

ALTEN

Conference on turnover for the 4th quarter of 2022

TSC Anglaise

Moderator

Welcome to the ALTEN conference on our turnover for the fourth quarter 2022. I will now give the floor to Mr Bruno Benoliel, Chief Executive Officer.

Bruno BENOLIEL, Chief Executive Officer

Good evening, everyone. Thank you for taking part in our remote conference about the business in 2022. As you have probably noticed in the figures we published tonight, our growth is still quite significant despite a base effect that was difficult in the last quarter. France only represents only 31% of the turnover of the Group compared to 35% last year. Our turnover at the end of 2022 is therefore EUR 3.781 billion, a 29% growth compared to last year's EUR 2.500 billion, with a growth of 37% outside France. With the same scope our activity has gone up by 17.7%, plus 12% in France and plus 20% outside France. We acquired business this year that represented a third of our growth and the exchange rate increased this growth by a further 2%. During the first quarter, our turnover was at EUR 999.9 million, so slightly below EUR 1 billion. Our growth is 9.6% in France and 34.3% outside France. Our turnover went up by 14.9% during the last quarter, 9.6% in France and 17.6% outside France.

The business rates of the Group are still quite high, 92.2% in the last quarter, which means an average of 92.6% throughout the year, so slightly better than our normative rate of 92%.

The number of engineers grew in 2022 by 10 350 people, 6 577 in organic, 750 people in France and 5 847 outside France, so about 3 700 of them came from outside France. At the end of 2021, we had 42 300 and at the end of 2022, we have 54 100, including 47 500 engineers, with 1 100 in France and 36 400 outside France.

Moving on to geographical areas, our activity have evolved as follows. In France, as in most other geographical areas, the progression of our activity has softened but more slowly compared to the last trimester. Nonetheless, the growth of the automotive sector in France, which represents 14% of our turnover in France, has accelerated throughout the year, going from 2.16% to reach 9.5%. The aviation sector in France has risen by 27% and 42% outside, and other industries 25%. The retail sector has risen about 30%.

In Europe outside France, our business is growing significantly, by much more than 10% as you have just seen, except for Switzerland. Our business resumed quite clearly in Germany, in automotives, energy and life sciences, rising by an average of 30%. In Spain and Portugal business growth was 22% and all the sectors in that area are growing strongly, tertiary sector, defense, finance, safety, security. Growth in southern Europe, in Italy, is still quite high at more than 25% for the third year in a row and like Spain and Portugal, with all sectors growing including finance, tertiary, automotive, defense, security and telecommunications. There was still strong growth in the UK at 27%, and only decreasing slightly at the end of the year because of aviation, defense, security, tertiary sectors. In Belgium, Luxembourg and the Netherlands there was 16% growth, 60% from the

Netherlands, with automotive, electronics, semiconductors and energy the best performing sectors. By contrast, Belgium's growth is much slower at only 5%. Growth in Scandinavia has rebounded after the third quarter at 9.6% for 2022, thanks to strong growth in automotive and heavy goods vehicles. There were the same effects as in France. This rebound took a bit longer in the automotive sector, which is why the expression of need and activities changed in these sectors, in particular for heavy goods vehicles. The business in Eastern Europe is at 38%, so also quite good thanks to Poland, which represents two-thirds of the area and where there has been 50% in all sectors. Romania, which is a third of this geographical area, the growth was 20% thanks to the automotive and energy sectors.

Outside Europe, in North America, a significant part of the Group's turnover, there was 18% growth. This growth decelerated throughout the year because of the unfavourable base effect. Looking at it per country, in the US, 80% of our turnover, there was significant growth, with strong growth in automotive, finance, aviation and telecommunications. In Canada, the aviation and banking sectors represent more than half of the turnover for the region and have increased very significantly, by more than 50%. Mexico represents 2% of the region because it also does work for the US automotive sector, but we also have an activity that is booming in this sector for local clients, most of them Mexican branches of American companies.

There was 30% growth in Asia-Pacific and per country, China represents 36% of the region, and they have had 36% growth, mainly due to the automotive sector. India is 30% of the region and had 40% growth thanks to the tertiary sector, semiconductors and automotives. Two smaller countries worth mentioning here are Japan, 9% of the region, with growth of more than 20% thanks to the finance and semiconductor sectors. While Korea is 8% of the region and had 30% growth thanks to the automotive sector.

