

# **Bureau Veritas SA (BVRDF) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

July 25, 2024 Thursday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 9578 words

**Byline:** SA Transcripts

**Body**

Bureau Veritas SA (BVRDF)

Q2 2024 Results Conference Call

July 25, 2024 12:00 PM ET

Company Participants

Hinda Gharb - CEO

Francois Chabas - CFO & Executive VP

Conference Call Participants

Annelies Vermeulen - Morgan Stanley

Sylvia Barker - JPMorgan

Suhasini Varanasi - Goldman Sachs

Rory McKenzie - UBS

Arnaud Palliez - CIC Market Solutions

James Rose - Barclays

Carl Raynsford - Berenberg

Arthur Truslove - Citi

Presentation

Operator

Hello, welcome to the Bureau Veritas H1 2024 Results Presentation. My name is Caroline, and I will be your coordinator for today's event. Please note this call is being recorded and for the duration of the call your lines will on listen-only mode. However, you will have an opportunity to ask question at the end of the call. [Operator Instructions]

Today's call, we have Hinda Gharb, the CEO; and Francois Chabas, CFO and Executive VP.

I will now hand over to your host to begin today's conference. Thank you.

Hinda Gharbi

Thank you, Caroline. Good afternoon and good evening to everyone. Thank you for joining Bureau Veritas today on the webcast and on the call. Francois Chabas, our group CFO, is here with me to present our first half 2024 results and answer your questions.

In the first half of the year, Bureau Veritas continued to deliver on its commitment with a strong performance for top line margins, earnings per share and cash. This is fully in line with our LEAP '28 strategy goals and showed the excellent execution pedigree of our company. I take this opportunity to warmly thank our colleagues around the world for all their contributions.

Starting with the financial highlights for this record first half. Revenue reached EUR3 billion with an organic growth of 9.2% and was 9.3% at constant currency. This performance demonstrates the excellent execution of our business plan. In the second quarter, we delivered double-digit organic growth of 10.4%. Growth was driven by high volumes and pricing. On a reported basis, growth was at 4%. Adjusted operating profit increased by 4.1% year-on-year to EUR451.9 million, generating a margin of 15%, up 33 basis points at constant currency. Our adjusted net EPS is up 4.5% to EUR0.64 and is up 6% at constant currency.

Free cash flow totaled EUR189.9 million, up 44% year-on-year, reflecting our disciplined capital allocation and demonstrating our rigorous working capital management. Strong performance in half one, coupled with a healthy backlog allow us to revise upwards our revenue growth outlook for this year.

In terms of mix, all business lines and regions delivered a strong performance with high growth from sustainability services and energy transition projects. Specifically, Marine & Offshore, Industry & Certification continued their strong growth momentum, up high double-digits organically, in line with previous quarters. The Consumer Products business continued its recovery with an organic growth of 7.3% in half one, driven mainly by an increase in new product launches.

Buildings & Infrastructure and Agri-Food & Commodities achieved solid mid-single-digit organic revenue performance. From a geographical perspective, all regions performed well with the fastest growth recorded in the Middle East and Africa.

Turning now to our CSR commitments. We continue to deploy our new CSR plan and start the execution of its different associated programs to meet our new LEAP '28 strategy target. In June '24, for the first time, we presented the group's climate strategy at our Annual General Shareholders Meeting. It defines our decarbonization priorities and objectives. These objectives have been approved by the science based target initiative for our near-term targets. In this first half of the year, our CSR indicators progressed mostly in line with our plans and are supported by well-defined and granular programs at all levels of the organization. I'm pleased to also report that our performance is recognized by a number of non-financial rating agencies.

I would like now to share with you the key events of this first half. We have started the execution of our LEAP 28 strategy, which was launched at the end of Q1. We have completed our 200 million share buyback program that we announced in March '24 and executed it in two steps. Additionally, in May, we benefited from favorable market conditions and issued a EUR500 million bond. This follows the assignment by Moody's of our first long-term A3 credit rating with a stable outlook.

Subscribe to Seeking Alpha for more content like this

I will now give you an update on our strategy progress. Our LEAP '28 strategy intends to make a step change in growth and performance and is built around three pillars; a focused portfolio, a performance-led execution and an evolved people model. I'm going to cover today the progress of the first two pillars.

First, we are actively managing our portfolio and we have acquired four companies to create new stronghold. As a reminder, the new strongholds are markets of high growth, where we are accelerating our development and scaling to reach a top three market position.

In cybersecurity, this month, we signed an agreement to acquire Security Innovation, a U.S. based innovators, specialized in software security services focused on software testing, secure software development life cycle advisory and training. It realized the revenues of EUR21 million in 2023.

In consumer technology testing, we have signed definitive agreements to acquire three players in Asia. They will extend our position in testing and certification services for the electrical and electronics consumer products in the leading R&D market of South Korea. We're also building a new position in the growing technology manufacturing hub of India.

The acquired company's revenue was a combined EUR20 million in 2023. Generally, we continue to develop our pipeline of opportunities, and we expect M&A to play a key role in Bureau Veritas' growth strategy.

Second, we are working to expand leadership in our existing stronghold in B&I and in line with our goals for this market-leading business, our strategy is to expand geographically in new critical countries and to fill in gaps in our portfolio. The intention is to ensure a comprehensive range of offering for our customers and to adapt to an evolving market. This will be done both organically and through M&A.

The effective portfolio management is unfolding in the following manner: First, we have identified specific M&A targets and we expect to announce some acquisitions before year-end: Second, we are actively working on improving our mix. We recognize that market conditions have changed for the construction market in China, and we are taking action to reposition the portfolio. We have just signed an agreement for the divestment of a non-strategic construction supervision business there. This business represented less than EUR30 million in annualized revenue. Effective portfolio management, we believe will support our results going forward in B&I.

