

the wire

M&A review

Private equity and TMT
are a perfect match

Version 1

On the acquisition trail

EASI'R success

Connecting car dealers
with customers

Getting emotional

Customer engagement
trends

A photograph of a woman and a man in business attire sitting at a table, engaged in a conversation. The woman is on the left, gesturing with her hands while speaking. The man is on the right, smiling and listening. They are both wearing name tags. The background is a bright, out-of-focus window.

ENGAGING THE CUSTOMER

How technology is changing
the way businesses interact
with consumers

Getting personal

The cloud and customer engagement are intrinsically linked

To deliver an optimum service to customers, organisations and companies are today using a range of cloud technologies and big data analytics techniques to imbed service into every digital journey.

The point is reaffirmed by a number of business leaders we spoke to for this issue who talk about how the increasing use of cloud solutions can offer great service levels for clients.

becoming a game-changer in the insurance industry too. As he alludes: "Customers are not necessarily constrained by the screens we provide. For automation it is important that your platform is modern and open to allow third party applications and platforms to interact with it."

Amid predictions that 85% of customer interactions will be addressed without human contact by 2020, and given that many websites already use chatbots to



the manual guesswork from the sales operation with the data effectively telling the dealer what to do.

However, Mikael also stresses that if the data says a dealer needs to have a more face to face relationship with a buyer then it will tell them that too. As he adds: "AI is simply an enabler to treat customers differently as no human being would be able to work out exactly what every customer wants and how they are likely to behave."

This brave new world is already upon us, and we all better get used to it quickly.

Carl Houghton
Head of TMT



"AI is simply an enabler to treat customers differently as no human being would be able to work out exactly what every customer wants and how they are likely to behave."

However these companies are also continuously evolving. Take Russ Lidstone at The Creative Engagement Group who talks about how the next big focus for his company is Augmented Reality (AR) and enabling more content to come to life on screens. For instance, one of the questions he is asking is how AR and Artificial Intelligence (AI) can work for his business and just how intelligent it can be. Theo Duchon from Acturis talks about how AI is

handle tasks which require little or no human intervention, it is little wonder that such questions are uppermost in minds.

Another industry being transformed is the automotive industry and Mikael Moeslund from CRM specialist EASI'R echoes these points, talking about how AI will play a crucial role in helping car dealers interact with customers in the future. The idea is that the AI platform takes away

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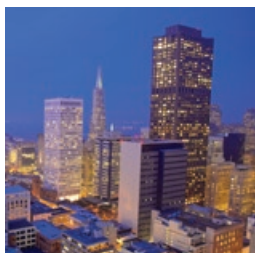
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Staying engaged

Customers' expectations of their interactions with businesses are being transformed by technology. We spoke to leading tech companies to find out how engaging effectively with customers via innovative tools has become a key driver of success.

In today's increasingly competitive environment organisations and companies are using a range of cloud technologies and big data analytics techniques to imbue service into every digital journey and deliver an optimum service to their customers.

Take Acturis, a pioneer in the development of electronic trading of commercial insurance in the UK which provides its software-as-a-service (SaaS) platform to many of the UK's largest general insurers and brokers. Building on its success in the UK it has now also established itself, thanks to a number of acquisitions, as a leader in the German insurance technology market as well as a leading global provider to the travel insurance and assistance market.

Co-CEO Theo Duchon says the cloud and customer engagement are intrinsically linked. "We have a multi-tenant SaaS platform which means that every user,

and every company that is a user, is on the same platform and database. The key point here is that having one application and database has powerful implications. It means your attention is totally focused on engaging with customers through this one single application.”

He says this approach differs from those providers which may state they have a cloud platform but in reality are only hosting a client platform in the cloud. “In those situations the company is running multiple databases and multiple applications in the cloud. That can be very complex to manage, especially when your clients all have their own bespoke configurations software. In addition in a deployed environment where the customer hosts the software, the whole installation and support process can become a nightmare. The other implication is that you run the risk of not engaging uniformly with the customer and that your service becomes inconsistent.”

Single platform

Duchen says the benefits of running a platform like Acturis are clear. “When we founded the company we deliberately started it using this single platform idea so we were fortunate in some respects that we chose this model, although it did not feel that way at the time. When you are running just one platform your engagement with customers is exponentially higher than when you are deploying a piece of software which others then run themselves. We know exactly who is using our system well, who is using it badly, and who isn’t even using it.”

