

English Audio Call Alten

Bruno BENOLIEL, Deputy CEO, Alten

Good evening. I would like to thank you all for taking part in our remote conference about our business for the first semester of 2024. There was an increase in our business compared to the previous semester with a growth of around 1%. The geographical or sectorial trends have not changed compared to the first quarter. At the end of June 2024, the turnover is at EUR 2.8 billion and 2.8% increase compared to last year. Our business in France has increased by 5.7% and by 1.6% outside France and if we keep the same scope and exchange rate our activity increases by 5.7% in France and decreases by 1.4% outside France. There have been 0.6 fewer business days in this semester compared to last year, which has had a negative impact of around 0.4% on organic growth. In the second semester there has been overall growth of 2.8%, 5.4% in France and 1.6% outside France with similar data it is at 1%, 5.4% in France and minus 1.1% outside France.

The Group's business rate was at 91% during the second semester and at 91.9% during the second semester of 2023. Our business rate for the semester was at 91.2% against 91.8% during the first semester of 2023, which is a 0.6% gap. The decrease in our business rate is as a result of projects being postponed to the second semester for budget reasons. This has happened several times with some of our clients having validated a date to start projects in the first semester, some of them quite significant, and in the end they have decided to postpone them to the second semester, mostly for management and cash flow steering reasons.

As a result, we have more intercontracts and we have weekly monitoring of our business rate that has let us limit this rise in the intercontract rate but it obviously affects our recruitment. Our Group's headcount has slightly decreased and we are now at 58 300 compared to 58 400, but the number of engineers is more or less the same at 51 370 compared to 51 400 in March. Overall, during the first semester the headcount of engineers increased by 1 390, of whom 1 080 were hired certainly in France in this semester and 510 outside France. Of the 51 370 engineers in the Group, 11 810 of them are in France and the rest outside France.

The sequential growth of Q1, Q2 and H1 shows the growth dynamic for both semesters, and you can see the dynamic is quite stable between the first and second semester, except for two geographical areas, Iberic and Italy.

I will start with France, where we have had a good performance despite one business day less than last year, which had a EUR 6 million impact on organic growth. Business in France remained dynamic in the Automobile sector, Defense & Security, and Energy, but unfortunately, Retail, Telecommunications and Finance have declined, quite significantly in the case of Bank, Finance.

Growth in the Iberic area has rebounded to almost 9.5% in the second semester, taking growth for the semester to 7.5%. All sectors are growing except for Bank, Finance, which is also declining but only very slightly.

Growth in Italy has continued to slow down but remained quite high because of almost 10% in the second semester and 11% for the entire semester. All the significant sectors are still growing strongly except for Bank, Finance, which decreased slightly.

Business in Germany has continued to decrease this semester with minus 1% in Q1 and minus 5.3% in Q2, which is a decrease of 8.4% over the semester. The situation in Germany has not changed, the Automobile sector was half the turnover and it has declined by 15%. In that sector, the OEM subsector is still growing but has decreased by 45%. On the other hand, the Aviation sector, which is quite significant for Germany, has rebounded in the second semester and is now increasing by 6% compared to last year. However, there has

been a further decrease in the tertiary and Electronics sector, which represents 10% of our German turnover.

There has also been a quite significant decline in business in the UK, even if it is not as bad as in the first quarter. We have a 12% [break in audio] sector. The Public sector, which was 45% of our turnover in the UK because of the acquisition of Methods two years ago, has been significantly impacted by reductions or freezes in public spending. However, Defense & Security are still growing significantly in the UK.

There was 2% growth in BENELUX, with all the significant sectors growing except for Electronics and Semiconductors in the Netherlands, which decreased by 10%; this is true for this sector in all geographical areas.

Our business in Scandinavia has continued to worsen because of the decline in the Machine & Tool sector in Sweden and the Tertiary sector in Finland.

[Break in audio] in Eastern Europe and it is growing whereas in Romania there is a 10% decrease in our business because of the Automotive, Tertiary, and Bank, Finance sectors.

In Europe outside France, our business is quite contrasted because there is strong growth in some countries, except for BENELUX, but there are some countries where there has been a significant decline. That means that our business decreased by 1.8% overall in the first semester.

