

2016/17 interim results: operating income on ordinary activities up +68%

On November 28th, 2016, Wavestone's Supervisory Board met to approve the Group's 2016/17 interim financial statements for the six-month period ended September 30th, 2016, the details of which are summarized below. The Statutory Auditors have performed a limited review of the Group's interim financial statements.

Audited consolidated data ^(a) at 09/30 (€m) - Limited review	H1 2016/17	H1 2015/16	% change	H1 2015/16 pro forma ^(b)
Revenues	162.0	91.4	+77%	151.6
Operating income on ordinary activities <i>Ebit margin</i>	15.8 <i>9.8%</i>	9.4 <i>10.3%</i>	+68%	13.4 <i>8.8%</i>
Other operating income and expenses	(0.6)	(0.3)		
Operating profit	15.2	9.1	+67%	12.9
Cost of net financial debt	(1.1)	(0.1)		
Other financial income and expenses	(0.5)	(0.1)		
Income tax expenses	(5.9)	(3.7)		
Group share of net income <i>Net margin</i>	7.7 <i>4.7%</i>	5.2 <i>5.7%</i>	+47%	6.9 <i>4.6%</i>

a) Arthus Tech consolidated since 07/01/15 and the European activities of Kurt Salmon* since 01/01/16.

b) Pro-forma H1 2015/16 financial information based on 12-month consolidation of the European activities of Kurt Salmon as if the acquisition had taken place on 04/01/15.

At end-September 2016, Wavestone reported a 77% growth in consolidated 2016/17 interim revenues to €162.0m, of which €58.2m from the European activities of Kurt Salmon¹. On a like-for-like and constant forex basis, consolidated growth came out at 16% over the six-month period.

Wavestone's staff totaled 2,500 employees at end-September 2016 (including 738 staff members attached to the European activities of Kurt Salmon¹), compared with 2,511, six months earlier.

The Group maintained its strong recruitment drive over the period. The staff turnover rate for the Kurt Salmon European activities¹ rose to a high 27% year-on-year compared to an historical level of 20%. The rate for the rest of the scope remained at a low 12% over the year.

Favorable operating indicators despite deterioration in utilization rate of Kurt Salmon European activities¹

Over the first six months of the 2016/17 fiscal year, the utilization rate of Kurt Salmon's European activities¹ was at 68%, versus a 70-75% annual target, due to inadequate performances during the summer. For the rest of Wavestone, the consultant utilization rate over the period came out at the high level of 84%.

¹ excluding retail & consumer goods consulting activities

Pricing trends remained favorable in the first half-year with the average daily rate of Kurt Salmon's European activities¹ coming out at a solid €1,080. For the rest of Wavestone, average prices rose to €763, up 2.5% on FY 2015/16.

Excluding the European activities of Kurt Salmon¹, the order book remained stable at 3.4 months over the first half.

For the record, at this stage, the Company is unable to communicate any information on its consolidated indicators, since the data of Solucom and Kurt Salmon¹ are not comparable due to differences in their management regulations.

Interim net income up 47%

On the back of favorable operating indicators, the company posted a 68% increase in operating income on ordinary activities to €15.8m and a solid EBIT margin of 9.8% vs. the H1 2015/16 level of 10.3% (8.8% pro forma). For Wavestone excluding Kurt Salmon the EBIT margin is at 13.1%.

Over the period, Wavestone booked other operating expenses of €0.6m, including reorganization costs incurred on the physical merging of the company's teams, outstanding acquisition-related costs and skills-sponsorship costs. Factoring in these elements, operating income came out at €15.2m, up 67%, year-on-year.

The cost of financial debt increased over the period due to the banking facility contracted by the company to finance the acquisition of Kurt Salmon's European activities¹. Other financial expenses include Wavestone's final earn-out commitment on the Hudson & Yorke acquisition, which was paid as a result of the good performance of UK activities in the first half-year.

In addition, group share of net income increased 47% over the six-month period to €7.7m making for a net margin of 4.7%.

Financial situation still sound despite increase in WCR in H1

Wavestone's balance sheet remained solid at the interim stage with shareholders' equity at €90.3m.

As every year, cash levels dipped in the first half. Working capital requirement rose as a result of sustained growth in activity, a slight increase in DSO levels and a reduction in social security debt. At the same time, the firm pursued investments: €4.7m over the period, the bulk of which in costs related to office remodeling required for the physical merging of the firms' teams.

