WDAY acq. CDAY

M&A Pitch to Workday, Inc.

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Agenda

1. Industry Analysis
2. Client, Target, and Competitors Overview
3. Transaction Universe
4. Strategic Rationale
5. Deal Mechanics & Valuation Summary
6. Risks & Evaluation
7. Appendix

Executive Summary

Industry & Company Overview

- The ERP (and HCM) industry is experiencing strong secular tailwinds, and is projected to grow at a strong rate
- However, there still lie challenges ahead especially for smaller players like Workday and Ceridian; an aggressive strategy, possibly through M&A, may be necessary for them to stay afloat in the face of fierce competition

Strategic Rationale

- The acquisition of Ceridian by Workday blends together many core and recurring strategic themes of past transactions, and hence has strong historical precedent
- On a more granular level, there are significant revenue and cost synergies to be reaped from the proposed transaction

Valuation Summary

- We believe that both Workday and Ceridian are slightly overvalued (7.6% and 9.7% respectively) by the market as it stands
- Crucially, we believe that the combined pro forma entity can deliver strong upside to both sets of shareholders (37.4% premium on current WDAY share price), as the combination of the businesses is stronger than the sum of the parts

Risks & Evaluation

- As with all M&A transactions, there exist very real risks to the ambitious acquisition we are proposing
- However, we not only believe that the risks are relatively unlikely to materialise, we also evaluate that the potential upside decisively outweighs the risks involved

ERP Software Industry Analysis

ERP & HCM Markets

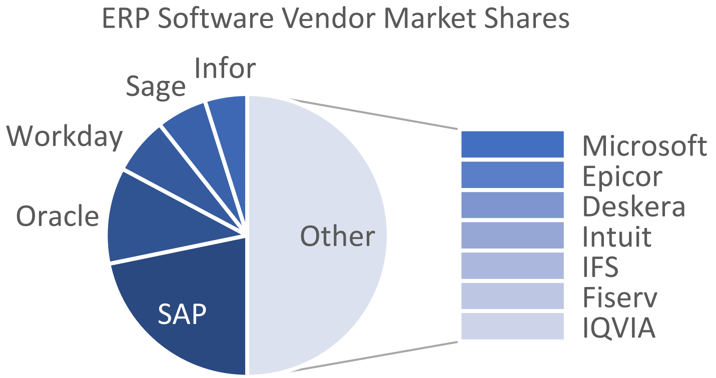
Overview

ERP: software for integrated management and coordination of main business processes

HCM: automates and simplifies HR functions e.g. payroll to streamline workflows allow for automated employee self-service

- Market Segment within the ERP market
- Often provided as standalone products but increasingly offered in crossover, holistic products and integrated in ERP cloud systems

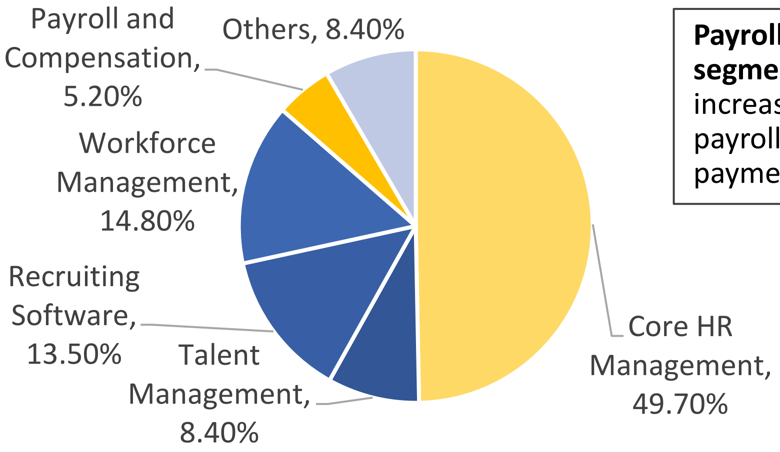
Key Players & Market Shares



The Top 5 players in the Industry make up 50% of market share but market remains fragmented with smaller vendors continuing to attempt entry

Market Segmentation

HCM by Function



Payroll and Compensation segment: promising due to increasing emphasis on smart payroll solutions and mobile payments for self-service

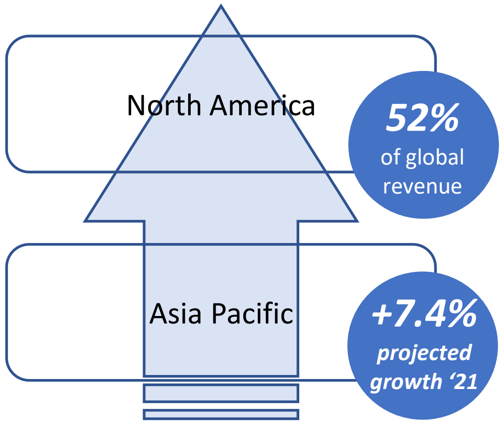
HCM by Region: Promising Regions

North America projected to continue to hold greatest market share

- Growth fueled by high adoption rate of business process software and workforce analytics solutions

Asia Pacific: fastest growth segment driven further by

- Growing manufacturing, demographics
- Demand for tech solutions & data analytics in increasing demand for skilled workforce, reshaping work culture

