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# M&A Market Report

## Technology Services

Q1 2021

# Introduction

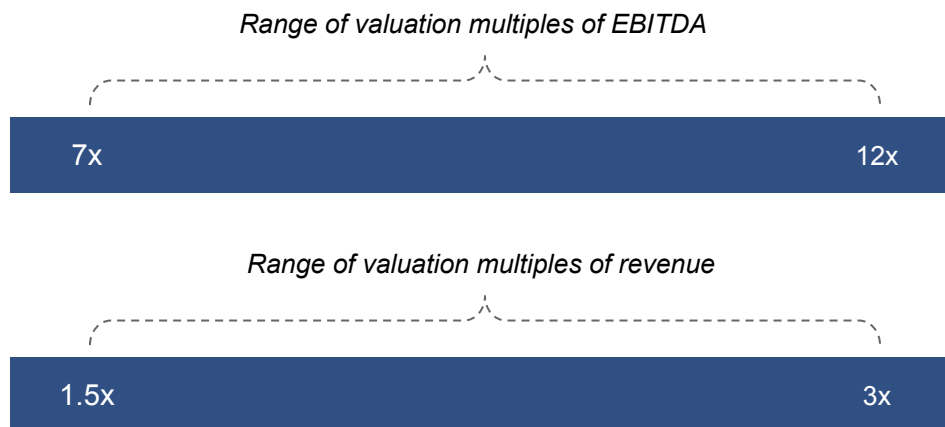
After Technology Services deal activity rose in 2019 reaching a ten-year high, the M&A market slowed in 2020, largely due to the global COVID-19 Pandemic. Heading into 2021, the global technology services market is expected to grow to over five trillion dollars, which represents a growth rate of 4.2% as the economy rebounds from the pandemic and M&A activity is expected to increase again in 2021.

Regionally, in 2020 there was an increase in deal flow in Europe and APAC with a large uptick in general cross-border deal activity. Demand for technology services remains strong and that demand is largely driven by higher consumption of bleeding-edge technologies. Furthermore, demand for cybersecurity, cloud, analytics, and artificial intelligence solutions and services are expected to drive the industry's M&A market in the coming years.

COVID-19 has provided the Technology Services sector with a silver lining and has been a boon in many ways. IT Services firms and MSPs have shifted to servicing their clients' increased need for supporting a remote workforce. The transition to and subsequent adoption of a remote work model is expected to lead to increased consumption of platforms and services that support virtual teams.

## Valuation Trends

The Technology Services sector has not been immune to rising valuations in the past year. Cheap capital supplied by the Federal Reserve and central banks, combined with relaxed monetary policy has driven asset prices to all-time highs, in "pandemic-resistant" industries, such as Technology Services. Valuations across the industry's sub-sectors remain high, especially in the cybersecurity and analytics sectors. The range of valuation for technology services companies in the lower middle market has crept up to 7x - 12x EBITDA. For companies doing \$20M + in total revenue the valuation conversation typically shifts to a multiple of total revenue with the range of 1.5x - 3x.



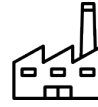
While strategic buyers have typically shown a propensity to pay multiples on the upper end of expected valuation ranges a host of other sought-after variables have increased valuations as well:



**High Growth**  
Companies on high growth trajectories



**Recurring Revenue**  
A high percentage of revenue is recurring



**In Demand Sectors**  
Cyber Security, Analytics, Cloud Services



**Intellectual Property**  
Backend IP that drives scalability and differentiation

## Public Market Basket

Publicly traded technology services companies are trading at record highs. While generally fetching a premium to middle-market companies due to size and market share, a discounted public basket multiple yields a median EBITDA multiple of 13.1x and a median revenue multiple of 2.3x.

Company	Ticker	EV / Revenue	EV / EBITDA
Accenture	ACN	3.5x	17.5x
Capgemini	CAPMF	2.2x	16.8x
Cognizant	CTSH	2.4x	14.3x
Infosys	INFY	5.3x	17.6x
Perficient	PRFT	3.2x	25.4x
Reply	REY.MO	3.0x	17.4x
<b>Median</b>		<b>3.1x</b>	<b>17.4x</b>

Source: Yahoo Finance

# Acquisition Activity

The initial outbreak of the pandemic all but caused a complete but temporary stoppage in deal activity and the Spring months saw slower volume. However, all things considered in 2020, M&A activity across the Technology Services industry was still strong. One of the most active buyers in the IT services space has been Accenture. The firm completed deals in a variety of the IT services subsectors and is making a push to be the premier technology services consulting firm in the world. In addition to Accenture, many other notable names made acquisitions in the technology services space including Perficient, Wipfli, Entisys360, One Equity Partners, and more.

Key drivers for both financial and strategic acquirers are centered around finding disruptive technologies. Strategic acquirers specifically are looking for acquisitions that expand the acquirer's core competencies or as a segue into new markets. Financial acquirers have shown a strong propensity to invest in technology services businesses that have high monthly recurring revenue run rates, and leverage a managed services offering to drive scalable growth.

Strategic acquirers have demonstrated a willingness to make acquisitions at higher valuations compared to financial buyers due to synergies provided and a longer-term investment horizon. Often times, this is reconciled by strategic acquirers creating deal structures offering less cash upfront and more aggressive backend earnouts.

2020 saw a shift towards less cash up front and higher compensation on the backend in many lower middle market transactions. Specifically, when discussing strategic acquirers, the industry saw cash upfront ranging anywhere between 40-70% of total enterprise value with earnouts, seller's notes, or rollover equity covering the remainder of total the consideration. Conversely, financial acquirers have been willing to pay more cash upfront, (as much as 80%).

