Welcome

Companies today are constantly developing their supply chain management (SCM) systems, appreciating the need for strategic SCM to be placed at the very core of their operations.

Small and mid-sized companies, as well as much larger businesses, increasingly operate global supply chains which necessitate complex offshoring relationships and SCM adoption. At the same time, developments in cloud-based serving and advanced analytics have opened up new avenues for companies to incorporate SCM and other application software into their core operations.

Today, those global supply chains also stretch ever further into emerging economies and increased investment in emerging market manufacturing centres is demanding more SCM software take-up. Continued strong growth in regions such as Asia and Latin America is driving heavy investment in SCM software, while the historically lower penetration into these markets now presents great opportunities for leading players.

The SCM market is also being driven by other dynamics, such as the shortening of product lifecycles and the rise of omni-channel retailing which has led to significant growth in the warehouse management systems (WMS) market. The e-procurement space is also gaining prominence as companies strive to rationalise their purchasing costs, and is further escalating the shift from on-premise to cloud-based service offerings.

What does all this mean for M&A activity? Well, although the top five SCM software vendors still account for half of the market, beneath that it remains highly fragmented. The majority of businesses in the sector are small and mid-sized vendors, invariably regional in their outlook, and we are now seeing transactions that are pervading every different segment of the SCM industry.

Only this month we saw a particularly significant transaction in the sector when Private Equity firm Accel-KKR acquired HighJump Software and completed the merger of HighJump with Accellos, an existing Accel-KKR portfolio company. The scene is most definitely set for further widespread consolidation.

We hope you enjoy the report.

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/company/clearwater-international-corporate-finance
International reach, Excellent client outcomes
## Sub-sector Analysis

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Definition</td>
<td>TMS software guides the movement of materials to and from the warehouse, suggesting the best mode of transport and optimum fleet size. It also monitors the movement of goods and handles customs and freight routes to ensure efficiency in delivery.</td>
<td>WMS software monitors and controls the movement of materials within the warehouse. It also helps design the warehouse infrastructure, along with managing advanced shipment notifications.</td>
</tr>
<tr>
<td>Market Size</td>
<td>$0.7bn</td>
<td>$1.1bn</td>
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</table>
| Drivers           | - Volatile fuel costs mean that optimum ordering quantities and transportation methods change very frequently, and that distribution channels need to be recalibrated on a regular basis.  
- Globalisation of (downstream) supply chains has been more about revenue growth than cost efficiency over the last decade. With disruptive innovations in e-supply chains now settled and increasing cost pressure in a volatile market, developing advanced analytics-based intelligent supply chain systems is key. | - Agile warehouse management achieved by renting or employing storage facilities allows rapid response to changing market demand and enables variable cost structures.  
- Increasing storage rentals have led to heightened emphasis on the micro-management of the warehousing space, with ‘shelf-level replenishment’ becoming the new ‘store-level replenishment’.  
- Omni-channel retailing has led to a rise in the adoption of WMS, as more and more bricks and mortar stores move towards e-retailing. |
| Trends and Forecast | - Growth is increasingly coming from the mid-market TMS sector.  
- The TMS space has seen continued interest in cloud-based solutions that require low upfront fees and minimal IT infrastructure.  
- MarketsandMarkets forecast a CAGR (Compound Annual Growth Rate) of 22.8% from 2013-18. | - Leading Enterprise Resource Planning (ERP) companies such as SAP, Oracle, Infor and Epicor have strengthened their market position by bundling now maturing WMS as part of their broader ERP offerings. The result has been consolidation in the market, leaving Manhattan as the last large independent WMS player not acquired by any ERP vendor.  
- Technavio predicts a CAGR of 16.2% between 2012-16. |
### Sourcing and Procurement

Sourcing software pre-screens potential vendors and runs events such as e-auctions. Procurement software carries out the actual purchase orders, distributing the terms of purchase throughout the organisation. It also logs expenses, as well as taking care of reporting and compliance issues.

- Emphasis on cost control, carbon footprint reduction and paperless requisitioning is driving the adoption of e-procurement solutions.
- Increased interest in strategic sourcing application suites from emerging markets, as production moves to newer manufacturing hubs.
- e-tendering by governments aiming to be transparent in public sector procurements has led to the adoption of procurement software.

### Supply Chain Planning (SCP)

SCP systems forecast demand by using simulation models on historical data, and recommend the optimum speed and flow of production accordingly. They employ advanced analytics models to predict demand as market conditions change.

- Emergence of new selling destinations and sourcing markets with globalised supply chains have driven the need for scenario- and simulation-based modelling.
- With rapid technological advancements, the life cycle of products is getting shorter; requiring supply chain executives to be aware of the latest product developments and have an approach based on collaborative decision-making with all the stakeholders in the loop (especially production managers and suppliers).
- Stringent environmental regulations have led to an increased emphasis on the development of sustainability models to analyse and monitor usage impact (carbon, energy, water, waste, etc.) during the planning phase.

### Manufacturing Execution Systems (MES)

MES manages shopfloor operations and can be deployed on a machine or the entire factory. It schedules and tracks each step of the production phase of a particular job.

