



Global Software Sector Update

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Industry Insights

Summer 2023



Executive Summary

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Sustained activity in Q2 2023 with number of M&A deals in Q2 2023 up 13% versus long term average



Deal values, however, were sharply lower, down 85% in value in Q2 2023 compared to Q2 2022



June and July show a resurgence in value of both large strategic M&A and PE-backed buyouts

Commentary

Overview

The first half of 2023 was marked by a significant decline in software M&A deal value (\$ volume) as risk appetite remained subdued partly due to restrictive monetary policy. The decline in deal value was seen in deals of all sizes, however the number of deals held steady with 493 deals in Q1 and 476 deals in Q2, remaining above the average levels for the past decade and reflecting continued tuck-in and bolt-on deal activity at the smaller end of the deal size spectrum. During recent weeks, including into July, there have been early indications of an uptick in deal activity with some of the largest deals to date being printed and increased activity from both strategic and financial buyers.

In the midst of a broadly challenging environment and a slowing economy, the divergence between buyer and seller price expectations has been a drag on first half deal activity.

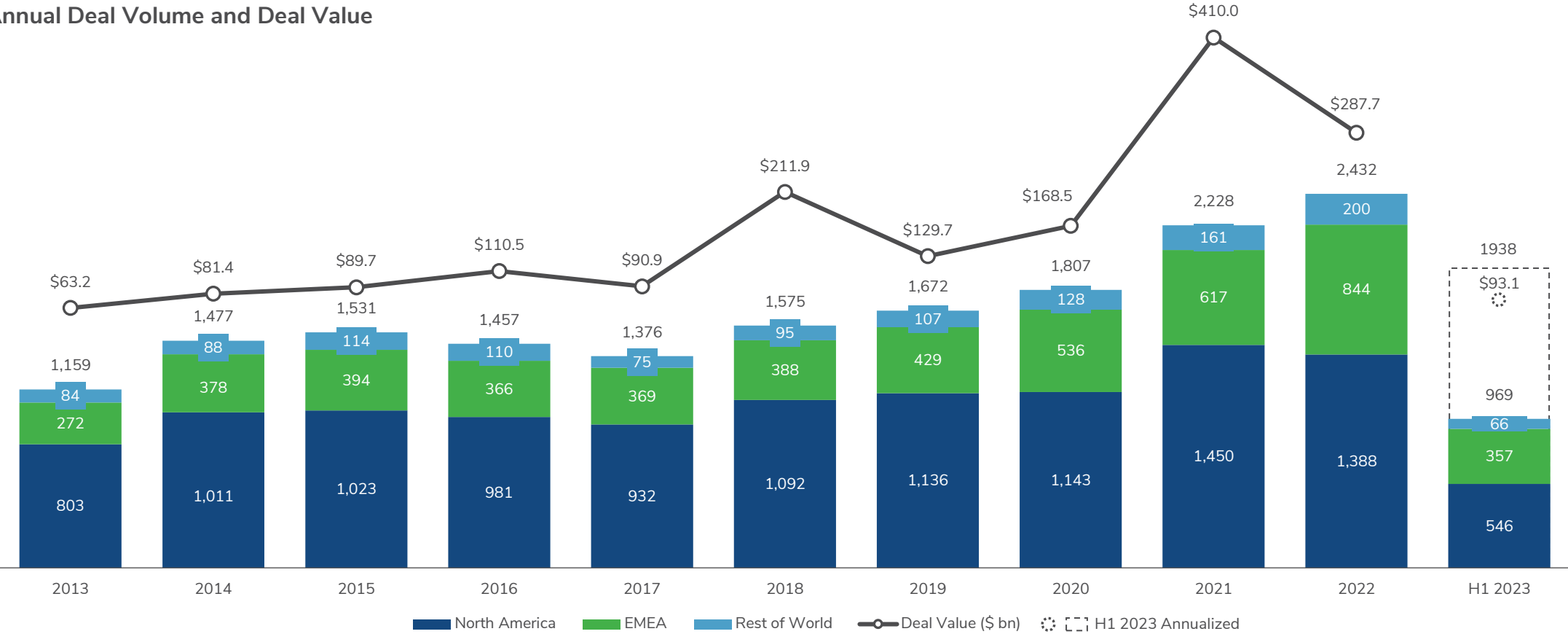
There are bright spots, such as the rapid emergence and development of generative AI, which has already fed through to deal activity and continues to gather pace. Capital efficient growth and profitability have become table stakes for many buyers to engage and SaaS businesses that exhibit above average KPIs attract strong interest. Top quartile or decile performing SaaS companies of scale continue to attract intense buyer interest, with PE funds well behind in their deployment targets for the year jumping at any asset which “ticks all the boxes”. Although growth at any cost is no longer tolerated, forward growth remains closely correlated with valuation multiples and a key value driver in particular for top quartile performers both in public and private markets. The delta in KPIs between bottom and top performers has widened which is reflected in the continued polarization of the market as the best assets have been behind most of the recovery in public indices.

While the U.S. economy has been holding strong, there are signals that a moderation in inflation during the remainder of the year will set the stage for a soft landing, although the picture is less clear in the UK and in regions of the EU. As we head into what is likely to be a slow summer, there is a growing sense of optimism that the worst may be behind us.

