ALTEN Full Year 2021 Results

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Simon Azoulay: You know the revenue for 2021, which accounts for about 65% of our revenue. The whole group is growing organically. This growth – our international business has grown much stronger than France, so general growth of 33%, including 16% organically. And as far as France is concerned, growth of 13.7%, including 8% organically.

So this difference in pace mostly has to do with projects resuming late in France in terms of Automotive and Civil Aeronautics. And we hope that we have better news for you in 2022.

So our performance is based on a loss of business due to COVID. But also, there is very strong demand for technology, which goes much beyond the recovery from COVID, as you can see. In terms of income, it was about 11%. OPA is 19%, and net income 7.1%. So approximately €320 million.

Now if we compare 2021 with the pre-COVID situation, if we look at the figure for 2019, which you can see on the document, 2019 was a very good year, €261 million in OPA, so 19% of the 2019 revenue down to 6% in 2021, €142 million. So €321 million, which is much higher than 2019 once again.

So what is the key performance indicator that we are tracking to monitor the Group's growth and development? We look at our engineer headcount. So 88% – engineers account for 88% of our headcount. That's our DNA. That's our core business. And out of the 42,300 employees, we have 37,500 engineers. So as an FYI, in December 2019, the number was only 32,000. So we have added 5,000 engineers to our headcount.

And this does not include the latest acquisitions in Q4 2021, mostly in China and India. So 3,000 engineers were added then. So we're starting 2022 with over 40,000 engineers, which is a very important and iconic figure, something that we need to emphasise.

In terms of our objective in 2019, we were – we're hoping to reach 42,000 engineers at the end of 2019. And of course, that is an objective that we are hoping to maintain or even exceed. Next slide, please.

If we look at our geographic breakdown, excluding France, as you can see in every geographic area, whether America, Asia, Europe. Excluding France, every geographic area is experiencing handsome growth, in line with the figures I just showed you. So France has lost a little over 1,000 engineers between December 2019, so before COVID and today. So once again, this is mostly due to the resumption in Civil Aeronautics. We're getting a lot of calls for tender in 2022. And the fact that there's pretty much zero growth, or rather zero M&A, zero external growth in France because in terms of M&A, we're targeting mostly international acquisitions.

A quick technical observation. The headcount we're looking at is our engineers. We're not looking at the revenue per region or per country. And we have a lot of engineers now, for example, that are working in France, that are working for the automotive sector. But they are also doing nearshore and offshore work in Morocco, Romania or India.

So if we were to count the number of projects generated by country, of course, France would be much higher because it generates a lot of projects, projects that are being implemented offshore in other countries. So this bodes well for the future. And – but we'll get back to the situation sector by sector. There's a lot of demand at the moment.

Next slide, please.

This is a reminder of ALTEN's positioning relative to engineering professions in relation to IT services. So we're using the colour blue for anything having to do with engineering design, products and services intended for sale versus yellow. Yellow on the right-hand side, that has to do with Enterprise Services, IT services for companies.

We have no reason to not work in the yellow world. Even though we do see ourselves as an IT services provider, we must be an engineering services provider, not an IT services provider. But however, we do have the skills to have a strong presence for these very specific types of – IT services type projects.

So see the breakdown, 75% Engineering, 25% Enterprise Services. So we have detailed the different subsectors of the world of engineering. There are many of them. We're not going to review every single one of them now. But we are organising industrial programmes every step of the way, design, implementation. And on the right-hand side, Engineering, Manufacturing and Processes.

And for these projects, we need engineers. And I'd like to remind you that ALTEN chooses projects that are implemented only by engineers. There's a handful of technicians in our headcount, maybe a few percentage points.

Now in terms of the sector-based breakdown, this is a slide that you're familiar with. There is one aspect that I would like to emphasise. Now when the arrow goes up or down, depending on the sector, that doesn't show the change in revenue, but the percentage change in ALTEN's revenue. So this is what ALTEN is doing sector by sector.

For example, Aerospace, for example. Aerospace, Defence & Security accounts for about 17% of ALTEN's revenue. So handsome growth in 2021. But it's a little less than two years ago, 17.2% in 2020. Because the share of other sectors has increased faster and also talked about the recovery regarding Civil Aeronautics.

The same thing for Automotive, Rail and Naval, about 20% of our revenue, slightly less than in 2020, 21.8%. And simply because that are other sectors, Life Sciences, IT Services whose share of the market has increased more. But by and large, if it hadn't been for COVID, the breakdown is pretty stable in terms of the percentage of revenue for each sector.

So there are only minor changes. And it all depends on the acquisitions, say, we make significant acquisitions in Automotive or in Telecoms. I talked about the latest two acquisitions, which are now being accounted as part of our revenue. But we did add 30 – 3,000 engineers to our headcount in end of 2021. So this will slightly affect the headcount – rather the breakdown.

So what you need to take home is that our revenue, and this is something that is very specific to ALTEN. We operate in a variety of different sectors. And we have a balance between multiple sectors. And this is something that we have work done over the past 20 years. And this is why we are able to weather crises well. Usually when one crisis hits, it hits one particular sector. But we're able to not put our eggs in the same basket.

So in 2003, Telecoms. In 2020, Aeronautics, Civil Aeronautics. And as you can see, this breakdown between multiple sector means we're able to have a stable business and we're able to continue operating as a growing concern.

Now feel free to ask question sector by sector. There's very high demand across the board in every sector for reasons that you are familiar with. Next slide, please.

