

IT Services M&A Recap

THIRD QUARTER 2022

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Implications of the current global tech talent shortage on IT service providers

The key difference between an industrial economy and a knowledge-based economy is the shift from physical inputs and natural resources in favour of human capital and intellectual property. Organizations that succeed in a knowledge-based economy capitalize on their intellectual property to drive efficiencies across customer acquisition and delivery functions.

Hiring and retaining talent is the single biggest operational issue facing Canada's tech sector. This problem spills over into the hiring and retention practices across the wider economy because every employer requires staff who welcome, adapt and adopt "new tech."

The Globe and Mail reports that in Canada jobs are up 22% in computer systems design, 19% in scientific research and development and 32% in data processing just since 2020¹. The report also notes that the global demand for tech employees has pushed wages for skilled workers across all major geographies. This creates a wider problem for all Canadian companies as they seek to hire new employees in an attempt to bridge their own technological skills gap while competing with global demand for this talent pool.

Current implications of the tech skills gap

Beyond the impact of increasing salaries, employers in the IT services market are facing the very real impact of not having access to the necessary talent to run their day-to-day operations. In addition, businesses are not able to capitalize on growth opportunities due to the skills gap and are at risk of losing market share.

Increasingly, organizations are evaluating offshoring or near-shoring their IT capabilities given the labour shortage. Companies that can demonstrate a diversified employee base and increase automation will be able to better weather the current cost pressures facing IT services companies.

Every year, the risk of cybersecurity attacks increases for technology enterprises and the broader Canadian economy. In 2021, the number of security breaches on enterprises increased by 27% while annual cybersecurity costs increased 23%.²

As employee costs continue to rise, coupled with the IT skills gap exacerbating the total number of cyberattacks, organizations will need to consider the potentially negative impact such incidents will have to the bottom line.

As innovation and digital transformation take place, the lack of talent in the technology ecosystem will begin to disrupt projects. The war for talent through the use of increased incentives will ultimately cause turnover, which could create disruptions in companies' ability to innovate.

How to close the gap

IT service providers will need to invest in automation either organically or through acquisition to drive delivery efficiencies and operating leverage. Organizations considering acquisition must weigh the speed to market against the associated near-term costs. They must also balance this alternative against the impact on gross margin when considering internal automation development.

Organizations need to shift their mindset to accept nearshore and offshore delivery capabilities as standard practice rather than as the exception. Additional costs will be incurred in the near term to build the necessary infrastructure to monitor workforces across geographies, while continuing to look at acquiring capabilities overseas and upskilling them through a global delivery model.

Organizations need to be cognizant that additional spending will be required for cybersecurity and other needs, while factoring in the cost of delivery given the talent shortage to monitor and eventually implement a global delivery model. To address these concerns, IT service providers should consider a combination of an inorganic strategy, financing (considering domestic and foreign currency) and the support of local governments in the form of grants and incentives.

¹ "From 'boomer' companies to encroaching giants, Canada's tech sector has a labour problem," - *The Globe and Mail*, March 26, 2022.

² Cyber Security Statistics: PurpleSec

EY transaction snapshot

EY acted as the exclusive financial advisor to WBM Technologies Inc. (“WBM”) in securing an equity investment from Westcap Mgt. Ltd. (“Westcap”). EY leveraged its deep experience in working with founder-led, private businesses and its IT services sector expertise to achieve a superior transaction outcome for the shareholders.

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* Ernst and Young Orenda Corporate Finance Inc.



WBM Technologies Inc.

has received an equity investment from



Westcap

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



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About the Company

WBM is a Western Canadian leader in the provision of outcome-driven Information Technology solutions. Established in 1950 and headquartered in Saskatoon, SK, WBM operates out of Infrastructure Operations Centers located in Vancouver, Calgary, Regina, Saskatoon and Winnipeg. WBM employs over 400 IT professionals across Canada, supporting over 3,000 customers and providing IT solutions through four core practice areas: Data & Security, Managed End User Computing, Managed Print Solutions, and Enterprise Service Desk.

