

UK cross border SITS deals dwindle

UK software and IT services (SITS) sector merger and acquisition activity in Q2 fell back to the level last seen in Q1 2018 as COVID-19 restrictions took effect. There were 54 UK buyers and 59 UK sellers during Q2 according to the latest data from technology investment bank, [Silverpeak](#).

However, the number of domestic deals remained steady with 32 deals in Q2 compared with 31 in Q1. The major shortfall in the number of transactions during Q2 was the sharp reduction in cross border deals.

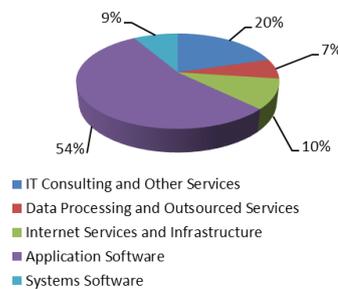
UK companies made 22 overseas acquisitions (down from 38 in Q1) with continental European companies being the main targets, accounting for 11 deals. UK buyers made 8 acquisitions in North America (down from 12 in Q1) and 3 in the rest of the world (10 in Q1). In return, North American buyers remained the most active of the overseas buyers, acquiring 15 UK companies (half the number in Q1). Buyers from continental Europe made 7 acquisitions of UK companies (compared with 15 in Q1) and there were 5 buyers from elsewhere in the world - slightly lower than the 7 deals in Q1.

UK SITS M&A - Buyers vs Sellers

Source: TechMarketView, Silverpeak, CapitalIQ



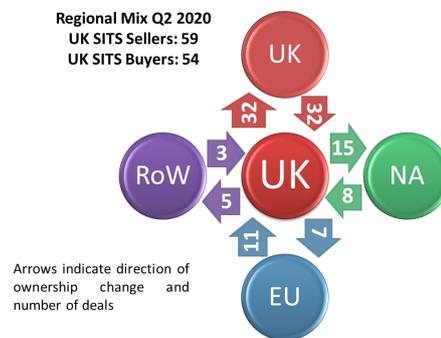
Types of UK businesses sold: Q2 2020



Source: TechMarketView, Silverpeak, CapitalIQ

Regional Mix Q2 2020

UK SITS Sellers: 59
UK SITS Buyers: 54



Source: TechMarketView, Silverpeak, CapitalIQ

Application software companies were the largest target sector at 54%, with IT services businesses in second place with 20% of the deals in Q2. Other related services brought the target sector split for the transactions in Q2 to 37% services and 63% software.

The largest deal involving a UK SITS company was the acquisition of London-based software testing and monitoring solution developer, **Eggplant**, by NYSE-listed, California-based test and measurement technology company, **Keysight Technologies**, in a deal valued at \$330m (see [Keysight has the foresight to savour Eggplant](#)).

TOP 10 DEALS INVOLVING UK SITS COMPANIES - Q2 2020

Buyer	HQ	Type	Target	HQ	Type	\$m
Keysight Technologies	USA	NYSE	Eggplant	UK	Priv	330
MRI Software	UK	Priv	Castleton Technology	UK	AIM	105
Access UK	UK	Priv	Eclipse Legal Systems	UK	Priv	72
Boku	UK	AIM	Fortumo	Estonia	Priv	45
HelpSystems	USA	Priv	Boldon James	UK	Priv	37
RWS Holdings	UK	AIM	Iconic Translation Machines	Ireland	Priv	20
Descartes Systems Group	Canada	Quot	Cracking Logistics	UK	Priv	12
Beeks Trading Corporation	UK	AIM	Velocimetrix	UK	Priv	6
iomart Group	UK	AIM	Memset	UK	Priv	5
iomart Group	UK	AIM	ServerChoice	UK	Priv	4

Source: TechMarketView, Silverpeak, CapitalIQ

Selected UK deal highlights

MRI builds its UK presence with two deals



REAL ESTATE SOFTWARE

US-headquartered, privately-held, **MRI Software**, a global leader in real estate software solutions, has acquired AIM-listed **Castleton Technology**, a leading provider of specialist software and services for the social housing sector (see [MRI targets UK M&A: Castleton follows Orchard](#)). The deal values Castleton, which reported revenues in its last reported financial year (to end March 2019) of £26.4m, at £82.8m – a 42.9% premium on the pre-announcement closing share price. MRI's acquisition of Castleton, along with that of **Orchard Information Systems** in March (see [Social housing: MRI picks from the Orchard](#)), extends its offering in the social housing market in the UK, Ireland, and Australia.

