ICON
CORPORATE FINANCE

TECHNOLOGY M&A REVIEW

MID YEAR 2019

CONTENTS

KEY MACRO STATISTICS

FTSE
7,425
+10%
DEC 31 2018 6,728 / 7,425 JUN 30 2019

NASDAQ
8,006
+21%
DEC 31 2018 6,635 / 8,006 JUN 30 2019

FTSE TECHMARK
3,650
+10%
DEC 31 2018 3,309 / 3,650 JUN 30 2019

USD/GBP EXCHANGE RATE
1.26
0%
DEC 31 2018 1.26 / 1.26 JUN 30 2019

NYSE FANG+
2,544
+14%
DEC 31 2018 2,227 / 2,544 JUN 30 2019

UNICORNS
362
+39%
DEC 31 2018 261 / 362 JUN 30 2019

BITCOIN (USD)
10,900
+187%
DEC 31 2017 3,800 / 10,900 DEC 31 2018

KEY M&A STATISTICS

UK
TECH M&A DEALS (No.)
453
+28%
DEC 31 2018 354 / 453 JUN 30 2019

GLOBAL
TECH M&A DEALS (No.)
4,672
0%
DEC 31 2018 4,682 / 4,672 JUN 30 2019

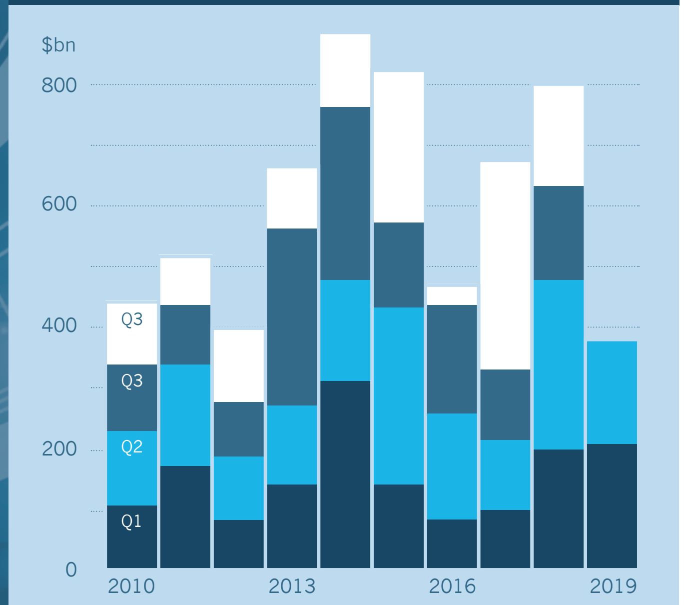
EU
TECH M&A DEALS (No.)
1,684
+8%
DEC 31 2018 1,564 / 1,684 JUN 30 2019

KEY FINDINGS

- Slower GDP growth means lower interest rates for longer
- Wave of cheap money still fuelling equity prices +10-20%
- Some uber expensive IPOs
- Confidence feeds into healthy Tech M&A activity globally
- UK activity +28% to a record level, driven by PE backed buy-and-build and overseas buyers
- Clearcourse, Civica, Access Group and Iris are most active in the UK
- Year of The Pig looks a bit of a snorter

> **"Pigging out on a wave of cheap money"**

GLOBAL TECH M&A DEALS (VALUE)

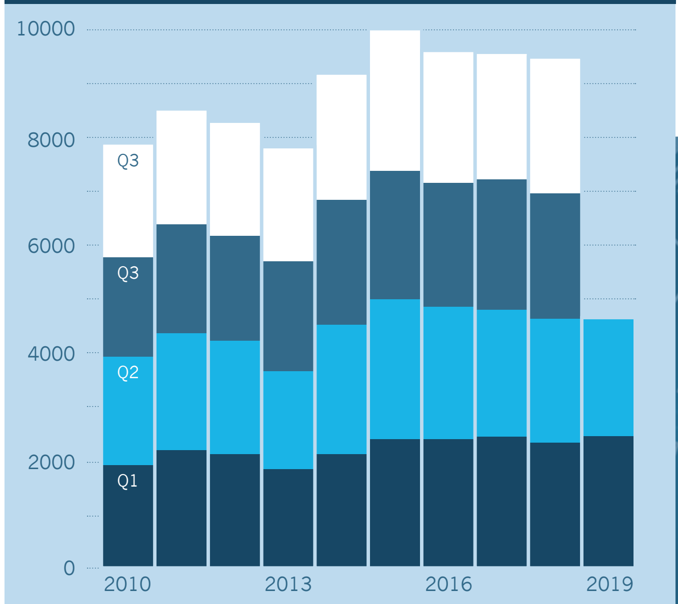


HIGHLIGHTS

The Year of the Pig has turned out to be a cracker. So far, anyway. Global equity markets have had another leg up, reaching new highs in many cases. The NASDAQ is up 20% in the past 6 months. The US economy has had a great run under The Donald with full employment and high corporate earnings growth. In fact, it has had its longest run since The Second World War. Central banks are driving world markets, with the Fed halting their increases in interest rates, and now signalling they may cut rates in the coming year or two in the face of slowing global growth. It is a similar story in the EU where quantitative easing may now be restarted to kick-start EU growth, which remains stubbornly low.

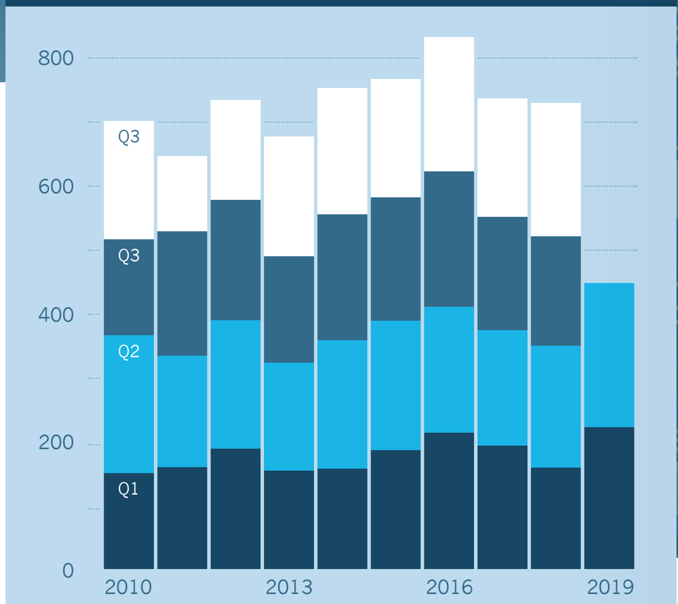
Lower growth means lower interest rates and even more cheap debt, which has fuelled much of the current cycle. So, investors (faced with a record $12.5tn in bonds that are negative yielding) are looking at alternative ways to make a positive return. That has pushed more money into riskier assets and the technology sector has been a prime beneficiary. It also is why the number of unicorns continues to rise and part of the reason why bitcoin has jumped this year from under $4,000 to over $10,000.

GLOBAL TECH M&A DEALS (No.)



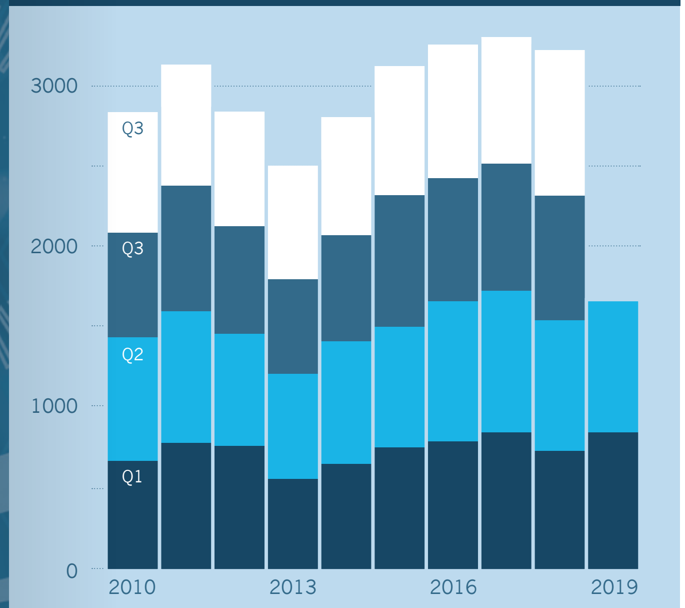
> **"Global deals flat at 4,672"**

UK TECH M&A DEALS (No.)



> **"UK deals up 28% to a record 453"**

EUROPE TECH M&A DEALS (No.)



> **"Europe deals up 8% to 1,684"**

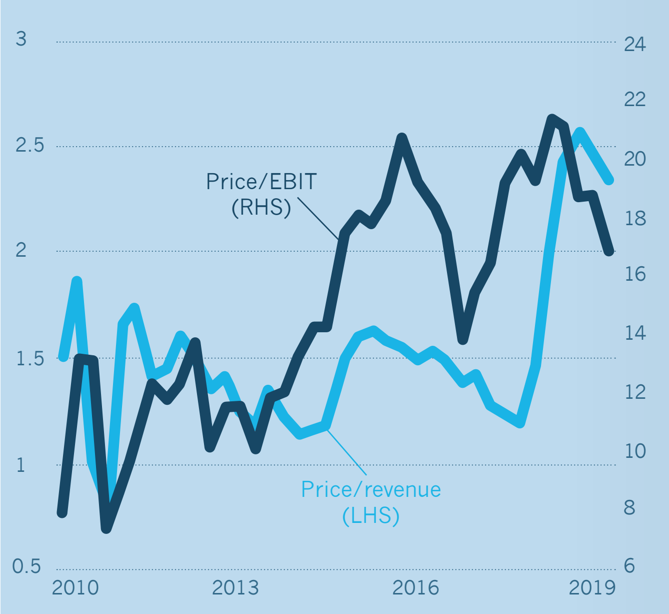
IPO volumes are still quite low as targets get snaffled by PE or trade buyers but 2019 has seen a surge in large IPOs like **Uber**, **Slack**, **Pinterest** and **Lyft** in the US, and **Trainline** in the UK at some pretty racy valuations for businesses that are some way from justifying the multiples in terms of profits.

