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Annex Bulletin 2006-21

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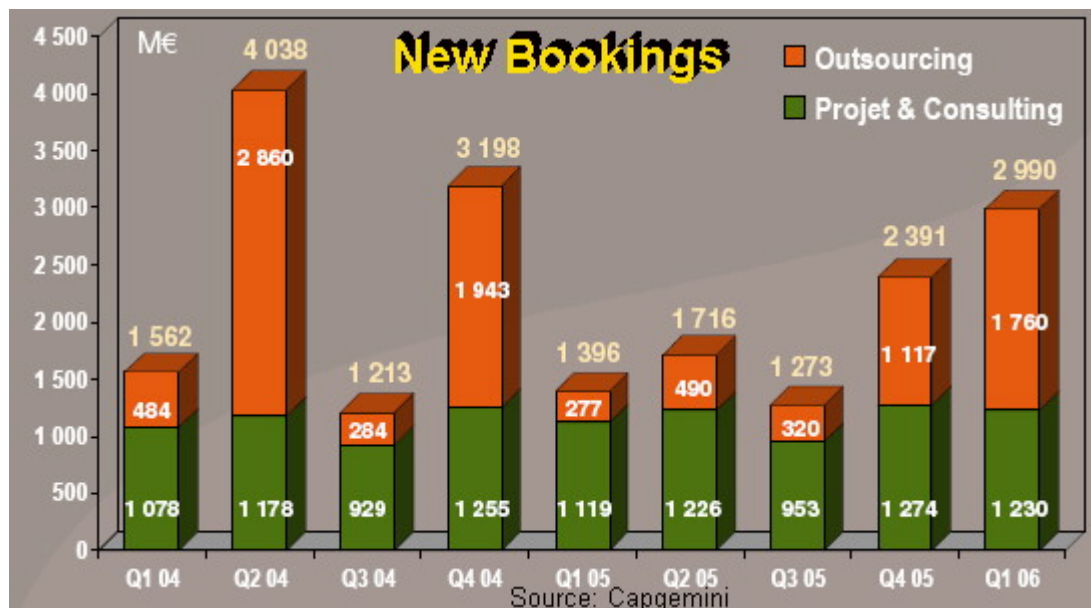
Updated 5/03/06, 9:00am PDT