Business in North America started to rebound in the second semester, even though it declined slightly over the semester. The US represents 75% of the area and all of the significant [break in audio]. [Inaudible] the Bank sector increased in Canada despite the decline at the end of last year. Our business grew significantly in Mexico, which is 5% of the area, by 30%, mostly in Bank.

The Asia Pacific region was still impacted by the [inaudible] Group losing last year and the area excluding Singapore, would be at 4% rather than 1.3%. China, 33% of the Asia Pacific region, increased by 10% thanks to the Automotive sector but was still penalised by the Telecommunications sector. India, 33% of the area, increased by 13% thanks to the Automotive sector. Japan, 20% of the area, saw a slow down with a decrease of 10% because of the Tertiary sector. Korea, 10% of the area, has also declined slightly by just 2% because of the Semiconductor sector, which decreased by 10%.

If we analyse the business per sector, the shares of our turnover were very stable compared to the last quarter. The Automotive sector, 18% of our turnover, increased by 5% overall. All the manufacturers are growing but 15% growth compared to last year except for Ford in the US and Hyundai in Korea, and even Volvo cars in Sweden has started growing again. On the other hand, there is a decrease in activity among OEMs, minus 20% overall, which have been strongly impacted by the decline in Germany.

The Railway sector, 3.7% of our turnover, had 6% growth.

Aerospace, 15.5% of our turnover, is still quite dynamic at 10% growth and it even strengthened in Germany in the second quarter. Nonetheless, we plan are planning for a slowdown from September because of statements from Airbus, more for the projects than for manufacturing.

The Defense, Security & Naval business now represents 7.5% of our turnover and increased by 18%.

The Energy sector grew by 2% thanks to nuclear energy. Oil and gas decreased by 2%. On the other hand, nuclear energy increased by 9%.

Life Sciences, 8% of our turnover, was stable. Medical equipment grew significantly but there was a slight decrease in the Pharmaceutical sector because of a few big companies.

There was a decline of around 3% in Electronics and Semiconductors because of a 10% decrease in those sectors, which are struggling in all geographies, as I mentioned earlier.

Telecoms decreased by 5%, among operators as well as equipment manufacturers.

The Bank, Finance sector decline by 10% this year, which was even more the case in France than in other countries. As I mentioned, this business started growing again in Canada and the decline in Southern Europe is not very significant at 2% to 3% compared to 5% in France.

There was a 6% decline in Retail, Services & Public sectors, mostly due to budget cuts in the Service sectors.

Therefore, the first quarter is similar to the first semester. We can see that things have not improved in macroeconomic terms, with insignificant growth in our business, sectorial or geographical.

Regarding M&A, we announced an acquisition in Vietnam during the first quarter. Alten also finished the acquisition of a company in Poland that specialises in IT services, which had a EUR 80 million last year and with 250 consultants. The companies acquired should be consolidated by the third quarter 2024. As you also know, Alten finalised the Worldgrid acquisition process, where we signed a document that allowed us to start exclusive negotiations, which are now complete. Worldgrid is in the Energy and Utilities sector, in particular the Nuclear sector. We have started to get the authorisation and anti-trust approvals and the closing of this acquisition should take place by the end of the year. They have a turnover of EUR 170 million and about 1 000 consultants, 650 in France with the rest in Spain and Germany.

In terms of the outlook for 2024, as anticipated the first semester is in line with the first quarter. Nonetheless, we have not observed any rebound in our business and some projects have been postponed, some of them quite significant, even in the Aerospace and Automotive sectors, because of free cash flow management problems. However, the growth of our business is still satisfactory in many geographies. The intercontract rate is slightly higher than it should be but it is completely under control. Except for the US, where we have positive signals, there is no sign of an improvement for the second semester, on the contrary, statements from Airbus make us think there will be difficulties in September. The political situation in France might also be bad for business but to-date, we cannot say that clients plan on postponing or cancelling projects as a result. We believe it is reasonable to change our organic growth guidance to around 1.4%, even in a worst-case scenario. Our operating profitability will be negatively impacted because of this intercontract rate, which is slightly above the normative figure. M&As will be lower than in previous years despite the budget reduction measures we took. Therefore, unless other events take place in the second semester, our operating margin for 2024 will be between 1.7% and 1.9%. You will see that because of the timeline, there is a strong seasonality between H1 and H2, there is a difference of three business days between these two semesters, which will impact our business margin but it should not change our outlook for the operational margin for the second semester.

