

Nine-month 2016 sales up 18.7%

Commercial trend continues the favorable orientation observed in the first-half of the year

- Sustained and well-balanced growth in Licensing and Services businesses
- Limited currency impact
- Significant M&A contribution, particularly ESI ITI GmbH
- Strong performance in Asia-Pacific region

Alain de Rouvray, Chairman and CEO, comments: *"The sustained and balanced growth in sales, particularly active on our first nine months of the fiscal year, reflects the enthusiastic take-up of our 'Immersive Virtual Prototyping' solutions by our international partners and industrial customers. The momentum in our Licensing business is reflected in the very good performance of two key indicators: Repeat rate and New Business ratio. The increase in Licenses revenues has been especially marked in Asia, a region at the cutting-edge of innovation where ESI is standing out strongly versus the standard PLM (Product Lifecycle Management) offering. Continued growth in high value-added Services, which support the challenging methodological transformation towards 'Industry 4.0', confirms the recent trends of previous quarters. This growth reflects the transition towards the 'smart factory' that will enable industrials to meet head-on the current economic challenges linked to the imperative to innovate while facing increasing international competition.*

In view of our present business indicators, calculated both on current and organic Group structures, we are confident in the short and medium term outlook of our business. Indeed, ESI's PPL (Product Performance Lifecycle) solutions provide a disruptive "transformational" approach which goes way beyond the traditional PLM focus of the incumbent market offering, mostly limited to providing an information backbone for the product development phase. On the contrary ESI's PPL solutions address the complete lifecycle of an industrial product by including the modeling variations of its prospective operational life, from launch and commissioning up to final withdrawal from service, while accounting for faults, wear out and maintenance steps, and including assisted piloting options. This unique and recently expanded offer, supported by two global and prestigious recent partnerships,

rightly appears fully aligned with the strategic and global challenges of the 'industry of the future' and of its connected objects and 'smart' autonomous products.

Change in sales in the 3rd quarter and cumulatively

Financial year ending January 31 (unaudited figures)
The 3rd quarter ends on October 31.

In € millions	Q3 2016	Q3 2015	% chg.	% chg. (cer*)	% chg. (organic** & cer)
Licenses	19.5	14.9	+30.5%	+24.6%	+14.9%
Services	7.4	6.4	+14.6%	+11.4%	+5.5%
Total	26.9	21.4	+25.7%	+20.6%	+12.1%

In € millions	Sales 9 months 2016	Sales 9 months 2015	% chg.	% chg. (cer*)	% chg. (organic** & cer)
Licenses	59.7	49.6	+20.2%	+17.3%	+10.0%
Services	23.2	20.1	+15.2%	+13.4%	+7.3%
Total	82.8	69.8	+18.7%	+16.2%	+9.2%

* cer: at constant exchange rates

**organic:: at constant reporting structure, i.e., excluding revenue from ESI ITI GmbH and Mineset Inc., which were consolidated by the Group from January 6, 2016 and February 5, 2016, respectively.

Breakdown of quarterly sales

In € millions	Q3 2016	Q2 2016	Q1 2016	Q3 2015	Q2 2015	Q1 2015
Licenses	19.5	20.6	19.5	14.9	17.6	17.1
Services	7.4	7.9	7.9	6.4	6.7	7.0
Total	26.9	28.6	27.4	21.4	24.3	24.1

NB: the seasonal nature of the ESI Group's Licenses business results in the recognition of the largest share of annual revenue in the fourth quarter of the year.

Sales for the 3rd quarter

Sales for the 3rd quarter increased markedly; up 25.7% year upon year to €26.9 million. Acquisition-related revenue totaled €1.9 million and mainly comprised sales from ESI ITI GmbH which was acquired in January 2016. Strength in sales in Asia was amplified by the shift of approximately €1.4m of recurrent business from Q4 to Q3. There was also a positive currency effect of €1.1 million during period, mostly related to the appreciation of the Yen against the Euro.

Sales from the Licenses business came in at €19.5 million, a jump of 30.5% at current exchange rates, on the back of good performances in terms of both New and Repeat Business, especially in the Asia-Pacific region.

Revenue from Services grew by 14.6% at current exchange rates to €7.4 million.

