

## SES-imagotag: 2019 Results

- **Strong growth in Sales (+31.7%) and Order Entries (+34.0%)**
- **EBITDA up +66% versus 2018 (at constant exchange rates)**
- **Positive Full-Year Cash Flow**
- **Profitability impacted by the EUR/USD exchange rate and US tariffs: resulting in a net loss of €-13.1m**
- **Growth still expected in 2020 despite the negative impact of the COVID-19 crisis on H1 deliveries**

**Thierry Gadou, Chairman and CEO of SES-imagotag commented:** "2019 marked a major new step forward in the implementation of our VUSION 2022 strategic plan, with strong growth internationally (+40%), the signing of our first major contract in the United States and the launch of our joint venture in China with BOE and JDD.

On a constant currency basis, our EBITDA was sharply up on 2018 (+66%) thanks to the steady improvement in our operating ratio<sup>1</sup>. However, due to the US Dollar increase and new US import tariffs, we were not able to return to profitability as initially planned. These two adverse factors have impacted the Group by more than €10m in additional costs. With the ramp-up of a second industrial platform outside China, we have been able to mitigate the adverse impact of the US tariffs, which should no longer have significant impact on the Group in 2020.

Thanks to 2019 successes and to a record sales pipeline, we expect to continue our growth in 2020. However, the Covid-19 crisis will affect deliveries in the First Half of the year, and in the light of the most recent developments of this crisis, the previous guidance sales range of €370-400 million seems too optimistic at this stage. We have already put in place contingency plans to protect our employees, partners and customers, as well as to strengthen profitability improvement efforts."

€m	At constant €/ \$ rate and before IFRS16			IFRS16	€/ \$ change	2019* Reported
	2019*	2018	N / N-1			
<b>Revenues</b>	<b>246.8</b>	187.9	+31%		0.7	<b>247.6</b>
<b>EBITDA</b>	<b>10.8</b>	6.5	+66%	2.3	(9.0)	<b>4.0</b>
% of revenues	4.4%	3.5%	+0.9pt			1.6%
<b>Current EBIT</b>	<b>(1.0)</b>	(3.9)	-75%	0.3	(9.0)	<b>(9.8)</b>
% of revenues	-0.4%	-2.1%	+1.7pt			-3.9%
<b>Net Income / (Loss)</b>	<b>(4.0)</b>	(5.9)	-32%	(0.1)	(9.0)	<b>(13.1)</b>
% of revenues	-1.6%	-3.1%	+1.5pt			-5.3%

\* Audit procedures currently in finalization

<sup>1</sup> Operating ratio: current operating expenses to sales

## 2019 FY Results at constant / current €//\$ rate and before/after IFRS16

€m	At constant €//\$ rate and before IFRS16			IFRS16	€//\$ change	2019* reported
	2019*	2018	N / N-1			
<b>Revenues</b>	<b>246.8</b>	187.9	+31%		0.7	<b>247.6</b>
<b>Variable Costs Margin</b>	<b>59.5</b>	48.7	+22%		(9.0)	<b>50.5</b>
% of revenues	24.1%	25.9%	-1.8pt			20.4%
Opex	(48.8)	(42.3)	+15%	2.3		(46.5)
<b>EBITDA</b>	<b>10.8</b>	6.5	+66%	2.3	(9.0)	<b>4.0</b>
% of revenues	4.4%	3.5%	+0.9pt			1.6%
Depreciation	(11.8)	(10.4)	+13%	(2.0)		(13.8)
<b>Current EBIT</b>	<b>(1.0)</b>	(3.9)	-75%	0.3	(9.0)	<b>(9.8)</b>
% of revenues	-0.4%	-2.1%	+1.7pt			-3.9%
Non-recurring / non-cash items	(4.8)	(4.5)	+7%			(4.8)
<b>EBIT</b>	<b>(5.8)</b>	(8.5)	-31%	0.3	(9.0)	<b>(14.6)</b>
% of revenues	-2.4%	-4.5%	+2.1pt			-5.9%
Financial Income / (Loss)	(1.9)	(0.2)	+1097%	(0.3)		(2.3)
Tax	3.8	2.7	+39%			3.8
<b>Net Income / (Loss)</b>	<b>(4.0)</b>	(5.9)	-32%	(0.1)	(9.0)	<b>(13.1)</b>
% of revenues	-1.6%	-3.1%	+1.5pt			-5.3%

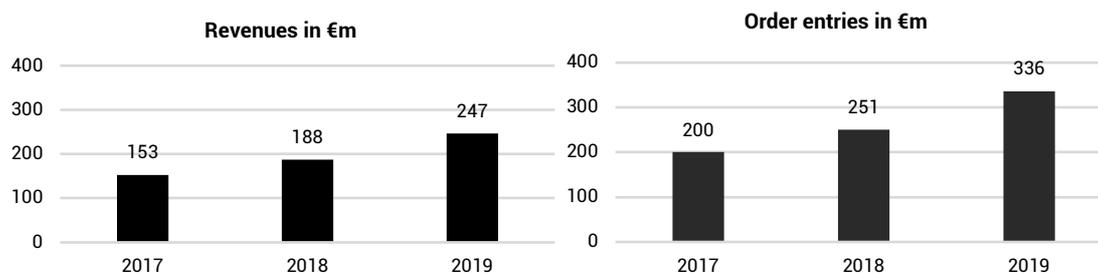
\* Audit procedures currently in finalization

