



Software & Services M&A Report – Q2'23

Beginnings of a Technology Ren-AI-ssance

Mergers & Acquisitions | Capital Advisory

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Beginnings of a Technology Ren-AI-ssance

Halfway through 2023, the markets are proving to be resilient, albeit with conflicting signals. On one side of the coin, there are worrying economic indicators such as the U.S. Treasury yield curve, which has become the most deeply inverted in decades, as well as heightened short-term interest rates. On the positive side, U.S. GDP has been growing at a steady clip, the labor market remains tight, and the public equity markets have rallied. In fact, the S&P 500 has exceeded analyst expectations with +16% YTD growth while the Nasdaq Composite had its strongest first half to a year ever. But what's particularly encouraging is that tech sector stocks led the first half charge, with the S&P 500's tech stocks outperforming the total index by nearly 38%!

So, what's driven tech's recent rally and why has it so heavily impacted the public markets? And what will it mean for M&A going forward? While improved profitability and resilient growth have contributed, investors have eagerly bought into the hope of an AI renaissance, or "ren-AI-ssance".

The emergence and productization of a subset of artificial intelligence termed Generative Pre-trained Transformers ("GPT") is proving to be a catalyst for the current investment climate. The timing of tech's rebound is not a coincidence – OpenAI's ChatGPT released in November 2022 and added 100 million users by January 2023, becoming the fastest growing app in history (until recently). But the explosive release of ChatGPT and its ensuing productization triggered a race among tech companies to release complementary AI tools and avoid 'missing the boat'. We believe the current tech rebound is, in part, pricing in the promise of AI disruption.

The pronounced impact of AI on the public tech sector largely comes down to scale and capitalization. Notably, some of the top tech performers this year are large cap companies at the forefront of AI, including Microsoft, who has invested nearly \$11 billion in OpenAI, and NVIDIA, who is producing the AI-specific computer chips. The AI renaissance, however, is not limited to developers and chip manufacturers; everyday companies are looking to introduce new AI-driven products or supplement existing products through the use of AI. Zoom recently launched its Zoom IQ tool that can summarize video meetings and chats. Salesforce launched AI Cloud to supercharge its CRM platform with GPT capabilities. AI has captured so much of investors' mindshare that when Google's Bard chatbot provided an erroneous answer at a demonstration in February, Alphabet's stock dropped 9%.

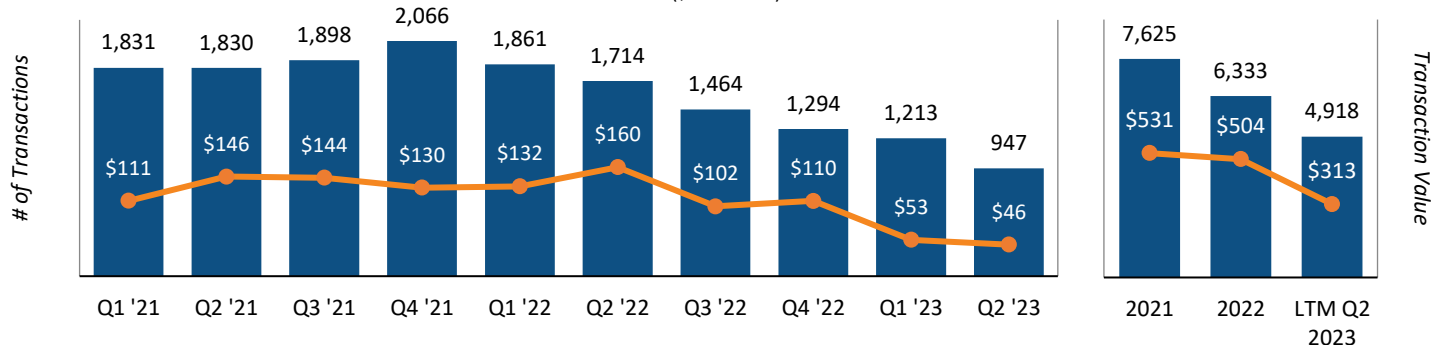
Substantial amounts of private capital from both investors and strategic buyers is also flowing into artificial intelligence. Through the first half of 2023, nearly \$44 billion of institutional capital was invested into AI-focused companies, of which approximately \$38 billion came from venture firms. This skew toward venture funding suggests we are still in the very early stages of AI adoption despite the R&D in the space for over a decade.

