
M&A Market Report

Software

Q1 2022

Introduction

Reeling from the widespread impact of the COVID-19 pandemic, software M&A has proven resilient in the face of a renascent pandemic, market volatility, rising inflation, and continued disruption to global supply chains. After a record-breaking year for software M&A in 2021, optimism for another supercharged year remains, despite potential market headwinds and geopolitical turmoil.

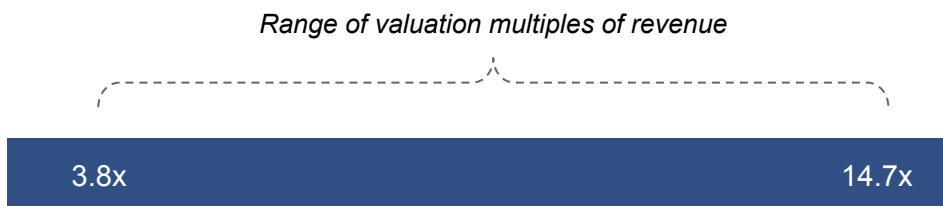
The software sector experienced incredible growth last year, as organizations moved a significant portion of their operations online to minimize disruptions. Nearly 30% of companies worldwide increased their software spending since the onset of the pandemic with collaboration and virtualization tools at the forefront. As of 2021, an estimated 70% of total company software usage is SaaS with the SaaS takeover trend expected to continue and grow exponentially over the next several years.

In terms of volume, software acquisitions reached nearly 2,100 transactions for the year. The heightened demand for SaaS companies contributed to an impressive 12.3x median multiple.

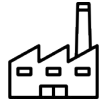
Looking ahead, software is forecasted to remain the largest market segment and projected to reach \$171 billion total market size in 2022. Continued digitalization across all industries coupled with healthy valuations, steady economic recovery, and a changing tax landscape, expect a dynamic M&A environment through 2022.

Valuation Trends

The software sector has been among the most resilient industries during the pandemic with valuations soaring in the last 24 months. Rapid adoption and associated revenue growth coupled with quantitative easing of monetary policy and low interest rates in Europe and the US has driven software valuations to all-time highs. 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

DevOps, eCommerce, Cybersecurity, & Collaboration.



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 lucrative amounts. 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 25.61x and a median revenue multiple of 7.49x.

Company	Ticker	EV / Revenue	EV / EBITDA
Salesforce	CRM	8.50x	51.15x
Oracle	ORCL	6.48x	18.77x
Workday	WDAY	11.20x	140.75x
Cisco	CSCO	4.32x	13.23x
ServiceNow	NOW	17.28x	136.90x
Zoom	ZM	9.33x	28.80x
Dropbox	DBX	4.47x	22.42x
VMware	VMW	3.99x	13.60x
Median		7.49x	25.61x

Source: Yahoo Finance

Acquisition Activity

Despite being marred with uncertainty amidst a global pandemic, the software sector has proven to be one of the most robust industries. Coming off of a lofty 2020, Software M&A continued to establish its dominance in 2021. M&A activity garnered \$450 billion in deal volume by year's end, a nearly 90% increase from 2020, setting a brisk pace moving into 2022.

The most active buyers in the software space included Microsoft and MRI Software, each closing 8 acquisitions in 2021. Microsoft sought to be more innovative by snapping up companies with diversified themes, including the acquisition of speech technology company Nuance Communications for \$19.7 billion in cash. While MRI Software completed a flurry of acquisitions focused on enhancing their comprehensive facilities and real estate management capabilities including the acquisition of Trimble. In the private equity space, Thoma Bravo was the most active firm in 2021 completing 12 acquisitions including QAD, Medallia, and Talend.

Buyers demonstrated an expanding appetite for transformative software in 2021. Activity was broad across all sub-sectors, using M&A to add capabilities, scale, and access new markets. Collaboration, eCommerce, and connectivity-focused software were the most sought-after in M&A. While 2021 was all about digitization and transformational deals fueled by organizations turning to technology to ensure competitiveness, dealmaking in 2022 will be focused on growth, in the form of revenue synergies.

Buyers will focus on resolving challenges brought on by supply-chain disruptions, labor shortages, and recurring COVID-19 spikes. Anticipate workforce solutions to take center stage as widespread labor shortages hasten dealmaking. Cybersecurity, collaboration, infrastructure, AI, and eCommerce will be strategic driving forces across all categories of buyers through 2022. Vertical software and micro-SaaS will also see an increase in adoption as companies realize the need for niche-specific software.

As technology adoption and digital transformation continue to increase among consumers and companies alike following a record-breaking year, deal-making is poised to remain robust in 2022 despite economic headwinds, setting the stage for fierce competition among corporations, PEGs, and SPACs.

2022 Select Transactions

Cart.com acquires SellerActive

eCommerce

Cart.com, the first end-to-end eCommerce-as-a-service provider, acquired SellerActive, a leading provider of SaaS multichannel eCommerce tools. The acquisition expands its extensive end-to-end eCommerce solutions to drive broad-spectrum growth and boost revenues for brands. Financial terms were not disclosed.

Transporeon acquires SupplyStack

Logistics

Transporeon, a multinational logistics software company, acquired SupplyStack, an all-in-one transportation management platform. The acquisition will help further expand the capabilities as part of its ambitious global growth strategy. Financial terms were not disclosed.

Intuit acquires Imvision

Finance

Intuit (NASDAQ: INTU) announced in December 2021 the acquisition of Imvision, a startup that specializes in technology that enables enterprises to automatically discover, test, and protect their APIs. The acquisition was made to help accelerate fraud-fighting impact across its products. The purchase price is estimated to be in the region of \$50 million.

Modern Campus acquires Signal Vine

Education Technology

Modern Campus, the premier engagement platform for higher education announced in January 2022 the acquisition of Signal Vine, a higher education text-messaging platform. The addition will enable institutions to drive quantifiable gains in enrollment and retention while collecting actionable data to drive student success. Financial terms were not disclosed.

IBM acquires Envizi

IT Technology

IBM (NYSE: IBM) acquired Envizi in January 2022. Envizi is a prominent data and analytics software provider specializing in environmental performance management. The acquisition bolsters its growing investments in AI-powered software to support organizations sustainability initiatives and environmental goals. Financial terms were not disclosed.

Terminus acquires Zylotech

Marketing

Terminus, a provider of account-based marketing platform, acquired Zylotech, a B2B customer data platform that delivers trusted data governance. With the acquisition of Zylotech, Terminus is the only ABM platform with a standalone CDP purpose-built for B2B. 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
2021	2,100	450	.11

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

2021 brought record-breaking software M&A deals. After a turbulent 2020, value rebounded to an all-time high with soaring valuations and accommodating deal financing. The pandemic forced digital transformation across all industries in 2021, accelerating the adoption of SaaS solutions to facilitate new ways of doing business.

As post-covid habits settled by late 2021, M&A activity in the software sector has demonstrated strong growth in comparison with pre-pandemic levels. Over the next 10 years, the SaaS industry is expected to unleash vast gains at a growth rate of 21%, generating \$780 billion in revenue by 2030.

Deal activity in 2022 is projected to be strong, buoyed by favorable interest rates and plenty of dry powder in the way of private equity cash piles. While the pace may slow slightly as 2022 progresses with interest rates expected to rise and economic growth potentially slowing, software M&A activity should remain strong.

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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 the software and technology services sectors. He has founded three companies and held strategic leadership positions at growth stage B2B software 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.