# NTT Cloud Communications SAS – Arkadin
# Transcription of audio-conference

**Moderator**

Ladies and gentlemen, welcome to ALTEN's conference regarding our revenues for the first quarter 2022. I am going to give the floor to Mr Benoliel. Mr Benoliel, you have the floor.

**Bruno BENOLIEL, Chief Operating Officer**

Good evening, everybody. Thank you for taking part in ALTEN's conference related to our activity for the first quarter of 2022.

For this first quarter, I do not know if you received the press release which concerned the recovery for the second semester 2021. Even though the figures were slightly down, the first quarter last year was still affected by the pandemic.

The war in Ukraine did not have any impact on our activity. Regarding our own activities in Russia and Ukraine, it is quite marginal; and it did not have an impact on our client projects.

ALTEN's revenue at the end of March 2022 is 894.6, up by 31% in relation to March 2021.

In France, the business has gone up by 18.9% and by 38.6% outside of France. On a like-for-like basis, the business has progressed in a sustained manner, with growth exceeding 20%. It is actually equivalent to the second semester of 2021. It goes up by 14.9% in France and 24% outside of France.

Acquisitions contributed to 33% of the growth this quarter, and represents 7% of our revenue. The international business represents two thirds of our business.

The business rate is 92.5%, slightly above the normative rate, with some disparities according to the geography or to the companies.

In spite of the departures at the end of the year, there is a high turnover but the Group also managed a very good performance in terms of recruitment, with very good figures in terms of recruitment.

Acquisitions represented 2,900 engineers in the companies acquired at the end of 2021 in China and India that were consolidated on 1st January. As a consequence, the Group had 43,000 employees. Today, we have 47,800 employees. The objective that we had set about the end of 2019 has been reached, in spite of the pandemic.

Out of the 47,812, 1,400 are in France and 3,350 are abroad.

In France, our progress is mainly due to the civil aeronautics – 26% of our revenue in France, plus 50% in relation to last year, but it has not recovered to the level before the crisis. It is progress that has also created a lot of finance thanks to pharmaceuticals and electronics.

Reversely, the automotive sector, 10% of the revenue in France is stable because the growth is mainly via near offshore. This sector in France is 35% below the level pre-Covid crisis.

The energy sector, 14% of the revenue in France is stable because the growth in the nuclear industry and the sectors of equipment for energy is actually eaten up by the drop in oil and gas. Therefore, France is -5% from the level in 2020.

Abroad, the business is growing in most countries. In the Iberian peninsula, +27% in terms of growth. In Germany, the business is picking up. It was quite late in 2021 because it was very much exposed to the civil aeronautics in the country. It had sped up at the end of the last quarter and this acceleration was confirmed this quarter.

The civil aeronautics is +40% in Germany, but -30% compared with the beginning of 2020; while the automotive sector, 50% of the German revenue is making a 50% progress and is recovering the pre-Covid crisis.

Globally, thanks to the automotive sector and the other diversification sector, the business level in Germany is above 2020. In Italy, growth is maintained for the third year in a row – all sectors are up. In Benelux, growth is confirmed thanks to The Netherlands, where the business is really picking up thanks to the very good results in electronics.

In the UK, the business is growing, +30%, a business that picked up in the aeronautic sector that is far above the level at the beginning of 2020; a business that grew by 50%. The automotive sector has grown by 37%, slightly below the level in 2020. The defence and electronic sectors are doing well. The UK have gone beyond the level before the crisis, especially in the automotive sector.

In Scandinavia, growth had slowed in the last quarter of 2020. In Finland, representing 20% of the area, the activities making a 7% growth. In Sweden, the business is making slow progress, even though there are some sectors that are growing and have recovered their level peak rises. However, the other sectors are slightly down.

In Eastern Europe, the business progress is very sustained thanks to Poland – 60% of the area – and has grown by 20% thanks to the finance and automotive sector. In Romania, 40% of the area, +20% thanks to the automotive activity.

In North America, in the US, representing 80% of the area, our business has grown by 25%. In the automotive sector; the tertiary finance; life sciences; aeronautics and telecom; oil and gas, just as for the rest of the Group, is going down.

