23-Jan-2019

Neopost SA (NEO.FR)

Capital Markets Day

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MANAGEMENT DISCUSSION SECTION

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

Good morning. Good morning, ladies and gentlemen. I'm very happy to welcome you to Neopost 2019 Capital Markets Day. I'm Gaële Le Men. I'm in charge of Investor Relation for Neopost.

I have a few comments before we start. We will have two plenary sessions during the day; one in the morning, one in the afternoon; and they will webcasted. So, Geoffrey Godet, Neopost CEO, will start the presentation, and he will unveil his ambitious strategic plan. Then you will have several presentation presenting the four offers, the four major offers we have decided to concentrate on. Then you will have a session with Jean-François Labadie, Neopost CFO, on the financial aspects.

And in terms of Q&A, you will be able to ask your question after each presentation relating to the major offers. As far as Q&A for Geoffrey Godet and Jean-François Labadie, there will be a dedicated timeslot at the end of the day. When you ask your question, please make sure you have a mic. We have I think three mics in the room. So, it will be really sufficient to get one for the speaker because if you don't speak with a mic, the sound will not be good for the webcast.

So, some more other comments, you have a badge, and on your badge, you have a group, the group demo. And you are allocated in three groups because there is another room just next to our room where you will have a

demonstration of Mail Related equipment and also a demonstration of Parcel Locker. And in the Parcel Locker, you have your goodies, so please make sure that you will retrieve them before going.

So after those preliminary comments, let me welcome Geoffrey Godet on stage to present his ambitious strategy. Geoffrey, the floor is yours.

Geoffrey Godet
Chief Executive Officer, Neopost SA

Good morning, everyone. Thank you, Gaële for the introduction. It's good to see few faces that I've already met before. Before I get started on the introduction and where we're going, just wanted to share with you something that was interesting. For the one of you that I have met, every time I met you since I arrived Neopost, you were always asking me question about the strategy, what was the plan. And every time I was telling you I can answer and I was disappointing you every single time. So today is the day we're going to talk about strategy, all about the strategy, and I should be able to answer all of your question and hopefully I will not disappoint you.

So before we get into the meat of the strategy, what I'm going to be presenting to you today is a very ambitious strategy. Going back to growth for Neopost is very ambitious. It is very ambitious because it's challenging. We have 70% of our business that is declining and is structurally declining. So being able to go back to growth despite the decline of the Mail that's the ambition and that's why it's ambitious.

That being said, I feel very confident that we could achieve this plan. I feel confident because I [ph] haven't (00:04:08) been joining Neopost just a few weeks or a few months ago. I spent the whole year with the team. We had a chance to work in depth and we have already started to put the plan in motion. We're already started to change the organization. We are already making significant steps in decision and you've seen some of the announcement this morning as well on the acquisition. So we're going full speed.

At the end of the day, in addition to the target and the goals that we're setting for ourself what is going to matter is execution and execution is all about the team, in the end and whether we have the right team in the right place, whether they are motivated. Some of them will present with you today and hopefully they'll share their enthusiasm and they'll share with you what is our plan and how they put it together and why we feel confident we're going to be able to execute.

So let's get on the strategy. As I mentioned, our strategy is going back to growth. How are we going to go back to growth? We're going to have four pillars. The main pillar is the Mail Solution. The Mail Solution is our main business. We have a deep belief that we have to reinvest into it, reinvest into our product range, into offering, extend it, going back to each of the geographies where we have a lower market share and being able to gain additional market share over the time [ph] potentially (00:05:53). This is our core business. We have to nurture it. And it's also the one that is profitable and is returning cash and we need to be able to reuse this cash to be able to fund the acceleration of our other pillars of growth.

The second strategic choice that we're making and that I'm sharing with you today is to focus on Business Process Automation. Business Process Automation, we have a stronger legitimacy now. We're going to focus on small- and mid-sized business to be able to help those companies going digital. We have helped them in specific business processes like hybrid mail and being able to go from physical to digital in the mail side. And we're going to be able to extend that offer and go into inside the envelope. And what is inside the envelope that we're managing, mostly invoices. 50% of what is inside the mail are transactional information, including invoices. So we're going to be very specific in augmenting that capability for our customers.

The third one is customer experience management and we have a strong legitimacy to be able to build the future of customer communication management. It's on the heels of the acquisition of GMC. We have strong penetration in financial services, healthcare, and insurance, and we're going to develop further into other verticals like telecommunication, government and utilities. We're going to expand our cloud capability and offer new capability so that we could take customer communication management to the next level of customer experience management.

And the last one, the last choice, the strategic choice that we made is the Parcel Locker. We have now for several years been able to operate both technically and commercially, especially through the joint ventures both in France and in Japan, our knowledge of the last mile market. Last mile is a very interesting environment with more ecommerce booming activities, more and more parcels have to be delivered, and it's been overwhelming both the carriers as well as the retailers and we need to find a solution and one of that relevant and proven solution is the Parcel Locker.

So, those four choices are the one we're making among the portfolio, the diversified portfolio of Neopost. I will get into it today, but we have more than 80 products and that's the four choices that we made to refocus the company on those core strategic offering.

As part of the rest of our solution, we have different level of priorities, different businesses and we're going to have to look at all the other businesses that we have from ProShip to Temando to the CVP-500 to the Graphics business and so on, and make sure we either grow them so they contribute to this transformation and the acceleration of the growth of the company; improve them for the one that are not profitable; and if we can't, we need to divest them or exit them. That's the commitment we're taking.

In terms of focus, out of the wide range of offering that we have, so four main focuses on four main solutions. We also need to focus on the execution operationally. We are operating in more than 29 countries. The choice we made is to focus on two main regions out of them. North America is the main one and some key European countries around France, UK and Germany only. It's not that we don't want to do good business with the other region, but they won't have the same level of focus and priority. We can do good things. We can be successful in each of those four major solutions that we're betting on if we focus exclusively on them. Okay?

And from a company perspective, we're also going to change the way we operate. Execution is key, as I mentioned to you, for this plan, and we need to ensure that we come as one company. Four main offering in two main region, we need to become one company.

Today, we've been mostly a holding of independent businesses, federation of companies. So we're going to be a more integrated company, one team. And making sure we look at things that are in common from IT, HR, finance, R&D, product management. And that will be the best way to unlock the synergies that were available to us before but just not accessible considering the setup we had [ph] inside those (00:10:42).

To achieve the plan that we have to grow the company, again, we're going to have to invest and we're going to have to accelerate the investments. We're going to overall double our capacity of investment every year during the period of the plan. €100 million in CapEx per year in average, slightly more than before, but the big difference is we're going to dedicate mostly this capacity to our four major solution in the main geographies, instead of having it diluted across the group.

The second element because it will not be sufficient, we need to also ensure this transformation by the acceleration that we'll get the result from the acquisition. And we're going to dedicate €100 million net, when I say

net, net from the divestment amount, in average per year during the period of time and we're going to do this for very targeted acquisition, bolt-on acquisition during the period.

Now, we're going to have to have a strong discipline in terms of executing those acquisition; to ensure we bring the right target on board at the right price and we have the good chance to be able to integrate them successfully. So our ambition and our target is not to do acquisition for acquisition, is to only do those acquisition to get the group in a position to grow organically by the end of the plan and sustainably organically. That's the only reason we're going to do those acquisition is to accelerate the transformation and we're going to do that in a profitable way. We're a very profitable company today and we're going to continue to be a profitable company tomorrow.

We need to ensure that by the end of the plan, by the end of 2022 and no later, our portfolio is rebalanced and having the Mail Solution representing less than 50% of the group.

We are a highly cash generative business and we need to continue to operate this way and ensure our cash flow conversion and cash regeneration in the period. It's important to do this so that we could remain having a sound financial position and even though, we're under leverage and we're going to progressively reasonably re-leverage the company during the period of time to finance some of those investments. We also need the flexibility now to adapt our shareholder return policy to give us the flexibility to be able to do the plan that I described to you, with the variation that may happen year-over-year.

So that's, in a nutshell, what we're going to be discussing today. We're going to go into more details in each of the areas. I'm going to share obviously some of the findings and the assumptions that are the underpinning of this plan and we're going to go into the details of each of the offering myself as well as the rest of the speakers, and Jean-François that will finish at the end of the day on the financial side as well.

So, I spent now a little less than a year in the group. I felt it was really important that I share with you the result of what I have understood and where we are. I'm not going to go into everything, but I just want to make sure I share with you the key points, the key findings. There's, obviously, some key weaknesses and some key strengths, but the one I'm sharing with you are important because they are again the underpinnings of the choice that we decided to make for the future strategy, so important that we share them together.

And I'm going to go in detail of each one of them. But just, in a nutshell, we do have today after several years of diversification still our main solution that is on a structurally declining market and still represents 70% of our business, which is still the dominant offering of the group. So despite all of our effort up to now we still have that as a major starting point. That's the way it is.

After that, we've been operating as a holding company of three independent business units and I will share what it implies for us moving forward. As I was getting into the business because that's also what I'd like to do is looking at for each business, discussing with customers, looking at our product, getting the demos, trying to understand the value created by each solution, I discovered that we have a fairly fragmented portfolio of solution, more than 80 (00:15:57) product across the group for a $1 billion company. And we have increased that fragmentation in the last six, seven years.

We're operating in 29 countries, 70 countries indirectly, and 17 of those countries plus 60 of those indirect countries only represents less than 15% of our business today. So we have also diluted ourselves geographically, it's fairly fragmented.

There is a key element and a key theme from a business model perspective is that despite that fragmentation, the recurring business of our business is consistent across the group. There's different levels. But we have been a company that has been developing, nurturing, acquiring businesses that were recurring in nature.

And then, finally, we've been a very sound financial organization with very strict financial management, which means also that today and we'll get into the reason why, I feel that we have room for a reasonable leveraging. And we'll talk especially – also about a particular thing about Neopost which is our leasing portfolio, the leasing we provide to our customers and what impact it has to our balance sheet.

So let's talk about each one of them. I mentioned to you the Mail is in a structural decline. Nobody has a crystal ball about the pace of the decline in the coming years. What we have been looking at and what we've been sharing with you is the past trend. And if we look at the past trend, we've been in that range of minus 4% to minus 6% decline. So, if we look over the period that I shared with you here we lost 20% of our business in the Mail from 2013 to the three and nine months ending of 2018, okay? And it represent 70% of our total business.

What is important to appreciate here is that we've been doing so, but having a team that has demonstrated that while the business has been declining we've been able to adapt structurally, regularly, effectively the cost structure. So we have a team that is [ph] know (00:18:22), that is – it's ingrained in the way they operate the company today and they've been able to adapt to the decline and that's a good news. That provide confidence for me and for the rest of the team moving forward. We know how to manage the condition of this business. And we knew how to do it profitably and being cash generative.

So, let's get to another fundamental assumption. What is Neopost today? It's a holding company with three independent business units. The one we have shared with you, SME Solution, Enterprise Digital Solution, and Neopost Shipping. But if you remember for the one that follows us on a regular basis and in particular since last year with Jean-François, we have also disclosed with you a little bit information about what's the makeup of SME Solution.

So, what is an SME Solution? We shared with you in the reporting that we had some Mail Solution activity, the one I just mentioned. Graphic business too, it's been there for quite some time. We have acquired those business before. And we have shared that we had some Digital and communications Shipping segment.

In Enterprise Digital Solution, I think we have shared two segments, the customer communication and management segment, and what we describe in the call as data quality. And then on Neopost Shipping, we have shared three additional segment; shipping software, and we told you there was a lot of different thing; the CVP-500, hardware, 3D automatic packing system, [ph] not (00:20:06) recurring model; and our Parcel Locker business into it.

But these are just segments – they're just consolidated segments. What is really behind it? It's actually a lot of different businesses for SME, independent businesses, run independently, managed sometimes independently with more or less synergies with the rest of the activities, sometime hardware, sometime software.

As another example, what do we have within Enterprise Digital Solution into the segment of data quality? We shared with you we have Satori. We have Human Inference. Satori is a postal solution. Human Inference is on the GDPR, is in the different environment, different region too.

And then if I take the example on Shipping, what did we share on Shipping? That was in shipping software, we had RFID solution, digital – the scanning solution of purchase order. We had new thing that we have acquired,

So, we are making – our decision to bet on the U.S. market and become a leader primarily in priority in the U.S. market for the future plan up to 2022. So, you've seen the news this morning. As you can imagine, we didn't plan to have it for today because the acquisition process take time.

We're – I'm glad to announce for you that we have now acquired the leader of the market in the U.S. Parcel Pending is the number one player in Parcel Locker Solutions in the U.S., which is a great way to demonstrate to you that we're well advanced in the plan. We've made great strides. Because after working all those months, being able to have that acceleration and we're going to start the year in a pretty good IRRWDJH with them.

They have in-depth knowledge of the residential market, but also some of the other verticals. I've met the team. I've met the owner, Lori. She worked with Daniel. So, Daniel will be able also to share his insight on this company with them. We're joining forces in the U.S. market and we're taking the leading position to get started. This is the best way to guarantee the execution of this SODℝmoving forward.

It's a company that has a $30 million in size of revenue this year. And when we looked at the rest of the market and we've seen on their track record, it's a company that since inception has doubled in size every year. So, it's a nascent market, but with a fast growth year-over-year. And the acquisition in term of value is over €100 million, so that give you a sense when we say bolt-on acquisition, this is the type of profile that we're looking after for the rest of the plan. And we will obviously continue to accelerate the growth into other main geographies, in France, in UK, in Germany in particular, in addition to the U.S. progressively.

So that strategy has some implication that I want to show with you on how we're going to get organized. How we're going to report, how we're going to measure, how we're going to track, how we're going to prove that we're making the progress that we need to make along the way. So we'll explain how we go from a holding company of independent business unit to a integrated one company. What it means to our other region and other businesses and what we mean by additional operation, and why we intend to do it by optimizing them, and we will all see at that group reporting, so I'm going to share with you the highlights on how we intend to be able to report back on the progress of each of those businesses.

So to ensure the success and the successful implementation of this strategy, we've been working with the organization since last year and we already made some changes last year. We're going to continue to do so. But I think what is important for me and for you to know from me is that I truly believe in an ePSRZHⅾhent, and simplicity and focus, right. So that means, as we will share -- I share the bet and the target that we're setting ourselves for. We need to ensure that we have people that are accountable and responsible for it when they wake up every day in the morning. So when I tell you we're going to be maximizing the value of mail and we're going to fight and reinvest into it, I want somebody in the team to wake up every morning and to be able to focus solely on that from now and the end of the event in 2022, and you could report back to us and tell us where he is at, that will be actually Kim that is here. So, he's going to wake up. And across the group make sure we're successful in the mail business.

Same principle for the Business Process Automation solution ZLWK$OQℝ or I'll talk later with you. The Customer Experience Management with Chris Hartigan. Chris just joined us last year and he's going to be there to take the CCM business to that next level of Customer Experience Management. And on the Parcel Locker, Daniel, which has been with us for quite some time now taking in the growth engine on the shipping organization and being able to deliver on the transformation on the Parcel Locker solution.

We're going to have the same focus operationally, geographically because I want to have people that when they wake up every day and see our customer they can never say to a customer sorry. It's not in my control. I cannot respond to you. So the accountability of being able from pre-sales, sales, support implementation, making sure we have information that have full control and full alignment in a particular geography is key. So, we'll have a leader in North America which is Alain Fairise, which is at the back of the room, even though he's not going to speak in the presentation today, he's the owner and leader of our main operation in North America. And we're going to have a leader as well for each of the main operation. Okay.

So that's to focus on our four main solutions, strategically, and there are two main geographic operation, and then I'm going to get a little bit more in detail later. All the other geographic in which we operate our main solution will be managed independently. And each all the other solution that are not the four main solution will also be managed independently in that Additional Operations. And then, we're going to have support function to support our business with our customers and the way we manage strategically our solution. All the support function from product, R&D, supply chain, IT, HR and finance are centers of excellence to serve the entire group, which is the best way to ensure we can unlock the synergies that we could not benefit from before because of the [ph] standard (00:43:23) organization. Common practice, common tools, common technologies, common investment to reuse.

So, what do we have in the Additional Operations and what's the goal of it? The goal is that for all those businesses, it's either to have them contributed the growth of the transformation and the growth of the company. Be profitable and be cash generation, have a cash – a positive cash generation as well, okay? If we can't make then this way, then we will have to take the decision to exit them from the company. Because I don't want to dilute our strategic investment for businesses that are not strategic. As clear as that.

On the other hand, if they can demonstrate over the period that they could be a good agencies to the rest of our four main solution, if they're in a growing market at a fast pace growth, if they're profitable and they're material, if their potential could be maturing to no size, again, that €100 million that I mentioned to you. So in a given geography or in a given business, if we could get that maturity over a reasonable period of time, then they could be likely candidate to go back into a major operation.

Grow, improve, and make sure they are not dilutive to the rest of the business and we exit them. So, we need to adapt the reporting to our organization in a simple way. The numbers that you see here are the numbers as if we had been organized this way for the business in 2017. So, the indicators that we'll use is obviously two main operation, the major operation, revenue and EBIT. The additional operation revenue and EBIT and obviously the revenue and the EBIT of the group. In 2017, 20% of the business is the Additional Operation, 80% of our main solution, 80% -- the four main solutions represent 80% of our business.

But in term of contribution, 80% of the business represent 22.7%, that's 22.7% margin, whereas on 20% of the business, we're having zero contribution. So we obviously have things in it that are balancing itself and this is why we do need to improve them or exit them if they don't work. It's a simple reporting in-line again with the organization and in-line with the strategy and measuring and making sure that also we will provide you the breakdown in term of the revenue on each of the major solution, first point. And two, on the breakdown between the two main geographies North America and the main European countries.

So, a few keywords on the team that to me is going to be essential to guarantee the success of the plan and on the board. So, having a team, the right people, the right skills that like working with each other, that knows the plan, then understand it, that is effective in being able to work together is going to be essential. I am – that's probably the piece that is the most exciting for me after the year I spent with Neopost, I found very good

professional people that knew very well the domain and actually that contributed and worked with me both on the analysis, as well as on setting up the goals and looking forward on how we're going to be able to achieve those plan. And we have already started quite some months ago of implementing this way.

So we have a full new leadership team. As I mentioned to you, this leadership team is going to have strong empowerment (00:47:22) and responsibilities by different region to ensure they focus on our strategic initiatives. It's a team that is very international and you'll see with the little flags how diverse the team is. And it's representing also the core geographies that we want to operate into. I'm a strong believer in the cultural proximity that we need to have in the team, well diverse. We have four main leaders on each of the four main solution that we have. It's a team that is also a mix of new people that we brought on board last year like Chris or Brandon Batt on the acquisition that I'll mention after, of people that have been promoted from inside from the different part of the organization. And we have after that our five main leaders from an operational perspective. As I've mentioned, Alain that is managing our most important and biggest operation today which is North America. And we have Benoit Berson to manage France and he will again for each of the operation manage all the four major offering in that particular geography. Duncan Groom, which is recently managing now our UK and Ireland operation, Dror, also just got promoted to manage all the German activities. And Gil Wozelka, he used to manage actually the International Operation before he was in Neopost, so he's going back at it to manage that additional operation that I described to you.

And then, a few key leaders on the support function. We have Stéphanie in particular that was the Head of HR of our Digital Practice with Quadient because as we're going more and more digital. It was very essential to have somebody that could ensure we will retain the key talents that we have, and more importantly, we could attract continuing the growth once again the right balance. It's going to be a fight in this world, making sure that you have the right type of people is essential, and that's one of the key focus.

The second focus that I want to mention here is Brandon Batt. Brandon is in charge of all our M&A activities and the transformation of the company. He is the one that worked with Daniel obviously very closely in the last few months to work on the acquisition of Parcel Pending. Bringing the M&A to the leadership level directly considering the strategic focus that we have is essential in terms of discipline and in terms of visibility and management.

And then Henri, which will present one of our solution today, but Henri will oversee the full life cycle of our product, which is again from strategic marketing, marketing, definition of requirement from customers, product roadmap, product management, but also product delivery, R&D, supply chain to make sure we have one leader who's in the company that could look holistically in ensuring that we do things the most efficient way and we spend our money the most wisely in our organic investment.

On the board, it's been a very active board and busy year as well for them. We changed a little bit the board structure during the year also to be more effective. Governance is an ongoing process. We merged the compensation and nomination committee because a lot of the topics are sometimes in common. So, we thought it was a more effective way to manage that activity.

We also created a strategic and corporate responsibility committee, with Rich Troksa being the President of that committee, to ensure that as we have the strategic review process during the year, the board could have effective amount of time to be able to do further analysis, organize the work of the board, to be able to review progressively the assumptions, the analysis, and as the strategy [ph] behind and all that (00:50:50).

And then finally, I'm happy to share with you that we have Martha [Helena Bejar] joining us. Martha is an American replacing Catherine Pourre that was French based. Martha has a great knowledge of the American markets and transformation of companies as well. So, I'm sure she will be a great addition and I know she was very excited. We had her in the last board meeting [ph] already with us (00:51:10).

So, let's focus back a little bit on the last part of my presentation. Turn over midterm financial targets. The goal for us and the condition and targets that I have set for the team is to have a rebalance and more focused portfolio mix. I think you have understood now. Now this, I'll go over what it means in terms of targets. It is to achieve a gross profile of the company again outside of the organic – of the acquisition input is to get the company to [ph] sustainably (00:52:51) grow again, remaining as robust profitable company and ensuring that we have strong cash flow conversion.

And then finally, as we look at our allocation – capital allocation, making sure we're very discipline both about the leverage of the company, how we are targeting our investment for organic and CapEx and with the same discipline on ensuring that we do the right things for the acquisitions. And obviously, we need to adapt, as I described in the beginning, our shareholder policy in order to have the flexibility that we did now considering the valuation and the change that could happen year-over-year. It's a four-year plan and I'm showing these targets in average over the plan or at the end of the plan.

