Transcript

Atos Q1 2014 Revenue Conference Call
April 17th, 2014 in Bezons

Corporate participants
Gilles Grapinet Atos SE - SEVP, Global Functions
Michel-Alain Proch Atos SE - Group CFO

Conference call participants
Neil Steer Redburn - Analyst
Michael Briest UBS - Analyst
Charles Brennan Credit Suisse - Analyst
Brice Prunas Exane BNP Paribas - Analyst
Derric Marcon Societe Generale - Analyst
Amit Harchandani Citigroup - Analyst
Mohammed Moawalla Goldman Sachs – Analyst

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the Atos 2014 first quarter revenue conference call. I must advise you that this conference is being recorded today, on Thursday April 17, 2014. I would now like to hand the conference over to your speaker today, Gilles Grapinet, Senior Executive Vice President of Atos. Please go ahead.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Thank you, operator. Good morning, ladies and gentlemen. Gilles Grapinet speaking. Thank you for attending the Atos conference call on our 2014 first quarter.

I'm going to share the presentation, as usual, with Michel-Alain Proch, our Group CFO. I will start with the highlights and the commercial activity in Q1. Michel-Alain will make then the review of the Q1 2014 financials. And I will then present the Worldline revenue performance for the first quarter prior to conclusion and the Q&A session.

So moving to the first slide, you can see the key figures of Q1. First the revenue was € 2064 billion, representing an organic evolution of -1.8% compared to the first quarter of 2013. This is fully in line with what we expected. If you remember, we said at our full-year 2013 results conference on February 19 that H1 should have the same organic evolution than H2 2013, meaning -1.2%, with the Q2 better than Q1.

Free cash flow was €30 million, at the same level as the one reached for the same period last year.

The net cash position at the end of March was €830 million, much higher than 12 months earlier due to the 2013 free cash flow and the conversion of the two convertible bonds in the second half of last year.

Finally, the total number of employees was 76,000, almost stable compared to last year, while staff continue to significantly increase in offshore countries. We hire in average 10,000 staff per year. And in Q1, 60% of the recruitments were made in emerging countries.

The next two slides highlight some important achievements of the first quarter that I would like to emphasize. First, we renewed our large contract with large media company in the UK until 2017. And, as you know, this is the last large contract inherited from the SIS acquisition that the Group had to renew.

In Q1 we also successfully delivered, once again, the IT services of the winter Olympic Games in Sochi. This demonstrates once more the capacity of the Group to manage these very large and complex contracts under huge timing constraints. And you know that we also did extend the Olympic contract until 2024.

Third highlight during these Olympic Games, the Group signed a Memorandum of Understanding with Gazprom Neft, one of Russia's leading oil producers, and SIBUR, Russia's leading petrochemical group, for a long-term strategic partnership in IT services in Russia, with committed volumes. According to the Memorandum, Atos will get a majority stake in an IT services JV currently owned by Gazprom and SIBUR. This JV will receive the latest services and technology from Atos. And this will improve the quality of its customer services locally and internationally. This would be an important step for Atos in order to serve its large international customer base in Russia and obviously Siemens among them.

In March 2014 the Group has reached an agreement with DWP for an early exit of the WCA contract by February 2015 at the latest instead of August 2015. And Michel-Alain will come back on this important agreement with more details as he led the negotiation. And I insist it was a negotiation and not something imposed upon us.

In April the Group held a successful Industry Analyst Day, with testimonials from very large customers, ready for digitalization of their business with Atos and Worldline. Among them we had, for example, Philips, Achmea, Enel, and Orange.

Sixth highlight of the quarter, the second tranche of our share buyback program has been almost completed as of today.

And finally, Worldline is fully mobilized to complete its IPO. And the process is absolutely on track to be realized prior the summer break, as planned. This is a decisive step for the future of Worldline, which involved the management of the Company. And, at the same time, as you can guess, we did the best in order to minimize the impact on this huge time-consuming process on the day-to-day business operation. I personally devote most of my time to this IPO process and to Worldline to ensure its full success.

I move now to the commercial activity. And I now come to the main figures. As you can see, the Group order entries in the first quarter of 2014 totaled €1.7 billion, representing a book-to-bill ratio of 81%.

On March 31, 2014, the full backlog was strong at €14.7 billion, which presented 1.7 years of revenue. The full-qualified pipeline remained healthy at €5 billion, in the same range as at the end of 2013 and representing seven months of revenue.

Let's go to more details on the next few slides. I would like first to mention some key contracts signatures by vertical that the Group won in the first quarter of 2014. Let's start with Manufacturing, Retail & Transportation. In Germany, as you can see, we renewed our Managed Services contract with RAG, delivering infrastructure management.

I'm happy to tell you that in Systems Integration we signed three new businesses in this sector in Q1. The first of them is in Germany with BMW for testing and acceptance management. The second is in the Benelux with TNO Information. And the third is in France, with ThyssenKrupp for a SAP roll-out.

Another very good news is that we provide again Managed Services for Philips for their R&D storage facility in Eindhoven.

In Public & Health, Atos is operating the Schengen information system shared among the European countries. Atos is a prime provider, with Accenture and HP as partners.

The Group also extended its Managed Services contract and Systems Integration with the UK Government Gateway. Atos built and is now operating the Government Gateway platform with other partners, including Microsoft. Government Gateway is the UK government platform to deliver e-services to the citizens.

Still in the UK, we also extended the Systems Integration contract with a public administration.

In Technology Services, Atos will assist in Public & Health over the next four years the French Ministry of Budget to run their IT operations through a framework agreement.

In Systems Integration, Atos is running both applications and infrastructure of the IT system of Natural England, called Genesis. Natural England is a public body responsible to the UK Secretary of State for Environment, Food and Rural Affairs, whose purpose is to protect and improve England's natural environment.