- Emerging low-cost manufacturing hubs in Asia-Pacific are expected to be the growth engine for MES demand.
- The emphasis on green production involves replacing paper-based operator and procedure manuals and data sheets with electronic documents delivered on mobile devices on the shopfloor.
- The shift towards lean manufacturing advocates the increasing adoption of MES and its integration with WMS to establish operating models with less working capital requirements.

### Financials

- **Sourcing and Procurement**: $2.8bn
- **Supply Chain Planning (SCP)**: $3.0bn
- **Manufacturing Execution Systems (MES)**: $1.5bn

### Market Trends

- ERP vendors have a strong presence in transaction-based solutions. Players with local vendor and niche segment knowledge continue to excel in strategic procurement activities.
- As per Gartner, the market for procurement technologies is expected to reach $3.5bn by 2015, representing a five-year CAGR of 10.1%.

- There has been above-average growth in SCP sales to the semiconductor and other high-tech industries. The household & personal care and food & beverage industries have both witnessed above average growth due to a strong post-recession rebound.
- The SCP market is expected to show a CAGR of 10% from 2011-16, according to ARC Advisory.

- Sectors where MES is extensively deployed include automotive, textiles and power.
- MarketsandMarkets estimates the MES market to reach $8.9bn by 2016, maintaining a CAGR of 13.6% from 2011-16. Technavio has a CAGR estimate of 11.7% from 2011-15.
Market Overview

The SCM software market is seeing significant global growth.

The market was estimated to be worth $8.3bn in 2013 (up 7.1% year on year), but is expected to soar to $13.4bn by 2017, according to Gartner*. Meanwhile, overall IT spending is projected to reach $3.8tn this year**, up 3.1% from $3.7tn in 2013.

Enterprise software (CAGR: 6.8%) continues to drive this growth, with SCM and Customer Relationship Management (CRM) witnessing double-digit growth.

North America and Western Europe remain the prime consumers of SCM software, accounting for 77% of market revenue. However, strong economic growth in Asia and Latin America, coupled with the modernisation of the manufacturing and construction industries in these regions, is driving heavy investment in SCM software in emerging markets. Also, lower penetration of the software and a sizeable domestic market, particularly in countries such as India, China and Indonesia, have fuelled growth.

Asia-Pacific has continued to experience particularly robust growth in the sector owing to increasing investment in emerging market manufacturing centres. According to an IDC forecast of the software market, the average 2012-17 CAGR for Asia-Pacific (excluding Japan), Latin America, and Central Eastern/Middle East/Africa (CEMA) is 8.2%. The average CAGR for North America, Europe and Japan is 5.4%.

<table>
<thead>
<tr>
<th>Segment Spending Forecast</th>
<th>CAGR (%) (2012-17)</th>
</tr>
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<tbody>
<tr>
<td>Overall IT</td>
<td>3.1</td>
</tr>
<tr>
<td>Enterprise Software</td>
<td>6.8</td>
</tr>
<tr>
<td>SCM</td>
<td>10.0</td>
</tr>
<tr>
<td>CRM</td>
<td>14.4</td>
</tr>
<tr>
<td>ERP</td>
<td>6.2</td>
</tr>
<tr>
<td>Business Intelligence</td>
<td>7.2</td>
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</tbody>
</table>

Source: BMO Capital Markets

Global SCM Software Market

Historical CAGR 6.8%

Growth CAGR 10.0% (est)

Source: Gartner

** Technology – Software, BMO Capital Markets (Jan 2014)
### Fragmented market

Although the top five SCM software vendors account for 50% of the market by value, the other half remains highly fragmented. A majority of businesses in the sector are small and mid-sized vendors that offer a wide range of regional and segment-specific best-of-breed (BoB) options. BoB vendors continue to dominate within individual markets such as TMS, WMS and CRM. Meanwhile, competition between ERP and BoB vendors has intensified over the past year, triggering significant M&A activity.

#### World Enterprise Software Revenue Growth by Sub Segment

![Graph showing revenue growth by sub segment](image)

Source: Gartner

#### Worldwide IT Spending Forecast ($bn)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>Growth (%)</th>
<th>2013</th>
<th>Growth (%)</th>
<th>2014</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Devices</td>
<td>676</td>
<td>10.9</td>
<td>695</td>
<td>2.8</td>
<td>740</td>
<td>6.5</td>
</tr>
<tr>
<td>Data Centre Systems</td>
<td>140</td>
<td>1.8</td>
<td>143</td>
<td>2.1</td>
<td>149</td>
<td>4.1</td>
</tr>
<tr>
<td>Enterprise Software</td>
<td>285</td>
<td>4.7</td>
<td>304</td>
<td>6.4</td>
<td>324</td>
<td>6.6</td>
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<tr>
<td>IT Services</td>
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<td>2</td>
<td>926</td>
<td>2.2</td>
<td>968</td>
<td>4.6</td>
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<tr>
<td>Telecom Services</td>
<td>1,641</td>
<td>-0.7</td>
<td>1,655</td>
<td>0.9</td>
<td>1,694</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Overall IT</strong></td>
<td>3,648</td>
<td>2.5</td>
<td>3,723</td>
<td>2.1</td>
<td>3,875</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets
Market trends

The market dynamics of the sector remain very strong with small and mid-sized businesses, as well as larger companies, increasingly having global supply chains and complex offshoring relationships, thereby necessitating SCM adoption.

