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Quadient SA (QDT.FR)

Q3 2019 Sales and Revenue Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Quadient Q3 2019 Sales Presentation Conference Call. My name is Lydia and I will be your coordinator for today's event. Please note, this conference is being recorded. And for the duration of the call, your lines will be on listen-only. However, there will be an opportunity to ask questions at the end. [Operator Instructions]

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

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

Thank you. Good afternoon, everybody. Welcome to our third quarter sales conference call. I will be here today with you presenting with Gaële Le Men, Investor Relations; Jean-François Labadie, CFO; and myself, Geoffrey Godet, CEO of Quadient.

So let's move to slide 3. Quadient consolidated sales total €278 million for this third quarter, which is up 5.2% on a reported basis. This represents 2% of organic growth at group level excluding currency and scope effects. If we break down this performance by operation, our Major Operations grew at 0.4% organic growth, thanks in particular to the strong performance of our North American region which grew at 4.6% in the third quarter with a good performance in each of our four major solutions.

Our second operation, Additional Operations, had a strong growth at 9.7% in this third quarter. This represents a year-to-date organic sales growth performance at 2.2%. This represents our sixth consecutive quarter of organic growth.

I will obviously share with Jean-François some more detail throughout this presentation on everything we have achieved since the beginning of the year since the announcement of our new strategy and going quickly on some update on our new organization that we have established since the beginning of the year, the work we've done operationally, the investment that we've been making on our go-to-market, on our R&D, on our operations and major solutions, and obviously, all the focus that we had as well on reshaping our portfolio of businesses, in particular giving you some updates on our recent acquisition since the beginning of the year, and the performance of Parcel Pending which now stands at a top line growth above 30%, and obviously, the phased shutdown that is halfway completed of Temando in our Additional Operations.

Consequently to that sixth quarter in a row of organic growth, we are now upgrading our top line guidance to above 1% of organic growth for the rest of the year considering the fact that we're going to maintain the other indications but we will go through these in details with Jean-François.

Moving now to slide 4. A quick summary on our current strategy that we have announced at the beginning of the year, we are refocusing our business on four major solutions across two main geographies, North America and a few key European countries. The core of our strategy is to focus on the acceleration of our organic growth, thanks in part to some operational investments in our go-to-market and R&D, as well as our CapEx, and augmenting this organic growth thanks to an M&A plan to accelerate overall growth of our company in the coming years. In addition, we are also reshaping the portfolio of our solutions and focusing on our other solutions and other operations called Additional Operations and trying to grow and improve or exit those other solutions.

Moving to slide 5, to give you now a little bit more color on our execution on our Back to Growth strategy since the beginning of the year. Everything we've done since the beginning of the year has been focused on executing the strategy we shared with you. We have put in place a new worldwide organization, right, moving from a decentralized company, a holding of independent companies on one hand, two, a unified and integrated company. This is now in place, and obviously, we have also a new management team that has been put in place since the beginning of the year that has been executing on deploying this strategy and this new organization.

Naturally and consequently, it was time to have a brand that could represent all our customers and all our employees. Hence, why we made the announcement at the end of September that we should resume to rebrand the company, and as a quick reminder, this was not just a branding or logo design. It's been a holistic work to make sure we work on our vision, mission statement, values and we look at what is the best way, the value proposition for each of our solutions and the synergies that existed across the organization.

As part of that holistic work, obviously, our corporate and social responsibility has been a cornerstone of this strategy. So therefore, achieving the gold certification of our commitment to sustainable development by the rating agency, Ecovadis, is a very encouraging step in the recognition of our progress, and obviously, the execution of our ambition in this domain. In addition, as you know and as we shared, we have continued since the beginning of the year but also in the third quarter to further do investments in our go-to-market, investing in our sales and marketing organization for each of the four major solutions that we have decided to refocus the company on, and also penetrating and developing new verticals and some other of those solutions. And we will go over some of the details as we go over each of the major solutions and where we stand and the progress that we have made for each.

