The Wire

Transformational

How the data revolution is driving global M&A

Inside

Going global

Despite global headwinds, 2019 is shaping up to be an unforgettable year for the tech sector as it continues its relentless push into new areas of the global economy.

Businesses in virtually every sector are increasingly seeing their physical and digital worlds converging as automation, machine learning, Internet of Things (IoT) and Augmented Reality (AR) move into the mainstream.

The vast majority of technology giants are also now profitable with strong revenues and earnings. It is no surprise that against this backdrop there are plenty of compelling reasons for businesses to turn to M&A in order to scale up and extend their global footprint.

Transformational

It's a theme we explore in greater depth in our main feature in this issue, which includes exclusive interviews with three businesses that have recently been through transformational cross-border M&A, and which talk candidly about their global ambitions.

For Irish telecoms and energy contractor KN Group it has been the merger with French group Circet; for UK-based software company Union Square the sale to US-based Deltek; and for US supply chain solutions specialist HighJump the sale to the German Körber Group.

Scaling up

Here at Clearwater International we are scaling up too. We advised directly on the KN and Deltek transactions, as well as advising HighJump competitor Centriq Group on its sale to Körber. Outside of these featured transactions other recent highlights for us include advising on the sale of transport management software group Mandata to LDC, on the sale of field service software specialist Kirona to Advanced, and on the acquisition of IT Relation by HgCapital.

Elsewhere in this issue, we also review the continued excitement around the European hosting sector in an interview with the Combell Group. Octavius Mihaies, Partner at Clearwater International France, and Josemaría Torrens, our Director in Spain, also discuss current TMT trends in their home markets, while UK Director Hemavli Bali looks at the fast-growing healthcare TMT market.

We hope you enjoy the read.

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Deal changers

Analytics. Automation. Machine learning. Just some of the tools enabling fast-growing, innovative companies to scale up internationally. We spoke to businesses that have recently been through transformational cross-border M&A to find out how the data revolution is driving their global ambitions.

"We are only just starting out on this journey, I don't think we will even recognise the way we live in 10 years' time from how we live now."

The journey that Donagh Kelly, CEO of Irish telecoms and energy contractor KN Group, is referring to is the move towards an ever more connected world. "You only have to look at the rise of online shopping to see how this connected world is allowing us to do so many more things. But this goes far beyond shopping. Look at healthcare and the rise of virtual services, online prescriptions, and telecare. The possibilities are endless."

Kelly says he only has to look at his own father to see the way the world is changing. "My dad is 80 now and I am always fascinated by how comfortable he is working on his computer. I can see how he is personally adapting to this new world and how he is managing in his own way with this exciting new environment."