Page eight. Automotive. Obviously, because of decarbonisation, the ramp-up in the battery sector, all those new technologies. This means a lot of more projects for us. We're seeing a handsome recovery in Germany, for example. What's the key takeaway when it comes to automotive? There's a lot of pressure on prices as usual. This is a traditional feature of automotive. And there's very high demand for offshore activity. So offshoring to drive costs down, whether in Romania, Morocco or Indian business, in Germany. This is true in English-speaking countries as well, including the US.

So that same work that we need to do mainly. So we – there's a strong ramp-up in offshore, mostly driven by Automotive. And this accounts for about 5% or 6% of the Group's revenues. So it's not that huge. The share of Automotive is significant, but not that huge.

In terms of Rail and Naval, we have lots of projects, lots of projects overseas and we're getting a lot of requests from our traditional customers. As for example, the French Navy, Alstom, etc. A lot of demand coming in from most customers. We're expecting handsome growth in 2022 and '23 in those sectors. Next slide, please.

Civil Aeronautics, there's a strong recovery there. In 2022, lots of quotes for tender. We're securing a lot of contracts, mostly in Europe. We are underrepresented elsewhere. We're hoping to expand internationally one day. But right now, we're working mostly with Airbus and other airplane makers or engine manufacturers and manufacturers of embedded systems. So a strong recovery in 2022. And we're hoping that we will have caught up with our pre-COVID level.

So in December 2019, we're hoping to get back to that level by the end of 2022. So lots of projects in Aerospace. There was growth in that sector in 2021, strong growth expected in 2022 with a bunch of new projects that you're familiar with. And also Defence and Security, our expertise is needed for new defence projects, cybersecurity as well, data, artificial intelligence, etc.

Now let's move on to the Banking, Finance, Insurance sectors. ALTEN is – wants to have a footprint in this sector, and it wants to have a footprint in the retail sector as well to open its scope. So there's cloud and cybersecurity. We're already working on that a lot. There's also – in the Defence, for example. In regulation as well, we get lots of projects. And in terms of retail, there's a lot of digitalisation and analytics, UX, UI and a lot of cybersecurity as well.

Next sector, Energy. Strong growth. Strong growth in the nuclear sector in France for the moment. And we're also working in other European countries. Well, not Germany, obviously, because there's no nuclear energy there, but other countries using nuclear energy. And we're expecting very strong growth, given all the new projects that are initiated in the Energy sector, not just nuclear. We have renewables. There's not a lot of volume right now, but also distribution networks that we're developing.

Life Sciences now. We launched this sector six years ago. It was completely new for ALTEN six years ago. And now we have a lot of business, 9.5% of our revenue, which is huge. And there are two main parts, what we call, CRO, so – and data processing, statistics, regulation of certifications. And there's also the other part, quality, manufacturing. And also, we have a lot of engineers working in such fields and to ensure traceability. So it's a sector that's developing significantly in many countries, not just in France, so Switzerland, Germany, Italy, USA, England. So it's a very promising sector for our core business engineering. So we're working on design and treatment[?] for Life Sciences.

And finally, Telecoms and Media. It's still growing, but less than the rest of the Group. We do not operate on telecom equipment there to be found in Nordic countries, China or California. We're mostly working on network deployment with optical fibre and 5G, network management as well and user API management. So the sector is holding up well, but not as strong as the others. So I'll be ready to answer your questions during the Q&A section. Regarding our acquisitions. Next slide, please.

So we have 11 engineers – 3,450 engineers in our six acquisitions. So two companies in China and India. So 3,000 people in total. They are not consolidated in the revenue yet. And I talked about our 30,000 engineers in the first slide. So we are starting the year with more than 40,000 engineers, which is great to fulfil our needs, and now we're in a position to onboard them.

The only acquisition that we closed in January 2022 was in Spain. So it's a company specialised in cloud and digital transformation. So we have around 12 companies that we're negotiating with. There will be future announcements regarding these companies. I can't talk about them right now. But if I may, so the takeaway message is that between December 2019, so before COVID and December 2021, after COVID, the ALTEN Group has reached a growth of 10,000 engineers, 10,000, even though there was a gap of 3,000 engineers a few months before.

So you can see the progress has been made. And you have 6,500 engineers coming from external growth and the rest coming from organic growth, meaning, that organically, we exceeded our size in December 2019, plus the engineers that we acquired, thanks to external growth.

Now before giving the floor to Bruno and before talking to you about the strategy at the end of the presentation, I just have one more slide with the shareholding base, which hasn't changed at all. I think it's been stable for five years now. Unless there is a major event occurring, I think it will stay rather similar. My intention has always been to transfer minority shares to charities, maybe not this year, but next year or the year after that.

Thank you very much for your attention. And I'll give the floor to Bruno. He'll talk to you about the annual results.

Bruno Benoliel: Good morning. So slide 15, please. On this slide – well, it's a slide that you see at each meeting. You can see the progression of headcounts and the Group activity in the past few years. You can see that international business used to account for a little bit less than 50% of – in turnover a few years ago. And now it's much bigger than then.

So ALTEN doubled its size of six years and improved its profitability and its financial structure as well. Next slide. Slide 16.

We have growth in business. Business accelerated in H2 2021. So there is a better share of organic growth. Now it's half-half. In H1, organic growth accounted for the 25% of growth. And in H2, it was 75%. So no comment on forex impact. The impact is minor.

Slide 17. Regarding France, as you can see, growth in business. It was growing very slightly, zero in H1 and strong growth in H2, 18%. So growth accelerated on a like-for-like basis, around

8%. All sectors are growing in France, excluding the Automotive sector. Civil Aviation recovery accelerated in H2, even though it's still 10% below the pre-crisis level. But at the end of 2020, it was minus 45%, which means that recovery was strong at the end of 2021 for the Civil Aviation sector.