In Canada, 20% of the area, growth has reached 20% in the finance sector and aeronautics sector.

The Asia and Pacific area is growing still in a very sustained manner, more than 40%. China is growing by 40%, thanks to the automotive sector that picked up again. Japan, +50%, thanks to the tertiary sector and semiconductors as well.

I would like to say that the revenue for countries hosting delivery centres, such as India, while they provide local revenue – because, when India is acting as a subcontractor for Germany; France; or the US, it is integral revenue and, therefore, the matching revenue is taken at the country level, the front office level, that manages the relationship with the final client.

The growth has remained very strong in most of the geographical areas, except from France and Sweden, who are still below the level before the crisis. All the other countries are above the pre-Covid level.

The business sectors are all growing, therefore, with a different rhythm. The automotive sector, that is growing up to 17% of the revenue for the group, is growing by 25%. More strongly for the OEMs, +40 among the manufacturers, two thirds of the revenue. The situation is rather contrasted, even though there are some manufacturers slightly down, but most of them are growing.

For the OEMs, very strong progress – especially for the German OEMs – all above 50%. The automotive sector had fallen down because of the crisis and is only 4% below the revenue level pre-Covid crisis.

For the manufacturers, it is still 15% below the pre-Covid prices; while the OEMs have gone beyond the situation before the crisis by more than 20%.

The naval sector is stable. There has been reorganisation within Bombardier Aerospace, +12.5% in terms of revenue. In the civil aeronautics, the business is picking up. We had seen that at the beginning of 2021, it was confirmed in the fourth quarter and it is more bullish than anticipated. The business is only 10% below the level before the Covid crisis, so that is quite unexpected in such a tight time schedule. It is therefore very likely that, by the end of the year, the business level for the civil aeronautics will recover the pre-Covid crisis level at the beginning of 2023, maybe; or end of 2023.

The energy, generating 4% of the revenue, is up 6% and has come back to the pre-Covid prices. Oil and gas, only representing 4% of the turnover, is down by 2%. Given the general situation that everybody is aware of, there should be an upturning of this trend. It is not the case yet.

The nuclear sector, 2.4% of the revenue, has a 10% growth in a very favourable context, with a shortage of engineers. Equipment for the energy sector, 6% of the revenue, a 20% growth thanks to renewable energies, but not only.

The life sciences have grown by 12%. It is quite homogenous between the medical equipment and the pharmaceutical equipment and the rest of the industries for industrial equipment.

Telecoms are slightly growing, +3%; slightly going down for the operators, but growing for the OEMs.

The tertiary finance sector, +13.5%, making progress in the bank and finance sector and the retail services as well.

In summary, outside of civil aeronautics and automotive, which has a much bigger upturn than expected and who are close to their pre-crisis levels, all sectors have gone beyond the plan and are significantly in growth.

Now, from the external growth perspective, we have acquired three companies at the beginning of this year – one company for which we had announced last January that they were coming into the Group. This was a company situated in Spain, in cloud and digital transformation sectors – 280 consultants and EUR 12 million in turnover figure.

During the second quarter, we bought an Indian company that is in product engineering, which is going to reinforce our positioning in terms of embedded software for products in automotive, but not only. This is a EUR 12 million turnover figure and 280 consultants.

We had to delay, because of authorisation issues with antitrust companies in the UK, a company situated in the cloud services, on the public sector services as well – which is not very common for our part. This company should help us in the UK to capitalise on its business segment, which is EUR 110 million of turnover, with 110 consultants, including half who are freelance or external, which is often the case in the UK.

Of course, we also have other cases that we are scrutinising, as you understand – some of which are in LOI phase or simple discussions.

The beginning of this year is very promising, with the pursuit of the wrapping up of activities in all sectors, including automotive and civil aeronautics. The health situation, and most especially macroeconomic and political situations, could upset this trend – but the first quarter will be very significantly impacting the results for 2022, which are, in any case, above the forecast.

The financial analysts can ask questions if they wish now.

**Moderator**

Ladies and gentlemen, if you want to ask a question, you have to dial 01 on your telephone keyboard. We have a few questions coming in, the first of which coming from Emmanuel Parent from Ivar Dupont. Go ahead.

