

Industry report

IT

Developments in the IT industry

January 2018 edition

“From Barcelona to Amsterdam ”

During the last Barcelona fall conference, we had the chance and opportunity to introduce three IT companies from different countries seeking to expand beyond their homeland: Compta from Portugal, Wavestone from France and Postalia from Germany.

It was a great opportunity to discover their international expansion strategy and to get the M&A WW members aware of their research criteria.

A well-timed process and the presentation of qualified opportunities is certainly the main added value for our clients when attending such an event.

The next Convention will take place at spring in Amsterdam and will be a new opportunity of having interesting cross-border experiences' sharing between the attendees.

In this industry letter, you will find another success story of how our Israeli member helped Qualitest on becoming a leader by gaining an international footprint through a set of acquisitions.

Then some M&A WW network members will share experiences and some of their successful M&A transactions or their IT market at a glance. In this issue, the expert corner will be dedicated to the vertical software market M&A drivers.

Looking forward to seeing you in Amsterdam.

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 42 member firms operating in over 41 different countries. All members work closely together in a global alliance to

advise clients on mergers, acquisitions, divestitures, joint ventures, capital raisings, and other strategic partnerships. Collectively, we closed 641 transactions in 2016, representing a cumulative deal value in excess of \$ 3.7 bn.

Client's voice

QualiTest on becoming the world's second largest pure play software testing and quality assurance specialist



Ayal Zylberman, Qualitest Group CEO and Michael Avnimelech, M&AWW IT Group Member

Ayal Zylberman (CEO of Qualitest) speaking to Michael Avnimelech (M&AWW IT Group Member)

Please briefly describe QualiTest.

QualiTest is a pure play software testing specialist. It was founded in Israel 20 years ago, by myself and my partner Eli Margolin. We started as a small consultancy firm serving only Israeli clients. Through the years, we managed to achieve double digit growth every year to build the company to its current size and become the 2nd largest software testing focused company in the world.

Currently, we produce revenues over \$120 million, representing over 30% growth in 2017 compared to 2016. The fact that we focus on software testing as a pure play specialist really differentiates us and makes us do testing better than the others, because we focus on that specific niche.

Are there any other advantages you offer beyond the fact that you are focusing on testing?

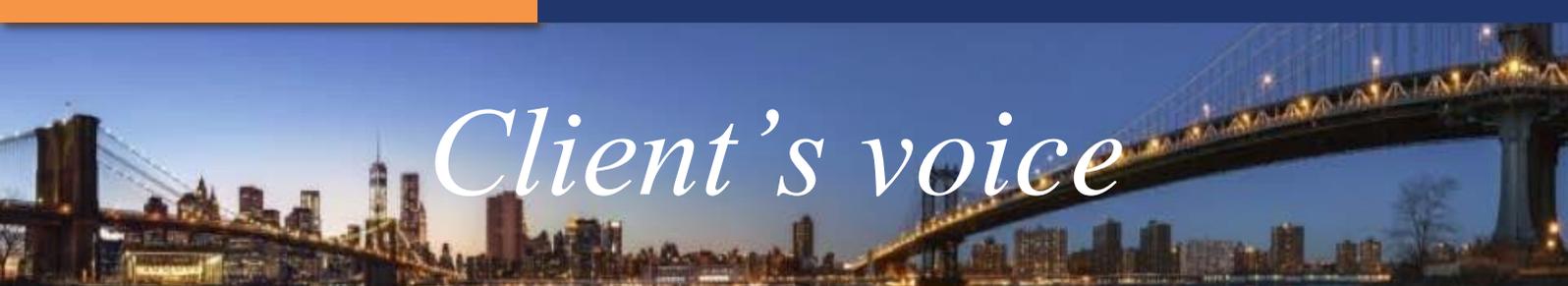
Yes, I think the second differentiator is our focus on managed services, unlike many other testing consultancies or IT services that provide testing, that mainly offer staff implementation services, some sort of body shopping. More than 70% of our revenues come from managed services, meaning companies that decided to fully outsource all their testing to us. But still, this is also being supported by the fact that we are very much focused on testing. That is, I think, a major reason why clients trust us to perform all their testing activities.

What happens in the market in terms of in-house testing vs. outsourcing?

Well, definitely the trend is to outsource. I see more and more companies that decide to outsource all of their internal testing activities to an external vendor, to QualiTest, or to one of our competitors. Most companies have already realized that outsourcing their testing activities to specialized testing companies improves their ability to focus on their core activities. Specifically there is an advantage to outsource, because testing does require an independent view, and unlike other processes does not require internal knowledge.