We at Intrepid expect an increasing number of companies to forgo spending their R&D budgets on creating their own artificial intelligence engines, and instead, acquire into the capabilities and focus on integrating them into their existing platforms. These bolt-on acquisitions of AI solutions can be an efficient use of capital and ultimately give these buyers a competitive edge and reduce their time to market. We have already observed buyers paying a premium for AI-related companies and expect this trend to continue for those with first mover advantage.

Advancements in artificial intelligence are clearly causing a secular shift in how technology companies will operate in our modern society. If you have any thoughts that you would like to share on the topic, please feel free to reach out – we would love to continue the conversation!

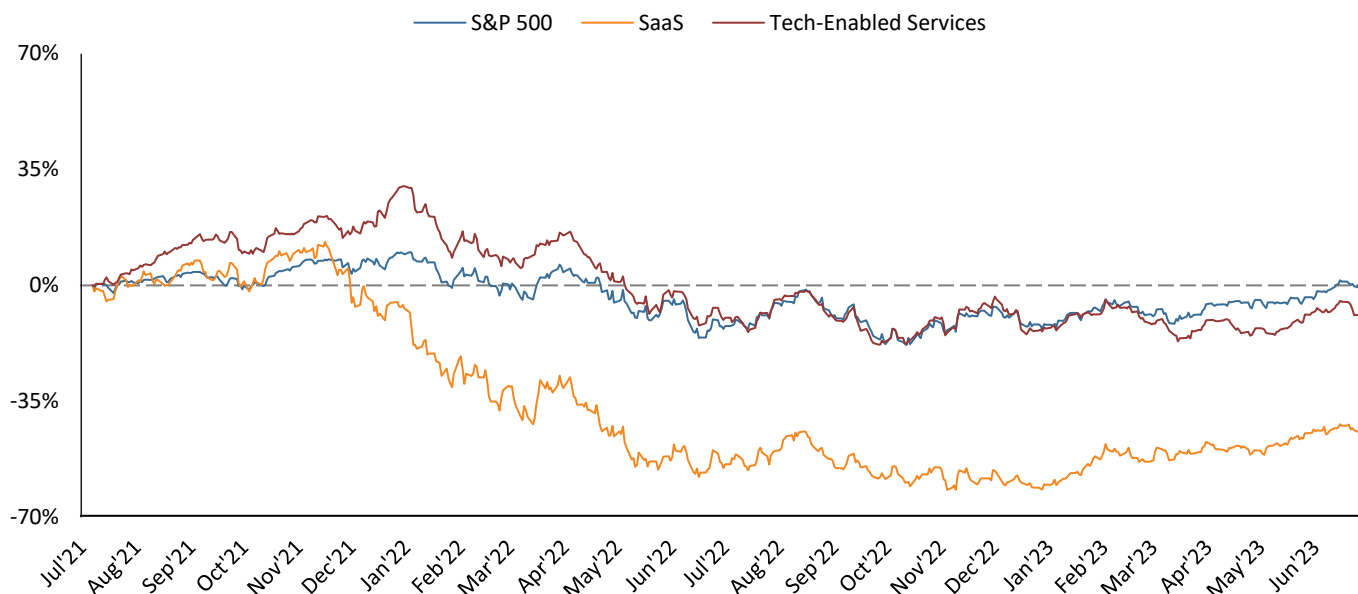
Software M&A Deal Values and Volume

(\$ in billions)

