 1H 2024 vs 1H 2023**

- **Revenues** decrease referred mainly to professional services revenue;

- **Gross Margin improvement** thanks to higher focus on projects profitability;

- **Cost reduction** in every department with consequent **positive impact (+€4.2M) on cash EBITDA**;

- **Lower capitalization** of R&D expenses for selected investments;

- Restructuring expenses due to reorganization, savings in the **Personnel costs** and **extraordinary expenses** for capital increase and debt renegotiation.

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# Restructuring Expenses details 1H 2024 Consolidated

| €M | 1H 2024 |
|---|---|
| Capital increase | 0.2 |
| Debt renegotiation | 0.3 |
| Reorganization and legal support | 0.3 |
| **Total external advisors** | **0.7** |
| Severances | 0.3 |
| Overrun payroll | 0.9 |
| **Total personnel savings** | **1.2** |
| **Total restructuring expenses** | **1.9** |

- Extraordinary expenses for external advisors supporting the capital increase, debt renegotiation and the company reorganization;

- The reduction in staff, from dismissals and resignations not replaced, will result in an annualized **savings in Personnel costs of approximately € 3.8 - 4 million**;

- The current forecast of restructuring expenses for the full year is around € 4M, as by the capital increase Prospectus.

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# Revenues Breakdown by Segment & Geography – 1H 2024

| €M | 1H 2024 | 1H 2023 | Var. | Var. % |
|---|---|---|---|---|
| Licenses | 6.1 | 6.1 | (0.1) | (1%) |
| Professional Services | 2.8 | 3.7 | (0.9) | (24%) |
| Maintenance | 1.2 | 1.5 | (0.2) | (16%) |
| Hosting | 0.5 | 0.6 | (0.1) | (12%) |
| **Total Net Revenues** | **10.6** | **11.9** | **(1.3)** | **(11%)** |
| Grants & other | 1.3 | 1.2 | 0.1 | 9% |
| **Total revenues** | **12.0** | **13.1** | **(1.2)** | **(9%)** |

**Revenues breakdown by Segment**

- **License** almost stable;

- **Professional Services and Maintenance** decreased in the first half, due to a different timing of revenues recognition;

- **Hosting** growing by 61%.

**Revenues breakdown by Geography**



- ITA
- EMEA
- USA

21%
8%
71%
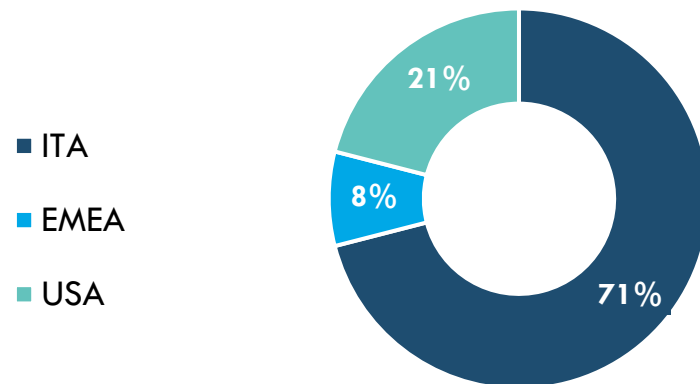
- **29%** of revenues in the first half generated **abroad**;

- **Strong** performance in Italy;

- The breakdown by geography will change in the second half due to business seasonality and the impact of new licenses revenue from USA.

