

Europe: Technology

Equity Research

Dispersion widening between strong and weak; Indra down to Sell

Macro uncertainty leads to increased dispersion of strong vs. weak

We believe dispersion between the well positioned and weaker companies in our Software & IT Services universe will widen, particularly amidst the current macro uncertainty. As a result we continue to maintain our Attractive coverage view on Software as we believe these companies offer better structural growth, are exposed to less vulnerable geographic and vertical end markets, have more flexible cost control and therefore reduced earnings volatility. High recurring revenues and ongoing M&A in the sector should also provide strong downside support. We maintain our Neutral coverage view on IT Services in Europe as in our view it remains structurally challenged and more exposed to the economic cycle, and despite underperformance ytd, has limited downside support.

Software estimates lowered for weak end market exposed vendors

We lowered estimates on Temenos, Unit4, IFS and Sage to reflect their exposure to weak end markets and geographies – notably financial services, public sector and SMB and Southern Europe. On average our revenue/EPS forecasts decline 1%.

IT Services estimates lowered for end markets & structural issues

We lowered estimates across all our IT Services coverage to reflect incremental pressure from the public sector and financial services as well as continued weakness in Benelux. On average our revenue forecasts decline 1%-3% while EPS falls 5%-8%.

Top picks remain SAP, Dassault and Aveva; Indra down to Sell

We continue to like well-positioned companies with emerging market exposure, structural growth, product cycles and high recurring revenues and cash returns. Despite being perceived as cyclical, we believe SAP, Dassault and Aveva fit this description and reiterate our Conviction Buys. We believe M&A will remain an ongoing theme despite uncertainty in the market, and highlight Unit4, IFS and Temenos as key beneficiaries following significant share price underperformance, despite exposure to unattractive end markets. We downgrade Indra to Sell given its recent outperformance, and believe its high exposure to Spain and deteriorating cash flow profile is not reflected in consensus estimates. Sage and Tieto are also Sell rated.

SUMMARY OF RATING AND 12-MONTH PRICE TARGET CHANGES

Company	Old rating	New rating	Currency	Old PT	New PT
Aveva	Buy*	Buy*	£	2700	2700
Opera Software	Neutral	Neutral	Nkr	36	36
SAP (Ordinary Share)	Buy*	Buy*	€	60	60
Dassault Systemes	Buy*	Buy*	€	89	89
Nemetschek	Buy	Buy	€	47	47
Software AG	Neutral	Neutral	€	36	36
Temenos	Buy	Buy	SFr	24	27
Micro Focus	Neutral	Neutral	£	350	380
Sage Group	Sell	Sell	£	280	270
Unit 4	Buy	Buy	€	33.5	27.5
Exact Holding	Neutral	Neutral	€	24	22
CEGID	Buy	Buy	€	25	25
IFS	Buy	Buy	SkR	160	146
Capgemini	Buy	Buy	€	45	36
AtoS	Neutral	Neutral	€	45	42
Logica	Neutral	Neutral	£	120	100
Tieto	Sell	Sell	€	10	8
Indra	Neutral	Sell	€	14.5	12

* denotes Conviction List membership.

Source: Goldman Sachs Research estimates.

COVERAGE VIEW: SOFTWARE: ATTRACTIVE

COVERAGE VIEW: IT SERVICES: NEUTRAL

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Macro uncertainty increasing dispersion between strong and weak

We believe the current macro environment has raised concerns around IT spend in specific sectors and geographies. While we see no change to structurally well-positioned companies (1st /2nd quartile on industry positioning and returns on GS SUSTAIN framework), we believe companies in the 3rd /4th quartile could see a further dispersion from 1st quartile stocks in the current environment. We therefore adjust our estimates for Temenos, Sage, Unit4 and IFS among software stocks for exposure to the public sector, financials and specific geographies that are impacted by the sovereign debt crisis in Europe. For IT Services, we lower our estimates primarily for greater impact from public sector exposure and slower than expected recovery in the Benelux region.

