

Software M&A Recap

Q1 2022

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The rise of the Canadian software acquirer

Canada has long had a strong technology market. Until recently, however, many Canadian software companies have maintained the reputation of growing to a certain size before being swallowed up by a strategic acquirer in the US or globally. While we grew accustomed to press releases stating, “Canadian software company X was acquired by international buyer Y” over the years, the script was flipped in 2021. What we saw in 2021 was a clear emergence of Canadian software companies as acquirers, both of other Canadian companies and companies globally.

BREAKING DOWN THE NUMBERS

The numbers are clear: Canadian software companies made 284 acquisitions in 2021. That is a 90% increase over the average of the previous four years. Of these deals, 40% were acquisitions of other Canadian companies. This is still a big percentage of the total share of deals, but it has been on a decline over the last several years as Canadian software companies have been making more global acquisitions.

The data suggests that this trend extends beyond North America. Canadian software companies’ acquisitions of companies outside North America have grown from 18% to 27% of all acquisitions over the last five years.

The last noteworthy point is a clear rise in the percentage of investors who have made more than one acquisition in the year. Therefore, this is not an anomaly: M&A is central to these companies’ strategies.

WHAT COULD BE DRIVING THIS?

The first indication of what might be driving this is revealed by looking at the acquirers’ profiles. There is a significant rise in the number of acquirers who are VC backed, while the number of PE-backed acquirers has stayed relatively flat over the last five years. This is not surprising,

given there have been more venture capital deals for Canadian software companies, including some very large raises that would support a more aggressive M&A strategy. This venture funding both empowers these companies to make acquisitions and provides an alternative route to being acquired prior to scaling.

The other potential driver here is Canada’s growing technology talent pool. Toronto was recently declared the third-largest talent hub in North America. Bootstrapped companies often see talent as a constraint. While strong technology talent is a scarce resource for most companies, Canadian companies may have better access to these resources in their own markets. This means they won’t need to be acquired to access talent. Startups in other geographies may find this an attractive trait in an acquirer.

WHAT COULD THIS MEAN FOR CANADIAN COMPANIES?

From this data, it seems clear that Canada’s reputation in the global technology landscape is growing. Canadian technology companies are able to execute deals on their own or get backing to support their acquisitions through venture capital. If you are a target, there is an increasing number of options to sell your business within Canada, which may be attractive to you and your employees.

In the long run, more companies remaining headquartered in Canada is positive for the Canadian technology ecosystem. It will be interesting to observe more software companies turn to M&A to be able to support ambitious growth objectives in the coming years. We will continue to monitor these trends as Canadian acquirers continue to grow and consolidate.

EY Transaction Snapshot

EY advised **Verdazo Analytics Inc.** (“Verdazo”) on its sale to Vela Software International Inc. (“Vela”), a subsidiary of Constellation Software Inc. (“Constellation”).

EY acted as the exclusive financial advisor to Verdazo and led all portions of the process, applying our strong sector knowledge and transaction experience to help achieve a positive outcome for Verdazo.



About Verdazo

Verdazo provides a leading business intelligence analytics software tool for the oil and gas industry. The company was founded in 2006 and rebranded as Verdazo in 2016. The Verdazo software platform provides users with the ability to analyze data across several datasets allowing a range of clients to monitor production and various KPIs, capital spending and financial performance to target efficiencies, reduce costs and optimize performance.

About Vela

Vela is a subsidiary of Constellation, a TSX-listed publicly traded company that operates in over 100 countries and across dozens of verticals. Constellation has completed over 500 acquisitions of small, medium and large private and public companies since its inception in 1995.

The win-win

The acquisition will allow Vela to integrate the Verdazo solution with other complimentary businesses to leverage the unique capabilities of the Verdazo team and technology for growth and expansion.

Select Transactions in Q1 2022*

Mar 21, 2022: Akamai Technologies, Inc. (NasdaqGS:AKAM) acquired **Linode LLC**, a provider of an infrastructure-as-a-service (IaaS) platform that offers resource usage monitoring, DNS configuring, and server cluster creation services for a transaction value of \$900 million.

