

## Econocom

### Growing through the cycle

#### Delivering in tough times

- Econocom navigated the 09 downturn exceptionally well, reporting strong numbers on the top line, profitability and cash flow level. The strong 13.2% Free Cash Flow Yield to equity allowed for a generous EUR 21.2m pay out over 09 in the forms of dividends and buy backs.
- The company is benefiting from a resilient business model buoyed by booming demand for its Financial Services (FS) solutions.

#### Growth momentum to continue, 22% 09-11 EPS CAGR expected!

- The outlook for its core Financial Services (FS) unit is strong. IT leasing is rapidly gaining in importance while penetration rates are still at low levels. Econocom is well positioned to benefit from this long term trend thanks to its leading product offering and its unique ability to provide bundled solutions, combining financing solutions with hardware distribution and managed services.
- We expect 4% revenue growth in 2010 underpinned by the strong order backlog, which is up YoY at all divisions. The non-recurrence of several start-up costs incurred during 09 should allow for a visible improvement in the operating margins supporting our 11% EBIT growth forecast. Further upside looms in '11 would the macro recovery be sustained. We expect a 22% 09-11 EPS CAGR.

#### Cheaply valued cash generator with great visibility, BUY reiterated

- On our '10 estimates, the stock is trading at only 8.8x earnings and 6.7x EV/EBIT. 2010 free cash flow yields to equity stand at a strong 12% allowing for a continuation of its generous shareholder return policy (9.2% of market cap distributed over 09 in form of dividends and buybacks).
- We deem current valuation as undemanding in view of the company's resilient business model, sound growth prospects and strong shareholder returns. Based on our SoTP and DCF model, we set our TP at EUR 13.8 and reiterate our BUY recommendation.

Year end	Sales (m)	EBIT (m)	Adj. profit (m)	EPS	Div.	EV/EBIT (*)	P/E (*)	FCF Yield (*)	Div. Yield (*)
12/06	589.8	14.5	11.8	0.40	0.20	8.8	16.7	-1.2%	3.0%
12/07	700.7	24.5	17.6	0.64	0.24	6.9	11.7	21.2%	3.2%
12/08	716.5	25.6	18.5	0.70	0.26	5.4	9.2	10.9%	4.0%
12/09	759.3	28.7	20.3	0.83	0.24	7.2	12.5	13.2%	2.3%
12/10e	788.3	32.0	23.7	1.05	0.30	6.4	10.6	13.3%	2.7%
12/11e	808.1	35.4	26.2	1.26	0.40	5.2	8.9	16.0%	3.5%
12/12e	828.7	35.7	26.5	1.27	0.40	4.5	8.8	18.2%	3.6%

(\*) 2006-2009 figures of EV, P/E and Yield are based on end F.Y. price

### Buy

Price: EUR 11.20  
(07/05/10)

Target price: 13.80

Risk: Medium

Reuters: EBAB.BR

Bloomberg: ECONB BB

Shares number (m): 22.30

Market cap. (m): 250

Net debt 12/09 (m): -30

Net debt/equity 12/09: -38%

H/L 1 year: 11.69 - 4.91

1 year price perf.: 88.2%

Diff. with DJ Euro Stoxx 81.5%

Volume (sh./day): 17,245

Free Float 32%

Econocom International 51%

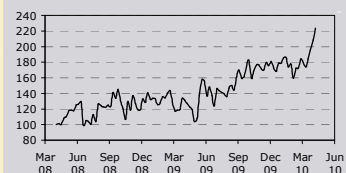
Valgest/V. Wajs 7%

Treasury Shares 10%

#### Company description:

Econocom is an IT service provider specializing in the management of IT infrastructures and Telecom resources. It offers integrated solutions to its clients through distribution, financing and managed services.

Econocom relative to DJ Euro Stoxx (7/05/10)



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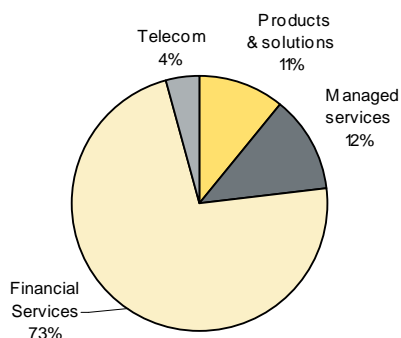
## Summarized business description

Econocom is a leading ICT service provider active in 8 countries. It offers combined Telecom and IT expertise through 4 complementary business units: Products and Solutions (distribution of hardware and related services), Managed Services (Outsourcing, maintenance and consulting), Financing Solutions and Telecom Services. A key differentiator vs its ICT peers, is Econocom's Financial Services unit, which accounts for the bulk of its operating profit (~65% on average in recent years). Econocom's Financial Services division provides, amongst others, operating lease solutions for both distributed equipment as well as other IT assets.

Next to Financial Services, the company's second most important division is Managed Services, generating around 15% of the group's EBIT. Important to note is that the 09 contribution from this division was exceptionally depressed by some start-up costs on large accounts and the set up of a remote service center in Morocco.

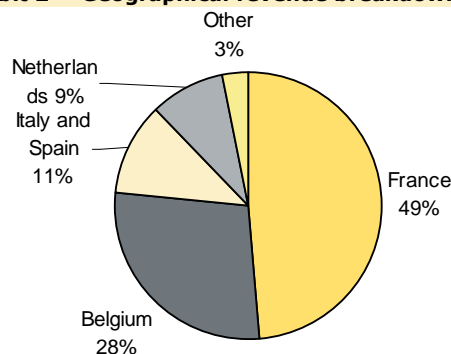
Geographically, the Benelux and France are the company's core markets representing around 85% of revenues. In recent years, Econocom expanded its successful business model towards Southern European countries such as Spain and Italy. It is also active in Morocco where it recently opened a remote service center allowing it to benefit from a relatively cheap local labour force.

**Exhibit 1 '10e Operating profit breakdown**



Source: Econocom

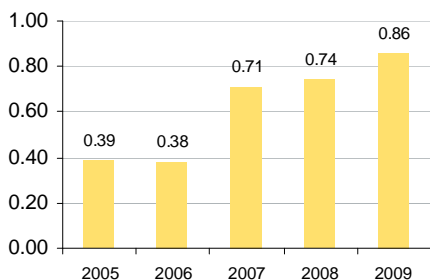
**Exhibit 2 Geographical revenue breakdown 09**



Source: Econocom

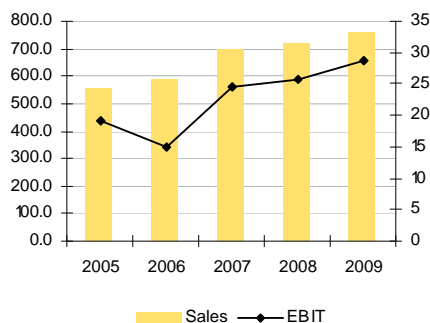
Econocom benefits from a resilient business model reflected in its impressive financial track record. Over the last 5 years, the company managed to report an EPS CAGR of no less than 22%.

