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SES-imagotag: 2018 Full Year Results

- **Significantly improved financial performance in the Second Half**
  - Sales increased to €106.7m in H2 (+84% vs. H2 2017, +31% vs. H1 2018)
  - Operating costs stable compared with the First Half
  - EBITDA of €6.4m in H2 vs. €0.1m in H1 2018 and -€1.2m in H2 2017
  - Net Loss of -€1.2m in H2 vs. -€4.7m in H1 2018 and -€21.8m in H2 2017
- **Annual results improved overall but negatively impacted by First Half**
  - Record sales of €187.9m, an increase of +23% vs. 2017
  - Record order entries at €251m (+25% vs. 2017)
  - EBITDA of €6.5M (+7% vs. 2017)
  - Net Loss of -€5.9m vs.-€21.1m in 2017
- **Successful introduction of VUSION Retail IoT cloud platform**
- **Growth acceleration and return to financial health expected to continue in 2019**

In € M		*H1 2018*	*H2 2018**	2018*	2017	N/N-1
Revenues		***81.2***	***106.7***	**187.9**	**153.0**	**+23%**
Variable Cost Margin		***21.1***	***27.6***	**48.7**	**40.3**	**+21%**
	% of revenues	*26%*	*26%*	*26%*	*26%*	-
Opex		*(21.0)*	*(21.2)*	(42.2)	(34.2)	+23%
EBITDA		***0.1***	***6.4***	**6.5**	**6.1**	**+7%**
	% of revenues	*0%*	*6%*	*3%*	*4%*	*-1 pt*
Depreciation		*(5.1)*	*(5.3)*	(10.4)	(8.3)	
Current EBIT		***(5.0)***	***1.1***	**(3.9)**	**(2.2)**	
	% of revenues	*-6%*	*1%*	*-2%*	*-1%*	*-1 pt*
Non-recurring / non-cash items		*(1.5)*	*(3.0)*	(4.5)	(18.8)	
EBIT		***(6.5)***	***(1.9)***	**(8.4)**	**(21.0)**	
	% of revenues	*-8%*	*-2%*	*-4%*	*-14%*	*+10 pts*
Financial Income / (Loss)		*(0.0)*	*(0.2)*	(0.2)	(4.5)	
Tax		*1.9*	*0.8*	2.7	4.4	
Net Income / (Loss)		***(4.7)***	***(1.2)***	**(5.9)**	**(21.1)**	
	% of revenues	*-6%*	*-1%*	*-3%*	*-14%*	*+11 pts*

** Audit procedures being finalized.*

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Thierry Gadou, Chairman and CEO of the SES-imagotag group commented: *"2018 was a year of two halves. Having been weighed down in the first half by the cost of bringing our new production facilities on board, we saw a sharp improvement in our financial position in the second half. We met the growth objectives we had announced at the start of the year, delivering sales growth ahead of the 20% average annual growth rate since 2010.*

While disappointed that we ended the year still in negative territory, this reflects the fact that in order to meet our global ambitions, we were obliged to deploy significant technical and commercial resources across several continents, resulting in substantial cost increases. As such, we made the deliberate choice to focus on our long-term goal of establishing sustainable global market leadership. 2019 should see a return to a better balance between investment and profitability, thanks to a combination of strong revenue growth and good operational leverage.

What the numbers do not show is the record growth in the number of new pilots underway with retailers. The numbers also do not show that these pilots are now taking place all around the globe, with penetration particularly marked in Asia and North America. There are a growing number of signs that we are approaching an inflexion point in terms of the worldwide adoption of intelligent price labelling in the retail trade.

VUSION, our new retail platform is now proven in the market place and its technological superiority is widely recognized. The IoT revolution means that we are increasingly sought after as a partner of choice for leading global technology companies, such as BOE, Microsoft, SAP, Cisco, Aruba, Panasonic, Wirecard, and T-Systems. In two years, we have built a powerful global technological and commercial ecosystem around VUSION and its concept of the connected, collaborative retailer. We believe this will serve us in good stead in the years to come.

We anticipate an acceleration in our growth this year, particularly in North America and Asia, and a return to full profitability. Our VUSION22 plan has set us ambitious objectives for our customers and our shareholders, and we are fully committed to those objectives, as are all our teams."

FY 2018 Sales breakdown

		2018			**2017**		
M€		**H1**	**H2***	**FY***	**H1**	**H2**	**FY**
France		26.2	33.3	59.5	37.6	31.5	69.1
	N/N-1	*-30%*	*6%*	*-14%*			
International		55.0	73.4	128.4	57.8	26.1	83.9
	N/N-1	*-5%*	*181%*	*53%*			
Full Year Sales		**81.2**	**106.7**	**187.9**	**95.4**	**57.6**	**153.0**
	N/N-1	*-15%*	*85%*	*23%*			

** Audit procedures almost finalized.*

Sales rose +23% in 2018 to €187.9m, from €153m in 2017. This was a record performance and ahead of the 20% revenue growth guidance given earlier in the year.

