

UK Technology M&A Snapshot

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“Activity may be less frenzied, particularly from some PE-backed buyers, but we are still seeing strong M&A demand, particularly in Data & Artificial Intelligence, Digital Transformation services and Vertical software.”

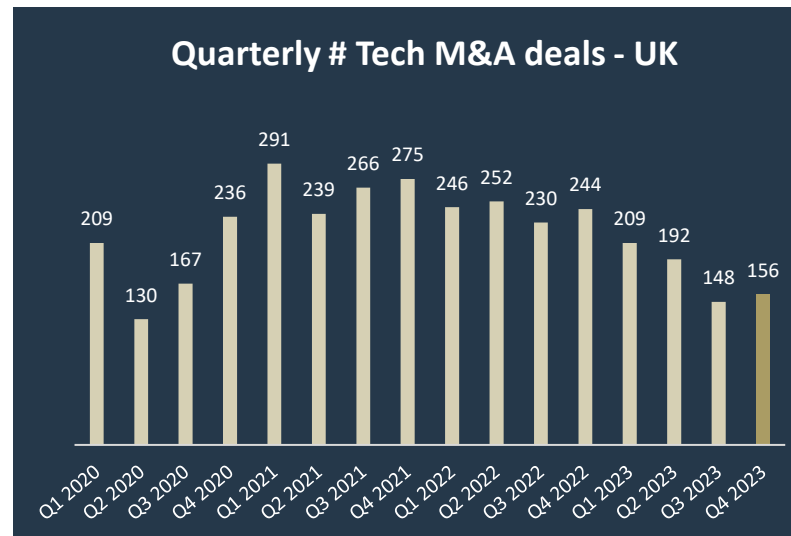
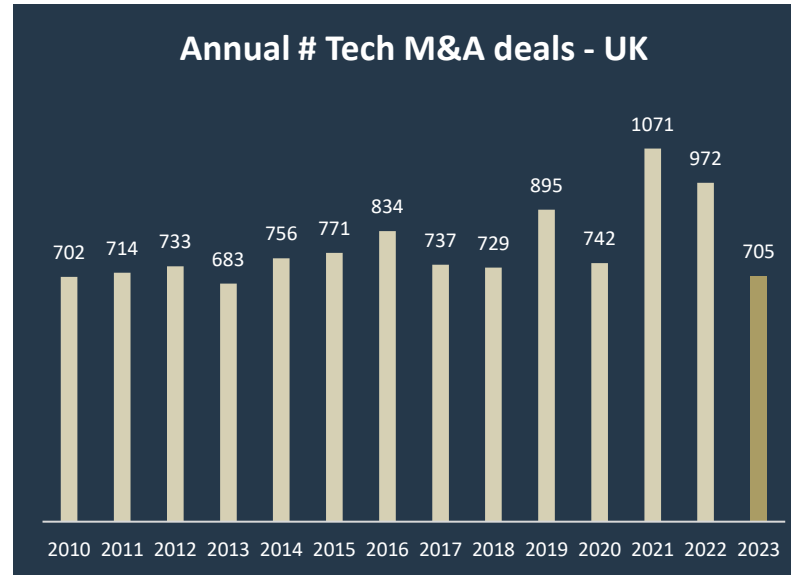


UK Deals

The Year of the Rabbit was full of surprises! Quite a few of them were negatives – mainly geo-politics. But there were also many positives, including a big tech-driven jump in the NASDAQ in 2023, which was up an amazing 43%. Crucially, a big fall in inflation means interest rates should pivot in 2024. That, and much excitement around generative AI, means Tech M&A confidence is on the rise.

The number of UK Tech M&A deals (705) was lower than the boom years of 2021/22 and down 27% YoY. However, it was similar to the average in the 10 years prior to that, despite much higher interest rates. This may be the ‘new normal’.

Some PE-backed buyers have reined in their frenzied spending of the past few years – for example **Access Group** acquired ‘only’ 4 companies (14 in 2022). However, a slowdown in buying by the likes of ClearCourse, Babble and Marlowe is partly indigestion after a feast of deals fed by cheap money.



In the last quarter of 2023, we saw exits by four of the UK’s bigger stalwart tech players (**Civica**, **IRIS**, **Tribal** and **Micro Focus**). All doing deals - just like they have done for 20+ years. Civica was sold for 4.2x revenues, quite a jump from the 1x it was floated back in 2004.

The top buyers in the UK and globally in 2023 were **Accenture** and **Valsoft** who didn’t get the memo about the M&A slowdown.

Bigger PE houses that have raised new funds (like Hg) seem well placed. Hg have certainly accelerated the pace of deals at **Ideagen** who bought 6 companies in 2023. Also of note, regular buyers like **CACI**, **Aptean** and **NTT** seem to acquire whatever the weather.

2024 is the Year of the Dragon (slightly worryingly, so was 2000!!). Prospects look good if interest rates have indeed peaked and fall in 2H24. That will certainly boost the funding environment and help with valuation, which has already ticked up in Q4. At ICON we remain busy as ever.

2023 Financial Dashboard

+175bp

Increase in UK
base rates in
2023 to 5.25%

-100bp

Forecast
decrease in UK
base rates in
2024

+4%

Rise in FTSE

+120%

Rise in the
Magnificent
Seven

+43%

Rise in
NASDAQ

+157%

Change in
Bitcoin in 2023
to \$42k

+5%

Change in
value of £ v \$
to 1.27

Equity markets around the world have done better than almost everyone expected in 2023 given the macro backdrop – recession fears, China/US relations, war in Ukraine/Palestine. A stronger than expected US economy and a big drop in inflation were key with much of the year being an arm wrestle between those that think that rates will stay ‘higher for longer’ and those that think rates will ‘pivot’ in 2024.

