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MANAGEMENT DISCUSSION SECTION

Geoffrey Godet
Chief Executive Officer, Neopost SA

So let's get started. Good morning, everyone. So, I'm very happy to be with you today. Jean-François and I will present our 2018 financial results this year. I will get started with giving little bit some highlights about the result of 2018. I've been now more than a year at Neopost. Jean-François will then present and share with you our 2018 financial results in more details, and then I will take a little bit more time to go through our Back to Growth strategy and our plan from 2019-2022 and, obviously, try to give you a little bit more context about 2019 and how we prepared in 2018 for this first year of the plan. And I will finish with the guidance of 2019.

So, just a few words for 2018. We had a very good last quarter, little bit better than expected, and this good fourth quarter performance allowed us to finish well the year. We have been able to stabilize our revenue organically, okay? So I want to repeat this, because it's an important statement. We have been able to stabilize our revenue organically, and I repeat it because it's the first time since 2013 at Neopost. And this was not an easy achievement.

We had some difficulties this year, as we still have our mail business that is declining as headwinds as we start the beginning of the year. But we also had our shipping software activities declining this year a little bit more than what we anticipated, as well as data quality activities, as well as our graphics activities, okay? So, to be able to stabilize our revenue, we had the capacity to actually have some pretty strong growth in some of our key offering moving forward.

First one is on the customer communication management we had a good fourth quarter in particular, but also a decent year, because this activity grew 16% year-on-year. We also benefited from an outstanding growth in our Parcel Locker Solutions, in particular thanks to the increase of the installed base in our Japan activity over there.

And the last one is that while our mail activity declined, it was little bit more resilient this year than the others. So, we had a good performance on our mail activity, on one hand. And we also had a strong performance and strong growth in some of our software activities, one what we will call in the future Business Process Automation activity related to the CSS performance.

These four solutions, and this three outside of the mail here that I'm presenting, are obviously the one we have chosen to build the Back to Growth plan. So, I believe it confirms the choices that we made for (00:30:17) strategy moving forward to execute well on this front.

From an EBIT perspective, we achieved an EBIT margin at 18.2%, which is similar than last year. But in full transparency, we had some one-off item such as a reversal of an earn-out on one of our previous acquisition, icon, which means without this one-off, we would be performing at 17.6%, and 17.6% is in line with the guidance I gave you at the end of September, which was above 17%.

We managed to do those result and the growth in some of our activities and stabilize the revenue with that level of EBIT, while creating some strong cash flow this year. Jean-François will go over it, but we had strong cash flow generation ending up at €152 million after CapEx.

In 2018, our M&A team has been fairly busy and starting to deliver some result in the fourth quarter. So, we managed to delever our first acquisition, which was a very important acquisition for us, because we've been able to acquire the leading player of parcel locker in the residential market in the U.S. in January, Parcel Pending. So, we obviously had some impact related to cost of acquisition. And we also managed to do two divestments in the same month in the same quarter of Satori and Human Inference.

We also look at our infrastructure and as we knew where we were going with Back to Growth, we obviously looked at our IT and infrastructure, and we decided to write-off some of those environment that were not suited to be able to operate the company moving forward, and Jean-François will obviously present to you some of the reason there.

And then, finally, if we look at our net result before tax, we are actually not too far from last year, little bit lower, very small gap. The big difference is our full net result, which is related to tax. Last year, we benefited from a very low level of tax, whereas this year we're getting back to a normal level.

So, that was the key element I wanted to share with you in introduction before I let Jean-François go over our 2018 results, and I'm going to give you the remote.

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

Ladies and gentlemen, good morning. I'm going to share with you now our full-year 2018 financial performance. Let's start with our sales figures, here we are. So we posted sales of €1.092 billion, down 1.8% compared to 2017. As you can see, we had a small negative scope effect of minus 0.2% coming only from the divestment of DMTI that we did in July 2017.

Unfortunately, we had a negative currency impact again this year for minus €20 million, or minus 1.8%, coming from the dollar/euro currency exchange. As you know, 44% of the revenue of the company is produced from North America. But if we restate from scope effect and currency, as Geoffrey said, we managed to stabilize the revenue this year with plus 0.2% organic growth compared to 2017. Again, this is the first time since 2013.

How did we achieve this performance? We experienced a better than expected Q4 sales, producing 1.5% organic growth compared to Q4 of last year, the third positive quarter in a row for 2018. In Q4, all our business units performed well.

As you can see in the chart at the bottom of the slides, Enterprise Digital Solutions division generate an organic growth close to 20% in Q4, improving the organic growth for the full to 11.6%. EDS is back to double-digit growth. Neopost Shipping continue to generate a double-digit growth in Q4, 12.1%, posting the organic growth for the full year at 16.6%. And our SME Solutions division only declined by 1.8%, improving the organic growth for the full year at minus 2.1%. Again, we are satisfied with both our Q4 and full year revenue performance.

Let's move to our full year sales organic change. 0.2% organic represents €2 million of additional revenue. Why is it a good performance? SME, our biggest division, declined by 2.1%, or loss of €20 million of revenue. As you know, SME holds 100% of our structurally declining Mail Solutions business. But we managed for the first time to fully compensate the €20 million loss by €16 million additional revenue coming from our EDS growth, and €9 million revenue thanks to the Neopost Shipping double-digit organic growth.

The portion of our recurring revenue on total sales slightly increased to 70% compared to 68% a year ago. Our recurring revenue increased by 2.1% organic, supported by growth in maintenance and professional services coming from Enterprise Digital Solutions, the growth of rental revenue coming from Packcity in Japan, and growth of our Software-as-a-Service revenue. The business models of our new activities are replacing progressively the structural decline of recurring from our Mail Solutions business. Mail Solutions experienced a lower decline, minus 3.8%, compared to the last three years, but our dependency on Mail Solutions remains high, representing 70% of the total revenue. The revenue coming from Communication & Shipping Solutions now represent 30% of the total turnover compared to 28% a year ago.

The geographical breakdown of our sales remained unchanged. We had good resilience from our revenue coming from North America, growing by 1.2%, thanks to a nice growth from both SME division and EDS. European revenues experienced a slight decline at minus 0.3%, with lower decline from France and a strong growth from EDS in Europe. The revenue coming from the rest of the world declined by 2.5%, despite the growth coming from Packcity in Japan. Per business units, SME revenue remains by far the biggest portion of the group revenue, 83%.

Now, let me share with you some business highlights for Enterprise Digital Solutions in 2018. Enterprise Digital Solutions generated a revenue of €147 million, double-digit organic growth of 11.6% for the full year. EDS is roughly 12% of the group revenue. The two main components of EDS are Customer Communication Management software and our Data Quality Solutions software.

For Customer Communications Management, after a difficult year in 2017, we managed to adjust our go-to-market strategy by focusing on verticals and introducing a phased approach to license sales to avoid the difficulty of large deals upfront. It brought Customer Communications Management to a high-double-digit growth at 16.3% for the full year. We benefited from the signing of several large deals for a total close to €5 million in Q4 in the financial services and utility verticals. The maintenance revenue continue to grow in line with our increased base of customers, and we have a strong year in professional services revenue. We are very satisfied with the recovery of our Customer Communications Management business line, which is, as Geoffrey said, one of our strategic pillar for the future.

The Data Quality business continued to decline this year at minus 5.7% compared to 2017. As you know, we have recently divested the data quality business line through the sales of Satori and Human Inference business.

At Enterprise Digital Solutions division, more than 70% of the revenue is recurring today.