Capita divests Eclipse Legal Systems to Access UK



Capita agreed to sell 100% of the shares of **Eclipse (Hardware)** trading as **Eclipse Legal Systems** to **Access UK**. Eclipse is a successful mid-market case, matter and practice management software provider operating in the UK legal market. The total agreed consideration reflects an enterprise value of £56.5m on a cash and debt free basis, which represents a multiple of 14.1 times Eclipse's adjusted earnings before interest, tax, depreciation and capitalised development costs (see [Capita to sell two software units](#)).

The acquisition will enhance Access's existing presence in the legal sector, which currently extends beyond 2,500 organisations with the vast majority in legal practice and the remaining customers being internal legal departments, across multiple verticals.

Boku buys Fortumo to support its growth strategy



AIM-listed, **Boku**, a global mobile payment and mobile identity company, agreed to acquire Estonia-based, **Fortumo**, for a maximum consideration of \$45m which includes Boku acquiring \$4 million of net working capital.

Fortumo primarily focuses on providing mobile payment solutions to over 400 small-to-medium sized enterprises, but also services larger merchants including **Google**, **Amazon** and **Tencent**. The acquisition is a significant step in Boku's global Direct Carrier Billing (DCB) growth strategy, bringing together the two most profitable platforms in the DCB market with complementary capabilities and customer bases.

QinetiQ divests Boldon James to HelpSystems



Defence and security provider, **QinetiQ**, has sold its subsidiary, **Boldon James**, to US-based, **HelpSystems**, for a consideration of £30m.

Boldon James provides data classification and secure email messaging solutions, and in the year ended 31 March 2020 generated revenue of £9.1m. **HelpSystems**, acquired **Boldon James**, as well as Canada-based, **Titus**, to create the leading platform in data classification software. **Boldon James** is an industry specialist in data classification and secure messaging, delivering globally-recognized innovation, service excellence and technology solutions that work. **Boldon James** solutions integrate with powerful data security and governance ecosystems to enable customers to effectively manage data, streamline operations, and proactively respond to regulatory change.

HelpSystems previously acquired UK-based cybersecurity firm, **Clearswift** in December 2019 (see [HelpSystems buys Clearswift](#)).

RWS buys AI player Iconic



RWS Holdings, one of the world's leading language, intellectual property support services and localization providers, announced the acquisition of **Iconic Translation Machines** for an initial consideration of \$10.0m with an additional deferred consideration of up to \$10.0m in RWS shares after 28 months subject to the achievement of pre-agreed revenue and EBITDA targets.

Based in Dublin, Ireland, **Iconic** specializes in developing best-in-class neural machine translation (NMT) solutions adapted for specific industries and blue-chip clients. **Iconic** achieved revenues of \$1.2m for the year ended 31 December 2019, a 100% increase on the prior year, and an adjusted EBITDA of \$23k.

Valuation review

Huge drop in European SITS aggregate transaction value

The economic slowdown resulting from COVID-19 restrictions led to a 23% qoq drop in European SITS merger and acquisition (M&A) activity in Q2 which was 32% lower than the same period last year. There were 284 European SITS deals announced in the quarter with UK SITS deals accounting for 29% of these.

