

Annual profitability target overachieved in 2023/24: 15.4% recurring operating margin excluding acquisitions

At its meeting of June 3, 2024, Wavestone's Board approved the consolidated annual accounts for the 2023/24 fiscal year ended March 31, 2024, which are summarized below. Auditing of the accounts is complete, and the auditors are in the process of issuing their report.

Audited data ¹ at 03/31 (in €m)	2023/24 consolidated	2022/23 consolidated	Change	2023/24 pro forma ²
Revenue	701.1	532.3	+32%	943.8
Recurring operating profit (ROP) <i>Recurring operating margin</i>	101.3 14.5%	77.0 14.5%	+32%	123.9 13.1%
Amortization of client relationships Other operating income and expenses Operating income	(3.8) (11.8) 85.8	(1.5) (2.9) 72.7		103.4
Cost of financial debt Other financial income and expenses Tax charges	(1.6) (2.9) (22.7)	(1.8) (2.3) (18.5)		
Net income <i>Net margin</i>	58.6 8.4%	50.1 9.4%	+17%	68.5
Group share of net income	58.2	50.1	+16%	67.7

¹ the 2023/24 pro forma accounts are unaudited; an ad hoc report from group auditors will be incorporated in Wavestone's 2023/24 Annual Financial Report.

² the 2023/24 pro forma accounts have been calculated as if the acquisitions of Q_PERIOR and Aspirant Consulting had taken place on April 1, 2023.

Wavestone introduces today an alternative performance indicator named Recurring Operating Profit (ROP), the definition of which is provided at the end of this press release. It should be noted that the ROP is identical to the aggregate previously named EBIT in Wavestone's financial communication.

Consolidated 2023/24 revenue of €701.1m and 14.5% in recurring operating margin

At the end of the 2023/24 fiscal year, Wavestone's consolidated revenue amounted to €701.1m, an increase of +32%.

To note, in addition to the UK-based consulting firms PEN Partnership and Coeus Consulting (consolidated respectively since August 2022 and October 2022), Wavestone has consolidated Q_PERIOR, a German consulting firm, during four months over the fiscal year, and Aspirant Consulting, a US-based consulting firm, during two months.

The recurring operating profit stood at €101.3m, up +32% compared with the previous year, and representing 14.5% of recurring operating margin.

Revenue of €944m and recurring operating margin of 13.1% in 2023/24 in pro forma accounts

On a pro forma basis, that is to say as if Q_PERIOR and Aspirant Consulting acquisitions had taken place on April 1, 2023, Wavestone's 2023/24 revenue stood at €943.8m.

On this pro forma basis, recurring operating profit amounted to €123.9m, representing a recurring operating margin of 13.1%.

During the period, Q_PERIOR generated revenue of €333.4m and a recurring operating profit of €31.5m, representing a recurring operating margin of 9.5%.

Profitability target excluding Q_PERIOR and Aspirant Consulting overachieved

Excluding Q_PERIOR and Aspirant Consulting, annual revenue for 2023/24 reached €586.9m, exceeding the annual target of €580m.

At this scope, the recurring operating margin stands at 15.4%, higher than the objective of 15% targeted for the 2023/24 fiscal year.

As a reminder, the revenue growth at constant scope (excluding PEN Partnership, Coeus Consulting, Q_PERIOR and Aspirant Consulting) and at constant forex basis stands at +9% in 2023/24 (despite an unfavorable working day impact of -1.6%¹), to be compared with a target of +7%.

Consultant utilization rate stable at 73% in 2023/24; sales price up by +1%

For the entire 2023/24 fiscal year, the consultant utilization rate, excluding Q_PERIOR and Aspirant Consulting, stood at 73%; stable compared with the previous fiscal year.

At the same scope, the average daily rate reached €898 in 2023/24 – an increase of +1%, compared with the average sales price for the whole of the previous fiscal year (€890). At constant exchange rates, the average daily rate was €900 in 2023/24.

