Thoma Bravo to acquire data integration company Talend in a $2.4 billion transaction

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"We are pleased to move forward with Thoma Bravo, as the transaction will deliver compelling and certain cash value to Talend shareholders and significant strategic, long-term benefits for our customers, employees, and other stakeholders. " - Steve Singh, Chairman of the Board of Talend

Deal Overview

- Acquirer: Thoma Bravo, LP

- Target: Talend S.A. (NASDAQ: TLND)

- Industry: EDP Services

- Transaction Amount: $2.4 billion

- Announcement Date: March 9, 2021

- Target Advisor: Qatalyst Partners

Thoma Bravo, a leading private equity investment firm focused on the software and technology-enabled services sectors has made another bold move to buy out Talend (NASDAQ: TLND), a leader in the EDP industry largely focused on data integration and data integrity services. In an effort to drive shareholder value and to build out Talend's favorable market position, Thoma Bravo intends to initiate a tender offer to acquire all of the outstanding ordinary shares and American depositary shares of Talend for $66.00 per share in an all-cash transaction. This deal values Talend at approximately $2.4 billion representing a premium of 29% to Talend's closing price on March 9 and an 81% premium to the volume-weighted average price over the previous twelve months. Investors reacted favorably as Talend's stock price rose as much as 34.8% from $48.53 to $65.40 after the deal announcement. Subject to and upon completion of the transaction, Talend would become a private company and continue investing in its cloud transition as well as products and solutions that serve the evolving data needs of its customers. The tender offer is expected to close in the third quarter of 2021.

Companies Overview - Thoma Bravo

With $76 billion in assets under management as of December 2020, American private equity and growth capital firm Thoma Bravo is a leading player in the software and technology industry. What contributed to establishing this position was not only the ability to generate competitive first-mover advantages in the software and technology industry 20+ years ago but also a strong and innovative focus on a buy-and-build investment strategy right from the beginning. This proofed to be paying off. Since 2003 Thoma Bravo has closed over 300 deals worth more than $85 billion, with its portfolio of over 40 software firms generating annual revenues of $15 billion. Considering Thoma Bravo's most prominent portfolio companies, such as Qlik, Riverbed, Flexera, Sophos, Veracode, one can note a clear focus on infrastructure software and technology-enabled business service sectors. Analysis done by Forbes suggests a promising performance of the firm's funds in the recent past: while returning 30% net annually, 25 investments were sold or listed at 20$ billion since 2015, which represented four times their cost. Accordingly, Forbes valued Thoma Bravo at $7 billion in 2019. Notable is also the joined Private Equity Performance Ranking of HEC Paris and DowJones, which ranked Thoma Bravo first in terms of aggregate performance based on all buyout funds raised between 2005 and 2014.

Companies Overview – Talend S.A.

Talend has made itself a name by providing cutting-edge data integration and integrity solutions for various industries all over the world. Much of its success can be contributed to its Data Fabric platform, through which it supplies open-source software that helps integrating data and applications in real-time in traditional and cloud computing environments. Accordingly, in a Gartner Magic Quadrant published 2019, Talend was ranked a leader in the Data Integration Tool market on account of its database-agnostic and multi-cloud hybrid data integration capabilities. The basis of its success however was laid in 2013, when Mike Tuchen became CEO of the firm and oversaw fundamentals changes in marketing and strategy, transforming Talend from a low-end disrupter to a next-generation leader. Accordingly, since its IPO in 2016 at a stock price of $27.66 and a valuation of $537 million, it was able to quadruple its market cap, with the stock having risen since at an average rate of 19%, lead-

ing shares to trade at $63.85 and the market cap to exceed $2.1 billion today. On the other hand, we identify certain aspects of Talend's recent commercial performance that are more worrying and lead us to be more critical regarding future growth expectations. After all, the company's three-year compound revenue growth rate of 24.6% is faster than its fourth-quarter 2020 growth of 17%. While Talend's fourth-quarter revenues grew to $78.9 million exceeding analysts' expectations by $3 million its net loss of $19.6 million was $8 million worse than the year before.
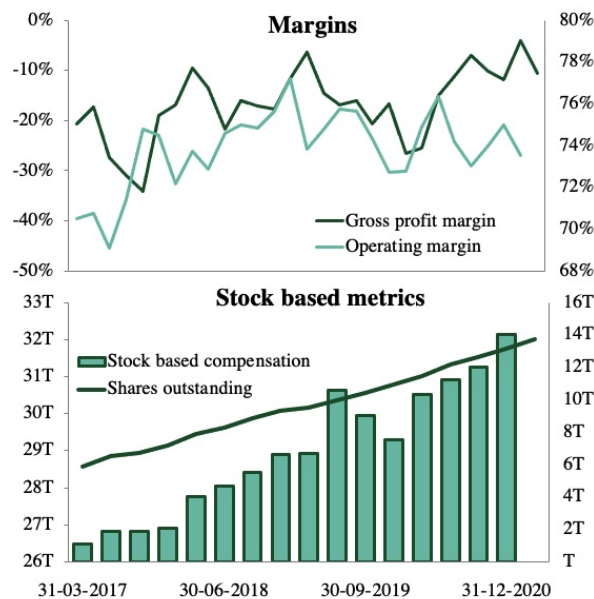

