

Software & IT services

| Technology

Syntec Numérique meeting feedback: stabilisation confirmed

Growth trends for 2019 slightly better than expected

The latest Syntec/IDC survey published yesterday reports that the French IT market is now expected to rise 4.2% for 2019 - a marginal acceleration vs. +4.1% in 2018 - compared with +3.9% estimated in December 2018. As explained 6 months ago, these numbers include a 0.4ppt negative calendar effect. The upward revision stemmed from Software (+5.8% vs. +5.1% - with an acceleration over the +5.3% reported for 2018) and IT Services (+3.3% vs. +3% - with stabilisation over 2018), while the forecast for High-tech Consulting remains unchanged at +5.2% (slowing down from +5.5% in 2018). SMACS (cloud, cybersecurity, artificial intelligence, cognitive systems...) are expected to rise 15.7% (vs. +14.7%) - accelerating from +14.5% in 2018 - and accounting for 29.8% (vs. 28.5%) of the French IT market.

The upward revision stems from Software and IT Services

In IT Services, where the main growth drivers stemmed from new added-value service offerings (SMACS), the upward forecast revision for 2019 stemmed from Development & Staffing (+2.5% vs. +1.8%), while Consulting is expected to rise 5.7% (vs. +5.6%), Integration 4.5% (unchanged), Training 1.7% (vs. +1.4%), Application Outsourcing 4.8% (unchanged), Infrastructure Outsourcing 1.6% (of which +2.6% in digital workplace, +6.8% in cloud & hosting, and -3.4% in large outsourcing contracts), and BPO 1.6%. In Software, growth is expected to be driven by application software (+6.1%, vs. +6.2%), then embedded software (+4.6%) and infrastructure software (+3.9%), with SaaS expected to gain 21% and account for 25% of the French Software market (unchanged). Finally, growth in High-tech Consulting is set to be driven by Automotive, Aerospace and Energy.

However, leading KPIs point to a growth stabilisation or slowdown

This slight upward revision to Syntec/IDC forecasts does not question our view that the current growth cycle (which had its starting point in 2013-2014) reached a plateau in 2018 that is expected to be maintained in 2019. While there is no real sign of a downturn, Syntec Numérique members are vigilant on changes in certain early indicators: book-to-bill ratios remain above 1 for 80% of the respondents (vs. 83% one year ago), utilisation rates are growing for only 30% of the respondents (vs. 47%), stabilising for 48% of them (vs. 45%), and declining for 22% of them (vs. only 8%). Obviously, while digital transformation remains a top priority, current economic concerns seem to warrant more prudence in discretionary IT spending. Finally, service prices are growing by 2-4% on average due to the shortage of "talents", while recruitment and staff attrition is less of a concern than it was a year ago as service companies have globally improved the way they address the HR topic.

Our forecasts for stocks we cover embed some slowdown

In IT Services, on a lfl basis, we cautiously forecast for 2019e for France: +5.7% (vs. est. +6.2% in 2018) for Capgemini, +4.2% (vs. +3%) for Atos, and +5.3% (vs. +4.7%) for Sopra Steria ex-Solutions. In High-tech Consulting, we expect +6.1% (vs. +6.2%) for Altran, and +10.6% (vs. +11.3%) for Alten. For 2020e, for most of cases, we expect a slowdown to materialise, as we forecast +5% for Capgemini, +3% for Atos, +5% for Sopra Steria ex-Solutions, +8% for Alten, and +6% for Altran.

Gregory Ramirez

33(0) 1 56 68 75 91
gramirez@bryangarnier.com

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BG Coverage

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SWORD GROUP | BUY | EUR47
TEMENOS GROUP | BUY | CHF194
DASSAULT SYSTEMES | NEUTRAL | EUR129
SAGE GROUP | NEUTRAL | 710p

EASYVISTA | CORPORATE | EUR53

Last rating Change:

TEMENOS GROUP - 21/05/2019
New ambitious sustainable long-term targets
CAST - 15/04/2019
FY18 losses slightly lower than expected, outlook confirmed
AXWAY SOFTWARE - 15/04/2019
End of coverage
SAP - 12/04/2019
Q2 2019 Top Picks: SAP, for both growth and resilience

Last FV Change:

TEMENOS GROUP - 22/05/2019
Capital Markets Day feedback: structural long-term growth drivers

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BRYAN, GARNIER & CO

<p>London</p> <p>Bryan, Garnier & Co Ltd</p> <p>Beaufort House</p> <p>15 St. Botolph Street</p> <p>London EC3A 7BB</p> <p>United Kingdom</p> <p>+44 207 332 2500</p>	<p>Paris</p> <p>Bryan, Garnier & Co Ltd</p> <p>26 Avenue des Champs-Élysées</p> <p>75008 Paris</p> <p>France</p> <p>+33 1 56 68 75 20</p>	<p>Munich</p> <p>Bryan, Garnier & Co. GmbH</p> <p>Widenmayerstrasse 29</p> <p>80538 Munich</p> <p>Germany</p> <p>+49 89 2422 62 11</p>	<p>Zurich</p> <p>Bryan, Garnier & Co</p> <p>Theaterstrasse 4</p> <p>8001 Zurich</p> <p>Switzerland</p> <p>+41 44 991 3300</p>	<p>New York</p> <p>Bryan Garnier Securities</p> <p>750 Lexington Avenue</p> <p>16th floor</p> <p>New York, NY 10022</p> <p>United States</p> <p>+1 212 337 7000</p>
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