

CTRM Briefing Note

Allegro Development

September 2018

Overview

Allegro Development (Allegro) is the oldest continuously operating ETRM/CTRM solutions provider in the world. Founded in 1984 by now chairman Eldon Klaassen, the company initially serviced the oil & gas producer market's needs for a dedicated solution for tracking and managing commodity sales in the still highly regulated US energy markets. With deregulation of the US natural gas markets in the early 1990's, the market for the company's products grew rapidly. Despite a number of new solutions providers entering the market during that period, Allegro has consistently seen demand grow for its products across all energy commodities and markets, including expansion into the European and Asia Pacific regions. Currently the company maintains sales and support offices in 7 countries.

Operating from their Dallas headquarters since the company's founding, Allegro has grown primarily through organic growth, supplemented by two acquisitions: JustCommodity, a Singapore-based provider of CTRM for the global softs markets in 2015, and FEA, a US-based provider of risk analytics in 2018.

Allegro is backed by private equity investors Vector Capital and Cerium. The company, post ION's acquisition of Openlink, is now the largest independently operating vendor of CTRM solutions in the world - providing software internationally across many commodity markets, including crude oil, refined products, natural gas, natural gas liquids, liquefied natural gas, power, edible oils, rubber, and emissions - to more than 260 client companies. Recently, the company announced a development initiative to build out capabilities for the growing metals and metal concentrate markets as well.

FEA Acquisition

In April of 2018, Allegro announced it had acquired the Financial Engineering Associates' (FEA) business unit from MSCI. FEA is an US-based provider of software and consulting services for advanced risk management and analytics. Originally founded in 1990, FEA's solutions provide customers with global commodity trading financial analytics. FEA's trade and portfolio analytic solutions provide a strategic fit with Allegro's distribution channels, investment strategy, and extensible CTRM / ETRM software suite. As envisioned by the company, "the combined solution provides customers with commodity trading quantitative analytics that lead to better portfolio pricing, valuation, decision support, risk management and physical asset optimization."

With customers in more than 20 countries, FEA's products cover thousands of different instruments and assets and provide customers the ability to model the breadth of their enterprise portfolios.

Financial Results

Though Allegro is privately held and does not publically disclose financial information, ComTech analysis indicates the company's sales and revenue performance has exceeded that of the overall CTRM market over the last 5 years.

Product Set and Technology Base

Recently redesigned to be deployed in a modular configuration – in which customers pick and choose only those products they require – Allegro's technology stack and architecture allows it to offer its solutions in a traditional on-premises model as well as via the cloud as hosted deployment. The company's flagship product, Allegro Horizon is designed to help companies who buy, sell, produce or consume commodities better understand, manage and profit from their portfolio. With capabilities spanning credit, risk, logistics and real-time position visibility – and now with enhanced risk analytics provided by FEA, that provides customers with global commodity trading and quantitative analytics that better portfolio pricing, valuation, decision support, risk management, and

At a Glance

Company Background

Founded:	1984
Chairman:	Eldon Klaassen
CEO:	Frank Brienzi
Offices:	Dallas TX, US London UK Singapore Calgary CA Dubai UAE Houston TX, US Jakarta ID Zurich CH
Employees:	370 (Est.)
Website:	Allegrodev.com

Products

Allegro Horizon
Allegro Ags
Allegro Analytics (FEA)

Market Profile (ComTech Est.)

Customers by Geography	
North America	48%
South America	1%
Europe	30%
Africa	1%
AsiaPac including Aust.	20%
Customers by Market Segment	
Utilities	25%
Energy Retailers	18%
Banks/Financials	3%
Biofuels	12%
Energy Producers	24%
Refining/Petrochems	12%
Industrial Consumers	6%

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physical asset optimization - Allegro Horizon provides a singular vendor solution for companies operating in the global wholesale energy and commodities markets.

Allegro Horizon provides capabilities that span the following areas of critical concern to commodity market participants: commodity trading, risk management, physical logistics, regulatory compliance and accounting. The company's stated mission is "to assist the commodity companies worldwide as they work to improve their results by maximizing the value of their commodities, from the ground to the point of consumption."

Historically, Allegro has shown the capability to adapt and innovate with market trends being a first adopter of .Net, more intuitive UI's, and a move to "hosted in the cloud". In terms of functionality, it has continued to build out from its original core functions and delivered its component-based architecture offering customers increased flexibility as outlined above. In doing so, it has gained a reputation for technical innovation and architecture.

