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Exosens H1 2024 Results

Tuesday, 3rd September 2024

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Operator: Hello, and welcome to the Exosens' H1 2024 Results Presentation. My name is Saskia, and I will be your coordinator for today's event. Please note this call is being recorded. For the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host today, Mr Jérôme Cerisier, CEO, and Mrs Quynh-Boi Demey, CFO, to begin today's conference. Please go ahead.

Quynh-Boi Demey: So good morning, everyone, and welcome to Exosens' H1 2024 results call, which are holding today in Paris. Thank you for joining us. I am Quynh-Boi Demey, CFO Exosens, and I'm with our CEO, Jérôme Cerisier. We will guide you through this presentation which will be followed by a Q&A session.

And now I hand over to Jérôme.

Jérôme Cerisier: Thank you very much, Quynh-Boi. Welcome everyone to this session. We go on page five. And so for the ones that follow us recently, Exosens is providing innovative components in Amplification, Detection & Imaging solutions that contribute to either protect assets or people. So in a way, contribute to a safer world.

So we use the different phenomena that are not directly visible to human eye and we make them visible, useful for our customers into their applications.

We go on page six. So we are a leader in niche growing markets with top one and two positions. Our market share in Light Amplification is 71%. It was 71% in 2023, 24% in Detection & Imaging in our core market. We are positioned on four attractive markets: Defence, Industrial Control, Life Sciences and Nuclear.

Our markets are global. Our customers can be everywhere around the world. We have long-lasting relationships and we work with these customers not by geography, but really by application. We are a technology house. 7.5% of our revenues are spent in R&D. We have a portfolio of over 130 patents, and actually we had last year 80 PhDs out of a population of 1,600. This number is growing.

Our financials in 2023 were strong of a strong nature, but we are here today to present the H1 results.

Also, next page, as a reminder, so we are focused on critical components driving the performance of the products to the end user. We focus on technologies that are critical into the end application. Our activity is structured around two segments; Amplification, which is mostly geared towards defence with Light Amplification, and Electronic Amplification, where we make intensified tubes and travelling wave tubes. The bulk of this activity is intensified tubes, so that is light amplification.

And our other segment, Detection & Imaging and Nuclear, is mainly geared towards commercial applications in life sciences, industrial control, nuclear with digital cameras, in infrared, in UV, different types of detectors, neutron, gamma, ions, etc. We cover the whole spectrum and we

focus on applications where the technology is a key differentiator in the end and we provide to the customer the ability to detect the invisible through our products.

We recently announced two acquisitions, LR Tech will be joining or is active in the industrial control market, while Centronic is active in the nuclear market. We focus on the high value-added niche applications where technology makes a difference.

Next page, eight. What we want to achieve at Exosens is we want to be a leading platform covering the whole particle and light spectrum, cross-fertilising technologies and markets. On fast-growing markets, the ones we mentioned, leveraging innovation, global reach, and accelerating our position with selective acquisitions and with the ambition to progressively balance revenues between Amplification and Detection & Imaging.

We rely for that on a certain number of internal key assets, operational excellence, entrepreneurial mindset, sensitive markets, value creation focused, and empowering our people to keep the flexibility, the agility, to be as close as possible to our customers and to their applications, to fulfil to the best of our ability their needs.

Page nine. So the key highlights for H1 2024 are a strong financial growth. Our revenue grew over 50% over H1 2023, out of which 35% is organic. We increased our margins with an adjusted EBITDA of around 30%, that is 2.8% more than H1 2023. We decreased our leverage. Following the IPO, our net debt at end of June has been reduced to around 1.3 times the EBITDA.

And we, since the end of the H1 quarter, closed two bolt-on acquisitions in line with our strategy, the UK-based Centronic and the Canada-based LR Tech. I will cast a little bit more light on these two acquisitions at the end of this presentation after we've discussed H1.

Perhaps let me spend some time also to give you a short brief on our markets and how these markets – what underlies in the growth we are seeing in our own business.

