



BMI Mergers &
Acquisitions

Technology Services M&A Market Report

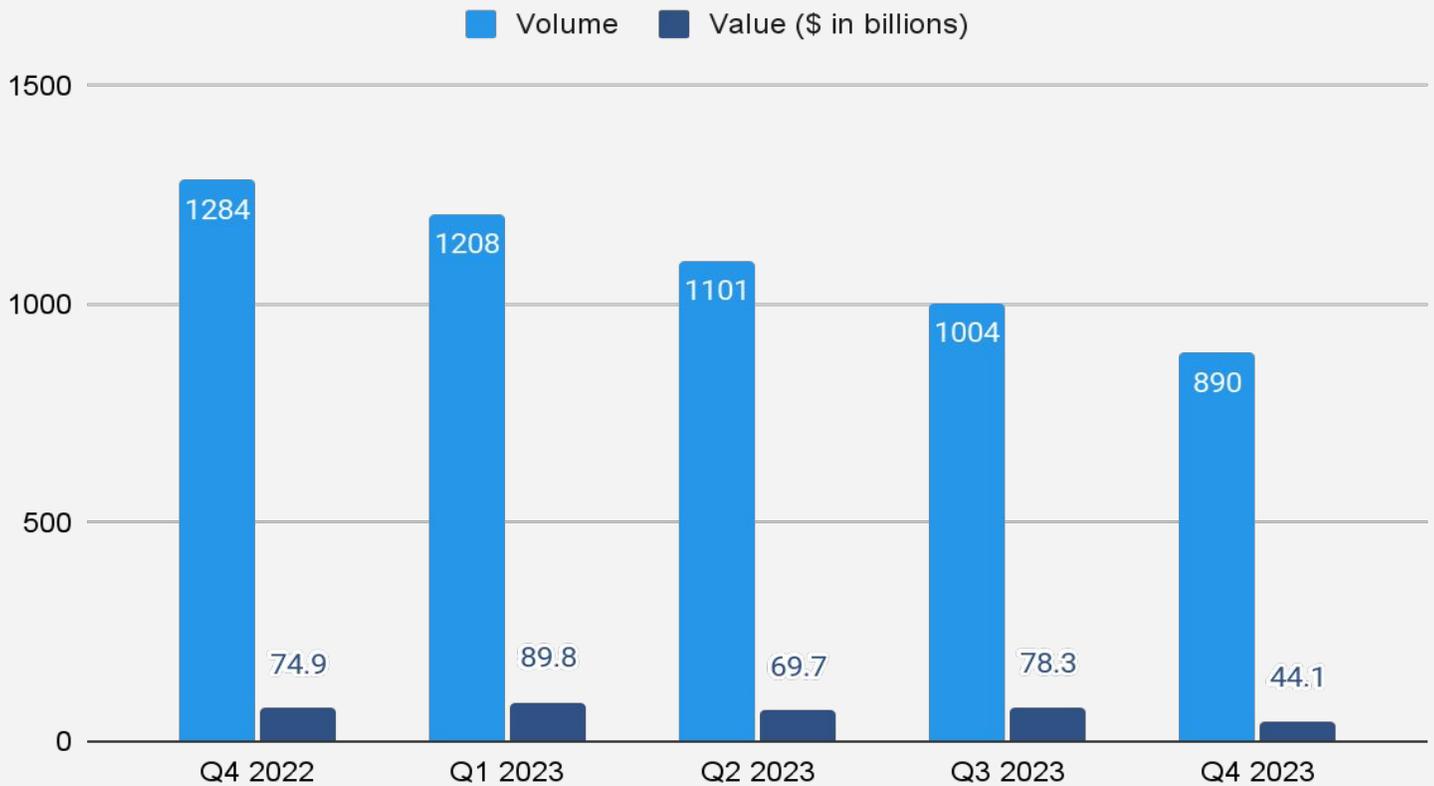
Q1 2024

Introduction

The IT consulting and services M&A market was a complex dance of restraint and aggression in 2023.

Economic uncertainty, market volatility, higher interest rates, and increased scrutiny of value and profitability softened overall deal volume and valuations.

Technology Services M&A Deal Volume and Value in 2023



Activity drivers included:

- Digital Transformation Acceleration** - Organizations continued to invest in upgrading their IT infrastructures, which drove the acquisition of companies with the requisite capabilities, especially those specializing in cloud computing, cybersecurity, and AI.
- Private Equity Participation** - With substantial capital at hand, PE firms pursued acquisitions of high-potential IT services companies, particularly in the sectors of cybersecurity, cloud and data analytics,

and artificial intelligence which added competitive pressure and drove up valuations for the most popular targets.

