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# Software M&A Recap

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Canada and US Market Insights

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## Attractive unit economics and a large total addressable market have made vertical SaaS an attractive space for strategic and PE buyers

Since 2015, almost all newly developed software has been a cloud-based, Software-as-a-Service (SaaS) solution. One of the primary drivers of the ubiquity of SaaS has been its acceptance by Small and Medium Business (SMB) owners. SaaS solutions were easier to use and maintain as well as provided omnichannel digital capabilities. However, as SaaS adoption has grown it has also resulted in a large base of educated customers who are not looking only for a cloud-based solution, leading to declining differentiation for SaaS providers. SMBs are increasingly choosing specific solutions that are aligned closely with their needs and need minimal customizations. Software providers have been quick to realize that the only way to create a solution that meet the needs of these SMBs is by developing highly specialized solutions for specific industry verticals (e.g. CRM for healthcare companies).

### Vertical SaaS providers benefit from better operating leverage

For software providers, the narrow focus helps create better products while spending lesser resources to develop, maintain and improve them. The focus on a certain vertical also means that acquiring customers is more efficient. Studies show that vertical SaaS companies can acquire 8x more customers for each dollar spent on Customer Acquisition Cost (CAC)<sup>(2)</sup> due to their highly targeted customer base. This is primarily because media buys by marketing teams for this audience are highly targeted and sales teams concentrate on a focused list of leads.

### Demand is driven by lower payback period for customers

The biggest benefit for customers is that an industry-specific solution requires minimal customization. This not only reduces implementation costs but also creates lower payback periods for their software investments. From a regulatory standpoint, these products tackle specific compliance issues related to an industry and provide increased transparency and better data governance. They are also built to allow easy integration with existing systems and workflows prevalent in these industries.

### Impact of data on financial performance

More importantly from a data perspective, vertical software provides you with customer intelligence for a highly focused customer group, helping glean better insights. Not only does this help providers increase the efficiency of their customer service process (improving bottom line) but the relevance of this data makes it more valuable from a monetization standpoint (improving top line).

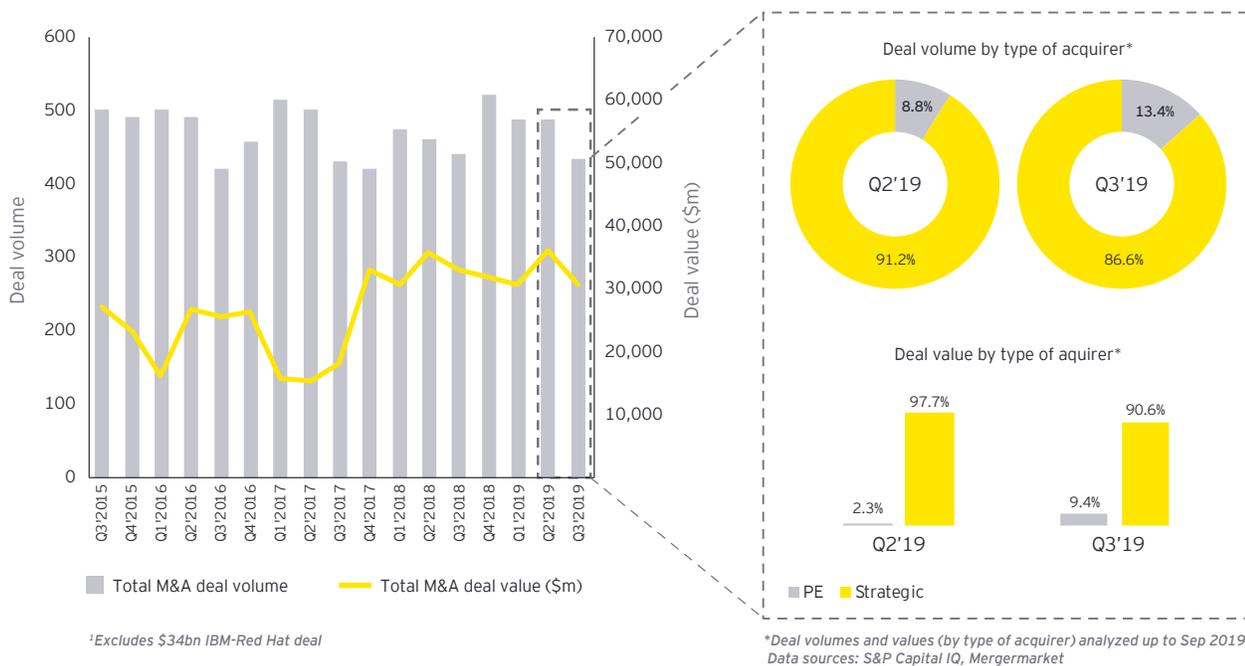
### Vertical SaaS contributes to >50% of total software deal count

