

2022 Annual Results Conference



Simon AZOULAY

Good morning, everyone, and welcome. Thank you very much for coming on this holiday week. Thank you for being here for today's presentation, which is going to happen in-person. We are going to present the annual results of 2022 and the strategy for the next three years.

So a brief comment about this meeting. We hesitated a lot about having it in person.

We didn't know if many of you would attend in person. So this is a try out. We will see what happens. But we are delighted to have you here both in-person and online.

You have seen the results which have been published last night. So as you can see, the revenue here on this screen, which had been published a few weeks ago already.

We have recorded a significant growth of 29%. There was a two fold factor for this external growth. External growth represented a 59%, and 18% of organic growth. And 11% of external growth. We have seen an increase in our activities compared to the COVID period, especially in the aeronautics sector. Now we have to be very cautious and look at the forecast for future years. So you can also see the difference between France and international. France did very well, of course. We have been underestimating our potential in France because we have been the leader for many years, but it is still the case today. We are present and operational in many sectors and we can further develop our activities in other sectors, in other regions and areas where we are not sufficiently present. So the potential remains important and significant in France.

And we have recorded 12% of organic growth. There are many regions where we are not sufficiently present, for example, in the region of Lyon, in the east of France.

We also want to conquer the west of France because we have so far concentrated on Paris and Toulouse. And internationally, what we can say is that we are present everywhere in the US, Germany, in the Nordics and Benelux, in the North, and in the South, everywhere.

We offer many IT services and this is what we are known for. But we are present in Japan with 3000 people, 6000 people in China, 8000 in India, and so on and so forth. But there is still a lot of potential. But what is reassuring is that there is no one that can compete with us.

We are still small, but the others are smaller than us. So the potential for our future development is significant and this development potentially is going to be linked to our management and coordination capacity and they will come back to this later. Now, the OPA was at 11.1%. We will come back to this a bit later. So let's talk about this 11%.

This is very good news and it is linked to some short term of factories, especially the picking up of the activity after COVID. Some activities represent 7 or 8% of our revenue. I'm thinking of acquisitions, for example, but in some countries we are stuck below the 10% margin. But this is not the case everywhere. So we have this average of 10%. When we reach a 10.5% we are very happy it's a good year. When we remain at 9%, we are less happy because we could do better. So this is what we are aiming at. And so 11% is very good, very positive for us. So we would like to secure this 11% for 2023 as well. But this is not to be taken for granted for many reasons. And I will explain this to you later on. Let's talk about our employees or head counts.

Usually we talk in numbers of billing engineers and then we look at the average a contract amount and we divide it by the number of engineers and you get the total. So we have 47,500 engineers.

In January, we have recruited new engineers in the M&A. So we must see that the figures will significantly increase some three folds. So you can see the figures for December 2019, 2010 and 2021.

So what we can say is that since 2016, if we look at December 2016 and we compare it to December 2022, we have doubled our headcount and we have significantly grown internationally. And this is in line with our strategy because it represents approximately 50% of our growth and the remaining 50% of our growth is in France. So now let's look at the geographic breakdown or geographic footprint.

What we can say here is that we look at the number of engineers. So we look at the 47,500 engineers who are working on various projects throughout the world.

We didn't want to cram this presentation, but we also have a table of waived year, specific areas from each country.

So we can see where the demand is higher from our clients. But in that case, we will talk about the projects and not the engineers. But if we were to adopt that lens, many projects in America and in France are executed offshore, in Morocco, in Romania, in Poland, in China, or in India. Four countries actually deliver offshore projects in a low cost fashion. But the cost is not the only reason. Quality is also the reason why we turn to

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those countries. We have excellent, excellent, excellent centuries of competence in India, for example. So this is why the number of engineers, as you can see on the screen, does not correspond to the revenue.

Let's take the example of France. We went from 10,300 engineers to 11,100 engineers, but our revenue have significantly increased and those projects have been executed in Romania or India, for example. And the same is true for Asia.

You can see the figures on the screen. We went from 6000 to more than 11,000. But the revenue is different. Some of the revenue has been generated by project delivery to somewhere else. So you have to take this into account. In this presentation, you have the increase in the number of engineers and the increase in revenue and projects. There are some exceptions, of course, such as India and Morocco and offshore countries. But what we can see is that overall all countries have recorded some growth.

The momentum is very positive and we need to accelerate. So this is true, especially in North America.

This is where we have placed us our hopes for the future and in the Asia-Pacific region as well.

So let me talk about this slide. We have simplified it, but I think it is very important to spend some time talking about it because it is important for you if you are interested in Alten internally, our teams are a bit bored of hearing me talking about the blue and the yellow teams. But in blue here you can see the engineering team with medical equipment, medical research.

So it's basically everything that we design, that we produce and we sell. So it's both marketing and sales activity. In yellow, you can see all of the administrative and internal services, accounting, HR, sales management, web marketing, customer management and mobile apps, etc.

So everything that has to do with the infrastructure networks, the cybersecurity, cloud and so on. In the past we used to say that yellow represented IT companies only, but actually this is not true because we have IT components both in the blue and in the yellow team. So we have a lot of software engineering, IT engineering in the blue section here. In the blue section here, we need embedded IT solutions in planes, trains, cars and the many other situations.

We need IT, for example, in plane itinerary routes. So we design and we produce software in the blue section, and we also do that in the yellow section. In the blue section we also take care of mechanics, electronics and many other activities, of course. Alten as a company concentrates on engineering with approximately 75% of our activities.

The remaining 25% is about I.T. Enterprise services. So we came up with the colors, of course. It's just a way for us to make a distinction here. So 75% is represented by engineering services and we have a subsection dedicated to the design and then we have the manufacturing subsection with robotics, IT, and everything that has to do with manufacturing. We are not really involved in the supply chain, which is more about the management and the supply side of things.

