

Annex Newsflash

Annex Newsflash 2006-06

January 31, 2006

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IT SERVICES

Updated 2/02/06, 8:45PM MST, adds [GM Awards...](#)

An IT Services News and Analysis Potpourri

From Sprint to Trot

Fujitsu Swings to Profit in Third Fiscal Quarter

Accenture Going Great Guns in India

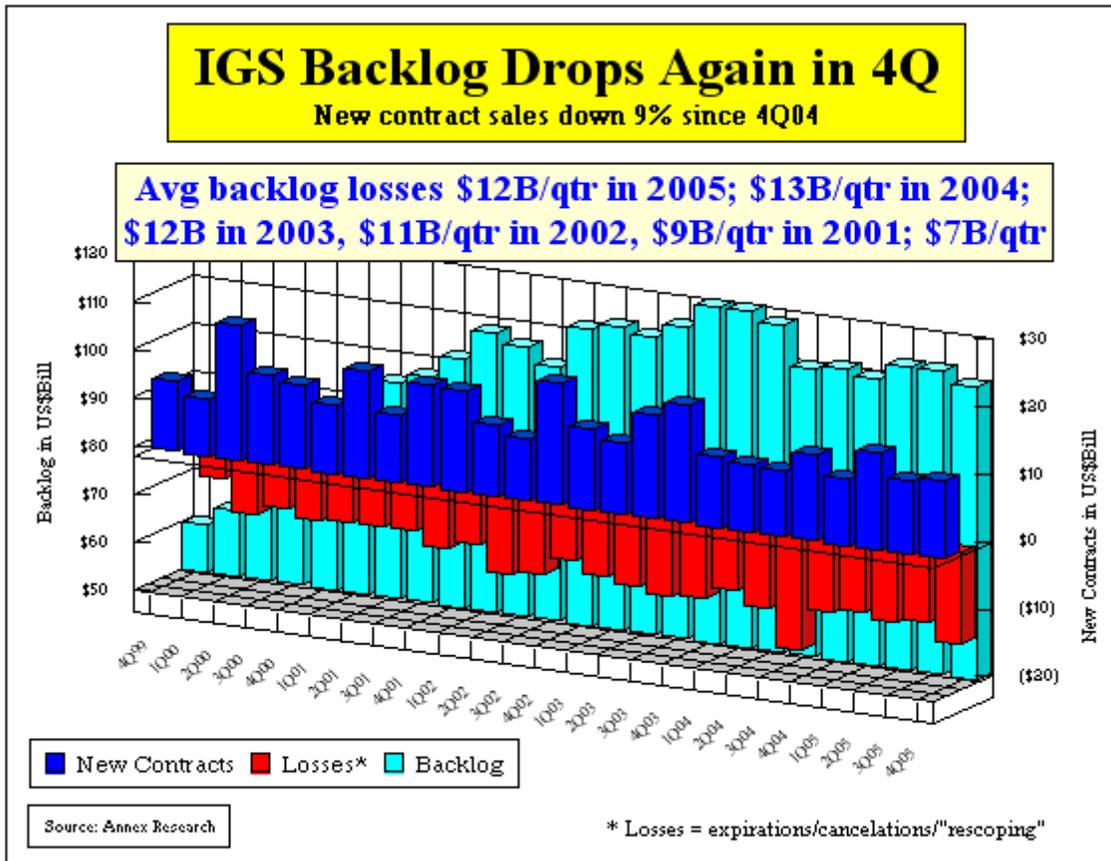
GM Awards Half of \$15B in IT Services Contracts

SCOTTSDALE, Jan 31 - IBM is no longer sprinting at Sprint Nextel's fairgrounds. Its outsourcing contract has been reduced to a long distance trot. The [Kansas City Business Journal reported today](#) that some 400 people, 40% of the original work force transferred from Sprint to IBM when the outsourcing deal was signed in 2004, are returning to the Sprint payroll.

No, IBM did not do anything wrong. At least not that we can see. Big Blue was just unlucky; a loser in the game of corporate mergers. But one man's loss is another man's gain. When Sprint and Nextel merged, the latter company's chief information officer took over the combined IT operation. It so happened that Nextel had been a good customer of EDS. So EDS is in; IBM out.

