

EBIT margin in H1 2022/23: 12.5%

2022/23 revenue guidance updated to more than €525m

During its meeting on December 5, 2022, the Board of Directors of Wavestone approved the consolidated annual financial statements at September 30, 2022, a summary of which is presented below. These financial statements have been the subject of a limited review by the statutory auditors and their report is in the process of being issued.

Consolidated data (€m) Limited review of data at 09/30 Audited data at 03/31	H1 2022/23 (6 months)	H1 2021/22 (6 months)	Change	2021/22 (12 months)
Revenue	237.1	217.8	+9%	470.1
EBIT <i>EBIT margin</i>	29.7 <i>12.5%</i>	31.8 <i>14.6%</i>	-7%	74.8 <i>15.9%</i>
Customer relations depreciation	(0.7)	(0.7)		(1.5)
Other operating income and expenses	(3.3)	(0.9)		(0.5)
Operating income	25.7	30.1	-15%	72.8
Cost of net financial debt	(0.4)	(0.5)		(0.9)
Other financial income and expense	(0.4)	(0.3)		-
Income tax expenses	(6.9)	(8.7)		(20.9)
Group share of net income <i>Net margin</i>	17.9 <i>7.6%</i>	20.7 <i>9.5%</i>	-14%	51.0 <i>10.9%</i>

First-half revenue up 9%, of which 4% on an organic basis

At September 30, 2022, at the end of H1 2022/23, Wavestone generated consolidated revenue of €237.1m, up 9% year-on-year. At constant scope and on a constant forex basis, organic growth came out at 4% for the year.

Note that, apart from the impact of acquisitions from the previous fiscal year, H1 2022/23 benefited from the contribution from Nomadéis, consolidated since April 1, 2022 and from PEN Partnership consolidated since August 1, 2022. Coeus Consulting will be consolidated from October 1, 2022.

Staff turnover still high but dynamic pace of recruitment

At September 30, 2022, the staff turnover rate stood at 19% on a rolling 12-month basis, at an identical pace to end-June, versus 18% for the whole of 2021/22.

The pace of recruitment remained steady over the six-month period in line with the full-year roadmap targeting the recruitment of more than 1,000 employees over the year.

Wavestone had 3,864 employees at September 30, 2022, versus 3,732 six months earlier.

Sales prices holding up well and consultant utilization rate at 75% mid-year

For the first half overall, the utilization rate came to 75%, in line with the normative level for the firm, versus 77% for the whole fiscal year 2021/22.

The average daily rate over the six-month period came to €880, up 3% compared with FY 2021/22 (€854). At constant exchange rates, it came to €872 and is up 2% compared with a year earlier.

Order intake remained steady over the summer and since the start of September. The order book stood at 3.7 months at end-September 2022. The decline in the order book compared with September 30, 2022 (4.2 months) reflects the expected growth in the headcount for the 3rd quarter of the fiscal year.

First-half EBIT margin at 12.5% and net margin at 7.6%

As announced, the EBIT margin suffered a decline over the first half. It came to 12.5% versus 14.6% in the first half of the previous year. As a result, EBIT came to €29.7 million, down 7% compared with H1 2021/22.

Note that profitability in H1 2021/22 was exceptionally high owing to the post-Covid-19 context, with a recovery in business and still moderate growth in operating charges.

During H1 2022/23, the firm, however, stepped up spending, notably on recruitment and human resources. Wavestone also decided to adjust its salary policy to maintain its appeal for increasingly sought-after talent, but this will not weigh on the ratio of sales prices to salaries thanks to growth in average daily rate.

After taking account of depreciation of customer relations and other non-operating charges, mainly made up of the costs linked to the acquisitions of PEN Partnership and Coeus Consulting, operating income came to €25.7m, down 15%.

The cost of net financial debt and other financial charges remained practically flat compared with a year earlier. The tax charge was reduced to €6.9 million, compared with €8.7 million a year earlier.

Group share of net income for the first half came to €17.9 million, down 14% compared with H1 2021/22. As a result, the net margin came out at 7.6% in H1 2022/23, versus 9.5% a year earlier.

Financing of three external growth transactions in the first six months of the financial year

In H1 2022/23, cash flow from operations came to €30.1m, down 12% compared with the same period of the previous year.

Changes in WCR consumed €25.4 million in cash (versus €22.8 million a year earlier), owing to business growth and the traditional decline in tax and social security charges during the first half of the fiscal year.

After taking account of taxes paid (€12.2 million) operating cash flow came to a negative €7.5 million versus positive operating cash flow of €3.5 million a year earlier.

Investment transactions cost €52.1 million in H1 2022/23 and consisted mainly of the acquisitions of Nomadéis, PEN Partnership and Coeus Consulting.

