# Audio Call - Alten

**Bruno BENOLIEL, Deputy CEO, Alten**

Good evening. I apologise for the small delay. We had a couple of technical issues which I hope are sorted. I hope you can hear me well. If it is not the case, please let us know.

Thank you very much for joining this conference regarding the first quarter of 2024. The revenue for Alten is EUR 1.07 billion, which is an increase from last year.

We have seen a 6% growth in France and 1.6% outside of France for the same data. The business has growth to almost 1% plus 6% in France and it is decreasing outside of France.

This quarter has seen 0.9 less working days, which impacted the growth by 1.2%, which means that our organic economic growth would have been 2% for the same number of working days.

The activity rate for the first quarter is 91.5%. It was at 91.7% for the first quarter last year, so slightly inferior than last year because of tension in some countries where the activity is now grinding to a halt.

As you can see, the decrease in business for the end of 2023 has continued and has accelerated in some places. We will talk about it in more detail later. The trend that we are seeing, we have growth in March after an initial high volume in 2022. We had 57 000 employees at the end of 2023 – 50 000 engineers end of March. We are 58 400, of which we saw a 1 400 increase for engineers – 150 in France, 370 outside of France. Out of the 51 400 engineers, 11 950 are in France and the rest outside.

We have a slide on the revenue per country. If we look at the activity, if we split it geographically, France has seen good performance despite one less working day, so 1.3% impact on growth, which would have been 7.3% for the same number of days.

We have good results in Automobile, around Defence and Security. Retail and Bank, Financing and Insurance have seen a decrease.

In Iberia, Spain 94, Portugal 16. We have seen a 5.5% increase. All the sectors are growing except for Banking and Finance, which is also seeing a decrease. In Italy, after many years of growth up to 25%, the growth has slowed down to 14% for this quarter. All the sectors have seen a slowing down but still showing strong growth because we are over 10%, except for Banking and Financing, which went well last year but also saw a halt for this quarter in Italy. Telecoms is a sector that has stabilised.

In Germany, as you can see, we have seen a decrease starting from Q1 2023. The trend has continued for Q1 2024. It is true that we are 1.3 less working days than last year, so for the same number of days it would have been only have been a 6.2% decrease instead of 8%.

Several sectors in Germany are decreasing – Automobile, the automotive industry. The very contrasted situation is that manufacturers, except for one, are all seeing growth and there is a decrease of 45% for the equipment.

We have also seen in Germany a slowing down in Aerospace. The activity is stable but lower than last year.

In the UK, which is also seeing one less working day, the decrease has continued in Aerospace and in the public sector, where Methods operate, which we acquired two years ago.

On the contrary, for Automotive, 15% of the revenue is seeing growth because we are working with the manufacturers and not the outfitters. Good growth in Belgium. We have seen a decrease in The Netherlands. Moving on now to Benelux, we have seen less projects which was unexpected in semi‑conductors.

In Scandinavia, less working days as it was for Germany, we have seen a continued decline, especially in Automotive. Tooling in Finland has also seen a strong decrease for the first half of the year.

Eastern Europe, with the same one working day less, the activity is stable. We have a small growth in Poland. Romania has seen a 10% decrease because of the Automotive, Banking and Finance sectors.

In North America, as you can see on the slide, we have seen a continued decrease. Canada has seen a decrease for Banking and Financing. Mexico, which is only 4% of North America, is seeing growth, especially on Automotive, Banking and Finance.

Asia Pacific has a satisfactory growth of 4%. China, which represents a third of the region, has seen growth of 11% which is carrying the rest up. India, representing 30% of the region, has also accelerated the growth of 17% if we look at [inaudible] industry. Japan, which is 20% of the region, has slowed down and, for Korea, 10%, the slow‑down has been felt because the growth is 5% when it was much higher in the previous year.

In total, at the Group level, we are at 0.8% growth on average with a couple of countries, especially UK, Germany and Scandinavia, seeing degrowth rates which we have not seen since 2020.

If we look at it sector‑by‑sector, looking at this pie chart here, Automotive 18% and has seen 5% growth, mostly thanks to manufacturers. With the exception of Ford in the US and Volvo Trucks in Sweden, we have seen a good growth. However, a decrease has been seen in the automotive suppliers, especially in Germany.