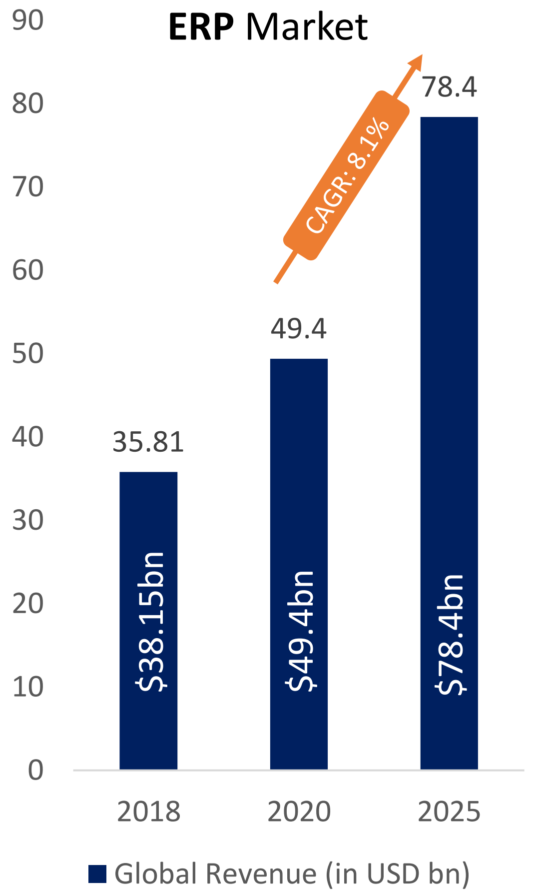


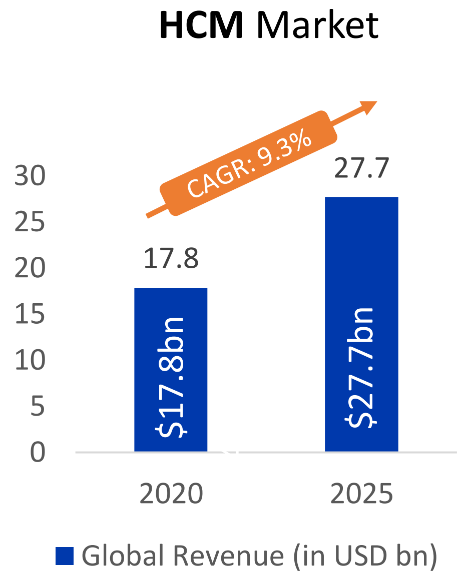
Sources: Gartner.com; Fortune Business Insights, IBIS World

ERP Software Industry Analysis

Global Market Sizing & Outlook

After slowdown in growth of -1.2% CAGR in 2020 due to economic slowdown, TAM expected to continue growing driven by technology advancements and changing business needs during the pandemic.





Secular Trends

SaaS Industry growth
Forecast of high growth industry, increasingly popular delivery method of ERP

Need for HCM solutions
Remote work meant dispersed workforces, decreasing productivity, new health and safety regulations

Business process transparency and digitalization
Increasing demand for automation and real time information transmission

Development and demand for advanced technologies
AI, big data analysis, IoT and Blockchain create crucial opportunities for ERP market

Macroeconomic Trends

Macroeconomic Outlook and External Drivers

Macroeconomy Slow Recovery
General slowdown in growth but expected to recover slowly in 2021: UK economy expected to grow by 4.5% this year, down from 5.8%, not enough to reach pre-pandemic levels

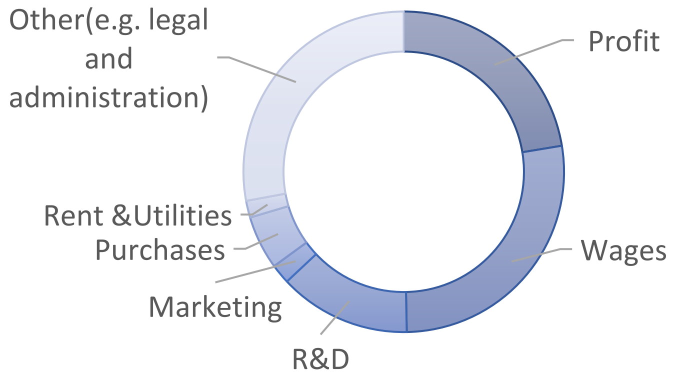
Low Business Confidence
Decline due to persistent uncertainty about impact of Brexit on global industries, COVID-19 amongst others: less willingness to adopt new software

Lower Corporate Profits
Less capital expenditure during the pandemic so decreasing demand for ERP software

Rising Level of IT and Telecom Adoption
+4.2% investment in computers and software so increasing potential market

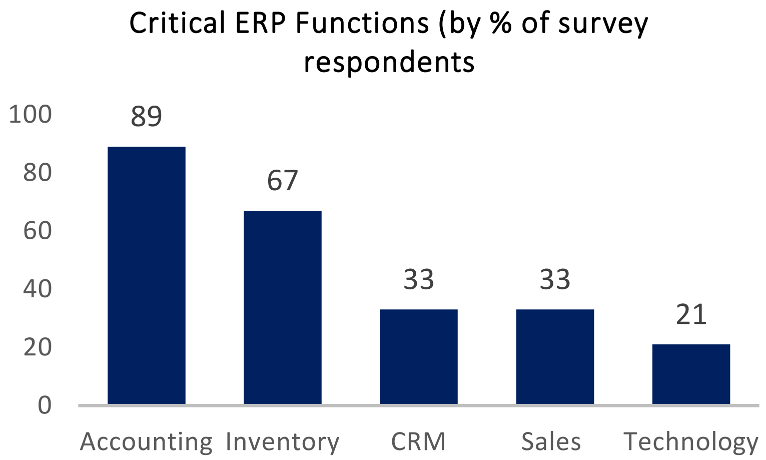
ERP Software Industry Analysis

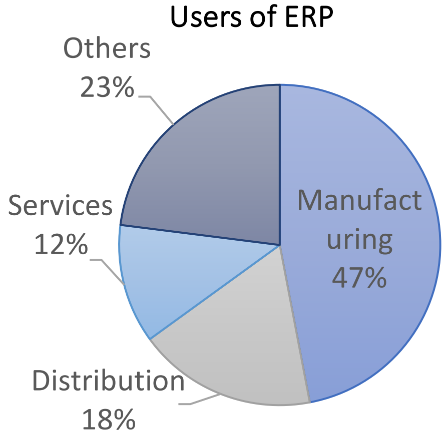
Cost structure



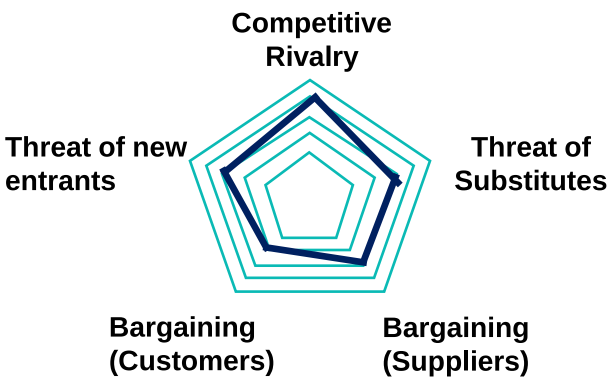
There are significant profits to be reaped in this industry. Since this is a knowledge-based economy, wage costs and R&D make up the big proportion of costs.

