

# 1Q 2020 Tech M&A report

April 2020

# Foreword

## Our M&A team in IT sector



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## Welcome to the 1Q 2020 Tech M&A report

This is our 1Q 2020 Tech M&A report. We were excited to receive that many warm feedbacks from you on our Annual 2019 report, answering your comprehensive questions, meeting some of you for a very thoughtful discussion. Hope this 1Q2020 report will be as interesting and insightful.

Coronavirus has become the main topic of any conversation regardless of whether it is macroeconomics or a single firm's activity. It has unexpectedly changed the life of every single person on the planet. M&A in this new reality turned to be not the first priority for many companies. Global M&A activity slowed down, the number of deals in the 1st quarter of 2020 declined by 32% compared to the same quarter of the previous year. IT industry, as well as service providers, follow the global trend.

We hope you will enjoy reading the rest of our report. Should you have any questions or feel the need to discuss our findings, do not hesitate to contact us.

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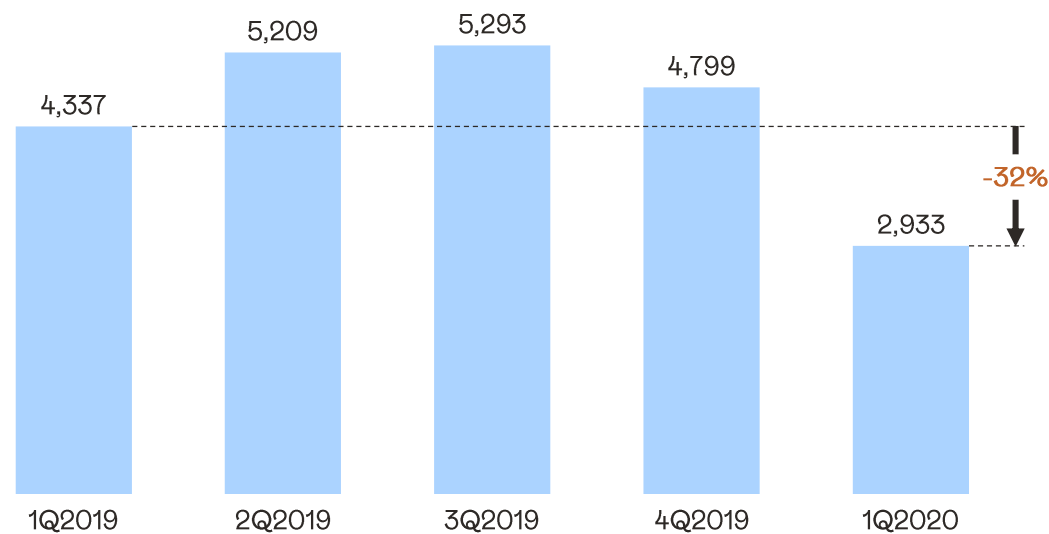
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Who we are

## Coronavirus outbreak and the following shutdown of the Global economy forced a slowdown in M&A activity in 1Q 2020

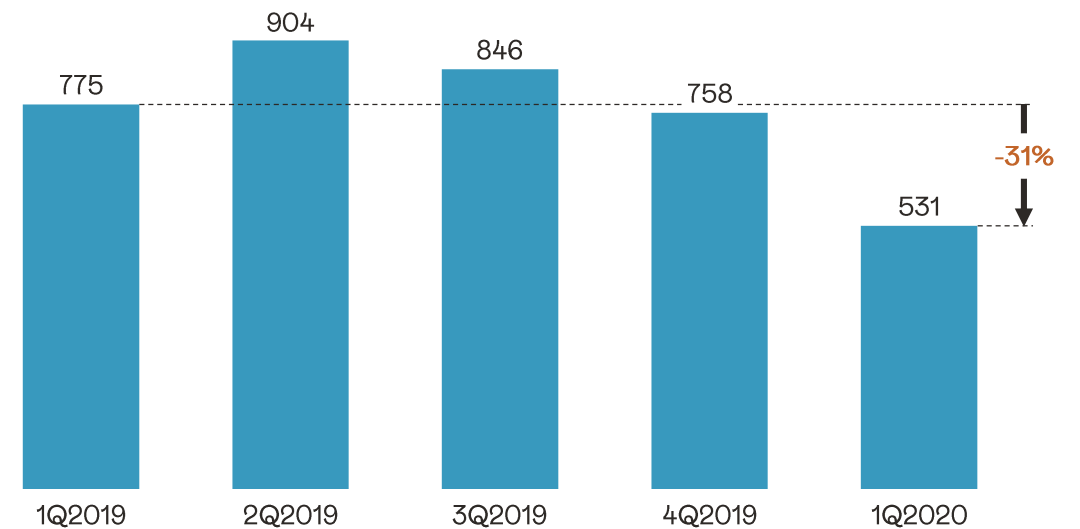
Number of completed transactions globally, 1Q2019 - 1Q2020