There is an awful lot of cash around. Private equity funds have over $2tn of cash yet to invest. That level of dry powder will underpin asset prices for quite some time, continuing to fund M&A deals.

The number of global Tech M&A deals was similar to the first half of last year. So the market remains healthy and some of the valuations are real snorters, particularly in the US, with **FNIS**, **RELX**, **SAP**, **Microsoft**, **Google**, **Cisco**, **OpenText**, **Workday**, **SAP**, **Adobe**, **IBM**, **Temenos**, **Twilio**, **Salesforce** and **PayPal** all having paid more than 10x revenues for recent acquisitions.

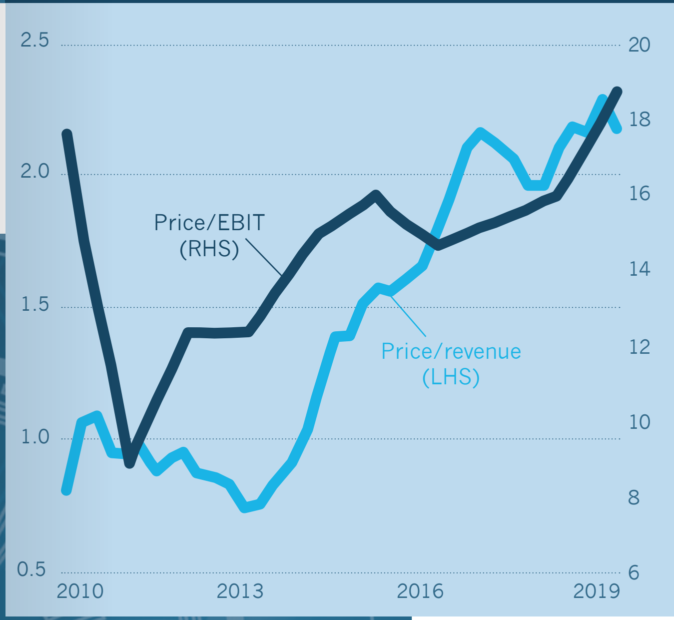
The number of UK Tech M&A deals grew 28% YoY which was impressive given all the Brexit uncertainty. One of the main drivers remains the weaker currency which attracts a number of overseas acquirers, who still account for nearly 40% of all deals. However, in the UK the standout activity in Technology M&A is the growing presence of private equity funded buy-and-build programs notably: **Clearcourse Partnership**, **The Access Group**, **Iris** and **Civica**. They seem to be pigging out on a wave of cheap money.

UK TECHNOLOGY M&A VALUATIONS



UK deals valuation rises to 2.3x revenues

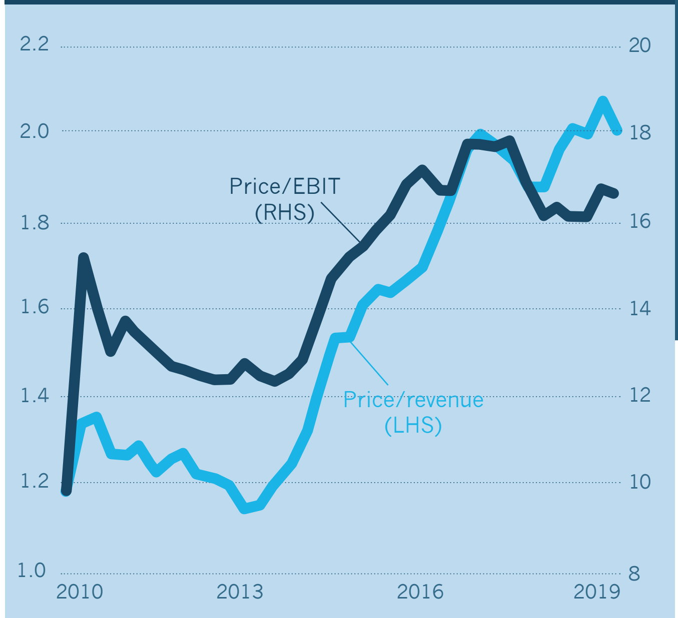
EUROPE GLOBAL M&A VALUATIONS



Europe deal valuation jumps to over 2x revenues

Global deal valuation flat at 2.0x revenues

GLOBAL TECHNOLOGY M&A VALUATIONS



LARGEST UK TECH M&A TARGETS IN 1H2019

VALUATION (EV / T/o)	PURCHASER	TARGET	EV £m
10.3	ION	Mergermarket	1,350
5.1	nuvei	SafeCharge	699
6.3	Ant Financial	World First	538
2.3	Macquarie	KCOM	666
9.5	Roper	The Foundry	410
	Modern Media Acquisition corporation	akazoo	290
5.3	Digital Alpha	ukcloud	240
0.4	Taptica	RhythmOne	135
6.8	Bowmark Capital	Tax Systems	108
10.8	blueprism	thoughtonomy	80
5.4	SimplyBiz Group	defaqto	70
	seek	Future Learn	50
	Integrate	Akkroo	25
2.4	Dods	Merit Data + Code	22
4.5	EML	flex-e-card	21
4.4	ideagen	redland	16

UK TECHNOLOGY M&A

The first half of 2019 has seen a record level of UK Technology M&A activity up 28%. The domestic fears over Brexit have not deterred buyers as there is a strong rise with over 400 deals with a UK technology target. Overseas acquirers remain key, accounting for nearly 40% of all deals but we have also seen a real jump in the amount of PE backed buy and build deals. The cheap currency, low tax rates and a very attractive pool of technology talent are key drivers. Its very much business as usual – Brexit or no Brexit.

> "Foreign buyers still account for nearly 40% of UK deals"

UK CROSS BORDER TECH M&A DEALS

FINTECH

The list of acquisitions made by **ION Trading** is long and impressive and includes Patsystems, Anvil, Wall Street Systems, Triple Point Technology and then last year they boldly acquired UK listed **Fidessa** for £1.5bn, beating Temenos in the deal for the asset management software provider. At 4.2x revenues it was a pretty good price too. This year they have splashed out £1.3bn for **Mergermarket** – the M&A information provider, at a very toppy looking 10x revenues. The size of deals has certainly accelerated since they took money first from TA Associates in 2004 and then Carlyle Group in 2016. It has been an impressive run since Andrea Pignataro founded the business 20 years ago.

Cognizant acquired **Meritsoft**, which is best known for its FINBOS platform for post-trade processing, an intelligent automation solution for managing taxes, fees, commissions and cash flow functions between financial institutions. "Increased compliance and regulatory obligations, focus on operational efficiency, and a range of new digital technologies are among the forces that have led many of the world's leading financial institutions to automate processes using Meritsoft and its FINBOS platform," said Sean Middleton, President, Cognizant Accelerator.

The transaction has generated an initial return to Synova Capital of 4x invested capital and an IRR of 47%, with further returns anticipated under the terms of an earn-out agreed with Cognizant. Synova's partnership with the founders, Kerril Burke and Paul Burke, led to a significant investment in the Meritsoft team with employee numbers increasing 3x, including the strengthening of the sales, marketing and development teams, and expansion in US.

The **SimplyBiz Group** has acquired **Defaqto** for £70m as it looks to expand its offering into the general insurance and banking markets. SimplyBiz raised a total of £29m through share placing, approximately £37m of borrowings from new bank facilities to fund the deal. Defaqto was valued at a healthy 5.4x revenues. It currently operates a FinTech platform for 8,500 advisers and provides independent ratings of 21,000 financial products and funds.

Cryptomathic acquired **Aconite Technology**, an end-to-end EMV® card lifecycle, transaction processing and PIN management provider. Both Cryptomathic and Aconite Technology operate in the secure infrastructure for EMV payments space. The acquisition will enable the two firms to leverage their combined expertise to drive innovation in the space and better answer global demand for their services. Dr. Peter Landrock, Founder and Chairman of Cryptomathic, comments: "In recent years it became apparent that our two firms could develop and deliver a stronger set of EMV infrastructure services as a single entity".

Australian listed **EML Payments** has acquired **Flex-e-Card** for £21m paying 4.5x revenues or 10x EBITDA for the FinTech that specialises in gift card solutions for retailers. Based in Newcastle, Flex-e-Card have expanded into Poland and UAE so add to the geographic footprint of EML. Yet another payments deal in a fast consolidating sector.

Ant Financial, the financial services firm led by billionaire Jack Ma, has acquired money transfer and currency exchange firm **WorldFirst** for £540m or about 6x revenues. Interestingly, just prior to the deal, WorldFirst announced plans to shut its US operations to placate US regulators, who previously rejected Ant Financial's bid to buy money transfer service MoneyGram for $1.2bn. Sorting your housekeeping ahead of a sale is a crucial part of the exit process and here is a classic example of a smart step taken to avoid a potential headache.

> **"A deal is never done until it is done"**

On the other hand, **Experian** has called off its £275m proposed acquisition of **Clearscore**. The deal was subject to approval from the CMA and the Financial Conduct Authority (FCA). It was pulled due to threat to competition in the market. It looked bold at a whopping 7x prospective sales, its first sizeable acquisition by Experian in a while. There are always bumps on the road in an M&A transaction, but this is a bump that could have been predicted as they are two of the largest credit-score checking firms in the UK and clearly "could result in less intense competition in the sector." It reminds us in many ways of news last year that **TalkTalk** had agreed to sell its business broadband to **Daisy** for £175m, but Daisy pulled out having failed to agree final terms after DD. Key lesson here is that a deal is never done until it is done.

