ses imagotag

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SES-imagotag: 2017 Results

> **2017: A transition year - Results in line with preliminary data**
  - Annual revenue of €153 million (-14%) penalized by product transition and industrialization delay
  - Current operating profit down due to decline in revenue and pressure from competitor pricing (€6.1 million in EBITDA, 4.1% margin, down by 530 bp)
  - Net income impacted by non-recurring expenses related to the BOE Technology transaction (net income of -€21 million, including a non-cash expense of €10 million relating to free share plans)

> **Strong recovery expected during 2018 due to:**
  - Successful launch of new VUSION solution
  - Excellent order intake level (€200 million), almost 40% higher than in 2016

> **Upcoming strategic plan through 2022, currently being prepared in collaboration with BOE Technology**

> **Simplified takeover bid for BOE Technology open until March 15**

Financial results (€m)

		12/31/2017*	12/31/2016**	N / N-1
Sales		**153.0**	**176.9**	**-13.5%**
Variable cost margin		**40.3**	**44.1**	**-8.8%**
	As a % of sales	*26%*	*25%*	*+1 pt*
Current operating expenditure		(34.1)	(27.5)	-24.0%
EBITDA		**6.1**	**16.6**	**-63.2%**
	As a % of sales	*4%*	*9%*	*-5 pts*
Depreciation and amortization		(8.3)	(7.0)	-18.8%
Current EBIT		**(2.2)**	**9.6**	**N/A**
	As a % of sales	*-1%*	*5%*	*-6 pts*
Other non-recurring and non-cash income and expenses		(18.8)	(2.2)	N/A
Operating income (EBIT) / (Loss)		**(21.0)**	**7.4**	**N/A**
	As a % of sales	*-14%*	*4%*	*-18 pts*
Financial income / (Loss)		(4.5)	(2.0)	-132.8%
Income tax		4.4	(2.1)	N/A
Net income / (Loss)		**(21.1)**	**3.4**	**N/A**
	As a % of sales	*-14%*	*2%*	*-16 pts*

** Audit procedures finalized. The Annual Report will be available end of April.*
*** The 2016 EBIT and Net Result were restated to take into account the fair value and employer contribution which were not recognized in 2016 although the performance criteria had been met and opened rights to the final vesting of a tranche of free shares. The corresponding IFRS2 expense was assessed at €1.3 million for 2016. The expense excluding the employer contribution of €1 million for 2016 did not have an impact on the Group's equity or on its cash position. The 2016 annual financial statements were restated for these amounts.*

Annual revenue was €153 million, down by -14% from 2016, a year which benefited from the peak roll-out of the MSH contract, the first-ever contract of more than €100 million for SES-imagotag.

The decline in revenue was the result of both a volume effect resulting from the switch by certain customers of their roll-outs to the new line of VUSION labels in 2018, the industrialization of which only started to ramp up in Q4 2017 and a downward pressure on prices exacerbated by our competitors.

The **variable cost** margin was €40.3 million, down -9% on 2016. The variable cost margin ratio improved from 24.9% to 26.3% (+1.4pts), 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.

The **current operating expenditure** was up by +€6.6 million. €3.2 million of this increase was due to the addition of PDi and Findbox within the overall scope. €3.4 million was due to continuing international expansion efforts undertaken in 2017, prior to the overall market acceleration phase. Nearly all of the increase in expenses reflect commitments made in 2016. The Group limited additional expenses in 2017 to maintain its financial equilibrium without compromising its commercial deployment.

Therefore, EBITDA was €6.1 million compared to €16.6 million in 2016.

Operating profit (EBIT) and net income were negatively impacted by non-recurring items, many of which were noncash and related to the BOE Technology transaction:

- Banking advisory, lawyers and experts (in France, China and Taiwan) associated with this complex international transaction;
- The IFRS2 expense (noncash) of €10 million before social security contributions of €2.9 million for the accelerated vesting of performance shares;
- Other expenses, independent of the transaction, including the amortization of separate intangible assets identified as part of the acquisitions.

Therefore, operating income (EBIT) was -€21.0 million compared to €7.4 million in the previous financial year.

Financial income was -€4.5 million, comprised essentially of interest on the EuroPP bond of €40 million raised in two times at the end of 2016 and the end of March 2017, and from foreign exchange income.

2017 income tax resulted in a profit of €4.4 million following the recognition of deferred tax assets on tax losses of legal entities whose potential for recovery are deemed positive by the Group.

In all, the net result for the 2017 financial year was a loss of €21.1 million whereas it was positive by €3.4 million in 2016.

