

Software & Tech-Enabled Services M&A Update – Q4 2023



Software & Tech-Enabled Services M&A Update

Q4 2023

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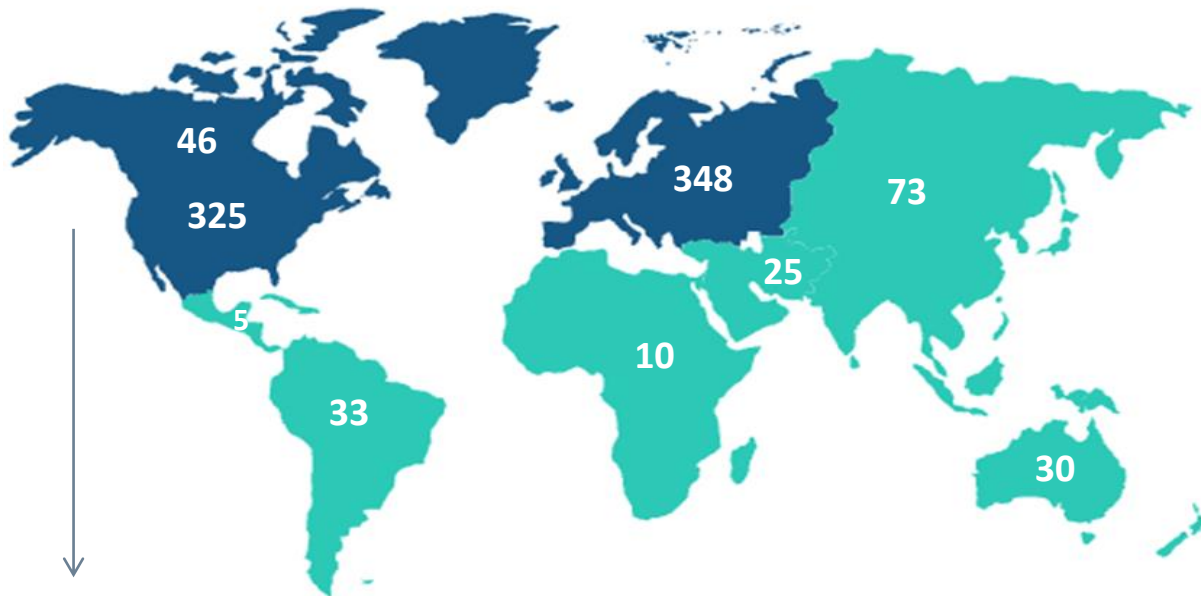
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REPORT HIGHLIGHTS

- In Q4, the North American Technology Software Industry Index increased by 17.6% and outperformed the S&P 500, which increased 11.2% over the same period.
- The median EV/Revenue multiple for reported private equity deals decreased to 4.8x in 2023 from 5.6x in 2022, but increased for strategic deals to 3.7x from 3.3x in the prior year.
- M&A deal volume in the Software & Tech-enabled Services sector increased 5.2% to 895 completed transactions in Q4 compared to 851 deals in Q3, but decreased 8.8% from 981 deals in Q4 of the prior year.
- As a % of total capital invested in M&A transactions in 2023, PE participation decreased to 28.9%, down significantly from 54.8% in the prior year.
- North America was the most active region in Q4 with 371 deals. Most notably in the North American market was Broadcom's \$89.0 billion acquisition of VMWare in November 2023.

Global Deal Analytics

Of the 895 deals in Q4, North America was the most active market with 371 completed transactions, followed by Europe with 348. One of the more notable deals in Europe was Keysight Technologies' (NYSE: KEYS) \$1.4 billion acquisition of 50.6% of ESI Group, a French provider of virtual prototyping software and services, in November 2023. All other regions combined for a total of 176 completed transactions.



Canada: 46

■ 0-100 ■ 101+

United States Regions: 325

West Coast:	86
Mid Atlantic:	61
Mountain:	41
Southeast:	31
South:	31
Other:	75

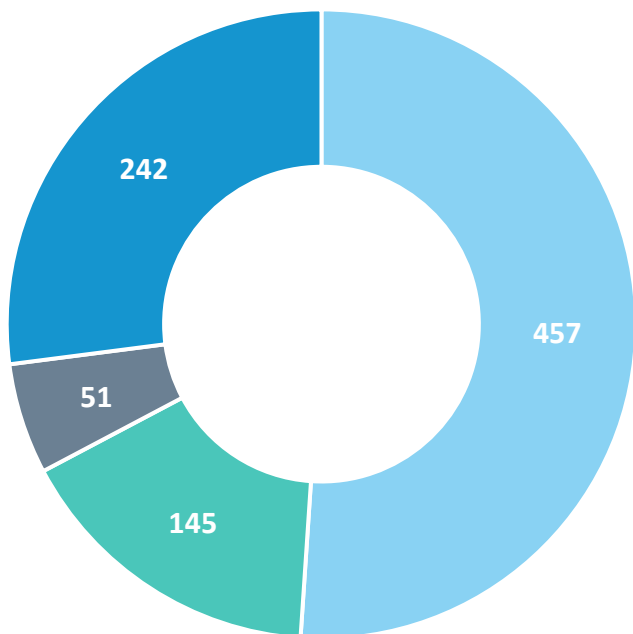
In the U.S. market, the West Coast region was the most active in Q4 with 86 closed deals. A notable West Coast deal (in addition to the VMware deal mentioned on the previous page) was Microsoft's \$68.7 billion acquisition of Activision Blizzard, a California-based developer and publisher of video games, in October 2023. The Mid Atlantic had 61 transactions and was followed by the Mountain region which saw 41 completed deals. The Southeast and South both had 31 transactions and all other regions combined for a total of 75 completed transactions.

Outside of the U.S. in the North American market, 46 transactions closed in Canada in Q4.

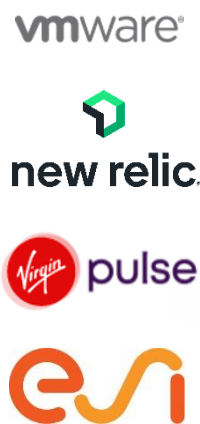
Global Deal Analytics

Of the 895 Software & Tech-enabled services deals in Q4, 457 were in the Business/Productivity subsector, making it the most active subsector in the industry from an M&A standpoint. Fintech was the second most active with 145 deals followed by Entertainment with 51. All other subsectors combined had a total of 242 closed transactions.

Deals by Sector



Business/Productivity



Fintech



Entertainment



Other



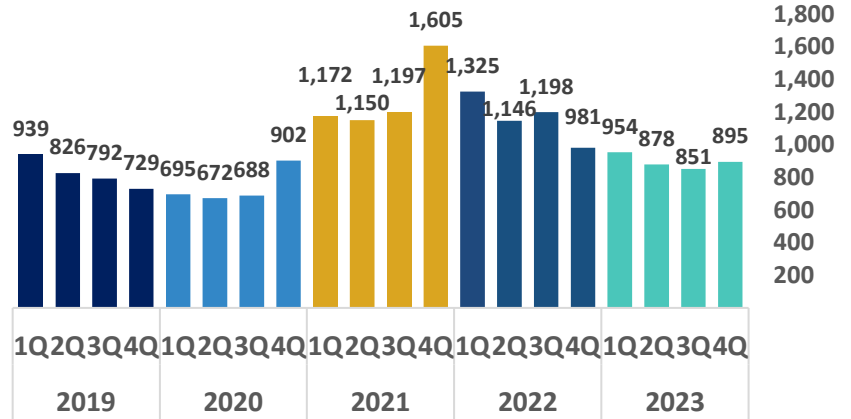
Global Deal Analytics

M&A deal volume in the Software & Tech-enabled services sector increased 5.2% in Q4 to 895 deals from 851 in Q3, but decreased 8.8% from 981 deals in Q4 of the prior year. The uptick from Q3 marks a reversal from the trend of declining deal volume seen since a peak in Q4 2021.

