

SES-imagotag: H1 2020 Results

- H1 sales slightly down at €118m (-2.5% vs. H1 2019)
- Profitability affected by the impact of COVID on the geographic mix
- H1 EBITDA at -€0.2m (€1.9m at constant exchange rates) vs. €3.1m in H1 2019
- Net Income at -€9.8m (-€8.4m at constant exchange rates) vs. -€5m in H1 2019
- Strong increase in Order entries, up +34% year-on-year to €165m
- Reaffirming expectations of a return to growth in Sales and improvement in profitability in H2, assuming no further major spikes in COVID in Q4

Thierry Gadou, Chairman and CEO, SES-imagotag Group commented: "Against a background of an unprecedented health and economic crisis, we succeeded in maintaining Sales at similar levels in H1 to the corresponding period in 2019, while recording a sharp increase in order entries.

The impact of the COVID-19 crisis curtailed our growth and affected margins, weighing more heavily on the parts of Europe where we have the highest penetration of innovative solutions and value-added services. In order to offset this temporary setback, we have reduced operating costs. These actions have mitigated the impact of the crisis on our profitability.

The other direct impact of the crisis was an increase in working capital as an inevitable consequence of delays or postponement in the implementation of some roll-out contracts. In order to preserve cash flow and see the Group through this difficult and unpredictable period, SES-imagotag secured a French State Guaranteed Loan (PGE) of €30m in July.

Throughout this crisis, order entries have remained very strong, reaching a new rolling 12 months record of nearly €380m, reaffirming our confidence in a return to growth in H2. This return to growth, combined with our continued efforts to be more productive and to proactively control costs, should allow us to regain our financial equilibrium, and above all to accelerate our growth in 2021, notably with the market launch of major innovations."

	H1 2020			H1 2019	Δ
	Reported	2020/2019 EUR/USD exchange rate impact	At 2019 EUR/USD rate	Reported	Reported H1 2020 / reported H1 2019
Sales	118.4	0.8	117.6	121.4	-2%
EBITDA	(0.2)	(1.4)	1.1	3.1	-107%
<i>% of revenues</i>	<i>-0.2%</i>		<i>1.0%</i>	<i>2.5%</i>	<i>-2.7 pt</i>
Net Income / (Loss)	(9.8)	(1.4)	(8.4)	(5.0)	100%
<i>% of revenues</i>	<i>-8.3%</i>		<i>-7.0%</i>	<i>-4.0%</i>	<i>-4.5 pt</i>

Sales stabilized, Orders at new record high

Sales activity began to recover halfway through the Second Quarter as lockdown measures were gradually eased.

H1 Sales were € 118.3m (-2.5%) or € 244.5m on a 12-month rolling basis, which was still up +7.2% on the figure a year ago.

In France, the decline was more marked with sales of €20m (-40%), due to the strict lockdown measures, similar to the experience across the whole Southern European region.

International sales were up +12% thanks to strong performances in Northern Europe (Germany, Scandinavia) and North America. SES-imagotag is now benefiting from its increasingly global footprint, which has had a positive impact on the Group's overall resilience.

Record order entries. The rate of new contracts signed showed excellent momentum throughout the first half of the year, with order entries reaching € 165.6 million, an increase of + 34% compared to H1 2019. Rolling 12 months order entries set a new record at nearly €380m, up +60% YoY, providing further evidence that retailers see the digitization of stores as an increasingly important strategic priority.

