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Financial press release

Paris, 8:30pm on September 19, 2018

First-half 2018 sales and results

- **Transformation plan well under way**
- **Performance varied by sector but aligned with the execution plan**
- **Strong repeat business and strategy validated by the ecosystem**
- **Impact on short term profitability**
- **Hybrid Twin™ solutions successfully initiated**
- **Appointment of Cristel de Rouvray as ESI Group CEO, effective February 1st, 2019**

Commenting on the half-year results, Alain de Rouvray, Chairman and Chief Executive Officer of ESI Group, said: *"This first half of 2018, while not yet delivering the expected revenue growth and financial results, does provide useful and constructive business information on where ESI stands in its transformation to support the Industry 4.0 and Smart Factory challenges. Initiated decades ago and reinforced by our acquisitions, the continuous evolution of our technologies allows us to build compelling digital solutions to enable leading industrialists to achieve their '**zero real prototype'** objective. For this purpose, our operations have been recently successfully reorganized into three business pillars (Engineering, Manufacturing and in-Service) to accelerate the creation of added value solutions for our existing and targeted key customers.*

We are now aligning our teams and enhancing their piloting of such transformation to support our new business model and sales strategy. This 'work in progress' needs to be pursued for another year or so and in particular with our new extended and seasoned top management team. Their challenge is to promote revenue growth while deploying expert resources and containing costs. Achieving sustainable growth with cost control will require higher synergies and global coordination, which inevitably takes more time than one would wish.

Our first-half year performance shows that our installed base remains very strong, with growing repeat revenues, especially in the transportation and energy sectors. New Business (new products *and new customers) slightly decreased, which somehow reflects the change in our customers buying pattern from 'best in class' tools to 'proven' solutions to achieve '**zero real tests'**. Such a quantum leap in expected customer value and digital maturity requires new sales-plays. Advanced product functionalities and performance must be coupled with innovative modelling expertise and validation methodology, which demand advanced services with high-level domain expertise and experienced local support. These are challenges which weigh on short term profitability while teams are reorganized and extended worldwide.*

Our European Area delivered the best relative half-year results, reflecting its industry diversity and the robustness of local support that combines wide spread internal expertise and external partnerships. Asia-Pacific is taking more time to diversify out of the transportation sector and the Americas still suffer from limited local expertise to cover such a large territory.

Notably, the concept of Hybrid Twin™ encounters an enthusiastic early acceptance. Industrialists understand that data exploitation demands backup from reliable and proven virtual rational models to make actionable sense and deliver a unique value to understand and influence the performance of their new products in real operational life (our Product Performance Lifecycle™ solutions). This has already generated several development projects, the financial impact of which will become gradually more significant over the next couple of years.

*Altogether we expect a mitigated financial performance for Fiscal Year 2018, achieving moderate revenue growth but with a significant decrease in yearly profitability (EBITDA). We believe this is a necessary step to pursue and complete our own transformation and effectively promote the '**zero real prototype'** disruptive solutions that are critical to maintaining and achieving our ambitious performance objectives of FY 2020 and beyond."*

Consolidated half-year results

Half year closed on July 31

In € millions	H1-FY 18	H1-FY 17	Δ at current exchange rates	Δ at constant exchange rates
Total sales	**53.2**	**53.7**	**-1.0%**	**+2.4%**
Licenses	39.4	39.0	+0.9%	+4.7%
Services	13.8	14.7	-6.0%	-3.7%
Gross margin	**35.2**	**36.2**	**-2.7%**	**+1.0%**
% of sales	*66.2%*	*67.3%*		
EBITDA*	**-7.2**	**-3.9**	**-84.0%**	**-89.9%**
% of sales	*-13.4%*	*-7.2%*		
Current operating profit (loss)	**-8.9**	**-5.5**	**-62.6%**	**-67.8%**
% of sales	*-16.7%*	*-10.1%*		
EBIT	**-9.3**	**-6.0**	**-54.0%**	**-58.7%**
% of sales	*-17.5%*	*-11.3%*		
Attributable net profit (loss)	**-7.9**	**-5.9**	**-33.8%**	**-37.6%**
% of sales	*-14.9%*	*-11.0%*		
Available cash flow	**12.9**	**14.8**	**-13.1%**	

These figures were approved by the Board of Directors' meeting held on September 18, 2018.