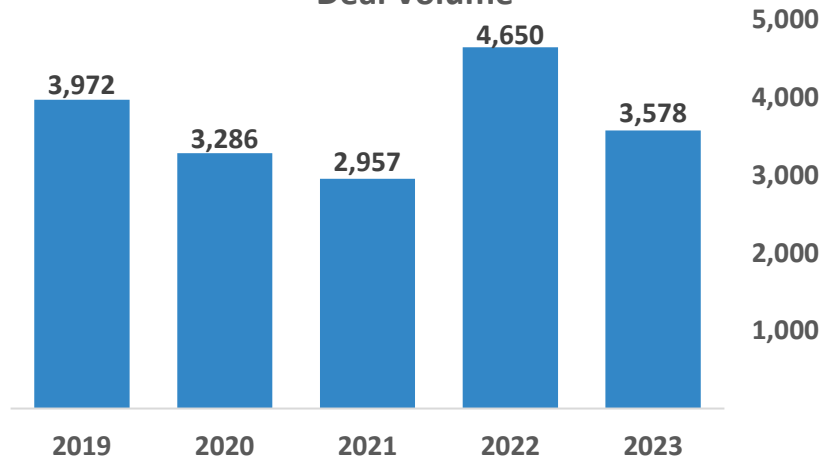
Annual deal volume saw a 23.1% decline to 3,578 deals in 2023, down from 4,650 in 2022. We attribute this decline to more challenging market conditions from a dealmaking perspective, including elevated interest rates/cost of capital. We anticipate market conditions loosening in Q1 as more of a prevailing consensus emerges around the fed easing rates in 2024 and much of the market uncertainty overhang from 2023 moves to the rear view mirror.

Total capital invested in M&A deals in the sector increased 253.9% in Q4 to \$206.3B from \$58.3B in Q3, and increased 133.1% from \$88.5B in Q4 of the prior year. The significant increase in total capital invested in Q4 is primarily due to several large deals in the quarter, including Broadcom’s \$89.0B acquisition of VMWare and Microsoft’s \$68.7B acquisition of Activision Blizzard.

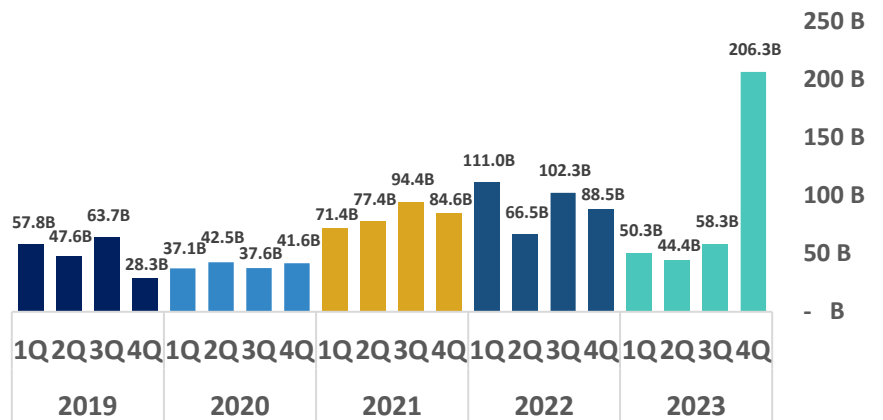
Deal Volume



Deal Volume



Total Capital Invested



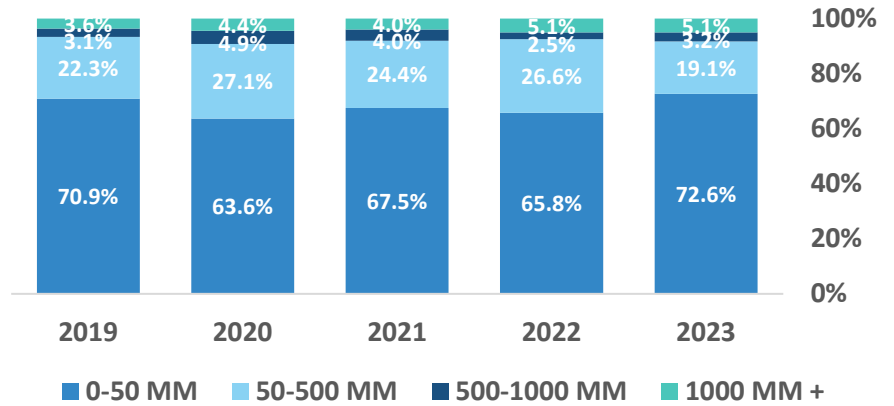
Global Deal Analytics

Aside from the VMWare and Activision Blizzard deals, we generally saw a shift towards smaller deals in 2023 compared to the prior year. The lower middle market (\$0-\$50MM) increased to 72.6% of deal volume from 65.8% in 2022. The middle market (\$50-\$500MM) saw a significant decline to 19.1% from 26.6% in 2022. The upper middle market (\$500-\$1000MM) increased to 3.2% from 2.5% in 2022 while the large cap (\$1000MM+) tranche of the market remained flat at 5.1% over the same period.

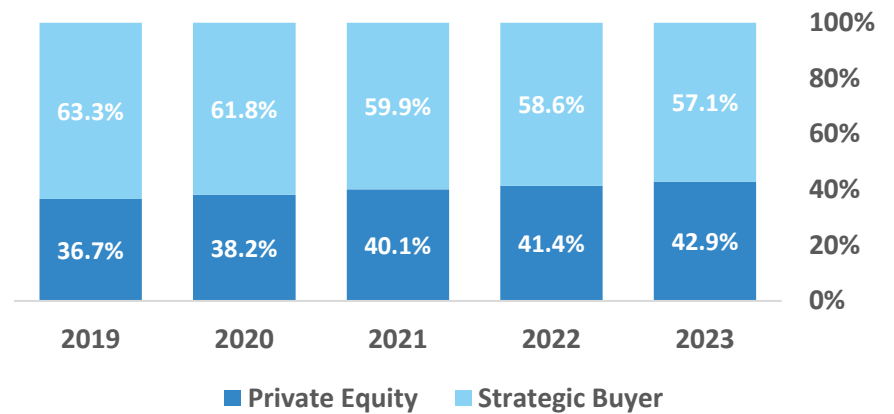
As a % of total deal volume, PE buyers trended higher in 2023, representing 42.9% of deal volume in the sector, up from 41.4% in 2022. 2023 represents a continuation of the trend of increasing PE participation that we've seen since 2019.

Despite PE's share of deal volume increasing from the prior year, total capital invested in M&A deals decreased significantly in 2023 to 28.9% from 54.8% in 2022. This decrease is primarily due from the VMWare and Activision Blizzard deals mentioned on the previous pages. These two strategic deals diluted PE's share of the total capital invested in 2023.