How much of company growth was internal growth and how much is attributed to M&A activity?

The majority is attributed to M&A. As I said, QualiTest was founded in Israel. Currently about 70% of our business is outside of Israel, mainly in the US and the UK. Our development in the US and the UK is



Client's voice

based on acquisitions we have made. We bought a US company back in 2006 called Ibase Consulting that is still the basis of our US operation. When we bought the company, it was making revenue of about five million dollar, and we are currently looking at 35 to 40 million based on that acquisition and another one we did. In the UK, we acquired TCL in 2011 and two other companies afterward. Now the UK is our largest subsidiary outside of Israel. Altogether, we made 8 international acquisitions around the last 10 years.

What is the lesson you learned from your experience in acquisitions?

The most important lesson I have learned is that you need to understand what you are buying. You can buy client base. You can buy revenues. You can buy IP. But in my view, there is one thing that is almost impossible to buy, and that is leadership. You can buy mostly mid-level management. But whenever I decide to buy leadership, and this is the key for success, it is hard to find. For example, we have made three acquisitions in the Netherlands, that were eventually completely banished because we thought we were buying leadership but that was not possible. We could not change the mindset of the founder and make him part of the bigger picture. He was still the lonely founder.

The two best acquisitions we made were in the US and the UK, and I think that one of the main reasons we made them successful was that we brought in the leadership. In the US, we relocated one of our top guys from Israel to manage the company. We are still managing the operation very successfully, for 11 years now. In the UK, we hired David Cotterell, a very senior guy, about a year before we completed the acquisition. The lesson I learned is that you need to make sure that you have the right leadership on board, before you go and run an acquisition. Otherwise, there is a good chance that the acquisition will fail.

You also initiated M&A activities in teaming yourselves with different partners in the phases along the life of the company. Can you explain?

QualiTest, under our initiatives, had full cycles of investments, handing over the majority shareholding to suit the phase of the company life. We started as a very small consultancy firm; we did not even have our own offices. The first deal was back in the year 2000, when we got investment and engaged with ALD, publicly traded, as a very capable company that provided traditional quality assurance services, all kinds of ISO certifications and the like. They wanted to acquire a software test services arm, and invested to become 51% shares owner. It was quite successful, stabilized us and helped us grow.

After a few years we found out that QualiTest had become too big for them after we became four or five times bigger than their traditional business. We, the management, initiated the back to back sale and buying of the 51% shares block, and selling that to MalamTeam, one of three largest IT services companies in Israel. That engagement really gave a lot of value to QualiTest. After that acquisition, it was the first time we were a part of a large organization. We set ourselves to many of the internal processes. The mindset of a large enterprise started to feed QualiTest and change the way we were doing business.

Then around 2010, we found out that MalamTeam was not a good fit anymore. Our direction was very much going global, while MalamTeam is very much an Israeli-oriented IT service firm. We decided that we wanted to split out. Me and my partner Eli bought back the shares and sold most of them back to back to a PE fund. We found a non-strategic buyer, and that was the first time we had a private equity firm, called Kedma, investing in the company. In 2011 they actually bought 50%, not 51% but 50% of the shares. Now we shared the goal of going global and getting ready to become a world player and then to sell to a big international investor.

About a year ago, towards the end of the fund's investment period, we went together to find another



Client's voice

buyer. Since the company became very global, Israeli investors became less relevant and we looked internationally. We found Marlin Equity Partners, PE with a focus on technology investments, and in September 2016, the deal was signed to buy 70% of QualiTest shares.

You tell us about more or less 15 M&A deals that you did in 20 years. How do you see the role of M&A advisors in making the deals, improving the deals and assisting you?

First of all, M&A advisors and specifically you, Michael Avnimelech, had a great role in the whole journey of QualiTest. Specifically, you drew in all the strategic fields we had, including the selling of the company to MalamTeam, and then to Kedma PE. That is from top down, from our internal investment, you as M&A Worldwide were in charge of the US acquisition, then with Paul van Tilburg, your partner based in the Netherlands, who led with you, Michael, the two deals we had in the Netherlands. It was an example of working with partners of your network cooperating between two countries.

In number of acquisitions, I think that M&A Worldwide was involved in six acquisitions both from our investors and QualiTest as an investor. I would say that as M&A advisors your contribution was very important because you really helped us to balance ourselves. We were very new and inexperienced to the whole process of investment, but we were not aware of that. We thought we knew everything and that is very much the usual mentality. Obviously, there are a lot of emotions related to any such process and the M&A advisors really helped us to put all the emotions aside and focus on what is good for the business. The M&A advisor was there to support us, show us the way and prevent us from making a lot of mistakes. I think that without your advisory those deals would not have been closed.

