gamBIT CORPORATE FINANCE

Software & IT Services
Market Review – Q1 2024

Executive Summary

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Introduction

- Gambit's Software and IT Services (SITS) Q124 Market Review illustrates the renewed buoyancy of the SITS M&A market.
- In a higher cost of capital economy, we have seen a shift in acquiror preferences for a focus on profitability over loss-making growth. As a result, profitable SITS businesses have seen valuations increase over the past 18 months whilst fast-growing unprofitable businesses have seen values decline.
- Looking ahead, we forecast continued buoyancy in the M&A environment in H224 as the cost of capital softens in response to sustained low inflation and business owners take advantage of the favourable tax environment, before a General Election, which is expected to be announced in Q324.

Key Points in Focus

- **UK SITS M&A activity during Q124 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 rose to 17.5x in Q124, an increase of 5% in comparison to Q423.**
- The multiple uplift is primarily attributed to softening interest rate expectations for H224 and increasing IT budget spend by companies in response to increasing cyber threats and continued development of AI tools to improve productivity.
- **We expect SITS valuation multiples to continue improving throughout 2024** as a result of forecast softening in interest rates and a **sector refocus on growth**, with critical areas such as AI, RPA and cybersecurity attracting premium valuations.
- **UK companies continue to remain appealing to overseas acquirors**, with an 11% increase in transactions involving US purchasers acquiring UK businesses in Q124 compared to Q423.
- **System Software assets now attract the highest multiples in the SITS sector** due to the indispensable role of cloud computing technologies in the digital economy.
- Rather than looking to cut IT costs, SITS businesses are experiencing enhanced demand due to an **increase in IT spend** to introduce Generative AI models to **improve efficiency and productivity**, streamlining business processes with intelligent automation.
- **SITS business owners should leverage the current 'window of opportunity' whilst the tax environment remains favourable**, as Capital Gains Tax rules are speculated to increase following the anticipated General Election in Q424.
- **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.**

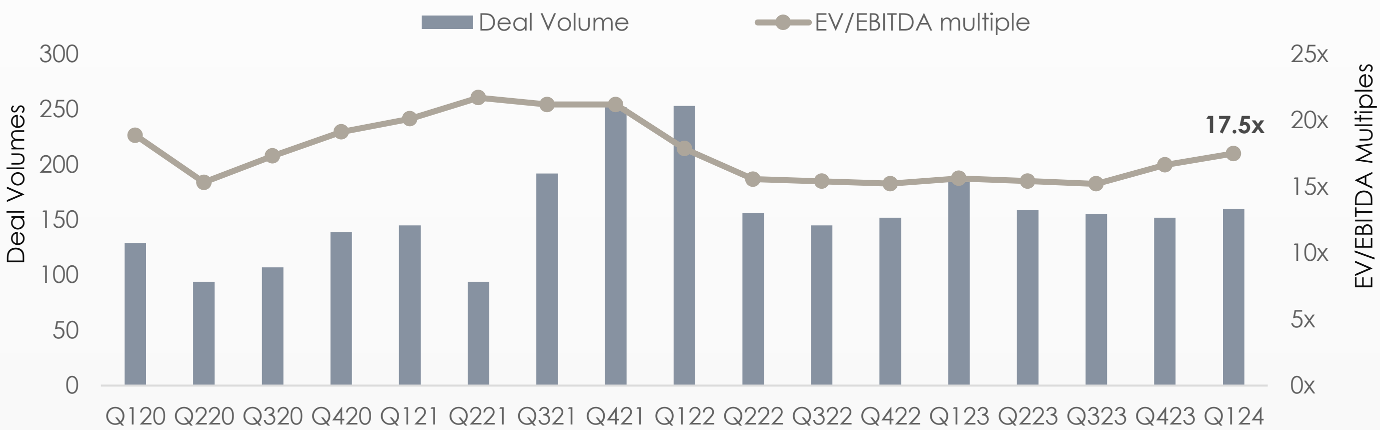
Geraint Rowe
Partner
Software & IT Services

Sam Forman
Director
Software & IT Services

"With interest rates forecast to soften and growing confidence among entrepreneurs and chief executives in the sector, we are optimistic that volumes and valuations will continue to improve into H224"

UK M&A Activity

UK SITS Deal Volumes & EV/EBITDA Valuation Index



24%

Increase in M&A volumes from Q120 to Q124

47.5%

Of transactions were cross-border in Q124

17.5x

Average EV/EBITDA multiple in Q124

43%

Of SITS transactions undertaken by financial acquirors

- UK SITS M&A activity saw an upturn in Q124, with transaction volume levels rising by 5% and an increase in EV/EBITDA multiples by 5% on Q423.