The other sectors are Energy, Pharmaceutical, Defence, Naval and Security, all growing plus 10% at least. So in France, in spite of a strong growth of business in H2 2021, France and a couple of other countries globally is still below its pre-crisis level, a little bit more than 10%. But we will catch up in 2022, and we will bridge the gap this year.

Globally, results are quite varied. But generally speaking, growth increased significantly in H2. So ALTEN, when exceeded its at pre-crisis level, the forex effect is still minor.

Slide 19. We have broken up turnover per in geographical area. I'm not going to go into details. Let me just give you the main pieces of information. So international, strong growth. Here's just Germany and Scandinavia where the Automotive sector is very significant. So they're still below the pre-crisis levels. So that North America, US, 80% of the area, 14% growth, back to pre-crisis level even in the Automotive sector even if there's an impact of oil and gas because of the shale and gas.

Canada, so there's some growth as well at 34%, and it accelerated in H2. Germany, shy recovery at the beginning of the year, but it accelerated in H2, reaching 35% in Q4, thanks to the Automotive sector and the Aeronautic sector that were hit hard by the crisis, but there were major investments at the end of the year. So organic growth, 8% at the end of the year. But it's still 10% below the pre-crisis level.

Spain, business grew like 9%. Recovery accelerated in H2, and business is now exceeds the pre-crisis level. Italy's growth is now around 30% even though business increased by 12% during the crisis. All sectors are growing strongly, especially the Automotive sector, Defence and Security.

Asia Pacific, growth was strong throughout the year, 31% growth in total. India, that's 30% of the area. And China, 20% of the area, 20% growth. And Japan, 15% of the APAC area, 45% growth. Scandinavia is the only geography where growth slowed down in the last half year, which is ironic. So there's still recovery. Automotive, heavyweight sector, but the business went down by 20% last year, still below the pre-crisis level by 20%.

Benelux, growth reached 16% at the end of H2, 10% organic growth for the whole area. UK, business is growing strongly. The pre-crisis level exceeded by 15%, so strong recovery in the Automotive sector, still a bit below 2019 in the Aeronautics that exceeded the pre-crisis level.

Switzerland was impacted by the crisis but business grew plus 24% in H2, plus 12% for the whole year, thanks to the pharmaceutical and tertiary sectors. And Eastern Europe grew, thanks to Poland, so plus 65%. And Romania, plus 15%, thanks to the Automotive sector.

Now regarding the results, we already commented on our business at the end of January. So Slide 20. The operating profit and activity grew significantly in H2. So there was a 10.9% margin for the full year. Even though H2 was a bit longer than H1 in 2021, so better seasonality, 150 – between 150 and 170 margin improvement. Gross margin of ALTEN increased versus 2019, thanks to an improvement in our basics price wage ratio, and utilisation rate around 93% in H2.

So there is an improvement. Automotive and Telecom sectors are in decline, relative decline compared to other sectors, Life Science and Energy that are growing faster with higher margins.

Cost of invested growth in more profitable markets, such as Benelux, Italy, the UK or Eastern Europe. On the contrary, growth was weaker in Sweden, Spain and Germany where profit margins are lower as well. And also in terms of business lines, this business increased significantly. It's also more profitable.

Our SG&A cost were reduced in 2020 because of the crisis and started growing again as 2021 began. This is due to recruitment. Throughout the year, our SG&A costs are slightly lower than standard. So, by and large, because of all of these factors, there's a significant increase in operating margin in '21.

Now in terms of share-based payments, this is a non-cash cost, the granting of bonus shares. And the cost was €21 million in 2021. The estimate was €18 million. This increase relative to last year is because there was a full year effect of the plans in 2021. In addition, the performance review, the increase in share price and the reduced turnover has meant that discounted cost has been reviewed in every plan. So this explains the difference between '22 and '18.

Non-recurring income this year is slightly under €10 million, mostly international base. And this is due to M&A, €4.8 million due to acquisitions. So €3.8 million from earn-outs that we paid and did not include as goodwill. Restructuring cost, €1.6 million, which is not a whole lot, and this was posted at the beginning of the year. And €5 million of tax gains. So our operating income after bearing in mind these effects, €280 million, approximately, €288 million.

So our income tax was due to – with the tax rate of 25%. Our net income is €207 million, so that's 7% of revenue in 2021.

Slide 21. Our financial income, which is very low because we have very little debt. Bear in mind that excluding IFRS 16, to the tune of €2.3 million of financial income is positive to the tune of €0.6 million. Because our cost of net debt is €0.7 million, offset by other tax proceeds, mostly interest on loans, €0.5 million and a positive forex impact, €0.8 million.

Now the geographic breakdown. As you can see, it's a mixed situation in terms of income. In France, our operating income was 0.6 – 0.1%[?] in H1. This was impacted by the drop in business to 14% in H1 in France. H2, inter contracts resorbed 80%. And as a result, operating margin recovered, reaching 9.8%, which is still under the normative number in France, which is closer to 12%. So business in France, as I said before, has not returned to pre-COVID levels, so the rate of SG&A coverage and corporate costs, which is mostly borne by France, well, that's still too low.

As a result, the operating margin for France was 8.4% of revenue versus 11% in 2019. Internationally, the country's operating margin continued to grow, 11.5% in H1, 13% in H2. So you do the math for the whole year, slightly higher than 9% in 2019. Generally speaking, business recovered, so the inter-contract rates were historically low. And the SG&A coverage ratio for France was very high in France.

Geographically, very quickly, Germany. The rate of business was high this year. So Germany is still considering its restructuring. Sweden isn't back to pre-COVID levels, but they managed to restore their profitability structure. Same situation in Spain. In the UK, Benelux, Eastern Europe, profitability continued to improve, much higher than 10%.