Finally we signed a new Consulting contract with an English Ministry.

The next slide is about Telcos, Media & Utilities and Financial Services market. In the TMT sector, on top of the large contract renewal with a large media company in the UK that I already mentioned, we gained two new important Managed Services signatures in France in the Energy sector, one with EDF in application operations and system and infrastructure lifecycle management, and the other one with GDF Suez to deliver infrastructure outsourcing.

In Financial Services, in Spain we are associated to the undergoing mutation of the banking industry. And we provide Application Management for two large banks.

In France, we provide Cloud Services for a leading international banking group.

And finally we provide Application Management for the largest Islamic bank in the EMEA.

Moving to the next slide, you can see figures related to order entry and backlog. Out of the total 81% book to bill, Consulting & Systems Integration reached 92%. And Worldline, where bookings are usually strong in Q2 and Q4, recorded 83% last quarter. Obviously for Q1, working hard on a large acquisition in payment and preparing the IPO at the same time did not fully help to conclude new deals. But they are coming.

In Managed Services, the Group did not sign two contracts which were expected in Q1. We came number two on one. And the other was postponed by the customer to Q2.

The Group set up a strong fertilization revenue plan, with more than 600 operation staff incentivized on specific Q2 2014 targets. And considering all the sales actions currently in process within the Group and the structure of the pipe, including estimated closing time with customers, we target in Q2 a book to bill between 120% and 130%.

One word on the backlog, which remains strong and offering a good visibility with Worldline at 1.4 years of revenue, Consulting & Systems Integration at 1.1 year, and Managed Services at 2.2 years.

The next slide is an analysis of the full qualified pipeline, particularly solid in Managed Services, with several large deals that we expect to sign in Q2. Large deals above €21 million Total Contract Value represent 33% of the total pipe.

In order to improve its sales efficiency, I want also to highlight that the Group just appointed Patrick Adiba as the new Head of Sales for the whole Group. Patrick is well experienced as he was in the past CEO of Iberia and previously CEO of APAC, and he is also in charge of Major Events. And more recently he was our Group Human Resources Director.

Michel-Alain, the floor is yours.

Michel-Alain Proch - *Atos SE - Group CFO*

Thank you, Gilles, and good morning to all of you. So my first slide is presenting you the reconciliation between statutory and organic revenue. There are two items to underline.

First, a small €2 million scope effect related to the acquisition of WindowLogic in Australia in July 2013, which is a company specialized in ECM and PLM solutions, and the disposal of Atos Formation in March 2013, and Metrum, which is a small Consulting practice in the Netherlands in January 2014.

The exchange rate effect was €18 million, mainly coming from the euro strengthening versus the Argentinean peso, the Brazilian real and the US dollar, while the British pound has evolved in the opposite direction. Therefore Group revenue reached €2,061 million in the first quarter and, as Gilles said, representing an organic evolution of -1.8%.

So moving on to slide number 16, which is presenting you the Group new organization, the global Consulting & Technology Services Service Line was merged with Systems Integration. And the new global Service Line is now labeled Consulting & Systems Integration. Note that for France and Benelux & The Nordics, a small part of Technology Services was merged into Managed Services.

Second change, BPO is now reported in Managed Services. And Worldline, third change, is presented as if the carve-out would have taken place on January 1, 2013.

So the former Service Line HTTS & Specialized Business does not exist any longer. And other Specialized Business, which were namely Civil & National Security and Smart Energy, were transferred to Consulting & System Integration.

Finally, last change, the sub-market Transport, which was previously part of the Global Market Public, Healthcare and Transport, was transferred to the Global Market Manufacturing, Retail & Transportation. As a result, Public, Healthcare & Transport becomes Public & Health.

You will find at the end of the presentation the effect of this organization changes, which are detailed for Q1 and for the full year, year 2013 revenue, both by Service Line and by Business Unit.

Next slide, slide number 17, is presenting the Q1 revenue evolution by Service Line. So beginning with Managed Services, which is representing now 52% of the Group, Managed Services, which, as I said, is now including BPO, slightly decreased by an overall -2.4%. This performance is made of several different trends.

First, as expected, revenue with Siemens contracted as a result of the agreed price reductions, coupled with anticipated lower volumes. Moreover, in Benelux & The Nordics, the Service Line was impacted by lower volumes with KPN as well as by a contract ramp-down in Finland. Both were anticipated in the budget.

Nevertheless, on the bright side, revenue strongly increased in Financial Services, both in France and in Germany. And in addition I'm glad to report that Cloud Services, under the Canopy leadership, have exceeded their revenue target in Q1. And this is an encouraging step on the path to more than double revenue by 2016. Actually, the transformation of Managed Services in the Cloud, so namely infrastructure as a service, is happening. And all large new contracts that generated revenue, like McGraw-Hill, ACT, Huntsman, City of San Diego, City of Indianapolis in North America, Philips, do include cloud components from Canopy.

BPO increased +4.7% compared to last year, reaching €101 million. This is largely due to the ramp-up of the new contract PIP with DWP, despite the ramp-down of the WCA contract that I settled on March 18. But I will show later on a particular slide on this subject.

Consulting & Systems Integration represented 35% of the total revenues, standing at €724 million, a slight decrease of -1.9% compared to last year. Consulting actually increased by +8%, thanks primarily to new assignments with the public sector in the United Kingdom. Systems integration softened by -2.5%.

The Service Line benefited from the growth of the Application Management contract with NSN, new projects in Manufacturing, and obviously the services provided to the International Olympic Committee for the Sochi Games. Conversely, revenue was affected by declining volume in Telcos in Benelux & The Nordics, principally due to the end of one contract with KPN, the Belgian one in Systems Integration, which was anticipated.

