

Webinaire - Alten

Bruno BENOLIEL, Deputy CEO

Good evening, everybody. I would like to thank you for joining this conference call where we will be talking about the third quarter of 2023. As you probably read a few minutes ago, our turnover was EUR 3.37 billion this year. The activity in France grew by over 9% and outside France by 8.8%, so the Group's activity has grown by over 10%, plus 9.8% in France and over 9% outside France. Growth slowed during the third quarter, which was no surprise but there are certain elements we will come back to. Even if the results are satisfactory, the growth is in line with our predictions, which were fairly low, so our overall growth was 7.6%, 10.5% in France and 6.3% outside France. There were certain negative effects in the quarter and when compared to 2022 but overall growth has been 9% this quarter, which remains entirely satisfactory. Overall, we are at 3.3% growth, and let me remind you that the data takes turnover into account, the data for the company sold and that is why the growth level is lower than that of the activity.

The number of working days also had an impact on our figures, penalising the year-to-date figures of around 7%. The level of activity in the third quarter was at 91%, which is respectable with a drop of 1% compared to 2022, which reflects the return to normal of our activity levels. There has been little change in staff, we had over 60 000 employees at the end of 2022 and there were over 57 000 at the end of June and 55 000 at the end of September, with 11 000 staff in France and the rest outside. At the end of September, we had 3 000 more engineers, 520 in France and 2 700 outside France and we recruited more engineers. In the third quarter, we will only have gained three engineers, so more in France but fewer elsewhere. There was a larger than usual drop in staff levels in July and August, which is why September could not entirely compensate. Internationally, the drop in staff levels is mainly in Germany where there are 100 fewer and in India with 80 fewer. In other countries the staff levels are stable or even growing slightly.

If we analyse the activity for this semester in terms of geographical regions, you can see that the slowdown is not general across the board. In France, Europe and the BENELUX countries growth is doing well and even though there were some difficulties in France the turnover grew by over 10% and 10.5% in the third quarter, which is 12.5% overall. The activity is dynamic in the automobile industry, aeronautics and defence where we are still growing and security. On the other hand, as you know, we are seeing some difficulties in the banking sector and more generally in the IT sector because the retail sector in France is affected by the slowdown in activity, which was greater than we anticipated. In Spain and Portugal the activity is doing well, so it has grown by 16% and all sectors are growing including banking and finance. There was a strong slowdown in the second quarter in Germany and this has continued into the third quarter. Growth in Germany is at 8.4% year-to-date, so 1.4% and so it will have been 2.7% in the third quarter. The automotive industry has seen a strong slowdown, a deceleration in the aeronautical industry and these two sectors represent 70% of the company's turnover. Growth in the UK was 12.5% year-to-date, which remains satisfactory and if we saw growth of 8% in the third quarter. I would like to underline that we have a company with 850 consultants, which now represents 40% of the activity in the geographical region but the growth has been almost zero, which explains the apparent slowdown in the UK while there is still growth of over 15% in the historical geographical area. We saw growth of 24% in Italy, which is still robust and all sectors are growing, including finance, tertiary sectors. In the BENELUX countries the growth is maintained at 15%, which is higher in Belgium particularly in life sciences, but the markets has slowed down in semiconductors in the Netherlands. The scenario in Scandinavia is similar to Germany, with a slowdown in automobiles and heavy goods vehicles with a slow growth of 6% year-to-date. Growth remains satisfactory in Eastern Europe at 14% in the third quarter. Poland, which represents two-thirds of the zone, has grown by more than 25%, Romania grew by 17% thanks to the automobile sector and the tertiary financial sector.

The activity in North America grew by 5% but we have seen a significant slowdown in the third-quarter with growth of only 3%. The US slowdown is due to automobile accounts

and to projects in the oil and gas sector, which we talked about at the end of the first quarter. The slowdown in Canada is also due to the banking sector.

