

Sylogist Ltd.

MGFD15: Private Equity

Qianyu (Ruby) Chen

1002920887

Yu Wang

1003203525

Ruiqing (Jack) Zhang

1002917551

Hsuan (Annie) Liu

1003111731

Tsun Lok (Reynold) Jong

1002638096

Siwei (Jax) Tang

1002261839



Executive Summary

Proposal

- We will propose a final bid at \$227.0M with a financing structure of debt package (26.9%), cash (1%) and sponsor equity (72.1%), which is expected to bring us a 20% base case IRR and 2.5x Cash on Cash return in 5 years

Return Analysis

- The fair value of implied EV/EBITDA Multiple is 18.9x and Enterprise Value is 240.0M
- Derived from the weight of methods of valuation. 40% of DCF Exit Multiple, 20% of DCF Perpetual Growth, 20% of Trading Comps, 20% of Transaction Comps
- Assume that Entry and Exit Multiple are the same, 17.9x

Bidding Strategy

- The Purchase Price is ranged from 214.0M to 240.0M
- Concerning the competitiveness of the bidders and risks associated, the bidding price is decided to be 227.0M

Financing Strategy

- From the 63.34 M of debt package, 50.67 M is term loan, and 12.67 M is revolver loan

Investment Merits



Recurring Revenue Model

A 90% customer retention rate for subscription-based software allows Sylogist to retain customers on board for a longer time period



Growing Industry

The HR & Payroll software industry that Sylogist is currently operating in is expected to grow 7.3% CAGR every year from 2019 to 2023



Strong Management Team

Over 15-year experiences in related industries such as consulting, computing solutions and mobile infrastructure software at public companies



High EBITDA Margin

Successful transformation in business model and acquisitions increased Sylogist's EBITDA margin from 20.4% to 42.9% during the past 5 years, further indicating its stability

Company Overview

Business Description

- Sylogist provides HR & Payroll software integrated with Enterprise Resource Planning solutions, hardware products, and professional services on payroll and grant management
- Focus on organic growth and strategic acquisitions
- Provides services to public sector customers such as K-12 school districts/boards, and other private sector customers

Key Product Description

Serenic Navigator

Software managing customer's financials, budgeting, payroll, human resources, analytics, and enterprise-wide operational requirements

Navi-Payroll

An HR and payroll add-in for businesses using Microsoft Dynamics™ 365 Business Central

Major Acquisition Timeline

Acquired Epic Data International (\$7.99mm)

epicdata
2013

Acquired Serenic Software (\$14.79mm)

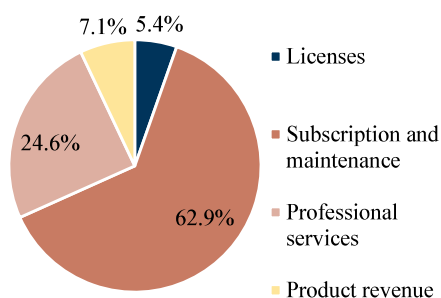
SERENIC
SOFTWARE
2014

Management and Governance

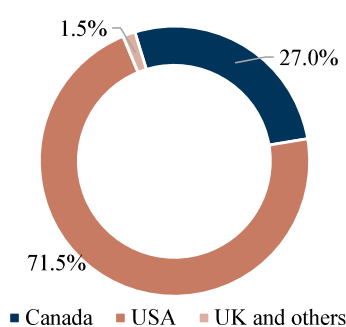
- Wilson, James D - the current president and CEO of the company since May 8, 2008
- Xavier Shorter (CPA-CA and US) - Chief Financial Officer and Vice President of Finance in Sylogist since 2015 with over 12 years of experience in leadership accounting and financial positions at public companies