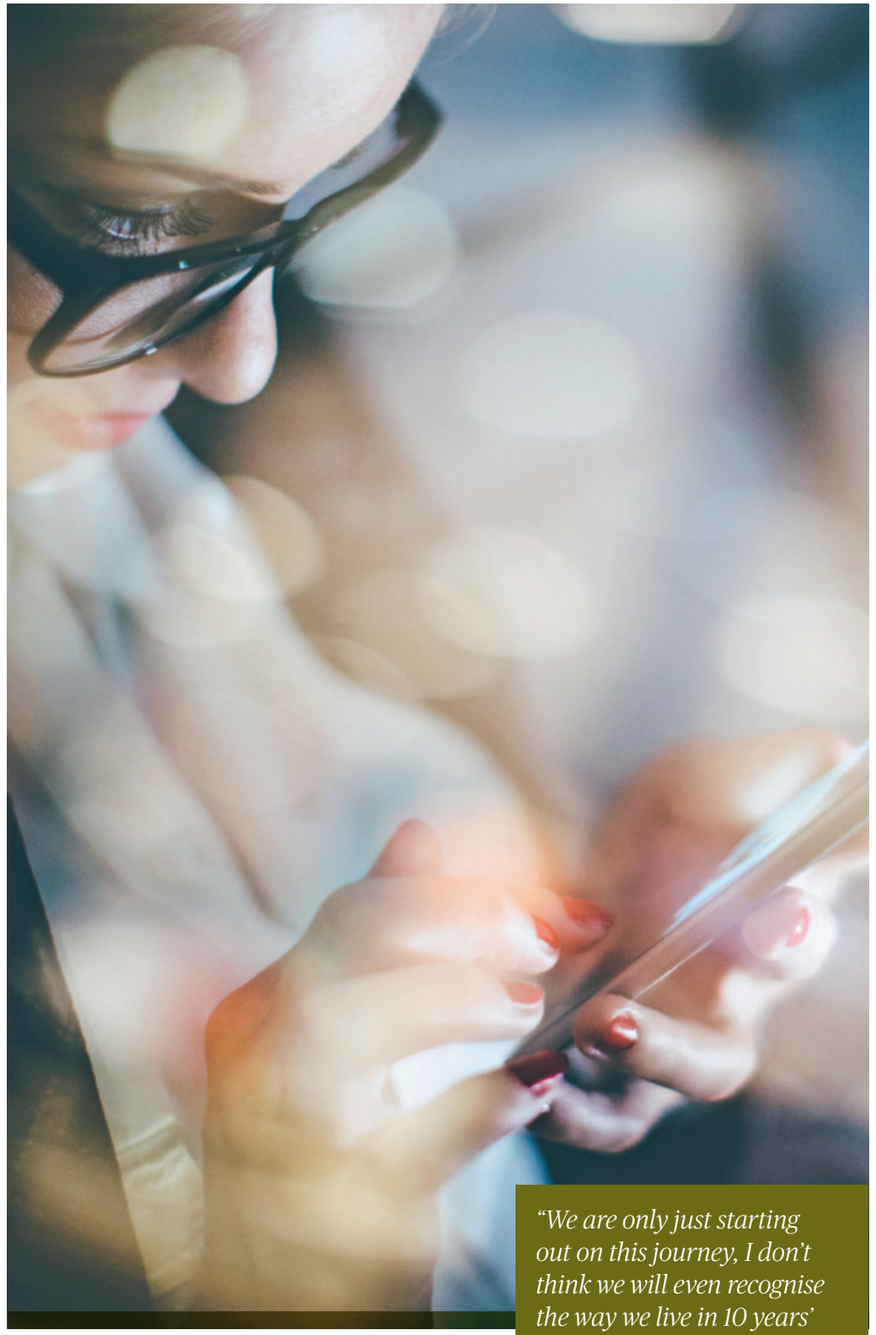
Potential

It's an environment that brings enormous potential for a player like KN which has built up a growing portfolio of specialist utilities services across telecoms, transport infrastructure, power and multimedia installation. Today its clients include Eir, Vodafone, Sky, Virgin, BT, ESB and the London Underground.

Kelly adds: "As a business our job is all about providing and enabling that connectivity, whether it's telecoms, power, energy or transport infrastructure. Bandwidth demands are increasing all the time and we will be at the heart of where this connected world takes us. But connectivity is only a means to an end. It is all about the services that you provide which use that connectivity, and how you make customers loyal to those services."

He says the long-overdue investment in fibre networks is just one key driver in the market. "This has been put on hold for a long time, but what we are doing now is rebuilding in 10 to 15 years the old copper network which took 80 to 90 years to build in the first place. It's just one reason why our market will be buoyant for at least another 10 years as we enter a new era of fibre revolution and 5G."

Kelly does however caution on the rush to 5G. "As the connected world evolves we will definitely need it, but I think that there is a timing issue. Just as with the IoT and Artificial Intelligence (AI) we are still at the start of that journey. But as all these technologies further develop we will need more and more bandwidth."



"We are only just starting out on this journey, I don't think we will even recognise the way we live in 10 years' time from how we live now."
Donagh Kelly, KN Group

French merger

KN Group is certainly well placed to capitalise on these trends and last year the business merged with the Circet Group, a French telecoms player backed by Advent International. Clearwater International advised KN on the transaction.

Kelly had been looking at the strategic options for KN which would enable it to continue its strong growth trajectory. "The partnership with Circet quickly emerged as an obvious solution allowing us to undertake ambitious network rollout plans across Ireland, the UK and internationally. The proposition was very compelling as Circet was dominant in France and was virtually a mirror image of KN. The fact that it was backed by Advent which has a strong history in telecoms was also compelling."

The combination of the two businesses now creates a diversified player in European telecom services, offering full turnkey solutions across all network technologies in France, the UK, Ireland, Germany, Morocco and the Caribbean. The company generated sales in excess of €1.2bn in 2018.

Scaling up

The power of merging businesses to achieve scale and deliver connectivity in this fast-moving landscape is also epitomised by US-based Deltek, a leading global provider of software and solutions for project-based businesses.

It has made a series of acquisitions in recent years, including the purchase in 2016 of UK project information software company Union Square, a major player in the Architecture, Engineering & Construction (AEC) market. Clearwater International advised Union Square on the deal.

€1.2bn+
KN Group and Circet sales in 2018

Based in Nottingham, it is now known as Deltek Project Information Management and offers a solution which gives access to project information in one central location. The solution incorporates email and document management, as well as improved file sharing and design processing.

Tim Setchfield, a former Union Square director who is now Senior Product Director at Deltek, said the solution is all about allowing businesses to work smarter and more efficiently.

He says that there has been a huge amount of technological disruption in the AEC market in recent years, driven by the connected world. "Managing data and collaborating on information to make smart decisions is critical for successful companies today, especially in the AEC industry."

US ownership

Setchfield, who splits his time between writing software and focusing on wider strategy, says the fact that project management has become so much more challenging drives the need for creative solutions, and the Deltek acquisition has been transformational.

"When Deltek acquired our business it doubled our floor space in Nottingham and we now have a real critical mass of people here including programmers, consultants, sales and support staff. Physically sitting together also promotes and harnesses knowledge-sharing and collaboration, and that's important for us because our product is quite complicated and demands a lot of domain knowledge."

The principle of using Dropbox-style technology to update documents has been around in the construction sector for at least a decade. As Setchfield adds: "With any construction project the sheer scale of transactions can be enormous so having a central online location is fundamental. For instance if you're building a hospital you might have 10,000 different companies involved, so cutting out emails and sharing information centrally becomes really important."

3D moves

He adds that although Building Information Modelling (BIM) has been around for a while, it is evolving all the time. "A really exciting area right now is how technology is trying to provide the mechanism for sharing 3D models. These are models which contain huge amounts of data, specifications about every minor detail that goes into the supply chain."

In this regard Setchfield says the use of analytics, automation, machine learning and Virtual Reality (VR) tools are now becoming far more widespread, while the potential of blockchain systems is also being explored. "One of the challenges with the construction industry is the sheer size of these files. With a 3D model you could have up to half a gig of data and transporting that around in real time poses major challenges, which is why a central location is a better model."

He foresees that machine learning is likely to play an increasingly significant role. "Every software vendor is now looking for ways of exploiting readily available machine learning libraries on the internet, and we ourselves are currently working on our first machine learning project."

Strategy

Like Kelly, Setchfield is excited about future prospects. "As a result of the sale to Deltek we are now building up a presence in the US. The deal has had other benefits in that it has also allowed us to really look at product strategy, going beyond the day to day product management. Deltek has really brought long-term product strategy to the forefront."