Worldline revenue increased by +1%, mostly fuelled by the performance of financial processing and to a lesser extent merchant services, and despite a conjunctural adverse performance in e-services. But this will be commented in detail later on by Gilles.

So I move on to the next slide, slide number 18, which is presenting you the revenue by Business Unit. So beginning with the UK, where the main drivers were Consulting & Systems Integration, with a strong consulting activity in Public & Health and in Manufacturing and Retail. And, as I mentioned, a strong activity too in BPO, both in Financial BPO with NS&I and, as I said, in medical BPO with PIP with DWP.

In Germany, the contribution of the Application Management contract with NSN drove a +5% organic growth in Systems Integration. This growth was offset by the revenue evolution in Managed Services, mainly affected by both fewer volumes and price reduction as anticipated with Siemens, and as planned, and it's important, the Business Unit strongly reduced the level of loss-making contracts coming from SIS, which also impacted mainly in Managed Services compared to the first quarter of 2013. You remember I already mentioned this point.

In France, the turnaround is now materializing. As you can see, the revenue decline was limited to a -2%. Cloud Services strongly contributed to this recovery, particularly in the financial sector. This positive trend was offset by the ramp-down of one large contract in Manufacturing, so in Managed Services, as well as coproduction with customers in the energy sector. In Consulting & Systems Integration, revenue benefited from additional volumes with a set of customers in Manufacturing, Retail & Transportation.

In Benelux & The Nordics the organic evolution was completely anticipated and is in line with the budget. I have already mentioned it. It's coming from the ramp-down of the contract with KPN, in the one hand, and in the other hand the fact that the transition phase of the PostNord contract is now completed and the contract is fully in a run mode. The Business Unit is still facing a tough situation in cyclical activities in the Netherlands. But this was partially compensated by the ramp-up of several contracts, coupled with the good level of fertilization in the Benelux.

In Central & Eastern Europe, revenue was almost stable.

In North America, Managed Services was fuelled by fertilization in the McGraw-Hill account, as well as Cloud Services with new customers in the public sector that I have already mentioned. We're posting a slight decrease of -3% coming from a base effect of an AIG datacenter migration project that we have recorded in Q1 2013.

The activity remained challenging in Iberia, down -4.5%, as anticipated. The shortfall was linked to a reduction in the number of projects with two large customers in the aerospace and Telcos sector. But I want to add that Iberia is fully in line with its budget at the end of the first quarter.

Finally, an increased level of activity in India, Middle-East & Africa and in Managed Services in China. As I said, the contribution of the Sochi Winter Olympic Games led us to post a +3.5% growth in the other BUs.

So moving on to slide number 19, which is presenting the headcount evolution, the total number of employees was 76,026 at the end of March 2014. So that's a slight decrease of 300 people over the quarter, of which a -100 exit, which is due to the disposal of Metrum, as I've mentioned it, the small Consulting practice in the Netherlands, a disposal that we've made in January. The number of direct employees at the end of March 2014 was 70,367, which represents 92.6% of the total account, which is slightly up compared to the 92.4% at the end of year 2013.

In the first quarter of 2014 we have hired 2,450 people, most of them being in the emerging countries, 60% to be precise. And now the emerging countries are representing 28% of our total staff. So offshore headcount increased by +20% compared to the end of March 2013. 55% were located in India, mainly for Systems Integration, and 25% in Central Eastern Europe, mainly for Managed Services.

Finally, attrition during the first quarter was 9.3% at Group level, of which 15.5% in the emerging countries.

Next slide, slide 20, is showing you the Group net cash position evolution in Q1. So we started the year at €905 million. As Gilles said, free cash flow stood at €30 million, same level as the one in Q1 year 2013. The Group repurchased for €101 million of its own shares in Q1. You remember that the Group launched three share buy-back programs. We completed the first one in 2013 and it was related to the management of the dilution entailed by the conversion of our 2009 convertible.

The second one, the one that is presented on the slide, was of the same amount, €115 million, and is now almost completed. The second tranche, as I'm sure you remember, is aimed to deliver the share to the Dutch pension fund as part of the agreement we reached in December 2013.

So the statutory net cash at the end of March 2014 is €830 million.

Slide number 21 is an update on the DWP WCA contract. As mentioned by Gilles, I'm glad to report that we've signed an agreement with DWP related to the WCA contract that the Group has been operating since year 2005. This agreement was made under the sponsorship of the Cabinet Office. It is indeed, as Gilles said, the result of negotiations between the two parties acting in good faith. And on this slide I'm summarizing the major characteristics of this agreement that I signed on behalf of Atos on March 18, 2014.

So first we have agreed to an early exit in February 2015 instead of August 2015. Actually we were even pushing for September 2014, but the process of public procurement is very structured, as I'm sure you know, and cannot complete in such a timeframe.

Second, we agreed new volumes of medical assessment to be delivered by February 2015 and a credit regime adapted to these new volumes.

Third, DWP chose one single-provider strategy, which is very important for us as we have the certainty that the 2,000 employees on this contract, both administrative and medical staff, will have a future with the chosen provider through the application of the TUPE legislation.

Fourth, we chose by this early exit to fully ensure the continuity and quality of services to the claimants.

And fifth, needless to say, all historical claims from both parties are obviously waived.

And finally, our contract with Northern Ireland, which is going completely well and which is fully executed to the complete satisfaction of our customer, is remaining unaffected by this agreement.

As far as PIP is concerned the ramp-up is progressing, as you saw in the figures I reported. And we are discussing with the government the best ways to maximize efficiencies and the quality of our service.

So on slide number 22, a new slide. Indeed we intend to share with you on a regular basis our progress in the execution of what we presented during the last Analyst Day in November year 2013. So here is an update of some key indicators that we track as underlying elements supporting our three-year plan financials.

