

IT, Software and Technology

INDUSTRY GROUP

H1 2019 edition

Developments in the industry

“LISBON Spring Convention: at the crossroad of opportunities.”

The recent Rainmaker conference in April represented the first visit by M&AWW to Portugal and was a fantastic opportunity to meet with high-caliber investment bankers from across the World who specialize in cross-border transactions.

Over 250 guests attended from 40 countries, including representatives from the Euronext

exchange and a large number of acquisitive corporates.

In this sector letter we cover an array of topics, ranging from an interview with Massimo Grosso (board member of Advance SIM) to the thoughts from Fabio Matsui (founding partner of Cypress) on investment opportunities within the rapidly growing Brazilian economy.



KAINE SMITH
IT Sector Group Leader
Rickitt Mitchell, UK

M&A WORLDWIDE

THE NETWORK FOR MERGERS & ACQUISITIONS

Established in 2004, M&AWW is a leading global alliance of midmarket merger & acquisition specialists. M&AWW presently has 43 member firms operating in over 45 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.

In 2018, the reporting members of M&A WORLDWIDE completed 419 successful deals (202 sell side, 101 buy side, 116 financing transactions) with a value of €4.094bn (\$4.633bn).

ADVANCE SIM

CAN YOU DESCRIBE ADVANCE SIM'S ACTIVITY?

Advance SIM is a Brokerage Company independent from banking groups that provides consulting services in the field of extraordinary corporate finance and capital markets.

The reference market is the Italian Small & Mid Market, companies with turnover between 10 and 250 million euro.

Middle-market companies in Italy open up to the Stock Exchange to finance their growth and European expansion

Advance SIM is also Nominated Adviser (NomAd) and Global Coordinator for IPOs on the AIM Italia market of Borsa Italiana – the Italian Stock Exchange. In this capacity we assist SME companies in the listing process and support them in maintaining the listed status.

There seems to be a large availability of funds in the Italian capital market, looking for opportunities to invest in the industrial sector to help SMEs to grow. Can you confirm this renewed interest in the SME market, and what are the reasons and the future trends?

We can highlight different topics

that led in the recent years to the growth of interests in the IPOs of Italian SMEs: first of all the AIM Italia Market, that seems to be tailor made for the SMEs. All the listing costs, already low and more matching with SMEs economics, are even eligible for tax credit or tax deduction. Second, a clear and well defined process that let the company predict the length of the listing process, which may take some 4 to 6 months. Third, the Italian Government has approved and introduced new tax incentives for the so called “innovative SMEs and startup”, that allow the investors to get back a tax deduction up to 30% of the invested amount. Last, on the institutional investor side, the new fiscal rules of the so called PIR (Piani Individuali di Risparmio) led to the launch of many Italian and foreign equity funds that have specific constraints of investing a certain percentage of assets in SMEs. It's likely that the new legislation (regarding PIR) will follow the SME IPO trend: such equity funds will be forced to invest 3.5% of their total asset under management in AIM Italia market.

What are the drivers of the recent interest in quotation for SME? Are Italian family companies finally ready to change their traditional almost exclusive reliance on the banking system?

We may say that Italian banks have been first movers in this trend: the obvious credit crunch created a financing gap for a lot of SMEs. Many financial intermediaries decide to close or slow the

financial activity of lending to SMEs, independently from the quality of the companies. Therefore, it is easy to focus on the cluster of SMEs with high quality (sales growth, interesting margins, cash conversions, low financial debt) to propose them a listing process in the AIM Italia market to raise funds increasing their equity.

We may argue that this process is structural and will keep on growing in the coming years. The results speak clearly: in 10 years of existence AIM Italia market can boast of 115 companies listed with almost €7bn market capitalization. With the introduction of PIR (end of 2016), the total market capitalization reached 3x in only 2 years. In the last year (2018) 26 new IPOs of SMEs raised some €1.32bn of fresh capital.



ADVANCE SIM

You worked with several IT companies lately, helping them to join the Italian Stock Exchange.

Can you describe the recent operations

Advance SIM performed in the IT sector?

