

IT & Tech-Enabled Services M&A Recap

SECOND QUARTER 2023

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Value scorecard driver: *emerging capabilities*

EY Canada's Technology M&A team has developed a proprietary value scorecard where we look at relevant drivers that help assess value for IT and tech-enabled services businesses. Each quarter we look at a different value driver. In this quarter's thought leadership, we explore emerging capabilities and their implications for value.

Emerging capabilities are shaping IT service providers' value proposition

IT and tech-enabled services is a very broad category that comprises many companies that are in reality doing quite different things. This impacts value determination and raises two main questions:

- Which capabilities or services are most valuable?
- How does the way a suite of services or capabilities works together enhance or detract from value?

Let's explore these issues.

What are some of the current emerging capabilities driving premium values for IT services firms?

There are too many different service offerings to provide an exhaustive explanation of services or capabilities that are emerging as premium value drivers, but the following list covers many that we're seeing attract a lot of attention from a demand and valuation perspective.

- Artificial intelligence (AI) and machine learning (ML): AI and ML are revolutionizing operational efficiency in IT service delivery by automating routine tasks and enabling predictive analytics.
- Remote monitoring and management (RMM): These tools offer real-time insights into client networks, devices and applications, paving the way for proactive issue identification and resolution.
- Advanced cybersecurity: Rapidly escalating cyber threats, mean that advanced cybersecurity solutions provide robust defence mechanisms, becoming an essential component in IT service offerings.

- Cloud management services: The surging adoption of cloud technologies has created a demand for dedicated services like cloud migration, management and optimization.
- Data analytics: With businesses producing vast amounts of data, advanced data analytics services are turning this data into actionable insights, creating new value-add avenues.
- Industry-specific solutions: In demand IT solutions are increasingly bespoke for specific industry and needs. IT services companies may offer a toolkit or proprietary piece of technology that enhances IT tools for companies in certain industries and therefore provide differentiation.

What do these emerging capabilities mean for value?

The integration of AI and ML into operations offers significant cost reductions and operational efficiency enhancements. The IT management service industry has started to implement ML algorithms in their tools for functions such as automatically categorizing tickets, predicting anomalies, and suggesting solutions for user issues. Automation technologies allow for IT tech-enabled service providers to provide a superior service while saving on labour hours.¹

The deployment of advanced RMM tools empowers IT and tech-enabled service providers to proactively identify and resolve issues, offering higher-quality service with increased efficiency.² By using RMM capabilities to reduce maintenance needs, enhance security, improve productivity and restrict user access, businesses can redirect the labour hours typically allocated to these functions toward business growth.

1. ManageEngine ServiceDesk Plus MSP, "Can Artificial Intelligence Help MSPs Increase Their Bottom Line?", [How AI help MCPs increase their bottom line in 2023 \(manageengine.com\)](https://www.manageengine.com/blog/how-ai-help-mcps-increase-their-bottom-line-in-2023.html).

2. AirDroid, « 7 Ways Remote Monitoring and Management (RMM) Software Can Benefit Your Business, » [7 Ways Remote Monitoring and Management \(RMM\) Software Can Benefit Your Business | AirDroid Blog](https://airdroid.com/blog/7-ways-remote-monitoring-and-management-rmm-software-can-benefit-your-business/).

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What do these emerging capabilities mean for value? - continued

In today's digital landscape, the ability to provide sophisticated cybersecurity solutions enhances a firm's value proposition. This capability justifies premium pricing compared to other providers, given the increasing criticality of cybersecurity. The global cybersecurity market is projected to exhibit a CAGR of 13% from 2023 to 2025.³

Furthermore, by 2025, it's forecasted that 60% of organizations will prioritize cybersecurity risk when conducting third-party transactions and business engagements.⁴ Incorporating cybersecurity as a key capability is crucial for IT and tech-enabled service firms.

