

# **Gaztransport & Technigaz SA (GZPZF) Q2 2024 Earnings Call Transcript**

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**Body**

Gaztransport & Technigaz SA (GZPZF)

Q2 2024 Results Conference Call

July 26, 2024 03:00 AM ET

Company Participants

Jean-Baptiste Choimet - CEO of GTT

Thierry Hochoa - Group CFO

Conference Call Participants

Richard Dawson - Berenberg

Kevin Roger - Kepler Cheuvreux

Daniel Thomson - BNP Paribas Exane

Jean-Francois Granjon - ODDO BHS

Jean-Luc Romain - CIC

Guillaume Delaby - Bernstein

Presentation

Jean-Baptiste Choimet

Good morning, everyone. I am pleased to welcome you to the presentation of GTT's Financial Results for the First Half of 2024. I am Jean-Baptiste Choimet, CEO of GTT. I'm afraid today we are together only virtually. As you know, Paris is hosting the Olympic games, and we had to adapt our logistics.

Anyway, I look forward to meeting you in person in the coming weeks to continue the conversation we will start today. Joining me this morning is Thierry Hochoa, our Group CFO. Before we open the floor for a Q&A session, we will cover the following points. First, the highlights for the first half of the year.

I will then give you an in-depth look at our core activities, including our core business, LNG as fuel, Services and Elogen. Then Thierry present an overview of GTT's strategic ventures activity, followed by the financials, and I will conclude the presentation.

So let's begin with some key figures. The first half of 2024 has been characterized by very high level of activity with 58 new orders for our core business. Our financial performance has been very strong. Revenue for the first half stands at €295 million, representing a €0.66 increase compared to the first half of 2023. Our EBITDA has reached €177 million, up 70% from last year with an EBITDA margin standing at a robust 60%.

Now let's move on to some key highlights. On the LNG market, two new final investment decisions were taken, indicating that LNG demand remains strong. This will generate additional need for LNG carriers, reinforcing the positive outlook for our industry. In terms of innovation and R&D, we have received major approvals for GTT NEXT1, our latest cargo containment technology. I will provide more details on this later in the presentation.

On the Services side, we have secured two new global services contract with JOVO in China.

Regarding digital solutions, we have achieved type approval for cybersecurity for Ascenz Maroka. Additionally, we have acquired VPS, a move that I will elaborate on later.

Finally, for Elogen, I am pleased to report that the construction of the Gigafactory has begun. Furthermore, we have recently received a certification from the Korean Gas Safety Corporation. So now let's take a look at our order book. With 58 new orders recorded for our core business in the first half of 2024, our order book is at an all-time high. We now have 325 LNG carriers to deliver providing us with very high visibility until 2028 and even beyond at the latest deliveries are planned for 2031.

Thierry will provide a more detailed breakdown of the order book in the financial section. Now let's move on to our strategy and activity. I would like to remind you of the three main drivers behind the strong LNG carriers demand: first, the coal to gas switch. This transition is driven primarily by environmental and health issues associated with coal burning. Second, the pipe to LNG switch.

LNG offers greater flexibility in delivery, enhanced security of supply and reduces dependency. And finally, of course, the renewable of the LNG fleet. This involves replacing all vessels with new ones contributing with more efficient and environmentally friendly operations. Regarding LNG demand itself, the demand outlook from the central scenarios projects compound annual growth rate of between 4.7% to 5.4% until 2030. Looking further ahead, there is an anticipated gap between LNG supply and demand.

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By 2040, this gap is expected to represent between 140 million to 200 million tonnes per annum. This significant shortfall underscores the long-term potential and necessity for continued investment and development in the LNG sector. Let's now quickly review the FIDs. In the second quarter of 2024, two new FIDs were made to initiate the construction of new liquefaction projects: Cedar FLNG for 3.3 million tonnes per annum to be based in Canada and Al Ruwais for 9.6 million per annum in UAE, totaling approximately 13 million tonnes per annum. Several other FIDs are anticipated over the course of 2024 and 2025.

As you can see in the other possible FID section, the number of projects currently under study is very significant, particularly in the U.S.A.

