

COMMENTARY ON

IT SERVICES AND CONSULTING

M&A ACTIVITY IN 2020

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SECTOR SNAPSHOT – M&A 2020

IT SERVICES & CONSULTING

CLAIRFIELD
INTERNATIONAL

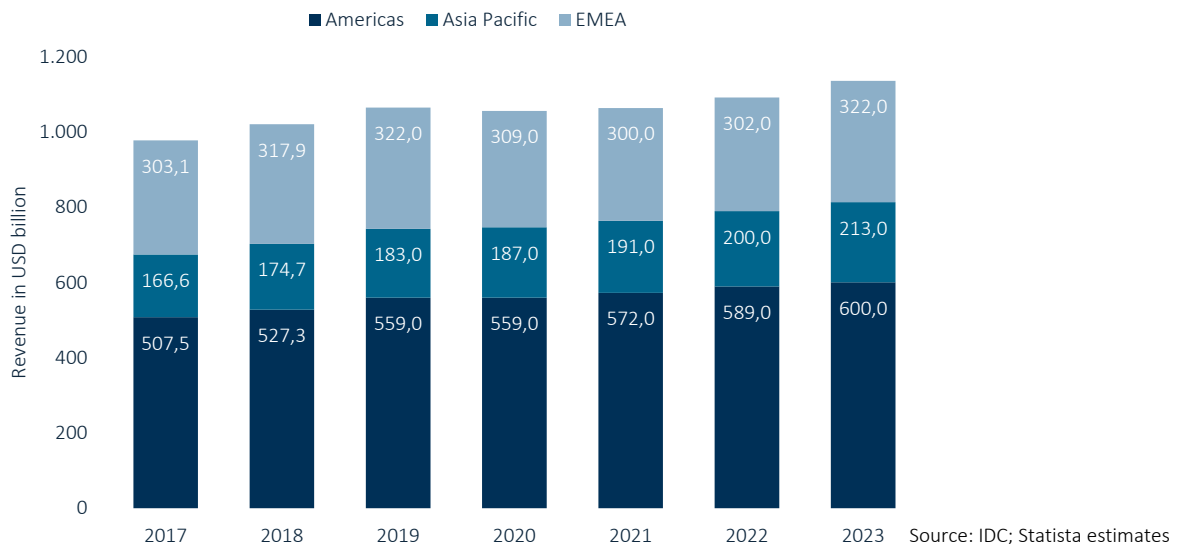
IT Services and Consulting

IT Services and Consulting is one of the largest subsectors of Clairfield’s Technology, Media & Telecommunication (TMT) practice. During the last six months we have seen a continuously high level of activity in this business segment. Based on our conversations with clients, ongoing mandates, and successfully completed projects in this market, we expect the heightened level of operations to continue in the next 18 to 24 months. We foresee that company valuations will also remain at a high level. Most of our clients in the IT sector have seen a budget reallocation from long-term strategic projects to mid- and short-term solutions in the areas of mobile workplaces, cloud-based infrastructure, and other applications with focus on automation and digitalization. Q2/2020 budgets have been negatively impacted in the automotive and aviation sectors among others, but corporate leaders are anticipating positive stimulation from the ongoing COVID-19 situation not only in terms of budget size, but more importantly from heightened focus on IT services and consulting in the next 12 to 24 months.

The high degree of innovation and the impact that modern digital technologies offer in all spheres of the global economy are the key factors sustaining this upward trend. Due to the digital shift caused by COVID-19, the industry gains even more significance and will play a central role in the transformation of businesses. According to IDC, the sector’s global revenue amounted to almost USD 1.06 trillion in 2019. Artificial intelligence & automation, cybersecurity, and cloud-based solutions are the most popular subsectors of the IT service industry. In addition, digital customer experience and data analytics services play an increasing role in IT services and the economy of the future.