We have also started to work since the beginning of the year on some of our R&D platform and being able to enhance and accelerate the development in the go-to-market of certain features. We've made some good progress as well. And obviously, we have also focused on developing the synergies that were available to us before but that we have been better enabling since the implementation of our new organization.

In addition, we have spent obviously a good amount of time since the beginning of the year to focus on another priority which is Additional Operations. As you know, our priority for Additional Operations has been to grow, improve or exit the different solution and businesses that is comprised in this activity, which is part of the reshaping of the portfolio more globally of Quadient.

We also made our first acquisition, and I will take a little bit more time to go into details on the progress we made on the integration of this acquisition which is critical for us. But obviously, the two divestments that we made in Additional Operations at the beginning of the year were Satori and Human Inference which were both businesses representing our work in the data quality environment , which we had decided to exit. And since the announcement at the end of September, the phased shutdown of Temando, and mainly a phased shutdown because we wanted to do a proper shutdown of those operation, making sure that we were abiding by all the commitments that we have with our customers and employees. And this shutdown has made good progress, obviously, since the announcement.

Moving to slide 6, wanted to take a little time to give you an update on the progress we have made on the integration of Parcel Pending. As you know, we have said that we would augment or we'd accelerate our organic growth, thanks to acquisition. We made a important acquisition in the beginning of the year with Parcel Pending. And Parcel Pending has, obviously, had already some significant contribution to our organic top line since the beginning of the year, and such quarter-after-quarter. We have seen for Parcel Pending, we see now an acceleration of the top line growth because we now stand at above 30% growth at the end of those nine months.

Parcel Pending integration is progressing well. We are very excited to work with this amazing team that has built a very fast growing business. And since the acquisition, we've been validating all the different assumptions that we had about this business, about its potential, about the market trends and one of the key things that we've been able to confirm the good market dynamics in the residential market that we identified as a priority in the US, in the North American market but in particular in the US.

And we've seen that the ballpark is not exclusively with the growth that we have with Parcel Pending this year on this market and we have confirmed the dynamic. So we have the right team, the right product, the right operations to be able to sustain that accelerated growth. In addition to confirming obviously the core market penetration that we see in the residential market, as it is a nascent market, the Parcel Locker Solutions and see that in different countries in the world as well, there are other verticals that could be interesting and could also be seeing some growth in the coming years. So we've been taking the opportunity since the acquisition to work obviously together with the Parcel Pending team to study other verticals such as the retail in which we have started to do PoCs as we have shared with you I think at the end of our first semester, looking at the carrier segment market but also further looking into the corporate market in which we have already started to gain some interesting position for example in the segment of the Universities in the US.

And we've been looking also at how to reuse the technology and the platform and the product range of Parcel Pending into, potentially, other region in the world and continuing to look at our growth plan in the next, for the duration of our Back to Growth strategy over four years. In addition, we've been also looking at operational synergies which were part of the synergies identified prior the acquisition and we've been executing on them and studying on them since the beginning. We have obviously two different platforms with Parcel Pending. The one that Parcel Pending is presenting to us, a software solution for the residential market and we have the one that we inherited from Quadient, so we're obviously looking at the combination of both. And we have the same thing on the hardware side of the product range. We have now two product range that we're combining together. And that makes us stronger on this market.

So all those actions have taken place already, albeit some very good progress. It's obviously important to us because it's our first acquisition of our back to growth strategy and plan, and things have been progressing according to what we anticipated so far. So obviously, happy of the result, but happy also to share with you how disciplined we've been in integrating progressively in the right way this company. And I think that the acceleration of the top line growth we've seen is a demonstration that this company is providing the expected results which is obviously very important for us in term of return.

