ses imagotag

Press Release

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SES-imagotag
2018 HY1 results

- **Record order entries level (€138 M, +33%)**
- **Revenues (€81 M, -15%) limited by the ramp-up of new industrial facilities as previously announced**
- **Profitability in H1 impacted by low revenues – Slightly positive EBITDA at €0.1 M**
- **Production catch-up expected in H2 – Revenue guidance for the full year 2018 reiterated at around +20% vs. 2017**
- **Cash position stable vs. 2017 year-end thanks to the recent E Ink capital increase**
- **Strong visibility for accelerated growth in 2019**

Message from Thierry Gadou, Chairman and CEO of the SES-imagotag group:

"Our revenues and our profitability for the first half are still under pressure due to the current industrial scale-up of our new BOE factory which limited VUSION ESLs deliveries. However, the production increase in Q2 shows the positive trend and we are confident in our annual growth target of around 20% for the 2018 full-year, as well as in an accelerated global growth in 2019 onwards. The retail market is rapidly evolving. Physical retail is facing increasing labor costs, the velocity of price changes and the challenges of O2O (offline to online) convergence. Stores must become more automated, data-driven, connected to customers and brands, and more collaborative. Our VUSION retail IoT platform responds to these challenges. Record new order entries were achieved in H1 and we are convinced that the adoption of our solutions will continue to accelerate and benefit from our extended global footprint."

In €M	H1 2018*	H1 2017
Sales	**81.2**	**95.4**
Variable cost margin	**21.1**	**24.9**
% of sales	*25.9%*	*26.1%*
EBITDA	**0.1**	**7.3**
% of sales	*0.1%*	*7.6%*
Current EBIT	**-5.0**	**3.4**
% of sales	*-6.1%*	*3.5%*
Operating income (EBIT)	**-6.5**	**1.0**
% of sales	*-8.0%*	*1.0%*
Net income	**-4.7**	**0.7**
As % of sales	*-5.8%*	*0.7%*

(*) Audit procedures finalized. The Half-Year Financial Report will be available by the end of September.

Record order entries and H1 sales affected by ramp-up of new industrial facilities

H1 Order Entries in €M	2018*	2017	N / N-1
Q1	**37.2**	**40.6**	-7.3%
Q2	100.7	63.3	+59.1pts
Total H1 Order Entries	**137.9**	**103.9**	**+32.7%**

(*) Audit procedures finalized. The Half-Year Financial Report will be available by the end of September.

In the first half-year of 2018, SES-imagotag recorded two major new wins in the European **food retail** sector, boosting the total Order Entries level for the first half-year to a historic record of €138 million, an increase of +33% vs. H1 2017. In addition to the food retail sector momentum, the **consumer electronics** sector also remained extremely dynamic for SES-imagotag, with the continued roll-out of hundreds of stores in Europe, Japan, China and North America.

H1 Revenues in €M	2018*	2017	N / N-1
France	**26.2**	**37.6**	-30.3%
% of sales	*32.3%*	*39.4%*	*- 7.1pts*
International	**55.0**	**57.8**	-4.8%
% of sales	*67.7%*	*60.6%*	*+7.1pts*
Total H1 revenues	**81.2**	**95.4**	**-14.9%**

(*) Audit procedures finalized. The Half-Year Financial Report will be available by the end of September.

As previously announced, deliveries in the first semester were limited by the industrialization of the new VUSION product range and the ramp-up of the new BOE factory in Chongqing.

As a result of limited deliveries, over the first half of 2018, revenues totaled €81.2 M, a decrease of -15% compared to H1 2017. These H1 figures do not reflect the high level of order entries of the past 12 months.

Profitability temporarily impacted by the VUSION production ramp-up

For the first half of the year, SES-imagotag posted a slightly positive **EBITDA** of €0.1 M (compared to €7.3 M in H1 2017) and an **EBIT** of -€6.5 M (€1.0 M in H1 2017). This decrease is mainly due to the low volumes of VUSION tags manufactured.

In €M	H1 2018*	H1 2017	Var%
Sales	**81.2**	**95.4**	**-15%**
Variable cost margin	**21.1**	**24.9**	**-16%**
% of sales	*25,9%*	*26.1%*	*-0.2pt*
Current operating expenditures	-21.0	-17.7	+19%
EBITDA	**0.1**	**7.3**	**-99%**
% of sales	*0.1%*	*7.6%*	*-7.5pt*
Amortization	-5.1	-3.9	+29%
Current operating profit	**-5.0**	**3.4**	**n/a**
Other operating expenditures	-1.5	-2.4	-35%
EBIT	**-6.5**	**1.0**	**n/a**
% of sales	*-8.0%*	*1.0%*	*n/a*

(*) Audit procedures finalized. The Half-Year Financial Report will be available by the end of September.

