solocal

Press release

Boulogne-Billancourt, 26 July 2023

H1 2023 financial results

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- €186 million **revenue**, i.e -7.5% vs. H1 2022
- **Recurring EBITDA** down to €34 million, i.e. -39% vs. H1 2022
- €9.8 million **operating free cash flows** (excluding rents)
- €63.3 million **cash** on balance sheet as at 30 June 2023
- **Net financial debt**[4] of €181 million as at 30 June 2023 with a leverage ratio of 2.4x[4]

Q2 2023

- €92.7 million **revenue**, i.e -7% vs. Q2 2022
- **Order backlog** at 211 million € as at 30 June 2023 (vs. €221.7 million as at 31 March 2023)
- **Stable ARPA[2]** vs 31 March 2023 (c. 1,340 €)
- Decrease in customer base[1] at 278k customers vs. 281k as at 31 March 2023
- Increase in churn[5] rate to 18.3% (vs 14.9% as at 30 June 2022 and 17.4% as at 31 March 2023)

2023 outlook

- **H2 2023 revenue expected slightly lower than H1 2023 revenue** (€186 million), below 2022
- Despite continued cost control efforts, **2023 EBITDA margin is expected in line with H1 2023 EBITDA margin** (c.18%)

Recent financial developments

- **Obtention of the required majority of Bond and Mini Bond holders** to defer to 30 September 2023 the payment of Bonds and Mini Bonds coupons due on 15 June and 15 September 2023
- **Opening of mandat ad hoc proceedings** in order to facilitate discussions with financial creditors
- Discussions with financial creditors are scheduled to begin in September 2023 on the basis of a strategic plan currently in progress

1. Revenue and backlog analysis

In million euros	H1 2022	H1 2023	Change	Q2 2022	Q2 2023	Change
Total revenue	**201.2**	**186.0**	-7.5%	**99.7**	**92.7**	-7.1%

H1 2023 consolidated revenue amounts to €186.0 million, down –7.5% compared to H1 2022. Q2 2023 amounts to **€92.7 million** (-7.1% compared to Q2 2022).

In H1 2023, revenue from renewal of existing contracts contributes to €103.4 million, **i.e. 56% of the revenue,** up +€10 million compared to H1 2022. In Q2 2023, this contribution amounts to **55% of the revenue**, compared to 53% in Q2 2022.

Revenue from acquisition (new customers, development and migration of old contracts into subscription mode) amounts to €82.6 million and **represents 44% of the revenue,** down -€25 million compared to H1 2022.

These trends are mainly driven by:

- a sales performance impacted by difficulties in hiring and retaining fieldsales force;
- an increase in churn rate not yet reflecting the efforts in term of customer relations.

In million euros	30/06/2022	30/09/2022	31/12/2022	31/03/2023	30/06/203	Change
Digital order backlog	**239.9**	**234.5**	**221.6**	**221.7**	**211.0**	**-4.8%**

Order backlog amounts to €211 million as at 30 June 2023, down -4.8% compared to 31 March 2023.
Based on Management best estimate, approximately 59% of this order backlog should flow into H2 2023 revenue, 38% in 2024 and 3% in 2025.

Solocal revenue for Q2 2023 and H1 2023 is presented below:

In € million	Q2 2022	Q2 2023	Change	H1 2022	H1 2023	Change	Allocation
Connect	23.8	25.0	7.5%	47.5	50.5	6.2%	27%
Booster	60.6	53.0	-14.8%	123.2	106.3	-13.7%	57%
Websites	15.3	14.7	-4.4%	30.5	29.2	-4.2%	16%
Total revenue	**99.7**	**92.7**	**-7.1%**	**201.2**	**186.0**	**-7.5%**	**100%**

NB: Solocal group has modified the presentation of its revenue break-down. The full contribution of the "Priority Ranking" offer is now included in the "Booster offers" range (formerly split between Connect & Booster).

Booster activity (57% of revenue) which includes advertising activities is down -13.7% compared to H1 2022 due to:

- a decline in the contribution of Priority Ranking offer,
- an acquisition of new customers below expectations,
- an uncertain economic environment.

In Q2 2023, Booster revenue amounts to €53 million, down -14.8% compared to Q2 2022.

In H1 2023, **Connect activity** which includes digital presence grew by 6.2% compared with H1 2022, driven in particular by the Connect Essentiel offer. It represents 27% of H1 2023 revenue. Q2 2023 contributes to this growth with revenue up +7.5%.