Analysis of Capgemini's First Quarter Business Results

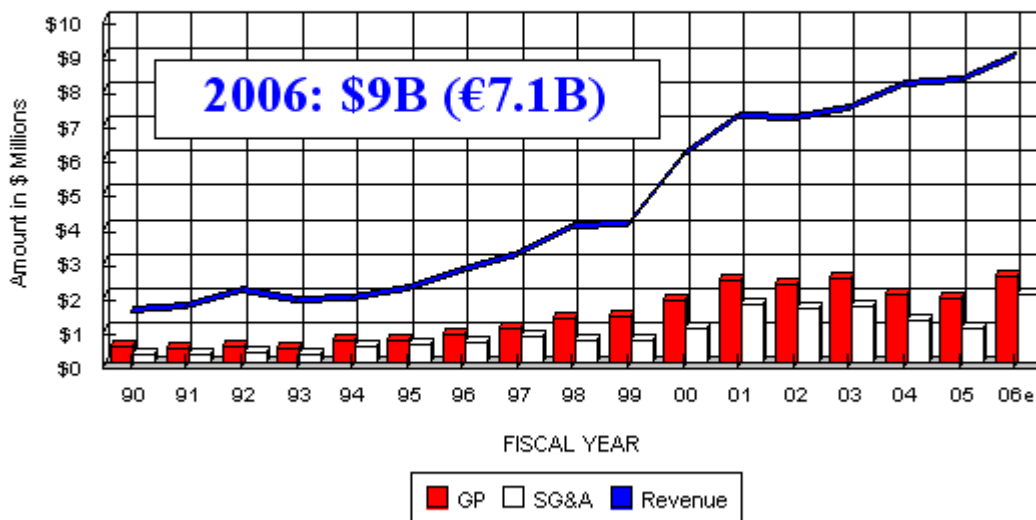
Strong Growth Continues

Capgemini Raises Revenue Growth Outlook for the Year

SCOTTSDALE, May 3 - When Capgemini reported its final 2005 results in late February, we said that the company "finished the year with a bang" (see "[Capgemini Tops Rivals](#)," Feb 2006). Well, just over two months later, Capgemini's strong growth continued in the first quarter. Worldwide revenues continued to rise in double digits - up 10% to €1,869 million (\$2,362 million). Just as importantly, the new contract sales more than doubles in the quarter to €2,990 million, the best performance since the 4Q04 (see the chart).



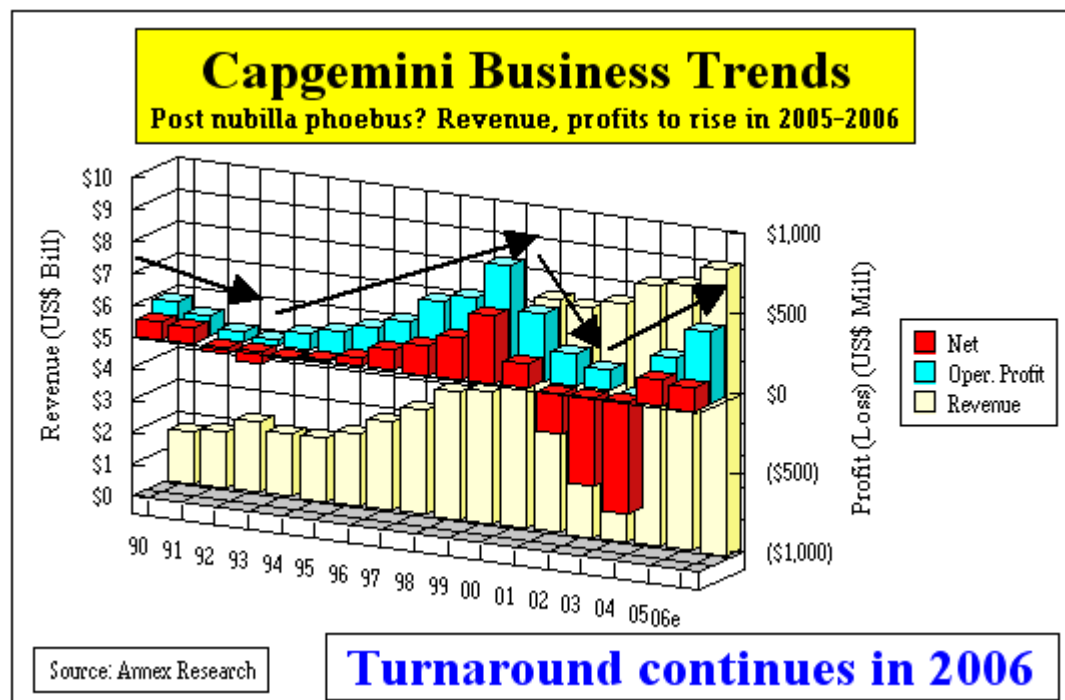
Capgemini Revenue
 Post nubilla phoebus: Revenue to rise in 2008 by 8%?



As a result, the company lifted its revenue growth outlook for the year to 8% from 6%. Capgemini maintained its operating margin target of 5% for 2006, according to Nicolas Dufourcq, the CFO. This can be considered a conservative move considering the improved profitability of many of its business operations.