Exhibit 1: Summary of price target changes and methodology

Prices as of close of September 13, 2011

SOFTWARE	Old Rating	New Rating	Currency	Old PT	New PT	% Upside/ Downside	Methodology
Aveva	Buy*	Buy*	£	2700	2700	82%	26x CY12 PF EPS, 30% M&A (7.5x EV/12 Sales)
Opera Software	Neutral	Neutral	Nkr	36.0	36.0	40%	18x 12 PF EPS, 30% M&A (3.5xEV/12 Sales)
Avg-high grwth						61%	
SAP (Ordinary Share)	Buy*	Buy*	€	60.0	60.0	68%	18.4x 12 PF EPS
Dassault Systemes	Buy*	Buy*	€	89.0	89.0	71%	25x 12 PF EPS
Avg-large cap						69%	
Software AG	Neutral	Neutral	€	36.0	36.0	40%	12.5x 12 PF EPS
Nemetschek	Buy	Buy	€	47.0	47.0	85%	12x 12 PF EPS, 10% M&A (3x EV/12 Sales)
Temenos	Buy	Buy	SFr	24.0	27.0	64%	16x 12 PF EPS, 30% M&A (6x EV/12 Sales)
Micro Focus	Neutral	Neutral	£	350	380	14%	10x CY12 PF EPS
Avg-mid cap s/w						51%	
Sage Group	Sell	Sell	£	280	270	6%	12.5x CY12 PF EPS
Unit 4	Buy	Buy	€	33.5	27.5	66%	12x 12 PF EPS, 30% M&A (5x EV/12 recurring)
Exact Holding	Neutral	Neutral	€	24.0	22.0	19%	11x 12 PF EPS, 30% M&A (4x EV/12 recurring)
CEGID	Buy	Buy	€	25.0	25.0	64%	7.7x 12 PF EPS, 30% M&A (3x EV/12 recurring)
IFS	Buy	Buy	Skr	160	146	57%	11x 12 PF EPS, 30% M&A (4x EV/12 recurring)
Avg-mid mkt ERP						42%	
Average - software						54%	
IT SERVICES	Old Rating	New Rating	Currency	Old PT	New PT	% Upside/ Downside	Methodology
Capgemini	Buy	Buy	€	45.0	36.0	53%	12x 12 PF EPS (Sector mean since 2008)
AtoS	Neutral	Neutral	€	45.0	42.0	39%	11x 12 PF EPS (c.10% discount to sector mean)
Logica	Neutral	Neutral	£	120.0	100.0	22%	9x 12 PF EPS (25% discount to sector mean)
Tieto	Sell	Sell	€	10.0	8.0	-15%	9x 12 PF EPS (25% discount to sector mean)
Indra	Neutral	Sell	€	14.5	12.0	3%	11x 12 PF EPS (c.10% discount to sector mean)
Average - IT Services						16%	

* denotes Conviction List membership. All EPS estimates referred to in the table are pro-forma EPS, which exclude the impact of SBC, amortisation and exceptional charges.

Source: Datastream, Goldman Sachs Research estimates.

Exhibit 2: Our key ideas are SAP (Conviction Buy), Dassault Systemes (Conviction Buy) and Aveva (Conviction Buy) that all rank in the first quartile on Industry Positioning and Returns
GS SUSTAIN framework – Industry Positioning and Returns

Industry positioning				Return on capital CROCI (including R&D)				
Company		Global end market	Percentile	Company	2008-10	2011-2013E	% change vs. 2008-10	2011-13E Percentile
Software	DAST.PA	PLM (includes CAD, BIM)	100%	AVV.L	35%	48%	13%	100%
	AVV.L	Plant Design software	94%	OPERA.OL	46%	46%	(0%)	94%
	SAPG.DE	ERP, CRM, SCM, BI and DBMS	88%	DAST.PA	27%	35%	8%	88%
	NEKG.DE	PLM (includes CAD, BIM)	82%	SAPG.DE	27%	24%	(3%)	82%
	SOWG.DE	BPM/Middleware/Mainframe database	76%	EXAH.AS	25%	24%	(1%)	76%
	OPERA.OL	Web search and advertising	70%	SOWG.DE	23%	22%	(1%)	70%
	TEMN.S	Core Banking	64%	NEKG.DE	20%	22%	2%	64%
	SGE.L	Enterprise resource planning	52%	MCRO.L	27%	21%	(7%)	58%
	UNI4.AS	Enterprise resource planning	41%	TEMN.S	25%	20%	(5%)	52%
	IFSb.ST	Enterprise resource planning	29%	IFSb.ST	14%	17%	3%	47%
IT Services	EXAH.AS	Enterprise resource planning	23%	UNI4.AS	18%	15%	(3%)	41%
	MCRO.L	Application development	11%	SGE.L	14%	14%	(0%)	35%
	CEGI.PA	Enterprise resource planning	0%	CEGI.PA	14%	12%	(2%)	23%
	CAPP.PA	IT Services	58%	CAPP.PA	15%	14%	(1%)	29%
	ATOS.PA	IT Services	47%	TIE1V.HE	14%	10%	(3%)	17%
	LOG.L	IT Services	35%	ATOS.PA	10%	10%	0%	11%
	TIE1V.HE	IT Services	17%	IDR.MC	12%	10%	(2%)	5%
	IDR.MC	IT Services	5%	LOG.L	8%	6%	(2%)	0%

Source: IDC, Gartner, Goldman Sachs Research estimates.

Exhibit 3: SAP, Dassault Systemes and Aveva have strong top line and market growth, have achieved good scale and additionally possess defensive characteristics due to high recurring revenue mix
GS SUSTAIN framework – Market positioning, Sales growth, Risk assessment factors for Industrial Positioning