Deal Volume Similar to Pre-Covid19 Levels While Deal Value is Significantly Falling Behind Previous Years

EMEA Increased to 37% of Deal Volume Compared to Average of 27% Over Last Decade

Annual Deal Volume and Deal Value



Source: 451 Research as of June 30, 2023

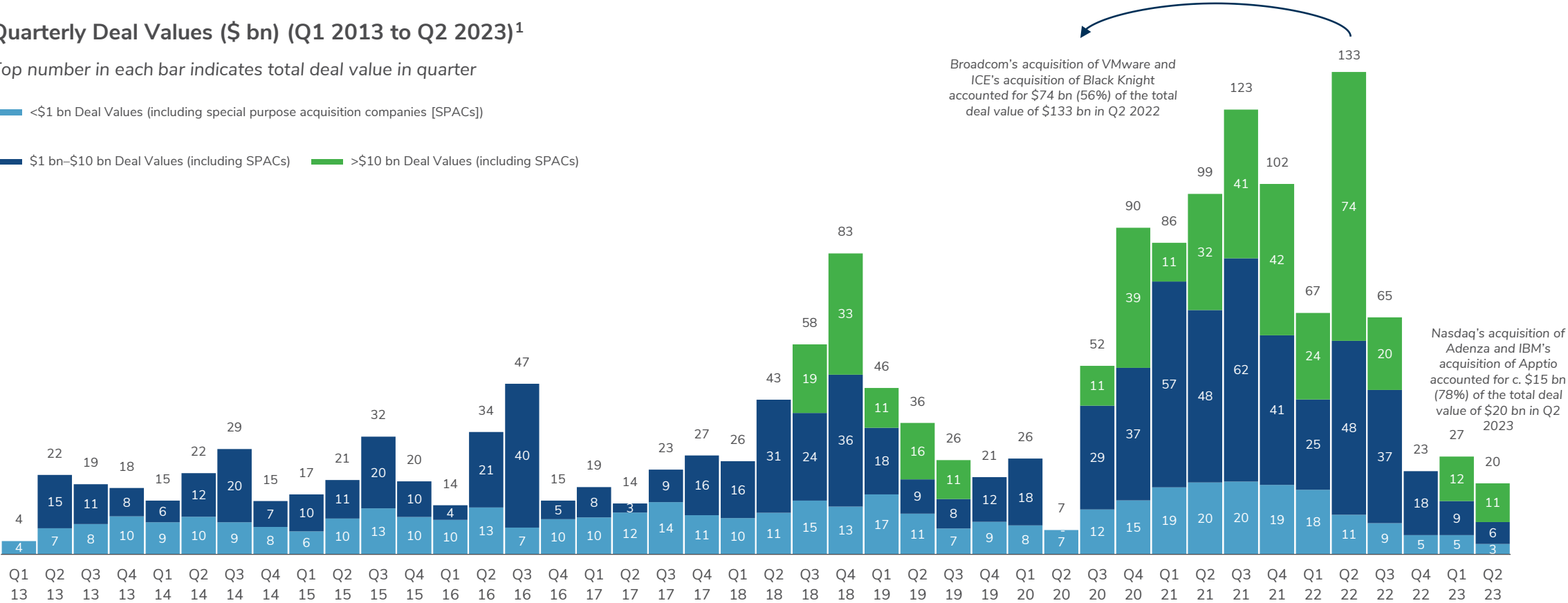
Deal Values for <\$1 bn Dropped to Levels Not Seen in Last Decade

Q2 2023 Deal Values for Deals <\$10 bn down 90% from COVID-19 High in Q3 2021

Quarterly Deal Values (\$ bn) (Q1 2013 to Q2 2023)¹

Top number in each bar indicates total deal value in quarter

- <\$1 bn Deal Values (including special purpose acquisition companies [SPACs])
- \$1 bn–\$10 bn Deal Values (including SPACs) ■ >\$10 bn Deal Values (including SPACs)



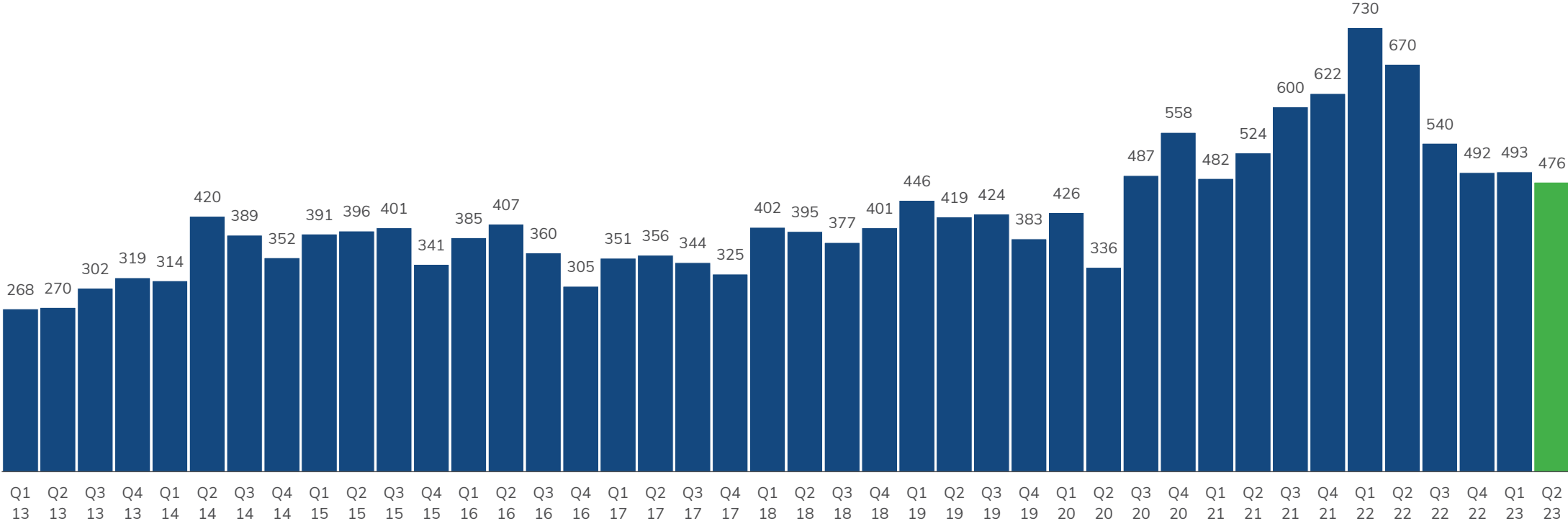
¹Between January 1, 2013, and June 30, 2023
Source: 451 Research as of June 30, 2023

Deal Activity (# of Deals) Continues to be Resilient Despite Significant Drop in Deal Value

Q2 2023 Deal Activity 13% Above Long-Term Average of 421 Deals per Quarter

Quarterly Deal Volume (Q1 2012 to Q2 2023)¹


Top number in each bar indicates total deal volumes in quarter




¹Between January 1, 2012, and June 30, 2023
Source: 451 Research as of June 30, 2023

Top Six Software Acquisitions over Q2 2023 by Deal Value

June 2023



Adenza
acquired by



\$10.7 bn **N/A**

Adenza provides financial risk and regulatory management SaaS for businesses globally. Software provides features for treasury and regulatory compliance, trade and transaction reporting, data integration, and data management. Adenza was formed in 2020 after Thoma Bravo merged portfolio companies Calypso Technology and AxiomSL.