**Emmanuel PARENT**

Yes, hello. Do you hear me, Bruno?

**Bruno BENOLIEL**

Yes, indeed.

**Emmanuel PARENT**

Okay, good evening. I have a few questions, actually – the first of which, to go back to what you said on the M&A with the acquisition of EUR 210 million-worth. This is bigger than usual, so could you give us a few elements on the margin and the acquisition ratio; and if you have in your pipeline other companies of this size?

My other question, more to do with the news in relation to supply chains and industrial clients – this has not played into Q1 results, but in relation to what you see in the month of April, is there maybe a few troughs in this curve for certain industries; or not at all?

The last question – in relation the business level, which is very high because of a very high turnover level and recruitment which was very dynamic for Q1 as well, do you expect this to go down again in the quarters to come? Because this rate is especially high right now.

**Bruno BENOLIEL**

No. Concerning M&A, concerning the companies that are in new deals, these are smaller companies than the UK company that was just acquired – so, between 150 and 200 people strong – and these are the similar sized companies that we usually acquire. There are no companies of more significant size on the market.

Now, the UK company, the ratios and metrics that we have used are the usual ones – so, seven times EBITDA with a run-out over two years. The margin of the company is lower than that of the Group – it is around six percentage points today. Of course, it is up to them to put in place the ad hoc company to bring back this company into the Group's standard, in other words around 10%.

Now, concerning business in April, whether in terms of recruitment, as in terms of the sales activity for the time being, we have no trough in the trend. Business is still good and, for the time being, we do not have specific warnings on the part of customers. I hope this is going to last but, for the time being, this is the situation that we are seeing.

Now, concerning the level of operations, we have forecast a slight decrease in this level, but very slight, for the quarters to come. We believe that this is still going to remain high, however, for the rest of the year because customer demand is there.

It is true that it could be higher, but we are recruiting many engineers without projects to be able to answer calls for a tender – but we do not expect, at least as of today, for this level of activity to go down. If it did, it would be very slightly – so 0.5-0.8 at most.

**Moderator**

Thank you. Moving on to the next question. Gregory Ramirez, Bryan, Garnier, you have the floor.

**Gregory RAMIREZ, Senior Equity Analyst, Bryan, Garnier & Co**

Yes, good evening, Bruno. I have two questions. First, to go back to hires – are many hires done offshore from now on? This plays against, I assume, the price mix and so, can we consider that, concerning the remuneration inflation on the market plus turnover rates that are still high, we can stay on a price-to-salaries effect that is still favourable? This is my first question.

Concerning my second question, Emmanuel talked about the UK acquisition – so what are the margins of the two other companies? I believe that the first one was already mentioned in February – or January, excuse me.

**Bruno BENOLIEL**

Yes, indeed. I think that we did tell you that the margin was above 10% for the first company acquired; and, for the UK company, it is only at 6%; and for the Indian company, it is, for the time being – I am stressing this because we are going to have to restructure it and so it is probable that the margin is going to go down – but, for the time being, it is still above 10% as well, and closer to 15, as a matter of fact.

For recruitment, this is a good comment and a good question. Today, of the close to 2,000 employees that we have recruited, we have offshore about 500 people – so, a quarter of them who were recruited between India and Morocco to meet the increase of demand, especially in aeronautics and automotive; and to manage future ramp-ups.

We do not have recruitment plans for thousands of employees for now for our EDCs, but we are going along the trend, basically, and trying to stay one step ahead, because we have to integrate people and train them – this this involves a number of costs, of course. However, the rest of the employees were recruited mostly in Europe.

The impact in relation to the price-to-salary mix – well, what is for sure is that we do expect an erosion of the gross margin this year, because the fact that we are increasing the offshore share does not necessarily contribute to increasing the margin, contrary to the IT sector. As you know, actually, these are projects that are offshore with the client's agreement, who have an overall vision of the project approach, so we do not engage on huge BPOs, contrary to ID; or for lump sums where the client does not understand the breakdown of resources – whereas, here, they understand the breakdown between front and back office. Therefore, in a sense, they will recoup de facto the additional margin because they asked us for additional productivity, which means that the average price for a certain project would not be affordable on a HICO zone.

