

Provisional results for H1 2020/21 results: EBIT margin of 7.7%

Annual objectives: revenue of more than €400m, double-digit operating profitability

The Management Board has authorized the publication of Wavestone's provisional results for H1 2020/21. This financial data is currently being reviewed by the Statutory Auditors and the company's Supervisory Board has been convened for December 7, 2020 in order to approve the half-year consolidated financial statements to September 30, 2020, which are summarized below.

Consolidated data (in €m) Estimated data for H1 2020/21	H1 2020/21 (6 months)	H1 2019/20 (6 months)	Change	2019/20 (12 months)
Revenue	186.8	194.5	-4%	422.0
EBIT <i>EBIT margin</i>	14.3 7.7%	20.7 10.6%	-31%	55.7 13.2%
Amortization of client relationships	(0.7)	(0.8)		(1.6)
Other operating income and expenses	(0.1)	(1.3)		(0.6)
Operating income	13.5	18.6	-27%	53.5
Cost of financial debt	(0.6)	(0.9)		(2.2)
Other financial income and expenses	(0.6)	(0.0)		(1.2)
Income tax expenses	(5.3)	(8.5)		(19.0)
Group share of net income <i>Net margin</i>	7.0 3.7%	9.3 4.8%	-25%	31.1 7.4%

Downturn in revenue less pronounced in H1 2020/21:

Over H1 of the 2020/21 fiscal year, Wavestone generated revenue of €186.8m, a decline of -4%.

At constant scope and exchange rates, excluding WGroup, the firm recorded a contraction of -7% over the six-month period.

Pressure on prices; recovery in consultant utilization rate over H1

Impacted by the public-health crisis and falling demand, the period saw a marked pressure on sales prices. Average daily rate stood at €850 in H1 2020/21: a decline of -3%, compared with the ADR of €878 recorded over 2019/20.

The company continues to expect prices to be -3% to -5% lower for the whole of this fiscal year, compared with the last.

Against the backdrop of a public-health crisis, the consultant utilization rate was 65% in H1, compared with 71% over the previous fiscal year. Q2 saw the start of an upturn in the utilization rate; it rose to 68%,

compared with 63% in Q1, as a result of the firm implementing its battle plan and more intense business development activity.

Over the whole of H1, the use of furlough measures affected about 6% of fee-earning employees. At present, the company is making minimal use of such measures: furlough arrangements now apply only to its UK operations.

Progressive resumption of recruitment since September

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%.

As a result of greater visibility on future projects, the firm has progressively resumed recruitment activity since September.

The staff turnover rate stood at 13% at September 30, 2020 (on a rolling-12-month basis), compared with 14% in 2019/20.

EBIT margin of 7.7% in H1 2020/21

Despite an expected 12%-decline of the consulting market in Europe in 2020 (data from Source Global Research), the firm's EBIT margin proved relatively robust during the six-month period, with an outturn of 7.7%, compared with 10.6% in H1 2019/20. The use of furlough measures contributed 2.8 percentage points to this operational profitability.

EBIT stood at €14.3m in H1 2020/21, compared with €20.7m a year earlier.

Measures to reduce the firm's cost, aimed at streamlining operations in the face of the difficult economic climate, have already resulted in savings of nearly €11m during the six-month period. Over the fiscal year as a whole, the performance plan will generate economies of about €16.5m – more than the €15m initially targeted; this figure excludes the effects of furlough measures and assumes no adjustments to the workforce.

After amortization of client relationships, and in the near absence of other operating income and expenses, operating income stood at €13.5m.

The cost of financial debt fell slightly, while other financial income and expenses totaled -€0.6m, including forex effects and the cost of hedging instruments.

After taking into account taxes, reduced from the exceptionally high level seen at September 30, 2019, group share of net income stands at €7.0m, a decline of -25%. Net margin for H1 was 3.7%, compared with 4.8% a year earlier.

Cash flow from business activities of €18.8m in H1 2020/21

Thanks, in particular, to the reduction in working capital requirements, Wavestone generated a cash flow of €18.8m from business activities – an increase of 48% over the period.

In the absence of M&A operations, investment activity consumed only €0.5m during H1.

Cash flows related to financing amounted to €38.7m, which includes -€34.1m in net loan repayments and -€4.1m in lease-liability repayments (under IFRS 16).

Net financial debt reduced to €15.6m at the end of September 2020, compared with €29.1m at March 31, 2020

At September 30, 2020, Wavestone's consolidated equity was €184.7m.

Net financial debt (excluding lease liabilities) had been reduced to €15.6m at the end of September 2020, compared with €29.1m at the end of March 2020, and €61.7m at the end of September 2019. It should be noted that the figure benefits from the firm's decision to postpone employee profit-sharing payments in France from July to December 2020 – representing a sum of €6.3m. Available cash and cash equivalents amounted to €44.6m at the end of the semester.