He adds that Deltek has also made some interesting recent acquisitions of other US companies such as Avitru, which designs software for authoring and managing building specifications that is based on the ubiquitous MasterSpec system. Avitru also has a strategic partnership with the American Institute of Architects. "The deal adds more expertise in the construction supply chain and I am very interested in how we work with them on that," says Setchfield.

Deltek was itself also recently acquired by Roper Technologies, which operates businesses that design and develop software and engineered products for sectors such as technology, healthcare and energy. However, Setchfield stresses there has been minimal impact on the wider group by that deal.

Macro trends

Another business leader seeing first-hand the impact of these sweeping technological changes is Chad Collins, CEO of US-based HighJump, which develops supply chain software solutions. Collins has spent his entire career in the supply chain technology industry in roles ranging from product development, through to sales and marketing.

Like KN and Deltek, HighJump has also been the subject of significant M&A activity, and in 2017 was acquired by the German-based international technology group Körber. Collins says Körber - which began life as an industrial company - has been at the forefront of spotting macro logistics trends, and a few years ago began expanding its logistics offering.

> *"Deltek has really brought long term product strategy to the forefront."*
>
> **Tim Setchfield** | Senior Product Director | Deltek

As he explains: "It had built up an offering in machine building and the automation of systems integration, and we fit into its broader logistics software strategy and wish to expand further beyond Europe. The deal has allowed us to globalise our product portfolio but also, importantly, given us a long-term view of strategy. We will continue to look for the right technologies to fit in with our product portfolio and look at more places where we need to be to serve our global customer base."

Clearwater International also recently advised the UK-headquartered Centriq Group, a provider of IT solutions to the logistics, supply chain and retail sectors, on its sale to Körber. Centriq, the holding company for Voiteq and Cirrus Logistics, will sit within Körber's Logistics Systems business and complements its HighJump acquisition.

Automation

Echoing Setchfield's point about data, Collins adds that in any warehouse today there are literally "hundreds of thousands" of transactions that need to be processed every day. "The great challenge is how you then allow customers to personalise the automated process to their particular business needs," he says. "Our architecture is all about giving customers the software tools they need to make these changes."

Collins points to the example of customers having new products or facilities which demand changed distribution models. "We can adapt their systems in a way which doesn't change the source code of the product, a really key point. Our USP is flexibility and adaptability, enabling customers to implement user-friendly processes quickly which they can then roll out themselves. We have also been first movers in the cloud and have carved out a place in cloud-based solutions, which customers increasingly prefer."

Challenges

Collins says a big challenge can be finding solutions for companies which have rigid systems which cannot respond to rapidly changing global supply chain models. "If these customers are having to operate outside newly emerging supply chain systems, it becomes very inefficient for them."

He adds that the shift to e-commerce models, and the global shortage of labour to perform manual tasks, are other key trends in the market. "This shortage of labour will only further drive automation and robotics. Aligned to that we will see the continued adoption of IoT technologies and increased connectivity. That could just as easily apply to trucks in the supply chain, people moving within the warehouse, equipment within the warehouse, or ordering processes."

Profile: **Donagh Kelly**

Donagh Kelly certainly enjoys life in the fast lane. At weekends the founder of the telecoms contracting group KN is most likely to be found screeching around the Irish countryside as he indulges in his great passion for motorsport rallying.

"I'm a boy racer at heart," he admits. But when the 47-year-old isn't racing down Irish roads he is busy continuing to scale up the KN Group, the company he first founded as a 23-year-old, into a global player.

Kelly began his career as a quantity surveyor. When a firm he was working alongside in Scotland went bust, he did a deal with the receiver to purchase some specialist road laying equipment.

"I remember saying to myself there's some good equipment there, so I literally cobbled together the cash I needed to buy it and set up KN Transport Services, the genesis of the business today."

Kelly says he never deliberately set out to create a global business. "I think being an entrepreneur is inherent in your DNA, you don't decide to just become one. You can be very successful in business, make a lot of money, and not be an entrepreneur. I think the difference is that when opportunities come to you as an entrepreneur you cannot ignore them, you find that you just have to go after them."

Challenges

Kelly has certainly faced his fair share of challenges along the way, most notably the economic crash a decade ago.

"As a business we had no debt so were not exposed to banks like many companies, but we were exposed to the market. In Ireland revenues fell 40% and prices 20%. We came through it but only via mass redundancies, pay cuts, and working on minimal salaries. It was a terribly tough time."

However, a couple of years later, the company won a contract to build networks for a mining company in West Africa, a defining moment for the business.

Adds Kelly: "It was a big risk, I had to go on gut feel and roll the dice. But I knew that if it worked it would work well, and we ended up spending seven successful years there. It was great learning for us and a pivotal point in our development as a business. We were literally building telecom networks to a western standard in an extremely challenging environment.

"What it gave our business, and me, was a sense of confidence that we could build networks anywhere in the world. There was no environment where we could not build, and we also realised just how good we were. It gave us huge confidence in terms of what we were capable of. Looking back, getting from a €10m to €50m turnover business was a struggle, getting from €50m to €100m was tough, €100m to €200m not quite as hard, and then €300m just happened. But we are not complacent for one minute. It is one thing getting to that number, but another sustaining it and further growing."

"I remember saying to myself there's some good equipment there, so I literally cobbled together the cash I needed to buy it and set up KN Transport Services."

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Growth

Asked what makes KN stand out from the crowd, Kelly says it's because "what we do matters".

"We have managed to keep the feel of a family type business and that's really important to us. We want staff to feel like we have a purpose, that it is not just a job, and doing the right thing is part of that.

"We are also very mindful that staff needs are evolving too. For instance we have a lot of millennials in our business, staff who are looking for a better work/life balance but also want that career progression path. It comes down to excellence, doing things to a high standard, and making yourself more viable and self-sustaining as a business."