Turning to performance, the second pillar of our strategy. Our aim is to consistently improve our margins through performance programs designed to deliver meaningful efficiency and productivity benefits. One of the two performance streams is operational leverage. This encompasses the performance management central to our efforts to improve profitability across the group, but particularly in those areas where we are not satisfied with the current margin. When it comes to process improvements, there are a number of programs intending to modernize our operational systems and to reengineer our processes. Let me share with you two such projects.

In our certification business line, we are developing a new production system that improves efficiency and streamlined processes. We are currently piloting the first phase in key geographies and the solution will be deployed by year-end globally. In Marine & Offshore, we have launched our operational platform move, a collaboration hub that groups all applications, including a smart asset management solution. Successful pilots have been completed with ship owners. We expect to deploy the solution widely in half.

I now hand over to Francois for the financial review.

Francois Chabas

Thank you, Hinda. Good afternoon to everyone. So on the key financial achievements of the first semester. Organic growth first remained very strong at 9.2%, showcase Bureau Veritas ability to deliver a broad-based growth that we will see across most of these operations. On the profitability front, we delivered a margin of 15%, up year-on-year 33 basis points at constant currency. On the bottom line, our adjusted earnings per share increased by 4.5%, driven by the company's solid operating and financial execution. When adjusted from currency effect, the increase in adjusted EPS was even more substantial, reaching plus 16.3%.

Subscribe to Seeking Alpha for more content like this

And lastly, when it comes to the financial structure of the company, our financial leverage, our net debt-to-EBITDA ratio was maintained at a low level of 1.06x at the end of June 2024.

Starting on the revenue front -- revenue bridge. We delivered above EUR3 billion in the semester, with a strong organic growth of 9.2%. This is the eighth quarter of organic revenue growth at or above 8% over the last 10 quarters. Acquisitions added 0.1% on a net scope basis. It reflects the impact of bolt-on acquisition realized in the past few quarters and some offset by the disposal of our non-core automotive inspection business in the U.S. last year in July. As presented in our Capital Market Day, we will continue to actively manage our portfolio in the coming quarters.

ForEx impact represents a drag of 5.3%, leading to a total growth of 4% on a net reported basis. This is mainly attributed to the strength of the euro versus several emerging market currencies. From H2 onwards, we expect easing negative impact due to easier comparable in several of such currencies.

When it comes to the performance of the different businesses in the first half, including Q2. So what you can see on the slide that all businesses delivered good growth and I would say, relatively a regular growth between Q1 and H1, we see not many differences. Three activities that the growth, Marine & Offshore Industry & Certification, all delivered double-digit growth in H1 and in Q2 on the back of continued momentum in sustainability services, including decarbonization for Marine & Offshore, renewable energy for Industry & Certification scheme for certification.

Agri-Food &Commodities and B&I both delivered mid-single-digit organic revenue growth in the semester. B&I was led by both in-service and new build activity and improved sequentially in Q2, up 4.9%. Agri-Food &Commodities growth was driven in particular by the strong demand for Agri-Food and Oil & Petrochemicals and grew 6% in the quarter.

Finally, we are pleased to report that the recovery of the consumer product services has been achieved, 8% growth in the second quarter which led to a 7.3% growth performance in the first half altogether.

Now on the margin bridge on this page. Organically, we improved our margin by 29 basis points to 15.3%, scope had a slightly positive impact of roughly 4 basis points. And then as a consequence, at constant currency, we delivered a 33 basis points improvement year-on-year. This is fully aligned with our commitment to deliver consistent margin improvement at constant currency. ForEx was a drag of 33 bps to the gross margin due to the strength of the Euro. So on a reported basis, we delivered a stable margin of 15% in the semester.

Within the portfolio, the revenue growth and operating leverage drove organic margins higher in Marine & Offshore, up 88 basis points, in certification, up 150 basis points and in Consumer Products, up 134 basis points organically. In addition, we are forced to be more commercially selective by focusing on profitable contract in industry have continued to bear fruit. And as you see on the page, the organic improvement is 92 basis points to reach 12.7% on an H1 basis.

Elsewhere, our Agri-Food & Commodities margin declined by 90 basis points organically, it reflects the negative mix from the Metals & Minerals segment. And B&I margin eroded by 53 basis points organically, reflecting a strong recovery of the U.S. operations on the one hand, but not fully compensating the soft performance in China. Overall, we've managed to keep the margin at 15% in the first half despite the ForEx exchange impact that we just discussed about.

Moving now to other factor matrics in the EPS, cash and the balance sheet. Starting with the bottom line element. Our net financial expenses slightly increased compared to last year to EUR25.6 million. While our cost of debt remained stable, we recorded higher unfavorable exchange rate effects compared to the previous year. On the income tax front, our adjusted effective tax rate was reduced by 1.7 percentage points, compared to the first half of 2023. The decrease is mainly due to a reduction in the amount of weathering taxes incurred over the period. For the full year, we expect the adjusted ETR to be in the range of 30% to 31%.

Subscribe to Seeking Alpha for more content like this

On the next slide, we'll see the growth of earnings per share. We delivered a solid adjusted EPS of EUR0.64, up 4.5% year-on-year. Solid operating performance but also lower tax rate, as we've just seen. At constant currency, the increase is 16.3%, demonstrating our commitment to deliver a double-digit charter return based on dividend yield and EPS CAGR over the period at constant currency. So we remain overall confident to maintain a positive EPS momentum moving forward.