Now turning our attention to the current plans under obstruction. Their total capacity is projected to add approximately 175 million tonnes per annum of LNG between the end of 2024 and 2028. We estimate that these liquefaction plants will require around 285 LNG careers to transport their production. Of these, 185 ships have already been secured for these projects. So this leaves an estimated 100 ships that will be required in the near future.

This figure is relatively stable compared to the one we provided in our full year 2023 presentation since only a portion of the first half orders were related to ongoing projects. As mentioned earlier, fleet renewal is a key driver for LNG carriers' demand in the medium term. As you can see on the right side of the slide, over the next decade, more than 300 vessels will be over 20 years' old and 200 of these will actually be more than 25 years' old.

So in addition to age, what are the key drivers for this replacement market? Firstly, it will be driven by the need for better efficiency. Newer vessels can carry a higher volume of LNG, have improved thermal performance and consume less fuel. The replacement market will also be driven by increasingly stringent environmental regulations such as the upcoming revisions of the carbon intensity indicator. So one question that remains is the capacity of the shipyards, which are currently experiencing high demand.

This will be a critical factor in meeting the demand for new, more efficient and environmentally compliant vessels. So all these drivers combined lead us to estimate that more than 450 new LNG carriers will be ordered between mid-2024 and mid-2033. In terms of very large ethane careers, we expect to see orders ranging from 25 to 40 units. For the other types of orders, I will let you refer to this slide. Let me just remind you that these are estimates based on our current view of the LNG market, and they are intended to provide a long-term perspective, but they do not constitute formal guidance.

Turning now to Slide 14 and a focus on our latest technology. As you know, GTT is constantly innovating and advancing membrane technology to meet the needs of our clients and enhance the performance of the LNG carriers' fleet. We are proud to announce that thanks to the dedication of our teams, we have received major final approvals from Bureau Veritas and Lloyd's Register for our next GTT NEXT1 technology. This membrane technology represents our ongoing commitment to continuous improvement. It offers thermal performance equivalent to our Mark III Flex+ technology, which is currently the best available with a guaranteed boil-off rate of 0.07% of cargo volume per day.

Moreover, it will be available to all shipyards. By using two metallic barriers, GTT NEXT1 provides the best compromise between thermal and mechanical performance. On LNG as fuel, we have consistently stated and continue to assert that it is the only viable solution available today for reducing vessel emissions. While the market was quiet in the first half of the year with a low number of container ships ordered and none using LNG as a fuel, we anticipate activity to pick up. Currently, there are discussions around approximately 100 container ships.

And LNG fuel is once again at the forefront of these discussions. The momentum is increasingly favorable towards LNG fuel ships. LNG prices have returned to more favorable levels after the peaks of 2021 and 2022, and it is now evident that biomethanol will now be available in large quantities. We currently face competition in this market, particularly from Chinese shipyards, promoting type B tanks. However, we are convinced that GTT's membrane solution is superior to type B for several reasons.

First, we offer better and guaranteed boiler freight performance. Second, our solution is lighter and less steel intensive, which also means lower CO2 emissions. Additionally, our membrane technology comes with GTT support throughout the entire life at sea of the ship. Let's now turn to our services activity. We offer two types of services, those related to our core business dedicated to LNG carrier shipowners and our digital solutions, which target any type of [indiscernible] vessel.

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As you know, this activity is of strategic importance as it is directly linked to shipowners and provides us with valuable feedback and experience. Over the years, we have developed a comprehensive range of core service that generate approximately 5% to 10% of the group's total revenues. These revenues are predominantly recurring.

Our digital solutions developed by our subsidiary, Ascenz Marorka, are another key focus area that I will now discuss in more detail. So let's review some key highlights for our digital services from the first half of the year. First, we acquired VPS, which has over 1,200 ships enrolled worldwide for ship performance management. This acquisition is important commercial synergies with Ascenz Marorka. In the first half, a study concluded that our predictive technology, slashing virtual sensor could extend tank inspection intervals on LNG carrier.

This development is highly appreciated by shipowners and charterers as it enhanced efficiency and reduces downtime. We also received type approval from Bureau Veritas enabling us to -- cybersecurity challenges of the maritime sector with resilience and reliability. Finally, we achieved several commercial successes, notably with our weather routing solution. After an intensive testing phase, Latsco selected our solution to equip several of its vessels. Now let's move on to Elogen.

