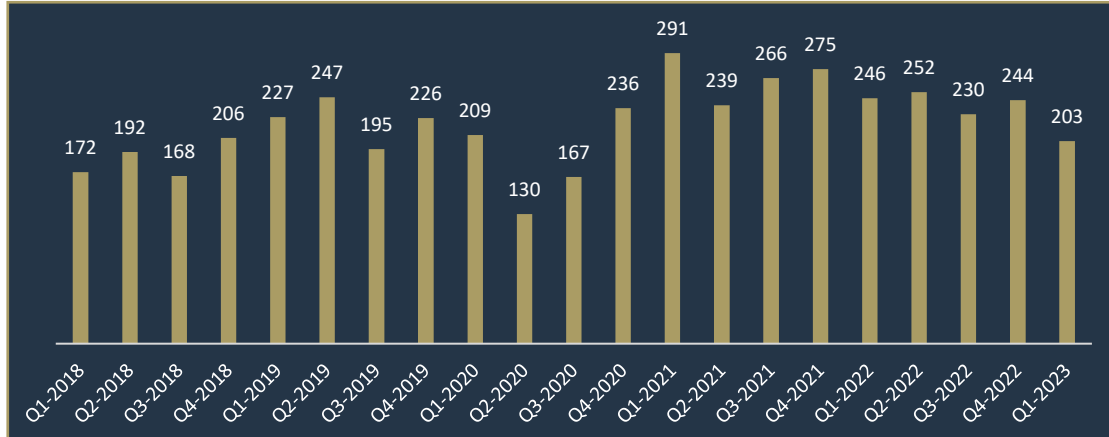


UK Technology M&A Snapshot Q1 2023

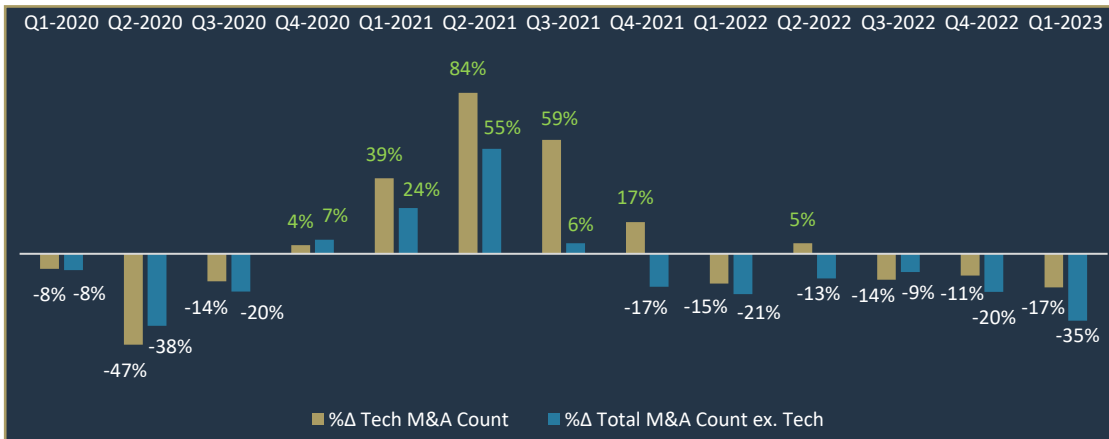


UK M&A Transactions

UK Tech M&A count remains in line with pre-pandemic levels



YoY % Δ in Tech M&A Count vs. Total M&A Count ex. Tech



Over 200 transactions announced in Q1 2023

The last few years have seen record levels of Tech M&A in The UK, driven by currency depreciation and near-zero interest rates which fuelled a wave of private equity-funded buyers. Both rates and currency cycles have reversed in 2023, dampening buyer enthusiasm in the wider M&A market.

Yet, Q1 2023 was another busy quarter in Tech with over 200 deals completed. That is of course lower than the last two years, but remains in line with pre-pandemic numbers. With zero rates unlikely to be seen again anytime soon, this may represent the 'new normal'.

Two key highlights:

- It seems almost every software company exit is now claiming to have its own proprietary artificial intelligence. Not many have the fizz of AI start-up InstaDeep's sale to BioNTech for £562m, or nearly 20x revenues.
- Convergence between Comms. and IT has been talked about for over a decade but seems to be accelerating. There was a wave of consolidation in IT Managed Services, with most of the buyers, like Babble, BCN, Arrow, Chess and Daisy, coming from a Comms. heritage, now acquiring IT support businesses.

At ICON, we are very active with an exciting pipeline and three deals closed in the past month. With the expected pivot in interest rates and lots of PE cash still around, we remain positive in The Year of The Rabbit.