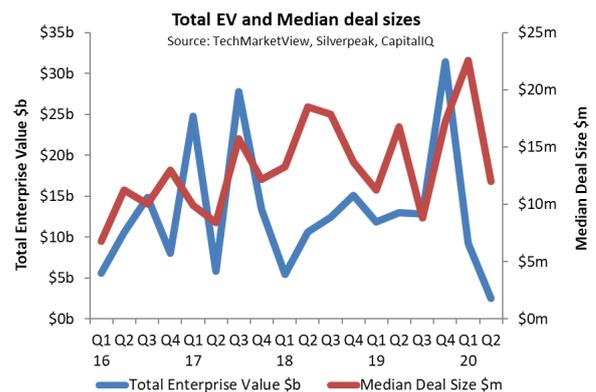
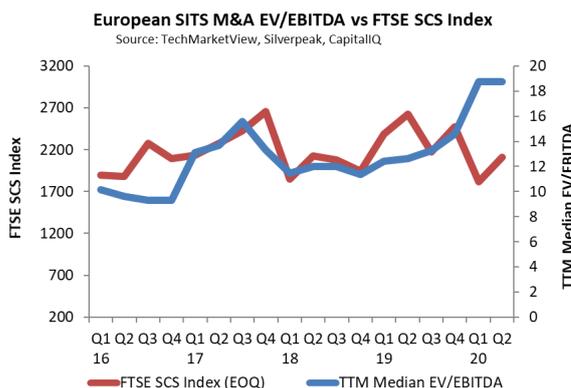
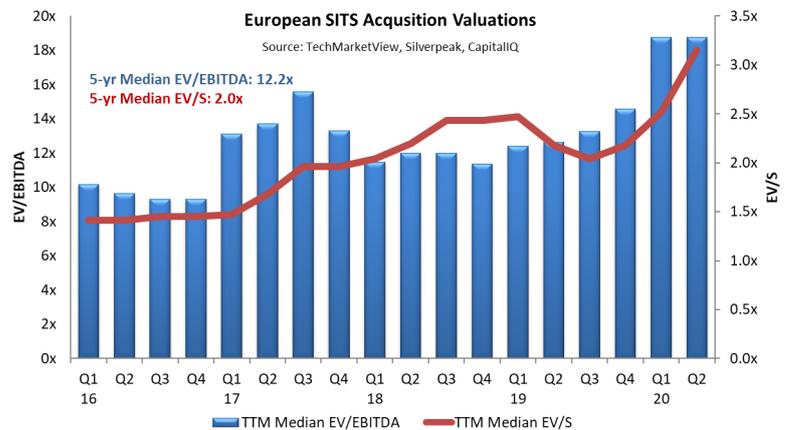
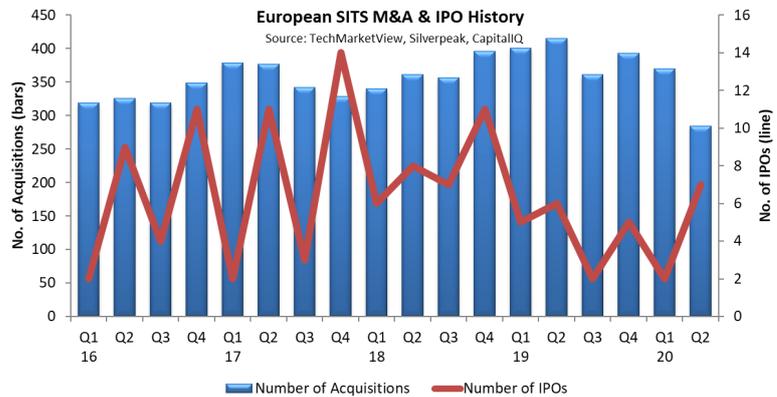
There was an even more dramatic fall in the aggregate transaction value to \$2.3b in Q2 from \$14b in Q1 - a drop of 83%! This resulted in the median deal size dropping from \$22.6m to \$12m in Q2.

The IPO market is always volatile but it was somewhat surprising to see an increase in the number of European SITS companies making an IPO during Q2, particularly in the midst of the COVID-19 pandemic. There were seven IPOs of companies in the sector in Q2, up from 2 in Q1, of which four were on Scandinavian exchanges.

Despite the reduction in deal activity, European SITS M&A valuations in terms of enterprise value to EBITDA (EV/EBITDA) and enterprise value to sales (EV/S) multiples remained strong as the sector is expected to be a major beneficiary in the post-COVID era. The median EV/S ratio increased to 3.3 in Q2 from 2.5 in Q1 on a trailing twelve month (TTM) basis.

The TTM median EV/EBITDA was unchanged at 18.8 in Q2 and remains well above its 5-year median of 12.2.