(*) EBITDA excludes non-recurring items and includes the impacts of capitalized R&D expenditure and provisions/reversals for impairment of trade receivables.

NB: because of strong seasonal variations, ESI Group's Licenses business recognizes a big part of its annual revenue and results in the 4th quarter of the year. The Group's financial year ends on 31 January.

First-half 2018 sales

First-half 2018 sales came in at €53.2 million, up 2.4% at constant exchange rates. There was a currency impact totaling €1.8 million for the period due to the depreciations of the US dollar and the Japanese yen.

The product-mix remained stable: Licenses contributed 74% of sales, compared with 73% in the prior period.

Revenue from Licenses rose 4.7% year-on-year to €39.4 million, reflecting a good performance and solidity of the repeat business which grew by 7.0% at constant exchange rates, with a repeat rate of 85.1%, while new business was down by 5.3% at constant rates.

Revenue from Services was down by 3.7% to €13.8 million due to the cyclical nature of this activity. At the same time, the Energy sector harnessed our team's unique expertise as we were awarded significant contracts that are spread over several years.

ESI's geographic sales mix reflects stronger sales in Europe over the six-month period (4.4% at constant rates) when compared with the Americas (-7.6%; 0.4% at constant rates) and Asia (-3.6%; 1.2% at constant rates).

Gross margin

Gross margin came in at 66.2%, compared to 67.3% in H1 2017. This lower figure was mainly due to Services, generating a gross margin of 24.3% compared to 29.7% for H1 2017. Gross margin for Licenses remained high at 81%.

Continued strategic investments in R&D

In accordance with the Group's strategy, R&D investment was maintained at a high level and rose 5.2% to €17.8 million (excluding the French Research Tax Credit '*CIR*'). This investment represented 45.3% of revenue from Licenses (amplified by the high seasonality effect). Once the research tax credit and capitalized R&D expenditure are taken into account, total R&D costs recorded in the P&L amounted to €14.8 million.

Profitability indicators impacted by investments

EBITDA was a negative €7.2 million, compared to a negative €3.9 million in H1 2017. This decline reflects ongoing R&D investments and growth in General and Administrative (G&A) expenditure driven by the costs of new offices and the reinforcement of support teams (including HR and IT). Sales & Marketing (S&M) costs remained relatively stable over the period.

As a result of lower EBITDA, the Group reported a current operating loss of €8.9 million and negative EBIT of €9.3 million, aggregates declining respectively by €3.4 million and €3.3 million when compared with H1 2017. The Financial Result improved to a negative €0.7 million from a negative €1.6 million in H1 2017. The Group's Attributable net loss for the period was €7.9 million versus a net loss of €5.9 million for the first six months of 2017.

A robust financial structure

The Group had a positive cash balance of €12.9 million at July 31, 2018. Net debt stood at €33.2 million and the gearing (debt-to-equity) ratio came out at 35.6% at the reporting date.

Appointment of Cristel de Rouvray as CEO, effective February 1st, 2019

As part of the succession plan, ESI Group's Board decided to appoint Cristel de Rouvray as Chief Executive Officer (CEO) of ESI Group, with effect from February 1st, 2019. Cristel has been an active member of the Board since July 1999 and has been intimately involved in the decisions of the company as Board lead and chairwoman of the Compensation, Nomination and Governance committee through these past years. Indeed, Alain de Rouvray will become non-executive Chairman as of this date.

Change of financial closing date

For the purposes of clarity of financial reporting, and subject to the approval the next General Shareholders' Meeting, the Group has decided to change its fiscal year-end from January 31 to December 31. With this change the 2019 period will close on December 31 and will therefore comprise only 11 months.

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Next events:

Actionaria exhibition
November 22 & 23, 2018

Q3 2018 sales
November 27, 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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