

December 6, 2019

Dear Clients and Colleagues:

As firms continue to grow in scale and geographic scope, the need for IT expertise will grow in order to connect larger and more complex systems. In addition, the location and type of technology expertise may vary widely: Imagine a company needing a mobile solution in Germany and an infrastructure update in France at the same time. Over the years, the IT consulting industry has become global in nature, supporting clients in both reducing costs as well as driving incremental efficiency.

Sopra Steria, one of our International portfolio holdings, is a major European IT services company offering a number of different services: consulting, systems integration, application outsourcing and application solutions. In summary, Sopra guides businesses in their conversion projects. The Company's strategic plan is to increase the value of its offerings via an end-to-end approach, combining solutions development and consulting services with traditional IT services activities (integration, business process outsourcing infrastructure and application management).

The company generates the bulk of its revenue in Europe and the UK. For its 2018 fiscal year, the company reported sales of €4,095 million and an EBITDA of €341 million. The founding families and insiders own about 22% of the company. The stock appears inexpensive relative to other IT services firms, trading at 11.4x expected 2020 earnings and offering a 1.9% dividend yield.

Market size

- Business applications and analytics is a \$118 billion market. This segment is the largest component within the overall software market, estimated at \$300 billion.
- European ERP software is a €8 billion market and is expected to grow by 9% CAGR for the next seven years.

Growth strategy

- Acceleration in license sales.
- Driving value added services in the consulting business.
- Gaining share from other consultancy competitors.
- Value creation through bolt-on acquisitions.

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Strengths

- Strong relationships with cloud computing partners, like Microsoft, Google and Amazon.
- Strong position in financial services, HR and real estate solutions.
- Offers a wide, pan-European coverage with strong brand recognition in France, the UK and the Nordic countries.
- Sopra Banking Software's platform is broad, including solutions for securities and private banking. Its banking platform is used in countries around the world.
- Loyal customer base, resulting in multi-year relationships with a good recurrent revenue.
- Strong balance sheet.

Opportunities

- The company operates in a very fragmented market, and there will be opportunities to continue to execute bolt-on acquisitions in consulting or in banking software.
- Digital transformation of the business. Sopra could increase its digital development, such as robotic process automation, cloud computing and blockchains.
- Diversifying into other geographic areas or service segments.
- Cross-selling opportunity between certain business segments.

Risks

- IT spending could suffer in economic downturns.
- Lower license sales in Sopra Banking Software would have a negative impact on margins.
- Higher employee turnover could affect the consulting business.

Have a great weekend.

The Global Alpha team

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