

clearview

US insights from the Emerging Technology Summit, San Francisco



Clearwater International technology partners Carl Houghton and Per Surland have recently returned from KeyBanc's Emerging Technology Summit in San Francisco where technology giants such as SAP, Zendesk and Cornerstone joined 160 private equity houses, as they discussed the emerging trends in the technology market and their predictions for the near future. Here are some of the interesting snippets from a busy conference:

New Technologies

Augmented reality – Vision is the fastest form of human processing and developers are exploiting the possibilities of combining this with technology platforms, to drive efficiencies that will transform different industry verticals.

Blockchain –will eventually enable the industry to achieve a limitless payment system that will operate faster and more efficiently. Widespread adoption could suffer setbacks, subject to the nature and coverage of the inevitable cryptocurrency scams.

AI– companies (not to be confused with pure machine learning) that harness the power of AI within distinct verticals are expected to outpace the success of those who sell with a broad focus. Due to the power of its data, Google is likely to be the only exception.

Digital Marketing

Expenditure increases – Spend has grown from 8.1% of revenue in 2011 to 11.1% in 2018. We will also hit a landmark this year with digital advertising spend expected to finally eclipse non-digital and the gap will continue to widen.

Data driven – Cloud has allowed the availability and accessibility of big data like never before. Marketing spend will increasingly exploit this opportunity with decision making driven by a strong ROI criteria. There still needs to be a lot of organisational learning done to truly capitalise on the benefits of comprehensive analytics.

Cybersecurity

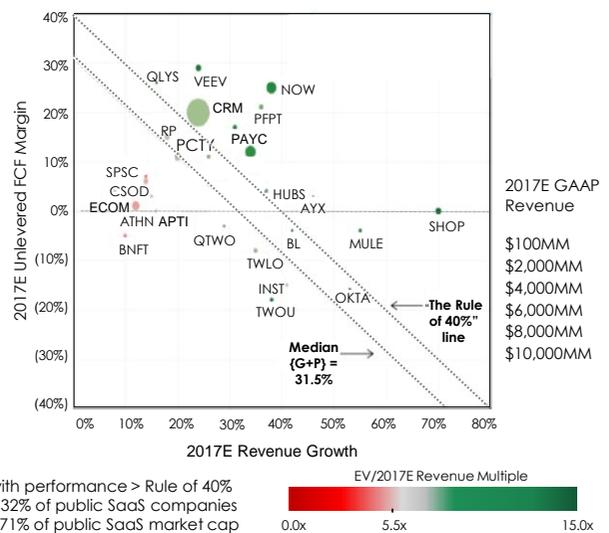
PE competition heats up – In the US, many are predicting the sector will produce the next TMT unicorns (private companies with a \$1bn + valuation). Operating against a backdrop of high profile data breaches and political and legal uncertainty surrounding GDPR, expect significant investment in the sector.

The Rule of 40 - defining SaaS performance

The premise of the 40% rule is relatively simple. It focuses on the theory that in a high performing SaaS business, growth rates and profit levels should add up to at least 40%. These metrics can be measured in a number of different ways, but generally firms have looked at year on year growth and either a combination of EBITDA or free cash flow margin.

32% of public US SaaS companies and 71% of public SaaS market capitalisations were >40%, as demonstrated by the graph below.

If you are operating a business that meets the 'Rule of 40' then you should expect a premium valuation.



Focus on cloud

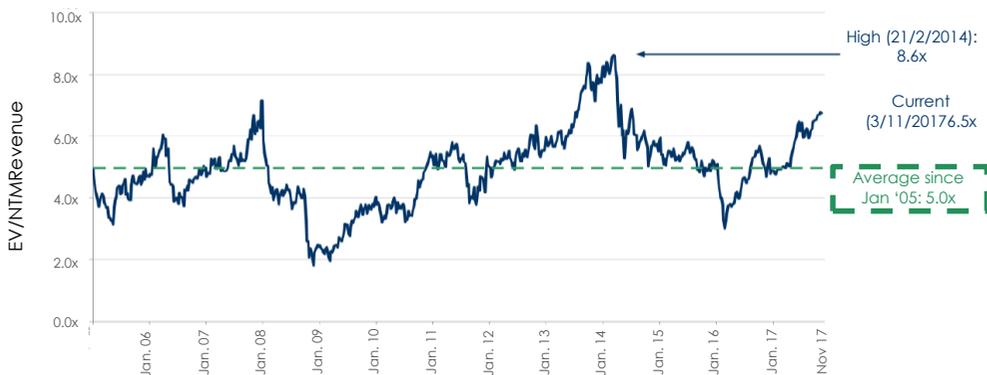
Next wave of SaaS – Firms creating API tools for developers are finding themselves in a strong position, due to their extensive uptake and the free word of mouth marketing that they receive from the development community.

Build it and they will come – Founders continue to be less focused on EBITDA and the so called ‘future liquidity event’, versus their European counterparts. Instead they are targeting the ‘user experience’ technology ‘mission’ and building out supply/demand models.

Battle at the top – Amazon, Microsoft and Google retain their lead as the key players in cloud computing. Expect Dell’s VMWare to come under significant threat as DevOps moves away to other more easily integrated solutions.

Cloud human capital management – There are still a surprising number of companies who do not even have an automated payroll solution. The large market players are actually losing market share but still seeing year on year growth. An optimistic US economic outlook means that companies are willing to invest in firms which ease administrative burdens.

Next 12 month Revenue Multiples Over Time



Source: KeyBanc Capital Markets

SaaS valuations are around 20% above the historical average but still below the 2014 highs.

Recent TMT deals

 <p>E-DAYS</p> <p>Market-leading Software as a Service (SaaS) solution for employee absentee management</p> <p>Clearwater International advised e-days on its significant investment from Palatine Impact</p>	 <p>INSPIRED THINKING GROUP</p> <p>UK technology led provider of outsourced marketing services</p> <p>Clearwater International advised Equistone on its secondary buyout of the firm alongside ITG's existing management team</p>	 <p>Jigsaw</p> <p>B2B reseller, integrator and managed services provider of Apple products</p> <p>Clearwater International advised the shareholders of Jigsaw24 on its secondary buyout by Alcuin Capital</p>	 <p>CONVERGE TS</p> <p>Specialist provider of hosted and managed IT services through private cloud</p> <p>Clearwater International advised Converge TS on its significant investment from Tenzing Private Equity</p>
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