Baltic ICT Market News

July 2010

Justė Pačkauskaitė, juste@primeinvestment.lt
Goda Smilingytė, biuras@primeinvestment.lt

UAB Prime Investment
Konstitucijos ave. 7, LT-09308 Vilnius, Lithuania;
+370 5 2487211, www.primeinvestment.lt

Prime TOP-20 Baltic IT services companies in 2009, Euro '000

		Company	IT services revenue			% of total 2009	Total revenue		
			2009	2008	Growth, % y-o-y		2009	2008	Growth, % y-o-y
1	↔	Exigen Services	20,481	28,730	-28.7%	100.0%	20,481	28,730	-28.7%
2	↑(3)	Webmedia Group	14,939	13,347	11.9%	97.8%	15,268	14,020	8.9%
3	↓(2)	Alna Group	14,801	20,021	-26.1%	72.5%	20,406	29,922	-31.8%
4	n/a	ERP	13,535	7,257	86.5%	87.8%	15,416	9,161	68.3%
5	↑(6)	Baltic Data Center	11,273	9,870	14.2%	98.0%	11,505	10,544	9.1%
6	↓(4)	Microlink Eesti	10,965	12,063	-9.1%	67.7%	16,194	23,459	-31.0%
7	↑(10)	Santa Monica Networks Group	7,801	6,007	29.9%	28.8%	27,099	29,497	-8.1%
8	↓(7)	Lattelecom Group	7,552	9,814	-23.1%	67.5%	11,183	25,415	-56.0%
9	↓(5)	Blue Bridge	6,590	10,940	-39.8%	27.1%	24,330	35,740	-31.9%
10	↓(8)	Atea	5,671	7,288	-22.2%	16.5%	34,305	58,557	-41.4%
11	n/a	Prototechnika	5,086	5,840	-12.9%	98.9%	5,142	6,088	-15.5%
12	↓(12)	Elsis Group	4,937	5,678	-13.1%	37.9%	13,011	20,343	-36.0%
13	↔	Tilde	3,536	4,353	-18.8%	100.0%	3,536	4,353	-18.8%
14	↑(15)	Regio	3,526	3,678	-4.1%	98.6%	3,574	3,802	-6.0%
15	↑(17)	Baltic Amadeus	3,172	3,502	-9.4%	85.3%	3,719	5,799	-35.9%
16	↑(18)	Baltijos Programine Iranga	3,013	3,246	-7.2%	100.0%	3,013	3,246	-7.2%
17	↑(21)	Nexum Insurance Technologies	2,453	2,160	13.6%	100.0%	2,453	2,160	13.6%
18	n/a	Baltnetos komunikacijos	2,354	1,602	46.9%	33.7%	6,988	5,196	34.5%
19	↑(20)	Uptime	2,045	2,443	-16.3%	81.0%	2,524	3,443	-26.7%
20	↑(24)	DEAC	1,800	1,576	14.3%	87.6%	2,056	1,845	11.4%
					-8.7%	60.1%			-24.6%