- Deal activity saw its highest levels since Q123, which is further evidence that the economic outlook has improved, with inflation softening and expectations of interest rate cuts later in the year, prompting entrepreneurs and chief executives to feel more confident in undertaking transactions.

- EV/EBITDA valuations in the SITS sector have strengthened over the last 12 months, with a 12% increase in Q124 on Q123.

- Average software EV/EBITDA multiples increased by 3.8% between Q423 and Q124 and average IT services EV/EBITDA multiples increased by 8.2% over the same period. Continuing a trend we have observed over the past 18 months, profitable IT services firms have experienced increased valuations, while loss-making software companies have witnessed declines, as funding loss-making growth has become prohibitively expensive in this higher cost of capital economy.

- 43% of SITS transactions were undertaken by a venture capital or private equity investor in Q124, which continues to be significantly higher than other sectors. Factors which make the SITS sector attractive to financial acquirors include its strong gross margins, low capital intensity, high-income visibility and impressive cash conversion ratios.

Source: Pitchbook, Gambit analysis

Sectors in Focus

Application Software

53% Percentage of transaction volumes Q124

- Businesses in every sector, from advanced manufacturing to recruitment, are leveraging SaaS platforms to enhance operational efficiency, productivity and facilitate data-driven decision-making. As a result, Application Software businesses command some of the highest multiples in the SITS sector.
- Application Software continues to remain the most active sub-sector in the SITS market, with 53% of all transactions in Q124 involving Application Software assets.
- As illustrated by Gambit's Application Software EV/EBITDA Valuation Index, valuations increased by 2% in Q124 compared to Q423, due to improved investor confidence in the face of softened inflation and forecast reductions in the cost of capital in Q224.
- Whilst multiples remain below their Q321 peak, this reflects the elevated costs tied to research and development for growth in this higher cost of capital economy. Despite this, we have seen an upturn in multiples for two consecutive quarters due to increasing demand for software solutions across industries as businesses embrace digital transformation to meet the challenges of the rapidly evolving technological landscape.
- The structural growth driver of economy-wide decarbonisation is rendering Cleantech assets increasingly appealing to acquirors, with companies under greater pressure to measure and analyse their carbon emissions. This was evidenced by US-based Liberty Green Logistics' acquisition of a leading offshore wind SaaS company, Renewable Strategy, in January. Cleantech assets will continue to attract high valuations, as renewable energy starts to play a greater role in the economy on the route to Net-Zero.

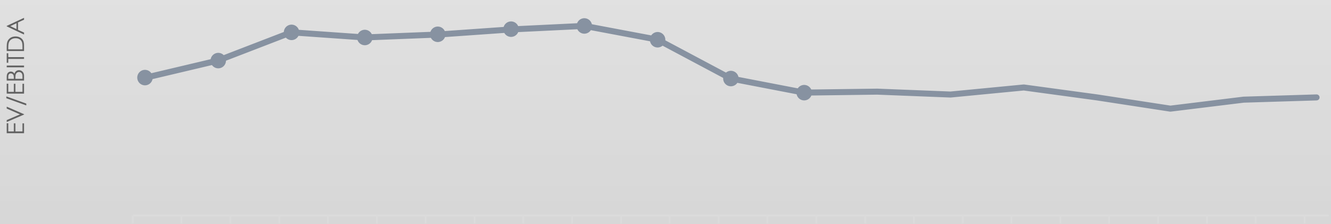
Selected Transactions

Date	Target	Acquirer/Investor
Jan-24	Renewable Strategy	Liberty Green Logistics LLC
Jan-24	Searchlight Cyber	Charlesbank Capital Partners
Feb-24	Napier	Crestline Investors
Feb-24	Agilio Software	TA Associates
Mar-24	CattleEye	GEA Group
Mar-24	ifaDASH	Fintel

- 59% of Application Software assets were acquired by a Private Equity or Venture Capital principal in Q124, which is 6% greater than Q423. High levels of recurring income, strong gross margins, impressive cash conversion ratios and asset light business models all make SaaS assets appealing to investors.

