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

Dear Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter and first nine months of 2020, ending September 30. The financial statements have not been reviewed by the Statutory Auditors.

Since 2017, Lectra has marketed and invoiced its software both in the form of perpetual licenses with their associated maintenance contracts and on a subscription basis for its Software-as-a-Service (SaaS) offers.

To facilitate the comparison with prior years, the Group decided in 2018 and 2019 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 (a coefficient that enables the calculation of the amount an order would represent, had it been sold as a perpetual license).

As from January 1, 2020, orders for new systems are reported using two indicators: on the one hand, the value of software sold separately under perpetual software licenses, equipment and accompanying software (sold in the form of perpetual licenses) and non-recurring services; and on the other hand, the annual value of new subscriptions for software sold in SaaS mode.

Revenue corresponding to orders for perpetual software licenses is reported under "Perpetual software licenses"; revenue corresponding to embedded software is reported, as previously, under "Equipment and accompanying software." Revenue from software sold on a subscription basis is reported under "Software subscriptions."

Detailed comparisons between 2020 and 2019 are based on 2019 exchange rates ("like-for-like") unless otherwise stated. As the impact of the acquisition of Retviews (see press release dated July 15, 2019) on the financial statements for the first nine months of 2020 is not material, like-for-like changes exclude only the variations in exchange rates.

The detailed tables and like-for-like changes in orders for new systems, in revenues, and in the income statements for the third quarter and first nine months of 2020 are provided in the additional information of this report, starting on page 7.

1. SUMMARY OF OPERATIONS FOR Q3 2020

With an average exchange rate of $1.17/€1 in Q3, the US dollar was down 5% compared to Q3 2019 and the yuan declined by 4% against the euro. Currency changes thus mechanically decreased revenues by 1.8 million euros (-3%) and income from operations by 0.9 million euros (-9%) at actual exchange rates compared to like-for-like figures.

In its Q1 and Q2 financial reports, published April 29 and July 27, 2020, respectively, the Group had anticipated the impact of the COVID-19 crisis and its consequences on the financial statements for 2020. Nevertheless, it had indicated that a gradual increase in the volume of orders, revenues and income from operations could potentially occur as early as the third or fourth quarter of 2020.

While the repercussions of the pandemic continued to mark Q3, several signs of improvement were observed.

Indeed, after a decline of 42% in Q2, orders for perpetual software licenses, equipment and accompanying software, and non-recurring services (20.7 million euros) were down 21% compared to Q3 2019.

The annual value of new software subscription orders amounted to 0.8 million euros, up 75%, thus confirming the adoption of Lectra's new offers for Industry 4.0, sold in SaaS mode.

At the same time, revenues from consumables and parts, a leading indicator of the Group's customers' activity, declined by 9%, following a 46% drop in Q2.

Total revenues amounted to 56.5 million euros, down 15% compared to Q3 2019 (-18% at actual exchange rates). They had fell by 28% in Q2 2020.

Thanks to the measures implemented since March to control spending, and maintained in Q3, overhead costs decreased by 10% compared to Q3 2019.

Income from operations came to 8.5 million euros, down 24% (-31% at actual exchange rates), while it had decreased by 79% in Q2.

The operating margin was 15%, down 1.8 percentage points like-for-like (down 2.9 percentage points at actual exchange rates) compared to Q3 2019.

Net income amounted to 6.6 million euros, down 24% at actual exchange rates compared to Q3 2019. It was down 85% in Q2 2020.

Free cash flow was positive by 8.5 million euros (5.6 million euros in Q3 2019). This includes receipt of the balance of the 2016 research tax credit, in the amount of 2.6 million euros (the balance of the 2015 research tax credit, in the amount of 5.7 million euros, was received in Q4 2019).

2. CONSOLIDATED FINANCIAL STATEMENTS FOR FIRST NINE MONTHS OF 2020

The COVID-19 epidemic and its consequences really marked the first nine months of 2020.

From the start of the crisis, the Group took the necessary hygiene and physical distancing measures to safeguard the health of employees, customers, suppliers and other stakeholders. These measures are still in effect.

Lockdown measures implemented by most countries, especially during the first half of the year, have led to a significant reduction in activity by the Group's customers, and to the suspension of some commercial discussions with Lectra.

While a gradual increase in activity occurred in Q3, many customers have not reached the level of activity they had before the crisis and have been led to temporarily reduce their capital expenditures or operating expenses. All three strategic market sectors—fashion, automotive and furniture—have been strongly impacted.

With an average exchange rate of $1.12/€1 for the first nine months of 2020, the US dollar remained stable compared to the same period in 2019 ($1.12/€1), while the yuan declined by 2% against the euro. Currency changes thus mechanically decreased revenues by 1.6 million euros (-1%) and income from operations by 0.6 million euros (-4%) at actual exchange rates compared to like-for-like figures.

Decline in revenues and income from operations

In this unique and unprecedented environment, revenues (170.6 million euros) decreased by 16% compared to the first nine months of 2019 (-17% at actual exchange rates).

