

Transcripts

France



# Atos SE (AEXAF) Q4 2022 Earnings Call Transcript

Mar. 01, 2023 10:38 AM ET | Atos SE (AEXAF), AEXAY



**SA Transcripts**

134.85K Followers

**Play Earnings Call**

Atos SE ([OTCPK:AEXAF](#)) Q4 2022 Earnings Conference Call March 1, 2023 2:00 AM ET

## Company Participants

Nourdine Bihmane - Group Chief Executive Officer & Co- Chief Executive Officer, Tech Foundations

Philippe Oliva - Group Deputy Chief Executive Officer & Co- Chief Executive Officer, BDS & Digital-Evidian

Diane Galbe - Senior Executive Vice President

Nathalie Senechault - Chief Financial Officer

## Conference Call Participants

Frederic Boulan - Bank of America

Laura Metayer - Morgan Stanley

Laurent Daure - Kepler

Mohammed Moawalla - Goldman Sachs

Alexandre Faure - BNP Paribas

Nicolas David - ODDO BHF

**Nourdine Bihmane**

Thank you, operator and good morning, everyone, and thank you for joining us for the presentation of the Atos' Full Year Results for 2022. I'm Nourdine Bihmane, Group CEO and Co-CEO in charge of Tech Foundation, and I have with me today Diane, Group Senior Executive Vice President; Philippe Oliva, Co-CEO in charge of Evidian; and Nathalie Senechault, our Group CFO.

For the agenda today, Philippe and I will first share the highlights of the group performance in 2022. We will then cover the performance of Tech Foundation and Evidian. Diane will then provide an update on the significant progress we have made in our transformation project, and Nathalie will then go through our financial performance. And at the end, we will share with you our outlook before going to Q&A.

As you know, 2022 was an eventful year for Atos. The key event was the announcement in June of our strategic transformation plan, which we began to execute immediately. Through this strategic plan and thanks to the strong commitment of our 111,000 employees our transformation is already well underway.

In terms of financial performance 2022 was a tale of two halves as we delivered a strong recovery in all KPIs in the second half enabling us to achieve our full year objectives. In Q4 in particular, we recorded a significant pickup in our commercial momentum with a book-to-bill of 112%, which renewed commercial traction, demonstrate Atos' strong position in its core markets and the enduring attractiveness of the group's offering. In addition, we have made good progress in focusing our portfolio on core offerings that are differentiated and meet emerging customer needs.

Moving forward, we are embracing 2023 with confidence. While we are mindful of the current macroeconomic context we see ahead of us a wealth of opportunities and are confident in our capacity to continue improving our performance throughout the year.

Finally, we have achieved significant progress towards our envisioned separation within only eight months and we are on a clear path for completion in H2 of 2023. This separation will be a turning point in the group's history unleashing the potential of both future entities and maximizing value for all our stakeholders.

Looking now at our key financial figures at the group level. 2022 Atos returned to growth. Our revenue reached €11.3 billion growing 1.3% at constant currency, which is at the high end of our guidance. We stabilized our revenue organically with a continued improvement throughout the year quarter-after-quarter.

Operating margin was 3.1%. I will remind you that in H1 our operating margin was 1.1%. So in H2 with the team we managed to drastically improve the margin to 5.1% despite continued cost inflation. This was driven by significant actions focused on improving structural cost, underperforming contracts and pricing.

Free cash flow was minus €187 million in 2022. Excluding the costs related to the group transformation plan, free cash flow was in fact minus €58 million better than the group 2022 objective of minus €150 million. Nathalie will elaborate on this point later during the call.

Net debt was minus €1,450 million at the end of December resulting in a 2.4 OMDA ratio providing a really large headroom for our covenant of 3.75. Headcount at the end of the year was 110,797.

Let's go now into more detail about our human resources in the next slide. Our headcount was slightly up by circa 1,700 people net over the year. However, you may remember that we were close to 112,200 at the end of June. This means that we decreased by a net 1,400 people in H2. This is the result of more selective hiring in H2 as we said with circa 13,000 hiring compared to the 16,000 in H1 and more restructuring which doubled in Q4 versus Q3 as we started to implement our transformation plan in countries such like the US or UK.

Lastly in September for the first time, Atos was listed as one of the Europe Best Workplace in the Great Place to Work 2022 annual list. As of today, we have achieved Great Place to Work certification in 19 countries and we are expecting twice this number in addition over the coming weeks, representing an all-high time in the number of countries and in our employee positive engagement. We continue investing in our people with more than 85,000 certification achieved in 2022.

So to summarize this slide, Atos remains an attractive employer. We continue to focus on offshore and nearshore locations, representing 62% of the new hire in 2022. And at the same time, we started in H2 to be more selective in hiring and to accelerate our restructuring in line with our plan.

