

FY2019 Results

Improved Global Financial Performance

- Improved profitability driven by topline growth
- Strong position in ongoing industry digital transformation

ESI Group, Paris, France, (ISIN Code: FR0004110310, Symbol: ESI), releases its results for the financial year starting on February 1st, 2019 and ending on December 31st, 2019 (11 months), approved by the Board of Directors on March 19th, 2020. As decided at the Annual General Meeting of July 18th, 2019, the Group now closes the fiscal year on December 31st of each year, and therefore also presents its new twelve months proforma results.

Cristel de Rouvray, Chief Executive Officer of ESI Group, comments: *“In FY’19 we increased growth while focusing on resource allocation to better control our costs. Our improved new fiscal year financial performance is the early result of a multi-year fundamental transformational effort that has comforted ESI’s position as the critical strategic partner for world class industrial leaders striving to accelerate their global digital transformation. Across key economic sectors, these leaders have maintained their commitment to pursue investing in our Hybrid Twin™ virtual prototyping solutions. This is the solid foundation of our confidence in our mid- and long-term business outlook. In the short-term, the disastrous coronavirus pandemic is expected to somewhat impact our H1. However, the resilience of our business model largely anchored on renewable and mission critical software licenses will help us manage full year risks. When industry recovers from this exceptional crisis, digital ways of working will be accelerated globally, fully dependent on ESI’s solutions to virtually anticipate and manage asset performance in-service, much beyond the traditional PLM certification target of the brand-new product.”*

(€m)	FY 2019 12m proforma	FY 2018 12m proforma	Change	Change cer
Revenue	146.2	135.7	7.8%	5.6%
Licenses	115.9	106.9	8.4%	6.0%
Services	30.3	28.8	5.4%	3.8%
Gross margin	107.4	97.5	10.1%	7.6%
%revenue	73.4%	71.9%		
EBITDA (before IFRS 16¹)	12.3	8.1	52.2%	39.9%
%revenue	8.4%	6.0%		
EBIT (before IFRS 16)	8.3	3.6	126.6%	100%
%revenue	5.7%	2.7%		
IFRS 16 – Impacts				
- EBITDA	5.4	Nd		
- EBIT	0.2	Nd		

¹ New IFRS 16 - Leases, applicable to financial years commencing on or after January 1, 2019

As a pioneer in virtual prototyping solutions and a key player in industrial digital transformation, ESI Group empowers manufacturers to navigate increasing complexity by replacing real tests and prototypes with highly accurate, predictive and representational virtual prototypes. ESI Group's software solutions are built from decades of global expertise in physics of materials, essential to the creation of authentic virtual prototypes and to the anticipation of asset performance in-service. ESI's customers are an enviable list of industry leaders worldwide, who benefit from enhanced innovation, competitiveness, performance and productivity thanks to ESI Group's most innovative solutions.

Improved financial results

As a reminder, full year sales increased +7.8% to €146.2 million (+5.6% cer), driven by an 8.4% growth in software license activity yielding stronger business recurrence. This topline growth has a positive impact on financial performance as the Group maintained control of the costs.

Gross margin improvement

Gross margin rose to €107.4 million (up 10,1% improving by +1.5 points to 73.4% vs. 71.9%). This increase was driven by the rise in Licensing gross margin to 86.2% (vs. 84.5% in proforma 2018) and the increasing proportion of License sales in the revenue mix.

Lower growth in other operational costs

The Group maintained its efforts to control other operational expenses (+5.6%, +€5.2m) to support overall revenue increase and long-term development. Note that €1.5m of the €5.2m cost increase is linked to exchange rate (4.0% cer).

These operational expenses break down as follows:

- Sales & Marketing: remains nearly stable as a ratio of total sales, 30.3% (vs 31.0%).
- R&D costs: remains stable in absolute terms, reaching €31.7 million (vs. €31.3 million) after considering the Research Tax Credit (CIR) and capitalization of development costs. These expenses now represent 27.4% of Licensing revenue (vs. 29.2%).
- General & Administration: increased by €2.6m €23.2m vs. €20.6m, partly due to some exceptional expenses.

Improved profitability

EBITDA (before IFRS 16) increased to €12.3 million (vs. €8.1 million), now 8.4% of total sales (vs. 6.0%). EBIT (before IFRS 16) rose to €8.3 million (vs. €3.6 million), now 5.7% of total sales.

Cash position

The Group's available cash position rose to €20.2 million at December 31, 2019 (vs. €12.4m end of December 2018).