Despite the present economic and political turmoil caused by Brexit, Kelly insists that its main UK and Irish markets remain buoyant. "Yes, Brexit is a concern and all we can do is prepare as best we can and have our own contingency plans in place, especially regarding possible restrictions on the movement of people. But our links with the EU are very strong and they are only further strengthened by the merger with Circet."

"It comes down to excellence, doing things to a high standard, and making yourself more viable and self-sustaining as a business."

Data explosion

European hosting provider Combell Group is tapping into the explosion in data and how companies use it. We caught up with Stefan Rosenlund, its Managing Director in the Nordics.

For a measure of the continued excitement around the European hosting sector just talk to Stefan Rosenlund.

Rosenlund has been on quite a journey in recent years. Twenty years ago he set up Zitcom Group which, through organic growth and acquisitions, would become a leading Danish SME-focused hosting and cloud solutions provider.

In 2015 the business was acquired by HgCapital which, during an 18-month ownership period, supported Zitcom's acquisition and integration of four companies helping to double its customer base and revenue, and treble profits. Clearwater International advised on the deal.

In 2017 Zitcom was then sold to Intelligent, a Belgian headquartered provider of hosting solutions, which subsequently split itself into two hosting companies, one serving the SME market and the other larger companies. The business serving the SME market (and incorporating Zitcom) was rebranded the Combell Group, and late last year was sold to HgCapital.

"Our view has always been that if there was a manual process in our business then we needed to automate it."

Sector opportunity

Rosenlund says the fact that HgCapital had therefore reinvested in his former business showed the strength of the sector opportunity.

"Hg thought that there was more to do in this sector, while it naturally had a lot of industry insights from its previous ownership."

Combell Group is a leading hosting player in Belgium and Denmark, and has growing positions in the Netherlands, Sweden and Switzerland as a one-stop partner for web hosting, domains, e-commerce and application solutions.

Adds Rosenlund: "The investor proposition is very strong and I am passionate about helping SMEs. Every business needs a domain name, a website and an email address. And we are the first step when a company wants to digitally transform itself by providing that range of tools and apps that it needs."

Digital transformation

Rosenlund says that, in general, most SMEs are still only at the very start of their digital transformation.

"For a tech business like us it is a natural evolution. In our company automation was built in from the very beginning and, although you hear all this talk today around digital transformation, the truth is that it has been around for years. Our view has always been that if there was a manual process in our business then we needed to automate it. We constantly look at the questions that customers ask us and say 'can we automate those answers'. By doing that we have built up a huge amount of data which means we can now do sophisticated things with that data, putting algorithms on top of algorithms."

Rosenlund says for a lot of businesses automation is still a new concept and requires a big jump in thinking. And too often young businesses try to run before they can walk.

"Yes, automation allows you to scale your business. But a lot of businesses forget that before you start working with new tools you need the underlying data in order to do the complex things such as machine learning. They may talk about digital transformation, machine learning and AI, but often they haven't even automated their own internal processes yet. That is the key step that a lot of companies are missing and it is exactly where we come in and help. You can buy a lot of platforms which automate different processes, but people can miss the point that you need to tie them together at the back end.

"The investor proposition is very strong and I am passionate about helping SMEs. Every business needs a domain name, a website and an email address."

"Because a lot of businesses are not looking properly at what data they have in the first place, companies are missing a step around automation too."

Future growth

Given such scenarios, Rosenlund stresses that his main focus remains on serving his current customer base. But he adds that it would make sense to start looking further at other countries and expand its reach.

"We are interested in further opportunities in the rest of the Nordics and countries such as the Netherlands and Switzerland which have similar dynamics to Denmark and Belgium in that they are small markets with local champions. There is much more to do, and I'm looking forward to exploring that and taking everything a step further."

"Yes, automation allows you to scale your business. But a lot of businesses forget that before you start working with new tools you need the underlying data in order to do the complex stuff such as machine learning."

European view

Octavius Mihaies, Partner at Clearwater International France, and Josemaría Torrens, Director in Spain, discuss current TMT trends in their home markets.

Octavius Mihaies

The TMT market in France has traditionally been polarised between very large players and smaller businesses, with very few mid-market companies in between. This gap has been down to a number of factors including the lack of available finance for smaller players to grow, and because large businesses have been reluctant to buy services from smaller companies.

It is also because of the lack of a mature exit environment. Large French conglomerates operating in the broader TMT sector, and especially those in the media industry, have been reluctant to buy technology companies, preferring first to try to develop innovation on their own.

Exciting landscape

However this environment is changing fast. In particular, we are now seeing the emergence of more disruptive, agile and dynamic home-grown technology companies. These are driven by entrepreneurs (especially repeat entrepreneurs) who are willing to go further than in the past in terms of scaling their companies, including expanding into major foreign markets like the US and Asia.

This changing mood has, in part, been driven by a new state-led willingness to promote the tech sector. Last year the government announced a €11bn investment fund to finance disruptive technology innovations, a fund managed by the public investment bank Bpifrance. The fund has already invested in a string of tech companies, ranging from early seed businesses through to much larger companies, and is currently responsible for more than a third of all investments in the sector.

€11bn

investment fund to finance disruptive technology innovations

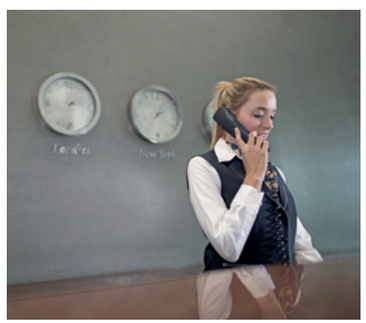
The result is that we now have a far more dynamic tech sector, and I believe this trend will only continue as the government wants large and small businesses alike to work much closer together and collaborate.

