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24th June 2016

## BG's Wake Up Call

### SOFTWARE AND IT SERVICES

*Accenture Q3 FY16 results: neutral read-across for European IT Services companies*

Yesterday Accenture reported Q3 FY16 sales above consensus and EPS in line, while FY16 guidance has been fine-tuned slightly upwards for sales growth and EPS in order to reflect this quarter. Consulting has continued to enjoy strong momentum so far given healthy demand for digital transformation, at the expense of long-term Outsourcing contracts. In our view, this publication, which contains no major surprises, generates no significant catalysts for Capgemini and Atos.

### MAIN VIEW

*Adjustments to our Top Pick list*

Following Brexit and a more risk-off market environment, we have decided to adjust our Top Pick list by exiting stocks that performed very well qtd and stocks that offer a more-than-average aggressive profile: Ablynx, Accor, Atos, AXA, Heidelbergement, Wirecard.

### In brief...

**GENMAB, Negative opinion from the CHMP for "Ofa" in maintenance CLL**

**PHARMACEUTICALS, High pressure expected on UK stocks after vote for Brexit**

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	18011.07	+1.29%	+3.36%
S&P 500	2113.32	+1.34%	+3.39%
Nasdaq	4910.04	+1.59%	-1.94%
Nikkei	14952.02	-7.92%	-14.69%
Stoxx 600	346.335	+1.47%	-5.33%
CAC 40	4465.9	+1.96%	-3.69%
<b>Oil /Gold</b>			
Crude WTI	49.21	+1.72%	+32.28%
Gold (once)	1263.69	-0.26%	+18.95%
<b>Currencies/Rates</b>			
EUR/USD	1.13505	+0.61%	+4.49%
EUR/CHF	1.0859	+0.29%	-0.14%
German 10 years	0.099	+64.50%	-84.40%
French 10 years	0.434	+1.43%	-55.80%

### Economic releases :

Date	
24th-Jun	DE - IFO Business Climate Jun (107.4E) DE - Expectations Jun (101.2E) US - Durable Goods orders (-0.5% exp.) US -Baker Hughes Rig Count.

### Upcoming BG events :

Date	
27th-Jun	IMERYS (BG Luxembourg with CFO)
13th-Jul	Galapagos (BG Paris Roadshow with CFO)
14th-Nov/ 15th-Nov	4th Paris Healthcare Conference
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference

### Recent reports :

Date	
22nd-Jun	ELIOR On track with 2020 Ambitions
22nd-Jun	AXA Ready for the next run
22nd-Jun	INFINEON Underestimated potential
21st-Jun	GENMAB The saga goes on!
21st-Jun	GENMAB The saga goes on!
16th-Jun	UTILITIES Haste makes waste, it's upside time!

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Sector View

Software and IT Services

Accenture Q3 FY16 results: neutral read-across for European IT Services companies