Nine-month sales

Nine-month 2016 sales rose by 18.7% at current exchange rates to €82.8 million when compared to first nine-months of 2015, mainly due to the favorable impacts described earlier. Specifically, we saw contribution of acquisitions, particularly ESI ITI GmbH (+€3.1 million), a positive currency effect of €1.8 million related to the appreciation of the Yen against the Euro, and revenue from the contract in Asia that was booked earlier in the year (+€1.4 million).

The product mix shifted slightly towards the Licensing business, which now accounts for 72.0% of total revenue compared with 71.1% in the same period last year.

Very strong growth in Licensing business

Revenue from Licenses surged 20.2% year-on-year to €59.7 million and performance indicators reflected well-balanced growth throughout the business. New Business contributed 22.4% of total revenue from Licenses (versus 21.6% for the first nine months of 2015). The Repeat Business rate remained very high at 90.2% (or 84.8% at constant exchange rates after adjusting for the shifted contract in Asia, comparable to 85.4% last year) reflecting the sharp increase in recurring revenue from the installed base.

Services: solid growth in Engineering Studies

The Services business reported a solid 15.2% increase in sales to €23.2 million. This fine performance, amplified by recent acquisitions, reflected an 18.0% growth in the Engineering Studies which are ESI's core business and a 35.5% growth of co-creation and methodological transformational projects, over the period and at current rates.

Geographic mix: sharp increase in Asia

Asia had an outstanding nine months, accounting for 45.7% of total revenue, compared to 41.4% last year. In contrast the contribution of the Americas region stood at 16.0% versus the 20.0% achieved with the exceptional performance last year. Europe's contribution remained stable, representing 38.3% vs. 38.6% last year.

The BRIC countries accounted for 12.9% of total revenue for the period, negatively impacted by the tough economic situation in Brazil and Russia that more than offset strong performances in China and India.

Strengthening of the global ecosystem and extension of Product Performance Lifecycle

ESI continues to grow its global ecosystem. Following the signature of a strategic partnership with Huawei, the Chinese and global ICT (Information and Communication Technologies) heavyweight, ESI has signed a new strategic partnership with Xerox's flagship company PARC (Palo Alto Research Center), based in Silicon Valley from where it supplies customized R&D solutions to major US contractors and government agencies. This partnership is focused on expanding and commercializing PARC's Fault Augmented Model Extension (FAME) methodology, initiated in liaison with DARPA (Defense Advanced Research Projects Agency). The goal is to have full control over the complete lifecycle of industrial products, factoring in the uncertainties and potential hazards when the product is in users' hands and addressing the important challenges of predictive and condition-based maintenance.

These two prestigious new global partnerships are a major boost to ESI's international development strategy. By clearly targeting the inexorable transformation of standard PLM, which offers design and certification solutions based around descriptions that are limited essentially to the geometric and functional aspects of industrial products, ESI's new PPL solutions offer a general and predictive overview of product performance over the entire life of a product once brought to market. The "disruptive" change promised by the transition from PLM to PPL, the fruit of 30 years of targeted innovation strategy and many international partnerships, has now been made possible by detailed and realistic modeling of the physics of materials, manufacturing processes, performance management, and now addresses connected, smart and autonomous products.

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March 14, 2017

2016 annual results:

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About ESI

[ESI Group](#) is a leading innovator in Virtual Prototyping software and services. Specialist in material physics, [ESI](#) has developed a unique proficiency in helping industrial manufacturers replace physical prototypes by virtually replicating the fabrication, assembly and testing of products in different environments. Today, coupled with Virtual Reality, animated by systems models, and benefiting from data analytics, [Virtual Prototyping](#) becomes immersive and interactive: ESI's clients can bring their products to life, ensuring reliable performance, serviceability and maintainability. ESI solutions help world-leading OEM's and innovative companies make sure that their products will pass certification tests - before any physical prototype is built - and that new products are competitive in their market space. Virtual Prototyping addresses the emerging need for products to be smart and autonomous and supports industrial manufacturers in their digital transformation.

Today, ESI's customer base spans nearly every industry sector. The company employs about 1100 high-level specialists worldwide to address the needs of customers in more than 40 countries. For more information, please visit www.esi-group.com/

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