



SOFTWARE & SERVICES

Software & Services M&A Report - Q3'23

# IPO Market Showing Signs of Life

Mergers & Acquisitions | Capital Advisory

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## Renewed Optimism Surrounds the IPO Market

In the words of Mark Twain, “Reports of my death have been greatly exaggerated.” After a year-long slump in the IPO market, a string of recent offerings has provided us with cautious optimism around the issuance market in 2024. How real is it? And what might it indicate for the broader deal-making environment?

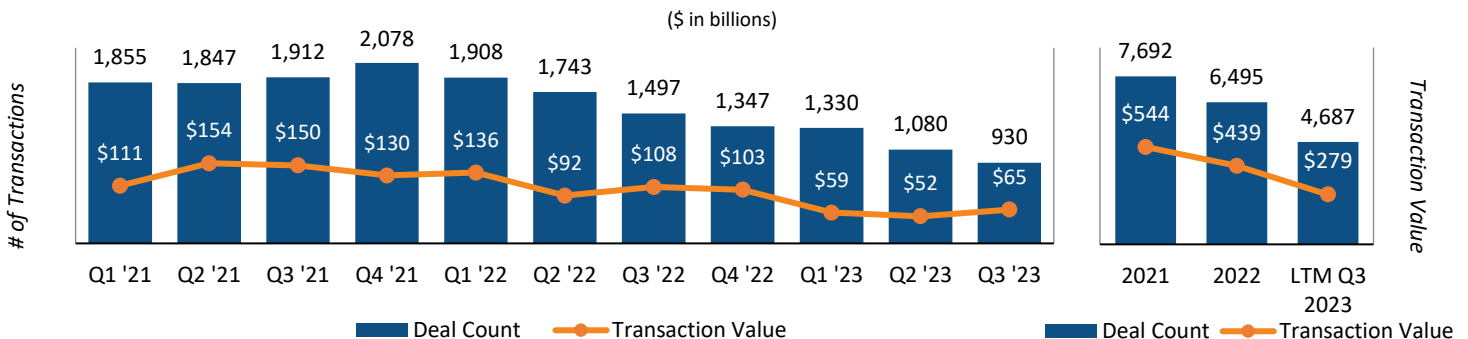
The past quarter has been marked by several high-profile technology IPOs, including that of microchip designer Arm, marketing automation software provider Klaviyo, and online grocery delivery service Instacart. These recent public offerings may have marked the turning point in an IPO market that had been near historic lows – a particularly somber fact after the near-record highs of 2021. For reference, over the past twenty years, there have been an average of 255 US-based IPOs per year, representing \$59.5 billion raised per year. With investors willing to take riskier bets in 2021 when valuations were high and debt was cheap, those figures were 908 IPOs, raising \$276.3 billion of capital. YTD 2023, we have seen just 75 IPOs raising \$14.6 billion through Q3, over a 90% decline in volume and value.

The decline in the IPO market can be attributed to a combination of the drop in public valuations (see the next page), a spike in inflation, and increased interest rates. A warm-up is welcome and gives us hope that a broader uptick in the deal environment may be forthcoming. To be candid, though, the revival is still early and many private investors have in fact seen negative returns. Look no further than Instacart, whose \$10.0 billion IPO is a far cry from its \$39.0 billion valuation in March 2021. Some issues have also declined after their debuts. Obviously, our enthusiasm should be tempered.

Still, with valuations well below 2021 highs, inflation still a concern, and debt expensive, why are the likes of Arm, Klaviyo, and Instacart going public now? It’s all about perspective. While recessionary fears remain, the US economy has largely defied expectations to date. The S&P 500 is up nearly 12% since the beginning of the year, while the tech-heavy Nasdaq is up an impressive 26%. Meanwhile, inflation has moderated to 3.7% in August, albeit still above the Fed’s 2.0% target, and analysts expect Fed interest rate hikes to be nearing an end. So, while we’re past the unsustainable highs of 2021, there’s a newfound optimism we may have dodged the worst of a “hard landing”. This reshaped perspective is creating a willingness from investors to dive in and test the IPO waters, given the substantial backlog of investments that, economic cycle aside, would have already gone public. By Pitchbook’s estimates, there is a backlog of 77 IPO ready, US-based companies. Despite this backlog, the IPO resurgence is likely to be a steady and gradual progression. Nevertheless, we see momentum building and find it encouraging for capital markets as a whole.

