

# MAIN BUSINESS GROWTH STRATEGIES FOR TECH COMPANIES

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The article is devoted to the aspects of the most popular growth and financing strategies for companies in technology sector. It focuses on opportunities for already mature businesses. The following strategies were reviewed: attracting equity funds, initial public offering and mergers & acquisitions. Case study of EPAM Systems which is the most successful IT company with Belarusian roots shows the importance of above-mentioned strategies. Since IT sector in Belarus is the most dynamic, it is of interest to provide a list of options for IT companies and their managers about how to grow further.

**Key words:** technology sector; financing strategies; growth strategies; equity fund; initial public offering; mergers & acquisitions.

In the modern economy to survive fierce competition, an appropriate and feasible strategy is to be developed. The efficiency of an enterprise is largely determined by its financial strategy, which largely determines other functional strategies and plays an important role in increasing competitiveness, ensuring the effective attraction and use of financial resources, coordinating their flows, which ultimately ensures the growth of the market value of the enterprise and welfare of its owners.

This article focuses on the most popular growth strategies in IT industry such as attracting equity funds, IPO and M&A strategy [1].

## **Equity funds**

Generally speaking equity funds not only provide financial support but also strategic consultancy. It is important for them to grow the company as much as possible in order to sell the company in a few years and make profit from the exit.

While such form of attracting capital is popular in the USA there is only one private equity fund in Belarus – «Zubr Capital». It specializes in IT sector and has already a few successful exits such as from «Targetprocess» [2].

## **M&A Strategy**

TNCs in the IT industry, which have adopted mergers and acquisitions as the basis for their development strategy to achieve success in its implementation, should turn to the experience of the most successful companies in this business even at the development stage. In this case, it is worth paying attention to the technology sector – the epicenter of mergers and acquisitions, where the technology giants of Silicon Valley demonstrate various variations of mergers and acquisitions strategies by their own examples. Let's turn to table 1 below [3].

### M&A strategies of tech giants

Indicators	Apple	Microsoft	Amazon	Meta Platforms
Market Capitalization, \$	2,85T	2,3T	1,7T	612,1B
Revenue, \$	365,8B	168,1B	469,8B	117,9B
EBITDA, \$	130,8B	94,9B	74,3B	54,7B
Employees	154,000	181,000	1,300,00	72,000
M&A deals	<b>128</b>	<b>251</b>	<b>93</b>	<b>94</b>

Based on the data in the table, it becomes clear that the technology giants owe their market value, expressed by capitalization, not to organic growth (at least not completely), but to the flow of mergers and acquisitions - the basis of the corresponding strategy. Of course, it can be argued that all these companies have achieved success, as they have a global recognition, reputation and brand, behind which are many years of their activity in the market, as well as the adoption and active implementation of the strategy of mergers and acquisitions.

In Belarusian market technology sector dominates by number of deals. IN 2021 out of 64 deals closed 56 of them were in tech sector [4].

#### **IPO strategy**

Major reasons for an IPO are:

- Getting access to new sources of funding;
- Ensuring the benefit of the company's current investors;
- Attracting the attention of market participants to the company.

According to EY, IPO remains the most popular strategy among IT companies. It is no wonder why since technology offerings have become synonymous with billion-dollar launches. Technology continued its dominance by deal numbers for the seventh consecutive quarter (since Q3 2020). In 2021 number of IPO in technology sector was almost 2 times bigger than in any other sector [5].

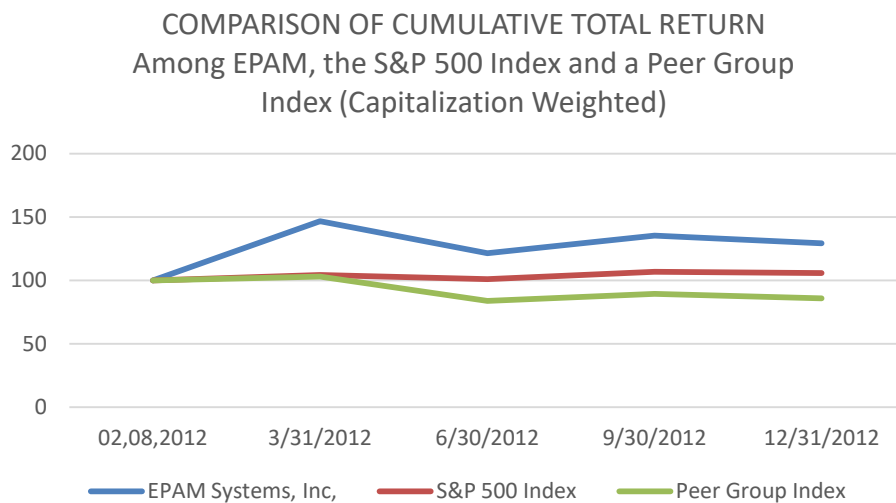
As for the Republic of Belarus, attracting funding, and especially foreign investment, is one of the priorities of foreign economic policy. But the use of such an instrument for raising funds as an IPO is limited by the fact that the stock market in the country is very poorly developed due to the insufficient supply of financial instruments, the absence of an institution of collective investment in the country, and a restrained policy in the field of privatization and denationalization.

