LECTRA

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

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the fourth 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

With an average exchange rate of $1.11/€1 in Q4, the US dollar was up 3% compared to Q4 2018, while the yuan strengthened by 1% against the euro. Currency changes mechanically increased revenues by 0.8 million euros (+1%) and income from operations by 0.4 million euros (+4%) at actual exchange rates, compared to like-for-like figures.

Decrease in orders for new systems

In a continuing degraded environment that is unlikely to contribute to an upturn in investment decisions by Lectra customers, orders for new systems came to 30 million euros, down 9% from Q4 2018. At actual exchange rates, they decreased by 8%. Orders for new systems had amounted to 27.4 million euros in Q1 of this year, 26.5 million euros in Q2, and 28 million euros in Q3.

Orders for CAD/CAM and PLM software (4.8 million euros) and orders for training and consulting (3.4 million euros) rose by 2% and 7%, respectively. Orders for equipment and accompanying software (21.3 million euros), which were 13% lower, continued to be impacted by the wait-and-see attitude of the Group's customers.

Revenues and income from operations in line with revised estimates

Revenues were 74.2 million euros, down 2% compared to Q4 2018 (-1% at actual exchange rates).

Income from operations amounted to 11.2 million euros, down 10% like-for-like and 7% at actual exchange rates. The operating margin came to 15%, down 1.3 percentage points like-for-like and 1 percentage point at actual exchange rates.

These results are in line with the Group's expectations as set out on July 29.

Net income amounted to 8 million euros, down 0.6 million euros (-7%) at actual exchange rates.

Finally, free cash flow totaled 18.1 million euros (12.8 million euros in Q4 2018). This includes receipt of 5.7 million euros relating to the balance of the 2015 French research tax credit (6.9 million euros in Q4 2018 for the balance of the 2014 French research tax credit).

2. SUMMARY OF EVENTS AND PERFORMANCE IN 2019

Acquisition of the company Retviews

On July 15, 2019, Lectra entered into an agreement to acquire 100% of the capital and voting rights of the Belgian company Retviews, with 70% acquired immediately for 8 million euros and the remainder in three installments in July 2020, 2021 and 2022, for the amounts of about 0.9 times, 0.7 times and 0.5 times of the respective years' revenues.

Founded in 2017, Retviews has developed an innovative technological offer that enables fashion brands to analyze real-time market data and make the best decisions to optimize their collections, and increase their sales and margins, thanks to artificial intelligence algorithms.

Retviews has been consolidated in Lectra's accounts since July 15, 2019. The impact on H2 2019 revenues was 0.5 million euros, the impact on income from operations was 0.1 million euros.

Positive impact of currency changes

With an average exchange rate of $1.12/€1, the US dollar was up 6% in 2019 compared to the same period in 2018, while the yuan strengthened by 1% against the euro.

Currency changes thus mechanically increased revenues by 5 million euros (+2%) and income from operations by 3 million euros (+8%) at actual exchange rates compared to like-for-like figures.

Challenging macroeconomic and geopolitical environment

In a context of uncertainty and apprehension, the entire year was marked by a very strong "wait-and-see" attitude by many companies, particularly in the fashion and automotive markets. This adverse climate is primarily the consequence of the trade wars between the United States, on the one hand, and Mexico, China and Europe, on the other, as well as the slowdown in the automotive sector, particularly in China.

Orders for new systems on the decline

Overall, orders for new systems amounted to 111.9 million euros, down 10% (-8% at actual exchange rates) compared to 2018: new CAD/CAM and PLM software licenses, and training and consulting increased by 6% and 1%, respectively; equipment and accompanying software decreased by 14%. Orders for subscriptions, in particular for new offers in SaaS mode, accounted for 24% of the total amount of CAD/CAM and PLM software orders; this is already a very significant level, which confirms the positive reception of these new offers. Their total annual value totaled 1.9 million euros (0.9 million euros in 2018).

Geographically, the situation is highly contrasted: orders for new systems increased by 1% in Asia-Pacific (despite a decrease of 13% in China) but decreased by 5% in Europe and 39% in the Americas. They increased by 10% in the rest of the world (including Northern Africa, South Africa, Turkey, and the Middle East).

Orders for new systems were down 6% in the fashion market and 24% in the automotive market, but they were up 18% in the furniture market. In the other industries, they decreased by 18%. These market sectors respectively accounted for 53%, 29%, 14% and 4% of the total amount of orders.

Income from operations in line with revised objectives

At the start of the year, the Group had set objectives of achieving revenue growth of 3% to 7% in 2019, like-for-like, with growth in income from operations before non-recurring items down 4% in the low assumption and up 4% in the high assumption.

In light of the shortfall in orders for new systems in the first half of the year and limited visibility regarding those orders in the second half, the Group reported on July 29 that it now anticipated a decline of 1% to 5% in revenues and 4% to 14% in income from operations before non-recurring items, like-for-like.

Revenues were 280 million euros, down 3% relative to 2018 (-1% at actual exchange rates).

Income from operations totaled 40.9 million euros and the operating margin 14.6%, down 2.4 million euros (-6%) and 0.4 percentage point, respectively. At actual exchange rates, income from operations rose by 2% and the operating margin by 0.4 percentage point.

These results are in line with the Group's expectations as set out on July 29.

Net income totaled 29.3 million euros, up 0.6 million euros (+2%) at actual exchange rates.

Greater impact of sales of software on a subscription basis

As expected, both the volume and the percentage of sales of software sold on a subscription basis (SaaS) increased in 2019.

The change to the SaaS model, which is at the heart of Lectra's strategy (see chapters 3 and 9), will contribute to the long-term development of the Company's activities and strengthen its recurring revenues, while meeting customers' expectations. In the short-term, however, it has a negative impact on revenues and income from operations, as revenues from software subscriptions are recorded progressively over several years.

If the SaaS sales in 2019 had been made in the form of perpetual licenses with their associated maintenance contracts, revenues and income from operations would have been higher by 2.8 million euros and 2.9 million euros, respectively. Therefore, at actual exchange rates, revenues would have been stable, income from operations would have increased by 9%, and the operating margin would have totaled 15.5%.

Very strong growth in free cash flow

Free cash flow amounted to 36.2 million euros, compared to 21.6 million euros in 2018. This substantial increase is attributable to tight control over working capital requirement, which decreased by 10.6 million euros in 2019, following an increase of 3.7 million euros in 2018.

A business model that once again proves its strength

With income from operations only slightly lower, and a record 14.6% operating margin despite the decline in new system orders and the impact of the growing percentage of software sold on a subscription basis, the 2019 results demonstrate the strength of Lectra's business model —which is attributable primarily to recurrent revenues and the gross profit margin it generates. The security ratio, one of the key indicators tracked by the Group, which measures the percentage of annual fixed overhead costs covered by gross profit on recurring revenues, exceeded 90%, the highest level ever in 2019.

The remarkable free cash flow performance (36.2 million euros) also confirms the business model's ability to generate significant free cash flow, which generally exceeds net income, due to the structurally negative working capital requirement.

