Exosens
HY 2025 Results

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Operator: Good day, and welcome to today's Exosens H1 2025 Results Conference Call. My name is Sergey, and I'll be your coordinator for today's event. Throughout today's recorded presentation, all participants will be in the listen-only mode. Later, we will conduct a question answer session. You may register for questions at any time by pressing star one on your telephone keypad.

Now it is my pleasure to introduce your host for today, Mr Laurent Sfaxi, to begin today's call.

Laurent Sfaxi: Thank you. Good morning, everyone, and thank you for joining us today. I am Laurent Sfaxi, Head of Investor Relations at Exosens. I am joined today by Jérôme Cerisier, CEO, and Quynh-Boi Demey, CFO, who will present you Exosens' first-half 2025 results and outlook. This presentation will be followed by a Q&A session so we can take your questions.

I will now hand over to Quynh-Boi.

Quynh-Boi Demey: Thanks, Laurent. Good morning, good afternoon to all. Our full year 2024 results, in our first year following our IPO, were very strong as you recall. We outperformed the guidance provided at the time of the IPO.

Now, the first half of 2025 has also started with strong momentum. In a very dynamic defence market environment, we remain fully on track to meet our full year 2025 guidance. Let me share with you a few highlights.

Revenue first. We are targeting a high teens revenue growth for the year. In H1 2025, we delivered €224.5 million of revenue, which is up 20% versus H1 2024. Our organic growth remains also robust at plus 13%.

Profitability. We are targeting low 20s EBITDA growth. For half-year 2025, adjusted EBITDA came in at €69.5 million, up 24% year-on-year. This represents a 30.9% EBITDA margin, which is 92 basis points improvement versus H1 of last year.

On free cash, we generated nearly €24 million during the period, with a cash conversion ratio of 76%, slightly above our guidance of 70% to 75%.

Finally, our balance sheet remains solid, with a leverage ratio of 1.3 times our EBITDA and strong operational cash generated from our operations, we have the financial flexibility to support our organic growth for R&D but also for capacity increase, but also to fund our bolt-on M&A operations.

I will now hand over to Jérôme, who will briefly recap who we are and what we do, and the key trends that shape our markets. After that, I will return to provide deeper insights into our financial performance.

Jérôme Cerisier: Thank you, Quynh-Boi. Good morning, everyone. First, let me summarise briefly what we do at Exosens, that would give you a brief. At Exosens, we make use of physical and chemical phenomena that are invisible to the human eye to create sensing, data and information useful to our OEMs and end-users.

We hold leading positions in our niches that are part of four value-added, fast-growing verticals: Defence, Industrial Control, Life Sciences and Nuclear.

We are a global player as our customers can be OEMs or armed forces anywhere around the world. We focus on applications more than on geographies and our technology is used globally.

We are a technology-driven company, with 7.7% of our revenues invested in R&D. We have an active portfolio of over 230 patents. We achieved, just as a reminder, last year revenues of close to €394 million, active in two segments that are Amplification and Detection & Imaging, both reflecting our high-end technology differentiated positions on fast-growth market.

I assume for now, most of you know a lot about Exosens already, so I propose that we focus on the current understanding of our markets. If you need more information, you'll be able to find it in the presentation that we'll not cover entirely today.

Let me perhaps focus on our markets, and starting with markets around Amplification. The night market vision benefits from strong underlying trends in defence budgets. It was officially that now NATO countries, not all of them had reached the 2% threshold that was pre-existing threshold before the conference in June. A new target has been set for NATO countries now 3.5% of GDP with additional 1.5% for, let's say, security-related, but we'll retain here 3.5% defence-related investments as a percentage of the GDP.

The 3.5% should be reached by the mid-2030s and the increase will fuel the short, medium and the long-term growth in defence. In Amplification, we provide massive, effective, and differentiated capacities to armed forces. As a reminder, we are the sole sizeable non-ITAR provider of image intensifiers and we have by far the fastest growing capacity in the world as was demonstrated over the last few years.

We see massive demand in the coming years, with growing budgets. Not everything set yet. We see already some armed forces considering changing their format, adding new tubes or talking about adding new tubes. But for the time being already, we see over one million naïve devices over the next few years with three main areas, in North America, where the penetration really today is estimated to be close to 100%, but mainly it's a replacement rate. It's more modern, more advanced equipments and more performing devices.

