Finnish IT and software industry

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The Technology Industry Is Comprised of Five Sub-sectors

Electronics and Electrotechnical Industry
ABB, Elcoteq, Ensto, Nokia, Nokia Siemens Networks, Perlos, Planmeca, Polar Elektro, Suunto, Vacon, Vaisala, VTI Technologies...

Metals Industry
Boliden, Componenta, FNsteel, Kuusakoski, Luvata, Norilsk Nickel, Outokumpu, Outotec, Ovako, Rautaruukki, Sacotec…

Mechanical Engineering
Abloy, Cargotec, Finn-Power, Fiskars, Glaston, Kone, Konecranes, Metso, Normet, Oras, Patria, Pemamek, Ponsse, Stala, STX Finland, Valtra, Wärtsilä...

Information Technology
Affecto, Comptel, Digia, Endero, Enfo, Flanderm F-Secure, Fujitsu Services, IBM, Logica, Microsoft, Tieto…

Consulting Engineering
Citec, Deltamarin, Elomatic, Etteplan, FCG, Finnmap, Granlund, Neste Jacobs, Pöyry, Ramboll, Rejlers, Sito, Sweco, WSP…

The Technology Industry in Finland in 2010

Electronics and Electrotechnical Industry
- Data communications equipment, instruments, electrical machinery
- Turnover 20.3 billion euros
- Personnel 55 000

Metals Industry
- Steel products, non-ferrous metals, castings
- Turnover 9.0 billion euros
- Personnel 13 500

Mechanical Engineering
- Machinery, metal products, vehicles
- Turnover 25.9 billion euros
- Personnel 125 000

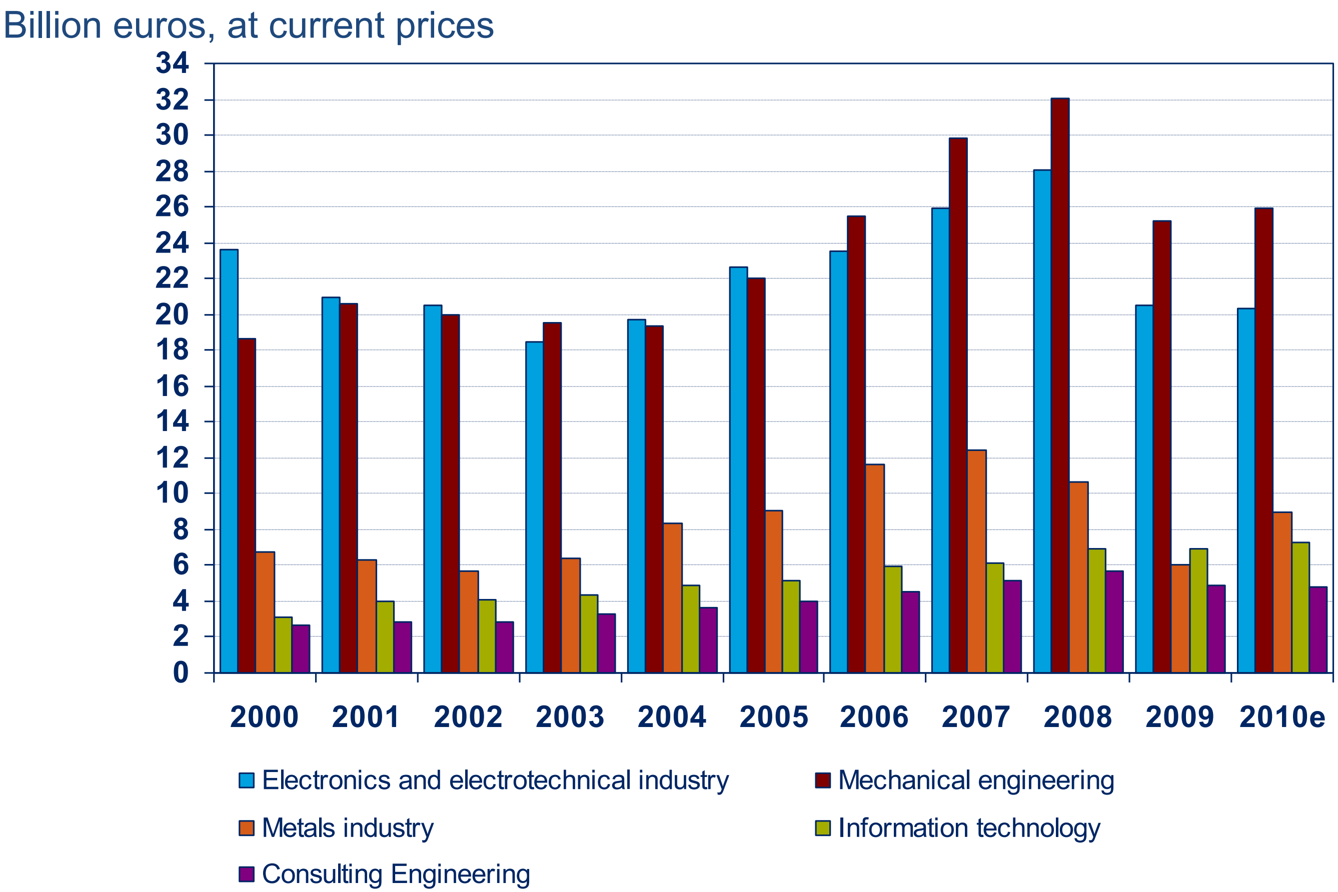
Information Technology
- IT services, applications and programming
- Turnover 7.2 billion euros
- Personnel 54 400

Consulting Engineering
- Expertise for construction industry and infrastructure
- Turnover 4.8 billion euros
- Personnel 43 100

The Technology Industry – the Most Important Sector in Finland

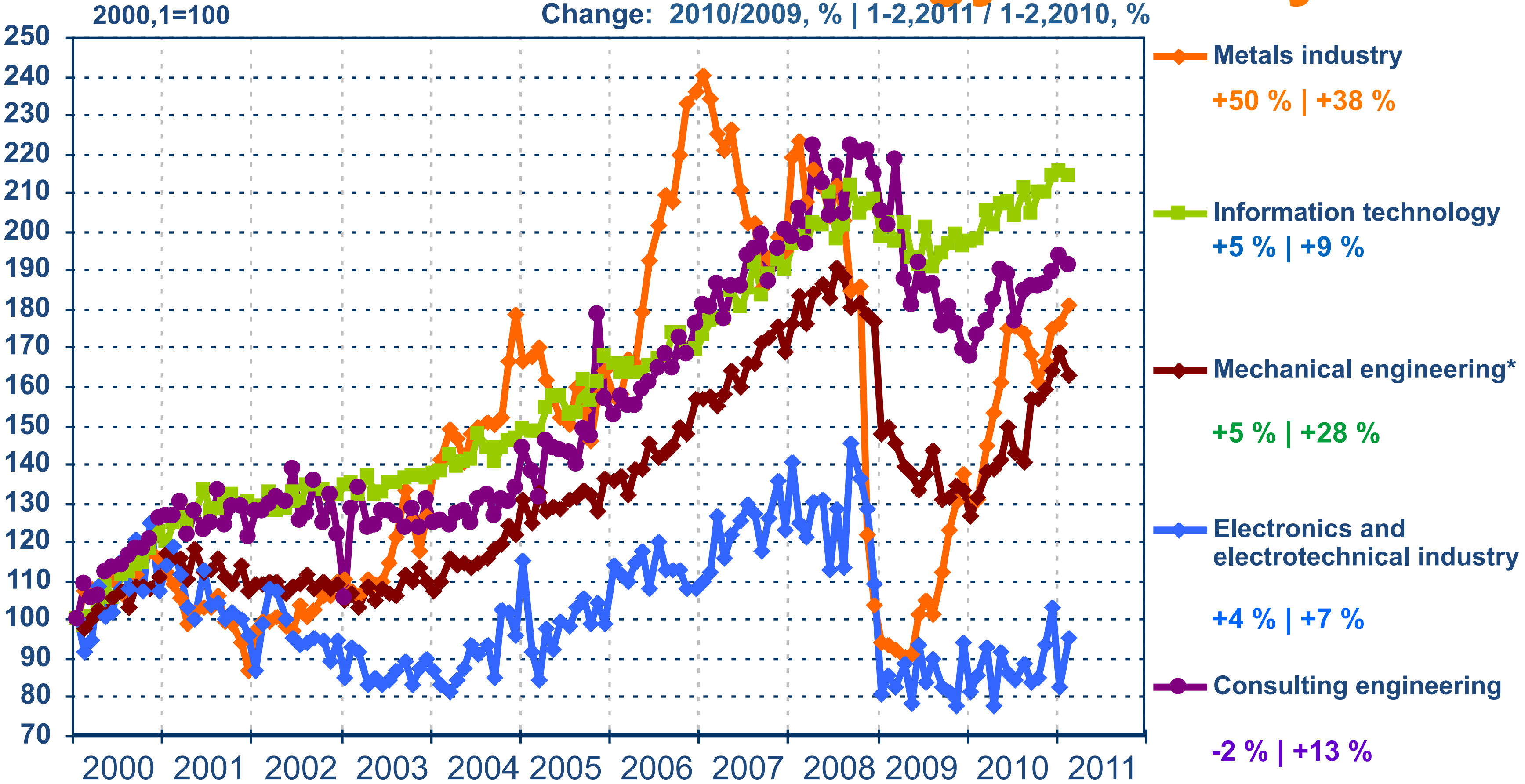
- 60 % of total Finnish exports.
- 80 % of private-sector R&D investment.
- Some 290 000 employed directly in the sector, a good 700 000 employed in total, equalling over one quarter of the entire Finnish labour force.

