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MANAGEMENT DISCUSSION SECTION

Geoffrey Godet
Chief Executive Officer & Director, Quadient

Okay. So, let's get started. Good morning everyone. Thank you for being here this morning with us. As you have noticed, we have worked really hard to make sure the seats were the same colors of our new brand. That was done in record time. For the one that was expecting to have H1 results of Neopost, please do not leave the room, this is also about Neopost H1 results.

I will obviously take some time at the beginning of this presentation to explain why we changed our name to Quadient. And after that, Jean-François Labadie, the CFO of Quadient, will share with me the presentation on H1 results. I will give a quick summary on the highlights of the first semester. Jean-François and I will share some updates on what we've done operationally since the beginning of the year. And Jean-François will take a little bit more time to do the financial review. I'll summarize obviously our guidelines, our updated guidelines, for the rest of the year. And then we'll open the floor for some questions.

So, welcome to Quadient. Before I go into detail, I will spend just a few minutes with you for something that is, obviously, very critical and very important to Quadient moving forward. We have unveiled a new strategy in January 2019, some of you were present with us, and it was all about accelerating the transformation of Neopost, right?

That acceleration of Neopost was coming holistically to change the way we operate, to change our culture, our way of doing business, and it's also change of type of focus in term of business, the type of solution we take to market. We have implemented those changes since the beginning of the year. And it was only time now to be able to have a brand that can represent all stakeholders, all partners, all our ecosystem that could resonate with all our customers, whatever the solution we provide to them and could, obviously, appeal to all our employees today, the one that works for us at Quadient and the one we want to be able to attract looking forward to our growth in the coming years. So, I'll spend a little bit time with you to explain what it means, why we changed, why we chose Quadient, and obviously, what we expect out of it.

So, why Quadient and what does it mean? I spent a little time at the beginning of January this year to explain where we're coming from. Neopost had a rich and long history, which we're benefiting from and leveraging today, but we were mostly organized as a holding of independent businesses, 10 different businesses, 3 independent business units and they had their own go-to-market culture organization, centralization of functions. And we have decided to move from the holding of companies to a unified organization as if we're a single organization, single group, integrated, focused, taking to market four solutions on the core geographies, two main geographies that we care about.

And that's the fundamental change to become a unified company, and it's a change that was necessary to be able to unlock and deliver on the promise and the ambition that we have shared with you, the synergies that we could benefit from the scale of the group, right, that otherwise was not accessible to us. Synergies across the organization in term of centers of excellence, support functions, in term of R&D, in term of what is software or hardware, in term of speed, when you have so many silos, it is difficult to accelerate the speed of the business. So, this is why we have decided to centralize this organization.

The most important aspect too of our plan was also to leverage the synergies from a customer perspective and our solution and enable faster and more cross-sells across our solutions, and also to demonstrate the value of why our four main solutions work together, and what was the value for our customers in this process. It only made sense then to be able to have a unified brand that could represent the four main solutions that we were taking to market.

And from a business perspective, when you operate those kind of change, it's only natural that you operate as one company, one team, one set of values that you need to have one culture. And that culture has to also be represented by one brand. So that's the reason why we decide to change and why we decided to change now.

When you change such a brand, you could obviously just change the name. That's one thing. What the work we have done, and this work is the result of more or less 18 months of analysis and preparation, is to build a purpose, brand-driven platform. I am not going to go with you here today on all the aspects of what we're doing in this domain but I just wanted to give you a snapshot. We have, obviously, created and adapted our vision, where we're going, what is our ambition, what is our mission. So that every day when an employee comes at the office, he knows why and where we're going, right, and obviously, the values of the company as well. So, they could all operate the same way.

So it's important to do so because before customer – our customers want to trust us. They want to trust the brand they do business with before they invest into solutions, right? From an employee perspective, they need to know why they come at the office every morning, what's in it for them and why do they work every day, what is it we're trying to achieve. Investors want to know why they invest in the company, can they trust the company and the brand that they want to invest into. And we have a whole partnership – ecosystem of partners that also the brand is to resonate with the value proposition that the organization is putting on the market. So, that's the work we've done discussing with customers, interviewing them, with employees, with the different stakeholders, what it means today to be our organization.

So, coming back to the reason and sort of just describing the what we do and the benefit of the solution, the speed, the benefit and the return, we try to focus on the why. Why do we exist? What purpose do we serve? Why do we

– Why our customer should choose us? What is the reason why employees should come every day and make a difference when they come at the Neopost, Quadient from now? Why should new potential hires join us? What is the reason?

So, we came to it and after looking at different things, I think us around the table, nowadays, we want to be treated not as customers, when we receive notification from our – the companies we do business with, we don't want to be receiving a letter, dear, Mr. customer, we want to be able to receive a letter and saying dear Nicolas, dear Gaële, dear Julien et cetera, we know you, we've been doing business with you before, we know you purchased something yesterday, we're sorry it didn't fit your need, it was the wrong color or something. We want to be treated as individuals and we want to be treated as individuals in a personalized way because it all depends obviously. If we're at home during the weekend with our family, as residents in our building. If it's during the day or during the week from 9:00 or 8:00 to something late hours during the weekdays and we are employees in our organization or whether we're a patient in a hospital or having a relationship with a healthcare organization, right, we want to be treated in context. It has to be personalized.

And when we realized that all the solutions we're providing and especially on the four main that it was never about the letter that was sent or the parcel or the package that was received or sent as well but it was behind that, what's in it. Behind the letter is the critical invoices that an organization needs to send to its customers to pay its bill; it's a claim that has been notified from us because we had an accident with our insurance company; if the announcement of a particular recognition that we had, it's a health bulletin that we have received and we're expecting a positive or negative result from the health organization that we've been doing business with or visiting; when it's a parcel, it could be a very important package because it's the gift that we want to be able to send to our wife or to our daughters; it could be a particular thing that we have bought online as an employee and we need to receive an equipment or phone, a laptop, that is critical for us to be able to do business on time or print a set of documents. So what we've realized is that what we're doing is relating to what individuals, people cared about, as consumers, as individuals and what matters to them, right, and making sure we were providing solutions to create the connection between the two and we have obviously a portfolio of solutions to be able to do that. What our true purpose then was to make sure we could simplify those connection for those businesses we help.

Nowadays, each one of you, I'm sure, when we do business with an organization or we expect something, we want it to be simple, fast. We don't care how complicated it is in the background, whether there is ERPs or CRMs or whatever, we expect those organizations, those businesses to service. We want those information that we exchange with them to be secured. We want that to be seamless. We want this to be automated. We want that to be simplified. And that's the true purpose for Neopost that we want to simplify the connection between peoples and what matters to each one of us. Hence, naturally, why we have also designed a new tagline, Quadient, because connections matters.

I'm not going to spend more time with you this morning on this, obviously, the entire organization care about it, we have made the announcement recently, it's been 18 months in process. Just to know with information, Quadient was a brand that existed within Neopost before, so we had a chance to get it validated in most of the countries where we do business, so we anticipate a fast rollout in the coming months to be able to deploy this strong brand across the board.