Here is the list of some deals (IPO and secondary market offer): Sesa is one of the Italian leaders in the IT Distribution sector; it was brought to the market through a business combination with a listed shell (SPAC: Special Purpose Acquisition Company) with €50mn funds raised. MailUp, a provider of tools and services in the field of email and instant messaging, raised €3mn in a club-deal (family and friends) IPO; after 4 years we launched an accelerated bookbuilding for a capital increase raising further €6mn. Piteco is a treasury software company whose IPO was launched in 2015, raising some €8mn of equity and €5mn with a convertible bond. Wiit is a top Italian player in the cloud industry, and with sales of €20mn and EBITDA margin of 43% in 2017 raised some €34mn in one of the largest IPOs of industrial companies in the AIM Italia market (55% of the investors were located abroad). DHH is a hosting platform company and with sales of €3.7mn raised some €4mn in equity. Our last IPO in 2019 was Neosperience, a company active in the Digital Customer Experience, which raised €4.2mn last February.

Almost all these companies showed great steady growth, high

margins, huge cash conversion and recurring fees from their clients.

So, we can say that Investors are appreciating Italy not only for food, design, fashion and manufacturing: among these SMEs we definitely find some international IT champions.

How are these companies planning to use the raised capital? Do they consider expansion by acquisitions in Italy and internationally?

Do you think Italian companies have good opportunities to expand abroad?

All the companies launched IPOs mainly to raise funds for expansion, both through internal growth and M&A, especially in foreign countries. MailUp was listed with some €5m sales, and recently achieved a preclosing 2018 with €40mn sales (8x) through some 5 acquisitions, almost all abroad. Piteco acquired the majority of a company in the USA, active in the field of payment services; DHH acquired in 3 years 9 companies almost all located in Eastern Europe. Wiit has acquired an Italian company; others are still looking for an acquisition target. Therefore we can surely say that the IT companies that we listed on the AIM Italia market had a clear vision of how to employ the funds raised in M&A activity.



MASSIMO GROSSO
Board member of Advance SIM
and Key Executive



COUNTRIES ON THE RADAR

The french vertical software market, a land of opportunities

Truffle yearly ranking shows that the French software industry is fragmented. Except for a few leaders such as Dassault Systèmes, a lot of software vendors are single applications developed and customized for one niche industry or for the use of a unique clientele. It helps better address industry specifics by getting a better integration of different functionalities and processes.

The development of a successful vertical software requires true experts and a sharp knowledge of the industry it is made for. Thereby only 35% of the French SaaS software is vertical, but this percentage is going to increase mainly because this market is less competitive than the horizontal market where many sectors such as CRM and project management are already heavily saturated.

As a strategic partner for improving management and maximizing the resources, vertical software is applied to many fields:

- E-commerce** (34,8% of vertical software editors) (Wynd, Tinyclues, PricingAssistant),
- Retail** (15,2%) (zenchef, Critizr, Beamy, etc.),
- Adtech** (13%) (Criteo, Adikteev, Antvoice, etc.),
- Healthcare** (10,9%) (Doctolib, Mondocteur, Keldoc, etc.),
- Logistics** (6,5%) (ParkingMap, Colisweb, Wing, etc.),

- Real Estate & Construction** (8,7%) (Finalcad, Bricks, IlliCopro, etc.),
- Etc.

Companies are becoming aware that SaaS is an essential part of their digital transformation. The issue is no longer whether to adopt SaaS, but when to do so. To protect their own future, the many French small vertical software companies will need to grow by acquisitions or mergers mainly in order to embed technology and keep their competitive advantage and amortize their R&D costs by increasing market share alongside capital increases. Thus, creating deals opportunities for M&A Boutiques.

Some recent MBA Capital deals in the vertical software market:

- Acquisition of Start ABI, a vertical software company dedicated to local authorities, by JVS Group.
- Transmission of Cilpak, a vertical software company dedicated to glass transformers and construction companies, through a MBI operation led by Cères Management.
- Carvivo a fast growing software vendor dedicated to car dealers raised funds from a PE firm.

Many M&A transactions are happening in the sector led by big companies such as the acquisition of Cosoluce (France) by TSS, Carl Software (France) by Berger Levraut, etc.



BERNARD LECHAT
Partner &
M&A Worldwide IT Group Leader



SAWSEN EL KHYARI
Analyst

MBA CAPITAL advises shareholders and managements of small and midcap companies on strategies of sellout and ownership transfer, external growth, fundraising and assists them from the inception to the fulfillment of their projects. Professional and independent, MBA Capital partners are committed to provide their clients with an objective and insightful advice on strategy and potential financial operations. In the practice since 30 years, MBA Capital partners leverage over 600 done deals and varied sectorial expertise in order to offer the most relevant recommendations. Made of entrepreneurs sharing entrepreneurs' wishes for performance and service quality. We offer an extensive range of services including not only sellout, acquisition and ownership transfer projects, but also financial engineering, valuation, as well as business advisory and strategic review.



