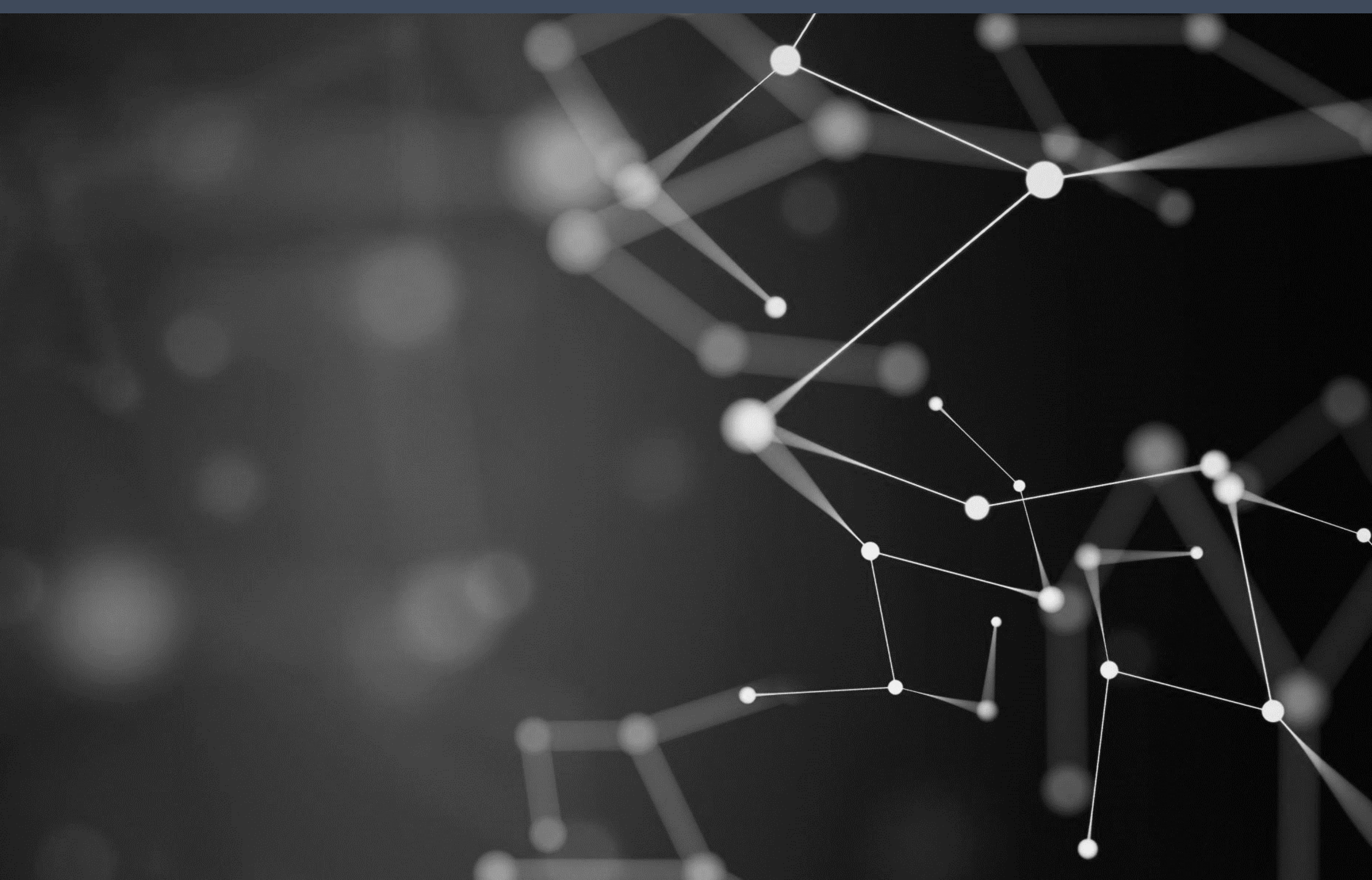
gamBIT CORPORATE FINANCE

Software & IT Services

Market Review – Q3 2023



Executive Summary

Introduction

- Gambit's Software and IT Services (SITS) Q323 Market Review illustrates the continued resilience of the SITS M&A market in Q323, outperforming pre-pandemic levels and with an optimistic outlook for Q423 and into 2024.
- Despite rises in the cost of capital, high-quality SITS assets, providing innovative solutions to enhance efficiency and competitiveness across various end markets, remain appealing to both strategic and financial acquirors.
- Looking ahead, we forecast a buoyant M&A environment in Q423 and Q124 as inflation and the cost of capital softens and business owners take advantage of the favourable tax environment, before a General Election is expected to be announced in 2024.

Geraint Rowe
Partner
Software & IT Services

Key Points in Focus

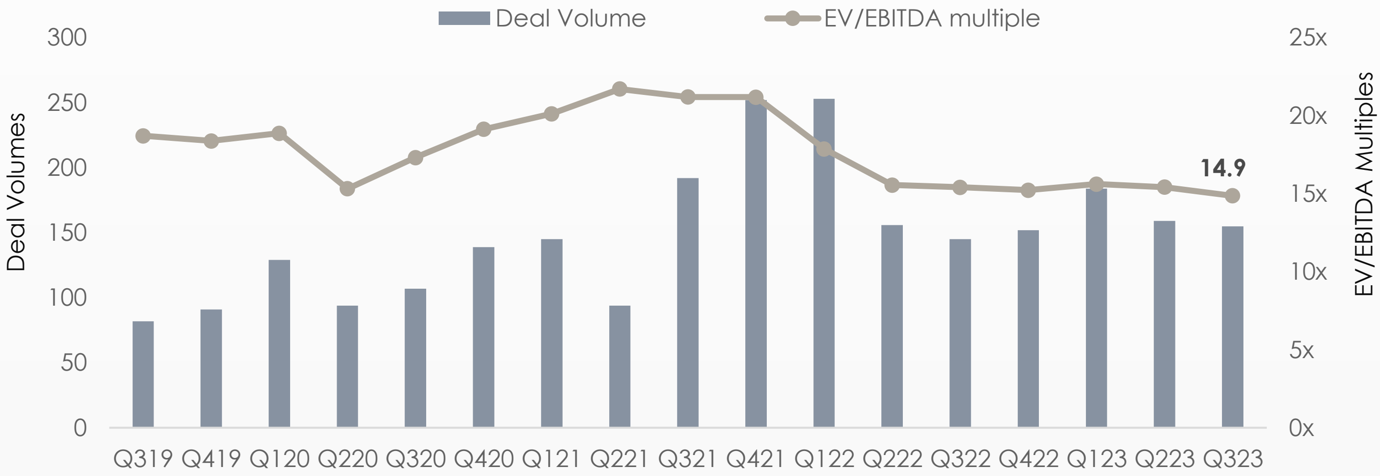
- **M&A activity during the quarter was resilient**, as volumes were 70% above the pre-pandemic levels of Q419.
- As highlighted by Gambit's UK SITS EV/EBITDA Valuation Index, despite a 0.25% increase in the Bank of England base rate during the quarter, **SITS multiples remained strong at 14.9x in Q223; some of the highest multiples in the UK M&A market.**
- With a significant increase in the cost of capital during H123, there has been a noticeable shift in the allocation of private credit in the SITS market. Whilst there has been a decrease in the proportion of proceeds dedicated to financing leveraged buyouts, there is **now a higher allocation towards funding 'bolt-on' M&A.**
- This strategic shift by private equity reflects an emphasis on **augmenting and broadening existing businesses through smaller, targeted acquisitions,** reducing execution risk and improving payback times for financial acquirors.
- **We expect SITS valuation multiples to improve in Q423 and into 2024**, as inflation softens and interest rates plateau and start to retreat.
- **Innovative UK companies remain appealing to overseas acquirors**, with an 11% increase in transactions in the UK involving EU purchasers in Q323.
- **SITS business owners should leverage the current 'window of opportunity' whilst the tax environment remains favourable**, as Capital Gains Tax rules are potentially increased following the anticipated General Election in late summer 2024.
- **If you would like to arrange a call to discuss the opportunities facing your business or to understand the most appropriate solutions to support your shareholders' needs and ambitions, please contact a member of the team.**

Sam Forman
Director
Software & IT Services

"As the macroeconomic outlook improves with interest rates stabilising and a General Election looming, we expect to see an uptick in M&A transactions executed in Q423."