Financial debt reached €49.6 million (vs. €51.6 million) and Net debt decreased to €29.4 million (vs. €39.2 million). Gearing (net debt to equity) was 34.4% (vs. 57.7%).

At 31 December 2019, ESI Group held 6.3% of its capital in "treasury" shares.



Stronger business collaboration based on sharpened value proposition on a handful of priority industries and solutions

2019 was a year of dynamic business development worldwide, driven by engagements with global industry leaders, whether long-term customers or accounts that have recently surfaced as strategic partners.

These industrial actors are increasingly held to a result, an “outcome”: the service that their machine/car/part etc., offers, such as mobility, hours of maintenance-free flight or number of landing events, making them accountable for environmental and societal impact and for the experience “in service”. This entails being able to anticipate the way their industrial product or asset operates in numerous and uncertain use-conditions, thus shifting the standards of success to performance *in use* rather than standard product development efficacy.

ESI’s mission is to enable industrialists to commit to these outcomes, in a handful of major industries – Automotive & Ground Transportation, Aeronautics & Aerospace, Energy and Heavy Industry. The Group has now organized its value proposition around specific outcomes for our customers:

- **Pre-certification:** enables gains in performance and productivity. Thanks to predictive models and process automation industrialists can meet certification requirements and other validation needs without relying on real tests.
- **Smart Manufacturing:** establishes the right manufacturing processes to meet performance indicators for both industrial products (for instance reducing weight) and for associated processes (for example controlling distortions or reducing waste).
- **Human Centric:** allows customers to implement an operator-centric approach to ensure the efficiency of assembly and maintenance operations, while facilitating the early identification of human safety or related problems and ways to improve production processes.
- **Pre-experience:** this is the most advanced solution to support industrial leaders who are the furthest along in their transformation towards the “outcome economy”. ESI enables them, as well as their future customers and asset operators, to “experience” a product, component, subsystem or system as it ages as part of an operational in-service solution and under numerous use conditions.

For example:

- **In Heavy Industry,** ESI helps an American aluminum provider validate the manufacturability of new products made with new materials like composites and design with new processes. For this new customer neither physical tests nor traditional simulation tools could ensure they met their cost, speed and performance targets. The use of our *Smart Manufacturing solutions* helps this innovator accelerate and secure their new developments.
- **In the Automotive Sector,** the collaboration between ESI Group and Gestamp illustrates how innovation and added-value solutions are the foundation of a lasting partnership as they helped Gestamp propose differentiated manufacturing processes and parts to their OEM customers. For nearly 10 years, ESI has equipped Gestamp with pre-certification solutions to help them achieve cost optimization, weight reduction and performance increase, which is especially important amid new developments like Electric Vehicles.
- **In Aeronautics,** an Aerospace German Tier1 supplier was convinced by the Hybrid Twin™ concept developed by ESI experts, to solve a complex challenge: test and validate, in record-time, the design and validation of their next generation landing gears while *pre-experiencing* a multitude of landing scenarios (design, weather, etc.) that impact gear performance in-service.

This approach by Industry, and within it by outcome, and anchored on the resiliency of industry leaders deeply committed to ESI, will be the cornerstone of the Group's value proposition, business development efforts and effective resource allocation and cost control.

Insights on the 11-month FY2019

All financial indicators representing ESI Group 11-month FY19 cannot be compared with FY18 as the perimeter changed. The results of this 11-month format does not reflect the performance of the company globally due to the absence of January, one of the months with heavier business activity.

On 11-month 2019 basis:

- Revenue: €102.2 million
- Growth margin: €68.3 million with 66.9% margin
- EBITDA before IFRS 16: -€18.1 million
- EBIT before IFRS 16: -€22.0 million
- Net Result: -€20.9 million

Upcoming events

2019 Results presentation
March 24, 2020

Q1 2020 Sales
May 12, 2020

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About ESI Group

Founded in 1973, ESI Group is a leading innovator in Virtual Prototyping solutions and a global enabler of industrial transformation. Thanks to the company's unique know-how in the physics of materials, it has developed and refined, over the last 45 years, advanced simulation capabilities. Having identified gaps in the traditional approach to Product Lifecycle Management (PLM), ESI has introduced a holistic methodology centered on industrial productivity and product performance throughout its entire lifecycle, i.e. Product Performance Lifecycle™, from engineering to manufacturing and in operation.