The addition of Adenza to Nasdaq's platform of mission-critical solutions complements Nasdaq's Marketplace Technology and Anti-Financial Crime solutions and significantly enhances Nasdaq's offerings across a spectrum of regulatory technology, compliance, and risk management solutions. With Adenza, Nasdaq will also be able to provide comprehensive support to financial institutions, establishing a multi-asset class, full trade lifecycle platform.

June 2023



APPTIO
acquired by



\$4.6 bn **N/A**

Apptio provides AI-based IT business management and ERP SaaS, and related APIs for businesses in the U.S. Its software provides features for financial management, budgeting, resource management, risk management, stream management, program management, forecasting, IT planning, reporting, and analytics.

The acquisition of Apptio is a continuation of IBM's deep focus and investment in hybrid cloud and AI and is expected to drive significant synergies across several key growth areas for IBM, including automation, Red Hat, IBM's broader AI portfolio, and IBM Consulting, as well as strong partnership with other leading systems integrators. Additionally, Apptio is expected to benefit from IBM's long-established scale and reach, working with clients across more than 175 countries.

April 2023



SimCorp
acquired by




\$4.3 bn **7.8x**


SimCorp provides financial data management software, SaaS, and services for the capital markets industry globally. Software enables users to aggregate, manage and process market and reference data, corporate actions, portfolio pricing, and legal entity data.

The combination of SimCorp's highly complementary business offering with Deutsche Börse's Data & Analytics business will create a full scope front-to-back investment management solutions platform. This will allow Deutsche Börse to take even better advantage of secular industry trends and to further diversify its business mix with a growing share of recurring revenues. Upon completion of the offer, Deutsche Börse aims to accelerate the development of Deutsche Börse's Data & Analytics segment to drive additional growth and efficiencies.

May 2023



Reward Gateway
acquired by




\$1.4 bn **12.1x**


Reward Gateway provides HR-related employee engagement, benefits management, and team collaboration SaaS and related mobile application for businesses globally. Software provides features for employee engagement, communication, benefits, discount, rewards and recognition, and well-being.

By integrating Reward Gateway's employee engagement platform, Edenred is substantially extending its employee benefits offer to provide HR managers with a comprehensive range of solutions helping them make their organization more attractive to talents. While Reward Gateway has a strong presence in the UK and in Australia, as well as a promising presence in the U.S. market, Edenred will be looking at scaling Reward Gateway outside of its current footprint. In addition, this acquisition is a unique opportunity to accelerate Edenred's strategy.

June 2023



casetext
acquired by




\$650 mn **N/A**


Casetext provides AI-based legal research and automated workflow management SaaS, APIs, and SDK for legal professionals globally. Software provides features for document review, depositions and analyze contracts, database search, drafting legal research memos, contract data extraction, and ensuring contract policy compliance.

The transaction will complement Thomson Reuters' existing AI roadmap and builds on its recent initiatives, including a commitment to invest more than \$100 million annually on AI capabilities, the development of new generative AI experiences across its product suite, as well as a new plugin with Microsoft and Microsoft 365 Copilot for legal professionals.

June 2023



immedis
acquired by



\$575+ mn **N/A**




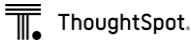












Immedis provides AI-enabled payroll management SaaS for businesses globally. The software provides features for payroll operations management, real-time data analytics, data security, compliance, and advanced reporting capabilities. Immedis also provides payroll, payment processing, and education and support services.

















The union is expected to be the basis for UKG One View, a co-developed product that will launch later in 2023 to provide a unified view into multi-country compliance and people processes. UKG One View will deliver on UKG's promise to help multinational organizations reduce costs, minimize processing time, and mitigate compliance. With the acquisition, UKG has extended its considerable competitive position from workforce management to a very compelling global time and pay offering.

API = Application Programming Interface; SDK = Software Development Kit; ERP = Enterprise Resource Planning;
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Source: 451 Research, Mergermarket Press Releases as of June 30, 2023



Other Notable Software Deals during Q2 2023

Date	Target	Acquirer ²	Deal Value and Multiple ¹	Target Abstract
May-23			\$250 mn N/A	Digital asset custody management SaaS
Jun-23			\$200 mn N/A	Data analytics SaaS
May-23			\$158 mn N/A	Healthcare data analytics SaaS
Jun-23			\$109 mn N/A	Property valuation SaaS
Apr-23			\$100 mn 5.6X	Investigation & case management & analytics SaaS
Jun-23			\$96 mn 0.9X	Enterprise messaging & voice CPaaS
May-23			\$90 mn N/A	Telecom service management SaaS
May-23			\$69 mn N/A	Autonomous driving SaaS

