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# THE WALL STREET TRANSCRIPT

**Questioning Market Leaders For Long Term Investors**

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**THE WALL STREET TRANSCRIPT**

## COMPANY INTERVIEW

**PIERRE PASQUIER**  
Sopra Group

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# Sopra Group (SOPR.PA)



**PIERRE PASQUIER** is the Chief Executive Officer of Sopra Group as well as one of its Founders. He has been instrumental in building and developing Sopra Group into a highly regarded systems and solutions integration company, which consists of designing, implementing and maintaining all or part of an information system in response to a specific demand from customers. He has more than 30 years' experience in executive management and development of IT services. During the 1960s,

the Savoy region of France was a hotbed of technological innovation. Mr. Pasquier and François Odin (majority shareholders for the group) opened Sopra Group operations in Annecy, France, in 1968. From the outset, technical creativity and a dedicated work ethic marked the small company. Spearheaded by Mr. Pasquier's enthusiasm for innovation and dedication to high-quality service, the group developed offerings in the banking, telecom, utilities and services, retail, and public sectors as well as proprietary solutions for the banking, human resources and real estate sectors. Internal growth and client demand fueled the establishment of numerous agencies in all major French cities, today a source of deep-rooted strength for the firm. By 1985, Sopra Group was expanding into other European countries as well. In 1990, the company was listed on the Paris Bourse. Today, Sopra Group boasts more than 6,000 employees. Mr. Pasquier, through Sopra Group, is a member of the Syntec (French organization for IT services companies), acts as Chairman for Axway Software (wholly owned EAI subsidiary of Sopra Group) and Orga Consultants (wholly owned consulting subsidiary of Sopra Group) and is a member of the Board for Sopra GMT (holding company for shares belonging to P. Pasquier and F. Odin ).

## SECTOR – IT SERVICES

**(WAA607) TWST: Can we start with a brief historical sketch of your company and work up to the things you're doing now?**

**Mr. Pasquier:** Sopra Group was created in France in 1968. From the outset, we were positioned in the IT services sector and soon became a key player in the French market. After an initial period of essentially organic growth and intensive innovation, we began to restructure our activities in

1985 and went on to become an international IT engineering firm. During this time, which marked the beginning of European expansion, we created the first subsidiary in Geneva. Sopra Group also embarked successfully on a number of large public projects, broke into the technical products market and developed our banking offer. In 1990, Sopra Group was listed on the Paris Bourse. From that time on, we have maintained a balance between organic growth and growth through acquisition.

# Investors Brief

## Sopra SA

Ticker (exchange)

SOPR.PA (PARIS)

Price close 11/06/03

39.65

12 Months Price Range

13.91 - 40.00

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### Corporate Officers

**Pierre Pasquier**  
President and Director

**Jean-Claude Boutin**  
Director

**Jean Mounet**  
Director

**Hervé Dechelette**  
Secretary

**Jean-Claude Debray**  
Communication

SOPRA was founded in 1948 as a family business to manufacture devices for the automotive and railroad industries. In 1957 SOPRA (SOciété de Production et de Recherches Appliquées – Trans. Corporation for Applied Research and Manufacturing) focused on optically-based instrumentation, with the introduction of Michelson and Fabry Perot interferometers. From this time, the company's product line expanded to include monochromators, spectrometers and lasers

Listening carefully to customer requirements and responding with world class quality and innovation have been key factor in the SOPRA's steady growth.

Behind this success : an ongoing commitment to total quality management that is present at every level of our organization. This has been an essential element in driving our continued expansion in the international photonics market. It has helped to make SOPRA the name customers rely on for unsurpassed precision and custom-tailored solutions such as Spectroscopic Ellipsometry for the semiconductor and flat panel industries.

As a company, our values go beyond technology to encompass such critical issues such as health, safety and environment.

For these reasons and more, SOPRA is just the metrology partner for the semiconductor industry.

SOPRA's ability to design and manufacture high quality metrology tools and analytical equipment with integrated mechanics, optics, electronics and software has become one of the company's key assets.

As a well established industry leader in both R&D and industry, SOPRA brings state-of-the-art technology at the production level.

SOPRA operates from three locations (France, Germany, USA) and employs 8000 people worldwide.

### France

At the French headquarters and R&D facilities, located in a 3000 m2 building, the company designs, develops and manufactures a wide range of products.

With the help of two subsidiaries and its network of highly qualified distributors, SOPRA serves a worldwide market.

### USA

Established in 1990, SOPRA's American headquarters in Westford, is responsible for sales, high-level technical support and after-sales service.

### Germany

Opened in 1991, SOPRA GmbH is located near Francfort and performs the sales and support for the German semiconductor and R&D markets.

### Japan

SEIKA Corp. is SOPRA's products distributor responsible for commercial and technical support in Japan since 1989. The two companies have cemented their long-term relationship when SEIKA became one of SOPRA's shareholders in 1995.