UK M&A Activity

UK SITS Deal Volumes & EV/EBITDA Valuation Index



70%
Increase in M&A volumes from Q419 to Q323

37%
Of transactions were cross-border in Q323

14.9x
Average EV/EBITDA multiple in Q323

46%
Of SITS transactions undertaken by financial acquirors

- UK SITS M&A activity proved resilient in Q323 in the face of the 0.25% increase in the Bank of England base rate during the quarter. Activity levels were historically buoyant, as volumes were 70% greater than the pre-pandemic levels of Q419 and 7% greater than Q322.

- EV/EBITDA valuations have been stable over the last 12 months, despite the significant increase in the cost of capital. This is a testament to investors' enduring optimism in the transformative power of AI and technology-driven software. This confidence reflects the belief that these technological advancements will not only optimise business processes in the near term but also drive a significant shift across industries in the long term.

- 46% of SITS transactions were undertaken by a venture capital or private equity fund in Q323, which continues to be significantly higher than other sectors. Some factors which make the SITS sector attractive to financial acquirors include its high scalability, low capital intensity, disruptive potential and high-income visibility.

- As the macroeconomic outlook is expected to improve and the cost of capital is anticipated to plateau and ease, we expect an improvement in M&A activity and an upturn in EV/EBITDA valuations within the SITS market in Q423 and into 2024.

Source: Refinitiv, Gambit analysis

Application Software

59% Percentage of transaction volumes Q323

- In recognising the need to stay competitive, businesses are increasingly embracing the operational efficiencies that come with digitalising their workforces, fueling growing demand for innovative Application Software assets. These assets play a crucial role in facilitating improved data-driven decision-making processes and automating key workflows for their customers, improving productivity across all sectors.
- Application Software remains the strongest sub-sector in the SITS market with M&A volumes increasing by 4% from Q223 to Q323.
- As illustrated by Gambit's Application Software EV/EBITDA Valuation Index, valuations softened further in Q323. With a rising cost of capital reducing free cash flow allocation towards research and development, multiples have fallen from their peak in Q321, as companies are focusing on profitability rather than revenue growth. However, despite a relative decline, they continue to attract the highest sub-sector multiples in the SITS market.
- Amidst an increasingly stringent regulatory environment, the demand for assets enabling strong business compliance practices are on the rise. FullCircl's acquisition of W2 Global Data Solutions in April 2023, a leading provider of real-time digital software for regulatory compliance, serves as a testament to this trend.
- Given current geopolitical tensions, software platforms offering robust anti-money laundering protections and enhanced regulatory compliance are set to generate continued interest from both trade and financial acquirers.

