

Retail Sales: 2013 Recap and 2014 Outlook

Retail sales up in 2013, exceeding long-term average. Despite a volatile year of consumer spending, U.S. retail industry sales increased 3.7% from the previous year to \$4.5 trillion in 2013, exceeding initial forecasts of 3.4% growth and surpassing the average growth rate of 3.6% over the previous 10 years. A healthy but slightly disappointing holiday shopping season, buoyed by heavy promotions and last-minute deals, saw holiday retail sales increase 3.8% from the previous year—just shy of the 3.9% forecast by the National Retail Federation (NRF). The year's volatility was attributed to the fiscal cliff, tax increases, a government shutdown and the rollout of Obamacare, as well as perennial issues such as consumer confidence and fuel prices.

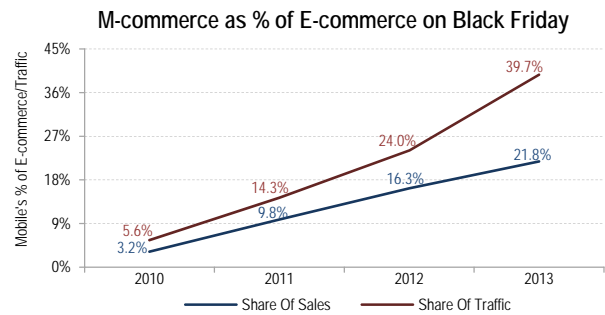
Uptick in retail sales forecasted for 2014. The NRF projects a less volatile year and a faster rate of growth in 2014, with U.S. retail industry sales increasing 4.1%. The optimistic outlook is attributed to stronger economic growth, continued recovery in the labor market, higher inflation and improvements in the housing sector that are expected to help bolster more consumer spending in 2014.

E-commerce and m-commerce to continue outpacing overall industry. Currently comprising 6% of all retail sales, U.S. e-commerce sales increased 17% to \$263 billion in 2013, the largest annual growth rate since 2007. Although a small fraction of the market, e-commerce is driving most of the sector's growth, averaging a 16% annual increase over the past four years. Accounting for approximately 11% of total e-commerce sales in 2013, mobile commerce is estimated to have grown 37% in 2013 and increased to 22% of e-commerce sales on Black Friday 2013.

Sources: National Retail Federation; U.S. Department of Commerce; BI Intelligence; comScore



Note: Seasonally adjusted
 Source: U.S. Department of Commerce



Sources: IBM; BI Intelligence

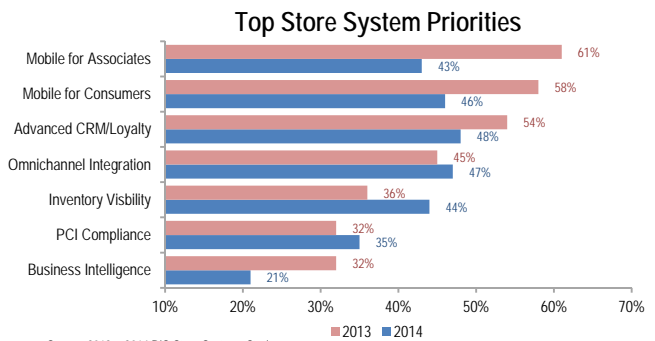
Retail Technology Trends

IT spending continues to rise with expected industry growth. Retailers are expected to continue their growth trajectory this year, as 75% of retailers are planning new stores and 60% are planning an increase in IT head count in 2014, compared to 66% and 58%, respectively, in 2013, according to an RIS study. As a result, enterprise IT and store IT spending are projected to grow 4.9% and 5.1% in 2014, up from 4.8% and 4% in 2013, respectively, suggesting that sales growth is expected to accelerate.

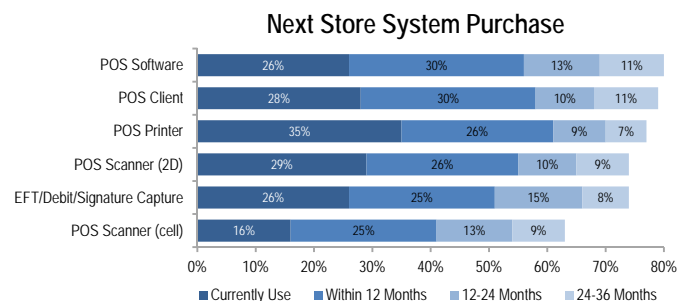
Omnichannel optimization and mobile continue to be top priorities. As retailers are increasingly seeking a unified solution that can manage transactions regardless of the channel, nearly half of all retailers cite omnichannel strategies as a key priority for 2014, while 63% expect their IT spend on omnichannel activities to increase this year, according to an RIS study. As the linchpin of omnichannel retailing, mobile will also continue to remain a heavy focus for retailers.