### Sales Volume

Year	1997	1998	1999	2000	2001
Sales volume (MEuros)	11,3	9,8	11,7	13,2	16,1

SOPRA's turnover has risen rapidly, averaging an annual growth rate of 20 % for the past 15 years. The steady growth curve, initially due to worldwide export, has been sustained by a major commitment to expanding markets.

Successful products are finding applications as new materials are introduced in the semiconductor sector.

SOPRA has gained extensive know-how through close and continuous relationships with Applied Research Laboratories and Universities and owes its leadership position in instrumentation and production metrology equipment for industry to a proven ability to meet customers' needs.

The group has remained in the IT services market throughout its 35-year history and has grown to include more than 6,000 employees throughout Europe. The core of our consulting and systems integration market is located in France (73% of revenue) and in Europe (13% of revenue). Axway, the subsidiary for EAI technology, operates worldwide (14% of revenue). The total group revenue in 2002 was 531 million. This year, after a recent acquisition is finalized, revenue will be around 575-580 million pro forma. Five years ago, our sector and this market experienced incredible growth. After that, of course, we saw quite a bit of decline. Things are pretty much stabilized now and 2004 is probably the beginning of a new growth period.

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***“Sopra Group is known for the quality of its management teams when it comes to big projects. We are known for our ability to handle them. We thrive on big projects at a fixed price and we bring a personal and professional engagement to each project from beginning to end.”***

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**TWST: Is that your growth strategy, an acquisition strategy? Or is it one of organic growth?**

**Mr. Pasquier:** The organic growth for the group is probably around 0% right now, but that’s a good performance because, for nearly all of our competitors, it’s been decreasing. Certainly, we have a strategy for organic growth. For the coming year (2004) we have targeted growth somewhere between 5% and 8%. However, organic growth is not sufficient to develop a good position outside of France. We need to buy, and I think that now is a good time to do so. We have one acquisition in the works as we speak (Inforsud Ingénierie) which will be finalized by the end of the year. A lot of big groups and a lot of competitors would like to sell their subsidiaries. It’s a good time to make acqui-

sitions because these companies are not expensive. Generally, some restructuring has already been taken on by the companies and if you can buy a subsidiary of a large group, which is what we’re in the process of doing right now, it can be a really good investment. If there is good, solid technology and good solid people inside the company, you can buy quality market share. This summarizes what we’re doing, or what we would like to do — a combination of organic growth and growth by acquisition. Geographically speaking, our targets for growth by acquisition are France, the United Kingdom and Spain.

**TWST: Your competitors are: IBM, Accenture, AtosOrigin, CGEY and LogicaCMG; these are very branded competitors. How do you see yourself in the space with that type of competition?**

**Mr. Pasquier:** We have two kinds of competitors: big and really big! The biggest one is IBM. CGEY is really big too but it’s a French company. We compete at a level where there are a lot of good companies like LogicaCMG, like AtosOrigin, like Accenture. Sometimes, for the really big deals, we form an alliance with Accenture or IBM for a consortium of sorts, a type of partnership on a per-project basis. We do what we’re capable of but are careful not to over-extend our resources. We are perfectly capable of competing against the biggest companies in France. For example, we were up against IBM two years ago for a human resources development contract for the three French armies and the gendarmerie. It’s a huge contract. The project is underway now and running smoothly and will most likely generate revenue for two or three more years. Because of our size, it’s not so difficult for us to be in a good position. Sopra Group has more employees than Accenture or LogicaCMG in France, but not in the

UK. We have 5,000 people in France with extensive experience on really big projects. In other countries, that's not the case. Take Germany, for example. There we are very small. But through a recent deal with a big French company like Michelin, we are working in all the major European countries, even in Germany. We won this contract in part because Sopra Group is geographically close to Clermont-Ferrand (headquarters of Michelin).

When there are big needs for big solutions in France, we get the call and we are just as qualified as our competition at handling the big projects. We are big enough to provide solutions but small enough to provide personal service and develop a long-term relationship with our clients. Sopra Group is known for the quality of its management teams when it comes to big projects. We are known for our ability to handle them. We thrive on big projects at a fixed price and we bring a personal and professional engagement to each project from beginning to end.

**TWST: Would you tell us about your management and the skills and the strengths that they bring to the table?**

**Mr. Pasquier:** Our management style is global in approach. In fact, managing the company is like managing a project. If I have a project to manage, during the tender I will make an agreement with the client that Sopra Group will develop, for example, a CRM solution. We need a good project manager who will survey everything with global vision. You must develop the project; complete it within the time deadline and at a fixed price. The project manager must monitor the group's activities and make the client comfortable, confident and happy. It's a global approach. When project managers have 50 people working with them for one to two years, from the beginning of

the project to the end, they must be very skilled at management. They must motivate a lot of people around them as well as motivate the client. They have to be successful with every goal, make the project a success, meet deadlines and, most important, ensure that their team enjoys working together. Even more important, they must always be able and willing to learn new things. Of course, making money on the project and setting up a good position for the future with the client are also crucial. These are the kinds of management skills we require of our managers and they're not so easy to find or develop. A project manager must have the proper technical training and must be an engineer. Under the best of circumstances, they will have understood and worked with the technology from the beginning of their careers. They must stay on top of their technical skills in order to advance within the company. Then, after a few years of experience, they can begin to manage some of the people around them. Future project managers need to be successful in small increments, build on past experiences and learn the problems and needs of the clients.

