26-Sep-2018

Neopost SA (NEO.FR)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

Geoffrey Godet
Chief Executive Officer, Neopost SA

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

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

OTHER PARTICIPANTS

Martin Boeris
Analyst, Exane SA

Jean-François Granjon
Analyst, Oddo BHF SCA

MANAGEMENT DISCUSSION SECTION

Geoffrey Godet
Chief Executive Officer, Neopost SA

So, good morning. Good morning, everyone. Welcome to our 2018 First Semester Results. As you know, 2018 is a transition year for Neopost. I have joined Neopost as of February 1 as the new CEO of our fiscal year. I'm sure that some of you may want to hear more about our future direction today. I am sorry, but I will disappoint you today were we will share our new strategy at the end of January, January 23. Some of you actually may have received the Save the Dates. My timetable has not changed.

The world is definitely moving fast, in particular in the technological area, but I want to take the time to make the right decision overall. Today, Neopost is involved in many different businesses with many different products, from hardware to software, from legacy mail solution to digital communication software, and with a wide range of solution within our Shipping division. So, I am ensuring we take the right time to assess each of our business and its potential.

We are looking at things from a customer perspective and from a technical perspective as well. We also need to look at the broader picture, look at the market trend for each one of them, assess the competition, review each business model and, obviously, look and explore the level of synergies among and between all those solutions. This is what we've been doing, we will continue to do so. And I just want to remind you that I'm obviously fairly committed to take Neopost transformation to the next level.

In the meantime, we continue to operate our business in the most effective way. So, in particular, thanks to the strengths of our recurring revenue, we ended the first half of the year with a small organic decline in sales. This is a performance that is better than we expected. During the first semester, we have maintained our development efforts across the Shipping division, and this is what is weighing on our operational profitability. However, our financial remains sound. We continue to generate a high level of cash flow, free cash flow, we posted a strong net income, and we have a very solid balance sheet.

So, our agenda today is as follow: I will give you the highlight of the first semester, and I'll try to do my best to try to give you as many information on each of our division performance; and Jean-François will then go through our numbers and give you the detail of our updated indication for the rest of the year.

So, in a nutshell, we achieve a better-than-expected organic top line for the first semester, in particular in Q2. In SME, it essentially comes from our legacy mail solution. In Q2, our sales organically declined by minus 2.8%. At this level, we're doing better than our historical trend, in particular on the range that we've seen over the years.

Let me stress, however, that this good performance is not changing our long-term view about the structural decline of the mail solution. It hasn't changed. Within SME, we have dedicated digital communication and shipping solution that did particularly well, but has been mitigated by the decline of the graphics.

In Shipping, we maintained a high level of growth. Thanks to the strong increase over the past 12 months of the installed base of parcel lockers in Japan with Yamato. And finally, our Enterprise Digital Solutions division, EDS, did slightly better in Customer Communication Management software. I'll try to use the CCM acronym that most of you should know, which has suffered, if you remember, from the poor performance in H2 last year, in particular, Q3 which was flat and Q4 which was minus 12%. So, overall, we have maintained in H1 a high level of EBIT margin at 17.2%. But this is lower than the 18% we had last year.

The decline in the EBIT margin essentially comes from the high level of spending in Neopost Shipping, and it has not been offset by the strong top line growth that we had in that division. At the EBIT level in absolute terms, we're pretty much where we expected to be, and the high level of sales have been mitigated by the lower EBIT margin. So, we have enjoyed a 18.1% increase in our net result as we benefited from lower non-current expenses, lower tax rate in the U.S., and a one-off tax effect in France. Our free cash flow remain strong at €55 million. And our leverage ratio, that is to say, the net-debt-to-EBITDA ratio comfortably remains at the same level of last year, 2.4.

And let me give you now a quick summary of our indication for the full year. We're still guiding for a negative organic growth. However, thanks to our H1 performance and based on our expectation for H2, we have slightly improved the outlook for organic top line performance, slightly improved. This is due in particular to a revised indication for Enterprise Digital Solutions, EDS, that we now expect to grow at a high-single digit versus a low-single digit in our previous indication during the year.

