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# Quadient SA (QDT.FR)

**Q1 2020 Sales and Revenue Call**
**Transcript amended by Quadient**

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Hello and welcome to the Quadient 2020 First Quarter Conference Call. My name is Caras, and I will be your coordinator for today's event. For the duration of this call, your lines will be in listen-only. However, you will have the opportunity to ask questions [Operator Instructions]

I will now hand you over to your host, CEO, Geoffrey Godet, to begin today's conference. Thank you.

## Geoffrey Godet

*Chief Executive Officer & Director, Quadient SA*

Good evening, good morning to all wherever you are, and thank you very much for joining this call to present Quadient's first quarter 2020 sales. So I am Geoffrey Godet, CEO of Quadient. I am also joined on this call by Christelle Villadary, our CFO. Throughout this call, I will be referring to the presentation that can be downloaded from our website, which complements the press release we issued today after market close.

So looking at the agenda on slide 3, I will start by presenting the key highlights of the first quarter of 2020, and then provide you with an update on how we had been facing and dealing with the unprecedented COVID-19 health crisis. As you will see, corporate commitments have been strong to guarantee the safety of our employees and ensure business continuity to all our customers. Our model has also proved resilient in this very difficult context, and underscores the relevance of our Back to Growth strategy and the shift of customer needs to digital has now accelerated, making our solutions more relevant than ever, even more than when we envisioned Back to Growth.

Christelle will then detail our first quarter performance and share with you the measures we have been implementing in term of active cost and cash management to preserve our profitability and liquidity. I will then come back to present our priorities and outlook for the full year 2020, taking into account obviously the exceptional elements of this COVID-19 context. And after that, we will be happy together to take your questions.

worth mentioning, I think, are among some of the most remarkable RQHV the incredible work that was done by the R&D team that we had in Czech Republic. They were able to design, build, test, and deploy an application from scratch in 96 hours, getting the entire engineering staff to help on that, called DocPlan, to allow organizing 12-hour shifts for COVID-19 medical staff at their local hospital.

In Norway, one of our employees put his expertise in two different things to print the plastic outline of a visor, which attached to a translucent folder divider, allowed to create 8,000 protective visors for healthcare workers. Obviously, we also have created communication task force that were dedicated to maintain a strong engagement with our customers and partners. We were doing these reviews almost on a daily basis to ensure that we were informed and whether there was [indiscernible] (00:13:54) to how we have responded to the crisis and how we could help and continue to support our customers.

Moving to slide 9, our Q1 performance reflected the quarter of two parts in this context of COVID-19. [indiscernible] (00:14:16) because I think we're probably one of the first few companies again that are reflecting the performance of the full quarter, having half of the quarter fully impacted by the crisis. From the early February to mid-March, again, the level of activity was broadly in line with the full year 2019 trends. Our growth engines, comprising of Customer Experience Management, Business Process Automation, Parcel Locker Solution (sic) [Solutions] (00:14:39) activities, continued to perform well, and while Mail-Related Solution (sic) [Solutions] (00:14:43) business still proved more resilient in the United States as we've last year than in Europe.

So now if we look at what happened since mid-March, the level of activity started to decrease, right, due to the progressive implementation of all the lockdown and containment measures in all the market that we operate, in response obviously to the rapid spread of that pandemic. So, again, our Q1 numbers reflect that full impact, right, for us of that half the quarter, and in particular, in the month of April. [ph] First (00:15:26), we obviously experienced some disparity regarding the impact of these measures by activity but also by geography. But I think overall, when I look back what we shared with you at the end of March, our annual results meeting, I think more or less, what we've seen in the month of April is what we had anticipated. In Customer Experience Management, lead generation was impacted by event cancellation, while we're seeing some on-site professional services were postponed, in some cases, we've been able to switch to digital through the use of virtual meeting. We nevertheless have been able to add new customers in this period of time with important wins in each of the region in the quarter, and we've seen that in particular in some of our [indiscernible] (00:16:17) industry.

In Business Process Automation, we faced a drop in volume at the – in the volume-based activity that we have, right, especially in the property management sector in France, because you know they have to have those annual meetings actually in the first quarter. And those annual meetings could not happen. But overall we've seen some good traction for digital solution, and we've seen [ph] that recent (00:16:44) some good traction in the US in particular.

If we look at Parcel Locker Solution (sic) [Solutions] (00:16:48), what we've seen is some postponement in some new locker installation that occurred in the month of April. But overall, the business momentum remained pretty good, and in particular in Japan, but also in the US.

If we look now at Mail-Related Solution (sic) [Solutions] (00:17:05), the containment measures had a strong impact obviously on the level of activity and a sharper impact obviously in Europe than in the US as we've seen actually just traditionally between the US and Europe for us. So despite our efforts to increase the remote sales channels and to offer our customers either lease or rental extensions in some cases at the end of their contract, we faced some postponements and cancellations of equipment deliveries, just naturally because customers were not on-site at the office to take receipt of their deliveries. We're seeing also some lower bookings, and I think more and more importantly, we've seen some drop in the supplies of consumable, in particular for the ink cartridge.

