

# ANNEX BULLETIN

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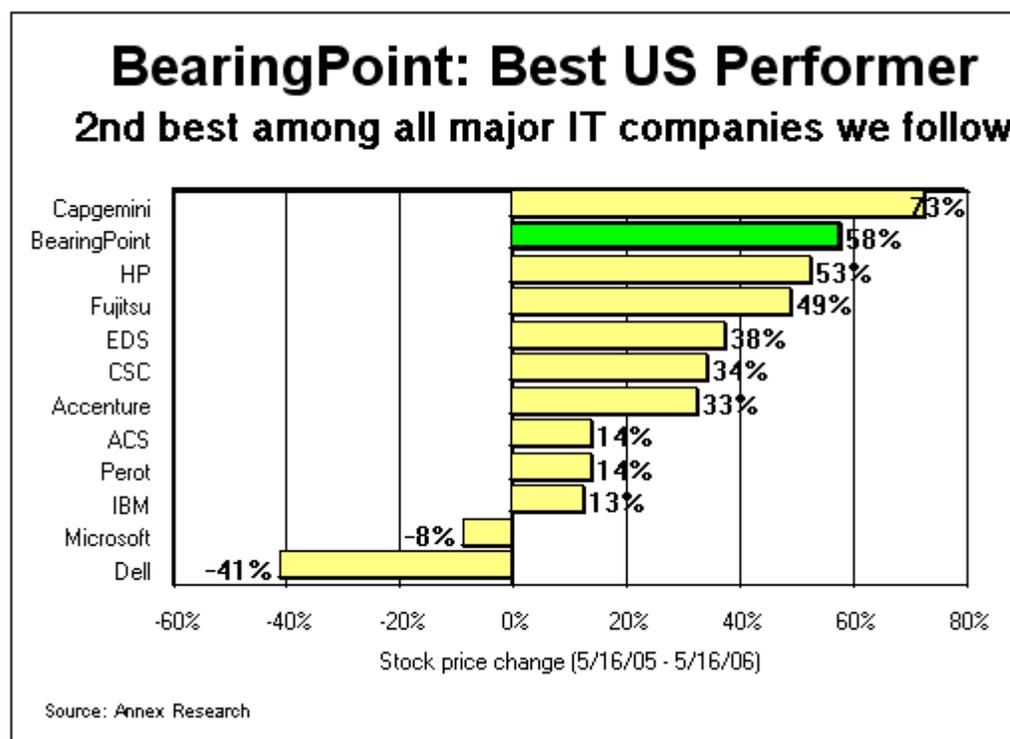
### *Analysis of BearingPoint's Results and Forecast*

# Where You-Turn Means Upturn

## *New CEO Takes His Company from Depths of Despair to Top of the Heap in One Year*

SCOTTSDALE, May 17 - When Harry You took his turn at the wheel on the bridge of BearingPoint in March of last year, the former KPMG accounting firm's consultants ship was drifting aimlessly, mired in accounting problems. The stock reflected the situation, also drifting in the \$7 to \$8 range for most of the previous 12 months.

Just over a year later, BearingPoint's You-turn has clearly meant an upturn. The company is now one of the IT industry high-flying stocks. Up 58% since a year ago (up 68% from its 52-week high), BearingPoint is the best performing North American IT stock among the top dozen global competitors we follow (see the charts).



Only the Paris-based Capgemini experienced a higher rate of appreciation in the last 12 months (up 73%). Perhaps surprisingly, the industry giants and former stock market highfliers - Microsoft and Dell - are setting the new lows at the bottom of the list, having lost 8% and 41% respectively of their market cap in the last 12 months.

### A \$3.4 Billion-Man

Meanwhile, back to BearingPoint, you may be wondering - how can an accounting firm's (KPMG) offspring be mired in accounting problems?

Well, it can and it did. Remember the "cobblers' kids go barefoot"-adage, not to mention what happened at Arthur Andersen? That's why BearingPoint brought in the former Accenture and Oracle CFO to try to set the new bearings for the BearingPoint ship. You was fresh from a hard-fought Oracle victory over PeopleSoft when he joined BearingPoint as CEO in March of last year.

The stock market applauded the move at the time, lifting the BE stock by over 15% to almost \$9. This made Harry You "[BearingPoint's \\$3.4B Man](#)," as we put it in a March 2005 report.

