

COMPANY PROFILE

Capgemini SE

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COMPANY OVERVIEW

Capgemini SE (Capgemini or 'the company'), formerly Cap Gemini S.A., is a provider of consulting, technology, and outsourcing services. The group offers a range of services, including business process management (BPM), cloud services, consulting services, and product and engineering services, among others. Cap Gemini operates primarily in Europe, the Americas and Asia Pacific. It is headquartered in Paris, France.

The company reported revenues of (Euro) EUR12,792 million for the fiscal year ended December 2017 (FY2017), an increase of 2% over FY2016. In FY2017, the company's operating margin was 9.2%, compared to an operating margin of 9.2% in FY2016. In FY2017, the company recorded a net margin of 6.4%, compared to a net margin of 7.3% in FY2016.

KEY FACTS

Head Office	Capgemini SE Place de l'Etoile, 11 rue de Tilsitt PARIS PARIS FRA
Phone	33 1 47545000
Fax	33 1 47545025
Web Address	www.fr.capgemini.com
Revenue / turnover (EUR Mn)	12,792.0
Revenue (USD Mn)	14,421.6
Financial Year End	December
Employees	199,698
Euronext Paris Ticker	CAP

SWOT ANALYSIS

Cap Gemini S.A. (Cap Gemini or "the group") is a provider of consulting, technology, and outsourcing services. The group's broad services portfolio allows it to provide end-to-end solutions and tap into high value customer base. This also helps the group to enhance its share in the client's budget. However, intense competition may lead to pricing pressures, thereby adversely impacting the operating margins and market share of the group.

<p>Strength</p> <p>Broad Services Portfolio Strategic Partnerships and Alliances Diversified End Market and Geographic Presence</p>	<p>Weakness</p> <p>Lack of Scale As Compared To Peers</p>
<p>Opportunity</p> <p>Increasing Adoption of Cloud Computing Services Robust Growth in the Enterprise Mobility Market Big Data Provides Growth Opportunities</p>	<p>Threat</p> <p>Fluctuations in Foreign Exchange Currency Intense Competition Continued Economic Slowdown in Europe</p>

Strength

Broad Services Portfolio

The group has a broad services portfolio, which allows it to provide end-to-end solutions and tap into high value customer base. The group's operations span across four major businesses: Application Services, Technology and Engineering Services, Consulting Services and Other Managed Services. Application Services business is focused on devising, developing, implementing and maintaining IT applications covering the group's system integration and application maintenance activities. Technology and Engineering Services provides assistance and support to internal IT teams within client companies. The group's Consulting Services help to enhance the performance of organizations based on in-depth knowledge of client industries and processes. Other Managed Services business integrates, manages and/or develops either fully or partially, client's IT Infrastructure systems, and is engaged in the provision of transaction services, on demand services and business activities. Thus, a broad services portfolio allows the group to provide end-to-end solutions and tap into high value customer base. This also helps the group to enhance its share in the client's budget.

Strategic Partnerships and Alliances

Cap Gemini has entered into strategic partnerships and alliances with leading companies. The group created an ecosystem, working with leading industry partners to deliver enhanced services to the clients. Cap Gemini groups its partners into various levels. The strategic partners of the group include EMC, HP, IBM, Microsoft, ORACLE and SAP. The group's partners for cloud services include Amazon Web

Services, Google, Pivotal, NetSuite, Salesforce and VMware. The digital customer experience partners include Pega and Salesforce; insights and data partners include Cloudera, Informatica, Intel, Pivotal, SAS and Teradata.

Furthermore, the group signed cooperation agreements with regional or sectorial players in recent times to strengthen its portfolio. For instance, in 2016, the group and SAP extended their strategic partnership and launched Fast Digital 4 Discrete Industries by SAP and Capgemini to help clients in the discrete manufacturing industries to manage their digital transformation. Also in 2016, Cap Gemini in collaboration with IBM Security launched Managed Security Operations Center (SOC) services. In 2016, the group and Virtustream expanded their strategic collaboration to distinct service levels for workloads running on SAP software. Earlier in 2016, the group collaborated with the Siemens Building Technologies Division to implement a cloud based services platform featuring asset management and analytics technology.

Early in 2016, the group won a one year contract extension from the UK's Ministry of Defence (MOD) to continue providing secure application and infrastructure services to allow the MOD to make secure transactions of its suppliers. In 2016, the group expanded its collaboration with Amazon Web Services. Through the expanded collaboration the group will provide cloud advisory, migration and managed business services and Capgemini Cloud Choice with Amazon Web Services will develop sector-specific IP solutions hosted on AWS.

