

# STORE ELECTRONIC SYSTEMS GROUP

Press Release

September 4, 2015

## 1<sup>ST</sup> HALF-YEAR RESULTS 2015

- **H1 2015 sales stable at €40m**
- **Record order book of €101m**
- **Temporary lower profitability as announced (current EBITDA of €3.2m)**
- **Substantial improvement in operating WCR and cash flow**

Store Electronic Systems (NYSE Euronext: SESL, FR0010282822), the leading supplier of Electronic Shelf Labels (ESL) for large-scale food and non-food retailers, announced today its financial performance for the first half of 2015.

IFRS P&L in €m	H1 2015	H1 2014	FY 2014
<b>Sales Revenue</b>	<b>40.0</b>	<b>40.4</b>	<b>81.2</b>
<b>Current EBIT<sup>1</sup></b>	<b>0.8</b>	<b>3.6</b>	<b>6.5</b>
as % revenue	1.9%	8.9%	8.1%
<b>Current EBITDA</b>	<b>3.2</b>	<b>6.1</b>	<b>11.2</b>
as % revenue	7.9%	15.0%	13.7%
<b>EBIT</b>	<b>0.2</b>	<b>3.0</b>	<b>4.1</b>
as % revenue	0.4%	7.5%	5.3%
<b>EBITDA</b>	<b>2.9</b>	<b>5.4</b>	<b>8.8</b>
as % revenue	7.1%	13.5%	10.8%
<b>Net Earnings</b>	<b>0.3</b>	<b>2.1</b>	<b>3.1</b>
as % revenue	0.8%	5.2%	3.9%

**Note:** The 2014 figures of all the tables presented have been restated with the amortization of the share of Imagotag goodwill assigned to the technology (7 months – €179k).

### 1. Stable Activity in the First Half-Year

Over the half-year, SES recorded sales revenue of €40m, stable compared with H1 2014. The Q2 growth offset the low level of sales recorded in Q1. Imagotag's contribution totaled €3.3m.

In **France**, sales totaled €19.4m, down by -8% over a year. SES however recorded an unprecedented level of orders in H1 and started projects with several new retailers, in particular non-food firms. The positive impact of these new contracts in France will only be felt as of the second half-year 2015.

**International** sales totaled €20.6m, up by +7% compared with H1 2014, driven mainly by the growth of Imagotag sales. A significant number of new deployment contracts were signed in Scandinavia, Spain and Eastern Europe. A major contract was also signed by Imagotag in Germany, for a pan-European deployment, operational since June.

Several new pilot projects were started over the period, bringing the total number of operational pilots

<sup>1</sup> Operating earnings excluding non-recurring costs and amortization of Imagotag goodwill assigned to the technology.

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under way worldwide to over 60, an unattained level heretofore. The commercial pipeline of new business opportunities is experiencing strong growth compared with the previous year.

New orders reached a record level of €101m in the first half year. The prospects opened up by the signings of these contracts in the first half-year both in France and abroad strengthens the anticipated increase in sales revenue in H2 and for the year 2015 as a whole.

## 2. Profitability of H1 2015 Held Back by a Slow Start to the 1<sup>st</sup> Quarter

Profitability in H1 2015 was markedly down compared with H1 2014, mainly due to stable consolidated revenue while at the same time the company Imagotag, acquired in June 2014, was integrated into the Group scope, leading to increased costs (+€1.5m) which will be absorbed by the expected growth in H2 2015.

In addition the effects of the euro/dollar exchange rate, a stronger mix of new products not yet benefiting from an industrial-scale effect, non-recurring costs related to the transformation projects under way, as well as the allocation to the technology of part of the Imagotag goodwill must also be taken into account.

IFRS Operating Account in €m	H1 2015	H1 2014	Var.	H2 2014	FY 2014
<b>Sales Revenue</b>	<b>40.0</b>	<b>40.4</b>	<b>-0.4</b>	<b>40.8</b>	<b>81.2</b>
<b>Contribution margin<sup>2</sup></b>	<b>14.6</b>	<b>15.5</b>	<b>-0.9</b>	<b>15.3</b>	<b>30.8</b>
% revenue	36.4%	38.4%		37.4%	37.9%
<b>Operating Costs</b>	<b>-13.8</b>	<b>-11.9</b>	<b>-1.9</b>	<b>-12.3</b>	<b>-24.3</b>
<b>Current EBIT</b>	<b>0.8</b>	<b>3.6</b>	<b>-2.8</b>	<b>2.9</b>	<b>6.5</b>
% revenue	1.9%	8.9%		7.2%	8.1%
Non-recurring Costs	-0.6	-0.6	0.0	-1.9	-2.4
<b>EBIT</b>	<b>0.2</b>	<b>3.0</b>	<b>-2.9</b>	<b>1.1</b>	<b>4.1</b>
% revenue	0.4%	7.5%		2.7%	5.3%
<b>EBITDA</b>	<b>2.9</b>	<b>5.4</b>	<b>-2.6</b>	<b>3.4</b>	<b>8.8</b>
% revenue	7.1%	13.5%		8.2%	10.8%

The contribution margin was €14.6m, down by 6% compared with H1 2014, i.e. -€0.9m mainly due to a 2015 margin lower by 2 points compared with H1 2014 under the combined effect of:

- Changes in the euro/dollar exchange rate whose impact was however largely mitigated in H1 by the effectiveness of the hedging positions put in place in 2014;
- A greater mix of new products, in particular the Imagotag's color e-paper range, which does not yet benefit from industrial economies of scale.

Current operating expenditure amounted to 13.8 million in H1 2015, an increase of 1.9 million compared with H1 2014, mainly related to Imagotag:

- Inclusion in the scope of €1.5m of half-year costs (the subsidiary was consolidated for only 1 month of activity in H1 2014 against 6 entire months in H1 2015);
- Increase in the costs of the strict SES scope of 3.2% (+€0.4m).

