



C O R P O R A T E F I N A N C E
I N T E R N A T I O N A L

Software & IT Services

UK Market Review – Q4 2023

Introduction

- CFI UK's (Gambit Corporate Finance) Software and IT Services (SITS) Q423 Market Review illustrates the continued resilience of the SITS M&A market, outperforming pre-pandemic levels and with an optimistic outlook for H124.
- Despite rises in the cost of capital during 2023, high-quality SITS assets, providing innovative solutions to enhance efficiency and competitiveness across various end markets, remain appealing to both strategic and financial acquirors.
- Looking ahead, we forecast a buoyant M&A environment in H124 as inflation and the cost of capital softens and business owners take advantage of the favourable tax environment, before a General Election is expected to be announced in H224.



Geraint Rowe
Partner
Software & IT Services

Key Points in Focus

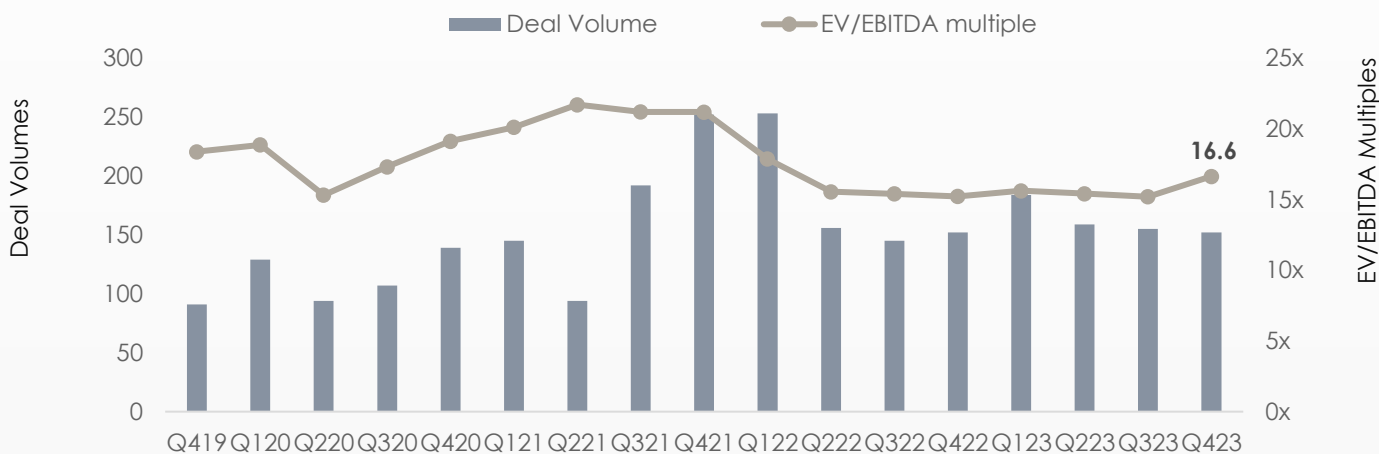
- **UK SITS M&A activity during 2023 was resilient, in the face of a challenging macroeconomic environment.** Overall, volumes in 2023 were 83% above the pre-pandemic levels of 2019.
- As highlighted by CFI's UK SITS EV/EBITDA Valuation Index, **SITS multiples increased to 16.6x in Q423, an increase of 9% on Q323.**
- The multiple uplift is primarily attributed to heightened optimism regarding the UK economic outlook and a subsequent increase in investor confidence.
- With the increase in cost of capital in 2023, there has been a noticeable shift in the allocation of private credit in the SITS market. Whilst there has been a decrease in the proportion of proceeds dedicated to financing leveraged buyouts, there is **now a higher allocation towards funding 'bolt-on' M&A.**
- This strategic shift by private equity reflects an emphasis on **augmenting and broadening existing businesses through smaller, targeted acquisitions**, reducing execution risk and improving payback times for financial acquirors.
- **We expect SITS valuation multiples to improve throughout 2024** as inflation softens and interest rates reduce.
- **Innovative UK companies remain appealing to overseas acquirors**, with an 8% increase in transactions in the UK involving US purchasers in Q423.
- **SITS business owners should leverage the current 'window of opportunity' whilst the tax environment remains favourable**, as Capital Gains Tax rules may increase following the anticipated General Election in H224.
- **If you would like to arrange a call to discuss the opportunities facing your business or to understand the most appropriate solutions to support your shareholders' needs and ambitions, please contact a member of the team.**