There was strong growth in almost all these geographical regions and growth has continued despite this effect and it has not slowed down. Most sectors are growing even if at different paces.

If we look at our main business sectors, the share of the Automotive sector is now 17.4%, it has gone up by 27%, which is strong growth, all constructors combined, but especially the German ones, except for Daimler. The same for OEMs with strong progress for our German branches in particular.

2.6% of our turnover, which was impacted by a reorganisation by Bombardier.

There was 45% growth in Aerospace, which was of course because of the rebound after the pandemic. It is mainly driven by Airbus but also by OEMs, who are having an even stronger recovery, because we have Rolls Royce, Thalys, Safran, etc., who are all doing quite well.

The Aerospace industry represents around 2% of our turnover and grew by 10%.

Moving on to the Defense, Security and Naval business, which is 5.5% of our turnover. There was a 14% increase thanks to the major clients in the sector and we are developing our business quite significantly for them.

Energy is 8.8% of our turnover and has had a quite small and slow increase, for reasons that are specific for each sub-sector. Oil and gas have continued to go down at a rate of about 10%, made even worse by the situation in Russia during the first quarter. As a reminder, I think I have already told you that Russia represented 21 million of turnover in 2021, so it is not that significant for the Group, but we lost almost all of it in 2022. The nuclear sector is 2.2% of our turnover and is still growing by 5% despite recruitment difficulties in the sector. We are still expecting significant progress in the nuclear market in the light of all the new reactor programmes in the pipeline, which we will know more about in 2024 or maybe the end of 2023. There have been no consultations on this so far. Energy Equipment, 2.6% of our turnover, has risen by more than 22%. Life Sciences grew by more than 9% in OEMs, pharmacy and healthcare equipment. Industrial Equipment grew by 8.5%, mostly driven by electronics and semiconductors. Lastly, Telecommunications represent 5.6% of our turnover and growth was slower compared to the rest of the Group with business declining among

some operators. There was significant progress with some foreign operators but less in France with our historic operators. We have 20% growth among OEMs.

The Finance sector represents 10.4% of our turnover and grew 16%, mainly in North America and South America.

Retail, E-commerce and the Public sector is 18% of our turnover and grew homogeneously by more than 18%.

As you can see, apart from Oil and Gas, 96.5% of the Group's business is growing and our business grew strongly in most of the sectors we cover.

Moving on to external growth, ALTEN bought eight companies in 2022, of which four were acquired in the last quarter and those are the ones I mentioned during our last conference in October. We closed the deals on the SPA projects that were being negotiated at the time before 31 December, so we have acquired several companies since the end of October. One in Romania specialises in software development and does IT consulting, with 300 consultants including 130 externally, and a 13 million turnover. In the US we acquired a company in project management, and we already have PMO business locally which it will be added to. They have 65 to 70 consultants and should have a turnover of EUR 14 million this year. Their specificity is that they only intervene in the aviation sector, which is a sector where we do not have a US presence and so it gives us a foot in the door to develop in that field. In India we bought a product engineering company with 300 consultants, which also has branches in the US. Then in Germany, we do not have a big presence in the telecommunications sector, which is why we bought a telco expert company. They develop 5G infrastructure and offer network strategies, with 290 consultants including 65 external, and a EUR 20 million turnover.

We also finished the divestment of the CIPRAM Group, which we announced in September as part of our activity of the month and the divestment was effective as of 31 December. As a reminder, the CIPRAM Group is made up of several companies in the US and Europe and the companies we sold had a business model that was quite different from ours. They were selling software services and providing advice, which is profitable but not exactly what is at the heart of our business. We will use the funds released to reinvest in 2023 in our core activities and probably in the US as well, because we want to strengthen our engineering business. As usual, we are looking for companies that have a technical back office in India and a front office in the US. For your information, the consolidated turnover of the CIPRAM Group represented EUR 147.1 million in 2022 in IFRS 15, EUR 35.4 million in Europe. As you know, the price is not something we disclose.