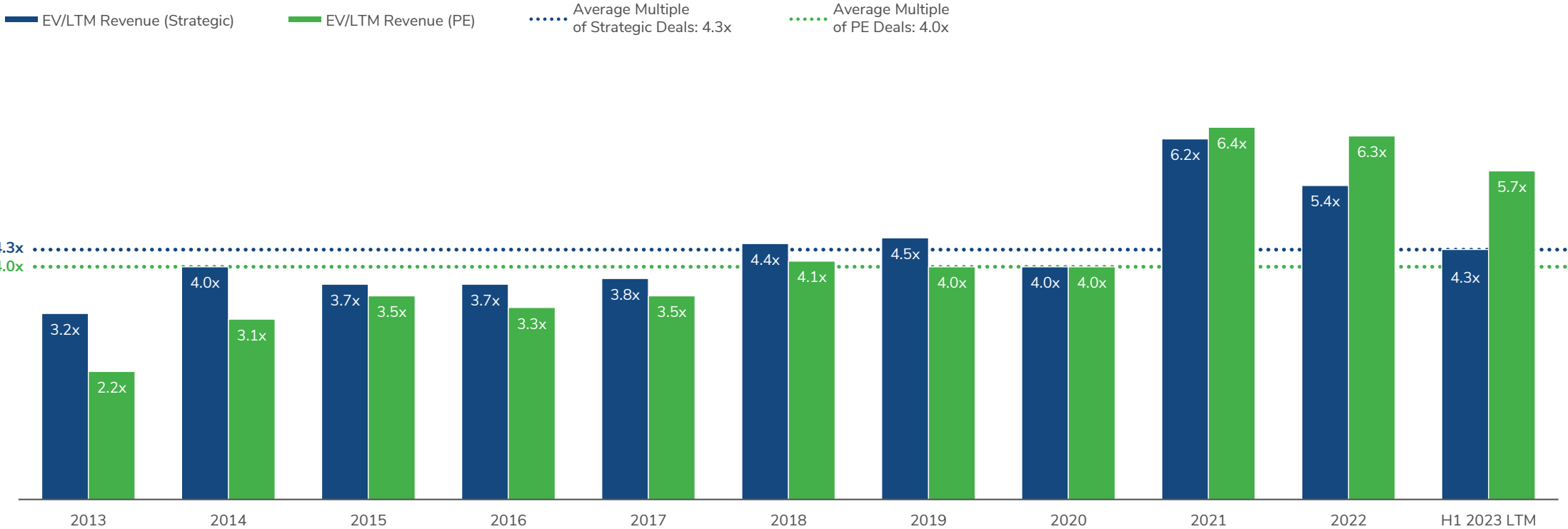
Date	Target	Acquirer ²	Deal Value and Multiple ¹	Target Abstract
May-23			\$52 mn N/A	Talent attraction & acquisition SaaS
Jun-23			\$52 mn N/A	Human capital management SaaS
May-23			\$48 mn N/A	Drug discovery SaaS
Apr-23			\$46 mn N/A	Crypto & DeFi management mobile application
May-23			\$40 mn N/A	Drug discovery & analytics SaaS
May-23			\$26 mn N/A	Financial client management SaaS
Apr-23			\$25 mn N/A	Wealth management & trading SaaS
May-23			\$22 mn N/A	Residential workflow management software

CPaaS = Communications Platform as a Service, DeFi = Decentralized Finance; 1 Deal Multiple = Enterprise Value/LTM Revenue, unless otherwise specified; 2 Deals include acquisitions made by PE-backed strategics, whose owners are indicated below the gray line; All trademarks, trade names, or logos referenced herein are the property of their respective owners.
Source: 451 Research as of June 30, 2023

PEs and Strategics Continued to Converge to Long-Term Average with PEs Paying Significant Premium to Strategics

Strategics Are Back to Long-Term Average while PEs are Returning at a Slower Rate due to Several Take-Privates

Annual Median Deal Multiples

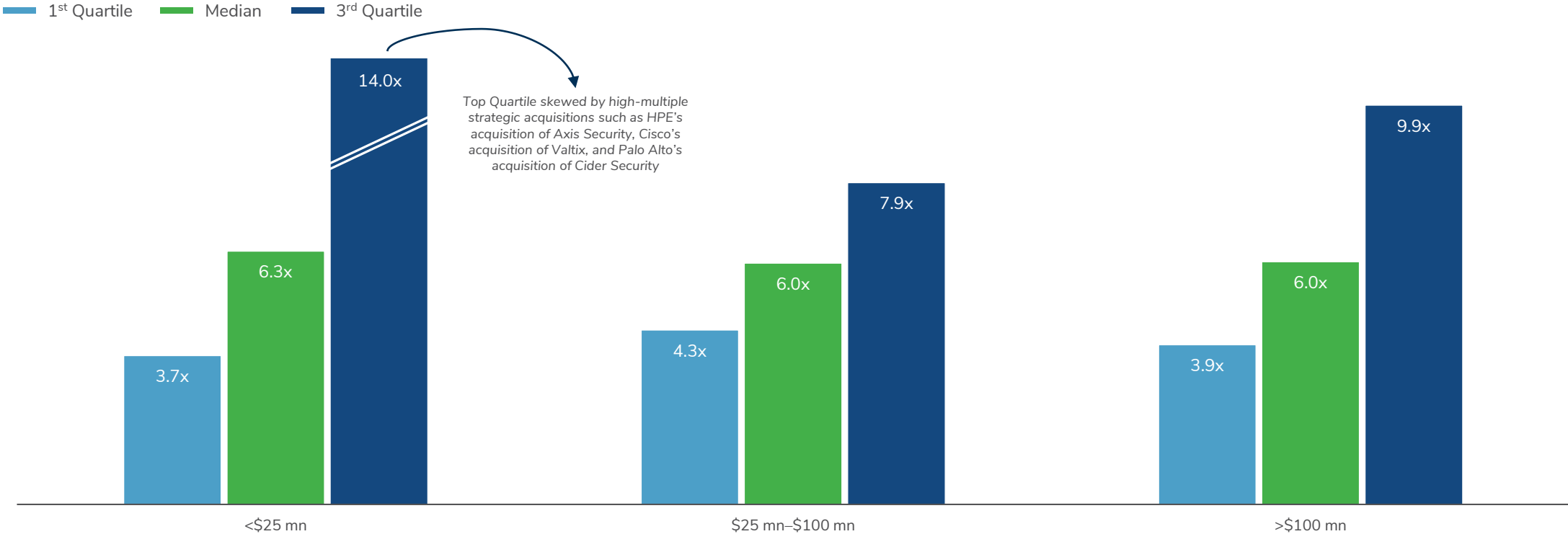


EV = Enterprise Value or Market Capitalization + Total Debt – Cash; LTM = Last 12 Months
 PE deals include acquisitions made by PE-backed strategics.
 Source: 451 Research as of June 30, 2023