Not totally out, of course. Sprint's downsizing of its IBM contract has been

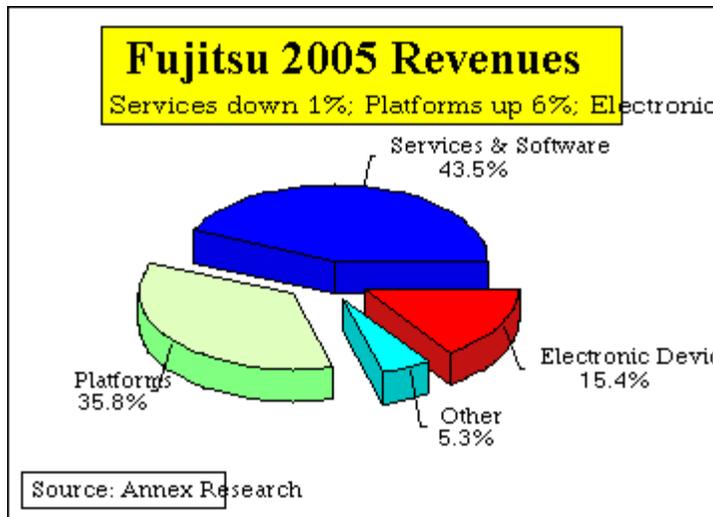
known in the industry as "rescoping." Big Blue's former CFO, John Joyce, coined the term in July 2002 ("[On a Wing and a Prayer](#)," Oct 2002). Ever since, rescoping has been the bane of IBM Global Services' growth (see "[IBM: Smaller Is Better](#)," Jan 2006).



In 2005, the backlog outflow (the red bars above), including the rescoping, averaged \$12 billion per quarter. No wonder backlog was down in the fourth quarter, and so was the IBM Global Services revenue.

Fujitsu Swings to Profit in Third Fiscal Quarter

SCOTTSDALE, Jan 31 - Fujitsu swung to profit in the third quarter of its fiscal year 2006, earlier than expected. Net profit totaled 3.4 billion yen (\$29 million) in the October-December quarter, up from a loss of 9.6 billion yen in the same period a year earlier, the company reported today.



Fujitsu attributed the turnaround to its software and services business, which accounted for 44% of the company's total revenues in its last fiscal year (see ["Flat Revenues, Lower Net,"](#) Apr 2005). Its profitability improved as Fujitsu shifted focus to the bottom line from the size of the business.

Strong sales of microchips and hard disk drives also boosted Fujitsu's quarterly results. And the stock market liked it.



Fujitsu stock continues to set records in 2006

Fujitsu Ltd.



Fujitsu stock surges in last four months to multi-year highs

Having set a multi-year high on Jan 17, the Fujitsu stock has been hovering around it ever since. Its strength is also due to Fujitsu's announced plans to issue a 3 yen per share dividend at the end of the current fiscal year.

On the other hand, Fujitsu has also recorded a loss of 8.4 billion yen on change in ownership interest at the time of Spansion's IPO, one of Fujitsu's investments. And the company has reduced its full-year forecast by 15 billion. In response, Fujitsu's shares eased about 2.8% today (Feb 1 in Japan) to 1,005 yen in mid-day trading on the Tokyo Stock Exchange.

Accenture Going Great Guns in India

SCOTTSDALE, Jan 31 - Accenture plans to more than double its staff in Southeast Asia, from 24,000 to 50,000 over the next three years, the head of its India Delivery Center network told reporters in Hyderabad, according to [today's Reuters dispatch](#).

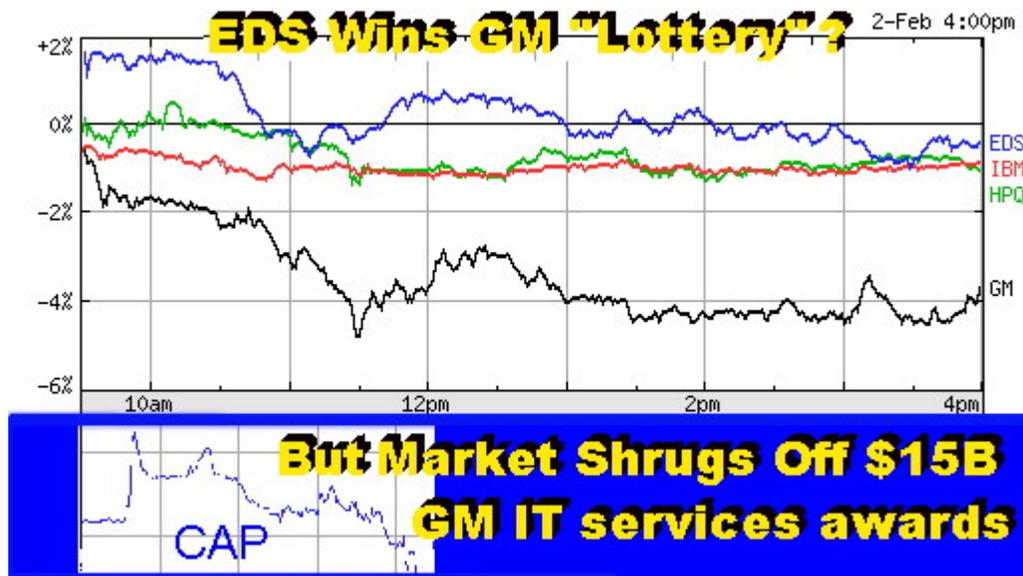
The Indian operation currently accounts for about 13% of Accenture's work force (16,000 of 126,000), and serves 170 clients, according to Chet Kamat, an Accenture partner.

"We also plan to hire more workforce and expand to new locations in India as the clients' demand keeps growing," he told reporters.

