Baltic IT Market News

Prime INVESTMENT

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Baltic IT market news is a semi-annual review of recent corporate developments in the sector of information technology (IT) services 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 services

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Prime TOP Baltic IT services companies in 2013, Euro '000

		Company/ Group	IT services revenue			% of total	Total revenue		
			2013	2012	Growth, % y-o-y	2013	2013	2012	Growth, % y-o-y
1	↑(1)	Tieto Baltics	48.474	36.848	32%	98%	49.634	39.099	27%
2	↓(1)	Nortal	34.283	39.457	-13%	94%	36.627	41.818	-12%
3	↑(1)	Exigen Services	17.927	17.515	2%	91%	19.767	19.368	2%
4	↑(4)	Santa Monica Networks Group	17.256	15.590	11%	30%	57.102	57.007	0%
5	↑(4)	Atea	16.076	13.788	17%	19%	86.876	86.700	0%
6	↓(1)	BDC	15.659	16.917	-7%	94%	16.700	20.983	-20%
7	↑(3)	Lattelecom Technology	10.863	13.454	-19%	80%	13.611	15.334	-11%
8	n/a	BAIP group	8.691	6.109	42%	59%	14.699	11.729	25%
9	↑(3)	Blue Bridge	8.289	7.877	5%	27%	31.265	25.188	24%
10	↑(7)	DEAC	8.008	4.877	64%	100%	8.008	4.877	64%
11	n/a	Columbus Global	5.815	4.614	26%	68%	8.502	7.666	11%
12	↑(4)	NFQ	5.648	4.253	25%	100%	5.648	4.253	33%
13	n/a	Asseco	5.180	4.390	18%	72%	7.223	5.369	35%
14	↑(5)	Elsis Group	4.704	3.219	46%	55%	8.627	5.179	67%
15	↑(3)	Tilde	4.246	3.897	9%	100%	4.246	3.897	9%
16	↓(2)	New Vision Baltija	4.082	4.473	-9%	43%	9.430	11.692	-19%
17	n/a	ABC Software	4.046	2.737	48%	98%	4.117	2.737	50%
18	↓(5)	Rix Technologies	3.767	5.106	-26%	100%	3.767	5.106	-26%
19	↑(1)	No Magic	2.790	3.077	-9%	100%	2.790	3.077	-9%
20	n/a	Baltic Amadeus	2.355	2.069	14%	97%	2.424	2.422	0%
21	n/a	Etronika	2.341	1.726	36%	100%	2.341	1.818	29%
22	n/a	Uptime OU	2.340	1.918	22%	72%	3.258	2.492	31%
23	n/a	Innoforce	1.195	1.123	6%	76%	1.572	1.123	40%
24	n/a	Sekasoft	777	1.001	-22%	100%	777	1.001	-22%
					8,7%				5,0%

Prime TOP Baltic IT services companies by value added in 2013, Euro'000*

	Company	Added value/employee		Change	Av. number of emloyees		Change
		2013	2012	2012/2011	2013	2012	2013/2012
1	Santa Monica Networks Group	108,0	117,0	-8%	133	121	10%
2	DEAC	72,9	13,0	460%	59	53	11%
3	Rix Technologies	57,0	54,5	5%	39	39	0%
4	Innoforce	56,0	35,1	59%	22	19	16%
5	Columbus Global	39,4	30,3	30%	137	143	-4%
6	Lattelecom Technology	35,3	28,1	26%	213	222	-4%
8	Uptime OU	33,0	25,8	28%	53	49	8%
9	Tilde	31,1	27,7	16%	78	78	0%
10	ABC	30,6	25,8	19%	34	33	3%
11	Asseco	30,0	27,9	7%	131	124	6%
12	Etronika	29,8	24,8	20%	56	50	12%

13	Exigen Services	31,0	29,0	7%	503	497	1%
14	BAIP Group	26,9	23,1	-8%	136	131	4%
15	NFQ	26,4	15,4	71%	130	103	26%
16	Baltic Amadeus	23	20,3	15%	79	66	20%
17	Elsis Group	18,6	17,6	6%	122	105	16%

*Included are companies that provided the value added information.

Prime's TOP IT companies - 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.

Value added 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.

Key trends

Based on the survey results, during the 2013 sales of IT services exhibited growth of 8,7% y-o-y. The main contributors to this growth were Tieto Baltics, BAIP Group, DEAC, Santa Monica Networks and Elsis Group. Growth of total revenues, including sale of hardware, third-party software and services, was only 5%. There was a large discrepancy company to company, where some companies showed strong growth (25%+), while others reported declines in overall revenue.