Let's go to page 11. So the key drivers of our markets are, on the one hand, in the Amplification side, the return of high-intensity conflict, the increase of different types of threats over the world, and in fact the need to better protect platforms, to protect areas, to protect people. In this field, especially night vision, which is in fact the image intensifiers that are used for night vision, has an undisputed key tactical advantage. There is no modern army that is not considering using them anymore during the majority of their operations at night where they need to see.

This is a very strong driver together with other drivers that are more of a technical nature, like transforming monoculars to binoculars to give stereo vision to the soldiers.

These equipments are also characterised by short acquisition cycles that allow the industry and existence to have fast ramp-ups and massive effect because in fact with a few, you can very quickly equip a whole division or tens of thousands of people. So this has become really core to the acquisition policy and to the usage policies. It's used everywhere in modern armies.

On the Detection & Imaging side, the trends and the aligning factors are really relying on the need to increase the device performance, to increase the speed of the production, to better control the quality, to develop more effective treatments, do it quicker, and develop more faster and more reliable devices. That requires additional capability to sort, differentiate, analyse, understand the matter, and this is what we provide actually to the market.

In Nuclear, it's more the decarbonation and the low-carbon materials that are driving the rise to the nuclear industry that we can benefit from.

So let's go to the next page, page 12, on night vision. The night vision market remains robust with sustainable growth. Between '23 and '27, we estimate that the growth for the night vision tubes will be 8% altogether, market-wise, at market level. There are some tailwinds that are shortly described, so amongst which I want also to emphasise that the constant need of the customers and the army is to improve the performance, to detect further, and to be able to act earlier in the operations.

We are, in this market, an undisputed leader of light amplification with high-end products, technological edge, and we are the only sizable ITAR-free producer, which is a key parameter in understanding the dynamics of our operations in this market.

All of that results in long-lasting relationships where we are speced-in[?] in or designed-in. Okay. And the night vision technology, in fact, will remain the main technology for the next 10 years. Infrared comes as a complementary technology, which is fulfilling different needs. Both technologies are required. But as of today and for the next ten years, night vision is and remains the key element. In night vision, the key performance, second to none.

Next page, 13. When we look at the different ways the armies want to use night vision, there are different ways of using it. Some of them, the most advanced NATO Tier 1 countries will go for one-on-one ratio. Every soldier needs to be equipped, whatever their position, whatever their role, as long as they are deployed on the field, they must be able to understand the situation, have the situational awareness, or act and operate and react.

NATO Tier 2 countries are a little bit more selective, but they still are increasing their equipment rate over the time with different goals of having equipped the vast majority of their troops. Educated non-NATO Tier 1 countries, they are not part of NATO, but they have the same type of intentions as NATO Tier 1. And then we have a last tier of countries that are more budget dependent, but are still increasing their equipment rates.

Overall, the night-fighting capabilities are brought at the forefront of the equipment of the forces everywhere around the world.

Page 14, that drives the growth of the market. We estimate that the market will grow at an average 8% per year between 2023 and 2027, but it will continue to grow beyond 2027, because by then, the forces will not, and the armies will not have reached the level of equipment they are targeting. And beyond that, the technology will, in our view, have progressed enough that the equipment will be progressively replaced with newer technologies that have better performance and allow to see further. So these underlying trends are strong trends on the longer term on the night vision market.

In Detection & Imaging, page 15. We serve markets benefiting from strong secular growth. In Detection, the growth is estimated at a 7% CAGR between '23 and '27. Imaging, generally speaking, at 9%; Nuclear, at 9%. And in more detail, in the sub-markets we target, and we are present in, semiconductor inspection, machine vision, electrical power, life sciences, nuclear, science, gas detection, to name a few, the growth is really driven by strong needs and the development of added value applications that are emerging because the technology is enabling now these applications to be implemented.

And at Exosens, we are at the forefront of developing and enabling these needs to the customers.

So perhaps now we will focus a little bit more on the practical H1 results, and I will leave the floor to Quynh-Boi. If you want to guide us through the results, please, Quynh-Boi.