A particularly robust balance sheet

At December 31, 2019, consolidated shareholders' equity amounted to 183 million euros (170.4 million euros at December 31, 2018).

The Group is debt-free. Cash and cash equivalents, as well as net cash position, totaled 120.6 million euros (102.2 million euros at December 31, 2018), after the dividend payment of 12.8 million euros declared in respect of fiscal year 2018 and the disbursement of 8 million euros for the acquisition of Retviews. This record level will allow the Group to self-finance its internal and external development.

3. ASSESSMENT OF THE 2017-2019 STRATEGIC ROADMAP

Continuing its focus on the long-term, in February 2017 the Group launched its new Lectra 4.0 strategy with the objective to make Lectra an indispensable player in Industry 4.0.

This new strategy was embodied in the roadmap for 2017-2019, the first decisive stage in Lectra's evolution over the next ten years, which will further reinforce Lectra's global leadership, ensure sustainable growth, and preserve its profitability.

Strategic objectives accomplished overall

The five strategic objectives for 2017-2019 that Lectra established in February 2017 guided the Company's actions throughout the three-year period:

- To accelerate revenue growth, both organic and through targeted acquisitions;
- To accentuate Lectra's technological leadership and leverage new technologies to further enhance the value of its products and services offer;
- To strengthen Lectra's competitive position and long-term relationships with customers;
- To progressively transform most of its revenues from new software licenses into recurring subscriptions by establishing a SaaS business model;
- To maintain the Group's profitability and generate a high level of free cash flow in order to self-finance internal and external development, other than potential acquisitions whose scale might require additional financing.

In its 2017 Annual Financial Report, released February 12, 2018, to which the reader is referred, Lectra adjusted its fourth objective as follows: to progressively launch new software offers in SaaS mode.

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-tech startups – Kubix Lab in January 2018 and Retviews in July 2019 – to reinforce its value proposition and extend the range of its offers;
- Strengthened its Executive Committee and reorganized its subsidiaries into four main regions;
- Launched its first SaaS offers, which account for an ever-increasing share of software orders each quarter;
- Increased its profitability;
- Reinforced its balance sheet.

Heterogeneous impact of growth accelerators

At the start of 2017, the Group identified five accelerators to boost its growth:

- China: as the country upgrades its manufacturing plant and expands its domestic market, supported by the Chinese government's strategic 'Made in China 2025' initiative;
- Leather: this is increasingly used in the automotive and furniture industries. Almost all materials are still cut by hand, but cutting processes need to be automated;
- Airbags: due to the growing number being fitted to each vehicle, and to the potential to renew installed bases of older-generation automated cutters;
- Personalization of consumer products: the entire value chain needs to be fully automated and interconnected, requiring hefty investments in cutting-edge technology;
- Finally, the digitalization of the fashion and apparel industry, which implies adopting collaborative technologies to facilitate management of collections and products.

These growth accelerators made varied contributions to business growth over the past three years:

- After substantial growth in 2017, orders for new systems in China began to slow in the fourth quarter of 2018 – primarily as a consequence of the trade war with the United States and the sharp slowdown in the Chinese automotive market – and fell short of ambitions;
- Leather cutting solution sales showed strong growth in the furniture industry but remained low in the automotive sector due to the challenging economic situation in this market;
- Airbag cutter sales accelerated;
- Solutions to enable companies to personalize products for consumers (Fashion On Demand by Lectra and Furniture On Demand by Lectra) were launched in pilot countries starting in April 2018, and gradually rolled out worldwide in 2019; the initial results are promising, with these solutions currently being used by over 30 companies;

- Finally, there was strong growth in sales of collaborative solutions to facilitate management of collections and products in the fashion industry; Kubix Link, a solution stemming from the acquisition of Kubix Lab, which was available only in Italy in 2018 before being gradually rolled out in Europe and the Americas in 2019, is currently used by close to 50 customers.

Major technological advances

The Group had announced its intent to pursue its policy of sustained investments in innovation and to increase R&D spending in order to introduce new offers for Industry 4.0, constituting new product lines or complementing existing software and cutters, while continuing to enrich its flagship offers.

In total, Lectra invested 90 million euros in R&D over three years, representing 10.7% of revenues; which was fully expensed in the period.

Throughout the roadmap period, Lectra expanded its R&D teams (by 36%, from 270 on December 31, 2016 to 368 on December 31, 2019), strengthened its expertise in the key technologies for Industry 4.0, and transformed its methods for the design and development of solutions, to make them more agile and more responsive to Industry 4.0.

After being launched in selected pilot countries in 2018, Lectra's first innovative offers empowering customers to implement the principles of Industry 4.0 were rolled out worldwide in 2019. These offers should make an increasingly important contribution to the Group's growth in the medium term.

At the same time, Lectra launched new versions or line extensions for its flagship offers, including:

- New models of FocusQuantum cutters for airbags, in late 2017;
- A new range of Vector fabric cutters for the footwear industry in 2017 and new models for the automotive industry in 2019;
- A new generation of Versalis leather cutting solutions in 2019;
- A new version of Modaris, the flagship CAD software, in 2019.

Lectra also reinforced its innovation capacity with the October 2018 opening of its Innovation Lab, a space for collaborative creation and experimentation bringing together customers, startups, research centers and in-house talents dedicated to the research and design of disruptive solutions.

Successful initial evolution towards SaaS mode

In order to provide its customers with more flexibility, Lectra announced its intent to put in place during the roadmap period a business model for SaaS on a subscription or pay-as-you-go basis.

At the start of 2018, Lectra decided (i) to sell new software only in SaaS mode; (ii) to give customers the choice, for existing CAD and PLM software, between the current model (sale of perpetual licenses together with their associated maintenance contracts) and the SaaS mode; and (iii) to continue to sell embedded software for cutting equipment in the form of perpetual licenses.

As the Group had expected, most software sales during the roadmap period were in the form of perpetual licenses. Orders in SaaS mode, which had been negligible in 2017, accounted for 13% of CAD/CAM and PLM software orders in 2018 and 24% in 2019.

The ramp-up of software sold in SaaS mode will continue throughout the next strategic roadmap period and will have a positive impact for the Group in the medium term, providing an opportunity to further increase recurring revenues.

Financial structure stronger than ever before

Although business activity was severely impacted by a difficult macroeconomic and geopolitical environment, and financial results were below the objectives set by the Group in February 2017, the business model demonstrated its strength and virtue.

The increase in recurring revenues – in line with the Group's expectations – and in gross profit margins, combined with good control over fixed overhead costs, made it possible to offset the lower than expected revenues from software licenses, equipment and non-recurring services. The security ratio remained well above the 80% objective throughout the period, and exceeded 90% in 2019.

