ses imagotag vusion

Press release September 11, 2023

SES-imagotag: Strong earnings growth and positive cash flow in the first half of 2023

- > **Revenue of €380m grew +33% vs. H1 2022**
- > **Variable cost margin of €92m, at 24% of revenue (+2.8 pts vs. H1 2022)**
- > **EBITDA of €43.5m, +72% YoY; EBITDA margin of 11.4% (+2.5 pts vs. H1 2022)**
- > **Positive free cash flow of €35m in H1 2023**
- > **Ongoing profitability growth expected in H2 2023**

In €m	**H1 2023**	**H1 2022**	**% Change**
Revenue	**380.7**	**285.9**	**+33%**
EBITDA	**43.5**	**25.3**	**+72%**
% of sales	*11.4%*	*8.9%*	*+2.5pts*
Free Cash-Flow	**34.5**	**(13.7)**	**+48.2**

Audit procedures currently being finalized

Thierry Gadou, Chairman and CEO of the SES-imagotag group, commented**:** *"The first half of 2023 was a watershed moment in SES-imagotag's history and marked the very successful start of our new 5-year strategic plan Vusion '27.*

During the period we achieved strong profitable growth, acquired new large clients who are among the most admired retailers in the world and made decisive breakthroughs in the United States as well as strategic acquisitions in data analytics and AI. In addition, we finalized the Digital Shelf System (DSS) program, an innovation which allowed us to enter into a historical contract with Walmart. We also experienced positive cash flow and improvements in our operating performance.

As previously announced, the strong growth delivered in H1 2023 drove significant improvement in our financial results. Economic performance improved across all ESL and VAS[1] *business lines and ESL margins increased, thanks to the already perceived trend towards normalized electronic components and manufacturing costs at the end of last year. The improvement in the mix of VAS activities also contributed to our margin improvement. During the first half of the year, we also strengthened our portfolio of VAS solutions with the acquisitions of Belive and Memory, two companies providing cutting edge solutions in data analytics and AI.*

Despite a challenging macroeconomic environment, we note with satisfaction that many retailers in the world continue to invest in the digital transformation of their main assets: physical stores. Innovation at the service of this transformation is the engine of our growth.

For the second half of the year, we anticipate ongoing strong growth in line with our objective of achieving full-year revenue of €800m and continued improvement in our profitability."

[1] *VAS= revenues from software, services and non-ESL solutions. VAS is the acronym for Value-Added Solutions & Services. VAS revenue includes: VUSION Software licenses and SaaS platform; maintenance contracts; professional services (installation, set-up fees, project management, engineering services for custom solutions, etc.); Captana revenues from cameras, sensors and SaaS; Pulse and In the Memory Data Analytics SaaS platform; Engage solution (video rail, digital signage and V-ads SaaS platform); and Industrial IoT solutions (PDi Digital).*

Strong revenue growth

Total revenue in H1 2023 grew +33% versus the previous year, for a total of €380m, in line with the annual target. Order entries during the first half of the year grew +35% versus H1 2022 to €518m, driven notably by wins in the United States.

This performance was achieved despite a challenging environment for retailers, with high inflation, lower consumption in volume terms, and strong downward pressure on margins.

Sales momentum by region

Revenue in the **EMEA** region (Europe, Middle East, Africa) reached €318m, representing strong growth of +44% versus H1 2022. The first half of the year saw the continuation of large deployments in Europe, as well as the recent signing of several large contracts.

Top line in the **Americas and Asia-Pacific region** totaled €63m in the first half of the year, a slight decrease versus the period one year ago, but still delivering strong growth of +27% on a like-for-like basis.[2] This growth was fueled principally by North America, where the company registered a number of successes in the first half of the year, including a large contract with Walmart, and several new deployment contracts across food retail, non-food retail and convenience store chains.

Software, Services and Non-ESL Solutions (VAS)

In H1 2023, VAS revenue totaled €53m, a +18% growth rate compared to H1 2022, and equivalent to 14% of the company's total revenue for the period.

Within the context of the challenging macroeconomic environment, some retailers slowed down or postponed implementing new projects thus resulting in slower VAS sales growth.

Nevertheless, the recurring portion of VAS sales – although still a small proportion of total VAS top-line -- has continued to grow strongly, thus improving the average profitability of the VAS offer.

[2] *As a reminder, SES-imagotag's H1 2023 consolidated revenue no longer includes revenue from the Chinese subsidiary (sold in September 2022) which totaled €15m in H1 2022.*