Sam Forman
Director
Software & IT Services

“With inflation softening, interest rates normalising and the confidence level of entrepreneurs and chief executives rising, we are optimistic that volumes and valuations will increase in H124”

UK SITS Deal Volumes & EV/EBITDA Valuation Index



83%

Increase in M&A volumes from 2019 to 2023

47%

Of transactions were cross-border in Q423

16.6x

Average EV/EBITDA multiple in Q423

44%

Of SITS transactions undertaken by financial acquirors

- UK SITS M&A activity proved resilient in Q423, with volumes levels staying consistent and a rise in EV/EBITDA multiples on Q323.
- Despite deal activity levels appearing conservative, in line with the economic climate, activity levels were historically buoyant and volumes were 83% above the pre-pandemic levels of 2019.
- Notwithstanding the increase in the cost of capital during 2023, EV/EBITDA valuations have been stable over the last 12 months with a 9% increase in Q423 and further recovery into 2024. Average software EV/EBITDA multiples increased by 7.6% between Q323 and Q423 and average IT services EV/EBITDA multiples increased by 6.3% over the same period. This is indicative of increased investor confidence in UK SITS businesses as inflation has softened significantly during the year, with IT spend in UK budgets anticipated to increase as companies look to digitalise operations to improve productivity and profitability.
- 44% of SITS transactions were undertaken by a venture capital or private equity investor in Q423, which continues to be significantly higher than other sectors. Factors which make the SITS sector attractive to financial acquirors include its high scalability, low capital intensity, disruptive potential and high-income visibility.
- As the macroeconomic outlook is expected to improve and the cost of capital is anticipated to ease, we expect an improvement in M&A activity and an upturn in EV/EBITDA valuations within the SITS market from Q423 into 2024.



Application Software

- To stay competitive, businesses are increasingly embracing operational efficiencies via digitalising operations, fueling growing demand for innovative Application Software assets to facilitate data-driven decision-making processes and automate key workflows, improving productivity across all sectors.
- Application Software continues to remain the most active sub-sector in the SITS market, with 55% of all transactions in Q423 involving Application Software assets.
- As illustrated by CFI UK's Application Software EV/EBITDA Valuation Index, valuations modestly strengthened in Q423 compared to Q323, due to increased investor confidence, softening inflation and projected reductions in the cost of capital.
- Multiples have fallen from their peak in Q321, reflecting the reduced free cash flow allocation towards research and development and a continued focus by firms on profitability rather than loss making revenue growth, but saw an upturn in Q423.
- US acquirors continue to invest into the UK with assets increasing by 8% from Q323 to Q423, highlighting robust demand for innovative UK SaaS businesses. Infinity Software, a leading interaction management software business was acquired by US vertical software consolidator Dura Software in November.
- Furthermore, Kraken Technologies' acquisition of Sennen Tech, a provider of advanced software for the delivery and operation of large-scale renewable energy generation illustrates continued investor appetite for Cleantech assets. With renewable energy playing a major role in the UK's transition to net zero, cleantech assets will continue to attract high valuations.