As cloud computing has revolutionized IT services by allowing businesses to deploy resources with massive scale, agility and better security, being able to apply and manage these systems gives IT service providers the ability to capitalize on this massive market shift.

Data analytics capabilities are another critical differentiator for IT and tech-enabled businesses, enabling them to convert vast amounts of data into actionable insights. By offering this service, IT service providers can position themselves differentially in the marketplace and drive upsell opportunities.

Finally, the ability to provide industry specific solutions such as software accelerators gives IT service providers another point of differentiation and better margins.

These examples highlight how adopting emerging capabilities can positively impact IT and tech-enabled service providers' profit and loss or give them a distinct edge in the market. As a business's digital toolset expands, it is crucial to understand and integrate new capabilities into service offerings that create value both on ongoing services pricing and from a transaction perspective enhance valuation and keep from falling behind the competition.

Understanding and integrating emerging capabilities unlocks enhanced value

The evolving capabilities of IT and tech-enabled service providers are significantly influencing their valuation. By incorporating AI, ML, advanced RMM tools, cybersecurity solutions, cloud management, data analytics, integrations services, and industry-specific solutions into their service offerings, firms are enhancing efficiency and differentiating their value propositions. Further, companies that can present these solutions as part of a cohesive strategy that fits their customer profile and allows for cross-selling and up-selling can see further value creation.

Contact a member of our team if you're interested in learning more about our value scorecard along with other key parameters relevant to your business.

Some of our recent deals include:

BRIGHTWORKS
has been acquired by
believeco:

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

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

Solutions vistavu
has acquired
achieveit SOLUTIONS

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

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* Ernst & Young Orenda Corporate Finance Inc.

abilis^{it}
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 and 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.

DIGITCOM
EXPERIENCE *clever* TELLECOM
has been acquired by
PINE HILL CAPITAL

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

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*Ernst & Young Orenda Corporate Finance Inc.

Well.ca
has been acquired by
MCKESSON Canada

EY* provided Transaction Advisory Services to Well.ca

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*Ernst & Young Orenda 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



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Select Q2 2023 Transactions⁽¹⁾

Jun 23, 2023: Cambridge Technology Enterprises Limited announced the acquisition of **Appshark Software Inc.**, provider of salesforce consulting and custom software solutions, for a transaction value of \$5.0 million. The transaction represents an enterprise value of 1.2x revenue.

Jun 21, 2023*: KDDI Corporation (TSE:9433) announced the acquisition of network-dense, carrier-neutral, **urban-data-centre (UDC) portfolio** in Downtown Toronto owned by Allied Properties Real Estate Investment Trust, for a transaction value of \$1.02 billion.

Jun 07, 2023*: Midwich Group plc (AIM: MIDW) acquired **SF Marketing Inc.**, which specializes in wholesale and distribution services of audio-visual equipment, for a transaction value of \$33.1 million.

May 31, 2023: 3D Systems Corporation (NYSE: DDD) announced the acquisition of **Stratasys Ltd.**, a leader in connected polymer-based 3D printing solutions, offers range of 3D printing systems, which includes polyjet printer, fused deposition modeling printers, stereolithography printing systems, origin P3 printers, and SAF printer for transaction value of \$1.2 billion. The transaction represents an enterprise value of 1.8x revenue.

May 19, 2023: eMudhra INC. acquired 51% stake in **Ikon Tech Services LLC**, which provides cyber security and digital transformation solution and services, for a transaction value of \$6.1 million.

May 10, 2023: Amdocs Limited (NasdaqGS: DOX) acquired **Service assurance business of TEOCO Corporation**, which comprises of assurance, analytics, and optimization solutions, for a transaction value of \$90.0 million.

May 04, 2023: BlockQuarry Corp. (OTCPK: BLQC) acquired **Blockchain Energy Services, LLC**, which operates a data processing site in the state of Missouri, specifically designed for cryptocurrency mining and artificial intelligence clients, for a transaction value of \$0.6 million.