So this is not really what we concentrate on. What we concentrate on is developing new design projects. Those projects on average involve 15 people over a period of one and a half years. Usually people involved come from the great schools that they are IT experts, electronics experts, or sometimes they are more specialized in robotics or alternative or something else, but usually they have four or five years worth of experience. And as I said, teams are usually made up of 15 people. For bigger projects we have teams of 30 people and for smaller projects we have teams of five people. So here we talk about clients who need new solutions for internal needs revolving around major data solutions such as SAP, for example. And then we have a cloud migrations and infrastructures, etc.

So we need to be present in both areas. But of course we need to concentrate on the blue segment. We draw our development capacity on IT capacity, of course, and this is true when we work with telecommunications, for example In this shift is really helping us to develop our activities.

It allows us to work with a wide range of companies, Thales and many others. So we have a pool of core competencies, but our clients are very varied. In this slide you can see also some of the companies that we work for, that are part of the group, but which are not called Alten because they are quite distinct. For PMO, you can see it on the top left hand side and then we have this certification of part as well. For operations and infrastructure deployment throughout the world, we have another section for rail or telecom providers, energy, etc.

This is a strong request that we have received from our clients and we need to develop this further. And then there is another segment of technical documents. So I don't know if you have this kind of presentation from our competitors, but we think that this is the best way to explain who we are truly.

Now about the breakdown of turnover per sector, you can see the same ratios on the previous slide because you can see here the breakdown with bank, retail, administration and then you can see the industrial section

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in blue. In 2020, the majority of those sectors recorded some growth. Of course the aerospace industry was really doing well with new plane types, with a focus on decarbonization, an acceleration of the production capacity, especially in the west of France. So we saw needs increase and there was a significant need of a leadership, which is what Alten has positioned itself. In the defense industry as well, the needs were significant and this is not only because of the war in Ukraine. Rather the defense sector is turning digital and needs are changing in nature. We need more intelligence and we need fewer human beings. And there is an overhaul of military equipment. This is true with Thales, Airbus defense, and this is true as well in space with the deployment of constellations, satellite constellations.

So in the aerospace and defense industry, we have recorded some growth. In the automotive sector, we have seen some increase as well with traditional engines and some additional investments in new technology. We've talked about this last time already. Let's talk about the revenue or the turnover.

We have seen some differences compared to other sectors. So one of the specificities of the automotive sector is that stakeholders are really powerful and they are present everywhere and they look at costs very closely. They include in the cost the technical services, which we represent, and they ask us to do as much offshore as possible. So we turn to Morocco or India and other countries because of this reason. And this phenomenon is also arriving in Germany. So we have seen a sharp increase in the number of engineers and in the number of projects. But the revenues grew less fast.

Then we have the energy, life sciences, industrial equipment and telecoms. You can see that life sciences is a sector where we were almost absent ten years ago, but it now represents more than 8%. So this is about the clinical trials where a high quality manufacturing when we talk about drugs, of course. And it is as complicated as in the aerospace industry because you can't have any mistake. In the energy, I believe that we will double the volume of our activities in the nuclear sector and then we have renewables as well, which are going to see an increase in our activities for the next three years. We will be having a spike in our activities in other countries outside of France as well. For the telecoms, we talk about equipment, of course, and many instrumentations and machines which we find in Germany.

The demand is very strong everywhere. There is no other actor. We are well known and this is how we have established ourselves. We have been a bit disappointed by telecom, so we thought that the needs would be higher, especially with the deployment of 5G. There has been some migration, many changes, but not as many as would have been necessary to record a higher growth. And so we still recorded some growth, but not as strong as we thought, but is working very well. So here there's some request here for the sectors in yellow, bank and finance. It went very well in 21, 2022. There's a warning sign for 2023.

So the arrow is not pointing up as much because there's some budgetary restrictions and you know it better than I do, on all investments in the world of the I.T. finance, the only sector where there's a really strong demand is cyber security. On all investments, admin, I.T. , there's been some restrictions. And we have the same similar trend in the world of retail. Based on the analysis that we've done.

It's only affecting the first half of the year and it should pick up again from January to July. So this is how we are positioned on each sectors and the trends that I will go into more details, I've already commented on them in the next slides. Sector by sector we can see the major trends automotive, aerospace, rail, aeronautics, space, defense, energy and life science. So this is what you find in the first slide with a breakdown by sector. And then for the sectors in yellow, you have bank finance, insurance, retail services and public sector. We are not aiming at competing with the major I.T. companies, the Accenture or the major players because they take what we call BPOs, big processes of 200, 300 people for ten years.

Sometimes they cut the prices down and the offshore part of it, this is their job and they could do 20-25 points of EBIT on the life cycle of 12 years for a full process that is externalized. The support inside the network is not the same core business for companies. So for something that you can offshore at 70% versus the blue sector where the offshoring rate is 30 to 40%. So it's not the core business. So if I go back on this yellow sector, we don't take BPOs. We take specific developments that look like what we do in the blue sector, projects including five or ten people on the work on specifications. And we have a technical team that knows how to manage and lead this type of projects. Very important point is all the investment that we're making at the moment for CSR approach.

It's part of our board. It's not just to trend because everybody wants to do CSR at the moment. We were committed to CSR for a while and the items that you could see on the slide, such as the climate, carbon, inclusive company, inclusivity, diversity, gender parity, which are the major items of the CSR then the secondary ones, compliance, etc. We have been working on that for forever. They're part of Alten DNA and we have grouped them around some major themes and pillars and it's good to be measuring what we're doing.