Turnover of the Technology Industry



Source: Statistics Finland, The Federation of Finnish Technology Industries

Turnover of the Technology Industry



*) Excl. shipyards. Seasonally adjusted turnover index, last data 2/2011. Share of total turnover in 2009: mechanical engineering 40 %, electronics and electrotechnical industry 32 %, information technology 11 %, metals industry 9 %, consulting engineering 8 %. Source: Statistics Finland

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25 Largest IT companies

Rank	Company	Revenue. M euro	Growth	Personnell	Industry
1	Nokia	42 446.0	3.6	129 355	Telecommunications equipment
2	Tieto	1 713.7	0.4	17 097	IT services
3	Telia-Sonera Finland	1 694.0	0.5	4 686	Telecommunications services
4	Elisa	1 463.2	2.3	3 477	Telecommunications services
5	Also Nordic Holding	919.1	3.0	725	Wholesale
6	DNA	690.5	5.9	934	Telecommunications services
7	Hewlett-Packard	504.4	7.2	724	IT equipment and services
8	IBM	455.0	17.0	1 380	IT equipment and services
9	Fujitsu Services	420.2	14.8	2 794	IT services
10	Logica Suomi	394.5	10.4	3 026	IT services
11	Tellabs	312.7	12.1	610	Telecommunications equipment
12	3 Step IT	302.4	37.0	183	IT services
13	Siemens	287.0	-15.1	945	IT equipment
14	Tech Data Finland	266.0	8.1	69	Wholesale
15	Itella Information	259.7	5.1	1 910	IT services
16	Accenture	255.0	-1.8	1 396	IT services
17	Atea Finland	209.3	23.2	321	IT services
18	Osuuskunta KPY	192.4	5.8	1 062	IT services
19	Verkkokauppa.com	173.2	12.5	312	Retailing
20	Eltel Networks	170.8	-7.4	1 127	Telecommunications services
21	Teleste	167.8	18.5	1 215	IT services
22	Elektrobit	161.8	5.2	1 561	Telecommunications equipment
23	Cassidian Finland	149.9	-3.2		Telecommunications equipment
24	L M Ericsson Ab	131.9	-19.7	935	Telecommunications equipment
25	Digia	130.8	8.7	1 508	IT services

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National software industry survey 2011

Sponsors of the 2011 survey

Tekes

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OHJELMISTOYRITTÄJÄT RY

HERMIA

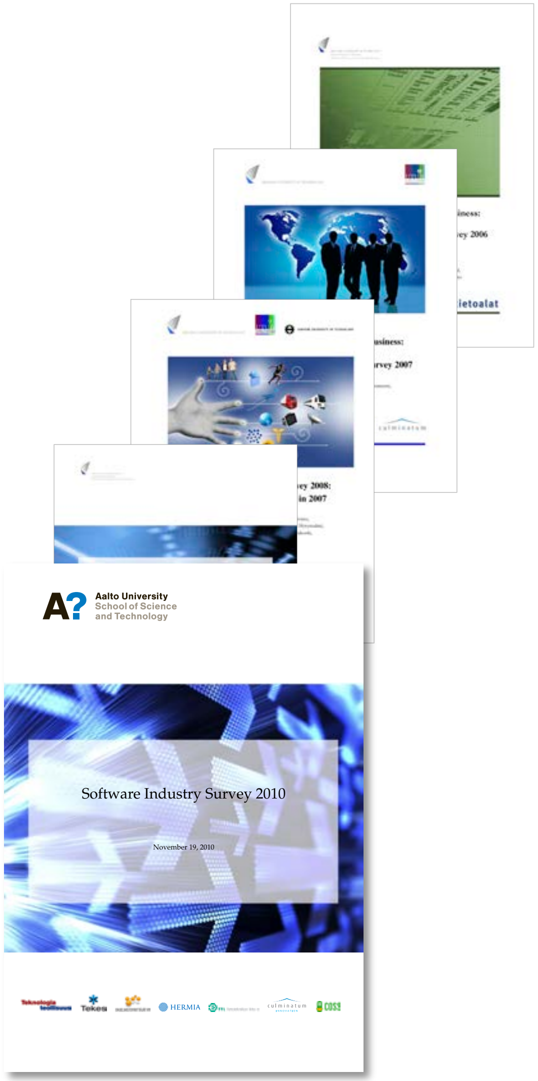
culminatum INNOVATION

TTL Tietotekniikan liitto ry

OSKE UBIQUITOUS COMPUTING CLUSTER PROGRAMME

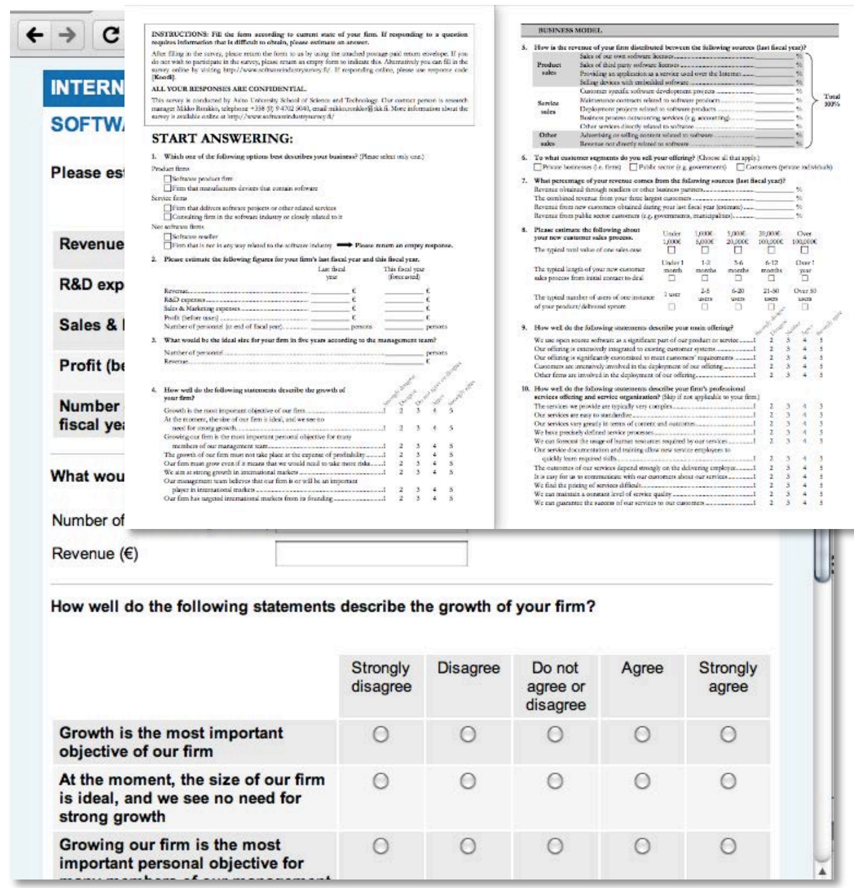
Software Industry Survey

- Run in Finland since 1997
- The longest running software industry survey in the world
- Provides annual overview of the industry
- Changing research themes