The Win-Win

The equity investment allows WBM to strengthen its position as the leading IT solutions and managed services provider in Western Canada by accelerating its strategic growth priorities and to furthering the build-out of its industry-leading, WBM Enterprise UX platform. The partnership with Westcap validates the leadership team’s strategy and vision for WBM.

“The EY team began by understanding our goals and priorities and then brought the right expertise to help us through the process. Their experience and insights helped us learn and ultimately arrive with exactly the partner we were seeking for the next phase of growth in our business. The outcomes we set out for were all achieved, and our deal team helped us identify additional value along the way. We had a great experience working with every member of the EY team and their guidance throughout the process was invaluable. Thank you!

JoeAnne Hardy
President, WBM Technologies Inc.



Some of our recent deals include:





WBM Technologies Inc.

has received an equity investment from



Westcap

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



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*Ernst & Young Orenda Corporate Finance Inc.



SOROC

received an investment from



CenterGate
CAPITAL

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



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Solutions
vistavu

has acquired




achieveit
SOLUTIONS

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




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abilis

has divested its business intelligence solutions and services division to



Passerelle

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



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*Ernst & Young Orenda 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



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*Ernst & Young Orenda Corporate Finance Inc.



SIAPARTNERS

has acquired an interest in




R&G
ADVISORY

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




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*Ernst & Young Orenda Corporate Finance Inc.




DIGIT.COM
EXPERIENCE clever TELECOM

has been acquired by



PINE HILL CAPITAL

EY* acted as exclusive financial advisor to Dig Team Telecommunications Canada Inc.



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*Ernst & Young Orenda Corporate Finance Inc.



Well.ca

has been acquired by



McKESSON
Canada

EY* provide Transaction Advisory Services to Well.ca



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*Ernst & Young Orenda Corporate Finance Inc. and Ernst & Young LLP



MANTRALOGIX

has been acquired by:



MNP

EY* acted as exclusive financial advisor to Mantraloxix.



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*Ernst & Young Orenda Corporate Finance Inc.

* Ernst and Young Orenda Corporate Finance Inc.



Select Q3 2022 Transactions*

Sep 29, 2022: Computer Task Group, Inc. (Nasdaq: CTG) announced the acquisition of **Eleviant Technologies, Inc.**, a provider of IT consulting and managed IT services, including digital transformation, mobile and web application development, and cloud migration, for a transaction value of \$23.6 million including earnouts of \$5 million.

Sep 27, 2022: Reachout Technology Corp., announced the acquisition of **IND Corporation**, provider of managed IT services, including cybersecurity, risk assessment, network security, cloud services and storage, security advisory and consulting, for a transaction value of \$6.6 million.

Sep 16, 2022: Stonepeak Partners LP announced the acquisition of **Intrado's Safety business**, a leading provider of critical public emergency telecommunications services, for a transaction value of \$2.4 billion.

Sep 12, 2022*: Converge Technology Solutions Corp. (TSX: CTS) announced the acquisition of **Newcomp Analytics Inc.**, a provider of analytics solutions including AI & machine learning, data engineering, BI & data visualization, financial planning & analytics, and cloud, for a transaction value of \$15.6 million. The acquisition represents an enterprise value of 0.6x revenue and 6.0x EBITDA.

Sep 08, 2022: Prism Data, LLC acquired **Digital Media Solutions, Inc.**, a provider of technology-enabled digital performance advertising solutions connecting consumers and advertisers, for a transaction value of \$298 million. The acquisition represents an enterprise value of 0.8x revenue and 19.6x EBITDA.

Sep 07, 2022: WESCO International, Inc. (NYSE: WCC) announced the acquisition of **Rahi Systems Inc.**, a provider of global hyperscale data center solutions, for a transaction value of \$217 million.

Aug 25, 2022: MiX Telematics North America, Inc. announced the acquisition of **Trimble's Field Service Management business**, comprises sale and support of telemetry and video solutions, for a transaction value of approximately \$10.2 million. The acquisition represents an enterprise value of 0.8x revenue.

