Altran H1 2018 results

September 6th, 2018

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01.

Highlights of the period

Executive summary - H1 performance

Growth across all European countries except Benelux, **Altran US reaching double-digit growth.** Investments translating into double digit growth in software engineering, semiconductor & electronics, space & defense

Solid operating margin at 10.1%

Adjusted* net income at €57 million

Free Cash Flow mostly impacted by Aricent acquisition and working capital variation

Pipeline development:

- **Industrialized services** : very significant traction in Automotive, Aerospace & Semiconductors. Accelerated pace of landmark projects signed or in advanced talks (total contracts value >€200m over 3 years)
- **High Value Services**: growing demand for our solutions in AI/Analytics and Smart Manufacturing - strong pipe of synergies with frog®
- **Mainstream R&D services**: accelerated Net Hiring in Q2 ; ambitious recruitment campaigns rolled out Q2/Q3 (notably France)

**adjusted for PPA arising from Aricent acquisition, acquisition fees, insurance premium, one-offs related to the Group refinancing, integration costs, net of tax impacts.*

Executive summary - Aricent

External investigation confirms Aricent pre-acquisition **incident was an isolated event.**

Integration plan **on track** versus initial roadmap

Targeted action plan launched early July **to restore Aricent margin to previous profile before year-end.**
Current margin profile of c. 15.6% on a LTM June 2018 basis, as communicated on 13 July.

Growing momentum of common customer engagements **to support future growth**

H1 2018 Financial snapshot

REVENUES

€ 1,373m

+18.5% (reported) vs. H1'17
+5.2% (economic) vs. H1'17
Aricent contribution: €162m

OPERATING MARGIN

€ 138.5m

+28.8% vs. H1 2017
Aricent contribution: €27.4m

MARGIN

10.1%

+80bps vs. H1 2017

NET INCOME
(CONTINUED OPERATIONS)

€ 10m

-81.9% vs. H1 2017

ADJUSTED NET INCOME*
(CONTINUED OPERATIONS)

€ 57m

+2.2% vs. H1 2017

FREE CASH FLOW**

€ (225)m

o/w c.€(124)m linked to Aricent transaction***
vs. € (14)m in H1 2017

** adjusted for PPA arising from Aricent acquisition, acquisition fees, insurance premium, one-offs related to the Group refinancing, integration costs, net of tax impacts.*
*** Free Cash Flow after paid finance cost*
**** see details on page 17*

02.

H1 2018 financial results

H1 2018 financial highlights

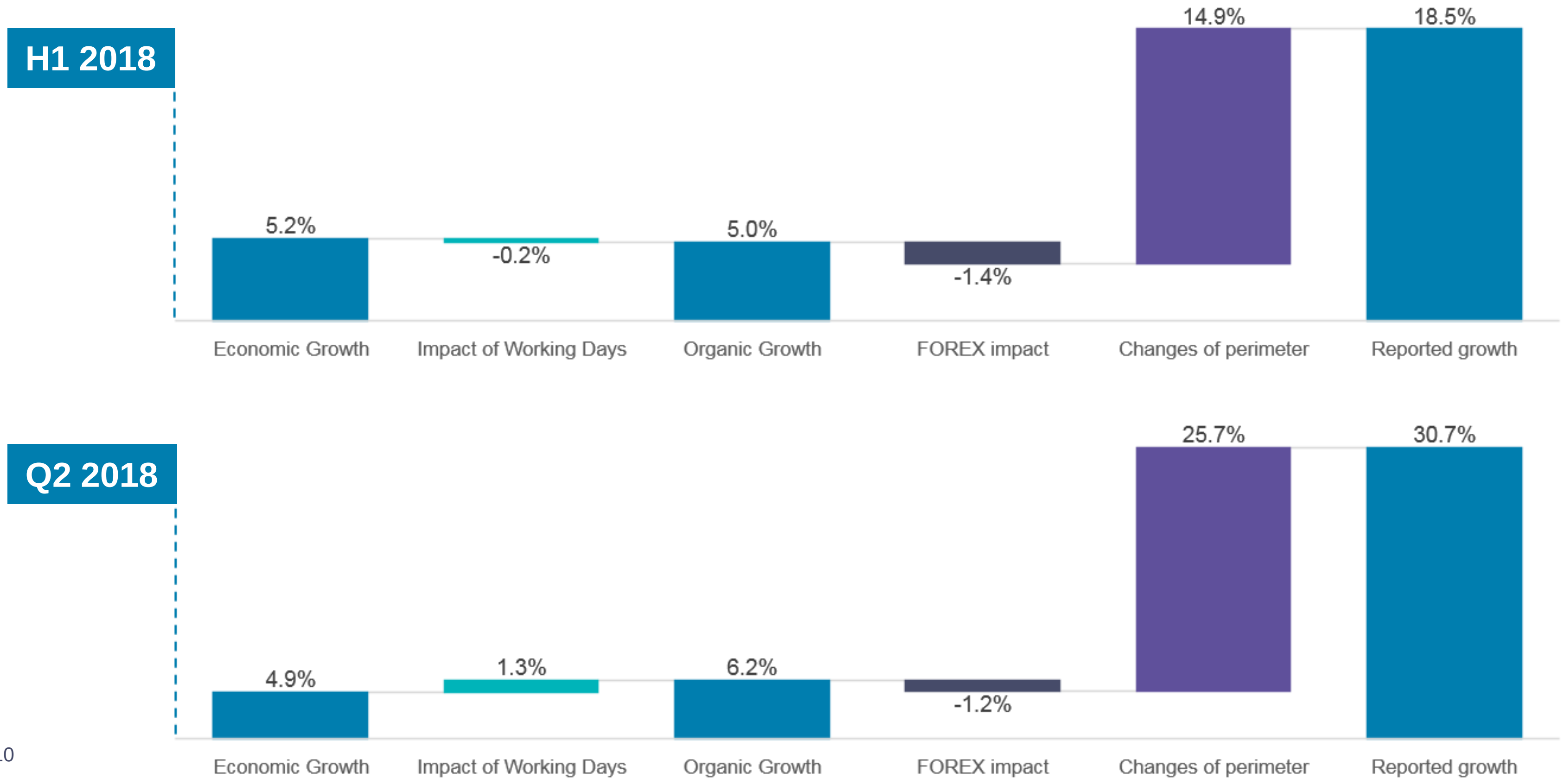
Solid operating performance, delivering 10.1% operating margin

