

Downturn in revenue less pronounced in Q2 2020/21: -4% **Expected improvement in profitability, compared with Q1**

Revenue In €m - unaudited consolidated data	2020/21	2019/20	Change	<i>Change at constant scope¹ and on a constant forex basis</i>
Q1	94.4	98.3	-4%	-10%
Q2	92.4	96.2	-4%	-4%
H1	186.8	194.5	-4%	-7%

¹ WGroup has been consolidated since 08/01/2019.

For Q2 of the 2020/21 fiscal year (July 1 to September 30, 2020), Wavestone's revenue stood at €92.4m; down 4%, compared with Q2 2019/20.

At constant scope and exchange rates, excluding WGroup, the firm saw a contraction of -4%, and therefore a less pronounced decline in revenue in Q2 than in Q1 (which, as a reminder, was -10%).

Over the whole of H1, Wavestone generated a consolidated revenue of €186.8m, a decrease of -4%, which is equivalent to -7% on a constant forex basis.

Consultant utilization rate recovers to 68% in Q2

While it was impacted at the start of the fiscal year by the health crisis and sharp downturn in demand, in Q2 the consultant utilization rate recovered to reach 68% over the period, compared with 63% in Q1. This was helped, in particular, by the initial results of the measures the firm took to reinvigorate its business development activity.

Over the whole of H1 2020/21, the utilization rate was 65%, compared with 71% over the whole of the previous fiscal year. As a reminder, these figures are directly comparable, because the use of furlough measures does not feature in the calculation of consultant utilization rate.

In parallel, given the improved situation, and with the need to avoid any windfall effect, the company made less use than expected of furlough measures in H1. In total, over the period, such measures were applied to about 6% of fee-earning employees. The firm is no longer furloughing staff in France and is making only limited use of such measures in some international entities.

The return of price pressures confirmed

Price pressures were confirmed in Q2, resulting in an average daily rate of €850 over the whole of H1, down -3% compared with the rate of €878 recorded over the 2019/20 fiscal year.

The company still expects its prices to be -3% to -5% lower over the entirety of this fiscal year, compared with the previous fiscal year.

A -5% reduction in the workforce at September 30, 2020

At September 30, 2020, Wavestone had 3,324 employees, compared with 3,498 at the end of March (the end of the 2019/20 fiscal year) – a decrease of -5%.

Having noticed, during the summer, an improvement in visibility on projects over the coming months, the firm has gradually resumed recruitment within its most resilient practices.

At September 30, 2020, the staff turnover rate stood at 13% over a rolling 12-month period, compared with 14% at March 31, 2020. Over the fiscal year as a whole, the reduction in turnover rate is now expected to be slightly less than initially anticipated.

In H2 2020/21, the resumption of recruitment should lead to a stabilization of employee numbers at the levels observed at the end of September 2020.

A stable order book

Order intake in Q2 did not reflect the slowdown feared before the summer. This enabled the order book to be maintained at a level of 3.7 months of work at September 30, 2020 – a similar level to that at June 30, 2020.

The company's business development teams continue to focus strongly on pharmaceuticals, utilities, the public sector, and insurance, while the downturn in demand in the energy and transport sectors is currently less pronounced than expected.

Prioritizing the rise in consultant utilization rate

While the recent worsening of the public health situation has not yet had a significant impact on commercial activity, both recent and potential future measures, in particular the return to lockdown in France, could lead to a further deterioration in demand for consulting services. Against that backdrop, Wavestone will be redoubling its efforts in the coming months with respect to the changing landscape of the market.

The company will pursue the battle plan it implemented at the start of the fiscal year, aimed at addressing the economic downturn. This involves vigorous business development activity, a focus on the most resilient offerings and business sectors, enhancing agility to be able to better respond to the changing landscape of the market.

In addition, Wavestone will continue to prioritize an increase in consultant utilization rate. Despite the uncertainties linked to the deterioration in the public health situation, the company is targeting a utilization rate of over 70% in Q3 2020/21, compared with 65% in H1. However, this target may be adjusted in the coming weeks, once there is more clarity on the consequences of the new health measures being implemented.

At this stage, the firm is pursuing the recruitment activity initiated since September; it may extend this into new practices, but will work to ensure that any recruitment does not compromise the rise in consultant utilization rate.

Q3 revenue, over a one-year period, is expected to see a slightly greater decline than that recorded in H1, despite the increase in utilization rate, as a result of trends in workforce numbers and prices.

Expected improvement in profitability compared with Q1 2020/21

On profitability, Wavestone expects the EBIT margin for H1 to be slightly higher than that estimated for Q1, which, as a reminder, was about 7%, despite the significant reduction in the use of furlough measures during Q2.

From a financial standpoint, the firm had maintained its solid balance sheet at September 30, 2020 – with net financial debt (excluding lease liabilities) of about €16m, compared with €29.1m at the end of March 2020. It should be noted that the net financial debt position is helped by the firm's decision to postpone employee profit-sharing payments in France, representing an amount of €6.3m, from July to December 2020.

The publication of the 2020/21 H1 results, in early December, will provide an opportunity to take stock of the impact of the deterioration in the public health situation and assess the firm's outlook to the end of the 2020/21 fiscal year.

Next meeting: 2020/21 H1 results, Tuesday, December 1, 2020, after Euronext market closing.

About Wavestone

In a world where knowing how to drive transformation is the key to success, Wavestone's mission is to inform and guide large companies and organizations in their most critical transformations, with the ambition of a positive outcome for all stakeholders. That's what we call "The Positive Way."

Wavestone draws on over 3,000 employees across 8 countries. It is a leading independent player in European consulting.

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