ERP functions and Users of ERP





Five forces analysis



Competitive rivalry

High – Firms face tough competition among them, competing on the basis of user friendliness and compatibility.

Threat of new entrants

Medium – There are no formal prohibitions for entry. However, the limited pool of highly skilled workers can make it difficult to enter.

Threat of substitutes

Medium – The industry faces some external competition from data warehouse appliance vendors, that is becoming more popular.

Customer bargaining

Low – There is a relatively high firm concentration in the industry with big four firms making up over half the revenue. Firms build up a loyal following of customers.

Supplier bargaining

Medium – Although total costs are on the whole low, wage costs make up the majority of costs. Highly skilled workers have bargaining power.

Client Overview

Business Overview

Info on Workday

- Workday is run by Ahneel Busri (founder), Chano Fernandez and Dave Duffield (founder). The management is highly ambitious with targets of increasing yearly revenue to $10 billion by 2025.
- Workday has been fairly active in M&A activity in recent years, with 7 acquisitions made in the last three years. Significant transactions include:
  1) **Peakon**, an employee engagement app acquired in 2021 for $700M.
  2) **Scout RFP**, a cloud-based platform for strategic sourcing and supplier engagement acquired in 2019 for $540M
  3) **Adaptive Insights**, a cloud-based business planning and financial modelling company, acquired for $1.55B in 2018.

Segments

Main segments

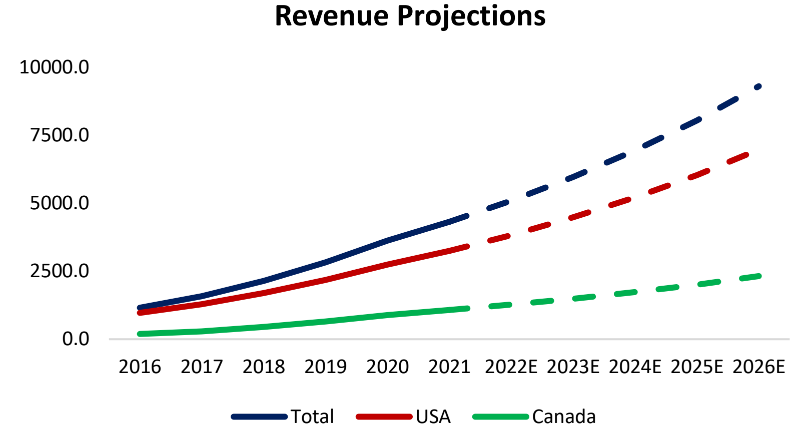
- Human Capital Management (HCM) Software
- Financial Management Software

Most of Workday's revenues comes from the USA and North America.

In global HCM vendors, Workday occupies one of the top spots by market share. However, in recent years it has been focusing on its financial management software as its financial products have performed very well in recent years.

Current Standalone Financial Projections

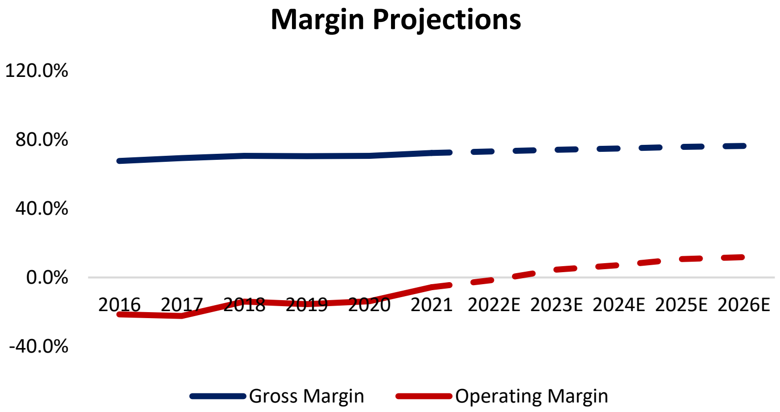
Workday Revenue



Our forecasts are slightly under the management revenue target, but we nonetheless project a exponential growth rate in total revenue, reflecting the management's ambitions.

Workday is still a growing company and will still look to expand its product offerings in the future. It may also

Workday Margins



Workday is projected to become profitable in 2022. Workday will build on the strong demand for its financial products.

There has been a recent surge in requests for HCM software in the US, resulting from companies forced to upgrade their HR systems due to remote working arrangements during the Covid-19 pandemic. This trend may continue as the future of work evolves.

Target Overview

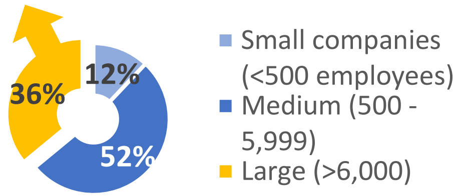
Company Overview

Overview

Ceridian specializes in Human Capital Management (HCM) software with its flagship product **Dayforce.**

Management Plans:
- Strategic investments in **product development** and **innovation**
- Boost sales and marketing to capitalize on market opportunities more globally and **generate revenue growth**
- Recent acquisitions of Excelity and Ascender point to **expansion into APJ and Australia** with Riteq

Customer Profile:
- 4,906 customers in 2021
- Across many verticals including professional services, manufacturing, construction, retail, healthcare
- High potential and momentum in large business segment due to scalability



Innovative Technology and Key Specialisation

Named Leader in Gartner 2020 Magic Quadrant for Cloud HCM Suites

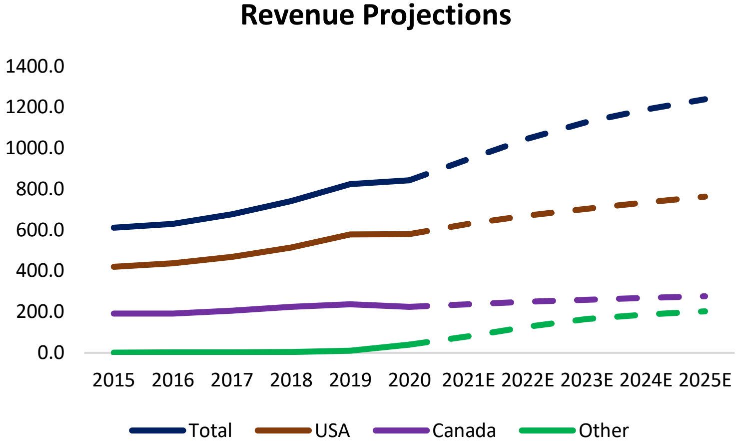
Dayforce Wallet
- Latest innovation: payroll and compensation solution
- Enables flexible off-cycle pay, on-demand pay requests, deductions and remittances

