WAVESTONE

Press release

Paris, June 2, 2020, 6pm

2019/20 annual results: EBIT margin of 13.2%

Maximum mobilization of the firm in a highly disrupted market

At its meeting of June 2, 2020, Wavestone's Supervisory Board approved the consolidated annual accounts as at March 31, 2020, which are summarized below. Auditing of the accounts is complete and the auditors are in the process of issuing their report.

Consolidated audited data at 3/31 (in €m)	2019/20	2018/19	*Change*
Revenue	**422.0**	**391.5**	***+8%***
EBIT *EBIT margin*	**55.7** *13.2%*	**55.2** *14.1%*	***+1%***
Amortization of client relationships Other operating income and expenses **Operating income**	(1.6) (0.6) **53.5**	(2.3) (0.5) **52.4**	 ***+2%***
Cost of financial debt Other financial income and expenses Income tax expenses	(2.2) (1.2) (19.0)	(1.7) (0.1) (19.9)	
Group share of net income *Net margin*	***31.1*** *7.4%*	***30.8*** *7.9%*	***+1%***

Annual growth of +8% in 2019/20

Over the 2019/20 fiscal year, Wavestone recorded a consolidated revenue of €422.0m, an increase of +8%. The impact of the lockdown measures, from mid-March onwards, affected this figure by approximately -€2m.

At constant scope and exchange rates (excluding Metis Consulting and WGroup), annual growth stood at +2%.

Almost 3,500 employees at the end of the 2019/20 fiscal year

Wavestone maintained a strong recruitment dynamic throughout the year until the decision was made, in mid-March, to freeze hiring – without, however, interrupting ongoing trial periods. Over the whole fiscal year, the company achieved about 900 gross hires.

Staff turnover rates continued to fall, reaching 14%, compared with 18% in the previous fiscal year.

At March 31, 2020, Wavestone had 3,498 employees, compared with 3,094 a year earlier.

Consultant utilization rate under pressure at the end of the fiscal year; sales prices remain strong

Consultant utilization rate for the fiscal year fell to 71%, compared with 75% in 2018/19, while absorbing a sustained rate of hiring. Utilization rate came under particular pressure in Q4, falling to 69%. This reflected a dip at the start of the calendar year and the public-health crisis introduced in the final weeks of the fiscal year.

Prices remained solid in 2019/20, benefiting, in particular, from the contribution of WGroup. The annual average daily rate rose to €878, compared with €872 a year earlier. Excluding WGroup, sales prices fell by about -1%.

At March 31, 2020, the firm's order book stood at 3.5 months of work, compared with 3.6 months at March 31, 2019.

EBIT margin of 13.2%, in line with the target

EBIT for the fiscal year amounted to €55.7m, compared with €55.2m for 2018/19. The EBIT margin stood at 13.2%, in line with the target set at the start of the year, and despite the fall in consultant utilization rate and the consequences of Covid-19.

The application of IFRS 16 from the start of the 2019/20 fiscal year, which required transfers between "external charges" and "depreciation and provisions," resulted in a +€0.1m increase in EBIT.

Operating income amounted to €53.5m in 2019/20. In addition to the amortization of client relationships, this includes -€0.6m of other operating income and expenses, of which -€1.3m was linked to the acquisition of WGroup and +€1.2m resulted from the non-payment of a proportion of Metis Consulting's earnouts.

The cost of financial debt has seen a rise due to one-off charges linked to the putting in place of a new financing contract. Other financial income and expenses, including exchange rate effects and the cost of hedging instruments, stand at -€1.2m.

After taking into account taxation, group share of net income was €31.1m. As a result, the net margin stood at 7.4%, compared with 7.9% for the previous fiscal year.

Cash flow from business activities of €55.3m in 2019/20

As a result of solid profitability in the fiscal year and a controlled trade receivables position, cash flow linked to business activity amounted to €55.3m. It should be noted that this figure benefited to a level of €6.6m from the application of IFRS 16.

Investment transactions reached €29.5m over the fiscal year, of which €24.9m was related to the acquisition of WGroup. Flows related to financing consumed €11.2m; of this, €4.6m was due to the payment of dividends and €3.5m due to share buybacks.

At the end of March 2020, Wavestone signed a new financing contract with its banking partners, which replaces the previous arrangements. In addition to refinancing existing debt and extending its term, this contract has enabled the firm to acquire new lines of credit to pursue external growth and to increase the line reserved for financing its working capital needs to €30m. Against the backdrop of the Covid-19 epidemic, Wavestone made full use of this latter in late March.

Available cash and cash equivalents of €65.1m at March 31, 2020

At the end of the 2019/20 fiscal year, Wavestone's consolidated equity amounted to €177.1m, for a net financial debt (excluding lease liabilities) of €29.1m, compared with €38.7m at the end of March 2019.

At March 31, 2020, the firm's available cash and cash equivalents amounted to €65.1m.