Europe where the night vision penetration rate is increasing and going to continue to increase from 30% to 50% as a target to a 50% to 70% in some countries, certain countries like Germany already targeting 100% of the troops being equipped.

In Middle East and Asia, where the penetration rate is more in the range of 10% to 30%, that is far from being rich as of today.

Furthermore, in NATO countries we start seeing consideration around reserve forces. So we do not talk anymore about only armed forces and land forces, but really about global forces and reserves are now being considered to a certain level for being part of the defensive force.

So in the coming years, we consider Exosens is very well positioned to capture an increase in demand in Europe, in Middle East and in Asia, but we aim at also gaining traction in the US market.

First, concerning the US. It is by far the largest single market in the world, which represents about 45% of the whole market. It's a very dynamic market where efforts of modernising land forces are constant and where we understand there is a sort of a form of a constraint production capacity. This is why we have chosen to implement a new factory for several reasons.

First to free up capacity in Europe so that Europe factories serve countries where ITAR-free is required, and these countries could be served from these countries where ITAR-free is required, will be served from Europe and countries where it is not required could be served from our US factory.

Second is on the US market itself. US is targeting – US is launching and having multi-year contracts, but also we also know penetrating in the US market could take time and we believe being on the ground there in the country will be a change for the longer term in this country.

Second, concerning Europe, a few countries like Germany, like Poland, like Finland, have plans to increase their armed forces. I mentioned that, but also their reserves. Other countries are already entering full multi-year programs with large volumes that had not been seen in the past. It is a case for example in Spain, in Italy, in the UK, in Greece. So we see these large volumes progressively being more frequent.

Finally in the Middle-East and in Asia, there are a few large countries that will constitute the bulk of the upcoming volumes, and here Exosens enjoys a very strong position, a key position as a supplier of high-quality exportable tubes.

The Group, for example, has a 30-year or close to 30-year-old partnership with BEL in India.

Now when we consider capacity, we are facing a growing demand and we have had since 2020 a staggered capacity approach with stages of capacity increases that have been decided over time. Between 2020 and 2024, our capacity will have nearly doubled but our output will have more than doubled and we did that in several stages. The last stages already announced, consists in increasing our capacity by 25% until end 2026, beginning 2027 in the US and Europe.

However, we are facing a growing demand because these announcements were made before the announcements of the GDP increase before the European, let's say, consideration about increasing budgets following the Munich conference. We are evaluating our further increase in capacity and we will make announcements in due time as we consider necessary. But obviously in end 2024, the market seeing stronger at the time of the EPO and today we continue to see a growing trend in this market.

We have demonstrated that we have the ability to increase our capacity. We have the cash and the financing necessary to do so. We have a staggered approach and so we will adapt constantly to the market and to the demand. Furthermore, our ability to increase our capacities also will be increasing in the future because we'll also be able to do that not only in Europe. We know two factories in Europe but also in the US with this new factory we're setting.

Concerning our D&I segment. The D&I segment is also enjoying a strong tailwind coming from the defence. On that market, we are targeting four main applications. Let me start perhaps with the two first ones: drones and anti-drones.

Drones and anti-drone devices have become a pillar of modern warfare following the lessons learned, let's say, from the return of identity countries, especially Ukraine, between Ukraine and Asia. We see this segment as a very fast growing sub-segment of our business in defence.

Our technology is a very good fit for short and medium range of surveillance. Actually the thermal and the cool and cameras are perfectly, they fit for long range, shorter range, more invisible in the visible world. That corresponds to medium-sized tactical drones, which units or programmes counts in the range of a few thousand units or few tens of thousands units in case for larger programmes perhaps concerning certain countries.

But the use of infrared and cooled and uncooled fits perfectly the purpose and it requires differentiated, well-integrated, high performance technology that Exosens provide.

So we have made a significant D&I sales to undisclosed customers in Europe, and we see this programmes and these subsegments really continue to pick up.

We expect in fact the significant part of increasing budget to fuel this drone and consequently the anti-drone warfare in the NATO countries.

Our other applications in defence, the two remaining ones are really around platforms and missile warning systems. These programmes come either through modernisation of existing programmes with optronics technologies of a new generation or for new programmes, generalisation of optronics on all types of platforms together with large equipment programmes.

So the visible low light cameras and the thermal cameras are becoming part of any new or recent platform, and the demand of these platforms is expanding rapidly, aligned with the budget increases, the reinforcement of the troops or the reinforcements of the land forces and put in capacity of the armed forces.

