

# Year in review

As we reflect on 2023, we look at the key trends that have shaped the M&A landscape in the IT and tech enabled services sector. We hope these insights will be helpful, particularly as we prepare for the challenges and opportunities that lie ahead.

Despite facing global challenges, the sector showed resilience in M&A activity, with investments targeting areas like data engineering, cybersecurity, cloud, artificial intelligence and machine learning (AI/ML), and consulting.

The focus on companies that can scale profitably has reshaped investment strategies. Digital transformation continues as a fundamental driver of M&A activity, with cloud transformation and emerging technologies like AI and ML gaining prominence.

## IT & Tech-Enabled Services M&A Recap

FOURTH QUARTER 2023



### Investment in SMEs and market consolidation

This year saw a continued trend in investing in small and medium enterprise (SME) IT solutions businesses, leading to significant market consolidation, as companies focused on developing comprehensive one-stop-shop solutions. The strategic pivot towards integrated service offerings is tailored to meet customers' diverse and evolving needs. This shift aims to capture more market share, enhance efficiency and reduce costs, particularly for larger, multi-location players.<sup>1</sup>

By offering a suite of integrated solutions, IT service providers are now better positioned to compete for market share, becoming a comprehensive source for all IT service requirements. This strategy also entails integrating various services like maintenance, asset disposition, field services and IT projects under a single umbrella. Valsoft's spin-off of six solutions businesses into Valstone to make a one-stop shop of services is one example of this.<sup>2</sup>



### Consolidation among larger ecosystem players and innovation in proprietary services

In 2023, the consolidation among larger ecosystem players continued to intensify, a phenomenon driven by well-capitalized strategic investors, including both public and private equity-backed entities. The motivation behind this consolidation is for players to not only to stay competitive, but also to capitalize on financial strength for strategic positioning in the market.

Another noteworthy trend in tech consolidation over the past year is the substantial increase in add-on acquisitions by companies looking to augment their capabilities and expand their influence. This trend was particularly evident in the cybersecurity sector, with firms actively engaging in strategic acquisitions to fortify their portfolios. This targeted approach highlights a strategic alignment between financial backing and the pursuit of competitive advantages.

With increased intensity of competition in the IT services sector, we've seen companies increasingly develop intellectual property to sustain an advantage in the market. We saw this take the form of software or technologies that assist in data migration as well as industry-specific offerings or accelerators. Some of these can be game changing in their ability to win market share, particularly in industries with difficult implementation or where word of mouth or recommendations play a large role in selecting providers.

From the M&A perspective, we saw real additional value being paid for this type of IP when it can be shown to be truly unique, and it creates real additional value. For companies with that IP, it is a matter of working with your advisors on what ecosystem players stand most to benefit from the technology.

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<sup>1</sup> "How Effectively Consolidating IT Services Vendors Impact the Business," CentricsIT, <https://www.centricsit.com/consolidating-your-it-services-vendors-to-improve-efficiency-and-reduce-costs/>

<sup>2</sup> "Valsoft announces the creation of Valstone, a spin off organization focused on providing software and technology solutions across the industrial sector," Valsoft, November 14, 2022, <https://www.valsoftcorp.com/news/valsoft-announces-the-creation-of-valstone-a-spin-off-organization-focused-on-providing-software-and-technology-solutions-across-the-industrial-sector/>





## Renewed interest in tech services investment

After a period heavily focused on recurring revenue models, 2023 marked a notable shift, with a renewed interest in investing in technology services models. This change has been partly driven by current macroeconomic factors, where profitability metrics have become increasingly favoured.

In this context, while sub-scale software as a service (SaaS) models have the potential for future profitability, there's a growing preference for assets with less scale but more profitability in the short term. This shift indicates investors are taking a more balanced approach to the sector, giving more weight to the stability of recurring revenues rather than the growth potential of service-based models.

Private equity firms, equipped with substantial dry powder, have been instrumental in driving M&A activities in the broader tech sector. In 2023, these firms demonstrated a particular interest in tech services companies. This segment now accounts for a significant percentage of the total assets under management in technology, up markedly from the past decade.<sup>3</sup> Investors are increasingly willing to pay a premium for the stability of tech services companies capable of delivering revenue growth with high efficiency.

### Summary

*The IT services and tech-enabled services M&A landscape in 2023 has been dynamic and marked by strategic consolidations, a focus on proprietary technology development and a balanced approach towards investment in tech services models. This environment presents a mix of challenges and opportunities for companies operating in this space, highlighting the need for strategic and informed decision-making.*