**Exhibit 3 2005-2009 reported EPS**



Source: Econocom

**Exhibit 4 2005-2009 Sales and EBIT**



Source: Econocom

The resilience is, as mentioned previously, to a large extent explained by a very strong across-the-cycle performance of its Financial Services unit. A high proportion of this division's revenue is of recurring nature thanks to high lease renewal rates and lease extensions. Contributing to the division's resilience is the structurally increasing demand for IT equipment leasing, a trend we expect to continue going forward given the still low overall penetration rates.

The other divisions also managed to report decent numbers in recent years.

Contributing to this structural strong performance is its predominant variable cost base (primarily benefiting its Products and Solutions division). Logistical services are outsourced and the majority of sales team members are independent agents. Any drop in sales in more cyclical division as Products and Solutions will as such to a large extent be compensated by a commensurate drop in the opex thereby protecting profitability during downturns.

At the end of this report, a much more detailed description of Econocom's business model will be provided (see Background info: Detailed Group and business overview).

## Earnings Outlook: 22% EPS CAGR expected

The company started 2010 on an upbeat note reporting Q1 revenue growth of 6%. The order backlog for all divisions is at a higher level than last year which should allow the growth momentum to be maintained in the quarters ahead. For 2010, we are looking for top line growth of 3.8%.

With regard to profitability, there is ample scope for further EBIT margin expansion from the 09 level of 3.8%. Note that last year's operating result was depressed by certain start up costs which are not expected to recur (especially Managed Services EBIT was impacted by these items).

We pencil in 11.4% growth in operating result to EUR 32m driven by both Managed and Telecom Services. With regard to Financial Services, we expect a stable result from an exceptionally strong 09 level.

Further upside looms in 2011 on the back of a projected cyclical recovery in Managed Services (note that our 2010 Managed Services EBIT is still significantly below historical levels due to the prevailing cyclical weaknesses in this market). We see Econocom reaching its normalized earnings power in 2011 at **EUR 1.28 EPS**.

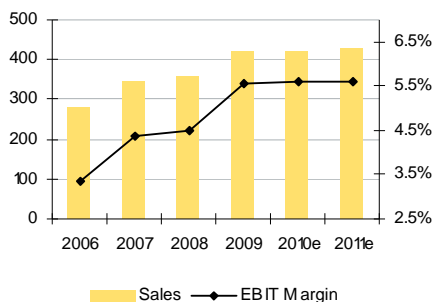
<b>Exhibit 5 P&amp;L Projection</b>						
<i>(EUR m)</i>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>
<b>Sales</b>	<b>589,8</b>	<b>700,7</b>	<b>716,5</b>	<b>759,3</b>	<b>778,9</b>	<b>798,7</b>
YoY		18,8%	2,3%	6,0%	2,6%	2,5%
<i>Products &amp; solutions</i>	187,6	190,1	192,5	185,8	196,9	202,9
<i>Managed services</i>	100,0	134,0	136,5	125,6	131,9	135,8
<i>Financial Services</i>	279,8	344,1	357,5	420,6	420,6	429,0
<i>Telecom</i>	22,4	32,5	30,0	27,3	29,5	31,0
<b>EBIT</b>	<b>16,1</b>	<b>24,5</b>	<b>25,6</b>	<b>29,8</b>	<b>32,4</b>	<b>34,3</b>
EBIT margin	2,7%	3,5%	3,6%	3,9%	4,2%	4,3%
<i>Products &amp; solutions</i>	1,8	3,1	2,6	3,2	3,5	3,7
<i>Managed services</i>	3,2	6,0	5,5	2,9	4,0	5,4
<i>Financial Services</i>	10,2	15,0	16,1	23,4	23,6	24,0
<i>Telecom</i>	0,9	0,4	1,4	0,3	1,3	1,2
<b>Net Profit</b>	<b>11,2</b>	<b>18,7</b>	<b>18,8</b>	<b>20,3</b>	<b>24,0</b>	<b>25,4</b>
<b>EPS</b>	<b>0,38</b>	<b>0,71</b>	<b>0,74</b>	<b>0,86</b>	<b>1,12</b>	<b>1,28</b>

Source: Petercam estimates

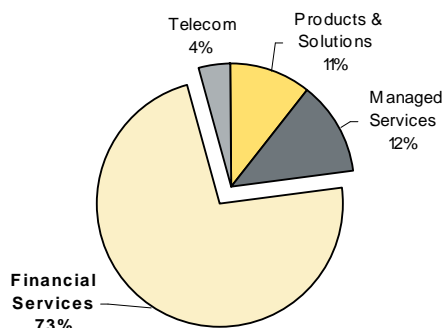
### Financial Services

- Demand for Financial Services is strong driven by heightened liquidity needs, pursuit for increased flexibility and success of bundled deals (cross-selling of financing with distribution and managed services solutions)
- We project 4% top line growth in 2010 on the back of the increasing success of Econocom's leasing solutions among its larger accounts (e.g. EUR 50m Airbus contract signed in H2 09)
- Margins are on the other hand set to see some erosion due to the non-recurrence of exceptionally profitable deals concluded over 09.

**Exhibit 6 Financial Services revenues and margins Exhibit 7 09 Operating result breakdown**



Source: Petercam estimates



Source: Econocom

Financial Services witnessed very strong demand in 08 and 09. This was partially driven by the overall tight lending standards heightening the need to conserve liquidity. Besides this acyclical component of Financial Services demand, there are also several more sustainable, structural demand drivers explaining recent years' success.

Among them are the enhanced flexibility of leasing versus buying and the ability to provide related asset management services allowing for, amongst other, cost analysis. The success of Econocom's bundled solutions, which group distribution, managed services and financing, are also explaining the wider adoption of leasing as a financing option for its IT equipment. Especially among larger companies, these bundles arouse significant interest. Econocom is increasingly targeting these large accounts after having made significant commercial and technical investments in scaling up the Financial Services unit.