The Group's financial structure has never been stronger. Cumulative free cash flow for the period came to 91 million euros (compared to 64.4 million euros in 2014-2016); the Company is debt free; cash and cash equivalents, as well as the net cash position at December 31, 2019, were 44.9 million euros higher than at December 31, 2016, after total dividend payments of 35.8 million euros between 2017 and 2019 in respect of fiscal years 2016 to 2018, and after payment of 15.2 million euros for the acquisitions of Kubix Lab and Retviews; shareholders' equity rose by nearly 40% in the three-year period.

The first stage in Lectra's evolution successfully completed

Numerous reports published by experts and discussions with customers over the three years have demonstrated the relevance of Lectra's strategy and the excellent fit between the 2017-2019 roadmap and the demands of Industry 4.0.

Except for the delay in achieving growth in orders and revenue from software licenses, equipment and non-recurring services in 2018 and 2019, as businesses adopted a "wait and see" approach in all its markets, Lectra executed its 2017-2019 roadmap in line with its expectations.

With a solid, proven business model, these results give Lectra the confidence to pursue its Lectra 4.0 strategy and capitalize on firm foundations for its next roadmap.

4. CONSOLIDATED FINANCIAL STATEMENTS FOR 2019

Revenues

Revenues totaled 280 million euros, down 3% like-for-like and 1% at actual exchange rates. They increased by 2% in Europe, decreased by 1% in Asia-Pacific and 15% in the Americas, and increased by 16% in the rest of the world. These regions respectively accounted for 41% (including 6% for France), 27%, 24% and 8% of total revenues.

Revenues from software licenses, equipment and non-recurring services

Revenues from software licenses, equipment and non-recurring services (110.2 million euros) decreased by 12% (-10% at actual exchange rates). They accounted for 39% of total revenues (43% in 2018) and include mainly:

– CAD/CAM and PLM software licenses (13.5 million euros), which decreased by 4% and accounted for 5% of total revenues (5% in 2018);
– Equipment and accompanying software (82.1 million euros), which decreased by 14% and accounted for 29% of total revenues (33% in 2018);

- 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 compared to 2018. The breakdown is as follows:

- 148.3 million euros in fixed overhead costs (+1%);
- 16 million euros in variable costs (-11%).

At actual exchange rates, total overhead costs increased by 1%.

Research and development costs (31.8 million euros), which are fully expensed in the period and included in fixed overhead costs, represented 11.4% of revenues (30.8 million euros and 10.9% of revenues in 2018). After deducting the research tax credit applicable in France, and grants received, net research and development costs amounted to 22 million euros (21.5 million euros in 2018).

Income from operations and net income

Income from operations totaled 40.9 million euros, a decrease of 2.4 million euros (-6%) like-for-like, but an increase of 0.6 million euros (+2%) at actual exchange rates compared to 2018.

The operating margin was 14.6%, down 0.4 percentage point like-for-like, but up 0.4 percentage point at actual exchange rates.

Financial income and expenses represented a net charge of 0.1 million euros. Foreign exchange gains and losses generated a net loss of 0.7 million euros.

After an income tax expense of 10.8 million euros, net income amounted to 29.3 million euros, up 0.6 million euros (+2%) at actual exchange rates.

Net earnings per share came to €0.92 on basic capital and €0.90 on diluted capital (respectively €0.91 and €0.89 for 2018).

Free cash flow

Free cash flow totaled 36.2 million euros, up 14.6 million euros compared with 2018, at actual exchange rates.

It results from a combination of 49 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 provided by operating activities also comprises an increase in other operating non-current assets of 5.2 million euros (corresponding to the portion of the 2019 research tax credit, not paid and not deducted from the corporate income tax due by Lectra SA – see note 6 hereafter). Finally, in order to ensure comparability of published free cash flows, the repayment of 6.2 million euros in lease liabilities (according to IFRS 16: see notes 2 and 5 hereafter) was taken into account.

Shareholders' equity

At December 31, 2019, consolidated shareholders' equity amounted to 183 million euros (170.4 million euros at December 31, 2018).

The Group is debt-free. Cash and cash equivalents, as well as net cash position, totaled 120.6 million euros (102.2 million euros at December 31, 2018).

The working capital requirement was a negative 20.7 million euros. It comprised the current portion (2.6 million euros) of the 17.4 million euros receivable on the French tax administration (Trésor public), corresponding to the research tax credits recognized since fiscal year 2016. The portion to be repaid in over one year is carried on the balance sheet under other non-current assets (see note 6 hereafter). When these tax credits cannot be deducted from the year's corporate income tax, they are reimbursed to the Company by the French tax administration in the fourth year following the year they are booked.

5. APPROPRIATION OF EARNINGS

Dividend maintained at €0.40 per share

The Board of Directors will propose to the Combined Shareholders' Meeting of April 30, 2020 to maintain the dividend at €0.40 per share in respect of fiscal year 2019. This dividend would represent a payout ratio of 44% of consolidated net income and a yield of 1.8% based on the December 31, 2019 closing share price.

Previous dividends were €0.40 per share in respect of fiscal year 2018, €0.38 per share in respect of fiscal year 2017 and €0.35 in respect of fiscal year 2016.

Subject to approval by the shareholders, the dividend will be made payable on May 8, 2020.

6. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At December 31, 2019, the share capital totaled €32,099,100, divided into 32,099,100 shares with a par value of €1.00.

Share capital increased by €252,343 (with a total share premium of €1,959,113) due to the creation of 252,343 shares since January 1, 2019, resulting from the exercise of stock options.

Main shareholders

No crossing of statutory thresholds was reported to the Company since January 1, 2019.

At the date of publication of this report, and to the Company's knowledge:

- Daniel Harari holds 17% of the capital and voting rights;
- Kabouter Management LLC (United States) acting on behalf of investment funds that it manages, holds more than 10% (but less than 15%) of the capital and the voting rights;
- Allianz SE (Germany) through French companies it controls, and Kempen Oranje Participaties (The Netherlands) each hold more than 5% (but less than 10%) of the capital and the voting rights.

No other shareholder has reported holding more than 5% of the share capital and voting rights.

Treasury shares

At December 31, 2019, the Company held 0.1% of its own shares in treasury, solely within the framework of the liquidity agreement contracted with Exane BNP Paribas.

Share price performance and trading volumes

The Company's share price at December 31, 2019, was €22.35, up 22.9% compared to December 31, 2018 (€18.18). It reached a low of €16.42 on September 25 and a high of €24.00 on March 13.

Over the same period, the CAC 40 and CAC Mid & Small indexes rose by 26% and 19%, respectively.

Lectra is part of the following Euronext and EnterNext indexes: CAC All Shares, CAC All Tradable, CAC Mid & Small, CAC Technology, EnterNext PEA-PME 150, and EnterNext Tech 40.

14 million shares were traded on Euronext and other trading platforms in 2019 (44% of the number of shares making up the share capital on December 31, 2019), which is 18% below the same period of 2018. Euronext accounted for 36% of shares traded in 2019, compared with 31% a year before.

7. SIGNIFICANT POST-CLOSING EVENTS

No significant event has occurred.

