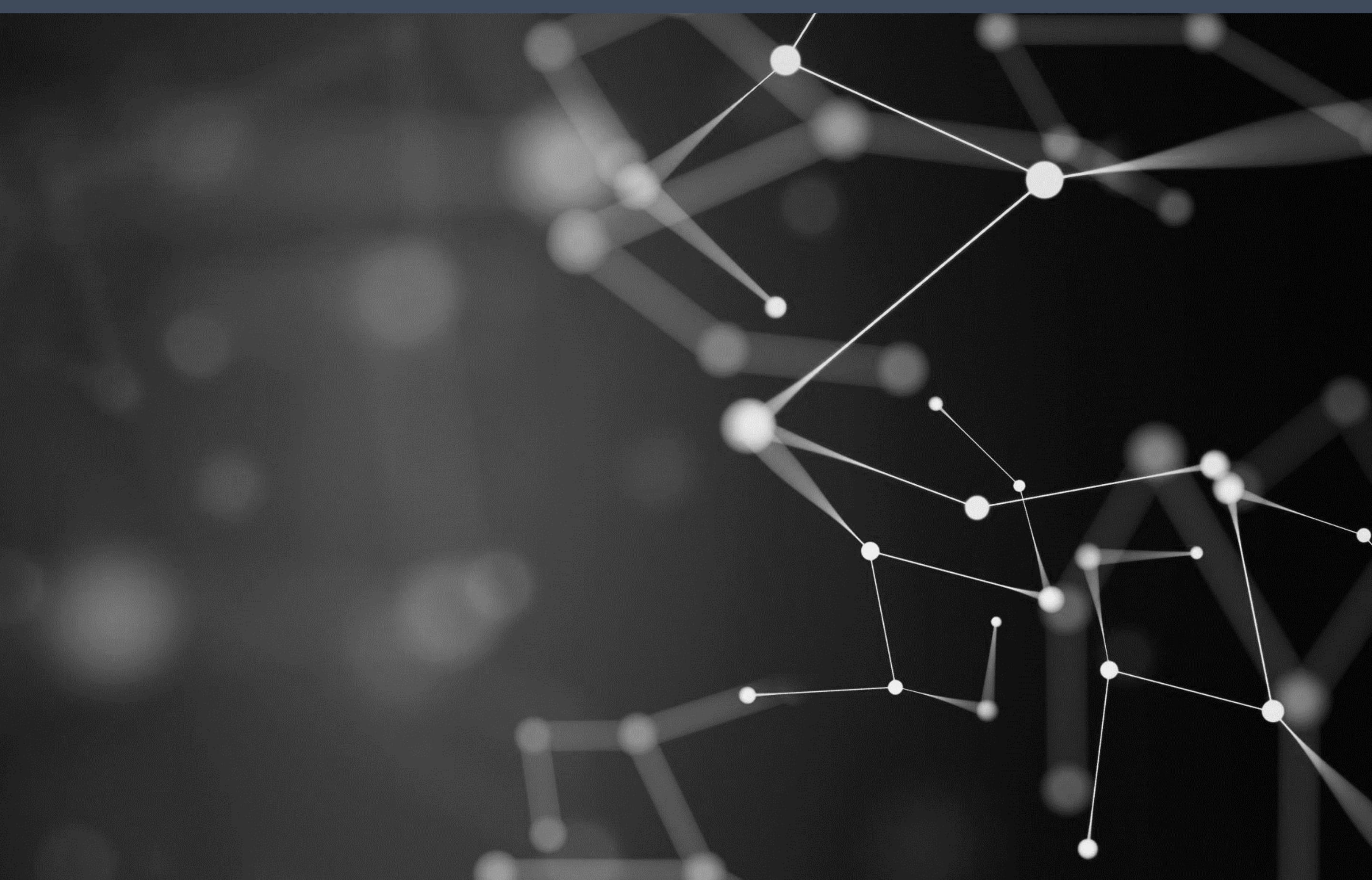
gamBIT CORPORATE FINANCE

Software & IT Services
Market Review – Q4 2023



Executive Summary

Introduction

- Gambit's Software and IT Services (SITS) Q423 Market Review illustrates the continued resilience of the SITS M&A market, outperforming pre-pandemic levels and with an optimistic outlook for H124.
- Despite rises in the cost of capital during 2023, 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 H124 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 H224.

