Lectra

Press Release

Contact: Nathalie Gerbal
E-mail: n.gerbal@lectra.com
Office: +33 (0)1 53 64 42 37 - Fax: +33 (0)1 53 64 43 40

First Nine Months 2010: Orders, Revenues, Earnings, and Free Cash Flow Rise Sharply, Well Exceeding the Company's Expectations

- Orders for new systems: €56.5 million (+69%)(*)
- Revenues: €140 million (+22%)(*)
- Income from operations before non-recurring items: €16.6 million
- Net income: €12 million
- Net financial borrowing down to €25.4 million at September 30 and €10.3 million at October 7

(*) like-for-like

In millions of euros (€M)	July 1 - September 30		January 1 - September 30	
	2010	2009	2010	2009
Revenues	48.2	35.9	140.0	110.6
Change like-for-like (%) (1)	*+27%*		*+22%*	
Income (loss) from operations before non recurring items (2)	8.3	0.1	16.6	(5.4)
Change like-for-like (in €M) (1)	*+ 6.9*		*+ 19.6*	
Operating margin before non-recurring items (% in revenues)	17.1%	0.2%	11.9%	-4.9%
Income (loss) from operations	11.5	0.1	19.9	(5.4)
Net income (loss)	7.7	0.1	12.0	(4.2)
Free cash flow	3.4	(1.0)	22.2	7.3
Shareholders' equity (3)			37.5	24.7
Net financial borrowing (3)			25.4	47.8

(1) Like-for-like: 2010 figures restated at 2009 exchange rates
(2) In 2010, before non-recurring gain of €3.3 million in Q3 and in the first nine months
(3) At September 30, 2010 and December 31, 2009

Paris, October 28, 2010. Today, Lectra's Board of Directors, chaired by André Harari, reviewed the unaudited consolidated financial statements for the third quarter and first nine months of 2009.

(Detailed comparisons between 2010 and 2009 are like-for-like.)

Q3 2010

Record Income from Operations

The third quarter 2010 confirmed the very clear rebound in sales activity registered in Q1 and Q2 2010.

At a total of €21 million, orders for new software licenses and CAD/CAM equipment were up 74% like-for-like and 86% at actual exchange rates compared to Q3 2009 (€11.3 million).

Revenues totaled €48.2 million, up 27% like-for-like and 34% at actual exchange rates.

Revenues from new systems sales (€21.9 million) were up 71%. Recurring revenues (€26.3 million) rose by 5%, which represents both a 4% decrease in revenues from recurring contracts and a 25% increase in revenues from spare parts and consumables. The latter figure confirms the rise in production volumes at the Group's customer firms, already noted in the three previous quarters.

Income from operations before non-recurring items amounted to €8.3 million, well in excess of the company's expectations. This can be attributed to a sales rebound that was stronger than anticipated, higher gross profit margins, lower overhead costs, and more favorable exchange rates.

At 17.1%, the operating margin before non-recurring items reached a new milestone in the company's history.

Lectra Receives €15.1 Million following the October 2009 Award Rendered by the International Arbitral Tribunal against Induyco

On September 20, 2010, the Madrid Court of Appeals issued a decision overturning and vacating the interim order entered by the Madrid Court of First Instance, and thereby lifted the temporary injunction obtained by Induyco in November 2009 which had suspended execution of the first demand bank guarantees granted to Lectra by Induyco.

Following the appellate court's decision, which cannot be appealed, Lectra called on the first demand bank guarantees and in accordance with their terms Lectra received €15.1 million on October 7. This has resulted in a net non-recurring gain of €3.3 million.

Net Income Exceptionally High

Income from operations, after accounting for non-recurring items, amounted to €11.5 million.

The company registered a net income of €7.7 million, thanks to strong performance during the quarter and non-recurring items relating to the Induyco litigation.

Free cash flow was positive at €3.4 million. This amount does not include the €15.1 million received from calls on the bank guarantees relating to the Induyco litigation after the closing of the quarter.

First Nine Months of 2010

Sales activity bounced back faster and more strongly than anticipated

Overall, orders for new software licenses and CAD/CAM equipment amounted to €56.5 million, up 69% relative to 2009. Orders for new software licenses increased by 48%, and those for CAD/CAM equipment were up 81%.

Orders booked in the Asia-Pacific region jumped 129% (163% in China); in the Americas they rose 60%; and in Europe, where certain countries are still suffering the effects of the crisis, they rose 48%. Overall, growth was driven by the emerging countries, where orders are practically back at their 2007 levels, whereas in the developed countries as a whole they still lag behind by around 45%.

All market sectors—fashion, automotive, furniture and other industries—contributed to this rebound in orders. The automotive sector registered a threefold increase.

Despite their sharp rise, orders are still down 31% compared to 2007, the last year before the onset of the crisis.

Revenues from new systems sales (€61.9 million) increased by 54% and represented 44% of total revenues (compared to 35% in 2009). This increase of 9 percentage points of their relative share in total revenues reflects a return to buoyant sales activity. Recurring revenues (€78.1 million) increased by €4.0 million (+6%).

Overall, revenues totaled €140 million, up 22% like-for-like, and 27% at actual exchange rates.

The order backlog for new software licenses and CAD/CAM equipment (€15.7 million at September 30, 2010), increased by €2.8 million relative to December 31, 2009.

Clear Improvement in Key Operating and Financial Ratios

The overall gross profit margin worked out to 72%. Like-for-like, it came to 71.4%, up 0.1 percentage point relative to 2009.