Company Strategy

Allegro notes their company's strategy is built on five core pillars:

1. **Organic growth** — Since its inception, Allegro has served the upstream energy and utility markets. Now, after more than 30 years of business, Allegro serves customers in the mid and upper tiers of the market, including several global-scale tier 1 customers, (each industry with its own set of requirements). The company plans to continue to build out its core commodity offerings to cover the specific nuances of different commodity centric industries to increase the company's market reach and ability to service a broad range of industries and requirements. Allegro noted in early 2018 that it plans to offer a solution for the metals and mining industry in the near future.
2. **Geographic expansion** — Geographically, Allegro has been particularly successful in the U.S. and European markets, servicing a number of top-tier customers, with strong adoption in the Asia Pacific region in recent years. Allegro has further increased its traction in the region with customers in edible oils and rubber.
3. **Non-organic growth** — Allegro has completed two acquisitions – Just Commodity in 2015 and most recently in 2018, Financial Engineering Associates, Inc., a leading provider of risk analytics software, giving the company and their customers' access to a full suite of comprehensive analytics tools. The company plans to continue to look for complementary acquisitions that add key functionality and value to its customers.
4. **Product innovation** — Allegro has focused on creating productivity-enhancing user interfaces, flexible data structures, and extensible architecture for the commodity management software industry. Allegro's Horizon product is a forward-compatible solution that allows companies to only install only those capabilities required to support their desk or department, as well as mobile, cloud, and open architecture capabilities.
5. **Customer satisfaction** — Allegro maintains a multi-faceted approach to enhancing the customer experience via dedicated account management, health checks, formalized training via Allegro University, an active user group, and the annual Allegro Global Customer Summit.

Outlook and Analysis

ComTech research shows Allegro consistently ranks as a market leader across multiple categories of commodities, with particular strengths in energy commodities, including natural gas, natural gas liquids, power, oil, oil products, LNG, coal and emissions. The company is a global scale provider of CTRM solutions and is one of the most recognized names in ComTech's 2016 CTRM Vendor Perceptions Study. The company was ranked #1 in Commodity Management, #2 in Overall Market Leadership, #1 in Natural Gas, and #2 in Overall Energy, Power and Oil & Products leadership. They are also #2 in Implementation leadership. Additionally the company was noted as #1 in Technical Architecture, #2 in Risk Management, and as the #2 provider of a Single CTRM Platform for all commodities.

Despite a backdrop of declining total global market spend for CTRM solutions and services over the last 3 years, Allegro has consistently outperformed most of their peers and increased their market share vs. their competitors. Given the momentum that Allegro has developed over the last several years, and the increasing market uncertainty related to recent acquisitions in the space by ION, ComTech does expect Allegro to continue to out-perform most market peers in the near-term.

Opportunities

- Allegro continues to operate as an independent business, affording them the flexibility to quickly respond to market changes
- The acquisition of FEA provides additional deep domain expertise in Risk and Analytics, strengthening their position in those areas vs their competition
- Rising oil prices and increased activity have increased demand for ETRM systems capable of managing oil, oil products and LNG – areas of strength for Allegro.
- It's partner ecosystem and training strategy help create a brand-centric environment focused on its users enhancing its ability to deliver solutions across broad markets
- Allegro's product architecture allows deployment of specific required functionality either for a specific commodity or in a multi-commodity approach ensuring that it is able to compete across broad stretches of the market both vertically and horizontally.

- Allegro's open architecture enables customers to model their business processes through the front end of the software without scripting outside the core software, enabling easy and cost effective implementations and upgrades while allowing for agility as customers adapt to market change.
- Broadening its commodities coverage will enable it to meet more opportunities.

Risks

- Sustained CTRM/ETRM market weakness may limit sales of new products.
- Continued weakness in metals and concentrates markets could limit return on development investments
- Much of the future CTRM growth will be around cloud and SaaS deployment. Allegro Horizon is available in the cloud but more investment in this area may be needed.
- While much of Allegro's growth has been organic and its acquisitions have been targeted and complementary, management vigilance is required to ensure issues around overlapping product functionality and integration do not arise in future acquisitions.

About ComTech Analyst Briefing Notes

Commodity Technology Advisory (ComTech) is the leading analyst organization covering the Energy and Commodity Trading and Risk Management (E/CTRM) technology markets. We provide invaluable insights, backed by primary research and years of experience, into the issues and trends affecting both the users and providers of the applications and services that are crucial for success in markets constantly roiled by globalization, regulation and innovation.

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Disclosures: *At the time of this writing, Allegro is a customer of Commodity Technology Advisory and the company's management cooperated in the preparation of this ComTech Analyst Briefing Note.*

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