

Q1 Results – English conference call

24 APRIL 2020

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OPENING REMARKS

Vincent PARIS
Chief Executive Officer

Good morning everyone. Welcome to this webcast to comment on the publication of our 1st quarter 2020 revenue. First of all, I hope that all of you and your loved ones are in good health. I would like to suggest the following format for today's webcast: first, I will share with you our state of mind and the main decisions we have taken in response to the development of the Covid-19 pandemic in Europe. Then, I will comment on the figures published for the first quarter of 2020 but will not be very precise for the whole year due to the very uncertain environment we are all experiencing. However, I will try to shed some light on the second quarter of this year. Then I will answer your questions with our CFO, Etienne de Vignaux.

HIGHLIGHTS

Vincent PARIS **Chief Executive Officer**

Looking at the context for over a month, our key priorities have been the health of our employees, customers and partners, and business continuity. Two days before the official lockdown, to reduce any health risks we announced homeworking for our employees in France and other countries. Our employees in Italy had already been homeworking since 23 February. It is going well, and we have ramped-up our capacities across the Group, with over 90% of our employees generally and 80% in India working from home. Homeworking is sometimes impossible for technical and security reasons, for example, when we work for the Ministry of the Army and some other sectors. We anticipated the decision a month before the lockdown was announced and clearly, in this context, it is important to maintain close relationships and communication with our customers and employees. There are also obviously a lot of questions, solutions and explanations needed daily.

In terms of adapting to this situation, in March we set-up a Crisis Governance, which manages operational, health, economic, financial, communication and HR issues. To keep things simple, we are doing the things that we normally do over a monthly cycle every week. That is reviewing all the different topics with a short-term vision. There is a corporate Crisis Governance meeting every morning at 8am with similar meetings in every country as well. Our local managers have a great deal of responsibility normally and now more so than ever. We share decisions but there are specific situations in different countries, and they have a great deal of independence to manage local situations. We are also very active launching a lot of offers to support our customers in confinement and the post-confinement periods. You will have seen that we have been very committed to the Stop Covid initiative put forward by the government to help people after the confinement period to ensure that the virus does not return quickly or not at all. We have this Stop Covid application and we are at the heart of the initiative. We are working on the application for the front end with various partners. We have obviously adjusted our capex and subcontracting costs. In a crisis, it is important not to wait and to make changes immediately. We have also been using the various government measures in France and the UK, responsibly and to a limited extent rather than on a massive scale.

I would like to highlight two points that are important when we think about the Group's profile. First, it is important to underline that we are a resilient Group. We have focused on major customers for around 15 years and that has made a difference in the current situation. The Group's top 100 customers account for more than 50% of the Group's turnover and in France we have 25 priority customers, over two-thirds. We have a very pragmatic approach and we are focusing on proximity, which makes the difference and we have an effective mix of local and offshore. It is part of our strategy to have a significant share of our customers in the public or parapublic sectors making up 30% of our turnover, while Telcos represent 5% and are a very active market today. This profile is important in all our markets because these sectors ensure stability. Year-on-year, it is important that we are working on a 40% ratio of recurring composed of BPO 11%, infrastructure management 11%, application management 12% and Software 6%. On 31 December 2019 we published a solid balance sheet, with net financial debt of 36% of equity. Liquidity as of 24 April is comfortable with financing lines of EUR1.5 billion and EUR 900 million undrawn on a revolving credit line expiring in July 2023. The situation is sustainable, we are strong and looking healthy in terms of finance.

I also want to highlight our long-term focus. In this first quarter we have been trying to optimise short-term situations every day, but we have not lost sight of what is important for the year. The way we manage this crisis will obviously affect how we come out of it. The crisis is going to be long and nobody knows when it will finish, but we will get going even faster and stronger with the context we had before and pushing our business lines. The way we behave today affects our future position

including the way we deal with our customers' problems and help them optimise costs, and our relations with our partners. This is not the time to be abusing the situation in terms of our employees, we should illustrate our values as a Group, and it is part of our DNA to promote these values. Even with confinement we have seen that employee motivation is good and the situation is also working well with our subcontractors with whom we continue to uphold our values to maintain a long-term relationship. This is important because it is the Group's philosophy entering the crisis.