North America has restored its profitability between 8-10%. And as far as Asia Pacific is concerned, profitability improved as well, reaching 10%.

Non-recurring costs, as you can see, been mostly ascribed to our international business. The actual average tax rate is lower than in France, 25.6%. So internationally, net profitability is 8.5%, net revenue. Next slide, please.

Our balance sheet. As you can see, well, you're familiar with the structure of our balance sheet. I'm not going to comment on that. There are two key takeaways. Our goodwill is up as a result of our acquisition policy from €700 million to €890 million in 2021. Now our shareholder equity is also improved. And you see the figure minus 15 point – minus 15%.

Now in terms of current and non-current liabilities, you include the earn-out, €23 million in 2020, €133 million in 2021, €14 million in current liabilities and €119 million in non-current liability. Next slide, please.

If we look at our cash flow situation and changes in our cash flow situation. This year, ALTEN generated cash flow of €329 million, excluding IFRS 16, which accounts for 11.3% of revenue. This is in line with our operating income. The cash generated was used to pay for taxes to the tune of €43.9 million. Also financed to increase in the working capital due to the rising business of €113 million. Also, we paid for CapEx, mostly IT systems to the tune of €16.3 million.

Now CapEx accounts for 0.6% of revenue, slightly under the normative ratio, which is closer to 0.8%. We financed our acquisitions. Out of the €117 million, you have €80 million of earn-out and a bonus of €3 million on securities. And also we paid out dividends, €33 million. And also you have €7.5 million worth of other financial flows. This is mostly due to the revaluation in euros of cash flow in foreign currencies.

So we managed to self-finance all of our operations in 2021. And we also managed to improve our cash flow from €196 million to €220 million. Next slide, please.

On an annual basis, you're seeing something that is highly seasonal, changes in our free cash flow. It's important to compare the situation between 2020 and 2021 because we see a lot of symmetry. In 2020, we saw a drop in business and a drop in profitability. This drop in profitability led to a drop in cash flow down to 5.8% of revenue. Conversely, the drop in business led to a conversion of accounts payable into cash. And this meant a positive rating capital and generated €170 million in cash.

As a result of the specific circumstances in 2020, free cash flow improved by €250 million, accounting for 10.5% of revenue, even though as you well know, operating profitability, normative profitability of 10% and our free cash flow is about 67% of revenue. Well, a symmetrical situation in 2021, improvements in operating cash flow, 11.3% of revenue. And symmetrically, the return to organic growth generated a negative change in working capital.

We burned €113 million in cash. So the change in working capital can be mostly explained by the increase in payables, €150 million. This is entirely due to the increase in business.

I'd like to clarify that our DSO has remained unchanged at a very low level, 86 days. In addition, due to the increase in business, we're also seeing an increase in social debt and tax debt, €40 million in total.

Tax paid, €400[?] million, lower by €35 million to the theoretical expense and also there are loss-making tax deferments, which means that we didn't pay taxes in some countries. CapEx was €60 million in total. Our free cash flow comes to €158 million, so that's 5.4% of revenue.

If we now do this exercise and look at the instances of the increasing business, well, the result is in line with our 11% up. Now if we look at the financial impact of IFRS 16, I'm not going to go into detail here. But the – by and large, there's an impact on rights of use. This is offset by lease debts. There's no impact on the income statement. And there's an impact here on both the flows from lease debt. So there is zero impact, both in terms of cash flow and free cash flow.

Our IFRS 16 lease debt, 86% is due to real estate because we rented the buildings that we operate, 12% to vehicles, so mostly are vehicle estate for managers and in some countries for our consultants and 2% miscellaneous. Next slide.

These are comments on our analysis of free cash flow. So just we go straight to the summary, where do we need to take home here regarding our business and our performance in 2021? The key takeaway is that ALTEN has improved its pre-crisis levels at the end of 2021, both in terms of business and in terms of income even though there are differences from one sector to another, from one geography to another.

We have also improved our operational margin on activity, achieving the best results over the last 15 years because we have improved our fundamentals, gross margin prices and which is the activity rate is slightly higher than the standard rate. And we've also decreased our SG&A.

Free cash flow, 5.4% of revenue, very satisfying. The organic growth was close to 24% in H2 because our DSO remained under control, 86 days. And so we have entirely self-financed our growth, whether organic growth or for M&A, as well as our dividend. And this meant we've able to strengthen our financial structure as well as our net cash position.

For ALTEN, 2021 has been a very good year. And I'm now going to hand over to Simon who will produce our strategy for development.

Simon Azoulay: Thank you, Bruno. To conclude the first part of the presentation on the figures, we just presented to you, we can think that 2022 is off to a good start. There's just one red flag that is recruitment, hiring. There's a shortage of engineers at a global level. It's not necessarily related to the post-COVID recovery, but it's because there is a huge change in technological needs.

So slide 30, you have our strategy and development. The impact of the COVID crisis. We start with more than 40,000 engineers. We exceeded our 2019 plan, so reaching 42,000 engineers at the end of 2022. I think that we will reach this goal and exceed it, thanks to growth – external growth. All sectors are represented, but the breakdown is not the same when you have a closer look at countries.

So if you have a look at the bottom part of this slide, slide 30, in each country, each geography, we want to have a sectoral representation of 34 sectors, and in some countries we only have two sectors that are represented. It's quite rare to have three or four sectors at the same time in one country. It's only in France that we have full representation. As you can see, the growth potential of ALTEN is endless; we could triple our footprint in each country if we had the management resources. So we'll need to invest for sectoral diversification and we'll have to improve our hiring capacity so we hire and train our managers, they are trained engineers. So we need to hire more – they need to hire more and do that on top of their sales activities during the day. And, finally, we need to manage – to have more managers and more mobility to develop all countries, our business in all countries.

