Press Release

REGULATED INFORMATION

14th MARCH 2019

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Econocom confirms its 2018 full-year results and its 2019 outlook of €128 M ROP, up more than 10%

Key facts & figures

• Revenue[1] rose to €2,846 million (up 8.0%, including 2.7% organic)

• Recurring Operating Profit[2] (ROP) at €114.6 million

• Good generation of free cash flow, standing at €69 million, i.e. 60% of ROP

• Net debt down to €252 million, i.e. 1.6x 2018 EBITDA

• 2019 ROP guidance confirmed, i.e. €128 million, up more than 10%.

The Board of Directors of Econocom Group, a European company specialising in the digital transformation of organisations, met today with Jean-Louis Bouchard acting as chairman, to finalise the 2018 full-year results.

2018 results

Econocom Group, a digital transformation specialist, has confirmed its 2018 results.

The group's consolidated revenue[1] stands at **€2,846 million** compared with €2,634 million in 2017, representing an **8.0% increase. Organic growth** for the year stood at 2.7%, with a high basis of comparison (11.2% organic growth in 2017). This further rise in revenue was driven by the digital wave and the group's original model.

Recurring Operating Profit[2] (ROP) reached **€114.6 million** compared with €154.4 million in 2017. This change was mainly due to the Technology Management & Financing activity. Operating margin rate stands at 4.0%.

The group's model is based on three complementary business lines:

- **Technology Management & Financing** (TMF, leasing business) posted revenue of **€1,356 million** (-1.6 %). The group was particularly selective and focused on cash generation, with fewer contracts self-funded via its in-house refinancing company, EDFL. Revenue refinanced by partners, on the other hand, grew by 6.7% and total leasing outstandings increased by 9.1% year-on-year, standing at €2.9 billion. Recurring Operating Profit[1] for the business amounted to **€53.3 million,** down compared with an exceptional 2017 (€92.4 million ROP in 2017) due to a decrease in the contribution from structured financing and a temporary increase in provisions in 2018.
- Revenue from **Services** stood at **€1,042 million** in 2018, up 15.5%. The organic growth of 5.4% was driven by integration, mobility, security and outsourcing services, as well as outsourcing services which benefited from the increase in large contracts over the past 12 months. The Services Satellites continued to boost business in digital growth segments, reporting organic growth in excess of the group's and accounting for 43% of total Services revenue in 2018. Recurring Operating Profit for Services amounted to €40.3 million, down slightly from €43.4 million in 2017. The decline in margin rates is due mainly to expenses incurred by the ramp-up of major managed services contracts and the gradual transformation of the group's legacy activities, in a context of strict cost control.

- **Products & Solutions** reported revenue of €448 million compared with €353 million the previous year, i.e. an 26.7% increase (9.4% of which was organic). The business reaped the rewards of its positioning on "orchestrated" solutions combining design, equipment procurement, services and, in some cases, financing. This growth resulted in a rise in Recurring Operating Profit to reach €21.0 million compared with €18.6 million in 2017.

Net profit

Net profit attributable to owners of the parent totalled **€39.4 million,** down 54.4% compared with 2017. Net profit was affected by the fall in ROP, non-recurring expenses of €28.6 million resulting mainly from the cost-reduction and service transformation efforts and by the rise in financial expenses (issue of the OCEANE 2023 convertible bond in March 2018).

Excluding non-recurring items and before amortisation of intangible assets from acquisitions, recurring net profit[3] attributable to owners of the parent amounted to **€61.8 million,** down 34.8%.

Recurring earnings[3] per share attributable to owners of the parent thus stood at **€0.26**.

Shareholder remuneration

At the next General Shareholders Meeting the Board of Directors will recommend that the shareholders receive a refund of the issue premium of **€0.12 per share**, i.e. the same as last year and up 20% over two years. This reflects the Management team's confidence in the group's prospects and its ability to generate cash.

In line with its shareholder return policy and in an effort to manage dilution, the group also continued its treasury share buyback programme. As of 31st December 2018, it held **13.9 million treasury shares** (i.e. 5.7% of its share capital).

Good cash flow generation and net debt down

The group generated **€69 million** in **free cash-flow in 2018**, i.e. 60% of Recurring Operating Profit. This good performance is due mainly to the group's strict discipline policy with respect to trade receivables, inventory and refinancing lease contracts, which led to a **€89 million drop in working capital requirements**, excluding investments in EDFL.

The amount invested in the in-house refinancing company, EDFL was limited to €39 million (compared with €56 million in 2017), including a €14 million reduction in exposure in the second half of 2018. **The portfolio of receivables from leased assets and recognised on the group's balance sheet** at the end of 2018 amounted to **€246 million**, i.e. around 8% of the group's total leasing portfolio (€2.9 billion in outstandings).