Changes in the product mix led to a rise in the share of revenues from CAD/CAM equipment and spare parts and consumables in total revenues. Their margins being lower than the margins of the other revenue components, this should have mechanically led to a decrease in the overall gross profit margin. However, this impact was more than offset by the clear increase in gross profit margins, like-for-like, for each product line. This excellent performance is one of the successes of the 2010 action plan and once again demonstrates the competitiveness and high added value of Lectra's offer.

Thanks to cost-cutting measures implemented in 2009, fixed overheads costs (€74.9 million) were down €7.2 million (-9%).

Income from operations before non-recurring items (€16.6 million) was up €19.6 million like-for-like. At actual exchange rates, it improved by €22 million, while revenues increased €29.4 million; the increase in income from operations before non-recurring items is therefore equivalent to 75% of the increase in revenues—a noteworthy performance.

The margin on operations before non-recurring items well exceeded the 10% threshold, at 11.9%. Like-for-like, the margin increased 15.4 percentage points compared to the negative margin of 4.9% at September 30, 2009.

Net income (€12 million) increased by €16.2 million, at actual exchange rates, compared to the net loss of €4.2 million in the first nine months of 2009.

Record Free Cash Flow — Net Financial Borrowings Down Sharply

Free cash flow was positive at €22.2 million. Excluding the impact of the French research tax credit and before non-recurring items, free cash flow was €21 million—an increase of €23.7 million compared to the negative amount of €2.7 million of 2009.

Leaving aside the impact of the rise in income, this excellent free cash flow performance is another of the 2010 action plan's successes, stemming in particular from a further reduction in working capital requirement. This generation of free cash flow reflects the pertinence of Lectra's business model.

Net financial borrowings decreased by €22.4 million since the beginning of the year, and amounted to €25.4 million at September 30, 2010, compared to €47.8 million at December 31, 2009. After allowing for the €15.1 million received at the beginning of October in connection with the Induyco litigation, net financial borrowings have been reduced to around €10 million at the date of this press release.

Lectra Readmitted to the CAC Small 90, CAC Mid&Small 190, and SBF 250 Indexes

Following the quarterly review of the Euronext Paris indexes on September 3, 2010, the scientific advisory committee decided to readmit the company to the panel making up the CAC Small 90, CAC Mid&Small190 and SBF 250 indexes.

2010 Outlook Again Revised Upward

The rebound in sales activity was confirmed, exceeding the company's expectations announced at the beginning of the year. This is reflected in the robust growth in orders for new software licenses and CAD/CAM equipment (despite their remaining down 31% relative to their level in 2007), and also in sales of spare parts and consumables (which have recovered to their 2007 level).

However, the recovery remains fragile, and another deterioration in conditions is still possible, especially in Europe and the United States.

The strong rebound in orders (69% in the first nine months) and progress in implementing the 2010 plan, along with a currency situation in which the euro/dollar parity is likely to remain close to its present level, provide grounds for expecting earnings to significantly exceed the company's 2010 expectations, which were already updated on July 28, at the time of publication of its first half results.

At September 30, income from operations before non-recurring items has already exceeded the most recent full-year forecast.

The main variable remains revenues from new systems sales. The pace of growth in orders is likely to be more temperate in Q4, owing to a higher basis of comparison, as the figure for Q4 2009 orders had already jumped 70% relative to the average for the first three quarters of 2009.

Fixed overhead costs for Q4 are likely to be higher than the Q3 figures, which benefited from the natural reduction during the summer vacation months and from the reimbursement of legal fees by Induyco. Therefore, the operating margin before non-recurring items for Q4 will be less than for Q3. Less favorable currency exchange rates (the assumptions are based on an average parity of $1.40/€1 in Q4 2010, whereas for Q3 it was $1.29/€1) will also reduce the operating margin before non-recurring items. The latter is forecast to remain high, however, at between 10% and 12%.

Assuming sales activity were to remain stable or to grow slowly relative to Q4 2009, both full-year 2010 revenues and income from operations before non-recurring items would henceforth be €6 million greater than the previous respective forecasts of €180 million and €15 million, reaching or exceeding €186 million and €21 million, respectively.

2010 revenues would grow by €33 million (+21%) relative to 2009 and income from operations before non-recurring items by €23.8 million compared to the loss from operations before non-recurring items for 2009 of €2.8 million, at actual exchange rates.

The full-year operating margin before non-recurring items would come to around 11-12%, an outstanding performance in the current economic climate, which deserves to be emphasized. The previous historical high of 10% was achieved in 2000, even though the average euro / dollar parity of $0.92/€1 was far more favorable to the company and revenues had reached a historical high of €228 million.

The company expects 2010 free cash flow to reach a historical high of close to €40 million (including a record €25 million excluding the impact of non-recurring items).

This would reduce net financial borrowing to less than €10 million at December 31, 2010 (versus €47.8 million one year earlier). Moreover, receipt of the €10.6 million outstanding in respect of the damages awarded to the company by the international arbitral tribunal would restore a net cash positive position.

Bolstered by its results for the first nine months of the year, the company is confident in the strength of its business model and its growth prospects for the medium term.

Q4 2010 and fiscal year 2010 results will be published on February 10, 2011.

Management Discussion and Analysis of Financial Conditions and Results of Operations for Q3 2010 are available on **lectra.com**.

With nearly 1,400 employees worldwide, Lectra is the world leader in software, CAD/CAM equipment and related services specially created for large-scale users of textiles, leather and industrial fabrics. Lectra serves a broad array of major global markets including the fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), and furniture industries, as well as a wide variety of other sectors, such as the aeronautical and marine industries, wind energy, etc.

Lectra (code ISIN FR0000065484) is listed on Euronext Paris (compartment C).

lectra.com