First, the deployment of end-to-end processes is measured through the number of FTE covered by this program. In Q1 this is an increase of 50%, which was completed with a pilot in Systems Integration.

Second, our shift to offshore is tracked through the Systems Integration offshore ratio, which moved from 33% to 35% in Q1.

Third, the SG&A efficiency, which I'm sure you're very familiar with, is fully in line with our 9% to 9.5% of revenue year 2016 ambition, with 9.8% in Q1 2014.

Finally, the optimization of the vendor base for the P&L side is well advanced as only 550 vendors count for 80% of the purchasing base. This figure is to be compared to 800 at the end of year 2013.

The two other indicators, which are revenue growth in APAC and in EMEA and in Cloud, will be reported on a half-year basis. As you can see, we are well on track to complete our 2016 ambition.

This concludes my presentation. And Gilles, the floor is back to you.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Thanks, Michel-Alain. We start the focus on Worldline with the key figures of Q1 2014. Revenue was €265 million, up, as Michel-Alain mentioned, + 1% compared to the first quarter of 2013 and fully in line with our anticipation.

Backlog was at the same level at the end of 2013 at €1.6 billion. Free cash flow stood at €25 million. And total headcount stayed stable around 7,200.

The next three slides are focusing on each Global Business Line performance within Worldline.

So we start with Merchant Services & Payment Terminals. Revenue reached €89 million, an increase of +1.2% year-on-year. Growth was particularly derived from Belgium, with much higher volumes in the commercial acquiring area due to an increase in transactions, a very decent flow of new projects and additional sales tied to our innovative solutions in this market.

Revenue within the subdivision private label cards and loyalty services also extended. And, as planned, the performance was partially offset by a drop in the terminals division, affected in equal measure by the price competition that is across all geographies, but much more specifically in Belgium, and a bold comparative basis due to the terminal resale initiative carried out in 2013 and the fact that we are in between two range of payment terminals, the new one being to hit the streets, particularly in H2.

On the next slide is the Financial Processing Services & Software Licensing, where revenue reached €94 million, representing an organic growth of +3% compared to last year, propped up mostly in issuing processing and online banking by both higher volumes of transactions in Belgium and France and project revenue with BNPP and around the SEPA standard.

Last, regarding Mobility & e-Transactional Services on the next slide, revenue decreased by +1.5%, mainly due to smart mobility solutions, with the end of a specific large bill project in the telecom sector in France and e-government collections due to the contractual price reduction guaranteed to VOSA, as already mentioned in earlier calls. This was mitigated by higher volumes under the tax collection contract in Latin America and speed control in France. Finally, our e-ticketing activities were slightly up.

Regarding Worldline, I would like also to share with you some of our recent wins and partnerships where Worldline expertise has been retained.

First, in the banking industry, Volkswagen Bank in Germany and LCL in France chose to extent their existing processing contract with Worldline.

For the new Fonds de Garantie des Depots, Worldline will provide an information system, ensuring a high level of security and processing to achieve connection between 600 banking establishments in France.

In Belgium, Worldline expertise has been retained by ING to support its acquiring business.

On the merchant services side, Worldline signed a new partnership with Good Deal to enhance kiosk platform of accessing promotions for Retail customers in Spain and Portugal. This platform provides numerous advantages for consumers by delivering promotional coupons adapted to the customers' purchasing profile.

We are particularly pleased to have signed with the PAY.ON's payment gateway and e-payment acceptance coverage that has been extended through Worldline, opening up to a new cross-channel payments system which will allow retailers with card terminals to receive payments via smartphones using the network operator.

We are also pleased to have reached an agreement with Yapital, the first European cross-channel payments system operator. Most of the German retailers will soon be able to offer an easy mobile payment method.

As you know, innovation is in Worldline's DNA, and this has been a key factor of differentiation for us constantly. And as Worldline is already supporting changes for some major leaders in the meal voucher industry, we are particularly pleased to report this time that Worldline was also chosen to support the digitalization of Groupe Chèque Dejeuner, which plays a leading role in France.

Finally, in the connected cars area, Worldline teamed up with HERE to deploy end-to-end cloud solutions, focusing on real-time information and business analytics. The partnership will develop solutions such as traffic, parking, electrical vehicle charging stations for connected cars and develop connected infrastructures targeting the retail, transportation and eHealth industry.

I would like just to close this presentation by moving to the confirmation of our 2014 objective. For revenue, the Group expects to positively grow compared to 2013. The Group has the objective to continue improving its operating margin rate, targeting to 7.5% to 8% of revenue. And the Group expects to achieve a free cash flow above 2013 level, in line with the 2016 ambition.
Thank you for your attention. And, with Michel-Alain, we are now ready to take your questions.

Question and answer

Operator

The first speaker is Neil Steer from Redburn. Please go ahead.

Neil Steer - *Redburn - Analyst*

Morning. Thanks very much. I just have a couple of quick ones. First of all, Gilles, when you went through the earlier part of the presentation, there seemed to be quite a lot of new signings that you were highlighting. Just to be clear, all of those new signings, they were actually signed in the first quarter, were they? None of these are actually Q4 signings? They're all first quarter this year?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Yes. It was absolutely first quarter.

Neil Steer - *Redburn - Analyst*

Okay. In which case, following on from that, the book-to-bill ratio obviously is nevertheless quite low. Was there a trend that you can highlight within the first quarter, when in the first quarter did the slowdown in new signings actually hit the business?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

All along the first quarter actually. There is no specific moment that I could highlight actually.

Neil Steer - *Redburn - Analyst*

Okay. And just on the DWP contract on the WCA side, you've got 2,000 staff. Has there been a third party already identified to take over those 2,000 staff and transfer them through a TUPE contract or is there the risk that there will be a charge associated with a portion of those 2,000 people if not all of them are actually wanted by the third party that's been identified?