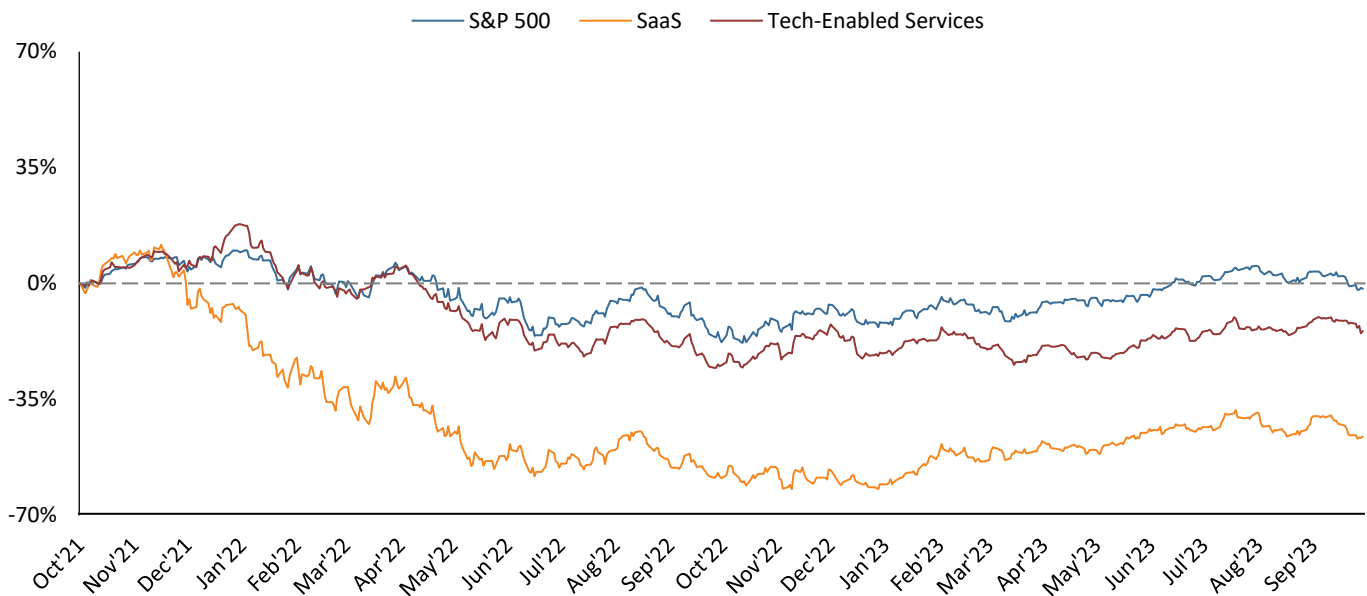
But what are the implications for the broader private deal market? To start, the M&A market has historically been correlated with the public equities market. Digging a bit deeper, we believe the improved investor confidence enabling the IPO recovery will carry over into the private markets and directly align with the perspective and feedback discussed in our recent conversations. After all, private investors frequently turn to the public markets for indications of value. Additionally, the recent string of IPOs demonstrate the importance of profitability for tech companies seeking premium valuations as opposed to the cash-burning, growth-at-all-cost days. We at Intrepid have observed the growing investor focus on profitability in the private market, particularly for deals financed with a debt component. For founders exploring strategic options or just looking to discuss the market, we would be happy to have a discussion!