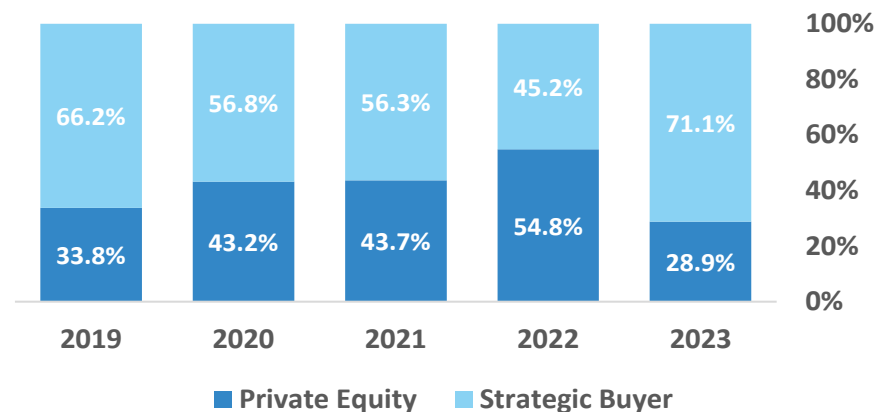
Deal Volume by Deal Size



Deal Volume by Acquirer

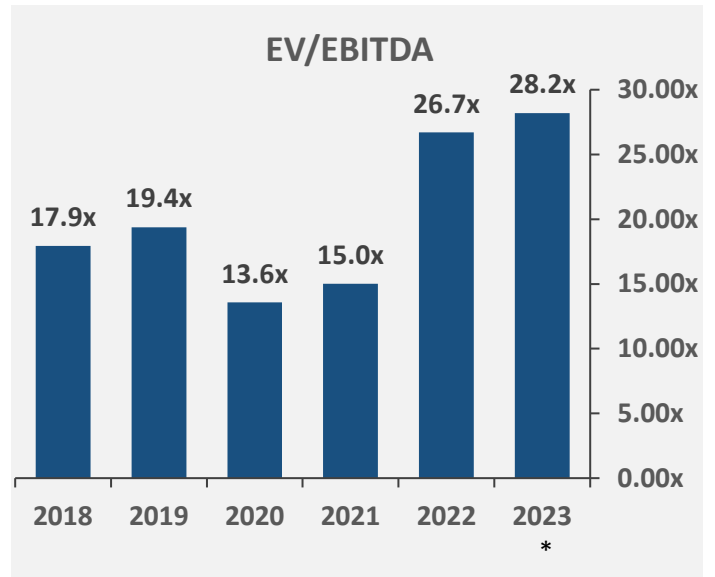
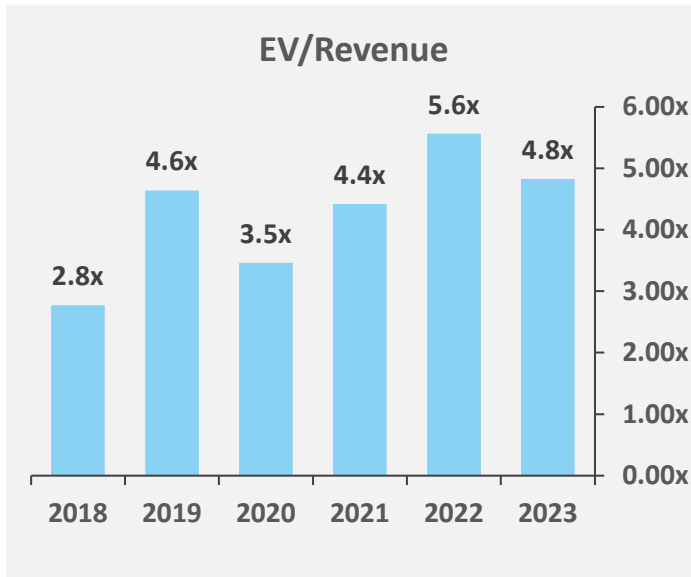


Total Capital Invested by Acquirer

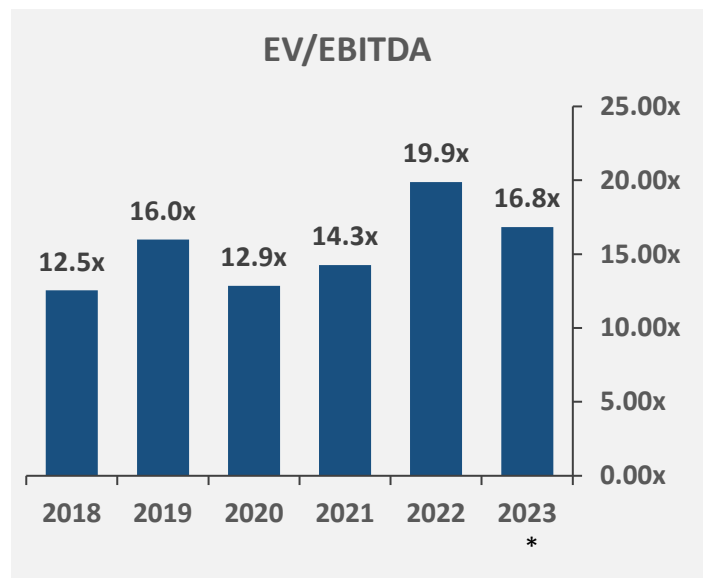
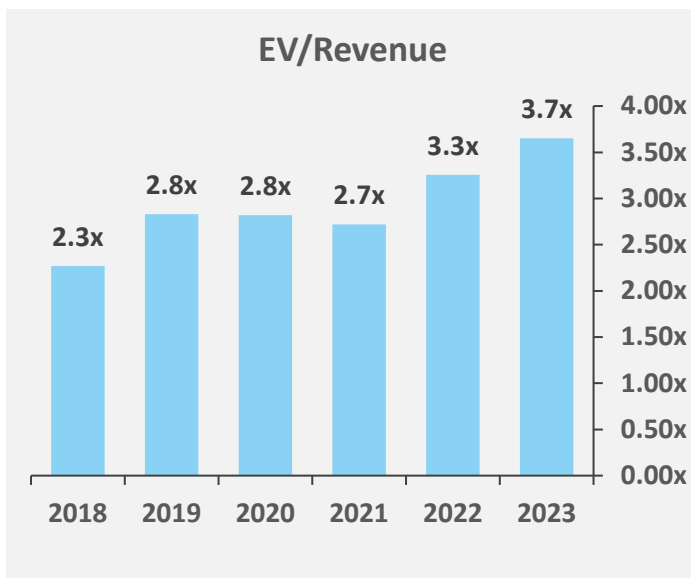


Valuation Multiples

Private Equity Multiples



Strategic Multiples



* The EV/EBITDA multiples listed for both Private Equity and Strategic buyers excluded outliers.