Let's move to Shipping. Neopost Shipping posted revenue of €66 million, representing an organic growth of 16.6% compared to 2017. Neopost Shipping is roughly 5% of the group revenue. We are pleased with the double-digit growth of Neopost Shipping, obviously, this year. However, it reflects different trends Packcity grew by 138% versus 2017. This is essentially due to the full impact of the sharp increase of our parcel locker installed in Japan. Our installed base increased by 1,500 parcel lockers this year to reach a total of 3,700 lockers at the end of 2018. This is mechanically generating higher rental revenues.

Our partnership with Yamato is progressing well and we have just started to deploy the network for the 7-Eleven convenience store. We also benefited from the delivery of few parcel lockers to Australia Post. As you know, the parcel locker is one of our key strategic business to support our Back to Growth plan in the future.

CVP-500, our fit-to-size packing system, the revenue increased by 24.3% compared to last year, so basically we sold 10 machines this year compared to 9 machines sold and 1 machine rented in 2017. So, in total number of units, it's flat. The growth is coming from more machines sold, increased average selling price, and higher recurring revenue.

The revenue from shipping software are down 8.7% organically. As a reminder, shipping software is a mixed bag of various software, such as ProShip, Temando, and track-and-trace software. Some of our legacy software are being gradually phased out, while Temando and ProShip didn't perform as expected. As you know, we have decided to consider our shipping software business line as additional operations with clear strategy of grow, improve, or exit options.

Let's move to SME. Revenue for SME Solutions division reached €905 million, declining only by 2.1% as compared to a minus 3% revenue decline for the full year of 2017. And SME Solutions represent around 83% of the total group sales. Mail Solutions continues to represent the bulk of SME Solutions, and mail solutions' performance slightly improved versus historical track record in a continuously declining market. The rate of decline has been lower in 2018 at minus 3.8% compared to the minus 4.3% in 2017.

Q4 performance has been strong, particularly in North America and in the UK. The dynamic in North America remains high with a limited decline of 1.8%, while Europe is under pressure with a stronger decline of 5.9%. The graphic business line declined again this year, 8% compared to full year 2017. And as you remember, in APAC – or in Asia Pacific, we lost a large customer in H2 2017, impacting our 2018 performance.

The good news is coming from the digital Communication & Shipping Solutions dedicated to our SME client base. We continue to do well, another year of high double-digit growth, 19.7% in 2018 compared to 17.5% in 2017. We are pleased with the performance of our OMS-500 and Neotouch offers, and thanks to the streams of revenue, we partly offset the structural decline of our Mail Solutions business. At SME, the portion of the recurring revenue remains very high, 69% of the total turnover.

If we look now at our P&L, the gross margin improved at 75.1% of our revenue compared to 74.9% for the full year of 2017. Furthermore, our EBITDA margin remained very high at 24.9% of our revenue. And the decline of 70 bps is mainly coming from the level of expenses we allocated to our Shipping division to support the development of all the business line, with a strong focus on go-to-market, marketing, and R&D.

Our EBIT rate remains high at 18.2% of our revenue, same as last year. As Geoffrey told you, it includes a reversal of earn-out related to icon Systemhaus for €7.5 million. Restate from this reversal, our EBIT rate would be at 17.6%, in line with our expectation. To have a good understanding on how we manage to maintain this level of profitability, we need to look at the evolution of our performance per division.

And I will start with SME Solutions business unit, where we managed to keep an EBIT margin almost stable at 21.5%. This performance comes from two important factors. First, the high growth in Communication & Shipping Solutions dedicated to SME customer base that lowered the rate of decline overall of the SME business unit. Second, the capacity to develop synergies between Mail Solutions business line and Communication & Shipping Solutions business lines.

Moving to EDS, in Enterprise Digital Solutions we posted an EBIT margin at 20.3%, compared to 11.6% a year ago. If we restate from the earn-out reversal, the profitability of our EDS business unit stands at 15.3%. The improvement in profitability compared to 2017 comes from the recovery in license sales, the increase of our recurring revenue combined with better costs related to go-to market to address our verticals.

Neopost Shipping EBIT margin strongly decreased at minus 31.9% compared to minus 21.8% in 2017. This deterioration is a combination of the decline in sales of our profitable shipping legacy software, and the maintained effort dedicated to the development and the support of our new shipping software solutions like Temando and ProShip, that didn't produce the expected top line growth.

We allocate as well significant resources to R&D development to support CVP-500, the pack-to-size automated machine. And we have as well some R&D resources dedicated to the development of new feature on our parcel locker business. Close to €8 million have been allocated to support our Neopost Shipping division this year, in addition to what we did in 2017.

In innovation, we have dedicated €5 million to a new project related to mobile and cloud application. So to conclude on our EBIT performance in 2018, 2018 is a combination of quasi-stabilization of the contribution from SME, improvement in our EDS profitability and higher investment dedicated to our Shipping Solutions division.

Going further down to P&L, we recorded €17 million for the acquisition and divestments related expense. The increase from last year is coming from a high number of projects that we run during the year for both potential new acquisitions and potential divestments of some of our assets. Within the €17 million, €11 million are related to the depreciation of the purchase price allocation, a noncash item.

We booked as well €13 million expenses related to our optimization plan, which is mainly cash based. We also had €12 million net mainly related to divestments and write-offs of assets, and I will provide you with more details in the next slides.

Our net financial expenses reached €30 million compared to €34 million in 2017. As a reminder, we had last year €1 million increase due to one-off expense related to the refinancing operation done early 2017, as well as costs related to renegotiation of our revolving line facility for €400 million. Overall, our total cost of debt remains stable, 3.5%.

Our profit before tax slightly declined, almost stable, and stands at €127 million compared to €132 million in 2017. In tax, last year we had no tax charge due to both the revision of the income tax in the U.S. and the cancellation of the tax on the dividend in France. This year we booked a one-off related to very old tax litigation. Our normalized tax rate should be around 23% to 24% going forward. So, because of the tax difference in tax between 2018 and 2017, the net attributable income stands at €92 million compared to €134 million in 2017. It represent this year 8.4% of our revenue.

So let me drive you through the detail of the €12 million we recorded as divestments, write-offs, and other this year. First, we get the benefit of the divestment of Satori that we did in January, our address-cleansing software business, for a positive impact of €39 million. We booked a next charge related to the divestment of Human Inference, so the other part of the Data Quality business line, for €7 million.

Considering the performance and the disappointing start of Temando into the Magento platform, we decided to impair the goodwill of Temando, hence a charge of €20 million. And following the new strategy we have decided, which is to redefine our IT infrastructure to better support the transformation plan, it leads us to write-off and accelerate the depreciation of some IT-related asset, a net charge of €22 million noncash. Most of these items are noncash based.

Talking about cash, let's move to the cash flow generation. Our cash flow generation remained very strong. Neopost continues to improve the free cash flow generation at €152 million compared to €149 million for 2017. How did we achieve such a good performance? First, the EBITDA remains high at €272 million, demonstrating that the transformation of Neopost does not come at the expense of our capacity to produce strong cash flow.

Second, we improved again our working capital performance compared to last year, with a positive impact of €15 million, thanks to a good management of our receivables. Third, we had a positive change in lease receivable, with 4.4% decline in our lease portfolio. This trend should continue in the future. Our interest on income tax paid amounts to €54 million, same level as last year.

Moving to capital expenditure, we had lower level of capital expenditure, €88 million compared to €99 million of last year. This year we benefited from €5 million subsidies related to our parcel locker in Japan. Our capital expenditure have been mainly allocated to the development of our software and hardware solution, the management of our franking machine installed base, which is rented for some of them, and the expansion of our parcel locker network in Japan. We are well above our commitment to generate a minimum level of free cash flow of €100 million per year.

As far as acquisition are concerned, we spent €26 million net this year, close to the €23 million recorded in 2017, and it does include the acquisition of Parcel Pending and the divestment of Satori Software.