Rail had started to increase last year and has continued in that direction as we are now at 7% increase compared to last year.

Aerospace, 15% of Alten is still very dynamic – 18% growth despite the slowing down in Germany and UK.

Defence, Security and Naval – the same thing, strong progress, more than 20%, which brings it up to 7.3% of the revenue.

Energy is stable at 7.4% of our revenue. Oil and gas are only 2% of the revenue and have seen a decrease of 10%. Other sectors – nuclear, for instance, has seen an increase of 6%.

Life Sciences, 8% of our revenue is seeing a decrease mostly due to the industrial class, whereas the medical equipment is seeing growth.

Industrial equipment, mostly the heavier industries, and Electronics are stable. We have seen an increase of 4% for other industries and semi‑conductors in particular is seeing a significant decrease in almost all regions because we are close to a 10% decrease.

Telecoms, 4% decrease, whether it is operators or suppliers and, for Finance, 8.5%, we have seen a global decrease of 10% at the Group level. The French banks, some Canadian institutions and a couple of Southern European banks, to a lesser degree, that are feeling the hit of the contraction of investments.

Regarding Retail Services and Media, we have seen a 6% decrease.

As you can see here, we have mixed results for Q1. Some of the results were expected. The macroeconomic situation in Europe was harder than we imagined. To be honest, there are no signs of improvement for Q2, except for the USA where we have seen positive forecasts. Some [inaudible] because of pricing or new deals that were not satisfactory.

We have still acquired a company – a group of companies, to be more precise. We have a presence in Vietnam which plays a DC role, a Sales presence in Japan. It is a company that specialises in BI data science and software development, a company that realised a EUR 20 million revenue in 2023, with 950 consultants and an EBIT of 10%.

For 2024, the first semester, which is well underway, will probably continue to follow the trend of the first quarter. The rebound expected for Q2 is not manifesting clearly. We are not seeing an increase in the call for tenders. However, we should have a growth coming to us but it is difficult to anticipate, which is why we are forecasting a 3% organic growth which will be reviewed at the next publication, depending on how the year goes.

Now, I will hand it over to you now. If you have any questions, please feel free to ask away and I am obviously here and happy to answer any questions you have.

We have a first question from Mr Marcon.

Derric MARCON, Société Générale

Hello, Bruno.

Bruno BENOLIEL

Hello, Derric.

Derric MARCON

First of all, congratulations for moving to Teams. I am a big fan. I have two questions. The first one is the 3% on year, is it the same theoretical exercise that you do at the beginning of the year, an embarked growth without taking into account of putting net staffing on the quarters to come, or is it really what you think is doable in the current situation with the predictions of net staffing for the next quarters? That is my first question.

The second one is on the automotive industry – what is your visibility on this market for the coming quarters?

Bruno BENOLIEL

The first question, we give the embarked growth because we have no visibility on the growth dynamics and it is difficult to project, to give even an estimation. It is what we do but communicating on it is probably a bit premature.

What we did here was look at the current situation in the most objective way possible to date and we asked each department to evaluate what they believed to be reasonable to expect growth‑wise for the end of Q1 and Q2, taking into account the trends observed in the first half and taking into account the perspective that we had last year or the beginning of this year because we are realising that there is quite a lot of clients that are postponing projects. They are not cancelled but they are postponed.

Then we have other clients, especially in Banking and Financing, that have reduced their investment budgets which means that, even in Aerospace and Automotive, there are consultations that are done on projects that should have started now but will start in September, which leads to our current situation. Therefore, 3% is not embarked. It is what looks logical for us to expect. We will see in July, which is the next meeting, if we confirm this, if we improve it, all depending on what happens in the interim.

To be honest, it is quite unfortunate. We were not expecting this slow‑down to last this long. I think that we might see a rebound in 2024. In the US, we have more positive forecasts, especially in the automotive industry. For now, it is not really translating into more consultations but the restart after this slow period that is 2024 might begin with the US.

We have a visibility like other sectors, where we have consultations of two to three months with manufacturers, where things are going well and continuing to follow that trend.

An important part of the growth in France actually came from nearshore in the Automotive. We have seen an increase for nearshore in Germany because they are in a difficult situation but we are not seeing the light at the end of the tunnel for the suppliers. When we listen to our German managers, they are quite depressed and there is no positive messages coming from this side.

