Presentation of H1 2020 Results

29 July 2020
Thank you and good morning everyone. Welcome to this Presentation of H1 Results for Sopra Steria, which I will deliver with Etienne du VIGNAUX. The presentation will be divided into four parts:

- I will present the highlights of the First Half, emphasising the resilient nature of the business, then describe the crisis management efforts up to the present point and into the future, before concluding with a focus on each operational division.
- Etienne du VIGNAUX will then present the key figures and financial results for the 1st Half.
- We will then present our priorities and targets for the coming period.
- As customary, we will conclude with a Q&A session.

I. Highlights of 1st Half 2020

We thought it was important to highlight that we have quite a resilient profile for three reasons:

- Since the merger in 2015, we have been focused on our Top 100 customers at the Group level. Throughout this period, we have been very much focused on these customers, to get to know them better and support them. Obviously, throughout the crisis, customers have been suffering; however, this can be alleviated with the proper support.
- We were also shored up during this crisis by our recurring revenue. 40% of our business comes from recurring revenue.
- Lastly, we enjoy revenue from the public and semi-public sectors: Defence, Homeland Security and the Public Sector.

Our main verticals remain unchanged: financial sector (Banking and Insurance), the Public Sector and Aerospace, Defence and Homeland Security and account for 2/3 of the group's revenue.

Sales performance proved another important factor towards our success. We enjoyed good commercial presence, remaining very close to our customers, as much for small as for large deals. We have listed their names on this slide. Without going over all of them, I would like to focus on three that are important at this time. The first is Airbus. It is currently in a difficult situation, as we will discuss later in this presentation. We were nonetheless able to win a very important five-year project to manage infrastructure in four countries: France, Germany, the UK and Spain. The second key reference that we have is a major German banking group, with which we signed a 150 million euro project. This project covers the Build and Run for an ERP SAP project around the core banking system. This is very important on the German market. The third reference that I would like to share with you is the European agency that manages all the Schengen projects. We are currently building one of the most significant biometric systems world-wide, which will manage over 400 million European citizens. We have also booked many renewals in the public sector and in our geographies, obviously very important for the coming period.
We are working to improve our positioning, in particular by offering greater added value further upstream, and made good progress in the respect in the First Half. We are pleased to be Number 2 in France, as listed by teknowlogy PAC, and in the Top 3 in universal banking solutions, as well as in lending solutions. We have been making a large-scale effort to establish our consulting services and have achieved market recognition in the fields we target, as an excellent provider. This market recognition is good and we intend to continue in this Direction.

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Our revenue has been essential in our resilience. The decrease in revenue in H1 was limited to 2.6%, including -8.4% in Q2. One of the areas in which we struggled the most was Aerospace, which accounts for 10% of the Group's revenue. The contrast between the +11% organic growth in Q1 2020 and the -20% in Q2 2020 was dramatic. In the coming quarter, we expect revenue to be between -20 and -25%. For the full year, it is negative growth of 15% that is expected, in this sector very much driven by Airbus.

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Operating margin is holding up well, at 6.1%, compared with 6.8% last year. Our free cashflow has held up well, at +37.1%, compared with -21.8%. I have two comments in this respect: this figure includes the favourable impact of 57 million euros from non-recurring items; despite the negative growth, the teams have rallied and we have respected our customer commitments.

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Revenue amounted to €2,166.7 million, making for -2.6% negative growth. Operating profit on business activity came out at €132.8 million, or 6.1% of revenue. Net profit attributable to the Group totalled €43.7 million, i.e., 2% of revenue. Free cash flow amounted to €37.1 million, versus -€21.8 million in H1 2019. Net financial debt totalled €495.9 million. Lastly, the UK pension fund deficit, net of tax, came out at €94.1 million, compared with €113 million at end 2019.

**II. Balanced crisis management**

[slides 11-12]

We continue to manage the effects of the crisis. Every company must strike the appropriate balance between short-term versus long-term decisions; this is even truer during crisis periods. We cannot compromise long-term projects, and must give due consideration to the way we manage our employees, partners, customers and sub-contractors. We have done everything in our power to build a long-term project, with all the right components and proper adjustment to the crisis.

