



UK Technology M&A Snapshot 2022

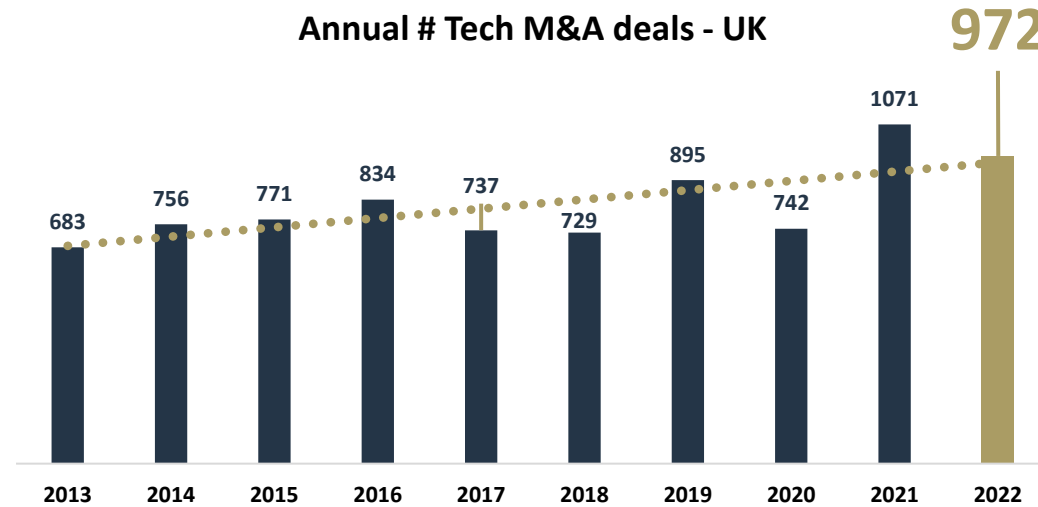
UK Deals

It will perhaps surprise many that 2022 was the second-best year ever for the number of UK Tech M&A deals.

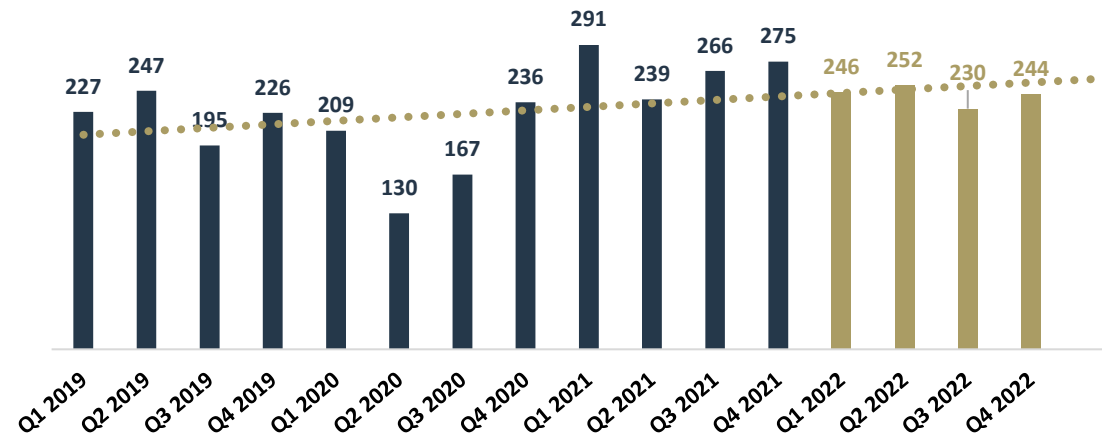
Despite the global pandemic, war in Ukraine, falling equities, the highest inflation in 40 years, supply chain gridlock and a jump in interest rates, UK Tech M&A activity was very impressive in 2022 with 972 deals announced.

Activity was remarkably resilient throughout the year, particularly in deals less than £100m. The busiest acquirers in 2022 were Access Group, Volaris, Babble and Clearcourse as private equity funded businesses continue their buy-and-build spending spree.

Annual # Tech M&A deals - UK



Quarterly # Tech M&A deals - UK

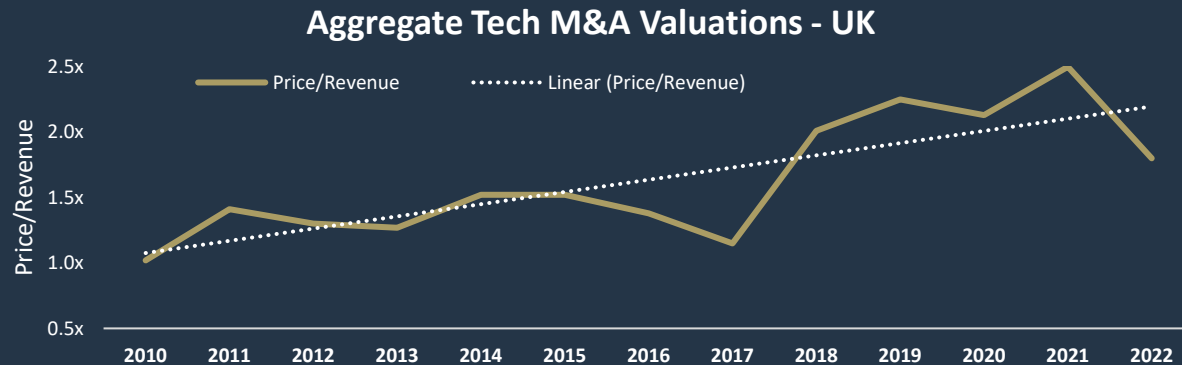


While the number of deals was down -9% compared with 2021, impressively it was actually up 9% compared with 2019 (pre-COVID).