He adds that such a system also comes into its own when you want to put out a functional change or release to all clients. “What you find is that your development and launch cycles are much quicker. You can develop a release – such as for new

workflow enhancements or dashboards – very quickly without clients having to do anything differently. You can then literally deploy a release over the weekend and on the next log on, typically on the Monday morning, everyone will have it.”

However Duchen admits there can be pressures with running such a system too. “It also means that if there is an issue then everyone feels it, so you are totally focused on monitoring that. That said, I think today most people are coming around to our model and understand that it is a good one. However, it is very difficult to transition your business once it has been set up a certain way, and people are used to the licence and maintenance model.”

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customer
engagement

“When you are running just one platform your engagement with customers is exponentially higher than when you are deploying a piece of software which others then run themselves.”

Engaging with audiences

Customer engagement also goes to the heart of The Creative Engagement Group (TCEG), a group of three creative agencies – WRG, The Moment and Just Communicate – that provide experiential marketing including events, digital marketing, virtual reality (VR) and augmented reality (AR). The group serves an international client base of blue chip companies and has significant expertise in the healthcare sector, along with the professional services, banking, leisure and tourism industries.

CEO Russ Lidstone says more and more clients are looking at how they can better engage with audiences. “Our business was borne out of making things and for us our focus is all about engaging the end user, whether it be through live events or through digitally immersive experiences.

That could include designing and project managing live events, delivering messaging at those events, creating film content across in-house channels, or building and hosting digital platforms. I don’t know of any other business that could do all that for one company. It’s the reason I love what I am doing.”

Picking up on Duchen’s point, he says his company is increasingly using cloud hosting solutions which offer great service levels for clients. “It offers far more flexibility and in times of high demand we can create platforms that accommodate that high demand. We now use cloud services for all content across the group and it gives us an efficient mechanism to reach clients. Internal communications are increasingly important for clients too.”

Healthcare example

Lidstone says that clients are looking for “deeper” levels of engagement, and cites the example of the healthcare industry which is increasingly adopting VR technology, especially at major live events. “What we are seeing is the increasing importance that technology plays in helping to articulate complex science. For instance, biomed science is becoming more and more complicated, and being able to disseminate that content and use the technology is key for clients.

“In the pharma industry you can use VR to demonstrate things that you simply cannot do through other techniques. VR enables you to play out a particular scenario and explain things better to a healthcare practitioner about how a particular drug works. With VR people still tend to think about the consumer angle when actually there is a significant business angle too. Put simply, VR can help businesses understand something much better.”

TCEG’s links with the healthcare industry were validated last year when the company was sold to Huntsworth, an international healthcare and public relations communications group. Clearwater International advised TCEG on the sale. For Huntsworth the deal significantly strengthens its ability to provide high quality digital creativity to its healthcare clients, while TCEG benefits from access to the group’s existing client base.

Adds Lidstone: “As a business we have really proven our integrated engagement model and Huntsworth is a great company with an entrepreneurial mindset and complementary skillsets. Before and after the sale we have shown strong organic growth from our existing client base, without even factoring in the potential for ‘new’ new business.”



“Among the questions we are asking now is how AR and AI can work for us and just how intelligent it can be. AR offers us lots of opportunities in relation to consumer experiences as well as regards internal training and development.”



Augmented reality

Lidstone says the next big focus for the company is AR and enabling more content to come to life on screens. As he adds: "Among the questions we are asking now is how AR and AI can work for us and just how intelligent it can be. AR offers us lots of opportunities in relation to consumer experiences as well as regards internal training and development."

Duchen says that AI is also becoming more of a game-changer in the insurance industry too, and its development will need to be watched closely by leading players. As he explains: "Customers are not necessarily constrained by the screens we provide. For automation it is important that your platform is modern and open to allow third party applications and platforms to interact with it. We can provide precisely those services and interfaces required to allow people to introduce AI and automation into their business systems."

"However if you follow through the logic then in the longer run AI also means you will have fewer users as operations become more automated. So as a business we will have to provide those tools in a way that is beneficial to both ourselves and clients, and compensates for lost revenue."

Automotive insurance

Duchen cites the example of the increasing use of telematics in the automotive industry and devices that measure exactly where you are driving and – more importantly – how well you are driving. In this regard Acturis recently acquired the ICE insurance software business from Hubio Technologies, a business that comprises a platform used by insurance and accident management companies that is very much geared towards Internet of Things (IoT) connectivity.