Now I will open the conference up for you to ask your questions as usual.

Aditya BUDDHAVARAPU, Bank of America

My first question is on your revised guidance of 1.1% to 1.4% organic [inaudible] growth for the full-year. Could you give us your underlying assumptions on what you think the demand would be in terms of Airbus or the political uncertainty in France, especially in terms of any potential impact in other regions, including the US, due to the political uncertainty? Second, you said that projects have been postponed, do you see them then coming more in 2025, which should therefore help growth in 2025? Finally, on the operating margin targets, the 8.7% to 8.9% [inaudible] of the measures you are taking there on costs, how that could look if we then talk about the outlook getting tougher.

Bruno BENOLIEL

I am not sure I got your last question.

Aditya BUDDHAVARAPU

The last one was on the operating margin. You said 8.7% to 8.9% for the full year. Can you talk about the underlying assumptions there in terms of cost-saving as well?

Bruno BENOLIEL

It is quite difficult to answer your first and last questions regarding the assumptions we took because those numbers are linked to a very detailed bottom-up analysis, customer by customer for the main ones and geography by geography. Regarding our forecasts for our customers, we took into account not a decrease but less of an increase based on Airbus starting in Q4 because we know that when some projects end they will probably not be fully replaced by projects of the same size. We also assumed that the manufacturing engineering activities would normally be much safer than other projects, as this is a key issue for Airbus concerning the conception and R&D activities, which would probably be postponed. Therefore, we made assumptions on some cuts in terms of how many people we expect to grow in Q3 and Q4 compared with what we expected based on what Airbus told us during the first semester. We hope that we have been cautious enough to anticipate what could happen but at this stage, we have had no official communications from Airbus to say that they will cut, for example, 100 or 200 consultants in relation to our business with them. The way it works is we receive regular bids that we answer and if we receive fewer of them and if projects that come to an end are not replaced by new ones, of course it will generate a slight decrease or at least less growth than expected.

Regarding the margins, we based our assumptions on our geographical mix and a corresponding revenue increase. Of course, starting at the end of Q1 we have cut some SG&A because we knew that 2024 would be difficult, as I told you during the previous call. However, to be frank, we did not expect organic growth to be so weak in 2024. Roughly, if we lose EUR 100 million revenue we lose EUR 25 million to EUR 30 million EBIT, assuming we can cut some costs, which is mostly due to our cost base or SG&A, which we have cut in any case, than to the bench. Even if we know that the bench will probably be higher than last year, we do not expect the bench to be much higher and we know that the impact of the bench on the profitability is quite big because when we lose one point of activity rate, so have an incremental one point bench, the impact on the EBIT is 70 bps. We took an assumption regarding the bench for the year, probably much closer to 91% than to 92% and we also took assumptions regarding the revenue, 1.1% to 1.4%, and we looked at what could be the cost base for H2 and the result is what we said, 8.7% to 8.9%.

Aditya BUDDHAVARAPU

One quick follow up on the Worldgrid acquisition. Could you give us some colour on the rationale behind that, what it brings to your business? Also, the multiple you are paying seems to be slightly higher than what you paid in previous M&A.

Bruno BENOLIEL

The multiple is definitely higher than what we usually pay for M&A. We cannot disclose the multiple we paid, just the price we paid so the EV is EUR 270 million. As you know, this company specialises in nuclear activities, in France we say *contrôle-commande*, the software for the management of nuclear plants. For us this acquisition is really strategic because it gives us a key positioning around the EDF world and we expect the nuclear activities to grow fast in the future. As you know, there are new EPR to come, EPR2, which will be delivered and EDF is also about to launch very small nuclear plants. There are also export markets in which EDF is involved and EDF is a big customer for Alten today and a very strategic customer that we absolutely wish to develop. For that reason, we agreed to pay a higher multiple than we would normally and because we think it will help us to factor a higher growth with EDF in nuclear activities in the future.

