27-Mar-2018

Neopost SA (NEO.FR)

Q4 2017 Earnings Call

CORPORATE PARTICIPANTS

Geoffrey Godet
Chief Executive Officer, Neopost SA

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

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

OTHER PARTICIPANTS

Martin Boeris
Analyst, Exane SA

MANAGEMENT DISCUSSION SECTION

Geoffrey Godet
Chief Executive Officer, Neopost SA

Okay. So, we're going to get started. Good morning, ladies and gentlemen. I am Geoffrey Godet, Neopost's new CEO. I am obviously very excited to be with you today for my first time. And we're going to present to you Neopost Full-Year 2017 Results. I will let Jean-François, Neopost's CFO, that probably most of you know already, present to you the end of the year result. At the end of his presentation, I will provide you a quick wrap-up and share some indication on 2018. And then, obviously, I'll spend a little bit more time to introduce myself, present what I've been doing, why I choose to join the Neopost, and what I've been doing since my arrival on February 1. That's a good way to start.

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

That's a good transition. Okay. Thank you, Geoffrey. Ladies and gentlemen, good morning. I'm going to share with you the business review of each of our division, and then I will move to our full year 2017 financial performance.

So, let's start with 2017 in a nutshell. Our organic revenue decreased at the same pace as last year by minus 2.2%. Clearly, we are not satisfied with this performance, and I will provide you with more detail later on in this presentation.

Our SME Solutions performed according to plan with our Mail Solutions business line declining at a lower pace than last year. Shipping Solutions grew at double digit as expected. Enterprise Digital Solutions didn't grow this year after several years in a row of double-digit growth explaining fully our disappointment. But we are pleased with our solid financial performance. We have maintained a high level of profitability with 18.2% of EBIT. Our net income has increased. We have maintained a very high level of free cash flow, and we have significantly strengthened our balance sheet by reducing our net debt and improving our leverage.

Moving to our sales figures. We posted sales of €1.11 billion, down 4.1% compared with 2016. We had a small positive scope effect of 0.2% coming from, first, the acquisition of icon Systemhaus in 2016, and second, from the divestment of DMTI in July 2017. The currency impact is strongly negative representing minus 2.1% of decline, mainly due to the downward trend that we have experienced on the dollar since last summer. Our organic growth stands at minus 2.2% compared to last year.

As I told you, we are not satisfied with our performance of EDS. In Q4, we were expecting a rebound coming from high volume of license sales at GMC Software. It didn't happen. We incorrectly assessed the quality of the pipeline and the probability to get the deals signed at the end of Q4. Hence, we missed our license sales forecast.

In addition, Q4 2016 was a challenging comparison base with 3 large deals signed at GMC Software for a total amount of €6 million. Our two other divisions, Neopost Shipping and SME, have both generated Q4 sales according to our expectations. The geographical breakdown of our sales hardly changed with a good resilience from our revenues coming from North America, while European revenues continue to be under pressure.

The revenue coming from the Rest of the World is growing, thanks to the success of the deployment of Packcity in Japan. The breakdown between recurring revenues and sales of equipment and software license remain unchanged. Our recurring revenue declined slightly and represents 68% of our total turnover, demonstrating once again that the business models of our new activities, digital and shipping, [ph] say (00:04:44) development of recurring income through software maintenance, professional services and Software-as-a-Service revenue streams.

We are replacing progressively our foothold decline of recurring revenue from Mail Solutions by new streams of recurring revenue produced by our Communication & Shipping activities. The sales of equipment and license post a decrease of 5.1%, reflecting the low level of license sales from EDS and the foothold decline of our Mail Solutions business line. The revenue coming from Communication & Shipping Solutions now represent 28% of the total turnover compared with 26% a year ago.

Let me remind you that we're organized around three divisions to address the transformation of Neopost. Enterprise Digital Solutions is providing print service providers and large verticals with software solutions to digitalize the communications and to improve the quality of the data. Neopost Shipping division is providing a full range of solutions to the main players you can find all along the supply chain of a parcel delivery. From cart to customers, we deliver hardware and software solutions to retailer, e-retailer, logistician and carriers. SME division is providing our historical base of customers with franking machines, folder inserters and all the related services. SME is also providing the very same customers with Digital Communication & Shipping Solutions customized for small- and medium-sized companies sold by SME. Therefore, we have as well a mix of hardware and software application.

