

SES-imagotag: Strong earnings growth in H1 2022

- > H1 sales at €286m, up +41% (vs. H1 2021)
- > EBITDA of €25m, +68% growth vs. H1 2021; EBITDA margin at 8.9% (+1.5 pts vs 7.4% in H1 2021)
- > Net income of €4.9m (+380% vs H1 2021)
- > Total 2022 sales expected at €600m+, with increasing profitability

€m	H1 2022	H1 2021	Variations
Sales revenue	285.9	202.8	+41%
Variable cost margin	61.1	42.3	+44%
As % of revenue	21.4%	20.8%	+0.6 pts
Operating expense	(35.7)	(27.2)	+31%
As % of revenue	-12.5%	-13.4%	-0.9 pts
EBITDA	25.3	15.0	+68%
As % of revenue	8.9%	7.4%	+1.5 pts
Depreciation and amortization	(13.0)	(11.3)	+15%
Recurring EBIT	12.3	3.7	+233%
As % of revenue	4.3%	1.8%	+2.5 pts
Non-recurring or non-cash items	(3.9)	(1.3)	+203%
Operating income	8.4	2.4	+249%
As % of revenue	2.9%	1.2%	+1.7 pts
Net financial (expense)/income	(1.1)	(0.9)	+22%
Tax	(2.4)	(0.5)	+381%
Net income	4.9	1.0	+380%
As % of revenue	1.7%	0.5%	+1.2 pt

Thierry Gadou, Chairman and CEO of the SES-imagotag group, commented: "I am very pleased with the commercial momentum and the results delivered by the SES-imagotag team in the first half of 2022. As retailers across the globe continue to accelerate the adoption of digitized tools to optimize the performance of their physical stores, the powerful advantages provided by our VUSION IoT platform and the value-added solutions it encompasses are being increasingly recognized. This recognition is fueling our top-line acceleration as well as the strength and ability of our business model to drive margin increase and profitability growth. Our strong EBITDA performance during the first semester of this year was due primarily to the expanding deployment of our value-added solutions in tandem with our disciplined approach to managing production costs and operating expenses, particularly in light of this year's complex operating context, and inflationary and forex pressure. As always, we are grateful to our clients for their preference, and to our employees for their commitment and hard work.

We are on target to meet our guidance for the year, and to reach the objectives outlined in our VUSION 23 strategic plan. I look forward to sharing our vision and objectives for the next phase of our growth at our Capital Markets Day on November 9th."

H1 2022 Sales growth of +41%

In the first half of 2022, sales reached a record-breaking €285.9m, a +41.0% increase compared to the same period last year, thus reconfirming the very dynamic top-line growth reported in Q1 2022. Sales for the second quarter of the year increased by +39.6% to €165.7m.

On a 12-month rolling basis, sales grew by +35.0% to €505.9m, with Europe and RoW contributing equally to this growth rate.

Order entries in H1 2022 increased +24.5% to €385.0m, compared to €309.3m last year, driven by strong momentum in North America and Germany.

Europe

Sales in Europe during the first half of the year totaled €221.3m, a growth rate of +40.8%, fueled by very strong activity in Germany as well as dynamic sales growth in France and southern Europe.

On a 12-month rolling basis, sales in Europe increased by +34.9%.

Rest of World (RoW)

H1 2022 sales in RoW increased to €64.0m, a growth rate of +40.0% versus the previous year, with Q2 top-line growth of +45.3% underscoring an accelerating trend. This growth was accounted for primarily by North America, which is the company's fastest growing region, with recently-signed contracts such as the one with Mattress Firm, a leading bedding company with 2,300 stores across the U.S.

On a 12-month rolling basis H1 2022 in RoW increased by +34.9%.

Software, Services and Non-ESL Solutions (VAS)

Sales of SES-imagotag's software, services and non-ESL solutions (abbreviated as VAS) continued their very dynamic growth trajectory during the first half of the year. The VAS top-line grew +65% to €45m and accounted for 15.8% of total H1 2022 sales, an increase of +2.5 points compared to the 13.3% share of revenue at mid-year 2021.

Strong profitability growth

The **variable cost margin (VCM)** grew to €61.1m in the first half of 2022, compared to €42.3m in H1 2021, for an increase of 44% and a margin rate of 21.4% of sales revenue in H1 2022 versus 20.8% in H1 2021. This +0.6 point gain was achieved in spite of the inflationary pressures and unfavorable foreign exchange trends during the reporting period.