Impact of Covid-19 on Profitability

	H1 2020			H1 2019	Δ
	Reported	2020/2019 EUR/USD exchange rate impact	At 2019 EUR/USD rate	Reported	Reported H1 2020 / reported H1 2019
Sales	118.4	0.8	117.6	121.4	-2%
Variable Costs Margin	22.6	(1.4)	23.9	25.6	-12%
<i>% of revenues</i>	19.1%		20.3%	21.1%	-2.0 pt
Opex	(22.8)		(22.8)	(22.5)	1%
EBITDA	(0.2)	(1.4)	1.1	3.1	-107%
<i>% of revenues</i>	-0.2%		1.0%	2.5%	-2.7 pt
Depreciation	(8.6)		(8.6)	(6.2)	38%
Current EBIT	(8.8)	(1.4)	(7.4)	(3.1)	180%
<i>% of revenues</i>	-7.0%		-6.3%	-2.6%	-7 pts
Non-recurring / non-cash items	(0.8)		(0.8)	(0.8)	-4%
EBIT	(9.6)	(1.4)	(8.2)	(4.0)	146%
<i>% of revenues</i>	-8.1%		-6.9%	-3.2%	-5.4 pts
Financial Income / (Loss)	(2.5)		(2.5)	(1.0)	n.a.
Tax	2.3		2.3	(0.0)	n.a.
Net Income / (Loss)	(9.8)	(1.4)	(8.4)	(5.0)	100%
<i>% of revenues</i>	-8.3%		-7.0%	-4.0%	-4.5 pt

The COVID-19 crisis has affected our operational performance in various ways. Sales have been lower than expected, particularly in parts of Europe with the highest penetration of innovations and services, in particular France and Southern Europe. In addition, the slowdown has led to a build-up of inventory right across the sector and contributed to further downward pressure on prices.

H1 saw a fall of the Variable Costs Margin (VCM) of -12% to €22.6m, year-on-year compared to H1 2019. The fall was due to the following factors: 1) a negative currency impact of € 1.4m due to the deterioration of the EUR/USD exchange rate in H1 2020 v H2 2019, 2) lower sales volumes and 3) an erosion in the rate of VCM.

The VCM rate, down by 2 points, was due to the adverse movement in the EUR/USD exchange rate between H1 2020 and H1 2019 which accounted for 1.2 points of margin erosion. The negative shift in the geographic mix referred to above, as a result of COVID 19, also weighed on the margin rate and was only partially offset by the measures the Group took elsewhere in the business to improve margins.

In order to offset these adverse factors, current operating expenses were reduced over the Half to €22.8m, i.e. -€1.2m (-5.1%) compared to the previous Half Year, bringing them back down to the level they were in H1 2019. The operating ratio was also stable at 19% of Sales and should resume its downward trajectory as sales start to increase again in the second half of the year.

Overall, the Group's EBITDA for the first half of the year was -€0.2m (€1.9m at constant exchange rates) compared to €3.1m for the first half of 2019. The decline was almost entirely accounted for by the deterioration in the Variable Costs Margin as result of COVID 19.

Depreciation was €2.4m higher in H1 2020, compared with H1 2019, reflecting the significant level of investment in 2019 and the recurring operating income (recurring EBIT) was -€8.8m versus €3.1m in H1 2019.

Non-recurring expenses were -€0.8m, the same as in H1 2019. These costs mainly include the amortization of intangible assets related to past acquisitions.

The financial result was -€2.5m vs. -€1.0m in H1 2019, due to the net change of the EUR/USD exchange rate impact, the effect of IFRS 16 adjustments, as well as financial interests related to the bond issued in H2 2019.

In this adverse context, the net result is -€9.8m, down compared to H1 2019 (-€5.0m). Because of COVID, efforts to improve profitability which were undertaken during this First Half will take longer to show through in the numbers.

Three main factors should contribute in the second half of the year to reach the objective of an improvement in profitability in 2020 despite the COVID crisis: 1) the return of growth; 2) a rebalancing of the business mix and 3) costs remaining flat with a corresponding improvement in operational leverage.

Sequential comparison with the previous half year (H1 2020 vs. H2 2019)

Comparing H1, 2020 with the previous Half, demonstrates how COVID has impacted the business and the measures taken to mitigate that impact.