Business Breakdown

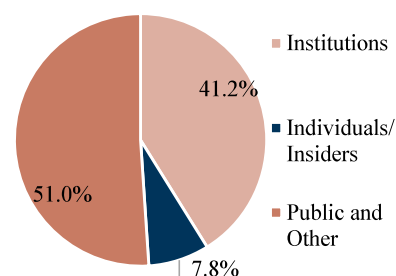
Revenue Breakdown



Geographical Breakdown



Ownership Breakdown

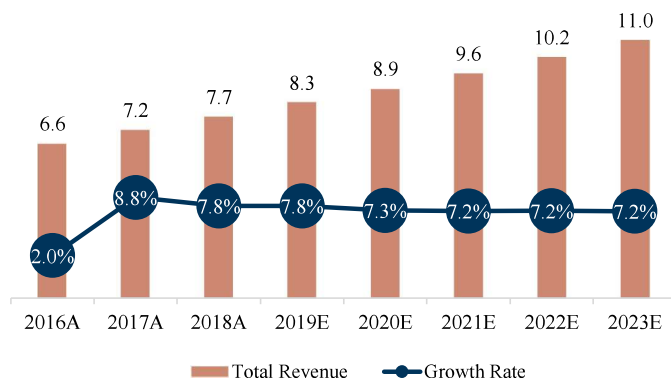


Industry Overview

Core Drivers

- **Rising Investments in HR Software**
Human management software provoked businesses to invest in this industry
- **Widespread Adoption of the SaaS Business Model**
The continued trend towards cloud-based systems has revolutionized businesses and bolstered the industry demand
- **Stable Municipal and State Government Investments**
Local and state government investment expenditure is rising an annualized 2.2% in 2019
- **Continued Growth of K-12 Education**
From 2019 to 2023, US public school industry revenue is expected to increase at a CAGR of 2.6% to \$856.6 billion

Historical & Projected Industry Revenue (In USD Billions)



HR & Payroll Software Industry Outlook



Industry Life Cycle
Growth Stage

Barrier to Entry
Medium

Concentration Level
Medium



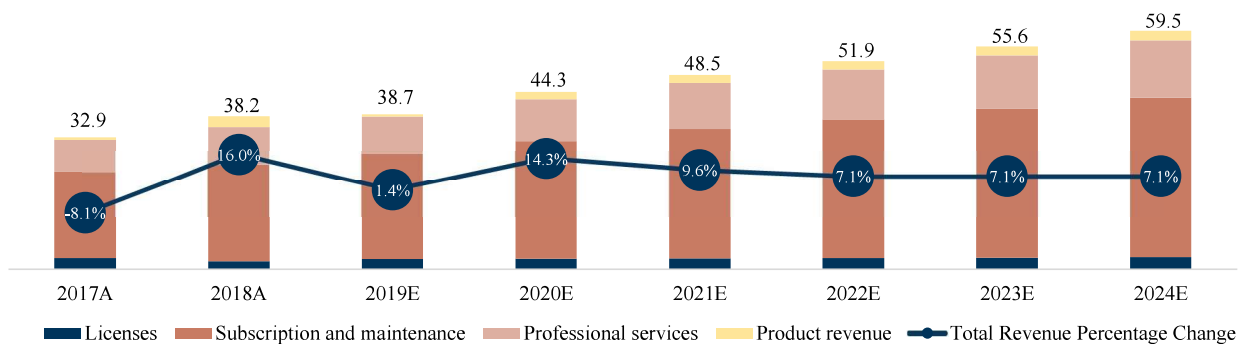
Competitive Advantage

- **Strategic Alliance with Microsoft**
As Microsoft's top 1% partners, Sylogist has built up its reputation in providing payroll services to more than 1,000 customers
- **Differentiated Product Portfolio**
The flexibility and uniqueness of Sylogist's products are difficult to duplicate
- **Industry Specialization**
Industry specialization in the public sector builds up a more long-lasting reputation and reinforces the company to provide more reliable products

Valuation Projections

Revenue Projections (In CAD Millions)

	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Licenses	2.8	2.1	2.6	2.6	2.7	2.8	2.9	3.0
Subscription and maintenance	21.6	24.0	26.2	29.3	32.3	34.6	37.1	39.8
Professional services	8.0	9.4	9.4	10.5	11.6	12.4	13.3	14.3
Product revenue	0.6	2.7	0.6	1.8	2.0	2.1	2.2	2.4
Total Revenues	32.9	38.2	38.7	44.3	48.5	51.9	55.6	59.5