Mobile POS growing while traditional POS shrinking. With the advancement of mobile POS (mPOS), the number of U.S. retailers using tablets and smartphones as mobile registers is expected to triple this year while POS terminal purchases are expected to decline by 20%. In 2014, 30% of retailers are planning a new POS investment decision, the largest percentage in years, and 63% of those retailers say their next POS will be a unified transaction engine also used for e-commerce and m-commerce. By 2016, mPOS is expected to claim 12% of traditional POS shipments.

Sources: RIS News; IHL Group



Source: 2013 & 2014 RIS Store Systems Study



Source: 2014 RIS Store Systems Study

Mobility in Retail

Mobile paradigm shift. The shift to mobile in retail is expected to accelerate in 2014, with 84% of smartphone shoppers using their device as a shopping assistant, forcing retailers to address the utility, portability and cross-channel applicability of their current mobile capabilities. While 71% of retailers have a mobile optimized version of their website, only a third have a mobile app and offer mobile coupons, for example. Such features are expected to see higher adoption rates going forward in order for retailers to combine customer location, purchase intent analysis and personalized promotions to deliver offers to customers at the right time and in the right place.

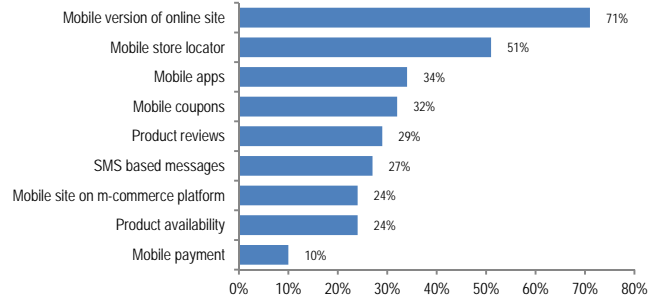
Four stages of mobile adoption. The first stage of mobile adoption by stores is to provide mobile devices intended for the manager, enabling the manager to be on the store floor instead of in the back office. By the end of 2014, more than half of all retailers are expected to have this technology deployed. The second stage puts a device in the hands of a store associate to improve customer engagement and product/inventory knowledge, and the third stage is mobile POS to streamline the customer checkout experience. Nearly 40% of all retailers are expected to have the second and third stages deployed in 2014, with the iPad the dominant mobile platform that retailers expect to deploy. In the fourth stage, consumers are able to perform checkout using their own device, which is expected to reach an adoption rate of 29% in 2014.

Mobile payments. While still in the early stages, payments made via mobile phones are expected to exceed \$600 billion in 2016, according to ISIS, a mobile wallet provider. The percentage of consumers willing to use mobile wallets is expected to rise as confidence grows in merchants' ability to secure their information. Moreover, with the rising popularity of digital currencies like PayPal, Google Wallet and Bitcoin, industry advancements are expected to take shape in 2014 to push mobile and digital currency further into mainstream retail.

Mobile analytics. The most valuable element of mobility will be found in its analytic opportunities to deliver a more personalized shopper experience. Mobile-enabled analytics can be used to gain a greater understanding of general traffic patterns and customer behavior and can also be tied to more granular, individualized measurements of shopper activity, including customer activity related to retailers' mobile apps, sites and coupons.