Some business highlights for EDS. EDS has generated a revenue of €136 million, representing a flat organic growth in 2017 versus 2016. The three main components of EDS are first GMC software. Second, our data quality solutions. And third, icon Systemhaus, our latest acquisition. GMC Software only grew 3% this year compared to a high-double digit for the full year of 2016.

We continue to address vertical markets on top of our print service providers' customers. Our performance was disappointing in terms of new customers acquisition in the field of bank, insurance and [indiscernible] (00:07:29). Nevertheless, we continue to further expand our total installed base of customers thanks to small new license sales. Because of the increased base of customers, our maintenance and professional services revenues are increasing and we expect this trend to continue next year.

icon Systemhaus was down this year because of IBM that did not stop maintaining its old output software working on mainframe. As a result, we were refocused icon to its native base of customers in the German-speaking regions over the course of 2018.

Turning now to the Data Quality business line, we continue to experience decline in that domain. We are reengineering our software solution at Human Inference. And in Satori, our address cleansing solutions, the activity follows the trend of mail volume. At EDS, more than 70% of their revenue is recurring. Overall, for 2018, we expect a low-single-digit growth for EDS next year.

Shipping – Neopost Shipping posted a revenue of €57 million, representing an organic growth of 10.7% compared to 2016. We are pleased with the double-digit growth of Neopost Shipping this year. The growth is driven by both Packcity Japan and the CVP-500.

In Japan, the partnership with Yamato is progressing faster than expected. The deployment has accelerated during the second half of this year. And today, our total installed base reached 2,600 lockers. We are expecting this momentum to continue in 2018 supporting the growth of Neopost Shipping next year. The revenue of Packcity Japan is highly recurring.

Moving to the CVP-500, our fully automated packaging solution, we increased the number of machine placed in the field, 10 machines this year including repeat orders which demonstrate the relevance of the service provided by the CVP-500. We are still fine tuning the business model in order to increase the portion of the recurring revenue.

Revenue for our SME Solutions division reached €941 million declining by 3% as compared to minus 3.8% for the full year of 2016. At SME, we are confirming the resilience of our Mail Solutions business line. The rate of decline has slightly improved over the last two years. The dynamic in North America remains strong, thanks to a limited decline while Europe is under pressure. We expect that our Mail Solutions business to continue to decline in the range of minus 6% to minus 4% in the coming years.

The Graphics business line declined by 6% again this year mainly coming from the APAC region where we lost a large customer. I remind you that the Graphics business line were part of the acquisition we did in Scandinavia and APAC. We are just reseller of this equipment, and we do not expect recovery for 2018. The trend should be similar to our MS business line.

The main area of investment into the transformation of our SME division is our Digital Communication & Shipping business line. This business line grew by more than 17% in 2017 after 12% growth in 2016. Thanks to these new streams of revenue, we partly offset the structural decline of our Mail Solutions business.

At SME, we managed to maintain 68% of recurring revenue by developing Software as a Service business model.

For next year, we expect our digital and shipping business line within SME to post a stronger double-digit growth supported by the success of our OMS, Neotouch, Inspire, and Shipping Solutions.

So let's continue this presentation with our financial performance. So if we look now at our P&L, the gross margin improve at 74.9% of our revenue. Furthermore, our EBITDA margin reached 25.6% of our revenue compared to 25.5% a year ago, proving that the business model supporting our transformation is healthy and is producing positive cash flows. Our EBIT rate remains high at 18.2% of our revenue in a context where we have maintained a high level of investment dedicated to the transformation and to the Innovation.

To have a better understanding of how we manage to maintain a high level of profitability, we need to look at the evolution of our performance per division. For the sake of clarity, the performance of the CVP-500 is now reported into Neopost Shipping where it was previously reported as Innovation and we have done the same reclassification for 2016 of course.

And I will start with SME Solutions where we have improved the profitability by 30 basis points at 21.9% of EBIT. This performance come from the combination of growing Communication & Shipping Solutions business at 17%, that are not dilutive to the gross margin and the success of our OpEx optimization plan launched at the beginning of 2015.

In EDS, we posted an EBIT margin at 11.6% compared to 15.6% for the full year of 2016. The lower profitability comes from the decreasing license sales while we kept intensifying our investment made in our sales force and marketing resources to support our strategy to further penetrate new verticals such as healthcare and utilities. The profitability for Neopost Shipping remains negative at minus 21.8% compared to minus 21.6% in 2016. The loss is coming from the high level of investment allocated to the following business line.