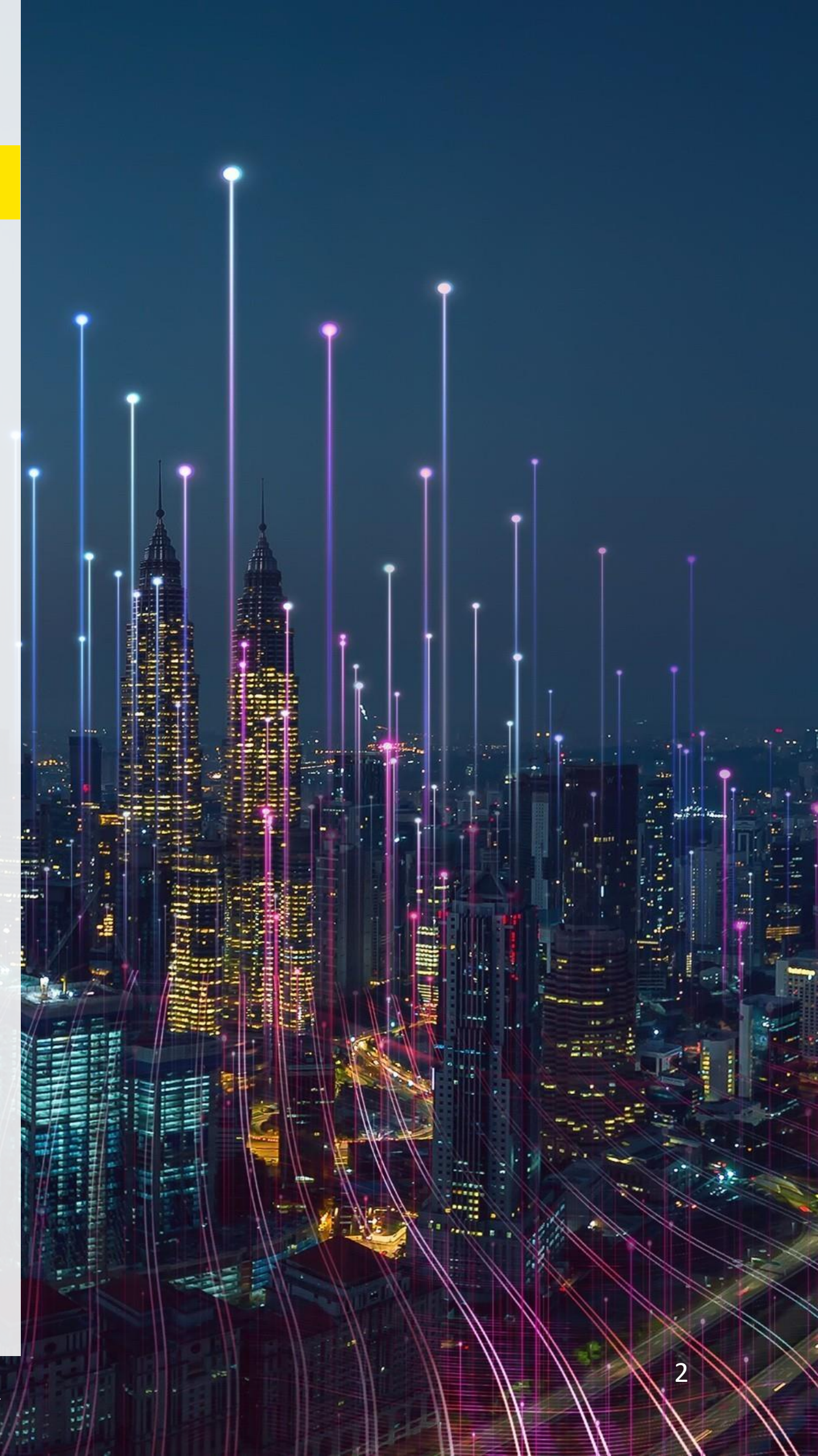


## Selective M&A focus

The demand for cloud consulting services is experiencing substantial year-over-year growth. While Salesforce and ServiceNow IT vendors continue to see M&A activity in specific pockets, most investor interest remains on Microsoft cloud consulting IT suppliers.

As the Microsoft cloud ecosystem continues to assert its dominance in the enterprise market, companies possessing expertise, robust infrastructure and a proven track record for delivering strategic value are consistently regarded as top-tier assets.<sup>4</sup>

Another area where we see significant demand for M&A is in cybersecurity. Both due to a hybrid work environment and rapid adoption of generative artificial intelligence (gen AI), safeguarding data is a top priority and an area where companies are willing to spend money. Cybersecurity companies are using M&A to acquire new and emerging businesses and other IT services companies are looking to establish offerings in this space<sup>5</sup>.



<sup>3</sup> Dan Oates, Angela Becker, "Worldwide: Private Capital: Technology Investment Trends To Expect In 2024," Mondaq, January 12, 2024, <https://www.mondaq.com/unitedstates/maprivate-equity/1411098/private-capital-technology-investment-trends-to-expect-in-2024>

<sup>4</sup> Marco Carpineti, Vish Narayanan, Gaurav Sharma, "Private equity investments in tech services: Three considerations," McKinsey & Company, August 14, 2023, <https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/private-equity-investments-in-tech-services-three-considerations>

<sup>5</sup> John Moore, "Demand for Azure consulting helps fuel M&A surge," TechTarget, September 3, 2020, <https://www.techtarget.com/searchchannel/news/252488600/Demand-for-Azure-consulting-helps-fuel-M-A-surge>




# Some of our recent deals include:

**BRIGHTWORKS**  
has been acquired by

**believeco:**

EY\* acted as exclusive financial advisor to Brightworks Interactive Marketing Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

**WBM Technologies Inc.**  
has received an equity investment from

**Westcap**

EY\* acted as the exclusive financial advisor to WBM Technologies Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

**SOROC**  
received an investment from

**CenterGate CAPITAL**

EY\* acted as exclusive financial advisor to Soroc Technology Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

**Solutions vistavu**  
has acquired

**achieveit SOLUTIONS**

EY\* acted as the exclusive financial advisor to VistaVu Solutions Inc.




