
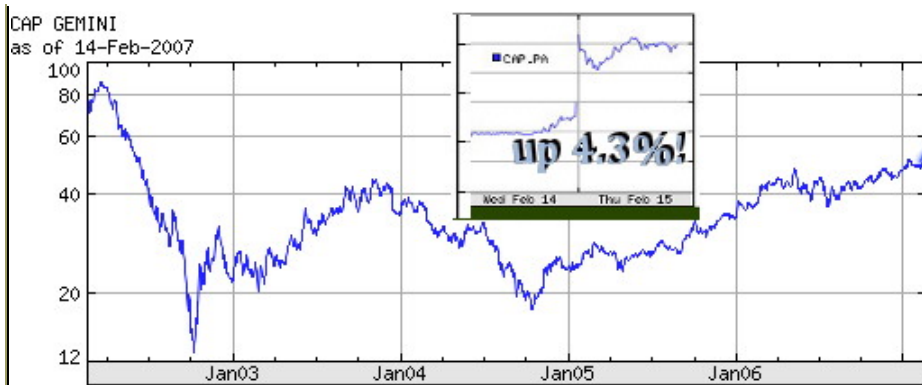


<div style="text-align: center;">  <p>Annex Bulletin 2007-06 February 15, 2007</p> <p><i>A partially OPEN client edition</i></p> </div>	<p style="text-align: center;">Recent... HEADLINES</p> <p>EDS: On Sunny Side of Street (Analysis of EDS' fourth quarter business results)</p> <p>Fujitsu: Sales Up, Profit Down (Analysis of Fujitsu's third quarter fiscal 2007 business results)</p>
<p style="text-align: center;">IT SERVICES</p>	<p style="text-align: center;">Home</p>
<p style="text-align: center;">Updated 2/15/07, 11:30AM MST</p> <p style="text-align: center;"><i>Analysis of Capgemini's Fourth Quarter Business Results</i></p> <h2 style="text-align: center;">Capgemini Caps Great Year, Saves Best for Last</h2> <p style="text-align: center;"><i>Revenue Grows in Double Digits; Net Profit Doubles</i></p> <p>SCOTTSDALE, Feb 15 - Capgemini saved its best for last. The company capped a great year with an excellent fourth quarter. Revenues surged by double digits (up 13% as reported, up 14% in constant currency), led by strong growth especially in Asia/Pacific, U.K./Ireland and German markets.</p> <p>For the full year 2006, revenues were up 11% as reported (or 12% in constant currency) to €7.7 billion (\$10.1 billion). And the results were even more impressive in U.S. dollar terms, given the decline of the U.S. currency against the euro in the last 12 months. The 2006 revenues were up 21% in U.S. dollars over the year before.</p> <p>Net income for the year more than doubled, from €141 million in 2005 to €293 million (\$384 million), beating the stock market estimates. Analysts had forecast full-year net profit of €283 million. Capgemini generated operating cash flow of €578 million (\$757 million) in 2006, and raised its dividend by 40%.</p> <p>The company's operating margins also surged from 3.2% in 2005 to 5.8% last year. And the improvements are likely to continue. Capgemini CEO Paul Hermelin said today during the analyst call that he expected the operating margins to grow to 7% this year, and then to 8.5% in 2008, as the company extends its recovery that started in 2004.</p>	<p style="text-align: center;">Also check out...</p> <p style="text-align: center;">Index 1993-2007</p> <p>IBM Shatters Records (Analysis of IBM's fourth quarter business results)</p> <p>IBM Stock Passes Century Mark (Analysis of Big Blue's Stock Performance)</p> <p>Happy Days Are Here Again (Analysis of Top 20 IT leaders' latest stock market and business performances)</p> <p>"Excellenture" Excels Again (Analysis of Accenture's first quarter fiscal 2007 business results) [Annex clients click here]</p> <p>Hedging the Bets (Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [Annex clients click here]</p> <p>Globalization Accelerates (Analysis of United Nation's annual survey of global investments)</p> <p>IBM: A \$125-Stock? (An update to "From Small Acorns Mighty Oaks Grow")</p> <p>Capgemini: Longest</p>



Capgemini shares rise over 4% on great 4Q results, setting new multi-year high

No wonder the Paris Bourse stock traders liked what they saw, pushing the Capgemini shares up by more than four points to a new multi-year high by mid-day today (Feb 15 - see the chart).