On the other hand, we have lowered our EBIT margin indication to above 17% versus the around 18% that we gave you at the beginning of the year. Meanwhile, we continue to expect a high level of free cash flow generation.

Finally, in the introduction, as explained during our full-year result, I spent quite a few months now meeting as many employees as I could face to face to try to understand their understanding of the company or by group. Most of the managers and the executives try to spend as much time as well with our customers, as many partners and dealers that we have across the globe, I think I probably have visited 15 of the different countries that we [ph] operate into (07:40) out of the 29 already. I also took the time to meet with investors, past and current analysts, and other type of advisors. So, I think I have a fairly holistic view now, a good assessment of the background of the business and where we stand. We are now deeply involved in the strategic review of the team across our operation, and therefore, I will be able to share our future strategy that will be unveiled at the end of January 23, 2019 with you.

So, before going through the review of our three divisions, let me quickly comment our first semester sales performance from different angles. Per geographic areas, thanks to the strong resilience in the mail solution, North America is up 1.1% organically. And despite the lower dollar against the euro, North America remains at 45% of our total equipment meaning hardware and license sale decreased by 7.5% to 29% of the total sales of the group. At the same time, the total recurring revenue grew by 2.8% to reach 71%, 71% of the total sales, and that's mostly to the contribution of some of our recurring business model, like our SaaS offering, our rentals, maintenance and software and other services generated by recurring activities.

If we look at it now by activity, meaning mail solution on the one hand and everything else on the other across the three division, mail solution declined at minus 3.9%. And what we call communication and shipping solution, including graphic and across the three division grew organically at 8.9%, reaching for the first time 30% of the total sales, 30% versus 27% last year at the same time.

So, after a quick overview of that sales performance, I'm going to try to give you as much information as I can on each of our division and give you a detailed review of the top line of each of those division. We're going to start with Enterprise Digital Solutions division, EDS. As you can see on this chart, the confirmation that we're back to positive growth after the poor performance achieved in H2, Q3 and Q4. And we did even better than we expected and particularly in Q2, as you remember, the information I shared with you after the Q1 result. So, obviously, this bodes well for the second part of the year as we will face a lower basis of comparison for the remaining quarters this year.

So, EDS, Enterprise Digital Solutions represent 13% of the total sales of the group, and we had started to recover. Obviously, we're back to organic growth at 7.4% in H1 after the flat sales in Q3 and the minus 12.2% in Q4 last year. The big picture is that the bulk of the division is Customer Communication Management software, CCM. And if we look at the CCM, we had an organic growth that is above 10% – slightly above 10%. The new license sales, on the other hand, have been lower than H1 last year, but better than what we have expected in the second quarter.

And despite the lower license sales over the last few quarters, our customer base continued to increase. As you know, when a customer buy a CCM application, it usually keeps it for several years and we have a good track record on that front. So as we add more customers, naturally, this help us having drive our growth in recurring services, in maintenance, and the other services related to those existing contracts.

If you remember, too, when I arrive in February and I chatted with you in March, I did explain that we're going through a reorganization of the sales organization of EDS, in particular as EDS engaged in two more vertical approach in its go-to market, trying to be better within the financial services in particular, insurance services or healthcare.

And in addition to the change of the go-to market, being more domain specialized, we also looked at the way we were selling those big tickets to our customers. So when you're in the enterprise software market, those large deals are always difficult and in Q4, if you remember, we were expecting to sign three large deals, and unfortunately, it didn't happen.

So, the review we did with the team is that to sign those big deals and have a way of forecasting that is more sound, the best way actually for the customer and for us is not trying to push the highest level of sales on a particular deal with the customer, but try to go for a phased approach. How do you eat an elephant? By a bite at a time, okay? So, we try to slice the deals.

So, what happened? And it seems [ph] that's progressing well (13:30), and this is going to be an ongoing process, we're not going to get there overnight, we may progress in Q1 and Q2, but I expect that we'll continue to make progress in the coming quarters.

