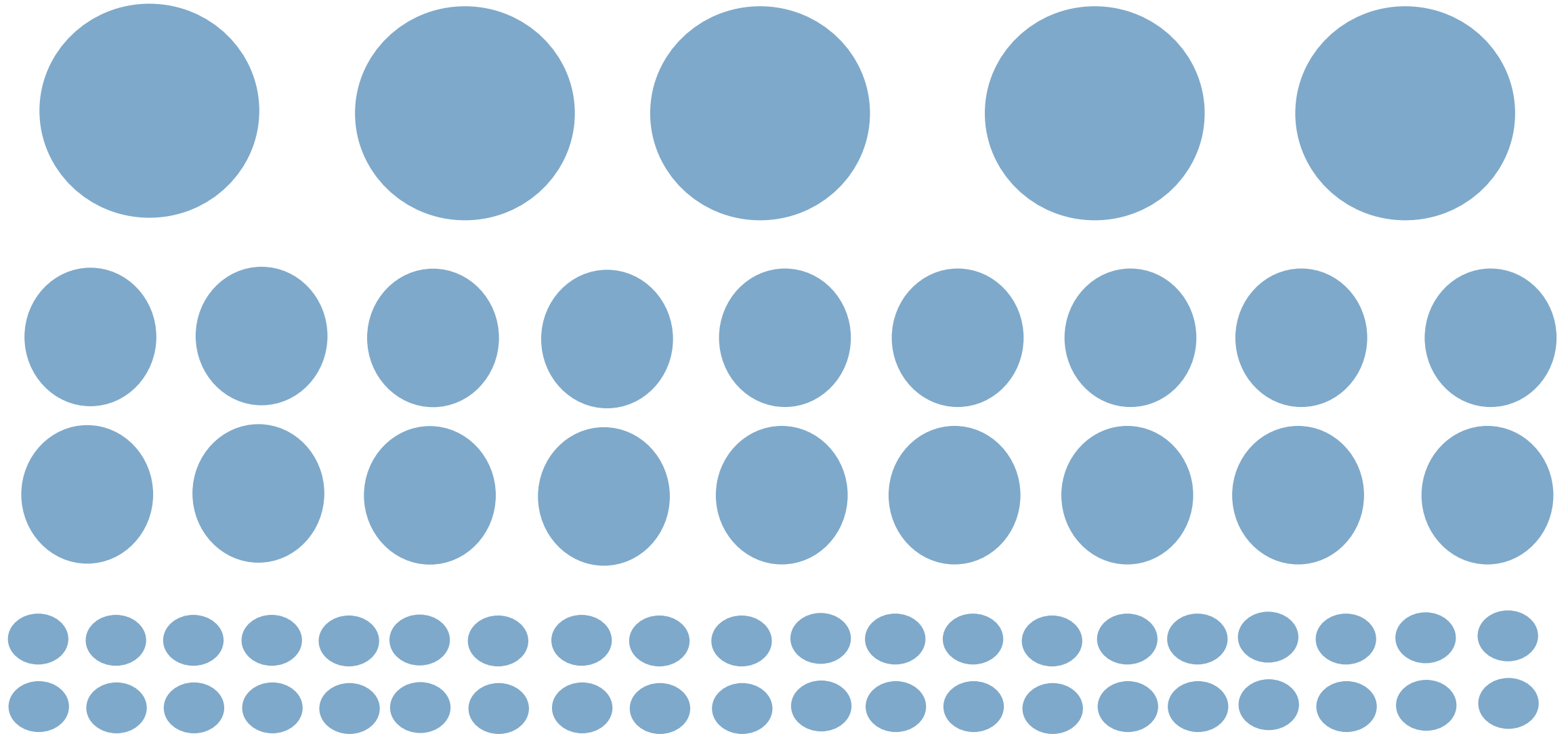


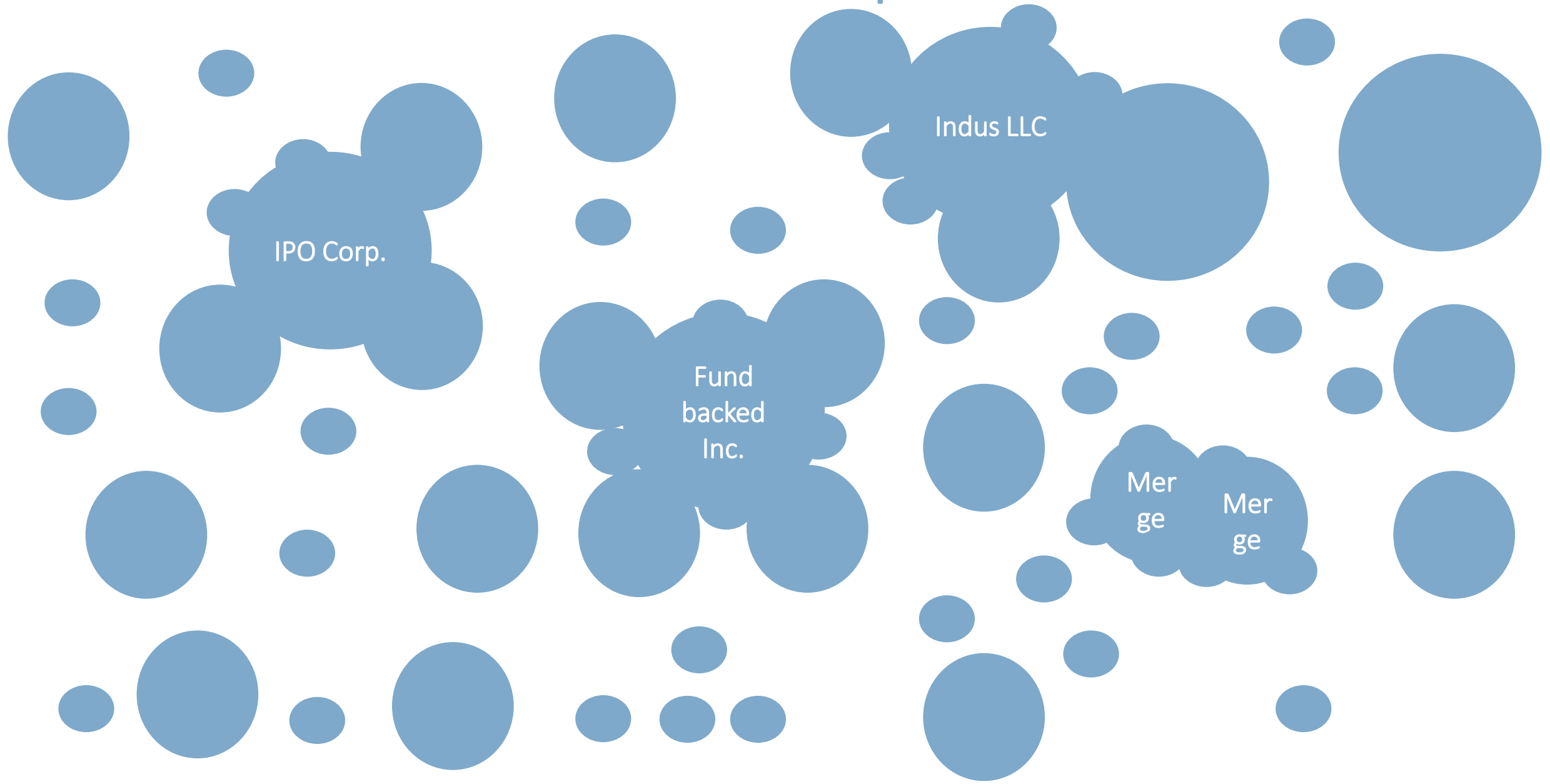
Can M&A deal create value in IT outsourcing ?

Nazar Zhovtanetsky,
CFO N-iX

Current UA IT Outsourcing landscape



Mature market landscape



Pre-conditions required for M&A activity

Macro level	Investor level	Company level
Political stability	Funds available	Business success
Legal infrastructure	Industry expertise	Internal structure and processes
Appropriate business culture	Future exit opportunities	Financial reports
Economic growth		Opportunities for departing shareholders

Value created by M&A deal

For acquired company

- Exit opportunities for owners
- Cash-in opportunities
 - for investments in business
 - for M&A shopping
- New clients
- Governance improvements

For institutional investor

- Access to fast growing industry with the future
- Predictable cashflows
- High level of professionalism and business culture

For large foreign company

- Access to UA IT talent pool

For merging companies

- Ability to engage larger clients
- Operational synergies

Risks associated with M&As

For shareholders:

- No new opportunities for departing shareholders
- Loss of growth potential on stake capitalisation

\$, mil.	2016	2017	2018	2019
EBITDA	1.0	1.3	1.7	2.2
EV	6	8	10	13

Growth rate	30%
Multiple	x6

- Loss of control and freedom for staying shareholders, “M&A lock”

Risks associated with M&As

For investors:

- No fixed assets
- Culture gap
- Dependence on one client or certain managers
