Baltic ICT Market News

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

<table>
<thead>
<tr>
<th>Company</th>
<th>2010</th>
<th>IT services revenue</th>
<th>Growth, % y-o-y</th>
<th>% of total 2010</th>
<th>Total revenue</th>
<th>Growth, % y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Alna Group</td>
<td>15,499</td>
<td>14,286</td>
<td>8.5%</td>
<td>76.8%</td>
<td>20,176</td>
<td>-0.2%</td>
</tr>
<tr>
<td>2 Webmedia Group</td>
<td>14,785</td>
<td>14,939</td>
<td>-1.0%</td>
<td>98.6%</td>
<td>15,997</td>
<td>-1.8%</td>
</tr>
<tr>
<td>3 Baltic Data Center</td>
<td>13,046</td>
<td>11,273</td>
<td>15.7%</td>
<td>90.5%</td>
<td>14,141</td>
<td>25.3%</td>
</tr>
<tr>
<td>4 Affecto Lituva</td>
<td>12,778</td>
<td>10,986</td>
<td>16.3%</td>
<td>93.3%</td>
<td>13,694</td>
<td>12.6%</td>
</tr>
<tr>
<td>5 Exigen Services</td>
<td>12,638</td>
<td>17,164</td>
<td>-26.4%</td>
<td>91.0%</td>
<td>13,881</td>
<td>23.8%</td>
</tr>
<tr>
<td>6 Santa Monica Networks Group</td>
<td>9,336</td>
<td>7,801</td>
<td>19.7%</td>
<td>24.6%</td>
<td>37,978</td>
<td>40.1%</td>
</tr>
<tr>
<td>7 Blue Bridge</td>
<td>6,591</td>
<td>6,590</td>
<td>0.0%</td>
<td>32.0%</td>
<td>20,566</td>
<td>-11.6%</td>
</tr>
<tr>
<td>8 Telecom Group</td>
<td>5,893</td>
<td>7,552</td>
<td>-22.0%</td>
<td>65.1%</td>
<td>9,057</td>
<td>-19.0%</td>
</tr>
<tr>
<td>9 Eliss Group</td>
<td>5,508</td>
<td>4,937</td>
<td>11.6%</td>
<td>27.1%</td>
<td>20,321</td>
<td>56.2%</td>
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<tr>
<td>10 Atea</td>
<td>5,274</td>
<td>5,671</td>
<td>-7.0%</td>
<td>10.5%</td>
<td>50,108</td>
<td>46.1%</td>
</tr>
<tr>
<td>11 Sintagma Grupe</td>
<td>4,984</td>
<td>3,342</td>
<td>49.1%</td>
<td>67.5%</td>
<td>7,388</td>
<td>39.3%</td>
</tr>
<tr>
<td>12 Tilde</td>
<td>3,581</td>
<td>3,536</td>
<td>1.3%</td>
<td>100.0%</td>
<td>3,581</td>
<td>1.3%</td>
</tr>
<tr>
<td>13 No Magic</td>
<td>2,804</td>
<td>3,013</td>
<td>-6.9%</td>
<td>100.0%</td>
<td>2,804</td>
<td>-6.9%</td>
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<tr>
<td>14 Balinetos komunikacijos</td>
<td>2,420</td>
<td>2,354</td>
<td>2.8%</td>
<td>100.0%</td>
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<td>2.8%</td>
</tr>
<tr>
<td>15 Nexum Insurance Technologies</td>
<td>2,389</td>
<td>2,435</td>
<td>-2.6%</td>
<td>100.0%</td>
<td>2,389</td>
<td>2.6%</td>
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<tr>
<td>16 Baltic Amadeus</td>
<td>2,378</td>
<td>3,172</td>
<td>-25.0%</td>
<td>82.4%</td>
<td>2,887</td>
<td>-22.4%</td>
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<td>17 Rix Technologies</td>
<td>2,140</td>
<td>2,025</td>
<td>5.7%</td>
<td>81.0%</td>
<td>2,641</td>
<td>26.1%</td>
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<tr>
<td>18 CID Baltic</td>
<td>2,036</td>
<td>1,730</td>
<td>17.7%</td>
<td>100.0%</td>
<td>2,036</td>
<td>17.7%</td>
</tr>
<tr>
<td>19 DEAC</td>
<td>1,933</td>
<td>1,810</td>
<td>6.8%</td>
<td>83.1%</td>
<td>2,326</td>
<td>12.5%</td>
</tr>
<tr>
<td>20 NRD</td>
<td>1,875</td>
<td>1,246</td>
<td>50.5%</td>
<td>100.0%</td>
<td>1,875</td>
<td>18.1%</td>
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</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Added value /employee</th>
<th>Change</th>
<th>Added value</th>
<th>Change</th>
<th>Av. no of employees</th>
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<tbody>
<tr>
<td>1 Lattelecom Group</td>
<td>46.5</td>
<td>4.8%</td>
<td>111,315</td>
<td>-5.4%</td>
<td>2,396</td>
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<tr>
<td>2 Rix Technologies</td>
<td>39.6</td>
<td>29.0%</td>
<td>1,149</td>
<td>6.9%</td>
<td>29</td>
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<tr>
<td>3 DPA SIA</td>
<td>38.6</td>
<td>-27.7%</td>
<td>1,507</td>
<td>-11.9%</td>
<td>39</td>
</tr>
<tr>
<td>4 Digitalmind</td>
<td>35.4</td>
<td>60.9%</td>
<td>566</td>
<td>114.5%</td>
<td>16</td>
</tr>
<tr>
<td>5 BCS Itera</td>
<td>29.2</td>
<td>6.1%</td>
<td>847</td>
<td>14.0%</td>
<td>29</td>
</tr>
<tr>
<td>6 Soft Solutions</td>
<td>29.0</td>
<td>92.4%</td>
<td>435</td>
<td>106.2%</td>
<td>15</td>
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<tr>
<td>7 Tilde</td>
<td>28.9</td>
<td>6.1%</td>
<td>2,284</td>
<td>1.0%</td>
<td>79</td>
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<tr>
<td>8 NRD</td>
<td>27.8</td>
<td>1.7%</td>
<td>1,085</td>
<td>7.2%</td>
<td>39</td>
</tr>
<tr>
<td>9 Webmedia Group</td>
<td>27.4</td>
<td>92.4%</td>
<td>9,386</td>
<td>1.9%</td>
<td>342</td>
</tr>
<tr>
<td>10 Eliss Group</td>
<td>27.3</td>
<td>45.3%</td>
<td>4,555</td>
<td>40.2%</td>
<td>167</td>
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<tr>
<td>11 Sintagma Grupe</td>
<td>26.5</td>
<td>47.9%</td>
<td>3,527</td>
<td>64.0%</td>
<td>133</td>
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<tr>
<td>12 ProtoTechnika</td>
<td>25.6</td>
<td>5.2%</td>
<td>1,253</td>
<td>12.1%</td>
<td>49</td>
</tr>
<tr>
<td>13 Etronika</td>
<td>25.2</td>
<td>-14.9%</td>
<td>778</td>
<td>19.5%</td>
<td>31</td>
</tr>
<tr>
<td>14 Exigen Services</td>
<td>25.0</td>
<td>3.7%</td>
<td>10,508</td>
<td>-18.0%</td>
<td>420</td>
</tr>
<tr>
<td>15 Uptime</td>
<td>22.5</td>
<td>3.1%</td>
<td>966</td>
<td>30.6%</td>
<td>43</td>
</tr>
<tr>
<td>16 Baltic Amadeus</td>
<td>22.2</td>
<td>9%</td>
<td>2,444</td>
<td>4.8%</td>
<td>110</td>
</tr>
<tr>
<td>17 Nexum Insurance Technologies</td>
<td>21.3</td>
<td>33.9%</td>
<td>1,258</td>
<td>-17.1%</td>
<td>59</td>
</tr>
<tr>
<td>18 ABC Software</td>
<td>18.1</td>
<td>4.9%</td>
<td>505</td>
<td>1.3%</td>
<td>28</td>
</tr>
<tr>
<td>19 CID Baltic</td>
<td>14.4</td>
<td>19.8%</td>
<td>1,106</td>
<td>35.7%</td>
<td>77</td>
</tr>
</tbody>
</table>

