



AM Firm

Data and Software Solutions – Analysis of Firms A, B, & C

2016

Data and Software Solutions

Executive Summary

FIRM A ("A")

- One of the early movers and leaders in Digital technologies - provides "A" an edge over its peers and positions the company to reap benefits from the expected growth in the sector
- Recent acquisition of XXX is expected to provide \$XX bn of revenue synergies over the next five years with \$XX - \$XX mn to be recognized in FY16
- **Recommendation:** "A" presents a good long term investment opportunity

FIRM B ("B")

- Currently trading at a discount as compared to its peers, mainly due to underperformance in its GFS segment and uncertainty around integration of recently acquired XXX
- Given the size of XXX acquisition, the success or failure of its integration will have a major impact on the company's performance
- **Recommendation:** Wait and watch to get more clarity on the acquisition scenario

FIRM C ("C")

- Currently trades at a discount in comparison to its peers, which largely seems to be driven by the uncertainty related to Trust integration and delay in upgrade of legacy systems
- However, "C" is one of the two largest vendors to online travel agencies and is expected to benefit from XX mn+ Passenger Boarded (PB) coming up for renewal in next few years
- Additionally, with XX% recurring revenue from long-term contracts, "C" offers high earnings and cash flow visibility
- **Recommendation:** "C" provides a good investment opportunity with a long term view

IT Services

Industry Overview

Overview and Trend

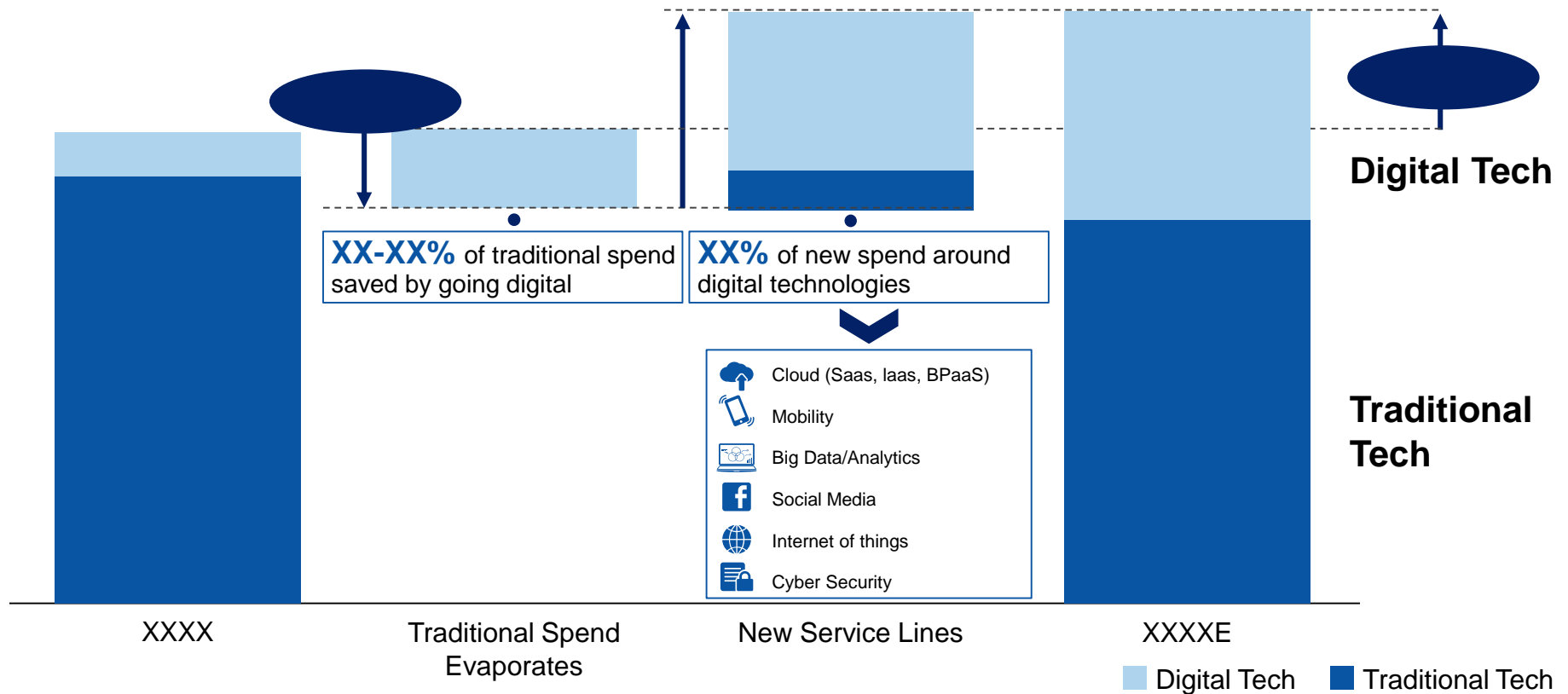
- **Global Spending on IT Services to Remain Robust:**
 - Global IT spending is expected to go up from \$XXtn in XXXX to \$XXtn in XXXX from, a CAGR of XX% over the period
 - Corporates are expected to spend XX%-XX% of new IT budgets on Digital technologies (defined below) and cutting the spends on legacy (i.e. traditional technologies)
- **Shift Towards Digital to Drive Future Growth**
 - The IT Services sector has seen multiple transitions over the past few decades, driven by the advent of outsourcing and quick adoption of capabilities by vendors in sync with changes in technologies such as ADM-BPO-ERP-SI-IMS and now Digital¹
 - Digital technologies cumulatively comprises of Social, Mobility, Analytics, Big Data, Cloud, Internet of Things, and Artificial Intelligence, among others, that allow us to create experiences inspired by what people want
 - Digital accounted for ~XX% of global technology spending in XXXX; however, it is likely to account for XX% of all global technology spends by XXXX, posting a XX% CAGR over this period
 - A large part of these allocations would come at the expense of budgeted spends on traditional businesses that are expected to decline in absolute term by XX%-XX% CAGR over the next five years
 - As per surveys and various economic indicators such as US unemployment data, S&P earnings growth, corporate IT spends growth, confidence index, PMI, better times are seen ahead for Digital technologies
 - Growth in IT budgets is likely to be largely towards adoption of next-gen-technologies to carry on Enterprise Digital Transformation (EDT)
 - XX% of the new IT spends through XXXX will be for Digitization
- **Inorganic Strategy to Create More Opportunities**
 - Increasing M&A activity in other industries will spur demand for IT consultants and, with more consolidations, companies will require assistance in the integration of accounting, information storage, and other systems
 - Global M&A volume reached \$XXtn in XXXX, up XX% from \$XXtn in XXXX and crossing the \$XXtn mark for the first time ever