Moving to the cash flow statement. Free cash continues to be very strong, and is up 44% year-on-year to almost EUR190 million. Despite the strong revenue performance in the second quarter, as we've just seen, our working capital requirement outlook was kept under control at EUR168 million compared to EUR196 million outflow the previous year. Our working capital level at 9% of revenue is a good achievement given the strong level of activity in H1, and we are expecting the usual seasonality when it comes to H2 in terms of working capital reduction.

On the investment front, CapEx. So we see that we decreased the CapEx level to 2% of the revenue. Two reasons: First, most of the growth, as you've seen is driven by asset-light businesses within the portfolio. And second, we have some kind of a seasonality. So we'll catch up in H2 on some projects that would be delivered in H2 in terms of investment. So we expect this overall to be in the range of 2.5% to 3%, for the full year 2024.

As a conclusion, so we closed H1 with a very robust financial structure. Our net debt stood at approximately EUR1 billion at the end of June. We have completed our 200 million share buyback program that we announced in March. It's been executed in two steps. First, the acquisition of 100 million which is roughly 0.8% of the group's own share in April under the [indiscernible]. And the remaining 100% was purchased directly on the market throughout the rest of the quarter, so the operation has been completed by mid-June in its totality.

Following this operation, the leverage ratio remained at a low level of 1.1x. This demonstrates the strength and resilience of Bureau Veritas balance sheet. The company has no major refinancing requirement before 2026, and a 100% of its debt is at fixed interest rates.

Regarding the EUR500 million bond issued in -- which is due in January 25, it has been already refinanced, as mentioned by Hinda in introduction, for our successful EUR500 million debt issuance completed in May.

So in summary, Bureau delivered once again another set of strong financial results in H1, and I would like to thank all the team across the organization for their commitment in achieving this performance. quarter after quarter.

So I now hand over to Hinda to provide you with more in-depth business review.

Hinda Gharbi

Thank you, Francois. Let me share with you the highlights of the first half for each of our six businesses. Another strong performance in Marine & Offshore, of course, with a 14.7% organic progression. We continue to benefit from a multiyear growth momentum as the maritime industry decarbonizes renews its place and becomes more energy efficient.

We have secured 7.4 million gross ton in sales in H1, bringing our backlog to 26 million gross tons, up 27.5% year-on-year. This is driven by LNG fuel chips and specialized vessels and gives us good visibility on future ship construction activity. Pleased also to report that growth was achieved in all subsegments. We grew a strong double-digit in the new construction activity, continuing the acceleration we've seen in the first quarter into the second one. We grew double digit in the core in-service business. This is driven by of course, the increased number of classed vessels, disciplined pricing and by addressing contract leakages.

Looking ahead, we expect that shipyard capacity will be fully utilized, slowing down the conversion of the backlog. When it comes to innovation, we have issued an approval in principle to China ship design and research center for its latest ammonia fuel chemical tanker design. This project is one of the key ones to address increasingly stringent environmental standards.

Subscribe to Seeking Alpha for more content like this

Our Agri-Food & Commodities division delivered a 4.6% organic revenue growth with different dynamics amongst the subsegments. Oil & Petrochemicals Chemicals recorded high single-digit growth. It benefited from strong business development with key accounts in critical markets. We also maintained a strong momentum in Europe with market share gains.

Following a stable performance in Q1, the Metals & Minerals segment recovered in the second quarter with low single-digit organic growth. We continue to execute our on-site laboratory development strategy, where we are growing double digit in the first half. Trade activities showed also a good traction, especially in China and India.

Agri-Food achieved high single-digit organic progression. The Agri subsegment was boosted by growth in both upstream and trade activities the Americas benefited from excellent crop yields offsetting the impact from floods in Brazil. The food business growth was led by the sustained recovery of Australia activities and good traction throughout Asia.

On Government services and favorable comparables and contract cycle resulted in a stable year-on-year organic growth. We are continuing, of course, our sales efforts with promising new opportunities.

Looking now at industry. The organic growth was 17.5% during the first half and was broad-based across most subsegments and geography. Customer spending remains strong in all energy sectors, driven by energy security and transition needs. Overall, all industrial sectors show a good growth momentum.

Looking by subsegment. The activity in Oil & Gas remained buoyant with a double-digit organic growth in half. Both CapEx and OpEx services increased substantially as we benefit from a favorable investment cycle and leveraging our recognized expertise and global capabilities.

In Power & Utilities, growth was stable, considering contracts arbitrage executed last year compared to last year. Renewables within P&U recorded strong double-digit organic performance in most geographies. The growth was led by the U.S., where we expanded with new solar projects. We continue to see sustained investment in renewables in China, driving our growth there.

In the second quarter, Bureau Veritas was awarded contracts to work on renewable energy projects that when completed will amount to an installed capacity of 35 gigawatt and produced 96 terawatt hours of renewable energy annually. The industry product certification subsegment continues to grow double-digits organically, in line with previous quarters.

On the sustainability front and industry, we have secured a green object contract in California, delivering project management services for the decommissioning of wind turbine generators and the installation of new ones. We have also secured a contract for a large rail manufacturer as a third party to evaluate two hydrogen locomotive projects.

Now looking at B&I. We achieved an organic growth of 4.3% in half one, including 4.9% in the second quarter. We are reporting sequential organic growth since the beginning of the year. During the period, the CapEx business grew faster than the OpEx activities, primarily led by the infrastructure projects.