Survey in the 2011

- Data collection in spring and early summer
- Covers the whole software industry
  - Product and services firms
  - In 2011, 506 responding companies
  - In 2011, we excluded sole proprietors from the survey
- Three cooperating universities
  - University of Jyväskylä and Cloud software program
  - Fraunhofer institute, survey in Austria and Germany



Overview of the Finnish software industry after the recession

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Finland has placed high on international benchmarks during the recent years

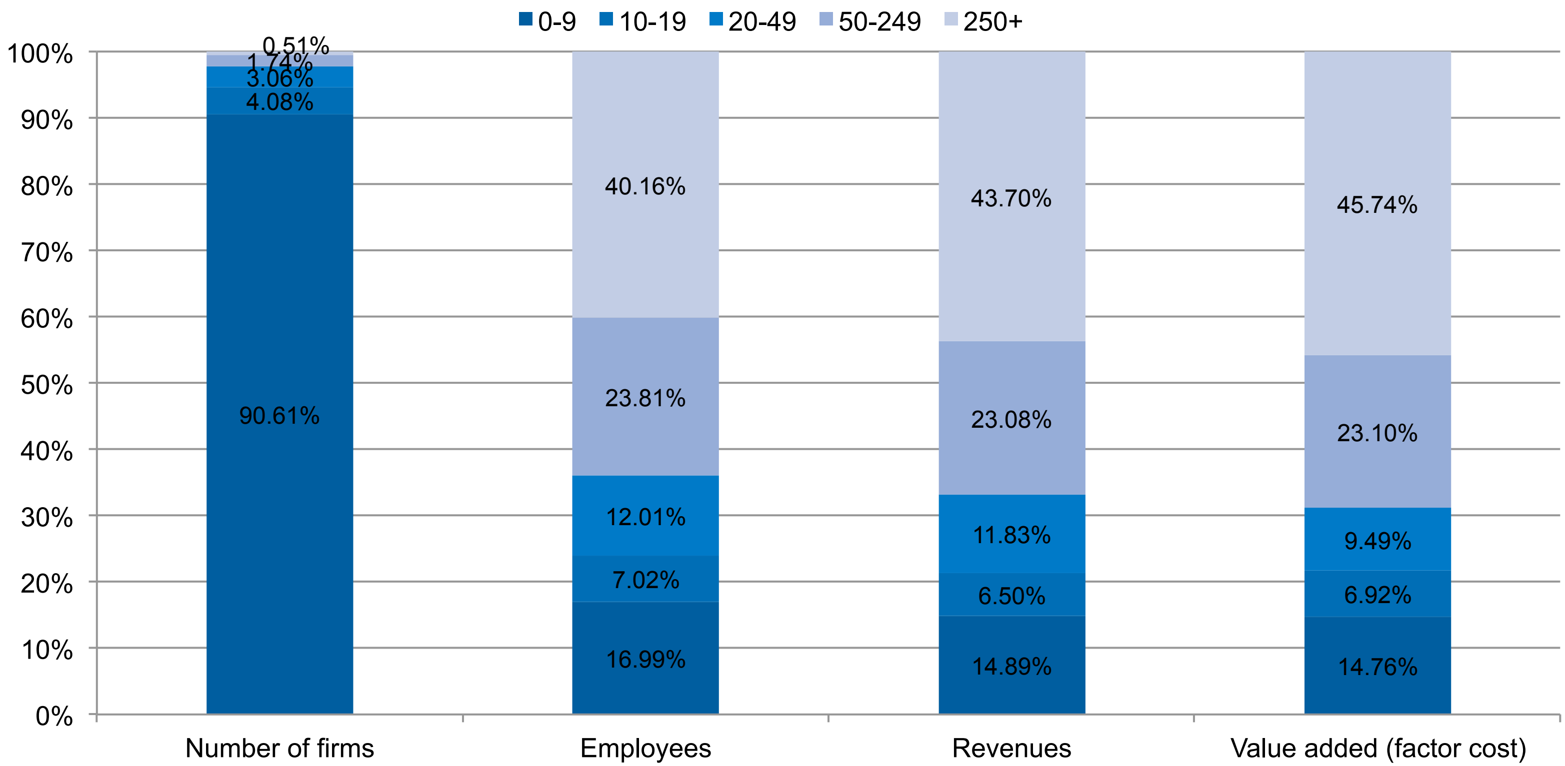
- Finland has recently placed well in international benchmarks on ICT
  - "Finland is one of the innovation leaders in ICT sector in Europe" (Sectoral Innovation Watch)
  - Finland is one of the few "independent" countries with a healthy and self-sustaining IT industry (PAC)
  - Finland ranked 6th in the number of companies in the 200 largest software firms in the world (PWC)
  - 6 Finnish companies in the top 100 European software companies in 2010 (7 in 2009) (Truffle)

IT industry competitiveness index 2009

	Score	Rank
United states	78.9	1
Finland	73.6	2
Sweden	71.5	3
Canada	71.3	4
Netherlan ds	70.7	5
United Kingdom	70.2	6
Australia	68.7	7
Denmark	68.6	8
Singapore	68.2	9
Norway	67.1	10

Source: Economist Intelligence Unit

An industry dominated by SMEs by number and large firms by volume



Structure of the Finish Software and IT Service industry in 2007 based on employee size classes Source: Eurostat

