



ALLEN Q3 2021 Results

Wednesday, 27th October 2021

ALTEN Q3 2021 Results

Operator: Good day, ladies and gentlemen. Welcome to the Alten Call on Activity at the end of September 2021. This is the speakers and the operator's announcement. Please observe that this call will be listen-only during the session; but after the presentation, you may ask questions. You can do so by pressing star one to have your question recorded. If you need assistance, press star 40[?] and you'll get an operator on the line.

I will give the floor now to Mr Bruno Benoliel, Deputy Chief Executive Officer, to begin today's call. You have the floor sir.

Bruno Benoliel: Thank you. Good evening, everyone. This last quarterly call of this year has to do with Q3 2021. Fairly surprising year. If you just look back six months, recovery in business was stronger than expected in Q3 and grew further in the subsequent quarter in all geographies in Automotive and Civil Aeronautics that were hit by the crisis. Nevertheless, business levels still down below pre-COVID levels. In spite of it all, business resumed in both of those sectors. It was a mix though from one geography to another.

Revenue end of September 2021, €2,130.4 million, which is up 20.7% versus Q3 2021. In France, business grew by 9.7%, outside of France up 27.8%. Like-for-like exchange rate and scope business uptake by 9.5%, 5.4% of which in France, 12.1% out of France – 2.1% out of France.

Now to just look at the quarter, business grew 40.2%, 48.7% internationally. Organic growth reaching 23.9%, 19% in France, 26.9% outside of France. Now logically business continued to grow, reaching 92.9% Group-wide, as of end of September 91%.

Revenue slightly above normative rate 92.5% for Alten Group in the period. All geographies came back to rates above 90%. Furloughing was halted everywhere as of the end of July. Headcount therefore began growing again in the period. Reminder, 33,800 employees as of end of the period. 30,500 end of June, 33,000 some engineers now, 40,700 in September 2021, 35,700 engineers.

Excluding acquisitions and divestments, headcount of engineers 32,943 people, which is sequentially up 4,344 since beginning of the year, 151 engineers in France, 3,300 some outside of France.

Business end of Q3 broken down by geography looks like this. France, activity is up. There's a positive base effect but there's a negative still coming from Civil Aeronautics and Automotive. France hasn't yet reached the pre-COVID level, still 15% down like-for-like. Except for Multimedia, we have a deals effect representing 3.5% of revenue in France.

Automotive representing 8.6% of revenue. France still down by 13%. All other sectors are growing versus Q3 2020. Multimedia, Automotive, Aero down versus pre-COVID levels. Buoyant sectors are Energy, 16% of revenue; Pharma 10%. Automotive and – Rail and Naval and then Defence and Security, most of these are growing by 10% or more.

As you all have realised, I'd specify, organic growth rates are given year-to-date end of September versus previous year to end of September. If we look at the quarterly activity like-

for-like compared to overall Group activity in beginning 2020 business before the COVID crisis began. In some locations in spite of positive organic growth rates, we still got some business levels that are low activity levels that are lower than was the case end of 2020 in some locations – end of Q1 2020 in some locations.

Internationally, business growing strongly in all geographies, all in all going beyond the pre-crisis level. Only Germany and Scandinavia, where Automotive and Civil Aeronautics are major, they're still down lower. North America, US, 80% of the North American geography business is going up growing by around 10%. It's gone beyond its pre-crisis level, including Automotive, representing 20% of US revenue, in spite of oil and gas being down 7% of revenue in the US and telcos representing only 5% of turnover in the US.

Canada, growth speeded up reaching 30%, thanks to Finance/Tertiary about a third or half of local and Telcos 20% and Life Sciences 10%. Germany, activity reaching similar level as of end of September previous year but still 10% down versus pre-COVID, mainly impacted by Aerospace within 10% of turnover in Germany, still down by 40% versus the pre-COVID situation, whereas recovery in Automotive 46% of turnover in Germany speeded up in Q3. So now 10% below its pre-COVID level.