Orders

Orders for perpetual software licenses, equipment and accompanying software, and non-recurring services (54.9 million euros) were down 30%. Orders for perpetual software licenses (5.7 million euros), equipment and accompanying software (41.6 million euros), as well as training and consulting (6.5 million euros) declined by 41%, 29% and 28%, respectively.

Geographically, orders for perpetual software licenses, equipment and accompanying software, and non-recurring services fell by 44% in Asia-Pacific, by 24% in Europe and rose by 2% in the Americas. They were down 49% in the rest of the world (including North Africa, South Africa, Turkey and the Middle East). They decreased by 41% in the automotive market, 29% in the fashion market, 14% in the furniture market and 12% in the other industries.

In addition, the annual value of new software subscription orders amounted to 1.8 million euros, up 56% compared to the first nine months of 2019. These orders increased in all geographical regions, primarily in the fashion market.

Revenues from software licenses, equipment and accompanying software, and non-recurring services

Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services (54.4 million euros) fell by 31%. They include mainly:

- Perpetual software licenses (5.8 million euros), which decreased by 44% and accounted for 3% of total revenues (5% in 2019);
- Equipment and accompanying software (40.1 million euros), which declined by 31% and accounted for 24% of total revenues (28% in 2019);
- Training and consulting (7.4 million euros), which decreased by 16% and accounted for 4% of total revenues (4% in 2019).

At September 30, 2020, the order backlog for perpetual software licenses, equipment and accompanying software, as well as training and consulting amounted to 19.8 million euros. It rose by 0.6 million euros compared to December 31, 2019, and by 4.2 million euros compared to June 30, 2020, like-for-like.

Revenues from recurring contracts, and consumables and parts

Revenues from recurring contracts—which represented 44% of total revenues—amounted to 74.5 million euros, a 4% increase.

This revenue component is a key pillar of the Group's business model and constitutes a protective factor that will help mitigate the impact of the COVID-19 crisis on revenues and results. The breakdown is as follows:

- Software subscriptions were 2.5 million euros (0.9 million euros in 2019);
- Software maintenance contracts (28.2 million euros), which declined by 1%, represented 17% of total revenues;
- Equipment and accompanying software maintenance contracts (43.8 million euros), which increased by 3%, represented 26% of total revenues.

In parallel, revenues from consumables and parts (41.6 million euros) were affected by the acute reduction in business activity of the Group's customers due to the health crisis, especially during the lockdown periods, and decreased by 21%. They represented 24% of revenues (26% in 2019).

Overall, recurring revenues (116.1 million euros) declined by 7%.

Gross profit

Gross profit amounted to 128.5 million euros, down 14% compared to 2019.

The overall gross profit margin was 75.3%, up 2.2 percentage points relative to the first nine months of 2019. This increase stems primarily from the evolution of the product mix, and specifically from the greater share of recurring contract revenues.

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

- 106.5 million euros in fixed overhead costs (-2%);
- 6.5 million euros in variable costs (-42%).

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

Income from operations and net income

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

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

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

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

Net earnings per share came to €0.34 on basic capital and on diluted capital (respectively €0.67 and €0.66 in the first nine months of 2019).

Positive free cash flow

Free cash flow was 10 million euros (18.1 million euros for the first nine months of 2019). This decline is attributable mainly to the lower income, the working capital requirement having decreased by 1.6 million euros in the first nine months of 2020.

Particularly robust balance sheet – positive net cash position of close to 120 million euros

At September 30, 2020, consolidated shareholders' equity amounted to 183.5 million euros (183 million euros at December 31, 2019), after payment on May 8 of the dividend of 12.8 million euros (€0.40 per share) declared in respect of FY 2019.

The Group has no financial debt. Cash and cash equivalents, as well as net cash position, totaled 117.9 million euros (120.6 million euros at December 31, 2019), after payment of the dividend.

The working capital requirement at September 30, 2020 was a negative 19 million euros. It comprised the current portion (4.6 million euros) of the 21.5 million euros receivable on the French tax administration (Trésor public), corresponding to the research tax credits recognized since fiscal year 2017. The portion to be repaid in over one year is carried on the balance sheet under other non-current assets (see note 6 below).

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in share capital

At September 30, 2020, the share capital totaled €32,346,421, divided into 32,346,421 shares with a par value of €1.00.

Share capital increased by €247,321 (with a total share premium of €1,877,339) due to the creation of 247,321 shares since January 1, 2020, resulting from the exercise of stock options.

Main shareholders

On June 15, and then on July 17, 2020, the Company was notified that Allianz SE (Germany) had fallen below, and then exceeded, the 5% threshold for voting rights. As of July 17, it held 5.14% of the share capital and 5.10% of the voting rights through the companies Allianz IARD and Allianz Vie that it controls. The first crossing was a passive threshold crossing resulting from the increase in the number of shares and voting rights in the Company.

On September 22, 2020, the Company was notified that Artisan Partners Limited Partnership (United States) had exceeded the 5% threshold of share capital, then on September 25, 2020 the 5% threshold for voting rights. As of September 25, 2020, Artisan Partners Limited Partnership, acting on behalf of the investment funds and customers that it manages, holds 5.12% of the share capital and 5.08% of the voting rights.