So, if we talk obviously about return, it's also an opportunity as a reminder to share with you a little bit our M&A ambitions. We have set for ourselves an M&A envelope of €100 million on average per year to contribute to the acceleration of our transformation. And this is an amount that is net of divestment. So we might be spending as much as €400 million net of those divestments by 2022. But we have no obligation to do so, okay. If we don't spend this amount we will return to our shareholders, the cash that is let at the end of the plan that is to say at the end of 2022.

So, in the meantime, let me stress that we have set ourselves some very strict criteria for M&A. The one we have shared with you. And by these criteria I mean as we aim for reaching within three years for each acquisition the ROCE higher than our WACC.

Now, the type of acquisition that we're considering are bolt-on acquisitions and bolt-on acquisitions for each of our four major solutions that we have defined as part of our refocus and our strategy and that is in order to complement our existing Major Operations which is mainly North America and the few key European countries. So it's both a focus for bolt-on in term of the type of solution we're focusing on and then the type of region that we're focusing on as well. So we're very deliberate and very specific to execute according to those criteria.

To-date, we have concluded one deal which I just mentioned before which is Parcel Pending and as I mentioned again, we're very pleased with the performance and the prospect of what Parcel Pending had brought to us so far. So only one deal concluded this year but this doesn't mean that we have not been active on the M&A front since the beginning of the year obviously.

If we haven't completed any of the deals for the time being, it is because we have a very controlled screening process in place and we have a dedicated team to screen those potential targets in the market. Among the potential targets that we've been looking at, some were lacking potential synergies. Some were not fitting well with the current organization or with the culture of our team. And as I mentioned that you, I think the success of those acquisition is really important in term of integration. So as you look, it's not just the profile of the company in how successful to be to integrate them and the culture is one element. And some were not meeting obviously our financial criteria. And to be frank, some others went to higher bidders and we didn't want to overpay for that.

And finally, some on our pipeline obviously are long shots and obviously are still in our current pipeline, okay. So we've been fairly active since the beginning of the year, looking at potential targets but what is important and that we want to find the right fit, at the right price, with the right prospect for us. And otherwise, then we don't go for it. So as we had some questions about M&A policy this year, I just wanted to make sure I provide a quick update on those questions along the way.

Moving to slide 7, and I am now going to hand it over to Jean-François.

Jean-François Labadie

Chief Financial Officer, Quadient SA

Thank you, Geoffrey. So to continue to elaborate on the capital allocation discipline as you know to further support our Back to Growth plan we are planning to allocate €100 million per year on average to CapEx. At this stage, several comments need to be made. First, €100 million of CapEx per year is consistent with the last two years. As you can see, 2017 we allocated €99 million for CapEx, 2018 €93 million of total CapEx. And as you can see as well, we are in line with our strategic plan at the end of H1 with the level of CapEx amounting to €49 million.

Second comment, we need to provide you with more detail on the CapEx structure for you to understand the specificity due to our rented equipment business that fuels our secured recurring revenue. In this chart, you see that an average of 50% of our total CapEx for the year is allocated to rented equipment. Clearly, it provides us strong visibility on future cash flow and in addition, over the last three years within the rented equipment CapEx, we managed the shift between an increased CapEx allocated to our Parcel Locker Solution to deploy our network in Japan and a decrease at the same time of the CapEx allocated to Mail-Related Solution linked to the decline of this activity.

On the CapEx structure, we are increasing the R&D CapEx related to the development of our new solutions, which represents 32% of our total CapEx in H1 2019. And we are optimizing the portion of our maintenance CapEx, representing 18% of the total CapEx in H1 2019. We will continue to carefully manage the breakdown of our €100 million of CapEx per year with a high priority given to rented equipment and R&D development.

Let's move now to page 8, our Q3 organic change in sales. As Geoffrey said for quarter three, we posted sales of €278 million up 5.2% compared with Q3 of 2018. We had a small positive scope effect of 0.7% coming from the acquisition of Parcel Pending, the US leader in the Parcel Locker Solution in the residential market and the divestment of both Satori and Human Inference from our former data quality activity. The current impact is strongly positive at 2.5%, representing this quarter €6 million increase in our top line.