Company	Market Positioning (40%)				Sales growth (40%)			Risk Assessment (20%)						
	Market growth (2010-13E CAGR)	Percentile	Relative Market Share	Percentile	Overall Industry Percentile	Company	Sales growth (10-13E, organic ex-fx)	Percentile	Company	Recurring Revenues	Percentile	Product diversification	Percentile	Blended Risk Assessment rank
DAST.PA	9.3%	94%	0.42	100%	100%	OPERA.OL	27%	100%	DAST.PA	64%	88%	4	94%	100%
AVV.L	9.0%	88%	0.39	94%	94%	AVV.L	24%	94%	SGE.L	64%	82%	3	76%	88%
SAPG.DE	7.4%	76%	0.34	88%	88%	SAPG.DE	13%	88%	SAPG.DE	61%	88%	4	82%	82%
SOWG.DE	7.1%	70%	0.18	82%	82%	DAST.PA	12%	82%	AVV.L	66%	100%	2	29%	76%
NEKG.DE	9.3%	94%	0.05	41%	76%	NEKG.DE	11%	76%	MCRO.L	54%	64%	2	29%	64%
TEMN.S	5.0%	64%	0.15	70%	70%	IFSb.ST	8%	70%	EXAH.AS	62%	76%	1	0%	58%
SGE.L	4.2%	5%	0.15	76%	52%	TEMN.S	8%	64%	SOWG.DE	33%	23%	3	76%	52%
OPERA.OL	8.4%	82%	0.01	0%	47%	SOWG.DE	6%	58%	NEKG.DE	44%	41%	2	29%	47%
MCRO.L	4.0%	0%	0.10	58%	35%	UNI4.AS	5%	47%	CEGI.PA	52%	52%	1	0%	41%
UNI4.AS	4.2%	5%	0.06	47%	29%	EXAH.AS	4%	41%	UNI4.AS	48%	47%	1	0%	29%
CEGI.PA	4.2%	5%	0.04	29%	11%	SGE.L	4%	29%	TEMN.S	39%	35%	1	0%	23%
IFSb.ST	4.2%	5%	0.04	23%	5%	CEGI.PA	2%	11%	OPERA.OL	23%	5%	2	29%	11%
EXAH.AS	4.2%	5%	0.04	17%	0%	MCRO.L	1%	0%	IFSb.ST	30%	17%	1	0%	0%
CAPP.PA	4.7%	35%	0.10	64%	64%	CAPP.PA	5%	52%	ATOS.PA	66%	94%	3	76%	94%
ATOS.PA	4.7%	35%	0.09	52%	58%	LOG.L	4%	35%	TIE1V.HE	60%	70%	2	29%	70%
LOG.L	4.7%	35%	0.05	35%	41%	IDR.MC	3%	23%	CAPP.PA	36%	29%	2	29%	35%
IDR.MC	4.7%	35%	0.03	11%	23%	TIE1V.HE	3%	17%	IDR.MC	29%	11%	2	29%	17%
TIE1V.HE	4.7%	35%	0.02	5%	17%	ATOS.PA	1%	5%	LOG.L	0%	0%	2	29%	5%

Source: IDC, Gartner, Goldman Sachs Research estimates.

Adjusting estimates for public sector and financials exposure

Exhibit 4: All IT Services companies have significant public sector exposure as do some software names

Exposure to geographies and public sector for Software and IT Services

2011E % Total Sales	EUROPEAN SOFTWARE COVERAGE												
	AVV.L	CEGI.PA	DAST.PA	EXAH.AS	TEMN.S	SOWG.DE	IFSb.ST	MCRO.L	NEKG.DE	OPERA.OL	SAPG.DE	UNI4.AS	SGE.L
Total Americas	18%	5%	36%	31%	8%	37%	15%	50%	7%	30%	35%	6%	41%
Total EMEA	45%	95%	37%	67%	73%	54%	75%	38%	87%	31%	52%	94%	54%
Total Asia	37%	0%	27%	2%	20%	5%	10%	12%	6%	39%	13%	0%	5%
Others	0%	0%	0%	0%	0%	4%	0%	0%	0%	0%	0%	0%	0%
US Exposure	8%	5%	33%	24%	4%	24%	15%	48%	7%	21%	26%	5%	41%
DM Exposure	33%	100%	84%	94%	44%	78%	85%	92%	90%	62%	74%	96%	92%
EM Exposure	67%	0%	16%	6%	56%	18%	15%	8%	10%	38%	26%	4%	9%

2010 % Total Sales	AVV.L	CEGI.PA	DAST.PA	EXAH.AS	TEMN.S	SOWG.DE	IFSb.ST	MCRO.L	NEKG.DE	OPERA.OL	SAPG.DE	UNI4.AS	SGE.L
Total sales to consumer	0%	5%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%
Total sales to Industry	71%	85%	100%	97%	100%	81%	70%	98%	95%	0%	89%	72%	97%
Total Sales to Govt.	30%	10%	0%	3%	0%	19%	30%	2%	5%	0%	11%	28%	3%

2011E % Total Sales	EUROPEAN IT SERVICES				
	CAPP.PA	LOG.L	IDR.MC	ATOS.PA	TIE1V.HE
Total Americas	24%	0%	12%	11%	0%
Total EMEA	73%	90%	82%	84%	100%
Total Asia	3%	0%	0%	5%	0%
Others	0%	10%	6%	0%	0%
US Exposure	17%	0%	2%	5%	0%
DM Exposure	91%	90%	84%	89%	100%
EM Exposure	9%	0%	10%	11%	0%

US Exposure:
S/W - MCRO 48%, SGE 41%, DSY 33%, SAP 26%, EXAH 24%, SOWG 24%, OPERA 21%, IFS 15%
ITS - CAPP 17%

BRICS/Emerging market Exposure:
S/W: AVV: 67%, SAP: 26%, IFS 15%, DSY 16%, NEKG 10%, SGE 9%

Notes:
 AVV govt exposure all BRICs/emerging market focused

2010 % Total Sales	CAPP.PA	LOG.L	IDR.MC	ATOS.PA	TIE1V.HE
Total sales to consumer	0%	0%	0%	0%	0%
Total sales to Industry	73%	72%	39%	72%	81%
Total Sales to Govt.	27%	28%	61%	28%	19%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 5: We have cut estimates for TEMN, SGE, UNIT4, IFS and IT Services companies for exposure to public sector/financials/Benelux