No other crossing of statutory thresholds was reported to the Company since January 1, 2020.

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, Kempen Oranje Participaties (The Netherlands) and Artisan Partners Limited Partnership (United States) 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 September 30, 2020, the Company held 0.06% of its own shares in treasury shares, 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 September 30, 2020 was €20.20, down 9.6% compared to December 31, 2019 (€22.35). During the first nine months, it reached a low of €12.20 on March 23 and a high of €24.45 on January 13.

During the same period, the CAC 40 index and the CAC Mid & Small index fell by 20% and 14%, respectively.

Lectra is mainly 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.

12.3 million shares were traded on Euronext and other trading platforms in the first nine months, which is 18% above the same period of 2019. Euronext accounted for 36% of shares traded in the first nine months of 2020, compared with 35% a year before.

4. SIGNIFICANT POST-CLOSING EVENTS SINCE SEPTEMBER 30, 2020

No significant event has occurred.

5. FINANCIAL CALENDAR

The Q4 and fiscal year 2020 financial results will be published on February 10, 2021 after the close of trading on Euronext Paris.

6. BUSINESS TRENDS AND OUTLOOK

In its 2019 Financial Report, published February 11, 2020, Lectra had reported its long-term vision and its new strategic roadmap for the 2020-2022 period.

The Group already noted the uncertainties linked to the COVID-19 epidemic, whose impact was observed only in China at the time and decided that it would not formulate estimates for 2020 until such time as visibility improved. Since then, the epidemic has become a pandemic, leading to a major and rapid slowdown of the global economic activity.

While most of the objectives of the 2020-2022 strategic roadmap remain valid, and particularly the acceleration towards Industry 4.0, the growth objectives for the end of the period will have to take into account the consequences of the economic crisis caused by the COVID-19. As a result, the Group will update its objectives when it considers that visibility has returned to a sufficient level.

2020 outlook

The year 2020 will be marked by the global health crisis and its consequences.

Lectra has a particularly robust balance sheet, a positive net cash position of close to 120 million euros at September 30, 2020, and a proven business model with, among other strengths, a very high percentage of recurring revenues.

In light of its sound financial position, capacity for resilience, and medium-term outlook, the Group has decided not to put in place short-time working arrangements (under the partial activity scheme), and not to benefit from any financial support from the French government. Lectra has also supported the nation's collective effort to fight against this crisis by voluntarily cutting masks and medical personal protective equipment.

Furthermore, the Group has implemented measures to reduce its overhead costs, which were initially budgeted to increase by 8% in 2020, by cancelling or postponing all non-essential expenses.

The Group's three strategic market sectors, fashion, automotive and furniture, will probably undergo a consolidation and restructuring phase and companies operating in these markets could continue to reduce their capital expenditures and operating expenses, depending on the evolution of the macroeconomic environment, as well as the health aspect of the crisis

Nevertheless, a significant improvement in the volume of orders, revenues and income from operations was recorded in Q3 and this trend could potentially be confirmed in Q4; however, such developments are subject to continuing uncertainties surrounding the evolution of the pandemic.

Medium-term outlook

In this particularly uncertain environment, the Group demonstrates on a daily basis, through the decisions that it has taken, its commitment to its social, environmental and societal responsibilities, and to the fundamental values that underlie these responsibilities.

The Group's markets provide goods for which consumer demand will persist worldwide. Lectra, which despite the crisis preserves its competitive advantage and benefits from a very solid financial position, remains confident in its growth prospects for the medium-term.

The Board of Directors

October 28, 2020

ADDITIONAL INFORMATION – THIRD QUARTER 2020

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

Perpetual software licenses, equipment and accompanying software and non recurring services

	Three Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Perpetual software licenses	1,945	9%	1,991	2,869	11%	-32%	-31%
Equipment and accompanying software	16,084	78%	16,678	20,028	74%	-20%	-17%
Training and consulting services	2,286	11%	2,325	3,236	12%	-29%	-28%
Miscellaneous	381	2%	389	802	3%	-53%	-51%
Total	20,696	100%	21,384	26,935	100%	-23%	-21%
€ / $ average parity	*1.17*		*1.11*	*1.11*			

New software subscriptions

	Three Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Annual value of new software subscriptions	802	na	812	465	na	+73%	+75%
€ / $ average parity	*1.17*		*1.11*	*1.11*			

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 September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which:	23,624	42%	23,731	28,646	42%	-18%	-17%
- France	4,516	8%	4,514	4,081	6%	+11%	+11%
Americas	14,048	25%	15,104	18,164	26%	-23%	-17%
Asia-Pacific	14,839	26%	15,360	16,896	25%	-12%	-9%
Other countries	4,023	7%	4,133	4,903	7%	-18%	-16%
Total	56,533	100%	58,327	68,609	100%	-18%	-15%
€ / $ average parity	*1.17*		*1.11*	*1.11*			