(1) ADM - Application Development & Maintenance, BPO – Business Process Outsourcing, ERP – Enterprise Resource Planning, SI – International System of units, IMS – Information Management System

IT Services

Trend Towards Digital

Global Enterprise IT spend (US\$ billion)



**XX% of incremental enterprise investment to be in digital technologies,
however XX% of legacy survives**

FIRM A

Overview

- Provides information technology (IT), consulting, and business process services (BPS)
- Operates through 4 segments: Financial Services; Healthcare; Manufacturing, Retail and Logistics; and Other
- Recent Acquisitions:
 - XXX - \$XXbn in cash; provider of healthcare IT software and solutions
 - XXX - \$XXmn; digital marketing agency that serves life sciences companies
 - XXX - delivers enterprise mobility, web and cloud solutions to clients in the financial services, insurance, healthcare, logistics, and communications industries
- Competitors include Accenture, Capgemini, HCL Technologies, HP Enterprise, Infosys Technologies, Tata Consultancy Services, and Wipro Ltd, among others

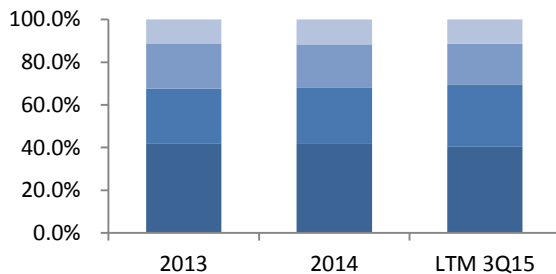
Key Stats⁽¹⁾

Share Price (12/31/15)	
52 week High/Low	
Shares Outstanding (mm)	
Market Cap	
Enterprise Value	

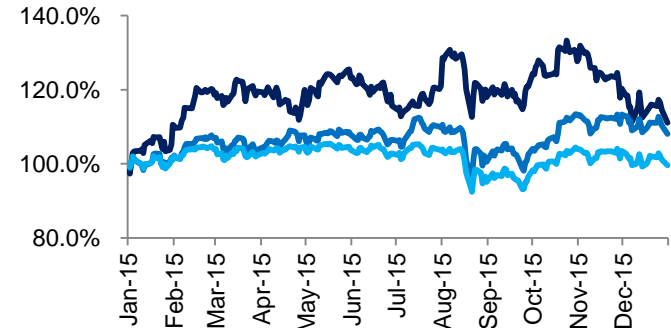
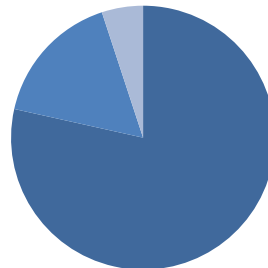
Key Financials⁽¹⁾⁽²⁾

	2014	2015E	2016E	2017E
Revenues				
YoY				
EBITDA				
Margin				
NI				
Margin				
EPS				
FCF				
Margin				

"A" Revenue Mix (\$ Bn)



"A" Geography Mix (LTM)