How do you see your future development? Do you foresee more acquisitions? What are you looking for, which market, and what size?

Since Marlin PE came into QualiTest, we established a very aggressive growth strategy that has both organic growth. We are growing 30% organically year on year, but also looking for non-organic growth which means acquisition.

This year, we've made two acquisitions, both in the UK. There's one acquisition still in progress but we hope it will be closed in the next couple of weeks. We are about to acquire a very significant one, a very large company, in the US.

Looking at the future, we still have a huge budget and appetite for acquisitions and this is still quite an important part of our plans. We are going to also use M&A, as we have done in the past, to penetrate new markets. We are definitely looking at Western Europe, either Germany or Scandinavia or countries like France, Italy and Spain as potential acquisition geographies.



FOCUS Investment Banking, an American active deals' driver

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George M. Shea, Partner

FOCUS

Investment Banking

FOCUS Investment Banking provides a range of middle market investment banking services with an emphasis on mergers, acquisitions, divestitures and corporate finance. FOCUS is a national firm serving clients from offices in major cities across the United States.

FOCUS specializes in business units with transactions or revenues in the \$5-300 million range, serving entrepreneurs, corporate owners and various types of investors across a broad range of industries, throughout the U.S. and worldwide.

FOCUS bankers are seasoned operating and financial executives with extensive transaction experience.

Securities transactions conducted by FOCUS Securities LLC, an affiliated company, registered Broker/Dealer and member FINRA/SIPC. For more information, visit:

www.focusbankers.com

Focus Investment Banking conducted three successful transactions in the IT sector in 2017 described below.

FOCUS represented ESM Software Group in its acquisition by Private Investors:

ESM provides strategy execution consulting services to organizations worldwide. Its services include strategy design, strategy management, innovation, leadership and change management, and risk and governance.

The company also offers Initiative Realization, a framework that integrates execution disciplines and processes; Execution Premium Community, an on-line community; Executive Strategy Manager, a web-based software application that helps to create strategic alignment at corporate, division, and individual levels; BSC Online, a monthly email newsletter of strategy management news and practices; and Palladium Kaplan-Norton Balanced Scorecard Certified, a software program that provides guidance to organizations evaluating software applications.

FOCUS represented Lockstep Technology Group in its recapitalization by Renovus Capital Partners:

Lockstep is a leading technology services firm serving the education, government, and professional services industries. The Company's "customer-as-a partner" approach provides end-to-end solutions, from assessment and design to cloud migration and managed services, to enable their clients to focus on their core business and not the IT landscape.

FOCUS and Commenda Capital represented Donnelly Communications in its Affiliation with Support Services Group:

Donnelly Communications is a leading provider of contact center services for prominent companies across multiple industries including multichannel retail, restaurant, energy and utilities. Their innovative solutions focus on increasing revenue by exceeding customer expectations and driving brand loyalty. Support Services Group is a leading provider of various types of consumer support services including IT support, help desk services, customer service, support of ecommerce and retail sales, RMA management, restaurant and automotive customer service, utility support, B2B/B2C sales, chat and e-mail support, knowledgebase management, and more.



A glimpse of the Croatian IT sector

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Denis Smolar, Partner



denvesconsulting

Denves Consulting is an investment banking boutique from Croatia which provides innovative and personalized approach to all its clients.

Our experts are specially trained and have great deal of experience to help grow your business, to restructure it if necessary and to create a leading position on market.

Experience of our experts has been gathered over many years in the leading international companies which guarantees highly professional service.

Denves Consulting was financial advisor during:

- acquisition of Infocumululus Ltd. by SPAN Ltd.,
- company valuation and shortened due diligence of Combis Ltd.,
- company valuation and sell mandate of Mocira Ltd..

IT sector is one of the leading and fastest growing sectors in Croatia in last few years. Key facts can be seen in following economic trends:

- Average growth rate around 6% in the last 3 years
- Over 25.000 employees directly and indirectly
- Sales in 2016 of total sector around € 2,6 bn
- Good education system in IT sector

The IT sector in Croatia has more than 25.000 employees with most companies located in Zagreb. Leading IT companies on Croatian market by sales are:

- Combis Ltd., € 78 m
- Span Ltd., € 35 m
- Comping Ltd., € 25 m
- In2 Ltd., € 20 m
- Infobip Ltd., € 16 m
- CROZ Ltd., € 12 m

Companies in this sector are oriented on export, especially of services and software due to small market. There is expected further growth of IT sector as a result of continuous digitalization and implementation of products, services and solutions in government and private sector. In 2018, further development of services and software in the field of cloud computing (SaaS, PaaS, IaaS), data management system, supply chain management, artificial intelligence and IT security is expected.