May 04, 2023: NCAB Group AB (publ) (OM:NCAB), acquired **Phase 3 Technologies, Inc.**, which manufactures and supplies electronic circuit boards and products, for a transaction value of \$23.5 million.

May 02, 2023*: Alfar Capital and Walter Capital Partners acquired **MSP Corp Investments Inc.**, a global managed service provider specializing in cloud computing, cybersecurity, and IT support services, for a transaction value of \$73.3 million.

Apr 26, 2023*: IDEX Corporation (NYSE: IEX) acquired **Iridian Spectral Technologies Ltd.**, which provides optical thin film solutions and coating services to various industrial and research sectors worldwide, for a transaction value of \$110.1 million.

Apr 24, 2023: BGSF, Inc. (NYSE: BGSF) acquired all the assets of **Arroyo Consulting LLC**, which comprises IT and software development operations in USA, Colombia, and India, for a transaction value of \$16.5 million.

Apr 18, 2023: Grid Dynamics Holdings Inc. (NasdaqGM: GDYN) acquired **Nextsphere Technologies, Inc.**, which provides modern application development, systems monetization, product development, cloud & infrastructure services, and quality assurance, for a transaction value of \$18.7 million.

Apr 13, 2023*: Searchlight Capital Partners and British Columbia Investment Management announced the acquisition of **Consolidated Communications Holdings, Inc.**, which provides broadband and business communication solutions for consumer, commercial, and carrier channels in the United States, for an approximate transaction value of \$2.8 billion. The transaction represents an enterprise value of 2.3x revenue and 7.8x EBITDA.

Apr 03, 2023: Decisionpoint Systems, Inc. (NYSEAM: DPSI) acquired **Macro Integration Services**, which provides technology deployment services to food service, grocery, lodging and hospitality, and retail markets, for a transaction value of \$10.5 million.

Apr 03, 2023*: CCL Industries Inc. (TSX: CCL.B) acquired **eAgile Inc.** which provides brand protection and radio-frequency identification equipment including RFID tags, RFID hardware components, and data collection software, for a transaction value of \$54.0 million.

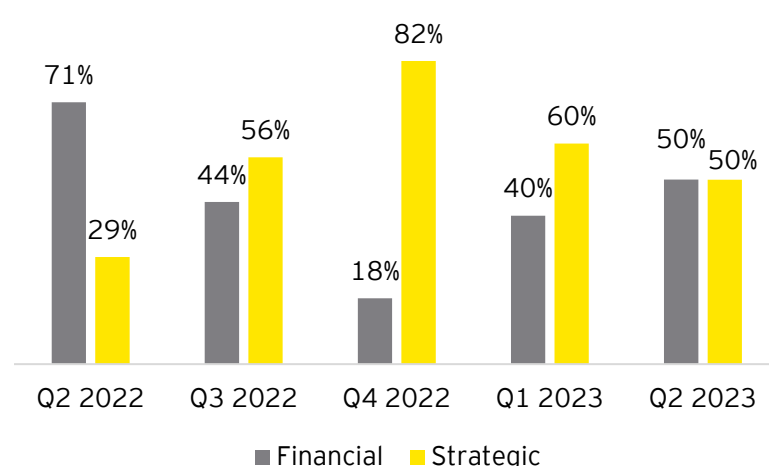
(1) Data sources: S&P Capital IQ, Mergermarket, Press Releases