(1) All values in \$ bn, except per share data

(2) Source: JPM Research Report, 11/16/15

FIRM A

Company Overview

Key Success Factors

- **Transformation to Digital:**
 - Secular changes in client industries such as cloud adoption, mobility, social, digitization, and regulation growth will drive revenue growth
 - Over XX% of the consulting pipeline is now geared toward "A"s digital transformation approach as it continues to become an integral component to these initiatives thereby driving revenues of consulting and tech services
- **Strong Client Base:**
 - Healthy growth across all client buckets: Top 5 accounts grew by XX% YoY in 3Q15
 - Growth in non-top 10 accounts remained strong, at XX% QoQ and XX% YoY, excluding XXX
- **XXX Acquisition:**
 - XXX software manages the health benefits of ~XX% of the insured population of the U.S. and supports ~XX% of all U.S. care providers
 - With the XXX acquisition, "A" will be uniquely positioned to deliver end-to-end solutions that allow healthcare organizations to improve operational efficiency, drive innovation and embrace next generation delivery models
 - XXX to drive Healthcare revenues which grew by XX% YoY in 3Q15
 - XXX (\$XXmn revenue in 9M15) continues to perform well and "A" expects \$XXbn of revenue synergies over 5 years, with \$XX - \$XXmn to be recognized in FY16
- **Robust M&A Pipeline:**
 - M&A remains a focus and "A" has highlighted a robust pipeline, particularly in digital
 - "A" is looking to expand its presence geographically
 - Potential acquirer for XX – an IT consultant that was bought by XX. This acquisition could dilute "A"s revenue growth in the short term but potentially add XX% to XX% to EPS
- **Sales and Marketing Investments:**
 - "A"s leadership in sales and marketing investments is set to drive offshore IT growth

FIRM A

Company Overview

Key Risks

- **Execution delays:**
 - Delay in the integration of "A"s Healthnet with XXX would represent risk to synergy realization, with potential downside for "A"
- **Client Consolidation within Healthcare:**
 - Client consolidation within the Healthcare sector can lead to reduction in contracts
- **Supply Side Concerns:**
 - Supply-side concerns related to India-based delivery as the Tier 1 players and global system integrators continue to ramp up their operations in the country
 - Though supply-side pressure has eased near-term, it remains a long-term risk
- **Currency Rates:**
 - Fluctuating currency rates for INR/USD could pose a significant threat since the company has its operations based in India
 - "A" extended its hedge position for XXXX and beyond, and now has ~XX% of its CY16 Rupee exposure hedged (vs. ~XX% of its XXXX exposure hedged by 3Q last year)
 - The Company typically hedges ~XX% of its NTM FX exposure. However, XXXX's hedge rate is going to be much better than 2015's, which along with more favorable spot rates, should result in weighted average INR/USD rate going from XX in CY15 to XX next year

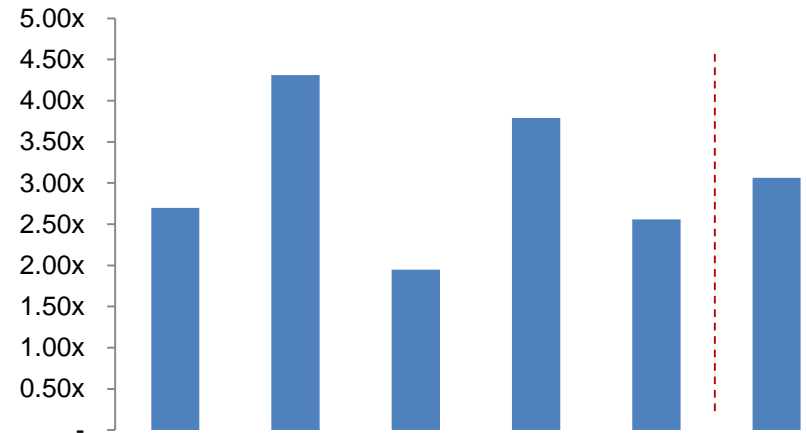
FIRM A

Multiples Analysis

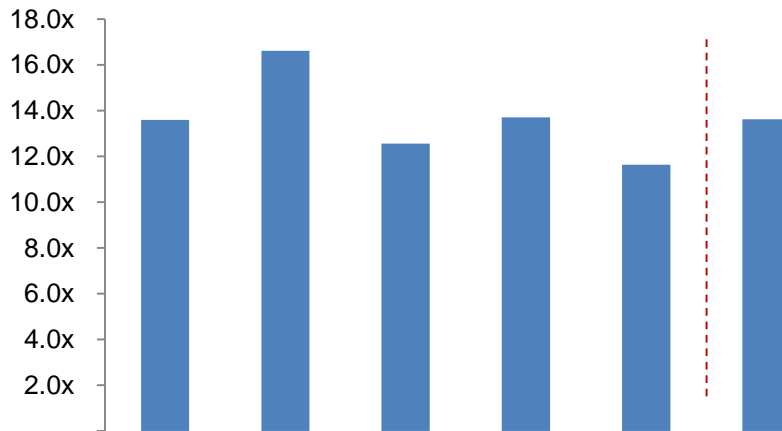
Summary

- Based on EV/EBITDA or P/E multiples, "A" currently trades in-line with its peers
- However, its leadership position in Digital technologies provides it an edge over its peers and positions "A" to reap benefits in the near future
- Additionally, expected revenue synergies from XXX and other potential acquisitions is expected to further improve bottom-line performance and provide a long term upside potential to the stock

