

IT & Tech-Enabled Services M&A Recap

FIRST QUARTER 2024

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Value scorecard driver: breadth of service offering

EY Canada's Technology M&A team has developed a proprietary value scorecard through which 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 breadth of services and its implications for value.



Building the "one-stop shop" in tech services

"One-stop shop," or "end-to-end offering," are terms that are often used in the information technology (IT) and technology-enabled service sector. The reason is simple: customers prefer to work with a limited number of vendors for critical IT projects and processes. IT companies equally benefit by being able to land and expand their offering with a customer at a lower acquisition cost.

In our value scorecard we call this "breadth of service offering." In simple terms, this means the variety of services an IT company offers such as creating software, offering business strategies, managing computer networks, integrating systems, managing data centres, cloud services, cybersecurity, artificial intelligence (AI) and Internet of Things (IoT). This can span various industries, functional areas or technology platforms.

When it does this well, a company that offers a broad range of services demonstrates its versatility, adaptability and comprehensive skill sets that are vital in today's rapidly evolving tech landscape. It indirectly highlights the company's depth of expertise and advanced capabilities. Companies that can show depth of expertise while also maintaining strong breadth of services are well positioned to be market leaders.



How does breadth of service offering drive value?

Provides a competitive advantage that enhances the business's ability to win and grow

IT companies that offer breadth of services eliminate the need for customers to seek multiple vendors for diverse needs, streamlining processes and saving valuable time. Range of services also facilitates service customization. Every business has its own unique set of needs and challenges. A wide range of services allows IT providers to adapt and offer bespoke solutions that cater to each client's specific requirements.

De-risks the business over time

IT companies with breadth avoid some of the risk that comes along with being tied to a single solution, vendor or offering. IT needs are dynamic and demand changes. For example, implementation of certain vendors becomes less or more popular over time and services are impacted by economic cycles and world events such as the COVID-19 pandemic. Being more diversified across services keeps companies deeply embedded with their customers and more resilient to specific economic events.

Improves the business's overall unit economics

A deeper bench of offerings creates the ability to upsell, cross-sell and offer dynamic pricing to expand the offering with current customers. All of this helps improve sales efficiency and reduces cost of customer acquisition. Further, once the business has multiple offerings, it's easier to continue to tuck in new offerings through acquisition, which can be an effective way to efficiently grow.

All of these attributes are attractive to acquirers and investors. The ability to reduce the risk profile while also expanding the offering through acquisition is one of the reasons why IT service companies are so attractive to financial investors.



What are some key considerations and challenges?

Any business contemplating a broad service proposition must first establish competency and reputation in select key offerings. Success in core offerings allows them to act as an initial point of attraction or a wedge to win new customers. The belief that when the company can provide exceptional service in a select area or areas, it often encourages customers to explore its other services. Once the customer relationship is established via the core offerings, the breadth of service offering shines as a significant advantage and can lead to higher success with customer retention.

As companies expand their services, difficulties can arise. There could be a heavy reliance on a wide array of experts, increased resource allocation and escalated operational costs, ultimately affecting the company's bottom line. If not monitored and managed carefully, the pursuit of service breadth could potentially detract from a focus on service depth, resulting in subpar output and customer dissatisfaction.

Another key consideration is whether there is a cohesive strategy across the offering. If there are multiple offerings, but they're fragmented in nature, they often don't provide the benefits above that were meant to drive value. This can have the opposite impact for acquirers and investors, who see these non-synergistic offerings as more burdensome to effectively manage and grow.

Investors use certain indicators when determining whether the offering is value enhancing. These include:

- ▶ Do all the services in your offering address needs of your target segment, whether it's customer industry (e.g., government, industrials, financial services) or customer size (e.g., enterprise, SME)?
- ▶ Does your offering speak to the same personas in the organization that would make the key buying decision (e.g., IT department, C-Suite, Operations)?
- ▶ Can your offerings be sold by the same individual through the same channels and sales tactics?
- ▶ Is your offering conducive to an ongoing vs. one-time relationship with the client, so that customer can continue to be sold new services?