There has certainly been a major frenzy of activity in the payments space in the past few years and 2019 was no different with the announcement that global payments provider, **Worldpay**, and financial services technology giant, **FIS**, are to merge in a gargantuan $43bn deal – an old fashioned all share merger – further accelerating the pace of change in the global payments space. Activity was kick-started in 2017 by **Vantiv**'s acquisition of UK's **Worldpay** for £7.7bn, 1.7x revenues (but kept the Worldpay name). WorldPay then acquired **SIX Payments** for €3bn in 2018 in another big deal.

Texas based **Nuvei** bought UK listed (but Israeli based) payments technology outfit **SafeCharge** for £699m in an all-cash deal. The valuation of 5x revenues is unremarkable in the current market but provides a decent exit for Teddy Sagi the 68% shareholder and Playtech founder. SafeCharge's Payments Engine makes it easier for online businesses to manage omnichannel payments with hosted payment pages customised to merchant needs such as Checkout page, Cashier as well as Point of Sale (PoS) payments.

VISA made an offer for listed **Earthport** in December 2018 for £198m, or 5.3x revenues. Earthport provides cross-border payment services to banks and businesses. Through Earthport APIs, clients can seamlessly manage payments to almost any bank account in the world, reducing costs and complexity to meet their customers' evolving expectations of price, speed and transparency. The deal comes after a difficult year for Earthport in which it lost a major a customer, saw reduced transaction volumes and underwent a management shakeup. **Mastercard** then trumped the VISA offer which in turn forced VISA to up its offer to £247m. That is a whopping 25% higher than its earlier bid. Illustrating the power of "competitive tension" in a deal.

> **"The power of competitive tension +25%"**

Unfortunately, **Loot** ran out of loot and has just been put into administration. **RBS** previously acquired a 25% stake in millennial-focused technology start-up Loot, aimed at helping young people and students manage their finances by providing customers with a pre-paid debit card and insights into their spending habits. The plan was to help RBS develop its digital offering Bo, which is currently in private beta testing and is expected to launch later this year. It, like other new technology-led banks that have launched in recent years such as **Monzo**, **Starling** and **Revolut**, is aiming to poach customers from the traditional high street lenders (like RBS!). If you can't beat them, join them. RBS had been negotiating to buy Loot, but it failed DD. As a result, RBS have taken on founder Ollie Purdue and the 17 staff. So probably a nice deal for RBS and a boost for its digital offering Bo, but not so good for those looking for Loot. Lesson here is to always enter an exit process from a position of strength by ensuring you have adequate working capital, otherwise you may get looted.

> **Loot ran out of loot**

GRC-COMPLIANCE

SGS is the world's leading inspection, verification, testing and certification company, with £5bn in revenues and nearly 10,000 employees. Yet they acquired **i2i Infinity** based in Shepton Mallet with just 12 staff. Clear evidence that very large acquirers often buy small in-fill targets that at first glance look unlikely to move the needle. i2i is the leading provider of Electronic Certificates of Origin in the UK. The company provides customs compliance services to exporters and chambers of commerce using innovative proprietary software solutions. Accredited by the British Chamber of Commerce, i2i's SaaS platform is actively used in over 65 chambers of commerce in the UK and Canada, and serves over 30,000 users worldwide.

> **Swiss buying in Shepton Mallet**

GRC software company **Ideagen** has acquired **Redland Business Solutions**, a SaaS provider of regulatory and compliance software, in a £15.8m deal. Redland, with revenues of over £4.2m, has 40 clients including Nomura, Santander, Investec, Hargreaves Lansdown and Rathbones. Redland Solutions provides software for the financial services industry, namely its Insight platform, which assists banks, investment managers and insurance firms with adapting businesses to fit with regulatory changes. In particular, Redland's software helps businesses manage themselves under the Senior Managers and Certification Regime, which was introduced in December 2013 to increase the accountability of senior managers for their conduct. "Redland is an extremely valuable addition to the group and is in line with our strategy of acquiring Integrated Risk Management businesses that have strong IP and growing recurring revenues", said Executive Chair David Hornsby. Ideagen who have acquired 5 companies since the start of 2018 have a market value of over £300m and are building a major presence in GRC software.

AIM listed **Tax Systems** was acquired by **Bowmark Capital** valuing it at an EV of £108m. As the name suggests, Tax Systems offers software to automate the Corporation Tax compliance and is the creator of Alphatax, which is used by over 1,100 customers including 23 of the top 25 Accountancy firms. With 90% recurrent income you can see why private equity is attracted. The Bowmark investment will enable the company to accelerate the development of new products and services, particularly in response to the roll-out of HMRC's new "Making Tax Digital" initiative, which aims to modernise the way tax is reported. Valuation was 6.8x revenues, but a less taxing 10x earnings.

Marlowe who provide regulated inspection, testing and compliance services for commercial properties, acquired **William Martin Compliance** for £30m right at the end of 2018. Formed in 2004, William Martin is a leading technology-enabled UK provider of property-related compliance in areas such as health and safety, fire safety, water safety, asbestos management. It is paying 4.5x revenues or 15x EBITDA. It is predominantly a cash deal with a small amount of shares and an earn out.

CYBERSECURITY

GB Group has made a big move acquiring **IDology**, a US provider of identity verification and fraud detection services for an enterprise value of $300m. To fund the deal GB Group arranged a new revolving credit facility worth £110m and placed shares worth £160m. Priced at a mere 3% discount, the demand for shares was strong and they have since rallied strongly breaching the £1bn valuation barrier despite having revenues of only £144m. IDology is privately owned, with CEO John Dancu owning more than 50% of the shares. The company is based in Atlanta, Georgia with 70 employees. It has 500 customers and generates more than 70% of revenues from the financial services sector in three main areas: onboarding, verification and set-up; and authentication. The deal values IDology at 7.9x trailing sales and 18.4x trailing EBITDA. Forays into the US are not always a success, and it looks a big and bold move. Shareholders are not totally convinced as shares have retreated after a strong run. GB Group is clearly making a push overseas after last year's acquisition of Australian based Vix Verify, an ID verification and location software business for £38m, which is a reasonable looking 1.8x revenues and looks a good fit. Before that they acquired closer to home – Worcester based SaaS software provider PCA Predict (aka Postcode Anywhere) for £63m, 4.5x revenues or 14x EBIT, and IDscan Biometrics for £37m cash plus £8m earn out, 4.9x revenues or 12x EBIT.

> **Testing the water**

Shearwater Group's acquisition of **Secarma** penetration testing will expand its "digital resilience" capability and cement a deeper partnership with Manchester headquartered cloud and hosting firm UKFast. The deal is worth £7m, will be paid mainly in shares, and so, Secarma owner and UKFast chief executive Lawrence Jones will take a 13.3% stake in Shearwater under the terms of the agreement. Jones highlighted the "symbiotic relationship and close synergies" between Shearwater and UKFast. Shearwater has grown rapidly through acquisition over the last few years having snapped up Brookcourt for £30m or only 1.3x revenues, GeoLang for £1.7m, SecurEnvoy for £20m, and Newable Consulting for £600k and now includes network security, data loss prevention (DLP), multi factor authentication, managed security provision, compliance and consulting services. However, the shareholders are not that impressed, the shares having fallen from 310p to 210p in 2019 in a strong market for tech shares.

Orange Business Services, which is part of French telco Orange, has acquired cyber security services provider **SecureData Group** who employ over 200 staff in UK and South Africa, and are the largest independent cybersecurity service provider in the UK. The company has a 25-year track record of providing integrated cyber solutions designed to assess risks, detect threats, protect customer's IT assets and respond to security incidents. The company's consulting arm, SensePost, was acquired back in 2017. With £40m+ in revenues and 10% profits SecureData was an attractive target for Orange, albeit a bit off-piste.

There has been quite a consolidation in cyber services recently as there is clearly a severe shortage of skilled staff. Last year Finish based **F-Secure** acquired **MWR InfosSecurity** (threat hunting and phishing protection services) for 3.8x revenues, **Claranet** acquired **NotSoSecure**, a company providing global pen-testing services and "ethical hacking" training courses. Similarly, **Intertek** acquired pen-tester **NTA Monitor**, who have offices in Kent and off-shore operations in Malaysia. **Six Degrees** added **CNS Convergent** a 50 strong team of pen testers. Finally, managed service provider **Six Degrees Group** purchased **CNS Group**, a specialist in managed security services, penetration testing, consultancy and compliance assessments adding 50 staff and revenue of over £7m.

> **"Consolidation in cyber services"**

RELX, the British publishing turned analytics group paid £580m, an alarming sounding 25x revenues, in 2018 for **ThreatMetrix**, a fraud detection tool, by far its largest acquisition in 10 years. ThreatMetrix's Digital Identity Network is one of the largest repositories of online digital identities, encompassing 1.4 billion unique online identities. ThreatMetrix, which launched in 2005, collects information like device type, location and user behaviour to make sure the person logging in to things such as banking services definitely is who they say they are, which eliminates the need for complicated logins. Shareholders are certainly warming to this bold move as they have risen 20% in the first half of 2019 despite the eye-popping valuation, as it secures a future further away from its heritage in print.

AI AND MACHINE LEARNING

Blue Prism has grown to become a £1bn+ market cap company rising 15x since its listing in March 2016. Revenues are growing at 80% but the rating is still stratospheric. RPA is a hot space and the organic growth is impressive. In June, Blue Prism made a bold move agreeing to pay £80m in cash and shares for **Thoughtonomy**, a SaaS business employing 52 people. At a whopping 10x revenues, and based on the £3m loss, it is a great deal for the vendors. Its machine learning (ML) and natural language processing (NLP) capabilities are no doubt attractive in developing Intelligent Automation.