Necessarily, this is going to be limiting the erosion of the margin and allowing us to maintain our margin levels – and even improve them, even though in absolute terms the margin is a little bit lower, by offshoring a certain amount of these elements.

For the rest, we do see that we have put through price increases but, from my point of view, these are not sufficient to be able to offset the future remuneration increases, considering that engineers have salary increase anniversary dates, which allows us to smooth out the increase of salaries considering the increase in the turnover.

However, we have some customers where prices are negotiated for two or three years – and these are tier one references for bigger accounts – and, for the time being, we have to manage our projects because, in some cases, prices have not budged.

We do not expect an erosion of gross margin by 2% - this is not what I am saying – but there will be a slight erosion of gross margins by 50 or 60 percentage points; maybe less, decimals of percentages.

Thank you.

**Moderator**

Thank you. Ladies and gentlemen, if you wish to ask a question, for a reminder, press 01 on your telephone. A new question coming in from Derric Marcon, Société Générale.

**Derric MARCON, Société Générale**

Hi, Bruno. Do you hear me?

**Bruno BENOLIEL**

Yes, very well.

**Derric MARCON**

I had a technical question on consolidation date of acquisition. I believe that the one in Spain was 1st April, but if you give us the consolidation date for the two other ones, that would be great; and…

**Bruno BENOLIEL**

It should be 1st July, normally because this implies that we implement an ad hoc organisation – but it should be 1st July.

**Derric MARCON**

Okay, and on the price element, you have the issue of price increases and referenced negotiated with customers; but you also have the possibility of moving engineers around and renegotiating case-by-case and coming out of a process you set by the Purchasing Department, etc.

Therefore, in the first three month of the year, can you measure the amplitude of what was acquired in terms of price increases?

**Bruno BENOLIEL**

No, we cannot measure this precisely because there is a combination effect as well. What is for sure is that the natural turnover means that, for some projects, we have to replace engineers – so, moving engineers around over several projects. Well, when they are complex projects, this is really complicated because you have the background know-how that you should not lose.

Therefore, it does limit the possibility of optimising the cost of the resource because people are not necessarily replaceable like that from one day to the next – considering that the natural turnover is forcing us to call upon this type of replacement on our projects.

Now, it is true that there are discussions on prices with Purchasing Departments and there is a way projects are organised, which is what we manage with Technical Departments as well, which could allow us to optimise case-by-case; but to say to what extent and what impact it may have on prices, I must admit, I could not tell you.

**Derric MARCON**

Okay.

**Bruno BENOLIEL**

The only thing that we can measure is the evolution of gross margin rates for a given project which overlap over several fiscal years – because most projects do not end at 31st December. Therefore, depending on the improvement or erosion of gross margins, we see clearly what is going on.

Right now, it is quite heterogenous. There are some projects for which we see gross margins improving – which means that the financial sell price connected to the project is increasing; and the price salary mix is improving on that project. For others, it is the opposite.

That is why, when I look today at the snapshot of the first quarter, things should improve over time necessarily because we have this effect of staff renewal. I am anticipating – I could be cautious in this respect – but I do anticipate 50 to 60 basis points of erosion of the gross margin.

**Derric MARCON**

Are you talking about annual projects which are over two or three years – so, do you have windows for price increases?

**Bruno BENOLIEL**

Yes, they could be one-year projects; or projects that started a year, a year and a half, two years ago; or that started the second half of ’21 and are going to end during this current year; or first quarter of ’23.

Therefore, the window of opportunity to renegotiate the price on the project, if there is a possibility for this, is just one shot or every three months – because it is a renewable opportunity which allows you to renegotiate with Technical Departments the embedded costs on the project.

This also depends on the environments that we are in. There is not just France, but basically, for bigger work packages, prices are negotiated at the beginning of the work package with customers; and they are set according to price grids per engineer per category of engineer.