Consolidated audited data at 3/31 (in €m)	03/31/2020	03/31/2019
Non-current assets	**232.8**	**177.4**
of which goodwill	166.5	140.6
including rights to use leased assets	30.6	-
Current assets	**151.7**	**156.1**
of which trade receivables	128.4	130.4
Cash and cash equivalents	**65.1**	**50.7**
Total	**449.6**	**384.2**

Consolidated audited data at 3/31 (in €m)	03/31/2020	03/31/2019
Shareholders' equity	**177.1**	**150.8**
Financial liabilities	**94.3**	**89.4**
of which less than one year	38.2	23.7
Lease liabilities	**37.7**	**-**
Non-financial liabilities	**140.5**	**144.0**
Total	**449.6**	**384.2**

It should be noted that Wavestone's cash position has not benefited from the financial support measures put in place by French government to deal with the Covid-19 epidemic. Also, the firm has chosen not to refinance its trade receivables position.

Given the current business climate and the implementation of short-time working measures, the company's Management and Supervisory Boards will propose to the annual general shareholders' meeting on July 28 that no dividend should be paid for the 2019/20 fiscal year.

In the same vein, the members of the Management Board will forgo receiving the variable parts of their remuneration for the 2019/20 fiscal year. In addition, the members of Wavestone's Supervisory Board have decided to reduce remuneration for their activities by 25% for the same fiscal year.

A severely degraded market for consulting in the coming months

Wavestone is preparing to face severely degraded economic conditions during the 2020/21 fiscal year, due to the consequences of the Covid-19 epidemic.

After prioritizing their immediate response to the public-health crisis, companies are now turning attention to managing the consequences of the epidemic on their business activity. This second phase has been marked by a manifest wait-and-see attitude, investment trade-offs and widespread cost-saving measures.

The market for consulting is expected to be strongly affected by these in 2020. Source Global Research estimates that demand could fall by -18% worldwide and -20% in Europe. This reduction is likely to go hand in hand with renewed pressure on prices and stiffer competition.

An update on Wavestone's business activity at the end of May

Over April, business activity experienced a reduction of about -15% to -20%, compared with the pre-lockdown situation.

Over June, the firm expects activity levels to be broadly similar to April and May. For the whole of Q1 2020/21, the consultant utilization rate is expected to be close to 60%.

To arrest this sharp fall, the company is using vacation-leave measures and short-time-working arrangements (which applied to about 12% of the firm's fee-earning staff over April and May).

Despite the fall-off in activity, the firm's cash position remained robust, and was even strengthened at the end of May as a result of a good level of inflow from trade receivables.

On business development, order intake has been severely disrupted since mid-March. However, it is likely to slightly improve in June. Clarity on clients' future plans and appetite for projects has also been limited. Price effects remain moderate at present, although negotiations are more tense and requests to renegotiate agreements are starting to appear.

Q2 (July-September) could be marked by a further deterioration in business activity, due to low order intake since the beginning of the crisis and the effects of the cost-saving plans being developed by some clients.

A battle plan for 2020

To address the challenges of this turbulent period, Wavestone will draw on the strengths that have proved effective during previous crises: a dedicated sales force, developing a large portfolio of major accounts, the agility to focus on different sectors, and the commitment and team spirit of the company's employees.

In this respect, from mid-April, the company has strongly revitalized its commercial activities – by strengthening its business development teams, mobilizing additional presales consultants, and accelerating prospecting activities.

Wavestone is particularly focused on pharmaceuticals, utilities, financial services, and the public sector, which are likely to be the most resilient areas. At the same time, the firm is majoring on the service offerings most in line with the period's challenges – such as cybersecurity, IT optimization, and operational efficiency.

The company is also preparing to rapidly adapt its commercial priorities as the reshaped business environment unfolds.

Beyond this intensification of commercial activity, Wavestone has put in place measures to adapt to the new economic context.

The freeze on hiring, in place since mid-March, will be maintained.

A performance plan has been implemented to lower the firm's breakeven point. It aims to generate €15m in savings over the 2020/21 fiscal year, excluding the effects of short-time working arrangements and without any workforce-adjustment measure.

All Wavestone teams, whatever their function, practice, or office base, are aligned toward a common objective: the firm's profitability.

Lastly, our strategic plan, Wavestone 2021, has been suspended for the time being in order to prioritize short-term actions; the pursuit of external growth has also been suspended.

Decision not to set financial targets for 2020/21

Given the highly uncertain nature of the current business environment, Wavestone does not believe it is in a position to set financial targets for the 2020/21 fiscal year.

Next events: publication of Q1 2020/21 revenue, Monday, July 27, 2020, after Euronext market closing; and the shareholders' annual general meeting, Tuesday, July 28, 2019, at 9:00am.

