



Bluebox® Industry report

IT

Developments in the IT industry [H1 2017 edition]

Introduction

The last M&A WW Convention took place in New Delhi on 17-18th November, providing an opportunity for all network members to discuss M&A projects in the IT Sector. One of the world's fastest growing economies and home to a thriving IT sector, India is profiled in brief on [page 2].

Two key factors currently driving development in the IT market are Connectivity and Mobility, with companies across the world becoming increasingly focused on how to understand, contribute to and ultimately gain advantage from the rapid expansion of the Internet

of Things ("IoT"). These key trends are discussed in depth by M&A WW industry experts on page 5 and 8 of the report.

Mergers and acquisitions represent an important strategic tool to fulfill or accelerate the growth of the IT industry. The M&A WW network has been involved in 28 M&A operations in the IT sector. 2017 looks as a busy year buoyed by strong public market valuations and significant liquidity in traditional capital markets.

In 2017, M&A WW will continue to offer a committed team to help clients grow through executing the best strategic opportunities in the IT sector. Happy New Year!

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 raising, and other strategic partnerships. Collectively, we closed [293 transactions in 2016], representing a cumulative deal value in excess of \$3bn.

A detailed black and white photograph of a printed circuit board (PCB). In the foreground, four electrolytic capacitors are visible, with labels such as '100 16V' and '100 16V'. A microchip is mounted in the center. The background is blurred, showing more components on the board.

The most notable deal was Virtusa Consulting Services, an IT consultancy and outsourcing services provider, taking a majority stake in Polaris Consulting, a developer of financial software, in March and then increasing their stake further in April. The goal of the deal was to gain Polaris' blue-chip client base and to expand Virtusa's market reach and growth potential.

Senior Director, IT sector expert –Bluebox, UK



Countries On The Radar



France

The big IT Services companies are still growing by acquisition, with recent deals including **Atos'** acquisition of the US service activities of Xerox, **Cap Gemini's** acquisition of AXA's Technology Shared Services which will complete Cap Gemini's Indian position with the addition of c.1000 employees, and **Oberthur's** acquisition of Safran's Identity and Security (I&S) activities in the face of heavy competition from archrival Gemalto.

In the software sector, **Esker** (helped by ACTIVE M&A) will finalize in January an acquisition in Germany strengthening its European footprint.

Docapost (subsidiary of **La Poste**) took control of a software editor within a vertical segment dedicated to waste management. Docapost plans to provide to local authorities a platform to manage the admin process of waste collect and reduce the cost.

Novalink, a network equipment and security distributor, has been sold to **Nexian** and will allow the group to offer: systems; networks and security integration; technical support; consulting and application services to mid- size companies.



UK

The UK continued to experience significant deal flow in the 2016, with volumes on track to be up 10% for the year on 2015 nationally. This

volume was driven in part by Private Equity companies continuing to be active in the sector, completing a total of 86 deals in the tech sector in H1 2016.

The upturn in activity occurred in spite of the volatile performance of equity markets as both the Brexit Vote and US election playing out on the world stage. It is likely that opportunistic purchases for international corporates may continue to support deal volumes in H2 2016 and into 2017, given the recent fall in value of the pound against both the dollar and the Euro.

Other prominent themes behind acquisitions include the continued convergence of the UK IT services sector, in a bid to present an end-to-end, unified offering for clients in a highly fragmented market, as well as the continued drive for improvement in IT security, a result of the "cyber arms race", most recently highlighted in discussions following the US election.

Rickitt Mitchell currently have four live mandates in the IT space, having completed three transactions in the sector during 2016, being the sale of **EAF** to Singapore based, listed business Procurri, and the acquisitions of **Payment Software Company Inc.** and **Virtual Security Research** by NCC Group.

Countries On The Radar



Portugal

The economic growth in Portugal is encouraging, more stimulus in the economy is ongoing to capture more international investment.

Portugal hosted the Web Summit event that brought to Lisbon about 50 thousand people from 166 countries, and 1500 start-ups and more than 1300 investors from all over the world.

Sonae Investment Management entered in the capital of Feedzai and Outsystems. Smith Micro acquired iMobile Magic the creator of Family Safety. Vincy Energies acquired Novabase Digital TV and Novabase Serviços.

Tesla and the Portuguese government are in talks to locate Tesla new Gigafactory in the north of the country.



USA

We expect very strong growth in the U.S. M&A market in 2017, with Information Technology leading the way according to many national surveys.

96% of respondents to a MergerMarket survey believe that the U.S. will be one of three countries that will see the biggest increase of tech M&A activity in 2017.