Free Cash Flow mostly impacted by the transaction and working capital variation

Long-term financing in place at attractive conditions

H1 not reflective of the full-year due to transaction-related items and typical seasonality

Economic to reported growth



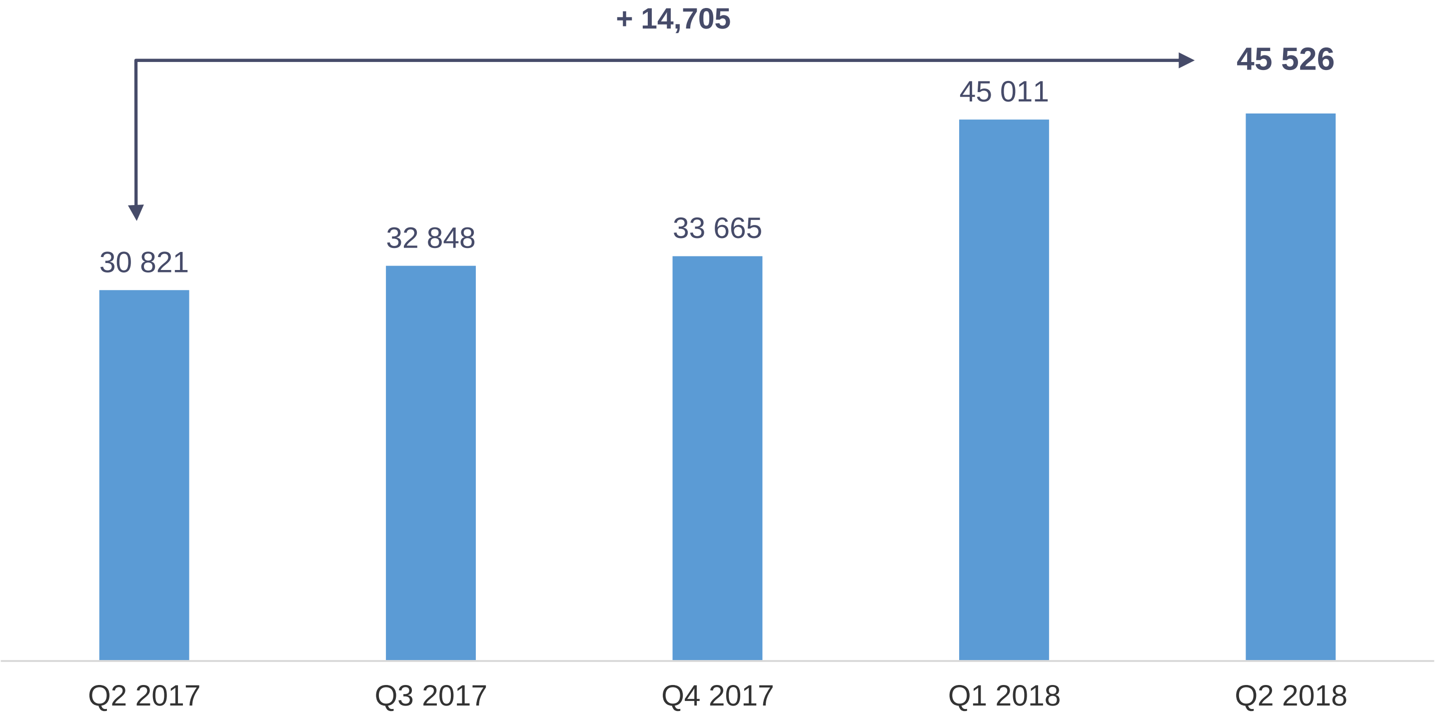
Steady growth in Q2 and in H1

(in €m)	First Half				Second Quarter			
	2018	Reported Growth	Organic Growth%*	Economic Growth%**	2018	Reported Growth	Organic Growth%*	Economic Growth%**
FRANCE	484.5	2.9%	3.5%	4.3%	233.9	2.6%	3.3%	3.1%
EUROPE	619.5	4.1%	5.7%	5.7%	316.2	6.6%	7.9%	4.5%
Germany & Austria	144.5	4.0%	6.9%	7.1%	74.4	4.1%	5.9%	4.1%
Iberia	130.2	12.2%	12.3%	12.1%	67.8	16.7%	16.7%	14.3%
Italy	117.8	8.2%	8.1%	7.3%	59.6	7.2%	7.1%	5.5%
Belgium & Netherlands	79.4	-5.5%	-4.9%	-4.1%	38.9	-2.5%	-1.9%	-1.9%
UK	98.9	5.2%	3.7%	3.7%	51.3	11.3%	9.1%	7.5%
Scandinavia	32.6	-9.4%	3.1%	3.1%	15.9	-7.6%	7.2%	5.5%
Switzerland	16.1	-5.3%	3.1%	3.9%	8.3	0.0%	8.6%	7.0%
AMERICAS	252.2	227.1%	10.5%	9.7%	187.9	384.3%	12.1%	9.5%
ASIA (China)	16.5	8.6%	-2.3%	-3.5%	8.8	12.8%	-1.6%	-0.4%
TOTAL	1,372.7	18.5%	5.0%	5.2%	746.8	30.7%	6.2%	4.9%

* Organic growth calculated on a constant forex and perimeter

** Economic growth calculated on organic growth at constant working days

H1 resources



Net hiring: +914