Despite an adverse economic environment, accentuated by the unfavorable working day impact, this positive trend regarding prices combined with a strict control of the firm's costs supported the profitability improvement compared with the previous fiscal year.

At March 31, 2024, the firm's order book was slightly down, at 4.1 months of work (excluding Q_PERIOR and Aspirant Consulting), compared with 4.2 months at December 31, 2023.

As a reminder, Wavestone plans to deploy consolidated operational indicators (excluding the order book) across the entire new firm from Q1 2024/25.

5,894 employees at March 31, 2024, compared with 4,406 a year earlier

At March 31, 2024, Wavestone had 5,894 employees, including 1,422 from the combinations with Q_PERIOR and Aspirant Consulting. This compares with 4,406 at the end of the 2022/23 fiscal year.

Given the uncertain economic environment and reduced staff turnover rate, Wavestone scaled back its recruitment activity in 2023/24. Over the whole of the fiscal year, the firm recruited about 800 new employees (excluding Q_PERIOR and Aspirant Consulting).

At the end of the 2023/24 fiscal year, the staff turnover rate stood at 14% (excluding Q_PERIOR and Aspirant Consulting), compared with 16% over the whole of the previous fiscal year.

As for Wavestone, Q_PERIOR's recruitment policy remained cautious during the first few months of integration, while its staff turnover rate remained at the low level of 11%.

Net income up by 17% in 2023/24, representing 8.4% of net margin

After taking account of the amortization of client relationships (€3.8m, including €2.3m of amortization of Q_PERIOR's client relationships) and other operating income and expenses, which are largely expenses related to the combinations with Q_PERIOR and Aspirant Consulting, the consolidated operating income stood at €85.8m, up +18%.

¹ taking account of the geographical distribution of Wavestone's workforce

On a pro forma basis, operating income amounted to €103.4m in 2023/24.

The cost of net financial debt amounted to -€1.6m in 2023/24, compared with -€1.8m a year earlier.

The tax charge amounted to €22.7m, up +22% compared with the 2022/23 fiscal year.

Net income reached €58.6m in 2023/24, up +17% compared with the previous fiscal year. Net margin was 8.4% at the end of the fiscal year, compared with 9.4% a year earlier. After minority interests, group share of net income came to €58.2 million in 2023/24.

On a pro forma basis, group share of net income amounted to €67.7m in 2023/24.

Doubling of operational cash flow in 2023/24, to €83.1m

At the end of the 2023/24 fiscal year, Wavestone had a self-financing capacity of €101.8m, an increase of +22% compared with the previous fiscal year.

Change in working capital requirement (WCR) was positive at +€2.9m for the 2023/24 fiscal year (compared with -€21.6m a year earlier), notably under the effect of significantly reduced DSO.

After the payment of taxes (€21.7m), Wavestone generated a solid operating cash flow of €83.1m in 2023/24; double the €41.1m recorded for the previous fiscal year (an increase of +102%).

Investment operations consumed -€69.0m in 2023/24, including -€66.0m linked to merger operations and -€3.1m in current investments.

Financing flows consumed -€7.4m, mainly including -€7.6m in dividends paid to shareholders for the 2022/23 fiscal year, -€5.9m in share buybacks to cover all free share allocation plans to employees, -€6.2m in lease liability repayments (under IFRS 16), and +€14.1m in loans received net of repayments.

Net cash of €19.3m at March 31, 2024

At March 31, 2024, Wavestone's equity had reached €571.4m, compared with €299.1m a year earlier, driven by the net income for the 2023/24 fiscal year and the increase in capital of €254.3m as part of the combination with Q_PERIOR. As a reminder, 4,709,840 new Wavestone shares have been delivered to Q_PERIOR shareholders, representing 18,9% of the new share capital.

The merger operations carried out over the fiscal year led to an increase in goodwill, which reached €507.9m.

