Sopra Group
2013 Annual results presentation

19 FEBRUARY 2014

Pascal Leroy, Chief Executive Officer

Thank you for attending this afternoon, whether in person or virtually via web or phone conferencing. François Lefebvre and I will be giving this presentation together.

I would like to begin with the usual disclaimer concerning the risks and uncertainties involved in any projection or forecast.

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I will be handling the first part of the presentation, after which François Lefebvre will present the Group's financial results, then I will take back the floor to discuss the market, the Group's strategy, and our objectives for 2014.

I. Key events of 2013

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The Group has reinforced its governance structure. Vincent Paris joined the Group's executive management team just a short time ago. The division of responsibilities between Pierre Pasquier, Vincent Paris and myself is defined in the document you have received. The aim is to continually reinforce both the Executive Committee and the Group's governance in general, with the addition of new members.

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In 2013, growth and performance came in as hoped. As in 2011 and 2012, we pursued an ambitious and focused M&A strategy, with the notable acquisitions of HR Access and of Altime, a consulting business. At the same time, we gave fresh impetus to the Sopra 2015 strategic project, which creates value for our clients, our employees and our shareholders. I will discuss the main thrusts of this project at the end of the presentation. All in all, 2013 was a year of continued success and development for us.

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Let's look now at the key figures. Revenue amounted to €1.349 billion. Organic growth was 4.3%, showing stability between the first and second half of the year (4.9% in H1 and 3.7% in H2). The operating margin was 6.2% in H1 and 9.8% in H2, which is consistent with our business model. H2 systematically has a higher margin than H1. For the year as a whole, the operating margin came to 8.1%, with total growth of 10.9%, including the initial consolidation of HR Access (9 months) and of Altime.

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Looking at our revenue by business line, the solutions business evolved with the 9-month consolidation of HR Access activity. These industry-specific solutions now account for 25% of the Group's revenue, divided between banking (64%), human resources (24%) and real estate (12%).

With respect to our services business (integration and consulting), the breakdown is stable compared to last year. However, fixed-price projects, i.e. large-scale operations, have grown and now account for 25% of revenue. We are becoming increasingly successful in positioning itself as a preferred partner for such large-scale operations. In contrast, services (technical assistance) is accounting for a smaller proportion of revenue (29%), providing a good measure of the added value partnerships we are building with our clients. Consulting represents 7% of the Group's business and application outsourcing, which involves lengthy and recurring projects, accounts for 39%. This breakdown thus remained relatively stable between 2012 and 2013.

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Our breakdown of verticals was also quite stable. Financial services are still the Group's primary market, accounting for 33% of revenue, stable compared to 2012.

For a number of years now, our strategy has been to focus on major clients so as to develop recurring business, raise our profile and position ourselves as a preferred partner for large-scale programmes. This strategy continues to bear fruit since we have seen growth of about 13% among these major clients, while organic growth has been in the range of 4–5%.

We have also sought to expand our presence among public sector, and especially defence, clients. We won a certain number of major contracts at the end of 2012 and saw 18% growth in this vertical in 2013. These contracts carry recurring business to a significant extent. They may involve commitments of 7, 8 or 9 years, and sometimes more.

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By geographic region, France accounted for 67% of revenue in 2013, with the remaining 33% generated in the rest of the world.

In the Group's solutions business, the distribution is somewhat different, as these activities have expanded more outside France, in particular via Sopra Banking Software and HR Access. However, our real estate solutions are sold above all to clients in France.

France accounts for 77% of revenue from the services business (integration and consulting), followed by Spain and the United Kingdom. Clients for this business in the rest of the world (8%) are mainly based in Europe. This distribution has remained stable.

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I would now like to discuss the main indicators. France is seeing the same growth trend as the Group, with 4.1% growth in 2013. Market studies such as the one conducted by Syntec show that Sopra's performance is clearly stronger than that of the sector. This is again the result of the quality of our business model, which allows us to capture market share from our competitors.

Revenue in Europe (excluding France) grew by 9.6%. Germany was the main driver of that growth, although it accounted for a relatively small proportion of Group revenue in 2012. The other main countries, such as the United Kingdom or Spain, have also seen growth despite the fact that conditions in these markets are sometimes difficult, thereby constituting an excellent performance.

Sopra Banking Software's revenue was stable.