Largest Deals (Completed)

Deal Date	Company Name	Investor	Deal Type	Deal Size (\$mm)	EV		Target Business Description
					Revenue	EBITDA	
28-Dec-2023	Talon Cyber Security	Palo Alto Networks	Merger/Acquisition	\$ 625.0			Developer of a cybersecurity technology.
22-Dec-2023	LiveVox	NICE	Merger/Acquisition	374.0	2.21x		Cloud contact-center-as-a-service (or CCaaS) platform providing service to enterprises, business process outsourcers, and collections agencies.
13-Dec-2023	Best Assistant	Mynd.ai	Merger/Acquisition	750.0			Operator of online education platform intended to connect and collaborate educators with students and parents.
12-Dec-2023	Vertex	Silver Lake	PIPE	491.3			Provider of tax technology and services.
04-Dec-2023	Imperva	Thales Group	Merger/Acquisition	3,600.0			Developer of data security software intended to protect data and all paths to it through all stages of digital transformation.
04-Dec-2023	Travelport Worldwide	Canyon Partners	PE Growth/Expansion	570.0			Developer an information technology-based travel platform.
30-Nov-2023	Loom	Atlassian	Merger/Acquisition	975.0			Developer of a work communication tool designed for people to get their messages through instantly shareable videos.
27-Nov-2023	Avantax	Cetera Financial Group	Buyout/LBO	1,200.0	1.50x	18.35x	Provider of integrated tax-focused wealth management services and software.
24-Nov-2023	EG Software	LGT Capital Partners	PE Growth/Expansion	429.3			Developer of an information and technology software.
22-Nov-2023	VMware	Broadcom	Merger/Acquisition	89,000.0	5.08x	19.93x	Provider of virtualized IT infrastructure formed after spinning off from Dell Technologies in 2021.
09-Nov-2023	Virgin Pulse	Blackstone	Buyout/LBO	3,000.0			Developer of employee health engagement platforms.
08-Nov-2023	New Relic	Francisco Partners	Buyout/LBO	6,500.0	6.27x		Provider of software analytics solutions for organizations to collect, store, and analyze massive amounts of software data.
07-Nov-2023	Avid Technology	Sixth Street Partners	Buyout/LBO	1,400.0	3.34x	48.29x	Developer of an open and integrated technology platform designed for digital media content production, management, secured content storage and distribution. *
03-Nov-2023	ESI Group	Keysight Technologies	Merger/Acquisition	1,429.7	10.31x	81.70x	Provider of virtual prototyping software and services. *
01-Nov-2023	Adenza	Nasdaq	Merger/Acquisition	10,500.0	17.80x		Developer of risk management, regulatory reporting, and capital markets software.
01-Nov-2023	Sinqia	Evertec	Merger/Acquisition	559.8	4.07x	16.42x	Developer of software and provider of information technology products and services for the financial industry.
30-Oct-2023	Follow Up Boss	Zillow Group	Merger/Acquisition	500.0			Developer of a real estate platform enabling clients to handle lead management and response for the real estate industry.
13-Oct-2023	Activision Blizzard	Microsoft	Merger/Acquisition	68,700.0	6.39x	19.74x	Developer and publisher of video games.
11-Oct-2023	National Instruments	Emerson Electric	Merger/Acquisition	8,200.0	4.66x	24.38x	Provider of testing and measurement equipment and integrated, software-led solutions.
03-Oct-2023	Broadway Technology	Bloomberg	Merger/Acquisition	450.0			Developer of financial trading software.
Mean				9,962.7	6.16x	19.76x	
Median				1,087.5	4.87x	19.93x	
High				89,000.0	17.8x	81.7x	
Low				374.0	1.5x	16.42x	

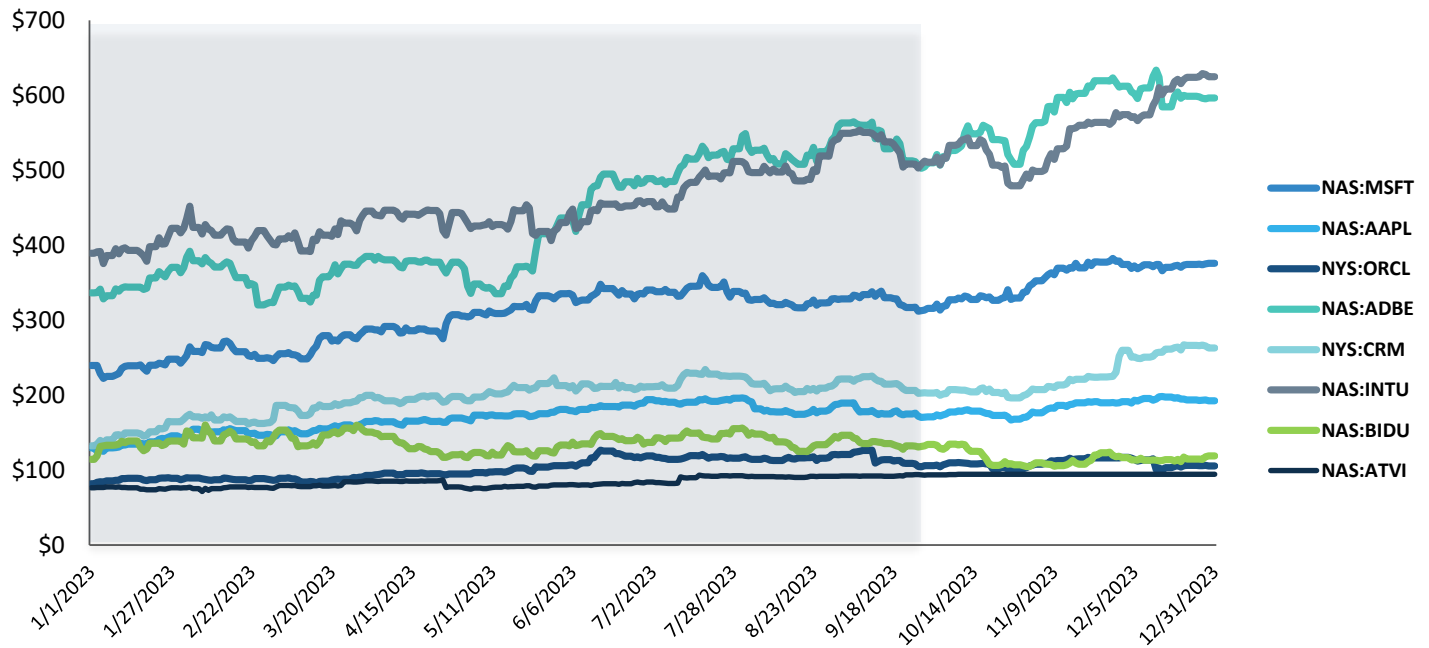
* EV/EBITDA Multiple excluded from mean calculations

Leading M&A Deals (Completed)

Deals	Deal Synopsis	Driver
	<p>VMWare, a California-based provider of virtualized IT infrastructure, was acquired by Broadcom for \$89.0 billion in November 2023. The acquisition enables Broadcom to provide its global enterprise clients with better security by creating and modernizing private and hybrid cloud environments.</p>	<p>Merger/ Acquisition</p>
	<p>Activision Blizzard, a California-based developer and publisher of video games, was acquired by Microsoft for \$68.7 billion. The deal closed in October 2023 following over 20 months of disputes with regulators in the United States and the United Kingdom. The acquisition complements Microsoft's Xbox product line and further expands the company's footprint in the rapidly growing video gaming market.</p>	<p>Merger/ Acquisition</p>
	<p>Adenza, a New York-based developer of risk management, regulatory reporting, and capital markets software, was acquired by Nasdaq for \$10.5 Billion in November 2023. The acquisition enhances Nasdaq's risk management and compliance capabilities, further improving the company's market and trading infrastructure.</p>	<p>Merger/ Acquisition</p>
	<p>National Instruments, a Texas-based provider of testing and measurement equipment, was acquired by Emerson Electric for \$8.2 billion in October 2023. The acquisition positions EMR to capitalize on trends like nearshoring, digital transformation, sustainability and increases the company's exposure to high-growth industrial software end markets.</p>	<p>Merger/ Acquisition</p>