OPERATIONAL SITUATION BY DIVISION

Vincent PARIS **Chief Executive Officer**

If we look at the figures, for the first quarter 2020, revenue was up by 4.5% at EUR 1.14 billion. The changes in scope had a positive effect of EUR 14.3 million, with currency fluctuations negative EUR 1.5 million for a growth of 3.3%. For the first part of the quarter that is fully aligned with the plus 3% to 5% economic growth trend we announced. In the second half of March we have an estimated EUR 10 million reduction in revenue because of coronavirus and we think we will have a more significant impact in the second quarter.

Organic growth for France was 1.6% with quite a big contrast. In France, we are resisting well in defence, social, public sector and telecommunications. Obviously, things have been more difficult in the aerospace sector, where Airbus is our number one customer. We did EUR 330 million of business with them last year and they announced one-third reduction in production. Although we continue to work on this it will certainly have an impact on our business. Transport and industry and non-food retail are also difficult. We remain active and it is not a catastrophe, but there is an impact. Fourth quarter figures will be down quite significantly compared with March.

We have organic growth of 1.9% in the UK with contrasting situations. The joint ventures are holding up well with average growth of 8.5%. Other than that, we have been impacted by the suspension of the application delivering visas for the British government and we do not know when it will be relaunched. We are a small player in the private sector where we have customers like Easy Jet who have been badly hit by the crisis and this will impact revenue for the second quarter.

Organic growth for the rest of Europe is 8.5% driven by two factors. There was a great Scandinavian performance of 11.7% organic growth in the first quarter and the positive impact of the joint venture between Sopra Financial Technology and Sparda Bank. Revenue is consolidated halfway through last year and we had a great deal of activity in this JV. Aside from these two areas, the rest of the countries were stable over the period.

Moving on to our solutions, with Sopra Banking Software we are following our product plans. The new version of Cassiopae, 4.7 was released on 31 March as planned and will be used for all our longstanding customers. We have been working with them on this and will continue to work on subsequent versions. Our objective is to relaunch sales as of the start of 2021. We are following our operational plan for the rest and we have made progress with the Sparda Bank programme, which is key to developing our core banking in Europe. That investment will continue, and we are delivering as planned, though in the current context things like licence decisions are slower, but it does not call our investment into question. The market may be a lot more active in terms of licences towards the end of the year and next year.

We had organic growth in Other Solutions of 0.6% driven by real estate activity, which grew by 2%. The Human Resources activity was stable despite the impact of the crisis.

If we now look at our outlook, although we have made forecasts for the first half with a reduction in turnover of between 2% and 6%. Obviously, we can see activity for April, May and June but although we are very well-positioned in all the Group's geographies given the crisis and economic context our customers may take drastic decisions at any time. The situation as it stands today is not a catastrophe, but we are well aware it could be worse and even for June there are uncertainties. It is not reasonable to make forecasts for the second quarter which could be very positive and as I said, we have been very active, but there are big risks faced by our customers and our environment. We

do not want to be too optimistic or too pessimistic, so we are focusing on the priorities I have mentioned and managing the company very closely, but we cannot make any commitments for the future.

QUESTIONS AND ANSWERS

Emmanuel PAROT, Gilbert Dupont

How many people are partially unemployed?

Vincent PARIS

We have not made all the decisions and we will see the full figures in a couple of months. As it stands today, the figure is low, but we do not have the full figures. It is not our top priority. We have prioritised assigning employees to our current projects, research and development, or internal transformation. We are pushing corporate responsibility activity, which is obviously essential at the moment. We are using partial unemployment measures but responsibly, so it is a very small number.

Derric MARCON, Société Générale

Can you give us the calculation of the recurring revenue and the breakdown?

Vincent PARIS

The share of recurring revenue in our different divisions is 11% BPO/BPS, 11% infrastructure management, 12% application management and 6% for software.

Laurent DAURE, Kepler Cheuvreux

What is organic growth for Sparda?

Etienne de VIGNAUX

40% in the first quarter.

Nelly DAVIS, Tocqueville Finance

What is the impact on margin of the reduction in business?

