

2015 annual results

- > **Acceleration in sales growth (+37%)**
- > **Current operating profit of €4.5 million, down from 2014 as announced**
- > **Buoyant increase in cash flow (+€12.3 million)**
- > **Dynamic growth and improved profitability expected in 2016**

Store Electronic Systems (Euronext: SESL, FR0010282822), specialist in digital solutions for physical stores and a global leader in electronic shelf-labeling systems, today announces its financial results for the year to December 31, 2015.

IFRS P&L statement in €m	2015	2014	Δ
Sales (*)	111.2	81.2	+30.0
Current Operating Profit	4.5	6.5	-2.0
as a % of sales	4.1%	8.0%	-390 bp
EBIT (**)	2.7	4.1	-1.4
as a % of sales	2.4%	5.0%	-260 bp
EBITDA	9.0	8.8	+0.2
as a % of sales	8.1%	10.8%	-270 bp
Net profit	1.3	3.1	-1.8
as a % of sales	1.2%	3.8%	-260 bp

(*) The difference between the definitive sales figure and the sales figure published on 01/15/16 is due to deliveries at year-end being booked for FY 2016 rather than for FY 2015

(**) EBIT includes a -€0.7m tax adjustment provision associated with 2010-2012 R&D Tax Credit (disputed by SES-imagotag)

SES-imagotag accelerated its growth in 2015, in terms of both sales (€111.2m, +37%) and booked orders (€225m, +180%), strengthening its technological, industrial and commercial leadership in the electronic labeling market.

As announced, profitability was down compared with 2014 due to the increase of new large key accounts (with lower margins at the start of the cycle), the impact of the stronger dollar and the increase in expenses related to the full-year integration of imagotag. Operating profit was also affected by a provision associated with a tax adjustment associated with 2010-2012 R&D Tax Credit (which is disputed by the Group).

Cash flow improved sharply over the year (+€12.3m) thanks to the optimization of Working Capital Requirements. At the end of the year, the Company had €17.1m in net cash position, compared with €4.8m by the end of 2014.

For 2016, SES-imagotag is targeting a strong sales growth, in line with its solid 2015 performance, and an improvement in profitability.

Growth in activity

Over the 2015 financial year, SES-imagotag recorded sales of €111.2m¹, up +37% compared with 2014. This dynamic was notably due to a major breakthrough in the German market, although every European region recorded sales growth.

In 2015, worldwide booked orders reached a record high of €225m (+180%). This performance reflects the growing adoption of digital labeling abroad, notably in specialized non-food distribution, and the SES-imagotag group's sales momentum.

Operating profit

Current operating profit (COP) was €4.5m in 2015, down -€2.0m compared with 2014 following the slow start of the year and the weak level of current operating profit recorded over the first half (€0.8m). However, over the second half of the year current operating profit reached €3.7m.

The current operating margin (COP/Sales) was 4.1% over the year as a whole, down 4 percentage points on 2014, mainly due to pressure on the contribution margin.

After taking into account other non-current operating income and expenses (detailed below), current EBITDA is €9.0m, up +€0.2m (+2.3%) compared with 2014, and EBIT is €2.7m, down -€1.4m compared with 2014, mainly due to an adjustment provision related to the 2010-2012 R&D tax credit review (-€0.7m).

Contribution margin²

The contribution margin was €33.0m in 2015 vs. €30.8m in 2014, and was thus up 7%. The ratio however was down 8.2 percentage points to 29.7% (vs. 37.9% in 2014) due to the combined effects of a mix of a high number of major deployment contracts and new products yet to benefit from industrial economies of scale, i.e., over 60% of international sales came from new products. These mix effects were accentuated by the substantial strengthening of the US dollar.

Operating costs

Core operating costs came to €23.6m over the year, up €3.9m (+20%) compared with 2014, mainly as a result of the full-year integration of imagotag within the Group's scope and the strengthening of international resources.

Amortization and current provisions totaled €5.0m, up €0.4m on the year.

Thus, the current operating expenses/sales ratio, (including amortization and provisions) improved dramatically, from 30% of sales in 2014 to less than 26% in 2015 (-420 bp). As the Company's current structure is sized to accelerate its international expansion, the aim is to continue improving this expenses ratio as export zones outside Europe concurrently reach critical mass.

Other (non-current) operating income and expenses totaled -€1.8m, and notably included reorganization costs (-€0.3m), the amortization of intangible assets relative to the allocation of imagotag's acquisition price to technology (-€0.3m) and provisions relative to long-standing receivables (-€0.2m). In addition to the above, there was also a -€0.7m tax adjustment provision associated with 2010-2012 R&D Tax Credit. The main projects targeted by this tax audit were deemed to be eligible for R&D Tax Credit, but the external subcontractor expenses required to achieve them

¹ The difference between the definitive sales figure and the sales figure published on 01/15//16 is due to deliveries at year-end being booked for FY 2016 rather than for FY 2015

² Contribution margin = gross margin minus variable sales costs (transport, commissions, external installation services, etc.)

were not validated by the Ministry for Higher Education and Research's expert. The Group is disputing this decision and will appeal.

