Press Release
Paris, France, September 10, 2020 – 6 pm

Half-year sales and results 2020

Resilience of the solid installed base in an exceptional context of global health crisis

- **Half year revenue decreased 8.5%; costs contained; stable gross margin & EBITDA margin down from 24.2% to 18.6%**
- **Half-year sales supported by strong recurrence (87.7%), resiliency driver of ESI's business model**
- **Cash management under control (€24.7m vs. €16.3m in June FY19)**
- **Growing recognition & support for ESI's value in mission critical industrial transformation**

ESI Group, Paris, France, (ISIN Code: FR0004110310, Symbol: ESI), today publishes its sales and results for the first half of its 2020 fiscal year (period from January 1st to June 30th), approved by the Board of Directors on September 8, 2020.

Cristel de Rouvray, Chief Executive Officer of ESI Group, comments: "*In H1, while we experienced a sudden decrease in our customer's ability to open new projects, the solidity of our multi-year, mission critical engagements with diversified industry leaders sustained us. As we continue to manage this global pandemic, we are balancing two business imperatives: proactive cost management to optimize near-term financial health and continuation of our transformation plan. The latter gains momentum, reflected in a growing number of customer engagements positioned at the level of "outcome" and mounting interest in ESI's offer, as evidenced in wide participation at our regular digital events.*"

(€m)	6/30/2020	6/30/2019	Change	
	6m	*6m proforma*	*Current rate*	*Constant rate (cer)*
Q1 – Sales	**54.9**	**58.4**	**(6.1%)**	**(6.9%)**
Licenses	48.8	50.8	(4.0%)	(4.8%)
Services	6.1	7.6	(20.3%)	(20.9%)
Q2 – Sales	***25.9***	***29.9***	***(13.2%)***	***(13.5%)***
Licenses	*20.4*	*22.5*	*(9.4%)*	*(9.7%)*
Services	*5.5*	*7.4*	*(24.8%)*	*(24.9%)*
H1 – Sales	***80.8***	***88.3***	***(8.5%)***	***(9.1%)***
Licenses	*69.2*	*73.3*	*(5.6%)*	*(6.3%)*
Services	*11.6*	*15.0*	*(22.5%)*	*(22.9%)*
Gross Margin	**62.4**	**68.6**	**(9.1%)**	**(9.8%)**
% Sales	*77.3%*	*77.7%*		
EBITDA (*before IFRS16*[1])	**15.0**	**21.3**	**(29.5%)**	**(31.4%)**
% Sales	*18.6%*	*24.2%*		
EBIT (*before IFRS16*)	**12.5**	**19.6**	**(36.3%)**	**(38.4%)**
% Sales	*15.4%*	*22.2%*		

[1] New lease accounting standard applicable as of January 1, 2019

IFRS 16 – Impacts				
- EBITDA	*3.0*	*2.8*		
- Operating Result	*0.2*	-		

Recurrence and resilience in an exceptional context

ESI Group's sales for the first half of 2020 amounted to €80.8m, down 8.5% (at current rates) from the same period last year. As the entire world entered confinement in Q2, revenue contracted €4m (-13.2%), about the same absolute value as in Q1 over a smaller revenue. Overall in H1:

- **In licenses, representing 85.6% of revenues, Repeat Business (70.2M€) increased by 1.2%,** while New Business (5M€) dropped by 53%. Confinement delayed decisions about new engagements, though customer interaction and conversations continued, anchored on a solid foundation of repeat business.
- **In services**, revenues decreased 22.5%, as industrialists temporarily shut offices and postponed certain engagements.

Despite this exceptional context, the Group once again demonstrated the resilience of its business model, driven by a **high level of licensing recurrence (87.7%)**. The solid dynamic of repeat business, proof of the strategic value of ESI Group's solutions, was particularly strong among the group's key customers. The **Top 20 customers booking increased by 3.9% and represented 56% of total booking.** These customers showed a continuous interest for the Group's innovative solutions helping them to accelerate their digital transformation as illustrated by the 21% of services booking (vs. 15% for all customers).

Geographic and sector footprint unchanged

The geographical breakdown of half-year revenues is almost identical to that of the first half of 2019: the EMEA region represents 51.6% (vs. 52.7%) of total revenues, Asia represents 34.1% (vs. 33.2%) and the Americas represent 14.3% (vs. 14.1%). The EMEA region decreased the most during the half-year, followed by Asia and the Americas.

