Audiocall Alten
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Simon AZOULAY, CEO, Alten

Hello everyone, I hope you are all connected, thank you for being with us today for this presentation of the 2023 results. Mr Benoliel and I are now going to remind you of all the main events and results of 2023 and give you he future outlook for our strategy and development in the coming years.

First, with respect to the publication of the results, the turnover, etc., you have already had the results from previous months. Turnover went up by 9% non-organic but in the aftermath of a disposal in the United States, plus 7.6% in total. ROA in the first six months of 2023 will actually be 9.4%, above our expectation of 9.2% for reasons we can come back to, and it went up to 9.6% in the second half.

To make it simple, we were below the 10% we usually hope for in H2, which relates to three parameters. One is unfavourable timelines with respect to 2023, as well as important investments generated in 2022 with the thought that we would actually subscribe in 2023. There were also recruitment problems and we had oversized the HR teams from a general standpoint, a situation that has returned to normal in the meantime. Very specific investments were made related to the change in the IT tool. We also had a 1% deterioration in the [inaudible] rate. For all those different reasons H1 was rather low at 9.2% and we corrected the trajectory in H2, although the timelines were also unfavourable in H2 2023. This will not be the case in 2024 when it should get back to 9.6% and hopefully grow beyond 10%. We really need to factor in the extraordinary results in 2022 and we actually outperformed the 11% level because the incredible growth related to a significant recovery in the 2020 - 2021 projects that had come to a sudden halt. This was a favourable position as far as the SG&A is concerned and the occupation rates for our engineering centres was quite good in 2023 at 11.2%. Unfortunately, this is not standard, as you may know, the standard is to actually outperform the 10% and we are very happy beyond 10.5% and we are not happy below 9.6%, so we get back to 9.2% and hopefully we will get back to the standard level in 2024. In any case, we are putting our best foot forward to do this.

When it comes to the number of engineers in 2024, we experienced something that did not weigh on the turnover but there was an impact on the number of engineers in November – December 2023. An important Indian client for whom we supplied 1 500 people on various IT issues decided to re-internalise those people and the impact is about EUR 25 million in terms of turnover. This is a major impact, this is just an impact that is too bad but we have over 50 000 engineers. We have also added 2 000 engineers through acquisitions that will have an impact on our headcount, one in Japan and another in another Asian country that we will communicate on, which means that we will have over 52 000 people. As usual the model has not changed with engineers representing 88% of the headcount, we are really aiming at plus 5%.

The next slide shows the geographical breakdown of our headcount per macrogeographical zone and this has to be taken with a grain of salt. There are quite a number of projects stemming from the United States or Europe that are being carried out in Morocco, India and Mexico. For example, that means when you see 2 700 engineers in North America, it is true but we also use over 4 500 engineers for corporates and 1 700 of them in India or Mexico are carrying out projects in North America. There is the same phenomenon in Europe and for example, there are 11 800 engineers in France but there are also at least 2 000 more engineers located in Morocco, Romania or India, who contribute to the French project. Therefore, 14 000 engineers are actually [inaudible]. In the Middle East and Africa there are actually 2 160 engineers mostly working for Europe, while there are 11 600 engineers in Asia and 3 000 are working for clients in India but are working for clients located in Europe or the United States generally speaking. This is a geographical breakdown that is summed up here talking about all our engineers, and we will be talking about strategy later on. I have given quite a brief geographical standpoint with respect to this world map because we will have it raised by a 5 000 engineers. We will need to develop quite rapidly in North America and carry on with our ramp up in India, as well as in some European countries, which will really have to be on standby even though they have surpassed the 2 000 engineer level. It is the same thing for Spain and Italy but we need to make some progress in BENELUX, for example.

When it comes to positioning beyond the geographical factor, as usual we will take a look at the engineering representing the core business and Alten's main brand image where it is actually number one worldwide, number one independent [inaudible] in this market with over 35 000 engineers dedicated to engineering, 70% of our headcount. It mainly breaks down into two main boxes, which you can see on the left-hand side and both sides have the Alten local, everything is scattered here. This is the product systems engineering, in other words design engineering, studies, prototyping of new industrial equipment mostly in what we call ASD, Aeronautics, Space, Defence or TT, in other words automotive, trucks and railway engineering design on the left-hand side and manufacturing engineering [inaudible]. There are also [inaudible] automation, OIT. Design engineering is really the bulk of the matter. We also have Alten brand businesses. Well none of those two engineering blocks, which are PMO, project management activities, represent 3 000 consultants, which is quite a standalone activity because it is not in the basic block but it is actually indispensable in terms of referencing and this is the world leader non-engineering activity. All the additional activities from design to manufacturing, in other words the [inaudible] works in energy, transportation and telecommunications, and everything that is gathered with participation in projects and customer services, in other words support, etc.

That is it for the engineering part, which is 70% of our turnover, but we are also an important world player in IT services or IT enterprise services, SNM or SFGQI. You can actually pick out the name you want but globally speaking those are IT management activities and the administrative operations within the companies that has nothing to do with the design of the equivalent products, whether we are talking about the services sector and sometimes the industrial sector. The percentage of those activities and this is quite heterogeneous depending on which countries we talk about, but generally speaking this is about Europe, up to 30%, or North America, and to a lesser extent in Asia. We are trying to position ourselves on those activities, mostly with the development of software of course. We really need to factor in the cybersecurity layers in our industrial equipment. There has been very strong development and success stories with over 3 000 consultant in data analytics in other words, and we are also talking about business intelligence. We will be able to talk about the breakdown of our businesses and activities later if you have any questions.