The second thing is on delivery centres. We have bigger projects today, given ALTEN's size and ALTEN's visibility, and it's guaranteed. Well, ALTEN has become a powerful brand, which is reassuring for clients. Clients want to work with ALTEN because we're leaders in engineering, and yet it means that we need to be able to deliver nearshore and offshore as well. In all countries of the world, sometimes there are very surprising situations. In Japan, for example, people offshoring to China, etc. So offshoring is not that significant today. It's quite widespread in the US, where our footprint is smaller, but for the rest of the world that's less than[?] 10% of all engineers and less than 5% of revenue. Still, if we don't master that, we could be excluded from a number of projects.

We significantly strengthened our technical management to improve productivity, and given the fact that ALTEN works on technical assistance, that's our business, that's level two of technical assistance. Level one is staffing, level two is technical assistance, level three work package, with commitment of product managers, so that's level three, and we are working on a transnational project, level three, in several countries.

So we have very interesting, promising growth strategies, but it means that we need to have the right resources in terms of organisation. Now we have more than 40,000 engineers, and we also need to work in a cross-border manner. We're not going to be limited by the market, but we have to deal with our transnational capacities.

Now, let's conclude on this last slide. ALTEN has everything it needs in terms of external growth, a great balance sheet. A few years ago, there was a restructuring that was initiated for all countries and we hope that we can soon be in a group with more than 50,000 engineers in December 2024 or 2025, we'll see.

Thank you very much for your attention, and Bruno and myself are at your disposal to answer your questions.

Questions and Answers

Operator: If you'd like to ask a question or make a comment on today's call, please press star one on your keyboard. I'll let you know when you can ask your question. First question, Mr Axel Stasse from Berenberg.

Axel Stasse (Berenberg): Hello, hello gentlemen. Congratulations for your results. I have a few questions. So it's more and more difficult to retain engineers, that's true for the whole sector. Do you have the same pressure and what are you doing in-house to try to retain them?

And there's another related question, which is do you think that you could increase wages significantly to retain your engineers? And what about offshoring, do you think you'll do that a little bit more? So that will be 8-10% of your revenue. Do you think that could be a solution?

And the other question is about your margin. In 2022 there is inflation, there is increasing salaries as well, so do you think it might be a problem with your clients if they had to bear the cost?

And there's another question. You talked about the yellow environment, so IT, IT services, 25%. Do you still have the same target, 30%, mid to long term?

And one last question, the projects in the Renewable sector. I know that you managed to sign a few deals. Do you think that, in the future, you'll try to capitalise on the boom in the sector that could benefit your revenue, maybe? Thank you.

Simon Azoulay: Thank you very much for your questions. I think that they're actually a great summary of all our challenges within the Group. So regarding hiring, as I said, it's our main concern. There is pressure on wages all around the world; in France, the US, India, Southern Europe, Northern Europe. There's no country, either in offshore or locally in offshore. That's less than 10% of our headcount, so that's not that much, but there's pressure everywhere. It's hard to hire in India and it's as difficult to hire in Germany or in France.

So there are two main challenges. First of all, how do we keep our margins, how do we attract engineers and how can we protect the quality by hiring? Because in a couple of years, obviously, we don't have to have a problem in terms of resources. So we have to strike the right balance and we work on that on a daily basis. We have strict policies for young engineers with zero to six years of experience. In average, we're going to increase wages from 3-5%. We're not certain that that will be – the impact will be the same on fees because we have different systems. There are other clients who face the same challenges as we do and their problem is mostly resources rather than visa. They find it very difficult to hire, they can't reach their targets in terms of hiring, and there are clients who, at the moment, do not want to do anything, so there are strict agreements and they don't want to have low margins.

So everyone is aware of that and that's what we're talking about with all our clients. Generally speaking, we have competitors who completely give up on wage increases. We manage to recruit pretty well, although it depends on the regions in France; it's more difficult to recruit in the Greater Paris area. So our turnover rate will be a bit higher. Usually it's between 25% and 27%, that's the desirable rate, and I think it will reach 30% this year, which means we'll have to hire even more and invest in our managers; that's 40% of our hire. So there will be a scissors effect between salaries and fees, but it won't be significant. So if there's an impact on our margin, it will be very low. And, for now, our targets are okay for the end of 2022. I'm sure that we'll exceed 42,000 engineers by the end of the year significantly. But that's for hiring, that was your question about hiring.

Now, what about offshore projects? That's not the same problem actually, it's more related to lower costs that are not related to wages. But when we're offshore, costs are divided by three, then you have other costs that clients forget to include. So that's not really the case, but it's not really related to the pressure on wages and hiring. In the Automotive sector, they want us to offshore, less so in Life Science and other sectors because they want to work locally. So hiring challenges are the same in the West or offshore.

Now, about your question regarding IT services. So you have all types of company, digital services company. So maybe we'll reach a balance of 30% one day, we came from 25%. We won't go beyond that because our core business is engineering and should still be related in its infrastructure, Cloud, also software development, that's what we do for industrial products. When there are – when there's specific software development, CRM, financial studies, for example, obviously we'll be there, but we are not going to do what's not in our core business. So 25%, there will be an increase of 1-2%, maybe we'll go all the way up to 30%. It's not the same in all countries. There are countries in which we don't have that level; Germany, the UK, Nordic countries. The share will improve, it will – might reach 30%, and we're almost reaching it in France.

