

Software M&A Recap

FIRST QUARTER 2024

Value scorecard driver: ARR Scale



EY Canada's Technology M&A team has developed a proprietary value scorecard tool to evaluate the relevant drivers that help drive a software business' value. In this quarter's M&A recap, we delve into the pivotal role of ARR scale in shaping the value of software companies.



Three ARR milestones that investors think about

Any new customer sale is always a moment worth celebrating and within operating a business every win is an important step towards success. This reality, however, tends to be less linear in M&A where investors often look to certain growth milestones to help sort out where to focus from a large universe of potential investments. Ultimately, ARR scale is one of those thresholds that can lead to an immediate go or no-go decision from investors or acquirers. This is important to remember when investors or acquirers reach out. Even if they are very interested in the technology and fit with their business they may walk away simply on the basis of size, so understanding that criteria early on is key and especially before you make detailed disclosures that may be used to educate a potential competitor. By being mindful of these ARR thresholds that tend to move the needle with investors, founders can help navigate the best timing to look for investment or a transaction.

While each entrepreneur can set their own ARR objective, there are three ARR ranges that we see in our work in the M&A mid-market that have an impact on an exit process including the buyer universe and valuation. These ARR ranges can be broken down as follows:

Stage	Threshold
Emerging	<\$3M
Growth	\$3-10M
Established	>\$10M

In the emerging stage, the focus is on validating product-market fit and establishing foundational processes especially for companies under \$1M of ARR. Once a company enters the \$1M-3M range, it begins to have a solid base of recurring customers, can report on some basic metrics and is fine-tuning its customer acquisition strategy.

In the growth stage, the focus shifts towards demonstrating that the company can convert new opportunities into sales in a repeatable and cost-effective manner - in other words the software is ready to scale.

Finally, in the established stage, the company has identified both the ingredients and the recipe needed to continue growing on a sustainable basis. These businesses are still very much in scaling mode, but they typically have a meaningful customer base and a better understanding of the strategy and unit economics of the business.

\$10M of ARR is still quite early on in the journey of many businesses and there are many more milestones and thresholds beyond that one, but we tend to find that the large majority of strategic and financial investors will look at businesses beginning at this point if it has a compelling solution.

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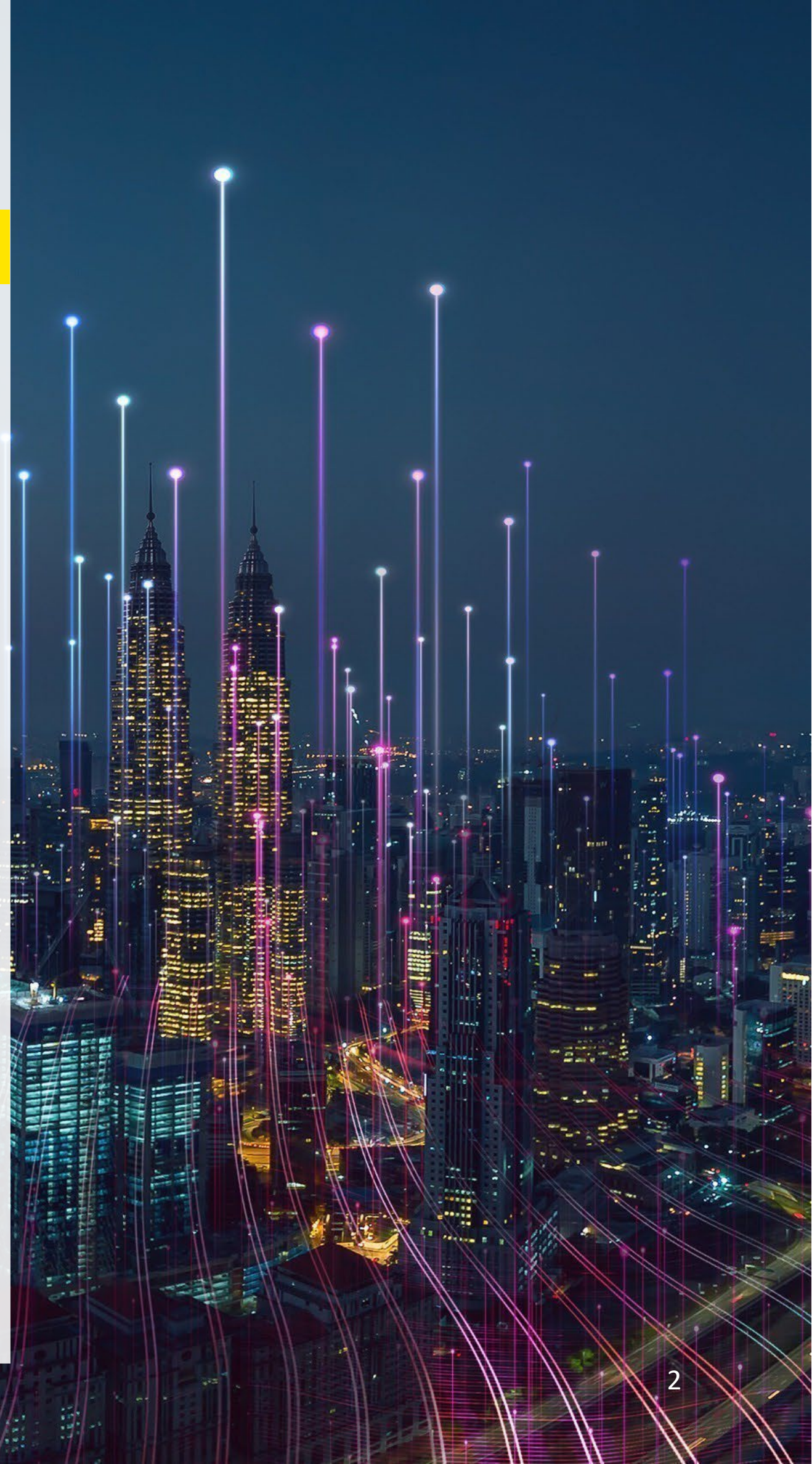
How ARR scale impacts the universe of buyers

The buyer universe can, at the highest level, be separated into two categories: strategic and financial purchasers - who will each have varying levels of interest depending on ARR scale.