Uniquely comprehensive HCM platform
- Manages complex HCM automation including payroll, workforce management, talent management
- Includes mobile app, focus on compliance, technology enabled implementation process

Overall strong focus on innovation in payroll segment, robust customer focused services and generating growth more globally and in large enterprise customers

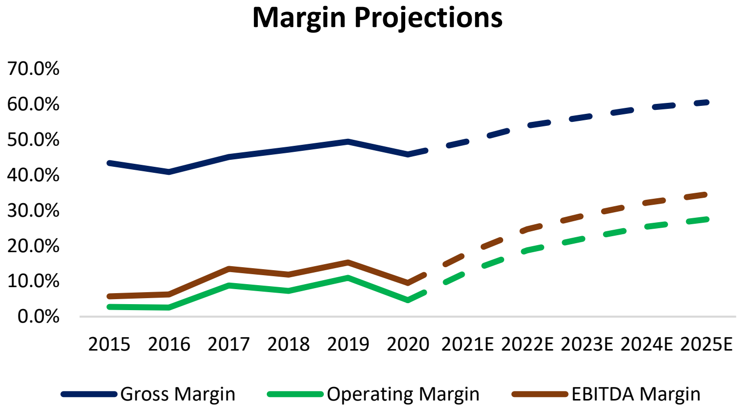
Current Standalone Financial Projections

Ceridian Revenue



Revenues projected to show significant growth driven by
1. Early integrations for global and APJ customers
2. Momentum in large enterprise business
3. Strong 17.9% revenue growth from recurring services

Ceridian Margins



Ceridian expected to become more comfortably profitable through
a) revenue growth detailed above
b) Economies of scale in customer support and hosting costs

Well-positioned to capitalize on SaaS trend, the demand for more fluid and frictionless work during Covid-19 and an innovation-driven industry

Competition Overview

Basis of competition:

Product differentiation and cost

- Large players like SAP and ADP offer **lower base prices** for HCM software, hence Workday is rightly concerned that bigger companies are able to offer financial management and HCM applications on **(1)** a cheap standalone basis or **(2)** in a comprehensive bundle
- **Product differentiation** is a key axis of competition, and there is a constant battle for new tech; tech is constantly brought up to speed everywhere via **acquisitions or in-house R&D**
    - Competitors with greater **R&D and marketing capacity** can hence adapt to new tech and market changes more quickly
    - Other **industry-specific ERP providers** such as IFS (who specialise in Aerospace and Defence ERP) offer more targeted services to avoid fiercely competitive battleground segments

Customers

- Workday's intention to break into the Asia-Pacific region is also hindered by **(1)** larger multinational companies already having a foothold there, and **(2)** other **country-specific providers** such as Kingdee in China
- Workday also currently does not provide accessible software packages for **smaller businesses**, losing out to rivals like SAP (who current provides SuccessFactors HXM packages specific to businesses with less than 100 employees)
- Oracle and SAP are also particularly large rivals with better **name recognition;** Workday's annual report states that a concern of theirs is that Oracle and SAP's large existing customer base with **long-standing customer relationships** will hinder the rise of other big players

Competitors

Main Competitors – Additional Information

3 of the biggest competitors to Workaday and Ceridian in the ERP and HCM sector

Oracle

- **Market Cap $205,994.1 mm**
- Huge purchasing power and **acquisition-based growth strategy**. Cash & ST Invest. $38,610.0 mm
- Primary revenue source is from businesses purchasing licenses to use its cloud software. Approx. **80% from Fortune's 2000** companies
- 17% of revenue in Asia-Pacific (vs <0.8% for Ceridian, undisclosed Workday). Foothold
- $5,032 mm on **R&D** in 2020. Essential to growth, and are able to react to market trends quickly – e.g. Employee Care Package in light of Covid-19
- Cloud HCM **customer base grew 24%** in 2019. 87.3% of customers have revenue of >$100 mm. Fast customer acquisition aided by name-recognition

SAP

- **Market Cap $120,057.6 mm**
- **SAP S/4 HANA also dominant** among largest companies in the US: Ford, GM, Alphabet, Apple etc. Some cases Workaday HCM used. Consider likelihood of upselling when there exists integration software for any HCM/ERP integrations
- 15% of revenue from **APJ.** Already got a good foothold in this region
- 410% increase in **customer base** for SAP HANA since 2015. Marketed towards large enterprises. 58% of customers with revenue >$1000 mm
- **Rebranding and upgrading HCM** as HXM,. Including a bigger focus on end user experience

ADP

- **Market Cap $76,284.6 mm**
- Offer **HCM/payroll integration** with existing ERP software
- HCM and HRO specialised – accounting for 62% of revenue
- Growth by internal R&D with a few strategic acquisitions. **Lifion** by ADP – 574 employee team developing new HCM tech
- Specialism in HCM/HRO with designated SmartConnect integration platform to marry with existing ERP – more appealing for larger companies to go with company **designated to HCM/HRO?**
- Won the last 4/5 **"Top HR Product"** and "Awesome new tech" awards at annual HR Tech Conference

Large existing specialist companies with footholds in Asia-Pacific region, larger R&D and marketing capacity, releasing new tech

Transaction Universe – a Unique Value Prop?

Considerations

Qualitative:

- **Culture synergies** – company goals, expansion/revenue targets
- **Technology** – overlap? New products? Innovation is key in software industry
- **Geography** – operational advantages to overlap. Possibility for expansion?
- **Customer base** – SaaS provider loyalty. Integration of new tech. Existing contracts
- **Growth strategy/opportunities for growth** – acquisition or product diversification based. Stagnation or move into new verticals
- **Specialism** – targeted services, increase product offering. Scalability? Overlap?

Quantitative:

- **Cost synergies** – Selling, General and Administrative, R&D, cost of goods sold
- **Revenue synergies** – upselling, expansion of customer base
- **Profitability** – projections, affected by acquisition?
- **Company maturity** – EV/revenue metric. Indication of compatibility
- **Purchasing power** – affects deal mechanics. Access to capital, cash + stock deal?