The next slide looks at the sectorial breakdown and of course, IT services pop up in Banks, Financing Insurance, Retail Services and Public Sector on the right-hand side. At 30% this is the main bulk and we also have some of those [inaudible], 27%, which you can see here on this pie chart. We also have 3% related to the industrial sector in blue. All the various sectors of the industrial activities, Automotive and Rail represent 21% in business but actually although this sector is well-supported this sector is very difficult and challenging. There is a lot of demand in Rail and we have good references in this sector and the automotive sector is going through a restructuring with electric vehicles, decarbonisation, and [inaudible]. However, this is not the only issue it had, thermal vehicles still have a rosy future for another 15 years at least and today, we need to face up to continuous in-depth research for enhanced productivity and savings. As a result, a lot of those activities in North America and Europe are increasingly being outsourced to low-cost countries such as Morocco, Romania, India or Mexico. We are supporting our customers in those trends and we have a very good reputation among customers so they would prefer to turn to us. We are always among the references for those transformations because they appreciate the fact that we are already present in the front office so far as know-how is concerned and we are talking about countries of origin such as Germany, the United States and France, where we have the know-how to really working on quality levels in low-cost countries. The equilibrium between local and offshore is going to be one-third in local and two-thirds in low-cost countries, with local France, Germany and Sweden, for example, and all this is going to be steering low-cost initiatives. We are not an old entity in [inaudible], in other words we do not have 100% of our activities and support functions in India and we will never be at the same level as Indian players because we have a major front office, which our customers appreciate. That is why in terms of those automotive activities we can hope for maybe not a good 20% but perhaps up to 12% to 13% EBIT, which we are able to generate but with a turnover that by definition is going to be reduced because this is low-cost.

Moving on to Aerospace, Defence, Security, there is no outsourcing here and there is very high demand and quite a number of projects are now being developed because of the world situation. Of course, we would like to develop our activities beyond Europe in the United States but there is an impact on the ramping up of Aerospace and Defence activities from certification, defence confidentiality and strategic reasons, but activities were starting to happen. We are working in other sectors in the United States, Space, Automotive and trucks. However, this sector is quite healthy and undergoing development.

We have suffered a bit in other sectors, Energy, Telecommunications, Industrial Equipment and LCIs actually went down.. It went down in H1 2023 and at the end of the year it was the other way around with Telecommunications and Energy really focusing on major projects and supporting in EDF for EPRs, for example, to continue developing our activities in 2024 – 2026. Of course, we are also trying to develop our activities significantly in all the renewable energy sources, especially in Germany.

We experienced drastic reductions in investment in the yellow sectors on the right of the side, following [hyper considerable, excessive] investment in 2021 – 2022, and the abrupt end to new projects in 2023. This has led to stabilisation of turnover in this sector, which took a hit in all the countries in which we develop, France, Canada, Eastern Europe, Spain and Portugal. We do not know if this will start up again at the beginning of 2024 but we do not have a lot of information at the moment. It is quite and stable, it is not going down or growing, and this represents 9% of our turnover.

As for all the other sectors, Retail, Administrative and Public sectors, etc., representing 18% of our activities, these also took a hit, though less than Banks and Finance. We need to position ourselves on very specific technical offers, such as cybersecurity, [inaudible] migration and Salesforce developments.

That is what I wanted to say about the various sectors and I am now going to reiterate this on the next slide but you may be getting more details. With the various events or referencing that actually took place, or profits or initiatives that customers are quite fond of in the Automotive, Rail and Life Sciences space, you will have more details, and the same for Telecommunications, Banks and Retail. I am not going to make any comments about this here because I have given you the most important information.

I would like you to move to the CSR policy, which we have really been working on since 2012. We improved our ratios following various certifications that you can see here: CDP, Ecovadis, [inaudible], Gaia, etc. You can see here that we are really at the top with respect to all the various companies. There was an important point in France in 2023 related to CSRD that puts significant new demands on the table and this costs a lot of money. We really need to [inaudible] people because this is going to have an impact on all the companies in the Group if we want to get the certification and we have a year and a half to complete this process the CSRD project and validation of the decarbonisation trajectory. I will be available with Bruno to answer any of your questions on those different and important issues.

The next slide illustrates the various challenges we have been experiencing over the last few years in M&A. Up to 2019 before the Covid crisis, Alten had a strategy, we were 30 000, perhaps 20 000 in previous years and we did what we call add-ons with companies from 100 to 300 people to position ourselves in different countries. This worked pretty well for about 10 years but given our size in different countries we decided to change the size and strategy for acquisitions and focus on companies with 300 to 700 people. Although, just because of opportunities in exceptional cases there could be 200 or 1 000 people. Prices went a bit crazy because 80% of the companies of over 400 people had already been contacted, we connected with some of them through private equities, which went into the capital or became majority stakeholders, at times up to 80% but usually 40%. It is very difficult to talk to those companies because of their timelines, [inaudible] to sell out within four or five years and there is a lot of build up among those companies, little synergies between different companies. The EBIT is also totally cosmetised at three to five points with multiples on a G&A EBIT with additional points being added with a tool ranging from 12 to 15 points. This is a dilutive process and it becomes very dangerous because it requires a lot of unravelling and restructuring. I will not mention names but we have seen this a few times in our sector, in France, for example. We are not going to get involved with prices at really crazy levels, we are going to keep hoping that we can find companies with 300 to 700 people that are still in the hands of their founders. There are very few of them and they are very difficult to identify them but we have identified some in Eastern Europe and Asia, and operations might take place there, like the ones on the slide. There is a software company in the United States, Canada; one in Poland that consolidated our presence in Warsaw because we represented other cities, another company with 350 consultants; another company for the development of engineering activities in India doing a lot of work for the United States and Europe; a small company in Spain; and a company in Japan with 720 people consolidated the 600 people we already had, so we have over 1 300 people in Japan and we want to reach 2 000 quite soon. Of course, there is interesting potential so we bought out EUR 94 million of revenues and 1 800 consultants. The consultant ratio is less than we have for the Group because there is a company in Poland and another in India. We were hoping to reach EUR 3 billion but we are behind that but I hope we will manage with the disruption that may have seemed unfavourable. In quiet times in 2024, so with companies with similar growth, some results that are not going as fast, then you can find more targets, which unfortunately has not been the case. The M&A market is very active with privates and financials is very active and there is a lot of enthusiasm for this sector. We have turned down three files, one in Germany, another in the US, etc., and the multiples were over 15 with customised EBITDA, so it has become a bit difficult, which is more disappointing than the other aspects, the revenue growth or maintaining the EBITDA. This is really the point that is more the problem but I am hopeful we will be able to make more progress for over 2 400 people in 2024 and we hope to reach more than 3 500.