Geraint Rowe
Partner
Software & IT Services

Key Points in Focus

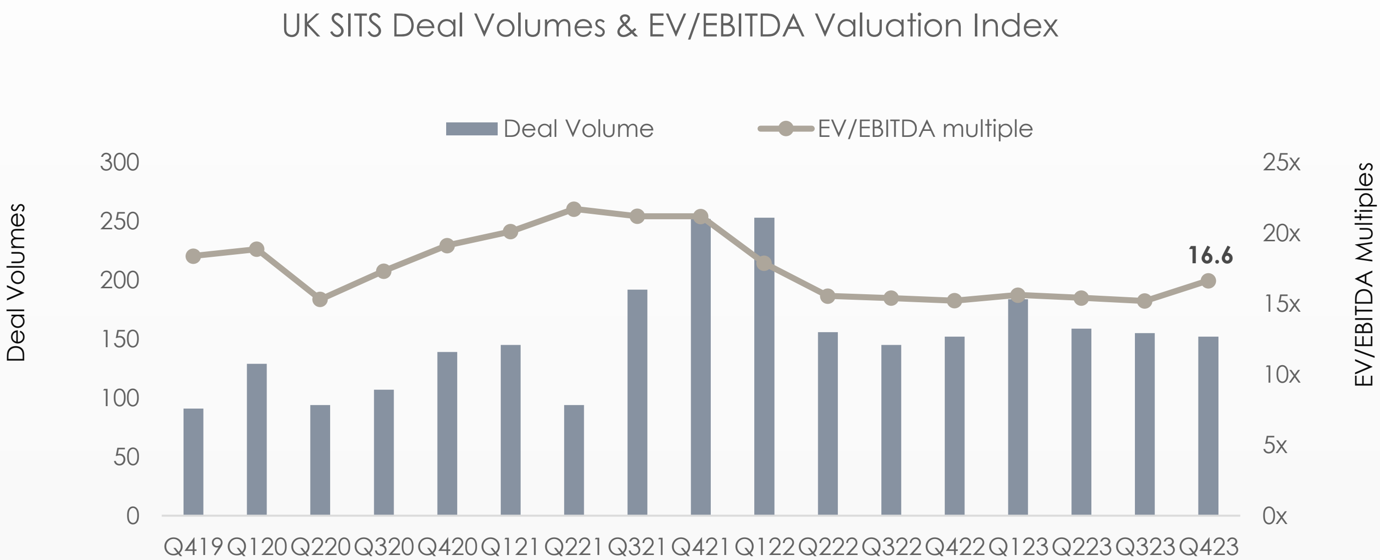
- **UK SITS M&A activity during 2023 was resilient, in the face of a challenging macroeconomic environment.** Overall, volumes in 2023 were 83% above the pre-pandemic levels of 2019.
- As highlighted by Gambit's UK SITS EV/EBITDA Valuation Index, **SITS multiples increased to 16.6x in Q423, an increase of 9% on Q323.**
- The multiple uplift is primarily attributed to heightened optimism regarding the UK economic outlook and a subsequent increase in investor confidence.
- With the increase in cost of capital in 2023, 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 throughout 2024** as inflation softens and interest rates reduce.
- **Innovative UK companies remain appealing to overseas acquirors**, with an 8% increase in transactions in the UK involving US purchasers in Q423.
- **SITS business owners should leverage the current 'window of opportunity' whilst the tax environment remains favourable**, as Capital Gains Tax rules may increase following the anticipated General Election in H224.
- **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

"With inflation softening, interest rates normalising and the confidence level of entrepreneurs and chief executives rising, we are optimistic that volumes and valuations will increase in H124"

UK M&A Activity

gamBIT CORPORATE FINANCE



83%
Increase in M&A volumes from 2019 to 2023

47%
Of transactions were cross-border in Q423

16.6x
Average EV/EBITDA multiple in Q423

44%
Of SITS transactions undertaken by financial acquirors

- UK SITS M&A activity proved resilient in Q423, with volumes levels staying consistent and a rise in EV/EBITDA multiples on Q323.

- Despite deal activity levels appearing conservative, in line with the economic climate, activity levels were historically buoyant and volumes were 83% above the pre-pandemic levels of 2019.

- Notwithstanding the increase in the cost of capital during 2023, EV/EBITDA valuations have been stable over the last 12 months with a 9% increase in Q423 and further recovery into 2024. Average software EV/EBITDA multiples increased by 7.6% between Q323 and Q423 and average IT services EV/EBITDA multiples increased by 6.3% over the same period. This is indicative of increased investor confidence in UK SITS businesses as inflation has softened significantly during the year, with IT spend in UK budgets anticipated to increase as companies look to digitalise operations to improve productivity and profitability.