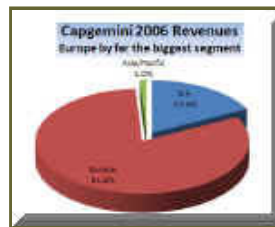
Business Segment Analysis

Geographies. Europe, Capgemini's largest geographic segment that accounts for 82% of its business, also had the fastest (14%) growth rate in 2006.

The U.K. and Ireland had the best growth rate in the fourth quarter and for the full year (up 22%; up 24% organic growth).

But it was the Benelux countries that were the most profitable (operating margin of 13.5%). Germany and Asia/Pacific also had double digit operating margins (10% and 16% respectively).

Europe's overall operating margin was 6.7%, higher than the global average.

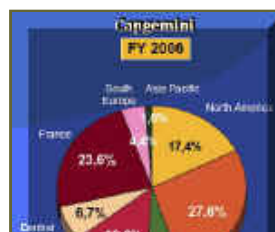


France, on the other hand, Capgemini's home and second largest country, barely broke even last year on revenues of €1.7 billion (\$2.2 billion). The main reason for that "blemish" was the Schneider megadeal, according to Pierre-Yves Cros, the company's chief strategist and the principal architect of its recent turnaround (also see "[EDS: Curse of Megadeals](#)," Feb 2002).

"Schneider (deal) was a drag on our profitability," he said this morning during a teleconference with American analysts that followed the fourth quarter release.

"Without it, France would have very decent profitability," he added.

Consolidation of the recovery in North America, on the other hand, where revenues have been rising all year, accelerated. In 2006, business was up 3.8%, but revenues jumped 10% in the fourth quarter. And the North American operation swung from loss to profit. Operating margin improved by over seven points



[Sustained Stock Price Rise \(An update to "By Leaps and Bounds"\)](#)

[HP: New King of the Hill \(Analysis of HP's fourth quarter business results\)](#)

[IBM: From Little Acorns Mighty Oaks Grow \(Analysis of IBM's "State of the Union"\)](#)

[Capgemini: By Leaps and Bounds \(Analysis of Capgemini's preliminary third quarter business results\)](#)

[Fujitsu: Good Performance Gets Better, More Global \(Analysis of Fujitsu's first half FY2007 business results\)](#)

[IBM: A Slam Dunk Quarter \(Analysis of IBM third quarter business results\)](#)

[Accenture's Emphatic Year-end Accents \(Analysis of Accenture's fourth quarter results\) \[Annex clients click here\]](#)

[IBM: Services in a Box \(Analysis of IBM Global Services' Ground-shifting Announcements\)](#)

[Strong Comeback by IT Stocks in Third Quarter \(Analysis of top 20 IT companies' market and business trends\)](#)

[Stock Buybacks: A Fading Fad \(Dell, erstwhile "King of Fluff," suspends its stock buybacks\)](#)

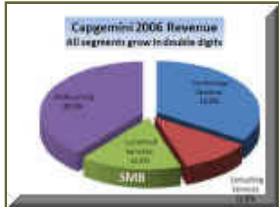
[Capgemini: Growth Continues \(Revenues, net profit up in double digits, margins also improve\)](#)

[HP Firing on All Cylinders \(Stock sets new multi-year record following excellent](#)

to 5.4% of revenues.

The company's offshoring efforts are also accelerating. Capgemini's work force in India, Poland and China rose by 92% in 2006 to more than 9,000. The Kanbay acquisition, finalized last week, makes India now the company's second largest country with more than 13,000 people. Capgemini expects its headcount in India to triple to 40,000 by 2010. The company's worldwide employment at the end of 2006 stood at about 68,000 people.