COUNTRIES ON THE RADAR

Brazil Economy

The election of president Jair Bolsonaro and the appointment of Paulo Guedes, as a Finance Minister, provides a new era in the political economy in Brazil.

Brazil, a liberal economic government brings large opportunities, and supports the rising of IT unicorns and M&A deals.

For the first time ever, we have a liberal economic mind leading the Brazilian economy and with support of the population and the key industry segments to approve a Pension, Tax and Administrative reform in the country. In the first 50 days, the finance market has been approving the direction the country is moving to and Bovespa stock market has strongly appreciated its market value.

Opportunities

The recent crisis caused most of Private Equity (PE) funds to delay their exits of Companies invested from 2013 to 2015. It is expected that PE funds will take most of their companies to M&A and/or IPO in the way to exit from their investments. Cypress has been contacted for many of them to present advisory proposals to support companies in their M&A strategy.

IT Sector Overview

Brazil is among the leaders (9th position) in the global IT market, accounting for ~2.0% of the worldwide sales of the sector in 2017. The country is also the undisputed regional front-runner, being responsible for ~38.0% of the IT market in Latin America in 2017. Although the last three years were very challenging for the IT and other sectors in Brazil, in view of the recession, Dilma's impeachment and 2018 elections, the ongoing gradual recovery of the domestic economy coupled with the rising demand for innovative technologies in the country. That led for increasing productivity of companies and segments and enabled IT companies to still solidly grow above double digits in this period.

Recent IT Unicorns in Brazil (5 in 2018): 99, PagSeguro, Stone, Nubank, iFood.

Potential Unicorns: Cargo X, Creditas, Guia Bolso, Grow (Yellow + Grin), Loggi, Neon, Neoway, Quinto Andar, Resultado Digitais.

M&A Activity

In 2018 there was a 6% y/y growth in the number of M&A deals in Brazil's IT sector, reaching 140 deals, which represented 21% of the total number of deals in the country. The IT M&A activity breakdown by sub segment has: SW (54%), Media (14%), IT Services (11%), eCommerce (8%), Internet Services (7%) and others (6%).

Recent notable deals in Brazil

- 99 Taxis was acquired by Softbank Didi for USD 1Bn
- Pag Seguro IPO at NYSE, raising USD 2,3Bn
- Stone IPO at Nasdaq, raising USD 1,2Bn (Alibaba acquired USD 100mn in shares)
- Tencent invested USD 200mn (5% equity stake) in Nubank;
- General Atlantic invested ~USD 65mn in Quinto Andar
- Mobile, Naspers e Innova Capital invested USD 500mn in iFood



FABIO MATSUI
Founding partner
of Cypress



Cypress is a leading independent investment banking boutique focused on providing financial advisory in mergers and acquisitions, capital markets, structured finance, corporate restructuring and asset management. Our advisory services and asset management solutions help our clients to overcome their strategic and financial challenges. Our diversified set of skills, expertise and relationships makes a difference in corporate finance transactions. Our team is formed by seasoned professionals with banking consulting and operational experience. Our work is characterized by a low profile and customized approach. We have a strong network in a variety of sectors, with global reach. We are the only Brazilian member of M&A Worldwide.

DIGITALIZATION: A NEVER ENDING PROCESS THAT DRIVES M&A

Looking at some of the biggest companies in the world, it is important to notice that the majority of them invest significantly in moving into businesses outside their original scope. Online retailer Alibaba is gradually moving towards entertainment and gaming industry (Alibaba Games, Alibaba Music) or finance industry (Ant Financial Services Group) while German car manufacturers reinvent core business by investing in autonomous driving, connected to the Internet of Things. The key driver of these changes is digitalization. Digitalization questions pre-established paradigms and forces organizations to act proactively, become more agile, to react quicker and more effectively. Above all, digitalization changes the way enterprises treat their customers, compel them to overhaul organization structure and erases boundaries between countries and industries. Most companies consider the abovementioned consequences of digitalization, but why do they fail trying to adopt to a new environment? The answer is approach. They should tackle these changes more holistically always considering consumer preferences and their experience.