Value added per employee

The average value added per employee was 32,5 thousand EUR per employee, close to last year's figure of 34 thousand EUR. However, as usual, the distribution span of company figures was quite broad, with leader Santa Monica Networks Group showing double or triple the value per employee compared to the third place runner up and downward. Interestingly, DEAC showed a major 460% leap in value added with 73 thousand EUR per employee, from just 13 thousand last year, likely as a result of substantial increase in data center capacity utilization. Most companies reporting the numbers (14 out of 15) improved their value-added figure. Besides record DEAC number, two other companies stand out who are continuing the trend of rapid value added per employee increase. NFQ's value added per employee grew by 71%, which is slightly lower as last year's impressive 106%. Innoforce also continued increasing their effectiveness, with 59% growth in 2013, compared to 70% growth y-o-y last year. Hiring and downsizing seem to be taking place with different companies at the same time, with 11 companies out of 18 IT adding employees, while others decreased the numbers. The net increase in total of all companies surveyed was just 75 employees, or only 2% growth. Major job growth contributors were Tieto Baltics (50 average employees p.a.) and NFQ (27 employees). Nortal has shed as many as 72 employees y-o-y.

Top Baltic companies

Software solutions developers Tieto Baltics and Nortal continue to top the list. Elion, having reported their IT services numbers for 2012 and secured third position, has opted not to participate in the 2013 survey thus lifting Exigen to the third place. Santa Monica Networks and Atea have both moved up 4 places to the 4th and 5th position. The remaining telecoms IT services subsidiaries (BDC (Lithuania) and Lattelecom Technologies (Latvia)) continue to occupy the high 6th and 7th places in the Top list. Alna Group, in 2012 survey having dropped 4 places, did not submit their numbers for the 2013 ranking. Blue Bridge has moved up 3 positions, while DEAC is now No. 10 having moved 7 places due its impressive revenue growth.

The new and the missing

BAIP is the new addition to the list of top IT services companies, now occupying a respectable 8th place. Several leading companies have decided not to submit their numbers this year, besides the already mentioned Elion and Alna Group. Missing from the list are also Affecto and Helmes. Neither of them specified the reasons for non-participation.

Growth and decline

DEAC tops the list of the fastest growing companies, with its impressive 64% growth. Next, there is a league of "forty somethings", companies which grew revenue from IT services in excess of 40%: ABC Software (48%), Elsis Group (46%) and BAIP Group (42%). Thirty percent revenue growth is also commendable, especially for the No. 1 player in the Baltics – Tieto Baltics, which grew 32% by adding almost 12 million Euro, or more than half of the total of all surveyed companies' growth.

Lattelecom Technology registered the largest slump in revenue from IT services (19%), while Nortal's number decreased by 13%, registering 5,1 million Euro lower revenue.

Top companies by segment

Top-5 software development companies in 2013, Euro '000*

	Country	Company	Software development revenue		Growth %	% of total IT services	
			2013	2012	2013/2012	2013	2012
1	Estonia	Nortal	33.283	38.457	-13%	97%	97%
2	Latvia	Exigen services	17.927	17.515	2%	100%	100%
3	Lithuania	NFQ	5.648	4.253	33%	100%	100%
4	Latvia	Lattelecom Technologies	4.527	5.010	-10%	42%	37%
5	Latvia	Tilde	4.246	3.897	9%	100%	100%

Top-5 professional services companies in 2013, Euro '000*

	Country	Company	Professional services revenue		Growth, %	% of total IT services	
			2013	2012	2013/2012	2013	2012
1	Lithuania	Atea	8.835	6.880	28%	55%	50%
2	Lithuania	Columbus Global	5.206	4.103	27%	90%	89%
3	Lithuania	Asseco	4.821	3.873	24%	93%	88%
4	Lithuania	BAIP Group	4.711	3.064	54%	54%	50%
5	Estonia	Santa Monica Networks Group	4.358	4.571	-5%	25%	29%

Top-5 infrastructure services companies in 2013, Euro '000*

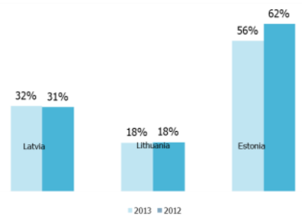
	Country	Company	Infrastructure services revenue		Growth, %	% of total IT services	
			2013	2012	2013/2012	2013	2012
1	Estonia	Santa Monica Networks Group	12.898	11.019	17%	75%	71%
2	Lithuania	Atea	5.321	5.289	1%	33%	38%
3	Latvia	Lattelecom Technologies	3.981	4.813	-17%	37%	36%
4	Lithuania	Blue Bridge	2.530	7.877	-68%	31%	100%
5	Estonia	Uptime OU	871	545	60%	37%	28%

*List made of companies which provided individual segment data.