Debt structure on maturity at January 31, so first comment, we don't have any significant refinancing deadline before 2021, a well-spread maturity. Our debt structure remains diversified between U.S. private placements, euro private placement, public bond, and Schuldschein. And our flexibility remains very high, as our revolving line is currently fully undrawn and this, after the Parcel Pending acquisition and the sale of Satori Software.

Thanks to our capacity to generate strong cash flow, our balance sheet further improved and is showing a healthy financial position. Our financial net debt decreased by €58 million and stands at €617 million. This level of debt is fully backed by our highly profitable leasing portfolio, standing at €706 million. In addition to our lease portfolio, we have more than €200 million of future cash flows coming from rental activities.

We improved our leverage ratio at 2.3 times EBITDA versus 2.4 time at the end of 2017. Our leverage capacity continues to improve and all our covenants are fully met. Excluding leasing, our leverage improved from 0.7 down to 0.4 net debt-to-EBITDA. As a conclusion, a good year with a stabilization of the revenue, high level of profitability, higher free cash flow, and a stronger balance sheet.

Thank you. And I now hand back to Geoffrey.

Geoffrey Godet

Chief Executive Officer, Neopost SA

Thank you, Jean-François. So, after the presentation of 2018 result, let's spend a little bit of time together to go back to Back to Growth, the reason why we have decided this strategy. I'm not going to go over the full strategy in detail, but I think it's important that we share together some of the key assumptions and key pillars moving forward, so that we could all better appreciate 2019 and the guidance.

Just as a quick reminder, Neopost has been transforming or trying to transform itself since quite many years now and along that path, had diversified its portfolio of products, ending up with more than 80 products outside of the mail portfolio of product. In addition, it's a company that is now operating in 2018 in more than 29 countries directly, and 70 others through indirect channels and exports.

So, the key rationale of Back to Growth is to make sure that as we look at our structurally declining market in the mail business, that we've seen from the minus 4% to minus 6% in the previous years, making sure we decide to focus on key engine growth to make sure we could get back to growth. So, we have decided to focus on four main solutions.

The first one being the main and that's my first conviction is that we could definitely do a better job in the mail business. And even though it's a declining market, because of our unique position overall against our competition and the strength that we have, there are things we can do in the coming years to retain the cash that is generated by this activity.

And then, obviously, we decided to focus on three key strategic offers, solutions, each one of them being very relevant because of the credibility that we have in those markets, because we've been operating in those markets, we are the well-known, have the product, have the solutions, have the team, we know the domain. And they are both each one of them focusing on markets that are high growth markets, that are at minimum of a size around $1 billion, fast growing, and in which I believe we have the capacity to be one of the key leaders of those markets, meaning being number one, number two, number three, or number four. Okay?

In addition to that, one of the key thing is I believe every team can do a great job as long as we give them focus, so focus on four solution versus the large portfolio of product we had before. But also operationally focus on key region. So, we're going to focus exclusively the growth of those businesses in two main regions. The first one being North America and the second one being just a few selected countries in Europe, the main European countries, around France, UK, and Germany, and a few surrounding countries for each.

That leaves us with the rest of our solution, which some of them are still growing, but they don't have necessarily the materiality for us to be able to build back to growth, so we need to make sure that those additional information, which is the strategic offers, the four that we have in those other countries, as well as the other solutions that are not part of the four main solutions are going to contribute to Back to Growth. So, we still expect them to be able to grow from the top line or to grow from an EBIT perspective, and therefore they're going to have to grow or improve, because some of them, obviously, are not contributing today. And if we can't improve them, they will have to be exited.

To achieve this ambition, which again it's an ambitious plan, because being able to go back to growth organically in a sustainable fashion no later than 2022, when you have a mail business that is declining at the beginning of the year, this is a challenging ambition. We have to accelerate our business. And we're going to do so with twofold, two pillars. One thing is organically reinvesting in our business in a more disciplined way and more focused way. Part of it will be €100 million of CapEx dedicated in average per year to those four main solutions, in those main region only or mostly, so more for each. And then the second thing, being able to accelerate also the growth of those businesses, each of those four, through an M&A plan of bolt-on acquisition, so very specific acquisition for each of those four business where it makes sense.

So that's the two key pillars. And then, finally, and I will get little bit through it as well, from an operating model perspective, we're going to move from being a holding company of multiple businesses to truly trying to become one team, an integrated team company group, being one, so that we could really gain efficiency on the execution side of it.

Before I go into each of the solutions and some of the initiatives we're going to take in 2019, just wanted to share a little bit with you some of the things we did with Jean-François and Gaële and the rest of the team all together last year to prepare for the first year of the plan, 2019 being the first year of our Back to Growth plan.

The first thing that I believe in is we need to make sure whatever strategy and, obviously, we took extra time to define the strategy carefully. So, hopefully, it will be a right one. But what matters is the quality of the execution; execution, execution, execution.

But to achieve that, the major thing is to have the right team, right? So, refocusing on the team that you have, making sure you have the right people in the right place to be able to achieve the growth that you want.

So, we took the time last year to put in place a new management team, hiring people from the outside in different areas of the company as well as leveraging a lot of the key people that we had inside, but giving them new role, putting them in new positions, so they are better aligned with our new plan. The Back to Growth plan, as I mentioned to you, it took a little longer some time than usual to be able to do a in-depth strategic review because I brought onboard during the review process a 100 of our key managers and leaders.

So, that takes a lot of extra-time obviously to get people working in. But I believe this is a better insurance of the quality of the execution moving forward because as they worked on it, they took ownership of it. And I believe we're in a better place this year to be able to execute with a team that knows the reason why we made the choice that we made, they onboard with it and they know where we are going and they have taken ownership of those priorities and next steps.

So, having a new team is one thing, but it's also a new way of doing business. It's a new culture; it's new processes. That's what I mean by new way of doing business. I said moving from the holding company to one team, one corporation. So, one thing that we really worked on very carefully last year, as an example, is with our go-to-market in CCM. If you remember when I first met you at the same time of last year in 2018, the CCM team, as part of Enterprise Digital Solution, came off a pretty rough last few quarters with Q3, with the growth continue being stalled and Q4 being a strong negative growth.

So, there was obviously a lot of question raised naturally as it relates to was it the market, was it our solution, was it the team? So, we worked on that and I shared with you the progress all along the way to have the team have, what we call, that land-and-expand approach on the go-to-market which takes time, which is really a redesigning of the way the go-to-market teams are working together, making sure that when you look for big deals or enterprise sales cycles, you work with C-suite. People are happy to get big deals to be signed. The bigger the number, the better it is.

The problem is that landing those big deals is difficult. It requires a different approach and my belief and what we have implemented with the team, which we had a new leader also that came in in North America, Chris Hartigan, and across the board with the rest of the team was to phase ourselves, slice the deal, not sure to go big at first, being able to work with the company, try to test every solution on the first department, first office, the first subsidiaries, sign the deal that is smaller, which is less risk to be able to get in, prove the value of the solution to the customers. And as we prove the value, it is much easier to be able to get to a larger deal with an existing customer than from the outside. Okay.

So, as we look in Q4, for example, we did get the benefit of some of those big deals, but they were not with new customers, for example, the largest one we had in Q4 was a gas utility customer and it was a customer we signed a year ago on a smaller deal and ended-it to be the biggest deal we ever had since we worked with this team at GMC.

And I think the key point is we were not looking for those big deals per se because I want to make sure we could achieve the goals we're seeing for ourselves regardless of those big deals. And that's what I think the CCM team did this year, thereby working on the smaller deals, working on their pipeline, they got more accuracy, more visibility on the forecast because they're more reliable on the way they project whether or not they could win or sign those deals and they ended up with having still a double-digit growth regardless of the big deal this year.