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And you can see that between 2012 and 2021, over a ten year span, the scoring that we got from the major rating agencies, we're now at the top. We're still top 2 top 3 of the service sector, including all companies. And we are in the first third of the bunch. And we're very proud of it.

For our solidarity approach, it's only 20, 25 years old at Alten supporting some associations, whether they are associations like the one I was chairing for a while to boost the promotion of women in management positions, and particularly in the world of engineering diversity, by giving opportunities to people coming from different social backgrounds so they can have access to this technical sector.

It's all being measurable and we're very proud of the scoring and the readings that we've got. So we could find on outside a lot of documents for those of you who want to know more about that. So I would like to go back on the M&A strategy. You can see at the bottom this type of divestment of a company. We don't give the name of that company.

It's a subsidiary that we have that we had, sorry, because we sold it in December 2022, we would do 550 engineers. It didn't match the Alten's business model. It was a service in distribution of software on rates of billing of 400 K euros. So there was a big gap with what we do.

The types of consultants, it was more like a consulting company, like an Accenture, and we didn't know how to develop. The leader left and we had a proposal from an investment bank and we accepted it. And since we don't really need the money, we're going to try to buy some other 2000 people who are much aligned with our business model, which is what we're trying to do. So on the companies that are joining the group at the end of 2022 we're designed and we onboard as of January 2023. We have some add-on that go from 200 to 500 people. This is our target for the moment. You can see it's only international. It touches cloud and digital transformation in Spain. In India it's a company specialised in product engineering which is our core business. They work on aeronautics project but automotive as well.

In the UK we only had the blue sector, we added some yellow with a company of 700 consultants. So it allows us to get to a significant size. In UK, we are over the 2200 consultant.

In Australia, one company specialised in project management, PMO.

In Romania, we are complementing many features that we offer to Germany and to the local Romanian market by developing the software developments. In the US, we are working on aeronautics in Seattle. In India, 300 more people and in Germany 200 consultants in telecom.

So we doubled the organic growth of these countries by targeted M&A and easy to integrate.

Usually they are in earn out for about two or three years. So we can't really touch them for that period.

But we support them so we can fully integrate them two or three years down the road and we buy them for 7 to 10 times the EBIT.

So with the goals that we present when we perform the acquisition. So this is for the M&A acquisition activity. And if you have questions, of course, we'll answer them afterwards.

For the the capital side, it hasn't really changed. We still have a very strong share of the public, particularly the finance world. 82%. As a founder, I still have 15%. It's been like this for the last 17 or 18 years. I had announced that I would sell some of my shares to charities.

I haven't done it because then came the pandemics, Ukraine, etc. So I decided to wait it out. But I will probably do it in 2023 or 2024 because it's something that I committed to. So at least one third of the shares that I have. So don't be surprised if you see it. It doesn't mean that I'm leaving the ship. So, now, I'm going to give the floor to Bruno, who will go into further detail in the financial results.

Bruno BENOLIEL

Hello, everyone. So the slide that you used to to look at, because that's how we present by half use.

We like to show you the progression of the group in five years internationally.

Now the international represents 70% of the group's revenue. This is a goal that we set for ourselves and that we reached thanks to acquisitions and also a growth dynamic that is more important in internationally outside of France and the operating margin that is stable around 10%.

So except for 2020, which is a particular year, we had two years at about 11%, 2021 and 2022.

As Simon told you, they're a bit special use as well. We'll go back to 2023 at levels of operating margin that

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will be probably above 10%, but closer to 10% in fact. In terms of business, organic growth, very important this year. The particularity is it didn't slow down particularly it didn't slow down in the last quarter.

So versus an adverse comparison with 2021 because that's what happened in 2021. So growth dynamic that is strong for 2023. We have an embarked growth that is at 7% versus usually we have an embarked growth at 4-5%. Between France and International, 12.3% of organic growth, 20.27 outside of France.

We'll look at this where the geographies of this outside growth. Contribution of the assets that represents a third of the total growth of this year, contribution that is exclusively done internationally.

Finally, forex effects that represented 2% this year is quite significant because of some currencies getting stronger in front of the euro, the USD, the Swiss francs to just name the few, the main ones. So the breakdown by geographical area, you can see that all geographies grew very significantly.

They all have growth that are above 20%. I am not going to read it out to you in details like I did when I presented the revenue a month ago. I'll be more concise. But just in France. So, you know, the growth in the automotive sector grew throughout the year. We started at 2% growth. We ended at 16 with an average of 9,5, the civil aeronautics, this is going throughout all geographies, picked up very significantly in 2022, because catching up effect from COVID, but also because we launched many new projects. The other industries grew as well above 20%. Internationally, what you need to retain is that there's a pickup, very strong pickup in Germany, which has been sustained throughout the year with aeronautics, energy, life, science and automotive that represent 4% of the German business.

So growth that is above 20% in Spain and Portugal, a growth above 20% that kept throughout solid throughout the year. That is well broken down on between different sectors, but mostly aero, automotive and defense.

In the UK, it's about the same thing, a very strong growth of 27% with same similar sectors. Italy for the third year in a row, a growth that has not decreased, that is above 25%, a very nice growth throughout all sectors, but mostly those that I already told you about. Benelux, we have a situation that is a bit different between the Netherlands on the one hand, that represents 60% of the area that are in very strong increase with semiconductors, with the activities a bit slower in Belgium.

Scandinavia, you could see that Scandinavia is the only geographical area where we're under 10%. But the major accounts in Scandinavia is the machine tools and equipment for automotive and heavyweight trucks that represent half of the local activity. And the activity picked up, but throughout the year and only increased in the last quarter. So that's explains that growth that is smaller, that is still nice, but because it's close to 10% but is a little bit behind the other ones.