Vincent PARIS

When it comes to margin everything depends on the reduction at account level. We are trying to forecast and anticipate this impact, optimising and managing activity. If there is significant negative growth, we will have to try to reduce costs and there will be a significant impact on margin whatever we do. It is soon to give you any detailed information, but if there is a drop in turnover there is a drop in costs. At the same time, we have an offensive stance and are adapting our position day-to-day. Even if we lower costs a drop in turnover will impact our results.

Patrice RIVIERE

What is the impact of the reduction in Airbus activity at Group level?

Vincent PARIS

They have reduced production by one-third and while we are finding deals every day, but you will have seen that they are optimising their situation to adapt to the context, which is not easy. We will communicate about this gradually, but I would say that 25% depends on geographies, but we have seen what has happened and are trying to anticipate what will happen in the coming quarters.

Grégory RAMIREZ, Bryan, Garnier & Co

How are you managing costs with regards to recruitment, subcontracting and others?

Vincent PARIS

I think this was explained earlier. We are taking rapid decisions and have stopped anything that we do not need to do. There is no travel, purchasing is being reviewed and we are seeing a lot less than usual. We are not going to stop working with subcontractors overnight, but we are reducing their use and that will not impact for a month or so. However, we have to maintain our production capacity because we are finding deals and have to be ready. We are adapting our costs but managing things very pragmatically on an operational level on the ground, taking into account the context in different countries.

Mathieu LAVILLUNIERE, Invest Securities

If we take the indications for the first quarter and then minus 7 to minus 15 for the second quarter, can you indicate what areas where we will see the most significant drop?

Etienne du VIGNAUX

There is a big difference between the best and worst-case scenarios, so we cannot give you that sort of detail today. The calculation of between minus 7 and minus 15 is correct.

Derric MARCON, Société Générale

Is the Cassiopae roll-out of version 4.7 going to generate more service revenue in 2020?

Vincent PARIS

No, because this is integrated into our plan. We planned to resolve some of the problems and wanted to wait for this more stable and industrial version before relaunching our customer project. Since it is integrated into our forecast there is no impact.

Nicolas DAVID, Oddo BHF

Is there a risk that you will not be able to implement 4.7 with your customers and will there be additional overruns?

Vincent PARIS

There is a risk with all our operations but it is clear that given the context we want to resolve the situation so that we can then get on with a more offensive approach. Every month we are working on this there is some overrun, but it is all integrated into our forecast. In 2019-2020 our priority was the product roadmap and resolving customer problems so that we could start a more aggressive approach in 2021 and that is what we are doing. The crisis has not had an impact on this.

Georges WEBB, Morgan Stanley

Can you give an indication of the size of the impact you have put in the first-half expectations on the suspension of the UK immigration contract?

Etienne du VIGNAUX

This is obviously affected by the fact that people have to travel to visa centres, which is impossible during the lockdown. We are expecting a negative impact of EUR 10 million in Q2 and forecasting a progressive return to business in Q3 and Q4.

Laurent DAURE, Kepler Cheuvreux

Concerning customer behaviour have you had requests for price reductions or payment delays?

Vincent PARIS

Not really but we are obviously looking at it very closely. Customer behaviour is very important, and I am happy to say that our customers are constructive and trying to help us. I am not aware of any requests or only in very specific areas focused on airline companies, which is minimal at group level.

Laurent DAURE, Kepler Cheuvreux

Can we have an update on Sopra Banking Software's overruns?

Vincent PARIS

We still have the same type of overruns that we had last year. I cannot give you the exact figures of the top of my head, but we are following our operational plan. There are no major overruns, and nothing has changed from about three months ago.

Nicolas DAVID, Oddo BHF

Could you give details of the impact of the ramp-up of the contract with the Ministry of Defence?

Etienne du VIGNAUX

This contract is worth EUR 300 million over seven years. There is a ramp-up in 2020, a low margin for the first three years. There was a marginal contribution in Q1 which is really the launch phase and we are expecting a negative contribution in terms of margin of between EUR 5 million and EUR 10 million for the rest of the year.

Nicolas DAVID, Oddo BHF

Could you describe the situation that has enabled you to maintain such strong growth in Scandinavia and what trend do you expect in the second quarter?

Vincent PARIS

We should highlight that we have a very large public sector presence in the Nordic countries of 80% our activity and we have won contracts. Activity has been maintained in all the countries, so we have been and will continue to be successful leading to good growth at Group level. The key takeaway is our public sector position.

