BRYAN, GARNIER & CO

FOCUS
TMT CONFERENCE

21st March 2016

TMT

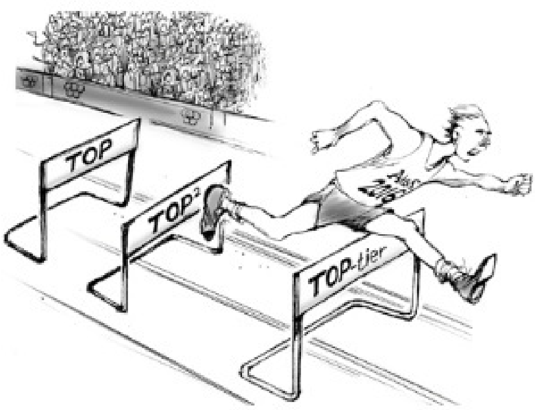
Atos

Earnings growth IS the story

Fair Value EUR93 (price EUR70.76) **BUY-Top Picks**

Bloomberg	ATO FP
Reuters	ATOS.PA
12-month High / Low (EUR)	79.3 / 62.7
Market capitalisation (EURm)	7,325
Enterprise Value (BG estimates EURm)	6,459
Avg. 6m daily volume ('000 shares)	380.5
Free Float	82.8%
3y EPS CAGR	15.5%
Gearing (12/15)	-14%
Dividend yield (12/16e)	1.55%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (€m)	10,686	11,909	12,381	12,657
EBITA €m)	917.0	1,098	1,230	1,317
Op.Margin (%)	8.6	9.2	9.9	10.4
Diluted EPS (€)	5.80	7.02	8.30	8.93
EV/Sales	0.6x	0.5x	0.4x	0.3x
EV/EBITDA	5.0x	4.2x	3.0x	2.4x
EV/EBITA	7.3x	5.9x	4.2x	3.3x
P/E	12.2x	10.1x	8.5x	7.9x
ROCE	22.9	27.9	39.3	44.2



The meetings held at our TMT conference were the opportunity for reiterating our Buy (and Top Pick) case on Atos: this is not an organic growth buy, Unify and Equens both create fresh synergy opportunities, and the acquisition strategy - which still has an eye on shareholder value - is well assumed.

- **Addressing the goal of doubling organic growth.** Doubling lfl revenue growth to 0.8% in 2016 is feasible thanks to strong cloud volumes in Managed Services, the turnaround of Germany in Consulting & Systems Integration, continuous strength in Big data & Cyber Security, and 3% lfl growth for Worldline. The book-to-bill ratio in Q4 15 was encouraging in IT Services, particularly for Consulting & Systems Integration.

- **Confidence reiterated for operating margin and free cash flow.** For 2016, the operating margin is set to increase by 0.4-0.9ppt to 9-9.5% essentially through better offshore leverage and the turnaround in Germany in Consulting, more automation in Managed Services, and Bull-related cost synergies. The free cash flow is still expected to jump to EUR550m from EUR393m, essentially thanks to EUR90m less cash-outs related to restructurings following the successful integration of Bull.

- **Dismissing allegations in the UK press.** Atos's IR team brushed off allegations made in *The Guardian*. Atos officially sees the contract review as an opportunity to show from a rationale standpoint the quality of the services rendered by its teams in the UK. The audit recommendation dates back two years ago, and the delays did not stem from Atos. In our view, this case reflects the inherent complexity of government IT contracts, which is a parameter to take into account.

- **Making things clear on acquisitions.** CEO Thierry Breton was clear on the fact Perot did not match Atos's acquisition criteria. That being said, acquisitions are in Atos's DNA, but its priorities in that domain are in Payments in Europe, and IT Services in the US. Atos reiterated its strong confidence on the EUR130m cost synergies expected by 2017 from the integration of Unify.

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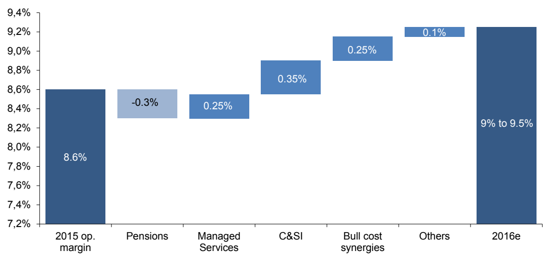
Atos major keys to focus on from the TMT conference

1. One Chart



- **How to generate at least 0.8% lfl revenue growth in 2016**. As mentioned in the FY15 results on 24th February, this will be driven by: 1). Market share gains in Managed Services thanks to strong cloud volumes - the cloud business posted 38% growth to EUR552m in 2015 and is in line for EUR700m+ (at least +27%) for 2016 - and service automation; 2). Operating enhancement in Consulting & Systems Integration - Germany stabilising in H2 15 and poised to turn back to growth before late 2016 -; 3). Continuous strength in Big data & Cyber Security; and 4). Worldline (est. +3% lfl for 2016).