As an example, in the last quarter last year, one of those three big prospects that we didn't sign, did sign in Q2 this year. But we didn't sign it as a big deal. So we did slice it. We did came with a more phased approach and we've been able to secure the customer again.

So, now we'll try to see if a year from now or a little later, we're able to see that whether or not we can bring that customer to the same level of the size of the deal that were expected actually in Q4 last year. The good news is that the customer did not go to the competition. So, it seems to be fruitful so far, but we'll keep watching it and keep monitoring it. We also changed the head of our operation in North America during this first semester.

If we go to Data Quality, it continues to decline, although at a lower pace than last year with an organic decline of minus 2.5%. So, globally, and Jean-François will give you obviously more information, but we now expect EDS to grow organically at a high-single digit versus the low-single digit that we had shared at the beginning of the year.

Let's now move to shipping. As you could see on these charts, our historical performance has proved to be rather volatile quarter-over-quarter. This is a direct reflection of the mix between the various solution that we have within the shipping division. In addition to a diverse suite of software, these businesses in shipping include some pure hardware sales like the automated packing system that we call the CVP-500.

Some fixed-term contract services like we've done for the French Army with RFID technology, and obviously, the parcel lockers business, which generate a high level of recurring revenue through the rentals. And shipping represents 6% of our total sales. It's the smallest division out of the three.

In H1, shipping enjoyed a strong organic growth at 21.5% in Q2, being at the same level as Q1. Such growth, however, reflects very different trends within the shipping business unit. So, we're going to try to take them one by one.

Packcity revenue were up 170% versus last year, and the full impact basically is due to the sharp increase in the parcel lockers installed base that we have in Japan over the last 12 months. And thanks to the partnership that we have with Yamato, we move from 600 lockers at the end of July last year to 3,100 lockers at the end of July this year. So, this mechanically is generating a higher recurring revenue, thanks to the rental business model. And we have also benefited from the delivery of the few more parcel lockers to Australia Post.

If we move now to the CVP-500, our fit-to-size packing system, the revenue are up 27% organically in H1 versus last year. Now, this is a little bit confusing, because we sold as many machine in H1 this year versus last year, three machines only, but the price that we have in the region we sold the machine are different, so we benefit from the higher pricing in the other region, on one hand. And the second thing is that last year, out of all the machine that we sold, one was a rental model. So, we are benefiting from the rental revenue of that machine sold last year in a recurring basis.

If we move now to the shipping software, we had a decline organically of minus 6.2%. So, in shipping software, we have a mix bag of various products. We have ProShip in the U.S. We have Temando. We have a few track-and-trace softwares, RFID solution, etcetera. And on top of this, we have some of the legacy, what we call, legacy software that we have decided to gradually phase out and this explains the decline in the revenue overall for the software.

So, in conclusion for software, we continue to expect shipping to grow organically at double-digits for the full-year 2018, but at a much lower pace than H1; I insist on that, a much lower pace for the second part of the year. And to share with you some of our assumptions, you should bear in mind that the deployment of the Packcity Japan will not be as strong as what we have experienced to-date in the last 12 months. Last year, we were up to 300 lockers installed every month. We're now at barely 100 per month.

You should also have in mind that we're going to have a very challenging days of comparison for the CVP-500. We saw last year in the second semester seven machine. And on top of that, as we see the legacy software continuously declining, it will continue to decline as well in H2.

So now let's move to our last division, SME Solutions. As you could see on this chart, despite our effort to grow the business outside of the mail offering for small and midsized customers, the overall performance of the business unit remains strongly correlated to the one of the mail solutions. You could see the trends almost moving in the same direction together.

This historical trend of the organic structural decline in the mail solutions has been in the range of minus 6% to minus 4% every year. Okay. That's what we have seen in the last several years now. But it can, however, fluctuate tremendously from one quarter to another one. The best example is the minus 5% we have achieved in decline in Q1, and all of a sudden in Q2, minus 2.8%.

