



## **MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THIRD QUARTER AND FIRST NINE MONTHS OF 2020**

Dear Shareholders,

and first nine months of 2020, ending September 30. The financial statements have not been reviewed by the Statutory Auditors. third quarter

Since 2017, Lectra has marketed and invoiced its software both in the form of perpetual licenses with their





### *Overhead costs*

Total overhead costs were 112.9 million euros, down 6% compared to 2019. The breakdown is as follows:

106.5 million euros in fixed overhead costs (-2%);

6.5 million euros in variable costs (-42%).

Research and development costs (23.2 million euros), which are fully expensed in the period and included in fixed overhead costs, represented 13.6% of revenues (23.1 million euros and 11.2% of revenues in the first nine months of 2019). After deducting the research tax credit applicable in France and grants received, net research and development costs totaled 16.6 million euros (15.8 million euros in 2019).

### *Income from operations and net income*

Income from operations amounted to 15.6 million euros, down 45% compared to the first nine months of 2019 (-47% at actual exchange rates).

The operating margin was 9.1%, down 5 percentage points like-for-like, and 5.3 percentage points at actual exchange rates.

Financial income and expenses represented a net charge of 0.3 million euros. Foreign exchange gains and losses generated a net loss of 0.6 million euros.

After an income tax expense of 3.7 million euros, net income totaled 11 million euros, down 48% at actual exchange rates.

Net earnings per share came to 34 on basic capital and on 67 66 in the first nine months of 2019).

### *Positive free cash flow*

Free cash flow was 10 million euros (18.1 million euros for the first nine months of 2019). This decline is attributable mainly to the lower income, the working capital requirement





## ADDITIONAL INFORMATION THIRD QUARTER 2020

### ORDERS FOR NEW SYSTEMS LIKE-FOR-LIKE

### 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

CONSOLIDATED INCOME STATEMENT LIKE-FOR-LIKE





BREAKDOWN OF REVENUES LIKE-FOR-LIKE

Revenues by region

## CONSOLIDATED INCOME STATEMENT LIKE-FOR-LIKE

	Nine months ended September 30				
	2020		2019	Changes 2020/2019	
	Actual	At 2019 exchange rates	Actual	Actual	Like-for-like
<i>(in thousands of euros)</i>					
<b>Revenues</b>	<b>170,568</b>	<b>172,172</b>	<b>205,810</b>	<b>-17%</b>	<b>-16%</b>
Cost of goods sold	(42,045)	(42,123)	(54,860)	-23%	-23%
<b>Gross profit</b>	<b>128,523</b>	<b>130,049</b>	<b>150,950</b>	<b>-15%</b>	<b>-14%</b>
(in % of revenues)	75.3%	75.5%	73.3%	+2.0 points	+2.2 points
Research and development	(16,569)	(16,569)	(15,832)	+5%	+5%
Selling, general and administrative expenses	(96,349)	(97,274)	(105,397)	-9%	-8%
<b>Income from operations</b>	<b>15,605</b>	<b>16,207</b>	<b>29,721</b>	<b>-47%</b>	<b>-45%</b>
(in % of revenues)	9.1%	9.4%	14.4%	-5.3 points	-5.0 points
<b>Income before tax</b>	<b>14,750</b>	<b>15,352</b>	<b>28,938</b>	<b>-49%</b>	<b>-47%</b>
Income tax	(3,724)	na	(7,639)	-51%	na
<b>Net income</b>	<b>11,027</b>	<b>na</b>	<b>21,299</b>	<b>-48%</b>	<b>na</b>
<b>of which, Group share</b>	<b>11,025</b>	<b>na</b>	<b>21,297</b>	<b>-48%</b>	<b>na</b>
of which, Non-controlling interests	2	na	2	na	na
€ / \$ average parity	1.12	1.12	1.12		



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

(in thousands of euros)

	September 30, 2020	December 31, 2019	September 30, 2019
Goodwill	46,891	47,380	47,616
Other intangible assets	4,453	4,008	3,967

## **CONSOLIDATED INCOME STATEMENT**

## **STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE <sup>(1)</sup>**

*(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling*



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Share capital	Currency	Retained earnings	Equity,	Non
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- (1) *These amounts are the result of the acquisition of Retviews in 2019. Note 3 hereafter describes the impact of this acquisition on the Group's financial statements.*
- (2) *This amount stems from the acquisition of an additional 10% of Retviews in July 2020 (see note 3 hereafter).*



# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2020**

## **1. BUSINESS ACTIVITY**

industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect



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

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 (*crédit d'impôt recherche*), as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

### Earnings per share

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period, excluding the weighted-average number of treasury shares.

Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the period and excluding the weighted-average number of treasury shares held solely under the Liquidity Agreement.

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 below; 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 and income from operations*

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  
income from operations less non-recurring income and plus non-





The working capital requirement at September 30, 2020 was negative at 19 million euros. It comprised the current portion (4.5 million euros) of the 21.5 million euros receivable on the French tax administration in respect of the research tax credit, which has not been received and has not been deducted from the corporate income tax.

## **6. RESEARCH TAX CREDIT**

When the research tax credit applicable in France recognized in the year cannot be deducted from the corporate income tax, it is treated as a receivable on the French tax administration. If unused in the ensuing three years, it is 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 (6.7 million euros) for the first nine months of 2020 were accounted for but not received.

Thus, at September 30, 2020, Lectra SA held a 21.5 million euros receivable on the French tax administration (of which 16.9 million euros classified within other non-current assets). This solely comprised the remaining amount of the research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2020 (6.7 million euros), 2019 (5.2 million euros), 2018 (5 million euros), and 2017 (4.5 million euros).

In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the research tax credit of each fiscal year. Thus, it received in July 2020 the reimbursement of the outstanding balance of 2.6 million euros in respect of the 2016 tax credit and should receive the reimbursement of the



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

## **9. FOREIGN EXCHANGE RISK**

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During the first nine months of 2020, the average parity between the US dollar and the euro was \$1.12

**Exchange risk hedging instruments**

## 11. SENSITIVITY ANALYSIS

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

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, 2019 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 with the US dollar, a 5-cent fall in the euro against the US dollar (leading to an annual average exchange rate of \$1.07) 2020 annual revenues by approximately 4.2 million euros and annual income from operations by 2.8 million euros. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. \$1.17) operations by the same amounts.

In addition to fluctuating against the US dollar and currencies strongly correlated with it, the euro also fluctuates against other currencies. These variations are frequently dissimilar both in direction (upward and downward) and in scale.