So, let's get to the information that you probably care a little bit more about this morning, which is our H1 result that Jean-François and I will present together. I will spend a little time on the highlights, the execution of our Back to Growth strategy and the progress we have made in delivering some of the early result from the ambition we have set, and then, operational review, financial revenue, with Jean-François, and a quick summary on our updated guidelines.

What do I want to share here with you, if we look at our semester performance from the top line perspective organically over the past few years, you can see that from 2015 to 2017, we had negative organic growth, decline semester-over-semester for the last – for a period of three years from 2017 – 2015 to 2017. When I arrived in 2018, we had a chance to have a small organic decline in the first semester for the first time, close to zero, and close to stabilization. We obviously had a very difficult quarter in H2 2017, right. So, we also benefited for the first time for a semester that was organically growing at almost 1%, which allowed us last year to stabilize the revenue of the company for the first time after three years roughly of a decline of around minus 2%.

H1 2019, 2.3% organic growth. Obviously, we're very happy with this new level of growth in this first semester. It's just the first semester. And as you could see, it's also an easier comparison basis compared to last year. Our H1 semester last year was a little bit easier from a comparison basis perspective.

The 2.3% organic growth performance we have in this first semester is all the most noticeable that we're at the beginning of our Back to Growth strategy, and we still have 70% of our business that is dependent on Mail-related Solution, right. So, we still achieve – been able to achieve 2.3% organic in this first semester, having 70% on Mail-related Solution, that is still declining.

Before we go into the details, 5.5% reported growth in the first semester, 2.3% organic growth for H1. What does it mean organically? We have two major segment operations, Major Operation at 1.1%. This is where we focus our strategy, our investment, and the growth of our major solutions. And what is noticeable within Major Operation that we'll go over is that we have a 5.3% organic growth in North America, which is our largest region today. So, strong growth, driven by the four major solutions that we have, and obviously accelerated thanks to the acquisition that we've done at the beginning of the year, with Parcel Pending, our Parcel Locker Solution, leader in North America.

The performance within Major Operation was a strong performance because it was underlying, driven by the growth – the strong performance in each of the four major solutions that we have. They've been all performing well from our perspective since the beginning of the year.

Something important to us is that while we focus our business mainly in term of solution and investment in operation in two main regions in Major Operations, we have the rest of our business that we have regrouped within Additional Operation, we have dedicated a management team specifically to focus on the improvement of that operation, to obviously exit some of the solutions in which we may not be able to get them to traction, and also to improve them when it's possible but also to grow them. So, we're obviously very happy with a strong growth of Additional Operation at 8.2%. From a quarterly basis, this represents, with Q2 of this year, the fifth quarter of organic growth that is consecutive. Q2 2019 was at 1.8% organic growth.

If we look at the financial performance, we had a solid financial performance in H1. The current EBIT at €93 million, which is up 2.3% versus H1 of last year. If we exclude scope impact and currency impact, we're still seeing a slight growth of our EBIT at 1.1% compared to last year.

I'm going to address very quickly one point of notice on our cash. Jean-François and I will be able to go through it today. We had a lower cash conversion at the beginning of the year. This is really related to a seasonal deterioration that we have traditionally within Neopost because of the structure of our business and our business model due to lease and rental activities et cetera. So, we have usually a lower cash creation at the beginning of the year, which naturally, every second semester, increase. This first semester was a little bit amplified due to temporary increase in our stock and inventory. We've seen strong dynamics in our business in the first semester and we have increased the stock consequently. So, we'll go over the details on that.

And we have also a lot of different aspects in term of the tax, from last year exceptional item to this year exceptional item. We have now a more normalized tax situation in H1. And then finally, we have also a slight increase in our CapEx in H1 this year compared to last year. €49 million of CapEx that we have is fully in line with the guidance we gave at the beginning of the year, which was to spend roughly €100 million per year in average during the duration of the plan. So, €49 million for first semester were more or less on target.

From a debt perspective and debt ratio perspective, our leverage is stable, 2.3 to 2.3, if we exclude the impact of IFRS 16. Including the IFRS 16 impact from the norm, we're going to be at 2.5 in this first semester. From a guidance, I will go over the reasoning and the rationale of why we are upgrading our guidance. But naturally, based on the good result that we have in this first semester both in term of top line and bottom line and considering some of the high comparison basis that we're going to see and explain in H2, we are slightly – upgrading to slightly positive growth from the almost stable previously, from a top line perspective. So, we are upgrading our guidance.

And from the EBIT, we are refining our EBIT guidance between a range of €180 million to €185 million. And we do confirm the guidance that we have on the free cash flow conversion and such, excluding the impact of IFRS 16, which actually is positive from a cash conversion perspective, so even excluding the impact of the IFRS 16, we will be above 50% of free cash flow conversion.

Just a quick reminder for the ones that are new about Quadient, our strategy, our Back to Growth plan is really to refocus the company, the group on its Major Operations, in which we have built key positions. So, we're going to take to market four major solutions, mostly focusing them in term of go-to-market and development in the two main geographies, North America and a few key European countries that we have today. The rest of our operations and the rest of our solutions, are our four major solutions in the rest of the world and also our other solutions which all regrouped within Additional Operation with the goal every day when we wake up to make sure that the Additional Operation doesn't take our system backward both in term of organic growth because this is the target of our plan, so we want to make sure that Additional Operations will also contribute at some point in term of organic growth like they've done in the first semester. And also from an EBIT perspective, we're looking at a plan to grow our EBIT year-over-year in average over the period of plan. So, we want to make sure that Additional Operations doesn't take our system backwards at every semester or every year when we start. Hence, grow or improve or exit the businesses within Additional Operations.

Our strategy will be to accelerate that transformation through both a different capital allocation so that we could accelerate through a slightly increased CapEx year-over-year, €100 million in average for the full year of the plan and an envelope of inorganic acceleration, so an envelope of M&A of €400 million net of the divestment over the period of the plan, which could represent in average €100 million per year focusing on bolt-on acquisitions.

A few updates since we made those announcements on this plan, delivering the first implementation and result and actions. Some of them are already starting to pay off. Others are in the making. We obviously rolled out, since the announcement in January, our new organization, moving away from the holding of independent businesses to a one company, a unified company. You could see obviously on the brand that we're also looking at the brand and the communication aspect.

What is important too is that we are centralizing functions, so centers of excellence across the group for the support functions such as HR, IT, finance, legal, so that we provide a back office to support our team across the world that is going to be efficient. And that could also provide the savings and the synergies that we could benefit from the scales of those organization across the world.