On the portfolio, the target is that by 2022, we need to ensure that the mail business ultimately now and finally, will be less than 50% of the portfolio. But we need to do so as the company is going to be growing again. So the base, the sales is going to be growing and the mail has to present less than 50% of the gross, achieved by 2022. So that means all the other three main offering that I mentioned have to have the maturity, each one of them in a balanced way to achieve that rebalanced portfolio.

The other ones from a top line perspective, mid-single digits sales CAGR during the period of the plan. That's our commitment. And there's two element on that top line that we all – that we have set targets for and I want to make sure we succeed, so I mentioned to you before is the balanced portfolio, less than 50% for the mail business by 2022 later.

And the other key criteria is to look at our growth rates organically and the goal and the target is to be having a sustainable low-single digit organic sales growth, no later than 2022. From an EBIT perspective, the target that I'm setting here and it's not the EBIT margin is that we want the EBIT to start growing in very absolute value. It's not growth just for the top line, it's also growth for the EBIT.

And therefore, the target is that we have a high-single digit, EBIT CAGR during the period of the plan. And it's a high-single-digit target compared to the low-single-digit target for organic sales and the mid-single-digit target for the global sales. And we're going to need to ensure that we do all this with the same discipline and the same business model that we have moving forward to ensure that we have at least 50% of free cash flow conversion during the period, that's the minimum.

In terms of CapEx, a €100 million per year on average. Just a key reminder here, it's a little bit more than the last or the average of the last year, but the biggest difference that they will be spent mostly or most exclusively on our key solution and key geographies, for roughly [ph] little bit in the envelope (00:55:29) that is similar. On the M&A, we're going to be very disciplined about our M&A practice. In terms of target, we plan to be able to spend €100 million per year, net of divestment on average, and it's important on average because from one year to another things could vary and we'll do that for bolt-on acquisition.

What do you mean by bolt-on acquisition? We mean companies that will be growing companies most likely double-digit in growth and for which we're going to be able to cover the cost of capital by year three, post year of closing. A good example hopefully of what it will be is Parcel Pending, $30 million revenue company, fast growing, good track record for the last four or five years and more than a €100 million in value for us today. That's the kind of the bolt-on acquisition profile.

So as we do this, I mentioned to you before, excluding leasing, I believe we have room for reasonable leveraging. It will be reasonable and it will be progressive. So, we have the flexibility. But it will be no more than 3.0 in terms of ratio. We need to make sure we have room, but no more than 3.0.

And then finally, to be able to finance the rest of our strategy and ensure the acceleration through our accelerated investment, we need to adapt our shareholder return policy now. So, we have that flexibility year-over-year. And as a result, our commitment is to have a minimum 20% payout ratio based on the group net income, okay?

Now, that payout, because it's on the net income, when you have acquisition or divestment, there could always be some variation. So, our commitment is to guarantee a floor of €0.50 per dividend. So, that we don't take the excuse of those exceptional variation not to deliver on that promise, okay? So, that's over the period of time. Payment will be in cash in one installment.

Now, this is the plan on the part of the acquisition, as much as we have identified the targets, we know the domain, etcetera, if by any chance we would not have spent the entire envelope over the period, we will return it back to the shareholders in the best way we could find at the time, dividend or other things, but that's the commitment we take at the end of the period. Again, the acquisition envelope we're dedicating is to make sure we give back to that sustainable growth engine. We're not doing acquisitions for sake of acquisition.

So, there was – I don't know if it's taken a little bit more time than planned or not from just on target a little bit, but I think it was important I spend the time with you on some of those things. It is an ambitious plan going back to growth. I believe this ambition is changing, especially considering the nature and the position of our mailing business. But I think we have – we're fully ready. We've started to implement. I think the acquisition that we have just being able to share with you, demonstrate that we're full speed in the execution, and we're not going to take another three months or six months to get started. We're in the middle of it. We already adapted and change the organization also. So we feel fairly confident that we know where we're going. We made a reasonable choice in that. Hopefully I have shared them well enough with you. But to me, again, as I mentioned at the beginning, things are in the end fairly simple. It's really going to be about the quality of the execution, and it's the quality of the team. This is why I hope that my team this afternoon will be able to share their conviction the same way I did. They will be able to share their enthusiasm and their confidence in the plan, and you will be able to appreciate it as well. And I feel confident that I have the right team to be able to do so. So I feel fairly confident that we have set reasonable targets as challenging as they may be. And we think we are going to be able to deliver on this plan.

So, thank you for your time this morning. I'd be happy to take your question at the end of the day as Gaële had mentioned. Thank you.

Kim Andersen
Director, Neopost NV

Good morning, to all of you. I'm excited to be with you today and to reveal a brief review of our Mail Related Solutions, without – and prior to setting the scene of the port of departure of this presentation. Just a quick maybe bio update, 47 years old, my name is Kim, coming from Viking District of North of Copenhagen, born and raised

up there. And I think Geoffrey just explained and expressed what I'm waking up, which kind of thoughts every morning, however awkward that is with this mailing industry.

But I'm excited to be here with you today to share this presentation. My DNA is Viking. So, the plan going forward and has been for few months, it's going to be with a conquest aptitude and appetite in order to get market share. That is the tone of what we're going to do together.

Geoffrey just explained that we have a structural decline, which we all know in this marketplace for the last, I think since 2008 and 2009, we have had a structural decline. And that decline has affected Neopost and other industry players as well.

I like to speak and to address two notions in that decline. There is one notion which is kind of saying because we have an overall mail volume decline, we have an autopilot in the mail of decline, which is running through our meter systems and the value we create. That is one notion. Second notion is on a black rainy day, on a Sunday, we wake up and say, with that digitalization going on, with that artificial intelligence all over the place, all of a sudden the mail will be off a cliff, there would be no business anymore. So, my port of departure in this presentation, before I go to a little bit more hands on presentation, I like to address those two topics, those two notions.

So, let's start with the first. It's easy to address, as Geoffrey introduced, Alain Fairise, Alain sits on the U.S. market. The U.S. market is the biggest market, it is one market to address, it's 60% of the revenue. If we look at the volume of USPS, 140 billion letters, creating $45 billion in revenue, 12% of the overall mail volume, 12% is going through the major population in the U.S. 1.5 million meters and postal users, 1.5 million meters in the U.S., only 12% is running through our meters out of that total made piece. Every single day, we have 65 million letters creating volume through these letters. The mail is not off the cliff. There is a humongous volume to go. With 19% market share in the U.S., we will conquer. We will go back to an aggressive push mode to conquer back market share. That is our intention.

The second notion and the second flipside of this is the Danish example. And it is for sure, with a heavy heart, I have to give you this. The Danish example and I guess many of you know being is – being investors in the industry for a few years. The Nordic is heavily digitalized and has been for the last 13 years. Government has implemented three digital tipping points, mandatory governmental tipping points. The first tipping point was that government informed all businesses, if you're going to send us invoices, are we going to receive documents from you? You can no longer send us any kind of physical [ph] made piece (01:04:05). It has to be in a digital format. This format, this language, mandatory.

The second tipping point was the electronic box. The electronic box is basically a digital platform where you can exchange data or you can send documents too. You can extract documents too, mandatory. The third tipping point was that the government implemented together with a lot of the banks and verticals, on your personal bank account which is mandatory to have in Copenhagen. Attached to that bank account, you will have a digital number. Attached to your business account, you will have a digital number. By implementing those three, you will have the perfect storm for digitalized disruption country. You will have business to consumer. You will have business to government. And because it's on a platform, you will have citizen to government as well. And inside the platform, you will have business to business. The consequence is easy to read either in the studies or in the newspapers. The last 10 years in Copenhagen, we have had 72% decline of the overall mail volume. 72% decline in the last 10 years in the overall mail volume. So, it's almost like paint the windows black, right?

In the same period of time, we have only had a decline of our installed meters of 32% to 35%. The market has changed to a low end market, [indiscernible] (01:05:39) market, convenient market. We still have what I used to see, maybe I'm biased, a beautiful collaboration in Copenhagen doing mail volume business.

If we look at our brothers in Sweden, they didn't do any mandatory tipping points. No mandatory things, no governmental. It's a little bit easier to do in a country of 5.5 million. No governmental tipping points in Sweden. In the last 10 years declined 5% in average, almost intact installed base. U.S. in the last 10 years 3.6% in average, 19% market share. I think we can do better. We want to go into a push more again. We want to reinvest again. Mail is not going away. In Copenhagen in the same 10 years of 72% decline, we have enjoyed two phases of technology change of franking machines. There's still business to do inside. So this, just to give you a port of departure, if there is two notions that the mail will disappear or all of the sudden it will be off a cliff, there are very, very specific fundamentals in order to digitalize a country and some of them has to be governmental for this to happen. We have yet to see those kind of things happening throughout U.S. and Europe so far in the same scale as we have seen it in Copenhagen.

So, in order to be a little bit more hands on and in order to set the scene for what is actually we're doing. We say it very simple – we simplify mail and mailroom shipping solutions that what we do. We are in that mailroom operating in that mailroom. [ph] Dependency (01:07:31) is customers is having high volume or low volume. This is what we do in the MS related business.

If we look at the simplification of mail, the – and it has been for many years and many of you quite have seen presentations like this before you will avoid to get to the post office to get your stamps. If you have a franking machine you can tap in to the postal different services you might need because you might nowadays also send a parcel, a package and not only a letter. Globally speaking, if you use a franking machine you will normally have a discount compared with putting the stamp on the document. This is in the low-end. This is the most simplified version of the mail.

If we look more into we can call maybe mail and manage, the more complex situation of mail. We have four different values and drivers in order to see some of the complex situation. If we have hundreds or thousands of mail pieces per month, per week, per quarter, it's a good thing for the company not to print customer number A7 and customer number A again in document number 23. So, we have software who will compile your data, who will sort your data in order for you to achieve the best possible cost when you are delivering those letters to the post. We will optimize your cost structure.

I think compliance and I think risk management this year, notably in 2018, we have had some compliance elements. We have implemented notably in Europe, GDPR. I think track and trace of information is becoming pretty vital these days. There have been few here in [indiscernible] (01:09:24) also on the online system, right? So, track and trace of documents, ensuring that our Social Security number, if this message is from a bank or is from a finance company to be sure when it is printed, when it is inserted, when it is shipped from the customer, where it is in the process, that close loop we better control as a company. And we will have to do manifest in order to proof-of-concept. We bring that to our customers if they have volumes of mail to bring. That's what we do.

On the same documents, some of these documents are pretty transactional documents. So, a little bit of information. Dear Mr. Customer, you need to pay X amount of money in this due time. And it is only one sentence and the rest of it is kind of a white page, right, a black -- a big white hole in this space. So, what we can do is we can help the customer to facilitate to print different kind of messages. Dear Mr. Kim, we know you have a dog. And by the way, we think you have bought a bicycle recently, so, why don't you also, if you're an insurance company, get an insurance on your bicycle. All we know from a different source of media that you like to go

fishing if that is the case or golfing or running, so why don't you buy running shoes? Why don't you buy golf equipment?

This kind of transpromo applications, we can put into those documents. Those documents become more relevant to us. Today we just don't want to receive, sorry to say, a numb or stupid document. We want to feel if we can receive a document physical or digital, that document better be to us designed to us, so we will get a customer relationship with us. That is what we're going to do in those customer engagements. When we do those and it is cross-selling products, we can help the customers to create revenue growth. We will have more cross-selling opportunities for the insurance, for the banks, for whatever kind of shops, if we put those indications in and messages in and upselling values things in. So we are helping our customers doing those things inside the mailroom.

If we look at it in a more holistic way, what is it actually do in that mailroom? We compile a lot of prints. We folded. We bended. We inserted. We put addresses on it. We make sure to stamp it the right way or put the right value into the envelopes. And we also do notably in U.S. there is an increasing number and probably each of us in this room are ordering more and more things online. So the packaging, the e-commerce is booming of course, and we have presentations as well for this today.

We have applications today, software applications today, where we equip the mailroom with software associated with our franking machines to facilitate that. So today if you are sending a parcel or a package in your mail, we have software components inside, which would be able to take your package, put it on the weighing scale, have the sender from me to you, get in the right portal or the right amount of money to it in the most efficient way so the customer can track and trace the whole portfolio.

If you are a university or a hospital or a bigger company and receive a lot of parcels because a lot of people work in those companies actually asked to buy shoes, to buy whatever clothes, and then the company will receive all those parcels in the reception normally or wherever they will receive it. How to manage, control and check inside a company that this parcel is received? We have a system as well and software for that as well. Everything embedded to handle in the mailroom. I have a few slides of presentation later on to give you more specifics for this mailroom equipment.

So, let's go back a little bit to the [ph] end zone (01:13:26) in terms of hardware. We have the widest portfolio of hardware today. No doubt about it. We take [ph] pride (01:13:32) in that. We have from the low-end franking machines to the high-end franking machines. We have from the desktop [indiscernible] (01:13:36) to almost grabbing into the very high end of production mail.

But this is not a static view. This is, as Geoffrey explained, this is [ph] ever constant (01:13:50) renewal battle in order to bring the right technology at the right time with the right features in front of our customers, and we are doing that. If you look at the range today and if you look at our upgrades today and our releases the next three years, we're going to come with 75 releases, 75 releases just for franking machines and meters. Upgrades, renewal, additional software associated with it.

We have just recently, in the last two years, renewed all our range of inserting machines. The capability today of our inserting machine with remote diagnostic, calling up the customer, just looking at the statistic, helping them to serve the first service call, building that infrastructure together with all customers is a solid, solid play. This is the way the future needs to operate. We will serve those customers in those segment very delicately depending on each of their needs.

In production mail, we're operating as well. Most of the operating production mail is not so much like in the car industry if the car can go faster. We know some of the traffic jams. We have some of the same traffic jams problems in the production mail. There is only a certain speed you can get to and then actually your productivity will not increase. But what you need to develop is you need to develop more flexible solutions. You need to add wider format of ranges. You need to have [ph] bigger books (01:15:23) of arrangement. But most of all, we need to develop integrity loop, meaning integrity software which will comply to GDPR loans, which will ensure that although millions of documents running through our production mail machines is very clear on the manifest and can be documented in terms of security. Those compliance rule is not to neglect in the future and we are the frontrunner of this.

So, what drives us for this is very easy customer experience. We all know customer experience today, it has to be intuitive. If it has on mobile phone, whatever we do in terms of technology, walking into an elevator, doing whatever [ph] we have today (01:16:13), things have to be intuitive. If things are intuitive we simply just use them better. We feel closer connected to those, so we will improve our customer experience. We will ensure compliance, just as explained. Compliance in production mail, but compliance in postal regulations. In the first slide, the billions of dollars running through this system, essentially, we are printing money. This we don't take lightly. The compliance has to be perfect for this. And the postal regulations, as you can imagine, as the decline of mail and the increase of e-commerce and that change of value setting within the post, we have to adapt to that. So, we are doing that.

Go Green, reduce our carbon footprint I think is that – is more and more relevant. And I think I shouldn't make any further comment in terms of Go Green and climate change. But I think we have to stick to be sincere and honest about how we do things in terms of reducing everywhere we can and for us to have a long term [ph] play in (01:17:21) this to be green.

We were managing our cost to optimize our cost. I would say in my book, there is a very, very big difference in cutting cost and managing cost. Because managing cost is to be clear about what you do about your resources. We have gone through – me and my team has gone through all the supply chain needs, all the workflow streams we have inside the supply chain and how we do things. And we have changed and we will continue to change and to optimize and manage that cost structure. From a flexible cost structure to physical structure, we have to revisit and will revisit every single piece in order for us to be efficient in that go-to market strategy.

Those were the two components of hardware for inserting machine and for franking machines. If I go to the shipping solution, this is today a more U.S. play. The shipping solution today we put inside the mailroom. We put inside the mailroom the shipping solution today. In 2015, USPS implemented or added a little bit more complexity if you want to get discount. So, you could get discount depending on your volumes normally, blah blah blah. But in 2015 USPS told, if you want to send the parcels for your mailroom, you need to embed this special design barcode because that special design barcode need, we need that in order to bring to our customer, customer experience and track and trace like any other e-commerce last mile delivery.

So, all of a sudden in the mailroom, you will have a more sophisticated solution printing a very special delicate barcode containing a lot and lot of information in order to provide all that added value back to the end user customer. So, we develop software for this. As you can imagine, this industry is really booming. Everything with e-commerce is really, really booming. USPS has enjoyed a double-digit growth in this for the last five years. We are enjoying that growth together with them because we are taking – as a facilitator, we are taking a small portion of that discount every single time the customer sends the package. It's a beautiful business model. So, we are enjoying and riding that [ph] wave (01:19:56) and that way somehow as you can imagine, compensate a little bit

the mail decline with e-commerce growth inside that mailroom. It's a nice compensation tool and there are many, many years of double-digit growth to be in that industry for sure.

Speaking about recurring revenue, I do not know how – I cannot remember the specifics of how Geoffrey express that he lied or lost our recurring revenue model, but for sure it's a stable model. And this is the model to be. This is what we do. This is the engine. This is what drives our KPI. This is the daily, the weekly, the monthly attitude which drives our KPI. The recurring revenue model we do contains consumable supplies. It contains leasing. It contains service. It contains yearly or monthly upgrades of those franking machines of that great table. And you can imagine, as the posters involving more and more rate changes will have to be changed globally speaking. It contains as a facilitator a fee in order to do the packaging. It contains business modeling where we have a click volume [ph] chart (01:21:14) in some of the production mail area. All combined supporting, everything we do today and for the next five years [indiscernible] (01:21:24) 70% recurring revenue.

I don't want to give you the notion that the 70% is a sleeping pill. This is not a kind of resilient strategy we're implementing or we are executing. It's a push mode. It's a concrete model. But the 70% will bring us a little bit more of long-term thinking than rather short-term thinking. Also, within this industry.

Go-to-market, we have chosen, as Geoffrey expressed, we have chosen a go-to-market model with four major businesses, but also in terms of geography, two geographies, a U.S. geography and main European geography. The decision we have taken upon is we look at geography and customer density on the right side. And we look at the customer value creation on the other side. Where we have that high density, where we have enough critical mass, we have our own operations. And we will focus more on those own operation and execute more in those own operations to stay more focused.

The way we go to market depends on the value we create at the customer. If it is a low-end customer, we might treat them by phone. If it is a small [ph] software product (01:22:50) to the customer, we might onboard them online. If it is a value-added customer, we need to be in front of that customer and speak to that customer and be the trusted advisor in front of that customer in those geographies. If the density is not so high, we will be held by what we have already today. Our export department, our trusted dealers, globally speaking, who will help and we will help them to support the rollout of our technology in those other places. That is what we do as well today. But the focus will be more and more execution in the main geographies.

We take [ph] proud (01:23:34) in what we do every day. We are proud of what we do. And we should be and the team should be. We believe we are good at it. It's easy to say but we also actually get to measure it and our customer's response to it. And I think, there is this notion to it as well that if we are not good at it, there is a tendency on social media or other platforms that the customer immediately will tell us, but our response so far is in the high-90s of satisfaction, whatever service we do and we take pride in that.

So let me give you a quick overview of the marketplace from the low, to the mid, to the high. Where do we sit today and where do some of our competitors who's in this main related [indiscernible] (01:24:24). Pitney Bowes, where we will take on a fight. Production mail form unknown as Pitney Bowes sold off [ph] DMTI (01:24:37) department to BlueCrest. The sweet spot of what we do today. FP out of Germany also a valid OEM partner with us. Bowe out of Germany in the high end production mail. Kern out of Switzerland, high-end production mail and at the end Stamps.com online service how to produce a stamp.

This is the landscape we see today in terms of competition and in terms of FP in terms of OEM partner for the document [ph] assistance (01:25:14) machine. This is the fight we're going to take upon us. These are the guys who are going to wake up every morning and hear from us. In terms of barriers to enter, we are kind of protected

because the barriers to enter this industry is high. On the other hand, we have a little bit -- as explained, we have a little bit of disruption but it's a controlled disruption, coming back to the Danish example. And somehow, it's also a good disruption because our other businesses will capture and capitalize on that trend.

Our customer base is really, really, really diverse. Out of the hundreds of thousands of customers we have inside mail, 80% of them are SMEs. We have now 7, 10, 8 big customer accounts who can tip the iceberg. That is not what we do. That is not what we have.

So, we have room to grow our business. I think it's very obvious. It's very, very obvious to us and I want to set the concrete attitude. We will invest and we believe due to our recurring revenue model that the investments we do today may not pay us today, but will pay over the duration of the time of that lifecycle of that rental and that leasing model.

Mail is not disappearing. It's not a cliff even on a rainy Sunday. It's not going to go away. We will still nurture it. We're going to fight for our market share. We're going to update as I show you. We're going to update all of our products line. We are updating all our product line. We continue to improve to extend the offer.

In the low end, we will go for specific customer segments and specific targets. We would be very laser beam focused on how we're going to approach those markets. We will go back to acquiring customers. We will go back to acquiring customers where it makes sense.

In the high end, we're going to still be in front of those customers. [ph] Is it (01:27:23) value-added selling? We're going to cross-sell and the beauty of cross-selling and transforming and meeting customer into a digital customer is it is no longer a five-year lifecycle. A digital product embedded to a customer today is not a five-year play. It's an eternity play until that customer does not exist anymore. Because as much as we believe, there is a structural decline in May, I think we can all agree for now that the digital [ph] play is here to stay (01:27:51). So, in that conversion from a five-year, we are going to infinity into the digital solution, into a subscription model, recurring revenue model of digital solutions. We're going to exchange five year into infinity. It's going to be a beautiful transformation. We're going to help our customers doing this.

Market share, so, as you can see and read as well as I can, with the exception of France, and I will even question the France percentage. 50% market share in France, I will even question that, I think we could do better. But look at the other percentages, and [indiscernible] (01:28:32) percentages. We need to take back what we believe belongs to us, 20%, 25% is not the name of the game anymore. That would not be status quo for the future.