55%

Percentage of transaction volumes Q423

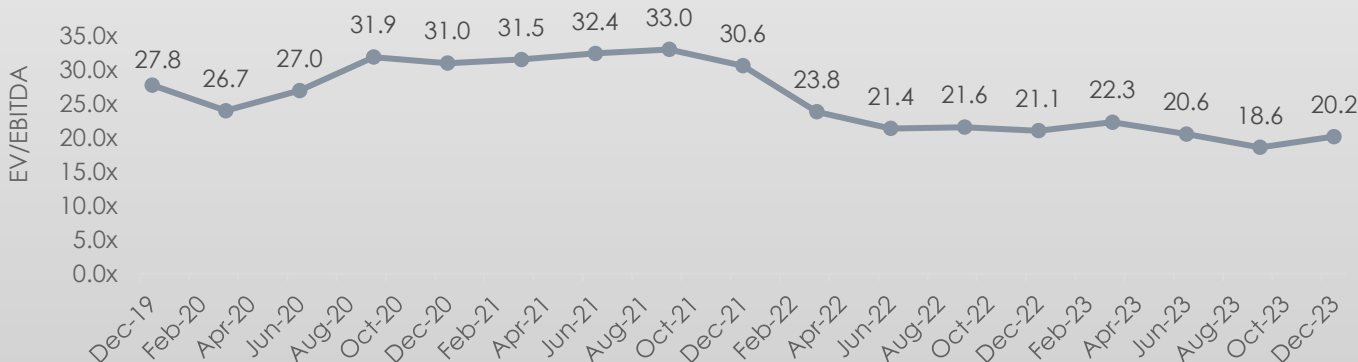
| Selected Transactions | | |
|-----------------------|---------------------------------|-------------------------|
| Date | Target | Acquirer/Investor |
| Oct-23 | Fourjaw Manufacturing Analytics | Mercia Asset Management |
| Oct-23 | TR Control Solutions | Aukett Swanke Group plc |
| Nov-23 | Mayden | G Square Private Equity |
| Nov-23 | Infinity Software | Dura Software |
| Dec-23 | Arcane Intelligence | Accel |
| Dec-23 | Sennen Tech | Kraken Technologies |

- Amidst the reshoring of supply chains, there is investor appetite for assets strategically positioned at the cross-section of AI, IoT and manufacturing. Mercia's investment in Fourjaw Manufacturing is an example of the robust investor appetite for businesses that can help reshape industrial processes and improve firm productivity.

Snapshot

- Illustrating a path to profitability is crucial to acquirors
- Acquirors have turned their focus on resilient vertical markets which are attracting premium valuations.

Application Software - Valuation Index



Source: Refinitiv, CFI UK analysis



System Software

18%

Percentage of transaction volumes Q423

- System Software assets are consistently drawing higher valuation multiples owing to their indispensable role within contemporary technology infrastructures and the rapid incorporation of proprietary AI technology.
- In contrast to Application Software assets, System Software assets have not been as impacted by the rising cost of capital. System Software EV/EBITDA multiples remain robust and saw an uptick during Q423, improving by 6.5% from 18.6x in Q323 to 19.8x in Q423.
- This resilience has also been buoyed by continued investor confidence in blockchain and cryptocurrency assets by revolutionising financial services by reducing intermediaries and introducing faster and more secure transaction methods.
- EnterpriseDB, a company specialising in improving the performance of the Postgres database for businesses, has acquired Splitgraph, a startup focused on making it easy to build data-driven applications using Postgres-compatible technology.
- Companies like Splitgraph that are simplifying the development of data-driven applications are continuing to be attractive to acquirors due to their potential for accelerating innovation and meeting the growing demand for agile and intelligent solutions in a digitalised world.
- Furthermore, Oxford Metrics' acquisition of Industrial Vision Systems illustrates continued investor appetite for innovative machine vision software for advanced manufacturing purposes, paying a multiple of 13.5x for the business.