A lot of our efforts in H1 has been also to focus on strategic initiatives, focus on Major Operation, initiatives on go-to-market, hiring new salespeople for new verticals for some of our solutions, focusing on customer acquisition, making sure we benefit from the strong position that we have in strong markets against our competition as well. Also looking at rationalization of our R&D portfolio of the different software, accelerating some of the roadmap when necessary, migrating or retiring some of the others and centralizing our R&D functions, marketing solution functions as well, both in term of the hardware and software to get the full benefit of the refocus on those four major solution and having dedicated team, both on the marketing, product management, product marketing, R&D and support side by major solution within the Major Operation.

The new way of working for us is changing the culture of the company, to accelerate our growth. We obviously are becoming faster, more agile. Our new values, our new way of taking decisions are obviously helping us to accelerate our transformation and is ongoing. It won't be done overnight, this is a long-term endeavor and we're making a decent progress since the beginning of the year. I'm pretty proud of the team.

In term of Major Operation, we've been focusing obviously at some of our strategic investment in term of innovation and go-to-market, as I mentioned before. We did acquire Parcel Pending at the beginning of the year, so naturally, with the strong disciplines we have in M&A and the discipline in M&A is not just financial, we obviously want to make sure that when we acquire a company, its business model and indicators et cetera will meet the financial criteria that we have set. And we buy the right one, we do the right due diligence but the work doesn't stop there. The work is very active since the beginning of the year to integrate the company with a phased integration, which is well under way. We have some more work to do in the next 18 months. We are integrating and it's part of our Major Operation, it's now part of our operation in North America, and since the acquisition, we've been integrating them progressively.

And we've been also working very strongly on developing synergies between our different sales teams to focus on our customers and where we could accelerate some of the cross-sells that we have identified in our plan. In particular, we've been doing good progress on synergies, between our Business Process Automation solution, and our Mail-related Solution, but also on the others, in particular in the first six months of the year.

Additional Operation is also a strong area that's been for us since the beginning of the year. We put a whole new management team to focus on what was basically a little bit left over in the previous years, not having as much priority naturally, because they were not as impactful or material to the rest of the organization. But now we have a team that is focusing on all the other countries where we are doing business into, and making sure that for each country, for each of the solution we take to market, strategic or not, we make money, we're profitable, we improve in case we need to improve, and we try to grow those business, ensuring overall that if we're not being able to find a return for our euros invested, then we find a way to exit those solution or operations to make sure we could reuse those euros saved in Additional Operation across the group and for the benefit of our transformation.

million increase in our top line. But what matters to us is the organic growth. And as Geoffrey already shared with you, we produced 2.3% of organic growth or €12 million of additional revenue, €12 million.

Major Operation grows to that 1.1%, an increase in revenue of €5 million. Altogether, Business Process Automation, Customer Experience Management and Parcel Locker Solutions grew by a strong double digit or €13 million, offsetting largely the 2.1% decline in Mail-related Solution, representing €8 million. In Additional Operation, we post an organic growth of 8.2% or €7 million, driven solely by good performance from our four major solutions.

At this stage, I will let Geoffrey sharing with you more colors on our Major Operations.

Geoffrey Godet

Chief Executive Officer & Director, Quadient

Thank you, Jean-François. So, let's take a look – a deeper look by solution, focusing on Customer Experience Management first, which recorded an organic growth of 8.5% in this first semester, this is a very satisfactory performance in H1. Why? Because it doesn't include any large deal. That's the first point. The second point is that we've seen a noticeable increase of our SaaS license versus the one-time on-premise license, which is a very good news because within Quadient, we want to have recurring business model. So, we will favor, in the future, slowly progressively or based on customer demand the SaaS revenue, SaaS subscription.

We also benefited from the natural strong growth we had last year, as well. We had increased numbers of customers, increased license, which means more maintenance this year because our solution are really sticky. So, when we add a customer, we don't lose others usually, these are long-term customers that we keep, 5, 10 years. And we benefit also from all the services generated from those existing customers.

That means double-digit growth both in North America and in Germany and Switzerland region in particular. It does not include the growth related to the additional operations; so the Rest of the World where we're also selling customer expense management solution, which are doing pretty well, we'll go through additional operation with Jean-François later.

From a go-to-market perspective, this is a strong natural solution for us. We have decided in our strategy announced in January to go beyond the three main verticals in which we have taken key position on the market; healthcare, bank and insurance through developing telcos, utilities and government segments, right?

We have hired people, the expert in those domains. Just as a reminder, this is an enterprise software sales cycle. It usually takes at least 12 months to be able to close a deal, so the investment we're making now, we're not expecting any return this year. We're looking obviously at the rest of our plan and next year.

We have also focused on the major release of our application which was the Version 14, mostly focusing on upgrading the capability among hundreds of new features, but mostly focusing on adding more and more, cloud capabilities progressively.

Let's spend some time on Business Process Automation. We posted a strong organic growth this semester, 20.5%; it's not just a 10% growth, 20.5%. Where does it come from? We had achieved a strong growth now in two main regions, right? Because it's a solution that we're taking to market to all our major countries, major region. And we used to have a strong growth in France. We continue to perform well and accelerate the growth there, but also now focusing on having North America contributing to the strong growth.

We had a decline in our UK/Ireland region, mostly because we had some key deals that was been delayed in terms of decision, so far and the strong comparison basis versus last year, particularly in Q2. We are gaining more and more new customers. So, our customer base and customer acquisition is increasing and such, in all regions within major operation.

We also have a strong increase in our SaaS revenue because this is a recurring business model, even though we also provide the option of acquiring a solution on license. More of the solution is being a recurring model, SaaS and subscription-based, cloud-based in most cases as well.

And the most important thing too is we're benefiting on this acceleration of growth in this first semester from some of the cross-sell initiatives that we have between our Mail-related Solution offering and the Business Process Automation offering by combining them and having our sales organization being able to benefit from the synergies and having a sales guy in the Mail-related Solution being able to cross-sell the business process automation solution.

In France in particular, but also elsewhere, we have the same way of looking at it, is that we're segmenting our markets. So instead of having a general go-to-market, for example in France, we'll get 12 priority segments, verticals and we have taken four in this first part of the year in which we're developing a specific go-to-market. We are also looking at indirect channels instead of doing everything ourselves, we have an ecosystem of partners that could be leveraging our solution for their own customers and the value, like prodware and the announcement we made at the beginning of June.

Overall, we have a strong recurring revenue at 80% for this solution. I emphasized on recurring revenue because it's part of our strategy. We have strong recurring revenue across most of our solution and it's something that is part of our solid performance. If we go down to our historical and traditional main business, which represent 70% overall of our revenue, Mail Related Solution. We posted an organic decline of minus 2.1%. This is a much lower decline than we've used to see. I want to be careful and remind you that we've seen quarter-to-quarter, semester-to-semester, some strong variation. That being said, the level of decline that we had in the past for the Mail Solution was more between 4% to 6%.

As you know, this is one of the key assumptions and the key focus that I have in our new strategy is to reinvest in our Mail Related Solution activities, right, because I believe that we have the right product portfolio, the right positioning. We have strength compared to our competition, and in particular in the different markets, which is true in North America, but also in the others. I believe that we can do better. Hence why we have decided to reinvest.