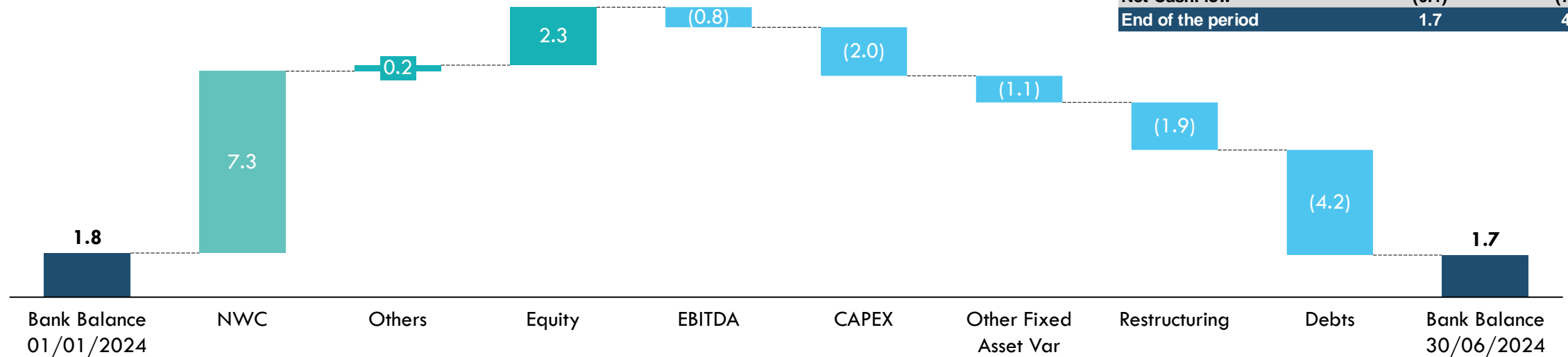expert.ai

# Consolidated Balance Sheet 1H 2024

| Consolidated Balance Sheet | 30/06/2024 | 31/12/2023 | 30/06/2023 |
|---|---|---|---|
| Trade receivables (long term) | 5.0 | 4.2 | 4.1 |
| Fixed asset | 26.1 | 27.6 | 29.5 |
| **Fixed asset & Long Term Receivables** | **31.1** | **31.8** | **33.6** |
| Trade receivables | 14.0 | 21.5 | 14.2 |
| Other receivables | 7.0 | 7.5 | 8.4 |
| **Short-term assets** | **21.0** | **29.1** | **22.7** |
| **Short-term liabilities** | **(17.9)** | **(17.9)** | **(17.7)** |
| **Net working capital** | **3.1** | **11.2** | **4.9** |
| **Medium-long term liabilities** | **(8.3)** | **(9.0)** | **(8.6)** |
| **INVESTED CAPITAL** | **25.9** | **34.0** | **29.9** |
| Shareholders' equity | (8.0) | (12.2) | (10.3) |
| Net financial position | (18.0) | (21.8) | (19.6) |
| **OWN EQUITY AND NET FINANCIAL DEBT** | **(25.9)** | **(34.0)** | **(29.9)** |

- Trade receivables (long term) include invoices to be issued referred to **multiyear contracts**;

- Significant **trade receivables** decreased due to business seasonality, revenue are concentrated in H2.

- **Capital increase (ca. €30M)** has been finalized in July 2024;

- **NFP** a debt rescheduling with major banks has been achieved with a positive effect on cash burn **for more than €3.5 M in 2024 and € 3M in 2025.**

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# Cashflow 1H 2024

- **Positive Free Cashflow** +€1.8M in the first half 2024;

- **Receivable and payables mitigation** improved the NWC +€6.3M (vs 1H 2023);

- Equity improved due to **advanced of capital increase** in June    for €2.2M.

| €M | 1H 2024 | 30/06/2023 |
|---|---|---|
| **Beginning of the period** | **1.8** | **12.0** |
| EBITDA | (0.8) | (3.2) |
| NWC | 7.3 | 1.0 |
| Others Operating | 0.2 | 0.2 |
| Restructuring Cost | (1.9) | 0.0 |
| Capex | (2.0) | (4.1) |
| Other Fixed Asset Var | (1.1) | 2.4 |
| **Free CashFlow** | **1.8** | **(3.6)** |
| Debts | (4.0) | (4.2) |
| Financial Interests | (0.2) | (0.5) |
| Equity | 2.3 | 0.5 |
| **Net CashFlow** | **(0.1)** | **(7.8)** |
| **End of the period** | **1.7** | **4.2** |

# Thank you

*ir@expert.ai*
*dpardi@expert.ai*
*fmontorselli@expert.ai*

Linkedin.com/company/expert-ai

Twitter.com/expertdotai

marketing@expert.ai

expert.ai