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. BUSINESS TRENDS AND OUTLOOK

A long-term vision

Markets are undergoing profound changes

Throughout the world, Lectra customers are faced with changes in consumer behavior, as buyers reveal new expectations in terms of experience and personalization, and demand ever greater transparency, authenticity and ethical commitment from all actors in the value chain.

To remain competitive, fashion brands and manufacturers have to call themselves into question. They must rethink and merge the in-store and digital experience, bring new and continuously more creative models to market quicker, and demonstrate their eco-responsibility – while also reducing inventories, markdowns, and unsold stock.

In addition, automotive suppliers, under pressure from carmakers and faced with difficult market conditions, must also reinvent themselves to maintain their margins, while laying the groundwork for car interiors of the future.

Finally, furniture industry players are forced to adapt without delay to the demands of younger generations yearning for configurable and personalized furniture, changing lifestyles, and the challenges of digital technology.

Industry 4.0 is transforming industrial processes

Industry 4.0 calls for a new approach to organizing production plants based on communication across a configuration of increasingly flexible players and production tools, while optimizing the use of available resources.

To exploit the full potential of the fourth industrial revolution, companies must first digitize every process in the value chain, from creation to point of sale, and set up modular, intelligent and communicating production lines. Subsequently, automation and continuous optimization of all processes will be possible thanks to Industry 4.0 technologies including cloud computing, big data, artificial intelligence and the Internet of Things.

Ultimately, Industry 4.0 will significantly benefit consumers by facilitating the transition from mass production to agile production – or even personalized production – at no additional cost or time.

A strategy to meet the challenges of Industry 4.0

Launched in 2017, the Lectra 4.0 strategy, which aims to position the Group as a key Industry 4.0 player in its market sectors between now and 2030, is built on four pillars:

– Premium positioning, based on high value-added solutions and services with strong business-line expertise;

- Focus on three strategic market sectors – fashion, automotive, and furniture – with a specific approach for each in terms of offers, organization and processes;
- Integration of customers into the heart of the Group's activities, with a commitment from its teams to do everything in their power to enable customers to make optimal use of its solutions;
- The gradual market launch of new 4.0 services that will combine data analysis, Lectra's expertise and artificial intelligence, to enable customers to continuously improve their operations.

Lectra already has the fundamentals necessary to help its customers enter this new industrial age: thirteen years' experience in the Industrial Internet of Things (IIoT), strong business-line expertise in its customers' markets, and total mastery of know-how regarding machines, software, data and services. Furthermore, the Group can count on a prestigious customer base, a global presence with its network of 34 subsidiaries, technological leadership that has grown tremendously since the launch of its first offers for Industry 4.0, and a virtuous business model that enables the Group to self-finance its growth.

A new strategic roadmap for 2020-2022

Acceleration towards Industry 4.0

Lectra will continue to implement its strategy over the next three years.

As anticipated back in 2017 when it announced the Lectra 4.0 strategy, the objective of the Group through its 2020-2022 strategic roadmap is to capture the full potential of its new offers for Industry 4.0, while delivering sustainable, profitable business growth.

To achieve this objective, the Group has set four strategic priorities.

First, accelerate organic growth. Lectra will reinforce simultaneously its prospecting actions in order to increase its market shares, and its sales actions aimed at introducing new product lines to existing customers in order to generate higher revenues per customer.

In addition, the Group will encourage customers to migrate to its higher value-added offers and will deploy programs to accelerate the replacement of older generations of equipment, whether made by Lectra or by competitors.

The Group will also strive to seize every opportunity in its markets. These opportunities include:

- The transformation of the Chinese ecosystem, which is facing deep structural changes driving local companies to become more agile and more creative, to modernize their tools, and to manage increasingly diverse production flows between China and other Asian countries;
- Automation of leather cutting in the automotive and furniture sectors, which essentially always use dies and other manual cutting tools;
- The rise in airbag production because of the increasing number in each vehicle and stricter safety regulations in many countries.

Second, strengthen customer relations. The Group will review its activities with a focus on how its solutions are actually used, in order to anticipate customers' expectations and personalize their interactions with Lectra.

In particular, the Group will progressively deploy Customer Success teams country by country. The teams will seek to optimize customers' performance through the use of Lectra solutions, with the aim of creating a virtuous circle of greater perceived added value, therefore enhanced loyalty, and as a result higher recurring revenues for the Group.

This approach will lead Lectra to adjust the mission of its sales and service teams and make greater use of digital technology in interactions with customers.

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.

Lectra privileges two types of targets. The first are strategic targets – mainly start-ups – that bring to market offers that could complete Lectra’s current range of products, or that develop technological "bricks" capable of being incorporated into its portfolio. The second are tactical targets that operate in the same industry as Lectra and would enable the Group to increase its market shares.

At the same time, Lectra will promote open innovation and strengthen the resources allocated to its Innovation Lab located in the technological campus in Bordeaux-Cestas, while increasing partnerships with different industry players.

Sustainable, profitable growth

To ensure sustainable growth in an uncertain macroeconomic and geopolitical environment, the Group's ambition is to increase recurring revenues by 20% in three years. Recurring revenues should then account for over 60% of the Group's total revenues in 2022, with the following objectives:

- Revenues from software sold in SaaS mode to exceed 13 million euros;
- 4% annual growth in revenues from CAD/CAM and PLM software maintenance contracts, and equipment and accompanying software maintenance contracts;
- 5% annual growth in revenues from consumables and parts.

The Group will use the growth in margin generated by recurring revenues to finance its development, particularly through strong investment in R&D, and reinforcement of its sales and services teams. The security ratio will therefore be maintained at 90% – the 2019 level – during the 2020-2022 period, with continuing strict controls over the increase in fixed overhead costs.

The Group has set itself the objective of maintaining its dividend payment policy with dividends that over the roadmap period should represent a payout ratio of 40% to 50% of net income (excluding non-recurring items).

Lectra will use its available cash to finance future targeted acquisitions. In the case of major acquisitions or opportunities available under the right conditions, the Group could take on debt equivalent to half its shareholders’ equity.

Roadmap progress report

Each year, Lectra will present a progress report on the 2020-2022 roadmap.

2020 outlook

Lectra entered 2020 with a particularly robust balance sheet and operating fundamentals, and an enhanced offer of products and services, now available worldwide, enabling its customers to implement the principles of Industry 4.0.

Impact of the sale of software on a subscription basis

The Group has decided to sell its new software exclusively in SaaS mode and the volume of software sold on a subscription basis should continue to increase in 2020.

This change in sales model will have a positive impact on the Company's revenues and income from operations in the medium term. However, it will have a negative impact on the Group's results for 2020, reducing revenues and operating margin by 1 to 2 percentage points, compared to the levels that would be booked if 2020 SaaS sales were in the form of perpetual licenses along with their associated maintenance contracts.

An uncertain macroeconomic and geopolitical environment, recently aggravated by the coronavirus epidemic

The year ahead is still fraught with unpredictability in light of persisting uncertainty regarding geopolitical factors and the slowdown in the automotive sector, which could continue to weigh on businesses' investment decisions.