Developments in mobility, cloud-based serving and advanced analytics have lowered the total cost of ownership and opened up new avenues for companies to incorporate SCM, ERP and other application software into their core operations. Other factors driving the market include:

- The need for reduced time to market for new products and services and the shortening of product lifecycles has put pressure on supply chains. Cloud computing will further accelerate this trend, fueling the adoption of SCM software. Penetrating the vast markets of the emerging economies has become much easier with the adoption of cloud/internet-based technologies.
- Transport cost reduction in a volatile fuel/energy market is an important agenda for companies and has provided a boost to TMS adoption.
- Omni-channel retailing has led to a rise in the adoption of WMS, with an increasing number of bricks and mortar stores moving towards e-retailing.
- The advent of new selling destinations and sourcing markets, with globalised supply chains, has led to the need for scenario- and simulation-based modelling. This has provided a boost to analytics-based procurement solutions.
- The emergence of low-cost manufacturing hubs in Asia-Pacific is expected to be the growth engine of demand for MES.

Against this backdrop, the market share of the leading SCM players has increased in recent years as the market consolidates, particularly in the procurement technology arena.

As companies increasingly appreciate the need for strategic SCM to be placed at the very core of their operations, growing competition from small BoB companies has compelled ERP vendors to extend historically rigid ERP systems (designed for the low-tech manufacturing era) to more competitive on-demand subscription-based models.

Large ERP vendors, driven by the growing need among clients for real-time purchase information, are focusing on building analytics-based offerings inorganically. This trend has been reflected in the recent acquisitions of KXEN and SmartOps by SAP, and by Oracle’s acquisitions of both DataRaker and Collective Intellect.

Change in Market Share - Top 5 Players

![Change in Market Share - Top 5 Players](image_url)

Source: Gartner
The cloud in SCM

The past few years have witnessed successful cloud implementations in sectors such as CRM and Human Resources Management (HRM). This trend can now be observed in the SCM software market too, with vendors building on their cloud-based supply chain models.

Due to the consumerisation of IT and the shift towards cloud-based BoB offerings, the past few years have been tough for legacy ERP providers. Their traditional ‘build once’ model has been disrupted and they have struggled to keep up with cloud-based solutions.

Meanwhile, the potential of recurring revenue depicted by the double-digit growth in cloud-based SCM offerings from subscription-based models has been attractive as it generates consistent high margin revenue and superior cashflow (once mature) compared with traditional license-based business models.

BMO Capital Markets expects the shift to cloud to particularly benefit BoB on-demand SCM vendors. However, the cloud has also attracted traditional legacy vendors such as SAP and Oracle, which have responded by acquiring and internally developing SaaS (Software as a Service) offerings.

### Cloud Penetration Rates

<table>
<thead>
<tr>
<th></th>
<th>2012 (%)</th>
<th>2017 (%)</th>
<th>5-year change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM</td>
<td>40.2</td>
<td>56.8</td>
<td>16.6</td>
</tr>
<tr>
<td>ERP</td>
<td>9.2</td>
<td>14.0</td>
<td>4.8</td>
</tr>
<tr>
<td>SCM</td>
<td>18.3</td>
<td>29.5</td>
<td>11.2</td>
</tr>
<tr>
<td>Office Suites</td>
<td>2.5</td>
<td>9.5</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Source: Gartner

### SCM Software Market Growth Comparison - Traditional versus Cloud: 2012-2017

Source: Gartner
M&A Analysis

The SCM space is witnessing increasing M&A activity.

The market has been characterised in recent years by software players augmenting their cloud capabilities and the concerted efforts of large ERP vendors to ramp up their suites with analytics-enabled SCM solutions.

This has led to significant consolidation in the market, with acquisitions pervading different segments of the SCM software industry. The graphs (below and right) highlight the consolidation trend since 2012, in particular showing how two especially large deals - SAP’s acquisition of Ariba and RedPrairie’s acquisition of JDA - have dominated the market in terms of value.

However, since those transactions in 2012 there has been a fall in the overall value of deals - even though volumes have grown. Meanwhile, EBITDA multiples have now stabilised at about 11.3x, indicating that strategic acquisitions of smaller players in the market is continuing to attract higher multiples.

Source: Berkery Noyes
Deals review

Deal highlights of the past year include:

- US SCM solutions provider Moduslink Global Solutions received an investment of $30m from Steel Partners Holdings, as it increased its shareholding in the company to 33%.

- Cloud-based expense tracking software developer Xpenser was acquired by cloud-based spend optimisation software provider Coupa to expand the latter’s domain expertise and leadership in the area of expense management.

- SAP acquired predictive analytics-based inventory and supply chain optimisation software developer SmartOps. The acquisition further enhanced SAP’s SCM capabilities following its takeover of Ariba in 2012. SAP also acquired KXEN, combining the company’s predictive analytics software with its own advanced analytics capabilities. The deal provides a fillip to SAP’s own supply chain planning and scheduling solutions.

- Cloud-based SCM solutions provider E2Open acquired icon-SCM for $34m, to integrate its planning and analytics capabilities with its own suite.

- French PE house Argos Soditic acquired Akanea Développement, a subsidiary of SAGE offering TMS solutions, in a deal worth $44m.