Estimate changes; EPS refers to pro-forma EPS changes

Old vs. New	Revenues			Operating Profit			EPS		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Aveva	0%	0%	0%	0%	0%	0%	0%	0%	0%
Opera Software	0%	0%	0%	0%	0%	0%	0%	0%	0%
Avg-high grwth	0%	0%	0%	0%	0%	0%	0%	0%	0%
SAP (Ordinary Share)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Dassault Systemes	0%	0%	0%	0%	0%	0%	0%	0%	0%
Avg-large cap	0%	0%	0%	0%	0%	0%	0%	0%	0%
Software AG	0%	0%	0%	0%	0%	0%	0%	0%	0%
Nemetschek	0%	0%	0%	0%	0%	0%	0%	0%	0%
Temenos	-1%	-1%	-1%	-7%	-2%	-2%	-8%	-3%	-2%
Micro Focus	-1%	-3%	-4%	-1%	-2%	-3%	8%	6%	5%
Avg-mid cap s/w	0%	-1%	-1%	-2%	-1%	-1%	0%	1%	1%
Sage Group	0%	-1%	-2%	0%	-2%	-3%	0%	-2%	-3%
Unit 4	-2%	-3%	-4%	-9%	-9%	-10%	-5%	-7%	-7%
Exact Holding	0%	0%	0%	0%	0%	0%	0%	0%	0%
CEGID	0%	0%	0%	0%	0%	0%	0%	0%	0%
IFS	-1%	-1%	-1%	-6%	-6%	-6%	-4%	-4%	-5%
Avg-mid mkt ERP	0%	-1%	-1%	-3%	-4%	-4%	-2%	-3%	-3%
Avg-Software	0%	-1%	-1%	-2%	-2%	-2%	-1%	-1%	-1%
Capgemini	-2%	-3%	-4%	-4%	-5%	-8%	-7%	-8%	-11%
AtoS	0%	0%	-1%	-1%	-6%	-3%	-1%	-7%	-4%
Logica	-1%	-3%	-4%	-6%	-7%	-8%	-6%	-8%	-9%
Tieto	-1%	-2%	-2%	-9%	-10%	-6%	-9%	-10%	-6%
Indra	0%	-2%	-3%	-2%	-7%	-9%	-2%	-7%	-10%
Avg-IT Services	-1%	-2%	-3%	-4%	-7%	-7%	-5%	-8%	-8%

Source: Goldman Sachs Research estimates.

Exhibit 6: We are ahead of consensus for Software and below consensus for IT Services

GS estimates vs. Bloomberg consensus (Revenues in mn; EPS are proforma)

Co.	FX	Revenues						EPS					
		2011E			2012E			2011E			2012E		
		GS	Cons.	% diff	GS	Cons.	% diff	GS	Cons.	% diff	GS	Cons.	% diff
AVV.L	£	211	195	8%	267	219	22%	77.76	66.10	18%	103.78	76.90	35%
OPERA.OL	Nkr	882	890	-1%	1,150	1,134	1%	1.20	1.15	4%	1.87	1.87	0%
Avg-high grwth				4%			12%			11%			18%
SAPG.DE	€	14,220	14,037	1%	16,053	15,446	4%	2.73	2.70	1%	3.28	3.09	6%
DAST.PA	€	1,766	1,731	2%	1,989	1,879	6%	2.89	2.76	5%	3.55	3.11	14%
Avg-large cap				2%			5%			3%			10%
SOWG.DE	€	1,162	1,148	1%	1,230	1,208	2%	2.24	2.24	0%	2.55	2.48	3%
NEKG.DE	€	167	166	1%	185	182	2%	2.91	2.63	11%	3.74	3.03	23%
TEMN.S	SFr	501	527	-5%	533	581	-8%	1.57	1.47	7%	1.69	1.69	0%
MCRO.L	£	422	421	0%	426	425	0%	58.88	53.90	9%	60.94	55.60	10%
Avg-mid cap s/w				-1%			-1%			7%			9%
SGE.L	£	1,478	1,485	0%	1,514	1,545	-2%	19.99	19.70	1%	21.36	21.20	1%
UNI4.AS	€	462	460	0%	483	481	0%	1.64	1.71	-4%	1.96	1.93	1%
EXAH.AS	€	218	222	-2%	228	231	-1%	1.67	1.58	6%	1.81	1.71	6%
CEGI.PA	€	253	259	-2%	263	268	-2%	2.62	2.29	14%	2.92	2.52	16%
IFSb.ST	Skr	2,684	2,630	2%	2,892	2,754	5%	10.35	7.33	41%	12.65	8.67	46%
Avg-mid mkt ERP				0%			0%			12%			14%
Avg-Software				0%			2%			9%			12%
CAPP.PA	€	9,558	9,618	-1%	10,043	10,090	0%	2.31	2.41	-4%	2.61	2.80	-7%
ATOS.PA	€	6,710	6,723	0%	8,511	8,526	0%	3.40	3.18	7%	3.80	4.04	-6%
LOG.L	£	3,898	3,941	-1%	3,948	4,092	-4%	10.81	12.50	-14%	11.17	13.80	-19%
TIE1V.HE	€	1,779	1,811	-2%	1,808	1,847	-2%	0.86	1.03	-16%	0.91	1.18	-23%
IDR.MC	€	2,618	2,623	0%	2,647	2,746	-4%	1.12	1.19	-6%	1.11	1.25	-11%
Avg-IT Services				-1%			-2%			-10%			-15%

Note: for MCRO, AVV, SGE: 2011 refers to FY12 and 2012 refers to FY13. SAP 2011 revenues are non-IFRS.