Earnouts and equity rollovers should garner significant consideration from sellers as they provide the chance for a "second bite of the apple" or chances for additional compensation based on fair and attainable EBITDA or Revenue metrics.

High amounts of "dry powder" capital available for M&A is expected to be coupled with skill shortages in hot areas of the market, such as machine learning, IoT, cyber security, and analytics. The combination of dry powder and competitors' forays into new markets through M&A puts pressure on both financial and strategic acquirers to do more deals in the sector.

# 2020 Select Transactions

## **ICF acquires Incentive Technology Group (IT Consulting)**

ICF (NASDAQ: ICFI), a global consulting and digital services provider, announced in late January 2020 that it had completed the acquisition of Incentive Technology Group, LLC (ITG), a leading provider of cloud-based platform services to the U.S. federal government. The deal was valued at \$255 mm.

## **One Equity Partners acquires CDI (IT Consulting & MSP)**

One Equity Partners, a leading middle-market private equity firm, announced in early January 2020 the completion of its majority purchase of Computer Design and Integration (“CDI”), a leading provider of IT infrastructure hardware and software, consulting, and managed services. The financial terms were not disclosed, but it is known that management retained an equity position in the company.

## **Perficient acquires MedTouch (IT Consulting)**

Perficient (NASDAQ: PRFT), a leading digital transformation consulting firm serving clients throughout North America, announced in early January 2020 the acquisition of MedTouch LLC an award-winning, \$13 million annual revenue, digital healthcare marketing, and technology consultancy. The financial terms of the acquisition were not disclosed.

## **Mastech Digital acquires AmberLeaf (Data & Analytics & IT Consulting)**

Mastech Digital, Inc. (NYSE: MHH), a leading provider of Digital Transformation IT Services, announced in October 2020 the acquisition of AmberLeaf Partners, Inc., a Chicago-based customer experience consulting company. The acquisition will bring together two distinct brands, one that architects and delivers enterprise intelligence through data and analytics, and the other that provides experience consulting through the customer lifecycle. The transaction was valued at \$14.5mm.

## **SilverSun Technologies acquires Prairie Technology Partners (MSP & Cybersecurity)**

SilverSun Technologies, Inc. (NASDAQ: SSNT), a national provider of transformational business applications and IT services, has acquired Prairie Technology Solutions Group, LLC (“PT”), a Chicago-based MSP that provides managed IT services, cybersecurity, and business continuity and disaster recovery services for small and medium-sized businesses. The financial terms of the acquisition were not disclosed.

Accenture was the most active acquirer in the technology services space during 2020. The consulting firm acquired a slew of companies in 2020. Most notably the firm acquired:

- **Avenai** IT consulting and technology services
- **Enibos** Cloud migration services
- **Gekko** AWS focused cloud services company
- **Sentelis** Data consulting and engineering firm

# Historical M&A Deal Volume

Year	# of Deals	Value of Deals (\$ in BNs)	Avg. Value of Deals (\$ in BNs)
2015	4,422	574	0.13
2016	4,050	465	0.11
2017	3,555	346	0.10
2018	2,617	585	0.22
2019	3,590	460	0.13
2020	3,231	414	0.12

Sources:

(1) [www.statista.com/statistics/511172/worldwide-technology-industry-mergers-acquisitions-total-deal-volume/](http://www.statista.com/statistics/511172/worldwide-technology-industry-mergers-acquisitions-total-deal-volume/)

(2) [www.statista.com/statistics/511155/worldwide-technology-industry-mergers-acquisitions-total-deal-value/](http://www.statista.com/statistics/511155/worldwide-technology-industry-mergers-acquisitions-total-deal-value/)

(3) [www.pwc.com/us/en/industries/tmt/library/technology-quarterly-deals-insights.html#:~:text=Deals%20include%2014%20mega%20deals,low%20compared%20to%20prior%20years.](http://www.pwc.com/us/en/industries/tmt/library/technology-quarterly-deals-insights.html#:~:text=Deals%20include%2014%20mega%20deals,low%20compared%20to%20prior%20years.)

## Conclusion

2020 was a trying year for many industries but Technology Services weathered the storm and, in some cases, thrived. 2020 and the fallout from the COVID-19 pandemic has this sector poised for growth. Despite the external challenges, there were many big acquisitions in the industry as major players looked to consolidate market share and gain a head start on future growth. This activity bodes well for companies in the middle and lower middle market as they have been squarely in the sites of acquirers looking to make acquisitions.

The outlook for M&A in the Technology Service industry heading into 2021 is promising. Many expect the rapid pace of deal-making to continue as financial buyers and strategic acquirers look for disruptive companies with staying power.

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## About BMI Mergers

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For over twenty-five years, we have been successfully engaged in the practice of buying, selling and managing the business acquisition process. Our professionals have been engaged in transactions in a multitude of industries. They have completed multi-million dollar deals, and they have also successfully integrated businesses post-merger. Whether your business is worth \$5 million or \$100 million, this experience is put to work to achieve your desired result.

## About The Author

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Matt Tortora brings over fifteen years of business ownership, sales leadership, and consulting experience in both technology and professional services. He has founded three companies and held strategic leadership positions at growth stage technology companies. Most notably, Matt was the co-founder and CEO of a Chicago based software company which he successfully grew and sold to a strategic acquirer.