The first quarter of 2020 showed a sharp decline in M&A activity. COVID-19 crisis has had a profound effect on the global economy and M&A market in the recent quarter.

It impresses how fast investors reacted. Usually, the M&A process takes months to negotiate, many deals have already been announced, the decision to cancel or postpone the deal must be very painful. Apparently we will see far lower activity in the second quarter of 2020.

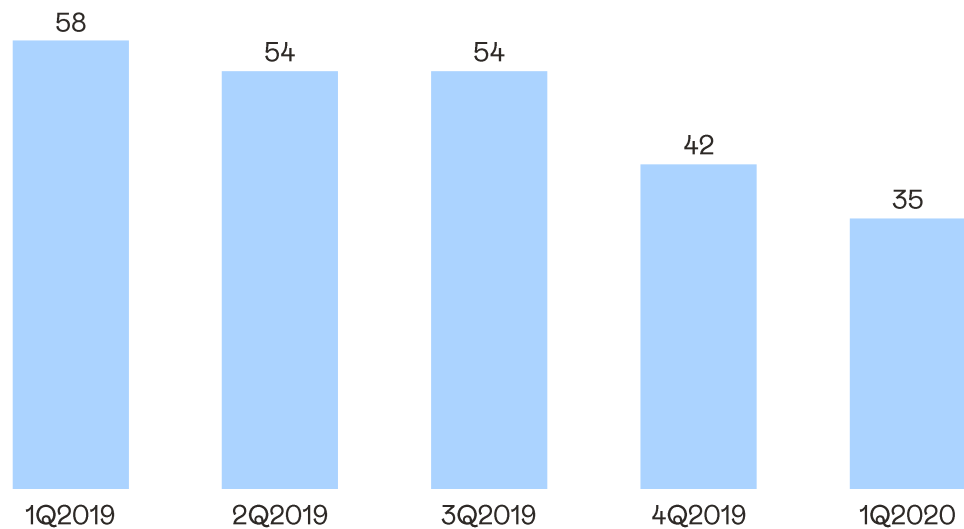
Number of completed transactions in IT industry globally, 1Q2019 - 1Q2020



The IT industry is not an exception to the overall trend. It has also dived in the 1Q of 2020 with respective momentum. Some industries have been hit hard, especially travel and leisure. IT products that support the business and daily activity of individuals in isolation, such as video-conferencing, food delivery, and health products, on the contrary, are experiencing huge surge in demand – we may expect even accelerated M&A activity in these segments once the initial shock passes.

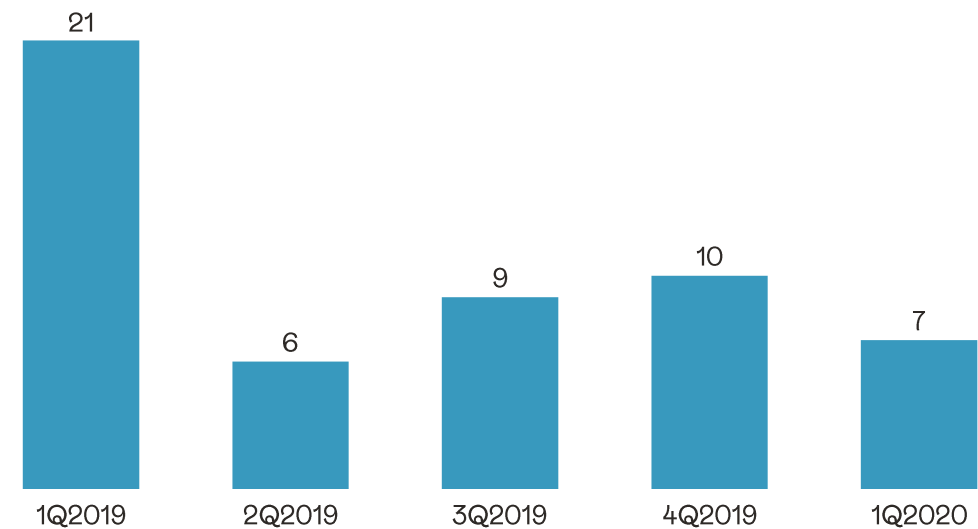
## IT sector in the CEE region was very dependent on foreign investors who suffered most from COVID-19