Diversification like Finance, 10% of revenue in Germany and other industry 8% of turnover in Germany growing strongly by 65% and 45%, respectively. Spain, activity growing by 7%. Pace of recovery speeded up into Q2 and Q3, thanks to Defence and Security, other industry and Aerospace.

In Italy, growth remaining at 30% at end of September, never stopped growing in spite of the crisis. Strong growing everywhere. Strongest growth to be seen in Automotive, plus 50%, making 20% of revenue. Italy, Defence and Space and Defence and Security 12% of local revenue. Other industry, 80% growth, 12% of local turnover.

Scandinavia, activity like-for-like forex in activity recovered, reaching a balance and year-to-date end of September but still 20% below the pre-crisis level. Finland represented 20% of the zone, activity grew by 6% in Industrial Equipment, which is the bulk of business in the country. Sweden now only down by 2.5% year-to-date, but somewhat more sluggish recovery in Automotive and Heavy Vehicles. Telcos 7% of revenue but diversification areas such as Life Science 7% turnover. Energy and Rail growing strongly.

Benelux, activity grew by 8% reaching its pre-crisis level, growing by 7% in Belgium. Except for Tertiary, all the major sectors are growing, particularly Pharma representing over 40% of local revenue, up by more than 20%. The Netherlands, activity up by 8.5%. Electronics and Semiconductors up standing around 40% of revenue in the Netherlands. All other significant sectors are also growing.

Asia-Pacific. Scope grew by 26%. Growth speeded up substantially, as you saw in Q3. Growth grew by 40%. Asia-Pacific now makes up around – is around 50% above the pre-crisis level. India represented 30% of APAC region, growing by 20%. China representing 20% of APAC growing by 30%. Singapore, 15% of the geography growing by over 100%, thanks to activities in oil and gas.

Sorry for coughing into the microphones says the speaker. In the UK, business up by 4%. Business are growing beyond its pre-crisis level. Growth speed up especially in Q3, thanks to

a big uptick in Automotive, Aeronautics, Defence and Tertiary. Switzerland, little impact by the crisis, saw a big boost in business in Q3 in Pharma and Industry.

Eastern Europe lastly, strong growth, thanks to Poland, representing 56% of the geography, growing by more than 60%, thanks to Finance and Automotive. Romania, 40% of the geography. Business grew by more than 12%.

Now, of course, growth in business in Eastern Europe or Asia is due to local business with local clients when these countries act as subcontractors nearshore or offshore for clients from the US or from Europe. Corresponding revenue is booked in the companies that invoice the final client, European or US companies.

Recovery in business in end of Q2 speeded up in Q3. All activities saw benefit, including Automotive and Civil Aeronautics.

Now let's look, as usual, this activity by sector. Automotive 16% of revenue. Automotive started to recover in Q2 and that was further confirmed in Q3 as we expected in year-to-date end of September. Business sees positive growth of 3% but still is 15% below the pre-crisis level.

At the lowest point, let me remind you that Auto business was down 35% versus the pre-crisis situation and some of the way has been achieved that the OEM situation is contrasted. French, Swedish, British and some Germans are down, whereas the other Germans, Italians, Americans and Chinese are sharply up. All in all, the manufacturers down 3%, representing 30%. The equipment suppliers are up 20% even if the performance varies depending on the client.

Rail/Naval 4.5% of revenue, doing well, up 13% even if Rails growing far more slowly than Naval. A significant part of the growth was achieved in the Naval sector at Naval Group up by 39%. The pre-COVID level has been exceeded. Aerospace now 11.1% of revenue, up 2%. The business rebound in space is very vigorous. We anticipated even during the crisis last year knowing that launches were going to resume after the crisis. We didn't anticipate such a strong rebound. It's of the order of 40%, Aeronautics down 1.5%.

Business has picked up sooner than expected but remains 25% below its pre-crisis level. A 20% gap was filled in the year because a year ago we were at minus 45% versus the pre-COVID situation. Defence and Security activities, that's 5% of our revenue, up sharply, more vigorous than expected. Growth 25%, also significantly topped the pre-COVID level. Energy represents 11% of revenue, is accelerating its growth to 9%. Sorry about the sound interrupt.