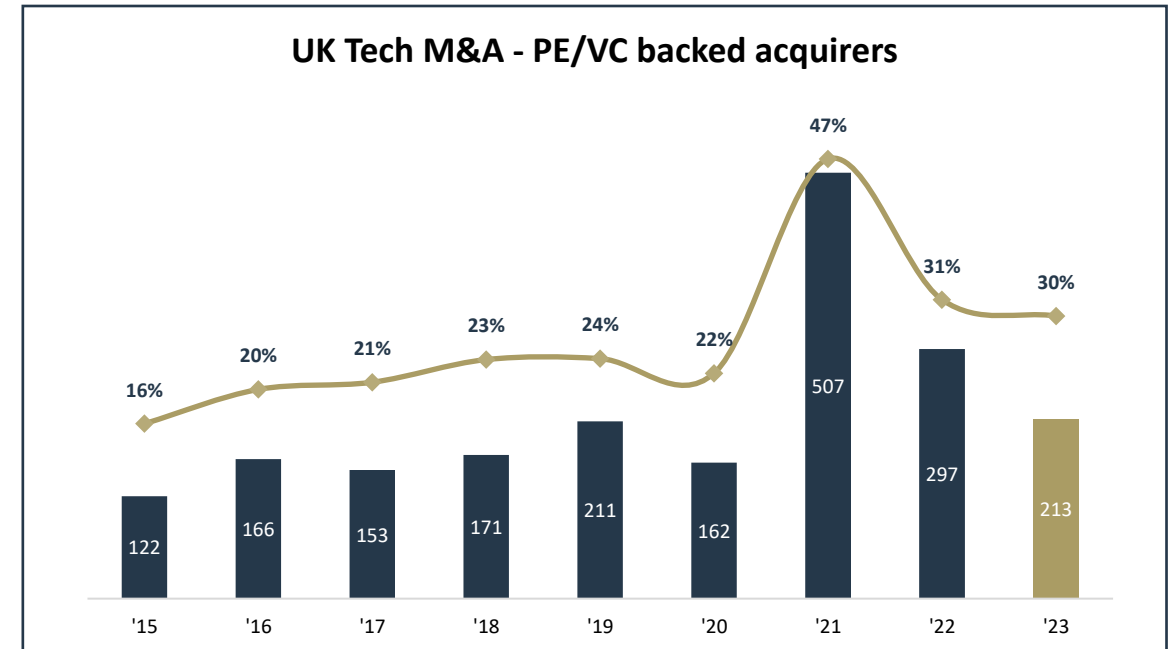
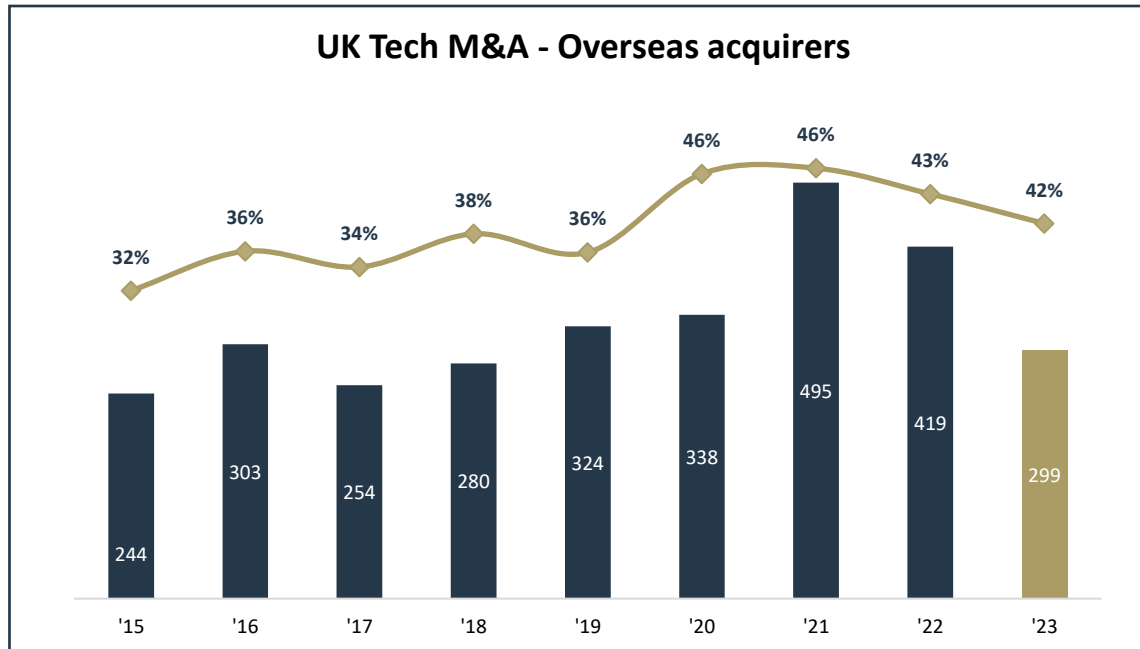
By the end of the year, the pivot team were well on top, with the bond market rallying hard and longer rates falling over 100bp in Q4. Equity and almost all other asset classes joined the party.

Lower rates is clearly good news for tech, but for much of the year The Magnificent Seven (Meta, Apple, Nvidia, Tesla, Microsoft, Amazon and Alphabet) charged ahead regardless of who was winning the arm wrestle. A combination of ongoing cloud services growth, strong US economy, defensive safety (given massive cash piles and high margins) and finally the expectation around AI, all contributed to their rise of 120%.

