

Software M&A Recap

SECOND QUARTER 2023

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Balanced growth vs. growth at all costs - and what that means for business value

Our Technology M&A team recently attended the Collision Conference 2023. And while AI was the undisputed buzzword of the week, balanced growth was runner up. This relates to the growing trend of technology companies being asked to shift from a “growth at all costs” mindset associated with the capital availability of the past couple of years to a “balanced growth” mindset, which is viewed as more appropriate for these fiscally prudent times. This is a crucial consideration for companies and an area where we have seen a shift in the last 18 months when it comes to valuation.

Let’s unpack four main questions we’re hearing around this.

1. Where is the sudden talk of balanced growth coming from and what does it really mean?

When investors speak of balanced growth, they are alluding to good growth rates as well as strong unit economics. Strong growth with poor profitability metrics is problematic because it could lead to cash constraints that question the resilience of the business and obstruct a clear picture of the unit economics at scale. Balanced growth means showing that growth can be achieved without bloat by optimizing resources, costs and operational effectiveness.

Balanced growth does not mean profitability at all costs. Investors want businesses to invest cash to drive growth when there is an opportunity to do so. Businesses with growth efficiency show they have flexibility to manage profitability while winning in the market. This is a hard bar to meet, which is why it is such an attractive quality to investors. In the current period of lower tech spending and high inflation and interest rates, this capability becomes even more attractive.

2. How does balanced growth inform the conversation around growth efficiency and Rule of 40?

The metric that most entrepreneurs might associate as a proxy for balanced growth is growth efficiency often known as the Rule of 40. This is based on a generally correct, but somewhat simplistic, notion that if a business takes its EBITDA margin and adds its prior-year revenue growth rate, it should add up to at least 40.

1: Based on Enterprise Value / Annualized Recurring Revenue

3. How does growth efficiency drive valuation?

We agree that there is something to this metric. In fact, when we mapped EY’s proprietary software deal data for the last few years, we saw an R2 of over 0.6 in terms of the correlation with the deal multiple. This is quite impressive for a single metric.

Based on that analysis, we see software companies that command strong valuations are seeing a growth efficiency of close to 50 or higher. The current market is also rewarding companies where the sum is made up of two balanced numbers (i.e., positive growth and profitability may be more attractive than higher growth, but losing money).


4. What can I do to improve growth efficiency and how do I pivot from the “growth at all costs” mindset?

Key ways software companies can manage efficient growth:


- Reassess pricing models: rethinking pricing structures can be a valuable tool to achieve growth and profitability.
- Focus on customer retention and upsell: nurturing existing customer relationships reduces churn and creates additional ARR at a lower cost.
- Optimize customer acquisition costs: refine marketing and sales strategies to identify the most cost-effective channels and tactics.
- Embrace operational efficiency: streamline operations and optimize internal processes.

These are standard actions, but what connects them is they represent having a laser focus on what elements of the business are providing value and letting others fall away. They all make the business leaner, which improves flexibility to adapt to changing circumstances. Pivoting from growth at all costs means displaying strong knowledge of what drives value for your business and making strategic decisions that support that. If done right, this can naturally improve growth efficiency.


Some of our recent deals include:




has been sold to



backed by



EY* acted as the exclusive financial advisor to StepUp RGM BV



Building a better working world

*Ernst and Young Orenda Corporate Finance Inc.



has been acquired by

A technology company that operates leading stock exchanges and serves capital markets globally

EY* acted as the exclusive financial advisor to Metrio Software Inc.



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EY* acted as the exclusive financial advisor to Verdazo Analytics Inc




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RST/Measurand, a portfolio company of Vance Street Capital LLC

EY* acted as the exclusive financial advisor to 3v Geomatics Inc.



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has been acquired by

An Industry Leader in Global Measurement and Data Analytics for Retail and Consumer Intelligence

EY* acted as exclusive financial advisor to Cornerstone Capabilities Inc.



