

Conférence Audio Financière TSC Anglaise

Moderator

Good morning. Welcome to the ALTEN conference covering our third quarter results. I will now hand over to Bruno Benoliel, the Deputy Managing Director. Over to you.

Bruno BENOLIEL, Deputy Managing Director

Thank you. Good evening. Hello, everybody. Thank you for being here for our last conference call in 2022, which focused on our results from the third quarter. I hope you all received the information that was sent out just a few minutes ago. As you may have seen, if you have received this information, the activity has grown over the last 18 months in a stable manner given the geopolitical and economic situation. Overall, our numbers do not show any decrease in activity. This is in spite of the unfavourable consequences. We have got in 2 billion in revenue as of September this year. In France, our activity has been increasing by 15.8%, outside of France 38%. Activity has increased in a stable manner: 18.8% in France, 13.2% and 21.7% outside of France. Acquisitions that have contributed to this represent 30% of the total and internationally 68.5%.

In our third quarter alone, our turnover is 975 billion, an increase of 32% compared to last September and an increase of 17%, 10% in France and 20% outside of France. Our activity rate has remained quite high: 92.7% in the fourth quarter, an average of 92% across the year, which is better than our nominative total, which is 92.7% generally speaking. Our turnover remains high – 28% - but our engineer headcount has increased by 150 people across the year, 530 in France and 80 outside of France and others who have joined us from acquisitions represent 370 engineers. As a result, given that we had 43 000 employees at the end of December 2021, of which were 7 150 engineers, so 46 000 engineers, 10 880 in France and 35 420 outside of France.

These numbers confirm what I was saying to you last month during our meeting. There has been no change in trends, and by geographical regions I will give you the results from the third quarter. In France, there has been no change. The increase in France is due to the aeronautics sector, which increased by 45% compared to other industry sector. The Automote deal, which represents 14% of the turnover, increased by 70%. It saw a poor increase in 2022 and the volume increase was because of our offshore activity, which provided little value. This provided an increase of 7.5% in general.

Growth in France, as you may have seen, decreased during the third quarter, 10% in Q3 and 13% across the year. In Europe, excluding France, our activity increased more than 10%, with the exception of Switzerland. In the Iberian region, a 22% increase. Sectors are growing strongly: aeronautics, finances, industry and telecoms. Activity is still strong in Germany: 23%. Aeronautics and energy are increasing by 30%. In Italy, growth has remained at 25% for the third consecutive year. All sectors are growing, especially the automobile, finance, security, defence and telecom sectors. In the Benelux region the increase is of 90% and in Holland there is a strong increase in the electronic and semiconductor and energy sectors. However, in Belgium growth is stagnant. The aeronautics sector, defence and security defence are still showing a strong increase. In Scandinavia, an area where growth was quite stagnant in the third quarter, but growth then increased in the third quarter, representing 7.5 throughout the year thanks to the automobile and transport sector. In Eastern Europe, there is around a 40% increase, represented by

50% of Poland. In Romania, 40%, again which has seen a 20% increase in automotive and energy sectors.

In North America, our activity has slowed down in the last quarter, 21% decrease. The main sectors are aeronautic, automobile, sorry, finance, telecoms, which represent at least two-thirds of our turnover. In the APAC region, 37%, China 30% thanks to the automotive industry, and the third industries represent 40%. Japan is a key area in Asia, 12% increase thanks to the finance and semiconductor industry, and Singapore represents a 50% growth, which is the same as Japan's growth, thanks to the finance sector. You can therefore see that the growth has remained constant in these geographical areas, with the exception of Switzerland, where the problems are purely managerial, which represents a significant percent, however, 3.8% of growth. The activities are growing, even though the rhythm is quite different.

To provide a little analysis of our activity by sector, automobile represents 70.6% of our turnover and has grown by 30% and continues to do so. [Inaudible] in Germany is not progressing, however, sorry, [inaudible] is growing significantly and growth is very sustained throughout Germany. Rail has grown by third percent thanks to Bombardier, aerospace 50% thanks to civil aviation and Airbus. However, [inaudible] accounts have also provided significant growth. In aerospace, growth has picked up again, but only by 10%.