Rejected Acquirers

<u>**Oracle**</u>

+ **Acquisition-based growth** strategy, for acquisition of new technology
– 17% of revenue from **Asia-Pacific** – already have a foothold in the region, where most growth in the industry is currently

<u>**SAP**</u>

+ Rebranding HCM as HXM with more focus on user experience.
+ **Prolific acquirer**. >30 in last 12 years
– ERP: SAP S/4 HANA already dominates, e.g. Alphabet, Apple
– 15% of **revenue already in APJ**

<u>**ADP**</u>

+ Less expanded into Asian markets
– Specialist HCM/HRO provider – **narrower scope** for acquisitions
– Designated SmartConnect integration software to marry HCM software with existing ERP
– Won last 4/5 **"Top HR Product"** award at annual HR Conference.

Rejected Targets

<u>**QAD**</u>

+ **High customer retention** rate
+ Strong R&D capability – develops most of its software internally
– Internal focus on XaaS (anything) and **specialism in manufacturing**
– Overly small number of existing customers

<u>**Veritone**</u>

+ Offer AIaaS, cutting edge technology (aiWARE), strong R&D – cost synergies?
+ **Expanding into new verticals**, media, Veritone Energy
+ Expect to require capital – from acquirer? Value creation through development
– Potential **overlap of technology**, previous acquisitions
– No immediate plans for Asian expansion

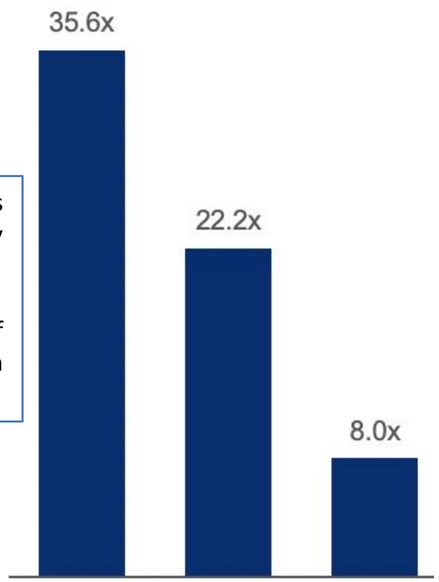
<u>**Epicor**</u>

+ ERP, CRM and POS solutions
+ **New AI-driven Virtual Agent** to simplify ERP interactions.
– **Specialised** in manufacturing and retail

workday. CERIDIAN

Strategic Rationale – Precedent Transactions

Financial Metrics



EV/Revenue is used given its prominence in the ERP industry as the most used multiple

Note also the large spread of EV/Revenue multiples, which reduces its standalone reliability

Date:	Dec-20	Oct-20	Sep-20
EV ($bn)	27.7	3.2	1.1
LTM EV / Revenue	35.6x	22.2x	8.0x
Target	Slack	Segment	Cradlepoint
Acquiror	Salesforce	Twilio	Ericsson

Strategic Rationale

Salesforce acquiring Slack

- Enhances in-office collaboration, and **reduces frictions within the customer experience**
- Enables both firms to **better compete with the extensive sales and distribution channels of Microsoft**
- A **shared vision** amongst the management teams **enhanced the probability of an accretive transaction**

Twilio's purchase of Segment

- **Enhances the combined entity's capabilities** in customer data collection and analytics
- **Provides Twilio with a new product set** with a greater emphasis on data protection
- **Augments Twilio's total addressable market (TAM)** by 27% to $79bn

Ericcson acquiring Cradlepoint

- **Gaining market share** in the 5G Enterprise solutions industry
- Increasing Cradlepoint's position in the wireless WAN market through Ericcson's **established relationships** and market access
- Addresses Ericcson's connectivity needs in mobile solutions, stationary units (e.g ATMs), and enterprise branch offices

Transaction Rationales – Repeating Themes:

- **Acquiring technology** is a repeating theme across the strategic rationales of many past transactions
- **Acquiring market share and customers** is also a prominent theme, especially given **high customer loyalty** and the value of established relationships and **the fierce competitive landscape**
    - This can be done in both **current and new geographies/industry sub-segments**
- **Streamlining costs** is another old yet still relevant core theme

Strategic Rationale – Revenue Synergies

Derivation of Synergies

Service Upselling Synergies:

- Workday currently only offers direct payroll services to the USA, Canada, France and the UK. Its global payroll service is limited and requires third parties.
- This impacts revenues across all departments, as **customers are increasingly demanding a synchronized ERP and HCM service**.
- **Ceridian's biggest asset is Dayforce**, which offers a more complete global payroll platform and a wider tailored service.

Asia Expansion Synergies:

- Ceridian is a leading HCM provider in the Asia-Pacific-Japan (APJ) region.
- Through acquisitions of Excelity and Ascender, Ceridian now has a significant base in over 30 Asian countries.
- This is not only the **fastest growing market internationally** but also a **target location for Workday.**
- Ceridian can give Workday a **foothold in the region to expand from**, something especially valuable as Asia is a market Workday has hitherto been unable to reach.

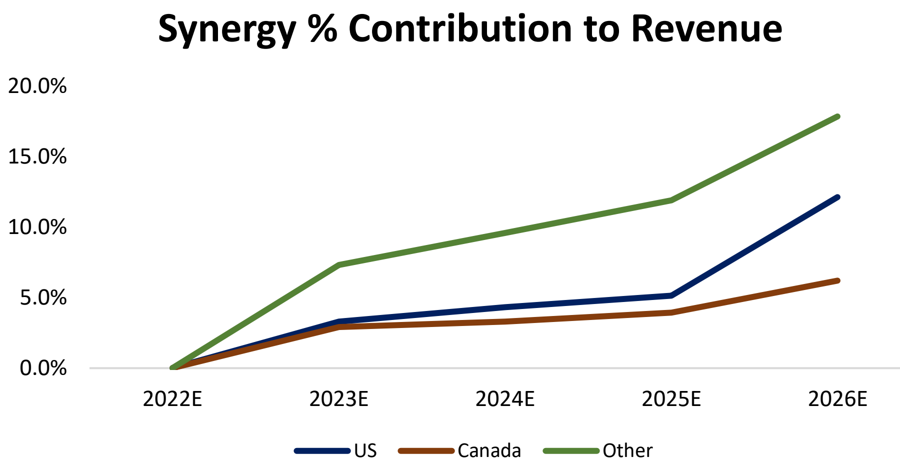
Customer Base Synergies:

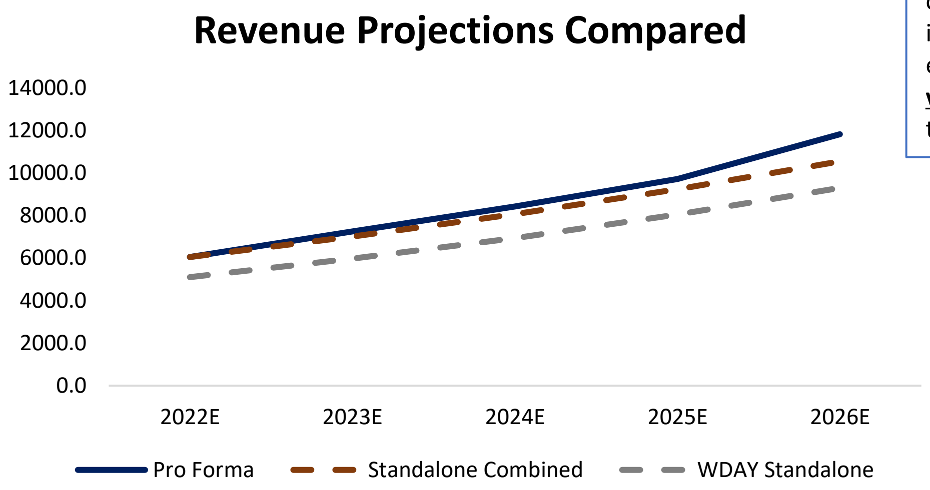
- Ceridian would not only bring its **~5000-strong clientele**, but the more complete service provided by the acquisition means Workday can expect to bring in new customers.
- The more cohesive the software, the higher returns experienced by the client, and the **higher the potential revenue generated per client**.

Product Integration Synergies:

- Both companies will only need to offer integration software on a much less frequent basis.
- As much of Ceridian (including its acquisitions) operate as Platform-As-A-Service as well as Software-As-A-Service, this element can be retained across the whole package, ensuring Workday can continue to offer its personalised services, but now on an expanded level.
- With **Dayforce having access to the technology Workday employs** to create some of the most usable and functionable software on the market, the **potential quality of the final integrated package is very high**.

Indicative Financial Forecasts





Our pro forma revenue projections represent a significant increase on both the WDAY standalone and the combined revenue of both companies operating individually, which emphasises the **unique value proposition** of this transaction

Strategic Rationale – Cost Synergies

Derivation of Synergies

1) Assuming the number of workers made redundant across the combined businesses will be equal to 30% of the size of Ceridian's workforce and each worker costs either of the businesses $100,000 per year then there will be approximately **$179.2 million in savings per year** post acquisition from a lower employee headcount, growing in line with CDAY's revenue growth. **Note: There will be an assumed redundancy package of $25,000 per employee.**

2) Across the two businesses, operating leases per year per employee is approximately $9,100 and given the estimate of 1,792 employees being made redundant, there will be an estimated **$16.4 million in savings per year** due to lower costs of operating leases, growing in line with CDAY's revenue growth.

3) Workday spent approximately $1,721 million on research and development in the year up to 31/01/21 whilst **Ceridian spent approximately $83.7 million in the year up to 31/12/20**, an insignificant amount relative to Workdays' figure; we will assume Ceridian's research and development costs (subsumed under SG&A) will become a synergy post acquisition.

4) Across the two businesses, approximately $1,483 million was spent on sales and marketing in the year 2020. The combined businesses will be able to sell their products to each others customer bases at a lower cost. Further, the larger business will have greater market presence in the human capital management market and financial management market. There will be an **assumed cost synergy valuing $155 million** following the acquisition, growing in line with CDAY's revenue growth.

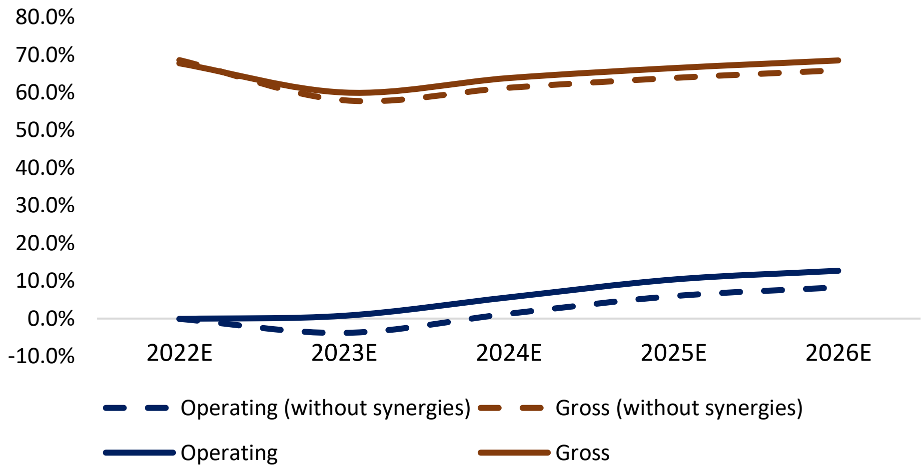
5) Workday's acquisition of Ceridian will enable **lower pro forma research and development costs of $90million** due to the new technology and software acquired from Ceridian that can reduce expenditure on new HCM processes.