If we move to the organic growth, the organic growth of the quarter stood at plus 2%, representing an increase in revenue of €5 million i.e. our sixth consecutive quarter of organic growth. In Major Operations, organic growth stood at 0.4% i.e. an increase in revenue of €1 million. Customer Experience Management grew 1.1%, our Business Automation Solution grew by 14.4%, Mail-Related Solutions experienced good resilience with a limited decline at minus 2.4% and our Parcel Locker Solutions grew by 36.2%. Altogether, Business Process Automation, Customer Experience Management and Parcel Locker Solutions grew by €5 million, offsetting the minus €4 million decline of Mail-Related Solutions.

Moving to Additional Operations, we posted an organic growth at plus 9.7% or plus €4 million driven by good performance in Customer Experience Management, Parcel Locker in Japan and good quarter for automated packing systems.

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

Geoffrey Godet

Chief Executive Officer & Director, Quadient SA

Thank you, Jean-François. So let's be moving to page 9 and let's talk in more detail about Customer Experience Management. If we look at it, Q3, we stood at 1.1% organic growth and if we look at it geographically, we underperformed in two regions, mostly Germany, Italy and Switzerland in one hand and as well, the UK and Ireland region and that underperformance did offset the good performance that we had in North America and in France, Benelux in the third quarter.

So we've been able to keep adding new customers as we did on a regular basis in the last few years and since the beginning of the year quarter after quarter, we have a very stable existing customer base in terms of installed base and we keep adding quarter after quarter new customers. And we've been adding those customers as well and that's also a good news in the new verticals that we said we would want to invest as installed base where we still had our first two new customers in those segments in each of the three segments both in utilities and telcos and government already, which shows that the investment we're making in those verticals should naturally, after a sales cycle that usually takes 12 months, starting slowly to pay off for next years.

As a result, we've seen an increase in our growth, an increase in revenue for our maintenance and professional services as a result of the customers we have embarked last year and obviously since the beginning of the year. And from a license and subscription perspective, we have seen a continuous increase in the third quarter in the SaaS subscription this quarter in particular. So the – what has happened in the third quarter outside of Major Operations is a very strong growth, high growth in the other geographies that are reported under the Additional Operations and to give an overview obviously of the Customer Experience Management at the group level, we have grown year-to-date at a double-digit growth at group level including the geographies that are reported under the Additional Operations.

Let's move to page 10 and spend a little bit more time on Business Process Automation. It's another quarter of good performance at 14.4% organic growth. This is the result of the strong growth in two of the largest market which are France and North America for Business Process Automation today. The UK as well as Customer Experience Management had a negative impact for us in this third quarter considering the number of lower new licenses that we had in term of deals in the third quarter again.

On the other hand, we have started since the beginning of the year some customer acquisition campaigns, and I took the example of the French market, where we had divided the verticals in the French market in 12 verticals. So we have continued to make the investments and the go-to-market in those campaigns which is showing over here the result obviously quarter after quarter of the good growth that we've seen in those markets and for Business Process Automation. One of the reason also why this growth is at the level that it is, is because we have also worked on the synergies between our go-to-market organization for our Mail-Related Solution, our Business Process Automation which in turn is paying off with a continued good growth for Business Process Automation, both year-to-date and quarter-after-quarter.

Moving to slide 11 for Mail-Related Solutions. And let me start for Mail-Related Solutions with a quick reminder on our strategy that we have announcement to you. When we said we wanted to focus on each of our four major solutions and one of them is Mail-Related Solution. We have decided to reinvest and refocus on our traditional business which is the Mail-Related Solution one. And when we said we wanted to reinvest it in, what does it mean, right, was to focus in particular in the North American market. And why did we want to focus in particular on the North American market, is because in that particular market, we have a position of challenger where our market share is much lower than our competition in this region, which is an opportunity for us to potentially do better, right. And it's better in term of managing our installed base of customers on the one hand and also in term of customer acquisition campaign and being able to do better in that particular region.