We need to, as a conclusion, we will reinvest in [indiscernible] (01:28:49) and we'll extend it. We will keep servicing our customer in a best and possible delicate way. We will gain market share. We will focus on our main geographies. There will be no defocus anymore. It will be pure execution in our main geographies. That is what we are going to do. And in addition to that, where we go in those main geographies, we will try to optimize to the best of our ability that the footprint in that market and in those markets. That is what we are going to do. We have already started a lot of those things. It is not a starting point. We have already done, and we will continue to do this. So this was the conclusion of my presentation for today, brief, but at least the conclusions are mine. I think we will go straight Gaële to Q&A, if any of you have any. So I will do Q&A immediately after this. So thanks a lot for paying attention.

QUESTION AND ANSWER SECTION

Q

[indiscernible] (01:29:51) two question if I may. First question, how do you assess a potential [indiscernible] (01:29:57) of your competitors especially Pitney Bowes. You should become more aggressive in the U.S. And second question, referring to slide number 8, which was in the previous presentation. On this slide, mail solution have right evolution over the last, let's say, five years was minus 4.3%?

Kim Andersen
Director, Neopost NV

A

Yeah.

Q

And what do you target for the next, let's say, for the plan?

Kim Andersen
Director, Neopost NV

A

Yeah. So, thank you. So for the first question, I understood it, what is the PB reaction in U.S. What is the PB. So, I do not know what the PB reaction will be in U.S. I do not know what the PB reaction will be in U.K. or in France or in Germany. I do not know what their reaction will be, to be honest. I have no idea. It seems to me that PB, at least in Europe the last few years has divested [ph] few of their (01:30:51) operation and is walking a little bit away from that part of the market, notably in mail in Europe. But their daily reaction on how they're going to respond to our initiatives and our rollout, I do not know in detail. I cannot really foresee how this is going to happen. It could be weak, but I do not really know how our competitors is going to react.

We don't really think so much of our competitors. In that sense, that we can execute what we have planned to do and then we will look at the reactions from here and there. I – we're not preoccupied by knowing or understanding the details of their reactions. We more believe in what actually we're going to do and execute, to answer your first question.

The second question was we – in Geoffrey's presentation, we had a trend of previous decline, structural decline in MS. Is that the – and what we've foreseen for the future. We don't have a crystal ball. I cannot predict if it's going to be the same, was the ratio 4% to 7%? I cannot predict what it was going to be. So, do I see today any governmental tipping points indicating to a Danish situation at this point in time, globally speaking? No. Is there structural overall decline in the total mail volume? Yes. Is there a correlation between the overall mail volume and what is running through our meters in business? Not necessary. It is not necessary the same 4:7 appear, like 4:7 throughout our meters, like 4:7 in our install base. Don't autopilot think, there is a correlation. It is not necessary there's a correlation. Hence, we have made this conquer attitude towards back to the market volume. I hope it answered partly at least some of your question.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

Steve Wilson, Lapides Asset Management. You laid out a very interesting case and yet you didn't follow it up and that is only one in eight pieces of mail are actually franked. Shouldn't that be the big priority that if you just move the 12% to 15%, that would overcome the secular decline you're facing.

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

And I don't know what the obstacles are or the reasons why.

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

But it seems like a disproportionately low penetration rate given the case that you made...

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

...of the advantages both the pricing and the management...

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

...and all that. So how come there isn't more of a push....

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

...as opposed to beating each other up for a share in a declining market to turn a declining market into a rising market? Because you've got an economic case that makes sense to the end market?

Kim Andersen
Director, Neopost NV

A

Yeah.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

And the adoption rate goes up enough to override the mail volume?

Kim Andersen
Director, Neopost NV

A

Yeah. It – thanks for that question. It's actually a very good question and I think it will be a clarifying question as well. If we look at the total mail volume today, so how that is calculated is of course with a lot of unaddressed mail where there is a lot of odd sizes of mail. So a letter is not necessary just a letter described as a communication piece. So in that communication piece of overall mail volume, it is not necessary. Everything we just equip and adopt in size and proportion to run through a franking machine. A franking machine is one channel among many channels how to put a value on the letters. You can have inkjet solutions. You can have other kinds of solutions where you can in bulk mail, in [ph] all (01:34:41) sizes, in magazines, in whatever you want to have, it's not possible to frank. You have to do something else.

Pre-frank by wrapping [indiscernible] (01:34:52) with already an [indiscernible] (01:34:54) on it. All those millions will not be throughput of franking machine. Hence, we have to fight. I totally agree to the potential and not to the status quo of the market share. I agree. But it's not -- it's franking machine is only one channel through the total communication piece. There are other solutions outside of franking machines how to send a mail piece in size and proportion if that answers some of it.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

[indiscernible] (01:35:24-01:35:30) what's the untapped portion? So if you're at 12% and you're saying there's many other alternative ways and a lot of them don't apply, is there a portion of the market that should be franking, that is capable of franking, but is not and you need to communicate better to those people to adopt this?

Kim Andersen
Director, Neopost NV

A

I can give you – let me give you one example to maybe to answer that question. In the high-end production mail you have different geography differences. In U.S. in the high-end production mail you will normally frank your letters at the exit of a production mail machine. After that process, normally depending on your software you will normally send them through and you start to sort those letters into cities, into zip codes, into streets, postman route.

In Europe, you don't, at the end of a production mail machine you don't frank anything. The frank is already done when you put the envelope into the machine. As you can imagine, the billions of [ph] mail (01:36:36) pieces produced in Europe and U.S. just that different makes a little bit difficult to tap into the overall because it's already done. That is the way the postal operators in those European countries or in U.S. accept [ph] or per tradition (01:36:51) is allowing. That made piece to go to the end-user customer. There's a significant difference how to distribute mail and how to put stamps or postage on letters Europe and US as an example. If that answer a

portion of that. There is differences. It's not a given how we can calculate those ratios of that total volume. Not everything is applicable go through and in a different way. Yeah. Okay. More questions for this?

....

Q

Hi.

....

Kim Andersen
Director, Neopost NV

A

Hi.

....

Q

[indiscernible] (01:37:33) shareholder value. If I – from the previous presentation if I apply the 2022 KPIs to your current numbers it looks like top line for mail solutions is going to go down from €800 million to roundabout €650 million. Is this – is this really what you're forecasting?

....

Kim Andersen
Director, Neopost NV

A

We're not giving...

....

Q

Yes.

....

Kim Andersen
Director, Neopost NV

A

We're not giving specific...

....

Q

No. But it's just applying the 5% top-line growth or the mid – I think that you called it mid digit, mid-single digits top-line growth and the 50% of sales maximum from Mail Solutions. And if you just add that to the numbers that you currently have, you get to €650 million from Mail Solutions. That's [indiscernible] (01:38:34) slide, slide number 28.

....

Kim Andersen
Director, Neopost NV

A

[indiscernible] (01:38:37-01:38:53). And the assumption?

....

Q

Yes.

....

Kim Andersen
Director, Neopost NV

A

It was better, sir. And the assumption you could have on the mail declined itself. So, we're not giving any specific [ph] address (01:39:02) to year-over-year what could be the level of decline for the mail. What we have said to now is we're looking in the rear mirror and we've seen that -- based on the mail decline in the world on our business we've seen the minus 4% to minus 6%. Okay?

So, if you wanted to [indiscernible] (01:39:19) or whatever, that might be a reasonable assumption. But it's not necessarily neither indication neither what's going to happen. Just to be very clear on that topic. Now [indiscernible] (01:39:29) you will distribute the question to different people if we need to.

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

A

Yeah. Okay. Thanks for your attention.

Kim Andersen
Director, Neopost NV

A

Other questions? Yes?

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

A

Sorry. There was.

Martin Boeris
Analyst, Exane SA (Broker)

Q

Hello. Martin Boeris, Exane. I have just a question on your shipping application and shipping equipment.

Kim Andersen
Director, Neopost NV

A

Yeah?

Martin Boeris
Analyst, Exane SA (Broker)

Q

Do you think that at some point you could offset the decline in your traditional mail market because of the boom in parcel deliveries or e-commerce?

Kim Andersen
Director, Neopost NV

A

So, we're starting from a very small base, right? And it's both related to the franking machine and the mail-related activities we're proposing. So, [ph] soon independent solution (01:40:17). We have started later than others in this market. So, we have a smaller starting point but definitely the growth rate is important in that. Before we can offset the mail decline, we will probably have a chance to get back to [ph] that thing (01:40:34) in 2022. So, that's not the expectation today.

Maybe a last question if you need it before we go to the next presentation? Yes?

Martin Boeris
Analyst, Exane SA (Broker)

So, for the next four years, you're intending to spend €100 million CapEx and €100 million on acquisitions for every year, is that correct?

Kim Andersen
Director, Neopost NV

No.

Martin Boeris
Analyst, Exane SA (Broker)

No?

Kim Andersen
Director, Neopost NV

It's an average.

Martin Boeris
Analyst, Exane SA (Broker)

It's an average.

Kim Andersen
Director, Neopost NV

Over the period.

Martin Boeris
Analyst, Exane SA (Broker)

Over the period.

Kim Andersen
Director, Neopost NV

And it's a €100 million for the CapEx in average, there could be variations year-over-year, and it's having €100 million net of divestment for the acquisition year-over-year in average.

Martin Boeris
Analyst, Exane SA (Broker)

Okay. But that [indiscernible] (01:41:19) over the four years, it's going to be €800 million.

Kim Andersen
Director, Neopost NV

Yes.

Martin Boeris
Analyst, Exane SA (Broker)

Okay.

Kim Andersen
Director, Neopost NV

A

Net of divestment on one hand.

Martin Boeris
Analyst, Exane SA (Broker)

Q

Okay. And then the CapEx, what is the CapEx going to be for? Is that going to be buildings and production lines or is it going to be installed base expansion or is it going to be R&D?

Kim Andersen
Director, Neopost NV

A

Sure. Yeah. Good question.

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

A

Yeah.

Kim Andersen
Director, Neopost NV

A

I'll let this one to Jean-François Labadie. And after that, we'll go back to either the mail question, if not, we'll go to the next presentation because this question we can answer at [indiscernible] (01:41:48).

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

A

So, I will – I am so sorry, I am Jean-François Labadie, the CFO of Neopost. I will come back to it in detail in my presentation, but basically on the €100 million of CapEx, there are three categories. You have one specific item which is mainly related to our Mail Solution business which is the rental business. Again, we have the leasing – the leasing business is key for us but for regulatory reasons, sometimes we are oblige to rent the equipments. So, a big portion of the CapEx will – significant portion of the €100 million is on the equipment that we rent to our customers. We are talking roughly about €30 million to €35 million per year if I take the 2017 yearly number.

The other category is everything that we invest into R&D to develop our [indiscernible] (01:42:39) solution. And the last portion is everything which is related to machine for production, IT and all the stuff, but the specificity of Neopost is everything which is linked to the rental equipment. €100 million is the amount that we spent or that we allocated in 2017 at Neopost for CapEx.

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

You don't want to answer? Any last question? Then I will just repeat myself and thanks for the attention. Henri, I think this is your [indiscernible] (01:43:22).

Kim Andersen
Director, Neopost NV

Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

Thank you.

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

Thank you.

Henri Dura
Chief Strategic Marketing Officer, Neopost SA

Hi. Good morning, everyone. I'm happy to be here and I'm excited to continue the presentation about the four solution that we are going to invest in and focus on the coming years. Here, I'm going to talk about Business Process Automation that [ph] Elena (01:43:49) is going to head in the future.

So as Kim just mentioned, we are very strong in the mail side, in the physical side. And what I'm going to try to do, what I will do today, is to explain how we're going to help our SME customers to transition from a paper-based type of communication specifically when it comes to transaction [indiscernible] (01:44:18) to more digitalized processes. So here are roughly the key driver, the megatrends, I would say, that are explaining why digitalization is going to be strong, helping SMEs and companies and generally SMEs in particular to be more effective.

Digitalization and digital technology are at the heart of the transformation of any and every business. By the way, digitalization is at the heart of our own life, right. You all have that in your pocket, in your hand, and this is part of your life. Now everything you do or a lot of things you do you use this tool. So basically, digitalization whether we talk about back office processes, front office processes, and customer experience as Chris will elaborate on later on, digitalization and digital technology are at the heart of it.

In addition to that and again I think that we're going to talk more about that during the day, digital technologies will be at the heart of better customer experience. In addition and very specifically to the transaction amount to the invoices, we have a big push everywhere from the regulation from the government that are encouraging citizen as well as businesses to move to digital.

So, let me go now. If we – and that will be my focus, nor into the back offices – back office, sorry, processes around the ERP mainly, right? Here, we have one and when I'm saying ERP, it's obviously much more about the invoicing processes or invoicing related processes. I guess that you know – you are all aware that compliance is a big, big driver for everyone, right?

So, in – if I take for example two example from South America, In Brazil and in Mexico, everybody has to send – every businesses has to send electronic invoice. Why? Because there is a good – there is a big driver for the government to push on that, it's to fight against VAT or sales tax growth. I'm sure of that with what is happening in our country, that as so could be an additional driver for our government to push until the digitalization of the invoicing.

In Europe, things have started in France specifically, in recently with Chorus, which is the B2G, so business to government relationship, In Italy as well, and we are benefiting from those. In the U.S., the U.S. government has already taken action to require the agency, to require their own suppliers and partners to send them electronic

invoices. So, that's obviously a significant driver and as you know, Neopost is really strong in getting the compliance and the regulation into a solution for our customers.

The number two is the cost optimization. If you look at the way that people are handling invoices today, you go and you're keen on an ERP, you print the document, you put this document into an envelope, so on and so forth and you send it. At the end of the process, you are wondering whether this invoice is well arrived, that it is well-processed on the other side, on the customer side and so on and so forth. It's a labor-intensive, it's a very much, very labor-intensive process. What digitalization is doing there is making this significantly easier, significantly less costly for our SME customers.

If you move on to the quality improvement, same thing. When there is no – as soon as it is manually handled, it's difficult to have traceability, to have audit trail of what is – did happen to this invoice. And definitely, digital technology will help businesses to be more in control of the journey of this document, of this invoice, across the different steps of the process.

And at the end, finally, there is also a key driver which is related to customer experience and customer satisfaction. Today, in today's world and I think [ph] Chris (01:48:56) will elaborate again more on it, the customer is on the driver's seat. He decides when and how he is going to receive the documents, whether it's an offer, it's a contract or if it is an invoice, everything is on the side of the customer today. He will decide that.

And customer from SME are just the same, because they want their supplier or their partners to behave as the big companies are doing. Another key reason, specifically within this process, which is the back office ERP-based invoicing thing, I think, that clearly for the one that are equipped already with digital technology to receive the incoming invoices and to have digital invoices coming in, it makes sense, of course, to send through them digital invoices so they will be more efficient on their side to process your own invoice when you are the senders, and obviously the sender will benefit from that. So, it's a kind of win-win thing. And clearly, there are huge benefit there.

All right. Let's move now to the market size of this transaction processes. Today, it's around €3 billion. It's growing between 5% and 10% depending on the different processes. And it's really about optimizing and digitalizing the entire payment process. So, what are the key drivers for this market to grow? Basically, it is becoming more and more cloud-based. There is a transition from on-premise to cloud and you will see that later on, but clearly, this will benefit even more the SME, the SME market. I'm going to tell you a bit more because of the affordability of it and because of the need which is significantly lower in terms of IT skills within the SME. All right. In addition to that, we have a few specialized player. We're going to touch base about it later on.

So, if you look at this market, we think that as far as the SME market is concerned, it is between €500 million and €1 billion going forward. And our own surveys and studies are telling us that within the SME, it is growing at least by 15%. SMEs are representing today 12% of this market, they're going to represent 22% in the years to come, by the end of 2022, which means that the CAGR is about 15% per year. We want to benefit from that and we will benefit from that because we are legitimate in this market.

And I'm going to explain to you why we are legitimate. Number one, 80% of our installed base as SMEs. SMEs don't have access today to this kind of solution, because they are on-premise, they're just starting, it is a nascent market, I would say, for the cloud base solution and SMEs are requiring that to modernize their own processes.

Number two, transactional mail are 50% to 60% of the total volume mail. As Kim just tell you when presented in the previous presentation, there are still a lot of billions of letters out there. And 50, depending on the countries,

50% to 60% of them are transactional mail, and 50% to 60% of this transactional mail that are going through our machines, are invoices or statements, or reminders, or you know. So clearly, we have a lot to do there because we are from our heritage and since probably now 30 years, 40 years, 50 years, we own the mail rooms.

So our heritage is coming from this piece as a first step. The ERP is where the invoice is manually typed, and so on and so forth, then it is printed, then it is inserted in one of our equipment, then it is metered and then it is obviously remitted to the post offices for delivering to the end user.

Now, more recently, but still a few years ago already, we have offered a tool which is OMS 500, to the tool which is basically that we have developed based on the GMC technologies and an output management tool that will enable – or that is enabling our SME customer to prepare their mail in a way to benefit from a lot of – such as you put a lot of paper or document into the same envelope, you rationalize your postal remittance, and you benefit from a postal discount, and so on and so forth. So, this tool, which is an output management tool, is helping SMEs to print in a better way and have an efficient or more efficient way to insert and to meter and then to remit the mail to the post offices.

More recently, we have – two or three years ago, we started with a solution that we called Neotouch, which is a suite of solution and here is the first one of this suite of solution that Magali Kolnik is going to demo you at the end of my presentation.

Here is, what we do is, we give the opportunity to our SME either to do the job here and/or to outsource their invoicing, specifically their invoicing batches, to an outsourcer, so to us, right? So that either you can print of course in-house for a solution and/or you can outsource, and the way we outsource that give the ability to our customer to either print and/or use obviously digital channel such as email with PDF or mobile.

So, that's where we are today. We have been successful. We have thousands of customers in this area. So, we think that, from that and from our heritage, we have been already – we did reach the proof point that what we do is bringing value to our SME customer that want to be more efficient when it comes their invoicing systems and processes.

Here are the key new things that we have been doing and that we're going to develop going further. The first thing is about account receivable, which is basically as I just said, we offer an alternative, either you can sell – you can set out your invoices on an invoice, which has to be compliant to the EU regulation in Europe, will have to be compliant to the U.S. regulation, which is coming.

And obviously, you can also send it on a paper-based way, either on your own mail room and/or in an outsourced way, right. So, but we're going to – we – here today, as far as account receivable is concerned, we do that. We invoice and delivery compliance. So, we make our customer benefiting from an omnichannel building capability, which is already bringing a significant value to our SMEs.

We're going to continue to develop that with the collection management, which means how do you make sure that you accelerate the way you collect the money, to pay your invoices. And then obviously, our customer will benefit by an increase in their – by – sorry, decrease of their DSO. So, an increase of their cash at hand.

And then the next win will probably be the cash application. So, it's either how do you do automatically the reconciliation between the invoice and the money you just have collected. We have started with a few of that, we've kind of a pilot thing, but that's what we're going to do in this area and that we have started to do.

We have started as well to, even more recently this time to launch our account payable automation solution, which is part of the suite. All of this by the way I didn't mention. All of this is on the same platform. So, Kim was discussing about how easy to work where we should be of our tools, specifically for SME, where again, you don't have dedicated IT guys or dedicated ERP guys doing invoices the whole day and the whole night. We have people that have many tasks that do many things. We want them to have access to one platform, one GUI, one interface so they can handle all of their businesses that are related to the ERP functionalities.

Here is the account payable automation. So, we automate the incoming invoices management. That's what we do today. Very soon, we're going to have an expense management, which automate the expense related and we're going to have payment and supply chain financing which automate the process of approving an invoice within the workflow and obviously paying this invoice.

Once we'll be there, at the same time and that will be then step two, we're going to increase our reach helping our customer to manage the end-to-end process when it comes to the order management. So, it's really from order received to invoice sent. If you want to buy something as a company, you'll send a PO to your to your supplier, you receive that, you receive an invoice. All of this should be automated and match automatically so that you can benefit from a significant reduction in terms of cost but also in terms of quality.

We're going to do the same thing with purchasing. So, basically at the end of the day, we will have the order to cash on one side, we have the [ph] procurer (01:59:24) to pay on the other side. So we think that we have an immense room to play in front of us. And we have been proven already that we are taken seriously by our customer, helping them to move to digital and to help them streamline their processes and make them more cost-efficiently.

So clearly, I think, we have everything in hand and including our huge networks to bring this type of solution to the market.

Now, do we have competitor there? Yes, of course. Some of them are here. These are the big guys, all right, SAP, IBM, Oracle. These are the guys that are bringing solutions to big companies and have solution, on-premise solution, very expensive one. This is – we're talking about millions here, right. You're talking about having IT teams, so they're dedicated to run this thing and maintaining this thing within the companies.

But at the same time, as I just said and this is obviously the trend of the cloud-based solution everywhere, in every industry, you have a few people that are already dedicated to this market such as Bill.com, Billtrust, Bottomline, Basware that you might have heard of, since they have been acquired recently. So we want to play there, in this cloud-based environment, which is the technology that we are using today for everything I just described. And we are going to go into this market and to grow this market into the SME market, which is again 80% of our customers and markets where we have been recognized as being legitimate and bringing value to them in the past 70 years.

So, that's basically what we do with that. With this, I'm ready to answer your question if you have any. Sorry, maybe before the question, Magali is going to show you quickly what we do, not just what we have in mind for the future, right. Okay.

....

Magali Kolnik Tesson
International Product Manager - International Business Development, Neopost SA

Thank you very much, Henri. Good morning, everyone. My name is Magali Kolnik, I'm the International Product Manager for the product that Henri just talked about, meaning Neotouch. Just before starting the demo, so I will

just let you know what we've done so far over the last years on Neotouch, the past years. So as Henri said, we started with the multichannel delivery, meaning, just a basic solution enabling our customers to send digital mail to physical mail, SMS texts with just a very easy tool, directly from their from their laptop and for those who wanted to send paper mail everything was outsourced.