So now looking in detail at Tech Foundation, and I would like to start by thanking the entire Tech Foundation team for the impressive turnaround they achieved already in H2. In 2022, we delivered fast and tangible first result on our strategic road map, which I remind, is based on three pillars: Refocus, Recover and Rebound.

In Refocus, we mobilized our team around an ambitious turnaround project and put full focus back into the business. We managed to pass on some price increase to our customers around €50 million in 2022 in order to mitigate cost inflation. In addition, a comprehensive set of actions were initiated to reshape our portfolio by reducing our exposure to some BPO and to the value-added resale. Additionally, you have seen that we announced also the strategic sale of UCC with Mitel Networks.

In our second pillar, Recover, in 2022 we took major steps to start reducing costs, in particular significant adjustment of our cost base in the US and UK. Overall, we executed on the €100 million of run rate cost action driven by reduction in high-cost country headcount. We launched strong action to reduce also underperforming contracts.

And our third pillar, Rebound, we increased add-on revenue on our existing contracts, drove revenue retention as our win rate on renewal was 10 points higher in 2022 than in 2021 and we're successful in winning new logos and large deals. We accelerated building partnerships to enhance our cloud offering and upscale our delivery. We also revitalized our project road map for Edge, Sovereign Cloud and Public Cloud offering.

Furthermore, we have reduced by 40% our number of offerings in 2022 as to reposition our portfolio around the area of strength, which are global leadership in managed infrastructure services and employee experience, European leadership in private hybrid and sovereign cloud, visionary offering in managed services enabled by AI and we continue pioneering tech in decarbonization.

Looking now at Tech Foundation performance on slide 10. Tech Foundation revenue was slightly in excess of €6 billion. In 2022, our top line momentum improved dramatically as we were down only 1.6% organically, which is a sharp improvement compared to the minus 11.4% in 2021.

You remember we achieved an earlier than anticipated organic growth in Q3. And in Q4 we accelerated the rationalization of our portfolio as we tackled large underperforming contracts, particularly in BPO pensions and further reduced value-added resale. Excluding non-strategic activities, BPO and VAR, where revenue was deliberately reduced as well as UCC, Tech Foundation core business grew organically by circa 1% in Q4.

Also interesting to highlight is that our core infrastructure business, which accounts for roughly one-third of the Tech Foundation revenue, declined by circa minus 5% in 2022, excluding VAR. So we are now back in line with the market.

Digital Workplace, where we are world leaders serving more than five million users, recorded a robust growth so did Professional Services unit, which is a structurally growing and profitable business.

Operating margin was 1.3% for the year turning positive three years ahead of the plan. Further, our margin in H2 was 3.6%, we presented a 470 basis point improvement over H1 driven by significant cost actions we took.

Let's now focus on our commercial momentum. Overall, you will see a significant acceleration in our commercial momentum quarter-over-quarter. In Q4, Tech Foundation book-to-bill picked up at 94% compared with the 83% in Q4 last year. We are clearly starting to reap the benefits of our refocused commercial strategy while being carefully selective on the new contracts we take in, in order to drive our margin up.

Looking at the key metrics. We significantly increased our order entry by 16% with cross-sell and up-sell growing overall by 20%. In particular, new logo increased by 50% which is a significant improvement versus 2021. Furthermore, we are back on the large deal front. Order entry from large deal I mean more than €50 million grew to 20% of the mix and we aim to continue to drive this even higher.

I will mention two examples. We signed an eight year partnership with the European Soccer League, UEFA to provide a comprehensive and secure end-to-end digital solution. We won also a large contract for an industry-leading digital workplace engagement extension with a large worldwide health care company. We also win another new logo where we will provide as well digital workplace services over three years to a newly formed global consumer companies.

Lastly, a word about the strategic partnership we signed with AWS late November. This type of partnership between infrastructure player and hyperscaler is really demonstrating the shift to accelerate workload migration to the cloud and achieve digital transformation for our customers. Atos has selected AWS at its preferred enterprise cloud provider and AWS named Atos as a strategic partner for IT outsourcing and data center transformation. As of today, we already have jointly built a pipeline of circa US\$0.5 billion and launched a group-wide up-skilling program in AWS certification since the announcement.

So with all those good news, I will now pass on to Philippe.

**Philippe Oliva**

Thank you, Nourdine, and good morning everyone. Regarding Evidian, we also had a very dynamic and productive year. So we position our strong value proposition around our key differentiation factors and unique key competitive advantage that we will build on to deliver the success that we're expecting. If I'm looking at the core building blocks that are making us unique, you can see the lead that we have global leadership in Managed Security Services emerging end-to-end cloud capabilities that we're building with 100% cloud-native operating model, very strong offering in sovereign cloud and decarbonization.

And let me insist on the fact that we are the sole European manufacturer of high-performance computers and advanced computers operating with more and more sovereignty requirements coming from the clients and from our market. Our expertise in application management and transformation is also key transition factors and all those key capabilities are leveraging and helping us out in showing our capability in everything that is related to mission-critical systems.

