Agenda

- European IT Market Overview
  - EITO Project Update
  - Vertical Markets development in the EU
  - Digital Transformation trends in Europe
IT Market Developments in Europe

Year on Year IT Spending Growth (%)
Telecoms Market Developments in Europe

Year on Year IT Spending Growth (%)

EITO Defined IT Market

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>WE5</td>
<td>-1,3%</td>
<td>-1,5%</td>
<td>-1,2%</td>
</tr>
<tr>
<td>EU26</td>
<td>-0,9%</td>
<td>-1,2%</td>
<td>-1,0%</td>
</tr>
<tr>
<td>CH</td>
<td>-0,4%</td>
<td>-0,6%</td>
<td>-1,4%</td>
</tr>
<tr>
<td>WE</td>
<td>-0,9%</td>
<td>-1,2%</td>
<td>-1,2%</td>
</tr>
<tr>
<td>CEE</td>
<td>-3,0%</td>
<td>0,2%</td>
<td>1,1%</td>
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</tbody>
</table>
ICT Market Developments in Europe

*Year on Year IT Spending Growth (%)*

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>WE5</td>
<td>0.6%</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>EU26</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>CH</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>WE</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>CEE</td>
<td>-2.4%</td>
<td>2.0%</td>
<td>1.9%</td>
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</tbody>
</table>
Changes in IT Market Forecasts

Year on Year IT Spending Growth (%)

EITO Defined IT Market

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>WE5</td>
<td>1.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td>WE5 (2)</td>
<td>2.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>EU26</td>
<td>1.9%</td>
<td>2.4%</td>
</tr>
<tr>
<td>EU26 (2)</td>
<td>2.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>CH</td>
<td>2.5%</td>
<td>2.8%</td>
</tr>
<tr>
<td>CH (2)</td>
<td>2.7%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
Changes in Telecoms Market Forecasts

Year on Year IT Spending Growth (%)

- WE5: -1.2%
- WE5 (2): -0.9%
- EU26: -1.4%
- EU26 (2): -0.8%
- CH: -1.0%
- CH (2): -0.4%

EITO Defined IT Market

Source: EITO Data 2012
IT Spending Dynamics by Technology in Europe

Unstable IT Hardware Markets Undermine Broader Recovery

Summary Spending Growth (%) for WE5 Markets

EITO Defined IT Market
Summary Spending Growth (%) for WE5 Markets

Source: EITO Data 2012

EITO Defined IT Market

IT Spending Dynamics by Technology in Europe

Prior Forecast

Summary Spending Growth (%) for WE5 Markets

<table>
<thead>
<tr>
<th>Technology</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>PCs</td>
<td>-9.4%</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Tablets</td>
<td>1.6%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Servers</td>
<td>-3.2%</td>
<td>-7.9%</td>
</tr>
<tr>
<td>IT Services</td>
<td>4.5%</td>
<td>4.9%</td>
</tr>
<tr>
<td>MFPs</td>
<td>0.7%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Software</td>
<td>0.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Storage</td>
<td>2.7%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

EITO Defined IT Market
ICT Hardware Market Dynamics in Europe

Reduced Expectations Due to Saturation and Pricing Dynamics

Spending on Select ICT Hardware Technologies for the WE 5

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IT Spending Growth by Region/Country

Continued Considerable Variation Reflecting Different Trends

Year on Year IT Spending Growth (%)

EITO Defined IT Market
IT Spending Overview

- Strength of dollar is impacting IT spending; direct impact on revenue for US-based vendors, indirect impact on demand via local product pricing/import costs.
- IT spending is stable in constant currency terms (slightly down on 2014 due to PC cycle and gradual smartphone maturation), but on course to decline in US dollars; excluding phones, IT market will increase by around 3% in constant currency, in line with 2014.
- PC cycle has largely blown itself out, but tablets will resume growth; excluding all client devices (PCs, tablets, phones), IT spending will be broadly stable (slightly up in US and Europe, weaker in other regions).
- Growth has slowed in China; IT market set for growth of around 5% per year going forward (down from double-digits 2010-2014).
- Software/Cloud will continue to account for increasing proportion of IT budgets at the expense of traditional IT services and infrastructure.
Macroeconomic Overview

- Low oil prices have boosted economic growth in some regions, but negative impact in oil-producing countries (Canada, Russia, Middle East/Africa).
- Despite wild card of new government in Greece, outlook for Western Europe recovery has slightly improved overall since January.
- Central & Eastern Europe now expected to post negative GDP decline in 2015, as sanctions continue to drive devaluation/inflation in Russia.
- Asia/Pacific broadly stable, GDP growth around 7% in China (in line with new government target); some skepticism about China data, but government may intervene to prevent harder landing; India expected to exceed 7% growth; Japan is weaker on soft export numbers and higher import costs, driving down consumer/business confidence.
- Latin America growth has weakened due to inflation, currency devaluation, lower commodity costs, weak consumer confidence and tighter macroeconomic policies.
- Momentum has slowed in the US, with weaker profits and business investment cancelling out benefits of lower energy costs; strong dollar is making exports less competitive, and oil sector has retrenched; cold weather affected consumer spending (repeat of 2014).
VERTICAL MARKET IT SPENDING

- Utilities, business services, and financial services are the fastest growing sectors in 2015 in terms of IT spending.
- IT spending in government and education will be flat in 2015.

