
M&A Market Report

Software

Q3 2021

Introduction

The SaaS sector aced its first major test in 2020 thus proving its resiliency. In the early months of the pandemic, M&A came to an unprecedented halt as the world shut down. However, by the second half of the year, buyer confidence and deal-making soared to record highs, resulting in some of the largest software deals to date, as decision-makers recognized the importance of shifting to cloud-based infrastructure and applications.

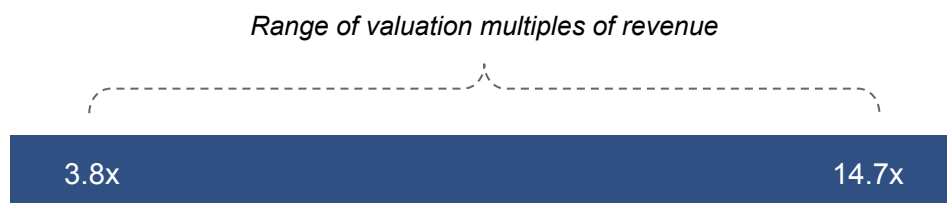
In terms of volume, software acquisitions in 2020 represented roughly 6% of all M&A deals, a 50% uptick compared to a mere decade ago. Software companies' worth under \$1B represented 76% of disclosed deal value and traded at a record-breaking median of 8.6x revenue.

Heading into 2021, expectations were set high for the SaaS sector to continue its blockbuster performance and dynamic pace of deal-making, especially in collaboration, infrastructure, analytics, and cybersecurity software. Globally, software spending is projected to grow by over 10% in 2021 as companies focus on enhancing and transforming their value using technology.

Looking ahead, the global SaaS market is poised to grow by nearly \$100B from 2021 through 2025. Key drivers that fueled software M&A following the pandemic on-set are expected to continue and accelerate as businesses look to stay competitive and productive in a rapidly evolving cloud-centric environment. Successful vaccination programs and continued economic recovery could propel the sector to even greater heights.

Valuation Trends

The software sector has been among the most resilient industries during the pandemic with valuations soaring in the past year. Rapid adoption and associated revenue growth coupled with quantitative easing of monetary policy and government stimulus programs in Europe and the US has driven software valuations to all-time highs, approaching the level of the dot-com bubble. Valuations across the industry sub-sectors remain high, especially in communications & collaboration, marketing & sales, eCommerce, and EdTech. The valuation for software companies has ballooned to a range of 3.77x - 14.74x revenue.



While strategic buyers have typically shown a propensity to pay multiples on the upper end of expected valuation ranges a host of other sought-after variables have increased valuations as well:



In Demand Sectors

Cybersecurity, Artificial Intelligence, Data & Analytics.



Exceeding Benchmark KPIs

Growth rate, Retention rate, Avg. annual customer value to CAC ratios.



Revenue Run Rate

Larger SaaS companies garner higher valuation multiples and interest from a larger pool of acquirers.

Public Market Basket

Publicly traded software companies are trading at record highs. While generally fetching a premium to mid-market companies due to size and market share, a discounted public basket multiple yields a median EBITDA multiple of 92.22x and a median revenue multiple of 10.86x.

Company	Ticker	EV / Revenue	EV / EBITDA
Salesforce	CRM	9.07x	58.35x
Oracle	ORCL	6.59x	14.69x
Workday	WDAY	12.66x	626.08x
Cisco	CSCO	4.32x	13.89x
ServiceNow	NOW	18.28x	147.95x
Zoom	ZM	32.75x	126.08x
Median		10.86x	92.22x

Source: Yahoo Finance

Acquisition Activity

While the onset of the pandemic brought about a significant bear market between late February and March of 2020, the software M&A market appeared to decouple from the broader M&A market and become one of the most resilient sectors during the pandemic. Software M&A deal value soared to an all-time high despite the initial economic headwinds. Transaction volume reached 3,151 deals for 2020, more than a 50% increase in activity over 2019.

The most active buyers in the SaaS space included Salesforce and Cisco. Salesforce honed in on expanding capabilities for remote work environments by snapping up a handful of cutting-edge and AI-related companies, including acquiring Slack for \$27.7B. While Cisco completed seven cloud-based software acquisitions including the acquisition of ThousandEyes for a reported \$1B. In the private equity space, Thoma Bravo was the most active firm in 2020 completing 12 acquisitions including Exostar, Command Alkon, Majesco, and Foundation Software.

With the continuing of remote work and the acceleration of the digital environment, COVID-19 placed a crucial emphasis on software and cloud solutions. As a result, cloud, data analytics, AI, cybersecurity and remote workforce solutions became key driving forces across all categories of buyers.