And if we look at the lease portfolio, because it's important in our model as you know, the default rate has remained around 1.5% so far, so no change there. And I'll remind you that our default risk is limited due to the very large customer base on the one hand, but also well-diversified by geography and also by industry, and when we discussed at the end of March, again we are probably a little bit less exposed to some verticals than others, because we don't traditionally work so much with restaurants or hospitality, right, and more potentially with the CPAs or the accountants, et cetera, more on the B2B side of the SME sector.

On slide 10, so we introduced obviously last year our new brand, Quadient, which is aligned with our ambitions and our [ph] online customer needs (00:18:52) as you remember, and this brand includes a – included in the definition a new purpose, right, that was built around a simple message, right, which is to simplifying the connection between people and what matters.

So if we look at the current pandemic, I think we're witnessing the importance of those solutions more than we have ever imagined, even when we created the brand. First and foremost, it should be no surprise that many companies had to quickly transform to work differently in this environment. As for our self and overnight, most employees were forced to work remotely and rely on digital solution to do their jobs. Business across all industries are realizing that they need to either implement or optimize their digital processes to support those new channels. And these include processes related to accounts receivables, account payables, and digital document delivery that are so critical in this environment.

All indications show that there will be obviously new ways of working in the coming months. And I think when you look at those consumer behaviors across all major countries, and we started to look at a lot of different indicators recently, but the level of e-commerce continues to climb, both companies and consumers in particular demanding better last mile delivery options, and I'm sure it won't surprise you, focused around the convenience obviously but also the safety and contactless [ph] like (00:20:27). So if you can receive a package and not having to handshake somebody [indiscernible] (00:20:32), that's obviously very useful.

So during this period, we are also seeing financial services company, [ph] bank, insurance (00:20:42), continue to look at ways of improving the customer experience that they provide to their own customers, and that COVID-19 environment is actually accelerating it, because [indiscernible] (00:20:53) people are preferring to bank digitally than physically. So, while we see also a decline in mail in this environment, especially just when people are not at the office or not using the machine, we're also seeing the importance of the mail system, [ph] and has obviously (00:21:09) on certain countries, one not least among them the US, the USPS, like the mail industry, is considered as an essential service, right, for helping [indiscernible] (00:21:20) to rural areas, but also what we've seen like in many other countries.

So if we move to slide 11, our recurring business model, I think, has proven resilient across our four solutions in this first quarter, and while non-recurring revenue were logically more strongly impacted. So, non-recurring revenue were down 26% year-on-year, €57 million, and they contributed to 24% of our first quarter sales. This drop resulted from the containment measures that strongly affected the service requiring customer availability, and primarily for us, the placement of new hardware equipment in Mail-Related Solution (sic) [Solutions] (00:22:13). We have however seen actually an accelerated shift to some digital and online, driving the need for also cloud and SaaS-based solution, and trying to obviously provide seamless customer experience and also contactless solution for last-mile delivery.

So, in spite of those tough trading conditions in the second half of the quarter, recurring revenue have proven their relative robustness, if we could say, with revenue down only 4.6%, to €182 million, and that represents 76% of our first quarter sales. Recurring revenue include rental and lease revenue based on multiyear contract that we've offered to our customers, and they also comprise all our subscription fees, maintenance revenues, all of that are obviously fairly secure. There's only a portion of the other part of the recurring revenue, those that are linked to the consumptions that were affected by the containment measures, and I'm thinking here obviously as the consumable in particular, like the ink cartridge, but also some of the volume-based contract and professional services that could not be done remotely in this environment. And I think when we described to you at the end of March those recurring activities and what was secured and the part that was variable, I think we anticipated well those particular categories.

So to – let's conclude, I think, [ph] the data (00:23:57) I wanted to give you in this difficult context, and I am now going to handover to Christelle for the review of our Q1 performance.

## Christelle Leconte Villadary

*Chief Financial Officer, Quadient SA*

Thank you, Geoffrey. So, I'm going to walk you through the sales figures, so slide 13, I've mentioned the group recorded a 10.9% organic decline in Q1 with major operations [indiscernible] (00:24:20) 8.9% decrease in revenue on an organic basis and Additional Operations declining by 25.1% during the quarter. If you look at, if we look at the geographies-by-geographies, North America recorded a moderate organic decrease of 4.2% mainly driven by the decline in Mail-Related Solutions, but which is really offset by a good contribution of the three growth engines which reported double-digit growth during the quarter in the region.

The Main European countries on their side grew by 17% due to sharper decline in the Mail-Related Solutions activities such as North America impacted mainly in hardware and supplies as mentioned by Geoffrey, but also a lower level of activity in the professional services of the Customer Experience Management segment.

International, so I will take some time here to elaborate a little bit about the change in organization and the reporting change we made as part of the Grow, Improve or Exit strategy. So as you know since January 9, 2019, sorry, the group continue to review the portfolio of Additional Operations and we worked actively on its optimization.

We completed three divestment and watch shutdown so far. And today, we are very pleased to announce that we decided that both Customer Experience Management in countries outside of the main geographies, as well as Parcel Locker Solutions in Japan are integrating the major operation scope, as we believe they fit the criteria that were set-up for looking after the major operation, notably a good profitable growth potential but also synergies with the other activities. So those two activities are combined under the segment called International and will be managed and are managed in fact since April by a dedicated management team.

