

Software M&A Recap

THIRD QUARTER 2022



EDITORS

Sid Nair
Canada Technology M&A Leader,
Senior Vice President
Ernst & Young Orenda Corporate Finance Inc.
sid.nair@ca.ey.com | +1 416 943 3404

Devon MacMurray
Vice President
Ernst & Young Orenda Corporate Finance Inc.
devon.macmurray@ca.ey.com | +1 416 932 6131

Ujjwal Bhati
Senior Associate
Ernst & Young Orenda Corporate Finance Inc.
ujjwal.bhati@ca.ey.com | +1 604 891 8325

Current M&A trends in software

On the heels of a record year in M&A activity in 2021 fueled by post-COVID tailwinds, the overall M&A appetite has cooled off in 2022 but continues to stabilize at high levels. This comes as the cocktail of four-decade high inflation, rising interest rates, the war in Ukraine and weaker demand expectations have propagated fears for a global economic downturn.

For the software sector, valuations and the number of deals have both come down since peaking at the end of 2021. Despite the macro headwinds, software is still commanding high amounts of organizational spend and digital transformation continues across many industries.

New technologies are opening new growth opportunities and, together with a shift to cloud, this will cause transformational changes in the sector. As COVID-19 fast-tracked adoption of digital technologies for organizations across the board, corporate leaders have understood that their business must be run efficiently with superior internal software. According to IDC, the average annual growth of the software market between 2017 and 2026 is predicted to be 11%.¹

In the M&A context, strategic buyer valuations have declined over the last few quarters and have led to difficulty in paying an accretive price. Intellectual property is also not fetching as much of a premium as we saw from 2021 levels. Valuations of unprofitable companies have faced a bigger hit, as those of its profitable peers and the spotlight for software companies have shifted from growth at all costs to balance between growth and profitability.

What are investors looking for?

Balance of revenue growth and profitability

For a while, investors were mostly focused on revenue growth and retention as their KPIs. They would also look at growth efficiency but may have been comfortable with negative cash-flow if there was growth to offset this. The key trend now is balance – investors want to see growth while also being able to maintain positive cash flows.

If a company has negative cash-flow, they will need to understand key metrics such as burn rate, cash runway, cost of customer acquisition payback, profitability at scale, and path to profitability.

Market growth

While software is still a key spending category for many companies, there is a growing sense that some software that is more discretionary in nature may see cuts if there is a significant global economic downturn. Therefore, not just the current growth, but the resilience of the vertical industry is of growing importance. Retention will also be looked at as a signal for this. Segments like ESG, cybersecurity, supply chain management and GovTech will remain non-discretionary, to varying degrees, and may benefit from a valuation perspective.

What should software companies do?

To weather ongoing economic uncertainty, software companies should look to maintaining cash reserves and raising capital to bolster those reserves. Owners of profitable companies who are thinking about raising or divesting their business continue to be in a good position, as investment dollars are chasing a smaller pool. Companies with negative cashflows that are experiencing headwinds in their next round of equity financing may find it more lucrative to consider debt financing or other near-term alternatives.

¹ IDC Semiannual software tracker, updated 1 September 2022.

EY transaction snapshot

EY advised Rev-Up NV ("StepUp RGM") on its sale to Kantar and SilverTree Equity (the "Purchasers").

TO LEARN MORE



Sid Nair
Canada Technology M&A Leader,
Senior Vice President
+1 416 943 3404 | sid.nair@ca.ey.com



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+1 416 932 6131 | devon.macmurray@ca.ey.com

StepUp
RGM

has been sold to

XTEL
RIGHT SOLUTIONS. SALES POWER.

backed by

KANTAR  **SilverTree**

EY* acted as the exclusive financial advisor to StepUp RGM BV

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Building a better working world

*Ernst and Young Orenda Corporate Finance Inc.