Going into 2020, SaaS valuations jumped 30% from 2017. Solid market fundamentals, sustainable fast growth, recurring revenues, and high margin potential were driving factors in the rapid growth of valuations prior to COVID. As the pandemic set in, years of technology adoption happened in mere months as companies scrambled to adopt solutions for remote workforces. Rapid adoption and associated revenue growth pushed valuations even further to an all-time high.

SaaS businesses that survived and maintained positive growth and customer retention trends amid COVID-19 conditions positioned themselves as critical for conducting business, especially in a post-COVID world, where a "hybrid economy" is projected to develop featuring remote and in-person elements. As such, expect these businesses to attract higher multiples than they did pre-COVID due to greater perceived resilience and a lack of quality assets.

An excessive supply of "dry powder" capital available for M&A coupled with low interest rates is expected to garner robust M&A activity through 2021.

2021 Select Transactions

HelpSystems acquires Agari

HelpSystems, a leading provider of systems and network management, business intelligence, and security and compliance solutions, acquired Agari, a leader in enterprise solutions protecting against advanced email threats. The acquisition expands the capabilities of its data security suite with the addition of email phishing defense solutions. Financial terms were not disclosed.

Facebook acquires Kustomer

Facebook (NASDAQ: FB) acquired Kustomer, a startup that specializes in customer-service platforms and chatbots. The acquisition will help the social networking platform enhance its B2B services. Financial terms were not disclosed.

Imperva acquires JSonar

Imperva (NYSE: IMPV), a cybersecurity software and services company providing protection to enterprise data and application software, acquired JSonar, the leader in modern database security. The acquisition was made to help bolster Imperva's data security business. Financial terms were not disclosed.

IBM acquires Instana

IBM (NYSE: IBM) announced in November 2020 the acquisition of Instana, a leading enterprise observability and application performance monitoring platform. The acquisition will advance its hybrid cloud, big data, and AI capabilities. Financial terms were not disclosed.

ZoomInfo acquires EverString

ZoomInfo (NASDAQ: ZI), a global leader in go-to-market intelligence solutions, acquired EverString, a B2B firmographics data & sales intelligence software provider. The acquisition enhances ZoomInfo's database for enterprise marketing. Financial terms were not disclosed.

HireVue acquires AllyO

HireVue, the global leader in virtual interviewing and assessments technology, announced in October 2020 the acquisition of AllyO, thus adding AI-driven chatbots and automated workflows to its core video-interview and assessment capabilities. The acquisition was made to increase hiring rate, talent quality and a diverse candidate pool. Financial terms were not disclosed.

Square acquires Stitch Labs

Square (NYSE:SQ), a global leader in mobile payments, announced in July 2020 the acquisition of commerce operations company Stitch Labs. The acquisition will encourage new product development and tools within their Seller ecosystem. Financial terms were not disclosed.

Historical M&A Deal Volume

Year	# of Deals	Value of Deals (\$ in BNs)	Avg. Value of Deals (\$ in BNs)
2015	2,028	213	0.1
2016	2,100	185	0.09
2017	2,191	161	0.07
2018	2,206	218	0.1
2019	1,138	197	0.2
2020	3,151	240	0.07

Sources:

(1) www.statista.com/statistics/934136/worldwide-merger-acquisition-deals-application-software/

(2) <https://imaa-institute.org/m-and-a-by-industries/>

(3) mergers.whitecase.com

Conclusion

2020 was an unprecedented and turbulent year in many respects, but the global software market remained insulated from the worst effects of the pandemic. The SaaS M&A sector benefited from the dramatic and swift shift to digital and remote work. With 42% of the U.S. labor force working remotely, the pandemic offered companies a glimpse into their virtual futures. All industries dove into adopting customer relationship management solutions, tools for digitizing operations, cybersecurity, and analytics applications, resulting in an upturn in deal activity totaling over \$240B by year's end.

With continued digitalization of industries coupled with healthy valuations, steady economic recovery, and a changing tax landscape, expect a dynamic M&A environment through 2021 and into 2022

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About BMI Mergers

For over twenty-five years, we have been successfully engaged in the practice of buying, selling and managing the business acquisition process. Our professionals have been engaged in transactions in a multitude of industries. They have completed multi-million dollar deals, and they have also successfully integrated businesses post-merger. Whether your business is worth \$5 million or \$100 million, this experience is put to work to achieve your desired result.

About The Author

Matt Tortora brings over fifteen years of business ownership, sales leadership, and consulting experience in both technology and professional services. He has founded three companies and held strategic leadership positions at growth stage technology companies. Most notably, Matt was the co-founder and CEO of a Chicago based software company which he successfully grew and sold to a strategic acquirer.