MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR FOURTH QUARTER AND FULL YEAR OF 2019

Dear Shareholders,

quarter and full year ending December 31, 2019.

Detailed comparisons between 2019 and 2018 are based on 2018 exchange rates unless otherwise stated. As the impact of the acquisition of Retviews on the financial statements for the fourth quarter and the full year is not material (see chapter 2 of this report), like-for-like changes exclude only the variations in exchange rates.

Audit procedures have been performed by the Statutory Auditors. The certification report will be issued at the end of the Board of Directors meeting of February 25, 2020.

Lectra markets and invoices its software both in the form of perpetual licenses with their associated maintenance contracts, and on a subscription basis, particularly for its Software-as-a-Service (SaaS) offers. To provide better comparability with prior years, the Group decided, starting at the beginning of fiscal year 2018, to include subscription software sales in the amount of orders for new systems, by multiplying the annual value of the corresponding contracts by 2.2. This coefficient enables calculation of the amount an order would represent, had it been sold as a perpetual license together with a maintenance contract. Revenues corresponding to orders for perpetual software licenses are recorded under "CAD/CAM and PLM software licenses"; revenues from software sold on a subscription basis are recorded under "CAD/CAM and PLM software subscription contracts".

The detailed tables and like-for-like changes in orders for new systems, revenues, and income statements for the fourth quarter and the full year are reported in the additional information of this report, starting on page 15.

1. SUMMARY OF OPERATIONS FOR Q4 2019

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orders

Despite a macroeconomic and geopolitical environment that was more challenging than expected, progress was made on all five objectives over the past three years. In particular, Lectra has:

Achieved a record level of recurring revenues close to 170 million euros;

Considerably widened its technological lead and successfully integrated into its offers the key new technologies for Industry 4.0 cloud computing, the Internet of Things, big data and artificial intelligence;

Proceeded with the acquisition of two high

Training and consulting revenues (12.2 million euros), which decreased by 5% and accounted for 4% of total revenues (4% in 2018).

At December 31, 2019, the order backlog for software licenses, equipment, and training and consulting amounted to 19.8 million euros:

The portion related to CAD/CAM and PLM software licenses (1.3 million euros) does not include software sold on a subscription basis, and therefore cannot be compared to the figures for prior periods;

The portion related to equipment and accompanying software, plus training and consulting (18.5 million euros), decreased by 2 million euros like-for-like and by 1.8 million euros at actual exchange rates compared to December 31, 2018.

Revenues from recurring contracts, consumables and parts

Recurring revenues (169.8 million euros) increased by 4% (+6% at actual exchange rates). They accounted for 61% of total revenues (57% in 2018).

Revenues from recurring contracts which represented 35% of total revenues amounted to 97.9 million euros, a 5% increase:

CAD/CAM and PLM software subscription contracts came to 1.6 million euros (0.5 million euros in 2018);

CAD/CAM and PLM software maintenance contracts (38.5 million euros), up 1%, represented 14% of revenues;

Equipment and accompanying software maintenance contracts (57.9 million euros), up 6%, represented 21% of revenues.

In parallel, revenues from consumables and parts (71.9 million euros) increased by 3% and represented 26% of total revenues (24% in 2018).

Gross profit

Gross profit amounted to 205.2 million euros, down 2.8 million euros like-for-like, but up 1.7 million euros at actual exchange rates, compared to 2018.

The overall gross profit margin was 73.3%, up 1 percentage point relative to 2018 (+1.3 percentage points at actual exchange rates), mainly due to the evolution of the product mix.

Personnel expenses and other operating expenses incurred in the execution of service contracts or in training and consulting are not included in the cost of goods sold but are accounted for in overhead costs.

Overhead costs

Total overhead costs were 164.3 million euros, stable

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8. FINANCIAL CALENDAR

The Annual Shareholders' Meeting will take place on April 30, 2020.

First, second, and third quarter earnings for 2020 will be published on April 29, July 27, and October 28, 2020, respectively, after the close of trading on Euronext Paris.