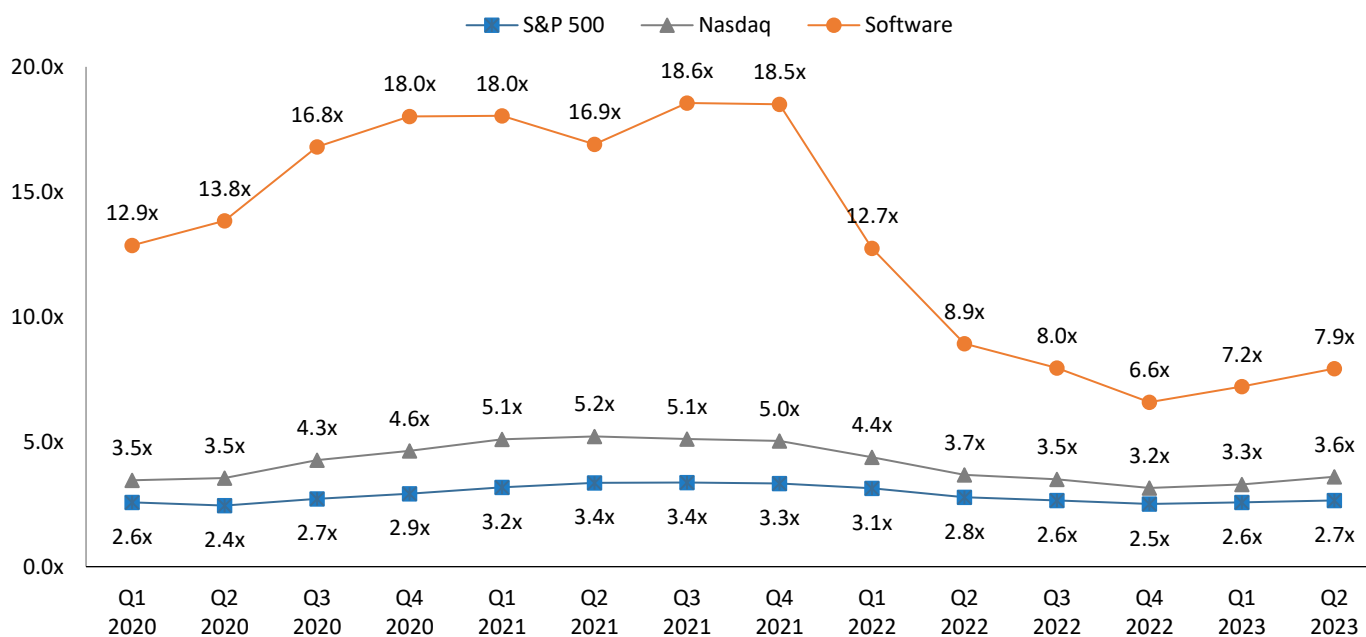


Publicly Traded Companies – Software Valuation Trends

Public Stock Price Index Growth



Public Software Enterprise Value / LTM Revenue Multiples



Deal Spotlight



IBM Continues Hybrid Cloud Buy and Build Strategy

Target Overview

Apptio is a leading financial and operational IT management and optimization software provider. The company helps businesses manage their technology spend and direct their investments toward innovative solutions. Apptio accomplishes this mission through technology and cloud financial management and enterprise agile planning solutions across its ApptioOne (hybrid cloud), Cloudability (public cloud), and TargetProcess (planning) products. Apptio serves over 1,800 customers, including over 60% of Fortune 100 companies, and has managed over \$650 Billion in tech spend to-date.

Buyer Overview

IBM (NYSE: IBM) is a leading multi-national technology company with a strategic focus on hybrid cloud and artificial intelligence opportunities. Through its industry leading software products, consulting services, and infrastructure platform, IBM supports digital transformation and helps businesses capitalize on data, streamline business processes, reduce costs, and gain a competitive edge.

Transaction Overview

- Announced: June 26, 2023
- Transaction Value: \$4.6 Billion
- Consideration: 100% Cash

Commentary

IBM's acquisition of Apptio is the latest example of IBM's ongoing transformation and commitment to IT automation and artificial intelligence. In recent years, the company has completed a number of strategic transactions as it seeks to refocus its business lines to these areas including the 2019 acquisition of Red Hat and the 2022 divestiture of IBM's healthcare data & analytics assets to Francisco Partners. The acquisition of Apptio complements IBM's existing IT automation tools including Instana and Turbonomic (who IBM previously acquired) and provides an avenue for further growth with AI capabilities (e.g., AIOps).