We have a clear road map to tap the significant synergy potential that exists between these offerings. With the aim to position Evidian as a leading provider of high value-added services and solutions to customers, we are increasingly mindful of sovereignty and security requirements. Our integration strategy of our key technology assets is uniquely positioning our company to provide innovation that matters to our clients, on advanced computing, artificial intelligence, cybersecurity and data analytics.

Now turning now to the next slide to review Evidian's performance. In 2022 Evidian delivered revenue in excess of €5.3 billion, up 4.8% at constant currency and 2% organically. As expected, growth accelerated strongly through H2 at plus 5.4% in H2 and plus 11% in Q4. This acceleration was delivered thanks to the significant ramp-up of our Advanced Computing business. But you remember is following a very strong order entry that we delivered in Q2, not only on high-performance computers which ramped very strongly in Q4, but also in our advanced servers and high-end servers where we have key differentiating expertise on both the performance side, but also the decarbonization side.

Also what I want to highlight is the steady strong growth in cybersecurity services, where Evidian is capitalizing on our global leadership and where basically we are continuously gaining market share in the market growing faster than the market growth. We're also seeing a strong acceleration in digital and our cloud business.

Evidian delivered 5.2% operating margin in 2022, also with a strong improvement in H2 at 6.7% compared to 3.5% that we had in H1. This improvement was driven by all the key actions that we started to implement at the beginning of our fiscal year, better discipline on our cost base, different pricing strategy, increasing our utilization rates and availability of our workforce, and obviously higher volumes in our Advanced Computing business that facilitated our ability to absorb the fixed cost of our manufacturing plants. As you can see in H2, Evidian potential of profitable growth started to show up and we are only at the start of our journey towards our 2026 ambition.

Now turning to our commercial activity. We are continuously delivering a very strong book-to-bill in Q4, standing at 130%, driven both by BDS and Digital. We continue to be very selective in our portfolio strategy that we started to implement where we can demonstrate the power of our portfolio and our differentiation factors. This translated into more short-term signings are offering us a faster revenue yield assumptions. 51% of our Q4 bookings were less than 18 months of total contract duration compared to 43% in Q4 last year.

We also have later smaller size, which is a great demonstration of the efficiency of our sales force. 66% of our Q4 bookings were below €10 million compared to 59% in Q4 last year. Obviously, smaller deals offer a lower risk profile, but also generating a better margin potential.

In terms of significant contract that we won in Q4, I will just mention a few that illustrates our strong market positioning. First of all, we are going to install a brand-new high-performance computer of the Max Planck society, a world-leading science and technology research organization. This new system is based on the latest BullSequana HX3000 platform, and it's in its final configuration this new environment will deliver a performance that will be three times higher than the current system that Max Planck is operating.

I will remind you that we delivered six out of eight high-performance computers as HPC program, including in Italy, BullSequana, the fourth most powerful supercomputer in the world, which is a great achievement. In Cybersecurity, we also won a significant contract to Eurocontrol that is a civil military organization dedicating to supporting European navigation.

What I think is very important is that the proposed demonstration of our power in artificial intelligence on managed detection and response that is the ultimate evolution of our cybersecurity portfolio. And that's also something that is generating a significant traction on the market.

In Digital, we won a contract for major global retail company where we will design build and roll out new IT system based on mobile application embracing the new digital world and supporting, let's say, enablement platform built on Microsoft Azure. That is one more time reinforcing our cloud migration capability and strategy.

And still in Digital, we won a very large contract with Siemens to deliver next-generation integration on IT service management leveraging also our ecosystem, especially related to a brand new service management capability that matters to the seamless operation that Siemens is trying to implement.

To summarize, I'm really pleased with the momentum gradually building up at Evidian. We are clearly going in the right direction and I'm very impatient to show how much more we can progress each year, especially in 2023.

I will now hand over to Diane for an update on our transformation project.

## **Diane Galbe**

Thank you, Philippe, and good morning, everyone. So, 2022 was a pivotal year. We announced last June our strategic project to transform and split the group into two strong leaders within their respective markets in order to unlock value and implement an ambitious turnaround plan. Since then within only eight months and in addition to the strong operational recovery presented by Nourdine and Philippe we have already achieved significant progress.

First, we are pleased to announce to you today that we have now fully completed the information and consultation processes with our employee representative bodies. It did address the two key dimensions of our strategic road map namely our transformation project and our separation projects.

At European level, the consultation process was completed in a three-month period with a good collaboration. At local level, we completed all national processes in the 31 countries where such consultation was necessary. This is a major step. Then we also made significant progress with our separation work streams and our divestment program on which I will come back to shortly.