Large and medium-sized strategic buyers generally seek market-validated companies that are either in the growth or established stage (i.e., above the \$3M threshold). What excites this buyer category the most is how easily a product can be integrated within their own ecosystem and how quickly it can cross-sell to their existing customer base on day one. Given the effort that comes along with completing a deal and integration, companies typically want to acquire assets of scale. They are willing to acquire smaller assets in cases where the technology is particularly unique or synergistic.

The financial buyer universe can be very broad as financial investors typically establish minimum or maximum ARR thresholds as prerequisites for exploring potential opportunities. At the emerging stage, venture capital firms provide initial funding to support growth in exchange of a minority position. If it is a more mature business at this scale it might be a target for a search fund, family office or private investor. As a company moves towards the growth and established stages, it attracts interest from another subgroup: private equity firms. These financial investors are either looking to (1) make add-on acquisitions for an existing platform company in which case their ARR criteria may be slightly relaxed or (2) make the company a platform investment in which case the ARR usually needs to be \$5M or more. In both cases, this represents an exit opportunity for the selling shareholders. Based on the geographic market these thresholds might vary. We have seen Canadian private equity have more appetite for smaller scale companies than US counterparts.

ARR scale also plays a role in shaping the buyer landscape by influencing the interest of international buyers. Foreign buyers will typically hesitate to make overseas investments unless the target has reached the growth stage and is trending towards the established stage.





How ARR scale affects valuation and multiples

While many people believe that multiples increase as ARR increases, our point of view based on our work in this space is more nuanced. Emerging companies, despite having unique offerings often receive lower multiples due to perceived higher-risk factors, given their early stage of growth. The main exception to this rule is when companies operate in high growth industries that are experiencing macro-level tailwinds such as AI, automation, or sustainability to name only a few.

As companies progress into the growth stage, multiples tend to increase reflecting the fast-growing revenue and market traction. This correlation however does not hold indefinitely. There becomes a point where established assets face a compression in multiples as it becomes more challenging to maintain high growth rates while also managing profitability.

Attractive opportunities for exit at every stage

Although certain stages may be more conducive to a business sale due to the considerable influence of ARR scale on the buyer universe and valuation multiples, shareholders can still aim for outsized outcomes at any stage of the business's lifecycle under the right circumstances based on the nature of company's IP and other factors.

You can read EY Canada's Technology team's prior quarterly software M&A recaps for more information on these metrics or contact our team if you're interested in learning more about how our value scorecard applies to your business.



How the focus on ARR scale and growth remains central at all stages

For shareholders seeking an exit, ARR scale and growth stand out as critical metrics scrutinized by buyers. For buyers to pay a premium, they expect to see a historical track record (last 12 - 24 months) of constant growth coupled with strong momentum during the actual sales process. This is why highlighting customer wins during the due diligence phase can enhance confidence and bolster conviction regarding projected figures.

However, it is important to recognize that as companies transition towards the growth phase and become more mature, various business fundamentals must also scale alongside ARR and growth. Beyond a certain threshold, buyers no longer assess ARR scale and growth in isolation, especially as it becomes increasingly challenging to sustain year-over-year growth rates exceeding 50%. Instead, buyers place more emphasis on other efficiency metrics such as rule of 40, ARR per FTE, and net dollar retention to evaluate the value of a business.

Some of our recent deals include:

edsembli

has been acquired by

SPARKROCK

a portfolio company of

IP IONIC PARTNERS

EY* acted as exclusive financial advisor to Edsembli Inc.

EY
Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.
*Ernst & Young Corporate Finance (Canada) Inc.

FigBytes™

has been acquired by

AMCS

EY* acted as exclusive financial advisor to FigBytes Inc.

EY
Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.
*Ernst & Young Corporate Finance (Canada) Inc.

Ecometrica

has been acquired by

EcoOnline Apax PARTNERS

EY* acted as exclusive financial advisor to Ecometrica Limited

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Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.
*Ernst & Young Corporate Finance (Canada) Inc.
*Ernst & Young LLP.

CORIS™
Information for a Better Agency™

has been acquired by

HARRIS

EY* acted as the exclusive financial advisor to Abilis Solution Inc. (o/a CORIS)

EY
Building a better working world

*Ernst and Young Orenda Corporate Finance Inc.

BANDZOOGLE

has been acquired by

DISTROKID

EY* acted as exclusive financial advisor to Sitezoogle Inc. d/b/a Bandzoogle.com

EY
Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.
*Ernst & Young Corporate Finance (Canada) Inc.

Metrio

has been acquired by

A technology company that operates leading stock exchanges and serves capital markets globally

EY* acted as the exclusive financial advisor to Metrio Software Inc.

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*Ernst and Young Orenda Corporate Finance Inc.

3vGEOMATICS

has been acquired by

RST INSTRUMENTS MEASURAND

RST/Measurand, a portfolio company of Vance Street Capital LLC

EY* acted as the exclusive financial advisor to 3v Geomatics Inc.