A number of short-term decisions have been made, focusing on sales and profitability, including a Savings Plan, to which I will return later. Concurrent to this, we have carried on with important investments for the Group, in the brand, software and our products. We have also confirmed the acquisition of Sodifrance, which will give us a greater footprint in insurance and social protection in France.

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We have set two priorities: to protect our employees' health; and ensuring continuity of service. More than 90% of our employees have been able to work from home. The remaining percentage is not due to feasibility or technical reasons; our customers requested a degree of confidentiality and security that made it impossible for certain tasks to be carried out from home. We have been managing the Group with short decision cycles: weekly management and daily priorities.
Service developments have been offered to meet needs arising from Covid-19. To serve their staff working remotely, we rolled out a number of consulting offers, managing our project portfolio, making savings without compromising the future. These were not high-volume offers, and have thus contributed to building close relationships with our customers, at a time when they have many questions.

Last but not least, we have been focused on internal communication during the crisis, to remain close to employees. As a service company, human resources are at the core of all our action. There too, we strived to maintain the balance between short and long-term decisions. Our top priority went to keeping employees informed and ensuring labour dialogue proceeded openly. We made responsible use of the furlough schemes and topped up the payments made by certain governments to ensure that our employees impacted would continue to benefit from the same compensation levels, across our salary mass of €1.4 billion. Knowing that we were attacked once on this point, I reiterate that we did make responsible use of these schemes.

More than ever, we have made an effort to structure our training resources. Business training is deployed with one clear objective in mind: to maintain employees’ skills and motivation in a world of increasingly swift growth and technological change. We want to set the standard in the industry, and toward this end, will build an Academy over several quarters.

In another short-term focus, we launched a cost management adjustment programmes immediately in response to the crisis. Our travel and business expenses have thus been cut by 49% compared to H1 2019, while administrative fees & advertising fell by -13% over the same period, as did project sub-contracting.

Long-term measures include a sustainable development policy that lies at the heart of our policy. It has not been slowed down, and instead, sped up. On 19 May, Sopra Steria signed the United Nations Global Compact and the Science Based Targets initiative along with 154 other companies. It includes a target of reducing global warming by 1.5°C.

At the same time, we are working on another key item for the future: digital sobriety. This effort is fully integrated into our offers. Employees are trained progressively in this process, which will prove a key differentiating factor in the coming years.

We are pleased to see that our ESG positioning has improved. We have now achieved platinum status under Ecovadis, have been recognised as “Advanced” by VigeoEiris and are now part of the new Euronext ® Eurozone ESG Large 80. This is a key area for us, and will continue to benefit from our investments.

### III. Operating position by reporting unit at 30 June 2020

Turnover at the Group level amounted to €2 166.7, with ROA of 6.1%, compared to 6.8% last year.
France had a significant impact on these figures, due to the drop in production in Aeronautics that hurt 20% of the turnover. We have been able to withstand the effects of the crisis, especially in the Public Sector and in Defence.

Nonetheless, we posted negative growth of 5.5%. Margin held up at 8.2%, compared to 9.3% in H1 2019. In the short-term, we have focused on reducing employee downtime between projects in the second half of 2020.

We will continue to manage the various components, with the intention of bringing the situation back to normal by the end of the year.

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Where the United Kingdom is concerned, organic growth amounted to -4.7%, and operating profit on business activity to 4.6% (compared with 6.1% the previous year).

As is customary, the businesses in the UK posted contrasting results.

We have been hurt by two factors: the downturn in the private sector and halt of the visa-issuing service between late March and late May 2020. This has penalised us in both our figures and margin. Fortunately, services have restarted and a return to normal levels is expected for the Second Half of the year.

Concurrently, our two joint ventures, SSCL and NHS, fared well: they suffered very little to no impact from the crisis. We expect growth from SSCL in the Second Half, with confirmation of the contract extension with the MOD. Overall, we expect improvements from the UK in the Second Half.

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In the rest of Europe, business was quite resilient, thanks to a number of factors, in particular the work carried out by our subsidiary Sopra Financial Technology, which operates Sparda Banks’ IT system. It posted a €76m positive scope effect, strong organic growth and margin higher than usual in the First Half.

I would also like to highlight the excellent performance in Scandinavia, specifically Norway. 80% of the business there is in the public sector, hence good growth of 9%, and an improvement in profitability. The other countries or geographies were resilient, with either flat or slightly negative growth.

