

## 2017 Preliminary Results

Preliminary information in anticipation of public share offer by BOE Smart Retail HKG  
(Definitive results on March 8, 2018)

- > **Excellent level of new orders (€200 million) almost 40% higher than in 2016**
- > **Successful launch of the new solution, VUSION**
- > **Annual sales of €153 million (-14%), impacted by the product transition combined with industrialization timeframe, as announced**
- > **Current operating profit decreasing due to diminished revenue and price pressure from competition (EBITDA of €5.5 million, -67% vs. 2016)**
- > **Net income affected by exceptional expenses related to BOE transaction (net income of -€20 million including a non-cash IFRS2 expense of -€10 million)**
- > **Upturn expected in 2018. The partnership with BOE reinforces the Group's ability to reach Leapfrog plan goals.**
- > **Simplified Public Tender Offer scheduled for early March**

### Preliminary financial results

The financial results presented hereunder are the Group's best estimates and have not been reviewed by auditors. Audited consolidated annual results approved by the Board of Directors will be published on March 8, 2018.

In € millions	2017	2016**	N / N-1
<b>Sales</b>	<b>153.0</b>	<b>176.9</b>	<b>-14%</b>
<b>Variable cost margin</b>	<b>40.0</b>	<b>44.1</b>	<b>-9%</b>
<i>% of sales</i>	26.2%	24.9%	+1.3pts
<b>Current operating costs</b>	<b>-34.5</b>	<b>-27.5</b>	<b>-25%</b>
<i>% of sales</i>	-22.5%	-15.5%	-7.0pts
<b>EBITDA</b>	<b>5.5</b>	<b>16.6</b>	<b>-67%</b>
<i>% of sales</i>	3.6%	9.4%	-5.8pts
<b>Current EBIT</b>	<b>-2.5</b>	<b>9.6</b>	<b>-126%</b>
<i>% of sales</i>	-1.6%	5.4%	-7.0pts
<b>EBIT*</b>	<b>-19.5</b>	<b>7.4</b>	<b>-364%</b>
<i>% of sales</i>	-12.8%	4.2%	-17.0pts
<b>Net income*</b>	<b>-20.0</b>	<b>3.4</b>	<b>-688%</b>
<i>% of sales</i>	-13.1%	1.9%	-15.0pts

Note (\*): Including a non-cash IFRS expense of -€10 million.

(\*\*): The 2016 EBIT and Net Income have been restated to take into account the fair value and the social contributions that were not recorded in 2016 in respect of the performance-based shares. The corresponding IFRS2 expense is estimated at €1.3 million euro for 2016. This expense, excluding social charges, of €1 million euro for 2016 has no impact on equity nor cash. 2016 annual accounts have been restated taking the above-mentioned figures into account.

**Business in 2017**

SES-imagotag recorded new orders of €200 million, an increase of +40% on 2016 thanks to a record number of new clients signed and significant breakthroughs made outside of Europe. In China, the alliance with BOE ignited a strong start on this large global market. The first stores have been installed, notably within the Hema Fresh retail chain (Alibaba Group), as well as in Taiwan and South Korea. A first major roll-out in Japan was signed in Q4 2017. In the United States, SES-imagotag inked contracts with several hundred stores. In Europe, new major brands chose SES-imagotag for roll-outs or pilot projects in every retail sector.

SES-imagotag's rapid acquisition of new client bases and geographic markets revealed itself as a key asset for future growth, strongly reinforcing SES-imagotag' position as the true global leader in smart digital tags and omnichannel retail solutions.

**Accelerated product plan and launch of VUSION**

As the opportunity for growth in this now burgeoning global market has become more and more apparent, it has sparked increased price competition. Faced with this challenge and in order to strengthen and keep its competitive advantage, SES-imagotag management took the decision in the first half of the year to accelerate the introduction of its new powerful VUSION platform that represents a quantum leap in the SES-imagotag digital retail offer by incorporating technology from two recent acquisitions (PDi and Findbox), as well as new developments initiated on the software platform.

The accelerated launch of VUSION was accomplished on time and was an immediate success, leading to substantial new orders. The industrialization process is continuing and will benefit from the cooperation with BOE.

