

Baltic ICT Market News

Prime
INVESTMENT

November 2010

Baltic ICT market news is a semi-annual review of recent corporate developments in the sector of information technology, telecommunications and Internet access in the Baltic States

Prime Investment is one of the leading investment banking companies in the region, focusing on M&A, buyouts, fund raising, corporate restructuring and strategic advisory

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Prime TOP-20 Baltic IT services companies in 2010 H1, Euro '000

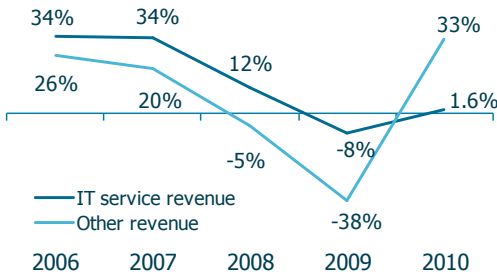
	Company	IT services revenue				Total revenue		
		2010	2009	Growth, % y-o-y	% of total 2010	2010	2009	Growth, % y-o-y
1	↑(3) Alna Group	15,499	14,286	8.5%	76.8%	20,176	20,212	-0.2%
2	↔ Webmedia Group	14,785	14,939	-1.0%	98.6%	14,997	15,268	-1.8%
3	↑(5) Baltic Data Center	13,046	11,273	15.7%	90.5%	14,414	11,505	25.3%
4	n/a Affecto Lietuva	12,778	10,986	16.3%	93.3%	13,694	12,163	12.6%
5	↓(1) Exigen Services	12,638	17,164	-26.4%	91.0%	13,881	18,224	-23.8%
6	↑(7) Santa Monica Networks Group	9,336	7,801	19.7%	24.6%	37,978	27,099	40.1%
7	↑(9) Blue Bridge	6,591	6,590	0.0%	32.0%	20,566	23,260	-11.6%
8	↔ Lattelecom Group	5,893	7,552	-22.0%	65.1%	9,057	11,183	-19.0%
9	↑(11) Elsis Group	5,508	4,937	11.6%	27.1%	20,321	13,011	56.2%
10	↔ Atea	5,274	5,671	-7.0%	10.5%	50,108	34,305	46.1%
11	n/a Sintagma Grupe	4,984	3,342	49.1%	67.5%	7,388	5,303	39.3%
12	↔ Tilde	3,581	3,536	1.3%	100.0%	3,581	3,536	1.3%
13	↑(15) No Magic	2,804	3,013	-6.9%	100.0%	2,804	3,013	-6.9%
14	↑(17) Baltnetos komunikacijos	2,420	2,354	2.8%	100.0%	2,420	2,354	2.8%
15	↑(16) Nexum Insurance Technologies	2,389	2,453	-2.6%	100.0%	2,389	2,453	-2.6%
16	↓(14) Baltic Amadeus	2,378	3,172	-25.0%	82.4%	2,887	3,719	-22.4%
17	n/a Rix Technologies	2,140	2,025	5.7%	81.0%	2,641	2,094	26.1%
18	n/a CID Baltic	2,036	1,730	17.7%	100.0%	2,036	1,730	17.7%
19	↔ DEAC	1,933	1,810	6.8%	83.1%	2,326	2,067	12.5%
20	n/a NRD	1,875	1,246	50.5%	100.0%	1,875	1,588	18.1%
				1.6%	52.1%			14.7%

Company	Added value /employee			Change			Av.no of employees		
	2010	2009	10/09	2010	2009	10/09	2010	2009	
1	Lattelecom Group	46.5	44.3	4.8%	111,315	117,621	-5.4%	2,396	2,654
2	Rix Technologies	39.6	30.7	29.0%	1,149	1,075	6.9%	29	35
3	DPA SIA	38.6	53.5	-27.7%	1,507	1,711	-11.9%	39	32
4	Digitalmind	35.4	22.0	60.9%	566	264	114.5%	16	12
5	BCS Itera	29.2	27.5	6.1%	847	743	14.0%	29	27
6	Isoft Solutions	29.0	15.1	92.4%	435	211	106.2%	15	14
7	Tilde	28.9	27.2	6.1%	2,284	2,261	1.0%	79	83
8	NRD	27.8	27.4	1.7%	1,085	1,012	7.2%	39	37
9	Webmedia Group	27.4	29.5	-7.1%	9,386	9,214	1.9%	342	312
10	Elsis Group	27.3	18.8	45.3%	4,555	3,248	40.2%	167	173
11	Sintagma Grupe	26.5	17.9	47.9%	3,527	2,151	64.0%	133	120
12	Prototechnika	25.6	24.3	5.2%	1,253	1,118	12.1%	49	46
13	Etronika	25.2	29.6	-14.9%	778	651	19.5%	31	22
14	Exigen Services	25.0	26.0	-3.7%	10,508	12,813	-18.0%	420	493
15	Uptime	22.5	23.2	-3.1%	968	1,394	-30.6%	43	60
16	Baltic Amadeus	22.2	20.4	9%	2,444	2,331	4.8%	110	114
17	Nexum Insurance Technologies	21.3	32.3	-33.9%	1,258	1,517	-17.1%	59	47
18	ABC Software	18.1	17.2	4.9%	505	499	1.3%	28	29
19	CID Baltic	14.4	12.0	19.8%	1,106	815	35.7%	77	68
		30.5	29.7	4%			-12%	234	257

Prime's TOP-20 - is the proprietary ranking of the leading Baltic IT service companies by their revenues from in-house developed IT services and does not include any sales of hardware, distribution of software other than developed in-house, office equipment or other products. The ranking has been compiled since 2002.