And finally, we recently announced that we received an indicative offer from Airbus to enter into a long-term strategic and technological agreements and to acquire the minority stake of 29.9% in Evidian. At this stage, our Board of Directors decided to further engage with Airbus allow a due diligence process and negotiate on mutually satisfactory terms for both potential agreements. This proposed transaction would be fully in line with our strategic plan.



Let me specify that the ongoing discussions are conducted on a non-exclusive basis and that no guarantee can be made on their outcome. As we previously stated, the group also remains committed to study all indication of interest, which would create value and support the major financial and industrial projects.

Going to the next slide. Thanks to the achievement of the progress we just described we are well on track to complete our separation in H2 2023 as announced. Our next steps are to complete all carve-out work streams so that we will be internally 100% ready by the end of H1 2023.

We would then be in a position to decide and distribute and list the share of Evidian in H2 2023 subject to our governance and general shareholder meeting approvals. We are as of today fully on track with this objective.

Moving on to our divestment program, which is another dimension of our transformation. Last June as part of our strategic plan we announced the divestment program of non-core businesses representing around €700 million of expected proceeds. After seven months, the group has already secured approximately 80% of this envelope at favorable conditions for the group.

It demonstrates the attractiveness of Atos businesses as well as our ability to deliver on our commitments and execute rapidly and efficiently. At this stage, we have closed our secured five transactions the last one being on the disposal of our UCC activity announced on January 24, which is expected to close in H2 2023. We have been very confident we will secure this entire program before year end.

To finish on this section, we would like to give you a quick overview of Atos extra financial indicators and recognition where we are a clear industry leader. The outstanding efforts and initiatives of our great Atos teams were recognized by the most prominent rating agencies.

To name only a few Atos was ranked in the top 1% of the IT services industry in the 2022 S&P Global Corporate Sustainability Assessment. Atos was awarded the EcoVadis Platinum Award for its CSR performance with the highest score ever received by the group last year. And Atos was recognized for its leadership in corporate transparency and actions on climate change by the Carbon Disclosure Project securing a place on its annual A List.

For many years now, Atos has been one of the most advanced companies in the IT industry in terms of sustainability. And we are moving forward to our envisioned spin-off with a clear intention to keep sustainability as the part of the strategy of both future entities.

With that, I'll now pass it over to Nathalie to run you through our financial results.

## **Nathalie Senechault**

Thank you, Diane and good morning everyone. I'm pleased to share with you the financial highlights of 2022. Atos achieved its objective on all financial KPIs, thanks to a strong recovery in H2 as Nourdine and Philippe explained.

You can see, these KPIs on the slide and I'm going through each of them, in detail, in this section starting with revenue and operating margin then net income, free cash flow and finally net debt. So let's start with the 2022 revenue evolution. The group recorded revenue of €11.3 billion in 2022, which means that Atos was back to growth at 4.6% and plus 1.3% at constant currency which was in the high-end of our guidance. We achieved organic stabilization in 2022 at plus 0.1%.

Scope effect represented plus 1.2% reflecting, the contribution of Cloud Edge which acquisition was finalized at the beginning of 2022, the contribution of smaller acquisitions made in 2021 and the disposal of Russians activity. Foreign exchange contributed to 3.3%, mainly coming from the appreciation of the U.S. dollar against the euro.

On the next slide you will see that Atos organic growth improved consistently throughout the year, turning positive in Q4 at plus 4.6% after a stable Q3. Note that, we did have a favorable comparison basis in Q4 notably impacted by the reassessment of a large BPO contract in the U.K. as we have mentioned at the beginning of 2022. Still our Q4 performance was solid, as Evidian was strongly up in Q4 at plus 11% while Tech Foundation decreased due to portfolio rationalization as Nourdine explained earlier.

Turning now to operating margin, we reported 3.1% in 2022, in line with our guidance. While H1 operating margin at 1.1% was impacted by several headwinds we saw a remarkable improvement in H2 at 5.1%. This was achieved thanks to a decrease in our structure costs selective hirings, cost discipline, reduction in underperforming contracts and associated losses and some price increases. More specifically, we generated more revenue in H2, €240 million more at constant currency with fewer people as our headcount decrease in H2 by 1400 people.

Second, an evolution of our mix as hirings, were predominantly made in offshore and nearshore locations and within a younger talent pool.

And third, contain salary inflation which overall remain limited to the group at 2% H2 versus H1.

And lastly, we kept subcontracting under control and reduce non-personnel costs as a percentage of our revenue.

Moving now to a quick summary of our income statement from operating margin to net income, the main items to highlight are the following. Reorganization, rationalization and integration costs amounted to €451 million. This amount notably includes €266 million of cost related to Atos transformation plan, which is in line with what was communicated at our Capital Markets Day. Structure costs included costs related to reskilling actions taken by both Tech Foundation and Evidian as part of our transformation plan, as well as some one-off costs linked to the preparation of the contemplated separation.