About the Company

StepUp RGM is a global leading Revenue Growth Management (RGM) software and big data solutions vendor. The StepUp RGM solutions enable full RGM roadmap development and implementation for consumer goods (CPG) brands, using AI-driven data-sourcing, enriching and modelling within its software-as-a-service (SaaS) platform.

The Win-Win

StepUp will join Kantar XTEL, Kantar's trade optimization business, to create one of the most comprehensive end-to-end integrated Revenue Management Software platform in the CPG market. The new, combined offer will support global CPG brands in seamlessly managing and optimizing their commercial levers and trade spend, to deliver revenue and margin growth.

Some of our recent deals include:

StepUp
has been sold to
XTEL
INSIGHT SOLUTIONS. SALES. POWER.
backed by
KANTAR 
EY* acted as the exclusive financial advisor to StepUp RGM BV

 *Ernst and Young Orenda Corporate Finance Inc.

Metrio
has been acquired by
Nasdaq
EY* acted as the exclusive financial advisor to Metrio Software Inc.

 *Ernst and Young Orenda Corporate Finance Inc.

VERDAZO
has been acquired by
Vela SOFTWARE
EY* acted as the exclusive financial advisor to Verdazo Analytics Inc.

 *Ernst and Young Orenda Corporate Finance Inc.

3vGEOMATICS
has been acquired by
rst INSTRUMENTS **MEASURAND**
RST/Measurand, a portfolio company of Vance Street Capital LLC
EY* acted as the exclusive financial advisor to 3v Geomatics Inc.

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CORNERSTONE CAPABILITIES
has been acquired by
NielsenIQ
EY* acted as exclusive financial advisor to Cornerstone Capabilities Inc.

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refresh FINANCIAL
has been acquired by
Borrowell
EY* acted as the exclusive financial advisor to Refresh Financial on its sale to Borrowell

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WELLNESS CHECKPOINT
has been acquired by
Carebook
EY* advised InfoTech Inc., doing business as Wellness Checkpoint, on its sale to Carebook Technologies Inc.

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filefacets
has sold intellectual property rights and assets to
DATA 443
All Things Data Security (Stock Symbol: ATDS)
EY* acted as exclusive financial advisor to FileFacets, Inc.

 *Ernst and Young Orenda Corporate Finance Inc.

FRESNEL SOFTWARE vitruvi
received a strategic investment from
FAFL
and
an Edmonton-based private investment company and family office
EY* acted as the exclusive financial advisor to Fresnel Software Corporation

 *Ernst & Young Orenda Corporate Finance Inc.

Select Q3 2022 Transactions*

Sep 28, 2022: EQT Group announced the acquisition of **BTRS Holdings Inc.**, a leading provider of cloud-based software and integrated payment processing solutions, for a transaction value of approximately \$1.7 billion. The transaction represents an enterprise value of 11.5x revenue.

Sep 26, 2022: KINS Technology Group Inc. (Nasdaq: KINZ) announced a merger with **CXApp Holdings Corp.**, (subsidiary of Inpixon), a provider of a platform that offers a suite of workplace experience solutions including an enterprise workplace application, events platform, indoor mapping, and augmented reality technologies, in a SPAC deal at an approximate enterprise value of \$69 million.

Sep 22, 2022*: IMAX Corporation (NYSE: IMAX) acquired **SSIMWave Inc.**, a leading provider of AI-driven video quality solutions for media and entertainment companies, for a transaction value of approximately \$19 million, including earnouts of \$3 million.

Sep 19, 2022: McKesson Corporation (NYSE: MCK) announced the acquisition of **Rx Savings Solutions**, a provider of healthcare software solutions to health plans and employers that helps in reducing drug prescription costs, for a transaction value of \$875 million, including earnouts of \$275 million.

Sep 19, 2022: Vista Equity Partners announced the acquisition of **KnowBe4, Inc.**, provider of one of the leading security awareness training and simulated phishing platform, for a transaction value of approximately \$4.4 billion. The acquisition represents an enterprise value of 14.1x revenue.

