Audiocall Alten

Simon AZOULAY, Chairman and CEO

Good morning everyone. We are delighted to present the first-half results for 2024, even if they are not extraordinary or the level expected because of the current situation with, as we already published yesterday, results that are exceptionally lower than usual. We have had a first-half EBIT over 9% in recent years and usually above 10%, and we always target EBIT of around 10% for our business. We were close to this last year, and we intended to get back to the norm in 2024 and we were hoping for an interesting recovery on business sectors that had been backed or delayed during 2023. During 2023, IT services and some specific sectors suffered a lot, and I will comment on this a bit later, but we thought that Engineering would make up for that because it was promising, but the promises made by even our best client were not honoured because Aeronautic clients decided to delay a lot of projects we thought we would be able to carry out at the beginning of the year.

Therefore, the 8.4% EBIT result for the first semester is mostly linked not to the reduction of margins but rather because there is a decrease in the level of business and an increase in SG&A at international level, even though we have made a lot of efforts, and I will come back to that later. This S1 result is at 8.4% of revenue with one less business day throughout the world, so a penalty of 0.3% on our EBIT, and the second semester lost during the first semester is compensated for by the fact that we will win two business days. Organic revenue growth was quite flat, better in France than elsewhere and with M&A we have 2.5% global growth. The trends for the second semester are similar to those in the first but we are making up for cuts between June and July and we will do that by the end of the year, which is exactly what happened during the first semester.

As for the number of engineers, it is growing, going from 47 000 in December 2022 to 50 000 and to 51 000 engineers. We sold a non-structuring activity in India with 1 5000 engineers, which means that we started this year at 50 000, and a client integrated the employees. We need to bear in mind that we started with 50 000 engineers, and we ended with 51 480 engineers but there is a caveat because there is an M&A effect of 1 200 engineers. Therefore, we are still growing, and I can guarantee that it was very difficult to maintain this growth in light of the decline in business between December and January and we had to compensate for that in February, March, April, May and June because a lot of projects stopped in all sectors, and we managed to be above our December headcount thanks to mergers and acquisitions.

I will move on to each of our regions to show how our headcount is distributed. This growth of 1 400 engineers is distributed everywhere, flat in France, growing in North America, in Europe and Asia, so it is not in one place in particular. The total headcount for Europe is just under than 34 000 engineers, which still represents 75% of the business of our Group and our strategy is to boost Asia, mostly India, which is increasingly pivotal because of the low-cost, offshore outsourcing of our clients. In India and the USA, we have this low-cost, offshore phenomenon that developed about 15 years ago, with an Indian front office in the USA for linguistic and cultural reasons, and this is helped by the use of English, and this is a very common phenomenon in the USA. Five years ago, there were a lot of questions about this, even seven years ago we said it was not something that would happen in the Engineering [inaudible] sectors. Of course, it does not happen so much in Aeronautics, Defense or the Energy sector, but all the other sectors are outsourcing, our clients are looking to [inaudible] and as a result, India is going to be very important in the years to come. Out of the 12 700 engineers in Asia-Pacific, India has about 8 000 collaborators and that will rise to 40 000, either through M&A or outsourcing business activities we have in Europe. It weighs on our revenue, our automotive clients are mostly in France, and they have asked us to massively move our headcount from France and the rest of Europe, such as Romania, which means that there is a loss of revenue.

Regarding Alten's position in the IT services sector, for several years we had a clear split between two types of businesses. One is Engineering activities where we manufacture equipment and products for Aeronautics, Space, Defense, Automotive, Railways and industrial sectors, so this is our engineering business and R&D [break in translation] made in factories for our clients. We have two types of clients for this engineering business, and they do not have the same sort of problems, we deploy and supplying energy for energy producers, and we design products for the grid and that is the same for the telecommunications sector. Then we have the life sciences where we do regulatory business, traceability in production, a lot of data science to analyse clinical trials. These are the products we provide for our engineering business, which represents 73% of our company.

Then we have another IT business that provides services for client management, lean invoicing, marketing, websites, etc., which is what we call customer management with a lot of specific apps and software that we integrate, such as SAP, Oracle, etc. There are also businesses internally, with everything to do with infrastructure networks, cybersecurity, Cloud migration. These are the two main blocks, ESN or IT enterprise services, which we used to call IT management systems for companies, so mostly apps and solutions for calibration, invoicing, billing, HR and the infra-red deployment with cybersecurity and Cloud migration. and everything leads to data management, data processing with the data analytics team.

These are two clear-cut blocks, Engineering Services and IT Enterprise Services, and 73% of our business comes from engineering and 27% from IT enterprise services. For the engineering aspect, Alten is third-placed in the world, we are independent, so CAP is above us, Accenture which is mostly present in the US, third Alten, local players. Then it is difficult to assess, but there are all the big Indian companies providing IT enterprise services, mostly in the US, so GCS, Intuitive, HCL, etc. They provide engineering activities, but it is hard for us to assess, but Alten remains in the top-five across the world for engineering services. A lot of clients turn to us because we are independent, we provide local business and production and 80% of our engineers are close to our clients in the countries where we are present, in Europe and in the US, as well as Asia. We can also provide offshore services with projects that are a mixture of offshore and local, so they do not turn to us to the same type of projects as our competitors. I hope I have made that clear, we have players that can provide local services and there are five international players, then there are pure Indian players who only provide services that are 100% in India with just one salesperson in the country, which is for engineering of course. In IT enterprise services there are many more competitors and Alten is ranked 19th, so still worth 14 000 engineers and we are still a significant player but not as high up the list as in engineering.