Adds Duchen: "The ICE product suite is a clear leader in the connected insurance space and offers a real alternative to insurers contemplating hugely expensive, multi-year technology refresh programmes as well as those looking to enter or expand their offering in the connected insurance area."

He says that the aim through this acquisition is for Acturis to offer a strong proposition for start-ups in the motor insurance industry which want to experiment with technology. "An insurer which wants to go into the connected insurance space could end up spending a lot of money to enter this market. If they take our platform they can spend a fraction and test if the proposition works. We want to provide something that is very agile and flexible, and the ICE system is very well regarded."





Disruption

Duchen says, as with so many industries, new entrants are now moving into the insurance market which are not traditional players.

In areas such as automotive insurance this is leading to some existential questions such as whether one should own a car. “The problem for the insurance industry is that insurers only survive because there are claims. Imagine the situation where you have a few automated vehicle fleets owned by a handful of companies and which have very low accident levels and are rarely subject to claims. That means a huge reduction in existing motor insurance premiums, the mainstay for many insurance companies. The only compensating insurance opportunity is to provide the cyber cover for the underlying system.”

Meanwhile a disruptor in the UK energy market, which has seen unprecedented change driven by the number of smaller suppliers entering the market, is ENSEK, a provider of technology solutions,

managed services and advisory services for suppliers.

ENSEK began life by addressing the complexity in the industry via its data reconciliation platform Libra, and has now extended its breadth of capability to deliver an end-to-end solution. It provides services to any supplier that either wants to enter, or already operates in, the UK energy market.

CEO Jon Slade says retailers in the market now need to major on digital and offer multiple channels of customer engagement in response to higher expectation levels from consumers. “That means providers need to invest heavily in customer-facing capabilities.”

Business model

In response ENSEK has radically altered its business model over the past few years to ensure it is service relevant. “We started by building a platform that manages the end-to-end customer lifecycle and enabled the energy companies to optimise

their services,” he adds. “By leveraging that, it enables suppliers to interact with customers. It is about being accessible and having choice around communication channels. The wider market has also fragmented across both the commercial and residential sectors and we are seeing a real fundamental shift in the dynamics of the industry.”

Slade says the key to ENSEK’s approach is the ability to manage the significant volumes of data that exist within a supply business. “Our solutions enable our clients to deliver great service to their customers through optimisation of core business processes whilst improving underlying profitability.

“At the end of the day we are empowering a transformational shift in the way energy suppliers manage their customers, giving them the ability to act proactively rather than reactively, and providing them with invaluable financial and operational insight that would have otherwise simply not been visible.”

Getting emotional

We run the rule over the key trends in customer engagement and beyond

Rise of AI chatbots and virtual assistants

Gartner predicts that 85% of customer interactions will be addressed without human contact by 2020 and there are a host of websites already using chatbots to handle tasks which require little or no human intervention.

However, there has also been significant investment in more sophisticated applications including Facebook's claim that its bots can now successfully directly negotiate with human users. As AI chatbots and virtual assistants interact with traditional contact centre staff and ingest more and more data, they should be able to answer a greater volume of sophisticated questions.

Virtual assistants can also help give customers a more personalised experience. For instance, in the hospitality industry customers could see the exact layout of their hotel rooms and make changes, use a virtual concierge, and preview the precise dish they plan to eat off the menu. Virtual reality will not only transform the way firms build relationships with customers but also the content they directly provide.

New customer data strategies

As customers continue to use a proliferation of touchpoints, data from every channel

will continue to be critical for effective customer engagement. Purchase histories, communication preferences, shopping behaviour and social media can all be combined to give a 360 degree view of the customer. This helps brands provide real time targeting, the holy grail for any marketing strategy.

Yet with the European General Data Protection Regulation (GDPR) coming into force later this year, any firm with EU customers will need a radical rethink. With some studies suggesting as many as three quarters of firms are not yet compliant with the regulation, businesses will have to look at how they can continue to leverage the benefits of consumer data without losing a key competitive advantage.

Birth of blockchain

Since the fundamental advantage of blockchain technology is greater transparency and trust, it has significant power to revolutionise customer experience. For instance peer to peer transactions can be carried out directly with customers, removing the need for third party intermediaries. This gives brands a larger influence over the customer journey and means greater accountability.