From there, either we review the price grids which allows us to go back on and fine-tune the price of the team and of the deliverable, ultimately; or there is no potential for price renegotiations because they are frozen for two years – for instance, because we do have customers that remind us that they do not want to renegotiate anything. From there, you can manage things differently when there is a turnover; or when the team is going to be changing during the project – because project teams are not set in stone during the project. There is upstream; development phases; etc., so this, I would say, is the specific know-how that we need to put in place to make sure that we play our cards the best to optimise margins.

**Derric MARCON**

I have two other questions. There is a specific explanation to the drop in margin in the UK by 60%. Is it a margin of what has not been sold, overhead costs that have been underestimated? Do you have an explanation?

The second question – you said that you were quite happy about the performance for the first quarter. Do you believe that this performance is good; and do you have indicators? What do we have in the pipe in terms of net recruitment?

**Bruno BENOLIEL**

Well, I will answer your last question. April was a good month of net recruitment. It is, however, always more complicated. I do not think that we will recruit in Q2 as many as we have recruited in Q1 – but there is no red warning anywhere.

Then, our recruitment policy is very aggressive. We believe that the business is going to remain dynamic. It is to do with the psychology of the business managers who, in a slowing down period, try to anticipate and slow down their recruitment themselves when it is not really necessary all the time.

The main driver is the commercial activity, when we have requests, tenders. As long as this is still going on, there is no reason for recruitment managers to change; and we still have this rationale in mind to be ahead of the phases in order to win the project.

As far as the first quarter is concerned – this is 1st June – the context is as it is, but for April, there is no change. We should have a second quarter, in terms of recruitment, that should be quite good – unless there is something unexpected that takes place before the end of June.

The company in the UK now. The management method and the project steering methods for this company, while they are great professionals, that is not the same as what we do when we monitor our projects.

Now, there is productivity to take into account about the project, and I cannot measure that today because the clients are in the perfect sector and there is always inertia between the moment a project is won and the moment the project stops. Therefore, our feeling is that this level of unproductivity that is bigger than ours.

Now, I do not think that this company is oversized in terms of costs. It is a consultant company – it has a structure, which is not always the case of the companies of 200 people that we buy. This one is quite structured. We will proceed to some modification – not at the beginning, but we will try to improve their profitability and they can only be happy about that because they will get the dividends.

We also have a very strong proportion of external employees, so the rough margin is lower than for the in-house employees.

What are we going to do with this company? Will we be able to take it up to 10% or is it going to stagnate around 8% or 9%? Well, so far, I cannot say. We just acquired the company. We still have different things to understand from an operational viewpoint but, so far, it is too early a state to have very precise pictures of the levers we can activate.

**Derric MARCON**

You said EUR 100 million in terms of revenue?

**Bruno BENOLIEL**

110.

**Moderator**

Another question by Laurent Dor, Capra Chevreuse.

**Laurent DOR**

Good evening, Bruno. I have several questions. I wanted to talk about the acquisition in the UK. I think this is the largest acquisition in terms of turnover. The profile of this company is supported by a fund. This company has been very dynamic over the last few years. What could you tell us about this company? It would be very useful.

The second thing – the price and the growth margin. You said there were major disparities in terms of prices from one sector to another; clients do not accept the same prices. They have the maximum rate of use, so have you been considering arbitrating your resources in a more aggressive way than in the past to better serve the clients?

My other question is regarding the growth margin. Could you tell us about the other costs? The travel sector is going to be picking up again. Could you tell us more about that; about what is going on?

**Bruno BENOLIEL**

The second quarter started well. There is a progress of the use rate that will not be as strong as in Q1. The head count would be more or less from the first to the second quarter. The good reasoning, the good way of thinking would be to take a deceleration assumption of four or five points in the field.

**Laurent DOR**

Would that be okay, or am I missing some information?

**Bruno BENOLIEL**

Okay, I am going to take the questions one by one. In the UK, the company has had regular growth, quite a measured growth. It is not a company that had 10% growth every year, but it is growing slowly and surely about 5% per year.

They did better last year, probably because, including in the public sector, there was a general trend that consisted of increasing the digital project – but not really affected by the crisis. The public and the public sectors were not that affected, unlike the companies in the private sector. For this company, that was not the case.