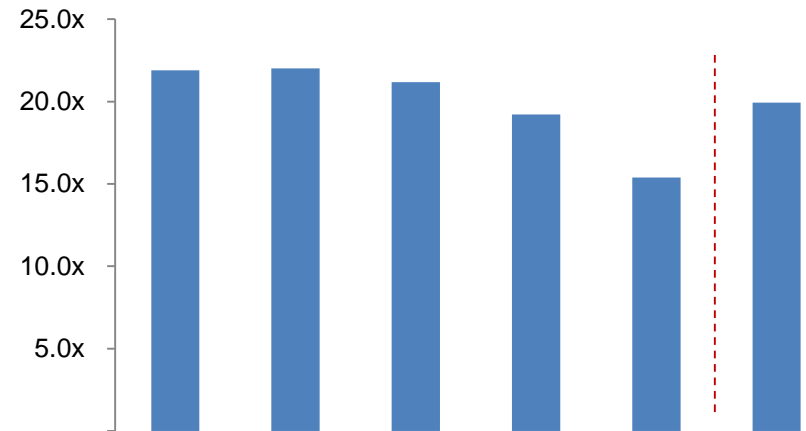
EV/Sales



EV/EBITDA



P/E



Source: Bloomberg as of 1/5/2016

"A" – FIRM A TCS – Tata Consultancy Services ACN – Accenture INFY – Infosys WPRO - Wipro

FIRM B

Overview

- Provider of banking and payments technology, consulting and outsourcing solutions
- Through its XXX brand, delivers a range of information technology consulting, advisory and transformational services to global financial institutions
- Operates through two segments:
 - Global Financial Services (GFS): Focused on serving financial institutions over the globe
 - Integrated Financial Services (IFS): Focused on serving the North American regional and community bank market
- Recent Acquisitions:
 - XXX - \$XXbn; offers software and technology services worldwide
 - XXX - \$XXmn; global provider of payment technologies and services
- Competitors include, Envestnet Inc., Fiserv Inc., Jack Henry and Associates

Key Stats⁽¹⁾

Share Price (12/31/15)

52 week High/Low

Shares Outstanding (mm)

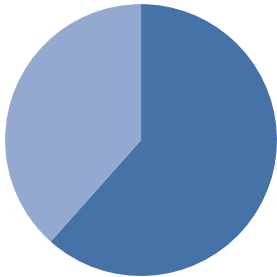
Market Cap

Enterprise Value

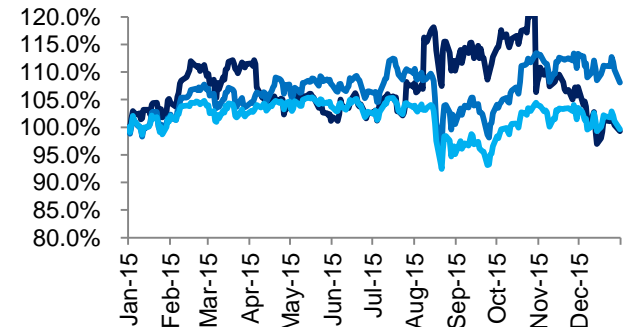
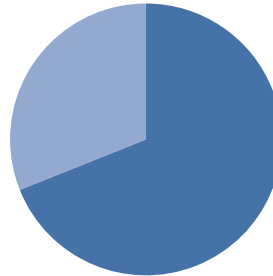
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YoY				
EBITDA				
Margin				
NI				
Margin				
EPS				
FCF				
Margin				

"B" Revenue Mix (9M XXXX)



"B" Geography Mix (XXXX)⁽³⁾



(1) All values in \$ bn, except per share data

(2) Source: RBC Capital Research Report, 12/10/15

(3) Company does not report geographical mix quarterly

FIRM B

Company Overview

Key Success Factors

- **XXX Acquisition:**
 - XXX operates as a provider of industry-specific software to the institutional side of the financial services industry
 - The XXX acquisition increases "B"s ability to capture a greater share of the ~\$XXB spent by banks, securities firms and non-health insurers worldwide
 - This total addressable market could reach ~\$XXB by XXXX at a XX% CAGR
 - Acquisition is expected to add ~\$XXM in revenues and ~\$XXM in EBITDA in XXXX inclusive of synergies
 - Expected cost synergies to be \$XXmn in XXXX and \$XXmn in XXXX
 - Incremental cost synergies and incremental deleveraging could add \$XX - \$XX to EPS, respectively
- **Strong Operations:**
 - High recurring revenue: ~XX%
 - Assuming the XXX business is combined with "B"s GFS business line, the deal will have a significant positive impact on segment margins
 - Estimate ~XX% of segment margin accretion due to XXX's comparatively higher total company EBITDA margin of XX% vs. GFS at XX% in XXXX
- **Competent Management:**
 - "B" management is extremely experienced in executing deal synergies
 - "B" has a strong synergy takeout track record, historically exceeding targets by XX%
- **GFS Underperformance has been Addressed:**
 - GFS revenues declined by XX% YoY in 3Q15
 - Management change: XX's new chief executive, Mr.X, a former Accenture executive, is shifting the company towards high-end, transformational consulting for financial institutions & away from low-end, labour arbitrage-oriented projects
- **Developed Markets:**
 - Expect banks in developed markets to double their IT budgets to support digital and other new technology initiatives through XXXX while reducing legacy maintenance, to sell products, service customers and reduce operational costs
 - "B" generates ~XX% revenue from the US, positioning it to benefit from this potential growth