Oil and gas 6% of revenue is still down after the budget cuts last year, even if activities picking up because of a resumption in investment plans. Demand is set to rise because prices are rising and under-investments been chronic in this sector for several years, in spite of the determination by all governments to strongly develop renewables.

There won't be reinvestment in fossil fuel lease during the transition period. Nuclear power 3.1% of revenue continues to grow by about 10%. Trends are very favourable. Energy equipment 3% of our revenue accelerated its growth rate, exceeding 25%. Life Sciences now reach 10% of Alten revenues, barely half that four or five years ago, up 15%. Pharmacy up 20%. Medical devices up only to 3% of markets, set to grow rapidly again next year.

Other industries account for 6% of revenue, up over 20% at a level far higher than pre-COVID levels. Telecoms close on 6% of revenue, slightly up, as always. Activity is stable at telcos

4.7% of revenue, up 10% for – with equipment suppliers. In spite of this, it remains disappointing because telecoms activity hasn't yet fully returned to its pre-COVID level even if it's close.

Electronics and e-commerce, 6.9% of our revenue, is up 10%. A very significant increase of course in semiconductors and electronics as well as e-commerce because of the resumption of projects at Amadeus. Lastly, Finance/Tertiary 23.8% of revenue. Activities up in bank finance and insurance plus 5%, as well as in Retail and Services plus 15%. The pre-crisis level has been exceeded. All in all, the sector is up 11.5%.

In summary, aside from Auto and Civil Aeronautics, to a lesser extent, telecoms, all sectors have returned to a higher level than pre-crisis. The prospects for a catch-up in Auto and Civil Aero are great, so there'll be interesting growth in the coming years.

M&A, external growth, as you know, during the first half we made four acquisitions in France and International that I won't discuss. All consolidated at 1st July '21. In Q3, early Q4 we finalised two new acquisitions. One located in China/US. It's a company that does development software for Auto and Telecoms working for the US market and for the Chinese market, a company that in 2020 achieved 60 million revenue with 1,900 consultants. In India, a company working essentially for the US market, a little for Europe with local front-offices in sales whereas all the engineers are located. In India, a company specialised in product engineering onboard system, ADAS system and digital tech, a company that last year delivered 11 million in revenue with 990 consultants.

For '21, the year 2021 is set to be a good year. Contrary to all expectations, activities rebounding faster and stronger than anticipated. We hope the momentum will continue into 2022. Our margins have picked up. We achieved some interesting acquisitions larger, strengthening in Asia. Our due deals are currently underway. As a consequence, organic growth is set to exceed 10% slightly this year.

I'll now hand over to Q&A and be happy to take your questions.

Questions and Answers

Operator: Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone. And please make sure that your line has not been muted. I'll let you know when you can ask your question. Please press star one. We have questions. The first is from Mr Emmanuel Matot, ODDO.

Emmanuel Matot (Oddo): Good evening. Emmanuel Matot from ODDO. Hope you can hear me. Well, I had three questions, if I may. How are you currently managing growing tensions on the labour market for executives? Talk about pay inflation and shortages in certain sectors. So what's the situation for Alten?

My second question, should we worry about a business slowdown linked to shortage of components? Certainly your clients in Alten show that several manufacturers are postponing certain projects.

My final question; could we have no idea the profitability of the acquisitions achieved this summer. We look at revenue related to the number of consultants, we can have questions. Thanks.

Bruno Benoiel: Concerning labour market tensions, they exist. They're not specific to France. They're present across the world. We have a pickup in turnover that's returned to historic levels of 25% or even slightly higher in certain places, which is, if we look at things positively, a sign of good health of the economy and the confidence of people, because they're happy to leave their employer to find a job elsewhere.

