

01-Jun-2017

Neopost SA (NEO.FR)

Q1 2017 Sales and Revenue Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Q1 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Denis Thiery, Chairman and Chief Executive Officer. Please go ahead, sir.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

Thank you. Good evening or good afternoon. And thank you for joining us today for Neopost Q1 2017 Sales Presentation. I am Denis Thiery, Chairman and CEO of Neopost. Jean-François Labadie, our CFO, and Gaële Le Men, our Investor Relation Officer are together with me for this call.

We will first comment on our Q1 sales performance, and we will then open the call for Q&A session. We have started the year in line with our expectations, with sales up €276 million, up 1.2% compared to last year. Excluding a positive currency impact of the scope effect linked to the acquisition of icon Systemhaus, we posted a limited organic decline of minus 1.6%, which is an improvement compared to the minus 2.1% of last year.

Now, let me highlight the two key elements of this first quarter. First, Enterprise Digital Solutions and Neopost Shipping delivered mid single-digit growths. Thanks to the visibility provided by our strong sales activity and our [ph] flat line (02:03) of projects, we are confident that those divisions will deliver double-digit growth for the full year 2017.

Second, SME Solutions demonstrated good resilience once again this quarter, despite global market conditions that remain difficult, the division's organic growth of minus 2.5% is an improvement compared to the minus 3.8% of last year, and is broadly in line with our performance in H2 2016.

I'll now hand over to Jean-François, our Chief Financial and Legal Officer, who will provide you with more details about the performance of this first quarter.

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

Thank you, Denis. Good evening and good afternoon, ladies and gentlemen. Neopost reported sales of €276 million for the first quarter, up 1.2% year-on-year, and down minus 0.6% excluding this positive currency impact.

The group's organic sales growth, which excludes positive scope effects related to the acquisition of icon Systemhaus, came in at minus 1.6% year-on-year, compared to minus 2.1% in the full year of 2016. I will now detail our performance by division and will begin with Enterprise Digital Solutions.

The division delivered an organic growth of plus 5.8% to €32 million in sales. Within this division, Customer Communication Management activity continued to deliver a double-digit growth. But it was impacted this quarter by the absence of a significant deal from icon Systemhaus.

Our Neopost Shipping division reported sales of €12 million, up 5.4% year-on-year on an organic basis. This division is actively deploying its unique global offer [ph] to cover (04:27) the logistics change end-to-end. For both Enterprise Digital Solutions and Neopost Shipping, our strong project pipeline and business activity give us confidence that we will be able to deliver double-digit growth for the full year of 2017 in each division.

Our SME Solutions division continues to demonstrate strong resilience for the third quarter in a row. Its organic growth of minus 2.5% is in line with H2 2016, and is an improved performance in comparison to the minus 3.8% organic growth that reached for the full year of 2016.

On an organic basis, Mail Solutions revenue decreased minus 3.8%, at a slower pace than last year. Especially in North America, you have the group continued to gain market share. However, main market conditions remain difficult across all geographies.

Communication & Shipping Solutions within SME Solutions delivered plus 6.3% in organic growth. This segment continued to suffer from an unfavorable business cycles in graphics. Excluding graphics activity, the growth in digital Communications & Shipping Solutions, which are core to our transformation, was up 19.7%.

I will now comment our financial situation, which remained sound from the first quarter of 2017. Three elements are important this quarter. First, we successfully completed the largely oversubscribed Schuldschein private placement, and raised €215 million at a very good financing condition. Second, we are well on track to deliver a minimum of €50 million of cost savings for 2018 in SME Solutions.

Finally, subject to the approval of our shareholder during our Annual General Meeting to be held on the 30th of June, the balance of the 2016 dividend of €0.9 per share will be fully paid in cash on the 8th of August 2017.

I now hand back to Denis, who will conclude this conference call before opening the floor for question.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

Thank you, Jean-François. I would like to conclude this presentation by confirming that our group's transformation is progressing well. We are in line with our expectations. We are confident in the ability for EDS and Neopost

Shipping to deliver double-digit growth in 2017, thanks to the visibility provided by our business activity and our pipeline of projects.

In addition, SME Solutions proved to be resilient once again this quarter in difficult main market conditions. Looking forward, we are confident to achieve our mid-term objectives, i.e., return to organic sales growth, maintain current operating margins above 18% through the period of transformation. And finally, increase progressively our current operating margins to more than 20%.