Through 2018 and 2019 increased activity on market is expected due to M&A activities from domestic IT companies and foreign companies.

Recent M&A activity:

- Croatian company IN2 Group was sold to the Constellation Software Inc. from Canada (undisclosed transaction value).
- Mocira Ltd. was sold to the Emil Frey Ltd.

The IT sector will face future consolidation in the year 2018. We are expecting significant growth in number of successful transactions as more foreign investors are targeting bigger Croatian system integrators, as well as Croatian system integrators are expanding by acquiring smaller niche competitors.



Sale of Camping & Co to Rocket Internet, an example of the power of M&A Worldwide's international network

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Nicolas du Rivau,
Partner Linkers



Dr. Holger Wiemann,
Partner Active M&A



LINKERS, an independent Investment bank founded in 2000 in Paris dedicated to small and mid-sized firms with the following profile:

- A talented team of 10 experts in M&A operations and processes
- A strong experience in negotiating alongside shareholders and SME entrepreneurs in all sectors
- A solid expertise in business valuation and a dedicated "LINK Value" department for companies and Investment funds
- 2 areas of sectorial expertise: LINKERS IT and Energy & Cleantech

ACTIVE M&A Experts is an independent, partner-led company specializing in advising on the purchase and sale of companies with the following profile:

- Founded in 2012
- 8 senior partners
- 50% of the deals are cross-border
- A strong expertise in software & digital businesses as well as classical German Mittelstand manufacturing companies

In late 2016 Linkers was mandated with the sale of the French booking platform for premium camping sites, Camping & Co. Founded in 2012, Camping & Co quickly became the French market leader with an offer of mobile homes or pitches in 1500 premium camping sites with an annual booking volume of € 18 m and growth rates in excess of 50%.

In order to accelerate its growth in Northern Europe, source of an important share of its reservations and in Southern Europe to find additional stock in premium campsites, Camping & Co was looking for a new majority national or foreign shareholder.

Linkers' Partner Nicolas du Rivau therefore contacted Dr. Holger Wiemann, partner with Active M&A Düsseldorf and equally renown specialists for digital businesses. Together they produced a shortlist of potential European and North-American buyers.

Holger knew that Berlin based internet giant Rocket Internet was targeting the camping market and had developed the marketplace Campsy within its Berlin incubator. Campsy was well established in Germany and the Netherlands and looking to extend quickly its footprint across Europe.

It quickly turned out that the potential synergies (pan-european leadership, unique technological platform, complimentary teams) and the financial firepower of Rocket Internet made them on paper the ideal partner for Camping & Co.

However negotiations proved to be difficult and one of the key factors for the later success was the intensive "deal-coaching" by Nicolas and Holger, as both of them knew the mentalities and habits of their respective countries.

They also actively accompanied the complicated material and legal negotiations. An agreement had to be found between the two selling French funds (Otium and Newfund), Rocket Internet, the management teams of both Campsy and Camping and Co and the German and French lawyers. As the management and the selling funds retained a minority interest, agreements on corporate governance, earn-outs, share option schemes for the management as well as tax considerations proved to be cumbersome. Several times discussions became very tense but Nicolas and Holger managed to keep the negotiations on track.

Finally, in June 2017 the deal was signed and the new combined team is well on its way to European leadership. Clearly the international network of M&A International and the close cooperation between the two partners was the key factor to finding the best buyer - strategically as well as financially.

"Industry 4.0" incentives stimulate Italian ICT investments in 2017

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Giovanni Galeazzi, Partner



AVVALOR Corporate Solutions was founded in 2009 and has been a member of M&A Worldwide since then.

We cooperate with other members of the network to search for acquisition targets in Italy or to identify acquisitive Italian companies.

As partners of the Borsa Italiana "ELITE" program, we have access to the most dynamic Italian companies.

Our experience in M&A, Banking, Finance and Management Consulting is useful also before and after the acquisition process, e.g. while executing a post-merger integration or to optimize the financing sources.

Italy is one of the most important player in "classical" manufacturing industries. Thanks to the very significant incentives for "Industry 4.0" it is now a very attractive destination for investors willing to establish a presence in Europe for advanced manufacturing facilities or for the supporting ICT companies.