Present in more than 40 countries, and in major industrial sectors, ESI employs 1200 high level specialists. In 2019, its turnover was 146M€. ESI is headquartered in France and is listed on compartment B of Euronext Paris.

For further information, go to www.esi-group.com.

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Appendix 1

Consolidated financial statements

Annual results Press Release

23/03/2020

1. Consolidated income statement

<i>(in € thousands)</i>	December 31, 2019	January 31, 2019
Licenses and maintenance	75,320	109,836
Consulting	25,718	28,793
Others	1,159	784
REVENUE	102,197	139,413
Cost of sales	(33,873)	(37,907)
Research and development costs	(29,832)	(31,718)
Selling and marketing expenses	(38,841)	(43,042)
General and administrative expenses	(21,476)	(19,970)
CURRENT OPERATING RESULT	(21,825)	6,776
Other operating income and expenses	1	233
INCOME FROM OPERATIONS	(21,824)	7,010
FINANCIAL RESULT	(2,563)	(1,277)
Share of profit of associates	26	106
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS	(24,360)	5,839
Provision for income tax	3,446	(2,505)
NET INCOME BEFORE MINORITY INTERESTS	(20,914)	3,334
Minority interests	32	0
NET INCOME (GROUP SHARE)	(20,946)	3,334
Earnings per share <i>(in €)</i>	(4.06)	0.59
Diluted earnings per share <i>(in €)</i>	(4.01)	0.59

Statement of comprehensive income

<i>(In € thousands)</i>	December 31, 2019	January 31, 2019
NET INCOME BEFORE MINORITY INTERESTS	(20,914)	3,334
Other comprehensive income recycled to income		
Change in the fair value of hedging instruments	(12)	15
Translation differences	866	(534)
Other comprehensive income (loss) not recycled to income		
Actuarial gains and losses	(688)	(201)
INCOME AND EXPENSES RECORDED DIRECTLY IN EQUITY	166	(720)
COMPREHENSIVE INCOME	(20,748)	2,614
Attributable to Group equity holders	(20,792)	2,599
Attributable to minority interests	44	15

2. Consolidated balance sheet

<i>(in € thousands)</i>	December 31, 2019	January 31, 2019
ASSETS		
NON-CURRENT ASSETS	152,176	129,389
Goodwill	41,448	41,404
Intangible assets	62,139	61,811
Property, plant and equipment	5,633	6,101
Right-of-use assets ²	20,680	-
Investment in associates	1,099	1,083
Deferred tax assets	17,204	10,920
Other non-current assets	3,264	8,070
Cash-flow hedging instruments	6	0
CURRENT ASSETS	82,183	101,186
Trade receivables	44,733	65,131
Other current receivables	13,720	15,348
Prepaid expenses	3,489	2,620
Cash and cash equivalents	20,241	18,087
TOTAL ASSETS	233,655	230,575
LIABILITIES		
EQUITY	85,983	105,633
EQUITY (Groupe share)	85,912	104,863
Capital	18,055	18,054
Additional paid-in capital	25,833	25,818
Reserves and retained earnings	61,982	57,862
Net income (loss)	(20,946)	3,334
Translation differences	987	(205)
Minority interests	71	771
NON-CURRENT LIABILITIES	65,941	51,370
Long term share of financial debt	30,457	36,255
Non-current finance lease obligation	20,002	-
Provision for employee benefits	11,016	9,979
Deferred tax liabilities	3,761	3,738
Cash-flow hedging instruments	28	13
Other long term debt	677	1,385
CURRENT LIABILITIES	81,731	73,572
Short-term share of financial debt	19,143	8,801
Current finance lease obligation ¹	631	-
Trade payables	8,632	8,848
Accrued compensation, taxes and others short-term liabilities	24,230	30,560
Provisions for contingencies, risks and disputes	675	762
Deferred income	28,421	24,601
TOTAL LIABILITIES	233,655	230,575

² ESI Group has applied IFRS 16 for the first time as of February 1st, 2019. In accordance with the method adopted, the comparative financial information has not been restated.

