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Software M&A overview

Canadian and US market insights Q4 update and 2018 roundup

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Re-emergence of strategic buyers and healthy participation from PEs boosted M&A deal activity to record levels in 2018

2018 saw the re-emergence of software M&A's traditional strategic acquirers. Buoyed by 2017 tax reform and associated improvement in cash reserves, relaxed regulatory environment and increase in shareholder activism (805 events in the US alone), C-suite executives were forced to take a "use it or lose it" managerial mentality towards cash.

Our analysis shows that strategic buyer groups successfully participated in 26 \$billion+ deals in 2018 in North America, as compared to 11 in 2017. Even relatively smaller software players like Cloudera, Twilio and Workday all closed their first-ever, \$billion+ deals in 2018.

Amid the return of software behemoths and emergence of new software buyers, PE players continued to influence the software M&A market. Not only did their participation increase by 53% in absolute dollar terms over 2017, but PEs also inked a record 10 \$billion+ deals (up 43% from last year).

Our analysis showed that industry specific software saw high PE interest while strategic buyers focused acquisitions on the cloud and digital-based capabilities while pursuing acquisitions. The desire to be at the cutting edge of innovation while reducing costs, streamlining operations and driving customer engagement across channels, also drove non-tech participation in software.

EY's recent Global Capital Confidence Barometer for the TMT sector found that after the high levels of activity in recent quarters, fewer tech companies (42%) now plan to actively pursue M&A in the next 12 months – down from 51% in April 2018. However, the same study found that near-term deal making plans are much higher among companies with revenues over \$1 billion (65%), than for companies with revenues below \$1 billion (23%).

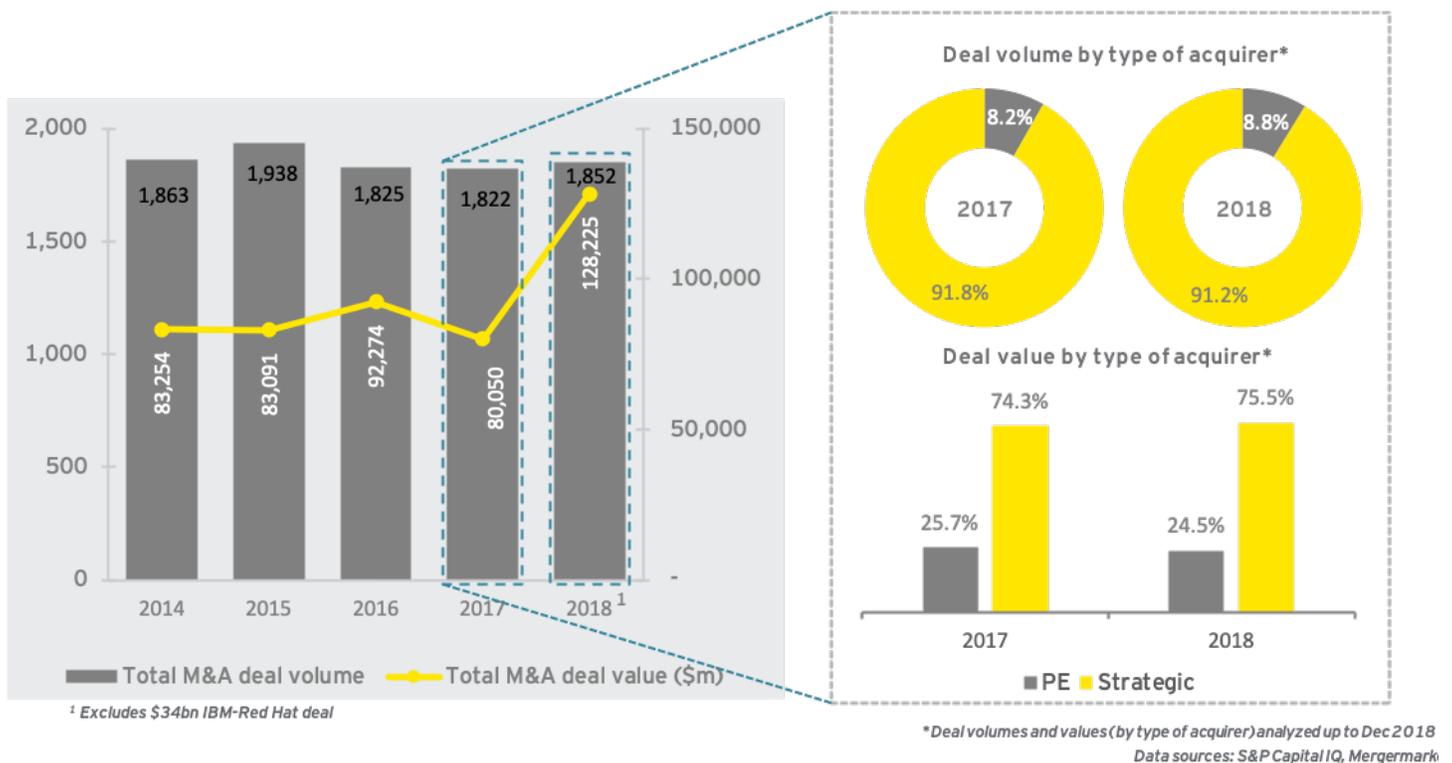
We also expect the impact of fast-changing regulatory and political headwinds to reduce uptake from end markets, which might indirectly affect software companies.