Temando, our Australian start-up working on the development of the Magento platform to be launched during the first half of 2018, the CVP-500 to further expanse the installed base and Packcity Japan to support the acceleration of the deployment of our parcel locker network over there. Our investment dedicated to Innovation are stable at €8 million, fully allocated to our web-based distribution platform to provide digital application to very small businesses.

So as a conclusion on our EBIT performance in 2017, thanks to the improvement contribution of – coming from our SME division, we are able to pursue our transformation by allocating significant level of investment while limiting the overall impact on the profitability of Neopost.

As I told you, we have improved the EBIT from SME Solutions by 30 basis points. This is strongly supported by the rollout of our cost optimization program. As a reminder, we launched at the end of 2014, an OpEx saving plan targeting to produce a minimum of €50 million by the end of 2017. We have over achieved our objectives with cumulative savings of €57 million by the end of 2017. The plan was dedicated to support the transformation of SME division and address the following area: go-to-market, supply chain optimization, remote maintenance, distribution, and shared services for support functions.

As long as SME Solutions is not back to growth, we will continue to adapt our SME cost structure in the coming years to align our organization, to boost the growing portion of our Digital Communication & Shipping business line and structural decline of Mail Solutions.

Going further down to P&L, we recorded €11 million related to the depreciation of the purchase price allocation, the non-cash item. We booked €13 million expenses related to the financing of our optimization program which is mainly cash-based. We also recorded €12 million of non-cash charge mainly related to divestment.

During the year, I remind you that we sold DMTI, one of our data quality subsidiary and we adjusted the valuation of Temando following the final condition to acquire the remaining portion of the minority shareholders. Our net financial expense reached €34 million compared to €31 million in 2016. €1 million increase is due to one-off expense related to the refinancing operation we have done in February 2017, as well as to the cost related to the renegotiation of our [indiscernible] (00:17:36) for €400 million with 2022 maturity.

Our currency loss increased by €1 million following the sharp decline of the dollar against the euro during the second half of the 2017.

In tax, we have recorded two adjustment following both the revision of the income tax in the U.S. as well as the cancellation of the tax on the dividend for France. These two items fully offset our tax in 2017. Our new standard tax rate should be around 23% to 24% going forward, i.e., an improvement of 200 basis point versus the standard rate of 2017. As a result, our attributable income increased to €134 million in 2017 compared to €118 million for the full year of 2016. It represents this year 12% of our revenue.

So, let's now have overview of our cash flow generation. Neopost continue to produce a very high level of cash flow. For the full year of 2017, Neopost increased its production of free cash flow after CapEx by €2 million to reach €149 million. This performance has to be appreciated in the light of the strong increased level of CapEx we have invested this year.

How did we achieve such a good performance? First, the EBITDA remains very strong at €285 million, demonstrating that the transformation of Neopost does not come at the expense of our capacity to produce cash.

Second, we improved our working capital performance compared to last year with a positive impact of €20 million, thanks to a good management of our receivable.

Third, we had a positive change in these receivables, thanks to the 2.8% decline of our lease portfolio. This trend should continue in the future. Our interest and income tax paid amounts to €55 million with no impact yet from the new U.S. tax rate. Before CapEx, our cash flow increased from €229 million to €248 million.

Our capital expenditure increased significantly in 2017 and stood at €99 million compared with €82 million last year. The increase is solely due to the strong acceleration of our parcel locker in Japan while we reduce our capital expenditure dedicated to rental equipment and IT.

Our R&D investments dedicated to our digital business line have continued to increase. As you can see, we are well above our commitment to generate a minimum of €100 million of free cash flow despite an acceleration of our CapEx related to the transformation of Neopost.

As far as acquisition are concerned, we spend €23 million in 2017 related in particular to the purchase of the remaining share from the minority shareholders of Temando. Thanks to our capacity to generate very strong cash flow, our balance sheet structure further improved and is showing a healthy financial position.

Our financial net debt decreased by €88 million and stands at €675 million. This level of debt is fully backed by our highly profitable leading portfolio standing at €711 million.

In addition to our lease portfolio, we have more than €200 million of future cash flows coming from rental activities. We improved our leverage ratio at 2.4 times EBITDA versus 2.6 at end of 2016. Our leverage capacity continues to increase and all our covenants are met. It demonstrates, once again, our capacity to operate our transformation strategy while strengthening our balance sheet.

Let's move to the debt structure. As you can see, we don't have a significant refinancing deadline before 2021. Thanks to the Schuldschein placement issued in February, we have improved our average debt maturity while we stabilize our cost of debt at 3.5%.