Antonin BAUDRY, HSBC

Could you provide a breakdown of changes scope?

Etienne du VIGNAUX

EUR 14.3 million. As indicated, we divested the UK recruitment activity for minus EUR 38 million. From 1 August, we integrated the Sparda joint venture, which is plus EUR 38 million. We integrated SAB into Sopra Banking Software halfway through the year for EUR 13 million. The addition of the HR activity at the end of the year brings us to EUR 14.3 million.

Nelly DAVIES, Tocqueville Finance

You mentioned Airbus and EasyJet as customers that have been impacted. Are there any others and what is the proportion of revenue?

Vincent PARIS

It is Airbus and Easy Jet above all, with other customers there are no major issues to be highlighted. We are seeing a bit of friction and a cautious approach because everyone is being affected by the crisis. We are being cautious in terms of our projects, some of which may be stopped but there are no other customers in the same situation as Airbus. The others are resisting, and some projects are stopping but there are no major impacts other than Airbus. The impact is quite limited and consistent from country to country. As I mentioned, there are risks and opportunities, along with psychological and macroeconomic impacts. There is an impact, but it is difficult to forecast for the next three to six months.

Nicolas DAVID, Oddo BHF

In your forecast for the activity in the second quarter what proportions are linked to confinement and the drop in demand?

Vincent PARIS

When the customer project is going well confinement clearly has no impact, it is just a different way of working. It is more difficult over the long-term, but I think we are capable of reinventing ourselves and staying effective. Our major issue is not one of business but economic, with customers reducing the number of projects. Some customers do not want us to work remotely, while we are paying attention to health issues, but this can all be managed. The big question is our customers' financial position.

Laurent DAURE, Kepler Cheuvreux

What is the expected contribution from Sparda for 2020? Can we have an update on the pension fund?

Etienne du VIGNAUX

In terms of turnover for 2020, we are expecting Sparda to contribute EUR 200 million. On the UK pension fund, the assets are obviously impacted by market changes. Let me remind you that the proportion of assets exposed to equity risk has decreased with asset management, and represents just under 20% of assets at 31 December 2019. Bonds represent around 20%, while the remainder is invested in real estate assets, cash and hedging instruments.

The assets will obviously be allocated, the liabilities will also be allocated. They can be allocated favourably depending on the evolution of long-term rates, which tend to fall. We will communicate on this subject at the end of H1 as usual.

Patrice RIVIERE

What is the impact of the crisis on the Sodifrance activity?

Vincent PARIS

You should ask them; they will be publishing their own results on July 23rd. The general market conditions have an impact and we are communicating and managing the impact. We have not seen any major problems so once this crisis is over it will still be the same company. There is nothing we really need to highlight, and the market seems to be holding up well.

Jérémy QUICK, Risk.net

Can you give us the weighting of the different sectors in the Group's turnover?

Etienne du VIGNAUX

Banking is number one at 24% of turnover in 2019, insurance is 5%, public sector represents 23%, aerospace, defence and homeland security is 17% including Airbus, energy and utilities 7%, Telcos, media 5%, and between 4% and 5% for transport and distribution, 11% for others.

Patrice RIVIERE

Do you see any new opportunities or requirements that might emerge?

Vincent PARIS

As I said, we are being very active in terms of consultancy with our customers. We are trying to help them work remotely with an agile approach and optimise production. There are a lot of ways of working that will change and companies will have to reinvent themselves in the future, which is obviously very favourable for transformations. A lot of applications could emerge proactively. I mentioned the Stop Covid application and we have initiatives in the retail sector to optimise queuing, for example. We are making this application available to our customers for free during the crisis, but we could give you a lot of examples of new offers we can push, and we are just at the start of something new. We will see a long-term transformation where customers need advice, proactive support and help managing their activities. I am not worried about the possibilities, innovation and selling new offers in the future. As I mentioned, we are signing new deals every day in all the Group's different sectors, so even if we are experiencing a crisis the underlying trends are still there.

Shubham AGARWAL, Sopra Steria

Are you expecting any layoffs and low or no promotions this year?

Vincent PARIS

On the contrary, employees are progressing so we will certainly be promoting and training people, but we might be a bit more cautious about salaries. In terms of layoffs, it is soon to give you any details. We have not yet thought about that and it depends on developments in the situation.