The lion's share of our IT Services come from Retail Services, the Public Sector, Finance & Insurance, and not so much from the Industry sector, which turns to us for technical and industrial issues and manufacturing. Looking at the trends sector by sector, our revenue has grown but this is mostly linked to M&A. In the Automotive and Rail sectors, so ground transport, the Group's share of the sector has grown, as has Aerospace & Defense. There are other sectors that are suffering, not energy where we have grown, but Life Sciences, Industrial and Telecommunications Equipment are really suffering because there is fierce competition from the Chinese and the OEMs are now in charge of their own businesses, such as ADAS, and want to be in charge of their own systems, for example. As for Telecoms, there is a lot of pressure for offshore, which has been the case for five years, for technical support and for support to deploy their infrastructure and, of course, this has weighed on our revenue. IT Services, which represents 27% of our business is also under a lot of pressure from our clients trying to reduce budgets in the Banking, Finance & Insurance sectors, as well as in Retail and Services. Despite some of these companies having excellent results, moving to the Cloud and global solutions around Microsoft has significantly increased the price of licenses and external parts because they now have big operators in charge of this and it is difficult for them to negotiate on this, so they exert a lot of pressure for price reductions for deploying and providing IT Services, which once again, are worth 27% of our business. Therefore, there is a huge amount of pressure, and this is where we have suffered most in both operating results and growth. We knew we had better results in the blue than in the yellow sector.

If we look at the Automotive sector, there are significant technical challenges, multiple postponements, a decrease in volume, delays from all our clients, two big French clients difficulty and all our German clients, they are outsourcing and even India is considered expensive today. This is not because of needs or technological breakthroughs, it is because of the financial situation on these markets.

Things are going well in the Rail sector with a lot of new projects, and we have had a good amount of growth.

Moving on to Aeronautics and Space, which is one of our most important sectors, we are in a good position on the Engineering sector. At the end of 2023 things were stagnating a bit but we were expecting things to recover over 2024, but it did not happen and even projects we were expecting in 2024 have been postponed yet again for 2025. This is because of a variety of problems, in the supply chain, cash [inaudible] this sector, which is doing well, the Aeronautics sectors has still postponed and delayed a lot of projects, which has an impact on Alten in Southwest France, but also in the UK and Germany. There have also been a few accidents in Space, but we are still doing okay.

The sector that really did well and developed quite well, is everything to do with Defense, Security & Naval. As you can imagine, there is a lot of demand for political reasons, and we have had strong growth in that sector. Of course, this makes up for other sectors but overall, with our IT Services, the delays and outsourcing in sectors such as Telecommunications and Automotive, the postponement of projects in Aeronautics and the boost in Defense and the real mindset overall. Therefore, we have managed to have some growth, but we did not improve on our business levels compared to last year, which we had expected to improve significantly in 2024, but I hope it will happen in the second semester.

As for the Energy sector, we are counting on it thanks to nuclear projects and we put a lot of efforts into signing the exclusive acquisition of Worldgrid from Atos, which we will come back to. We have growth here and we want to boost and accelerate it to take Energy far higher than the current 7.5%. The sector is in all countries around the world.

There was a decline in Life Sciences because of the situation but we have maintained our business thanks to data analysis of clinical trials for certification and everything linked to production management. We also have specific activities, such as traceability, which are different from what we see in the rest of the industry. It has been flat, neither too good or too bad, it did not grow, delays in Europe compared to the US and most of the stakeholders are in the US so the challenge to be present in that sector in North America and the US in the years to come.

I mentioned Telecommunications before and there is strong price pressure that is pushing our clients to outsource, and some countries have already outsourced to Morocco, but it seems too expensive now, so they are willing to go even further and there is sometimes a language barrier.

For other Industrial Equipment, for telecommunications and medical sectors equipment, devices, tools, [inaudible] is not a sector per se or even automotive equipment.

As for IT services, there is very strong pressure to reduce development costs, for IT this is due to the increase in the price of licenses and the same for Retail Services and the Public Sector. That is where we are suffering, and we have lost 1% to 2% of our revenues.

That is it for my comments on sectors, now to get back to our M&A policy where things are also not looking too good. In 2019 and 2020 we hoped that when the situation in a sector is not that good, you might think we would be able to buy companies and that more companies would be sold and at favourable prices. However, it is the exact opposite, it is more difficult to buy companies today than it was two years ago. The first criterion you have to bear in mind is that today, 90% of companies with more than 400 engineers are already in the hands of private equity and it is extremely rare to find companies of between 400 and

2 000 engineers that are not owned at least 70% by private equity; these are our target companies. They have complicated systems between the selling price and the actual price is triple the price, so we have to sell it back between two to five years, so it is not open, and then there are auctions without earn-outs, which make it very complicated and expensive. However, despite these very high multiples, sometimes 18 times, there are buyers, and we have seen companies we were positioned on in France and abroad, such as InTech in Germany, or Scallion. The multiples are unbelievable, far higher than the multiples on the stock exchange so it is extremely dilutive and sometimes it is dangerous because we have no idea if they will stick to their business plans, and it is difficult to have precise due diligence. These are complicated acquisitions, so I try to find targets that are still independent and that want an industrial acquisition rather than to be owned by private equity. There is one acquisition in Vietnam, a company that works mostly for Japan, that would consolidate our Japanese business where we have about 2 000 engineers, thanks to offshore in Vietnam which is the local market, so this would complete our presence in Japan. There is also a company that consolidates our activity in Warsaw, where we are already present and we are present in other cities in Poland, so this allows us to reach a critical size; we are at 1 300 engineers with our company in Holland. Of course, before the end of the year we will acquire a company before the end of the year, but we need to ensure that everything is compliant because it was divided by Atos in the past. We have already had discussions to consolidate our partner position with EDF, which should provide us with revenues of EUR 170 million, and 1 800 employees, but 1 600 engineers would be working on it because we also have subcontractors, so we might have to re-internalise part of that business.

It is a good thing we have had these acquisitions, which have allowed us to grow by 1 400 engineers in the first semester, but it is clearly not satisfactory and in light of our financial results we could have many more acquisitions, we could buy EUR 500 million or EUR 800 million more without being in too much debt and with a very helpful equity result. However, the problem is that we cannot find anything to buy or if we do they are at prohibitive prices or in companies that are not agile for us to position ourselves. That is it for this.

Before giving the floor to Bruno and getting back to the outlook, our capital has not changed and most of the capital is owned by the public, mainly institutional investors. I have not sold shares even though I announced that I counted on doing it in recent meetings, I was not planning on selling them just to make a donation to charities, but I wanted to get a higher price. My goal was a price above EUR 240 to EUR 250 and I hope that we will reach that soon at which point I will donate 5% of my shares to charities. We also have a free share system as voted by the different general assemblies, which has always been positive, and at least 350 people are involved in this system, so equivalent to 150 000 shares, which is why we have this incentive for Alten employees in the capital.