Additional Operations were down by 25%. I was explaining, this decline is mainly coming from the graphic activities but also the Mail-Related Solutions in Nordics and Australia. On the positive note aside the automated packing systems performed better than last year in Q1.

Moving to slide 14 and looking at the bridge, not a small scope effect due to ProShip divestment which occur in February of 2020 for €2 million and a positive currency effect mainly coming from the USD for plus €3 million. So here, the most noticeable impact come from the decline of the Mail-Related Solutions sales, particularly impact as Geoffrey was mentioning during the second half of the quarter [ph] and aside (00:27:07) from Additional Operations again mainly on the graphic and the Mail-Related Solutions.

On the positive note, three growth engine part of the combine group performance of plus 7.2% with Customer Experience Management growing 1%, BPA, Business Process Automation, 4.9% and a strong 27.2% Parcel Locker Solutions growth for the quarter.

If I move to slide 15, so Customer Experience Management sales grew by 1% to reach €30 million in the quarter. So as just mentioned, this performance now includes the – all geographies including [indiscernible] (00:27:56) and the rest of the world. Revenue related to license sales were up by 11.4% in the first quarter as a result of new customer acquisition in our core verticals, so finance and insurance and in each region saw a good activity in the US and in Europe and this activity include also customer gains in the month of April which is pretty satisfactory. The recurring revenue recorded a mix performance with SaaS and maintenance posting very good growth – organic growth but offset by the decrease in revenue from the professional services. These services mainly operate on-site where more impacted by the containment measures.

If we look by geography, North America posted double-digit growth in that segment, and in the Main European countries, sales were down due to significant decrease in the revenue from professional services which was partially offset by the good performance in licenses. And for the International segment, the revenues were slightly down due to a high comparison basis in 2019.

Moving to slide 16, Business Process Automation, sales were up 4.9% organically reaching at €15 million for the quarter. So Business Process Automation was impacted by the containment measure as well as of mid-March whereas it has recorded a very good level of activity in the first half of the quarter.

Three main impacts should be highlighted for BPA. The first one in Europe, we only recorded a slight increase in revenue and this is mainly due to the decline in the consumption and the hybrid-mail activity in France, one of the key markets and – a key market for BPA. And as Geoffrey mentioned, the first quarter usually benefits from the good level of activity in the property management sector, which did not happen during this quarter.

License sales were down also as the offers bundled with MRS were strongly impacted in the context due to fact that it was much more difficult to leverage the MRS channel during this period.

On the positive side, the SaaS solution were up, thanks to the subscription recorded during the previous quarter. And in addition, the group launched some campaigns to accelerate the acquisition of new customer under this subscription mode in all regions, and it has a particularly good effect in America, where a lot of contract activation were – are recorded.

Mail-Related Solutions, so I'm now on slide 17, we're down by 13.9%, reaching €155 million of sales. So, as I already explained, the containment measures strongly impacted the activity from mid-March, especially the mail equipment sales and part of the recurring revenues, so mainly the supplies segment. The recurring revenues except for the supplies were barely affected and showed good resilience as expected, as most of them are of course supported by multi-year contracts.

On a geographical standpoint, the better resilience of North America over Europe remain true with a lower decline in activities and North America benefited from the embarked recurring review coming from last year good performance in hardware placement, remember that we had a very nice year in North America in 2019.

Moving to Parcel Locker Solutions, slide 18. So Parcel Locker Solutions grew strongly by 27.2% to reach €15 million revenue in Q1, so again, this performance include the revenue from Parcel Locker in Japan. So this performance reflected a double-digit revenue growth in the residential sector in the US, thanks to the good integration of Parcel Pending as well as the strong business momentum we have in Japan driven also by the significant increase in the installed base we had in the previous quarters.

The recurring revenues is up in the residential segment as well as in the rental model in Japan, close to plus 45%, and today, they represent 69% of the Parcel Locker sales in Q1. We should note, however, that we have a slight slowdown in the booking and installation in April, and at the same time, we secured a new contract with our partner, Yamato, in Japan for the delivery of more than 3,000 parcel lockers, Pudo Lite, over the next – over the coming 36 months.

Slide 19, Major Operations, so again, I'm not going to comment too much on that. I think what we have here is a solid performance of three engines, again up 7.2% of organic growth which is offset by the sales decline of our Mail-Related Solutions business.

So moving to slide 20 on Additional Operations, so revenue from Additional Operations dropped 25% to reach €24 million due to a sharp decline in the graphic business, the impacts of the containment measures on the MRS in the Nordics and Australia and we had also – we suffered also from a high comparison basis in Q1 2019 for the export business in MRS. On the positive side, I was mentioning, the group has benefited from the sale of two automated packing system in Q1 2020, sorry, versus the one last year.

Moving to slide 21, so as we shared with you during our full year presentation and based on the early sign of the potential impact of the pandemic, you know that we decided as soon as early March to take some measures in terms of cost and cash management to protect the profitability and preserve the cash generation of the company. And at the same time, we tried to take decision to keep some agility and flexibility to be able to react to any change in the environment.

