

# Mandrakesoft

12 July 2004

## Equipment Ministry chooses Mandrakelinux

Software & Computer Services				Current price	€ 6.15	<b>Outperform</b>				
France				Target price	€ 7.00	Rating unchanged				
Performance over	1m	3m	12m	FY/e 30.09	2003	2004E	2005E	2006E		
Absolute	35%	50%	171%	Sales (€m)	3.90	4.97	6.51	7.91		
Rel. SBF250	36%	53%	130%	EBITDA (€m)	-2.03	0.38	1.23	1.87		
Rel. sector	41%	58%	136%	Pre-Tax* (€m)	-2.03	0.33	1.15	1.76		
12-m- Hi/Lo	€ 6.15/2.27			Adj EPS* (€)	-0.55	0.08	0.26	0.38		
Reuters	MAKE.PA			EPS (€)	-0.54	0.17	0.24	0.37		
Bloomberg	MLMAN FP			DPS (€)	-	-	-	-		
Market Cap	€ 29.2m			P/E* (x)	-	78.9	24.0	16.2		
Next corporate event	No event.			Yield (%)	-	-	-	-		
				EV/EBITDA (x)	-	80.5	24.7	15.9		

Source: KBC Securities \*Adjusted for goodwill and exceptionals

The French Ministry of Equipment has selected Mandrakesoft to manage the migration of 1,500 office and infrastructure servers towards the Linux operating system. This is excellent news for the group and clearly underlines the government's recently expressed desire to cut IT spending by adopting open source software. The new contract also confirms the existence of a snowball effect within the French administration that is favouring Mandrakesoft, which already works with the Ministry of Agriculture and the Ministry of Culture and Communication. Mandrakesoft now has a proven ability to win major contracts. This will stand the group in good stead as enthusiasm for Linux grows among administrations and large companies across Europe.

### A major government contract

With 160 decentralised departments including 102 local equipment divisions (DDE), the Ministry controls a huge computer network covering 60,000 workstations plus servers. The migration towards Linux forms part of the "Equilinux" project, launched in 2003 and scheduled to end in 2006.

For this particular contract, Mandrakesoft has developed an adapted version of Mandrakelinux.

The Ministry has taken the Mandrakesoft Corporate Club option, which means it will benefit from regular technological updates, technical support and made-to-measure training.

The Ministry's choice of Linux also reflects the growing desire among governments and large companies not to become slaves to the technology they adopt. The independence offered by Linux is a major positive factor in the decision-making process for those considering migration.

No financial details were released concerning the sums involved in the contract or the overall cost of the migration for the Ministry.

### Recent developments

On July 8, Mandrakesoft published the audited interim results for the period ending 31 March 2004. There were two key differences compared to the estimated, non-audited figures announced at end-April:

- Operating income fell from €0.21m to €0.16m following adjustments to certain balance sheet charges, particularly concerning inventories.
- Net profit rose from €0.32m to €0.82m following the writeback of provisions for debts that were not declared to the trade tribunal in the recent financial reorganisation and which have now passed the foreclosure deadline.

We had already integrated a €0.5m exceptional gain in our forecasts. The fall in operating income came at a time when business conditions for the group were difficult and does not represent any cause for real concern.

On 1 July, Mandrakesoft announced the takeover of Edge-IT, a services and support provider on the Linux market. This small-scale acquisition adds another string to Mandrakesoft's bow and should facilitate the task of managing contracts with large groups. Edge-IT already works with the OECD, Sciences-Po in Paris and the Bertelsmann subsidiary Prisma Presse...

## Conclusion

This has been a busy week for the group overall. Notwithstanding the results publication, the acquisition of Edge-IT and the contract with the Ministry of Equipment clearly illustrate the group's strategy of strengthening links with large groups and public bodies.

We feel confident that the current dynamism will continue and that other news concerning new contracts and acquisitions will follow in the coming weeks.

Jacques Falzon  
+33 1 53 05 35 51  
[j.falzon@kbcsecurities.fr](mailto:j.falzon@kbcsecurities.fr)

Analyst certification: The analysts identified in this report each certify, with respect to the companies or securities that the individual analyses that (i) the views expressed in this publication reflect his or her personal views about the subject companies and securities, and (ii) he or she receives compensation that is based upon various factors, including his or her employer's total revenues, a portion of which are generated by his or her employer's investment banking activities, but not in exchange for expressing the specific recommendation(s) in this report.

This publication has been prepared by KBC Securities NV or one of its European subsidiaries (together "KBC Securities"). This publication is provided for informational purposes only and is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but neither KBC Securities nor its affiliates represent that it is accurate or complete, and it should not be relied upon as such. All opinions, forecasts, and estimates herein reflect our judgement on the date of this publication and are subject to change without notice. From time to time, KBC Securities, its principals or employees may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such persons may have purchased securities referred to herein for their own account in advance of the release of this publication. KBC Securities and principals or employees of KBC Securities may from time to time provide investment banking or consulting services to, or serve as a director of a company being reported on herein. This publication is provided solely for the information and use of professional investors who are expected to make their own investment decisions without undue reliance on this publication. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. By virtue of this publication, none of KBC Securities or any of its employees shall be responsible for any investment decision. In the United States this publication is being distributed to U.S. Persons by KBC Securities, Inc., which accepts responsibility for its contents. Orders in any securities referred to herein by any U.S. investor should be placed with KBC Securities, Inc. and not with any of its foreign affiliates. This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies. The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.