- **The book-to-bill ratio was encouraging in IT Services** (1.05x for 2015, o/w 1.18x in Q4), particularly in Consulting & Systems Integration (1.33x in Q4 15). The sales approach put in place in 2014 has paid off, with the top 200 customers (66% of sales) generating sales up 5%, the number of deals above EUR100m up 20%, and a win rate of 46%.

- **Reminding of the bridge for FY16 operating margin and free cash flow**. From 8.6% in 2015, the operating margin, excluding Equens and Cataps (Komerční banka), is guided at 9-9.5% for 2016, calculated as follows: -0.3ppt on pensions (est. EUR35-40m vs. EUR74m in 2015), +0.25ppt on Managed Services (automation), +0.35ppt in Consulting & Systems Integration (offshore leverage up to c. 50% from 43% end 2015 + turnaround of Germany = an est. EUR42m additional profit: we estimate the margin of this division at 7.8% for 2016 vs. 6.4% in 2015), +0.25ppt on the Bull cost synergies programme, +0.1ppt on others (Worldline, corporate, etc.). The Big Data & Cyber-security division could reach a margin above 20% over the medium term, vs. 17.2% in 2015. On free cash flow, from EUR393m after share-based compensation, the bridge for reaching EUR550m for 2016 is as follows: +EUR70m on the operating margin increase on 2015 scope, +EUR35m on pensions, -EUR50m on WCR, +EUR90m on restructuring, -EUR15m on the cost of net debt, and +EUR27m on scope effects and other changes.

2. One Sentence

« The Guardian *pours old wine into new bottles.* »

On 6th March 2016, the UK newspaper *The Guardian* published a defamatory article against Atos ("Government to review GBP500m-worth of Atos contracts after IT failure"), which suggested "lack of confidence" in the French IT Services firm from the Cabinet Office as the latter is re-examining every government contract worth more than GBP10m operated by Atos. Strong words were used by *The Guardian* against Atos, like "exasperation", "many public sector IT disasters", or "did not show an appropriate duty of care to the taxpayer", or "acting solely with its own short-term best interests in mind". The decision to launch the review follows criticism by the National Audit Office of Atos's role in the development of an IT system for General Practitioners. The cost of the system rose to GBP40m from GBP14m during the planning and procurement phase started in 2012 and implemented only with delays.

Atos's IR team brushed off these allegations, mentioning that *The Guardian* pours old wine into new bottles. Atos officially sees this review as the opportunity to show from a rationale standpoint the quality of the services rendered by its teams in the UK - **the company is "green rated" (i.e. it has the best possible rating) by Whitehall**. Management considers that this is going to provide additional business opportunities, and has no concern about it. The audit recommendation dates back two years ago, and the delays did not stem from Atos and overrun was the subject of a rider. In our view, this case reflects the inherent complexity of government IT contracts (technically speaking and in terms of governance), which is a parameter to take into account.

3. One Figure

2.8

2.8 is the limit in billion euros that Atos has for net debt if it reaches its bank covenants (2.5x EBITDA, i.e. 2.5x EUR1.2bn for 2017). This is the chance to make things clear on Atos's acquisition policy and recent events mentioned in the press in that regard. On 4th February, Atos denied being in negotiations to acquire Dell's Perot Systems IT Services business. On 24th February, at the publication of the FY15 results, the CEO Thierry Breton was clear on the fact Perot did not match Atos's acquisition criteria *("It's true of course we are looking at everything, it's true also that very quickly when we see that the price doesn't match our criteria to create value we just step down, that's it")*: 1). The price proposed by Dell (officially USD5bn, to be paid fully in cash) was too high; 2). Atos prefers sealing a partnership with the seller (e.g. an outsourcing contract), which, in turn, could pay for restructurings; and 3). The target has to have valuable assets and create value for shareholders.

That being said, **acquisitions are in Atos's DNA, but its priorities in that domain are: 1). Payments** (Worldline), preferably companies based in Europe - in that context, buying EVO Payments International (a US company), a possibility raised by Bloomberg a few months ago, makes no sense in our view; and **2). IT Services, in the US** in order to improve Atos's growth profile in that geography, preferably by adding Consulting & Systems Integration resources to be cross-sold with Atos's Managed Services.