Available cash and cash equivalents amounted to €77.5m, compared with €70.8m a year earlier. Net cash² stood at €19.3m at the end of March 2024, compared with €27.1m at the end of the previous fiscal year.

Consolidated audited data (in €m)	(3/31/24)	(3/31/23)	Consolidated audited data (in €m)	(3/31/24)	(3/31/23)
Non-current assets	633.7	272.8	Shareholders' equity	571.4	299.1
of which goodwill	507.9	235.4			
of which client relationships	74.5	2.6			
of which rights to use leased assets	23.9	13.2			
Current assets	266.6	193.1	Financial liabilities	58.2	43.7
of which trade receivables	245.9	176.6	of which less than 1 year	6.0	5.7
Cash & cash equivalents	77.5	70.8	Lease liabilities	26.2	15.9
Total	977.7	536.8	Non-financial liabilities	322.0	178.2
			Total	977.7	536.8

At the Shareholders' Annual General Meeting on July 25, 2024, Wavestone's Board will propose the payment of a dividend of 0.38 € per share for the 2023/24 fiscal year, an identical sum to that paid for 2022/23, representing 16%

² excluding lease liabilities

of group share of net income.

Wavestone in the Top 5% of best performing companies in CSR terms for 2023/24

The 2023/24 fiscal year was rich in sustainable development terms, enabling the firm to consolidate its place in the Top 5%³ of best performing companies with regard to Corporate Social Responsibility (CSR). As a result, the firm achieved or exceeded nine of the ten quantified objectives that form part of its CSR commitments.

In terms of client satisfaction, Wavestone's NPS⁴ stood at 73, way above its objective of 50, and compared with 45 a year earlier. This strong progress is the result of actions taken in recent years to improve identified weaknesses. It should be noted though that Wavestone switched from an online survey previous years to face-to-face interviews this year, which may lead to higher results.

At the same time, the firm continued to roll out its responsible consulting approach across 387 projects, way above the objective of 300 projects.

On the social side, the firm achieved a low attrition rate, below its 15% target, and maintained a high position in the Great Place to Work[®] rankings (1st place in France, Top 25 for UK Large Companies, and certification of all offices). However, the employee engagement index stood at 70 out of 100, below the objective of 74.

With regard to Q_PERIOR, all the CSR objectives set for 2023/24 have been achieved on employee engagement, gender equality and carbon footprint, and almost achieved in terms of employee retention (11% versus a target of 10%).

The 2024/25 fiscal year will mark a year of transition, with the integration of Q_PERIOR and the entry into force of the CSRD (Corporate Sustainability Reporting Directive), which will lead the firm to reformulate its CSR objectives for the years to come. In the meantime, the emphasis will be on the scaling up of the responsible consulting approach.

Successful first steps of the combination between Wavestone and Q_PERIOR

Q_PERIOR has delivered a good level of operational performance since the beginning of its consolidation in December 2023. The firm has fully achieved its plan at March 31, 2024, which will lead to the payment of 100% of the earnout (€35m).

The integration program between Wavestone and Q_PERIOR is making progress and the first steps have been completed successfully. Solid foundations have been laid to secure the operations across the firm, including integrated governance, unified IFRS accounting rules and gradually homogenized IT systems. On the business side, the firm has won new projects thanks to its enriched value proposition and larger size, and the business activity already benefits of the firm's new perimeter.

On May 24, the Q_PERIOR teams switched to the Wavestone brand. This key milestone was marked by a major event that brought together in Paris most of the firm's 5,500 employees from around the world. This event was the opportunity to launch a new visual identity reflecting the values and ambitions of the new group.

Outlook for the 2024/25 fiscal year

The start of 2024 has been marked by demand that remains weak, as well as by a continued wait-and-see attitude on new consulting expenditures. This situation is expected to last at least until the end of H1 of the 2024/25 fiscal year.