Regarding 2023, it is too early to tell you about the growth we expect, so I will not give you any precise guidance, we will know more throughout the year. We received the first consultations and call for tenders starting from 10 or 15 February. I can say that the end of last year and this January are in line with what we observed in 2022. As usual, we had quite a high number of resignations at the end of the year, as we do with every end of quarter. There was nothing more significant than we have observed in the last few years, and maybe even slightly less than in the past, so the business level in January will be aligned with that of January 2022. The organic growth rate in 2021 and 2022 will not be replicated but our business has nonetheless grown. Our embarked growth is about 7%, so unless we buck the trend in 2023, which is not what we expect despite the pessimism of some economists, ALTEN should have organic growth over 7% in 2023.

If there are any questions I will be very happy to answer them.

Emmanuel PAROT, Gilbert Dupont

Good evening, Bruno. I have three questions. The first is will the turnover for 2022 include all the acquisitions and take into account the transfers? On the embedded growth for 2022, does it include the volumes and prices as well? Third, regarding the second quarter margin, you mentioned a 10.2%, 10.5% margin, so it is kind of shrinking because of the timeline and the pressure on the raw margin. Are you still on it, do you agree?

Bruno BENOLIEL

I am not able to specifically answer your three questions, but I will try to be as accurate as possible. I cannot really tell you about the integration of the activities and the full turnover because some acquisitions were made over the year for which the full-year accounts have not yet been closed and the turnover for the first quarter of 2022 that we have integrated over the year is not necessarily reliable. I could give you a ballpark figure, but I cannot really communicate this information right now. Most of the companies we acquired have management models and bookkeeping that are a bit like the work of craftsmen, and it can take a few months to actually set up a number of tools, not necessarily ERPs, but management tools and training them. Then there is a consolidation period so that we can match the Group's standards.

On the embedded growth for 2022, it is only for the volume not for prices. I will explain how we calculate these embedded prices. We look at the situation in December, we look at the payroll for the last week of December and include the resignations from December as being employees who have not resigned. Then we need to have some recovery, just like we had in June and July, to look at the resignations that took place, so we look at the payroll for the last week of December. I am thinking of the engineers here but also subcontractors, external people because their number is growing, which is something we have developed internationally. Even in France, there is a definite relation to work in the IT world for younger people where some people would prefer to be subcontractors than full employees. The percentage of the staff in ALTEN is still low but we have observed that trend. We look at the internal and external engineers' payroll, and the turnover and then we transfer this information for 2023. That allows for a lower average price, so the embedded growth includes the volume of activities for the end of 2022 and not the average rate for the full-year for the volume at 31 December with December prices. Therefore, the higher prices in 2022 are part of the embedded growth but to be very accurate, the higher prices do not necessarily take place on 1 January 2023 as there are ongoing discussions and we have not made any forecasts for prices, so it is not part of the embedded growth. It accounts for 7% and then if we have higher prices they will be added to that.

I cannot give you an answer on the margins for the second half, but I would like to give you some indications over the year. We will have a margin level for 2022 that will actually be very satisfying. I do not remember the number you mentioned but it will be pretty high.

Emmanuel PAROT

What was the estimate?

Bruno BENOLIEL

I do not remember exactly what you said. We had an 11% margin for the first half, if I am not mistaken.

Emmanuel PAROT

I had 11.4% but you said between 10.2 % to 10.5%, or at least that is what I wrote.

Bruno BENOLIEL

Yes, exactly. I do not have the final numbers yet, so we will have a call on the turnover and the margin, but it will be the higher numbers or at least we will be close. There are decisions to make on projects that took place during the year and there were a lot where we will be closer to the higher estimates.

Laurent DORE, Keppler Cheuvreux

Thank you and good evening, Bruno. I have several questions. There were three mergers and acquisitions, so could you please tell us about the additional payroll in the fourth quarter 2022? Second, I understand it is too early for prices, but could we have an

estimate for the pay rise for 2023 versus 2022? We are getting off to a good start but in terms of visibility are there any differences between sectors and is there one that we should be careful about?

Bruno BENOLIEL

I will answer your last question on visibility first. If we look at all sectors and our growth last year, we can see that it differs from one sector to another and shows certain trends, even though it is not as significant at the end of the year. However, there is no disruption and there are no specific red flags, for example, we cannot say that the automotive industry is slowing down. There were some trends in France but only in France and we have strong increases in banking and finance for example. Today, there are no particular red flags, so I am not saying that will be true for the whole year, but we addressed that during the first Executive Committee and there are no signs of a slowdown.

