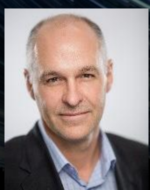
Building a better working world

First half 2020

Canada and US market insights

Software M&A Recap



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Non-tech companies are increasingly looking to software and other tech sectors for M&A. This strategy presents both opportunities and risks.

The trend for companies that aren't traditionally considered to be in the tech sector to actively acquire a portfolio of digital assets has become crucial to success in today's business climate. While tech M&A for non-tech companies used to be viewed as a forward-thinking strategy, it's now viewed as an integral part of companies' inorganic growth strategy.

There are countless benefits to building a well-balanced digital portfolio to complement the company's core business, just as there are inherent challenges in technology acquisitions. These considerations also apply to large corporations or conglomerates that may have some technology assets, but are looking to new and different technologies for their next acquisition. For example, a company with an automation division may be looking to invest in software that augments its existing offering.

Regardless of their specific circumstances, companies must be clear-eyed about their objectives for pursuing technology acquisitions and carefully plan their M&A strategy to manage challenges.

Why might non-tech companies acquire tech companies?

To be the disruptors, not the disrupted

There is almost no industry that has not been disrupted in some fundamental way by technology. E-commerce disrupted brick-and-mortar retailers, self-driving vehicles have impacted the automotive industry, and more broadly business intelligence is changing the way strategic decisions are made. Companies that can't adapt to these changes will be left behind their competitors.

Catalysts, such as COVID-19, are making this particularly evident. Companies that are not able to interact with customers digitally are finding themselves at a major disadvantage. Tech acquisitions can be made proactively to lead these trends, acquiring the necessary disruptive technology and using it to advance the business. For example, Lululemon's recent acquisition of technology-driven in-home fitness company Mirror is a good example. Lululemon is a brick-and-mortar retailer that has embraced e-commerce and is now looking to interactive digital technology to position itself as a leading lifestyle brand.

To build expertise they wouldn't otherwise have

The strength of a technology company often lies in its intellectual capital. These are highly specialized businesses that require employees to have strong business and technical capabilities specific to the industries they serve. Non-tech companies looking to build this expertise often have a difficult time attracting this talent to their organization or find it hard to build the culture needed for a thriving technology business from within their own existing culture.

To decrease reliance on digital vendors

Companies are becoming increasingly reliant on their technology infrastructure. They have large amounts of data that need to be protected. Their software or website is how they often directly interact with their customers, and different applications are increasingly key to how they collaborate and deliver their services.

In the same way that a company is constantly determining risk mitigation strategies for its supply chain, it's also evaluating its reliance on key technologies and vendors, and determining if it needs to bring the technology in-house.

Situations like COVID-19 have only increased companies' reliance on technology vendors and the impact of any potential disruption on their business. When looking for potential acquisitions, technology solutions and vendors can act as a good starting point.

To improve the customer experience

Customers have become extremely discerning in terms of the digital experience they expect from a brand or product they use. In every aspect of their experience, including the company website, customer service, account management, payments or product delivery, they expect a seamless experience.

Non-tech organizations can use M&A to turn these areas from points of pain in the customer experience to differentiators. With the rise of digitally native brands, non-tech companies can't afford to stand by; they need to act decisively to give their customers a digitally led, omni-channel experience.

All $ values in this newsletter are in US$, unless otherwise stated.

Sources: S&P Capital IQ, Mergermarket, secondary research.

Challenges non-tech companies face with tech M&A

Having the right people to execute a tech business strategy

Having the intellectual capital to successfully run a technology organization is easier said than done. While M&A can lead to the immediate transfer of expertise to an organization, being able to retain and motivate acquired talent can be equally difficult.

Companies need to identify key personnel in the technology organization and understand the transaction objectives for each of them. In addition, a clear strategic rationale for the transaction and its alignment with the overall strategy of the acquiring organization is crucial for the success of both organizations.