Snapshot

- **Profitability rather than loss-making revenue growth has become the preference of investors.**
- **'Rule of 40' is less prominent in this higher cost of capital environment, with a greater weight on EBITDA margin over more uncertain and costly revenue growth.**



Source: Pitchbook, Gambit analysis

Sectors in Focus

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System Software

16% **Percentage of transaction volumes Q124**

- System Software assets currently attract the highest valuation multiples in the SITS market, due to their vital role and usage in cloud computing infrastructure. System Software assets continue to provide the foundational software used for the creation of innovative SaaS assets, which makes them inherently valuable to developers.
- In contrast to Application Software assets, System Software assets have not been as impacted by the rising cost of capital as EV/EBITDA multiples have remained robust with an upturn during Q124, improving by 6% from 19.8x in Q423 to 20.9x in Q124.
- Continued multiple uplift for four consecutive quarters has been asisted by recovering investment in blockchain and cryptocurrency assets following the high-profile bankruptcy of FTX in November 2022.
- With Gartner forecasting an 8% rise in Global IT spending in 2024, System Software assets that provide the platforms for Generative AI development and RPA to drive innovation and make business processes efficient will continue to be attractive to acquirors.
- Similar to Application Software assets, private equity and venture capital principals accounted for 56% of transactions for System Software assets in Q124. Albion VC's investment in Open Dialog, Republic Capital's investment in Obscuro and Togus Capital's investment in Flock.io are all examples of heightened investor appetite for assets at the cross-section of AI and blockchain.

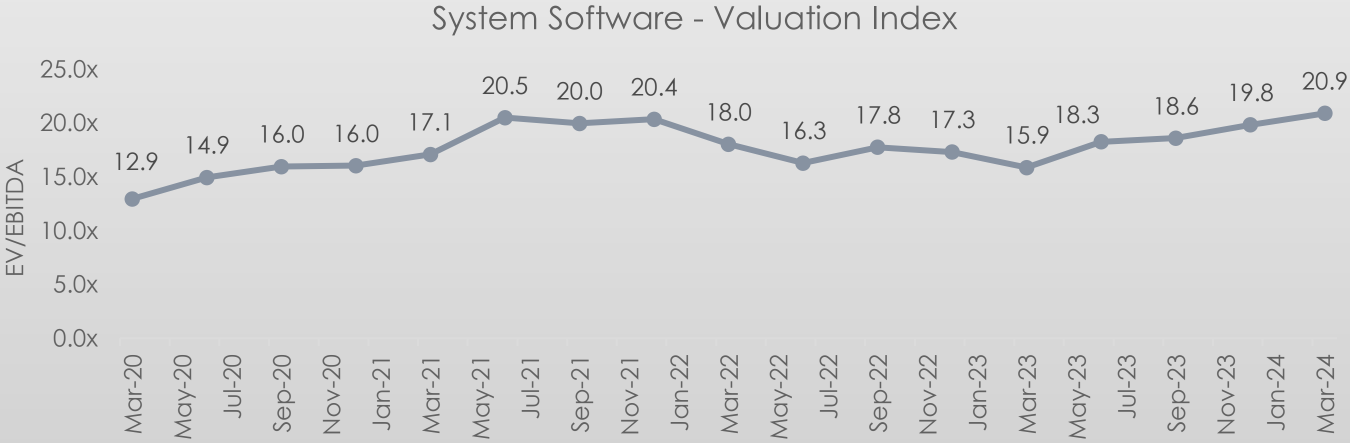
Selected Transactions

Date	Target	Acquirer/ Investor
Jan-24	Open Dialog	Albion VC
Jan-24	Sky Engine AI	Cogito Capital Partners et.al
Feb-24	Geoteric	Redback AS
Feb-24	Sitehop	Amadeus Capital Partners
Mar-24	Obscuro	Republic Capital
Mar-24	Flock.io	Tagus Capital

- System Sotware assets involved at the cross-section of Deeptech and AI continue to garner great attention from investors. This was evidenced by the Sky Engine AI's $7m Series-A fundraising in January 2024.