The Group's four priority industries - Automotive & Ground Transportation, Aeronautics & Aerospace, Heavy Industry, Energy - accounted for approximately 87% of total orders during the period. The Automotive and Ground Transportation activity, the group's leading industry, remained relatively stable despite a difficult sector context. The other priority industries suffered more from the current crisis, with a significant slowdown in orders in the Aerospace industry.

Financial results

- H1 EBITDA (before IFRS 16) is €15.0m (18.6%) compared to €21.3m (24.2%) over the same period last year.
- H1 EBIT (before IFRS 16) is €12.5m (15.4%) vs. €19.6m (22.2%) in H1FY19.
- Gross margin is stable, at 77.3% (vs. 77.7%). Costs to EBIT are also stable (€68.3m in H1FY20 compared to €68.7m in H1FY19).

The Group reinforced cost measures over the semester. Immediately pivoting to *work-from-home* and adopting new methods for marketing enabled a greater than 50% reduction in travel and marketing costs. Automatic links between variable compensation and revenue growth also accounted for cost reductions. Additionally, the group continued aligning costs to priorities to reinforce a path to sustainable growth. Together, these measures will have a larger impact on H2FY20 and FY21.

Cash position

The Group's cash position increased to €24.7m at June 30, 2020 (vs. €16.3m end June 2019).

Gross financial debt is €39.6m (vs. €49.6m as of December 2019) and net debt decreased to €14.9m (vs. €29.4m) related to business seasonality. The gearing ratio (net debt to equity) is 15.6% (vs. 34.4%).

As of June 30, 2020, ESI Group held 6.3% of its capital in treasury shares.

ESI Group requested a State-guaranteed loan (PGE) from its French banking pool and Bpifrance. At the date of the Board of Directors, the PGE granted by Bpifrance has been received (€1.75m) and the agreements of all the banks in the pool have been obtained for a syndicated PGE of €12m - the contract is currently being drawn up.

Perspectives

ESI Group is recognized as providing among the best performing mission critical solutions on the market and benefits from a growing number of solid customer references:

- ESI's collaboration with Kion Group, the global leader in industrial trucks, is a great illustration. ESI enables Kion Group to accelerate their digital transformation and increase productivity by reducing or even eliminating the need for physical prototypes during production processes.
- In Aerospace, a very challenging sector, ESI secured 100% of the annual software renewal from a major American Aerospace company, including a part of New Business, at the peak of the pandemic. This illustrates the strategic importance of ESI's solutions.

ESI 's key customers seek to improve performance of products throughout the lifecycle, as they know the imperative of transforming to provide outcomes. In this perspective, ESI Group collaborates with one of the leading manufacturers of construction and mining equipment, to reduce their power consumption. Thanks to a dedicated project based on the Hybrid Twin™ concept, ESI's teams help this manufacturer in the full lifespan of their product – from design to in-service performance improvement.

To meet this demand, ESI Group is accelerating its global transformation plan, developing its sales and increasing its margins focusing on four priority industries and four outcome solutions for each (Pre-certification, Smart Manufacturing, Human Centric and Pre-experience). This value and customer benefits will be illustrated at the upcoming "ESI Live", Global Digital Forum, Nov 5th, 2020.

Board Decisions

The Board of Directors of September 8, 2020 has decided to convene an Extraordinary Shareholder meeting on October 21, 2020 to mainly offer the opportunity to nominate observers in the perspective of onboarding of new directors.

Upcoming events

Q3 2020 Sales
October 27, 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 20 countries, and in major industrial sectors, ESI employs 1200 high level specialists around the world and reported 2019 sales of €146 million. 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 H1 2020

Half-year results press release

Sept 10, 2020

1. Consolidated income statement

Half year closed on June 30, 2020

Reminder: Further to July 18, 2019 General Meeting decision, Group fiscal year closing date has been shifted from January 31 to December 31. Consequently, half-year financial statements refer to period from January 1 to June 30 (previously February 1 to July 31).
Due to important seasonality of Licensing activity in January, results comparison between first half of 2019 and 2020 is not relevant, thus proforma information have been computed (January – June 2020 compared to January - June 2019).