Net profit

There was a financial loss of -€0.8m, essentially as a result of foreign exchange gains and losses. The tax burden came to -€0.6m, thus giving a net profit of €1.3m, or 1.2% of sales.

IFRS consolidated income statement

€m	2015	2014	Δ
Sales	111.2	81.2	30.0
Contribution margin	33.0	30.8	2.2
as a % of sales	29.7%	37.9%	-820 bp
HR	-15.1	-12.7	-2.4
SG&A	-8.5	-7.0	-1.5
Current EBITDA	9.4	11.1	-1.7
as a % of sales	8.4%	13.7%	-530 bp
Amortization and Provisions	-5.0	-4.6	-0.4
Current Operating Profit	4.5	6.5	-2.0
as a % of sales	4.1%	8.0%	-390 bp
Other operating income & expenses	-1.8	-2.4	0.7
EBITDA	9.0	8.8	0.2
as a % of sales	8.1%	10.8%	-270 bp
EBIT	2.7	4.1	-1.4
as a % of sales	2.4%	5.0%	-260 pb
Financial result	-0.8	1.6	-2.4
Corporation tax	-0.6	-2.6	2.0
Net profit	1.3	3.1	-1.8
as a % of sales	1.2%	3.8%	-260 bp

Cash flow

Total available cash flow at December 31 was €32.6m, and the amount of long term loans was €15.5m. The net cash position was thus €17.1m at December 31, 2015, compared with €4.8m at end-2014, thanks to a net cash generation of €12.3m over the year driven by a substantial improvement in the Working Capital Requirements structure. Indeed, WCR improved from 62% of sales in 2014 to 34% in 2015, thanks to the efforts undertaken to collect client receivables and rationalize the supply chain.

Investments totaled €8.5m in 2015, almost even with 2014, and were essentially devoted to R&D (€3.9m), the construction of a new supply chain (€1.9m), and the continuation of work on the ERP project and Group IT systems (€1.7m).

€m	2015	2014	Δ
EBITDA	9.0	8.8	
Change in Operating WCR	12.7	-11.0	
Investments	-8.5	-8.6	
Interest, corporation tax and other	-2.0	2.4	
Free Cash Flow	11.2	-8.4	
Cash Flow associated with Acquisitions	0.0	-7.7	
Cash Flow associated with Financing Operations	7.1	8.2	
Total Cash Flow	18.3	-7.9	
Cash position at start of period	14.3	22.2	
Cash position at end of period	32.6	14.3	
Long term loans	-15.5	-9.5	
Net cash position at end of period	17.1	4.8	+12.3

Regarding the Group's 2015 performances and 2016 prospects, **Thierry Gadou, Chairman and CEO of the SES-imagotag Group**, says:

"SES-imagotag accelerated its growth in 2015, reaping the benefits of the Company's in-depth transformation over the last three years with an almost total renewal of the product and software offer, industrialization, international expansion, opening of new market segments in non-food trade (pharmacy, beauty, electronics, home appliances, etc.), acquisition and successful integration of imagotag, a high value-creating operation for the Group from every point of view.

Traditional trading is currently under pressure. All around the world the increase in costs and taxes, the price war and online competition is weighing on the revenue and margins of physical in-store networks. However, we are convinced that, by adopting digital technology, our clients will be able to reposition their connected stores at the heart of tomorrow's omni-channel trade and make it a source of substantial profitability due to the substantial reservoir of information and interaction of in-store shopping. Thanks to innovation, SES-imagotag is gradually establishing itself as the privileged partner of trade's digital transformation.

Building our international presence, innovating, investing in our industrialization and our competitiveness... these are the strategic priorities that have enabled SES-imagotag to become a global high-tech leader.

It is true that this priority on international growth and innovation is impacting our short-term profitability. Our organization is sized to be able to support a substantial international expansion and some zones have yet to reach critical size. The launch of the numerous new products that have enabled us to undertake our international acceleration is also impacting our gross margin due to the relatively weak industrial economies of scale at the start of the life cycle. Finally, the productivity gains we have achieved have been partly offset by the substantial strengthening of the American dollar over the last year.

Going from being a local leader to a global leader requires these efforts and long-term vision, but we should let no doubt exist that strong growth, global leadership and a technological lead will go hand in hand with high profitability.

In the meantime we have already worked hard in 2015 to improve our cash flow and meet our targets by generating over €12 million in net cash over the year, thanks to a drastic improvement in Working Capital Requirements.

Growth, innovation and industrial competitiveness remain our priorities, in accordance with the main lines of our Leapfrog strategic plan. In 2016, we are targeting a buoyant sales growth, in line with our solid 2015 performance. We will also pay particular attention to those factors contributing to improving profitability this year."

About Store Electronic Systems (trademark: SES-imagotag)

Store Electronic Systems is a specialist in digital solutions for physical stores and a global leader in electronic shelf-labeling systems. The Group designs and markets all of its system's components (software, radio-frequency infrastructure, labels and mounts), thus providing its clients with a turnkey solution. The range of products and services offered by SES-imagotag allows retailers to manage pricing dynamically, significantly improve store productivity and develop new contactless uses for consumers.

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

Ticker: SESL – ISIN: FR0010282822 – Reuters: SESL.PA – Bloomberg: SESL



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