Full-year earnings for 2020 will be published on February 10, 2021.

9.

Third, extend the offers for Industry 4.0. These offers, whether in new product lines or as additions to existing software and equipment, present strong growth potential for Lectra. They enable customers to implement the principles of Industry 4.0 and address changes in consumer demand, including the desire for personalized products.

Lectra will therefore pursue its policy of investing in research and development, devoting 11% to 12% of its revenues over the 2020-2022 period to R&D, with the aim of strengthening its expertise in the areas of data and artificial intelligence. These investments will enhance the value of existing offers and lead to the introduction of new offers for Industry 4.0.

Fourth, develop new areas for growth. Continuing on from the previous roadmap, the Group plans to intensify its targeted acquisitions.

2020 outlook

Lectra entered 2020

ADDITIONAL INFORMATION FOURTH QUARTER 2019

ORDERS FOR NEW SYSTEMS LIKE-FOR-LIKE

(1) This amount corresponds to subscription software sales, by multiplying the annual value of the corresponding contracts by 2.2. This coefficient enables calculation of the amount an order would represent, had it been sold as a perpetual license.

BREAKDOWN OF REVENUES LIKE-FOR-LIKE

Revenue distribution by geographical market is reported on an indicative basis. Trends for the fiscal year cannot be extrapolated based on one single quarter.

Revenues by region

	Three Months Ended December 31						
	2019		At 2018 exchange rates	2018		Actual	Like-for-like
(in thousands of euros)							
Europe, of which:	30,557	41%	30,517	28,741	38%	+6%	+6%
- France	4,175	6%	4,176	4,310	6%	-3%	-3%
Americas	16,300	22%	15,948	20,280	27%	-20%	-21%
Asia-Pacific	21,318	29%	20,910	20,626	28%	+3%	+1%
Other countries	6,037	8%	6,005	5,315	7%	+14%	+13%
Total	74,213	100%	73,380	74,963	100%	-1%	-2%
€ / $ average parity	*1.11*		*1.14*	*1.14*			

Revenues by type of business

	Three Months Ended December 31						
	2019		At 2018 exchange rates	2018		Actual	Like-for-like
(in thousands of euros)							
Revenues from software licenses, equipment and non recurring services, of which:	30,573	41%	30,267	33,062	44%	-8%	-8%
- CAD/CAM and PLM software licenses	3,158	4%	3,134	3,082	4%	+2%	+2%
- Equipment and accompanying software	23,487	32%	23,242	26,082	35%	-10%	-11%
- Training and consulting services	3,342	5%	3,312	3,253	4%	+3%	+2%
- Miscellaneous	585	1%	579	645	1%	-9%	-10%
Recurring revenues, of which:	43,640	59%	43,114	41,9* n 10%			

BREAKDOWN OF REVENUES LIKE-FOR-LIKE

Revenues by region

(in thousands of euros)	Twelve Months Ended December 31 2019		At 2018 exchange rates	2018		Actual	Like-for-like
Europe, of which:	113,452	41%	113,493	111,559	39%	+2%	+2%
- France	17,223	6%	17,229	16,538	6%	+4%	+4%
Americas	67,503	24%	64,614	76,146	27%	-11%	-15%

CONSOLIDATED INCOME STATEMENT LIKE-FOR-LIKE

Income statement at constant exchange rates

	2018

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 to this report hereafter describes the impact of the new standard on the Group's financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statem LT TfB nBT C /S160B6f1fB n003}TJETQ0.frQy6fTfBQy6fTfBQy6fTfBQy6fTfBQy6fTfB T-the G

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Twelve months ended December 31, 2019 [1]	Twelve months ended December 31, 2018
Revenues	280,023	282,558
Cost of goods sold	(74,808)	(79,014)
Gross profit	205,214	203,544
Research and development	(22,019)	(21,497)
Selling, general and administrative expenses	(142,306)	(141,798)
Income from operations	40,889	40,249
Financial income	461	231
Financial expenses	(556)	(443)
Foreign exchange income (loss)	(719)	(1,120)
Income before tax	40,075	38,917
Income tax	(10,751)	(10,177)
Net income	**29,324**	**28,740**
of which, Group share	**29,305**	**28,740**
of which, Non-controlling interests	19	-