Cash/net debt position

€m			**2017**	**2016**
EBITDA			6.1	16.6
Capex			(12.1)	(9.3)
Change in WCR			(5.2)	(6.7)
Financial investments			2.2	(7.0)
Financial income / (Loss)			(2.4)	(1.6)
Taxes			-	(1.2)
Other			(8.3)	(1.6)
	Of which:	*Transaction fees*	*(3.0)*	
		Social security expense for free shares	*(2.4)*	
		Onerous contracts	*(1.1)*	
		Reorganization	*(0.4)*	
		Other	*(1.4)*	
Changes in cash flow/Net Financial (Debt)		**(19.7)**	**(10.8)**	
Cash flow/Net Financial (Debt)			**(13.4)**	**6.3**
Cash			38.5	33.3
Financial debt			(51.9)	(27.0)
Changes in cash flow/Net Financial (Debt)			***(19.7)***	

As of December 31, 2017, available cash was €38.5 million compared to €33.3 million at the end of 2016 and net financial debt was -€13.4 million compared to a net position of €6.3 million on December 31, 2016. Net cash consumption was €19.7 million due to the decrease in EBITDA and the acceleration of the VUSION program. This translated into an increase in investment (Capex) over the financial period as well as the constitution of preparatory supply inventories for 2018. In addition, the capital transaction with BOE resulted in exceptional fees (bank advisory, legal, experts and auditors) and the payment of a social security expense for the allocation of free shares. Lastly, financial income included the cost of interest on loans and part of the income from currency exchange.

Outlook

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 with 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 in 2017 revealed itself as a key asset for future growth, strongly reinforcing SES-imagotag's position as the true global leader in electronic shelf labeling, smart digital tags and digital retail.

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 extensions of the offer include all digital communication tools used at points of sale;
- Industrial, with the launch of a next generation-integrated manufacturing plant 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, the most dynamic market in the world in terms of digital and omni-channel commerce. Already, several major Chinese brands have set up their first stores, including one of Alibaba's most innovative chains with whom BOE signed a cooperation agreement in November in IoT retail. With BOE, SES-imagotag aims at becoming the market leader in China. Moreover, SES-imagotag will leverage BOE's commercial sites in other regions of the world (USA, Russia, India, South America, South Korea, etc.).

All of these projects open up new medium-term prospects for SES-imagotag which will be presented in an upcoming five-year strategy plan (2018-2022) currently being prepared in close cooperation with BOE.

With the sales momentum fueled by the successful launch of VUSION, SES-imagotag expects strong growth again during H2 2018, once the new fully-automated production site is up and running.

Simplified takeover 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 regulations, BOE Smart Retail submitted an offering memorandum to the AMF in the perspective of the simplified tender offer to acquire the remaining SES-imagotag shares at the same €30 per share price. On February 20, 2018, the AMF gave approval n°18-050 for the note and the BOE Smart Retail offer was initiated on March 2 for a March 15 close.

The Initiator does not plan to request a squeeze-out upon completion of the bid, nor to request the delisting of its Euronext shares. The Initiator also wants to maintain a significant free-float and share liquidity. They do not exclude opening the capital of SES-imagotag to new investors in the future as part of the Company's development strategy.

Thierry Gadou, Chairman and CEO, stated that: *"SES-imagotag has taken a massive step forward for years to come in 2017 with our new VUSION platform, key partnerships in high-growth markets, and our visionary alliance with BOE.*

The market for the digital transformation of physical commerce (Retail IoT) is now taking off. In 2017, it was boosted by investments by Amazon, Alibaba, Tencent and JD.com in brick-and-mortar retail. 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. Leaders of all major retailers around the world are putting into place new strategic plans, all of which are based on the convergence of physical and digital commerce. Capital is once again flowing into projects to modernize long-neglected brick-and-mortar infrastructure and stores.

With BOE, we have taken a position in the largest and most innovative market. We will expand our offering to include all point-of-sale digitalization and automation solutions (Retail IoT) with a long-term technology and industrial vision and an increased focus on global leadership. This is part of our new five-year strategy plan which is currently being prepared and will be presented soon in collaboration with BOE Technology.

This new step in our development is more entrepreneurial than ever. Our management team is complete, bonded, passionate about this extraordinary adventure and fully invested in the capital."

Consolidated income statement

K€	31/12/2017	31/12/2016
SALES	**153,000**	**176,924**
Cost of goods sold	(102,641)	(123,817)
External expenses	(28,192)	(19,803)
Payroll costs	(34,242)	(17,436)
Taxes and duties	(815)	(843)
Allowances for depreciation and amortization	(9,182)	(6,863)
Net provisions	2,701	174
Other operating income and expenses	(1,619)	(942)
OPERATIONAL INCOME / LOSS	**(20,991)**	**7,394**
Income from cash and cash equivalents	0	88
Other income and financial expenses	(4,490)	(2,016)
Income Tax	4,412	(2,105)
NET INCOME / LOSS	**(21,069)**	**3,361**

Bridge from operating income to EBITDA (€m)

	12/31/2017	12/31/2016
Operating income / Loss	**(21.0)**	**7.4**
- IFRS2 expense for free shares and employer contribution	(12.9)	(1.2)
- Amortization of separate intangible assets identified as part of the acquisitions	(0.9)	(0.3)
- Fees for debt and capital transactions	(3.0)	(0.8)
- Onerous contracts	(1.1)	0.0
- Reorganization	(0.4)	(0.3)
- Other	(0.5)	0.5
= Current EBIT	**(2.2)**	**9.6**
- Depreciation and amortization for property, plant and equipment and intangible assets	(8.3)	(7.0)
= EBITDA	**6.1**	**16.6**