Underlying reasons for this growth include:

- A growing need for businesses to address transformation in the marketplace
- The faster pace of technology change, resulting in disruptive technology with high barriers to entry that cannot easily be replicated internally
- Slower organic growth

We believe that IT Security and Mobile will continue to priority areas for buyers, and that Fintech and Infrastructure Services will also be attractive sectors in 2017.



Brazil

IT was the most active sector in the Brazilian M&A market in 2016, with a total of 208 deals between January and November of this year.

84 of these deals occurred in the software segment, which represents more than 40% of the M&A activity, with 45 transactions in the IT services segment.

Cypress currently have six live mandates in the IT space, having completed four transactions in the sector during 2016, being the sale of Arcon to **NEC**, Cosin Consulting to Dentsu Aegis Network, FBITS to Locaweb, and the acquisition of Wdev by **Ebix**.

IoT Landscape and M&A

By Dr. Kai-Henrik Bart, Partner Active M&A Experts, Germany



"Anything that can be connected will be connected." This is clearly the most practicable definition when it comes to "IoT" or "Internet of Things". In terms of investment and acquisition, the IoT is about to become and probably surpass what once has been the internet or all businesses connected to the smartphone. The estimates range from 20-50 billion devices connected or connectable via the internet in 2020, with staggering growth rates between 25-40% - annually.

IoT is a burgeoning market, and one of the hallmarks of its emergence will be a continued, high level of M&A activity as the major players all jockey for position across the various vertical market sectors. For those involved in supporting (especially) buyers, it becomes paramount to understand technologies, market shifts and new business models "out-of-the-box" thereby creating value opportunities for buyers considering their traditional home turf too much.

Key Characteristics

The key characteristics of the IoT in terms of business case and subsequently of seller attractiveness are:

The sale is not the end

Once standalone analogue business models become life-cycle oriented, it is not the initial product or service rendered but the services and functionalities offered after the initial offering that is responsible for the financial attractiveness. Companies need to think in much longer commercialization cycles and need to acquire not only ever changing technology but also need to tie customers (becoming more B2C than B2B) into compelling business models.

All industries are affected

Smart cities, autonomous cars, 3D printing, smart grid, connected homes, human/machine interfaces and a legion of other application areas make it paramount for every company to readjust their strategy, re-focus technology, address new target groups and readjust their business models.

Dynamics, dynamics, dynamics

New competitors may show up within years or even months, technological development in the industry may take leaps and already investigated technologies, found too slowly, may show new and improved characteristics, leading to new business possibilities and addressability of markets.

Data becomes king

Machine data, customer data and lifecycle data will govern the success or failure of a company in a specific industry.

For instance, who will take the prize, when connected, autonomous cars are produced in ever larger numbers? Will it be the Mercedes, Toyotas or Peugeots of this world or the Google(s), Uber(s), navigation, entertainment or more exotic companies currently operating tangentially to the traditional manufacturers?

Numerous companies are already striving to commercialize the data generated by the car industry, its passengers and the affected environment; this raises questions as to how fit the incumbent car-manufacturers are to play in the same league as "information" professionals. What happens to a century old tradition, when presumably a big chunk of the market will be replaced by 3D-printing, thereby replacing the traditional necessities for machine-led manufacturing?

Considering the key characteristics of the IoT and its possibility to affect every industry, it is no small wonder that these trends have a large impact on the M&A activity in this sector. Again, there are a couple of common denominators which should be understood:

Technological savviness

Independent of what industry you are in or on what type of company



you are focusing on as an investor, you need to be able to understand both basic and more specific technologies which might affect the success of your targeted company. These technologies might currently reside inside your industry already or might still be outside. Just knowing your industry is not enough anymore. The next strategic move, the next potential add-on might reside in an industry completely outside your own.

Pricing and multiples are influenced by levels of digitalization

The more a company is digitized, compared to other companies in its industry, the higher the multiple paid by (strategic) investors. Today, we witness Private Equity funds, in their

Acquisition strategies as well as their buy-and-build considerations, put a special emphasis on the level of digitalization of a target. Pricing may vary by up to 10x in multiples if digitalization is high in the target.

Domination of big players

The higher the opportunity felt in an IoT driven target, the higher the multiples, the bigger the buyers - it is as simple as that. Many companies specialize in subsections of the IoT. But (only) some very large companies (Like GE or Siemens or Bosch or Samsung etc.) have the resources, manpower and tradition to capitalize from almost every aspect of the IoT capabilities on a target. It might be that for small- or mid-sized companies certain investments or acquisitions might look worthwhile, but there is a bigger competitor, who is willing and able to pay a much higher premium.