Revenues by type of business

	Three Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services, of which:	16,589	29%	17,008	26,174	38%	-37%	-35%
- Perpetual software licenses	1,556	3%	1,588	2,889	4%	-46%	-45%
- Equipment and accompanying software	12,313	22%	12,634	19,895	29%	-38%	-36%
- Training and consulting services	2,339	4%	2,398	2,589	4%	-10%	-7%
- Miscellaneous	381	1%	389	802	1%	-53%	-51%
Recurring revenues, of which:	39,944	71%	41,319	42,435	62%	-6%	-3%
- Software subscriptions	953	2%	969	491	ns	+94%	+97%
- Software maintenance contracts	9,171	16%	9,359	9,647	14%	-5%	-3%
- Equipment and accompanying software maintenance contracts	14,446	26%	14,947	14,574	21%	-1%	+3%
- Consumables and parts	15,375	27%	16,044	17,723	26%	-13%	-9%
Total	56,533	100%	58,327	68,609	100%	-18%	-15%
€ / $ average parity	*1.17*		*1.11*	*1.11*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

	Three months ended September 30				
	2020		2019	Changes 2020/2019	
(in thousands of euros)	Actual	At 2019 exchange rates	Actual	Actual	Like-for-like
Revenues	56,533	58,327	68,609	-18%	-15%
Cost of goods sold	(14,085)	(14,213)	(17,781)	-21%	-20%
Gross profit	42,448	44,114	50,828	-16%	-13%
(in % of revenues)	75.1%	75.6%	74.1%	+1.0 point	+1.5 points
Research and development	(4,540)	(4,540)	(4,691)	-3%	-3%
Selling, general and administrative expenses	(29,402)	(30,188)	(33,852)	-13%	-11%
Income from operations	8,506	9,387	12,284	-31%	-24%
(in % of revenues)	15.0%	16.1%	17.9%	-2.9 points	-1.8 points
Income before tax	8,439	9,320	12,092	-30%	-23%
Income tax	(1,862)	na	(3,427)	-46%	na
Net income	**6,577**	**na**	**8,665**	**-24%**	**na**
of which, Group share	**6,560**	**na**	**8,663**	**-24%**	**na**
of which, Non-controlling interests	17	na	2	na	na
€ / $ average parity	*1.17*	*1.11*	*1.11*		

ADDITIONAL INFORMATION – FIRST NINE MONTHS 2020

ORDERS FOR NEW SYSTEMS – LIKE-FOR-LIKE

1. Perpetual software licenses, equipment and accompanying software and non recurring services

1.1. by product line

	Nine Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Perpetual software licenses	5,676	10%	5,716	9,651	12%	-41%	-41%
Equipment and accompanying software	41,646	76%	42,022	58,880	74%	-29%	-29%
Training and consulting services	6,492	12%	6,515	9,003	11%	-28%	-28%
Miscellaneous	1,126	2%	1,137	1,849	3%	-39%	-39%
Total	54,939	100%	55,390	79,382	100%	-31%	-30%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

1.2. by region

	Nine Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Europe	22,601	41%	22,611	29,860	38%	-24%	-24%
Americas	11,629	21%	11,940	11,691	15%	-1%	+2%
Asia-Pacific	16,893	31%	16,993	30,256	38%	-44%	-44%
Other countries	3,817	7%	3,846	7,576	9%	-50%	-49%
Total	54,939	100%	55,390	79,382	100%	-31%	-30%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

1.3. by market

	Nine Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Actual	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Fashion	27,675	50%	27,896	39,369	49%	-30%	-29%
Automotive	15,244	28%	15,409	25,983	33%	-41%	-41%
Furniture	9,359	17%	9,416	10,977	14%	-15%	-14%
Other industries	2,660	5%	2,668	3,054	4%	-13%	-12%
Total	54,939	100%	55,390	79,382	100%	-31%	-30%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

2. New software subscriptions

	Nine Months Ended September 30						
	2020			2019		Changes 2020/2019	
(in thousands of euros)	Réel	%	At 2019 exchange rates	Actual	%	Actual	Like-for-like
Annual value of new software subscriptions	1,767	na	1,769	1,131	na	+56%	+56%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

BREAKDOWN OF REVENUES – LIKE-FOR-LIKE

Revenues by region

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
	Nine Months Ended September 30						
Europe, of which:	73,235	43%	73,434	82,895	40%	-12%	-11%
- France	12,115	7%	12,110	13,048	6%	-7%	-7%
Americas	44,503	26%	45,435	51,203	25%	-13%	-11%
Asia-Pacific	40,722	24%	40,944	55,107	27%	-26%	-26%
Other countries	12,109	7%	12,359	16,605	8%	-27%	-26%
Total	170,568	100%	172,172	205,810	100%	-17%	-16%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