That is the M&A policy. Before Bruno comments on the accounts in more detail, the breakdown for the shareholders has not changed for about 10 years, I think. In 2019 before Covid I announced that I was going to give away 5% to charities but I did not do it because the share was not high enough and there was still an important margin for progress, so I prefer to do it then.

I will now give the floor to Bruno who will comment on the 2023 annual results in more detail.

Bruno BENOLIEL, Deputy CEO, Alten

As usual, I will start the presentation by showing you the slide with the progression of our revenue and the Group headcount. As you can see, plus 80% over five years with income over EUR 4 billion. We started 2023 with 53 000 collaborators, more than 40 000 engineers and at the end of the year we had 57 000 collaborators, most of them engineers. The progression was maybe weaker than in previous years but this is the result of organic growth, plus 2 700 engineers, 700 in France and the rest outside France. Despite a slow context there is sequential growth of our headcount, which should be noted as a good performance. We also integrated 14. [Break in audio]. M&A in net was more than 15 engineers because of transfers and acquisitions.

Moving to the next slide, as you can see organic growth remained sustainable for this year at 9% with a slowdown compared to 2022, which was anticipated and announced at the end of last year. This materialised later than we anticipated, in the first semester we had organic growth of 11.4% and it went down to 7.6% for the second quarter.

The growth dynamic was also different depending on the geography but overall France resisted pretty well progressing by 10.2% organic growth and the rest of the world was 8.74%, 6 points because of the exchange rate effects. If we look at geographies, I will try to do this in a synthetic way. We already commented on this last month but overall France had a good performance and accelerated its growth even in the last quarter. Southern Europe and BENELUX did not slow down and all the other geographies accelerated in the last semester. We had two less working days in France than the year before but the activity still made a lot of progress, mainly because of the Automotive, Defence and Cybersecurity areas. In Spain and Portugal [break in audio]. Germany went from 18% to minus 4% for the last quarter, and hence annual growth of 5%. The Automotive [break in audio]. Some were surprised by the growth in the UK, indeed we had organic growth below 10%, mainly due to the acquisition of Methods last year representing 40% of the revenue and that had a slight decrease in the last quarter, which slightly reduced the organic growth. In terms of perimeter, the growth is around 10% even though the main sectors, mainly have gone down. In Italy, growth was about 25% for the fourth year, with progression in all sectors. Growth was maintained in BENELUX at 15%, rising in Belgium but slowing down in the other countries. The situation in Scandinavia is similar to Germany for the same reasons, with activity slowing down during the year, minus 4%, minus 5.4%. For Sweden and the Equipment sector in Finland, each sector representing about 60% of the income in each country. We have an identical curve for Eastern Europe, part satisfactory with growth of 17%. In North America growth slowed down and in particular was flat in the US in the last quarter, mainly in Automotive, Oil and Gas, and also down in Canada, mainly in Banks and Finance, representing about 40% of Canadian income. Finally, if we review our activities per zone in the Asia-Pacific area, the growth was 3% and was better in the second semester. I would like to draw your attention to our activities in Singapore, which represented 12% of the Asia-Pacific area and 3% in 2023 because a number of oil and gas projects stopped along with others in Banking. If we look at the figures excluding Singapore, the region grew by 10% and that is the figure you have to remember. China representing 35% of the region slowed down mainly because of Telecommunications but the Automotive sector, about 30% of the income in China, maintained its growth. India for local markets, 30% of the income, grew by 12% thanks to the Automotive sector. Two countries that are developing on a regular basis are Japan, 11% of the region, which has slowed down over the last quarter with global growth of 30% thanks to the Electronics sector, then South Korea, 10% of the region.

If we look at the Group results next, the operating margin has already been commented on, 9.4% of the income for this year. In the last two years we had anticipated a return in 2023 to the normal operating margins prior to Covid. There was an unfavourable calendar effect with less working days which affected the margin. The activity rate was back to the norm at 92%, so a bit less than in 2022, which affected the margin. The margin per project progressed during the year thanks to management of productivity and an increase in fees throughout the year, during the second semester or third quarter. Overall, we were able to almost completely absorb all the overcosts in France and internationally, to support the development of the work packages. This is good news that means that the activities have not worsened and contrary to our experience in 2022 the production capacity evolved in 2023. As indicated, we have also strengthened a number of directorates grouping together some engineers, increased investment, for example, for new IT or IS systems, as well as having exceptional costs for new facilities. However, overall the SG&A for 2023 and then the incidence of M&A, the integration of Methods and other smaller companies but that had an impact on the book margins and the M&A, helps us to understand how all these elements went from 11.1% to 9.4% of the sales revenues. Quite unusually, in the second semester of the year there were no big gaps between S1 and S2, so we have not seen an improvement in the operating margin. The margin has progressed from 9% to 9.6% of sales revenue thanks to an improvement in the gross margin because of the increase in tariffs and the SG&A went down between the first and second semester.