In July 2017, we completed the renewal of our five-year revolving line for €400 million. Our flexibility remains very high and the revolving line is currently undrawn. Finally, in line with our mid-term guidance, we will submit to the approval of our shareholders the payment of a dividend of €1.70 per share.

Thank you. I now hand back to Geoffrey who will present our indication for 2018.

Geoffrey Godet

Chief Executive Officer, Neopost SA

So as a quick – thank you, Jean-François. As a quick wrap up for 2017, we obviously had a disappointment at the top line which was limited to EDS and in particular in Q4. But we had this year again; a very strong cash flow generation which we believe is the result of our business model, with a third of our revenue being recurring. So we have a strong balance sheet. And I believe that we have the means to continue our transformation, which is one of the reason I obviously joined Neopost.

So, to summarize the indication that Jean-François shared with you, for 2018, we obviously have some more work to do on EDS. We still need to understand what really happened and why the strong pipeline that we had in Q3 did not materialize itself the way we expected, and why I didn't sign in [ph] two (00:24:01) deals.

So, this is an area that actually fortunately I know fairly well because I've been working in the enterprise market for the last 15 years, in particular, it was the banks, health care, and I do insurance companies, and for being able to sell large software deals for C-suite decision makers, I have some good experience on how long it takes to be able to close the deals, what works, what doesn't work. So I feel fairly confident to be able to help the team at Neopost.

We have started to change our commercial approach within GMC and train basically to phase the deals, not to increase the dollar value upfront, to make the decision for the purchase a little bit easier, and this hopefully should help us increase our probability of being able to sign those kind of deals.

We also have started to review the way we manage our pipeline and the kind of indicators, elements that we ask ourselves seem to be able to look for. So I feel that the pipeline that we have today is better qualified than what we had a few months ago. But this is an ongoing process, and we have more work to do on that front.

In the meantime, given the increase of numbers of customers we had in 2017 and, therefore, the level of embarked recurring revenue especially in the meetings that we have with them and some of the PSOs, I think we could grow by a low-single digit for EDS in 2018 despite the different weakness or decline that we could have in data quality.

On the other hand, [ph] as a ways to (00:25:37) Neopost Shipping, and I will be happy to discuss a little bit of what I've seen with the parcel lockers in Tokyo during my first few weeks. I feel confident we should be able to continue to grow at a double-digit growth. And we should be able to do this, thanks mainly to the parcel lockers and Packcity.

Finally, within SME Solutions, I believe that we should see the same trend as we've seen before. And therefore, the growth in digital communication and shipping software should mitigate only in parts the decline that we have in our traditional mail business.

On the profitability side, as we have [ph] heard already (00:26:18) with Jean-François, assuming we keep our innovation effort at the same level, we shall maintain our EBIT margin at around 18%. And, of course, we will continue to generate some strong free cash flow next year. So, in a nutshell, 2018 will continue to be a transition year for Neopost.

So now that we have finished to review 2017 and the indication of 2018, I'll spend a little time to share with you where I came from and what I've done in the last few weeks. So I joined Neopost last month. To be precise, I started February 1 as Chief Executive Officer. Denis Thiery, that probably most of you know, remains the Chairman of the Board, which means that we now have a new governance at Neopost in place with a clear split between the Chairman and the CEO function.

For myself, I would qualify myself as an entrepreneur. I started to be a CEO when I was 26 years old. I had to move from Paris within just a few days' notice to become the CEO of a small company in California that was in crisis.

They were losing half of their business because they were solely working within the airline industry, providing software solution. And after 9/11 in the U.S. market, for the online market, it was a difficult period of time. That defined who I became as a CEO because it was a time of crisis at the beginning. The company was losing probably 25% of its EBITDA if I remember well, €4 million revenue. It was a small team, 25 people. There was not much left. But I made the commitment to stay. I didn't know that the journey that I had with them would take me for 15 years. And that when I would leave Flatirons and Jouve from the 25 people, there would be 2,500 people from one office, one legal entity, there would be a small group of 35 legal entities across the world. And it would have developed a pretty large portfolio of solution with, in particular, a lot of software and technology.

I became a U.S. citizen along the way and that's important for me because I obviously spent most of my business career in the U.S. even though the venture I had with Flatirons and Jouve allowed me to learn also business in other countries that are relevant to Neopost.

Obviously, a lot of the growth that I had in this company was the result of a strong innovation policy, developing a pretty large IP for the company in particular in terms of software that took us 15 years to develop progressively.