Understanding the unique business risks

Technology companies have a different risk profile than non-tech organizations, and acquirers need to understand that objectives and management of these companies would need to be different from those of the acquirer. Issues such as regulatory requirements, cybersecurity and the need for constant innovation that may have been less critical in the past can add to significant business risks. During the M&A process, companies should understand the key risks associated with the acquisition of the technology business and make sure they have the resources and structure needed to manage those risks.

Seamlessly integrating the businesses and culture

Once a transaction is completed, the often long process of integration begins. While the technology company may have had a broad strategic plan, this must now be aligned with the acquirer's long-term vision and objectives. The acquirer should consider that the technology presents other opportunities worth pursuing, beyond serving the strategic intention for the acquisition. Providing a clear direction in terms of using the technology to further a combined business strategy is important to motivate employees and create a shared culture.

Navigating the unique nature of tech transactions

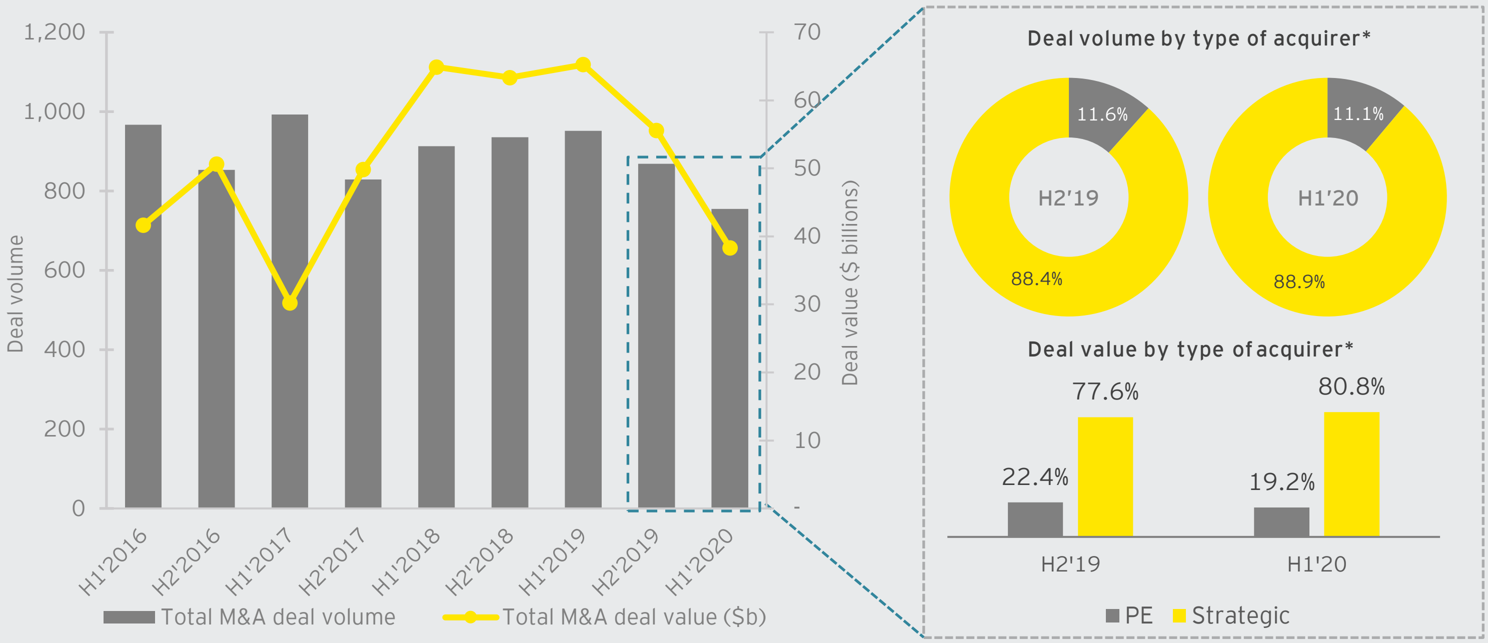
Many non-tech organizations have internal corporate development teams that in many cases have significant acquisition experience. However, in many cases, they don't have substantial experience with technology transactions.