Now shares, as you know this is cash, the share base payments, EUR 32 million for this year, in line with the first semester. The non-recurring profit EUR 32.3 million this year, which is maybe a bit higher than expected but more than half of this can be explained by M&A,

EUR 13.4 million bonuses as part of acquisitions, which are now part of the P&L. We also have EUR 9.1 million in restructuring costs, mainly in Germany and Sweden. There is EUR 3 million for taxation and other costs. The financial results, and I will come back to that later, the income tax expense is about EUR 87 million, about 25%, which means that our net results reach about 6% of our income, EUR 233 million for the net income Group share.

The financial results are quite easy, these are the results you need to look at, EUR 4.068 million; the exchange result and other net financial expenses, mainly due to depreciation or earn-outs, which as you know we have to update. I was quite [inaudible] compensated by interest for EUR 1 million. Therefore, the financial results of EUR 0.2 million with a saving of EUR 4 million.

If we look at geographical areas the results are as follows, as you know we have a number of corporates in France with operating profits so if we were to reuse these costs the operating profit would be 9% in France and 9.7% for the rest of the world. The decrease in operating profits in France, 92%, but the basics have improved with a better ratio with a global impacts of 90 bips. The increase of the G&A is about 30 bips for France. The global impact of M&A on the margin was 30 bips where we have dilutive acquisitions. The margin was also impacted for the reasons we explained before. Overall, per perimeter there are three main regions, North America, UK, and Germany, with a step back of less than 10%. APAC and Eastern Europe had about operating margins around 10% and BENELUX and Southern Europe over 10%. Non-recurring profit was mainly international and the income tax expense per geography is slightly better than France.

There were few incidents of note on the income statement per region, but I just want to mention that [break in audio].

We have an operating cash flow representing 9.4% of the income, which is normal, and we had very little capex. We generated significant cash flow this year, which helped to pay our income tax, EUR 123 million, which is exceptional income tax on the added value. We financed the financing of our BSR and our capex was low at 0.5% of our total income. Our free cash flow was EUR 146 million, 3.5% of our total income; it would have been EUR 183 million. Financial investments were important in 2023, out of the EUR 217 million, a bit more than EUR 226 million than you have on this slide. We have reimbursed some loans and EUR 121 million of the EUR 226 million were for payments and EUR 105 million for earn-outs, and as you can see the total amount has gone down. Dividends are EUR 1.5 per share. As to the net financial interest compensated by the negative exchange rate effects for non-euro currencies. You see the other financial flows of 0.6 with some negative exchange rate effects. Seasonal factors were a lot more important than usual between H1 and H2 and was actually affected - by slow organic growth in H2. Working capital increase is justified here because of our business because the customer number increased. [Inaudible] going up EUR 80 million on a like-for-like basis, EUR 16 million related to organic growth and EUR 1 million related to [inaudible] 2021 – 2022 [inaudible]. After 97-day parameter in June, this is a highly localised parameter in Germany, the Netherlands and France for economic reasons. The other entries here [inaudible] are not that significant and related to the business conditions. As I said already, capex represented 0.5% of turnover, lower than the normal level of 0.7% to 0.8%. Therefore, we get an economic free cash flow of EUR 182.7 million, 4.7% of turnover, and free cash flow that has gone up by 22% compared to [inaudible].

In summary, from all this we should remember that organic growth was quite satisfactory at 9% despite the slowdown, which we anticipated. The operating margin was also satisfactory, although we would have like it to be above this figure at the beginning of the year and this is related to the event, already mentioned, where there was some over-investment. However, it is close to the pre-Covid level but penalised by the decline of the business rate, which was related to unfavourable timelines and restructuring events. Organic growth saw a slight increase of DSO, which generated a working capital increase [inaudible]. Economic free cash flow representing 5% of turnover, went up by 25% compared to last year. Finally, as every year, Alten has self-financed its organic and external growth dividends and we now have a [inaudible] position of EUR 300 million for external growth operations for future years.

I will be available to answer any questions at the end of the presentation but before that I will hand it back to Simon, who is going to talk about our growth strategy for the coming years.

Simon AZOULAY

Thank you, Bruno. Having seen those figures, you should remember that Alten is experiencing and interesting private financial situation that is actually very good. Therefore, it would be appropriate for our strategy that we really know how to use our cash and this very healthy financial balance more effectively to carry out more investments. On the other hand, we have sometimes been criticised but we are not going to rush and work on those projects. Although we have two or three major projects we are very cautious about them because we do not want to jeopardise our business, we are very attached to our business model and our strategic consistency.

The general challenge for coming years so far as the plan is concerned is as follows. First, we really need to reach a critical mass in the all the countries, in [inaudible] countries, such as Germany, the United States and India, or the UK or Japan. That really calls for between 7 000 and 10 000 engineers, as we were able to do in France. This is a quantitative aspect of our model and we need to stick to our model and our profitability structure. Second, we really need to face up to the globalisation of our customers' business where 60% is no longer local business, it is becoming international. Clients such as [inaudible], O'Keefe or Airbus, some banks, some major international operators are no longer turning to Alten as a French company, or Italian, Polish or Swedish company but as a global player. As I said, they like to have Alten on their shortlist of preferred subcontractors because we have a local presence and footprint and the ability to develop offshore activities when necessary. In the countries we already mentioned, we have over 8 000 people with world-class and quality deliveries in Morocco, Romania and Mexico. Having said that, size is the key to this and other countries must be able to deploy our HR model, and second, they need the ability to deal with customers in an international way. With the help of country managers who are heads of Alten Bus, we generated cost-cutting layers to coordinate the commercial organisation in all the six key countries that are going to be dealing with customers in sometimes unexpected ways. We also need to setup the the HR organisation we need to mobilise our managers so that they can switch from one country to another and export the model, as well as being able to work on major projects, in the United States in particular, where we have sent some French employees, and to Canada. We need to internationalise the HR structure. At other points, this is to consolidate our positioning we should no longer import even highly packaged resources.