Aug 20, 2022: Centerbridge Partners, L.P. and Bridgeport Partners LLC acquired **Computer Services, Inc.**, provider of end-to-end fintech and regtech solutions to financial institutions and corporate customers, for a transaction value of approximately \$1.6 billion. The acquisition represents an enterprise value of 4.7x revenue and 14.5x EBITDA.

Aug 09, 2022: AstroNova, Inc. (Nasdaq: ALOT) acquired **Astro Machine Corporation**, a designer and manufacturer of professional color and monochrome inkjet printers as well as a wide range of media handling equipment, for a transaction value of \$17.1 million. The acquisition represents an enterprise value of 0.8x revenue.

Aug 09, 2022*: Looking Glass Labs Ltd. (NEOE: NFTX), acquired **Web 3.0 Holdings Corp.**, provider of business to consumer (B2C) and business to business (B2B) infrastructure solutions within Web3 environments, for a transaction value of approximately \$1.7 million.

Aug 01, 2022: Global Payments Inc. (NYSE: GPN) announced the acquisition of **EVO Payments, Inc.**, a global provider of payment technology integrations and acquiring solutions, for a transaction value of approximately \$4.0 billion. The acquisition represents an enterprise value of 7.5x revenue and 24.3x EBITDA.

Jul 27, 2022: Fiserv, Inc. (Nasdaq: FISV) acquired **The LR2 Group, LLC**, a provider of payment and franchise merchants' custom point of sale systems, for a transaction value of \$26 million including earnouts of \$3 million.

Jul 26, 2022: Advent International Corporation acquired 65% stake in **Neoris, Inc.**, a global provider of tech consultancy and digital transformation services, for a transaction value of \$120 million.

Jul 19, 2022: Montagu Private Equity LLP announced the acquisition of **Emerging Portfolio Funds Research (EPFR)**, a data provider that tracks the flow of funds across global capital markets, for a transaction value of \$193 million. The acquisition represents an enterprise value of 9.4x revenue.

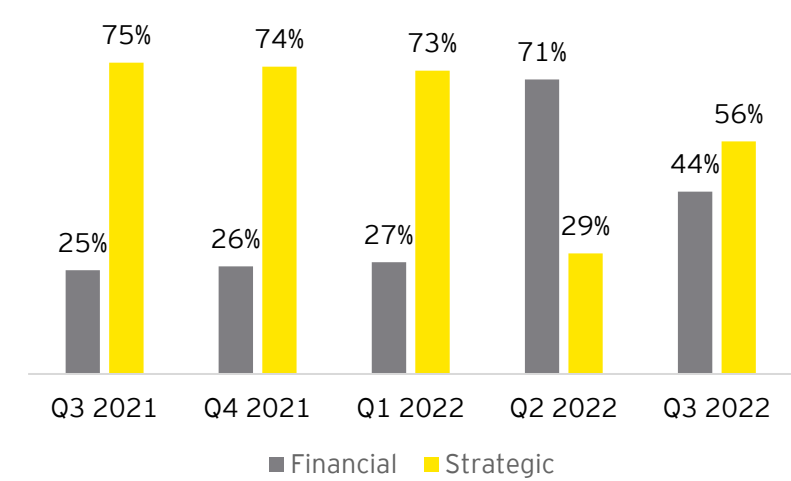
Jul 18, 2022*: Arcadis NV (ENXTAM: ARCAD) acquired **IBI Group Inc.**, a technology-driven design firm with global architecture, engineering, planning, and technology expertise, for a transaction value of \$710 million. The acquisition represents an enterprise value of 2.0x revenue and 12.8x EBITDA.

Jul 18, 2022: Mastek Inc. acquired **MST Solutions, LLC**, a provider of salesforce consulting and system integration solutions, for a transaction value of \$111.6 million. The acquisition represents an enterprise value of 4.5x revenue.