With the global economy slowing, interest rates are expected to peak in 23 and maybe fall by year end. That is likely to be good news for valuations as 2023 progresses.

The world has been full of twists and turns in the past few years with Brexit, COVID and inflation jumping alarmingly. Even so, with strong ongoing demand for digital transformation and AI, a weak currency and plenty of PE cash, we remain positive about UK Tech M&A and ICON starts the year with a busy M&A pipeline and several deals in due diligence. But no doubt the year of the Rabbit will be full of surprises!

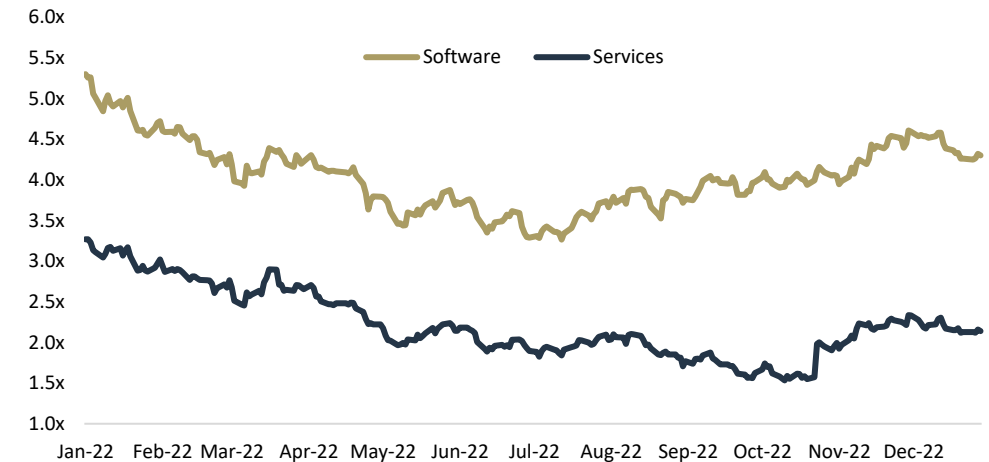
Valuations



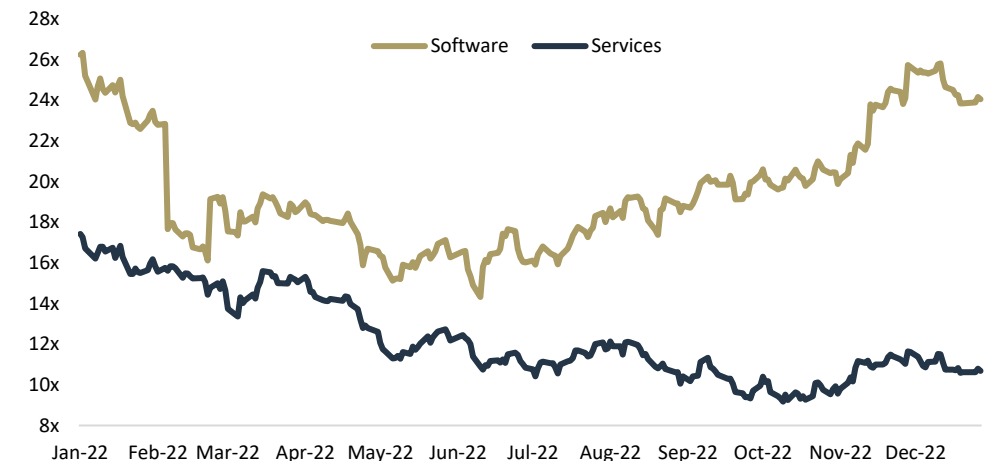
Total valuations are driven by a number of factors, including the mix of deals (growth/value), type (software/services), driver (opportunistic v need to sell), the size of deals and of course the multiples. In 2022, total values fell 25%, as:

- The total number of deals remained surprisingly buoyant, but the number of larger deals valued at more than £100m has fallen as investors are more risk averse
- Buyer appetite for loss-making technology companies has reduced with greater focus on EBITDA
- Change in mix of deals with some restructuring
- Higher interest rates means revenue/EBITDA multiples dropped (see charts on RHS) listed UK EV/rev multiples are now typically 4x TTM. Having said that, the multiples achieved by larger tech companies in 2022 were still impressive with 7 of the Top 10 deals valued at >5 x revenue.