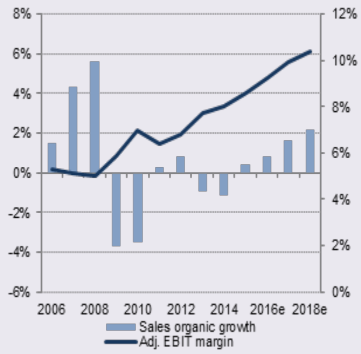
Finally, **Atos reiterated its strong confidence in the EUR130m cost synergies expected by 2017 from the integration of Unify** (on the est. EUR103m restructuring plan launched in February 2016 on top of the plan Alpha launched in early 2015 by Unify's former shareholders): 1). The team working on it, led by Charles Dehelly, is the same as for Bull - for which the EUR120m planned synergies for 2016 are almost complete -, using the same methodologies and processes with proven results; and 2). Several sources of improvement have been identified in procurement and the supply chain.

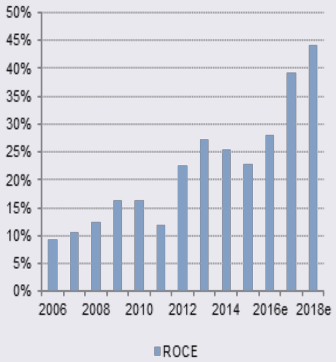
4. How does the Conference impact our Investment Case

Our TMT conference comforted our positive investment case on Atos, yet there was no real new element to add to the story. **1). Atos is not an organic growth buy**: Atos is highly focused on the structurally stable Managed Services/BPO businesses and can only generate low organic growth out to 2018, but the healthy state of Worldline and the Big Data & Cyber-security division, as well as a recovery in Consulting & Systems Integration, provides hope of growth above 2-3% over the longer term; **2). Unify and Equens create fresh synergy opportunities**: Unify should help Atos generate an accretive impact on EPS of around 15% as of 2017, and the Equens' takeover project via subsidiary Worldline should enhance EPS by 4-5% as of 2018 in our view; and **3). Atos is constructed via acquisitions, a well-assumed strategy**: since the arrival of Thierry Breton at the head of the group, Atos has been faultless in integrating its acquisitions and delivering synergies.

Next Catalysts

21/04/2016	**Q1 16 sales before markets open - conference call**
27/07/2016	**H1 16 results before markets open - conference call**





Company description

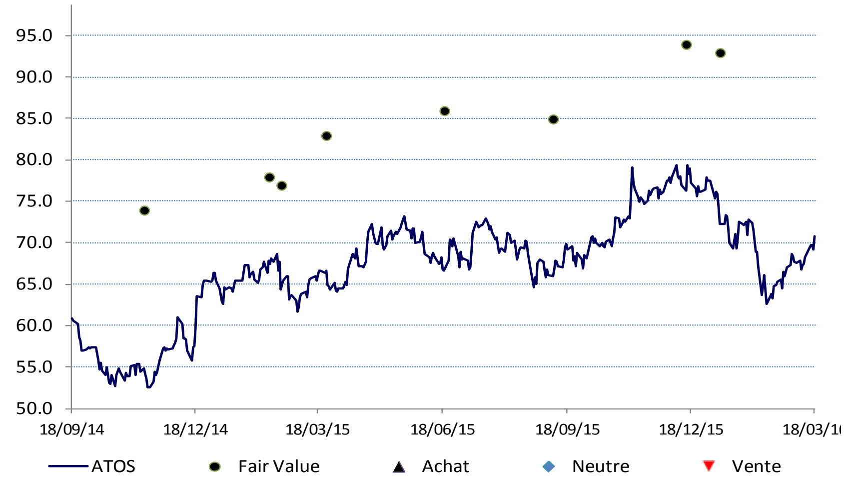
Atos has become the second largest IT Services company in Europe, employing more than 90,000 people today. The group generates 53% of its revenues in Managed Services, 31% in Consulting & Systems Integration, 5% in Big Data & Cybersecurity, and 11% in Transactional Services (Worldline). At the geographic level, excluding Worldline, the UK accounts for 20% of sales, followed by France (18%), Germany (16%), North America (14%), and Benelux & Nordic countries (11%). Industry/Retail/Transport are the largest contributors to revenues (34%), followed by Government/Healthcare (29%), Telecom/Media/Utilities (19%), and Financial Services (18%).