It's going to take time and every time we're going to go to a new vertical or a new market, as we've seen the progress this year, those things don't happen overnight. It's going to be an engine that has to get fine-tuned quarter after quarter as we penetrate in verticals, which isn't going to be the case with CCM moving forward in 2019 and the next few years of the plan.

Another example in the way, new ways of doing business, and that's what I'm trying to implement throughout organization is a few things obviously, speed. So as we design the new organization that I shared with you in January, is making sure we could make decision quicker. Because speed, when you are a growing company or you want to be a growing company, speed of decision, speed of correction, speed of gap management is important. And you need to make sure you have team that can make decision and have ownership of those decisions, especially in the larger corporation, things could be diluted quickly.

So, we have, as we look at the implementation organization, remove layers of, what I call, the management reporting or consolidation and making sure we design group or people, individual, that have full ownership of a business or a decision, making sure that for each process, there's only one decision-maker in the company, applying it to myself as well.

And that means, for example on the solution, I want to have a team that is in charge of all aspect of the solution, gather the requirements from the customers, look at the size of the market, look at the trend, decide the technology, look at how to produce the solution, work with the product demands and have the product capacity and make sure they could deliver the product to the organization or to the customers; so that they could take no excuse by saying it's not me, it's another department, another function. Same concept on the operation is making sure we have operation teams in the region that owns the entire go-to market from presales to sales to marketing locally to the implementation of the customers, to the support so that again, when they are in front of a customer, they can never say it's not me, it's somebody else, elsewhere, etc.

They have all the resources and the means to be able to execute. That means we are a very trustworthy organization, by employing our people to make those decision, which I believe is the only way to be able to execute correctly. Growth is also a mindset and it's not a one-time things to do. When I would say growth and we say, we want to accelerate to M&A, it is not to do M&A for M&A. But it's to be able to get back to a sustainable growth organically from that perspective, which means these are not going to be the result of one-off decision or acquisitions. Innovation is also one of the key element as part of the organization. We need to be able to be better added as well. We just hired a new leader to manage our innovation team across the company, but it's not innovation from a technical perspective. It's innovation from a business perspective.

Eric Pité that is based in Boston in the U.S. will oversee that program. The only goal that I have for him is making sure that at the end of Back to Growth plan three to four years from now, he has invented, tested, launched, developed, seeded a new solution, out of the four that we have, for example, so it could be a fifth one to move to ensure that we have a continued growth moving forward and we have to start now with respect to that investment.

To execute well in our plan, one element of the plan is, obviously, M&A, as we mentioned it to you and I spend a lot of time to share the discipline. We have a new team that we hired definitely from the outside, a lot of people with a new leader on the team as well. And in 2018, they took the time to making sure they were well staffed and they have the right processes and being able to work with the team.

So, M&A is obviously important to be able to source and screen the right targets which we're going to be much better at because we're focused on just a few set of key solution important for us. But it's also about the due diligence. There's no debate about that, making sure there's good checks and balance, but the most important thing is the way we're going to be able to ensure that financially they meet our goals. And we said that we have some strict financial guidance as relates to the target that we're looking at that they need to cover the cost of capital by year three of the acquisition – post acquisition.

So, we need to make sure that it's designed in the team and we're going to talk about it in the next few slide is the integration – the value creation – we bought those companies to make sure it creates value and we have to work on the plan to create that value from day one, which has to be designed at the beginning of the process.

So, this team, I believe is building a new track record for us. They've been able to acquire one company already with Parcel Pending, which is the leader in the U.S., based in California, for parcel lockers in the residential market. And what is important in acquisition is have the same discipline to acquire, but also potentially this is not the right target and say no to other acquisitions, right.

The second thing is they've been able – in the same quarter in the same month, to prove to us that it could also divest two companies; Human Inference and Satori and obviously, Satori for a very decent value as well. And we have some strong financial discipline in the company that was one of the strengths that I've shared with you and this was something also that we're going to be able to continue and reinforce moving forward.

So, to make sure we all come together as we put in place Back to Growth and implement it, one of the thing that we did with Jean-François and the rest of the team is to share with you a new reporting structure. Right?

So, let me just walk you through a little bit this one. This is basically our 2018 figures that Jean-François just presented to you. So you should be able to find back the same numbers. They're just going to be represented in line with our new plan and the key thing that matters for us.

So, if you look at on the green side, you'll see the group elements. On the blue side, our additional operation and everything that is in orange related to our major solution and major operation altogether. At the group level, €1.092

billion which is the 0.2% organic growth, stabilization of the growth in 2018 with €199 million in EBIT, which was the 18.2% and excluding earn-out, €192 million, which is the 17.6%. Okay?

So, where is the new representation is based on the major operation that we have, €890 million, which represent 81.5% of our total revenue. Okay? That €180 million of revenue is now broken down between North America operation, so just U.S. and Canada for €450 million and has been growing at 1.8% across all those four major solutions that we have. And we have the main European countries, France and Benelux, UK and Ireland, Germany and Swiss, Austria and Italy only, nothing else. And that represent €440 million of revenue in 2018 or 1.3% growth compared to last year. The major operation, obviously the icon reversal matter was included in this major operation. So, even excluding the earn-out, we're at €199 million of EBIT, which shows we have a highly profitable major operation across those four solutions.

Okay. And if we look at the four pillars of solution that are the pillars of Back to Growth, we have the Mail Related Solution, the decline in those major operation for 2.9%, which is not comparable because Mail Related Solution is the mail business, plus some of our shipping software in the mailroom, one; and it's only in the major operation and not across the world. So, you cannot really compare the minus 2.9% decline versus the 3.8% of the Mail Solution that we had before.

Business Process Automation grew at 19.6%, which is similar to the growth rate that we had on our Communication and Digital Solution within SME because some element of those business are included here in the Customer Experience Management, which is really close to the Customer Communication Management, but only in the major operation, grew at 32% last year. And then finally, the Parcel Locker Solution business, some of you may discover this chart for the first time you see, the amount is small at €6 million. It is normal because the major business that we have in Parcel Locker is not part of the major operation. It's included – our Japanese business for lockers is included in the additional operation, Japan not being part of the major region.

And last but not least, our additional operation represents a good amount of the revenue 18.5% at €202 million, but it's been declining at 5%. And most importantly, it is not contributive to the EBIT as we are having a loss of €7 million.

So, we took a lot of time for this. Let's go over each of our key solution, the first one being our Mail Related Solution. So, again in term of scope, it includes the mail business and some of the shipping software we have for the mailroom and this is one of my key belief today is that we have a unique position on the market. We don't have that many competitors. We have some. There's a unique structure of competition in each of the local countries we're operating into.

We have a unique position of our product range versus the competition where I believe we're in better position on the mid segment versus the high and the low. And as we look at the market dynamics and we look at the decline of the mail and the different rate that we have between Europe and the U.S., we believe that we need to take care of this business, nurture it. This is where we get a lot of our cash.

Every customer we gain as a new customer today, we get it for five years. And it's five years on a business model of a lot of recurring services, leasing, supply, additional services we can do for the customer for five years, support. We can upgrade different machine and different capability. There's digital capabilities today we could up-sell and cross-sell to them as well to help them with their mail business. And every customer we have is for five years.

Every customer that retain better is also a customer that retain for five more years. So, this is a recurring, lasting and highly cash-generative business and we need and we owe it to ourselves to nurture the best we can.

We could see a little bit that we have a better performance in the market, for example, in North America and this is the goal of the plan is whatever the decline of the market overall and strength, you do better and reinvest, reinvest in CapEx, in the product range, in marketing, invest in new capabilities and features digitally speaking, and of course invest in the go-to market. So mail optimization initiatives is really about trying to get better market share wherever it will be possible. Those effort takes times because it takes times letting the CCM market to rehire a salesperson or make sure you dedicate them for customer acquisition and whatever investment we make this year, we will be able to benefit for the rest of the plan.