Public Comps

Stock Price

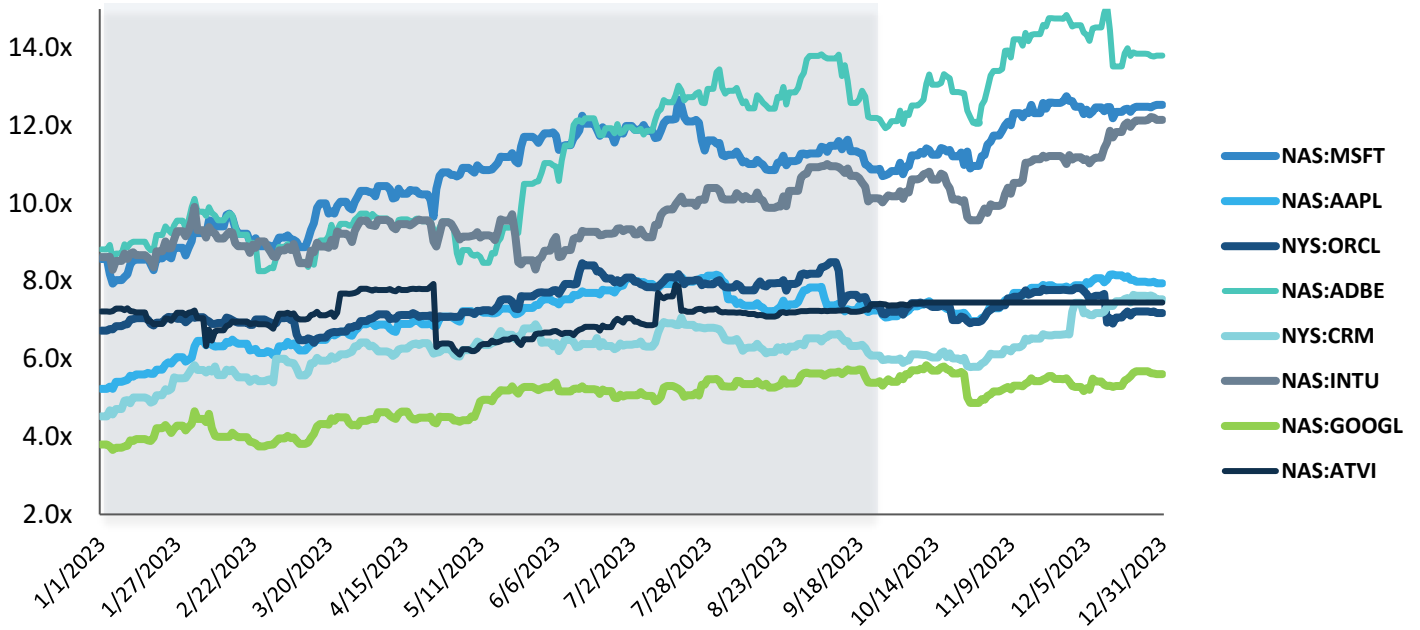


Financial & Valuation

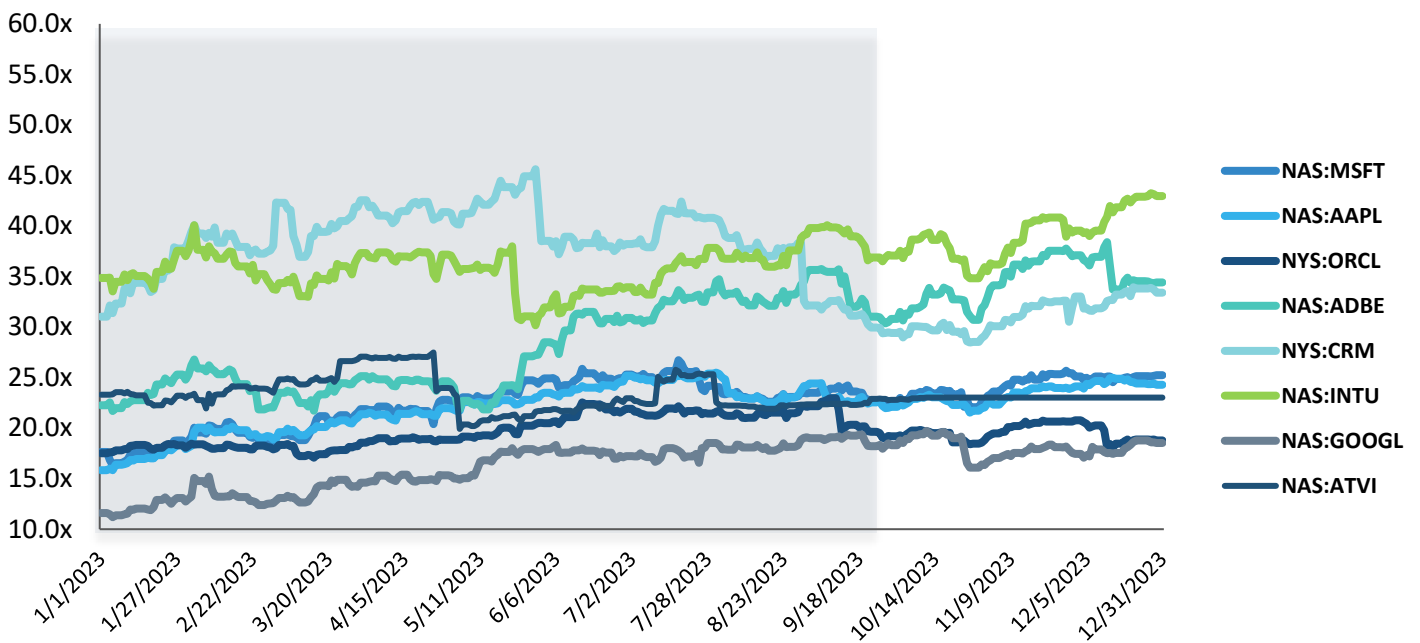
\$MM	Company	Ticker	Stock Price	Market Cap	Total Debt	EV/Revenue			EV/EBITDA			Revenue Growth			EBITDA Margin		
						21A	22A	23A	21A	22A	23A	21A	22A	23A	21A	22A	23A
	Microsoft	NAS:MSFT	376	2,794,828	84,989	13.9x	8.6x	8.2x	27.9x	17.7x	17.1x	13%	20%	11%	47%	50%	55%
	Apple	NAS:AAPL	193	2,994,371	111,088	8.1x	5.4x	5.3x	24.7x	16.4x	16.3x	6%	33%	4%	28%	33%	36%
	Oracle	NYS:ORCL	105	289,819	88,789	7.0x	6.6x	6.1x	20.3x	17.2x	13.0x	0%	5%	4%	44%	34%	54%
	Adobe	NAS:ADBE	597	271,632	4,096	17.0x	8.8x	8.1x	40.7x	22.2x	16.4x	17%	21%	14%	39%	42%	49%
	Salesforce	NYS:CRM	263	254,720	12,712	10.2x	4.4x	3.9x	45.2x	30.5x	12.4x	28%	23%	14%	24%	22%	41%
	Intuit	NAS:INTU	625	174,968	6,437	17.6x	8.6x	8.1x	62.2x	34.7x	20.7x	13%	32%	9%	33%	28%	42%
	ServiceNow	NYS:NOW	706	144,869	2,260	23.2x	11.1x	8.7x	189.8x	114.7x	27.8x	31%	31%	27%	12%	12%	34%
	Alphabet	NAS:GOOGL	140	1,755,459	29,046	7.6x	3.7x	3.4x	18.7x	11.5x	9.0x	11%	39%	15%	30%	40%	41%
	Autodesk	NAS:ADSK	243	52,084	2,648	15.0x	8.5x	7.6x	77.0x	40.8x	19.5x	17%	15%	11%	19%	19%	37%
Mean						13.3x	7.3x	6.6x	56.3x	34.0x	16.9x	15.0%	24.5%	12.0%	30.6%	31.3%	43.2%
Median						13.9x	8.5x	7.6x	40.7x	22.2x	16.4x	13.3%	23.2%	11.4%	30.0%	32.9%	41.1%