Sales were down -6% and the Variable Costs Margin was down -9%. The VCM rate was down by -0.8 of a percentage point, with margin improvements being more than offset by the COVID geographic mix impact. Operating costs fell -5%, with the result that the fall in EBITDA was limited to -€1.1m (0.9 to -0.2 of a percentage points). The Net Loss widened 20% from -€8.2 million to -€9.8 million.

	H1 2019 Actual	H2 2019 Actual	H1 2020 Actual
Sales	121.4	126.2	118.4
VCM	25.6	24.9	22.6
%	21.1%	19.7%	19.1%
OPEX	(22.5)	(24.0)	(22.8)
%	-18.5%	-19.0%	-19.2%
EBITDA	3.1	0.9	(0.2)
%	2.5%	0.7%	-0.2%
Net Income	(5.0)	(8.2)	(9.8)

Working Capital and Cash Flow: COVID-19

The Covid-19 crisis led to an increase in the working capital requirement and in cash consumption:

- This was an inevitable consequence of delays or postponement in the implementation of contracts which result in a build-up in inventories. Additionally, soaring air freight costs during the pandemic have accelerated the shift towards the use of seaborne transport leading to an increase of an additional six weeks' worth of inventory.
- Payment of receivables was also affected by the fact that the sales recovery was heavily loaded towards the end of the first Half, delaying invoicing and cash collection, as well as by a deterioration in customer payment terms.
- Overall, Working Capital was €25.0m higher at the end of the First Half compared with December 31, 2019.

Investments were €15.5m, mainly made up of capitalized R&D, SAP deployment project, as well as industrial investments.

Net debt excluding rental debts (IFRS 16) was €26.2m at the end of June 2020, compared to €17.3m at Dec. 31st, 2019, i.e. a net cash consumption of €43.5m for the first half year of 2020.

In the course of the First Half of the Year, the Group took a number of additional measures to mitigate the impact on the business of continued economic uncertainty and to maintain financial flexibility in anticipation of a recovery in sales activity in the Second Half of the Year.

These measures included obtaining a 12-month waiver for the debt covenants relating to the €40m of bonds due 2023 and €10m due 2025. The waiver was effective from June 30, 2020 and relates to the requirement not to exceed a net debt / consolidated EBITDA of 3.5x.

In addition, the Company drew down 90% of the State guaranteed loan facility in order to further strengthen the Group's liquidity position. The €30m facility (prêt garanti par l'Etat, PGE), which is arranged via mainstream credit institutions, has a maturity of one year and an option to extend by up to 5 years.

Group cash flow statement

In €m	H1 2020	FY 2019
EBITDA <i>before IFRS16 impact</i>	(1.5)	1.7
Capex	(15.5)	(36.2)
Change in Working Capital	(25)	41.2
Operational Cash Flow	(42.0)	6.7
Financial Result	(1.9)	(2.3)
Tax		
Others	(0.4)	(4.0)
Cash Flow	(43.5)	0.4
Capital Increase		34.3
Change in Cash / Net Debt	(43,5)	34.7
Net Cash / (Debt)	(26.2)	17.3
Cash	27.2	73.1
Debt (before IFRS16 impact)	(53.4)	(55.8)
Debt (<i>after IFRS16 impact</i>)	(73.8)	(76.5)

Outlook

Subject to future developments of the Covid-19 pandemic during Q4, SES-imagotag remains confident about prospects of a return to growth in the full year, thanks to a recovery in sales in the Second Half, as well an improvement in full-year profitability relative to 2019.

The outlook for accelerated growth in 2021 is already positive, especially as several major innovations, whose pilot projects and launches were delayed by the pandemic, will soon be commercialized.

This crisis has also exposed the urgency of the need to digitalize physical stores and it should expand the potential market for the SES-imagotag Group in the medium term.

About SES-imagotag and the VUSION Retail IoT platform

SES-imagotag is a fast-growing retail tech company, listed on the 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; and 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 real-time accurate information on product availability and location, allowing for reduced inventory, out-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, pathfinding and cashier-less scan & pay features.

www.ses-imagotag.com

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

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