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Romanian IT&C consolidates to face fierce competition



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Although many may hurry to link the stall in the global IT&C sector to the credit crunch, the Romanian economy evolves largely untouched by the recent financial turbulences. In the IT&C industry the tide of M&A activity slowed down earlier on, as most players have already been acquired and the market entered a well-deserved consolidation phase. It is nowadays a sellers' market, as there are few valuable and available targets on the market, so high prices come as a consequence of the abundance of bidders and lack of interesting acquisition options. No mega-transactions are expected, but some mid-sized players could merge in order to secure better market share and cost synergies. As in all other sectors, the barrier to enter the Romanian market is quite high compared to other Eastern European countries, due to greater expectancies for growth and superior return on investment.

Renowned for the solid knowledge and supremacy of its IT-specialized workforce, as well as for soaring growth potential, Romania attracted many high profile players that opened offices here, either through greenfield investments or acquisitions. 2007 witnessed the record sale of Romsys to New Frontier Holding (Austria) for over \$ 54 million, as well as the acquisition of Fiba Software and Net Consulting by the polish group Asseco. Also, Wizrom welcomed One1 Software Technologies with 50% participation, while BitDefender owners sold 6% of the company to a group of seven investors. The beginning of 2008 witnessed the sale of ITC Network to Luxsoft and a couple of smaller acquisitions situated in the range of EUR 5-10 million: Enea acquired IP Devel, Siveco bought bulgarian company Latona and Raiffeisen Informatik (part of Raiffeisen Group) acquired IIRUC Service.

In the past years, the string of privatisation-driving M&As such as Petrom, Dacia, Sidex or BCR along with high-profile greenfield investments such as the Nokia project have generated multi-million IT assignments, determined by the need for a smooth integration with the information systems of the new owner. Local SMEs generate another steady cash-flow towards IT providers, as they gradually develop their operations thus becoming more aware of the importance of investing in more efficient information systems. Progressively expanding in size and profits, these players shall soon become attractive targets for acquisitions on a rapidly growing market. The hardware sector leads the growth of the IT market, as the hardware infrastructure demand still outgrows the software and services segments.

The Telecom industry is now riding a consolidation wave as the major mobile operators have signaled their interest in acquiring local distributors. The market awaits Zapp's come-back, which could occur quite soon, as the mobile operator has just received a financing facility from the China Development Bank, with EUR 220 million to be invested in extending the operator's 3G network in Romania. Romtelecom, the largest fixed telephony owned by OTE and Deutsche Telecom, has recently won a disputed licence for mobile communications and is expected to bring a certain amount of diversity and increased competition in mobile internet services, hence contributing to lowering the profit margins across the industry. These comfortably sit at around two or three times the European average. Its aggressive strategy focused on winning clients for its internet services is meant to compensate the company's late entry on the market. The methodology used for awarding the licence has been challenged in court by Orange and Vodafone, together with RCS/RDS and Zapp (who were excluded from participating in the tender), with a view to suspending the procedures of awarding the mobile licence, claiming that this decision dishearten a fair competition in mobile services and mobile broadband internet market. The Regulatory Authority claims the exact opposite: excluding operators which already have mobile licenses is meant to increase competition by adding a new independent player.

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Meanwhile, the main operators expand the battleground towards the GSM retail market by purchasing local distributors. In 2007, Vodafone acquired Proton Tehnologies and Vegastel, while Orange recently announced its firm intentions to follow the same strategy. However, the last independent local retailers don't seem eager to exit their businesses, as profit margin and sales volumes are still on a positive trend.

The telecom market is expected to slow down its growth pace in 2008 to a 10.6% increase on a year-to-year basis, the lowest growth rate since 2000. Even so, Romanian telecom remains one of the most dynamic European markets, fuelled by the rapid increase of internet and data services, which is estimated to have grown by more than 90% on a year-to-year basis for the past five years.

The online segment has recently come into the spotlight with the local entrepreneurs selling their online businesses in surprise deals to private equity investors. The share sales of eJobs and Neogen were the first transactions that set up a price for locally developed online businesses and set the standards for the industry. Valued at more than 30 times EBITDA, they signaled an over-excitement of the investors and over-valuation that created further expectancies in the market. More recently the sale of Trilulilu (a local YouTube version) ended the string of high profile internet businesses up for sale. As local social media networks need to concentrate on building online communities, the acquisition fever will probably pick up no sooner than 2009. Few local entrepreneurs are willing to sell, as online development is not limited by extensive funding resources, so they choose to grow on their own.