Michel-Alain Proch - *Atos SE - Group CFO*

Yes. Neil, it's Michel-Alain speaking. The process of public procurement has just been launched on the same day we've signed the agreement on March 18. So obviously this new provider is not yet identified and this public procurement process is there to identify this provider.

What is important here, what I've tried to underline is the fact that it was very important that it was one single provider, that we would not truncate our contract into different providers, which was extending a very large risk in terms of transition in between us and the providers and risk for our employees. To answer your question precisely, as part of the agreement, the 2,000 employees will be transferred to the new provider because they are fully under the TUPE legislation and this is written in the agreement.

Neil Steer - *Redburn - Analyst*

So a third party has to be found that wants all of the 2,000 staff?

Michel-Alain Proch - *Atos SE - Group CFO*

Exactly.

Neil Steer - *Redburn - Analyst*

Okay. And just a very final question, could you, and I'm sorry to ask, but could you just give us a recap on the P&L restructure spend expected this year, so the charge in the P&L, and also the cash restructure spend this year?

Michel-Alain Proch - *Atos SE - Group CFO*

Yes, sure. As I have mentioned last February, we are planning to have roughly €101 million in staff restructuring, and that's in cash, and roughly €41 million in rationalization of offices. So in total it's €21 million less, maybe you remember, Neil, the bridge I've done, it's €21 million less than in year 2013.

Neil Steer - *Redburn - Analyst*

Okay. Thanks very much. Thanks a lot.

Operator

Michael Briest, UBS.

Michael Briest - *UBS - Analyst*

Thanks. Good morning. IBM last night and Accenture a few weeks ago were talking about increased offshoring and price pressure in the application management market. Can you talk about that and whether that's part of the reason that you saw slipped deals, for instance?

And then on the book to bill, what should we be expecting for Q2? You were optimistic that Q1 would have a better performance.

And then finally just on the IPO, can you give a bit more clarity now on the timeline? I think in February you were talking about before or after summer. Has a date been decided upon? Thanks.

Michel-Alain Proch - *Atos SE - Group CFO*

Okay, Michael. I think there are three questions. I take one and three and Gilles will take the second one. So first, I think on the contract and the book to bill, clearly the slippage we have in between Q1 and Q2 is, in our point of view, is not coming from price pressure in application management. I think the major point is the fact that cloud is now happening in Europe and the in the US, and CIOs are integrating this cloud component in their RFP. So for us it's a very good news, because, as you know, we are leader in cloud and we are very well positioned on these contracts in Europe.

But in terms of closing deals, the consequence of it is that RFP can be stopped, re-scoped, include cloud, re-launch and so forth and so on. And that's the reason why we've seen so many deals slipping from Q1 to Q2. So it's more a question of including cloud into outsourcing RFPs than price pressure on the application management.

On your third question, which is the IPO, clearly, as Gilles said in his introduction, we are fully mobilized to complete the IPO on schedule. So what does it mean? It means before the summer break. And we are talking about the investor summer break, not our summer break. So it means clearly at the end of June.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Well, Gilles Grapinet speaking, we cannot be more precise for legal reasons as moving to the stock exchange market, of course. And you can get what you can, I think, take from Michel-Alain's stance is that the sooner the better. And we are just working days and night, and particularly myself, to make that happening and to make it a success. So keep that with you. Actually you know there are regulations. We must obey to these and we are still in the process of getting the right visas. And as soon as we get them you will have full visibility on the timeline.

Operator

Charles Brennan, Credit Suisse.

Charles Brennan - *Credit Suisse - Analyst*

Yes. Great. I've got two actually. The first is coming back on Neil's questions around the book to bill and the Worldline business. And I'm just trying to get a sense of whether the weak number is a seasonal issue or whether it's due to the distractions of the IPO and the broader market conditions. Can you give us what the book to bill was in last year's Q1 so we can help identify the seasonal impact? That's the first question.

And the second question is just on the large media company in the UK. I was under the impression that that contract was going to be broken down into smaller towers. Have you re-signed that on the same scope as the original contract or have you re-signed a smaller contract?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Hi, Charles. Gilles Grapinet. I will take the first one and Michel-Alain will take the second one. So thank you first regarding your question regarding Worldline, and I would just like to comment by that. Regarding the overall book to bill, I think that there is nothing special regarding the book to bill of Worldline, which is in Q1 quite in line with what we observed in this business, which is having really typically much higher bookings in Q2 and particularly in Q4.

Regarding your second questions, actually I must admit that this Q1 has been totally exceptional for the team and top management in Worldline mobilization standpoint. Of course there is the IPO process, which is, as you all know, really time-consuming and we do it extremely intensely with the Group. And definitely believe this is something which has been taking some bandwidth from the top management.

On top of that, you all know, and even if we can’t be more precise, that we have been pretty much mobilized on M&A opportunity at the same period of time, on a major one which has also been taking a significant number of staff to be part of this process. And that's it fundamentally. So hopefully it's why also one of my, as a CEO line, one of my key ambitions is to put the IPO as fast as we can get it behind us quickly so we can fully refocus on the normal business development.

That being said, I'm quite confident that the Q1, that you mentioned as weakness, is just in line with what we anticipated for this Q1. There are technical reasons for having a relatively soft trading versus historical performances. The payment terminal, the price concessions that we have been done on various important contracts, which are just mechanically applicable. And we have been having also some very good performances that are a bit hidden by these major impacts in the merchant services business, in various Business Units which were growing very well, a bit hidden by the drop of price, particularly in some financial processing contracts and public services contracts.

