

Technology Services Market Report

Q1 2023



Introduction

The technology services M&A market including digital transformation, cloud consulting cybersecurity services, as well as managed service providers was a study of contrasts in 2022.

While the beginning of the year appeared to follow the historic trajectory of 2021, the tug of macroeconomic reality was evident by March.

By late 2022, we saw lower middle market deal volume decrease between 10% to 15%, and valuations decrease by as much as 20% - 25%

And as the sector transitions from “growth-at-all-costs” to a quest for positive cash flow and profitability, the immediate outlook for M&A remains somewhat cloudy.

Still, downturns have proven to be an attractive time for buyers looking for strategic acquisitions. There is still capital to deploy, and compressed valuations will almost certainly make many deals too enticing to pass up.

That should not, however, discourage sellers. The stratospheric valuations spurred by a once-in-a-century pandemic may be behind us, but despite their drop in 2022, total deal values remained on par with pre-pandemic levels.

For dealmakers with perspective and a strategic plan, 2023 could prove to be a solid year for the technology services M&A.

Valuation Trends

From Q1 2021 to Q1 2022, private market valuations for technology services companies had been in the range of 1.5x - 3.8x revenue and 5.8x - 10.5x EBITDA.



Yet by the close of 2022, technology services valuations succumbed to the pressures of inflation, monetary policy and corporate restructuring.

In its fight to tame inflation, the Fed raised interest rates from 0.25% in January to 4.5% by December, effectively increasing the cost to finance acquisitions and lowering their potential return.

Inflation's toll on revenue and profits also turned the attention of would-be corporate buyers (especially those in tech) away from acquisitions to cutting costs--particularly through hiring freezes and layoffs.

By Q3, we saw valuations begin to decrease. And we expect valuations to remain compressed as liquidity remains tight and financing options stay limited.

The reset in valuations should also attract savvy buyers with capital to deploy. Great deals *will* be made in 2023, though sellers may need to adjust their valuation expectations and their business models in order to attract the right opportunity.

Public Market Basket

Valuations for publicly traded technology services companies continued to soften. At the time of writing this report, discounted public multiples yield a median revenue multiple of 2.09x and a median EBITDA multiple of 12.56x, down 11% and 6% from Q3 2022 medians respectively.

Company	Ticker	EV/Revenue	Δ Q3 2022	EV/EBITDA	Δ Q3 2022
Accenture	ACN	2.93x	- 0.19x	16.60x	+ 0.23x
Capgemini	CAPMF	1.85x	- 0.07x	13.23x	+ 0.55x
Cognizant	CTSH	1.82x	+ 0.01x	9.81x	+ 0.14x
Infosys	INFY	4.41x	+ 0.22x	17.9x	- 1.23x
DXC	DXC	0.7x	- 0.05x	3.63x	- 0.23x
CGI	GIB	2.32x	- 0.69x	11.88x	- 3.77x
Median		2.09x	- 0.21x	12.56x	- 0.69x

Acquisition Activity

By late 2022, we saw lower middle market activity declines range between 10% and 15%. Yet despite the downward trend, global tech M&A remained remarkably resilient, accounting for 20% of total global M&A activity.

Looking forward, we expect companies set on winning in the next economic cycle to continue using acquisitions to strengthen their businesses.

In fact, we anticipate an *increase* in specific types of deal activity in 2023, centered around take-private transactions, transformative acquisitions, and divestitures, which will result in more than favorable transactions for buyers and sellers alike. Still, dealmakers will need to proceed with care and diligence.

Select Transactions

CTG acquires Eleviant Tech

CTG, a digital transformation and IT services provider, acquired digital transformation company Eleviant Tech. The acquisition bolsters CTG's offers in areas such as AI, machine learning, and intelligent automation; expands capabilities in cloud migration, mobile application development, and emerging technologies, including blockchain; and adds approximately \$10M in annualized revenue. Financial terms were not disclosed.

ePlus acquires Future Com

ePlus Inc., a technology solutions and consulting provider, acquired the business of Future Com, Ltd. a provider of cyber security solutions, cloud security and security consulting services throughout North America. The acquisition gives ePlus access to elevated engineering, sales and services delivery capabilities in the South-Central U.S., as well as strengthens the skills and expertise of ePlus's cyber security practice. Financial terms were not disclosed.



