Financial press release

Paris, 6:00pm on March 15, 2018

Full year 2017 sales

A year of transformation

- **Back to growth in Q4 2017 showing the way to sales recovery for 2018**
- **New Group's organization in line with the Hybrid Twin^{TM} disruptive value proposition**
- **Continued investments related to the five-year plan "Objective 2020"**
- **Strong impact on 2017 results due to our major business transformation plan**

Commenting on full-year sales, Alain de Rouvray, Chairman and Chief Executive Officer of ESI Group, said: "*Our fourth quarter of 2017 marked a return to growth in Licenses at constant exchange rates. However, the strong investments in the Group's transformation, aimed at securing the success of the "Objective 2020" five-year plan, will substantially impact the 2017 EBIT. On the other hand, the reported rebound in Licenses bodes well for better sales momentum in 2018, supported by the benefits of the strategic investments and management reorganizations made over the last two years. Our new value proposition, based on the Hybrid Twin^{TM}, aims at supporting our customers on predicting their products' performance and piloting once in operation. This approach has required an in-depth adaptation of our marketing strategy as well as a new alignment of our sales and support teams. Meanwhile, the excellent performance of our Virtual Prototyping core business should continue to boost ESI's competitiveness in 2018 as the manufacturing industry experiences an unprecedented and accelerated change driven by the demands of the 'Smart Factory' and of the 'Outcome Economy'*.

Change in full-year and fourth-quarter sales

Financial year ending January 31 (unaudited figures)

In € millions	Q4 2017	Q4 2016	Δ %	Δ % (cer[1])
Licenses	49.0	48.7	**+0.6%**	+3.1%
Services	7.6	9.0	**-15.6%**	-12.9%
Total	**56.6**	**57.7**	**-1.9%**	+0.6%

In € millions	2017 sales	2016 sales	Δ %	Δ % (cer[1])
Licenses	105.7	108.3	**-2.4%**	-0.5%
Services	29.5	32.2	**-8.4%**	-6.9%
Total	**135.3**	**140.6**	**-3.8%**	-2.0%

[1]cer: constant exchange rates

Acquisition during the period: "Scilab Enterprises" was consolidated from February 28, 2017.

These figures were approved by the Board of Directors' meeting held on March 14, 2018.

Breakdown of quarterly sales

In € millions	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Licenses	49.0	17.8	19.0	20.1
Services	7.6	7.2	7.4	7.3
Total	**56.6**	**24.9**	**26.4**	**27.3**

Fourth-quarter 2017 sales

Q4 2017 sales at constant exchange rates were stable year-on-year at €56.6 million. At current rates, a negative currency (Forex) effect of €1.4 million was registered due to the depreciations of the Japanese yen and the US dollar against the euro compared to Q4 2016.

Sales generated by the Licensing activity rose by 3.1% on Q4 2017 to €49.0 million (at constant rates), reflecting the rebound in business growth after the 3.4% drop witnessed over the first three quarters of the year. A 14.8% increase in New Business contributed to this improvement.

Revenue from Services declined by 12.9% to €7.6 million at constant exchange rates when compared with Q4 2016, when an exceptional growth of 19.2% was recorded (vs 2015).

Full year 2017 sales

Full-year sales declined by 2.0% to €135.3 million at constant exchange rates. There was a negative Forex impact over the year of €2.5 million, mainly reflecting the depreciation of the Japanese yen – and to a lesser extent the US dollar. The product mix shifted towards Licenses, which contributed 78% of total sales, compared with 77% last year.

Licenses

Revenue from Licenses was stable year-on-year at €105.7 million at constant exchange rates. The Repeat Business rate was 82.4% at constant rates (80.7% at current rates), reflecting a lower share of revenue from Paid-Up Licenses (PUL) in 2017 and therefore representing a positive factor in future contract renewals. New Business, also affected by PUL impact, remained stable at constant rates at €17.8 million, compared to €17.9 million for 2016 (€17.6 million at current rates).

Services

The Services business reported a 6.9% decline in revenue to €29.5 million (at constant exchange rates). As a reminder, Services grew by 16.5% in 2016 due to exceptionally favorable conditions in Japan. The increase in Special Projects as a proportion of Services (17.1% vs. 15.6%) confirms the trend already witnessed in 2016, driven by innovative co-creation projects that harness new technologies developed by the Group.