**Software M&A Deal Values and Volume**

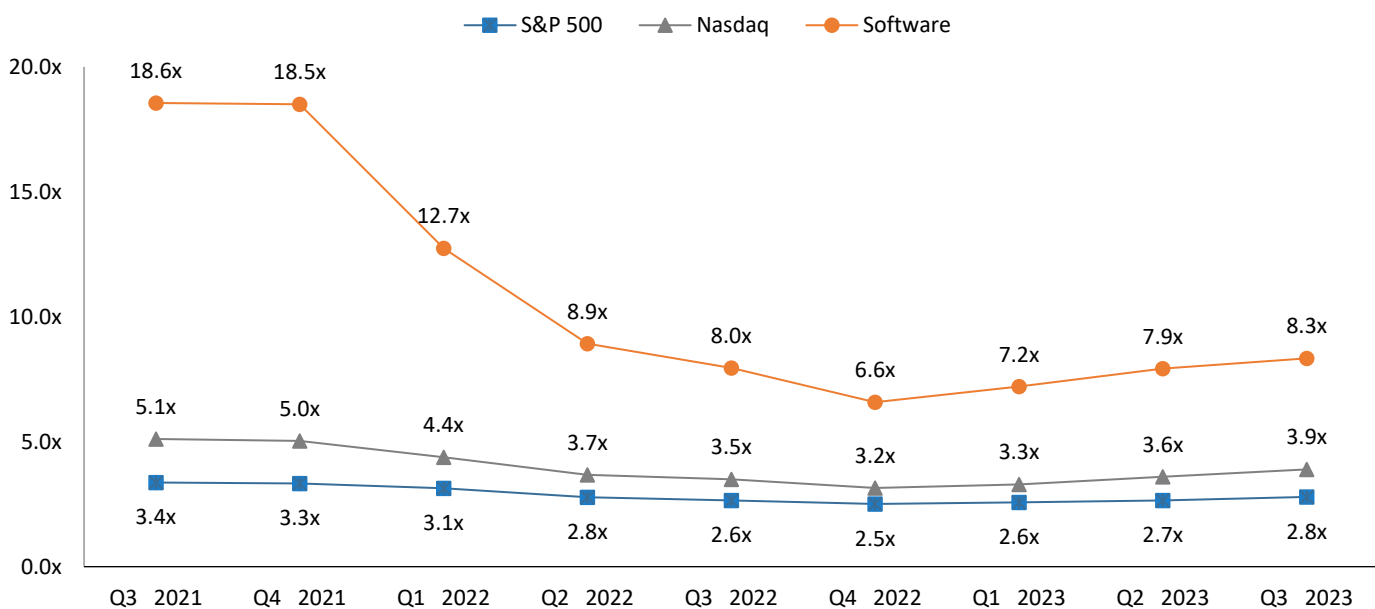


## Publicly Traded Companies – Software Valuation Trends

### Public Stock Price Index Growth



### Public Software Enterprise Value / LTM Revenue Multiples





## Deal Spotlight



**Goldman  
Sachs**



**Kahoot!**

### *Goldman's Private Equity Division Invests in Kahoot: A Billion-Dollar Bet on Education*

#### Target Overview

Kahoot! (OB: KAHOT) is a leading education technology company known for its interactive learning solutions. The company's flagship product, Kahoot!, revolutionizes education by offering engaging and customizable learning experiences. Kahoot! is widely used by educators and presenters to create interactive quizzes, surveys and games that make learning enjoyable and effective. With a global presence, Kahoot! has become a go-to platform for diverse educational settings, from K-12 classrooms to corporate training environments and virtual events.

#### Buyer Overview

Goldman Sachs Asset Management is the private equity arm of Goldman Sachs (NYSE: GS), a renowned global financial institution recognized for its diverse financial services. The firm as a whole offers a wide range of financial solutions, including investment banking, asset management, securities and wealth management services. Goldman Sachs Asset Management's private equity program seeks to harness the scale and power of Goldman's platform to source differentiated investments and accelerate value creation for portfolio companies.