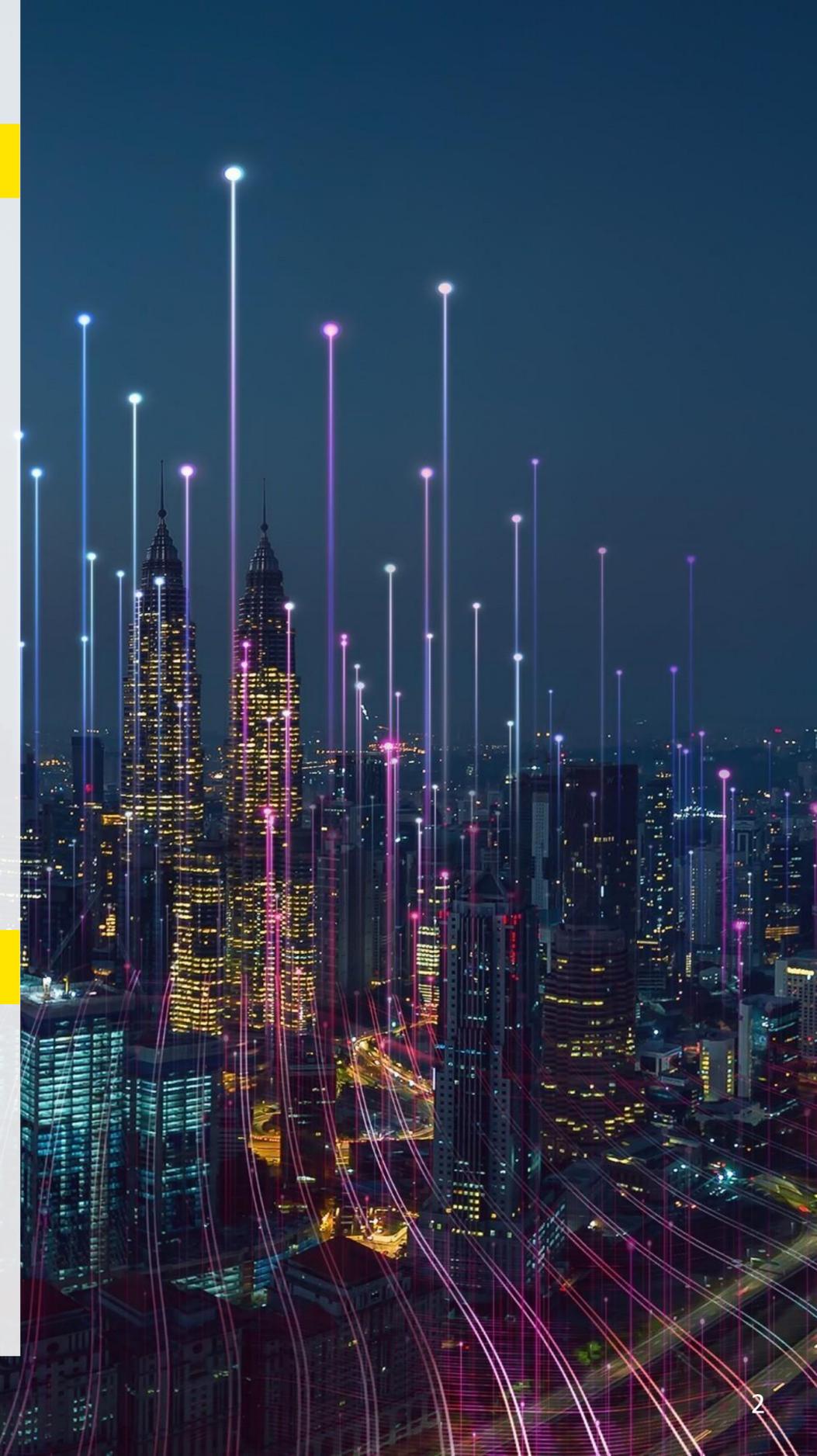


Concluding thoughts

The concept of breadth of services in IT services is a nuanced one. While it aids in an enterprise's growth, it also brings forward pertinent challenges. A well-thought-out strategy that aligns with the company's core competency and customer expectations helps capitalize on the benefits of a wide array of services while mitigating potential risks.

When thinking about adding new service offerings, entrepreneurs should feel confident they can maintain their level of service and expertise and be sure that those offerings are value accretive and synergistic to the business.

We actively work with companies to build an equity story around their service offering that will resonate with investors. Further, we can craft a plan around what future offerings could be synergistic, so investors can evaluate in respect to potential future acquisitions. Please reach out if you would like to discuss how we can help you.