The attractive unit economics associated with vertical software along with the rapid growth anticipated in the SaaS market<sup>(3)</sup> has attracted financial and strategic buyers to this space. Private equity firms like Persistence Capital in Canada or Warburg Pincus in the US are looking to acquire assets in vertical markets (for e.g. digital health or healthcare software) by leveraging their operational expertise and ability to drive synergy benefits across large, integrated portfolios. The space has also seen significant M&A interest from platforms like Constellation Software and the Volaris Group along with industry specific players like Descartes Systems Group and Enhouse Systems. Recent deal data<sup>(3)</sup> shows the contribution of vertical software in volume terms (as a % of total software deals) has moved up to 53% in 2019 from 25% just two years ago.

### Large TAM augurs well for the growth of vertical SaaS

The pattern of deal activity highlights investor acknowledgement that vertical software (and by extension, vertical SaaS) presents a unique opportunity in terms of its value proposition to end-customers and its long-term potential. We expect deal momentum to continue to stay healthy for vertical software companies due to the large total addressable market (TAM), especially across SMBs.

Transaction stats: Deal volumes declined by 10% and deal values declined by 15% (vs. Q2'19); Q3'19 witnessed the lowest deal activity (both in volume and value terms) since Q1'18



## Strategic and PE activity: Strategic acquirers focused on capability improvements; PE firms continue to focus on acquiring SaaS providers, with robust deal activity in healthcare software

Strategic buyers are revamping their portfolios through the acquisition of software capabilities rather than through internal R&D. In particular, strategic buyers are seeking targets with recurring revenues and a quality customer base, often pursuing these to expand their service offerings. Splunk's (NasdaqGS: SPLK) acquisition of SignalFX is an example of a strategic buyer using M&A to revamp their portfolio through enhanced service offerings. SignalFX is a SaaS leader in real-time monitoring and metrics for cloud infrastructure, microservices and applications. The added capabilities from SignalFX gives Splunk an enhanced ability to cross-sell to their existing enterprise clients.

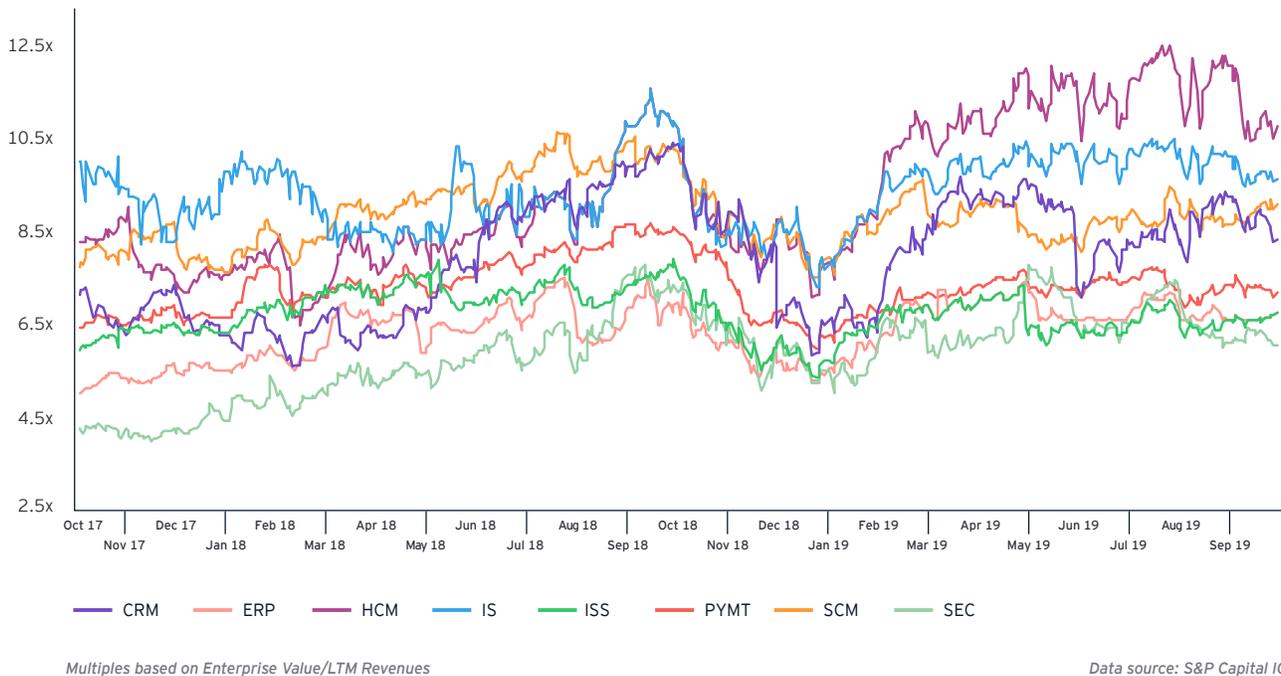
In Q3'19, some strategic acquirers also used M&A to navigate current and potential barriers to growth. Broadcom (NasdaqGS:AVGO), announced the acquisition of the enterprise security assets of Symantec Corporation. The acquisition is a means of increasing Broadcom's service offerings to reverse slowing revenue growth. Strategic buyers also targeted software companies providing cloud-based software platform solutions as a means of revenue diversification. Upland Software (NasdaqGM:UPLD) acquired Canada-based CIMPL Inc., a cloud-based telecom expense management platform provider. VMware, Inc. (NYSE:VMW) acquired Pivotal Software and Carbon Black, each of which provide platform solutions for software development and security respectively.