The ICT sector has more than 102 thousand companies and more than 560 thousand employees, 57% in Northern Italy.

The Italian ICT market generated over € 30 billion of revenue in 2017, growing by 3.1%. Major drivers of the growth, were IoT, Cognitive, Cloud, Big Data & Analytics, Augmented and Virtual Reality and Wearable, all growing by double digits.

Almost a quarter of investments (€ 7 billion) went to the Manufacturing sector followed by Finance for € 6.2 billion.

What is Italy doing to develop "industry 4.0"?

The government presented in September 2016 the plan for "Industry 4.0", to stimulate investments on research, development and innovation. The provision proposed a mix of tax incentives, support for venture capital, the spread of ultra-broadband, training from schools to universities with the ultimate aim of encouraging companies to invest in the fourth industrial revolution. The Plan includes measures that makes investing in Italy attractive for companies involved in "Industry 4.0": Hyper and Super Depreciation (tax deductions greater than the investment value) - "Nuova Sabatini" (supports bank financing) - R&D tax credit - Patent Box (fiscal incentives for revenue from IP) – a dedicated framework for Startups and innovative SMEs and a Guarantee Fund.

The results are positive, with orders increased on the domestic market for capital goods, increased spending on R&D and 3.5 billions of public investments on the ultra-broadband. On September 21, 2017, Minister Calenda presented stage two of the National Plan to stimulate investments also in Services, a sector that has a high potential for digitization.

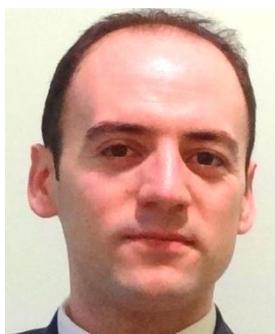


Spain, a consolidation in progress

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Jordi Blasco,
Partner



Manel Pelegrina,
Associate



ARS Corporate provides a range of middle market investment banking services with an emphasis on mergers, acquisitions, divestitures, corporate finance and financing.

ARS Corporate is an independent, national firm, founded by entrepreneurs, and serving clients from offices in Madrid and Barcelona.

ARS Corporate focuses on companies and business units with revenues up to €200m, serving entrepreneurs, corporate owners and various types of investors across a broad range of industries, throughout the Spain and worldwide.

The team of ARS Corporate consists of seasoned executives with extensive transaction experience.

For further information, please visit:
www.arscorp.com

ICT industry Snapshot (as of 2016):

- ICT is the most active industry in M&A:
 - 329 deals, which represent 26%+ of the total reported transactions,
 - with total deal value of EUR 10.6bn
- 50,000+ companies operating in the Spanish ICT sector
- 21m+ online shoppers and 80%+ of households with internet

Main Investment Opportunities / Why investing in Spain

- **Market Concentration:** The Spanish industry is experiencing a clear concentration. Big companies are taking over medium and small targets. Thus, medium companies should accelerate their growth plans to offer a wider portfolio of solutions worldwide to not fall behind their competitors.
- **E-commerce Potential:** Digital policies aimed at creating confidence on new technologies are bringing clear results: from 32% to 55% are the amounts of population which respectively bought online in 2013 and 2017. With an annual growth of 15% in mobile users buying online and 80% of household internet penetration it is advisable to acquire companies in e-commerce industry to profit from the remaining distance ahead. Some of the areas for growth are B2B and Food & Beverage.
- **Digital Agenda / Industry 4.0:** There is a huge number of opportunities because of the foreseen acceleration of Digital Transformation in Spain with an allocation of EUR 2.4bn and an expected GDP growth of up to EUR 40bn by 2021.
- **First Come, First Served:** Artificial Intelligence, Big Data, Cloud Service Cybersecurity or Internet of Things (IoT), are among the technology challenges and industry opportunities to catch up and develop. The purchase of niche companies and small innovating leaders helps positioning industry players.
- **Bridge to LATAM:** Adding an Spanish company to your group increases Spanish-speaking countries growing opportunities due to cultural and idiomatic reasons. It is the second language with more native speakers.

What happens within its M&A Industry? What's next?

- We are confident there is still a comprehensive **set of opportunities to explore** and choosing local financial advisory improves significantly closing probabilities and conditions.
- Relevant deals of 2017:

Company	Subsector	2017 Deal Value (EURm)
Servocad	Electronics	430
Tecnocom	ICT services	333
Social Point	Gaming software	256
Glovo	E-commerce & delivery	30
Fintonic	Fintech	25



Denmark, the digital country

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Jens Møller, Partner & CEO

Erik Bro, Partner



Cigno was established by CEO and partner Jens Møller in 2005. Since then, we have become one of the leading Danish specialists in valuation, acquisition and sale of companies and the raising of capital for growth and business development.