Laurent DORE

In terms of recruitment policy, the message we are giving to our teams is that recruiting that we did in the last few months or are you just waiting for confirmation in February before actually stepping up recruitment?

Bruno BENOLIEL

There is not much change, our teams can continue to recruit on our projects. We are looking at some backgrounds and specific qualifications required by the market. We have what we call a skill matrix for engineers, for example, and when an engineer matches that skill matrix our teams can recruit them even if there is no project. We have not changed our recruitment policy, which means that if there was a slowdown in our activities we will adapt. Recruitment is decentralized, outsourced, so managers have in mind our objective of 7% to 8% inter-contracts, which they are always trying to reach, and we calculate the expected margins from that. The adjustment is made sort of automatically and if there is a signal then the managers have to slow down or no longer recruit, or they can lay-off engineers who are still on their trial period. It is a natural way of working because we have a very large Group, so the power is decentralized and there is not just one policy. In terms of monitoring, we have this inter-contract monitoring at Group level, so we know how many we have and in which areas, so where the share of inter-contract goes beyond 8% or 9%.

I do not know if that answers your question, but we have not decided to stop recruiting because we still have recruitment needs and it is one of the main concerns of business managers. I will give you the figures for recruitment in the last quarter, in 2022 organic recruitment. We only acquired one company in the last quarter of 2022, which we had bought in the first half based in Australia, and there were 42 engineers, and the rest are 40 subcontractors. We have 1 158 people, 220 in France and then 938 outside France.

Laurent DORE

Do you already have the payroll for the last quarter?

Bruno BENOLIEL

No. I have not done this in order to be in line with the turnover, we like to be consistent with the turnover. If we look at the turnover for the last quarter, the latest acquisitions in Germany, the US and India, there was no consumption.

Laurent DORE

Would that be for the first quarter or later?

Bruno BENOLIEL

Let me check. The companies we bought in India with US front offices should be included on 1 January. I say should because it will depend on our team's ability to integrate them with the relevant tools, otherwise it will be on 1 April. The company specializing in civil and military aeronautics in the US is actually a spin-off and we bought the military aeronautics part, and that will be on 1 April. It will be the same for the Romanian company, where they do their bookkeeping on Word and Excel, so they will only be integrated from 1 April onwards. We have been talking to the German company for a while now and we know their internal systems thoroughly so that will be dealt with by our team and integrated from 1 January 2023, so the company will be officially transferring.

Laurent DORE

A last thing, what can you say about pay rises?

Bruno BENOLIEL

I cannot give an accurate answer to that because pay rises differ from one geographic region to another and they will not even be the same in all EU countries. Outside Europe, there will be 10% or 15% pay rises in some areas and we are negotiating a 17% rise in prices, while in others it will be between 5% and 10%. It does not make sense to give the average pay rise today given the Group's diversity. We are looking at a development of the price/pay ratio to see whether the raw margin is deteriorating, and I do not have that information today because it is too early. I am currently looking at some hypotheses and our Finance team looks at the budget and forecast and are usually very cautious, by which I mean they anticipate pay rises not price rises. We are no longer in a situation where everything was under control, in some environments and some areas there was no inflation, so the business models were very much controlled. Now we have inflation and managers have to fight with clients over prices, even though there are commitments over several years. Some groups are actually for pay rises and asking us for solidarity by lowering our prices, while some people have accepted or will accept higher prices, but we do not have the exact numbers. Finance people have to take a cautious approach but at the same time one that is valid across the business. Some people have budget hypotheses including pay rises and no price rises and that is something we cannot use because it is not economically viable. I have no more information on the pay/price ratio and hopefully I will have more in February.

Eric MATTA, Societe Generale

Hello, Bruno. I have several questions and the first is on APAC. There is a slight slowdown in Asia-Pacific with a sequential decrease for the third and fourth quarters. I wondered if there was a specific reason for this, a project or country in particular? Second, with regards to semiconductors, there are a lot of disruptions for B2C consumers. I know you said that there was no significant disruption, but do you think it could have an impact on the business and turnover? Last, regarding the M&A pipe for 2023, I know you have already done four but is it acceptable at the beginning of 2023 and what do you think could be done in terms of M&A this year?