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*Ernst and Young Orenda Corporate Finance Inc.

StepUp RGM

has been sold to

XTEL
RIGHT SOLUTIONS. SALES POWER.

backed by

KANTAR SilverTree

EY* acted as the exclusive financial advisor to StepUp RGM BV

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Building a better working world

*Ernst and Young Orenda Corporate Finance Inc.

CORNERSTONE CAPABILITIES

has been acquired by

An Industry Leader in Global Measurement and Data Analytics for Retail and Consumer Intelligence

EY* acted as exclusive financial advisor to Cornerstone Capabilities Inc.

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VERDAZO

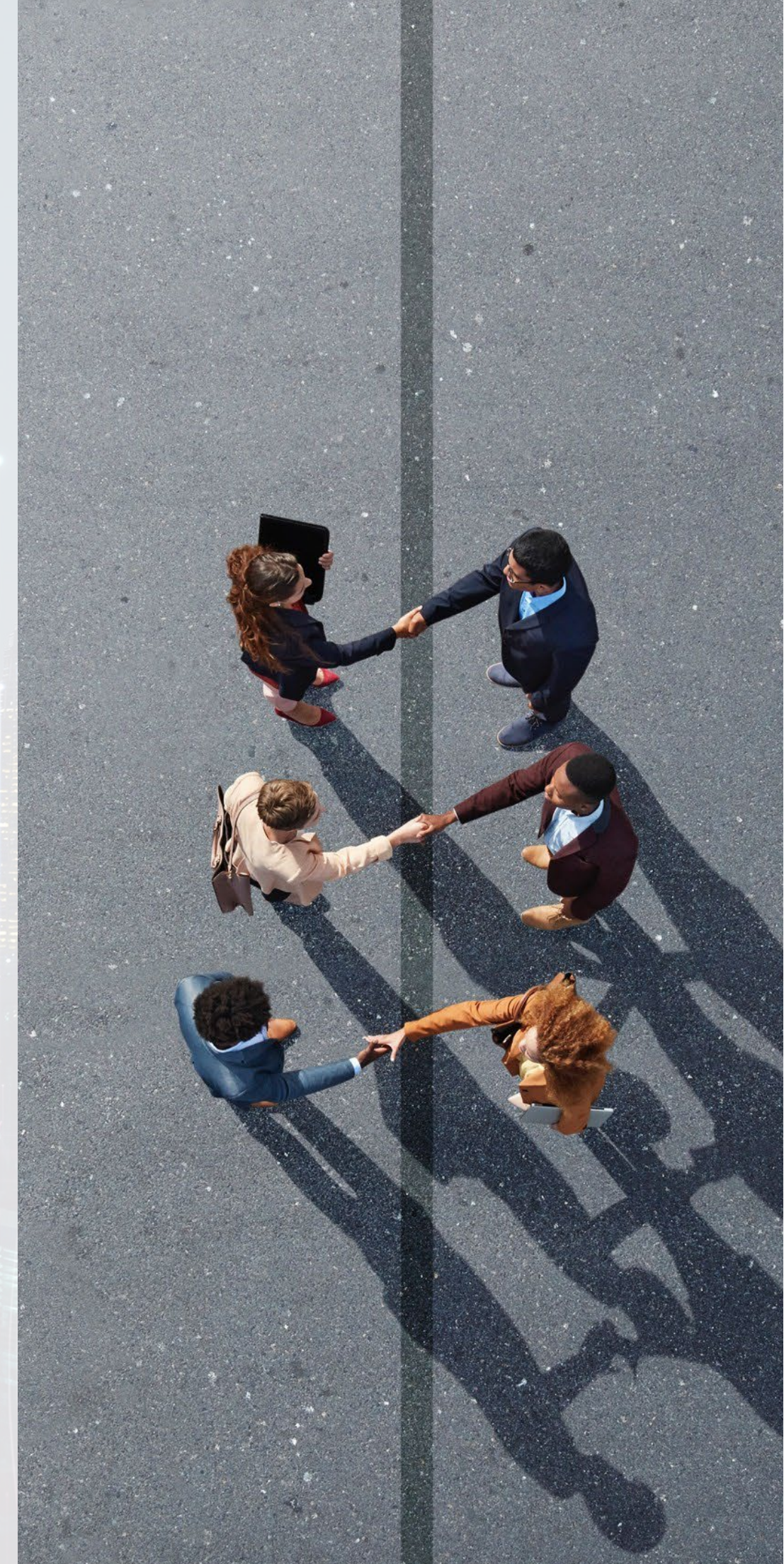
has been acquired by

Vela SOFTWARE

EY* acted as the exclusive financial advisor to Verdazo Analytics Inc

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EY Transaction Snapshot

EY advised Edsembli Inc. (“Edsembli”) on a sale of the business to Sparkrock 365 (“Sparkrock”), a portfolio company of Ionic Partners (“Ionic”).

About the Company

Edsembli is a leading Ontario, Canada-based provider of education technology to school districts, individual schools, educators and administrators. Its cloud-based ERP software helps school boards simplify operations and improve efficiency.

The Buyer

Sparkrock is a Toronto-based software provider of ERP solutions for non-profits, human services and K-12 education. Ionic is a Texas-based, software operator-led global enterprise software platform focused on investing in businesses with strong core products and durable recurring revenue. Ionic creates extraordinary value through a product-led thesis and by infusing world-class operating best practices into the daily workflow of their companies.

The Win-Win

The transaction will accelerate Edsembli’s strategic growth initiatives and enable additional investment in key areas. The acquisition of Edsembli is synergistic to Sparkrock and provides Ionic the opportunity to partner with management on the next stage of growth for the business.