This improvement is the result of the successful ramp up of new state-of-the-art production facilities in Asia in the Second Half, which enabled SES-imagotag to step up deliveries of existing orders. Sales jumped +85% to €106.7m in H2 compared with the same period in 2017, largely offsetting the anticipated fall in H1 2018 of 15% to €81.2 m. Especially remarkable was the strong performance in Q4 which saw sales nearly triple (+175%).

The sales increase internationally was particularly encouraging. This is a major objective for SES-imagotag, and an essential element of the BOE partnership and VUSION 2022 plan unveiled last year. Sales ex-France jumped +180% in H2 2018 to €73.4m. For the year as a whole, international sales reached €128.4m, representing 68% of overall sales. Sales ex-Europe represented 15% of sales. The proportion of international sales is expected to increase over time, reflecting faster rates of growth in sales and the increasing pace of adoption of digital solutions which are anticipated in the US and Asia, regions where SES-imagotag now has a strong footprint. This performance is in line with the objectives of the VUSION 2022 plan which is targeting 25% sales outside Europe by 2020 and 50% by 2022.

With a lower number of roll-outs in the course of the year, activity in France, which is the most mature market in the sector, fell from €69.1m to €59.5m. in spite of a return to growth in the Second Half which is expected to continue into 2019.

Order entries (€m)	**2018**	**2017**	**N/N-1**
H1	137.9	103.9	33%
H2	113.2	96.2	18%
Q3	*47.5*	*37.3*	*27%*
Q4	*65.7*	*58.9*	*12%*
Full Year	**251.1**	**200.1**	**25%**

The Order Book was at a record high with order intake up 25% on the year to €251.1m. Orders were up 18% in H2 to €113.2m. The majority of the increase was attributable to the growing adoption by customers of the VUSION Retail IoT (Internet of Things) cloud-based platform, reflecting its growing recognition among physical retailers seeking to digitalize their operations in the face of mounting cost pressure and increasingly severe competition from E-commerce platforms.

In 2018, SES-imagotag won several strategically important contracts with a number of retailers with leadership positions in their markets, such as Colryut, the leading Belgian food retailer, Coop, the leading Swiss food retailer and a top ten global player in that space. Other notable wins in 2018 include: an agreement with the leading Scandinavian consumer electronics retailer Elkjop to extend the ongoing roll-out in their stores; an agreement with Sharaf DG, the number one consumer electronics retail chain in the Middle East to equip their stores in the Gulf. In Germany, SES-imagotag was selected by Euronics for its sales outlets, while in China, Xiaomi has also installed smart VUSION labels across its stores. There was also a major contract win in Japan, where one of the country's leading retailers has signed up to equip its stores with SES-imagotag technology.

Sharp improvement of profitability in H2

Variable cost margin was stable in 2018 at 26% compared with the prior year. This reflects the progress in reducing manufacturing costs which offsets the ongoing price competition. Variable cost margin stood at approx. €49m, a 21% increase vs. 2017.

Operating costs have stabilized during H2 at €21.2m (+1% vs. H1). In 2018, they rose by +23%, mainly due to international expansion efforts, and the increased number of pilots underway in a growing number of countries. These pilots require dedicated and substantial technical and commercial resources to transform themselves into roll-outs. It should also be noted that the increase in costs was accentuated by a 2017 cost base favorably impacted by provision reversals of approximately €3.5 million.

Thanks to the full year growth and cost stabilization, EBITDA was up from €0.1m in H1 to €6.4m in H2, representing 6% of sales and stood at €6.5m for the year, a +7% increase compared to 2017.

Amortization was at €10.4m in 2018, a €2.1m increase vs. 2017, due to the increased industrial and R&D investments.

Non-recurring or non-cash items amounted to €4.5m. These comprised mainly amortization of past acquisitions (€0.9m), advisors' fees (€0.7m), litigation (€1.7m), and other items (€1.2m).

After taking into account amortization and other non-recurring costs, the Operating Loss before Interest (EBIT) narrowed from -€21m in 2017 to -€8.4m in 2018 and improved in H2 at (€1.9m) vs. H1 (€6.5m).

Financial income was -€0.2m with gains on currency operations partially offsetting interest charges on Group debt.

There was a Net Loss of €5.9m for the year to December 31, 2018 compared with a Net Loss of € 21.1m 2017, after taking into account a positive tax benefit of € 2.7m mainly deriving from deferred tax activation on tax losses.