M&A deals with IT companies in the CEE region, 1Q2019 - 1Q2020

















The number of transactions in the IT industry in the CEE region has dropped compared to average in 2018 and 2019 (43 and 52 deals per quarter respectively). As we noted in our annual 2019 report more than half of M&A activity in CEE was sponsored by investors from overseas, especially US-based companies and firms from Western Europe. These regions are in the top by the number of COVID cases.

M&A deals with IT service companies in the CEE region, 1Q2019 - 1Q2020

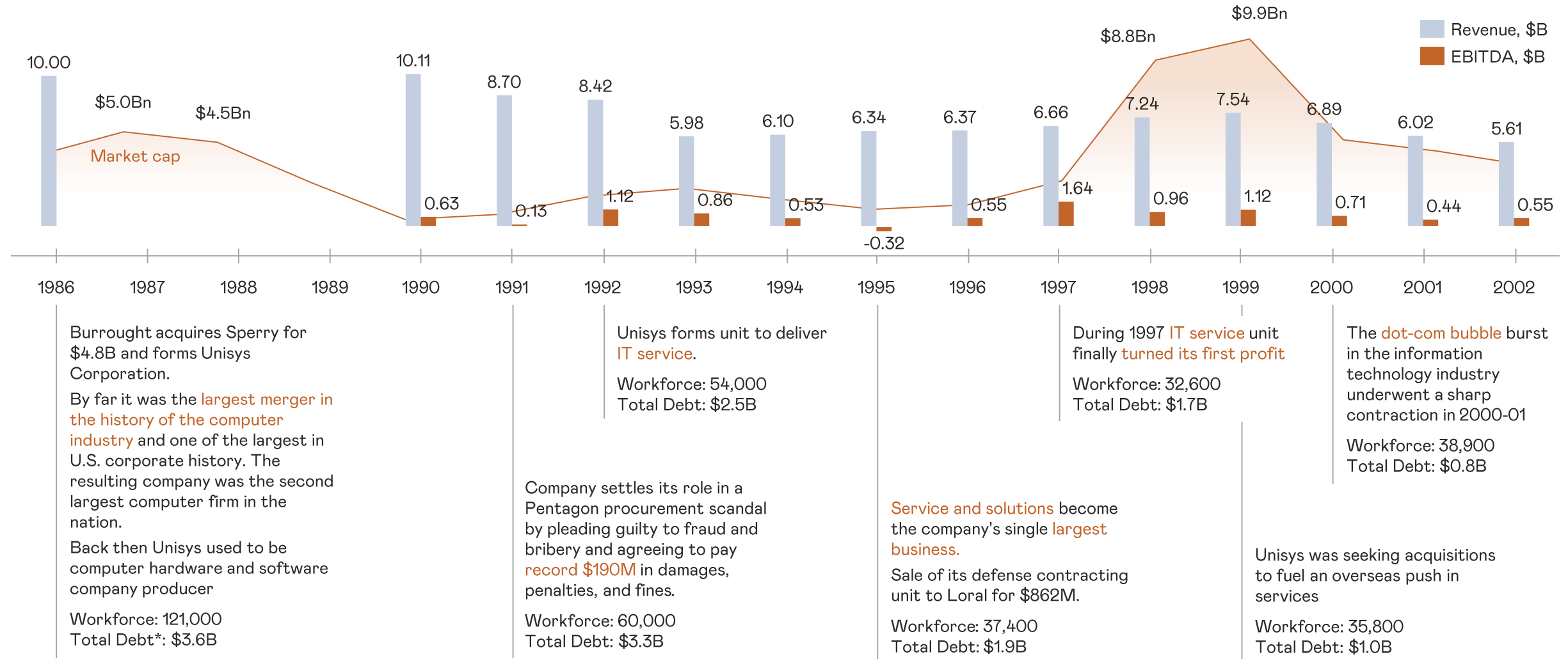


Despite the overall decline in M&A deals during last quarter, a number of transactions with IT service companies in the CEE region fell insignificantly. Considering the average of 9-12 deals over the last 3 years it is worth noting that 1Q2019 data was incomparable and the quantity of transactions in 1Q 2020 was slightly below the numbers in recent years. We expect the COVID-19 reaction to catch up in the 2Q 2020.