Several large accounts were as such signed up during the H2 of last year (e.g. EUR 50m Airbus deal) and management confirms that the 2010 big ticket pipeline is strong. **On the back of the increased success of leasing as a financing option among larger companies, we expect growth momentum to be maintained in 2010. We look for 4% growth in turnover.**

With regard to profitability, it is important to note that last year's EFS margins were boosted by some exceptionally profitable deals which are not expected to recur. **We are looking for a 5.3% operating margin versus 5.6% reported in 09.**

We flag that visibility in this core division is high. A large part of revenues is derived from lease renewals or extensions and is hence of recurring nature. Renewal rates are very high as customers' often stick to leasing instead of buying once they experienced the advantages.

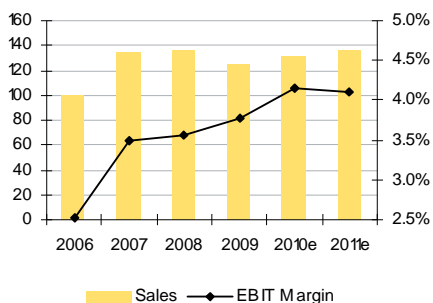
The risk to this activity moreover significantly faded with credit markets normalizing. At the height of the credit crisis, the refinancing of the receivables on a non-recourse basis had become very challenging which seems currently not to be the case anymore.

The longer term outlook in Financial Services is strong. Leasing of IT equipment is rapidly increasing in popularity and the remaining market potential is huge with IT leasing penetration rates still at low overall levels.

An extensive overview of the Financial Services unit (competition, drivers, risk factors, ...) in the 'Background Info' section at the end of this report.

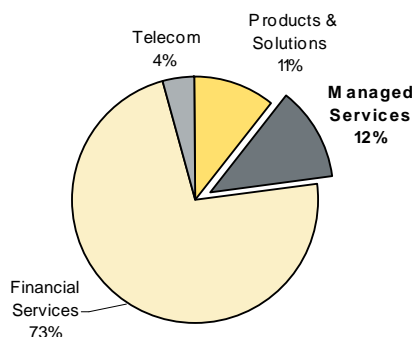
**Managed Services (MS)**

**Exhibit 8 MS revenues and margins**



Source: Petercam estimates

**Exhibit 9 09 Operating result breakdown**



Source: Econocom

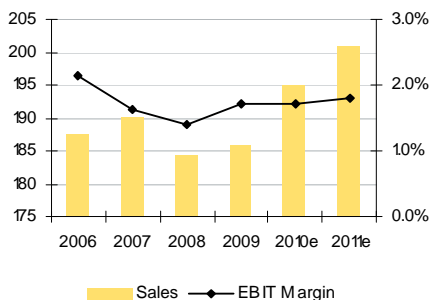
09 was a very challenging year for Econocom’s MS division. Price pressure became more pronounced amid weaker levels of demand. Start-up costs associated with the set-up of a remote service center in Morocco and some large accounts moreover exacerbated the impact on profitability. EBIT margin hence dropped from 3.9% in 08 to 2.3% last year.

We expect a gradual recovery in profitability in '10 in view of the non-recurrence of start up costs and a pick up in activity levels. The remote service center in Morocco is up and running since last summer while the large account contract are also in full operation.

We pencil in MS EBIT of EUR 4m. This is up on the EUR 2.9m reported last year but still below the 08 level of EUR 5.5m as the market remains challenging. We only expect a full recovery to the 08 level of profitability as of next year.

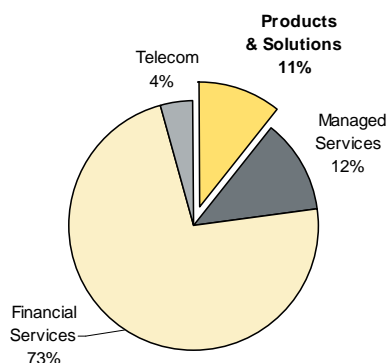
**Products and Solutions (P&S)**

**Exhibit 10 P&S revenues and margins**



Source: Petercam estimates

**Exhibit 11 09 Operating result breakdown**



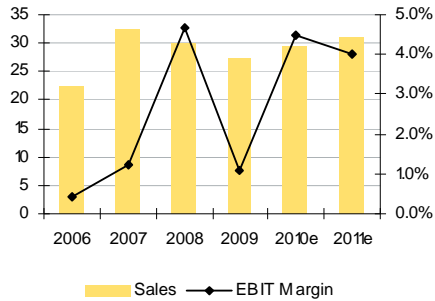
Source: Econocom

A pick up in corporate ICT spending, new product offerings (Windows 7) and commercial investments in expanding the sales force are expected to be the main growth drivers for Products and Solutions in 2010. We are looking for 4% growth in turnover.

We do not pencil in significant improvements in Products and Solutions' operating margins going forward. Profitability is already significantly above the industry average while scale advantages are limited given the predominant variable cost base.

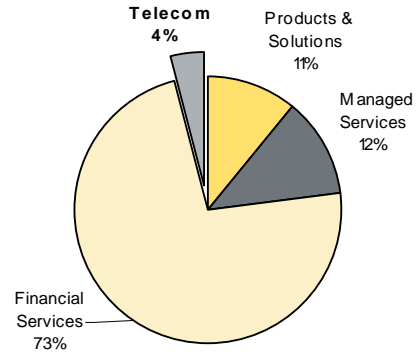
## Telecom

**Exhibit 12 Telecom revenues and margins**



Source: Petercam estimates

**Exhibit 13 09 Operating result breakdown**



Source: Econocom

Also in Telecom Services, we expect to witness a visible recovery in the operating result from the depressed 09 level. Volumes are picking up while pricing trends are improving compared to a challenging 09 level. In the managed services of the distributed telecom assets, the group is attaining the required scale to operate profitably. Management stated that the Q1 10 was the first ever profitable quarter for this activity.

We expect a return to the 2008 operating result of EUR 1.3m (versus EUR 0.3m in 09).

## Valuation and Recommendation

We value Econocom using a SoTP and DCF Model pointing towards an average fair value of EUR 13.8 per share.

The shares are trading at attractive multiples. On our '10 estimates, the stock is trading at only 8.8x earnings and 6.7x EV/EBIT. Free cash flow yields to equity stand at a strong 12% for 2010 allowing for a continuation of its generous shareholder return policy.

We deem current valuation as undemanding in view of the company's resilient business model, sound growth prospects and strong shareholder returns. The balance sheet is moreover strong with a year end 09 net cash position of nearly EUR 30m. In view of the above, we reiterate our BUY recommendation on the company and set our TP at EUR 13.8 per share, the average of our SoTP and DCF model.

### DCF

Our DCF Model points towards a fair value of **EUR 14.3** per share. We took into account conservative assumptions of growth in line with inflation at broadly stable margins. We moreover applied an illiquidity discount of 10%.