Financing flows consumed €21.1 million, including €7.6 million in dividend payments with respect of 2021/22, €6.5 million allocated to share buybacks enabling the full coverage of the employee free share allocation plans, and €4.1 million to repay financial borrowings.

Net financial debt at €16.2 million at September 30, 2022

At September 30, 2022, Wavestone's shareholders' equity came to €267.7 million.

It should be noted that financial assets include €25.5 million in equity investments following the acquisition of Coeus Consulting, completed mid-September but consolidated in Wavestone's financial statements from October 1, 2022. By March 31, 2023, the assets, liabilities and goodwill stemming from the Coeus Consulting acquisition will replace these equity investments on Wavestone's balance sheet.

Owing to acquisitions, net financial debt¹ came to €16.2 million at September 30, 2022, versus a net cash position of €60.3 million six months earlier.

At the end of FY 2022/23, the firm targets a positive net cash position between €30 million and €35 million, excluding new acquisitions, thanks to traditionally higher cash generation during the second half of the year.

¹Excluding lease liabilities

Consolidated data (€m) Limited review at 09/30 Audited data at 03/31	09/30 2022	03/31 2022	Consolidated data (€m) Limited review at 09/30 Audited data at 03/31	09/30 2022	03/31 2022
Non-current assets	279.0	214.9	Shareholders' equity	267.7	257.0
o/w goodwill	217.4	178.5	Financial liabilities	44.2	47.9
o/w financial assets	26.9	1.3	< 1 year	8.4	8.1
o/w right-of-use	14.8	14.5	Lease liabilities	18.0	18.1
Current assets	188.1	171.1	Non-financial liabilities	165.1	171.3
o/w trade receivables	154.8	147.8			
Cash and cash equivalents	27.9	108.3			
Total	495.0	494.2	Total	495.0	494.2

Towards a market slowdown in 2023, but resilience expected in certain sectors

The deterioration in the economic backdrop raises the increasingly probable risk of a slowdown in consulting demand, which could materialize from the start of 2023.

These anticipated trends prompt the firm to adopt a cautious approach to Q4 2022/23, with the start of the calendar year traditionally slow for order givers committing to spending.

Nevertheless, Wavestone remains confident regarding certain areas of activity, notably banking, energy and luxury.

In the UK, the acquisitions of PEN Partnership and Coeus Consulting are progressing nicely. Business is holding up well and operating synergies are already starting to be unlocked. Thanks to these acquisitions, Wavestone triples its size in this key geography of the *Impact* plan, and the targeted profitability for fiscal year 2022/23 is equal to or higher than that of the firm.

Regarding the public sector in France, controversies over the place of consulting firms and the uncertainties they generate do not appear to be abating. As a result, Wavestone has decided to significantly reduce its commercial investments allocated to this sector.

More broadly, over the coming months, despite the more demanding market environment, the firm has decided to maintain a dynamic pace of recruitment, while continuing its intense commercial activity, particularly in resilient sectors.

Revenue of €525 million, and 15% EBIT margin now targeted for 2022/23

For FY 2022/23, to factor in the consolidation of PEN Partnership and Coeus Consulting, Wavestone has updated its annual targets.

The firm is now guiding for consolidated revenue of more than €525m, compared with more than €505m initially.

Wavestone reiterated its EBIT margin target of around 15% for the full year.

In terms of external growth, the firm plans to continue its targeted acquisitions policy. After the acquisitions in H1 2022/23, Wavestone does not plan any further deals in the UK over the coming months. Therefore, the firm aims to give priority to the US, without ruling out the possibility of tactical deals in other geographies.

Next event: Q3 2022/23 revenue, Monday, January 30, 2023, after the 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 organizations in their most critical transformations, with the ambition of a positive outcome for all stakeholders. This ambition is anchored in the firm's DNA and summarized in its signature approach – "The Positive Way."

Wavestone brings together nearly 4,000 employees in Europe – where it is one of the leading independent consultants – in the United States and in Asia.

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

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Appendix 1: Consolidated income statement at 09/30/22

<i>Euro thousands - Limited review ongoing - IFRS standards</i>	09/30/22	03/31/22	09/30/21
Revenue	237,113	470,057	217,843
Purchases consumed	-8,037	-11,190	-5,164
Personnel expenses	-170,901	-336,016	-160,925
External expenses	-22,705	-34,432	-14,461
Taxes	-3,137	-7,748	-3,084
Depreciation and provisions for the year	-2,435	-6,023	-2,814
Other operating income and expenses	209	157	403
EBIT	29,689	74,805	31,796
Customer relations depreciation	-747	-1,493	-747
Other operating income and expenses	-3,289	-501	-926
Operating income	25,653	72,811	30,124
Financial income	9	15	4
Cost of gross financial debt	-419	-899	-463
Cost of net financial debt	-410	-884	-459
Other financial income and expense	-423	-16	-282
Pre-tax profit	24,820	71,912	29,383
Income tax expenses	-6,914	-20,880	-8,691
Net profit	17,906	51,032	20,692
Minority interests	0	0	0
Consolidated net profit - Group share	17,906	51,032	20,692
Consolidated net profit - Group share per share (euros) ⁽¹⁾	0.90	2.55	1.03
Diluted net profit - Group share per share (euros)	0.90	2.55	1.03

⁽¹⁾ Weighted number of shares over the period.