In parallel, there is an increasing number of funds willing to invest in French tech businesses. There is for instance a growing number of foreign growth equity funds (including major US ones) writing bigger cheques to fund more aggressive expansion strategies.

M&A drivers

We see several drivers which will underpin a very vibrant M&A market in the future.

Firstly, we are seeing increasing interest from private equity in the tech sector which remains highly fragmented in areas such as software. Secondly, major French industrial players – and potential strategic buyers – are starting to realise that it might be a better strategy to buy existing tech companies rather than develop their own tech capability in-house. For instance, Accor Hotels has acquired many platform and software companies in the hospitality space.



And thirdly, we are seeing an increasing number of foreign buyers acquiring French companies in the sector. Indeed, out of the top 10 TMT transactions in France last year, only two involved French buyers with a notable increase in interest from US buyers.

Josemaría Torrens

The home-grown Spanish TMT market is still relatively immature when compared to established markets such as the UK and the Nordics. One of the main reasons for this trend is that the main players for installing and configuring technological solutions in the Spanish market have predominantly come from overseas.

A particular challenge is that market knowledge among Spanish businesses and investors remains quite poor, and they have therefore been reluctant to invest significantly in the sector, especially in terms of supporting start-ups and new ventures given this risk-averse stance. This lack of detailed knowledge among corporates and investors alike also feeds through to the M&A market as private equity groups in Spain are, by and large, not comfortable investing in the sector.

Cloud

But could these attitudes be about to change? The biggest trends in the market are undoubtedly the move towards the cloud and big data. Managing data, security, business intelligence and mobility have become key drivers in the IT market, and we are now entering a new era of cloud and big data services adoption, with huge innovation.

In Spain this trend has been demonstrated by a number of recent deals in the market such as the €250m sale of Itconic, one of the largest data centre, connectivity and cloud infrastructure solutions providers, to Equinix, the global interconnection and data centre company. The Carlyle Group acquired Itconic in 2015 and invested heavily in expanding capacity and connectivity in its five data centres.

This deal is undoubtedly a sign of things to come. In Spain right now around 80% of data is not in the cloud, but within ten years that number is expected to be completely reversed.

Big data

Big data and data analytics are becoming more interesting for acquisitors. Last year Indra acquired Paradigma Digital for €70m at 17x EBITDA, and more recently Boston Consulting Group acquired Kernnel Analytics, a specialist in business intelligence for the banking industry. There are many strategic and private equity buyers looking for these niche companies with large customers in their portfolios.

80%

of data in Spain right now is not in the cloud

The multiples in this space are the highest in the industry driven by increasing demand for these services, a limited talent pool and high EBITDA margins (over 25%).

As a result we expect the largest domestic IT providers and foreign players to enter these markets by buying talent and acquiring other providers. In turn, we expect increasing interest from private equity groups outside Spain with investors from both across Europe – in particular the UK, France and Germany – and the US, entering the market. And this is also a great opportunity for us at Clearwater International given both our global connections with private equity and our local presence in discovering and engaging with young mid-cap IT companies.

In good health

Clearwater International Director Hemavli Bali looks at latest trends in the healthcare TMT market in the UK.

Tell us about the UK market for healthcare IT?

The market tends to split into two distinct camps, namely those companies supplying pharma and biotech, and those supplying the NHS and public sector. The former have deep pockets so if you are a business offering something innovative in addressing key imperatives, or which can increase efficiencies, then you are in a good space. Likewise, those businesses supplying the NHS which have established a strong foothold focusing on improving patient outcomes are also in a good position.

"Understanding how to get the best solutions into the NHS takes a lot of knowledge and experience of the sector. You have to be able to speak the language."

What challenges do companies in this market face?

For those operating in the public sector a major issue, beyond availability of funding, can be the longer lead-in times on projects. Even if you have ground-breaking technology it can be a challenge to gain traction. A common challenge across both the pharma and public health sectors is also the sheer number of businesses that now badge themselves as technology companies. Because of the maturity of the market it can be difficult to integrate new, niche solutions into technology stacks that already exist, so the challenge for newcomers is how they stand out from the crowd and integrate their offering into existing systems.

What trends are you seeing?

As patient power increases, a particularly strong trend within the NHS is demand for technology which improves health outcomes across an individual's entire healthcare pathway. This is something that is established in the US and we are now starting to see the trend emerge across the UK. However the big difference in the UK is that patients are used to healthcare being free at the point of care, so the willingness to privately pay for technology options is less pronounced.

You hear a lot about the use of technology to monitor patients remotely. Is this on the rise?

It should be. The UK government has put technology very much at the centre of its healthcare agenda and promises support for emerging technologies which can deliver efficiencies and ultimately the best outcomes for patients. There is an emphasis on wanting to encourage technology and we expect to see a streamlined procurement process and higher growth for companies selling mission-critical technology to the NHS.

What is the M&A market like?

Private equity remains very interested in the healthcare IT market and we have seen a number of secondary and tertiary buy-outs in recent times with equity investors matching bids from corporates. One driver for private equity, and something that is particularly attractive, is that more and more UK healthcare businesses are exporting their solutions to the likes of the US so there can be strong international growth opportunities. Private equity likes technology businesses which can deliver scalability and growth, and which have an exciting roadmap for new markets.

What have been some notable public sector focused deals over the past year?

A standout transaction was software provider Advanced acquiring Docman, an electronic document management, workflow and information sharing platform provider. Advanced has been a recognised supplier to the NHS for more than 20 years and has been developing products in partnership with NHS England, such as the virtual health assistant app Ask NHS. Another notable public sector deal saw the Irish group Clanwilliam acquire clinical speech services and software specialist Dictate IT. In terms of private equity interest, a notable deal saw TA Associates investing in Datix, a specialty healthcare patient safety software provider.

