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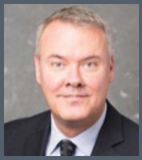
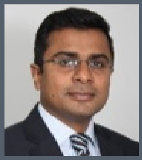
IT & Tech-enabled Services M&A overview

Canadian and US market insights
Q4 update and 2018 roundup

March **2019**



Derek van der Plaat
Senior Vice President
Canadian Technology M&A
+1 416 943 4485
derek.vanderplaat@ca.ey.com



Sid Nair
Vice President
Canadian Technology M&A
+1 416 943 3404
sid.nair@ca.ey.com

Dylan Corey
Associate
Canadian Technology M&A
Waterloo Region
+1 519 571 7668
dylan.t.corey@ca.ey.com

2018 saw a majority of transactions in IT Consulting and Managed Services; Healthy PE interest in Security, Data Processing & Outsourced Services

Rapid digital transformation is disrupting several industries and impacting the nature of global IT spend. Global spends for IT have been growing at a steady rate of 3%; however, a significant majority of these spends are being channelled towards digital technologies. Digital spends are expected to accelerate from 10% of global IT spend in 2014 to 40% in 2020, with global digital spends reaching $1.1 trillion in 2020 (CAGR of 31% between 2014-2020). Digital disruption and cost pressures has also caused IT spends to gravitate towards emerging technologies like cloud computing, cybersecurity, automation and artificial intelligence.

We believe the higher number of PE outcomes in 2018 is not just a result of the record amount of dry powder available with these entities but also a function of the sub-sector focused investment strategies adopted by PEs. Large PE funds are increasingly acting like their strategic counterparts, utilizing a "buy & build" strategy. Even smaller and generalist PEs are trying to replicate this roll-up strategy by focusing on smaller IT and business services companies. We see an increasing trend of PEs utilizing acquisitions as an integral part of the overall growth strategy of their portfolio companies or as part of a well-defined roll-up strategy rather than stand-alone investments. This in our opinion, has led to PE firms weaning away market share from strategic buyers by ~33% (despite a decline in overall deal values)

Over the last few years, the rationale behind M&As by strategic buyers has undergone a fundamental shift. 2018 saw a continuation of this trend. Historically, strategic buyers undertook acquisitions to achieve scale and establish access to clients and geographies while optimizing overheads and deriving synergies (to drive EPS accretive M&As). Increasingly, digital capabilities, ability to sustain innovation and future growth potential have become primary deal drivers. Larger companies have been relatively slow to adapt to disruptive technologies and have chosen to rely on acquiring smaller companies with these capabilities, rather than building these capabilities ground up.

EY's recent publication of its Global Capital Confidence Barometer for the Technology, Media & Telecom 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 IT and tech enabled services companies

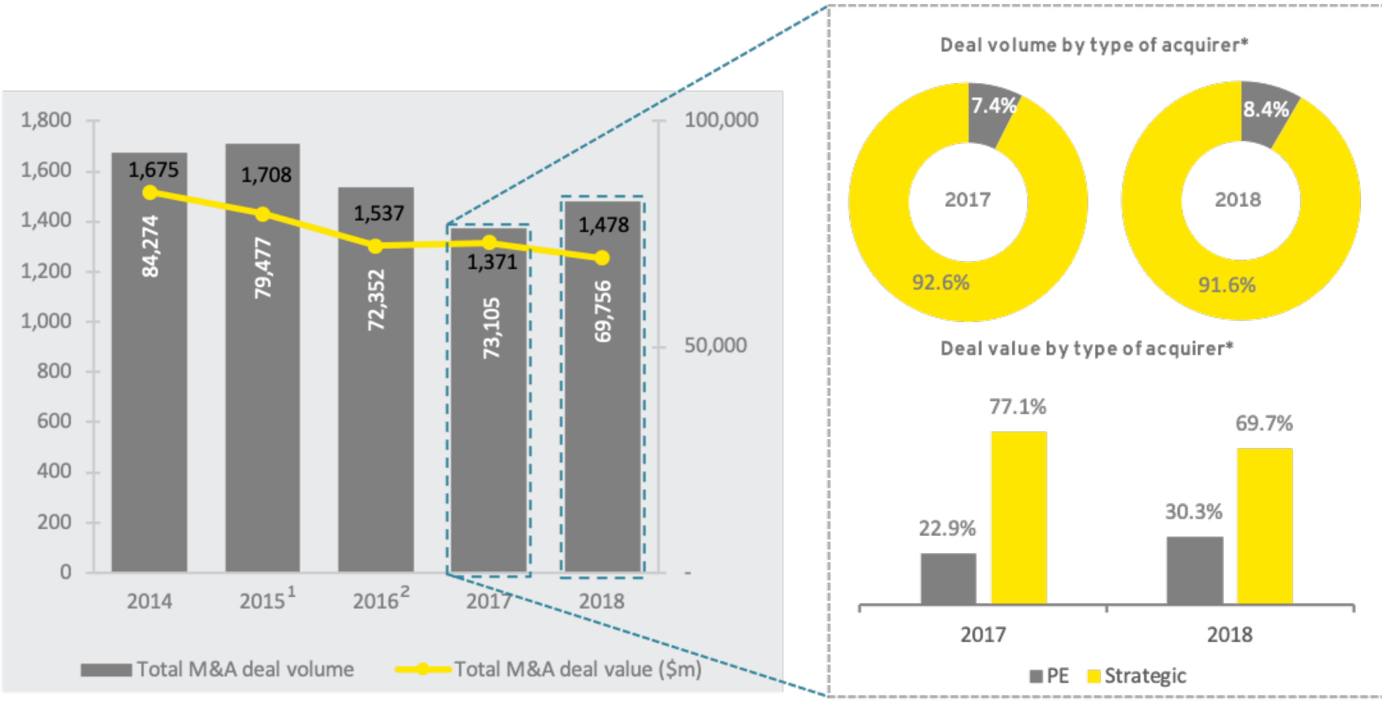
We expect to see two, key trends playing out in 2019: a) increased consolidation activity as incumbents look to tide over revenue and margin concerns by creating cost-saving synergies, increasing client footprint and optimizing supply chains; and b) transformative technologies and IP led businesses are expected to see continued deal activity with both tech and non-tech players making incremental acquisitions to bolster or complement existing capabilities.