FIRM B

Company Overview

Key Risks

- **Increasing Competition:**
 - Many IT firms are entering into consulting which has created a hugely competitive market
 - Transformation to digitization is a major driver and any delay in the company's transition can lead to a loss in market share

- **Integration of the XXX Acquisition:**
 - XXX has its own distinct management team and culture and a significant portion of the cost synergy opportunity will be on the human expense side, which could create uncertainty among the employee base and uneven execution
 - XXX's revenue growth trajectory improved from a decline of XX% in XXXX to growth of XX% in 1H15, however change in ownership and focus on cost takeout vs. revenues can be a caution to the growth trajectory

- **"B" Clients on Losing End of M&A:**
 - Acquisition of "B"s clients by other entities could result in contract terminations

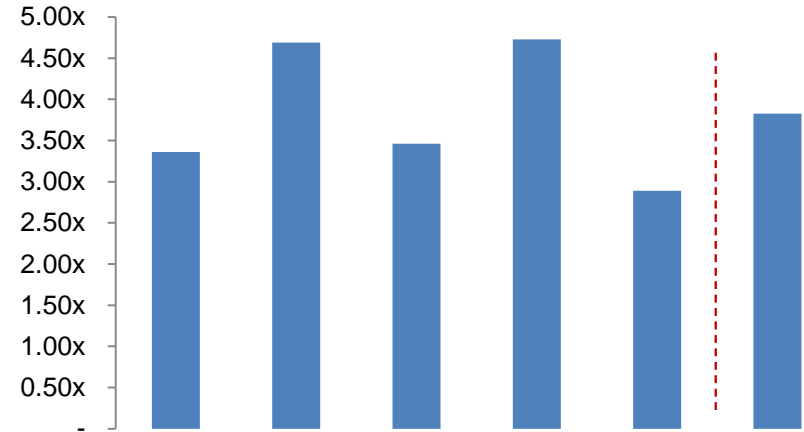
FIRM B

Multiples Analysis

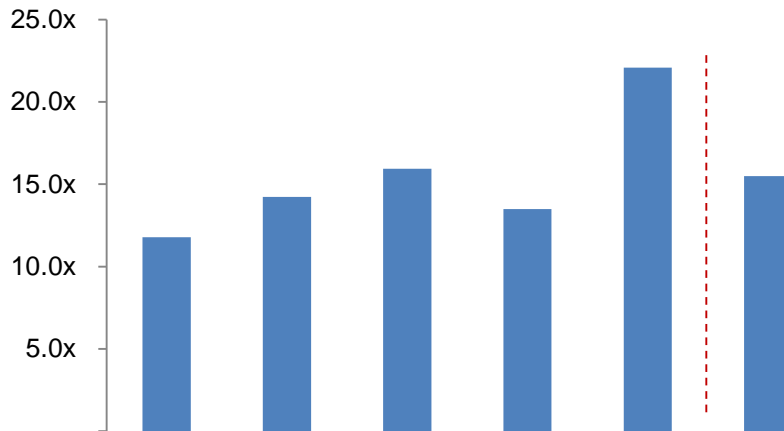
Summary

- "B" currently trades at a discount as compared to its peers. This is driven by two factors -
 - The stock has been declining recently (down XX% since XXXX), largely as a result of underperformance of its GFS segment
 - Additionally, there is uncertainty around integration of recently acquired XXX into FIRM B and given the size of the transaction, success or failure of this integration will largely determine the future outlook for "B"
- While the Company has taken steps to address issues at GFS and the management has a history of successful integrations, we believe investors should take a wait-and-watch approach to see some of those outcomes materialize

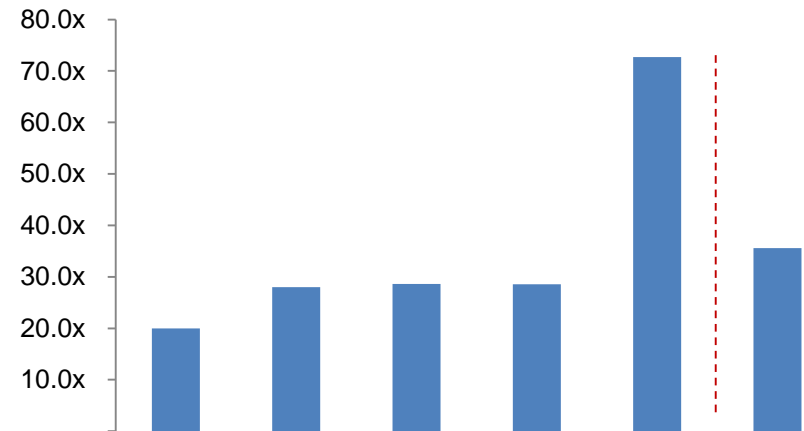
EV/Sales



EV/EBITDA



P/E



Source: Bloomberg as of 1/5/2016

"B" – FIRM B FISV – Fiserv GPN – Global Payments JKHY – Jack Henry & Associates ENV - Envestnet

Travel & Tourism

Industry Overview

Overview and Trend

■ Travel and Tourism Industry Continues to Display Robust Growth :