The variable cost margin rate increase was driven mainly by the following factors:

- A more favorable mix of VAS versus ESLs (+2.5 percentage points, as explained above);
- Price increases for the company's products in order to partially offset the higher cost of electronic components;
- An unfavorable trend in the USD/EUR exchange rate, which had a negative 3-point impact on MCV in H1 2022 as compared to H1 2021.

Within this context, the improvement in the MCV margin rate is particularly noteworthy.

Operating expenses decreased from 13% of sales in the first half of 2021 to 12% in H1 2022, underscoring the company's progress toward its operating expense target of 10% of sales revenue, to be reached in 2023, as outlined in the VUSION-23 strategic plan.

Most of the increase in operating expense is accounted for by payroll expenses, which increased by 31% in the first half of 2022 versus the year ago period.

The Group's **EBITDA** grew to €25.3m for the first half of 2022, compared to €15.0m in H1 2021. The EBITDA margin increased to 8.9% of sales revenue in the first half of 2022, versus 7.4% of sales in H1 2021. This EBITDA improvement – both in absolute value and as a percentage of sales – was driven by the improvement in the variable cost margin rate and the absorption of operating expenses, which increased in a disciplined manner, within the context strong sales growth.

Depreciation and Amortization expense increased by 15% between H1 2021 and H1 2022, from -€11.3m to -€15m, reflecting the significant levels of investment made in R&D and innovation during the period (V:Cloud, V:Ads, V:Captana, V:IoT, new generations of technology and shelf labels), industrial projects, digitalization process projects (Salesforce, Microsoft), and performance improvement (SAP project).

Non-recurring and non-cash items totaled -€3.9m in the first half of 2022, encompassing the amortization of goodwill allocated to the technology gained in the acquisition of Imagotag, equivalent to -€0.4m, and the cost (with no cash impact) of the performance-based share plans for the Group's employees (IFRS 2) totaling -€3.5m.

Net finance expense/income

A net financial loss of -€1.1m was recorded in the first half of 2022, compared to a net financial loss of -€0.9 in H1 2021, made up primarily of:

- -€1.1m attributable to interest expense;
- +€0.1m attributable to net foreign exchange impact;
- -€0.1m due to the impact of IFRS standard 16.

The Group's pre-tax income totaled +€7.3m in H1 2022, compared to +€1.5m in the year ago period. The tax charge for the first half of 2022 was -€2.4m, versus a charge of -€0.5m for the first six months of 2021.

Net income

Net income in the first half of 2022 was positive and totaled €4.9m, of which -€0.1m is attributable to minority shareholders, versus net profit of €1m in H1 2021.

Investments

€m	H1 2022	H1 2021
Capitalized R&D and IT expenses	12.8	10.2
Industrial investments	1.4	1.3
ESL as a service	0.5	2.3
Other	1.1	0.5
TOTAL CAPEX	15.8	14.3

During the first half of 2022, the Group's investment expenditure totaled €15.8m, compared to €14.3m in H1 2021, for an increase of 10%.

Capitalized R&D expense remains the company's largest area of investment. These investments are essential to maintaining the Group's global leadership position and competitiveness, and for developing the products and services that will ensure profitable growth going forward.

Investments in information technology enable the digitization of business processes and SES-imagotag's ability to become a totally cloud-based enterprise, thus ensuring ongoing optimization in productivity and service quality for the company's clients.

In total, capitalized R&D and IT expenses increased by 25% between the first half of 2021 and the first half of 2022. Most of this increase is attributable to R&D expense, while the capitalized IT expense remained stable between the two reporting periods.

During the first half of 2022, the Group did not sign any new “ESL as a service” contracts. Only contracts signed before 2022, and for which the execution has taken place in 2022, had a slight impact on the investment expense in of H1 2022.

Consolidated cash flow for the period ended June 30, 2022

Millions of euros	H1 2022	H1 2021	For reference: FY 2021
EBITDA	24.2	13.9	30.0
Investment	(15.8)	(14.3)	(30.0)
Change in working capital	(22.1)	(9.1)	3.3
Operating cash flow	(13.7)	(9.4)	(3.2)
Net financial gain (loss)	(0.8)	(0.8)	0.2
Tax	(0.3)	(0.1)	(1.1)
Other	2.9	1.2	4.8
Total cash flow	(12.0)	(9.1)	0.6
Financial investments	(1.7)		(0.5)
Capital increase / cash obtained from capital increases in subsidiaries where the equity stake is less than 100%		4.1	4.3
Change in net debt before IFRS 16	(13.7)	(5.0)	(4.5)
Net Cash / (Net Debt) before IFRS16	(5.4)	(1.1)	8.3
Cash and cash equivalents	75.7	80.5	89.8
Financial debt (before impact of IFRS 16)	(81.1)	(81.6)	(81.5)
<i>Financial debt (after IFRS 16 impact)</i>	<i>(88.4)</i>	<i>(89.0)</i>	<i>(88.7)</i>
Change in net cash / (debt) before IFRS16	(13.7)	(5.0)	