Globant acquires Sysdata

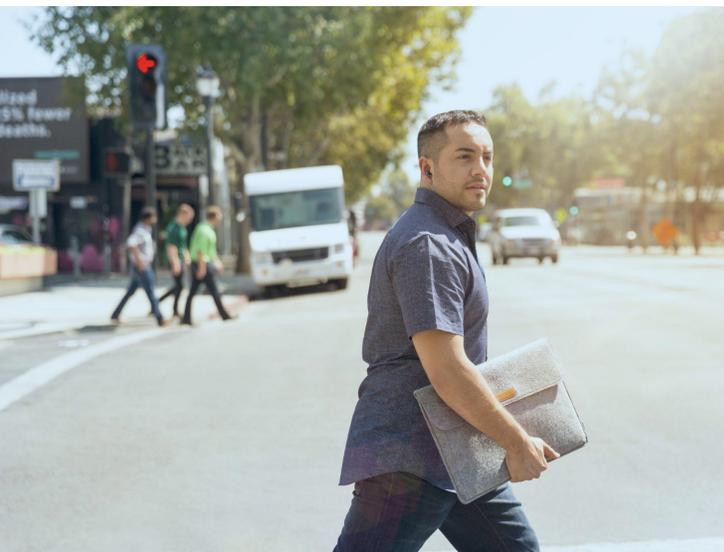
Global technology services firm Globant acquired Sysdata, a digital transformation consultancy based in Italy. The acquisition puts Globant in the Italian market and broadens its European footprint. Financial terms were not disclosed.

Perficient acquires Inflection Point Systems

Digital consultancy Perficient acquired Inflection Point Systems, a software consulting and product development firm. The acquisition gives Perficient stronger nearshore delivery capabilities and widens its solution offerings and expertise across mobile, product development, web content management, e-commerce, security, enterprise search, and digital marketing services. Financial terms were not disclosed.

American Technology Services Acquires 200Apps

American Technology Services (ATS), a technology solutions provider acquired 200Apps, a firm specializing in the design and development of web and mobile app solutions. This acquisition expands the capabilities of ATS, particularly in the mobile app development market, and strengthens its position as a comprehensive technology partner for businesses. Financial terms were not disclosed.



Historical IT Services M&A Deal Volume

Year	# of Deals	Value of Deals (\$ in BNs)	Avg. Value of Deals (\$ in BNs)
2016	1,691	71.1	.042
2017	1,920	47.5	.025
2018	5,321	439.0	.083
2019	5,121	485.4	.095
2020	4,692	570.0	.121
2021	5,864	716.1	.122
2022	5,089	445.0	.087

- Source: IMAA Institute
- Data above represents both public and private companies and is not specific to lower middle market transactions

Conclusion

The 2022 reset in the technology services M&A market may have deflated valuations and slowed the pace of deals, but the need to implement digital transformation initiatives remains as strong as it has ever been.

The pandemic, labor issues, advances in AI and more have only accelerated companies' plans to leverage the promises of digital technology.

M&A will continue to be a powerful tool in that quest--whether it's for companies seeking to offer new capabilities to existing clients or to expand their reach into new markets or both.

History suggests that buyers with the means to continue acquisitions through short-term dips stand to gain significant long-term advantages. And the technology services M&A market of 2023 will present a unique opportunity for buyers to pick up a level of value likely well out of reach for most buyers during the unprecedented valuations of 2021 and early 2022.

The days of lofty valuations are likely behind us for the time-being. Still, it is important for would-be sellers to keep this recent reset in perspective. Despite the rapid drops of H2 2022, average deal value for the year (\$87MM) still mirrors the historic 2018 and 2019 averages of \$83MM and \$95MM respectively.

Overall, the technology services M&A market has demonstrated impressive resilience in the face of multiple macroeconomic pressures, and every sign indicates it will continue to do so. So we expect to see deal activity to spike once again in late 2023.

Sellers with perspective, an intelligent plan and even smarter execution can expect plenty of solid opportunities.

About

About BMI Mergers

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

Matt Tortora brings over seventeen years of business ownership, sales leadership, and consulting experience in the software and technology services sectors. He has founded three companies and held strategic leadership positions at growth stage B2B software 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.

Contact



Matt Tortora

Managing Director - Technology Services
BMI Mergers
E: mtortora@bmimergers.com

Web: bmimergers.com/industry/software-technology

Chicago:

125 South Wacker Dr., Suite 300
Chicago, IL 60606
312.702.2611

Philadelphia:

One Liberty Tower
1650 Market Street, Suite 3600
Philadelphia, PA 19103
215.240.7648