Derric MARCON

Going back to the first thing you said, could you do the link between the 2.5% embarked growth and the +3% that you see today as the most plausible result?

Bruno BENOLIEL

With the recruitment from Q1 because, in the +2.5%, there was the net staffing. We have degrowth rates in the high‑cost countries that are more important. We have seen degrowth in the first quarter which we did not fully compensate end of March. We are not far from it. That is what I meant earlier because we have embarked degrowth for the year, if I can say it that way, and so now we see that it is going back up.

This explains the 3% organic growth which de facto includes a growth on the second half, which we have presented in a very measured way. However, being at the end of April now, we are not really seeing – because usually this is the period where we are starting to get some consultations for the second half of the year, which is not happening – except for Asia, where things are going relatively well.

It is identical to the situation of the first half.

Derric MARCON

Very well, thank you.

Bruno BENOLIEL

There is also a swing. In fact, there is one less working day for the first half. There will be two more in the second, a half. Therefore, it will balance out.

Derric MARCON

Very well, thank you very much.

Bruno BENOLIEL

We have a question from Mr Aditya.

Aditya BUDDHAVARAPU, Bank of America

Hi, Bruno. This is Aditya from Bank of America. Thanks for taking my question. Just going back to the comments you made in the release, you talk about a potential recovery from September or October. Can you talk about what is driving that? Is it comments you are seeing from the customers or anything specific in terms of the end markets which will drive that improvement?

Then could you also just talk about in general what you are seeing in terms of pricing this year?

Then, finally, how should I think about the margin expansion in 2024? I know you are not going to talk about or disclose those numbers until July but how should I think about that, given the better‑than‑expected upline development?

Bruno BENOLIEL

Regarding the outlook for H2, we were relying on the information that the people on the ground got from the customers. However, what we see is that we do not have an increasing number of bids that we receive and we also know that some customers say that they will launch more new projects in H2 than in H1, knowing that they have postponed a lot of projects in H1 to H2. Therefore, everyone is expecting an increasing number of consultations and bids and, therefore, projects in H2.

That said, we are expecting more volume in H2 than today because the same customers say that they do not have the same budgets and the budget they were expecting. This is the reason why we have reduced our expectations in H2. We think that there will be a balance between H1 and H2 and that we will get, in any case, an incremental activity in H2 but which should not be that high compared to H1, especially if we consider what we were expecting at the time when we released our ’23 numbers.

Now, regarding the price effect, we had some price increase again in ’24, not that high if we compare with what we got in ’22 and ’23, obviously. We have, through the work package activities, many customers today asking us to help them to achieve productivity gains, especially within the Auto sector but also Aero sector. Therefore, we are trying to package more and more projects and that relates to what I was explaining during the conference.

We are increasing the number of projects which are at least partly delivered through our ODC in Morocco, Romania and India, in order to be in the market with a lower average price for our customers.

For the situation regarding margins, even if this is not the conference for releasing our margins quarter by quarter, we always give some guidance to the market when we know. In February, we said that we were expecting the operating margin to still be below 10%, and I was talking about 9.6% to 9.7%. However, due to the decline in our sales expectations, our assumption today is that the mid‑margin will probably be quite similar to ’23. We will see because the revenue curve will be key regarding the margin for ’24.

Also, and this is important to notice, there will be, again, in ’24 an effect between H1 and H2 because there is a seasonality effect which disappeared over the past two years but we will have one this year, meaning that we will probably be slightly above 8% in H1 and slightly above 10% in H2 but I do not know to which extent today.

Aditya BUDDHAVARAPU

All right. Thank you, Bruno. That is very helpful.

Bruno BENOLIEL

If there are any more questions, feel free to raise your hands. Mr Laurent Daure has a question.

Laurent DAURE

Hello, can you hear me?

Bruno BENOLIEL

Yes, I do hear you.

Laurent DAURE

OK great. Despite a fairly satisfactory organic recruitment campaign, you don’t seem to have any signs of improvement in the first quarter. Is there a risk for your cost use rate? I have more questions, but I'll let you answer this one first.