The **variable cost margin** stood at €21.1M vs. €24.9M in H1 2017 mainly due to lower volumes. The VCM ratio represented 25.9% of the total revenues vs. 26,1% in H1 last year. The gross margin pressure on hardware, due to ramp-up costs and tensions on the passive components market, was compensated by a higher mix in services.

Current operating expenditures stood at €21.0M over the first half, up +€3.3M compared to the first half of 2017. This increase is due to:

- Continued international expansion and marketing efforts which contributed to the record order entries;
- The impact of the consolidation of PDi for 6 months in 2018 (vs. only 4 months in 2017) and of MarketHub.

The Current Operating Expenses to Revenue ratio at 26% in H1 should progressively decrease over to around 20% in H2 2018 and to below 20% in 2019.

Due to the low revenues and higher current operating expenses, the **EBITDA** is only slightly positive at the end of June 2018 (€0.1M).

Amortization rose by €1.2M, from -€3.9 M to -€5.1 M, due to the operational launch of several R&D projects.

One-off and other operating expenses in the first half decreased from -€2.4 M in H1 last year to -€1.5M this year. They mainly consist this year of amortizations of intangible assets from acquisitions, as well as legal and consulting fees arising from the Public Offering and the capital increase that both took place during H1.

Given these items, the **EBIT** for the first half-year of 2018 is a -€6.5M loss, compared to a €1.0M profit for the same period last year.

Net income

Based on the recoverability of the tax losses incurred by the Group's legal entities, a deferred tax income was recognized for €1.9M at the end of June 2018.

The Group incurred a -€4.7M **net loss** for the first half of 2018 vs. a slight €0.7 M profit over the same period last year.

Net debt position stable in the first half-year

Cash available and debt respectively amount to €35.7M and €49M at the end of June 2018 resulting in a €13.3M net debt at the end of June 2018, stable vs. the end of last year.

Net cash consumption for the first half-year stood at -€26.0M and was completely compensated by the capital increase made in June to welcome E Ink as a strategic shareholder.

Table of Cash Flow Variations - in €M	**2017***	**FY 2016**
EBITDA	**0.1**	**7.3**
Investments in tangible and intangible assets (Capex)	**-5.9**	**-5.1**
Change in working capital requirement	**-18.6**	**-2.9**
Financial investments net of acquired cash position**	**-2.5**	**+2.3**
Other financial income/expenses	**+0.2**	**+0.2**
Income tax	**-**	**-1.1**
Capital increase	**+26.0**	**-**
Other one-off items/other	**+0.8**	**-1.3**
Change in net cash position	**0.1**	**-0.6**

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(**) €2.5M were paid in the first semester with regard to the Findbox acquisition.

The -€18M change in working capital requirement over the first half of 2018 is mainly due to the late industrial ramp-up:

- A significant part of the business was delivered over the last 2 months of the semester increasing accounts receivables;
- Stock level still high due to stock of still unprocessed components and anticipation of H2 deliveries.

Outlook

FY 2018 annual growth target of approx. 20% reiterated

Thanks to the increased production capacity in the second half of the year, revenue is expected to increase vs H1. Even if there are still currently some industrial ramp-up delays regarding some of the sizes / formats of the VUSION product range, the supply chain issues encountered in 2018 will be solved by the end of the year.

As already communicated earlier, growth for the whole year should be around 20% thanks to a strong Q4.

Strong visibility for accelerated growth and return to profitability in 2019

Over the past 12 months ending June 2018, SES-imagotag booked a record 240 M€ of cumulated new contracts value, providing a strong visibility for future revenue growth in 2019.

An increasing part of SES-imagotag's existing large client base is now starting deployments, which creates a solid foundation for growth.

Many new pilots have also started with some of the world's largest retailers, so that in H2 SES-imagotag expects to keep growing its order backlog with significant new wins.

Although Europe continues to be the largest ESL market, new geographies (Asia, America) in which SES-imagotag has heavily invested over the past year, will start taking off and are expected to account for approx. 20% of global revenues in 2019.

For all these reasons, growth is expected to accelerate in 2019 vs 2018.

About SES-imagotag

For 25 years, SES-imagotag has been the trusted partner of retailers for the use of 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 omni-channel service platform that builds loyalty and meets evolving consumer expectations.

www.ses-imagotag.com

SES-imagotag is listed on compartment B of Euronext™ Paris

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