- Manufacturing software provider Apriso was acquired by Dassault Systèmes for $205m.

- Synova Capital acquired UK-based TMS provider Mandata.

- Kewill, a UK-based TMS provider, acquired Indian multi-modal transportation and supply chain execution software provider FourSoft for $43m.

- Dutch PE firm Main Capital acquired an undisclosed stake in the niche food sourcing and supply chain monitoring software developer Chainfood, as part of a buy-and-build strategy.

Source: Berkery Noyes

Median Enterprise Value Multiple

![Diagram showing median enterprise value multiples over time](image)

Source: Berkery Noyes
# Deals in the global SCM software market 2013-14 (most recent first)

<table>
<thead>
<tr>
<th>Target</th>
<th>Acquirer</th>
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<tbody>
<tr>
<td>Global HealthCare Exchange</td>
<td>Thoma Bravo</td>
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<tr>
<td>EGS Group</td>
<td>PROACTIS Holdings</td>
</tr>
<tr>
<td>Production Modelling</td>
<td>Access Group</td>
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<tr>
<td>Impatex Freight Software</td>
<td>The Descartes Systems Group</td>
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<tr>
<td>Compudata</td>
<td>The Descartes Systems Group</td>
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<tr>
<td>Chainfood</td>
<td>Main Capital</td>
</tr>
<tr>
<td>Mercareon</td>
<td>The Riverside Group</td>
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<td>Planipe</td>
<td>Ordirope</td>
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<td>Less Software</td>
<td>FinancialForce.Com</td>
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<tr>
<td>Profit Systems</td>
<td>Accellos</td>
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<td>Epyx</td>
<td>FleetCor</td>
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<td>BigMachines</td>
<td>Oracle</td>
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<tr>
<td>Delta Energy Solution</td>
<td>Powel</td>
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<tr>
<td>KXEN</td>
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<td>CombineNet</td>
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<td>WaveMark</td>
<td>Cardinal Health</td>
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<tr>
<td>Four Soft</td>
<td>Kewill Systems</td>
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<tr>
<td>Ascendo System (Assets)</td>
<td>Medius</td>
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<tr>
<td>icon-SCM</td>
<td>E2OPen</td>
</tr>
<tr>
<td>Mandata</td>
<td>Synova Capital</td>
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<tr>
<td>Curtis Fitch</td>
<td>De Beers</td>
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<tr>
<td>Boxlogix Automation</td>
<td>Wynright Corporation</td>
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<tr>
<td>Evenex</td>
<td>HighJump Software</td>
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<tr>
<td>Triple Point Technology</td>
<td>ION Trading Ireland</td>
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<td>Alligacom</td>
<td>Dicentral Corporation</td>
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<td>Apriso</td>
<td>Dassault Systèmes</td>
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<td>Epic Data International</td>
<td>Syllogist</td>
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<td>Nessis Yazilim</td>
<td>Logo Yazilim</td>
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<tr>
<td>Akanea Développement</td>
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<td>Innovative Automation</td>
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<td>Xpenser</td>
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<td>Transite Technology</td>
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<td>Everstone Capital Management</td>
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<td>Newtron</td>
<td>Liechtenst. Post Beteiligungs</td>
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<tr>
<td>WAM Systems</td>
<td>Triple Point Technology</td>
</tr>
</tbody>
</table>
The e-procurement space is being transformed in the cloud computing era. E-procurement has responded strongly to the attractive market demand for procurement technology by escalating the shift from on-premise to cloud-based service offerings, further reducing the set-up cost for companies.

The lower initial costs (savings on infrastructure), coupled with seamless upgrades, scalability and integration, are driving the adoption of cloud-based e-procurement solutions. Recent acquisitions made by SciQuest, Coupa Software and Basware, along with SAP’s acquisition of Ariba, reflect the ‘cloud war’ prevailing in this space.

E-procurement in the application software market has gained particular prominence, with companies striving to rationalise their purchasing costs and prune their sourcing and procurement processes in order to remain competitive in the wake of the global slowdown.

The global procurement applications market stood at $3.7bn in 2012 (as per IDC), a growth of 2.7% year on year. Key vendors in the procurement applications market are SAP (Ariba Inc.), Basware Corp., BravoSolution, Iasta, Oracle and GEP.

E-procurement solutions deliver economic value, irrespective of market slowdown, resulting in healthy and stable demand. The adoption of e-procurement solutions is receiving further impetus as companies look to shorten their supply chains.

**Market drivers**

The focus on austerity and fiscal prudence in advanced economies, and on government transparency in emerging economies, continues to reiterate the importance of e-tendering in the public sector.

Real-time spend analysis capabilities plus big data analytics and reporting are becoming a constituent module of e-procurement suites, making supplier risk management an integral part of the sourcing function.

The defence sector (one of the largest segments in terms of the size of procurement deals) has increasingly witnessed a trend of reverse auctioning for procurement.

Currently, there are 30 major players in the market - however, most operate only regionally with many located in North America, Western Europe and the UK. Newer manufacturing hubs in the emerging economies are driving an increase in demand for strategic sourcing applications, such as e-sourcing, contract management, supply base management (SBM) and spend analysis.