Subscribe to Seeking Alpha for more content like this

Geographically, in the Americas, we delivered a solid performance in Q2, lifting half one results. The U.S. platform delivered mid-single-digit organic revenue growth, capitalizing on its diversified portfolio of activities. Amongst the best performance, the data center commissioning business continues to perform very well, driven by the buildup of data centers to respond to needs from cloud computing and AI development. Double-digit growth was achieved also in both OpEx related services and CapEx infrastructure business.

Growth in Europe was robust in half one, driven by most countries. France continues to grow through its CapEx-related activities from infrastructure and public works. Double-digit growth was achieved in Asia Pacific, Middle East and Africa, led by India, Australia and Saudi Arabia. China had a stable performance driven by energy-related construction activity. Weak public spending, however, is still constraining market growth in transport infrastructure there.

We continue to develop sustainability solutions for buildings. In the first half, we signed an exclusive contract with the French National Housing Agency. Services will cover energy performance and efficiency checks on projects financed under the French energy management subsidy team. We were also selected for a multi-year program by the California Olympic Committee to provide project management services for the rollout of electrical vehicle plus charging stations.

On the certification front, the business continues to deliver a strong performance over the first half of '24, recording a 16% growth on an organic basis. This performance was led by strong volumes and robust price increases. This year's recertification cycle enabled a double-digit organic revenue performance and QHSE solutions. In Europe, growth was achieved, thanks to Bureau Veritas' leading market position, new contracts and broad set of services.

The certification business benefits from a dynamic of innovation to develop customized and voluntary schemes for customers as they address their consumers' needs. As an example, Bureau Veritas recently delivered the origin France guarantee label to two car models produced by the French car manufacturer Renault, making them the first full electric vehicles to obtain this certification.

Sustainability related solutions and digital certification activity, representing 1/3 of our divisional revenue grew a strong double-digit organically. They benefited from an excellent momentum around carbon services, forest-related services, food sustainability and cybersecurity assurance.

During the first half, Bureau Veritas continued to grow its assurance of sustainability reporting activities. In France, as an example, we helped in an IT services provider to comply with this DSRD reporting. We were also awarded a contract by a global dairy product company to carry out ethical trade and responsible sourcing audit in 125 sites in Mexico.

Finally, for consumer products services, we delivered a 7.3% organic revenue performance in half one with a growth of 8.3% in the second quarter, confirming the recent improving trends. By geography, Asia showed good improvement led by China and Southeast and South Asian countries. Our diversification strategy is paying off as our Americas operations benefited from the growth from businesses acquired in the last two years.

Looking by subsegments. Softlines, Hardlines & Toys delivered a double-digit organic growth, driven by volume recovery from destocking. The hardline business was particularly strong with a notable increase in SKUs. Our health care subsegment, including beauty and household product delivered double-digit organic growth in half one. Recent acquisitions in North America are driving growth through synergies on global accounts, improving prices and extended scope of services.

For supply chain and sustainability services, we delivered a strong double-digit performance led by CSR audits and transition services. This is due to high demand from customers around social audits and green claim verification.

Subscribe to Seeking Alpha for more content like this

Technology contracted in the first half. It is still affected by low demand for electronics, wireless products and electrical vehicles equipment. Electrical appliances performed well, however, and benefited from improved consumer spending.

Looking at sustainability achievements in consumer products. In the first half, we secured a contract with a large DIY company in Portugal to help guide their suppliers to obtain sustainable claims certification services. We also secured contracts with two major luxury groups to test their products for chemical over and above regulatory requirements.

Looking now at the outlook. I'd like to share our upgraded outlook. We now expect to deliver for full year '24, high single-digit organic revenue growth. This is to compare to mid to high single-digits previously. This reflects our strong half one and our confidence in our business execution in the second half. An improvement in adjusted operating margin at constant currency, strong cash flow with a cash conversion above 90%. We expect health to organic revenue growth to be broadly similar to half one.

Before getting to questions with Francois, I would like to close by saying, first, customer proximity and strong operational execution, coupled with a strong backlog allowed us to outperform in the first half of the year. Second, following our LEAP '28 strategy launch, we have embarked on a globally orchestrated execution plan, and we are monitoring closely the progress of our different strategic streams.

Finally, we continue to monitor market developments and believe that the key secular trends supporting our strategy are robust, confirming our assumptions. We are confident in the strength of our LEAP '28 strategy, and we'll continue to report on our progress over the coming quarters.

Thank you all for your attention. Francois and I are now ready to take your questions on the call or on the webcast.

Question-and-Answer Session

Operator

[Operator Instructions]. We'll take the first question from line Annelies Vermeulen from Morgan Stanley.

Annelies Vermeulen

[indiscernible] since upgrade. Clearly, there's operational leverage in this business.

Hinda Gharbi

Annelies, we lost a big chunk of your question there, if you could please repeat. We didn't hear that.

Annelies Vermeulen

Sorry about that. So given the -- given your -- I wanted to ask about the guidance upgrade. So given you've got operational leverage in the business from higher organic growth, I'm just wondering why there's been no sort of change to your margin guidance specifically. And you've also talked about the initiatives into year-end to increase the operational leverage. So was there any reason for keeping that margin guidance unchanged at this stage? And if you could also perhaps quantify what you -- exactly how much you mean by an improvement in the margin is that 10 basis points, 20 basis points, 50 basis points? That's the first one.

Subscribe to Seeking Alpha for more content like this

And then secondly, just on Buildings & Infrastructure, as you say, the growth has sequentially improved despite, I think the fact that you had a tougher comp in the second quarter. Is it fair to say that you think you've passed the worst of the growth in this business and that should continue to improve from here based on your pipeline and your conversations with customers?

