

IT & Tech-Enabled Services M&A Recap

THIRD QUARTER 2023

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Value scorecard driver: customer industry

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 balancing diversification and specialization and the implications for value.

Customer industry diversification for IT providers

As businesses evolve and industries adapt to the digital age, IT service providers must be versatile to cater to their clients' ever-changing needs. IT service providers often find themselves at a crossroads when it comes to strategic positioning. The age-old debate between diversification across industries and specialization in a few core sectors remains a critical decision-making factor. While diversification undoubtedly offers resilience and adaptability, having a strong foothold in core sectors can help competitive positioning.

Diversification vs. specialization

Diversification allows IT service providers to spread their risk and reduce vulnerability to economic downturns or industry-specific challenges. By offering their expertise to various sectors, these companies can tap into a wide array of revenue streams, which can help sustain and grow their businesses over the long term. Furthermore, diversification fosters innovation as different industries bring unique challenges and opportunities.

However, the magic lies in finding the right balance. While diversification is beneficial, it is equally crucial to cultivate strong credentials in specific core sectors. These sectors - such as financial services, insurance, manufacturing and retail - often have intricate and specialized IT needs. Providers that develop deep industry knowledge and domain-specific solutions are better equipped to solve complex problems efficiently. They can tailor their offerings to meet the unique challenges and opportunities in that industry, resulting in higher customer satisfaction and stronger client relationships.

How industry profiles shape business valuation

Moreover, the end-user industry profile can also significantly impact a company's valuation. A highly diversified business with a strong foothold in a few industries would be positioned to drive higher value for shareholders and remain resilient through economic cycles. The following are a few factors to consider when choosing an industry and their impact on valuation.

How industry profiles shape business valuation cont.

- Revenue generation: Different industries have varying technology needs and budgets. IT service providers that target industries with higher technology spend, such as finance, healthcare or government, can generate substantial revenue, but must be wary of long sales cycles and customer concentration. There are also industries that need a wider suite of services that allow for better expansion revenues once a customer is landed.
- Reputational benefits of the industry focus: Certain industries such as government or health care can help companies cultivate a reputation to be able to handle large projects or manage security needs. These reference clients can help sell into a wide range of other industries.
- Innovation and differentiation: End-user industries drive innovation in technology solutions. By aligning with innovative industries, IT service providers can be at the forefront of technological advancements. We have often seen companies develop intellectual property around service accelerators that allow them to rapidly expand market share in an industry.
- Regulatory compliance: Certain industries, such as energy, finance, life sciences and utilities are subject to strict regulatory requirements. IT service providers with expertise in these areas can assist clients in ensuring compliance, which is crucial in avoiding penalties and reputational damage. This compliance knowledge adds significant value to clients and can create a strategic moat for companies operating in the space.

Finding the right balance

The choice between diversification and specialization is not a binary one. Striking the right balance between the two is the key to long-term success. We advise IT companies to be intentional about what customers they are profiling and have a thesis on why that combination of industries is successful for them. When effectively communicated, this can be a major value driver.

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:


has been acquired by

believeco:

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


Building a better working world

*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.


Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.


SOROC

received an investment from


CenterGate CAPITAL

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


Building a better working world

*Ernst & Young Orenda Corporate Finance Inc.


Solutions
vistavu


has acquired


achieveit SOLUTIONS

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


Building a better working world


*Ernst & Young Orenda Corporate Finance Inc.


abilis

has divested its business intelligence solutions and services division to

Passerelle

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


Building a better working world

*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


Building a better working world

*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.


Building a better working world


*Ernst & Young Orenda Corporate Finance Inc.


DIGITCOM
EXPERIENCE clever TELCOM


has been acquired by


PINE HILL CAPITAL


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


Building a better working world


*Ernst & Young Orenda Corporate Finance Inc.


Well.ca

has been acquired by


MCKESSON
Canada

EY* provided Transaction Advisory Services to Well.ca


Building a better working world

*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 Q3 2023 Transactions⁽¹⁾

Sep 15, 2023: Runa Capital Advisors Limited announced the acquisition of **MariaDB plc**, a new generation cloud database company which collaborates with customers to solve their data storage and access challenges at a fraction of the cost of legacy databases, for a transaction value of \$41.9 million. The transaction represents an enterprise value of 0.9x revenue.