NASDAQ – A leading indicator of UK Tech M&A activity

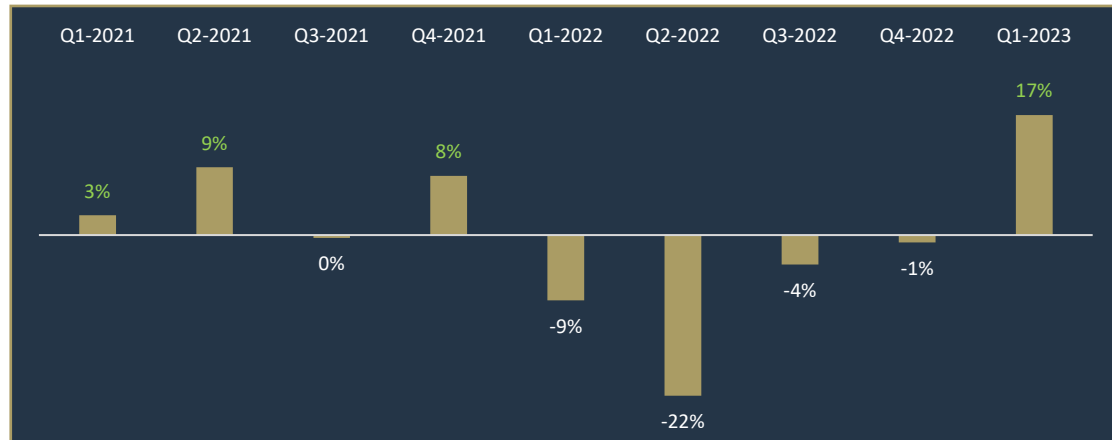
NASDAQ showing signs of recovery



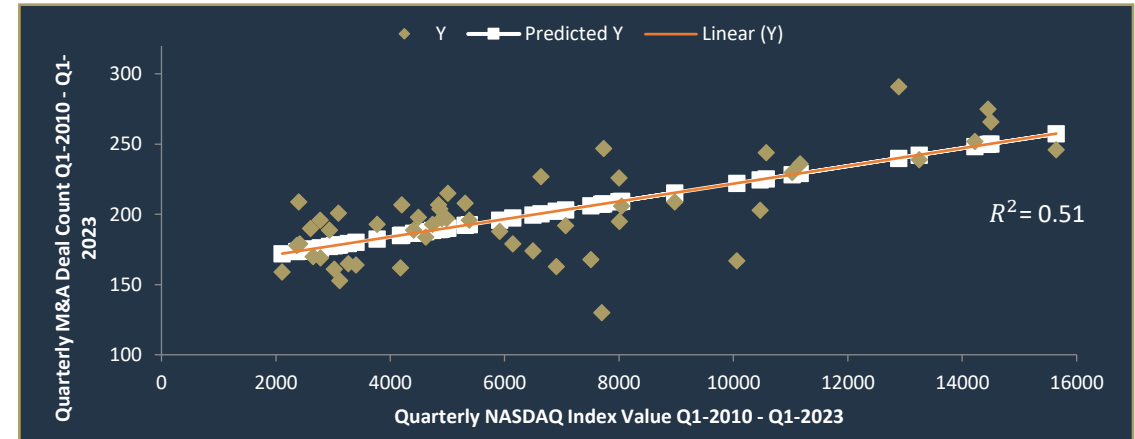
NASDAQ bounces on expectations that interest rates are approaching their peak

- Q1 2023 was the best quarterly performance in the NASDAQ for several years, with a rise of +17%. After a torrid 2022, the recovery is encouraging for technology valuations.
- The direction of US interest rates is key. They have increased 450 bps in the past year, ending an extended period of virtually free money. Investors now believe that the interest rate cycle will peak very soon and may fall later this year. Hence the NASDAQ rally.
- That is good news for UK Tech M&A activity (as the chart below shows). Sellers will be pleased to note there is a strong correlation (0.51) between NASDAQ performance and UK Tech M&A deal flow. It remains a good barometer of buyer confidence.