Each subsector of technology has unique characteristics when navigating the transaction process. Almost every aspect of the transaction — from dealing with valuation, understanding recurring revenues, considering the treatment of research and development credits, to utilizing tax losses that may exist — has unique characteristics that should be fully understood for a successful transaction.

A non-tech company should go into the acquisition process with a clear understanding that there are unique elements to the transaction process and its integration that need to be managed. An experienced advisor who understands how to navigate these issues can help quantify and mitigate these risks. EY has M&A advisors, due diligence support and consulting capabilities around cybersecurity, integration and corporate finance strategy that can assist companies through this process.

While these challenges are real, companies are finding that the status quo makes it difficult to compete in today's dynamic business environment. Companies that did not proactively equip themselves with reliable and innovative technology capabilities were not well prepared for the COVID-19 pandemic, which has fundamentally — and in some cases permanently — changed the way businesses interact with and serve their customers.

M&A activity has witnessed a significant decline of 31% in terms of deal value from H2 2019 and 13% by deal volume.

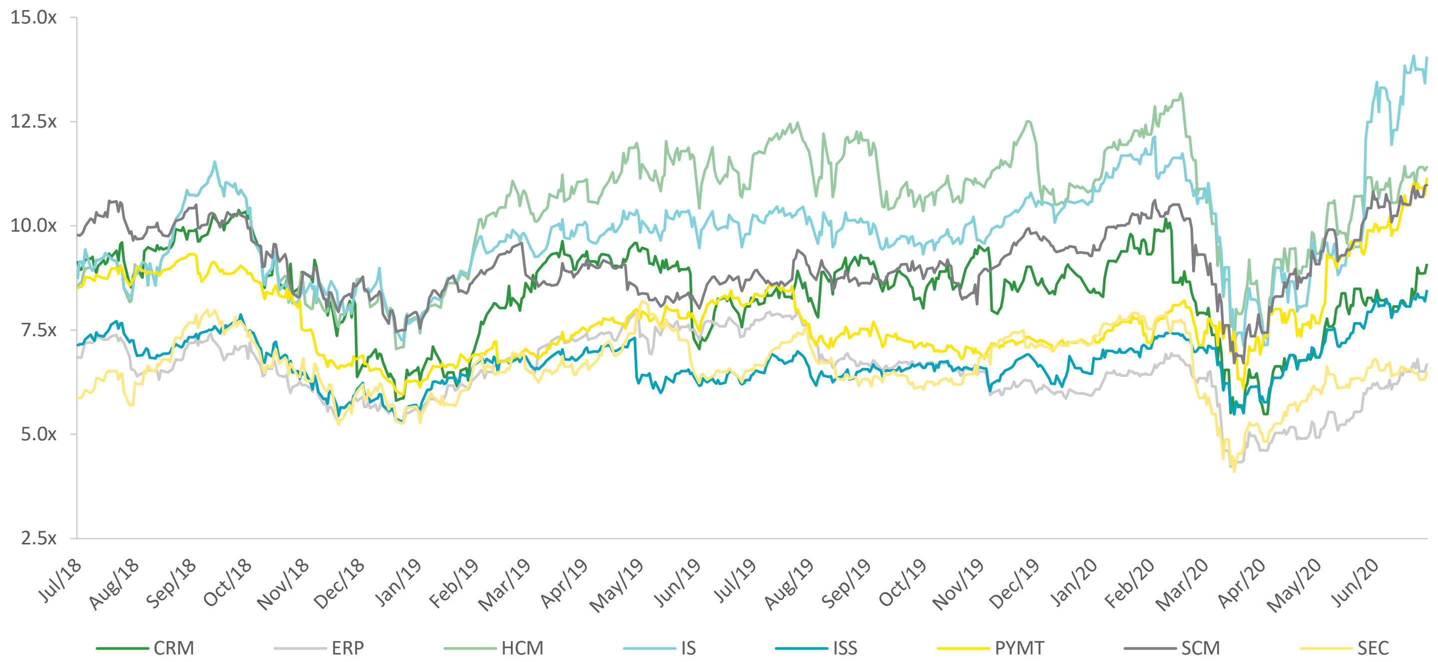


Deals over $20 billion in transaction value have been excluded.