On the others line, you see the amount of minus €359 million, which mainly includes a minus €210 million one-off impact, resulting from measures taken by Tech Foundation to address some large underperforming contract, which includes settlements and one-off losses resulting from contract exit. These measures will improve the quality of our portfolio going forward and a €37 million loss from the disposal of our Russian activities.

Lastly, net financial expense at minus €175 million include a loss of minus €109 million related to the disposal of our Worldline shares, which I will remind you generated a €219 million of net proceeds contributing to the financing of our plan. Cost of debt was stable compared to last year at minus €29 million.

Now turning to our free cash flow. Our free cash flow was minus €58 million excluding costs related to the transformation plan. It was mainly driven by OMDA as €1,020 million, CapEx and lease represented 5.8% of revenue, slightly less than last year at 6.1%, a positive change in working capital at plus €126 million, mainly resulting from a decrease in net contract assets and a good level of customer collections.

Excluding the cost of our transformation plan, RRI was at minus €154 million, which include €60 million refund from our German restructuring plan announced in 2021, which was closed before completion.

The other changes line represent the cash impact of the other operating expenses detailed previously. This gets us to a minus €58 million free cash flow for the year, excluding costs related to the transformation plan. Such costs amounted to €129 million. This is lower than the €250 million estimate that we have previously communicated due to firstly the timing of the cash out of transformation costs and a lower impact than anticipated on the 2022 financial costs.

All together, free cash flow was minus €187 million in 2022, stronger than anticipated, leading us to the group net debt on the next slide. In addition to the free cash flow acquisition amounted to €312 million. This is mainly the Cloudreach deal and the proceeds from the sale of our Worldline shares in June where €219 million, foreign exchange fluctuations and other items amounting to €55 million leading to €1,450 million net debt at the end of the year. This means all operating ratio was 2.4 times, providing ample headroom to our covenant of 3.75 times. Lastly, our liquidity at the end of the year is strong with €3.3 billion of gross cash and €2 billion of undrawn credit facilities.

I will now hand over to Philippe and Nourdine for the outlook.

## **Philippe Oliva**

Thank you, Nathalie. In 2023, Evidian will continue to rollout our acceleration plan so despite a more challenging macroeconomic environment, our markets will keep growing and we have many avenues to improve our performance this year. We will particularly focus on three main set of actions.

One, driving revenue growth acceleration. We will continue to deploy our new customer value proposition and portfolio of offerings, maximizing the synergies between our key area of expertise and leveraging the joint go-to-market. We will build up our sales capability notably to increase our coverage and large deal win rate.

Two, delivery excellence and profitability. We will continuously focus on targeted margin improvement actions at key account level. We will also manage our talent pool in the context of continued inflation pressure by being selective in hirings, increasing utilization like what we delivered in 2022 and continuously improving our skills.

Three, achieved the successful transformation of our organization. We will shift to our new operating model and drive innovation to the next level. This action will result in an acceleration of our organic growth and an increase in our margin. We have a unique value proposition, very strong technology assets and a committed team. Driving innovation to the next level of digital transformation era, we are committed to our clients and company successes.

Now, let me turn it over to Nourdine.

## **Nourdine Bihmane**

Thank you, Philippe. So, for Tech Foundation 2023 priorities. We will continue to deliver on the three pillars of our turnaround plan: Refocus, as I mentioned, we will accelerate the reshaping of our portfolio by further addressing underperforming contracts and winding down noncore activities. In particular, we'll continue to rationalize our value-added resale business and non-strategic offering.

On the Recover phase, in 2023 we are going to step up the adaptation of our cost structure. Now that the social consultation processes are completed, we have a clear path to reduce our headcount as we announced at the Capital Markets Day, and the target is over 7,500 over the next three years with significant actions planned in 2023. We will also conduct structural changes in our delivery model with more offshoring artificial intelligence and automation.

Rebound phase, we will pave the way for future growth. We will continue our commercial momentum through focus on large deals, growth squads and the integration of advisory in our go-to-market motion. We will also scale our new offering, in particular, Edge Public Cloud and Sovereign Cloud. This means that in 2023, we will confirm and solidify the stabilization of our core business, at the same time we will accelerate the rationalization of our portfolio, resulting in a managed decrease in revenue in 2023.

We will wrap up our margin expansion actions. They will mitigate inflation and the impact of our portfolio rationalization. All together, our margin will remain in positive territory well ahead of the plan. Beyond that, I am deeply convinced that Tech Foundation will be a growing profitable business once we are through our turnaround. We have quality assets, market leadership in our core business and we had a very encouraging start in 2022. We are innovative agile and hungry for success.

What does it mean at the group level? So we expect organic revenue growth between minus 1% and plus 1% as an acceleration of Evidian will be more or less offset by the managed decrease of Tech Foundation non-strategic activities. Group operating margin at the current perimeter is expected between 4% and 5%, representing a strong improvement compared to 2022. Regarding cash, we will communicate separate objectives for the two entities in their respective upcoming Investor Days.