So one thing that I just want to make sure everybody appreciate is when we change our name, what does it mean to our Mail Related Solution customers? Quadient means, we are investing again in our Mail Related Solution business. So I'm obviously happy to see some improvement in the performance, which seems to show that some of the initiatives that we're taking are paying off. It's still early. And again, it's a long-term business, over five years. One quarter, one semester doesn't make a trend. But we see some improvement. Where does that improvement come from? We have seen a organic low-single-digit growth this first semester in North America for Mail Related Solution. So, this one, I'm going to repeat it. It's a positive low-single-digit growth in North America. I'm saying growth because, again, we've seen decline year-over-year for now several years in a row, including North America. So, we're obviously very satisfied to see this remarkable performance.

How we have re-achieved that? Obviously, we have a challenger position in North America region in particular. We have potentially more opportunities. But our focus, and it's not just in North America, and that I think is the strength of Quadient today is we – it's a business we have 500,000 customers across the world. We take care, we maintain well our existing customer base. And when we say well, it's obviously taking care of them, at the machine, at the equipment, at all the services that we have with them and ensuring that our leasing, our rental activities on a five-year basis is well nurtured. We provide upgrades and we also look at the value for our customers and help them better manage their mail.

And if we see digital opportunities and cross-selling opportunities with other solution to make sure we take care of our customers. So, we have also focused on the cross-sell with the other solutions that we offer within the group. In North America, not only we have stabilized the recurring revenue, but we also have done well in selling new hardware. And in particular, in our folders and inserters on the high end of our range, we've been doing particularly well because those high-end machines seem to respond pretty well to the change in the market requirement, providing better flexibility compared to the other product that are available on the market.

In our main European countries, we've seen a decline of minus 3.3% overall for major operation, well we've seen the decline on the Mail-related Solution naturally. And the level of decline is slightly improving as well, but still we see a major difference between our Mail-related Solution activities in the main European countries versus the US.

In particular, in the European countries, we've been performing a little bit better on the decline in the improvement in France and UK and the region around those two versus in Germany where the level of decline has been stronger in the first semester and when we say Germany, to be specific in Germany, Italy and Swiss, which is the region for us around Germany.

Our recurring revenue stood at more than 70%. So, same thing, another major solution with a strong recurring revenue base, which obviously is part of the strength of what Quadient represents today in our business model. A few words now on Parcel Locker Solution, last but not least. The main event is the integration of Parcel Pending, a company we have acquired at the beginning of the year in North America based in California. The integration is progressing as planned and we recorded a growth for Parcel Pending within the Parcel Locker Solution business, above 30% for H1. And as we have shared with you that we were above 25% in Q1. So, we've seen an acceleration of the growth in Q2 as well for Parcel Pending. So after the first semester, due to the first semester of doing an acquisition, we are pretty happy with the way the integration is working for us.

Obviously, the growth of Parcel Pending, the additional growth that it brings organically benefited and contributed strongly to the overall growth achieved for this business line across the board.

Just as a reminder for the one that had the question, our Japanese Parcel Locker Solution growth is not included here in the Major Operations. Our Parcel Locker Solutions in Japan and the Rest of the World are included in Additional Operations. And the recurring revenue in this nascent and new solution for us for the past few years stood at 30%. A little bit lower than the other business solution.

Jean-François Labadie

Chief Financial & Legal Officer, Quadient

Okay. So as a summary for Major Operation, the revenue stood at €460 million, representing roughly 83% of our total sales. The very good news is that we posted an organic change of 1.1% in H1 2019 compared to H1 2018 and the recurring revenue, as Geoffrey just mentioned it, remained very strong at 72% of the total turnover.

It demonstrates again that within our new solutions, we favor heavily the development of the recurring portion. We have a contrasted performance between North America and the main European countries. I will mention it again, North America grew organically by 5.3%, driven by, again, a positive organic growth in MRS and a double-digit growth from each of the other solutions.

North America represents now 54% of our Major Operation revenue. In our Main European countries, the organic decline was 3.3%, with a limited decline in France, supported by our dynamic Business Process Automation solution and a mid-single-digit decline in the other European regions.

Let's move to Additional Operations. Additional Operations sales was €97 million, posting 8.2% organic growth compared to the first half of 2018. It represents 17% of total group sales. As you know, Additional Operation is made of, one, the revenue produced from our four main solutions; and two, the revenue produced by other solutions like graphics, the CVP-500, Temando, Proship and the shipping software.

On the four main solutions, we experienced a good level of growth. In Mail-related Solution, thanks to one off deals in our export countries. The Customer Experience Management revenue was strong in Asia Pacific and our Parcel Locker Solution revenue continued to grow, thanks to the rollout of our installed base in Japan. Other solutions within Additional Operation revenue experienced a limited decline in H1 2019; so overall a very good performance in organic growth for H1 2019.

So, let's move now to the Quadient financial review. And let's start with 2019 H1 profitability. As we told you, we are very pleased with our EBIT performance for the first half of 2019. Overall, we posted solid current EBIT at €93 million. And I will start with Additional Operations, which are breakeven this semester compared to a €5 million loss in H1 2018. This result comes from the good momentum of our four major solutions revenue, combined with improvement plans deployed within our other solutions. We have here obviously the result of the work done by a dedicated team in charge of delivering the grow, improve or exit plan in Additional Operations. It also means that Additional Operations no longer impair the Group EBIT produced in H1 2019.

Now, obviously, we have both scope effect and currency effect in our EBIT for the first semester of 2019. So, to better appreciate the dynamic of our EBIT performance from our Major Operation in particular. we need to look at the EBIT evolution from an organic standpoint, which means excluding currency impact and excluding scope effect. And that's the next slide.

At group level, our EBIT grew by 2.3% or €2 million. We had a negative scope effect of €2 million coming from the divestment of our former Data Quality activities and the acquisition of Parcel Pending. And we have a positive impact in currency, in our EBIT of €3 million. Therefore, current EBIT organic is plus €1 million in H1 2019 versus H1 2018.

Focusing on a good performance of Major Operations. In H1, we continue to roll out our strategic plan and we have initiated investments to support the strategy. €5 million of additional investments have been allocated to go-to-market, marketing, R&D and innovation during the first half of 2019. The €5 million have been fully dedicated to our Major Operations.

In organic, the EBIT of Major Operations decreased by €5 million in H1 2019, which means that excluding the additional investment, we managed to stabilize our EBIT, thanks to both operational efficiency and a good control of our cost base. In Additional Operations, as already commented, organic EBIT improved by €6 million.

Going further down the P&L, we recorded €11 million as acquisition-related expenses compared to €6 million in H1 2018. The increase is coming from €5 million expenses related to our acquisition and divestment activities. We recorded €3 million as optimization expenses, same amount compared to last year. Our cost of debt increased by €2 million, and this is mainly coming from the good Schuldschein refinancing operation that we completed in H1 and a bit of IFRS 16 impact. No major concern there. Our cost of debt remained stable at 3.2% and we have a negative currency impact of €2 million that we should recover by the end of this year. Our level of tax increased by €5 million coming from €4 million of interest gain on the cancellation of dividend tax that we had in France and that we booked in H1 last year. Excluding this impact, we are back now to normalized tax rate of 23% for H1 2019. Therefore, our net attributable income stood at €47 million in H1 2019 compared to €60 million in H1 2018.