Crypto was actually the standout performer in 2023. It staged a huge recovery ending the year at \$42,000 as investors hope for approval of a Bitcoin ETF.

Although sterling strengthened in the year +5%, it is still seen as cheap by foreign investors that can remember the rates pre-Brexit.

Type of Acquirers



42%

Of all buyers
are overseas

-29%

Fall in
overseas
acquirers YoY

With the cost of funding having risen sharply the number of deals has fallen, particularly highly leveraged PE-backed deals in 2H of the year.

However, on reflection, it is quite impressive that given the jump in funding costs in 2023 and uncertainty, that the overall number of deals was still very similar to pre-COVID levels.

30%

Of all buyers
are PE
backed

-28%

Fall in PE
backed
acquirers YoY

UK Tech Valuations

SOFTWARE M&A

4.1x
EV/Rev

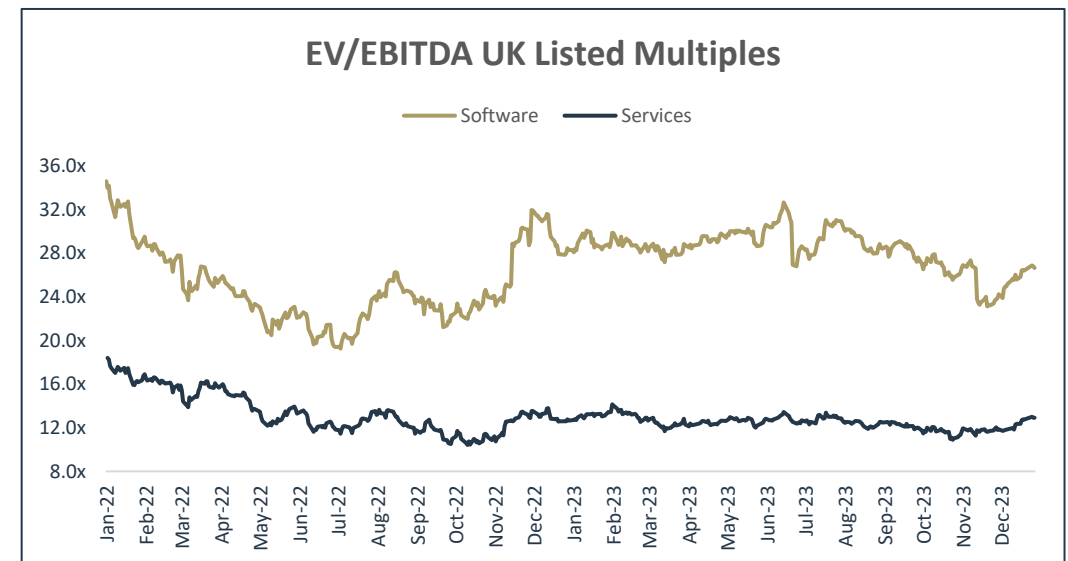
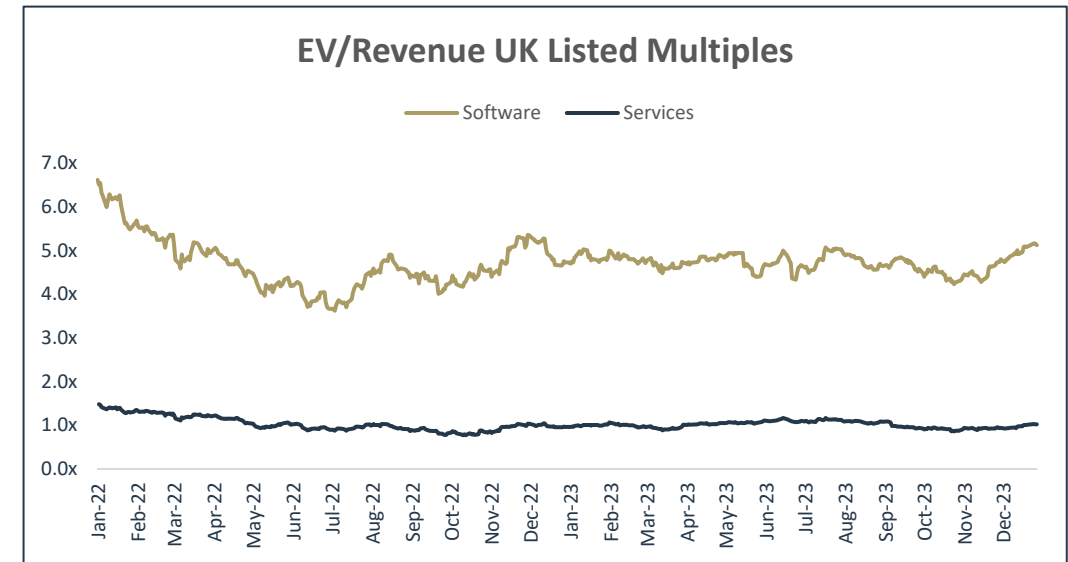
IT SERVICES M&A

1.3x
EV/Rev

After the fall in valuations in 2022, the overall valuations for both Software and Services M&A deals remained broadly at similar levels in 2023 at 4.1x and 1.3x revenues, respectively.

- The number of larger deals valued at >£100m increased slightly – bigger deals tend to have higher multiples.
- Higher value deals like IRIS (10x revs), Smartspace (4.1x), Civica (4.2x), Micro Focus (4.6x) and Commify (12x) helped balance out some lower value deals like the 5 companies sold by Capita for 1x revs and the exit of Kin+Karta at 1.2x.