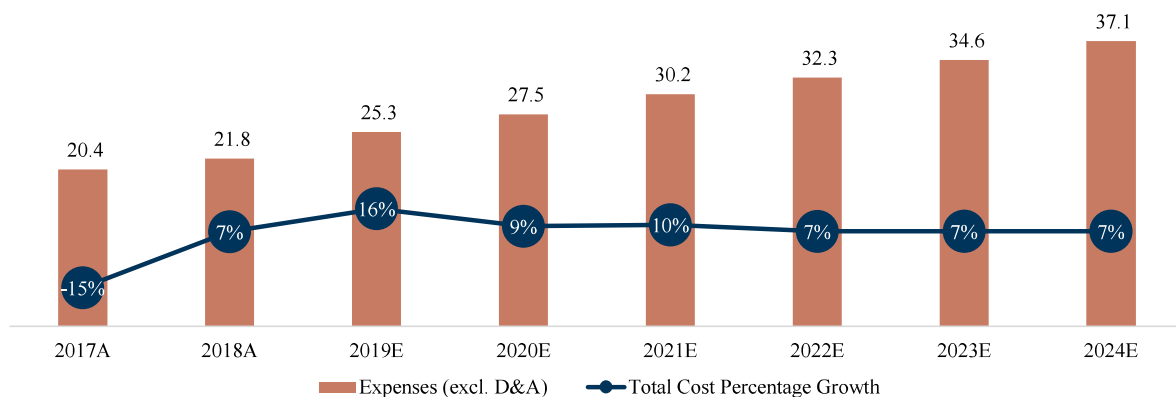
Key Assumptions:

1. The growth rate of licenses revenue is consistent with the average growth rate of public spending (Government, K12, NPO, NGO) at around 3%
2. Per MD&A 2019, Sylogist expects to add further functionality to existing software, due to the integration, first 2 year's subscriptions and maintenances' revenue will increase accordingly at around 10%.
3. Professional service is consistent with the revenue growth rate of subscription and maintenance including training, implementation services and consulting. It is partially consistent with licensing fees because they are mostly one-time income.
4. The growth rate of product revenue fluctuates a lot, which is depending on whether the company brings time-to-time projects. It is hard to predict future product sales merely based on growth rate; however, we see a trend around 4% margin from past 4 years due to evolving needs of customers, which will be erected on our assumptions.

Valuation Projections

Cost Projections (In CAD Millions)

	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Cost of Sales (excl. D&A)	9.3	10.4	10.7	13.1	14.3	15.3	16.4	17.6
Selling General & Admin Exp.	8.9	9.5	10.9	12.5	13.7	14.7	15.7	16.8
R&D Exp.	1.4	1.6	2.3	1.9	2.1	2.3	2.4	2.6
Stock-Based Compensation	0.7	0.3	1.3	0	0	0	0	0
Expenses (excl. D&A)	20.4	21.8	25.3	27.5	30.2	32.3	34.6	37.1



Key Assumptions:

1. Per MD&A, the R&D expenses are expected to grow in FY 2019 due to the improvement of software functionality, where the margin is assumed to be 6%. In the following 4 years, the margin of R&D expenses remain at 4.4% as previous year because the improvement process becomes mature and stable.
2. Since Sylogist is going private in budget year after the P/E's acquisition, it is assumed that all the stock options are realized in FY 2019. The stock-based compensation is expected to stay at the 3-year average of 3.5% and drops to zero in the following years as it is taken privately.