We will also focus on synergies with respect to the sales team that we have that is nurturing the mail business as I mentioned to you at the Capital Market day. From a cross-selling perspective, some areas of this team in term of segmentation are well suited for cross-sell for the parcel locker or for our BPA, Business Process Automation solution. And then finally, we will look at potential opportunities to optimize our local distribution footprint, in term of go-to market, going direct or going indirect or changing or potentially acquisition of local distributors if it makes sense or where it make sense.

Business Process Automation, like the next three or the next two is the parcel locker and the Customer Experience Management one are businesses in which we have operated now for a few years that we know very well, as we now are benefiting from a strong growth last year. And it's really being able to serve and focus on small- and mid-size customers and within small- and mid-size, the mid-size one. And for them, we had had some good initiatives and proven initiatives now and business developing itself in the SaaS base, so also 100% recurring like our mail business. We like recurring business at Neopost. And it's really providing them solution to digitize the mail to a hybrid mail solution. And as we were going digital on the Mail Solutions side for them, with the hybrid mail solution, if you open what is in the mail, a digital mail, physical mail, 50% of the time for our customers, it was an invoice. So, we develop solution on top of the hybrid mail solution, to be able to manage what we call account receivable and account payable, which is really inbound and outbound management of invoices, okay?

And that's where we're going to focus a lot of our efforts and we're going to have to continue to add new features and new capabilities on the solution of the platform of AR and AP that we have today and focus the development from the marketing and sales perspective of this solution in our key geographies.

Customer Experience Management is the third pillar of our strategy, which is also in synergy with our solution in the mail and some of our solution on the Business Process Automation side. The strategy there, we have a base that is a bit more mature, €100 million plus. And what we said is that we wanted to be able to gain market share. So, that's one of the first initiative.

So, the first initiative is that we've been in financial services, banking, insurance and healthcare and we took all those few years to be able to develop a decent position in each one of them. As part of our Back to Growth plan, is to continue nurture those three verticals and make the investments and being able to develop the go-to-market in other highly regulated industries, which is gas and utility and telcos.

In the last quarter of last year, in 2018, we actually had a chance to sign a pretty large gas utility company, which was one of the big deal that we had. So – and we had previous already reference. So, we know our solution is suited for those markets. What we have to do and we're going to implement this year is to be able to invest in the go-to market, which means hiring people that have the domain expertise, establishing the same business process and tools and process that we had, that we apply this year on the financial services segment and healthcare to those new markets and they won't happen overnight. These efforts will take investment in Q1 and Q2 and Q3 and progressively, we should see the go-to-market improving and hopefully providing some result next year and the coming years.

We also said that from our Customer Communication Management platform, the base, the product is Inspire here that we wanted to develop new capabilities digitally speaking to have different type of level of interaction, bidirectional, very dynamic to be able to bring the customer communication the companies have with their customers to a customer experience management level. So, from an R&D perspective, we had started last year and we're going to continue to increase our R&D and innovation effort to be able to bring the platform to that next level and being able to cross-sell those new capabilities progressively in the few verticals that we have today, as well as the new ones around the four years of the plan.

Parcel locker, which is our last pillar of our strategy, so just as a quick reminder, the parcel locker solution is an amazing solution to solve the last-mile delivery issues. As the e-commerce is increasing, managing the delivery of parcel is becoming a nightmare for a lot of different players throughout the chain. It has impact from e-commerce and retailers, traditional retailers, e-commerce or e-retailers as well as the carriers. And for all of us as customers, consumers, whether we are at the time we want to receive a parcel in our company, in our office and how we can manage to get the right box, something that could be really urgent and really important to us as a person when we are at home, in our residence or at home or at building. Solving it is a critical issue. There's different ways to solve it and it's not going to be a one-size-fits-all solution. You have an environment of delivery in rural environment, in suburban area and in big cities. Our parcel locker solution is the one that is really solving the problem of the last-mile delivery problem in big cities, high concentration of people in a small location. So that's the first thing.

The second thing and this is a proven solution. For the foreseeable future, we believe that the parcel locker solution in that segment is going to be really a multi-local solution, meaning that the position we can take in one country is independent of the position we may have on the others. Yes, we will have synergies from a product and supply chain perspective across the world, but we need to – when we enter a country, we need to be the best one in that country to own that market. That's what we have learned in the previous years by testing what we've done in France and Australia and Japan. And in Japan in particular, we are the leader in that market because there is definitely an importance of being able to have the largest network of installed base in lockers to be able to get from the benefit of that installed base.

So as part of the strategy, we decided to identify that the U.S. would be the most important market for us and we wanted to be able to take that position in the market. So we were a small player in the market and this is why we decided and we looked at all the different occupancies in this market to acquire Parcel Pending, which is the leader in the residential market in the U.S. As we did the acquisition and then we're getting them onboard, it did validate for us that this market has been a growing market in the last five years, growing fastly year-on-year, doubling at times from one year to the other across the board. They are the leader of the market because they have 2,500 unit installed in 2018. We believe that this market potential just in the residential overall could be up to 75,000 lockers, so that gives you a sense of the potential in this market and we are very happy to be able to have Lori and her team onboard. Before we acquired them, they finished the year with USD 30 million, around, 2018, they grew 80% compared to last year. Their EBIT was slightly positive. And just as a quick reminder, the acquisition price was around USD 100 million. But I do feel very confident that Parcel Pending, we're in a good position to be able to cover the cost of capital after three years post acquisition as well on this acquisition specifically.

We're obviously working now on the integration and the value we could create from this acquisition for us in the U.S. So that was the last part of the M&A discipline is working on the integration with the rest of the team and the new team that we're having with Lori. Some of their key first decision we're implementing at the beginning of the year is that Lori, the Head of Parcel Pending, will be the head of all our parcel locker business in the U.S. Avoiding from day one any conflict in go-to-market in general, she will manage both teams that we have across the board for parcel lockers.

We're going to leverage, obviously, from day one as well some of the stregths that we could have from a go-to-market that we have with our sales teams from the mail-related solution team. We are working and studying on the product range. We'll quickly – probably in Q2 or early Q3, we'll try to have only one product on the market. And on top of it, we're going to look as well during the period of time how to harmonize the fact that we have two supply chains and two product range and probably a project that will be started this year, but providing for potential result next year after.

In term of integration, we are looking at it from a basis of value creation. So, it's a process and it will take two years quarter after quarter to be completed. And quarter after quarter, we'll take one process at a time the idea is let's focus on the things that will create value instead of just integrating the company for the sake of integrating the company. We have a team that is working really well. We don't want to disrupt them. We want to help them augment their capacity.

In addition to that, we're going to continue to take the leadership position on the residential market and see if we could do better in that particular area. So, continue the development from a go-to-market there. And there's already initiative that has been launched to see if we could penetrate new market this year.

So, let's not have our expectation too high. When we open a new market, it takes time to refine the go-to market. And so, these are initiatives, proof of concept. We have now a new product range that Lori and her team already launched to be able to test the retail market and then the retail market to look at groceries. And as you could see on the picture, we have the refrigerated locker already ready to test that market.

So in summary, some of the initiatives that I have started last year, but being put in place also for 2019 is that we're going to do investment in cross-selling and customer acquisition team on a go-to market. This is true for each of the four solution, but in particular, where the bulk of the investment will be is for our go-to market and the mail-related solution.