Key customers design-in wins add to the expansion of our business together with expansion within existing and current customers. Rheinmetall drivers' enhancement systems, for example, as well as Hensoldt missile warning systems in Germany and other NATO countries are fuelling and will continue to fuel the growth in the medium to long term.

In D&I, our markets are generally supported by strong underlying factors. As a reminder, we estimate that the medium term growth for this market in the high single digits range between 7% to 10%. And specifically in nuclear we have started sort of, I don't know, a super cycle. The world is a little bit of a buzzword, but this is what it is, and supported by the renewal of safety standards into the existing platform, so the existing plans.

The increase in electricity demand that is rising everywhere due to the electrification of the industry, of our societies, of transport and the emergence of new business models of SMRs. All of that has made nuclear inevitable and totally part of any modern energy mix, amount of the things. But nuclear is renewed because of these few, but strong factors.

In nuclear, we enjoy a strong position on all types of reactors, especially large reactors, but also SMRs we announced and we have had some way in 2024, but also research reactors. We have a unique radiation technology and we continue to develop and to invest into new developments, new products, especially on high temperature detectors for SMRs with new technologies of SMRs imaging.

What is now today's study, feasibility and qualification studies will be followed in a few years by production, and we see that starting by the end of the decade for some projects.

Industrial control enjoys a certain market recovery and prospects remain strong until the medium term. As we speak, the rise of artificial intelligence applied to production is fuelling growth, requiring more data, more information. We starting the end to the destocking in some industrial markets like sorting, as well as restart to certain level in CAPEX investments that should translate into renewed interest for optronics control systems.

This market is tempered for the time being still with the current reshaping of the US scientific market, but overall we see the trend in industrial markets as being more positive moving forward and we see that remaining high single-digit growth for the next few years.

Last on our life science vertical. We see still some softness with sustainable drivers for the middle and term, but when the uncertainties around the US research will have been resolved It's more about uncertainty rather than absolute levels.

Exosens maintains a huge strategic differentiation ensuring that we remain at the leading edge of the technology, the most adapted provider of detectors to our customers instruments. And in the short term, the Chinese market remains soft to medium oriented. The US Inflation Reduction Act slightly impact the pharmaceuticals, and some of our customers are actually seizing the opportunity of this market status to invest into new generations of instruments that will probably come to the market in the few years. We see them kicking in, let's say in two years, and the interest for Exosens progress is massive.

Thanks to our unique technological edge and our strategic choices, we see this market as continuing to fuel the growth over the medium term.

So overall perspective for growth for the Group on the business remain remains strong. And perhaps it's time to go a little bit more into details on how we did during H1, and I think Quynh-Boi will lead us through that.

Quynh-Boi Demey: Thanks, Jérôme. Now, let’s now look at how these market trends have translated into our financial performance for the first half of full year 2025.

As I mentioned in the beginning, we continue to deliver strong growth, but we also improving our margin. Revenue is up 20%, adding €38 million of revenue overall, €24 million from Amplification, and its driven by very solid defence investments and our backlog is strong at the moment and give us a very good visibility for the months ahead. And we also combined this with excellent execution with our factories running at full capacity and very high yields.

€20 million of additional revenue is coming from Detection & Imaging, mainly thanks to our acquisitions. Centronic, that we closed on 31st July 2024, LR Tech that we closed on 1st September 2024, and more recently Noxant, that we closed in March 2025.

Our adjusted gross margin had also grown by 22%, reaching 49.6% of sales, that’s up 89 basis points compared to last year. This adds about €20 million in gross margin, of which €16 million from Amplification and €4.5 million from D&I.

Now let’s dive into the details by segment in the next slide.

First, Amplification. The revenue grew by almost 18%, and it’s driven by three key factors. The first is sustained market demand, as Jérôme mentioned. Second is increased capacity thanks to industrial CAPEX that we consistently invested since 2022. And third, by our sustained high yields.

On the demand side, our growth is largely due to increased volumes of night vision goggles for land forces, and these night vision googles are powered by our image intensifier tubes. The war in Ukraine and high-density combat operations have made all armies realise that night missions are critical, and give a real competitive advantage to the armies that are properly equipped.

Now, thanks to the industrial investments that we have made since 2022, we've been able to gradually increase our production capacity. At the same time, our industrial yields have remained very high, with limited scrap and rework, as our interim workforce is now fully trained and fully effective. So it shows how our industrial excellence is delivered at Exosens while we are able to grow capacity, while maintaining a very high quality of our products with low return rates from our customers and a very low scraps at the same time.