DCF Analysis – Base Case

	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Net sales	38.2	38.7	44.3	48.5	51.9	55.6	59.5
% growth	16.0%	1.4%	14.3%	9.6%	7.1%	7.1%	7.1%
EBITDA	16.4	12.7	16.7	18.3	19.6	21.0	22.5
% margin	42.9%	32.7%	37.8%	37.8%	37.8%	37.8%	37.8%
(-) D&A	(4.1)	(3.1)	(2.6)	(2.7)	(2.9)	(3.0)	(3.2)
EBIT	12.3	9.5	14.1	15.6	16.7	18.0	19.3
(-) Unlevered cash taxes		(2.1)	(3.2)	(3.5)	(3.8)	(4.0)	(4.3)
NOPAT		7.4	11.0	12.1	13.0	13.9	15.0
(+) D&A		3.1	2.6	2.7	2.9	3.0	3.2
(-) Capex		(0.4)	(0.9)	(0.9)	(1.0)	(1.1)	(1.1)
(+) Decrease (increase) in NCWC		0.5	1.4	1.1	0.9	0.9	1.0
FCF		10.7	14.1	15.0	15.7	16.8	18.0
Months		4.0	16.0	28.0	40.0	52.0	64.0
Years		0.33	1.33	2.33	3.33	4.33	5.33
PVDF @ 6.3%		0.98	0.92	0.87	0.82	0.77	0.72
Present value of FCF		10.4	13.0	13.0	12.8	12.9	13.0

Terminal value ("TV") calculation		
Exit multiple method ("EMM")		
Terminal year EBITDA	\$	22.5
Exit EV/EBITDA		11.5x
Terminal value		258.6
PVDF		0.72
Present value of TV	\$	186.9
Perpetuity growth method ("PGM")		
Terminal year FCF	\$	18.0
WACC		6.3%
Perpetual growth rate		1.0%
Terminal value		344.7
PVDF		0.72
Present value of TV	\$	249.1
Enterprise value ("EV") calculation		
	EMM	PGM
PV of FCF	\$ 75.2	75.2
Terminal value	186.9	249.1
Enterprise value	262.2	324.3

Terminal Value Sensitive Analysis

Terminal value							Terminal value						
		Exit multiple							Perpetual growth rate				
		9.5x	10.5x	11.5x	12.5x	13.5x			0.0%	0.5%	1.0%	1.5%	2.0%
WACC	4.3%	\$170.9	\$188.9	\$206.8	\$224.8	\$242.8	WACC	4.3%	\$336.7	\$383.2	\$443.8	\$526.2	\$644.9
	5.3%	\$162.4	\$179.5	\$196.6	\$213.7	\$230.8		5.3%	\$259.4	\$287.9	\$323.2	\$367.8	\$425.9
	6.3%	\$154.4	\$170.7	\$186.9	\$203.2	\$219.4		6.3%	\$207.3	\$226.4	\$249.1	\$276.5	\$310.3
	7.3%	\$146.9	\$162.3	\$177.8	\$193.3	\$208.7		7.3%	\$170.1	\$183.6	\$199.2	\$217.5	\$239.3
	8.3%	\$139.8	\$154.5	\$169.2	\$183.9	\$198.6		8.3%	\$142.4	\$152.3	\$163.5	\$176.5	\$191.5

Market Approach Valuation

Comparable Trading Companies

[illegible]

Comparable Precedent Transactions

[illegible]

Valuation Discussion

Football Field Analysis



DCF Scenario Weight

EMM Scenario	Weight	Enterprise Value
Base	50%	\$ 262.2
Upside	25%	299.9
Downside	25%	227.0
DCF Exit Multiple Method		262.8

PGM Scenario	Weight	Enterprise Value
Base	50%	\$ 324.3
Upside	25%	380.0
Downside	25%	274.9
DCF Perpetual Growth Method		325.9

Weight of Valuation

Valuation Method	Weight	Enterprise Value
DCF Exit Multiple Method	40%	\$262.8
DCF Perpetual Growth Method	20%	325.9
Trading Comps EV/EBITDA	20%	145.7
Transaction Comps EV/EBITDA	20%	202.7
Enterprise Value		\$240.0
EBITDA		12.7
Implied EV/EBITDA		18.9x

LBO Analysis

Base Case

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA	\$ 12.7					
Entry EV/EBITDA	17.9x					
Enterprise value	\$ 227.0					
(-) Term loan	(50.7)					
(-) Revolver loan	(12.7)					
Equity investment	163.7					

IRR 20%

EBITDA at exit year	\$ 22.5
Exit EV/EBITDA	17.9x
Enterprise value at exit	\$ 403.0
(-) Debt outstanding	(23.8)
(+) Cash accumulated	27.3
Equity value at exit	406.5