Sep 15, 2022: Adobe Inc. (Nasdaq: ADBE) entered into a merger agreement to acquire **Figma Inc.**, developer of a leading web-first collaborative design platform that allows users to create and share interface and application designs, for a transaction value of approximately \$20 billion.

Sep 14, 2022: PubMatic, Inc. (Nasdaq: PUBM) announced the acquisition of **Consultmates, Inc.**, a provider of media measurement and reporting platform, for a transaction value of approximately \$45 million, including earnouts of \$14 million.

Sep 13, 2022: Altair Engineering Inc. (Nasdaq: ALTR) acquired **RapidMiner, Inc.**, a leading provider of advanced data analytics and machine learning software, for a transaction value of \$100 million.

Sep 12, 2022: Newfold Digital, Inc. announced the acquisition of **MarkMonitor Inc.**, a provider of an industry-leading enterprise-level domain management solutions, for a transaction value of approximately \$302.5 million.

Sep 09, 2022: Abri Merger Sub, Inc., a wholly owned subsidiary of Abri SPAC I, Inc. (Nasdaq: ASPA) announced a merger with **DLQ, Inc.**, a provider of e-commerce and digital customer acquisition solutions by simplifying digital advertising, in a SPAC deal, at an approximate enterprise value of \$114 million.

Sep 06, 2022: Commerce Technologies, LLC announced the acquisition of **ChannelAdvisor Corporation**, a leading provider of cloud-based e-commerce solutions that enable brands and retailers to increase global sales, for an approximate transaction value of \$732.7 million. The acquisition represents an enterprise value of 3.8x revenue and 26.0x EBITDA.

Sep 05, 2022: Reliance Industries Ltd. (NSEI: RELIANCE) announced the acquisition of **SenseHawk, Inc.**, a developer of software-based management tools for the solar energy generation industry, for a transaction value of \$32 million. The acquisition represents an enterprise value of 34.6x revenue.

Sep 02, 2022*: Advanced Human Imaging Ltd (ASX: AHI) announced the acquisition of **WellteQ Digital Health Inc.**, a provider of digital corporate wellness solutions offering data-driven personalized health and wellness coaching, for a transaction value of \$3.0 million. The acquisition represents an enterprise value of 0.8x revenue.

Sep 01, 2022*: WonderFi Technologies Inc. (TSX: WNDR) announced the acquisition of **Blockchain Foundry Inc.**, a developer of blockchain-based business and consumer solutions, with a focus on infrastructure for digital assets, for a transaction value of \$8.8 million. The acquisition represents an enterprise value of 3.7x revenue.

Sep 01, 2022*: PanGenomic Health Inc. (CSE: NARA) announced the acquisition of **Mindleap Health Inc.**, provider of a virtual platform for inner wellness and psychedelic treatments, for a transaction value of approximately \$3.0 million.

Aug 30, 2022: Roper Technologies, Inc. (NYSE: ROP) announced the acquisition of **Frontline Technologies Group, LLC**, provider of cloud-based connected platform of administrative solutions built for K-12 education, including human capital management, business operations management, student management and analytics, for a transaction value of approximately \$3.4 billion.

Aug 29, 2022*: N. Harris Computer Corporation announced the acquisition of **NexJ Systems Inc.**, a provider of intelligent customer management solutions to the financial services industry, for a transaction value of approximately \$9.5 million. The acquisition represents an enterprise value of ~0.5x revenue.

Aug 17, 2022*: EGF Theramed Health Corp. (CNSX: TMED) announced the acquisition of **Reefer Keeper Delivery Corp.**, developer of a delivery application and web-based platform that provides cannabis products for a transaction value of approximately \$0.7 million.

Aug 17, 2022: eToro Group Ltd. announced the acquisition of **Gatsby Digital Inc.**, provider of options trading platform tailored to a new generation of investors, for a transaction value of approximately \$50 million.