|	Company	Added value/employee		Change	Added value		Change	Av.no of employees	
		2009	2008	09/08	2009	2008	09/08	2009	2008
1	Proact Lietuva	86.0	65.4	31.5%	1,548	1,177	31.5%	18	18
2	Prototechnika	83.9	53.9	55.7%	3,859	4,094	-5.7%	46	76
3	DPA SIA	53.5	52.9	1.2%	1,711	2,114	-19.1%	32	40
4	Lattelecom Group	44.3	46.6	-4.8%	117,621	132,575	-11.3%	2,654	2,848
5	Microlink Eesti	37.3	32.8	13.7%	7,766	8,276	-6.2%	208	252
6	Regio	34.5	33.7	2.5%	2,829	2,626	7.8%	82	78
7	Nexum Insurance Technologies	32.3	27.4	17.9%	1,517	1,342	13.0%	47	49
8	Hostex	31.1	20.0	56.1%	778	559	39.3%	25	28
9	Etronika	29.6	19.6	50.8%	651	340	91.8%	22	17
10	Webmedia Group	29.5	29.2	1.1%	9,214	9,056	1.7%	312	310
11	Tilde	27.2	25.8	5.4%	2,261	2,843	-20.5%	83	110
12	Exigen Services	25.2	27.8	-9.4%	15,178	21,342	-28.9%	602	767
13	ERP	24.1	27.8	-13.2%	2,529	2,359	7.2%	105	85
14	Uptime	23.2	23.6	-1.4%	1,394	1,649	-15.5%	60	70
15	Baltic Amadeus	20.4	26.1	-22%	2,331	2,742	-15.0%	114	105
16	DEAC	20.4	16.1	27.0%	755	579	30.5%	37	36
17	Elsis Group	18.8	27.2	-31.0%	3,248	4,980	-34.8%	173	183
18	ABC Software	17.2	25.7	-33.1%	499	695	-28.2%	29	27
19	SWD Factory	15.2	18.4	-0.2	319	405	-0.2	21	22
20	Isoft	15.1	31.6	-52.3%	211	569	-62.9%	14	18
		33.4	31.6	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.

Based on the survey data, Baltic IT services market declined by 8.7% y-o-y in 2009, a substantial slowdown against 12% growth the previous year. The drop is steeper than a 5.3% decline of the worldwide IT services market, as reported by Gartner. On the other hand, less mature markets exhibit similar dynamics, as an example, Russian IT services market was down by 12% y-o-y in 2009 (denominated in rubles, reported by IDC).

Revenues from other services, such as hardware and standard software sales declined by a dramatic 40%, which indicates a notable freeze in IT investment. It seems that the second half of 2009 was worse than the first that indicated an average decline of total sales of 19%, compared to 26% annual change. In terms of individual companies, 14 of 20 top-20 companies experienced a drop in their annual revenues last year.

The trends
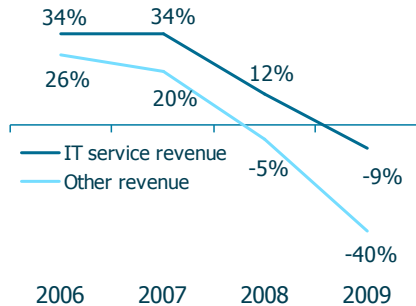
Graph 1
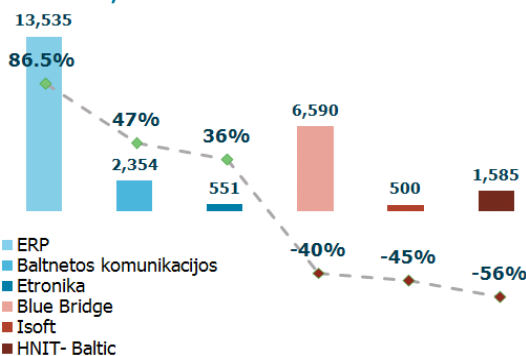Surveyed companies' revenue growth by type, % yoy

The top companies

The top position among the Baltic IT service providers is maintained by Exigen Services, which however lost close to 29% of revenue in 2009. A significant portion of its revenues in Baltic is related to public and government sectors, and reductions of budgets impacted the business of Exigen Services. In a broader perspective, the company feels that it maintained its positions in the region which sees recovery, and also managed to increase the share of global business, which effectively allowed to smooth outcomes of local market correction.

Webmedia finished second and closely surpassed Alna Group, now third after a 26% drop in revenues. Webmedia succeeded in expanding service geography and securing new revenue streams in the Gulf countries and also started large projects involving Public Finance Management product. Alna group suffered from clients postponing their projects due to unclear outlook in 2009 and budget cuts.