Hinda Gharbi

Look, on the first question there, we have maintained our guidance on the margin. We are very clear that we will deliver improvement at constant currency. And the reason we are doing that because, why we generate improvements, we also have to invest to enable these performance programs. And we consider at this time that we will be -- we are committing to the improvements, but we have to enable them. And therefore, at this point, this is still a reasonable guidance for us to allow us to progress on our programs.

I'll let Francois take the second question on the quantification.

Francois Chabas

Yes, Annelies, on the quantification, we try to do things in a simple manner for you guys as well, meaning delivering on a regular basis based on what we said before. So no change compared to the Capital Market Day. We are making efficiency gain. We reinvest a bit as indicated by Hinda into the operation for a reason, not just for spending but to make sure that this is a continued performance. So you can keep the same ideas and numbers that the one you got on the Capital Market Day, we said there has to be a continuous improvement in terms of margin sequentially, 10 basis points, 20 basis points, 25 basis points around that basket, it hasn't changed.

Hinda Gharbi

And on the third question, the short answer is yes, we expect ourselves to see B&I improving. But it's important to mention that we have been actually improving since the trough of Q3 last year and we are executing our strategy on B&I to ensure that we expand both geographically and in services. And that's allowing us to address some of the softness, for example, in China, that platform we are working on shaping that. We continue our plans to diversify our services in the U.S., and that's provided resilience so far. And of course, our European platform is critical to B&I. And there as well, we are working on organic developments as well as expansion of services.

Annelies Vermeulen

And just as a follow-up to that. So in B&I, it sounds like it's a combination of your own initiatives and your positioning of the portfolio and services, et cetera, as well as sort of stability or slight improvement in some of the end markets. Is that fair?

Hinda Gharbi

Yes. I think it's fair to say that structurally, the B&I market is still buoyant. And the organization we talked about is happening. Infrastructure spend is increasing. In fact, as I mentioned, the infrastructure was leading the growth on the CapEx side and the OpEx is resilient by nature anyway. So there is no change for us in terms of market dynamics in that front.

Operator

We will take the next question from the line Sylvia from JPMorgan.

Sylvia Barker

Three questions, please. Firstly, on the second half guidance on organic growth, could you maybe discuss the shape of that growth? Will we finally see any slowdown in marine? Or is that continuing to grow very strongly? Or indeed, any other divisional comments will be helpful.

Secondly, now that you've had some time to look at positions in the space, could you maybe talk a little bit about the pipeline? I guess on the outside, it looks like making smaller acquisitions is possible at very attractive prices. And you've clearly had an acceleration in that momentum. But anything bigger possibly still [P] territory and maybe a little bit more expensive. Maybe can you comment around that as well?

And then finally, as always, could you just comment on the price versus volume in H1 and then into the second half?

Hinda Gharbi

Look, the -- I think the marine -- first of all, of course, we don't guide specifically by each one for second half. But just a word on marine. Marine is going through what I would call a super cycle here because that is -- what is structural around the marine market is it's not just -- there is a demand for a certain number of ships and that will end very quickly. This is a profound transformation of the shipping industry because there is a need to decarbonize and the time line for that is very, very close. So the renewal of the fleet is real. It is taking place, and it will continue to progress that way. So it's not reversible, if you will, because you have to decarbonize your fleet, and there is so much you can do in improving a bit of the performance. So the decarbonization is structurally requiring new ships, new types of propulsion.

Subscribe to Seeking Alpha for more content like this

So having said all that, it means that there is really momentum to build these ships and we are -- you can see it in our sales. And our sales have improved 27.5%, our accumulated sales wins, accumulated 27.5% year-on-year. So that is really a direct translation of that.

Now the reality, though, is to convert those wins into actual construction, you need to have access to shipyards. The shipyards today are busy. And in fact, the capacity is full until end of 2026. So we are gradually converting our wins. But at some point, we're going to run out of shipyard capacity. And that's really the caution sometimes we have around Marine & Offshore because we don't control the dynamic of the shipyard, right? And so we still could think that M&O generally will have a robust performance this year in the coming years. It all depends on shipyard capacity.

In terms of pipeline of M&A, you're absolutely right. We are growing our pipeline. And in fact, if you look from December to now, we have completed six transactions to the tune of circa between EUR50 million and EUR70 million. So we are progressing and we're building our pipeline. It's an effort orchestrated globally coming from our regions, coming centrally from our business lines, and we continue to work on that.

What is very clear is that we -- the criteria with which we are looking at this pipeline are very well defined for our teams. It's about strategic fit and it's about the parameters in terms of performance of these businesses. And of course, the parameters in terms of what we are prepared to pay for these targets. So that effort is progressing. I don't think was ever -- we will ever pursue something just because it's big. We will pursue a target because it meets a strategic fit. And then we will adjust, of course, depending on the scale of that particular target and see what we can do there.

So as I mentioned, we have a number of deals in the pipeline that we should be able to announce from now until year-end.

I'll let Francois comment on the price volume. Go ahead.

Francois Chabas

Yes. Well, Sylvia, on the price volume mix from an economical point of view, at the end of H1, we could say that the growth is, first and foremost, volume-driven, represent 2/3 of the growth and 1/3 would be price driven. Looking ahead over H2, we don't expect this to change materially. I think we pay a lot of attention to ensure that the pricing discipline, which has been perhaps reinstalled in some of our regions over the last two years is maintained, especially at a time where in some geographies and many thinking of U.S. and Europe, the inflation pressure is kind of coming down. I think we are very strict with our team when it comes to pricing mechanism and now they are thoroughly applied. So that's one element of focus.

But as well, I think there is a very, very strong momentum in terms of gaining market share, gaining new clients, getting new brands because ultimately, that's the way you develop the company. So short, 2/3 volume on surprise, and we don't expect this to change materially over H2.