Antonin BAUDRY, HSBC

Can we expect any extension in payment terms?

Etienne du VIGNAUX

As we said earlier, we do not see any deterioration today. The Group is positioned, as Vincent pointed out, on major clients and key accounts, which are attentive to this. We ourselves are very attentive to our suppliers, to maintain a good fluidity of payment. This is very important for the preservation of relationships and the future.

After that, you have in mind that one day of DSO within the Group will have an impact of around 10 million euros on cash flow. We have made a lot of progress in recent years, reaching 55 days of DSO at the end of last year. We can probably expect a slight deterioration, but today we are not seeing it. We are obviously very attentive and have reinforced the monitoring of cash on a day-to-day basis. For the moment, with a few exceptions, we have no concerns about the pace of cash inflows. Nevertheless, some areas are more fragile than others. I am thinking in particular of the African zone, where we are present. We are very attentive to the measures taken in these areas by local governments, particularly with regard to foreign exchange outflows.

Emmanuel PAROT, Gilbert Dupont

What is the weighting of subcontractors that could be replaced by Sopra Steria headcount?

Vincent PARIS

The weighting varies between activity and country. It is between 10% to 15% in each of our geographies and it is essential to have this minimum level of subcontracting for flexibility and reactivity. Replacing subcontractors with Sopra Steria employees has already started but this will happen over time. We can reduce the figure, but we do not want to stop working with any subcontractors or put them in difficulty because some of them have important expertise. There will obviously be a post-crisis period and we do not want a situation where people do not want to work with us in the future. Our approach is smart and pragmatic but there will be significant reductions in subcontracting, and we will adapt as these decisions are made progressively.

Derric MARCON, Société Générale

Are there any factors that you think will make the EBIT margin lower in 2020 than 2008 and 2009?

Etienne du VIGNAUX

The current crisis is very different in terms of duration and how the economy comes out of it. That is why we have not provided guidance for this year. That is all we can say at the moment.

Laurent DAURE, Kepler Cheuvreux

For your revenue guidance, is your level of savings sufficient to be able to maintain margin in the first half of the year?

Etienne du VIGNAUX

As I said, we are not going to be issuing guidance. We gave quite a broad bracket for turnover and we cannot give you an indication for the margin level we are expecting in the first half of the year.

Antonin BAUDRY, HSBC

How might the current context slow down Sopra Steria's value ramp-up strategy and recruitment of business consultants?

Vincent PARIS

I do not know if this is a mid-term or short-term question. It is obviously not easy to recruit today, but we are continuing with planned recruitment. We are doing everything we can in terms of value ramp-up, repositioning our proposals regardless of the crisis. We want to differentiate ourselves and be proactive with our customers.

Nicolas DAVID, Odo BHF

What customer behaviour are you observing in the current context, specifically in the banking sector for services or software?

Vincent PARIS

I have spoken about sectors that are holding up well and are active and others that are suffering. Banking is between the two, so there is nothing to signal here. It is not the most active sector, but it is not struggling like the aerospace sector.

Derric MARCON, Société Générale

What is your usage rate? Are you going to drop this?

Vincent PARIS

We've had quite quickly 1 to 2% more in terms of utilization rates, in the wrong direction of course. It all depends on geography and activities. We have to retain 1 to 2% for the moment, with risk for the future. That is what I would like to emphasize.

Derric MARCON

When do you think you will have more visibility in terms of what your customers are going to be doing in terms of IT spending?

Vincent PARIS

We cannot really say that we will have a clearer point at any particular moment; obviously anything can happen. We are managing the short-term situation every week as well as anticipating transformations that will happen after the lockdown. It is too soon to tell what will happen in the second half of the year.

Derric MARCON

How can the cost-savings imposed in this situation have a positive impact on the 2020 results, imposing holidays?

Vincent PARIS

We have been flexible and not forced employees to take holidays. We will be pragmatic and effective, optimising holidays and encourage people to take holidays during the summer. We cannot quantify this impact.

Etienne du VIGNAUX

For the time being, we have chosen not to impose leave on employees. We are managing things in a fairly flexible way

Olivier PSAUME

At this point, we have no further questions.

Vincent PARIS

Thank you very much for listening to us and for your questions. We will see you at the next Group events.