The coronavirus epidemic, whose impact on the business of the Group and its customers is difficult to assess at this time, is an additional major source of uncertainty.

Therefore, until visibility improves, the Company has decided, at this stage, not to formulate estimates for the year.

The Company remains confident in its medium-term growth prospects

The new products launched in 2018 and 2019 and those that will be released in subsequent years should make an ever-increasing contribution to this growth.

Bolstered by the strength of its business model and a new roadmap fully geared to the demands of Industry 4.0, the Group remains confident in its growth prospects for the medium term.

The Board of Directors

February 11, 2020

ADDITIONAL INFORMATION – FOURTH QUARTER 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Three Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
CAD/CAM and PLM software licenses, of which :	4,763	16%	4,724	4,646	14%	+3%	+2%
- Perpetual licenses	3,143	11%	3,124	3,992	12%	-21%	-22%
- Licenses in *SaaS* mode (1)	1,620	5%	1,600	654	2%	+148%	+145%
Equipment and accompanying software	21,277	71%	20,961	24,076	74%	-12%	-13%
Training and consulting services	3,407	11%	3,375	3,149	10%	+8%	+7%
Miscellaneous	585	2%	579	645	2%	-9%	-10%
Total	30,033	100%	29,640	32,515	100%	-8%	-9%
€ / $ average parity	*1.11*		*1.14*	*1.14*			

(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			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
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			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
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	41,901	56%	+4%	+3%
- CAD/CAM and PLM subscription contracts	625	ns	624	181	ns	+245%	+245%
- CAD/CAM and PLM software licenses maintenance contracts	9,765	13%	9,695	9,598	13%	+2%	+1%
- Equipment and accompanying software maintenance contracts	14,922	20%	14,703	13,973	19%	+7%	+5%
- Consumables and parts	18,328	25%	18,092	18,149	24%	+1%	0%
Total	74,213	100%	73,380	74,963	100%	-1%	-2%
€ / $ average parity	*1.11*		*1.14*	*1.14*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

Income statement at constant exchange rates

	Three months ended December 31				
	2019[1]		2018	Changes 2019/2018	
(in thousands of euros)	Actual	At 2018 exchange rates	Actual	Actual	Like-for-like
Revenues	74,213	73,380	74,963	-1%	-2%
Cost of goods sold	(19,948)	(19,864)	(21,187)	-6%	-6%
Gross profit	54,265	53,517	53,776	+1%	0%
(in % of revenues)	73.1%	72.9%	71.7%	+1.4 points	+1.2 points
Research and development	(6,186)	(6,186)	(5,398)	+15%	+15%
Selling, general and administrative expenses	(36,910)	(36,578)	(36,399)	+1%	0%
Income from operations	11,168	10,752	11,978	-7%	-10%
(in % of revenues)	15.0%	14.7%	16.0%	-1.0 point	-1.3 points
Income before tax	11,137	10,721	11,739	-5%	-9%
Income tax	(3,112)	na	(3,092)	+1%	na
Net income	8,025	na	8,647	**-7%**	**na**
of which, Group share	**8,008**	**na**	**8,647**	**-7%**	**na**
of which, Non-controlling interests	17	na	-	na	na
€ / $ average parity	*1.11*	*1.14*	*1.14*		

(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.

ADDITIONAL INFORMATION – FULL YEAR 2019

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Orders for new systems by type of business

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
CAD/CAM and PLM software licenses, of which :	16,896	15%	16,720	15,808	13%	+7%	+6%
- Perpetual licenses	12,794	11%	12,666	13,788	11%	-7%	-8%
- Licenses in *SaaS* mode (1)	4,102	4%	4,055	2,020	2%	+103%	+101%
Equipment and accompanying software	80,157	72%	78,451	91,429	75%	-12%	-14%
Training and consulting services	12,410	11%	12,244	12,160	10%	+2%	+1%
Miscellaneous	2,434	2%	2,413	2,325	2%	+5%	+4%
Total	111,897	100%	109,828	121,721	100%	-8%	-10%
€ / $ average parity	*1.12*		*1.18*	*1.18*			

(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.

Orders for new systems by region

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Europe	43,231	38%	43,246	45,434	37%	-5%	-5%
Americas	17,955	16%	17,220	28,324	24%	-37%	-39%
Asia-Pacific	40,870	37%	39,474	38,976	32%	+5%	+1%
Other countries	9,841	9%	9,888	8,987	7%	+10%	+10%
Total	111,897	100%	109,828	121,721	100%	-8%	-10%
€ / $ average parity	*1.12*		*1.18*	*1.18*			

Orders for new systems by market sector

	Twelve Months Ended December 31						
	2019			2018		Changes 2019/2018	
(in thousands of euros)	Actual	%	At 2018 exchange rates	Actual	%	Actual	Like-for-like
Fashion	58,756	53%	57,422	60,626	50%	-3%	-6%
Automotive	32,971	29%	32,563	42,727	35%	-23%	-24%
Furniture	15,754	14%	15,516	13,135	11%	+20%	+18%
Other industries	4,415	4%	4,327	5,232	4%	-16%	-18%
Total	111,897	100%	109,828	121,721	100%	-8%	-10%
€ / $ average parity	*1.12*		*1.18*	*1.18*			

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenues by region

(in thousands of euros)	2019 Actual	2019 %	2019 At 2018 exchange rates	2018 Actual	2018 %	Changes 2019/2018 Actual	Changes 2019/2018 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%
Asia-Pacific	76,426	27%	74,242	75,334	27%	+1%	-1%
Other countries	22,642	8%	22,706	19,519	7%	+16%	+16%
Total	280,023	100%	275,055	282,558	100%	-1%	-3%
€ / $ average parity	*1.12*		*1.18*	*1.18*			

Twelve Months Ended December 31

Revenues by type of business

(in thousands of euros)	2019 Actual	2019 %	2019 At 2018 exchange rates	2018 Actual	2018 %	Changes 2019/2018 Actual	Changes 2019/2018 Like-for-like
Revenues from software licenses, equipment and non recurring services, of which:	110,239	39%	108,277	122,721	43%	-10%	-12%
- CAD/CAM and PLM software licenses	13,493	5%	13,348	13,902	5%	-3%	-4%
- Equipment and accompanying software	82,077	29%	80,450	93,840	33%	-13%	-14%
- Training and consulting services	12,236	4%	12,066	12,654	4%	-3%	-5%
- Miscellaneous	2,434	1%	2,413	2,325	1%	+5%	+4%
Recurring revenues, of which:	169,784	61%	166,777	159,837	57%	+6%	+4%
- CAD/CAM and PLM subscription contracts	1,562	ns	1,551	470	ns	+232%	+230%
- CAD/CAM and PLM software licenses maintenance contracts	38,485	14%	38,091	37,577	13%	+2%	+1%
- Equipment and accompanying software maintenance contracts	57,854	21%	56,647	53,347	20%	+8%	+6%
- Consumables and parts	71,883	26%	70,489	68,443	24%	+5%	+3%
Total	280,023	100%	275,055	282,558	100%	-1%	-3%
€ / $ average parity	*1.12*		*1.18*	*1.18*			