Operator

We will take the next question from line Suhasini Varanasi from Goldman Sachs.

Suhasini Varanasi

Three from me, please. Can you perhaps discuss trends in energy transition and green projects in the U.S. Clearly, it's seen very strong double-digit growth in the first half. But given elections this year, are you seeing any hesitation around launch new projects, please?

The second question is around the B&I in China, which has been a bit weak. And I think I heard you mention a divestment of about EUR30 million revenues. What were the margins here? And what benefit will it have on margins once this disposal is done?

And the third question is on FX impact on EBIT margins. It's been about 30 basis points in first half. But given current spot rates, how should we think about second half FX impact, please?

Subscribe to Seeking Alpha for more content like this

Hinda Gharbi

Look, I think if we step back, that is a commitment made recently and last year, in particular, where 130 countries committed to triple the renewable capacity. And so that is driving many countries policies around that. And the U.S. is one of them. Of course, there is a large expectation that the U.S. will spend a few hundred billions on that.

For us, what we see today, and we are very active on the solar side in the U.S., also on wind, but solar is really taking off. There is a real momentum around that. We haven't seen fully the impact of the IRA, but we haven't seen a delay in projects in general when it comes to solar. Our business there in the U.S., and we have this acquisition Bradley Construction that we acquired a few years ago has been ramping up but we see really a pipeline of projects there.

So at this point, the elections haven't -- didn't yet impact the projects we are working on or the pipeline we are considering in terms of opportunities. Of course, that is -- everyone is watching what the new administration whichever one it ends up to be will do. But at this time, this is not a concern yet.

On B&I China, Francois, you want to comment on that?

Francois Chabas

Yes. So as on B&I China, I think we need to put that back into context. First context is the one of the Capital Market Day, where we indicated clearly we were revisiting some of the portfolio we have and assessing the value of each asset based on a number of parameters. And obviously, this activity was not meeting the threshold neither in terms of trading growth or current trading growth or growth potential, neither in terms of margin. So the activity is dilutive to the B&I segment without question. So for sure, having this activity exiting the portfolio that will drive mechanical improvement in the margin of the division.

I don't -- we don't guide much further, but this will have a relative impact. And again, we believe that some segment of the Chinese market, even though we are not exposed to the direct real estate companies is softening. And I think the trajectory of the group has been laid very clear by Hinda the type of growth we are looking for is way above what at least this asset could provide to us in the near-term protect.

On FX impact, so this is my favorite subject, especially when it comes to predict the future of 90 currencies in 140 countries, but to make it short. So from what we see from -- we are running several very detailed models in terms of current spot rate -- exchange rate and forwards. So I think currently, I'm a bit careful, but we are relatively confident that we are in for softening in H2 of the negative impact. So an improvement in that case, especially due to the Austrian currency, the Chinese renminbi, which are both of them reaching their level of summer last year. So we'll be making quite a change considering our size in Australia and in China.

The impact on margin, I think we are pretty much looking to reduce the 33 basis points you see in H1. At that stage, I have Laurent looking at me saying, I can't say much more. So it will be better.

Operator

We will take the next question from line Rory McKenzie from UBS.

Rory McKenzie

Two questions, please. The first question is on your group headcount. Can you say how that's changed to the end of H1 for I think from the 81,000 you had at end December. And then the second question is diving into the margin improvement in consumer in a bit more detail, where I think you saw about a 40% organic drop-through rate in H1.

Can you talk about the level of spare capacity or under-utilized capacity that you have in that business today? And what you're seeing in terms of any customer trends over the summer so far?

Hinda Gharbi

Yes. Look, on the consumer side, the last year, we considering the activity and the difficulties we had last year, we worked on a number of restructuring and consolidation of labs, and this year, our results in the first half, we've seen a recovery on the softline, hardline and health care side, while the technology continued to contract. So the impact of that restructuring and all the cost management programs resulted in this improvement of margins.

Subscribe to Seeking Alpha for more content like this

Now in terms of market, two things. If you look at half one this year, we have seen the first quarter, and I mentioned that earlier this year, we had an early Chinese New Year, which is always important because it allows the production to proceed earlier in the year. It doesn't get pushed down to Q2 and then to later on in the first half. And we also have seen a restart of product launches or in general, we have seen the impact of destocking on production in the producing markets. I mentioned earlier that we have seen a pickup in China, we've seen a pickup in Southeast Asia, we've seen a pickup in South Asia. That's mostly on the soft line, hard line has performed very, very well as well.

And then the health care is really a direct all the business we have around healthcare, personal care and household product there, we are executing our integration plan, which allowed us to capture in a way a very strong growth, mostly because we are expanding on different global accounts. We are able to offer a more comprehensive services to customers.

So this is a dynamic that is not a surprise for us because we have been working on our diversification strategy, and we were able to see the impact. So the health care grew high double-digit actually in this quarter -- in this first half and double digits we've seen on the softline headline.

So my point here is this is not a complete surprise in a sense that we have started our diversification strategy for a while for CPS and it's paying off. Paying off on the growth and it's paying off on the margins as well. In terms of the first question, do you want to? You have that?

Francois Chabas

Yes, Rory, on the headcount question, I think I know we've published the results relatively early on, so you may have not time to go through everything, but you can see in our income statement that operational charges are relatively stable year-on-year. In terms of headcount, it translates into between 2% and 3% increase. And you will realize, I'm sure as well that the extra charges, which are more the contractors charges are expanding. So several areas of fast growth, we are using subcontractors as we used to do in many places. And usually, the normal rhythm is when the growth is considered stable enough geography by geography, then those contractors are replaced by one staff.