All defence, security and naval, which represents over 5 000 of our turnover, have grown by 10% across the sector, whereas energy represents 9% of our turnover. It is growing weakly. Energy represents 3% growth due to the gas, the fall in gas, which represents 7%. This fall, which is linked to the disinvestment which has widely been seen across the sector, as you have seen, but has been highlighted by the withdrawal of ALTEN from Russia in our second quarter, which represents 21 billion turnover in 2021. It does not represent EUR 21 billion over 2022, but it would be about half of our turnover of 2022. Nuclear represents 3% of our turnover and continues to grow by 5%, even though there is a shortage of engineers, and energy equipment is growing by 25%.

Life sciences are growing 9%, especially in equipment in the pharmaceutical. Industrial equipment is growing 9%, electronics and semiconductors 25%. Telecoms have stagnated somewhat due to a fall of 20% with operators. The finance sector, 6% of our turnover, it increased by 20% in North America and southern Europe. Retail and services and the public sector is growing by 20%. To summarise, over 95% of our activity, including gas, is growing and it is a fairly strong growth.

Related to external growth, we have not had any further acquisitions to announce throughout the third quarter. However, we signed an SDA with activities focused on the earth sector. They are fairly specific, but they are fairly strategic for the group. There are a network of companies within the group which aim to distribute licences in rare metals. It is fairly well developed over the last few years and our business model is becoming more developed, and this is why we decided to stop this activity, which represented 142 million turnover and only 115 turnover at the end of 2022 between the US and the UK. We should get further authorisation in November and I think maybe there will be some change at the end of November 2022.

In terms of acquisitions, we have a number of projects in the pipeline which are fairly advanced. SDA negotiations are in progress and we should be able to announced the results by the end of the year, which will influence our external growth opportunities. In terms of our opportunities by the end of the year, I think that we can confirm that our organic will be satisfactory and we should be, unless any major catastrophe, over 15% for 2022.

If you could please now open the floor for questions so participants can ask any questions.

Moderator

Thank you, ladies and gentlemen. If you would like to ask your question, please press 01 on your telephone key pad. We have a first question from Emmanuel Parot. Please over to you.

Emmanuel PAROT, Gilbert Dupont

Hello, Bruno. I hope you can hear me. I have three questions. The first one I am not sure that I wrote everything down in terms of recruitments. I think that you had 190 recruitments? That is correct, yes. Which is a good performance. I wanted to know what you are planning in terms of Q4, given that Q3 was so performing. Is there something that you wanted to do to slow this rhythm down? Then also I wanted to ask you about the costs. Did costs have an effect on your growth in Q3 and perhaps could you give us a little update on the negotiations in place for 2022? Then, lastly, in terms of closing, could you perhaps tell us a bit more about the activities that you have discontinued? Thank you.

Bruno BENOLIEL

Yes, recruitment in Q3, net recruitments, 190, so 80 in France and 100 abroad. Sorry, 180 in total. Q4 we have no forecasts of what we are going to achieve. October was a very good month for recruiting, but I am waiting to see what the feedback is from the group, and we did not slow down our recruitment process. We still are keen on recruiting. Our activity levels remain strong, and I am hearing of a number of departures rather than staffing problems in terms of resources and projects. We yourself have a strong recruiting pattern in place and we will see what happens in Q4.

In terms of the pricing effect, it is impossible to tell you precisely what impact this has had on our growth because there are a combination of impacts that we are feeling on both sides. We cannot tell you what comes from the costs and what comes from volume – I am very sorry – but given that we have activities in a number of sectors and complex revenue models it is difficult to determine what is going to be developed. It is something that was difficult to calculate given when the group was mainly focused on the consulting sector. It may have been easier back then, but now it is not.

Then we also have this idea of client costs, which does not really provide us with any final conclusions or results. There is a combination of impact on our staffing because our growth has led to the hiring of more junior staff, so you can think that salaries have decreased because as they are more junior it has a positive impact on our salaries and prices, too, but I suppose that this could not really allow me to give a structured enough response. When looking at the company we sold, this is a company for which the average margin is at the level of the average margin level of the group, so much more profitable when it comes to the average margin of the group, and we will not communicate on the assignment price.

