



UK Technology M&A Snapshot

3Q20

ICON

GLOBAL TECH BANKING

Highlights

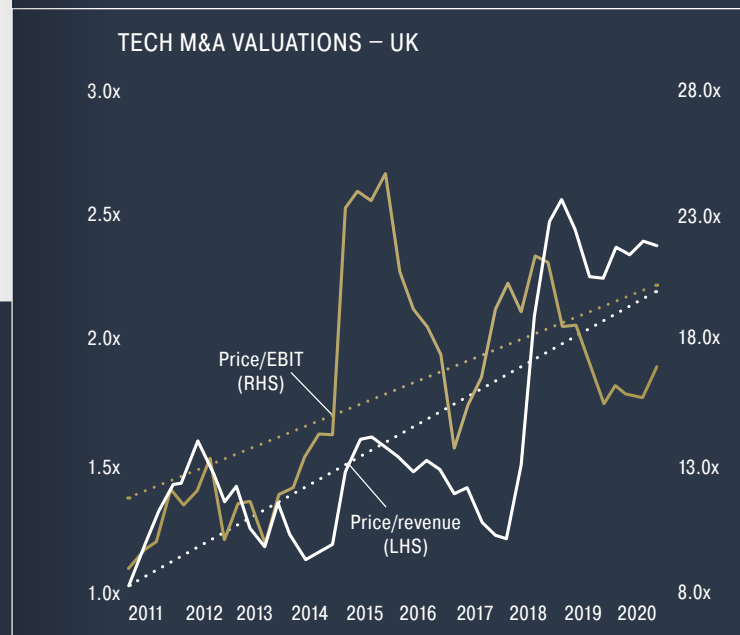
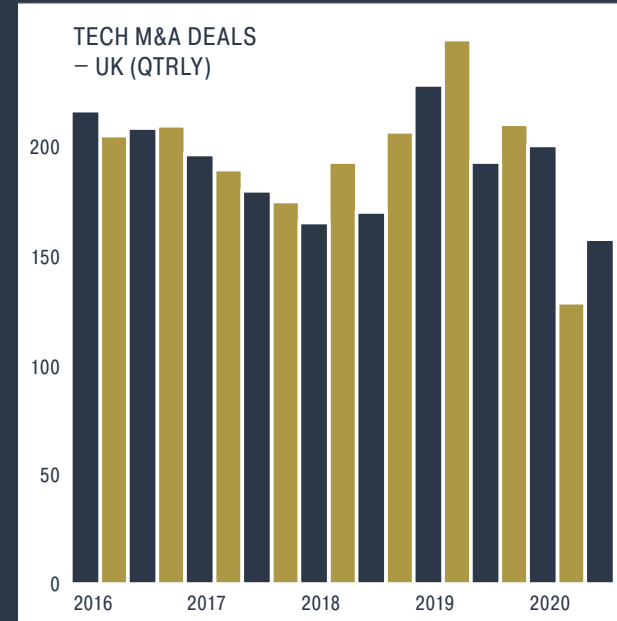
- As a result of COVID-19, interest rates are set to remain low for longer. This has created a wave of cheap money and fuelled a strong equity market rebound this year with NASDAQ currently near all time highs.
- Rising confidence from trade buyers and a lot of cash sitting in PE funds has driven a strong rebound in UK Technology M&A activity in Q3 with 154 deals announced (up 20% on Q2). So levels are only 17% lower than normal in UK, despite buyers and sellers only meeting on Teams/Zoom and deals being completed digitally. The main purpose of the Update is to highlight some interesting tech M&A deals that closed in Q3.
- PE funded groups also remain very busy with Q3 deals closing at ClearCourse, Access Group, Arrow, Babble, Juniper Education, OneCom as well as listed groups such as Ideagen, Qinetiq, RWS, Aveva, RELX and BAE Systems.

“It’s business as usual (nearly)”

- In Q3 the active sectors in UK were Legal, Property, Defence, Digital Transformation and Cloud Services. There was also some very attractive valuations paid at 10x revenues for several data related software businesses.