Listed revenue/EBITDA multiples dropped in 1H22 but rallied strongly at the end of the 2023 with Software businesses closing at 5.1x TTM and Services at 1.0x. (See charts on RHS)



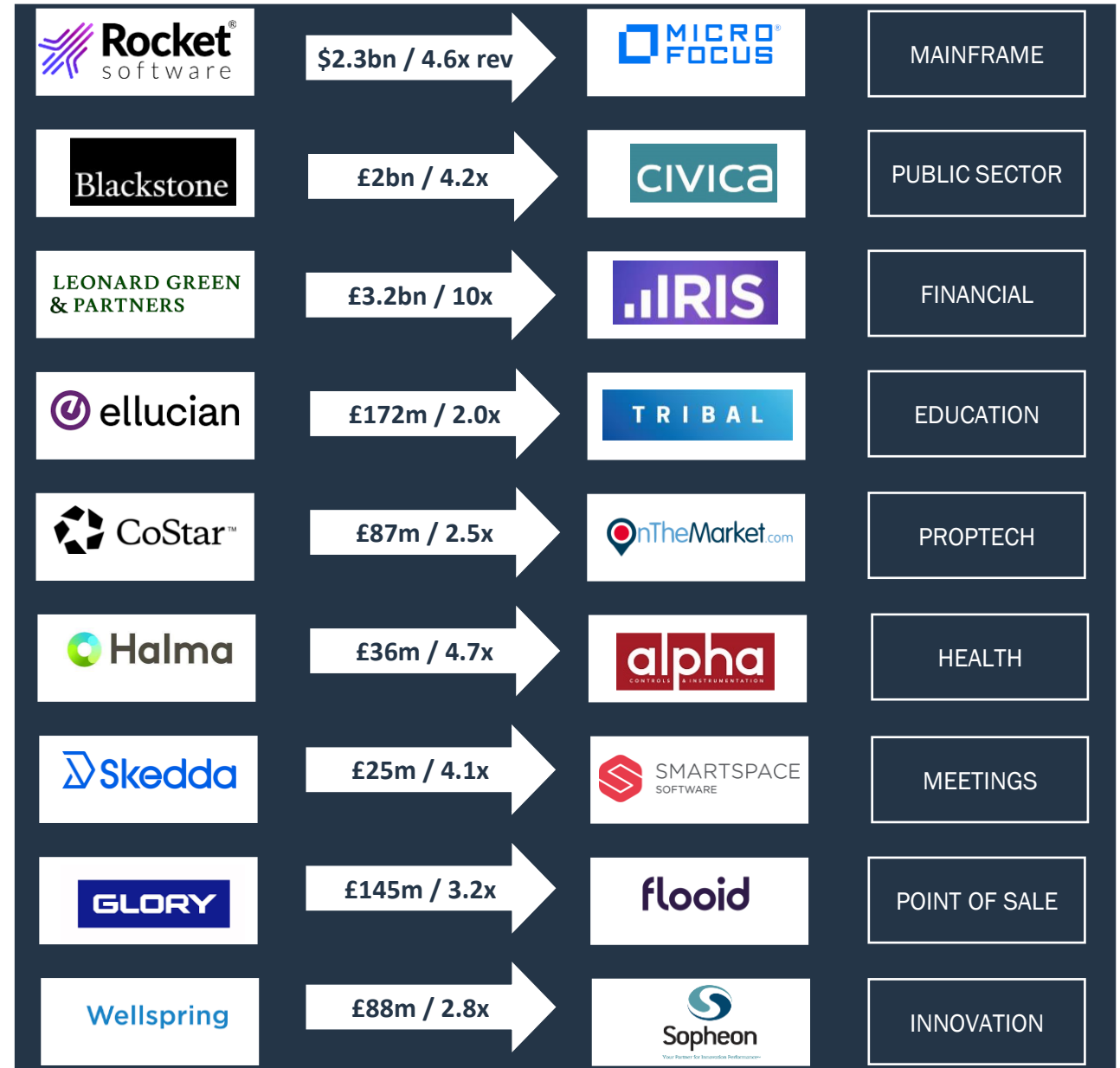
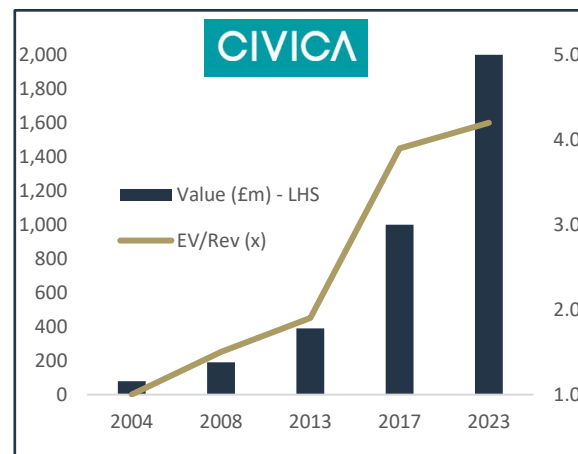
4Q23 Software

Deals in 4Q23 are dominated by four old favourites – Micro Focus, Civica, IRIS and Tribal and a mix of overseas/PE buyers:

OpenText only acquired **Micro Focus** for \$6bn in 2022 and have now sold Micro Focus mainframe division to Rocket Software for £2.3bn or 4.6x revs.

In a busy year for Hg, they sold down their interest in **IRIS Software** to US based Leonard Green, who valued IRIS at £3.2bn or a massive 10x revs. Hg acquired GRC software provider **Ideagen** in 2022, they have since made 8 acquisitions, mainly overseas, including Australian Damstra in November for AUS\$70m or 2.8x revs. In the other direction, two new Australian buyers (with Aussie sounding names) appeared in UK market, namely **Skedda** and **Pexa**.