Emmanuel PAROT

Okay, very well. Thank you so much, Bruno.

Moderator

Thank you. We have a next question from Gregory Ramirez for Bryan, Garnier. You have the floor.

Gregory RAMIREZ, Bryan, Garnier & Co

Yes, good evening, Bruno. I have two questions. The first one, to remain on the sale aspect: do you believe that there are still assets to date within the group? The second question, to try and understand it, the organic growth level that we can hope for the whole year, because clearly more than 15% seems obvious, but regarding the Q17, there is more than 17 for Q3, and the rest of the year I believe that we will be closer to more than 17 rather than 15 – you know – for the whole year. What do you think?

Bruno BENOLIEL

Yes, regarding the sale, selling this company in fact has been done when we arrived at a conclusion that it would be better to sell it because we had a deep reflection on the evolution of different companies of our group. This activity took very important proportions, obviously doing more than 15, so it is impossible for you to see what the software represents, but if we were looking at a different accounting system then you will understand that selling software is today almost 40% of our activity, of the activity of that company, and we are not a software provider company. When they enter the group it was a minor activity, but it is an activity that is working fine, and it is also a reason for our development because also after that they can offer many services in relation to the implementation of [inaudible], for instance, mostly in the IT sector. Then all the activities which would be not strategic today in our portfolio, we do not see any, so there will not be other activities, other companies, sold. There is no new project to sell other companies of the group, to reply precisely to your question.

When it comes to the organic growth level, I said that in 2022 it will be above 15, but I did not say it would be 15, so indeed, depending on the organic growth in Q4, we can imagine that the yearly turnover will be superior to 15, and it can, indeed it could, indeed, reach 17. This is not an unimaginable hypothesis, so it is possible, yes.

Gregory RAMIREZ

Okay, very well. Thank you very much.

Moderator

Thank you. We have another question, a question in English, from Aditya Buddhavarapu from Bank of America. You have the floor.

Aditya BUDDHAVARAPU, Bank of America

Hi Bruno. Thanks for taking my questions. The first question from me: you I think previously said you would like to reach 50 000 engineers by the end of 2022 and that looks a bit difficult I guess right now, so how do you think about the impact of that on 2023 growth? A second question: from your conversations with clients are you seeing any change around demand or if there are any concerns from clients around spending on R&D as they head into 2023? Then, finally, I think previously you said that the second half margins should still be around 10-15%. Should we still expect that level of margins given we will see the very strong top line growth? That is it. Thank you.

Bruno BENOLIEL

Maybe it would be more interesting to exchange directly in English with Aditya because I am not sure I fully understood the first question because I do not believe I have mentioned 47 engineers to be recruited over the year.

Aditya BUDDHAVARAPU

No, reaching 50 000 by the end of the year, sorry.

Bruno BENOLIEL

If Aditya could perhaps repeat this part of the question I could answer precisely. Then when it comes to the margins, we have communicated on the fact that the first semester has been exceptional when it comes to margins and the second one, the second semester, will be with an operating margin necessarily lower, and I gave an idea of results. I said I believe that this margin for semester two will probably be between 10.2 and 10.5, if I am not mistaken, so we keep this margin window and we will see at the end of the year what will be the final margin. What will be sure is we will do more than 10% of operating margin for the activity on the second semester 2022, and as a result the yearly margin will obviously be

superior to 10.5%. If you could ask Aditya to please re-express his first question or perhaps he could ask his first question in English directly and I could directly answer please.

Aditya BUDDHAVARAPU

Right, so just to repeat the first question: I think you said you had a target of reaching 50 000 engineers by the end of 2022. Given that might be a bit difficult right now, how do you think that impact growth in 2023? The other question I had was based on your conversations with clients, are you seeing any change in demand because of any concerns around the macro environment? Thank you.