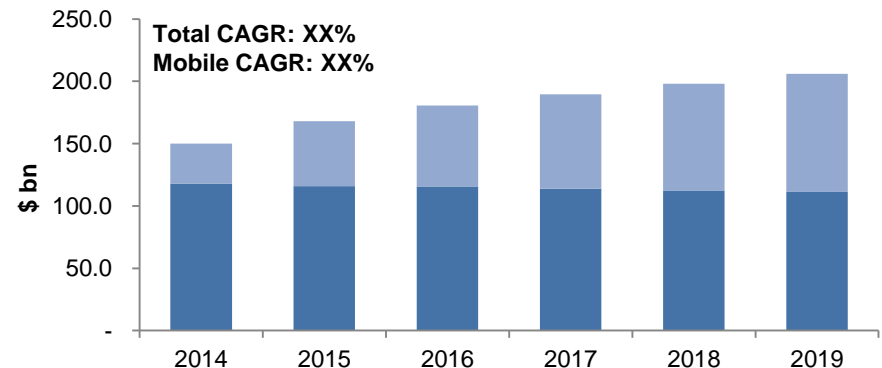
- The global travel industry generated \$XXtn as a contribution to the GDP in XXXX and is expected to go up to \$XXtn through XXXX
 - The total contribution to GDP in XXXX grew by XX% and is expected to grow at a CAGR of XX% from XXXX – XXXX
 - Global air travel grew XX% in July XXXX, and XX% in July XXXX
 - Over the past few years, global air traffic growth has accelerated from XX% YoY growth in January 2013 to XX% YoY growth in August XXXX
 - According to IATA, over the past two decades, passenger traffic has grown ~XX% annually and is expected to grow XX% in XXXX
- Fuel prices have declined significantly in recent months providing for savings to airlines and increasing demand given that savings are in part passed along to air passengers in addition to consumers potentially seeing increased discretionary spending from lower gas prices

■ Trend Towards Online Travel Bookings to Grow Further:

- Global online travel sales grew XX % in XXXX with annual growth projected at ~XX% in XXXX
 - Online booking accounts for ~XXX% of total travel sales
- In most countries, the percentage of online bookings are seeing healthy growth and is expected to rise

■ Digital Travel Sales Moving Towards Mobile:

- In XXXX, mobile travel sales accounted for XX% of digital travel sales, whereas in XXXX it is expected to account for XX%
 - The growing number of people that own mobile devices indicates a clear shift in booking patterns towards mobile devices



Travel & Tourism

Industry Overview

Online Travel Agents (OTA)

■ Market:

- The global online travel agencies IT spending market is expected to generate revenues worth US \$XXbn between XXXX and XXXX
- Owing to rise in smartphone users and increased internet penetration across the world, consumers are shifting towards online booking systems, which is propelling the growth of online travel agencies
- The Americas region dominates the global market, accounting for XX% of the total market share

■ Cloud Computing:

- OTAs are implementing cloud computing solutions such as pay-per-use and on-demand cost effective solutions to increase their operational efficiencies
- By deploying IaaS¹ and PaaS² in their services, OTAs are minimizing their infrastructural investments and software licensing and maintenance fee
- These travel agencies are availing cloud services such as CRM solutions to manage their customers

■ Investments:

- OTAs are investing hugely in developing advanced smartphones features and websites as consumers prefer booking their travel tickets through mobile apps
- Innovative smartphone applications are helping companies to enhance user experience, besides generating revenue through offering app advertisements
- Moreover, the OTAs are procuring unique IT solutions for travel bookings to gain maximum customer loyalty

■ Drivers:

- Major drivers for OTA companies are:
 - Higher digitization
 - Mobile adoption
 - International expansion

(1) IaaS – Internet as a service

(2) PaaS - Platform as a service

FIRM C

Overview

- Operates as a global travel marketplace, which processes more than \$XX bn of estimated travel spend annually
 - Connects travel suppliers, including airlines, hotels, car rental brands, rail carriers, cruise lines and tour operators with travel buyers
- Offers travel suppliers a suite of software solutions, ranging from airline and hotel reservations systems to marketing and operations solutions
- Operates in two segments:
 - Travel Network: A global travel marketplace for travel suppliers and travel buyers
 - Airline and Hospitality Solutions: An extensive suite of travel industry leading software solutions primarily for airlines and hotel properties
- Recent Acquisitions:**
 - XXX - \$XXmn; a central reservations, revenue management and hotel marketing provider with a significant presence in EMEA and Asia Pacific
 - XXX - \$XXmn; a global distribution system (GDS) in the Asia-Pacific region

Key Stats⁽¹⁾

Share Price (12/31/15)

52 week High/Low

Shares Outstanding (mm)