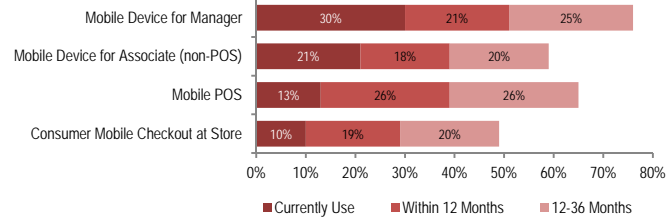
Source: RIS News

Mobile Capabilities Currently Deployed



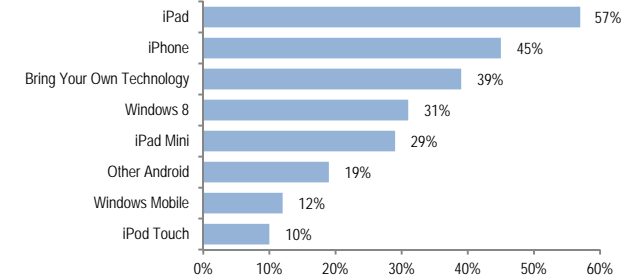
Source: 2013 RIS Cross-Channel Study

Mobile Device Adoption Plans



Source: 2014 RIS Store Systems Study

Mobile Platform Plans for 2014



Source: 2014 RIS Store Systems Study

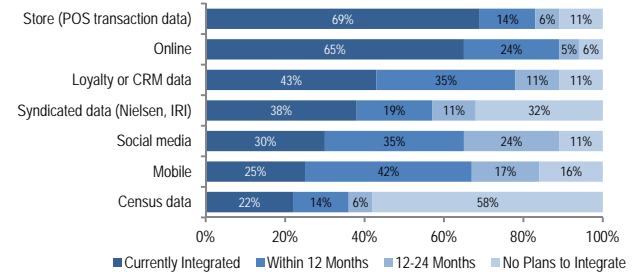
Analytics in Retail

Big Data to drive IT spending. Big Data is forecasted to drive \$34 billion of IT spending in 2014, according to IT research firm Gartner. In retail, Big Data can mean access to real-time analytics able to fuel dynamic pricing in store and online in a real-time, customized manner, as well as leveraging historical sales trends or latent POS data for better planning and forecasting. However, organizing and integrating unstructured data from a variety of sources is the greatest challenge retailers are currently facing with Big Data.

Big Data still in its infancy but critical to omnichannel integration. Big Data is five years away from becoming mainstream in retail, according to market research firm EKN, as 60% of retailers still assess themselves as having only basic analytics capability. Moreover, 83% of retailers consider themselves at par or behind competition in terms of strategic use of analytics, and only 3% of retailers currently use a mobile business intelligence solution. Understanding that improving customer insights is

Sources: Gartner Research; EKN Research; RIS News

Integrating Data Sources into Analytics



Source: EKN Big Data in Retail (2013)

one of the foundational elements of omnichannel retail, 58% of retailers plan to implement a predictive analytics tool and digital dashboards for management in the next two years, while 70% plan to implement a mobile business intelligence solution. However, less than 20% plan to invest in any Big Data technology in the next 12 months, intending to be more aggressive in the 12-24 month timeframe.

Merger Musings



Deal: PE firm Clearlake Capital formed Tolt Solutions from the \$35 million acquisition of the Retail Solutions Group of Agilysys (rebranded Kyrus Solutions) in July 2013 and the subsequent acquisition of Tolt Service Group in January 2014.

Implications:

- Creates one of the largest independent providers of retail IT services and technology solutions in North America
- Coupled with Clearlake's operational and financial capabilities, develops a strong platform to build an even stronger and more dynamic global retail technology company via a combination of organic and acquisitive growth

Source: Capital IQ; company press releases



Deal: RetailNext acquired Nearbuy Systems in December 2013 in an all-stock, 100% equity deal that values Nearbuy in the "high teens millions."

Implications:

- Enables RetailNext to increase its location-based analytics capabilities at brick-and-mortar stores
- Provides RetailNext with the technology to let retailers provide free Wi-Fi to omnichannel shoppers in exchange for the ability to track their behavior and create personalized ad campaigns
- Expands RetailNext's global partner network, wireless expertise, platform, retailer base, employee base and patent portfolio



Deal: SAP (DB:SAP) acquired hybris in August 2013 for an undisclosed amount estimated to be \$1+ billion.