Despite these factors, market optimism is expected to remain high in 2019. Interest rates are yet to impact PE deal making or create challenges to the capital structures of PE backed portfolio companies. With the Fed signaling a patient approach to interest rate increases in 2019 and the vast amounts of dry powder with PE firms, we expect these firms to remain active and pursue deals aggressively. However, PEs will continue to focus on acquisitions of software business with recurring revenues and subscription based models, given inherent business defensiveness and free cash flow generation capabilities.

The other aspect expected to drive M&A deal flow is the technology IPO market. Our analysis shows that twice as many enterprise-focused tech vendors became public in the first half of 2018 compared to the second half. Increased volatility in the stock market due to valuations and geopolitical uncertainty might cast a cloud on the IPO plans of smaller, enterprise software companies. Given the already long holding periods across PE portfolios, the weak IPO market is expected to translate to higher M&A, VC to PE and PE to PE transactions.

Overall, the rationale for software M&A is as compelling as ever: executives view inorganic growth as the most effective way to address digital transformation, accelerate innovation, adjust to changing customer behaviors and develop products that confront disruption/sector convergence.

Transaction stats: Overall deal values show a 60% increase as corporate and PE buyers ink record number of \$billion+ deals in 2018



Deal value in 2018 was up 60% (vs. 2017) on the back of a record number of \$billion+ M&As deals. The year saw a total of 36 such deals (81% higher than the average for the previous 5 years).

The number of \$billion+ deals also led to an overall increase in average deal size to \$69 million (vs. \$44 million in 2017).

PE participation increased in both value (53%) and volume terms (9%), with average deal size increasing to \$193 million in 2018 (vs. \$138 million in 2017).

Buoyancy of the overall M&A market, coupled with benign interest rates, financing dry powder and lighter covenant packages from lenders, suggest that deal activity will remain strong in the first half of 2019.

Strategic and PE activity: Acquisitions by strategic buyers driven by cloud adoption, increasing digital transformation, need for innovation; PEs employing platform and vertical software strategies

Strategic buyers aggressively pursued deals in 2018 after a subdued 2017. Average deal size by strategic acquirer rose by 56% to reach \$57 million.

Improved cash reserves from the tax reform in 2017, relaxed regulatory environment, and increased shareholder activism led to higher participation from strategic buyers. A rise in corporate purchasing power including an extended period of strong earnings also enabled buyers to focus on external growth opportunities.

There were also external pressures that drove this trend. The acceleration of cloud-based technology adoption, the need for omnichannel customer engagement, an increasing digital transformation across industries and the drive towards continuous innovation led strategic buyers to pursue more acquisitions in 2018.

Recurring revenues and the ability to grow these revenues through new client acquisitions were key value drivers for strategic buyers.

Larger PEs have been focusing on specific industry sectors and using deep operational expertise to differentiate against strategic