And finally, regarding renewables, there's a lot of talk about renewables and a lot of projects in aeronautics, in batteries, hydrogen. Obviously, those are technological projects of the future, so we work with our engineers, but it's still relatively low in terms of business volume for the whole Group.

Axel Stasse: That was very clear, thank you very much.

Simon Azoulay: You're welcome.

Operator: Next question. Emmanuel Mathieu[?], Ergo[?] Company.

Emmanuel Mathieu (Ergo Company): Good morning, gentlemen. Thank you so much for taking my questions. First of all, your profitability in 2021, do you see it as abnormally high? You're close to 11% in terms of operating margin, but do you think this could become the new norm for ALTEN? Question one.

Free cash flow, you were able to – thanks to your free cash flow you were able to self-finance acquisitions and the dividends in 2021. Is that an equation that you're setting every single year, a balance between free cash flow acquisitions and dividends, or can you go beyond the free cash flow to self-finance larger acquisitions? Also, does ALTEN absolutely need to maintain a comfortable net cash flow position in its balance sheet?

And I have another question regarding your new target, 50,000 engineers by the end of 2024. You started 2022 with over 40,000. Is that a balance you need to strike between M&A and organic growth? Is it a different mix that you have in mind to acquire those additional 10,000 engineers?

Simon Azoulay: Well, let me try and address all three questions. Let me start with sustainability of OPA, 18.9% in 2021. I'd like to say that over the past ten years ALTEN has always had a balance of about 10%, sometimes 9.7% or 9.9% or 10.1%, but by and large it's been 10%, and that matches a very, very good occupancy rate in 2021. Usually, the occupancy rate is – at the moment, it's 92-93%, all right? It was slightly better in 2021.

Secondly, the timeframe in the calendar has been extremely positive. On a calendar basis, we were going to be one or two days more. This means a 0.2% or 0.3% OPA, additional OPA. So, in 2021, the planets were aligned and this has led to a very, very good occupancy rate. So I would like to say, well, something that I've said many times over the past 20 years, we're very happy when OPA is 10%, and as long as we stay around 10% then we've delivered. And, also, in the eyes of our tenants[?] and senior management team this means that we have succeeded with our growth plan. So we'll be very happy to reach 50,000 engineers at 9.8% rather than have 40,000 at 12%, even though some of them may see things differently. But this is part of our rationale, this is how we move forward. But 2021, the circumstances were quite specific. So it would be great if we could do more than 10% in 2022, but I would only commit to 10% because of the circumstances that you are referring to.

In terms of our policy, for free cash flow management, we're not trying to adjust M&A or dividends on the basis of free cash. In terms of dividend payouts, we always wanted to pay out dividends to be clear, to be legible in the eyes of Anglo-Saxon friends[?], because that's what they need in order to feel safe. But, by and large, most of our investors – I'm not saying that they don't care, but those investors prefer that we invest into generating more growth, rather than investing to pay out more dividends. So between investing and holding on to our reserves, well, some opportunities for acquisitions don't always show up, but the preference is to – we need to strike the right balance between investing what we need in order to grow and also keep our shareholders happy. One euro per share, that's possible, but we'll wait for the next board meeting before we make that decision. So it doesn't make much of a difference to [inaudible]. It's not the dividend payouts, we are mostly driven by our principles.

Now, in terms of acquisitions this is something that we said two, three years ago already. In respect of our cash situation, we could have bought – we could have made acquisitions to the tune of €400 million over the past two or three years, and I was hoping that COVID would open up new interesting possibilities for us, but it – that didn't happen. This is [inaudible] crisis situation; our doors are closing as opposed to opening because, obviously, people don't want to sell at a low price. So our M&A policy burns cash and is only driven by the potential targets for acquisition that we find that are – that were – There may be few acquisitions in 2022 if we don't find anything to buy, or we may double or triple our acquisitions. It all depends on the quality of our M&A targets.

Lastly, our cruising speed in terms of growth. If we do reach that target of 50,000 engineers, 50% of our growth outside of France would be M&A and 50% would be organic growth, and this accounts for two-thirds of our growth business. And so, the remaining third, that's in France and it's only organic growth there. So, by and large, this is the mix. So you have 25% approximately – well, 30% M&A and 70% organic growth, that's the overall mix. But in terms of what I was saying before, it is possible that if we meet the right people, we may make interesting acquisitions. I don't know whether we're capable of paying €1 billion before a particular acquisition, but we've paid as much as €100 million for one acquisition, so we can easily do €200 million.

Emmanuel Mathieu: So you have a problem with net debt in your balance sheet?

Simon Azoulay: No, absolutely not. Say, tomorrow we need to pay €500 million or €1 billion for a very, very interesting acquisition target, then of course we would go ahead with it, but it all depends on the level of risk, whether it's in our interests, whether or not it's part of our DNA. We want to make acquisitions with headcounts of 800, 1,000 people. Sometimes we buy a company with a headcount of just 100.

Emmanuel Mathieu: But if you look at your latest acquisitions, sometimes it's 1,800 people in headcount.

Simon Azoulay: An opportunity arose and we grabbed it. So it all depends on the quality of the target and our ability to bring them in, that's the most important thing.

Emmanuel Mathieu: Thank you, that was very clear.

Operator: Thank you. Next question. Emmanuel Barot[?].

Emmanuel Barot: Good morning. I have a couple of questions. First of all, margins. I can't remember whether – I, kind of, missed out on the explanation on margins. But what about all the savings that you managed to make in 2021, how much does that represent? Maybe those savings won't recur in 2022.