Source: Bloomberg, Goldman Sachs Research estimates.

Software estimate changes

We continue to like the Software sector (Coverage view: Attractive) as these companies offer higher structural growth, and additionally possess good defensive characteristics in the form of high recurring revenue base which help protect earnings. We lower our estimates for some of our companies who are exposed to sectors like financials and the public sector or geographies like Spain which are impacted by current macro trends. Additionally, we lower our multiples for M&A valuations in the mid-market ERP segment as we believe the current financing environment could make deals more difficult at higher valuations.

- **Temenos (Buy):** We lower our 2011-13 estimates for slower license growth resulting from weak financial end markets and also for FX to incorporate the recent pegging of SFr to EUR. Our 12-month price target of SFr27 values Temenos on 16x 2012E PF EPS on the core and incorporates a 30% M&A weighting at 6x 2012E EV/sales.
- **Sage (Sell):** We reduce our FY12-14 estimates for Sage by 1%-3% for exposure to Spain as well as consumer spending weakness impacting the SMB segment. We leave our FY2011 estimates unchanged. We believe Sage benefits from its strong recurring revenue base (c.64% of sales). Our 12-month price target of 270p values Sage on 12.5x CY2012E PF EPS, a c.15% premium to the mid-market ERP peer group average of 11x to reflect strong market leadership.
- **Unit4 (Buy):** We lower our 2011-13 estimates by 2%-10% primarily to account for its high exposure to the public sector (c.28% of sales in 2010) and weaker geographies

including Spain. We expect license revenues to see a negative impact (now c.5% CAGR vs. 7% earlier over 2010-13), but recurring revenues to remain resilient over 2011-13. Our 12-month price target of €27.5 values Unit4 on 12x 2012E PF EPS, a 10% premium to the mid-market ERP peer group average of 11x to reflect better growth potential, and incorporates a 30% M&A weighting (5x EV/2012E recurring revenue, down from 7x to reflect a toughening environment for financial deals).

- **IFS (Buy):** We reduce our 2011-13 estimates by 1%-6% to reflect weakness in public sector defense spending. We expect the impact mainly in 2011 and see a flow-through effect in 2012-13. We believe the defense business for IFS continues to be lumpy and large contracts could therefore be deferred in light of recent macro trends. Our 12-month price target is SFr146, valuing IFS on 11x 2012E PF EPS and incorporates a 30% M&A weighting (4x EV/2012E recurring).
- **Micro Focus (Neutral):** We adjust our estimates for Micro Focus primarily for FX and the recent share buybacks. We believe the business continues to face execution challenges in light of management changes in the last two years and expect the shares to remain range bound in the near term (in the absence of M&A activity) until the company reports good results. Our 12-month price target is 380p, valuing Micro Focus on 10x CY2012E PF EPS.
- **Exact Holding (Neutral):** We make no changes to our estimates for Exact. However, we adjust the multiple for the M&A component lower to 4x EV/recurring 2012E from 5x earlier to reflect the worsening environment for financial deals. Our new 12-month price target is €22, valuing Exact at €20/share on the core (11x 2012E PF EPS) and including a 30% weighting to an M&A valuation of €27/share.

IT Services: Momentum slowing owing to financials, public sector

We continue to view the European IT Services sector as structurally challenged long term, and believe that it could struggle against a volatile backdrop. Following good top-line acceleration in 1H2011, we believe that the growth momentum is slowing into 2H2011 owing to current market conditions. We believe that slowing momentum in the financials vertical, high public sector exposure (c.30% of sales), a continuing weak market environment in Benelux/Southern Europe, coupled with a significantly fixed cost base, could further pressure operating margins and estimates. We reduce our 2011-13 revenue estimates by 1%-3% and earning estimates by 5%-8% as a result.

Our industry checks indicate delays in decision making on big discretionary IT services projects especially in the financial services sector where regulatory pressures are resulting in constraints on funding for newer projects. In the last 12 months, the financial services sector has been the one of the strongest growth drivers for European IT services with most vendors experiencing a double digit growth rate. We do not expect this to be the case in the near future. Additionally, we expect the public sector to remain a drag across Europe. Though we see the outsourcing segment to be relatively stable, we expect significant downward pressure on project business which might put incremental top-line pressures on European vendors.

Geographically, we expect weakness in Benelux and Southern Europe to persist and do not expect a recovery before 2013/14.

Though M&A may provide some support to vendors including Logica and Tieto, we expect strategic rationale for such acquisitions to be a stretch and hence do not include M&A in our valuation framework.

- **Atos (Neutral):** We believe that Atos is the most defensive in the European IT services sector owing to the lower macro exposed earnings growth (vs. peers) in the near term.

And while the attractions of cost synergies from the SIS acquisition merger are balanced by the high integration and execution risks, we see substantial upside if Atos successfully delivers its 2013 goals. We continue to believe that management continuity is key for success of the integration. The next catalyst is Atos' investor day on October 6, which we expect to be positive and reaffirm the company's integration plans.

Our new 12-month, P/E-based price target is €42 (from €45), valuing Atos on 11x 2012E PF EPS (unchanged).