Amidst headlines of significant consumer data breaches, the complex cryptography

involved should also result in better security protection and ownership of personal information. Blockchain also offers the possibility of real time settlements, which for online retailers may help solve one of the biggest areas of customer complaints in terms of refund length.

2018 - the year of emotion

Measuring customer emotion has long eluded analytics specialists. Yet with a study in the Harvard Business Review suggesting that emotional connections matter more than customer satisfaction, technology is starting to solve the challenge.

Application Programme Interface technologies can mimic human ability to understand emotional behaviour through speech, text, videos and photos. Facial detection, for instance, uses algorithms which analyse the relationship between points on the face, whilst sentiment analysis can detect if a statement is positive or negative based on key words.

Capgemini suggests that effective emotional engagement can add 5% to retailers' annual revenues. As 90% of consumers report a negative reaction to impersonal and transactional loyalty programmes, expect to see them increasingly replaced with initiatives that put emotion at the centre.

Values judgement

Following a recent €90m investment from private equity house Volpi Capital, Irish IT services company Version 1 is on the acquisition trail. CEO Tom O'Connor outlines his strategy.



Tell us about the background to the latest investment?

We are at a tipping point and our plan is to further expand into the UK and Europe, through both organic growth and developmental acquisitions, with the intention of doubling in size over the next three years. We wanted an investor that matched our core values so were very selective and there was no big sale process or roadshow. Clearwater International helped us pinpoint a small number of investors that it felt would be suitable for us, and in the event we found that Volpi and ourselves were kindred spirits.

Why are these core values so important?

Even if you are a company like us with 1,000 staff and turning over more than €100m, why shouldn't you always maintain excellence despite the size of your operation? The key reason we have grown this business like we have is precisely because we have built it around our core values, around our world-class levels of staff engagement, and our long-term thinking.

We could have the best profit and loss (P&L) statement in the world but if that is based

on distressed customers or disengaged staff then it is meaningless. Our customers feel and experience a big difference in terms of how we engage with them. We do not hide behind contracts and spend customers' money as if it was our own. I challenge people within the business all the time to test that our values are working. That matters more to me than anything.

Why do you position the business as a challenger brand?

Because of the different way we do business. If you take the UK it is a very polarised market. At the top you have around two dozen big players with heavily offshored operations, at the bottom you have hundreds of start-up niche players, but in the middle there are surprisingly few players and that's where we sit. In the UK there is an open space for us to deliver for FTSE 250 companies.

Our sweet spot is the enterprise cloud and unlike many vendors who are aligned to just one vendor we are vendor agnostic and put the customer first. Our focus is all on coding, development and testing, on taking the key applications and migrating them to the cloud, and making them run

effectively. We are not a products company but a services player, while another key area for us is helping clients with licencing agreements, making sure they are not out of date and that they are fully compliant.

What about the challenges of moving to the cloud?

Yes, this is another of the big challenges that companies face, navigating the choices they have in terms of taking their legacy estate onto the cloud. How do they chose between vendors? How do they stop vendors picking their own wares? How do you make sense of it? It is the sheer complexity of the options that can be a problem. It is this very confusion and uncertainty that still stops many companies from moving into the cloud. It is simply not understanding how to move assets.

What other challenges do you see clients facing?

It very much depends on what sector they are operating in, although issues such as cyber security do cut across. In terms of cyber security it tends to split into two camps. There are those companies which know they have experienced problems

and are looking to deal with them, and those which aren't even aware they have had breaches. The problem for every organisation is that no matter what infrastructure you have it still comes down to every individual member of staff to prevent breaches. It's all about training, training, training, and keeping on banging the drum.

What is your strategy now?

A key focus is the continued digital transformation of the public sector in areas such as agriculture, transport and taxation. We are also seeking to extend our platform further through acquisitions in areas such as government, utilities, retail and manufacturing in the UK. We are looking for well-run UK-based companies that match our core values and which are

viewed as providing excellent service by their customers.

At the moment nearly two thirds of our revenues come from Ireland with the rest from the UK, but we see this split becoming 50/50 over the next few years. However we are not going to rush growth for growth's sake, it is all about sustainable growth. Version 1 will only grow as fast as we are able to bring in the right people. This is not just about pedalling hard and fast.

Finally, how might Brexit affect you?