Both strategic and financial acquirers have become more selective in the deals they pursue. This trend is expected to continue in 2019. However, the depth of the PE market and the increase in total number of participants is expected to increase competition for quality assets. As competition increases, financial buyers will continue to win deals by distinguishing on speed and certainty to close while strategic buyers focus on ecosystem/ partner relationships and ability to pay strategic premiums.

> With changing market dynamics and continuing revenue and margin pressure on leading players, the IT and tech enabled services sector is expected to see healthy M&A activity in H1 2019. Lower mid-market deals (deals sized < US $250 million) around new innovation and niche capabilities will continue to drive a majority of this deal activity

All $ values in this newsletter are in USD, unless otherwise stated

Transaction stats: In 2018, overall deal volume increased by ~8%; however average deal sizes saw a decline from 2017 levels



[1]lExcludes $67bn Dell-EMC deal (2015); 2Excludes $29bn Microsoft-LinkedIn deal (2016)

**Deal volumes and values (by type of acquirer) analyzed up to Dec 2018*

Data sources: S&P Capital IQ, Mergermarket

Deal volume in 2018 was up 8% (vs. 2017) on the back of a higher number of lower mid-market deals (deals valued < $250 million). Overall, average deal size dropped to $47 million (12% decrease vs. 2017) but remained above 2015 and 2016 levels.

The number of $billion+ deals completed in 2018 also experienced a drop to 13 (from 19 such deals in 2017).

PE participation increased in both value (26%) and volume terms (22%), with average deal size experiencing a slight increase to $170 million in 2018 (vs. $165 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: Majority of transactions were in IT Consulting and Media & Entertainment Services sub-sectors; Healthy PE interest in Data Processing & Outsourced Services

Strategic buyers pursued deals more actively in 2018 after a subdued 2017. The total number of deals closed by strategic buyers saw a 7% increase to 1,354.

A significant majority of deals took place in the IT Consulting and Services (IT Cons) and Media & Entertainment (MES) Services sub-sectors. These sub-sectors contributed to 78% of overall deal volume. Nearly 25% of deals in IT Cons were focused around the area of cybersecurity.

Deal activity in 2018 was also driven by the demand for capabilities around cloud and digital transformation. However, the demand for business process outsourcing and traditional systems & software implementations saw a decline in M&A priority.