The total number of deals announced by PE acquirers was up 36% over Q2'19. Consistent with the previous quarters, PEs continue to focus on acquiring SaaS providers; given the ability to scale quickly and large total addressable market.

Vista Equity Partners acquired two cloud-based software platform solution providers including Vertice Technologies (DBA: AltaReturn) and Acquia. Roper Technologies, Inc. (NYSE:ROP) acquired iPipeline, a provider of cloud-based software solutions for the insurance and financial services industry, from Thoma Bravo and Deepbridge Capital. Successful PE exits in Q3'19 are expected to bolster investor confidence and further demand for cloud-based software platform assets.

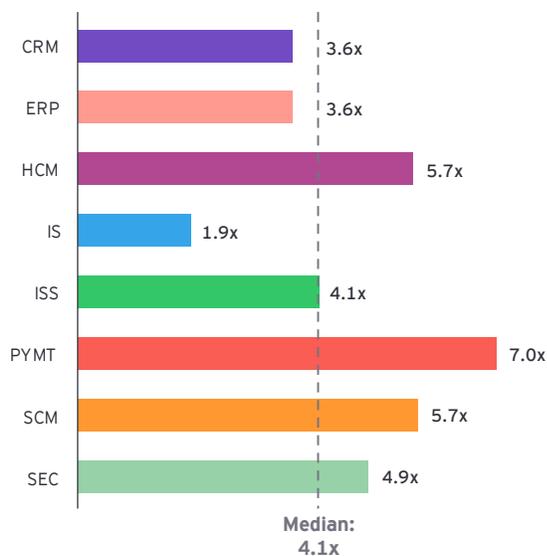
Bolt-on acquisitions is a key focus amongst PE's to create industry focused SaaS platform offerings. In particular, healthcare software continues to be an industry focus area for PE acquirers. Warburg Pincus, a PE firm, made three acquisitions (Indecomm Holdings, WebPT and Qualifacts Systems) in Q3'19 related to healthcare software. The acquisitions by Warburg Pincus in Q3'19 are consistent with a bolt-on M&A strategy across its healthcare portfolio. New Mountain Capital and TPG Capital also acquired multiple healthcare software companies in Q3'19, pursuing a similar strategy.

## Public Comparables: Public company valuations in Q3'19 remained consistent with Q2'19; Valuations were highest for HCM and Internet software

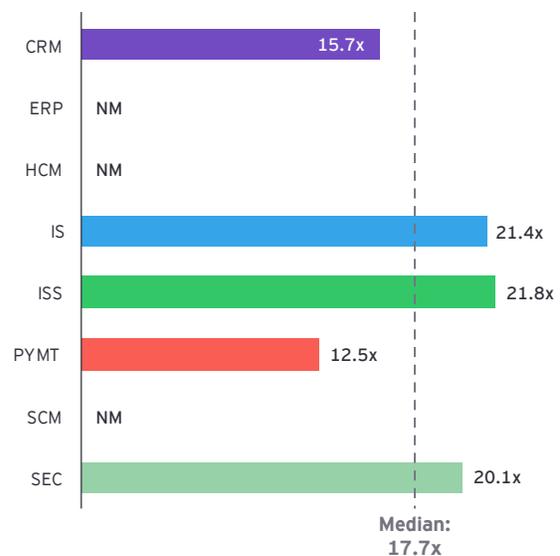


## Transaction Comparables\*: Valuations were highest for software assets in Payments, HCM and SCM

M&A deal multiples - TEV/Revenues (median)



M&A deal multiples - TEV/EBITDA (median)



Data sources: S&P Capital IQ, Mergermarket

CRM - Customer Relationship Management; ERP - Enterprise Resource Planning; HCM - Human Capital Management; IS - Internet Software; ISS - Industry Specific Software; PYMT - Payment/Financials; SCM - Supply Chain Management; SEC - Security.

\* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Oct 1, 2018 and Sep 30, 2019 in Canada and the US. The sample has been compiled by EY Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the Software sector. Furthermore, the categorization of the sample across various sub-sectors and any analysis thereof, by EY Orenda Corporate Finance Inc. is solely for illustrative purposes and were not created to serve as benchmarks. Every transaction has specific characteristics that impact value and corresponding multiples. It is necessary to understand the background and circumstances surrounding each transaction to extract meaningful insights.

# Select transactions in Q3 2019

## 24 Sep 2019

Vista Equity Partners LLC announced the acquisition of a majority stake in **Acquia Inc.**, a provider of a cloud-based platform for commerce, content, community and contextual solutions, for a transaction value of \$1.0 billion.\*

## 11 Sep 2019

Vista Equity Partners LLC acquired **Vertice Technologies (DBA: AltaReturn)**, a provider of solutions and services for the private capital and family office markets, for a transaction value of \$500.0 million.

## 11 Sep 2019

ANSYS, Inc. (NasdaqGS:ANSS) announced the acquisition of **Livermore Software Technology Corporation**, a developer of software products for automobile design, aerospace, manufacturing and bioengineering industries, for a transaction value of \$775.0 million.\*

## 09 Sep 2019

Shopify Inc. (NYSE:SHOP) acquired **6 River Systems, Inc.**, a provider of fulfillment automation for e-commerce and retail operations, for a transaction value of \$381 million.

## 05 Sep 2019

Prudential Financial, Inc. (NYSE:PRU) acquired **Assurance IQ, Inc.**, a provider of a consumer solutions platform for health and financial wellness needs, for a transaction value of \$3.5 billion.

## 22 Aug 2019

VMware, Inc. (NYSE:VMW) announced the acquisition of **Pivotal Software, Inc. (NYSE:PVTI)**, a provider of cloud-native application platform and services, for a transaction value of \$3.3 billion. The acquisition represents an enterprise value of 4.3x revenues.\*

## 22 Aug 2019

VMware, Inc. (NYSE:VMW) acquired **Carbon Black (NasdaqGS:CBLK)**, a provider of security solutions, for a transaction value of \$2.2 billion. The acquisition represents an enterprise value of 9.0x revenues.

### Deals indicated are Canadian deals.

\* Deal signed but not closed,  
Data sources: S&P Capital IQ, Mergermarket

<sup>1</sup> Estimate

## 22 Aug 2019

Upland Software, Inc. (NasdaqGM:UPLD) acquired **CIMPL Inc.**, a developer of a platform to manage the cost and usage from mobility, fixed telecom, cloud and IT assets for enterprises, for a transaction value of \$25.7 million. The acquisition represents an enterprise value of 3.2x revenues.<sup>1</sup>

## 21 Aug 2019

Splunk Inc. (NasdaqGS:SPLK) acquired **SignalFx, Inc.**, a SaaS leader in real-time monitoring and metrics for cloud infrastructure, microservices and applications, for a transaction value of \$1.1 billion.

## 08 Aug 2019

Broadcom (NasdaqGS:AVGO) announced the acquisition of the **enterprise security assets of Symantec Corporation**, a provider of security, storage and systems management solutions, for a transaction value of \$10.7 billion. The acquisition represents an enterprise value of 4.6x revenues and 30.6x EBITDA.\*

## 08 Aug 2019

Roper Technologies, Inc. (NYSE:ROP) acquired **iPipeline**, a provider of cloud-based software solutions for the insurance and financial services industry, for a transaction value of \$1.6 billion. The acquisition represents an enterprise value of 8.0x revenues.<sup>1</sup>

## 26 Jul 2019

HGGC, LLC acquired Monotype **Imaging Holdings Inc. (NasdaqGS:TYPE)**, a provider of fonts and font technologies, for a transaction value of \$906.0 million. The acquisition represents an enterprise value of 3.5x revenues and 15.7x EBITDA.

## 19 Jul 2019

Vobile Group Limited (SEHK:3738) acquired the **RightsID and ChannelID assets of ZEFR**, which includes the copyright-management and youtube channel-management platforms in the United States, for a transaction value of \$90.0 million. The acquisition represents an enterprise value of 2.3x revenues.

## 11 Jul 2019

Aspen Technology, Inc. (NasdaqGS:AZPN) acquired **Mnubo Inc.**, a provider of smart data management and analytics for Internet of Things (IoT) for enterprises, service providers and device manufacturers, for a transaction value of C\$102.0 million.

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