Jun 21, 2023*: WT Microelectronics Co. Ltd. (TAIEX: 3036) announced the acquisition of **Future Electronics Inc.**, a global distributor of electronic components with global supply chain solutions and custom-tailored engineering services, for a transaction value of \$3.8 billion.

Sep 14, 2023: GXO Logistics, Inc. (NYSE: GXO) announced the acquisition of **PFSweb Inc.**, a leading e-commerce order fulfillment provider, serving some of the most iconic luxury brands in the world through its distribution centers, for a transaction value of \$181.0 million. The transaction represents an enterprise value of 0.9x revenue.

Aug 29, 2023: Gcom Software LLC, a SaaS solutions provider which along with its IT and data analytics services help governments to provide real-world program impact for residents, announced a merger with **OnCore Consulting**, a preeminent provider of technology modernization and digital transformation services for the public sector in California, for an approximate transaction value of \$175 million.

Aug 25, 2023: TPT Global Tech, Inc. (OTCPK: TPTW) acquired 60% stake in **Tekmovil LLC**, a leading consumer electronics distribution services company and also offers a wide range of technology-enabled services, for a transaction value of \$40.0 million.

Aug 19, 2023*: Mindpool Technologies Limited (NSEI: MINDPOOL) announced the acquisition of **Satincorp Technologies Inc.**, a full-service IT consulting company which specializes in offering IT consulting and development solutions using remote as well as onsite IT teams, for a transaction value of \$5.1 million. The transaction represents an enterprise value of 3.4x revenue.

Aug 09, 2023: Symphony Technology Group, LLC announced the acquisition of **Avid Technology, Inc.**, which provides editing software and hardware primarily to entertainment industries, for a transaction value of \$1.4 billion. The transaction represents an enterprise value of 3.3x revenue and 27.8x EBITDA.

Aug 09, 2023: Cegeka Groep nv, announced the acquisition of **Computer Task Group, Incorporated**, a leading provider of digital transformation solutions with a strong client base across high-growth vertical markets, for a transaction value of \$181.8 million. The transaction represents an enterprise value of 0.6x revenue and 14.4x EBITDA.

Aug 02, 2023: Palisade Americas Management LLC acquired **Consolidated Communications** assets in Washington, which comprises of incumbent networks in Ellensburg and Yelm comprising a mixture of fiber-to-the-home and DSL technologies, for a transaction value of \$73.0 million.

Jul 25, 2023: XTI Aircraft Company announced a merger with **Inpixon**, a leading provider of real-time location systems delivering actionable insights for people, places and things, for a transaction value of \$252.0 million.

Jul 19, 2023: Mastek Inc. acquired **BizAnalytica LLC** which offers end-to-end data, cloud and modernisation solutions to help make data driven decisions, for a transaction value of \$16.7 million.

Jul 18, 2023: CloudOne Digital acquired **Servers.com Inc.**, which provides an IaaS hosting platform, which offers a suite of computing, and storage and networking services, for a transaction value of \$200.0 million.

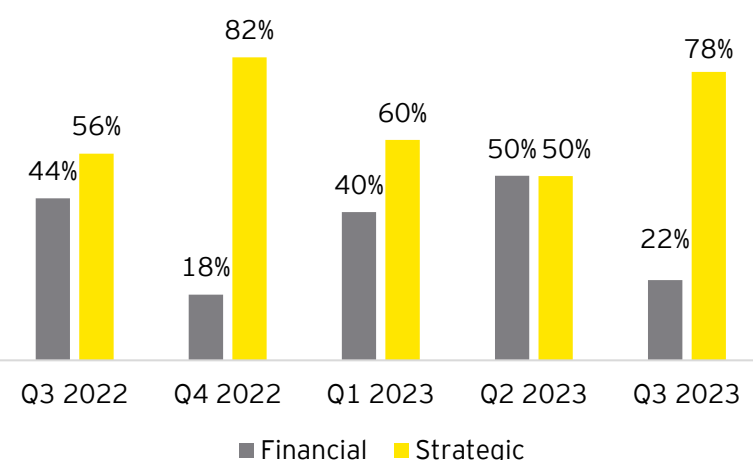
Jul 14, 2023: Nathan Stooke acquired 40.4% stake in **Wisper ISP, LLC**, which provides internet services to residential and business customers in rural communities, for an approximate transaction value of \$35.9 million.