On the CSR policy, we have a [inaudible] investment approach, which I have been working on for 10 years, not so much because it is mandatory and we need to pass certifications [inaudible], but also because it is in Alten's DNA. When you look at the CSR programme, we have three main pillars, people, environment and sustainable innovation, and our strength at Alten is the fact that we have people, training centres, internal universities, the consultants, support, engineers and the diversity of our projects. One of our skills is creating loyalty in our engineers, we work with schools, and we offer a good life/work balance, and good working conditions, while the international environment is also a major asset that guarantees diversity in the Alten Group, of which we are really proud. As to the environment, we could have produced anything, but we consume different resources for our internal use, so we have been really strict in the past few years, as well as raising awareness among our teams. When it comes to sustainable innovation, 10 years ago we created a department for innovation, which is very expensive at over EUR 10 million, which works on different innovative projects like cities and so on and so forth. They make sure that we are in compliance with the commitments of the group in the ways we work and what we produce. This is an important approach for the Alten Group but above and beyond the words, we walk the talk. We have a range of certifications, and we have actually upgraded all our indicators over the last 10 or 12 years and we are always in the top-five of the different indicators, we are in the top-two in the sector in CDP, ranked 84 out of 100 in Ecovadis, so we are in the top 1%, and we have Gaia, VIZIO, etc. It requires investment but we are really working on this. I do not want to go into too much detail here with the activities in actions, but we have a few examples, such as our carbon initiative. We also have a programme for gender equality and getting women into the engineering professions, which unfortunately is not really successful except in Life Sciences and IT Services where we are nearing 50% of women and we are still in the top 17% in the industry. We have mobilised all the female engineers at Alten to go into schools to promote engineering jobs for women in France and partnering with organisations, we used to have a scientific programme in high schools but that no longer exists, but this is an area we are working on very hard. We also have a programme to incentivise women to take on executive positions. When it comes to sports, we also contributed to the Paralympics with a sponsorship programme. I do not want to dwell on this, but we have a variety of programmes that are really important and part of our DNA at Alten.

Let us now take a look at the 2024 first-half results and I will come back later.

Bruno BENOLIEL, Deputy CEO, Alten

Hello. [break in translation] six years, since Covid the international activities that used to represent half our activities now account for two-thirds. Between 2023 and 2024 the number of engineers grew 50 550 to 51 390 and the share is actually growing for medium and low-cost. [Inaudible] speaking, the fact that the slowdown of our activities since the second-quarter of 2023, we only had an additional 510 employees in the first half of the year.

In terms of the growth in business, the slowdown on the activity has continued and following the second-quarter of 2023 organic grow has been around 1%. Growth has still been strong in France at 5.7% but it was minus 1.4% outside France with heterogeneous performance in the different regions. There was no foreign exchange impact, which is surprising.

France had a good performance in the first quarter with dynamic business in Automotive, Aerodynamics, Security, Utilities, Energy, Defense, while Retail, Telecommunications and VFAs were down.

In the Iberic region 85% of the activity as represented by Spain recovered in the second-quarter at 9.5%, even though the [inaudible] was 7.5% for the semester. All the sectors are up except for Finance, mainly for Spain.

In Italy and Southern Europe, prices still slowed down, but it is still high with 10% in the second-quarter and 11% over the semester. All the main sectors were down except for Banking & Finance.

The situation in Germany is much more complicated with businesses continuing to erode 10% for this quarter. The Automotive sector accounts for almost half of our activities and it is down by 15%, not because of OEMs and manufacturers, because the manufacturers are still growing, but mainly because of equipment manufacturers, which are down by 50% over the first quarter. Aeronautics has recovered and is growing slightly, while the Tertiary and Electronic sectors have gone down.

The UK business were down by 12% in the first semester organically, mainly because Aeronautics and Civil & Public sectors, which account for 45% of the revenue were impacted by the decline and freezing of public budgets. However, the Automotive sector, which accounts of 15% of revenue and Defense and Security are growing.

There was low growth in Benelux of 2% across the different sectors, which are up except for a decline for the semester in Electronics and Semiconductors in the Netherlands.

The business has continued to decline in Scandinavia, down 9% this semester because of the machine tool sector in Finland and the Tertiary sector in Sweden, which is a small part of our activity there.

Eastern Europe slowed by 6%, but Poland, which represents two-thirds is growing while it is down 10% in Romania because of the Automotive and Tertiary sectors.

Moving to North America, we had a recovery in the second semester even though it is still a little down over the semester. We are back to organic growth in the US, but it is very low in the second quarter. It is pretty much the same in Canada, a recovery in the second semester, even though the Banking & Finance sectors are declining. Aeronautics, Life Sciences and Automotive are slightly up. Mexico, a small part of the region at 5%, is growing and developing substantially, especially in Automotive, Banking & Finance sectors.

Finally, looking at Asia-Pacific, up 1.5% but weighed down by Singapore with 4%. China is penalised by Telecommunications but is up by 10%. India represent one-third of our revenues and showed 13% growth thanks to Automotive and Industry. Japan has slowed down and is now in full decline because of the Tertiary sector. Korea, 10% of the area, is also slightly up thanks to Semiconductors and Electronics.

If we now look at the analysis of the results of the first semester 2024, Simon has already given you the highlights. Operating margin is down 8.4% over revenue. The semester had 0.6% fewer business days compared to 2024, so one day less internationally. The business level is also down from 91.8 to 91.2, which weighs down on the gross margin by 50 000 and the price/salary ratio and productivity are stable and nominal gross margin has been preserved or has declined, which is rather encouraging for the upcoming semester. As for costs, even though Alten has put in place a cost-saving policy, the business slowdown has had an impact on SG&A which are up in absolute value but [break in translation] the relative value 10 basis points. The profitability in the UK is much lower than it was last year, and the operating margin is around 50 basis points for the semester. EUR 9.8 million in share payments, EUR 10.5 million outside the new plan that will be paid in October/November, so EUR 2 million will be paid as part of this system for 2021 – 2022. The share-based payments are EUR 7.6 million, restructuring costs EUR 5 million, mostly in Germany. The operating result is EUR 159.8 million, 7.6% of the revenues, the same as last year for operating profit.. Income tax expense was down 43.7%.