We are very well hedged having operations in both the UK and Ireland. Our biggest concern is the potential impact of Brexit on the UK economy and a possible slowdown in that regard.



“Even if you are a company with 1000 staff and turning over more than €100m, why shouldn't you always maintain excellence despite the size of your operation?”



Closing deals

Customer engagement lies at the heart of EASI'R, a provider of a customer relations management platform for the automotive industry. We caught up with co-founder and CEO Mikael Moeslund.



Mikael Moeslund has lived and breathed cars all his life. Whether it's selling vehicles, working for automotive importers, or studying the economics of the industry, he has worked in the sector ever since leaving college in his native Denmark.

In fact it was during a foreign exchange programme with a dealership in Germany while on that economics course that he first struck upon the ideas that would propel his own business. As he explains: "I was studying a particular dealership that was doing really well with very high customer satisfaction rates. I set out to find out why, and the lessons I learnt have stayed with me ever since."

Moeslund went on to work for another dealership in Denmark where he started to understand how he might improve that company through applying best business practice and providing consultancy services. "In those early days I spent several years travelling around Scandinavia working with

dealers and helping clients understand how customer expectations needed to be delivered. What we then found was that clients were finding it hard to put these ideas into practice so we started thinking about how we could move from providing consultancy to developing software."

Move to SaaS model

In 2006 Moeslund began selling his software to Toyota, writing a code that was customised for the company. "After a few years other companies such as VW, Audi and Fiat also became interested in what we were doing. We took the source codes that we had developed for Toyota and then made them fit these other companies on a separate system."

However, Moeslund began to realise that this model of running different systems was unsustainable and inefficient given the power of cloud technologies and changing consumer habits.

"In 2014 we sat down and asked ourselves some testing questions. Was the technology that we had really what the market required? How could we respond to the ever-increasing amounts of data available? How could we react to the fact that consumers were increasingly moving online to do their buying research and that there was far greater interaction with dealers earlier in the buying process? We realised that we needed to take everything we had learnt and build a new enterprise as a SaaS model from scratch."

The result was the creation of a fully customised generic software product called EASI'R which enables dealers to connect with customers – and potential customers – far more effectively. "New data tools are required to provide the insights and engagement that dealers need today," he adds. "They want to engage with customers more, increase conversion rates, and close deals faster."

So was the change successful? “Absolutely. After developing EASI’R the likes of Skoda in Germany, Jaguar in the Nordics, and BMW in Denmark came on board. We also converted Toyota to the new platform and now have 7% market share with dealers of new car sales contracts in Germany, and 15% market share in Denmark.”

Window of opportunity

Moeslund says there is now an exciting window of opportunity over the next five to ten years to significantly increase the scale of the business through a concerted sales and marketing drive.

“Our growth plan over the next 30 months is that we will be in all key markets across Europe and established with sales people and project consultants. To fund that growth we are also looking at our strategic options as a business.”

He says with the rise of electrification and automation, the automotive industry is at a critical juncture and this will be one of the most exciting industries to be in over the next five to ten years.

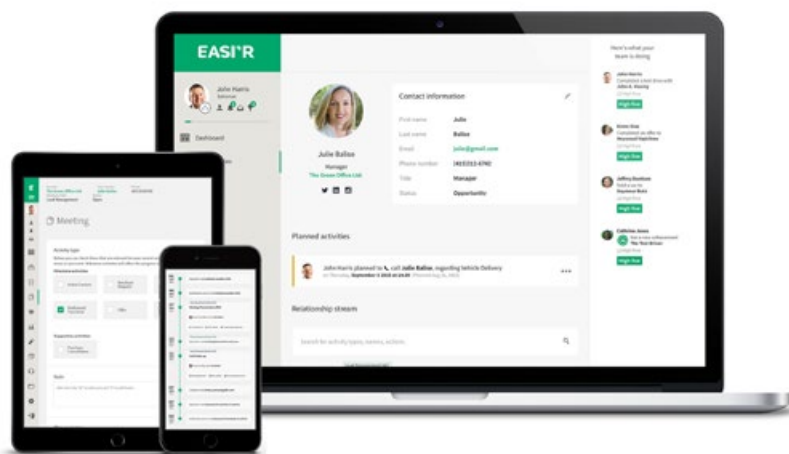
“Dealers are going to play an absolutely critical role in this transition. For instance, if you are buying an electric car for the first time you will want to see how it functions. Although buying decisions will increasingly be made online, dealers will still play a key role in making consumers prepared to accept the technology.”