Like the broader market, we have observed that the anticipated takeoff of the hydrogen market has not yet occurred with some final investment decisions still being delayed. However, from the acquisition of Elogen in October 2020, we understood that the market would not develop as quickly as initially anticipated. This is because it's a new market, heavily subsidized and projects require more time to be fully developed.

For these reasons, we adopted a very selective commercial approach to limit cash consumption while structuring the Company in terms of commercial entities, production and, of course, R&D. Our goals are to develop the best electrolyzer on the market in terms of efficiency and reliability and be ready when the market takes off by building a Gigafactory, dedicated to assembling stacks, the heart of our electrolyzers.

There are many growth drivers, however, that make us optimistic about the future. The main scenarios indicate significant requirement for electrolyzers. Public funding is on the rise with initiatives like the two latest IPCEI waves, Hy2Infra, Hy2Move. And environmental regulations developing in Europe will definitely support the growth of this market.

So let's review some key figures for Elogen. So this semester, we achieved a revenue of €6.1 million, representing an increase of 178% compared to last year. Our EBITDA stood at minus €13.6 million, which is a controlled loss given the context of our structuring and industrialization phase along with an expanding workforce that now numbers around 150 employees. We remind you that we expect Elogen to breakeven by mid-decade as we scale up our production. Speaking of scaling, the construction of our Gigafactory in Vendome began earlier this year, and we are targeting the start of production in Q4 2025.

Finally, Elogen recently received a certification from the Korean Gas Safety Corporation, recognizing our compliance with strict security and quality standards and paving the way for our commercial development in the Korean market. I will now hand over to Thierry, who will talk about GTT's strategic ventures and then provide an overview of the financial. Thierry, the floor is yours.

Thierry Hochoa

Thank you, Jean-Baptiste, and good morning, everyone. So let's go over GTT Strategic Ventures. As you know, GTT Strategic Ventures is our investment vehicle to take minority stakes in innovative start-up, which have the potential to contribute to the group's strategic road map to build a sustainable world. As you can see, we have been quite active this semester with three participations taken in diverse segments. The first one, in Energo, the French technological expert in the production of synthetic molecules using plasma catalysis.

Energo is developing a breakthrough technology that enables the production of renewable energies such as green hydrogen, biofuels and methane from CO2, biogas and ammonia. The second one is CryoCollect, a French engineered company, specializing in technologies for the treatment, liquefaction and separation of gases such as [indiscernible], carbon dioxide and hydrogen. The last one, Seaber, so a Finnish software company, specializing in the digitization of planning and chartering processes for bulk shipping. Now let's move to the financial part of the presentation. As you see, our core business order book achieved a weak core level at 342 units at the end of June 2024.

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We'll do the [342] units in the order book for the core business, it means in terms of consumption flows and revenue in the coming years. This means €2 billion in revenues already secured as mentioned in the graph at the bottom left. This means an exceptional year in 2025 with €692 million in revenue for the core business alone, as mentioned in the graph at the bottom right. And finally, this means strong visibility for GTT in the years to come. Now moving to our revenues.

At €295 million, revenue was up 66% compared to last year, driven by new builds and higher number of carriers under construction, driven by Elogen increasing significantly at €6.1 million overall. It is still only a small part of GTT revenues at only circa 2%. And driven finally by Services, we're up plus 47%, thanks to a very good momentum on pre-engineering studies as well as services to vessels in operations, including digital services. Continuing with the rest of the P&L aggregates. At €177 million, our EBITDA grew plus 70% in line with the increase of revenue in our core business, combined with conscious control management and the absence of significant delays in ship construction schedules.

This results in a 60% EBITDA margin compared to 59% last year. Our CapEx has increasing link to the rehabilitation of some of our headquarters buildings, the acquisition of VPS and two new minority stakes in our framework of our Investments fund. Our free cash flow for the semester was €127 million, a slight decrease from last year as our working capital requirement was higher than last year in the context of strong activity growth. Finally, the Board has decided the payment of an interim dividend of €3.67 per share, up plus 98% versus last year in line with our net income increase, whose payment will take place in December. I will now hand over to Jean-Baptiste for the conclusion.

Jean-Baptiste Choimet

Thank you, Thierry. So in conclusion, in the context of very high activity at the shipyards and in the absence of any significant order delays, we confirm our objectives for the year regarding revenue and EBITDA as well as our targeted dividend payment of at least 80% of our consolidated net income.