Geographic mix

The business volume in the Asia-Pacific region slightly decreased and accounted for 38% of Total Revenue in 2017, against 39% the previous year (at constant exchange rates). The contribution of the Americas and Europe remained stable over the year at 16% and 46% of sales, respectively.

The BRIC countries generated 12.5% of sales this year (at constant rates) compared to 13.3% in 2016.

Strong impact on 2017 results due to our major business transformation plan

Our strategic transformation plan, will impact 2017 EBIT which is estimated to come in at between €7.0 million and €8.0 million. Indeed, ESI deployed major strategic investments over the period in the context of its “Objective 2020” five-year plan and engaged in building new solutions around the recently acquired technologies and in restructuring the Group's organization in line with the new '*Product Performance Lifecycle*™' (PPL) value proposition. These investments focused in particular on upgrading a number of field offices, training and realigning the teams, and on marketing initiatives to showcase ESI's innovative and disruptive solutions; for example, at the Consumer Electronics Show (CES) in Las Vegas. This substantial expenditure aims to strengthen our support for our customers' digital transformation towards the '*Outcome Economy*'. As part of this process, our new Silicon Valley office (San Jose, CA) now hosts a development team specialized in new technologies such as Machine Learning, Artificial Intelligence, Internet of Things (IOT) and the Cloud, together with a marketing, sales and support team to foster West Coast customers.

2017 Highlights

Continued integration of new technologies as part of ESI's "*Product Performance Lifecycle*™" approach

The acquisition in early 2017 of '*Scilab*', publisher of an open source numerical analysis software and recognized internationally by a community of over one million users, constitutes a powerful vector for increased visibility and democratization of the Group's approach. By consolidating its position in the pre-project design phase, the segment on which Scilab is focused, ESI seeks to harness its *Hybrid Twin*™ solution to provide manufacturing businesses with complete control over their products entire lifecycle, including anticipation of wear and tear for predictive maintenance and repairs, beyond design, manufacturing and regulatory certification of the product 'as brand new'.

Continued restructuring of the organization in line with the new value proposition

A number of significant milestones in the Group's "Objective 2020" five-year plan were achieved in 2017. The plan aims to align the business and executive management around the Group's new value proposition underpinned by the *Product Performance Lifecycle*™ concept and the *Hybrid Twin*™ solution. The management organization is now re-structured around three business pillars, namely: *Engineering* (design and development of industrial products), *Manufacturing* (fabrication of products) and *In-Service* (usage, piloting and maintenance of products from launch to repair and ultimate withdrawal), in line with the demands of Industry 4.0, the Smart Factory and the Outcome Economy.

This fundamental transformation, which has impacted our short-term sales performance, aims to bring the sales force in line with the operational support requirements of industrial clients via a regional local coordination structure based around customer Account Managers focused on value selling, and Technical sales Engineers to foster accelerated technical and methodological change.

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To provide effective support for this operational governance strategy, ESI Group has strengthened its Group Executive Committee with the appointment of Angelita Reyes as Group Human Resources Director and the promotion of Christian Matzen to the position of Executive Vice-President Sales and Marketing. Furthermore, the promotion of Dominique Lefebvre as Director of Product Operations and his appointment as a member of the Group Executive Committee strengthens the management alignment with the Group's strategic vision.

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Next events:

2017 full-year results	SFAF meeting	Q1 2018 sales
April 18, 2018	**April 19, 2018**	**May 29, 2018**

About ESI Group

ESI Group is a leading innovator in Virtual Prototyping software and services. Specialist in material physics, ESI has developed a unique proficiency in helping industrial manufacturers replace physical prototypes by virtual prototypes, allowing them to virtually manufacture, assemble, test and pre-certify their future products. Coupled with the latest technologies, Virtual Prototyping is now anchored in the wider concept of the Product Performance Lifecycle™, which addresses the operational performance of a product during its entire lifecycle, from launch to disposal. The creation of Hybrid Twin™, leveraging simulation, physics and data analysis, enables manufacturers to deliver smarter and connected products, to predict product performance and to anticipate maintenance needs.

ESI is a French company listed in compartment B of Euronext Paris. Present in more than 40 countries, and addressing every major industrial sector, ESI Group employs about 1200 high-level specialists around the world and reported annual sales of €135 million in 2017.

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

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