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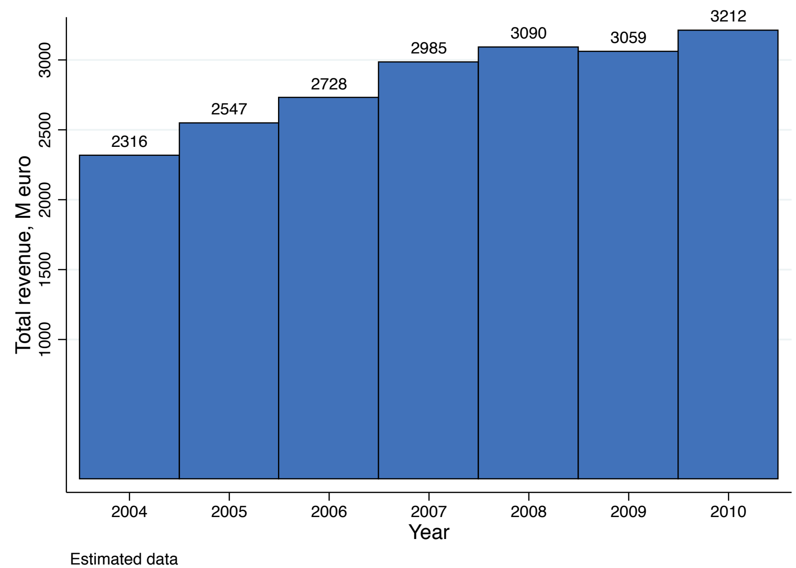
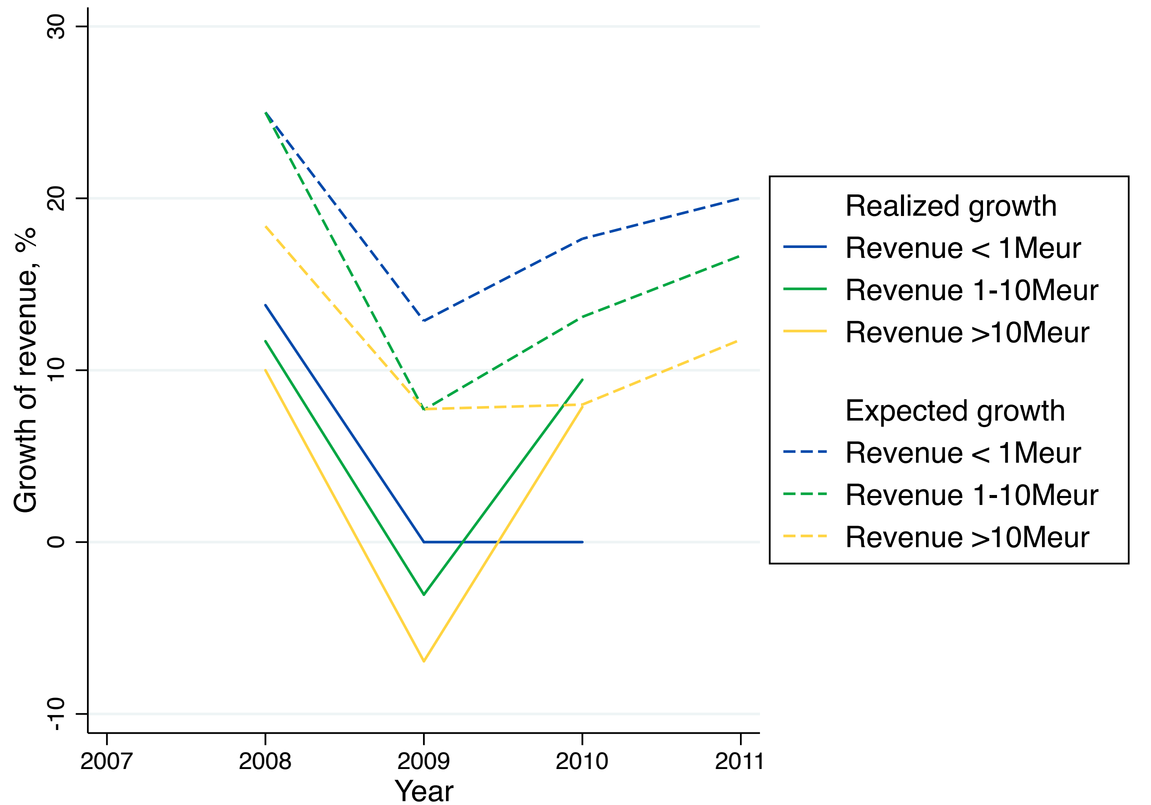
We estimate that the industry grew 5% in 2010

- Amount of software revenue and service revenue directly related to software is estimated to be 3.2B euro
- 2010 was a year of recovery from the recession
- Industry level growth in 2011 difficult to predict because of Nokia
  - Nokia will increase outsourcing of Symbian development with the Accenture deal
  - Current subcontractors will lose some of their business



Firm level growth and growth expectations back on normal levels



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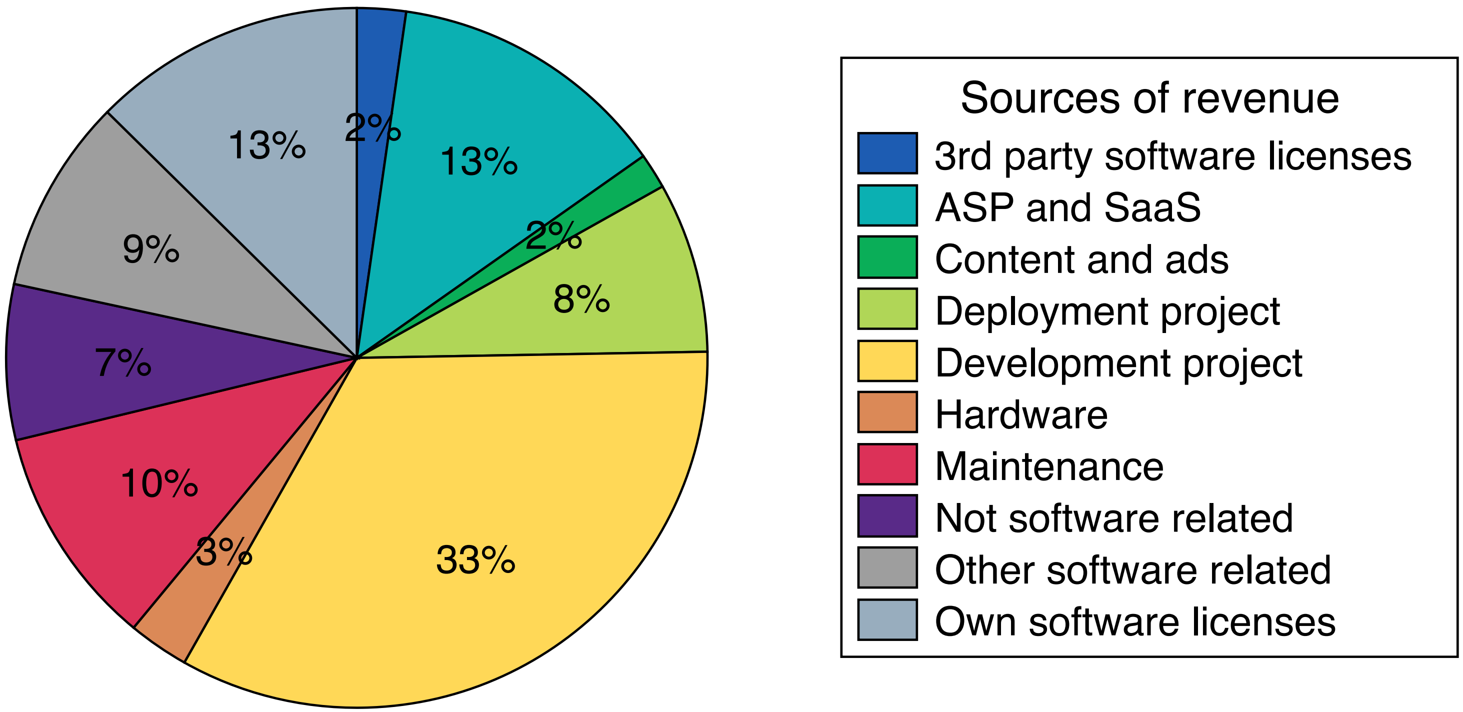
Sources of revenue remain stable