The market is fragmented, with few large players at the top and a large base of small local vendors. Players with local vendor and niche segment knowledge continue to excel in strategic procurement activities. However, significant consolidation is required for economies of scale, visible from the recent deals by SciQuest and SAP.
M&A activity

The quest for cloud-based procurement, attractive market demand, and interest in end-to-end application suites has fuelled a wave of acquisitions by ERP vendors in this space. Notwithstanding the economic crisis, e-procurement business has been booming, attracting the attention of the largest software players such as SAP, IBM, and Oracle.

Recent deals have showcased the strong market potential and quest for acquisitions to improve scalability and presence in a fragmented market.

Recent deals in the sector include:

- Proactis Group acquired EGS to become the largest player in the public sector procurement space in the UK.
- Accenture acquired Procurian, a provider of BPO services focused on the procurement function, for $375m.
- SAP entered cloud-based procurement with its acquisition of Ariba, the world’s second-largest vendor serving 200,000 companies, for $4.3bn. The deal’s EV/EBITDA multiple was 36.1x, massively exceeding the market median of 9x for software deals. This showcases the pursuit of ERP vendors to exploit the high-growth application software sub-segment.
- IBM entered the cloud-based e-procurement space with its acquisition of Emptoris, a provider of cloud and on-premise analytics software for procurement.

Large players are not the only companies seeking growth opportunities in the e-procurement market. The consolidation trend was also visible in the mid and lower layer of the market with the following deals:

- SciQuest acquired Combinenet, a provider of advanced sourcing software, for $43m. The deal’s EV/Revenue multiple was 3.5x.
- Xchanging acquired marketmaker4, a software and consulting start-up for online procurement, for $22m.
- Medius acquired the assets of e-invoicing and sourcing solutions provider Ascendo System.
- Coupa Software, the leading provider of cloud-based spend optimisation solutions, acquired Expenser, a company that enables users to record and track expenses more efficiently.
- Basware acquired the network and e-invoicing business of Certipost for $24m.
- Informatica Software acquired Heiler Software, an e-procurement software company, for $88m.
Given that Fourth’s customer base ranges from single site hotels, pubs and restaurants through to large, multi-brand, multi-site operators, there is certainly no shortage of new business to target.

There is actually plenty to go at with existing customers - as Ben Hood, Chief Executive of the fast-growing company, explains: “30% of our clients take our whole suite of products, so there is natural growth for us to be had in converting as many of the remaining 70% as possible. That’s something of a holy grail for us. It’s about persuading them of the vast benefits and efficiencies that they can generate from a single integrated system, a system where everything talks to each other as it should do.”

This ‘end-to-end’ supply chain mantra has been core to the Fourth model since it was founded. The company is currently owned by private equity house ECI Partners, which invested in the business three years ago. Clearwater International advised ECI on that investment.

Hood accepts that not every client will want the full suite, especially the larger blue-chip customers. “We call it a decoupling approach, whereby you can use our products as separate pieces as you see fit,” he explains. “So part of our strategy allows large blue-chips that may have a SAP system at the front-end managing most of their HR data to then use specific “best of breed” Fourth products behind that. The idea is that they start to see the benefits that just one of our products can bring, so that in time they start replacing more and more of their systems.”

Hood admits that for some international businesses it is simply unrealistic to expect them to change all their systems overnight. By the same token, Fourth itself is - for the time being at least - not set up to handle huge global volumes. “Right now we wouldn’t be able to process payroll in, say, 80 countries for someone. But what we can do is try and lead a client down a particular path. Big multinationals often have very clunky systems performing core functions. Part of our job is to help drive their strategy, which means getting a foot in the door and explaining what we can do for them.”

Hood says there is still plenty to go at across the broader market spectrum. “Although sometimes we might think we have a large part of the market, in fact there are still many businesses in the hospitality sector which we don’t touch. We have no need to go outside the hospitality sector; there are plenty of opportunities within.”

There are plenty of new geographies to consider too. “We are looking at new regions all the time - for instance, we have just started in Australia and Asia while we have some very good product combinations which lend themselves well to the hotel market in the Middle East. When you have hotels which operate all across the world, they want to know who your partners are across the world. It’s time for us to start building those global alliances.”

A big focus for Fourth is the US, where it acquired Adaco - a leading provider of SaaS-based inventory management solutions to the global hotel market - two years ago. Half of Adaco’s customers were in the US, and its product offering has since slotted in to become Fourth’s purchasing product for the hotel market, fitting alongside Fourth’s existing stock, analytics, procurement and HR systems. In terms of future M&A strategy, Hood doesn’t rule out further deals if they bring “more sector expertise or natural add-ons”, he says.

“In this fast-moving sector we are constantly asking ourselves what we can do to push the envelope out, what we can do to maintain our client base and provide the market with the products it needs. We have a saying that every business needs to be thinking about social, mobile, analytics and cloud. We tick all those boxes and are on a strategic journey built around these concepts. For instance, the whole area of mobile communities and engendering closer collaboration between clients is huge. We are taking our customers on a journey, building further on the pillars within their business, while really evolving their systems too.”

Fourth, a leading SaaS provider of back office management systems to the leisure sector, is seeing increasing global opportunities.
One of the biggest North American players in the SCM market is Canadian company Descartes which has been a particularly acquisitive player in recent years, buying up a number of companies in Europe.