Alten’s financial income is quite simple. Cost of net financial debt has gone up from EUR 1.6 million to EUR 3.8 million, the interest on leasing contracts was down last year and financial products are well-balanced this year. Globally speaking, before IFRS 16, the financial result is much better from minus EUR 1 million to plus EUR 4.2 million in 2024 and then we go from minus EUR 2.7 million to EUR 2 million after IFRS 16.

If we look at the geographical breakdown, despite a reduction in business in France we have 20 basis points, SG&A is up 30 basis points but let me remind you as always, France supports all the corporate costs for the Group. The economic results in France and the operating margin is up 9% compared to last year. Activity is down compared to last year, but we have continued to invest in technical businesses internationally and the performance in some of our geographies is down, in Benelux and Southern Europe, the operating profit on activity is down but it is still above 10%. In North America, APAC, the Nordics and Eastern Europe, the margin also declined slightly but it is still between 8% and 10%. The economic situation in the Automotive sector in Germany and the Public Sector in the UK have led to a decline in the operating margin to below 5% in both these countries. The non-recurring profits are mainly in international geographies because of restructuring and acquisitions. The tax rate is 26.3% internationally and 23% in France, which leads to a tax loss.

When it comes to the balance sheet, the financial structure is really healthy, comparable to previous periods. However, I have two comments. Assets, goodwill is up EUR 39 million because of the acquisition of the Polish company and the exchange rate impact on goodwill that is not in euros. Non-current assets are significantly up by EUR 136 million thanks to the Vietnamese shares that have not yet been accounted for, and the fact that we have EUR 85 million to EUR 90 million in MTL so at least one year of investments. Equities & Liabilities accounted for EUR 46 million in December 2023, and it is EUR 50 million at the end of June 2024, including EUR 3 million for actualisation, so a nominal EUR 3 million, EUR 43 million [break in translation].

Moving to our cash position, for this semester we generated EUR 98 million free cash flow, so 4.6% of the revenue, up by EUR 83 million compared to last year after removing exceptional taxes overpaid in 2023 because of the sale of CIPRAM. The financial investments of EUR 79 million are almost exclusively the variation in the perimeter. Dividends accounted for EUR 52 million and finally, the other financing comes from interest and the exchange rate impact on our cash flow, especially for projects in currencies other than euros. Net cash has gone from EUR 297 million at the end of December 2023 to EUR 267 million n at the end of June 2024.

Let us now zoom in on free cash flow and operational cash flow that is in line with our operational cash flow on our activity. Taxes paid in 2024 will be normal again because 2023 was exceptional. Working capital is only up by EUR 23.4 million mainly as result of the stabilisation of the business. You know that we are extremely sensitive to the working capital variation, with organic growth because the DSO increasing by one day between December 2023 when it was 94 days, to 95 days in 2024, up two days compared to June 2023 because it was 97 days, so it is improving by two days. There is also EUR 11 million thanks to less outsourcing. There is variation in other positions because of the variation in activities. [Break in translation] euros over 12 rolling months account for 6.5% of the revenue.

To summarise, a slowdown in activity was observed in the second-half of 2023 and this continued into the first-half of 2024. Unfortunately, as Simon explained, contrary to expectations we do not anticipate a rebound for the second-half. Therefore, activity is expected to remain sluggish for several months and some projects have been postponed to the end of the year. Therefore, the operating margin contracted in the first-half, mainly due to the current situation. [Break in translation] of 0.3% in our SG&A but it is worth noting that we have maintained the price/employee ratio. As for SG&A, this is also the result of the stabilisation in the activity. We also have low operational profitability in some recent acquisitions. Rolling 12-month free cash flow accounts for 6.5% of the revenue, allowing Alten to self-finance internal and external growth.

Given the fact that some projects have been postponed from September/October, our organic growth outlook for 2024 should be between 0.5% and 1% and we are hoping that no more projects will be postponed. The operating margin on activity will therefore be better thanks to the seasonality, at over 9% in the second-half of the year, with the difference of one working day difference, and we believe we should reach 8.7% to 8.9% operating margin on activity of the turnover compared to last year. The group needs a rebound, either at the beginning of 2025 or 2026, so we continue to structure our activities.

I will now give the floor to Simon again for the development strategy. Of course, we will be available should you have any questions.

Simon AZOULAY

Thank you, Bruno. I want to make one financial and economic comment before talking about the market strategy. From the purely financial point of view, the different parameters that allow us to understand the deterioration of EBIT, this is new for Alten. We have maintained or improved the potential margin on our projects in some countries and good management of our work packages has allowed us to significantly improve our margins. There are countries where technical assistance contracted significantly, which led to a deterioration, but we have maintained our margins and the mix of salaries and projectivity of projects is very good and improving. This is the optimistic side of things.

Why have our operating results gone down? This is due to two parameters, one of which is the occupation rate, which has slightly decreased because of the market. Should we stop recruiting? There is also much lower turnover, which is usually around 27%, we would like 25% and it is currently 22% because of the business rate and, as Bruno said, because of spending and SG&A, sales and HR, so we have lost half a point there too. The message I am trying to convey is that in a normative situation our margins are there, and it remains at the provisional rate we are going to be fine, so that is what we are working. Structurally, and contrary to our expectations, we are suffering because of postponements, and our headcount is too high, and we have not reduced it significantly, both for production engineers and salespeople.