Sector development

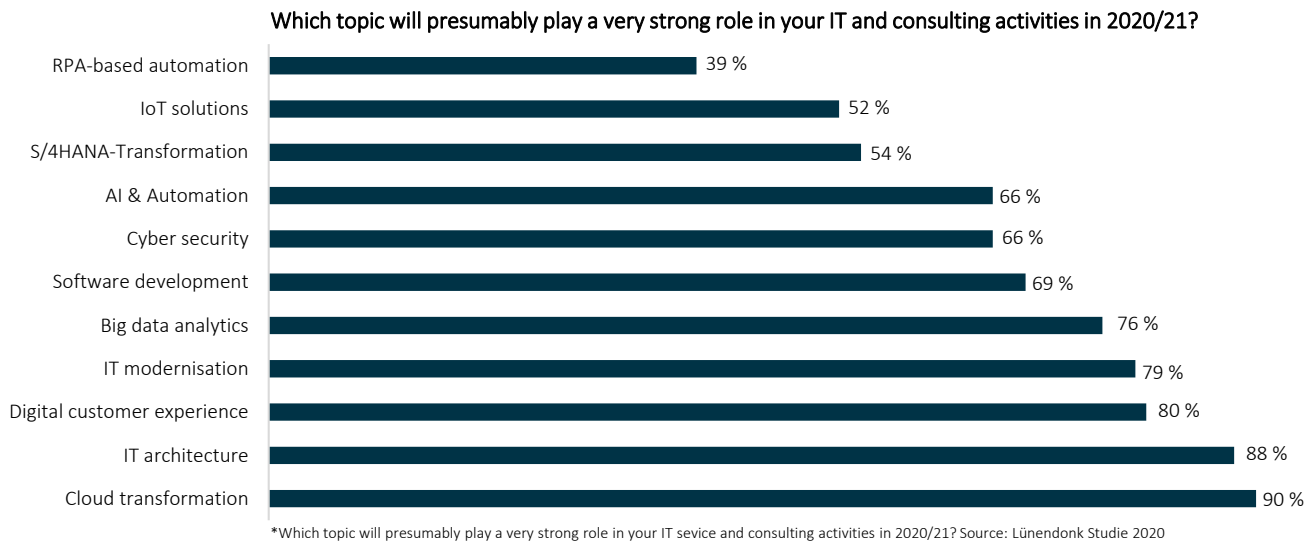
Global IT services revenue by region 2017 - 2023



The entire IT landscape is undergoing rapid change, leading to new challenges, but also new opportunities regarding business strategies, the competitive environment, consumption patterns and M&A activities. In the recent past, not only technology itself, but also the services around it has grown much more sophisticated. The formerly relatively stable IT sector has emerged into a wide variety of options concerning software applications, data tools, and cloud variations. Due to this enormous degree of sophistication, IT advisory, implementation and digital safety requirements have multiplied, resulting in an increasingly demanding and extensive work environment.

For firms in the IT service and consulting industry, the general digitalization trend promises a new and stable source of revenue. In addition, as cybersecurity solutions, remote working applications and digital customer experience gain extra momentum, 2020 may be a turning point for new revenue potential in the demand for IT implementation and cloud- and data analytics services. Global IT services revenue is expected to equal USD 1.14 trillion by 2023. Thanks to strategic investment by corporations and governments and considering the recent boost, it is likely that the IT services and consulting sector will experience a positive development and growth figures well above the overall economy.

Looking ahead: sector trends



Nowadays every company, independent of its industry, is partially an IT company, since supply chains, production and sales are more and more interlinked with IT solutions. However, the omnipresence of technology alone does not necessarily modify the inherent business model. As the digital revolution opens up new growth channels and potential for better decision making, firms are experiencing that the superficial inclusion of technology is not sufficient. Rather, extensive advice and professional support from IT specialists is required. This trend generates positive returns for companies within the IT service industry, since the next stage of technological adoption will require a keen understanding of digital applications and data.

The technological macro factors driving the IT service sector in 2020 and beyond comprise cloud transformation, the integration of IT infrastructure and digital customer experience. 90% of IT service companies regard cloud transformation to play a very strong role in the future of their business activities, while also over 80% count IT infrastructure and digital customer experience as one of their main drivers. Revenue and activities in these sub-sectors can be expected to be especially strong in the upcoming years. According to CompTIA, the IT areas where small- and medium businesses need significant support besides transforming and integrating applications, are consulting in smart data analytics and cyber security. Especially, cloud-based security solutions continue to gain traction across industries, particularly in highly regulated fields such as financial services and government. Given the tremendous technological opportunities and cost saving potential, the next step for many businesses will be automation. Automation has always been one aim of enterprise technology, but today's capabilities open new doors. IT services around the internet of things (IoT) outline new options for gathering inputs from a variety of sources, and artificial intelligence (AI) consulting can help drive actions adapted from those inputs. Future automation will be highly complex, and the nature of AI will necessitate a solid amount of external IT consulting services.

Source: compTIA IT Industry Outlook 2020

Outlook: M&A trends

Above-market growth figures, long-term profit prospects, and sometimes shortage of highly skilled people attract private equity investment and often makes IT firms a target for corporate acquisitions. Based on this and the developments Clairfield's worldwide TMT team has seen in the last few years, the IT sector in general seems to be more optimistic about future M&A activities than other industries or non-tech firms. Industry convergence, cross-sector and also cross-border deals can be expected to play a more important role, as almost all sectors continue to rely on technology to create new growth stories. This is likely to elevate company valuations and speed up M&A activities as strategic option for growth. Accordingly, complementary acquisitions securing or enabling technological capabilities will be at the core of deal-making.