Cash flow generation. Before detailing our free cash flow generation for this semester, let me remind you that in H1 2018, we benefited from several exceptional item that increased significantly our free cash flow generation in H1 2018.

Our interest and income tax paid benefited from €13 million reimbursements on the French dividend tax, a one-off. Our level of CapEx benefited from €5 million of subsidies from Japan related to the rollout of our Packcity network, a one-off also. So in H1 2019, when we look at the free cash flow production, we generated €10 million after CapEx, excluding IFRS impact. And let's go straight to the point, the low level of cash flow this semester comes mainly from a temporary deterioration of our working capital.

We are not concerned about it because it is heavily related to our business model. As you probably know, at the end of each year, we invoice upfront a portion of our recurring revenues. This recurring revenues will produce revenue over the full year. So therefore, at the end of the year, we build up an amount of deferred income in our balance sheet that we use to deliver the recurring revenue, which is very strong from a treasury standpoint because we get up-front the payment for the service that we delivered the year after.

So we have a seasonal decrease or deterioration of our working capital in H1 that we fully recover in H2 of the same year. In addition, in H1 2019, we had €15 million of increase mainly related to a temporary inventory situation. The increase in inventory is fully allocated to finished good products to support the future placement of our equipments. So no risk and a plan to recover from our inventory level by the end of the year.

Looking in more detail of our free cash flow generation. Our EBITDA level remains very high at €125 million. We benefited from 4.2% decline of our lease portfolio, producing €31 million of free cash flow linked to the structural decline of our Mail-related Solution business and this trend should continue in the future.

Our interest and income tax paid amount to €36 million at its normalized rate. CapEx is €49 million, in line with our plan. The main CapEx allocation are €25 million dedicated to our equipment for rent related to our franking machines in France, part of the US and our Parcel Locker roll out in Japan. And we have €17 million allocated to R&D development. Acquisition, net of divestment, are related to payment of tax paid on Satori capital gain.

So as a conclusion, the recovery of our working capital in H2 will support a strong generation of free cash flow by the end of the year. On a full-year basis, we will deliver free cash flow of more than 50% of our EBIT. Let's move to the balance sheet structure; we have a very healthy financial position. So, we have restated the IFRS impact, which artificially increased the net debt of €81 million. So, restated from that impact, we have a net debt of €628 million. And we have a lease portfolio of €685 million. So, our lease portfolio covers fully the net debt that we carry in the balance sheet. In addition, we have €235 million of future cash flow that will be produced from our rental activities.

As Geoffrey already told you, our leverage ratio remained stable at 2.3 net debt to EBITDA excluding IFRS impact. Excluding the leasing activities and the IFRS impact, our net debt to EBITDA ratio stand at 0.6, well above our covenants which stand at 3.0. And I will finish my presentation on H1 2019 by our debt structure. We have maturities well spread out and a diversified debt structure, allowing us to tap multiple markets at good refinancing conditions. Several operation has been completed over this semester, thanks to the good work of our treasurer, Christophe Liaudon.

In May, we issued a Schuldschein refinancing for €210 million at very good condition and well spread maturities. It covers fully the USPP maturity of 2019 and our bond maturing in December 2019 for €150 million. Basically, we have no significant refinancing maturity before 2021. And in addition, we [indiscernible] (00:55:04) our €400 million revolving credit line for maturity to 2024. Our flexibility remained very high as this revolving line is currently fully undrawn.

Thank you. And I will hand back to Geoffrey who will detail our financial target.

Geoffrey Godet

Chief Executive Officer & Director, Quadient

So, thank you, Jean-François. Let me try to wrap it up as efficiently as I can. I'm not here to spend the time on obviously telling you how satisfied we are to see five quarter of growth organically in a row. What I want – I'm sharing this slide there for you is to appreciate that the comparison basis of Q1 2018, minus 2.1% versus this year, that the comparison basis forwards for 2019 will be more difficult. When you look at our Q4 performance last year, it's going to be the strongest comparison basis of the year, right. Overall, it is also true for the semester, knowing that the last quarter sometimes could represent up to 28%, just by itself of our yearly revenue; so both in term of volume and also comparison basis and makes it a very challenging first quarter upcoming for us and we'll grow a more difficult semester. So, we have to take that into account as we look forward to the rest of the year, it's important to all have that in mind. Not all quarters are equal.

Now, that being said, taking into account the strong performance that we had for the first semester and taking into account the difficult comparison basis and the higher bar that it's setting up, [indiscernible] (00:56:52) the rest of the year, we are upgrading our top line guidance from normal flat to a slight growth for 2019 naturally. On the EBIT side, we had a solid performance on the EBIT on H1 as Jean-François and I explained to you. And I feel obviously encouraged by the signs that the key initiatives that we mentioned to you at the beginning of the year, that envelope of $10 million to $15 million to accelerate investments in R&D and innovation or go-to-market are starting to pay off.

We spent €5 million around that in H1 of that envelope and I feel encouraged based on the decent performance that we had in H1 to accelerate and continue those initiatives in H2, right. So we will likely spend around the higher range of that envelope of €15 million this year and therefore, an increase in H2 for the remaining part of that envelope, probably representing around €10 million in H2, right. So taking that into account, we are refining our guidance to a range from €180 million to €185 million for the full year 2019, still below our EBIT performance of last year, as indicated and shared at the beginning of the year last year. So we're confirming our guidance from that perspective.

From a free cash flow conversion perspective, we obviously confirm our guidance, as Jean-François took the time to explain to you both our model, the seasonality of our model and the one-off that happened in H1, we are confirming our guidance that we will achieve a free cash flow conversion above 50%. And such, not including the IFRS 16 impact, which would have been positive otherwise. So even without the benefit, we will do above 50% of free cash flow conversion for the rest of the year, which means a strong cash flow generation in H2. And we obviously confirm our midterm financial guidance for the rest of [indiscernible] (00:59:10).

Thank you for taking the time this morning. We took a little bit longer, but we had some big updates to share with you, and I'm happy now to address all the question and comment that we may have. We have also question that could come on the webcast which I'll let Gaële share those questions if they come from all of you. And we have two person that will help you give you a microphone for your questions.

We have a question over there.

QUESTION AND ANSWER SECTION

Q

[indiscernible] (00:59:42). My first question will be on Temando. What are the costs related to the exit strategy? How long would it take for you to get out of the business and how do you manage to tackle with the client?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Sorry, I didn't hear the last part of the question.