Figure 1: Historical margins & stock metrics
Data sources: Thomson Reuters

Additionally, Talend's 2020 revenue of $287.5 million was only 16% higher than it was in 2019 and sadly, its negative free cash flow nearly doubled from $16.7 million in 2019 to $32.7 million in 2020.

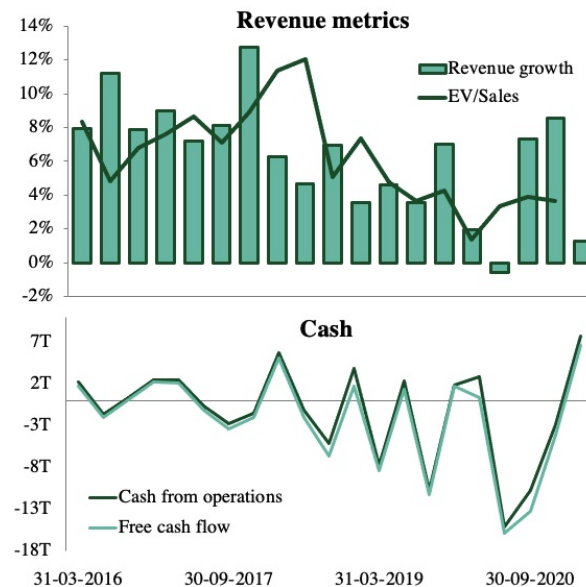Talend's 2021 guidance of 14% top-line growth fell slightly below analysts' expectations.

Figure 2: Revenue metrics & cash
Data sources: Thomson Reuters

One explanation for why Talend's growth could decline is that it operates in an intensely competitive industry against legacy competitors and pure-play vendors such as Informatica, IBM, SAP, and Oracle, which have better capitalizations and better resources. Maybe by becoming a private player again, Talend will be able to reorientate its focus on product sophistication and software finesse, without having to worry about investor expectations and share prices.

State of the Industry – EDP Services

Steady technological disruption by innovative players and an enormous increase in data generation have made the electronic data processing market to

be one of the most exciting industries to look for. Not only is it a highly competitive market with several dominating players, but the provided products also cover a wide range of highly demanded services regarding the accessibility, usage, and integration of disparate information repositories and sources. Since such services help businesses obtain unified information, improve strategic decisions, measure commercial success as well as manage and share information across different agencies, global increase in demand can be attributed to data integration becoming a major advantage in commercial competition. Projections of Fortune Business Insights support those expectations: while the market was valued at about $8 billion in 2018, projections for 2026 accumulate to about $20 billion, which accounts for a CAGR of about 12,4%. Even though the North American market is leading in size (total value of $3.4 billion as of 2018) and is expected to keep this position, we think it is to be expected that the Asia Pacific region will see the strongest growth rates and dynamism, with local leading players competing in product expansion and strategic partnerships to boost functionality and with it demand for data integration and integrity software. We also want to emphasize that even though the names of Informatica, IBM, SAP, and Talend account for more than 50% of the market share in terms of revenue, one should be cautious to declare the industry consolidated too early. It is to be expected that market positioning and future commercial success in the industry will depend highly on companies' ability to maintain innovative product offerings through breakthrough success in R&D activity.