We published a growth of 3.6% in the Asia-Pacific zone but with zero growth in the third quarter. As I explained in the previous publication, we have to reprocess the data given the significant drop of activity in Singapore following the end of certain projects in oil and gas. Singapore now only represents 3.5% of the zone, which is a drop of 65%. Taking that into account, the growth remains satisfactory at 14%. Looking at the other Asian countries, China has shown a significant fall linked to the telecoms sector, as well as significant drops in semiconductors and electronics. On the other hand, the automobile sector has still been growing at over 38%. India, 35% of the figure, is continuing to grow at 15% thanks to the tertiary sector. Japan has increased its growth at +30%. South Korea, 10% of the gross, has grown by more than 25% thanks to its automobile and electronics contracts.

As you can see, the Group's growth is fairly uniform overall and we consider the geographic zones altogether. Certain zones have seen a significant slowdown, Germany, Scandinavia and North America, but all the rest are continuing to grow significantly.

If we look at the analysis according to sector, the automobile industry has grown by 15% and all manufacturers have shown high growth of around 22%. The slowdown of sales [fault on audio] part manufacturers is most notable in Germany. The sector is continuing to grow by 5% or 6%.

Aerospace is still growing at around 22% and the civil aeronautics sector is doing well. Defence and security activities are continuing to grow at +30%, so year-to-date growth is 27%. Defence and security have grown by 30%.

Energy is over 7%, which has dropped by 8% because of the oil and gas activities. Certain significant projects have continued in Africa and North America and have had an impact following the withdrawal from Russia and to be honest, we do not have any indicators on the transfer we may experience. When it comes to energy, the nuclear sector and life sciences are still growing. Industrial equipment and electronics, and semiconductors grew by 12% across the board even though the tech sector in general has slowed down in all geographical areas. Telecoms are stable, so you can see a slight drop of 3%, so operators are continuing to grow. There was slow growth in the finance sector in the third quarter, notably because of activities in France and Canada. The retail, service and public sectors also slowed down quite uniformly across all geographical areas. To summarise, aside from oil and gas, and telecoms, all sectors are continuing to grow on year-to-date and in the third quarter, even if the rate is slowing down. Some verticals are also affected in certain areas, notably banking and the automotive industry, while other markets are doing well and performing fairly uniformly.

The policy of external growth continues to be pursued. We launched an acquisition proposal and we should finish the acquisition in Japan in the coming days, and other companies are underway.

As we anticipated for 2023, activity has remained satisfactory even if growth has slowed down and we are likely to see the same in the last quarter. We may see better results than last year for last quarter or the last half of the year and it will be due to fewer working days. Alten also expected to grow organically by 9%, which is satisfactory given the current environment.

If you would like, I will be able to give you the results. I think everybody will be interested in asking questions.

Gregory RAMIREZ

Given the organic growth, which is slightly lower than the figure anticipated in the September presentation, do you think that the margin scenario mentioned at the time might be a bit difficult to reach with perhaps a few less base points?

Bruno BENOLIEL

Could you remind me of the margin scenario we referred to at the time? Let me just go back to what was said. That was a 0.5% to one point contraction versus S2 2022, so one point less than last year, 2.8 if memory serves me right, so a one point contraction. Let me just give you the various points and then this will be [inaudible] far back because we have the incidence and impacts of acquisitions. That will then not have so much of an impact because we have consolidated but its overall results did not really improve, then other companies that joined the scope with negative margins or equal to zero, which will have an impact, as in S1 from M&A. As I said, there were also 1.5 working days lesser in this half year, we did not have one in H1 but this will have an impact on H2 and some lesser activities and of course, this will have a mechanical impact on margins. The business rate will be recurrent in the following years because our target is maybe 2%, this is a steering target, I am not talking about the business rate [fault on audio]. That is because we mostly do work packages and everybody is now converging towards 92, not the 93 rate we had last year, which was exceptionally high. On the other hand, it is what timelines are all about, that is the way the cookie crumbles and if it is better in 2024 then we will see the situation will be the other way around. As you may know, because I mentioned it last month, we also strengthened the technical, the work package activities in many geographical zones, mainly the US and Germany. In H1 we also had an impact in SG&A of 90 base points, which will not be as strong in H2, but although it will be a lot less, there will be an impact. I do not have the H2 margin because we are only in October but mechanically, if you add up all those different elements regarding margin evolution, we will automatically be below 9.8 in H2. That is independent of the fact that, as you just rightly said, even though fixed costs went down significantly, lower than expected revenues will certainly have an impact on the margins. Our guidance was between 9% and 10%, and we are in the lower part of that range. We will see what is ahead for us but in terms of business objective we are going to be conservative and say that we will certainly not be reaching 10%.