- **Capgemini (Buy):** We maintain our Buy rating on Capgemini following the significant share price correction in recent months. We believe the market reaction is overdone but a lack of near-term company specific positive catalysts could keep the stock range bound. We reduce our 2011-13 PF EPS estimates by 7%-11% for slowing US IT spending momentum, reduced spending/toughening comps in the financials services vertical and continued drag from Benelux/Southern Europe. Following cash comments during 1H2011 results, we do not expect any large scale M&A until 2H2012. Despite some operational challenges in Brazil, we expect the company to continue to focus on acquisitions in emerging markets and non-linear revenue models. The next catalyst on the stock is results for US peer Accenture on September 27.

Our revised 12-month price target of €36 (from €45) is based on 12x PF 2012E P/E (13.5x earlier), in line with the sector's mean multiple over 2008-11 to account for lowered top-line/earnings expectations (2006-11 earlier).

- **Logica (Neutral):** We remain Neutral rated on Logica. We reduce our 2011-13 estimates by 6-9% for incremental weakness in public sector project business, reduced spending/toughening comps in the financials services vertical and continued drag from Benelux/Southern Europe. Our medium to long-term concerns on the company's structural positioning remain, including lack of clear offshore strategy and revenue/cost levers for operating margin expansion.

We do not see Logica as an M&A target in its current form owing to significant restructuring issues post any deal, however individual geography carve outs including France, UK could appeal to Asian vendors.

- **Tieto (Sell):** We lower our 2011-13 estimates by 6%-10% to account for end market weakness and increased competitive pressures from non-European vendors.

Though M&A may provide some downside support we see lowered strategic rationale for acquisitions by any non-European vendors and see only private equity as potential buyers.

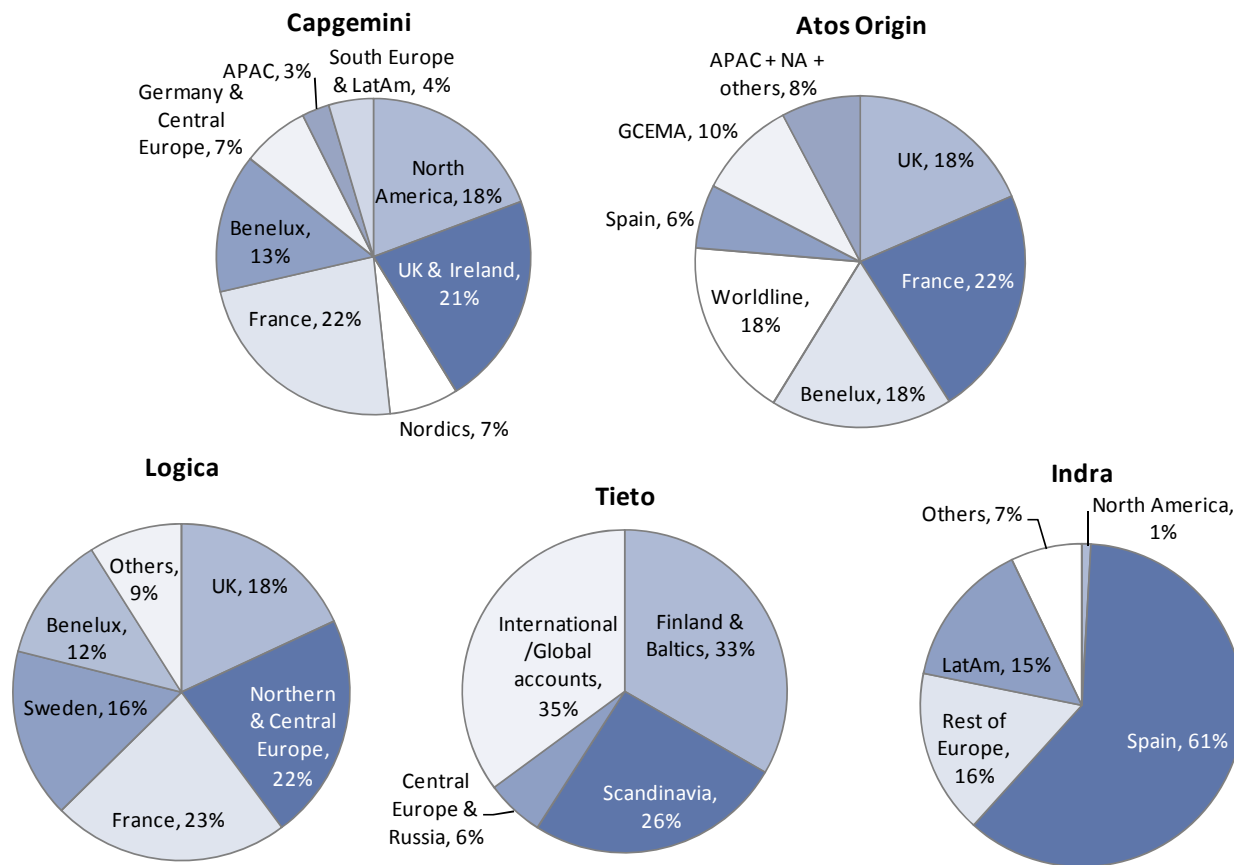
Exhibit 7: Slowing Financials end market spending should impact top-line near term

End market exposure of European IT services vendors, at end of 1H2011. Public sector exposure to central government, defense, local governments, education and healthcare