It has been quite a journey for **Civica**, with lots of M&A - over 35 acquisitions in the past 10 years. Now Blackstone have bought it from Partners Group for £2bn or 4.2x revenues, quite an uplift from its IPO value of 1x revs back in 2004!



4Q23 IT services

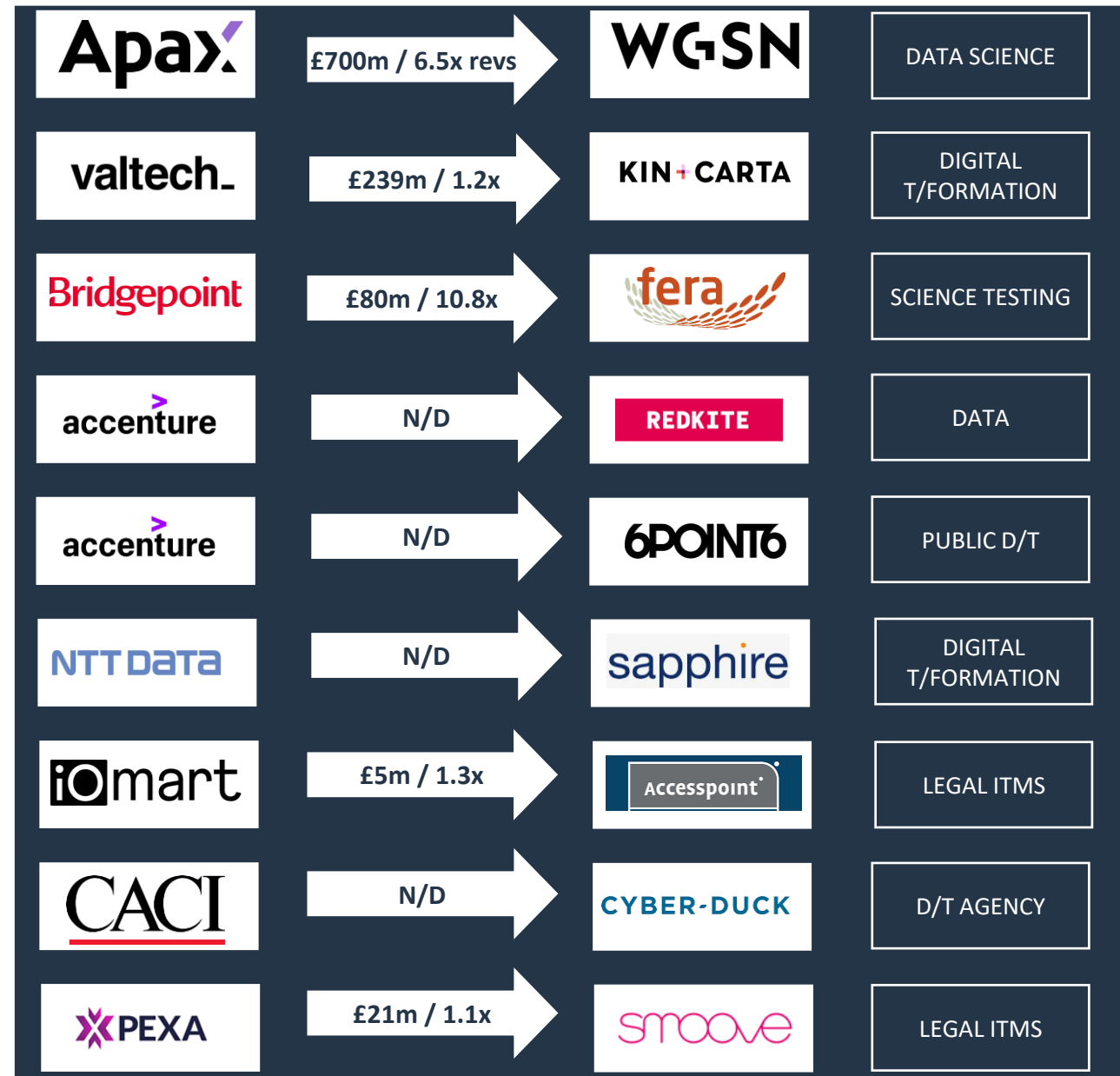
Digital transformation has been driving M&A activity in the services sector for a few years now and continues to be key. Cloud services growth from the likes of Microsoft Azure, AWS and Google are still showing growth of 20%+. As a result, there is an ongoing shortage of skills, which is feeding M&A demand.

Accenture is the stand-out acquirer in UK IT services in 2023, having made 5 acquisitions in UK. Redkite is a data strategist, 6point6 (public sector), Concentric Life and Nautilus (both health) and Objectivity (dev ops).

Competitive tension is so valuable in a deal. That was clearly shown by listed **Kin + Carta** (previously St Ives), as **Valtech** (owned by BC Partners) outbid Apax by 14%.

CACI has been a habitual UK acquirer for over 20 years. This year they bought Cyber-Duck, which, despite its name, is not involved in IT security or waterfowl!