## Selected M&A transactions completed in 1Q2020 with/by IT service companies in the CEE region

Target	Target's country	Target's headcount	Deal value, \$M	Stake, %	Bidder	Bidder's country	Bidder's headcount
	Czech Republic	140	no info	outsourcing division		Czech Republic	n/a
	Czech Republic	70	no info	100%		Czech Republic	700
	Romania	38	no info	100%		Austria	4,300
	Bulgaria	<50	no info	51%		Bulgaria	1,300
 Maise i.o.	Poland	10	no info	100%		Poland	450
	Russia	<100	no info	25%		Russia	450
	USA	65	10.6	100%		Belarus	36,700

# Unisys: how has the largest merger in the computer industry and one of the largest in US corporate history at that time turned into a disaster?



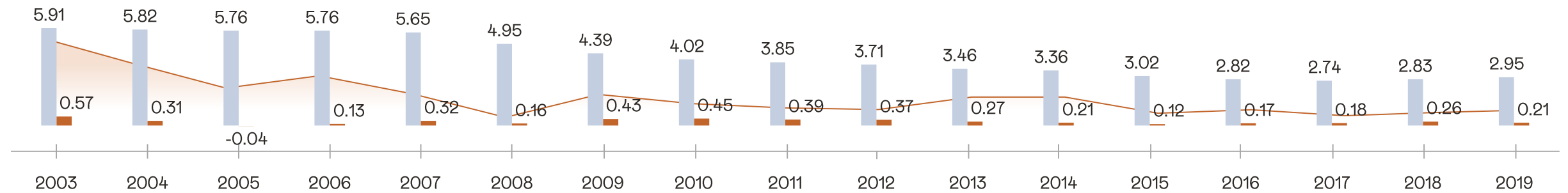
\*Total debt includes: Financial debt, Capital lease, Pension and other post retirement obligations

# Unisys: how has the largest merger in the computer industry and one of the largest in US corporate history at the time turned into a disaster?

Market cap:

2003: \$4.9B      2019: \$0.7B

Revenue, \$B  
EBITDA, \$B



Unisys encountered significant issues in its operations and faced lower demand than expected in technology sales. These factors, plus higher pension expense, impacted profitability and resulted in **operating loss for the year**.

Workforce: 36,100  
Total Debt: \$1.8B

Unisys **divested 3 divisions** mostly engaged in IT service and outsourcing business.

Workforce: 22,300  
Total Debt: \$2.3B

In 2008 company's results were further impacted by the **downturn in the global economy**.

Workforce: 29,100  
Total Debt: \$2.6B

What is going on with Unisys?

1. **"Tech revolution"**. Unisys didn't manage to keep up with it. Soon after the merger back in 1986, the market for proprietary mainframe-class systems—the mainstream product of Unisys and its competitors such as IBM—began a long-term decline that continues, at a lesser rate, today.
2. **Operational difficulties**. Sluggish sales, manufacturing cost overruns, and fierce price competition among the many companies using the Unix system all cut into revenues
3. **Merger integration**. The operations of the two companies had never been properly integrated, leaving duplicate R&D, marketing, and accounting departments.
4. **Business restructuring** initiatives ended up in workforce reduction from 120K employees to less than 20K and tremendous restructuring cost
5. **Lack of talent**. Constant layoffs, non-market motivation skim, outdated corporate culture, "extremely quiet and boring office", altogether made Unisys an unattractive workplace for young and talented employees. As a result there is no new business/revenue in IT, the aging company referred to as "Dying dinosaur"