Gregory RAMIREZ

Around 9% in terms of organic growth?

Bruno BENOLIEL

Yes, we are quite confident about that. We are in the lower part of the range versus the previous guidance we but this does not mean the margin will go down significantly between last year and this year. The various impacts on margins are related to all the various things I just mentioned that can mechanically effect the margins.

Gregory RAMIREZ

In terms of the low level of net recruitment, is this a deliberate decision by the business units in the face of slowing orders or does it relate to other parameters, such as, resignations in the summer?

Bruno BENOLIEL

We had a lot of resignations at the end of June as usual, and then quite a lot of departures in July and August as well. As a result, the departure rate was higher than usual in the last few years. We have made up with recruitment in September and October recruitment is not going to be bad; we are not yet at the end of the month but I have figures as of the end of last week. Q4 2023 will certainly not be equivalent to Q4 2022 but the recruitment dynamic is up there in October. If we had recruited more people in Q3, I would not be able to say what the impact would have been on growth and business rate because our business rate is still 91.7 or 91.8. That means some of the additional recruitments we made would have been intracontracts and others would have boosted growth, but we cannot give that sort of split because we simply do not know. It is a given that the business units are automatically adjusting their recruitment dynamic and impetus because the intracontracts and depending

on the contracts, they are just the resources at hand. Factoring in the end of projects, engineers are becoming available and additional needs [inaudible] to face up to growth.

Laurent DAURE

I know it is early, but I would like to have heard about 2024.

Bruno BENOLIEL

It certainly is early.

Laurent DAURE

I know but embedded growth is really withering away and parts of the market with mechanical expectations that are pretty high. Is there a possible risk of having contracted revenues with verticals with clients conveying messages? Today, would you consider it an ambitious scenario to perhaps go for 4% to 5% organic growth?

Bruno BENOLIEL

On the question of growth withering away, granted it is going to be lower than it used to be and this is a truism. Having said that, in terms of organic growth this year, if we say that we may be adding 3 000 engineers, maybe a bit more, 3 200, we just have to see how we end the year. This is going to generate embedded growth for 2024 regardless of what happens, this is just going to be systematic. However, it will be much lower than last year when we added another 6 600 people in organic, so we will be twice as weak in terms of embedded growth than last year. I did not model those but knowing that we have mix impacts because part of this year's growth was came from international in areas that are not necessarily generating turnover per individual, such as countries like Morocco, where we are developing interests on European markets. Perhaps the first very preliminary indication would be to say we should consider organic growth and embedded growth this last year, I forget what it was, and divide it by two. This is quite a rough estimation, with a buffer for security of eight, for example, we will just have to add the 2024 growth.

I will take a look at Germany because it generates important revenue per capita and there is still a problem with all the automotive OEMs. The message from managers in Germany earlier this week was that the OEMs are not renewing projects, those coming to an end no longer have budgets and they are not launching new ones. However, [fault on audio] because budgets are going to be unblocked early next year, they are expecting business and growth to resume as of Q2 2024. I have also heard the same thing from our competitors in the automotive sector.

his does not mean that it will happen but the message is consistent and let us expect growth to resume in German in Q2 2024 and this will be the case elsewhere. I do not know how long the crisis is going to last in France in the banking sector and the market in general but our scenario today is low embedded growth plus some additional growth in 2024, I am not going to give you figures because I do not know if it will be 4%, 5% or maybe less. I hope that we will still be going to be generating growth around those figures but it is difficult to give you any kind of forecast before getting the snapshot of the landscape in early January in terms of headcount, activities and projects.

The follow up question is about profitability and our ambition for next year is to get back to 10, from a somewhat lower starting point with 25 to 30 base points versus what we anticipated.

Laurent DAURE

Is that really refashioning this idea of getting back to 10, this one-shot idea and how about the structural margin?