Implications:

- Enables SAP to deliver complete omnichannel business solutions
- Tightens SAP's competition with rivals IBM and Oracle by filling the void of a credible enterprise commerce platform in its portfolio
- Enterprise commerce technology landscape is now dominated by four large software companies: SAP, IBM, Oracle and eBay
- Leaves few independent vendors in the enterprise commerce technology space, bringing to a close a multi-billion-dollar, three-year spell of intensive M&A and IPO activity in the sector

Recent M&A Activity: Retail Technology (SaaS and Legacy)

Date	Target	Acquirer	Enterprise				Description
			Value	Revenue	EBITDA	EV / Revenue	
Jan 14 A	Payment Processing, Inc.	Global Payments Inc.	\$420	-	-	-	Integrated payment processing solutions
Jan 14 A	Datec Retail Systems	Wincor Nixdorf	-	-	-	-	Retail software for data integration
Jan 14	MICROS Boise and Spokane	Spark Solutions Group	-	-	-	-	POS systems for hospitality industry
Jan 14	Quest Solution Inc.	Amerigo Energy, Inc.	\$16	\$34	-	0.5 x	Mobile supply chain solutions
Jan 14	Tolt, LLC	Kyrus Solutions, Inc.	-	-	-	-	Retail focused IT support solutions
Dec 13	Nearbuy Systems, Inc.	RetailNext, Inc.	-	-	-	-	Multi-channel shopper analytic products
Oct 13	One iota Limited	Sanderson Group	\$9	\$1	-	8.2 x	Cloud-based multi-channel retail solutions
Sep 13	Easy2 Technologies, Inc.	Answers Corporation	-	-	-	-	Multichannel merchandising technology solutions
Aug 13	hybris GmbH	SAP AG	-	-	-	-	Multi-channel commerce software solutions
Jul 13	MerchantOS	LightSpeed Retail Inc.	-	-	-	-	Cloud-based POS and inventory software
Jul 13	Agilysys, Retail Solutions Group	Clearlake Capital	\$35	-	-	-	Retail focused IT support solutions
Apr 13	TradeCard, Inc.	GT Nexus, Inc.	-	-	-	-	Supply chain collaboration platform
Mar 13	Ogone BVBA/SPRL	Ingenico SA	\$510	\$54	-	9.5 x	Online payment solutions
Feb 13	Channel Intelligence, Inc.	Google Inc.	\$125	-	-	-	Technology services that drive online purchases
Feb 13	Retalix Ltd.	NCR Corp.	\$613	\$267	\$24	2.3 x	Software solutions to retail stores
Feb 13	G4 Analytics, Inc.	Nielsen Holdings N.V.	-	-	-	-	Retail business intelligence applications

Mean	5.1 x
Median	5.3

Source: Capital IQ and public company filings. Amounts in millions of U.S. dollars.

Public Company Valuation: Retail Solutions

Company Name	Ticker	Stock Price	% of 52-Week			Market Enterprise			EV / Revenue			EV / EBITDA			P/E		
			High	Low	Cap	Value	Cash	LTM	2014E	2015E	LTM	2014E	2015E	LTM	2014E	2015E	
NCR Corp.	NYSE:NCR	\$33.55	81 %	131 %	\$5,568	\$8,422	\$528	1.4 x	1.2 x	1.2 x	9.5 x	7.7 x	7.0 x	12.6 x	11.0 x	9.5 x	
MICROS Systems, Inc.	NasdaqGS:MCRS	54.59	92	136	4,122	3,498	627	2.7	2.5	2.4	13.6	11.3	11.1	26.5	20.3	18.3	
Wincor Nixdorf	XTRA:WIN	79.12	99	160	2,356	2,493	135	0.7	-	-	9.5	-	-	19.6	-	-	
Bematech SA	BOVESPA:BEMA3	3.39	79	120	171	148	31	1.0	-	-	6.1	-	-	9.8	-	-	
GK Software AG	DB:GKS	64.32	89	199	122	109	17	2.3	-	-	-	-	-	-	-	-	
PAR Technology Corp.	NYSE:PAR	4.80	81	126	75	66	10	0.3	0.2	0.2	-	-	-	-	12.1	10.1	

Mean	87 %	145 %		1.4 x	1.3 x	1.3 x	9.7 x	9.5 x	9.0 x	17.1 x	14.5 x	12.6 x
Median	85	133		1.2	1.2	1.2	9.5	9.5	9.0	16.1	12.1	10.1

Source: Capital IQ as of February 25, 2014. Amounts in millions of U.S. dollars, except share price.