Now, our business, of course, is to deliver projects but it's also and we tend to forget that have real recruitment. We – Alten recruits thousands, dozens of thousands of consultants every year. We have a real know-how. And today, we're not too impacted. We're not overly impacted by labour market tensions. I say we're not – we can maintain pay levels at hiring, but it's true that in 2022 that we haven't really increased salaries in 2021. We'll have to review the rates for new hires as well as for our employees. So we'll have to talk to clients about tariff increases.

I read in the press today several of our clients, I won't mention names, but have pledged to deliver 2% or 3% pay increases that's general increases for that. Of course, what will apply for their own employees will have to apply for their subcontractors. It does pose a problem. Well, we have to manage that in a business but these labour market tensions are such that in certain places, we're probably limited in terms of growth.

I'm thinking of Germany, for example, where we have plans that we have difficulty in delivering, owing to a shortage of resource. Also the case to a certain extent in India, not yet in France, but here and there, we're encountering difficulties in recruitment to meet demand. It's not the first time that's happening, but then it's down to us to be creative and to have the right projects to attract engineers.

You saw through our organic growth rates in Q3. Q4 will also be a good quarter. We manage the situation, but you're right to point to that out, both on pay and on growth, labour market tensions today is an issue of discussion and concern for us.

Regarding the slowdown in the Auto sector because of supply chain issues for components. For the time being, we're not affected. As you know, we're not at all involved in production issues. We're involved in the manufacturing, so through manu. engineering, but production proper we're not involved in. But on the other hand, what is to be feared is that if lastingly our Auto clients can't deliver, they'll meet with cash problems, and six months on, they may postpone certain projects. That hasn't happened so far. Not everyone has picked up with the same dynamism.

There are geographies where business picked up very strongly. Auto and others where it wasn't the case, but I can't really deny that. There's a risk that in six months, some may decide to postpone projects, but you also know that auto manufacturers have major investments in R&D to massively decarbonise vehicles and to move to electric vehicles fast. So I think they'll probably maintain a sustained investment level.

Profitability of acquisitions. Now when we look at the revenue by head, it's not very high, especially in India. It's a company that works largely for the local market. And revenue locally per person is relatively low. Now when we look at the profitability of company by company, it's

of the order of 7-8% profit margin. Before we acquired them, that is post-acquisition, there'll probably be improved profitability linked to the rollout of Alten management – project management sales, bringing new projects. Conversely, very often we have to invest more for technical support, management, recruitment, sales and IS and administrative because it's – often it's quite basic.

So take seven to eight as numbers long as then hopefully integrate it. I can't tell you where we'll take them. Consider that they're at 7%, 8% of profit. Gross margins are not lower than those we can achieve in Europe, for example, but it show that revenue per head being quite low, notably for the Indian company. Well, obviously EBIT per capita is far lower, expressed in euros.

Emmanuel Matot: Thank you very much for those answers.

Operator: We have another question from CIC Securities. Go ahead.

Alexandre (CAC Securities) : Hello, everyone. Can you hear me?

Bruno Benoliel: Yes, we hear you well.

Alexandre: Hello. Congratulations on this rebound. My first question – and I have one actually. Acquisition prices, I know you don't disclose these. But when we look at these back of envelop 48 million envelope to integrate these and keep at the ratios you expect, half years' worth of revenue whatever the acquisition prices and integration. That's something I was wondering about.

Bruno Benoliel: Well, we have not changed the acquisition multiples much at all because again enterprise value rise pay around seven times. Seven times profits sound we're also paying earn-out based on the same multiples. So if you look at the price pay, including earn-outs cut through the annual profit during the acquisition year, it will be between seven. That's about the average price we paid. And maybe eight, nine or ten in some cases when the company is booming.

So in the financing tables, we see in price paid for acquisitions. Of course, you require some cash when you acquire company as well, but the portion of payment includes some turnout which usually – earn-out which covers a three-year period generally. So we haven't seen an increase in multiples.

Alexandre : Okay. Well, thank you for that answer. Thanks a lot. And I hope you for better soon.

Operator: Thank you. Next question. [Inaudible] you have the floor.

