

# Audiocall Alten

## **Bruno BENOLIEL, Deputy CEO, Alten**

Good evening and thank you for taking part in this conference regarding the Alten activity at the end of September 2024. I am going to try to be brief because we have another conference for Assystem in an hour.

Cécile sent out our press release at the end of the day and I am sure you have already checked the figures. There is no rebound in the activities in the third quarter with worse erosion of growth than anticipated by our clients, and some of those who had already planned reporting projects before the summer, decided a few days before projects that had been confirmed in September and October, cancelled other projects, in particular in the Automotive and Aerospace sectors. Therefore, at the end of September 2024 is EUR 3 116.7 billion. The business has gone up in France by 5.8% and 3.2% outside France. On consolidated data our activity has only grown by 0.3%, 5.8% in France and going down by 1.8% outside France. Over nine months the business has had 0.6 of a day more than last year and this has had an insignificant impact on growth. Overall growth in the third quarter was 2%, 5.9% in France and 0.2% outside France. Therefore, on constant data growth is 0.1%, 5.9% in France and minus 2.6% outside France.

As you know, the activity rate is slow this year with projects postponed and so we have a higher level of intracontract. Our activity rate is 91% this quarter, which was higher last year, and it was 91.2% at the end of September compared to 91.8% at the end of September 2023. The rise in intracontract rate is self-limiting despite the postponements but it has an impact on our recruitment dynamic. The Group's headcount has slightly decreased because we have 58 000 collaborators compared to 58 300 in June and 57 000 at the end of 2023. There are now 51 000 engineers compared to 51 390 engineers at the end of June and 50 000 at the end of 2023. Overall, our engineer headcount has risen during the year by 1 200 people, 894 from acquisitions and 376 from organic growth, with a slight slowdown in growth in France with 50 engineers and 326 engineers outside France. To sum up, out of 51 220 engineers, 11 750 are in France and 39 470 outside France.

If we look at business by geographical areas, you already have the main trends which are exactly the same as those we commented on a month ago. France has a satisfactory performance this quarter but with two extra business days compared to last year, so a growth of 2.9% if the number of business days had been the same. Therefore, France is still growing but the growth rate is slowing. Business is growing year on year in Automotive, Life Sciences, Defense and Energy, while Telecommunications and BFA are slowing, but business has decreased in the Automotive and Aerospace sectors.

Growth has stabilised in the Iberic area at 9.5%, so more than 8% growth year on year. All sectors are growing apart from Finance and Life Sciences, which are declining slightly.

Growth is still slowing in Italy, but it remains satisfactory at 8% in Q3. All the significant sectors have slowed down but continue to grow apart from Bank and Finance, which is more or less stable.

Business has decreased in Germany by 15% and more than 11% year on year. The Automotive sector, which is around half our turnover, decreased by 16% but OEMs, which represent two-thirds of German turnover, are still growing. However, Equipment is minus 45% and Aeronautics did not progress much during the third quarter.

Business has decreased by 12% in the UK, mostly because of civil Aerospace and Public sectors. The Public sector has been impacted by the budget freeze and while we expect it to restart in 2025, there are no guarantees. The Automotive and Aerospace sectors have also slowed down.

Activities in Benelux are stable with a slight decrease in Q3, mostly because of Life Sciences in Belgium. By contrast, Semiconductors in the Netherlands started growing again in the third quarter.

Our business in Scandinavia stabilised at 10% with the greatest impact on the Tools, Machinery and Tertiary sectors

The decrease in Eastern Europe in Q3 was only 4%, so less significant than in the second quarter. There was growth in Poland, which represents two-thirds of our turnover in Eastern Europe, while our business in Romania decreased by 15% in Q3 because of the Automotive and Tertiary sectors.

In Northern America business resumed in the second quarter and is stable in the third quarter, which does not mean that our business is not restarting in the US. The biggest impact in Europe was from the postponements of projects for Stellantis and of [new origin?]. Our business has gone down slightly in the US but grew by 7% in Canada, even in the Finance sector, which decreased in the first quarter. We still have strong growth in Mexico of 30% for Automotive and Bank and Finance.