Quynh-Boi Demey: thanks, Jérôme. After this reminder on our competitive positioning and our key market drivers, let's see how all of this translates into our H1 financial results.

iiin the table below, I'd let you to take away three main points. The first one is on growth. Our revenue growth is 49.5%. So we have continued to grow at a very significant pace. Second point, margin expansion. You see our gross margin amounts now to close to 49%. it's a 350 basis points increase compared to last year, and it reflects our operational excellence.

Third point is profitability increase. 3 points EBITDA margin increase. So reaching now 30% adjusted EBITDA margin, 24.7% adjusted EBIT. We deliver growth, deliver margin expansion while controlling our cost base. And I will come back to all of these three points in the next few slides.

On the next slide, page 18, let's look at our revenue growth. 50% growth. We have continued to grow in the two segments, plus €44 million revenue in Amplification, plus €19 million in Detection & Imaging. So as Jérôme mentioned, the organic growth is 35%.

Just a quick reminder, last year we closed ProxiVision, which was renamed Photonis Germany at the end of June 2023. We closed El-Mul in Israel in July 2023, and Telops in Canada in October 2023. None of these companies contributed to our H1 2023.

If we remove the H1 '24 of these three acquisitions on a comparable basis, this is a 35% organic growth, which is still very significant.

Now if you look at our guidance, we are fully on track to deliver our guidance on revenue, both on organic growth and 30% total growth, including our 2024 acquisitions, so of which two have been recently closed and others planned before the end of the year.

Let's move now to page 19 and focus a little bit on our segment's performance. On Amplification, this market mainly addresses the defence market, and as Jérôme mentioned at the beginning, we benefit from very dynamic end-markets. And with a 71% market share outside of the US, we can benefit from this very dynamic market growth.

But 47% growth means that we have to adapt our supply chain, we have to increase capacity while maintaining our yields, recruit people, and this is what we managed to deliver in H1 in the continuity of what we already did last year. And this is demonstrating our operations excellence.

Gross margin, we increased by 2.5 percentage points compared to last year. This is coming from the volume effect, but we also benefited from a favourable product mix.

And Detection & Imaging that addresses mainly the commercial and industrial market, we have grown 60%. In this market, we had the benefit of positive price evolution and we had also the benefit of the acquisitions that we integrated during H1.

If you remember in Q1, we consolidated the sites of camera assembly, moving from five sites to two sites. Now it's completely up and running, and this is seen in the growth between Q1 and Q2.

El-Mul and Telops integrations, they are also up and running, both on R&D and commercial aspects. Note that we have seen a strong commercial performance in Q2, and this will lead us to a higher traction in our H2.

To summarise, in Amplification, continued ramp-up with good execution, good yields, and favourable product mix. Detection & Imaging, positive price evolution, extraction of synergies, and good commercial performance in H2 that allow us to expect a high traction in the second half.

If we move to slide 20, gross margin. I've already highlighted the growth. Now if you look at our adjusted EBITDA and adjusted EBIT, it's almost 3 percentage points increase compared to last year. Two things here. First, achieving this level of EBITDA margin means that we are positioned on market with high level of technology and industrial know-how and these positions are difficult to replicate.

Second point here, to explain also the fact that we managed to deliver this increase in our EBITDA margin, we control our costs on top of delivering very significant growth and margin expansion.

if you look at our EBITDA margin at 30%, it's fully in line with our guidance which was slightly above 29% EBITDA margin. And on the EBIT margin, our guidance was between 24% and 25%. So with the 24.7% that we achieved at the end of H1, we are also fully in line with our guidance for full year.

Next page, page 21. So I would like here to highlight our two key success factors. We operate on two legs: the first one is technology and the second one is industrial excellence.

So on the first leg, on R&D. It's really what will allow us to fuel our future growth. Over the period, we increased our R&D spent by €3.5 million, of which €1.6 million is coming from innovation projects that are at early stage of development and almost €2 million coming from our acquisition. As you remember, one of our key criteria to select a target for acquisition is the technology as it will complement our own product portfolio. This is the reason why the R&D spent coming from acquisitions has an impact on our spent.