The new, the fast and the slow

Graph 2
Companies with fastest IT services revenue growth and deepest declines

The most notable newcomer is ERP, a Lithuanian IT group. The results represented in this report combine revenues of its subsidiaries and associated companies in Lithuania, Belarus and Kazakhstan. The group experienced a notable increase in revenues in 2009 driven by complex projects in customs IT systems across Kazakhstan, Belarus, Tajikistan and Kyrgyzstan. As a consequence ERP became the fastest growing IT services company of the rating with 86.5% growth in 2009.

Baltnetos komunikacijos and Etronika also experienced a notable increase in IT service revenues. Baltnetos komunikacijos had a good year with overall revenue improving by more than third driven by solutions aimed at efficiency enhancement that were well accepted by the customers. Overall revenues were also improved after taking over Norby telecom in Lithuania last year. Etronika grew 36% as it won new clients in its niche and some of them brought substantial projects. Santa Monica Networks Group also was among the fastest growing companies in top-20 in terms of IT service revenues. The company deliberately focused on offering services and achieved growth of IT service revenues of almost 30% despite an 8% drop in its total sales. In addition, presence in 4countires also helped to diversify and cushion the effect of economic slowdown.

13 companies in the top 20 saw their sales of IT services decline compared to 2008. Blue Bridge experienced a drop in activity due to a general downturn effects on their clients causing a 40% drop in revenue. Isoft lost around 45% of IT services revenue after extremely successful results in 2008 when few major projects were completed. HNIT-Baltic saw a decline of 56%. The majority of its clients are state organizations, and the company was hard hit by savings measures.

Prime INVESTMENT

Value added per employee

21.7 21.8 25.8 28.4 29.4 34.4

2004 2005 2006 2007 2008 2009
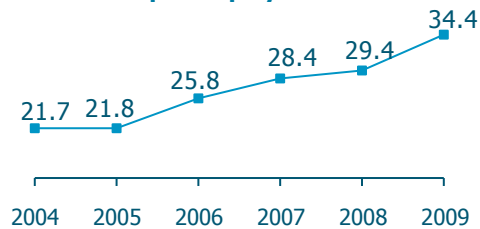
Graph 3
Average value added per employee

The average value added per employee has improved notably, from 29.4 to 34.4 thousand Euros per employee. The increase is most likely upward based due to reluctance of companies to disclose less than positive value added data and outliers, such as outstanding performance of Proact and Prototechnika. On the other hand, 9 of the 20 companies experienced value added increase, indicating their ability to optimize and generate efficiency growth.

The leaders in value added per employee were Proact Lietuva which specializes in data storage, archiving and similar solutions and Prototechnika, a Lithuanian business solution company. Proact Lietuva is continuing its trend of good results and toped the ranking for the second consecutive year. Prototechnika exhibited strong value added growth which could be explained by rather strong sales, backed by increased interest of small and medium businesses in efficiency enhancing solutions. That helped to sustain value added which however was produced by a substantially smaller team

Exported goods and services

Most of the IT companies in the rating focus on the Baltic market. According to available data, only around 30% of revenue came from export. In 2009, Lithuanian and Estonian companies earned only around 2% of total revenue abroad. Latvia exports around 34% outside the Baltics, strongly influenced by Exigen services that remains a major exporter in the region. On the other hand, a substantial share of rating companies gain access to other markets via their foreign subsidiaries and associated companies.

OVERVIEW OF RECENT MERGERS AND ACQUISITIONS

New round of funding for GetJar

Online application store GetJar, founded by Ilja Laurs and now headquartered in Sillicon Valley, has raised $11 million in funding from venture-capital firm Accel Partners.

GetJar currently hosts about 75,000 mobile applications for various mobile devices. The Company states that it has facilitated more than 1 billion downloads over the past few years with 11% of downloads from India, its biggest market to date, US is the second-biggest market, with 10% of downloads.

Swoodoo acquired by Kayak

German travel search engine has been acquired by a U.S. based Kayak specialized in online flight searches. This acquisition should increase Kayak's presence in Europe.