And then we focused more on the documents that were handling our customers, meaning especially customer invoices and supplier invoices and by hauling these documents for sure, there's a whole process to handle and the purpose of the Neotouch cloud-based application is really to streamline and to improve our customer processes, especially on accounts receivable and accounts payable first. So recently, we launched also advanced tool for our customers, meaning that we were more focusing on the relationship between the supplier and the customer. And in order to enhance this relationship, we built customer and supplier portals, we enhanced the collaborations with a real-time collaboration between the parties. We also have a mobile app, for instance, for the accounts payable to approve instantly wherever you are, whenever you want, supply your invoices. And what Henri just said, we are about to move now to the payments in order to – for our customers to decrease their DSOs so that [indiscernible] (02:03:40) and to make sure that they are paid on time by their customers. So that was just for the introduction. I have a 5 minute demonstration now before we go to the lunch.

So what I will present to the interface of the product if the screen starts working. So in the demonstration, we have the two sides. So we have the supplier that is called – a company called Acme. We have the customer which is a company called [ph] Demo Plus (02:04:48). You will see the two different portals. So I will just, yeah, come back to the beginning.

So, as I said, here we are the suppliers, so a company called Acme. The invoices were coming from the ERP. They have already been integrated into the Neotouch platform, so Neotouch accounts receivables. So all the invoices are here, which what is great with this solution is that the dashboard is completely customizable. So depending on the position of the employees within the company, they could follow-up different KPIs that are very strategic for their daily business. So, here for the purpose of the demonstration, I will mainly focus on the ones that are for instance in dispute between the supplier and the customer and/or for me to show you how we can easily solve any disputes.

So, for instance, we can also customize nice dashboards. As we said, we can track also the e-invoicing, sorry, adaption from customers moving from paper to digital. So, here, by clicking on the disputes and progress, I have the list of all my disputes that are currently in progress. So, I have three disputes for instants, three invoices and disputes for the customer called [ph] Demo Plus (02:06:22), four of them with another one. I will select one of this invoice.

What you will see on this invoice is that – so that's – this invoice is say, that it's disputed, so you have a great trust ability as well, because what happens most of the time is that when you were not paid, most of the time, the customers says we had not received your invoice. Here, thanks to the portal and thanks through to this solution, you know that this invoice has been viewed by the customer and here for the purpose of the demo for instance, we know that the dispute is related to an incomplete delivery. So, what happens here is that, as I told you, we improve the collaboration between the supplier and the customer. So, we can enter the message from the platform that will also be notified through the end-users, so through the customer. Saying here, for instance, that the missing items were sent yesterday.

And then what will happen now is that the – so everything is stocked here, you have the whole history. And then I'm now with the [ph] hat (02:07:34) of the recipients, so the customer. The customer received an e-mail

notification, saying that the goods were delivered. And that's what the customer will see on its interface. So again, everything is customizable and I can see here that I have my three invoices that are distributed with my supplier.

What I will do now is that I will go to the list of these invoices. I will click on the one that is concerned with the – for this case. I have here the message that I just sent and I will be able now to close the dispute. Meaning that here, I will just mention that indeed, we have just received the missing items. And then I close the dispute, and I will then process to the payment.

So, either the customer uses its regular method of payments to pay this invoice or he can also pay it online, thanks to the pay button that is just on the top and that's what I will do now. So here, I have different payment methods. The one that I will select – I can also pay either partially or entirely. And I can select between direct debit or also credit card payment.

So here, the payment has been done. I will now go back. You see that the status changed. It was in disputed, now it's on paid status. If I go back to the homepage and to the dashboard, I see that my three invoices. Now I just have two invoices that are in dispute.

If I go back now to the supplier's [indiscernible] (02:09:20) so the company called Acme, and that I look at this, if I update my page, I will see that my – I was in disputed status and the disputed status changed to the paid status. I retrieved all the traceability as well. And from the homepage, I had seven invoices that were in dispute. I just have six now. So, here is a list of my six invoices.

Just to finish, what is also a great thing of the tool and that we are working on with the R&D team is what we call the customer information management or the CIM, which will give to the supplier great visibility of all the outstanding invoices for instance; and from this page, the customer will be able – the supplier, sorry, will be able to monitor any of its customers and to see where are we with every single customer and to retrieve also all the history, and activities and the collaboration between the two.

So, that's it for me.

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

Thank you very much.

Magali Kolnik Tesson
International Product Manager - International Business Development, Neopost SA

Thanks to you.

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

Thank you. Thank you, Magali. Okay. Now, it's time for – can I have the mic maybe? It's time for our Q&A that you might have.

QUESTION AND ANSWER SECTION

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

A

So, yeah?

Q

Which countries are you selling this to?

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

A

So, we started in France, and we are expanding in the U.S. as we speak. We started that last year a little bit more aggressively, and this year, we will continue. By the way, we have – that's back to the solution and the focus on one team. We have the same kind of solution in Germany, but not with this. We call that mail for business, but it's not with the same platform. And not with exactly the same technology. So going forward, we're going to have obviously global solution specifically for Europe but the rule is now the same everywhere and the process now basically the same everywhere.

So, we're going to work on that. But in our four main countries and definitely in our two main geographies as Geoffrey mentioned that will our number one focus. Magali was just in the U.S. last week, last week, right?

Magali Kolnik Tesson
International Product Manager - International Business Development, Neopost SA

A

Yeah. Yeah. Last week.

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

A

Training the new comers. The three new guys that we have hired specifically in the AP process, not the DER process.

Q

It looks like this is – it looks like this is based on this Esker, Esker solution.

Magali Kolnik Tesson
International Product Manager - International Business Development, Neopost SA

A

Absolutely.

Q

And Esker only does cash to – cash conversion cycle. And so, IP is not really a Neopost standard. This is just a sort of branded version of what Esker is doing, right?

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

A

Absolutely. You're right. We are – but we own our customer. We have their customer base. So, as you probably mentioned we have a common partnership with Esker since a while. So, we're just going further with them. And we are obviously bringing all this solution to our SME market. Probably if you know a bit more Esker that Esker is focusing on the higher end, and we are bringing with our own ideas and the work that we do together we are bringing that to the SME market, all right. However, it's obviously a Neopost and a Neotouch solution. So in front of our customer, we bring things that others don't bring whether it's a bill trust or the others or even Esker we bring the mailroom, and we bring the switch between the mailroom and either outsourcing and/or the digitalization, the full digitalization of the processes. So, but that's – take me to probably something which is heavily related.

We have two ways to go to the AR and AP. One is the guy that are historically dealing with the mailrooms, so they can go in and then we can outsource. And as soon as it is outsourced, then we can go back and say, by the way, we can help you on AP and so on and so forth. We go to the accounting department and talk about AP or AR. AR first, usually and AP then. And then we say, by the way, on AR, you can obviously outsource that and digitalize your invoices. But in case you want to print them in-house, we have the solution. Or maybe you have already this solution from Neopost. And in case you want to outsource this because you don't want that here, you can do that.

By the way, if you look at our market share that Kim was referring to. We have 20%, 50%, 40% market share depending on the different countries. So, we have room to go into other mailrooms, all right, not necessarily hours, to go and try to fix their issue. As well as when you go to the professional guys, you can go in and offer them a digital solution. Yeah. So, that's related, of course. Thank you for that question. Yeah.

Q

Yeah. [indiscernible] (02:14:39), Kepler Cheuvreux. I have a question regarding the breakdown of the additional activities. Can you give us the breakdown of the €221 million for the news between the different new divisions?

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

A

So that's probably for...

Q

Yeah.

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

A

...am I right? Or maybe...

Q

Jean-François.

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

A

Jean-François?

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

A

So, we are not sharing specifically the breakdown of the revenue and we won't – and we don't intend to do so forward. But just in term of [indiscernible] (02:15:10) magnitude, in the €220 million we have in 2017, there's probably a one-half that's related to our strategic offers. So the Parcel Locker, the mail, the costumer communication management and the business process automation, and the other half that is related to the other businesses that I've listed into it, and I'm [indiscernible] (02:15:31). Good question.

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

A

One more question before the break. And, if any, all right. Yeah.

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

A

We have another one there.

Q

Thank you. Thank you very much. I had two small questions actually. First, can you explain to me again which are the softwares and the solutions that were presented in the bevels in the slide 9 that are now in this segment, so you've shown us Neotouch and OMS-500 if I'm right, and so other, other ones that I missed maybe? And the second question is more why would a client, especially if they're not already working with Neopost in the mailroom, why would they go with your solution rather than a conveyer that you've shown us on the 59 slide. What's the difference? What's the value added in Neopost? Thanks.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

I think that I've going to have to answer – answer the second question first. I think that I've been clear that I think that we are the only one, or very very few providing a physical mail solution in-house, outsource as well as the electronic version of it. There's not a lot of people doing that, right. And specifically when it comes to SME, it is important for them, my mind, to have one interface where they can do everything. So, that's the first piece of it.

The second reason is whatever the pure cloud-based players are saying, paper is not to disappear tomorrow. There is no – and there is customer preference. So, if you're serious about the customer experience, if somebody is asking a paper invoice you have to provide a paper invoice. And therefore, I think that we are the best position in the market to help SMEs to transition from paper to electronic and from paper whether they make it in-house with the cost associated with it and/or if they have decided to make probably some saving focusing on their own business and letting the mailroom being outsourced to somebody else.

So, that's our – and I think it is a unique positioning in the market compared to any others including compared to SAP or Oracle.

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

Sorry. So, I'm not sure I get the first part of the questions specifically I couldn't find the page 9 that you were referring to. Oh, 59?

....

[indiscernible] (02:18:14-02:18:21)

....

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

Okay. I know.

....

[indiscernible] (02:18:22-02:18:26)?

....

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

Yes. From a revenue perspective, I'll now let [indiscernible] (02:18:30) but I believe it's solely OMS 500, right, and Neotouch and [indiscernible] (02:18:36) to AR and AP. So, that's a pure revenue related to this new business process automation.

....

And in 2017 it has been €48 million?

....

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

Yes. And tying back to your question, the technology stack while we're leveraging some of the third party one from Esker we have a lot of the technology that – or exclusively the AP and Neopost, like OMS 500 into it, the whole infrastructure, the whole portal, the subscription, invoicing with our customers.

....

Thanks.

....

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

Thank you. Okay.

....

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

Okay. Thank you very much.

....

Magali Kolnik Tesson
International Product Manager - International Business Development, Neopost SA

A

Thank you.

....

Unverified Participant

Yes. I think it's time for lunch. As we are running late, I think I would propose to – in order to let you have the time to eat and to do the demo to start back at 02:15 PM instead of 02:00 PM. Thank you. And enjoy the demo.

....

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

Welcome back. We are a bit late. Sorry about that. But I wanted to give everyone the possibility to listen to the demo, because it's a lot of work to bring all those equipment in the room like that and they did a tremendous job to be able to do those demos right on time for today.

So, now we are going to talk about customer experience management. And I give the mic to Chris Hartigan. Thank you.

....

Christian Hartigan
President and General Manager-Americas, Quadient

Great. Thank you. I won't take it personally that it took so much time to come back from lunch and delay the presentation. I know it's really excited watching mail get metered. So, I'm with you on that one. Unlike my colleague from Copenhagen, I don't wake up every day thinking about mail. I go to the postbox every day and get the mail, but I don't wake up thinking about it. For the last 17 years of my career, I've been waking up thinking about software, particularly enterprise software, particularly B2C enterprise software that helps organizations better communicate and better manage their customer relationships and customer expectations. So, it's great to be with you here today to talk about that.

Before my career in software, 17 years ago, I was actually an investment banker as well. I was investment banker in Zurich, New York and in Boston, where I live today. I was on the sell side and a little bit on the buy side. So, I'm a reformed investment banker is what I tell people. Hi, my name is Chris. I'm a reformed investment banker. So, I know the job you have to do, I understand it. We're going to try to make this conversation as clear and as concise as possible.

We're here today to talk about customer experience management. And at Neopost, our focus on customer experience management really stems from the rich history the business has in the area of Customer Communication Management. Quadient Inspire, which is our enterprise software application in the space is at its core a CCM or a Customer Communication Management platform. Around the world, every day, hundreds of organizations use Quadient Inspire to manage, automate and facilitate all of the complexities associated with communication output.

In the companies that use these types of systems, this system is a mission critical application. It's a mission critical application. It goes to the heart and soul of what they do every day, because communicating with customers is extremely important. How they communicate, when they communicate is often regulated and is

subject to compliance standards. The content and the data of the customer communication itself has to be kept secure, that's very, very important.

And the system has to be robust enough to manage thousands of communication types every single day, but flexible enough so that business users, non-technical people like me, can actually use the system to intuitively, quickly and timely get communication out to the customers. So, the systems are really mission critical systems.

But Neopost has been innovating well beyond the traditional one-way output of communication use case, beyond the traditional CCM use case. Receiving a statement from the bank, or a trade confirmation, from your brokerage company, or an insurance policy, from your insurance company, that's a touch point, along a much more expansive customer journey. And it's that journey, it's all the different touch points that make up that customer experience. And customer experience is where customer satisfaction lives. It can drive experience, you can drive satisfaction.

And so, we have been innovating on top of Quadient Inspire on our core CCM capabilities for some time to deliver those types of capabilities that our clients need to offer a better experience to their customers, particularly we've been developing two-way digital communication, interaction of concepts and data between the business and the consumer, customer journey mapping, and a lot of other technologies that business users use to make sure that customer expectation and experience is much more relevant.

When you think about any enterprise, any large company, there's a lot of systems behind the scene that touch, manage and store customer content and customer data; everything from ERP systems to legacy databases and really everything in between. When you want to communicate with your customer, if you want to send them their bank statement, or their healthcare proxy, or if you want to send them a solicitation for a credit card, or you want verify an address change, you have to extract all the content and the data that's relevant to that communication from all of these systems.

You have to apply business logic and workflow rules to it that manage that particular type of communication. You need to design the layout, the look, the feel of the communication itself. You got to make sure that you're using the most recent assets and the permissible assets, due to the governance standards of the organization, and you have to do it all in a very secure fashion.

And that's not all, you're going to have to deliver it somewhere. If the communication is paper-based and it needs to be mailed, it has to be sent to a printer, output; into an inserter, output; into a [indiscernible] (02:24:17) machine and off it goes. Or if it needs to be e-mailed, it has to go to an exchange, if it goes to a website, if it goes to a mobile application. And the same communication type for multiple different customers could go to multiple different touch points.

Just because I'm saying the same communication to a 1 million people today, it doesn't mean they all receive it in the same way. There's a great deal of complexity that goes into these types of applications in these systems. Doing it right, doing it secure, doing it with governance and compliance and according to regulations is very, very tricky.

But as Henri said in his presentation, customers just don't sit back and wait for the bank statement to come anymore. They actually want to go out and get it themselves, right. They want to interact with the data. They want to pull it in real time. They want to preferentially edit, they want to manage, they want to be involved in the data flow and the content flow that's pertained to them. And so, when you start to think about moving content and data back and forth in a real-time scenario, that has something to do with this communication output, you're extending

beyond the typical use case of a CCM platform. You're really getting into, how do I engage with the customer along those multiple touch points of their customer journey, so that I can drive a customer experience.

Our customers are meeting the expectations of their clients as the expectations of their clients evolve beyond the traditional one-way output of communication. And as a result, we've been innovating on top of the core platform to make sure that we can help our customers meet those expectations as well. We're not talking about just CCM anymore. This is true customer experience.

The traditional CCM marketplace is, we believe, based on our analysis and research about $1 billion annual market. It's growing, again, according to our research somewhere in the 0% to 3% a year range. There's a number of competitors who exist in the space, OpenText, Pitney Bowes, Oracle, Adobe, Smart Communications or some that we bump up against from time to time.

In this traditional market, we are very, very highly regarded, very highly regarded. If you pull down Magic Quadrants or Forrester Waves, or any other research that's publicly available out there, there's one name you'll consistently see in the top right of the corner. We are very well positioned in this traditional marketplace.

But again, as I said, as we are evolving with our customers and evolving with the market, we are innovating and investing on top of these traditional use cases, one thing that you'll read in these research reports is that we are recognized consistently for being one of the only vendors who's actually actively investing in the platform to extend the traditional use case out into the customer experience world. So, we are evolving the marketplace that we're going to participate in by virtue of this investment and this innovation.

As a result, we're moving to a larger market opportunity, one that we believe, based again on our analysis and research is somewhere in the range of $2 billion to $3 billion a year and certainly growing in excess of the growth rate of the traditional CCM marketplace. Again, I need to emphasize, this an important point we're going to come back to it. Customer Experience is more than just the one-way output of communication from a business to a consumer. And as the market needs are evolving, and our customers are evolving in order to meet those market needs, we have been innovating and will continue to innovate on top of the platform to address those use cases and deliver on that customer experience.

So, let's talk about the three pillars to our strategy and the market for our customer experience efforts. The first one is to continue to focus on core verticals and look to selectively expand to additional verticals that have similar requirements to the industries that we participate in today. We believe there's still a lot of opportunity for growth in the traditional market, certainly through consolidation and migration of competitive platforms.

Our second strategy is to continue to invest on top of the core capabilities of the platform, utilizing the cloud, delivering Software-as-a-Service, to extend the functionality, extend the capabilities, continue to allow our customers to meet the expectations of their customers. And in doing so, making the platform more relevant, but also increasing adoption of the platform as well. Very important part of our strategy.

And then the third part of our strategy, the one that we're really excited about – not that we're not excited about the others as well, but we're very excited about continuing to evolve the platform with our customers and with the market to enhance the capabilities around very specific use cases and very specific touch points along that customer journey that of a higher degree of relevancy to overall customer satisfaction. We're going to talk a little bit more about this. We've already been doing a lot here in this space, we see a tremendous opportunity to continue to grow.

So, let's touch upon these quickly, each one of them. On our vertical approach, we've seen strong results in our existing vertical focus, as we move to the enterprise. Our core verticals, financial services, insurance and healthcare represent a large portion of the work in the business that we're doing today. We currently have relationships with 11 of the top 50 global banks, 16 of the top 50 global insurance companies, which represents I think good traction, but also great opportunity to continue to grow there.

And while we continue to work in these core verticals, we're evaluating and exploring vertical expansion in other areas as well. And we're looking for those industries that have the similar characteristics to the ones that we participate in today. A business-to-consumer relationship, the need to engage with that consumer around some sort of document workflow, a level of regulation that brings with it compliance, and one where that communication output is part of a larger overall customer experience.

And as Geoffrey mentioned earlier, three that we're evaluating and considering are telecommunications, utilities and government. We believe these verticals have many of the same characteristics as the core verticals that we participate in today. And the good news is, we've already seen some level of traction in these verticals, purely opportunistic. And so, we do think there is good validation for our solutions in these spaces.

Second part of our strategy is to continue to evolve on top of our platform with cloud based services. When a client license our traditional CCM platform, the core CCM capabilities. They can take that license and they can really install it anywhere. We oftentimes help them utilize private cloud environments, or they could certainly install it locally on-premise.

This follows a very traditional software licensing model. And here in the core, where all that heavy integration I talked about happens, all that complex business rules they take place here, where you need a lot of horsepower to pull this stuff together at scale, our traditional model works really, really well here, because the clients often prefer to work in a very controlled environment. And also, not to mention, in the regulated industries in which we participate, clients like to have a lot more control over and access to the content and the data. And so, working in a controlled environment works really, really well for them.

But as we look to extend the capabilities of the core platform and deliver more value add capabilities on top, we're certainly utilizing the public cloud and Software-as-a-Service. So, our traditional licensing model works very well, but it's also complemented with a cloud based subscription model for add-on services as well. So, Software-as-a-Service or SaaS, I'm sure everyone has heard of a lot about offers a lot of benefits for our clients, typically, lower cost and faster time to value, of course. And for us, it allows us to deploy software changes much more rapidly and also gives us the opportunity to work in a much more stable and performing environment.

But that's not all, so, Software-as-a-Service is delivered via the Internet, so it's browser-based. So, it's the perfect medium for business users to use technology and capabilities to allow them to do their job better, which allows them to serve the customer better. So, if I'm a business user and I want to graphically lay out the customer journey for my customer and I want to take all the different touch points in that journey and I want to map them to a communication flow, and I want to do it in a drag and drop easy to use GUI interface, I can use our customer journey map solution.

Or if I'm a business user and I want to have real time dashboards about the consumption patterns of the content and the communications I'm sending out, and I want to use that to inform real time decisions, I can do that using our insights tool. So, we're going to continue to evolve our portfolio of capabilities on top of our platform using the cloud, delivering it via SaaS, so that business users can adopt the platform much more – with a much more relevant fashion. Also, the cloud is how we and pretty much every modern technology company these days, how

we make some level of our services available to our clients, so that they can pull them and incorporate them into applications that they might be running as well. So, you hear about API frameworks a lot. Well, ours runs in the cloud, as does that of most other companies as well.

The third component of our strategy is to continue to evolve our platform and with our customers in the area of customer experience. And the rationale for this really is quite simple. Brands with a better customer experience grow revenue twice as fast as brands with a poor customer experience. That's based on Forrester Research. Brands with better customer experience grow revenue twice as fast as brands with a poor customer experience. It's because offering a better customer experience increases satisfaction, satisfaction drives loyalty, loyalty drives engagement, with that, you have more revenue. It's really that simple. And that's why so many companies these days are investing in customer experience.

Consumers are in the driver seat, as Henri mentioned. They are not waiting for you to tell them how you're going to communicate with them. They're expecting a lot more. And by delivering better expectations or better capabilities along that expectation curve, you can drive your business forward. And technology is absolutely an enabler of a good customer experience. There's an example that we like to tell of a three-year-old property and casualty insurance company in New York City, Lemonade Insurance.