	Public Sector	Financial Services	Retail	Manufacturing	Telecom & Media	Energy & Utilities	Others
Capgemini	27%	19%	13%	18%	8%	11%	5%
Atos Origin	24%	23%	9%	19%	15%	10%	
Logica	28%	16%			8%	18%	29%
Tieto	20%	21%	7%	11%	33%	6%	3%
Indra	55%	15%			16%	14%	
Average	31%	19%	10%	16%	16%	12%	12%

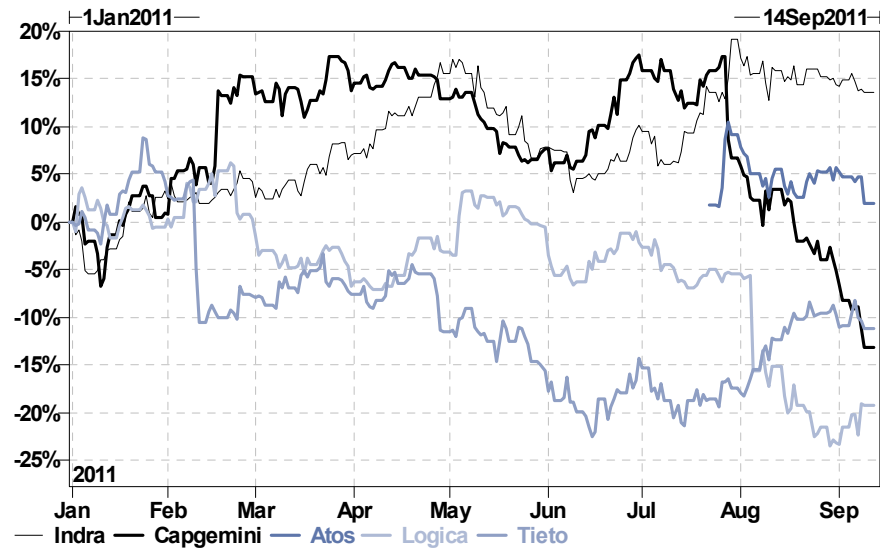
Source: Company data.

Exhibit 8: We favor Nordic, French and German exposure compared to Benelux, southern European exposure
 Geographical exposure of European IT Services companies, as of the end of 1H2011



Source: Company data.

Exhibit 9: Indra has been the best performing IT services vendor ytd
 IT Services relative performance vs. Tech - ytd



Source: Datastream, Quantum database.

Exhibit 10: Key risks for software and IT Services

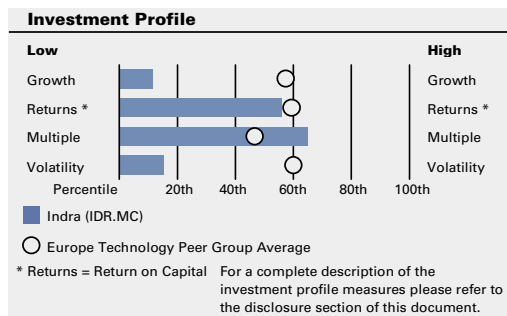
Company Name	Risks
Aveva	(1) Economic weakness in emerging markets and exposure to cyclical end-market capex-particularly in marine (2) Technology adoption rate (3) Access to financing for Aveva's customers (4) Acquisitions (5) Revenue concentration
Opera Software	Upside: (1) Quicker than expected ramp up at operators (2) New operator deals. Downside: (1) Slower ramp up in user growth from operator deals (2) lower shipments by top OEM customers (3) FX changes
SAP (Ordinary Share)	Downside: 1) Slower developed markets recovery, (2) investments limiting operating margins, (3) lack of traction for newer products; (4) integration/execution, and (4) emerging markets slowdown
Dassault Systemes	Downside: 1) Integration issues associated with IBM PLM acquisition 2) Double-dip recession affecting the top line 3) lack of margin expansion due to higher spending 4) FX exposure
Software AG	(1) Competition from bigger players, (2) focus on services limiting operating margin expansion, (3) technology shifts, (4) M&A, (5) FX, (6) macro risks affecting IT spend
Nemetschek	1) Building and construction end market enters a prolonged downturn 2) Higher spending to support top-line growth 3) Increased competition from ADSK
Temenos	1) quarterly volatility around deal closure, 2) ramp up in partnership with IT services companies, 3) large acquisitions, 4) competition from larger players, 5) FX exposure, and 6) macro economic slowdown, particularly in emerging markets.
Micro Focus	Upside: (1) Higher license growth (2) pickup in testing business; Downside: (1) Integration of Compuware testing and Borland acquisitions; (2) poor sales execution; (3) impact on IT spending from macro slowdown.
Sage Group	(1) Continued weakness in the SMB segment (2) Faster than expected improvement in US business (3) Accretive/dilutive acquisitions (4) Competition from MSFT and INTU
Unit 4	(1) Accelerated investments in hosting/SaaS business dampening margin expansion (2) further large scale M&A expanding net debt levels and gearing (3) high public sector exposure (c.40% of revenue) impacting 2010 sales in the event of government budget cut-backs
Exact Holding	(1) Changes in macroeconomic conditions (2) Increased bankruptcies in the customer base and resellers (3) Competition from SAP & MSFT (4) slowdown in core Netherlands market
CEGID	Downside: (1) Late cycle slowdown in services worse than expected (2) Company is unable to cut costs (3) Competitive pressure from Sage
IFS	Downside: (1) Smaller deal sizes, quarterly slippage (2) Weak macro environment (3) Poor sales execution (4) FX - strengthening of Skr.