Mar 15, 2022: SentinelOne (NYSE: S) announced the acquisition of **Attivo Networks**, a cybersecurity company which offers ThreatDefend, a threat detection and response platform, for a transaction value of \$616.5 million.

***Mar 10, 2022:** Quorum Information Technologies Inc. (QIS:TSXV) announced the acquisition of **Accessible Accessories Ltd.**, a provider of an SaaS-based platform for the automotive dealership market, for a transaction value of \$3.5 million.

Mar 08, 2022: Google LLC announced the acquisition of **Mandiant Inc** (NasdaqGS:MNDT), a provider of a security platform that investigates cybersecurity attacks, protects against malicious software, and analyzes IT security risks, for a transaction value of \$5.4 billion. The acquisition represents an enterprise value of 11.1x revenues.

Mar 03, 2022: SoFi Technologies, Inc. acquired **Technisys**, a digital banking software platform provider, for a transaction value of \$956.7 million.

***Mar 07, 2022:** TrustBIX, Inc. (TSXV:TBIX) acquired **Insight Global Technology, Inc.**, a provider of edge-to-enterprise supply chain solutions that bring asset situational awareness to dealers, rental fleets and civil construction managers, for a transaction value of \$4 million.

Mar 02, 2022: Snowflake, Inc. (NYSE:SNOW) announced the acquisition of **Streamlit, Inc.**, a provider of an open-source application framework for data scientists and machine learning engineers to create apps in Python, for a transaction value of \$800 million.

Mar 01, 2022: GTCR LLC acquired a majority stake in **Experity, Inc.**, a provider of integrated EMR and practice management software solutions for urgent care clinics and business outcomes, for a transaction value of \$1.2 billion.

Mar 01, 2022: Shift4 Payments, Inc. announced the acquisition of **Finaro**, formerly known as Credorax, Inc., a financial software provider engaged in payment processing and simplifying payment ecosystems, for a transaction value of \$575 million.

***Feb 28, 2022:** Software AG announced the acquisition of **StreamSets**, a provider of data engineering solutions in the areas of cloud data lake integration, cloud data warehouse integration, power real-time applications, and cloud data platform integration, for a transaction value of \$588.4 million.

***Feb 28, 2022:** Dominion Lending Centres, Inc. (TSX:DLCC) acquired a 30% stake in **Newton Connectivity Systems**, formerly known as Marlborough Stirling, a software company that develops, implements and manages a range of licensed and hosted software implementations for the mortgage lending industry in Canada, for a transaction value of \$24 million.

Feb 27, 2022: Zip Co Limited (ASX: Z1P) announced the acquisition of **Sezzle, Inc.** (ASX: SZL), a payments platform provider offering interest-free instalment plans at online stores and in-store locations, for a transaction value of \$354.7 million. The acquisition represents an enterprise value of 3.0x revenues.

Feb 25, 2022: Hexagon announced the acquisition of **EtQ, Inc.**, a provider of SaaS-based QMS (Quality Management System), EHS (Environment, Health, and Safety) and compliance management software, for a transaction value of \$1.2 billion.

Feb 22, 2022: Stryker (NYSE: SYK) acquired **Vocera Communications, Inc.** (NYSE: VCRA), a provider of the Vocera Communication and Workflow System and a software platform that connects communication devices, for a transaction value of \$3.3 billion. The acquisition represents an enterprise value of 12.8x revenues.

Feb 15, 2022: Madison Dearborn Partners, LLC announced the acquisition of **MoneyGram International, Inc.** (NasdaqGS: MGI), a provider of an API-driven platform that offers cross-border payment innovation and blockchain-enabled settlement, for a transaction value of \$1.8 billion. The acquisition represents an enterprise value of 1.3x revenues and 6.7x EBITDA.

Feb 15, 2022: Black Knight, Inc. (NYSE: BKI) acquired an additional 40% stake in **Optimal Blue LLC**, a provider of a marketplace platform for the mortgage industry, for a transaction value of \$1.2 billion.

Feb 14, 2022: Fidelity National Information Services, Inc. (NYSE: FIS) acquired **Payrix Solutions LLC**, a provider of embedded payments solutions into an SaaS-based platforms to serve SMB e-commerce merchants, for a transaction value of \$777 million.