Lastly, our 30 largest clients accounted for 53% of Group revenue in 2013, which is slightly more than in 2012.

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Our workforce grew by 14%, including both recruitments and acquisitions. I would like to remind you that major restructuring efforts were carried out at HR Access and would ask that you remain attentive to this issue as you consider the figures.

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To sum up, we have reported the following key figures for the year:

- revenue of €1.349 billion, representing an increase of €132 million compared to 2012;
- organic growth of 4.3%;
- total growth of 10.9%;
- operating profit on business activity of €109 million, or 8.1% of revenue;
- net profit of €71 million, or 5.3% of revenue.

François Lefebvre will, of course, be discussing these figures in more detail.

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A year ago, we set ourselves several objectives:

- record revenue growth of between 2% and 5%: we are now at the high end of this range;
- achieve operating profit on business activity, including HR Access, of between 7.3% and 7.7%: we have reached 8.1%;
- take an active role in market consolidation in Europe: we have shown this in 2013 and just yesterday evening we announced an acquisition in Germany;
- enhance our product lines: whether in the banking sector, by way of the acquisition announced yesterday evening or that of HR Access, we reaffirm our ambition to be a major player in industry-specific solutions;
- reduce the Group's debt: we have held firm to the announced range of €150–170 million.

As was the case last year, Sopra has thus met its targets, confirming the relevance of the Group's positioning and strategic choices. We will return to these points in the third part of the presentation. I would now like to turn the floor over to François Lefebvre, who will be presenting the Group's financial results in more detail.

II. Financial results

François Lefebvre, Chief Financial Officer

Thank you, Pascal and greetings to everyone. I would like to suggest that we look at the 2013 figures in more detail.

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First of all, I would like to reiterate the main economic indicators already mentioned by Pascal.

Revenue amounted to €1.349 billion, representing total growth close to 11% and organic growth in excess of 4%. Operating profit on business activity was €109 million, or 8.1% of revenue. Profit from recurring operations was 7.5% and operating profit was 7.7% of revenue, the latter amounting to €104 million, up from €91 million in 2012. Net profit was €71 million, or 5.3% of revenue. Earnings per share came to €6.

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Now I would like to suggest that we look at the elements that make up operating profit on business activity.

Revenue grew by 10.9%.

Staff costs rose by 11.6%. The change in staff costs for contractors demonstrates better control of our production and our competitiveness. Changes in other staff costs are mainly due to the investments carried out in 2013, especially in R&D. Nevertheless, the integration of HR Access complicates the comparison between 2013 and 2012 to a certain extent.

Operating expenses grew by 13%. Depreciation, amortisation and provisions increased by 25.3%. The cash flow statement shows that the growth in these items is the result of the investment strategy pursued in 2013.

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I suggest that we now look at the transition from operating profit on business activity to operating profit.

As in prior years, we can see the expenses associated with stock options and bonus share plans (€3 million) and the amortisation of allocated intangible assets (€4.8 million). Profit from recurring operations thus came to €101 million, or 7.5% of revenue.

Other operating income and expenses, for €3 million, are added to this amount. At 30 June 2013, this line item was already positive. Even though the restructuring plan at HR Access was carried out in the second half of the year, this item was still positive in the amount of €3 million in 2013. Operating profit thus came to €104 million, or 7.7% of revenue.

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I would now like to discuss the transition from operating profit to net profit.

The cost of net financial debt remained stable, at €7 million. Other financial income and expenses amounted to a net expense of €1.4 million. Tax expenses were stable at €32.5 million. The share of net profit of equity-accounted companies amounted to €8.4 million, corresponding to Axway's contribution to the Group's profit.

Net profit thus came to €71.4 million, or 5.3% of revenue.

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The balance sheet shows the strength of our financial structure. The Group share of equity amounted to €357.9 million. Financial debt was reduced from €204 million to €154.6 million.

The other operating assets and liabilities show that our current assets and liabilities are well under control, since this line item is negative. There was no significant change in fixed assets. This line item includes in particular goodwill, allocated intangible assets and equity-accounted investments in associates amounting to €118.8 million, which correspond to the value of Axway shares in the Group's accounts.

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I would like now to make a point about the change in net debt. Net debt at the beginning of the year was €204 million, whereas it was €154.6 million at 31 December 2013.