Some of our recent deals include:

Provider of collaboration software and solutions for the life sciences industry

has been acquired by

A financial sponsor-backed provider of services for the life sciences industry

EY* acted as the exclusive financial advisor to the seller



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



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



*Ernst & Young Orenda Corporate Finance Inc.



WBM Technologies Inc.

has received an equity investment from



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



*Ernst & Young Orenda Corporate Finance Inc.



received an investment from



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



*Ernst & Young Orenda Corporate Finance Inc.



has acquired



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



*Ernst & Young Orenda Corporate Finance Inc.



has divested its business intelligence solutions and services division to



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



*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



*Ernst & Young Orenda Corporate Finance Inc.



has acquired an interest in



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



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



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



*Ernst & Young Orenda Corporate Finance Inc.



has been acquired by



EY* provide Transaction Advisory Services to Well.ca



*Ernst & Young Orenda Corporate Finance Inc.





Our 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

Announced date	Target	Target HQ	Target description	Buyer	Buyer HQ
Mar 20, 2024	Number8, LLC		Software development consultants that increases process efficiency and accelerates product market time and provides services to companies ▶ Deal Value: \$49.1 million	Software Mind	
Mar 11, 2024	Stuzo Holdings, LLC		Leading loyalty technology supplier in the convenience and fuel retail industry ▶ Deal Value: \$190.0 million ▶ EV / Revenue: 4.7x ▶ EV / EBITDA: 13.5x	PAR Technology Corporation	
Mar 08, 2024	TAMI Ventures		A privately held portfolio company specializing in technology, advertising, media, and information sectors ▶ Deal Value: \$23.0 million	Creatd, Inc.	
Mar 07, 2024	Cathedra Bitcoin		Developer and operator of data center infrastructure for the digital economy, with a focus on bitcoin mining ▶ Deal Value: \$60.7 million	Kungsleden Inc.	
Feb 29, 2024	GalaxE Group		A global IT and business solutions provider focused on driving digital transformation for Fortune 500 companies ▶ Deal Value: \$405.0 million	Endava plc	
Feb 24, 2024	Xduce Corporation		An enterprise app and AI development company that specialises in building AI solutions for businesses to optimise internal operations and customer-facing systems ▶ Deal Value: \$20.0 million ▶ EV / Revenue: 2.3x	Infibeam Avenues Limited	
Feb 13, 2024	Aggne Global Inc.		A leading consulting and managed services company serving insurance and Insurtech industries ▶ Deal Value: \$66.0 million ▶ EV / Revenue: 6.15x	Wipro Limited	

Select Q1 2024 transactions (cont'd.)