SaaS Deal Multiples by Quartile and Target Revenue

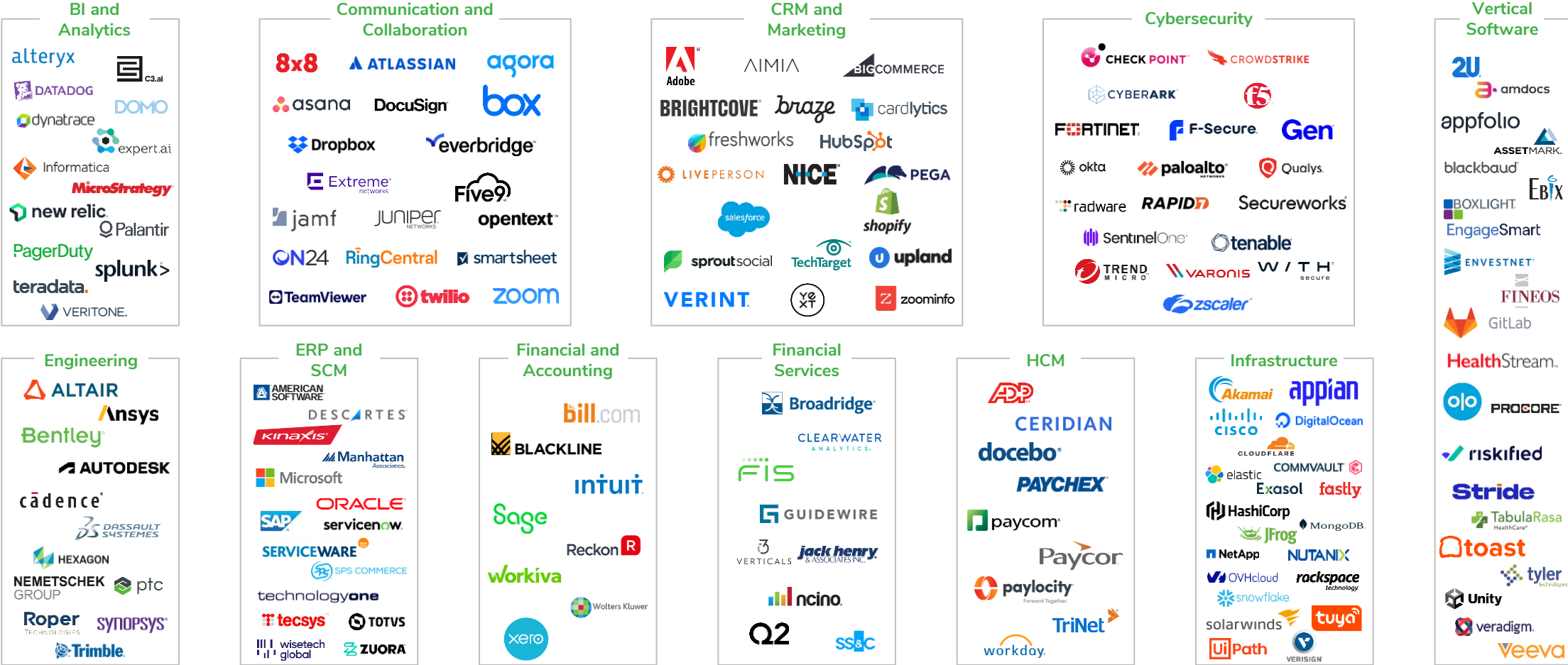
Third-Quartile Multiples Command Average Premiums of 33%–124% vs. Median

Deal Multiples Quartiles by Target LTM Revenue



Transactions selected are based on the following parameters: (i) target company with SaaS business model; (ii) transaction announced between June 30, 2021, and June 30, 2023; (iii) disclosed EV/LTM revenue multiple; and (iv) excluding outliers and SPAC transactions.
 Source: 451 Research and Mergermarket as of June 30, 2023