(in euros)		
Earnings per share, Group share:		
- basic	0.92	0.91
- diluted	0.90	0.89
Shares used in calculating earnings per share		
- basic	31,977,237	31,697,500
- diluted	32,395,083	32,333,069

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE [1]

(in thousands of euros)	Twelve months ended December 31, 2019 [2]	Twelve months ended December 31, 2018
Net income, Group share	29,305	28,740
Currency translation adjustments	6	288
Tax effect	67	30
Other comprehensive income to be reclassified in net income	73	318
Remeasurement of the net liability arising from defined benefits pension plans	(700)	156
Tax effect	215	(54)
Other comprehensive income not to be reclassified in net income	(485)	102
Total other comprehensive income	(412)	420
Comprehensive income, Group share	**28,893**	**29,159**

(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling interests (30% of Retviews minority shares only) and thus only presents the comprehensive income of the Group share.

(2) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2019 [1]	2018
I - OPERATING ACTIVITIES		
Net income	29,324	28,740
Net depreciation, amortization and provisions [1]	12,690	8,380
Non-cash operating expenses	367	343
Loss (profit) on sale of fixed assets	81	(13)
Changes in deferred income taxes	1,033	61
Changes in inventories	2,419	(4,918)
Changes in trade accounts receivable	3,605	(82)
Changes in other current assets and liabilities	4,607	1,319
Changes in other operating non-current assets	(5,167)	(5,047)
Net cash provided by (used in) operating activities	48,961	28,783
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,809)	(1,736)
Purchases of property, plant and equipment	(4,638)	(5,809)
Proceeds from sales of intangible and tangible assets	16	22
Acquisition cost of companies purchased [2]	(7,629)	(7,102)
Purchases of financial assets [3]	(6,082)	(5,180)
Proceeds from sales of financial assets [3]	5,901	5,551
Net cash provided by (used in) investing activities	(14,241)	(14,254)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	2,211	1,849
Dividends paid	(12,782)	(12,022)
Purchases of treasury shares	(5,639)	(5,445)
Sales of treasury shares	5,660	5,110
Repayment of lease liabilities [1]	(6,162)	-
Net cash provided by (used in) financing activities	(16,711)	(10,508)
Increase (decrease) in cash and cash equivalents	**18,009**	**4,021**
Cash and cash equivalents at opening	102,223	98,134
Increase (decrease) in cash and cash equivalents	18,009	4,021
Effect of changes in foreign exchange rates	326	68
Cash and cash equivalents at closing	120,558	102,223
Net cash provided by (used in) operating activities	48,961	28,783
+ Net cash provided by (used in) investing activities	(14,241)	(14,254)
- Acquisition cost of companies purchased	7,629	7,102
- Repayment of lease liabilities [1]	(6,162)	-
Free cash flow	36,187	21,631
Income tax (paid) / reimbursed, net	(4,208)	(6,391)
Interest (paid) on lease liabilities	(163)	-
Interest (paid)	-	-

(1) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

(2) At December 31, 2019, this amount corresponds to the acquisition cost of 70% of Retviews, net of cash acquired. At December 31, 2018, this amount corresponded to the acquisition cost of Kubix Lab, net of cash acquired (see note 3 hereafter).