Now, outside of the mail solutions for those SME customers, we sustained the growth in digital communication software and shipping solution, we'll go over it, but it's been a strong growth. But it has been mitigated by the structural decline that we've seen also in the graphic offering that we have.

SME represent 81% of the sales of the group. Within this division, mail solutions, obviously, represent the bulk of the SME division. So I will repeat it, but it was not surprising to have minus 5% in the first quarter of decline, and we achieved minus 2.8% in Q2, which was clearly better than we expected. It was better than we expected in Q2. And the main reason is that we have flat revenue recorded in North America.

So, we remained very, very cautious for the second part of the year. Even if North America has proved much more resilient than Europe and for some time now, we have no indication, and I repeat, we have no indication that the good performance in Q2 can be repeated in the coming quarters. And in Europe, we are counting on a similar decline in term of pace that we've seen in the past for the coming quarters. Just as a reminder, Europe is ahead of many countries, as you know, but for us, the pace of decline is quite different from one country to another, having extreme pace of decline, for example, in UK or Nordics versus much lower decline in France or Germany as an example.

In graphic, the decline is minus 12% in this first semester compared to the first semester last year, and that is the result mostly of a large contract that we had in Q3 in Australia last year. Digital communication and shipping solution dedicated to our SME client base within the division continue to do very well and achieved a particularly high level of organic growth in Q2 at 31%, and that brings the first semester growth at more than 21% this year. Even with all that taking into account, as a summary, if we look at 2018, we continue to expect a further organic decrease in SME Solutions for the full year considering the impact of the mail solutions.

So, this ends the detailed review of each of our division. And I will now hand it to Jean-François to have more information on our numbers. Thank you.

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

Thank you, Geoffrey. Ladies and gentlemen, good morning. I am now going to share with you our H1 2018 financial performance in detail. And let us start with our sales figures. So, we posted sales of €528 million, down 5.6% compared to the first half of 2017. You can see that we had a small negative scope effect of minus 0.3%, coming from the divestment of DMTI in July 2017.

The currency impact is strongly negative at minus 4.9%, representing a €27 million decrease in our topline. Our organic growth is slightly negative, as Geoffrey said, at minus 0.4%, representing a small decrease in revenue of €2 million. This performance is due to a better-than-expected trend in the second quarter of 2018, coming from our three divisions.

We ended up Q2 with a positive organic growth of 1.2% after our first quarter of minus 2.1%. In order to have a better understanding of our H1 organic performance, I propose to have a look at the revenue evolution per division.

As already said in the previous slide, the organic growth in H1 stands at minus 0.4% or minus €2 million. Our biggest division, SME Solutions posted a decline of 2.5% or minus €12 million.

Moving to our Enterprise Digital Solutions division, we posted an organic growth of 7.4%, representing a revenue increase of €5 million excluding currency effect. On the Neopost Shipping side, we grew by 21.5% compared to H1 2017, representing an increase in revenue of €6 million excluding currency impact. So, overall, accumulated growth of both Neopost Shipping and Enterprise Digital Solutions division nearly compensated for the decline of our SME Solutions division.

If we look now at our P&L, the gross margin remains very high and improved by 40 basis points at 75.7% coming from a better mix between recurring revenues and licensed hardware revenue. Our EBITDA remains very high at 24.7%. Compared to H1 2017, we have a decrease of 70 basis points coming from the maintained development efforts in our Shipping division to support the deployment of all its business lines. Our current EBIT margin stands at 17.2% of our revenue down by 80 basis points compared to H1 2017. This again comes mainly from our Shipping division.

To have better understanding of our EBIT evolution, I propose that we have a look at our performance per division. And I will start with SME Solutions, where we have stabilized our EBIT margin compared to H1 2017 at 21.9% despite a revenue decline of that division. This performance is mainly due to the positive impact of the good cost control combined with a better resilience of our recurring revenue. In Enterprise Digital Solutions, we posted an EBIT margin of 10.1% compared to 12.4% in H1 2017. We have still the temporary effect of our sales network adjustment, which is not fully yet aligned with our license sales performance. At this point, it's currently and closely managed.