Our Technology M&A Practice Tracked Software Universe

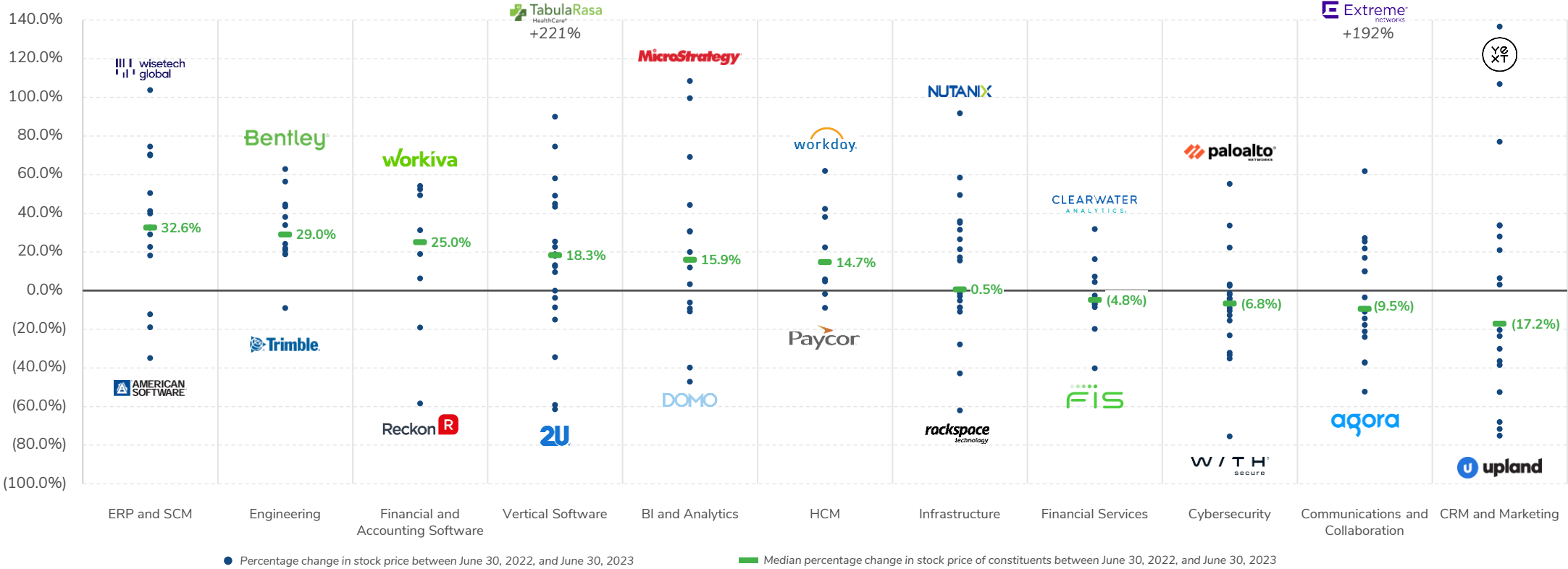


BI = Business Intelligence; CRM = Customer Relationship Management; ERP = Enterprise Resource Planning; HCM = Human Capital Management; SCM = Supply Chain Management
 Source: S&P Global Market Intelligence as of June 30, 2023, including the most actively traded software companies for respective covered sectors and excluding most microcap companies.
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Last Twelve Months Performance of Stock Prices

Significant Differences between High and Low Performers within the Past 12 Months

Performance of Our Technology M&A Practice Tracked Software Universe between June 30, 2022, and June 30, 2023

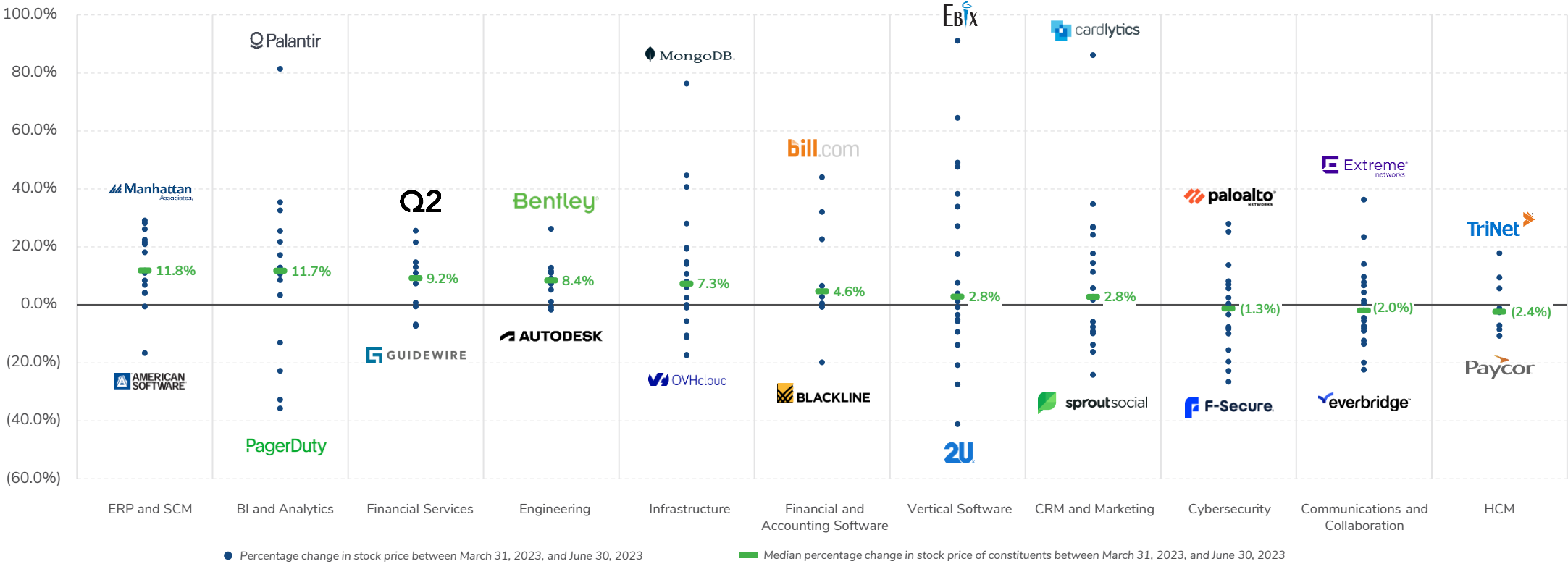


BI = Business Intelligence; CRM = Customer Relationship Management; ERP = Enterprise Resource Planning; HCM = Human Capital Management; SCM = Supply Chain Management; Does not include companies listed post June 30, 2022; Buckets ordered by median percentage change in stock price between June 30, 2022, and June 30, 2023; All trademarks, trade names, or logos referenced herein are the property of their respective owners. Source: Capital IQ as of June 30, 2023

Quarterly Performance of Stock Prices

Positive Median Performance Across Most Software Sectors in the Quarter

Performance of Our Technology M&A Practice Tracked Software Universe between March 31, 2023, and June 30, 2023