(In € thousands)	**H1 2020** *Jan to June*	H1 2019 *Feb to July*	Dec 31, 2019 *Feb to Dec*
Licenses and maintenance	69,214	40,854	75,320
Consulting	11,341	13,585	25,718
Other	256	369	1,159
REVENUE	**80,811**	**54,809**	**102,197**
Cost of sales	(18,378)	(17,886)	(33,873)
Research and development costs	(15,485)	(16,078)	(29,832)
Selling and marketing expenses	(21,613)	(19,539)	(38,841)
General and administrative costs	(12,643)	(9,650)	(21,476)
CURRENT OPERATING RESULT	**12,692**	**(8,345)**	**(21,825)**
Other operating income and expenses	6	28	1
OPERATING RESULT	**12,698**	**(8,317)**	**(21,824)**
FINANCIAL RESULT	**(822)**	**(961)**	**(2,563)**
Share of profit of associates	(189)	(264)	26
INCOME BEFORE INCOME TAX EXPENSE AND MINORITY INTERESTS	**11,687**	**(9,542)**	**(24,360)**
Provision for income tax	(2,813)	2,501	3,446
NET INCOME BEFORE MINORITY INTERESTS	**8,874**	**(7,041)**	**(20,914)**
Minority interests	(5)	103	32
NET INCOME (GROUP SHARE)	**8,880**	(7,144)	(20,946)
Earnings per share (in euros)	1.57	(1.27)	(4.06)
Diluted earnings per share (in euros)	1.55	(1.26)	(4.01)

Statement of comprehensive income

(In € thousands)	**H1 2020** *Jan to June*	H1 2019 *Feb to July*	Dec 31, 2019 *Feb to Dec*
NET INCOME BEFORE MINORITY INTERESTS	**8,874**	**(7,041)**	**(20,914)**
OTHER COMPREHENSIVE INCOME RECYCLED TO INCOME			
Change in the fair value of hedging instruments	9	(16)	(12)
Translation differences	(559)	737	866
OTHER COMPREHENSIVE INCOME (LOSS) NOT RECYCLED TO INCOME			
Actuarial gains and losses	(15)	4	(688)
Income and expenses recorded directly in equity	**(565)**	**725**	**166**
COMPREHENSIVE INCOME	**8,309**	**(6,316)**	**(20,748)**
Attributable to Group equity holders	8,318	(6,439)	(20,792)
Attributable to minority interests	(9)	123	44

2. Balance sheet

(In € thousands)	**H1 2020** *June 30, 2020*	Dec 31, 2019	H1 2019 *June 30, 2019*
ASSETS			
NON-CURRENT ASSETS	**146,120**	**152,176**	**152,224**
Goodwill	41,438	41,448	41,550
Intangible assets	61,843	62,139	61,708
Property, plant and equipment	5,181	5,633	5,889
Rights-of-use assets	18,320	20,680	22,077
Shares in affiliated companies	807	1,099	823
Deferred tax assets	15,254	17,204	14,603
Other non-current assets	3,271	3,264	5,570
Cash-flow hedging instruments	7	6	3
CURRENT ASSETS	**79,710**	**82,183**	**72,818**
Trade receivables	32,845	44,733	38,729
Other current receivables	19,078	13,720	14,663
Prepaid expenses	3,094	3,489	3,939
Cash and cash equivalents	24,692	20,241	15,487
TOTAL ASSETS	**225,830**	**233,655**	**225,042**
LIABILITIES			
EQUITY	**95,673**	**85,983**	**99,555**
Equity (Group share)	**95,611**	**85,912**	**98,661**
Capital	18,055	18,055	18,053
Additional paid in capital	25,833	25,833	25,818

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Reserves and retained earnings	42,392	61,982	61,422
Net income (loss)	8,880	(20,946)	(7,144)
Translation differences	450	987	512
Minority interests	**62**	**71**	**894**
NON-CURRENT LIABILITIES	55,675	65,941	69,883
Long-term share of financial debt	25,957	30,457	33,157
Non-current finance lease obligation	13,504	20,002	21,821
Provision for employee benefits	11,328	11,016	10,315
Deferred tax liabilities	3,761	3,761	3,763
Cash-flow hedging instruments	16	28	55
Other long-term debt	1,109	677	772
CURRENT LIABILITIES	74,463	81,731	55,605
Short-term share of financial debt	13,601	19,143	7,670
Current finance lease obligation	4,350	631	324
Trade payables	8,011	8,632	6,740
Accrued compensation; taxes and others short-term liabilities	27,295	24,230	17,771
Provisions for contingencies, risks and disputes	507	675	701
Deferred income	20,716	28,421	22,400
TOTAL LIABILITIES	**225,830**	**233,655**	**225,042**