**Deal volumes and values (by type of acquirer) analyzed up to June 2020.*
Data sources: S&P Capital IQ, Mergermarket, Bloomberg.

All $ values in this newsletter are in US, unless otherwise stated.
Sources: S&P Capital IQ, Mergermarket, Bloomberg.

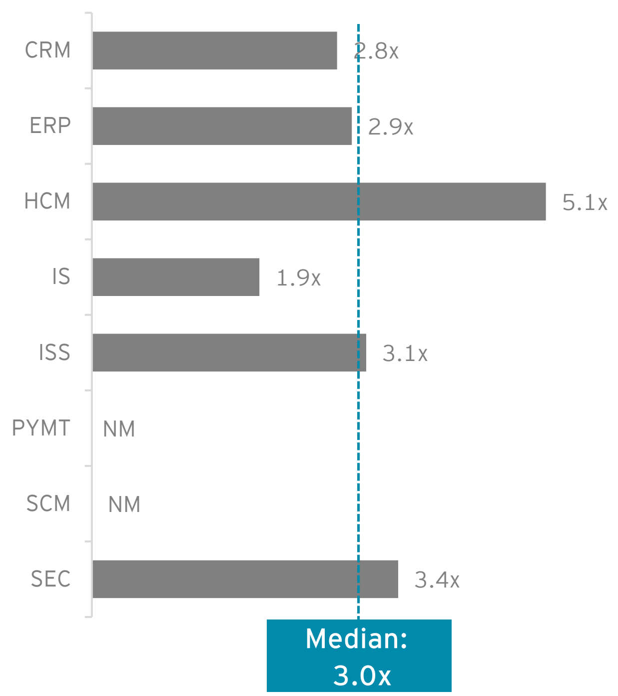
Public comparables: public company valuations experienced a decline near the end of Q1 2020 as the impact of COVID-19 became more apparent, followed by a recovery in the latter half of Q2 2020.



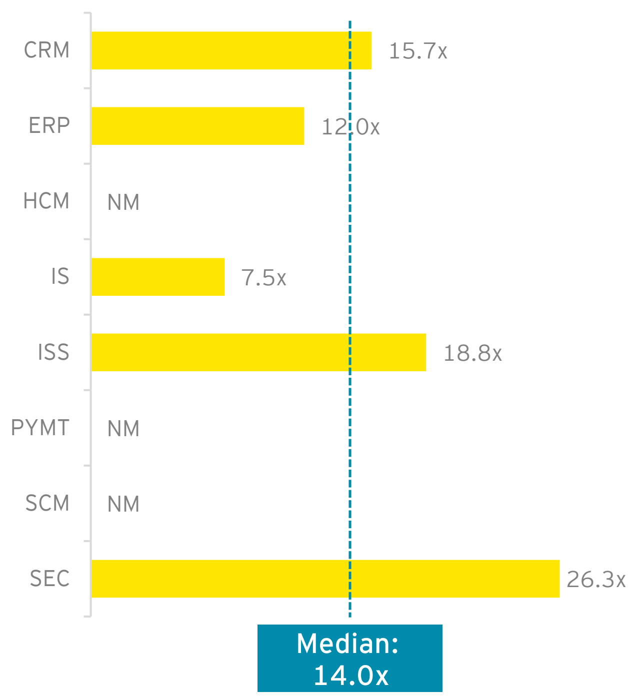
Data source: S&P Capital IQ

Transaction comparables*: valuations were highest for software assets in human capital management and security.