## Acceleration of Sales growth in 2019

2019 was another record year for the Group. Growth in sales accelerated sharply, driven by a strong international performance. Annual Sales were €247.6m (+31.7%), slightly above the +30% target set for the year, keeping the Group on track to reach the 2022 target of €800m in Sales per annum. International sales increased +40.2% to €180m and represented more than 70% of the overall total.

## Record Order Entries

Order intake reached a historic level of €336.5m, an increase of +34.0% compared to the previous year. This increase was particularly marked in the second half (+88.3%) compared with the same period in 2018, which was boosted by the signing of a first major contract in the United States.



**Improved profitability at constant exchange rates**

Between 2018 and 2019, the US Dollar (USD) appreciated sharply against other major currencies, which resulted in an increase in production costs when expressed in euros, which is still the predominant billing currency. When restated to compensate for the change in exchange rate effect, profitability shows clear signs of improvement.

On a like-for-like basis, assuming a constant USD compared to 2018, and before taking into account the impact of IFRS16:

- The Variable Costs Margin (VCM) was €59.5m, up +22% versus 2018. The VCM ratio was 24.1%, down 1.8 points from 2018, due to the impact of several large new deployment contracts, whose margins tend to be lower on the initial phases of a contract (mix effect);
- The Group's EBITDA was €10.8m (€13.1m after application of IFRS16), a marked increase on 2018 (+66%), helped by the improvement of 2 points in the operating ratio (current operating expenses to sales) which went from 22% in 2018 to 20% in 2019;
- Current operating income (current EBIT) was €-1m, close to breakeven and clearly up on 2018.

Current operating expenses came to €48.8m (€46.7m after application of IFRS16), up €6.5m (+15%) versus 2018, largely as a result of the expansion of international activity.

- Following the agreement with BOE and JDD last June, the new China Joint-Venture (a 51% subsidiary of SES-imagotag) became operational in the summer of 2019 and consolidated from H2 (+€1.3 m). This is a significant investment to develop a strong base in China, which is a strategic priority for the Group;
- The overall level of operating expenses reflects the significant investment in international expansion in North America and Asia. Sales realized in these two huge potential markets were equivalent to 14% of total 2019 Sales. While not yet at a level to fully amortize the associated development costs, their share of total Sales should reach 25% by 2020 and around 50% in 2022. It is therefore an essential engine of growth and is regarded as a strategic investment to support the Group's growth potential;
- The operating ratio should continue to improve steadily to the level of 10% of Sales by 2022.

Non-recurring charges during the Second Half were €4.8m. These included:

- €0.8m of transaction and legal costs related to various financing operations and the creation of joint ventures;
- Exceptional depreciation charge of €1.3m to cover certain legacy end-of-life stock relating to product from generations prior to the VUSION range and which are as a consequence obsolete;
- Cost of US tariffs on equipment imported from China: up to €1.1m. In 2020, all of the labels produced for American customers will be assembled outside of China;
- A loss of €0.9m recorded on certain contracts whose costs exceeded the revenues negotiated several months ago with customers because of a much higher USD exchange rate;
- Amortization charges for intangible assets related to past acquisitions.

**Net income** was down sharply to a negative €-13.1m having been adversely impacted by the appreciation of the US Dollar and the imposition by the US of tariffs on imports from China, as well as by the other non-recurring items mentioned above.

The recovery in profitability, although delayed by these short-term negative factors, will come from:

- The steady improvement in the Opex ratio, which should continue in 2020 thanks to the expected growth and tight cost control;

- The improvement in the VCM ratio thanks to increased recurring revenue from software & value-added services;
- The increase in US Dollars revenues and lowered exposure to USD volatility, coupled with a rigorous hedging policy.

Subject to a resolution of the COVID-19 crisis during the First Half allowing for continued growth, the EBITDA and Net Profit are expected to improve in 2020.

## Strong improvement in Net Cash Position and positive Cash-Flow over the year

**Net Cash** at the end of 2019 was almost €20 million, compared with Net Debt at the end of 2018 of €-17m, an improvement of €37.3m.

Excluding the impact of the capital increase which was carried out at the end of 2019, the Group's Net Cash Flow was positive by €3m in FY2019.

The Group showed a positive Operating Cash Flow of almost €10m. This improvement was the result of effective control of working capital and came about in spite of significant industrial and R&D investment spend.