To conclude and before turning to your questions, we would like to reiterate Atos is delivering on its strategic plan and we have shown tangible results within only eight months. We have delivered a strong operational recovery in H2, demonstrating our ability to manage the business efficiently and drive performance at pace.

We are confident for 2023. The economic environment has become more challenging, but we have a lot of opportunities ahead of us, and clearly identified road maps to deliver results.

Our separation project is progressing well and is on track for completion in H2 2023. We are on track to achieve our 2026 objective for the two future entities. Evidian started to accelerate its profitable growth like Philippe mentioned, and Tech Foundation is performing ahead of plan.

Lastly, we will be happy to welcome you at two Investor Days that will be held prior to the spin-off one for Tech Foundation and one for Evidian.

And with that, I think now we are ready to take your questions.

## **Question-and-Answer Session**

### **Operator**

Thank you. [Operator Instructions] We will now go to your first question. One moment please. And your first question comes from the line of Frederic Boulan from Bank of America. Please go ahead. Your line is open.

### **Frederic Boulan**

Hi. Thank you. Good morning. First question is around the numerous expansion of interest you received in the last couple of months both on Tech Foundation and Evidian. If you can help us understand a little bit how you assess them in terms of quality of the partner, and to what degree financial consideration enters in the equation?

Second point around the cap structure, if you have any detail you can share with us on the updated targeted structures post spin. Do you still plan to have Atos remain co-owning Evidian, and if you can help us a little bit around the targeted cash or net debt position in both entities? And maybe a follow-up on the cash side, you're saying you're going to give us an update a bit later on the two respective assets. But when we look at the level of cost provisions you've taken in 2022, should we consider that the majority of that will flow through in the cash flow in 2023 or 2024. And so anything you can help us around where we can see net debt landing in overall the group level in 2023 would be very helpful?

### **Nourdine Bihmane**

Thank you, Frederic. So Diane, will take the question on mark of interest, and Nathalie may be complementing on capital structure and cash.

## **Diane Galbe**

So on mark of interest, first of all, the mark of interest that we received demonstrates attractiveness of both of our perimeters. In terms of status, we reported where we stand quite clearly. So I do not think that, additional thing to add except the fact that, obviously, we will look at the mark of interest with a clear view on value creation and also that we would consider all mark of interest and review them carefully, with major financial and industrial projects on the top of our mind in examining such market future.

## **Nathalie Senechault**

Yeah. So, on your second question on the capital structure of the two new legal entities. We are working on it, and we'll present it to you in the following Investor Days of Tech Foundation and Evidian. Again, the central scenario as we always explained remains i.e. we would transfer the bond and leverage Evidian, because Evidian is a cash-generative entity, and we'll be able to deleverage very shortly.

On your last question on the cash flow of 2023, as you see in our presentation in the other line, we already cashed out a big part in 2022. So we'll still have some cash impact of provision that we book in 2021. But on the biggest part of 2022, we already cashed out three or six in our cash of 2022.

## **Frederic Boulan**

Thanks.

## **Operator**

Thank you. We'll now go to your next question. One moment please. And your next question comes from the line of Laura Metayer from Morgan Stanley. Please go ahead. Your line is open.

## **Laura Metayer**

Good morning. Thank you for taking the questions. I have two today please. One, could you please clarify whether there was any one-offs that benefited the 2022 free cash flow? And what was the factoring balance at the end of 2022? Have any payables being reverse factored also in 2022?

And then second question would be the 2022 cash out on transformation was about €120 million less than you had flagged at Q3 2022. Should we still expect this cash to come out in 2023 and 2024 meaning that you would have slightly higher cash out in those years versus the initial plan, or will the plan now have slightly lower cost overall? Thank you.

### **Nathalie Senechault**

So, on your first question on -- so our cash -- on cash flow in 2022, I mean, was due to a better OMDA, a better working capital. I mean, also some -- as you mentioned, some timing impact of the cash out of our transformation cost, and it also includes as we mentioned €60 million impact of the Jupiter plan. Remember in 2021, we booked a provision for the German restructuring plan and we were able to close it quicker than expected and then we got a €60 million refund, which is included in our free cash flow this year.

And I would also mention that we -- on the factoring part did €30 million more than we did last year. And there is no reverse factoring in the free cash flow.

On the transformation cost part, yes, in 2023, we have a cash out and transformation costs. And it will be higher in 2023. Totally we have €130 million in 2022. We will have a higher number in 2023 given the fact that it's shifted it's a bit of timing. It shifted to 2023, but it has always been the plan. And now the social consultation is completed. So yes, we'll incur the cost further in 2023 as expected.

### **Laura Metayer**

That's helpful. Thank you.

### **Operator**

Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Laurent Daure from Kepler. Please go ahead. Your line is open.