On top of that I would like just to insist also that there is a certain volatility in our performance on a quarterly basis, particularly on the third division of Worldline, the Mobility & e-transactional services, which was having last year a very significant build activity. It will be part of the business model of this division to have some cyclicality, depending on the project we win, the build, and then of course when we enter into run mode. So this will be part, of course, of all the explanation we are going to give during the IPO process to help you understanding a bit better the dynamics of this division.

So for me there is nothing special. And I am glad to say that we fully confirm the guidance that we shared with you already, which is, after this Q1, we intend to be above 2% in H1 and to come back hopefully to a higher growth rate in H2, particularly on the back of two important elements on which we capitalize to get back to the +4%, +5% that we are used to go after, which is, one, the positive conclusion of the signature of one out of the two contracts that we are currently pursuing with major banks in Europe in financial processing.

And the second element is the anticipated revenue contribution of digitalization activities, including projects and new projects, either with Worldline customers directly or with Atos Group clients that will be using Worldline competence center in Mobility & e-Transactional services during H2.

So that being said, I think I can give the floor, for the question relating to the contract with the large media company in the UK, to Michel-Alain.

Michel-Alain Proch - *Atos SE - Group CFO*

Yes. Thank you, Gilles. I think there were several information on the market about the breakup of the contract. Clearly there were two strategies here for this large media company, a first one possible strategy, to extend the contract by two years, as they are allowed to do through a public procurement. Another strategy was to choose to break up the contract right away. And clearly I think we've proven through our offer that we were materializing more value by extending this contract by another two years.

Charles Brennan - *Credit Suisse - Analyst*

Great. Thank you.

Operator

Brice Prunas, Exane BNP Paribas.

Brice Prunas - *Exane BNP Paribas - Analyst*

Yes. Good morning, gentlemen, and thanks for taking my questions. I have three questions. The first one is regarding your subdued level of signing on Managed Services. I would like to understand when do you expect your commercial changes, like account management or your new head of sales today to bear fruits?

The second one is to come back on your target of Q2 of book to bill. I would like to see what are the assumptions behind that rebound. Is it about deals that are already signed? How many deals do you need to sign to be in that bracket?

And the third one is to come back on your relationship with Siemens, so actually they are a shareholder until 2016. I remember at that time you had volume guaranteed with them and I have the feeling now that the ramp-down is a bit more pronounced than maybe what I expected at the beginning. Thanks.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Hi, Brice. Gilles Grapinet speaking. Regarding your first question regarding the momentum on the MS contracts signature, as I mentioned, we are quite confident to sign very significant contracts hopefully already in Q2. Part of our 120% to 130% indication regarding the book to bill is definitely coming from that. These are Managed Services contracts for most of them that were in the pipe for Q2.

And more importantly I would like to pinpoint that for H2 we have really, at this point in time, very large engagements, much even larger than the one we are pursuing in Q2 in Managed Services that should definitely, for some of them, enter into the backlog of the Company in H2, bringing a totally different momentum to the division. So this is really the focus on 2014.

And to your point, we have launched indeed many initiatives to increase and improve the momentum in our sales community. Actually there are two I would like to highlight. First, a very strong focus around the fertilization short term on all the existing contracts by appointing new roles in the Company. We did that a few months ago already in the Service Line directly by setting up and empowering more of what we call the MS client managers, which are basically people having direct sales responsibility for short-term fertilization and specific incentives.

And what we call now the new SI Account partners also in charge of accounts where we see first and foremost short-term fertilization potential rather than large new order entry.

So we do a much better segregation of roles in the Company between short-term sales and medium-term to long-term bookings. And this I am absolutely convinced will pay off as soon as of the next quarter. And of course, Patrick, taking his new role will also put a new momentum in many of the domains based on his personal experience.

Michel-Alain Proch - *Atos SE - Group CFO*

Thanks, Gilles. Brice, Michel-Alain. I'm going to take the second question about Siemens. So clearly on the Global contract, as you know, we have committed volumes with Siemens up to €5.1 billion altogether on seven years. And the trend of the revenue year after year is fully in line with what we expected. So the price reduction that I have mentioned in my script was clearly completely anticipated and budgeted. You know that Siemens is embarking into a very large cost saving program. And obviously as a key partner of Siemens we are doing our share in this program.

An important point that I want to mention is that on top of that, which is really the day-to-day operation and we are operating all their infrastructure and application landscape, on top of that what we are doing is that we've decided with Siemens through, you know our alliance board, our alliance co-funded program, to invest together into a big data analytics program, which is key for the development of this offer for both Siemens and for ourselves.

So you see it's not only the, I would say, the traditional IT outsourcing that we are investing with Siemens and with Siemens division, with Siemens business division, into this big data initiative.

And I'm sorry, Brice, but I thought you had three questions and I didn't get the third one.

Brice Prunas - *Exane BNP Paribas - Analyst*

In fact the third one was related to Siemens and the first one was related to Managed Services, the third one on commercial organization and the second one on target.

Michel-Alain Proch - *Atos SE - Group CFO*

So I guess Gilles answered it too?

Brice Prunas - *Exane BNP Paribas - Analyst*

Exactly.

Michel-Alain Proch - *Atos SE - Group CFO*

Okay, very good.

Operator

Derric Marcon, Societe Generale.

Derric Marcon - *Societe Generale - Analyst*

Yes. Good morning, gentlemen. Do you hear me?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Very well, Derric.

Derric Marcon - *Societe Generale - Analyst*

Okay. Thank you. Just to come back on Brice's questions, if I look to your pipeline of €5 billion and I compare it to previous quarter, it does not look increasing significantly. So how could we reconcile this figure with all the comments you made on the, let's say, commercial process changes that have been already done or the significant pipeline you have on Managed Services?