Selected Transactions

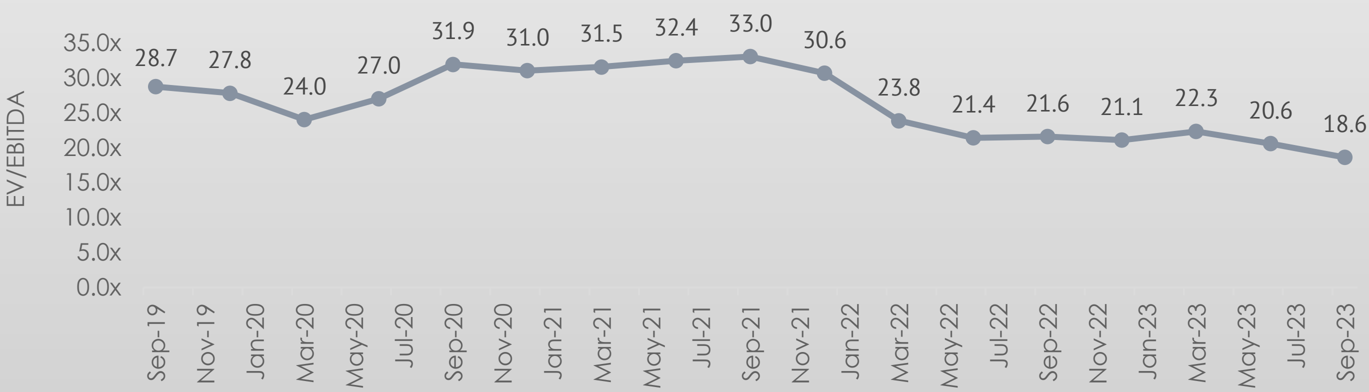
Date	Target	Acquirer/ Investor
Jul-23	uMed	AlbionVC et.al
Jul-23	Guestline	Access UK
Aug-23	W2 Global Data Solutions	FullCircl
Aug-23	Emapsite.com	Idox plc
Sep-23	Traydstream	Pivot Investment Partners et.al
Sep-23	Intozetta	Experian plc

- This has been evidenced by Traydstream's £17.2m fundraise led by Pivot Investment Partners, with Traydstream's market-leading software platform for the trade finance sector enhancing security and productivity for banks and corporates.

Snapshot

- **Due to higher interest rates, there has been a flight to profit generating assets , as funding high-cost growth has become more challenging.**
- **Acquirors have turned their focus on resilient vertical markets which are attracting above average valuations.**

Application Software – Valuation Index



Source: Refinitiv, Gambit analysis

System Software

15%

Percentage of transaction volumes Q323

- System Software assets are consistently drawing high valuation multiples owing to their indispensable role within contemporary technology infrastructures and the rapid incorporation of proprietary AI technology.
- In contrast to Application Software assets, System Software assets have not been as impacted as much by the rising cost of capital. System Software EV/EBITDA multiples remain robust and saw a slight uptick during Q323, improving by 2% from 18.3x in Q123 to 18.6x in Q223.
- This resilience has also been buoyed by continued investor confidence in blockchain and cryptocurrency assets as well as the growth in generative AI-enabled service offerings which offer enhanced automation and cyber security.
- Despite the market downturn following the collapse of FTX in Q422, investor interest in blockchain technology continues to remain strong. This was evidenced by a £12.8m fundraise by Rated Labs in September 2023, a company involved in the development of infrastructure and data services within the Web3 ecosystem. Due to their ability to streamline processes and ensure secure and transparent transactions, System Software assets leveraging the smart contract capabilities of Web3 platforms are positioned to significantly enhance productivity across various sectors.
- Global investors have been particularly attracted to the progress in quantum computing, accelerating AI and machine learning processes to drive substantial productivity benefits.