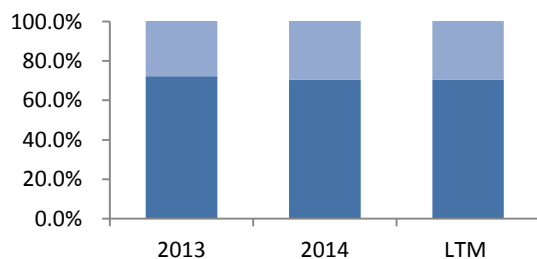
Market Cap

Enterprise Value

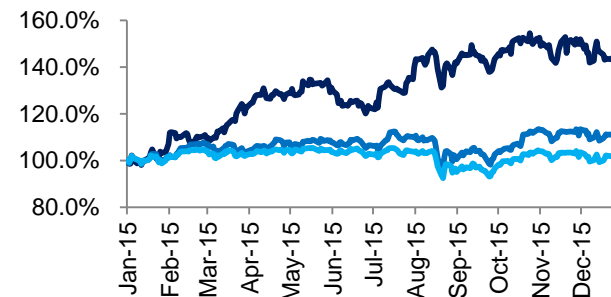
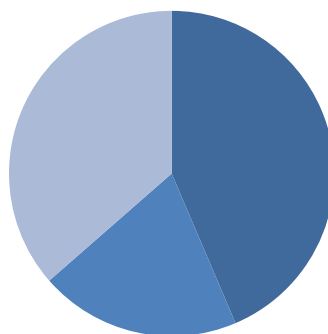
Key Financials⁽¹⁾⁽²⁾

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YoY				
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Margin				
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FCF				
Margin				

"C" Revenue Mix (\$ bn)



"C" Geography Mix (LTM)



(1) All values in \$ mn, except per share data

(2) Source: Deutsche Bank Research Report, 12/17/15

FIRM C

Company Overview

Key Success Factors

- **Airline Reservations Pipeline Remains Robust**
 - Airline Reservation wins for ~XXmn Passenger Boarded (PB)
 - XX, XX planned to go live in XXXX
 - Expect XX, XX and XX airlines to go live by XXXX
 - In addition to the XXm PBs going live over next 2 years, there are XXm+ PBs coming up for renewal over the next few years that "C" can look at to further strengthen its market position
 - Potential Airline Solutions' wins by "C" could add XX% to EPS
 - Existing contract renewals, new wins, and cross-sell would continue to drive accelerated growth in Airline solutions
- **Legacy Upgrade Expected to Create Large Market Opportunity in Hospitality**
 - Legacy systems are in-house Central Reservation System and Micros Property Management System solutions which are hosted solutions, and are inferior to "C"s single instance multi-tenant solution
 - There are various issues with maintaining legacy systems, which lead to lost opportunity cost from inability to innovate
 - "C" is in talks with most enterprise solutions to upgrade the legacy systems to its single instance multi tenant solutions
 - Airlines are also planning to use new technology internally to streamline their operations and reduce costs – e.g. systems that can enable real-time resource planning and allocation drive greater utilization
 - The Company plans to make tuck-in acquisition(s) in Hospitality solutions
- **Hospitality Bookings:**
 - Rollout of Hospitality Solution at XX
 - "C"'s non-Air bookings were impacted last year by the transition of the hotel bookings in XX to the XX platform, however they are now expected to grow in-line with Air bookings
 - "C" is expanding its hotel inventory by connecting to hotel aggregators like:
 - XX, XX et.al. in the US
 - XX, XX, and XX in Europe

FIRM C

Company Overview

Key Success Factors

- **Global Distribution System (GDS)¹:**
 - North America GDS bookings grew XX% YoY in 2Q15 driven by shift from direct to indirect channel, strength in the corporate channel, and share gains by OTAs
 - Expedia in particular has gained share from direct airlines and "C" has over XX% share of the Air bookings at Expedia
 - Gaining share in GDS can lead to a XX%-XX% revenue growth in the mid-term and stable mid XX% EBITBDA margin
- **Strong Booking Growth:**
 - In North America, "C" delivered XX% YoY bookings growth in 3Q15 driven by strength on the corporate side
 - The market share gains are driven by "C" entrance into new markets where it previously had no presence and making sure the company gets the tailored offering right for any particular market
 - "C" believes its competitive advantage continues to be the booking engine which generates lower fares
- **Revenue Synergies from XX:**
 - "C" serves 100 hotel chains while XX adds another 65 hotel chains (~8K properties) and expands its international presence in Europe, Africa, and India
 - Estimated Hospitality solutions pro-forma for XX was ~\$XXm in XXXX annual revenues and is expected to grow at high teens in the near future
 - XX's commission processing, lead management for large group, and international call center are some of its differentiated offering while "C" can cross-sell its digital marketing and PMS into XX's customer base

(1) GDS: It is the industry's name for a system that lets travel suppliers distribute travel products' rates and information for agencies to market and sell

FIRM C

Company Overview

Key Success Factors

- **XX Acquisition:**
 - XX has the ability to focus on the regions "C" believes are underserved
 - XX has deep local market expertise in the Asia Pacific region and its acquisition will give "C" entry in the fast-growing APAC region
 - "C" plans on increasing its market share overtime through penetration of the underserved markets and expansion in existing markets
 - Cost synergies are estimated to reach \$XXmn in XXXX
- **China – Untapped Opportunity:**
 - China domestic GDS business is a closed market as XX is government supported. However, booking for international airlines inside China and bookings for Chinese airlines outside of China has the ability to grow
 - "C" is well connected in China through partnerships for its Hospitality solution where it provides its central reservation solution
 - The company also provides airline solutions to a number of Chinese airlines

FIRM C

Company Overview

Key Risks

- **Slowdown in Travel**
 - There has been some slowdown in the air travel demand given slower global economic growth primarily in the emerging markets which can lead to reduction in air traffic growth and bookings growth causing deceleration in revenues