Cash-Flow Statement

€m	***H1 2018***	***H2 2018****	**2018***	**2017**
EBITDA	*0.1*	*6.4*	6.5	6.1
Capex	*(5.9)*	*(7.4)*	(13.3)	(12.1)
Change in Working Capital	*(18.5)*	*1.1*	(17.4)	(5.2)
Operating Cash-Flow	***(24.3)***	***0.1***	***(24.2)***	***(11.2)***
Financial Investments	*(2.5)*	*(0.8)*	(3.3)	2.2
Financial result	*(0.8)*	*(0.7)*	(1.5)	(2.4)
Tax				
Capital Increase	*26.0*		26.0	
Others	*1.7*	*(2.7)*	(1.0)	(8.3)
Change in Net Debt	*0,1*	*(4,1)*	**(4.0)**	**(19.7)**
Net Cash / (Debt)			**(17.4)**	**(13.4)**
Cash			29.5	38.5
Debt			(46.9)	(51.9)
change in Net Cash / (Debt)	***(4.0)***			

* *Audit procedures almost finalized.*

Net debt as of December 31, 2018 stood at €17.4m, an increase of €4m on the previous year. Net cash stood at €29.5m, down by €9m from €38.5m the year before. Of that, €5m was used to pay down financial debt – which fell from €51.9m on December 31, 2017 to €46.9m on December 31, 2018 – with a further €4m being used to finance various Group operations.

The financial debt to Net Equity ratio remains limited at 32%.

Thanks to the €26m capital increase at the end of June, the Group was able to offset the negative cash-flow impact of weaker first half activity, such that overall net debt in the first half was virtually unchanged (+€0.1m).

In H2 the Operating Cash-Flow (Ebitda – Capex + change in working capital) improved significantly and was slightly positive (+0.1M€) compared with H1 which stood at -24.3M€.

Outlook

The robust acceleration in sales in H2 as well as the solid new order entries and opportunities in the sales pipeline, have given SES-imagotag strong momentum going into 2019. Based on that healthy ongoing momentum, SES-imagotag continues to expect revenue growth for FY2019 in the region of +30%.

Among factors that are expected to continue to support this more rapid growth trajectory are the growing evidence of widespread adoption of the VUSION platform worldwide, the strong supportive and rapidly growing eco-system of partnerships, and the expanded suite of products and functionality at a time when physical retailers are under extreme pressure to improve their agility, cost structures and relevance to an increasingly demanding customer base.

2019 should also see a return to financial health through the combination of strong growth and operational leverage with continued cost discipline.

Consolidated income statement

K€	**12/31/2018**	**12/31/2017**
SALES	**187,855**	**153,000**
Cost of goods sold	(134,723)	(103,697)
External expenses	(25,149)	(28,192)
Payroll costs	(23,365)	(34,242)
Taxes and duties	(1,424)	(815)
Allowances for depreciation and amortization	(11,326)	(9,182)
Provisions	(3,493)	(2,592)
Reversal of provisions	1,433	5,293
Other operating income	2,448	66
Other operating expenses	(722)	(629)
OPERATIONAL INCOME / LOSS	**(8,467)**	**(20,991)**
Other financial income	5,632	2,364
Other financial expenses	(5,793)	(6,854)
Income Tax	2,729	4,412
NET INCOME / LOSS	**(5,900)**	**(21,069)**

Bridge from operating income to EBITDA (€m)

	12/31/2018	**12/31/2017**
Operating income / Loss	**(8.5)**	**(21.0)**
- IFRS2 expense for free shares and employer contribution		(12.9)
- Amortization of separate intangible assets identified as part of the acquisitions	(0.9)	(0.9)
- Fees for debt and capital transactions	(0.7)	(3.0)
- Onerous contracts	(1.1)	(1.1)
- Severance pay	(0.4)	(0.4)
-Claims / litigations	(1.7)	
- Other	0.2	(0.5)
= Current EBIT	**(3.9)**	**(2.2)**
- Depreciation and amortization for property, plant and equipment and intangible assets	(10.4)	(8.3)
= EBITDA	**6.5**	**6.1**

Consolidated balance sheet

ASSETS - *€000s*	**12/31/2018**	**12/31/2017**
Intangible assets	94,405	95,744
Tangible assets	13,849	11,403
Financial assets	863	818
Deferred tax assets	9,571	6,197
NON-CURRENT ASSETS	**118,688**	**114,161**
Inventories and work-in-process	81,881	65,266
Trade receivables	72,215	42,503
Current tax receivable	2,652	2,044
Other current receivables	9,801	9,015
Cash and cash equivalents	29,578	38,478
CURRENT ASSETS	**196,127**	**157,306**
TOTAL ASSETS	**314,815**	**271,467**

LIABILITIES - *€000s*	**12/31/2018**	**12/31/2017**
Capital	29,007	26,769
Consolidated reserves	124,867	123,208
Income - Group share	(5,900)	(21,069)
SHAREHOLDERS' EQUITY	**147,975**	**128,908**
Non-current provisions	1,492	711
Deferred tax liabilities	3,782	3,616
Bank loans	46,948	51,870
Other non-current liabilities	9,149	12,307
NON-CURRENT LIABILITIES	**61,371**	**68,503**
Trade payables	83,540	57,829
Other liabilities and equalization accounts	21,929	16,226
CURRENT LIABILITIES	**105,469**	**74,056**
TOTAL LIABILITIES	**314,815**	**271,467**

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.

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 developed 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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