And my second question, if I look to the Q1 free cash flow, €30 million, €25 million of that comes from Worldline. Anything specific to mention for the classic IT services business?

And my third question is related to an article that was published yesterday night in a French newspaper, where apparently it seems that you made an offer on Steria. Can you comment that, please?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Hi, Derric. So Gilles Grapinet. I will take the first one. Just the pipe of €5 billion, I remind you, is weighted pipeline, meaning that we take the whole lot of commercial opportunities and we associate weighting as per market standard practices regarding the chances of closing, and particularly the advancement in the sales process, which is a percentage that we apply to the total contract value anticipated for a given contract. So we start with 0% when it is a pure lead, as you know, and we can go up to 90% of the Total Contract Value in the weighted pipeline, where we are really in final negotiation, exclusive, more just waiting the contract to be signed.

So the €5 billion is actually, I would say, just the mirroring of these rules. And it is quite conservative if you compare it with the un-weighted pipe which is the raw value of all the opportunities, which increased over the last few months given the size of the very large opportunities that are in the pipe, but for closing time in H2 hopefully or maybe earlier 2015 if some of them are going to take a bit more time. So there is definitely for me no mystery in there and it is just the normal application of the rules.

But believe me, the un-weighted pipeline has been really increasing showing that there is really in this industry, and particularly in the northern part of Europe, very large outsourcing opportunities which would be totally new business, because the second characteristic of the un-weighted pipe is the number of new business opportunity, not renewals. And of course, last but not least, that would bring for us very long-term engagement, again given the size of these opportunities.

Michel-Alain Proch - *Atos SE - Group CFO*

Derric, it's Michel-Alain. I'm going to take the last part of your question relative to this article in the press. Considering your question and certain speculation in the media, we wish to clarify the situation.

Yes, we made an offer, a binding offer, an amicable binding offer at €22/share in cash to Steria on the 4th April. Let me take this occasion to explain you a bit more the Group position.

We have held friendly discussions with key stakeholders of Steria over the last few months, including with its CEO and its Chairman. We have concluded that there was strong industrial rationale, and highly attractive prospects for all Steria stakeholders as well as value creation for both company shareholders, if Steria chose to join the Atos industrial project.

These conversations were always held in a friendly context, which is an integral part of our business philosophy. We therefore sent them a written offer on April 4th to acquire all Steria shares at €22 per share in cash, which they had the option to trigger. To keep our friendly approach, we decided, upon our lawyers recommendation, to send this binding offer, at first, unsigned. We asked them in the cover letter to come back to us before April 7th midnight to trigger the issuance of our binding offer, signed this time, at €22/share in cash. At this price, such an offer was perfectly in line with the Group financial discipline and was highly accretive for Atos shareholders given the identified synergies.

On April 7th in the afternoon, the Chairman of Steria Supervisory Board wrote us and I quote him 'the Board has not been in a position to assess your offer". We then learnt on April 8th, as the rest of you, the proposed merger between Steria and Sopra with the consequences you know: a Steria share valued at circa 18/18.5 Euros by the market.

We have then acknowledged in writing their willingness to pursue the proposed merger with Sopra, and have indicated to them that, should they wish to reinstate the industrial project to join the Atos group, the Atos Board of Directors has decided to maintain its amicable offer at the same terms, so namely at €22 in cash, to be triggered at the request of their governance bodies, any time, until the Sopra EGM approves the proposed merger.

This friendly approach has been approved unanimously by Atos Board of Directors and the French Regulator AMF has been informed of all our steps. Now, everything is in their hands at €22 for the next two months but you understand that we will not make any other move towards Steria and will not comment further as Atos will always keep a friendly approach.

Sorry for this long answer, Derric, but I think it was important you had the detail of the operation.

Derric Marcon - *Societe Generale - Analyst*

Crystal clear. Thank you very much, Michel-Alain.

Operator

Amit Harchandani, Citigroup.

Amit Harchandani - *Citigroup - Analyst*

Good morning, Gilles. Good morning Michel-Alain. Amit Harchandani from Citigroup, and thanks for taking my question. My first question relates to the increasing traction for Cloud in Europe. Could you maybe elaborate a bit further in terms of how you're seeing this traction picking up across the various geographies, various verticals? And what kind of a cannibalization impact is it having, if any, on your Managed Services offering? So that would be my first question.

Michel-Alain Proch - *Atos SE - Group CFO*

Okay, Amit. It's Michel Alain. I'm going to take this one. On the Cloud Services, we've decided that we will issue some more numbers in the quarters to come. But to answer your question, most of our Cloud Services today, roughly we have 301 million of cloud services, are in fact infrastructure as a service. And then we are providing platform as a service and software as a service. The three are integrated into one component, Canopy.

Clearly infrastructure as a service is transformational, meaning that the deals that we see on the market now are combining both the legacy outsourcing and infrastructure as a service. So for me it's a must. In the months to come and in the years to come there will be those who have the ability to deliver these services combined one to another on the pace decided by the CIO, and those who can't.

So I don't see it as a cannibalization really; I see it in the evolution of providing outsourcing to our customers more on an OPEX base than on a CAPEX base. So that's for infrastructure as a service.

What is more incremental and what is at the same time more new to us is obviously software as a service and platform as a service. We are concentrating Systems Integration in particularly into providing testing through platform as a service. So these are the two main drivers on the cloud.

In terms of geography, it's mostly in Europe, as I said. Now in France but also in Benelux & The Nordics and in the US. That's where we have our Cloud Services. We'll be more precise in terms of figures in the quarter to come.