Bruno BENOLIEL

I don’t expect so. Recruitment was conducted in high-demand geographical areas or business sectors. In fact, there is a mix effect between departures in certain sectors and recruitment in others. We also recruited to meet demand in ODCs, so we also launched a large recruitment campaign in Asia - in India, as it were - and in Morocco.

If we look at our headcount trends, in France, due to growth, 150 people have been recruited. Although growth is stronger, part of this growth has been achieved with ODC, so in addition to the 150 people hired in France, hundreds of people have also been recruited in Morocco and India to meet the need. On the other hand, we’re losing staff in countries like Germany, Scandinavia and the UK, which is nothing new. So I don't think there's any risk for bench time. In any case, bench time is monitored on a weekly basis and is somewhat high in the banking sector, although its level is very similar to the Group’s standard.

Laurent DAURE

Did you give your teams any recruitment guidelines for Q2?

Bruno BENOLIEL

Of course.

Laurent DAURE

We are expecting a much lighter Q2, in addition to *(inaudible 31:20)*.

Bruno BENOLIEL

Recruitment was high earlier this year, even without an identified project, because we had to offset departures. We were also expecting a stronger business activity, as is usually the case in March, and it turned out differently, which explains an average activity rate of 91.5, which is the Group’s average score, but which is higher...We are currently barely on the mark, i.e. 90%, for example, in Germany, in the UK, etc. So recruitment is at a standstill.

Laurent DAURE

OK. With my second point, I'd like to talk about September: I remember a few quarters ago, some customers postponed contract launches, particularly in Germany, saying they would be back in September 2024. Have these customers officially come back and said: “We can now announce that we’re going to postpone again, because we don't have the budget? “

Bruno BENOLIEL

It happened in Germany, with OEMs for example.

Laurent DAURE

And in other markets?

Bruno BENOLIEL

It is also the case in Sweden, although to a lesser extent.

On other markets, there are no signs of already postponed projects being postponed again. There are only indications that projects will be postponed. But the situation is very difficult in Sweden and Germany.

Laurent DAURE

OK, going back to Derric's question, when you do your guidance, to put it simply, you basically analyse the impact of a business day and assume that, ultimately, the trends will remain quite similar to the current ones throughout the year?

Bruno BENOLIEL

Yes, by making forecasts in certain areas - because this is a bottom-up exercise, which will be reviewed in June anyway, because there are a number of points to clarify. For example, we are bidding on some large scale projects. This can have an impact, because when it comes to projects involving 50 or 100 people, you have to make assumptions, success factors or not. We'll see whether or not things get off the ground. But as I was saying, we've drawn up some truly objective scenarios about the Q2 and H2 outlook so far.

The only areas where we haven't reviewed our growth scenarios, because we're currently on the mark, are the US, where we had anticipated the current outcome, i.e. the -3. We even thought it would be slightly less. And Asia, which is currently following its own development curve.

Laurent DAURE

OK.

One last question: you briefly mentioned acquisitions, with a number of projects being scrapped. Does that mean that your M&A pipeline has shrunk? Or have you finally got potential new deals?

Bruno BENOLIEL

It has shrunk slightly. There was a deal in the USA that we didn't do. There was a deal in Germany that we let go of due to the price, which was for a company with a revenue of almost €200 million. It was a major deal in Germany, but it was assigned at a sky-high price.

There were some deals in Europe that we didn’t pursue because of asset quality issues, after having done some new deals. Despite our hard work, the end result is a single acquisition, which we finalised yesterday in Vietnam.

One deal in Poland will be announced, I think by the end of Q2, which is currently being finalised.

After that, we have other deals in the pipeline, but they are in the early stages, i.e. we are at the stage of signing the letter of intent or starting the new deals

So apart from the Polish deal which, if it goes to plan, is due to be signed in May, no other acquisitions will be announced in Q2.

Laurent DAURE

Thank you, Bruno.

The host

There are no more questions for the time being. Let’s wait a few minutes for any questions.

I have another question from Mr Marcon.

Derric MARCON

Bruno, forgive me for my questions, but that’s part of the game as you know. Regarding your current growth outlook, we understand that in Q3, there was a fairly strong day effect which was going to boost H2 performance. When you look at your outlook for Q4 as it stands, if you have little net staff hiring in the meantime to offset the drop in Q1 in the high-cost countries, you're not going to achieve much more than you did in Q1. In other words, your growth exit rate will be close to 1%. Is that your forecast or are there other scenarios and moving parts to be taken into account?