Changes in working capital requirements amounted to a decrease of €1.7 million. Despite the growth in our business, we managed to keep our operating assets and liabilities under control.

Depreciation and amortisation expenses indicate that 2013 was a year of significant investments in both IT assets and property, with net cash used in investing activities amounting to €20.9 million. Much of this expenditure was exceptional in 2013; these amounts will be more reasonable in subsequent years.

The impact of changes in scope amounted to €41 million.

Net debt thus came to €154.6 million.

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I would like to close this part of the presentation by mentioning our banking covenants, of which there are three:

- operating profit / cost of net debt > 5: this ratio was 21;
- net debt / equity (excluding the employee profit-sharing liability amounting to €30 million, with bank debt slightly higher at €120 million) < 100%: this ratio was 35%;
- net debt / EBITDA < 3: this ratio was 1.17.

Our performance in relation to these banking covenants underscores the robustness of our financial structure.

I would now like to hand the floor back to Pascal.

III. Market, strategy and objectives

Pascal Leroy

Thank you, François. The purpose of this third part of the presentation is to discuss the Group's future outlook and Sopra's strategic project.

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Overall, the market is growing. From our perspective, this growth is tied to three main issues faced by our clients:

- service quality and cost optimisation for existing systems
  To cut costs, existing systems need to be rationalised and combined. Whenever clients launch programmes to control costs for their systems in use or improve their service quality at lower costs, these approaches generate business for us.

- development and innovation to support expanding business operations
  Technology innovations (cloud computing, Big Data, social networks, mobility, etc.) are giving rise to new patterns of use for all functions across the enterprise, and sometimes entail a shift to paperless processes for new clients. In the hotel sector, for example, e-commerce sites are currently the players generating the most added value. These new patterns of use are spurring as many internal transformations in companies and organisations as sweeping changes across entire sectors, with the arrival of new participants, and the digital revolution is feeding growth overall. Most companies choosing to initiate these types of transformations are looking to capture market share to the detriment of their competitors.

- on-demand outsourcing or SaaS (Software as a Service) models to optimise competitiveness
  The objective is to find ways to convert investments into operational efficiency and outsource a portion of the business to other service providers and partners. Various methods (BPO, industrialised production, outsourcing, etc.) can be put to use in service of this objective. Currently, these approaches can involve a multitude of functions across a single enterprise.

For Sopra, these three issues will fuel growth over the long term.

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We have already discussed our strategy. Our aim is to pursue organic and external growth so as to attain a revenue level of between €1.5 billion and €2 billion in 2015 and an operating margin on business activity of 10%. In order to achieve these targets, our solutions, consulting and integration businesses must perform as hoped. Today, everyone at Sopra is mobilised to reach this level of profitability.

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Four strategic thrusts have been defined:

- moving up the value chain to serve the business-related and competitiveness challenges faced by our clients
  In order to be positioned as a true strategic partner, we need to fully understand our clients' businesses, whether they are in banking, telecoms or rail transport. We need to deliver added value, as much upstream, in terms of helping clients decide which types of transformation are necessary, as in the implementation of information systems. In some sectors, we already have these conjoined integration and consulting capabilities, which are essential in the context of this move up the value chain.

- Europe: stepping up our European expansion efforts organised around a reinforced Group culture
  We need to continue expanding our presence in Europe. The target we have set ourselves is for Europe to represent between 35% and 40% of our business.

- strengthening our position as a vendor of solutions
  We create solutions, not merely software. This means that we identify requirements and then implement a system for a client, based on our proprietary technologies. We are not just offering technologies powered by Sopra, but instead a total solution for our clients, including the capability to implement it. We acquired HR Access and a German company in the banking software sector for €23 million, in order to round out our Sopra Banking offering as a vendor of solutions, in terms of both geographies and industry representation, as the German company specialises in the car loan segment. We intend to make similar investments in future.

- innovation and offerings: making the best uses of technology available to our clients
  The current digital revolution requires us to remain several steps ahead of our clients in order to help them transform technologies (cloud computing, social networks, mobility, etc.) into effective uses and, in addition, so as not to be squeezed out by new players arriving on the scene. We are making significant investments to develop innovation and raise its profile in the market, by offering solutions to cut costs, boost growth through innovation and outsource entire installations of IT assets.