Bruno BENOLIEL

On the M&A, we have six companies in the pipe today, in Asia-Pacific, North America and even Europe, and they are the usual size, with only one over 1 000 employees. Some of these deals will be signed and others will not but I cannot say how likely it is that all or none of them will be signed but I might be able to tell you by the end of Q1 or S1. The only thing I can tell you now is that the biggest one is a more significant deal, and, unlike the others, it is not exclusive so there is competition for this acquisition. They do not want to tell us who competition with us, but we do know there is only one remaining competitor, but if it is a hedge fund our criteria are different.

Eric MATTA

Is this a company you have had on your radar for a while? I know you have been discussing this acquisition in Germany for some time, so is it the same for this one?

Bruno BENOLIEL

We started discussing this in Q4 2022.

Eric MATTA

Have you been hunting this company for a while?

Bruno BENOLIEL

No. I am saying that we identified it during the second semester 2022 and started discussions with them during the last quarter.

Eric MATTA

Okay, so it is brand new. I was not sure I understood.

Bruno BENOLIEL

That is it for what is in the pipe. We are having discussions with some others, but I cannot tell you what exactly is going to happen in 2023. To be precise, this is the number of companies today that are in new deals.

On the semiconductor question, at Group level we have nothing showing a decrease in activity for now in Europe or Asia, so things are working out so far. It might slow down a bit throughout the year, but I do not currently have any red flags, but I will let you know if something happens. Semiconductors and electronics represent 2% of our turnover so it is not a major share. We have clients that are doing well so it is not much of a problem.

For Asia-Pacific, there has been a slight decline in Q3 and Q4 for local business, mostly in Japan and India. There are also comparison-based effects that need to be taken into account. It also depends on the business policy, there are areas where salaries are going up very significantly and this is one of them. We also choose to protect our margins, so we also try to increase prices and there are places where that does not work so we sometimes lose calls for tenders. This does not mean the number of leads has gone down, we see that through CRM, but the number of deals that actually take place has gone down. It is the comparison effect that is not always very favourable in that area, which explains the sequential decline.

Eric MATTA

One last question, you say that subcontractors are a small share of what you do, what is the figure?

Bruno BENOLIEL

It is between 7% and 8%.

Nicolas DAVID, ODDO BHF

Good evening, Bruno. I have several questions. First, regarding cash collection at the end of the year, how did it go, did your clients pay on time? Second, you mentioned that automotive has accelerated throughout the year, can you tell us what has driven this increase, does it continue, and do you have visibility on the sector in 2023? For Daimler, which is an inactive client, is it a bit less proactive on some projects? Last, could you comment on Gérald Attia and the resignations? Will this have consequences for top management and what can we expect to happen this year?

Bruno BENOLIEL

On cash at the end of the year you will see that we have done quite well, regardless of the cash that comes from the transfer of some companies, and we cashed in a lot at the end of the year. I do not think we will have the same level of DSOs as last year because we have clients in the industry and always in the same sectors, who do not pay on time. However, we make sure that we get most of our payments by the due date and we have had a rather better level of cash at the end of the year than we did in June. You will see that when the figures are published in a few weeks' time.

Regarding the automotive sector, there has not been that much of a slowdown, but it took a bit of time to start in Sweden and France. It is mainly Stellantis in France rather than Renault and in Sweden it has not yet bounced back. From the third quarter, the business started again in Sweden so there were many more calls for tenders in June than in previous months. All three of our main clients in Sweden, Volvo Powertrains, Geely, which is Chinese and Volvo Trucks, simultaneously started to invest again, which means that there has been increasing activity in Scandinavia even if it had already bounced back elsewhere. These are significant accounts, and our local business bounced back for Renault in France as well, so we have had an increase in the number of projects managed in France compared to those managed offshore. The overall increase in activity at Renault was significant, from less than 5% at the beginning of the year to over 15%, which also explains the boom in the automotive sector. It is not a general one because everyone has been doing quite well since the end of last year, it is really linked to this particular geography.