With that, we are now ready to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Richard Dawson with Berenberg.

Richard Dawson

Congratulations on the new role, Jean-Baptiste. And two questions from my side, if I may. Just looking at your core revenue expectations from the order book, we see an increase of about €31 million from expectations at year-end for some of delivery in 2024. What's caused this increase? Is it more an acceleration of vessel construction at the shipyards?

Or is it the impact from new orders that you bought during this first half? And then second, just on LNG as a fuel. You talked a bit about the competitors. Can you talk a bit about the competitive landscape of LNG as a fuel, just given particularly on GTT solution, the type B ones that you from the Chinese shipyards? Can you maybe just talk a bit about costs and sort of how past or the split between your technology and those Chinese ones?

Jean-Baptiste Choimet

Thank you very much. So regarding your first question, which -- sorry, the sound was not very good. So I understood your question is whether the increase in our results comes from an acceleration of the construction at the shipyards. The revenues that we have reported are in line with the schedule of construction that we were expecting with the yards. So far, like I mentioned in my last slide, the construction schedule of the ships that are being constructed in Chinese and Korean shipyards is in agreement with our expectations.

However, I would like to stress that the construction activity, both in Korean and Chinese shipyards is exceptionally high. It's at an all-time high with a supply chain that is under tension. So we are following this closely, but this is factored in our guidance. Now on the LNG fuel, like I said, we are convinced that our solution is superior compared to type B for the reasons I explained in the presentation, not only the fact that the shipowners knows that they can benefit from the expertise of GTT, not only during the construction but during the life of their ship, but also the membrane technology offers an advantage in terms of the space that it requires inside the ships, which can, for instance, be an interesting advantage in the segment of containership vessels. So it is for those reasons that we are convinced that we will be successful in marketing -- in continuing marketing our technology.

Richard Dawson

And just a follow-up on my first question. It was more around the order book for the revenues expected from your order book in 2024. Because if you look at where you were at the end of 2023, it was about [indiscernible] or so. You're now looking at about €548 million. And is that increase driven by the new orders you have won this first half?

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Or is it just an acceleration in the schedules in those shipyards?

Jean-Baptiste Choimet

Yes, it's related to the increase of the order book. The shipyards that are going as planned. Does that answer your question?

Operator

The next question is from Kevin Roger with Kepler Cheuvreux.

Kevin Roger

The first question, if you can go back on this €21 million positive impact from release of provision that you have this semester that impact the net income. If you can give us a bit of context around this €21 million positive, that would be very useful, please. The second one will be related to the new technologies that you are developing for the LNG system. So you have developed the three-tank design. You have now the NEXT1 solution.

So what is the feedback from the discussion that you have with the clients? Because up to now, for example, the three-tank design, if I'm not making any mistake, you did not get any orders for the moment. So what kind of dynamic we expect here for the success of those new technology solution? And just maybe on the guidance. So sorry for that one.

But when we take the revenue that you currently have from the backlog in the core business plus the services, plus the LNG as a fuel, plus Elogen, et cetera, you are probably more trailing to the high end of the range rather than the low end of the range. So can you explain us what are the main risks that you continue to see to potentially be in the low end of the range for the full year, please, at least on the top line, maybe not on the EBITDA, but at least on the top line, please?

Jean-Baptiste Choimet

Okay. Maybe you can start -- yes.

Thierry Hochoa

Thank you for your question. Regarding this transactional compensation and the €21 million that you asked me. In the GTT recognized transactional compensation in 2023 for violation and unauthorized use of its intellectual property rights. Indeed, [indiscernible] continued using GTT technology despite the absence of contract and the compensation of €21 million was signed in 2023. But this receivable was fully depreciated due to uncertainties surrounding its recoverability at the closing date of the 2023 accounts.

And on March 2024, GTT finally received settlement compensation in relation to this agreement. So that's why we have this positive impact in the P&L at the end of Q2 2024.