Customer co-investment and tax credits, this is the dotted line. You see that it has increased by €1.2 million and it reflects our efforts to secure customer co-investment. As Jérôme mentioned, design in products, co-investment from customers, i are part of our strategy as it will allow us to secure repeatable business.

As a result, our gross R&D spent as a percentage of sales amounts to 7.9%, so very comparable level to last year at 8%, and fully in line with our year-end expectation of 7-8%.

Page 22, CAPEX, which is the second leg. I'd like to recall here that we are an industrial process manufacturer, which means that we transform raw material into high-tech components. So having an industrial tool that is at the state-of-the-art is a key success factor for us because it will drive cost competitiveness.

Two points here to remember on CAPEX. First is the normalisation of our CAPEX. We invested significantly in 2021 and 2022 and 2023 to meet with the market demand. Now we normalise the CAPEX spent, and you can see it in the light blue as the CAPEX for growth decreased from €8.1 million to €7.2 million.

And as a result, our percentage of CAPEX in terms of sales decreases from 8.8% of last year to 7% this year. The second point is that you will see that the weight of maintenance CAPEX compared to growth CAPEX has increased. This is the dark blue from €3 million to €6 million.

In the maintenance CAPEX, what we focus on is on productivity and improving productivity and improving our IT infrastructure. So just to give you some colour on what a productivity project is, this is for example when we install an automated test bench. When we install automated test bench, this means that we remove the subjective assessment of the operator at the end of the control line and this will reduce our scraps at the end.

What we did as well is we implemented robots to automate some manual tasks of the operator. When we remove manual tasks, this means that we remove manual manipulation, and therefore potential contamination as we operate in clean room environments. So the examples of two projects give us the benefit of this CAPEX of productivity. It means productivity gains. It means scrap reduction. So in the end, future margin expansion.

If we move to page 23, where we see our free cash flow. Over the period, we achieved almost €24 million free cash flow generation, significant increase compared to the €2 million, almost €2 million that we achieved last year. And this is in spite of the IPO consulting fees that we had to incur over the period. It's about €4 million, and it's included in the line other income and expenses that amount to €5.5 million at the end of June.

What we did as well is we control our working capital requirements and control our CAPEX while delivering the substantial growth. Cash conversion ratio increases to 75%, up from the 63%, as we normalise our CAPEX spending. And this also fully in line with our year-end expectation of 75-80%.

Page 24. Following the IPO, we strengthened our balance sheet. We received €180 million from the capital increase. We refinanced our debt securing a €250 million term loan that matures in June 2029. We also secured a €100 million revolving credit facility also maturing in June 2029. And as a consequence, we reduced our leverage ratio down from 3.3 times the EBITDA at the end of December 23 now to 1.3 times our EBITDA level.

With the cash that we generate from the operations, with the capital increase that we have, plus the refinancing that we secured, we have strong liquidity now that can support our growth strategy whether organic growth or M&A growth.

Going to our conclusion on slide 2026, let me mention the following key financial takeaways. The first one is strong growth, acceleration of revenue, 50% total growth, 35% organic growth. Second point, margin expansion and cash conversion. We're able to deliver a substantial growth while at the same time increasing our margin and generate cash, demonstrating our operational excellence.

Third point, strong balance sheet. We deleveraged now to 1.3 times our EBITDA at the end of June and we can use the liquidity to fund our growth strategy. And Jérôme will give us some colour on the two acquisitions that we have recently closed.

On the next page, page 27 our full year guidance. As I've already mentioned throughout the presentation, we're fully in line with the guidance whether it's on revenue or EBITDA level, EBIT margin, cash conversion, growth R&D cost as a percentage of sales, we're fully on track to deliver our guidance.

On page 28, I'd like to share with you a few developments since the end of H1, a significant event. I'm very happy to share that we were awarded a silver medal on EcoVadis, and this is a recognition of our ESG strategy. We are now placed in the top 15% worldwide and now we will target to get the gold medal by 2025, which was part of our ESG strategy.

And I will hand over to Jérôme, who will give us some light on the two recent acquisitions.