\*Ernst & Young Orinda Corporate Finance Inc.

**abilis<sup>it</sup>**  
has divested its business intelligence solutions and services division to

**Passerelle**

EY\* acted as exclusive financial advisor to Abilis Solutions Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

EY advised on an acquisition that created one of the largest IT Services companies in Quebec.

EY\* acted as exclusive financial advisor to one of the parties



\*Ernst & Young Orinda Corporate Finance Inc.

**SIAPARTNERS**  
has acquired an interest in

**R&G ADVISORY**

EY\* acted as the exclusive financial advisor to R&G Advisory Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

**DIGITCOM**  
EXPERIENCE. clever. TELLCOM  
has been acquired by

**PINE HILL CAPITAL**

EY\* acted as exclusive financial advisor to Digicom Telecommunications Canada Inc.



\*Ernst & Young Orinda Corporate Finance Inc.

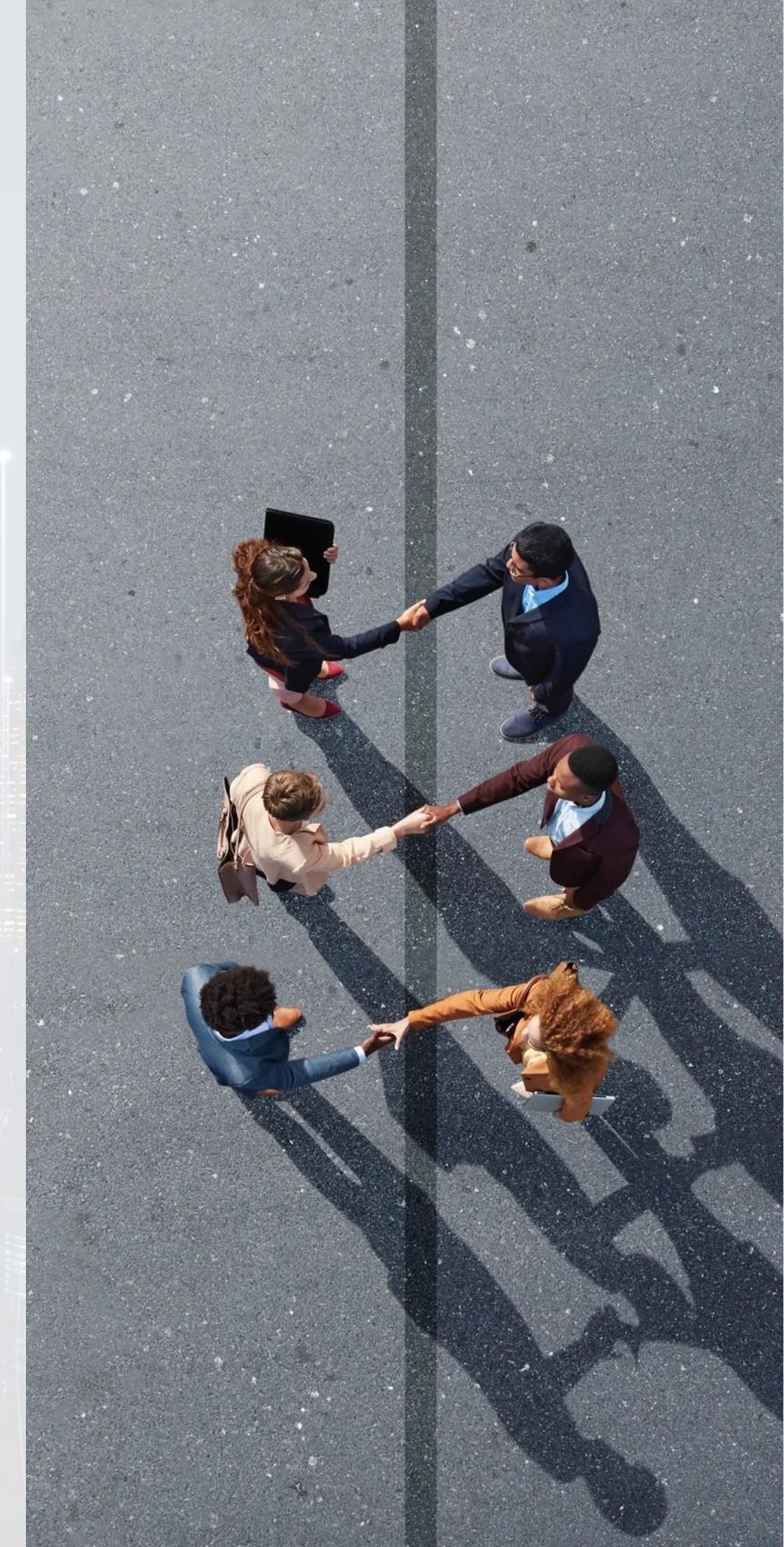
**Well.ca**  
has been acquired by

**MCKESSON Canada**

EY\* provided Transaction Advisory Services to Well.ca



\*Ernst & Young Orinda Corporate Finance Inc. and Ernst & Young LLP







# Video Series Programmed for Success

EY's Technology M&A practice has recently launched a new video series, [Programmed for Success](#). The 5-part series hosted by EY's Canadian Technology M&A Leader, Sid Nair interviews industry thought leaders from inside and outside of the firm. The series focuses on key considerations, risks and opportunities that should be considered prior to a sale of a technology business.