Q

How do you manage with the clients? I mean, what's going on?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

So I'll let Jean-François respond to the financial part of your question. It will be a phased out exit. What is important to us is to take care of our customers, right. We have obviously a lot of small customers in Australia that we care and we have a relationship with a few key customers as well that we have developed over the years. We've been working with those customers. We've been able to obviously work with them on this. And we will support them as long as it is necessary for them to [ph] identify (01:00:31) a replacement solution while make sure they are finding a satisfying solution for them. As a result, it will take probably several months to be able to phase out this operation.

Q

Can you be more specific? Several months means what two years?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

No, no, no, probably from 6 to 12 months. Again, this is case-by-case situation with this customer that we need to address.

Q

Okay.

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

And from the cost standpoint for this phased shutdown, basically what we have left in the balance sheet is roughly €4 million left. And you have to add all the costs related to the shutdown itself, which is some layoffs and some disposals of facilities, which is around €1 million to €2 million expected.

Q

And that will be on H2 mainly?

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

That will be on H2 mainly, yes.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Just as a comparison basis, Temando [indiscernible] (01:01:28) around €5 million in revenue in 2018 on a yearly basis, with a loss for us around €8 million on a yearly basis. We have, obviously, reduced the loss already this year in H1. But that gives you a little bit where we're coming from.

Q

And my second question is on Esker. You built a Russian ship which is quite – essentially quite strong and going well. It was like a JV founded in, I think, in 2015. So, how is it going on business-wise and what is a part of the business related to Esker solutions?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Sure. Very good question.

Q

Thank you.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Esker ownership is part of our overall Business Process Automation solution business line. In the Business Process Automation, we have a range of portfolio of solution that we offer to our customers. We have different one and one of them [indiscernible] (01:02:28) is leveraging the technology in our partnership with Esker.

So, it's not all Business Process Automation solution. We've had, in particular, our customer communication platform called OMS, OMS cloud, etcetera. So, we have lot of different items. Our goal for Business Process Automation is to build, obviously, the most coherent and integrated platform, leveraging [ph] the full (01:02:51) confidence all modules of product, some that we could build ourselves, some we could leverage from partners, right? It's always a decision what is best to make or to partner. And in some cases, we partner when it makes sense. The partnership with Esker is very satisfying from that perspective. We have [indiscernible] (01:03:07) with good technology. We have been able to nurture that synergy over the past few years.

What we've done is leveraging that technology and specifically apply them to a particular type of customers and we have mostly leveraged the technology of Esker in France. So it's not representing overall the initiative that we have in the different countries. We have tried to expand this go-to-market to other countries, but it's very recent; so it's not – doesn't have yet meaningful impact to our numbers, for example, in North America or the UK or Germany [indiscernible] (01:03:34). Over the next four years, we'll be seeing we're going to look at how we could face the development overall of our platform of Business Process Automations.

The JV, we have a JV which is really a JV to be able to access the technology, so in term of the business model with them and we access the technology and in exchange of it, we have royalty fees that we pay to Esker.

Q

[indiscernible] (01:03:57)

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Sorry?

Q

The size of the business itself?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

We are not disclosing the specific number related to the JV as both Esker and I are publicly traded company; so you need to see with Esker probably if they share those information [indiscernible] (01:04:11).

Q

I think so. Thank you.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Thank you. I could see a question over there.

Michael Lamla
Senior Vice President and Head of Corporate Banking, Agricultural Bank of China Ltd.

Q

Thank you. Michael Lamla, Agricultural Bank of China. With regard to the growth in North America of the Mail-related business, is this rather a churn in the market development that you observe or an outperformance of Quadient with regard to its competitors?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

All right, good question. The mail market, not our solution [indiscernible] (01:04:57) franking machine business. The mail volume has been declining worldwide. The level of decline by countries is different from one country to another as part of the time that I spent with the team and with Jean-François to look at the last 10 years, we've seen different level of decline over the years, right.

European countries and some European countries in particular has been extreme in that decline, even though they go through phases. So, it's not a steady decline either. So, you have peaks in times and then slow down, either generated by government regulation, different context, like cyclical, economical.

The US had a volume decline as well, with a much lower volume decline than the other countries. Mostly – and I have been living in the US for 15 years, I became American, mostly because we consume letters and mail very differently than in Europe, right. So, just the marketing, direct marketing activities, how the bench is structured, the lack of strong regulation and standardization for example in the bank industry where you have [indiscernible] (01:05:58) 5,000 community banks, for example, in the U.S. compared to Europe where you have a few big banks, you could basically organize some of the – the way they send information or structure data is different.

So, there's a lot of different reason why the mail volume decline is a little bit different in the US. So, that's the first thing, to make the difference between North America and Europe? After that, we have also a competition situation that is different for us in North America versus France if we take a comparison where in France, we're the market leader, whereas in North America, we're the challenger. Roughly, we estimate that [ph] PD (01:06:35) from a revenue perspective I think is around 70% of market share, where we have around 20%. So, we're in a challenging – challenger position which also gives us naturally more opportunity if we do things right and we care about it and we want to invest to potentially grab more market share compared to that.

But most importantly is what does it relate to our strategy that I had announced? And as much I was a digital guy for many years, I strongly believe today that in this market, in that particular situation, knowing the competition that we have and especially looking at the product range that we have and the synergies that exist between our hardware solutions on the mid-segment, in particular, that we'll respond better to the evolving needs of the customers because if you're looking at large banks, for example, or large provider of mail, volume-wise, they will potentially have less. But it's the mix of how the [indiscernible] (01:07:25) is going to change and there will be more personalization, more customizations, which means in the hardware, you need to have more flexibility and we have new machine and equipment that we have that is, actually, I think better positioned to respond to those needs and the competition, one.

Two, I think we have a very strong organization overall in term of nurturing the installed customer base. And it's, in particular, true in North America, where the team is doing an excellent job on that front and then finally is also looking at – in a smart way, pragmatic way where we could invest on go-to-market and find particular pocket areas where we could gain either deals or market share specifically. So, we've been very smart at knowing our data, knowing our market, and invest where it makes sense, not just in North America. We are seeing improvement also in a few other areas today. So, it's a – which is the answer, it's a complex one. It's a matter of both and it's still very early. So, this way, I really want to be careful here while we're obviously happy to recognize the strong performance, it is a recurring business model, usually [indiscernible] (01:08:26) five years, with rental, over the five years; with leasing over five years. So, the gain and the improvements you make on one quarter or a semester doesn't reflect the five-year improvement of the model, right? So, we are obviously seeing good signs that we're making some progress. But I want to remain really cautious in particular in the progress we're making here. And I think we need to see a few more semesters to confirm that we are going in the right direction here.

And especially to reach the level, we see an improvement whatever level we could – I think will be lower. We're seeing a lot of variations than previous years from quarter-to-quarter or semester-to-semester, so this is why we need to see behind us a few more past performance to confirm that the improvement is there and two, whatever level, we could think we can sustain differently moving forward.