Margin was resilient and organic growth amounted to 6.6%. Operating profit on business activity, which rose from 6.5% to 7.4% this year.

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At Sopra Banking Software, the impact of the crisis was felt in the sales of both licences and service activities, hence the flat results. Though sales were slightly better in H1 2020 than in H1 2019, we will not target improvements in sales or profitability this year.

Instead, we will be pushing a number of key action plans that will be important for the future. Four key areas will condition our future:

- Investment in the digital layer of Sopra Banking Platform (Digital Banking Enablement Platform), underway for several years and instrumental opening us up to the digital ecosystem;
- Development underway for the Spardabanks’ platform, a highly-structuring process for the future, closely watched by our competitors and set to last for several half-years.
- Launch of CassiopaeV4.7 on 31 March 2020 and implementation of a gradual upgrade plan, according to schedule after 1.5 years of development, and already accepted by multiple customers – the standard software has been finalised, and will be followed by the business relaunch in 2021.
- Gradual improvement in the situation for projects in the specialised lending solutions business.

We are on track on all four of the above lines. This continued progress will be essential for all of the business’ projects.

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Other Solutions faced a more difficult half-year compared to historical performance. It posted -5% organic growth and 5% operating profit on business activity, when the latter is normally closer to 15%. License Sales have dropped by around €3 million, and 15 projects were deferred from the First Half.

We are confident about our capacity to make up for this and come back to levels closer to usual.
Let us start by looking at consolidated income statement for the Group.

Revenue amounted to €2,166.7 million, making for -2.6% negative growth in the First Half. Operating profit on business activity came out at €132.8 million, or 6.1% of revenue. The decrease in operating profit in absolute value amounted to €18 million, but was contained thanks to cost reduction measures, for instance on travel expenses, but also on sub-contractors and other costs. The Group used furlough schemes only partially, in particular in the Q2: the total sum received in this respect amounted to €7.4 million, quite marginal compared to the pay package.

Profit from recurring operations shows charges of €2.2 million, or half of the figure in 2019. Amortisation of allocated intangible assets was up at €19.1 million. Aside the effect of acquisitions such as SAB in 2019, a one-off item of €3.8 million was booked. We will have to accelerate amortisation in the financial accounts, due to our PLM activity in Aerospace.

Other operating income and expenses also showed an increase, reaching €23.8 million for this half-year. I will tell you more about this shortly. The operating profit thus reached €87.7 million, or 4% of revenues (compared to 5.2% last year). Before turning to net profit, let us look at the financial results, which were quite stable. We saw a slight increase in net financial expenses. The cost of gross debt remains under control, while other financial expenses decreased slightly. This amount also included debt interests in compliance with IFRS 16. The tax level was down, such that the net profit amounted to €43.7 million, or 2.0% of revenue (compared with 2.8% in H1 2019, eight basis points higher).

Other operating income and expenses amounted to €23.8 million for this half-year. This includes just over €7 million resulting directly from depreciation of assets, specifically, a license to operate granted by the UK Government. As described previously, the services it covers were suspended during the crisis, and are now resuming. The figure also includes €3 million in assigned-for-logistics costs, directly related to the measures taken internally in response to the Covid-19 crisis.

Looking ahead, these other operating income and expenses will be of an equivalent amount due to reskilling measures to be rolled out. As business levels will not be those seen before the crisis, we will have to redeploy our staff, thanks to internal mobility.

The effective tax rate was 31.2% or the half-year. The annual percentage will be close to that recorded in 2019 (33.4%). The tax amount also includes the French CVAE, the contribution payable by value-added companies. Based on the added-value created, it is stable and unchanged by results. It amounts to approximately €25 million per year.

When considering the structure of the debt, it is very important to note that it is stable, and has even decreased slightly, at less than €500 million as at end-June. This is due to the good performance on
free cashflow, at €37.1 million. Usually, the First Half is precisely the time when the Company uses cash. Cash-out stemming from M&As was modest, at €-9.2 million. It will rise in the Second Half, due to acquisitions such as that of Sodifrance, mentioned earlier.