(3) These amounts mainly correspond to the valuation of purchases and sales of treasury shares made through the liquidity agreement, and for which the counterpart is shown in the corresponding cash flows arising from financing activities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euros, except for par value per share expressed in euros)	Share capital			Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	**Equity, Group share**	Non controlling interests [1]	**Equity, Group share**
	Number of shares	Par value per share	Share capital							
Balance at January 1, 2018	31,571,096	1.00	31,571	12,270	(298)	(9,872)	117,538	151,209		151,209
Net income							28,740	28,740		28,740
Other comprehensive income						318	102	420		420
Comprehensive income						318	28,842	29,159		29,159
Exercised stock options	275,661	1.00	276	1,573				1,849		1,849
Fair value of stock options							493	493		493
Sale (purchase) of treasury shares					(262)			(262)		(262)
Profit (loss) on treasury shares							(49)	(49)		(49)
Dividend paid							(12,022)	(12,022)		(12,022)
Balance at December 31, 2018	31,846,757	1.00	31,847	13,843	(560)	(9,554)	134,802	170,377		170,377
Net income							29,305	29,305	19	29,324
Other comprehensive income						73	(485)	(412)		(412)
Comprehensive income						73	28,820	28,893	19	28,912
Exercised stock options	252,343	1.00	252	1,959				2,211		2,211
Fair value of stock options							693	693		693
Sale (purchase) of treasury shares					(138)			(138)		(138)
Profit (loss) on treasury shares							106	106		106
Integration of Retviews and minority shares purchase commitment [1]							(6,500)	(6,500)	140	(6,360)
Dividend paid							(12,782)	(12,782)		(12,782)
Balance at December 31, 2019 [2]	**32,099,100**	**1.00**	**32,099**	**15,802**	**(698)**	**(9,481)**	**145,141**	**182,863**	**159**	**183,022**

(1) These amounts are the result of the acquisition of Retviews. Note 3 hereafter describes the impact of this acquisition on the Group's financial statements.

(2) The Group applies IFRS 16 since January 1, 2019. Since it opted for the simplified retrospective transition method, financial statements from prior periods have not been restated retrospectively. Note 2 hereafter describes the impact of the new standard on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2019

1. BUSINESS ACTIVITY

A French high technology company, Lectra has developed privileged and long-term relationships with its customers in over 100 countries. They all have operational excellence in common and the soft materials they use fabrics and leather, but also technical textile and composite materials to manufacture their products (garments, shoe

software,
automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.

ves: to boost productivity; to reduce cutting
costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase

Seasonality

sonal nature of

This, in particular, applies to sales of new software licenses and CAD/CAM equipment. Moreover, overhead costs are reduced during the third quarter due to the summer holidays in France and in European subsidiaries. These two items have a positive impact on income from operations in these quarters.

Critical accounting estimates and judgments

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the establishment of the consolidated financial statements, relate to goodwill and fixed assets impairment, evaluation of deferred tax assets, and evaluation of rights-of-use and lease obligations as part of implementation of IFRS 16 Leases.

Revenues

Contracts with customers comprise multiple obligations such as: CAD/CAM equipment, CAD/CAM and PLM software, consumables and parts, training and consulting, installation, maintenance, evolution and online services contracts for equipment and software.

Software sales are only recognized separately when the customer can benefit from the software independently from the other goods and services promised in the contract. In particular, the software accompanying CAD/CAM equipment (called pilots) are not recognized separately from these, as they are an integral part to

The company determines stand-alone selling prices of the multiple elements by using observable data as much as possible. For elements which are not sold separately on a customary basis, stand-alone selling prices are

Revenue from sales of equipment (including pilot software) is recognized when the control has been transferred to the purchaser. These conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

Software sold as perpetual licenses is regarded as right-of-use licenses under IFRS 15, for which revenue is booked at a certain date, generally the time of ins
by CD-ROM or downloading).

Revenue from training and consulting is recognized based on the completion of hours or days of work performed by the teams.

Revenue from equipment and specialized software installation is recognized when these services are rendered.

Revenue from software and equipment maintenance contracts is spread linearly over the duration of the
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Equipment is designed, made and assembled by the Group from parts produced by a network of subcontractors. Lectra acts as principal in the sale of equipment insofar as parts only constitute inputs used in the manufacturing of finished goods sold to customers.

Cost of goods sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the net change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight out costs on equipment sold, and a share of depreciation of the manufacturing facilities.