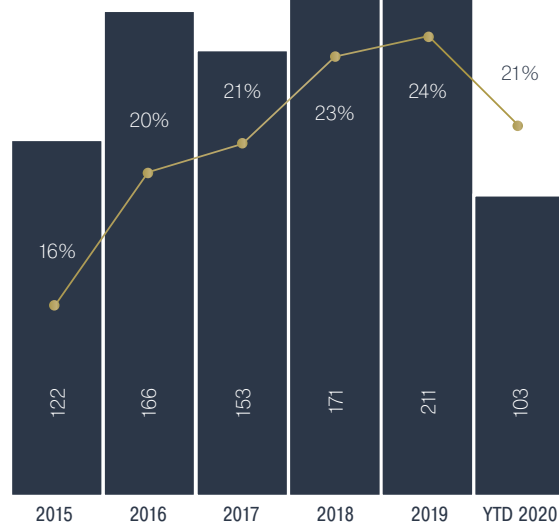
“In Q3 UK tech deals UP 20% on Q2”

- Overseas buyers are key in UK, accounting for a record 48% of deals so far in 2020. Notable buyers in Q3 include: Cognizant, Deloitte, Thomson Reuters, MRI Software, Engie, Aptean, BMC, and of course Nvidia’s acquisition of ARM.



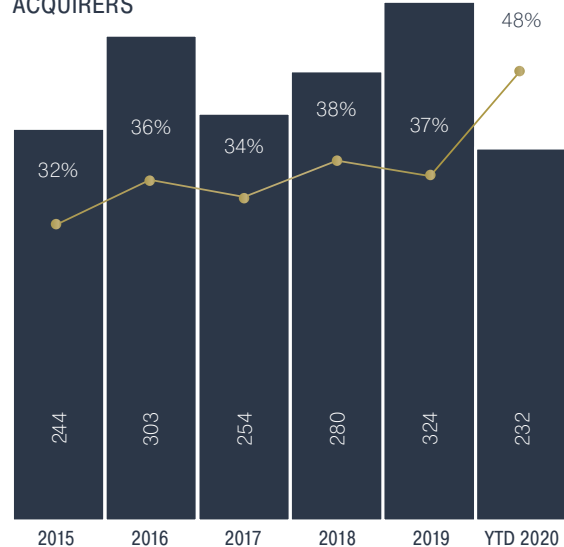
“Valuations are rising: 5-10x revenues not uncommon”

UK TECH M&A – PE/VC BACKED ACQUIRERS



“PE backed buyers account for over 20% of deals”

UK TECH M&A – OVERSEAS ACQUIRERS



“Foreign buyers jump to nearly 50% of UK deals”

Cloud Software

Sector consolidations tend to go in waves, the first 6 months of 2020 were very busy in the Legal software sector. There were 3 key deals: **Mitratech** acquiring **ClusterSeven** (data privacy and information governance), **BT** selling its legal and professional services software business (**Tikit**) to **Advanced** and **Capita** selling **Eclipse Legal Systems** to **Access** for £56m (14x adjusted EBITDA). Then in Q3 there were 3 further deals:

- **Access Group** acquired another legal specialist, **DPS Software** who were founded way back in 1988 and provide SaaS-based Practice Management software for legal practices and In-house legal departments.
- **Levine Leichtman** acquired **BigHand** (law firm workflow and productivity) from **Bridgepoint** and **LDC**.
- **Thomson Reuters** acquired **CaseLines** who have a platform that provides a single, secure home in which to manage all types of legal evidence (400,000 trials have used it), effectively digitizing court processes by essentially eliminating paper and creating digital court files.

The Property sector was also very busy in 1H20 and is also consolidating fast with aggressive buyers such as **Bentley** (GroupBC) and **MRI Software**, which is really shaking up the social housing sector (Castleton, Housing Partners and Orchard). **Dye & Durham**, who only recently listed in Toronto, then acquired Reading based **Property Information**

Exchange for £31m in September. Operating under the trade name “poweredbypie” it offers cloud-based real estate due diligence platform for conveyancing and was majority owned by **MML Capital Partners**. **Matt Proud**, Chief Executive Officer of **Dye & Durham** said “in an increasing virtual business world, the dependency on mission critical cloud-based software like **PIE**’s has never been greater, as more and more people work from home.”