Public Comps

EV/Revenue



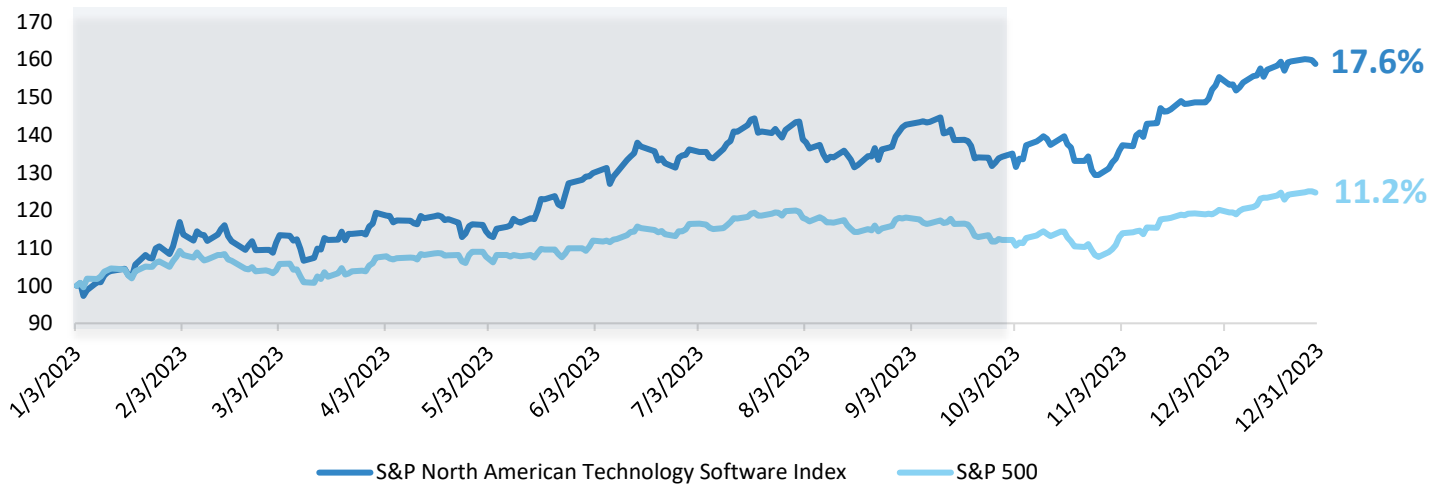
EV/EBITDA



Public Markets

Index Performance

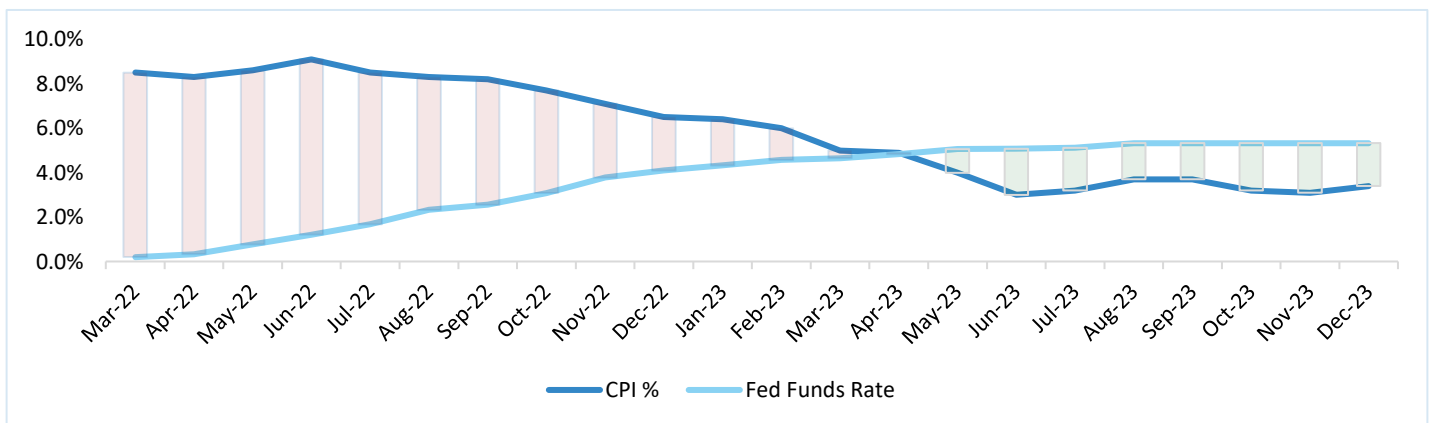
In Q4, the North American Technology Software Industry Index increased by 17.6% and outperformed the S&P 500, which increased 11.2% over the same period.



Key External Drivers

Overall, the Software & Tech-enabled Services industry tends to be a bit more cyclical and thus more directly impacted by downturns in the economy than other industries.

The Federal Reserve is anticipated to implement a series of rate cuts in 2024, with policymakers considering three cuts, reducing the fed funds rate from 5.25%-5.5% to 4.5%-4.75%. However, market expectations suggest the possibility of six quarter-point cuts, bringing the rate to 3.75%-4%. This projection has fueled a late 2023 stock market rally. Despite these anticipated cuts, the federal funds rate could still be restrictive in 2024. Additionally, the Federal Reserve plans to continue quantitative tightening by gradually reducing its holdings of Treasuries and mortgage-backed assets. Rate cuts are anticipated to increase M&A activity in the sector by lowering the cost of capital required to finance acquisitions.



Industry Trends

Heightened Antitrust Enforcement

Tech Industry Grapples with Regulatory Crackdown

In September 2022, Adobe agreed to buy Figma for \$20 billion. In December 2023, the deal was terminated due to increasing pressure from regulators. The regulatory upheaval surrounding this failed deal echoes a broader trend as antitrust watchdogs in the US and Europe emphasize safeguarding competition and innovation within the tech sector.



Cybersecurity

Zero-Trust Architecture

Companies in the industry are shifting towards adopting zero-trust security models, where no entity inside or outside their networks are trusted by default. This approach emphasizes continuous authentication and strict access controls. These solutions use AI algorithms to analyze patterns, identify anomalies, and predict potential security breaches.