end of Jun 2018 vs. Dec. 2017
o/w +1,115 at Altran

Improvement in operating performance, net profitability being impacted by acquisition related items

Income statement (*in €m*)	H1 2018	H1 2017	%
Revenues	**1,372.7**	**1,158.0**	*18.5%*
Net operating expenses	(1,234.2)	(1,050.5)	
Operating margin	**138.5**	**107.5**	*28.8%*
% of revenues	*10.1%*	*9.3%*	
Other expenses	(69.9)	(16.0)	
Operating income	**68.6**	**91.5**	*-25.0%*
Net financial expenses	(53.8)	(14.1)	
Income tax	(5.0)	(23.1)	
Share of net income of associates		(0.2)	
Net Income before discontinued operations	**9.8**	**54.1**	*-81.9%*
Net income from discontinued operations	**(0.2)**	**0.6**	*-133.3%*
Non-controlling interests	(0.1)		
Net income (Group share)	**9.5**	**54.7**	*-82.6%*
Adjusted net income (Group share)	**57.5**	**56.2**	*2.2%*

All reported figures include Aricent from 20 March 2018 and fully reflect the implementation of IFRS15. Financial statements for H1 2017 have been restated accordingly.

Details of net operating expenses and other expenses

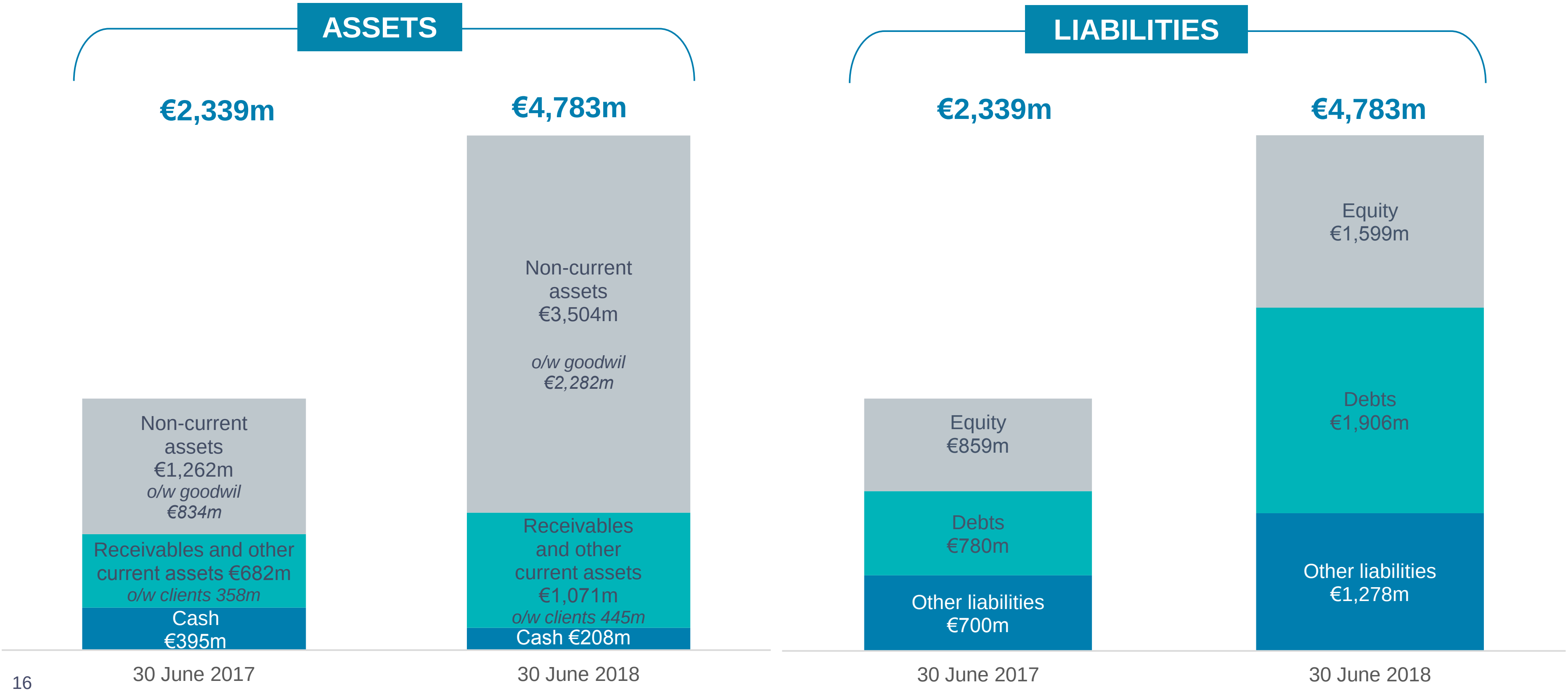
(in €m)	H1 2018	H1 2017
Cost of revenues	(995.6)	(843.6)
o/w amortization of large software deals	*(7.3)*	
Selling, General & Administrative expenses	(238.6)	(206.9)
Net operating expenses	**(1,234.2)**	**(1,050.5)**