On the Neopost Shipping side, Neopost Shipping EBIT margin strongly decreased at minus 35.7% compared to minus 25.9% in H1 2017. These deteriorations come from the combination of two factors: first, the decline of the sales of our profitable Shipping legacy software, as explained by Geoffrey; and second, the maintained efforts dedicated to the development and the support of our new shipping solutions like the automated packing solution, CVP-500, the parcel locker business, and the new Software Solutions. We are talking here about spendings amounting to approximately €4 million in H1 2018.

In innovation, outside of our three divisions, we have allocated €1 million to a new project related to mobile and cloud applications. This compares to €4 million last year which were allocated to the rollout of the full web-based solution platform to provide digital applications for very small businesses. This project has been partly transferred to SME to support the sales of digital and shipping solutions. So, overall, our current EBIT margin performance in H1 2018 essentially reflects the mix between the stabilization of the profitability in our SME division and the maintained efforts dedicated to the development of our Neopost Shipping division. Our current EBIT stands at €91 million in H1 2018 versus €101 million in H1 2017.

Going further down the P&L, we recorded €6 million related to the depreciation of the purchase price allocation, and this is a noncash item. We booked €3 million expenses related to our optimization plan dedicated to our SME division, half of what was booked last year in H1 2017. We had no other noncurrent item in H1 2018 compared to an expense of €6 million in H1 2017. The €6 million expenses last year were related to the divestment as well as the revised earn-out and goodwill of Temando. Overall, our operating income is almost stable compared to H1 2017 at €82 million versus €83 million.

Our cost of debt for the first semester is €15 million compared to €17 million in H1 2017. The €2 million improvement compared to last year is due to a one-off expense related to refinancing operations that took place in H1 last year. In addition, we benefited from €1 million currency gains. Overall, our net financial expenses stand at minus €14 million. It has improved by €3 million compared to H1 2017. Our current cost of debt remained stable at 3.5%.

Our level of tax is low in H1 2018 compared to H1 2017. It is due to the interest gain of the cancellation of the dividend tax in France as well as the reduced tax rate in the U.S. Our normalized tax rate now stands at 23%, as expected, following the U.S. tax reform compared to 25% a year ago. Our net attributable income, therefore, increased by 18.1% at €60 million, representing 11.4% of our sales. Fully diluted EPS increased from €1.27 to €1.50.

Let us now have a review of our cash flow generation. Neopost continues to maintain its strong level of cash flow. During the first half of 2018, Neopost generated €55 million of free cash flow after CapEx versus €61 million produced in H1 2017. How did we achieve such a good performance in the light of a decrease of EBITDA by €12 million? Our working capital performance deteriorated by €16 million in H1 2018, this is mainly due to the phasing of intragroup VAT operation. Indeed, we cash out €10 million in H1 2018, whereas the collection of the same €10 million took place in August. That is to say for us in H2.

Our inventory level increased slightly to prepare the continuous fall out of our parcel locker business in Japan and the delivery of automated packing system. We have also experienced a decrease in our accounts payable. As you know, we always have a deterioration of the working capital at Neopost due to seasonality of our deferred income. So, therefore, we are expecting the working capital to improve strongly during the second half of this year. We expected our lease portfolio continues to decline. It went down by 4% at constant exchange rate versus 31st of January 2018. This has generated a positive cash flow of €29 million and this trend again should continue in the future.

Our interest and income tax paid are low, thanks to the repayment of the French dividend tax and related interest for €13 million. Our capital expenditure remains high and stands at €40 million compared to €44 million last year. If we take into account a subsidy of €5 million received from the Japanese government for the deployment of our parcel locker network, our level of CapEx is roughly the same as last year. Main area of capital expenditure for the first half of 2018 includes €18 million for rented equipment, €15 million allocated to R&D development, and €3 million allocated to IT. As a conclusion, we are well on track to maintain a strong level of free cash flow after CapEx for the full year 2018.

