

Industry report

IT

Developments in the IT industry H2 2016 edition

Introduction

The information technology sector continues to be a key source of M&A mega deals, with **Microsoft's** acquisition of **LinkedIn** (\$26bn) and **Alcatel's** of **Nokia** (\$18bn) underlining this in recent months.

Significant deal flow also continues to be observed at the small cap level where the pursuit of scale, disruptive innovation and the pace of market advancement remain key drivers of M&A activity.

For many years, M&A Worldwide (M&A WW) been an active player in the field of IT small-mid cap M&A globally.

With over 50 mandates in the IT sector currently in progress, M&A WW's dedicated experts have extensive access to the global market.

The depth of our sector knowledge and our access to an extensive global network leaves M&A WW ideally placed to support our clients' M&A activities and to help accelerate their corporate success. M&A WW's IT specialists are spread around the globe and are ready to support you in your cross border projects.

Bernard LECHAT

IT Sector Group Leader – MBA Capital, France

M&A Worldwide

The Network for Mergers and Acquisitions

Established in 2004, M&A WW is a leading global alliance of midmarket merger & acquisition specialists. M&A WW presently has 40 member firms operating in over 40 different countries. All members work closely together in a global alliance to advise

clients on mergers, acquisitions, divestitures, joint ventures, capital raising, and other strategic partnerships. Collectively, we closed 293 transactions in 2015, representing a cumulative deal value in excess of \$3bn.

The last M&A Worldwide convention took place in Warsaw on 12th May 2016

Focus on the Polish IT Market

The value of the Polish IT services market grew in 2014 by 4.5%, to \$3.3bn. Last year, the majority of new contracts originated from the finance and telecoms sector. However, increased demand for IT services was also recorded from manufacturers and distributors. Significant recovery was evident among B2C operators, principally driven by increasingly sophisticated customers demanding that IT providers implement the latest technologies and solutions.

The Polish IT services market is forecast to grow an average of 4% over the next five years. In 2019, its value in Poland alone is anticipated to exceed \$4bn, with the IT services market for the wider Central and Eastern European region (excluding Russia), reaching \$11bn.

Increasing company interest in competitively advantageous

solutions in the business operating sector is likely to remain a key driver for M&A in the mid-term. The Polish IT services market is recording growing demand for CRM solutions, process optimization software, business intelligence, specialized asset management and real estate tools. Over the coming years, the rate of demand growth for these services is likely to continue. However, suppliers and integrators of IT services will have to compete with emerging start-ups offering innovative solutions, which have the potential to dynamically gain market share.

Another challenge facing established IT service providers is the need to adjust their current product portfolio to meet the expectation of new customers. Investments in “third platform” technologies,

such as cloud, mobile and social media, are increasingly necessary to adapt to rapidly changing market conditions. This development may create significant opportunities for the entry of new players in the next few years; most likely small companies offering innovative, often niche solutions.

The risk for traditional, larger technology providers is that new customers will primarily choose new products based on functionality and delivery model, in contrast to business experience or proven track record.

Marcin Fraczek

IT sector expert – JP Weber, Poland



Key M&A Drivers in the IT industry

Timing

A key M&A catalyst in the sector is the requirement for a ready-made solution for a desired business model transformation: let's take the sample of **Withings**, acquired by **Nokia**. The motivation was to enter into the growing market for health related IT products, by acquiring a specialist in connected health devices. Any move for electronics equipment vendors to be at the heart of smart connectivity will be a key differentiator to deploy in the tele medicine infrastructure market.

New Market Entry

Compensation for late entry into an emerging market remains a key driver of M&A for large IT companies, even if they possess significant R&D resources to develop new capabilities internally.

Companies such as **Oracle** and **SAP** have recently acquired strategically placed players in the cloud computing, sector, including **Concur Technologies**, **Success Factors** & **Ariba**, in order to gain an immediate foothold in the market.

Innovation

The use of strategic acquisitions to obtain disruptive or revolutionary innovations continues to be a source of deal activity in the sector, with **Google's** acquisition of mobile payment platform provider, **Softcard** an example of this.

In addition, M&A that can provide access to support services for a new technology inevitably emerges following seismic innovations. This was seen with **Ingenico's** acquisition of **Nera Payment Systems**. The deal significantly bolstered **Ingenico's** ability to provide customer support for online payments.

Globalization

To take advantage of globalization in the IT services industry, major US and European players have looked to acquire Asian based providers, in an attempt to compete with the lower cost bases of Indian rivals such as **Tata** and **Infosys**.