Exhibit 14												
EUR m	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	09-19 CAGR
Turnover	759.3	788.3	808.1	828.7	849.6	871.0	893.0	915.5	938.6	962.2	986.4	2.7%
y/y	6.0%	3.8%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
EBIT	28.7	32.0	35.4	35.7	36.6	37.6	38.5	39.5	40.5	41.5	42.5	
(margin)	3.8%	4.1%	4.4%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	
taxes	-8.0	-8.9	-10.3	-10.4	-10.6	-10.9	-11.2	-11.5	-11.7	-12.0	-12.3	
(tax rate)	28%	28%	29%	29%	29%	29%	29%	29%	29%	29%	29%	
Ebit after taxes	20.7	23.1	25.1	25.4	26.0	26.7	27.3	28.0	28.7	29.5	30.2	3.8%
Depreciation & amortization	2.5	2.6	2.7	2.7	2.8	2.9	2.9	3.0	3.1	3.2	3.3	
CASHFLOW	23.2	25.7	27.8	28.1	28.8	29.5	30.3	31.1	31.8	32.6	33.5	
WCR	-2.3	-1.6	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	
Capex	-2.7	-2.8	-2.9	-2.7	-2.8	-2.9	-2.9	-3.0	-3.1	-3.2	-3.3	
(in % of sales)	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	
<b>FCF to Enterprise</b>	<b>18.2</b>	<b>21.3</b>	<b>23.9</b>	<b>24.3</b>	<b>24.9</b>	<b>25.5</b>	<b>26.2</b>	<b>26.8</b>	<b>27.5</b>	<b>28.2</b>	<b>28.9</b>	<b>4.7%</b>
Discounted FCF		19.7	20.3	19.1	18.1	17.1	16.2	15.3	14.5	13.8		
<b>DCF Valuation</b>												
NPV horizon period				154							261	100%
NPV terminal value				178							0	0%
<b>Enterprise value</b>				<b>332</b>							1.10	
Net cash				28.3							3.90%	
Provisions				-6.6							4.00%	
Minorities				-0.4								
Peripheral assets (net DTA)				2.0							8.3%	
<b>Equity value</b>				<b>355</b>								
N° of shares (m)				22.3								
Equity value per share				15.9								
<b>Equity value after illiquidity discount (10%)</b>				<b>14.3</b>								
							<b>WACC</b>				<b>8.3%</b>	
							Terminal value :				364	

Source: Petercam estimates

### SoTP

Our SoTP model points towards a fair value per share of EUR 13.5.

We valued Financial Services separately from the remaining operating divisions given the presence of a listed pure player peer and the distinct nature of the business model. Grenkelease is a German listed IT financing provider which is, just as Econocom, independent of banks and not tied to any manufacturer. Grenkelease benefits from substantial sell side coverage (12 analysts) and we have therefore confidence in the reliability of the consensus earnings forecasts

which we will use in our peer multiple valuation. On these estimates, the company is trading at 15.4x '10 EPS and 12.4x '11 EPS.

<b>Exhibit 15</b>						
	<b>Net income 2010 (€ m)</b>	<b>Target P/E</b>	<b>Net income 2011 (€ m)</b>	<b>Target P/E</b>	<b>Average value</b>	<b>Per share</b>
Financial Services	16.7	15.4	19.5	12.5	250.3	11.1
Other Divisions	7.0	9.6	6.7	8.4	61.9	2.8
<b>TOTAL Operating divisions</b>	<b>23.7</b>		<b>26.2</b>		<b>312.2</b>	<b>13.9</b>
Net cash at ye 2009					30.0	1.3
Present value of Deferred Tax Assets					2	0.1
Provisions					-6	-0.3
<b>TOTAL</b>					<b>338</b>	<b>15.0</b>
<b>TOTAL After Illiquidity discount</b>						<b>13.5</b>

Source: Petercam estimates

## Multiples and Free cash flow yields

Despite the absence of good comparables, we will provide you with Econocom's trading multiples and free cash flow yields.

On our current estimates, the shares are trading at 9x earnings and 6x EV/EBIT. Adjusting for the EUR 29.6m net cash on the balance sheet, the clean earnings multiple drops to 7.8x.

The free cash flow yield to equity stood at a strong 12% in 09 and we expect it remain broadly stable in 2010.

<b>Exhibit 16</b>										
	<b>Market Cap (EUR m)</b>	<b>P/E (x)</b>			<b>P/E (Adj. net cash)</b>			<b>EV/EBIT (x)</b>		
		<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>	<b>2009</b>	<b>2010e</b>	<b>2011e</b>
<b>Econocom</b>	261	14.2	10.5	9.1	11.4	8.8	7.4	8.2	6.7	4.8

Source: Petercam estimates

## Generous shareholder returns

Econocom has a strong track return with regard to shareholder returns. During 09, a huge EUR 21.2m cash pile was distributed to the shareholder in the form of dividends and share buy backs, corresponding to a 9.2% shareholder return. Despite the generous 09 returns, the net cash position increased EUR 5.4m to EUR 29.6m implying a 09 FCFE yield of 13.3%!

## Background info

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### Detailed group and business overview

Econocom is a leading ICT service provider present in 8 countries. It offers combined Telecom and IT expertise through 4 complementary business units: Products and Solutions (distribution of hardware and related services), Managed Services (Outsourcing, maintenance and consulting), Financing Solutions and Telecom Services.

Financial Services account for around 65% of Econocom's operating result in recent years and we will hence discuss this key division quite extensively

### Financial Services

#### Description

Financial Services provides asset financing and management services and allows companies to benefit from the latest technologies while keeping control of their infrastructures. Econocom's Financial Services provides, amongst others, operational leasing solutions for both distributed equipment as well as other IT assets.

#### Drivers

Leasing of IT is rapidly gaining in importance and has been a key growth driver for Econocom in recent years. The off-balance sheet nature of the operating leases, the enhanced flexibility of leasing versus buying and the optimization of liquidity management are among the key drivers explaining the increasing popularity of leasing as a financing solution for IT equipment.

#### Business model

Econocom earns a spread on its leasing contracts roughly equivalent to the difference between the lease payments it charges to its customers on the one hand and the purchase and operating expenditures arising from acquiring the equipment on the other.

Note that Econocom refinances its lease receivables on a non-recourse basis through a number of banks. Econocom is therefore not exposed to credit risk arising from possible defaults among its customers.