EV/Revenue (TTM) UK Listed Multiples

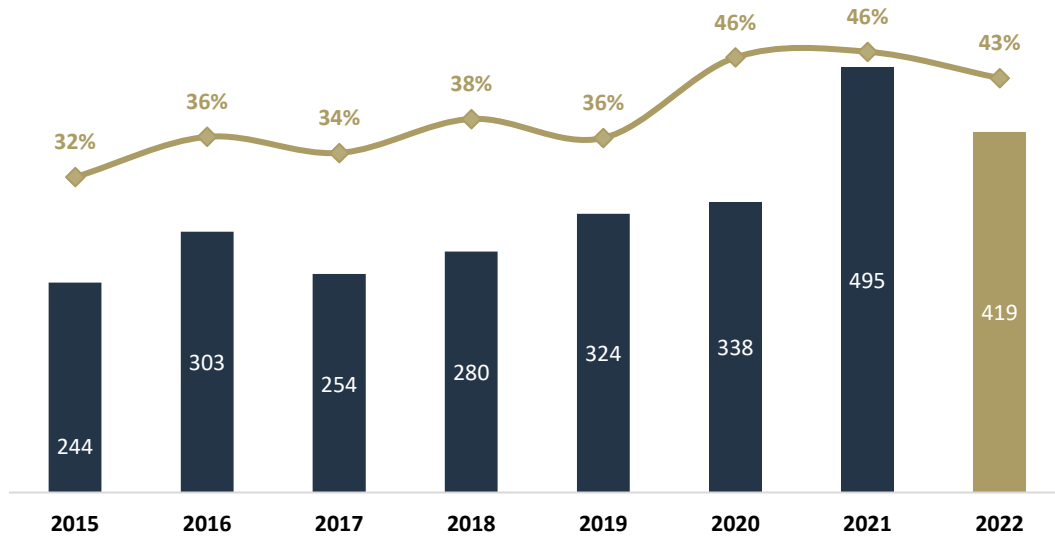


EV/EBITDA (TTM) UK Listed Multiples

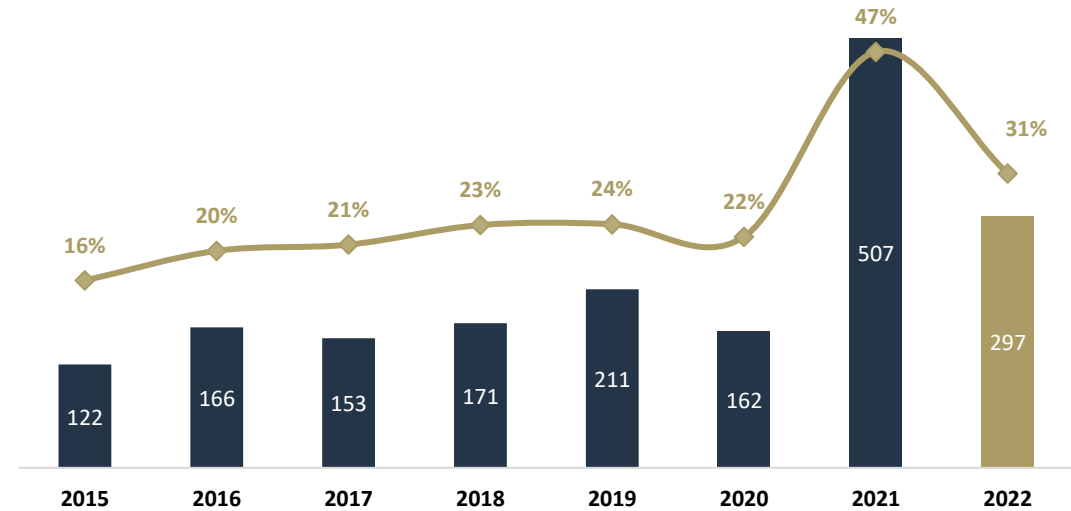


Type of Acquirers

UK Tech M&A - Overseas acquirers



UK Tech M&A - PE/VC backed acquirers



43%

Overseas
acquirers

-10%

Fall in £/\$
from 1.35 to
1.22

As the charts show, 2021 was a crazy year with a frenzy of dealmaking by foreign and PE backed acquirers. 2022 was lower, but by some distance was the second best year ever for activity. Foreign and PE-backed buyers were key - attracted by the cheap exchange rate and a huge pile of PE cash to invest.