At Cigno, we are involved in a significant number of Danish and international transactions every year. We usually represent the seller as their exclusive adviser in the area, and we are always independent of other advisers such as banks, lawyers and accountants.

We aim to be the preferred partner within our primary areas of expertise, and to provide competent and flexible services at a competitive price in the market.

Our services and consultancy are delivered in a down-to-earth and straightforward way that sees eye to eye with all the parties involved. We want to breathe fresh life into the consultancy industry, and provide competent professional advice that gives our clients the best possible basis for making decisions.

Denmark has made it mandatory for citizens and businesses to digitally communicate with the government. Citizens are online and actively engaged in the use of a variety of online services, making their digital skills highly advanced. Today, 90.4% of all Danes have a digital mailbox through which they receive all written communication from the government, this ambitious e-government strategy and the personal digital signature system NEM ID, citizens handle everything from internet banking to changing tax registrations and booking a doctor's appointment online. With NemSMS, authorities can easily and efficiently send reminders (e.g. doctors appointments, returning books to the library), via text messages to citizens. 36.7% of citizens are enrolled by NemSMS.

Investments in Denmark have resulted in many new IT inventions and fast growing companies. During the last couple of decades, Denmark, has developed a very attractive and international IT sector as a result of these strategic investments in world-class research and development facilities, innovation and technology.

Facts about the digital sector in Denmark:

- Google, Apple and Facebook have all appointed Denmark as the country for a European Datacenter.
- More than 100,000 people work within the digital sector.
- Ranked as the best test marked in the world.
- Strong IT infrastructure with some of the world's highest penetration rates for broadband and PCs per capita.

The digital industry has become a key area in terms of economic growth and entrepreneurship in Denmark, and will continue to play a decisive role in Denmark's future on innovation. Together with major international IT companies, investing in Denmark, there are several major and successful companies in Denmark within most of these areas. Large investments in this sector substantiates Denmark's global position as an digital market leader.

Expert's corner

The Vertical Software Market consolidation trend

By **Bernard Lechat**, *Partner and Information Technology Team Leader & Sawsen El Khyari*, *Analyst, MBA Capital*



Vertical Market Softwares refer to products developed and customized for a niche industry, application or for the use of a unique clientele. In this, it is different from horizontal market softwares, that on the contrary, can serve a wide range of industries.

Vertical market softwares provide customers with better tailored solutions that could potentially help them grow and establish their market share. Point-of-sale software and applications for scientific analysis, medical needs and manufacturing are common examples of vertical market softwares.



Vertical market softwares helps better addressing industry specific by getting a better integration of different functionalities and processes. The vertical market software functions as a strategic partner for improving management and a better use of the resources involved.

Vertical Software Applications

Here is a breakdown of the current vertical market software applications and the potential attractions for buyers and investors:

- **Insurance:** Many sub-markets such as health insurance and emerging verticals like cyber, smart phone and driverless car insurance offer various opportunities for SaaS innovation and market penetration. Some of the companies involved in this sector are Stone River, Insurity, ISCS, etc.;
- **Auto, Transport & Logistics:** Although larger companies have solutions in place through existing ERP vendors, many small & medium business haven't yet. Today there are increasing requests for companies specialized in Transportation Management Systems (TMS) and Freight Management services (FMS) and multi-modal delivery for logistics marketplaces, anticipatory logistics, cloud logistics and IoT. Some of the companies involved in this sector are Trimble, Teologis Lytx, Transfix, etc.;
- **Drones:** As an emerging market, commercial drones would be helpful in many industries for surveying and covering large areas of efficiency. This is leading to the development of softwares for specific purposes designed to work across different drone types to provide video analytics, object recognition, and image metadata processing solutions. Some of the companies involved in this sector are Skycatch, Airware, Botlink, Precision Hawk, etc.;