Aug 15, 2022 : Baker Hughes Holdings LLC announced the acquisition of **Quest Integrity Group, LLC**, a leading player in the development and delivery of technology-enabled asset inspection and reliability management solutions across the pipeline, refining, petrochemical, and power generation sectors, for a transaction value of approximately \$280 million. The acquisition represents an enterprise value of 3.5x revenue.

Aug 08, 2022: Vista Equity Partners announced the acquisition of **Avalara, Inc.**, a leading provider of tax compliance automation solutions for businesses of all sizes, for a transaction value of approximately \$8.4 billion. The acquisition represents an enterprise value of 11.1x revenue.

Aug 03, 2022: Thoma Bravo L.P. announced the acquisition of **Ping Identity Holding Corp.**, a provider of flexible identity solutions, accelerating digital business initiatives and secure the enterprise through multi-factor authentication, for a transaction value of approximately \$2.8 billion. The acquisition represents an enterprise value of 8.7x revenue.

Aug 01, 2022: Social Leverage Acquisition Corp I (NYSE: SLAC) announced a merger with **W3BCLOUD Holdings Inc.**, a leading storage and compute infrastructure provider for Web3 protocols., in a SPAC deal at an approximate enterprise value of \$1.1 billion.

Jul 25, 2022: Cadence Design Systems, Inc. (Nasdaq: CDNS) announced the acquisition of **OpenEye Scientific Software, Inc.**, a leading provider of computational molecular modeling and simulation software used by pharmaceutical and biotechnology companies for drug discovery, for a transaction value of approximately \$500 million.

Jul 25, 2022: Tremor International Ltd. (NASDAQ: TRMR) announced the acquisition of **Amobee, Inc.**, leading global advertising platform that optimizes outcomes for advertisers and media companies, for a transaction value of approximately \$239 million.

Jul 20, 2022: SPS Commerce, Inc. (NASDAQ: SPSC) announced the acquisition of **GCommerce, Inc.**, a provider of cloud-based automation solutions to the durable goods distribution industries, for a transaction value of approximately \$45 million.

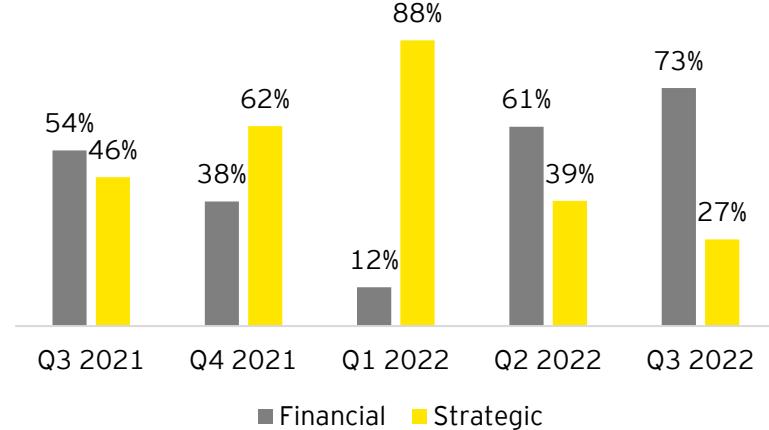
Jul 14, 2022*: Hulk Labs announced the acquisition of **Playte Group**, a blockchain technology company, building a set of software and tools to onboard, manage and track players and assets in the play-to-earn economy, for a transaction value of approximately of \$0.3 million.

Jul 06, 2022: Envestnet, Inc. (NYSE: ENV) announced the acquisition of **Redi2 Technologies, Inc.**, a provider of revenue management and hosted fee-billing solutions for the financial services industry, for a transaction value of approximately \$70 million.