Eastern Europe, the business takes a 38% growth.

Poland is representing half of this in business. Romania is doing well as well.

North America. If you look in the appendix, you have all the growth rate quarter by quarter, you can see that the growth has slowed down at the end of the year. But the base effect was quite not good. In the U.S., that represents 80% of North America.

We have sectors. automotive, finance, aeronautics that are growing and in Canada, it's the banking sector and the space sector.

Finally, we have Asia-Pacific growth of 30%. Asia-Pacific with China 36% of the area that grows by 30% thanks to the automotive sector mostly, India 30% of the area and 40% because of the tertiary sector and automotive as well. Japan represent 10% of the growth, but its growth is at 20%. And North Korea.

Company that we bought a few years ago that developed and that now represents 10% of the area and has a growth of 30%. The area of South Korea. So we have not invested in North Korea. We got out of Russia. This is not to go to North Korea. So the result now. An operating margin of 11% this year. A little just a bit over 11%, €4 billion. So above the higher bracket that we gave you a while back.

We have reached because of an improvement of the activity rate in 2022.

We had a smooth year and there's some gains some productivity on some projects which is what we do regularly and at Alten we improve our capacity to manage the work packages so our margin grows and that allowed us to mitigate the degradation of the price and salary, of course, because as you know, the inflation has been affected that and for some clients, depending, are very reluctant to see some price hikes.

We have a decrease of the G&A, so that has allowed the group to go over the 11% in 2022.

If we look at semesters, we told you that the last reading that the second semester would be lower than the first one. That was our forecast. Operating margin that is a little lower than the first semester. But it's only because of calendar, because the gap between the working days between H1 and H2 is only two days. If you take into account the vacation and all that, it doesn't really affect the margin. The as SG&A have progressed

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in H2 versus H1 because of the restructuring of the group and acquisitions that were consolidated in H2, particularly the company in the US that Simon mentioned, methods that cost 20 bips on the operating margin of the group in H2. So a margin of 10.8, which is still very satisfactory and higher than our best forecast.

So you could see the shared base payment that represent €30 million that are aligned with the estimates that we gave you in H1, non-recurring income, where you'll find the sell of shares and minority interest in the US, that is the €200 million. This added value is of course a gross non-recurring income, €13 million, but that for 10,5 million corresponds to earnout payments.

That turned out to be higher that we had budgeted, and that is showing in the PNL and 2 million of fees for the operations of the minis. So non-recurring items, very few non-recurring items. So the operating income is €590 million. So it is a good one. The financial income is lower and the income tax expense we have a 22% tax break rate. We have no taxes on the added value that we did when we sold out our activities of the Agile pool because half of the businesses is in the UK and the other one is in the US, and deferred tax that we had inactivated the previous year that we use this year. So please remember that this rate is not normative. 22.16 for 2023 will be at about 24.8%. That's what we are forecasting for 2023.

Financial results of the Alten Group. If we take off the lease costs, we have €5.2 million.

That's the number that you need to keep in mind. We have financial fees linked to the picking up of the rates by €1.5 million. Other financial products that are exchange results, 3.5 million. And the other net financial project 3.2 million. So by geographical sector in France, an operating results that is aligned with the one of last year, 8.2%. I would like to draw your attention that these costs and to integrate corporate headquarters costs and that of course reduce the margin.

So the economic margin of the margin is close to 10% and not 8%. So in France, we have a gross margin that progress by 90 bips for the same reasons, activity rate projects except one less working day of this year and a degradation of the ratio price to salaries. In France, the SG&As, the sales have made progress. The participation of the employees nearly doubled from 2021, and we're installing a new building that cost to the PNL 5.5 million. It's a one off cost, of course, and that brought down the operation operating margin to 8.2. Internationally, we're at about 12%. The operating margin, it would be a little lower. We have 10%, depends on countries and companies. Germany and Scandinavia kept going up with a margin of EBIT between 7 to 9% and all the other countries U.K. , Benelux, Southern Europe, we have a profitability that is above 10%. The most of the non-recurrence is for the international and our tax bracket is in 10% in France and 21% internationally. The balance sheets, I don't want to go into all the details, you've seen it. It's about the same one. We have gone over 1 billion. The goodwill, over €1 billion. Equity represents still 50%, is a cash situation that is stronger because of the divestment of the company that we mentioned early on. That gives gearing just under 23% and earn outs that are budgeted for €55 million in the next year. IFRS 16 financial impacts. I'll give you a few indications that you ask for to have an economic vision of our financial statements because the IFRS 16 applies to our business.

There are no impact, nor on the balance sheets, nor on the income statement nor on the financing statement. The free cash flow and the Alten cash flow, cash flow of €430 million, which is aligned with the operating results.

As usual, cash flow of 430 million of free cash flow of €148.7 million. That allows us to finance the taxes, the WCR increase, I'll get back to that, and CapEx. Because of the sell off of the Agile hub this year is the positive, it includes the cash coming from that sale that we cashed in at the end of the year and all the payments that we have made for the earnout. So the amount of the divestment of the sell off is not shown and it's, of course, calculated in gross value.

The dividends were increased in 2022 because we went from €1 to €1.30 per share. So they represented €44 billion in the cash flow of the year. And finally, the other flow that you can see is all the forex change effects. So at the end of the year, we have a cash flow of €418 million. On the WCR and cash flow, the operating cash flow, I always presented by semester the analysis of the free cash flow because it's very it's something that is varies during the seasons. So the increase of the WCR is very strong in the first semester because 155 come from H1 and for H2, despite the growth, we have the adverse impact.