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Zooming in on free cash flow, we see that it amounts to €37.1 million. The Group had improved its performance in this respect over the past three years, such that the teams were ready to face the crisis. Of course, since the crisis has hit, the Group is even more careful about the way it manages free cashflow.

This watchfulness is focused on payables: it is intent on not paying its suppliers past due, and has good collection of receivables. Its customers pay on time across almost all its geographies, though some tensions can emerge here and there, at the end of the First Half. We will be careful about this.

The Group’s change in WCR includes the favourable impact of €57 million from non-recurring items. Just under half of those will be cashed out in the Second Half, for instance, the profit sharing in France and the postponement of some VAP voted in the UK by the British Parliament.

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The Group’s financing position did not change significantly during this Half-Year. It has a solid financial position and has never had to make use of its multi-currency revolving credit facility in the amount of €900 million. The total available undrawn amount is €1.1 billion. The net debt to equity ratio amounted to 34.4%, compared with 36.1% as at end-2019, and thus an improvement.

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Let us move now to another important financial ratio: net financial debt to EBITDA. It amounted to 1.3 and was thus approximately equivalent to the level recorded in end-2019. This is a good result at end-June; the ratio usually worsens slightly between 31 December and 30 June.
2020 PRIORITIES AND OBJECTIVES

Vincent PARIS
Chief Executive Officer

I will conclude this presentation with a few comments on our priorities and targets for the end of Year 2020.

If there are two words that describe the period ahead of us, they are: uncertainty and caution. “Uncertainty” because obviously there may be a second wave of the epidemic, in our geographies, and “caution” some customers may make sudden decisions, dropping their budgets or discontinuing projects before the end of the year. These are key factors which we must consider. However, they will not change our response to the crisis: we will continue to adapt to the context, week after week.

Our objectives at the Group level are to emerge from the crisis stronger, with all the levers which I mentioned for the First Half, which we will carry on using in the Second Half, to respond to the crisis and to our customers’ expectations. We will not stop our transformation; our offers are being transformed, and digital is increasingly prevalent. While we do not know what society will be like after this crisis, we can be certain that it will be more digital. This awareness is pushing companies like ours, provided that we are state-of-the-art and aligned with our customer expectations. We will carry on working on this.

Our key financial targets for 2020 under the current market conditions are:

- Organic revenue growth of between -2% and -4% for the full year;
- Operating margin on business activity of between 6% and 7%;
- Free cash flow of between €80 million and €120 million.

Those are the key factors which I wanted to share with you. I would now like to move on to the Question and Answer Session.
QUESTION AND ANSWER SESSION

Nicolas DAVID, ODDO

Hello, Vincent. Hello, Etienne. I have several questions. First, in response to the tariff environment in Q2, some players announced that they would pass the costs on to their clients, e.g., travelling costs. Have you done so? What do you think we can expect regarding such price decreases, potentially structural, in H2?

I have two other questions, on your annual guidance. Your margin guidance states that the profitability in H2 will be much lower year-on-year, compared to H1, from 130 bps upwards. H1 was quite good. What items should we watch in this regard? Why do you say that your margin might drop more in H2, in particular considering that your Company did not make much use of the furlough scheme or equivalent. I would like more details on this.

My third question has to do with SES. You have announced €80 to €120 million. You will have €60 million in free cashflow in the Second Half, compared to more than €250 million in the past. I know that there are €57 million to be taken into account. Why, though, would you be that conservative in your guidance?

Vincent PARIS

Broadly speaking, with regards to sales prices, they have not changed. We had increased them last year, taking an added-value ramp-up approach. I am not saying that no customers have made the types of requests that you mentioned. Broadly speaking, however, we have been resilient. Although we have had to make some concessions here and there, our sales price has not changed.

With regard to the guidance, in terms of profitability, I would remind you that the First Quarter was "normal". We did record a drop in margin compared to last year, but with respect to the Second Half, during which we had many projects underway. Week on week, we are improving this performance, but are obviously cautious. It is currently too soon to give you any details about the Second Half of the year. We will obviously be working on the same topics as those described previously. Our aim is to improve profitability, through the actions I discussed. We hope that the macro-economic environment will not change.