Artificial Intelligence & Machine Learning

Industry-Specific AI Solutions

AI and machine learning are being increasingly tailored to address industry-specific challenges. For instance, healthcare companies use AI for diagnostics and predictive analytics, but financial firms use AI to detect fraud and assess investment risk. With the increased use of AI, there is a growing focus on ethical AI development. Companies are investing in ensuring transparency, fairness, and accountability in AI systems to address biases and ethical concerns.



Digital Transformation Acceleration

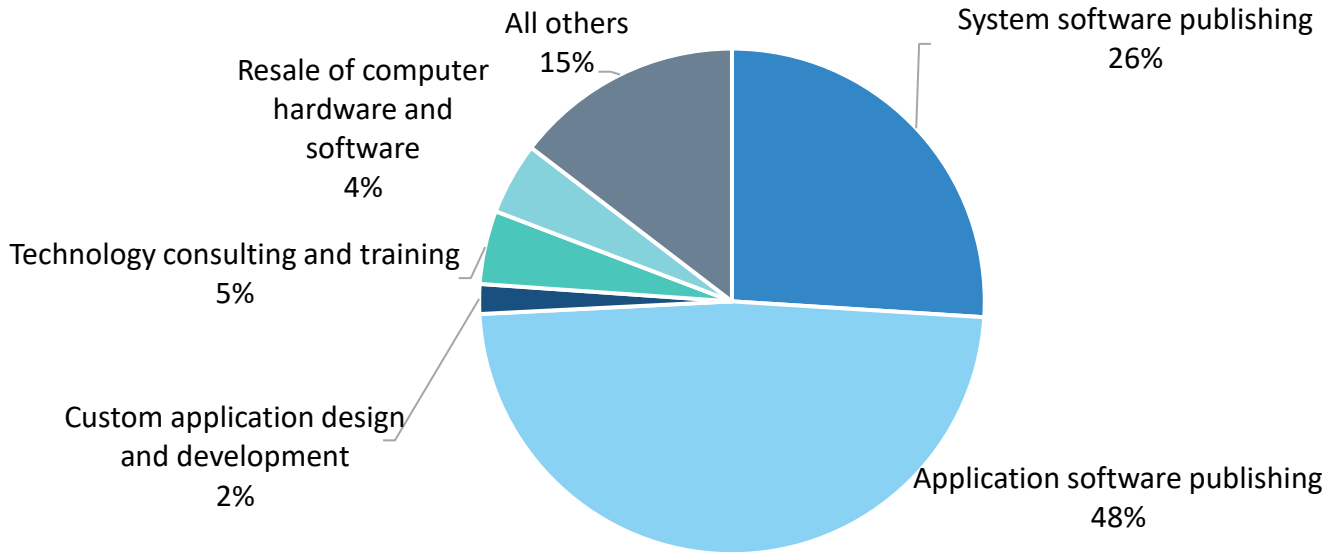
Customer-Centric Solutions

Digital transformation initiatives are increasingly focused on enhancing customer experiences. Businesses are investing in technologies that enable personalized interactions, efficient customer service, and seamless omnichannel experiences to meet evolving consumer expectations.

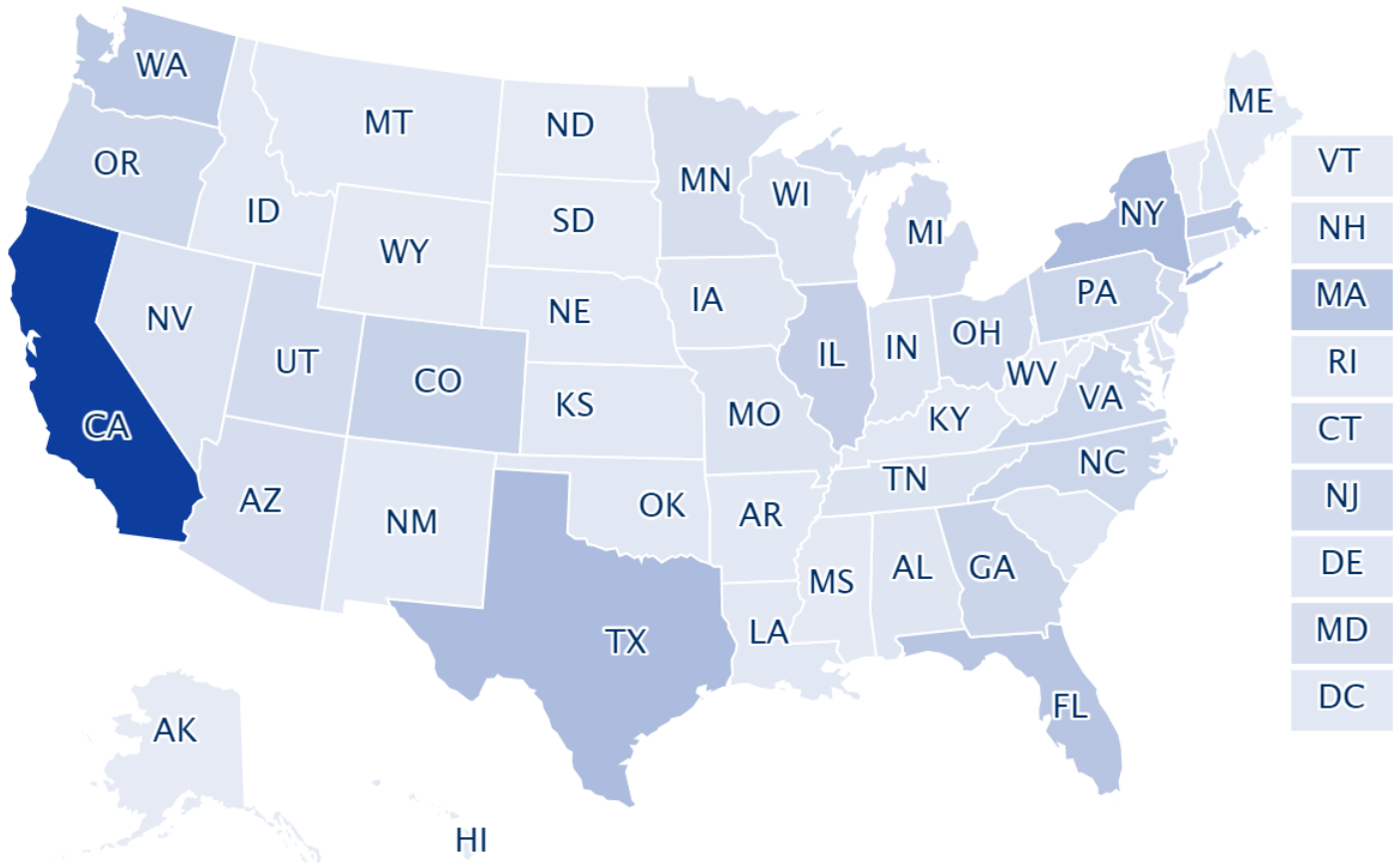


Industry Outlook

Products & Services



Business Locations



Our Service Offerings



Sell-Side Advisory: Sell your business

Sell your business for the highest price and for the best terms. At R.L. Hulett, communicating the value of your business to targeted buyers and finding the best fit for your team is our forte. We strive to maintain your company's culture and heritage even as you transition out of your business.