Websites activity represents 16% of H1 2023 revenue. It is impacted by a slight decrease in Q2 2023 (-4.4%) due to difficulties encountered by the salesforce in acquiring new customers and maintaining existing ones.

2. Sales performance, customer base, churn and ARPA

H1 2023 sales performance measured by order intakes amounts to €177.5 million euros compared to €197.2 million in H1 2022. Renewal order intakes decreased from €112.5 million in H1 2022 to €106 million in H1 2023. Order intakes from the acquisition decreased by -16% and amount to €71.4 million (more than half of which comes from the enterprise segment).

Solocal **customer base**[1] evolved as follows in Q2 and H1 2023 :

	Q2 2022	Q1 2023	Q2 2023	*Change*
Customer base - BoP (a)	**304k**	**288k**	**281k**	***-7k***
+ Acquisitions	*9k*	*8k*	*12k*	*3k*
- Churn	*-14k*	*-16k*	*-15k*	*-*
Customer base - EoP (a)	**299k**	**281k**	**278k**	**-4k**
Net change BoP - EoP	**-5k**	**-7k**	**-4k**	**3k**
Churn(b) - *in %*	-14.9%	-17.4%	-18.3%	-0.9pts

(a) BoP = beginning of period / EoP = End of Period
(b) Churn rate : number of churned customers on a LTM basis divided by the number of customers BoP

Customer base[1] stood at 278k customers as at 30 June 2023, down -1.3% compared to 31 March 2023, resulting from:

- a level of new customers acquisition below expectations (+12k customers);
- a loss in customers (- 15k customers) slightly down compared with 31 March 2023.

Churn rate (b), stands at 18.3% as at 30 June 2023, vs 14.9% as at 30 June 2022 and up from 17.4% as at 31 March 2023.

Group ARPA[2] stands at €1,340 as at 30 June 2023, stable compared to 31 March 2023 and 30 June 2022 (approx. €1,350).

3. Profit and Loss

In € million	H1 2022	H1 2023	Change	Change
Total Revenue	**201.2**	**186.0**	**(15.2)**	**-7.6%**
External expenses	(55.2)	(60.5)	(5.3)	+9.7%
Personnel expenses	(90.3)	(92.5)	(2.2)	+2.4%
Recurring EBITDA	**55.8**	**34.0**	**(21.8)**	**-39.1%**
Non-recurring items	0.9	(1.4)	(0.5)	+58.6%
Consolidated EBITDA	**56.6**	**32.6**	**(24.0)**	**-42.4%**
Depreciation and amortisation	(27.8)	(27.1)	0.7	-2.4%
Operating income	**28.8**	**5.4**	**(23.4)**	**-81.4%**
Financial income	(14.4)	(16.9)	(2.5)	+17.4%
Income before tax	**14.5**	**(11.4)**	**(25.8)**	**-178.7%**
Corporate income tax	(3.8)	(12.1)	(8.3)	n.a.
Consolidated Net income Group	**10.6**	**(23.6)**	**(34.2)**	**-**

H1 2023 EBITDA amounts to €32.6 million, and **recurring EBITDA to €34 million** (down –39.1% compared to H1 2022).

Recuring EBITDA margin as a percentage of revenue amounts to 18.3%, a -9pts decrease compared to H1 2022. This decrease results from an **increase in personal expenses** (+€2.2 million compared to H1 2022). The **reduction in support functions headcount** did not offset the increase in personnel expenses resulting from the increase in salesforce headcount in H1 2023.

External expenses amount to €60.5 million in H1 2023, compared to €55.2 million in H1 2022. Restated for expenses related to PagesJaunes advertising campaign and the increase in "media spend" (due to an unfavorable product mix), external expenses remained stable compared to H1 2022.

Non-recurring items amount to -€1.4 million in H1 2023

Depreciation and amortisation amount to -€27.1 million in H1 2023, stable compared to H1 2022 (-€27.8 million).

Financial result amounts to -€16.9 million in H1 2023, mainly composed of "cash-out" financial interests on financial debts (-€11 million).

Income before tax amounts to -€11.4 million in H1 2023 vs. +€14.5 million in H1 2022.

Corporate income tax booked in H1 2023 amounts to -€12.1 million, mainly including an impairment of deferred tax assets on tax loss carry forward.

Consolidated net income stands at -€23.6 million in H1 2023 vs. €10.6 million H1 2022.