And some notable pharma deals?

Syneos Health, Inc. a biopharmaceutical solutions organisation, acquired Kinapse, an advisory and operational solutions provider to the global life sciences industry. And ProPharma Group acquired Xendo, a Netherlands-based provider of compliance consulting, engineering and technical support to the biopharmaceutical, medical device and healthcare industries.

What are the prospects for M&A in the year ahead?

They are very strong and this remains an exciting sector to be in. A lot of players are growing fast and are now reaching a size where they are coming onto the radar of mid-market corporate finance boutiques and private equity houses.

Finally, what other trends might we see?

The big tech companies are increasingly entering the healthcare space and this is something to keep an eye on. It will be really important for big tech to fully understand the market and the issues they are trying to address. Often the most intuitive and easily assimilated tech solutions come from people working on the ground in the healthcare environment, so if you are coming at this lacking an operational perspective it might not always work.

Understanding how to get the best solutions into the NHS takes a lot of knowledge and experience of the sector. You have to be able to speak the language.

Hot sector

Last year the number of TMT transactions globally rose, up by 8.5% year on year. With technology continuing its relentless push into new areas, businesses are increasingly finding their physical and digital worlds converging.

As trends such as machine learning, IoT and AR increasingly move into the mainstream, there are plenty of compelling reasons to look to M&A.

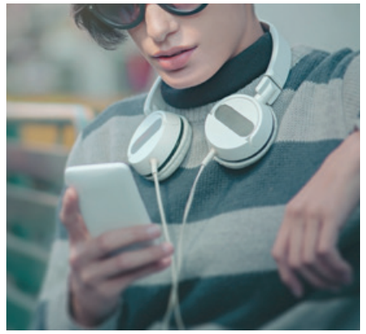
The TMT megadeal was back with a bang in 2018, with a number of multi-billion transactions recorded. Previous years have seen banks and other large corporates prioritising the divestment of non-core assets and the consolidation of balance sheets. Renewed confidence in the M&A market meant that firms were willing to spend and invest big.

Yet the largest technology deal of all time that could have happened failed, as Qualcomm's €125bn bid for Broadcom fell by the wayside. With the US citing national security concerns as a reason for blocking the merger, 2018 was the year of heightened criticism of Chinese firms. With Chinese firm Huawei receiving a ban in a number of countries including Australia, the US and India, businesses with allegedly close ties to the Chinese government have come under scrutiny.

"Last year the number of TMT transactions globally rose, up by 8.5% year on year."

The last year has also presented an opportunity for other listed technology companies as the backlash against Facebook, Amazon, Apple and Google seemed to gather momentum. Netflix was the notable exception, with its market capitalisation more than doubling. Perhaps the only one of the five that can still be described as a market disruptor, its investment in original programming has proved a winning formula and an example for other innovative firms to follow.

However, €720bn was written off the combined market value of these five companies, the so-called 'FAANGS' in just four months, with market suggestions that perhaps valuations have become too high. Facebook has been mired in scandals surrounding fake news and the use of personal data without users'



consent, whilst Apple faces the challenge of convincing investors it can continue to sell iPhones at the same rates it has historically. The technology sector now makes up 26% of the S&P 500, its highest weighting since 2000, which gives investors a significant amount of choice.

Market data

The average size of a TMT transaction increased by €9.9m in 2018 compared to 2017. A key driver was the continuing availability of cheap debt from well capitalised banks. With interest rates potentially expected to rise, many see now as the opportune moment to engage in M&A. Furthermore, as many technology companies grow larger greater investment is needed to purchase meaningful stakes.

As with 2017 media continued to dominate the top ten deals in 2018, with two long running acquisitions finally closing. AT&T acquired Time Warner for €75bn whilst Comcast's €34bn bid for Sky was accepted. Traditional entertainment advertising and programming models have faced increasing digital disruption, which has prompted extensive acquisition activity. AT&T's motive was largely driven by gaining access to its own premium content, whilst Sky's network of loyal and lucrative subscribers engaged Comcast to pay a premium valuation.

The majority of software deals in 2017 were small tuck-in purchases, but 2018 was dominated by large transformational acquisitions. IBM announced its statement of intent in the cloud computing market when it purchased Red Hat for €28.6bn, while SAP paid €7bn for survey and research specialist Qualtrics. Microsoft paid €6.7bn for software development firm GitHub, and Adobe acquired marketing software specialist Marketo for €3.5bn. With many legacy technology businesses still feeling the pressure to transition to cloud offerings and gain better software development tools, many

TMT transactions average enterprise value 2010 - 2018

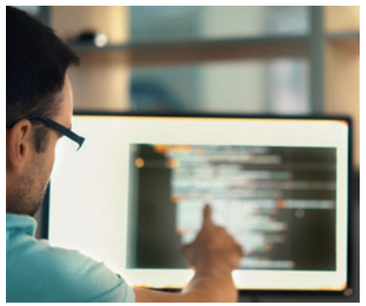
Year	*Average enterprise value (€m)*
2018	114.5
2017	104.6
2016	100.0
2015	87.9
2014	102.9
2013	145.4
2012	64.7
2011	60.7
2010	44.3

have looked at acquisitions as quick solutions to key capability gaps.