So, thanks to our capacity to generate very strong cash flow, our balance sheet structure shows a healthy financial position. Our financial net debt decreased by €22 million compared to January 2018 and stand at €653 million. The decrease is aligned with the decline of our lease portfolio, demonstrating again that the debt at Neopost is fully allocated to the financing of our leasing activities. You can see that the €653 million of net debt is fully covered by the €702 million of lease portfolio. In addition, we have €222 million of future cash flows coming from rental activities. Last but not least, our leverage ratio remains stable at 2.4 net debt-to-EBITDA.

And I will finish my presentation on our H1 2018 results by our debt structure. As you can see, we have maturities well spread out. We have also very diversified debt structure allowing us to be opportunistic. We have recently extended the maturity of our revolving facility by year 2023. Our flexibility remains very high as our revolving line is currently fully undrawn. So, before moving to the Q&A session, let me drive through our update indication for 2018.

Following our H1 revenue performance, we have improved our sales vision, while again still expecting an organic decrease for the full year. Revenue indications per division are as follows. Enterprise Digital Solutions will grow at high-single-digit versus low-single-digit in our previous indication. Neopost Shipping will grow at double-digit, but well-below H1 2018 performance. We will again experience less growth in the parcel locker business in H2, and we might not be able to place as many automated packing system as in H2 2017. And finally, we will still be impacted by the decline of our shipping software.

As for SME Solutions revenues, we have three components. As said by Geoffrey, we maintain our historical range of minus 4% to minus 6% for our mail solution activity. The digital communication and shipping solutions dedicated to SME will grow by double-digit, but at lower pace than H1 2018. And lastly, we expected further decline coming from our graphics business.

If we now move to our expectations regarding EBIT margin, the current level of profitability of our Neopost Shipping division will be maintained in H2 2018. On the positive side, our Enterprise Digital Solutions division will increase its profitability in H2 2018 versus H1 2018. And the SME division will produce the similar level of EBIT margin as in H1 2018, thanks to continued good cost control. Our innovation expenses, which are not included in our three divisions, will increase in H2 2018 compared to H1 2018.

Overall, this is driving us to update our group EBIT margin indication for the full year from around 18% to above 17%. In the meantime, we are confirming that the level of free cash flow generation will be high in H2 2018. Please be aware that the €13 million received in H1 2018 as a result of the cancellation of the French tax dividend was a one-off effect. On the other hand, the €10 million intragroup VAT that we've paid in H1 2018 has been collected back and will boost our free cash flow in H2.

So, next steps in the agenda are the publication of our Q3 sales performance on December 3 and our Capital Market Day that will take place in Paris on January 23, 2019. We will unveil our new strategy during these events. Thank you and we are now ready to answer your questions.

QUESTION AND ANSWER SECTION

Q

Good morning. Thank you for having us. I had a question about the Neopost Shipping segment. So, you said that there will be a very strong comparison basis on the second semester and that there will be a slowdown in the Packcity segment. Do you plan on accelerating again the growth in the Packcity segment? And do you think that you will be able to secure a future contract with Yamato? Is it in discussion? And regarding the overall segment, do you think you can still achieve double-digit organic growth in the Shipping segment despite this high comparison basis? Thank you very much.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, obviously, we have a sales team and they're working on the different – new sales and new contracts, not only in Japan but including in Japan as well, so there's other retailers we're chasing. So, yes, in the future, we do expect to have some more [indiscernible] (00:41:04) with this year. We have a base of installation that is within the framework of the partnership with Yamato. So, from the 300, we have slowed down every month to 100 more or less.

Overall, it's because we're working on Yamato, not anymore to try to add too many lockers at this time, but try to increase the usage of the lockers. And until we are completed with this phase, I don't foresee particularly strong increase within the Yamato partnership. But we do have other initiatives going on that may yield some new contracts, either this year or next year. So, overall, yes, the locker is a growth engine for us, so no debate there.