Bruno BENOLIEL

Okay, so we currently have 46 300 engineers, so we are far above 40 000, but we will not reach the 50 000 engineers by year-end. That is for sure. We hope we will reach that number of course during H1 2023. Now regarding the outlook for 2023, it is much too early to say what is going to happen and what could be the EBITDA growth, which will depend upon the end of 2022, I mean how many people we will add during Q4 and also what will be the attrition of the engineers at year-end. In January, I will give more information regarding the EBITDA growth, which unfortunately I am not able to do now.

Now regarding demand, it remains strong to be frank. There is no deceleration regarding the number of bids that we receive, nor the time our customers need to make their decision when we answer a bid. We do not see any declining staff turnover either, which is normally a sign also of deceleration, and the activity rates remain high, which is also a sign of high demand. The only perhaps vertical where we see a slight decline in the demand, which remains high, however, is the finance sector in some countries, but that is all.

Aditya BUDDHAVARAPU

Great, thanks. Thanks very much, Bruno.

Moderator

Thank you. We do not have other questions. No more questions in French, no more questions in English. I do remind you if you have a question do not hesitate. You can press 01 on your dialler. We have a next question of Derric Marcon for Société Générale.

Derric MARCON, Société Générale

Yes, thank you very much for taking my question. I have two. The first one is the French aspect, the [inaudible], SDNA, is it of an acceptable level or is it more than the average of the group of more than 28% despite all your efforts? Do you imagine recruiting more? Despite your good efforts this bad attrition really affected. We were trying to understand the dynamic in France because 80 obviously is not so well. We have been used to you doing much better.

My second question is on the momentum for the automotive sector, with the recovery in France and the very good growth levels that you can see on most of the German suppliers, do you believe this is a sustainable trend or is that a rush at the end of year and much uncertainties because it does not mean that it will continue the same way so positively in 2023? How do you see the trends evolving in the automotive sector? What about the demands?

Bruno BENOLIEL

Yes, so in France we have the two effects. We have a strong high turnover above 30% for France, so this is not helping, and we are also steering an activity rate which is about 92-93%, meaning that probably we have not recruited enough, and I know that there are some EDF projects for which we have issues staffing in the nuclear sector, so clearly we have a deficit. We are lacking staff in relation to a higher turnover and issues to recruiting

for specific fields, but that said, I do not know how much we would have produced as a result of the situation had been better. Perhaps we would have doubled, tripled the results, but obviously not having a growth of 500 more engineers. Then when it comes to the momentum in the automotive sector, for the moment, and when I discuss about it with some managers, whether they are French, English, German or in the US, there is no decrease, no slowdown, and I am not really anticipating a drop in demand.

Is it sustainable? Can we sustain such growth results of 30% in the long run? I am not sure. I do not believe so because, first, the Germans who invest largely, and we have growth tables which are important because this is due to results from last year, and everything we started again really late, so as a result we will have higher comparison rates, therefore we will have a deceleration of the nominal growth result next year – you see – for Germany on the automotive sector. In France, there are several projects that are being carried out in France. It is done at the moment because it is impossible to near-shore or to offshore, but the majority of the growth is done with French manufacturers. It is being done mostly on the near offshore and they have objectives when it comes to productivity gains which are really ambitious for the next two or three years to come.

In the UK, in the US this is going rather well, so 30% growth for the automotive sector in 2023, obviously no, but we should be able to continue having positive growth in a sector, a field, in which there are high stakes, with a short-term purpose. It is just a technical aspect because for me this is difficult to reconcile the two because I do not have the results for the end of June.

Derric MARCON

Nine seven, one seven 930, could you perhaps be more precise on these results, these numbers?

Bruno BENOLIEL

Well, I have got these results. This is about the engineers. At the end of June, it was 47 650 engineers, but if you do that – this is the number I got.

Derric MARCON

Plus what did you say? 46 300?

Bruno BENOLIEL

Yes, and we have consolidated two companies – this is why – that we have purchased in the first semester, so it represented a volume of 670 engineers.

Derric MARCON

From July on, right?

Bruno BENOLIEL

Yes, exactly.

Derric MARCON

Okay, so 670? Not 650?