So we are typically in the usual cycle of accelerated growth, where we focus on gaining new clients. We were discussing volumes a few minutes ago. It's a highly volume-driven growth. And we managed to keep it from a cost point of view, very flexible because the bulk of the growth of the additional volume of growth is delivered through contractors. Again, we could go in many details because it's not everywhere the case. But again, looking at the P&L point of view that's very transparent.

Hinda Gharbi

Yes. And I think, Rory, the other point to make on headcount is our performance programs look at aspects of utilization and efficiency, right? So that is important for us as we ramp up growth and as our growth is volume led at this point. I hope that answers your question.

Operator

We will take the next question from Arnaud Palliez from CIC Market Solutions.

Arnaud Palliez

Yes. I just have one remaining question. Can you be a bit more specific about the very strong growth you had in Middle East and Africa? Is it explained by some big CapEx projects in oil and gas or commodities? Or is it more a day-to-day business?

Hinda Gharbi

So look, the Middle East and Africa market is a resource play, right? It's energy-driven business. Oil and gas remains a major activity for us there, and it's growing double-digits. It's a super cycle in the oil and gas, no secret there. We're very well positioned. We have a very long track record in the region. We have very good capabilities on the ground and technical centers and very strong brand name with our customers. So that's contributing to very strong double-digit growth in there.

And the other thing we have been doing here in the Middle East is to diversify from the oil and gas, and we have been building a good position in the B&I sector. We talked many times about our projects throughout Saudi Arabia, in particular, the NEOM project is the flagship one. And there, again, we are growing. We're also seeing growth actually in terms of certification and we will be -- and we are also growing in some of the lab testing activities as well. So all-in-all, very strong performance and the mix, of course, is a bit different between the Middle East proper and the rest of Africa. But directionally, that's the kind of dynamic you have there.

Subscribe to Seeking Alpha for more content like this

Operator

We will take the next question from line [Emmanuel Agarwal] from Bank of America.

Unidentified Analyst

I've got two, please. The first one is on the organic growth guidance. At the beginning of the year, when you gave us the organic growth guidance, H2 greater than H1, the argument was, the H2 comps are easier and hence, we should expect a slightly better organic growth. Now H1 has clearly surprised positively and it has been quite strong. Why don't we expect that momentum to continue into second half and expect higher growth in the second half versus first half? That's the first one.

And second one, on the U.S. elections. If we go by the polls and assume Mr. Trump, the election, given its policies around trade and tariffs, can you discuss the potential impact on the testing business overall? And maybe if you can probably discuss the impact you saw last time during his tenure from 2017 to '21.

Hinda Gharbi

Look, on the guidance, we had a good performance in H1 above what we have expected initially driven by our certification activities, our consumer activities. We also had a robust activity in the industry.

Looking at H2, we consider that we will be in line with what we are seeing in H1, and we believe that upgrading our guidance to high single-digit is a good step for us. We like to be reliable in our predictions. We looked at our risks and the opportunities and on balance, this makes sense to us at this point.

Now for the great question, the second one on the tariffs. It's a really important question and it's something we look at. For -- this is not -- while there is the trigger of a new administration. Reality is it's an aspect we look at all the time and we talked about it in the past. We know that there is a movement of supply chains. And those movements are done for two reasons. One is there is a derisking of, I would say, eastern production platforms, particularly China. And then the second one now is the risk of tariffs and the likelihood and actually more the likelihood is there is the severity that of how bad these tariffs are going to be, which means that a lot of the organizations, the buyers and the producers have been actually thinking about this derisking of these both events and we have seen movements over time.

So for us, it's not new, and that's why our diversification strategy is very clear. It intend to diversify geographically. Mostly, it allows us to derisk the China element. And that diversification is also sectoral and that's why we made some acquisitions on the healthcare and beauty side of things and also in upstream services, something new to us. And of course, on services and we're looking very closely on all aspects of sustainability.

So we're very clear this will take place for one reason or the other. The tariffs might accelerate the move. In fact, today, if you look at Mexico, it is overtaking China as the major trading partner of the U.S. And that is a production base that is moving there. And that's why in December, we actually completed the acquisition of a technology company there in Mexico. And I would say Central America becomes extremely important for us to derisk these phenomena. So something to continue to watch. And certainly, we are working on mitigating.

Operator

We will take the next question line James Rose from Barclays.

James Rose

I've got two, please. The first is on margins and a bit more broader picture. So if we think we've got 29 bps of organic margin increase from 9% organic, with a lot of that coming from, say, consumer, marine and certification. Are you happy with that? Are you satisfied with that? Would you have hoped that it would have dropped through a bit more? Is there anything sort of holding it back that margin coming through a bit more?

And then secondly, is on net financial expense stepping up. I noticed that another line of EUR12.8 million, which is a lot higher year-on-year. Could you help us understand what that is? And perhaps give us an idea of what to model for the full year on the financial expense.

Subscribe to Seeking Alpha for more content like this

Hinda Gharbi

I'll let Francois cover the second one. Look, as I mentioned, I think there was an earlier question on the margin. For us, it's -- we are pursuing margin improvement. We're very clear when we initiated and launched the strategy. That is a dynamic around performance programs. Some are more established and others are new and require investments, and we will continue to invest. We have a vision of really evolving our ways of working and that requires investment.

So of course, longer term, we want to continue to increment to continuously improve the margins that concentrated. That's our commitment and we will deliver on that. But we have to enable that. And that's really the way we are guiding our margin efforts. But let's be very clear, performance driven approach to the business is very clear in the organization and that performance is very granular, the way we look at it today.

Francois, do you want to take the second one?