Horizontal Segments. Outsourcing and local professional services (SMB) were the fastest growing horizontal segments in 2006. They were up 25% and 11% respectively,



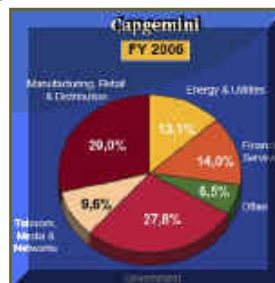
after the company reclassified its three biggest megadeals into CS/TS services, which went up 9%. Consulting business increased by 6%, while Technology services rose by 10% last year.

Consulting services' profit margins improved by five points in 2006, while those in Technology services rose by more than two points. Outsourcing also saw a three-point rise in its operating margins despite the extra costs related to the Schneider megadeal. Finally, Local Professional services (Sogeti) also improved its profitability by almost a point to 9.8%, putting it on a par with consulting, the company's most profitable activity with 10.1% operating margins.

CEO Hermelin warned that Capgemini expects the pace of growth in its IT outsourcing operations to slow this year as it approaches the end of some major contracts. But he was hopeful, however, to offset that with the company's \$1.25 billion acquisition late last year of Kanbay which specializes in IT services for banks (see "By Leaps and Bounds," Oct 2006).

"Kanbay takes us into areas of business where we weren't present before," said Hermelin. "We've already had approaches from French, Dutch and other international banks about the kind of offshore business we couldn't do before."

Industries. Manufacturing and government were Capgemini's largest vertical business segments, accounting for 29% and 28% of total revenues. The financial sector at 14% of total was its third largest. But with the addition of Kanbay, which specializes in the banking sector, that will change in 2007, as the finance sector's share is expected to rise.



Bookings. Capgemini helped grow its backlog with a 21% jump in new contract signings in 2006. The company booked about €8.2 billion of new business last year (\$10.7 billion), up from €6.8 billion in 2005.

[third fiscal quarter results](#)
[\[Annex clients click here\]](#)

[Power of Manpower](#) (While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)

[Ebb Tide Lowers Most Boats](#) (Analysis of EDS' and CSC's latest quarterly results)

[IBM Stock Grossly Undervalued?](#) (Analysis of stock market valuations of IBM and its major competitors) [\[adds latest Fujitsu, Capgemini results\]](#)

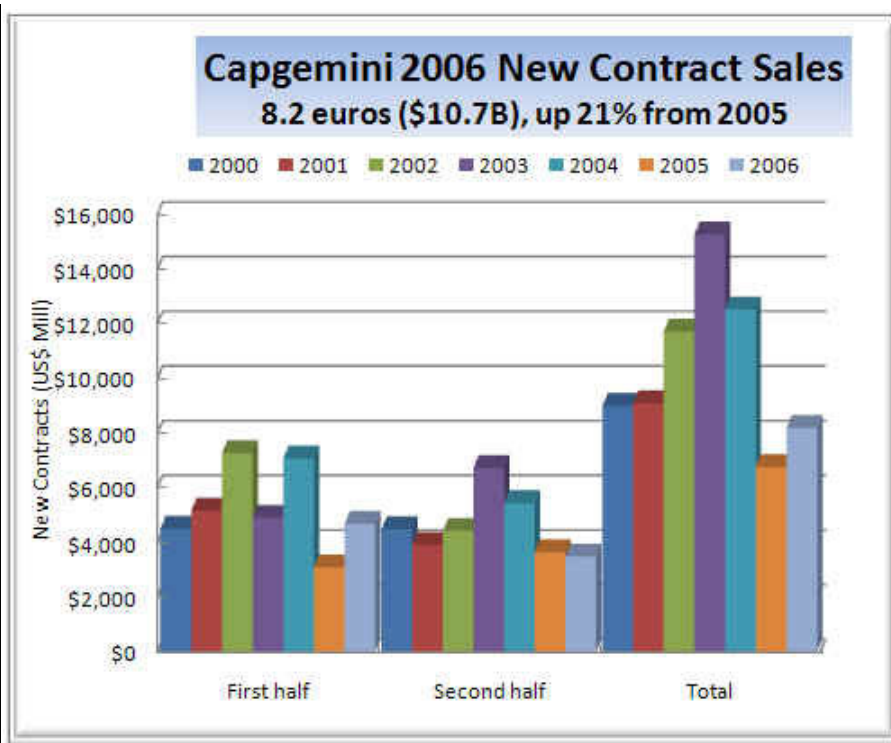
[IBM vs. HP: A Tale of Two Blues](#) (Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus") [\[Annex clients click here\]](#)