Now, this company does not have a commercial dynamic that complies with the Group standards. Its model is more structured on business managers that are also in charge of the delivery – that is to say, the customer relationship – and therefore, they win their projects because they feel very close to the client.

This is not our organisational model. We have a very commercial organisation – people who are in charge of their own branch – but for a big package, we have a team that is in charge of the delivery. This team is not in charge of the commercial prospecting.

Our commercial or sales organisation is very different from the organisation of this company. It is rather a classical organisation for a company in this sector. It is not specific to this company.

Therefore, we will have to convince them to work slightly differently and to set up an organisation in order to be able to pick up some more business, to be more dynamic; and to diversify their client portfolio.

I do not know if that answers your question.

Now, regarding detention, there is no investment fund in this company because the price would not have been the same.

**Laurent DOR**

Was it an over-the-counter negotiation; or was it just…

**Bruno BENOLIEL**

A difficult negotiation. It is not really over-the-counter. Very quickly, we were in an exclusive negotiation with them. It was not a very structured process, if that was the question.

What was the second question?

**Laurent DOR**

The client preference.

**Bruno BENOLIEL**

Well, this is something that is actually quite difficult to implement because each manager, each BU manager, manages both the relationship with the clients and the recruitment in a standalone manner.

Arbitrating between two clients in two different business sectors would mean that, at one point, an invisible hand decides to steal some resources from one BU to give them to the BU just next to it. In our organisation, since we are all standalone and autonomous, it cannot work like this.

Those who have clients with more profitability and more margin, they do their best to develop his type of client – such as the telecom; while clients that are not as profitable are taken care of by other teams. Therefore, each team recruits the resources that they need and they recruit within the Group the resources that they need.

There is no internal regulation to arbitrate this dispatch of the resources because we do not have common resources with an arbitration that will be made by the Technical Department; and then allocating the resources to the projects, depending on the clients and the needs.

**Laurent DOR**

I am sorry, Bruno, the acceptation of a price. At the end of the day, the BU manager and the other departments – how does it take place? Who has the final say? Is it the person in charge of the BU that negotiates directly with the client? My question is does the CEO have the possibility to block?

**Bruno BENOLIEL**

Well, no, because in major projects and negotiations that are carried out are at the country level or Group level – and prices are defined within framework contracts that are signed over several years. When there is, for example, the fact that we are now benchmarked with Airbus, negotiations take place every two or three years – but that is negotiated with the general management. It is not a business manager that is going to negotiate the Airbus price grades or the Stellantis price grades.

The tier two/tier three clients – that is to say, clients for which the business level is quite low, a few dozen engineers – in that case, we do not always have a framework contract that is signed. When the margin is below a specific level of growth margin – it depends on the country, of course, because the growth margin profiles are different from one country to another – and the BU manager, the BU Director must make sure whether or not there is a waiver. The BU Director does not have the authorisation to offer a price that is not compliant with our prices, basically.

In the automotive BU, the objective is to develop the business with the automotive players and since he is in charge of his own BU, in charge of his own recruitment, we are not going to tell this Director, 'Well, you recruited X people for such a client', or, 'That amount of people to anticipate the needs for such a client'. We are not going to steal resources from him to give to another sector because we are going to hinder his development capacity. Therefore, it is all margin and it will be an entrance for the communication plan too.

**Interpreter**

Sorry, the interpreter did not hear - the sound was not very good.

**Bruno BENOLIEL**

We have different companies whose organisational model is different and resource allocation is not done via the sales people. Sales people are in charge of finding projects and, internally, they have incentives in terms of revenue – but they do not enter a contract. Their organisational model is very different.

Now, a commercial that has an enter contract level that is above what he has in his own plan might not accept having some resources stolen. We all have visibility regarding available resources in order to build our teams about two or three months ahead. We cannot say we are going to cut off the resources for the automotive sector for Stellantis for the benefit of another client because this client is more profitable.

If we can take the project at conditions that are compliant with our objectives within Stellantis or Renault, we will take the project too.

The assumption you are describing is not compliant with our rationale – a Malthusian logic, basically.

The second quarter – it is five points less compared with the first quarter. We need to look at the number of working days because the mechanism for the working days are not the same. We have deceleration assumption for the Group margin for the organic growth for the Group between the first quarter and the second quarter.