So if I go to the cost management side on the cost of sales, just to remind you that the group has a high proportion of viable costs in the cost of sales due to fact that 90% of our mailroom equipment and 100% of automated parcel lockers are outsourced in Asia and that as soon as March, we adjusted our orders based on the level of inventory we had, therefore we were pleased to note that our gross margin remained stable during the quarter.

Regarding the operating expense, so we implemented several measures, so partial unemployment, time-reduction measures. We discontinued the use of temporary contracts, froze new recruitment. We implemented several solidarity measures including the decision taken by our management and top executive to waive part of their compensation.

We have [ph] also (00:35:37) some other cost reduction measure regarding marketing and travel costs. At the same time, we decided to maintain our R&D on innovation effort again, adjusted and re-allocated in terms of priorities, but to be able to benefit from recovery and potential traction on specific segment going forward. So notably, what we can say that we achieve €8 million cost savings in the first quarter of 2020 for those OpEx, operating expenses.

On the cash side, again in order to preserve the cash generation, we operate – operated a complete review of the investment roadmap for 2020 with a priority to initiatives supporting the future growth. We note that the level of investment relating to the rent of the equipment has reduced during Q1 as a consequence of the reduced activity during the quarter. Working capital management has also been a strong focus during the quarter.

So moving to slide 22, just to show you that our balance sheet remain extremely sound and that remind you that our debt [ph] is being backed by future (00:36:53) cash flow from our leasing and rental portfolio. To remind also and we already disclosed it that early 2020, we say the market opportunities to refinance part of maturities, so notably on the Schuldschein extension and we buyback €15 million of February 2020 bond. And today, we are happy to have still a very strong liquidity position above €900 million as mentioned by Geoffrey with an increase of the level of cash of €517 million at the end of April, and we still benefit from the €400 million of undrawn credit facility which is maturing in 2024.

So with this, so Geoffrey, I'm going to give you back the floor.

## Geoffrey Godet

*Chief Executive Officer & Director, Quadient SA*

Thank you, Christelle. So before I go to our 2020 priorities and outlook, just wanted to take a few minutes to articulate the level of reprioritization and the [indiscernible] (00:38:07) we have regarding the potential for future growth this year or obviously in the coming years. And I'm on slide 24. So what we've done obviously is looking at some of the impact is [ph] stopping (00:38:23) some initiatives in term of R&D and roadmap of projects with [indiscernible] (00:38:28) obviously to potentially next year when we'll have more visibility.

And as we look at the other solution [indiscernible] (00:38:35) demand of our customers, right, and see how we could better help them now and equipped our sales channels with solutions that will be more needed in the coming quarters or next year. And as a result, looking at reprioritizing the R&D efforts and trying to release earlier than planned some of the solutions, whether they're hardware or the Parcel Locker, or whether they're software [indiscernible] (00:39:02) also to look at how we could deploy some of those earlier release, earlier than what had been [indiscernible] (00:39:10) in our multi-year roadmap, potentially at our [ph] Q2, Q3 or within Q4 (00:39:15) and some of the [indiscernible] (00:39:17).

So I'm not going to go through everything, but if we take a few example on when we look at aligning our go-to-market strategies, we could obviously help to bridge digital package to make sure that the incentive [indiscernible] (00:39:33) could be assembled with a digital package or the hybrid-mail solution or digital or business process solutions.

If we take another example of what we're currently are looking during this year is to extend the current Parcel Locker Solutions offering like Parcel Pending [ph] offline (00:39:53) to new regions outside of the US and [indiscernible] (00:39:57) where we felt that based on the COVID situation and what's coming out of it [indiscernible] (00:40:04).

There's obviously other synergies that we are reprioritizing across our four solutions. We're talking about integrated and [indiscernible] (00:40:17) product offers based on those requirements that we see from our customers, and obviously, the synergy that exist between Business Process Automation and Mail-Related Solutions.

There's also specific synergies we could develop on some verticals, in some of the corporate segments. That's what we've done before with [ph] MRS (00:40:38) between Parcel Lockers and Mail-Related Solutions go-to-market. But in the property management segment, obviously we're very strong in the BPA side as well, and obviously that we're [indiscernible] (00:40:48).

There is obviously from a pure R&D for one perspective, as I mentioned the way to accelerate some of those roadmaps based on the fact that we cancelled or postponed other activities. And also from a cost saving perspective looking at where we could mail merge earlier some platform. In particular in BPA, we had a fragmented platform environment between the OMS-500 and Neotouch and trying to see how we could provide a more integrated platform and reduce the cost of providing those features.

And finally, we could take a few of other example in term of the contactless environments when you look at the e-commerce and looking at specific verticals where we see in residentials, but the retail, definitely is suffering tremendously and providing for shops today a solution, it could be contactless and that being the hardware to shops that are also smaller in size, which is what we call [ph] Parcel Locker Lite (00:41:51) Christelle has referred to you that we have sold for the first time now in Japan, it's something that we tried to expand this year to other verticals.