Net financial debt (excluding the impact of IFRS 16) was -€5.4m at June 30, 2022 compared to net cash of €8.3m at December 31, 2021, for a net use of cash of €13.7m during the first six months of 2022. In light of the strong growth delivered during the period, this level of cash use is considered moderate and fuels the ongoing growth of EBITDA, disciplined investment expense and working capital, which at June 30, 2022, are equivalent to less than 10% of annualized sales revenue.

Events after the close of the period

Changes to the JV in China and new strategic and equity partnership with BOE YiYun

On July 22, 2022, the company's Board of directors approved the transfer of the 51% share that SES-imagotag holds in its joint venture in China in exchange for 9.5% of BOE-YiYun, a Chinese tech sector company. BOE-YiYun, whose largest shareholder is BOE, specializes in digital solutions for the culture, education and retail sectors. The company was recently spun off from BOE, with several top-tier Chinese investors taking shareholding positions in BOE-Yiyun. The CEO of BOE-YiYun is George Yao, a non-executive director representing BOE on SES-imagotag's Board, and the main architect of the 2017 strategic and equity partnership between SES-imagotag and BOE.

BOE-Yiyun is a fast-growing company that is expected to seek a stock-market listing in coming years. At the conclusion of this operation, the SES-imagotag/BOE JV will be integrated into BOE-YiYun in order to accelerate the company's growth in the retail sector. SES-imagotag will thus become a significant shareholder and strategic partner of BOE-YiYun, a rapidly expanding company that possesses all of the attributes required for success in the Chinese market.

This operation is subject to a number of regulatory obligations in China, and is expected to be finalized by the end of Q3 2022, with the following expected main impacts to the consolidated financial statements:

- An accretive effect on the Group's consolidated EBITDA and EBITDA margin;
- A decrease of approximately €20m in consolidated cash (transferred with the JV).

This operation will not affect previously communicated guidance for 2022 and 2023.

Outlook

Amidst a complex geopolitical context, ongoing stress on global supply chains, the Group remains confident in its ability to deliver 2022 global top-line growth and €600m+ in annual sales, and in its continued profitability trajectory – in spite of inflationary pressure – via the ongoing execution of its business model and its strong value-added proposition.

About SES-imagotag and the VUSION Retail IoT platform

SES-imagotag is a world leader in smart digital labels and IoT solutions for physical retail, serving over 300 large retailer groups around the world in Europe, Asia and North 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 the agility, precision and accuracy of prices, whilst ensuring the omnichannel synchronization of prices, product information and marketing campaigns. The platform developed by SES-imagotag also optimizes in-store order preparation and restocking. 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.

SES-imagotag supports the United Nations' Global Compact initiative and has received in 2022 the Gold Sustainability Rating from EcoVadis, the world's reference of business sustainability ratings

SES-imagotag is listed in compartment B of the EuronextTM Paris

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Glossary

EBITDA

The Group considers EBITDA to be a performance indicator that presents operating income before depreciation and amortization of fixed assets, restated for some items during the period that affect comparability with previous reporting periods. It also represents a good approximation of the cash flow generated by operating activities before taking into account investments and changes in working capital. Consequently, restatements include significant non-recurring items or items that will never lead to a cash disbursement

Net Financial Debt / Net Cash

These indicators define, respectively, the Group's net financial debt or net cash position, calculated based on the following consolidated balance sheet items: (-) Loans (-) Current and non-current lease liabilities (IFRS16) (+) Cash and cash equivalents.

If the result is negative, the level of Loans exceeds the level of Cash and Cash equivalents, and is therefore considered net debt or net financial debt. If, however, the result is positive, then the level of Loans is lower than the level of Cash and Cash equivalents and is considered Net Cash.

Change in Working Capital

Change in working capital is calculated based on the following items from the consolidated balance sheet: (+) Receivables (gross value, before depreciation) (+) inventory and works-in-progress (gross value, before depreciation) (-) supplier payables and related accounts (+) other current debt (-) other non-current liabilities (-) other debt and adjustment accounts