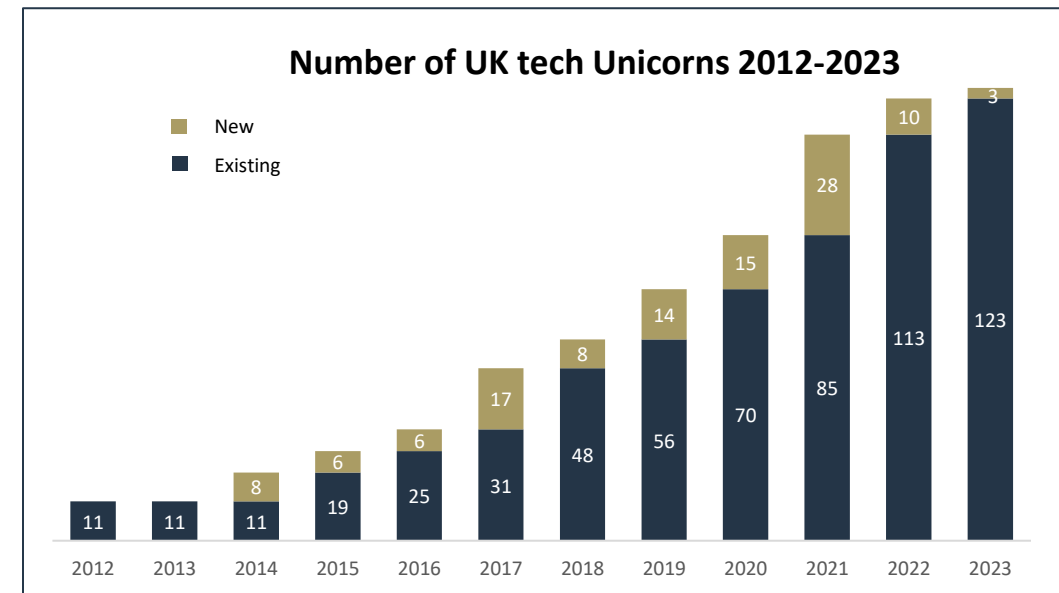
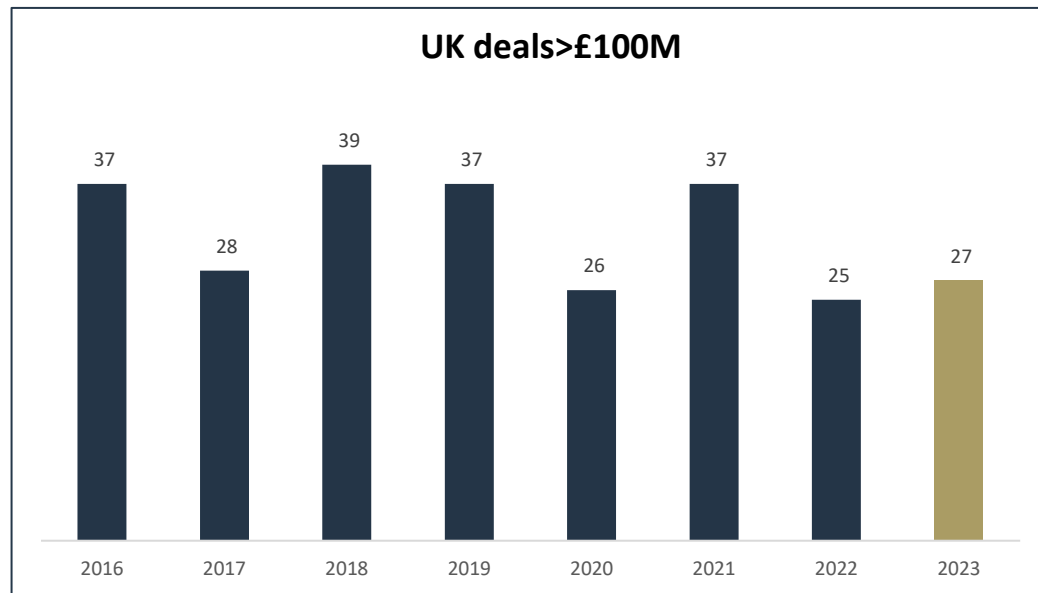
NTT Data acquired Sapphire Systems; a London-based ServiceNow / SAP focused consultancy with over 400 staff. There was a wave of services deals closing in December with **iomart**, **FluidOne**, **Datatec** and **EkCo** all buying.



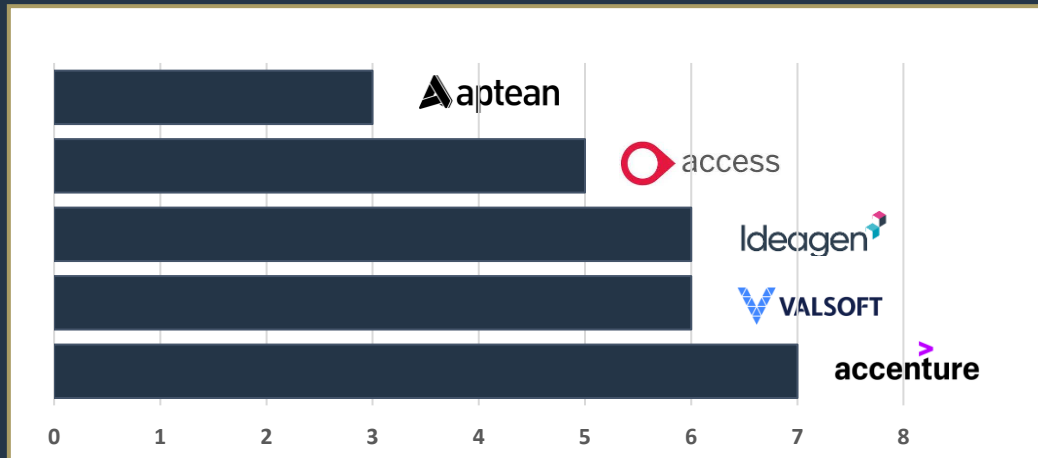
Larger UK Deals

M&A – Given the increase in funding costs, it was actually a good year for larger deals with 27 deals announced >£100m (up 2 on 2022). The year finished strongly for larger deals with the sale of **Micro Focus mainframe business, Commify, WGSN, Civica, Tribal and OnTheMarket** all in the last few months. Markets also ended the year strongly, funding costs are falling and the PE industry still has over \$2.6trn in cash to spend (up 30%). So if that continues, we would expect buyer confidence to increase through 2024.

