



3. Sovos Compliance

Business description

Sovos Compliance ('Sovos') is a global provider of compliance solutions, managing all aspects of the tax compliance process, from tax calculation, forms completion and ultra high volume filing to secure funds transfer to state and local revenue departments. At the heart of Sovos' software suite is a powerful tax calculation engine that leverages the industry's most comprehensive repository of more than 210 million tax rules, in over 13,500 jurisdictions, across more than 200 countries. Headquartered in Boston, USA with a presence also in Europe and Latin America, the majority of revenue is generated in the US from a customer base of c. 4,500 corporates.

Why did we invest?

HgCapital's TMT team tracked Sovos (previously Taxware) for two years, as we identified the company as a scale specialist in tax compliance for enterprise customers. We also saw the potential to expand the company outside the US market. Sovos sits right in the HgCapital 'sweet spot' with a strong and predictable business model, including: 96% contractually recurring revenue; a fragmented, yet loyal customer base; high margins; and robust cash conversion. Sovos' largest, core products have achieved consistent double digit organic revenue growth.

How do we intend to create value?

In addition to continuing to grow revenues organically, Sovos has a strong track record of acquiring and successfully integrating tax compliance software companies. The market remains fragmented and hence we believe there are many attractive opportunities for Sovos to grow by acquisition. There is additional potential through further margin improvement.

What has been achieved?

In June 2016, Sovos announced the acquisition of Invoiceware International, based in Atlanta and Sao Paulo. This expands the company's capabilities in Latin America and adds the industry's only solution for handling electronic invoicing and fiscal reporting in multiple countries from a single platform. A new Chairman and CFO were also recruited over the year. In August 2017, Sovos announced the acquisition of Paperless, based in Santiago, Chile, which complements Invoiceware's product offering and provides Sovos with a sector-leading solution for business to government reporting – a form of regulatory compliance which has spread to more than 60 countries.

How is it performing?

Sovos has seen rapid growth since our investment in early 2016, driven by strong organic growth in its core products. Our current valuation has also benefited from the weakness of sterling against the dollar since the time of our investment. We are carefully monitoring the potential impact on Affordable Care Act ('ACA') revenues following the ongoing attempted changes to this regulation in the US.

The Company has benefited from a small increase of £1.2 million in the Company's valuation of its stake over the first six months of 2017.

How will we crystallise value?

We believe Sovos will be an attractive acquisition target for private equity buyers, as it demonstrates high levels of organic revenue growth, high EBITDA margins and strong market positioning. However, we also see an IPO as a potential route to exit, given the strong cash generation and increasingly international reach. Lastly, there are several potential trade buyers.

Website: www.sovos.com

Original enterprise value: \$700 million

HgCapital clients' total equity: 74.0%

Sovos Compliance – The Company's underlying investment through HGT 7 LP and co-investment through HGT LP

Sector	Location	Investment date	Residual cost £'000	Unrealised value £'000
TMT	North America	Mar 2016	24,284	44,466