We're also seeing steady demand for higher-performance products, and this translates into a better product mix for us. All of this leads to an improvement in our gross margin in Amplification of 276 basis point improvement year-on-year. The gross margin stands now at almost 50%, more precisely 49.8%, which is a record high for us.

Second on Detection & Imaging. We also grew by 23.6%, and driven by three factors. Two positive, one more adverse one. The first is, as I mentioned earlier, the external acquisitions that fuel our growth. Second is the negative impact from reduced US scientific research spending, as Jérôme mentioned earlier. And third is the increased market demand for defence imaging and detection applications.

As I mentioned earlier, a big part of our D&I growth is coming from our acquisitions closed in H2 of 2024 or H1 of this year. On a like-for-like basis, H1 growth is actually down by 2.5%, mainly due to a decline in the US scientific research investments. This caused a drop in Q1, which still affects Q2 by the way, but to a lesser extent. IF we exclude the US scientific research cameras, our underlying growth would have been in the low single digits in H1 2025, which is more or less what we had in H1 of 2024.

In Q2, we have seen a recovery in D&I with a 7% like-for-like growth. We have experienced a growing demand for imaging and protection systems in defence applications. For example, cameras on drones, long-range surveillance cameras that detect massive drones' attacks, and also missile warning systems on aircrafts or on tanks.

We have also benefited from positive pricing and product mix, which has helped us partially offset the negative volume impact.

All in all, our D&I gross margin came in at 48.7%, which is roughly flat compared to full year 2024 which was at 48.6%. However, this is almost a 3 points decrease compared to half year 2024, which was a 51%, which was very high. This drop is mainly due to the dilutive effect of our acquisitions, which on average about 10 points below our Group's margin. The EBITDA margin is around 20%.

Next page. EBITDA and EBIT. We deliver best-in-class EBITDA margin of 30.9% and an EBIT margin of 26.1%. That reflects our strong position in a market that demands high technology and very good sound industrial expertise.

While we drove both growth and margin expansion, we also kept control over our fixed costs, and as we benefit from scale effects. This has led us to improve our EBITDA margin by 92 points and our EBITDA margin by 142 basis point. Both EBITDA and EBIT margins have reached record-high levels for us.

Net income. We deliver a net profit of €27.9 million, which is a significant improvement versus last year which was at €2.9 million. Three points that I would like to highlight here. First half of 2024, included one-off impacted due to our IPO. We had close to €4 million of operational costs or operational IPO consulting fees that were booked in other income and expenses as you can see in the Note 1. We booked €13 million of one-off costs related to the refinancing of our debt. This is close to €17 million of one-off costs related to the IPO.

We also restructured our debt following the IPO and have significantly reduced our financial costs.

The third impact is our income tax which has significantly increased compared to last year as we increased our profitability.

Now on R&D, next page. We are industrial-tech company and at the core of model is our strong commitment to R&D, which is a key lever for innovation and to sustain our future growth.

Over the period, we continue to prioritise our R&D investment, and we maintain a very solid 7.6% of sales for R&D, which is consistent with our guidance of 7% and 8%, and this ratio is also very comparable to last year's 7.9%.

In absolute terms, this is gross R&D spend of €17 million, which is up €2.3 million versus last year. So it's an increase of R&D spend by €1.6 million, of which €0.5 million is due to our scope effects, primarily linked to acquisitions. As you know, technology is critical to our M&A strategy, and the integration of this M&A has also a direct impact on our R&D spending.

The remaining €1.1 million increase reflects our continued investment in strategic initiatives. And among other, there is the 5G project for Night Vision that is almost complete, for which we will commercially launch in September of this year.

We also continue to leverage external funding mechanisms for our R&D spend. Over the period, it represented €3.5 million of subsidies and grants received either from tax credits or from customers. And this is an increase of €0.7 million versus last year. This is fully in line with our strategy to co-develop solutions with customers as it helps us de-risk innovation, and also secure repeat business with our customers and strengthen long-term partnerships.

Our second strategic pillar of our industrial tech model lies in industrial excellence. As a process manufacturer, we transform raw materials into high-tech components. And in order to maintain best-in-class industrial assets, and this is critical for us to keep good leaders and operational efficiency.