The repositioning of our strategy on four solution and the two main geographies is just beginning. So, it's ongoing. So, this is going to take 2019 at least to be completed. It doesn't happen overnight and we definitely don't want to drop anything along the way. So, we're very careful on the phasing of the change on the organization. We're going to continue to accelerate investment on marketing and product conversions, that's also part of the benefit of the focus, as we focus exclusively on the four solution and we need to make sure we rationalize the product portfolio along the way. We're going to increase innovation expense to benefit each of those four solution this year. Among other things, we're going to set up a global R&D team, global for hardware, global for software, to make sure we're getting the full benefit and full efficiency for the rest of the Back to Growth plan.

And finally, as Jean-François mentioned, our IT platforms were not necessarily well-suited to be able to provide us the data that we need and the way we needed at the speed we needed to be able to support the business. So, we're going to have to design a new platform IT and potentially being able to begin or not the implementation of that new platform before the end of the year.

In summary, that represent probably €10 million to €15 million in expenses this year additionally. The €10 million to €15 million is because we're still in the study phase on a few items and it may depends on the phasing and which quarter we are able to start some item or not. So, as we get to the point that you may have some interest for 2019, before we get there, I will make sure we focus a little bit on our capital allocation policy and financial target as well.

So, as I said earlier, to accelerate the transformation of the group and get back to growth, we need to invest both organically and in bolt-on acquisition. This require a reset of our capital allocation policy and then we will do so with two key direction in mind, discipline and flexibility. So first, discipline will be applied to all our investments. As far as CapEx is concerned, we're considering spending as we mentioned earlier €100 million in average per year during the plan and this represents a slight increase compared to what we have spent in 2018. So our starting point last year was €88 million as Jean-François shared with you.

So in CapEx, we'll obviously be focused on the major operation exclusively or mostly exclusively and through our four main solutions. In term of M&A, the discipline, we have set an envelop of €400 million over the four-year of the plan for acquisition, net of divestments. So strict financial discipline on the type of target we're looking at. And we will be looking for targets delivering, as a reminder, double-digit growth topline and ensuring that the cost of capital will be covered no later than three-year, post year of closing. Okay?

I am obviously very confident that this applies from now to Parcel Pending as well. And for your information, between the announcement on Parcel Pending and the proceeds that we've got from the divestment of Satori and from Human Inference, as of today, we're left with €374 million envelope for the M&A plan for the rest of Back to Growth.

Discipline will also apply to our balance sheet. We obviously have some room for re-leveraging on our balance sheet as we currently stand at 0.4x excluding the leasing and we move from 0.7x to 0.4x in 2018. But we commit as part of this plan to keep our leverage ratio excluding leasing well below 3x, well below 3x.

In the meantime, we will remain a highly cash-generative firm. But to finance our growth investment, we need to have more flexibility in terms of cash allocation. And this is why we decided to adopt our shareholder return policy and to adapt it now. So, a new payout ratio has therefore been set at a minimum of 20% of our net income with a dividend with an absolute floor at €0.50 per share.

So, if we were not to spend the €400 million envelope on M&A because as mentioned, we need to make sure we acquired the right target, we're obviously committing ourself to return to our shareholder in whatever would be the best way at that time the unused portion of the plan at the end of the year, four-year plan, that we have presented to you. So, for 2018, with the board, we have approved the dividend logically and consequently, at 20% of the net income, which is €0.53 per share.

So, just before I share with you some of our guidance or indication for 2019, let's go back to that new reporting structure. And let's look at the pro forma that we have built and prepared for you so that we could really have a good comparison basis moving forward. So, they're same structure, same numbers of 2018, but they've been augmented by a few things to take into account the effect of the scope change. The first one is the restatement of Parcel Pending for an amount of €26 million in 2018. So, even though we acquired them just after, that's the performance they had and that's why we included them; so, €26 million, where do they go? They go into a major operation because it's U.S. based and it's a parcel locker business. So, they go into parcel locker business in our major operation.

Hence, right now, from the €6 million you've seen in the previous slide I presented worth €32 million for 2018 from a pro forma basis. We are also restating the same way Satori Software and Human Inference for €22 million impact. These were belonging to Data Quality and we put them in the category of additional provision, hence why they're impacting the additional operation top line as well from the €200-plus million that we had. We're now at €180 million as we have divested those business and it has also consequently the logical impact on the EBIT of each of those two operation.

But as a quick reminder, Satori was a profitable business, hence why the additional operational loss and the pro forma is at €12 million, based on the pro forma, which is a quick opportunity for me to remind that is obviously a priority to work on the improvement of this aspect. Consequently, if we look at the total revenue of the group and the EBITDA of the group, we're now at €195 million EBIT for the group pro forma. And excluding the earn-out – one-off item from the earnout of icon for the comparison basis of 2019, we're at €188 million EBIT excluding that one-off on the earnouts.

So, going – moving now to our midterm targets as well as our indication for 2019. In term of top line growth, I remind you that we're aiming at mid-single-digit sales CAGR and excluding a currency impact over the next four years, which includes acquisitions and divestments, mid-single-digit sales CAGR over the plan, including in 2019.

For 2019, at similar scope and forex, we expect organic sales growth to be almost flat compared to 2018. And that is barring that there's no major economic deterioration during the year. So this shows that after our 2018 performance, we will be on the verge of stabilizing ourselves for the second year in a row. But we have to remain cautious because we're early in the Back to Growth plan and as a reminder, our Mail-Related Solution business is still an important part of our business and it is declining. So, when it represents 73% of our sales in 2019, it still remain an ambitious and challenging achievement to be able to stabilize the revenue again; so almost flat for 2019.

The ultimate goal of our plan is to return to a low-single-digit organic sales growth and we say in a sustainable way because again, we want to make sure that as a company, we're able to go back and mitigate the impact of our declining business on the Mail side, which we will have only one way to be able to achieve that is to have that Mail business representing less than 50% at some point of our business versus the 73%, which we're starting for 2019.

In terms of current EBIT, I'll remind you that we're aiming at a high-single-digit CAGR excluding currency impact over the next four years from 2019 to 2022. But however, as you would expect, this is not going to be a linear trajectory, right?

So, in 2019, we would need to take into account the €10 million to €15 million of additional expense that I have mentioned earlier, which relates to the implementation of the new strategy and making sure we do the right thing this year to benefit from those investments in 2020, 2021 and 2022. And this means that excluding currency impact, we expect our 2019 current EBIT to be lower than in 2018, while remaining in line with our four-year plan and commitment.

Finally, we will continue to generate high free cash flow. Our current target is of a minimum 50% conversion of our free cash flow to current EBIT and throughout the period of the plan and this obviously applies to 2019 as well. And I believe this should conclude our presentation with Jean-François. Just in a nutshell, 2018 was a good year. We're very happy to have been able to stabilize for this first year the revenue organically. We have an ambitious plan considering the decline of our traditional business. But we believe we have made the right decision. We believe that 2018 is demonstrating that the solution we're focusing on and the geographies we're focusing on are the right one, and we have to execute obviously. We believe that the later part of 2018 is putting us in a good track. As I mentioned to you earlier, I think the team is an essential part of it and I feel confident we have the right team. We are now on track to be able to execute and we are moving well into 2018 to deliver our Back to Growth plan. Thank you.

We're ready to take any questions or comments from any of you. Yes, Martin.

QUESTION AND ANSWER SECTION

Martin Boeris
Analyst, Exane SA

Q

Good morning, Martin Boeris, Exane. I have four questions. First of all, how do you see the fundamentals of the U.S. mail markets because USPS posted better statistics in the last few quarters, so what's your view?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So what we've seen in the previous years is definitely that there is a – first, there is structurally different way to consume and use mail in the U.S. compared to Europe. And I took evidence of that very personally was I was in the U.S. for the last 15 years. Every day in my mailbox, it was full of letters. I come in Paris definitely much less letters that I receive. I think it's part of the way of doing business. A lot of those mail too, and that's the difference in structure, is related to direct marketing. So there's a lot more marketing aspect going on in the mail versus some of the transactional mail that we see in Europe.