Demand is notably under pressure in banking, retail, industry, and in the public sector (in France). Consequently, Wavestone's efforts are focused on sectors who prove to be more resilient: insurance, energy, transport, luxury, and life sciences, to limit the effects of the uncertain economic environment.

In addition, in terms of areas of expertise, the firm leverages topics for which the needs remain strong, such as IT infrastructure, cybersecurity or SAP consulting. The demand regarding Artificial Intelligence is also rising significantly. In 2023/24, AI represented about €20m of revenue, still a low volume of business, but spread over about 50 projects, many of them just starting.

Faced with this economic backdrop, in addition to making the combination with Q_PERIOR a success, the firm intends to maintain its strong focus on sales and to give priority to profitability rather than growth. As a consequence,

³ based of the firm's CSR performance by two leading rating agencies, Ecovadis and Ethifinance ESG Ratings.

⁴ the NPS[®] or Net Promoter Score[®] is a tool for measuring customer satisfaction, which can range from -100 to 100 (NPS[®] is a registered trademark of Bain & Company, Inc., Satmetrix Systems, Inc., and Fred Reichheld).

Wavestone plans to maintain a policy of moderate recruitment in 2024/25, targeting about 1,000 hires across the entire firm.

Succession plan

As a reminder, in 2021 Pascal Imbert has announced that he would step down from his CEO position in the years to come. The transition towards a new General Management of the firm is to start from 2025 or 2026, once the process of integrating Q_PERIOR has been completed. In order to further guide and support the work in progress, a selected and dedicated Nomination Committee has been created on April 1, 2024.

2024/25 objectives: growth in the range 3% to 5%; recurring operating margin of over 13%

For the 2024/25 fiscal year, Wavestone has set the objectives of achieving growth in the range 3% to 5%, i.e. consolidated revenue between €972m and €991m, and a recurring operating margin above 13%.

These objectives are at constant exchange rates, exclude any new acquisitions, and include the contributions of Q_PERIOR and Aspirant Consulting over the entire fiscal year.

It should be noted that growth in H1 of the fiscal year will be lower than the rate expected for the entire fiscal year, given the significant baseline effect. The profitability will also be lower than the annual target due to the usual seasonality effect.

Next events: Q1 2024/25 revenue, Wednesday, July 24, 2024, after Euronext market closing; and the Shareholders' Annual General Meeting, Thursday, July 25, 2024, at 9:00am.

About Wavestone

Wavestone is a consulting powerhouse, dedicated to supporting strategic transformations of businesses and organizations in a world that is undergoing unprecedented change, with the ambition to create positive and long-lasting impacts for all its stakeholders.

Drawing on more than 5,500 employees in 17 countries across Europe, North America and Asia, the firm offers a 360° portfolio of high-value consulting services, combining seamlessly first-class sector expertise with a wide range of cross-industry capabilities.

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

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Appendix 1: alternative performance indicator

The « Recurring Operating Profit » (ROP) is an alternative performance indicator obtained by deducting from the revenue the operational expenses related to current activities. Amortization of customer relationships is not deducted from the ROP, nor non-recurring operating incomes or expenses. The latter include notably incomes or expenses related to business acquisitions or divestitures, as well as incomes or costs associated to non-occupied premises.

Appendix 2: consolidated income statement at 3/31/24

<i>Audited consolidated data – IFRS standards (€k)</i>	3/31/24	3/31/23
Revenue	701,056	532,264
Subcontracting purchases	-67,798	-21,753
Personnel expenses	-465,469	-373,278
External expenses	-52,045	-46,594
Taxes and duties	-7,839	-8,044
Depreciation, amortization and provisions	-8,106	-5,771
Other current income and expenses	1,542	218
Recurring operating profit	101,341	77,042
Amortization of customer relationships	-3,808	-1,493
Other operating income and expenses	-11,750	-2,864
Operating profit	85,783	72,685
Financial income	759	10
Costs of gross financial debt	-2,376	-1,766
Costs of net financial debt	-1,617	-1,756
Other financial income and expenses	-2,902	-2,348
Net income before tax	81,264	68,580
Tax expense	-22,673	-18,513
Net income	58,591	50,068
Non-controlling interests	-391	0
Net income - Group share	58,199	50,068
Net income - Group share, per share (in euros) ¹	2,71	2,51
Net income - Group share, per share after dilution (in euros)	2,71	2,51

¹ weighted number of shares over the period.