We augmented the growth – the organic growth that we had, thanks to many acquisition, probably have completed [ph] more or less an (00:29:05) acquisition. And obviously, some of the bad decision that I had made over the past 15 years and the good decision had been offsetted for a decent, clear good result.

The basic of what I've done for the last 15 years with my customers was to help them transform themself and mostly be able to help them to go from a traditional paper environment to a digital environment. So, I have been doing business transformation and helping my customers to do their business transformation for the last 15 years.

Obviously, I had also to transform my own company and some of the acquisition that we have done, some of the business model or the companies inherited or acquired or service business model. And I needed to transform them as well from a paper environment to a digital environment, but also from a traditional business model to a software or technology business model with all the refinement that could exist in this environment.

So, that experience I think made things fairly relevant for why you choose Neopost today. Obviously, Neopost has pretty large geographic coverage with a little less than half of their business in the U.S. And this is where I spent the last of my 15 years. Neopost also has some strong presence in some key countries including in Europe, France, UK, some of the Scandinavian countries, obviously, a little bit also in Australia. And this is where also I developed my professional experience with Flatirons and Jouve in Europe including France, UK, and I also made an acquisition in the Scandinavian countries. So, I feel some of this thing that I've learned over the last 15 years from a geographic standpoint and from a trend perspective in those markets are fairly relevant.

The second thing through is I had a pretty large portfolio of solution with different business model and different vertical industries including the banking, the health, and insurance industry that are also important to Neopost. And Neopost today have a pretty large complex portfolio of solution, including on the software side with EDS and data quality but also on the shipping side and on our traditional SME division within the mail industry.

Finally, I've done a few acquisitions as well which probably will be useful for Neopost as a ways to, how to well integrate past acquisitions that's been done or potentially in the future in the project if it happens.

So, these are the thing that I think are relevant to what I will be able to use in the near future. My experience in the last 15 years is that I've been working with my customers to try to solve problems with them. So, one of the thing that I've been keenly doing is focusing on product and solution. I wouldn't necessarily qualify myself only as a product guy, but that's definitely something that is key to me is we understanding whether the solution that we have are going to be the right fit moving forward for our companies and for our customers.

So, in the last few weeks since I started at Neopost, I obviously took the time to visit quite some of our operation, had a quite some of our product demos, tried to meet as many people as I could in our company because they're the one that will help us do the transformation in the coming years.

So, we have some of the sites that I have visited here. It's roughly 20 sites. So, it's been a pretty intense, quick roadshow for the last six weeks. I have more to do, so I have more of those offices to visit, obviously.

One of the key things for me was also to be able to visit two out of the three factories that we have, three out of the four development centers that we have across the world. I try to spend as much time with our team to understand our products. So, I probably had today up to 20 product demos. I have a lot more to go through because we have some larger solution but also some smaller one. And sometimes, the small one could be as important as the big one for our future.

And obviously, I spend a lot of time with our management team across the world, trying to meet the CEOs or the execs and the directors of our major subsidiaries, but also their management team, having them given a chance to give me presentation on how they operate their respective businesses. And also spend the time with our direct employees, that's something that I've been doing for the last 15 years. That roughly once a week, I spend time with 10 to 20 of our employees doing roundtables with nobody else, no management, just to have an unfiltered feedback on what works, what doesn't work, what makes sense. And from a leadership perspective, when you try to make decision, it's very important for me to always being anchored in, in the real world and trying to understand what could be the gaps so that we could always course correct along the way.

So, I had a chance to probably spend time with 250 people along the way during those roundtables, which was very insightful as well.

I had a chance to spend some time with some of our customers, some – our first customer for the CVP-500, for example, in Netherlands. I also spend the time with two of our key partners that are with us during for – for our joint ventures, one is Yamato, in particular, in Japan for Packcity. So, I spend a whole day also trying to understand how the consumer, the Japanese consumers were using our lockers, in which context they were using them. Why it was more interesting for them to get to one of our locker, rather than to get to a convenient store. Why we shoulder for them instead of having to wait in line. Why they had more privacy, why they had more flexibility during the day. And what was the difference between a locker that could be indoor versus outdoor.