## March 16, 2020, SAIC closes \$1.2B acquisition of Unisys Federal strengthening its public sector offerings portfolio

Seller	Target	Buyer
<p><b>Unisys Corp.</b></p> <p>Unisys is the listed US-based provider of information technology services. It's offerings include security software and services, digital transformation and workplace services, industry applications and services, innovative software operating environments.</p>	<p><b>Unisys Federal</b></p> <p>Unisys Federal (part of Unisys Corporation), is the US-based provider of infrastructure modernization, cloud migration, managed services, and enterprise IT-as-a-service through scalable and repeatable solutions to U.S. federal civilian agencies and the Department of Defense.</p>	<p><b>Science Applications International Corp.</b></p> <p>SAIC is the listed US-based technical, engineering and enterprise information technology services company. SAIC offers robust portfolio of service across the defense, space, civilian, and intelligence markets includes high-end solutions in engineering, IT, and mission solutions.</p>

\$1,200M

Deal value

9m 2019

20,800	1,900	23,000	Headcount
2,968	689	5,578	Revenues, \$M
251	92	469	EBITDA, \$M
3.2x	13.0x	15.1x	EV/EBITDA

### Deal rationale:

The acquisition enables SAIC to enhance capabilities in government priority areas, including IT modernization, cloud migration, managed services, and development, security, and operations (DevSecOps). It expands portfolio of intellectual property (IP) and technology-driven offerings, that enable government-tailored, commercial-based solutions

Together, SAIC and Unisys Federal will deliver digital transformation to the U.S. government through market-leading, technology-enabled, intellectual property-based solutions.

### Announcements:

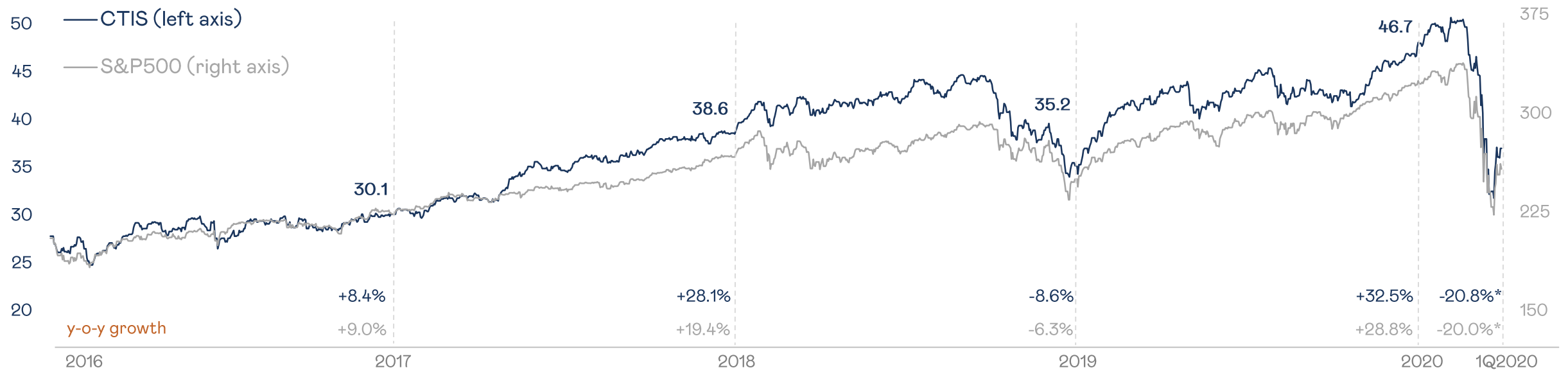
16.03.2020. SAIC completes acquisition of Unisys Federal

19.03.2020. SAIC wins \$950M Defense Logistics Agency FSG-80 contract



# CTIS index performs relatively better compared to S&P500 index during the last 4 years: grows faster, dives with a similar magnitude

CTIS Index and S&P500, 2016 – 1Q 2020



Capital Times IT Service (CTIS) measures the stock performance of 40 large IT companies, specialized in software development and IT service. CTIS is weighted by market capitalization. It should be seen as a gauge of prosperity for so called “IT services” industry.