Selected Transactions

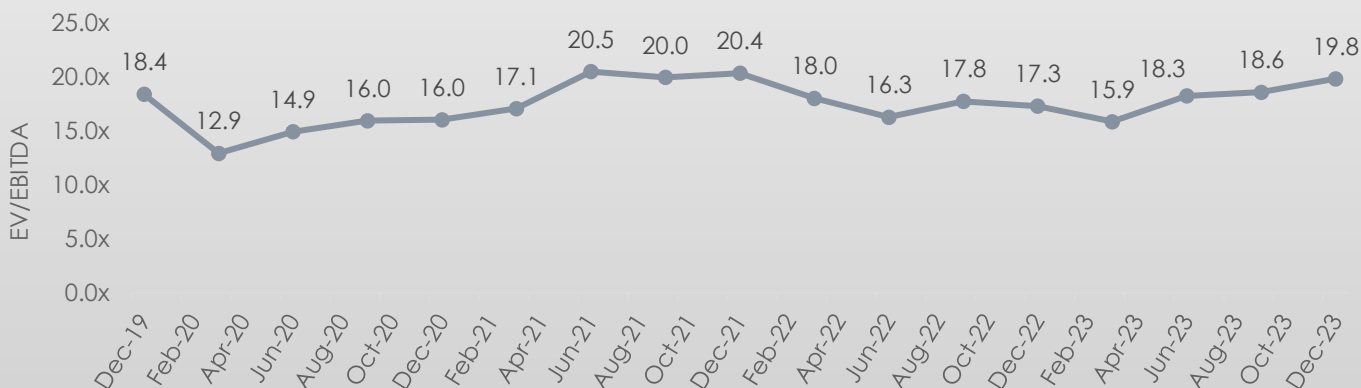
| Date | Target | Acquirer/ Investor |
|--------|---------------------------|--------------------|
| Oct-23 | Splitgraph | EnterpriseDB |
| Oct-23 | AI Build | IQ Capital et.al |
| Nov-23 | Raspberry Pi | Arm Holdings plc |
| Nov-23 | Industrial Vision Systems | Oxford Metrics plc |
| Dec-23 | Artemis Defense | Xalles Holdings |
| Dec-23 | Triple Technologies | TX Ventues et.al |

- US-based Xalles Holdings acquired UK-based Artemis Defense Technologies in December 2023, which specialises in AI related software for US Department of Defence initiatives. This underlines the attractiveness innovative AI pioneers in the UK to US acquirors.

Snapshot

- **Valuations for System Software assets are approaching historic highs.**
- **The sub-sector is a seller's market, with buyers competing for technology that will underpin economic transformation in the next decade.**

System Software - Valuation Index



Source: Refinitiv, CFI UK analysis, Financial Times



Managed IT & Cloud

14%

Percentage of transaction volumes Q423

- Managed IT & Cloud businesses continue to experience robust demand, driven by their effective solutions minimising downtime, bolstering security, and offering scalable and cost-effective IT services to their customers.
- As businesses prioritise digitalisation to maintain a competitive advantage, they are increasingly turning to cloud service providers to facilitate smooth transitions to cloud infrastructure and reduce costs associated with maintaining outdated legacy IT systems.
- CFI UKs Managed IT & Cloud Valuation Index exhibited a 6% increase in EV/EBITDA multiples from 9.6x in Q323 to 10.2x in Q423. This is mainly attributed to the softening inflation and the anticipation of a lower cost of capital environment for H24, which will inevitably increase firm budget spend on further digitalisation and cloud migration to stay competitive.
- CFI UK (Gambit Corporate Finance) advised the shareholders of Blue Sky Digital on their sale to Aurora Managed Services, highlighting continued consolidation in the Managed Print and Document Solutions sub-sector. High quality Managed Print businesses continue to garner attractive valuation multiples and are of interest to larger trade acquirors.
- Kick ICT, a Managed IT and Cloud services provider and a mid-market consolidator backed by BGF, completed its ninth acquisition in eight years with the addition of C2 Software, a Microsoft Dynamics specialist, in November