Jean-François Granjon
Analyst, ODDO BHF

Q

Jean-François Granjon from Oddo BHF. Two question please. First one, could you give us more color regarding the contribution of each of four divisions to the earnings and to explain the €93 million growth in EBIT? And the second question for the [indiscernible] (01:09:49) addition, other activities, sorry. So, you have reached the breakeven level for the H1, do you expect the same level for all the full year, probably small earnings, [indiscernible] (01:10:04) earnings next year? Thank you.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Good morning, Jean-François. Good questions. In Major Operation, we do provide the breakdown of performance from a revenue perspective of those solution with the Major Operation. We do not break down today the contribution of each solution with Major Operation. For – a particular reason is that we are building an integrated operation, right, where we leverage common infrastructure in the go-to-market, in marketing organization and our North American, right, with a single leadership for field marketing, for sales, etcetera, for support. That is taking two markets and supporting the customers on each of the four solutions. So, looking at a contribution today at the – what would be the EBIT contribution of each solution would not be relevant. We would have so many [indiscernible] (01:11:00) that would not make sense. Now, it doesn't mean that in the future, we cannot find ways to provide better assessment and sharing the performance of each. But we are not breaking down that today.

On Additional Operations, same thing. We do not provide specific guidance on each of the two operations. So, whether for Major Operation or whether for Additional Operation, we'll provide a review of [ph] the guidance communication (01:11:25) at the yearly level, at the group level, not by operation. What I could say on Additional Operation is to repeat what Jean-François has been sharing is that in the improvement that we've seen in the first semester there were two parts. One is related to improvement on the cost base and the improvement that we've been able to make. The other one is also related to top line, right, because we've been having strong growth in H1, especially driven by one-off deals and license deals. So, these are not recurring item that may or may happen in H2.

Nicolas.

Nicolas Tabor
Analyst, MainFirst AG (France)

Q

Good morning. Nicolas Tabor from MainFirst. I have a few questions still on organic growth by segments. So, for the Business Process Information in Q2, you had some kind of slowdown. Could you explain that? I think that there was some [indiscernible] (01:12:34) in Q1. But does that mean your Q2 should be more reflective of the level of growth we should expect for H2? And then for Parcel Locker as well, we saw an acceleration in Q2. So, I think there was also some reason from Q1 from that. So should we expect H2 to be more like Q2 or even some more acceleration if the revenue is more back-end-loaded? Thank you very much.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Okay, very good question. So on Business Process Automation, we had a 37.1% growth in Q1 and 8.6% growth in Q2. What we have said in Q1 is that we have, among our solution, in Business Process Automation, not all of them, but some of them, have seasonal activities with our customers. So if we take the example in particular of the portion of the business related to our Neopost solution related to the partnership that we have in leveraging the Esker technology, the corporate managers, the [indiscernible] (01:13:28) in France, for example, have higher activity at the beginning of the year, which is a yearly activity, that could use more information related to official [ph] booking at 80% (01:13:39).

And this activity, this is only happening in a change from year-to-year. But from January, sometime it started [indiscernible] (01:13:47) and it could spill over into Q2, so there's a little bit of that, but it's overall in the first semester and usually weighted on the first quarter. Right. So that was the reason of the stronger level, which we have explained in Q1 and therefore in Q2, we usually look at a lower level again, just because we're on an ongoing basis.

But in addition, in Q2 here, we said also comparison basis, for example, in the UK, that was pretty high last year and relate to more license deals. So overall, we had a lower Q2. I think the H1 – our performance is more representative of the balance. It's just that in Q1 and Q2, there was two different dynamic going on, [indiscernible] (01:14:28) the decision that I expect in Q1.

Jean-François Granjon
Analyst, ODDO BHF

Q

[indiscernible] (01:14:37)

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

So in Parcel Locker, we have seen an acceleration in Q2 of the organic growth and this is mainly driven by the performance in the US where basically we increase the growth coming from Parcel Pending and we had a very good business on the US universities that we get the benefit in Q2 in particular. So these are the main reason for the increase in – from Q1 to Q2 in the Parcel Locker business.

Jean-François Granjon
Analyst, ODDO BHF

Q

[indiscernible] (01:15:14-01:15:22)

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

So in Q2, unless I'm mistaken, there was a catch-up...

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

Yes.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

...Q2 from the US activity, not related to Parcel Pending. As we mentioned I think in Q1, if I remember well, the comments that we provided, we had some slowdown in the universities or we had the orders, but they were not installed, so we benefited from the catch-up of those installation happening in Q2 because we recognize revenue once their lockers are implemented, right. So there's a little bit of boost in Q2 benefiting mostly – and we're going to benefit in the US. Yeah. We can take a webcast question I guess in the meantime.

A

Yeah. So have some questions from the webcast. Can you [indiscernible] (01:16:16) Yes. So can you give us the cost related to the change from Quadient to Neopost – or Neopost to Quadient?

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

Around €3 million.

A

Okay.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

That is a very specific answer.

A

Can you also give us the profitability of Parcel Pending in H1?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

No. So, same answer that I gave Jean-François. We're not breaking down the profitability of each of our businesses in H1 or for the year. We have the profitability of the company at Major Operation level per segment, at Additional Operation, the second segment.

A

Thank you, Geoffrey. And I have another one. What are your expectation or – this is maybe for Jean-François. What are your expectation for M&A-related cost in H2? Jean-François?

Jean-François Labadie
Chief Financial & Legal Officer, Quadient

A

Basically it's difficult to say. It depends on the level of M&A activity that we'll experience in the second semester. But depending on the events, we could have the same cost as last year or a slight increase.

A

Thank you. And Geoffrey, could you give us an update on the M&A activity, please?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Before I actually respond to your question, just to respond to the question on profitability of Parcel Locker – or Parcel Pending. It's – to go to more detail on the reason and what is going on in the operation side. Even with the acquisition of Parcel Pending, we're not letting Parcel Pending as a stand-alone company. We're integrating Parcel Pending and as a result, we're neutralizing also the supply chain that we had within Quadient versus the supply chain of Parcel Pending. And we're also having the Parcel Locker Solution team of Quadient in the U.S., working with the Parcel Locker team of Parcel Pending. So, we are integrating and neutralizing infrastructure and therefore, even providing the profitability of Parcel Pending by itself would not be representative anymore. And the further we integrate, the less relevant it would be. I just wanted to take that opportunity and I'm sorry again.

A

So, yes. Thank you for the additional information. So, yes, if you could update on the level of M&A activity we're doing at the moment?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Sure. So again our M&A team, which we have – had a new leader that came onboard from the US, Brandon. He's been staffing his organization since the beginning of the year. Last year it started but it continued this year. This team is not in charge just of acquisition, right? They look at the full lifecycle of our corporate lifecycle to acquire a company, integrate a company, then also taking care of the divestment in case it happens or potentially even different type of exits. So it's a team that has been fairly busy obviously since the beginning of the year, very active to support the business and obviously our full M&A strategy and the reshaping of the portfolio. They've done one acquisition since the beginning of the year, two divestments, and [ph] been continuing to prepare (01:19:42) the rest of the strategy moving forward.