Jean-Baptiste Choimet

So regarding your second question on our innovations such as three-tank LNG carriers or the NEXT1 technology. So maybe I will start with the NEXT1 technology that we have started commercializing further to the approvals that we received. I can see because I've been in touch, as you can imagine, with the shipyard and shipowners since I took the position and it's triggering strong interest from them in particular, because now all the yards, regardless of whether the historical technology is Mark III or NO96, we have the possibility to offer to the shipowners LNG carriers with a boil-off rate of 0.07% of cargo volume per day. Now on the three-tank solution, I mean this is also triggering interest from the shipowners as it presents several advantages in terms of performance. Now given the current tension, high workload in the shipyards, maybe in order to be sure to quickly deliver the LNG carriers, in the short term, the shipyards are probably sticking to the four tanks configuration.

But definitely, we think that the three-tank configuration will pick up in the midterm.

Last, but not the least, regarding the guidance, just to give you a color of the risks that still remain, well, the first one that I mentioned in my previous answer is the very high construction activity that is ongoing in the Korean and Chinese shipyards with many new Chinese shipyards which are starting with the construction of LNG carriers. So it is a very high workload for them. Of course, we are close to them to help them with picking up this new activity. We can see as well that their supply chain is under attention, and there will be a historically high number of vessels that will be either delivered or that will be subject to steel cut during the second half of this year. So that's why we still need to remain a bit cautious.

And last, but not the least, it's our -- regarding our diversification activities that are operating on a nascent market. So there is still a little bit of risk of -- regarding the order intake that we can secure in the second half of the year. So all in all, we indeed confirm our guidance for this year. And thank you for your questions, Kevin.

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Operator

The next question is from Daniel Thomson, BNP Paribas Exane.

Daniel Thomson

I just had two, and the first one is a clarification on the new NEXT1 technology. Can you just remind us how your pricing model works on new technology? If I had an existing client who's ordered from you before, is there like a reset in pricing that happens if they happen to adopt NEXT1? And do you expect that to have a knock-on effect on the way analysts should be thinking about the pricing per ship that we applied to your numbers? And then the second question is on capital allocation.

There's a pretty significant buildup of cash over the next few years even with your very generous payout policy. Can you just remind us of the main priorities there, whether it's further [indiscernible] capital investments? Or are there any sort of major targets in the smart shipping space that you're working on at the moment? I know that's a key part of your strategy for our business.

Jean-Baptiste Choimet

Okay. Thank you for your questions. So regarding the NEXT1, well, I would like to remind the principle -- our pricing principles for our clients, the shipyards. So as you know, the royalty that is being paid by the shipyards for any LNG carrier is based on a figure per square meter of containment system inside the ship. This figure can change due to the escalation as this rate is inflated.

But also, it can change if we are talking about a series of vessels. The pricing of the first one will be higher than the pricing of the subsequent ones. Now our policy is that shipyards pay the same royalty regardless of the technology that they decide to implement on the said LNG carriers. So it means that the NEXT1 per se will not change this pricing model. However, of course, if we start a new series, then -- well, we start with the full royalty.

Regarding your second question about capital allocation, maybe a general principle regarding how we make use of the cash of GTT. First one, of course, is that we distribute 80% of the net revenue to our shareholders. And this is something we've stuck to for 10 years now that GTT has been listed on the Paris Stock Exchange. Once this is done, first, we use the cash to fund our organic growth and our various R&D programs. And the NEXT1 is to fund targeted M&A operations, where we see both growth and synergy potential, always being selective and making sure that we do not, how to say, we do not change the financial profile of the Company.

Last, but not least, there is a fourth option, which is a share buyback. But just to be -- the share buyback option is not on the table today. Maybe, Thierry, you can add on that.

Thierry Hochoa

Yes, one more comment, Jean-Baptiste, that we enhance our working capital needs as well because we have strong growth today. And definitely, we need to face with this working capital needs and just to make sure that we keep enough cash for that as well, Jean-Baptiste.

Operator

[Operator Instructions] The next question is from Jean-Francois Granjon with ODDO BHS.

Jean-Francois Granjon

Yes. Jean-Francois Granjon speaking from ODDO BHF. Two questions from my side. The first one is on the Elogen performance. So we have published some losses, more than €13 million for this first half compared to, sorry, nearly -- 7.7% -- €7.7 million for the previous first half.

What do you expect for the full year? Do you expect a stabilization on the losses for the full year, say, around €20 million? Or could -- should we integrate more losses for this for the pioneers to the fact that, as we mentioned, the market is under pressure? And the second question, concerns the strong improvement for the EBITDA margin for all the group you have reached, 60%, pretty high despite losses coming from Elogen. Do you expect the same level in the coming years?