As a reminder, the firm has not benefited from the financial support measures put in place by the French government to address the Covid-19 epidemic; nor has it refinanced its trade receivables position.

Consolidated data (in €m) Estimated data for H1 2020/21	09/30/2020	03/31/2020	Consolidated data (in €m) Estimated data for H1 2020/21	09/30/2020	03/31/2020
Non-current assets	224.1	232.8	Shareholders' equity	184.7	177.1
of which goodwill	161.2	166.5	Financial liabilities	60.2	94.3
including rights to use leased assets	27.5	30.6	of which less than one year	8.1	38.2
Current assets	137.3	151.7	Lease liabilities	33.8	37.7
of which trade receivables	115.1	128.4	Non-financial liabilities	127.2	140.5
Cash and cash equivalents	44.6	65.1	Total	406.0	449.6
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A continued rise in consultant utilization rate in Q3, despite the return to lockdown

Despite a difficult business climate, Wavestone proved its resilience over H1 2020/21.

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

The recent worsening of the public-health situation, and the tighter preventive measures it has triggered, have had a very limited direct impact on the company's operations.

This evolution is unlikely to destabilize the continued rise in the consultant utilization rate in Q3. Over this quarter, the firm is now targeting a utilization rate of more than 72% in the current quarter, higher than the 70% figure previously envisaged, and a significant increase on the 65% recorded in H1.

Renewed vigilance for the start of 2021

The outlook for 2021 now appears in a less favorable light than it did at the beginning of the autumn. The early months of the year could see a degree of slowdown, as a result of clients taking a cautious approach in the face of renewed economic uncertainty.

Against this backdrop, Wavestone is being increasingly vigilant and actively preparing for the start of the year, with a view to minimizing potential disruption to workflows.

The battle plan initiated in H1 continues, with intense business development activity and new stimulus actions being targeted at practices and offices that are lagging on performance recovery.

A progressively more bullish stance despite the uncertainties

Despite the more uncertain economic climate, the company has been adopting a progressively more bullish stance since September.

As well as almost ceasing the use of furlough measures since October 1, Wavestone is gradually expanding its recruitment activities into new offices and practices while ensuring this doesn't compromise the rising consultant utilization rate.

The firm has set itself the objective of more than 400 gross hires in the 2020/21 fiscal year; this includes a target of 300 new starters before the end of March 2021.

Given a limited decrease in staff-turnover, Wavestone expects employee numbers not to change significantly over H2 compared with the headcount at September 30, 2020 (3,324 employees). The reduction in headcount should therefore remain close to -5% over the entire 2020/21 fiscal year.

Wavestone is also resuming its external-growth activity, with priority being given to international acquisitions, without refraining from tactical operations in France.

2020/21 targets: revenue of more than €400m and a double-digit EBIT margin

Despite the continued rise in consultant utilization rate, the reduced level of revenue in Q3 is expected to be of the same order as that seen in H1 (as a reminder: -4%), given the expected evolution of the firm's workforce and prices.

The company is now in a position to set annual objectives.

Over the entire 2020/21 fiscal year, Wavestone is targeting a revenue for 2020/21 of over €400m and a double-digit EBIT margin.

Next event: Q3 2020/21 revenue: Thursday, January 28, 2021, 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.

Wavestone is listed on Euronext Paris and recognized as a Great Place to Work®.

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Appendix 1: Consolidated income statement at 09/30/2020 (estimated)

<i>In €k - Estimated data for September 30, 2020 - IFRS standards</i>	09/30/2020	09/30/2019	03/31/2020
Revenue	186,802	194,466	422,042
Purchases consumed	6,511	5,563	13,007
Personnel costs	147,051	136,893	289,877
External expenses	11,483	24,404	46,699
Levies and taxes	2,905	2,049	6,313
Net allocation for depreciation and provisions	4,481	5,196	10,373
Other current income and expenses	46	-342	73
EBIT	14,325	20,702	55,700
Amortization of client relationships	747	785	1,553
Other operating income and expenses	-53	-1,273	-627
Operating income	13,525	18,644	53,521
Financial income	0	6	8
Cost of gross financial debt	637	858	2,185
Cost of net financial debt	637	852	2,177
Other financial income and expenses	-600	-28	-1,242
Pre-tax income	12,288	17,764	50,101
Income tax expenses	5,335	8,460	18,961
Net income	6,953	9,304	31,140
Minority interests	0	0	0
Group share of net income	6,953	9,304	31,140
Group share of net income per share (€) ⁽¹⁾	0.35	0.47	1.57
Group share of diluted net income per share (€)	0.35	0.47	1.57

⁽¹⁾ Number of shares weighted over the period.