Our business in Asia-Pacific is stable with a 4% increase and still slightly impacted by the situation in Singapore. China, which represents one-third of the Asia-Pacific region grew by 8% but slowed down in Q3 because of the Automotive and Telecommunications sectors. India, 30% of the region, grew by 10% but slowed down in Q3 because of the Automotive sector as well. Growth slowed down in Japan, 20% of the region, and was only 2% in Q3. Growth also slowed down in South Korea, 9% of the region, because of the Automotive sector.

In a nutshell, we can say that Southern Europe is still growing and is satisfactory. France and Benelux are positioned in between Southern Europe and Northern Europe, including the UK, and Eastern Europe which are struggling and facing significant problems, especially in Germany and the UK.

Looking at the different business sectors, the Automotive sector stabilised in Q3 and grew by 3.5%. Like the first quarter, most manufacturers increased but some slowed down in the third quarter. There was a more significant slowdown in the OEMs at minus 22% year on year but almost minus 30% in Q3 because of the German manufacturers, where the number of projects decreased significantly. There was still strong growth in Rail at 6%. Aerospace saw 8% growth, but this slowed down in Q3 to 4%. Airbus made an announcement in January, but the growth was actually even slower than we expected with projects postponed in September and October. There was a 19% increase in Defense and Security, with an acceleration in the growth rate in the third quarter. Energy grew by more than 3% thanks to nuclear energy, which represents about one-third of the sector. Oil and gas businesses grew by 15% year on year, and we will have to see if this means that investments are resuming in this sector after several years of slow growth or if it is just the result of functional investments by a few important clients. Life Sciences declined slightly. Electronics, Semiconductors and Industrial Equipment was stable with slight growth in the third quarter. Telecommunications slowed by 5% and slowed down again in the third quarter. Retail, Services and Public sectors declined by more than 6%, mostly as a result of the significant budget decline in the Public and Services sectors. In the Aerospace sector the third quarter was similar to the first but with a more significant decline than we had expected, so it is not what was in our [inaudible] [0:14:36] clients at the end of 2023 for the second semester of 2024.

No new M&A acquisitions were finalised but the closing of the new acquisition we announced should happen before the end of the year.

We can say that 2024 is a difficult year with growth continue to erode. The third quarter was more difficult than expected because some accounts in the Automotive sector are still slowing down because of a few manufacturers. The number of projects started was much lower than was anticipated and announced, even though the announcements in July about a decrease in projects had encouraged us to make decisions and to take this into account in our recruitment strategy. Alten was faced with projects, some quite important, that were delayed or cancelled by several clients, even after confirmation, because of cash flow or investment strategies. This is quite unprecedented because these projects were cancelled

or delayed at the last minute, which is very unusual, and I think had not happened since 2013 or 2012. Some clients also seemed to be surprised by their own problems, which explains why they postponed even more projects than was planned at the beginning. These project postponements also came with requests to delay payments at the beginning of January 2025 for projects due at the end of 2024.

The economic context in Europe is not [inaudible] [0:16:51]. The rebound in the US is not clear, and Asia's growth is sluggish. Even though we had anticipated a worst-case scenario, the truth is that we have even had to adjust slightly our great objective for organic growth instead of decline because we are planning on minus 0.7% and minus 0.4% organic growth for the end of the year.

Operational profitability will not come as a surprise, it was announced, it will be negatively impacted by an intracontract rate that is slightly more significant than planned and higher SG&A, slightly below previous years, despite implementation of an expanded cost reduction plan. As a result, we are planning an operational margin for 2024 of around 8.7% in a similar economic context.

I will not give the floor to the participants for questions.

### **Laurent DAURE, Kepler Cheuvreux**

Going back to the forecast for Q4, it seems that there is a major step with 3% to 4% organic growth. Does the difference only relate to the Automotive sector is there something else? I know it is probably a bit early to talk about 2025, but you are already going to start the year with a decrease. Do you think you have the capacity to get back to growth in 2025 or is the performance likely to decline again in 2025?