When it comes to Daimler, we are honestly wondering, and we are not in touch with our competitors on this topic. Like everybody else, they do R&D, and they are probably investing quite a lot of money. I do not think they are doing everything in-house, so it is either a question of the number of subcontractors continuing to be low, so they are not growing, or they are working with a few subcontractors for R&D, and it appears we are not one of them. There is no referencing procedure, like we have for Volkswagen for instance, which is in our top-three clients, and we might not actually be good with that client. That is something we also need to consider, and we need to understand what is happening with them. When other clients were not doing much work there was nothing to compare that situation to because they were not any different, but it is now true that in Germany in particular people are investing and that does not seem to be the case for Daimler.

Honestly, I do not know but maybe we are not so good and possibly TPS and Infosys are the OEM they have asked to do the engineering in India. That is possible because we are increasingly familiar with the Indian market, we have several targets and last year we acquired EGS, which works with direct offshore. This means that they are not the subcontractors of European companies, they directly target European and American client accounts with a front office that is usually made up of Indians and they bring projects back to India. This could be part of the explanation, but I do not think it is the only element because I do not think that Daimler is sub-contracting everything to India. It took them a long time to accept the idea that they could use subcontractors, while the French were quite advanced in that field. The Germans do not like to do that because of nondisclosure issues rather than for price issues. We started to develop an offshore business with that client, and it took a while to start, and it is not often used. This is part of German culture and I do not think that Daimler is any different.

Nicolas DAVID

Thank you for this explanation, we need to keep an eye on this.

Bruno BENOLIEL

I did not answer your question on Gérald. He thought he would resign in two or three years and, as you know, he arrived around the time the Group was created, and he spent more than 30 years at the head of the Group. He was the administrator and he wanted to go to the US two or three years ago. Then an opportunity came up and it was not something he

could have planned, and he thought it could be a last experience that would be very different from the one he has had at ALTEN, so he took it. He is going to be the head of an American company for two to three years. It is a personal decision, and he is leaving the Group earlier than he expected. In terms of restructuring the scope he was in charge of, the Asian people are now directly in touch with Simon, who is also in charge of the US part. The engineering part, which is the most important, is now under a Director who manages part of France and part of the UK, and there are synergies between these different areas. Eastern Europe is now under another Director who manages part of the activity for Defense, and he took over a company that Gerald was managing as a transition before it is transferred to someone else. We might also hire someone because we are looking for executive managers, for obvious reasons. In a way the scope Gerald was in charge of had developed historically, as is often the case in groups, and it will not be exactly the same in the future. This does not create any major issues in terms of the smooth-running of the Group's business. It is very weird not to have him around. We had a Board of Directors meeting, and it was very strange that he was not there. It is his choice, he wants to have a different kind of fun for the last three years of his career and it is what it is.

Gregory RAMIREZ, Bryan, Garnier & Co.

Good evening, Bruno. The figure for net staff hiring for the fourth quarter, 858, is something we have not seen for two years. I wondered if this means we are back to business as usual in terms of the growth of headcounts or is there a link to more people than expected leaving? Could you also clarify the engineering headcount, which you mentioned several times? Does it exclude subcontractors and freelancers, or do we also need to add a sort of FTE for them, which would mean it is different to the commercial increase?

Bruno BENOLIEL

The engineering headcount I told you about is the people internally, I never include freelancers because they are not employees. The Group has never had a policy to resort to freelancers to optimise the business rate or vary costs because our margin on a project is higher if it is carried out by employees rather than freelancers. Even if some freelancers are with us in the long run, we are not in charge of their careers and even though they can get training if necessary, they are not part of our training programme. The message company we bought in the UK has all our freelancers and today we are trying to use as many in-house people as possible. The share of freelancers has always been proportional to the number of engineers. It was at 5% and we are now at 7% or 8%, which means that when we measure our turnover, the number of people resigning, of course we take freelancers into account, but we try to maintain this ratio. We do not intend to have 15% of freelancers or go down to 5% next year, so it does not have much of an impact for the forecast for next year. I hope I answered your question, but our headcount only ever includes employees.

Regarding recruitment, we had 1 150 people during the fourth quarter, slightly less than the year before. This does not mean we have more people leaving, which was in fact lower during the last quarter of the year as a result of the increase in salaries throughout the year. If we were to go back to business as usual in terms of recruitment, it depends on our business, the growth and the additional growth we manage to generate in 2023 on top of embedded growth and if we manage to win new deals.