On CAPEX, two points I would like to highlight. First, we made strong investments in 2022 and 2023 to meet rising demand and we ramped up production throughout 2024. While we expected a normalisation of our CAPEX, the sustained strength in the defence environment has led us to maintain a high level of CAPEX.

And as you can see, our growth CAPEX has increased from €7.2 million to €9.7 million. This reflects our commitment to scale.

Let me give you a few examples. At our Brive facility, construction is underway for a new building that is designed to house additional equipment. This is a key enabler for future capacity expansion. In parallel, we have also made targeted investments in critical tooling and machines that will directly increase our output and operational efficiency.

Second one I would like to highlight, our strategic investment plan of €20 million, that we announced in January. This plan is progressing fully on track. Technical and engineering studies are under way, and assets are currently being built. We expect the initial commissioning to begin during 2026 with the full capacity coming by mid-2027. This timeline will allow us a smooth and scalable capacity increase.

Free cash. Our performance was once again strong performance. We generated €24 million of free cash, which is in line with the level that we achieved in first half of 2024. As we increased our EBITDA, this positive impact was offset by higher working capital needs, which was expected given the 20% growth in our activity. A large part of this working capital is due to inventory buildup for H2 deliveries, in response to our sustained demand.

Importantly, we controlled our CAPEX carefully, even as we scaled operations. As a result, we achieved a cash conversion ratio of 76.1%, improving from the 74% of last year and exceeding our guidance of between 70% and 75%.

Finally, leverage ratio. At the end of 2024, our leverage ratio stood at 1.2 times our EBITDA. And even after closing the Noxant acquisition in March 2025, we've managed to maintain it at a conservative of 1.3 times our EBITDA.

With solid cash generation from operations, the refinancing at the time of the IPO with undrawn RCF of €100 million, we're in a very strong position to fund our organic growth ambitions, but also our bolt-on M&A strategy.

This concludes my review of first-half results, and I will now hand-over to Jérôme, who will briefly discuss our outlook for 2025 and the 2024-2026 period.

Jérôme Cerisier: Thank you, Quynh-Boi. Let me perhaps just remind you what we expect for 2025 and 2026. For 2025, we expect a continuing strong performance with revenue growth in the high teens and adjusted EBITDA growth in the low 20s compared to 2024. This implies a mild improvement in our adjusted EBITDA margin year-over-year on the full year basis. Until 2026, we expect '24-'26 adjusted EBITDA CAGR to be the high teens.

On investments, with additional investment of €20 million announced, we expect the cash conversion to be between 70% and 75% over '24-'26 period.

On the M&A we continue, we will continue our selective M&A strategy while maintaining leverage ratio of about 2.

As a conclusion, our H1 results show a strong performance. We are very pleased with this performance that showed sustained revenue, sustained profit growth driven by different tailwinds. But looking ahead, we expect these positive trends to continue throughout the remainder of 2025 and we consider today we remain fully on track to deliver our financial guidance for the year with this performance and the upcoming perspectives.

This concludes our presentation. I think we'll now be happy to take any questions you might have concerning this publication.

Questions and Answers

Operator: Thank you sir. As a reminder to ask a question, please signal by pressing star one. If you find that your question has already been answered, you may remove yourself from the queue by pressing star two. And please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, it is star one to ask a question. And the first question is from Alexander Peterc from Bernstein. Please go ahead.

Alexander Peterc (Bernstein): Good morning, and thank you for taking my question. The first one would be on Amplification. I would like to understand to what extent you are now becoming very capacity constrained in this business. So if you could give us an idea as to how far out you are currently booked, I suppose well into 2026? If you could give us an idea of what is the capacity by end '25? Is it midway between 190,000 and 240,000 that you have for end '24 and '26?

The second question would be on your intention to grow D&I through M&A. Would you not consider to put this on pause a little bit and direct all of your efforts into increasing capacity in Amplification where you have the biggest constraints at the moment.

Just finally, just a housekeeping one for Quynh-Boi on tax for the year. What will be the P&L tax rate and the cash tax rate? Thank you very much.

Jérôme Cerisier: Okay, let me perhaps first answer on capacity. So our capacity is growing as we speak under several factors. First is we work continuously on the improvements of our processes, our deals. So as we speak, the capacity is increasing. On top of that, yes, we had investments and we had machines and parts that we have to train.