### **Bruno BENOLIEL**

I have to admit that the situation with projects in the initial plans postponed is very strange, especially those that were supposed to start and we were informed about the postponement just 10 days beforehand when the teams were ready to go. We had been informed that they were reducing their costs for Q3 and Q4 and we revised and downsized our organic growth objective, but I would say that we are usually able to make our forecasts happen. However, I do not remember we have ever found ourselves in a situation where we have found out on a Tuesday for the next Monday that our client does not have the budget and that the project has to be cancelled. I cannot remember that ever happening before and now it has happened more than once and this is the situation we have had to face across the board, in the US and Europe, mainly Germany, France and the UK. These are the countries where we have a lot of Automotive and Aeronautics activities and this kind of situation has mainly occurred in these two sectors, but in other businesses as well. We have experienced an erosion of our growth or at least there has been lower than expected demand in the number of projects and call for tenders. To answer your question globally, it mainly relates to Aerospace and Automotive and while Life Sciences and Finance are still resilient, they are still more sluggish than we forecast, even though we had also set a very reasonable objective.

### **Laurent DAURE**

I am sorry for interrupting your answer, but when you give us the figures after nine months and for Q3, the verticals were not as bad for Q1 and Q2, including for the Banking sector. It feels as if Q4 is going to be even harder even though some sectors were starting to stabilise over the year, and it feels as if it is just going backwards.

### **Bruno BENOLIEL**

The fact is that Q3 is not as good as we expected and that means that we are not only starting Q4 with a decline but on top of that we have had to reduce the forecast for Q4. This

has a cumulative effect, so the negative performance for Q4 is also a result of the performance in Q3.

When it comes to 2025, your comment is very relevant. We are going to start 2025 with an onboarded degrowth that we have not assessed yet, we need to wait until the end of the year to do that. However, if 2025 is flat, and that is not the scenario that we have for now. We are discussing with our clients and right now they are mainly reducing costs and managing their cash flows. As of today, there are no encouraging signs that would let us think there will be a rebound in 2025. We are lucky to work with some big clients with large accounts and we have been talking to the technical management and R&D departments, and they tell us that they have no visibility at all because they have also had constraints on their budget management, and they have suffered unexpected budget costs because of their Finance departments without any notice. We ended up in a position with a team of 100 people in Germany who were supposed to start their project, and it did not happen. The revenue suffered as a result and that also means that we sometimes have more downtime between contracts. If the activity stabilises in 2025 there will be organic growth, but I do not know to what extent.

**Laurent DAURE**

Are you hoping for an increase in Q3?

**Bruno BENOLIEL**

Yes, which would be symmetric with the deterioration we have had in Q3 2024. I do not want to speak for other people, but based on the information I am receiving the situation seems to be very similar to others in our sector and even beyond.

**Laurent DAURE**

Have you been able to assess your taxes?

**Bruno BENOLIER**

Between EUR 3 million and EUR 5 million in Q4, the tax surplus and it will probably be halved in 2025, but it has to go through the Senate.

**Aditya BUDDHAVARAPU, Bank of America**

Thanks for taking the questions. I just want to clarify a few things in case I missed something in the translation. Did you say that Automotive OEM customers are down 30% in Q3, is that the number you gave on the call?

**Bruno BENOLIEL**

No, not really. I said that on a year-on-year basis we achieved a growth of 8%, which is not bad. However, there is a big difference between the OEMs and the manufacturers because the OEMs are still growing at 14% while the manufacturers have declined 28%, so close to 30%. That is just the manufacturers, and they represent one-third of the whole Automotive business at Alten. I said that as a result, today we have a year-on-year decline of more than 20% in the manufacturers, while the OEM market continues to grow. I also emphasised that what we see globally is that even with the OEMs, which performed well up until now, we are now seeing a slowdown in growth in some of them in Germany, France and the US. We are not worried, but I would say that the situation is less booming than it was during H1, and we are very concerned about the manufacturers because the situation is really very difficult in Germany. We are at minus 45% in Germany for the manufacturers while we are still growing in the OEMs, and I think that Q4 will be even worse for the manufactures in Germany. However, it is not minus 30% globally, it is plus 8%.