Ideagen acquired quality management software provider **Qualsys** for £15m in August and although it is a punchy valuation at over 5x ARR it reflects its strong momentum (ARR is growing at nearly 40% pa) and the fact that there are cost synergies. **Ideagen** has now made over 20 acquisitions (3 this year after earlier deals to acquire **Posturite** and **Workrite**).

“A wave of consolidation in legal, property and logistics sectors”

Templa, the leading financial contract management system for cleaning contractors based in **Tonbridge** has been acquired by **Innovise**, the UK subsidiary of **TEAM Software**, which specialises in software for facilities management businesses. **Templa** is what might be termed “well established” having started back in 1977.

It has also been a very busy year in logistics/supply chain. The highlight was the acquisition by US based **Aptean**

of **Paragon Software Systems** back in March. Other notable deals include **Dematic** acquiring **Digital Applications** for 3x revenues, **Descartes** acquiring **Peoplevox** and then **Cracking Logistics** (aka **Kontainers**) for £9.5m (circa 6x revenues).

“ClearCourse remains the most active acquirer”

In transportation, **Tracsis** paid up to 7x revenues for **iBlocks** (railway ticketing software) and in September, London based **GoMedia** was acquired by **Icomera**, (which is owned by **ENGIE SA** the large French energy group). **GoMedia** provides passenger Wi-Fi for public transport and was founded in 2015 by former Sky executives **Matt Seaman** and **Roger Matthews**. **Go Media** have rapidly established itself as the world’s leading provider of onboard infotainment for public transport. With so many people WFH it is a tough time to be in the transport sector.

Allocate Software has acquired Lincoln-based **Selenity**, who provide cloud-based

HR and finance process management software, in particular to health and care organisations.

In July Field Service Management Software company **Totalmobile** acquired both **Lone Worker Solutions** (LWS) and **Software Enterprises** (known as Global Rostering System (GRS)). LWS provides access to safety alerts, status updates and locational information to support staff who are operating in high risk environments or undertaking sensitive activities, customers include Network Rail, Mitie and Centrica.

Horizon Capital created **Juniper Education** when it acquired **EES for Schools** as a buy-and-build platform investment in July 2019. It is in a hurry, having tucked in **OTrack**, **Classroom**

Monitor and **Maze Education**, all of which provide analytics platforms to help schools track pupil progress. This year they acquired school management information system (MIS) and pupil analytics provider **Pupil Asset** and then in September announced the acquisition of **FS4S**, which provides schools, academies and trusts with finance, payroll and HR management services.






Cloud and machine learning technologies have shaken up the translation services sector bringing rapid automation and productivity improvements. That is one of the drivers in **RWS** acquiring **SDL** in a large share-based deal worth £809m. **RWS** also just spent \$40m in June acquiring machine translation businesses in India and Dublin.

ClearCourse Partnership is the most acquisitive company in UK. Backed by US based **Aquiline Partners**, their target companies are focused on membership organisations and they help their

customers to manage their members and administer their business workflow. The plan is to automate and monetise their payment processes too. Earlier this year they have added **Felinesoft** (Microsoft software development) and **Hart Square** (CRM consultancy). In Q3 they have continued their rapid expansion acquiring **Assisi** (vet practice management) and **FLG** a CRM provider for SMEs. That takes deals closed to 18 in 2 years.

“Lots of Big Data deals”

TOP UK BUYERS SINCE JAN 2018

	18
	18
	11
	9
	6

“The top 5 UK acquirers are all PE backed”

Information Management

Digitisation and the explosion of data from IoT, AI and ML has created strong demand for data intelligence solutions to capture, analyse and visualise the huge amounts of information. This has created another wave of M&A activity and consolidation. Examples of key deals in Q3 were:

In August **BAE Systems** strengthened its technology and data portfolio buying **Techmodal**, a Bristol based data consultancy and digital services company. With 120 employees and 30 associates, it has contracts with the MOD in support of the UK’s armed forces, particularly the Army, Strategic Command and Royal Navy.