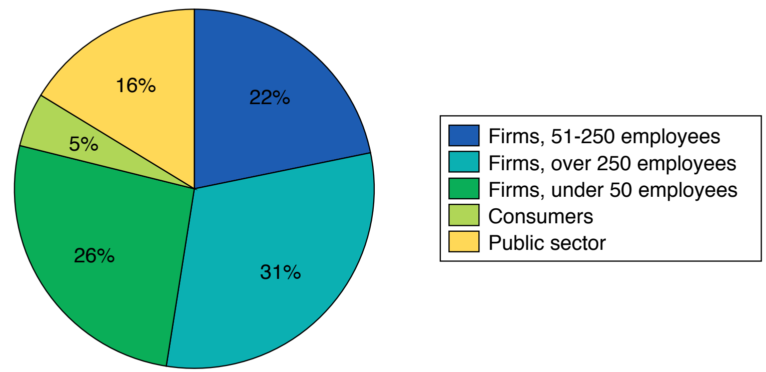


N=491

Finnish software industry is predominantly B2B business

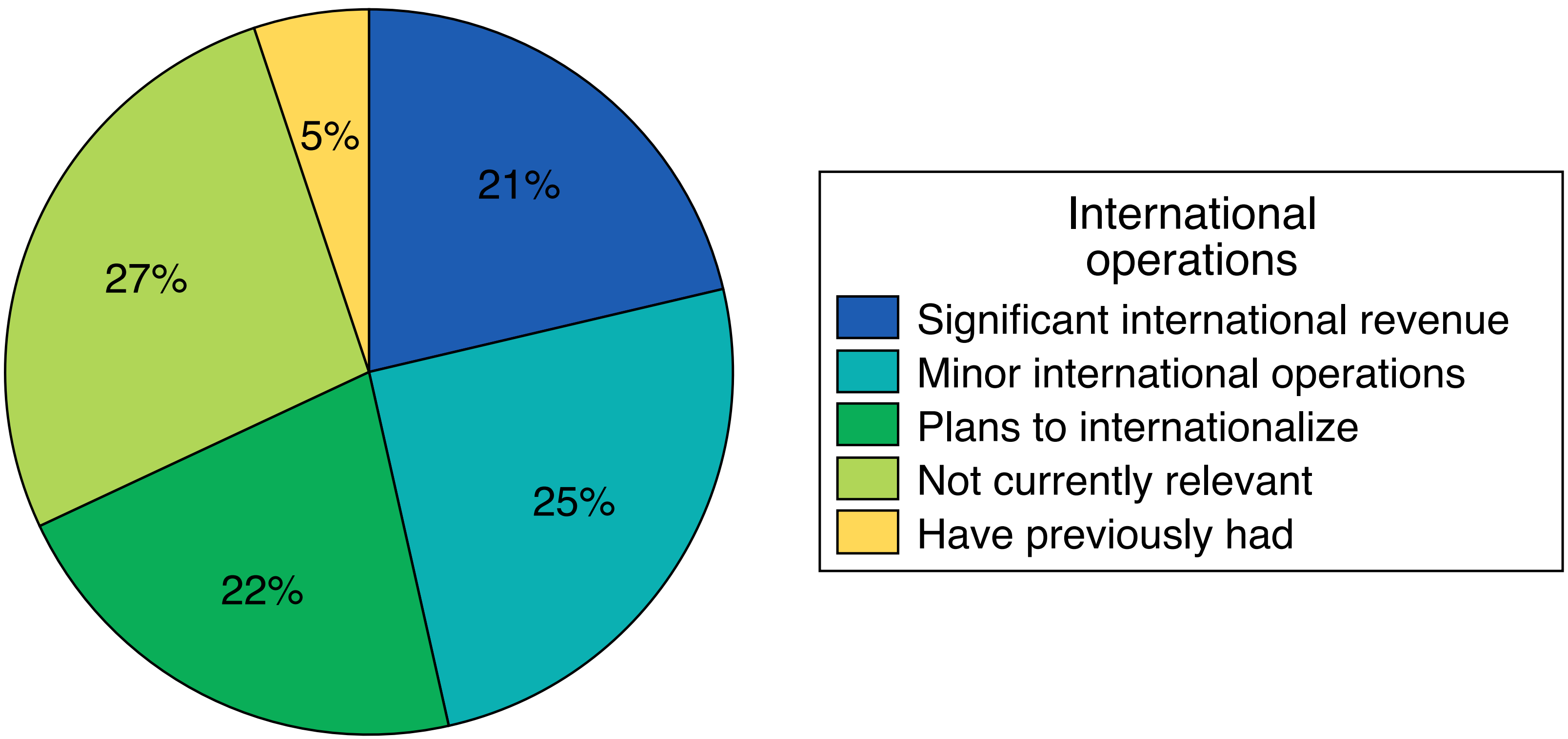
- Mainly B2B business
  - Information systems software
  - Development and deployment services
  - Professional applications
- Some notable consumer businesses
  - Computer games
  - Data security products

Typical customers



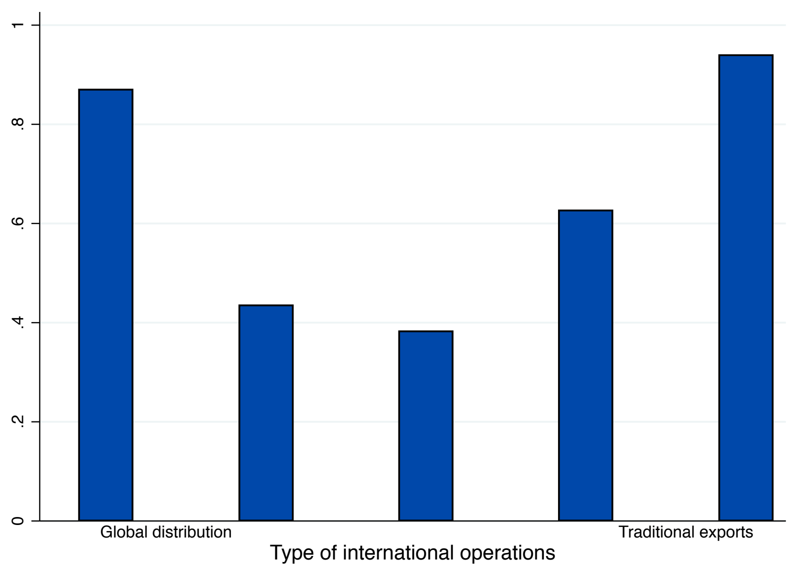
N=481

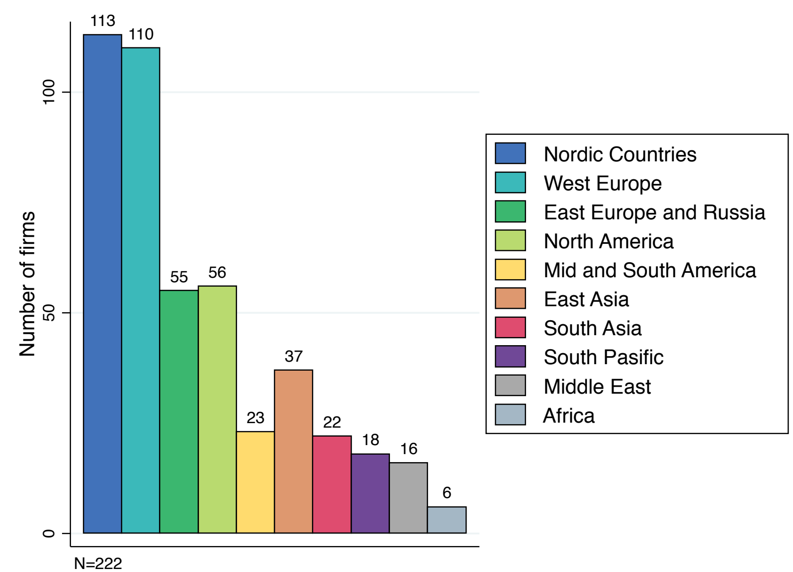
More than third of the companies have international revenue