Emmanuel PAROT, Société de Bourse Gilbert Dupont

Good evening, Bruno. I have a couple of quick questions, the first of which is about your recruitment policies. We saw in the second quarter that on a like-for-like basis, maybe you could tell us if it is down 10 or are there other considerations? Maybe you could just share a quick comment on how you are going to do recruitment for the current quarter, so September. What are the key points? Second, would it be possible to have an idea of the profitability of the Worldgrid acquisition or the company you have acquired because I had a couple of questions? Third, given developments and the evolution of the current context, who are the customers or we can see competitors who may be a lot more aggressive with their pricing? What is your pricing strategy given that you have competitors who are more aggressive now?

Bruno BENOLIEL

We were down 10, so the second quarter. In fact it was 140 in France and up 130 internationally, so there are as many in Southern European countries and offshore regions and we lost 140 in France, Germany, Northern Europe and Sweden. There are projects that were postponed, they were not cancelled but they were moved to the second half of the year. Obviously, when we are talking about huge projects we cannot keep engineers for three or four months not working on anything, especially when we are not certain that the projects are going to be picked back up or launched when customers say they will be. That means that we had to have a very restricted recruitment policy and the figures speak for themselves, we did not actually recruit in the second quarter, so we were able to monitor the different contracts and keep an acceptable level close to the norm. We have a very cautious recruitment policy and it needs to be but in September we will be recruiting a number of engineers as we usually do, so they will be recent graduates but we are going to try to limit the intake as much as possible. Obviously, turnover has also stayed down, and with a turnover of around 25% we have returned to the level we regard as normal. Salaries are also stabilising, so given a decrease in salaries in Germany, for example, we are recruiting at lower salaries than before but this actually follows the market trend.

If we think about pricing, we do have some customers where we have seen price dumping by some of our competitors, especially when they are offering project packages. As we have seen bigger and bigger projects and huge projects cropping up, we do have competitors looking at 50 or 100 people and rather than make margins on something they want to ensure that they have all of the contracts and so they give up on this. However, price dumping is not widespread and we are not seeing a decrease in the pricing asked for by our customers, but we are seeing a higher offshore demand in France and we know that this is nothing new. In other regions, there was not really an offshore trend for Germany or Scandinavia but we are now seeing offshore cropping up quite strongly on the market for economic reasons. Therefore, I think the offshore activities are going to continue to develop and we will probably have to increase our offshore accounts in the coming three to five years. It is obviously not going to be 50:50, offshore is 13%, when I say offshore it is 13% and nearshore of our Group, and we will probably move to around 20% to 25% in the next five years.

I cannot give you the multiple for Worldgrid or tell you about the profitability because there are the other elements in the equation and you would be able to work out the multiple. We are committed to not sharing this information but the multiple is obviously more than we usually pay. In addition, the profitability is quite theoretical because this is a company that was fully under the wing of Atos and integrated to its different shared services. The profitability will be linked to what we want to plug-in from a structural organisational point of view. I can tell you that the growth margin is coherent with the Alten Group margin.

Emmanuel PAROT

If I can rephrase the question, will it be at 10% profitability?

Bruno BENOLIEL

You will have to wait so that we can analyse the company a bit more because in reality, this information was provided in due diligence and I cannot really answer questions clearly today. The profitability is higher than 10%, but we have acquisition processes at Alten and everyone knows that the profitability put forward by the seller is not always the actual profitability we see. This is why the implicit multiple is higher than we are used to paying because our assumption is that the real profitability will be lower than the profitability put forward. However, it is not a standalone business, which means that we will also develop on our capabilities to improve the gross margins and also the resources we will plug-in.

