Robust profitability for Ekinops in H1 2020: EBITDA margin over 14% despite a turbulent environment

PRESS RELEASE

PARIS, July 28, 2020 - EKINOPS (Euronext Paris - FR0011466069 – EKI), a leading supplier of telecommunications solutions for telecom operators and businesses, has published its first half 2020 financial statements (for the period ended June 30, 2020) as approved by the Board of Directors on July 27, 2020. The statutory auditors have conducted a limited review of the first half financial statements and will shortly issue the corresponding report.

€m - IFRS	H1 2019[1]	**H1 2020**	**Change**
Revenue	**45.0**	**45.8**	**+2%**
Gross margin	**24.9**	**24.9**	**0%**
% of revenue	*55.3%*	***54.3%***	
Operating expenses	22.3	**23.8**	**+€1.5m**
EBITDA[2]	**8.1**	**6.5**	**-€1.5m**
% of revenue	***17.9%***	***14.3%***	
Current operating income	**2.6**	**1.1**	**-€1.5m**
Operating income/(loss)	0.2	**1.2**	**+€1.0m**
Net income/(loss)	**(0.3)**	**0.9**	**+1.2m**
% of revenue	*n.a.*	***2.0%***	
Earnings per share (€)	(0.03)	**0.04**	

(1) H1 2019 data has been restated in light of the revision of the earn-out payment payable in shares in respect of the OneAccess acquisition. This resulted in a €0.4 million increase in the earn-out liability as of June 30, 2019, which was restated under 'Other operating income and expenses' for the first half of 2019 (net expense of €2.8 million versus €2.4 million as reported a year earlier).

(2) EBITDA (Earnings before interest, taxes, depreciation and amortization) corresponds to current operating income restated for (i) amortization, depreciation, provisions and write-offs, and (ii) income and expenses relating to share-based payments.

Growth generated in H1 2020 despite the pandemic

In H1 2020, Ekinops posted consolidated revenue of €45.8 million, up 1.7% (1.2% at constant exchange rates), in the face of the disruptions caused by the coronavirus (COVID-19) pandemic.

Despite particularly challenging conditions, the Group recorded strong business momentum in the Americas (up 14.4%) and returned to growth in France (up 12.4% over the first half), after the 2019 slowdown in investments by the Group's main customers in the home country.

Robust first half EBITDA margin: 14.3%

Gross margin for the period came to €24.9 million. The gross margin rate was 54.3%, towards the upper end of the Group's long-term target range (50-55%), compared to the 2019 full-year margin of 53.4%.

This improvement over 2019 reflects tight control of the price/cost ratio, despite pressure on the supply chain in the first half, particularly for some components manufactured in China. It is also the result of the Group's upmarket strategy, with some initial successes announced during the first half, including initial sales of 10G routers and the OTN (Optical Transport Network) platform, its virtual offering chosen by Orange Business Services, etc.

H1 EBITDA came to €6.5 million, down €1.5 million from first half 2019. The €1.5 million increase in operating expenses over the period was mainly due to the expansion of the R&D team (33 new hires, 25 of whom were part of the OTN business acquisition in July 2019). Excluding the impact of this acquisition, first half operating expenses were slightly up, €0.5 million, reflecting tight cost control.

Taking these additional expenses into account and despite a challenging environment, the EBITDA margin remained resilient at 14.3%, compared to a record 17.9% in H1 2019 and 14.2% in H2 (16.0% over the full year).

After depreciation, amortization and net provisions (€4.8 million) and non-cash expenses relating to share-based payments (€0.7 million), current operating income amounted to €1.1 million (2.3% of revenue) in H1 2020.

Other operating income and expenses amounted to €0.2 million (vs. €2.8m expense restated in H1 2019), as there were no expenses and fees relating to acquisitions during the first half. H1 2020 operating income resulted in €1.2 million (vs. €0.2 million a year earlier).

Net income, Group share came to €0.9 million for the first half, compared to a loss of €0.3 million a year earlier.

€16.2 million net cash[1] as of June 30, 2020

Ekinops generated free cash flow of €6.6 million in H1 2020 (up 20% compared to H1 2019), resulting in a net positive operating cash flow of €4.3 million after change in working capital (up 37%).

Cash flow from investing activities amounted to a €2.2 million outflow, including €1.6 million in CAPEX (non-current assets and R&D), up 16% due to the acquisition of the OTN business, and a €0.6 million expense relating to the buyout of minority interests of former OneAccess shareholders.

Cash flow from financing activities amounted to a €13.5 million inflow in H1 2020, including (i) a €2.9 million capital increase following the exercise of warrants and stock options by Group employees, (ii) new bank borrowings totaling €11.4 million net of repayments, including a €12.0 million "PGE" - state-guaranteed loan obtained in May 2020 and a €0.5 million loan under the PPP (Paycheck Protection Program) in the United States.