Strong profitability growth

In €m	H1 2023	H1 2022	% Change
Sales	**380.7**	**285.9**	**+33%**
Variable Cost Margin (VCM)	**92.2**	**61.1**	**+51%**
% of sales	*24.2%*	*21.4%*	*+2.8pts*
Operating expenses	(48.7)	(35.7)	+36%
% of sales	*-12.8%*	*-12.5%*	*+0.3pts*
EBITDA	**43.5**	**25.3**	**+72%**
% of sales	*11.4%*	*8.9%*	*+2.5pts*
Depreciation and amortization	(15.5)	(13.0)	+19%
Non-recurring or non-cash items	(5.3)	(3.9)	+35%
Operating income	**22.7**	**8.4**	**+171%**
% of sales	*6.0%*	*2.9%*	*+3.1pts*
Net financial income / expense	(0.5)	(1.1)	-54%
Tax	(7.1)	(2.4)	+193%
Economic net income[3]	**15.1**	**4.9**	**+209%**
% of sales	*4.0%*	*1.7%*	*+2.3pts*
Fair value revaluation of warrants	76.4		
Net income	**91.5**	**4.9**	**+1,771%**
% of sales	*24.0%*	*1.7%*	*+22.3pts*

Audit procedures currently being finalized

The **variable cost margin** (VCM) was the main driver of profitability growth. VCM totaled €92.2m in H1 2023, compared to €61.1m in H1 2022, or +51% growth and a margin rate of 24.2% compared to 21.4% in H1 2022 (+2.8 points).

This improvement in the VCM ratio was driven primarily by:

- ESL margin improvement, resulting from a normalized electronic component cost environment following two years of increases related to the COVID pandemic, optimized procurement, and higher volumes. This momentum should continue into the second half of 2023.

[3] *See glossary*

- The margin on VAS business lines has also improved due to a more favorable mix driven by higher growth of subscription services and other recurring revenue streams.

The growth in the VCM rate should continue through the coming semesters and will be the main driver of the improvement in the EBITDA margin.

Operating expenses increased from 12.5% of revenue in H1 2022 to 12.8% in H1 2023.

This slight growth in the operating expense ratio is due to the acquisition of the companies Memory and Belive which were completed during the first half of 2023. The revenue models of the acquired companies are typical of software companies, with higher margins and higher operating expenses. However, these acquisitions are accretive to SES-imagotag's EBITDA margin.

Excluding the impact of these acquisitions, the operating expense ratio continued to improve and totaled 11.7%, or a -0.8 point reduction compared to H1 2022.

EBITDA totaled €43.5m in H1 2023, compared to €25.3m in the first half of 2022.

The EBITDA margin grew to 11.4% in H1 2023, compared to 8.9% in H1 2022, or an increase of +2.5 points over the 12-month period. This improvement, in both absolute and percentage terms, is due primarily to the improvement in the VCM ratio, which in turn was driven by margin improvement in both the ESL and VAS business lines.

Depreciation and amortization expense increased by +19% between H1 2022 and H1 2023, from -€13.0m to -€15.5m. This increase reflects the significantly higher level of R&D and innovation investment (Cloud, Engage, Captana, IoT, new color e-Paper range), industrial projects, IT and process digitalization (Salesforce, Microsoft), and performance improvement (SAP project).

Non-recurring and non-cash items totaled -€5.3m in H1 2023, made up of the cost of the employee performance share plans (IFRS 2) totaling -€4.4m (with no cash impact) and the expenses related to the acquisition of Belive and Memory for a total of -€0.9m.

Operating income

The Operating Income (EBIT) totaled €22.7m in H1 2023 vs. €8.4m in H1 2022 an increase of +171%

Net financial expense

The net financial expense in H1 2023 was -€0.5m, compared to a net financial expense of -€1.1m in the first half of 2022. It was accounted for mainly by:

- debt-related financial expense of -€4.6m;

- net impact of exchange gains and losses totaling +€4.7m; and

- IFRS 16 restatement of -€0.1m.

Pre-tax income totaled +€22.2m in H1 2023, compared to +€7.3m in H1 2022. The tax charge in H1 2023 was -€7.1m compared to a charge of -€2.4m during the first six months of 2022.

Economic net income

Economic net income (net income excluding the impact of the Walmart warrants) in H1 2023 is a positive €15.1m, of which -€0.1m is allocated to minority interests, compared to a net profit of €4.9m in H1 2022.

Impact of the fair value revaluation of warrants

On June 2, 2023, the Shareholders' Meeting approved the grant of 1,761,200 stock warrants to Walmart. Under IFRS standards the fair value of such warrants must be assessed. The fair value was calculated and estimated at a total of €163m as of June 2, 2023. A contract asset and a financial debt totaling this amount were booked in the consolidated financial statements. The contract asset will not be revalued and will be amortized on a prorated basis, in line with the revenues generated by Walmart during the roll-out phase of the Vusion platform in the Walmart stores. The financial debt will be revalued at every closing of accounts, based notably, on the number of warrants still to be vested and the share price of SES-imagotag. Any change in the valuation of the warrants to be vested will impact the financial income in the consolidated financial statements. As of June 30, 2023, the share price of SES-imagotag decreased vs. June 2, 2023 which also decreased the fair value of the warrants granted to Walmart. The new valuation generated €76m of financial income which was booked in SES-imagotag's consolidated financial statements. The Group will disclose the impact of such IFRS restatements on the revenues and the net income at every closing.

Net income

Net income is a positive €91.5m of which -€0.1m is allocated to minority interests compared to net profit of €4.9m in H1 2022.

Strong cash flow improvement, in spite of strategic investments in R&D and external growth

In H1 2023, SES-imagotag generated positive free cash flow of €34.5m, compared to a net cash burn of €13.7m in H1 2022.