Deal Spotlight



THOMSON REUTERS



casetext

Thomson Reuters Doubles Down on Artificial Intelligence with Casetext Acquisition

Target Overview

Casetext is a leading provider of a legal research leveraging artificial intelligence and machine learning. Casetext offers AI-powered document review, legal research memos, deposition preparation, and contract analysis in minutes through its flagship product, CoCounsel. Launched in 2023 and backed by the robust GPT-4, CoCounsel symbolizes a defining moment for Casetext – an evolution from its historical role as a community for attorneys to share knowledge and grant users access to legal texts annotated by lawyers.

Buyer Overview

Thomson Reuters (NYSE: TRI) is a multinational media and information services company that operates in various sectors, including business, legal, tax and accounting, financial and media markets. Thomson Reuters has a significant global presence and serves customers in over 100 countries. The company is committed to leveraging technology and data-driven insights to deliver innovative solutions that help professionals make informed decisions and stay ahead in their respective fields.

Transaction Overview

- Announced: June 26, 2023
- Transaction Value: \$650 Million
- Consideration: 100% Cash

Commentary

With the acquisition of Casetext, Thomson Reuters further underscores its dynamic growth strategy, marking its 11th acquisition since 2020 and its 3rd in the legal tech market. Casetext's artificial intelligence powered capabilities directly align with Thomson Reuters' long term strategy in which they plan to invest \$100 million per year on AI and an additional \$10 billion earmarked for predominantly AI-centric acquisitions. The acquisition of Casetext is expected to expedite and expand Thomson Reuters' rollout of generative AI solutions to its customers and both leadership teams share conviction they will continue propel AI advancement across a multitude of industries.

Deal Spotlight



Seeking Deeper Employee Relationship with a High Growth Experience Platform

Target Overview

Reward Gateway is a leading employee engagement SaaS platform based in the United Kingdom. The company helps employers engage, motivate, and retain employees through its all-in-one platform. The platform features employee reward, recognition, communication, survey, discounts, analytics, and wellbeing solutions. Employers can seamlessly integrate Reward Gateway to their existing HR systems with over 40 pre-built APIs. Reward Gateway serves over 4,000 corporate clients and 8 million employees primarily in the U.K., U.S., and Australia.

Buyer Overview

Edenred (ENXTPA:EDEN) is a leading global benefits management provider based in France. Through its digital platform and complementary services, Edenred helps cultivate deeper relationships between employers and employees. The company accomplishes this goal by connecting employers and employees with benefit merchants. Edenred's solutions include meal benefits, employee incentives, mobility benefits, and corporate payments. The company has connected 52 million users across nearly 1 million corporate clients with 2 million merchant partners in 45 countries.

Transaction Overview

- Announced: May 16, 2023
- Transaction Value: \$1.4 Billion (12.2x 2023P Revenue)
- Consideration: 100% Cash

Commentary

The acquisition of Reward Gateway represents a strategic step by Edenred to more substantially expand its employee benefits offering. It follows a structural change in the workplace environment containing a greater number of distributed employees necessitating an increased emphasis on employee engagement. The acquisition substantiates that premium valuations are still available in a market that has admittedly cooled since 2021 highs for companies with double digit growth and high margins, such as Reward Gateway. It also represents a case study of a fruitful partnership with private equity groups that helped supercharge growth and maximize scale before exiting to a capable strategic buyer. Reward Gateway was initially acquired for \$41 million in 2010 before switching private equity group hands two more times prior to this sale.