He adds that AI will also play a crucial role by providing dealers with the information they need to interact with customers effectively.

“The idea is that the platform takes away the manual guesswork from the whole sales operation. The data will effectively

tell the dealer what to do. So if the dealer needs to have a more face to face relationship with the buyer then the data will tell them that. It will tell them whether they need to take the customer out for a coffee. AI is an enabler to treat customers differently. No human being would be able to work out exactly what every customer wants and how they are likely to behave.”

Has Moeslund considered applying his technology to other industries? “We have looked at other industries and had interest from other sectors but our strategy firmly remains the automotive industry. This is a huge market, there is massive potential for us, and it’s where we have 16 years of expertise.”



“New data tools are required to provide the insights and engagement that dealers need today... they want to engage with customers more, increase conversion rates, and close deals faster.”

Digital disruption

There were plenty of compelling reasons to turn to M&A in 2017

In 2017 the number of TMT transactions globally rose, up by 3% on the same period last year. With many firms waking up to the threats of digital disruption and with new technologies such as Artificial Intelligence (AI) and the Internet of Things (IoT) still in their relative infancy, there were plenty of compelling reasons to turn to M&A.

An interesting trend last year was that companies largely shunned all stock mergers, as aptly demonstrated by the collapse of talks between Sprint and T-Mobile. The year marked a period where levels of cash on the balance sheet were at a post-recession high, meaning all cash deals were king.

The market capitalisation of the five big technology companies has doubled in the last three years to €2.6tn, but 2017 was the year that they faced a major backlash. Under a climate of discontent at the income inequality that ultimately buoyed populist movements such as Brexit and the election of Donald Trump, Silicon Valley came under attack. From accusations that social media platforms aided the Islamic State and fixed democratic elections to criticisms of sexual harassment and tax avoidance, attacks came from all sides.

Governments around the world started to take notice. For instance social media platforms were hauled to US congressional hearings, and



both the European Union and the US have proposed legislation that looks to increasingly hold the tech giants to account. Some ultra conservatives have even gone so far as to suggest that digital platforms should be reclassified as utility companies and broken up. Silicon Valley is no longer untouchable.

Market data

The average size of a TMT transaction with a disclosed value increased by €4.6m compared to 2016. However, a particularly notable trend in 2017 was a fall in the number of deals above the €4bn threshold. Uncertainty over the economic climate in the US and Europe has led many firms to focus on making smaller acquisitions rather than pursuing mega mergers, which ultimately carry less risk.

Media transactions dominated the top ten again in 2017, this time with a focus on television. Disney announced its planned acquisition of the film and television arm of 21st Century Fox for €44.5bn, whilst

Discovery Communications bought Scripps Network for €12.4bn. As traditional television and movie distribution models are increasingly disrupted by digital services, the idea that bigger is better seems to be winning.

Verizon also acquired media giant Yahoo for €3.8bn in 2017. This valuation was a long way away from the heady heights of its €42bn valuation in 2008 and a telling reminder that a lot can happen in a decade in the technology industry.

Elsewhere, Intel made the largest investment in a self-driving car firm to date, when it acquired Mobileye for €14bn. The acquisition turns the firm into a major player in the driverless car battle alongside competitors such as Uber, Apple and Google.

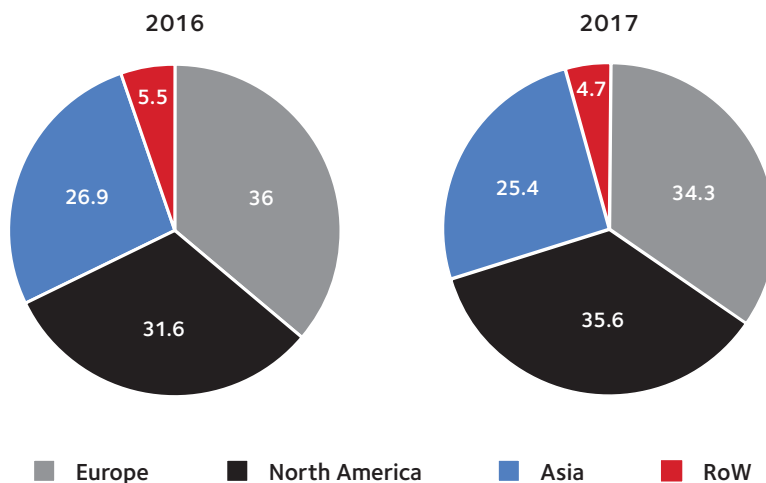
The software giants on the other hand largely focused on smaller tuck-in acquisitions. Many legacy players have already significantly invested in transitioning their businesses to cloud models, such as

Oracle's acquisition of SaaS ERP specialist Netsuite. Consequently over the past year the focus has been on building rather than transforming their offering.