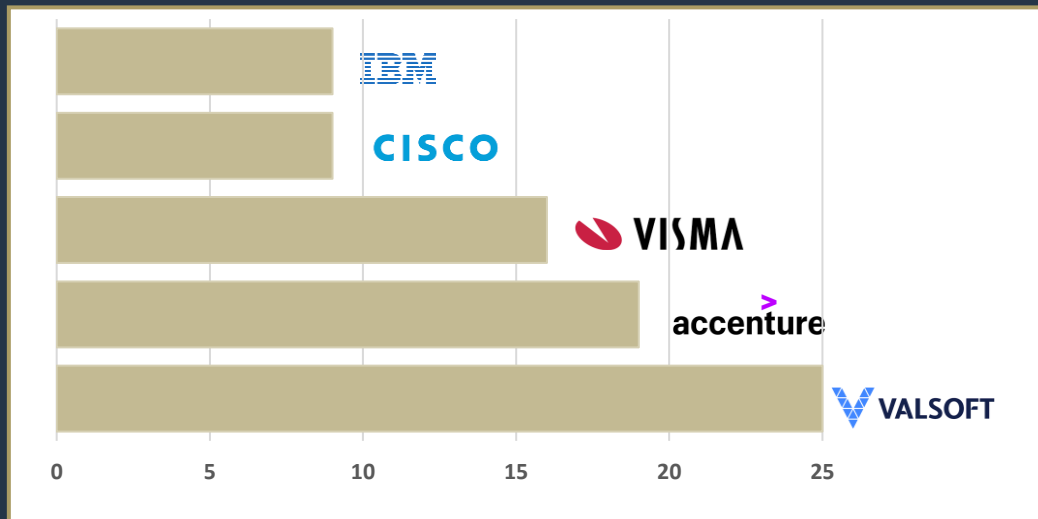
Funding – Unicorns are magical creatures and so are very rare!! Well, they certainly were in 2023. There were only 3 new Unicorns in UK - **eToro**, (FinTech company in social trading), plus **Quantexa** (data quality platform) and **Synthesia** (AI generated video content). With the IPO market dead in the water the natural exit for these exciting business is closed. The number of listed companies continues to shrink with the loss of **Sopheon, OnTheMarket, Kin+Karta, Tribal** etc in 2023. Not surprisingly, it was also a tough year for VC funding with the amount raised in the UK down >50%.



Top UK Tech Buyers



Top Global Tech Buyers



PE-owned businesses have dominated the M&A league tables in the past few years. This year is no different, although it is less frenzied.

Canadians seem to absolutely love vertically focused businesses. One of them, **Valsoft** has certainly had a very busy year being the most acquisitive Tech company globally, with over 25 deals closed, including 6 in UK. They focus on vertical software companies, covering an awful lot of verticals, (over 40) and 8 new ones added in 2023!

By far the most acquisitive tech company in the past decade has been **Accenture** with over 250 acquisitions and successfully moving itself from the analogue to the digital era. They spent over \$7bn in 2021-2. They bought 7 UK businesses in 2023 including Redkite (data consulting), 6Point6 (data connectivity) and Nautilus (Health and EPR).

In 2022, business management software provider **Access Group** was the most acquisitive tech buyer in UK with 14 deals. This year was “only” 5 deals. At >£9bn, it 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. Nice. **Visma and Ideagen** were also very busy, both are also backed by Hg, who handily raised a new \$11bn fund at end of 2022.

As highlighted in our recent Managed Services sector report, some of the heat has come out of the frenzied PE backed buy-and build in that sector. But, as we know from recent mandates, despite that there is still strong buyer interest with the likes of **BCN, FuidOne, Flotek, and AirIT** doing multiple deals.

UK and US Listed Tech Shares

NASDAQ was up a remarkable 44% in 2023 as investors got pretty excited about prospects of a cut in rates in 2024 and very excited about the potential impact of AI. Much of the performance was down to The Magnificent Seven companies that were up a combined 120%.

NVIDIA was undoubtedly the star, up 240%, followed by Meta. It's not all hype either, as NVIDIA revenues jumped by over 200% YoY in late 23, with its data centre chips (used in AI apps) seeing strong demand.

The others big Tech players are also doing well, boosted by AI, cloud services and their huge "economic moats".