(in €m)	H1 2018	H1 2017
Amortization of intangibles arising from business combinations	(26.4)	(2.2)
Restructuring costs	(14.8)	(7.3)
Acquisition & integration costs	(27.5)	(2.6)
Litigations and miscellenaeous	(0.4)	(1.6)
Share based compensation	(0.8)	(2.3)
Other expenses	**(69.9)**	**(16.0)**

Increase in net financial expenses driven by increase in net debt resulting from Aricent acquisition and non recurring items

(in €m)	H1 2018	H1 2017
Interest expenses on borrowings	(25.2)	(4.3)
Other interest income and expenses	0.3	(2.0)
Cost of net financial debt	**(24.9)**	**(6.3)**
Other financial items	(28.9)	(7.8)
o/w financial items related to Aricent acquisition	*(23.9)*	
Net financial expenses	**(53.8)**	**(14.1)**

Balance sheet evolution reflects Aricent deal



Free Cash Flow mostly impacted by the acquisition and working capital variation

	(in €m)	H1 2018	H1 2017	
2	**Operating margin**	**138.5**	**107.5**	3
	Depreciation, Amortization and changes in Provisions	25.1	11.3	
	Non-cash P&L items	(0.2)	(3.6)	
	Non recurring items (cash impact)	(24.4)	(18.5)	3
	CASH FLOW	**139.0**	**96.7**	
	Change in WCR	(168.8)	(63.0)	3
1	*o/w one-offs related to the acquisition*	*(18.0)*		
	Capital expenditures	(69.4)	(28.5)	3
2	*o/w capital expenditures - payments on Large software deals*	(32.0)		
	Net interest and financial expense paid	(105.5)	(5.9)	
1	*o/w one-offs related to the (re)financing*	*(84.6)*		
2	*o/w interests on Aricent financing debt*	(16.0)		
	Tax paid	(20.1)	(13.0)	
	FREE CASH FLOW	**(224.8)**	**(13.7)**	

(35)	**Shift of invoicing**
(48.7)	**H1 2017 normalized FCF**

Main items explaining the €175 m variation vs. H1 2017 normalized Free Cash Flow

❶

ACQUISITION-RELATED OUTFLOWS
-€116m

Costs linked to the debt (re)financing	-€85m
Impact of the transaction on Working Capital	c.- €31m

One-time event

❷

NEW CASH ITEMS INDUCED BY ARICENT IN H1
-€8m

Cash flow from operations *(3 months 12 days)*	c.+ €40m
Cash commitments from software deals (*6 months)*	- €32m
Interest expenses on debt *(3 months 12 days)*	- €16m