**Programmed for Success Series**

Watch along as Sid Nair explores the key considerations when selling your technology business with industry thought leaders.

[Watch Episodes 1 - 5](#) →

Join the conversation #BetterWorkingWorld





# Select Q4 2023 Transactions<sup>(1)</sup>

DEC 19, 2023*	DEC 18, 2023	Dec 11, 2023	DEC 01, 2023	NOV 20, 2023*
<p>Orica Limited (ASX: ORI) announced the acquisition of <b>Terra Insights</b>, a leading end-to-end sensors, software, and data delivery technology platform for geotechnical, structural and geospatial monitoring in mining and infrastructure, for a transaction value of \$377.7 million.</p>	<p>reAlpha Tech Corp. (NasdaqCM: AIRE) announced the acquisition of <b>United Software Group</b>, an Ohio-based privately held, multi-industry information technology (“IT”) consulting company operating on a global scale, for a transaction value of \$40.0 million*. *Include earnouts of \$11.6 million</p>	<p><i>Elixir International plc (AIM: ELIX) announced the acquisition of <b>Insigniam LLC</b>, a leading global consulting firm which helps companies navigate large-scale, complex change and transformation, for a transaction value of \$18.5 million*. The transaction represents an enterprise value of 1.4x revenue and 8.0x EBITDA. *Include earnouts of \$5.4 million</i></p>	<p>Insight Enterprises (NASDAQ: NSIT), acquired <b>SADA Systems</b>, a market leader in cloud consultancy and technical services, and an award-winning solutions provider of Google Cloud, for an approximate transaction value of \$800 million*. The transaction represents an enterprise value of 3.2x revenue. *Include earnouts of \$390 million</p>	<p>Neptune Wellness Solutions Inc. (NasdaqCM: NEPT) announced the acquisition of <b>Datasys Group, Inc.</b>, a leading data-marketing company that utilizes AI and machine learning to derive intelligence from one of the largest consumer and business data sets, for a transaction value of \$112.0 million*. The transaction represents an enterprise value of 4.2x revenue and 11.5x EBITDA. *Include earnouts of \$22 million</p>
NOV 20, 2023*	NOV 09, 2023*	NOV 09, 2023	NOV 08, 2023	NOV 07, 2023
<p>IPH Limited (ASX: IPH) acquired <b>ROBIC LLP</b>, which provides intellectual property services in the areas of corporate and business law, including technology transfer and licensing, competition, telecommunications, and information technology, for a transaction value of \$80.9 million*. The transaction represents an enterprise value of 2.0x revenue and 9.0x EBITDA. *Include earnouts of \$4.1 million</p>	<p>Calian Group Ltd. (TSX: CGY), acquired <b>Decisive Group</b>, a leader in the IT infrastructure and cyber security services which designs, builds, and maintains enterprise IT infrastructure and hybrid cloud, as well as manages and protects data, for a transaction value of \$54.3 million.</p>	<p>SentinelOne, Inc. (NYSE:S), acquired <b>Krebs Stamos Group LLC</b>, provider of cybersecurity strategy services intended to serve the manufacturing, aerospace, life sciences and telecommunication industries, for a transaction value of \$14.0 million.</p>	<p>BigCommerce Holdings, Inc. (NasdaqGM: BIGC) acquired <b>Makeswift, Inc.</b>, which provides a visual no code builder for Next.js websites, which makes any react component visually editable, for a transaction value of \$9.0 million.</p>	<p>Amdocs Limited (NasdaqGS: DOX) acquired <b>Astadia</b>, a market-leading software and services provider that operates globally to help organizations accelerate mainframe modernization and cloud migration, for a transaction value of \$75.0 million.</p>