We can say that, given our average head count last year during the second quarter and the average revenue per person, what will happen to our average objective for Q1 if we believe that increased slightly between the beginning of the year and the end of the first quarter.

We can model all this. We have 42 as a starting point. We add what we have to add – 1,500; 1,800 – during the second quarter in a linear way and we get a mean. Then, we have average objectives for Q2, and that will determine more or less the expected revenue and we can compare it with Q2 last year.

Therefore, mechanically, it will give us an assumption in terms of organic growth for Q2 that will be lower than the first quarter.

**Laurent DOR**

And the utilisation rate?

**Bruno BENOLIEL**

Well, that is exactly what I meant.

**Laurent DOR**

In terms of time schedule, can you give us an update for the third quarter to fourth quarter?

**Bruno BENOLIEL**

Q1 for ’22, on Group average, we have 0.5 working days more than last year. To be precise, we have 62.6 versus 62.1. For Q2 ’22, we have 0.4 working days less than last year, so for the quarter it is just about the same.

We have 61.4, so for Q3 ’22, 0.6 fewer days, 64 working days. In Q4, we have one working day less, so bringing it to 62 working days for ’22, which is minus four or five – so, minus one for France and a little bit more internationally.

If we look at France specifically, we have one more working day for the first half of the year because we had one more working day in Q1, which is not the case in Q2. For Q3, we have one working day fewer; and Q4, one working day fewer. Therefore, on average during the year, we do one more for the first half, minus two for the second half – so, minus one overall.

**Laurent DOR**

Okay, we can modelize with this. That is perfect. My last point in relation to the leverage effect of – of course, there will be more details, it is early in the year – but what can you say about this?

**Bruno BENOLIEL**

Under the gross margin, we have everything to do with recruitment costs and sales costs. This is going to increase compared to last year and necessarily. I mean, you get the picture. To assist growth, you have to staff managers; integrate them; train them – and this is the same for recruitment teams.

Last year, we had started restaffing and reinvesting on recruitment costs as of the end of the first semester – so, this was especially for S2, actually, and this year, we are going to have a cost that is going to be proportionately higher than the one of last year.

For the G&As, we are restaffing as well because we are late and growth is what you see with the figures – and so, we really need to assist this growth. It is quite intense in terms of internal organisation right now. We have a number of IT projects that we had frozen that we have to restart, so it is not so much to do with travelling costs that are going to play into this.

I think they are going to pick up again a little bit, but the fact is that, ultimately, engineers' travelling costs were re-invoiced and there are fewer trips that are re-invoiced and concerning trips of managers and executives. In relation to corporate staff, this has picked up again, but much less than two years ago. We do have a certain number of work habits for two- or three-hour long meetings – people do not travel anymore. They go on Teams or these types of things.

It is not trips that are going to play into the situation, it is going to be everything to do with restaffing support functions – in particular, HR functions. We have restarted IT projects. We have restaffed Communication teams. We are redoing events for engineers. For sales managers, we are going to reorganise a seminar because we have not done this for two years, etc.

Therefore, the rate of G&A is not going to increase, but we do not expect a big leverage effect on G&As – except if the growth is very strong during this year and we continue running after growth, because this is what is going on at ALTEN. We have growth rates that are 20% or 30%, so we have trouble recruiting the resources that we need. Therefore, we never stop recruitment plans, and so we never manage to reach the level of resources that we need and this does impact the level of G&A.

The fact is that, if this is the case, we will be lagging behind the restructuring efforts that we need to implement – and that is why I told you at the beginning of the year that we did 19 in 2021, which was not standard and we had to expect a picking up of the margin will be a two-digit figure, but the fact is that we will not be at 19.

**Laurent DOR**

Okay, that is clear, very comprehensive answer. Thank you, Bruno.

**Bruno BENOLIEL**

You are welcome, Laurent.

**Moderator**

Ladies and gentlemen, for your reminder, if you want to ask a question, you have to dial 01, or press 01, on your keyboard. The next question is from Derric Marcon from Société Générale.