TMT transactions average enterprise value 2010 - 2017

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

Deals by target region in TMT 2016-2017



SOURCE: Clearwater International research, Zephyr

Meanwhile North American and European targets increased their stranglehold over TMT M&A representing 69.9% of the market between them. The number of transactions featuring an Asia Pacific target dipped by 1.5%. Targets from the rest of the world also dropped by 0.8%.

With western economies maturing and the vast majority of the global middle class now sitting in emerging markets, it is perhaps surprising that we have not seen more TMT acquisitions within regions such as Africa and South America. Yet with many emerging economies still languishing at the bottom of the World Bank's ease of doing business rankings, it seems international investors are still dissuaded by political and economic risks, along with challenging regulatory environments and operating conditions.

IPO levels remain low

There were a higher number of IPOs in 2017 at 24, compared to the previous year. Yet despite Snapchat's much anticipated stock market debut it was still the second lowest number since 2009. With greater access to private equity funding than ever before, many firms have continued to shun the public markets.

As for those that did go public there were some notable success stories. Demonstrating that competing against Amazon is not always impossible, shares in Roku, a competitor to the US giant's Fire TV, have surged more than 200% since its stock market debut in September. Equally, e-commerce company Stitch-Fix's shares have also grown 57% since it listed in November.

Yet although there were a number of winners, there were also some notable losers. Meal kit delivery producer Blue Apron's shares have fallen 62% since its debut in June on the back of intense competition from Amazon. As for Snapchat's much-hyped debut its shares have performed poorly, but saw a slight rise in early 2018 on the back of improved fourth quarter figures.

Private equity and TMT are still a perfect match

As in previous years it looks like there will continue to be a frenetic level of private equity investment in 2018.

China became a particular hotspot in 2017 with the value and volume of private equity investment reaching a new high. Larger deals were also up 50% in 2017 as funds looked to find the new breed of unicorns. However, the level of first round investments was still at historically low levels. This suggests that investors have become more cautious towards start-ups and a wait-and-see attitude has replaced the more gung-ho approach of previous years.

Elsewhere, despite some of the political uncertainties around Brexit, the UK still remained a hotspot for private equity transactions from both domestic and international investors. FinTech firms proved to be particularly popular as the UK continues to produce innovative companies in the sub-sector. For instance online only bank Atom received €113m in a new round of investment, and peer to peer lending platforms Funding Circle and Zopa also both participated in new rounds of funding led by international investors.

Software assets across Europe are also still commanding double digit multiples from private equity houses. Firms that serve industries such as construction, which have traditionally been late adopters of technology, have proved particularly attractive. For instance, Clearwater International advised Eque2, which provides construction contract management software, on its management buyout by LDC. Elsewhere Battery Ventures invested in Newforma, a US project information specialist, whilst TA Associates invested in thinkproject!, a provider of BIM software.

B2B IT services and hosting continue to remain hot property throughout Europe. Clearwater International advised Ireland's largest managed IT services firm Version 1 on its MBO backed by Volpi Capital, while the largest European transaction in the sector was executed by BC Partners which paid Go Daddy €386m for German hosting specialist PlusServer.

Buy-and-build models are particularly prevalent as investors see it as the most obvious way to gain scale quickly in a fragmented marketplace. UK private equity portfolio companies Node4, Pulsant

and Metronet all made further acquisitions in 2017.

Conversely, strategic buyers still remain the most likely source of exit for businesses in the media and marketing services environment as purchasers are able to structure their deals with an attractive level of earn-out. However, Equistone Private Equity's investment in technology-led marketing services provider Inspired Thinking Group, on which Clearwater International advised the buyer, demonstrates an increasing appetite for marketing businesses with tangible IP.