Gregory RAMIREZ

That was very clear, thank you, Bruno.

Derric MARCON, Societe Generale

Sorry, about that Bruno, it is not that I want to prevent you leaving for the weekend. Given the size of the Group, its worldwide footprint, your exposure to North America as well as Asia-Pacific, what did you see when you did the modelling for 2023? Will we have this seasonality, what do you think about it compared to 2022?

Bruno BENOLIEL

We do not have different US and Asia-Pacific region models. I would say that in our invoicing model, because we need to draw a distinction between the invoicing model and the level of commitment for the management of invoicing, even when we have a world package clients prefer us to invoice for the whole month or the time spent, so we are very sensitive about the number of hours we can bill. That is kind of the opposite today, that is not so much the case in Europe and France because there are some work packages where rather than bill the work unit it is more like deliverables so we can erase the impact of time spent. Since we have limited fixed prices, it does not actually have an impact on the fact that we can remove the time spent element.

We have 1.5 fewer office days and in France, two days, and that is the most important country even though it is 30% of the turnover. May is what we call the highway and with remote working and the holidays, people might not go back to work I have heard and it maybe the best time to actually pass the retirement law in France. In countries in Asia-Pacific or the US do we have swings of office day in comparison to France? The maximum in France is five days, which is a lot because 248 and 253 could never happen in France.

Derric MARCON

No, but you have 250, 251 and the highest would be 253.

Bruno BENOLIEL

Yes, 254 once in recent years. We are going to lose 1.5 days in the US next year and two working days in Germany. They have different calendars in north and south Germany, and the same in Spain. We are losing two days in Scandinavia and one working day in Spain, and they already do not work much and will work even less next year. We are losing 1.5 and 1.6 days in Italy. In Asia-Pacific it will be one day. On average it will be 1.5.

Derric MARCON

That is interesting, thank you. You can now leave for the weekend.

Bruno BENOLIEL

I am not in a rush.

Louis LU, BNP Paribas Exane

Just a quick question on utilisation and churn, what was it in Q4, as well as exiting December, is it coming down? Second, what is your current offshore exposure and going to 2023, what are your offshore additions? Finally, could you talk more about what you are seeing in the competitive landscape? Are you still seeing high accommodations from the large Indian players coming to Europe as well as staffing agencies such as ADECCO?

Bruno BENOLIEL

I will answer your question slowly to make the translation easier or I can also give an answer directly in English if you like. I will give the answer in French and if it is not clear I will answer in English.

During the last quarter, the turnover was slightly better than the rest of the year, which is a good sign. It also shows that the loyalty policy we have tried to implement is working in a way, since our turnover went up 30% and on the last quarter at Group level we are at 27% to 28%. That is still pretty high because we would rather have a staff turnover of about 22%, which is ideal if we look at our business model. The current labour market context, which is across the world not just in Europe, the US or Asia-Pacific. The labour market is kind of tense worldwide and engineers are being recruited everywhere and approached.

As for offshore, we have about 5 000 engineers who are working for US or European clients. Our objective is to develop offshore in two different ways, either winning new projects that could be onshore or offshore for our current customers when there are obligations in terms of productivity prices that prevent us from doing them locally. In that case, to not lose a client or a project and to try to avoid some processes of cannibalisation, we can offer offshore projects, even if we do not have all the required skills that we have locally in our delivery centres. Then, we want to continue to acquire new companies in India and the US with technical back office in India, with several thousand people, and a front office in the US. In our business, the US market for outsourced R&D and IT, including technological IT, is very much driven by activities carried out in India. We will have to develop offshore while acquiring new businesses. I cannot give you any specific objectives and it would not be relevant. Our engineers' objectives inshore and offshore are growing with new projects coming up and we are having to manage a progressive ramp-up. Our offshore has actually doubled in size in a very limited period. When it comes to mergers and acquisitions it depends on the opportunities that arise, as well as the prices because we are in a market where prices are higher than in Europe. That is an obstacle in terms of acquisitions because we cannot have companies that are 15 or 18 times the EBIT at ALTEN.