So we have an increase of the WCR that is €160 million that is analyzed as follows The accounts increased by €218. If you take away the scope of effects, we're talking in flows only.

This variation of the accounts receivable is linked for 130 millions to the growth of the activities, so purely organic growth, which is a mechanical effect. And €90 million is linked to the DSO because now we have moved it to 21 days. This increase is explained as well by the same reasons by lead emissions of purchase order at clients and late billing, particularly on the work package activities. So we need to be able to get some

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documents received before we can send them the bills, so we're trying to get the DSO lower, to reduce it next year.

Fiscal budget and fiscal debts, WCR increases by €60 million and absorbed 50% of the cash flow generated by the payment of the taxes. On the CapEx, not much to say. There are about 0.7% of the revenue of free cash flow. That represents 3.9% of the revenue and at constant activity would be at 5.6%. So it's still three points below the operating income. So this is the explanation that I just gave you. So I don't need to go back to that. And then to remember 2022 another year of very high growth, organic growth, 18% organic growth and 30% overall.

An operating margin that remains very high, 11.1% thanks to the improved gross margin, relative decrease of SG&A and a stronger contribution of international business. With the acquisitions, of course, that have profitability that is often lower than the one we groove. The strong organic growth generated by the mechanical increase of the WCR of 4%. Free cash flow stands for 4% of revenue. But as always for Alten, an auto financing of its organic growth, external growth, self-financed and dividends, and a net cash position of 418 million that I hope will be able to invest very soon into other acquisitions. I will now give the floor to Simon, who will present to you our development strategy for the years 2023 to 2026.

So two slides to conclude this presentation before we give you the floor for Q&A. So what are the keys for the success of our plan for the future? We like to present our plans with a horizon to 3 to 4 years in order to specify and clarify our strategy and our needs in terms of organization and reorganizations, both internally and externally. We had a plan for 2022, 23, 24, 25, so a four year plan. And the plan boils down to going from 30000 to 50000 engineers. But this plan is now outdated because we are almost 50,000 engineers. And this was the case already at the end of 2022. So we had almost two years of advance here. The organic growth was beyond our expectations. So the plan went really well. So now we need to reassess, review our four year plan from now to 2026. We can't stick with the current plan because it is outdated and we need a new four year plan from 2023 to 2026 in order to be above 60,000 engineers. And we could even aim higher than that. So this is the plan for the next four years to reach maybe 70,000 engineers. So to be successful, we need to shift our focus slightly. So we decided to change our organization.

France represents a less than 32% of the revenue. However, it is the country where we most to capitalize our know-how, the organization of technical and commercial, management of engineers, carriers, recruitment, training centers and managers training centers as well.

Of course Alten remains a French company, very much centered in France. But there are other epicenters in southern Europe, for example, in India as well, which are becoming increasingly important. To be successful in the next four years, we need to overcome the usual challenges, for example, of recruitment. So for ten years we've heard the ministries and all the organizations saying that engineers were not valued as they should. But I thought that this was pointless to just say this. You just have to look at the world around you and see what happens. So we should have been saying the know how and the origin country We should make sure that not all our projects go abroad.

This is what I used to say in the past because we know that this can have some significant impact in geopolitical terms, that this has been the case with some electronic components during COVID and thinking of Taiwan, for example. But on top of that, it is important for our future schools, French schools with foreign students.

At the moment we have mainly men in engineering schools, and women are mostly absent from these schools. So it is important to change this situation. We need more engineers so we have a recruitment problem in the world. What we can say is that we have this problem everywhere and we have quality standards.

But in order to reach that quality, we need to recruit good engineers and Alten wants to attract the best of the best. So we need to improve our image on the market and to give them a salary which is satisfactory for them. We will, of course, have a delay between the pressure that we had in 2022, which has started to decrease, but not completely yet. And then we also have to offset and pass on the cost increase to our clients in 2023, 2024, and we need to concentrate as well on training to attract more engineers. Luckily Alten is a mostly blue company, as we know, and the average age of engineers is 30 years old. So we need more young engineers compared to what happens in the yellow segment where we need more experienced engineers, around 40 years old. So we are massively investing in our training programs. So when we recruit engineers, we train them for six months and we accompany them throughout their careers until they become country managers. We think that this is what is going to help us to develop our markets, we are the leaders on the markets. And we don't really want to recruit engineers from our competitors.

We'd rather make our own managers internally. And I have to say that Alten is the favorite target of all

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recruitment offices and cabinets because they know that we have the best.

So we need to continue in this direction and we need to promote international mobility because we need to be able to send French engineers in the US, for example, to train local engineers. The same is true for Canada and elsewhere. We don't want to expand French management abroad, but we still need a few volunteers in order to develop our model abroad and to recruit and set up a training and recruitment centers abroad.

Third success key, we need to ensure a transversal commercial reorganization. So we know that project leaders are present in those countries and think of Peugeot, and then PSA, Opel. And now we have the Italians as well, we've Fiat's and all its subsidiaries and then we have Chrysler as well. Look at Airbus. We need to be in Montreal to be able to take part in the development of the new Airbus model. So all our clients are international clients in Japan, Korea, China, India. We have a major multinational companies in India, which are our partners as well. So this is why we need this cross-cutting organization. But this is expensive, of course. This should not significantly impact our profitability, but we need high level managers or leaders in order to coordinate our sales and marketing and other sector activities.

The majority of our projects are multi-countries. So for example, in Airbus Defence, we work both in Spain and Germany and this is true for all of our clients. So this requires more coordination of our activities. This is different from what we used to do in the past because we had more a vertical organization per country. Then we need to give more value to our competencies centres.