Second question. The extra cost that you managed to pass on, could you increase the level of detail sector by sector? In which sector did you manage to pass on the significant increases in costs, and what about the other areas where you were not able to do that?

And, also, remote working. What about the organisation that you've adopted so far; is this sustainable, how do you organise yourself? Thank you.

Simon Azoulay: Well, you're absolutely right. Now, in terms of sustainability of our 11% OPA, there was a very slight impact on the reduction in communications or events, expenses. We have a lot of events and a lot of events that we cancelled, actually, in the end of 2021, for example. So we cancelled a lot of events and that generated savings, but these are minor savings, 0.1%, so that doesn't explain our 11% OPA.

If you refer back to what I said before in terms of our occupancy rate, which is extremely good, and also what we have in the works are a timetable for 2022. Now, in terms of costs that are specific to consultants, we didn't generate any savings on travel costs or meal costs because – particularly because of the pressure on wages. We didn't try to skimp on travel expenses and meal expenses. Then there's a bunch of road that we needed to change, of course.

Emmanuel Barot: Are you entitled to expensing your meals or your travel costs, etc., etc.; you know, say you need to work from home several days a month, how does that work out, etc.?

Simon Azoulay: To my knowledge, if we did generate savings, they're very minor.

Now, in terms of price negotiations, it all depends on the sector, except for maybe one sector that is very cutthroat and everyone knows it. There's less pressure and the pressure is less on prices than on trying to pass on the extra cost to maybe scale back on business in countries such as Romania. Little countries that try to save money, but they can't put pressure on wages or on prices anymore, so there's very little elbow room.

When it comes to other sectors, there are no rules. It depends on the company. In the single sector, for example aeronautics, depending on who's in charge of procurement, depending on how sensitive they are to the world of engineering and how important quality is to them or recruiting is to them. Two years apart you may have two different policies for significant customers for key accounts. So in Life Sciences, for example, as Bruno was saying, we have better margins there, but if the new head of purchasing comes from Automotive, which is, like I said, very cutthroat, we'll come under pressure. And maybe they left a particular company, and as things change over there and things will change over here.

So there's a – there seems to be a general consensus on the level of wages and pressure on recruiting, so things balance each other out where they need to be pretty much across the board, except for maybe Automotive, where pressure is slightly higher.

Now, in terms of remote working, our policy is extremely clear. During the COVID crisis, we simply cannot undertake any firm commitments vis-à-vis our workforce because we are driven by our own customer's policies. Nearly 8% of our employees are engineers and they work on customer projects, and they come under three different categories. You have engineers who provide technical assistance, so they are payroll employees with open-ended contracts and they are being managed by our HR department, and sometimes they are seconded to customer premises and they receive daily wages, so that's one-third of our engineers. And the remaining two-thirds, they receive work packages and there are two different ways of doing this. One-third – because of technical reasons, one-third of them work in laboratories or on customer premises because there are security problems and network-related issues, and there are specific machines that are being tested, etc., and we have to be there. So they work on customer premises and this means that it's not up to us to decide what the remote working schemes are, so…

But if we do work at home in our own premises, then it's up to us, then we're in charge. But under COVID circumstances, every project manager has the discretion to choose what he can or cannot implement in terms of remote working, and obviously there are COVID protocols which change all the time, every few months pretty much. So it all depends on – it's a question of sensitivity; it all depends on the circumstances and what the project manager decides.

We didn't make any commitments in terms of teleworking because we cannot do it. We depend on our clients' policies and our engineers and consultants. We can work for a client when they're – where they're[?] zero teleworking or to another client for whom it's possible to work remotely. And so, the number that we have today is between 30-40% of remote working. That's a lot, and it was even higher around April 2020. So there's a high likelihood that people can all work remotely, but no commitment under COVID circumstances.

Emmanuel Barot: It's very clear, thank you.

Operator: Next question. Mr Laurent Daure, Kepler.

Laurent Daure (Kepler Cheuvreux): Hello. Thank you listening to my question. I wanted to talk to you about the environment. So you had your direct competitors who bought Altran. The market has changed. Do you see different dynamics momentum depending on your clients? But I have a question that's more focused on margins. So we have one area, the US, and I think we're very cautious on this model. And I think margin, it was rather around 6-7%, now it's higher. Is it because of an optimised utilisation rate or has there been a change in the area? And regarding margins, I do understand that there are exceptional elements, but for France, it was rather around 11%, internationally it was around 12%, so everything seems to converge towards 11%. So once beyond 11% for – in 2022, 2023, 2024, will there be additional investment to support the Group's growth? Are you very cautious in terms of guidance?

Then last but not least, regarding cashflow, investments and acquisitions today, regarding all the acquisitions that you talked about, what hasn't been financed yet? Is it just the early 2022 acquisition, has the rest been financed? And there's a lot of earnout in the mid-term, so do you have – what's your calculation method? Has the policy changed or is it because the acquisitions that you just made are very promising in the next couple of years?

Bruno Benoliel: Thank you very much for your questions, Laurent. Regarding the – regarding competition, we're in a different situation I think. We don't like talking about our competitors, that's not what we're here for, but what I said in the last team meeting is that competition could be favourable for ALTEN. We are not worried. If we know how to address the two challenges that I already mentioned, ALTEN, compared to Capgemini Altran or Accenture, for example, should present itself as a true player capable of operating internationally, but we want to be humble and carry out bespoke projects in an engineering environment.

So in the Automotive, Aeronautics sector we're not going to outsource whole projects for cars or planes. There have been attempts coming from large German companies, but it never really worked out because they're – that requires a lot of CAPEX and that's not our DNA at all. We are project-oriented and we want to work on building blocks. We want to support our clients to work on the core business.