Top companies by segment

While we owe it to the companies which reported their segment information to include them in the rankings by segment, due to some missing players or those not reporting segment information, the above lists may not reflect the top five company situation in respective segments. For example, with DEAC and BDC not reporting their segment information, they are missing from top 5 infrastructure services providers list, while based on previous year's reporting, DEAC would probably be among the leaders in this segment. Elion, previously No. 1 infrastructure services provider, did not report its numbers for 2013. Likewise, Affecto Lietuva, previously No.1 professional services provider, is missing from the list, yielding this position to Atea; Lattelecom technology also did not provide segment numbers, which placed them 5th in the list for the segment.

Share of exports



Graph 1. Reporting companies' share of export in total revenue

Graph 1 shows the share of IT services exports in the total revenue of survey participants. As has been the case historically, Estonian companies have the highest share of export, while Lithuanian IT services companies are mostly focused on their home market. The largest exporter was Nortal, whose decline in the value of exported services by 22% contributed to the overall country decline of exported services from 62 to 56%. Santa Monica Networks, another pan Baltic-Nordic company headquartered in Estonia, continued increasing its export revenues. The two data center companies, BDC from Lithuania and DEAC from Latvia registered polar opposite movements with their export shares, with BDC shedding 31% of its exports y-o-y, while DEAC grew by almost 100%.

Top-5 exporting IT services companies in 2013

Country	Company	2013 Export value	2013 % of total	2012 Export value	2012 % of total	Growth, % 2012/2011
Estija	Nortal	20.093	59%	25.808	65%	-22%
Estija	Santa Monica Networks Group	10.037	54%	9.565	58%	5%
Latvija	Exigen Services	9.669	58%	10.172	61%	-5%
Lietuva	BDC	5.333	34%	7.734	46%	-31%
Latvija	DEAC	4.458	56%	2.245	46%	99%

Mergers & Acquisitions in 2013

Atea Baltic acquired CRC in Latvia

Atea continued its acquisition spree and in 2013 acquired 100% printing solutions provider SAI "CRC" from the management. CRC is among the leaders in printing services providers in Latvia, with reported revenue of 1,8 mEur (2012).

Atea Baltic buys UAB Prezentacijų spektras

In March 2013 Atea Baltic acquired Lithuanian company UAB Prezentacijų spektras. It claims to be the leader in video and LED solutions in Lithuania, with 9 employees and over 1,15 mEur in revenue (2012).

BAIP Group expands internationally acquiring a company in Tanzania

A subsidiary of BAIP group, Norway Registers Developments AS (NRD) in April acquired 70% of 360° Smart Consulting Ltd, a local IT solutions provider. The objective of this acquisition is to be closer to the clients of the East African region, where NRD has been actively engaged in the register reforms for the past 15 years and has recently started activities in the cyber security area.

Are LMT and Lattelecom to finally merge?

Latvian news portal delfi.lv reported in 2013 that Kennet Radne, Head of Telia Sonera's mobile business, said that the merger of the mobile services provider LMT and fixed line telecom services provider Lattelecom (which also has a large IT services unit) is imminent, as soon as a formal decision is made internally. He further contemplated that after such a merger, Telia Sonera would hold a controlling interest in the combined entity, or about 53%. Latvian government and other shareholders would hold 38% and 9% in the combined entity respectively. Currently, Telia Sonera holds 49% of both Lattelecom and LMT, but also holds a stake through 23% holding of LMT by Lattelecom itself. The objective of the merger would be to extract operational and management synergies. Telia Sonera claims it would not create a super-monopoly, which many in Latvia fear.

Blue Bridge acquired Synergy Cloud

IT services provider Blue Bridge Baltic acquired controlling stake of the sales process and CRM management company "Synergy Cloud" for an undisclosed amount. Blue Bridge was seeking to strengthen its position in cloud computing solutions (specifically in the software as a service (SaaS) segment), while Synergy Cloud was searching for investor. „Blue Bridge Baltic" group includes companies „Blue Bridge", „Blue Bridge Bond", „Blue Bridge Code" and „Team Gate"; it is also a part shareholder in „Blue Solutions" and „Blue Consultancy".