Ed Gardner, Executive Vice President - Corporate Development, says the business has set its sights on the simple goal of being a leader in global logistics. “For any shipment moving from A to B, there are a lot of people and a lot of assets required to make that process happen and there is a lot of commonality in what we do across the world. Our goal is to be able to connect all parties in a manageable process, help them share the data they need and then help them digest and leverage that data to their benefit so that they make better decisions.”

Gardner admits that managing supply chains can be hard enough when your business is only trading domestically. But if you are looking to expand globally, then the number of parties involved can rapidly increase, such that effective SCM systems become absolutely crucial to the smooth running of the business.

One of the big trends that Descartes is tapping into is omni-channel retailing. As Gardner adds: “Everyone is asking ‘how do I deal with Amazon, how do I ensure that customers get the deliveries they want, when they want? Amazon has simply changed the expectations of consumers, and retailers are playing catch-up. For us that is a great opportunity.”

“We can take a multi-modal, global approach precisely because global systems are so interconnected. To facilitate good logistics, you need data from a lot of different people, and the global logistics network will only get bigger.”

He says omni-channel is now ‘very hot’ in countries such as the UK, but it is also building up pace in North America. “The region has been a bit behind in this whole area because it isn’t so densely populated and people wondered how the model could work. But it is catching up fast now, the Amazon effect is spreading. People want something and they want it now, and retailers need to find ways of dealing with that. We are having a lot of conversations with traditional retailers, asking them precisely how they intend to keep up with Amazon.”

Gardner says Descartes’ specialism is offering real-time optimisation services, looking at every order as it comes in every second of the day. “We can then say to the client, ‘OK here are the orders you’ve got coming in. And here is what all the service engineers are doing right now. And here is where your drivers and transport systems are at that precise time’. It is about fundamentally changing the game in terms of how a client provides customer service, but also an opportunity for them to add new services too.”

Gardner says another big growth area is security and helping customers deal with an increasing regulatory environment. “This has been a massive area for investment and growth for us over the last six or seven years, whether it be assisting airlines, ocean carriers or road hauliers comply with legislation, or just helping exporters or importers comply with duties and tax requirements.”

He says the regulatory drive particularly stemmed from 9/11 and the US government tightening security systems around trade movements. Specifically, the government has tightened up cargo inventory systems to ensure that the US knows exactly what cargo is on every plane and on every ship hours before it lands or docks. Gardner says complying with these regulations places a great burden on gathering the required data, and says that governments around the world are now adopting very similar practices.
“Governments want more data and want it earlier in the process. It is also driving the requirement for logistics players to share data earlier. A company like us, that operates a global neutral network, can then collect the data from the different players and handle the multi-party requirements. Although in many countries there are logistics players who are very good at what they do, we can take a multi-modal, global approach precisely because global systems are so interconnected. To facilitate good logistics, you need data from a lot of different people and the global logistics network will only get bigger.”

Descartes’ growing specialism in the security sector is being stoked by M&A activity too. For instance: the company recently acquired KSD, a Scandinavian provider of electronic customs filing solutions and developer of software for security filing.

Gardner sees plenty of M&A opportunities in the wider SCM market. Recent Descartes deals include the acquisitions of Swiss e-invoicing specialist CompuData, and of Exentra Transport Solutions, a provider of SaaS driver compliance services to the logistics industry. In the latter deal, Clearwater International advised the sellers.

On the wider M&A front, Gardner feels the SCM market is still very fragmented as a result of the way that the logistics industry has evolved over the years. “A lot of companies are very good at what they do within their own borders, and there are a lot of niche players out there who have functionality that would interest us. The challenge is picking the right ones, as there are literally hundreds of companies to choose from. We have to have a very disciplined approach to M&A and look for market leaders with highly recurring revenues that will also fit culturally with our model.”

Gardner says the European market is still particularly fragmented. “A country such as the UK is a tremendous opportunity because of the high degree of focus on logistics value, a lot of which is being driven by retail and home delivery. The lessons you can learn and the systems you can develop can then be exported further afield.”

CASE STUDY:
John Lewis

A good example of Descartes’ providing omni-channel solutions is for retailer John Lewis, whom Descartes has been working with on home delivery solutions.

John Lewis has been using Descartes Reservations™ to improve route planning of its in-house fleet, while reducing delivery miles and transportation costs.

The retailer has always had its own in-house fleet of vehicles, but says in the past the customer had no visibility and the system was inefficient because there was always slack in the schedule. Now the Descartes system digests all the key supply chain information and then decides how best to manage the whole delivery process more efficiently.

John Lewis says since the introduction of Descartes’ software, it has seen a 500% increase in service take-up across its network, providing customers with a one-stop shop where they can buy products and services all in one click whether in-store or on the web.

Adds Gardner from Descartes: “It is all about providing very quick response times and optimising the technology that John Lewis has at its disposal, so that it can continually find the optimum delivery slots.”
For Isotrak Chairman Gavin Whichello, commercial success is all about “finding your sweet spot”, as he coins it. “Yes, you’ve got to have great focus, a robust model, great technology and recurring revenues. But you’ve also got to know where your sweet spot is to make it all come together.”