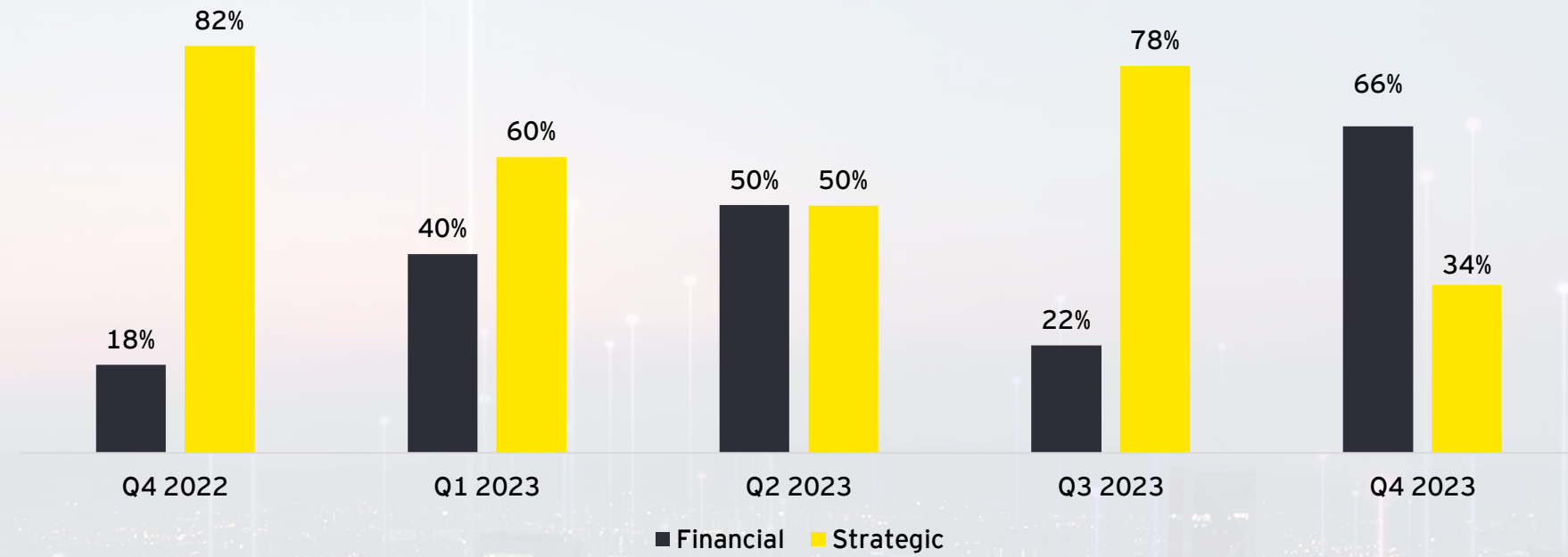
# Select Q4 2023 Transactions<sup>(1)</sup> Continued

<b>NOV 06, 2023</b>	<b>NOV 06, 2023</b>	<b>NOV 01, 2023</b>	<b>NOV 01, 2023</b>	<b>OCT 13, 2023</b>
<p>Amdocs Limited (NasdaqGS: DOX) acquired <b>Procom Consulting</b>, which operates as a business consulting and information technology services firm specialising in the communications and state and local government sectors, for a transaction value of \$37.0 million.</p>	<p>Bain Capital LP acquired <b>Guidehouse</b>, which has broad capabilities in management, technology, and risk consulting, as well as digital services and business process outsourcing, for a transaction value of \$5.3 billion.</p>	<p>Iron Mountain (NYSE: IRM) acquired <b>Regency Technologies</b>, a leading provider of IT asset disposition services in the US using innovative processes and equipment to maximize monetary value, extend the useful life of devices, for a transaction value of \$200.0 million. The transaction represents an enterprise value of 2.0x revenue and 7.5x EBITDA.</p>	<p>Brookfield Infrastructure Partners L.P. (NYSE: BIP) acquired <b>Substantially All Assets of Cyxtera Technologies, Inc.</b>, which comprises data center products and services for enterprises, for a transaction value of \$775.0 million.</p>	<p>Amphenol Corporation (NYSE: APH), acquired <b>PCTEL, Inc.</b> a leading global provider of wireless technology solutions, including purpose-built Industrial IoT devices, antenna systems, and test and measurement products, for a transaction value of \$139.7 million. The transaction represents an enterprise value of 1.2x revenue and 12.5x EBITDA.</p>
<b>OCT 12, 2023</b>	<b>OCT 12, 2023</b>	<b>OCT 11, 2023</b>		
<p>Stagwell, Inc. (NASDAQ: STGW) acquired <b>Left Field Labs, LLC</b>, a digital agency inventing at the intersection of technology and human-centric design, for a transaction value of \$65 million*. *Include earnouts of \$51 million</p>	<p>Mphasis Corporation acquired <b>Sonnick Partners LLC</b>, a digital transformation consultancy and Salesforce partner focused on consulting and advisory services, implementation, managed services, and specialty capabilities, for a transaction value of \$132.5 million.</p>	<p>CGI Inc. (NYSE: GIB) acquired <b>Momentum Consulting Corporation</b>, a Miami-based IT and business consulting firm specializing in digital transformation, data analytics and managed services, for an approximate transaction value of \$50.5 million.</p>		