In July, **Qinetiq** acquired Manchester based **Naimuri** (agile cloud-based services and technology to the UK Intelligence and Law Enforcement communities). At a cost of £25m it is 2.8x revenues (12x profits). The deal comes just a month after they sold **Boldon James** a data classification and secure messaging solutions business to **HelpSystems**. It was acquired for £30m which is a reasonable sounding 3.3x revenues and is actually similar to the amount that Qinetiq paid 13 years ago.

RELX is re-inventing itself from a publisher to a business and data information and analytics provider through a series of chunky and mainly US acquisitions. In 1H20 they acquired Arizona-based **Emailage** (fraud prevention) for \$480m and \$375m to buy San Diego-based **ID Analytics**, adding to its earlier \$817m deal for ThreatMetrix (digital identity). In August they added **SciBite** - a semantic AI company headquartered in Cambridge, which helps life science customers make faster, more effective R&D decisions through advanced text and data intelligence solutions. They are not shy in paying up for their targets having paid £65m, which is over 10x revenues for SciBite.

“Some valuations are 10x revenues!”

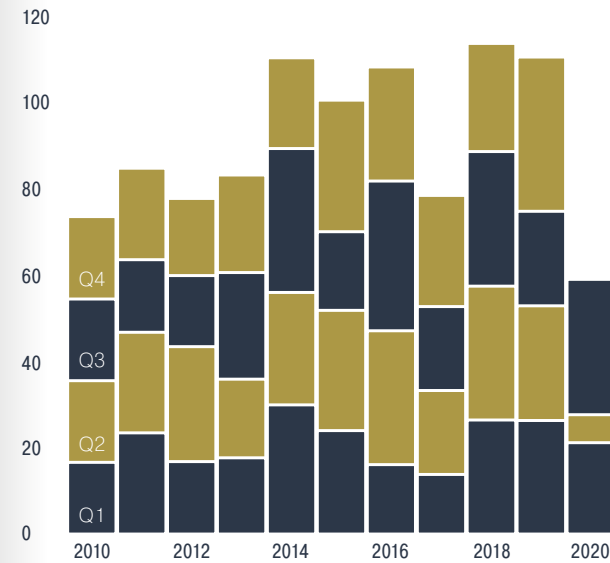
Aveva shares have doubled since the start of 2019 and are now valued at just shy of £8bn, as a result the valuation of

the industrial software supplier is now approaching 10x revenues. It made a big move in August buying out Softbank and paying a chunky 10x revenues for **OSIsoft**, a real-time industrial operational data software supplier at a cost of \$5bn. OSIsoft, is a data driven business that makes software that captures data from ships, chemical boilers, power plants and other facilities in industries including oil and gas, mining, pulp and paper and water. “it will accelerate the Enlarged Group’s role in the digitisation of the industrial world, which is being driven by a need for sustainability, the industrial internet of things, Cloud, data visualisation and artificial intelligence,” Aveva’s CEO Craig Hayman said.

Semi Conductors

Another deal driven by the deleveraging of Softbank is their sale of **ARM** to **Nvidia** in a complex deal for circa £30bn (\$40bn), having only acquired it in 2016 for \$31bn. Despite its WeWork losses, Softbank has actually recovered strongly this year with its shares at near record highs as a result of its portfolio shuffling. This is the largest semi-conductor deal ever, pipping the Broadcom deal back in 2016. It is an interesting deal for a number of reasons and is a useful barometer of confidence. The chart below shows that Q3 was in fact one of the best quarters ever for megacap (>\$1bn) Tech deals with 31 huge deals announced, a clear demonstration that buyer confidence has bounced back. In fact, in the broader market, some say it was the busiest Q3 ever for blockbuster M&A deals (>\$5bn).