Anyone here from New York use Lemonade Insurance? Lemonade Insurance Company, three years old. Insurance company, property and casualty insurer doesn't have any insurance brokers, there's a website, a web app, artificial intelligence and a chat bot. That's all it needs to acquire customers, match customers to policies and manage claims. We're not talking about managing claims in weeks and days, seconds, seconds. There's a story of a woman in New York City who filed a claim for a stolen article and the claim was managed in three seconds. She had the money deposited into her account in three seconds.

They're not offering better insurance products. They're offering a better customer experience. The insurance products are exactly the same. And how are they doing it? They're using technology. That's one example of how organizations are harnessing the power of technology to drive a much better experience with customers to drive growth increase adoption.

So, here's another example.

[Video Presentation] (02:36:49-02:38:52)

So, that's not just a made-up story. This is a real use case of a customer of ours. Top 15 global bank. One of the top five in Europe. Trillions of dollars of assets, millions of customers around the world. Bank onboarding. Has anyone ever opened a bank account before? Okay. Yeah. This is the use case that they're solving with our technology here. If you go onto the website for this organization and you look at their strategic initiatives, their number one strategic priority, their number one strategic priority is to grow customer loyalty and as a result grow market share. An organization that's using technology to drive a better customer experience for the benefit of the business.

But we need to geek out a little bit on this, because this is really cool. So, let me get into a little bit more of exactly what they're doing. We'll do this quickly. So, you've all opened bank accounts before. It seems. In this scenario, for this customer, customers were walking into branches and looking to open an account. Start filling out forms, okay. Lots of forms. Some of the forms are online. Some of the forms are manual. Forms ask the same information. They all ask for the same date, they all asked for the same signature. Some of the information is complete. Some of it is incomplete. Some of it is incorrect. Some of it is not totally legible.

Forms go back to the customer. The customer has to approve or fix the forms. Finally, all the data and all the fields have to be validated. Everything has to be approved and they can start a workflow process. After the data gets approved and validated, it goes into a workflow process. The contract finally gets issued or are approved. Customers have to come back in, review it, approve it, sign it and off they go, okay.

For this customer, this was taking on average 14 to 25 days, 14 to 25 days to onboard a customer. Bank onboarding. The customer service representatives in the front office of these branches were spending on average one a day a week validating the data in all these forms, making sure it was accurate, working with the customer to get it all complete and get it entered into the back office systems, okay, 14 to 24 days. Now – and this is the use case we talked about.

Now, somebody walks into a branch, they're directed to a URL. They can open up that URL on their laptop, on their phone, on their watch, probably not the watch yet, because these fields are too small, or tablet and they start entering data. Based on the products that they're selecting, it's only going to ask them for information and data that's relevant to that particular product. Based on how I filled out the last field, it's going to pop up a new field, based on where the logical sequence is in my flow of my experience. This is Intelligent Forms, which we deliver with our platform.

Because the data is validated immediately, so once I fill out a field in my Intelligent Form, I can start to validate that data. Once that data is validated, I can also kick off an immediate workflow and approval process. And once the last field is finalized, I've got all the fields validated in real time, I've got the approval process working in real time, I can automatically issue and generate a contract or a policy.

15 minutes, 15 minutes is the average onboarding now for this customer; from 14 to 25 days to 15 minutes. Those front office customer service representatives, who were spending one day a week entering data managing data, they've got 20% of their time back to actually focus on customer relationships. In the words of the customer, criminal use of resources and before and they're saving millions and millions of dollars in the after.

Now, I've sold a lot of technology in my days and you always have people across the table say, so what, so what? Here's what, this is the geek part. This is really, really cool. Because of our history and our legacy in CCM, we understand variable document composition and creation as well as anybody else. That's our core, that's our strength. Because of our ability to integrate and automate, everything from – I keep thinking my mic is over here – integrate everything from the Intelligent Form through the workflow process to the creation of that contract on the backend, because we have that integrate and we can automate that experience, we're the only one who can deliver this customer journey in this way with this type of outcome. The only one, because of our capabilities from historically in the CCM space and the innovation that we're driving on top of the platform with all our other services.

That is really cool. I'm trying to get my dad excited. It's really cool. Trust me, it's really cool. But I love this sort of stuff. So, customer experience is really all about the right communication to the right person at the right time in the right way, okay. But the customer journey across these types of industries that we work with is a bit of a choppy one often, because there's a lot of operating and technology silos within these organizations.

There's layers of departmental complexity that have arisen either because of M&A or consolidation or just organically spawned over time. There's legacy technology that you literally have to like pry apart with crowbars to get the data out of them and use it in a workable way. There's a lot of regulation and sensitivity around how that data and that content is being used. Orchestrating this type of experience is very, very tricky – very, very tricky.

You need an organization, you need a technology with platform requirements, the ability to integrate, automate, scale, manage, governance. But also you have to have the capabilities on top of it to deliver on the customer expectations and the customer requirements, it has to be personalized, it has to be interactive, it has to be, of course, digital and always has to be relevant.

And so, as we evolve towards customer experience management, we're going to continue to look for those defined use cases, those high value experiences along that customer journey, where we can deploy our technologies and our customers can use our platform to continue to support their customers. In our core industries, there's many of them. We talked about bank onboarding, okay, with the example we just showed. There's a lot of different touch points that we can focus on. But when you layer on top of these touch points, these experiences research that we've done about which of these drive higher levels of satisfaction. There's a couple that really stand out.

So, for example, if you can drive a higher level of customer experience, you can drive a higher customer experience, better customer experience. When you onboard somebody, their satisfaction is going to be significantly higher than if you deliver a better customer experience when they buy a new card, or they take a new card. And in insurance, if you can deliver a higher customer experience, a better customer experience. When somebody needs accident assistance or claims management, you're going to drive higher level of customer satisfaction than you do when they simply purchase a policy.

Not that any of these are not important, but there's some of these touch points they have much more impact on overall customer satisfaction. And our studies and our research has shown, if we can improve customer experience here, we can drive satisfaction significantly, driving satisfaction increases retention of customers, allows you to gain market share and just simply make more money. A more satisfied happy customer is going to buy more. We now have the opportunity to cross-sell, upsell that customer a lot more if they're satisfied when it really matters, as if I don't.

And because I'm doing this with automation, with technology, with integration, I'm not doing it manually, I'm able to drive down cost significantly as well. Reduce physical interactions, reduce IT complexity, and overall, lower costs. So, we're excited about focusing on some of these use cases, as we look to deliver more and more of elevated level of customer experience for our customers.

A couple of guiding principles, as we continue to march in this area. We're still going to focus on our core industries. That's what we know. We have credibility, we have expertise in the domain. We're going to focus on customer-centric interactions and communications, okay, really where the customers are at the heart of that interaction, that communication. And of course, we're going to focus on those interactions that are inherently document-based because of the expertise that we have in those types of capabilities.

But there's a couple of other foundational principles that are guiding us as well. We have a lot of experience, as we talked about earlier extracting legacy data and allowing organizations to use it to transform the communication, we're going to continue to focus on our capabilities there. But more and more customer centric applications like Lemonade are using publicly available information to profile and segment customers as well. Any time you hit a website or a mobile app with an advanced piece of technology, there's a lot of information that organization knows about you before you even identify yourself a lot, a lot.

So, by marrying this public information that we can use to profile and segment with all the information in the back ends, we think we can provide a lot of insight and value to our customers. We're going to take a very modularized

approach to our development processes, so that we can really rapidly assemble capabilities and disassemble and then reassemble to solve other use cases. It's a very modern, a very progressive way of thinking about the software development and deployment.

We're going to bake in a lot of artificial intelligence and orchestration. A lot of AI is being used to map out and deliver experiences along customer journeys these days. We think there's a tremendous opportunity for us to leverage that as well. We're going to build in a lot more instrumentation into our application, so that business users can sort of see in real time what's happening and be able to correlate that and connect that directly to revenue and those KPIs that really impact, just because a lot of the focus is going to continue to emerge and continue to be directed on the business user at the end of the day. They are the ones, who are responsible for managing customer experience. They're the ones who are responsible for driving customer experience. And this is where a lot of our focus is going to be centered going forward.

So, I've talked a lot about what we're doing. I think now it'd be great to show you a little bit about how we do it. So, we're going to show you a quick demonstration and then I'll come back and wrap it up. The quick demonstration is about one of those high value use cases that we talked about in the insurance space.

Unverified Participant

So, good afternoon, everyone, I hope that you can hear me well on the back. Can you just confirm?

Unverified Participant

So my name is feel so my name is [indiscernible] (02:50:14) and I'm part of [indiscernible] (02:50:17) team my role this afternoon will be to share with you a demonstration. I will [indiscernible] (02:52:24). Could you switch to our screen please?

Well, just, it will be a live demo. And what we would like to share with you this afternoon is the use case regarding [ph] P&C and car (02:50:42), claims accidents management. [indiscernible] (02:50:48). So, the idea of this demo, first, we will share some slide in order to explain what you will. So through a mobile application [ph] Andres (02:51:34) will initiate the [indiscernible] (02:51:06) process and [indiscernible] (02:51:07) in relation with the assistance, which will manage the towing car and also arrange a taxi for him. Then he will be in touch with his insurance, which will manage the claims for [indiscernible] (02:51:20) will fill in order to take some picture of the accident and so on.

And once you will have declared everything, we will try to solve all the claims. And in order to solve it, a number of different business will be involve, the tow truck, the experts and also the garage that finally will manage the accident resolution.

So, time now to share with you the demo.

Unverified Participant

Okay. I'm just using my earphone, for your information [indiscernible] (02:52:05). And I just had accident. [indiscernible] (02:52:10) So, I'll just open my application right here, [ph] you see it (02:52:14)? So, I have a panic button right here and this panic button will [indiscernible] (02:52:27)

Unverified Participant

[Foreign Language] (02:52:26)

Unverified Participant

So this panic button will allow me to communicate directly with the insurance company.

Unverified Participant

So actually I am the assistance [indiscernible] (02:52:39), I just received a ticket into my system. Can you give me some information about what the issue is?

Unverified Participant

Yeah. I just have a car accident [indiscernible] (02:52:53) actually I have a very important meeting today, I should not be late, so yes.

Unverified Participant

Okay. So, I'm really sorry to hear that. Should I arrange a taxi for you?

Unverified Participant

Yes, please.

Unverified Participant

Okay. I'll do that right now. And by the way, may I just check that you are located at [indiscernible] (02:53:14). So that the tow truck can come and pick your car up?

Unverified Participant

Thank you. Yes, please.

Unverified Participant

Okay. So, tow truck should arrive here in about 20 to 30 minutes and will synchronize with taxi agencies. So, that they can pick you up as soon as you're finished with it.

Unverified Participant

Yes, please.

Unverified Participant

Should I put you in relation with insurance? Would you like to fill the form right now or should you proceed – would you like to proceed later?

Unverified Participant

No. [indiscernible] (02:53:47). I have 10 minutes, right now to wait for taxi. So, yes, please.

Unverified Participant

Okay. Hello, [indiscernible] (02:53:53) this is the insurance claims management. So, I was just told that you had a car accident. I'm really sorry to hear that. So, may I have some more information about what happened?

Unverified Participant

Not a big issue. Actually, [indiscernible] (02:54:09) I was hit by the bus. The back of the bus is actually wrecked, and the right door also had a problem. Maybe the front of the car, but well, [ph] I'm quite shocked (02:54:22) right now. So, I don't know.

Unverified Participant

Is it due to the snow or?

Unverified Participant

Yeah, yeah, yeah, yeah, it's due to the snow.

Unverified Participant

Okay. So, you're say it's the back and the right parts are really damaged?

Unverified Participant

Yeah. Right door of the car. Yes.

Unverified Participant

Okay. So you should receive a form in a few minutes, right. So, just for your eyes, I can type some personalized text for a better experience. Okay. And deliver the communication to [indiscernible] (02:55:10)

Unverified Participant

[indiscernible] (02:55:12)

Unverified Participant

Oh, yeah.

Unverified Participant

Okay. So by using my personal application, I should receive [ph] a notification (02:55:28) in a couple of seconds maybe and that's it. And it's actually an electronic form that allows me to validate the first information that I gave back to my insurance company. I was [indiscernible] (02:55:46), yes, it's right here. Registration, yeah, the car was bumped on the back due to show, but yeah. [indiscernible] (02:55:53) confirming that my claim has been treated and I want to correct this information, because I was hit by a bus, so all right. I'm happy with that. And of course, I can take some pictures of my car. [indiscernible] (02:56:14) the car. Yes. And I want to be with who I [indiscernible] (02:56:18) damage back of the car. He reported to me that it was a nice car.

Okay. So that's it. When [indiscernible] (02:56:30) with my pictures [indiscernible] (02:56:32) out and I'll send this information right [indiscernible] (02:56:39) to the insurance company.

Unverified Participant

So several things we look here now. In fact, automatically, the car repairman, the tow truck will be called and will receive an e-mail and maybe an SMS, so that we can proceed and get [ph] Andres (02:56:57) car. In the meantime, [ph] Andres (02:56:59) received all the details that he entailed and can double check [indiscernible] (02:57:05) or directly into mobile application. Okay, this is all the information that we currently have regarding the application.

So, as it's a live demo, and my phone doesn't want to connect, I will use [ph] Andres (02:57:19) phone in order to place the car repairman, getting [ph] Andres' (02:57:23) tow truck. So, I received an e-mail and I have the

localization of where the accident occurred. And I also have dynamic communication and yes, I use the word communication and that's documents, because I can interact with it.

So, I can [ph] geo-localize (02:57:45) the vehicle and my role is, to take [ph] Andres (02:57:49) car which is here and bring it to the garage. So, I will do my job and bring it to the garage. Once my job is finished, I will confirm that I did my job, so, I will press the button. And, again, automatically every information will transit to the information system on the [ph] car insurance (02:58:08), so that experts can be [indiscernible] (02:58:11) right now.

Unverified Participant

So, as you see, I'm not [ph] required (02:58:19) any more. I'm an expert right now, and yes, I want to go to my mail inbox and I should receive yes, a new [indiscernible] (02:58:33), to start my expertise procedure, which is car [indiscernible] (02:58:38) I have some general information right here, and okay. I'll start. Okay. For the front of the car, really actually it's really fine. For the right door, I think that we'll have to pay £600 – €600. And maybe for the back of the car, okay, maybe €500, okay?

Next, as an expert I also have responsibility to take a couple of pictures for information if it's needed. Okay? And, finally, I have to see this by myself of course. So a really nice picture of this expert.

Unverified Participant

Let make a vote.

Unverified Participant

And I signed my [indiscernible] (02:59:28) procedure and I send back this information right to the insurance information system.

Unverified Participant

So back to the insurance, I know the agents. And in my system, I know of every single information in order to kind of close the claim, so I can see a summary of all the information we received regarding this claim. So, the address, the name of the person and so on and I can see the results of the expertise, the different amounts and the base experts. The garage is also a partner. I have negotiated prices and as I am an insurance, I want to pay as less as possible. So, I will take as a business formula, the least of those two price in order to send these documents, so it will be as a content of the compensation proposition I will send to [ph] Andres (03:00:27), and I will now proceed and send it to [ph] Andres (03:00:32) so that he can accept or refuse it.

Unverified Participant

Okay. So, right back to my mobile application, I should receive a new notification. I expect it right here, and it's an electronic [ph] phone (03:00:50), who gives me – okay. I will be paid. So, I have two possibilities. I will accept or not. Today, I'm going to be a good client. So, I'm going to accept the proposition [indiscernible] (03:01:02)

proposition. And this information goes right back to the insurance information system. And, of course, I will receive in my personal e-mail...

....

Unverified Participant

In the meantime, yeah. Exactly. The insurance will provide a recapped e-mail that will be sent to [ph] Anders (03:01:23). Okay. This is your amount that will be paid to you and maybe send it to the garage in the meantime so that we can proceed with the [ph] repairation (03:01:32) of the car.

....

Unverified Participant

So, actually, at the same time, we will begin to create this electronic form. And at the same time, some e-mail that [indiscernible] (03:01:42), okay? So, finally, as a client, I just want to evaluate this communication with my insurance company. So, I have a final electronic form, who allows me to evaluate the service. And, yes, I'm really, really happy about that.

....

Unverified Participant

And what about you?

....

Unverified Participant

Of course, and I send back this information right to the insurance company. So, that's [indiscernible] (03:02:14). Thank you so much. If you have any particular questions, [indiscernible] (03:02:17).

....

Unverified Participant

Thanks for all your time.

....

Unverified Participant

All right. So, that's not easy to do. Okay? This is

Okay. This is not easy stuff. This is really, really hard. I've been around in this stuff for a long time. These guys are great, obviously. And we hire apparently for an acting profile for our pre-sales team. But the integration, the automation, the intelligence, the document composition and creation stringing this all together is not easy. This is really complicated stuff.

So to wrap it up, our strategy we've got a great vertical market, go-to-market already in place. We're going to look to expand that and continue to focus, where we think we can really, really play well. And we're going to continue to add cloud based services that complement that core [indiscernible] (03:03:19) communication use case and really extend the value that we bring to our customers.

And as you just saw, we're looking to continue to bring customer experience to the next level. It's not just about receiving a document from my bank or my insurance company anymore. It's about that exchange, that interaction, about that entire journey. And if I'm satisfied, I'll continue to do business with them and that's the whole point.

So thank you. And I think I ran over, but I'll certainly be happy to entertain any questions unless they're tough ones and then I won't.

QUESTION AND ANSWER SECTION

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yes?

Q

[indiscernible] (03:03:58)

Christian Hartigan
President and General Manager-Americas, Quadient

A

No. No. Yeah. Sorry, go ahead.

Q

Did you develop the app, the application, the mobile application?

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yes. The mobile app, all that IP is ours. Yeah.

Q

I have in front of me the Gartner Magic Quadrant for CCM applications and [ph] Gradient (03:04:23) is not on it.

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah. GMC Software.

Q

GMC. Okay. Thanks.

Christian Hartigan
President and General Manager-Americas, Quadient

A

That was a bit of a question.

Q

On page 16, [indiscernible] (03:04:37). No other vendor addresses both, digital forms and complex documents together. Can you expand on that? Can you give us any proof points? I mean, the major challenge will be the – I'm sure Oracle will go in and have some more. The major vendors will have a great story.

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah. It's not the...

Q

Can you give us anything that you can fight back against...

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah. Of course, I mean any time you sell technology, you really got to sort of parse – as a buyer, you get to parse through what is true and what is not true. And you can solve this use case a lot of different ways. You could build out custom applications and you could deploy a team of integrators to all stitched together everything on the backend. So, there's no doubt that this customer could have solved this use case in a different way.

All of the products that they used to solve the use case, all the proxies on the demo are what we would consider off the shelf products that work that have complete interoperability with each other. And so, when is this particular use case, this particular type of use case, is onboarding use case. We believe with the intelligent form capability that we have integrated into the workflow approval process that we have, integrated into the document composition and creation process that we have, we believe, we are unique in being able to address that.

Certainly, Oracle has some legacy technologies still in the traditional CCM space. But the level of innovation that we've put on top of it to allow for all of those things to happen with IP that comes out of the box, we believe is unique.

Q

Are the clients seeing [ph] the results (03:06:14)?

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yes, absolutely. Now, I'm never satisfied. So, we're always looking to do more. But, absolutely, this use case and our capabilities along this use case are we blow people away. For context, if you're interested, I've been in this area for quite some time. I was blown away when I got here and I really realized exactly what in Neopost [indiscernible] (03:06:53) is able to do with IP that's generated in-house out of the box. I've never seen, I've seen

– almost I've never seen anything like it. To some degree, I've never seen anything like it. And I think organizationally, I think, there's maybe been a little bit of underrepresentation of the capability of the platform. And we need to absolutely change that because it is true horsepower is really slick.

Steven Mark Wilson
Analyst, Lapides Asset Management LLC

Q

Steve Wilson, Lapides Asset Management. I'm curious, so your unit has ascribed to an €84 million of revenue. And you've said, it's really centered on three industry verticals. What does it take to penetrate the others? Is it just more sales people who have the context and contacts in those areas? Is it a lot of rework of the material you have?

Because when you showed the insurance application in a telco, or government, it seems like there's going to be a certain amount of rewrite to make that applicable. And then what kind of timeline does it take to be important to those new verticals such that I'm assuming those untapped areas are even larger collectively than the three you're already in as an end market?

Christian Hartigan
President and General Manager-Americas, Quadient

A

Sure. Good question. Thank you. So the legacy the history of GMC Software is to sell into what we call the service provider marketplace, print service providers. It was only recently that the company evolved a go-to-market against those specific enterprise verticals. I'm looking for confirmation, that's how long that's been, but just a couple of years, per se.

A

[indiscernible] (03:08:44).

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah. Okay.

A

2014, we started to go into, the into the enterprise segment. GMC at the time was the best kept secret in the industry. So, [indiscernible] (03:08:56) the reason we went there.

Christian Hartigan
President and General Manager-Americas, Quadient

A

So, it hasn't taken this long to develop that much revenue in those core verticals. It's only taken a very short amount of time. And as we said, we think there's enormous opportunity to continue to grow in those core verticals, because the company really hasn't been focused on them for that long.

The technology – do you want to take it?

A

[indiscernible] (03:09:14)

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah, sale. Yeah, exactly, sales cycle is anywhere from 9 months to 15 months potentially for a large enterprise client. The technology is reusable across verticals. We don't have an application for banks or an application for insurance or any application for healthcare. It's the same platform, the same application. The things that you need from a go-to-market standpoint are some level of domain expertise and credibility in the space. And that's where hiring the right people who have the right experience and the right network potentially comes into play.

Understanding where those buyers go and who they talk to and what they do and being there to talk to them, finding the right partner ecosystem that can help leverage your expertise with their knowledge of a particular industry. So, those are all things that I know very, very well. And I think we have a lot of people in the organization who know that very, very well. It's not that we haven't tried, we haven't tried yet and we're going to go into those verticals. And, again, I think the attributes of those industries are particularly attractive to the types of capabilities that we can deliver.