	1 M	3 M	6 M	31/12/15
Softw. & Comp. SVS	0.8%	0.1%	-0.9%	-3.2%
DJ Stoxx 600	1.0%	0.3%	-4.4%	-6.7%
*Stoxx Sector Indices				

Companies covered

<b>ALTEN</b>	<b>SELL</b>	<b>EUR48</b>
Last Price	EUR54,69	Market Cap. EUR1,841m
<b>ALTRAN TECHNOLOGIES</b>	<b>NEUTRAL</b>	<b>EUR13</b>
Last Price	EUR12,585	Market Cap. EUR2,212m
<b>ATOS</b>	<b>BUY</b>	<b>EUR93</b>
Last Price	EUR81,84	Market Cap. EUR8,492m
<b>AXWAY SOFTWARE</b>	<b>NEUTRAL</b>	<b>EUR20</b>
Last Price	EUR20,7	Market Cap. EUR431m
<b>CAPGEMINI</b>	<b>BUY</b>	<b>EUR97</b>
Last Price	EUR86,97	Market Cap. EUR14,975m
<b>CAST</b>	<b>NEUTRAL</b>	<b>EUR3,6</b>
Last Price	EUR3,35	Market Cap. EUR54m
<b>DASSAULT SYSTEMES</b>	<b>SELL</b>	<b>EUR63</b>
Last Price	EUR69,15	Market Cap. EUR17,769m
<b>INDRA SISTEMAS</b>	<b>NEUTRAL</b>	<b>EUR10</b>
Last Price	EUR9,783	Market Cap. EUR1,606m
<b>SAGE GROUP</b>	<b>SELL</b>	<b>555p</b>
Last Price	623,5p	Market Cap. GBP6,730m
<b>SAP</b>	<b>NEUTRAL</b>	<b>EUR73</b>
Last Price	EUR70,09	Market Cap. EUR86,106m
<b>SOFTWARE AG</b>	<b>BUY</b>	<b>EUR40</b>
Last Price	EUR31,92	Market Cap. EUR2,522m
<b>SOPRA STERIA GROUP</b>	<b>BUY</b>	<b>EUR130</b>
Last Price	EUR112,05	Market Cap. EUR2,291m
<b>SWORD GROUP</b>	<b>BUY</b>	<b>EUR26</b>
Last Price	EUR24,7	Market Cap. EUR233m
<b>TEMENOS GROUP</b>	<b>NEUTRAL</b>	<b>CHF52</b>
Last Price	CHF55,05	Market Cap. CHF3,827m

Yesterday Accenture reported Q3 FY16 sales above consensus and EPS in line, while FY16 guidance has been fine-tuned slightly upwards for sales growth and EPS in order to reflect this quarter. Consulting has continued to enjoy strong momentum so far given healthy demand for digital transformation, at the expense of long-term Outsourcing contracts. In our view, this publication, which contains no major surprises, generates no significant catalysts for Capgemini and Atos.

ANALYSIS

- Q3 FY16 sales above consensus and EPS in line.** For its Q3 FY16 (ending 31st May), Accenture has reported sales of USD8.43bn (+10% at cc or est. +8% lfl, vs. +12% at cc in Q2 FY16), slightly above the top-end of guidance (+7-10% at cc to USD8.1-8.35bn) and 2% ahead of the consensus figure (USD8.29bn), and diluted EPS up 8% to USD1.41 (consensus: USD1.41). Consulting was up 14% cc to USD4.62bn (vs. +18% in Q2 FY16), while Outsourcing was up 6% cc to USD3.81bn (vs. +6%). Consulting/Strategy showed a strong double-digit increase, Applications high single-digit, and Operations double-digit growth. Meanwhile, the Digital business (40% of sales) was up strong double-digit. North America was up 11% at cc (vs. +12%) with the eighth quarter of double-digit growth in the US, Europe was up 12% at cc (vs. +14%) with double-digit growth in the UK, Switzerland, Spain, Italy, Germany and France, and Growth Markets were up 6% at cc (vs. +10%) with double-digit growth in Japan and strong double-digit growth in China, India and Mexico, and modest growth in Brazil despite the current environment. By industry, the best performers were Products (+16%), and Financial Services and Health & Public Services (+12%). New bookings were up 7% to USD9.12bn (3% above consensus) or a book-to-bill of 1.08x (+9% in Consulting to USD4.93bn - book-to-bill 1.07x -, and +4% in Outsourcing to USD4.19bn - book-to-bill 1.10x).
- FY16 guidance fine-tuned.** For FY16, sales are now expected to rise 9.5-10.5% at cc (vs. +8%/+10% at cc previously) (consensus: +9.8% at cc), while the company has fine-tuned its guidance to 14.6% from 14.6-14.7% for operating margin and to USD5.29-5.33 from USD5.21-5.32 for EPS (excl. gains from the sale of Navitaire), vs. consensus at USD5.32. Consulting continues to enjoy strong momentum, led by the ongoing shift in corporate IT spending priorities to the "new" at the expense of optimising the existing. For Q4 FY16 (August 2016), Accenture projects sales of USD8.25-8.5bn (+6%/+9% at cc) or in line with consensus (USD8.34bn or +7.1% at cc). Finally, Accenture's global delivery network now accounts for 74% of staff (+3ppt), with GDN (global delivery network) headcount up 17% (vs. flat for onshore).
- Neutral read-across for European IT Services companies.** As there is fundamentally no surprise in these results, we consider the publication neutral for Capgemini and Atos in the short term. It indicates that digital transformation remains the key growth driver, and Accenture's investments in Digital, Cloud and Security have been the best way to gain market share so far. We consider that Capgemini is following the same path and that Atos has been catching up since 2014 - we forecast 3.8% lfl sales growth for Capgemini and +1.3% for Atos in 2016. Accenture's management has not seen any sign of slowdown in digital transformation so far: the latter is a structural move which will fade out when companies will end their transformation programmes - although we may fear that "Brexit" could call some IT investments into question. The next stage of digital transformation is trending towards the Internet of Things, artificial intelligence, virtual agents, etc., and Accenture, Capgemini and Atos are investing in these areas - internally as well.