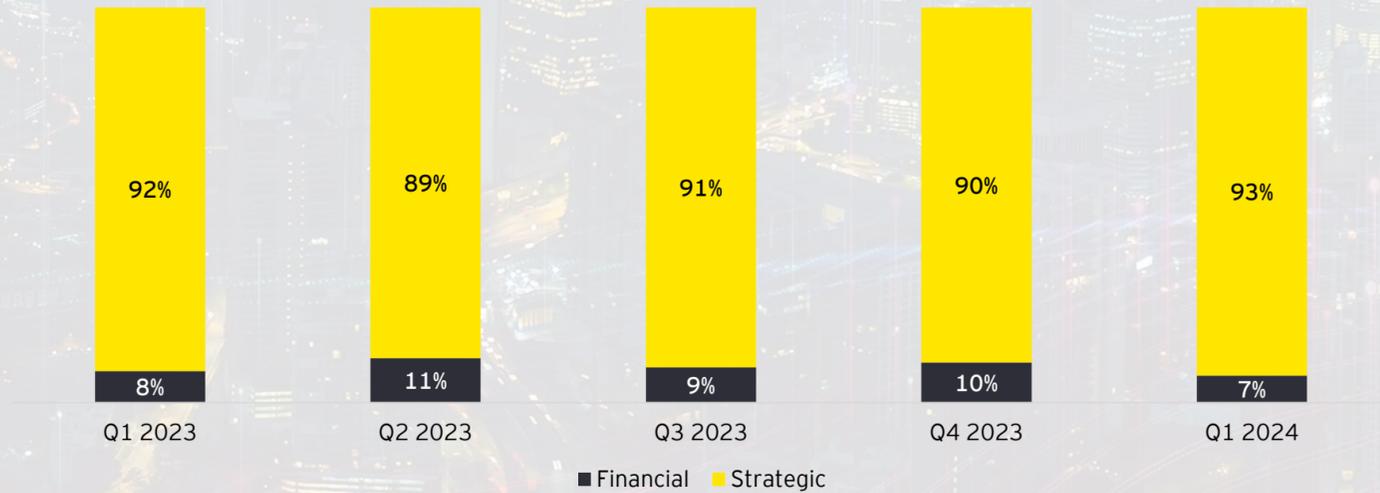
Announced date	Target	Target HQ	Target description	Buyer	Buyer HQ
Feb 6, 2024	CBTS LLC/CBTS Extended Territories LLC		Provider of IT services and solutions focused on enterprise and upper middle market customers ▶ Deal Value: \$670.0 million	TowerBrook Capital Partners L.P.	
Jan 29, 2024	PEAK Resources, Inc.		Provider of technology solutions and services, specializing in data center, cloud, storage, networking, and managed services ▶ Deal Value: \$5.6 million	ePlus Technology, Inc.	
Jan 24, 2024	Spalding Consulting		Leading provider of software development, information technology, and engineering services to the defense industry ▶ Deal Value: \$75.0 million	Saalex Corporation	
Jan 16, 2024	Datavail Corp		Managed services provider, offering database management, data and analytics services, and application implementation, development, and support services ▶ Deal Value: \$135.0 million	CIVC Partners	
Jan 11, 2024	Vertex AI Ventures Inc.		An artificial intelligence company focused on the identification, acquisition, development, and licensing of intellectual property within the artificial intelligence (AI) cloud computing industry	Alset Capital Inc.	
Jan 10, 2024	Navisite Opco		A digital transformation and managed services provider ▶ Deal Value: \$640.0 million	Accenture plc	
Jan 9, 2024	Reflexivity Research LLC		A private research firm specializes in producing cutting-edge research reports for the cryptocurrency industry	DeFi Technologies Inc.	
Jan 3, 2024	All Traffic Data Services, LLC		Provider of comprehensive suite of services includes traffic counts, turning movements, origin/destination analysis, pedestrian studies, radar speed monitoring, Bluetooth tracking, parking utilization, asset inventory, and crash diagrams ▶ Deal Value: \$19.0 million ▶ EV / Revenue: 2.0X ▶ EV / EBITDA: 6.3x	Rekor Systems, Inc.	