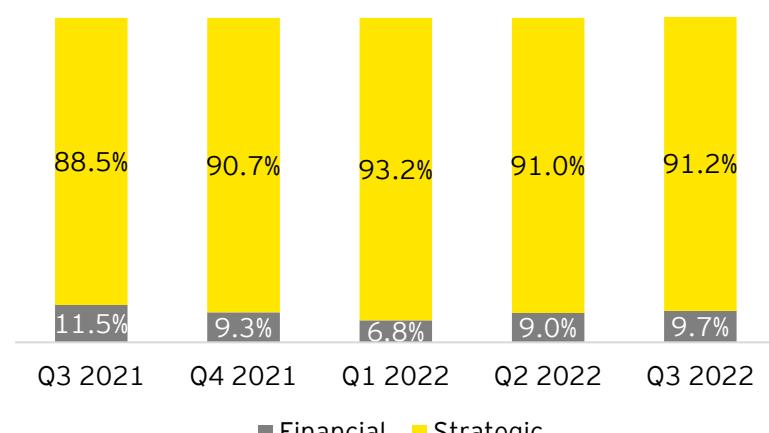


Historical M&A activity

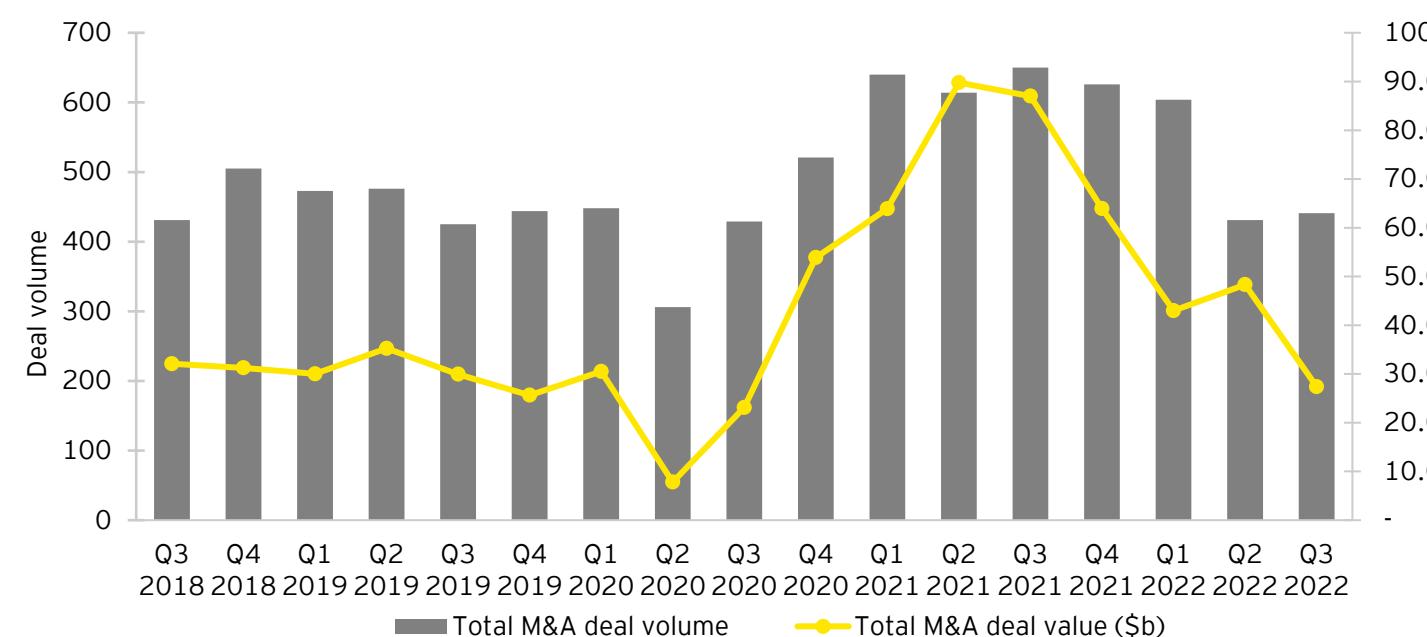
Deal value by type of acquirer



Deal volume by type of acquirer