EY’s expertise in tax and transaction advisory were key to achieving an optimal outcome for Edsembli.



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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](#) →

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Select Q1 2024 Transactions⁽¹⁾

Announced Date	Target	Target HQ	Target Description	Buyer	Buyer HQ
Mar 29, 2024	One Network Enterprises, Inc.		Provider of the digital supply chain network, and a leading global provider of intelligent control towers <ul style="list-style-type: none"> Deal Value: \$839.0 million 	Blue Yonder Group	
Mar 28, 2024	OCR Services, Inc.		Provider of global trade compliance solutions and content for export compliance and controlled commodities <ul style="list-style-type: none"> Deal Value: \$90.0 million 	Descartes Systems Group (TSX: DSG)	
Mar 18, 2024	Jama Software, Inc.		Leading company in requirements management & traceability and leads the market in customer satisfaction ratings NPS Scores, SaaS Scale and SOC2 compliance <ul style="list-style-type: none"> Deal Value: \$1.2 billion 	Francisco Partners Management, L.P.	
Mar 13, 2024	Gem Security Inc.		Developer of a purpose-built CDR platform that shortens the time to detect, investigate and contain cloud-native threats <ul style="list-style-type: none"> Deal Value: \$350.0 million 	Wiz, Inc.	
Mar 13, 2024	TrueContext Corporation		Developer a no-code platform that enables rapid workflow automation and data driven transformation <ul style="list-style-type: none"> Deal Value: \$118.4 million EV/Revenue: 4.6x 	Battery Ventures	
Mar 12, 2024	RevSpring, Inc.		Leading end-to-end platform for consumer-driven engagement and payments solutions servicing healthcare and financial services companies <ul style="list-style-type: none"> Deal Value: \$1.3 billion 	Frazier Healthcare Partners	
Mar 11, 2024	SeaChange International Inc.		Provider of video delivery, advertising, streaming platforms, and emerging free Ad-supported streaming TV services <ul style="list-style-type: none"> Deal Value: \$30.0 million 	Partner One Capital	
Mar 05, 2024	Elpis2, Inc.		An innovative provider of software and services for utility grid planning, operations and engineering <ul style="list-style-type: none"> Deal Value: \$35.0 million 	Itron, Inc. (NasdaqGS: ITRI)	


⁽¹⁾Data sources: S&P Capital IQ, Mergermarket, Press Releases
 All currencies are in US\$

Select Q1 2024 Transactions⁽¹⁾

Announced Date	Target	Target HQ	Target Description	Buyer	Buyer HQ
Mar 04, 2024	Dog Breath Software, Inc.		An endodontic practice management software widely used in the endodontic industry worldwide <ul style="list-style-type: none"> Deal Value: \$16.0 million 	Valsoft Corporation Inc.	
Feb 20, 2024	Visible Alpha		Financial technology provider of deep industry and segment consensus data <ul style="list-style-type: none"> Deal Value: \$500.0 million 	S&P Global (NYSE: SPGI)	
Feb 16, 2024	Think Research Corporation		Leading company in delivering knowledge-based digital health software solutions <ul style="list-style-type: none"> Deal Value: \$14.6 million EV / Revenue: 0.9x 	Beedie Capital	
Feb 15, 2024	Jackpocket		Provider of digital lottery services in the U.S. with proprietary and highly scalable technology <ul style="list-style-type: none"> Deal Value: \$350.0 million 	DraftKings, Inc. (Nasdaq: DKNG)	
Feb 14, 2024	Altium Limited		Provides software tools that empower and connect PCB designers, part suppliers and manufacturers <ul style="list-style-type: none"> Deal Value: \$5.9 billion EV / Revenue: 20.2x 	Renesas Electronics Corp. (TSE: 6723)	
Feb 14, 2024	Cotiviti, Inc.		Leading healthcare data and technology company which offers advanced technology and data analytics solutions that enables healthcare organizations to deliver better care at lower cost <ul style="list-style-type: none"> Deal Value: \$5.0 billion 	KKR & Co. Inc. (NYSE: KKR)	
Feb 11, 2024	Cforia Software, LLC		Leading provider of billing and collections automation software, with over 100 customers globally <ul style="list-style-type: none"> Deal Value: Undisclosed 	HighRadius Corporation	
Feb 08, 2024	Veritas Technologies LLC		Leading company in data security and management, offering a comprehensive, multi-cloud data protection portfolio with a powerful and simple user experience platform <ul style="list-style-type: none"> Deal Value: \$3.0 billion 	Cohesity, Inc.	





⁽¹⁾Data sources: S&P Capital IQ, Mergermarket, Press Releases
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Select Q1 2024 Transactions⁽¹⁾