Secondly, which is unexpected, is that some IT services companies have been talking about massification among certain customers and the positive effect of panel reduction they have experienced. We can't necessarily draw a line under your performance in Q1 and say that it doesn’t apply to you, but in any case, it doesn’t necessarily appear in the figures you posted in Q1. Are you lagging behind in this respect? Or are you benefiting from it, but you've got so much headwind on the other hand that it ultimately doesn't show?.

Bruno BENOLIEL

There are indeed massification effects, particularly by relying on offshore or nearshore operations. In Morocco, for example, we hired 250 people this quarter. We're having the same effect for projects that are going to be managed in India, and in particular major projects for which we're bidding in the UK. We were also the successful tenderers of a very large project in Germany which is in the ramp-up phase. Incidentally, the financial policy that I apply to large projects in the ramp-up phase is to take the costs even during ramp-up, i.e. to reduce the margin immediately... But unlike other companies, we don't immobilise them to linearise the cost throughout the projects. We don't actually know exactly what the final margin for this type of project will be, because these projects may run for two or three years.

The margin at the end of the project will depend on the massification capacity, the experience curve of the people who are onboarded and their ability to generate a higher or lower margin as the project proceeds. So the answer is yes. We have such projects. Customers are asking for more and more massification.

This doesn't actually revolutionise the company's business. There aren't that many of them, and the time it takes to bid, because the bidding processes are longer, and the time it takes for the projects to get up and running, and especially for them to start delivering revenue, takes longer than for projects with five, ten or fifteen people, where the decision cycles can be between one and two months and the projects start immediately.

Some companies - I don't know which ones - may already be benefiting and generating revenue from these projects. This is nothing new and it’s been going on for quite a while. This phenomenon seems to be gathering momentum and necessarily benefits the largest companies, since they have the technical and delivery organisations that enable them to cope and bid.

There are also massification projects that we don't bid for, because projects with a 18% to 20% gross margin don't make sense. They require a completely different organisation altogether.

Indian companies can take on projects with 18-20% gross margin, if they are consulted or if they can meet the requirements, because their front office and back office costs are based in India. In any case, the commercial and technical front office is primarily based in India.

Companies like ALTEN and our European competitors have their entire front office in Europe. Bidding for projects, even large volumes with a 20% expected gross margin over a two-year period, is a risk that we don't take in any case.

I don't know if others take it, but we bid for large projects, but with higher gross margins.

Derric MARCON

I understand. What about your exit rate, in terms of organic growth?

Bruno BENOLIEL

That's where I'm not sure I’m with you, because my organic growth forecasts in H2 are inevitably higher, due to the expected growth, albeit lower than expected in headcount. Why are you talking about a 1% exit rate? Or have I missed the point?

Derric MARCON

Maybe I’m correlating the 3% too much with the embedded growth exercise that you carry out with zero net staff hiring over the coming quarters. Ultimately, if you don't recruit or post positive net staff hiring every quarter, your growth rate will decline. So even if you have the working day effect in Q3, in Q4, when you compare 2024 with Q1 2024, if you still haven't recruited over the next three quarters, it's likely to be worse than what you posted in Q1?

Bruno BENOLIEL

No, we still plan to recruit and increase the number of projects in Q3 and Q4.

In fact, H1 will probably be fairly similar to Q1 in terms of posts. We'll see how it pans out, but it's not going to be brilliant, since in fact, given the decline in Q1, we're already going to have to make up for the downturn in Q1 in Q2.

Then, growth will happen in Q3 and Q4, where we have indeed forecast an increase in sales, despite the August holiday period, which is associated with a growth in the number of projects, but which we have considered in a more conservative way. Much more conservative, in fact.

Derric MARCON

OK, that's clear. Thank you.

The host

No further questions for the moment.

Someone is raising their hand. We don’t have their name. Please introduce yourself.

You need to switch on your microphone. The speaker doesn’t seem to be able to switch on their microphone. OK, we can hear you now.

Nicolas DAVID

Can you hear me?

The host

Yes.