Twelve Months Ended December 31

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

Income statement at constant exchange rates

(in thousands of euros)	2019[(1)] Actual	2019[(1)] At 2018 exchange rates	2018 Actual	Changes 2019/2018 Actual	Changes 2019/2018 Like-for-like
	Twelve months ended December 31				
Revenues	280,023	275,055	282,558	-1%	-3%
Cost of goods sold	(74,808)	(74,294)	(79,014)	-5%	-6%
Gross profit	205,214	200,761	203,544	+1%	-1%
(in % of revenues)	73.3%	73.0%	72.0%	+1.3 points	+1.0 point
Research and development	(22,019)	(22,019)	(21,497)	+2%	+2%
Selling, general and administrative expenses	(142,306)	(140,865)	(141,798)	0%	-1%
Income from operations	40,889	37,878	40,249	+2%	-6%
(in % of revenues)	14.6%	13.8%	14.2%	+0.4 points	-0.4 points
Income before tax	40,075	37,064	38,917	+3%	-5%
Income tax	(10,751)	na	(10,177)	+6%	na
Net income	29,324	na	28,740	**+2%**	**na**
of which, Group share	**29,305**	**na**	**28,740**	**+2%**	**na**
of which, Non-controlling interests	19	na	-	na	na
€ / $ average parity	*1.12*	*1.18*	*1.18*		

(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.*

Company Certification of the Fourth Quarter and Fiscal Year 2019 Report

We certify that, to our knowledge, the financial statements of the fourth quarter and fiscal year 2019 have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and financial results of the Company and of its consolidated companies. We further certify that the report on operations for the fourth quarter and for the fiscal year 2019 presents a true and sincere view of the operations, results and financial condition of the Company and its consolidated companies, and that it describes the main risks and uncertainties that they face.

Paris, February 11, 2020

Daniel Harari
Chairman and Chief Executive Officer

Olivier du Chesnay
Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	2019 (1)	2018
Goodwill	47,380	39,473
Other intangible assets	4,008	3,688
Leasing rights-of-use	18,697	-
Property, plant and equipment	26,963	26,347
Other non-current assets	17,242	14,425
Deferred tax assets	8,589	9,194
Total non-current assets	122,879	93,127
Inventories	30,919	34,326
Trade accounts receivable	56,933	58,564
Other current assets	12,217	15,447
Cash and cash equivalents	120,558	102,223
Total current assets	220,627	210,560
Total assets	**343,506**	**303,687**

EQUITY AND LIABILITIES

(in thousands of euros)	2019 (1)	2018
Share capital	32,099	31,847
Share premium	15,802	13,843
Treasury shares	(698)	(560)
Currency translation adjustments	(9,481)	(9,554)
Retained earnings and net income	145,141	134,802
Non-controlling interests (2)	159	-
Total equity	183,022	170,377
Retirement benefit obligations	11,107	9,823
Non-current lease liabilities	13,407	-
Minority shares purchase commitment (2)	4,333	-
Borrowings, non-current portion	-	-
Total non-current liabilities	28,847	9,823
Trade and other current payables	58,896	59,664
Deferred revenues	58,459	56,225
Current income tax liabilities	3,436	3,488
Current lease liabilities	5,675	-
Minority shares purchase commitment (2)	2,167	-
Borrowings, current portion	-	-
Provisions for other liabilities and charges	3,004	4,110
Total current liabilities	131,637	123,487
Total equity and liabilities	**343,506**	**303,687**

(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) 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.

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: Number of shares	Share capital: Par value per share	Share capital: Share capital	Share premium	Treasury shares	Currency translation adjustments	Retained earnings and net income	**Equity, Group share**	Non controlling interests [1]	**Equity, Group share**
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, shoes and luggage, car seats and interiors, airbags, sofas…).

In order to increase customers' competitiveness, Lectra creates premium technologies specifically for its customers' markets – mainly fashion, automotive and furniture. Lectra's solutions, combining software, automated cutting equipment and associated services, enable customers to automate and optimize product design, development and manufacturing, and to digitalize their processes.

Lectra's offer supports customers to achieve their strategic objectives: to boost productivity; to reduce cutting costs; to reduce time-to-market; to meet the challenges of globalization; to enhance product quality; to increase production capacity; and to develop their brands. In addition, customers now face challenges specific to Industry 4.0, such as securing digital communications along an extended supply chain, and making the factory more agile.

Established in 1973, Lectra has been listed on Euronext Paris since 1987.

Business model

Lectra's business model is based on three pillars:

- The distribution of business activity over market sectors and geographical markets with cycles that are different from each other, and the very large number of customers throughout the world;
- A balanced revenue mix between revenues from software licenses, equipment and non-recurring services, and recurring revenues;
- The generation of significant annual free cash flow.

Worldwide presence

Since the mid-1980s Lectra, with headquarters located in France, has established its global footprint. The Group supports customers through its unrivalled network of 34 sales and services' subsidiaries, from which Lectra generates over 90% of revenues.

Lectra also has an International Advanced Technology & Conference Center in Bordeaux-Cestas (France) where the company welcomes customers from all over the world, and five international Call Centers, based in Bordeaux-Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (USA) and Shanghai (China).

Customers

From global corporations to smaller national companies, Lectra's customers are, for the most part, fashion and apparel brands, manufacturers and retailers, automotive equipment manufacturers and subcontractors, and furniture brands and manufacturers.

Products and services

The Group markets end-to-end integrated technology solutions: software, automated cutting equipment services. The distinctive feature of Lectra's offer is to integrate business expertise with the best industrial practices for each market sector. All Lectra software and equipment, including electronics, are designed and developed in-house.

Equipment is assembled from parts produced by a network of subcontractors and tested in the company's industrial facilities in Bordeaux-Cestas (France). Since 2007, cutting machines on the market incorporate hundreds of sensors which connect them to Lectra's Call Centers, enabling preventive and predictive maintenance.

The services include technical maintenance, support, training and consulting.

The Group also sells consumables and parts for its equipment.

People

Lectra's strength lies in the skills and experience of close to 1,800 employees worldwide. Thanks to Lectra's global presence the Group is geographically close to its customers, wherever they are in the world.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:

https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

The consolidated financial statements at December 31, 2019 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2018 financial statements, with the exception of the standard and interpretation presented below. They have been prepared under the responsibility of the Board of Directors that reviewed and approved them at its meeting of February 11, 2020. Audit procedures have been applied to the consolidated financial statements. The statutory auditors' certification report will be issued after the Board of Directors meeting on February 25, 2020, which will approve the notes to the consolidated financial statements. The Q4 financial statements have not been reviewed separately by the statutory auditors.

The Group has not early adopted any standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2019.