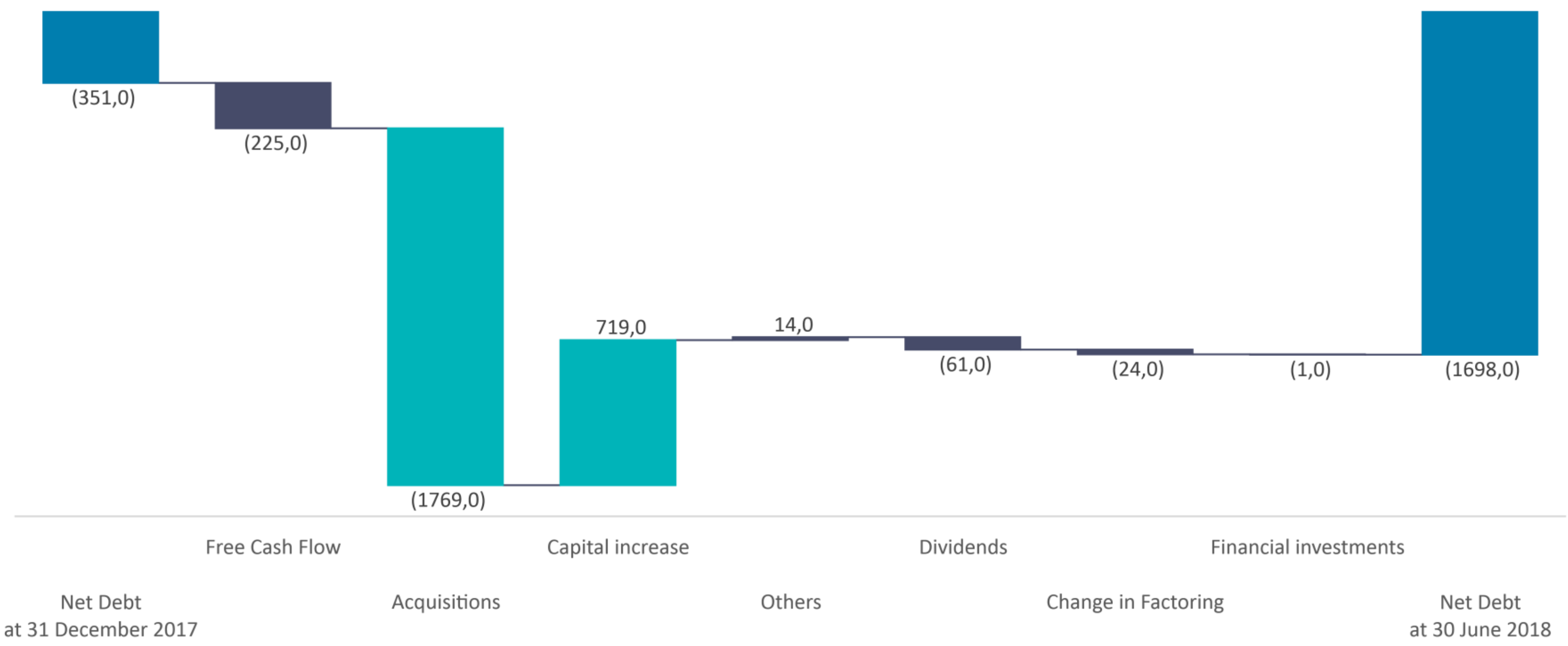
Recurring items looking ahead / full year impact to expect

❸

ALTRAN Y/Y FCF VARIATION
-€51m

Cash flow from operations	+ €7m
Additional CAPEX	- €6m
Non recurring items and tax paid	- €12m
Change in working capital	- €40m

Net debt evolution reflects Aricent financing



New long-term financing in place at attractive conditions

€m	June 2018 utilized	June 2018 available
Term Loan B	1587.8	
Revolving Credit Facility	0.0	250.0
Commercial Paper (NEU CP)	250.5	249.5
Consolidated factoring debt	54.5	
Other	14.0	28.5
Total gross debt	**1905.8**	**528.0**
Cash & Cash Equivalents	**208.2**	
Consolidated net debt	**1697.6**	
Factoring	177.0	170.0
Deconsolidated factoring (excluding security deposit)	122.5	
Consolidated factoring debt	**54.5**	
Total available committed and uncommitted credit lines		**698.0**

Net debt as of 30/06/2018: €1,697.6m

H1 net cost of debt 2.05%
Normalized cost of debt c.3%

Proforma Financial Leverage ratio: c. 4.2x*

* incl acquisitions proforma EBITDA 12 months and net debt excluding acquisitions differed payments/earn-outs

03.

Update on Aricent

Update on the incident

FACTS	**STATUS** as of 6 Sept. 2018 and **NEXT STEPS**

FACTS

- 13 July: Announcement of a pre-acquisition incident with financial implications
- $10m forged purchase orders over Q3'17 to Q1'18 from one individual related to one client only
- Reassessment of Aricent margin profile down from 18.3% (LTM 09/17) to 15.6% (LTM 06/18, unaudited) due to:
    - $10 m forged PO
    - in the context of this inflated profit, misguided decisions on spending, and on additional investments which have not yet materialized in expected growth
- External investigations immediately launched

STATUS as of 6 Sept. 2018 and **NEXT STEPS**

- External investigations confirm the incident as an isolated one.
- Complete overhaul of Aricent internal control underway to reach highest standards.
- Targeted action plan launched early July to restore Aricent margin to previous profile. Good confidence it will bear expected fruits by year-end
- Counsels to advise on the next legal steps. Decision to be agreed by the Board of Directors. Not to be discussed at this stage.

Update on the convergence program and synergies

2018

- **Integration:**
  - Common Go to Market for key customers in place
  - North America operations under unified management
  - Semiconductors & electronics under unified management
  - Delivery in India convergence started
  - Value proposition convergence underway
  - Aricent finance processes integrated into Altran

- **Top line synergies :**
  - 15 common wins to date and 80+ opportunities in the pipe, across innovation & design, cybersecurity, analytics, software engineering, field testing, …

2019

- Service models aligned
- US build-up integrated
- Talent management unified

2020

- Target Operating Model rolled out
- Synergies totally delivered
- Group ERP running
- Legal & tax structure simplified

04.