Dods PLC acquired **Meritgroup** for a total consideration of £22.4m on a debt free basis, payable in a mixture of cash and shares. Funding is provided by equity including Lord Ashcroft, who has a 44% stake. Today Merit collects several million data points daily from around 3,000 sources in Maritime, Construction, Fashion, Oil & Gas, Retail and Metals. Merit deploys Artificial Intelligence (AI) and ML technologies, so it can efficiently categorise and enhance high volume and high frequency data, including unstructured data. Merit's data is supplied to many leading information businesses, including Informa, Ascential, Dow Jones and Wilmington.

Cognizant acquired **Zenith Technologies**, a life sciences manufacturing technology services company headquartered in Cork, Ireland. Zenith specializes in implementing digital technologies to manage, control and optimize drug and medical device production. Interconnected "smart factories" have become a strategic priority for the industry, with production systems and processes becoming more complex because of research advances, and increased demand for large-molecule biologics. The combined Cognizant-Zenith Technologies expertise will deliver a range of Industry 4.0 capabilities, from factory design consultation, machine sensor and controller instrumentation, supervisory control, and data acquisition, to manufacturing, batch automation, ERP integration and managed services. Zenith has 800 staff and are located near manufacturing facilities of many Cognizant clients.

Twitter has acquired **Fabula AI**, a London-based start-up that uses ML to help detect "fake news". The plan is to work toward finding new ways to leverage machine learning across NLP, recommendations systems, reinforcement learning and graph deep learning. Founded only in 2018, Fabula is a real true start-up and probably more of an acqui-hire. It has developed a patented AI system it calls "geometric deep learning" – effectively algorithms that learn from large and complex data sets gleaned from social networks. Fabula focuses on detecting differences in how content is spreading on social media and allocating an authenticity score to determine if news is fake or not. Such an approach, given it is based on the "propagation pattern" through huge social networks, is more resilient to adversarial attacks. The deal has hallmarks of Twitter's acquisition of Magic Pony a few years back and Facebook's acquisition last year of another London-based start-up, **Bloomsbury AI**. The Donald is not keen on fake news, so will be delighted with this, particularly with US Presidential elections next year.

> **"AI helps identify fake news"**

Apple acquired London start-up **DataTiger** in a bid to boost its digital marketing for its fast-growing services business. DataTiger, which uses artificial intelligence, says it can "optimize the marketing journeys" of customers by harnessing user data to target them with marketing messages including mobile push notifications. DataTiger CEO Philipp Mohr said the company seeks to "bring the stale era of 'email-list thinking' and slow, campaign-based marketing to an end." The start-up's AI-driven marketing capabilities could help Apple customise content and direct users to content that is relevant to them.

Pinacl Solutions the Welsh based Internet of Things (IoT) specialist was acquired by private equity firm **Aliter**, which also owns fellow IoT provider Boston Networks. Pinacl was seeking to enter local full fibre networks (LFFN) programmes which had funding requirements for city bids. They went in search of venture capital to facilitate this, and that is how it crossed paths with Aliter. "Our approach really was to get some gap funding in place and that culminated in Aliter liking us so much that it bought the company," CEO Rob Bardwell said. The company hit the £20m revenues last year, and with Aliter's funds at its disposal, Pinacl should grow aggressively.

PUBLIC AND HEALTH SECTORS

Civica has acquired delivery management software specialist **TranSend Solutions**. The Tees Valley-based company specialises in supply chain electronic proof of delivery (ePOD) and route planning software applications. It had revenues of £4m and 20% profits. The business has been transforming to a SaaS business model, and is used by more than 75 major organisations, including Seven Trent Water, Wessex Water and Wincanton. Civica acquired 7 companies in 2018!!! including **Trac Systems**, which provides cloud software and related services to the NHS and the wider public sector for the complete recruitment process, from advertising vacancies and managing applications to on-boarding and induction. Others include cashless catering and EPOS provider **Nationwide Retail Systems** (NRS) to expand its payment systems business. Barnsley-based NRS is an established provider of integrated payment solutions, particularly in the education sector where it provides cashless catering systems to more than 2,000 local authority, school and college customers. Civica also acquired **ERS Group** who had revenues approaching £40m last year. ERS was formed in 1988 when it spun out of The Electoral Reform Society, providing end-to-end ballot, election and voting services and has managed more than 50 million registrations.

Meanwhile **Capita**, which not long ago was an acquisition machine, has not made any acquisitions, which says it all. They are still clearing the decks having sold Construction Online and Supplier Services last year.

> **“Civica – aggressive PE backed roll up”**

Northgate Public Services, which is now owned by Japans NEC after it paid £475m last year, has started to make a number of in-fill acquisitions. In early 2019 Northgate acquired **APD Communications**, which has mission critical control room software for police forces, airports etc. They then acquired the eye screening businesses of **EMIS Group** for a total cash consideration of £15m. The eye screening businesses formed the Specialist & Care segment of EMIS Group, which were valued at just 0.75x revenues but a healthy 13.6x profits. Then in June NPS acquired **Snook**, a service design agency which is the 4th acquisition NPS has made since it was acquired by NEC in 2018. Snook is based in Glasgow and London and specialises in redesigning services to improve outcomes covering research, strategy, design, delivery and events. Clients include a number of central government departments, including the Cabinet Office and the Department for Work and Pensions. It looks a good fit as Snook provides an opportunity for NPS to become involved at an earlier consulting stage of a project development.

Granicus, the provider of cloud-based software solutions and digital engagement services for the US public sector, today announced that it has acquired **Firmstep**, a London-based global leader specializing in government service transformation. Granicus CEO, Mark Hynes said “This acquisition allows Granicus customers the ability to provide critical services such as permits, applications, licenses, payments and other transactions to their communities digitally, cost effectively and with the unified, consistent and modern experience users have come to expect.” Firmstep has been accelerating public sector digitization across the UK for 18 years and has been implemented at over a third of UK local authorities.

The Panoply Holdings, the newly listed digitally native technology services Group, acquired **FutureGov**, a leader in digital service design for the public and health sectors. Consideration was circa £12m, half in cash and half in shares. Valuation was 1.9x revenues and 8x EBITDA reflecting the consulting nature of FutureGov. It also makes sense tying in key management with equity in the business going forward. The acquisition transforms the shape of The Panoply, with circa 45% of Group revenue, on a proforma basis, originating from the health and public sectors following completion. Neal Gandhi, CEO of The Panoply said: “FutureGov in every way reflects our own ethos, as a digitally native company built for the demands of the 21st century”. The Panoply are in a hurry, having only listed in December 2018. This is their fifth acquisition having acquired digital agency **Deeson** in December and in April this year paid up to £7.3m for **GreenShoot Labs**, a provider of enterprise digital solutions using AI, which also related to Deeson. The London-based company is the creator of OpenDialog, an open source ‘conversation management platform’ which integrates with Facebook Messenger, Amazon Alexa and on-website chat boxes. It recently created the first chatbot to support cybercrime victims, which is currently being tested by UK police forces.

Advanced continues to make a series of in-fill acquisitions. Advanced has acquired Livingbridge-backed specialist workforce management and resource scheduling software company, **Kirona**. The company, based in Alderley Edge, provides a mobile solution for businesses with field-based service teams in the public and private markets, with 80% of revenues in social housing. Gordon Wilson, CEO at Advanced, commented: “We’ve been very clear about our ambitious growth plans to become a market leader in vertically aligned ERP software solutions, both organically and through acquisition.” It also acquired **Oyez Professional Services** and US based application modernisation specialists **Modern Systems**. Last year Advanced acquired **Docman** a healthcare workflow/ document management solution. More than 5,400 GP practices and 115 NHS Trusts currently use Docman’s document management and workflow solutions. Advanced also made the £16m acquisition of **Science Warehouse**, a SaaS-based e-procurement platform, which accelerates Advanced’s cloud strategy. Advanced has really “moved forward” since it was acquired by Vista Private Equity.

> **“Advanced is moving forward”**

BearingPoint the large Dutch based consultant has expanded their UK Public Sector team through the acquisition of specialist consultancy **Prederi**. It’s a bit of an odd one as Prederi only employs 20 staff with capabilities across finance, strategy, change management, digital and learning and development. The firm’s clients include the NHS, local government, regulators and various central government departments such as the Home Office, Ministry of Defence, Ministry of Justice and the Department of Health.

Servelec was acquired by Montagu Private Equity in a £225m takeover and delisting in January 2018. They subsequently sold Servelec Controls to a PE-backed MBO team. Now focused on healthcare, Servelec has announced the acquisition of **CareerVision** who provide case management and information solutions to local government children’s and young people’s services teams. They employ 40 people and look a good tuck-in deal for Servelec.

HR/EDTECH

UK based publisher **Emerald Group** based in Bingley, acquired **Mind Tools**, the digital learning and performance support company. Corporate and individual learners in over 180 countries currently subscribe to Mind Tools resources, which help to build their management, leadership and personal effectiveness skills. Mind Tools provides access to 2,400+ resources, including articles, podcasts, videos, infographics, quizzes, etc. Husband and wife team, James Manktelow and Rachel Thompson, set up MindTools.com, a website where people could use short video to learn what it takes to become a successful and effective leader. Both are now exiting the business.

Hg Capital sold **Allocate Software** to **Vista Equity** in another private equity pass-the-parcel in the middle of 2018. Since then they have made two further acquisitions: firstly, **247 Time**, a leading cloud-based supplier of contingent healthcare workforce software. 247 Time provides vendor management, payroll and direct engagement technology to healthcare and enterprise sectors. Followed by, **Wambiz**, an innovative provider of app-based staff engagement solutions for the health, education and enterprise sectors. Allocate grew revenues 20% last year.