3315 2577 4% 112% 254 257
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**

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.

Afecto 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.

The most significant addition is Afecto 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 top companies**

**New to the top-20**

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

**Graph 2**
Average value added per employee, ’000 EUR

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>IT service revenue</th>
<th>Other revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>26%</td>
<td>-5%</td>
</tr>
<tr>
<td>2007</td>
<td>34%</td>
<td>-8%</td>
</tr>
<tr>
<td>2008</td>
<td>12%</td>
<td>-38%</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>1.6%</td>
</tr>
</tbody>
</table>

**Table 2**

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>25.8</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>28.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2008</td>
<td>29.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>30.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>27.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 „Kabelinės 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 informacinių sistemų”, UAB „Technologinių inovacijų grupė“, UAB „Devela” ir UAB „Deftools” and hopes to expand.

**The fast and the slow**

![The fast and the slow graph](Image)

<table>
<thead>
<tr>
<th>Digital mind</th>
<th>RND</th>
<th>Sintagma Group</th>
<th>Baltic Amadeus</th>
<th>Exogen Services</th>
<th>Uptime</th>
</tr>
</thead>
<tbody>
<tr>
<td>147%</td>
<td>50%</td>
<td>4,964</td>
<td>2,378</td>
<td>12,638</td>
<td>1,256</td>
</tr>
<tr>
<td>96%</td>
<td>1,075</td>
<td>4,876</td>
<td>1,362</td>
<td>1,362</td>
<td>33%</td>
</tr>
</tbody>
</table>
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 planned 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

Disclaimer:
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Source of information used in this report:

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.