31%

PE-backed
acquirers

+21%

PE "dry
powder"
increased to
\$2trn

2022 Dashboard

+325bp

Increase in UK
base rates to
3.5%

+425bp

Increase in US
base rates to
4.5%

-60%

Fall in Bitcoin
to £13.8k

-33%

Fall in NASDAQ

-21%

Fall in FTSE SCS

-9%

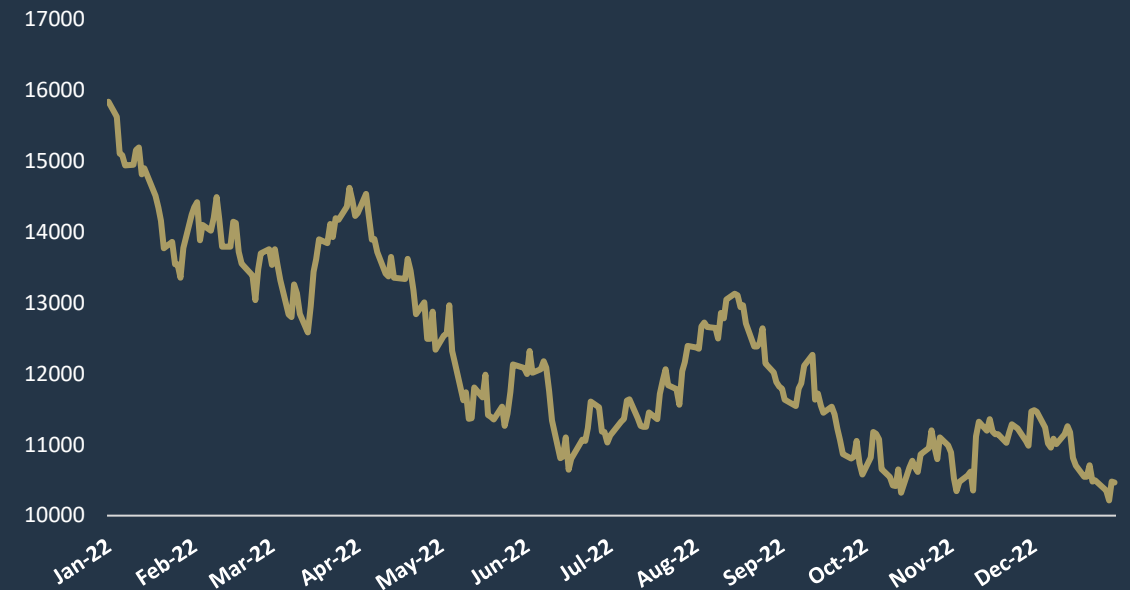
Reduction in
Tech M&A YoY

+9%

Increase in
Tech M&A
from 2019 pre-
COVID

Markets are sensitive to interest rate changes. Rising interest rates led to a fall in valuations of many risk assets from record levels in 2021. In particular, loss-making tech valuations slumped. After nearly 13 years of QE (and almost free money), interest rates have risen globally. However, equity markets steadied in the second half as interest rate expectations were lowered and in fact should peak in 2023 as economies slow and inflation falls.

NASDAQ Index falls in 1H22

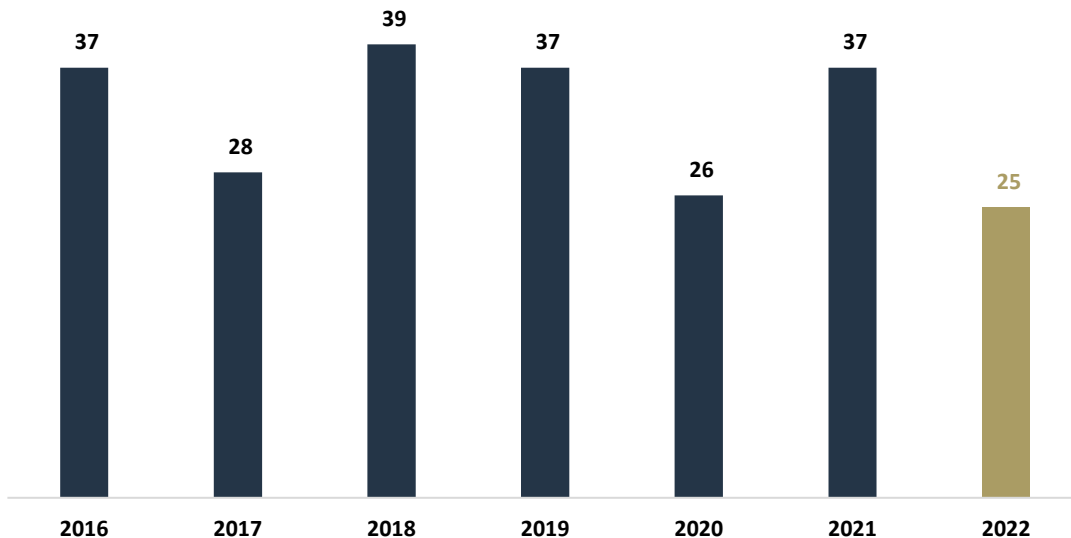


Larger UK Deals

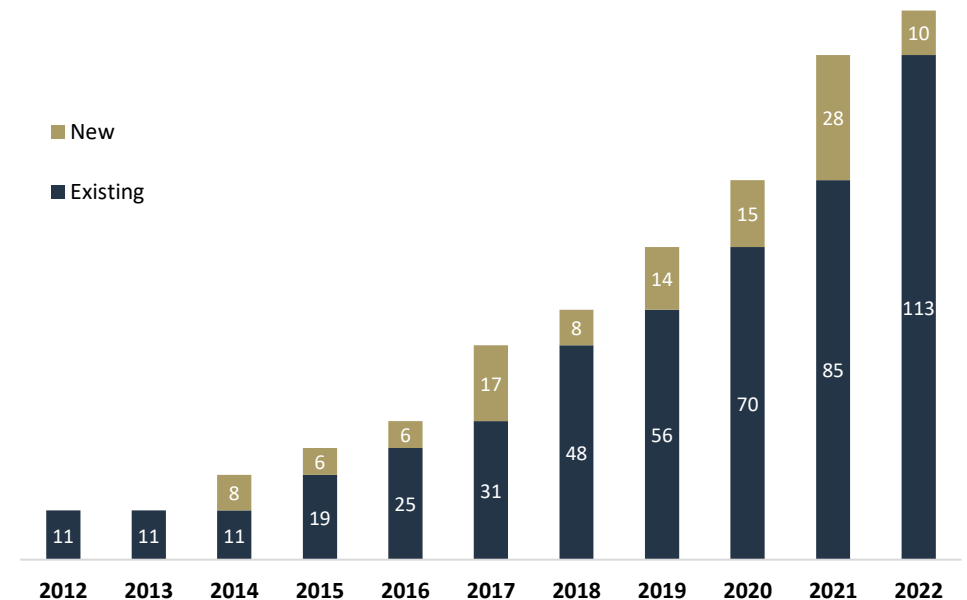
M&A - Although there were a small number of high profile UK mega deals in 2022 (Ideagen, EMIS and Aveva), there is no doubt that the number of larger deals (>£100m) has fallen as investors target an increased number of smaller/mid-cap deals instead of the very competitive larger ones. That is one of the reasons PE owners increasingly use bolt-on deals by portfolio companies to deploy capital. The result is increased competition for smaller £1-5m EBITDA deals, where we are seeing a lot of activity.

Funding - While the number of very large M&A deals has fallen the mega funding deal landscape hasn't changed as much. Clearly some of the largest private funding deals (have been/will be) re-priced downwards, yet the number of UK unicorn companies continues to increase with the addition of 10 new UK tech businesses such as Payfit, Multiverse, Spectrum, Beamery and others all joining the unicorns club. Interestingly, their main focus is dominated by Fintech and Artificial Intelligence.