We have approximately 50 delivery centers which are concentrating on some core competencies, and we have some additional 50 competencies centers throughout the world. But this requires some more dialogue in order to match the right clients with the right clients. And I think that with the right center. And I think that we need to reach out to some experts as well to develop these centers. I think that the potential is immense here and we need to concentrate more on this.

And last but not least, we need to pursue our targeted organic growth. So we talked about the situation during COVID with add-on, for example, which went from 100 to 200 people. But we want to concentrate in the future on companies with between 300 and 1,000 employees. In some countries maybe the interesting target can be at 200 employees. It really depends. So these are the key factors for our success for the next four years. So I told you about our ambition, our target, approximately 70,000 engineers at the end of 2026.

And we have everything that it takes to be successful. We have the offer, we have the excellence centers and the expertise centers, we have almost completed the necessary organization to be successful. And then we also can rely on the healthy financial statements in order to overcome some of the major challenges on the market. So there are many challenges currently, but we really need to overcome them and to think in terms of integration. So the objective is also to be above the 10% of operating margin and to have approximately 70,000 engineers at the end of 2026. So this is the end of our presentation and we will take your questions if you have any.

Q&A

The interpreter apologizes, but she cannot hear. What about the free cash flows expectations for 2023? I'm not sure I understood. So let's say that the DSO decreases to three day and that the growth is a slightly lower than Q4 and a moderated increase of the WCR of 30 to 40%. Does it make sense for you? And then could you maybe clarify the geographic area? Is there any upside maybe, is there any structural costs which have not yet been sufficiently leveraged? Could we maybe improve our margin in some key areas? And then about M&A. If we look at bigger companies, don't you think that you will have more competitors? And don't you think that prices may be higher and therefore be above the range of 7 to 8 times the EBIT?

Thank you very much for this question, and I will answer the cash question. But let me say that for the WCR, depending on good and bad years, we need between a 12 to 14% of our revenues depending on the model that we use. So if our revenue increases by €100 million, let's say it is going to generate an additional €13 million of WCR. So this is a rule of thumb. If we do well, it can be higher. If we do less well, it can be lower.



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We can also have more payment delays because there is no account, no advance payments in our field of activities, we only get paid when the project is delivered. Bruno, maybe you can say a few more words about this later. About geographic areas, you are right.

There are many areas where we have carried out acquisitions and where we have not yet deployed our model. We have a model which is not as profitable as the work package. And because of our positioning with the client.

So yes, we can improve our margins in many geographic areas in the Nordics and North America as well. In India too, and so on. So, yes, through our organization and technical deployment and network for package deployment, we will see, I think, some significant improvement in our gross margin. And I think that this will offset our acquisitions, which extend to 7 to 8 points of EBIT. So, yes, that's the answer to your question. And then regarding the M&A, all companies with at least 300 employees have already sold their souls, so to say, to investments funds. All have been sold by some shareholders or have sold it too many other shares and only have 40% of their shares. So two thirds of them have already a majority owned by investment funds or private funds. And we know how it goes. So they usually are sold off four years later so we can plan ahead. We know that in five years time we will have an opportunity. We can see that the situation is very complicated. We have a build up and this reduces our targets. Because usually they are only used by the call for money by investors and they need to secure their financial position. So this is problematic and it pushes the EBIT above 10. We can go to 11, 12, 13 points of EBIT if the company is very, very interesting. But we need a third of earnout. So in order to secure our payment. But the higher we go, so every time we increase by 100, we increase one point of EBIT and usually it increases by three the investments funds involved. And I can tell you that there aren't many that are still independent and especially abroad, that there is no significant targets. Our sector of activities has been fragmented in a great number of small companies of 2 to 300 employees every time. Though so that's it from me. I hope it answers your question. Before I take your question, I wanted to say something. What really encouraged us to divest multiple hubs last year, this is because we had a very good opportunity. So that would give us the opportunity to acquire companies that are more aligned with our business model.

Hello Valérie Lefèvre COGEFI Gestion, I wanted to ask a question regarding the measures that you will implement regarding the DSO. And what about the margins in those geographic areas where they are lower, than your expectations? What are the incentives that you want to implement to improve the margins?

Well, I will answer the second question and Bruno will answer the first. So regarding incentives, Alten has the good or bad reputation to give a variable salary or compensation to business unit managers up to 40%. So any manager in charge of 30 consultants or any department manager or any country manager by the way, have a variable part in their compensation, or salary. And this variable share is linked to the growth of the gross margin. And this is very important. We look at this and not at the EBIT because we want to be free to invest without undermining or impacted the bonuses of our managers, especially if we want to grow the number of managers that we have. So this is what we do in acquisition. So when we have an [INAUDIBLE], then usually they don't invest any more. But this is not what we want. We want to find a middle ground. So we want to find a compromise and make sure that this mistake doesn't happen with our monetaries. So we look at the increase in growth margin, which is linked to the growth in revenue, of course. And if the gross margin decreases, then we have red flags that appear and we know that we need to take some actions. Yes. So let me answer your first question. We need to reach out to our clients to have the purchase orders faster than what we currently do. I don't think that this is going to imply any changes in our processes because once we send our invoices, we have no payment issue at all. So it's just a matter of POs. And we have RPs everywhere in the group.

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Eric Blin FINANCE CONNECT. You mentioned some pressure on salaries, a pressure which you had to pass on to your clients. But this is a part of the organic growth. It's putting pressure on the revenue as a whole. So could you tell us a bit more about how you intend to pass on this increase and what are the salary increases that you have accepted? And I have another question. I believe that salary inflation in offshore countries has become significant in some instances. Do you think that this implies some kind of structural problem and the gap between the onshore and offshore, are we going to move away from the onshore or offshore? What about the return? Can you tell us a bit more about this? Thank you.