- **Cross Border Transactions** - Domestic vendors that specialize in emerging technologies and are familiar with local language and culture have been primary targets for regional consolidation or for acquisition by global companies. European companies accounted for the most cross-border transactions (51%), driven by plays to acquire customers (Germany, UK, and France) and software talent (Central and Eastern European countries).

Valuation Trends

The global mean for IT Service company valuations were 1.6x revenue and 7.7x EBITDA in 2023.

Overall, the year's multiples reflect a roughly 45% drop in technology valuations from the record highs of the previous two years. Specifically venture capital, private equity, and growth equity-backed companies' median exit prices fell 30% below their last funding round—a steeper drop than in the first half of 2023 and in sharp contrast to valuations of 2021 and 2022.

The comparatively low growth / high interest market of 2023 pushed investors toward acquisitions with lower risk, resulting in signs that buyers may be broadening their appetites in the mid-market.

No surprise then that IT Services sub sectors with high growth potential, recurring revenue models, and technical talent hard to find elsewhere commanded premium multiples. Most notably in areas including:

- **Cybersecurity** - The rise of cyberattacks, evolving government regulations, and companies' prioritizing the safeguarding of data and operations have driven demand for specialized solutions and infrastructure.
- **Cloud Computing** - The pandemic-accelerated migration to cloud-based infrastructure and services sparked an unprecedented demand for expertise in the space. It has also emerged as a key enabler of innovation in data, analytics, AI, and IoT.
- **Artificial Intelligence** - The potential for AI to automate operations, improve efficiency, and gain insights was not lost on businesses in 2023, as organizations with strong AI capabilities demonstrated a competitive advantage.
- **Analytics** - Increasing awareness of IoT devices among organizations, the need to manage growing workloads with minimal infrastructure, and the push to make faster and smarter business decisions are all driving growth in this sub sector.



Public Market Basket

Valuations for publicly traded technology services companies softened significantly. Discounted public multiples yield a median revenue multiple of 1.95x and a median EBITDA multiple of 11.16x, down 30% and 66% from Q1 2023 medians respectively.

Company	Ticker	EV/Revenue	Δ Q1 2023	EV/EBITDA	Δ Q1 2023
Accenture	ACN	3.61	-6.83	21.92	-49.78
Cognizant	CTSH	1.95	-4.04	11.16	-21.49
Infosys	INFY	4.4	-11.44	19.39	-45.45
DXC	DXC	.55	-2.07	7.65	-9.63
CGI	GIB	1.95	-4.63	9.97	-24.27
Median		1.95		11.16	

Acquisition Activity

While M&A activity in Q1 2024 was roughly on par with Q4 2023, deal volume dropped steadily the remainder of the year. Overall, 2023 witnessed 21% fewer deals than 2022.

Bucking the trend were strategic buyers seeking specific acquisitions, with corporates like Accenture, and Deloitte leading the fray. Their most desirable targets offered immediate technological synergies, access to new market segments or capabilities, and/or promised differentiation through niche specialties.

Private equity firms also deployed their deep pockets to partake in the digital transformation mega-trend. Yet unlike the halcyon “growth-at-any-cost” days two years prior, PE technology deals in 2023 favored add-on rather than transformative platforms, took longer to close, and demanded more creativity and customized structures.

Despite the decline in activity, the volume of IT Services M&A deals alone accounted for 10% of total global M&A activity. Technology as a whole continues to record the highest number of deals in both value and volume across sectors.

Select Transactions

Sikich acquires Four Leaf

Sikich, a global company specializing in technology-enabled professional services, acquired Four Leaf LLC, a technology services firm leveraging scalable software solutions to rapidly deliver user-friendly applications to state and local government entities and their constituents. Sikich's Mike Kean said the acquisition was a key step toward expanding the company's offering in the government sector and broadening its capabilities to help "clients succeed as they confront constantly changing technology needs."

VC3 acquires FPA Technology Services

VC3, a North American managed service provider serving municipalities, financial services organizations, and commercial businesses, acquired the Los Angeles-based outsourced service provider FPA Technology Services. The acquisition will expand the company's footprint in the California market.