UK deals >£100m



+9% growth in # UK unicorns

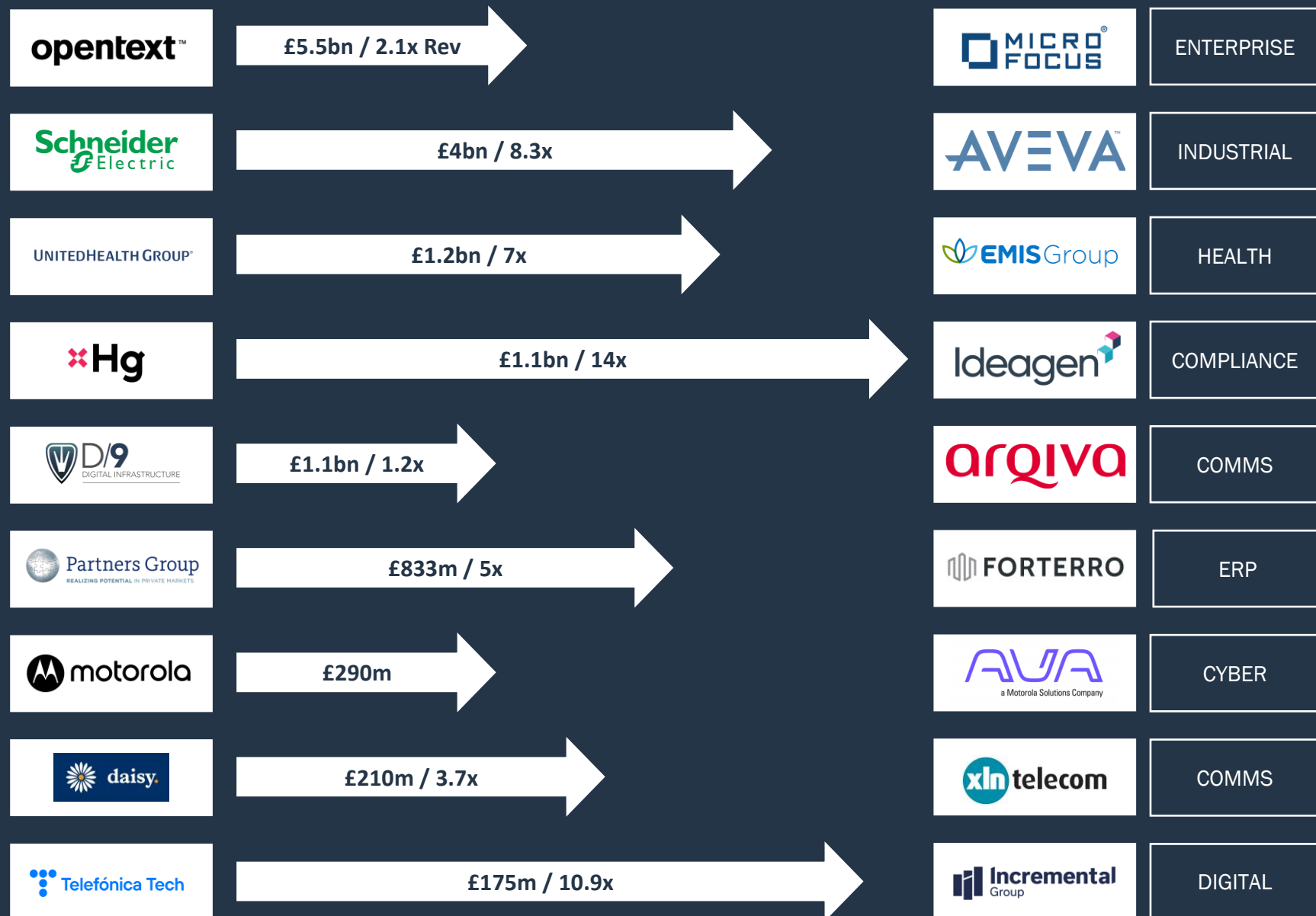


Large UK Deals

Micro Focus was founded back in the 1970s; remember COBOL? Things went swimmingly until it acquired HPE software assets (ie Autonomy) in 2017. Although the shares nearly doubled on the OpenText bid, (showing how undervalued the shares were), the shares are still 80% lower than back in 2017.

Ideagen was sold to Hg in a £1.1bn deal that valued the compliance software provider at a punchy 14x revenue. A good result for a business that only 10 years ago was valued at just £10m. Hg is awash with cash having raised the largest ever European LBO fund of \$11bn in Nov 22 – a clear indicator of investors' appetite for deals.

Aveva is another with a long history. Remember CADCentre? Schneider and Aveva merged 4 years ago in a 2 step process and are now 100% German owned.