M&A deal multiples - TEV/revenues (median)



M&A deal multiples - TEV/EBITDA (median)



Data sources: S&P Capital IQ, Mergermarket.

CRM – Customer Relationship Management; ERP – Enterprise Resource Planning; HCM – Human Capital Management; IS – Internet Software; ISS – Industry Specific Software; PYMT – Payment/Financials; SCM – Supply Chain Management; SEC – Security.

** Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between July 1, 2019 and June 30, 2020 in Canada and the US. The sample has been compiled by Ernst & Young Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the software sector. Furthermore, the categorization of the sample across various subsectors and any analysis thereof by Ernst & Young Orenda Corporate Finance Inc. are 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.*

Select transactions in H1 2020

May 19, 2020 Prometheus Group acquired **VIZIYA**, a developer of enterprise asset management software, for a transaction value of $35.2m.

April 7, 2020 SoFi announced the acquisition of **Galileo Financial Technologies**, a financial services API and payments platform, for a transaction value of $1.2b.*

March 26, 2020 Microsoft Corporation (NasdaqGS:MSFT) announced the acquisition of **Affirmed Networks, Inc.**, a provider of virtualized, cloud-native networking solutions for telecom operators, for a transaction value of $1.4b.*

March 9, 2020 Open Text Corporation (NasdaqGS:OTEX) acquired **XMedius Solutions Inc.**, a provider of secure information exchange and unified communication solutions, for a transaction value of $75m. The acquisition represents an enterprise value of 1.9x revenues.

March 6, 2020 San Vicente Acquisition announced the acquisition of **Grindr**, a provider of a location-based mobile interaction and dating application, for a transaction value of $620m. The acquisition represents an enterprise value of 5.7x revenues.*

Mar 2, 2020 BMC Software, Inc. announced the acquisition of **Compuware Corporation**, a software provider focused on mainframe innovation, from Thoma Bravo, LLC for a transaction value of $1.5b. The acquisition represents an enterprise value of 12.5x EBITDA.*

February 25, 2020 Salesforce.com, Inc. (NYSE:CRM) announced the acquisition of **Vlocity, Inc.**, a provider of industry-specific cloud and mobile software built natively on the Salesforce platform, for a transaction value of $1.3b.*

February 24, 2020 Cornerstone OnDemand, Inc. (NasdaqGS:CSOD) acquired **Saba Software, Inc.**, a provider of cloud-based intelligent talent management solutions for organizations, for a transaction value of $1.3b.

February 24, 2020 Intuit Inc. (NasdaqGS:INTU) announced the acquisition of **Credit Karma, Inc.**, a provider of a credit score tracking and personal finance platform, for a transaction value of $7.1b. The acquisition represents an enterprise value of 7.1x revenues.*

February 18, 2020 A consortium led by Symphony Technology Group, Ontario Teachers' Pension Plan Board and AlpInvest Partners announced the acquisition of **RSA Security LLC**, a developer of intelligence-driven security solutions, for a transaction value of $2.1b.*

February 6, 2020 Advent International Corporation announced the acquisition of **Forescout Technologies, Inc.** (NasdaqGM:FSCT), a provider of automated security control solutions, for a transaction value of $1.9b. The acquisition represents an enterprise value of 4.8x revenues.*

Jan 28, 2020 Garena Online Private Limited acquired **Phoenix Labs Inc.**, a developer of video game software, for a transaction value of $150m.

January 13, 2020 Visa Inc. (NYSE:V) announced the acquisition of **Plaid Inc.**, a provider of network for securely connecting financial accounts to financial management applications, for a transaction value of $4.9b.*

January 6, 2020 Insight Venture Partners, LLC and CapitalG Management Company, LLC acquired **Armis, Inc.**, a developer of security solutions to control and detect activity and threats on devices and networks, for $1.1b.

Deals indicated are Canadian deals.

** Deal announced but not closed. Data sources: S&P Capital IQ, Mergermarket, Bloomberg.*

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