Laurent DAURE, Kepler Cheuvreux

Thank you very much. I have three questions. First, could you go into further detail about the Airbus account and what the figures for the whole of the financial year represent in terms of proportion? If I have understood, you think there will be an increase in turnover in services. Could you give the mix of what you are doing between the production or manufacturing point of view and the rest so that we can understand what the breakdown looks like and the difference in the performance if we compare Airbus with other actors in the sector? Second, we have seen great performance in France, which is above what the rest of the market is doing, so how are you going to be resilient in terms of your performance for the upcoming quarters? Third, I would like to look at costs and I am not talking about user rates but structural costs. I hope it will not be the case, but let us say that there is no growth in 2025, I would like to know what is the ability to have a hand on your structural costs? What are the millions of euros you will be able to adjust in order to compensate for the fact that there may not be any growth in 2025 so that you can still generate the operating margins you mentioned?

Bruno BENOLIEL

To answer the first question about Airbus, Aerospace is 6.7% of our turnover. The exact split is not something I can communicate right now but the majority is from design and R&D. There is a significant part of manufacturing and engineering, and we also have a lot of [inaudible] activities. I think we are going to continue to see progress on the Airbus account this year, I imagine it will be around 10% or a bit less for the second half of the year compared to last year. We were not that far off in the first half, it was 10% progression. If we take into consideration the slowdown in the second semester and the fact that the abatements were made by Airbus, we will probably be slightly under this figure but not that far, there will not be a huge decrease for the Airbus account and maybe a slowdown in growth and projects that may not be renewed in the fourth quarter. That is because when we look at the analysis of our project portfolio with Airbus, one thing that is certain is that there will not be any decrease in the growth of the current portfolio and we actually think there will even be new projects that will start in the third quarter. Therefore, if we were to have the curve that was to be inflected this would not be prior to 1 October. I am not sure if that answers your question.

On the question of what is driving the French market, we have the aeronautical industry and obviously at Alten we work with railways, as well as having significant security and defence activities, which represent between 15% and 20%. We also have automotive, which is a dynamic industry. Our portfolio in the automotive industry is essentially made up of manufacturers, which is not the case in France, we can see the [inaudible] decreasing rather than having growth. The automotive industry in France has been less badly hit by the decrease in this activity than in other countries. We are also seeing growth and once again, this is because of nearshore and offshore, with lots of projects that are accounting for more of the weighting but France invoices projects at the end of the day so these go into the French balance sheet. There will be a slowdown of 5%/7% despite a decrease of the sector or negative growth in the sector generally speaking.

In terms of the split for the second half of the year, it is not going to be that different from what we have seen in the first. Is that what you are saying? In a nutshell, I believe we will be

able to maintain the level of 5 and abroad it will depend on what the market is saying. However, in France, we are looking at between 4.5 and 5.5 for the year.

Emmanuel PAROT

What about the split for the second half of the year?

Bruno BENOLIEL

We have not yet done this but it would depend on our landing for 2024 at the end of this year. We have reduced our costs in the first half and we need to continue to work on this in 2025. What is sure is that if we think about euros, costs for 2025 will be later than in 2024 because we are taking necessary measures and looking at cost reductions, and budgets will also be revised. If we are looking at the same turnover the answer is simple, the margin will not be any worse than it is this year.

Emmanuel PAROT

Just a last precision if I may. If we look at the H1 against H2, here we are talking about a three point difference.

Bruno BENOLIEL

For the first half of the year it will a little over H, to days ago, compared to last year, obviously. We are down one and up two. There will be more of these business working days in the first half of the year than the second half of the year and we hope that we will still be between 9.5 and 10 for the second half. There will be an impact but it will not be that important.

Nicolas DAVID

Coming back to the last comment on margin in H1 and H2, you are going to be above 8% during the first semester and close to 10% for H2, so we are going to have a margin for the year of 9% or even slightly above.

Bruno BENOLIEL

We have the holidays during the second semester, which is something we tend to forget but we do not make any money when people are not working, so this has an impact on our margin. When people take leave there is no cost, or marginal cost because they have already been paid but we do not make any margin in the meantime.

This means that the weighting of the turnover during the second semester means that we have two extra working days in the calendar compared to last year. There were holidays last year as well but the number of days worked in the second semester is usually lower than in the first because more people go on holiday in this period. Sorry, I cut you off.

Nicolas DAVID

No, that is it. I did not understand, so if you already think you are above H1 and slightly above 10% in H2.

Bruno BENOLIEL

If it is 9.5% or close to 10%, that is why we are at 8.7% or 9%.