London-based online degree platform **FutureLearn**, raised £50m from Australian-based online job matching group **Seek**, in exchange for a 50% of its equity. Open University – which had wholly owned the FutureLearn platform – retains the other 50% of equity following the Seek Group investment. Clearly this is a move to compete with highly funded EdTech start-ups. “Our partnership with Seek and the investment in FutureLearn will take our unique mission to make education open for all into new parts of the world. Education improves lives, communities and economies and is a truly global product, with no tariffs on ideas,” said OU vice chancellor Mary Kellett in a statement on the investment.

“No tariffs on ideas”

Tech recruiter **Harvey Nash Group** was acquired at the end of last year for just under £100m by **DBAY** who already controlled 26% of Harvey Nash shares. DBAY took a significant stake in Harvey Nash in 2017. Valuation of the deal was just 10% of revenues but 9x EBIT. The 130p valuation looks good relative to its share price but not so pretty compared with its £8 peak in the dotcom boom. DBAY are UK value investors who “invest in companies overlooked or deeply misunderstood by the market and in many instances out of favour with investors, often taking a contrarian view.” They quote Benjamin Graham “The intelligent investor is a realist who sells to optimists and buys from pessimists”.

UK listed **Tribal**, who provide software and services to the education sector have not made many deals in the past few years but have acquired **Crimson Consultants** for 2x revenues plus earn out. Crimson has been working in the education sector for over 10 years and has developed a full range of tools that utilise the CRM capabilities of Microsoft Dynamics 365 to create a cloud-based, education-ready “student relationship management” solution. Crimson provides solutions to many of the leading universities and colleges in the UK, including the University of Cardiff, the University of Aberdeen and Durham University.

Horizon Capital has bought out **EES for Schools** from Essex County Council and rebranded it **Juniper Education**. Alongside that, it committed £20m partly to fund yet another buy-and-build consolidation in software and services provision to primary and secondary schools in the UK. EES is most well-known for its school assessment system, Target Tracker, which is used in approximately a quarter of primary schools in England.

“Textbook? Hardly”

UK listed **Pearson** sold its US textbook business in a very strange deal that showed a distinct lack of competitive buyers as it got $250m but just 10% upfront for a business that makes £20m profits. The rest is deferred for between 3-7 years. Hardly textbook.

CLOUD SOFTWARE

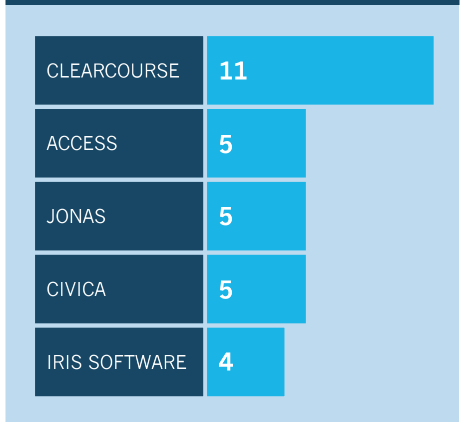
CGI, the $11bn revenue Canadian IT consulting and integrator, has surprisingly acquired **SCISYS** for £79m or about 1.3x revenues and only 8x EBIT. Based in Chippenham, SCISYS was listed on AIM in 1997 and has an interesting history, having rebranded a few times and has evolved (pretty slowly) taking nearly 40 years to reach revenues of just under £60m. It is now a curious mix of Anglo-German software and services businesses with expertise in Broadcasting, Defence and Space. Globalisation would seem to be the rationale. George Schindler, President and CEO, CGI said “SCISYS’ industry-leading expertise and IP-based services and solutions will provide an opportunity to globalise certain platforms utilizing the broader CGI geographic footprint and client relationships.”

“The future is Clear”

ClearCourse Partnership are a UK buy-and-build platform backed by Aquiline Partners. They have bought more UK companies than anyone else since the start of last year. What is even more impressive is they only started in September 2018. They have impressively acquired 11 companies already – more than one a month. Target companies are focused on membership organisations and they help their customers to manage their members and clients, administer their business workflow and to automate their payment processes. One of their deals was **Silverbear**, which is the Guildford based CRM platform that is used by organisations such as British Medical Association, Royal College of Nursing, The Institute of Directors and Natural History Museum to communicate effectively with their 4.2m members for renewals, events fund raising etc. It’s a nice deal for founder Mark Travis who is staying with the exciting new buy-and-build vehicle. Clearcourse have certainly hit the ground running quickly consolidating a fragmented sector with the aim to monetise the large payments that membership organisations process. Other deals include: **Intelligent Golf** (which is well known to all golf club members as the main handicap/competition/communication software), **Decisions** (more CRM), **InstaGiv** (digital fundraising), **Crafty Clicks** (postcode look up), **NetXtra** (digital engagement) and most recently **Trillium** (another CRM provider to membership). Very exciting roll up and well ahead of the pack in terms of volume of deals.

“The Top5 UK acquirers are all PE backed”

TOP UK BUYERS SINCE JAN 2018



Iris has made two further acquisitions Hosted Accountants and BioStore. **Hosted Accountants** was founded in 2008 to bring IT consultancy services to the UK accountancy sector. Since 2015, the business has experienced strong growth driven by a partnership with IRIS for the provision of IRIS Hosting, its solution for accountancy practice IT management. **BioStore** is a provider of identity management and cashless catering solutions to UK schools and businesses. BioStore's identity management and cashless catering solutions are used by over 3,000 UK schools and sixth form colleges to improve and streamline access control and how catering services are delivered. Last year ICG joined Hg Capital in taking a stake in IRIS Software Group, valuing it at £1.3bn, and became one of the UK's largest ever private equity led software buyouts.

Last year **Kerridge Commercial Systems** acquired listed **Electronic Data Processing** (EDP) for £12m. Since Accel-KKR's investment in 2015, Kerridge has made 9 acquisitions, late in 2018 they added **Insphire** (heavy plant software) and **Current RMS** (AV and events software) and this year they have done a small in-fill in Australia. Yet another PE backed buy-and-build story.

Bentley Systems has had twins. Bentley acquired **Keynetix**, a cloud-based software for capturing, visualizing, modelling and sharing of geotechnical data. The addition accelerates Bentley's vision of enabling subsurface digital twins for infrastructure projects and assets. Apparently, subsurface digital twins can be vital for assessing and managing risks in infrastructure projects, and to the planning, design, construction and operations of infrastructure assets. Last year they acquired **Legion**, a pedestrian simulation software provider. It simulates and analyses the foot traffic on infrastructure assets that include rail and metro stations, stadiums, shopping malls and airports. So operators can accurately test designs and operational or commercial plans to enhance footfall, wayfinding, crowd management and safety.

E-COMMERCE

“Practi – gobbled up”

Just Eat gobbled up Practi for £7m plus earn out. Practi is a software service that provides independent restaurants and small chains with tablet-based Point of Sale (PoS) and restaurant management systems to help them manage their businesses more efficiently. Just Eat will now be able to provide its restaurant partners with PoS, cash and card payment handling, inventory management, kitchen operation and employee management systems, all within a single software package across multiple devices. An interesting deal with real synergy.

Mercell – a provider of e-tendering SaaS solutions in the Nordic region has acquired **EU Supply** for £15m or 3x revenues. Headquartered in Oslo, Norway, and with a market presence in seven countries, Mercell's software solutions simplify the public procurement process. Suppliers from many industries use Mercell's software to discover online, public and global tenders and contracts. In July 2018, Mercell received investment by Viking Venture, a leading Nordic B2B SaaS investor. EU Supply has been listed on AIM since 2013 but is actually a Sweden-based e-commerce business, which has an established, multilingual e-procurement platform for e-sourcing, e-tendering and contract management for the highly regulated European public sector market. Their CTM™ platform is used by over 8,000 European public sector bodies and has National Procurement System status in several. EU Supply shareholders will be happy as the shares have fallen from 45p in 2014 to 10p at the start of this year. Why it was ever listed, I am not sure.

BCA Marketplace (British Car Auctions) is not really an e-commerce business but it sure is behaving like one. The owner of **We Buy Any Car** consumer business has received a private equity backed offer at 25% premium to its share price from **TDR Capital**. Meanwhile shares in UK car dealers are generally heading in the other direction. Shareholders in BCA, including the cash strapped Neil Woodford, are not surprisingly very interested. 12x forward EBITDA is pretty good for a car retailer in a very tough market. Another deal in a long list of PE buyers using cheap debt to leverage cash flows.

COMMUNICATIONS

KCOM has struggled to expand its operations beyond regional broadband and network connectivity into cloud hosting and managed services provision. Revenues are flat. The appointment of ex-BT executive Graham Sutherland and other key boardroom changes in January all came a bit late. So a bid for £504m from the Universities Superannuation Scheme (**USS**) went down well, following a difficult period for the East Yorkshire telco. Just a few weeks later up popped **Macquarie Infrastructure** who gazumped USS with a £563m offer, some 12% higher. Another example of the wonders of competitive tension. There may be more to come – Hull is proving popular again.

“Competitive tension adds 12% in Hull”

Last year UK based **GCI** raised a £60m war chest from **Mayfair Equity Partners** to fund acquisitions. They are now spending it. GCI has acquired **Modality Systems**, a Microsoft communications and collaboration practice with operations in the UK, USA, Asia and Australia. The acquisition will enable GCI to expand its business internationally for the first time and capitalise on the growing global market for its Microsoft-based, cloud-enabled intelligent communications services. Microsoft Teams has become Microsoft's fastest growing business application of all time and leveraging its growth appears to be a key driver here. “The acquisition of Modality Systems provides GCI and its customers with established scale and support internationally,” said Adrian Thirkill, CEO of GCI. The Modality business will be run within the GCI group. James Rodd, the Modality CEO said. “We believe there is great potential given that Microsoft Teams alone is set to become the second-biggest workplace collaboration app by 2020, surpassing both Slack and Google Hangouts”.