Snapshot

- **Valuations for System Software assets are at a historic high.**
- **Acquirors continue to play premium prices for assets which are helping to underpin AI.**



Source: Pitchbook, Gambit analysis, Financial Times

Sectors in Focus

Managed IT & Cloud

18%

Percentage of transaction volumes Q124

- Managed IT & Cloud businesses have experienced robust demand which is expected to continue throughout 2024 due to the ability and requirement to scale computing resources efficiently and flexibly, while boosting digital innovation.
- As the digital revolution continues and IT becomes more sophisticated, businesses are seeking specialist guidance to harness and manage evolving technologies for synergy and strategy.
- Managed Services is expected to continue its growth trajectory throughout 2024 and outperform other channels due to enhanced demand for cybersecurity management, cloud infrastructure, AI solutions, applications management and compliance.
- Gambit's Managed IT & Cloud Valuation Index EV/EBITDA multiples increased by 9% from 10.2x in Q423 to 11.9x in Q124. This is mainly attributed to the increase in spend and focus on rapidly growing market segments, with MSPs offering specialised services while diversifying to become 'all-round' trusted advisors, build client relationships and 'step up' in valuation.
- **Gambit Corporate Finance successfully advised the shareholders of Blue Sky Digital, a leading Managed Print Solutions provider, on their sale to Aurora Managed Services. This is a great example of the level of consolidation in the market for high-quality SITS assets, providing innovative solutions to enhance efficiency, competitiveness and market share.**

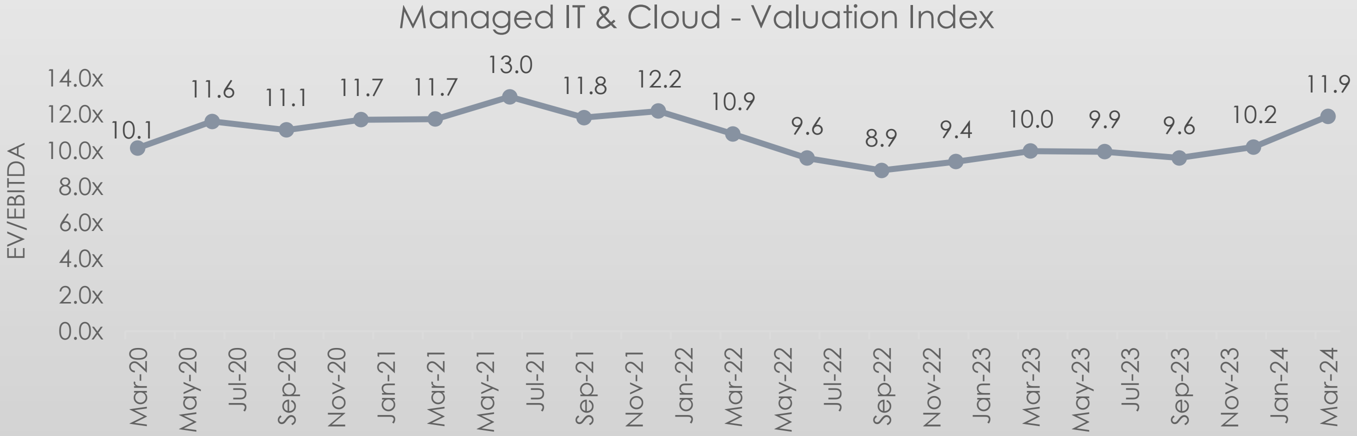
Selected Transactions

Date	Target	Acquirer/ Investor
Jan-24	Rebura	Weston-Comstor
Jan-24	Kerv	Bridgepoint Development Capital
Feb-24	Cloud Business	Codestone Group
Feb-24	Charlton Networks	Techsol Group
Mar-24	SCS Technology Solutions	Air IT
Mar-24	Techbox Managed IT	Bluecube

- Air IT, a Managed IT and Cloud services provider, backed by August Equity, completed its twelfth acquisition in four years with the addition of SCS Technology Solutions.