Jul 11, 2023: PowerSchool Holdings Inc. (NYSE: PWSC) acquired **Reliance Communications, Inc.**, developer of SchoolMessenger which provides the tools needed to reach every parent across voice, text, email, and social media messaging, for a transaction value of \$300.0 million.

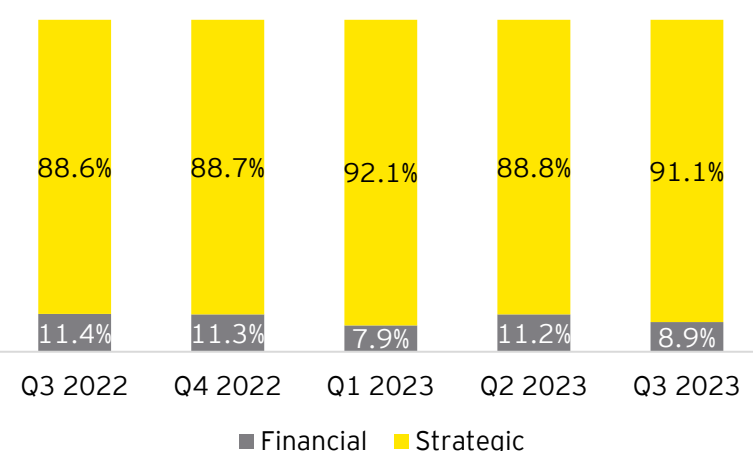
Jul 03, 2023: Incap Corporation acquired **Pennatronics Inc.** an electronics manufacturing services company in Pennsylvania and changed its name to Incap Electronics US, Inc., for a transaction value of \$26.3 million. The transaction represents an enterprise value of 0.9x revenue and 9.1x EBITDA.