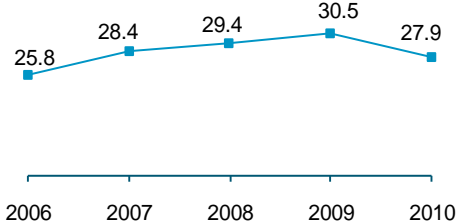
Added value is computed by summing EBITDA and personnel cost of all company activities including IT services as well as software, hardware sales and other activities. The sum divided by the average number of employees results in added value per employee indicator.

The trends



Graph 1
Surveyed companies' revenue growth by type, % y-o-y

Value added per employee



Graph 2
Average value added per employee, '000 EUR

The top companies

Based on survey results, during the 2010 sales of IT services exhibited moderate growth of 1.6%, y-o-y. The positive trend in sales was experienced by 12 out of 20 companies in top-20. Most of respondents point out that EU-financed public sector projects together with renewed interest from business clients allow for cautious optimism.

Other revenues reflect a much more notable revival of hardware and third party software sales of +33% y-o-y. On one hand, it is due to a low base of comparison (2009). On the other hand, the results are influenced by the successful development of large Lithuanian technology companies, namely, Santa Monica Networks, Atea, and Elsis group. Despite being relatively large, these companies managed to achieve spectacular growth of other revenues totaling 48%, 57% and 83%, respectively. As already noted in the autumn issue, these companies achieved outstanding results due to notable new projects and also with the help of continuing sales efforts and streamlined operations.

Based on available data, Baltic countries earn up to 1/3 of their revenue from export on average or 24% in Latvia, 26% in Lithuania, and 21% in Estonia as of 2010.

The average value added per employee has moved downward from 30.5 to 27.9 thousand EUR per employee. Some of previous high-value added companies, such as Proact Lietuva, did not submit the data. DPA SIA, previously one of the leaders, also reverted closer to average value added readings due to lower profitability and increased headcount. Other than that, the results are quite encouraging, as 13 out of 19 companies that provided the data improved their value added figures, some by as much as 92% (Isoft solutions), while at the same time 11 out of 19 increased the number of staff members.

The leaders in value added per employee were Lattelecom group (data reflects all services) and Rix Technologies, a software developer, mainly engaged in public sector projects.

Notable changes have taken place in the top-5 of the rating. A long term leader of the rating, Exigen Services has dropped to 5th place. On one hand, it now only reported its Latvian office results, excluding Lithuanian office after reorganization. On the other hand, Exigen business in Latvia still feels the consequences of the slowdown, especially due to contracted projects in public sector that normally account to roughly 50% of the revenue. As a result, Exigen Services IT services revenue in Latvia dropped by 26% y-o-y to EUR 12.6m in 2010. The first position is now taken over by Alna group. Its IT services revenue in the rating covers 12 companies in Lithuania, Latvia and Poland. The group achieved 8.5% growth y-o-y and EUR 15.5m of IT service revenue in 2010 due to increasing numbers of projects in this field, while its overall revenue remained roughly at the same level.

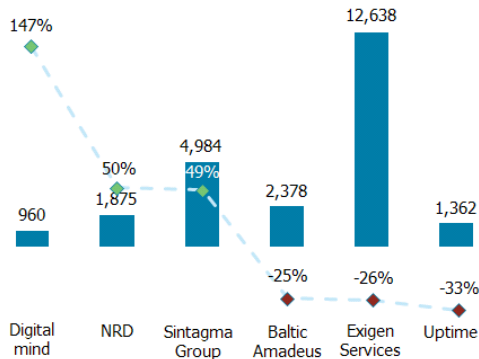
Webmedia group submitted combined results of its 8 companies in Estonia, Lithuania, Romania and Serbia and took 2nd place in the rating with EUR 14.8m IT services revenue. It is roughly 1% less than the previous year, mostly due to postponed projects in the public sector. On the other hand, the group devoted significant resources to develop new products, likely to contribute to future revenue streams. Third place is taken by Baltic Data Center, a TEO LT subsidiary. Its IT services revenue grew by 15.7% and reached EUR 13m mostly due to expanding of its hosting business (a Lithuanian hosting company UAB Hostex has been acquired in September 2010, see our previous issue) and success with cloud computing services offering.

Affecto Lietuva also made it to the top-5 this year, managing to grow its IT services revenue by 16% and to reach EUR 12.8m sales. The company had a successful second half of 2010 and important projects mostly in public sector, but a few notable in private businesses as well.