So the pressure on wages is not homogeneous, depending on the geographies and depending on the experience of our consultants. It goes from 3% to 12%, depending on the countries. It's often gaps over time. In some sectors, we don't have an issue. I'm taking, for example, the example of the USA, you imagine these salaries working for the GAFA, starting engineer can still make 120 K per year. It's not what we give them. We cannot afford to give them. Maybe in the U.S. maybe we build \$120,000 in engineering. So we're not looking at the same type of clients and compensation. In engineering, the average age is very low and we attract the very young and we attract engineers by the quality of the projects. They come and they learn for three or four years with us, the turnover is 20% that we try to aim for. We like to keep them for 4 to 5 years. We like to keep 5% of the all of them that we train to become business managers or strategy or marketing or other support functions. We have not managed to reach this goal over the last 20 years. We have gone over 30%, 32%. So it's not good. We compensated that by being more aggressive on the recruitment side. So it hasn't completely changed things around, but we had to because we have to address the needs of our clients. And by experience or age, it's not the same at all. The people who have from 0 to 2 years of experience to complete the project, they do two or three projects and then maybe they leave. It was very rough on those who are 3 to 4 years of experience. We had 40% turnover rates and it's also on the older ones. So we have to deal with that. We have invested in the wages, increasing the wages on some age groups and trying to learn from each country. In India, it was very violent. In Eastern Europe, it's very violent as well. Comparing to offshoring. You are right, There's some clients that are wondering because considering the inflation on wages, but the countries who do offshore, the devalue their money regularly, their currency regularly, So not to deter other countries to offshore towards their country. They do that. They do the devaluation of the currency regularly.

The interpreter does not hear the question. So on 2022, I valued at 2%. We cannot pass it down. It's not only linked to inflation, it's also linked to the fact that it was frozen. Some prices are negotiated with major key accounts and after three years we renegotiate with them. Some kinds are smart and they look at the quality and they say, okay, you know, I don't care about the price if you want to. I will take an increase in prices because I know the quality is there and some people don't want it. So it really depends on the client. I think it's about 2% the part of inflation that is passed down to the prices on 2022. And I believe that it will be at 3% in 2023 and that will probably pass on by two thirds. So will there be a loss that we hope to catch up on in 2024? The people who have 3 to 5 years experience who leave, they become freelancers. No. When they leave the group, No, either freelancing, it's quite close to zero for the blue sector, it's 0.5. And I think it's even illegal. It's not accepted for industrial clients because we build their flagship products. They don't want any freelancers, we have confidentiality agreements, non-disclosure, etc. It's very regulated, you know, you don't put a freelancer to a client who does cybersecurity. But in the yellow sector it can go up to 20%. the freelancers, because it's a world of specialists. And the margin of offshoring, is it higher than onshoring? Yes, we can hope to do 32.5 points more on the offshore if it's well managed, which is not always the case, but be careful. There are two ways of doing offshoring. You have the transformation offshoring, which is you have clients, we send a thousand engineers to them. They want to do some cost reduction. And I would like to have these projects in Romania or India that we don't make any money there because the technical



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management is based in the origin country, which is Germany or France or the Nordics. And so we don't make a lot on that. If they are projects that we win from nothing as the major Indian companies, they have sales reps in all Western companies and they bring it back to Indian and they have a very low cost front office. They have an EBOT of 20 to 25. Why? Because they have sales teams that are not even based in the local country. If you look at the major Indian companies, those Indians people go back and forth between India and the US but they live, they're based in India, so they cost less and their front office cost much less as well. So they can make 20, 25 points. And the client is happy because at the end of the day he has the same costs. than if it was a transformation cost.

Hello, in countries with a margin could go up, you didn't name France. I would like to know your opinion on the French margin. Is it less profitable than for the rest of the group and for the bank? Can you give us more details, why it slowed down the first semester? Is it specific to your type of projects? Is that the general context?

Our hope is to be over 10% of operating margin in France. The numbers that we presented, it's complicated because we have many structures and many investments made in France that serve other countries. We have some issues of fiscal compliance with foreign countries because if we bring back margin in France, we pay twice the tax. So, for example, in India, we're imposed to make for 15 points of EBIT, for example, and it's the same for other countries. So a lot of costs are coming back to France. So we could imagine that there'll be one point less in international and one point more in France, even two Bruno says. But that's complicated to evaluate what is really an international service or French service. We have maybe a lot of cost cutting structure. Can we improve the margin in France? Substantially no, because France has reached a level of maturity that is going to be very hard to go above. We can have some very good margins of very specialized offer, but that won't be a big volume, so we won't have a huge impact. You had another question on the slowing down in the bank. It's a European phenomenon. Lots of budget costs from 10 to 20% on the deployment of retail banking softwares or software in general. It doesn't really affect the infrastructures, the networks and cybersecurity. We receive questions on the platform. So I'm going to take a few. And maybe that will also answer some questions that you may have in the room. One on the growth and market growth for the year from 2023 to 2026 with our goal. First question is : why is the growth at 7 and not at 4.5%? The answer is simple is because we did a growth between the end of 2021 and the end of 2022. That is higher than the previous years. So we finished the year with a number of engineers that is higher than the average headcount, than the previous years, which mechanically gives us an embarked growth that is slightly above the one that we used to have. So for organic growth for 2023-2026 expected, It depends on the economic context. We made some scenarios when we made our plan for 2023-2026. We're not going to communicate them, but the 70,000 engineers, I'm going to be explaining that. So Alten is always beat the market. So we follow the general macroeconomic trends. When there's a big slowdown, we slow down as well. But just to give some indications on what we can reach on the turnover rate, Simon already answered on the margin. We have several questions on the margin. From investors who ask us why our margin would go back to 10% and not stay at 11 of more, considering the growth that is expected. We already gave some elements of answer. On the one hand, this year we had a business rate that was higher. We're not in an industry of first purchase. We don't do economies of scale. So we understand that the growth does not generate economies of sales. And I would say that growth requires us to structure our business even more. Simon talked about the cross-cutting sales structure, which makes that the volume does not allow to make some economies of sales, such as in other industries. So if we take into account a business rate that would be closer to the standard levels and that would take into account the evolution of wages, would rather be conservative and give a guidance which is about the normative level for Alten, which is just above the 10% but not an 11. It's not how we feel today. There's a question that is on the tax brackets for the capital gains. We sold an activity