Jérôme Cerisier: Post H1 closure, we closed two acquisitions. The long-awaited, if I may say, Centronic. We had announced during the discussions we had prior to the IPO that we had signed an acquisition in the UK that was not closed. This is now closed. This is the Centronic acquisition.

It's a company that is active in neutron detectors for nuclear power plants, in Geiger-Müller detectors and specialised photodiodes. This drives us to not only increase our market share from 19-38% in neutron detectors but also increase our time, strengthen our position to add SMR and more generally be more competitive in addressing the nuclear detection market, while allowing us also to access some new markets like the Geiger-Müller detector who are specialised applications still in the same field.

We also closed more recently because we closed it on 1st September, LR Tech. LR Tech is a Canadian specialist of infrared spectroscopy using a specific technology, closed Fourier transform. And that will allow us to complement our portfolio in cooled infrared within Telops. The proximity of LR Tech with Telops geographically convinces of the interest of pursuing this acquisition, which is a small company.

Overall, these two acquisitions are expected to be highly synergetic allowing us to be completely in line with our strategy, to include some new technologies and some additional technologies to enlarge our portfolio, to increase our market and to accelerate the development of this company through a commercial global reach that we will have now to organise.

And actually if I go to the page 29, next page, that will be a key priority and a milestone for the next period in the M&A area on the right. We will start integration of Centronic and LR Tech and so that will be the objective to create the expected outcome in terms of integration, synergies, market development, etc. And we will continue to focus on delivering the strong pipeline that we have in M&A in line with our guidance.

On our existing segment, Amplification, we will focus on executing the capacity plan to its end and continue the development of the next-generation product towards an official commercial launch that we still expect within the year 2024.

On the Detection & Imaging segment, we will focus on increasing the design in penetration of key Tier 1 customers in electron microscopy and semiconductor. We will focus on reinforcing our positions on the SMR market in the nuclear field and we will focus also through new product launches to reinforce our design in position in optical tomography or in gas detection. These are the key focus for the next period, fully in line with our strategy.

In a nutshell, our H1 results are of a very good level, fully in line with our guidance and fully in line with our strategy, representing in fact the operational excellence, the ability to develop new products, new applications where technology makes a difference and also making obvious the operational excellence which we thrive for and that was executed in H1 to produce these results.

I think that ends the part of our slide presentation and I think we are now open for questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question today, please signal by pressing star one on your telephone keypad. So again, that is star one for your questions today. And first up, we have Alexander Peterc from Bernstein. Please go ahead.

Alexander Peterc (Bernstein): Yes, good morning, and thank you for taking my question. I would have a few. The first one is on your guidance. So with the first half adjusted EBITDA margin at 30% and the likely positive seasonality in the second half, would it make sense to upgrade somewhat your outlook for the year to be slightly above last year's margin at 29%, if I'm correct? To me, slightly means about 100 basis points, maybe 150 basis points, and it looks like you could do better. And the same goes for your EBITDA margin, which is a 24.7% adjusted in H1. So if you have some positive seasonality in the second half, you should be probably at or above 25%. And that's the high end of your guidance range. So are there any specific headwinds you'd like to highlight in this respect? That would be my first question. I have a follow-up. Thank you.

Quynh-Boi Demey: Thanks, Alexander, for your question. So first, H2, we're still going to grow compared to H2 of last year, even though H2 of last year was a significant increase versus H1 of last year.

Second point is that we're new in the market. We were listed only three months ago.

Jérôme Cerisier: Actually, we are listed since already two months and 26 days.

Quynh-Boi Demey: Yes. So we're still very new to the market, and we want to remain disciplined and conservative in our guidance.

Alexander Peterc: Okay, that makes sense. Thank you very much. The second question would be on the net financial items. So I've seen the P&L net loss of \$25.7 million, and your interest payments were at \$14.8 million. So what's the difference? And maybe you could provide us a little outlook for the financial items in your P&L for the year, if that's possible at all. And while we're discussing financials, could you confirm the terms in terms of the spread versus Euribor for your term loan, your RCF? Thank you.

Quynh-Boi Demey: So you're referring to the net financial results, right? Was it your question?