3. Consolidated statement of changes in equity

<i>(In € thousands except number of shares)</i>	Number of shares	Capital	Additional paid-in capital	Net income, reserves and retained earnings	Translation differences	Equity attributable to parent company owners	Minority interests	Total Equity
AT JANUARY 31, 2018	6,016,442	18,049	25,782	56,460	349	100,638	844	101,483
Change in fair value of hedging instruments				15		15		15
Translation differences					(554)	(554)	20	(534)
Actuarial gains and losses				(196)		(196)	(5)	(201)
Income and expenses recognized directly in equity				(181)	(554)	(735)	15	(720)
Net income				3,334		3,334	0	3,334
COMPREHENSIVE INCOME				3,153	(554)	2,599	15	2,614
Proceeds from issue of shares	1,450	4	36			40		40
Treasury shares				(131)		(131)		(131)
Share-based payments				751		751		751
Transactions awith non-controlling interests				688		688	(89)	599
Other movements				276		276	1	277
AT JANUARY 31, 2019	6,017,892	18,053	25,818	61,197	(205)	104,861	771	105,633
Change in fair value of hedging instruments				(12)		(12)		(12)
Translation differences					848	848	18	866
Actuarial gains and losses				(682)		(682)	(6)	(688)
Income and expenses recognized directly in equity				(694)	848	154	12	166
Net income				(20,946)		(20,946)	32	(20,912)
COMPREHENSIVE INCOME				(21,640)	848	(20,792)	44	(20,748)
Proceeds from issue of shares	600	2	15			17		17
Treasury shares				22		22		22
Share-based payments				690		690		690
Transactions awith non-controlling interests				927		927	(750)	177
Other movements				187		187	6	193
AT DECEMBER 31, 2019	6,018,492	18,055	25,833	41,383	643	85,912	71	85,983

4. Consolidated statement of cash flows

(in € thousands)	December 31, 2019	January 31, 2019
Net income before minority interests	(20,946)	3,334
Share of profits of associates	(32)	(106)
Amortization and provisions ⁽¹⁾	8,882	4,353
Net impact of capitalization of research & development costs	(1,300)	(2,679)
Income taxes (current and deferred)	(3,446)	2,505
Income taxes paid	(1,980)	(1,736)
Unrealized financial gains and losses	120	(370)
Share-based payment transactions	690	751
Gains (losses) on sales of assets	114	(6)
OPERATING CASH FLOW	(17,879)	6,046
Trade receivables	19,446	(442)
Trade payables	(293)	(1,066)
Other receivables and other liabilities	(865)	5,582
Change in working capital requirement	18,288	4,074
NET CASH FROM OPERATING ACTIVITIES	409	10,120
Purchase of intangibles assets	(642)	(796)
Purchase of property, plant and equipment	(1,340)	(3,395)
Proceeds from the sale of assets	-	8
Acquisitions de subsidiaries, net of cash acquired	(795)	(4)
Other investment operations	(7)	(2,425)
NET CASH USED FOR INVESTING ACTIVITIES	(2,784)	(6,613)
Purchase of intangible assets	14,422	46,165
Repayment of borrowings ⁽¹⁾	(10,148)	(46,669)
Proceeds from issue of shares	17	40
Purchase and proceeds from disposal of treasury shares	22	(131)
Dividends paid	-	(89)
NET CASH USED FROM FINANCING ACTIVITIES	4,312	(684)
Effect of exchange rate changes on cash and cash equivalents	216	(456)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,153	2,367
Opening cash position	18,087	15,720
Closing cash position	20,241	18,087
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,154	2,367

⁽¹⁾ The impact of IFRS 16 increases in the amortization and provision and thus an improvement in self-financing capacity of €+5.2 million, against the repayment of finance lease obligation in the financing part of the Cash Flow Statement for €-5.2 million.

Appendix 2

IFRS 16

Annual results Press Release 23/03/2020

New IFRS 16 applies to financial years commencing on or after January 1, 2019. It specifies how to recognize and measure lease assets and liabilities (property, plant and equipment – real estate and vehicles – and lease liabilities). The lease expense is now broken down between amortization and depreciation and the interest on the debt.

New IFRS 16 standard applies to financial years commencing on or after January 1, 2019. It requires lessees to recognize assets and liabilities for all non-short-term leases. ESI recognized right-of-use assets and liabilities related to leased offices and vehicles.

The lease expense is broken down between amortization of the right-of-use asset and the interest on the debt. IFRS 16 standard impact on 2019 EBIT remains limited at €0.2 million.

EBITDA (before IFRS 16) increased to €12.5 million (vs. €8.1 million), for a margin up to 8.4% of total sales (vs. 6.0%). EBIT (before IFRS 16) rose to €8.3 million (vs. €3.6 million).

IFRS 16 impacts:

- EBITDA: 5.4
- EBIT: 0.2