A

[indiscernible] (03:10:21)

Christian Hartigan
President and General Manager-Americas, Quadient

A

I'll start with one person. Yeah, and we've already hired a couple. So, yeah, so no, it's not that much. This team did this demonstration is not an insurance demo team. We have an application that can serve a number of different use cases. It's just a matter of going in listening to the customer, understanding their business problems, then being able to work with the team to come back and lay out our technology solution that can solve those problems.

So, the expertise and understanding the particular problems of a particular industry, yeah, that's a sales and that's a go to market skillset. But, that's one that, again, I know very, very well how to build those types of organizations and those types of teams. And we already we have lots of people who've already sold into those verticals. Again, we're not nascent in those new verticals. We have some of the most attractive projects that we've been working on in the past 12 months are in those industries, which is why we're already very confident that we'll be able to succeed there.

Q

[indiscernible] (03:11:31). I have a question. What level of growth do you expect to achieve now? So we had this event at the end of 2017. Do you expect you can achieve double-digit organic growth or even high double-digit organic growth depending on the delivery of the plan and the new verticals as you said?

And in terms of profitability, as you invest in those new verticals, do we expect that there won't be much more operating leverage on the short-term, but maybe in the long-term a higher profitability, what is your view on that side?

And then a side note completely, you were telling about AI, and new technologies that you want to implement on your previous slide. So that means that there's still a lot of R&D to come to be still at the top of this food chain as you were showing with Gartner and Forrester and so on. How much will you spend each year on that in terms of the revenue of the segment? What is your plan on that side? Thanks.

A

So I'm going to take this one. So we're not giving specific indication [ph] with regards to (03:12:30) each of the major offers that we have. When we publish the end result and we'll look at next year, we'll see what indication we can give at the time. Generally speaking, each of the major offers [indiscernible] (03:12:42) are on large industries in which we have capacity to grow at a decent pace. And each one is going to be different, obviously. And each of them are profitable solution, okay. So, we'll give the profitability of the main segment, the major operation, but we'll not break it down at the [ph] operating (03:13:00) level.

To your other questions, which are a good question, that's part of the $100 million CapEx too, and we'll have also expense in OpEx. So we have ongoing R&D efforts to sustain each of the offers that we have especially in the software side and that's part of the thing that we need moving forward that are included in our plan to be able to add the capability that were described by Chris.

Christian Hartigan
President and General Manager-Americas, Quadient

A

Okay. Great. Thank you. Sorry. One more. Sorry, sorry, two more.

Q

Yes. Just question, what additional resources and investment do you need to expand into the Customer Experience Management segment? Do you need to do more investments in this area? And also, you have some commercial issues with some verticals lately. Have you sorted out all these issues and what makes you more confident that going forward you would be able to grow materially your new license sales? Thank you.

Christian Hartigan
President and General Manager-Americas, Quadient

A

So I'll take the first one. So, we already have expanded into Customer Experience Management. I wouldn't characterize it as this is something that we are embarking upon now. As I said when I got here, I was sort of a little bit blown away by how far along the technology and the capabilities were in this area. And the plan is to continue to evolve in that area with the capabilities of the organization that we have in place today and I'm very confident that we're going to be able to do that successfully.

A

The acquisition also in that particular segment will be part of augmenting the potential [indiscernible] (03:14:42) gap that we see. Obviously, we're not going to be specific of the one that we have interest into for the next four

years, but that's part of the bolt-on acquisition. With the small acquisition, we could do in particular to accelerate the customer expense, management fees.

And what was your first question?

Q

[indiscernible] (03:14:57) commercial issue.

A

Yes. So, commercial issues that were referenced to since last year, so, last year in Q3 and Q4 we didn't perform as expected. In particular in terms of growth rate, we were flat in Q3 2017. And with a decline for the first time in Q4.

Chris is actually the person that's headed to North American territory, which I shared with you. And he's been the one with Henri that has been reengineering our go-to-market in all those verticals, being able to know effectively how in each of the verticals, bank, insurance and health organization and also already looking at new verticals which are the ones we're projecting today on how to be able to ensure that the team had the knowhow from the presales, the sales, the pipeline the forecast management. So, we feel that those issues are behind us now.

Q

[indiscernible] (03:15:44)?

Christian Hartigan
President and General Manager-Americas, Quadient

A

As I mentioned before, I think this is an ongoing improvement and we've seen some of the improvements in the first three quarter of the years. As I mentioned those things takes time, because the sales cycles is 9 to 12 months. So, let's make sure we have 12 months behind us to get to the confirmation that things are fully working.

Christian Hartigan
President and General Manager-Americas, Quadient

A

Yeah.

A

And the last question?

Q

Okay. It's a couple of question, but very short. Just to understand the maturity and the potential of the market. When you sign with a client, is it a new user or is it a user moving from a solution to another one? And the second question is regarding the client concentration. How big is the largest client in total revenues of this division?

Christian Hartigan
President and General Manager-Americas, Quadient

A

Sorry. I lost you on the first one after you started talking about the second one. Both, so both, and I don't have a breakdown. But a lot of our business is taking organizations, who have never had this type of complex customer experience need before and helping them build out capabilities in that area. Certainly in healthcare for example, where healthcare organizations a lot of the payers, certainly in United States are really rushing into trying to deliver digital expectations, because of the rising competition in the space.

A lot of those organizations are coming onto platforms like ours for the first time. And then in other spaces, depending on the situation, there is a lot of trading that we take from other customers. I can't think of a scenario that I've that I've been part of here or that I've heard about where it's happened the other way. I mean again, given the innovation on our platform, given the investment we're making, given the recognition that we have, given the capabilities that we can deliver, more often, we are, I don't want to say always, but I would certainly say more often than not the beneficiary of those types of migrations.

A

Your second question I think the...

Q

[indiscernible] (03:17:52) how much of your biggest customer...

A

Yeah. The biggest customer is. So, the biggest customer win, I was checking with Henri, I think it was probably €2 million in license at the time, [ph] BMO (03:18:02) probably. I can't remember for sure exactly that, but that's the type of range with the professional services and then the recurring maintenance, so the value over time is obviously more. But that's again, more the one of exception we're looking at deals usually for now that are what we consider not big deals, but below €1.5 million in license Okay. So, we're going to move to the next presentation.

Christian Hartigan
President and General Manager-Americas, Quadient

Thank you.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

Okay. Good afternoon. Let's talk about Parcel Locker, the most exciting product. At least the one you're going to use. Okay, Parcel Locker is a smart solution to cope with the exponential growth of parcels with an enhanced customer experience. What we can see is that Parcel volume is booming, driven by the strong e-commerce growth. When you look to the graphs the figures since 2014 are just impressive and the forecast for 2020 that we should be above 100 billion parcels, so still there's strong growth in front of us.

The main countries where we are seeing growth are obviously the ones, where the e-commerce is strong, China, U.S., Japan. And in Europe, Germany, UK and France. But how to answer this exponential growth in volume? So, you can see here the existing flows to deliver a parcel from a merchant to an end-user.

Actually, you can see here some new solutions, automated ones, that are appearing, but they are not mature yet. Hence, almost the entire volume is still delivered by carriers and drivers directly to the end-user, this is the home delivery, or through third-party locations, public locations, stores or properties. But what's happening with the volume is that the carriers and the locations are facing today huge issues, workload, workforce, and quality issues. And actually the only automated solution being able to solve these issues is today the Parcel Locker.

So with the parcel volume growth, the added value of the Parcel Locker is getting apparent, but let's see and let's present the whole value proposition of the Parcel Locker. We have identified five verticals where the solution is an answer to their main pain points and challenges.

In the first two segments, residential and corporate, the main benefit is to bring new services to the residents, the students and the employees with an automated and secured solution. The residents and employees well-being is key nowadays and these services that the Parcel Locker are bringing: deliveries, returns, storage are just becoming a must have.

For the carriers, the added value is really very high because with the Parcel Locker they can reduce [ph] missed (03:21:54) delivery costs and consolidate the deliveries. This is a huge value for them. For the e-retailers, well, the Parcel Locker is a way to replace the stores they don't have, so they can create a new user experience by reducing costs.

And finally for the retailers, Parcel Locker is a way to automate the [ph] click-and-collect (03:22:20) service that they are launching. This is a new service to drive traffic to store and thanks to that, they can generate as well additional revenue. Thanks to the cross-sell opportunities.

So a great value for our customers, but what about the end user? Well, with the automated [ph] parcel locker solution (03:22:44), we are bringing a much better end-user experience. Why? Because we are bringing broader accessibility, 24/7 availability, it's a reliable technology and easy to use. I think you saw it when you had the demo and it's a [ph] secured (03:23:06) solution to avoid possible theft. We are bringing as well confidentiality, which is one of the main requirement of the end-users today. And finally, [ph] it's a greater (03:23:20) solution versus home delivery, well just because carriers can consolidate the volumes.

So you can see the strong benefits for our customers and the end-users and that's why we strongly believe in the potential of this solution. We built our own [ph] offer (03:23:41), Packcity, which is our Parcel Locker brand. And this smart solution is with two parts. You have the back end that is fully integrated with our partners and our customers and this back end provides key features. The management and the setup of the installed base, the monitoring of the whole network, business intelligence reports for our customers, event tracking. We can send obviously the notification to the user and we have built the ability to be hardware agnostic.

This back end is linked, obviously, to the front end and the front end is just the end-user interface through mobile or with a PC that is embedded in the hardware. And thanks to this complete solution, we can deliver now all these features: deliveries, pick-up, drop-off, return and we have just added the C2C and the storage. Thanks to these features, we are just bringing the added-value that I described above.

But let's see our product on the field. We have multiple locations. So this one is in a railway station in Tokyo. Well, normal it's very high traffic for people who know Tokyo, but it is really in a railway station. This is a large configuration for a French retailer, Decathlon, and a smaller configuration for a convenience store in Japan, 7-Eleven, very famous. And then, another large configuration for a university in the U.S. But what I want to do with you is to share a video, so we can better explain what is our product and what is the added-value for our customers.

[Video Presentation] (03:25:54-03:28:43)

[ph] Beautiful smile for a big added value (03:28:44). So in the video you could see our operation in France. We operate our parcel lockers country by country and it's actually [indiscernible] (03:28:57) business. We have to answer specific needs and challenges in each country, and hence we have to adapt our product and our go-to-market. And in each country, it's really a competitive market. We compete against several players, carriers that are aiming to build their own network; Amazon who has launched [ph] the Hub offer (03:29:23) in the U.S. and several pure players that you can see. For example, here in the U.S., we have Parcel Pending, Luxer One, Package Concierge.

It's a nascent business with a strong expected growth in key markets and at the same time, I can tell you it's a race. It's a race because there's only room for few players. So operating parcel locker, as I said country by country, is also choosing the right business model per country and per segment. We found three business models on the market. The sales model, well, you sell the locker upfront and you have a recurring fee for service and maintenance. The main segments that are interested by this model are the residential, the corporate and the retail. Our customers own the Parcel Locker, but we still monitor the whole network. And the benefit for us is that we have no CapEx.

The second model is the rental model. So we rent per box, per column or as a whole. The segments that are interested are the carriers and the retailers. Here, we still own the solution and we monitor the solution and we have the ability to build and manage an open network with several carriers. Benefit for us is recurring. We love recurring. And it's a low dependency on parcel volumes because we are renting the column. So we are not dependent on the volumes.

And the third one is the pay-per-use. So here the service is charge per parcel. The segment that is interested by this model is the carrier segment. Again, here, we still own the solution. We can, again, build and manage an open network. The pay-per-use model can be highly profitable because you charge a higher fee per parcel, but it is as well the most risky because here you are highly dependent on parcel volumes. So that's why in Japan we decided to mix the rental model and the pay-per-use model and leverage the open network that we build.

So let's take as an example this configuration of [ph] three columns (03:31:55). Yamato is renting two [ph] columns, red columns (03:31:59). They are paying us a rental fee with a seven-year commitment, as mentioned by Geoffrey this morning, and we [ph] reserved (03:32:09) the whole place for them. Carrier one will pay you fee per parcel only when he's using the locker. But obviously he is paying a higher fee per parcel than Yamato. And carrier two decided not to rent [ph] a column (03:32:28), but to rent boxes. And here, we have a five-year commitment and we rent the boxes.

It's 100% recurring model. And the mix between rental and pay-per-use brings sustainability and profitability. So, actually, you can see that we acquired a great experience in two countries, France and Japan, and in two verticals, carriers and retail. We managed today the third worldwide installed base with 4,400 units and we are the leaders in Japan and in France. 80% of our revenue today is recurring.

We have proven our ability to scale, to produce, to develop, and manage the network. And when you look at the chart, we managed a very strong ramp up in 2017 and then [ph] had (03:33:33) significant growth in 2018. Our two targets going forward are to: keep on developing the Packcity network because we want a parcel locker as close as possible to every person; and we want to help our partners to increase the usage. They will get additional value and we will get a part of this additional value.

I talked a lot about our customers. Let's share with you some names. We are very pleased to work with this very famous and known names. In the carrier segment, we are working with GeoPost in France, DHL, Yamato and Sagawa in Japan.

Major retailers in France. We are very strong in the retail segment in France; Auchan, Decathlon, [ph] La Fnac, UNDIZ (03:34:30). And I can tell you that we have now as well 7-Eleven as customer in Japan. 7-Eleven is 20,000 stores. Well, we'll see the potential. And major universities in the U.S. So this is our current situation. But what about the future? We strongly believe that we are ready now to accelerate our development and we have three main pillars to support this ambition.

The first one is to develop our existing countries and boost the U.S. market. As mentioned by Geoffrey this morning, U.S. is our priority. For us, it's our very first priority. Second pillar is to develop our existing verticals: carrier and retail, and to launch a new one, the residential one, in the U.S. And third pillar is to develop the product offering to differentiate ourselves from the competitors.

We want to cover for each segment from the low end to the high end. So, for example, for the retail segment, we want to cover from convenience stores to hypermarkets. And for the residential, we want to cover from home to 200-plus apartments.

So let's focus now on the U.S. As of 2017, the U.S. parcel locker market was about 7,000 to 8,000 lockers. By 2022, it could be as large as 75,000 lockers, mostly driven by residential and retail. Today, the residential value proposition is apparent and the addressable market for residential is about 100,000 buildings of 100-plus flats.

Retailers are still in the pilot phase, but with two big brands that have already launched the roll out, Walmart and Home Depot. So this is really a very big news because they are very famous brand and we can believe that the other retailers will follow them. The addressable market for retail is about 50,000 to 70,000 retail stores and we are just focused on the primary top retailers.

So as we said, the U.S. parcel locker market was about 7,000 to 8,000 locker market in 2017, mainly in the residential, as you can see, 5,000 units in the residential vertical with four players: Parcel Pending, Luxer One, Package Concierge and Hub by Amazon. Parcel Pending is the leader in the residential segment.

So that's why we are very happy with the acquisition of Parcel Pending. It's a very strong entry in the U.S. market for us, for Neopost. We are acquiring the number one in the residential segment with sales just above $30 million in 2018, an impressive market penetration in the residential segment and some early initiatives in the retail segment as well; an installed base of 2,500 units, which is quite significant and we are talking about large units; a direct distribution model; the team is a direct sales team; a sales business model with a recurring revenue that is already above 20% today; an amazing team. We spend a lot of time with them. They have the passion to grow this business. A clear understanding of the market and a very good track record. The company is already profitable with a positive EBIT 2018 and they have proven technology. So we were impressed by their product

range. You can see here that they have what we can call standard lockers, outdoor and indoor, but as well very new products, a single home locker, for example, or the refrigerated locker to target the grocery segment.

Parcel Pending is a perfect fit with our strategy. We will build together a U.S. market leader. We have strong growth expected in front of us. It's a sizable platform to address new verticals and we already see strong synergies with Neopost in the United States.

So let's conclude by sharing again our ambition. We have strong [ph] asset (03:39:39) legitimacy and a successful track record in this business in the countries where we are. With the acquisition of Parcel Pending, we have now three strong positions in three key countries. Parcel Locker is a nascent business and all the growth is still in front of us. We aim to be one of the leaders in each targeted country and we want to build a strong value proposition for each vertical.

Our goal is clear, mentioned by Geoffrey this morning, we will be above €100 million revenue by 2022. Thank you.

QUESTION AND ANSWER SECTION

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

Any question?

                                                                                                                       Q

Yeah. Good evening. Just a [ph] rapid (03:40:41) question on the last acquisition. So the revenues were $30 million.

Daniel Malouf   A
Chief Operating Officer, Neopost Shipping, Neopost SA

Yeah.

                                                                                                                       Q

What is related to the sales of [ph] first equipment (03:40:51) and what is related to services? And what is the average price for parcel locker in the U.S. when you sell the product?

And at the end, do you expect to continue to grow at a fast pace in the year, because when you sell the product, after that you have only some recurring revenues, if I'm correct?

Daniel Malouf   A
Chief Operating Officer, Neopost Shipping, Neopost SA

So we are acquiring a fast-growing business in a nascent market, as I showed you that. And you can see the addressable market. So the penetration, right, for the time being is still very low. I mean, the growth is still in front of us. And to come back to the model, as I've shared with you, they are already above 20% recurring. And, well,

we have great experience on selling this product with a rental model and the pay-per-use model. Let's see if we can share our common experiences and launch that in the U.S. as well.

Q

What is the price per locker in the U.S. [indiscernible] (03:42:04)?

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So it depends on the configuration. The average configuration of Parcel Pending is about [ph] 5.6 columns (03:42:11) in an average and the average price is around $20,000.

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

A

Yes?

Q

Hello. [ph] Olivier (03:42:35) from ING Bank. How do you feel to compete on this segment with Amazon? That's a big challenge, I believe.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

[indiscernible] (03:42:43) question. So first, we are competing with Amazon only today in the residential area in the U.S. because in all the countries, it's a [ph] private metric (03:42:53). So in the U.S., what we can say first is that we believe that it's important to be retailer agnostic and carrier agnostic. Today, Amazon, they are retailer and they are carrier. So we believe that we have this big differentiation against them.

Secondly, because we spend time in the U.S. with the acquisition of Parcel Pending, the feedbacks we have from the customers, because we discussed with customers is that the quality is still not there. What we can say is that for us it will be [ph] a core (03:43:30) business. For them today, it's not at all [ph] a core (03:43:34) business. So let's see what can happen in the future. But the main difference is that we are retail agnostic, carrier agnostic. So no pushback from the retailers. Today, they have pushback from the retailers. No pushback from the carriers what they have today and we will be focused on this solution.

Henri Dura
Chief Strategic Marketing Officer, Neopost SA

A

There are not that many retailers that want to have their package being delivered into the [ph] lockers of Amazon. They could gather more information on their own sales (03:43:59). So that's one aspect. The second aspect is what we see in Japan as well, is that as we have the only sizable installed base and network, which is open and because it is open we started with only one carrier and now we have a second carrier and a third one coming onboard and we have obviously all the deliveries on Amazon, for example, in Japan going through our own lockers, because they are leveraging the carriers in the country. Okay [indiscernible] (03:44:29) coming back to the comment that was made in the presentation earlier, it's a race to make sure you have a sizeable network first before the others. And our belief is that in a given density of [ph] population or location (03:44:39), you're going to

be able to have maybe two, three, who knows maybe four lockers network, but not that many. Okay. That's why we need to be the first one there and leverage to be able to operate it.

And if your network is of quality and key differentiator here and it's open and you have multiple retailers, multiple carriers being able to leverage it, it is likely a winning strategy to be agnostic. And we could survive even if Amazon has its own network next to it and they could leverage it for their own package exclusively next to ours, it won't be an issue.

Q

Just a quick question on the network. When you sell these units or lockers to a retailer, this doesn't expand your network. Does it?

Henri Dura
Chief Strategic Marketing Officer, Neopost SA

A

So even with the retailers, you could have an open access or not?

Q

Yeah.

Henri Dura
Chief Strategic Marketing Officer, Neopost SA

A

Again, it's a very nascent market, and today retailers are driven by the fact of increasing the royalty with their customers and potentially the cross-sell. So they want to bring back customers into the store, offering the online purchase. While they are back in store to pick up their package, they could get additional services and potentially buy something else. So every other reason that you bring a customer back into the store is a benefit potentially for retail. So even retailers could be interested to potentially even open their own lockers to other deliveries.

Q

Are they today? Or can I have like DHL delivered to a snack box?

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So today with those shop, for example, they have opened their network to all the carriers. So you can find [indiscernible] (03:46:22) for example, because they are looking for traffic [indiscernible] (03:46:27) that having these customers coming and picking [indiscernible] (03:46:33) they can buy something else.

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

A

Good question.

Q

[indiscernible] (03:46:44). For Parcel Pending, are they manufacturing themselves [ph] and where (03:46:50) is it done for the parcel lockers? And in terms of technology, is there any synergy with the one you already have? Is there some similarities? Because you were talking about the fact that you're currently a holding company. Will we see in the future parcel lockers across these three regions? You're having some kind of uniformity in terms of technology or it's just a plug-and-play?

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So what we can say is that first we will assess the technology by spending much more time with them [indiscernible] (03:47:24) and compare to our own existing solution, Packcity. And obviously, but without being in a rush on that, we will build one single solution for our business, our Parcel Locker business in other countries.

If I take the example of what we're doing today in France and Japan, it's exactly the same software. So we don't have a software for Japan, a software for France. It's exactly the same software. What is different is the hardware, but as I told you, our software is hardware agnostic, so we can monitor any kind of hardware. It's exactly what we're doing in Japan and in France.