Etienne du VIGNAUX

You referred to our target, which is above €180 million. Our results will obviously be down with respect to this. We will pay a great deal of attention to this, like all companies publishing their results. We expect quite deterioration in DSO by the end of this year. However, it is too soon to draw any conclusions.

Nicolas DAVID, ODDO

Could you perhaps tell us more about pricing? I understand what you are saying about the end of Q2. Do you think that the environment could toughen, or ease up? Could the industries respond differently, for instance between Aerospace and others?

Vincent PARIS

We believe we will have the same prices. There is obviously a lot of negotiation underway. We see that the market is heading back in the right direction, but there is a lot of competition and everyone is very much focused on the short-term. Either we will keep our pricing as it stands, or we might have to make a few reductions. If we gain new market share, this could have an impact. I cannot see a drastic reduction in our prices, given the environment that we have today. Obviously, if the
situation significantly worsens in September, this might change matters. It is not, however, what we are seeing today.

**Thomas POUTRIEUX**

I have two questions, about Sopra Banking. I believe you stated that licenses were down by €7 million in H1 2020 compared to H1 2019. Is that figure correct? It reflects a decrease of 35%. Could you confirm this?

When do you think you will return to organic growth in licenses? Do you think this will happen before the end of the year, or perhaps in Q1 or Q2 next year?

**Etienne du VIGNAUX**

With regard to licenses, I can confirm the drop of €7 million compared to last year. We are at around €20 million, compared to €27 million. Those are the figures for the First Half.

That being, we see that there are many potential deals and a strong pipeline. We are awaiting decision, however, and I cannot make assumptions as to how our customers will react up to the end of the year.

I am confident about the long-term, with the priorities we have set in terms of licenses and subscriptions. As many more customers are moving to subscriptions, I am confident that we will generate growth, provided that market conditions remain the same as of 2021. Obviously, this will depend on the context. We see that the pipeline is improving. We also have very good visibility with regard to risk.

**Thomas POUTRIEUX**

I know you discuss with the banks. I know it was difficult for some players in core banking during lockdown. Would you say that it is now easier to discuss with top managers and sell core banking with your general banking clients? Could you tell us more about this?

**Vincent PARIS**

Qualitatively, I could obviously say there is a great deal of interest, especially on all our product lines. We have seen this with the various analyst rankings. Customers want to know where we are headed and what we plan, on all our product lines. We do talk to our customers. When it comes to Core Banking Systems, the approach is obviously geared at the long-term. We are seeing decision-making cycles that can be quite long. Then, given the current context, this can slow down the decision making cycles overall. What is positive is the growing interest in the priorities that we set ourselves for our products in 2020.

**Gregory RAMIREZ, Bryan Garnier**

Your guidance on revenues shows -2% to -4%, while your H2 is at -3.4%. What will the catalysts be for such an improvement, compared with the -8.4% in the Second Quarter?

**Vincent PARIS**

As I stated, it is not easy to give forecasts. Nonetheless, the context has been improving over the last three months, in all our business activities. We saw this with the bench we have in each entity. The situation is far more positive now than it was in April. Consequently, we believe the 2nd Quarter will be a low point. We obviously have some projects and deals underway today. Once again, though, it is very important to be cautious. Experience shows that customers can change their minds. The forecasts in all our areas have been improving month on month. This is the barometer we are using. We remain uncertain as to what the future will bring.
Dominique RAVIART, NelsonHall
Will Sopra Steria accelerate offshore due to the crisis? If so, to what extent?

Vincent PARIS
We will maintain the same off-shore policy, doing everything necessary for our contracts. It is very important to have a platform that is more or less far away, given our customers’ contacts. We are looking at the situation according to our customers’ contacts. However, there are many decisions to be made. We are currently pushing offshore, but saw a significant drop in offshore business last year, especially in India. Our aim is to come back to the previous level. we have observed a drop in the Second Quarter.

Derric MARCON, Société générale
Would you say that the service revenue earned by Sopra Banking Software could be increased in the Second Half?

Vincent PARIS
Yes. We have a promising outlook. The pipeline appears to be bouncing back. That which applies to licenses also applies to services. The decision-making cycles could be shorter in services, but our aim there is to achieve stability for the Second Half.

Derric MARCON, Société générale
Considering at the upper part of your guidance, on the annual revenue (-2%), what would your result be in Q3?