And last but not least, in term of declining trend, what we've seen is a lower decline in the U.S. versus some of the decline we've seen in Europe. That being said, Europe has an average stronger decline than the U.S., but with a lot of differences country-by-country. So in Europe, definitely there was the example we gave you I think during the Capital Market Day for countries that goes down very quickly and then they stabilize. They don't all follow this trend. Digitalization of mail takes a long time and we don't see yet in the U.S. any early indicator on digitization, standardization or other aspect. So that's the current state. I don't think we should fooled ourselves (01:13:27). It will naturally accelerate decline at some point, but we're not seeing that at this point in time.

Martin Boeris
Analyst, Exane SA

Q

So the improvement in direct marketing for you is not fundamentally improving.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

No. This is not our segment, but here, we were first focusing on transactional now.

Martin Boeris
Analyst, Exane SA

Q

Also a question on parcel lockers, how many parcel lockers do you plan to install this year in the U.S. with Parcel Pending included?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

We are not yet providing any indicators in term of numbers of units. There's definitely an internal indicator that we're working on. It's the beginning of the integration. I think as we feel confident to that we have really a good understanding of how the unit, the different size of units, different size of lockers works and how, from one segment to another, both within residential or corporate in newer cities and retail maybe at some point, we may be able to provide that, but not today.

Martin Boeris
Analyst, Exane SA

Q

Okay.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

But they had 2,500 units installed at the end of 2018.

Martin Boeris
Analyst, Exane SA

Q

And a question on Magento and Temando...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Yes.

Martin Boeris
Analyst, Exane SA

Q

Why the partnership with Magento is not delivering on its promise?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

That's a good point. So we launched – we had to maintain all the R&D efforts on Temando in 2018 because the launch of the new platform with Magento, in partnership with them was done in Q2. And since Q2, we're looking at the go-to-market and how we're picking up new customers and this has not met our expectation. So, we don't have a problem technically on the platform, the platform works, so this is behind us. But the alignment on the go to market, which type of customers can get onboard and the speed at which they are leveraging hasn't worked out. There's new initiatives that Magento is putting in place. I can't speak to them because they're related to their business. But as they put them in place, we will see if we could get better traction. But so far, it hasn't worked the way we expected.

Martin Boeris
Analyst, Exane SA

Q

And last question, what amount of restructuring charges do you expect for 2019 after the €13 million we saw this year, I think it was €13 million in 2018. Should we expect the same amount roughly on restructuring charges below the recurring EBIT?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

I let you answer this one Jean-François.

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA
A

Yeah. You should expect between €10 million to €15 million for 2019 as restructuring because again, the Mail Solution – the Mail-Related Solution business will continue to decline. So we have to continue to optimize our cost base between shared services, go-to-market and supply chain operations.

Martin Boeris
Analyst, Exane SA
Q

Okay. Thank you very much.

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

It's a good opportunity just to remind you, we did continue to optimize our business in line with the reduction of business in the SME division last year. There's still a head count that we had eliminated before the end of the year like the previous year, so our focus on cost optimization and cost alignment remain the same.

Jean-François Granjon
Analyst, Oddo BHF SCA
Q

Jean-François Granjon from Oddo BHF. Two question, please. The first one concern the organic growth, you mentioned a flat organic growth for this year 2019. Could you...

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

Almost flat.

Jean-François Granjon
Analyst, Oddo BHF SCA
Q

Almost flat.

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

It's important.

Jean-François Granjon
Analyst, Oddo BHF SCA
Q

Yes. So, could you give us more details by business unit with the new reporting? And so, what would be the trend for each business unit?

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

We are not at this point sharing specific numbers or indication for the four major solution, neither the major operational role and neither the additional operations. So, our guidance or indication for 2019 were exclusively at group level. We're going to try to stabilize again, and trying to be almost flat. Just a reminder, we still have [indiscernible] (01:17:18) at the beginning the year. Even in the Mail Related Solutions, so even if we add the software shipping and the mailroom, Mail Related Solution is a declining – structurally declining market. We continue to expect that decline to happen in 2019.

We're just at the beginning of the plan with the integration of Parcel Pending with all the time that it takes to be able to integrate the mature business and stabilize it. So, we don't have yet the benefit of the new initiatives. So, I don't expect 2019 – I mean I expect 2019 to try to be almost flat, including additional operation and the major operation and that is assuming no change in scope, right, in the year and assuming same level of economy, no major deterioration this year.

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

For Mail Related business, an additional 1% of decline in Mail Related Solution is minus €7 million of revenue compared to 2019. So, dependency that we have on the Mail Related Solution is a strong factor in our capacity to stabilize the revenue for 2019.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

The second question regarding the costs, you mentioned between €10 million to €15 million cost for the new plan, the new initiative plan. Just for this year, do you expect the same magnitude for the year after? So, should we integrate a new cost post 2019?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, what we said is that our intent and our plan and our goals for Back to Growth is to have a growth of EBIT year-on-year on average during the period of the plan. 2019 and it's obviously not a linear trajectory from 2018. So, we should expect to be below 2018. But then, we have three more years.

So at some point, we're going to have to be able to go up. As it relates to how much additional expense in innovation and R&D, this is something that we will see year-on-year. I cannot confirm at this point whether we would accelerate, we would slow down or whether it would be a one-time of event.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

On the last question, concern the Parcel – I mean the acquisition in North America recently. You mentioned that this company is a little bit positive in term of EBIT. So, what do you expect for the ramp up in term of earnings and profitability for this new business?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Jean-François, do you want to take this one?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Yeah. So again, the priority for Parcel Pending, as Geoffrey mentioned, is to produce a strong double-digit organic growth for the coming years, yeah? And on top, we are just starting the integration plan for Parcel

Pending with our current Neopost USA organization with our current overall supply chain organization.

So yes, we are expecting, I would say, over time, midterm, an improvement of the contribution of Parcel Pending. But the short-term plan is definitely to make sure that Parcel Pending is delivering its full potential and that we progress well on the integration plan.

Nicolas Tabor
Analyst, MainFirst AG (France)

Q

Good morning. Nicolas Tabor from MainFirst. Thank you very much for holding the conference. A few questions for me. First, in terms of shipping, so you said there would be more investments, but you expect an offset from an increase in operating leverage and also in terms of – from parcel lockers. And so, in terms of parcel lockers, what level of installation rate per month can we expect for next year because you mentioned that maybe for Yamato a lot of the installation was already done, but now you're signing with 7-Eleven and you have other contracts in Australia.

So, what is the level we should expect for next year? Also in terms of – in the elimination line which is linked directly to the cross-selling, what increase should we expect for that? Do you see already an acceleration in terms of cross-selling between the Mail Solution and the other segment or is it something that will have a slower, let's say, acceleration over the years? And why is the difference of – in terms of this situation in Europe versus the U.S. in terms of collaboration between the different segments?

And then – I'll ask the other question later. Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

What was – could you repeat the first question, Nicolas, to clarify it?

Nicolas Tabor
Analyst, MainFirst AG (France)

Q

Yes, the level of shipping. So, the first one was what level of margins should we expect for next year because you said there would be €10 million to €15 million additional OpEx overall across the group? But should we expect maybe, as there was a strong plus 100% organic growth in parcel in parcel lockers have some stronger operating leverage that will offset those investments?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, just to make sure I clarify and I'll let some of the questions to Jean-François. But we're not commenting or the comment I provided on investment, et cetera, are not related to the old business units. So, when you say shipping, where we're going to be now moving forward providing comment on and and the investment and initiatives are going to be on parcel locker and not on the rest of shipping, right? That would be part of additional operation and we don't intend to provide specific information on what is inside additional operation.

