

Capgemini to buy IGATE in \$4 billion US expansion push

April 27 2015

French IT services and consulting company Capgemini said Monday it was buying New Jersey-based IGATE for \$4 billion (3.7 billion euros), boosting US-generated business to nearly a third of its total activity.

"IGATE is a leading company that perfectly fits our strategic ambition. It will give us a new status on the American market, and take further our industrialisation journey to offer ever more competitive services to our clients," said Capgemini president Paul Hermelin in a statement.

Hermelin said the combined companies would post an estimated 12.5 billion euros in annual revenues, 30 percent of which would be generated in North America, which he called the "largest and most innovative market for IT services... (and) by far the first market of the Group."

In a conference call, Hermelin noted that in considering various acquisition options, Capgemini had "above all looked for a company that would allow us to reinforce geographically in the United States"—something IGATE does by generating nearly 80 percent of its annual in revenues in North America.

IGATE sales last year surged 19 percent to \$1.3 billion.

The purchase, which has been approved by the boards of both companies, also brings IGATE clients, including General Electric and the Bank of Canada, into Capgemini's stable.

IGATE, an applications, network and business process outsourcing specialist, will also help to deepen Capgemini's position in the healthcare, retail and manufacturing markets.

'Moderate positive impact

The tie-up will create a combined workforce of 190,000 employees, with around 50,000 servicing US clients and another 27,000 based in India.

Capgemini will purchase IGATE stock at \$48 per share—five percent higher than its NASDAQ close Friday—and will be partially financed with cash.

Remaining funding will come from a capital increase that Hermelin said would decrease the value of existing Capgemini shares by no more than six percent, as well as debt.

The acquisition should be finalised during the second half of the year, and is expected to create annual synergies of \$100-150 million, and cost reductions of \$75-105 million, Capgemini said.

Elsewhere, Capgemini announced that 2015 first quarter revenues increased 10.5 percent to 2.7 billion euros compared with the same period last year, powered in part by a 33.8 percent boost in US activity.

It also revised income outlook for the year upwards from initial forecasts of three to five percent to a rise of at least five percent.

Despite that, Standard and Poor's announced it had lowered Capgemini's credit rating a grade to "BBB," on concerns financing obligations to acquire IGATE would outweigh the "moderate positive impact" of the acquisition on group accounts.

However, investors on the Paris Bourse sent Capgemini stock rising with early gains of three percent increasing to over six percent in early afternoon trades.

© 2015 AFP

Citation: Capgemini to buy IGATE in \$4 billion US expansion push (2015, April 27) retrieved 23 May 2024 from <https://phys.org/news/2015-04-capgemini-igate-billion-expansion.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.