ICT MANAGED SERVICES

The Access Group is another PE owned buy-and-build factory focused mainly on the mid-market but its 5 acquisitions in first half of 2019 are across a disparate range of sectors like: learning, recruitment, payments and membership. The volume of activity is impressive though. Backers **Hg Capital** and **TA Associates** are funding a steady stream of in-fill acquisitions and no wonder as the business is flying with revenues up 40% to £140m and EBITDA up 70% to £48m. No wonder Hg valued it at £1bn. In first half 2019 Access have already acquired: **Eazy Collect**, one of the UK's leading payment platform providers for SME's, not-for-profit, blue-chip corporates and public sector. Eazy Collect processes in excess of 4m payments per year, with a consolidated value in excess of £400m, for companies of all sizes across multiple industry sectors. **Joyful**, a Not-For-Profit donor and member attraction website software supplier with over 10 years' experience providing software exclusively to Charity and Membership organisations building on the acquisition of **Rapidata** in November 2018. **Riliance**, an online training, compliance and risk management solution provider in the Legal Sector with £3m revenues. **Volcanic**, a recruitment and staffing website software supplier with over 10 years' experience providing software exclusively to the recruitment industry. **Unicorn**, the provider of learning technology solutions. Unicorn has more than £10m of revenues and in excess of 1,500 customers, including UK Finance Association, University of London, Tesco Bank, and Chartered Insurance Institute.

SysGroup has acquired **Certus IT**, for an initial cash consideration of £8m. The company also raised £10m from the capital markets, which, in addition to its new £5m banking facility from Santander, will enable greater fire power for more deals. Certus IT, founded in 2000, is a mid-sized end-to-end managed IT services provider based in Newport, South Wales with customers including Admiral, Confused.com and Hugh James. In 2015, Certus IT was named the Dell EMC Cloud Partner of the Year, and the acquisition will bring Dell EMC Gold Partner status to the enlarged group. This will complement SysGroup's existing portfolio of senior vendor partnerships, including WatchGuard Platinum Partner, Microsoft Gold Datacentre Partner and Kaspersky Gold Partner. SysGroup also acquired **Hub Network Services** based in Bristol. HNS is a managed connectivity and co-location solutions provider. The deal will see HNS' network infrastructure, supply agreements and extensive experience in the industry compliment and expand SysGroup's existing managed IT and cloud hosting offering.

Computacenter has started an overseas push, last year it bought San Francisco based, **FusionStorm**, a Sourcing and Professional Managed Services specialist. Computacenter paid an initial cash consideration of $70m and will pay an additional $20m depending on profit levels. That was followed by a Dutch business called **Misco Solutions**, a value-added reseller and service provider. They employ about 200 staff and had revenue of €134m. Then this year they have acquired **Pathworks** in Switzerland, a tiddler with just 10 staff, but the direction of travel is clear with a global push.

No deals this year from Managed Services Provider, **IT Lab** (which is backed by ECI Partners), but they are probably absorbing acquisition of Microsoft partner, **Content and Code**. That will have taken revenue to almost £60m but with a £100m target then it probably won't be too long before IT Lab's Peter Sweetbaum gets his cheque book out again.

> **"In a good mood"**

CACI has acquired **MooD Enterprises**, who provide software and managed services to defence, national security and commercial organisations. MooD have been around for a bit, having been founded 32 years ago in the year that the Berlin Wall came down and Tim Berners Lee was dreaming up the internet. Although it wasn't as momentous an occasion as the other two, its platform is used for digitisation of the Royal Navy's Fleet support system, the communications battlespace architecture for the RAF and the core architecture system for Jaguar Land Rover. The sale will no doubt have put Bernie Edwards, Founder and Chairman, in a good mood.

PA Consulting has bought US based innovation consultancy **4iNNO**, whose clients include Procter & Gamble, Kellogg's and Bridgestone. It has only 24 staff, so a real in-fill deal, and will not move the needle but is its fifth acquisition recently, following the purchases such as We are Friday and Sparkler in the UK.

DIGITAL MEDIA AND MARKETING

Roper Technologies a US$38bn US technology company, acquired **Foundry** in an all-cash transaction valued at £410m which equates to a very impressive 9.5x revenues. Foundry is a leading provider of software technologies used to deliver visual effects and 3D content for the digital design, visualization, and entertainment industries with a 20-year heritage. Clients and partners include major feature film studios and post-production houses such as Pixar, ILM, MPC, Walt Disney Animation, Weta Digital, DNEG and Framestore, alongside others like Mercedes, New Balance, Adidas and Google. Foundry partners with these companies to "solve complex visualization challenges to turn incredible ideas into reality". The management team is led by CEO Craig Rodgerson, who will continue to lead the business from its London headquarters.

Lead management company **Akkroo** has been acquired by US-based company **Integrate** in a £25m deal. Akkroo provides a solution for lead collection which gives power to B2B marketers by letting them collect leads at any trade show or event using the Akkroo iOS and Android app. Having launched in 2013, the company has apparently doubled revenue every year since 2014. Integrate's customers will now be able to benefit from Akkroo's way of capturing and processing event leads in real time, helping personalise the lead follow-up and accelerate pipeline-to-revenue from in-person trade shows, conferences and events. The acquisition will see founder Chris Wickson and his team of 50 join the enlarged group. "Revenue acceleration happens when you unify the top of funnel," said Jeremy Bloom, Founder and CEO of Integrate. He went on to say, "With this acquisition, we have now integrated one of the largest and most-leveraged demand marketing channels that historically has the least amount of ROI visibility. With Integrate and Akkroo, our customers will understand how in-person events contribute to pipeline and revenue while having access to a best-in-class, global solution for collecting, processing and managing event leads at scale." Quite.

UK listed digital communications group **Next 15** has acquired predictive analytics and data marketing specialists **Planning-inc** which, despite the name, is a UK company based in trendy Southwark. The transaction is worth an initial £6.3m with the potential consideration rising to £15m by 2023 subject to an earn out over the next 5 years. Yes, a 5 year earn out. But when your main asset is a team of 55+ analysts, programmers, developers, digital engineers and marketers then you need to incentivise them, but 5 years is a very long time, too long maybe.

UK LISTED RISERS & FALLERS – MID YEAR 2019

AUDIOBOOM +113%

SAFECHARGE +91%

SCISYS +70%

AB DYNAMICS +83%

AVEVA +72%

SOFTCAT +67%

RISERS

Back in 2018 **Audioboom Group** (+113%) acquired podcasting platform **Triton Digital**, for $185m cash. Or at least that was the plan. The deal fell apart as it could not raise the significant financing and as a result sent the shares plummeting. 2019 has been a much better story after securing £1.5m from a new share issue, prices are now back to pre-Triton levels. AudioBoom is a kind of NetFlix for audio.

SafeCharge (+91%) the e-commerce payments platform, was acquired by **Nuvei** in a $889m takeover back in May. Shareholders would have been happy with the all-cash acquisition receiving a 25% premium.

SCISYS (+70%) the bespoke software supplier to the Broadcasting, Defence and Space sectors, is a similar story. Canadian consulting group CGI offered £79m, a healthy 24% premium, sending the shares into orbit.

AB Dynamics (+83%) the designer and manufacturer of advanced testing systems for the automotive market, had great half year financial results. Strong demand for driverless vehicle technology has been the driving factor behind the rise and the increase in their share price. Key milestones have been reached with first orders of their new advanced vehicle driving simulator, profits are up 95% and there is a full order book.

After **Schneider Electric** acquired 60% of **Aveva** (+72%) for £3bn in 2018, they kept their London listing. This year they pushed into the FTSE100 as shares continue to rise on the back of increased revenue and profits from the ongoing demand for industrial software and management products.

Softcat (+67%) provides IT infrastructure services to a wide range of sectors and has had another great half year with 41% EPS growth. However, shares now trade on a PE ratio of 35.

FALLERS

Accesso (-55%) lost investor confidence due to short term uncertainty around the announcement of a change in investment priorities and change in CEO.

Actual Experience (-18%) half year results showed over 3x revenues growth compared to a year ago, however revenues are still miniscule, and it is still operating at a £3.5m loss. The company provides digital data analytics-as-a-service.

Shearwater (-35%) has made a number of acquisitions expanding into fast growing cybersecurity services but the shares have performed poorly as evidence of profitability has proved elusive so far. However, after their acquisition of cybersecurity firm Secarma in April some confidence has been restored.

“The worst set of results I have ever had to provide commentary for” said CEO Ian Smith of IT managed services provider **IDE Group** (-62%) in 2018. Things don’t seem to be improving for Ian in 2019. IDE shares fell over 90% in 2018 and 98.5% over the past 18 months. IDE has an interesting history stretching back to 2005, when ‘casual dating service’ Easydate was admitted to AIM. Since then it has been rebranded as Cupid, Castle Street Investments, Selection Services, Coretx and IDE. Look out for another re-branding soon.

One would think that **Corero** (-43%), the network cybersecurity company, would be in a perfect position to profit from the ever-increasing threat of cyber-attacks given their core product defends systems from DDoS attacks. After 3 years of flat revenues and operating losses of around £8.5m investors were hoping results released in April would show a better performance. Revenue was up 17% and losses down to £5.2m but there is still much work to do. Despite investment from Juniper Networks, who re-sell Corero products, the shares continue to slide.

The ever-growing demand from the auto industry for AI-powered safety equipment should be good news for **Seeing Machines** (-24%), whose software detects driver fatigue. However, the combination of a 2% reduction in revenue, a huge £16m loss (mainly due to an R&D spend of £20.5m) and a new share issue raising £34m, where shares were priced 40% lower than the previous months trading average, sent shares into free fall. Hopefully the £31m spent on R&D in the past 2 years will come to fruition soon.