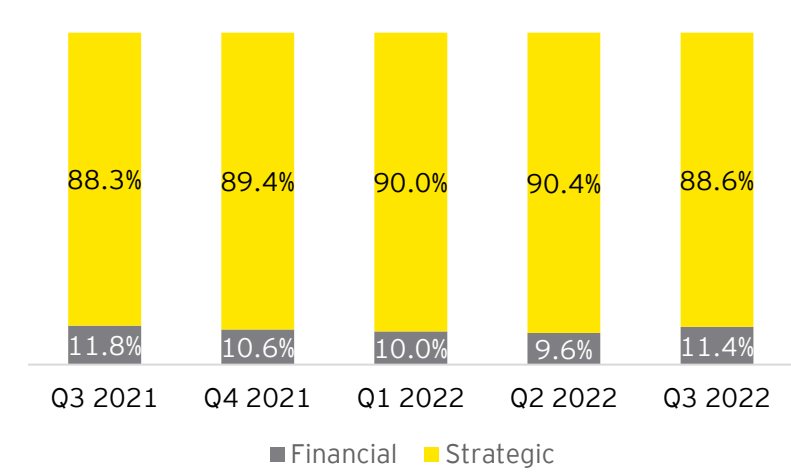
Jul 01, 2022: North by Northwest Group Limited acquired **ROI DNA, Inc.**, a provider of digital analytics, marketing, and strategy services to B2B and B2C businesses, for a transaction value of \$90 million.