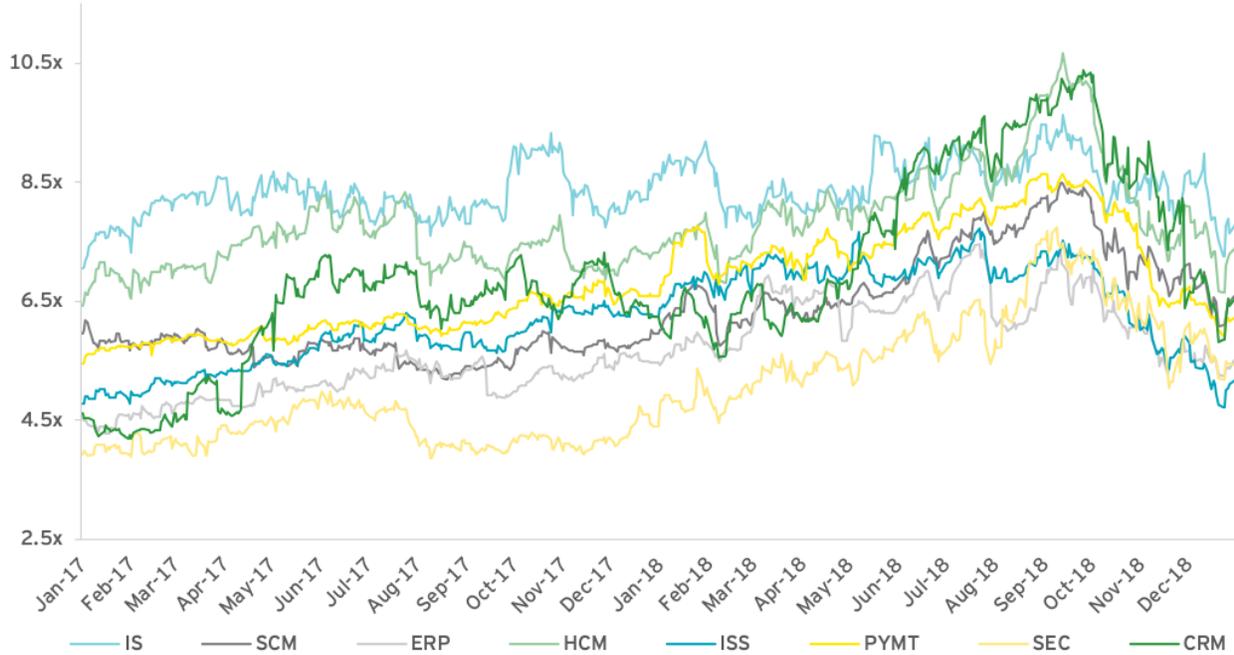
buyers. This has resulted in PE firms deploying industry knowhow through sector focused operational teams and aggressively pursuing add-on investments to create larger platforms with broader product suites. This strategy has enabled them to unlock synergies and create greater value for their portfolio companies.

Industry specific software firms are experiencing higher participation from PE buyers, with ~55% of industry specific software transactions being completed by these buyers. According to our analysis, this can be attributed to: a) lower multiples for these companies; b) lesser competition from strategic buyers (in technology) making PE investors more attractive and c) the ability for PEs focused on specific sectors to hold a portfolio of related investments.

With record levels of dry powder and increasing pressure to deploy capital, buyout firms aggressively targeted VC portfolios. In 2018, PE buyout firms were responsible for one in four venture exits⁽¹⁾.

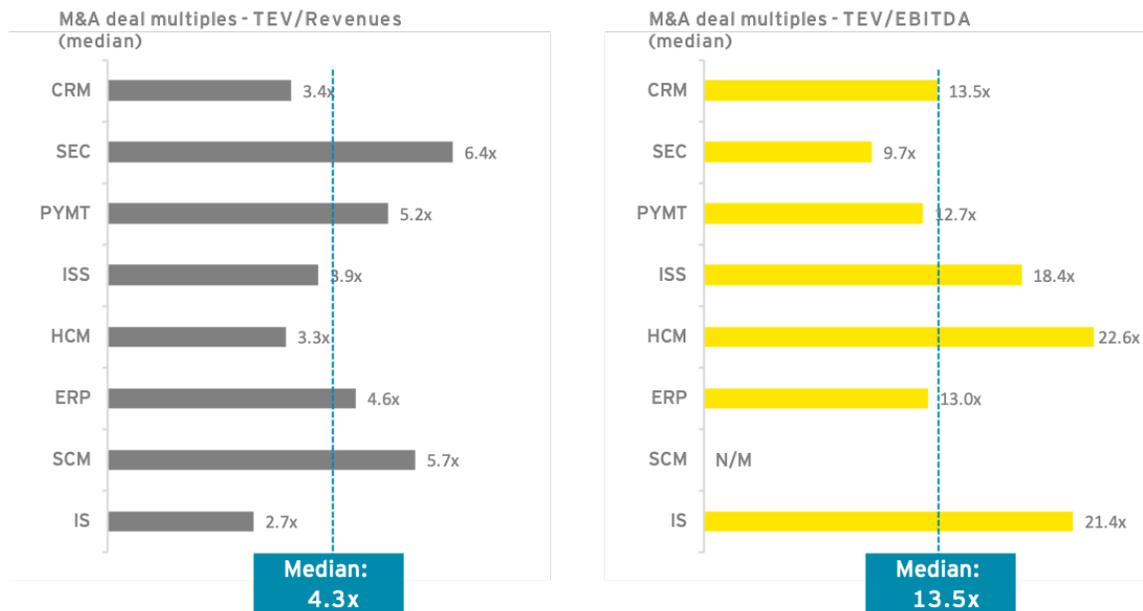
¹ 451 Research

Valuation - Public comparables: Valuations saw a sharp decline in Q4 but remained strong and above January 2017 levels



Acronyms used in chart are referenced at the bottom of the page

Valuation - Transactions*: Valuations were highest for software assets in Supply Chain Management, Payments and Security



Data sources: S&P Capital IQ, Mergermarket

IS - Internet Software; SCM - Supply Chain Management; ERP - Enterprise Resource Planning; HCM - Human Capital Management; ISS - Industry Specific Software; PYMT - Payment/Financials; SEC - Security; CRM - Customer Relationship Management.