Cost of goods sold does not include salaries and expenses associated with service revenues, which are

Research and development costs

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, setting the stage for their commercialization. Consequently, the technical and economic criteria requiring the recognition of development costs in assets at the moment they occur are not met, and these, together with research costs, are therefore fully expensed in the period in which they are incurred.

The French research tax credit

The dilutive effect of stock options is computed in accordance with the share repurchase method provided by IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period. The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.

Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

Performance indicators

The Group uses performance indicators such as income from operations, free cash flow, and the security ratio, as defined above; it considers these aggregates appropriate for management of the Group and for measurement of the implementation of its strategy.

Income from operations before non-recurring items

e excluding financial operations, companies accounted for by the equity method, discontinued operations or those held for sale, and income tax.

When the Group identifies non-recurring items, it tracks its operating performance by means of an intermediate b - income from operations less non-recurring income and plus non-recurring expenses, as set forth in CNC (French National Accounting Council) recommendation 2009-R.03.

Where applicable, non-

In January 2018, the Group had purchased the Italian company Kubix Lab. The entire acquisition of the capital of Kubix Lab had been made for an amount of 7.2 million euros.

As the conditional part of this amount was already paid out on an escrow account, and as the Company believes the probability of objectives being met as high, the acquisition cost for Lectra was entirely disclosed of

5. CONSOLIDATED CASH FLOW SUMMARY

(1) Resulting solely from the exercise of stock options.
(2) Carried out solely under the liquidity agreement administered by Exane BNP Paribas (see note 7).
(3) Acquisition cost of Retviews, net of cash acquired (see note 3).

Free cash flow at December 31, 2019, was 36.2 million euros. This figure results from a combination of 49.0 million euros in cash flows provided by operating activities (including a decrease in working capital requirement of 10.6 million euros) and capital expenditures of 6.6 million euros. The cash flows provided by operating activities also comprise an increase in other operating non-current assets of 5.2 million euros (corresponding to the part of the 2019 research tax credit, not paid and not deducted from the corporate income

6. RESEARCH TAX CREDIT COMPETITIVENESS AND EMPLOYMENT TAX CREDIT

When the research tax credit, and the competitiveness and employment tax credit (before January 1, 2019), applicable in France recognized in the year cannot be deducted from the corporate income tax, they are treated as a receivable on the French tax administration. If unused in the ensuing three years, they are repaid to the company in the course of the fourth year.

The Group presents separately the current and non-current (to be repaid in over a year) part of the income tax receivable related to the French research tax credit.

The research tax credit (9.2 million euros) for 2019 were accounted for but not received.

The competitiveness and employment tax credits relating to 2018 and previous years have been entirely deducted from the corporate income tax due by Lectra SA.

Thus, at December 31, 2019, Lectra SA held a 17.4 million euros receivable on the French tax administration (of which 14.7 classified within other non-current assets). This solely comprised the remaining amount of the

The Group has no borrowings or financial debts. Thus, net cash was equal the sum of available cash and cash equivalents.

Lease liabilities, accounted for under IFRS 16, and minority shares purchase commitment are not considered as financial debts here.

9. FOREIGN EXCHANGE RISK

In 2019, the average parity between the US dollar and the euro was $1.12/

Exchange risk hedging instruments

Exchange risk hedging instruments at December 31, 2019 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of 1.8 million euros, intended to hedge existing balance sheet positions. Thus, the company has hedged almost all its balance sheet positions.

Moreover, the company has not hedged its exposure to currency rates for 2020.

10. SENSITIVITY ANALYSIS

Sensitivity of income from operations to a change in revenues from new systems sales

l, each 1 million euros increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately 0.45 million euros.

Sensitivity of revenues and income from operations to a change in exchange rates

The sensitivity of revenues and income from operations to a change in exchange rates was based on the December 31, 2018 exchange rates for the relevant currencies, in particular $1.12

In view of the estimated share of revenues and costs denominated in US dollars or in currencies correlated