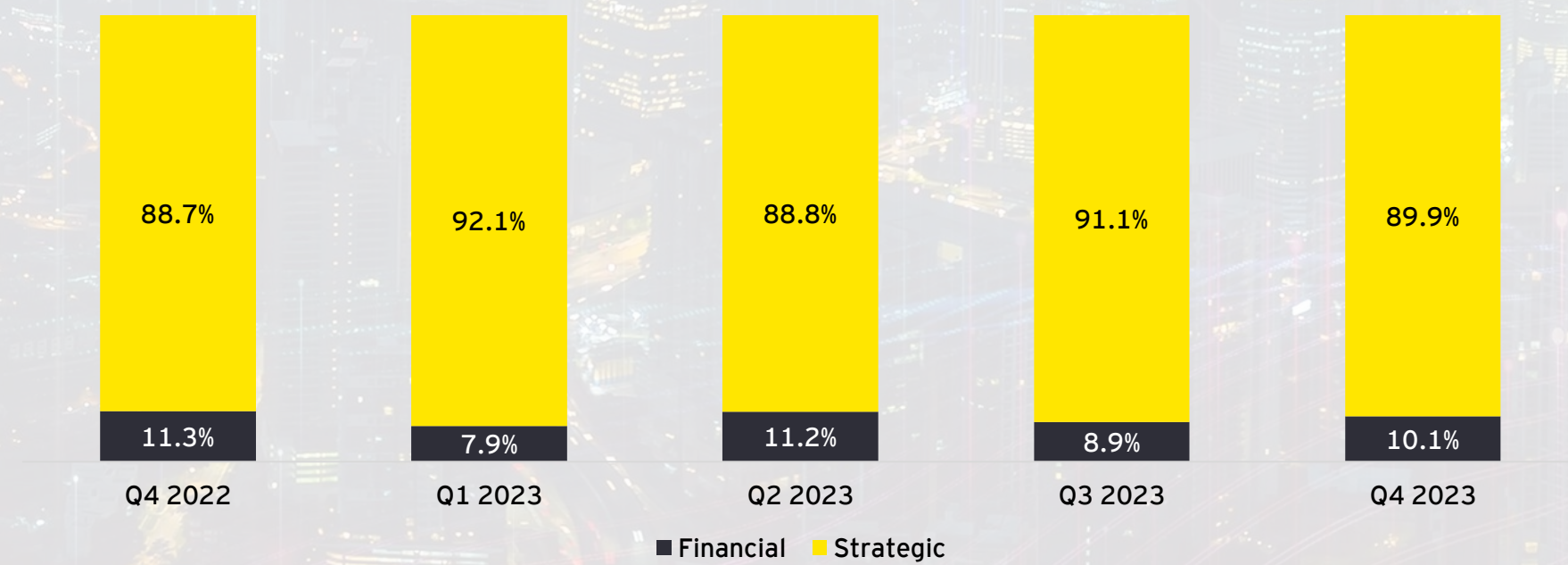


# Historical M&A activity

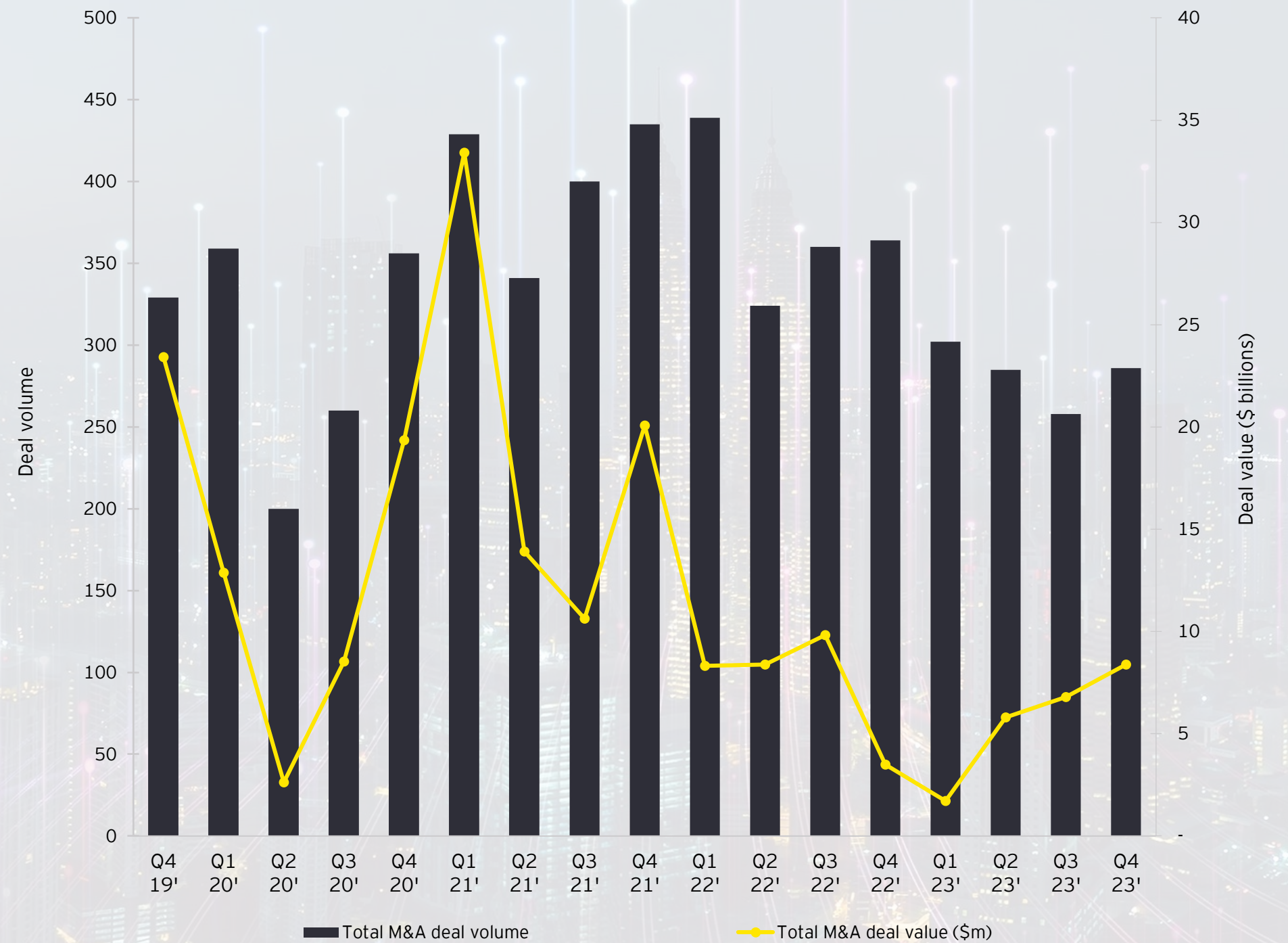
Deal value by type of acquirer