<sup>2</sup> = gross margin after deduction of variable costs on sales: transport, commissions, external installation services

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## Operating Earnings

As a consequence of lower contribution margin (-€0.9m) and increased costs (+€1.9m), current operating earnings before amortization of the ImagoTag goodwill stood at €0.8m down by -€2.8m compared with H1 2014.

Current earnings before interest, taxes, depreciation, and amortization (current EBITDA) amounted to €3.2m or 7.9% of sales revenue, down by -€2.9m compared with H1 2014.

Other products and operating expenses amounted to €0.6m and in particular included reorganization costs (-€0.2m) and the amortization of intangible assets relating to the allocation of the acquisition price of ImagoTag to the technology (-€0.2m).

After taking account of other products and operating costs, the operating earnings (EBIT) totaled €0.2m, down by -€2.9m compared with H1 2014.

## Net Earnings

Taking into account the financial result (+€0.4m) and corporation tax (-€0.2m), net earnings for H1 2015 totaled €0.3m.

## 3. Improvement in Net Cash Position

As at June 30, 2015, SES had available cash of €20.9m (against €14.3m at the end of 2014) and net cash<sup>3</sup> of €6.8m (against €4.8m at the end of 2014), i.e. a net cash generation of +€2.0m, more than half of which is explained in particular by the improvement in the WCR.

In €m	H1 2015	H1 2014	FY 2014
EBITDA	2.9	5.4	8.8
Variation in Business WCR	3.3	-8.7	-11.0
Investments	-4.7	-3.3	-8.6
Interest, Corporation Tax and Other	0.5	-0.8	2.4
<b>Free Cash Flow</b>	<b>2.0</b>	<b>-7.3</b>	<b>-8.4</b>
Flows related to Acquisitions	0.0	-6.7	-7.7
Flows related to Financing Operations	4.6	4.7	8.2
<b>Total Cash Flow</b>	<b>6.6</b>	<b>-9.2</b>	<b>-7.9</b>
Cash Flow Available at Opening	14.3	22.2	22.2
Cash Flow Available at Closing	20.9	12.9	14.3
Long-term Borrowings	-14.1	-6.0	-9.5
<b>Net Cash at Closing</b>	<b>6.8</b>	<b>7.0</b>	<b>4.8</b>

<sup>3</sup> Available cash less financial borrowings (excluding additional consideration for ImagoTag of €2.4m payable in 2016)

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## Working Capital Requirement

After the deterioration in the WCR in 2014 related to the start of the new ERP, the operating WCR improved as expected In H1 2015 (+€3.3m) in particular thanks to a strong reduction in stocks (-€4.5m against the end of 2014) linked to the transformation efforts of the supply chain. Trade receivables remained high due to an invoicing peak at the end of Q2. Trade payables were higher because of supplies for deliveries in Q3.

H2 should show more significant improvements, thanks to the continuation of the efforts to recoup trade receivables and streamline the supply chain.

## Investments

R&D and industrial investments totaled €4.5m<sup>4</sup> in the first half year:

- €2.1m in R&D was devoted to the convergence of the multi-protocol radio platforms (Multicom) and the finalization of the new software platform Jeegy-S brought about by the merger of SES and Imagotag solutions, the integration of a cloud architecture with new functions of business analytics, NFC interactivity, geo-localization and planograms. The converged new software and communication platform has now been successfully installed in a first series of new stores;
- €1.4m was invested in industrializing the color e-paper range in the production units in China as well as setting up a new unit for assembling premium products in Eastern Europe as part of the construction of our global supply chain;
- €1.0m was applied to continuing the ERP project and information systems.

## 4. Prospects: Substantial Growth in Sales Revenue and Marked Upturn in Profitability for the Second Half Year

Thierry Gadou, Chairman-CEO of Store Electronic Systems, stated:

*"After a sluggish 2014, marked by a difficult economic situation with large retailers braking and slowing down investments, the delayed and/or postponed projects turned out favorably for SES which crossed the €100m threshold of orders placed, doubling its previous record of the 1<sup>st</sup> half year of 2013. New significant deployments have been agreed on for France, Germany, Scandinavia, Spain and Russia, reflecting the growing movement by European retailers toward digital technology. The sales revenue of the 1<sup>st</sup> half year does not yet reflect this strong momentum: in particular the low volumes of deliveries in the first quarter, coupled with the adverse impacts of exchange rates, largely explain the substantial fall in operating profitability in H1.*

*Thanks to the business momentum of the first half-year, SES expects substantial growth of its sales revenue in the second half year both in France and abroad, particularly in Germany. This growth should be reflected by a marked upturn in our profitability, so that despite the negative impact of exchange rates even more sensitive than those the first semester, SES's financial year 2015 should record operating result earnings close to those of last year."*

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**The H1 2015 half-yearly report is available online on Store Electronic Systems' website, in the investors area.**

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<sup>4</sup> Total capital assets in the 1st half year also include 0.2 of receivables related to participations (non-consolidated USA subsidiary), i.e. a total of €4.7m shown in the cash flow table

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## About Store Electronic Systems

Store Electronic Systems is the leader in Electronic Shelf Labeling systems (ESL) for large-scale food and non-food retailers. The Group designs, markets and installs all the system's components (software and communication platform, displays, mounts), thus providing clients with a turnkey solution. The range of products and services offered by SES allows retailers to manage pricing dynamically, while significantly improving store productivity and developing new contactless uses for consumers.

Store Electronic Systems is listed on Compartment C of Euronext™ Paris.

[www.store-electronic-systems.com](http://www.store-electronic-systems.com)



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