In addition, the firm distributed a total dividend payout of €2.0m for the fiscal year ended 03/31/2016.

At the end of September, the company had free cash of €25.4m for financial debt of €99.2m.

Consolidated data (M€) - Limited review	09/30/2016	03/31/2016	Consolidated data (M€) - Limited review	09/30/2016	03/31/2016
Non-current assets o/w goodwill	162.3 130.0	147.0 130.4	Shareholders' equity	90.3	85.0
Current assets o/w trade receivables	129.0 107.6	124.9 101.0	Non-financial liabilities	127.1	128.2
Cash and cash equivalents	25.4	39.8	Financial liabilities o/w less than 1 year	99.2 9.6	98.6 5.3
Total	316.6	311.8	Total	316.6	311.8

Construction of Wavestone on the right track

Regarding the construction of the new firm, several major steps were achieved in the first half with the launch of the new brand, the definition of the value offering and the finalization of the physical merger of the firms' teams.

¹ excluding retail & consumer goods consulting activities

The new operating model was adopted rapidly and has already produced several concrete results: multiple collaborations between the teams, favorable response of clients to the new firm's value proposition, and successful synergy generation reflected by major projects.

Several challenges still need to be addressed in the second half, notably improving the performances of the European activities¹ of Kurt Salmon and stabilizing its consultant turnover rate.

The second semester 2016/17 will also be used to establish and promote the new brand, to deploy the Human Resources model, to implement Wavestone's new ERP model and to finalize the organization of the firm's operating teams.

Wavestone 2021, 4 strategic objectives for 2021

A few months after its creation, Wavestone has set some ambitious strategic goals for the years ahead.

The challenge will be to position Wavestone as a key player in the consulting market, a company with a strong international profile which combines operating performance and social responsibility and which provides support to help its clients carry out their most strategic transformations.

These ambitions reflect the potential of the newly-created firm. To meet this challenge, the company has defined four objectives to achieve by 2021:

- Make Wavestone the leading consulting brand in France in the digital transformation field;
- Generate annual revenues of €500m for an EBIT margin of 15%;
- Boost international sales to €100m;
- Ensure that every year between now and 2021 Wavestone is ranked within the top 3 of its category in terms of CSR²

2016/17 financial objectives confirmed

As concerns fiscal 2016/17, even if the subdued performances of Kurt Salmon European activities¹ could affect the group's results, Wavestone confirms its 2016/17 full-year objectives: a growth of over 45% in consolidated revenues to over €340m and an operating income on ordinary activities of more than €34m (implying a double-digit EBIT).

Upcoming events: Publication of Q3 2016/17 revenues: Tuesday, January, 31st 2017, after Euronext market close.

About Wavestone

In a world where permanent evolution is the key to success, Wavestone's mission is to enlighten and partner business leaders in their most critical decisions.

Wavestone draws on some 2,500 employees across four continents. It is a leading player in European independent consulting, and the number one in France.

Created from the merger, at the beginning of 2016, of Solucom and Kurt Salmon's European activities (excluding Retail & Consumer Goods consulting), Wavestone is a company listed on Euronext Paris and eligible for the PEA-PME – a French investment instrument that encourages individuals to invest in smaller and intermediate firms. In 2016, Wavestone has been labeled Great Place To Work®.

Wavestone

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¹ excluding retail & consumer goods consulting activities

² Gaïa-Index ranking

Appendix 1 : consolidated income statement at 09/30/16

<i>Audited consolidated data – IFRS standards (€k)</i>	09/30/16	09/30/15	03/31/16
Revenues	162,014	91,427	233,020
Purchased consumed	7,168	3,202	9,665
Personnel Costs	112,980	66,630	162,614
External expenses	23,355	10,090	25,533
Levies and taxes	2,355	1,502	4,396
Net allocation for depreciation and provisions	-762	839	971
Other operating income and expenses	1,089	-239	60
Operating income on ordinary activities	15,829	9,402	29,783
Other operating income and expenses	-625	-297	-6,682
Operating income	15,204	9,105	23,100
Financial income	25	24	19
Cost of gross financial debt	1,149	117	757
Cost of net financial debt	1,123	93	738
Other financial income and expenses	-526	-111	-581
Pre-tax income	13,555	8,901	21,781
Income tax expenses	5,883	3,675	8,423
Net results	7,672	5,227	13,358
Minority interests	0	0	0
Group share of net income	7,672	5,227	13,358
Group share of net profit/loss per share (€) ^{(1) (2)}	1,56	1,06	2,72
Group share of diluted net profit/loss per share (€) ⁽²⁾	1,56	1,06	2,72

⁽¹⁾ Number of shares weighted over the period.