N=469

The industry is half and half global business and traditional exports





The effects of Nokia's change of software strategy

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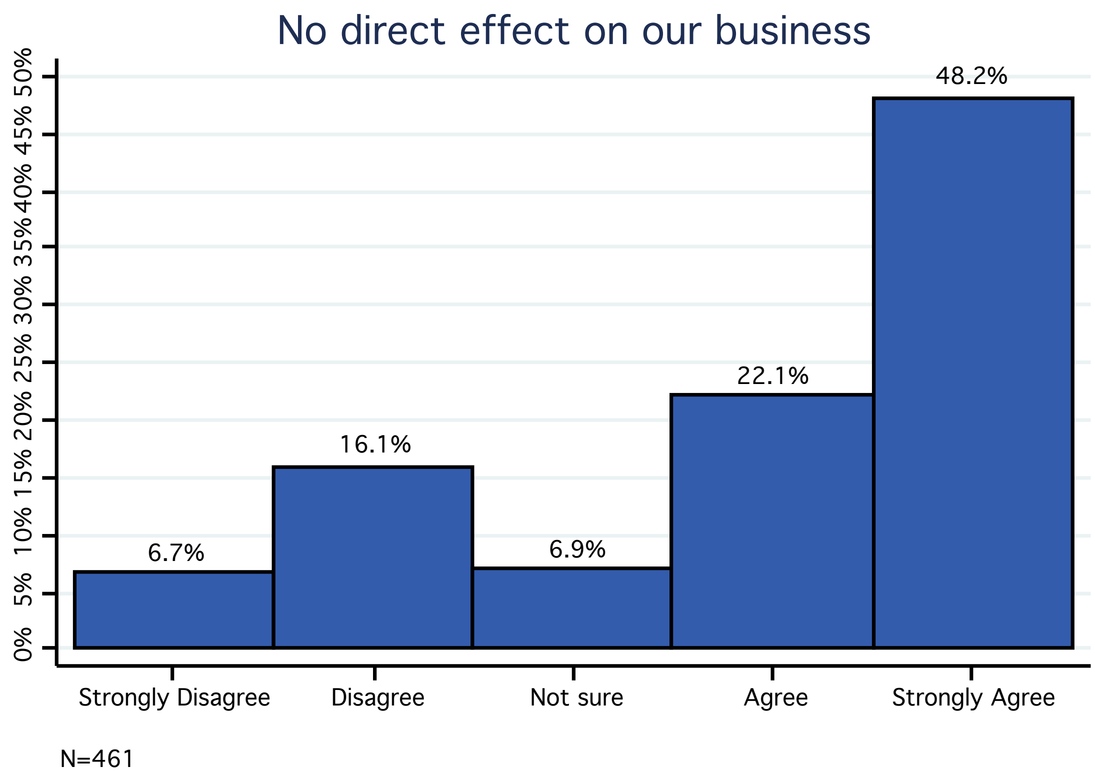
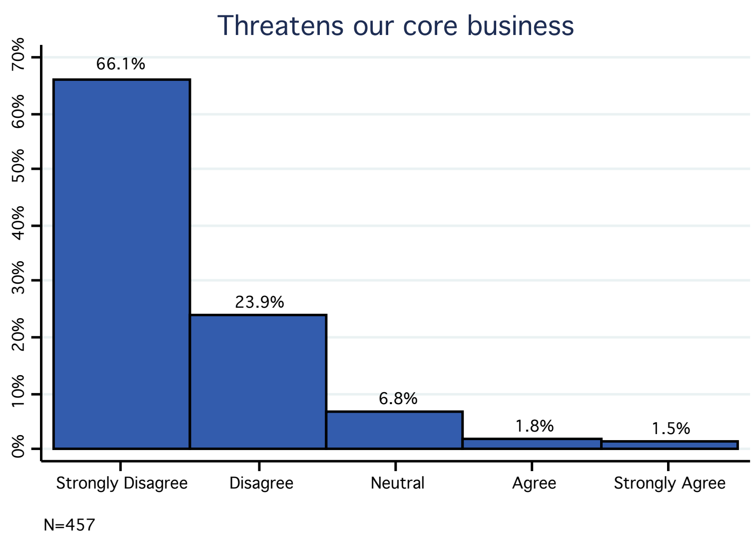
Perceptions about the impact of Nokia's new platform strategy

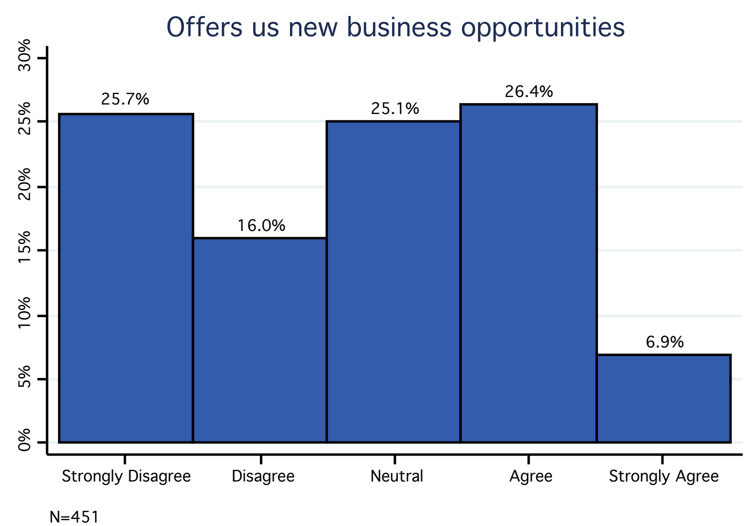
- Less than one in four (22,8%) expect some direct effect on their business
- However, Nokia's situation does not seem to affect the clear majority of firms



Perceptions about the impact of Nokia's new platform strategy

- Even fewer see that the viability of their core business is threatened (3,3%)
- A third see that the situation creates new business opportunities





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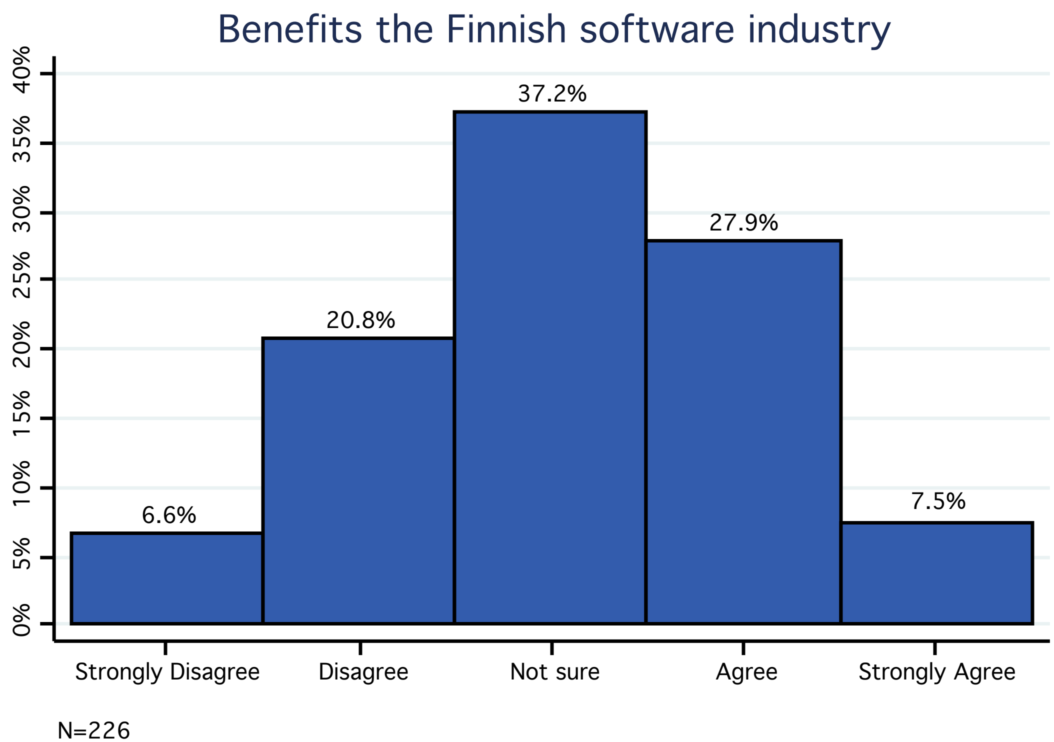
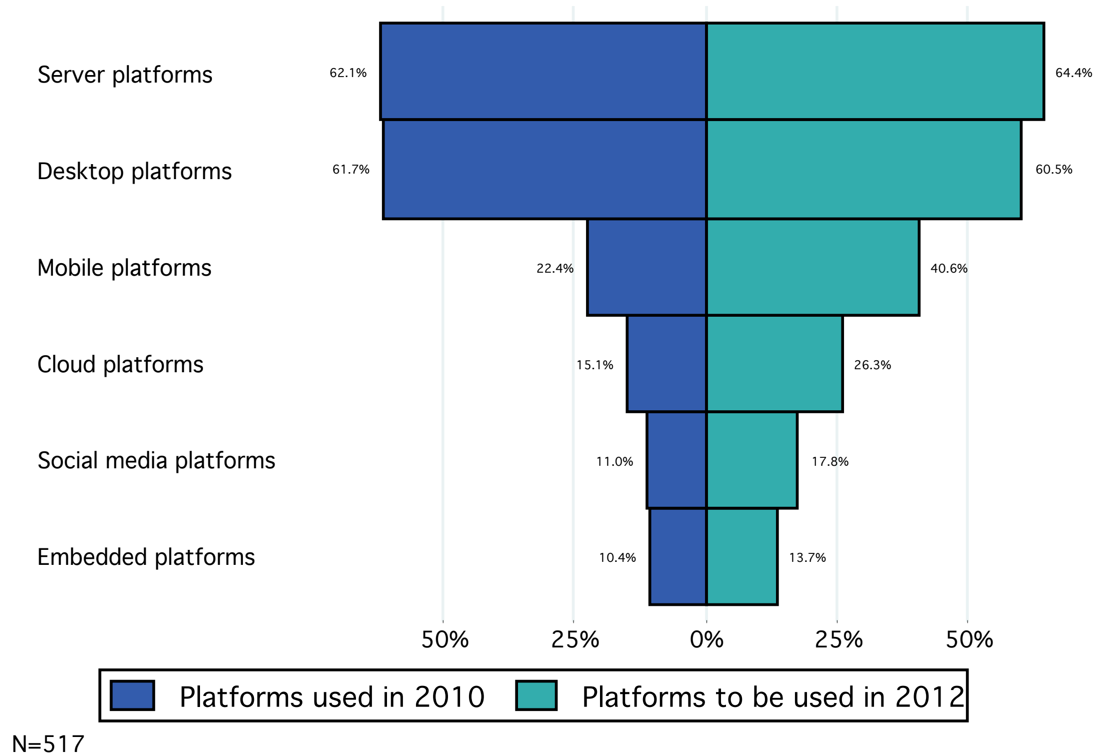
Perceptions about the impact of Nokia's new platform strategy