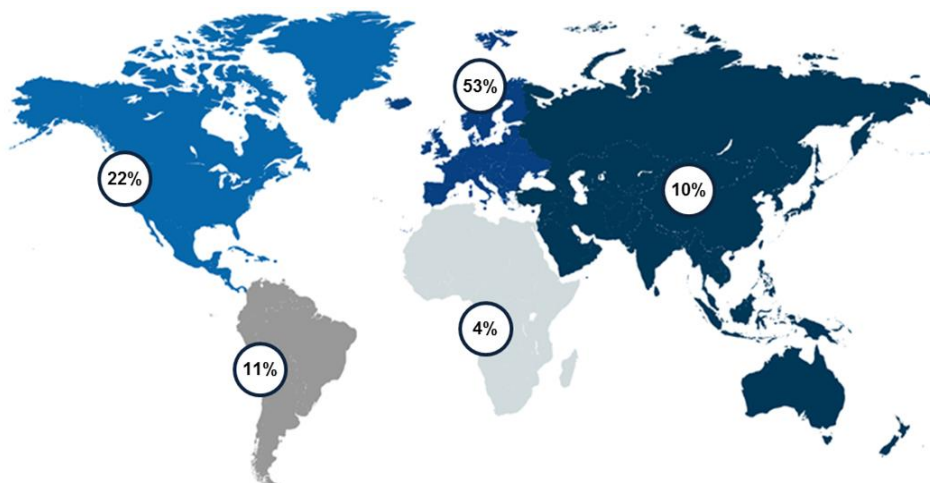
Additionally, the willingness of vertical software providers to use M&A in order to enter new international markets and circumnavigate logistical and political difficulties of cross-border organic expansion continues to be a core rationale for corporate activity in the sector.

These drivers will continue to fuel sector activity in the mid-term and with the global economic recovery continuing, there remain numerous opportunities for significant returns on investment from acquisition related activity.

Bernard Lechat
IT Group Leader, MBA Capital, Paris

M&A Worldwide

The M&A Worldwide Network has gathered
25 IT expert in 17 countries



Distribution of current and completed deals (2014 – 2016)

Countries On The Radar

France

Axiell Group, the no.1 provider of library management solutions globally, acquired France based computer document management specialist, **Mobydoc**, in May 2016. Sweden based **Axiell**, which has more than 300 employees based across 24 Offices in 12 countries globally, already possesses significant experience in acquisitions integration, which could be leveraged to successfully integrate **Mobydoc** into the Group. **MBA Capital** acted as advisor to **Mobydoc**.

The cyber security world is eagerly awaiting the outcome of a potential spin-off by France based multi-national, **Safran**, of its cyber security subsidiary, **Morpho**. The US activities of **Morpho** have already been sold to UK engineering specialist **Smiths Group plc** for \$710m and according to media speculation, Netherlands based **Gemalto** and France based **Oberthur**, are formulating an offer in collaboration with large private equity funds.

We anticipate further consolidation in the IT industry in the French software market in the short term, with niche players looking to diversify their capabilities and know-how.

Germany

Overall midmarket M&A in 1st half 2016 is strong, but somewhat lower than in 2015. The German economic situation is very robust, many deals have already been concluded in 2015, and financial investors used last year's perfect climate for selling companies. But, and this is a big "BUT" the IT sector, namely e-commerce and software, is showing further increasing multiples of ~10 and above on EBITDA, large strategic buyers as well as Private Equity companies are seeking digital add-ons for their portfolio and last but not least the well-established SME are striving to complete their digital strategies.

Strong demand for ad-tech, sales platforms, big-data applications in predictive and prescriptive analytics. SME are looking for investments in smart home, 3D manufacturing, value add, digital sales channels and consumer driven and driving platforms.

Active M&A Experts consistently works with SME and Private Equity companies to identify and acquire digital targets. Namely media-companies & agencies, educational companies, manufacturers from Germany and internationally are working with Active M&A Experts.

Poland

Market growth was driven by higher demand on IT services from financial and telecommunications sector in 2015. A rapid increase of expenditures in IT services can be observed within the healthcare sector, particularly in

Telemedicine (forecast increase in spending of 13.4%).

In the Polish IT services industry (in ERP systems particularly), there is a large customer loyalty to a particular software provider.

A challenge, facing IT services providers in Poland is to adjust the current product portfolio to new customer expectations, with significant investments in the so-called "technology of Third Platform" (cloud, mobile solutions analyst / big data and social media),

United Kingdom

M&A activity in the UK slowed significantly in the first half of 2016, with deal volumes down almost 70% when compared to the same period in 2015. The slowdown has been reflected in the smaller number of notable acquisitions or IPOs in the UK IT sector in the year thus far.

Despite the present market uncertainty as a result of the UK's decision to leave the European Union, the trend of IT sector consolidation in the UK is likely to continue in the mid-term, driven by the following market dynamics:

- Pursuit of scale in a fragmented and rapidly changing market;
- Decline of hardware and the rise of cloud/hosted solutions; and
- Continuing appetite from private equity investors for disruptive platforms and recurring revenue streams.

Trends Development by Innovation

The trend in the motivation of growing by acquisition is to test new habits: innovation in how customers will adopt technology became very important for large established companies; to buy a technology without customer insight looks a risky bet. In the transportation pooling market, SNCF and other operators began to buy startups based on this new consumer new model, instead of developing a new platform.