- 44% of SITS transactions were undertaken by a venture capital or private equity investor in Q423, which continues to be significantly higher than other sectors. 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 ease, we expect an improvement in M&A activity and an upturn in EV/EBITDA valuations within the SITS market from Q423 into 2024.

Source: Refinitiv, Gambit analysis

Application Software

- To stay competitive, businesses are increasingly embracing operational efficiencies via digitalising operations, fueling growing demand for innovative Application Software assets to facilitate data-driven decision-making processes and automate key workflows, improving productivity across all sectors.
- Application Software continues to remain the most active sub-sector in the SITS market, with 55% of all transactions in Q423 involving Application Software assets.
- As illustrated by Gambit's Application Software EV/EBITDA Valuation Index, valuations modestly strengthened in Q423 compared to Q323, due to increased investor confidence, softening inflation and projected reductions in the cost of capital.
- Multiples have fallen from their peak in Q321, reflecting the reduced free cash flow allocation towards research and development and a continued focus by firms on profitability rather than loss making revenue growth, but saw an upturn in Q423.
- US acquirors continue to invest into the UK with assets increasing by 8% from Q323 to Q423, highlighting robust demand for innovative UK SaaS businesses. Infinity Software, a leading interaction management software business was acquired by US vertical software consolidator Dura Software in November.
- Furthermore, Kraken Technologies' acquisition of Sennen Tech, a provider of advanced software for the delivery and operation of large–scale renewable energy generation illustrates continued investor appetite for Cleantech assets. With renewable energy playing a major role in the UK's transition to net zero, cleantech assets will continue to attract high valuations.

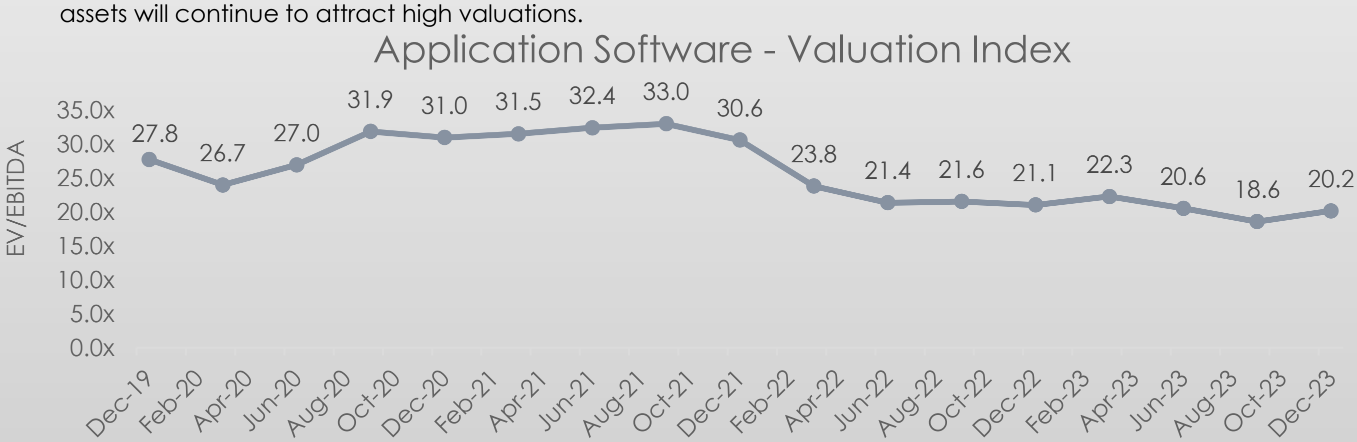
55% Percentage of transaction volumes Q423

Selected Transactions		
Date	Target	Acquirer/Investor
Oct-23	Fourjaw Manufacturing Analytics	Mercia Asset Management
Oct-23	TR Control Solutions	Aukett Swanke Group plc
Nov-23	Mayden	G Square Private Equity
Nov-23	Infinity Software	Dura Software
Dec-23	Arcane Intelligence	Accel
Dec-23	Sennen Tech	Kraken Technologies

- Amidst the reshoring of supply chains, there is investor appetite for assets strategically positioned at the cross-section of AI, IoT and manufacturing. Mercia's investment in Fourjaw Manufacturing is an example of the robust investor appetite for businesses that can help reshape industrial processes and improve firm productivity.