This is what I wanted to tell you. Other than this financial aspect, Alten is entering a global and international era where we are no longer considered as a sum of geographical business units, the US, the UK, Germany, France, etc. Our top-50 clients are transnational clients where we have projects in all countries in Automotive, Aeronautics or Energy sectors, or even others. The challenge is not for Alten to reach 70 000 engineers, I know that we will get there and even if organic growth has slowed recently, we will also do it through M&A. What we need is to have this international structure and to abide by the four criteria on this slide for the HR aspects, so strengthening the number, the screening and the mobility of our managers, which is absolutely crucial. We cannot recruit managers elsewhere and our job is extremely complicated and if we want to develop in the US or Germany, we are not going to find competitors where we can hire people even if we offer very high salaries. We have to train people and put them into France or the countries where we are already developed and then send them abroad or integrate foreign people in France who can then return to their own countries. This is one of the challenges we are now facing, very few managers, directors, our technical management is already almost worldwide but it does not cover the Asia-Pacific area yet, but everywhere else. It is difficult, it took us 50 years to get there. Similarly, our commercial organisation should not be based on local business units, the energy team should also be able to tap into other teams in mechanical resources, software development or cybersecurity. Our salespeople should not focus on the sector they are working on, they need to be global sales, as we now call them at Alten, so they sell the entire Alten catalogue, and we have different expertise and skill centres everywhere. This is the most difficult task, and it means that we need to dismantle the current system and finalise this new organisation by the end of next year. The analysis of what Alten can do in all countries is impressive, we have incredible capacities to offer to all our clients if we know how to use our marketing. Many of our clients and our sales teams say this what we can do in IT Services and Engineering, we can do this and that and our clients are surprised to hear that Alten can do this. Therefore, we really need to formalise our offers and our capacities to sell them, including in our offshore centres which are becoming very good and distributed across all countries, Mexico, Morocco, Romania, India, China, Vietnam. HR, we have incredible delivery capacities, but we need to be able to sell them, to train our sales business units not only to sell what they have in their environment and region. This is a new mindset we need to work on, so I am not talking about the financial aspects, I am talking about the organisation aspects here. Of course, AI is very important in our offer and our Executive Committee has an AI plan, and we are going to train all our engineers and go over all our projects and packages and see how productivity can be improved by AI, and we need to offer that to our clients. This represents about 20% of the projects where we can include AI and these concepts, and we should buy suitable tools. This work is underway at Alten, but it is not a revolution, or a major disruption and we need to reach a critical size in the countries that are worth it. The 2 000 engineers for the US, 3 000 for Germany, 4 000 for Japan, 9 000 in India, we need to double or triple our headcount in the countries that are promising, where there can be significant growth.

The four items that Alten is working on, so we need to improve our EBIT, and I hope that we will soon be able to reach 10% and we will have an interesting rate. We need to organise the company, which when we reach 70 000 people we will be able to go a lot further and reach 100 000 because we will have this international structure.

Thank you for your attention. Bruno and I are now available to answer all your questions.

Aditya BUDDHAVARAPU, Bank of America

Hi, Simon and Bruno. Thank you, good morning and thanks for taking my questions. First, the new guidance implies organic growth of anywhere between flat to 1% in the second-half, so somewhat similar to the first-half at the top end. Given the commentary you made on the different countries and markets, can you maybe just talk about what gives you the confidence on that outlook for the full-year given all the end-markets or since the majority of them seem to be facing headwinds?

My second question is on the comparative landscape and thanks for the colour on that. Could you just talk about how you look at that landscape, especially in India, where you have all the local players who have lots of onshore presence and you differentiate yourselves from them because they have a lower cost structure? Also related to India, how do you think about the ability to hire more engineers there and showcase the Alten brand compared to the local players?

Participant

I will start to answer your second question on our development and growth, reputation and strategy for India. As I told you, today, India is around 9 000 engineers and for our strategy to one day reach 70 000 engineers and grow to 100 000, we have to grow to more than 12 000 engineers in India, and perhaps 20 000. That is because even if Alten is the opposite of the pure Indian players, we have strong local delivery capacity and pure sales and front office, mostly local in countries. Alten is mostly a local country in Europe or in the US, Canada, etc., and less than 20% of those Alten engineers are on lower cost countries like India, Morocco, Romania, Vietnam and Mexico. We have to grow, we receive demands from customers in Europe and the US and naturally, with a new technical management we have now organised a very strong capacity in India with 10 delivery centres in four cities, etc. In India we can grow just with the running business and the willingness of a lot of customers delocalise business in Europe and the US to India, so we can grow to 12 000. We were expecting that to happen in 2025, but it could be later because of what we explained about the customer demand. We also have to push M&As to accelerate the growth to 20 000 engineers in India, so the ideal situation would be to buy five or six companies with between 700 and 1 000 people, etc., to complete the natural movement we have with our customers and the new business we win with them. However, M&A in India is incredibly expensive to buy an Indian company at two to three times annual revenue and sometimes much more, because we are obviously not the only Group pursuing this strategy. We will make an effort to pay the price and that is what we will do. Most of our customers in India today, our international customers are not Indian, they are French, German, American, etc. They even have two ways to work, they send transformation business to the original country, the US or UK, or they have their own delivery centres in India and then we deal directly India to India. Today, the decision is mostly Europe and the US to India, something like 70% and 30% are beginning to have big centres in India and are working in India for India.

I hope I have answered your second question. Could you repeat your first question because I did not understand it very well?

Aditya BUDDHAVARAPU

Thank you for the information on India, that was very clear. The first question was more that the new organic growth guidance implies flat 1% growth in the second-half of the year on revenues. Could you talk about what makes you confident of achieving that given that most of the end-markets are still facing technical slowdowns?

Bruno BENOLIEL

In fact, this is very simple. We have some countries and some big customers who have the idea to postpone projects that would normally have been launched in September/October, mainly in civil aeronautics as well as auto in France, Germany and other locations. We prefer to be cautious because this was not expected, and I would say that those projects have been postponed on a Friday for the next Monday. We have asked all the businesspeople to make a deep review of their expectations for H2 and let us say for the last four months of the year and I hope that we will at least achieve 0.5% organic growth. Projects have not been cancelled, they have just been postponed because those customers are facing cash issues and are managing their free cash flow very carefully, which is why they have decided to postpone our big projects in 2025.