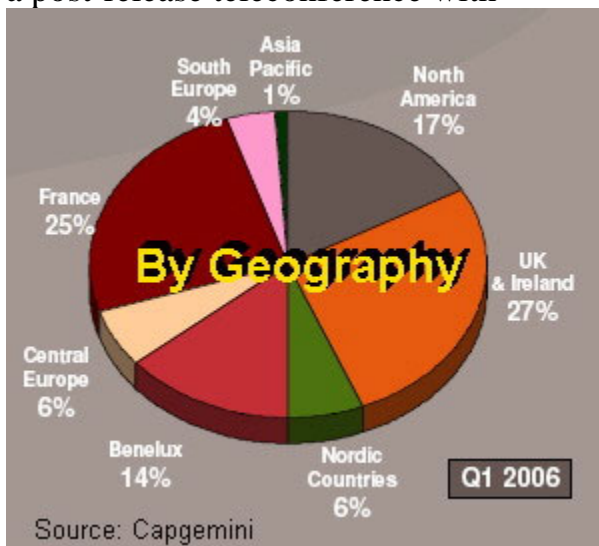
The stock market certainly seemed to think so as investors and traders boosted the price of Capgemini shares by over 6% today, following the release of its first quarter results. As you can see from the above chart, the stock has been on a steady upward march since October 2004 during which its share prices have more than doubled.



The good news for Capgemini shareholders is that, unlike with some U.S.-based IT services stocks (e.g., [EDS](#)), the Paris-based company's business success had *preceded* the stock price turnaround. And that's the good old-fashioned way of creating value.

"The Group is continuing (on) its growth track," said Pierre-Yves Cros, the head of strategy at Capgemini, in a post-release teleconference with analysts and consultants. "With exception of Italy, all major European countries are growing in double digits."

Indeed, the two largest European operations - France and U.K./Ireland - also reported the highest growth rates, up 16% and 15% respectively. Most of the rest of European regions grew in the 11% to 12% range, while Italy declined 14%.



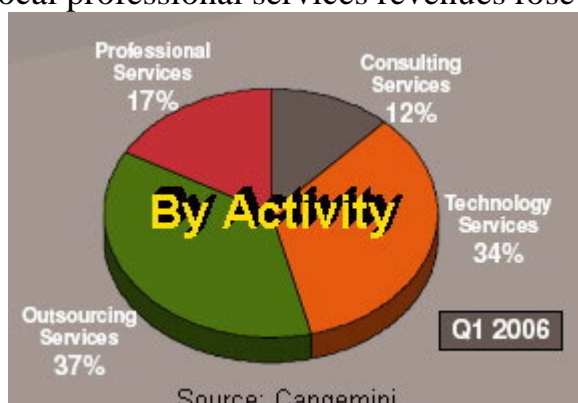
As for Capgemini's North American operations, long its "problem child," revenues in consulting and technology services, and the local professional services, increased 6% and 4% respectively, while the outsourcing revenues declined 13% year-over-year. But the latter was deliberate shrinkage initiated by the company. Capgemini has canceled some unprofitable contracts in the hope of improving the *quality* of its revenues and earnings in the future.

But perhaps the best news from the North American operations is its new bookings. At €768 million (\$971 million), they are up 271% since a year ago, and 256% sequentially (from the fourth quarter). Again, it is not just the quantity, but the *quality* of new deals that is encouraging. Apart from the GM megadeal, most of the rest comes from the more profitable midsize-type businesses. Local professional services bookings jumped by 43%, while consulting and technology services deal values surged by 27%.

"The restructuring in the U.S. is now complete," Cros declared during this morning's teleconference.

The company said revenues from local professional services revenues rose 13% in the quarter, while technology services revenues were up 10%. Revenues from outsourcing and consulting operations rose by 8%.

Though local professional services accounted for less than a fifth of the company's revenues,



technology service makes up a third. Outsourcing remains the company's biggest horizontal segment that generated the most revenues, 37% of total. Consulting accounted for 12%, while the local professional services and technology services comprised 17% and 34% shares respectively.

Capgemini executives also stressed their expanding global delivery capabilities, citing more than 4,000 employees in India and 1,000 in Poland engaged in such services. Overall, the company has increased its net headcount since the end of 2005 by over 1,000 people to more than 62,100 at the end of the first quarter.

For a detailed password-protected profit and loss forecast, Annex clients can click on [Capgemini 2006 P&L](#)

Happy bargain hunting


Bob Djurdjevic

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