So, moving to slide 25, I will now discuss obviously our priorities and then, about – a little bit about our outlook for 2020. So, looking at the priorities, we have obviously to take into account the COVID-19 context and the uncertainty about the future macroeconomic environment. So, our priorities are to protect our profitability and to preserve our liquidity. I want to stress that as we need to focus on profitability and liquidity.

So, we will maintain obviously, the same discipline that we had before, but also that we have implemented with Christelle in a very tight way from a strict financial discipline perspective, looking at the implementation of cost management actions as well as a complete review of our full year investment roadmap. We want to prioritize initiatives that support future sustainable goals, including accelerate rollout as I mentioned earlier of new product and solution and overall as we look at those reshuffling of priorities in line with what we see near-term, maintain our R&D and innovation efforts accordingly.

So if we take into account on another front, as we mentioned earlier the financial efforts that we are asking our employees to do whether they are partial unemployment measures, the reduction of the management annual variable compensation including mine and other support measures that have been granted or implemented. The board has obviously took another consideration and in looking at what to do with the dividend [ph] and stuff (00:43:48) that was appropriate to reduce by 30% to €0.50 dividend floor to which obviously we had committed ourself as part of our Back to Growth strategic plan. So accordingly, the board has decided to submit for approval at the AGM on July 6 this year a dividend of €0.35 per share for the financial year 2019 and this as I said in introduction is representing a 35% reduction compared to dividend paid last year. So this reduction will obviously also contribute to all the other efforts made by the group.

So I will also take this opportunity to update you on the next AGM due to the COVID-19 health crisis and as our priorities to ensure the security of our employees but also our shareholders, our board of directors has decided to hold our Annual General Meeting, July 6, behind closed doors and will provide obviously all the details to make sure the proper tools and communications, protocols are defined.

So let me move to a little bit toward 2020 outlook. As explained earlier, Q1 and I think again, I want to stress that compared to most companies which clearly [indiscernible] (00:45:07) with a little activity in line with 2019 China in the first half and then a short degradation of trading conditions from mid-March to due [indiscernible] (00:45:18) containment measures that had been progressively imposed on our markets and with a more marked impact in April.

Now we've also seen that our backlog of orders at the end of April was higher than in the same period of time in 2019. So I think this is likely to reflect, right, the delay booking and deliveries that could not be made obviously in the first quarter most likely because customers could not take receipts [indiscernible] (00:45:48) delivery. What we'll need to see how much of that backlog we can consume or not in Q2 or if things would get [indiscernible] (00:45:58).

When we look at the business trends that we observe in the months of May and I want to be careful because obviously for us, like every month of every quarter is – the last month of the quarter is the biggest, but the last week of every month is also the biggest for us. And I don't have the visibility on that last week of May, but when I look at the level of activities in May, we clearly see some early signs of improvements versus April. So, since that April potentially is a hopefully a floor that we have seen that instead the level of improvements that we see in early May is clearly at a much lower level than last year.

So accordingly and I wish I could be in different position, but we are not in a position to give 2020 guidance at this stage, because we really have limited visibility in this gradual context of the lifting those confinement restrictions in each of the countries we operate which makes it very difficult for us to understand that how things will evolve, we could see how it is happening. But now we're looking at every day, every indicator, then we could see across the board the call from services – from technicians, [ph] the visits on websites. They're thinking an additional (00:47:17) revenue generating but we could see that overall, there is a couple of activities that people are coming back to the office, connecting to the machine using the machine or so, [ph] I mean, in case of the mailroom (00:47:31) equipment on our software solution is the same thing.

So considering this [ph] inspiration (00:47:42), our priorities will remain in the coming weeks and months to protect our employees and ensure that we continue to serve our customers the way we did. I think hopefully you see with the already [ph] this result on (00:47:58) our OpEx that Christelle mentioned that we're very disciplined regarding cost and cash management. And that our [indiscernible] (00:48:06) preservation of our profitability but also on cash generation and while we are reprioritizing investments and our different growth engines, so we're trying to obviously the focus [indiscernible] (00:48:18) keeping an eye on the coming quarters and looking at how our customer demand develop. And then last but not least, I think we have a very strong balance sheet today, we have a very strong liquidity position that I think give us a full confidence in our ability obviously to continue to implement our strategy in the future.

So this concludes our Q1 presentation, and with Christelle, we're obviously very happy to take your feedback or take any of your questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Operator: Okay and some questions have come through already. The first question comes from the line of [ph] Patrick Drussant. Patrick (00:49:18) you're unmuted, please go ahead.

Q

Yes. Thank you for taking my question. So, good evening. In fact, when I look at the actual figure for the quarter, so minus 11% and when – where the [ph] concentration (00:49:34) was around minus 3% but it seems that there was obviously [indiscernible] (00:49:40) between [ph] 0 and minus 5 and probably one or two (00:49:41) with very, very low figures but nobody was at the right place. So probably we need some help. That's the purpose of my next question. So first, am I right if I consider that as a second part of the question was around minus 20% when the first part was around zero or zero plus?

Second, would you expect Q2 to be better than Q1, in term of organic growth?