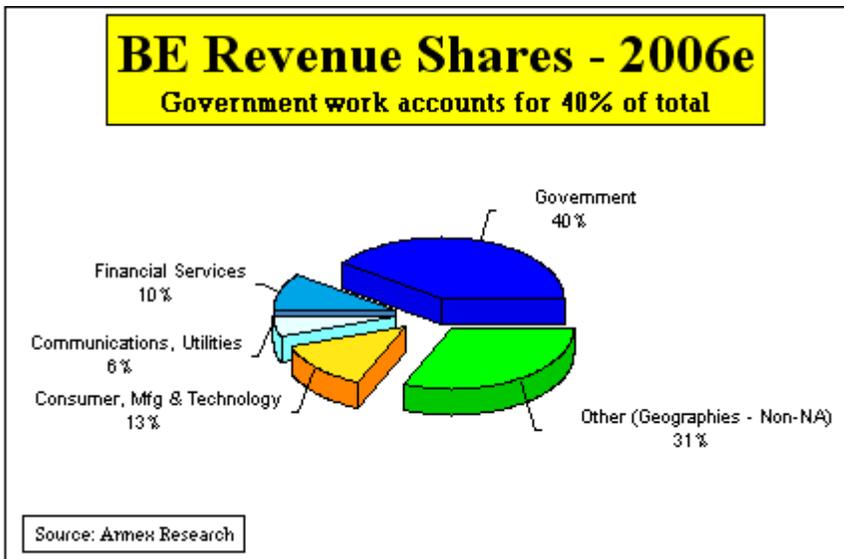


But this respected ex-Morgan Stanley investment banker knew that fame and fortune can be but a fleeting fling on Wall Street if not backed by a solid financial backbone. So the first thing that the new captain did was order a massive cleanup of the ship. And to his horror, You discovered several unopened cans of worms. Make that barrels of worms.

On April 20, 2005, a month after You became the CEO, BearingPoint filed an 8-K report with the SEC in which it said it would have to take a goodwill impairment charge between \$250 million to \$400 million relative to its European operations (it ended up being \$318 million). Worse, You and his senior management team had determined that "the financial statements filed with the following previously issued reports should not be relied upon because of errors in those financial statements."

Predictably, the stock dropped like a stone to the depths not seen since three years earlier (BE fell down to nearly \$5 per share). And back on board the listing ship, what started out as a massive cleanup ended up a massive reconstruction job - recreating the company history and books for 2003 and 2004, while writing new history in 2005.

And You also set a new course for the company. He reduced the number of industries the company focuses on from five to three (Public Services; Financial Services; and Commercial Services). In the process, BearingPoint eliminated or consolidated 38% of its market sectors.

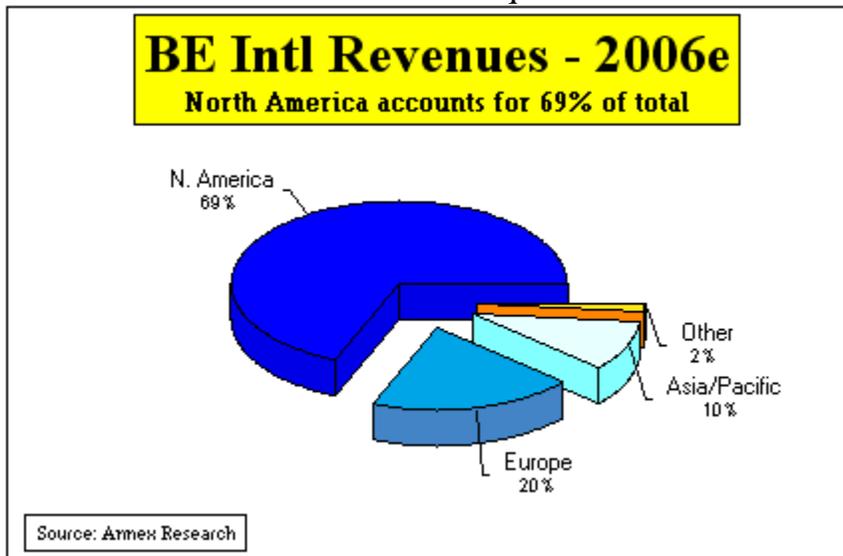


The company also "pruned" a number of small or unprofitable accounts, concentrating on fewer large and growing clients. It also reduced the number of "solution suites" it offers from 47 to 10,

as well as the number of countries on which it focuses.

Since seven countries account for more than three quarters of

BearingPoint's revenues, it was only natural that they received the most marketing and sales attention. The second tier of 15 "core" countries that bring in 18% of revenues also got strategic focus, while the 30 countries that represent only 6% of the business were designated as "non-strategic."



A year after the massive cleanup and reconstruction job started, BearingPoint also filed its revised financial statements for 2004 and 2003. On April 25, the company reported its first quarter 2006 business metrics, and provided guidance for the rest of the year. Our estimates for 2005 and