Expert's corner

- **Manufacturing:** The key software trends impacting the industry include IoT with machines, sensors, computers and humans linking to enable new levels of information monitoring, collection, processing and analysis. Also, predictive analytics based on data captured through all points of the production line as well as maintenance scheduling and demand forecasting. Some of the companies involved in this sector are Presenso, Fdghorn, CloudNC, Infor, Plex, etc.;
- **Healthcare:** Today, we are noticing the rise of telehealth creating opportunities for video call platforms and patient engagement softwares. Also the rise of connected devices/wearables is creating opportunities in patient monitoring and drug discovery by leveraging artificial intelligence, machine learning and big data. Some of the companies involved in this sector are Truevault, AiCure, Atomwise, Medidata, Cemer, etc.;
- **Education:** In addition to the already in place softwares in specific learning space, enterprise learning space and learning managements systems, new softwares are being launched in relation with personalized and adaptive learning and learning analytics powered by big data. Some of the companies involved in this sector are Lessonly, Civitas Learning, BloomBoard, Grovo, Blackboard, Everfi, HotChalk, Knewton, etc.;
- **Manufacturing:** The key software trends impacting the industry include IoT with machines, sensors, computers and humans linking to enable new levels of information monitoring, collection, processing and analysis. Also, predictive analytics based on data captured through all points of the production line as well as maintenance scheduling and demand forecasting. Some of the companies involved in this sector are Presenso, Fdghorn, CloudNC, Infor, Plex, etc.;
- **Construction:** Some of the expected softwares comprise Building Information Modeling (BIM) combined with augmented reality that provides users with better visualizations. The sector will also know an increase of office software connected to mobile devices used on construction sites. Some of the companies involved in this sector are Rhumbix, Buildcon, Buildingconnected, Flux, PlanGrid, etc.;
- **Restaurant:** As established players are more focused on certain submarkets including point-of-sales system, payment processing and on-line ordering, newcomers are starting to embrace various consumer-facing and behind-the-counter technologies (invoices management, task management, etc.). Some of the companies involved in this sector are Salido, Culinary Agents, Venga, LaCarte, Revel, etc.;
- **Agriculture:** 2 software systems are rising today: Farm management software (efficient management of resources, crop production, etc.) and record management (integration of farm management software with accounting data for cost management). Some of the companies involved in this sector are Granular, The Climate Corporation, Farmeron, Tule, Monsato, Iteris, Agworld, FarmLogs, Farmigo, etc.;
- **Legal:** Software for the legal industry typically falls into a couple of key categories, mostly document management software, litigation support, e-discovery, legal research support and time billing

Expert's corner

management softwares. Some of the companies involved in this sector are Everlaw, Upcounsel, Ravel, Legal Sifter, etc.;

A field for cross-border consolidation

Although there is less competition in vertical markets, it is considered a risky industry since the designers and developers involved are highly dependent on specific players and clients to purchase their products. To protect their own future, many vertical software companies grew by acquisitions or mergers, for the following main reasons:

To amortize the R&D costs on a broader scale:

The best way to achieve this is, at first, to broaden the geographical sources of revenues to have access to new territories assuming that a customer is attracted by the functionalities of the product to solve the same issues everywhere. For instance Berger Levrault from France or TSS from Holland specialized in software for local administration acquired software companies dedicated to the same segments abroad achieving two main goals: enlarging the source of revenue and independence from one economy.

To migrate installed base:

A vertical market is limited by definition to one country level. So a software company aiming to become a leader has to buy installed bases and migrate them progressively to its own products. That's the best way to reduce the go to market cost. For instance, Axiell (solutions provider for archives, libraries and museums) acquired a small French company Mobydoc to have access to the French museum market, which is one of the most important in the world. With the goal of time saving by having a direct go to market.

To embed technology and keep competitive advantages:

Some corporates decide to buy vertical softwares in order to incorporate the technology exclusively within their own products. That's in fact to buy R&D from outside with a product already tested by the market. For instance Schneider bought Aveva in the UK for this reason as Thales did by taking control of Gemalto (security specialist).

For these different reasons some Private Equity Firms look for vertical software companies to develop them to maturity before selling them to big corporates able to integrate them within their offer. That was the case in the payments security field where banks bought software companies to offer their customers e-payment solutions. For instance, Ingenico bought GlobalCollect from Private Equity fund Welsh, Carson, Anderson and Stows and Natixis recently bought Dalenys and Payplug, .

Expert's corner

Conclusion

The vertical software industry consolidation is an open field for cross-border transactions where M&A WW members are very comfortable having a large experience in dealing with small caps within a network of local contacts and industrial understandings.