➤ 40 software development and IT service companies

➤ Weighted by market capitalization

➤ Weights are revised quarterly

➤ Geography and stock exchange agnostic

\*q-o-q growth

Source: Capital IQ

# EBITDA multiple aggregated for top 40 IT service companies ended up 1Q of 2020 at it's lowest levels - below 8.5x

Index EBITDA multiple, 2016 – 1Q 2020



EV/Sales

**1.56x**

March 31, 2020

EV/EBITDA

**8.44x**

Rapid spread of Coronavirus caused panic on capital markets. Stock prices showed the record drop pushing multiples to their lowest levels. **EBITDA multiple** in the IT service industry plummeted to 7.2x on 23 of March compared to the highest 11.6x at the beginning of the year.

The most recent quarter EV/EBITDA has fallen more than **24.1%** reaching value of 8.44x on 31 of March.

Slump of the **Sales multiple** was a bit stronger - during the first quarter of 2020, the multiple decreased from 2.08x to 1.56x or by **25.2%**.

It should be noted that this loss in valuation is the sharpest since the financial crisis of 2008-09.

Please also be advised that financials are lagging one quarter but market capitalization is updated real-time.

# M&A activity is slowing down while the Global economy has stepped into recession

## COVID-19's consequences

While it is impossible to predict Covid-19 outbreak's duration and economic impact, it is hard to deny we have already crossed the "recession line". A health crisis is turning into a financial crisis, all sectors of the economy with rare exceptions see the collapse of economic activity, crash of the logistic chain and demand drawdown. Companies are responding with disaster recovery and business continuity plans in action including payroll reduction and layoffs.

### M&A market

M&A market faces the consequences of the overall economic shutdown. The number of deals in the 1st quarter of 2020 dropped significantly when compared to the same quarter in the previous year. IT service industry is no exception. In some cases transactions are postponed, in other deal terms are negotiated to share risks between sellers and bidders, a cash consideration is preferred to stock-based structure, additional KPIs/condition precedents appear as well as earnout and deferred payment skims become popular.

Aforementioned trends reflect principles of crisis management including cost cut mode. It means that investment initiatives are delayed. Only deals with maximum synergy prioritizing cost efficiency have ground to be stipulated.

Another important factors are "stay at home" moves and closed borders. Deals are not concluded via video-conferences, in many cases a site-visit is vital.

### IT industry

In general, the IT industry handles this crisis somewhat better than the overall market. IT products that support the business and daily

activity of individuals in isolation, such as video-conferencing, food delivery and health products are experiencing huge surge in demand, its' stocks are soaring double-digit. While the most drastically affected sectors are travel and leisure, advertising, and transportation, especially the part of the business requiring physical interaction between people.

### IT Service companies

As for IT service industry, being supplement to those companies they serve, it suffers proportionally. Businesses worldwide put customers and employees first, focusing on setting up a work process, supply-chain stabilization, customer support and retention. Development initiatives are being postponed. Companies cut spending, prioritize tasks, look for lower rates, in many cases they prefer outstaffing model to turn-key engagements. Small IT companies especially those primarily working with start-ups will likely take hit the most, since the latter have limited cash buffer.

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**Analysts predict many different scenarios on how this crisis may progress, for some of them we will see economic recovery as early as the third quarter of 2020, for others in the beginning of 2021. Nonetheless, we need focus on what is the most valuable – people's health and safety.**

# Investment advisory firm with 2 own offices in Kyiv and Minsk and global footprint in 45 countries through Globalscope, international network of M&A specialists

We are investment advisors with a major goal to create and increase wealth for our clients. Our M&A and Wealth Management departments use the best practices to create maximum added value and meet highest expectations of our clients.

**27** Closed deals

**150+** Consulting projects

**2** Offices: Kyiv & Minsk

**5** Ongoing projects in IT

**35+** Investment professionals

**45** Countries covered by Globalscope

**250+** Deals closed in TMT sector by Globalscope

Sale of a minority share of IT company      Private equity fund

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**intellias**      **Horizon Capital**

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Capital Times is an Exclusive Financial Advisor, Ukraine, 2018

Sale of majority shares of IT company      Strategic investor

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**solbegsoft**      **Helmes**

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Capital Times is an Exclusive Financial Advisor, Belarus, 2018

Sale of integration department      Strategic investor

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**Terrasoft**      **SoftClub**

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Capital Times is an Exclusive Financial Advisor, Ukraine, 2016-2017

Merger Advisor to IT company

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**UKRAINIAN INTELLIGENT SYSTEMS**

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Capital Times is an Exclusive Financial Advisor, Ukraine, 2016-2017

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