This positive free cash flow generation primarily reflects improvements in profitability and working capital, which should continue into the second half of the year driven by:

- Growth in the company's EBITDA before IFRS16 which increased by €17.8m (+73%) from €24.2m in H1 2022 to €42.0m in H1 2023;

- The optimization of operating working capital (accounts receivable, inventory, supplier debt) which decreased by almost €10m between year-end 2022 and June 30, 2023, despite the strong growth in operating activity. This improvement was driven primarily by the optimization of inventory levels (-€5m between year-end 2022 and June 30, 2023) and customer receivables that represented 47 days of revenue compared to 60 days of revenue at year-end 2022.

Consolidated cash-flow statement

In €m	**H1 2023**	**H1 2022**	
EBITDA *(before IFRS16)*	42.0	24.2	
Capex	(48.0)	(15.8)	
R&D	*39.6*	*9.0*	
Of which Digital Shelf System (DSS)	*31.9*	*3.3*	
IT	*5.3*	*3.8*	
Industrial	*1.6*	*1.4*	
Other	*1.6*	*1.7*	
Change in Working Capital	128.8	(21.6)	
Operational Cash-Flow	***122.7***	***(13.2)***	
Net financial expense	(1.1)	(0.8)	
Tax	(0.9)	(0.3)	
Others	0.6	2.4	
Financial Investments	(91.5)	(1.7)	
Impact of the changes in consolidation scope	4.7		***FY 2022***
Change in Net Debt *(before IFRS16 and IFRS9)*	**34.5**	**(13.7)**	***(48.8)***
Net Cash / (Debt) *before IFRS16 and IFRS9*	**(6.0)**	**(5.4)**	***(40.5)***
Cash	193.4	75.7	*33.9*
Debt (before impact of IFRS16 and IFRS9)	(199.4)	(81.1)	*(74.4)*

During the first half of the year, SES-imagotag made several strategic investments:

The **acquisitions of Memory and Belive** have been valued on an EBITDA multiple that is lower than SES-imagotag's, for close to €90m.

R&D and industrial investments grew as compared to H1 2022, marking the final development phase of the latest generation Digital Shelf System (DSS), including large-scale operating tests of prototypes and pilot manufacturing lines. It is this revolutionary platform -- in terms of materials (hardware), software and radio – that led to the signing of the large ESL roll-out contract with Walmart in the US in H1 2023, and that should strengthen SES-imagotag's competitiveness and capacity for profitable growth in the years to come. The intensive investment phase of this program has been finalized.

IT investments enabled the extension of SAP coverage to a larger number of affiliates and also focused on cybersecurity. Concerning the latter, SES-imagotag received ISO 27001 certification in H1 2023.

Investment totaled €48.0m in H1 2023, compared to €15.8m in H1 2022. As the DSS program winds down, investments will decrease sharply in H2 2023 to end the year at around 8% to 9% of revenue and are expected to decrease to a target range of 5% to 7% of revenue from 2024 onwards.

In addition to the structural improvement in working capital, SES-imagotag has benefited from growth in client down payments, in line with the high level of order entries which totaled €0.5 bn in H1 2023.

Excluding the H1 2023 extraordinary and non-recurring items discussed (Walmart down payment, the acquisition of Belive and Memory, and investments in the DSS program) SES-imagotag generated free cash flow of €20m in the first half of the year.

Improved capital structure

At the end of June, the company had cash of €193m.

Financial debt (before IFRS 16 and IFRS 9) totaled €199m, for net financial debt of €6m and a net debt/12-month EBITDA ratio of 0.1x, compared to 0.7x at year-end 2022.

Outlook

For the second half of 2023, SES-imagotag anticipates revenue in line with the annual target of €800m, with a strong Q4 both in terms of sales and order entries, as well as continued profitability growth driven by ongoing improvements in manufacturing costs.

For 2024, the company anticipates ongoing strong growth, driven in particular by an acceleration of sales in the United States, and growing profitability.

Investor Relations contact:

Labrador - Raquel Lizarraga / +33 (0)6 46 71 55 20 / raquel.lizarraga.ext@ses-imagotag.com

Press contacts

Europe:
Publicis Consultants
Audrey Malmenayde / +33 6 76 93 11 45 / audrey.malmenayde@publicisconsultants.com
Louis Silvestre / +33 6 24 31 06 76 / louis.silvestre@publicisconsultants.com

International:
Kekst CNC

Jeremy Fielding / jeremy.fielding@kekstcnc.com
Nick Capuano / nicholas.capuano@kekstcnc.com
Arnaud Salla / arnaud.salla@kekstcnc.com

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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 Net Financial Debt / Net Cash
It is the change between the Net Financial Debt / Net Cash between 2 periods. It also corresponds to the Free Cash-Flow of the period.

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) (-) trade payables (+) current taxes (+) other current receivable (-) other debt and accrual accounts.

Economic Net Income
This indicator defines the Net Income before the impact deriving from the revaluation under IFRS of the fair value of the warrants to be vested.