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I would like to finish this presentation by pointing out that the Group's capital structure is described in detail in the document you have received. Control over this capital structure is a key aspect of our strategic project.

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Our objectives for 2014 are as follows:

- organic growth of between 3% and 5%: the start of the year is already in line with this target;

- improvement in the operating margin on business activity: we are engaged in continuous efforts to keep this improvement on track;

- reduction in the Group's debt, with net debt at end-2014 of between €110 million and €130 million, taking into account the acquisition in Germany just announced.

In conclusion, external growth will also continue. This is an area in which we have demonstrated our capabilities in integration, on both the technical and cultural fronts, incorporating the acquired companies and their offerings into the Sopra way of business.

The digital revolution at work everywhere around us is shrinking time and creating new expectations. The pace of change and the learning curve have without a doubt become extraordinarily rapid. Business models are constantly evolving and every month we must all reflect on the transformations affecting our companies and organisations.

At this point, François and I would be happy to answer any and all questions you may have.

QUESTIONS AND ANSWERS

Grégory Ramirez, Bryan, Garnier & Co

I have a question about the profitability of HR Access. The operating margin was 20% for H2, if my calculations are correct.

Pascal Leroy, Chief Executive Officer

That does not sound like an accurate figure to me. The profit margin was 7.7% over the 9-month period.

Grégory Ramirez, Bryan, Garnier & Co

How do you see the path for improvement taking shape in 2014 and beyond? I think you are hoping to reach a margin of 15%, or maybe even 20%, in the medium term.

Pascal Leroy, Chief Executive Officer

I can confirm this as a long-term objective. In this business as a vendor of solutions, we need to attain a margin level of between 15% and 20%. We had a good run in 2013 and we will be continuing our efforts in 2014. You are also aware that we have our own human resources solutions at Sopra, through Pléiades. Our objective in 2014 will be to combine Pléiades and HR Access. The priority will not be to improve margins, but to become a true global player in this market, with the aim of reaching a profitability of between 15% and 20% in the medium term.

Richard Beaudoux, Natixis

Still on the integration of HR Access, do you foresee any restructuring costs in 2014?

Pascal Leroy, Chief Executive Officer

No.

Richard Beaudoux, Natixis

All costs were charged to 2013?

Pascal Leroy, Chief Executive Officer

Yes they were.

Richard Beaudoux, Natixis

You are aiming for organic growth of between 3 and 5%. Has such growth been achieved in the first quarter, bearing in mind that contracts signed at the end of 2012 have been driving growth this quarter? The base effect of that is not very favourable.

Pascal Leroy, Chief Executive Officer

We are going to wait until April to make a full statement. But the beginning of the year has been good. Even though there is a slight difference in the number of days between Q1 2013 and 2014, the trend is within that range.

Richard Beaudoux, Natixis

Is that growth driven by the usual projects, or newly signed projects?

Pascal Leroy, Chief Executive Officer

2011 and 2012 were satisfactory years in terms of new projects. But long-term contracts only really start to get results in the second or third year. So we are starting now to experience growth from signings in 2011 and 2012. The end of 2013 was satisfactory as well, but I expect the impact of those signings to show up over the next few quarters rather than in Q1. First we have to set up all the infrastructure, transfer the know-how and integrate it at Sopra.

Richard Beaudoux, Natixis

Are contracts signed at the end of 2013 leading to investments in the first quarter of 2014?

Pascal Leroy, Chief Executive Officer

We cannot generate organic growth if we do not invest in a certain number of large-scale operations. Winning a 5, 6 or 7 year contract for a public administration or a large company requires one or even one and a half years of work. I do not expect a drop-off in commercial investment over the coming months. We successfully renewed almost all our major contracts at the end of 2013, as well as winning new ones. Commercial investment will not be reduced, but it will be carefully targeted in order to ensure its profitability.

Richard Beaudoux, Natixis

Can we expect to see a seasonality effect between the two halves of the year?

Pascal Leroy, Chief Executive Officer

Yes, this seasonal pattern is an integral part of the software development business.

Richard Beaudoux, Natixis

You indicated that some acquisitions were in the planning stage. What is the profile of the businesses you are interested in, in terms of location and business activities?