As it relates to the growth, we're not expecting again the same level of growth that we've seen in Q1 and Q2, especially because of the element that I mentioned in terms of the comparison basis. But for Packcity, we're going to be just benefiting from the rental that we have overall in Q3 and Q4.

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

A

Yeah. [indiscernible] (00:42:05). It's a pure rental model. So, basically, we will continue to grow in H2, because we benefited from a growing install base. And also as I said, we are deploying between around 100 and 150 units per month. The pace of growth will slow down because we have already achieved [indiscernible] (00:42:26) lockers in Japan.

Q

If I may again...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Yes.

Q

...regarding the overall Shipping segment, do you expect this double-digit organic growth to be sustained even if it's low-double-digit? And could you also give us an update on Temando? Where it's going now, the adoption rate, do you have some news on that? Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Again, the indication for shipping is that it will grow at double-digit this year. We're just saying that it will not grow at the same pace at what we've seen in H1. Much slower pace for H2, but overall for the year, yes, double digit.

On the Magento, we did launch the platform at the early beginning of May. As I mentioned earlier, we'll see at the end of the year what is the base of acquisition of new customers, those kind of subscription fees that they are using or not, how frequently they are using it, what type of customers, small to mid, mid to high was in the Magento customer base. Magento is also going through the migration of their former platform to the new one. So, there's a lot of things that are going on, and we'll be able to give you an update. I think at the end of the year, we'll know more.

Martin Boeris
Analyst, Exane SA

Q

Hello. Martin Boeris for Exane. Just a question on EDS. Can you provide us with the organic growth for maintenance and service organic growth, please?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

I don't have that in top of my head, and I don't know if we provide this. But I...

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

A

We don't provide this. But as we said, the licenses revenue are declining in H1. We have a total growth of more than 7% for H1 2018. So, therefore, the maintenance and the professional services are growing to offset the decline of license.

Martin Boeris
Analyst, Exane SA

Q

Maybe as a follow-up question on Packcity, what's your target in terms of total number of units to be installed by next January?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

By next January?

Martin Boeris
Analyst, Exane SA

Q

Yeah.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

If you take the rhythm of 100 per month from the end of July and 600 more from the 3,100. But this is not a specific number that we're shooting for. But that gives you a range of what we could add from now and then. Good question.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

Jean-François Granjon from Oddo BHF. Just one question related to innovation costs. You have limited amount, €1 million compared to €4 million last year for the first half. You mentioned an increase during the second half. Could you just quantify the amount of the innovation costs for the full year?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, the project that we're going to spend those investment are related to mobile and cloud. As a matter of information, we could benefit for the three business units. And rest of the amount, I think it should be lower than last year. These are not quantifiable projects. They are obviously innovation projects. So, the base of which we're able to develop it and forecast it. But I think lower than last year would be a reasonable assumption.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

Maybe just a question on mail solutions. Are you still gaining some market share in the U.S. in value or volume, because in the last quarters, you reported that you were gaining some market share? So, is this trend continuing?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, regularly, we have slowly increased the market share in the U.S. over the years. So, there's been a steady one. I wouldn't say anything as related to the first two quarters because, obviously, there's been also big difference in the revenue of some of our competitors. So, it's too early to say if that has triggered or not bigger market share. I would assume that the legitimate assumption is that we're on the same trend.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

Sorry for the technical question, regarding working capital. So if we adjust for the €10 million one-off – seasonal one-off, should we take the trend of this adjusting number as the trend for the full-year in terms of change in working capital requirements? And also in the tax impact, you have some different one-offs difference that you have to change from the U.S. Could you give us a targeted window of tax rate for the full year? Thank you very much.

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

A

You want to answer? Or I will take this one?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

[indiscernible] (47:48) answer this one.

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

A

Okay. The working capital usually at Neopost, we improved the working capital performance in H2. Why? Because we have a lot of deferred revenue that are building up at the end of the year, and then we consume these deferred revenue over H1 2000 – over the first half of the following year. So, we have a deterioration of the working capital performance in H1 and an improvement of the working capital in H2. If you look at last year, if you look at the year before, this is the way it has been achieved. And this is the reason why in terms of free cash flow, we are accelerating the production of the free cash flow during the second half of the year compared to the first half of this year. Okay?