Note: QoQ: quarter over quarter; 2015 GDP refers to GDP growth

Sources: Consensus Economics, March 2015; DG ECFIN, Business and Consumer Survey, March 2015; IDC’s European Vertical Markets, 4Q14 EVM Pivot
EU and Top 5 Countries YoY Real GDP Increase (%)

Source: Consensus Economics, March 2015
Introduction: Confidence Increasing Across Sectors Apart from Construction and Services

- The positive trend showed by construction in 2H14 lost momentum in 1Q15. It is the only sector, together with services, presenting a negative trend compared with the previous quarter (-2.9 and -1 points QoQ, respectively). On the other side, the consumer sector made a big jump compared with the end of last year (5.7 points), followed by retail and financial services (2.2 points each). Industry confirms its quite stable trend, with only marginal improvement (0.7 points) compared with last quarter.

- Despite this quarter's trend, construction still shows a more positive scenario compared with the previous year (4.8 points). The same holds true for the consumer (3.9 points) and financial services (5.1 points) sectors; because of the boost this quarter, their confidence indicators significantly improved since last year.

- Looking at long-term averages, the scenario is quite positive. Only construction and service fell slightly below their averages (-1 and -0.5 points, respectively), while the remaining sectors — led by consumer (10.2 points) and retail (8.5 points) — all have positive deviations compared with their long-term averages.

Source: DG ECFIN, Business and Consumer Survey, March 2015
Vertical Market IT Spending Update

Vertical Markets IT Spending Growth Rates (%)

Source: IDC's European Vertical Markets, 4Q14 EVM Pivot
Vertical Markets IT Spending Outlook

Western Europe IT Spending by Vertical Market, 2015

Notes:
- Bubble size represents the size of each vertical market in 2015 in terms of total IT spending in Western Europe.
- 3rd Platform propensity indicator represents the vertical markets’ attitude toward 3rd Platform technologies (social media, Big Data, mobile, cloud, and IoT). It sources from sections of IDC's 2014 European Vertical Markets Survey that investigate current and future adoption plans toward 3rd Platform technologies.

Source: IDC's European Vertical Markets, 4Q14 EVM Pivot
# Business Priorities: Top 3 by Vertical Market

<table>
<thead>
<tr>
<th>Vertical/Priority</th>
<th>#1</th>
<th>#2</th>
<th>#3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Sensitive data protection</td>
<td>Regulatory compliance</td>
<td>Reducing operational costs</td>
</tr>
<tr>
<td>Process manufacturing</td>
<td>Regulatory compliance</td>
<td>Sensitive data protection</td>
<td>Reducing operational costs</td>
</tr>
<tr>
<td>Discrete manufacturing</td>
<td>IT organization contribution to business goals</td>
<td>Sensitive data protection</td>
<td>Reducing operational costs</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Sensitive data protection</td>
<td>Patient care enhancement</td>
<td>Regulatory compliance</td>
</tr>
<tr>
<td>Telecom/media</td>
<td>Sensitive data protection</td>
<td>Sales performance improvement</td>
<td>Customer care enhancement</td>
</tr>
<tr>
<td>Utilities/oil and gas</td>
<td>Organizational restructuring or M&amp;A activities</td>
<td>Sensitive data protection</td>
<td>Improve financial performance (**)</td>
</tr>
<tr>
<td>Retail/wholesale</td>
<td>Sales performance improvement</td>
<td>Marketing effectiveness improvement</td>
<td>Reducing operational costs</td>
</tr>
<tr>
<td>Professional services/transport</td>
<td>Sensitive data protection</td>
<td>Regulatory compliance</td>
<td>Customer care enhancement</td>
</tr>
<tr>
<td>Government/education</td>
<td>Regulatory compliance</td>
<td>Sensitive data protection</td>
<td>Reducing operational costs</td>
</tr>
</tbody>
</table>

(*) specific to the sector
Source: *IDC European Vertical Markets Survey, 2014 (n = 1,588)*
Utilities will continue to be the **fastest growing vertical in terms of IT spending in 2015**. Low demand and high competition as well as being a forerunner in the **smart revolution** that is reshaping the IT scenario are leading utilities to represent one of the most interesting vertical in terms of IT spending opportunities in the coming months. Although the sector is not leading in terms of market shares, the increased focus on **reducing operational costs**, together with a strong attention toward **minimizing customer churn rates**, will lead utilities to significant IT investments in the near future and call IT vendors to reshape and adapt their proposals to seize the big opportunities that come from this market.