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Or do you expect some improvement or leverage, possible leverage and improvement for the EBIT margin in the coming months?

Jean-Baptiste Choimet

Thank you for your question. So regarding Elogen, so you mentioned, indeed, our EBITDA losses for the first half of this year -- well, given the fact that Elogen is operating in a nascent market, we do not provide guidance specific to Elogen. It's embedded in the overall guidance of the GTT. However, I really would like to stress the principle to which we stick since its acquisition by GTT nearly four years ago, which is that we keep the costs -- the spending of Elogen under control. We are selective in our commercial approach, just to make sure that we allocate the resources as optimally as possible.

And just to give you a color, I can reinstate that we target breakeven -- EBITDA breakeven for Elogen by mid-decade. Maybe Thierry, you can answer on the EBITDA margin?

Thierry Hochoa

Regarding the EBITDA margin, that -- you are right. We have a strong EBITDA margin at the end of June at 60% and we expect to maintain this level. We do not provide any guidance regarding the EBITDA margin. But we have a strong monitoring of our cost, definitely from the core business, but for the Elogen as well and for the different activities including the services and digital, just to make sure that can deliver a high level of EBITDA margin for this year through this cost management system that we have in GTT.

Operator

The next question is from Jean-Luc Romain with CIC.

Jean-Luc Romain

My question is on Elogen also. Could you clarify the order intake and order book? At the end of 2023, you had €16.5 million order book. Your turnover was €6.1 million. And at the end of the first half, your order book is €8.6 million.

What was the order intake? And did you have cancellations?

Jean-Baptiste Choimet

So during the first half of this year, we did not report any significant new orders for Elogen because as I mentioned, the hydrogen market has not yet really taken off. I mean, however, we remain convinced of the -- we remain excited, I would even say, about the midterm potential of this market. And I can personally see it via the activity, our commercial team, which is engaged in advanced discussion with potential clients for very interesting projects and for a quite significant size. So they keep working on them, and we are confident that in the near term, we can secure new orders as the market develops.

Operator

The final question is from Guillaume Delaby with Bernstein.

Guillaume Delaby

One question, if I may. Since you are currently in a growth phase, it is somewhat natural that your CapEx is boring both in absolute and relative terms in proportion of revenue. So two questions. Could you provide some details what is your €26 million CapEx in H1 essentially about? Is it essentially about Elogen or if you can provide some color?

And going forward, for the coming years, is it reasonable to assume, let's say, around €50 million organic CapEx per annum on the run rate?

Jean-Baptiste Choimet

Thank you for your question. I will introduce the answer and then Thierry will take over for the details. Just to outline that when we are talking about CapEx, it's actually CapEx and investment such as the one we did in VPS. But Thierry will provide more color on that.

Thierry Hochoa

Thank you, Jean-Baptiste. Yes, you're right. We have a level of CapEx at not high, but a medium level of CapEx in -- at the end of June, mainly explained by first, regarding the rehabilitation of headquarters building. You know that we have the road map for the CSR. We need to deliver and to reduce our CO2 emissions.

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So that's why we need to launch a program of rehabilitation of our headquarters buildings here. That's the first reason. The second reason you know that at the beginning of this year, we bought a VPS company. So that's why we have this cash investments. And the third point that we were very active in the Q2 2024 regarding our different strategic ventures capital with three or four, sorry -- three, sorry, acquisitions or minority stakes in the deal companies.

So that's why we have this level of CapEx and investments at the end of June 2024. You disclosed or you asked me regarding the normative level of CapEx -- or organic CapEx. It's difficult to say what is the level of CapEx at the end of this year because we are going to continue our program of rehabilitation, and we are going to continue and to have a look on different opportunities regarding the venture capital -- so that's why we would like to continue investing regarding the different aspects.

Jean-Baptiste Choimet

To conclude. Okay. So apparently, I understand there are no -- there is no more question. So it's been a pleasure, unfortunately, virtually, but still it's quite good discussing and having this conversation with you this morning, and I look forward to meeting with you face-to-face in the next weeks and months. Thank you very much.

Thierry Hochoa

Thank you.

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