Snapshot

- **Illustrating a path to profitability is crucial to acquirors**
- **Acquirors have turned their focus on resilient vertical markets which are attracting premium valuations.**



Source: Refinitiv, Gambit analysis

System Software

18% Percentage of transaction volumes Q423

- System Software assets are consistently drawing higher 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 by the rising cost of capital. System Software EV/EBITDA multiples remain robust and saw an uptick during Q423, improving by 6.5% from 18.6x in Q323 to 19.8x in Q423.
- This resilience has also been buoyed by continued investor confidence in blockchain and cryptocurrency assets by revolutionising financial services by reducing intermediaries and introducing faster and more secure transaction methods.
- EnterpriseDB, a company specialising in improving the performance of the Postgres database for businesses, has acquired Splitgraph, a startup focused on making it easy to build data-driven applications using Postgres-compatible technology.
- Companies like Splitgraph that are simplifying the development of data-driven applications are continuing to be attractive to acquirors due to their potential for accelerating innovation and meeting the growing demand for agile and intelligent solutions in a digitalised world.
- Furthermore, Oxford Metrics' acquisition of Industrial Vision Systems illustrates continued investor appetite for innovative machine vision software for advanced manufacturing purposes, paying a multiple of 13.5x for the business.

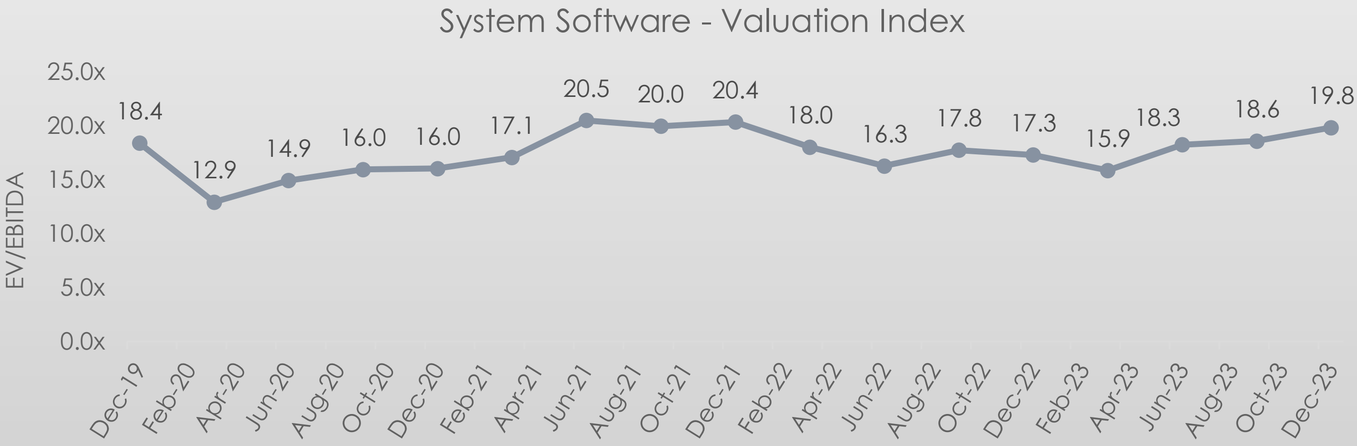
Selected Transactions

Date	Target	Acquirer/ Investor
Oct-23	Splitgraph	EnterpriseDB
Oct-23	AI Build	IQ Capital et.al
Nov-23	Rasberry Pi	Arm Holdings plc
Nov-23	Industrial Vision Systems	Oxford Metrics plc
Dec-23	Artemis Defense	Xalles Holdings
Dec-23	Triple Technologies	TX Ventues et.al

- US-based Xalles Holdings acquired UK-based Artemis Defense Technologies in December 2023, which specialises in AI related software for US Department of Defence initiatives. This underlines the attractiveness innovative AI pioneers in the UK to US acquirors.

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

Managed IT & Cloud

14% Percentage of transaction volumes Q423

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

- As businesses prioritise digitalisation to maintain a competitive advantage, they are increasingly turning to cloud service providers to facilitate smooth transitions to cloud infrastructure and reduce costs associated with maintaining outdated legacy IT systems.

- Gambit's Managed IT & Cloud Valuation Index exhibited a 6% increase in EV/EBITDA multiples from 9.6x in Q323 to 10.2x in Q423. This is mainly attributed to the softening inflation and the anticipation of a lower cost of capital environment for H224, which will inevitably increase firm budget spend on further digitalisation and cloud migration to stay competitive.