For Isotrak, that sweet spot can be found in supermarkets where its leading-edge cloud-based software platform is helping reduce supply chain costs, improve operational efficiencies, lessen environmental impacts and ultimately improve customer service.

With such a selling proposition, it is little wonder that today the company boasts a string of large blue-chip retailers, leading third party logistics providers and other corporates among its clients who are keen to embed Isotrak’s technology in their supply chains.

Whichello says it is precisely Isotrak’s ability to provide a total fleet vision of back of store deliveries from third and fourth party logistics providers, as well as of deliveries to and from distribution centres from branded fleets, that is so compelling for clients. He adds: “It allows supermarkets to have one view of all deliveries, whether from their fleet or from food manufacturers or from third and fourth party logistics providers.

“‘You’ve got to have great focus, a robust model, great technology and recurring revenues. But you’ve also got to know where your sweet spot is.’

“We have a complete supermarket delivery model and really understand how their supply chains work. Large supermarkets can have tens of thousands of vehicles in their fleet and what they want is technology that they can bring in to the whole fleet. They want that total vision.”
Whichello says this means that Isotrak’s sales and marketing has to be absolutely focused on the entire business of the client. “Ultimately we can create tremendous efficiencies for supermarkets, so that their drivers and lorries are always in the right place at the right time. To achieve that, we need to know precisely what is going in and out of depots all the time, we need to have all that data and to build systems to manage that.”

Isotrak’s technology can also help supermarkets manage consumer expectations in home delivery. Adds Whichello: “If you take something like the home delivery market, then all supermarkets are facing some serious competition down the track and they know that their systems have to be up to the challenge. If you look at what Amazon has done to the home delivery market, then it doesn’t take a genius to say ‘why can they not do with food what they have already done with books?’”

He says Isotrak’s tracking and fleet management software is among the most advanced in the world, and its products are increasingly in demand across the globe. He is particularly excited by opportunities in North America, where routes are longer, sites are more disparate, and the growth of home delivery is creating a greater need for fleet monitoring and compliance.

However, the company is eyeing considerable global expansion too and has very strong prospects in Canada, Australia and mainland Europe. Adds Whichello: “If you take somewhere like the US, we have taken business from local players in their own backyard which really says something about the strength of our products. If anything, our products are even more suited to the US market.”

One of Isotrak’s largest US customers is Papa John’s Pizza. “That’s a business with 35,000 home delivery drivers. The company wants to be optimising their supply chain and monitoring it as closely as they can, which is exactly where we come in.”

Expansion into the US was one of the key drivers behind the acquisition of Isotrak last year by private equity house Lyceum Capital. The new investor has plans to accelerate both Isotrak’s UK and North American expansion strategies, while increasing investment in the development of its cloud-based product suite.

Lyceum Partner Daniel Adler comments: “Isotrak has a tried, tested, proven, intelligent and ambitious management team. Meanwhile, in terms of clients, you could not ask for a more robust set of blue-chip customers and recurring revenues. We have looked at a huge number of players in this market and loved Isotrak’s model of ‘landing and expanding’.”
### SAP
**Germany**

SAP is the world’s third largest software manufacturer by market capitalisation. The company has more than 251,000 customers in 188 countries. SAP SCM is part of the SAP Business Suite, which gives organisations the ability to perform business processes with modular software that is designed to work with other SAP and non-SAP software.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues: $m</th>
<th>EBIT: $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>23,037</td>
<td>18,573</td>
</tr>
<tr>
<td>2012</td>
<td>21,424</td>
<td>15,373</td>
</tr>
<tr>
<td>2011</td>
<td>18,573</td>
<td>11,874</td>
</tr>
</tbody>
</table>

**Revenue CAGR:**

2011-2013: 11%

**Revenue breakdown (2013):**

- Software: 74%
- Services: 16%
- System, Technology and Hardware: 10%

**Geographical breakdown:**

- Americas: 43%
- APAC: 32%
- EMEA: 25%
- OEM: 8%

**Workforce:**

66,000

**Recent M&A activity:**

- Acquired Hybris, an ERP and procurement software vendor.
- Acquired Ariba, a procurement and SCM solutions provider.
- Acquired Emptoris, a supply chain intelligence and analytics solutions provider.

### Infor Global Solutions
**US**

Infor has more than 70,000 customers with 153 direct offices in 41 countries and implementations and support capabilities in 194 countries. The company offers three products - SCM Warehouse Management, Infor Supply Chain Planning, and Infor Sales and Operations Planning.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues: $m</th>
<th>EBIT: $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2,718</td>
<td>1,874</td>
</tr>
<tr>
<td>2012</td>
<td>2,541</td>
<td>1,396</td>
</tr>
<tr>
<td>2011</td>
<td>1,874</td>
<td>796</td>
</tr>
</tbody>
</table>

**Revenue CAGR:**

2011-2013: 20%

**Revenue breakdown (2013):**

- Maintenance: 53%
- Consulting: 28%
- License: 20%

**Geographical breakdown:**

- Americas: 57%
- EMEA: 34%
- APAC: 9%

**Workforce:**

12,700

**Recent M&A activity:**

- Acquired TDCI, a product configuration management software developer.
### Epicor

**US**

Epicor has more than 20,000 customers in over 150 countries. Epicor SCM capabilities are built within a single business platform, based on a service-oriented architecture. Its SCM product features purchase management, sourcing and procurement, inventory management, advanced material management and warehouse management, which is complemented by the order and demand management capabilities of Epicor Sales Management.