ACCESSO –55%

ACTUAL EXPERIENCE –18%

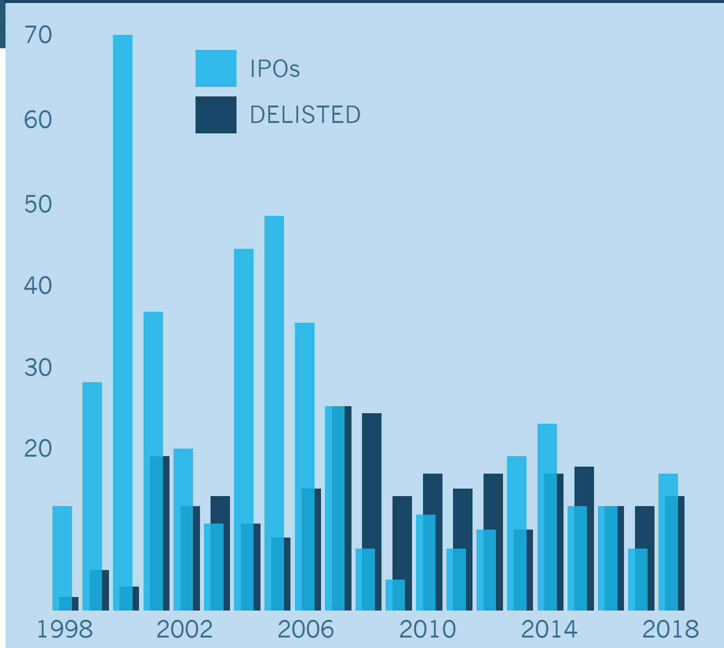
SHEARWATER –35%

IDE GROUP –62%

CORERO –43%

SEEING MACHINES –24%

UK TECHNOLOGY IPOs (No.)



UK IPOs

This is the second time **Trainline (+21.5%)** has been on the IPO stage after their plans to go public back in 2015 were derailed when a private equity firm (KKR) bought the business just prior to IPO for £450m. This time Trainline stayed on track! successfully listing in late June valued at a runaway £1.5bn. Since then, the first quarter results showed a 20% rise in ticket sales which sent the shares soaring and now the company is valued close to £2bn, which is a steamy 10x revenues.

> **“Trainline is on track”**

Apart from Trainline there were only two other technology IPOs of any interest: Software and cloud services provider **Essensys (+27.5%)** had a successful IPO in late May. With shares over 2 times oversubscribed they managed to raise £28m. Half of the proceeds were used to clear the companies £14m debt and the rest will be partially used to fund their expansion into the US market. **Induction Healthcare (+3%)** plans to use the £17m raised from its IPO in late May to fund new features and functionality for its healthcare app and to expand into new and selected geographies as their product becomes more and more popular within NHS teams and hospitals.

> **“Some racy valuations”**

Last year’s UK tech IPO’s were a mixed affair. **Integrafin** (investment platform) was by far the best for investors who have seen the share price double since the float. At the other end of the scale **Funding Circle** (SME lender) has fallen 75% since their IPO. Their initial valuation looked a tad toppy at £1.5bn, but also demand for SME loans has slowed with all the uncertainty around Brexit and rather than increase risk management have reduced growth targets. Elsewhere, Prague-headquartered cybersecurity company **Avast Software** has had a very solid start despite having a CEO that accepted a salary of just $1 a year its shares have risen a third and are valued at over £3bn. **Codemasters** is a video game developer specialising in racing games and trading at 4x trailing revenues, the valuation is no longer all that very racy. **Mind Gym** the behavioural science business has also had a tough start. It had benefitted from the #MeToo movement but unfortunately, the shares are not behaving.

HIGHEST VALUATIONS (2018-19)

$m	PURCHASER	TARGET	EV/rev (x)
7,500	Microsoft	GitHub	25.0
6,600	salesforce	MuleSoft	22.3
2,350	Cisco	DUO	21.3
8,000	SAP	qualtrics	20.0
2,200	PayPal	iZettle	19.8
21,700	Dell	vmware	15.1
1,550	workday	Adaptive Insights	15.0
4,750	Adobe	Marketo	14.8
16,308	salesforce	tableau	13.7
1,833	twilio	SendGrid	13.4
1,680	Adobe	Magento	11.2
43,374	FIS	worldpay	11.1
34,000	IBM	redhat	10.7
6,360	Blackstone	SCOUT 24	10.3
2,425	SAP	CallidusCloud	9.6
10,822	PE Consortium	Ultimate Software	9.5
5,822	Dassault Systemes	medidata	8.8

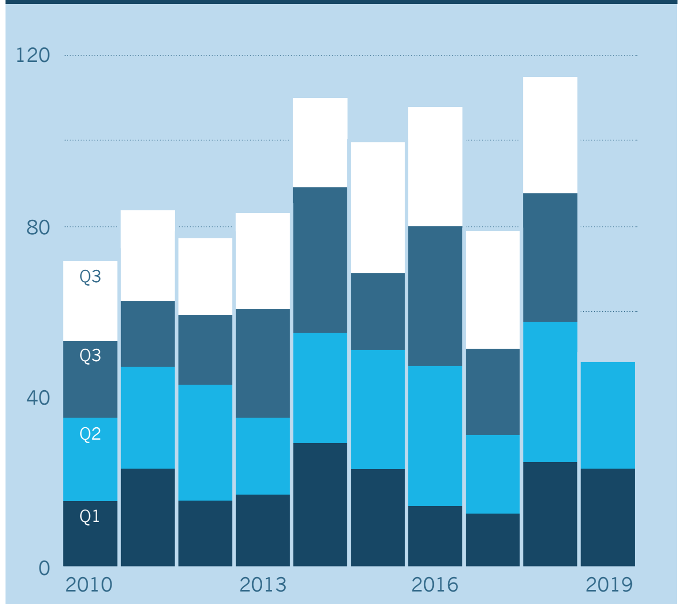
US TECHNOLOGY M&A

The stand out valuation since the start of last year was **Microsoft**'s acquisition of open source development platform **GitHub** for $7.5bn which was valued at a third of that just 3 years ago. The interesting thing is that they paid for it in Microsoft shares. The acquisition is Microsoft's largest since the purchase two years ago of LinkedIn for $26.2bn. Microsoft has become the top contributor to GitHub which hosts some 85 million code repositories and is used by over 28 million developers. Its users include Apple, Amazon and Google. When you have $140bn in the bank it is a little puzzling why you would pay for the deal in shares though. Part of the answer may be in the fact that Microsoft shares have been so strong. The other part may be the valuation which was an astonishing 25x revenues.

> **Microsoft paid 25x revenues!**

Salesforce paid over $16bn for **Tableau Software**, which makes data analytics software, in an all-share deal. Its biggest deal to date. So, this is a merger really, and given the stratospheric valuation of over 13x revenues then that makes sense. Tableau, which was born on the campus of Stanford University, allows organisations to visualise big data in chart or map form without writing any code. Tableau last year reported a loss of $77m on sales of nearly $1.2bn. "Tableau helps people see and understand data, and Salesforce helps people engage and understand customers," said Marc Benioff, the co-chief executive of Salesforce. Salesforce has certainly cranked up the deals recently having paid over $6bn for **Mulesoft**, a data integration platform last year which will help customers connect multiple sources of data. MuleSoft only went public in 2017 so had a very short public life. At 22x revenues the price is stratospheric and was the largest deal done by Salesforce.

GLOBAL TECH M&A DEALS OVER $1BN (No.)



IBM acquired Linux provider **Red Hat** for $34bn in one of the largest ever deals. At 11x revenues it is another very expensive acquisition. Red Hat is growing at 20% pa and has a leading market position but that seems to be more than reflected in the price. Red Hat was founded in 1993 and has built a multi-national firm based on providing enterprise services around open source software and is best known for its Linux server operating system. It has collaborated with IBM for the past 20 years, including developing Linux for the enterprise and more recently, on hybrid cloud infrastructure which would seem to be the key attraction for IBM. The deal strategically pits IBM against Amazon Web Services and Microsoft Azure, which use proprietary platforms in their public cloud operations.

The payments space is consolidating faster than any other sector. Of note are the acquisition of **Worldpay** by **FNIS** for £43bn or 11x revenues, **Fiserv** acquiring **First Data** for $41.2bn or 5x revenues and **Global Payments** acquiring **Total Systems Services** for $26.2bn or 6.4x revenues. Although arguably the biggest news in the payments space might be the potential threat of **Facebook**'s new cryptocurrency, Libra, which has certainly renewed interest in bitcoin, which has jumped since the announced plan.

“Salesforce IBM and SAP dig deep”

SAP, the German enterprise software giant, are really cranking up the acquisitions. They acquired **Qualtrics** at the end of last year for $8bn cash (just behind $8.3bn paid for Concur in 2014). At 20x current year revenues on the face of it, it is a very expensive looking deal. Part of the reason is Qualtrics' was nearing a planned IPO, so a premium would be expected but the $8bn compares with $2.5bn valuation in 2017 (when it raised its last round of funding) and the IPO valuation of $4bn. To get value from that sort of purchase price SAP is going to have to extract a lot of synergies. Earlier in 2018 SAP acquired **Callidus** for $2.4bn or nearly 10x revenues. Callidus provides configure/price/quote (CPQ) and sales performance management tools delivered as a cloud service. The products are aimed at managing company sales teams, from initial lead, through to payment. SAP, which has traditionally handled the back-office of some the biggest companies in the world, is moving further into the front-office with this deal. “The addition of CallidusCloud aligns perfectly to SAP's innovation strategy to transform the front office” said SAP CEO Bill McDermott. The CallidusCloud products will work in tandem with other front office tools SAP has acquired in recent years like Hybris, (eCommerce) and Gigya (identity management). Callidus has itself been quite acquisitive, acquiring 14 companies dating back to 2010, including 4 in 2017.