To come back to what Parcel Pending are doing today, they're designing the solution, but this solution is manufactured in China today and they bring into the U.S. and sell it in the U.S.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So they're doing like us. We also use suppliers in Asia.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

Absolutely.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So we have one supply chain and one product suite, but you can see that the product suite is getting bigger. And by country, the product suite that will be distributed in each country might be slightly different because [ph] the need of the constitution or (03:48:55) the residential market, for example, in the U.S. is not exactly the same as you could find in UK or France or Japan. So by country, we'll have different product mix most likely.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

Yeah. And probably different features. Well, I was telling you that we have the added the C2C feature. It was important in Japan, because in Japan the Japanese people, they don't want to return their parcels. I mean, when they buy a parcel and if even it's a mistake, they don't return it. So the only way for them to do something with it is to sell it. And so, the C2C is huge there because they don't return. They sell again.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Any last question. Yes? Two more maybe and one over there. Go ahead. Go ahead now.

Q

Okay. Thank you. Could you explain us what it takes to onboard new residential clients? What's the go-to-market [indiscernible] (03:49:33) that is key? Just to understand. Thank you.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So with Parcel Pending, as I told you, it's a [ph] direct (03:49:44) distribution. So they have their own team. And what is very important, of course, is to have a strong network in these segments. So they know very, very well this segment. They come from this segment. They come from the residential world. And you have two things to do. First one is to sign master agreements with large companies. And then it's very important to be very close to all the properties, because you have to finalize this master agreement with each property. And then after that the property is blocked. I mean, they have their solution. The quality is there, they use it and you have the maintenance and service fee and every new feature can be added as well.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Actually even on the residential and the recurring model, there's the maintenance, obviously the support of the lockers once they [ph] got it (03:50:39). But there's also the support to the new resident. So every time there's a new resident coming in, they pay subscription, a non-voting fee and that's also something that is increasing, the recurring base of business that we have in the residential market with Parcel Pending.

And it's a shorter sell cycle usually speaking. Once you have established the master relationship with the larger companies, it's a property manager relationship and if you have the relationship within a few months, you can get it done.

Question over there, the last one.

Q

Yeah. Thank you very much. [indiscernible] (03:51:11). Three very quick questions. One a follow on to the last one. Is the main demand driver in the U.S. for the residential business, is it a matter of convenience that the property developers want to provide because it's not really a cost saver, I assume, for the carriers...

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

No.

Q

...in this case.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So that's why I was telling you for these verticals, the added value is to bring new services. I mean, I've spent time there looking to these bigger properties and looking the behavior and seeing how people are behaving. I mean, it's crazy. For a 600-plus property, do you know how many parcels are delivered per day? 150 parcels per day. And in the peak period, 400 parcels per day.

So when you go to the [ph] concierge (03:52:12) and you tell him, you know what, I have good news for you. You're going to take care about 400 parcels per day. Obviously it's just impossible. So that's why I'm telling you this is the only automated solution to solve these kind of problems. So it's a question of [ph] threshold (03:52:29). So if you go and visit 30 apartment property, maybe it's not the right timing for them to get this kind of solution. So let's be focused on 100-plus flat.

Q

And on that note, is it at this moment sort of a market where demand is pulling supply from you? So there's an actual pain that's being recognized and therefore solutions are being sold out or you still have to pitch sort of the value that Neopost can bring? And in that respect, what's the selling proposition Neopost can offer versus some of the other competitors? I understand once you've grown you have a network, but at this point what is it that differentiates you when you offer this bridge?

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So first, as I said, I strongly believe that now it is a must have for the size of properties and all the new ones are just putting it as a service that you have from the beginning, from the starting point. That's the first point.

Second point, with our competitors, I mean it's exactly what I said. We will bring quality and we will be focused on quality. Again, it's our core business. We will be very close to our customers. That's our aim and we will differentiate by the product range. And today, when you look to the Parcel Pending product range plus the Neopost product range, I can tell you I think it's unique to be on the market.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

I was discussing with the CEO of Parcel Pending just before this Capital Market Day (sic) [Capital Markets Day] (03:54:11) and she was telling me for the first three years, she had to make [ph] the pitch. So (03:54:14) she had to convince the properties of the benefit of the solution. And now it's over. In the last year and a half, [ph] two year, she never had to make a pitch (03:54:21) again.

Q

Just kind of one last question. Neopost was in the U.S., albeit with a very small footprint before this acquisition already. What is it, I suppose, that this company, so Parcel...

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

Pending.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Pending. Parcel Pending.

Q

...Parcel Pending gives you in terms of an advantage now that you wouldn't have had developing on your own? And could you comment a little more on the, I think, earn out provision in this acquisition?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So we won't comment on the earn-outs. There is an earn-out, but we're not going to share the details on it. You want to take the other question?

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

Go ahead. Go ahead.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

[indiscernible] (03:55:04) question.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

A

So we were very, very small in the U.S. because we were not focused on the U.S. We are focused on Japan and France for the time being. U.S. was on our plan for 2019 and we worked on both plans. We worked on the organic plan. So we had organic plan ready and we were very [ph] interested in (03:55:27) by an acquisition because with the acquisition, well, you have a sizable platform now to, first, development in the residential area. That we don't know. So, thanks to Parcel Pending, we are acquiring this know-how. And we will bring to Parcel Pending our know-how on the other verticals that are targeting as of now. So we will bring the retailer experience, the carrier experience, the grocer experience to be able together to be stronger and to build the strong network that we are looking for and to be the leader there.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So retail knowledge, we know it very well. Corporates, because of our mail business in the U.S., we know it well. So we [ph] can take care of it now. Universities, that's what we've been actually here learning on (03:56:08) in the U.S. by yourself now for the last year. Residential is the one we didn't know and it's [indiscernible] (03:56:18) relationship knowing exactly the difference between the different type of building, numbers of apartments, single home and that's what Parcel Pending is bringing us, is all those years of figuring out the details of that particular vertical. And on top of it, this is the one that is the most [indiscernible] (03: 56:32) today. So it's really time to market and the [ph] race on that installed base (03:56:34).

And it will be the last question.

Q

Thank you very much. So in Japan, you have this rental model with the installation phase, which meant that you have a negative margin right now and that it's going to ramp up over time. For Parcel Pending, you said that's more of a sales model. So is there some margin upside there, because you have this very fast growth, this plus-80%? What is the [indiscernible] (03:57:03) level of margin you expect because it's only going to be based on new sales and EBITDA on maintenance? But we cannot expect the same ramp up as for Packcity in Japan. So is there some upside from what we've seen in the press release?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So [indiscernible] (03:57:17) commenting specifically on the margin of each of those business, but just for information we did reach the breakeven point in Japan, okay. So it's not negative. Sorry. In December. Yeah, in December [indiscernible] (03:57:33) is already profitable.

So we should expect we need to see some improvement as we go considering the synergies we can have on supply, on [ph] call centers (03:57:44), on support, on supply chain, on product management and also the synergies on our indirect network of dealers and resellers that we have between our Neopost [ph] U.S. organization (03:57:52) and we could leverage with Parcel Pending in addition to the general synergies of [ph] back office operation (03:58:00). Okay.

Daniel Malouf
Chief Operating Officer, Neopost Shipping, Neopost SA

Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

So let's conclude your presentation. Thank you.

Henri Dura
Chief Strategic Marketing Officer, Neopost SA

Okay. Good afternoon, everyone. Now I'm going to talk about a topic, which is close to our heart, is unlocking synergies within the group. I'm going to put that into context as you probably remember, Geoffrey this morning, said a few things that are critical for our development going forward and our strategy is, first of all, geographical focus, as you know. Number two is to become one company. Number three is grow. And number four is unlocking synergies.

So, here, what I'm going to repeat very rapidly is where we are today and where we go in terms of structure and organization. [ph] As you briefly remember this slide, so we were 3 (03:59:07) independent business unit, running 8 different independent businesses and having 85% of our revenue in 12 countries, representing – yeah, I just said, 85% of our revenue and we are going to move into focusing in two major geographies.

And in terms of product solution, we're going to focus, as you already know everything about it today, on the [ph] mail related business (03:59:40), which is the biggest one and we want to grow there and the customer

experience management, the BPA, business process automation. And of course, I just [ph] heard, Parcel Locker (03:59:52).

So really basically what we're going to do and it's specifically [indiscernible] (04:00:00) you add the group function that are supporting all of these. We discussed about back office and financials. But it's true for IT, it is true for all of the thing that until now have been dispersed in the different regions, sometimes even in the different countries.

And the job that we're going to do is trying to consolidate all of the [ph] sources (04:00:21) and make it kind of a platform that could be shared within the group into these two main geographies. As far as the division that I'm going to run with the team here, I'm going to tell you a little bit more of what we're going to do here. So that's the way we're going to be organized and that's probably the first reason why we're confident that this [ph] way (04:00:45) we can bring significant synergies.

The first thing is, you can see now, we have the four group solution that you just heard about this morning [ph] and – (04:00:54) beginning this afternoon, together with a marketing team corporate as well as strategic a marketing innovation, R&D software, R&D hardware and supply chain. All of these team members are going to work together and there are significant synergies that we can create of that. So the first thing I'm going to talk about is obviously the four major solution here. So as you heard and hopefully shared my point of view on that, [ph] you'd have seen (04:01:27) people that know this market inside out. They have been working there, they are expert and even more importantly, they are passionate about what they are doing and what their team is going to do. So that's what bring an extraordinary big focus on what they do, what they're going to bring to their different main geographies, to the market. And I think that all of them were basically – this is what will keep them awake at night.

So that's the first thing that we'll be laser focused on a few material opportunities compared to having 80 more products in the different geographies, sometimes in the different countries where, obviously, we tend to [indiscernible] (04:02:13) do something very specific for here or there and/or reinvent the will from time to time since hopefully we had a few ideas that were coming into different geographies, but they were not done on the same platform. They were not achieved the same way. The go-to-market was not the same and so and so forth. I took an example this morning when I was presenting the [ph] business process automation (04:02:34). We have the Neotouch maybe in France, now more and more in the U.S. We have [indiscernible] (04:02:40) business in Germany as an example. We have a few different things in the UK.

So the synergies are going to be – if I'm talking about BPA, [ph] business process automation (04:02:52), it's going to take place here and there, Alyna leadership and she will make sure that during this period of time we will have one single solution -that we can expand and roll out on a global scale in order to help our SME to solve their process digitization thing. It would be the same thing obviously for [indiscernible] (04:03:21) customer experience, which is something that we already partially achieved [indiscernible] (04:03:26) that's just been explained and so and so forth. Even though sometimes it has to be localized or [ph] multi-local. So we'll (04:03:34) do things specifically here and there, but only when it is needed from the market, not when we will be in a position to leverage what we have already done. And more importantly, we will design the solution in a way that from conception, they will be global solution with a little bit of localization of course.

So the number two is obviously all of these team, as they are and they will be equipped with significant level of expertise that will be able to support the operation and to help them achieve their own targets whenever it's needed to have – including in the go-to-market as I'm just saying and the business models. So all of these things will be managed here centrally by the guys and the team that are expert in that domain. These are things that we didn't do so far at Neopost and I'm sure that as you will understand, this will bring some synergies in place.

As far as corporate marketing, back to what Geoffrey said this morning, we want to be one company. In order to be one company, you have to be [indiscernible] (04:04:52) and to be perceived by the market as one company. Today, as I just said, we have many companies. We may have different content to sell the same product here or there. We might pitch different features, different ways. We have different go-to-market strategies and so forth. So we obviously have digital marketing guys spread out into the geographies and all of these, as you know, are requiring really expert guys and a lot of high level competencies. We have those people within the group. Just that we have these people dispersed [ph] into the different categories (04:05:32) and there is no global vision. There is no – a global strategy looking after what they are doing and more importantly, sharing and making sure that all of this knowledge, all of this expertise and all of this way to communicate to the market to position the company and the solution to the market is not the same today.

So that's what we're going to do [ph] with (04:05:55) marketing centralized into one and definitely at least, not necessarily centralizing parts by the way, but managed by a team that we have a global vision of all of this and get all the competencies together. It's true for the web. It's true for the sales enablement. It's true for a lot of things that we're going to use as tool or a strategy to make sure that Neopost is perceived whatever solution you are in as one company.

Strategic marketing [ph] on its side will (04:06:29) be responsible to bring the tools and to help the major solution teams to manage their product portfolio with the same tool, with the same way and the same discipline. Same thing in terms of market intelligence or analytics and BI. So we have dashboard, we have tools. When we talk about the data, when we talk about the performance of a business line or the performance of a given region, we have [ph] all this (04:07:02) on one central point where we measure the same thing everywhere, which again is not necessary except for finance, which is not from a marketing standpoint, from a commercial [ph] research (04:07:14) standpoint, which is not the case today. So that would be the target of all of these people to bring these tools to help their colleagues from corporate marketing and/or from the major solution to bring together the same thing.

So [indiscernible] (04:07:31) is R&D and R&D with supply chain here for hardware, which makes sense. It makes obviously a lot of sense to have the people designing the hardware very close to the people producing the hardware in the factories or in the outsourced factories. So you make sure that there is not too much of a disconnect between these two, and hopefully we're going to improve on that as well.

So we will share among our different [ph] side (04:08:03) the same methodology, the same processes, the same outsourcing strategies, and so on and so forth into the – and on the software side, again, as you heard, we have a lot of software companies here and there. And you saw the list. We need to have the same methodology. We need to have the same tools. We need to know what QA means, QA, quality assurance, sorry, and so and so forth.

So it is important for us, we need to have the same KPIs, right. We need to measure the [indiscernible] (04:08:35) and the processes before we launch a product in the same way with all the different things. And so, that is key for us to have, again, one vision, one strategy in terms of software development that we make sure that we benefit from the best practices and from everything, which is done here and there. But as we share and as we share not just the ideas, but also the execution of it, right. So that would be the main target for this, the R&D, hardware, software and supply chain.

The last and important thing as well is that innovation will be at the service of the different major solution group. Here we have innovation again in the company, as you would imagine, right, and expect. We have innovation

[indiscernible] (04:09:28) and we have events, a little bit of innovation at the group level, making sure that we are aware of the new technologies and so and so forth. But it's not organized in one way. So the whole thing is to bring all these innovation people [ph] under (04:09:46) the same strategy and the same management to make sure that, again, we don't redo the same thing twice or three times that we do share and we do benefit from each other. Innovation is about speed. You need to – I think that Chris alluded about the – or gave you the example of Lemonade.

Lemonade in the U.S., which is an insurance company, they have not invented any technology. And the only thing they do, they have redesigned the insurance with the job with bringing two or three core technology together and make it working together to offer something new. So, that's what innovation will be driven by. How can – that will be something that the customer, at least the first customer will be ready to pay for, before we and just realized that, then, if its working into the R&D group, into the major solutions, and if it is hardware, obviously we have the supply chain group.

So, that's basically what we're going to do from the solution group. Having all of these teams together and obviously, the same kind of thing that, the group function will do to support the operation. Here, I just want to give you an example of what it means to cross-sell and to put in the working mode the synergies between the different major solution. Here, you have our core system. That's what we do since 70 years, right. And all of these are pretty new.

As you saw this morning, we can leverage the business processes, the OMS-500 and/or the Neotouch solution to our SME market, which are already using part of this, right. If you go a little bit upwards, you're going to have the – upper end of this, for example, specifically on the folder inserter that we can use and we did already that here and there, marginally so far, the output platform, the output management platform from CCM. It's necessarily the whole range today of what we are talking about, but when you have an inserter as printed, obviously it's a paper-based communication. We need a strong output management as soon as the volume is big.

So, that's one of the thing as well that we can do; cross-selling and having the different major solutions working together in a given country with a single management in a given country or in a given region, organizing how – and making sure that every opportunity that we have to sell this thing to this customer where we do it. Every time that we can sell this Neotouch to these people, we will do it as well and we will be supported by the major solutions group that have the knowledge, the expertise and can make everybody confident about what they are proposing.

With that, I'm welcoming your questions. Thank you.

QUESTION AND ANSWER SECTION

Q

Hello? Yes, thank you very much. I have a question. Do you have some topline and cost synergies targets?

A

Sorry. Story?

Q

Synergies targets. Do you have cost and topline synergies targets to share with us?

A

Not to share with you now. Well, we do have them internally.

Q

Okay. Thank you very much.

A

Another question over there.

Q

Just to – it sounds all very rational and sensible. Can you give us an idea of the timeframe, how long, how much would you expect to achieve in the next year, two years, three years, five years, because it looks to me like an enormous project.

A

So, it depends. It depends. We can – obviously, we're going to have it – this elephant will be eaten bite by bite, right? So I'm just taking one example. All of the BUs, the three BUs that we have are working on cloud based solution, right. Each of us are discussing with Amazon or Microsoft Azure or whether – or Google to have their solution and to bring our solution into their infrastructure. For me, it doesn't make any sense that we have three or four or five people in the company discussing with these guys to negotiate something, right, and to make sure of the best technology that we have and to be aware of the services that they can afford. That can be done, it's not tomorrow, right, but it's pretty quick.

I take another example in the corporate marketing side. We have experts in Google Ads and all of this SEO thing little bit everywhere in the company, because all of the BUs need that, because all of the countries need that. We'd probably be better off having one guy who is responsible to discuss with Google about how frequently they change their words and so on and so forth. So, we have one SEO specialist somewhere. Same thing for the content. So, some of them here would be quick. Now, I guess that if you ask me a question about the IT infrastructure of the company, I would take more time for sure.

A

Yeah. Without changing some of the specific, but some of the big [ph] call centers (04:15:33) right, supply chain, IT, finance, this is where over the plan, there will be probably the – on the cost side, the most part of the synergies.

On the cross-sell side, a lot of the initiatives or the way to go at it, we have tested them. So, we already have teams that have been working on being able to cross-sell some of our software solution with our Mail Solutions or vice versa on the locker business, and that's really more about a management decision and organization which is part of the implementation of the new go-to-market by region, which could be coming quicker. Yes?

A

What's the – you're going to have the mic.

Q

What's the overlap in the customer base between the Mail Solutions and the Customer Experience Management?

A

So, on the overlap, you have – if you look at the customer base on the Mail Solutions, we have – in terms of numbers, probably 95% of the customers of the company or more. Okay? So, when you look at the cross-sell and the overlap, they are only mostly the top end of the customers, the large customers. So, you look at the customers we have in the mail and we're going to look at optimizing building synergies potentially up to 20% of the customer base. But realistically speaking, if we could go from a few percent to up to 10% during the plan, that will be a great synergy already.

A

But today, it's 5%.

A

Less than 5%.

A

Less than 5%.

A

Less than 5% today. Very little, very few customer in common. Okay. Now, they are big customers and because of that, when you have them in common, it's big ticket value, license of a few million dollar for one customer. On the one hand, it's a tremendous sale synergy, but not in terms of numbers. That's what we'll be working on.

Maybe one more before we go to Jean-François presentation, if there is. Jean-François?

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

Okay. Thank you. Hello. Well, you see we have some technical problems. No. That's okay. Okay. Good, good. No technical problems. That's good. Okay. Ladies and gentlemen, good afternoon. This is the last presentation for the day.

And we'll talk about financial models and capital allocation. Okay. The menu for my presentation is the following. We'll have a look at the financial track record, because our plan is Back to Growth. Our plan has a lot of ambition. So, I guess it is very key for us to all share what is our starting point. The second piece and you have heard about it all throughout the day is a focus on the leasing and rental model. As we told you, we love recurring revenue. We have currently 70% of our sales that are recurring today. And leasing and rentals are definitely two key pillars on which we want to capitalize on.

Then, we look at variety of business models, because we have been through all the major solutions and you have seen that we have different types of business model depending on the market, depending on the product, depending on the [indiscernible] (04:19:14). So, we'll go to all these business models, okay, to see whether these models fit with our Back to Growth strategy. And last but not least, I will finish my presentation with our capital allocation and shareholders' return policy.

So, track record and I will start with the most difficult one, which is the revenue. Clearly, we have not been able to put Neopost Back to Growth between 2015 and 2017. If you look at our organic sales, on average, our revenue declined by minus 2% every year. Over that same period of time, our Mail Solutions declined by roughly minus 4.7% per year on average. We invested into new activities what we call other activities, but these activities grew by less than 10% per year and sufficient to offset the Mail Solutions decline.

At 72% of total turnover, the Mail Solutions business at Neopost is still too high and those are words we are still too dependent from our Mail Solutions business. So, that was the difficult part. But, when you look at EBIT and margin, despite the revenue decline, we have maintained a high level of profitability with strong margin resilience. This has been achieved through optimization plans that we have rolled out and I remind you that we saved or we optimized by more than €50 million our cost structure between 2015 and 2017. And we allocate more resources to the other activities. So, revenue decline with protection of margins.

Other important starting point, thanks to our financial discipline, we have increased our free cash flow between 2015 and 2017 from €100 million to €149 million. When we look at the relevant metrics which is our free cash flow conversion, it improved from 43% to 74% despite our EBIT decline.

Talking about the balance sheet materials and the leverage, our group leverage ratio improved from 2.6%, down to 2.4%. For those who know us, the main purpose and the main reason for the level of leverage at Neopost is coming from our leasing business. And currently, our net debt is largely backed by our leasing portfolio.

As a consequence, the leverage ratio excluding leasing is low, leaving us room for further leveraging the company. So, as a first conclusion on the financial [indiscernible] (04:22:53), we have a revenue decline between 2015 and 2017, with high margin, high free cash flow conversion and a strong balance sheet structure. So we are well positioned to embrace the new strategy.

I will move back to the free cash flow definition and I will highlight the Neopost specificity coming from its leasing business. Leasing is a standard model for the Mail Related Solutions, with the following characteristic at Neopost, five years contract term, small tickets, no early termination, no transfer of property, and there are some wealth bankers in the room, but I will say it anyway. Strong yield, more than 15%, a very profitable business.

At the end of H1, just to give you an idea, our current lease portfolio amounted to more than €700 million. The leasing business at Neopost is very much linked to our Mail Related Solutions business. Our Mail Solutions business is structurally declining. Therefore, our leasing portfolio is following the same trend. And the decrease in the leasing portfolio is increasing our free cash flow generation. And we use this free cash flow to repay the related debt. And we are expecting this trend to continue in the future.