These alliances have strengthened the group's expertise and enabled it, in particular, to develop global solutions in areas such as cloud computing, management information and BPO. In addition, extensive partner network will enable Cap Gemini to increase market penetration thereby increasing its customer base.

Diversified End Market and Geographic Presence

The group caters to diversified end markets. Over the last few years, Cap Gemini has strategically expanded the number of end markets to increase revenue and business stability and expand its opportunities for growth. The group offers IT services for diversified end markets, including financial services (approximately 26% of Cap Gemini's revenues in FY2016); manufacturing, automotive and life sciences (19%); public sector (17%); consumer products, retail distribution and transportation (16%); energy, utilities and chemicals (11%); telecommunication, media and entertainment (7%) and other (4%).

In addition, Cap Gemini has a diversified geographic presence. The group has strategically expanded its presence across the globe. It operates through 115 consolidated subsidiaries in more than 40 countries across Europe, the Americas and Asia Pacific. Cap Gemini's operations in France (generated approximately 20.5% of the group's revenues in FY2016); the UK and Ireland (15.9%); North America (30.3%); Rest of Europe (25.6%); and Asia-Pacific and Latin America (7.7%). Diversified end markets and geographic reach spreads the business risk of the group. Furthermore, they offer access to a wider customer base and enable continued inflows resulting in a strong revenue position for the group.

Weakness

Lack of Scale As Compared To Peers

Capgemini lacks the scale to compete effectively with other major players. The group's revenues and resources are low, when compared to its major competitors such as IBM and Accenture. Capgemini recorded revenues of E12,539 million (\$13,194.2 million) during FY2016. Comparatively, IBM reported revenues of \$79,919 million for the year ended December 2016. Similarly, Accenture recorded revenues of \$34,797.7 million during the end of August 2016. Such huge operations enable these companies to leverage on their facilities and technologies; on the contrary, lack of scale limits Cap Gemini's ability to compete effectively.

Opportunity

Increasing Adoption of Cloud Computing Services

The worldwide demand for cloud computing services is expected to grow significantly in the coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Appeal to cloud computing has been increasing as it enables companies to reduce their expenses related to upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. Several organizations around the world have been realizing the potential benefits of cloud and are adopting these disruptive technologies to gain business advantage. According to MarketLine, the global cloud computing industry is expected to generate total revenues of \$89.3 billion in 2016, representing a compound annual growth rate (CAGR) of 34.2% between 2012 and 2016. Furthermore, the performance of the industry is forecast to accelerate, with an anticipated CAGR of 35.6% for the 2016-21 periods, which is expected to drive the industry to a value of \$409.6 billion by the end of 2021.

The group has significant presence in cloud computing market. The group's Cloud Choice is supported by an array of services, which deploys the group's businesses, including cloud strategy consulting, cybersecurity, testing, migrating existing applications to the cloud and developing native cloud applications. Cap Gemini focuses on developing and offering innovative cloud services to stay ahead of its competitors in the industry. The group has been focusing on enhancing its cloud footprint in the recent past. For instance, in 2016, the group expanded its collaboration with Amazon Web Services. Through the expanded collaboration the group will provide cloud advisory, migration and managed business services. Capgemini Cloud Choice with Amazon Web Services will also develop sector-specific IP solutions hosted on AWS.

The group's increasing presence in the cloud computing market and the growing end market will provide an opportunity for Cap Gemini to gain new customers and increase its market share in future.

Robust Growth in the Enterprise Mobility Market

The market for enterprise mobility solutions has been growing at a rapid pace. Increasing mobile worker population, emergence of sophisticated mobile devices such as tablets and smartphones and introduction of several business applications is expected to drive the market for enterprise mobility over the next few years. According to industry estimates, the global enterprise mobility market is expected to grow at a CAGR of 25% during 2015-22 periods to reach a value of approximately \$510.4 billion by 2022.

Cap Gemini offers solutions for enterprise mobility, including mobile strategy solutions, mobile user experience and design; mobile applications and development management, managed mobility solutions, mobile platforms, and reselling solutions. The group also offers mobility solutions for strengthening and optimizing its clients' access to their services through smartphones, tablets and other mobile terminals. The robust growth in the enterprise mobility segment will enable the group gain more customers and increase its market share in the coming years.

Big Data Provides Growth Opportunities

Big data, which is a primary contributor to the pace of overall data growth, refers to the large repositories of corporate and external data, including unstructured information created by new applications including medical, entertainment, energy and geophysical, social media and other web repositories. It also refers to the new analytics and other technologies that are available to help people do things with the significant amount of enterprise and external data. According to industry estimates, the big data market is valued at approximately \$29 billion in 2016. Further, the market is expected to grow at a CAGR of 18% during 2016-21 periods to reach a value of about \$67 billion by 2021.