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in the U.S. and in the UK. In the US it's 30%. And in the UK the capital gains is zero. So there's another question for Simon, somebody asking Simon why you want to sell a third, well it's not sell, you've explained the context, a third of your shares.

I'm not going to sell them. I'm going to give them away. First of all, because. It's a personal commitment that I made since the IPO of Alten in 99. Also, my children got settled and I want to keep my commitment. And also I have a lot of ideas, a lot of projects for charities that will need funding in different countries. And these 5% are just the beginning. The rest will follow. Just to continue on this topic, that means that in X number of years, you'll see that the group will be managed by a foundation. No, not all, the shares they're going to be given to the foundations will be sold to so so they can make money with it. How do you imagine the group? I have 15% of the shares today, there is a board that I try to make to evolve. There's a member that left with the sell of the Agile hub in the U.S. There's a new board member that is coming in. It's on Internet, It's a public information. So whether I have 10% of 15% of the shares, it doesn't make a big difference. What matters is covenants. You have many groups where you don't have any more major shareholders, but in this way, sometimes there's a holding company with the people, with employees. Like I'm thinking about Ipsos. Yes, why not? For now, we have a governance model that works well. We have a board that is well gender parity 50/50. It quite works well and we have a Comex that also is well balanced. So I think we're good to go for a few years with the current organization and then we'll see. Who can predict the future, you know? And on the divestment it was 145 million revenue. You've sold it for over €200 million. So I hear. Yes. So I hear as well. And the margin was very high. Or did you have a very good multiple? We cannot disclose anything on that, unfortunately. But if you read the income statements, you'll find all the answers to your question. The only information I can give you is the revenue does not encompass the software distribution that is not integrated in the PNL. It was just for the sales of the software. So there are two margins. There is the real margins of the services and one integrated the markup of the sales of the licenses, the patents. So which means that is a very high margin. No, not exceptional. Above 10%, but not that great.

Hello. Axel. I have a question on the M&A. Can we still expect between five and ten acquisitions for this year? And can you give us an update on what you have in your pipeline?

If I exclude those that were mentioned on the slides and if we go back to the slide of the acquisitions that we realized on the second half of the year, there are four that will only impact our revenue on 2023. I'm trying to find my slide. In January 2023, to be precise. You have 500 consultants who leave the Altzn Group with the divestment that we mentioned. And you have about 1100 that will only have an impact on 2023. The other ones were already integrated in the number of consultants for the previous. But what we have now in our negotiations, we have about letters of intent. We are looking at another source and consultants with 300 that are potential and our target, our annual target. So we hope to be between 2000 and 3000. So that means 7 to 8 acquisitions per year of about 450 people. That's very clear. Thank you. Second question on the telecom sector, we understood that the growth was not up to your expectations this year. Can we expect a ramp up in 2023 or is it not at all something that you're forecasting?

Every time that we have a frustration, it could be linked to the sector, but I think the telecom sector is doing well, performing well, and there's a potential to ramp up. It's often our capacity in one country to be there and well-structured on the sector. And we are really, really positioned well in telecom in three countries only. So it's about our capacity to have a significant size to address all the needs managing the architecture of the towers, the telecom towers, or the operators or those who set them up. There's the OEM sales also in telecoms are very localized in California or Northern Europe or China. So we have to be very good on the



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ground. That's for the equipment side and for what is about managing the data, we need to have in the given country the right skills. In some countries, we've identified some targets where they do cloud migration of all the data from telecom operators. So that would be great if we could buy this kind of companies. Thank you.

Hello. I would like to go back on the goal, the historic goal of 10% of operating margin, because regularly you talk about the young people willing to increase the yellow part, to increase that side, to make more margin on the yellow part because it's maybe something that can be more easily offshored. I feel that you're a little more conservative on the potential of the yellow side in terms of improving margins. Maybe is it linked to the global context for 2023 that explains that? Maybe we can have a change of situation? Is it a will to grow the margins thanks to the yellow side? How do you feel about it?

Our goal is not to increase the percentage of everything that is enterprise services, I.T. and software development and infra network in percentage than it is today. Between 25 to 30% I'm happy with that. Why? Because we only take over the pipe that we know how to do as engineers product development. So we develop softwares based on specifications. We don't deploy Oracle software. We buy it. We have people do that. We don't sell it. We're not distributor. We don't partner with the major players. We cannot manage all the payroll. We develop specific applications for the CIOs when it's I.T. So our share will represent between 25 to 30% of our revenue. And because of this positioning that we have, we will not make 25 points of EBIT because this is projects, work packages, software development with people are hard to get at the moment. So the only way where we can do much more is to be a pure Indian operators, which are some Cap and Accenture, as you know, they have half of their employees are in India and they go get projects with the sales forces in Western countries that are entirely priced in India and made in India. And there you can get your 25 points of EBIT. But if you don't have this business model of pure offshoring of BPO, where you can do over 20 points. Look at the service companies, I.T, services companies which make 15.12 points of it, none. So why would you like us to do more? We're not magicians.