And again, keep in mind that in the current performance in H1, there is this €10 million collection of VAT which was – again, there was a phasing issue between what we paid in H1 and what we have currently collected in August 2018, okay? So, this is for the working capital.

Now you had a question on the tax, as we said, the normalized tax rate at group level will be 23% normalized for the full year compared to 25% in the past, mainly coming from the U.S. tax revision.

But, of course, we have this €13 million of reimbursement from the tax we paid on the dividend in the past years. This effect will not be replicated in H2, but that will remain for the full year performance.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

Jean-François, is it €30 million or is it €5 million?

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

It's €5 million on the P&L...

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

A

It's €5 million on P&L.

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

...and €13 million on...

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

A

On cash, it's €13 million.

Jean-François Granjon
Analyst, Oddo BHF SCA

Q

Previously you mentioned that for EDS you expect double-digit growth for the medium term. So, today, we see a lower trend for this division. What do you expect for the future? Do you expect more growth to reach double digit in the future or not?

And the other question concern the margin for Neopost Shipping. Do you expect an improvement next year or do you expect the same magnitude for contribution for the earnings next year? Thank you

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Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, [ph] three (50:27) questions. On EDS, we do not expect a double-digit growth this year. I think that's what you ask. We expect high-single digit only, and it's an improvement compared to the outlook we had at the beginning of the year that was only a low-single digits. And within EDS, definitely, the improvement in the outlook is coming from the CCM segment, [indiscernible] (50:52) that we still expect to decline. In the CCM segment, and if you remember the slide on the historical performance, we definitely are coming with two good quarters compared to last year. Two good quarters is not enough to call it a steady level. Okay?

We're still in the process of changing the go-to-market and fine-tuning the organization. So, I'm definitely happy to see the progress in Q1 and Q2. I think we need to wait to see whether or not it gets confirm with the same level of makeup, making sure that we are doing the same level of growth without any big deals in Q3 and in Q4 and that we don't have any accidents in the pipeline generation.

So, based on that, EDS is one of our key strong engines. CCM application is one of – we're the leading – the leader in the quadrant from all the industry experts. So, yes, we do hope that this transformation will continue the go-to-market and could provide similar level if it's consolidated this year, next year. Whether we could be more than this year, it's too early to say. There's a lot of different trends as well within the CCM market, both regionally in Asia, in Europe, in the U.S. So, we'll have to wait next year to see if we could consider any acceleration in the CCM segment. Right now, I'm really focusing on Q3 and Q4 and trying to see if we could stabilize the gain that we have today and make them sustainable.

And then the second question was on the level of profitability of Shipping, this is something for next year, I think that we'll have a chance to review during the strategic review in January. And in not just Shipping, I'm looking at all our segment, all our businesses, there's no exception. That's why we're doing the holistic review whether its graphic, whether it's mail, even the segments in the mail, in EDS, the Data Quality [indiscernible] (52:52) Satori, the different software solution that we have within Shipping, Temando, ProShip, so there is no exception. And I think at the end of January, I should be able to give you a better answer on the level of both growth and profitability that we could expect on each of our offering.

Gaële, do we have any question online?

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

Yes.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Are you okay?

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

Yes. I'm okay.

A

Hello?

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

Yes. We have a question on dividend. So, do you have any comments on dividend payment going forward?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Okay. So, we're not having any comment at this time. This is something that is going to be part of our allocation of capital. The allocation of capital is related to our strategy. We will present our strategy in January, and the allocation of capital will be part of that as well as the dividend, its level, and how it's been and whatever method that we use for that. This is obviously something that is very keen to me, which is the return to our shareholder, and it will be presented in January.

Gaële Le Men-Chagnaud
Financial & Corporate Communications Director, Neopost SA

A

No additional question?

Geoffrey Godet
Chief Executive Officer, Neopost SA

Thank you.