VALUATION

European IT Services companies: EV/EBIT multiples of 11.3x for 2016e and 9.4x for 2017e.

NEXT CATALYSTS

TCS' Q1 FY17 results on 14th July. IBM's Q2 16 results on 18th July after US markets close.

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Analyst :  
 Gregory Ramirez  
 33(0) 1 56 68 75 91  
[gramirez@bryangarnier.com](mailto:gramirez@bryangarnier.com)

Sector Team :  
 Richard-Maxime Beaudoux  
 Thomas Coudry  
 Dorian Terral

## Healthcare

**Genmab**

Price DKK1,158

**Negative opinion from the CHMP for "Ofa" in maintenance CLL**

Fair Value DKK1600 (+38%)

BUY

Bloomberg	GEN DC
Reuters	GEN.CO
12-month High / Low (DKK)	1,266 / 548.0
Market Cap (DKKm)	69,288
Avg. 6m daily volume (000)	474.3

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.5%	37.4%	27.3%	26.2%
Healthcare	0.9%	3.9%	-5.6%	-8.9%
DJ Stoxx 600	1.0%	0.3%	-4.4%	-6.7%

	2015	2016e	2017e	2018e
P/E	NS	NS	NS	73.9x
Div yield (%)	NM	NM	NM	NM

**ANALYSIS**

- The CHMP yesterday issued a **negative opinion regarding Arzerra (ofatumumab, anti-CD20) as a potential maintenance treatment for patients with Chronic Lymphocytic Leukaemia (CLL).**
- This is surprising bad news, all the more so since the FDA gave its green light for the compound in this very same label a few months ago. However, **we and the consensus gave very little value to it in cancer indications (DKK11 in our SOTP)** due to recent changes in the CLL therapeutic landscape (arrival of JNJ's ibrutinib and Roche's venetoclax, development of novel combinations such as ibrutinib/venetoclax, ibrutinib/nivolumab, etc.).
- In our view, "ofa" is a much more promising alternative in multiple sclerosis.** And we believe the street might become more positive once Roche's ocrelizumab (another CD20) is approved in relapsing-remitting multiple sclerosis (and preferably with a quite broad label, like Novartis' Gilenya).

**VALUATION**

- BUY rating reiterated with a FV of DKK1,600.** We believe GEN shares will be more driven by newsflow concerning daratumumab.

**NEXT CATALYSTS**

- July-August 2016:** FDA priority review given to daratumumab 1/ as a treatment for patients with myeloma who received at least one prior therapy and 2/ as part of a combination regimen (bort/dex or len/dex)... which would pave the way for **a label expansion by the end of the year.**

[Click here to download](#)Mickael Chane Du, [mchanedu@bryangarnier.com](mailto:mchanedu@bryangarnier.com)

## Sector View

## Pharmaceuticals

## High pressure expected on UK stocks after vote for Brexit

	1 M	3 M	6 M	31/12/15
Healthcare	0.8%	4.1%	-7.7%	-8.5%
DJ Stoxx 600	2.9%	1.8%	-5.5%	-5.3%

\*Stoxx Sector Indices

## Companies covered

ACTELION	BUY	CHF173
ASTRAZENECA	BUY	5100p
BAYER	NEUTRAL	U.R.
GLAXOSMITHKLINE	BUY	1740p
IPSEN	BUY	EUR63
NOVARTIS	NEUTRAL	CHF89
NOVO NORDISK	NEUTRAL	DKK400
ROCHE HOLDING	BUY	CHF293
SANOFI	NEUTRAL	EUR83
SHIRE PLC	BUY	6500p
UCB	NEUTRAL	EUR80