And that's also relevant to the fact that we want to make sure we have a product portfolio that is highly competitive in particular for the folders and inserters. So, as you could see, this is I think the demonstration now for third quarter that in North America, we have seen a low single-digit organic growth, right. And that's really the combination of having an operation team executing well on maintaining the installed customer base which in turns is obviously stabilizing the recurring revenue, okay. And in addition, we have seen also strong growth in the sale of new hardware and the high level of growth that we had in the hardware sales in Q3 where we saw something we've seen going on since the beginning of the year, quarter-after-quarter is in particular the result of a particular segment in our product portfolio engine, what we call the production mail in the folders/inserters and obviously focusing also in the customer acquisition campaign program, right. So that's all what is making up the result progressively of that investment strategy and refocusing in our Mail-Related Solutions.

In Q3, we've seen some difficulties in the German, Italian and Switzerland region which we've seen as well in the previous quarters and we see the continuation of those difficulties unfortunately in the third quarter. And as I mentioned on the Business Process Automation Solution, we are also very diligently, very methodically focusing on helping cross-sell our solution and helping the sales teams that are proposing our Mail-Related Solution to cross-sell the digitalization solution to offer to their customers. So this puts us obviously in a good position year-to-date with a good resilience of our Mail-Related Solution, because now we had a decline of minus 2.2% organically, in particular as a result the continued growth that we've seen now this year in North America.

Let's move to slide 12 and focus a little bit on our Parcel Locker Solutions, which stands for the third quarter at a 36.2% organic growth, right, and 27.1% year-to-date. I have already taken the time to explain the progress that we have made on integrating Parcel Pending. And obviously, Parcel Pending is – represent the vast majority of the organic growth of our third quarter but also overall year-to-date in our North American market. And mostly, Parcel Pending is representing the total number of business that we do in the residential market.

Now, for the top line growth spend now above 30% in Q3 versus last year. So, obviously, happy of the progress that we've made with Parcel Pending since the integration. As I mentioned earlier, we are continuing to look at the opportunities to reuse the platform and the product range of Parcel Pending into other segments and other region for our Parcel Locker Solutions.

Let's move now to page 13 and wrap up a little bit all those four major solutions for our Major Operations, which as a reminder represent 82% of our total revenue and now shows a organic growth at 0.4% for the third quarter. And this is driven, in particular, by the growth in each of the four major solution that we have in North America which grew at 4.6% in that third quarter alone with obviously a strong performance of our North American operation. We've seen a decline in our main European countries which reflects different trends. In France, we had Business Process Automation and Customer Experience Management almost compensating the decline in the Mail-Related Solution business that we have in traditional and in the past few years but also this year.

The UK and Ireland region, there was a slight temporary improvement I think with a low single-digit decline definitely in the third quarter. And finally for the German region which is comprised of Germany, Italy, and Switzerland, we've seen a double-digit decrease and that's mostly related to the strong decline that we have in Mail-Related Solution and the underperformance in the third quarter of the Customer Experience Management Solution.

To notice, year-to-date, Major Operations' recurring revenue represented 71% of the total revenue of Major Operations and grew at 0.7% organically and I think this is important to appreciate because this is in spite of the overall decline of the revenue that we have in particular in our Mail-Related revenue which represents most of the recurring revenue that we have.

Let's move to slide 14. Additional Operations is a key priority of the Back to Growth strategy that we shared with you and in Q3 we have enjoyed Additional Operations as a result of the focus that we have, a strong growth again at 9.7% which now stands for the year-to-date situation at 8.6% organic growth. Additional Operations is the segment that we have set up to represent our secondary markets, all the activities that we do in other countries

Martin Boeris
Analyst, Exane SA

Q

Yes, exactly.