And third question, what do you think about the consensus [ph] why is jointly as (00:50:20) around 3% negative organic growth and 15% adjusted EBIT margin and well beside this question which are, let's say more or less [indiscernible] (00:50:33). Could you comment on the way you measure the default rate? Is it the default rate for the first quarter or let's say end of the first quarter? And regarding the debt improvement that you have mentioned, the €28 million, could you compare with the same period of last year? Did you see an improvement in Q1 last year? Thank you

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

Thank you, [ph] Patrick (00:51:02). So, we'll try to make sure we captured all of the questions and between Christelle and I to share the result if we miss one, don't hesitate to obviously [indiscernible] (00:51:14). So first, I wish, we could help better understand at the end of, when we were in March or what was going to happen in term of guidance, but I think this actually, fundamentally the reason why we didn't give guidance, it's very difficult to provide visibility especially when we look back six weeks where we were.

On the logical assumption of April, I think you are probably closer to it because you do [ph] have half , and we were in a decent position (00:51:49) of the first half. So, I don't think you will be too far off. Again, April being potentially a little bit more marked at the end of [ph] the corporate season (00:51:58) the end of March.

On the anticipation, I won't be able to give you a more help for Q2. I think unfortunately, I let Christelle [indiscernible] (00:52:09) provide little more color whenever we can. [indiscernible] (00:52:19) in May, because when we see those early signs, you've said that April will probably be a – hopefully a floor, but the question is not so more, that is going to be a floor is, what is going to be the base of recovery? And regardless of how it is going on in May is, what is going to happen in June and in July?

So being able to know now what's going to be the end game at the end of the Q2 versus Q1, I think it went on, I think in a position to help on that so much at this stage. When I look at what we shared on our recurring revenue and where we felt comfortable that it will be stable and that we had that a [ph] 10% to 30% (00:52:58) of the recurring revenue that could be at risk, I think we guided, we try to explain where we see some risk and I think it did happen actually [indiscernible] (00:53:08) potentially less than we anticipated on the recurring side. And overall more on some of it, when you look at the supply, the supply was definitely whether there was a bigger drop or the supply is just a proportion of the recurring revenue obviously.

I think the element of confidence is obviously the recurring revenue moving forward is that where have the resilience in the model. On the other hand the level of placement of new license or new hardware, this is where the early signs [ph] that we see still (00:53:40) at a much lower level than 2019. I will let Christelle take some of the other elements.

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**Christelle Leconte Villadary**
*Chief Financial Officer, Quadient SA*

A

Yeah. So the question – you had a question, Patrick, on the debt and how it compared to last year. So last year in Q1, and as you know, we are not usually disclosing any EBIT or balance sheet items for the Q1 but what can I tell is we were much more on cash burning situation, so there are two elements on that, there were specific one off last year because we had some tax to pay on the [indiscernible] (00:54:22) and we had also the usual degradation of the working capital which is more seasonal effect. And this year [ph] as a part (00:54:32) because it's important to understand the model as part of the reduce activity in our MRS portfolio, you have mechanical decrease of our leasing portfolio which has an increase, I will say, a reversal – positive reversal in our cash flow generation. So very different trends between last year and this year.

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Q

Merci. And on for the default rates?

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**Christelle Leconte Villadary**
*Chief Financial Officer, Quadient SA*

A

So, the default rate is still around 1.5%. So, it has [ph] extremely (00:55:14) slight, slight increase, but what's happening in reality is that we did not had a near default or bankruptcy effect per se, it's more than during the month of April, some of our customer could not pay, so as we have also make a whole provision coming, it does increase as a mechanical, if I can say so, provision rate.

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Q

Thank you. [indiscernible] (00:55:42)

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**Operator**: Thank you. We have another question on the phone line from the line of Nicholas Tabor. Nicholas you're unmuted. Please go ahead.

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**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

Hi, good evening. Thank you very much for taking my questions. I have a few questions, the first one was, maybe the most of you – you stated the COVID-19 crisis will accelerate the need for digitalization, it can create some opportunities, but what is the risk of also an acceleration in the decline of the mail volumes on your activities driven by the same, let's say, catalyst? And do you want me to ask each question one at a time or do you want me to blast them out right now, which is easier for you?

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

Either way, you could – as you feel comfortable.

**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

Well, I can just ask the next one just after this, maybe here.

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

So, on the mail, I think we have to understand, I think the difference of the lockdown impact, clearly where from the mailroom – I'm talking about our business, the volume that people are sending letters et cetera, we've seen overall obviously a decline in the country to country and the usage in the machine [ph] some of the machines are (00:57:05) connected and we can see some of the usage, and we see differences. And I think intuitively based on what we know, based on the lockdown of countries or even some of the states in the US, we could see differently that the drop in usage is not the same, France and Italy are probably are the one who really had the most severe impact, whereas Germany and the US where we see definitely a big drop also in number of usage not as much as some of those other countries.

Then we'll look at obviously the business activity which is the placement of hardware and the recurring activity. [indiscernible] (00:57:48) here, we haven't lost barely any customer during the period of phase because again, the recurring nature of the business, there's always capacity to extend contract if needed. And we've seen placed hardware, new hardware during this period of time.