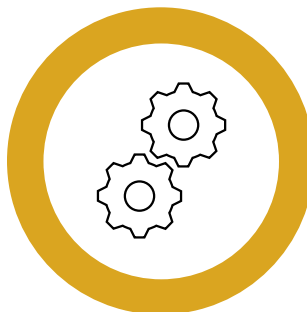
Buy-Side Advisory: Buy a business

Searching for acquisition targets can be a challenging and time-consuming task when trying to run your own business at the same time. Navigating the risks and pitfalls in negotiating valuation and deal structure can also be a daunting task for many business owners. Let our team help you minimize your risk and reduce time wasting efforts with our decades of experience in advising in both buy and sell-side M&A transactions. We utilize industry-leading M&A databases to scout for opportunities and pre-screen for "real" actionable targets so you can stay focused on what matters.



Capital Raise: Gain financial support

With nearly 40 years of experience in middle-market M&A advisory, we know how to package up your deal and put you in front of the right kind of investors who have the capital and the industry expertise you need to grow your business. Our team will develop a go-to-market strategy and advise on deal structure, valuation, due diligence and transition issues. Whether you are seeking capital for growth or trying to buy out other shareholders, we have the tools, expertise, and experience to execute a strategic process and find the optimal outcome to meet your objectives.



Restructuring: Reorganization of your business

In today's uncertain economic times, more and more companies are finding themselves in unfamiliar, and unwanted, positions. Many business owners are hoping recovery is just around the corner; however, proactive measures are often required to maximize the remaining value of the business. Our team can aid banking institutions with workout situations by implementing internal controls over cash management and performing on-going cash flow modeling for their clients. We can also help business owners avoid having trouble making payments on their debts and avoid the cumbersome and low-value asset liquidation process.

Selected Transactions

Over the years, R.L. Hulett has completed hundreds of transactions in a wide variety of industries. Below are several relevant transactions in the Software & Tech-enabled services sector. Please note that this list is not comprehensive.




Sold substantially all of its assets to







Sold substantially all of its assets to





Has completed a recapitalization with


Has been acquired by





has acquired





Has been acquired by

SPELL CAPITAL



Our Team



R. Trevor Hulett, CPA
Managing Director
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Mr. Hulett has led M&A transactions in a variety of industries including manufacturing/industrial, software development/IT, business services and value-added distribution for over 15 years. Prior to joining the firm, he held senior level accounting and financial management positions in both public accounting and large corporations. Mr. Hulett began his career as a Certified Public Accountant with MPP&W, a St. Louis-based public accounting firm specializing in middle market companies. He then held various management positions in internal audit and corporate accounting with a Fortune 1000 industrial manufacturing company and also spent nine years with Enterprise Rent-A-Car Company as a department manager in the Corporate Accounting group. Mr. Hulett holds his Series 62, 63 and 79 securities registration. Mr. Hulett earned a Bachelor's Degree in Accounting from the University of Missouri, Columbia.



Robert L. Hulett
Chairman Emeritus
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Mr. Hulett founded the firm in 1981 and has negotiated and completed more than 200 transactions throughout his career. He began his career as a Certified Public Accountant and practiced with Peat, Marwick, Mitchell & Co. in St. Louis as an Audit Manager and in New York as the Director of Training for Private Business. Mr. Hulett has also served as Chief Executive & Board Member for various middle market companies. As an educator, he was an adjunct professor at New York University and a tenured faculty member at Lindenwood University in St. Louis. He conducted training sessions for middle market CPA firms throughout the country for more than ten years. Mr. Hulett earned his BS/BA Cum Laude in Accounting from the University of Missouri-Columbia, and an MBA from Lindenwood University.

Our Team



Ron Litton
Director
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Mr. Litton has been advising business owners in mergers and acquisitions since 2013. His primary industry focus areas have included industrials, paper and packaging, distribution, energy, promotional products and direct to consumer e-commerce. Prior to 2013, Mr. Litton held a variety of C-level roles with several companies in the paper and packaging industry including Unisource, Maverick Paper, Universal Graphics and Sabin Robbins. He has bought and sold a number of businesses, advised in the sale of family/founder owned businesses, and advised in start-ups and turnaround situations for banks, owners, and private equity firms. He enjoys working with owners that want to sell or transition out of their businesses. Ron covers the Kansas City and surrounding markets for the firm. He graduated from Central Missouri State University with a BS in Graphic Arts Technology and Management.



David T. Vass
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Mr. Vass has over 30 years of business management experience including more than 10 years as President of a highly successful consumer products manufacturing company with revenues exceeding \$25 million. During this time, he not only reversed a declining sales and earnings trend, but increased both sales and operating income over 100%. In addition, he has spent over 20 years at the executive level of Vice President of Sales and Business Development. Mr. Vass also has experience in a number of other industry niches including consumer products, commercial furniture and fixtures and metal recycling. He holds a Bachelor's Degree in Economics from DePauw University and an MBA from the University of Michigan.

Our Team



Ryan Hartman
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Ryan provides analytical support for senior-level deal managers and, as a senior analyst, supervises the preparation of confidential memorandums, financial models and industry research reports. Ryan graduated with a Bachelor of Science degree in Finance from The Freeman School of Business, Tulane University. Prior to joining the firm, Ryan worked as an equity analyst for Burkenroad reports, an equity research program that produces widely circulated financial reports on small- to medium-sized companies. During his time at Tulane University, Ryan was elected as Vice President of Administration for Tulane's community government, took extensive courses in Investment Banking M&A transactions, and volunteered as a data analyst for American Red Cross.



Charlie Meier
Analyst
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Charlie provides transaction support for senior-level deal managers including financial modeling, valuations, industry research, offering memorandums and a variety of presentations. He graduated with a Bachelor of Science in Business Administration Degree with a major in finance and banking from the Trulaske College of Business, University of Missouri. Prior to joining the firm, Charlie worked as an investment analyst for the University of Missouri's Investment Fund Management Program. During his time at University of Missouri, Charlie was elected as Recruitment Chairman for the Phi Delta Theta Fraternity and took extensive courses in Banking.



Lynda Hulett
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Lynda Hulett leads the firm's marketing, administrative and communication efforts. She maintains the firm's proprietary CRM database, manages outbound firm communications and provides administrative support to senior deal managers. Prior to joining R.L. Hulett, Lynda spent the previous ten years in various marketing and administrative functions. Most recently, she worked as a client liaison providing administrative support for a CPA firm. Prior to that, she was employed by Moneta Group, a financial services advisory firm, where she provided marketing and administrative support to the client managers. Lynda graduated from the University of Missouri – Columbia, receiving her business degree with an emphasis in Marketing.

About R.L. Hulett

R.L. Hulett is a middle-market investment bank based in St. Louis, Missouri, providing M&A and financial advisory services to middle-market companies. Since its founding in 1981, the firm has advised in over 275 transactions in a variety of industries including industrials, food & beverage, packaging, business services, transportation & logistics, healthcare and software/tech-enabled services. The firm has an experienced team of M&A advisors consisting of former business owners, seasoned corporate executives, professional service firm partners, CPAs and MBAs. Our ability to deliver customized solutions to meet or exceed our clients' expectations is what sets us apart from our competitors.

Industry Sectors Covered:



Tech-enabled Services



Transportation & Logistics



Food & Beverage



Industrials



Packaging



Healthcare

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