Industry estimates also suggest that the continued growth of data in the digital universe would create a huge challenge for IT departments who must store and manage information. Growing unstructured data rapidly within organizations is not suitable to be stored, managed and analyzed by traditional IT systems. To address this, IT departments are expected to acquire new technology, build new applications and serve insightful information. This new technology must be designed to operate at petabyte scale - employing "scale-out" architecture. A new business application must be able to be built rapidly and serve up information so that business users can make informed decisions and take action. Hence, Big Data creates huge opportunities for organizations that can turn all of this data into insightful information and deliver it to business users in a timely fashion.

Cap Gemini offers a comprehensive portfolio of big data solutions, including anomalous behavior detection, business data lake, cybersecurity, data warehouse optimization, enterprise data hub accelerator, in-memory solutions and insight-driven operations. The group also offers a number of big data technologies in partnership with other leading players in the market. The positive outlook for the big data market coupled with the group's significant presence will provide it an opportunity to gain market share in the future.

Threat

Fluctuations in Foreign Exchange Currency

The group operates through 115 consolidated subsidiaries in more than 40 countries across Europe, the Americas and Asia Pacific and is exposed to fluctuations in foreign exchange currencies. The group conducts its operations in various currencies, including Australian Dollar, Brazilian Real, Canadian Dollar, Chinese Renminbi Yuan, Indian Rupee, Norwegian Krona, Polish Zloty, Pound Sterling, Swedish Krona and the US Dollar. The growing use of offshore production centers in India, Poland and Latin America, exposes the group to currency risk with respect to some of its production costs. Cap Gemini is also

exposed to the risk of exchange rate fluctuations in respect of inter-company financing transactions and fees paid to the group by subsidiaries whose functional currency is not the Euro.

Further, the fluctuations in the US dollar and the pound sterling against the euro, generating a positive impact on translation reserves, mainly due to the appreciation of the US dollar partially offset by the depreciation of the pound sterling against the euro in FY2016. For example, a 10% fluctuation in the US Dollar-Euro exchange rate would trigger a corresponding 2.7% change in revenues and 3.2% change in operating margin. Similarly, a 10% fluctuation in the Pound Sterling-Euro exchange rates would result in a corresponding 1.6% change in revenues and a 1.9% change in operating margin. Hence, currency fluctuations may impact the group's results and financial condition.

Intense Competition

Cap Gemini faces intense competition from a wide range of global, offshore and regional companies. The group's major global competitors include information technology giants, International Business Machines (IBM) and HP. Their presence in other, closely related, hardware and software technology markets provides them with a larger market share for customer relations. Its other global competitors include pure IT service players such as Accenture, Atos, Computer Sciences and CGI and Japan-based companies, Fujitsu and NTT Data.

The IT services market is witnessing the emergence of a group of offshore (essentially Indian) players, including Tata Consultancy Services, Infosys, Wipro, Cognizant and HCL Technologies. These companies are beginning to be able to compete against the global players. In addition, Cap Gemini faces competition from regional players, including T-Systems, Indra and Sopra Steria in Europe and Lockheed Martin and SAIC in North America. Intense competition may lead to pricing pressures, thereby adversely impacting the operating margins and market share of the group.

Continued Economic Slowdown in Europe

Due to the current economic downturn the unemployment has been rising and overall economic activity has been falling. European regions are facing an economic slowdown in addition to the rise in inflation due to the current debt crisis. According to IMF, the growth in the Euro area is projected to remain weak and fragile as high debt and financial fragmentation hold back domestic demand and also due to the Brexit. According to IMF, the Euro area is expected to grow at a slow rate of 1.6% in 2017 and 2018, compared to the global average growth of 3.4% in 2017 and 3.6% in 2018. The Eurozone growth weakens due to uncertainty, greater financial market volatility, and lower import demand from the UK.

Economic conditions worldwide have from time to time contributed to slowdowns in the technology industry at large, as well as to the specific segments and markets where the group operates. Highly competitive environment coupled with the economic crisis may further affect the group's financial position. The weak macro-economic conditions would lead to an increase in the inflation levels and increased costs. Further it would have an impact on the spending ability of the group's clients. The weak macro-economic conditions would also lead to non-renewal of long term contracts by the clients, which would have a negative effect on revenue streams and require cost-cutting or headcount reduction measures in the operational units impacted. Weak economic condition in key markets will erode Cap Gemini's revenue and profit margins, thereby stagnating its growth prospects.

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