Cash on Cash Return 2.5x

IRR	20.0%	(163.7)	-	-	-	-	406.5
-----	-------	---------	---	---	---	---	-------

Direct Return 243 M

CoC return	2.5x
------------	------

Sources and Uses of Financing

Sources	Amount	% of EV	Rate %	Uses	Amount	% of Total
Term Loan	\$ 50,668,315	21.5%	7%	Purchase of Sylogist	\$ 226,994,049	96.5%
Revolver Loan	12,667,079	5.4%	10%	Legal	5,500,000	2.3%
Cash on Hand	2,000,000	0.9%		Accounting	1,400,000	0.6%
Sponsor Equity	169,958,656	72.2%		Other closing costs	1,400,000	0.6%
Total	235,294,049	100%		Total	235,294,049	100%

Financing Strategy

Covenant Analysis

	Year 1 2020E	Year 2 2021E	Year 3 2022E	Year 4 2023E	Year 5 2024E
FCCR Ratio					
Bank Requirement	1.00x	1.10x	1.20x	1.30x	1.40x
Sylogist Anticipated Position	1.02x	1.18x	1.33x	1.50x	1.70x
Breach	No	No	No	No	No
Debt/EBITDA					
Bank Requirement	4.00x	3.50x	3.00x	2.50x	2.00x
Sylogist Anticipated Position	3.31x	2.59x	2.02x	1.51x	1.06x
Breach	No	No	No	No	No

All covenants are within breach

All covenants will be monitored on a quarterly basis

Debt Package

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>	<u>Option 5</u>
Term Loan					
Debt/EBITDA	2.00x	2.50x	3.00x	3.50x	4.00x
Interest Rate	5.00%	5.50%	6.00%	6.50%	7.00%
Revolver Loan					
Debt/EBITDA	1.00x	1.00x	1.00x	1.00x	1.00x
Interest Rate	8.00%	8.50%	9.00%	9.50%	10.00%

Commentary

- Final recommended purchase price: **227.00 M**
- Deal Structures will be: **50.67 M** of term loan debt, **12.67 M** of revolver loan, **2.00 M** of cash on hand and the remaining is from sponsor equity

Risks and Due Diligence

Risks



High Competition Level in The Industry

- Launch of new product
- Entry of additional companies



Major Contracts

- Subject to renewals
- Changes in government policy
- Priorities or funding levels
- The level of complication
- The number of delivery milestone



Foreign Exchange

- Fluctuations between settlement rates and initial spot rates



Information Security

- The flows of funds
- Confidentiality of stakeholders' info
- Uses of information technology

Due Diligence



Customer Investigation - Contract Term

- Interviewing customer's renewals possibility
- Customers' purchasing power
- Background check



Acquisition Team Evaluation

- Ability to retain the key acquisition members
- Historical performance analysis



Intellectual Property and R&D check

- Market value of intangible assets
- Competitive advantage edge
- Process legitimacy and quality assurance



Strategic Alliance Check

- Counterparty default risk
- Exposure to shared resources
- Effect of operational control loss



Market Trend Analysis

- Examination on external market
- Competitive dynamics
- Likely growth rates going forward
- Underlying drivers of primary demand

Post-acquisition Strategy

	Current State	Near - Term	Intermediate Term
Sales	<ul style="list-style-type: none"> Small Size Sales Team Limited budget 	<ul style="list-style-type: none"> Double sales reps. Increases budget by 18% 	<ul style="list-style-type: none"> Join Trade shows Organize conferences Promote products other than HR & Payroll software
Product Development	<ul style="list-style-type: none"> R & D expenses only 4.2% of revenue 	<ul style="list-style-type: none"> More investment in R&D, up to 6% revenue 	<ul style="list-style-type: none"> Increase R&D investment to 10% of revenue Focus on one-for-all products for private sector
Commercial Expansion	<ul style="list-style-type: none"> Branding relies on Microsoft Dynamics 	<ul style="list-style-type: none"> Search Engine Optimization 	<ul style="list-style-type: none"> Build customer relationships without third parties
Pricing & Packaging	<ul style="list-style-type: none"> Isolated Pricing Strategy 	<ul style="list-style-type: none"> Predatory packaging discount 	<ul style="list-style-type: none"> Bundle multiple functionalities into one product