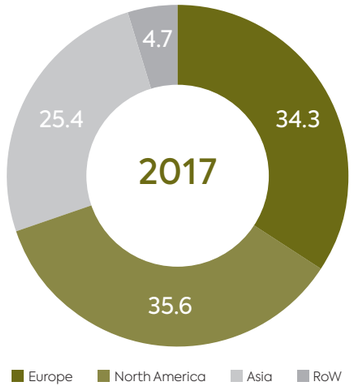
One of the most talked about software acquisitions of the year was Broadcom's €16.7bn purchase of CA Technologies. The deal has divided analysts with some arguing that Broadcom overpaid for old technology, whilst others have suggested that there is a compelling proposition for a combined software and hardware offering serving enterprises, which allows them to better utilise the advantages of the IoT.

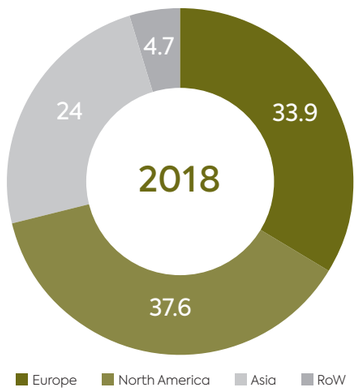
The merger between Sprint and T-Mobile finally went through for €23bn. With telecom companies facing an ever more urgent mandate to transform their businesses, amidst squeezes on mobile tariffs, a decline in fixed line income, and greater competition from VoIP and unified communications providers, expect to see continued strong M&A activity in this segment for the rest of this year.

"North American and European targets continued to increase their stranglehold over M&A representing 71.5% of the market."



Deals by target region in TMT 2017- 2018 (%)





Global view

North American and European targets continued to increase their stranglehold over M&A, representing 71.5% of the market during 2018.

Meanwhile, the number of transactions featuring an Asian Pacific target dipped by 1.4%, while targets from the rest of the world largely stayed constant.

With the trade relationship between the US and China increasingly rocky, the number of cross-border TMT deals between Europe and China significantly increased with European technologies in 5G, artificial intelligence and blockchain continuing to drive deal activity. For instance, Chinese chip maker Tsinghua Unigroup acquired its French counterpart for €2.2bn, while less regulatory challenges and more positive political relations have all helped to create a favourable climate for transactions between the two regions.

Yet with concerns in Europe that Chinese companies with indirect ties to the state are acquiring European businesses of strategic importance, European Union regulations promising greater scrutiny of Chinese acquisitions may be on their way.

IPO levels rebound

There was a significantly higher number of IPOs in 2018 as technology companies largely turned back to the public market. Rising stock prices, a relatively stable US economy and a significant appetite for emerging technology stocks, have all helped to contribute.

According to Bloomberg, of the 52 companies that held IPOs on the US stock exchanges since the beginning of 2017, more than 70% are trading higher than their price at market entrance. For instance, SurveyMonkey soared 42% on its first day, Farfetch 53%, and Pinduoduo 38%.

Another notable trend has been Chinese technology companies largely outpacing their US counterparts when listing on the American stock exchange. This may be because two thirds of the Chinese businesses were not actually making any money. American stock market regulations do not require firms to make a profit, an important component for listings within China.

Following the recent flotation of household names Uber and Lyft, it looks like 2019 will continue the strong trend for IPOs. Yet there have been discussions in the US as to whether ownership rules could be expanded for later-stage private companies so that retail investors could have access to pre-IPO issues.

Spotify's direct listing public market process hit the headlines last year which helped fuel the debate. Expanding the pool of capital available to private companies could reduce the need to conduct a classic IPO, an option that is often not popular with CEOs in the first place.

PE drives valuations

The frenetic level of private equity investment in TMT in 2017 showed no sign of slowing down last year. The strong growth profiles and recurring revenue models of TMT assets have been a key attraction, along with the fact that many are, for the most part, economic cycle resistant. Private equity helped increase valuations for European assets across technology, media and telecoms, reflecting a strong investment appetite and a significant amount of liquidity connected to large fundraises.

Date	*Target*	*Activities*	*Private equity investor*
Dec 18	UKFast.net	Cloud hosting company	Inflexion
Nov 18	Charterhouse Voice and Data	Unified communications and cybersecurity	August Equity
Nov 18	BCN Group Limited	Manged IT services	Beech Tree Private Equity
Nov 18	Infradata B.V.	Security and cloud networking solutions and services	IK Investment Partners Limited
Nov 18	Trustteam NV	Managed IT services	Ardian
Aug 18	iPortalis Limited	Cloud services to businesses	NorthEdge Capital LLP
Jun 18	IT Relation	IT hosting	HgCapital
Jun 18	Wireless Logic	M2M/IoT managed provider	Montagu
May 18	GCI Group	IT managed services	Mayfair Equity
Mar 18	Jigsaw24	Apple managed services reseller	Alcuin Capital Partners
Apr 18	Savaco nv	IT services	AAC Capital Partners
Feb 18	Ask4	Hosting provider for student accomodation	Bowmark Capital

B2B IT services and hosting were hot property throughout Europe in 2017 and this was a trend that continued into 2018. Clearwater International advised on four acquisitions of assets in the sector, advising: HgCapital on the acquisition of IT Relation, a leading Danish supplier of managed IT services to SMEs; BCN Group on its investment by Beech Tree Private Equity; Jigsaw24, a supplier of Apple services, on its sale to Alcuin; and Netgroup on its sale to Sentia which is backed by Dutch private equity house Waterland. Annual recurring revenue levels have been seen as a key attraction for investors, with many purchasing assets as platform investments. Success largely depends on an effective buy and build model, with the ability to integrate smaller managed services providers key.

"Private equity helped increase valuations for European assets across technology, media and telecoms, reflecting a strong investment appetite and a significant amount of liquidity connected to large fundraises."

$100m

Investment by Softbank in Globality, a platform powered by AI.