Quarterly % Δ in NASDAQ Q1-2021 – Q1-2023

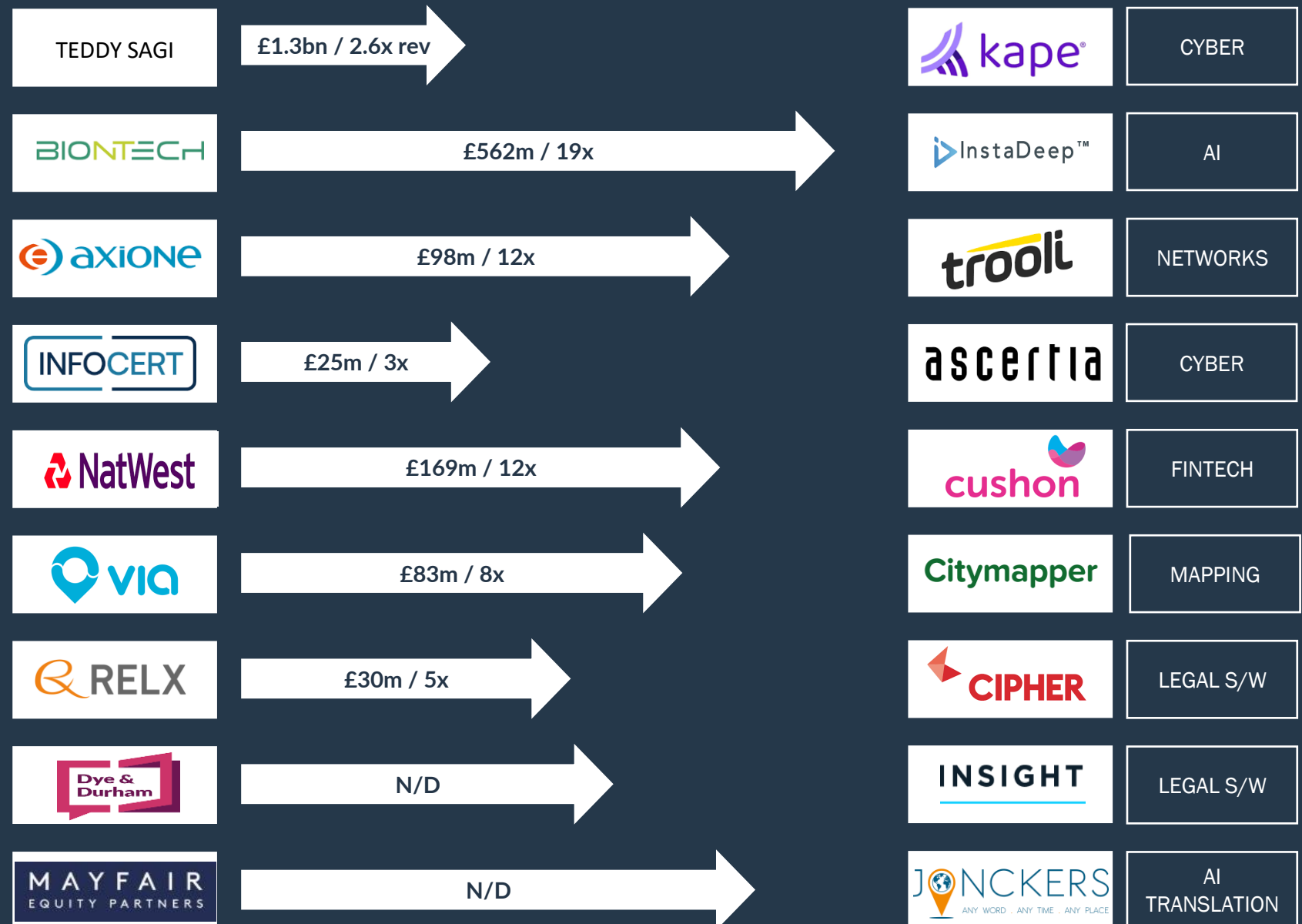


Quarterly NASDAQ change strongly correlated with UK Tech M&A activity



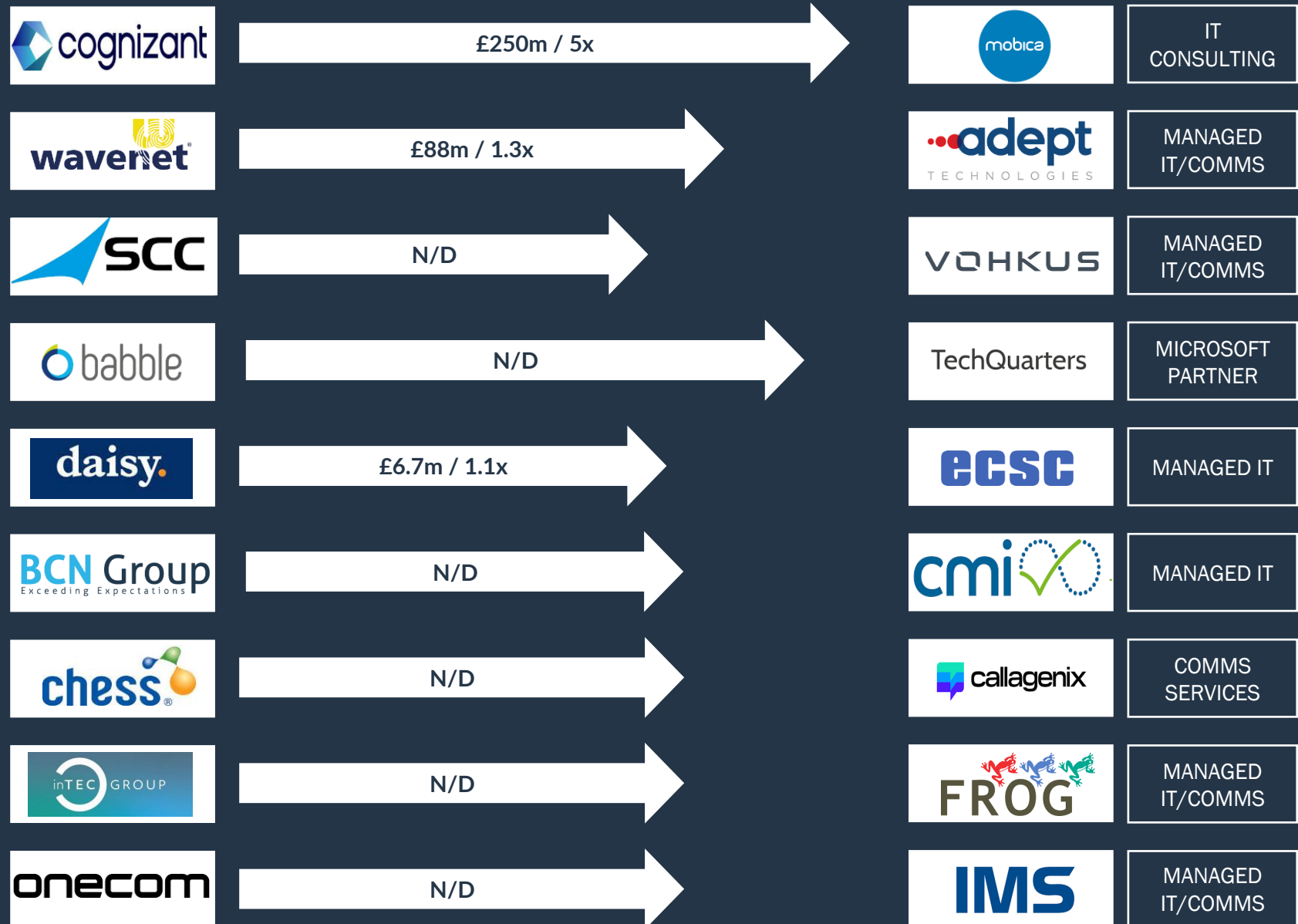
UK Software M&A

- Last year saw the take private of Aveva (by Schneider), Micro Focus (by Opentext), EMIS (by United Health) and Ideagen (by Hg). The wave may have slowed a bit, but Q1 remained busy.
- AI has been thrust front and centre in Q1 2023, with the enthusiasm sparked following the rapid evolution of ChatGPT. The InstaDeep sale at nearly 20x revenues was the stand-out deal, but many other software deals had an AI component. This was certainly the case in the sale of AI Translation Platform Jonckers to Mayfair Equity.
- Cyber security and Fintech continue to be hot sectors for buyers.
- There was a good selection of overseas acquirers from Asia (Via), Europe (Axione and Tinexta) and North America (Dye & Durham).
- LegalTech was also active, with RELX and Dye & Durham acquiring, and recently Thomson Reuters sold half its legal business software arm to TPG for a \$500m valuation.



UK Services M&A

- Digital transformation continues to drive M&A activity across sectors. COVID accelerated the adoption of cloud services, and Microsoft Azure, AWS and Google are all still showing cloud revenue growth of 20%+. As a result, there is an ongoing shortage of skills, feeding M&A demand.
- One of the larger deals was Cognizant acquiring software development services provider Mobicat for £250m. Listed companies Adept and ECSC were acquired for under 1.5x revenues, but both were opportunistic after large share price falls in the past year.
- Strikingly, almost all the other featured transactions were both PE backed and driven by the convergence of IT/Comms.
- Babble has been at the forefront of the consolidation, acquiring 29 companies – the latest being Microsoft-focused TechQuarters which comes with 85% recurring revenue and growth of 40%. Not surprisingly, there was a lot of buyer interest. BCN, Arrow, Daisy, Chess and OneCom also acquired IT managed service providers to boost their cloud capabilities.



ICON Recent Transactions



Acquired



AI Translation



Acquired



Microsoft Services



Acquired



Low-code AI Platform



Acquired



Document Management



Acquired



Document Management



Acquired



E-commerce DataTech



Funded



Low-code Data Analysis Platform



Acquired



Testing Software



Acquired



Digital Print



Funded



Microsoft Services



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