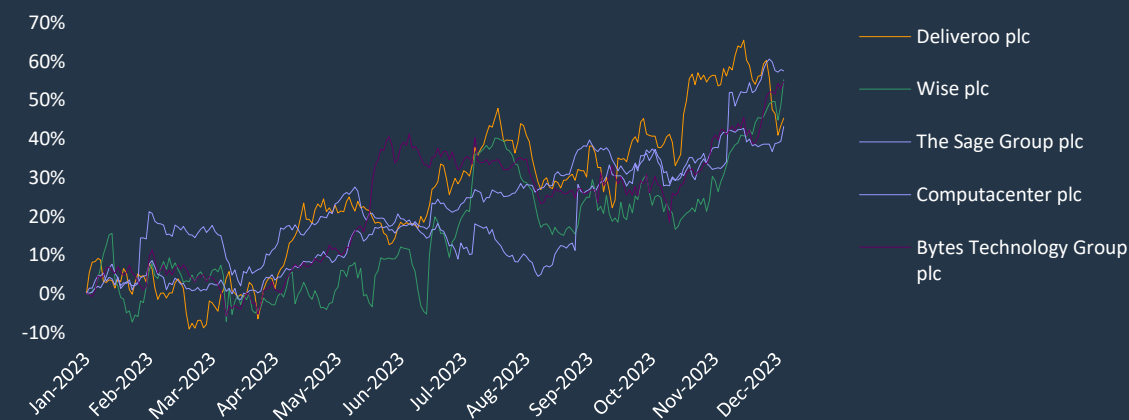
Magnificent Seven US stocks v Nasdaq



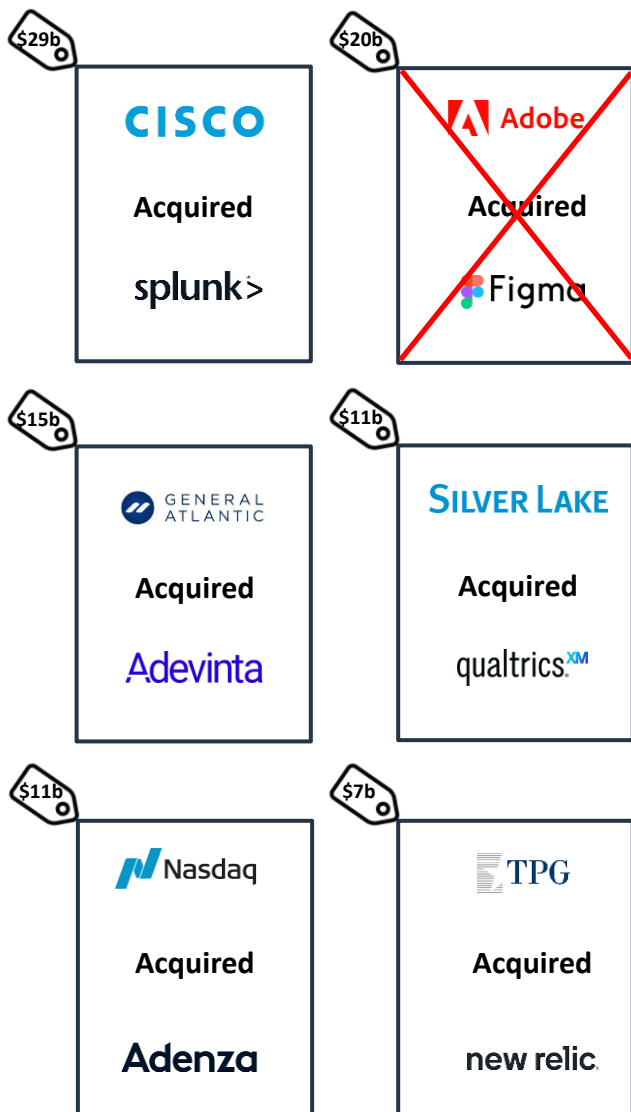
Most UK indices made little real headway in 2023, despite a really strong finish. However, despite that, there were a few tech stars: **Wise** (payments) was up >50% driven by 37% YoY growth in its cross-border transfers. **Sage Group** was also up by more than 50% due to significant growth in its profits and recurring revenue, particularly in its cloud business. The other companies who also did really well (rising over 40%) were **Deliveroo** and **Bytes Technology Group**.

With new listings at a record low, sadly many of the most exciting young British tech companies remain in private hands.

Top Performing UK Tech stocks in 2023



US Mega Deals



In 2022, there were some headline grabbing mega deals like Microsoft/Activision Blizzard. But also Broadcom/VMware and Vista/Citrix (both for 5x revenues) and Musk/Twitter for 9x revenues. Although the heat has come out of the mega deals in 2023 it was still pretty active. The death of PE following the rise in rates very much didn't happen, not yet anyway. Also, you wouldn't really guess that rates had risen significantly by looking at the valuations – it seems like almost all the mega deals achieved 7-8x revenues in 2023.

- **Cisco** acquired Splunk the big data platform for \$29bn or 7.5x revenues
- Adevinta the Norwegian listed online classified site operator was sold to PE consortium led by **General Atlantic** for \$15bn equating to 8x revenues
- Another deal at 7.5x revenues was the sale of experience management platform Qualtrics to **SilverLake** led PE consortium who paid \$11bn
- Adenza, the FinTech compliance software was acquired by **NASDAQ** for 18x revenues which is a really punchy valuation in any year, but particularly in 2023
- New Relic is a cloud-based web tracking and analytics platform that was acquired by PE consortium led by **TPG** and again valuation was 7x revenues

Other deals of note just below the top half dozen were the sale of SimCorp (FinTech) and Cvent (events) both for 7x revenues and then Blackbaud, Alteryx and SoftwareONE all bought by PE for a respectable 3-5x revenues.

In the other direction **Adobe** have pulled out of their \$20bn deal with collaboration software provider Figma due to fears about competition issues. Although Adobe had to shell out a \$1bn termination fee the shares rose as shareholders breathed a sigh of relief that they were no longer paying a ludicrous-looking 50x forward revenues for Figma.

>7x revs

5 of the largest 6 deals were at >7x revenues

ICON Recent Deals



Funded by



DataTech



Funded by



E-commerce Travel



Acquired



AI Translation



Acquired



Cloud Services



Acquired



Employee engagement platform



Acquired



Low-code AI Platform



Acquired



E-commerce DataTech



Funded



DataTech



Acquired



Testing Software



Acquired



Digital Print

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