3. Consolidated statement of changes in equity

(In € thousands except number of shares)	Number of shares	Share 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, 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 with 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**
Change in fair value of hedging instruments				9		9		9
Translation differences					(555)	(555)	(4)	(559)
Actuarial gains and losses				(15)		(15)		(15)
Income and expenses recognized directly in equity				**(6)**	**(555)**	**(561)**	**(4)**	**(565)**
Net income				8,880		8,880	(5)	8,874
COMPREHENSIVE INCOME				**8,874**	**(555)**	**8,309**	**(9)**	**8,310**
Proceeds from issue of shares								
Treasury shares				(12)		(12)		(12)
Share-based payments				424		424		424
Transactions with non-controlling interests				(39)		(39)		(39)
Other movements				1,006		1,006		1,006
AT JUNE 30, 2020	**6,018,492**	**18,055**	**25,833**	**51,636**	**88**	**95,611**	**62**	**95,673**

CHANGES IN FIRST-HALF 2019

(In € thousands except number of shares)	Number of shares	Share 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, 2019	**6,017,892**	**18,053**	**25,818**	**61,197**	**(205)**	**104,861**	**771**	**105,633**
Change in fair value of hedging instruments				(16)		(16)		(16)
Translation differences					717	717	20	737
Actuarial gains and losses				4		4		4
Income and expenses recognized directly in equity				**(12)**	**717**	**705**	**20**	**725**
Net income				(7,144)		(7,144)	103	(7,041)
COMPREHENSIVE INCOME				**(7,156)**	**717**	**(6,439)**	**123**	**(6,316)**
Proceeds from issue of shares								
Treasury shares				(114)		(114)		(114)
Share-based payments				359		359		359
Transactions with non-controlling interests				(41)		(41)		(41)
Other movements				35		35		35
AT JULY 31, 2019	**6,017,892**	**18,053**	**25,818**	**54,280**	**512**	**98,661**	**894**	**99,556**

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4. Consolidated statement of cash flows

(In € thousands)	**H1 2020** *Jan to June*	H1 2019 *Feb to July*	Dec 31, 2019 *Feb to Dec*
Net income before minority interests	**8,874**	**(7,041)**	**(20,946)**
Share of profit of associates	(189)	(264)	(32)
Amortization and provisions [1]	6,042	5,096	8,882
Net impact of capitalization of development costs	11	(82)	(1,300)
Income taxes (current and deferred)	2,813	(2,501)	(3,446)
Income taxes paid	(401)	(415)	(1,980)
Unrealized financial gains and losses	359	(368)	120
Share-based payment transactions	424	358	690
Gains and losses on assets disposals and other components	4	16	114
Operating cash flow	**18,316**	**(4,722)**	**(17,879)**
Trade receivables	10,873	26,703	19,446
Trade payables	(549)	(2,058)	(293)
Other receivables and other liabilities	(9,979)	(18,534)	(865)
Changes in working capital requirements	**345**	**6,101**	**18,288**
NET CASH FROM OPERATING ACTIVITIES	**18,661**	**1,379**	**409**
Purchase of intangible assets	(577)	(566)	(591)
Purchase of property, plant and equipment	(754)	(713)	(1,390)
Acquisition of subsidiaries, net of cash acquired	-	33	(795)
Other investment operations	190	(785)	(7)
NET CASH USED FOR INVESTING ACTIVITIES	**(1,141)**	**(2,032)**	**(2,784)**
Proceeds from loans	-	8,034	14,422
Repayment of borrowings [1]	(12,763)	(10,030)	(10,148)
Proceeds from issue of shares	-	0	17
Purchase and proceeds from disposal of treasury shares	(12)	(114)	22
NET CASH USED FOR FINANCING ACTIVITIES	**(12,775)**	**(2,110)**	**4,312**
Effect of exchange rate changes on cash and cash equivalents	(294)	164	216
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,452**	**(2,599)**	**2,153**
Opening cash position	20,241	18,086	18,087
Closing cash position	24,692	15,487	20,241
NET CHANGE IN CASH AND CASH EQUIVALENTS	**4,452**	**(2,599)**	**2,154**

[1] The impact of IFRS 16 for 2020 first half is an increase of +€2.7 million in the amortization and provision retreatment and thus an improvement in operating cash-flow, against the repayment of finance lease obligation in the financing part of the Cash Flow Statement for -€2.7 million.