The lockers are changing the way consumers are getting or receiving the package that they order online. It's modifying the last mile delivery from an e-commerce perspective. So, there is a lot of innovation coming up on that front. Finally, I also had a chance to meet with some of our financial analysts, to also listen from them – from their perspective, what they thought about Neopost, about our history and where we were today. And we'll continue to do this as well with the financial community because whether it's our customers, our partners, the financial community. I think it's important for us and for me to understand [ph] what they (00:35:15) think of where we are today, what's their ideas about our future.

And obviously, I will be continuing to work with our team. I was very excited by the level of professionalism from the team that I've met in Neopost across the world. And I've been able to meet enough of them to feel confident that we're going to be able to work together.

So, for the rest of the year, I will finish that tour. I will work on, obviously, on a strategic plan that hopefully we'll be able to present to you by the end of the year or sooner, by the end of the fiscal year 2018. I may not wait until that Investor Day to be able to make some decisions. And if I do so, I will obviously share those decisions along the way with you appropriately.

So in conclusion, I'm very excited by the change that we have ahead of us. I feel favorably impressed by what I've seen and what I've heard so far from the team and our customers. And I know obviously that I can count on a large team, 6,000 people, pretty amazing leadership team. And I've been pretty happy to work with Jean-François and Gaële and the rest of our financial team to be ready and to be prepared for you today.

I will, obviously, now open the floor to questions and being able to respond with Jean-François to as many question as we can, for our first assembly. And then we'll take question from the web, I think Gaële will try to gather them and ask those question. So please, feel free.

QUESTION AND ANSWER SECTION

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

A

Who wants to start?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Don't be shy.

Martin Boeris
Analyst, Exane SA

Q

Martin Boeris. Okay. Martin Boeris from Exane. Just a question on lease receivables. Do you expect an acceleration in the pace of decline going forward?

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

A

Okay. So, yes, that's what we already shared with you. We have started to see a decline of our lease receivables in 2016. In 2016, the lease receivables portfolio declined by 1.8%. This year, it's 2.8%. What we should expect is the lease receivable to follow the mail solutions trend. So, when we say that between minus 6% to minus 4% of decline, at one point, midterm, the trend that we will experience or that we will see in lease portfolio decline would be the same as our mail solutions business.

I think the presentation was...

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Was very clear, yes.

Q

[indiscernible] (00:38:24). Just one question regarding the EDS strategy. Could you just delve a little bit at the commercial change? You mentioned there's some evolution for the commercial strategy. So, what do you want to do to meet exactly?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Sure. I can [indiscernible] (00:38:44) Jean-Francois, feel free, because we did a review with the team altogether obviously. So, there's no change of strategy today, right. So, we're still operating under the same strategy for the EDS. And on the EDS, the strategy has been to move from the PSPs, traditional customers of EDS, for which they have developed their own business. And then a few years ago, they decided to go after new verticals, which were in the bank, insurance, and health industry. As they were doing the transformation, it's been going on for two, three years. They had their first gain and first wins, I think, two or three years ago. They started to change the dynamic of the team because to be able to sell within a bank you cannot have the same sales guy, okay? So, they had to transform the sales team not only in hiring new salespeople that had the domain background, the bank, the health, et cetera, but they had also to work with the marketing team to be able to develop the right pitch, the right use cases to be able to make sure that the solution was well suited to fit the needs of those new verticals. So, that's what takes times.

So, that's one aspect, and that transformation is ongoing. It will continue to transform itself because it's a large enterprise sales software within those kind of verticals. It's a complex sale, and the team has been learning over the last few years, and will continue this year. So, a lot has been done already. I think potentially there could be more on that front.

On the other hand, as they were going after those new customers, obviously the sale cycle has changed. The kind of criteria that makes a deal that's going to be – likely to be signed or not has changed as well. So, now we're talking about the sales methodology, not anymore about the strategy, but it's readapting the sales business process, what qualify for a stage-one or stage-two or stage-three or stage-four or stage-five, when are we going to likely to be able to close it in the next quarter because that's what is obviously of interest as well for us from a company standpoint.

So, on that front, they obviously had their own tools, that were suited for the PSPs, and they had to adapt and learn what would be those new criteria, those new levels if you want to say. So, the sale cycles move from 3 to 6 months max to probably 9 to 12 months, sometimes even more from a sales cycle perspective.

So, the team had to digest that during the year and recognize whether or not we were in a 6-month sales cycle [indiscernible] (00:41:10) or 9 or 10 or 12. And when you look at your pipeline then you also have statistical method to be able to look at all the deals that you have and trying to see if you apply the right [ph] win rate (00:41:20), the right ratios from what you've been doing to where you want to go. You're going to come up to some estimates. So, all those tools and methods, this is what we've been working with the team on. We have implemented some change in the last few months because obviously what we did in Q3 was not working, and we had a pretty significant gap up to the end of the year.