Let me perhaps illustrate that the fact that the 20 million additional investment for capacity increase of 25% is shared between US. Europe capacity increase will come a little bit earlier because let's say the infrastructure is more. This is already in place in fact. So we consider that the capacity for the European part will be hitting earlier than the US part as soon as 2026.

Meanwhile until that, yes, we have these continuous improvements on capacity that should also be translated into our production output at constantly yield, which we always work on, but we have to be careful about yield so that can evolve over time.

Then reaching beginning of 2027, the US capacity will fully kick in and meanwhile we have the ability, as I mentioned, to decide further capacity increases that would hit simultaneously Europe and US from there on.

Okay, so I hope that translates your question, but we do not expect, let's say, a one-off capacity increase by 2027, but something more regular especially start - well it's already starting in fact, but it will add on and accumulate over the course of 2025 and mainly 2026.

Concerning CAPEX, capacity increase is mainly driven by operations. We have the financial means both finance our capacity increase, which is our R&D, which is our priority. We self-refinance in priority our organic growth, and also at the same time continue our bolt-on strategy.

In terms of internal resources, the CAPEX investments are driven by operations in an established organisation and are mainly in Amplification. While we still consider detection imaging is a priority for any potential M&A. So we consider that these topics can be run in parallel without impacting each other. The Group has a capacity to run these two strategic axes simultaneously.

Quynh-Boi Demey: I would add even if we wanted to, I mean increasing capacity is not possible. It doesn't mean that if you invest €20 million in organic growth for industrial CAPEX, you would accelerate investment because there are also physical limits to it.

Now on your last question on the tax rate, P&L tax rate and cash tax rate. Cash tax rate is around 20% depending on the jurisdiction where we pay our taxes. As you know in France we don't pay taxes and we still have deferred tax losses, but our industrial footprint has also changed with increasing D&I that is mostly outside of France.

In terms of P&L tax rate, we are normalising around 25% more or less depending on the jurisdiction where we pay our taxes as well.

Alexander Peterc: That's very clear. Thank you very much.

Operator: Thank you. As a reminder to ask a question, please signal by pressing star one. Our next question is from Aurelien Sivignon from ODDO BHF. Please go ahead.

Aurelien Sivignon (ODDO BHF): Hi. Good morning. Thanks for taking my question. Just to follow up on production capacity increase, could we start seeing an impact from Q4? I mean, will it be possible to exceed quarterly revenue of €81 million, €82 million in Amplification as early as Q4, or is that still a bit too early?

Then on H1 results, so it was sharp year-on-year in H1 but it increased versus H2 '25 I believe. So could you maybe provide some context or colour around the evaluation? Thank you.

Jérôme Cerisier: Okay. We expect H2 to be not smaller than H1, despite the intra health seasonality that we always see during the summer period. That means that the answer to your question is yes, we expect. In fact, the threshold you mentioned is not a threshold in fact and we expect it to be – I don't know how to say it, but we expect, let's say ourselves to be higher than this value over the last part of H2.

Operator: Thank you.

Jérôme Cerisier: There was another question.

Operator: It appears there are currently no further questions at this time, sir. With this, I would like to hand the call back over to you for any additional or closing remarks. Pardon, we have a pop-up question from Paul Valentine[?] [00:44:26] from Stifel. Please go ahead. Your line is open.

Speaker: Hello everyone. Do you hear me well?

Quynh-Boi Demey: Yes.

Jérôme Cerisier: Yes.

Speaker: Perfect. Thank you for taking my questions. Congratulations on these good results. My first question is about Detection and Imaging, specifically is life science, industrial control and nuclear segments. I was wondering how much visibility do you have with your customers in this sector? I mean, how long does it take to clear your order book with them on average? Then maybe your answer first, and then I will ask my second and third question.

Quynh-Boi Demey: D&I is a short cycle business. The typical lead time between the time we book an order and we deliver is two to three months very short. At the same time with our design in approach, we know that when we are design in, the customer will buy from us as long as we sell their own products because we're designed in, so we share forecast with our customers but without necessarily PO or frame agreement or firm contract, if you wish.

Jérôme Cerisier: Yeah. So as a consequence, when we sell our products to our customers based on the fact that themselves, they sell it to the end customers and because the cycle is short, we follow this trend. However, the repeatability is ensured on the very long term for the license of application 10 years, 15 years only based on the design-in that we managed in the first phases. This is why I mentioned earlier in the market section that when we see some customers seizing the opportunity of the current market status to actually invest into new generations of machines, that mean that it's a time when we are getting design-in and then we know we will have repeated revenues for a very long period of time.