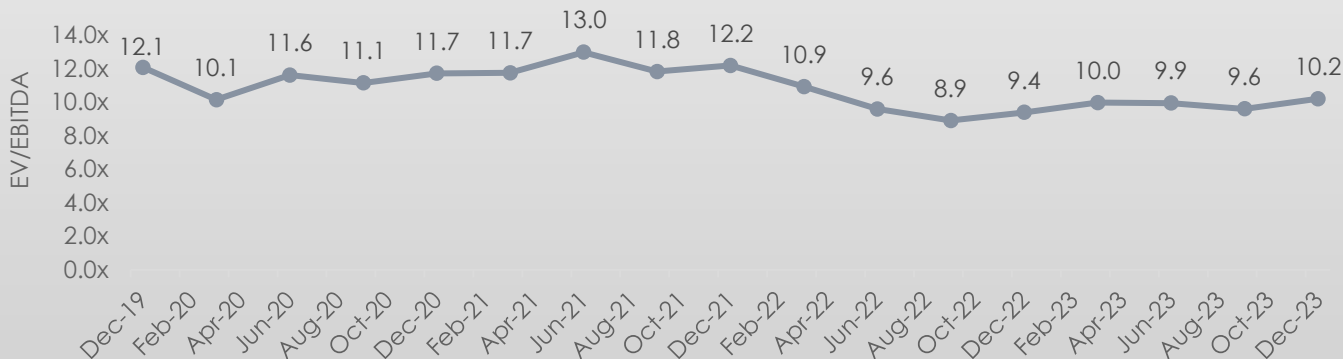
| Selected Transactions | | |
|-----------------------|-------------------------|-------------------------|
| Date | Target | Acquirer/ Investor |
| Oct-23 | Assured Data Protection | Soho Square Capital |
| Oct-23 | Dynamic Networks | Kingland Capital |
| Nov-23 | C2 Software | Kick ICT Group |
| Nov-23 | Sapphire Systems | NTT Data |
| Dec-23 | Blue Sky Digital | Aurora Managed Services |
| Dec-23 | Bluecube Technology | Ecko Cloud |

- Additionally, Kingland Capital supported a management buyout (MBO) at Dynamic Networks, a high-growth Managed IT & Cloud service provider, highlighting ongoing private equity interest in this sub-sector due to its scalability and recurring revenue model.

Snapshot

- The UK Managed IT & Cloud market is becoming increasingly consolidated and competitive, following significant M&A activity in recent years.
- UK buyers are attracted to businesses with differentiation in service and end-market focus.

Managed IT & Cloud - Valuation Index



Source: Refinitiv, Statista, CFI UK analysis



VAR & Consultancy

13%

Percentage of transaction volumes Q423

- The increasing demand for VAR & Consultancy assets is fueled by the growing imperative on businesses to modernise legacy IT infrastructure in workplaces and address the escalating cyber threats that specifically target cloud environments.
- As illustrated by CFI UK's EV/EBITDA Valuation Index, VAR & Consultancy assets have demonstrated growth and continue to display attractive valuation multiples, with a 6.3% increase from 12.7x in Q323 to 13.5x in Q423.
- In 2022, ransomware attacks affected 73% of UK organisations, which was a 15% increase on the year before (CyberEdge). In response, businesses are increasing budget spend on cyber-security products and services, fuelling demand for value-add cybersecurity consultancies that put enterprise-grade cyber security services within reach of any organization.
- Serial acquirer Accenture completed the acquisition of leading cyber, cloud and data consultancy 6point6 in October, further enhancing Accenture's capabilities in the cyber-security complexities for financial institutions and Governments.
- Furthermore, in December, the Wavenet Group, backed by Macquarie, acquired the prominent cyber consultancy Falanx. This strategic move is set to enhance Wavenet's cybersecurity offerings, providing customers with access to endpoint detection and response solutions, which are fast replacing the outdated traditional static antivirus security solutions.

Selected Transactions

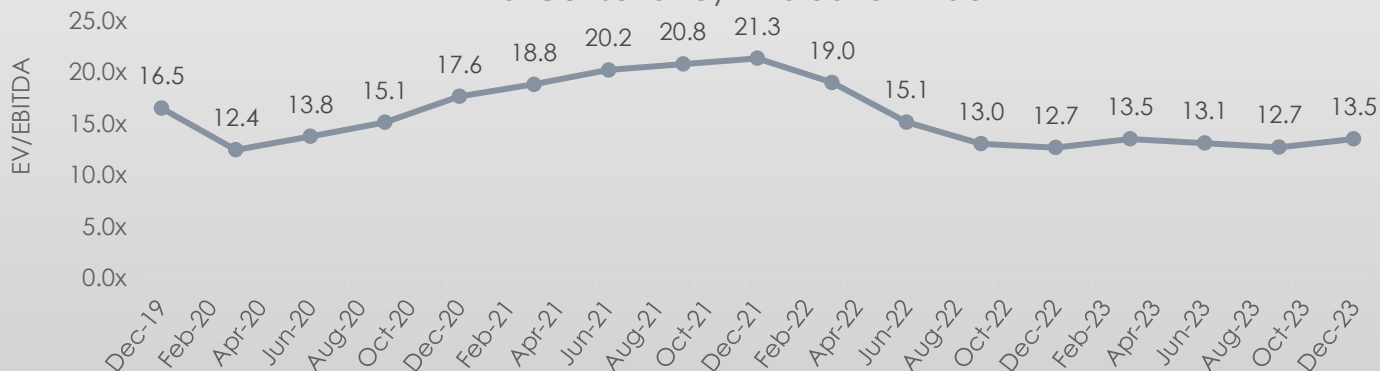
| Date | Target | Acquirer/ Investor |
|--------|---------------------------|--------------------|
| Oct-23 | Levi Telematics | Banyan Software |
| Oct-23 | 6point6 | Acenture plc |
| Nov-23 | Cyber-Duck | CACI International |
| Nov-23 | Venn Digital | FW Capital |
| Dec-23 | Falanx cyber Defence | Wavenet Group |
| Dec-23 | Redkite Data Intelligence | Accenture plc |