Indicative Financial Forecasts

All figures in $ million

Year	2023E	2024E	2025E	2026E
COGS Synergies	305.8	403.1	463.6	533.2
SG&A Synergies	238.7	274.5	315.7	363.0
R&D Synergies	90.0	103.5	119.0	136.9
Total	**479.5**	**602.9**	**693.3**	**797.3**

Projected Margins



As shown above, the synergies will have a material financial on the pro forma company's margins, given the **unique value** that Ceridian provides Workday and vice versa

Deal Mechanics & Model Timeline

Detailed Mechanics

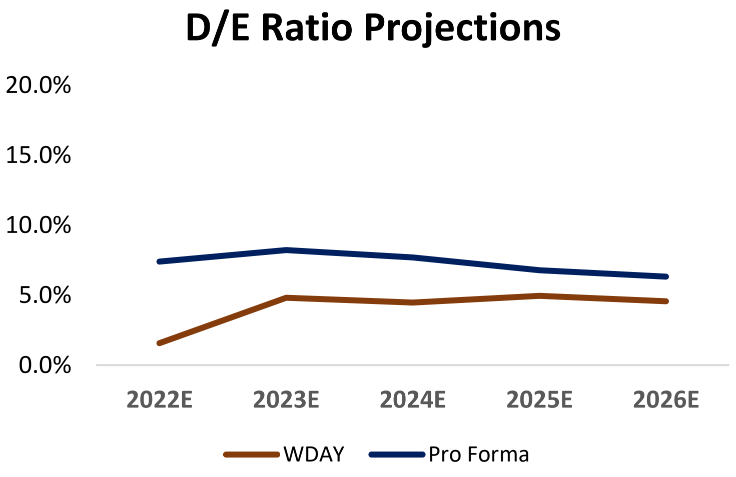
Our acquisition premium is taken at 25%, which has been an enduring industry average

Key Financial Assumptions		
Target Share Price ($)	$	85.29
Offer premium		25.00%
Offer price per share ($)	$	106.61
Diluted shares outstanding (m)		146.77
Offer value ($m)	$	15,647.52

Sources of Funds		
New borrowing to acquire target ($m)	$	6,000.00
Cash used to acquire target ($m)	$	-
Value of stock issued in stock-for-stock deal ($m)	$	9,647.52
Acquirer share price ($)	$	242.71
New shares issued (m)		39.75

Part of the transaction will be debt-financed, but we also propose that WDAY issues new shares to conduct a stock-for-stock exchange for part of the deal's value

Controlling the Debt-to-Equity Ratio



Under our deal transaction structure, the pro forma entity largely maintains the same capital structure, and even moves slightly closer to the optimal industry capital structure

Timeline Assumptions

Year 1

Synergies have yet to materialise, and the company only shoulders increased costs for now

In our model, most synergies are input as 0 here, while one-off costs are also recognised

Years 2-5

Synergies start to take effect

Here, we start scaling up both cost and revenue synergies

Years 5-15

Synergies & FCF hit a steady state of growth in-line with revenue

At this stage, we now project a steady increase in FCF levels

Year 16+

The company reaches maturity

The company now grows at a rate equal to long-term economic growth, as the wider industry has also reached maturity

Valuation Methodology & Output

The 2-stage Terminal Value

Terminal Value: Perpetual Growth Method
(Indicative Sample)

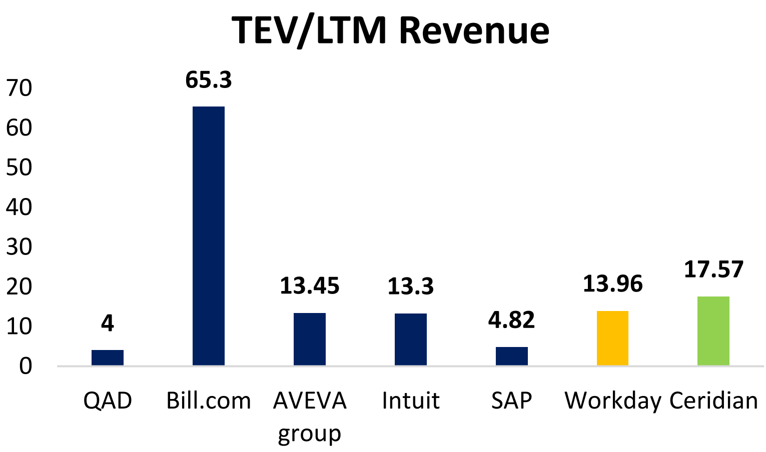
First-stage (2026-2035) FCF Growth Rate:	9.0%
First-stage Terminal Value (taken at 2025):	18,018.4
Final- stage (2036 on) Terminal FCF Growth Rate:	3.0%
Final-stage Baseline Terminal Value (taken at 2035):	112,209.9
NPV of Terminal Value (both stages):	78,218.3
Sum of NPV of Free Cash Flows:	5,370.2
Implied Enterprise Value:	83,588.5

Multi-stage terminal values are used in lieu of exit multiples when a company has **yet to reach its maturity** within the forecast timeframe. Here, we project all three financial models in 2 stages:

(1) where FCF is growing above inflation/long run GDP growth, and

(2) where the companies in question are already mature, and grow at a steady 2.5 - 3%

Why not multiples?



While exit multiples are probably the most commonly used valuation method, the **(1) inapplicability of traditional metrics** like the EV/EBITDA multiple, **(2)** the **wide spread** in EV/Revenue multiples, and **(3) relatively small number of public companies** in this industry render this methodology less useful for valuing both companies and the pro forma entity

Implied Stock Prices – Output

	WDAY	CDAY	Pro Forma
Implied Stock Price	224.3	77.0	333.5
Current Stock Price	242.7	85.3	242.7
% Premium	-7.6%	-9.7%	37.4%

However, we believe that the pro forma entity will be more than the sum of its parts, and could generate **a significant stock price premium** for WDAY and CDAY shareholders

We believe that both standalone businesses are slightly overvalued by the market, which possibly reflects a broader market trend at the moment

Accretion/Dilution Analysis

Accretion Analysis	2022E	2023E	2024E	2025E	2026E
Acquirer Standalone Net Income ($m)	(113.7)	29.4	224.1	466.4	704.2
Acquirer Standalone EPS ($)	**(0.5)**	**0.1**	**0.9**	**1.9**	**2.9**
Pro Forma Net Income ($m)	(324.2)	(293.3)	53.3	481.2	910.8
Pro Forma EPS ($)	**(1.1)**	**(1.0)**	**0.2**	**1.7**	**3.2**
Accretion/Dilution Per Share	**(0.7)**	**(1.2)**	**(0.7)**	**(0.2)**	**0.3**

While accretion in our model is unlikely to occur until after 5 years, we believe that this is relatively immaterial, as **(1)** amortisation of newly created goodwill (15 years useful life) is currently the single largest contributor to the initial dilution, and **other assets with a longer useful life can be revalued upwards in an actual transaction** to solve this; also **(2)** this is reflective of the nascency of the industry; **acquiring revenue remains the core priority**