Revenues by type of business

(in thousands of euros)	2020 Actual	2020 %	2020 At 2019 exchange rates	2019 Actual	2019 %	Changes 2020/2019 Actual	Changes 2020/2019 Like-for-like
	Nine Months Ended September 30						
Revenues from perpetual software licenses, equipment and accompanying software, and non-recurring services, of which:	54,429	32%	54,717	79,666	39%	-32%	-31%
- Perpetual software licenses	5,757	3%	5,794	10,335	5%	-44%	-44%
- Equipment and accompanying software	40,116	24%	40,313	58,589	28%	-32%	-31%
- Training and consulting services	7,430	4%	7,474	8,893	4%	-16%	-16%
- Miscellaneous	1,126	1%	1,137	1,849	1%	-39%	-39%
Recurring revenues, of which:	116,139	68%	117,455	126,144	61%	-8%	-7%
- Software subscriptions	2,525	1%	2,539	937	ns	+169%	+171%
- Software maintenance contracts	28,176	17%	28,396	28,720	14%	-2%	-1%
- Equipment and accompanying software maintenance contracts	43,802	26%	44,203	42,932	21%	+2%	+3%
- Consumables and parts	41,637	24%	42,317	53,555	26%	-22%	-21%
Total	170,568	100%	172,172	205,810	100%	-17%	-16%
€ / $ average parity	*1.12*		*1.12*	*1.12*			

CONSOLIDATED INCOME STATEMENT – LIKE-FOR-LIKE

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

Company certification of the report for the first nine months of 2020

We certify that, to our knowledge, the financial statements 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 third quarter and first nine months presents a true and sincere view of the significant events that occurred during the first nine months of the fiscal year and their impact on the financial statements, and a description of the main risks and uncertainties for the remaining three months of the fiscal year.

Paris, October 28, 2020

Daniel Harari Chairman and Chief Executive Officer	Olivier du Chesnay Chief Financial Officer

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(in thousands of euros)	September 30, 2020	December 31, 2019	September 30, 2019
Goodwill	46,891	47,380	47,616
Other intangible assets	4,453	4,008	3,967
Leasing rights-of-use	15,833	18,697	19,286
Property, plant and equipment	25,770	26,963	26,119
Other non-current assets	19,906	17,242	18,975
Deferred tax assets	8,064	8,589	8,772
Total non-current assets	120,917	122,879	124,735
Inventories	29,183	30,919	34,166
Trade accounts receivable	36,641	56,933	43,845
Other current assets	12,530	12,217	14,501
Cash and cash equivalents	117,932	120,558	102,369
Total current assets	196,286	220,627	194,881
Total assets	**317,203**	**343,506**	**319,616**

EQUITY AND LIABILITIES

(in thousands of euros)	September 30, 2020	December 31, 2019	September 30, 2019
Share capital	32,346	32,099	32,046
Share premium	17,680	15,802	15,409
Treasury shares	(373)	(698)	(521)
Currency translation adjustments	(10,544)	(9,481)	(9,028)
Retained earnings and net income	144,245	145,141	136,901
Non-controlling interests	113	159	142
Total equity	183,467	183,022	174,949
Retirement benefit obligations	11,240	11,107	10,925
Non-current lease liabilities	10,941	13,407	13,921
Minority shares purchase commitment	2,973	4,333	4,333
Borrowings, non-current portion	-	-	-
Total non-current liabilities	25,154	28,847	29,179
Trade and other current payables	43,492	58,896	52,052
Deferred revenues	50,881	58,459	50,046
Current income tax liabilities	2,968	3,436	2,211
Current lease liabilities	5,422	5,675	5,750
Minority shares purchase commitment	2,652	2,167	2,167
Borrowings, current portion	-	-	-
Provisions for other liabilities and charges	3,167	3,004	3,262
Total current liabilities	108,582	131,637	115,488
Total equity and liabilities	**317,203**	**343,506**	**319,616**

CONSOLIDATED INCOME STATEMENT

(in thousands of euros)	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenues	170,568	205,810
Cost of goods sold	(42,045)	(54,860)
Gross profit	128,523	150,950
Research and development	(16,569)	(15,832)
Selling, general and administrative expenses	(96,349)	(105,397)
Income from operations	15,605	29,721
Financial income	107	160
Financial expenses	(390)	(434)
Foreign exchange income (loss)	(571)	(509)
Income before tax	14,750	28,938
Income tax	(3,724)	(7,639)
Net income	**11,027**	**21,299**
of which, Group share	**11,025**	**21,297**
of which, Non-controlling interests	2	2

(in euros)		
Earnings per share, Group share:		
- basic	0.34	0.67
- diluted	0.34	0.66
Shares used in calculating earnings per share		
- basic	32,171,847	31,954,013
- diluted	32,419,678	32,385,303

STATEMENT OF COMPREHENSIVE INCOME, GROUP SHARE (1)

(in thousands of euros)	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Net income, Group share	11,025	21,297
Currency translation adjustments	(887)	389
Tax effect	(175)	137
Other comprehensive income to be reclassified in net income	(1,062)	526
Remeasurement of the net liability arising from defined benefits pension plans	279	(638)
Tax effect	(78)	200
Other comprehensive income not to be reclassified in net income	201	(438)
Total other comprehensive income	(861)	88
Comprehensive income, Group share	**10,164**	**21,385**