*Deals indicated are Canadian deals

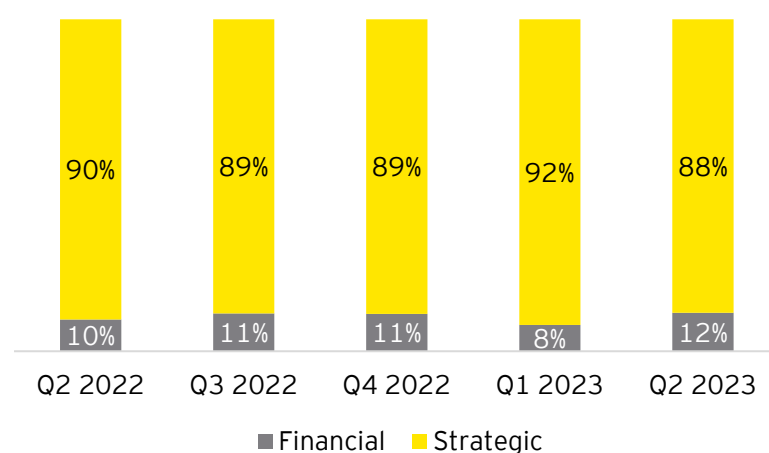
All currencies are in US\$

Historical M&A activity

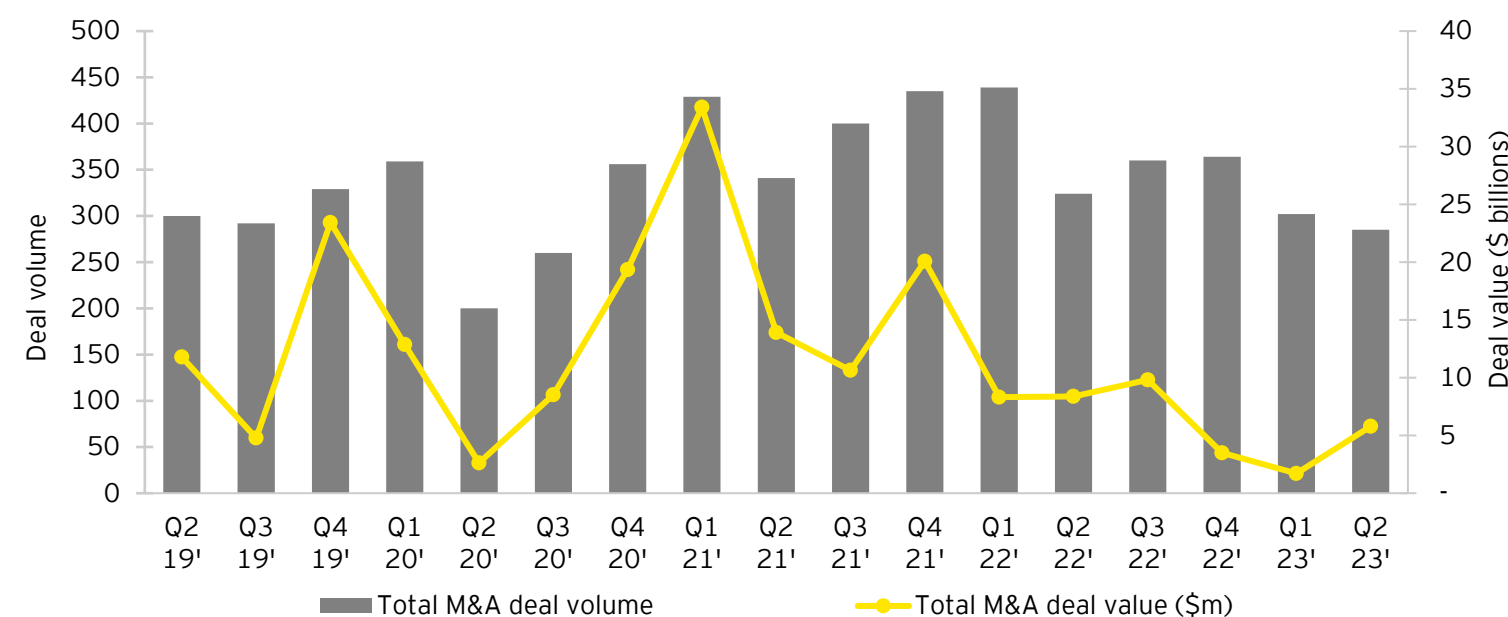
Deal value by type of acquirer