Conclusion

Conclusion

1 **Solid H1 operating performance and completion of a transformative deal**

2 **Forgery at Aricent confirmed as an isolated event – integration on track**

3 **Team fully focused on top line growth acceleration, profit expansion and cash conversion**

Appendix

GLOSSARY

In accordance with the AMF's position « DOC 2015-12 » applicable as of July 3, 2016, please find below the definitions of the alternative performance indicators

1. **Operating margin** is made up of the difference between the revenues and the net operating expenses
2. **Organic growth** is the reported growth restated for the impact of perimeter and change effects
3. **Economic growth** is the organic growth restated for the variation in the number of working days
4. **FCF**: Operating margin + D&A + non-cash P&L – non-recurring items +/- WCC – Capex – net interest and financial expense paid – tax paid

Market view & Altran performance by industry (1/2)

	Automotive 21% of revenues	Aerospace/Defense 18% of revenues	Energy 6% of revenues	Industries 6% of revenues
Market growth	• Continuous traction on digitization, connectivity, autonomous driving and electrification from OEMs & Tier 1s. • High traction from customers on new manufacturing processes (e.g. IoT, ALM). • Innovation and product value increasingly defined by software.	• Strong order backlog (35K new aircrafts by 2036), leading to manufacturing ramp-up and search for productivity. • Civil aircraft market consolidation (e.g. Airbus/Bombardier, Boeing/Embraer). • Equipment manufacturers still driven by investments in new technologies. • Fast growth of space and defense market due to international context and digitalization.	• Overall energy sector still in crisis – market driven by digitalization, nuclear, renewables and distributed generation. • Nuclear market growing with 50 plants in construction and 160 planned (e.g. 15 in India).	• Growing propensity towards digitization, enhanced efficiency and cost optimization. • Growing demand of the different segments of industry 4.0: discrete and machine automation, advanced robotics and predictive maintenance.
Altran Performance	• Confirmed success of our Industrialized GlobalShore® model, with a flagship project won with a leading OEM. • Reinforced positioning in Connectivity and HMI thanks to Aricent and frog design capabilities. • Performance slowed down by 2 customers over the semester.	• Good traction with European OEMs on Customer Services activities, Analytics and IoT. • Weak performance on standard engineering (e.g. aero-structure, embedded SW). • Strong positioning in engineering manufacturing to support end to end production ramp-up & digitization.	• Business back to growth in Nuclear and Wind (large deals and increasing success of Industrialized GlobalShore®). • Growing traction on digitalization solutions amongst all segments.	• Growing traction on Industry 4.0 leveraging the WCC Advanced Manufacturing, IoT Solutions and Analytics. • On Consumer goods, traction on customization deals through our Innovation & Design WCC.

Key: Low growth Medium growth High growth

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Market view & Altran performance by industry (2/2)

	Life Sciences 9% of revenues	Communications 16% of revenues	Semiconductor & Electronics 6% of revenues	Software & Internet 6% of revenues
Market growth	• Overall dynamic market , especially for Digital Health, together with important clients' strategic moves to refocus on added-value domains. • The important re-organization trends (e.g. large M&A) of some of the big players are temporarily slowing down the ER&D market in Europe.	• Telco players leveraging Cloud and Digital to improve efficiency, while preparing the launch of 5G Trials. • Strong consolidation through M&A activities, especially in the US (Sprint's acquisition by T-Mobile, AT&T and Time Warner…).	• Excluding memory, growth led by FPGAs & ASSPs in automotive, industrial and data processing, 32-bit MCUs CMOS & photo sensors. • Growing demand in verticals for dedicated chips to support AI, HMI/UX, VPAs & similar emerging IoT/ connectivity technologies to gain early-mover advantage.	• High growth in the Consumer & Internet and New Age Enterprise market segments. • Medium to high growth in the traditional enterprise segment. • Clients are increasingly looking to engineering services companies to solve for both "time" and "cost."
Altran Performance	• Reinforcement of partnerships with our main clients, leveraging World-Class Centers and Industrialized GlobalShore®. • Partner of Sanofi for their world-wide "Factory of the Future" program.	• Good performance of Advanced Networks World-Class Center, supporting key operators on 5G development projects and Use cases. • Revamping our global approach and strategy following the Aricent acquisition.	• Growth driven by scale, broad full-service capability and ongoing consolidation as well as growth in China. • High growth in semiconductors, leveraging our Industrialized GlobalShore® model in India.	• High growth with small & mid-size customers on the US West Coast. • Significant vertical integration in large R&D spenders, enabling Altran to sell our diverse portfolio of services from software to hardware and support. • Strong traction for digital transformation offerings.