[Go East, Young Man!](#) (A speech delivered in St. Petersburg, Russia, May 25, 2006; [click here for slides](#))

[IBM 5-Yr Forecast: Steady As She Goes](#) (Emphasis on quality continued) [\[Annex clients click here\]](#)

[Octathlon 2006: Accenture Again Wins "Gold!"](#) (HP gets "Silver," IBM "bronze") [\[Annex clients click here\]](#)

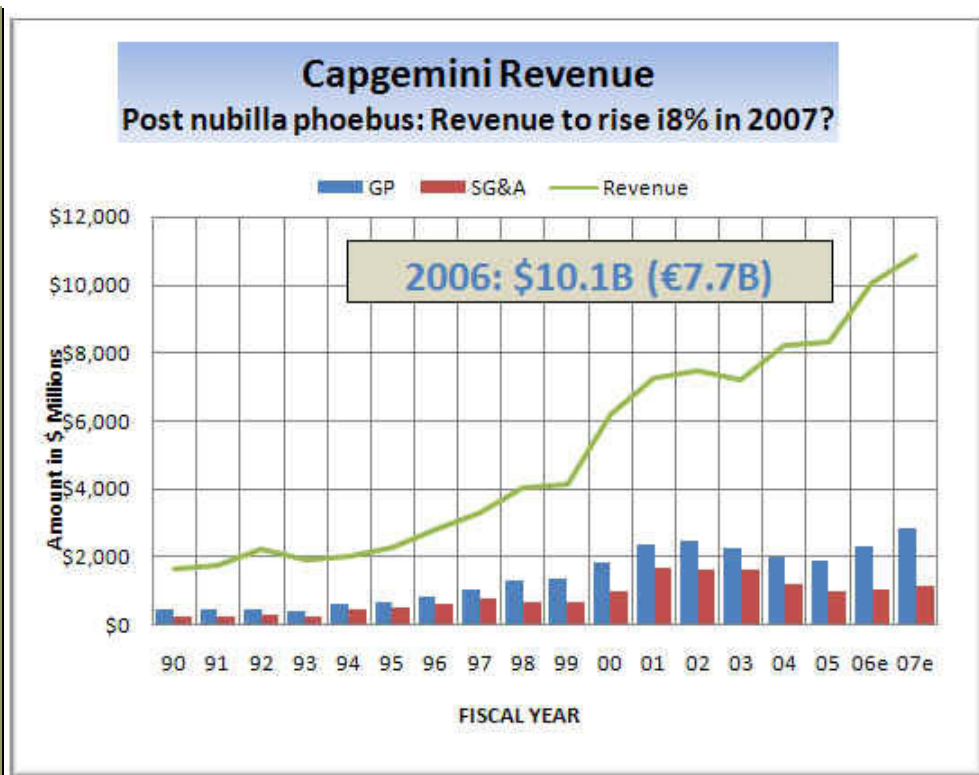




But the 2006 total is still lower than the signings in the earlier five years (2000-2004, see the chart). Which means that Capgemini needs to crank up its sales performance this year if it is to maintain its double digit revenue growth momentum.

Outlook

And that doesn't appear very likely, even by the company's own projections. Capgemini said it expected revenue growth of 8% in 2007 (at constant currency), well below the 12% rate the company has just reported. Which would still be on the high side of the average industry growth rates.



"We're very excited about our perspectives in 2007," said Cros in at the end of the conference with analysts.

[Click here](#) for detailed Capgemini 2006 P&L analysis (Annex clients only)

Happy bargain hunting!

Bob Djurdjevic

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