The 20 acquires 3i International

The 20 MSP, a managed service provider with offices spanning the United States acquired 3i International, a managed IT services provider

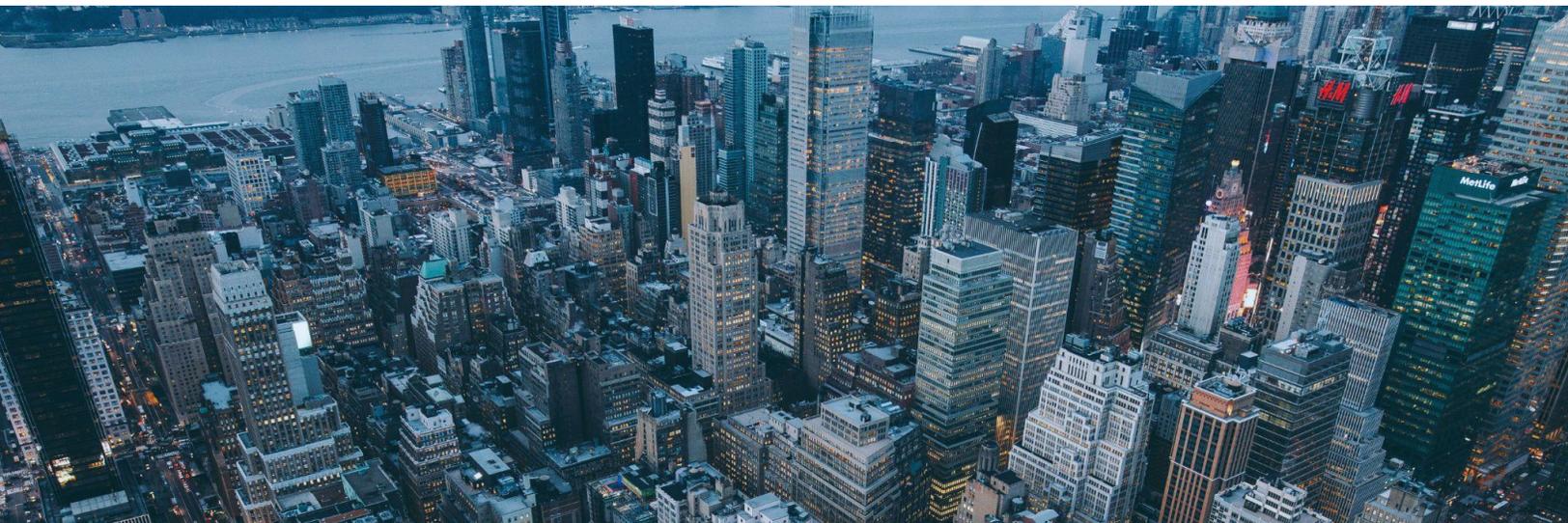
serving clients in the Houston and Dallas areas. 3i International rose to prominence as a member of The 20's peer group, leveraging The 20's growth platform to evolve into a notable Texas based MSP. The acquisition deepens The 20's national footprint while extending its reach in several key markets.

Encora acquires Excellerate

Encora, a product engineering provider, acquired Excellerate, a global technology solutions and services company. The acquisition enhances Encora's capabilities in AI, Analytics, and Automation, and deepens Encora's industry expertise in HealthTech, FinTech, and InsurTech. With Excellerate's 1,300+ engineers, Encora expands its global talent pool to over 9,000 engineers.

Tetra Tech acquires LS Technologies

Tetra Tech, a provider of high-end consulting and engineering services, acquired LS Technologies, a U.S. federal enterprise technology services and management consulting firm. LS Technologies brings added capabilities, resources, and new federal clients to Tetra Tech's Federal Information Technology (IT) practice.



Historical IT Services M&A Deal Volume

Year	# of Deals	Value of Deal (\$ in BNs)	Avg. Value of Deals (\$ in BNs)
2020	4,692	570	.121
2021	5,864	716.1	.122
2022	5,089	445	.087
2023	4,203	282	.067

Conclusion

Looking ahead, expect renewed activity in technology services M&A as the march toward digital innovation and transformation continues unabated, and savvy buyers with funds to deploy hunt for assets to help them capitalize on the trend.

As a result, we expect valuations to stabilize, favoring companies that demonstrate scalability, innovation, and alignment with emerging technologies like AI, big data analytics, and cloud consulting. Robust competition for quality assets is therefore a safe bet, with a mix of strategic and financial buyers driving the M&A landscape.



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

Charlotte:

3440 Toringdon Way, Suite 205
Charlotte, 28277
312.702.2611

Philadelphia:

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