Key: Low growth Medium growth High growth

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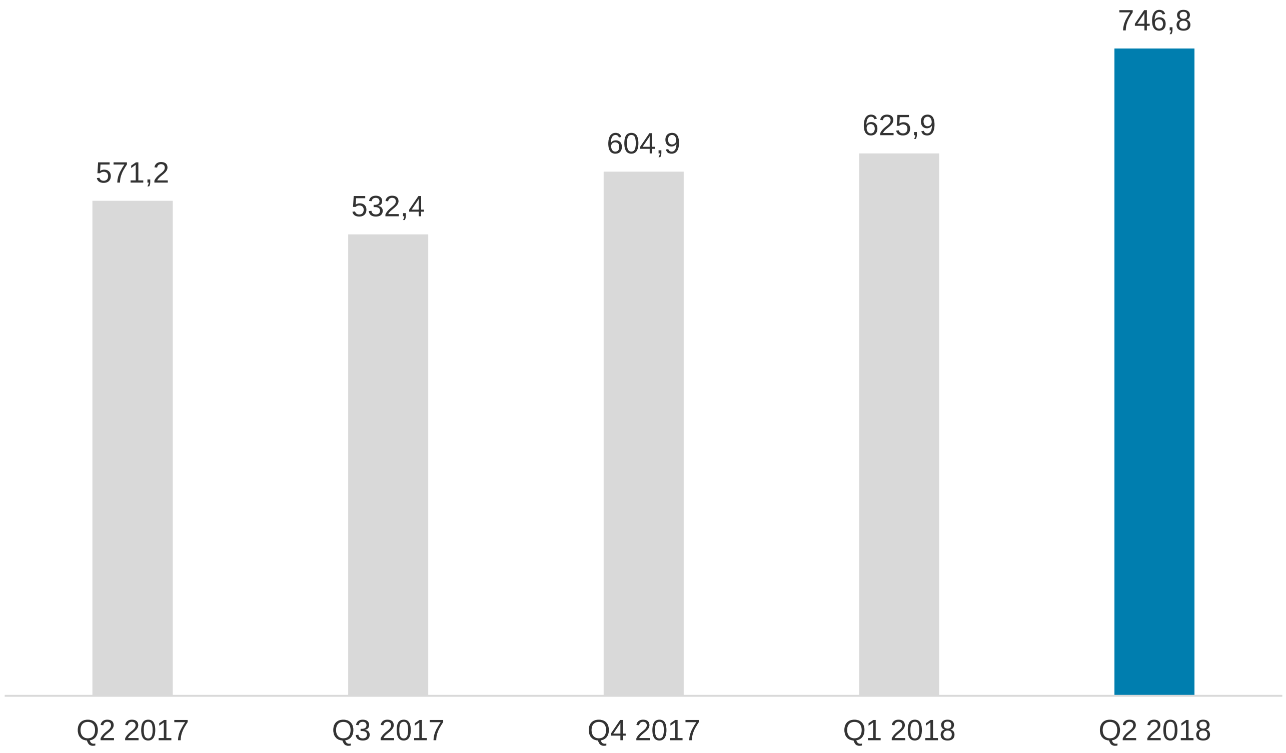
Quarterly revenues change (in €m)



Balance sheet - assets (in €m)

	June 2018			Dec. 2017
	Gross value	Amort. And Prov.	Net Value	Net value
Net Goodwill	**2,470**	**(188)**	**2,282**	**902**
Intangible assets	**918**	**(169)**	**749**	**90**
Land and buildings	67	(8)	59	41
Other property, plant and equipment	260	(179)	81	51
Property, plant and equipment	**327**	**(187)**	**140**	**92**
Investments in associates	**-**	**-**	**-**	
Non-current financial assets	**60**	**(4)**	**56**	**39**
Deferred tax assets	**118**	**(18)**	**100**	**96**
Non-current tax assets	**159**	**(1)**	**158**	**117**
Other non-current assets	**23**	**(5)**	**18**	**5**
Total non-current assets	**4,075**	**(572)**	**3,503**	**1,341**
Inventory and work in progress	**2**		**2**	**2**
Advances to suppliers	2		**2**	
Trade receivables and related accounts	453	(8)	445	358
Other receivables	322		322	136
Trade accounts and other receivables	**777**	**(8)**	**769**	**494**
Assets relating to contracts with customers	**290**		**290**	**128**
Current financial assets	**12**	**(1)**	**11**	**13**
Cash equivalents	**6**		**6**	**204**
Cash	**202**		**202**	**169**
Total current assets	**1,289**	**(9)**	**1,280**	**1,010**
TOTAL ASSETS	**5,364**	**(581)**	**4,783**	**2,351**

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Balance sheet - liabilities (in €m)

	June 2018	Dec. 2017
Shareholder's equity	**1,599**	**891**
Total non-current liabilities	**2,000**	**146**
Bonds (>1 year)	-	
Bank loans and borrowings (>1 year)	1,596	
Other non-current financial liabilities	(2)	1
Non-current financial liabilities	**1,594**	**1**
Non-current provisions for contingencies and liabilities	89	48
Non-current employee benefits	61	39
Non-current liabilities for fixed assets	67	-
Deferred tax liabilities	174	19
Non-current liabilities for securities	-	33
Other long-term liabilities	15	6
Other non-current liabilities	**406**	**145**
Total current liabilities	**1,184**	**1,314**
Suppliers and other current payables	**716**	**472**
Trade payables and related accounts	162	136
Taxes payable	223	111
Current employee benefits	252	214
Current liabilities for fixed assets	71	4
Other current payables	8	7
Liabilities relating to contracts with customers	**81**	**96**
Other current liabilities	**387**	**746**
Provisions for short-term risks and charges	18	17
Current liabilities for securities	57	6
Current financial liabilities	312	723
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**4,783**	**2,351**

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H1 & FY 2017 income statement restated for IFRS15 (in €m)