Swoodoo was founded in 2006 in Germany with a participation of Lithuanian based IT development firm NFQ. The site sells around 2000 hotel reservations and 1500 airline tickets daily.

Info Era acquires Estonian AruCAD Süsteemid

Info Era, a Lithuanian company specializing in IT solutions for engineering, has acquired shares in AruCAD Süsteemid, previously its distribution partner in Estonia, in March 2010. The move is part of Info Era strategy to expand its sales abroad. The company would look into similar acquisition opportunities in Latvia as well.

MARKET NEWS

The Global Information Technology Report 2009-2010 ranks Baltic countries

Estonia was ranked highest among the Baltic countries, securing 25th position among 133 countries covered. Lithuania was 41st, and Latvia 52th. The rating was topped by Sweden followed by Singapore and Denmark, which was first for the last three years. The report was issued by the World Economic Forum, in cooperation with INSEAD business school.

Service centers in Lithuania

Indian based IT company Deal Invent announced in June 2010 of its plans to establish an IT centre in Vilnius Sunrise Valley technology park, creating 130 new jobs. The project will move on if a subsidy from the Lithuanian Government is granted.

Barclay's bank IT centre, established in March this year in Vilnius is to be expanded to a workforce of 600, substantially more than 250 promised previously.

SCS and Tieto expand in Lithuania

In March 2010, CSC has announced of its plans to expand its Lithuanian subsidiary SCS Baltic to 400-500 employees. The plans are still conditional upon talks with the Government on state support for the project. CSC has a total 70 service centers worldwide, 3 of them in Central and Eastern Europe.

Another big name in Europe, Tieto, is also planning to expand its subsidiary in Lithuania from 190 to approximately 240, based on good results and increasing sales in Lithuanian market, as announced in May 2010. Despite general slowdown and more cautious approach to larger projects, Tieto managed to increase its revenue from Lithuanian projects by 33% last year, mainly focusing on telecommunications and financial sector.

Complus Consulting service centre plans

In March 2010 IT consultancy Complus Consulting announced of its plans to create a data processing and customer service centre in Tallinn that would give jobs to about 700 unemployed people. The company started talks with the Government bodies to explore possibilities for state subsidy for such venture.

Complus Consulting is an Estonian company that has offices in France, UK and US. Most of revenues are earned outside Estonia.

IBM and Lithuanian Government in talks over a research center

On May8, 2010 Lithuanian Prime Minister and Vice President of IBM Intellectual Property Licensing Tom Reeves signed a memorandum of understanding regarding cooperation on establishment of scientific research centre in Lithuania. The centre would be focused on nanotechnologies, health care innovation and intellectual property rights management.

1ClickFactory expands to Sweden

In May 2010 joint Danish and Lithuanian venture, 1ClickFactory announced of its plans to open a subsidiary in Sweden. The subsidiary will be aimed at servicing its clients in this market.

1 ClickFactory is specialized in Microsoft Dynamics solutions with headquarters in Denmark and an IT development unit in Lithuania. Lithuanian specialists will take care of development for the Swedish clients and might expand capacities in Lithuania if the sales effort in the new market is successful.

END NOTES

Disclaimer:
The information contained in this document has been obtained from external sources, which we believe to be reliable. Although Prime Investment has taken steps to ensure the accuracy of the information presented we do not guarantee that it is accurate or complete, or make warranties regarding results of its usage.

Source of information used in this report:
Prime Investment, Aripaev, Baltic Business News, Baltic OXM Group, BNS, Communications Regulatory Authority, Delfi, Digital Media News for Europe, ECTA, Elektronika.lt, ELTA, Eurostat, Gartner, JT news, IDC, Infobalt, Information Society Development Committee, Infoworld, International Telecommunication Union, LETA, LITTA, Zephyr, Mergermarket, Lithuania, Latvia and Estonia statistics bureaus, TNS Gallup, Verslo Zinios, World Economic Forum, 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;