

Clearview

Winter 2020

Systems Integrators

Further market consolidation is expected in 2020 as systems integrators look to be a key target for M&A

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Key M&A trends

Systems integrators look set to continue to be hot M&A targets in 2020 and we expect further market consolidation. The industry landscape is fragmented, occupied by small and niche players, alongside a number of large cash-rich corporates looking to use acquisitions to build out both scale and vertical specialisms.

The trade buyer population is rapidly diversifying as consultancies, IT managed services providers, business process outsourcers and digital agencies have all demonstrated strong acquisition appetite in the sector. Meanwhile substantial private equity interest has helped to heighten competition and push up valuation levels.

Bigger is better

Scale is viewed as vital in order to gain access to the economic and personnel resources needed to win and handle the risk profiles of larger projects; whilst competing more successfully on price. For instance, Accenture alone did 29 acquisitions last year. Accenture prioritises businesses with \$15m plus revenue and more than 100 employees to justify the acquisition cost and time completed.

Talent shortages

Over a third of systems integrators last year said that finding and retaining employees was their biggest operational challenge. With a shortage of qualified consultants, particularly those that hold specific vendor accreditations, many acquisitions are driven by immediate access to a talent pool. Considering that value is largely driven from this employee base, retaining key personnel becomes the number one priority post acquisition.

Vertical specialisms

Particularly for larger clients, systems integrators demonstrate credibility by developing specific industry knowledge. This is particularly prominent in industries characterised by compliance issues. We see stark reminders of the cost of failure. Vodafone received a record £4.6m fine from the regulator in 2016 after a major update to its CRM account migration caused numerous customer billing errors. It is no surprise that smaller systems integrators that have built extensive expertise in a niche have become sought after acquisition targets.

The need for on and offshoring

With significant disparity between wage demands in the west versus other less developed regions, on-shoring or nearshoring offers access to a cheaper and highly skilled talent pool, which is vital in order to successfully compete. Yet a particularly prevalent trend is that most customers are demanding a single source of control for large-scale projects and therefore offshore specialists are also focusing on building out a complementary onshore presence.

Pay per use models

Businesses which receive small recurring payments through the deployment of “technology as a service”, are likely to be highly sought after assets because of the greater quality of their earnings and a typically stickier proposition, with lower customer churn.

Heightened private equity interest

Historically the UK private equity landscape has been dominated by investment in managed services providers, but this is a trend that is changing, aided by a number of successful exits. Unlike in managed services investors have typically chosen to maximise returns by prioritising organic growth rather than bolt on acquisitions. Many have looked to add a higher margin own IP software proposition and fund aggressive international expansion.

Market growth drivers

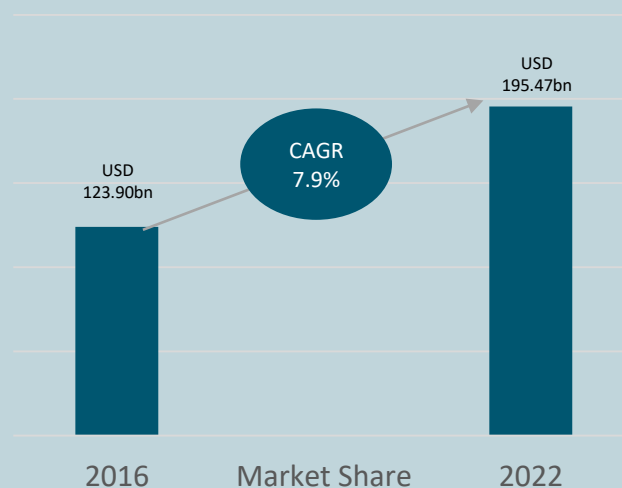
The global systems integrator market is projected to be worth \$195.5bn in 2022, a CAGR of 7.9%, driven by a focus on digital initiatives, particularly prioritised around consumer facing functions such as marketing, sales and user experience.

Many firms lack the skills or time resources to be able to undertake major IT projects in-house. Particularly for ERP systems the market is transitioning from services offered by a single monolithic provider such as SAP or Oracle to 'post-modern ERP' where systems are loosely coupled together. The emergence of low code or no code solutions looks set to disrupt the market further as many organisations demand reusable assets, skills and solutions to deliver applications at speed.

Systems integrators are also increasingly capitalising on the 'trust crisis'. Consumer awareness of how their personal data is being collected and used by organisations has never been higher. Alongside a climate of increasing regulation such as the GDPR directive and a

number of high profile data breaches and subsequent fines, there are a number of sobering reminders of the organisational liability associated with the storage of consumer data. Systems integrators can be vital in establishing, monitoring and reviewing the data processing procedures and creating the necessary safeguards.

Another key growth driver is the commitment by major vendors to partnership networks. For instance, Salesforce recently highlighted the channel as the key to growing its revenue to \$20bn by FY22. SAP has also recently announced it will offer 12 months of free access for partners to test and demo systems on SAP/S4 Hana, as it views its partners as vital to achieving its cloud migration strategy. Major vendors recognise that partners provide a local point of contact and better customer service, particularly to the midmarket which they struggle to address directly.



Source: Markets and Markets

Deals in the market

	Target Name	Description	Acquirer
Jan-20	Sapphire Systems	SAP and Infor consulting specialist	Horizon Capital
Oct-19	Alithya UK	Microsoft Dynamics integrator	ANS Group
Aug-19	Appnovation	Digital consultancy	BGF
Apr-19	InfinityWorks	Software development and digital transformation specialist	GCP
Mar-19	Invenio	SAP specialist	BGF
Nov-18	TESM	Servicenow specialist	DXC Technology
Apr-18	Cedar Consulting	Oracle specialist	Accenture
Apr-18	eBECS (60% stake)	Microsoft Dynamics ERP specialist	DXC Technology
Mar-18	Cloud Technology Solutions	Google cloud specialist	NorthEdge Capital
Aug-17	Symphony Ventures	Robotic process automation consultant	Livingbridge
Mar-17	Focus Group	ServiceNow deployment services	Accenture
Feb-17	Cloudreach	Cloud transformation company	Blackstone
Jan-17	Edenhouse Solutions	SAP specialist	ECI Partners

Debt Advisory

The smart use of debt can transform deals, lowering the overall cost of capital and increasing the returns for management. The landscape for debt has changed beyond recognition with the advent of debt funds, of which there are now over 100 in the UK alone.

Traditionally, debt providers have been wary of SIs and other IT services that are more project based for fairly obvious reasons. However, attitudes have changed amongst both PE and debt providers in cases where the business fundamentals are sound – for example, management strength, modest customer concentration, business growth, clear addressable market and the market position and previous behaviours of the software author itself.”

TMT Debt Advisory contact and recent transactions



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Recent transactions




 
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