Mid-sized tech companies were also active acquirers, given ease of access to capital, speed of transaction closure and ability for efficient, post-merger integration

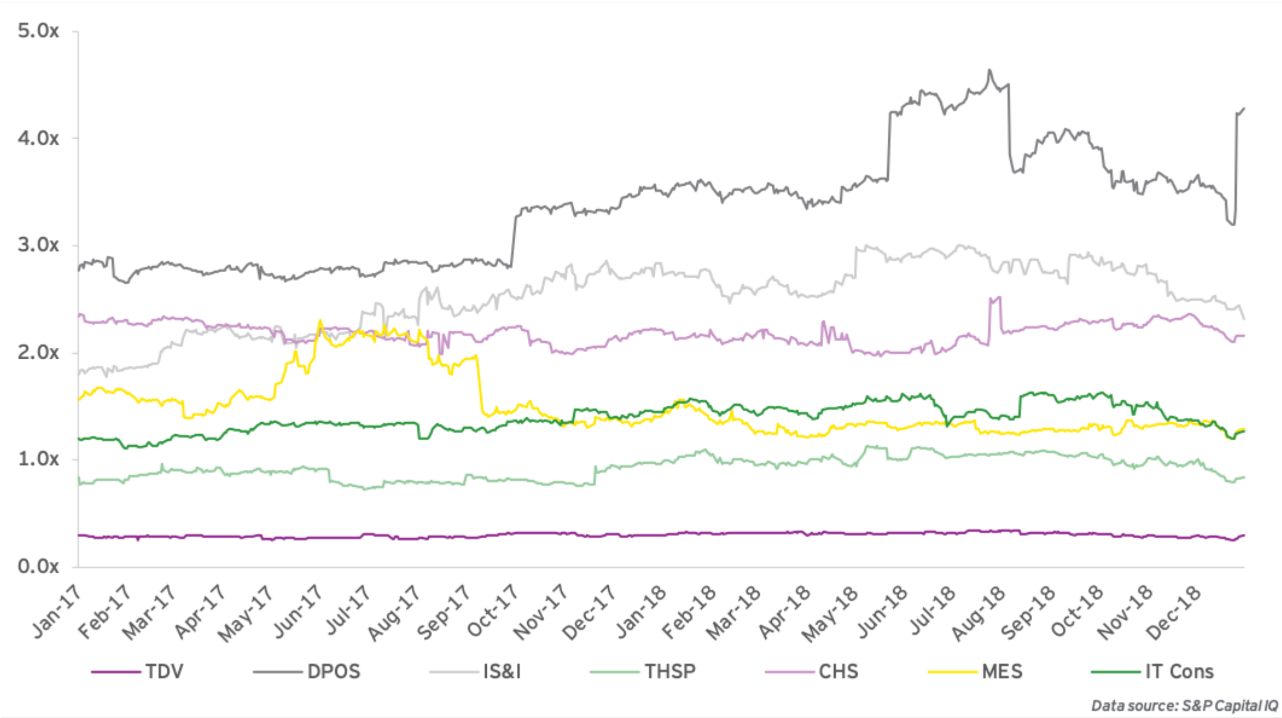
Recurring revenues, diversified clientele and attractive margin profile were key value drivers for strategic buyers.

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 tightly, integrated offerings. This strategy has enabled them to unlock synergies and create greater value for their portfolio companies.

Data Processing and Outsourced Services (DPOS) was also an area of focus with nearly 20% of PE deal flows (value) in 2018 going to this sub-sector.

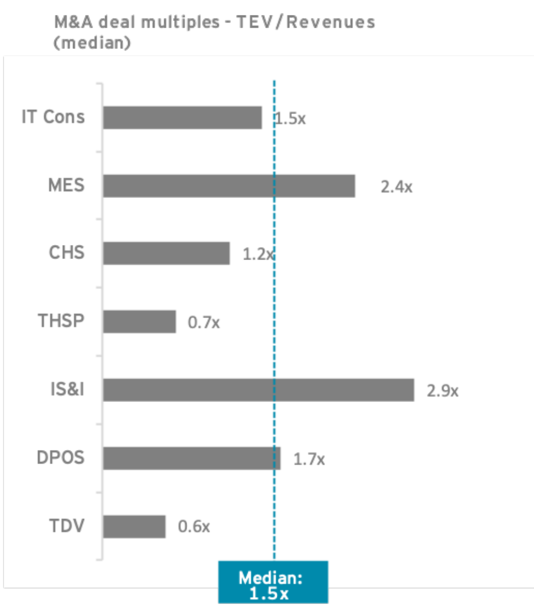
We believe that companies considering an M&A process would benefit from approaching the right PE buyers and should proactively seek to approach these groups to create competitive tension and maximize value.