Historical M&A activity

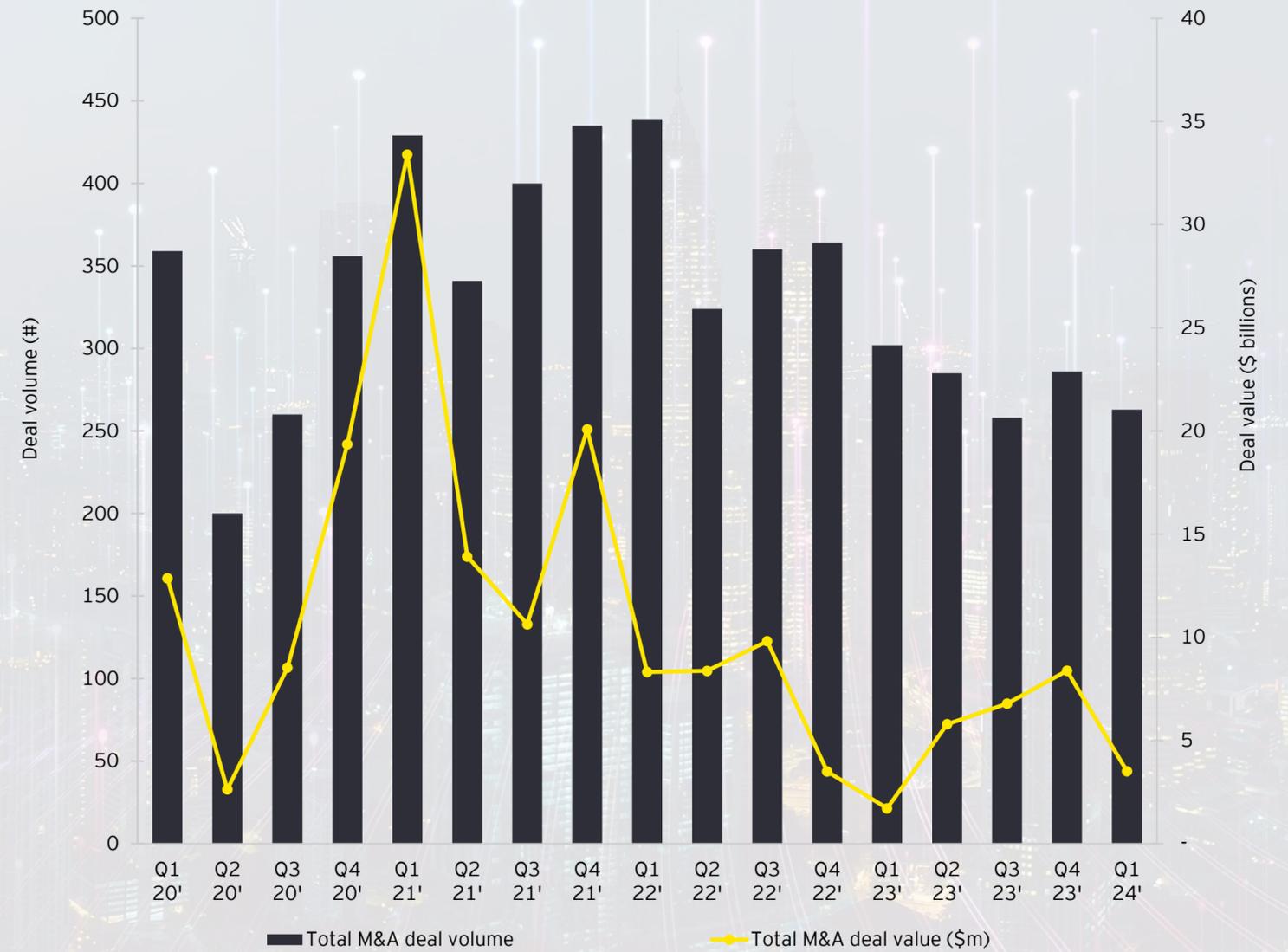
Deal value by type of acquirer



Deal volume by type of acquirer⁽¹⁾



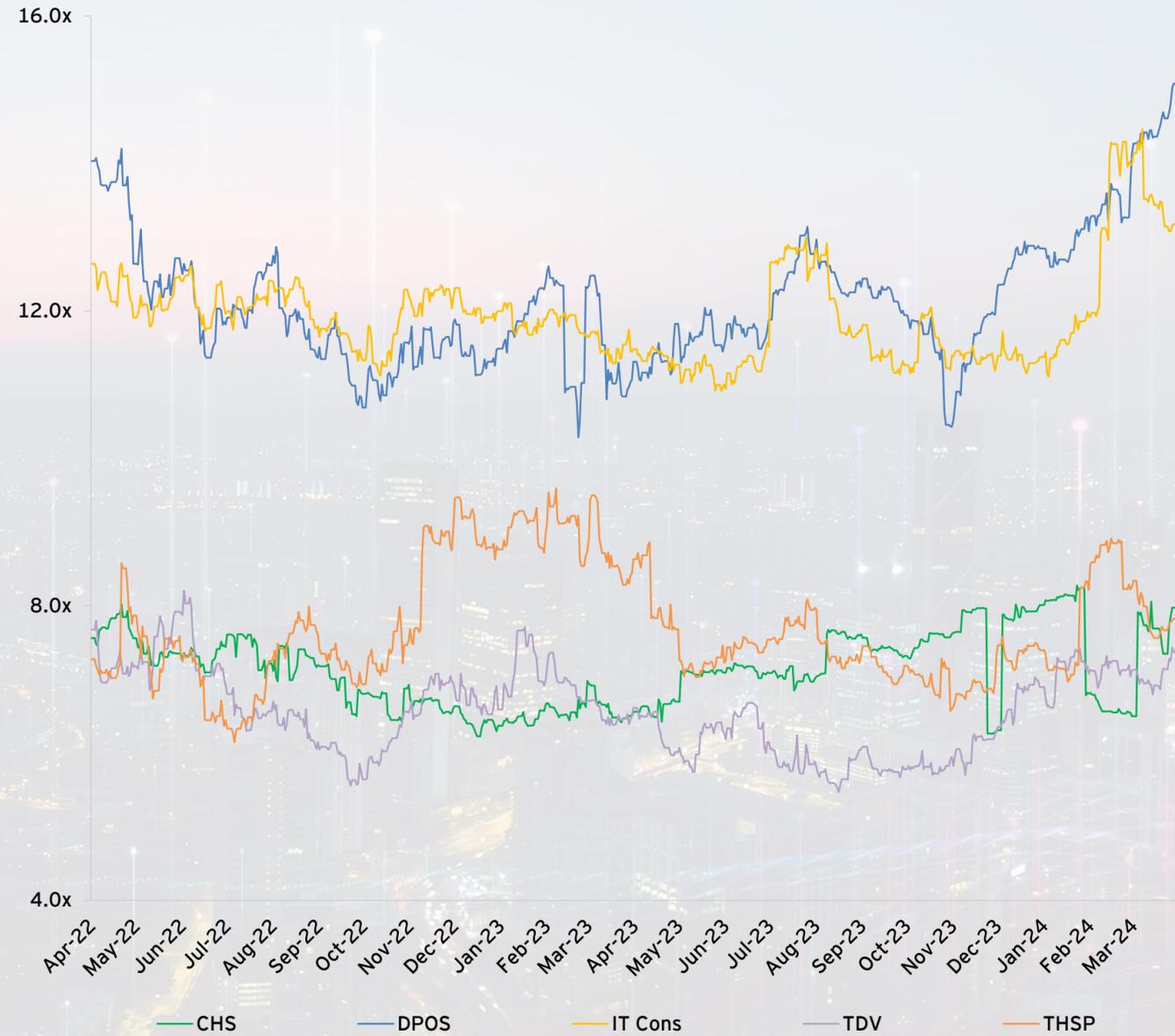
Both deal value and volumes⁽¹⁾ have declined from Q4 2023 levels