Bruno BENOLIEL

Yes, and in fact in these two companies, among these two companies, one is an American/Indian company, or Indian/American, whatever you prefer, of less than 400 people, and there is a British company also that we purchased in the UK, which has been consolidated, entered into our [inaudible] in July with 285 engineers, but in reality it is not taking into consideration the about 500 contractors – you know – that this company hires in

a lasting manner because we are in the UK, so we are not communicating on subcontractors because it is not part of the group's models, and the volume is quite stable in time, so therefore it is not really important, but at Methods this is an important detail to take into consideration because if we look at the turnover of this company this is about EUR 8.206 billion and we will not have such a turnover with these headcounts.

Derric MARCON

These people are not within the 46 300 people, right?

Bruno BENOLIEL

Okay, no, no, not at all.

Derric MARCON

Well done, well done.

Bruno BENOLIEL

You are very welcome.

Moderator

The next question is from Nicola David for [inaudible]. You have the floor.

Nicola DAVID

Yes, good evening. Bruno, I had two questions. To go back to France, there is a slight slowdown when it comes to the organic growth. It is coming back to the sequential. Probably you have mentioned it – I have missed the beginning of the call – but is it only due to perhaps – we have mentioned it – to the issues of recruiting, net recruitment issues, or maybe there was some other technical aspects? Maybe this is also due to the calendar aspect? You know? Maybe we have a negative result in France? This will answer. The second question is when it comes to the slowdown we have observed in the financial sector, what is the reason? What do you think is the reason, the underlying reason, for that?

Bruno BENOLIEL

Well, already in the financial sector there is a slight slowdown in some countries, but this is not general. I believe that the reason is that banks in our context have decided reducing their investment. It is an internal management decision. Then for France, yes, there is a calendar effect, which is from months to days on Q3, and it will be the case in Q4 as well, meaning that in total in France we will have fewer working days for S2, so practically, and you are right to say, this will impact the growth rate for France, so working day on a quarter, mostly on quarter three. It means more or less 1.5% of activity rate, of growth rate, sorry, growth rate. 1.5. However, that said, in France, growth is mostly driven by the aeronautics sector. The other fields are facing growth, but not so much, which means that this is a slight decrease of the apparent growth in the aeronautics sector.

Nicola DAVID

I do understand. Thank you very much. There is the aeronautics sector, which is coming out of its recovery period, and in terms of covered in France, what is the volume in France?

Bruno BENOLIEL

10% at the moment.

Nicola DAVID

Okay, very clear. Thank you very much.

Moderator

Thank you. We have another question from Laurent Daure from Kepler Cheuvreux. Over to you.

Laurent DAURE, Kepler Cheuvreux

Yes, thank you very much. I have a few points. Good evening, Bruno. Firstly, I have a question on the deconsolidation and the sale. Are you going to deconsolidate this over the whole period or just over December, and do we need to take any additional value into consideration? You have not given the costs of the sale, but can we say that the costs of this would be also equivalent to the acquisition costs that we have experienced recently?

Bruno BENOLIEL

This deconsolidation will take place at the date of sale, so by the end of November we will have 11 months of activity in our accounts for that company. That will allow us to simplify things and deconsolidate by 30 September, but it will at least continue until 30 December, end of November potentially, so no retroactive deconsolidation. The added value total will be shared later. I do not know if we will go into excessive detail, but this added value will allow us to have a financial overview, but this economic added value will be obtained from this company. I do not know if I am very clear in my explanation.

Laurent DAURE

Is it a business that you acquired or something that was developed internally that you are selling?

Bruno BENOLIEL

It was companies that we had acquired, essentially companies that we had acquired. Not all of them, but most of them. That being said, acquired or created, there is no added value to our accounts.

Laurent DAURE

Then in terms of costs, what was that on multiples?

Bruno BENOLIEL

We sold on a higher multiple than what would use when we acquire.

Laurent DAURE

Okay, thank you. Then another point: could you remind us of the consolidation entries this year for the four acquisitions that you made?