Appendix 2: Consolidated statement of financial position at 09/30/22

<i>Euro thousands - Limited review ongoing - IFRS standards</i>	09/30/22	03/31/22
Goodwill	217,410	178,512
Intangible assets	3,481	4,320
Property, plant and equipment	7,115	6,879
Right-of-use of properties leased	14,784	14,468
Financial assets - share over one year ⁽¹⁾	26,910	1,296
Other non-current assets	9,278	9,397
Non-current assets	278,978	214,872
Trade and other receivables	154,823	147,761
Other receivables	33,285	23,351
Cash and cash equivalents	27,942	108,251
Current assets	216,051	279,363
Total assets	495,029	494,235
Share capital	505	505
Issue, merger, contribution premiums	11,218	11,218
Reserves and consolidated income	251,306	243,139
Group translation reserves	4,689	2,122
Share capital - Group share	267,719	256,984
Minority interests	0	0
Total share capital	267,719	256,984
Long-term provisions	11,787	14,287
Financial liabilities - share over one year	35,761	39,811
Lease liabilities - share over one year	13,142	13,097
Other non-current liabilities	12,188	332
Non current liabilities	72,879	67,528
Short-term provisions	4,805	5,253
Financial liabilities - share less than one year	8,395	8,109
Lease liabilities - share less than one year	4,899	4,959
Trade and other payables	15,166	12,590
Tax and payroll liabilities	93,227	109,770
Other current liabilities	27,940	29,042
Current liabilities	154,431	169,723
Total liabilities	495,029	494,235

⁽¹⁾ This item includes the equity investments in Coeus Consulting acquired on 09/14/22 for €25,453 K, which will be consolidated from 10/01/22.

Appendix 3: Consolidated cash flow statement at 09/30/22

<i>Euro thousands - Limited review ongoing - IFRS standards</i>	09/30/22	03/31/22	09/30/21
Net profit from consolidated entities	17,906	51,032	20,692
Elimination of non-monetary items:			
Net allocations to depreciation and provisions ⁽¹⁾	4,104	3,051	2,929
Expense/(income) related to share-based payments	1,541	2,044	1,043
Capital gains/losses net of tax	-82	1,463	320
Other calculated income and expenses	-771	-652	22
Cost of net financial debt (incl. interest on lease liabilities)	503	1,139	600
Tax expense/(income)	6,914	20,880	8,691
Cash flow from operations before net cost of financial debt and tax	30,115	78,956	34,297
Tax paid	-12,242	-15,768	-7,992
Change in working capital requirement	-25,420	-6,853	-22,838
Net cash flow generated by operating activities	-7 548	56,335	3,467
Acquisitions of tangible and intangible assets	-891	-455	-166
Disposals of tangible and intangible assets	109	146	134
Change in financial fixed assets ⁽³⁾	-22,072	277	15
Impact of changes in the scope of consolidation	-29,266	-12,452	-7,093
Net cash flow from investments	-52,120	-12,485	-7,109
Disposal (acquisition) of treasury stock by the Company ⁽²⁾	-6,456	-2,361	-2,032
Dividends paid to parent company shareholders	-7,612	-4,612	-4,645
Dividends paid to minority interests in consolidated companies	0	0	0
Loan subscriptions	0	0	0
Loan reimbursements	-4,147	-8,472	-4,185
Reimbursement of lease liabilities	-2,451	-7,583	-4,093
Net financial interest paid	-300	-655	-341
Net interest paid on lease liabilities	-98	-282	-148
Other financial transaction flows	-30	0	0
Net cash flow from financing operations	-21,095	-23,965	-15,444
Change in cash and cash equivalents	-80,762	19,885	-19,087
Effect of foreign exchange rate fluctuations	453	360	93
Cash at start of period	108,249	88,003	88,003
Cash at end of period	27,939	108,249	69,010

⁽¹⁾ Including €2,694 K in respect of the amortization of right-of-use property assets (IFRS 16) at 09/30/22 (€3,393 K at 09/30/21).

⁽²⁾ For information purposes, the company delivered treasury stock of an amount of €1,802k.

⁽³⁾ Coeus Consulting, acquired on 09/14/22, will be consolidated from 10/01/22. At 09/30/22, shares acquired are presented on the balance sheet as non-operating financial assets and the initial price paid is presented in the "changes in financial assets" line for an amount of €(22,184)K. For information, Coeus Consulting's cash position at the same date stood at €2,066K.