

Paris, April 28 2010

Full-year 2009/10 results

ESI is a pioneer and world-leading solution provider in virtual prototyping

Stock market data

Listed on **compartment C** of the NYSE Euronext Paris

[ISIN FR 0004110310](#)

FTSE 977

Bloomberg ESI FP

Reuters ESIG.LN

Granted “**entreprise innovante**” (innovative company) certification on January 20 2000 by OSEO,

ESI Group is eligible for inclusion in FCPI (venture capital trusts dedicated to innovation).

Financial schedule

Sales for Q1 2010/11:
June 15, 2010
(after market)

Contacts

[ESI Group](#)

Corinne Romefort-Régnier

Tel: +33 (0)1 53 65 14 14

investors@esi-group.com

NewCap.

Emmanuel Huynh

Axelle Vuillermet

Tel: +33 (0)1 44 71 94 94

esi@newcap.fr

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Connect with ESI



- **A sharp 7.1% growth in sales**
- **Operating margin preserved at 6.1%**
- **Global headcount maintained**
- **Effective control of the Company's cost structure**

Alain de Rouvray, ESI Group Chairman and CEO, commented: *“Our robust performance in 2009/10 – a year with good revenue growth and limited declining profitability – reflects two strategic decisions that we voluntarily made at the start of the year: to maintain our staff numbers in Services and Sales and to continue investing in R&D so as to remain proactive and responsive in light of sustained customer demand. These decisions, coupled with careful control of our cost structure – and in spite of the grim economic conditions that weighed on the Services business at a time when the Company was implementing the Mindware integration – helped maintain our operating margin at an acceptable level, even if down from last year. Furthermore, the sharp rise in Licenses sales in the fourth quarter, along with additional sales to key accounts and growth in our installed base through broader adoption of our solutions, testify to the pertinence of our decisions ; and it vindicates the particularly strategic and innovative nature of our solutions, which our customers need to turn to in these difficult times. We are confident that 2010/11 will be another year of growth on the back of solid performance at the Licenses business, a gradual pick-up in the Services activity, and higher profit margins.”*

Consolidated full-year results

In million €	FY 2009/10 ended Jan. 31, 2010	FY 2008/09 ended Jan. 31, 2009	Change (%)
Total sales	75.1	70.2	7.1%
- Licenses & Maintenance	54.1	52.6	2.9%
- Services	21.0	17.6	19.5%
Gross profit	49.9	50.2	-0.5%
% of sales	66.5%	71.5%	
Operating profit (EBIT)	4.6	5.4	-14%
% of sales	6.1%	7.7%	
Financial profit	-1.3	0.2	N/A
Attributable net profit	1.2	4.2	N/A
% of sales	1.6%	6.0%	

Fiscal year ended January 31

- **Growth in sales and an expansion of the Licenses installed base**

As announced on March 15, 2010, consolidated full-year sales for 2009/10 rose 7.1% from the prior year, fuelled in large part by buoyant activity in the fourth quarter, especially at the Licenses business. The Licenses installed base expanded 6.4% over the year with a high repeat business rate of 85%. On the other hand, New Business and Services were hurt by the bleak economy and a wait-and-see attitude from customers in terms of both new software purchases and decisions to go ahead with new projects. At constant scope, sales at New Business and Services fell 7% and 11.3%, respectively. Mindware, acquired in December 2009, confirmed its excellent growth potential in high added-value services in Computational Fluid Dynamics. The subsidiary reported double-digit sales growth, which pushed ESI's actual Services revenue increase to 19.5%.

- **66.5% gross margin**

Amid the unstable economic climate, ESI made the following two important strategic decisions in early 2009:

- To continue investing in R&D so as to keep its differentiating, decisive strategic advantage. Thanks to its wide range of complementary products and services, ESI is the only player to offer an open, collaborative virtual prototyping solution for use in many industries, that can assess the performance and manufacturability of product components from end to end – before the first real prototype is even built. ESI continued to roll out its End-to-End Virtual



Prototyping™ system among key account customers in 2009 despite the challenging economic conditions; the Company's ten largest customers accounted for 36% of 2009/10 sales, up from 29% in 2008/09;

- To maintain staff numbers based on:
 - 1) our customers' merely postponing several projects and not cancelling them (to date), necessitating ongoing technical and sales efforts; and
 - 2) the highly specialized knowledge of our employees and their experience with ESI's products and skills.