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EY* acted as the exclusive financial advisor to Refresh Financial on its sale to Borrowell




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EY* advised InfoTech Inc., doing business as Wellness Checkpoint, on its sale to Carebook Technologies Inc.



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has sold intellectual property rights and assets to



All Things Data Security
(Stock Symbol: ATDS)

EY* acted as exclusive financial advisor to Filefacets, Inc.



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received a strategic investment from



and

an Edmonton-based private investment company and family office

EY* acted as the exclusive financial advisor to Fresnel Software Corporation



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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 27, 2023: Socure Inc. acquired **Berbix Inc.**, a developer of a high-accuracy document verification solution with a patent-pending forensics engine able to detect spoofed IDs, including AI-generated fakes, for a transaction value of \$70 million.

Jun 26, 2023: Databricks, Inc. announced the acquisition of **Mosaic ML, Inc.**, a leading generative AI platform that empowers enterprises to build their own artificial intelligence, for an approximate transaction value of \$1.3 billion.

Jun 26, 2023*: Thomson Reuters Corporation (NYSE: TRI) announced the acquisition of **Casetext, Inc.**, which uses advanced AI and machine learning to build technology solutions for legal professionals, for a transaction value of \$650 million.

Jun 26, 2023: International Business Machines Corporation (NYSE: IBM) announced the acquisition of **Apptio Inc.**, a leader in financial and operational IT management and optimization (FinOps) software, for an approximate transaction value of \$4.6 billion.

Jun 19, 2023*: Kings Entertainment Group Inc. (CSE: JKPT) announced the acquisition of **Bright AI Technologies Inc.**, a leading provider of Artificial Intelligence (AI) Big Data analytics solutions through its fintech platform, for a transaction value of 1.6 million.

Jun 13, 2023*: MAI Cloud Solutions Inc. acquired **Pulse Business Solutions Inc.**, which develops and offers 360-degree audit and inspection platform and tools, for a transaction value of \$5.7 million*.

**Includes earnouts of \$4.5 million*

Jun 08, 2023: WebMD Health Services Group, Inc., announced the acquisition of **Limeade Inc.**, which sells software that aims to help companies improve employee well-being and satisfaction, for a transaction value of \$75.2 million. The transaction represents an enterprise value of 1.3x revenue.

Jun 05, 2023*: L6 Holdings Inc., acquired an additional 5.5% minority stake in **Quorum Information Technologies Inc.**, a SaaS software and services company providing essential software solutions for vehicle dealerships, for an approximate transaction value of \$1.9 million. The transaction represents an enterprise value of 1.4x revenue and 33.3x EBITDA.

May 25, 2023: Applied Intuition, Inc., announced the acquisition of **Embark Technology, Inc.**, which has built a robust autonomous software stack that uses machine learning methodologies, for a transaction value of \$71 million.

May 24, 2023: Affle International Pte. Ltd. acquired **YouAppi Inc.**, which develops a comprehensive range of programmatic mobile app marketing solutions with real-time results optimization for the fast-growing gaming industry globally, for a transaction value of \$45 million*. The transaction represents an enterprise value of 1.4x revenue.

**Includes earnouts of \$9.6 million*

May 24, 2023: Snowflake Inc. (NYSE: SNOW) acquired **Neeva, Inc.**, which develops and operates software as a service based on an ad-free search engine that helps users to find online content, for a transaction value of \$150 million.

May 11, 2023*: Crosspoint Capital Partners, LP announced the acquisition of **Absolute Software Corporation** which provides software services that support the management and security of computing devices, applications, data, and networks for various organizations, for a transaction value of \$870 million. The transaction represents an enterprise value of 3.9x revenue and 84.8x EBITDA.

May 09, 2023: MultiPlan Corporation (NYSE: MPLN) acquired **Benefits Science LLC**, a next generation data and advanced analytics company that combines modern data science, including machine learning and artificial intelligence, for a transaction value of \$160 million.

May 08, 2023*: Recursion Pharmaceuticals, Inc. (NasdaqGS: RXRX) acquired **Cyclica Therapeutics Inc.**, developer of an AI-augmented drug discovery platform that drives programs across diverse protein classes, for a transaction value of \$40.0 million.