Number of targets limited, interest high – valuations soaring

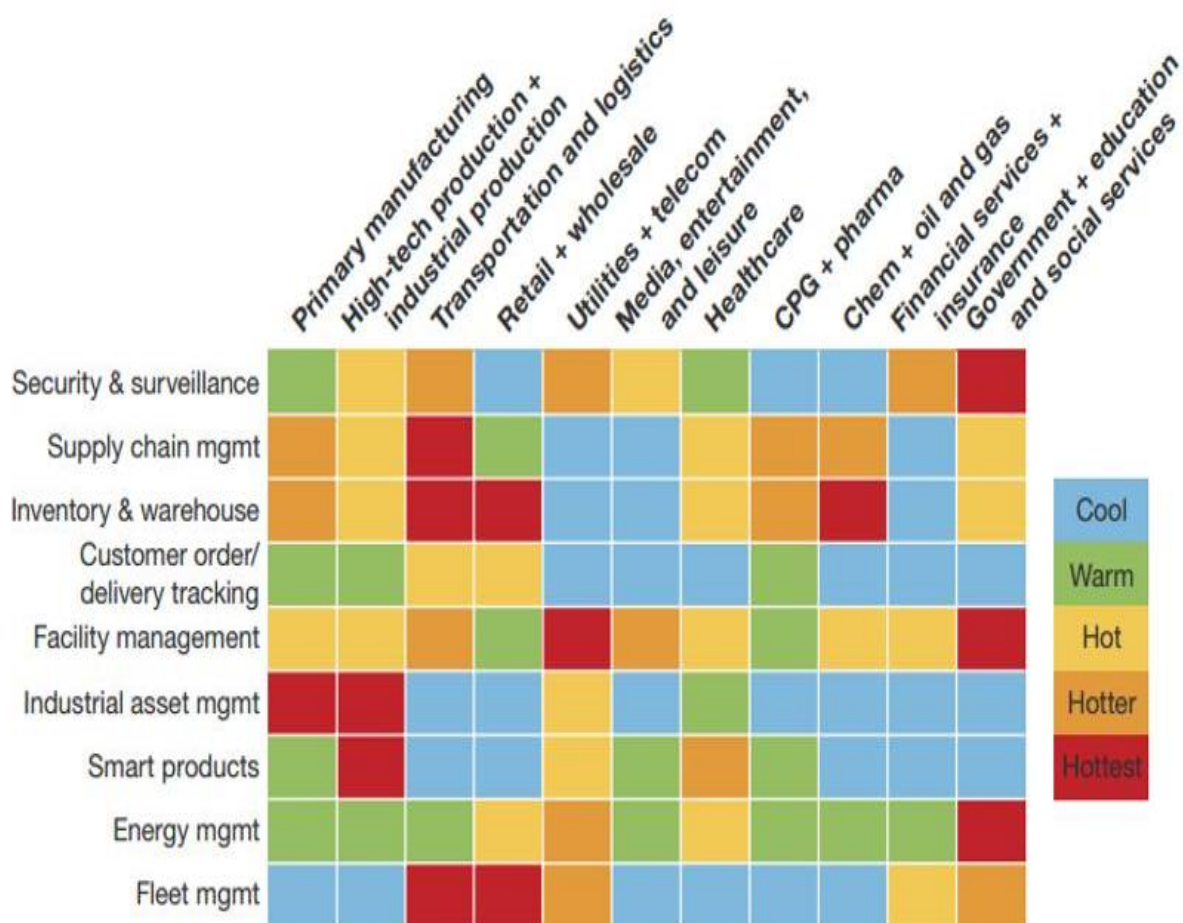
Looking at the catchwords in 2016 – BigData, Cloud/ SaaS and IoT – it is obvious that the latter showed the fewest deals, but (and this is a big BUT) outpaced every other category in average deal size, which was a staggering \$3bn. It's true that top tier IoT vendors may still purchase niche startups just out of stealth mode for relatively modest prices of \$50 million, \$100 million or \$200 million for a promising IoT product, engineering talent, plus a valuable patent portfolio (present or future). But M&A deals of \$1-2bn are increasingly common and mega-billion deals – like Intel's purchase of Altera for over \$16 are no longer a rarity.