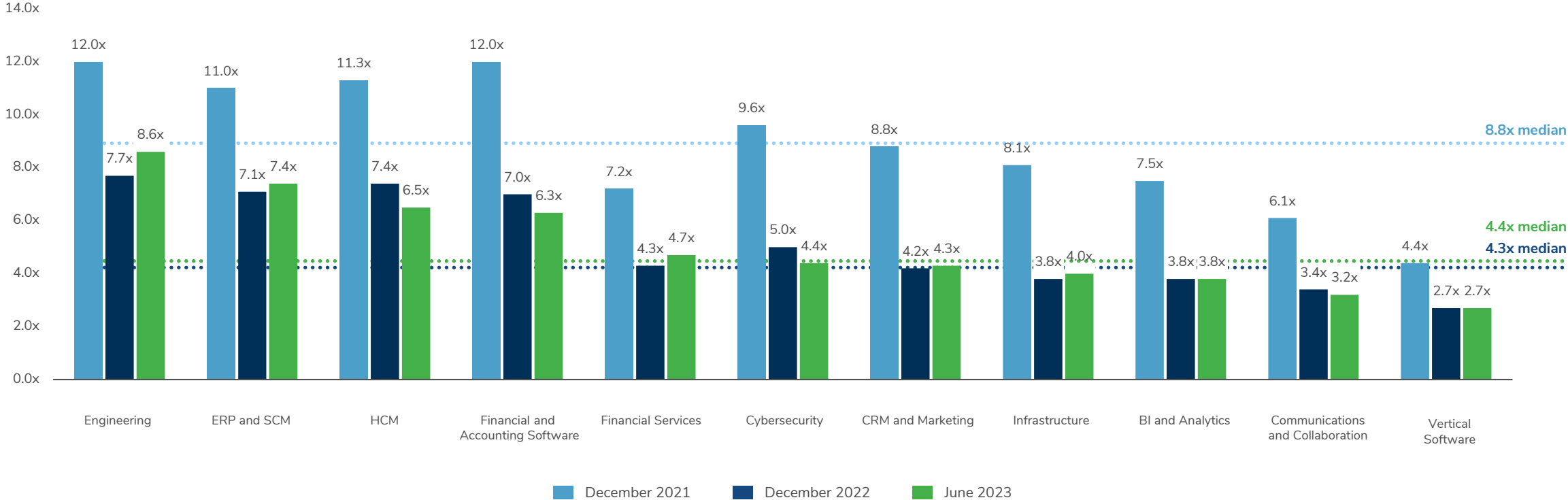


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 Source: Capital IQ as of June 30, 2023

Sector Multiples Across Subsectors Declined Significantly in 2022

Valuations Have Bounced Back Slightly through 2023

EV/Forward Revenue Multiples, December 2021 vs. December 2022 vs. June 2023



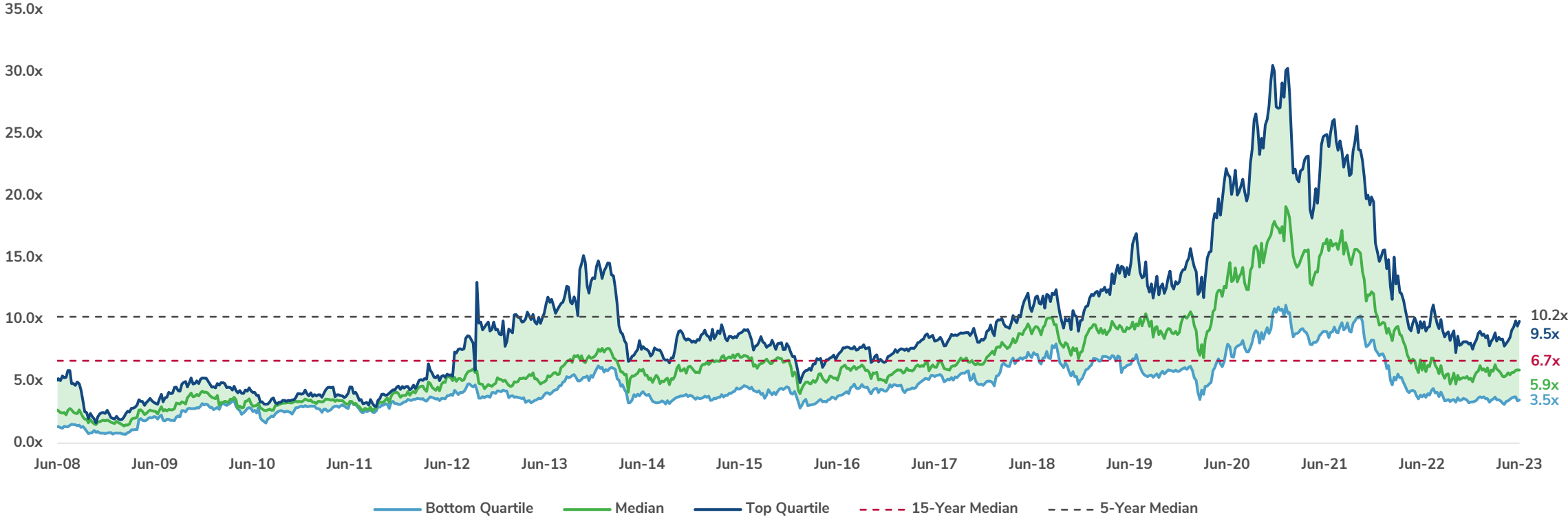
BI = Business Intelligence; CRM = Customer Relationship Management; ERP = Enterprise Resource Planning; HCM = Human Capital Management; SCM = Supply Chain Management; Buckets ordered by June 2023 revenue multiples
 Source: Capital IQ as of June 30, 2023

SaaS Companies Experiencing Considerable Decline from COVID-19 Highs

Recent Months Have Seen a Modest Uptick, Most Pronounced in Top Quartile Constituents

Performance of Our Technology M&A Practice SaaS Index over the Past 15 Years

EV/Next Twelve Months Revenue



Our Technology M&A Practice SaaS Index includes DDOG, DOMO, DT, NEWR, PD, SPLK, TEAM, BOX, ASAN, DOCU, DBX, EVBG, FIVN, RNG, SMAR, TWLO, ZM, ADBE, BIGC, ECOM, HUBS, LPSN, MDLA, CRM, SHOP, MNTV, YEXT, ZEN, ZI, CRWD, MNDT, OKTA, PING, QLYS, SCWX, TENB, ZS, KXS, NOW, SPSC, ZUO, AVLR, BILL, BL, COUP, WK, BNFT, DCBO, PAYC, PCTY, WDAY, APPN, NET, ESTC, FSLY, FROG, MDB, NTNX, SNOW, WIX, TWOU, APPF, BLKB, HSTM, QTWO, U, VEEV, S, PCOR.