(1) The Group considered as non-material the information regarding the comprehensive income of the non-controlling interests (30% of Retviews minority shares only for 2019 and from January 1 to June 30, 2020 – 20% since July 1, 2020 – see note 3 hereafter) and thus only presents the comprehensive income of the Group share.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)	Nine months ended September 30, 2020	Nine months ended September 30, 2019
I - OPERATING ACTIVITIES		
Net income	11,027	21,299
Net depreciation, amortization and provisions	11,835	9,386
Non-cash operating expenses	424	371
Loss (profit) on sale of fixed assets	-	53
Changes in deferred income taxes	(12)	949
Changes in inventories	201	(505)
Changes in trade accounts receivable	12,654	8,161
Changes in other current assets and liabilities	(11,297)	(8,424)
Changes in other operating non-current assets	(6,716)	(4,243)
Net cash provided by (used in) operating activities	18,117	27,047
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(1,547)	(1,360)
Purchases of property, plant and equipment	(1,766)	(2,798)
Proceeds from sales of intangible and tangible assets	23	3
Acquisition cost of companies purchased (1)	(876)	(7,629)
Purchases of financial assets (2)	(4,120)	(4,710)
Proceeds from sales of financial assets (2)	3,579	4,490
Net cash provided by (used in) investing activities	(4,707)	(12,004)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	2,125	1,765
Dividend paid	(12,844)	(12,782)
Purchases of treasury shares	(3,556)	(4,391)
Sales of treasury shares	3,830	4,444
Repayment of lease liabilities	(4,318)	(4,545)
Net cash provided by (used in) financing activities	(14,762)	(15,509)
Increase (decrease) in cash and cash equivalents	**(1,352)**	**(466)**
Cash and cash equivalents at opening	120,558	102,223
Increase (decrease) in cash and cash equivalents	(1,352)	(466)
Effect of changes in foreign exchange rates	(1,274)	612
Cash and cash equivalents at closing	117,932	102,369
Net cash provided by (used in) operating activities	18,117	27,047
+ Net cash provided by (used in) investing activities	(4,707)	(12,004)
- Acquisition cost of companies purchased	876	7,629
- Repayment of lease liabilities	(4,318)	(4,545)
Free cash flow	9,968	18,127
Income tax (paid) / reimbursed, net	(3,703)	(3,412)
Interest paid on lease liabilities	(121)	(114)
Interest paid	-	-

(1) At September 30, 2019, this amount corresponds to the acquisition cost of 70% of Retviews, net of cash acquired; at September 30, 2020, it corresponds to the amount paid for the purchase of an additional 10% (see note 3 hereafter).

(2) 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]	**Total equity**
Balance at January 1, 2019	31,846,757	1.00	31,847	13,843	(560)	(9,554)	134,802	170,377		170,377
Net income							21,297	21,297	2	21,299
Other comprehensive income						526	(438)	88		88
Comprehensive income						526	20,859	21,385	2	21,387
Exercised stock options	199,163	1.00	199	1,566				1,765		1,765
Fair value of stock options							513	513		513
Sale (purchase) of treasury shares					39			39		39
Profit (loss) on treasury shares							9	9		9
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 September 30, 2019	32,045,920	1.00	32,046	15,409	(521)	(9,028)	136,901	174,807	142	174,949
Balance at January 1, 2019	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	32,099,100	1.00	32,099	15,802	(698)	(9,481)	145,141	182,863	159	183,022
Net income							11,025	11,025	2	11,027
Other comprehensive income						(1,062)	201	(861)		(861)
Comprehensive income						(1,062)	11,226	10,164	2	10,166
Exercised stock options	247,321	1.00	247	1,877				2,125		2,125
Fair value of stock options							706	706		706
Sale (purchase) of treasury shares					325			325		325
Profit (loss) on treasury shares							(34)	(34)		(34)
Minority shares purchase for Retviews [2]							48	48	(48)	0
Dividend paid							(12,844)	(12,844)		(12,844)
Balance at September 30, 2020	**32,346,421**	**1.00**	**32,346**	**17,680**	**(373)**	**(10,544)**	**144,245**	**183,354**	**113**	**183,467**

(1) These amounts are the result of the acquisition of Retviews in 2019. Note 3 hereafter describes the impact of this acquisition on the Group's financial statements.

(2) This amount stems from the acquisition of an additional 10% of Retviews in July 2020 (see note 3 hereafter).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2020

1. BUSINESS ACTIVITY

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, 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, data and 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 condensed consolidated financial statements at September 30, 2020, have been prepared in accordance with IAS 34 – *Interim Financial Statements*. They do not comprise all of the financial disclosures required in the complete financial statements and should be read in conjunction with the Group's consolidated financial statements and corresponding notes for the fiscal year 2019, available on lectra.com.

The consolidated financial statements have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2019 financial statements, with the exception of the amendment to IFRS 16 standard dated May 28, 2020 (not adopted by the EU) presented below. They have been prepared under the responsibility of the Board of Directors at its meeting of October 28, 2020 and have not been reviewed by the Statutory Auditors.

The other standards, amendments and interpretations adopted by the European Union whose application is required for fiscal years starting from January 1, 2020 have no impact on the Group's financial statements. The Group has not early adopted any other standards, amendments or interpretations whose application is not required for fiscal years starting from January 1, 2020.

