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Annex Bulletin 2006-33

September 8, 2006

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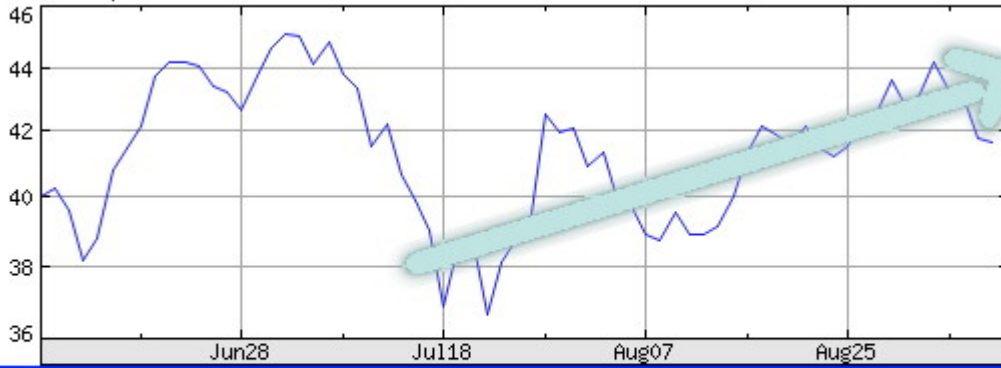
Analysis of Capgemini's First Half 2006 Results

Growth Continues

Revenues, Net Profit Both Up in Double Digits

NEW YORK, Sep 8 - Capgemini's upward march continues. The Paris-based IT services company's latest results, released yesterday, show double digit increases in both revenues and profits. Its net income jumped 22% from a year ago to €71 million (\$90 million), slightly below average analyst expectations (€72 million).

CAP GEMINI
as of 8-Sep-2006



Solid first half 2006 results to boost Capgemini's upward stock trend?

Perhaps that's why the stock dipped slightly in response to the news. But the company's shares have also been generally on an upward march since about mid-July (see the chart).

Meanwhile, operating margins jumped by three points to 4.8%, yielding an operating profit of €181 million (\$229 million). And revenues were also up in double digits in constant currency, up 10% to €3.8 billion (\$4.8 billion, up 9% as reported).

Solid New Contract Sales

Capgemini New Contract Sales			
MEuro	Bookings H1 '06	Growth '06 vs '05	Perspective
MRD	1,374	+58%	↗↗
GOV	1,414	+203%	↗↗
FS	421	+3%	→
TMN	378	+33%	↗
ECU	316	0%	↗
Others	168	-26%	↗↗
Total*	4,071	+58%	

MEuro	Bookings H1 '06	Growth '06 vs '05	Perspective
NA	377	+25%	↗↗
NEA	796	+12%	↗
CSE	363	+7%	↗
France	553	+3%	↗
OS	1,830	+190%	→
Total*	4,071	+58%	

(*) excluding Sogeti

Source: Capgemini (9/07/06)

Capgemini also reported solid first half new contract sales. Excluding the Sogeti unit, they amounted to €4.1 billion (\$5.2 billion), up 58% over the year before. With Sogeti, they were €4.7 billion (\$5.9 billion). North America and government sectors led all others surging by 25% and 203%

respectively (see the chart).

Capgemini's solid first half 2006 report card runs in the face of troubles that some of its European rivals are experiencing. Atos Origin, for example, an IT services company that is also traded on the Paris Bourse, reported a steep drop in first half net profit on Wednesday, in part due to a large charge related to its Italian operations. And the U.K.-based Logica revealed a 66% drop in net profit at the end of August.

Commenting about the first half results, Capgemini's CEO Paul Hermelin (right) said, "I think we can say that today the group is truly showing strong recovery and its ability to gain market share."



He added that, "in the first half, we have grown and lifted margins in all our disciplines and business lines, from consulting to system integration, from Sogeti to outsourcing, and when we look at the pipeline its truly healthy."

In other words, what Hermelin was saying is that the problems Capgemini's competitors are experiencing are of their own making, not a sign of an industry-wide malaise.

Business Segment Analysis

Nowhere is that more evident than in North America, once the company's "problem child." What Capgemini did under Pierre-Yves Cros' leadership in the U.S. is nothing short of an "incredible turnaround," in the words of his boss, Hermelin.