#### **Case of EPAM Systems**

In 2006 EPAM Systems attracted \$20,6M investment from Siguler Gruff & Co following by \$50M investment Da Vinci Capital, Euroventures and

Renaissance Wealth Management in 2008. In 2010 the company received \$19,3M investment from VTB Capital.

In 2012 EPAM went public. The company sold 6 million shares at \$12 each in its IPO while having expected to sell \$7.4 million shares at \$16 to \$18 apiece. According to experts, the problem was not in the EPAM business but in a difficult situation in the markets, especially in Europe. Nevertheless from the first day of EPAM's IPO on February 8, 2012 the company was outperforming S&P 500 index and peer group. The figure 1 below assumes invested 100\$ in above mentioned securities [6].



*Fig. 1.* Comparison of cumulative total return among EPAM, the S&P 500 Index and a Peer Group Index (Capitalization Weighted)

IPO was a necessary and important step in company's development. EPAM was able to attract significant amount of funding, build trust by providing transparency to its financials and operations. Since IPO EPAM's shares increased by 37 times (before events in Ukraine). Companies stock remains volatile and very sensitive to external changes.

Furthermore, EPAM is actively growing with M&A strategy. To keep up with increasing demand and to expand ability to support its customers the quickest way is to acquire companies in target sectors. Another important factor is labor market shortage. By acquiring the company EPAM also gets its highly qualified employees, as noted before, most critical asset. EPAM has acquired 26 companies in total, 6 of them in 2021. The last acquisition took place on January 28, 2022 [7]. Out of 41,3 % revenue growth in 2021 4,3 % was contributed by M&A deals and it is expected to reach 6 % by the end of 2022. EPAM's M&A growth strategy is illustrated on figure 2 [7].

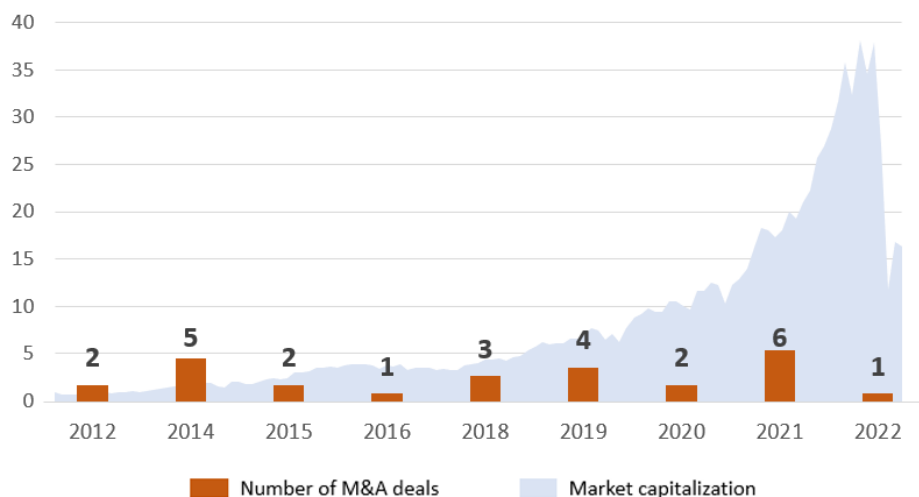


Fig. 2. M&A growth strategy

Hence, attracting equity funds, IPO and M&A strategies are great value maximizing strategies that should not be overlooked by managers. While the Belarusian market remains underdeveloped it is still possible to implement above mentioned strategies.

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