Deal volume by type of acquirer



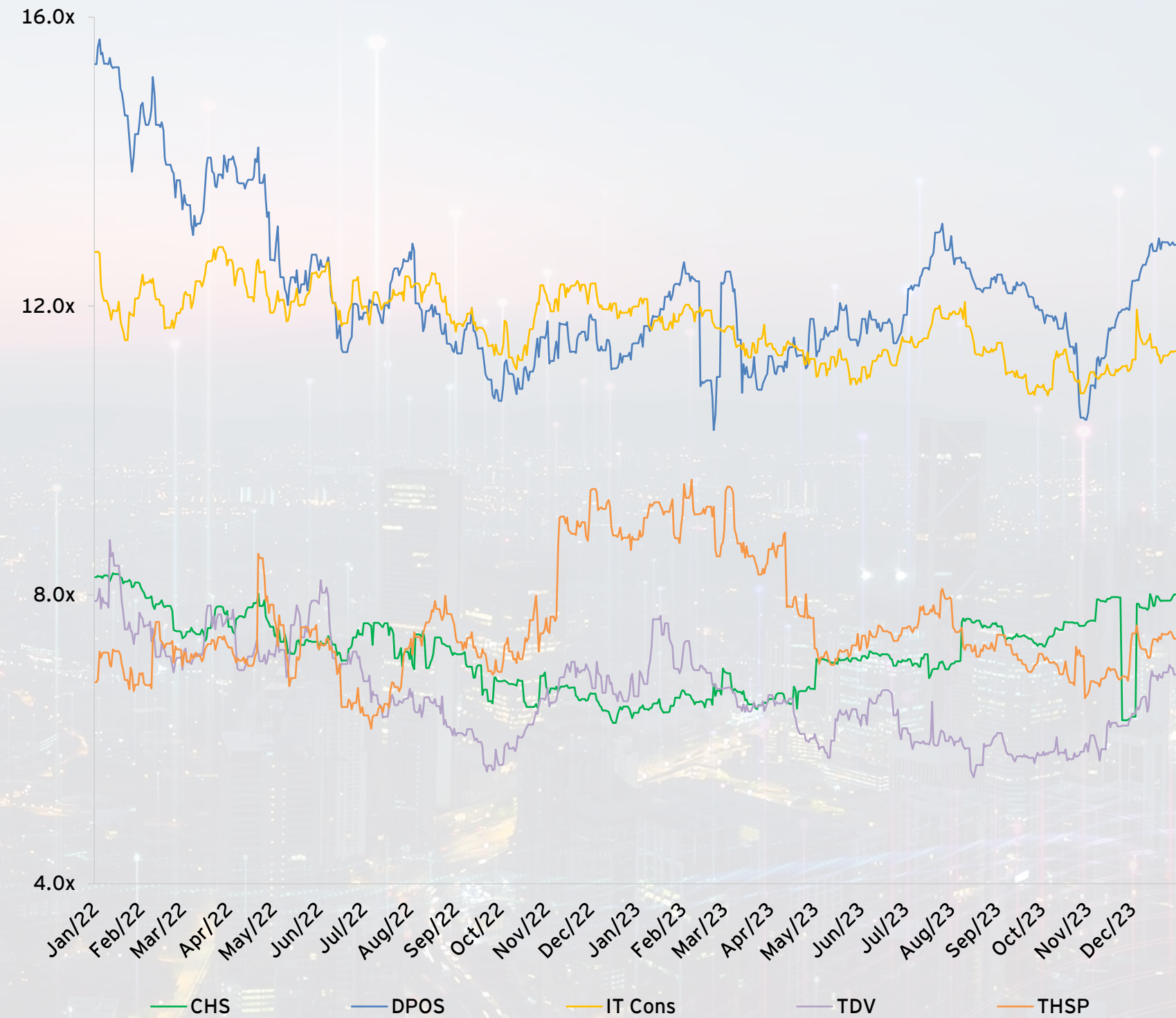
Both deal values and deal volumes have improved from Q3 and Q2 2023 levels