**In absolute terms, UK pharma stocks are expected to decline sharply today and maybe over several trading days. In relative terms, we expect GSK to do better than AstraZeneca and Shire.**

- UK yesterday voted for the exit of the country from the European Union. It should come as a relative surprise to the investment community this morning as recent polls suggested that BriMain would win. We expect both the UK market and the British pound to decline a lot today.
- Pharmaceuticals in general should play defensive in this context and may have to be favoured in relative terms, all the more so that the healthcare market itself should not be hit much. Swiss companies have been used to operating in this market from outside the European Union with no disadvantage against the rest of the world. UK only represents 2% of AstraZeneca's turnover and about 5% for GSK.
- Their cost base (UK is loss-making for AstraZeneca) is much heavier and time will come to decide whether to reallocate resources outside the UK considering this move out of the European zone but this is a medium-term impact.
- Short-term, we expect UK stocks to be discounted as UK-only funds will be under attack and UK stocks pockets in international funds reduced. AZN, GSK and Shire should then be significantly down today. That said, reporting in GBP will help from a financial perspective and GSK could see its core EPS in reported terms growing by more than 20% this year. Moreover, "self-help" nature of GSK's investment case should also be more appreciated than riskier profiles. Listing of AZN in GBP while financials are in USD + high dependence to R&D makes the name much less attractive in our view.

## VALUATION

- We could have put our FV under review on AZN but will revisit the models for all anyway in connection with half-year numbers. Within the UK zone, we would favour GSK over AstraZeneca.

## NEXT CATALYSTS

- 27 July 2016 : H1 results - GSK
- 28 July 2016 : H1 results – AstraZeneca
- 2 August 2016: H1 results – Shire

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Eric Le Berrigaud, [eleberrigaud@bryangarnier.com](mailto:eleberrigaud@bryangarnier.com)

## Adjustments to our Top Pick list

Following Brexit and a more risk-off market environment, we have decided to adjust our Top Pick list by exiting stocks that performed very well qtd and stocks that offer a more-than-average aggressive profile: Ablynx, Accor, Atos, AXA, Heidelbergcement, Wirecard.

## ANALYSIS

- Following Brexit, we have decided to adjust our Top Pick list buy exiting:
- Stocks that performed well qtd
- Stocks that offer a more-than-average aggressive profile.
- We therefore exit Ablynx, Accor, Atos, AXA, Heidelbergcement, Wirecard.

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Analyst :  
Olivier Pauchaut  
33(0) 1 56 68 75 49  
[opauchaut@bryangarnier.com](mailto:opauchaut@bryangarnier.com)

## BG's Wake Up Call

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### Stock rating

BUY	Positive opinion for a stock where we expect a favourable 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 upside 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.
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 56.5%

NEUTRAL ratings 34%

SELL ratings 9.5%

## Bryan Garnier Research Team

Healthcare Team	Pharmaceuticals	Eric Le Berrigaud <i>(Head of Equities)</i>	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	Mickael Chane-Du	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	Hugo Solvet	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	Luxury/Consumer Goods	Loïc Morvan	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	Nikolaas Faes	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	Antoine Parison	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	Cedric Rossi	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	Virginie Roumage	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	Video Games / Payments	Richard-Maxime Beaudoux	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	Thomas Coudry	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	Gregory Ramirez	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	Dorian Terral	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		Xavier Caroen	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
		Pierre-Antoine Chazal	33 (0) 1 56 68 75 06	pachazal@bryangarnier.com
Insurance		Olivier Pauchaut <i>(Head of Research)</i>	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		Bruno de La Rochebrochard	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/ Infrastructures Building Materials		Eric Lemarié	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		Sophie Braincourt	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		Eric Monnier	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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	de résolution (ACPR)			CP 2113
				Geneve 1, CH 1211
				Tel +4122 731 3263
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