4. Cash Flow Statement and Debt

In € million	**H1 2022**	**H1 2023**	**Change**	**Change**
Recurring EBITDA	**55.8**	**34.0**	**(21.8)**	**-39.1%**
Non-monetary items included in EBITDA	0.2	(1.4)	(1.6)	n.a.
Net change in working capital	(14.9)	(11.3)	3.6	24.2%
- Of which change in receivables	*(2.3)*	*(4.3)*	*(2.0)*	*87.0%*
- Of which change in payables	*(5.3)*	*(8.1)*	*(2.8)*	*-52.8%*
- Of which change in other WCR items	*(7.4)*	*1.2*	*8.6*	*n.a.*
Acquisitions of tangible and intangible fixed assets	(15.4)	(11.6)	3.8	24.7%
Recurring operating free cash flow (excluding rents)	**25.6**	**9.8**	**(15.8)**	**-61.7%**
Non-recurring items	(1.6)	(0.7)	0.9	56.3%
Disbursed financial result	(9.2)	(6.0)	3.2	34.8%
Corporate income tax paid	(2.2)	0.4	2.6	n.a.
Others	0.1	0.2	0.1	n.a.
Free cash flow	**12.8**	**3.6**	**(9.2)**	**-71.9%**
Increase (decrease) in borrowings	(2.0)	(2.0)	-	n.a.
IFRS 16 & Others	(8.6)	(9.1)	(0.5)	-5.8%
Net change in cash	**2.1**	**(7.5)**	**(9.6)**	**n.a.**
Net cash & cash equivalents BoP	80.2	70.8	(9.4)	-11.7%
Net cash & cash equivalents EoP	**82.3**	**63.3**	**(19.0)**	**-23.1%**
Operating free cash flows[3]	**15.5**	**0.1**	**(15.4)**	**(1.0)**

Change in working capital requirements amounts to -€11.3 million in H1 2023 compared to -€14.9 million in H1 2022. This negative change in working capital comes from:

- -€4.3 million change in receivables working capital due to a low sales performance in H1 2023 and a churn of former customers whose payment terms were more favorable;
- -€8.1 million change in payables working capital slightly up compared to H1 2022
- +€1.2 million change in "Other" working capital items. As a reminder, H1 2022 was impacted by the repayment of "passif fiscal et social" of -€4 million.

Capex amounts to €11.6 million in H1 2023, down -24.7% compared to H1 2022.

The recurring operating free cash flow (excluding rents) is positive, at +€9.8 million in H1 2023 compared to +€25.6 million in H1 2022, resulting from a strong decrease in recurring EBITDA.

Cashed-out financial expenses amount to -€6 million in H1 2023 vs. -€9.2 million in H1 2022. It corresponds to the payment of Bonds and Mini Bonds coupons, interests on RCF and interests on "Prêt ATOUT". Despite the increase in interest rates, the decrease results from the postponement to 30 September 2023 of the payment of Bonds and Mini Bonds coupons due 15 June 2023. As a reminder, Solocal announced on 13 July 2023, that it has obtained the required majority of Bond and Mini Bond holders to defer to 30 September 2023 the payment of Bonds and Mini Bonds coupons due 15 June and 15 September 2023.

Free Cash Flow is positive at +€3.6 million in H1 2023 compared to +€12.8 million in H1 2022.

-€2 million **borrowings** reflect the amortization of the BPI loan.

The change in « Others » by **-€9.1 million** mainly derives from the cash-flow corresponding to the financial amortization of capitalised rights of use related to the application of IFRS 16 (i.e. rents paid by the group).

Group net change in cash is therefore negative and amounts to **-€7.5 million** in H1 2023. As at 30 June 2023, **Group cash position amounts to €63.3 million** vs €70.8 million as at 31 December 2022.

Net financial debt amounts to **€181 million as at 30 June 2023** (excluding IFRS 16), a slight decline compared to €171 million as at 31 December 2022. It includes **Bonds maturing in 2025** (respectively €177 million and €19 million), the fully drawn RCF maturing in September 2024 (€34 million), the "Prêt ATOUT" loan (€9 million), the accrued interests for around €6 million and a net cash position of €63.3 million.

The application of IFRS 16 impact on net financial debt is -€56 million as at 30 June 2023. This derives from the reclassification of rental expenditures in rental obligations as part of liabilities on the balance sheet.