- A majority find Nokia's strategy change to be beneficial to the Finnish software industry (35.1% vs. 26.4%)
- However most firms (38.6%) expect no change



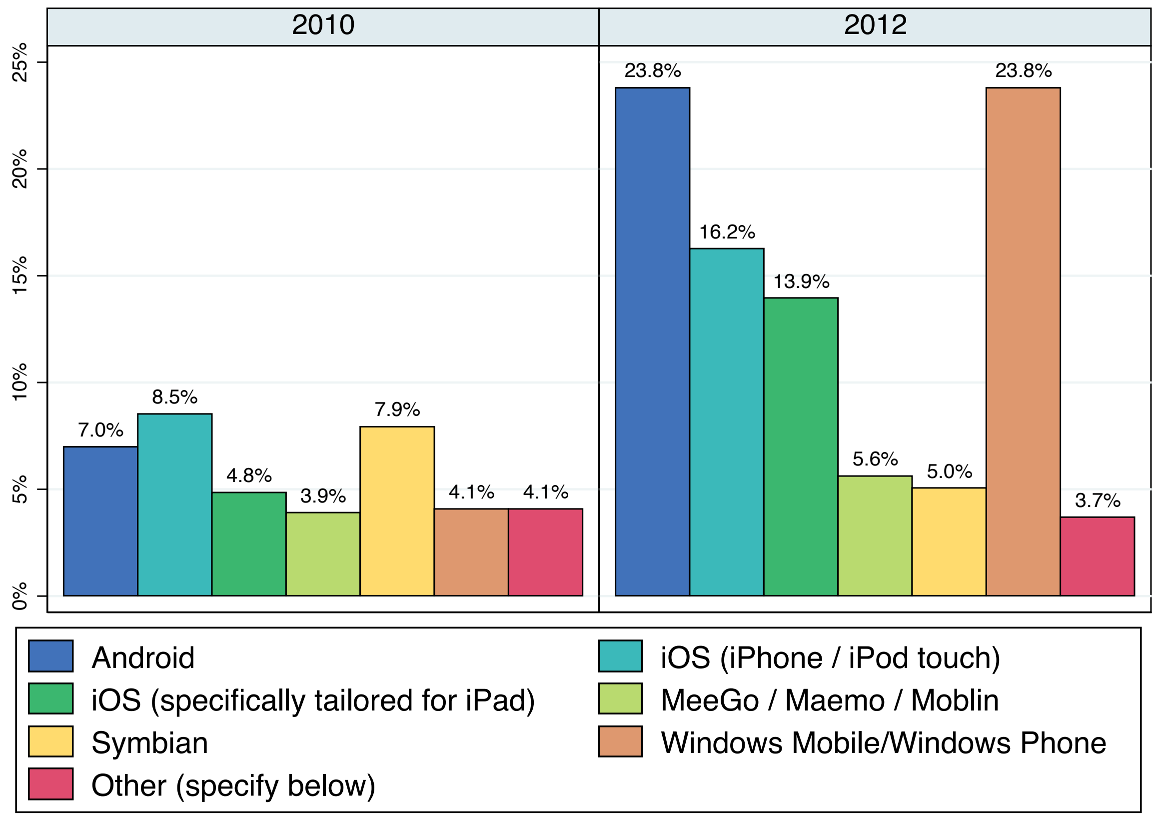
Platforms for which companies developed software for in 2010 and plans for 2012

- Server and desktop platforms have high and steady shares
- The industry is becoming more "mobile" despite Nokia's hardship:
  - About twice as many companies will develop for mobile platforms by 2012
- Cloud and social media are growing fast but remain at smaller shares



Platforms for which companies developed software for in 2010 and plans for 2012

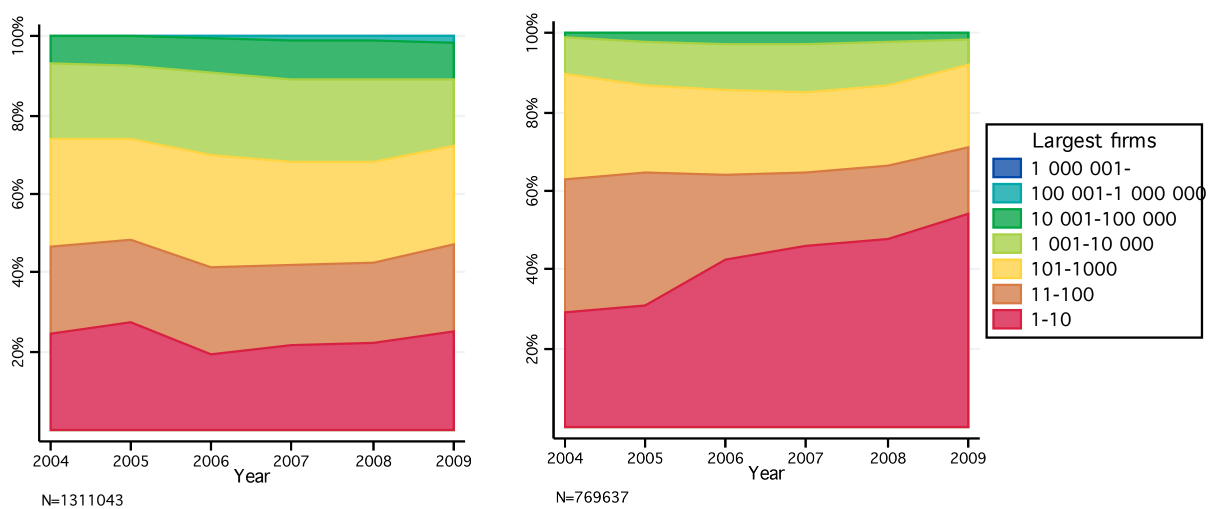
- Android development to surpass iOS development
- Windows Phone development will be as common as Android development
- Windows Phone will be the largest gainer