### **Laurent Daure**

Yes. Thank you, and good morning all. I'll try three on my side. My first question is regarding Evidian. You showed some sequential improvement on the profitability side. But I was wondering the underlying improvement when we exclude the hardware business that trended much better in H2 for the other activities even stripping out the seasonality, do you start to see some first improvement on the profitability side?



My second question is on your Tech Foundation plan, you said that you were delivering a profit way higher than expected, but you are still maintaining the number of restructuring ahead. So how can we reconsolidate those two elements?

And my last question is on the losses on contract losses and the additional cleanups you are expecting to do, shall we expect similar amount of settlement fees in the near future? Thank you.

### **Philippe Oliva**

Thank you, Laurent. So Laurent, on the Evidian side for -- yes, we have a good sequential improvement especially H2 against H1 on both activities the advanced computing part and also the digital part and cloud part. So when we look at the dynamic, even though we had let's say you remember, we said at the beginning that we would be back-end loaded especially on the computing part related to the strong book-to-bill that we delivered in Q2. So this is materialized especially in terms of revenue yield in Q4. But both businesses are really recovering fast. Digital is embracing let's say steady-state growth where as I mentioned related to the profile of our book-to-bill. We're expecting to continuously growing in 2023 because of the revenue yield that we can extract from a short-term signings profile that we had in our book-to-bill. So both business lines are growing in the H2 strongly in Q4 as we mentioned standing at 11% and are still expecting to continuously improve that trend in 2023.

### **Laurent Daure**

Thank you.

### **Nourdine Bihmane**

Thank you, Philippe. So Laurent, your -- to next question on Tech Foundation especially the restructuring topic, as I already mentioned before, we need to do -- we need to operate a pyramid shift in our organization that has been long overdue. So at this stage there is no indication to make me believe that we need to revisit that yes. We still need to continue shifting our pyramid skills and location to make sure that we build up a sustainable profitable business moving forward. So on that question for now no review of the plan.

On the contract losses, the largest one we have been able to put it in 2022. We are not envisioning such a big amount moving forward. However, as you know and as I already mentioned, I'm going with the team to address all those underperforming contracts and making sure that -- or we settle with the customer with a higher price. So for higher profitability by descopeing or adding or if we don't reach an agreement, we will have to exit some of those contracts. So I cannot foresee the entire future. But for now, I will say the largest one is behind us.

**Laurent Daure**

Okay. Thank you.

**Operator**

Thank you. We will now go to our next question. One moment please. And your next question comes from the line of Mohammed Moawalla from Goldman Sachs. Please go ahead. Your line is open.

**Mohammed Moawalla**

Great. Thank you. Good morning. I have two. The first one is on Evidian. Could you break down the growth between the Cybersecurity business and the Digital business. And I believe you identified a kind of one large contract what would the kind of growth look like by stripping that impact out? And then secondly on the cash flow, could you break down the free cash flow and the working capital improvement the receivables, perhaps if there's any change on [indiscernible]. And then can I confirm on the restructuring project. Should the cash and the [indiscernible] broadly similar in 2023 and 2024? Thank you.

**Philippe Oliva**

So you know it is always let's say the greater expectation really to let's say breaking down in tiny buckets, let's say the portfolio. What I can tell you that we didn't disclose in the earnings release is that our digital security is fully in line with our expectations is growing double-digits. That means it's above the market. That's the reason why I mentioned that we were continuously gaining market share on that market due to the strong portfolio and assets that we have. On the Advanced Computing part, we were a little bit behind especially due to the HPC fluctuation and cyclical nature of the business and the supply chain challenges that we highlighted at the beginning of fiscal year 2022, but we are ramping up very strongly and our Q4 came up really strong where we grew also double-digit in H2.

**Nathalie Senechault**

So Mohammed on your second question, actually we count in the current status of our tool split the cash flow between Evidian and Tech Foundation. We are currently in the process of allocating the assets and liabilities and we will provide you with the full information for both future entities on their cash flow at the next Investor Day that we will have in the spring.

**Nourdine Bihmane**

Thank you. Thank you, Nathalie. Long time no speak. No movement. Nice to hear you again. On your last point restructuring you will have an [indiscernible] plan between the P&L and the cash. As you know the cash out once you even sign agreement is not necessarily on the same moment. So I would not take as an assumption like-for-like P&L and cash out view. It will be deferred especially in some of the Continental European countries. You have also some pre-retirement cases where the cash out happened much faster.

**Mohammed Moawalla**

Yes. Thank you. Can I just follow up on the working cap? Can you confirm if there were any benefits from delayed payables?

**Nourdine Bihmane**

Could you phrase it again maybe it's hard to hear you.

**Mohammed Moawalla**

I mentioned on the working capital improvement. Was there any benefits from late payments?

**Nourdine Bihmane**

Benefits from late payment.