**Transition from G1 to the G2 VUSION temporarily affected sales and profitability**

As announced in the 3<sup>rd</sup> quarter, the introduction of the new VUSION product line and service and its industrialization retarded deliveries at year end and many clients switched their order from the G1 product line to the new VUSION platform and service.

As a result, **Annual sales** were €153 million and decreased by -14% compared with 2016, which had benefitted from the MSH contract in the beginning of that year, the largest ESL roll-out ever in the industry, which was signed in 2015 and mostly executed in 2016.

The variable cost margin was €40 million, down -9% on 2016. The variable cost margin ratio improved from 24.9% to 26.2% (+1.3pts), due the integration of PDi and a favorable exchange rate effect. However, this improvement was weaker than expected because of substantial pricing pressure in 2017, especially as most of sales came from the G1 range whilst efforts to reduce costs focused on the VUSION project.

**Current operating costs** increased by €7 million to -€34.5 million, in line with the annual trend recorded over the first 6 months. The acquisition and addition of PDi and Findbox to the Group explains this increase, as do the continued international expansion efforts, which were extensive in 2017.

Consequently, **EBITDA** totaled €5.5 million, compared with with €16.6 million in 2016.

Non-recurring costs, many of which were non-cash, incurred by the BOE Transaction negatively impacted the operating profit (EBIT) and net income:

- Fees for investment bank, lawyers and experts (in France, China and Taiwan) due to the complex international transaction;

- IFRS2 expenses (non-cash) of €10.0 million prior to social security contributions relating to the accelerated vesting of performance shares;
- Other expenses, independent from the BOE transaction, such as the amortization of intangible assets from previous acquisitions

As a result, EBIT was approximately -€19.5 million, versus €7.4 million the previous year, and net income is estimated to be -€20.0 million, versus €3.4 million in 2016.

Net debt was -€12.6 million, compared with a net cash position of €6.3 million at the end of 2016, representing cash outlay of -€19.0 million resulting from the decrease in business and growth in the operating WCR ratio associated with the product transition. Available cash at year end was €38.5 million, versus €33.3 million at the end of 2016.

### **Simplified public tender offer process**

On December 20, 2017, BOE Smart Retail (Hong Kong), jointly held by BOE and SES-imagotag's management, acquired a majority share in SES-imagotag via the purchase of 6,669,176 shares at a price of €30.0 per share. Prior to the acquisition of the above-mentioned block of shares, the management-controlled company contributed 537,520 SES-imagotag shares to BOE Smart Retail and took part in a €17.9 million capital increase for BOE Smart Retail. The management will hold their BOE Smart Retail shares for at least five years thus underlining the management team's strong commitment to the Company's long-term growth.

In compliance with applicable regulations, BOE Smart Retail submitted an information note to the AMF regarding the simplified public tender offer to sell SES-imagotag shares at the same price of €30.0 per share, with the objective of closing the takeover by the end of the first quarter of 2018.

The common goal of both BOE and the management, who have come together as BOE Smart Retail (the initiator of the deal), is to keep the company publicly traded with a free float that will provide sufficient liquidity.

### **Outlook**

2017 was a year of major transition for SES-imagotag in terms of international expansion, technological innovation, and shareholding.

The year also marked a tipping point for the market. Over the past 12 months the acquisition of Whole Foods by Amazon, the Walmart-Google agreement, and investments by Alibaba, Tencent, and JD.com in retail chains showed the world that physical stores will be at the heart of the omnichannel commerce of the future.

This new awareness explains the increased number of ESL projects and new pilots around the world. Although major roll-outs have yet to be confirmed, a strong belief is now taking root in retailers' minds, that store digitization is now inevitable. This is reflected in the recently upward-revised projections for the ESL market for the next five years.

With the recent launch of VUSION and its suite of solutions V:Core, V:Shelf, V:Connect, and V:Analytics, SES-imagotag is providing a high-performance, easily rolled-out cloud-based digital platform functionally addressing retailers' current priorities, i.e., omnichannel price synchronization, digital advertising and promotions at the shelf, store automation, stockout reduction, optimized in-store picking for online orders, collaboration with CPG manufacturers, and massive enhancement of available store data.