Snapshot

- **The UK Managed IT & Cloud market is becoming increasingly consolidated and competitive, with growing M&A activity.**
- **A 'one-stop shop' offering provides the most upside potential, bringing more value to partners and customers while driving growth and profitability**



Source: Pitchbook, Statista, Gambit analysis

VAR & Consultancy

13% Percentage of transaction volumes Q124

- Businesses across all sectors continue to seek the advice and product suite of IT consultancies to leverage technology effectively, streamline operations, and stay competitive in an increasingly digital marketplace.
- As illustrated by Gambit's EV/EBITDA Valuation Index, VAR & Consultancy assets continue to demonstrate growth and display attractive valuation multiples, with a 4% increase from 13.5x in Q423 to 14.1x in Q124.
- In 2023, 2.4m cases of cyber crime affected UK businesses, a significant increase on previous years (Databasix). In response to the increasing threat, 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 organisation.
- Connected Cloud Solutions provider FluidOne completed the acquisition of leading cyber consultancy SureCloud in March, further enhancing FluidOne's capabilities in CREST and NCSC CHECK certified penetration testing.
- Bridewell, one of the UK's largest cyber security providers, has continued its expansion with the the strategic acquisition of market-leading public sector cyber specialists, Arculus Cyber. The acquisition will triple Bridewell's public sector revenue streams from the public sector, diversify its revenue streams and gain further accreditations for public sector work.

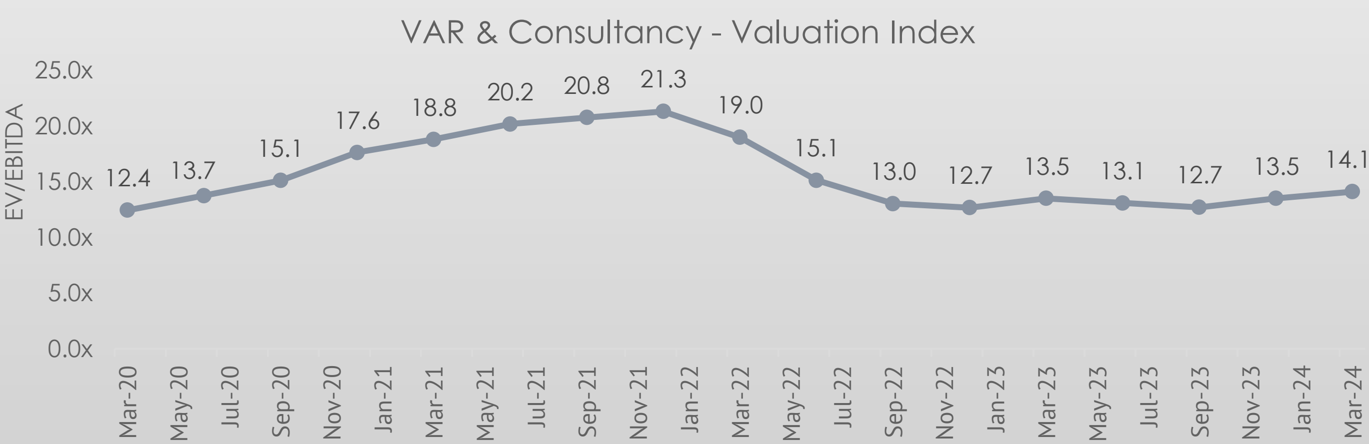
Selected Transactions

Date	Target	Acquirer/ Investor
Jan-24	Jarmany	Ipsos
Jan-24	MCS Computer Support	Orbital10
Feb-24	Bright Consulting	Virtusa Corporation
Feb-24	Acuiti Labs	Quilvest Capital Partners
Mar-24	SureCloud Cyber	FluidOne
Mar-24	Arculus Cyber	Bridewell

- We continue to see consolidation in the market for data management and analytics consultancies, highlighted by Ipsos' acquisition of Jarmany in January. This transaction represents another noteworthy acquisition in Ipsos' 2025 growth plan to become a leader in data analytics capabilities and platform automation.

Snapshot

- **Cyber-security consultancies have become the fastest growing element of the sub-sector.**
- **Levels of recurring and contracted revenue underpinning future growth is a key value driver.**



Source: Pitchbook, Statista, Databasix, 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

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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 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
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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 on its management buy-out
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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