Nicolas DAVID

I understood the higher figures but not the lower ones and I was not sure about your weighting. I understand better now, thank you.

Derric MARCON, Société Générale

Just a quick question for you about the competition. In the Automotive sector you said that there were problems with OEMs and we have seen contracts with the EDF or similar things with offshore pure players in the Automotive engineering sector. Are these contracts you are bidding on or is it completely outside your scope? Can you tell us a bit about your competitors and are the contracts that you have been bidding for contracts they have won?

Bruno BENOLIEL

I do not know the details of the deals they have won but when it comes to [inaudible] they have won bigger deals with fixed prices and we are not necessarily competitive enough on those. It is true that KPIT is an Indian company specialising on onboard software for automobiles, which is the bulk of their activities. It is a great company and they are willing to take those risks so, as you say, they bid on these projects in the Automotive sector.

Nicolas DAVID

Has the margin increased for you between the work package where you manage a significant part of the project and fixed price? These technologies around ADAS, entertainment, etc., are quite stable, so why do you not try to get these?

Bruno BENOLIEL

We do, we apply but if they win them it is because they are cheaper.

Derric MARCON

You said you do not have fixed prices.

Bruno BENOLIEL

No, we do have big, fixed prices for onboard software. We do it a bit but these projects are quite risky and this is not just for the Automotive sector.

Derric MARCON

Okay, I have a second question about the user rate. Is 91% for Q2 low or do you do that for Q3?

Bruno BENOLIEL

It is clear there will be a stabilisation of the business rate around 91%.

Derric MARCON

It has been lower at times in Alten's history but 91% is quite a long way from your norm of 92%.

Bruno BENOLIEL

Yes, for sure.

Derric MARCON

Therefore, today your business managers are probably focusing on optimising the user rates rather than trying to find new projects.

Bruno BENOLIEL

Both are linked in any case because what are we anticipating for the second semester? Projects being postponed is managed by better steering of recruitment and people leaving over time, which means that there has not been a peak of people in intercontract, except for

Germany, for example, where it peaked at 10% or 11% and it took us a bit under two months to make up for that. Then when it comes to our assumption for H2 there is a quite gloomy current macroeconomic environment where Europe is struggling and only the US seems to be doing slightly better. [Break in audio] and we can see that they are also struggling in Korea. Therefore, our assumption is that the average size of projects is likely to decrease in H2, which is usually what happens when clients are trying to save money. If we have a 30-person project that is stopping then we have to take part in a bid for 20 or 25 people, even if it means we have to postpone projects, it means that structurally we have more people who have finished projects than others who are starting new projects, so there are more people who are in intercontracts for two or three weeks. We are not in a crisis but we decided to use more conservative assumptions and align with what we had in Q2 rather than think that we could reach our usual 92% figure. As Emmanuel highlighted, in September/October we will recruit people, which means that we need to hire these young people because we have to prepare for project management next year. We need these new recruits and we will get them in September/October. Therefore, even if we are a bit more cautious, we will still have people in intercontracts around that time.

Derric MARCON

Therefore, at the end of Q2 business managers reacted and reduced their recruitment levels but for H2 they are even more aware of the problems and will probably recruit even fewer people to optimise their user rate and then there are people who will leave as usual.

Bruno BENOLIEL

If we look at Q2 and take assumptions at Group level, we are at zero, so it means that people are monitoring this phenomenon I am describing with projects postponed or stopped because when a project is over it is over. There are also new projects that start but at a time when it means that there will be intercontracts and this is day-to-day business.

Derric MARCON

Okay, thank you Bruno.

Bruno BENOLIEL

Of course, if we reach 92% it will be even better.

Derric MARCON

Yes, but we will see IT companies with worse figures than minus 10% but they still manage to have optimised user rates by optimising their hiring.

Bruno BENOLIEL

We will see the rates in October and we will talk about this again.

If you have no more questions, thank you for taking part in this conference before your holidays. I hope you enjoy this break and I will see you again on 20 September when we have our next meeting and I will tell you about the results.

Unfortunately we could not check the following name and words:

5% to 7%	6	Nicolas DAVID	7
Finland	2		