Bruno BENOLIEL

Yes, okay. The four consolidations from these acquisitions, I will go through them one by one. The first one, Clevertask in Spain, we acquired it on 1 April. Consolidation was completed on 1 April. Second, [inaudible] on 1 July. The third, Methods in the UK, consolidated on 1 July also, and the fourth one, I think it was a small consolidation, but it has not yet been added to our scope.

Laurent DAURE

Okay, but that was in Australia, right?

Bruno BENOLIEL

Yes.

Laurent DAURE

In theory, would that be in Q4?

Bruno BENOLIEL

Yes, Q4.

Laurent DAURE

In terms of the deals that you are hoping to finalise by the end of the year in M&A, what kind of sized companies are you looking at? Are they quite significant or small?

Bruno BENOLIEL

Smaller deals, between 100 and 300 people approximately.

Laurent DAURE

Lastly, if we look at 2023, I imagine it is still too early to have this conversation, because conversations are only beginning, but would you say that there are some areas within your activity where you have bullish returns and feedback on your operations that it is difficult to have positive momentum or envisage a positive momentum over the next year?

Bruno BENOLIEL

It is far too early. One thing is certain, is that everybody is positive and fairly relaxed. A lot of managerial discussions have begun focused on pricing for 2023, even if my belief, and it is a very personal one, the pressure on salaries and wages will decrease over the next year because the majority of companies do not follow the inflation model and implement this into their salaries, and if growth and turnover slow down it will be beneficial on growth because turnover has a limiting effect on growth and on salaries. We will see what happens in terms of the inflation rate, but we have seen that gas prices have decreases, oil prices have decreased. Raw materials have also decreased, so if inflation goes down then there will be an impact of this felt throughout all of our companies, which will also be translated into less strict political strategies than in 2022, shall we say?

Laurent DAURE

That is interesting. This negotiation that is beginning is interesting because there are clients who may be fairly pessimistic for 2022, just as they were for 2022, but at any point in your negotiations has this not made things more difficult to increase costs or is this general accepted?

Bruno BENOLIEL

No, we have had accounts where we have not achieved any growth in wages, costs, at the beginning of the year, and this is fairly rare. The only companies or clients who are not paying any attention to costs and tariffs in the automotive sector, but that does not necessarily mean that this is going to be forever the case because salaries are increasing, we have to increase wages, and we are going to have to develop our offshore activities in some sectors, and others that we may need to relocate, and others that we have been able to keep in France or Germany, as well, so I am more confident in terms of tariffs to 2023, even though discussions have not formally begun at the moment. These are just preliminary discussions that have taken place between our managers that are escalating the issue and making us aware that we will need to discuss and between them and their clients as well.

Laurent DAURE

Thank you. That is very clear. Thank you, Bruno.

Moderator

Thank you very much. We do not have any more questions by phone please. If you would like to ask a question by phone please press 01 on your telephone keypad. It seems that there are no more questions by phone. Well, if you do not have any questions, sorry, Mr Ramirez has just added his name to the waiting list, so if we have time please, yes, of course.

Gregory RAMIREZ

Yes, just to go back to the sales, is it Cprime? Is that the company?

Bruno BENOLIEL

Yes, Cprime.

Gregory RAMIREZ

The companies did, however, sign a deal?

Bruno BENOLIEL

Yes, because I seem to remember that Cprime had completed some acquisitions, but I think it depended on whether it was a subsidiary of Calsoft Labs. It was not an entity that was for sale I do not think.

Gregory RAMIREZ

It was not an entity that what, sorry? It was not an entity for sale?

Bruno BENOLIEL

No, no, not at all. Yes, it is Cprime who made the sale.

Gregory RAMIREZ

Okay, thank you, Bruno.

Moderator

Thank you. We have no more questions by phone. Over to you.

Bruno BENOLIEL

If there are no other questions, I would like to thank you for taking part in our conference. Please have a lovely evening and, as a reminder, our next conference will be for the publications of our Q4 results, which will be at the end of January 2023. Have a lovely evening and speak to you soon.

Moderator

Thank you. Ladies and gentlemen, the conference is now over. Thank you for taking part. You can now disconnect.

Unfortunately, we were unable to confirm the following names :

Emmanuel PAROT, 3

Gilbert Dupont, 3