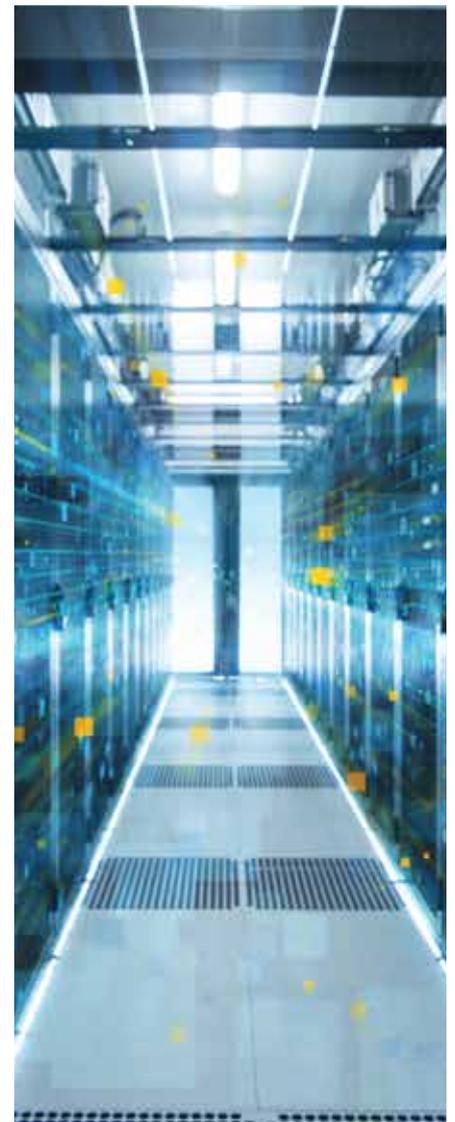
With development of emerging IT technologies such as Artificial Intelligence (AI), cloud services, Internet of Things (IoT) or Robotic process automation (RPA), data gathered in digitized form disrupts incumbent industries and blurs boundaries between them.

The main consequence of digitalization is a shift in consumer expectations and the demand for real time responses to real time issues. Therefore, traditional industries became vulnerable since their unagile organization can't meet expectations.

In order to tackle digitalization, many firms create cross-functional units comprised of skilled individuals who vet company's status quo. Due to the shortage of skilled IT labour forces globally, firms often outsource that business segment creating demand for specialists in digital marketing, Measurable data such as past consumption or disposable income are no longer key drivers in determining demands. Predicting behaviour patterns plays an even bigger role for businesses to determine consumer preferences. Choices to eat healthier increases the likelihood for higher consumption of physical fitness gear and services and those clients are appealing to health insurers leading towards more affordable coverage. Companies that gather, analyse and interpret non-numeric data outperform competitors threatening to intrude in other areas where they can take advantage of knowing what consumers want.

A second consequence of digitalization is that it changes organization structure. Companies must become agile and consumer-centric. Firms embrace platform-based concepts deployed by IT companies. In practice it means that each platform consists of logical clusters of activities that delivers specific business goals and can be run as a separate

service. These platforms are agile, cross-collaborated subunits that have decision-making authority to react quickly. For instance, banks operating in an agile manner have 10+ platforms dealing in specific segments. One platform is payments, which consists of all applications previously managed independently of each other. Under joint IT-marketing-finance leadership these entities are empowered to move quickly on modernizing IT infrastructure and decommissioning infrequently used applications. Best enterprises develop mission control units acting as bridges between top management and platforms. Successful recognition of consumer needs and preferences is the foundation for appropriate implementation of a platform-based business model.



DIGITALIZATION: A NEVER ENDING PROCESS THAT DRIVES M&A

Many companies are stepping into digitalization by targeting IT enterprises via M&A which offer digitalization services. There are two key types of acquirers:

- Companies that buy digitalization targets because they want to offer target's services to their clients (for example larger consulting companies acquiring smaller ones which offers some niche digital transformation services).
- Companies which want to digitally transform and would rather buy digitalization targets than build their own internal team.