Select M&A Transactions – Software and Services

Disclosed Transactions over \$1 billion EV

Announced Date	Closed Date	Acquirer	Target	Target Business Description	Enterprise Value (\$M)	Enterprise Value / LTM Revenue
Jun-23	Pending	Visa	Pismo Solues Tecnologicas	Banking & payments processing SaaS	\$1,000	-
Jun-23	Pending	IBM	Apptio	IT business management & ERP SaaS	\$4,600	-
Jun-23	Pending	Databricks	MosaicML	Generative AI models development SaaS	\$1,300	-
Jun-23	Jun-23	Shenzhen Kingdom Sci-tech	Kingdom Fortune	Business software for financial institutions	\$1,007	NM
Jun-23	Pending	Nasdaq	Adenza	Financial risk & regulatory management SaaS	\$10,700	~22.0x
Jun-23	Pending	Brookfield Business Partners	Network International Holdings	Payment processing SaaS & systems	\$2,792	6.4x
May-23	Pending	Edenred	Reward Gateway	Employee HR engagement SaaS	\$1,439	-
May-23	Pending	Aristocrat Leisure	NeoGames	Online gambling & lottery services	\$1,185	5.9x
Apr-23	Apr-23	Deutsche Borse Group	SimCorp	Asset management software	\$4,640	7.8x
Apr-23	Jul-23	Cinven	Archer Technologies	Enterprise GRC management SaaS	\$1,300	5.8x
Apr-23	Pending	Savvy Gaming Group	Scopely	Mobile videogames developer & publisher	\$4,900	2.8x

Median: 6.4x
Mean: 10.8x

Disclosed Transactions under \$1 billion EV

Announced Date	Closed Date	Acquirer	Target	Target Business Description	Enterprise Value (\$M)	Enterprise Value / LTM Revenue
Jun-23	Pending	Thomson Reuters	Casetext	Legal research & workflow management SaaS	\$650	-
Jun-23	Pending	ThoughtSpot	Mode Analytics	Data analytics SaaS	\$200	-
Jun-23	Pending	Neptune Retail Solutions	Quotient Technology	Omnichannel brand marketing SaaS	\$420	1.6x
Jun-23	Pending	Scout24	Sprengnetter Group	Property valuation SaaS & services	\$146	-
Jun-23	Pending	Entain	STS Holding	Online sports betting & gaming services	\$901	6.6x
May-23	Pending	Fanatics	PointsBet	Sports wagering & racing SaaS	\$150	-
May-23	Pending	Crosspoint Capital Partners	Absolute Software	Endpoint security integrity & IT asset management SaaS	\$826	3.8x
May-23	May-23	MultiPlan	Benefits Science	Healthcare data analytics SaaS	\$158	-
May-23	May-23	Alfar Capital & Walter Capital	MSP Corp	Cloud, IT, and cybersecurity managed services	\$100	-
Apr-23	Jun-23	Columbus McKinnon	Montratec	Intelligent automation & transport systems	\$110	3.8x
Apr-23	May-23	F-Secure Oyj	Lookout (mobile security business)	Mobile endpoint security & threat protection SaaS	\$223	5.7x
Apr-23	Apr-23	Charlesbank Capital Partners	Maltego Technologies	Investigation & case management & analytics SaaS	\$100	5.6x
Apr-23	Apr-23	Miovision Technologies	Global Traffic Technologies	Traffic control system & SaaS	\$107	2.7x
Apr-23	Jun-23	TPG Capital	Elite	Financial practice management SaaS	\$500	-

Median: 3.8x
Mean: 4.3x

Notes: USD in millions; "Pending" denotes announced transactions pending close

Sources: Pitchbook and S&P Capital IQ as of 6/30/2023



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About Intrepid's Software & Services Practice

Accessing capital and achieving a premium valuation requires a unique and disruptive idea, a scalable business model, vision for sustained growth, and strong execution. Intrepid's **Software & Services** practice is an innovative and focused strategic advisory unit that has deep industry expertise assisting entrepreneurs, middle-market business owners and investors across key subsectors, including: vertical SaaS, sales enablement, compliance technology, human capital management, transportation & logistics technology, data & analytics, payments & fintech, cybersecurity, HCIT, and tech-enabled services. Our bankers take the time to understand a company's business model and advise it in defining and articulating its vision to the market.

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