IT Services

Capgemini	Downside: (1) A slower-than-expected recovery in demand; (2) dilutive acquisitions; (3) cost inflation onshore/offshore; (4) recruitment/attrition concerns.
AtoS	Upside risks: (1) incremental revenue/cost synergies from SIS, (2) new customer sign-ups for Worldline business. Downside risks: (1) integration and execution risks associated with SIS, (2) macro slowdown, (3) management changes during integration.
Logica	Upside risk: 1) A stronger-than-expected recovery in demand environment, 2) M&A; Downside: 1) Cost inflation 2) incremental public sector cuts
Tieto	Upside risks: 1) Quicker recovery in the demand from end-markets; 2) Faster than expected progress in offshore transition
Indra	Upside risks: 1) greater resilience in the Spanish market and operating margin improvement; downside: 1) further decline in demand; and 2) worsening cash flow profile.

Source: Goldman Sachs Research.

Indra (IDR.MC): Down to Sell following relative outperformance

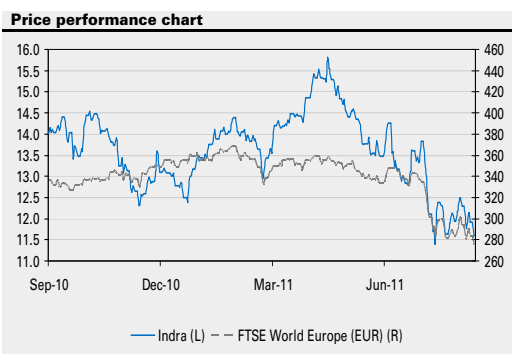


Source of opportunity

We downgrade Indra Sistemas to Sell from Neutral following relative outperformance vs. the tech sector ytd (13%) and lower relative upside potential to our technology coverage universe following our estimate and price target revisions. We lower our PF EPS estimates for Indra Sistemas by 2%-10% over 2011-13 to reflect our incremental negative view on IT spending in Southern Europe and the public sector. Our new 12-month price target falls to €12 (from €14) implies 3% upside potential.

Key data	Current			
Price (€)	11.60			
12 month price target (€)	12.00			
Upside/downside (%)	3			
Market cap (€ mn)	1,894.0			
Enterprise value (€ mn)	2,353.5			
	12/10	12/11E	12/12E	12/13E
Revenue (€ mn) New	2,557.0	2,618.1	2,647.0	2,707.7
Revenue revision (%)	0.0	(0.4)	(1.9)	(3.4)
EBIT (€ mn) New	286.2	269.0	265.9	267.7
EBIT revision (%)	0.0	(1.7)	(6.6)	(9.4)
EPS (€) New	1.33	1.12	1.11	1.13
EPS (€) Old	1.33	1.14	1.19	1.26
EV/EBITDA (X)	8.9	7.6	7.6	7.3
P/E (X)	10.7	10.4	10.4	10.2
Dividend yield (%)	4.7	5.5	5.5	5.6
FCF yield (%)	2.4	1.0	6.8	8.6
CROCI (%)	17.0	13.2	12.2	11.8

While the shares continue to look inexpensive on an absolute basis, incremental data points on end markets, including the public sector and Spain, are expected to remain negative and outweigh our positive view on emerging markets/LatAm exposure. In our view, worsening top-line prospects and a tough restructuring environment in Spain will result in incremental downward pressure on operating margins. Additionally, increasing weighting of the lower margin services (outsourcing) segment and high pricing pressures (10%-20% discounts) in the core Spanish market could weigh on margins. We expect the cash flow profile to further worsen in 2012 owing to working capital deterioration and increases in other operating charges.



Large deal signings in the Middle East and Latin America is the key upside risks to our top-line estimates. We view the recent acquisition of Politec as strategically positive as it increases the company's exposure to the fast growing LatAm market, particularly Brazil. We have not yet included acquisition of Politec in our estimates.

Catalyst

Indra Sistemas is due to report 3Q2011 results on November 10 provisionally. Our 2012-13 revenue/EPS estimate are 4%-6%/11%-15% below Bloomberg consensus (not all estimates reflecting Politec deal).

Valuation

Our new 12-month P/E-based price target is €12 (from €14), valuing the company on 11x 2012E PF EPS (12x earlier), a c.10% discount to the sector's mean P/E multiple of 12x (since 2008). At our price target, the share would trade at c.30% discount to its historical P/E mean multiple of 15.5x reflecting the lowered top-line cash profile of the company.

Share price performance (%)	3 month	6 month	12 month
Absolute	(15.7)	(14.9)	(17.2)
Rel. to FTSE World Europe (EUR)	2.7	6.5	0.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/13/2011 close.

Key risks

Upside risks to our view and price target include: 1) Greater resilience in the domestic Spanish market; 2) large deals in emerging markets including Latin America, Middle East. Downside risks: 1) incrementally worsening cash profile 2) deterioration in operating margins.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Reg AC

We, Mohammed Moawalla, S.K.Prasad Borra, Suhasini Varanasi and Jo Blackshaw, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Europe-IT Services: Atos, Capgemini, Indra, Logica, Tieto.

Europe-Software: Autonomy, Aveva, Cegid, Dassault Systemes, Exact Holding, IFS, Micro Focus, Nemetschek, Opera Software, Sage Group, SAP (ADR), SAP (Ordinary Share), Software AG, Tekla, Temenos, Unit 4.

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