Both deal values and deal volumes have declined compared to Q3 2021 levels

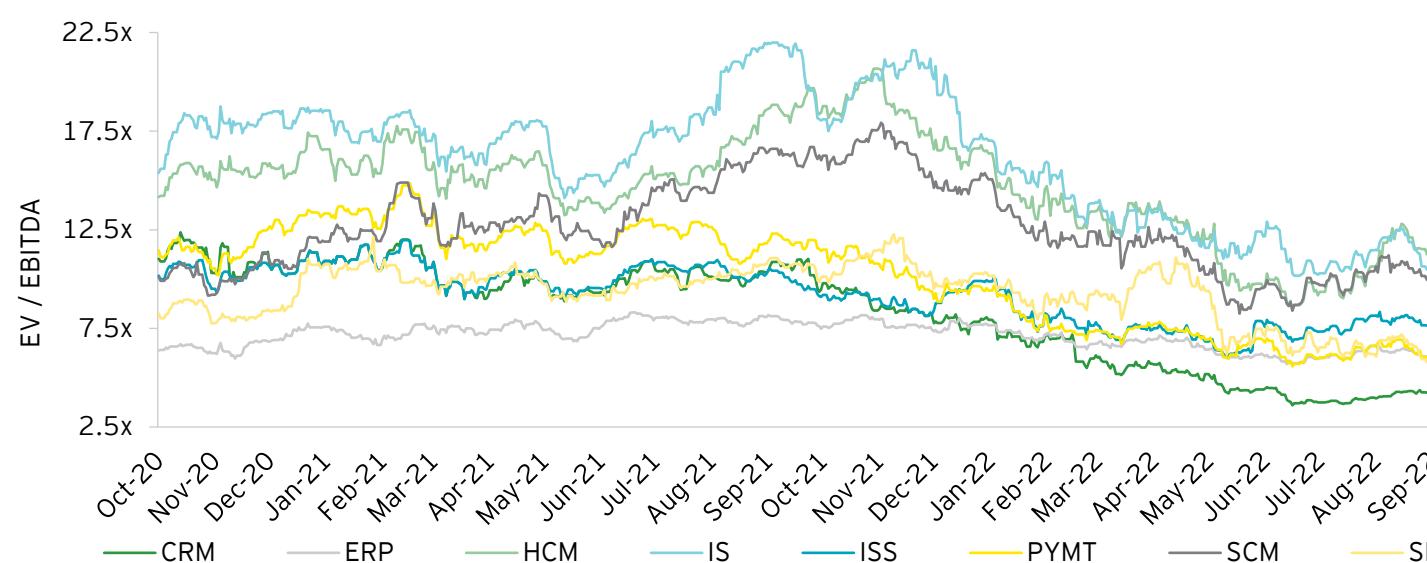


Revenue transaction multiples for half of the categories declined compared to Q3 2021