The biggest deals in Q3 2016 include:

- SoftBank Group Corporation buys ARM Holdings plc: \$32.4 billion
- Analog Devices, Inc. buys Linear Technology Corporation: \$14.9 billion
- Oracle Corporation buys NetSuite, Inc.: \$9.3 billion
- Micro Focus International plc buys Software Business division of Hewlett-Packard Enterprise: \$8.8 billion
- Verizon Communications, Inc. buys Operating business of Yahoo! Inc.: \$4.8 billion
- Giant Investment and consortium of investors buys Playtika Ltd.: \$4.4 billion
- Apollo Global Management LLC buys Rackspace Hosting, Inc.: \$4.3 billion
- Platinum Equity LLC buys Network Power business from Emerson Electric Company: \$4 billion
- ONEX Corporation/Baring Private Equity Asia buys Intellectual Property and Science business unit of Thomson Reuters Corporation: \$3.6 billion
- Wal-Mart Stores, Inc. buys Jet.com, Inc.: \$3.3 billion



The hottest investment trends and therefore probably those market/technology combinations to watch out for are shown in a Forrester heat-map. Those shown in red currently experience the highest market attention and sometime exaggerations. It might be worthwhile to have a closer look at those shown in blue or green, as undetected opportunities for buyers might arise in these sectors.



There is an indication that the most desirable acquisition targets are companies whose core competencies revolve around analytics, security, connectivity platform capabilities and services. And within those product categories IoT buyers are especially eager to acquire companies in hot vertical segments including: Automotive, Consumer wearables, Healthcare, Industrial IoT (IIoT), Manufacturing, Retail, Smart Home, Transportation and Weather.

The Market for Mobile App Development and UX Firms

By George M. Shea, Partner and Information Technology Team Leader, FOCUS Investment Banking LLC



The hot new app in App Store and Google Play may not be the next great acquisition opportunity in the mobile app industry. In reality, the next great merger or acquisition might be a mid-market professional services firm that builds mobile apps with a great user experience (UX) for brand name commercial customers.

The combination of app development and UX skillsets is becoming especially critical as mid-to-large sized firms across a range of industries make mobile a larger part of their strategy to woo new customers and support their existing customer base. UX focuses on how users interact with applications, so bringing UX expertise in-house can lead to better-designed mobile apps.

Profile of a Desirable Mobile App Development/UX Firm

The mergers and acquisitions we see in this sector fit an interesting profile. By and large, they are service firms building mobile apps for Fortune 1000 organizations across multiple industries. Often, they are a trusted strategic partner to their big-company clients, helping them formulate and implement a complete mobile plan.

Some of the more desirable mobile app development firms we are seeing being acquired offer a complete package to

clients, including consulting in enterprise mobility strategy, mobile marketing, mobile commerce, and digital product development.

Recent M&A Activity Highlight

Wipro Ltd and Designit: Enhancing Digital Transformation and UX Offerings

Wipro Ltd. acquired Designit, a worldwide UX and design firm focusing on mobility and mobile application development to increase the digital services they can offer new and existing customers. This deal is valued at \$65,441,000.

Symbility Solutions Inc. and BNOTIONS: Adding Mobile Apps, IoT, and Wearables to Cloud Offerings

Symbility Solutions Inc. (Automated Benefits Corporation), a developer of cloud-based software applications for the property and health insurance industries, acquired BNOTIONS, a Canadian mobile strategy and data analytics firm focused on mobile app development, the Internet of Things (IoT), Machine-to-Machine (M2M), and wearables. The deal was said to close for \$2,800,000.

Capital One: Key UX Investments To Improve the Mobile Banking Experience

To improve their mobile banking app, Capital One, a banking institution, has been on an acquisition spree. According to TechCrunch, a technology industry news site, they acquired Oakland, California-based Monsoon, a design studio and app developer that has done work for the NBA, HP, Cisco, and Wells Fargo among others. In 2014, Capital One acquired Adaptive Path, a well regarded UX consulting firm based in San Francisco, CA in a move that surprised both the technology and financial services industries.



Ixonos and Cresense Oy: Strengthening UX and Design Skills

Ixonos PLC acquired privately-held Cresense Oy for their UX and design skills. Cresense has a strong customer base in business-to-business (B2B) and business-to-consumer (B2C) services. As part of the company reorganization, Cresense staff will join Ixonos. The total deal amount was \$575,000.

St Ives Group and Solstice Mobile: Mobile Expertise and International Expansion

St Ives Group, a UK-based marketing services firm, acquired Solstice Mobile of Chicago, Illinois for their native scale mobile expertise and will let the firm operate independently as a St Ives operating company. Solstice Mobile is now able to realize its international expansion plans at an accelerated rate.