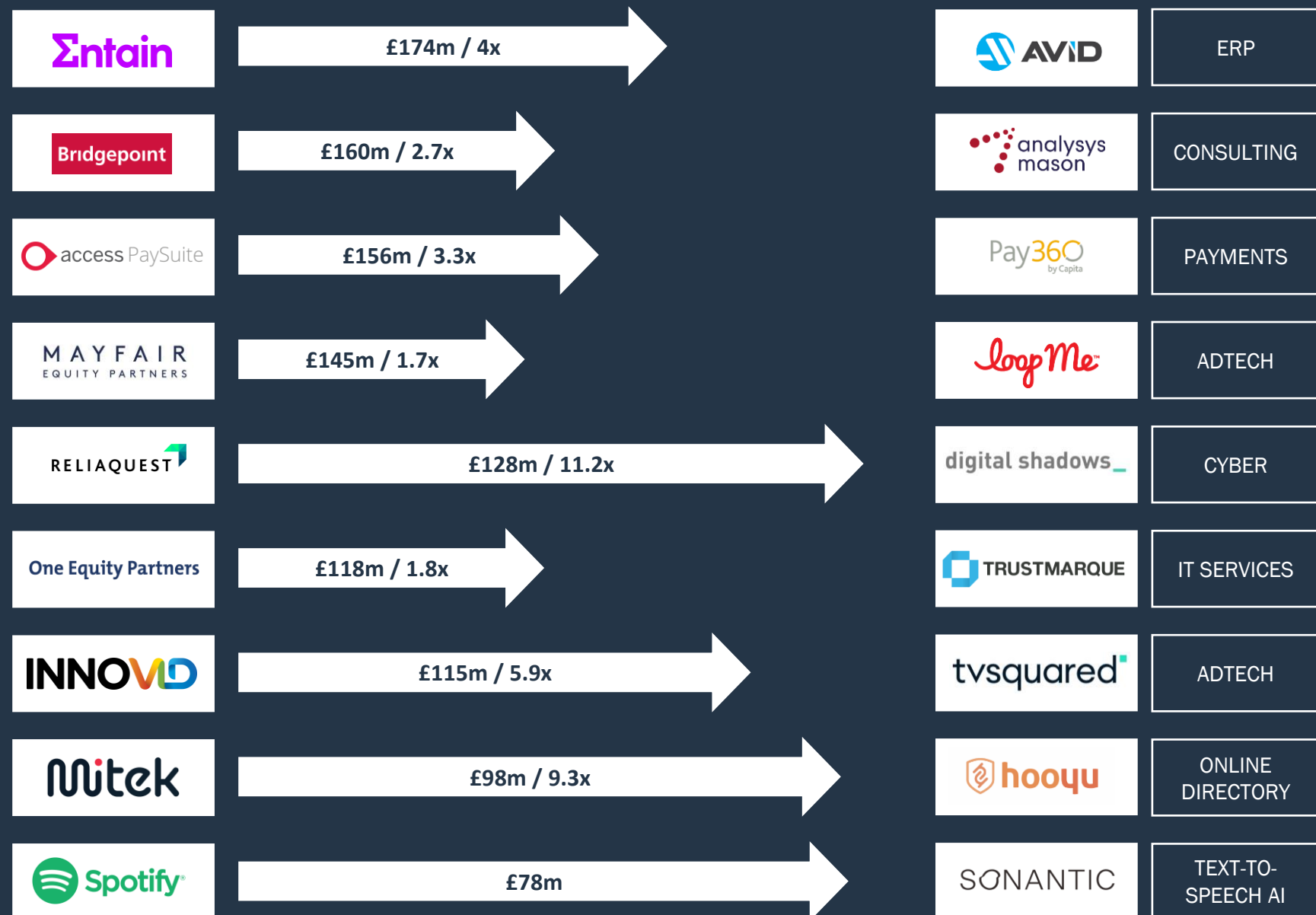
Mid UK Deals

IT services was active with Telefonica paying a big premium for Incremental and several restructurings, such as Capita (Trustmarque), part of Sungard and a division of Datatec (Analysys Mason).

Digitalisation is driving activity across most sectors. COVID accelerated cloud services, but latest numbers from Microsoft Azure, AWS and Google are still showing cloud revenue growth of 20%+. As a result, there is an ongoing shortage of skills, feeding M&A demand.

Integrity360 is a new acquirer in cyber services after investment from August Equity - it acquired \$28m revenue Caretower in 2022.

Interesting to see Spotify acquire London-based human voice-from-text AI platform Sonantic which is used in entertainment, gaming and audiobooks.



Top UK Tech Buyers



40%+

Access
Group
revenue
growth

30+

Clearcourse
deals

PE

Nearly all the
top buyers
are PE-
owned

Private equity-owned businesses have dominated the M&A league tables in the past few years. This year is no different.

At >£9bn, **Access Group** (backed by Hg/TA) is UK's most valuable software business and the numbers show why. It has grown more than 40%pa in each of the past 4 years with revenue now over £700m and 37% margins. Organic growth is 17% in FY22 and 89% of revenues are recurring. Impressive stuff. Deals are part of the reason. This year they bought COINS and Pay360 for 15x EBITDA from Capita and were the most active buyer with 20 deals.

With compound EBITDA growth of 15%, **Civica** has a solid 20 year growth record. 4 more acquisitions in 2022 bring total deal count to 30 - mainly in health and public sector. It's a similar story at **Advanced** (software), **Marlowe** (compliance) and **Iris** (accounting) where very active M&A programs continued in 22.

Having acquired 24 businesses to date, **Babble** is in a hurry and acquired another 9 in 2022 as it looks to benefit from convergence of IT and Comms. Other busy IT managed service acquirers were **m-hance**, **Version1**, **BCN**, **Content+Cloud (now Advania)** and **Codestone**.

Clearcourse (funded by Aquiline) has acquired 30 companies in 3 years and last year bought 4 more in leisure, e-commerce and health. Another with a vertical focus is **Volaris** (which is part of Constellation who amazingly has now acquired 800 companies). Volaris themselves added another 4 in UK (30 globally) bringing its own total to 150.