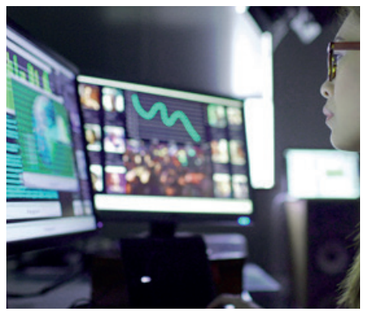
Elsewhere, despite the political concerns surrounding Brexit, it was business as usual for private equity investments in UK software assets. With technology and automated processes still seen as key to reducing costs and improving performance across government, public sector software was particularly attractive to both domestic and international investors.

US private equity house Vista invested in Allocate, a healthcare workforce management provider, with fellow US house TA Associates purchasing Datix, a patient safety software supplier. UK investor Tenzing invested in Ticketer, a bus ticketing software specialist, whilst Dutch house Waterland invested in a stake in Gas Tag, a provider of technology that helps housing and local authorities combat illegal gas fitters. With Cinven selling UK public sector software specialist Northgate to Japan based NEC at a high valuation last year, this is a market where private equity feels comfortable it can make strong returns.

Media interest

In media, B2B data and analytics specialists continue to be highly sought after private equity assets. With intelligence-led decision making becoming an increasing organisational priority, the ability to deliver information in new and insightful ways is significantly valued. For instance, Clearwater International advised FPE on its acquisition of IWSR, a specialist data and analytics provider to the alcoholic drinks market.

Information providers to financial services were hot assets with HgCapital investing in fund data provider Financial Express and Bridgepoint acquiring PEI Media, a provider of data and conferences for asset class investment professionals. Synova also invested in Mintec, a provider of commodity data and prices for raw materials. Proprietary data, a vertical



specialism, and workflow tools and analytics capabilities are all increasingly valued.

Telecommunications and broadcast infrastructure has become an increasingly popular sub-sector for private equity investors. The demand for fast internet speed and growth in data usage alongside the emergence of 5G networks provide particularly strong growth drivers.

High barriers to entry, clear and visible cash flows, and sticky customers on long-term contracts are key attractions. Clearwater International advised Equistone on its acquisition of WHP Telecoms, a UK provider of professional and network support services to the wireless telecoms sector. In France BNP Paribas Developpement SA, SCR invested in Sogetrel, a business that designs, deploys and maintains network infrastructure. Other deals saw KKR invest in Altice France SA telecommunications tower business, PAI Partners bought a stake in UK telecoms infrastructure provider MGroup, and GCP invested in Indigo Telecom, a provider of telecoms managed project services.

"The demand for fast internet speed and growth in data usage alongside the emergence of 5G networks provide particularly strong growth drivers."

Future prospects

Artificial Intelligence (AI) has always been an attractive sector. With Softbank investing $100m at the start of 2019 in Globality, a smart sourcing platform powered by AI, expect to see even more activity. Looking ahead we expect advancements in AI with movement from stand-alone objects to autonomous things powering areas such as robots, drones and autonomous vehicles. In 2018, Intel used a drone swarm for the opening ceremony of the Winter Olympics, whilst

Dubai announced its plan to use police autonomous vehicles that deploy their own drones for surveillance.

The rollout of fifth generation mobile networks is expected to happen soon, with many firms making acquisitions to prepare themselves, such as Ericsson's acquisition of Kathrein, a 5G antenna technology specialist. With the likes of AT&T, Qualcomm, Samsung and Verizon all announcing phones compatible with the network, one big name is conspicuously missing. Apple has announced that 2019 is too early for 5G and it will be sitting it out until 2020. 5G is also not just limited to smartphones and we await to see the new opportunities in AR, connected homes and driverless cars, prompted by faster speeds.

As the world becomes increasingly digital, expect ethics and privacy to become a growing concern for individuals, corporations and governments. With public outcry at Facebook's Cambridge Analytica data scandal, and Google fined €50m by French data regulator CNIL for a breach of the EU's data protection rules, do not expect this issue to go away anytime soon.

As for the future of TMT's superpowers, whilst some scaremongers have pointed to similarities to the dotcom crash of the 1990s, there is one striking difference. The vast majority of technology giants are profitable companies with strong revenues and earnings, little debt and lots of cash on their balance sheets. President Trump's tax reforms last year also enabled them to repatriate cash from overseas, allowing them to pay out more in dividends to investors, which has helped bring some much needed good publicity. Typically when the technology giants come under challenge, they fight back pretty hard. Only time will tell if they can all successfully ride this wave.

"Telecommunications and broadcast infrastructure has become an increasingly popular sub-sector for private equity investors."

Our recent TMT transactions

We have advised entrepreneurs, management teams and investors across the TMT sector for many years, building up trusted and long-lasting relationships. We have followed these teams and individuals on their own personal journeys, helping them capitalise on and embrace new technologies such as cloud, Artificial Intelligence and machine learning along the way. And thanks to our global coverage we have been the adviser of choice on a string of cross-border deals in the sector.

Poppulo
received investment from
SIG Susquehanna Growth Equity, LLC
Sell-side

netgroup.
sold to
SENTIA
Sell-side

kn group
merged with
circet
Sell-side

BCN Group
sold to
Beech Tree Private Equity
Sell-side

littlefish
received investment from
LDC
and debt facilities from
HSBC UK
Sell-side

mouseflow
sold to
Offspring Capital
Sell-side

LIVINGBRIDGE
sold
KIRONA
to
advanced
Sell-side

TRelation
sold to
Adelis Equity
Sell-side

remadegroup
raised unitranche debt funding from
LGT
Sell-side

Our international TMT team

With offices in Europe, the US and Asia, our TMT team has a great track record of delivering deals for corporates and funders from across the globe.

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