A

Thank you. Still another question, this time related to Mail-related Solutions on markets of France but as well in the US, the question is, our competitor, Francotyp-Postalia is gaining market share. Is it a concern for you in the midterm or are they just gaining from a very low market share today? And if – what are they doing better than we do and why?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

That is a good question. I may not be qualified to answer this question addressed to Francotyp-Postalia. But I am – those information are not the one that we were looking at. First thing, it's very difficult to compare market share in the Mail-related Solution business. Because you obviously – we need to define what market share are we talking about. Are we talking market share in term of revenue? Are we talking market share in term of numbers of customers? And the value of each customers from the low-end, the mid segment or the high-end segment have nothing to do with each other. And each country that we see have difference of performance. What I could relate to is the high – I mean the low single-digit growth that we had in North America knowing that we have much bigger scale and looking that we have been able to stabilize the revenue as well in North America, I am – that's what [ph] I will (01:21:26) see. I'm not sure I can – I put in context the information about Francotyp in North America in particular.

In France, we obviously have the largest installed base, which we're the leader of the market. It's more than 50% market share. And [ph] same thing as you (01:21:41) have a bigger proportion potentially of the low-end customers and the mid, maybe the numbers of machine versus the revenue could evolve. But [ph] we are still (01:21:49) the market leader in France and having in France a much lower decline that we used to have. So, we've been fairly satisfied with the performance on the Mail-related Solution in France even though the decline is obviously a decline compared to a small organic growth in the US.

A

Thank you.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

I hope I have answered the question. [indiscernible] (01:22:13) I could.

A

Thank you, Geoffrey. [ph] Actually you did (01:22:12). I have another question. So, it relates to the share of recurring revenue in Parcel Lockers. So, today recurring revenue in Parcel Lockers stands at 32% of total sales. What will be the mid-term target for recurring revenue in this segment?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

So, it's a very interesting question and it's a difficult one to answer. And it's [ph] an opportunity (01:22:42) for me to explain the different business model that exists in the Parcel Locker business in general. In the US, the company that we have purchased has been mostly focusing on the residential market in the US, which is the only really residential market that I've seen a pickup, acceleration in maturity. And we bought the leader in that particular geography and segment.

And the model there has been mostly property managers, buildings of, [ph] let's say (01:23:11), multi-family building to acquire upfront hardware and with [ph] A (01:23:16), certain activities in terms of support, supporting obviously the lockers installed, supporting the new resident that comes in, so there is sometime registration fees for a new resident that comes [indiscernible] (01:23:29) storage fee, et cetera, so we have a small level of recurring activities, just around the 30% level, a little less as for locker. So, as you increase the installed base, we will have more and more recurring revenue progressively, and we're at the beginning of that ramp-up.

What we've seen, which is not included, obviously, in the Major Operation [ph] summary (01:23:51) on the Parcel Locker business is also the model. We have been installing lockers for example in Japan. We have a very successful installed base in four Japanese – the partnership we have with Yamato, that is working really well and continue to work well. But this strategy is there, and the business model is an open network, right. So, the open network is that we do install and finance ourselves the installation of the lockers everywhere in the country, making sure we have a dense network and make sure we work on the usage of that network, and then we find ways to monetize that open network with our customers. In that particular case, we will find different ways to monetize the network in Japan either through rented capacity, so we find carriers like Yamato [indiscernible] (01:24:36) others that says, we want to have a dedicated capacity in those Parcel Locker and guaranteed over seven years or five years, over a period of time, which means they're recurring revenue guaranteed at 100% for some part of the locker business.

And then we're also seeing in the Parcel Locker business in Japan that we have the opportunity to not necessarily rent capacity, but have a paper use. So for people that don't like the investment upfront to secure [ph] the new (01:25:03) capacity from our network, we can marginally have higher price on the paper use, which is every time a parcel is being used in the locker, there is a fee in the transaction, which will not be fully recurring, but it will be based on volume, right? So we have those three options in mind. And as we look at how we will evolve our Parcel Locker Solution business, we'll obviously monitor how and what is the best way for us to [indiscernible] (01:25:26).

So, hence the difference, where we have a 100% recurring model, almost in Japan, and [indiscernible] (01:25:32) 25%, 30% recurring model in the US today. Now, within the US, we've seen – we've experienced the same thing, which is a more one-off model with maintenance and support in the universities. What we're seeing within residential is that we're also providing to these property managers subscription, which would be kind of [indiscernible] (01:25:50) of a SaaS or recurring [ph] way (01:25:54), instead of the property manager, finance up-front the purchase of the locker and its installation, we would provide a subscription basis. So it's a small portion of the revenue today, So it's way too early to be able to know how they could evolve. But in particular for example in H1, we did have more subscription than last year and more than we had in [indiscernible] (01:26:12) mentioning, but it is a trend, so we are testing the different model.

Financially, we at Quadient love recurring model, this is a strength of Quadient today. So being able to see how we could potentially increase in the future, the recurring model of the Parcel Locker business in the US would be looked favorably but there's no commitment we can take today. We're still in the testing phase on how the market reacts to that.

A

Thank you, Geoffrey. I don't have any more question on the webcast.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

Okay. We have another question here.

Q

Yes. Just one on operations. Could you [indiscernible] (01:26:49) the other Additional Operations such as graphics or CVP-500, what do you expect, do you want to dispose it or not? What is the situation today?

Geoffrey Godet
Chief Executive Officer & Director, Quadient

A

So for those other solution that are not related to our major solution and Additional Operation, yes, we have businesses like ProShip which is a shipping software solution. We have other shipping software solution that we provide in UK, in France, we have the graphic business, we'll have CVP. They've been declining in the first semester but again we look at it, making sure we work on each one of them. The strategy is the same for all additional operation, which is either to exit in case we can't help them contribute to our strategic plan. But if we can make them contribute to the strategic plan, we do – today, we fight on every fronts because we have dedicated team that are not focused on the rest. They have the time to look for example at ProShip and make sure in ProShip, we gain new customers, we improve the business, we have spent R&D money and as long as we see the growth on that, we're happy. Now we also need to look at the condition of EBIT. But we're going to look at overall the Additional Operation, not necessarily one-by-one. We want to make sure they have some leverage to overall improve the performance either by growing, improving, or exiting those businesses. So yes, there's always the option of divestment and exit at some point but it's [indiscernible] (01:28:10) always be there any way for new businesses.

What I want the team to focus on is, how to improve those business as quickly as we can. So improvement in growth is the main focus. The alternative is obviously there, strongly if we can find in a reasonable timeframe within our strategic plan a solution.

Geoffrey Godet
Chief Executive Officer & Director, Quadient

[indiscernible] (01:28:33) for a last questions, a few seconds before we wrap up. It's been quite some time this morning. So, thank you very much for coming. Welcoming you again for Quadient and thank you for your time. I hope we answered well your questions. That was interesting. Thank you. Look forward to seeing you next time.