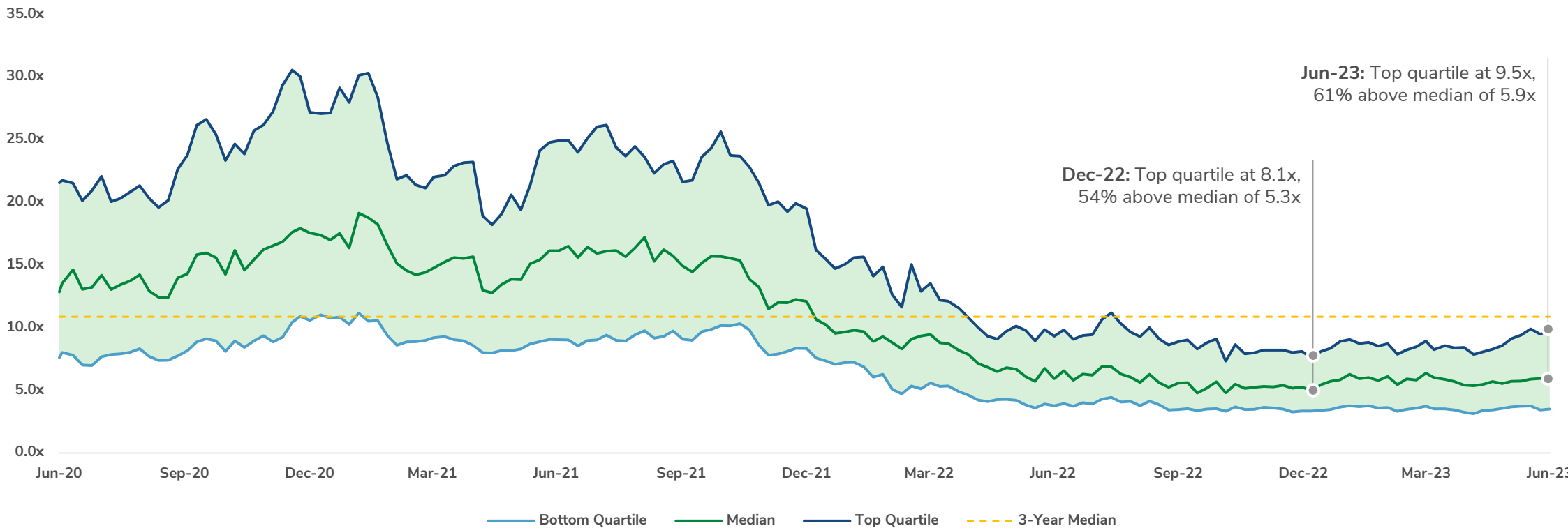
Source: Capital IQ as of June 30, 2023

Gap Between Quartiles Increasing Through 2023 as Top Quartile Pushes Higher

Top Quartile Trading 17% Higher in June 2023 vs December 2022, while Median Remains Relatively Static

Performance of Our Technology M&A Practice SaaS Index over the Past 3 Years

EV/Next Twelve Months Revenue



Our Technology M&A Practice SaaS Index includes DDOG, DOMO, DT, NEWR, PD, SPLK, TEAM, BOX, ASAN, DOCU, DBX, EVBG, FIVN, RNG, SMAR, TWLO, ZM, ADBE, BIGC, ECOM, HUBS, LPSN, MDLA, CRM, SHOP, MNTV, YEXT, ZEN, ZI, CRWD, MNDT, OKTA, PING, QLYS, SCWX, TENB, ZS, KXS, NOW, SPSC, ZUO, AVLR, BILL, BL, COUP, WK, BNFT, DCBO, PAYC, PCTY, WDAY, APPN, NET, ESTC, FSLY, FROG, MDB, NTNX, SNOW, WIX, TWOU, APPF, BLKB, HSTM, QTWO, U, VEEV, S, PCOR.
 Source: Capital IQ as of June 30, 2023


Select Recent Kroll Technology M&A Transactions




has been acquired by



May 2023



has been acquired by



March 2023



has been acquired by



December 2022



has been acquired by



September 2022



has received majority investment from



July 2022



has been acquired by



July 2022



has been acquired by



July 2022



has received majority investment from



June 2022



has been acquired by



May 2022



has been acquired by





April 2022


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Key Subsectors of Focus for Our Technology M&A Practice

Verticals of Focus

 Real Estate & Construction	 a business division of AIA has been acquired by TRUE WIND	 has been acquired by GALLANT CAPITAL	 has been acquired by ARCORO	 has received growth equity investment from SPECTRUM EQUITY
 Financial Services	 has been acquired by insurity	 has been acquired by Enterprise Software Investors	 has been acquired by paya	 has received funding from AKKR
 Healthcare	 has been acquired by AEA GROWTH	 has been acquired by WebMD a subsidiary of ib Internet Brands	 has been acquired by Netsmart	 has been acquired by Canon
 Retail & Commerce	 has been acquired by Sage	 has been acquired by THE HOME DEPOT	 has been acquired by Numerator	 has been acquired by instacart

Thematic Areas of Focus

 Data & Analytics	 has been acquired by AEA GROWTH	 has been acquired by GBG	 has been acquired by SILVERSMITH CAPITAL PARTNERS	 has been acquired by AUTODESK
 Marketing Tech	 has received a majority investment from ZMC ZELNICK MEDIA CAPITAL	 has been acquired by RHI GROUP	 has been acquired by SurveyMonkey	 has been acquired by rubicon PROJECT
 Cybersecurity	 has been acquired by ZIMPERIUM	 has been acquired by IMPERVA	 has been acquired by FORTINET	 has been acquired by LLR partners
 Networking Tech	 has been acquired by ORACLE	 has been acquired by CISCO	 has been acquired by verizon	 has been acquired by solarwinds

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Distinguished Enterprise Software Franchise

Our Technology M&A Practice (formerly Pagemill Partners) has completed over 300 transactions, the majority of which are in enterprise software.

- Industry leaders leverage both SaaS and perpetual models, including companies with hybrid delivery models.
- Underlying technology architecture, reliance on third-party technologies and strategic partnerships, product roadmaps, and vertical go-to-market strategies are all important attributes that we have demonstrated experience in articulating and positioning.



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