**Nathalie Senechault**

No. We – in the working cap no – there is no benefit of late payments.

**Mohammed Moawalla**

Okay. Thank you.

**Operator**

Thank you. We will now go to our next question. And your next question comes from the line of Alexandre Faure from BNP Paribas. Please go ahead. Your line is open.

## **Alexandre Faure**

Good morning. Thank you for letting me on. Just a couple of questions for me if I may. One is again on working cap, perhaps not for 2022 and 2023 but thinking of the entire [indiscernible]. I think you presented in June some headwinds from working cap unwinding and normalizing with industry practice side just wondering if is still current and we should expect a bigger cash out in the coming years?

And my second question was on Tech Foundation. I think again in June you presented your expectations of seeing Tech Foundation's top line contract by about 20% by 2024. I think Nourdine you commented that you're now declining in line with the market for core infrastructure so perhaps ahead of plan. So in that context, how should we think of that 20% top line contraction in TF by 2024?

## **Nathalie Senechault**

So on your first question, so the working cap normalization that was anticipated did not happen but we still remain prudent for the 26 [ph] period in the context of the separation of the group.

## **Nourdine Bihmane**

Thank you. Alexandre on the TF top line – how I was thinking in the Investor Day that will happen in spring I will come back with more elaborated answer. But I would say what I have discovered Alexandre, we have a more resilient business baseline and especially on our ability to pile on top of our large contract add-ons activities and grow as well in some new managed services area. So I would say, I do see a better days maybe more closer to mid-single digit than what I announced back to the Capital Market Day. But again, I give you a rendezvous in our next Investor Day.

## **Alexandre Faure**

Terrific. Thank you.

## **Operator**

Thank you.

## **Nourdine Bihmane**

The last one operator and then we could close.

## **Operator**

Thank you. Your next question – one moment. Your next question comes from the line of Nicolas David from ODDO BHF. Please go ahead. Your line is open.

### **Nicolas David**

Yes. good morning. Thank you for squeezing me in. I have a question from my side. The first one is, about net staff addition in Q4. Could you give us a trend for this call and Evidian separately in Q4 regarding that? And my second question is on Evidian. So I understand you expect a growth acceleration for 2023 versus 2022, but do you expect also growth acceleration towards the year?

Or should we understand that given the macro and the strong booking you had late in 2022, you may enter strong in the year and you have taken a more cautious assumption for H2. You had to factor the difficult macro and the late cyclical nature of this business. And my last point, would be just to understand your organic growth guidance. Does it include or not the asset -- contribution of assets, or do you deconsolidate already in this growth the assets, which are under the process of being disposed? And I'm thinking really, mainly about UCC. Thank you.

### **Nourdine Bihmane**

Thank you, Nicolas. Maybe, I will take your first question and then Philippe will follow on Evidian but taxation on that. In Q4, we had the net decrease, we had a net decrease of 1,400. Most of the decrease is in TF and Evidian is growing. So headcount on Evidian is growing and headcount on TF side are decreasing.

### **Philippe Oliva**

Well, I think Nourdine, you answered perfectly. So we need to keep let's say, a very dynamic workforce management actions on the Evidian side, because of let's say, the stronger growth dynamic that we had especially in H2 and we already mentioned, let's say, the great growth that we delivered in Q4. So yes, we're going to be as I mentioned, coming up with a lot of discipline on our workforce management especially in 2023.

But keep in mind, with the growth trend that we have and still let's say, the outlook that we're expecting for 2023, we need to remain on the Evidian side, let's say, able to deliver the growth. And as we have a big part that is related to a labor services model, we have to ensure that we can continuously hiring. And as I mentioned, improving the skills of our workforce.

### **Nathalie Senechault**

On your last question, the organic growth, we are guided on, is at same scope, so same scope as of today. But keep in mind, that UCC is dilutive for Tech Foundation in terms of growth.

### **Nourdine Bihmane**

Thank you. So, with that...

### **Nicolas David**

Regarding the pacing of the growth of Evidian across the year. Thank you, for the answer regarding headcount, but maybe a color regarding.

### **Philippe Oliva**

But the growth is that's what we mentioned. You remember, that as we were entering in fiscal year 2022 especially in H1, we were behind the market to be totally transparent. We mentioned that we would be back-end loaded and we delivered a very strong growth in H2, especially in Q4 standing at 12.7% growth, at constant currency and 11% organic growth, which is a great performance above the market. Now as I mentioned, we are -- powerful reality to the macroeconomic environment especially in 2023, but still coming let's say, with an improvement compared to what we delivered in 2022, in terms of Evidian scope.

### **Nourdine Bihmane**

Thank you. So I think with that we are at close. Thank you, Nicolas. Thank you all. Thank you for listening and giving you rendezvous in the next publication. Thank you

- Read more current AEXAF [analysis and news](#)
- View all [earnings call transcripts](#)