We are now pleased to answer any questions you may have. Operator, please proceed.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now take our first question from David Cerdan from Kepler. Please go ahead.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Yeah. Good evening. I have a few question for you. The first one is related to EDS and Shipping, can you explain why you are so confident in delivering a double-digit organic growth in the next quarter, what is the size of the backlog and the visibility you have on this backlog, is there any specific project that you can explain?

Secondly, on Mail Solutions, can you give us the trends between North America and Europe in order to have a better view of the trends? And third question is related to graphics. Can you give us some numbers on graphics in term of sales and sales decline? Thank you.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

Okay. First, our confidence in EDS and Shipping, it's very simple, you know we have the ability to keep track of each of the deals we are working upon, knowing exactly at what level we are compared to the ability to close those deals. And yes, today, on EDS [ph] conference (10:11), officially, we've inspire key products in that division. We have a level of sales activity that clearly confirm that we have the ability to get back to that double-digit growth before the end of the year.

Still with EDS, icon should be able to close some of those big deals. You know our customers coming from IBM mainframes, I'm not sure if it will start in Q2 or in Q3, but definitely, there will be a few successes on the icon side before the end of the year.

On the Shipping side, it's a combination of a few things. On the [ph] synergy (11:14) side, if we have not signed yet any – if we have not – excuse me, build any machine at that point, we have five machines in backlog. So, we are at that stage sure of building at least five machines before the end of the year, and we still have a few months in front of us to build more machine. We have also a very strong dynamic around our parcel lockers. The Japanese partnership and the ambition we have to deploy a large number of machine very quickly in Japan is confirmed, and our partner, Yamato is pushing strong to speed up the deployment as quickly as possible.

Here in France, we had good success with click and collect solutions that we have closed and signed with [indiscernible] (12:21). The program with Decathlon is progressing well. So, everything put together, a strong

dynamic around parcel locker. And last but not least, you know that the plan is to deploy the Temando offer beginning of H2, starting with the Magento partnerships, the Magento deal, and very quickly beyond, we shall be able to deploy our Temando platform in UK, U.S. and France before the end of the year. So, a lot of activity on the Shipping side, and a lot of activity that will produce growth starting in Q3 but mainly in the second semester.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Okay.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

As far as MS, yes, the markets and the Neopost performance is much stronger in North America than in Europe. We are pretty close everything put together to be South and North America, when in Europe, we are closer to minus 4%. I'm talking SME here, okay.

Graphics, graphics will be a problem – has been a problem until this quarter. We probably explained last year that we had a big deal in Australia with one of our key customers [indiscernible] (14:31) and that deal was finished to be [ph] deal then (14:37) deliver in Q1 of last year. So, yes, we are still negative with graphics this year in the range of minus 4% to minus 5%. And however, the base of comparison should stop being much more favorable starting in Q2.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

And is it correct that you say that excluding graphics, the CSS activity in SME was up close to 20%?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

Yes. 20%. Sorry. Yeah. And graphic accounts for 50% of the CSS revenue within SME.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Okay. Thank you.

Operator: [Operator Instructions] We will now take our next question from Jean-Christophe Liaubet from Exane BNP Paribas. Please go ahead.

Jean-Christophe Liaubet

Analyst, Exane SA

Q

Yes. Good evening. Two questions on my side. First of all, you mentioned that you are gaining market share in the U.S. Can you tell us on which segment is the high-end segments and the middle-end segment? And second question regarding the renewal of your machine, I think you started to launch the last – your current set of machine three years ago, do you start working on the next generation and should we expect new innovation or no major innovation?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

Okay. As far as market share is concerned, we are gaining today on both sides, I mean, in the number of units and in value, but it's mainly thanks to the fact that we are stronger than ever in the mid-market. It has always been our strongest segment. The mid-market, and this is where we are progressing. However, again as I said, our market share in units is progressing through, so it's on both sides. As far as renewal of our machines is concerned, it's a must in this industry, because of that five-year cycle we have with the bidding contracts.

Every five years, we have to come up and we are coming up with a new model to replace to produce one. Can we talk about revolutions or innovations following that, this industry is not – I mean, in that stage of coming up with technical revolutions, we are talking about improvements, we are talking about integration of the shipping function to the franking machine, but again making those machines in here to use, and if you're to connect and because they are – all of them today connected to the web, but it's marginal. The biggest trend you will see today is the integration of the shipping function with the franking machine.