Announced Date	Target	Target HQ	Target Description	Buyer	Buyer HQ
Feb 07, 2024	Userflow, Inc.		Developer of leading platform for SaaS companies to manage user onboarding, retention and ongoing communication ▶ Deal Value: \$60.0 million	Joincube, Inc.	
Feb 06, 2024	ZeroFox Holdings, Inc.		Provider of SaaS based external cybersecurity solutions that focus on exposing, disrupting, and responding to threats outside the traditional corporate perimeter ▶ Deal Value: \$350.0 million ▶ EV / Revenue: 1.4x	Haveli Investment Management LLC	
Feb 05, 2024	Everbridge, Inc.		Provider of SaaS products, encompassing mass notification, IT incident management, travel risk management, physical security information management, population alerting, and risk intelligence ▶ Deal Value: \$1.5 billion ▶ EV / Revenue: 4.1x	Thoma Bravo, L.P.	
Feb 01, 2024	Fusus, Inc.		Provider of real-time crime center platforms in global law enforcement. The platform integrates and enhances all business community, government, public safety and investigations assets ▶ Deal Value: \$240.0 million	Axon Enterprise, Inc.(NasdaqGS: AXON)	
Jan 31, 2024	Bulloch Technologies, Inc.		Provides of point-of-sale, forecourt controller and electronic payment server solutions to the convenience retail industry ▶ Deal Value: \$111.8 billion	Dover Fueling Solutions Segment, Inc.	
Jan 25, 2024	Procure Software, LLC		Provider of cloud-based software for the management of early childhood education centers ▶ Deal Value: \$1.9 billion	Roper Technologies, Inc. (NasdaqGS: ROP)	
Jan 25, 2024	Intrahealth Systems Limited		Provider of advanced SaaS electronic health record management platform for small and medium enterprise healthcare organizations ▶ Deal Value: \$17.9 million	Healwell AI Inc. (TSX: AIDX)	

⁽¹⁾Data sources: S&P Capital IQ, Mergermarket, Press Releases
All currencies are in US\$

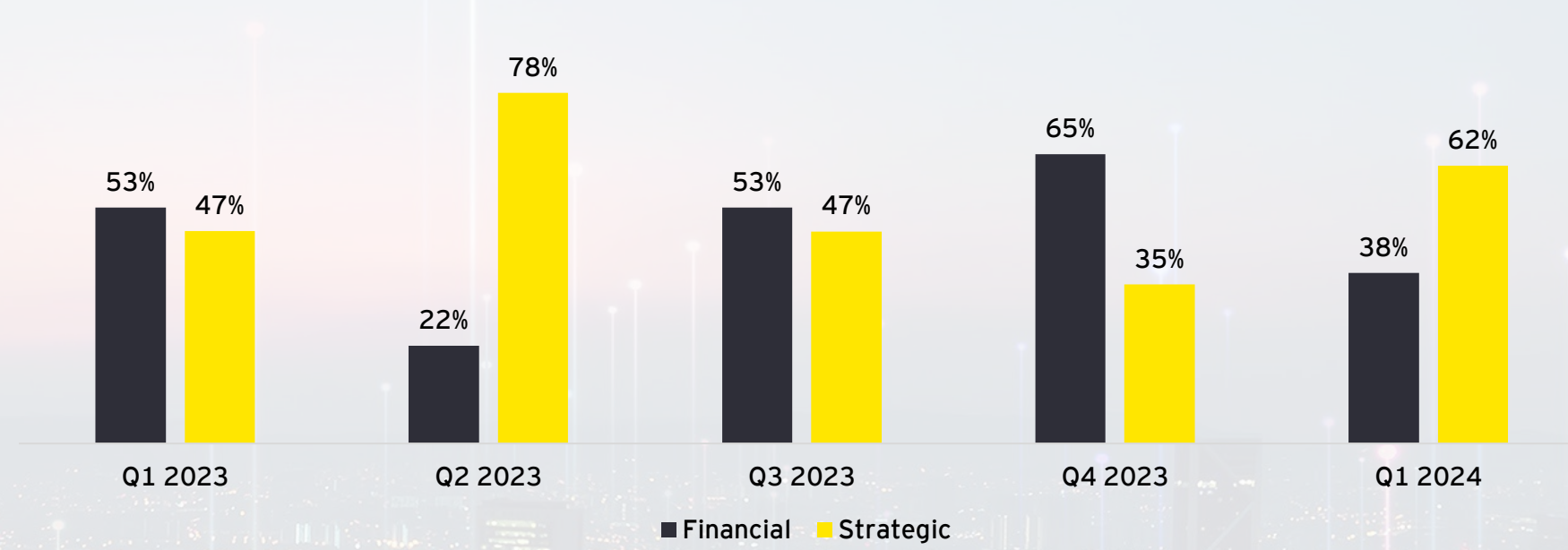
Select Q1 2024 Transactions⁽¹⁾

Announced Date	Target	Target HQ	Target Description	Buyer	Buyer HQ
Jan 24, 2024	STN Video Incorporated		An online video platform that brings together premium content, including sports highlight rights from the top leagues in North America <ul style="list-style-type: none"> Deal Value: \$150.0 million 	Pro Sportority (Israel) Ltd.	
Jan 24, 2024	MediaValet Inc.		Provider of enterprise digital asset management, video content management and creative operations software <ul style="list-style-type: none"> Deal Value: \$59.6 million EV / Revenue: 4.9x 	Symphony Technology Group, LLC	
Jan 16, 2024	American HealthTech, Inc.		Provider of electronic health record solutions and related services for the post-acute care market <ul style="list-style-type: none"> Deal Value: \$25.0 million 	Pointclickcare Technologies USA Corp.	
Jan 10, 2024	Informa Tech LLC		Provider of market insight and market access to the global business technology community <ul style="list-style-type: none"> Deal Value: \$350.0 million EV / Revenue: 1.9x EV / EBITDA: 14.5x 	TechTarget, Inc. (NasdaqGM: TTGT)	
Jan 05, 2024	Luméd inc.		Developer of clinical decision support system for hospitals to optimize antimicrobial prescriptions and monitoring healthcare-associated infections <ul style="list-style-type: none"> Deal Value: \$9.9 million 	bioMérieux S.A. (ENXTPA: BIM)	