Feb 07, 2022: Fiserv, Inc. (NASDAQ: FISV) announced the acquisition of **Finxact, Inc.**, a provider of an SaaS platform engineered to support the scale and regulatory requirements of the US-based financial institutions, for a transaction value of \$650 million.

Jan 31, 2022: Sony Interactive Entertainment LLC announced the acquisition of **Bungie, Inc.**, a videogame developer with various video game franchises, for a transaction value of \$3.6 billion.

***Jan 24, 2022:** Unity Software, Inc. (NYSE: U) acquired **Ziva Dynamics, Inc.**, a provider of services and simulation software specializing in the development of characters to film, gaming, virtual, and augmented reality industries, for a transaction value of \$127.7 million.

***Jan 17, 2022:** Abloy Canada, Inc. announced the acquisition of **Vigil Health Solutions, Inc.** (TSXV: VGL), a developer and marketer of a proprietary technology platform combining software and hardware to provide alarm systems and solutions, for a transaction value of \$10.2 million. The acquisition represents an enterprise value of 1.3x revenues and 8.9x EBITDA.

Jan 11, 2022: Aptiv PLC (NYSE: APTV) announced the acquisition of **Wind River Systems, Inc.**, a provider of intelligent edge software solutions for aerospace & defense, telecommunications, industrial and automotive markets, for a transaction value of \$4.3 billion. The acquisition represents an enterprise value of 10.8x revenues.

***Jan 10, 2022:** Upland Software, Inc. (Nasdaq: UPLD) acquired **Objectif Lune, Inc.**, a provider of enterprise software for document composition and business communication automation, for a transaction value of \$34.3 million.

Jan 10, 2022: R1 RCM, Inc. (NasdaqGS:RCM) announced the acquisition of **Cloudmed**, a provider of a revenue intelligence platform that combines cloud-based data architecture and deep domain expertise with intelligent automation, for a transaction value of \$4.1 billion.

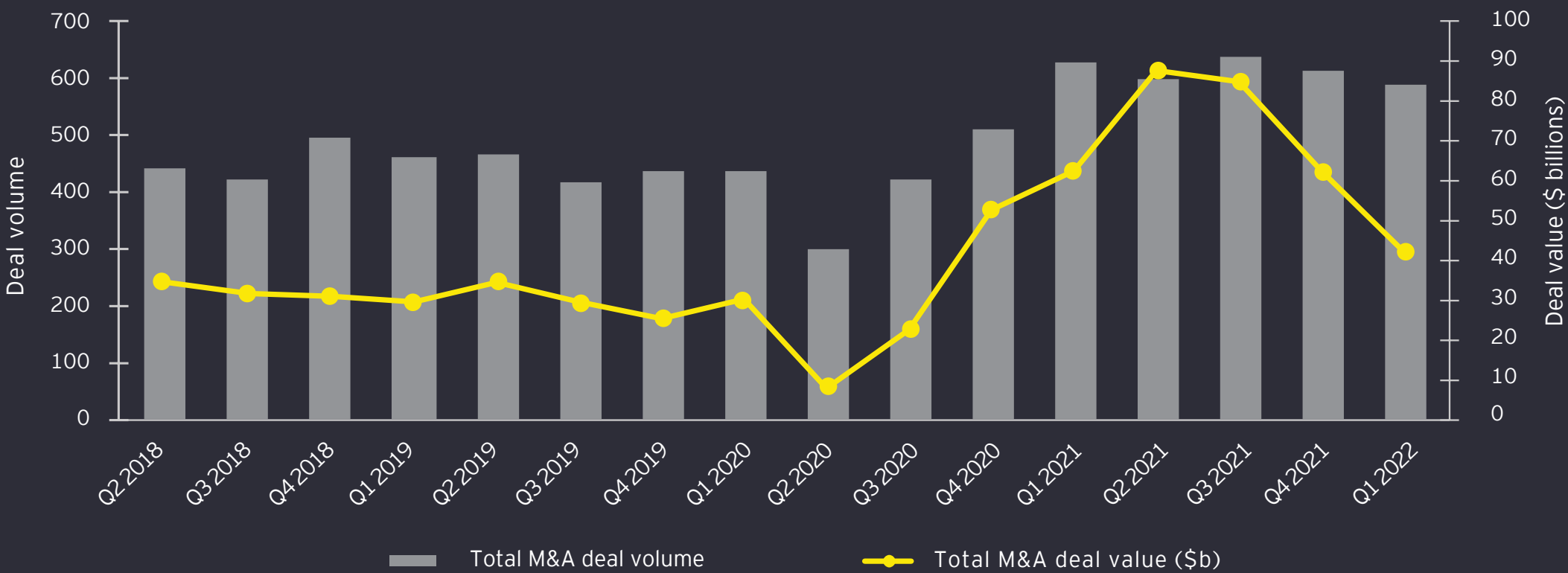
***Jan 06, 2022:** Vista Equity Partners Management acquired a 35% stake in **Assent Compliance, Inc.**, a provider of a supply chain sustainability platform with capabilities, such as product compliance, ESG monitoring, and trade compliance, for a transaction value of \$350 million.