Jean-Christophe Liaubet

Analyst, Exane SA

Q

Okay. Thank you. Maybe last question on the CVP-500, can you give us little bit about the commercial progress, the order books?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

As I said earlier, we have today five machines in backlog, four of those five have been booked in Q1. So we'd given you an idea of the dynamic we are seeing with the product, especially when you remember that last year for the full year, we booked and shipped six machines.

Jean-Christophe Liaubet

Analyst, Exane SA

Q

Okay. Thank you.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

You're welcome.

Operator: [Operator Instructions] We will now take our next question from Mourad Lahmidi from MainFirst. Please go ahead.

Mourad Lahmidi

Analyst, MainFirst AG (France)

Q

Yes. Good evening. I have two questions, the first one on EDS, I was wondering what was the performance of GMC within EDS during Q1 compared to the rest of the business, and how is the visibility in terms of license signing for this activity? And second question, to jump on the CVP-500 question of Jean-Christophe, I was just wondering, how fast would be the revenue ramp-up of those bookings that you had in Q1?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

Okay. As far as EDS is concerned and that the performance of GMC, I will say as being as usual, high double-digit. The level of activity around that inspired their key products is very good, and the visibility for the rest of the

year, as I've said, is also very good. If anything, the gross could increase over the rest of the year, you know that the cycle of this business is usually H2 driven, [ph] if not have been worse (21:19), you know Q4 driven. You are talking about deals that can take six, nine months before you can close, and typically you have to first reveal your pipe of opportunities in Q1, you consolidated in Q2, and you closed most of those deal during the second semester. So, yes, we are very confident, and we are seeing a lot of encouraging signals on the GMC side.

The CVP, we should, we could be able to see the first shipment in Q2, again, we are not sure on the number of units. We will be able to ship that deal as quickly as Q2, but there will be activity around Q2. Then the limits we'll have in deploying such machines is that most of the time, our customers don't want to take any risk starting in November. November, December are areas where they refuse to take the least risk to disrupt their organization, their processes, as they are coming at the time where they are the busiest of the year. Most of the time, they do, I will say 40% of their business in two months. So, those two months are not the right time to install a new machine. So, all this we're saying that the main activity around the CVP in terms of strategy should be between this month, I mean, May and June, up to October.

Mourad Lahmidi

Analyst, MainFirst AG (France)

Q

Okay. Thanks. And I have a sort of one on the graphics activity within SMEs. Can you just tell us when the comparison basis will be flat versus the Australian contract that did not repeat?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

If my memory is correct, we stopped delivering – deploying the equipment ordered by [ph] Officework (24:25) in Q1 last year. So, the base of comparison of the graphic side should stop being [indiscernible] (24:37) in Q2.

Mourad Lahmidi

Analyst, MainFirst AG (France)

Q

Okay. Thank you very much.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

You're welcome.

Operator: We will now take our next question from [indiscernible] (24:48). Please go ahead.

Q

Yes. Good evening. Just two question, please. The first one, regarding the EDS and Shipping business, I am wondering why we have only a mid-single digit growth during the first quarter, taking to account the fact that the market should probably grows more than that. So, why so limited growth for the first quarter of 5.8% and 5.4%? And my second question concern the European markets. We had a 3% decrease for the organic during the first quarter, could you give us the split between UK, German, and France? Thank you.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

The EDS and Shipping, again, you have to understand, as I explained, that EDS has usually a growth accelerating from Q1, Q4 as it has always been the case year-after-year, we start, I would say, order activity slow, because such a level of organic growth is already quite reasonable and then it does accelerate. This quarter, we add on top of that, the problem of the first consolidation of icon. icon in Q1 has not signed any big deal. You know that icon today is working at trying to convert ex-IBM customers to their own systems, they're specialist of IBM mainframe and they have been selected by IBM to take over, when IBM is starting to ship out the CCM activity.

So, they are actively working on those opportunities. We have quite a few big ones that are in the pipe at that point, but we have not signed anything yet. So, icon, if I remember is showing a small negative growth in Q1, when we are in fact expecting a strong growth over the full year.

Q

Okay.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

So that's the main reason of why we are below 10% in EDS, and that's again why we are so confident that we'll end up the year above 10%.