- Gambit Corporate Finance advised the shareholders of Blue Sky Digital on their sale to Aurora Managed Services, highlighting continued consolidation in the Managed Print and Document Solutions sub-sector. High quality Managed Print businesses continue to garner attractive valuation multiples and are of interest to larger trade acquirors.

- Kick ICT, a Managed IT and Cloud services provider and a mid-market consolidator backed by BGF, completed its ninth acquisition in eight years with the addition of C2 Software, a Microsoft Dynamics specialist, in November

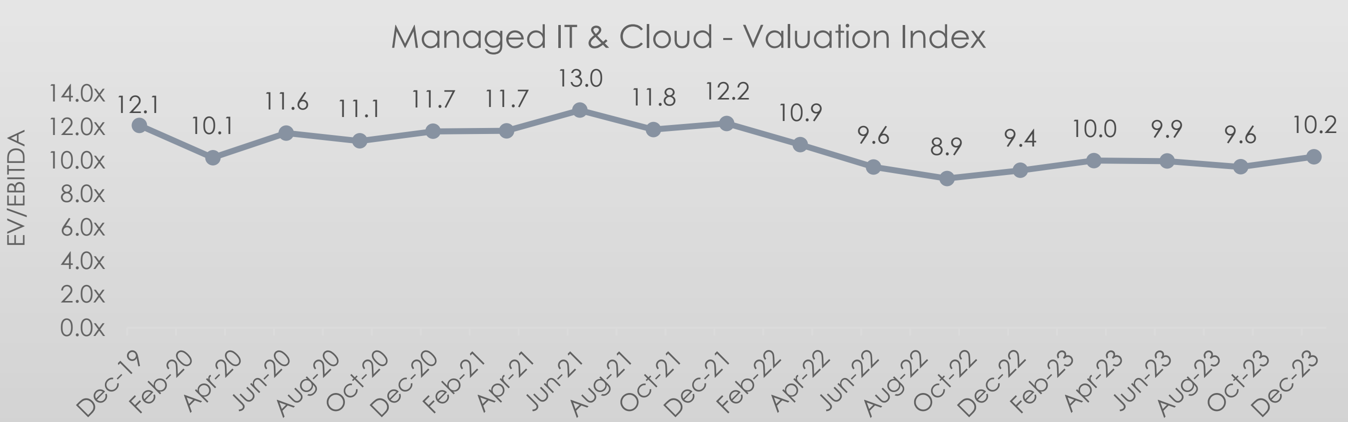
Selected Transactions

Date	Target	Acquirer/ Investor
Oct-23	Assured Data Protection	Soho Square Capital
Oct-23	Dynamic Networks	Kingland Capital
Nov-23	C2 Software	Kick ICT Group
Nov-23	Sapphire Systems	NTT Data
Dec-23	Blue Sky Digital	Aurora Managed Services
Dec-23	Bluecube Technology	Ecko Cloud

- Additionally, Kingland Capital supported a management buyout (MBO) at Dynamic Networks, a high-growth Managed IT & Cloud service provider, highlighting ongoing private equity interest in this sub-sector due to its scalability and recurring revenue model.

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.**



Source: Refinitiv, Statista, Gambit analysis

Sectors in Focus

VAR & Consultancy

13% Percentage of transaction volumes Q423

- The increasing demand for VAR & Consultancy assets is fueled by the growing imperative on businesses to modernise legacy IT infrastructure in workplaces and address the escalating cyber threats that specifically target cloud environments.

- As illustrated by Gambit's EV/EBITDA Valuation Index, VAR & Consultancy assets have demonstrated growth and continue to display attractive valuation multiples, with a 6.3% increase from 12.7x in Q323 to 13.5x in Q423.

- In 2022, ransomware attacks affected 73% of UK organisations, which was a 15% increase on the year before (CyberEdge). In response, businesses are increasing budget spend on cyber-security products and services, fuelling demand for value-add cybersecurity consultancies that put enterprise-grade cyber security services within reach of any organization.

- Serial acquiror Accenture completed the acquisition of leading cyber, cloud and data consultancy 6point6 in October, further enhancing Accenture's capabilities in the cyber-security complexities for financial institutions and Governments.

- Furthermore, in December, the Wavenet Group, backed by Macquarie, acquired the prominent cyber consultancy Falanx. This strategic move is set to enhance Wavenet's cybersecurity offerings, providing customers with access to endpoint detection and response solutions, which are fast replacing the outdated traditional static antivirus security solutions.