- Mess in governance and financials

Risks associated with M&As

For Company

- New governance may be an obstacle for company development
- Change of established processes and management focus -> affects personnel and clients
- M&A negotiations and deal itself are already a focus changer

Key success factors

- Clear and agreed vision of both investor and staying shareholders on company development for the next 5 years

M&A is about the future, not the past!

- Art of investor to bring improvements without destroying anything

Key elements of the deal

- Deal Strategy
- Deal Structuring
- Valuation

Factors for company evaluation

- Growth rate
- Service offerings
- Portfolio diversification
- Management team
- Profitability

Industry adjusted valuation

	Company A	Company B
Salary	4,000	500
Mark-up	1,800	800
Rate	5,800	1,300
Gross Profit	1,800	800
Gross Margin	31%	62%

Industry adjusted valuation

Agro Holding

EBITDA

Cost of investments

Non-current assets



IT Company

Cost of investments

Marketing

Competences



EBITDA

The reason why are we here...

Companies acquired as assets

Valuation – high

- Operational management
- Marketing & Sales
- Recruitment
- Finance / Legal
- Cool developers

Companies acquired as headcount

Valuation – low

- Cool developers

Дякую за увагу!



ACQUISITION

THE DISCOVERY THAT YOU'RE NO LONGER A BIG FISH IN A SMALL POND,
OR EVEN A SMALL FISH IN A BIG POND, BUT A SMALL FISH IN A BIG FISH.