Consolidated balance sheet

ASSETS - *€K*	**12/31/2017**	**12/31/2016**
Intangible assets	92,821	66,857
Tangible assets	11,403	6,422
Financial assets	818	1,319
Deferred tax assets	6,649	1,512
NON-CURRENT ASSETS	**111,690**	**76,110**
Inventories and work-in-process	65,266	58,615
Trade receivables	42,503	17,740
Other current receivables	11,059	17,085
Cash and cash equivalents	38,478	33,314
CURRENT ASSETS	**157,306**	**126,754**
TOTAL ASSETS	**268,996**	**202,864**

LIABILITIES - *€K*	**12/31/2017**	**12/31/2016**
Capital	26,769	24,155
Other equity instruments	1,349	9,091
Consolidated reserves	121,924	88,506
Income - Group share	(21,069)	3,361
SHAREHOLDERS' EQUITY	**128,974**	**125,113**
Non-current provisions	711	199
Deferred tax liabilities	1,079	689
Bank loans	51,870	27,032
Other non-current liabilities	12,307	5,485
NON-CURRENT LIABILITIES	**65,967**	**33,404**
Trade payables	57,829	13,116
Other liabilities and equalization accounts	16,226	31,231
CURRENT LIABILITIES	**74,056**	**44,347**
TOTAL LIABILITIES	**268,996**	**202,864**

Consolidated cash flow statement (€K)

	12/31/2017	12/31/2016 restated*
+ Net consolidated income (including minority interests)	**(21,069)**	**3,361**
+/- Net depreciation allowances and provisions (excluding those relating to current assets)	6,323	7,221
+/- Calculated expenses and income related to stock options and similar	9,760	28
-/+ Other calculated income and expenses	351	(971)
-/+ Gains and losses on disposals (from exchange difference in IFRS P&L and Financial instrument income)	1,148	198
Cash flow after cost of net financial debt net and tax	**(3,487)**	**9,837**
+/- Income tax expense (including deferred taxes)	(4,412)	2,105
= CASH FLOW AFTER COST OF NET FINANCIAL DEBT AND TAXES	**(7,899)**	**11,942**
- Taxes paid		(643)
+/- Change in operating WCR	(3,061)	(7,047)
= NET CASH FLOW GENERATED BY THE ACTIVITY	**(10,961)**	**4,252**
- Disbursements related to tangible and intangible assets	(12,082)	(9,310)
+ Proceeds related to disposals of assets		
- Disbursements related to the acquisition of long-term investments	(91)	(3,645)
+ Proceeds from disposals of long-term investments	42	74
+/- Impact of changes in the consolidation scope	2,221	(2,345)
+ Investment subsidies received	(77)	(808)
= NET CASH FLOW RELATED TO INVESTMENTS	**(9,987)**	**(16,034)**
+ Amounts received from shareholders during capital increase	1,795	1,403
+ Loan issuance	30,000	14,200
+ Loan repayments	(5,717)	(3,196)
- Dividend distribution		
-/+ Treasury share sales and buybacks	(37)	(4)
= NET CASH FLOWS FROM FINANCING ACTIVITIES	**26,041**	**12,403**
+/- Foreign exchange impact	70	140
= CHANGE IN CASH FLOW	**5,163**	**762**

** The 2016 EBIT and Net Result were restated to take into account the fair value and employer contribution which were not recognized in 2016 although the performance criteria had been met and opened rights to the final vesting of a tranche of free shares. The corresponding IFRS2 expense was assessed at €1.3 million for 2016. The expense excluding the employer contribution of €1 million for 2016 did not have an impact on the Group's equity or on its cash position. The 2016 annual financial statements were restated for these amounts.*

Glossary:

Order intake: this is the total of all orders signed over the period for customer deployments during the current and future periods.

EBITDA: this performance indicator is calculated using the operating income, as stated in the IFRS income statement, restated for amortization of intangible assets and non-recurring items for the period consisting primarily of amortization of separate intangible assets identified as part of the acquisitions, the IFRS2 expense, the social security expense for the free shares and expenses related to M&A-type transactions, capital or for issuing debt.

Current EBIT: this performance indicator is calculated using the operating income, as stated in the IFRS income statement, restated for the non-recurring items for the period consisting primarily of amortization of separate intangible assets identified as part of the acquisitions, the IFRS2 expense, the social security expense for the free shares and expenses related to M&A-type transactions, capital or for issuing debt.

About SES-imagotag

For 25 years, SES-imagotag has been the trusted partner of retailers for in-store digital technology. SES-imagotag, the worldwide leader in smart digital labels and pricing automation, has developped a comprehensive IoT and digital platform that delivers a complete set of services to retailers. The SES-imagotag solution enables retailers to connect and digitally transform 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 omni-channel service platform that builds loyalty and meets evolving consumer expectations.

www.ses-imagotag.com

SES-imagotag is listed in compartment B of the Euronext™ Paris

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