Jan 04, 2022: Alphabet, Inc. (NasdaqGS: GOOGL) acquired **CyArx Technologies Ltd.**, doing business such as Siemplify, security orchestration, and an automation and response (SOAR) platform provider, for a transaction value of \$500 million.

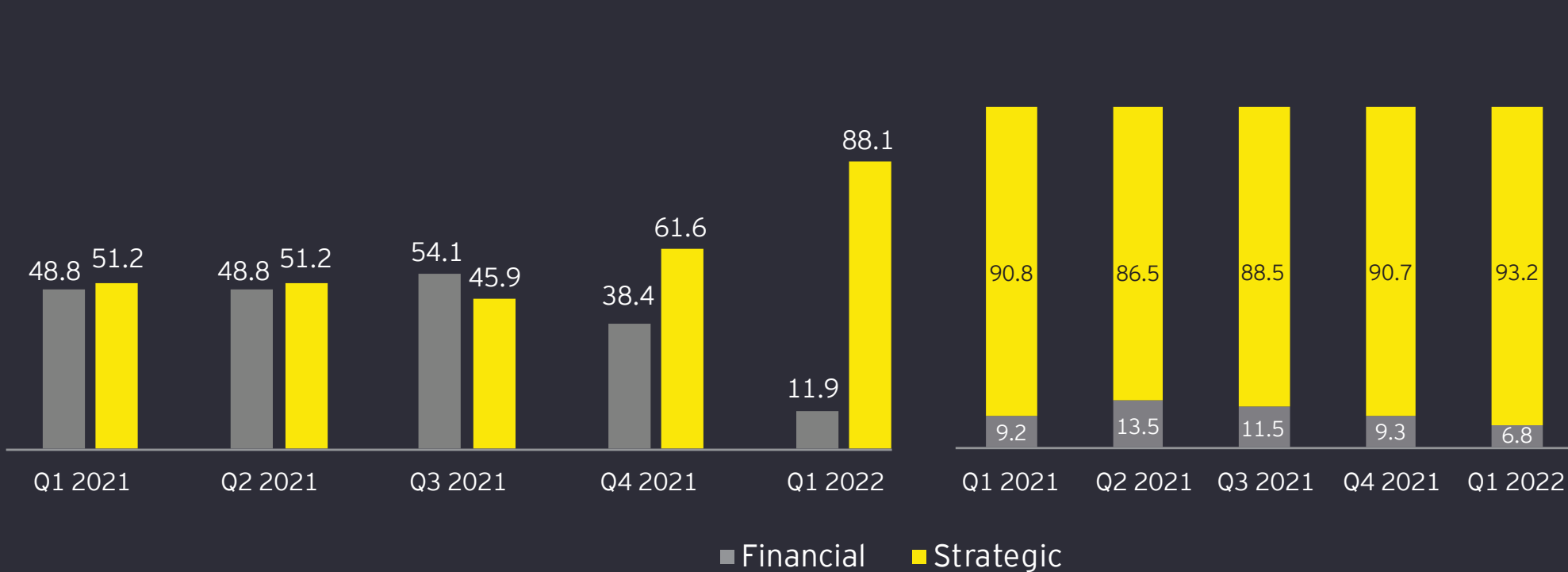
**Deals indicated are Canadian deals.
Data sources: S&P Capital IQ, Mergermarket