**Derric MARCON**

Yes, Bruno, sorry for coming back with another question, but I do have one because, I mean, it is still hanging because I wanted to challenge you a little bit on your forecast of the evolution of the gross margin at minus 50 or 60 basis points. We do have a certain number of companies, especially in IT, that are seeing today a real positive scissor effect on gross margins, with prices increasing much more than they thought at the beginning of the year; and average remuneration that stays on course, in spite of this tension on the job market, etc.

I would like to know if your hypothesis of minus 50 or 60 basis points, is there a difference between French and international? Because it seems that this might be easier to materialise outside of France than in France. Beyond the geographic effect, would there not be a central effect? Outside of IT, do you see a gross margin that would be in better shape than the 50 or 60 basis points that you mentioned for the Group?

**Bruno BENOLIEL**

Now, in the IT sector and in the banking sector, in particular – and not only – we have managed to put through a number of price increases without any problem, in spite of the fact that price grids have been set for several years; because we are speaking to counterparts here who need the resources to have their entities run and manage transformation processes. This is undeniable.

It is much easier in the world of IT, even though you may be in an industrial setting and you could be consolidating a DBFI; as opposed to the world of engineering, where you are speaking to R&D Departments which are restricted by Purchasing Departments, which are much more cautious and keen on the revenue costs of engineering of the project itself than on engineering – because engineering is necessary to have the company run.

Now, on the other side, they always have – and this is true for France – a competitor, even when they are tier one competitors, who agree to not change their price to gain additional market shares; and who could even agree to reducing them in the case of an aggressive sales strategy. This, in spite of the context, is still the behaviour that we have to confront and that comes and pollutes the behaviour of buyers.

Now, there are a number of issues linked to different industries – so, we do have industries that are extremely tough in negotiations and discussions, and which I would go so far as to say that they have to take into account the fact that they increase remuneration in-house and ask us to reduce prices.

This is barely a caricature. There are a certain number of things that we have heard, and we have even received emails to say, 'To support the effort that was made in-house, we would ask for suppliers to accept and make efforts both on the prices and on working capital requirements'. I will not give the name of the customer, but I found this to be absolutely incredible. I am not saying that everyone is like this, but there are a number of players who are in this state of mind.

Of course, we do not have to accept – and we do not always accept – but this is just to give you an idea of the way things can take place in the world of engineers. It is true that remuneration is increasing, but they are not booming either.

In France, since the market is much more concentrated and structured, this is where we see behaviours in some sectors that are the most unacceptable; when, internationally, in a sector that is very homogenous – the automotive sector – where things are going with lots of difficulties with a certain number of players in Europe, you will guess which they are, we have fewer difficulties in markets that are less structured. For instance, in Italy – except for Stellantis – for instance, in the UK; or The Netherlands, where it is much more simple in terms of prices than it is in France.

When I am saying 50 to 70 basis points, it is because I take into account both the price-to-remuneration effect and also because, in some countries, we have to continue structuring Technical Departments because we are moving fast in the implementation of work packages – thinking of Sweden; Germany; etc. – where we are structuring our Technical Departments and reinforcing them in certain parts for near-shore and offshore.

Therefore, I have taken an assumption which I know is quite conservative, but I do not think that we will manage to renegotiate this gross margin this year for the reasons that I explained.

However, I do hear what you are saying and I do observe this in some sectors in France as well, where we have remuneration increasing and prices that sometimes increase at the same percentage as remuneration – which creates a margin increase, ultimately. This is for sure.

**Derric MARCON**

That is very clear, Bruno. Thank you for picking up the challenge.

**Bruno BENOLIEL**

You are welcome.

**Moderator**

It seems we have no further questions. I give you the floor for the conclusion.

**Bruno BENOLIEL**

Well, if you have no more questions, I would like to thank you for your attention. Thank you for participating. I believe we have another appointment – I forget the exact date – but we will meet again for sure at the end of July for the usual meeting on the sales revenue figure for the first semester of 2022.

Have a good evening and see you soon.

**Moderator**

Ladies and gentlemen, the conference call is now finished. Thank you for your participation. You can now log out.

**Unfortunately we were unable to confirm the below names, phrase and words:**