Alexander Peterc: Yes, net financial versus the interest.

Quynh-Boi Demey: Yes, it's a significant amount, because it reflects all the financial restructuring that happened during H1. Part of the impacts are non-cash. From the previous loan, we had OID that were capitalised in the balance sheet, and they're amortised over the lifetime of the loan, the previous loan. And as we did the refinancing, we had to fully amortise what remained in our balance sheet. So this was already an €8 million impact.

We had the same impact for another loan that we had in the previous refinancing that we had also fully amortised on over €3 million. We had breakage costs as we had to reimburse the previous debt earlier than expected. . So you see a lot of one-time effect that is not reflective of the financial results as it will be in the future.

And that comes to your next point on our debt costs for our new that we just secured. So it depends on the Euribor, and it ranges from 150 to 250 basis points. And now currently it's 2%.

Alexander Peterc: Okay, thank you. And just one last one for Jérôme, if I may, very briefly on your pipeline of acquisitions. Could you comment on how many targets you're considering right now, and what is the average size in terms of revenue and the average profitability of the companies in your pipeline of deals? Thank you.

Jérôme Cerisier: Okay, so we are currently pursuing between six and eight targets of different sizes. In terms of profile, they perfectly correspond to what we have communicated so far. So in the vast majority of them belong to the D&I segment, but it's only a majority. We have also some opportunities in the Amplification segment where we feel we could have some key technologies or access to key technologies.

And in terms of size and numbers, they are mostly in line with what we've done in the past. Some of them are typically the same size, and some of them are slightly bigger than what we actually did. But the average profitability of these targets varies depending on the market they're operating in, the operational leverage, the operational excellence, sorry, that the management in place has been able to implement.

Only a few of them have higher profitability than the current Group profitability, as we explained. But leveraging our strategy concerning acquisition is always to integrate them, to develop synergies on the technological side, use our global reach to increase our sales and accelerate the development of growth. All of them are growing fast, so we expect some of them to be in a position to make progress in the coming month of some of them, as we have guided for the year on a certain level of growth.

Alexander Peterc: Yeah, that's great. Thank you very much.

Operator: Thank you. And up next, we have Aymeric Poulain from Kepler Cheuvreux. Please go ahead.

Aymeric Poulain (Kepler Cheuvreux): Thank you very much. Good morning. The question on the acquisitions. Perhaps you could give us a bit more detail on how much was paid for LR Tech and the type of margin that we should assume for this business? And when you guide for 1.6 times net debt to EBITDA, I guess it includes not only this acquisition, but also two other larger acquisitions that you have planned for the year-end. So could you confirm that the 1.6, which may be slightly higher than the previous guidance reflect the payment for LR Tech, which was probably not necessarily assumed initially? So that would be the first question.

The second question is on organic growth. Obviously, you don't put the organic growth by division. The Detection & Imaging is mostly the result of last year's acquisition, so too difficult to put in the presentation. But what would be the level of organic growth you see right now in Detection & Imaging? And when do you expect this organic growth to pick up to the level of the market growth you see for the coming year?

And in that regard, I think you mentioned several times the potential catalyst of SMRs. Again, when do you see this rollout of SMRs taking place to drive such acceleration? Thank you.

Quynh-Boi Demey: So maybe I start with the leverage ratio and organic growth and I let you complement on the market aspect.

So, Aymeric, thanks for your question. Indeed, the 1.6 times the EBITDA as a leverage ratio includes the two acquisitions plus new ones that we plan to finalise before the end of the year. And this is in accordance with the guidance that we provided. We said around 1.6 times the EBITDA at the end of 2024.

On the organic growth by division. So in D&I, indeed, we had a low single-digit organic growth at the end of H1 as we were impacted by two main factors. The first one is the consolidation of the camera site assembly that impacted Q1 and that was completed at the middle of Q2. So now it's behind us and we have our supply chain up and running.

The other factors that impacted us is the slowdown of the Chinese and semiconductor markets as other players. But we noticed an improvement in our commercial traction in Q2 and especially on drone and surveillance, and we expect H2 to improve versus our H1.