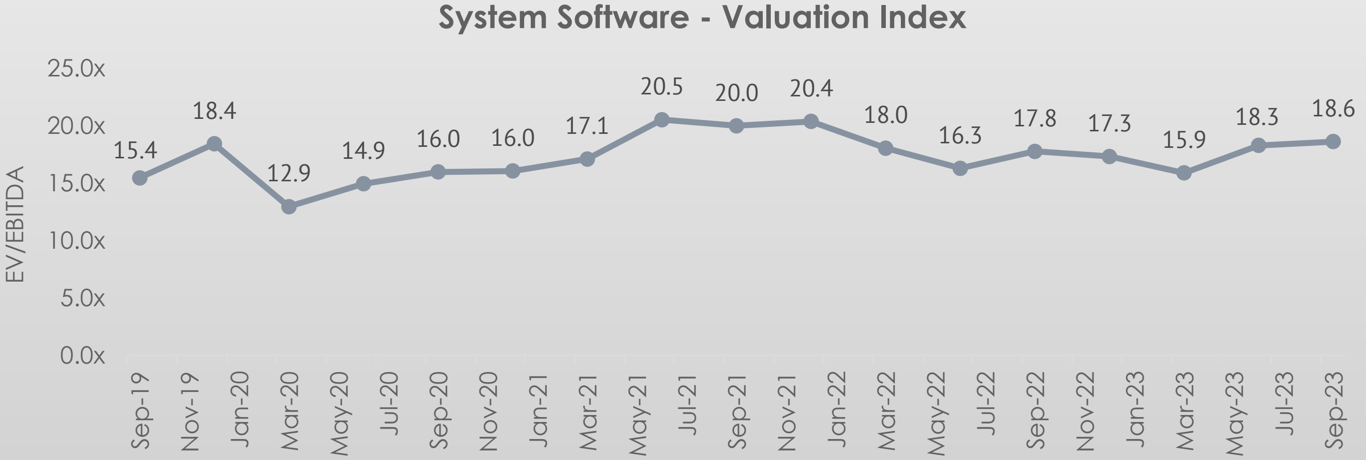
Selected Transactions

Date	Target	Acquirer/ Investor
Jul-23	Techsembly	Sabre Corporation
Jul-23	Enzai Technologies	Cavalry Ventures et.al
Aug-23	uSnoop	Vanquis Banking Group plc
Aug-23	Phasecraft	Playground Global
Sep-23	floLIVE	Greenfield Partners et.al
Sep-23	Rated Labs	Archetype et.al

- This was evidenced by Phasecraft's £13m fundraising led by Silicon Valley VC Playground Global in August 2023 proving that UK-based companies spearheading innovation within their distinct System Software sub-verticals are upholding high valuation multiples.

Snapshot

- **Valuations for System Software assets are approaching historic highs.**
- **The sub- sector is a seller's market, with buyers competing for technology that will underpin economic transformation in the next decade.**



Source: Refinitiv, Gambit analysis, Financial Times

Sectors in Focus

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Managed IT & Cloud

13% Percentage of transaction volumes Q323

- Managed IT & Cloud businesses continue to experience robust demand, driven by their effective solutions in minimising downtime, bolstering security, and offering scalable and cost-effective IT services to their customers.

- As companies place greater emphasis on digitalisation to sustain their competitive edge, they are enlisting the support of cloud service providers for seamless migration to cloud infrastructure and to decrease the expenses linked to the upkeep of outdated IT infrastructure.

- Gambit's Managed IT & Cloud Valuation Index exhibited a 3% decrease in EV/EBITDA multiples from 9.9x in Q223 to 9.6x in Q323. Nevertheless, multiples remained stable over the past 12 months and are 8% higher than in September 2022 and premium multiples are increasingly being paid for niche companies with above market growth rates.

- Activity within the Managed IT & Cloud sub-sector exhibited a 15% increase from Q223 to Q323, highlighting robust demand for mission critical outsourcing providers in the face of a challenging cost of capital landscape.

- As businesses increasingly adopt digital working practices, the growing demand for advanced scanning and record management solutions has been illustrated by Apogee's acquisition of Newcastle-based Datatron Document Image Archiving in August 2023.