Accounting methods changes

The Group applies, as from January 1, 2019, the following changes in its accounting methods. The implementation of IFRS 16 is the only one with an impact on the Group's financial statements.

Implementation of IFRS 16 – Leases

The Group applies, as from January 1, 2019, the new standard IFRS 16 – *Leases*.

The Group rents its office locations in most of the countries where it operates, with the notable exception of the Bordeaux-Cestas site in France, which it owns. Moreover, the contracts entering the scope of IFRS 16 also include vehicle rentals and IT equipment leases.

Until then, every lease contract was qualified either as finance lease or an operating lease, with a distinct accounting treatment for each category. In application of IFRS 16, all lease contracts are now recognized as assets by way of booking a right-of-use, and as liabilities with a debt corresponding the discounted value of future payments. Nonetheless, the standard provides exemption for short-term rentals (less than 12 months) or those relating to low-value assets (the Group set its threshold at $5,000). The Group uses both exemptions.

The lease term is defined contract by contract and corresponds to the non-cancellable period of a lease, together with both periods covered by an option to extend the lease which will be reasonably certainly exercised and periods covered by an option to terminate the lease which are certain not to be exercised.

The discount rates used by the Group correspond to the rates at which the Group companies would be able to subscribe a financial borrowing (incremental borrowing rate). For the two main currencies used by the Group, the weighted-average incremental borrowing rates amount to 0.30% for the euro and 3.03% for the US dollar at January 1, 2019.

The Group opted for the simplified retrospective transition method which entails accounting for the cumulative effect of initially applying the standard by considering that the asset relating to the right-of-use is equal to the lease payments debt, adjusted for prepaid lease payments and lease incentives received from lessors. Moreover, the following simplification measures have been applied at the transition date:

- Contracts with a residual term under 12 months at January 1, 2019 did not give rise to a right-of-use asset and a lease liability;
- A single discount rate was used for a portfolio of leases with similar characteristics. The discount rates applied at the date of implementation were based on the incremental borrowing rate by entity and by currency, taking into account the economic environment of each country. Moreover, on the transition date, the discount rates were determined based on the residual term of the contracts.

The main impacts of the first of application of IFRS 16 on the opening statement of financial position are as follows:

- The booking of rights-of-use and lease obligations, for an amount of 19.2 million euros;
- The reclassification of prepaid lease payments as an increase to the rights-of-use, for an amount of 0.1 million euros;
- The cancellation of deferred rent (corresponding to past rent-free periods), as a decrease to the rights-of-use, for an amount of 0.5 million euros.

The impact of the standard’s application is negligible on the income statement. In order to maintain comparability for the free cash flow with prior periods, it has been restated for the amount of repayment of lease liabilities.

Main other standards and interpretations

After analysis, application of IFRIC 23 (Uncertainty over income tax treatments) from January 1, 2019, does not have a significant impact on the Group's financial statements. IFRIC 23 does not impact the methods used by the Group up to now for assessing income tax related uncertainties. On the other hand, income tax related risks, previously classified under provisions, are now classified under current income tax liabilities. The Group has chosen partial retrospective application of this interpretation.

The Group is not impacted by other changes in standards, amendments or interpretations.

Seasonality

Comparability of the Group's interim and annual accounts may be affected by the slightly seasonal nature of the Group's business, which mostly achieves a higher level of revenues during the fourth quarter of the year. 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 equipment, allowing it to work: without the pilot, the equipment would be useless, and without the equipment, the pilot has no use either. However, specialized software (for instance, software for collection management, pattern-making, simulation), under perpetual license, usually installed on the clients' computers, sold separately from the equipment on a regular basis, are considered separate performance obligations.

The other obligations are considered as separate under IFRS 15 and are thus accounting for based on the following elements among others:

- Installation of equipment and specialized software is made in a few days, easy to implement, and does not modify their characteristics;
- Training is short-term and had no interdependence relationship with the other obligations;
- Consulting usually regards the optimization of clients' production and is very often sold separately to clients;
- Regarding maintenance of software and equipment, these are yearly contracts in which the Group's commitment is a stand-ready type, or an obligation to make future not-yet-planned versions of the software available. The solutions (equipment and software) are distinct from maintenance / assistance / evolution since they are entirely ready to work upon delivery and since maintenance / assistance / evolution services are not critical for the client in order to use the solution. Equipment is sold most often with one or two years of maintenance, and the client holds renewal options that are not discounted compared to the initial price for subscribing maintenance. Renewal options are thus not considered as significant rights that would require separate accounting under IFRS 15.

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 estimated based on the company's pricing policy, reflecting expected costs plus an appropriate margin.

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 installation of the software on the customer's computer (either by CD-ROM or downloading).

Revenue from subscription sales of software is spread over the duration of the customer's commitment.

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 contracts, as they are 'stand-ready obligations'.

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 included under 'Selling, General and Administrative Expenses'.

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 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

The Group uses an intermediate balance referred to as 'Income from operations', defined as income 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 balance referred to as 'Income from operations before non-recurring items'. This financial metric reflects 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-recurring items excluded from income from operations before non-recurring items reflect the impact on the financial statements of events that are either unusual, abnormal and infrequent. There are very few of these and their amounts are significant.

Free cash flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities, excluding cash used for acquisitions of companies (net of cash acquired), and minus repayments of lease liabilities according to IFRS 16.

The Group considers this definition of free cash flow as a performance indicator of the teams' work on cash management. Lease liabilities (according to IFRS 16) do not affect performance as monitored by the Group.

Security ratio

The security ratio is defined by the Group as the percentage of annual fixed overhead costs covered by gross profit on recurring revenues.

This ratio is used by the Group to measure of the coverage of annual fixed-overheads costs by revenues that do not depend on customer's investment decisions from one year to the next.

Operating segments

Operating segment reporting is based directly on the Group's performance tracking and review systems. The operating segments presented in note 4 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the Group's 'chief operating decision maker'.

Operating segments refer to the major marketing regions that combine countries with similar economic characteristics in terms of type of product and service, customer type and distribution method. The regions concerned are: the Americas; Northern and Eastern Europe and Middle East; Southern Europe and North Africa; and Asia-Pacific. These regions are involved in sales and the provision of services to their customers.

They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, production, R&D, finance, legal affairs, human resources, information systems. All of these cross-divisional activities are reported as an additional operating segment referred to here as the ‘Corporate’ segment.

Performance is measured by the segment’s income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item. The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include added value supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment in order to cover its costs. Since most of the Corporate segment’s general overheads are fixed, its profit margin and consequently its income from operations depend mainly on the volume of business generated by marketing regions.

3. SCOPE OF CONSOLIDATION

At December 31, 2019, the Group’s scope of consolidation comprised the parent company, Lectra SA, together with 31 fully-consolidated companies.

On July 15, 2019, the Group announced the acquisition of the Belgian company Retviews SA and its Romanian subsidiary Retviews Bucharest SRL.

Founded in 2017, Retviews has developed an innovative technological offer that enables fashion brands to analyze real-time market data, in order to increase their sales and margins. Today, more than 30 brands use Retviews in France and Belgium.