#### Transaction Overview

- Announced: July 14, 2023
- Enterprise Value: \$1.6 Billion (10.8x LTM Revenue)
- Consideration: 100% Cash

#### Commentary

Goldman's recent acquisition of Kahoot underscores the continued interest of publicly-traded companies to private equity investors, especially those whose valuations have dipped over the past year. Kahoot had experienced substantial growth during the pandemic, but like many tech companies, it faced challenges post-pandemic as digital service usage evolved. The move towards privatization reflects the company's dedication to long-term opportunities within the growing market for digital learning tools – an area Goldman is keen to further invest in. Kahoot's mission of enhancing learning experiences across the globe remains central to its future plans post acquisition.

## Deal Spotlight



### *Johnson Controls Bolsters Digital Building Innovations with FM:Systems Acquisition*

#### Target Overview

FM:Systems is a leading provider of an all-in-one workplace management platform, empowering facility and real estate professionals to improve the management of their buildings, space and occupants while optimizing costs. The company offers an adaptable suite of solutions that simplify space management, hybrid work dynamics, workplace analytics and smart sensor integration. Through these tools, clients achieve data-driven insights for strategic, real-time decision-making, and ensure the delivery of a high-performance workplace.

#### Buyer Overview

Johnson Controls (NYSE: JCI) is a multinational conglomerate offering a portfolio of building technology and software in addition to building service solutions. Johnson Controls has a robust, global presence with a team of 100,000 experts that spans over 150 countries. The company is committed to harness technology to drive smarter, healthier and more sustainable buildings, continually redefining how buildings benefit individuals, communities and our planet.

#### Transaction Overview

- Announced: July 13, 2023
- Enterprise Value: \$455.0 Million
- Consideration: 100% Cash

#### Commentary

With the acquisition of FM:Systems, Johnson Controls reinforces their dedication to enhancing and investing in their digital building software portfolio, OpenBlue. FM:Systems not only amplifies Johnson Controls' prominence in net-zero building technologies but also fast-tracks their vision to be a comprehensive solution in their clients' digital transformation journey. The accretive acquisition also opens the door to meaningful ARR and cross-sell opportunities within the existing customer base, while expanding Johnson Controls' solutions into adjacent and complimentary markets. The Intrepid team, deeply acquainted with the property technology market, remains closely attuned to the industry's evolving growth trajectory, driven by several key tailwinds.

## Deal Spotlight



### *Cisco Makes Bold Move to Leap Ahead in AI-Enabled Cybersecurity Race*

#### Target Overview

Splunk (NasdaqGS: SPLK) is a leading data analytics and monitoring platform provider. The company helps businesses turn machine-generated data into valuable insights for improved operational efficiency and security through their platform, Splunk Enterprise. The platform simplifies data storage and analysis by collecting and indexing log files from various sources, effectively streamlining a labor-intensive process. Splunk serves over 15,000 customers, including a significant presence in Fortune 100 companies, making it a preferred choice for organizations seeking data analytics and monitoring solutions.

#### Buyer Overview

Cisco Systems (NasdaqGS: CSCO) is a prominent technology company renowned for its industry leading solutions across networking, communications and cybersecurity. Through its comprehensive suite of solutions, Cisco enables organizations to connect, secure, and automate their networks and digital infrastructure. The company's mission is to empower businesses and individuals to thrive in the digital world by delivering innovative technologies and solutions.

#### Transaction Overview

- Announced: September 21, 2023
- Enterprise Value: \$29.0 Billion (7.5x LTM Revenue)
- Consideration: 100% Cash

#### Commentary

Cisco's acquisition of Splunk highlights its strategic focus on enhancing technology offerings, particularly in security and analytics. The move aligns with Cisco's efforts to modernize Security Operations Centers (SOCs) and expand managed services. By centralizing analytics through Splunk, Cisco aims to bolster its security capabilities, align with Zero Trust principles and compete with Microsoft licensing. Despite historical pricing concerns associated with Splunk, Cisco intends to address these issues, fostering goodwill with key customers while pursuing innovation in AI-driven IT management. This transformation signifies Cisco's commitment to staying at the forefront of technology solutions.