Historical M&A activity

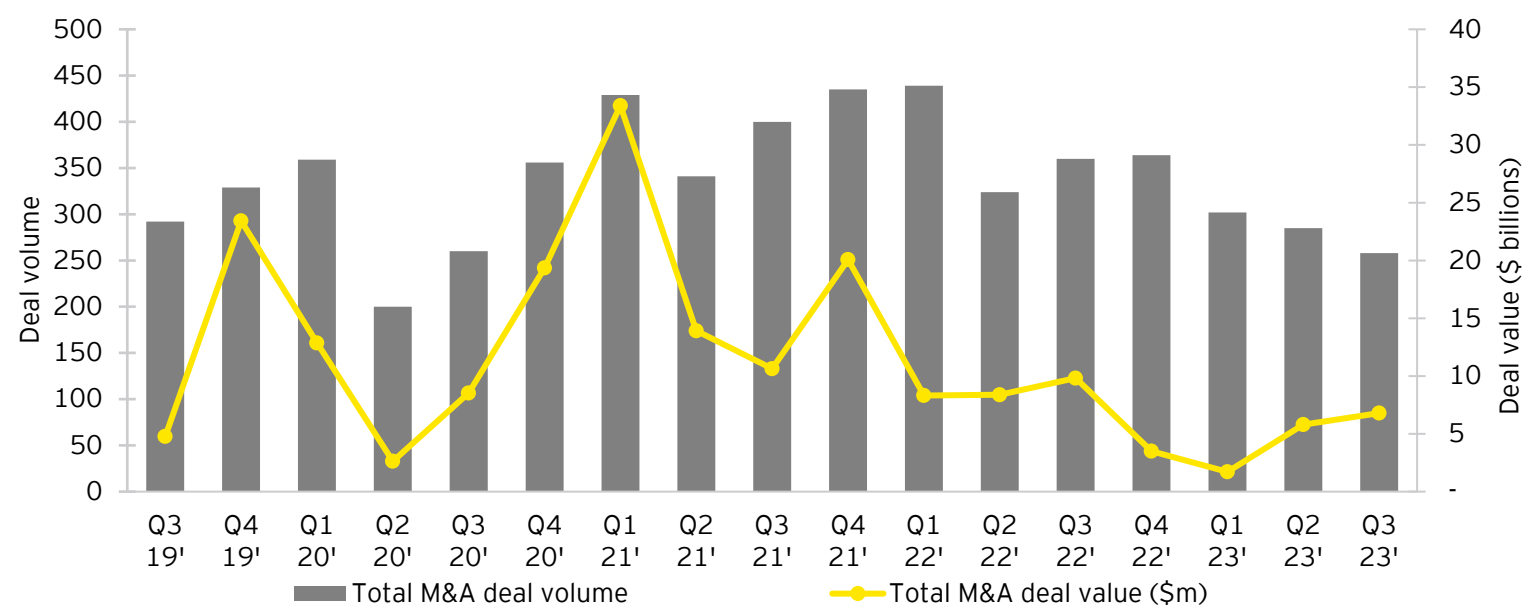
Deal value by type of acquirer



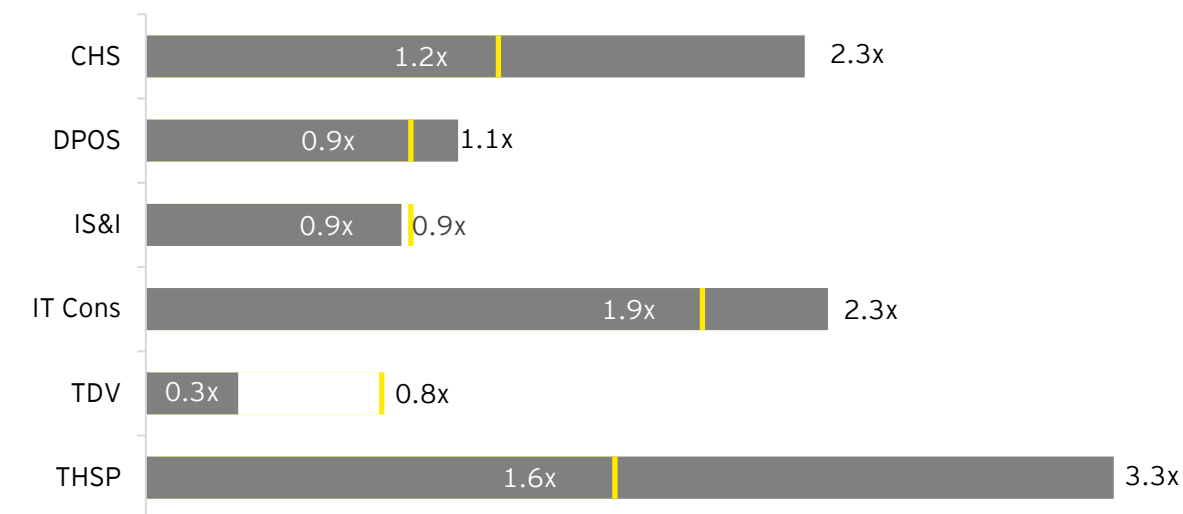
Deal volume by type of acquirer



Although deal volumes have declined compared to Q1 and Q2 2023 levels, deal value has increased in Q3 2023 when compared to Q1 and Q2 2023