Private equity sponsored European IT services and hosting transactions

Date	Target	Activities	Private equity investor
Dec-17	Technogroup IT-Service GmbH	IT managed services	Vitruvian Partners LLP
Nov-17	Giacom World Networks Limited	2-tier CSP distributor	Livingbridge LLP
Nov-17	Redstor Limited	Cloud data management services	Beech Tree Private Equity
Oct-17	Vista Retail Support Ltd	IT services for the retail market	LDC
Aug-17	CSI Limited	Application and security managed services provider	MML Capital Partners LLP
Jul-17	PlusServer GmbH	Managed hosting services provider	BC Partners Limited
Jun-17	ITS Technology Group	IT managed services	Maven Capital Partners
May-17	Claranet Limited	Managed hosting and cloud services	Tikehau Capital Partners
May-17	Open Systems AG	IT security service provider	EQT Partners AB
Apr-17	Version 1 Software Limited	Outsourced IT managed services	Volpi Capital LLP
Feb-17	Timico Ltd	Managed cloud service provider	Lyceum Capital Partners LLP
Feb-17	The Bunker Secure Hosting Limited	Secure hosting and data centre solutions	Palatine Private Equity LLP
Feb-17	Cloudreach Europe Limited	Cloud computing consultancy	Blackstone Group LP
Jan-17	MTI Europe BV	IT transformation specialist	Endless LLP

Future prospects

Looking ahead as new high profile data leaks continue to hit headlines, and amidst a political climate dominated by accusations of election hackings and cybercrime, internet security specialists will continue to be sought after assets. Expect to see more deals like Microsoft's €84m purchase of Hexadite.

Meanwhile 2017 saw €18bn invested in M&A in AI, 26 times more than in 2015. Whether the current tech giants remain supreme depends largely on the future of AI. If real world data remains essential then they are currently in pole position. Yet in another possibility, where simulation is key and machines teach themselves using

synthetic data, their power is blunted. The race is now on as we start to get a clearer picture of how it unfolds in 2018.

And what of the overall future of technology's superpowers in Silicon Valley? Whilst they may be facing a backlash, it is worth noting that Amazon, Microsoft and Alphabet's shares rose to all-time highs last year. Furthermore there seems to be no evidence of consumers voting with their feet, as aptly demonstrated by the queues for Apple's latest iPhone X. Tech giants may in the future face heightened scrutiny and greater regulation, but it is too early to write them off just yet.



"The market capitalisation of the five big technology companies has doubled in the last three years to €2.6tn, but 2017 was the year that they faced a major backlash."

Deal focus

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deal focus

Eque2

Construction, contracting & housebuilding software specialist

Clearwater International advised the shareholders on the MBO backed by LDC and raised debt finance from Yorkshire Bank to support LDC's investment

Retail Assist

IT managed services and software solutions

Clearwater International advised on the MBO of leading IT managed services and solutions provider Retail Assist

NORRIQ

Leading IT consultancy business

Clearwater International advised NORRIQ on the sale of its hosting and IT infrastructure business to Dustin

Converge TS

Specialist provider of hosted and managed IT services through private cloud

Clearwater International advised Converge TS on its significant investment from Tenzing Private Equity

Inspired Thinking Group

UK technology led provider of outsourced marketing services

Clearwater International advised Equistone on its secondary buyout of the firm alongside ITG's existing management team

ENSEK

Leading provider of cloud software and services to the energy supply market

Clearwater International advised LDC on its investment in ENSEK to enable product and new proposition development

E-days

Market-leading Software as a Service (SaaS) solution for employee absentee management

Clearwater International advised e-days on its significant investment from Palatine Impact

The Creative Engagement Group (TCEG)

Provider of experiential marketing, predominantly to healthcare clients

Clearwater International advised TCEG on its sale to Huntsworth plc, the healthcare communications and PR group

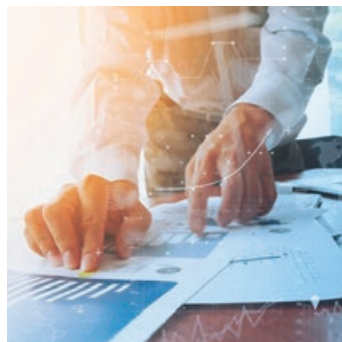
Mobysoft

Market leader in predictive software for social housing providers

Clearwater International advised Livingbridge on its investment in the company

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