Francois Chabas

Yes. So on the financial costs, so I've said it rapidly, but just to go into more detail. Two things in there. You have the net financial cost, which are the usual cost of debt minus the interest we get from our excess cash being positioned in some accounts. This hasn't changed at all. The only change compared to H1 last year is the impact of revaluation of balance sheet due to foreign exchange. There is a bit of seasonality H1-H2. So to make it a simple pause for you, basically, we expect our financial costs on a full year basis to be very close to the one of last year. So I hope it helps you model this properly.

Operator

We will take the next question from Carl Raynsford from Berenberg.

Carl Raynsford

Just three from me, please. Would you be able to give us an idea of how much of the 18.2% organic growth in industry was FX induced pricing, please? Because I know that FX was negative 14% up to a big number there.

Second question is it's probably fair to say that leverage has been pretty low now for a number of quarters. Could you perhaps comment on the possibility of what you plan to do with that headroom in the short-term and perhaps another share buyback or anything else, please?

The last question. I read a fair bit of news recently around the NEOM project being ranging quite substantially in the longer term. And just wondering how impactful that will be for you, if possible, please. That's it.

Hinda Gharbi

I'll take the question two and three and then I'll let Francois take question one. Look, on the leverage, as I mentioned earlier, for responding to a question on the pipeline, we are executing an accelerated program of M&A. But again, with the discipline I mentioned earlier. So we are working on multiple fronts, and we want to have the flexibility within our finances to execute these programs and to be opportunistic.

So the share buyback is one of the tools that is in our toolbox that we will use when the time is right. At this point, we are focused on ensuring that we execute our M&A pipeline program. So -- and as we mentioned in our guidance in the strategy, we will be keeping our leverage between 1 and 2, and that's not on the lower end. It's all the way. So there is no -- I guess, we're not going to sit on that leverage on the lower end is the point.

On the NEOM, the NEOM project is going to go through phases has been a huge project to start with, and it's true. It is being restricted not impactful at group level at this point. It's a great, great benchmark for us in the kingdom. It allows us to work very closely with one of the most iconic projects. Saudi Arabia is growing very healthily for us. It's an area we are focusing on. So it's a rather positive story. And we will continue to grow there and invest in the country. So NEOM is actually a good springboard for us for that.

Francois, do you want to cover the industry points?

Francois Chabas

So industry 17%, 18% in growth. Here, I think coming back to what Hinda mentioned in our introduction, three elements to keep in mind, strong growth in Oil & Gas segment of the industry division. Strong growth into the renewable driven by a lot of new projects. One element we haven't discussed, but you may remember from previous call, industry as well. This is where we've decided summer last year to discontinue several large contracts which we are not having the level of margin that we were pleased with. So the combination of those three things. So two very strong organic growth, contract discontinuation bring us this 17%.

Subscribe to Seeking Alpha for more content like this

A chunk of it is done in geographies where I think FX is not very favorable. Again, I've mentioned here, we have Canada. We have Australia. We have a few countries in Latin America. We have China. So what we could expect for second half, most probably the FX components will reduce, while the organic growth component will be maintained. So net of everything, we will have an even better profile over H2.

Operator

We will take the next question from line of Arthur Truslove from Citi.

Arthur Truslove

First question from me. So just going back to Rory's question on consumer products. So you delivered an organic margin uptick of 134 basis points. I just wondered how much of that you can sort of put down to operational leverage on strong growth on -- in particular, the Softlines, Hardlines & Toys.

Second question, as we look to the second half, obviously, you've done very strong organic growth in the first half. But can you just tell us which divisions you expect the growth rates to be markedly different to what you saw in the first half, if indeed any?

And then third question, you mentioned that you were going to do a disposal in Building & Infrastructure. You may already have mentioned it, but I wasn't sure if that had already gone through or whether you would -- you hadn't signed it yet. So I just wondered if you could confirm that.

Hinda Gharbi

So on the disposal, yes, that has been completed. It's not -- it will reflect in the second half of the year, but that was completed at the end of June. So that's done.

On the growth, right, we don't guide by division, but I think it's fair to say that I expect that our activity around certification around Marine & Offshore and B&I will continue to be buoyant. We will also expect that some of our activity around the commodities, sorry, the commodities is also will remain robust. I don't really foresee major disruptions. And as I said, our H2 is broadly in line with our H1, but I wanted to highlight the strength in these particular segments.

On the CPS question, specifically on the details of that, do you want to cover that?

Francois Chabas

Yes, sure. So Arthur, on the CPS 1 to refresh perhaps everyone's memory, during the period that was a bit more difficult meaning H2. Let me think, was like May, mainly last year. We've conducted in H2, some restructuring in terms of overhead, in terms of land rationalization. So this has been now fully delivered. And if you want to take a bit of a rule of thumb, the operational leverage -- the pure operational leverage is 2/3 of the performance once viewer getting more volume and so the growth will bring 2/3 of the performance at the bottom and 1/3 comes from the measure we took end of last year to prepare this rebound and ensure we are back on margin levels that are more historical level. One should not remember this activity went down last year quite heavily. So we are in a recovery mode, I think which is solid on the top line margin, we are getting the fruit of the work down, but 2/3 top line, 1/3 from our previous restructuring programs.

Operator

Thank you. There's no further questions at this time. I will hand it back over to your host for closing remarks.

Hinda Gharbi

All right. Thank you very much, Caroline. Thank you, everyone, for your questions and have a good day. Good evening. Bye-bye.

Subscribe to Seeking Alpha for more content like this

Operator

Thank you for joining today's call, you may now disconnect.

**Load-Date:** July 26, 2024

**End of Document**