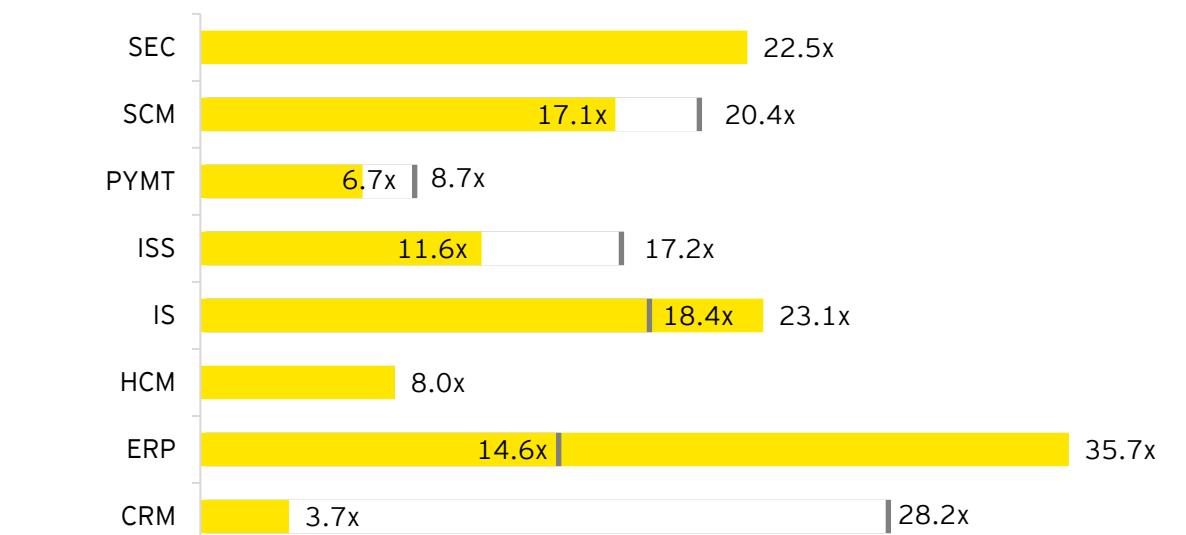


*Yellow line indicates Q3 2021 comparison

Public company multiples remain volatile, subsequent to the highs observed throughout 2021



EBITDA transaction multiples for half of the categories declined compared to Q3 2021



*Grey line indicates Q3 2021 comparison

CRM - Customer Relationship Management; ERP - Enterprise resource planning; HCM - Human capital management; IS - Internet Software; ISS - Industry specific software; PYMT - Payment; SCM - Supply chain management; SEC - Security

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Oct 1, 2018 and Sep 30, 2022 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 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.

Our Deal Team

National Leader



Barry Munro *
+1 403 206 5017
barry.g.munro@ca.ey.com

National TMT team



Sid Nair
Canada TMT M&A Leader,
Senior Vice President
+1 416 943 3404
sid.nair@ca.ey.com



Devon MacMurray
Vice President
+1 416 932 6131
devon.macmurray@ca.ey.com



Ujjwal Bhati
Senior Associate
+1 604 891 8325
ujjwal.bhati@ca.ey.com



Jack Quaglia
Analyst
+1 416 932 4495
jack.quaglia@ca.ey.com

Ontario

Andrew Schaefer +1 416 932 6244 andrew.schaefer@ca.ey.com	Chris Hutchinson * +1 416 932 6002 chris.hutchinson@ca.ey.com	Sid Nair +1 416 943 3404 sid.nair@ca.ey.com	Kevin Casey * +1 519 571 3311 kevin.j.casey@ca.ey.com
Jatinder Wadhwa +1 416 943 3078 jatinder.wadhwa@ca.ey.com	Jason Marley * +1 416 943 3088 jason.marley@ca.ey.com	Don McKinnon * +1 519 571 7686 don.mckinnon@ca.ey.com	

Québec

Ken Brooks * +1 514 874 4412 ken.m.brooks@ca.ey.com	Todd Caluori * +1 514 879 2793 todd.m.caluori@ca.ey.com	Michael Lutes +1 416 943 2699 michael.j.lutes@ey.com
Walid Safi +1 514 879 8029 walid.safi@ca.ey.com	François Tellier * +1 514 874 4351 francois.tellier@ca.ey.com	

Western Canada

Barry Munro * +1 403 206 5017 barry.g.munro@ca.ey.com	Brock McMillan * +1 403 206 5335 brock.mcmillan@ca.ey.com	Bill Wu +1 416 943 2545 bill.wu@ca.ey.com
Darcy Yamada +1 780 441 2456 darcy.yamada@ca.ey.com	Shane Dunn * +1 403 206 5011 shane.dunn@ca.ey.com	Barkin Sayiner +1 416 943 3890 barkin.sayiner@ca.ey.com
Logan Day +1 780 441 4226 logan.s.day@ca.ey.com	Robert Withers * +1 604 899 3550 robert.withers@ca.ey.com	Roger Leslie +1 416 347 0367 roger.f.leslie@ca.ey.com
Ross Johnson +1 403 206 5253 ross.johnson@ca.ey.com	Mike Campbell +1 306 649 8305 michael.campbell@ca.ey.com	

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