Historical M&A activity

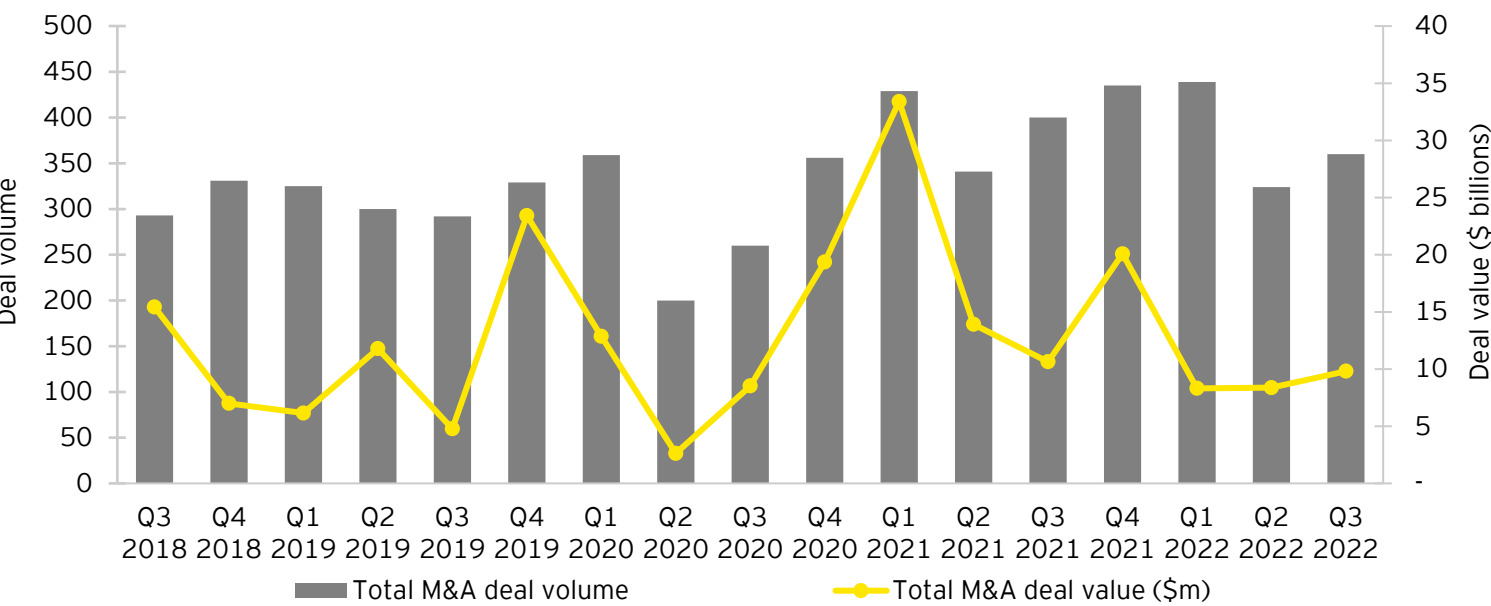
Deal value by type of acquirer



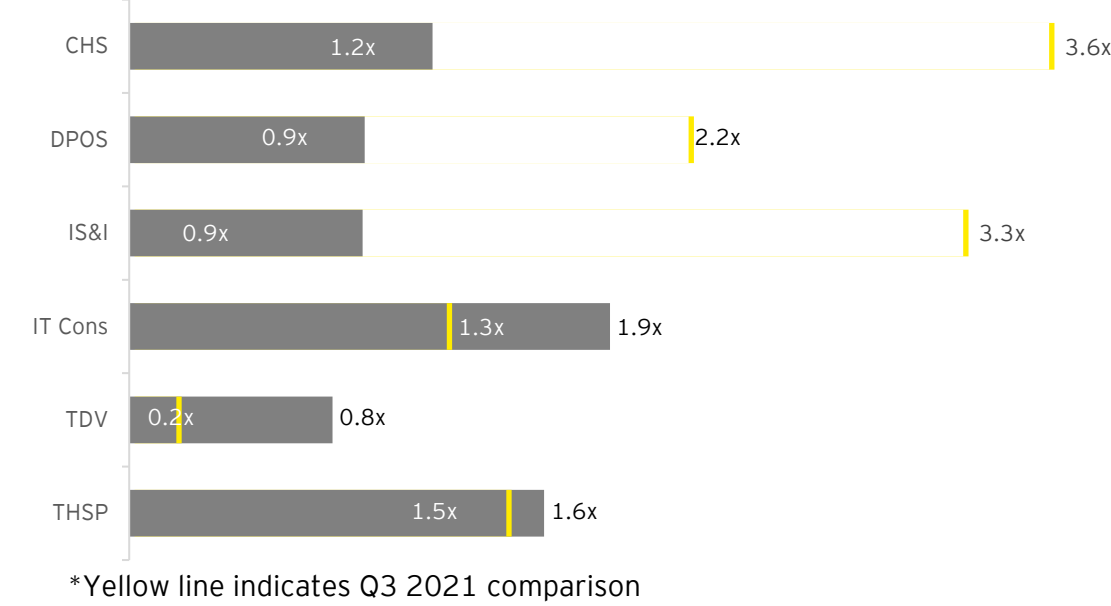
Deal volume by type of acquirer



Both deal values and deal volumes have declined compared to Q3 2021 levels

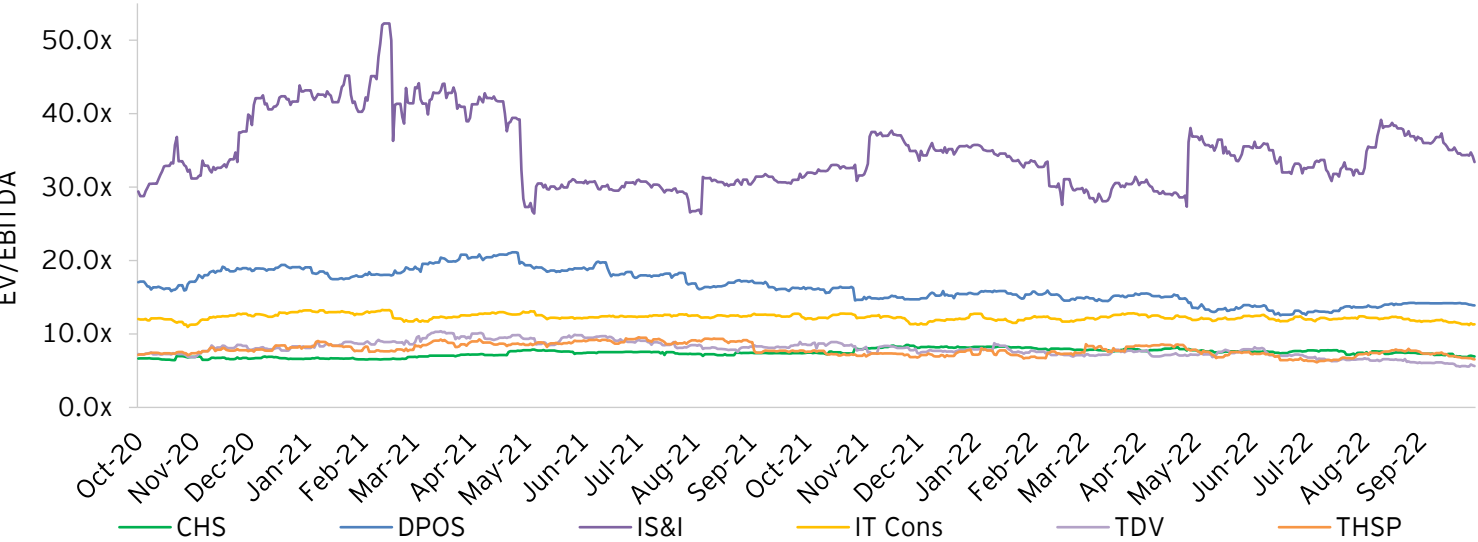


Revenue transaction multiples for CHS, DPOS and IS&I declined compared to Q3 2021



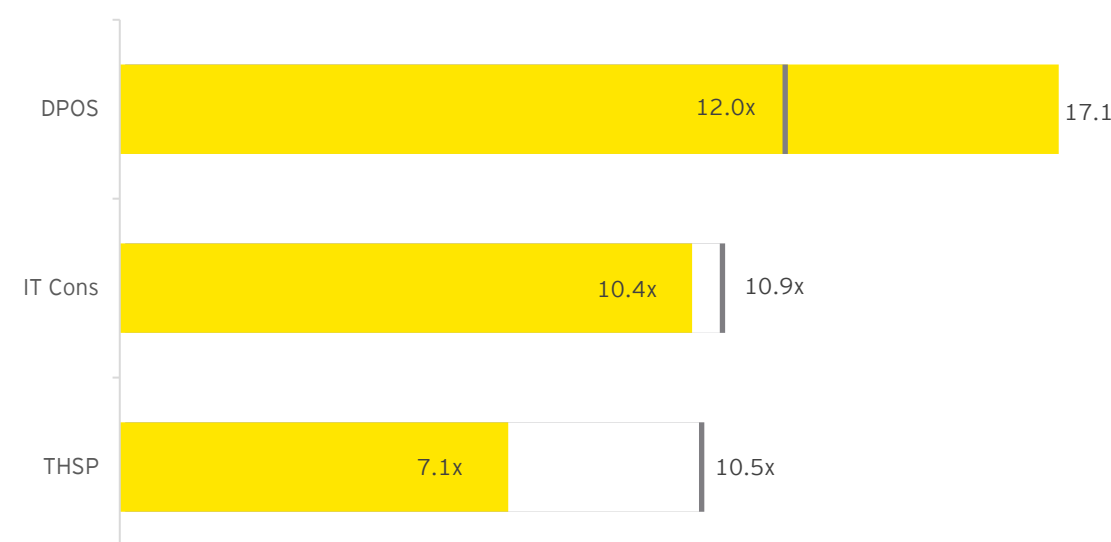
*Yellow line indicates Q3 2021 comparison

Public company multiples remain volatile, subsequent to the highs observed in early 2021



CHS - Communication and hosting services; DPS - Data processing and outsourced services; IS&I - Internet services and infrastructure; IT Cons - IT consulting and other services; TDV - Technology distributors and VARs; THSP - Technology hardware, storage and peripherals.

EBITDA transaction multiples mostly declined in Q3 2022 compared to Q3 2021



*Grey line indicates Q3 2021 comparison

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Oct 1, 2018 and Sep 30, 2022 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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Capital Markets

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