May 08, 2023*: Recursion Pharmaceuticals, Inc. (NasdaqGS: RXRX) acquired **Valence Discovery**, a leader in developing and deploying AI and physics-based technologies to enable the design of differentiated small molecules with improved properties and function, for a transaction value of \$47.5 million.

May 04, 2023: Shift4 Payments, Inc. (NYSE: FOUR) acquired **Focus POS Systems, Inc.**, developer of point-of-sale software and auditing tools to control various components of restaurant operations, for a transaction value of \$45 million.

May 03, 2023*: Wishpond Technologies Ltd. (TSXV: WISH) acquired certain assets of **Essential Studio Manager LLC**, which comprises of business management software, including invoicing and customer relationship management solutions for small businesses, for a transaction value of \$44.9million.

Apr 27, 2023*: Scope Carbon Corp. (CNSX: SCPE) announced to acquire **Farm Flight, Inc.**, developer of an image-based crop intelligence platform which enables regenerative agricultural practices, mitigates waste, and helps producers increase their yields, for a transaction value of \$14.5 million.

Apr 27, 2023: Arrowroot Acquisition Corp. (NASDAQ: ARRW) announced a reverse merger with **iLearning Engines**, a leader in AI-powered learning automation and information intelligence for corporate and educational use, for a transaction value of \$1.4 billion.

Apr 26, 2023: F-Secure Oyj (HLSE: FSECURE) acquired **Lookout Life**, developer of an endpoint-to-cloud security platform built for the intersection of enterprise and personal data, for an approximate transaction value of \$223 million. The transaction represents an enterprise value of 5.6x revenue and 15.0x EBITDA.

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

*Deals indicated are Canadian deals

All currencies are in US\$

Select Q2 2023 Transactions⁽¹⁾

Apr 24, 2023*: Accesso Technology Group plc (AIM: ACSO) acquired **Paradocs Mountain Software**, a leading provider of software solutions specifically tailored to the ski industry, for an approximate transaction value of \$7.7 million*. The transaction represents an enterprise value of 4.4x revenue.

**Includes earnouts of \$1 million*

Apr 24, 2023*: Kovo HealthTech Corporation (TSXV: KOVO) acquired **RSKM LLC**, which designs and develops medical billing and scheduling software, for a transaction value of \$2.7 million. The transaction represents an enterprise value of 0.8x revenue.

Apr 19, 2023: Akamai Technologies, Inc. (NASDAQ: AKAM) acquired **Neosec, Inc.**, which develops an API detection and response platform based on data and behavioural analytics, for a transaction value of \$86.7 million.

Apr 17, 2023: ZeroFox (Nasdaq: ZFOX) acquired **LookingGlass Cyber Solutions, Inc.**, a leader in external attack surface management and global threat intelligence, for an approximate transaction value of \$26 million*.

**Includes earnouts of \$13 million*

Apr 04, 2023: TPG Inc. (NasdaqGS: TPG) acquired majority stake in **Thomson Reuters Elite**, which provides financial and practice management solutions to the leading law firms, helping customers automate and streamline critical finance and accounting workflows, for a transaction value of \$500 million.

Apr 04, 2023*: Docebo Inc. (TSX: DCBO) acquired **Circles Collective Inc.**, which operates PeerBoard, a plug and play community as-a-service platform, for an approximate transaction value of \$8.1 million*.