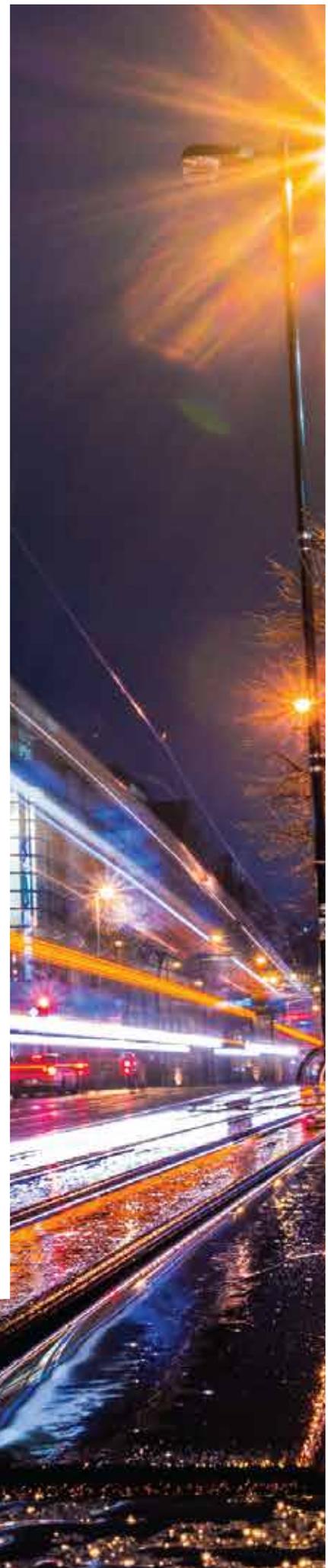
Despite the inherent risk of acquiring companies vs growing organically, the route remains by far the fastest way to board on digitalization ferry. Such transactions offer acquirers the potential to enhance their technical capabilities, move into new markets and acquire employee skill sets which are scarce in this rapidly developing market.

To summarise, digitalization forces traditional and emerging industries to focus on consumers. Enterprises that lack strong ties with consumers are risking revenue shrinkage because it is cheaper than ever to switch to services of a different business entity. Establishing and nurturing long-term relations with clients is top priority of every successful firm.

Denves Consulting was founded in 2014 and is a regionally (Croatian and Ex-Yugoslavian) and globally (through M&A Worldwide network) oriented financial advisory boutique company for SME companies. We provide financial advisory in mergers and acquisitions, due diligence services (financial and commercial), feasibility studies, corporate restructuring, debt advisory and structured finance. Our services help our clients to find strong domestic and international partners which can bring further growth to their business.

Through work with our clients we gained significant experience in sectors like IoT, smart home automation, custom SW development, business process outsourcing, system integration, natural cosmetics, retail & distribution, sanitary ware industry, etc. We shifted our focus and a lot of our energy towards IoT, system integration and SW development and are happy to support our clients on their growth journey.

We are the only M&A Worldwide member for the whole Ex Yugoslavian region.



RECENT SUCESS STORIES LEAD BY M&A WORLDWIDE

MBA CAPITAL MEMBER OF M&A WORLDWIDE



THYM BUSINESS
CLICZONE

MBA Capital acted as Thym Business advisor

BUY 2018

CYPRESS MEMBER OF M&A WORLDWIDE



M2M SOLUTIONS
SONDA

M2M Solutions sold 100% of its shares to Sonda

BRAZIL **SELL** JAN 2019

MBA CAPITAL MEMBER OF M&A WORLDWIDE



CARVIVO CONTACT
NORD CAPITAL & TURENNE CAPITAL

MBA Capital acted as Carvivo advisor

FUNDRAISE 2019

MnA TEAM MEMBER OF M&A WORLDWIDE



QUALITEST GROUP
ORASI

MnA Team acted as Qualitest Group advisor

BUY 2018

CYPRESS MEMBER OF M&A WORLDWIDE



VELTEC
TRIMBLE

Veltec sold 100% of its shares to Trimble

BRAZIL **SELL** OCT 2018

ARS CORPORATE MEMBER OF M&A WORLDWIDE



MPM
KIREY GROUP

ARS Corporate acted as Kirey advisor

BUY 2019

FOCUS MEMBER OF M&A WORLDWIDE



FUTURETECH
EMERGYS

Focus acted as FutureTech advisor

BUY 2018

FOCUS MEMBER OF M&A WORLDWIDE



UTG
CORETELLIGENT

Focus acted as UTG advisor

BUY 2019

LINKERS MEMBER OF M&A WORLDWIDE



VOXALY
DOCAPOSTE

Linkers acted as Voxaly advisor

SELL 2018

MBA CAPITAL MEMBER OF M&A WORLDWIDE



CILPAK
CÉRÈS MANAGMENT

MBA Capital acted as Cilpak advisor

SELL 2018

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The next M&A Worldwide Convention will take place in Toronto (24th-25th October).

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.

For more information, please visit www.m-a-worldwide.com