Appendix 2: Consolidated balance sheet at 09/30/2020 (estimated)

<i>In €k - Estimated data for September 30, 2020 - IFRS standards</i>	09/30/2020	03/31/2020
Goodwill	161,163	166,482
Intangible assets	7,163	8,111
Tangible assets	13,275	14,024
Rights to use leased assets	27,517	30,613
Financial assets – more than one year	1,984	1,986
Other non-current assets	12,998	11,535
Non-current assets	224,099	232,750
Inventory	0	0
Trade and related receivables	115,057	128,408
Other receivables	22,246	23,282
Financial assets	0	0
Cash and cash equivalents	44,581	65,131
Current assets	181,884	216,821
Total assets	405,983	449,571
Capital	505	505
Issue and merger premiums; additional paid-in capital	11,218	11,218
Consolidated reserves and earnings	174,558	166,655
Conversion-rate adjustment	-1,555	-1,235
Total shareholders' equity, group share	184,726	177,142
Minority interests	0	0
Total equity	184,726	177,142
Long-term provisions	16,527	15,343
Financial liabilities - more than one year	52,088	56,076
Lease liabilities – more than one year	25,796	29,616
Other non-current liabilities	532	959
Non-current liabilities	94,943	101,993
Short-term provisions	4,953	5,348
Financial liabilities - less than one year	8,135	38,179
Lease liabilities – less than one year	8,019	8,041
Trade payable	10,548	16,586
Tax and social security liabilities	78,288	80,417
Other current financial liabilities	16,372	21,864
Current liabilities	126,314	170,435
Total liabilities	405,983	449,571

Appendix 3: Consolidated cash flow statement at 09/30/2020 (estimated)

<i>In €k - Estimated data for September 30, 2020 - IFRS standards</i>	Restated 09/30/2020	Restated ⁽³⁾ 03/31/2020	Published 03/31/2020	Restated ⁽³⁾ 09/30/2019	Published 09/30/2019
Consolidated net income	6,953	31,140	31,140	9,304	9,304
Elimination of non-cash elements:					
Net depreciation and provisions ⁽¹⁾	5,835	13,204	16,837	6,034	7,879
Charges/(income) related to share-based payments	1,229	3,470	-	1,682	-
Losses/gains on disposals, net of tax	1	129	-34	123	-36
Other calculated income and expenses	-101	-1,210	-188	98	1,425
Cost of net financial debt (inc. interest on lease liabilities)	812	2,565	1,616	1,046	818
Tax charges / (income)	5,335	18,961	-	8,460	-
Self-financing capacity before net financial debt and tax costs	20,064	68,260	49,371	26,747	19,389
Tax paid	-10,475	-19,167	-	-10,237	-
Change in WCR	9,226	6,205	5,927	-3,829	-6,708
Net cash flow from operations	18,815	55,298	55,298	12,681	12,681
Intangible and tangible fixed asset acquisitions	-532	-3,062	-3,062	-2,388	-2,388
Asset disposals	0	86	86	62	62
Change in financial assets	-6	61	61	22	22
Impact of changes in scope	0	-26,615	-26,615	-22,267	-22,267
Net cash flow from investments	-538	-29,530	-29,530	-24,571	-24,571
Sales (acquisitions) by the company of its own shares ⁽²⁾	135	-3,522	-3,522	-3,542	-3,542
Dividends paid to parent-company shareholders	0	-4,572	-4,572	-4,572	-4,572
Dividends paid to minority interests of consolidated companies	0	0	0	0	0
Loans received	0	118,220	118,220	23,220	23,220
Repayment of loans	-34,143	-111,767	-111,767	-11,531	-11,531
Repayments of lease liabilities	-4,052	-6,720	-6,720	3,354	3,354
Net financial interest paid	-507	-2,487	-2,487	-592	-592
Net interest paid on lease liabilities	-170	-321	-321	-122	-122
Other flows related to financing operations	27	0	0	0	0
Net cash flow from financing operations	-38,710	-11,168	-11,168	-494	-494
Net change in cash and cash equivalents	-20,433	14,599	14,599	-12,384	-12,384
Impact of translation differences	-71	-123	-123	79	79
Opening cash position	65,068	50,592	50,592	50,592	50,592
Closing cash position	44,565	65,068	65,068	38,287	38,287

⁽¹⁾ including €3,246k for the amortization of property usage rights (IFRS 16) in H1 2020 and €3,083k for the same in H1 2019.

⁽²⁾ for information, the company has delivered treasury shares to a value of €2,518k.

⁽³⁾ in order to show the tax paid as a direct reading in the consolidated cash flow statement, in accordance with IFRS presentation, the table now shows the self-financing capacity before cost of financial debt and before tax, then the tax paid. See the consolidated financial statements for more details on the various changes in presentation made to items within cash flow from operations.