**Includes earnouts of \$4.5 million*

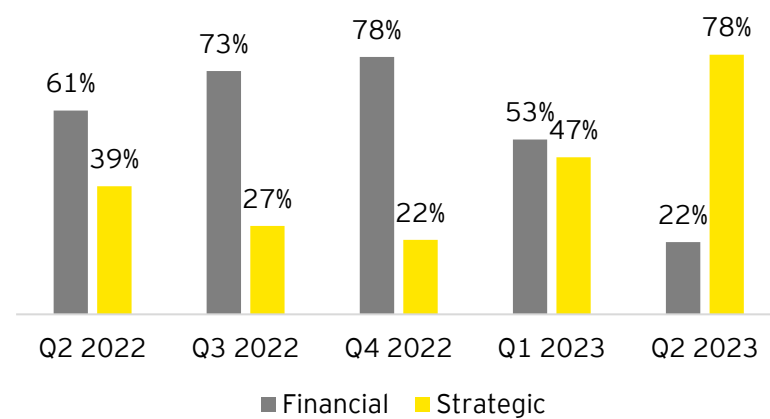
(1) Data sources: S&P Capital IQ, Mergermarket, Press Releases

**Deals indicated are Canadian deals*

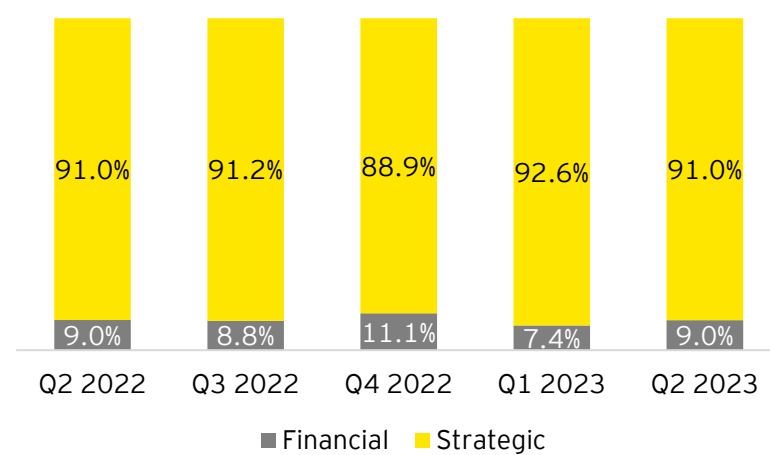
All currencies are in US\$