So the question will be more about how each country obviously recover from there. But that I don't think will change necessarily the demand volume by itself right, it's relate to your point which is digitalization and when it comes to digitalization, what we realize is it doesn't come overnight still, meaning that the need is differently probably there. This should probably be an inflection point. But how and how fast we could see potentially a change on the consumptions of mail, until you still need one letter [ph] and on mail (00:58:38) you still need a machine, right.

So this is why I think it doesn't change what we see now, I don't think it will change on the near term. We'll have to obviously look back in a few quarters from now how the future the next few years [ph] and all that (00:58:52) could be impacted. At this time, this is not what we see. What we see is an acceleration of move to digital solution but not to the detriment of the machines, so no customers are saying, I want to replace the machine as a digital solution, on the other hand, we're adding digital solution at a faster pace than before.

**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

Great. Thank you very much. Maybe the next question would be still on the H2 trends that we can expect as we've said let's say the recovery of the Q2 with the most let's say uncertain but maybe for H2 to more after lockdown period, how can we compare it to [ph] 2009 (00:59:36) and can we expect the decline in non-recurring revenue, so hardware sales for example, to ease after the lockdown, but then for the recurring revenue, can we expect also an easing or this will broadly remain stable in terms of level of decline in H2?

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

So difficult question to answer. I'll try to do my best. On the recurring side, some of the decline, reduction that we've seen so far is really related to the fact that people were not at the office, right, so they were working from home, there was restrictions. So one would likely reasonably could imagine that the use of ink cartridge should come back to normal level, regardless of what is that ongoing level of activity, right, but the usage will be back. The professional services is the same thing. There should be no more reason why we cannot do professional services, [ph] so we could go (01:00:43) back to normal.

The problem is, [ph] what that normal is (01:00:46), yes, we could do them. Yes, they will use the machine, but then it's more about that recovery, how many quarters will it take to be able to get to the same level of activity, and that we really don't have enough, I think, visibility today. Obviously we have [ph] our plans or (01:01:05) discussions with customers and all that, but we're just three weeks into May. I see more early signs [ph] on some indicators (01:01:11) at this time at things that we can look, but we don't see that in term of placement of hardware and license. So yes, they are better than the [ph] flow hopefully of what April was (01:01:21). But it's difficult to know how many months or quarters it will take to go to a normal level, and if that level will be back to Q4 last year, or is it still going to be a lower level compared to the level last year and potentially [indiscernible] (01:01:39) 2021 before we get to that. And I think we are probably not the only one in the position as we don't know the intensity of the recovery.

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**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

Okay. And maybe to ask it differently, do you already have plans in terms of the pace at which your employees will come back to the Quadient offices and for sales to be back on the field?

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**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

So, there's several aspect of that. If you're talking back to working, we have only 30% of the staff that are impacted at some level of partial unemployment measures, so not everybody that is on the partial unemployment is 100% [ph] that's not (01:02:27) working. And there definitely it will depend, because it's affecting broadly [ph] a whole category or functions (01:02:34), but we are definitely looking already at reducing those numbers of hours, in some cases, we see for example in some segments of hardware that we may need to produce more hardware quicker or on the dispatch activity, so we may bring – we're considering bringing people earlier than planned, or some of them or more hours in term of capacity.

On the sales, while we had some of our sales organization impacted by that, mostly we had tried to protect [indiscernible] (01:03:02), and a lot of our field sales have been operating remotely [indiscernible] (01:03:08) making calls to customers. So when we talk about business continuity, aside of the people that are not working for partial unemployment, everybody is working today, so everybody is at work just not at the office. From a health perspective, we are still trying to figure out the pace at which we will allow the full staff coming in, but as you know, for example like in France, there is only so many square feet and square meters that you could allow between people, and therefore you could basically have between 25% and 50% max of your staff coming back physically at the office.

In most offices, we still have already a few people that came back, but they are fragmented [indiscernible] (01:03:49) and so far we ask people to stay home until the end of May, and we will make probably a decision at the end of June to see how we're going to face those returns in June and potentially July and potentially [ph] add still (01:04:01) some people until September to potentially benefit working from home during the summer.

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**Nicolas Tabor** Q
*Analyst, MainFirst AG (France)*

Okay. And can you share with us the total employment costs that you incurred in 2019?

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**Christelle Leconte Villadary** A
*Chief Financial Officer, Quadient SA*

All right. So...

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**Geoffrey Godet** A
*Chief Executive Officer & Director, Quadient SA*

The restructuring cost? What was your question, sorry, Nicolas?

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**Nicolas Tabor** Q
*Analyst, MainFirst AG (France)*

Oh, sorry. Can you hear me correctly?

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**Geoffrey Godet** A
*Chief Executive Officer & Director, Quadient SA*

Yes.

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**Nicolas Tabor** Q
*Analyst, MainFirst AG (France)*

Could you share with us the total employment costs from 2019 that you incurred?

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**Geoffrey Godet** A
*Chief Executive Officer & Director, Quadient SA*

You mean payroll compensation benefits, bonuses, all that?

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**Nicolas Tabor** Q
*Analyst, MainFirst AG (France)*

Sure.