Net book debt stands at €251.7 million, a €27 million decrease. This is contained at 1.6 times EBITDA 2018 with gearing down to 51.2% compared with 58.1% at the end of 2017. In March 2018 the group issued an OCEANE convertible bond for a nominal amount of €200 million, due to mature in 2023, thus further disintermediating its debt.

Changes to accounting standards (IFRS 16)

As of 1st January 2019, IFRS 16 supersedes IAS 17 with respect to accounting requirements for lease contracts.
The main impacts expected by the group as lessee are as follows:

- Office and vehicle leases will now be posted in fixed assets in the consolidated statement of financial position (right of use) and amortised; an offset entry to the amount of €71 million will be recorded in financial debt on 1st January 2019, as lease obligations.
- EBITDA should increase by almost €20 million in 2019 (amortisation of right of use);
- A limited positive impact on ROP is expected in 2019, offset by an increase in financial expenses, which will have a negligible net impact on the group's net profit.

The group's Management does not foresee any significant changes as a result of prospective application of IFRS 16 for its TMF activity as a lessor. In the case of certain sale & lease-back contracts (whereby the assets are purchased from the client and subsequently leased back to them), when group lease contracts are self-funded, the gross margin will be recognised in income and will be spread over the term of the agreement. A negative impact of less than €100 million on revenue and around €3 million on ROP is expected in 2019.

Outlook for 2019

The group plans to achieve 2019 full-year **Recurring Operating Profit**[2] of **€128 million** at constant scope (including the negative impact on the ROP of TMF of the application of IFRS16).

The group is currently implementing a **new plan to generate around twenty million euros** across its entire cost structure.

In addition, Econocom plans to **invest in expanding TMF's sales force**, launch **new growth projects** and continue its **selective acquisitions** policy in strategic sectors whilst maintaining its **discipline on cash generation.**

Jean-Louis Bouchard, Chairman and CEO of Econocom, said: "*2018 ended once again with growth in revenue and a good generation of free cash flow thanks to substantial efforts from the teams, particularly during the last quarter. We now intend to prepare a new phase of development for the group. This will involve refocusing on certain activities, reducing overheads, intensive investment in the sales force and continuing to reduce our net debt to give us greater leeway.*

To carry out this plan successfully in growth markets, I will be relying on a new management team including some of Econocom's historic leaders, new talents, and the heads of our operational activities."

Next press release: the Q1 2019 revenue will be published after the close of trading on 25th April 2019.

The statutory auditor has confirmed that the audit, which is substantially complete, has not to date revealed any material misstatement, which would require an adjustment to the figures included in the press release.

Income statement

(in € millions)	2017[(1)]	2018	Change
Revenue	**2,634**	**2,846**	**+8%**
Recurring Operating Profit [(2)]	**154.4**	**114.6**	**(26%)**
Recurring Operating Profit	150.2	110.4	(26%)
Non-recurring operating income and expenses	(19.1)	(28.6)	50%
Operating profit	**131.1**	**81.8**	**(38%)**
Impact of ORNANE embedded derivative component	4.1	0.0	-
Other financial income and expenses	(12.5)	(16.0)	28%
Profit before tax	**122.7**	**65.8**	**(46%)**
Income tax expense	(32.0)	(21.2)	(34%)
Profit from continuing operations	**90.7**	**44.6**	**(51%)**
Profit for the year attributable to owners of the parent	86.4	39.4	(54%)
Profit for the year, attributable to owners of the parent [(3)]	**94.8**	**61.8**	**(35%)**

(1) Adjustments mainly a result of retrospective application of IFRS 15

(2) Recurring Operating Profit before amortisation of intangible assets from acquisitions

(3) Before, net of income tax, amortisation expenses of intangible assets from acquisitions, adjustment to fair value of the ORNANE derivative component, other non-recurring operating income and expenses, non-recurring financial operating income and expenses and profit (loss) from discontinued operations.

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Statement of financial position

in € millions	2018	2017 adjusted [1]
Goodwill	631.1	598.8
Other long-term assets	159.7	158.9
Residual interest in leased assets	163.8	141.4
Other non-current assets	49.0	33.7
Trade and other receivables	1,268.6	1,118.4
Other current assets	128.5	135.3
Cash	608.4	237.9
Total assets	**3,009.2**	**2,424.4**

in € millions	2018	2017 adjusted [1]
Equity attributable to owners of the parent	396.4	377.6
Equity – Non-controlling interests	94.9	102.4
Equity– Total	491.3	480.0
Convertible bonds	437.5	251.9
Financial liabilities	422.6	264.7
Provisions	88.8	88.0
Gross liability for purchases of leased assets	98.1	77.5
Trade and other payables	1,104.2	960.0
Other liabilities	366.6	302.3
Total equity and liabilities	**3,009.2**	**2,424.4**

FOR FURTHER INFORMATION

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