Appendix 3: consolidated balance sheet at 3/31/24

<i>Audited consolidated data – IFRS standards (€k)</i>	3/31/24	3/31/23
Goodwill	507,889	235,355
Intangible assets	74,565	2,644
Tangible assets	11,965	8,815
Right-of-use assets	23,887	13,179
Non-current financial assets	1,737	1,790
Other non-current assets	13,661	11,038
Non-current assets	633,705	272,820
Trade receivables and related accounts	245,900	176,595
Other receivables	20,656	16,549
Cash and cash equivalents	77,481	70,824
Current assets	344,036	263,968
Total assets	977,741	536,788
Capital	623	505
Additional paid-in capital	265,432	11,218
Consolidated retained earnings and net income	300,059	285,314
Currency translation differences	3,352	2,013
Shareholders' equity attributable to owners of the parent	569,466	299,050
Non-controlling interests	1,926	0
Total equity	571,392	299,050
Long-term provisions	24,657	13,316
Non-current financial liabilities	52,231	38,047
Non-current lease liabilities	18,013	11,098
Other non-current liabilities	25,864	1,023
Non-current liabilities	120,765	63,485
Short-term provisions	5,205	4,755
Current financial liabilities	5,977	5,654
Current lease liabilities	8,174	4,754
Trade payables and related accounts	42,293	14,731
Tax and social security liabilities	152,575	106,272
Other current liabilities	71,360	38,087
Current liabilities	285,583	174,254
Total liabilities	977,741	536,788

Appendix 4: consolidated cash flow statement at 3/31/24

<i>Audited consolidated data – IFRS standards (€k)</i>	3/31/24	3/31/23
Consolidated net income	58,591	50,068
Elimination of non-cash items:		
Net depreciation, amortization and provisions ¹	12,991	9,907
Expenses/(income) related to share-based payments	4,420	3,305
Losses/gains on disposals, net of tax	27	-217
Other calculated income and expenses	1,069	256
Costs of net financial debt (incl. interest on lease liabilities)	2,036	1,933
Tax expense/(income)	22,673	18,513
Self-financing capacity before costs of net financial debt and tax	101,806	83,764
Tax paid	-21,650	-21,052
Change in working capital	2,935	-21,567
Net operating cash flow	83,091	41,146
Purchase of tangible and intangible assets	-3,109	-3,705
Disposal of assets	66	168
Change in financial assets	14	3
Impact of changes in consolidation scope	-65,990	-49,196
Net investing cash flow	-69,018	-52,731
Sale/(purchase) of treasury shares ²	-5,914	-6,403
Dividends paid to parent company shareholders	-7,593	-7,612
Dividends paid to non-controlling interests	0	0
Loan subscriptions	19,700	0
Loan repayments	-5,646	-4,435
Repayments of lease liabilities	-6,199	-5,132
Net financial interest paid on loans	-1,317	-2,078
Net interest paid on lease liabilities	-425	-181
Other financing cash flows	-11	-6
Net financing cash flow	-7,406	-25,847
Net change in cash and cash equivalents	6,667	-37,432
Impact of translation differences	104	-136
Opening cash position	70,681	108,249
Closing cash position	77,452	70,681

¹ including €5,775k in respect of the amortization of right-of-use assets at 3/31/24 and of €4,322k at 3/31/23.

² for information, the company delivered treasury shares worth €904k in FY 23/24.