### Unit4

**Netherlands**

Unit4 has operations in 17 European countries and in seven countries across North America, Asia Pacific and Africa. It serves retail, travel, education, financial services, not-for-profit, professional services, government, transportation, and logistics customers.

### JDA

**US**

JDA’s supply chain management, merchandising, and pricing excellence solutions are used by more than 2,700 companies worldwide. Merged with JDA in 2012, RedPrairie’s supply chain, workforce, and all-channel retail solutions are installed in over 60,000 customer sites across more than 50 countries.

### Manhattan Associates

**US**

Manhattan Associates has over 1,200 global customers. The company’s supply chain products include Manhattan SCOPE, Manhattan SCALE, and Manhattan Carrier - a suite of supply chain software particularly addressing the needs of the motor carrier industry.
Descartes
US

The Descartes Systems Group has more than 10,000 customers in 60 countries. The company serves global trade and transportation organisations with its Logistics Technology Platform, which combines an extensive multi-modal transport network with its array of modular and interoperable web and wireless logistics applications.

Revenues: $m
2013 151
2012 127
2011 114

Revenue CAGR:
2011-2013 15%

EBIT: $m
2013 21
2012 20
2011 15

EBIT CAGR:
2011-2013 18%

Revenue breakdown
(2013):
Services 91%
Licenses 9%

Geographical breakdown
(2013):
US 46%
EMEA 42%
Canada 9%
APAC 3%

Workforce:
800

Recent M&A activity:
Acquired Impactex Freight Software, a TMS and WMS provider.
Acquired KSD Software Norway, a TMS provider.
Acquired Exenta Transport Solutions, a provider of driver compliance solutions for the EU.

Kewill
UK

Kewill focuses its business on three product suites - logistics, transportation & shipping and B2B integration. Kewill’s MOVE platform supports supply chain execution activities for more than 7,500 companies in more than 100 countries.

Revenues: $m
2013 81
2012 94
2011 98

Revenue CAGR:
2011-2013 -9%

EBIT: $m
2013 10
2012 (3)
2011 6

EBIT CAGR:
2011-2013 28%

Revenue breakdown
(2012):
Transportation and Logistics 43%
Customs and Freight Forwarding 42%
E-commerce and B2B Integration 15%

Geographical breakdown
(2012):
Europe 62%
Americas 30%
Asia 8%

Workforce:
607

Recent M&A activity:
Acquired FourSoft, an Indian TMS provider.
<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
<th>Clearwater International advised</th>
</tr>
</thead>
<tbody>
<tr>
<td>BV Electronic A/S</td>
<td>Providers of computer based inventory management systems</td>
<td>on the sale of BV Electronic to Via Venture Partners</td>
</tr>
<tr>
<td>Rivo Software</td>
<td>Provider of environmental, health &amp; safety and quality &amp; loss prevention software</td>
<td>on the acquisition by Kennet Partners and Fidelity Growth Partners Europe</td>
</tr>
<tr>
<td>Critical Software</td>
<td>Software solutions developer for critical operational functions in complex industries</td>
<td>on the sale of one shareholder’s stake to the shareholders of Critical Group</td>
</tr>
<tr>
<td>DTI, Celenia Software</td>
<td>Providers of development, maintenance and support for integrated software solutions</td>
<td>Clearwater International advised Celenia Software in the divestiture of the DTI division to Vaekst Invest and a group of investors</td>
</tr>
<tr>
<td>Exentra</td>
<td>Leading UK-based provider of SaaS drive compliance solutions</td>
<td>Clearwater International advised the business on its sale to Descartes Systems</td>
</tr>
<tr>
<td>Griffin (Octium Ltd)</td>
<td>Corporate internet services provider</td>
<td>Clearwater International advised Griffin on its acquisition by MDNX</td>
</tr>
<tr>
<td>Fourth Hospitality</td>
<td>Market leading SaaS provider of back-office hospitality systems</td>
<td>Clearwater International advised ECI Partners on the acquisition of Fourth Hospitality</td>
</tr>
<tr>
<td>Hostnordic</td>
<td>Hosting and outsource IT company</td>
<td>Clearwater International advised Via Ventures Partners on their acquisition of the holding interest in this company</td>
</tr>
<tr>
<td>Metronet</td>
<td>Provider of business critical data infrastructure to over 500 UK companies</td>
<td>Clearwater International advised the shareholders on the multi-million pound sale to LDC</td>
</tr>
<tr>
<td>Cloud XL</td>
<td>Leading provider of cloud based IT and network services to the SME sector</td>
<td>Clearwater International advised Synova Capital on the debt refinancing of the business</td>
</tr>
<tr>
<td>Optral</td>
<td>Spanish privately owned optical fibre cable manufacturer</td>
<td>Clearwater International advised on the placement of debt</td>
</tr>
<tr>
<td>PLM Group</td>
<td>Largest Nordic supplier of technical software solutions</td>
<td>Clearwater International advised on the sale of the group to a number of financial investors</td>
</tr>
</tbody>
</table>