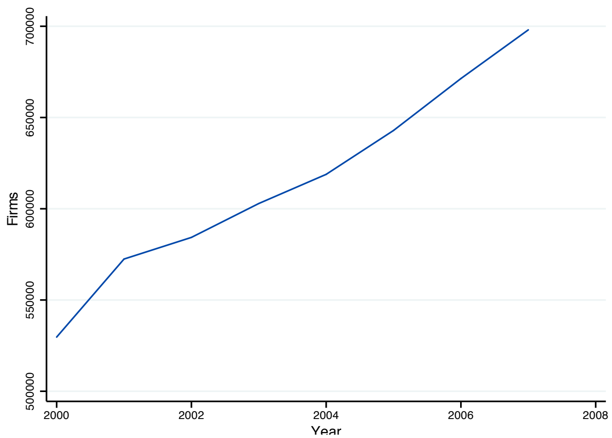
Consolidation and acquisitions

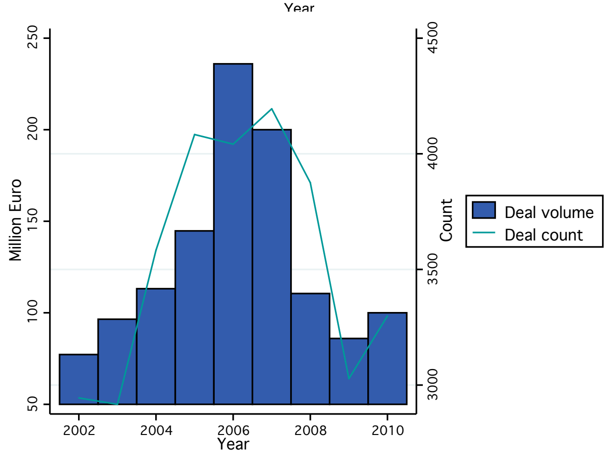
Industry Consolidation
Revenue and Profit distribution

- Revenue distribution has little variation
- Profits have been increasingly accumulating for the largest companies



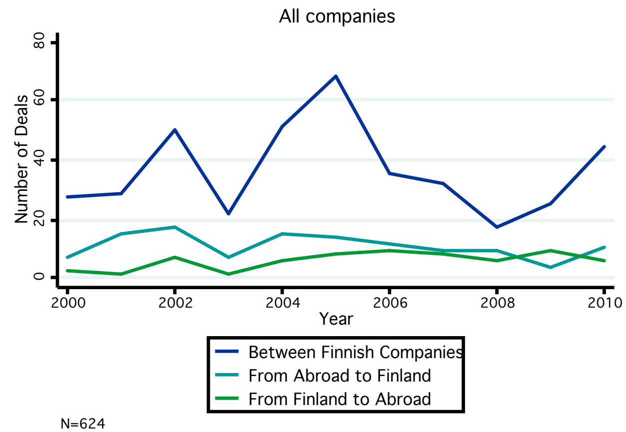
Industry Consolidation
Number of companies and M&A deals

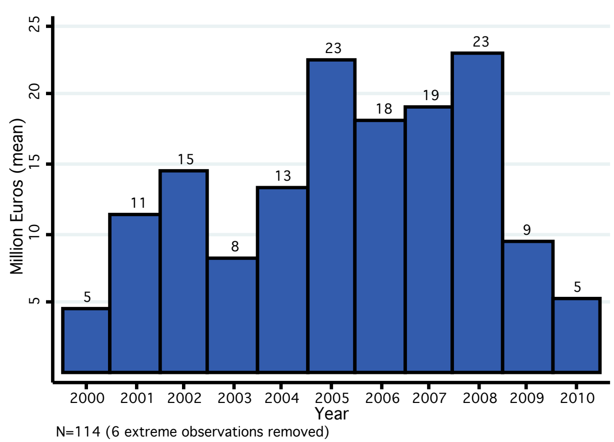




- Number of companies increase steadily
- Deal count and volume has dropped due to recession
- No sign of accelerated consolidation, or “shakeout”

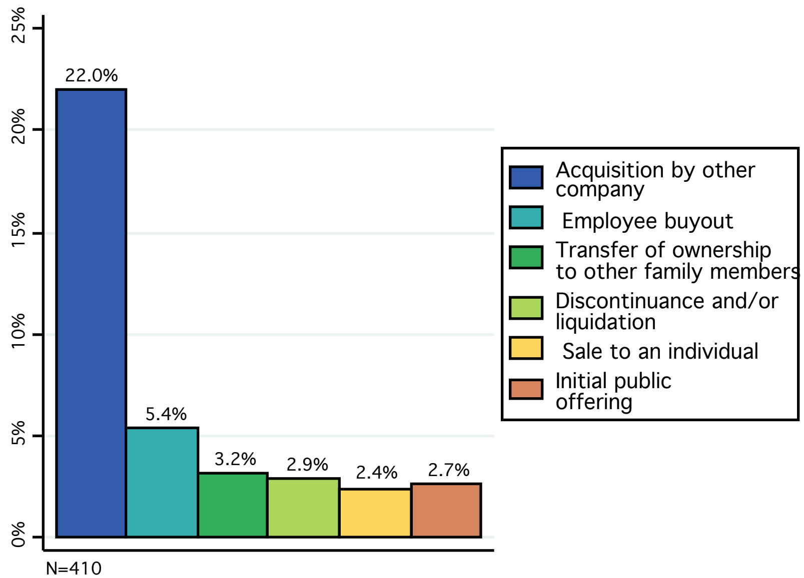
Industry Consolidation
Number and Value of Deals in Finland





- Number of domestic deals peaked in 2005, declined towards 2008
- A rise in number of deals after recession
  (+45% from 2009-2010)
- Mean value of deals has not recovered after recession
  – Some missing data for the last two years, but the trend is clear

Exiting the Finnish Software Industry
Potential Exit Avenues



- 22 % of surveyed companies would choose trade sale as exit avenue
- Other avenues rated very low
- The same pattern applies for every age class
  - Even mature companies will not choose IPO

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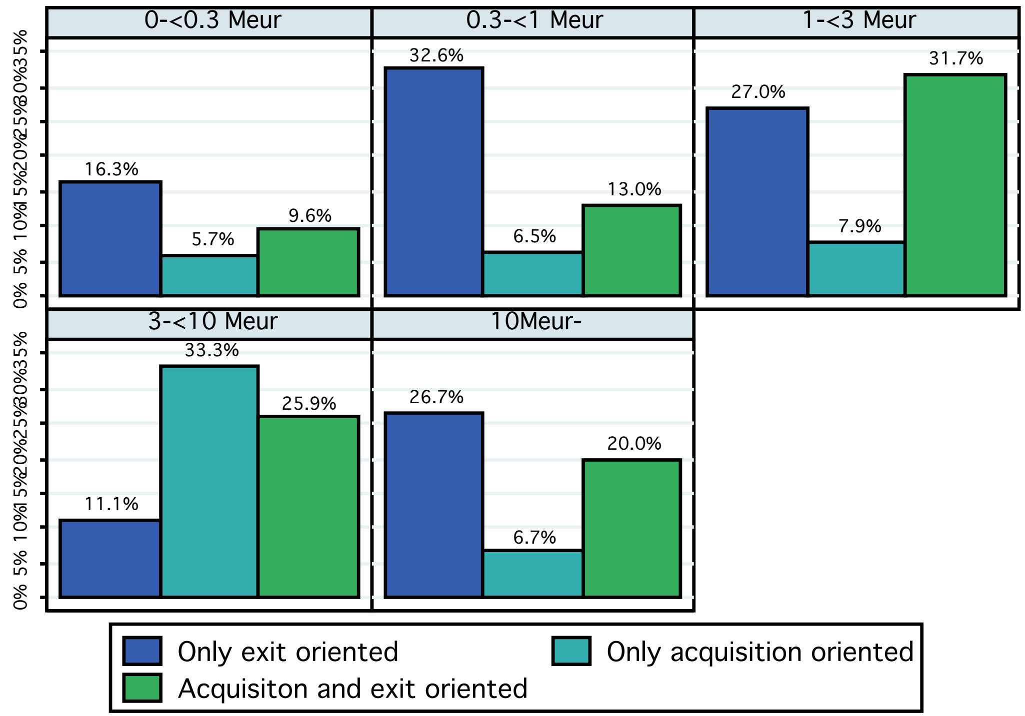
Exiting the Finnish Software Industry
Who is willing to sell or buy?

Willing to sell:

Those willing to grow, but who have trouble finding external financing

Willing to buy:

Those willing to grow, with good revenue



Conclusions

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Conclusions

- Finnish software industry is growing again after the recession
  - 5% growth
  - Profitability returned to almost pre-recession levels
- The views about Nokia's strategy change are more positive than negative
  - Most firms think that Nokia's strategy change has little effect on their business and welcome former Nokia employees
- Consolidation of the industry is proceeding steadily
  - Exit opportunities for entrepreneurs
  - Challenge for the Finnish Industry

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