Nicolas DAVID

OK. I didn't know you had to press \*5 and then \*6. Sorry about that. I’m Nicolas DAVID from ODDO BHF. Good evening, Bruno.

I just wanted to pick up on the last comment I made about your downturn in Q1. What conclusions should we draw? In economic terms, you still have a 2% growth. You had positive net staff hiring. I find it hard to understand this comment that you declined in Q1 and that you need to make up for that?

Bruno BENOLIEL

We had more departures than usual at the end of the year: three. Then the drop continued in the number of planned employees in January and February. And in March, business started to pick up again. That's when we did most of the hiring to compensate. We started in mid-February. But the end point is the end of March. As a matter of fact, the average headcount in Q1 is lower than the average headcount in Q4 last year.

Moreover, when I talk about average headcount, I mean the average headcount in the broadest sense, i.e. including subcontractors, in terms of the number of total projects

In fact, if we consider that Q4 last year was the zero level, we were below it for almost the entire first quarter. Because, in fact, we were hit quite hard by the downturn in the UK and Germany throughout January and February. There are usually departures at the end of the year. Some projects are due to resume in January, but it’s generally early February. And the standard pattern is that by mid-February, we've made up for the December departures and we start to grow again from then on.

It didn't happen like that, at least not at Group level, because obviously, it was not the case everywhere. It wasn't the case in France, for example, or in Asia, or in other markets. Overall, there has been a significant downturn in some sectors and in some regions. This has been offset by recruitment or increases in projects, which have taken place at a much more steady pace than the January/February downturn in sectors where the situation was very difficult. Particularly in Germany, where the macroeconomic situation is not good, and neither is the situation in the field.

What's quite surprising is that when we look at the aerospace activity, which is growing at a fairly sustained rate for the Group as a whole, we have seen a sharp decline with an OEM - which is now picking up again - because the projects that were halted and due to be relaunched have not been relaunched, so they will be pushed back to Q2 and possibly Q3. When projects are at a standstill, they are not replaced by new ones, which leads to a clear drop in activity. There is a clear timing effect, which was very significant in Q1.

Nicolas DAVID

OK, I understand. As you managed to somewhat remedy the situation at the end of the quarter, unless the bench has gone up a lot, I struggle to understand how Q2 could be far below the economic growth of Q1?

Bruno BENOLIEL

Yes, because we were down in Q1 and we're thinking in terms of headcount, when you lose dozens, or even 200 or 300 engineers overall in high-cost countries, there's a very significant mix effect.

Nicolas DAVID

By the way, when you were talking about the 370 net new international hires, I assume that they are combined shore/offshore, including for France, which makes it easy to understand why there are 200 people in France?

Bruno BENOLIEL

Precisely. In France, despite the 6% growth, we only hired 150 people. The remaining employees were hired in Morocco and India, and some in Romania. Then, when we look at Europe, they are very straightforward. In Germany, we're at -80. In Scandinavia, we're at -70. In the UK, it's -70. All these are high-cost sales, in Eastern Europe to a lesser extent. Then there's Morocco at +200, India at +150. In fact, we're losing out in a place where sales are high per capita. We're actually compensating by recruiting - if you can call that 'compensating', because the projects don't offset each other - but in slightly more low-cost countries.

Then, in some countries, when you look at the growth in Italy and Spain - obviously, sales per capita in Spain are lower than in France, and it’s the same in Italy - but there is an increase in 130 or 150 engineers.

Nicolas DAVID

OK. Now I understand. Out of the 370 net organic hires in Q1 internationally, almost 90% were low-cost?

Bruno BENOLIEL

I'll give you the figures: we've lost some and we've also gained in countries that aren't... We can't call Italy and Spain low-cost countries...

Nicolas DAVID

Now it's clear. Thank you.

The host

Next question. Please feel free to raise your hand.

There seem to be no more questions. I don't see anyone raising their hand.

Bruno BENOLIEL

If there are no further questions, I'd like to thank you all for taking part in our conference call.

If my memory serves me right, I think the next one is set for 25 July. I believe that's the day before the opening of the Olympic Games. We'll be able to cover the first half of the year as a whole in more detail.

I hope that we will have more information to share with you and a clearer picture of what the second half of the year will look like. As usual, I'll be giving you a clearer overview of the trend in margins.

Have a good evening and see you soon.