The leases are mostly structured as operating leases which implies that the debt (liability presented by the future lease payments) is not shown on the customers' balance sheets. One of Econocom's key competitive strengths in this respect is its highly specialized staff which gathered relevant experience in structuring the IAS compliant off-balance sheet leases over recent years.

#### Refinancing ability/capacity of key importance

The ability to refinance the leases on a non-recourse basis is of crucial importance for the viability of the business model as Econocom is not willing/able to take the credit risk on its own balance sheet.

Econocom in this respect benefits from a well diversified pool of solid funding partners which provide the necessary refinancing capacity. Even during recent years' financial turmoil, the company continued to manage to refinance its receivables on a non-recourse basis demonstrating the resilience of the refinancing franchise. It nevertheless became more challenging following the Lehman Brothers' bankruptcy and subsequent broad based tightening of credit standards. Refinancing spreads rose reflecting the increased default risk and absence of liquidity in financial markets. As Econocom managed to transfer the

increased refinancing costs to its customers, it did not witness any margin erosion.

Another effect of recent years' credit crisis was the decline in credit approval rates. Banks got stricter in approving the refinancing of certain receivables for which they deemed the credit risk as too high. Especially for low quality debtors, as for example road transporters, this had an impact. Fortunately, Econocom is witnessing such a strong demand that it can afford the selectivity of the banks. Volumes were hence not impacted by the banks' more stringent approval policy as the order pipeline is strong enough.

## **Competition**

In Financial Services, Econocom faces a wide range of competitors, the most important being:

- Specialized IT lending providers such as Grenkeleasing (primarily active in Germany and Switzerland but gradually expanding to other EU countries)
- Financial subsidiaries of IT equipment manufacturers such as IBM, Dell and HP also compete with Econocom as they provide financing for the equipment they sell. These vendor lease solutions face the key drawback of lacking manufacturer's independence.
- Banks' leasing subsidiaries such as ECS and Arius.

Econocom's competitive advantages are its independence from manufacturers, its well established relationships with a wide range of financial partners and its skills in IAS compliant off balance sheet solutions. The ability to provide one-stop shop solution for its customers (distribution, services and financing of the equipment) is also a key competitive strength. On the back of these key differentiators, Econocom managed to outperform market growth in recent years.

## **Risks**

It is important to highlight some of the risk factors Econocom is exposed to via its Financial Services unit.

- Refinancing: As Econocom is not able/willing to take credit risk on the balance sheet, it is refinancing its lease receivables on a non-recourse basis to its banking partners. It is hence reliant on the banks' continued willingness to provide this refinancing capacity on a non-recourse basis. Its well established relations with a wide number of financial partners should in our view allow Econocom to continue to attract the required refinancing capacity. Even at the height of the credit crisis, it managed to do so and we hence believe this risk factor to be manageable.
- Pending adverse changes in operating lease accounting: The IASB wants to bring leased assets onto the balance sheet, thereby giving a more complete picture of a company's financial position. As part of the demand in Financial Services is driven by removing or keeping debt off balance, an impact can be expected from this pending change in accounting standards. We nevertheless flag that to keep operating lease liabilities off-balance sheet is only one of the demand driver for Econocom's Financial Services solutions while the bulk of transactions are motivated by other factors (such as competitive leasing rates, flexibility, enhanced liquidity management, related asset management services, ...).

## **Managed Services**

Managed Services (MS) is Econocom's second most important division accounting on average for around 20% of the operating result.

The division provides management services of distributed infrastructures, to render it effective, progressive and less costly. MS also groups Econocom ITIL's consulting activities which are aimed at optimizing the IT system's performance<sup>2</sup>.

Econocom has built up an excellent reputation in Managed Services. Over the last 2 years, it was rated as the most highly-valued outsourcing partner in the Benelux and France by the prestigious EquaTerra survey.

MS is a competitive activity featuring relatively low levels of through-the-cycle profitability. Pricing is structurally under pressure amid increased use of near and off-shoring. There is hence a need to continue to work on efficiency in order to safeguard profitability.

## **Products and Solutions**

Products and Solutions groups the company's hardware distribution activities and related services, such as advice on procurement, roll-out and installation, .... . The activity represents around 25% of sales and 10-15% of the operating result.

Despite the relatively weak overall level of profitability, this activity is of crucial importance to Econocom. It serves as a door opener to cross sell higher margin solutions such as Financial and Managed Services.

Margins are thin in this re-selling business and many peers reported red figures in recent years due to the challenging trading conditions. Econocom on the other hand performed remarkably well, reporting only moderate drop in volumes at stable margins. The key success factor for Econocom in Products and Solutions is its variable cost model which safeguards profitability in tougher market environments. The distribution is outsourced to an independent agent network. The agents earn commissions based on the sales volumes implying that Econocom's cost base is working independently on a commission basis.

The top line resilience is explained by Econocom's sizeable presence in the public sector which witnessed only very moderate drops ICT spending during the downturn.

## **Telecom Services**

Telecom Services is Econocom's smallest unit accounting for around 3-5% of the operating result on average. The division provides distribution and managed services of mobile devices. Services provided include advice on procurement (type of device and subscription), deployment, managed services of deployed assets, mobile operator relationships, ... .

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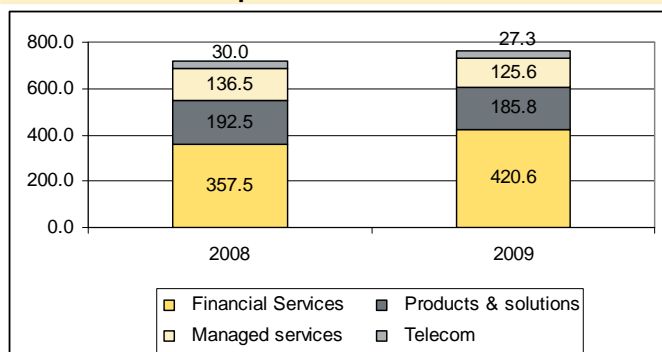
<sup>2</sup> The Information Technology Infrastructure Library (ITIL) is a set of concepts and practices for Information Technology Services Management (ITSM), Information Technology (IT) development and IT operations.

## FY 09 results wrap up

Econocom defied the downturn in 09 reporting strong numbers on both the top line and profitability level.

**Revenues** grew 5.9% driven by a stellar performance of its Financial Services unit which reported top line growth of no less than 17.7%!