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***"Our position is a really good one — one of the best in Europe. We recently had one of the strongest performances in France, as far as growth and margins go. We're protecting the balance sheet and the balance sheet is strong. We're a financially healthy company. The pipeline looks very healthy as well. Beyond that, we plan to remain one of the major companies for systems integration in Europe."***

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They have to understand problems that are unique to the banking sector, the telecommunications sector, etc., and realize that they are not the same problems. Training good project managers is a long process: first — develop technical skills, and then learn to manage, learn the problems of our

clients and, finally, specialize in certain markets. Within Sopra Group, if an employee chooses to specialize in a specific sector and gradually takes on more responsibility, he or she can then not only learn to manage the big projects, but can eventually manage what we call divisions as well. Employees who want to progress professionally in this manner don't need to talk a lot; they need to listen. At Sopra Group, we try to understand exactly what the clients' needs are and find a good solution for their problem. It's a really interesting job. We learn quite a bit about our clients. In order to develop a big project for the French administration, you must know a lot about the French administration. It's the same for the banking sector, health care — it's extremely complicated. The better the project manager, the more we can develop and increase the revenue of the company. It's the relation between the skills and the market. Okay, for the moment, the market is not a strong market, but that won't last long. Sooner or later, growth is not really dependent on the quality of the market but on the skills of the management. Ultimately, what Sopra Group brings to its clients is a solid understanding of their specific problems and the skills and the ingenuity to provide solutions for the completion of all large projects.

**TWST: What are some of the key questions or comments you hear from your investors?**

**Mr. Pasquier:** Our investors are looking at strategy. They want to know what the acquisition strategy is and what markets and sectors are growing. They look at who our main competitors are and how we hold up against the competition. When they look at the competition, it's easier for them to understand Sopra Group.

**TWST: Are you comfortable with your balance sheet? Is it a balance sheet that makes you confident of new acquisitions?**

**Mr. Pasquier:** Definitely. We're making an acquisition now and we plan to make more. The current operation is a share exchange deal for a small subsidiary of 500 or so people. We have known the company for long time; it is positioned on the banking sector. It is fairly easy to make an agreement with them. After this acquisition, the banking sector will probably be 35% of our business. That is a significant portion of revenue coming from the banks; it encompasses all the big banks — the small ones too, but the small ones are subsidiaries of the big ones. It's a good market to be in and we have developed a lot of skills — it's not so easy to break into this market and try and do business. We have a high skill level because we have been in this market for a long time. We know the problems; we know the banking sector. Sopra Group understands the problems of the banks perfectly, and that understanding and experience makes this kind of acquisition possible. It's difficult to buy a listed company because its market value will probably be high. It's easier to buy a subsidiary of a big corporation. You could also buy a small, independent company, but that can be more expensive as well. You enter into heavy negotiations rather than making a deal with the group, because there is no group at all, just a small company with the Founders looking to cash in. If the value has been dropping, you are just agreeing to purchase a lot of problems; if it's growing, the price can be quite a bit higher. But the subsidiaries of the big groups — there you can find some good bargains. That's what we're looking to do.

**TWST: Looking ahead, what challenges or problems do you see on the horizon for your sector or for your company?**

**Mr. Pasquier:** Overall for the sector, the challenge is to wait out the economy. All the big clients — all of them — have a lot of projects on

the back burner. They are just biding their time, looking at the bottom line and monitoring their competitors. I am pretty sure that when the time is right there will be growth for our sector, our profession and for Sopra Group. For the time being, we are just trying to remain stable, protect the margins and watch for acquisition opportunities.

**TWST: What are the best two or three reasons to invest in your company?**

**Mr. Pasquier:** For the short term, the group is now in a position to grow revenue. Additionally, protecting and even improving the EBIT margin is possible. Our position is a really good one — one of the best in Europe. We recently had one of the strongest performances in France, as far as growth and margins go. We're protecting the balance sheet and the balance sheet is strong. We're a financially healthy company. The pipeline looks very healthy as well. Beyond that, we plan to remain one of the major companies for systems in-

tegration in Europe. That's the core business of Sopra Group. We have targeted 1 billion in revenue by 2007 at the latest. This target is realistic and Sopra Group is determined to achieve it.

**TWST: Thank you. (MD)**

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