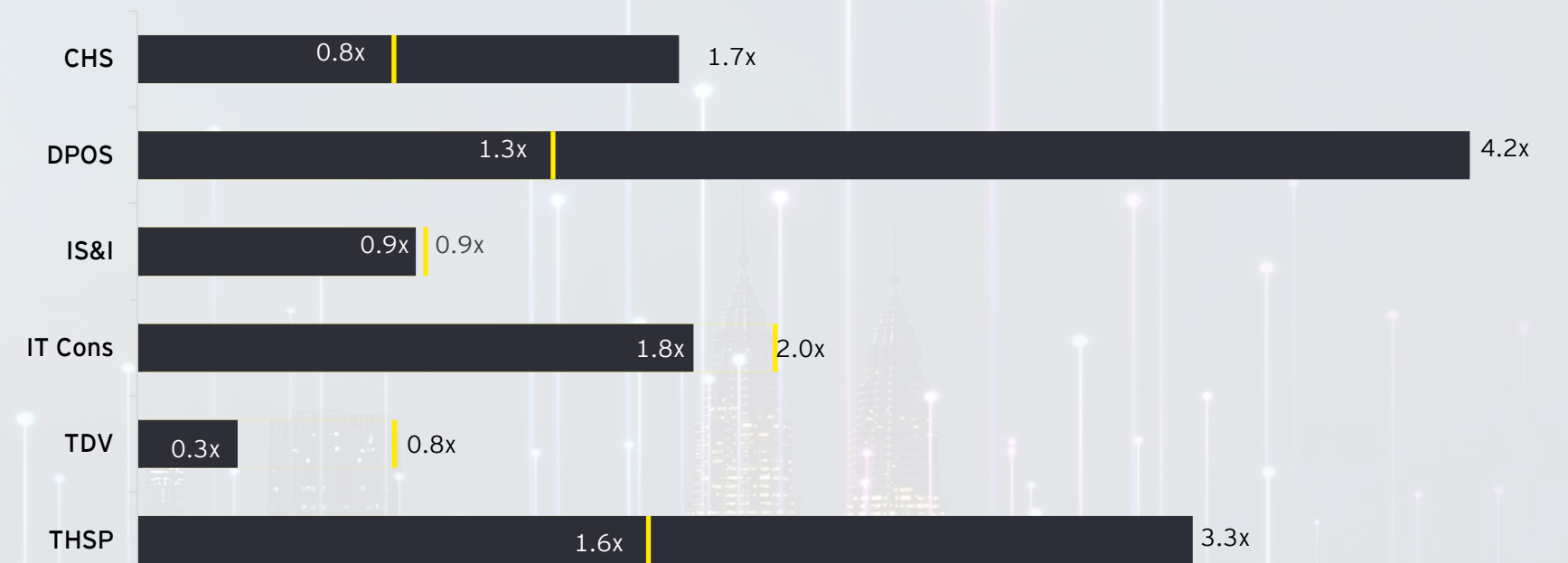


# Historical M&A activity continued

Public company multiples have remained volatile through Q4 of 2023 with a slight uptick experienced in the end of the quarter

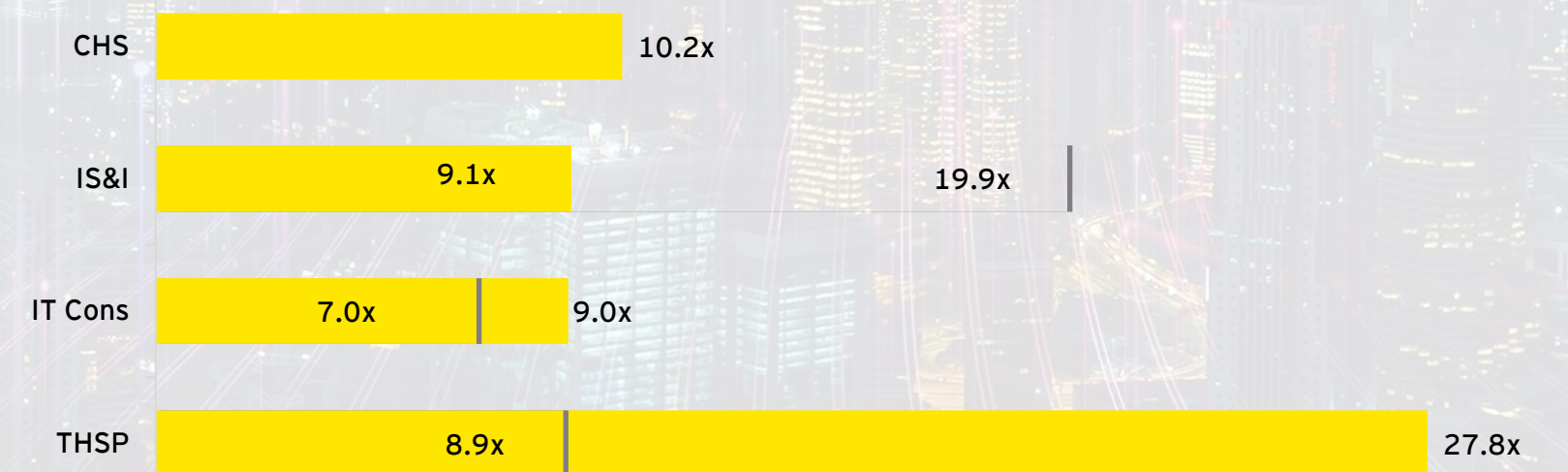


Revenue transaction multiples have shown improvement while some categories declined when compared to Q4 2022<sup>(1)</sup>



\*Yellow line indicates Q4 2022 comparison

EBITDA transaction multiples have remained volatile while multiple categories have shown an increase when compared to Q4 2022<sup>(1)</sup>



\*Grey line indicates Q4 2022 comparison

\* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Oct 1, 2019 and Dec 31, 2023 in Canada and the US. The sample has been compiled by EY Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the IT Services sector. Furthermore, the categorization of the sample across various sub-sectors and any analysis thereof, by EY Orenda Corporate Finance Inc. is solely for illustrative purposes and were not created to serve as benchmarks. Every transaction has specific characteristics that impact value and corresponding multiples. It is necessary to understand the background and circumstances surrounding each transaction to extract meaningful insights.



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