Jean-François Labadie
Chief Financial Officer, Quadient SA

A

So we are not excluding precisely the performance of the Parcel Locker in Japan, but as we said, we are – we continue to have good momentum in the rollout of the network. And you have seen that we have reached 5,000 lockers in total deployed in Japan. So we are ahead of the plan compared to what was originally forecast. What I can tell you that we have double-digit organic growth on this activity, a strong double-digit organic growth on this activity for the quarter.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

If I could help you also, like Jean-François did, in Additional Operations, the side of Customer Experience Management, Parcel Locker, and our major solutions combined with the exception this quarter of the CVPs, the other solutions have been declining, right.

Jean-François Labadie
Chief Financial Officer, Quadient SA

A

Yes.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

So the CVP, the five CVP units obviously is more a one-off because we don't see that as a trend today and historically in the past years. So the growth of Additional Operation this quarter but also since the beginning of the year has been in large proportion, mostly driven and almost sometimes exclusively for some quarters driven by the four major solution combined. In the four major solutions combined, quarter-over-quarter, we've seen different performance among the four solutions. This quarter, in the third quarter, the Customer Experience Management and the Parcel Locker one had been at the ballpark of the strong growth that we've seen in Additional Operations.

Martin Boeris
Analyst, Exane SA

Q

Okay. I would say that the underlying question was – is this a surprise to you this strong performance? And to what extent do you have visibility on the next quarters? And that's why I was asking a question on Packcity because we know that at some point Packcity in Japan growth was fading because of the base effect. And I was wondering if it was – you got some visibility on what's going on in this Additional Operations or if it's really a surprise to you, this strong performance.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

Sure. So it's a good opportunity to remind what we have in Additional Operations, right. We have obviously two things. One, we're taking to market the four major solution to those secondary countries. And when I say that is we have many different countries, right, to represent all the 27 countries that are not just included in the Major Operations. So we have local dynamic in every country. In Australia, the market is different than China than it is in Singapore, some of the rest in Asia, in Japan, in the rest of Europe, in Latin America. So it is really the combination of the different individual performance and the mix of performance that are different from one quarter to the other. Obviously, what we've done with Additional Operations is put a dedicated management team on top of all those countries that were second priority before, right, to make sure we could improve on the execution and make sure that those region were contributing to our Back to Growth strategy. So from that perspective, it's not a surprise to see some decent performance in those businesses.

And in particular, now to respond to your question for Parcel Locker in Japan, the Parcel Locker in Japan, we had had a different phases, right, of higher growth of installation of new lockers in different part of Japan at some point, some slowdown. But overall, month-to-month, we're always adding new installations. So the growth of the installed base could have various phase, but it's still growing month-after-month and quarter-after-quarter. After an initial phase of strong acceleration, we went to the second phase of working obviously on the quality, the usage of how each installation externally or internally in the different buildings or the different customers that are having those location which is the reason why the second phase had a little bit a slower pace in terms of the numbers of new location we were adding. But this year, the performance we have on Parcel Locker in Japan is not a surprise because we have a good relationship and good visibility with our partner Yamato through the joint venture that we have there. So it is according to expectations.

Just a quick reminder of why we have that strong growth also in Parcel Locker in Japan. Originally, within the agreement, we had planned to do 5,000 installations of lockers in Japan by 2022, where we are already at 5,000 this year in Q3. So this is not over. We're going to continue in the coming quarters and coming years to continue to expand the size of the customer base in line with the evolution of the local market in Japan with Yamato. We are now also working with the other carriers, Sagawa and Japan post, and we're also looking at different type of players as well. So we're entering a different phase, a different maturity and that is where the beauty of this model is for us.