Selected Marcum Cronus Transactions

iDevices
has issued preferred stock to

connecticut innovations

STONEHENGE GROWTH CAPITAL

cornellmayo associates
store systems anywhere™

has been acquired by

Retalix

RetailOptimization inc.

has sold substantially all its assets to

revionics

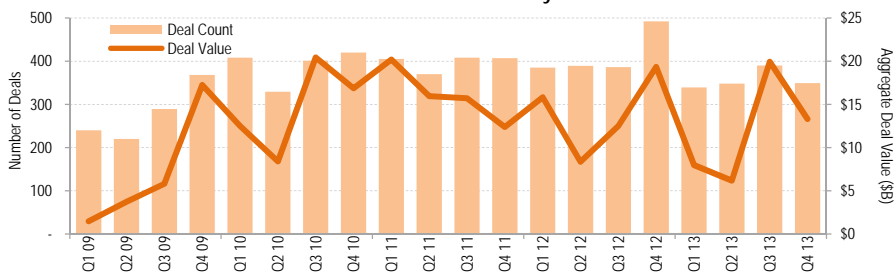
AGENTRICS

has merged its PLM business with

TRACEONE™
accelerate innovation

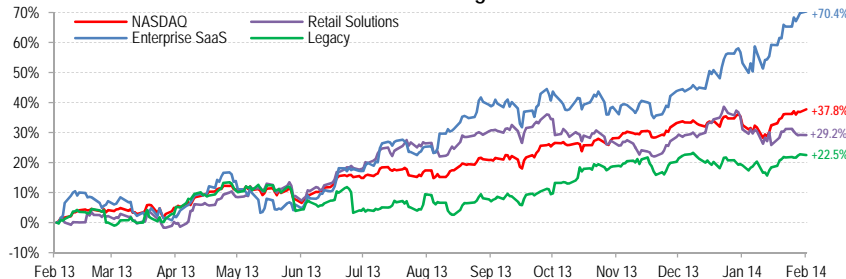
Market Trends and Performance

Software M&A Activity



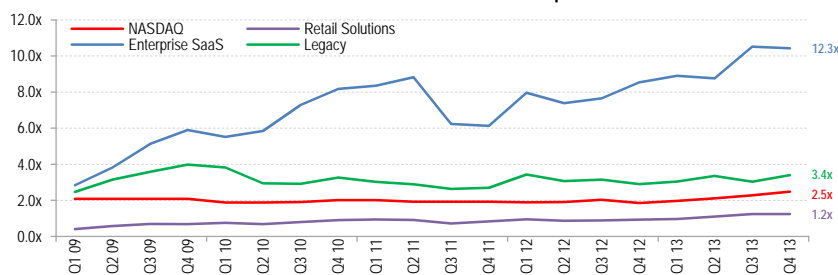
Source: Capital IQ

Public Market Trading Performance



Source: Capital IQ as of February 25, 2014

Historical EV/Revenue Multiples



Source: Capital IQ as of February 25, 2014; historical EV/Revenue multiples are enterprise value weighted

M&A deal activity declined in 2013 but expected to rise in 2014. In 2013, there were 1,426 closed M&A software deals with an aggregate value of \$47 billion, compared to 1,652 closed deals with an aggregate value of \$56 billion in 2012, representing a 14% drop in deal flow and a 15% drop in deal value. The deal outlook for 2014 is optimistic and points towards an accelerated M&A pace as technology companies continue to expand into the cloud, mobility continues to grow and more companies across industries leverage Big Data analytics.

SaaS stocks continue to outperform tech peers. As businesses increasingly rely on cloud computing to access and analyze data, enterprise SaaS stocks (+70.4% LTM) continued to ride the wave of momentum up, led by Demandware (+153.7%), ChannelAdvisor (+121.3%) and LogMeIn (+96.9%). While retail solution (+29.2%) and legacy (+22.5%) stocks have been performing well, each group still had underperformed against the broader market (+37.8%) over the last 12 months.

SaaS commanding highest valuations. Revenue multiples for enterprise SaaS companies (12.3x at year-end 2013) continued to far outpace its tech counterparts. The higher valuation for SaaS is indicative of the premium that comes with its higher growth prospects over more traditional software rivals and legacy IT providers, who are trying to transition out of their hardware-oriented world.

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