Amendment to IFRS 16 – Leases

The Group has applied, in advance, since April 1, 2020, the amendment to IFRS 16: *COVID-19-Related Rent Concessions*. This amendment enables the Group not to consider certain rent concessions as lease modifications. The Group has chosen to apply the amendment to all rent concessions meeting the conditions (that is: that are a direct consequence of the COVID-19 pandemic and that have been obtained without other substantive changes to terms and conditions of the leases).

At September 30, 2020, this amendment affected a limited number of subsidiaries. Its impact on the Group's consolidated income statement was less than 0.1 million euros.

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 new systems sales. 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 and evaluation of deferred tax assets.

Revenues

Contracts with customers comprise multiple obligations such as: equipment and accompanying software, perpetual software licenses, 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 inseparable part of the equipment: 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), sold under perpetual license separately from the equipment and usually installed on the clients' computers 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 / evolution since they are entirely ready to work upon delivery and since maintenance / 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.

Specialized 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.

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 below; it considers these aggregates appropriate for management of the Group and for measurement of the implementation of its strategy.

Income from operations before non-recurring items and income from operations

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 or 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 its 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 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, business development, 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 September 30, 2020, the Group's scope of consolidation comprised the parent company, Lectra SA, together with 31 fully-consolidated companies.

In July 2019, the Group purchased the Belgian company Retviews and its Romanian subsidiary Retviews Bucharest SRL.

The transaction involved the immediate acquisition of 70% of the capital and voting rights of Retviews for 8 million euros. As initially planned, Lectra acquired in July 2020 an additional 10% of capital and voting rights of Retviews, for an amount comprised between 0.9 and 1.1 million euros (0.9 million euros in July 2020 and the remainder in December 2020). The acquisition of the remaining capital and voting rights will take place in two installments in July 2021 and July 2022 for the amounts of about 0.7 times 2021 revenues and 0.5 times 2022 revenues, respectively.

The purchase price accounting has been finalized without change and the main impacts on the Group's financial statements were:

- 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, for a total amount of 6.5 million euros, with its counterpart recorded in 'Equity, Group share';
- The acquisition cost for Lectra, net of cash acquired, amounted to 7.6 million euros.

At September 30, 2020, the acquisition of an additional 10% of capital and voting rights caused the reclassification, within total Equity, of an amount less than 0.1 million euros, from 'Non-controlling interests' to 'Equity, Group share'. Following the payment of 0.9 million euros, the debt corresponding to the minority shares purchase commitment amounted to 5.6 million euros, of which 2.7 million euros classified as current liabilities and 3 million euros as non-current liabilities.

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

There was no other change in the scope of consolidation during the first nine months of 2020, or 2019.

Three sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and combined. At September 30, 2020, their combined revenues totaled 0.5 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 September 30, 2020.

4. OPERATING SEGMENTS INFORMATION

Nine months ended September 30, 2020 (in thousands of euros)	Northern Europe(1)	Southern Europe(2)	Americas	Asia-Pacific	Corporate	Total
Revenues	36,622	46,696	44,503	42,747	-	170,568
Income (loss) from operations	4,914	8,966	7,452	3,970	(9,698)	15,605

Nine months ended September 30, 2019 (in thousands of euros)	Northern Europe(1)	Southern Europe(2)	Americas	Asia-Pacific	Corporate	Total
Revenues	42,254	53,520	51,202	58,833	-	205,810
Income (loss) from operations	5,022	9,748	7,643	5,552	1,755	29,721

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

(2) 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.

5. CONSOLIDATED CASH FLOW SUMMARY

Nine months ended September 30, 2020 (in thousands of euros)	Cash and cash equivalents	Financial debts	Net cash
Free cash flow	9,968	-	9,968
Proceeds from issuance of ordinary shares(1)	2,125	-	2,125
Sale and purchase of treasury shares(2)	275	-	275
Acquisition cost of companies purchased(3)	(876)	-	(876)
Dividend paid	(12,844)	-	(12,844)
Impact of currency variations – other	(1,274)	-	(1,274)
Change in cash position for the period	(2,626)	-	(2,626)
Cash position at December 31, 2019	120,558	-	120,558
Cash position at September 30, 2020	117,932	-	117,932
Change in cash position for the period	(2,626)	-	(2,626)

(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 of an additional 10% of Retviews (see note 3).

Free cash flow at September 30, 2020, was 10 million euros. This figure results from a combination of 18.1 million euros in cash flows provided by operating activities (including a decrease in working capital requirement of 1.6 million euros) and capital expenditures of 3.8 million euros. The cash flows provided by operating activities also comprised an increase in other operating non-current assets of 6.7 million euros (corresponding to the part of the first nine months of the 2020 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 4.3 million euros, was taken into account.