The resulting increase in the Company's cost of sales coupled with a change in the product mix during the year caused ESI's gross profit to slip 0.5% relative to 2008/09, giving a gross margin of 66.5%.

- **Effective control of the cost structure and greater productivity**

The fact that ESI's operating expenses rose a slight 1.1% against a 7.1% jump in sales reflects the Company's ability to effectively control its cost structure. Despite the 12.5% increase in staff resulting from the Mindware integration and the opening of a near-shore center in Tunisia, the Company's average payroll expense fell 3% thanks to a gradual transition to countries with low-cost labor. In terms of operating expenses, R&D expenses totaled 16.7% of sales in 2009/10, compared with 17.5% in 2008/09 – a modest 2% increase – while sales and marketing expenses remained steady. General and administrative expenses increased 1.8%, mainly as a result of the Mindware integration. The operating profit for 2009/10 came in at €4.6 million, pressured by the decline in gross profit, to give an operating margin of 6.1% (vs. 7.7% in 2008/09).

- **Net profit dented by unfavorable exchange rates and a non-recurring increase in income tax**

After accounting for foreign exchange losses on the Company's balance sheet due to unfavorable movements in exchange rates (especially in the South Korean won), and €0.73 million of interest expenses (unchanged from last year), the Company generated a financial loss of €1.3 million, against a gain of €0.2 million in 2008/09. After further taking into account the Company's income tax expense, which exceptionally rose €0.8 million in 2009/10 due primarily to litigation in Asia, ESI's net profit amounted to €1.2 million, compared with €4.2 million the prior year.

The Company had €11.2 million of available cash on hand at the balance sheet date, and a long term debt-to-equity ratio of a very low 14.0%.



2009 Highlights

- **Stronger installed base of key accounts and ongoing roll-out of the End-to-End Virtual Prototyping™ system**

ESI's performance in 2009/10 illustrates the solid resilience of its business amid the deteriorating economic climate. Despite these strong headwinds, the Company's sales expanded significantly, fuelled largely by a jump in sales at the Licenses business in the fourth quarter related to renewals and to new software to existing customers. ESI also bolstered its presence among key accounts thanks to the high added-value of its solutions, which turn into strategic advantages in the current competitive environment. The Company continued rolling out its End-to-End Virtual Prototyping™ system successfully to major corporations and long time key customers like Volkswagen and Renault-Nissan Groups.

- **Greater regional and industry diversification**

The regional breakdown of ESI's sales at end-January 2010 was as follows: 22% in the US; 45% in Europe; and 33% in Asia (against 16%, 49%, and 35%, respectively, a year earlier). This more balanced breakdown underscores the Company's international presence, credibility, and attractiveness. In the US, ESI expanded sales to key accounts in its traditional automobile industry, as well as in innovative industries such as electronics through Applied Materials, energy through General Electric, aerospace through Boeing and NASA, and defense through General Dynamics Land Systems. ESI's overall industry diversification also improved; sales at constant scope to the automobile industry accounted for 40% of total revenue in 2009/10, down from 43% the prior year, and sales to the energy and electronics industry accounted for 12% in 2009/10 vs. 9% the prior year. The percentages of other industries, such as aerospace, defense, and heavy equipment, remained stable.

- **Confirmation of the successful Mindware integration**

Mindware generated double-digit sales growth in 2009/10, an especially remarkable achievement considering that the subsidiary is in the Services business and its customers are mainly US auto makers. This robust performance highlights the pertinence of Mindware's strategic positioning – since it was able to receive innovative projects from car manufacturers with government funding – as well as ESI's proven experience to complete acquisitions successfully.



About ESI

ESI is a pioneer and world-leading player in virtual prototyping that take into account the physics of materials. ESI has developed an extensive suite of coherent, industry-oriented applications to realistically simulate a product's behavior during testing, to fine-tune manufacturing processes in accordance with desired product performance, and to evaluate the environment's impact on product performance. ESI's products represent a unique collaborative and open environment for Simulation-Based Design, enabling virtual prototypes to be improved in a continuous and collaborative manner while eliminating the need for physical prototypes during product development. The company employs over 750 high-level specialists worldwide covering more than 30 countries. ESI Group is listed on compartment C of NYSE Euronext Paris.

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