As you may already have seen, as far as quality and margins are concerned we are really one of the top players, in engineering it represents over 60% on a project [inaudible] at the deployment of our technical management on an international level. We have actually almost finalised this and we are integrating and coordinating efforts. However, this is not enough, we also need to decouple our technical abilities with very clear offers. Clients no longer want to consider Alten as a company that is able to carry out a project with 100 or 200 people on technical issues, they also want expertise in issues they are starting to capitalise on because they can actually find it with a subcontractor. This requires an organisation with very specific skills based on around 12 different offers, whether technical or sectorial offers, and we have set up teams of experts. Of course, that entails all sorts of different costs, HR, international and commercial coordination, major accounts, and cost-cutting structures. We need to coordinate those offers on an international level and reduce those costs and supress 8% of EBIT with the improvement of our margins. Up until now, we have shown that this is possible and, as we already explained, the result of December 2023 is based on calendar considerations or SG&A. Our challenge is to get into really top players and be able to compete with major players such as [inaudible]. Customers will want us provided we have this international visibility and this is our challenge.

We want 70 000 consultants at the end of 2026 with, as I said, the help of M&As, 6 000 over two years. We should be able to [inaudible] 70 000 engineers in December 2026 and retain our margins [break in audio].

So much for our strategy, which is very clear with commercial, technical and HR coordination in critical size countries. For all those reasons I am very optimistic and we will probably reach our objectives at the end of 2026 so that we really exceed the 70 000 consultants.

Thank you for your attention. Bruno and I are now available to answer your questions.

Nicolas DAVID

I have three questions. First, coming back to the Automotive sector, in Germany in particular, we saw the manufacturers putting a lot of pressure on prices with restructuring plans, etc. What will be the impact for Alten? They also want to move to nearshoring, is this an opportunity for you to increase your market shares and show your capacities? This is a question about the short-term vision but also the mid-term vision in this particular sector. Second, on the 2024 profit margin, between prices, calendar effects and others, what do you think are the main obstacles to greater profits in 2024? On the free cash flow, do you envisage implementing some processes or initiatives to increase cash collection? You have a very healthy assessment so it is not really an issue but could this be seen as a way to value your own EBIT and to be more comfortable about doing more M&A in the future? Could we envisage the increase continuing over time and maybe a bit higher than what we saw four or five years ago?

Simon AZOULAY

Thanks for your questions. You are right about the Automotive sector in Germany, if we look at what happened there in detail, we managed to maintain our level in a difficult context. However, there were two up and down phenomena, with a decrease in our income for Bosch and other equipment and they stopped their capex investment. They mainly work with applicative software systems and they are positioning themselves on massive offshoring, which is not the case in France, it is very local. Something important is happening for the main manufacturers, Volkswagen, BMW, Porsche, Audi, etc., which I think should be useful for us and it is similar to what happened in France six or seven years ago. At the moment financial pressure, international competition and good management have made manufacturers think and they want to offshore massively. They were very conservative in the past, which is fine, they like to keep their engineers and so do we in France, but now it is not the case, so we are two-thirds offshore and one-third local. There is not much offshoring now in Germany but in 2024, 2025, 2026 we are expecting to see significant offshore relocation, mainly to India, with a little bit to Romania but it is not as attractive as it was. I think they want to go a bit further away so we must support this movement and we are starting to feel that the major Indian companies are now really targeting Germany more than France. That is what is coming up in Germany and it is now up to us to really take up the bet to succeed with the manufacturers in Germany and see what happens elsewhere.

I will let Bruno answer the other two questions regarding the 2024 profit and the free cash flow.

Bruno BENOLIEL

Our hypothesis for 2024 is that the profits will be higher than 2023 but we do not have a precise figure at the moment because it is only the beginning of the year. We will see how it goes during the year and if this will be the case. We want to be cautious, our growth was only 2.5% so the additional growth will come from the sequence growth of increased activity. We have strengthened a number of our transversal structures for the commercial and offer part and that will continue in 2024. The schedule is more favourable this year than it was last year and that should have a positive effect on our profits. On average, we have two less working days, one in France and other areas, but not the more profitable ones. We are confident about improving our operating profits but we have not been communicating on specific figures because we never really do that at this time of the year, we do it later in the year, either at the end or the beginning of the second quarter.

Regarding the free cash flow, you are right that Alten has got cash flow, which is why the incentive is to favour creation of value and development, and not necessarily cash flow collection. It is not so much an issue of collecting cash flow, we do not have a lot of debt with our main clients and we do get cash in. We do have clients who force us to accept quarterly payments or you cannot be tier one, so we have service providers who are not tier one. I do not like to give names but we have quarterly payments with Orange and Airbus. We also have customers in Telecommunications who as for payments at 180 days; we recently had two of those. That does not necessarily explain such a high DSO but unlike other companies we do not have a particular incentive on payment delays, etc., over time, which means we could probably improve our DSO by a few days. Even though our DSO is superior to what it should be by a few days, overall we have very little loss and people usually issue the payment as soon as it is invoiced. We are working on this and we launched an improvement initiative, a process that starts with the negotiation of the referencing of the orders, pre-financing or the financing of the packages, which can last several months on some of them for which we have little financing per package. When it comes to the payment Admin also has to play its part.

Nicolas DAVID

That was very clear, thank you.

The answer on the German automotive sector was very clear from the point of view of the vision. Regarding the timing or the impact on the top line for Alten in 2024 -2025, should we expect the same as happened in France? Even though you managed to seize this opportunity there was still an issue of average costs, so is this rather an additional new business that you did not have before so it will obviously be visible in the growth of the income?