And as a quick reminder, every time we sell a new location, that location is installed with a seven-year agreement. So it is a location that is rented for seven years guaranteed. So the location we have installed two years ago, we have five more years to go. So the installation that we have done in the third quarter this year has seven more years to go, right. So we have also maturity that is evolving over time but always with a seven year window.

Did we address all your questions, Martin?

Martin Boeris
Analyst, Exane SA

Q

Thank you. And I have two others on the diverging performance in the customer experience management?

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

So, in particular for Europe, so last year just as a reminder in Major Operation, we had a very strong performance because we stood at 29% organically just in the Major Operation last year. And as you know in Q4 last year, we had some big deals in Addition Operations. So we have high comparison basis in Q4 coming from the Customer Experience Management business. And within that, obviously, the performance country by country vary. Some of those strong performance last year on the 29 came in part with some strong performance in UK and also Germany, right. So we had a good performance overall in all the different countries, France and the US included. But some of those higher growth that we've seen already was from those regions. So that's one aspect.

The second aspect we definitely see in the UK and Germany in the third quarter is a slowdown, it takes a little longer to be able to get some of those license deals. Because obviously, we've been able to continue to grow in UK or Germany the maintenance of our customers and service revenue because we have always more customers, just not at the pace that we had early year in Q3. And then I would say that comparatively speaking, North America had a good performance in Q3 which is to expectation, but we had a slower start in North America in Q1 and Q2. So this is why we had a valuation of the mix of the countries. It's just that they have the underperformance in the UK and Germany in the third quarter, did not compensate the good performance that we had in the US and France.

Martin Boeris
Analyst, Exane SA

Q

Okay.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

And then the last question was for the revenue in Q3 of Parcel Pending which we're not sharing specifically. So what we say that it is above 3% in Q3 again.

Martin Boeris
Analyst, Exane SA

Q

Okay. And no news on the French market?

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

So with the French market, in Parcel Locker Solution, to be frank, and this is going to be bigger and bigger. Today, the vast majority of the target is the result of Parcel Pending. We have a small footprint that is a very interesting market share on the universities because we're definitely the leader in the university segment but it's a small number. And in France, it's the same thing. We have the JV, the joint venture that we have with GeoPost but in term of numbers of lockers it is a small portion of the business. So, when we were at the beginning like in Q1 with Parcel Pending, even small variation in France or the US in the university segment could have had an impact on the growth rate of the entire solution. With Parcel Pending growth now this is going to be less and less valid and Parcel Pending will represent, if not exclusively, the vast majority of the performance and that's what we see again on Q3, the performance of the US segment in the university or the French performance did not impact the overall performance.

Martin Boeris
Analyst, Exane SA

Q

Okay. Thank you very much.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

You're welcome.

Operator: [Operator Instructions] We have no incoming questions. I return the call over to your hosts.

Geoffrey Godet
Chief Executive Officer & Director, Quadient SA

A

Okay. So, we have some question from Nicolas Tabor from MainFirst.

First question is why did the Customer Experience Management slow down? Should it be worse in Q4 as a comparison basis will be tougher? So I think I have responded and Nicolas feel free to ask us for more information if we did not answer including the answer, to the question of Martin.

Should it be worse in Q4? We have a high comparison basis in Q4. It was the highest quarter of the year Customer Experience Management in our old reporting segment. So it's going to be a pretty tough comparison. It could be negative in Q4 definitely.

The second question from Nicolas, is the number of total CVP sales year-to-date which I believe I have given during the presentation. We stood, year-to-date at 11 units which is one more compared to last year but for the full year.

Third question for Nicolas was: does the Parcel Locker organic growth include Parcel Pending, the answer is yes.

Fourth question from Nicolas, what is the installation rate we can expect now at Packcity Japan, how much more do you want to install?

These are not numbers we're sharing specifically because it's also information that we have with Yamato as our partner. But we expect as mentioned earlier to continue to install lockers going through different phase obviously. But we have a good relationship, a good joint venture, and we will continue to grow the installed base of lockers in Japan this year and next year.