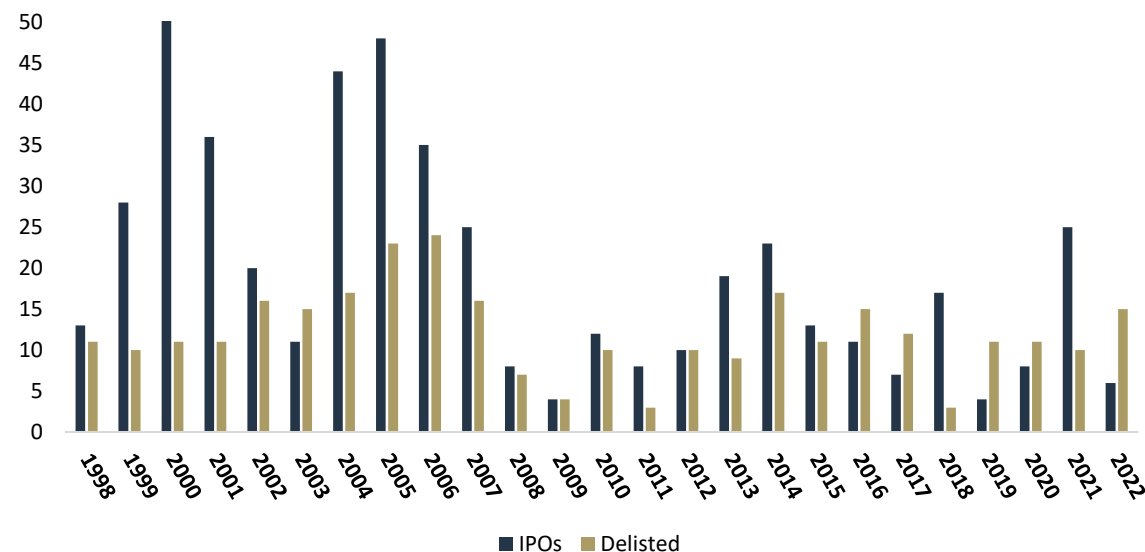
UK Listed Tech Shares

The wave of de-listings continued in 2022 with the loss of 15 companies, including majors like Micro Focus, Aveva and Ideagen. Darktrace nearly joined them too. Only 6 tiddlers listed. So, after a good year in 2021, when Deliveroo, Wise, Darktrace and Auction listed, the IPO market is essentially closed - with appetite close to a 10-year low.

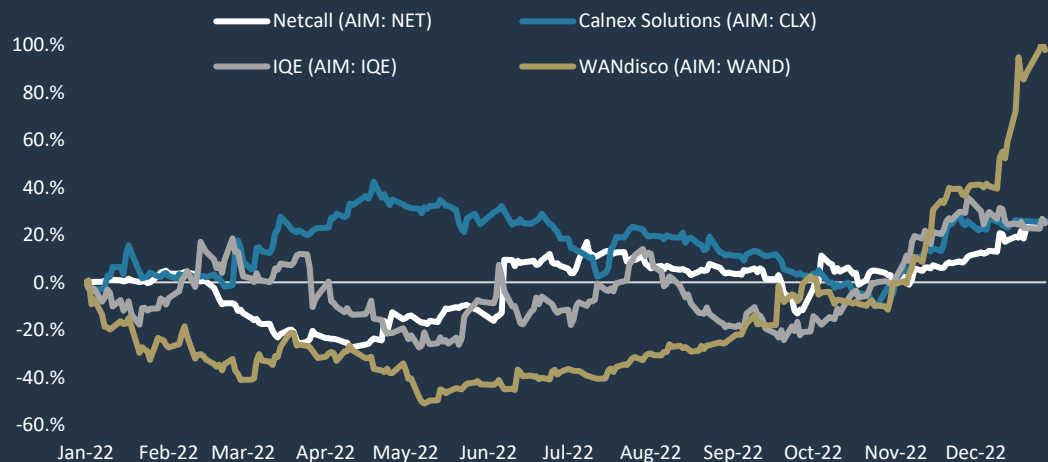
Loss-making, young, high-risk shares were hit particularly hard in 22 as investors went “risk-off”. Several, such as Actual Experience and DeepMatter were down >90% and even former rockstars like Auction Technology and GB Group fell >50%.

It wasn't all one-way traffic as WANdisco, Calnex, IQE and Netcall all made material gains - mainly in response to higher profits.