So, we did implement some of those changes. We have a better definition of the stage. We have a better definition of what we call internally the compelling events, which is for each of the stage to qualify to go from one stage to another one, you want to make sure you have some clear defined rules that define those evolution, and making sure that when you go from one to the other, there's no moving backwards because those qualifications are fairly robust.

So then once you have those engines in place, et cetera, obviously, it's not only this, you have to train the team and this is what I'm saying. I think we're going in the right direction, but there is more work that needs to be done to feel that we're going to have a refined and solid sales business process moving forward. It's an ongoing learning process. There's no magic wand on that. There's no exact science. This is some of the most critical, most difficult sales you can do in the world. When you are looking at a sales point of a few million dollar sales deals, these are one of the most challenging software sales deals you can get.

One thing so that I don't forget is that obviously for us we try to have more accuracy. In the methods too, we have taken out those large deals to make sure that it would not skew the weighted average that we have in the pipeline. And if they come, it will be a good surprise, but we want to make sure that the numbers we are counting on for each of the quarter is excellent for growth and not relying on some of those big items anymore.

Q

[indiscernible] (00:43:15) Raymond James. Two questions. First about Neopost Shipping. I understand that you are in the CapEx process right now. Can you explain to us about the profile you see on this segment? And the other question is more general, on the Mail Solutions, don't you see right now an increase in the decline of mail utilization generally because of price, because of use, and so on?

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

A

I will take the question from Neopost Shipping definitely. Yeah. What is CapEx intensive at Neopost Shipping is definitely the parcel locker network. In addition to the parcel locker network, we have a shipping software that is mainly based on the standard model of license and maintenance. Okay. We have the CVP which is very much we sell machine and we sell some maintenance, but high proportion is very sales driven, okay. And the intensity is not CapEx, these are cost of sales/some R&D, okay.

But moving back to the parcel locker, yes, what we do, the business model of parcel locker is that we rent the parcel locker to Yamato, if I'm taking the example of Japan. So every time we install a parcel locker in Japan, we have an agreement with Yamato for seven years where we guaranteed that we will get rental revenue for seven years from Yamato. So we cover up fully the intensity of the CapEx that we need to allocate to this network.

Q

That means that operating loss is only due to the Japan Packcity business?

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

A

So, in Packcity overall, we are close to breakeven. When you look at Japan in particular, we are not profitable yet because, as you can imagine, we have deployed a significant amount of parcel locker in 2017. In fact, Yamato has decided to accelerate the rollout of the lockers. So, we had to invest a lot in terms of maintenance, R&D, sales, presales, installation teams. So, this is the reason for the operating loss that we have currently in Japan. We expect that the trend in terms of rollout to continue next year. So, we will have to invest because we have to maintain a higher infrastructure than what we planned at the beginning. And probably in the course of 2019, we will be breakeven in Japan for the parcel lockers.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

So, for the Mail business, obviously, that's an area that I have a high interest into as becoming a Neopost CEO. So, I have been obviously trying to understand and ask a lot of question about the difference on the market. It's a complex market because every country has their own dynamics, every country has their own regulation, every country has their own structure, in particular, for the one that are highly using the mails in the bank, in the house, or in the insurance industries, bank statements, HR papers, et cetera. And the structure of those industries are not consolidating and are not leveraging new standards in technologies the same way, the same pace. So, we are obviously seeing some major difference in trends.

And from one year to another, when I looked at the past, there's obviously also many differences from one country to another. So, the pace is difficult to predict from that perspective. Obviously, we have a more resilient

American business because the pace of the decline is much lower, and that's confirmed also from the feedback that we get from our competitors there. And in some countries in Europe, it has stabilized, whereas in others, it's accelerating.

Okay. All in all, what we could see is that in the last few years and what we were counting on for next year is that we're still counting on that 4% to 6%, not necessarily – decline, but not necessarily with any acceleration that we have in mind today. That's the range we're counting on.

Q

If I may just one more question about your JV with Esker in the digital solution. Can you give some granularity of this business?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Just only a little bit, and I'll let Jean-François because he has, obviously, more history, but I was happy that I've been able to meet last week with Jean-Michel, the Chairman and CEO of Esker, to try to [indiscernible] (00:48:11) partnership and what we've done.