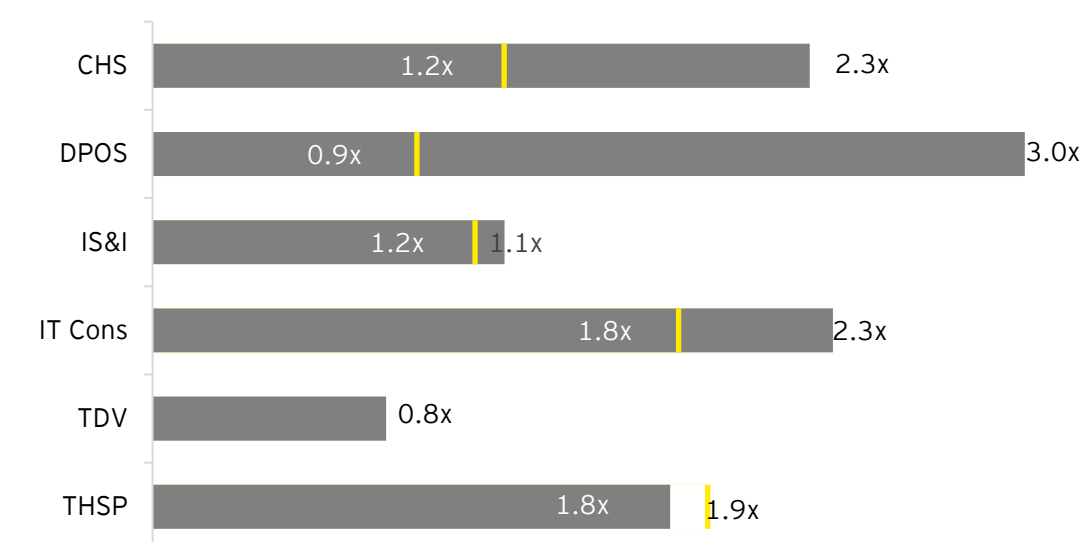
Deal volume by type of acquirer



Deal volumes have declined compared to Q1 2023 levels, while deal value increased in Q2 2023 when compared to Q1 2023