The variation in working capital is explained as follows:

– −12.7 million euros corresponding to the decrease in trade accounts receivable, following a decline in revenues from software licenses, equipment, consumables and parts 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);

– −0.2 million euros corresponding to the decrease in inventories;

– −2.6 million euros arising from the reimbursement of the outstanding balance of the 2016 research tax credit (see note 6 hereafter) in Q3;

– +7.8 million euros corresponding to the decrease in trade accounts payable, due to the reduction in purchases following the activity decrease;

– +4.8 million euros arising from the difference between the variable portion of salaries for the Group in respect of fiscal year 2019 paid mainly in 2020, and the one recognized in the first nine months of 2020 that will be paid in 2021;

– +1.3 million euros arising from the changes in other current assets and liabilities; taken individually, these changes are all immaterial.

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

6. RESEARCH TAX CREDIT

When the research tax credit applicable in France recognized in the year cannot be deducted from the corporate income tax, it is treated as a receivable on the French tax administration. If unused in the ensuing three years, it is repaid to the company in the course of the fourth year.

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

The research tax credit (6.7 million euros) for the first nine months of 2020 were accounted for but not received.

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

In light of its estimates of tax credits and corporate income tax for the next three fiscal years, the company does not expect to make any payment in respect of corporate income tax, from which will be deducted in full the research tax credit of each fiscal year. Thus, it received in July 2020 the reimbursement of the outstanding balance of 2.6 million euros in respect of the 2016 tax credit and should receive the reimbursement of the outstanding balance of these non-deducted tax credits as follows: 2021 (in respect of the 2017 tax credit), 2022 (in respect of the 2018 tax credit), 2023 (in respect of the 2019 tax credit) and 2024 (in respect of the 2020 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, 2020, the company has purchased 192,354 shares and sold 205,328 shares at an average price of €18.49 and €18.66 respectively under the liquidity agreement administered by Exane BNP Paribas.

At September 30, 2020, the company held 18,575 Lectra shares (i.e. 0.06% of the share capital) with an average purchase price of €20.09 entirely under the liquidity agreement.

8. CASH AND CASH EQUIVALENTS AND NET CASH

(in thousands of euros)	September 30, 2020	December 31, 2019
Available cash	87,932	90,558
Cash equivalents	30,000	30,000
Borrowings and financial debts	-	-
Net cash	117,932	120,558

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, 2019.

During the first nine months of 2020, the average parity between the US dollar and the euro was $1.12/€1.

Exchange risk hedging instruments

Exchange risk hedging instruments at September 30, 2020 were comprised of forward sales or purchases of foreign currencies (mainly US dollar) for a net total equivalent value (sales minus purchases) of 5.1 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 the rest of 2020.

10. IMPLICATIONS OF THE COVID-19 OUTBREAK ON THE FINANCIAL STATEMENTS

The impact of the COVID-19 outbreak on the Group's financial statements has been reviewed in detail.

Anticipating a slowdown in its activity, the Group has implemented strict measures to reduce its fixed overhead costs; this has involved cancelling or postponing all non-essential expenses, and temporarily modifying, during the lockdown, the assignments of those teams whose workload was the most affected to tasks identified as priorities, in particular ensuring the optimal use of the Group's solutions by customers and accelerating transformative actions planned in the 2020-2022 strategic roadmap.

On the date of this report, in light of its sound financial position, capacity for resilience, and medium-term outlook, the Group has decided not to benefit from any financial support from the French government (such as moratoriums on payments or partial activity). In certain countries, the Group has benefited from some tax cuts, applicable to all companies.

Considering the situation and the activity decrease perceived in the first half of 2020, the Group updated in June 2020 its impairment tests on goodwill performed for the December 2019 financial statements. This update was based on low assumptions that simulate the effect of a one-year time lag in the achievement of the Group's objectives. The updated estimates of the value in use of goodwill components have not led to any impairment for the half-year financial statements, as in 2019. The Group considers these results to be still valid at September 30, 2020.

During the first nine months of 2020, the working capital requirement remained at a normative level, and the Group generated positive cash flow. The Group's suppliers were paid on schedule. Most of the Group's customers also paid on time, without material impact on the statement of financial position at September 30, 2020. However, the Group remains highly focused on credit management, and has taken actions to strengthen cash collection activities. Following an individualized analysis of its receivables, the Group has estimated the possible losses on the riskiest positions, and recognized the necessary provision for impairment.

Finally, the Group has no financial debt, and generated a free cash flow of 10 million euros during the first nine months of the year. Cash and cash equivalents, as well as net cash position, totaled 117.9 million euros at September 30, 2020. Cash equivalents comprise negotiable certificates of deposit issued by the Company's banks. Interest-bearing sight accounts and time deposits opened in the Company's banks are treated as cash. All these holdings are short-term, highly liquid investments that are readily convertible to known amounts of cash and not subject to any significant risk of changes in value.

The Group considers that it is financially equipped to deal with a temporary or more sustained reduction in its business activity.

11. 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, 2019 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 2020 annual revenues by approximately 4.2 million euros and annual income from operations by 2.8 million euros. Conversely, a 5-cent appreciation of the euro against the US dollar (i.e. $1.17/€1) would mechanically reduce annual revenues and income from operations by the same amounts.

The parity is $1.17/€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.