That links to the competition question, where there are very few Indian players in Europe setting up locally and due to run European projects. The question was asked earlier about the fact that Indian companies are looking for projects in Europe with a trade-based front office in the US and it also exists in Europe, but it is not significant. There are companies such as Wipro or Infosys, that have urban offices in Europe but recruit very few Europeans. I do not think they want to grow in Europe with European employees, that is not part of their business model or DNA for the simple reason that they are not comfortable with the labour laws and philosophy in the EU. Our competition mainly comes from the usual players in the market, and we have very little information on what has become of Altran within Cap. They are still there in the field but not particularly more or less. ADECCO has acquired AKKA and merged the subsidiary with it to create Akoddis and is even slightly less present than before from listening to business managers in the field. It is the same for Randstad OZ. To my knowledge, these players have not been particularly successful at getting into the engineering market, so the competition landscape has remained much the same. The fact that Altran was bought by Cap, is more of an opportunity for ALTEN, which is the fact that we are the only independent international leader in the sector.

[Inaudible], Bank of America

I have two questions. You mentioned that organic growth in 2023 should be at least 7%, can you talk about the assumptions there on the macro situation? Does that assume the macro situation will get much worse or a lighter recession? Second, I know it is probably a bit early to talk about the margins but the second half of 2022, you said you would probably end up around the top end of that 10 points or 10.5. How should we think about 2023 in terms of the different moving parts, should we expect margins to marginalise towards that level of the second half of 2022, or is there scope to be a bit better?

Bruno BENOLIEL

I will answer your question in French. With regard to organic growth, as I said, the embedded growth would be about 7% for 2023. That means that even if we do not have additional growth with new recruitment and new projects, we should reach 7% automatically. We do not buy this scenario because we want to continue to grow, and we will think it will be higher than 7%. We cannot give any guidance right now because it is January but hopefully, 2023 will be a positive year even though the growth rates in 2021 – 2022 will not be reached again in 2023. That is because of the recovery from Covid-19 in the automotive and aeronautics sectors, which have contributed to this growth in 2021 and 2022. There is also this base effect, the Group has grown larger and the macro situation in the economy is unlikely to be as favourable in 2023, even though we do not see any signs of that right now, to be completely transparent. We are actually reading articles in the press that are saying

the anticipated economic slowdown could be temporary, like a little slowdown rather than something major. If our clients have major projects that will last for several years and their investment pace might slow down, we do not expect a decrease in 2023, that is not something we have considered at management level even though the macroeconomics are deteriorating.

As for the margin, I said 10.2% to 10.5% for the second half of 2022 and even though that is not the purpose of today's meeting, we will have a ballpark figure at the top of the range. I will give you a figure in February, which will not be exact, but the number should be rather high.

Participant

I just wanted to follow up on the 2023 margins. I know you said it is too early, but is there anything you can tell us on the factors that will impact that?

Bruno BENOLIEL

We cannot make any estimates or reliable forecast for 2023 today. We have already said that 2021 and 2022 would be unusual in terms of margins. First because the business activity rate was higher than usual and second, as Eric said, we will have fewer working days in 2023 compared to 2022, and that will have an impact on growth and margins. The Group is keeping up its restructuring efforts in management and tools for HR management. We have to create specific branches for trade management to address international clients instead of by geographic regions. That will create costs and it has been ramped-up since 2021 and 2022 and will be more significant in 2023.

This is not a guidance because it is too early for that, but what we have said repeatedly is that ALTEN's ambition is to have an operational margin of about 10%, 10.2%, 10.3% as standard. If we are doing better that is fine but we would rather invest in growth and development, and I do not think we will have similar margins in 2023. We will be able to be more accurate in February, even though it is still a forecast from the beginning of the year, but our objective is, in any case, to be higher than 10%.

Bruno BENOLIEL

There are no further questions so I would like to thank you all for taking part in this videoconference. Thank you for all your questions. I wish you a good weekend. The next conference will take place on 23 February and will be at the Maison des Arts et Métiers, near Place Jaina in Paris, in three weeks.

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Unfortunately, we could not confirm the following words, phrases and names:

accommodations	10	message	9
CIPRAM.....	3	our teams	5
consumption	5	our turnover	2
Eric MATTA	6	Randstad OZ	11
inter-contracts.....	5		