Synechron and usable: Strengthening Synechron's In-House UX Expertise

Synechron, a global technology consulting and outsourcing provider, acquired usable, a boutique user interface/UX firm, to strengthen its existing UX capabilities.

Zebra Technologies and ITR Mobility: Bringing Enterprise Consulting and Ruggedized Devices To Customers

Zebra Technologies Corporation, a solutions and services provider focusing on real-time visibility into an organization's assets, people, and transactions, acquired ITR Mobility, a mobile consulting and software development firm, and the developers of the iFactr platform. The acquisition enables Zebra Technologies Corporation to offer ITR Mobility's enterprise consulting and ruggedized mobile device expertise to their enterprise and industrial customers.

WPP and Bottle Rocket: Strengthening Digital Media and Mobile Advertising

Bottle Rocket, a full service mobile solution provider based in Dallas, Texas, was acquired by WPP, the world's largest communications services firm. At the time of the acquisition, WPP had billings of USD \$70.5 billion with revenues of USD \$16.5 billion. Founded in 2008, Bottle Rocket gained a strong reputation creating iPhone, iPad, and Android apps for brands including NPR, ABC News, and National Geographic. A press release from WPP announcing the acquisition stated that the investment continued WPP's strategy of strengthening the company's capabilities in digital media and mobile advertising.

Deloitte and Ubermind: Bringing Mobile Product Development To Enterprise Customers

In 2012, Deloitte's management consulting firm acquired Ubermind, a Seattle, Washington-based agency that has developed mobile apps and other interactive products for well-known companies, most notably Apple. At the time, the price of the deal was believed to be between \$40 million and \$50 million according to tech industry watcher, GigaOm; Ubermind was said to have around 200 employees working in their Seattle and Denver offices. Overall, Deloitte has more than 180,000 employees worldwide. The contrast in size had no bearing on the fact that Deloitte was acquiring much needed mobile product development talent and experience to broaden its enterprise consulting services.

Trend Analysis

We see some interesting trends around the M&A activity in this sector because large enterprise companies across multiple industry sectors are moving towards mobile-first strategies. While EBITDA is still important in these transactions, the growth of mobile app development and UX-centric firms comes from filling a demand for major corporations.



In addition, the seller's growth rate has strongly influenced the final valuations. Companies like Solstice Mobile and Monsoon are the outsourced app development and UX talent for some major household brands.

Mobile devices can be a transformation agent enabling large enterprises to streamline back office operations and processes. Mobile devices are replacing computers as the first choice for millennial consumers, and also for remote workers because of their ease of use. Large companies have growing needs for mobile apps to serve their workforces and external customers alike.

Capital One's initial acquisition of Adaptive Path caught the technology and financial services industry watchers by surprise. However, some analysts say mobile apps are on track to outpace PCs for online banking; mobile app development firm acquisitions show the importance of customer acquisition and retention in the financial services industry.

Large management consulting or technology services firms acquiring UX and mobile app development firms can better serve customer demands for mobilizing legacy applications and workforces.

The entire mobile app market is evolving quickly, and acquiring these smaller firms gives buyers access to talent with an established body of work. New UX and mobile app development services also open additional opportunities for buyers' existing management consulting, process re-engineering, application development, and IT security services.

Conclusion

FOCUS Investment Banking predicts further mergers and acquisitions in this sector since buyers across industry sectors are seeking better ways to attract and engage with customers.

SUCCESS STORIES ADVISED BY M&A WORLDWIDE MEMBERS

Procurri Corporation acquires EAF Supply Chain Holdings

Rickitt Mitchell advised EAF on its disposal to a Singapore based listed business, Procurri Corporation Limited, a leading provider of Data Centre Equipment and Lifecycle Services.

The acquisition will allow Procurri UK to improve its service response time and extend its service coverage through EAF's network of forward stocking locations, provide augmented cross-selling opportunities and support growth in Procurri's Lifecycle Services segment with the addition of recurring revenue streams from EAF's list of reputable customers, which includes global IT companies and resellers such as HP, IBM, Dell and Fujitsu.

Mercer acquires Positive Ageing

In January 2016, Mercer announced the acquisition of Positive Ageing, which had created and marketed a first of its kind platform, "AgeingWorks", which looks to combat the costs of ageing in the workplace. The platform generated a large amount of interest from large consulting, employee benefits and health services firms in the UK and internationally that could deploy the product into their current client base.

BLUEBOX ran a discrete and competitive process, ultimately advising the firm to proceed with Mercer, one of the world's largest consulting firms based in the USA.

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M&A Worldwide

The next M&A Worldwide Convention will take place in London next Mai 17th - 18th 2016.

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.



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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