I'll let Jean-François focus on the line between what is cross-selling between the different area of business. But for the numbers of lockers, in Japan we are seeing that 100 numbers of units were installed now on a monthly basis. Our relationship is healthy with Yamato. We have effectively started to work with 7-Eleven. It's difficult to know at which pace it could change during the year, 100 could be a rough order of magnitude a 100 per month. If we have more specific information, we might be able to share that with you, but I don't have specific number on that.

On Parcel Pending, because it's the first year, because obviously it's a company that is also growing fast quarter-to-quarter, I will take a little bit time before being able to give a better specific indication. But it's a company that we're expecting to continue to grow and grow fast, and we're going to do everything we can this year to ensure we continue that growth this year, try to see if we could accelerate next year, et cetera. We're focusing really on growing the business. Do you want to take the rest, Jean-François?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Yes. On the elimination, basically you have two pillars that's supporting the elimination. The first one is the OMS sales performed by our former SME division, so I would say the digital solution that we provide to our SME customer base and some cross-selling related to Inspire, okay? So this level of elimination continue to increase, which is a very good news. And as you know, this Inspire solution is now part of Customer Experience Management, so we plan to have a significant growth there, and OMS-500 is a key piece of our Business Process Automation business line. So, yes, we expect this cost saving to continue for OMS-500 and Inspire sales.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

One more thing maybe just related to Japan. Because of the 100 per month unit compared to last year, while we're going to continue to grow, we're not going to grow at the same rate that we see in 2019, obviously, for the Japanese portion. The growth will be much lower, still a strong growth, but not at the pace that we've seen this year, just for Japan.

Nicolas Tabor
Analyst, MainFirst AG (France)

Q

Sorry for not being clear about the shipping margin. I was, obviously, focusing on the parcel locker side, because, as you flagged it, there's a lot of investment in OpEx every time you have a new installation base. But do you expect the already existing installed base, whether it could be in Japan or in other region, to ramp-up in terms of margin over the short-term and offset some of the installation costs or for now is it still high cash burn business?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So we can complement together this question, Jean-François. The two models we have, and it's a good opportunity to educate all of us on that. In Japan, we have a rental model. So, yes, we have CapEx. So as we install new lockers, we have CapEx to invest and we have the revenue over seven years and the benefit of it. In the last quarter last year we started to see the breakeven point on the Japanese ones, that's why we're pretty happy. But it's also a function of how many new installs we have per month. So, if we – which is a good news by the way, because when we have a pick-up or huge increase, it may degrade temporarily the profitability of the business, but we will recoup it over seven years.

With Parcel Pending in the U.S. and the go-to market in the U.S., we're not having a rental model. So, there's no CapEx or very limited, because we sell upfront the hardware. And we have a recurring that is more related to the maintenance and the support, which is above 20%. But we don't have the same impact. As we grow the business, the CapEx doesn't grow the same way. Jean-François, do you want to add anything to that?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Just to add on the parcel locker. Again, we continue to work on R&D, on improvement about the IT infrastructure to connect the parcel locker network with all the players coming from e-commerce and multi-carrier. So the situation is improving, but we still have investment to go through before reaching the critical mass in terms of recurring revenue and hard sales sales to be able to deliver the proper profitability that we are expecting at midterm.

Nicolas Tabor
Analyst, MainFirst AG (France)

Q

And finally, in terms of financial expense, what level can we expect for next year post refinancing?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

For cost of debt do you mean? Cost of debt, we expect the cost of debt to remain flat in 2019 compared to 2018.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Last chance for last question? I'm going to think we're good.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

We have a...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

A question, okay.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Can I have these ?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Do you have a question, Gaële, from the webcast?

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Yes. We do have some question on the webcast. The first one is the level of acquisition-related expenses, it goes from €11 million in 2017 to €17 million in 2018. Could you provide more information on that?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Yes, of course. So, on the €17 million, we have €11 million that is coming from the purchase price allocation depreciation, roughly same amount of last year. In 2017, we didn't perform any acquisition as such, where in 2018 we strongly work on potential acquisition, potential divestment, some of them has materialized like the Parcel Pending one, like the divestment of HI or Satori, and this is the reason for the increase of this €6 million of cost related to acquisition and divestment.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Okay, thank you, Jean-François,

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

You are welcome, Gaële.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

We have another one. This is about parcel locker. Could you tell us, Geoffrey, what is the total revenue you have from the parcel locker business and what is the profitability of it at the end of 2018?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So we're not providing the total parcel locker revenue. Well, what you have is a decent ballpark, I think, from what we've done within the BU shipping. I can't remember the percentage by heart, so Jean-François has it in mind and he will be able to share it maybe before me. But that should give you a sense of what we had and we have disclosed the additional amount we're getting from Parcel Pending. So you should have roughly equivalent amount of the parcel locker business and what it could represent at group level.

But moving forward, the only number that we will be sharing is in the major operation and will only represent the parcel locker business in the major operation. We will not include the parcel locker amount that is in the additional operation, which is the same way for the Mail Related Solutions. It's the same way for the Customer Experience Management and for the Business Process Automation. The revenue generated by those four major pillars included in our operation will not be shared moving forward.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Thank you, Geoffrey.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

But it's a small portion overall of each of those office.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

There is another question on the Mail Solutions evolution. So the question is, in 2018 you recorded minus 3.8% decline, but it's much less than what you had previously. And could you give us some explanation of the why?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Do you want to take it?

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Yeah, of course. So, minus 3.8% is indeed a lower rate of decline compared to the minus 4.3% of 2017 and the minus 4.7% that we experienced in 2016. And basically, it comes from two things. The first one is the dynamic in the U.S. and we already talked about it. So U.S. declined only by minus 1.8% this year. And we have in Europe some countries like France that had a good year in 2018 in the Mail Solutions business. But the dynamic in the U.S. is strongly supporting the overall performance of the Mail Solutions business line.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

While we surely appreciate the dynamic in the U.S., as a reminder, first quarter the rate of decline was much higher. And we've seen in the historical trend that we have shared before that in the mail business, we have remained within the minus 4% to minus 6%. Sometimes you do have an exception in term of the quarter, so I think we need to take that with a lot of caution. We haven't seen any major things changing to move indicators or trend this year compared to the previous years for what is related to mail.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

I still have other question from the webcast. Do you have any plans to invest in the DACH region, which is Germany and close to Germany?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, we have decided to focus on two main regions, one is North America, the other one is those key European countries. And the key European countries Germany is included, as well as Austria, Swiss, and Italy. And we will focus accordingly on those two main region for all our major solutions. So, yes.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Okay. And the last one is on the margin of SME Solutions, maybe for you, Jean-François. Can you explain why we have a slight decrease on the margin and, yes, to give more color on that? Thank you.

Jean-François Labadie
Chief Financial & Legal Officer, Neopost SA

A

Yes. As you said, it's a minor decline, 21.5% compared to 21.9% the year before. And basically, it's come from some expense that we allocated on the project for web-based platform that we developed to be able to push our software solutions through a Software-as-a-Service business model to our SME customer base.

Gaële Le Men-Chagnaud
Director-Investor Relations & Communications, Neopost SA

A

Thank you.

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

A

You're welcome, Gaële.

Geoffrey Godet

Chief Executive Officer, Neopost SA

So, as we finish with the webcast question, if there's anything left that came to mind here? So, thank you very much for your attention. Have a good day.

Gaële Le Men-Chagnaud

Director-Investor Relations & Communications, Neopost SA

Thank you.

Jean-François Labadie

Chief Financial & Legal Officer, Neopost SA

Thank you.