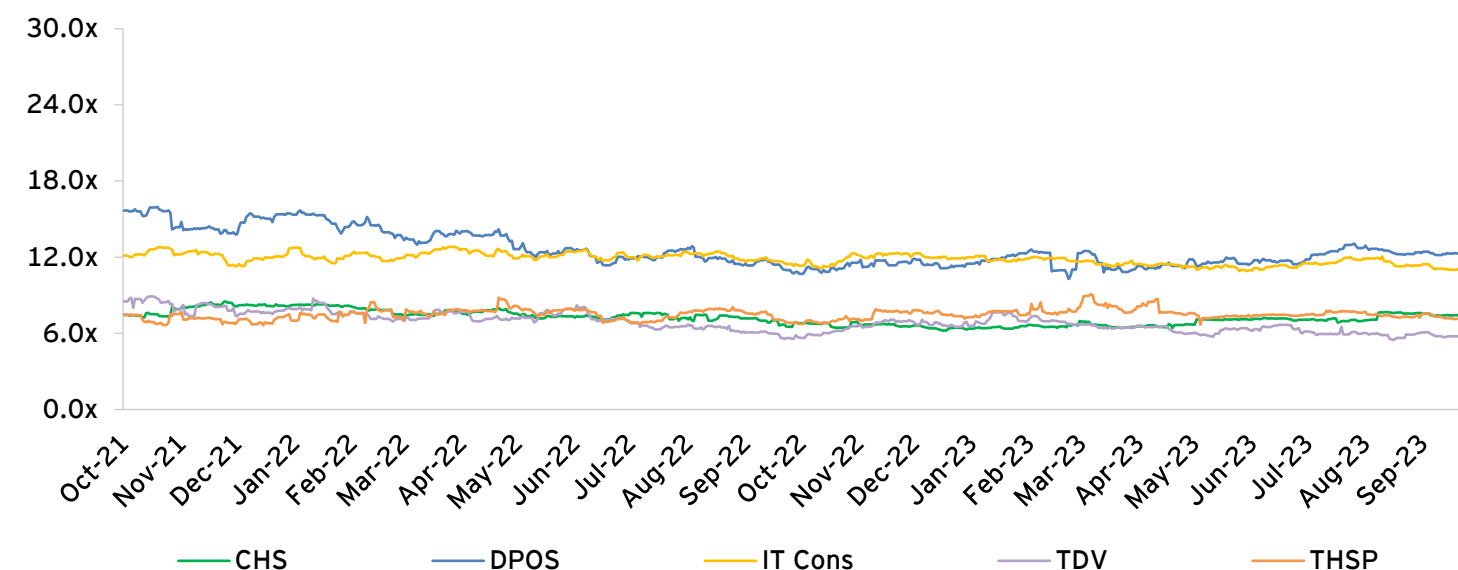


Revenue transaction multiples have improved compared to Q3 2022 in majority categories⁽¹⁾



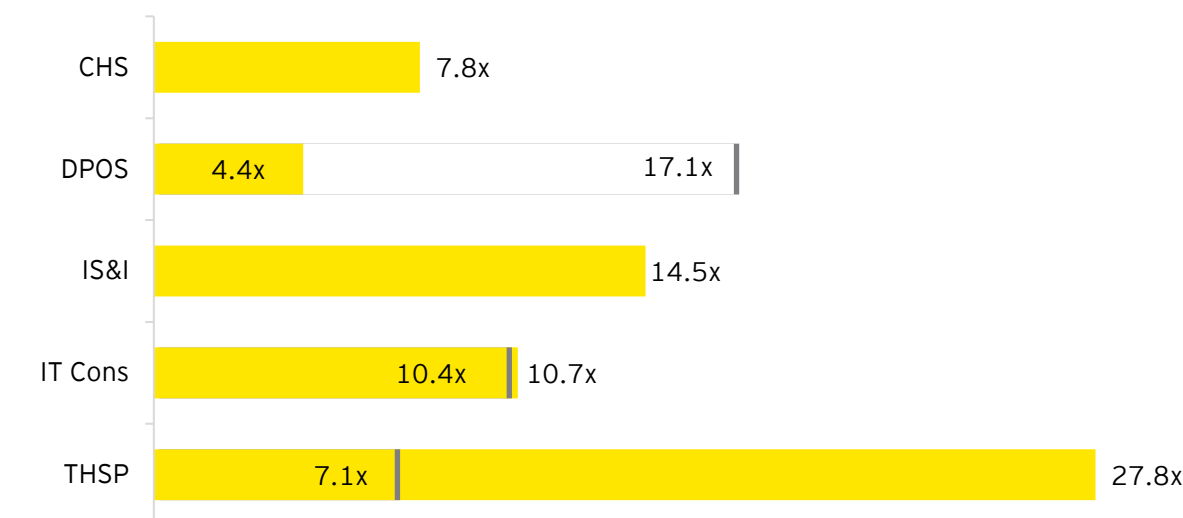
*Yellow line indicates Q3 2022 comparison

Public companies valuation remained volatile through YTD 2023



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 - IS&S valuation multiples are NM, as all the companies have negative EBITDA

EBITDA transaction multiples have shown signs of improvement in a few categories compared to Q3 2022⁽¹⁾



*Grey line indicates Q3 2022 comparison

(1) Observed volatility in certain categories can be attributed to limited availability of public deal data for this quarter

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