The impact on the second half of 2019 is 0.5 million euros on revenues, and 0.1 million euros on income from operations.

The transaction involved the immediate acquisition of 70% of the capital and voting rights of Retviews for 8 million euros. The acquisition of the remaining capital and voting rights will take place in three installments in July 2020, July 2021 and July 2022 for the amounts of about 0.9 times 2020 revenues, 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.

The purchase price accounting is in the process of being finalized. As of today, the main impacts on the Group’s financial statements are:

- Goodwill recorded for an amount of 7.7 million euros;
- Non-controlling interests recorded for an amount of 0.1 million euros, measured at their proportionate share in the net assets acquired (using the "partial goodwill method");
- A debt to recognize the minority shares purchase commitment, measured at fair value, recorded for a total amount of 6.5 million euros (of which 2.2 million euros is classified as current liabilities and 4.3 million euros as non-current liabilities). The counterpart is recorded in ‘Equity, Group share’.

The acquisition cost for Lectra has been entirely disclosed under the heading ‘Acquisition cost of companies purchased’ in the statement of cash flows, net of cash acquired, for an amount of 7.6 million euros.

Retviews and its Romanian subsidiary have been fully consolidated since July 15, 2019.

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 under the heading 'Acquisition cost of companies purchased' in the statement of cash flows, net of cash acquired, for an amount of 7.1 million euros.

Kubix Lab has been fully consolidated since January 26, 2018.

Finally, the purchase price accounting has been finalized without change and the main impact on the Group's financial statements is the goodwill recorded for an amount of 7 million euros.

There was no other change in the scope of consolidation in 2019, or 2018.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At December 31, 2019, their combined revenues totaled 1.4 million euros, and their combined assets totaled 2.9 million euros. They had no financial debt outside of the Group. Most of the sales activity of these subsidiaries is billed directly by Lectra SA.

Transactions with these subsidiaries mainly concern purchases from Lectra SA for the purposes of their local operations, or charges and commissions billed to Lectra SA in order to cover their overheads when they act as agents. The amount concerned by these transactions was not significant at December 31, 2019.

4. OPERATING SEGMENTS INFORMATION

Twelve months ended December 31, 2019[1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	59,083	72,571	67,503	80,866	-	280,023
Income (loss) from operations	8,005	13,472	9,772	8,044	1,595	40,889

Twelve months ended December 31, 2018[1] (in thousands of euros)	Northern Europe[2]	Southern Europe[3]	Americas	Asia-Pacific	Corporate	Total
Revenues	54,092	73,108	76,146	79,212	-	282,558
Income (loss) from operations	6,008	12,848	12,676	5,897	2,820	40,249

(1) Following the new organization into four main regions in January 2019, operating segments have been reviewed, and the 2018 amounts restated accordingly. In the tables showing the breakdown of revenues by region, countries from the 'Other countries' caption have here been reallocated to Northern Europe, Southern Europe and Asia-Pacific.

(2) This segment covers the following regions: Germany and Eastern Europe, United Kingdom, Benelux, Scandinavia, Baltic countries, Turkey and Middle East.

(3) This segment covers the following regions: France, Italy, Spain, Portugal and North Africa.

Income from operations, which is obtained by adding together the income for each segment, is identical to consolidated income from operations shown in the Group's consolidated financial statements and therefore does not need to be reconciled.

Application of IFRS 16 has no material impact on income from operations, whether it be for the Group or for each of the operating segments.

5. CONSOLIDATED CASH FLOW SUMMARY

Twelve months ended December 31, 2019 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	36,187	-	36,187
Proceeds from issuance of ordinary shares[1]	2,211	-	2,211
Sale and purchase of treasury shares[2]	21	-	21
Acquisition cost of companies purchased[3]	(7,629)	-	(7,629)
Dividends paid	(12,782)	-	(12,782)
Impact of currency variations – other	326	-	326
Change in cash position for the period	18,335	-	18,335
Cash position at December 31, 2018	102,223	-	102,223
Cash position at December 31, 2019	120,558	-	120,558
Change in cash position for the period	18,335	-	18,335

(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 tax due by Lectra SA – see note 6 hereafter). Finally, in order to ensure comparability of published free cash flows, the repayment of lease liabilities (according to IFRS 16), for 6.2 million euros, was taken into account.

The variation in working capital is explained as follows:

- −3.6 million euros corresponding to the decrease in trade accounts receivable, following a decline in revenues from software licenses, equipment and non-recurring services (the variation in trade accounts receivable shown in the consolidated statement of cash flows includes ‘Deferred revenues’ in the statement of financial position, which for the most part comprises the share of recurring contracts billed but not yet recognized in revenues);
- −2.4 million euros corresponding to the increase in inventories;
- −5.7 million euros arising from the reimbursement in Q4 2019 of the outstanding balance of the 2015 research tax credit (see note 6 hereafter);
- +1.7 million euros arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2018 paid mainly in 2019, and the one recognized in 2019 that will be paid in 2020;
- −0.6 million euros arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

The working capital requirement at December 31, 2019 was negative at 20.7 million euros. It comprised the current portion (2.6 million euros) of the 17.4 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 – 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 research tax credit, after deduction from the corporate income tax due by Lectra SA in the same year: for 2019 (5.2 million euros), 2018 (5 million euros), 2017 (4.5 million euros) and 2016 (2.6 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 December 2019 the reimbursement of the outstanding balance of 5.7 million euros in respect of the 2015 tax credit and should receive the reimbursement of the outstanding balance of these non-deducted tax credits as follows: 2020 (in respect of the 2016 tax credit), 2021 (in respect of the 2017 tax credit), 2022 (in respect of the 2018 tax credit) and 2023 (in respect of the 2019 tax credit). This situation will last for as long as the amount of the annual tax credits exceeds the amount of income tax payable.

If the income tax expense were to rise above the amounts of tax credit for the year, the company would continue to not pay corporate income tax until the corresponding receivable is deducted in full. Thereafter it would deduct these tax credits each year from the income tax expense for the same year in full and would be required to pay the residual amount.

7. TREASURY SHARES

Since January 1, 2019, the company has purchased 282,042 shares and sold 281,272 shares at an average price of €20.56 and €20.69 respectively under the liquidity agreement administered by Exane BNP Paribas.

At December 31, 2019, the company held 31,549 Lectra shares (i.e. 0.10% of the share capital) with an average purchase price of €22.13 entirely under the liquidity agreement.

8. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	December 31, 2019	December 31, 2018
Available cash	90,558	72,223
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	120,558	102,223

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

The Group's currency risk management policy is unchanged relative to December 31, 2018.

In 2019, the average parity between the US dollar and the euro was $1.12/€1.

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

Under the company's business model, 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/€1.

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/€1) would mechanically increase 2019 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/€1) would mechanically reduce annual revenues and income from operations by the same amounts.

The parity is $1.09/€1 on the date of this report.

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.