Selected Transactions

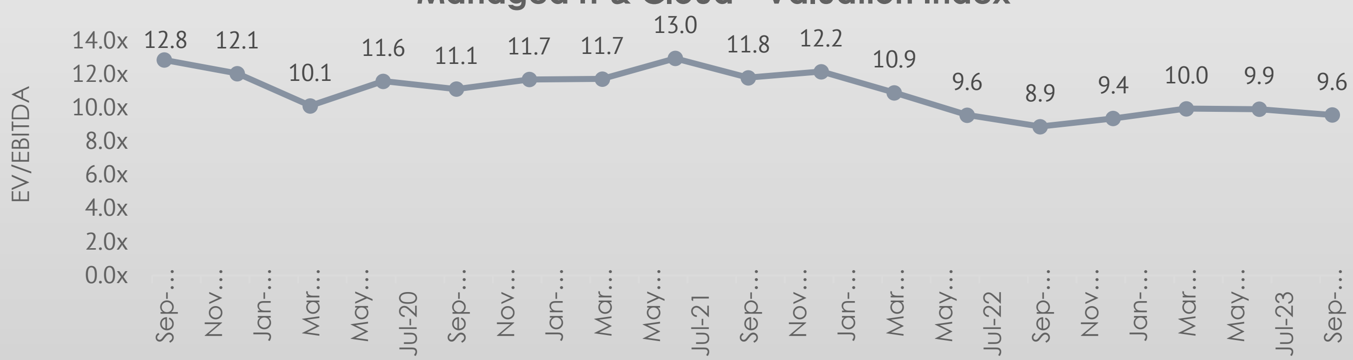
Date	Target	Acquirer/ Investor
Jul-23	Vital Technology Group	Air IT
Jul-23	Peacock Engineering	BPD Zenith
Aug-23	Turn IT On	Education Services Bidco
Aug-23	Datatron Document Image Archiving	Apogee Corporation
Sep-23	Zenzero Solution	Macquarie Capital
Sep-23	Database Service Provider Global	LDC

- Air IT completed its eleventh acquisition since August Equity's investment in 2020 by acquiring Yorkshire-based Vital Technology Group in July 2023. This strategic transaction will further strengthen Air IT's Microsoft cloud solutions, combining the expertise of both companies as Microsoft Gold Partners.

Snapshot

- **The UK Managed IT & Cloud market is becoming increasingly consolidated and competitive, following significant M&A activity in recent years.**
- **UK buyers are attracted to businesses with differentiation in service and end-market focus.**

Managed IT & Cloud - Valuation Index



Source: Refinitiv, Statista, Gambit analysis

VAR & Consultancy

13% Percentage of transaction volumes Q323

- The rising demand for VAR & Consultancy assets is driven by the need to modernise legacy IT infrastructure in workplaces and counter the growing cyber threats targeting cloud environments.
- As illustrated by Gambit's EV/EBITDA Valuation Index, VAR & Consultancy assets have demonstrated stability and continue to display attractive valuation multiples, despite a 3% decrease from 13.1x in Q223 to 12.7x in Q323. Despite a relative decline, multiples paid are still trading above pre-pandemic levels.
- Given the 38% surge in cyber attacks in the UK in 2022 and a 20% increase in the average cost of data breaches since 2017 (Sophos), businesses are increasingly motivated to engage skilled consultants in the implementation of advanced cybersecurity measures.
- Node4, a managed services provider specialising in cloud-based digital transformation, has acquired ThreeTwoFour, an award-winning information security and technology risk specialist in July 2023.
- ThreeTwoFour's expertise in cyber security and foothold in the financial services sector strengthens Node4's existing portfolio, highlighting the rising importance of protecting digital assets in a landscape with increasing and ever-evolving cyber threats.