Amit Harchandani - *Citigroup - Analyst*

That's very helpful, Michel-Alain. And secondly, I just wanted some of your thoughts in terms of the business environment. Obviously the quarter has been, I would say, slightly challenging in terms of the business. What have you seen in terms of deal closure rate and competitive dynamics during the quarter? If you could elaborate, even if you've already touched upon it in the previous answers to the previous question. But have you seen any change in the way customers talk about closing deals during the quarter and any indication of IT budgets and lastly competitive dynamics? Thank you.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Hi, Amit. Gilles Grapinet speaking. I will just share with you that fundamentally we don't see any significant change in the market condition versus, for example, H2 2013. As we said, and Michel-Alain mentioned it, some deals are a bit more complex in their architecture, particularly in infrastructure, given the fact that customers are embedding Cloud components into these and this is a bit new for them, so it takes a bit more time to set up the right business case and it creates a bit of a slowdown in their ability to close the deals, but it is relatively minor.

And of course for the first-generation outsourcing deals that I was mentioning which are in the pipe, deals in which really customers are moving there, the only comment I would like to make is that indeed, as these are absolutely driven by cost optimization consideration on the customer side, we spend a significant amount of time to make sure that the customer hits the right business case for him or for the organization, which is something pretty normal for company moving to first-generation outsourcing.

So nothing really special. We are absolutely exactly in the environment that we foresaw and we forecasted. A little bit maybe more conservative, as usual, at Atos than some of our competitors. We do not bet on a significant improvement neither in the quarters to come.

Amit Harchandani - *Citigroup - Analyst*

Thanks, Gilles. And just to get a clarification maybe, in terms of the business that's coming up, do you feel it's being driven more by vendor consolidation at your customers? Or is it more outsourcing, so in-sourced functions moving outsourcing?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Certainly, in the case of the current pipeline there are both. There are definitely, like we saw for example one year ago with the NSN deal, significant vendor consolidation programs, particularly in application management, which is definitely for us a very strong positioning and a strong value proposition, which is really making its way to customers and to industry analyst recognition definitely. As I was mentioning in the highlights, we have been having a quite impressive and positive Industry Analyst Day in our headquarters in Bezons and particularly around these topics in Systems Integration.

And second story, yes, indeed, in the pipeline of Atos at this point in time we have one of the highest pipeline ever regarding first-generation outsourcing with companies intending to move scope of activities currently delivered internally, with sometimes the support of many small vendors, to a big outsourcer. And this is really absolutely a key trend in our pipe given that what we have today. I would like to mention four geographies where this is really very clear, Netherlands, Nordics, Germany and even France.

Amit Harchandani - *Citigroup - Analyst*

Brilliant. Thank you, Gilles.

Operator

Mohammed Moawalla, Goldman Sachs.

Mohammed Moawalla - *Goldman Sachs - Analyst*

Thank you. Gilles or Michel-Alain, can you comment a bit about your M&A plans more broadly? You alluded to Steria, but on the Worldline side obviously you missed out on NETS. Can you talk about the sort of different plans you have, both on the Worldine side of the business as well as the IT services business over the next 12 to 18 months?

Michel-Alain Proch - *Atos SE - Group CFO*

Yes, Mo, it's Michel-Alain. I will take the part about Steria and a more or larger part on ITS. And I will leave Worldline to Gilles obviously. So, yes, I think I've been clear on detail about Steria so I have nothing more to add. Clearly we believe it's an accretive deal both for Atos and for Steria. And as I said, they have the offer in their hands, €22 in cash.

But this is not the only thing we are doing obviously. And as we've said, we are fully concentrated into enlarging our footprint in the US. So we're working a lot on this subject. You obviously know I cannot be more precise. But let's say that it's taking a large part of my bandwidth.

And Gilles, maybe you'll take the Worldline part?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Yes, briefly. Hi, Mo. Gilles speaking. Just on Worldline, I have just two comments to do. Indeed, the only comment I would like to make on NETS is actually twofold. One is obviously that it definitely showed that our analysis, that the evolution of the regulation and the economic condition in the payment industry would drive some new moves from the banks to get rid and progressively sell these types of assets, particularly when there are minority shareholders.

The NETS transaction is just fully demonstrating that this is happening and that the IPO of Worldline is taking place absolutely at the right time to position the Company in the best position to seize these type of opportunities. I think it's just the proof point of this change of the industry.

And the second element is that, of course, there is appetite for this type of asset, which is the second element that you can extract from this deal. And Worldline will keep also its financial discipline in pursuing these deals in the next quarter. But there will be opportunities and we will stay disciplined to make sure that we will on board only the one that will be value-accretive for the shareholders, the one of Atos and tomorrow the one of Worldline.

Mohammed Moawalla - *Goldman Sachs - Analyst*

Great. And just a follow-up on Worldline. Can you just help us to bridge the gap? You clearly have material acceleration built in on the Worldline side once you spin this business out. Can you just help us understand the kind of levers between the three different pieces of Worldline? Where do you see the biggest source of upside acceleration over the next 12 months? And perhaps where you see greater headwinds potentially around achieving that acceleration?

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Mo, I don't want to frustrate you. You know how much I love this business and I can speak hours about it, but I would just suggest, given that in a few weeks time we will be all together in a specific analyst day within the IPO process, to keep that at length for this meeting that is going to come short. And I swear that you won't be frustrated after such an analyst day. Okay? That's fine with you?

Mohammed Moawalla - *Goldman Sachs - Analyst*

All right. Thank you.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Okay. Great. Thanks.

Operator

There are no further questions from the telephone lines. Please continue.

Gilles Grapinet - *Atos SE - SEVP, Global Functions*

Okay, guys. I think we have no more questions. I would like really to thank you to be here with us, Michel-Alain and myself. We were really appreciative of this exchange. Thanks, and looking forward to be with you quickly. Bye-bye.

Michel-Alain Proch - *Atos SE - Group CFO*

Thank you. Bye-bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.