Bruno BENOLIEL

The structural margin is not moving that much. We are really taking some measures right now to steer the costs and we are now drawing up a plan. I do not know if I can say much about it or if it was the subject of an announcement, but this will be done in one of the smaller European countries to just adjust ourselves to the beginning of the year. We are going to take the right measures to adapt the cost base to the business activities.

Laurent DAURE

Okay, good, this is clear. A very last question, we feel that things have been deteriorating for a few weeks. Have you noticed that more companies are up for grabs and there are more opportunities in terms of external growth?

Bruno BENOLIEL

Not really. There are projects still around, which are basically the same. There is a company in Germany that just came on to the market, which I visited this week but the multiples did not go down. I can tell you they have been shareholders for three years plus this is the right time to sell, perhaps even a bit too late because the inflection curve has even gone past there in H1. However, right now we do not see any M&A market adjustments, multiples are not going down and more projects are not appearing, or not more than in the past. There are still transactions taking place with buyers ready to buy those multiples but if there are not more of them then things are going to be adjusted. Certainly, funds are going to be withdrawing companies from the market until things improve. Anyway, what you can see here is that projects are being structured, funds are still around and industrial players are putting up strategies on those projects.

Laurent DAURE

Great, thank you very much, Bruno.

Bruno BENOLIEL

I have a question from Diago Esteban. He said thank you very much. I am going to wait for the question from Mr Derric Marcon, which he may try to ask by phone; you have to dial star 6 to activate the microphone.

Derric MARCON, Société Générale

Sorry for the technical glitch, this is not one of our communications tools.

On automotive, which is really generating a good performance, I do not know if this 15% is over three months or one month in Germany. Could you maybe tell us a little about what you consider is relevant on that sector? On the one hand your message is quite pessimistic because OEMs are actually reducing their budgets or maybe putting other projects on hold and the situation in Germany is as it is. However, the aggregated figure from the top-down, the standpoint is rather good. Then there is the dynamic in France, which we now understand is quite strong because of Q3 but on the other hand, the performance is quite good and you did not mention any negative elements or overly negative parameters. Is this trend going to last? If I go back to the whole discussion on growth, with France over 5% basically, the international level will be below the average level of the Group. Question three, going back to the weaker areas, the weakest of them was stronger than expected in Q3, hence the lower level in Q3 now perhaps. According to your comments, Germany perhaps had an impact on this situation.

Bruno BENOLIEL

I am going to try to take your questions in order. As far as the automotive sector is concerned there is no general trend and not all the OEMs are necessarily impacted projects being shelved. There was a growth of 15% in the automotive sector year-to-date and in Q3

alone we generated 9.5%, which still represents very satisfactory figures. We have got used to high growth rates but this is very satisfactory in the automotive sector. The issues are the German OEMs, which is a given, but not the car manufacturers, their projects have come to a halt and new ones will start next year. When it comes to Sweden car manufacturers, because of Volvo 15% and like Germany, projects are coming to a halt, budgets are not being put back on the table and will be unblocked in 2024. That is because management, technical and R&D teams anticipated and used up all their budgets and given the context their managers decided not to extend them. I do not know, but what matters is that project portfolios are provided, are actually fleshed out. You also have transition-related issues, which are boosting everybody, but in reality this is the situation. Activities for car manufacturers in the US are going down or rather, not activities, there is less business growth but budgets have not contracted. Those are the areas where we are facing issues in the automotive sector but the situation is very good in France, and we are pressing ahead with US car manufacturers with the exception of Stellantis. The situation is good in Italy and Spain, so we are not really facing a crisis in the automotive sector, we are facing a strong slowdown among some clients.

We talked about at the analysts meeting and so we are at the top of the wave and telecoms are in the same situation, so that will have an impact and we will see what happens in 2024. Not all domains are changing as in France or growing further. The three sectors I mentioned represent over 50% of French turnover.