Simon AZOULAY

We cannot imagine the situation continuing where our customers, instead of developing and investing in programmes, are waiting and pushing back all their programmes to generate more cash or for many other internal reasons. That is the situation we are in today and it is a problem, it is not a crisis, it is very strange. I created Alten 35 years ago and I have never seen a situation like this. I have seen big crises that last one year and then we have been doing very well the following year, but this is the first time I have seen something flat like this, no close, no crisis. I hope it will finish at minimum after H1 2025 and everything will be okay in H2, but I do not know.

Aditya BUDDHAVARAPU

Great, thank you very much.

Mr DAVID

I have three questions. First, can you give us more details on the discussions you have had regarding the Automotive sector? The first semester was okay with the OEMs, now you are telling us that projects are being postponed with OEMs or equipment manufacturers. Can you tell us about recurring business that could decline in either France or Germany? Are you discussing this with the sector and what risks do you envision in this sector? Second, you are a top three company in engineering, but you have much lower market share in the IT sector and there is pressure on budgets. Do you have a strategic action plan to change this because this sector is not as resilient as engineering? Can you continue to grow this sector and make it more visible via M&A or do you want to remain at this level in the years to come? On margins, if we exclude the calendar impact, there is still a stronger decline in the second semester compared to the first and I do not really understand why because the gross margin is quite good. You were surprised in S1, and the bench has gone up so were there more intra-contracts in S2, why will this margin decline more in the second semester than in the first year on year?

Simon AZOULAY

With regards to the Automotive sector, of course, there is a difference between tier one and OEMs. It has been a catastrophe for tier ones, which is why Germany has suffered so much because we were very present in tier one, in Schneider, etc., and it was start-stop. We were among the first to work in the sector and everything stopped overnight, so this was a disaster. Mercifully, there has been a recovery in Germany, you cannot see the figures yet but there is one sector that is collapsing in Germany, which is equipment manufacturing. To answer your question, when it comes to OEMs, the American, British, Swedish and French manufacturers have implemented offshoring and we have a rate of almost 70%, so only 30% of the design resources, the process manufacturing which is nothing to do with the supply chain in IT services are outsourced. Except that is for Germany because the Germans have always been a bit more protectionist with HR and know-how, which is why there are a lot of Indian players turning to Germany companies and offering very good prices to try to get a foot in this German market by offering their services. We need to support this movement in the Automotive sector, and we have been in a very good position over the last two years, and we have expectations in Germany. Things are not slowing down for strategic reasons but rather for financial ones, for cash flow reasons, with our usual players in the US and France. We hope that it is only temporary just as for the Aeronautics sector where Airbus has gone down, it has postponed several projects, not because they needed to but for strategic and financial reasons.

When it comes to management of IT, ITS, this represents 14 000 people at Alten and even if it is not Alten, we can look at what happened when Altran integrated Cap Gemini. They both separated and they now have Altran Engineering, and they removed all the IT services part and reintegrated it into Cap Gemini, and they became two different worlds. We have been trying to do the same at Alten, two sectors and two worlds, because they do not work the same way at all. In some cases, we work with the R&D and technical management, programme management or production management for the product activities in the industry, while in the other case we work with IT companies in charge of billing clients, management, so we are not talking about the same thing at all. There are 14 000 engineers, and we intend to reach 30 000 in the mid-term. How are we going to do this? We need to make offers, we are not using for the best engineers from the best schools for R&D or to design equipment or factories. It is a world where we have IT engineers, where we deploy a sales force, SAP to manage data, they want to roll-out Microsoft, etc., so we are looking for specific skills that are not strategic at all or IT directions, it is the same for all banks, it will be in bank A, B and C. This means that we have to organise the IT Service world in competence centres around development in software testing, the deployment of infra and network, and cybersecurity and everything to do with data. We need these skill centres everywhere around the world, one for cybersecurity, one for data analysis, etc.; we have over 3 000 people around the world working on data in Alten and we need the in one entity, one skill centre. Of course, we also need a low-cost capacity in India, which is not the case for data. Our action plan has nothing to do with the Engineering action plan, which will allow us to escalate, go up five peers in ranking and this is what we are working on. We have hired a management team dedicated to this universe with 14 000 engineers.

I will let Bruno answer your third question. [Break in translation] second semester.

Bruno BENOLIEL

I think this is the right translation of your question. The calendar effects are not the same in S1 as in S2 because there are a lot more holidays during the first than in the second, so the count is not the same. In reality, the decrease of the margin in the second semester compared to the first, is not as significant as it seems. However, it is true that we have more conservative theories on S2 for the margin forecast on activities. We will see if we have maybe been too cautious, but there is no structural margin difference between the two semesters. [Break in translation] that are sometimes much lower. We have restructuring plans where we have retained the same level of business as during the first semester, and sometimes we have intra-contract levels that are slightly lower because of the postponement of projects, and it always takes two or three months for this to translate into our recruitment rate. However, there are no major changes between the way we counted the margins in S1 and S2. I would like to emphasise something I said earlier, it really helps us understand what the ROA, the return on assets, will be for Alten. I would not have said that in 2021, it was the opposite, we are maintaining our theoretical margins so the salaries, selling price and productivity of our package makes it possible for us to easily have 10 elite points. In 2021 we had just gone up and it was difficult to increase prices but if we would have been fine if we had had the right SG&A and the right occupational rates. We did not and this is when we have a problem, it is in the dimensions in Alten and we have reduced it in 2024 but not enough, we still do not have the right occupational rate and the right SG&A costs in light of the revenue and revenue growth today. It is a shame because we have the fundamentals.

Mr DAVID

Thank you very much, that was very clear.

Laurent DAURE, Kepler Cheuvreux

Good morning. Regarding the 10% operating margin of the Group, I understand that the fundamentals for the gross margin have not changed but there has been structural investment to support the group international, and to have higher range offers and more verticalized offers. Do we need a higher gross margin to reach 10% than we had before or is it the volume growth that has made it possible to structure the Group a bit over the years? As soon as the business is stabilised or growing slightly, will we have an effective return to a 10% margin? Second, there are a lot of questions on India today so can you give us more details and granularity on what India offers in India, the type of services that are in high demand? Third, on the Automotive sector in terms of headcount for Alten, can you give us a breakdown of what is being done offshore, in India, Romania, etc., and a five-year vision on this mix? As a result, what are the risks for the Automotive sector which is worth 18% of your revenue could be a much less important vertical, so 13% or 14% in a few years? I think this is a really important topic for investors today.