Again, the free cash flow conversation is the free cash flow available for acquisition and dividend, divided by the current EBIT before related acquisition expenses. We are expecting this free cash flow conversion to remain very high in the coming years.

But even in the standard model in the Mail Solutions business is the leasing. In some countries, for regulatory proposes, we rent some of our equipment. It is the case in mail related business. In France, for instance, for the franking machines, as well as in the U.S. for the postal meter. We rent as well equipment related to the Parcel Locker in Japan.

The third important thing that you need to understand that it is fully natural from the customer standpoint, but from a P&L and balance sheet standpoint, there are some differences that you need to appreciate. The first one is a record revenue recognition. In the case of leasing, we are recognizing a sale of equipment that from the day we signed a contract as a contrary to the rental where the revenue is spread over the contract period.

When we talk about leasing, it is booked as a long-term lease receivable in the balance sheet, where in the case of rental, it is booked as a fixed asset. Both in terms of liability are generating the corresponding debt. It's a bit technical, but for you, it's important, but you can appreciate the impact of these two others that are the pillars of the recurring revenue at Neopost, in terms of financial statement impact. Again, a very powerful value proposition, with very high margin and a strong recurring cash generators for Neopost, and we will continue to capitalize on these models in the future.

But rental and leasing are not the only models that we carefully monitor within the group. And if you look at within our four major solutions that has been explained to you, we have large range of business models to address our customer needs with the relevant KPIs. And all these business models give a stronger place to the recurring

revenue. Let's start with the Mail Related Solutions. We have some [ph] half sales (04:27:44) and licensing revenue which are non-recurring and non-recurring is only 30% of the revenue of the Mail Solutions. All the rest is highly recurring, rental and leasing, maintenance and supplies. Most of the KPIs that we are monitoring for the Mail Related Solutions are installed-based management driven. And of course, there are some perceptions based on the volumes of letters that goes through our machine, impacting our supplies business.

Moving to Business Process Automation, it is the fully recurring business model. And we like that. We are talking about SaaS and we are talking about usage of the software and again the KPIs are very much linked to the installed base of software, plus the volume of information transiting to our solutions.

Moving to the Customer Experience Management and Chris explained that you very well. Basically, as we are targeting bank, insurance and other verticals, the standard business model is made of, we sell a license and then we have 20% of the license value as the maintenance revenue. The solution is very sticky. Basically we are not losing customers. They keep the solution onboard for quite a long time, which guarantee us a long-term visibility on the recurring portion of our turnover. We get as well profits in all services offering and more and more we will move to SaaS and consumption business models.

So, to-date, the Customer Experience Management is basically roughly 70% recurring and it will continue, because again the two business models that we are developing [ph] favor us (04:29:45) the recurring revenue streams.

And I will finish with the Parcel Locker Solutions. Yes, we have had sales model like the one in Australia, like the one in Parcel Pending, but these parcels are producing as well recurring revenue. Rental, consumption, maintenance. Rental applies to France and Japan in particular.

Here again, the main KPIs are the size of the installed base. Sometimes, the usage, but it's not very well as well-developed in – jointly in our parcel locker network and of course the number of units sold and the price per unit.

So, what do we need to set up as capital allocation priority to support our strategy? We need to pursue targeted acquisitions. We need to maintain the flexibility. We need to adapt our shareholder return policy and we need to be back to profitable growth and acceleration. And I will detail each of these points in the following slides.

Pursue targeted acquisition and it has been already presented by Jean-François. We have a number of M&A of on average $100 million per year net of divestment, which is 4 times higher than our historical track record. So, there is a very strong ambition in terms of M&A. We will refocus within our main geographies and within our four main solutions.

On the mail-related business, we are going to extend our offering and look at opportunistic local distribution footprint. On the Business Process Automation side, we will focus on extend the offering into enterprise business process digitalization and we talk about it, which is mainly focused on Order-to-Cash and Procure-to-Pay. On the Customer Experience Management, there are two pillars, developing the SaaS-based functional adjacency and develop ourselves into new verticals.

On the Parcel Solutions, we talk about accelerating our footprint in the U.S. mainly in residential and a very good news is the acquisition of Parcel Pending that we have disclosed this morning and we will of course as well investigate adjacencies in our main geographies.

To carefully monitor our bolt-on acquisition plan, we have defined few rules that we will stick to. The first one is target that has double-digit sales growth prospect. And the second one is the ROCE above WACC by year three post year of closing.

One track record is GMC. So GMC is part of Quadient. GMC is in the Gartner and Forrester Quadrant as well. So, let's look at GMC. We acquired this company in 2012 and to the GMC is the largest acquisition in the new businesses that we have done. Okay. The ROCE has been reached – the ROCE target has been reached, by year one, post year of closing. Since the acquisition, this company has produced double-digit sales, CAGR between 2013 and 2017. And today, GMC is one of our main assets on which we will capitalize to develop in the Customer Experience Management solutions.

Parcel Pending, a very good acquisition that ticks all the boxes of our strategy. It's a market leader on a fast-growing segment in the U.S., focused on geography. A strong double-digit digit sales growth expected over 2019 to 2022, growth ambition. It's already profitable and we are expecting a ROCE above WACC by year three post year of closing. It does fit perfectly with our Back to Growth strategy.

Let's move to the second priority. Maintain the flexibility, historically we have three main principles, golden rules that we have followed to manage our debt; flexibility, diversification, well spread out. Today we have a diversified structure as you can see [indiscernible] (04:35:30) the opportunity to refinance our debt at the best conditions.

The maturity is well spread out. We don't have any significant refinancing work for the coming years. And as I told you in terms of leverage, whether it's a global leverage at group level or to leverage excluding leasing, we have room to further leverage Neopost in the future. These three golden rules will remain for the coming four years. [ph] We will keep (04:36:12) flexibility within our current governance to be able to grab opportunities when they materialize to support the group ambition.

We need to make shareholder's return policy more consistent with our growth-oriented ambition and give group more flexibility to cease the relevant bolt-on M&A opportunities. Therefore, Neopost will immediately switch to a minimum of 20% payout ratio per year based on group net income with an absolute floor at €0.50 per share. The payment will be made in cash in one installment. And in addition, Neopost commits to return to shareholders the potential unused share of its M&A budget at the end of the plan.

All the key items mentioned previously will serve our back to growth and acceleration plan, which translate into top line and mid-single digits sales CAGR. Current EBIT growth high single EBIT CAGR meaning an improvement in the profitability at the end of the plan. A minimum of 50% of free cash flow conversion taking into account €100 million of CapEx per year on average. And finally, no later than 2022, the Mail Related Solution representing less than 50% of our sales, and a sustainable low-single digit organic sales growth.

Thank you. And I guess Gaële, we open the final Q&A session. Okay.

QUESTION AND ANSWER SECTION

A

So, we have a question over there.

....

Q

[indiscernible] (04:38:30), Société Générale. Four questions. The first is on EBIT. For the plan you say that EBIT will grow faster than sales, everything being included, would you say that on an organic basis, a 17% plus margin that we expect in 2018 which is the guidance for 2018 is a [indiscernible] (04:38:59)?

Second regarding the target, I mean let's say flexibility for the leverage. If I do math rightly going from 0.5 time debt excluding leasing to potential is 3 times means probably going to 3.5, 4 times everything will being included, so is it right. And I think you've got some debt with covenants that are including everything, not including with the leasing. So could you comment a bit on that?

Third question regarding the disposal, the potential disposal, I understand that out of the €200 million, which are not in the [indiscernible] (04:39:46) or let's say division, you [indiscernible] (04:39:50) some activities that you did not sell. So should we understand the potential disposal represent €100 million in sales?

And fourth question, in your reporting do you intend to provide a guidance on year-over-year basis?

....

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, I'll let Jean-François [indiscernible] (04:40:10) for some of the other answers. I'll take the one on the potential divestment on the additional operation. I said half-half, it doesn't mean that we would sell entirely the other half of the other business, right. It's either grow improve or exit on that front. And on the other hand, even on the other geographies to the contrary; on the other geographies where we operate for example the [ph] Mayo (04:40:41) business or their activities, we may find a different way to be able to go in terms of those region and potentially those region could be also a candidate for divestment if we were to find the [indiscernible] (04:40:48) in those region. So, it could be either ways, not necessarily one or the other, right.

The intent for us is making sure that in the end, and as quickly as possible do that business, that additional operation is contributing to the growth of the company, is cash flow positive and is profitable. And any way, we will not dedicate investment to those business, our investment whether there are many organic in term of CapEx will be dedicated to the major solution and the major operation. Jean-François, you have time to take the other ones.

....

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

A

Yes, of course, of course. So, you had a question on EBIT and percentage. So again, let's be clear. The plan is to [indiscernible] (04:41:31) volume of the revenue. Again, the mid-single digit sales growth CAGR over the period.

Moving to EBIT, the commitment that we take on the back to growth plan is a high single-digit growth CAGR of the EBIT in value. So, there is no commitment, no guidance on the percentage of EBIT per se. You had a question on the covenants. Yes, we have two types of covenants. The maximum three is related to the leverage excluding leasing. Then we have another covenant on the leverage, we see the group leverage and there are some debt line that includes that are under this covenant and the maximum here is [ph] 3.8 to 25 (04:42:21). Now let's be clear, in our plan when we mention flexibility related to the covenant, we have mentioned the flexibility related to these two covenants. So, we will keep the flexibility and we will be [ph] wheezing (04:42:40) the two covenants that we have today.

The main deadline that is under the group covenant is the [ph] USVP 1 (04:42:48) that is still something like €150 million left in the net debt. Then you had a question on...

A

The guidance year-after-year.

A

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

...the guidance year-after-year. So, we are not here to talk about the guidance nor we will talk about the 2018, but likely so we'll try, but I won't answer that question. We are not done with the year. Okay? Are we about to provide indication? The answer is, yes. We will provide you indication and we will take the opportunity of our full year 2018 disclosure at the end of March to share this indication with you. But again the most important message of the day is the back to gross plan and the mid-term ambition that we are setting at. Does that answer all your question? And you had a question on the disposal? No, that's okay...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

[indiscernible] (04:44:05) question over there?

Q

Good evening, [indiscernible] (04:44:09) Bank of America Merrill Lynch. Two questions on Parcel Pending. The first one I understand that technology is there and network as well. Do you plan to recruit people in the commercial force to not pitch, because I understand it's no longer the need, but to show that you have the capabilities in that texture because obviously it will be of interest for lots of retailers, especially in the U.S. and it's a wide market?

And second question, this is an acquisition, which requires more than $100 million. Is this included into your plan or shall we consider that it's not in the 2019, 2022 plan?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So it is different including into the 2019 and 2022 plan; first answer. The second answer on the – yeah, you don't hear me? Yeah, I think so. The second answer is on the sales – on the go-to-market as Daniel explained we have several segment of interest in each of the regions. So, in the U.S. we have residential with our corporate, universities, et cetera. In the residential, Parcel Pending has [indiscernible] (04:45:25) sales force, so she's hiring

her own sales people, training them. They have a relationship with the property managers, and they have [indiscernible] (04:45:30) and develop it. So, that's the model we'll continue, right?

What are we going to be testing with her is the possibility to leverage also an indirect model, which were fairly familiar within Neopost U.S.A. through dealers or resellers. Within still the residential market there could be a way to accelerate also the sales force without additional OpEx.

On the retail is different. Both Parcel Pending and us are at the onset of the beginning of the penetration of the retailers. So Daniel mentioned there's only few retailers the big brand that have committed of a rollout including Walmart and Home Depot. So, we will likely hire specialist from the retail and reuse the expertise that we have from the U.S. on one hand and a lot of the early initiatives and proof-of-concept that Parcel Pending has done.

And then for corporate in newer cities will probably come at a second phase even though we have now a good year of track record of looking at reusing the university customers base that we had in the [indiscernible] (04:46:25) business. So, our own sales force where we sell those mailing solution and we're selling the Parcel Lockers as well. So, that's why it's going to happen, probably from now year two and year three the acceleration on corporate and Euro cities, leveraging the Neopost organization.

Other question over there?

Q

Regarding your pipeline of M&A, can we have an idea of a size of this potential pipeline you have today? And do you think that Parcel Pending – sorry, will be the most expensive acquisition out of [indiscernible] (04:47:08)?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, it is much easier, so I won't be talking about specific target or specific process going on in M&A, but as we refocus the group, it is much easier for us to be able to look in the solution that we care about at the place because now we have a very narrow focus. We are very focused also in terms of geographies, so, the screening process, the potential candidate getting to know them, evaluating them, getting just feedback from our own sales force and study them instead of having a wide range of business to look into that makes the screening process much easier for us. So, yes, we do have pipeline in each of the core offering that we're looking at. But we're taking the time to definitely look at them and making sure that they are relevant to the [indiscernible] (04:47:51) we're seeking.

We're talking only about bolt-on acquisition, and yes, this target represent a good profile, but I can't speak specifically whether or not it could be a little bit more or not in terms of value of the acquisition, but it's a decent profile with took the example of [indiscernible] (04:48:08) as well, which was similar in terms of the profile before, but it could be more, I don't know, but we're definitely not looking at transformative acquisition.

Do you want to?

A

Maybe to complement on the pipeline, I think the demonstration that we have closed the Parcel Pending. Again, we are already rolling out our strategy plan. So, we won't disclose any specific in terms of pipeline, but you can imagine that we have started to work on the buildup of this pipeline to deliver our ambition.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

We feel confident our capacity to execute on that front as well.

Q

Just on the share price, the share price is low. [indiscernible] (04:49:04) mind in the share buyback or [indiscernible] (04:49:05) like that in your plan?

A

No. We don't have that at this point, that's what we have mentioned for the change in the allocation and the level at the end of the plan. That's what we have mentioned. If the M&A plan is not fully used, definitely we'll look at the best way to return [indiscernible] (04:49:24) buyback would be an option at that time. Today, we have cash and that's the flexibility that we are asking is to actually be able to accelerate our investment both in the CapEx and the M&A, so it is not to leverage it for buyback at this point in time.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Yes?

Q

In terms of operational managements, you have the four major solutions and you have the two regions. How are you going to set this up? I mean, is there just going to be someone in charge for the region and also someone in charge for the solution and then you have like a metric setup kind of thing or...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, in terms of operation, we have obviously all the operation for the main solution in main geographies so on one hand and we'll have one leader for all the additional operation.

On the major solution in the main operation, we have ownership and empowerment and autonomy on the operation side, okay. So, in each region in North America, as an example, or France and Benelux, and the [indiscernible] (04:50:37) island, we're going to have one leader with all the go-to-market resources. Resell, sales, operational marketing, [indiscernible] (04:50:47) customer support, implementation, all the capacity needed to sell, implement, and execute and support the customers. So, there's no dependencies in those metrics so we have to make sure we have to be very careful to make sure that the autonomy and the agility and the speed [indiscernible] (04:51:02) is there.

On the other hand we have that operational focus geographically with the proximity with the customer that environment. But we want to make sure we look at our solution and major solution as a worldwide solution or global solution in nature even if we have a multi focus in the most go-to-market, multi-country – focus into our go-to-market, the product, the strategies, the competitors, the technology, the supply chain, the marketing all going to be done centrally by those software solution leaders. Okay.

And this is why they will be able to help. They will be the brand, they will provide the best practice, they will do the setup, helping a particular country manager in a particular region to get into a new vertical for the first time coming from the best practice from another vertical in other region, once they are running then the country managers could do the run and do the optimization and the improvements.

[indiscernible] (04:51:59) distribution owners, managers have the whole product design, market definition, go-to-market, the business model, the R&D, and the supply chain to ensure that the delivery whatever they conceive, they deliver to operation as well. So, there's no overlap of responsibilities, it's just an alignment strategically versus strategic thinking and day-to-day [indiscernible] (04:52:21).

Q

Thank you very much. I just wanted to ask the question on the CVP-500 and on Temando. Could you give an update on the commercial performance year-to-date with the new implementation of Temando with eBay I guess?

And also for CVP-500 because you had a large compression base in H2, how these are going? And also what is the current status of the strategic reflection on these two assets? Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So a few things, first one is I have decided to put them in the additional operation. So, that means the strategic analysis that I made is that I don't believe they have the potential to be of the €100 million business during the term of the plan, neither on the standalone CVP-500, neither Temando. That's the first thing. So, they will be treated [indiscernible] (04:53:20) before.

For Temando, we are definitely disappointed by the – after the launch that we had in April. And it is not with [indiscernible] (04:53:30). And the speed at which I'm looking at the customer embarking on the solution is not where it should be. So we have some work to do clearly to address this situation quickly, to understand. And we're working with [indiscernible] (04:53:43) which is both on the commercial side or the operation side. What do we need to do to get it on track to make sure we could improve the situation as quickly as needed.

On the CVP-500, I will not give the indication for the fourth quarter, for the rest of the year. But it's a business that has been evolving at the same pace now for the last two to three years, improving last year. We'll see what's the result for the rest of the year. But it definitely doesn't have the potential to be considered a major solution today.

Q

On one topic we covered earlier with HR and hiring IT people in there. How much are you – it makes me nervous when you potentially competing against Google and Facebook, who can pay an awful lot of money. How much are you competing for those types of individuals? How much do you need stars and real scene leaders in the market? And how much are you able to put in good team players who will not demand outrageous salaries,

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

That's a good question. So, thankfully we're not competing with Facebook and Google. So, that's the [indiscernible] (04:54:56). I think the second piece is that, that's part of what has been already put in place now for several months, is that in most of the major solution that we have in the major operation, I have the key leadership and the key resources that we need to lead and manage the company, okay?

What we're looking at also when we're looking at those technological resources especially on the technical side, is where your R&D centers are based. And for us a lot of R&D centers are based in the Czech Republic. And actually there, we are the leading hiring company because of the size of our R&D centers with several hundreds of people, even though we do have – I think Facebook and Microsoft they have also R&D centers there, but we're the top employer ranked. But that's definitely going to be essential that we are aligning our branding, our reputation, and we show that on the general side we can build on the success of the talent we have hired for example within GMC, within [indiscernible] (04:55:48) as well as within the lockers business and in shipping to make sure we could attract those tenants moving forward. It's a key element.

Anymore additional question? Wonderful.

....

Geoffrey Godet
Chief Executive Officer, Neopost SA

So just thank you, just maybe a few words of wrap-up. I know it's been a long day, a lot of different presentation, we're a little late so this well be very quick on the wrap up. And I don't know if we had anything on the slid for it, but you have it in the book. I'm not going to go through each one of those points. I think it's important to have a message that I share, again with you and re-summarize, is that we have refocused our efforts. I think it's essential that you understand from what I have shared with you about how we were spread geographically and fragmented from the business perspective. The choice we made, really simplify our business moving forward. Simplifying [indiscernible] (04:56:54) most strategy into more location of resources, into more location investment.

And also, we have refocused it so by just reducing the numbers of focus. But we have refocused it on things that are material to our future. And material to [indiscernible] (04:57:08) and material to the growth, where we have refocused the company on things that count. And size wise and material wise and dollar wise, some of the geographies that we [indiscernible] (04:57:17) where we have our resources, and some of the revenue that we have for each geography, and in terms of the potential for growth that we have for each of those four major solutions.

I think once we have passed this, what I really want you to take away to, is that what is going to be essential for us is the agility to be able to execute on the plan. And it's definitely important the speed of action. We have the speed in term of the different launch of initiative that we have. The speed to seize opportunities to make decision, which is why we have simplified the organization and the management team, but also the opportunity in term of the M&A and I can show we could make the right play, soon enough during the plan, in the right market, in the right region, or when they become available.

I think the fact that we have been able to demonstrate actually early in the plan to be able to size on the opportunities such as Parcel Pending is one demonstration that the new team of Neopost is capable to move fast and from the strategy plan initiative, being able to deliver and put resolve into action.

The last thing on the execution is about the discipline. Is going to make sure that we keep the discipline into more focus, focus on operating of investment, the disciple on how we allocate CapEx, how do we allocate the initiatives on new features, new roadmap, new launch of product, how do we – are disciplined about choosing the different vertical segment that we go after. The same discipline is going to have to be applicable to M&A. M&A is an important part of our plan, but it's not the only one because we have a strong organic play. But on M&A, we have to be disciplined about how we identify those targets, the pipeline that we have, how we qualify that they are the right one, they have the right quality, which is going to help because with the focus we're going to be way more accurate. At the same time, we're going to have to be very disciplined on the integration.

I mentioned at the beginning, I really think on the people side whether it's to hire people, hiring the right people is essential, as you buy a company, once you've made the decision – how you integrate it makes the difference. So, having the disciplined approach about where it fits in the organization, the speed at which you want to be able to integrate them to be able to get the synergies, get the benefits and without disrupting them is going to be essential as well for us.

The discipline on our business model and our cash flow conversion is going to be critical too, to be able to finance the plan that we have moving forward, to ensure that we keep in track with our covenant and we keeping track with shareholder return policy. This will change the profile of the company differently to a gross profile company and when we look at the gross profile company change of listing, from a culture, from a mindset, from a cash perspective, from the financial perspective, as we build the growth in the future.

It will change the size of the group as well and our work position in the group on core geographies will also – will benefit from the scale, further scale in each of those regions.

To me, the growth is as important as the productivity of the business. So, we have to be able to execute on both front. We are a highly profitable company today. We're going to have to go back to growth, back to a sustainable and profitable growth.

So, that was just a few summary that I wanted to share with you. There was a lot shared today. Obviously, I'm super confident that we can execute in this plan. I think we have the best team in the industry especially in the Parcel Locker business in the Mail Solution, in the customers experience management and in the business process automation, and I hope the team demonstrated that to you today.

Thank you very much for your time, and I look forward to reporting back on the progress on a regular basis to show that we're meeting or exceeding the plan. Thank you.