When it comes to the areas of weakness, I have already mentioned to a certain extent the automotive industry, telecoms is falling and we will also see a drop in Q4, excluding South America, this is more or less the same everywhere. When it comes to banking and finance, we are facing a slowdown of activity in North America. Energy, oil and gas are still dropping, so logically speaking there should be investments that will start up again but we do not see anything on the horizon as yet. I was recently listening to Mr Pouyanné and he said that investment was necessary if we wanted to avoid a crude oil crisis so it is likely to happen but we are not seeing any calls for tender. When it comes to life sciences, the sector had slowed down but seems to be picking up again. As I said, telecoms, banking and the automobile industry are having problems. We are seeing growth rates in Q3 but not the growth rates we saw last year and as Laurent said, sequential growth is slowing down, there are pluses and minuses but we will not start on the same footing as last year. I cannot make any predictions about 2024 and I cannot say for sure it will be 4%, 6% or 3%, we really have no way of telling.

Derric MARCON

One last question from me to understand the momentum. As you said, recruitment in October was fairly dynamic, so we are trying to compare the dynamic you see at the beginning of October versus what we saw in Q3 and September. Is there a real difference, is the momentum positive, can you qualify it as a dynamic that will enable you to grow to a certain extent around 4% or 5%? I am just trying to understand what you mean a dynamic October.

Bruno BENOLIEL

What I said is that we will not have a Q4 like last year where we recruited 1 200 people. We will recruit around 350 people in October, to give you an idea of the figures, but that is when we usually recruit a lot of beginners so there is nothing abnormal in this level of recruitment that month. However, we are not seeing the same increase in activity elsewhere and recruitment is never very high in December so I cannot predict the future. We are also working in a context where forecasts are really done from one week to another so I do not know where we will be between now and the end of the year when it comes to net recruitment, but October is generally a good month.

I am not sure if that was a clear enough answer.

Participant

I have two quick questions. First, on Germany, you said that the automotive industry was 70% of turnover, do you have any ambition to increase diversity? There are big companies with a lot of activity like China, are there any projects to diversify and if so, when? Second, the two sectors that slowed down early in the cycle were oil and gas, and banking and finance. Can we expect any kind of positive or negative impact, or is too hard to really make any kind of prediction?

Bruno BENOLIEL

To answer your question about Germany, of course we are trying to diversify in [inaudible] and the aeronautics industry. This represents 67% of accumulated turnover, down from at least 80% if not more a few years ago. This is because these are the sectors that externalise R&D most in Germany and generally speaking, the world, so all those sectors also externalise but they externalise a lot less in Germany. We have diversified in certain sectors such as electronics in Germany, telecoms, the energy industry. For the time being, these are retail and service activities, which are a little lower than [inaudible] but this is anecdotal. We have a bit of a presence in the banking and finance sector in Germany but all the other sectors are growing progressively by a few points every year, which explains the difference between 80% and 67%. Prospecting activities are taking place but as always, it just takes a bit of time.

To answer your question on oil and gas, and banking and finance, these industries do not have the same kind of dynamics. Oil and gas represented 9% of the turnover in 2014 or 2015, which I think was its highest level, and since then it has dropped year after year. We kept thinking that it would stop dropping but it continues to do so and I would not want to say that it would go back up again. There are other renewable energy products that are a substitute but they do not compensate for the projects that have disappeared in the oil and gas sector. This is an overall trend that will obviously come to an end given energy transition. I know some projects that were suspended as a result of the drop in prices. Banking and finance is a different topic, it started to drop much more recently, even just this year. We see signs of deceleration at the end of 2023 with some announcements being made. We are not yet seeing negative growth, except in France, but I think we will end up with negative growth in 2024 in France, maybe in the US, but maybe not in Canada and we are not seeing a drop in all countries. Year-to-date we are a little over 5% but I do not think we have yet hit the bottom, and I think we will have to wait until mid-2024 before we see any kind of recovery, and that is a best case scenario.

Aditya BUDDHAVARAPU

I have two questions. First, have you seen any change in the competitive landscape in your main markets? Second, can you talk about what you are seeing in terms of pricing and the correlations you have with customers regarding that? Thank you.

Bruno BENOLIEL

That seems to be the last question and if there are no others I would like to thank you for participating in this conference call and wish you a very good evening. I would like to remind you that we will meet again at the end of January when we will talk about the turnover for 2023.

Unfortunately, we were unable to check the following words and names:

15%.....	5, 6	developing interests on.....	4
5%.....	7	mechanical.....	4