If you were wondering whether you are likely to get a higher value from a trade buyer rather than a financial buyer or an IPO, then the **iZettle** case may help. iZettle is a Swedish payments (portable credit card readers for retailers) start-up and was about to become a big $1bn IPO but instead was sold to **PayPal** for $2.2bn. Yes, double that amount, paying 13x revenues.

Adobe acquired **Magento Commerce** for $1.7bn in another staggering valuation paying 11x revenues. The purchase gives Adobe a missing e-commerce platform piece that works in B2B and B2C contexts and should fit nicely in the company's Experience Cloud. This isn't the first time the company has been acquired. Magento was founded in 2008 and purchased by eBay in 2011 for $180m. The company went private again in 2015 with help from Permira Funds, which sources say paid around $200m. They have just made a fantastic return on that investment. Adobe also acquired marketing automation specialist (and similar sounding) **Marketo** for $4.75bn which is a staggering valuation of nearly 15x revenues. Vista Equity were not complaining as they made a profit of nearly $3bn on their investment in just 2 years. Great marketing.

Workday which focuses on HR apps has acquired **Adaptive Insights** for $1.5bn in another high valuation deal. It equates to 10x revenues for the business planning and financial modelling cloud software. Adaptive Insights filed for an IPO in 2017, and so is yet another example of higher price from a trade sale. Adaptive had revenues of $100m but was losing $40m, the key to valuation is the growth which at 30% is obviously a decent clip.

Other deals from over the pond that caught our eye include:

- **HPE** agreed to purchase **Cray** – the Seattle-based supercomputer specialist in May for $1.3bn. More than 25% of the world's 100 most powerful super-computers are made by Cray.
- **Google** acquired business intelligence and analytics software company **Looker** for $2.6bn.
- **Uber** is acquiring Middle Eastern ride-hailing competitor **Careem** for $3.1bn just prior to its IPO. Uber will acquire all of Careem's mobility, delivery and payments businesses across the greater Middle East region.
- Data analytics and BI software vendor **Qlik** acquired **Attunity** for $560m. Qlik is a Change Data Capture (CDC) specialist will help boost its big data management capabilities.
- It would seem **Broadcom** are about to buy **Symantec** in another strange move for the semi-conductor group that acquired CA Technologies last year. Cheap legacy software seems to be the attraction. It will get Symantec on about 10x EBITDA.

“Ice cream on a sunny day”

Finally, **McDonald's** (yes, the burger people) has moved into the field of AI following a $300m deal to acquire **Dynamic Yield** a machine learning company. The plan is to improve the drive-thru experience for customers by providing automatically personalised menus. For example, on a sunny day, Dynamic Yield's systems could recommend that customers buy a McFlurry.

US IPOs

One of the main reasons that IPO volumes remain so low is that alternative valuations are simply more attractive, be it trade sales or PE backed buyouts. That is one of the reasons there only half the number of listed companies in the US compared with 20 years ago. There remains a wall of private equity cash that the industry has raised from investors that is still looking for a home; it is estimated to be over $2tn. With firepower like that the IPO will continue to face stiff competition. As a result, IPOs tend to be very large unicorn type companies with eye watering valuations, often with a PE investor exiting or smaller quite immature businesses that don't really seem to belong in the bright lights of the public markets.

> **"Uber gives IPO market a Lyft!"**

MAJOR US IPOS IN 2019

CROWDSTRIKE	$700m raised
SLACK	$0 raised
FASTLY	$180m raised
UBER	$8,100m raised
PINTEREST	$1,400m raised
TRADEWEB MARKET	$1,100m raised
LYFT	$2,300m raised
PIVOTAL	$230m raised

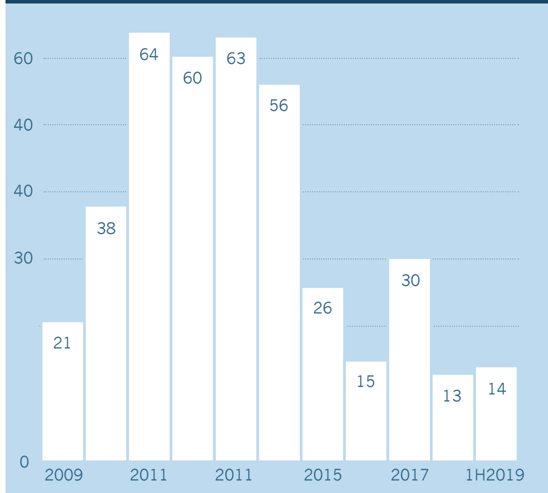
2019 has been another big year for US tech IPO's with some eye-popping valuations. It is very much a high growth / high valuation market. After ride sharing company **Lyft** was floated with a lofty $24bn valuation, **Uber** was valued at a similarly ambitious looking $82bn, however not quite the $120bn many where expecting. But while Lyft was clearly over valued and has seen their shares drop 16%, Uber has fared better currently trading around the IPO price. Both firms saw their revenue jump in 2018 (Lyft 100%, Uber 43%) but continue to make a loss (Lyft $911bn, Uber $1.8bn). Only time will tell if investors are being taken for a ride!

> **"Are investors being taken for a ride?"**

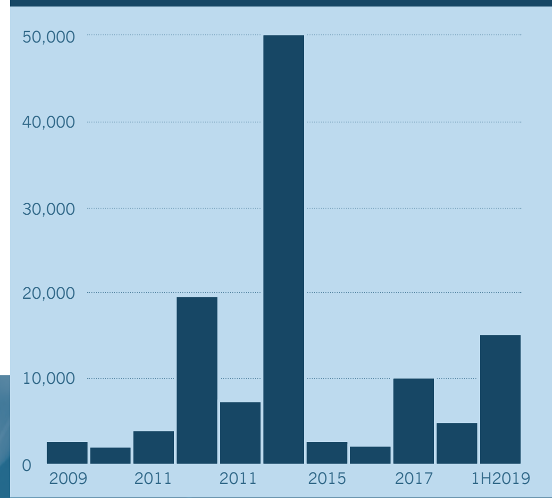
Other US tech firms with strong revenue growth that listed in 2019, include **Zoom** (video conferencing software), **Slack** (workplace collaboration chat) and **Pinterest** (social media). Investors in these 3 will be happy with their decisions as Zoom is trading +136% and Slack was valued at 3x its recent private fund raising yet didn't even raise any new capital on IPO. There is a common theme amongst this year's new listings – Zoom was the only one to post a profit in 2018 ($7.6m), the rest had a combined loss of $2.8b. The rest of 2019 is expected to bring some more big newcomers with **Airbnb** and **Palantir Technologies** both expected to be valued around the $30bn mark. At least Airbnb made some money (albeit only $93m). Profits seem optional at the moment in the US IPO market.

This is also confirmed by looking back at how US Tech IPOs in 2018 have done this year. The answer is pretty well, with 9 of the 11 main IPOs having seen their shares rise in 2019, some spectacularly. That is, despite the fact that only 2 make any profits! Revenue growth is what investors seem to want. Performance this year: Dell (+14%) (hardware and software), Spotify (+11%) (music streaming), Docusign (+80%) (document signature), DropBox (+20%) (file sharing), Pluralsight (+108%) (web development training) and ZScaler (+419%) (cybersecurity). Eventbrite (-28%) (ticketing), SolarWinds (+25%) (cyber), Sonos (-28%) (speakers), Anaplan (+211%) (FinTech), SurveyMonkey (+39%) (online surveys).

US TECHNOLOGY IPOs (No.)



AMOUNT RAISED FROM US TECH IPOs ($m)



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Note: The information and opinions in this report were prepared by ICON Corporate Finance Ltd. The data was partly provided by S&P CapIQ, plus various other sources and includes estimates, as often full financial info is not disclosed. We have endeavoured to provide accurate and timely information, but we cannot guarantee it. The brief sector overview is provided for general information purposes only and is based on deals announced in the period under review. Note EV referred above is Enterprise Value which is the value of the deal adjusted for the level of debt/cash held by the target.

ICON SELECTED M&A DEALS

silverbear	SOLD TO	Aquiline Capital Partners LLC	SECTOR Membership software
Marimatech	SOLD TO	Trelleborg	SECTOR IoT
BusinessIntegrity	SOLD TO	Thomson Reuters	SECTOR LegalTech
Cypad	SOLD TO	ParentPay	SECTOR FinTech
imx software	SOLD TO	Infinea	SECTOR FinTech
redland	SOLD TO	ideagen	SECTOR RegTech
Optimum Contact	SOLD TO	IQVIA	SECTOR HealthTech
mosaic smart data	FUNDING	J.P.Morgan, Commerz Ventures (Commerzbank Group), octopus ventures	SECTOR FinTech
clinicalcomputing	SOLD TO	QMS, Constellation Software Inc.	SECTOR HealthTech
LogBuy Benefits people	SOLD TO	Reward Gateway	SECTOR HCM
SentryBay	MBO	Thincats	SECTOR Cyber security
insurance2go	SOLD TO	spb	SECTOR InsureTech
wealthify	FUNDING	Aviva	SECTOR FinTech
pleasetech	SOLD TO	ideagen	SECTOR Collaborative Doc Mgmt
Focus Group Europe	SOLD TO	accenture	SECTOR ITSM Consulting
The Mobility House	FUNDING	Mitsui & Co., Daimler	SECTOR CleanTech
hns	SOLD TO	SysGroup	SECTOR Managed services
Applicable	SOLD TO	NTT Communications	SECTOR Unified Comms

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