Historical M&A Activity

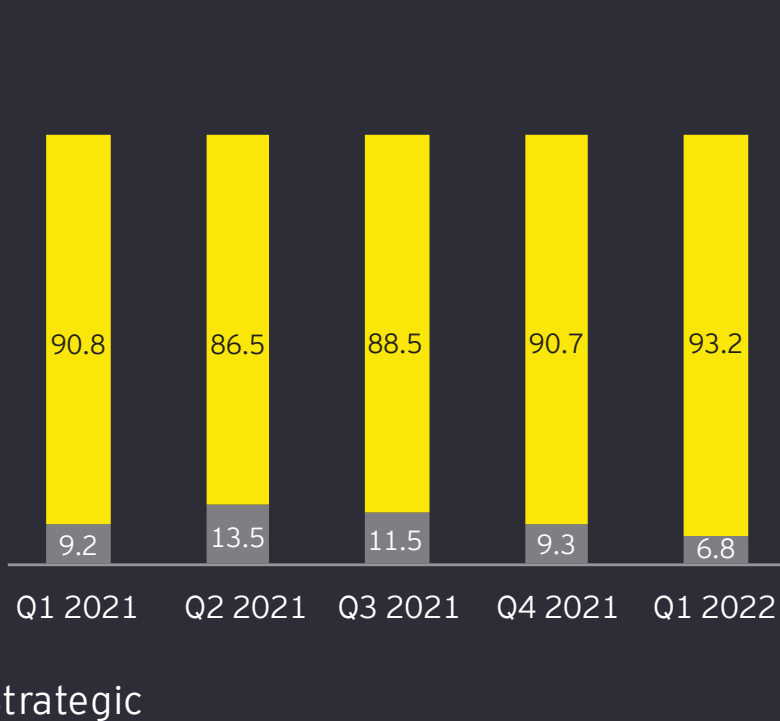
Deal volume remains relatively consistent with previous quarters, with a decrease in deal value.



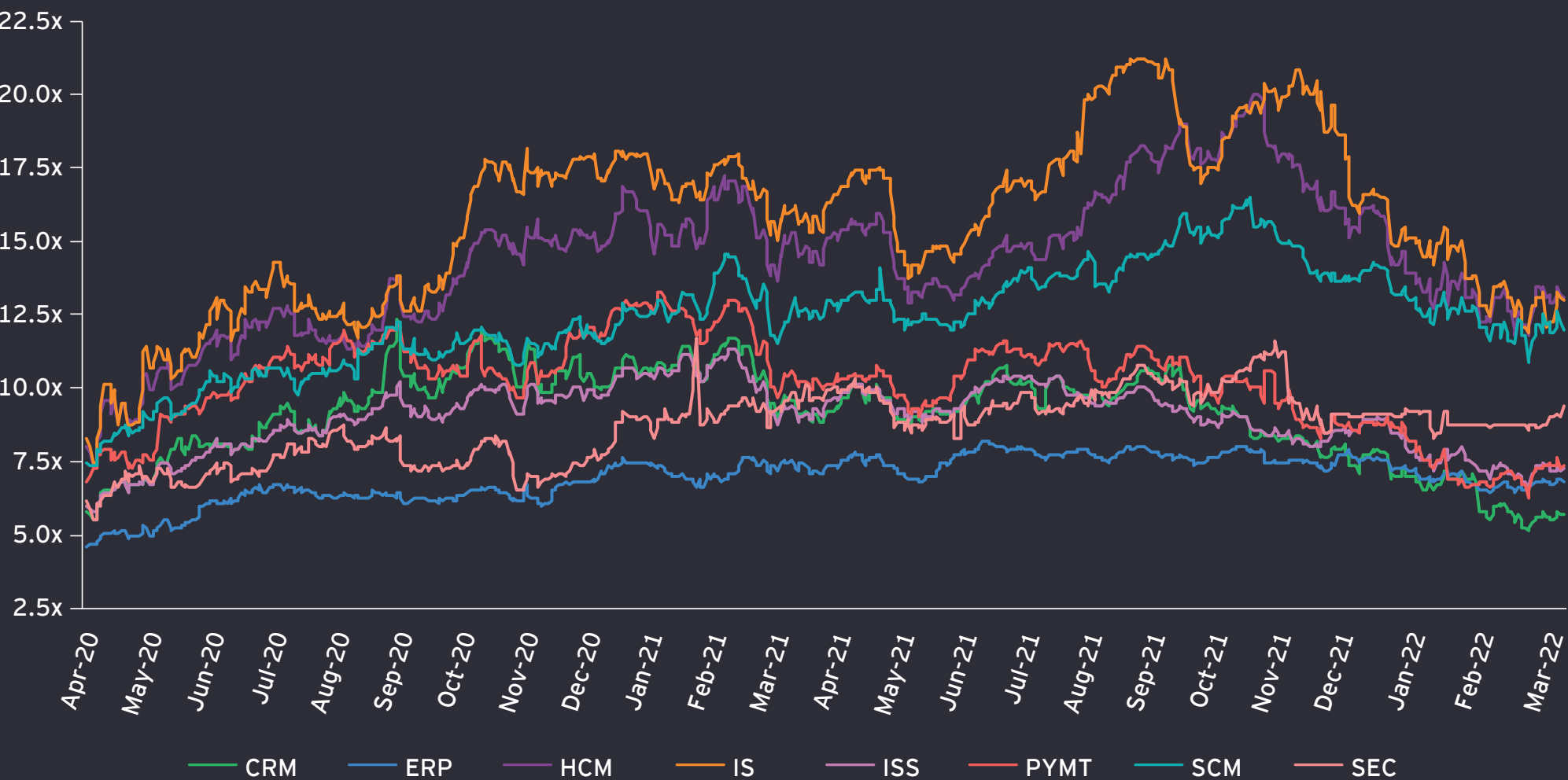
Deal value by type of acquirer (%)