**Aditya BUDDHAVARAPU**

Understood. Thank you, Bruno. Just to clarify another point, you said that you do not see any signs of a rebound in 2025. Did you say something about entering the year with negative growth or something about 2025 having flat growth?

**Bruno BENOLIEL**

Certainly. We have been declining over 2024, in particular because the trend will probably be worse in H2 compared to H1 because the Automotive and Aerospace dynamic has been much less positive than it was since September and that means we will start 2025 with a negative embedded growth. I still do not know how much that will be because it depends on where we end 2024 but it will certainly be negative embedded growth. To achieve zero growth in 2025 involves growing again to offset the 2024 decline. You are right, I said that we have no visibility at all since our customers themselves have no visibility on their overall project portfolios and budget for 2025.

**Aditya BUDDHAVARAPU**

Got it, thank you. The new guidance for 2024 implies Q4 of something between minus 3% to minus 4.5%. Can you just talk about what gives you the visibility on getting to that number as well, giving that you are saying that some of the cancellations or postponements are happening very close to the starting date? Do you have any indication at all that these forecasts may be driven by projects that are definitely going to happen, or could there be further very short-term cancellations as well that impact this full-year forecast?

**Bruno BENOLIEL**

We already know some organic growth counts and although customers say today that they will not cancel further projects, they also said that in September and October, and it happened again. To be frank, I decided to include a buffer of further cancellations, even on projects that have been confirmed for Q4.

**Aditya BUDDHAVARAPU**

Okay, so you already have a buffer for project cancellations. Just on the headcount, can you talk about how you are thinking about hiring and headcount management to the end of the year and into 2025 given the uncertainty around demand and when projects might be postponed?

**Bruno BENOLIEL**

We will probably continue to slightly decline in Q4 in terms of net hiring, as we did in Q3, because we have to follow our project requirements in terms of people if we do not want a bench that is too expensive. Since we do not want to impact the growth margin too much, we are obliged to let people go because staff turnover is still 22%, it has not declined to 15%, so we are monitoring the hiring in a way that we can adjust the bench to roughly 9%.

**Aditya BUDDHAVARAPU**

Thank you very much, Bruno, that is very clear.

**Nicolas DAVID, Oddo BHF**

Going back to the Automotive and Aerospace sectors, just to clarify, year-on-year Q3 was [inaudible] [0:34:29] and up 9% over the first nine months of the year?

**Bruno BENOLIEL**

There should be growth in Automotive in Q4 and year-on-year for the first half of the year because the performance was really good in Q4 and the first half of the year, 2023 and 2024.

If I remember correctly, there was actually a rebound and this is going to amplify the year-on-year dynamics. We are starting a V curve, and it will be hard to reverse that by next September.

**Nicolas DAVID**

What would be a realistic scenario in terms of year-on-year growth in Automotive for the first part of the year, 2024, if we are being cautious?

**Bruno BENOLIEL**

It is hard to forecast that because we are struggling to know when the OEMs will start slowing down. With some OEM's we are more than minus 60% and when we talk to some clients they are panicking in Germany. For now, the OEMs are quite resilient but globally, the whole sector has slowed down significantly in Q3. When I said that it had slowed down a lot, it is the growth that has slowed down even though the activity tends to stabilise, especially with some OEMs, after years of growth. However, the real topic at stake here is that there are clients who have made announcements, and you will be aware of Stellantis, Renault, etc., as well as some industrial German OEMs, Volvo Cars, but if it was only them, we would probably still have double-digit growth next year, across the board, maybe not Stellantis, but the real question is the OEMs that are down 50% to 60% year-on-year, and we do not know if they have yet hit rock bottom.