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 03/31/2020

In €m – Audited consolidated data – IFRS standards	**03/31/2020**	**03/31/2019**
Revenue	**422,042**	**391,530**
Purchases consumed	13,007	12,346
Personnel costs	289,877	262,989
External expenses	46,699	51,429
Levies and taxes	6,313	5,992
Net allocation for depreciation and provisions	10,373	3,501
Other current income and expenses	73	29
EBIT	**55,700**	**55,243**
Amortization of client relationships	1,553	2,289
Other operating income and expenses	-627	-525
Operating income	**53,521**	**52,430**
Financial income	8	10
Cost of gross financial debt	2,185	1,688
Cost of net financial debt	**2,177**	**1,678**
Other financial income and expenses	-1,242	-120
Pre-tax income	**50,101**	**50,631**
Income tax expenses	18,961	19,861
Net income	**31,140**	**30,770**
Minority interests	0	0
Group share of net income	**31,140**	**30,770**

Group share of net income per share (€) (1)	1.57	1.54
Group share of diluted net income per share (€)	1.57	1.54

(1) Number of shares weighted over the period.

Appendix 2: Consolidated balance sheet at 03/31/2020

In €m – Audited consolidated data – IFRS standards	**03/31/2020**	**03/31/2019**
Goodwill	166,482	140,621
Intangible assets	8,111	10,094
Tangible assets	14,024	17,099
Rights to use leased assets (1)	30,613	0
Financial assets – more than one year	1,986	1,961
Other non-current assets	11,535	7,635
Non-current assets	**232,750**	**177,409**
Inventory	0	0
Trade and related receivables	128,408	130,420
Other receivables	23,282	25,692
Financial assets	0	0
Cash and cash equivalents	65,131	50,709
Current assets	**216,821**	**206,821**
Total assets	**449,571**	**384,230**
Capital	505	505
Issue and merger premiums, additional paid-in capital	11,218	11,218
Consolidated reserves and earnings	166,655	139,762
Conversion-rate adjustment	-1,235	-675
Total shareholders' equity, group share	**177,142**	**150,810**
Minority interests	0	0
Total equity	**177,142**	**150,810**
Long-term provisions	15,343	14,566
Financial liabilities - more than one year	56,076	65,703
Lease liabilities – more than one year (1)	29,616	0
Other non-current liabilities	959	1,535
Non-current liabilities	**101,993**	**81,803**
Short-term provisions	5,348	4,297
Financial liabilities - less than one year	38,179	23,720
Lease liabilities – less than one year (1)	8,041	0
Trade payable	16,586	19,381
Tax and social security liabilities	80,417	81,369
Other current financial liabilities	21,864	22,851
Current liabilities	**170,435**	**151,618**
Total liabilities	**449,571**	**384,230**

(1) A line created as a result of implementing IFRS 16

Appendix 3: Consolidated cash flow statement at 03/31/2020

In €m – Audited consolidated data – IFRS standards	**03/31/2020**	**03/31/2019**
Consolidated net income	**31,140**	**30,770**
Elimination of non-cash elements		
Net depreciation and provisions (1)	16,837	9,210
Losses/gains on disposals, net of tax	-34	-60
Other calculated income and expenses	-188	1,888
Cost of net financial debt	1,616	1,262
Gross cash flow margin (2)	**49,371**	**43,071**
Change in WCR	5,927	-10,448
Net cash flow from operations	**55,298**	**32,622**
Intangible and tangible fixed asset acquisitions	-3,062	-1,449
Asset disposals	86	75
Change in financial assets	61	-321
Impact of changes in scope (3)	-26,615	-21,619
Net cash flow from investments	**-29,530**	**-23,314**
Sales (acquisitions) by the company of its own shares (4)	-3,522	-8,070
Dividends paid to parent-company shareholders	-4,572	-4,054
Dividends paid to minority interests of consolidated companies	0	0
Loans received	118,220	19,600
Repayment of loans	-111,767	-17,307
Repayments of lease liabilities (5)	-6,720	0
Net financial interest paid	-2,487	-1,284
Net interest paid on lease liabilities (5)	-321	0
Net cash flow from financing operations	**-11,168**	**-11,114**
Net change in cash and cash equivalents	**14,599**	**-1,806**
Impact of translation differences	-123	403
Opening cash position	50,592	51,996
Closing cash position	65,068	50,592

(1) Including €3,470k for employee benefits (IFRS 2) and €6,346k for the amortization of property usage rights (IFRS 16).

(2) Gross cash flow margin is calculated after current taxes.
Taxes paid amounted to €19,168k at 3/31/2020 and €22,870k at 3/31/2019.

(3) The line "Impact of changes in scope of consolidation" corresponds to disbursements relating to the acquisition of WGroup's business and to initial earnouts relating to Metis Consulting.

(4) For information, the company has delivered treasury shares to a value of €2,090k.

(5) A line created as a result of implementing IFRS 16