Deal volume by type of acquirer (%)



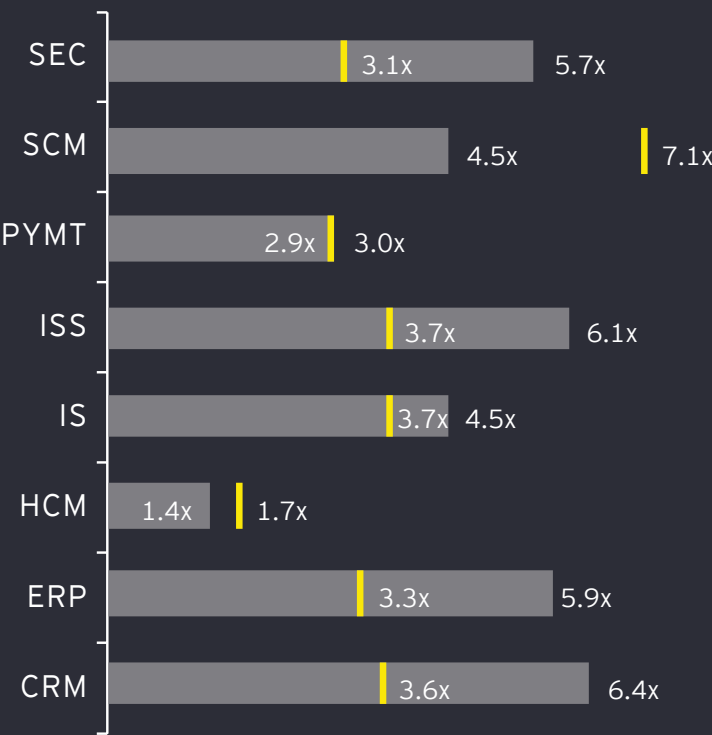
Public company multiples dip before stabilizing, subsequent to the highs observed in Q4 2021