Simon AZOULAY

This is really a new business opportunity in Germany. Historically speaking we do not have the same level of presence as we do in France, for example. I do not think it will decrease our income, I think it will be a new opportunity, a new business, rather than a decrease.

Participant

There is another question on Germany. Is there a risk of being overstaffed in Germany because of what you have just been saying with the offshore relocation.

Simon AZOULAY

As we saw in France, part of the activity will be relocated to other geographies, not just India, but the additional business that comes on top of the existing business will be a new opportunity for development and more market share. Unlike local German stakeholders, we are able to provide a local offer with German engineers with a capacity for offshore activities and because we already have staff. However, turnover is high and so we will not face this situation in Germany, we will be able to adapt our resources accordingly. As you know, we are steering weekly contracts with some very specific indicators, the intra-contract is always monitored with a maximum acceptable level so that we have the necessary resources.

Participant

That was very clear, thank you very much.

Aditya BUDDHAVARAPU

I have a few questions. Could you talk about what you are seeing in terms of the demand environment and what you are hearing from your clients on the willingness to start on projects or spend, especially as you head into Q2 and the second half of the year? Second, I know you said it was too early to talk about the margins but I think there were a few things last year that may not repeat this year and on some previous calls we talked about G&A costs, HR and [inaudible] investment going down in 2024. Could you just talk about some of those margin drivers for this year? Finally, could you also comment on the working day impact, if any, for 2024 on each quarter and maybe the full year?

Bruno BENOLIEL

On your first question, there is no major trend regarding client behaviour compared with Q4 or even Q3 2023. They are still cautious and we know that we will still face difficulties in the Banking sector, especially in France but not only, because of budget cuts. The auto industry is still expected to perform well with some concern, as we said, in Germany but also in Scandinavia, where the work package business will also probably increase for the same reasons. Civil Aeronautics is doing well, like [inaudible] in Defence and Security. We have good news coming from customers but overall, we know that H1 will be similar to H2 last year and we do not really expect a recovery in terms of trend before H2 2024. That is pretty consistent with what our competitors are saying on the market, they are still expecting the same situation.

Regarding our G&A, HR spend, etc., it is true that they were above normal in 2023. Of course, we have a plan to reduce those costs in 2024, at least as a percentage of the revenue, but of course, it will depend on our achievements in terms of revenue. This is why I confirmed that we will do better but I cannot tell you now to what extent. It is much to early to say whether it will be 9.6%, 9.8%.

In terms of 2024 compared to 2023, we are expecting to have at Group level, minus 0.5 in Q1, plus 0.5 in Q2, which will be a nil impact as a result in H1, and then in Q3 and Q4 we will have 1.2 and 1.1 additional days in 2024. That is slightly above today in H2 and as accordingly on an annual basis, and knowing that the impact when you have two more days are in geographies where the revenue per head is much lower than in Europe, so this will also have an impact on incremental revenue from those additional days. For example, in France we have two more days and today, we will have one more day and that is just inflation.

Aditya BUDDHAVARAPU

Thank you, Bruno. Just one follow up, you mentioned that one of your customers decided to in-house the work they are doing and you are talking about 1 400 engineers. Are you seeing that happening with other customers or can you talk about why that particular customer decided to move back in-house?

Bruno BENOLIEL

No, this was really a special case where that customer was trying to lower the cost so they decided to bring part of the business back in-house and to subcontract the rest of the business to a partner at a very low margin. That is why we decided to transfer the people, which has not cost for us, no severance pay or anything. We decided not to pursue the contract due to the low margin expectations the customer was asking for but we have no other examples. On the contrary, we are seeing more customers willing to outsource more and more.

Aditya BUDDHAVARAPU

Great, thanks a lot Bruno.

Mr MARTIN

I have a few questions. France had a very nice 2023 and perhaps we should take stock of what really went well in France and ensured the growth there in 2023. Is that sustainable in 2024? Second, with G&A going down a sequential one is one is that figure for 2024 generated and embedded and what is your visibility on this? Is there maybe an extra effort to be made in the C&A to really bring them up to normative levels? [Inaudible] EUR 105 million burnout in 2023 when having a look at the burnout snapshot, EUR 226 million and EUR 21 million had already been [inaudible] in H1 2023. I am having a hard time understanding how you get [inaudible] the EUR 105 million, is that concurrent actually to the [inaudible] and why do you get a lot more in H2? Why is this amount so significant in H2 versus what we had already experienced in H1? Last, the embedded growth of 2.5 points that you mentioned, the rationale of [inaudible] to start out with is [inaudible] growth. This is supposed to generate more growth at the beginning than at the end of the year module, what you said in S2, H2. Now embedded growth over 2.5 [inaudible].

Simon AZOULAY

So far as the France business is concerned, the sectors that were really positive were the Aerospace and Defence sectors, with Safran and Thales. We actually gathered speed on the Automotive sector, where we actually accelerated the transformation process and are better positioned among manufacturers even though the OEMs actually suffered like they did in Germany, not always [Inaudible]. Finally, our energy costs went down with EPA programmes. When I was making a few comments on the [inaudible], the sectorial [inaudible], the service-related services sectors, Banks, Finance, etc., really slowed down and went down slightly. Those are the sectors that really pushed up the activity in France.

When it comes to the embedded, we did not have good growth in H2, in other words better in 2024 is not going to be really great. We will have to conquer things in 2024 and perhaps it is too early to draw conclusions in January, but basically we are going to be conquering roles. On the basis of the 2023 embedded, growth was better in H1 than H2 so mathematically speaking this- Bruno wants to actually provide more details.