- **Disruptions by Marketplace like AirBnB**
 - AirBnB and similar marketplace models are creating an alternative to hotels at cheaper rates with competitive services thereby creating an urgent need for the hotel industry to improve on guest experiences and revenue management

- **Market Share Loss in GDS:**
 - Inability to win Airline reservations which are in pipeline (XXmn PBs) could lead to a market share loss in GDS
 - Delay in the integration of XX, could lead to market share loss

- **Contracts:**
 - The Travel Networks business and the Airline and Hospitality Solutions business depend on maintaining and renewing contracts with customers and other counterparties

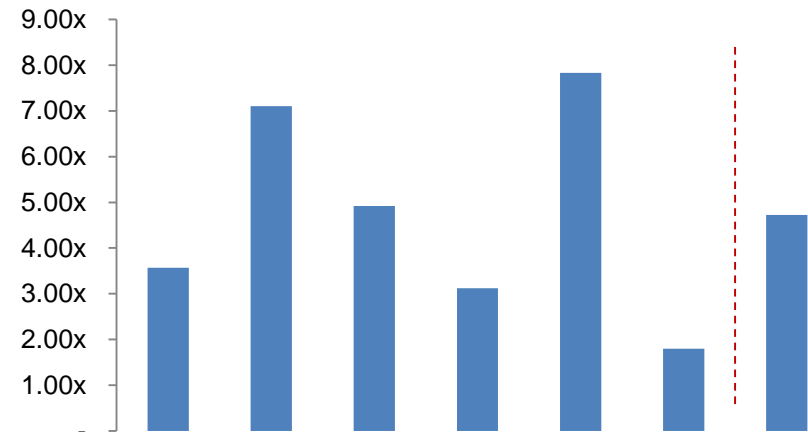
FIRM C

Multiples Analysis

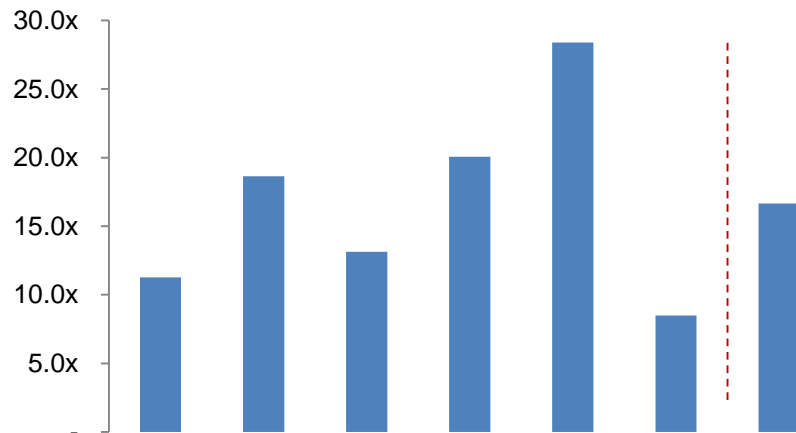
Summary

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- However, "C" is one of the two largest vendors to online travel agencies and is expected to benefit from XXmn+ PBs coming up for renewal in next few years
- Additionally, with XX% recurring revenue from long-term contracts, "C" offers high earnings and cash flow visibility and provides an interesting investment opportunity

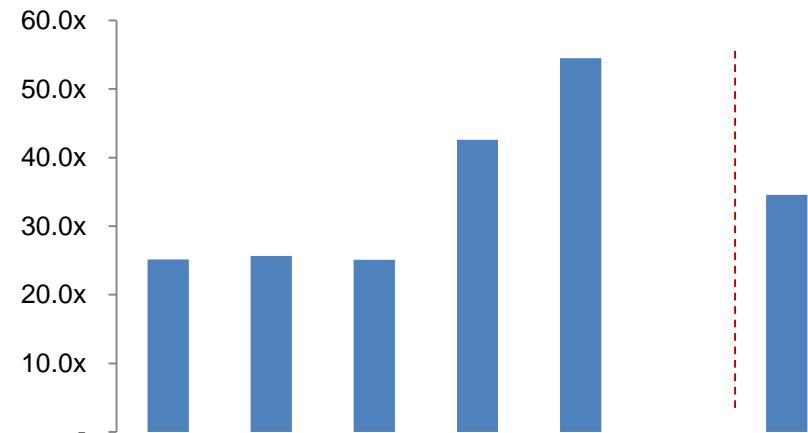
EV/Sales



EV/EBITDA



P/E



Source: Bloomberg as of 1/5/2016

"C" – FIRM C PCLN – Priceline AMS – Amadeus EXPE – Expedia TRIP – TripAdvisor TVPT - Travelport

Bibliography

- **FIRM A:**

- Deutsche Bank Research Report dated XX
- JPM Research Report dated XX
- Systematix Institutional Securities Research Report dated XX

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- JPM Research Report dated XX
- RBC Capital Research Report dated XX
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- **FIRM C:**

- Deutsche Bank Research Report dated XX
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- Deutsche Bank Research Report dated XX
- **Articles**
 - 2015 Aviation Trends
 - Global Online Travel Agencies IT Spending Market