Jérôme Cerisier: Yeah, as a complement to your questions on the organic growth concerning D&I, SMRs specifically is a new era and a new area for nuclear. Nuclear remains a small business within our division, our segment. It's important for us because we believe there's a lot of potential in this market. Developing SMR technology takes time but we are making good progress with some nice leads, prospects or even customers. So SMRs will be one.

We expect overall the market growth in average to be in line with over the period '23 to '27. The current market growth seems to be generally lower than expected, and I think for some of the companies operating in the same market, I think it's even negative. We are low single-digit, as Quynh-Boi mentioned.

So we expect the market overall to recover, or let's say to get to higher fields or higher levels. For semiconductors, probably beginning of 2025, that's what our expectation today for China's softness in the market that is more related to our mass spectrometry market and to a lower extent to certain camera markets. That is difficult to say because we are not economists, and I think not everyone agrees as to how it's going to happen there. But we expect that the current market conditions do not change the overall perspective over the '23-'27 period.

Now, I think there is one last point – one last question you raised which was the price paid for the acquisitions. I think that will be probably indicated in the final accounts of the year. We didn't pay anything very different from – well, we didn't pay anything different. In fact, in average, it was slightly the same level than we paid in the past, that is the combined level of around ten times EBITDA being understood that the profitability of LR Tech is very high, very close, very similar to the one of the Group. The profitability of Centronic was more in around, let's say, about 20%.

Aymeric Poulain: Perfect. Thank you very much.

Operator: Thank you. And our next question now comes from Charles Armitage from Citi. Please go ahead.

Charles Armitage (Citi): Yes. Good morning. Thank you. Just a quick one, going back to Alexander's first question on margins. Will the acquisitions, Centronic and the LR Tech make any material negative impact to margins in H2, please?

Quynh-Boi Demey: Slightly. It will be slightly dilutive and it's a very similar pattern to what we saw in 2023 last year when we integrated the three acquisitions, ProxiVision, El-Mul and Telops.

Charles Armitage: Okay. Thank you.

Operator: Thank you. And from JP Morgan, we have a question from David Perry. Please go ahead.

David Perry (JP Morgan): Yes. Hello. Good morning, Jérôme and Quynh-Boi. Congrats on the IPO. Two questions. The first one, and I apologise if I missed this in your comments. It seems a very obvious question. But the Amplification sales were very, very strong in H1. My forecast, and maybe I've misunderstood. But my forecast for the full year is only €248 million of sales. So it actually implies a drop in sales in H2 year-over-year. I know defence can be lumpy. Maybe I've got the wrong numbers. If you could just clarify what you're expecting there.

And then just secondly, the Exosens' defined free cash flow, €23.6 million, looked quite strong to me in H1. Could you just tell me what you expect that number to be on that definition for the full year, please? Thank you.

Jérôme Cerisier: So concerning Amplification sales, first, if I may state something that I hope is obvious, is Amplification sales combine Light Amplification and Electronic Amplification. So the Amplification sales have been growing vastly in H1 compared to last year, but please remember that we were in 2023 in a very strong ramp-up in our capacity, so that the level of production and so our sales in H1 2023 was lower than the one in H2 2023, and in turn is slightly lower than the one that we observed in H1 2024.

So I will not comment on your number of €248 million sales, but definitely most of the investments we've made in capacity, most of them are implemented, and so we are now entering a phase where the production output will grow at a lower pace than it has had in the past. We do not expect a decrease, certainly not.

David Perry: Okay.

Quynh-Boi Demey: So coming back to our revenue guidance, so what we say is that we will be fully in line with our guidance. So our guidance for organic growth is a high-teens organic growth compared to our pro forma 2023 sales, which was close to €320 million, and we're fully in line with this guidance.

David Perry: Okay. Sorry, my question, Quynh-Boi, was just purely on the free cash flow.

Quynh-Boi Demey: On the free cash flow. Sorry, I forgot this one. So the free cash flow. Yeah, you're right. So we were helped in our free cash flow generation with a cut-off impact. So we had some customer delays of last year that paid us this year. So if we remove this impact, we're in line with our expectations on free cash.