Net leverage[4] as defined in the documentation pertaining to Solocal's 2025 maturity Bonds is **2.4x** as at 30 June 2023 (to which IFRS 16 does not apply). The EBITDA to interest expenses ratio[4] (ISCR) amounted to **3.07x**.

The group **complies with the financial covenants[4]** requested by the Bonds documentation.

5. 2023 Outlook

Considering H1 2023 impacted by inflationary pressures and difficulties in retaining VSE/SME customers in an uncertain environment, the Group expects **H2 2023 revenue slightly below H1 2023 revenue (€186 million),** below 2022.

Despite a continued cost control effort**, EBITDA margin is expected to be in line with H1 2023 level.**

6. Recent financial developments

On 7 June 2023, Solocal Group announced its intention to initiate discussions with its financial creditors and solicitate a consent to defer to 30 September 2023 the payment of the coupons, of its Bonds and Mini Bonds due 15 June and 15 September 2023.

The postponement has been obtained on 13 July 2023 (cf. press release on the same date), i.e during the cure period which ran from 15 June to 15 July 2023.

However, as this agreement has not been obtained by 30 June 2023, and in accordance with the IAS1 accounting standard, the whole bond debt has been presented as “current” in the Group’s consolidated financial statements. The same treatment was applied to the RCF due to a cross-default clause.

Having obtained the agreement after 30 June 2023, the debt maturity has been readjusted to their contractual maturity, i.e 31 March 2025 for Bond debt. Accordingly to the RCF documentation, Solocal Group notified the RCF lenders its intention to repay them in shares in September 2023, it being specified that if they refuse, the maturity of the RCF debt is automatically extended by a further year. The RCF lenders are contesting this extension of maturity considering that this option could not be offered, especifically due to the price of Solocal Group shares. Under the terms of the contractual documentation, Solocal Group considers that in these circumstances, the maturity of the RCF debt is deferred to the 30 September 2024.

Discussions with financial creditors are scheduled to begin in September 2023 on the basis of a strategic plan currently in progress.

7. Financial statements

The condensed half-year consolidated financial statements as at 30 June 2023 have been prepared on a going concern basis, based on the company cash flow forecast for the next twelve months. This forecast takes into account the fact that the maturities of the RCF and the bonds (*see 6. Recent financial developments*) are later than this date.

However, Solocal calls attention to the maturity of its debt and the risks associated with its refinancing. Indeed, the debt has two main maturities: €34m at the end of September 2024 for the RCF and €195m at March 2025 for the bonds. Solocal therefore considers that the refinancing risk factor has increased. This situation creates a material uncertainty regarding the going concern status. In this context, the Group is working on various options.

8. Detail on the nominal value of Solocal Bonds

As at 15 June 2023, the value of Bonds with ISIN code is FR0013237484 amounts to €176,689,747.06 euros (amount of €334,125,321 adjusted with a pool factor of 0,5288128015230).

As at 15 June 2023, the value of Bonds with ISIN code is FR0013527744 amounts to €18,743,702.88 euros (amount of €17,777,777 adjusted with a pool factor of 1,054333333333).

Next date in the financial calendar

- Q3 2023 on 26 October 2023

Due to rounding, numbers presented throughout this, and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Notes

[1] The customer base represents the number of customers with whom the Group haas generated at least one euro in revenue over the past 12 months
[2] ARPA calculated as LTM revenue divided by the average customer base over the past 12 months
[3] Operating Free Cash Flows : Recurring EBITDA (including IFRS 16 Rents) + non-monetary items included in EBITDA + Change in WC – Capex – non recurring items
[4] Calculation based on documentation of Solocal Bonds (with a 2025 maturity)
[5] Churn rate: number of churned customers on a LTM basis divided by the number of customers BoP

Definitions

Order intake: Orders recorded by the salesforce, that give rise to a service performed by the Group for its customers

Order backlog: The order backlog corresponds to the outstanding portion of revenue yet to be recognised as at 30 June 2022 from order bookings such as validated and committed by customers. For subscription-based products, only the current commitment period is considered

Secured revenue: This is the recognition of future revenue from past order intake as validated and committed by customers to date (net of cancellations already noted) and which should give rise to a future service

ARPA: Average Revenue per Advertiser, based on the last twelve months order intake for Solocal SA

Winback: acquistion of a customer who has been lost in the previous 12 months

Churn: number of churned customers on a LTM basis divided by the number of customers BoP

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