Deal Structure

Thoma Bravo intends to acquire Talend for $66 per share in an all-cash transaction, valuing the company at a total EV of $2.4 billion or an EV/Sales multiple of approximately 7.3x FY21 estimates. The tender offer included a provision that temporarily allowed Talend's board to solicit alternative proposals, however, given the absence of natural strategic buyers, no higher deal was offered until this period expired on April 10, 2021. The closing of the deal is subject to the valid tender pursuant to the tender offer representing together at least 80% of the outstanding ordinary shares and American depositary shares as well as receipts of customary transactional regulatory approvals. Additionally, Talend will convene an ordinary and extraordinary general meeting of the shareholders to vote on a transaction. Following the closing transaction, any shares not tendered would be ultimately redeemed for a price equal to the price per share as paid in the tender offer. Talend is financially advised by Qatalyst Partners and Wilson Sonsini Goodrich Rosati, P.C. and Gide Loyrette Nouel A.A.R.P.I. is serving as legal counsel. Following the expected completion of the tender offer in the third quarter of 2021, Talend will become a privately held company and will no longer be listed on any public market.

Our May 2021 price target of $71.83 is based on a weighted average of four valuation approaches. Our multiple valuations are based on a peer group consensus of financial databases. Additionally, we have considered peer companies individually and decided for inclusion or exclusion based on industry, sector, and geographical relevance. We conclude an EV/Sales of 8.5x and Price/Sales of 9.8x to be reasonably justified within the peer group. These

results are robust towards outliers. Further, we deployed a DCF valuation while applying a WACC of 6.87% and exiting with an EV/Sales multiple of 2.3x. Forecasts of line items are based on a consensus of brokerage analyst reports, suggesting an intrinsic value of $53.72. Finally, we considered historical M&A transactions by focusing on high growth targets (approximately 14%). We believe that the proposed tender offer is favorable at a 7.3x EV/Sales multiple FY21 estimates compared to the historical average of 5.7x.
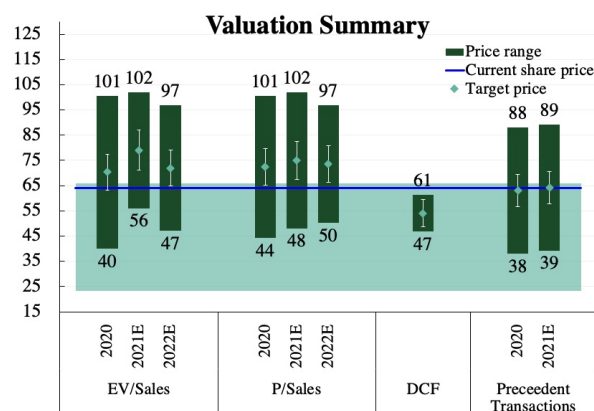

Figure 3: Valuation Summary

Data sources: Bloomberg & Capital IQ

Potential Risks & Potential Upsides

Having successfully delivered on the strategic initiatives and targets for the last twelve months, Talend has significantly strengthened its market position as its data fabric empowers organizations to operationalize their data in times where this has become critical for companies. The transaction with Thoma Bravo will provide Talend with additional capital, resources, and expertise to leverage a large market opportunity to help all organizations become

data-driven. We believe the transaction with Thoma Bravo may be rewarding, as the cash inflow allows to both increase sales, and respond more quickly and effectively to changing opportunities and technologies. In addition, the target will benefit from the industry expertise of Thoma Bravo, a firm with a successful track record of helping companies to achieve long-term, sustainable growth. This knowledge will become a driving factor for building upon Talend's leadership position in the cloud data integration market. We are confident that Thoma Bravo can apply its experiences working with market-leading software companies to accelerate Talend's growth and complete its transition to the cloud. Furthermore, a faster than expected uptake in the data integration market could accelerate the expansion of Talend's high-growth segments as technologies like SaaS and Hadoop were to grow at a faster rate. Currently, Talend's high sales and marketing expense can be partially attributed to international expansion, and faster than expected leverage could lead to bottom-line results that exceed our forecast. Also, with the introduction of an ARR metric, Talend can provide a clearer view of business growth. Should future ARR disclosures reveal sustained growth in a high growth range, then shares of the stock could experience upside momentum. Finally, the regulative framework could accelerate the adoption of Talend's services as companies fail to comply with the EU regulation for data protection GDPR. On the other hand, we identify potential risk factors that Talend will encounter in the future. Talend is levered to the growth of cloud and analytic workloads. If enterprises slow down adoption rates of either, Talend's performance could suffer. Further, Talend relies on open-source technologies which can be changed by

developers not affiliated with Talend. As a large partition of the source code is freely available, new competitors may look to enter their market. Finally, Talend's stock price performance experiences a high correlation with overall market sentiment. Hence, a negative macroeconomic shock, or a sudden change in investor sentiment towards high-growth technology stocks, could lead to significant downside price volatility.