Do you see the partnership between Pitney Bowes and Luxer One as a threat?

So Nicolas is referring to Luxer One that is another player in the Parcel Locker Solution in North America. It is a player that has been acquired by a Scandinavian company called Assa Abloy. More or less at the same time, we have been acquiring Parcel Pending. So we know obviously – we were very happy to acquire Parcel Pending at the time for specific reason. As it relates Pitney Bowes doing a partnership with Luxer, it is I think in the same light that I see today Amazon with some other players that now take a recent interest in the Parcel Locker Solution. As you know, we've been investing in the Parcel Locker Solution for quite a few years in different countries, trying to understand and fine-tune the model that could exist based on the different segments.

We have the residential segment which is one very interesting and the fastest-growing segment that we see, obviously, in North America, hence, why we had made the decision to acquire ahead of time Parcel Pending with a specific upfront hardware model. In Japan, I had explained the model which is a seven-year model of an open network where we rent the capacity to different players for them to be able to benefit from the different location of those lockers in the country. But we had also work in France on the retail segment, working with a different dynamic where you try to basically cross-sell or help improve the sales business of a particular retail by bringing customers back in store, and as they come back in store, to pick up a package to potentially give them the opportunity to buy something else locally.

So I think that we have been ahead of most of the players, right. So I see that as comforting announcement to see other players seeing the benefit of the Parcel Locker Solution, which again, I believe is going to be the main solution for the 10, next 20 years to optimize the last mile in the big areas in the big urban densely populated areas. And it is the right solution even though other solution, other technology could be suited for other areas within those countries and those big cities. We think that the Parcel Lockers solution is the right one. Specifically in the US, PB, Pitney Bowes is, obviously, from what we could read in the announcement intending to promote as a reseller to that agreement with Luxer, those lockers and probably the segment that Pitney Bowes is operating, which are similar to the ones we've been operating which is, right, the corporate segment mostly. And again, here in the corporate segment, we've been working on it for the last few years and we started with one segment, which is the university segment, where today we're probably staying well above 50% market share for the university. It's been growing steadily also in the last two years. So I feel we're in a good position to be able to continue as part of our strategy to be a leader and to be the leader in the Parcel Locker Solution in the market, in the US in particular, and focusing on the market we have made preference which is the residential market today.

And the last question I have from Nicolas is, do you see pricing pressure from the growing numbers of players in the Parcel Locker.

It's a good question. We will continue and we are monitoring this obviously on the market. This is not something that we are seeing today because there are many startup or smaller players but in the different segments and different countries. So in a given segment or in a different country, you don't have that many player in the first hand. So then the competition is still limited, and it's a race. That's why I added that I think as an important element. We believe that it is important for us to be the first to market because when you install a locker in a given location, it's not like on the software side only. We have a physical space that is being used, and as I mentioned, I believe we can [indiscernible] (00:58:53) location, different city, et cetera, two, three different networks and position of lockers, but not so many. So being able to do the right first is important and when you don't have so many players, you obviously get the benefit of being the leader. And as a result in those segments, we don't see today in the one we're operating, particular pricing pressure in the segment we operate.

Gaële Le Men-Chagnaud

Director-Investor Relations & Communications, Quadient SA

There's no more question on the webcast. On the conference call, is there another, a last question?

Operator: [Operator Instructions] We have no incoming questions.

Geoffrey Godet

Chief Executive Officer & Director, Quadient SA

Yes. Thank you very much for your time and for your attention. And look forward to meeting with you at our next...

Gaële Le Men-Chagnaud

Director-Investor Relations & Communications, Quadient SA

Our next event will be the publication for Q4 and full year 2019 results, and that is scheduled on March 31. Thank you for your participation tonight. Byebye.

Geoffrey Godet

Chief Executive Officer & Director, Quadient SA

Bye.

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