## Cooperation with BOE already active on three fronts:

- Technological, with the development of V:Rail, which aims to transform retail shelves into powerful advertising and promotional interfaces. Other in-store digital signage applications will follow.
- Industrial, with the launch of a next generation integrated manufacturing plant project aimed at ultra-high capacity and competitiveness starting from the second half of 2018.
- Geographical, with the creation of an entity dedicated to the development of the Chinese market, probably the most dynamic market in the world in terms of digital and omnichannel commerce. Already, several major retailers have set up their first stores, including one of Alibaba's most innovative chains with whom BOE signed a retail IoT cooperation agreement in November. Moreover, SES-imagotag will leverage BOE's commercial sites in other regions of the world (USA, Russia, India, South America, South Korea, etc.)

The goal is to see a return to growth from 2018 and to capitalize on the manufacturing cooperation with BOE to increase profitability despite still-strong competitive pricing pressure. All the initiatives undertaken in 2017 strengthens the Group's ability to reach the Leapfrog 2020 plan goals.

## Message from Thierry Gadou, Chairman and CEO:

*"SES-imagotag has taken a massive step forward for years to come in 2017 with our new VUSION platform, our positions established in high-potential new markets, and our visionary alliance with BOE.*

*The digitization of physical commerce (Retail IoT) is about to take off globally. In 2017, Amazon and Alibaba electrified the market with their bold expansion and acquisition announcements. These days not a week goes by without physical retail stores announcing new digital initiatives to help them retain substantial strategic value and create a seamless experience for the consumer. All major retailers around the world are now refocusing on the need to leverage digital to revitalize brick-and-mortar physical networks.*

*Because we anticipated this change, and saw the leading role of China in retail innovation, we are ready to help brick-and-mortar retailers to bridge over to omnichannel commerce.*

*Of course, this market is still emerging, and changing a global mindset with respect to large-scale investment policy takes time. That is why our short-term results show the effort rather than the fruit of our investments. Currently, our priorities are technological innovation, winning international market share, and establishing a sustainable world leadership position.*

*To achieve these goals, we needed a stable shareholder with a long-term vision and strong added value. With BOE, we now have that and what an amazing partner they are!*

*The other ingredient for success is our entrepreneurial drive: our management team from all our past acquisitions (imagotag, PDi, Findbox, and Markethub) has united for the long term in a joint holding company to make a major investment in the future of SES-imagotag alongside BOE.*

*As the Shareholders' Meeting of February 6 will shape our new governance, I would like to wholeheartedly thank the shareholders who have supported the transformation of SES-imagotag, first and foremost Chequers Capital and Pechel Industrie, as well as all those who share our passion and our goal of long-term value-creation."*

## Glossary

**New Orders:** Sum of all the orders signed over the period for completed or future customer roll-outs.

**EBITDA:** Performance indicator based on the Operating Income as reported in the IFRS financial statements restated from (i) the depreciation expense on tangible and intangible assets and (ii) non-recurring items over the period mainly consisting of goodwill amortization expenses, IFRS2 and social expenses relating to Free Shares plans and expenses relating to M&A, debt or equity-based deals.

**Current EBIT:** Performance indicator based on the Operating Income as reported in the IFRS financial statements restated from non-recurring items over the period mainly consisting of goodwill amortization expenses, IFRS2 and social expenses relating to Free Shares plans and expenses relating to M&A, debt or equity-based deals.

## About SES-imagotag

For 25 years, SES-imagotag has been the trusted partner of retailers for digital technology in stores. SES-imagotag, the worldwide leader in smart digital labels and pricing automation, develops a comprehensive IoT and digital platform that delivers a complete set of services to retailers. The SES-imagotag solution enables retailers to connect and digitize their physical stores; automate low-value-added processes; improve operational efficiency; inform and serve customers; ensure information integrity to continuously optimize on-hand inventory; prevent stock-outs and waste and create an omnichannel service platform that builds loyalty and meets evolving consumer expectations.

[www.ses-imagotag.com](http://www.ses-imagotag.com)

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