1) Deal volume also includes transactions with undisclosed deal values

Historical M&A activity (cont'd.)

Public market EV / EBITDA multiples⁽¹⁾ - last 24 months



EV / revenue transaction multiples - Q1 2024 vs. Q1 2023



*Yellow line indicates Q1 2023 comparison

EV / EBITDA transaction multiples - Q1 2024 vs. Q1 2023⁽²⁾



*Grey line indicates Q1 2023 comparison

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Jan 1, 2020, and Mar 31, 2024, 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.

1) CHS - Communication and hosting services (NYSE:VZ, NYSE:T, TSX:BCE, TSX:T, NasdaqGS:ATNI, NasdaqGS:CNSL, OTCPK:LICT); DPOS - Data processing and outsourced services (NasdaqGS:ADP, NYSE:FIS, NYSE:FI, NasdaqGS:JKHY, NYSE:BKI, NasdaqGS:EEFT, NasdaqGS:CNDT, NYSE:EVTG, TSX:ISV); IS&I - Internet services and infrastructure (TSXV:MTLO, NasdaqGS:BCOV, NasdaqGS:EGIO, NasdaqCM:TCX, NasdaqGS:INAP); IT Cons - IT consulting and other services (NYSE:LDOS, NYSE:BAH, NYSE:CACI, TSX:CGY, NYSE:SAIC, NYSE:RAMP, NYSE:IBM, NYSE:TCS, NYSE:ACN, NasdaqGS:CTSH, TSX:GIB.A, NYSE:DXC, ENXTPA:CAP; TDV - Technology distributors and VARs (NYSE:ARW, NYSE:SNX, NasdaqGS:AVT, NasdaqGS:RELL, NasdaqGS:NSIT, NasdaqGS:PLUS, NasdaqGS:SCSC, NasdaqCM:AEY, OTCPK:EACO, NasdaqGM:CLMB, OTCPK:SPRS); THSP - Technology hardware, storage and peripherals (NYSE:DELL, NYSE:HPQ, NYSE:HPE, NASDAQ:XXRX, NYSE:PSTG, NYSE:WCR, NasdaqGS:PLXS, NYSE:BHE, TSX:CLS, NasdaqGS:SSYS, NYSE:MEI, NasdaqGM:ALOT, TSX:BYL, TSX:FTG); The chart omits IS&I multiples due to their irrelevance, as all the firms have negative EBITDA.

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

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