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises of 1,852 transactions completed between Jan 1 and Dec 31, 2018 in Canada and the US. The sample has been compiled by EY Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the Software sector. Furthermore, the categorization of the sample across various sub-sectors and any analysis thereof, by EY Orenda Corporate Finance Inc. is solely for illustrative purposes and were not created to serve as benchmarks. Every transaction has specific characteristics that impact value and corresponding multiples. It is necessary to understand the background and circumstances surrounding each transaction to extract meaningful insights.

Select Canadian transactions in Q4 2018

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20 Dec 2018 **Parallels, Inc.**, a developer of virtualization and automation software, was acquired by Coral. The terms of the transactions were not disclosed.

20 Dec 2018 **Cortex Business Solutions Inc. (TSXV:CBX)**, a provider of Network as a service portal to e-commerce products and services, was acquired by TransZap P2P Canada for a transaction value of \$31 million. The acquisition represents an enterprise value of 3.3x revenues and 21.3x EBITDA*.

19 Dec 2018 **ITG Software Inc.**, a provider of a software-as-a-service IT documentation platform for managed service providers and IT service providers, was acquired by Kaseya Limited. The terms of the transactions were not disclosed.

18 Dec 2018 **Symbility Solutions Inc. (TSXV:SY)**, a developer of software for employee benefits and property and casualty insurance markets, was acquired by CoreLogic for a transaction value of \$84 million.

12 Dec 2018 **Liaison Technologies, Inc.**, a provider of cloud-based enterprise application integration and data management solutions, was acquired by Open Text Corporation (NasdaqGS:OTEX) for a transaction value of \$300 million.

05 Dec 2018 **Print Audit, Inc.**, a developer of print tracking and auditing software that enables organizations to analyze, reduce and recover their printing volumes and costs, was acquired by EverCommerce. The terms of the transactions were not disclosed.

05 Dec 2018 **SnapTravel**, a provider of message-driven conversational commerce and travel, raised \$13.2 million from Telstra Ventures, Stephen Curry in a Series A funding closure.

30 Nov 2018 **EMHware Inc.**, a provider of agency management software solutions focused on the specific needs of adult mental health, children's mental health, addictions and out-patient social services, was acquired by EverCommerce. The terms of the transactions were not disclosed.

27 Nov 2018 **Plusgrade LP.**, a provider of a travel focused online revenue upgrade platform, was acquired by Caisse de dépôt et placement du Québec for a transaction value of \$151 million.

14 Nov 2018 **OrderDynamics Corp.**, provider of eCommerce solutions to multi-channel retailers in North and Central America and internationally, was acquired by TECSYS Inc. (TSX:TCS) for a transaction value of \$10 million.

12 Nov 2018 **Geosoft Inc.**, a provider of software solutions for earth exploration, 3D modeling, and geospatial server technology was acquired by Sequent Limited. The terms of the transactions were not disclosed.

05 Nov 2018 **DealerMine Inc.**, a provider of sales and service customer relationship management software for automotive franchise dealers, was acquired by Quorum Information Technologies for a transaction value of \$11 million.

22 Oct 2018 **RightLabs Inc.**, a provider of web-based integrated business and education platforms, was acquired by TransACT. The terms of the transactions were not disclosed.

15 Oct 2018 **Marcato Digital Solutions, Inc.**, a provider of Web-based solutions for the music industry, was acquired by Patron Technology. The terms of the transactions were not disclosed.

08 Oct 2018 **Clinical Outcomes Management Systems, LLC**, a provider of software solutions for post-acute care, was acquired by PointClickCare Corp. The terms of the transactions were not disclosed.

03 Oct 2018 **Hopper Inc.**, a developer of mobile application that uses big data to predict and analyze airfares, raised \$100 million in a Series D venture led by OMERS Ventures.

03 Oct 2018 **Lexicata**, a provider of client relationship management (CRM) software solutions for law firms, was acquired by Themis Solutions. The terms of the transactions were not disclosed.

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1. * Deal signed but not closed
2. Data sources: S&P Capital IQ, Mergermarket