Participant

Clearly, investment to become more transnational in our offer is something that has just been added to the traditional costs and I think it can be assessed as around 0.6% of the revenue. It is necessary so that we can present ourselves as a global group, so we need an international technical centre, mobility programmes, transnational offers. This has costs and they are costs we did not have when we were more local in different countries in the past. That is something we now need to compensate for and that means a return on investment. Theoretically it should be natural and having these structures should sometimes let us limit the number of business managers, because we have work packages that are larger, to negotiate better margins, etc. We should consider, otherwise if we are wrong, we are completely wrong, that the implementation of these cross-disciplinary transversal structure, even though it is 0.5% or 0.6% of the revenue, should generate at least an amortisation and double or triple compared to the other SG&As. That is not the case today and it clearly weighs down on us, but I hope that will not be the case very soon with the international deployment.

As for India and the type of activities we have, as I said earlier, we only work with international and global players, the big name clients who have decided to go to India. In our sector, mostly engineering with a little bit of IT sectors, but most of our activity there is not for the local market in India. The only activity we used to have for the local Indian market was for a very large Indian group and it is the one that was taken over by a large group that decided to in-source these 1 500 people and it was the only purely Indian contract we had. Strategically speaking it was probably not a great move because it was transferred and then in-sourced again internally. All the deals we have there are international players in the Automotive and the Public Sector in the USA and demands from abroad. In terms of direct orders from abroad we have delivery centres that are working locally because the player placing the order, Renault, Stellantis, etc., have infrastructures there, so we are still working with international players but 95% of them have activities in India, so that is the type of activity we have there. As for the sectors we are working on, there is hardly any Aeronautics or Defense, and we mainly work on technical documents for aeronautic engineering work with the use of a lot of AI, but there is no R&D. The sectors where we have engineering activities are mainly Automotive, Railway, land transport but also propellers and Telecommunications. These are the type of clients we work for in India, so mainly in engineering, and we are very strong in system design, global projects in design for mechanical structures, DMSI. Out of the 9 000 employees there are about 2 000 Indians working for IT Services, mainly for the USA and marginally for Europe, which is something we need to increase because we have delivery centres for IT Services.

I hope that answers your question, Laurent.

Laurent DAURE

Absolutely, perfect. Do you also have a type of service that you are really good for in that area and that people want you for in India, or is it quite well distributed across the different activities?

Participant

Our clients prefer us to pure Indian players when they want a mix of services or projects in India, as well as the Western world. For instance, with a Stellantis project part of it could be in Morocco, part in France, part in India, maybe another part in Mexico, and another in Detroit, for a new model, a new integrated or embedded system. This is typically what Alten is asked for because we are everywhere, and we have worldwide technical management. We can do local, onshore, offshore, so it is a project involving 1 000 people for support or software development where everything is in India, like a sort of black box, you have companies such as KPIT that can do that, but they may not be as much in demand for these kinds of projects. Depending on the type of project that clients have, it is us they want and now it is up to us to bid for both of these types of projects and given our size in India, that is what is happening. Support for roll-out is not engineering per se, but strategically speaking we do not do that, we are not end-to-end on VPA, so there are projects that we will nod bid for.

Laurent DAURE

Okay, that was very clear, thank you.

Participant

On the last question about the Automotive sector, as I was saying earlier, we are able to increase the percentage of revenue in the Automotive sector within Alten for one reason, we have been able to grow really well over the last two years in France, the UK, the US, etc. In terms of the number of engineers we could say that we are up almost 50% over the past two to three years, but in terms of revenue and given the fact that there is a lot of onshore demand, which is up between 10% to 20%, so it has increased more than the rest and that increases the share of the revenue. However, we have reached almost 70% for offshore and 30% onshore local projects and I do not know if this ratio will change but I do not think so. However, if we look at Alten’s activities, we need to continue to develop our Automotive activity, but we will not lose much of the ratio because of onshoring, I think we have reached that limit, but there is Germany where there is still a lot of onshore and that [break in translation].

Laurent DAURE

A last point here, about your discussions over the past few weeks and months with part manufacturers. Are some of them telling you that you need a plan for the next two or three years to reduce the R&D budget by 20% or 30% because they will otherwise be under pressure from the Chinese? Or are you not having this kind of discussion with your clients?

Simon AZOULAY

I am smiling because that is actually the only thing we are hearing, it is the only thing they are telling us, that they want a 20% or 30% reduction. We are only talking about the Automotive sector here, so yes, clearly, that is the only thing we are hearing and the only thing they are interested in. India and Morocco have become too expensive, so what about Vietnam and they are talking about Pakistan, and Bangladesh. It is nonsense, we have been able to consolidate our delivery centres, and they are really stable in Morocco, India, Mexico and Romania and we are already working on delivery centres elsewhere so that we can be even cheaper than low-cost, you need to go super low-cost now. Romania has become too expensive when it used to be the Holy Grail for Renault and Airbus used to be in Romania and now, they are in India, their technical documentation. Of course, this is non-stop, and we will not go super low-cost, and it will not account for one-third of the low-cost segment. There is a lot at stake especially given the saving you can get from that.

Laurent DAURE

Great, perfect.

Emmanuel PAROT, Société de Bourse Gilbert Dupont

Hello. I have three questions. The first is about the Q3 activity recruitment and you said that there was a slowdown for Q2 compared to Q1. In the current context you have described should we anticipate that this slowdown will accelerate? I understand that September is not yet over but what should we anticipate? Second, on capital allocation given that you have described that you have a lot of cash flow but cannot make acquisitions. Would you be anticipated to accelerate dividends and share buybacks, what is your policy? Third, could we have a bit more visibility on the Worldgrid margin, because you did not have much about it last time?

Bruno BENOLIEL

For Q3, September is not over yet so it is difficult to answer, and you will get the answer in the publication on 24 October for net staff evaluation. As for the capital allocation, right now we have EUR 217 million cash, EUR 270 million will be [inaudible] for Worldgrid but we do not intend to do any buyback for that reason, and we are also not going to increase dividends. Simon can correct me if I am wrong there even though this is a decision that will be made at the general assembly next year.