Simplified Profit & Loss Account (EURm)	**2013**	**2014**	**2015**	**2016e**	**2017e**	**2018e**
Revenues	8,615	9,051	10,686	11,909	12,381	12,657
Change (%)	*-2.6%*	*5.1%*	*18.1%*	*11.4%*	*4.0%*	*2.2%*
Ifl change (%)	*-0.9%*	*-1.1%*	*0.4%*	*0.8%*	*1.6%*	*2.2%*
Adjusted EBITDA	948	1,012	1,334	1,536	1,693	1,784
Depreciation & amortisation	(286)	(288)	(417)	(439)	(464)	(468)
Adjusted EBIT	662	725	917	1,098	1,230	1,317
EBIT	417	440	589	671	903	1,006
Change (%)	*9.2%*	*5.7%*	*33.8%*	*13.8%*	*34.6%*	*11.5%*
Financial results	(63.0)	(52.0)	(45.0)	(40.0)	(29.0)	(24.0)
Pre-Tax profits	354	388	544	631	874	982
Exceptionals	0.0	0.0	0.0	10.0	0.0	0.0
Tax	(96.0)	(104)	(110)	(129)	(166)	(187)
Profits from associates	2.0	(2.0)	3.0	1.0	2.0	2.0
Minority interests	(2.0)	17.0	31.0	39.0	44.0	50.0
Net profit	262	265	406	474	665	747
Restated net profit	423	446	608	740	877	948
Change (%)	*13.7%*	*5.4%*	*36.3%*	*21.7%*	*18.5%*	*8.1%*
Cash Flow Statement (EURm)						
Operating cash flows	502	549	751	964	1,131	1,327
Change in working capital	111	105	49.0	109	13.0	16.0
Capex, net	(306)	(345)	(403)	(520)	(520)	(520)
Financial investments, net	8.0	(1.0)	0.0	0.0	0.0	0.0
Acquisitions, net	(26.0)	(253)	(798)	(474)	600	0.0
Dividends	(23.0)	(40.0)	(32.0)	(93.0)	(114)	(145)
Other	(134)	162	706	287	242	120
Net debt	(905)	(989)	(593)	(866)	(2,218)	(3,017)
Free Cash flow	307	309	397	553	624	823
Balance Sheet (EURm)						
Tangible fixed assets	619	694	819	876	909	939
Intangibles assets & goodwill	2,361	3,275	4,038	4,410	3,699	3,587
Investments	377	231	261	262	263	265
Deferred tax assets	337	420	442	442	442	442
Current assets	2,203	2,800	3,174	3,493	3,647	3,729
Cash & equivalents	1,306	1,620	1,947	2,220	3,572	4,371
Total assets	7,202	9,039	10,681	11,703	12,532	13,334
Shareholders' equity	2,939	3,402	4,097	4,317	4,912	5,565
Provisions	1,026	1,616	1,408	1,782	1,850	1,900
Deferred tax liabilities	148	66.0	70.0	70.0	70.0	70.0
L & ST Debt	401	631	1,354	1,354	1,354	1,354
Current liabilities	2,689	3,323	3,752	4,180	4,346	4,445
Total Liabilities	7,202	9,039	10,681	11,703	12,532	13,334
Capital employed	2,034	2,413	3,504	3,451	2,694	2,548
Ratios						
Operating margin	7.70	8.00	8.60	9.20	9.90	10.40
Tax rate	27.10	26.80	20.20	20.40	19.00	19.00
Net margin	3.00	3.10	4.00	4.20	5.70	6.20
ROE (after tax)	8.90	7.80	9.90	11.00	13.50	13.40
ROCE (after tax)	27.30	25.40	22.90	27.90	39.30	44.20
Gearing	(31.00)	(29.00)	(14.00)	(20.00)	(45.00)	(54.00)
Pay out ratio	25.90	30.40	22.90	24.00	21.70	21.40
Number of shares, diluted	102	104	105	105	106	106
Data per Share (EUR)						
EPS	2.70	2.63	3.93	4.59	6.44	7.24
Restated EPS	4.15	4.30	5.80	7.02	8.30	8.93
% change	*15.3%*	*3.6%*	*34.9%*	*21.0%*	*18.2%*	*7.6%*
EPS bef. GDW	4.15	4.30	5.80	7.02	8.30	8.93
BVPS	28.84	32.77	39.06	40.96	46.47	52.45
Operating cash flows	4.93	5.29	7.16	9.15	10.70	12.51
FCF	3.01	2.98	3.78	5.25	5.90	7.76
Net dividend	0.70	0.80	0.90	1.10	1.40	1.55

Source: Company Data; Bryan, Garnier & Co ests.

Price Chart and Rating History

Atos



Ratings

Date	Ratings	Price
13/12/13	BUY	EUR62.03
21/02/12	NEUTRAL	EUR43.54
22/02/08	BUY	EUR34.71

Target Price

Date	Target price
08/01/16	EUR93
14/12/15	EUR94
07/09/15	EUR85
19/06/15	EUR86
24/03/15	EUR83
19/02/15	EUR77
10/02/15	EUR78
10/11/14	EUR74
29/08/14	EUR80
20/01/14	EUR76
10/01/14	EUR77
13/12/13	EUR75
18/11/13	EUR68
14/01/13	EUR60
28/11/12	EUR56
26/10/12	EUR53
30/07/12	EUR50
26/06/12	EUR49
26/03/12	EUR48

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Bryan Garnier stock rating system

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Stock rating

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 64,4%   NEUTRAL ratings 28,1%   SELL ratings 7,4%

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