## 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
Sep-23	Pending	Cisco	Splunk	M2M BI SaaS	\$29,006	7.5x
Sep-23	Pending	Thoma Bravo	NextGen Healthcare	EMR & practice management SaaS	\$1,575	2.3x
Aug-23	Pending	MSCI Inc.	The Burgiss Group	Investment data analytics SaaS	\$1,056	-
Aug-23	Pending	Symphony Technology Group	Avid Technology	Digital media SaaS & hardware	\$1,396	3.3x
Aug-23	Aug-23	Roper Technologies	Syntellis Performance Solutions	Enterprise performance management SaaS	\$1,400	-
Jul-23	Pending	Francisco Partners / TPG	New Relic	Application performance monitoring SaaS	\$5,900	6.2x
Jul-23	Pending	Thales SA	Imperva	Database, application & file security SaaS	\$3,600	-
Jul-23	Aug-23	TPG	Nextech Systems	Practice management SaaS	\$1,400	-
Jul-23	Pending	Proximus Group	Route Mobile	Enterprise CXPaaS provider	\$1,243	2.9x
Jul-23	Pending	Goldman Sachs Asset Management	Kahoot!	Educational gaming SaaS & applications	\$1,644	10.8x
Jul-23	Pending	GTCR	Worldpay Merchant Solutions	Online payment processing SaaS	\$17,500	-
<b>Median:</b>						<b>4.8x</b>
<b>Mean:</b>						<b>5.5x</b>

### Disclosed Transactions under \$1 billion EV

Announced Date	Closed Date	Acquirer	Target	Target Business Description	Enterprise Value (\$M)	Enterprise Value / LTM Revenue
Sep-23	Pending	Palo Alto Network	Dig	Multi-cloud data security software	\$350	-
Sep-23	Pending	Arlington Capital Partners	Exostar	Secure enterprise & supply chain collaboration SaaS	\$425	5.3x
Sep-23	Sep-23	ECI Partners LLP	Commify UK	Business messaging & voice CPaaS	\$323	-
Sep-23	Sep-23	Battery Ventures	CodeSecure	Application security testing SaaS	\$40	4.0x
Aug-23	Pending	XPENG	DiDi Global Inc. (EV unit assets)	Mobility & transportation SaaS & mobile app	\$483	-
Aug-23	Sep-23	Check Point Software	Perimeter 81 Ltd.	Network security & SASE management SaaS	\$490	24.5x
Aug-23	Aug-23	Rubrik	Laminar Technologies	Cloud data security SaaS	\$225	-
Aug-23	Pending	ExactCare Pharmacy LLC	Tabula Rasa HealthCare	Medication risk management SaaS	\$543	1.6x
Aug-23	Aug-23	Rapyd	PayU Payments Private	Online payments processing SaaS	\$610	-
Jul-23	Pending	Sun Life Financial	Dialogue Health Technologies	Healthcare & wellness management SaaS	\$222	3.2x
Jul-23	Pending	EVERTEC	SINQIA S.A.	Banking & financial management SaaS	\$530	4.2x
Jul-23	Sep-23	Perseus Operating Group	Optimal Blue	Mortgage pricing & marketing SaaS	\$700	-
Jul-23	Jul-23	Johnson Controls International	FM:Systems Group	Workspace management SaaS	\$455	-
Jul-23	Pending	PowerSchool Holdings Inc	SchoolMessenger	School unified communication SaaS	\$300	-
Jul-23	Aug-23	Thermo Fisher Scientific	CorEvitas	Clinical data intelligence SaaS	\$913	-
Jul-23	Pending	YouGov	GfK SE (consumer panel business)	FMCG shoppers behavior analytics SaaS	\$343	-
Jul-23	Jul-23	DigitalOcean	Paperspace	Cloud computing & AI models development IaaS	\$111	11.1x
<b>Median:</b>						<b>4.2x</b>
<b>Mean:</b>						<b>7.7x</b>

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

Sources: Pitchbook and S&P Capital IQ as of 9/30/2023



## Software & Services Team

Vertical SaaS | Sales Enablement | Compliance Technology | Human Capital Management | Transportation & Logistics Technology |  
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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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