APPENDIX 2

Methodology for preparing proforma information

in the context of change of closing date

Half-year results press release Sept 10, 2020

Further to change of closing date, half-year financial statements refer to period from January 1 to June 30 (previously February 1 to July 31). As January is a significant month in terms of sales (renewal of almost half of the contracts in the licensing business), result for the new half-year differ substantially from those of the previous half-year.

To ensure good comparability of information and in accordance with AMF Recommendation 2013-08, the main aggregates of the financial statements have been recalculated on proforma basis from January to June 2019.

H1 2019 proforma data have been prepared using the same methodology as for 2019 12-months proforma data presented end 2019:

- Additional consolidation closings have been made for ESI Group and all subsidiaries as of December 31, 2018 and June 30, 2019, completing "historical" closings done as of January 31, 2019 and July 31, 2019. These additional closings enabled to produce income statement from January to June 2019 and balance sheet as of June 30, 2019, directly comparable with the balance sheet as of June 30, 2020.
- The process applied for additional consolidation closings was the same as for a usual "historical" closing, for all Group subsidiaries.
- More specifically, the following methods have been applied:
    - Licensing revenue is related to two performance obligations: access to the software (or license itself) and the maintenance service. Revenue for the access to the license is recognized at a point in time at the moment when control is transferred to the client, and the revenue from maintenance service is recognized on a straight-line basis over the one-year term of the support agreement – which is the usual method of each closing, in accordance with IFRS 15;
    - Service revenue consists mainly of consulting fees. The consulting revenue is recognized according the percentage of completion method at end June 2019, for all entities with monthly monitoring. In the absence of monthly monitoring, a prorata by month has been calculated – this approach being acceptable given the month-to-month linearity of this activity's sales;
    - Costs directly linked to revenue (such as royalties paid to third parties or commissions paid to agents) were calculated on the basis of monthly revenue;
    - Staff costs excluding bonuses result from the payroll and social security charges paid each month, related accruals have been calculated according to the actual situation existing at each closing date. Bonus accruals have been adjusted end June 2019 using same hypothesis than calculation done end June 2020;
    - The net impact of the capitalization of development costs and net charges to amortization, depreciation and provisions were calculated at each closing date;
    - Some other external costs may result from prorata temporis estimates, such as office rental expenses which are invoiced quarterly.

Components of the cash flow were determined through a cash flow statement drawn up according to the usual consolidation process.

APPENDIX 3

Reconciliation of EBIT with EBITDA before IFRS 16 impact

Half-year results press release

Sept 10, 2020

	(In € million)	H1 2020 *Jan to June*	H1 2019 *Jan to June PROFORMA*	H1 2019 *Feb to July*
A	**EBIT**	**12,7**	**19,6**	**(8,3)**
B	Depreciation & Amortization before net depreciation of accounts receivable and amortization of capitalized developement costs	(5,3)	(4,5)	(4,6)
A-B=C	**EBITDA**	**18,0**	**24,1**	**(3,7)**
D	Lease retreatment IFRS 16	3,0	2,8	2,8
E	Amortization IFRS 16	(2,8)	(2,8)	(2,8)
D+E=F	IFRS 16 impact on EBIT	0,2	0,0	0,0
A-F	**EBIT before IFRS 16 impact**	**12,5**	**19,6**	**(8,3)**
C-D	**EBITDA before IFRS 16 impact**	**15,0**	**21,3**	**(6,5)**

Reminder:

- EBITDA presented every half-year include net depreciation of accounts receivable (net allowance of -€0,4 million in H1 2020) and net impact of development costs capitalization (capitalization net of amortization, impact of -€11 thousand in H1 2020)
- IFRS 16: Applicable since fiscal year 2019, IFRS 16 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. ESI recognized the assets and liabilities related to the right to use offices and leased vehicles. The impact of IFRS 16 on EBIT remains limited.