Historical M&A activity

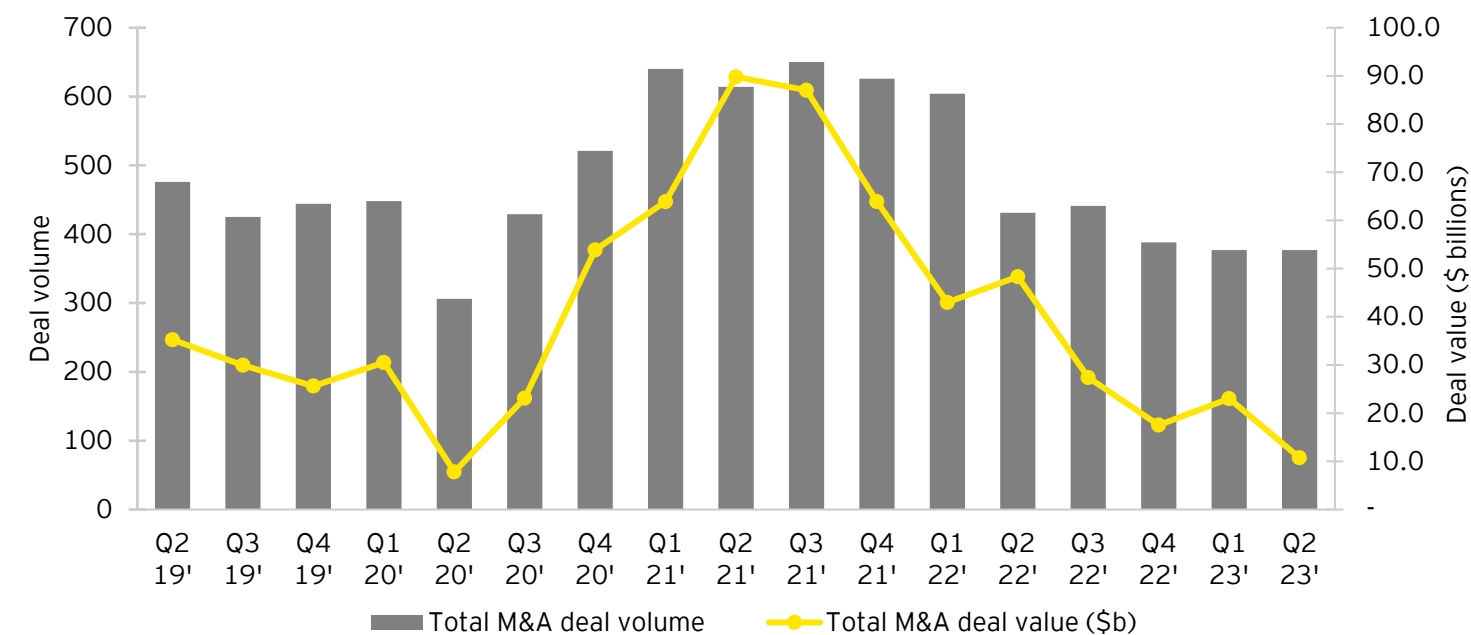
Deal value by type of acquirer



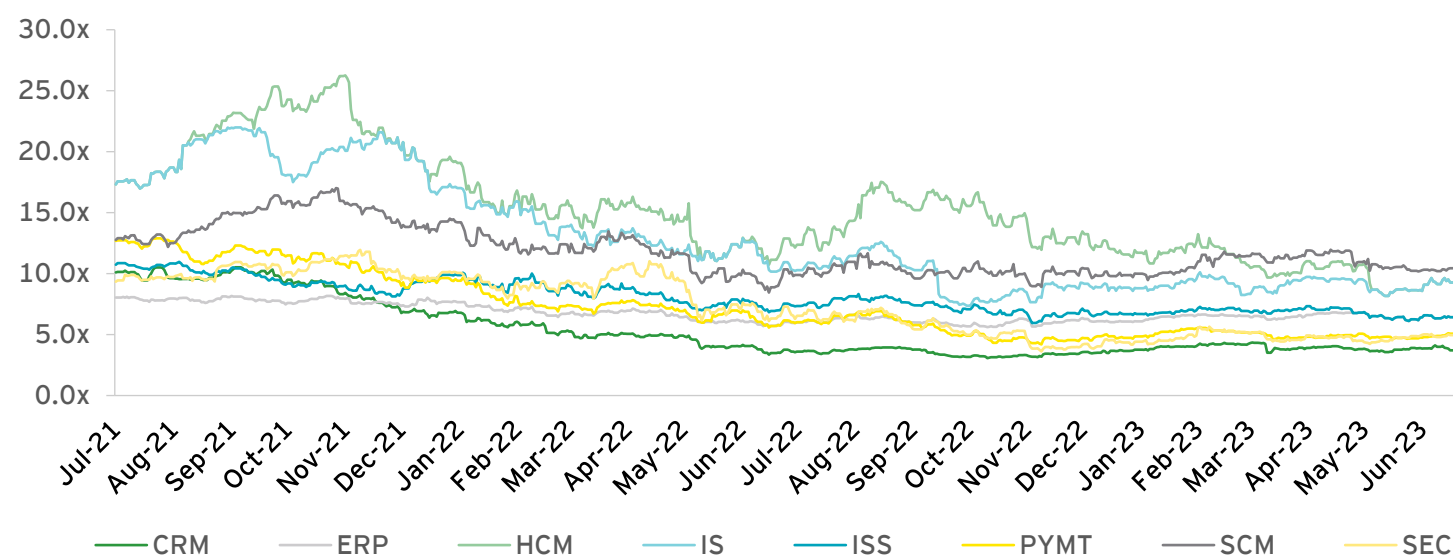
Deal volume by type of acquirer



Both deal values and deal volumes have declined in Q2 2023 compared to Q2 2022 levels