Risks & Evaluation

Downside Risks	Overview	Evaluation
Synergies may not materialise	• Revenue synergies required to justify the transaction may be less than expected, given that it depends on the successes of producing cohesive HCM and ERP products • The expected cost synergies may also be underwhelming, as it requires the pursuit of rapid streamlining efforts	• Relatively unlikely, given the **strongly aligned near-term and long-term goals** of both companies, with WDAY and CDAY strongly complementing each other's weaknesses, • Furthermore, our DCF model generates a **significant share-price premium** for the pro forma entity, meaning that it **can afford to underperform forecasts**
CDAY shareholders and management may reject the offer	• If CDAY management recommends against accepting the offer, a hostile takeover is less likely to be accepted • Furthermore, the pro forma forecasts require current CDAY management to continue in their role	• The offer price represents a **significant premium** on the current CDAY share price • Our pro forma operational plan is **highly favourable for existing CDAY senior management**
Integration costs may arise, reducing the value of the pro forma entity	• There may be difficulties associated with integrating 2 sets of R&D teams, and streamlining pro forma operations • Furthermore, there is always the risk of cultural clashes and backlash towards redundancies	• We have already accounted for a higher than probable level of integration costs and transaction fees, **in line with the accounting principle of conservativeness** • Any additional integration costs are **still unlikely to be material to accretion and stock price forecasts**

End of Main Deck

Appendix – Sensitivity Analysis

WDAY Valuation – Sensitivity Table (FCF Growth Rates)

	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%
9.8%	204.80	211.95	219.84	228.62	238.42	249.45	261.94	276.22	292.69
9.6%	201.81	208.82	216.58	225.19	234.82	245.64	257.91	271.93	288.10
9.4%	198.86	205.75	213.36	221.82	231.27	241.90	253.95	267.71	283.59
9.2%	195.95	202.72	210.19	218.50	227.78	238.21	250.04	263.56	279.15
9.0%	193.09	199.73	207.07	215.23	224.34	234.59	246.20	259.47	274.78
8.8%	190.28	196.80	204.00	212.01	220.95	231.02	242.42	255.45	270.48
8.6%	187.50	193.91	200.98	208.84	217.62	227.50	238.70	251.49	266.24
8.4%	184.77	191.06	198.00	205.72	214.34	224.04	235.03	247.59	262.07
8.2%	182.09	188.26	195.08	202.65	211.12	220.64	231.43	243.75	257.97

CDAY Valuation – Sensitivity Table (FCF Growth Rates)

	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%
8.8%	70.19	72.72	75.52	78.62	82.09	85.98	90.40	95.43	101.24
8.6%	69.11	71.60	74.34	77.39	80.79	84.61	88.95	93.89	99.59
8.4%	68.05	70.49	73.18	76.17	79.51	83.27	87.52	92.37	97.97
8.2%	67.00	69.39	72.04	74.97	78.25	81.94	86.11	90.88	96.37
8.0%	65.97	68.32	70.91	73.79	77.01	80.63	84.73	89.41	94.80
7.8%	64.95	67.26	69.81	72.64	75.80	79.35	83.37	87.96	93.25
7.6%	63.95	66.21	68.72	71.49	74.60	78.08	82.03	86.54	91.73
7.4%	62.97	65.19	67.64	70.37	73.42	76.84	80.71	85.14	90.24
7.2%	62.00	64.18	66.59	69.26	72.25	75.61	79.42	83.76	88.76

Pro Forma Valuation – Sensitivity Table (FCF Growth Rates)

	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%
9.8%	302.53	313.87	326.39	340.31	355.85	373.34	393.14	415.77	441.87
9.6%	297.78	308.91	321.20	334.87	350.13	367.30	386.75	408.97	434.59
9.4%	293.09	304.02	316.09	329.51	344.50	361.35	380.45	402.27	427.43
9.2%	288.48	299.21	311.06	324.23	338.95	355.50	374.25	395.68	420.38
9.0%	283.93	294.47	306.11	319.04	**333.49**	349.74	368.15	389.19	413.44
8.8%	279.46	289.81	301.24	313.93	328.12	344.07	362.15	382.80	406.62
8.6%	275.06	285.22	296.44	308.90	322.83	338.49	356.24	376.51	399.90
8.4%	270.73	280.70	291.71	303.95	317.62	333.00	350.42	370.33	393.28
8.2%	266.46	276.25	287.06	299.07	312.50	327.59	344.70	364.24	386.77

Appendix – ERP Industry SWOT

Strengths

- **Low Product/Service Concentration** – 693 Businesses operating in the UK alone. This indicates that **the sector remains competitive** and monopolies or oligopolies are unlikely to develop.
- **Continued growth** projected – revenue projected to increase at a compound annual rate of 3.8% in the UK over the next 5 years, this number is much higher in developing nations. Industry contribution to the UK economy forecasted to grow at a compound annual rate of 7.5% over the next 10 years.
- **Low capital requirements** – capital:labour ratio at 1:14.37
- **Low levels of regulation** – most regulation done by WIPO and is currently minimal.
- **Rapid development potential** – industry is consistently changing rapidly, and new innovations are appearing regularly, brings potential for new products and lower costs

Weaknesses

- **Revenue volatility tied to investment cycle** – as businesses decline, the willingness to invest in or implement ERP declines, meaning revenue volatility is dependent on other sectors.
- **Dependent on business confidence –** business confidence index currently -0.9 so industry needs to work harder at convincing businesses of the benefits of ERP
- **Tailored to larger businesses –** smaller firms lack resources and storage to take full advantage of ERP systems, so the industry struggles to get serious business out of smaller businesses.

Opportunities

- Increasing opportunities to **access global and emerging markets** – businesses in developing nations are rising fast and can facilitate demand for ERP software across the world
- **Small business potential** – smaller businesses can embrace what ERP has to offer, especially with new technologies in the industry allowing for lower storage capacities and improved services

Threats

- Market disruption – high levels of competition and new market entrants means **ability to achieve economies of scale is threatened and market disruption is high**
- **Low revenue growth** – Revenue growth has remained at low levels in the past 5 years and is not projected to increase significantly. This limits potential for R&D.

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