⁽²⁾ In accordance with IAS 33, net earnings per share on 03/31/2015 and on 03/31/16 restated retrospectively based on the number of shares on 03/31/2016

Appendix 2 : consolidated balance sheet on 09/30/16

<i>Audited consolidated data – IFRS standards (€k)</i>	09/30/16	03/31/16
Goodwill	130,041	130,397
Intangible assets	895	659
Tangible assets	18,033	7,584
Financial assets – more than one year	1,353	1,030
Other non-current assets	11,989	7,373
Non-current assets	162,310	147,043
Stocks	0	0
Account receivable (client)	107,640	100,976
Other receivables	21,335	23,969
Financial assets	0	0
Cash and cash equivalent	25,361	39,786
Current assets	154,337	164,732
Total assets	316,646	311,774
Capital	497	497
Issue & merger premiums, additional paid-in capital	11,218	11,218
Consolidated reserves and earnings	79,247	73,589
Conversion-rate adjustment	-688	-325
Total shareholders' equity, Group share	90,274	84,979
Minority interests	0	0
Total equity	90,274	84,979
Long-term provisions	13,848	12,309
Financial liabilities – more than one year	89,690	93,294
Other non-current liabilities	632	368
Non-current liabilities	104,170	105,972
Short-term provisions	7,932	9,139
Financial liabilities – less than one year	9,550	5,332
Trade payable	14,565	13,442
Tax and social security liabilities	67,379	77,360
Other current financial liabilities	22,776	15,551
Current liabilities	122,202	120,824
Total liabilities	316,646	311,774

Appendix 3 : consolidated statement of cash flows at 03/31/16

<i>Audited consolidated data – IFRS standards (€k)</i>	09/30/16	09/30/15	03/31/16
Consolidated net income	7,672	5,227	13,358
Elimination of non-cash elements			
Net depreciation and provisions	2,541	1,508	6,247
Net capital losses / gains from disposals	-6	35	49
Other calculated income and expenses	-1,161	631	-2,338
Income and charges from stock options	833	0	0
Gross cash flow ⁽¹⁾	9,879	7,401	17,316
Change in WCR	-17,123	-7,508	-1,850
Net cash flow from operations ⁽²⁾	-7,244	-108	15,466
Intangible and fixed asset acquisitions	-4,010	-679	-7,645
Asset disposals	12	0	2
Change in financial assets	-700	-289	-218
Impact of changes in scope of consolidation	0	-5,225	-88,520
Net cash flow from investments	-4,698	-6,193	-96,380
Dividends distributed to parent-company shareholders	-2,014	-1,915	-1,915
Dividends distributed to minority interests of consolidated companies	0	0	0
Other flows from financing operations	-241	82	96,192
Net cash flow from financing operations ⁽²⁾	-2,255	-1,834	94,277
Net change in cash and cash equivalent	-14,197	-8,134	13,363
Impact of translation differences	-18	11	-96
Opening cash position	39,417	26,150	26,150
Closing cash position	25,202	18,027	39,417

⁽¹⁾ Cash flow calculated after cost of net financial debt and tax. Wavestone booked a tax charge of 9,326 k€ for the first semester of 2016/17 and 4,409 k€ for the first semester of 2015/16.

⁽²⁾ Interests previously paid or assimilated, previously presented in the net cash flow from operations, are now included in net cash flow from financing operations on the "other flows from financing operations".
On 09/30/16, without the latter modification, the net cash flow from operations would be (8,076) k€, and the net cash flow from financing operations would be (1,423) k€. The columns presented in the cash flows on 09/30/15 and on 03/31/16 have not been recalculated. If they had been, the flow from operations would be (11)k€ on 09/30/15 and the flow from financing operations would be (1,931)k€ on 09/30/15, the flow from operations would be 16,101 k€ on 03/31/16 and the flow from financing operations would be 93,642 k€ on 03/31/16.