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**Christelle Leconte Villadary** A
*Chief Financial Officer, Quadient SA*

So if you take all the payroll [ph] and social cost (01:04:49), it would represent almost half, [ph] now it represented (01:04:56) around €350 million on the – of €645 million OpEx cost.

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**Nicolas Tabor** Q
*Analyst, MainFirst AG (France)*

Okay, great. And then maybe very last question on the BPA side, what is the magnitude in term of organic growth of the potential catch-up from the postponed AGM? So – because the seasonality effect is just maybe postponed to Q2, and we can expect some catch-up for this in maybe, I don't know, July. Do you have visibility on the percentage of sales that that could represent?

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

So on BPA, the [indiscernible] (01:05:48) we had was really because the annual meeting could not [ph] be hold (01:05:55). [indiscernible] (01:05:56) last week or two days – two weeks ago, in France, they have authorized now for those meeting to happen virtually. So one would expect that as those meetings happen virtually, subsequently we should be able to get the benefit from all the documentation that needs to be created. So when we're obviously [indiscernible] (01:06:17) for some of that to come back to us, I don't know today if we will be able to get it all or only a part of it.

**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

And can you give us maybe the amount of a broad idea of the lost revenue from this activity alone?

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

No, I don't have it on top of mind. I don't want to say a mistake here because [indiscernible] (01:06:42), I am not sure. It's definitely a portion of the [indiscernible] (01:06:49) seasonality there. No, not right now.

**Nicolas Tabor**
*Analyst, MainFirst AG (France)*

Q

Okay. Well, thank you very much for answering all of my questions. Very grateful.

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

No problem, Nicolas. Thank you very much for your questions.

**Operator**: Thank you. There are no further questions on the phone line. [Operator Instructions] We have a question [ph] coming (01:07:26) from the line of Jean-François Granjon. You are unmuted. Please go ahead.

**Jean-François Granjon**
*Analyst, ODDO BHF SCA*

Q

Hi. Yes, Jean-François Granjon from ODDO BHF. Good evening. Just three question, please. [indiscernible] (01:07:37) Mail-Related Solutions for the [indiscernible] (01:07:42) for the first quarter, what do you expect for the next quarter in term of trend for this business? So the second question concern the savings. As you mentioned [indiscernible] (01:07:52) for the first quarter, so what do you expect for the full year in term of savings? And the last question concern the disposal of ProShip, could you give us the size [ph] or the turnover of your sales (01:08:06) of this business? Thank you.

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

Yeah, I'll let Christelle answer the two or last questions. [indiscernible] (01:08:19) for Q2, it's difficult to [ph] relate to for the rest (01:08:25), and again, I wish I could be in your position to give you more indication of what Q2 could look like. I don't think we can help you on that because obviously with the early signs in May, we could see differently that whether it's on the ink or some of the other aspect, things are picking up again, and at still a very, very early stage and still at a much lower level than 2019. Again, three weeks in May, knowing that the first week of May was still very flat, and then it's just very recent indicators projecting from that [ph] what it could be the level is difficult (01:09:07). Obviously, people are going back to work, people are definitely using the machine by getting back to their office as well. But it's difficult to tell you and I'm not in a position to help on that unfortunately.

**Christelle Leconte Villadary**
*Chief Financial Officer, Quadient SA*

A

To start with the technical one on ProShip, so ProShip – sorry, ProShip sales were around €12 million in 2019, I guess if this was your question, Jean-François.

**Jean-François Granjon**
*Analyst, ODDO BHF SCA*

Q

Yes. Yes, it was.

**Christelle Leconte Villadary**
*Chief Financial Officer, Quadient SA*

A

Yes. Okay. And on the [ph] selling spot (01:09:40), so as we said, the €8 million is really the result of all the measures we took, which are partially, as you understood, variable, because based on the partial unemployment, the fact that we have travel ban during this period that we stopped the outsourcing, so very linked to the level of activity. So what I would like to tell you is that we will continue and adjust and be as strict as we were during Q1 to reiterate and adapt to the level of activity, this kind of performance and savings, because we know that we are able to achieve this during the quarter, and we achieved this pretty quickly from March, mid-March in reality.

**Geoffrey Godet**
*Chief Executive Officer & Director, Quadient SA*

A

So I think to come back to your first question, which I couldn't answer, is that whether the level of activity, I think our focus is to ensure that we adapt the cost structure, and especially therefore we think the variable part, for which I think we have been [ph] struggling already (01:10:39) in Q1 a good management.

**Jean-François Granjon**
*Analyst, ODDO BHF SCA*

Q

Okay. Thank you.

**Operator**: Thank you. There are still no further questions on the phone line.

## Geoffrey Godet
*Chief Executive Officer & Director, Quadient SA*

Okay. [indiscernible] (01:11:02). Okay. So, I know we took a little longer than usual. So I want to appreciate everybody for those extra time, and thank you for those questions and comments, and look forward to seeing you for our H1 results. Thank you very much.

## Christelle Leconte Villadary
*Chief Financial Officer, Quadient SA*

Thank you.

## Geoffrey Godet

*Chief Executive Officer & Director, Quadient SA*

Bye-bye.

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**Operator**: Thank you for joining today's conference. You may now disconnect your handsets. Hosts, please stay connected.