Vincent PARIS
We have chosen not to share detailed information on Q3 and Q4. We have provided general guidance, which I would like to reiterate: between -2% and -3%.

Derric MARCON, Société générale
What about the Other Europe margin in H2 versus H1, where we saw an increase compared with 2019?

Vincent PARIS
Broadly speaking, our target is to stay at the same level. Obviously, we are working toward this. We hope for more good news. This is our target.

Derric MARCON, Société générale
I wanted to ask yet another question. There were costs stemming from the furlough scheme. This means that you paid the extra bit of salary: where were these costs incurred?

Etienne du VIGNAUX
They were incurred above operating income.

Nicolas DAVID, ODDO
I have a couple of questions. Did you see the effects of the ramp-up with the UK Ministry of Defence in Q2, or will they be felt only in H2? I am aware that this is a very large contract in the UK. It might be as high as 4 or 5% of the local revenue. Would you say that you will see the effects in Q3, or will they show up progressively in H2? I am referring specifically to the impact on the margin, from these contracts. At the start, it was not entirely profitable.
Would you say that this was due to the M&A strategy?

What are the projects in your pipeline today? You were very ambitious when the year started. Now that you have more visibility on the momentum, are you still very ambitious? What are your priorities in terms of geographies and business lines when it comes to M&A?

**Vincent PARIS**

With regards to SSCL, we have started activities in the First Half, but at quite a low level. We will have a progressive ramp-up in the Second Half. With regard to margin, over the last two years, we have seen the margin drop. However, gradually, over time, profitability will increase. That said, the overall profile of SSCL confirms my earlier statements: they will be roughly at the same levels as what we saw in the First Half. We are aligned with our forecasts, including the MOD contract. This is a contract worth €350 million over seven years.

As to M&A, the world has changed. We want to emerge from this crisis stronger than when it started. This may not be the time for M&A. It is not our priority. Nonetheless, we are convinced that as soon as the time is right, we have to be able to adopt an offensive approach, perhaps not in the coming weeks or months, but this is our strategy.

**Nicolas DAVID, ODDO**

I suppose you might be considering the acquisition of a smaller company, like Sodifrance?

**Vincent PARIS**

There may be information of which I am not aware today, and which may change our reality. In the future, the coming weeks, we may reassess this situation. There are obviously small deals that we could consider. However, with regard to our ambition that we discussed last year, with our offensive positioning, the context has obviously changed.

**Laurent DAURE, Kepler Chevreux**

I have a couple of questions to ask.

Your EBIT has declined by €18 million in the First Half. A decrease in organic revenue can also be observed, for €50 million. Your cost structure has increased slightly, to support your growth. Compared to what we expected initially, there is a gap of €80 to 100 million, with an €18 million drop in EBIT. I know that travelling costs have gone down, as have the bonuses. My question has to do with H1: does that contribute to the performance? Is this what you expected in terms of revenue, and considering the very good performance of your margin in the First Half?

My second question has to do with Sparda, in H2. What do you expect in terms of margins and growth?

**Etienne du VIGNAUX**

With regard to the components that make up our growth, we obviously do not comment on the variable compensation. If we consider operating costs, however, as I mentioned earlier, the drop in travel expenses is about €35 million in the First Half, mainly in the Second Quarter, while subcontracting was around €45 million. Vincent obviously spoke about a savings plan for other costs. With regard to all salary expenses and the bonuses, we have 1 600 employees more at the end of June.

On your second question, pertaining to Sparda, it accounts for €200 million in revenue annually. The growth and margin were more significant in the First Half and we will not have the same level growth in the Second Half, because we had this sizeable operation in August last year. Compared with what
we had achieved previously, it is not the same. We will not have this impact in the half-year. The profile will be more traditional; we will not see the large proportions.

The margin is shaped by the economic situation. We posted a very high margin in the First Half, and will see that drop in the Second Half.

Laurent DAURE, Kepler Chevreux
What is the margin for H1, approximately?

Etienne du VIGNAUX
It was slightly above 9% in the First Half.

Moderator
There are no further questions.

Vincent PARIS
I would like to thank you all for taking part in this presentation and for your questions. I hope you have a great summer break. I will see you soon. Thank you very much. Have a good day.