Bruno BENOLIEL

Embedded growth at the beginning of the year is lower than it used to be at the beginning of 2023. Be that as it may, of course, 2.5% embedded growth throughout the year is mechanically higher at the beginning of the year than at the end because we actually base ourselves on the average, so we will be above the 2.5% in terms of organic growth, I think that makes sense. As [inaudible] was saying, the embedded growth for the year of 2.5% forces us to really search for sequential growth at the beginning of the year to reach an acceptable and satisfactory growth objective.

Now to get back to the question about the dynamics of growth in France in 2023 to which Simon responded. We are not going to reach the same rates in 2024 as we did in 2023 although the dynamics are good in the sectors Simon mentioned, and we are not going to keep generating at the 3% on RO we obtained in 2023. The growth rates are going to be unattainable even in those sectors.

On the financial aspects and G&A, we did less in H2 and we are going to be embedding them in 2024 [inaudible] with the objective of improving in 2024 what we generated in H2. This is the daily work now.

When it comes to earn-outs, payments were made in H2 and there was some [inaudible] because we negotiated with our salaries. Earn-outs are calculated on the basis of either [inaudible], subject to adjustments and so require negotiations and agreement protocols signed by both parties. Indeed, we announced EUR 105 million in 2023, which is higher than in previous years. Just to create a bridge here we had EUR 160 million or EUR 165 million of earn-outs at the end of 2022 and we actually now got EUR 46 million at the end of 2023, so we realised that it went down quite significantly proportionally.

MR MARTIN

Okay, Bruno, this is corporate but can you give us a breakdown of the EUR 45 million [inaudible] because we already have this information in the annual report?

Bruno BENOLIEL

That is not really that hard, there should be EUR 1 million or EUR 0.8 million of current and the rest [inaudible], the EUR 46.2 is the total figure.

Mr MARTIN

Thank you very much.

Bruno BENOLIEL

We are going to have to pay EUR 40 million in Q1.

Laurent DAURE

Hello, Bruno. I have three points that I want to go back to, first on the automotive subcontractors. Automotive is 18% of the revenues at the Group level, could we maybe have the mix between manufacturers and subcontractors and are there potential risks in other sectors in Germany? I also have some feedback on one client, FORVIA, who talked about their future spend in R&D and this is quite a source of concern. Could we have some information on the size of that client? Second, we did not talk about AI so what is the result of the discussions you have with your customers about AI? Are there risks of companies in-sourcing again because of AI? Finally, with respect to the offshore process, particularly in the Automotive sector, could that make it possible for some Indian companies to take part in more bids for tender and maybe create some additional price pressure and perhaps gain some new contracts as a result?

Simon AZOULAY

On the 18%, it is split 70% to 30%, I would say 3.5% in tier one, so we are talking about OEMs here more than anything else. In fact, with OEMs and tier one, this was mostly in Germany and we suffered more there and 50:50 between tier one and OEMs in Germany, this was outlandish and we had to really exert some more pressure on manufacturers.

With respect to your question on the emerging Indian companies, yes, they are ramping up and there are quite a lot in Germany. They are trying to take our markets and positions and on major German manufacturers, and they are being quite successful, and one company achieved an extraordinary performance in software development for automotive manufacturers, Stellantis and Peugeot, native companies. We are really facing up to them systematically, they are referenced and when I say that clients want to work with European players like Alten or others, it does not mean that they are going to be ignoring Indian companies. In a major market we have to face major Indian entities, and it is the same in the US, the UK and in Germany, and we seem them a lot, and they are quite aggressive and forceful on M&As in Germany. They are really pushing prices up in M&As in the Automotive sector in Germany among OEMs because they want to buy the references and end up with local resources because they are unable to manage it and really transfer it back to India. Of course, to answer your question, we really need to deal with them but we are not worried because if we can come up with a good response sometimes our message is actually more positive. In terms of tier ones, particularly FORAVIA, we do not have a big presence, I think 0.3% of turnover. It would be a lot more dangerous for usif it happened with Porsche or other companies in Germany.

On the question of Artificial Intelligence and discussions with customers who are now using it, I believe that we are still at an early stage. In the medium-term, in the next five years the use for productivity gains by customers could this jeopardise the outsourcing rate of R&D? As usual, technological evolution, we sell, we have seen others in the last five years who never actually generated a lower [inaudible], it just changed the nature of the needs and the type of services. For example, with object-based methods in the eighties and nineties, the Internet and the emergence of data setters, and a whole range of other things in the 2000s, these did not prevent engineering outsourcing and maintain [inaudible]. The demand [inaudible] is not the issue, the issue is whether Alten will be able to cope with the lead and we have two ways of actually reacting to this. We will need to change our working methods and perhaps this will develop a process and actually times will go down but there are quite a lot of other requirements that will pop-up here and there. I am not concerned, we need to handle the new requirements that will emerge as a result. I am talking about all those different projects in the major companies that are spending 3 billion here and there investing in generative AI and there are three ways of managing those budgets. Number one budget, in other words train people who are going to be working on issues with generative AI, so they need to be aware of those new methods and tools. If you think about companies that want to train 100 000 people in India or elsewhere at EUR 5 000 per person in delivery centres, then all you just have to do the maths and it will cost EUR 500 million and EUR 1 billion if you want to train 200 000. We will also have to train quite a lot of people and we have evaluated that at 2 000 people and bring them up-to-date on existing projects but, in fact, in the Alten model people are not really that senior with an average age of 30. We recruit 50% of our people from major schools and they do not really need to be trained, they just need experience and to be aware of our new projects and packages with offshore major engine companies. Our investment to bring our teams up-to-date will not be as significant as the investments made by Indian companies.

The second investment we will have to make is to convince our companies that we can develop and can utilise the new tools. We already have requests and already carry out projects, either [inaudible] or tests for customers, and we will get a lot more, as well as having to make those as training platforms to show our customers that we can utilise those tools. This represents an important investment that will really come with a moderate price tag that is not very high and we really put all or technical competencies on the table.