Esker has a set of solution that they are providing us for Neopost as basically as a [indiscernible] (00:48:21) or white-label, and we're able to go and take to market their technology from a Hybrid Mail perspective or some of the other offerings that they have for account payables or account receivables. And we're looking country by country which one we can take to market.

So, we have started in France. This is today where we have the strongest growth on what we call now the Neotouch branded solution which is some of the technology that Esker is providing us on the Hybrid Mail in particular, but we also engage in the U.S., in UK and in Australia. So, this is a [indiscernible] (00:48:55) that we're looking forward to be able to build progressively.

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

A

I'm just checking with Gaële if I am allowed to disclose the number.

A

No, it's around...

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

A

Right so it's around €10 million of revenue only for France.

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

A

Just for France, yes.

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Very recurring as we like it. We have a question here.

Q

Just a question on cost reduction. Going forward, do you expect to implement the cost saving plans to add up to your margins to the decline in Mail Solutions?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

Obviously. So, that's something that we had to obviously anticipate because sometimes it takes a little bit more time. But I think that's something that the company has been very successful over the past few years. So, the company and the team, operates with that in mind. So, obviously, we're making the same kind of decision, and I look forward to be able to continue to do this along the way.

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

A

As I told you, the plan is as long as SME has not reached the stabilization point, it will take sometimes even if the rate of decline is improving; again, we did minus 3% this year versus minus 3.8%. So, the growth of the Digital & Shipping Solutions provided by SME is offsetting a bit the structural decline of the Mail Solutions. But we know we will have to continue to go through OpEx optimization plan. We are not done yet with our go-to market strategy. We are not done yet with our capacity to sell online or through the Web. So, we still have to work on that. In the supply chain, we still have some optimization project that we have not activated yet. So, again, it's a natural evolution following the transformation of the SME division.

Q

But [ph] not a target like in (00:51:10) the past few years when you announced around [indiscernible] (00:51:15).

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

A

So not today, but we do have our internal, obviously, targets on that. But as I look at the next three years and five years, obviously, that will be part of what we're going to be working on.

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

A

I have one – two questions in fact from the Web from [ph] Sébastien Faijean (00:51:37). The first one is could you, Jean-François, give us a view on what could be the impact on our top line and EBIT based on the current euro-USD exchange rate? You want the second one immediately?

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

A

No. I can answer so...

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

A

Okay.

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

A

For 2018, 2019, 2020 – 2018, okay. So 2018 forecast, so taking into account that the dollar is around $1.23...

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

A

Yes.

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

A

...today, the impact which – will be bigger in 2018 compared to 2017. So, it will be probably more than €30 million of negative impact in our top line. Having said that, as you know, we are naturally hedged. So, the impact in the profitability will be very limited because we try to match the level of revenue we produced in dollar with the level of cost of OpEx and cost of sales that we have in dollar as well. This is the reason why we are continuing to outsource a lot of manufacturing operation in Asia just to compensate for the lack of – the loss of conversion that we could get on the top line from the dollar.

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

A

Thank you.

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

A

You're welcome.

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

A

I have another one. I think this one is more for you, Geoffrey. Are the mid-term guidance to come back to positive organic growth and above 20% EBIT margin still on the agenda?

Geoffrey Godet
Chief Executive Officer, Neopost SA

A

That's something I will get back to everybody during the Investor Day.

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

A

Thank you.

Q

And just maybe on Temando, do you expect some revenues in 2018? Because the partnerships should start from April 2018.

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

So, there is a go-live date on the...

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

Magento.

Geoffrey Godet
Chief Executive Officer, Neopost SA
A

...Magento side. Yes, it's planned in spring. So, hopefully, there's no delays on their side where I think everybody is working together on this should happen quickly. Don't forget that the business model of Magento is that we're going to have mostly our yearly subscriptions with some usage. Therefore, we're going to have a ramp-up period of time. So, it's going to be more important for us to know how many customers we're going to finish the year with then, to some extent, the amount of revenue where we are going to get this year. So, I don't have particular high expectation on the level of revenue generated by Magento from spring [indiscernible] (00:54:19), so it will be small.

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

No more questions? Okay.

Geoffrey Godet
Chief Executive Officer, Neopost SA

Thank you very much. We look forward to our Investor Day, and I think we'll talk to you for the Q1 2018 sales on May 31 aftermarket close. Thank you, everybody, for your time.

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

Thank you.

Geoffrey Godet
Chief Executive Officer, Neopost SA

Thank you.