At the same time, with the pandemic impacting daily operations and business we expect that executives will focus more on the core business and that this is creating the necessity to reassess portfolios and eventually divest non-core assets. This, paired with high levels of private equity dry powder and very low interest rates creates an attractive investment landscape and will presumably lead to an increase in private equity activity in order to generate excess returns.

Overall, despite the economic turbulence of 2020, both pipelines and anticipated deal closures in the IT sector look set to remain robust in the next months from our perspective. Thanks to the industry's strength and long-term significance, IT firms and investors can be optimistic about the future technological developments and the financial prospects which come along with those key innovations.

Recent sector deals

After some transactions were put on hold in view of economic uncertainty, IT sector deal value and count rebounded quickly after the first quarter. This recovery provides an advantage and opportunity to continue realizing M&A opportunities.

Among recent IT transactions, there is the acquisition of UK-based MTI Technology Ltd. by the Japanese electronics firm Ricoh Company Ltd. and the sale of German-based IT consultancy MACH AG to Main Capital Partners B.V.. Also, the French activities of Sword Group SA were acquired by private equity firm Argos Wityu. Overall, M&A activities proved their worth and remain strategically essential, especially as a tool for vertical integration as well as private equity investments.

Recent Clairfield transactions in the TMT sector

Profihost, a German managed-server provider, was sold to **dogado**, one of the country's leading players in the field of cloud-hosting and web services and a **Triton Partners** portfolio firm.

Holte, the Norwegian market leader in workflow management software for the building construction industry, was sold to **EG**, a Danish industry software provider backed by **Francisco Partners**.

GB Group, an UK-based data intelligence and identity management firm, acquired **Idology**, a fast-growing provider of identity verification services.


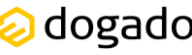













Solocal Group, a Euronext-listed digital marketing company, sold its Spanish subsidiary **QDQ Media** to **AS Equity Partners**.

Boss Industries, a French group dedicated to homeland security solutions, acquired **Trovicor**, a leading provider of end-to-end lawful interception and intelligence solutions.

Orange Group, the leading provider of telecommunication services, acquired 100% of the shares of **Bluesoft**. Bluesoft is a market leader in comprehensive end-to-end IT services in Poland.

Quality Positioning Services (QPS) which provides hydrographic software solutions within the global maritime industry was divested by **Saab AB**. The company was sold to **Total Specific Solutions (TSS)**.

Ielo Group, a French independent fiber-optic operator, raised funds from **DIF Capital Partners**, of EUR 160 million over the five next years becoming a leading fiber optic infrastructure operator in France.

 SALE 	 SALE 
 SALE 	 ACQUISITION 
BOSS INDUSTRIES ACQUISITION 	 ACQUISITION 
 QPS. SALE 	 CAPITAL RAISING 

About Clairfield

Clairfield is an international corporate finance partnership that provides advisory services, mainly in cross border mergers and acquisitions, to international corporations, family-owned businesses, and financial investors. With over 30 locations, we offer our services in more than 20 countries in Europe, America, Asia and Australia. Over 300 M&A and corporate finance advisors and industry experts at Clairfield provide our clients direct access to local know-how of regional offices worldwide and to specialized industry advisors. In 2019, we closed more than 140 transactions and ranked as the top M&A advisory firm in the tech-sector in Europe according to Refinitiv.



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Clairfield International was founded in 2005 by four European M&A boutiques and has since expanded to encompass all major economies worldwide with the addition of knowledgeable partners in key markets.

Our strengths are our entrepreneurial spirit, local expertise, industry know-how, and close bonds among all team members spanning the globe.

300+

TEAM MEMBERS

80%

OF THE MANDATES ARE
INTERNATIONAL

6

SECTOR TEAMS OF SPECIALIZED
EXPERTISE BACKED BY

23

COUNTRY TEAMS
ACROSS THE WORLD

30%

DEALS CLOSED WITH
INTERNATIONAL BUYERS

70

INDUSTRY ADVISORS



Leading independent
M&A advisor for
midmarket deals

Top 10

IN EUROPEAN
MIDMARKET RANKINGS

Top 20

IN WORLDWIDE
MIDMARKET RANKINGS

Top 3

IN TECHNOLOGY DEALS IN EMEA

EUR 20 billion

CUMULATIVE DEAL
VALUE LAST 5 YEARS

130+

DEALS CLOSED ANNUALLY

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