**Exhibit 17 Revenue per division 09 vs 08**



Source: Petercam estimates

**Exhibit 18 Revenue per division 09 vs 08**

(EUR m)	FY 08	FY 09	YOY
<b>Sales</b>	<b>716,5</b>	<b>759,3</b>	<b>6,0%</b>
Products and Solutions	192,5	185,8	-3,5%
Managed Services	136,5	125,6	-8,0%
Financial services	357,5	420,6	17,7%
Telecom	30,0	27,3	-9,0%

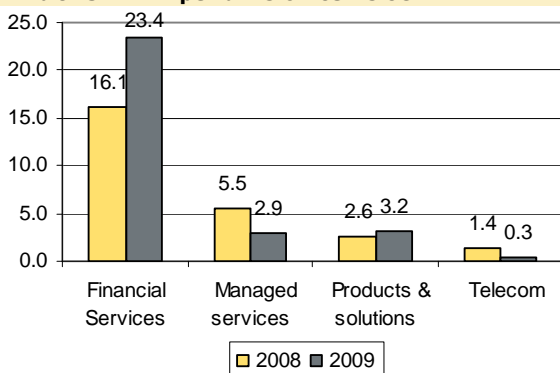
Source: Econocom

The double digit growth in Financial Services revenues was underpinned by several large accounts signed up during the H2 of the year. In France and the Benelux, two multi-year contracts with unit values exceeding EUR 50m were signed. Managed Services, the second most important division, reported revenues down 8.2% due to cyclical weaknesses putting pressure on volumes and prices.

Products and Solutions reported revenues of EUR 185.3m, down 3.5% on the previous year. This is a remarkable performance taking into account the 15-20% drop in hardware distribution revenues witnessed at peers (e.g. Realdolmen). The outperformance can to a large extent be explained by Econocom's significant presence in the public sector (>35%) which witnessed an only moderate drop in ICT spending.

The **operating result** increased 12% yoy to EUR 28.7m, buoyed by Econocom's booming Financial Services unit.

**Exhibit 19 EBIT per division 09 vs 08**



Source: Econocom

**Exhibit 20 EBIT per division 09 vs 08**

(EUR m)	FY 08	FY 09	YOY
<b>EBIT</b>	<b>25,6</b>	<b>28,7</b>	<b>12%</b>
EBIT margin	3,6%	3,8%	
Products and Solutions	2,6	3,2	23%
Managed Services	5,5	2,9	-47%
Financial services	16,1	23,4	45%
Telecom	1,4	0,3	-79%

Source: Econocom

Managed Services on the other hand witnessed a relatively sharp drop in the operating result which is only partly due to the difficult economic context. Some start up costs related to the set up of the Moroccan remote service center and the establishment of major outsourcing contracts also had a significant impact we estimate at around EUR 1-1.5m.

Telecom Services was the only division which in our view disappointed during 09. Telecom EBIT came in at a meagre EUR 0.3m depressed by declining fees paid by operators and postponements of companies' investments.

Underlying quality of the results was strong as management confirmed that there were no exceptional items such as provision reversals or revaluations of residual interests (note that revaluations of residual interests in leased assets to some extent supported Econocom's 2008 operational result). This seems to be confirmed by the strong EUR 35.9m operating cash flow generated during the year which was partly used to finance share buybacks/dividends and strengthen the net cash position.

## Balance sheet

Econocom's financial position is solid with a 2009 year end net cash position of EUR 29.6m. The company has historically always adhered to a conservative financial profile which allowed it to flawlessly navigate through tougher macro economic environments.

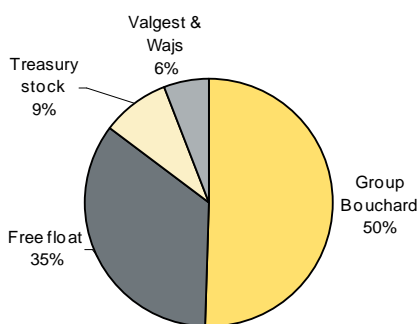
Excess cash is distributed to shareholders in the form of dividends and share buybacks. During 09, a huge EUR 21.2m cash pile returned to shareholders in this manner, an amount representing 9.2% of the market cap.

The remaining cash on the balance sheet could be used for selective add-ons would the opportunity arise.

## Shareholders/Ownership

Below we highlight Econocom's shareholder ownership as of December 31, 2009. Jean-Louis Bouchard, Econocom's founder and CEO, controls 50.7% of the shares. Valgest Wajs holds a stake of 6% while Treasury shares represent 9% of total shares outstanding.

**Exhibit 21 Shareholder ownership**



Source: Econocom

With Mr. Bouchard's retirement age coming closer, we believe that the ownership of the company could change hands in the years ahead. Options include a MBO or trade sale to a Telecom or ICT service provider.