Valuation

Chart 1: Company Comparables Vertical Software

Company	Market Cap	E.V	EV / Net Sales			EV / EBITDA			EV / EBIT		
	€ m	€ m	2018 (e)	2019 (e)	2020 (e)	2018 (e)	2019 (e)	2020 (e)	2018 (e)	2019 (e)	2020 (e)
Cerner Corp.	18 247	18 444	4,1x	3,8x	3,5x	12,4x	11,4x	10,9x	18,0x	16,4x	14,6x
CDK Global Inc.	8 345	9 625	4,9x	4,7x	N/A	12,7x	11,6x	N/A	15,9x	13,0x	N/A
Broadridge Financial Solutions	9 061	9 788	2,7x	2,6x	2,5x	13,7x	13,2x	12,2x	16,4x	15,2x	14,0x
Varian Medical Systems Inc.	9 386	9 080	4,1x	3,9x	3,8x	19,2x	18,1x	17,4x	22,2x	20,6x	19,3x
Jack Henry & Associates Inc.	7 822	7 765	6,0x	5,6x	N/A	17,2x	N/A	N/A	23,4x	N/A	N/A
CoStar Group Inc.	10 191	9 974	11,3x	10,0x	N/A	31,7x	24,9x	N/A	43,7x	33,8x	N/A
PTC Inc.	6 855	7 205	7,2x	6,6x	5,8x	29,6x	23,9x	18,6x	40,9x	29,6x	20,6x
Summary statistics											
	Low		2,7x	2,6x	2,5x	12,4x	11,4x	10,9x	15,9x	13,0x	14,0x
	Mean		5,7x	5,3x	3,9x	19,5x	17,2x	14,8x	25,8x	21,4x	17,1x
	Median		4,9x	4,7x	3,6x	17,2x	15,6x	14,8x	22,2x	18,5x	17,0x
	High		11,3x	10,0x	5,8x	31,7x	24,9x	18,6x	43,7x	33,8x	20,6x

Source: Infront Analytics as of 01/26/2018

Expert's corner

Chart 2: Major recent M&A transactions in the vertical software market

Date	Buyer	Target	Activity description	EV (€m)	EV / Sales	EV / EBITDA
Dec-17	Thales	Gemalto	Secure software development embedded in devices or, increasingly, being sold as a platform or service.	5,710	1.7x	11x
Sept-17	Schneider	Aveva	Industrial design and management software company developing industry-leading products, including the world's first 3D plant design system.	841	3.0x	12x
Jun-17	Natixis	Dalenys	Payment solutions software specialist offering solutions for merchants and e-trade.	179	2.4x	-
Mar-17	TSS	Cosoluce	Provider of specialized software and services for community management with an installed base of more than 6,200 customers.	n.d.	n.d.	n.d.
May-16	Axiell	Mobydoc	Software development specializing in management systems for museums, private and corporate collections, archives, documentation centers, etc.	n.d.	n.d.	n.d.



SUCCESS STORIES ADVISED BY M&A WORLDWIDE MEMBERS

This announcement appears as a matter of record only

In 2017

intrinsic
Enablers of Business Agility

has been acquired

maintel

Transaction industry: Information technology
Rickitt Mitchell acted as Intrinsic advisor

rm Rickitt Mitchell

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This announcement appears as a matter of record only

In 2017

donnelly
There's no better answer for your customer

has become affiliated with

SUPPORT SERVICES GROUP
PEOPLE • TECHNOLOGY • SOLUTIONS

Transaction industry: Information technology
Focus Investment Banking and Commenda Capital acted as Donnelly advisors

FOCUS
Investment Banking

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This announcement appears as a matter of record only

In 2017

ESM

Has been acquired by

Private Investors

Transaction industry: Information technology

Focs Investment Banking acted as ESM

Software Group advisor

FOCUS
Investment Banking

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This announcement appears as a matter of record only

In 2017

HEIMBAS
Softwarelösungen für das Sozialwesen

has been acquired by

BID EQUITY

Transaction industry: Information technology
ACTIVE M&A Experts acted as advisor to BID Equity

ACTIVE M&A EXPERTS

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This announcement appears as a matter of record only

In 2017

Campingandco

has been acquired by

campsy

Incubated by

ROCKETINTERNET

Transaction industry: Information technology
Linkers acted as Camping and Co advisor

LINKERS
FUSIONS & ACQUISITIONS

member of
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This announcement appears as a matter of record only

In 2017

LOCKSTEP
TECHNOLOGY GROUP

Has been recapitalized by

RENOVUS CAPITAL

Transaction industry: Information technology

FOCUS Investment Banking acted as

Lockstep Technology Group advisor

FOCUS
Investment Banking

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To be updated if need be

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M&A Worldwide

The next M&A Worldwide Convention will take place in Amsterdam (April 12-13th).

For the IT group members this will represent a new occasion to identify opportunities for our customers. 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



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