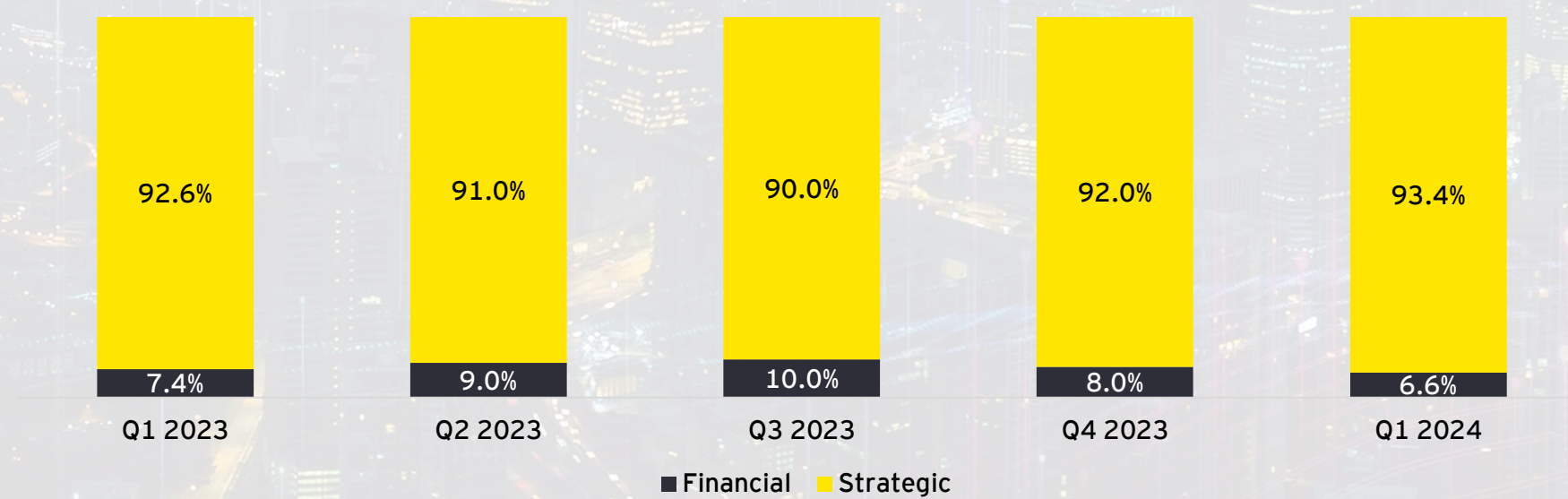
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Historical M&A activity