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[1] Net cash = cash and cash equivalents – borrowings (excluding bank debt relating to CIR pre-financing and IFRS 16 lease liabilities)

Change in cash and cash equivalents amounted to a €15.3 million inflow in H1 2020, ending with €47.9 million of cash and cash equivalents as of June 30, 2020, and total debt of €31.7 million. Ekinops is in a particularly solid and comfortable financial position, with net cash[1] of €16.2 million as of June 30, 2020 compared to €14.0 million at 2019 year-end.

ASSETS - €m IFRS	12/31 2019[2]	6/30 2020
Non-current assets	**83.9**	**77.9**
o/w goodwill	28.7	28.4
o/w intangible assets	34.3	29.7
o/w right-of-use	6.2	5.8
Current assets	**38.9**	**44.3**
o/w inventories	10.5	12.9
o/w trade receivables	21.4	24.6
Cash & cash equivalents	**32.6**	**47.9**
TOTAL	**155.4**	**170.1**

EQUITY & LIABILITIES - €m IFRS	12/31 2019[2]	6/30 2020
Shareholders' equity	**86.4**	**88.7**
Financial liabilities	**18.6**	**31.7**
o/w factoring	6.7	6.3
o/w conditional advances/interest free loans	1.5	1.6
R&D tax credit pre-financing	**5.4**	**3.7**
Trade payables	**13.8**	**15.1**
Lease liabilities	**6.5**	**6.1**
Other liabilities	**24.6**	**24.8**
TOTAL	**155.4**	**170.1**

Outlook

In the face of the unprecedented global situation caused by the coronavirus, Ekinops managed to maintain its growth trajectory in the first half of 2020. Despite the impact of the health crisis on revenue, the Group was able to strengthen its market positions, in particular in the United States and France, posting double-digit growth in both regions. It demonstrated its operational resilience by improving its gross margin compared to full year 2019 and maintaining a high EBITDA margin.

Ekinops moves into the second half of the year with less visibility than usual. Nonetheless, the Group plans to stay focused over the coming months on high value-added applications such as SD-WAN (Software-Defined Wide Area Network), white boxes and uCPE, OneOS6, VNF, services, 1G/10G routers, OTN and SDN software.

Backed by a solid gross margin in the first half of the year and the success of its upmarket strategy, the Group is confident in its goal of achieving a gross margin rate between 50%-55%, higher than industry benchmarks.

Meanwhile, Ekinops intends to continue its prudent spending policy over the coming months in order to keep expenses under tight control..

Given the opportunities for value creation that have emerged during the crisis, Ekinops should be able to step up its recovery once the effects of the crisis have subsided, before renewing its long-term goal of achieving growth of over 10%.

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1 Net cash = cash and cash equivalents – borrowings (excluding bank debt relating to CIR pre-financing and IFRS 16 lease liabilities)

2 On June 30, 2020, the Group finalized the purchase price allocation of Ekinops Brazil. Certain items were impacted by the retroactive effect of this purchase price allocation. The "December 31, 2019" column includes these impacts.

Financial reporting calendar

Date	Release
Monday, October 12, 2020	Q3 2020 revenue (unaudited)
Tuesday, January 12, 2021	FY 2020 revenue (unaudited)

All press releases are published after Euronext Paris market close.

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About EKINOPS

Ekinops is a leading provider of open and fully interoperable Layer 1, 2 and 3 solutions to service providers around the world. Our programmable and highly scalable solutions enable the fast, flexible and cost-effective deployment of new services for both high-speed, high-capacity optical transport as well as virtualization-enabled managed enterprise services.

Our product portfolio consists of three highly complementary product and service sets:

- EKINOPS 360 provides optical transport solutions for metro, regional and long-distance networks with WDM for high-capacity point-to-point, ring and optical mesh architectures, and OTN for improved bandwidth utilization and efficient multi-service aggregation.
- OneAccess offers a wide choice of physical and virtualized deployment options for Layer 2 and Layer 3 access network functions.
- Compose supports service providers in making their networks software-defined with a variety of software management tools and services, including the scalable SD-WAN Xpress.

As service providers embrace SDN and NFV deployment models, Ekinops enables future-proofed deployment today, enabling operators to seamlessly migrate to an open, virtualized delivery model at a time of their choosing.

A global organization, Ekinops (EKI) - a public company traded on the Euronext Paris exchange - is headquartered in Lannion, France, and Ekinops Corp., a wholly-owned subsidiary, is incorporated in the USA.

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For more information, visit www.ekinops.com