The **global financial crisis** had a **weaker impact** on **business services** than other verticals. However, positive business growth of previous years are far and, as previously mentioned, **confidence sentiment deteriorated** in the past year. Not all companies in the sector were able to adapt to the urgent **rationalization process** and new **competitive landscape**. In this context, IT investments represented and will continue to be a **safe anchor** for **bigger and more advanced companies** (e.g., large consulting companies and engineering) that are struggling to **increase efficiency** and **rationalize costs**. On the other hand, **small companies** that are usually low-tech oriented will also look with interest at the multitude of new IT pay-as-you-go offers to **beat strong competition** by offering **innovative services** to their clients. This will lead **business services** to be the **second fastest** growing sector in terms of IT spending in 2015.

**Financial services** is the **third fastest growing market**. Driven by financial institutions in the Nordics, the U.K., and Germany, the sector will continue to be one of the main verticals because of its expected IT spending growth and the fact that it is still **second in terms of market share**. Vendors will find **fertile ground** due to its strong **3rd platform attitude**. For instance, **mobile** (with new payment solutions and customer apps) and **Big Data/analytics** (related to model risk management) are particularly spot on trend for the sector. Financial services emerged as the **most 3rd-Platform-oriented market** from our survey, and this further underlines the sector's interest in new technologies and confirms once more the leading role it will continue to have in 2015 IT spending.
Aside from the U.K., where the sentiment indicator dropped down again in 1Q15, manufacturing seems to be recovering after the past year's hesitations. Limitations coming from the Ukraine crisis and a very low internal demand for EU countries are slowly waning. Although manufacturing companies are still considering their IT budgets very carefully, companies in the sector are looking forward to new IT opportunities and solutions to satisfy their need for cost control and operational efficiency. Being the largest sector for IT spending and the fourth in terms of expected growth rate in 2015, manufacturing still shows great opportunities for IT vendors that will be able to propose the best solutions for optimizing and automating manufacturing processes.

The public sector is still far from presenting very positive budget capacities, with municipalities still struggling to cut unnecessary costs. On one hand, the sector is on the skids; on the other, it is called to follow the digital agendas strongly supported by the European Commission and national governments. This means digitalization of back-office procedures for government and digital classrooms as well as elearning for schools and universities. We do not expect significant IT budget cuts in 2015, although growth rates, particularly for government, will remain very low in the coming months. IT investments in the sector will follow two main needs: reducing and controlling costs while providing effective, smart, and fast services to citizens.

The remaining sectors show 2015 IT spending growth rates that are quite aligned with the overall market. Healthcare IT spending will pick up again in 2015, with more focus on advanced industry-specific solutions. Similarly, retail (in the wake of the omni-channel experience) and transport will have IT spending growth above the overall market average. Communication, agriculture, construction, and mining (ACM), as well as other verticals are slightly below average in terms of 2015 IT spending growth, although their expected growth rates still remain around 2%. In particular, telecom companies that are threatened by unexpected competitors from other sectors (IT companies and startup) do not want to miss the opportunity to play a major role in the rising cloud and IoT markets and will represent a quite dynamic sector for IT investments in the near future.
The 2015 ‘hyper connected consumer’ will drive mainstream industries to spend heavily on digital transformation.

Size of opportunity for ICT vendors will be greatest in Banking and Retail in 2015.
The Rise (& Fall) of the CDO

15% of the top 500 European Organizations will appoint a Chief Digital Officer in 2015

- In some cases this role will report into the CIO, but in most cases it will be a business-focused reporting into the CEO
- But the role will diminish longer term as the Chief Data Officer becomes more prominent.
The EU Regulatory Impact

The Passage of the EU Data Protection Legislation will have a significant impact on IT Spend in 2015

2015 will see growth for Storage and Information Governance and in some cases for security, but Public Cloud and Big Data Analytics will be negatively impacted.
Consulting players will pull away from the rest of the ‘digital transformation pack’

Example: professional services spend on Customer Experience IT ($m)

Source, European CXIT Practice research, 2014
IoT will provide a killer app for digital transformation
Enterprise adoption of smartphones and 4G will tip into the majority during 2015

What percentage of your employees are using smartphones now?

Not using 55.1%

Using 44.9%

What percentage of your employees will be using smartphones in 12 months?

Not using 43.4%

Using 56.6%

Source: IDC Enterprise Mobility survey, H2 2014 | N = 920
IT outsourcing will be fatally damaged by cloud in 2015
More than half of large European enterprises using public cloud will commit to enable hybrid models

Only One in Five will actually make it work

Off-premise resources are the way forward, especially for “digital” type of workloads. The dominant & most mature models for hybrid cloud in 2015 will be:

- SaaS linked to on-premise application via middleware (e.g. Salesforce to ERP on premise);
- mobile apps on public IaaS linked to back-end systems (for billing, customer relationship, credit card processing etc.);
- Test and Dev of enterprise applications on public cloud that are then moved to private hosted clouds when in production
European Organizations will begin to use advanced analytics embedded within packaged business applications.

Key areas that will be initially affected:
• Sales and service applications
• HCM applications
Questions?

For questions, please contact us:

wamin@idc.com