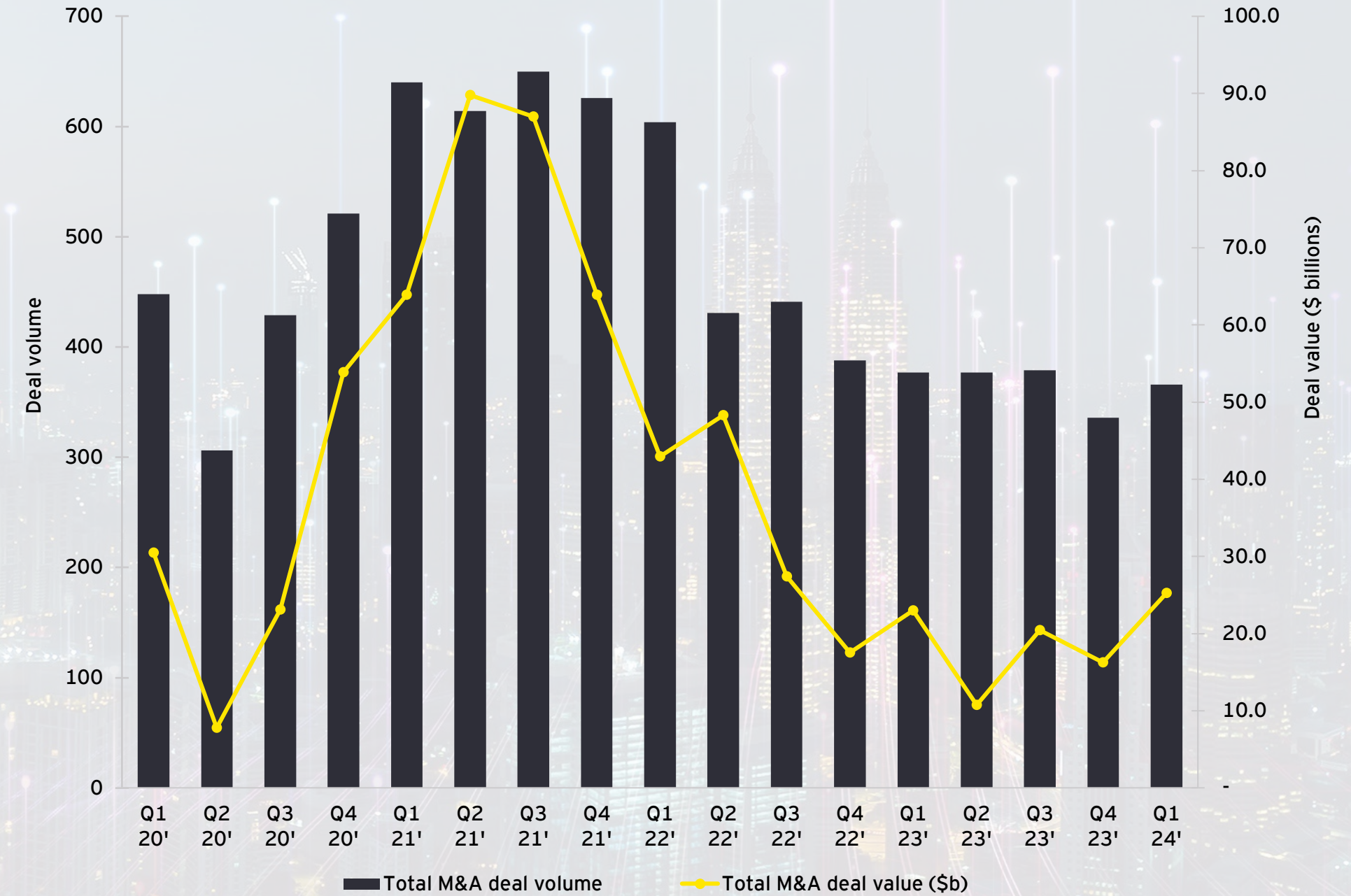
Deal value by type of acquirer



Deal volume by type of acquirer

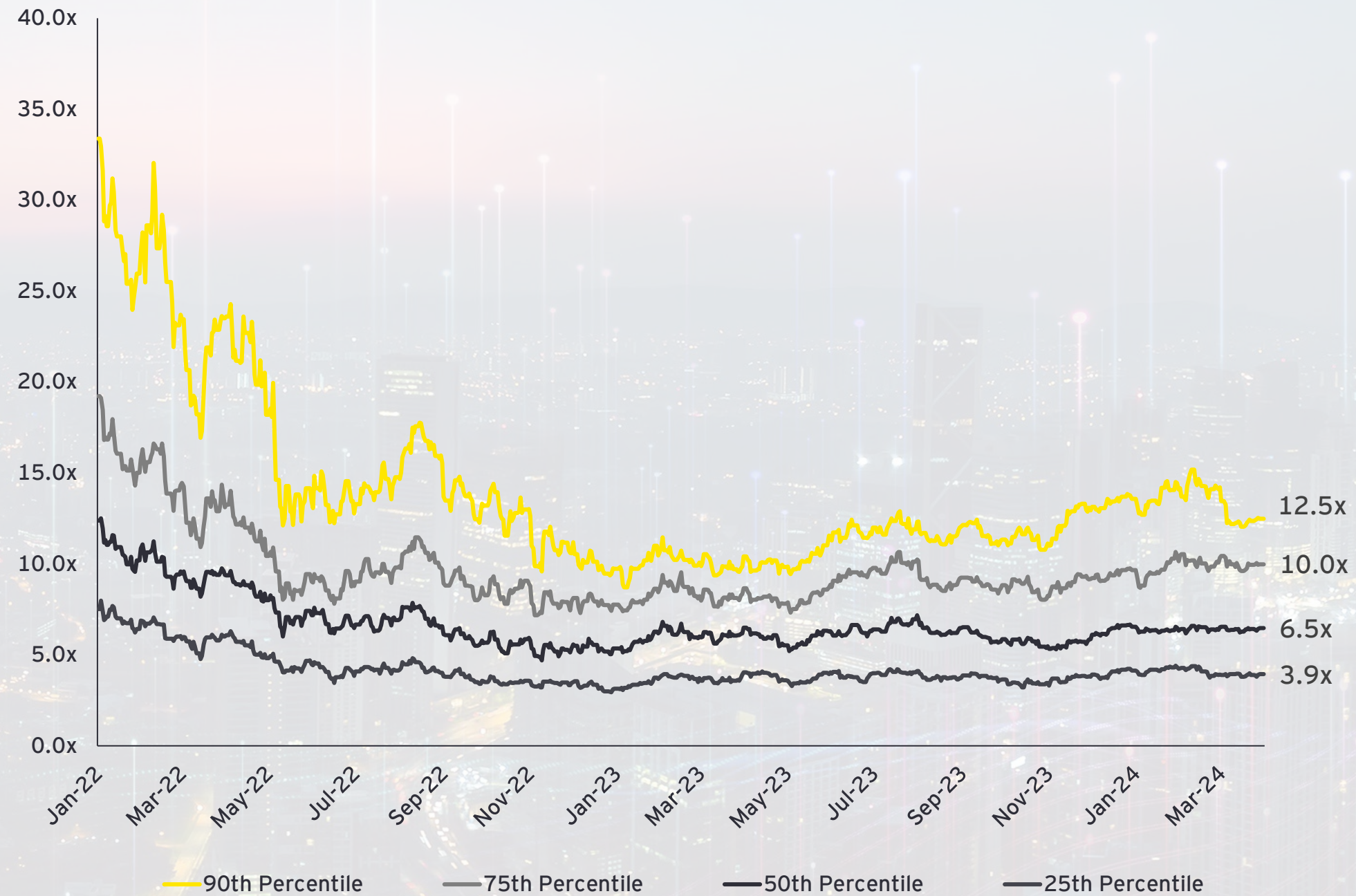


Both deal values and deal volumes have improved from Q4 2023 levels



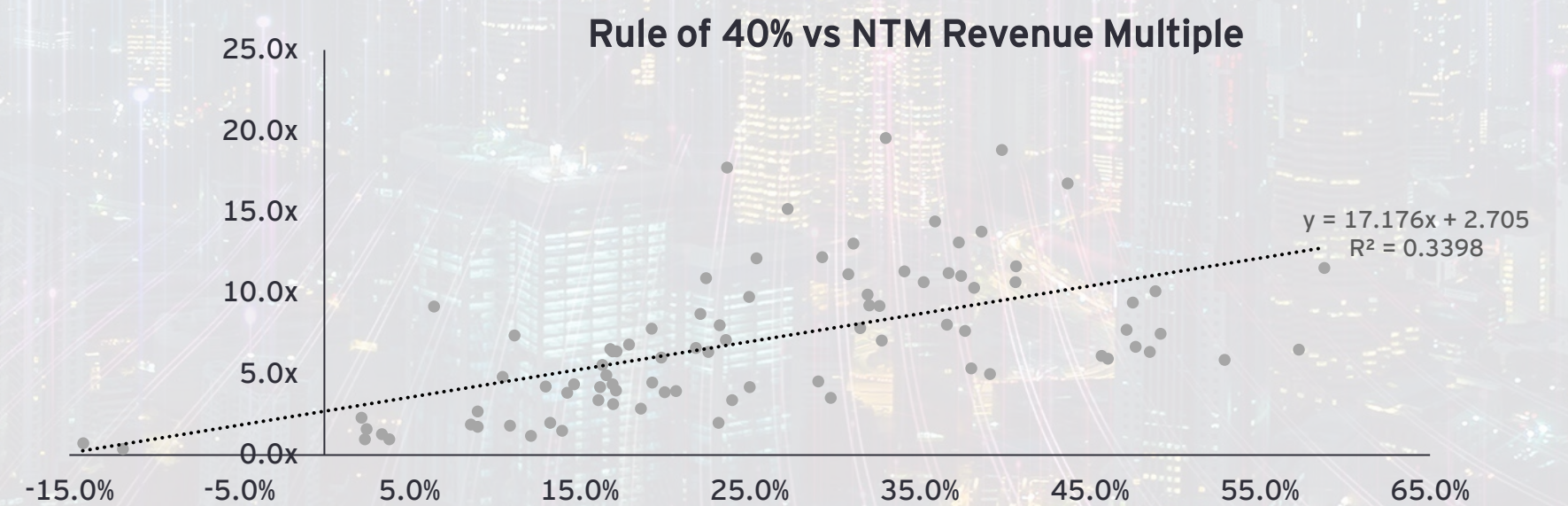
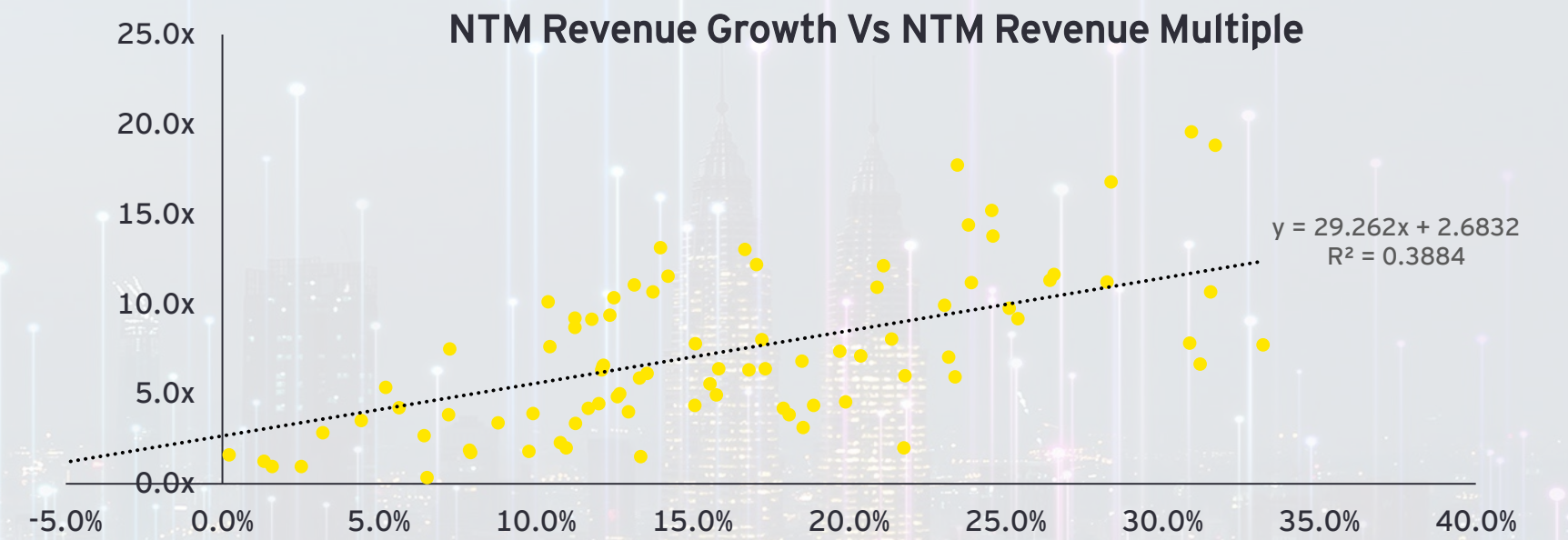
Historical M&A activity continued

The below chart shows the 25th, 50th, 75th, and 90th percentile NTM revenue multiples. 90th percentile companies have seen the most multiple compression, down 62.6% from a Jan-22 high of 33.0x to 12.5x today. The current median multiple is 9.6x, still down significantly from pre-COVID levels.



*Data for percentile valuation charts multiples has been sourced from S&P Capital IQ and comprises EV/NTM multiples data of 88 global SaaS public companies from Jan 1, 2022 till Mar 31, 2024.

The charts below depict correlations between software company NTM revenue multiples with NTM revenue growth and a metric that combines LTM revenue growth with EBITDA margin. At the end of Q1 2024, NTM software revenue multiples were slightly more correlated to NTM Revenue growth vs Rule of 40.



*Data for scatter plot charts has been sourced from S&P Capital IQ and comprises EV/NTM multiples, NTM Growth % and LTM EBITDA growth % data of 88 global SaaS public companies.

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Capital Markets



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