### Group cash-flow statement

€m	FY 2019	FY 2018
EBITDA <i>pre-IFRS16</i>	1.7	6.5
Capex	(37.1)	(13.3)
Change in Working Capital	45.0	(17.4)
<b>Operational Cash-Flow</b>	<b>9.6</b>	<b>(24.2)</b>
Financial Investments		(3.3)
Financial Result	(2.3)	(1.5)
Tax		
Others	(4.3)	(1.0)
<b>Cash-flow</b>	<b>3.0</b>	<b>(30.0)</b>
Capital Increase	34.3	26.0
<b>Change in Net Debt</b>	<b>37.3</b>	<b>(4.0)</b>
<b>Net Cash / (Debt)</b>	<b>19.9</b>	<b>(17.4)</b>
Cash	73.1	29.5
Debt (before impact of IFRS16)	(53.2)	(46.9)
Debt (after impact of IFRS16)	(73.3)	(52.3)

### Working Capital Management

Operational WCR at the end of 2019, was equivalent to 14% of Sales, a 20-point improvement compared to the end of 2018 when WCR was 34% of Sales. This improvement has come about as a result of good inventory control and a tight control of customer account receivables.

## Investments

Investment in R&D was focused on improving the features of the VUSION platform, which is now recognized worldwide within the industry for its cutting-edge technology (communication protocol, cloud, IoT technology, SAAS applications). 2019 saw very strong growth in customers choosing SES-imagotag's Cloud solution. This was the case for a majority of new customers, but also for existing customers who started migrating onto the Cloud. This trend is all the more important that, once on the Cloud, access opens up to multiple additional value-added services (SaaS) where smart label technology can be extended to include new applications (order picking, restocking of shelves, stockout detection, digital advertising, etc.). These new solutions lie at the heart of the VUSION 2022 strategic plan, which will generate 20% of Sales in recurring software and services within 3 years. Group R&D in 2019 was directed towards these new value-added applications with particular focus on accelerating efforts to bring two major new products to market - AdShelf (a collaborative platform for digital in-store advertising) and Captana (automated shelf monitoring).

2019 also saw the introduction of a new flagship product, V:Motion, a range of video rails that deliver a powerful advertising impact while ensuring the same shelf management efficiency as electronic labels. Our technology and competitive advantage for such types of LCD display solutions are related to our symbiotic relationship and synergies with BOE. This new product, which has been acclaimed by CPG Brands will start to be visible in stores in 2020 and constitutes a new growth engine for the future.

Industrial investments have been made both in the development of an industrial platform outside China to serve the American market, and in securing dedicated capacity on the production lines of the BOE factory in Chongqing. This efficient global supply chain constitutes a major asset for SES-imagotag at a time of increasing worldwide adoption of electronic labels.

Other investments have been made in Information Systems and collaborative tools (including a major SAP project underway), in ESL as a service offering, as well as for the acquisition of the customer base developed by BOE and transferred to our new JV in China.

## OUTLOOK

### Uncertainties related to the COVID-19 crisis

A significant share of production, including the majority of e-Paper display module manufacturing is located in China, as are many of its component suppliers. The Group's production capacity is therefore impacted by the COVID-19 pandemic.

Since the resumption of activity in mid-February, the production units are gradually recovering momentum and should, according to the current base scenario, be back up to regular capacity in April. Deliveries in the First Half will be down on the pre-crisis business plan.

Over and above this impact on production capacity, the proliferation of increasingly strict containment measures in all of the countries where SES-imagotag operates, poses a risk of orders being put back or cancelled altogether.

In this unpredictable climate, the Group has introduced a contingency plan to protect its employees, partners and customers, and imposed strict control over costs and investments in order to mitigate financial risks to the business.

Subject to a resolution of this crisis in the First Half, organic growth should continue in 2020 thanks to the strong structural demand for store digitization solutions.

## About SES-imagotag and the VUSION Retail IoT platform

SES-imagotag is a fast-growing retail tech company, listed in Euronext Paris stock exchange, with revenues around €250 million. The company is the world leader in smart digital labels and IoT solutions for physical retail, serving over 300 large retailers around the world in Europe, Asia and America.

SES-imagotag has developed the VUSION Retail IOT technology platform to help retailers transform their physical stores into high value digital assets, more automated, data-driven, and connected in real-time to suppliers and consumers. VUSION improves pricing agility, accuracy and integrity, enables omni channel synchronization of prices, product information and marketing content, increases the productivity of shelf replenishment and in-store picking for online orders. VUSION improves employee satisfaction by freeing up time from cumbersome low value-added tasks and allowing them to focus on customer service and merchandizing tasks. VUSION connects shelves to the cloud, providing realtime accurate information on products availability and location, allowing for reduced inventory, of-stock and waste, as well as improved on-shelf availability and merchandizing compliance. VUSION empowers consumers with better product, nutritional and traceability information at the shelf and enables a frictionless in-store shopping experience with features such as product search, wayfinding and cashier-less scan & pay features. [www.ses-imagotag.com](http://www.ses-imagotag.com)

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

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