Pascal Leroy, Chief Executive Officer

We want to strengthen our strategic priorities (software development, European companies) and we are actively monitoring opportunities, as is shown by our announcement in November that we successfully completed an acquisition of a German company. We will continue in this vein, although I obviously cannot tell you more at this stage.

Richard Beaudoux, Natixis

I would like to talk about your recruitment figures. You took on large numbers of staff in 2013. Should we expect this trend to continue in 2014?

Pascal Leroy, Chief Executive Officer

Yes, probably.

Alexandre Iatrides, Oddo

I have three questions for you. The first concerns the signing process for major projects in banking. You approved certain structural projects at the end of 2012. Will the pace of major projects pick up? Have other French banks registered their interest, over and above BNP Paribas?

My second question concerns HR Access and the recuperation of service contracts. The growth potential is clearly major – 2,000 engineers are working on these contracts. Which part of the market is Sopra targeting? What do you expect the pace of expansion to be?

Finally, the economic climate in France seems to be improving. What are your expectations in this regard?

Pascal Leroy, Chief Executive Officer

Regarding major bank operations, other operations are in the pipeline. We had hoped to make one of them a reality in 2013, but this did not happen. This partially explains the flat outcome for Sopra Banking Software. Nevertheless, we hope to complete the signing of a major operation in 2014, in France or even at the international level. Sopra Banking Software has a strong presence at the international level and in Europe, but also in Africa and several other countries.

In answer to your second question about HR Access, the service division is a key driver of growth, over and above outsourcing, which bills for payslips. France has between 1,500 and 2,000 HR Access consultants. We are not necessarily seeking to dominate the field, but we do want to have a very strong presence. We have not set ourselves specific targets, although we do intend to be the leading integrator for our own solutions. We are targeting strong growth in service activities based around HR Access.

As for the third question regarding the market environment, when you sign a major contract, the market environment looks favourable to you. The strategy we have developed concerning major clients is positive, in my opinion, and allows us to be less sensitive to economic cycles thanks to recurring business. However, I am not convinced that market conditions are improving. Overall, growth remains extremely weak. On the other hand, we are convinced that IT investment currently represents the main vector of development for businesses. Whether you are buying a car or getting on a TGV, technology is ever more present. This is a long-term market trend. As far as 2014 is concerned, I am more of an optimist by nature, but this confidence is not based on the market environment, but more on our ability to win business.

Derric Marcon, Société Générale

First of all, I would like to return to the cost base of HR Access. Can you specify, in quantitative terms, the negative goodwill from HR Access in the second half of 2013? What cost base do you anticipate for 2014?

My second question concerns how Sopra Banking Software revenues are broken down between licences, service and maintenance. How did the licences perform in 2013, and what are your aims for 2014?

Finally, what was the effect of CICE (tax credit) in 2013?

Pascal Leroy, Chief Executive Officer

CICE had an impact of €8 million. However, we distributed part of this amount among the Group's staff. So its impact on the figures is significantly lower.

With regard to HR Access, the figures should be directly readable in 2014, as the restructuring was carried out in 2013. We are targeting an improvement in the long term and, in 2014, performance that at least equals that of 2013. On the other hand, I cannot give an exact answer to your first question. We had planned not to communicate on this point, and my answer remains the same as the answer I gave you in July. I can simply tell you that we have made overall savings of almost €30 million by taking into account the costs generated by all our restructuring activities, particularly concerning premises and IT, over and above staff-related costs.

In answer to your question about Sopra Banking Software, licences represent 16 to 17% of revenue, maintenance represents 28%, and services a little over 50%.

Derric Marcon, Société Générale

So, in relation to HR Access, you are saying that performance for 2014 will be equivalent to 2013. Is that in absolute terms?

Pascal Leroy, Director General

We anticipate an equivalent operating profit, not including exceptional items.

Derric Marcon, Société Générale

Is that based on the anticipated 2014 cost base?

Pascal Leroy, Chief Executive Officer

Yes.

Derric Marcon, Société Générale

The cost base changed quite radically between Q2 and H2 2013. I understand your restructuring work, but can you give us some more details about this?

Pascal Leroy, Chief Executive Officer

The cost base will enable us to generate operating profit on business activity at the same level as in 2013. In other words, our cost base will be lower than our revenue.

If there are no further questions, I would like to thank you for your attention and invite you to continue these discussions during the cocktail reception.