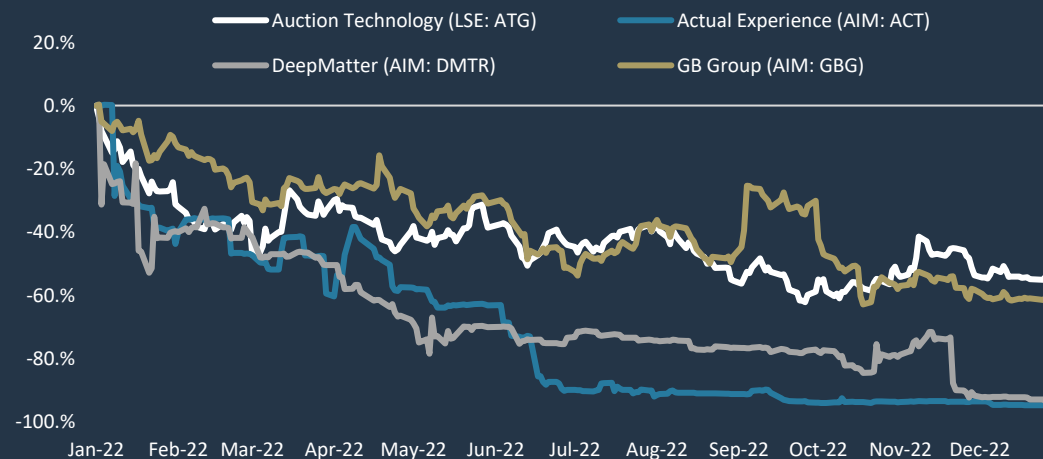
UK Tech IPOs & De-listings 1998-2022



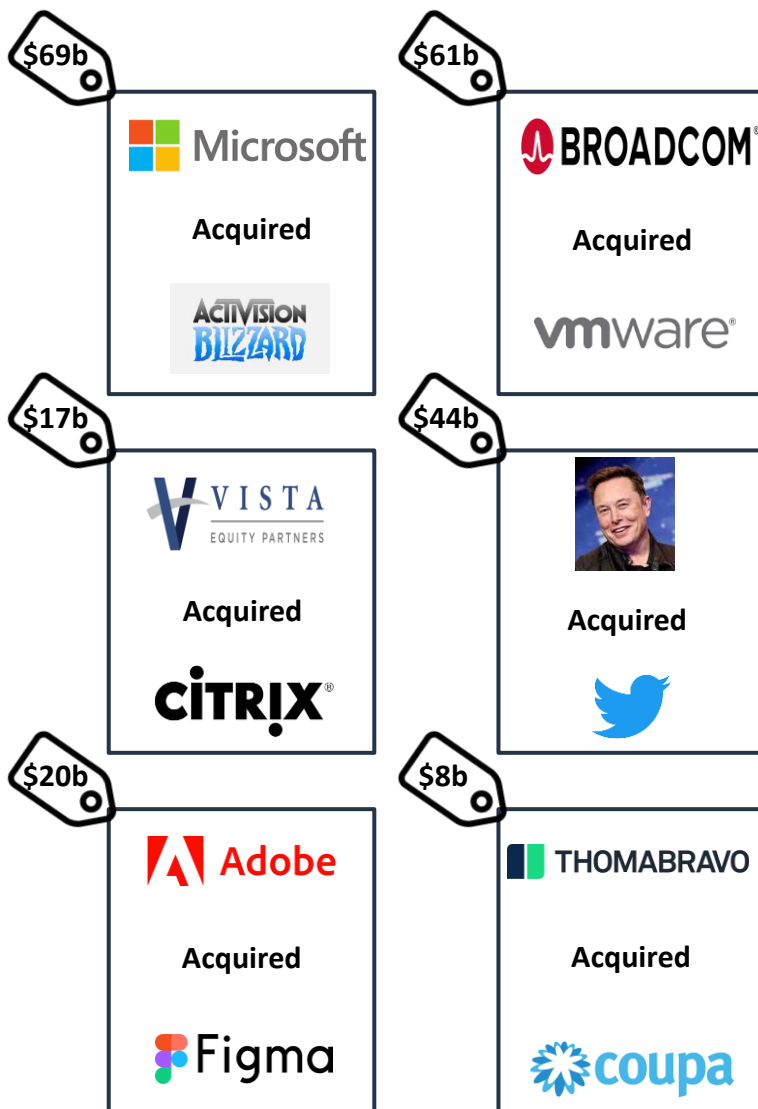
Top performing shares



Worst performing shares



US Mega Deals



Globally, the most acquisitive companies in 2022 were Valsoft, Visma, Volaris, Accenture and N Harris, each acquiring more than 10 companies. However, after the boom in 21 and with the rising cost of debt, there was definitely a slowdown in mega-deals during 22 as the increased funding cost of PE leveraged deals took effect. But there was still plenty going on:

- Microsoft announced the acquisition of **Activision Blizzard** (Call of Duty, Warcraft etc) in Jan 22 for \$69bn, or nearly 8x revenue. A major push into gaming and will apparently help its push into the Metaverse. Regulators are still having a close look.
- Broadcom acquired virtualisation specialist, **VMWare**, for \$61bn or 5x revenue. Broadcom will rebrand as VMWare as it diversifies away from semiconductors after earlier deals for CA and part of Symantec.
- Vista acquired **Citrix** for \$17bn or 5x revenue and intend to merge it with TIBCO to help accelerate digital transformation and hybrid working.
- The biggest surprise was Elon Musk's acquisition of \$44bn or nearly 9x revenue for **Twitter**. With \$13bn of bank debt, Elon is very busy trying to cut costs and generate cash.
- Figma** provides a collaborative visual design platform for creatives and could be a real game-changer for acquirer Adobe, but the \$20bn price or 50x revenues has not gone down well with Adobe, shares initially falling 30%.
- Near the end of 22, **Coupa Software** (spend management) was acquired by PE for nearly \$8bn or over 8x revenues, again showing that the market is still active in high-end mega deals, despite the rising cost of debt funding. There is still a lot of cash to be invested.

ICON Recent Deals

 MONTERRO Funded  DATA	 PSPDFKit INSIGHT PARTNERS Acquired  SOFTWARE	 Calnex Acquired  SOFTWARE	 MAVEN CAPITAL PARTNERS Funded  SOFTWARE	MOODY'S Acquired  ESG DATA
 YFM Equity Partners Funded  Relative INSIGHT SOFTWARE	 OVHcloud Acquired  ForePaaS DATA	 Canon Acquired  edale DIGITAL PRINT	 Crayon Funded  CloudDirect CLOUD SERVICES	 Syniti Funded  360 Science SOFTWARE

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