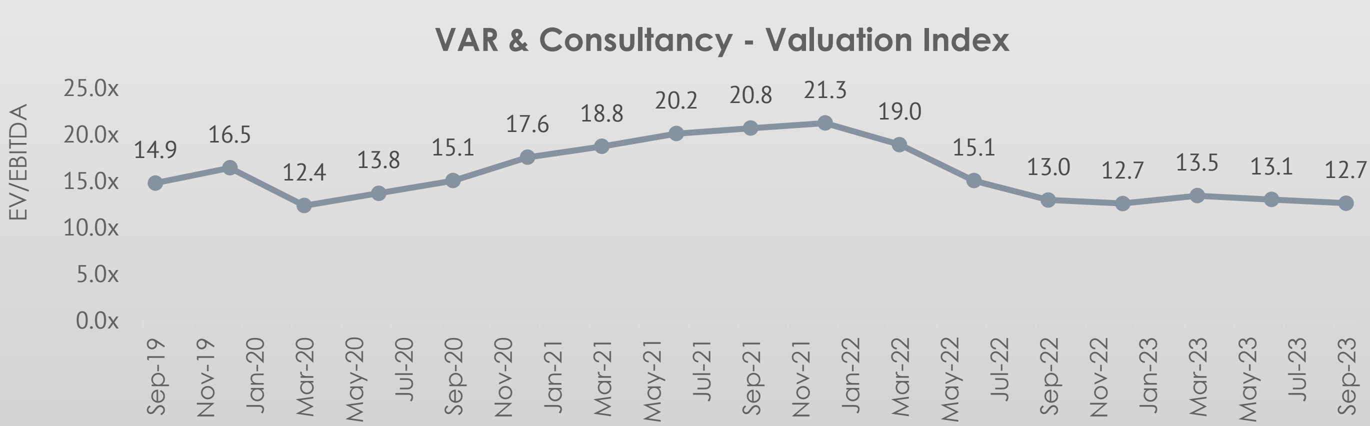
Selected Transactions

Date	Target	Acquirer/ Investor
Jul-23	ThreeTwoFour	Node4
Jul-23	Intec Microsystems	Chiltern Capital
Aug-23	Aberdeen Technical	Converged Communication
Aug-23	Amdaris Group	Insight Enterprises
Sep-23	Nimble Delivery	SCC
Sep-23	Stellar Omada	BGF

- Moreover, we continue to see consolidation in the generalist digital consultancy market, highlighted by SCC's acquisition of Nimble Delivery in September 2023. This acquisition represents another noteworthy milestone in SCC's 'Digital Solutions and Services Provider'' strategy, aiming to establish a 2,000 person European digital consultancy over the next decade.

Snapshot

- **Premium valuations are being realised by companies with a greater focus on 'value add' element of VAR.**
- **Levels of recurring and contracted revenue underpinning future growth is a key value driver.**



Source: Refinitiv, Statista, Gambit analysis

Gambit's Value Added Approach

- Gambit's SITS expertise and market knowledge enables us to identify off-market acquisition targets and assess acquiror appetite, whilst our close-knit relationships with the private equity market affords our client base targeted exposure to financial investors.
- Gambit's detailed knowledge and insights into the SITS market enables us to advise on appropriate valuation metrics and present opportunities to appropriate acquirors, targets and/or funders.
- We work seamlessly with our dedicated international SITS sector team within Corporate Finance International (CFI), sharing cross-border opportunities, sector trends and transaction insights, underpinning constructive negotiation of transactions resulting in a commercial and optimal outcome.
- Gambit acts as an extension to senior management teams, with a service that is genuinely partner-led by like-minded business owners, available 24/7 to discuss commercial issues or provide a sounding board, priding ourselves on the strong, long-lasting and collaborative relationships we build with our clients.
- In this fast-evolving M&A market, SITS business owners should seek experienced corporate finance advisors to support strategic decision-making and maximise value realisation, leveraging the availability of robust SITS assets at attractive valuations.

Benefits of Gambit

- A team of highly experienced specialists
- Focussed on value creation and maximisation
- Commercial focus and attainment of shareholder objectives
- Significant cross-border capability as exclusive UK shareholder of CFI
- Deal risk minimisation
- 24/7 availability

Key Services

- Mergers & acquisitions
- Disposals
- Management buy-outs
- Fundraising
- Development capital
- Debt advisory
- Private equity advisory
- Refinancing
- Value maximisation reviews
- Succession planning
- Strategic advice

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Gambit Corporate Finance acted as lead advisor to the shareholders of certus on its sale to SysGroup	Gambit Corporate Finance acted as lead advisor to the shareholders of Pinnacle telecom solutions on its sale to Southern Communications	Gambit Corporate Finance acted as lead advisor to the management of Computer World Helping Businesses Define Tomorrow on its management buy-out	Gambit Corporate Finance provided strategic advice to the shareholders of wealthify
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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory boutique specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the SITS sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of middle-market investment banks and corporate finance advisory firms. With over 250 professionals located in 26 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI is ranked number 17 in Europe and 24 globally by Thomson Reuters for transactions valued up to €200 million.

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