Quynh-Boi Demey: This will apply by the way also for defence application in D&I, the same model.

Jérôme Cerisier: Yes.

Speaker: Thank you. Very clear. My second question is about the Amplification segment. Organic growth was only 8% in Q2. Which market was slightly slow down, most likely temporary. Is this due to a wait attitude from customers preferring to wait for the next generation of tubes to be released in September? Or is it related to temporary capacity constraints and bottlenecks on which we are working on to keep growth at a higher rate?

Quynh-Boi Demey: This is more the base effect of the Amplification business. As you know, 2024, we increased our output throughout the quarter. So Q1 went lower, Q2 we increased and so on and so forth. That's the reason why we have the base effect that has impacted us in Q2 this year. But at the same time, Q3 last year was also very low. We saw close to high teens decline versus Q3 ’24 versus Q2 ’24. This year we have a plan to manage the summer closure as well.

Speaker: Okay, thank you. My next question is both new capacity increases being considered for 2027 and beyond. I guess I imagine you are keen to increase capacity to meet demand while being at the same time careful to not to increase it too sharply in the short term to ensure that in the long term capacity is always used at a good utilisation rate. My question is, under this decision making process, do you prioritise growth even if it means taking probably possibly the risk of creating over capacity in the long term? Or do you prefer to guarantee a high level of margins like today in the long term by increasing capacity very gradually, even if it could mean taking the risk of losing a small amount of market shares, not totally following the demand increase in the short term. You see my point?

Jérôme Cerisier: Yes. Actually the capacity increase is a complex phenomena, because when we manufacture tubes, in fact we have over 460 different steps. So when we say capacity increase is more adding here and there certain machines, but with the different stages we do not add exactly the same ones.

Having said that, there is one constraint in the capacity increase that is coming from the ability for our suppliers to provide the specific machines that are proprietary. This is what is spacing the capacity, not a choice between two different strategic directions. We have the capacity to add these suppliers to run the capacity as we wish, but this is the main constraint. It takes 18 to 24 months basically to install the capacity. This is why anyway, we have to take our decisions early in order to see the results between the next 18 to 24 months.

Speaker: Okay.

Operator: Thank you. We have a follow up question from Alexander Peterc from Bernstein. Please go ahead.

Alexander Peterc: Yes. Thanks. I just two follow ups. One is on 5G. o you have any update to provide on that? Do you have anything to share in terms of technical specifications to your merit increase versus 4G plus?

The second question is, you say in the slides that you're now eligible for US DoD contracts, thanks to your new US-based plant. Do you intend to start shipping the US DoD as soon as that plant is on stream? Or will you first address ITAR-compliant markets outside of the US? I'd just like to understand to what extent you need to jump through any hoops to be able to start delivering to the DoD, get the products validated? Or is that already done? Thanks.

Jérôme Cerisier: Okay. Concerning the 5G, the development is ongoing. We have now reached the qualification phase. It's going well. We still plan to launch commercially this product after the summer. We are on track and fully on track to deliver that. I don't think we have officially disclosed any performance data sheet. But we are, let's say, on track to our plan, and we will see the opportunity of a national or an international gathering of customers to launch it commercially beginning of mid-September. It's mid-September. So we are on track on that.

Concerning the DoD capacity, well, there are two things in making business with the DoD, is first you have to be compliant and allowed, and this is our case because since years we have been delivering devices to the DoD, not night vision devices, but electronic amplification devices to the DoD, and that is done through a special status for our affiliate, which is necessary. We have this compliance is proven.

The other part is we need to gain business, so that we can ship to the DoD. But it's fully understood that the first shipments to the DoD, should they occur earlier than when the factory will be ready and be able to ship would occur from Europe. It's fully accepted and fully understood. We started and we continue to start the business development in the US, which is, in a way, can be served from Europe for the time being until we are fully installed and in capacity in the US, which we still plan for beginning of 2027.

Alexander Peterc: Thank you very much.

Operator: Thank you. Now it appears there are currently no further questions. With this, I'd like to hand the call back over to Laurent Sfaxi for closing remarks.

Laurent Sfaxi: Thank you. Thank you again for joining this call today. We remain at your disposal should you have any further questions. We wish you a very good day as well as a great summer holiday. Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

[END OF TRANSCRIPT]