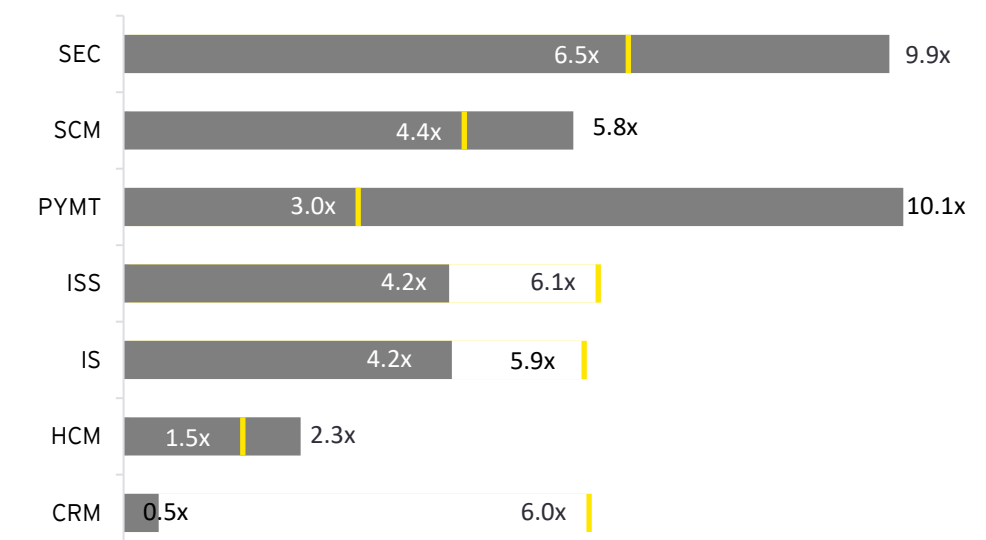


Public company multiples have remained relatively stable through Q2 of 2023



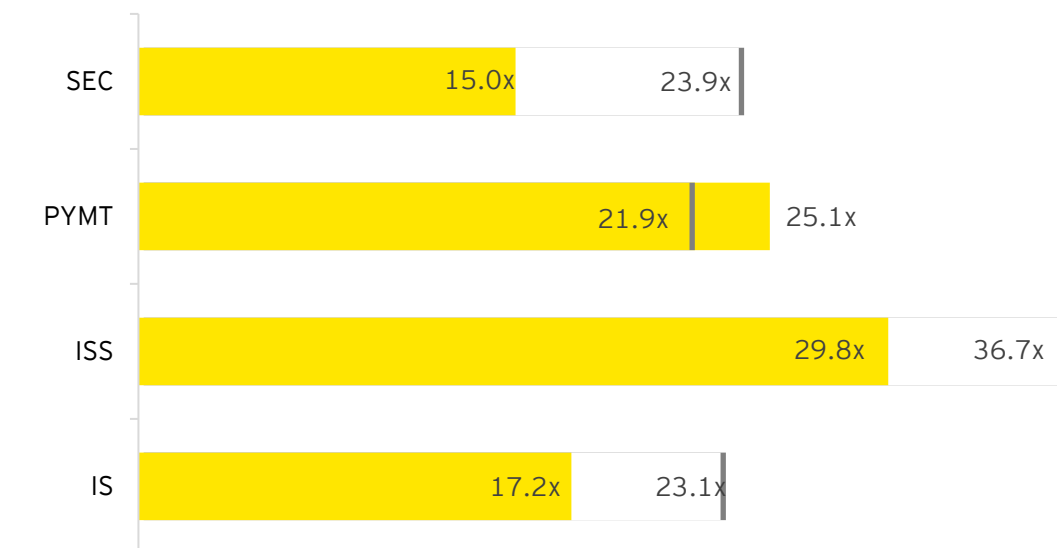
CRM - Customer Relationship Management; ERP - Enterprise resource planning; HCM - Human capital management; IS - internet Software; ISS - Industry specific software; PYMT - Payment; SCM - Supply chain management; SEC - Security

Revenue transaction multiples have remained volatile while some categories have shown an increase when compared to Q2 2022



*Yellow line indicates Q2 2022 comparison

EBITDA transaction multiples have remained volatile while only one of the categories have shown an increase when compared to Q2 2022



*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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