Q

Okay.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

As far as the – your question was about the difference between...

Q

The region, yes, in Europe between the UK, the France, Germany, et cetera.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

All right. I will say that the situation of those three large European markets is pretty much the same. If you looked at the [ph] cost of 36 (28:20), maybe with the exception of Germany, Mail is declining at more than 5%. I think, it's – it was 6% in France. In the last quarter, it was in the range of 6% in the UK. So all this to say that in Europe, we have very difficult market conditions everywhere, and this is the market condition plus the fact that we are much stronger in Europe. So we're much more vulnerable in Europe that explains why we are suffering in Europe when we are doing so well in the U.S.

Q

Okay. Perfect. Thank you.

Operator: [Operator Instructions] We will now take a follow-up question from David Cerdan from Kepler. Please go ahead.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Yeah. This is again David. Sorry, I would like to just to come back again on CSS, SME. So you said that the organic growth for this subdivision was 5% like-for-like roughly, with plus 20% for graphics – plus 20% excluding graphics, and graphics was down 4%, 5%. And you said that graphics was 50% of the revenues of this division, [ph] €55 or €15 (29:54)?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

[indiscernible] (29:57)

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

A

Of the CSS.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

Of the CSS revenue produced by SME division.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Okay. Okay. And just to come back on this situation in Europe. Do you think that the trend could – versus the decline could slow down in the next quarter in Europe? Can you explain why is it so violent in Europe?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

It's a situation I have tried to explain quite a few times in the past, but it's not that difficult to understand. Compared to the U.S. market, in Europe, we have governments that are actively pushing to force – convince companies to move to a digital communication as quickly as possible.

You might know for instance that there is a European regulation, which is asking to all European countries to have deployed a digital solution to have companies communicating only through the web with their government. It's a law that has been passed a few years ago now in Europe, but we are getting close to the deadlines that Europe is imposing in all the European countries by 2020, everywhere in Europe, you will not be able to communicate anymore with a public institution outside of the web.

So there won't be any paper communication from companies to our governments. It is not [indiscernible] (32:23), but it's forcing today all those companies to equip themselves with solutions that will allow them to respect those regulations. And as they do that, they are discovering the benefits of moving to digital, and yes, they will also accelerate their move to digital for communication that is outside of governments, which is a problem for our MS activity, but is offering us a huge opportunity to deploy faster our CSS offer, because what do we have to offer in that CSS business, we are offering digital solutions to those same customers, and we know today that we can sell CSS solutions that are producing at the end of the day more revenues from one customer than the pure MS ones.

So, yes, it's a challenge for us, because of where we are – of what we are and where we are coming from, but it's also a big opportunity.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

And just to come back on what you are seeing, do you think that the trend could accelerate into the next quarters from now to 2020, and at the end by 2020 [ph] by almost (34:22) do you think that your legacy business could be reduced?

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

No. I think we have been clear enough on what we are expecting on the MS side. We do believe that the speed of decline will fluctuate, might fluctuate between 4% and 6%.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Okay.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

And what we are doing at Neopost, we are doing everything we can to try to mitigate that decline, gaining market share against the competition, and there are quite a few European countries where we still have that possibility, and obviously North America, where we'll have still a big opportunity to gain market share, and therefore contain the decline.

David Cerdan

Analyst, Kepler Cheuvreux SA

Q

Okay. Thank you.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

A

You're welcome.

Operator: There appears to be no further questions in the queue. [Operator Instructions]

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

If there are no more questions, it might be time to close that call. But before closing, I would like to remind you the key elements of this publication. We are in line with our expectations, and we are confident that EDS and Neopost Shipping will deliver double-digit growth in 2017. At the same time, SME Solutions continues to demonstrate strong resilience in an adverse mail market. At that point, I wish you all a pleasant evening, and look forward to meeting with you soon.

Gaële Le Men-Chagnaud

Financial & External Communications Director, Neopost SA

Dear all, please be informed that a transcript of this conference call will be available on our website shortly. And note that our next financial communication event will be the presentation of our half-year results to be held on the 27th of September in Paris. This conference will be in English, and a webcast will be available for your convenience. Thank you again for participating in this conference call today and have a good evening. Bye-bye.

Denis Thiery

Chairman & Chief Executive Officer, Neopost SA

Goodbye.

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

Bye-bye.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

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