"The margin progression is close to nine points," Hermelin explained. "We are now growing in the US. And with book-to-bill, so we sold more than we produce - we increased our backlog in the US." He added that the pipeline is still growing in the U.S., too, suggesting more blue skies ahead.

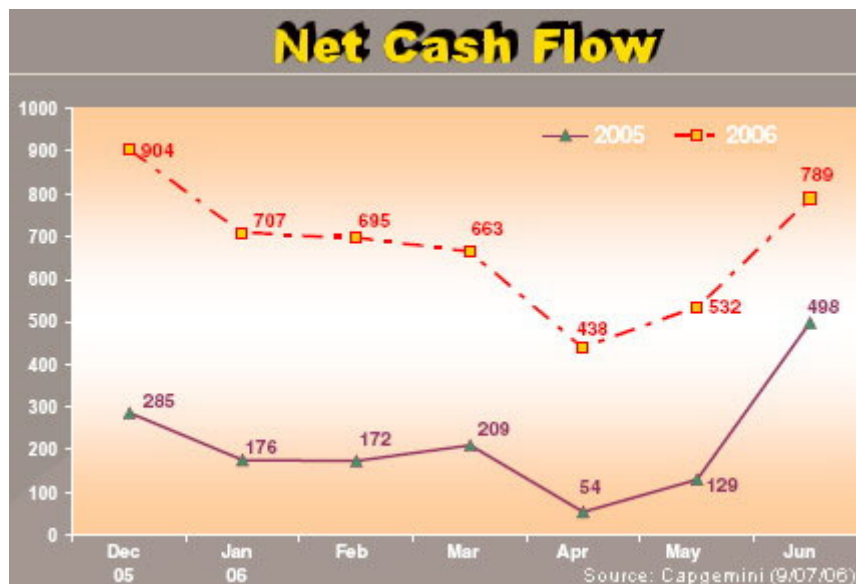
In Europe, all countries posted positive operating margins. The Benelux area (+12.6%) and the Germany and Central Europe region (+9.3%) were particular standouts in this respect. The U.K. and Ireland (up22%), Spain and Portugal (up16%), and again Germany and Central Europe (up12%) also reported the highest revenue growth rates. France and Benelux, growing at just under 10%, were close behind.

In terms of the horizontal segments, Capgemini's Consulting Services unit grew by 4.4% in the first half and posted an operating margin of 8.9%, the highest of its business segments. The Technology Services operation had a revenue increase of over 11% and operating margin of 6.4% during the

same period. Finally, the Local Professional Services' business was up 10.6% on an operating margin of 8.4%.

The Consulting, Technology and Local Professional Services reported a combined growth of 9.7%, and an operating margin of 7.4%, up by 3.1 points over the year earlier.

The Outsourcing Services, on the other hand, posted a growth of 11.6%, mostly driven by the large contracts the company had signed in the last few years. Its operating margin totaled 2%, an increase of 3.2 points over last year.



As the turnaround continued, Capgemini has been able to generate a lot more cash than in the prior years. After paying out a €66 million dividend in May, the company still generated €789 million in net cash flow, up from €498 million the year before (see the chart).

India Acquisition

Separately, the company announced on September 7 that its Business Process Outsourcing (BPO) Finance & Administration arm had acquired a controlling interest in Indigo (Unilever India Shared Services Limited) for an undisclosed amount. Capgemini and the Unilever Group also entered into a seven-year agreement "to deliver the full range of BPO F&A services to the Unilever companies which are current customers of Indigo," the companies announced.

Indigo's 600 professionals will join the Capgemini BPO operations when the deal is consummated in October, extending the BPO global delivery network in Poland, China, India, Australia, U.S. and Canada, with two new

centers in India. Capgemini's BPO services in India will then be delivered from Bangalore, Chennai, Kolkata and Mumbai.

Outlook

For the full year, Capgemini said it expects operating margin to be above 5.5%, up from 3.2% in 2005. The company reiterated its guidance for a revenue increase of 10% in 2006 to about €7.6 billion, which would put its full year total above \$9.7 billion at current exchange rates.

In short, Capgemini is continuing on an upward march. Whether or not the stock follows this direction, as it has in the last six weeks, will depend on market factors beyond Capgemini's control.

Happy bargain hunting!


Bob Djurdjevic

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Volume XXII, Annex Newsflash 2006-33
September 8, 2006

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