Developments in IT Cyber Security at the Heart of the digital economy

E-commerce continues to grow at a double digit rates globally, placing increased emphasis on the risk of e-transactions and data security. As a result, the cyber security sector continues to grow significantly, fueling significant levels of M&A activity in the sub-sector. Our expert, Kaine Smith, explains more on this topic below.



Spotlight On Cyber Security

Background

Global cyber security breaches have continued to grab the headlines in recent months, with a large number of high-profile attacks reported on organizations, including: **Ashley Maddison**, **T-Mobile** and the US Central Government.

The growing threat of cyber security related attacks was underlined by recent UK governmental research, which noted that 90% of large organizations and 74% of SMEs had suffered a cyber security breach in 2015. Furthermore, both the complexity and impact of such breaches has increased significantly, with the average financial impact of a cyber-attack on large organizations now totaling \$2.1m.

Cyber related crime has emerged as the pre-eminent financial threat both to organizations and individuals today, bringing cyber security, in both pre-emptive and reactive form, into much sharper focus.

M&A

Strong recent sector growth coupled with the relatively fragmented nature of the global cyber security market is continuing to fuel M&A activity, with established IT providers, private equity and in some cases large conglomerates looking to bring their cyber-security support in-house all driving deal volumes.

M&A WW possesses extensive experience in the cyber security sector, evidenced by its role in significant recent sector deals.

In 2015, M&A WW member **Rickitt Mitchell** advised leading IT assurance and cyber security provider **NCC Group plc**, on two cyber security acquisitions: **Fox-IT B.V.** (\$137m, Netherlands) and **Accumuli plc** (\$80m, UK). Combined with previous acquisitions in the USA and across Europe, led by MAWW member **Rickitt Mitchell**, these deals have propelled **NCC** to a market capitalisation in excess of \$1bn.

Kaine Smith
IT sector expert, Rickitt Mitchell, UK

Deal highlights

Nokia acquires Withings

In April 2016, Nokia announced the acquisition of France based, **Withings**. Through its subsidiary **Nokia Technology**, the Finnish group paid c. \$150m to acquire the French consumer electronics specialist, which was founded in 2008.

A strategic Investment

Thanks to this acquisition, **Nokia** has gained a significant presence in the digital health sector. According to Ramzi Haidamus, Nokia President, "This is the beginning of an exciting new chapter". Digital health technology presents a significant opportunity for diversification for established IT companies, in what is a rapidly emerging market.

Target's Choice

Withings was founded by Cédric Hutchings and Eric Carreel in 2008. Both are creative innovators and the company's industry leading products have helped it gain significant market share. The products are designed to support and encourage health and active lifestyles and its range of products includes: activity trackers, wireless blood pressure monitor and sleep monitoring systems. This made **Withings** an attractive target for **Nokia**, which is keen to diversify from its traditional communications base.



This announcement appears as a matter of record only.

mob4doc
has been acquired by
AXIELL
Financial Advisor to the Seller
mba capital
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

FOX IT
has been acquired by
nccgroup
freedom from doubt
Financial Advisor to the Buyer
rm Rickitt Mitchell
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

BRP
BOSTON RETAIL PARTNERS
has been acquired by
EarthLink
Financial Advisor to the Seller
FOCUS
Investment Banking
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

SPLENDIA
has been acquired by
voyage prive .com
Financial Advisor to the Seller
LINKERS
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

Word of Mouth
has been acquired by
Oneflare
Financial Advisor to the Seller
johnsons corporate
Business Sales & Acquisitions
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

Calyx+
Better together
has been acquired by
MXC CAPITAL
Financial Advisor to the Seller
rm Rickitt Mitchell
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

InferMed
has been acquired by
ELSEVIER
Financial Advisor to the Seller
bluebox
Corporate Finance Group
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

apparatus
INFRASTRUCTURE SERVICES
has been acquired by
virtusa
Financial Advisor to the Buyer
FOCUS
Investment Banking
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS

This announcement appears as a matter of record only.

J3
Rede de Viagens
Rede de Viagens
has been acquired by
ClickBus
Financial Advisor to the Seller
CYPRESS
M&A WORLDWIDE
THE NETWORK FOR MERGERS & ACQUISITIONS



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M&A Worldwide

The next M&A Worldwide Convention will take place in New Dehli on November 17th - 18th 2016.

For the IT group members this will represent a new occasion to identify opportunities for our customers, in this very prominent country when it comes to the IT industry.

It will also be an opportunity to share, between our network members, information about some research criteria you might have.

Please don't hesitate to contact our experts prior to this event should you wish your projects included in the discussions of this global Convention.



Algeria | Argentina | Australia | Baltic Countries | Belgium | Brazil | Canada | China | Denmark | Egypt | Finland | France | Germany | Great Britain | Hong Kong | Hungary | India | Israel | Italy | Japan | Luxembourg | Malaysia | Mexico | Morocco | Netherlands | Norway | Poland | Romania | Russia | Saudi Arabia | Singapore | South Africa | Spain | Sweden | Switzerland | Tunisia | Turkey | USA

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