<b>Profit &amp; Loss (EUR m)</b>	<b>12/06</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10e</b>	<b>12/11e</b>	<b>12/12e</b>
<b>Revenues</b>	<b>589.8</b>	<b>700.7</b>	<b>716.5</b>	<b>759.3</b>	<b>788.3</b>	<b>808.1</b>	<b>828.7</b>
(Y/Y - %)	7%	19%	2%	6%	4%	3%	3%
<b>EBITDA</b>	<b>27.3</b>	<b>30.5</b>	<b>28.0</b>	<b>31.5</b>	<b>34.7</b>	<b>38.2</b>	<b>38.5</b>
EBITA	14.5	24.5	25.6	28.7	32.0	35.4	35.7
(Ebita margin - %)	2.5%	3.5%	3.6%	3.8%	4.1%	4.4%	4.3%
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Impairment	-	-	-	-	-	-	-
EBIT	14.5	24.5	25.6	28.7	32.0	35.4	35.7
Net Financial Result	0.0	-0.3	-0.2	-0.6	0.5	0.5	0.5
Except. / Discont. operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax result	14.9	24.2	25.4	28.1	32.5	35.9	36.2
Taxes	-4.4	-5.2	-5.8	-7.8	-8.8	-9.7	-9.8
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net declared earnings	10.5	19.0	19.6	20.3	23.7	26.2	26.5
<b>Net adjusted earnings</b>	<b>11.8</b>	<b>17.6</b>	<b>18.5</b>	<b>20.3</b>	<b>23.7</b>	<b>26.2</b>	<b>26.5</b>
<b>Cash Flow (EUR m)</b>	<b>12/06</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10e</b>	<b>12/11e</b>	<b>12/12e</b>
EBIT	14.5	24.5	25.6	28.7	32.0	35.4	35.7
Depreciation	12.1	3.5	2.4	1.8	1.8	1.8	2.0
Amortization	0.7	3.8	0.4	1.0	1.0	1.0	1.0
Impairment	-	-	-	-	-	-	-
Changes in provision	0.0	-1.4	0.4	0.0	0.0	0.0	0.0
Changes in working capital	-14.4	12.8	2.2	1.0	-2.0	-2.0	-1.0
changes in inventories	3.7	-3.2	1.2	0.3	0.4	0.4	0.0
changes in receivables	-12.6	-17.2	5.8	11.1	7.5	7.5	0.0
changes in payables	-20.2	-2.5	5.6	-8.4	-5.9	-5.9	0.0
changes in other current assets	0.0	4.0	-0.1	0.0	0.0	0.0	0.0
Others	-4.0	0.2	-3.7	0.0	0.0	0.0	0.0
<b>Operational Cash Flow</b>	<b>9.3</b>	<b>47.4</b>	<b>27.2</b>	<b>32.5</b>	<b>32.7</b>	<b>36.2</b>	<b>37.7</b>
Tax expenses	-4.9	-2.7	-7.0	-7.8	-8.8	-9.7	-9.8
Dividends from associates	-	-	-	-	-	-	-
Net interest charges	0.0	-0.3	-0.2	-0.6	0.5	0.5	0.5
Others	-	-	-	-	-	-	-
<b>CF from operating activities</b>	<b>4.4</b>	<b>44.4</b>	<b>20.0</b>	<b>24.1</b>	<b>24.5</b>	<b>27.0</b>	<b>28.5</b>
CAPEX	-6.6	-3.4	-2.5	-2.0	-2.0	-2.0	-2.0
Investments in intangibles	-	-	-	-	-	-	-
Acquisitions	0.0	-5.1	-3.9	0.0	0.0	0.0	0.0
Divestments	4.3	0.2	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-2.3</b>	<b>-8.2</b>	<b>-6.4</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>
Dividend payment	-4.6	-6.5	-6.2	-6.4	-5.4	-6.2	-7.0
Minor. & pref. dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity financing	-6.2	-18.0	-11.7	-19.6	-17.0	-15.0	-15.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-10.8</b>	<b>-24.5</b>	<b>-17.9</b>	<b>-26.1</b>	<b>-22.4</b>	<b>-21.2</b>	<b>-22.0</b>
Changes in consolidation scope	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate impact	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net debt/cash change</b>	<b>8.7</b>	<b>-11.7</b>	<b>4.3</b>	<b>4.0</b>	<b>-0.1</b>	<b>-3.8</b>	<b>-4.4</b>
FCF to Enterprise	2.7	44.0	24.7	30.5	30.7	34.2	35.7
FCF to Equity	-2.2	41.0	17.5	30.5	30.7	34.2	35.7
<b>Notes</b>	Share buybacks assumed at current market price						

<b>Balance Sheet (EUR m)</b>	<b>12/06</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10e</b>	<b>12/11e</b>	<b>12/12e</b>
<b>Fixed assets</b>	<b>48.9</b>	<b>56.8</b>	<b>58.6</b>	<b>63.8</b>	<b>65.8</b>	<b>67.7</b>	<b>67.7</b>
Tangible fixed assets	11.0	8.9	9.2	10.2	11.1	12.1	12.1
Goodwill	14.7	25.5	25.5	28.8	28.8	28.8	28.8
Other intang. assets	1.4	1.8	3.3	4.3	5.3	6.3	6.3
Financial fixed assets	13.2	13.0	13.0	13.0	13.0	13.0	13.0
Other fixed assets	8.6	7.5	7.5	7.5	7.5	7.5	7.5
<b>Current assets</b>	<b>257.0</b>	<b>259.0</b>	<b>261.7</b>	<b>273.9</b>	<b>282.1</b>	<b>284.9</b>	<b>289.3</b>
Inventories	5.0	8.2	9.4	9.7	10.0	10.1	10.1
Trade receivables	163.5	180.7	186.5	197.6	205.2	210.3	210.3
Other current assets	11.5	8.8	9.0	9.3	9.5	3.3	3.3
Cash & Equivalents	77.0	61.3	56.9	57.3	57.4	61.2	65.6
Discontinued assets	-	-	-	-	-	-	-
<b>Total assets</b>	<b>305.9</b>	<b>315.8</b>	<b>320.3</b>	<b>337.7</b>	<b>347.9</b>	<b>352.6</b>	<b>357.0</b>
<b>Total Equity</b>	<b>88.0</b>	<b>83.4</b>	<b>84.5</b>	<b>78.7</b>	<b>80.0</b>	<b>85.0</b>	<b>104.5</b>
Equity	87.6	83.2	84.1	78.3	79.7	84.7	104.1
Minorities & preferred	0.4	0.2	0.4	0.4	0.4	0.4	0.4
Provisions	5.0	6.0	6.0	6.0	6.0	6.0	6.0
Provisions for pensions	0.6	2.4	2.4	2.4	2.4	2.4	2.4
Deferred taxes	1.7	2.9	2.9	2.9	2.9	2.9	2.9
Other provisions	2.7	0.7	0.7	0.7	0.7	0.7	0.7
Other LT liabilities	0.1	1.3	1.3	1.3	1.3	1.3	1.3
LT interest bearing debt	12.0	15.2	15.2	15.2	15.2	15.2	15.2
<b>Current liabilities</b>	<b>200.1</b>	<b>209.8</b>	<b>203.9</b>	<b>212.3</b>	<b>218.3</b>	<b>222.3</b>	<b>227.8</b>
ST interest bearing debt	12.0	17.7	17.7	17.7	17.7	17.7	17.7
Accounts payables	150.0	152.5	146.9	155.3	161.2	165.3	170.7
Other ST liabilities	38.1	39.6	39.4	39.4	39.4	39.4	39.4
Discontinued liabilities	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>305.9</b>	<b>315.8</b>	<b>320.3</b>	<b>337.7</b>	<b>347.9</b>	<b>352.6</b>	<b>357.0</b>
<b>EV and CE details (EUR m)</b>	<b>12/06</b>	<b>12/07</b>	<b>12/08</b>	<b>12/09</b>	<b>12/10e</b>	<b>12/11e</b>	<b>12/12e</b>
<b>Market cap.</b>	<b>179.6</b>	<b>193.8</b>	<b>159.7</b>	<b>231.3</b>	<b>230.8</b>	<b>213.7</b>	<b>196.5</b>
+ Net financial debt	-53.0	-28.3	-24.0	-29.6	-29.7	-33.5	-37.9
(of which LT debt)	12.0	15.2	15.2	15.2	15.2	15.2	15.2
(of which ST debt)	12.0	17.7	17.7	17.7	17.7	17.7	17.7
(of which Cash position)	77.0	61.3	56.9	57.3	57.4	61.2	65.6
+ Provisions (pension)	0.6	2.4	2.4	2.4	2.4	2.4	2.4
+ Minorities (MV)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
- Peripheral assets (MV)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	3.0	0.0	0.0	0.0
<b>Enterprise Value</b>	<b>127.2</b>	<b>167.9</b>	<b>138.2</b>	<b>207.2</b>	<b>203.6</b>	<b>182.7</b>	<b>161.1</b>
<b>Equity (group share)</b>	<b>87.6</b>	<b>83.2</b>	<b>84.1</b>	<b>78.3</b>	<b>79.7</b>	<b>84.7</b>	<b>104.1</b>
+ Net financial debt	-53.0	-28.3	-24.0	-29.6	-29.7	-33.5	-37.9
+ Provisions (pension)	0.6	2.4	2.4	2.4	2.4	2.4	2.4
+ Minorities	0.4	0.2	0.4	0.4	0.4	0.4	0.4
- Peripheral assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Others	0.0	0.0	0.0	3.0	0.0	0.0	0.0
<b>Capital employed (for ROCE)</b>	<b>35.3</b>	<b>57.4</b>	<b>62.6</b>	<b>54.2</b>	<b>52.5</b>	<b>53.7</b>	<b>68.7</b>
Notes	-	-	-	-	-	-	-