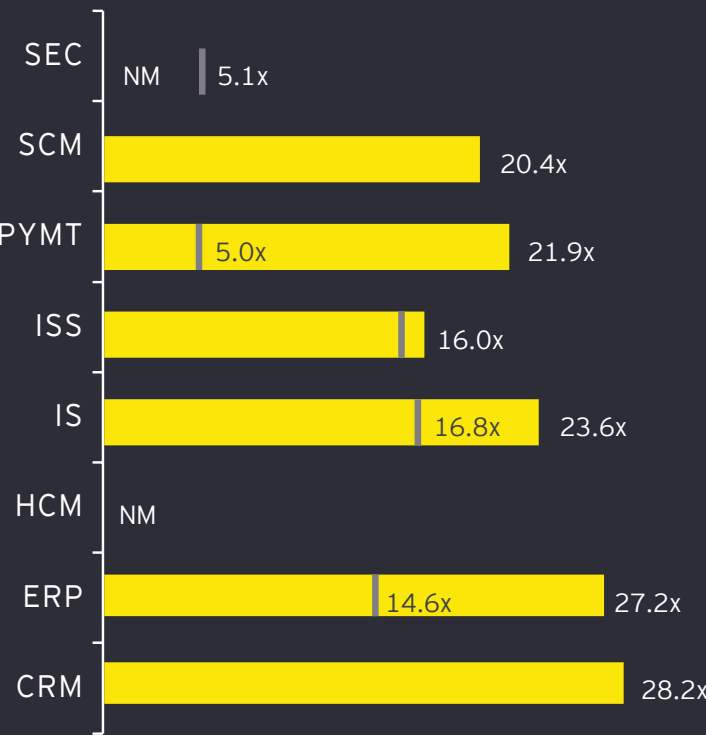
CRM - customer relationship management - ERP - Enterprise Risk Platform - HCM - Human capital management - IS - Internet Software - ISS - Industry Specific Software - PYMT - Financial payments - SCM - Supply chain management - SEC - Security

As 2022 kicks off, revenue and EBITDA transaction multiples in Q1 2022 continued to outpace those in Q1 2021 and Q4 2021.

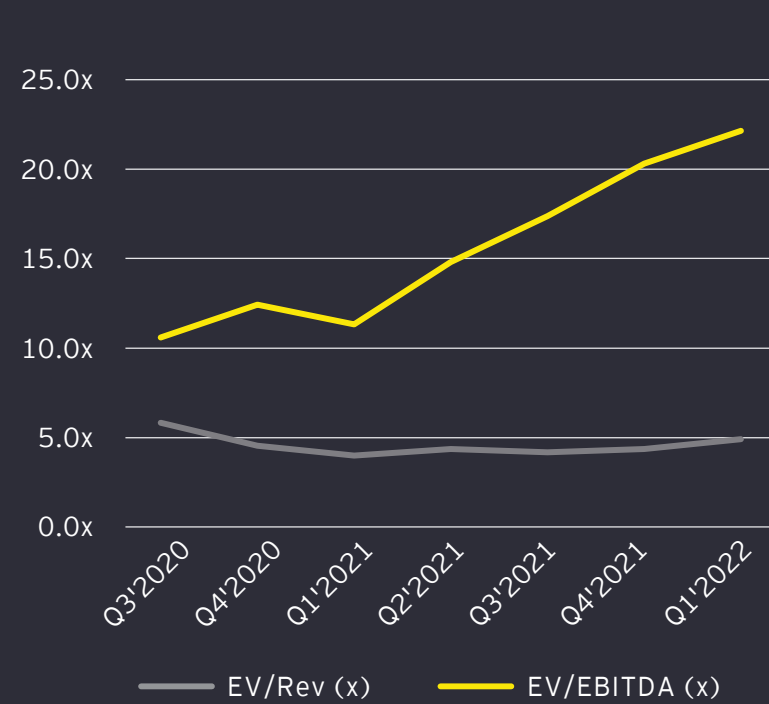
Enterprise Value/ Revenue



Enterprise Value /EBITDA



Transaction Multiples Over Time



*Median is 4.7x

*Yellow line indicates Q1 2021 comparison

*Median is 23.1x

*Grey line indicates Q1 2021 comparison

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Jan 1, 2021 and March 31, 2021 in Canada and the US. The sample has been compiled by Ernst & Young Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the IT and tech-enabled services sector. Furthermore, the categorization of the sample across various subsectors and any analysis thereof by Ernst & Young Orenda Corporate Finance Inc. are 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.

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