Emmanuel Parot (Gilbert Dupont) : Hello, Bruno. Three questions. First of all, hirings, net hires. Are we seeing the same thing in Q3? I didn't get all those figures. 2,280-some hires in Q3. Was that it? Could you tell us where things stand? If I remember properly, previously hiring didn't seem as high as it might've been but this figure seem pretty good. Another question on guidance. Organic growth full year you're seeing over 10%. But looking it differently, is there a reason why Q4 organic growth should be much different from Q3 and Q2? I don't think there's a different base effect. That was the second questions. Next point. If you were to recalculate current growth, embedded growth looking forward to 2022.

Bruno Benoliel: Well, I'm looking at the answer to your first question. If we're talking about net headcount end of June, I think end of June up 2,180 engineers, about nine in France and most of these were international. Therefore, 2,180. Around 1,360 engineers net excluding acquisitions, of course, without taking account France. This is net because there wasn't a lot of departures, particularly in sectors that are still down. There was hiring done in other sectors. And internationally, 1,233 internationally.

Speaker: So fairly good quarter, right?

Bruno Benoliel: That's right. Now into organic growth, Q4. Last year the baseline affect was positive for Q3, even more positive in Q3. I don't know if you remember, but our business had continued to decline, particularly in Aero and Automotive versus expectations in Q3. Then there is a rebound in business that started only in Q4. So our expectation is organic growth in Q4, which necessarily will be lower than what we had in Q3 ordinarily, but it's not a done deal yet.

After all, there are the Christmas holidays at the same time during that quarter. If we look at the number time off, that could well have an impact on organic growth rates. So I suspect we won't reach the same figure for Q4. But we can be almost certain we will be above 10 for the full year.

Now that other question, what's onboard already. When I calculate that once a year toward the beginning of January, first days of January. That's when you know exactly how many departures there were at the end of the year. So I usually gave you that info during the January call when we disclose our annual figures. When we see more clearly what the specific situations in terms of departures during the year.

Emmanuel Parot : I'll ask question another time in the future. Okay, in three months' time.

Operator: Thank you. The next question from Société Générale. Go ahead.

Éric Marquand[?] : Hello, Bruno. Sorry, I've got a cold.

Bruno Benoliel: Maybe you should get the flu jab.

Éric Marquand : But anyway, I have several questions. Sorry to come back to some of the figures on net hiring, but we didn't hear those. They're never same as here for end of June. So we'd like to check this – check against figures you've given as of end of June, what you said in July.

Bruno Benoliel: 2,260 group-wide including the 100 in France, which isn't the 2008 you announced 2,360. I mean I have adjusted departures at the end of June that happened after the payroll period, which is – closes out on the 20th, but not much of an impact. Figures end of June, we're talking currently, 2,180.

Éric Marquand : That's for the half yearly, right?

Bruno Benoliel: It's for like-for-like scope, sequential though versus the situation in 2020, which is sequential hiring. 21 in France, 2,159 internationally. Q3 '21, again plus 130 in France, 1,233 internationally. Yes, that's year-to-date nine months, including 150 in France and approximately 3,392 internationally. It's fairly symmetrical, right in line what we lost in 2020 organically. Thank you. So we'll update that.

Éric Marquand: Two further questions. One is easy, attrition rate. Is it under control? Is it becoming too complicated to manage? Next point, acquisitions, the one in India. It's pretty

high-end mechanical design, not low-end. We'd heard complex projects couldn't necessarily be put to offshore or in – we're talking about embedded systems here and that's skills you have in Europe. Second point also acquisitions, China. A company of 68 million in revenue if I heard that right. That's pretty infrequent, pretty big. Could you say more about this? What about these people in this acquisition and what about clients in China?

Bruno Benoliel: Attrition rate, on average, 25 currently. In geographies that are above that, it would be India and Germany mainly. Next, it's between 20 and 25 everywhere else, the attrition rate.

Éric Marquand: So pretty well-controlled, right?

Bruno Benoliel: Absolutely, we have a handle on that. We're very accustomed to this.