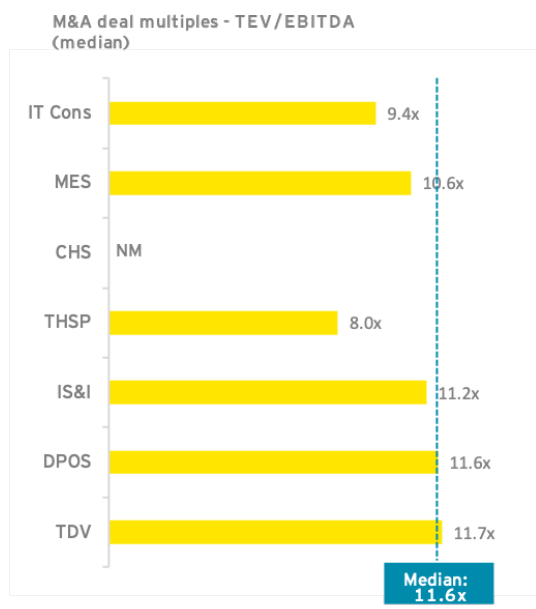
Valuation – Public comparables: Public company valuations have remained stable since 2017 across most sub-sectors



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

Valuation – Transactions*: Valuations are highest for businesses operating in Internet & Infrastructure Services, Media & Entertainment and Data Processing





Data sources: S&P Capital IQ, Mergermarket

TDV -Technology Distributors and VARs; DPOS – Data Processing and Outsourced Services; IS&I – Internet Services and Infrastructure; THSP – Technology Hardware, Storage and Peripherals; CHS – Communication and Hosting Services; MES – Media & Entertainment Services; IT Cons – IT Consulting and Other Services

** Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises of 1,478 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 IT & Tech-enabled Services 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 transactions in Q4 2018

31 Dec 2018 EarthLink Consumer Internet Business of Windstream Holdings Inc., a provider of Internet access, online back-up, web hosting and email services, was acquired by Trive Capital for a transaction value of $330 million.

21 Dec 2018 Sunny Side Up Creative Inc., operating as a creative agency and full-service trailer production studio for game production companies, was acquired by Keywords Studios PLC (AIM:KWS) for a transaction value of $4.3 million*.

18 Dec 2018 4Degres Colocation Inc., a provider of data center solutions for businesses and institutions, was acquired by Vantage Data Centers for a transaction value of $192 million*.

14 Dec 2018 JLR Inc., a provider of online services for searching real estate information and real estate transaction process, was acquired by Equifax Canada. Terms of the transaction was not disclosed.

11 Dec 2018 Lasso Data Systems Inc., a provider of on-demand customer relationship management home builder software for real estate builders, was acquired by ECi Software Solutions. Terms of the transaction was not disclosed

07 Dec 2018 iSolutions, Inc., a provider of data management consulting services, was acquired by Emerson Electric Co. (NYSE:EMR). Terms of the transaction was not disclosed

27 Nov 2018 Plusgrade LP, a provider of an online revenue upgrade platform which enables travelers to upgrade their inventory before the time of departure, sold a minority stake to Caisse de dépôt et placement du Québec for a transaction value of $156 million.

13 Nov 2018 Cimtel (Québec) Inc., a provider of communication and cloud solutions, was acquired by APPx Group Holdings. Terms of the transaction were not disclosed.

06 Nov 2018 Aquent DEV6, a provider of enterprise-grade mobile and web applications, was acquired by Aquent LLC. Terms of the transaction were not disclosed.

05 Nov 2018 Demac Media Inc., a provider of system integration, platform development, and infrastructure services, was acquired by HS2 Solutions. Terms of the transaction were not disclosed.

29 Oct 2018 Sierra Systems Group Inc., a provider of IT and management consulting services, was acquired by NTT DATA. Terms of the transaction were not disclosed.

23 Oct 2018 eSentire Inc., a provider of managed security solutions to help guard the intellectual property and infrastructure of enterprises, was acquired by Versive. Terms of the transaction was not disclosed.

23 Oct 2018 Assent Compliance Inc., a provider of compliance software and data management solutions, raised $100 million from Warburg Pincus.

11 Oct 2018 Atlas Blockchain Group Inc. (CNSX:AKE), a provider of co-location, back-up/redundancy IT, telecom equipment and cloud computing services, was acquired by Isracann Biosciences Inc. Terms of the transaction were not disclosed

10 Oct 2018 Impakt Holdings, a provider of equipment and systems for IP protection, was acquired by Celestica for a transaction value of $329 million.

02 Oct 2018 PNG Equipment Ltd., a provider of web-based service to oil and gas professionals looking to purchase and sell oilfield equipment, was acquired by Fuelled Energy Marketing. Terms of the transaction was not disclosed.

01 Oct 2018 FusionStorm, Inc., a provider of technology solutions, and cloud/managed services to enterprises, was acquired by Computacenter plc for a transaction value of $90 million. The acquisition represents an enterprise value of 0.2x revenues.

Deals indicated are Canadian deals.

Note: Select deals in US with deal value > $50 million shown

* Deal signed but not closed

Data sources: S&P Capital IQ, Mergermarket