So in the world of IT services, it's possible to outsource a whole CRM system or payroll accounting, this provides a network. But in the world of engineering, that's not the way it works, so I think we need to stay humble. The average project goes from €1 to €5 million, so we're not talking about €100 million. When there's a €10 million project, it's great for us, very good news; it doesn't happen all the time. So, we are really focusing on engineering and working locally. It's very important to understand that if you want to better understand what's happening in other groups, other companies.

I don't have any advice to give them, but we will keep doing that. We're not going to look for €100-200 million because – projects because there are no such projects. And if there are, well, it's very different and that's not what we do if we're talking of SAP, manufacturing, etc. But when we aren't design and engineering, we get better projects and we can perform our core business, and we work for our clients.

So we're not scared of our larger competitors. We just need to work on some projects. Sometimes it can be offshore, especially in the automotive sector. So that's regarding competition, so one part of the competition environment. And I think – well, for other competitors, I don't really have any comment to make. And there doesn't seem to be anything significant happening, a large company divesting another company. The only major competition event would be some big players coming in, so Capgemini with Altran, Accenture, etc. So, I answered your question already.

Then you have staffing companies level one doing temporary work. They want to move towards level two so they're trying to come in with motives[?], for example, a [inaudible], so that's not a problem for us nowadays. And you also have the Indian players and that's more challenging. So large Indian companies have engineering departments that have a footprint in the US because they do a lot of offshore because of the language, obviously, and front offices in the US, that's not something we have in Western Europe. And they're trying to penetrate the European market. So I think that for some of our offshore projects, 10% of our volume, we might compete with them, they might be our competitors. So that's for competition. Simon?

Simon Azoulay: Yeah, just a quick comment. So, at the moment, do you see players joining the top five? Do you see any change or are things stable?

Speaker: Everything's very stable and it's really going in the right direction for us, for ALTEN. I think it's really refocusing towards ALTEN and everything that's a bit like us.

So the second problem is our management capacities to be able to have enough resources and to hire enough people in all countries. Otherwise, there's no specific problem.

Now, regarding your second question, Laurent, about our margin. So we've been very cautious in the past. Well, I don't know if we were cautious or not, it was just a fact in some countries we are trying to have our model. In the USA, for example, they use a lot of freelancers and we don't want to interfere with that, so we have our work package strategy remotely. It's easier to do it in the UK, for example, because it's closer to France so we can use our technical division and French resources. It's easier to do that in the UK than in the US. But we set up a system gradually, and if we do things well, we'll reach 10 points of OPA in the context of very high demand.

But, generally speaking, our 10% target in OPA, that's a homogenous target worldwide. I think that in all countries we should be able to reach 10%. In some countries, because of the culture is different, we could be a bit below, one or two points less, or a little bit more. In other countries, our performance is not as good. There has – let's say there has been a change in regulation in Germany, for example, so we struggle with two or three points of EBIT, but Germany should return to 10%. So my answer is it should be 10% everywhere, plus or minus 1% or 2% depending on countries and depending on specificities.

I'm about to say something that's a bit strange, but this target, it's really what the best student can reach, 10-11%, and the worst student should reach to zero and 5%. So if everyone is between 8% and 15%, there will be an overhaul of 5% for all purchases, so it's a protection for us. It's a balance that's related to the market and the business, the way that[?] – between 25% and 32% of gross margin. Because of conditions under market, the best will reach 10% to 11% and the worst competitors will reach zero to 5%.

And regarding cash and M&A, I think Bruno will take this one.

Bruno Benoliel: So what hasn't been paid upfront? There was the acquisition made in January 2022, the small acquisition in Spain. Otherwise, all the down payments were paid in 2021, so there will be no impact upfront for 2022 acquisitions. For two years now, we've seen an increase in earnouts related to two factors. First of all, we carried out a lot of acquisition and earnouts are smooth[?] over several years, so that tends to accumulate, and now we have many companies for which we have to pay earnouts in 2022, but also 2023 and 2024. So that's the first thing.

And, secondly, know-how[?]. There's also the fact that business was very good in 2021 and it should be the same in 2022. So we bought several companies last year, for which earnouts will be significant in the next two years, thinking of three or four companies in particular. So we're talking about more than €10 million in earnouts for each of them, but it's directly related to the volume of acquisitions that was made this year. And there's no inflation in multiples actually. That doesn't lead to an increase in the earnout volumes. It's because there are more acquisitions and because the companies that we bought are quite high, driven by conjuncture and great sales and performance. So, for us, that's good news. So, in convert[?] terms, the earnout percentage remains the same.

Usually, the earnout on the acquisition is based on performance over a one, two, three-year period. It's pretty rare that we go as long as three years, usually two years. We don't want it to be too long, so that we can easily consolidate the company later down the line, and we also need to ensure the succession planning for the management team. But it's a volume that has changed from 10 to 12 acquisitions a year. So, depending on the headcount, between 200 or 1,000 people, contrary to what we used to do three or four years ago, or even ten years ago. Sometimes it used to be 200-400 people max, but the rules have been changed and in terms of multiples, yes, of course, over the past two, three years the multiples have increased per year. Sometimes it was four times the OPA and then earnouts over three years. Then we did increase by two or three points, but we've been doing that since 2018 or 2019.

Laurent Daure: Thank you very much.

Simon Azoulay: You're welcome. I don't know whether you can hear me, I hope you can. As there are no further questions, many thanks for attending this conference call. It still feels a bit weird talking on the phone like this. I'm hoping that next time we get to meet in person. There's going to be a roadshow in the next few days, so I hope to see you then. See you all very soon and stay safe.

[END OF TRANSCRIPT]