New to the top-20

The most significant addition is Affecto Lietuva that is back to this rating after few years of absence from autumn 2010. Other companies that appear again after a period of absence include Sintagma, Rix Technologies and CID Baltic (previously Baltic Software Solutions). NRD is also included into our annual issue for the first time.

The fast and the slow



Smaller companies were more agile in 2010. Digital mind achieved the most rapid growth of 147% in 2010, reaching EUR 0.96 m sales as a result, influenced by a few larger and successful projects. NRD increased its IT services revenue by 50%. The company managed to reach substantial growth abroad, especially due to projects in African countries. Sintagma experienced growth of IT services revenue by 49%, but notes however that overall revenue grew less rapidly. Sintagma experienced a revival of IT services projects, especially in the public sector. In addition to that, Sintagma completed the integration of UAB "Informacinių projektų sistemos" a provider of solutions for non-life insurance companies, and continues to work intensively in this field.

Baltic Amadeus experienced a drop of It services revenues by 25%. On one hand, ERP business division (Microsoft Dynamics AX) and related activities has been sold to Blue Solution (see our previous issue) in order to focus on its core banking processes optimization business, software development and implementation services. On the other hand, the company currently develops "Virtual banking branch" financed by EU funds and that required significant resources in 2010.

2010 revenue of Uptime was lower by 33%, compared to 2009. The company sees it as a result of general downturn. On the other hand, slight improvement started already in 2010, and the company is quite optimistic about 2011.

RECENT MERGERS AND ACQUISITIONS

MicroLink Estonia sells information management business to Webmedia

In the very beginning of 2011, two Estonian IT business leaders agreed on a deal on MicroLink's information management department. MicroLink is the largest regular IT service provider in Estonia, and expects considerable growth in this field. In order to enhance the main focus, a decision was taken to sell its non-core Information management business to Webmedia, which has been looking for opportunities to increase the number of specialists in this niche for some time.

Viginta acquired C Gates for approximately EUR 4.37m

In February 2010 Competition Council of the Republic of Lithuania allowed UAB "Viginta" to acquire UAB „Kabeliniai ryšių tinklai" - the Internet and digital television business trademarked C Gates, allowing closing the deal. According to the seller, AB "Tele2", this divestiture was the outcome of growing competition in both mobile and cable operation businesses and now Tele2 will focus even harder on its mobile business where it expects higher returns. 51% of UAB "Viginta" shares are owned by Advanced Broadband, Ltd and the remaining 49% by SEB Venture Capital.

SIA Baltkom TV agreed to sell majority stake

In April 2010 AXA Private Equity, a France based private equity firm and Resource Partners, the Polish based private equity firm have agreed on their first joint investment to acquire a majority stake in SIA Baltkom TV, the Latvia based cable TV and broadband services provider, for an undisclosed consideration. Baltkom is the largest Latvian cable television operator, offering pay-TV, internet and telephony services in Latvia.

Webmedia merges with CCC Corporation

In May 2011, Webmedia Group and CCC Corporation have merged to form a notable player in the Baltic countries and Finland. Although technically Webmedia acquired CCC shares, both management teams see it as a merger. CCC and Webmedia will continue to function under their current names and organizational structures. The estimated combined revenues of the group for 2011 will be EUR 40m (& aims to double revenues in three years), their operating profit EUR 4m. The company will employ close to 600 software professionals in total.

MARKET NEWS

Synergy through specialization

At the end of 2010, four small IT firms introduced an integrated IT services package, involving IT infrastructure consulting and maintenance, hardware, IT literacy courses, software development and other services. Its creators claim that by joining forces they can offer solutions at much lower cost. The consortium „TIG Verslo klubas" (TIG Business Club) now involves AB „Verslo inovacijų grupė", UAB „Atviros informacinės sistemos", UAB „Technologinių inovacijų grupė", UAB „Devela" ir UAB „Deftools" and hopes to expand.

LTL 254 million injection from the State Authorities for IT sector during 2011

The Government of Lithuania and EU funds will provide a record investment in IT sector – LTL 253.9 m (EUR 73.5 m) or 22% more than last year. Major part of the funds is planed for information systems design and development (60%).

Dells' interest in Lithuania

One of the world's largest computer hardware manufacturers, Dell, expressed its interest in opening one of the divisions in Lithuania. According to the Ministry of Transport, investors' decision will depend on such things as labor legislation, appropriate labor supply and tax base.

END NOTES

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Source of information used in this report:

Prime Investment, Aripaev, Baltic Business News, BNS, Communications Elektronika.lt, ELTA, Eurostat, JT news, IDC, Information Society Development Committee, Mergermarket, Lithuania, Latvia and Estonia statistics bureaus, Verslo Zinios, data provided by the companies.

Abbreviations:

N/A – data not available

EE - Estonia; LT - Lithuania; LV – Latvia; CEE - Central and Eastern Europe; EU – European Union;

ICT – Information and communication technology; IT – Information technology.