Per Common Share (EUR)	12/06	12/07	12/08	12/09	12/10e	12/11e	12/12e
<b>Adjusted EPS (*)</b>	<b>0.40</b>	<b>0.64</b>	<b>0.70</b>	<b>0.83</b>	<b>1.05</b>	<b>1.26</b>	<b>1.27</b>
Adjusted EPS (fully diluted)	0.40	0.64	0.70	0.83	1.05	1.26	1.27
Declared EPS	0.40	0.64	0.70	0.83	1.05	1.26	1.27
CFS	0.87	1.13	1.23	1.41	1.77	2.06	2.09
FCF (to Equity)	-0.07	1.50	0.66	1.24	1.37	1.64	1.71
Dividend	0.20	0.24	0.26	0.24	0.30	0.40	0.40
Book Value	3.25	3.22	3.39	3.51	3.87	4.44	5.93

### Shares (m)

At the end of F.Y.	26.960	25.800	24.800	22.344	20.610	19.079	17.548
Average number	28.140	26.380	25.300	23.572	21.477	19.844	19.844
Fully diluted Average number	29.576	27.385	26.305	24.577	22.482	20.849	20.849

(\*) Adjusted EPS : pre-goodwill amortisation earnings, adjusted for post-tax non-recurrent items

Ratios	12/06	12/07	12/08	12/09	12/10e	12/11e	12/12e
<b>Valuation analysis</b>							
P/E	16.7	11.7	9.2	12.5	10.6	8.9	8.8
P/CF	7.6	6.6	5.2	7.3	6.3	5.4	5.4
P/BV	2.0	2.3	1.9	3.0	2.9	2.5	1.9
EV/Sales	0.2	0.2	0.2	0.3	0.3	0.2	0.2
EV/EBITDA	4.7	5.5	4.9	6.6	5.9	4.8	4.2
EV/EBITA	8.8	6.9	5.4	7.2	6.4	5.2	4.5
EV/EBIT	8.8	6.9	5.4	7.2	6.4	5.2	4.5
EV/CE	3.6	2.9	2.2	3.8	3.9	3.4	2.3
EV/FCF (1)	47.0	3.8	5.6	6.8	6.6	5.3	4.5
FCF yield (2)	-1.2%	21.2%	10.9%	13.2%	13.3%	16.0%	18.2%
Dividend yield	3.0%	3.2%	4.0%	2.3%	2.7%	3.5%	3.6%
<b>Financial ratios</b>							
Interest cover	0.0	0.0	128.0	143.5	106.6	118.0	119.1
Net Debt/EBITDA	-1.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0
Net Debt/Equity	-60.3%	-34.0%	-28.4%	-37.6%	-37.1%	-39.4%	-36.3%
Net Debt/FCF (2)	24.2	-0.7	-1.4	-1.0	-1.0	-1.0	-1.1
Capital turnover	14.8	12.1	11.3	14.5	13.8	13.9	12.5
ROCE pre-tax	37.2%	42.2%	40.2%	55.0%	56.2%	60.9%	53.7%
ROCE post-tax	26.4%	29.9%	28.6%	39.0%	39.9%	43.2%	38.1%
ROE	13.4%	20.6%	22.1%	24.9%	29.9%	31.7%	27.9%
Working capital (in % of sales)	-1.4%	0.8%	2.6%	2.9%	3.0%	3.0%	2.9%
Payout	53.1%	33.9%	35.0%	27.9%	27.2%	30.0%	30.0%
<b>Margin analysis and tax rate</b>							
Gross margin	28.1%	30.3%	31.0%	29.4%	29.3%	29.3%	0.0%
EBITDA margin	4.6%	4.3%	3.9%	4.1%	4.4%	4.7%	4.7%
EBITA margin	2.5%	3.5%	3.6%	3.8%	4.1%	4.4%	4.3%
Adjusted profit margin	2.0%	2.5%	2.6%	2.7%	3.0%	3.2%	3.2%
Tax rate	29.6%	21.5%	26.5%	27.8%	27.0%	27.0%	27.0%
<b>Growth analysis</b>							
Sales	7%	19%	2%	6%	4%	3%	3%
EBITDA	-17%	12%	-8%	13%	10%	10%	1%
EBITA	-24%	69%	4%	12%	11%	11%	1%
Adjusted profit	-1%	50%	5%	10%	17%	11%	1%
Adjusted EPS	3%	62%	9%	17%	28%	19%	1%
Dividend	25%	20%	8%	-8%	25%	32%	1%

(1) Based on FCF to Enterprise - (2) Based on FCF to Equity

Notes -

# Petercam Institutional Research and Sales

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	SELL	REDUCE	HOLD	ADD	BUY
<b>High</b> Beta > 1.3	RP < -15%	-15% ≤ RP < -6%	-6% ≤ RP < +6%	+6% ≤ RP < +15%	RP ≥ 15%
<b>Medium</b> 0.9 < Beta ≤ 1.3	RP < -10%	-10% ≤ RP < -4%	-4% ≤ RP < +4%	+4% ≤ RP < +10%	RP ≥ 10%
<b>Low</b> Beta ≤ 0.9	RP < -6%	-6% ≤ RP < -2%	-2% ≤ RP < +2%	+2% ≤ RP < +6%	RP ≥ 6%

RP : Relative Performance against Petercam coverage universe

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