- Moreover, we continue to see consolidation in the generalist digital consultancy market, highlighted by SCC's acquisition of Nimble Delivery in September 2023. This acquisition represents another noteworthy milestone in SCC's 'Digital Solutions and Services Provider' strategy, aiming to establish a 2,000 person European digital consultancy over the next decade.

Snapshot

- **Premium valuations are being realised by companies with a greater focus on 'value add' element of VAR.**
- **Levels of recurring and contracted revenue underpinning future growth is a key value driver.**

VAR & Consultancy - Valuation Index



Source: Refinitiv, Statista, CyberEdge, CFI UK analysis

CFI UK's Approach

- CFI UK leverages SITS expertise and market knowledge for off-market acquisitions, assessing acquiror appetite, and providing targeted exposure to financial investors through close relationships with the private equity market.
- With detailed insights into the SITS market, CFI UK advises on valuation metrics and presents opportunities to acquirors, targets, and funders.
- Collaboration with the international SITS sector team at Corporate Finance International enhances cross-border opportunities, sector trends, and transaction insights, facilitating constructive negotiations for optimal outcomes.
- Acting as an extension to senior management teams, CFI UK offers partner-led services, available 24/7 for commercial discussions and serving as a sounding board, fostering strong and long-lasting relationships.
- In the dynamic M&A market, SITS business owners are encouraged to engage experienced corporate finance advisors for strategic decision-making, maximizing value realization through robust SITS assets at attractive valuations.



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Portugal

BLUESKY
DIGITAL

has been acquired by

Aurora*

CFI sell-side

TDS
TRUSTED DATA SOLUTIONS

has been sold to

kerv

CFI sell-side

GT Glamorgan Telecom
Voice & Data Specialists

has been sold to

onecom

CFI sell-side

Pinnacle
document solutions group

has been sold to

ethos

CFI sell-side

Inspiretec

has undergone a refinancing from

NatWest

CFI debt

certus technology group

has been sold to

SysGroup

CFI sell-side

Pinnacle
telecom solutions

has been sold to

SOUTHERN COMMUNICATIONS

CFI buy-side

Management team have completed a Buy-Out of

COMPUTER WORLD
Helping Businesses Define Tomorrow™

CFI buy-side

lydis

has been sold to

Aplusk
a Dutch subsidiary of

econocom

CFI sell-side

FICOLO

was sold to

D/9
DIGITAL INFRASTRUCTURE

CFI sell-side

MAIN
CAPITAL PARTNERS

has sold

Sofon
Guided Solutions

to

revalize
a portfolio company of

TA ASSOCIATES

CFI sell-side

WISEO
DIGITAL MAKERS

has secured debt financing of 120 M€ from

BlackRock

CFI debt

CFI UK - Gambit Corporate Finance

Established in 1992, Gambit (CFI UK) is an independent corporate finance advisory boutique specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the SITS sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

www.gambitcf.com
<https://www.thecfigroup.com/country/united-kingdom/>

Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of middle-market investment banks and corporate finance advisory firms. With over 250 professionals located in 26 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI is ranked number 17 in Europe and 24 globally by Thomson Reuters for transactions valued up to €200 million.

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