GLOBAL DEALS VALUED AT > \$1BN



“Confidence is returning. 31 mega deals announced in Q3”

Cloud Services and Consulting

With the acceleration of digital transformation the managed service sector is very much at the forefront of the convergence between IT and Telecoms. With the forced adoption of IP telephony in lockdown, convergence is accelerating rapidly. As a result, Telecoms Service suppliers are seeking IT skills and vice versa. A wave of PE owned consolidators are also expanding aggressively with almost all the mid-tier PE houses backing portfolio companies to buy and build. Examples include: ECI/ITLab, Mayfair/GCI, Inflexion/Ridgewall, LDC/Babble

and Horizon/Timico. Examples of deals in Q3 were:

- In January **Arrow Business Comms** took additional funding from MML and a £50m acquisition pot. They are not hanging around having acquired **Altinet**, a Leeds-based provider of IT security and storage services in July.
- In August **Onecom**, a business telecommunications provider backed by LDC and Ares, acquired **Glamorgan Telecom Group** broadening its geographic footprint.
- Cloud services technology firm **Babble** (which is funded by LDC) have made 5 acquisitions and have more on the way. In June

they acquired Lancashire based communications provider **Lake Technologies**, then in August they acquired **Corporate Management Telecom** who were established back in 1998 and based in Braintree. They provide business telephony and cloud-based services including voice, system hardware, IT and mobile to 500 customers.

Deloitte acquired SAP-centric consultancy and product provider **Keytree**, who have secured significant digital transformation contracts. It follows EY's acquisition at end of last year of Oxford-based AgilityWorks, a consulting business that specialises in the deployment of HANA based SAP technology.

Cognizant has acquired Microsoft public cloud specialist, **New Signature** who have 500 cloud experts from the UK, the US and Canada offering across Microsoft's business clouds: Azure, Microsoft 365, and Dynamics 365. It follows their acquisition of London based **Contino** (DevOps and cloud transformation specialists) at the end of last year. They are one of the most aggressive acquirers this year, in September they also acquired Chicago-based **10th Magnitude**, a cloud specialist focused exclusively on the Microsoft Azure cloud computing platform. That is its 6th cloud-related acquisition in 2020. There is clearly big demand for Microsoft specialists, as we saw in Q1 when **Gamma Telecoms** acquired **Exactive** (a fast growth Scottish based provider of Microsoft focused Unified Comms solutions) and

IT Lab (now called **Content and Cloud**) acquired leading Azure specialist, **Sol-Tec**.

In June **Wipro** acquired Belgium-based **4C** – the largest independent Salesforce Platinum Partner in EMEA. Wipro paid €68m for the 350-employee business, which was 2.2x revenues.

There is a lot of PE backed buy and build activity using platform businesses. So, with demand being high it is no surprise that some are going a level down fishing for smaller fish, for example **LDC** has funded a 3-way £30million merger to form **Kerv** - a next-generation 'customer-first, cloud-first' managed services provider. DoubleEdge, Foehn and Metaphor IT are all delivering double-digit growth rates and now form yet another buy and build platform.

AIM listed and digitally native tech group **The Panoply Holdings** acquired healthcare-focused digital transformation consultancy **Difrent** in September for an initial consideration of £8.8m. Payable nearly half in cash and shares it equates to just over 1x revenues and an EBIT multiple of 10 but these multiples can rise by 50% if earn out targets are met in the next two years. They have now made 11 acquisitions and have a consistent acquisition model in acquiring people based companies, they also bought business change consultancy **Ameo** for a total of £7m in April - that equates to 1x revenue or 7x EBIT.

The most acquisitive company globally this year so far has been **Accenture** (again). They are an acquisition machine. In UK they acquired Context Information

Security earlier this year for £107m (4x revenues) and Symantec's Cyber Security Services business for \$200m. Having acquired 24 companies last year they are on track to complete a similar number of deals this year.

Brian Parker,
Head of M&A

“Despite COVID-19 UK Tech M&A demand remains strong with some eye watering valuations”

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