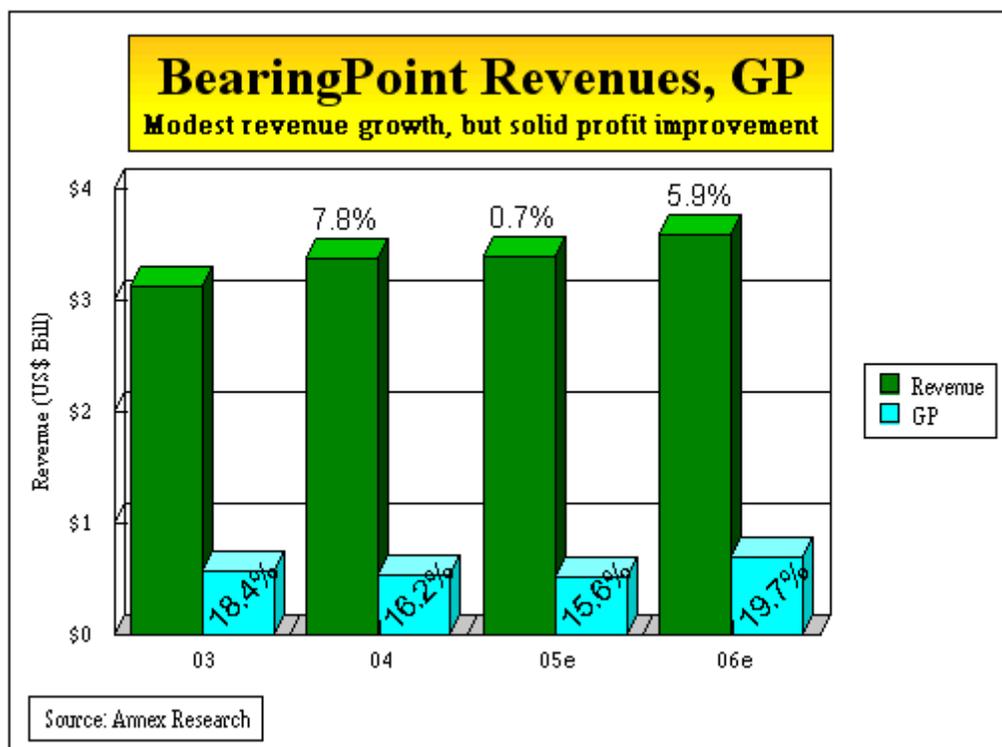
the forecast for 2006, which are [available to Annex clients at the end of this report](#), are based on these revised financial statements.

And there are signs that business is picking up. BearingPoint's bookings were approximately \$800 million in the first quarter of this year, a 15% increase from the year ago quarter. Voluntary total employee turnover was 24%, a 90 basis points reduction from the year ago quarter. Total chargeable hours billed by consultants to client engagements were approximately 5.3 million hours, a year-over-year increase of nearly 4% from the first quarter of 2005, according to BearingPoint's business update.

"In a robust global business environment, our business units operated well in the first quarter," You said in a release. "More importantly, we are continuing to demonstrate our ability to deliver complex and mission critical solutions to clients all across our industry segments."

## Outlook

BearingPoint also affirmed its previous guidance for 2006 revenue expectations of between \$3.5 and \$3.7 billion, and the GAAP operating income for the same period in the range of \$150 to \$200 million. The company's earlier guidance was for operating income in the range of \$180 to \$250 million.



The company said the reason for the reduction was, among other things,

due to some "\$80 to \$120 million of higher-than-expected internal costs associated with the company's efforts to complete its 2005 financial statements, and other corporate infrastructure costs, including up to \$25 million of additional, non-cash lease and facilities restructuring charges."

"We remain focused on resolving our infrastructure and process issues with the goal of becoming current in our SEC filings by later this year," You summed it up.

Uncharacteristically, the stock market actually greeted the lowering of expectations with a loud applause, pushing the BearingPoint stock to \$9.5 by early May. Having clarity finally about the company's financial condition is clearly important to the investors. The stock's rise was also an indication of how much credibility and goodwill You evidently has on Wall Street.

Yet despite the impressive stock performance in the last 12 months, and some remaining clouds on the horizon, stock market pundits think there is still more blue skies ahead for BearingPoint. Says, Jonathan Finneran, a financial consultant and investment analyst, writing for the The Motley Fool a week ago (see "[Cranky Consultants...](#)", May 10):

The stock market offers BearingPoint's current business model a low valuation. Based on forecasts for 2006, BearingPoint is trading at a price-to-sales ratio of 0.7. Blue-chip Accenture trades at 1.5 times sales. Indian outsourcer Cognizant, with recent quarterly revenue growth of 47%, has a boisterous price-to-sales ratio of 10... [snip]

Spicing BearingPoint's revenue with transaction-processing businesses will increase its valuation significantly. Transaction processors with utility business models enjoy forward price-to-sales ratios between 2.4 and 5.6 -- many times BearingPoint's skinny 0.7 ratio.

"Mr. You has many of miles ahead of him in this consulting marathon," concluded Finneran in his column. "This advice could help him make it to the home stretch."

Home stretch? How do you define that in a race without a finish line? A CEO's work is never done. And we expect the BearingPoint CEO to hold on to the wheel while executing his You-turn for a long time.



[Annex clients: Click here for detailed BE forecast tables](#)

*Happy bargain hunting*

*Bob Djurdjevic*

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