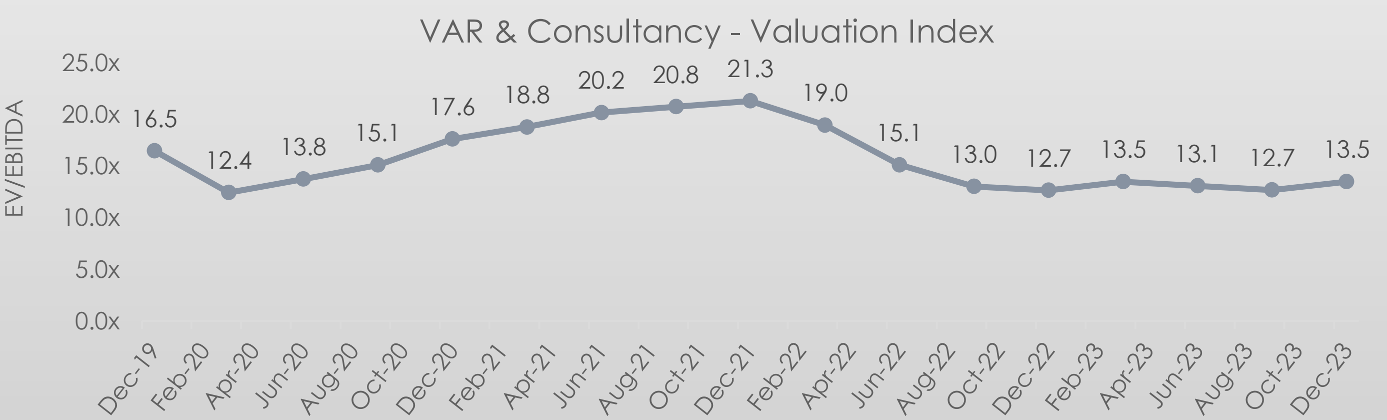
Selected Transactions

Date	Target	Acquirer/ Investor
Oct-23	Levi Telematics	Banyan Software
Oct-23	6point6	Acenture plc
Nov-23	Cyber-Duck	CACI International
Nov-23	Venn Digital	FW Capital
Dec-23	Falanx cyber Defence	Wavenet Group
Dec-23	Redkite Data Intelligence	Accenture plc

- 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, CyberEdge, Gambit analysis

Gambit Corporate Finance LLP

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 in Corporate Finance International (www.thecfigroup.com), 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

Geraint Rowe
Partner

T: +44 (0) 789 992 8029

E: geraint.rowe@gambitcf.com

Sam Forman
Director

T: +44 (0) 759 040 8682

E: samuel.forman@gambitcf.com

Louise Howard
Manager

T: +44 (0) 754 875 8278

E: louise.howard@gambitcf.com

Sean David
Analyst

T: +44 (0) 845 643 5500

E: sean.david@gambitcf.com

Gambit Corporate Finance LLP

gambit CORPORATE FINANCE

Gambit Corporate Finance acted as lead advisor to the shareholders of BLUESKY DIGITAL on its sale to Aurora	Gambit Corporate Finance acted as lead advisor to the shareholders of TDS on the sale of its voice compliance practice to kerv	Gambit Corporate Finance acted as lead advisor to the shareholders of GT Glamorgan Telecom Voice & Data Specialists on its sale to onecom	Gambit Corporate Finance acted as lead advisor to the shareholders of Pinnacle document solutions group on its sale to ethos
gambit CORPORATE FINANCE	gambit CORPORATE FINANCE	gambit CORPORATE FINANCE	gambit CORPORATE FINANCE
Gambit Corporate Finance acted as lead advisor to Inspiretec on its refinancing from NatWest	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	gambit CORPORATE FINANCE	gambit CORPORATE FINANCE	gambit CORPORATE FINANCE
Corporate Finance International acted as lead advisor to lydis on its sale to AplusK econocom	Corporate Finance International acted as lead advisor to FICOLO on its sale to D/9 Digital Infrastructure	Corporate Finance International acted as lead advisor to Sofon Guided Solutions MAIN Capital Partners on its sale to revalize TA Associates	Corporate Finance International acted as lead advisor to VISEO Digital Makers on its €120m debt financing from BlackRock
cfi	cfi	cfi	cfi

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.

www.gambitcf.com

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.

www.thecfigroup.com