Valuations of public listed companies, as represented by the FTSE Software and Computer Services (SCS) Index, recovered some of the value lost in the previous quarter with a 16% increase in Q2. However, the index is still 20% lower than its pre-crisis level.



Private Equity review

Financial buyers were much less active in Q2, announcing 23 majority ownership deals, 41% lower than in Q1 and accounting for 8% of all acquisitions of European SITS companies. The steady quarterly increase in the number of private equity transactions between Q2 2019 and Q1 2020 has been brought to an abrupt end by uncertainty caused by the current crisis. On a trailing 12 month (TTM) basis, the number of private equity majority share acquisitions fell to 135 in Q2, 8% lower than a year ago. Private trade deals, which are backed by private equity funding as add-ons to their portfolio companies, are additional to this.



APAM and Trinity House build new data centre platform

Specialist real estate investment and asset manager, **APAM**, and **Trinity House Investments** have acquired **Optimum Data Centres'** data centre business and will operate the **Hayes Data Centre**, which they acquired in 2019, directly through their new platform, **Trinity Data Centres**. Trinity Data Centres has retained the key staff to ensure a seamless transition for clients, partners and suppliers. The acquisition will facilitate significant investment planned for the Hayes complex through a multi-stage refurbishment plan.

SILVERPEAK Insight

Cross-border M&A activity plummets in Q2 but strategic deals complete

Although Q2 transaction numbers collapsed, as many transactions were initially frozen or terminated entirely, Silverpeak has seen activity in the market begin to rebound with a number of highly strategic transactions announced in June. The SITS market in particular has been seen as robust and a beneficiary of any long-term impact of COVID-19, as reflected by the share prices of SITS businesses recovering strongly in the public markets and already returning to pre-COVID-19 levels.

Strategic M&A transactions remain resilient

Despite the fall in M&A activity, completed transactions in Q2 appear to be those with strong underlying strategic rationale. Perhaps the most notable transaction in UK SITS was the acquisition of London-based **Eggplant**, by NYSE-listed **Keysight Technologies**, in a deal valued at \$330m. Keysight are seeking to build-out a testing software portfolio of high quality recurring revenue, to complement their existing testing hardware business. The transaction is rumoured to have taken place at a valuation of c. 10x Eggplant's 2019 revenues.

IPOs surprisingly robust

Despite a fairly poor volume of European IPOs in 2019, there has since been an uptick in the first half of 2020. The highlight in the European SITS market was the \$200m+ IPO of **Pexip**, a video conferencing service and **Zoom** competitor that could only be described as a "COVID-19 beneficiary". While the remainder of 2020 remains uncertain, with the highly unpleasant combination of winter flu and COVID-19 resurgence on the horizon, there continues to be a stream of announcements of major upcoming SITS IPOs - especially in the US.

UKHotViews M&A index

UK-related UKHotViews M&A posts - Q2 2020	Date
Capita to sell two software units	22 Jun
Capita seeks buyer for education software business	22 Jun
Receipt purchases	17 Jun
..and Sentelis makes six for Accenture AI	16 Jun
The Panoply gets Arthurly	10 Jun
Juniper Education acquires MIS provider Pupil Asset	01 Jun
Compass Group dines on 'intelligent lunch' start-up Feedr	26 May
Smarterly looks to grow following Salvus acquisition	21 May
Busy Microsoft: healthcare cloud; and 'build a bot' acquisition	20 May
Accenture Applied Intelligence enlists Indian gurus	19 May
K3 Dynamics UK assets split across three buyers	15 May
Avanade buys again	06 May
PUBLIC surprises with Microtest acquisition	01 May
The Key acquires GovernorHub	30 Apr
Capita divests Irish L&P and renews Teachers Pensions	27 Apr
MRI targets UK M&A: Castleton follows Orchard	15 Apr
Beeks expands capabilities via Velocimetrics acquisition	15 Apr
Liberata acquires outplacement specialist Renovo	14 Apr
Accenture gets Revolutionary	08 Apr
Accenture says yes to Yesler	06 Apr
Social housing: MRI picks from the Orchard	01 Apr

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