Far from waning, as some industry pundits are suggesting, offshoring seems to be on the rise. Certainly that's the message Accenture seems to be giving to the marketplace (also see "[IBM: A Passage to India](#)", July 22, 2003, "[HP: A Passage from India](#)," Apr 2005). HP and IBM, among others, are also beefing up their Indian operations.

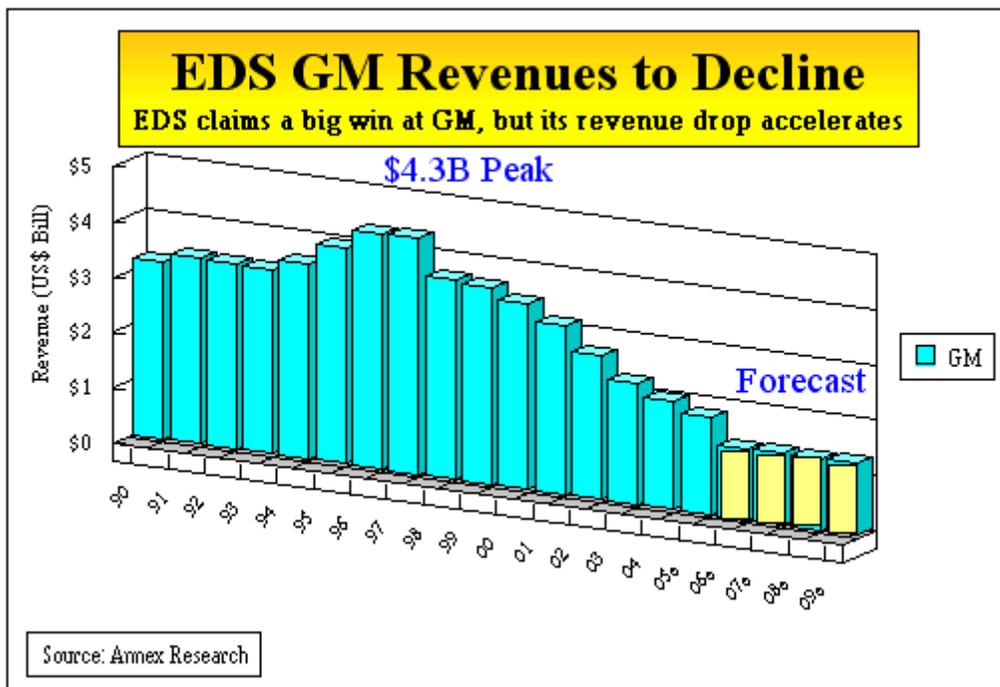
GM Awards Half of \$15B in IT Services Contracts: Capgemini, Wipro, HP... Biggest Winners

SCOTTSDALE, Feb 2 - General Motors announced today the long-awaited IT services contract awards, worth about half of the \$15 billion the automaker intends to spend on IT in the next five years. It was the largest commercial contract bidding process in IT industry's history.



But the stock market shrugged it off. Investors had other worries on their minds, such as increased probability of more interest rate hikes by the Fed. So the Dow Jones took a 100 point+ dive, as did the stocks of all major protagonists of the GM bidding process, led by GM itself, which dropped nearly four points.

Almost simultaneously with the GM announcement, EDS issued a press release this morning in which it portrayed itself as a big winner. The company said it won 70% of all contracts it pursued, worth \$3.8 billion. This should result in \$1.2 billion to \$1.4 billion in annual revenues over the next five years, EDS said.



Indeed, EDS appeared to have won the biggest chunk of GM contracts relative to other competitors. But this new level of EDS' annual business means that the company will have lost over two-thirds of its GM revenues since 1997, when they peaked at \$4.3 billion. (In 2004, they were about \$2 billion. We estimate that the 2005 GM revenues will come in under \$1.8 billion, when the company releases its fourth quarter results next week).

If there was a sigh of relief emanating from EDS's Plano, Texas, headquarters, it was probably because the company could have lost more business. Preserving about \$1.3 billion of average annual revenues over the next five years seems to us more like stemming the hemorrhaging than a victory.

Yet "a penny saved is a penny earned," as they say. EDS' "victory" at GM once again illustrates the advantages an incumbent has in the IT services business. It knows better than anybody else where the skeletons are.

So who was actually the biggest winner today? Well, Capgemini seems to have earned that honor. The Paris-based company expanded its current contract with GM from \$75 million to \$500 million. Capgemini won all six contracts it bid on.

The Bangalore, India-based Wipro also multiplied its business - from \$35 million in 2005, to \$300 million.

Among other big hitters in the IT services field, HP Services won more business than IBM (\$700 million vs. \$500 million). And Covisint, a

subsidiary of Detroit-based Compuware Corp., was also awarded a contract but didn't reveal the amount.

Starting 2004, GM broke up its IT work into 40 segments and then solicited open market bids. GM said it would name other winners toward the end of the year, when its telecommunications contracts expire.

Happy bargain hunting!

Bob Djurdjevic



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keywords.

Volume XXII, Annex Newsflash 2006-06
January 31, 2006

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