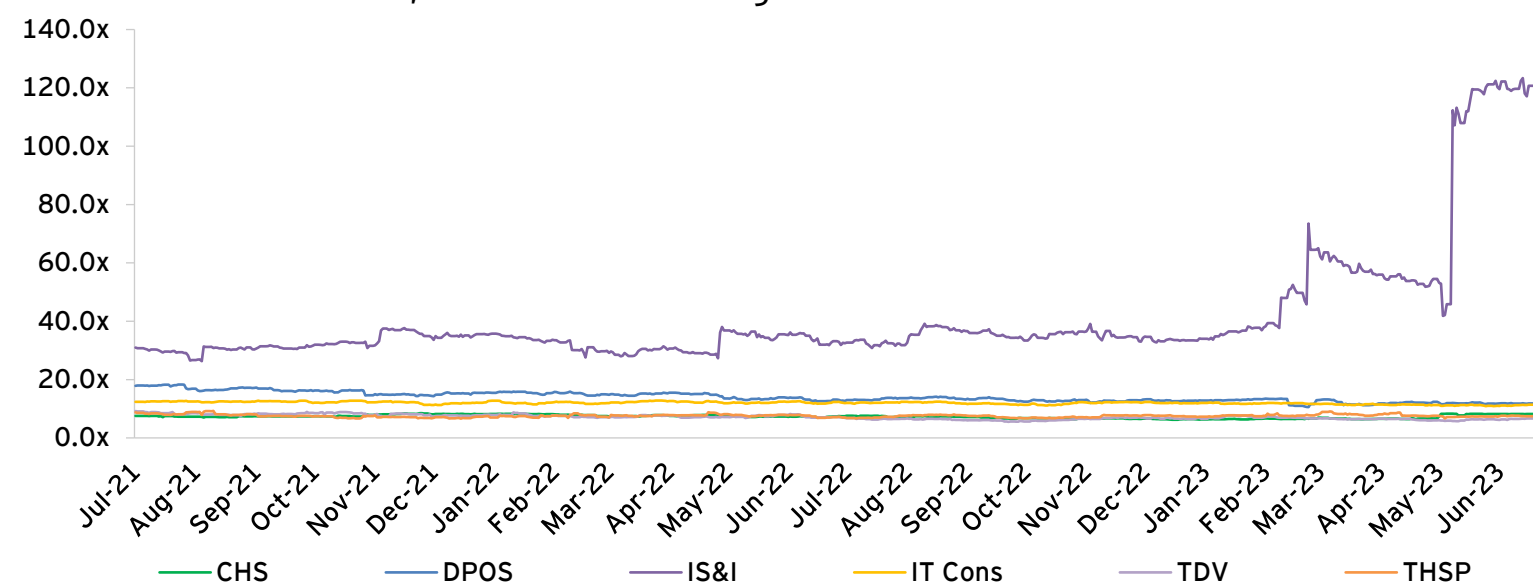


Revenue transaction multiples improved marginally compared to Q2 2022



*Yellow line indicates Q2 2022 comparison

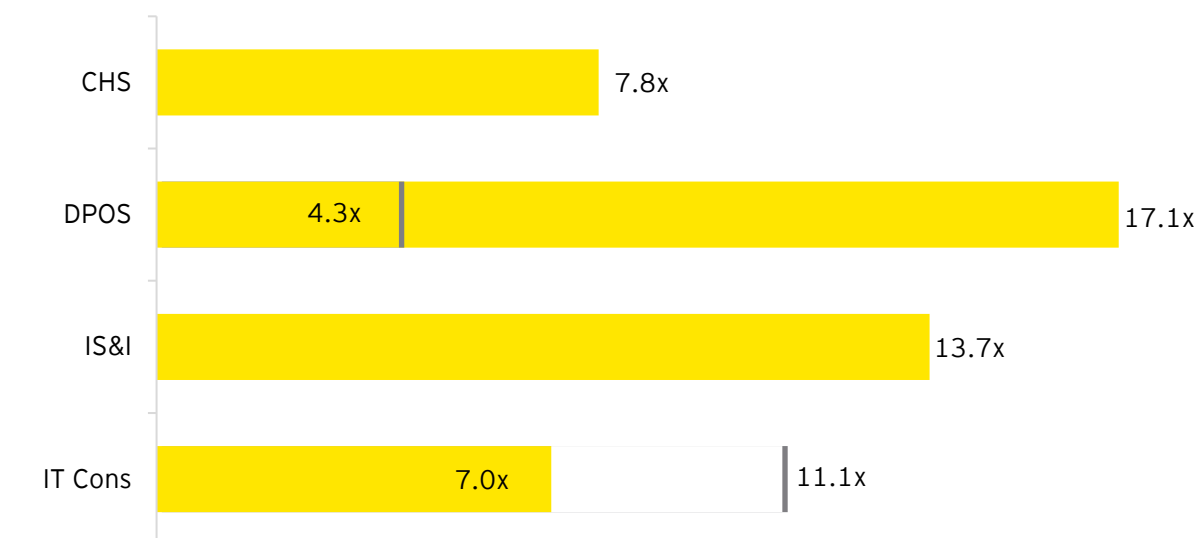
Public companies of IS&I category saw an increase in valuation in the first half of 2023, while other categories remained volatile



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.

*Note - although limited availability of public information IS&S valuation multiples are primarily driven by Tucows Inc.

EBITDA transaction multiples compared to previous year based on publicly available information



*Grey line indicates Q2 2022 comparison

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Apr 1, 2019 and Jun 30, 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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