**Nicolas DAVID**

We do not know because this is something that we look on a quarterly basis and if you read the news in Germany, they are announcing that they are going to slash their headcount by something between 40% to 50% reduction of their hand count. You were talking about OEMs growing next year but why would OEMs, Volkswagen, [inaudible], how would they grow in 2025?

**Bruno BENOLIEL**

There is also a risk that it could deteriorate, it could erode with the OEMs as well. That is what I said. If it was only for the OEMs, because we have embedded growth, not a single player has experienced negative growth, it is not because their growth rate is slowing down that we will grow next year. Do you see? The OEMs clearly have to manage their cash better, it is clear if you read the news that they have revenue issues on electric car sales, and you need to understand that the revenues are not exactly what was expected. Of course, adjustments have to be made on this slowdown in investments and cash flow management over three months, a little bit more, that is what we are going for right now, but there are projects that still need to take place as part of these transition projects. You also have OEMs that are asking themselves questions about their investment strategies for things like batteries, what generation, etc. The Chinese are five to 10 years ahead of the Europeans and some OEMs have decided to acquire Chinese technology on a license basis to avoid having to make the investment. This is probably why our clients end up postponing their investments because they do not have the visibility on how or where they should invest.

**Nicolas DAVID**

Thank you, that is clear. Have you also seen a decline in OEMs in the Aerospace sector?

**Bruno BENOLIEL**

It has mostly been in Airbus, which is the key account, but the trend is the same as in other OEMs.

**Nicolas DAVID[?]**

And for Airbus they made a big adjustment in September and now since the beginning of October. Are you being very cautious for Q4 and will the decline in Airbus continue sequentially in the first semester?

**Bruno BENOLIEL**

I am not sure our contacts have the information. When we read in the press about the communications for, Airbus about their production process rationalisation plan, it does not seem impossible that there could be projects, including for manufacturing engineering in 2025. They seem to give a lot of visibility with their plan, and they have given visibility on their goals for their savings plan internally and to the market, but I am not in a position to say how that plan translates operationally in the long-term and neither are our contacts. We do not know what impact it will have on the business [inaudible] [0:41:40] but it will have an impact on the engineering projects.

**Nicolas DAVID**

Will it be more difficult than previous years when it comes to negotiating prices?

**Bruno BENOLIEL**

Yes, it will be more complicated. First because inflation has gone down again, so wages will probably not rise as much, and our clients have a lot of projects in the five years to come without the revenue levels they expect. We are expecting them to ask us to make productivity gains, which is already the case in the Automotive sector, and I think our answer will be to accelerate offshore projects. Looking at France alone, we are way ahead compared to the rest of Europe, but it is very clear that growth in the Automotive sector is mostly offshore, 80% offshore since the end of Covid. We hired 1000 engineers over three years in Morocco for the Automotive sector and 3000 or 4000 in India.

**Nicolas DAVID**

Where do you stand on margin, for EBIT?

**Bruno BENOLIEL**

The margin is satisfactory even there are higher costs because we need to steer these projects, there is a critical mass, but we also have to accelerate the adaptation of our organisation. We did not think we would finish the year with such a low turnover, we were expecting several dozen or even hundreds of thousands of euros. Our SG&A has been cut significantly but we still have structures in high-cost countries, and we are trying to reorganise our deliveries among other things because our turnover in Germany is not the same as in Morocco or India, and we also have to adapt the cost structure. Our margins are not going to be great this year, but the cost of the extra downtime explains a large part of the discrepancy. We have compensated for part of the decrease in volume with our cost structure because we have had lower turnover and top line this year.

**Nicolas DAVID**

Thank you, that is clear. This is the best we can get with the visibility we have, and indeed well-summarised.

**Bruno BENOLIEL**

I do not think there are any more questions, so we will close this conference in time for the one that is about to start for Assystems. Thank you for taking part in our third quarter conference, we will see you again at the beginning of January for our conference on 2025 business. I am not sure we will have any more visibility, which usually happens in February and March, but we will know the figures for 2024.