David Perry: Okay. And if I can just clarify, Jérôme, when you say we do not expect a decrease in Amplification, do you mean H2 over H2, so year-over-year?

Quynh-Boi Demey: Yes.

Jérôme Cerisier: Yes.

David Perry: Okay. Thank you. That's very helpful.

Jérôme Cerisier: You mentioned a decrease. I was just responding to this word that you used.

David Perry: Thank you.

Operator: Thank you. And our next question now comes from Laurent Gélébart from BNP Paribas. Please go ahead.

Laurent Gélébart (BNP Paribas): Good morning, Jérôme. Good morning, Quynh-Boi. One question regarding Amplification. Could you share with us what is the share of Germany in this H1? And do you expect this country's contribution to remain also very steady in 2025 compared to 2024?

Jérôme Cerisier: So the share of Germany is similar to the one we observed in 2023 and is similar to the one we expect in 2020, in the second half of the year or over the year, let's say, generally speaking, in 2025.

Laurent Gélébart: Okay. And regarding tender offer coming in or order intakes and so on, or book-to-bill, could you comment on the prospect, the commercial prospect of the division?

And last one, when do you plan to launch your new 5G products?

Jérôme Cerisier: Okay. So the prospects for the division, so we still have a strong traction in Europe. We have some regular repeat orders. We have some – as we mentioned in the past, we have some frame agreements that allow our customers to place additional orders so that they do. So this is coming in at a regular pace. And so Europe remains a strong area.

We see also some good developments in prospect in the Middle East, and to a lower extent in very specific countries in Asia. The trend that we have presented during the IPO process remains there, with the same customers developing themselves depending on their internal needs. We see that. We see the developments and the orders coming in at the pace we are expecting them so far.

Concerning your question on 5G or next-gen, we are present on the commercial launch and official launch because we want to ensure that the product is fully available at a large scale when we go on the market. So that doesn't mean that we are not able to develop products to, or to develop or to produce, let's say, some prototypes, some demonstrators of this product. And so we still expect to launch it before the end of the year or in 2025, early at most, depending on when we are confident to have reached this level and on certain other factors linked to the current product line that we want to ensure to be able to produce, to deliver to the customers as long as possible.

Laurent Gélébart: Thank you, Jérôme.

Operator: Thank you. As a brief reminder, that is star one for your questions today. And we now take a question from Aurélien Sivignon from ODDO BHF. Please go ahead.

Aurélien Sivignon (ODDO BHF): Yes. Good morning, Jérôme and Quynh-Boi. I have got two questions left. First, on the D&I segment. I was quite impressed by the 51% in H1 given

all the deep close[?] last year. So should we consider now that de novo 50% gross margin for this division is sustainable despite the pace of expected new bolt-on acquisition in the next quarters?

And second one was, can you confirm that both Centronic and LR Tech will be consolidated from September? Thank you.

Quynh-Boi Demey: Yes. So for the consolidation of Centronic and LR Tech, yes, they will – as we have closed the two acquisitions, they will be part of our numbers for sure before the end of the year, noting that we need to do the opening balance sheet, PPA and so on. So it will take some – well, some time. But it will be fully integrated as of September.

To your second question on the gross margin of D&I, 51%, yes, this is the level that we expect the gross margin of D&I to be. We might have a slight dilutive effect of acquisitions, but it will be more or less to this level.

Aurélien Sivignon: Okay. Thank you very much.

Operator: Thank you. And as there are currently no further questions in the queue, I'd like to hand the call back over to you, the host of today's call, for any additional or closing remarks.

Jérôme Cerisier: Okay. So we would like to thank you very much for your attention and your interest in Exosens. We remain at your disposal for any other interactions you would like to have. And we are pleased, in fact, to meet you in the next few weeks and months, as you wish.

Thank you very much, and we wish you a very good day.

Quynh-Boi Demey: Thank you. Thank you to everyone.

Jérôme Cerisier: Thank you.

Quynh-Boi Demey: Bye-bye.

Operator: Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]