Third, which we will not do at Alten because we are going to be doing this with [inaudible]. We are going to be developing our generative solutions or tools and major companies are going to be acting as editors and publishers and will have their own tools and pathways. Two major Indian entities are going in that direction, so they are not necessarily going to be using Microsoft or Google solutions, they are just going to have their own offers. We are going to be buying and using tools available on the market depending on what customers want because this could change from one customer to another and second, we are going to be training our people. I do not know if I am giving you a clear answer to the question but we will have to work in this direction. We are not really concerned because this is not a major revolution.

Laurent DAURE

The answer was very clear, Simon. I have a last question with regards to the evolution here, the impact of the margins. Will there be consequences in the profit mix from the fact that Aerospace and Defence will continue to develop quicker than other sectors?

Simon AZOULAY

The answer is that it is not per sector, even though some sectors might be less profitable, it is actually mainly per client. The profits in the Aerospace sector are not superior or inferior to other sectors, so that was another question, so there would be no affect on the profits.

Mr BLIN

I am so sorry I cannot see you.

Simon AZOULAY

It is not great, it is nicer when you can see people face to face but there was a discussion about this during our last meeting and we decided to do this as usual. We saw so few people last time that we decided to go back to conference calls but I think there were probably fewer than 15 to 20 people present. Maybe it would be good to have a mix.

Mr BLIN

My first question is on acquisitions, EUR 121 million, EUR 95 million of sales revenue, with the amount to get to the acquisition price of those EUR 95 million?

Simon AZOULAY

Yes, but watch out, the figures mentioned do not relate to 2023 acquisitions, there are also some earn-outs over a period of three consecutive years, 2021, 2022, 2023, like a major acquisition in 2021. Bruno can give you more detail on this, but the downpayment.

Mr BLIN

You do not talk about the amount.

Simon AZOULAY

Exactly, the downpayment is without the earn-out and the earn-out sometimes runs over two or three years.

Mr BLIN

What would be the ratio underlying the normative EBIT of the acquisitions?

Simon AZOULAY

We usually buy companies, or at least tried to up to 2021, on a multiple of eight, or six for first payment, and the equivalent of a multiple of two for the earn-out parts. We have now had to increase it significantly to a multiple of 10 and 20%, 25% of earn-out.

Mr BLIN

Maybe a bit of a silly question, could we have a bit of granularity on the trends for salaries and payrolls of the teams? I say it is silly because there are a lot of regions that vary so much.

Simon AZOULAY

In 2021 – 2022 the employee turnover rate exploded going up to 33% - 34% but it was not homogeneous, it was mainly people with two to five years of experience. Those with under two years of experience are young people who have just joined and are just juniors but after five years of experience they were more cautious. In 2022 – 2023 we implemented a new HR plan to retain people with targeted salary increases especially for people with specialties and talents, basically the people we wanted to keep at all costs. We have reviewed this and there was a double effect in 2023 with investment in the plan we implemented in 2022, and at the same time the market had calmed down a bit, so turnover has come down a bit to 30%, around 28% today, which is still quite high.

Mr BLIN

Yes, it is actually very high.

Simon AZOULAY

The norm for Alten is between 25% and 27%, and less than 20% and more than 30% is a concern so our goal is to be between the two. 40% of the engineers we are hiring are juniors coming out of universities aged around 25 to 26-years old, then the rest are people with two to five years of experience who usually stay four years at Alten. We try to retain about 10% of those with five to six years of experience, who are the ones who will evolve to become project managers or experts in our directorate of practices and offers. That is only 10%, which is not that much, but it is simply because we cannot pay them more, so we are slowing down the growth of this population and so people have not been able to move up within Alten, which is how it is.

Mr BLIN

Do they leave to go to your customers?

Simon AZOULAY

Yes, they often do that to find new outcomes.

Mr BLIN

What about pay rises? Do you have an indicator for young people who have just left university showing this has gone down a bit?

Simon AZOULAY

If we look at 2021, 2022, 2023, depending on the different levels of the experience of the juniors, about 10%, 12%, we manged to catch this up with our customers and this stabilised in 2023. It was mainly in 2021 – 2022, so it is no longer a topic for 2024 when we will reach about 3% and we will manage to [inaudible] this on the prices, costs and productivity of our work packages. Our clients broke the ice, before their goal was to decrease the daily tariff but that was mainly for technical assistance. For projects it is now up to us to have good productivity and technical quality to get the best possible prices, and we managed to do that, so we were able to follow the market in terms of pay rises.

Mr BLIN

One last point on pay rises, is there a trend for accelerating the salaries with offshore? I heard about a significant pay rise in Romania, I do not know about India.

Simon AZOULAY

Yes, in the offshore countries, mainly Romania, India, Morocco and Mexico as well in the US, and Portugal is also doing quite a bit of offshore. Yes, salaries are increasing slightly more significantly, except for Romania, which moved much faster. It was at the same level in the other countries, India, Morocco and Mexico, as in the West but Romania is more of an issue with people who previously targeted it now going to India.

Participant

Most of my points have already been tackled but I did not quite understand the M&A pack, the visibility for S1, what kind of income are we talking about practically speaking?

Simon AZOULAY

Overall, we are well ahead for at least 2 000 engineers for M&A with a bet less than EUR 20 million. One is an offshore company, so it would be a bit less than EUR 100 million of revenue.

Participant

Thank you, that is clear.

Simon AZOULAY

I think we will stop there. Thank you all for taking part and for your questions. As usual, Bruno and I are available and if there are questions that were not raised today please do not hesitate to come back to us. I hope we have answered most of the questions and given the visibility your were expecting for us for 2024, 2025 and 2026, in order to meet our targets.

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