As for the margin, we are trying to put a carve-out programme in place, but this still has to be approved by IRPs with Atos and the authorities, so our level of information has not increased much compared to three to four months ago. On Worldgrid we have been told that the gross margin is pretty much stable, so based on what we have seen in the due diligence we do not expect any major discrepancies given the situation and our analysis. However, we actually have hardly any information, especially given the fact, as you heard, that when we signed this deal Worldgrid was a company that was fully-integrated into Atos operationally speaking but also in terms of internal organisation, finance, HR. That means that a lot needs to be done to implement a standalone structure, so we have different scenarios for that, and we need to continue to analyse the situation in order to implement something.

Emmanuel PAROT

Thank you.

Simon AZOULAY

I can add to what Bruno said, because this is a very costly and significant acquisition, we have analysed the revenue, wages, etc., beyond what Atos has presented, which is hard to read. We have bought shares within EDF, and we have bought specific skills, control command, billing, [inaudible] to strengthen our IT Services, ASAP, Salesforce for Germany and Spain, and for great management. These three interesting skills are going to help us a lot and we also need to consolidate our position within EDF, given the gross margin. It is like when you buy shares, if you do your job you manage the occupancy rate, the product as well, there is no reason why we cannot get back to a normal EBIT above 10%, officially it is 12%, it might be 8% or 6%, but it needs to square up. We do not want to buy a company with a really high EBIT when you know that it is going to go back to 10% and the companies we buy first are at 5% EBIT. It could happen with Worldgrid, but our job is to bring it back to 10% but we know it is pretty complicated and we need to recreate the entity and the structure with Atos is complicated, so the target for Worldgrid is to get back to normal levels.

Derric MARCON, Société Générale

I have two questions and the first is on Germany. What happens in Germany if the automotive manufacturers go offshore like the others, what about your technical expertise? I know that you initially had large manufacturers like BMW, etc. Second, on the transformation of the Alten organisation, this is something we have seen in other SS2i in the past and Alten is also positioning for a different delivery model and more complex structure, which is what we have seen with most IT companies going global. Do you think that this complexity makes Alten slightly different from what it used to be in terms of operational management, inertia, capacity to capture market growth when it arrives? These are basically the faults we saw at Alten five or six years ago.

Participant

When it comes to Germany, we already have two Altens there, the one we call Consulting Solutions, ACS, [Inaudible], so technical assistance, which can be in line with local needs from Automotive sector clients and those who are going to stay in Germany because they have the coordination, systems, PMOs, etc., there. It is the 70% to 30% ratio I was talking about for Automotive, 70% offshore maybe 80% but there is always a little part that stays, and this split has already happened. The other part is the work package, Alten [Inaudible] where we expect a lot of offshoring and the substitution of what we have locally. That accounts for 700 to 800 people right now and we ideally want to transform that to 2 000 people, which is not big especially compared to the Germany market and India, but that is starting, and we have already won projects, but we are always up against Indian markets.

Derric MARCON

Is the work package already in India?

Simon AZOULAY

Absolutely. The MBA part is parameting and I talked to the German boss about this last Monday, and he was very confident about the local part, and he said he was not facing local competitors or world players. Just like we do for the work package in France, the UK or even Sweden, we need to start to move towards India or other low-cost countries. If we do this transformation well, as we did in France and the UK, and it is going okay in the US as well.

As for the delivery model, there are several significant changes with new models to implement and, as we mentioned earlier, transnational structures that allow us to win the big transnational projects with strategy directors. At lower levels, the managers are also going to change models because customers are increasingly asking us for work packages in engineering or skills offers and IT Services, so we no longer need three engineers for this and four for that, I now need a specialised team for Cloud migration, I want a fibre team and a skills offer. There is also a coordination cost to that which we need to take into account and that means that manager teams are offering skills rather than resources, and this is the real change in the market. Compared to engineering these projects are getting bigger and bigger and today there is an average of 20 UTP per project and we are going to go up to 30, 40 or even 50 UTP for sectors we have mentioned like Automotive. At least 70% to 80% of it will be low-cost because clients no longer even ask for a detailed rate, they want an overall and that we do whatever we need. That means we need to put in low-cost whenever we can, so it completely changes the education and behaviour of managers, as well as the model. Indirectly. If we are to go into more detail, we have had a business unit system where managers recruited engineers and placed them in a service centre. That is no longer going to be what they do because engineers remain local in certain sectors, but we need to have a vision to be able to organise projects on the basis of skills centres that are not in the same location as the manager but in France or abroad. This is what I spend a big part of my time on at the moment.

Derric MARCON

Simon, you were already doing this using the capacities in other BUs but the major change in this model, and the major change and the downside I see is the stop and go effect with ramp-up phases that are difficult to manage if there are big teams and all of a sudden you do not manage to place this big project but another one and you have a lot of people on the bench. I would like to know how you can counteract this.

Simon AZOULAY

There are risks because it is becoming increasingly industrial and that was not so much the case 10 to 15 years ago for Alten. You are absolutely right and we either stay small and remain a technical assistance company or [break in translation] offer for bigger international projects and clients that are a lot more demanding. We are either in a capacity model or we offer skills centres so that we no longer manage business units and intra-contracts. I agree that this is the risk, but we are going to have to do it if we want to grow.

Derric MARCON

That is very clear, that is it.

Participant

Even if the occupational rate went down, it is the same as for international cross-cutting costs, the gross margin gain will allow us to compensate for us. Let me give you another example. If you take consultancies, it is not like priority services, there are occupational [break in translation] because they provide very high added value services at EUR 900 per day while we start at EUR 500. We have to make up for the losses and benefits with a different way of managing risk and our occupational rates compared to an offer with more added value, otherwise we are not in line with our accounts, we are no longer a leading player.

Participant

Thank you for your time and questions. I think we will have [break in translation]. As always, we are available to answer all your questions. Have a nice day. See you soon.

Unfortunately we could not check the following name and words: