

Logica

Outsourcing the main driver

On 24 February Logica will report the 2009FY results. We expect 2009FY sales of GBP 3629m (consensus: GBP 3686m), Adjusted operating profit of GBP 271m (consensus: GBP 270m), an Adjusted operating margin of 7.5% (consensus: 7.3%) and Adjusted basic EPS of 11.6p (consensus: 11.5p, range: 10.9p-12.0p). Logica is an excellent play on Outsourcing growth and also a clear play on a recovery for IT spending. Buy.

Forecast	2008	2009E	2010E	2011E
Sales (GBP m)	3588	3629	3717	3851
EBITDA (GBP m)	267.0	314.6	338.5	377.1
EBIT (GBP m)	178.3	172.0	192.2	233.9
Recurring net income (GBP m)	178.1	186.5	205.1	239.1
EPS Recurring New (GBP)	12.30	11.60	12.60	14.60
EPS Recurring Old (GBP)	12.30	11.60	12.80	14.80
P/E	9.3	9.8	9.1	7.8
EV/ EBITDA	7.8	6.8	6.1	5.2
FCF Yield (%)	0.1	0.1	0.1	0.1
Dividend Yield (%)	2.3	2.3	2.4	2.7

Source: Company data, Rabo Securities

Year to December, fully diluted

UK strong, Benelux very weak

Main focus points include: Outsourcing growth; Benelux performance; the outlook UK public sector in 2010/2011. With regard to Outsourcing we expect 11% organic growth for 2009FY, while for Professional Services and Consulting we estimate a 10% FY organic sales decrease. This combined should lead to an expected 2.9% overall organic sales decline for 2009FY. We expect that UK has been the strongest performer with 6% organic sales growth, with the Benelux the weakest region with a 18% organic sales decline. For France, Nordics and the International business we expect a 2% organic sales decline.

Focus on public sector exposure

Logica has a total public sector exposure of 32% with the geographical breakdown: Nordics: 35%; Benelux: 36%; UK: 61%. In 09H1, the UK Public Sector (61% of UK sales) was up 13% driven by growth in outsourcing. Logica's entire public sector business was up 11% organically with the strongest rise being in France and the UK (up 24% and 16%). The UK Public Sector business benefited from a number of major programmes and double digit growth in space and defence. Due to slower decision making we expect the UK public sector to slow in 2010. Logica has a high conviction level that the important UK public sector business will grow in 2010, due to a good backlog and expected new projects.

Excellent play on IT spending recovery

Logica is an excellent play on Outsourcing and a clear play on an IT spending recovery. Forrester Research expects that, after a 6% decline for European IT spending in 2009, IT spending growth will recover with 4% in 2010. A recovery in staff utilization should create positive operational gearing. Given: 1) the recent round of headcount reductions at Logica; 2) expected market stabilization in 09H2; 3) the start of a market recovery in 10H1, we expect staff utilization rates to increase slowly in 09H2, followed by a more pronounced increase in 10H2 and a full recovery in 2011. This should give a margin uplift from a trough of 7.4% in 2009 towards 8.6% in 2011. We now see a peak margin of 10% and peak EPS of 19.1p in 2013.



Rabo

Rating **Buy**

Price target (12m) EUR 1.75
 Price 16-Feb-2010 EUR 1.31
 Up-/downside: +33.6%

IT Consulting & Services / Software

Netherlands

Market capitalisation

EUR 2,097m

Avg (3month) daily volume

903,655 shares

Reuters

LOG.AS

Bloomberg

LOG NA

Web site

www.logica.com

Share Price Performance %

	-1m	-3m	-12m
Logica	-7.1	-7.9	+70.1
MSCI Europe	-5.2	-3.4	+30.7
MSCI Netherlands	-4.8	-0.7	+37.8

Agenda

None

Analysts

Hans Slob

+31 20 460 4866

Hans.Slob@rabobank.com

Frank Claassen

+31 20 460 4868

Frank.Claassen@rabobank.com

Rabo Securities Amsterdam

Equity Sales + 31 20 460 4707

Equity Sales Trading +31 20 460 4723

www.rabosecurities.com

Template Logica 2009FY results

Figure: 2009 earnings estimates Logica (GBPm)

	2009 HY1	2009 HY2	2009 FY	Bloomberg Consensus 2009FY
Sales UK	379	374	753	
Sales NL	309	279	589	
Sales FR	401	371	772	
Sales SCAN	519	461	980	
Sales INT	268	268	536	
Total revenues	1876	1753	3629	3686
Organic sales growth Outsourcing	10%	11%	11%	
Organic sales growth PS and Consulting	-8%	-12%	-10%	
Organic sales growth total	-1.7%	-4.1%	-2.9%	
EBITDA	155.0	159.6	314.6	
EBITA UK	28.9	36.6	65.5	
EBITA NL	16.1	22.2	38.3	
EBITA FR	27.4	29.8	57.2	
EBITA SCAN	39.6	43.7	83.3	
EBITA INT	15.0	11.8	26.8	
Total EBITA	127.0	144.0	271.0	270.0
Depreciation	28.0	15.6	43.6	
Amortisation	-49.5	-49.5	-99.0	
EBIT	77.5	94.5	172.0	
Financial result	-14.4	-14.4	-28.8	
Profit before Tax EBT	63.1	80.1	143.2	
Tax	-25.9	-29.8	-55.7	
Income before extraordinary items	38.1	49.4	87.5	
Extraordinary items	-16.9	-45.4	-62.3	
Net result	21.2	4.0	25.2	
Recurring net earnings	86.7	99.8	186.5	
EPS	0.054	0.062	0.116	0.115

Source: Rabo Securities, Logica Investor Relations

Financial Information

Income Statement (GBP mln)				
	2008	2009E	2010E	2011E
Revenues	3,588.0	3,628.9	3,716.8	3,850.8
Operating costs	-3,278.3	-3,314.3	-3,378.4	-3,473.7
Extraordinaries	0.0	0.0	0.0	0.0
EBITDA	309.7	314.6	338.5	377.1
Depreciation	-42.7	-43.6	-47.3	-44.2
EBITA	267.0	271.0	291.2	332.9
Amortisation	-88.7	-99.0	-99.0	-99.0
EBIT	178.3	172.0	192.2	233.9
Net financial result	-43.3	-28.8	-24.8	-22.3
Other pre-tax items	0.7	0.0	0.0	0.0
EBT	135.7	143.2	167.4	211.6
Income taxes	-4.9	-55.7	-61.3	-71.4
Minority interests	-0.2	0.0	0.0	0.0
Other post-tax items / participation	0.0	0.0	0.0	0.0
Extraordinaries	0.0	-62.3	-20.8	0.0
Net income	130.6	25.2	85.3	140.1
Adjustments, total	47.5	161.3	119.8	99.0
Net income recurring	178.1	186.5	205.1	239.1
PER SHARE ITEMS				
Shares outstanding avg. (mln)	1,453.4	1,553.0	1,593.9	1,609.9
Shares outstanding fully diluted (mln)	1,453.4	1,609.4	1,625.5	1,641.7
EPS reported	0.027	0.016	0.054	0.087
CPS	0.17	0.18	0.14	0.14
DPS	0.03	0.03	0.03	0.03
Fiscal year ends 12/2009				

Valuation				
	2008	2009E	2010E	2011E
Enterprise Value (mln)	2,313.0	2,119.0	2,007.8	1,922.3
P/E recurring (x)	10.5	9.4	8.6	7.5
P/Sales (x)	0.4	0.5	0.5	0.5
P/CF (x)	6.4	6.1	7.8	7.8
P/B (x)	0.8	0.8	0.8	0.8
Dividend yield (%)	2.8	2.8	2.8	2.8
EV/EBITDA (x)	7.5	6.7	5.9	5.1
EV/Sales (x)	0.6	0.6	0.5	0.5
EV/FCF (x)	12.3	9.4	11.7	11.0

Cash Flow Statement (GBP mln)				
	2008	2009E	2010E	2011E
Net Income Reported	38.7	25.2	85.3	140.1
Depreciation & Amortisation	131.4	142.6	146.3	143.2
Working Capital Change	41.7	186.0	-16.2	-81.8
Other Items	35.6	-75.0	12.0	30.2
Cash Flow from Operations	247.4	278.8	227.4	231.7
Net Capital Expenditure	-59.6	-54.4	-55.8	-57.8
Goodwill from Acquisitions	-478.9	-43.9	0.0	0.0
Other Investments	-54.5	-62.9	8.5	-14.7
Cash Flow from Investments	-593.0	-161.3	-47.3	-72.5
Ordinary Dividends	-44.0	-46.6	-51.3	-56.1
Preferred Dividend	0.0	0.0	0.0	0.0
Change in Preferred Stock	0.0	0.0	0.0	0.0
Change in Equity	0.0	0.0	0.0	0.0
Change in Subordinated Debt	0.0	0.0	0.0	0.0
Change in Bank Debt	-26.9	0.0	0.0	0.0
Change in Minorities	-0.2	2.4	0.0	0.0
Cash Flow from Financing	-71.1	-44.2	-51.3	-56.1
Change in Cash	-416.7	73.3	128.8	103.2
Free Cash Flow	187.8	224.4	171.6	174.0
Free Cash Flow Yield (%)	11.9	13.3	9.9	9.9

Balance Sheet (GBP mln)				
	2008	2009E	2010E	2011E
Cash & Cash equivalents	126.9	200.2	329.0	432.2
Other current assets	1,383.1	1,281.0	1,312.0	1,347.8
Net PP&E	149.0	159.8	168.3	181.9
Intangible assets	1,994.2	1,939.1	1,840.1	1,741.1
Other non-current assets	492.4	555.3	546.9	561.6
Total Assets	4,145.6	4,135.5	4,196.4	4,264.6
Short-term debt	10.7	10.7	10.7	10.7
Other current liabs	1,295.1	1,379.0	1,393.8	1,347.8
Long-term debt	554.3	554.3	554.3	554.3
Other non-current liabs	230.6	155.6	167.6	197.8
Minority interest	0.0	2.4	2.4	2.4
Total equity	2,054.9	2,033.5	2,067.5	2,151.6
Total liabs & equity	4,145.6	4,135.5	4,196.4	4,264.6
Net debt	438.1	364.8	236.0	132.8
ROIC (%)	4.9	6.6	6.9	7.9
Net gearing (%)	21.3	17.9	11.4	6.2
Working capital as % of sales	2.5	-0.7	-0.2	2.0
Inventory period days	0.1	0.9	1.8	1.8
Trade debtor days	121.4	131.3	123.7	122.5
Trade creditor days	105.0	120.4	116.3	110.2
Cash cycle	16.5	11.8	9.2	14.0

Disclaimer Appendix

The information and opinions in this document were prepared by Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (also referred to throughout this report under its trade name "Rabo Securities"), independently of the companies mentioned in this document (further called the "Company"). Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. is registered with the Dutch Authority for the Financial Markets ("Autoriteit Financiële Markten"). Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. has no authority whatsoever to give any information or make any representation or warranty on behalf of the Company or any person in connection with any offering of the Company. In particular, the opinions and projections expressed in this document are entirely those of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and are given as part of its normal research activities and not as a manager or underwriter of any offering or as an agent for the Company or any other person. This document is not a prospectus or information memorandum whatsoever of the Company and is based on information available to the public. The information and opinions contained in this document have been compiled or arrived at from sources believed to be reliable, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates expressed in this document are subject to change without notice. The returns on investments which have been achieved in the past do not serve as a warranty for the future.

This document is for information purposes only and is not, and should not be construed as an offer of sale or subscription to, or as a solicitation for an offer to buy or subscribe to any securities or derivatives. The information contained in this document is published to assist the recipient, but is not to be relied upon as authoritative or taken as a substitute for the exercise of judgement by any recipient. Any decision to purchase or subscribe to securities in any offering must be made solely on the basis of information contained in the prospectus or other offering circular issued by the Company in connection with such offering. Recipients of this document should consult their own broker-dealer, investment adviser or investment manager in order to determine if an investment in the securities mentioned in this document would be a suitable investment. None of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. or its affiliates accept any liability whatsoever for any direct or consequential loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. or its affiliates, their directors and/or representatives, and/or employees, and/or families may have a long or short position in any of the securities issued by the Company, or any related investment, at any time, and may make a purchase, and/or sale of any of the securities issued by the Company, or any related investment, from time to time in the open market, or otherwise, in each case either as principals or as agents. Persons connected with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. or other entities of the group to which it belongs may provide or have provided corporate finance and/or other services to the Company.

Canada
The securities discussed in this research report may only be distributed in Canada in accordance with applicable federal, provincial and territorial securities laws and are available only from persons who are authorized to distribute such securities in the applicable Canadian jurisdiction. Canadian recipients of this research report are advised that the securities discussed herein may not be eligible for sale in all Canadian jurisdictions. This research report is not, and under no circumstances is it to be construed as, an advertisement or a public offering in Canada of the securities discussed herein. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this research report or the merits of the securities discussed herein and any representation to the contrary is an offence.

Japan
Neither this document nor any copy of it may be taken or transmitted to Japan, or distributed directly or indirectly in Japan.

United Kingdom
The distribution of this document in certain jurisdictions may be restricted by law, and recipients into whose possession this document comes should inform themselves about, and observe, any such restrictions. When this document is distributed in or from the United Kingdom, it is directed only at persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or any other made thereunder, or to persons of a kind described in Part IV Article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001, or to persons who have been categorised as a "market counterparty or intermediate customer" in accordance with FSA rules. The document is not intended to be distributed, or passed on, directly or indirectly, to any other class of person who may not have professional experience in matters relating to investments, nor should it be relied upon by such persons.

United States
This report is intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person. Any U.S. person receiving this report that desires to effect transactions in any security discussed in this report should effect transactions through Rabo Securities USA, Inc. Rabo Securities USA, Inc. is a U.S. broker dealer subsidiary of Coöperatieve Centrale Raiffeisen-Boerenleenbank BA (Rabobank Nederland) and is a member of the FINRA.

This report is distributed in the US solely to "major institutional investors" as defined in Rule 15a-6 of the US Securities and Exchange Act 1934. Each US recipient by its acceptance hereof warrants that it is a "major institutional investor" and understands the risks involved in dealing in securities or any financial instrument and shall not distribute nor provide this document, or any part thereof, to any other person.

Recommendation structure

Our recommendation system is based on the absolute upside/downside of a stock versus its price target. A Buy requires at least 10% upside; a Hold requires between 5% downside and 15% upside; a Reduce requires at least 1% downside. Given the volatility of share prices and our predisposition not to change recommendations too frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 6 to 12 months.

The price target is the level the stock should currently trade at if the market supported the analyst's view of the stock, provided that the necessary catalysts are in place to effects this change in perception, within the performance horizon. In this way, therefore, the price target abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the price target will differ from 'fair' value.

Price targets are based on a combination of several valuation approaches: the discounted cash flow methodology, a peer group comparison on relevant multiples and, when appropriate, a sum-of-the-parts analysis.

Information on our recommendation structure, distribution of recommendations, and complete disclosure information on companies covered by Rabo Securities Equity Research is available at <http://research.rabosecurities.com/disclaimer/>.

This document may not be reproduced, distributed or published, in whole or in part, for any purpose, except for and subject to the conditions of the prior written consent of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. By accepting this document, you agree to be bound by the foregoing restrictions. Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. and its employees are not subject to the FINRA's research analyst(s) conflict rules..