In 2022, there may be a wage consider – wage problem in consideration, though, issue. Now the company in India, yes, some mechanical design but mainly in the other business areas we mentioned, embedded systems and digital technologies. Their clients are either in the US or well-known Indian clients or subsidiaries of US corporations or European corporations that are active in India.

Next, to tell you specifically, the typology of projects they're working on, if they're sophisticated as those where European engineers work, I can't tell you specifically. But what I can tell you is the projects are linked to these activities. That's one of the reasons for the acquisition. It's a company that's not in much legacy business. If there's greater demand developing in Europe and the US for high-end offshore knowledge with lower costs for this certain type of business, this might be one way of keeping pace with demand.

China, the company there, the parent company or previous parent company was in the US in California and it held companies in China. So basically it was 70% to 80% depending on the month. Those major Chinese clients or US subsidiaries or direct business to US companies via their front office in China.

Sector activity, very much automotive and telecommunications. It's a company that's only active in software development. That's what they do. Only software development. They have really rare skills. We identified them. This didn't go via a structured sale process. It's a company whose managers are Chinese but they were trained in the US and they reside in the US for that matter and work in the US but they regularly travel to China.

We got in touch with them and that's how the deal was done. It's an interesting company. 1,900 consultants, soon to become 2,000 consultants. They're interesting. They bring in a know-how in software development, precisely embedded software, communications software and so forth that boosts our presence in that area in China.

And contrary to current Chinese activities that of subsidiaries of Western companies, this one has essentially US clients, be it locally or in the US.

Éric Marquand: And so I didn't understand, the split between the local business in the offshore for US clients that are local. You say front office is Chinese for US clients. Everything is done locally, right?

Bruno Benoliel: No, there's one US front-office and a Chinese front-office. So the Chinese company, the Chinese because there's one per location that work either directly for US clients

or via the US front-office for US clients, the subcontracting mode via the US front-office. So directly for Chinese clients, but the Chinese clients are either very big clients or US subsidiaries of US companies.

Éric Marquand: My last question on the Chinese company. You said that the environment to grow in China is not ideal or stable or predictable. What made you change your mind on that point, especially in the current context Chinese companies held by Chinese but in fact American?

Bruno Benoliel: It's true that geopolitically it's not the clearest situation. But what we find interesting in this acquisition was the skills that it brings us in an offshore market and its ability to work natively with US clients and directly address US clients without necessarily going via a local front-office, because it does more business directly with US clients than via its American front-office.

Éric Marquand: That's clear. Thanks. Look after yourself.

Bruno Benoliel: Thanks.

Operator: There are no further questions in the line. I'd like to once again remind participants that you can put your question by pressing star one on your keypad. We have a further question for Invest Securities. You're on the line. Your line is open.

Matthieu Lavillunière (Invest Securities) : Yes, hi Bruno. Hope you can hear me. Just a quick one on the sectors. Could you give us the change in Q3? I'm trying to do the math, but maybe some rounding numbers if you have them? For Q3, by sector, you gave us the figures for nine months year-to-date.

Bruno Benoliel: Well, so Q3 alone Auto – I'll give them to you. Yes, please. Auto, plus 23%, Rail plus 2%, constant scope and forex otherwise it's meaningless, Aero plus 67%, Defence and Security plus 35%, Energy plus 16%, Life Science plus 17%, other industries plus 33%, Telecom plus 5%, Electronics plus 23%, and Finance/Tertiary plus 21%.

Matthieu Lavillunière : Perfect. That's great. Thanks.

Operator: There are no further questions at this point in time. Back to Mr Benoliel for the conclusion.

Bruno Benoliel: Well, thank you all for joining this call. Apologies if I interrupted the call momentarily. Let me remind you that our next call will be held on 27th January 2022 on the '21 revenue followed by the analysts call that we'll probably hold in person. It's not yet sure to be held on 23rd February next. We hope at the [Foreign language]. Till then, have a pleasant evening and see you soon. Bye-bye.

Operator: Thanks for taking part in today's call. You may now disconnect.

[END OF TRANSCRIPT]