	H1 2017 (published)	IFRS15	H1 2017 (restated)	2017 (published)	IFRS15	2017 (restated)
Revenues	1,151.8	6.2	1,158.0	2,282.2	13.1	2,295.3
Other operating income	30.1		30.1	69.4		69.4
TOTAL OPERATING INCOME	**1,181.9**	**6.2**	**1,188.1**	**2,351.6**	**13.1**	**2,364.7**
Purchases & external expenses	(245.8)	(6.2)	(252.0)	(487.7)	(13.1)	(500.8)
Personnel costs	(817.0)		(817.0)	(1,607.4)		(1,607.4)
Taxes	(2.0)		(2.0)	(2.9)		(2.9)
Amortization and provisions	(11.9)		(11.9)	(7.3)		(7.3)
Customer-relationship amortization / Goodwill depreciation	(2.2)		(2.2)	(4.3)		(4.3)
CURRENT OPERATING INCOME	**103.0**	**0.0**	**103.0**	**242.0**	**0.0**	**242.0**
Non recurring Income / Losses	(11.5)		(11.5)	(39.0)		(39.0)
OPERATING INCOME	**91.5**	**0.0**	**91.5**	**203.0**	**0.0**	**203.0**
Cost of net financial debt	(6.3)		(6.3)	(11.8)		(11.8)
Other financial income / losses	(7.8)		(7.8)	(8.3)		(8.3)
Shares of net income of associates	(0.2)		(0.2)	(0.4)		(0.4)
Corporate income taxes	(23.1)		(23.1)	(42.8)		(42.8)
NET INCOME BEFORE DISCONTINUED OPERATIONS	**54.1**	**0.0**	**54.1**	**139.7**	**0.0**	**139.7**
Net profit/loss on discontinued operations	0.6		0.6	(8.9)		(8.9)
Non-controlling interest			0.0			0.0
GROUP NET INCOME	**54.7**	**0.0**	**54.7**	**130.8**	**0.0**	**130.8**

Income statement (in €m)

	H1 2018	H1 2017
Revenues	1,372.7	1,158.0
Other operating income	37.1	30.1
TOTAL OPERATING INCOME	**1,409.8**	**1,188.1**
Purchases & external expenses	(298.5)	(252.0)
Personnel costs	(950.0)	(817.0)
Taxes	(2.3)	(2.0)
Amortization and provisions	(21.3)	(11.9)
Customer-relationship amortization / Goodwill depreciation	(26.4)	(2.2)
CURRENT OPERATING INCOME	**111.3**	**103.0**
Non recurring Income / Losses	(42.7)	(11.5)
OPERATING INCOME	**68.6**	**91.5**
Cost of net financial debt	(24.9)	(6.3)
Other financial income / losses	(28.9)	(7.8)
Shares of net income of associates		(0.2)
Corporate income taxes	(5.0)	(23.1)
NET INCOME BEFORE DISCONTINUED OPERATIONS	**9.8**	**54.1**
Net profit/loss on discontinued operations	(0.2)	0.6
Non-controlling interest	(0.1)	0.0
GROUP NET INCOME	**9.5**	**54.7**
ADJUSTED NET INCOME	**57.5**	**56.2**

Income statement (in €m) / Geographical data – IFRS 8

	Revenues			Operating margin		
	H1 2018	H1 2017	%	H1 2018	H1 2017	%
France	484.5	470.8	2.9%	54.6	55.6	-1.8%
Europe	619.5	594.9	4.1%	47.9	47.2	1.5%
Americas	252.2	77.1	227.1%	35.9	4.5	697.8%
Asia (China)	16.5	15.2	8.6%	0.1	0.2	-50.0%
TOTAL	**1,372.7**	**1,158.0**	**18.5%**	**138.5**	**107.5**	**28.8%**

** Consolidating Aricent as at 20 March 2018*

Cash flow statement (in €m)

	30 June 2017	31 December 2017	30 June 2018
OPENING NET DEBT	**(209.6)**	**(209.6)**	**(351.1)**
Operating income before Customer-relationship amortization / impaiment losses	105.2	246.3	137.7
Net operating depreciations and amortizations	12.0	9.3	24.0
Non-cash P&L items	(2.0)	(1.1)	1.7
Non recurring items (cash impact)	(18.5)	(29.4)	(24.4)
CASH FLOW before net interest expenses and taxes	**96.7**	**225.1**	**139.0**
Working capital requirement	(72.7)	(4.6)	(177.6)
Tax paid & change in tax liabilities & assets	(13.0)	(44.9)	(20.1)
Interest paid & other financial charges	(5.9)	(11.1)	(105.5)
Net cash flows from discontinued operations	6.6	(3.0)	(0.2)
NET CASH FLOW GENERATED BY OPERATIONS	**11.7**	**161.5**	**(164.4)**
Earn-outs		(0.4)	0.1
Scope change	(32.1)	(111.0)	(1,768.6)
Capex	(28.5)	(57.5)	(69.4)
Others	(4.1)	(3.0)	(4.0)
Net cash from investments made by discontinued operations	(0.1)	0.1	0.0
NET CASH FLOW RELATED TO INVESTMENTS	**(64.8)**	**(171.8)**	**(1,841.9)**
Capital raised			718.8
Share buy-back	(1.0)	(1.6)	0.1
Dividends	(41.5)	(41.5)	(60.9)
Timing differences factor deconsolidation	(76.5)	(78.1)	(23.6)
Other financing transactions	(1.4)	(3.9)	57.6
Net cash from financing activities of discontinued operations	0.0	0.0	0.0
NET CASH FLOW GENERATED BY FINANCING TRANSACTIONS	**(120.4)**	**(125.1)**	**692.0**
Foreign exchange rate impact	(1.6)	(6.1)	(32.2)
Change in net debt	(175.1)	(141.5)	(1,346.5)
CLOSING NET DEBT	**(384.7)**	**(351.1)**	**(1,697.6)**

64% of or total gross debt is protected against interest rates increases by caps

Gross debt by rate type