



**IT & Technology  
M&A update**  
Quarter 4 2023

# Lexington's key highlights

## Continued slowing down of deal activity seen in Quarter 4

- In Q4, we saw a total of 118 deals complete in the IT & Technology sector. This marks the continuation of the downward trend of deal volumes seen throughout 2023 across the M&A market as a whole<sup>[1]</sup> but the sector still saw deal levels above that of pre-pandemic levels.
- The Bank of England raised the UK base rate to 5.25% in August and it has remained at this rate through to the end of 2023. The persistent downward pressure on deal volumes seen in the final quarter is likely a consequence of this prolonged tightening of monetary policy. However, with inflation beginning to stabilise, we expect to see a relaxation of monetary policy moving forward which in turn should further increase confidence in the markets and fuel deal activity in the sector.
- We believe that signs of this confidence are beginning to move through the market. We saw this in two areas as the median deal value in Q4 was up to £12m from £10m in in Q3 (the highest it has been all year) and our own listed valuations market index moved above 15x EBITDA .
- Private Equity platform investments reduced after a flurry of activity in Q3, but we have seen a subsequent increase in the number of PE bolt-on's during the year as these platforms look to deepen and expand their service offerings.
- Looking ahead to 2024, we envisage the political landscape to be one of the defining factors that will shape the level of deal activity in the sector. The UK election later this year will bring with it talk of a rise in Capital Gains Tax, so we expect to see increased activity in 2024 as Shareholders potentially look to mitigate any rate increase. The US election in November will also have a part to play in US driven activity as eyes turn inwards towards the expected Biden v Trump face-off.
- In conclusion, we feel that the balance of all the above factors suggests that 2024 should lean towards a higher level of deal flow for the sector in 2024.

Downturn from 2021/2022 peaks but above pre pandemic levels

Total publicly disclosed deal value exceeds £3.3bn

Software development and Cyber Security remain buoyant subsectors

Increase in median deal value and listed parties suggests confidence returning

### Lexington's IT & Technology M&A team



**Nigel Griffiths**  
Commercial Director



**Thomas Edwards**  
Director



**Charles Lesbirel**  
Senior Associate



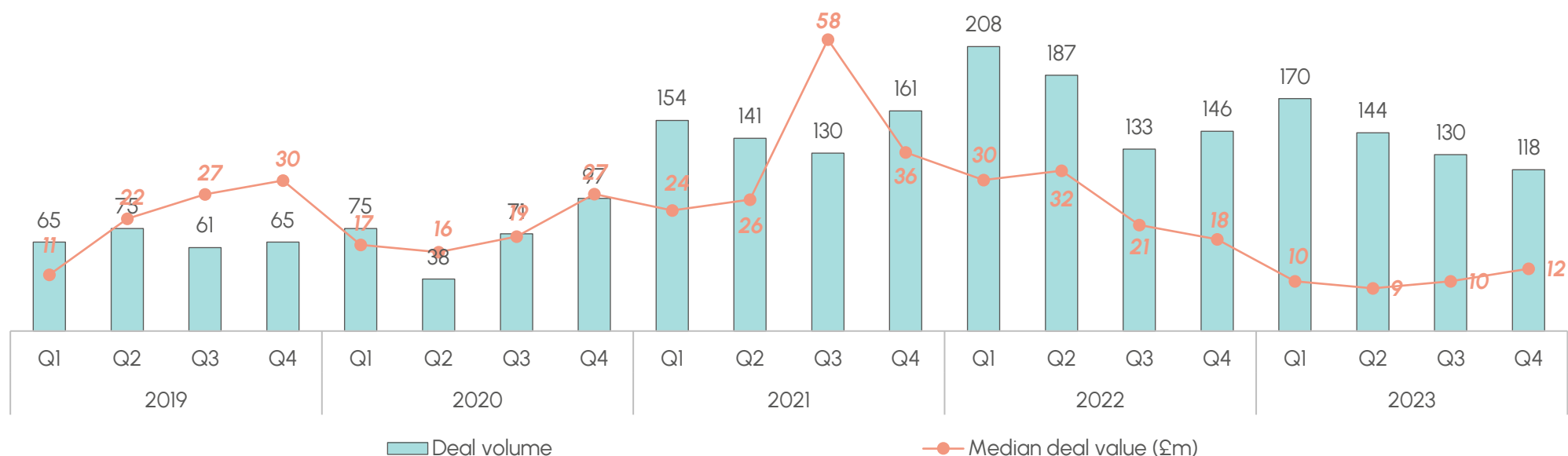
**Jade Burgess**  
Senior Associate



**Ioan Brigden**  
Associate

# Quarterly activity snapshot

Uptick in median deal value despite downward trend in volumes

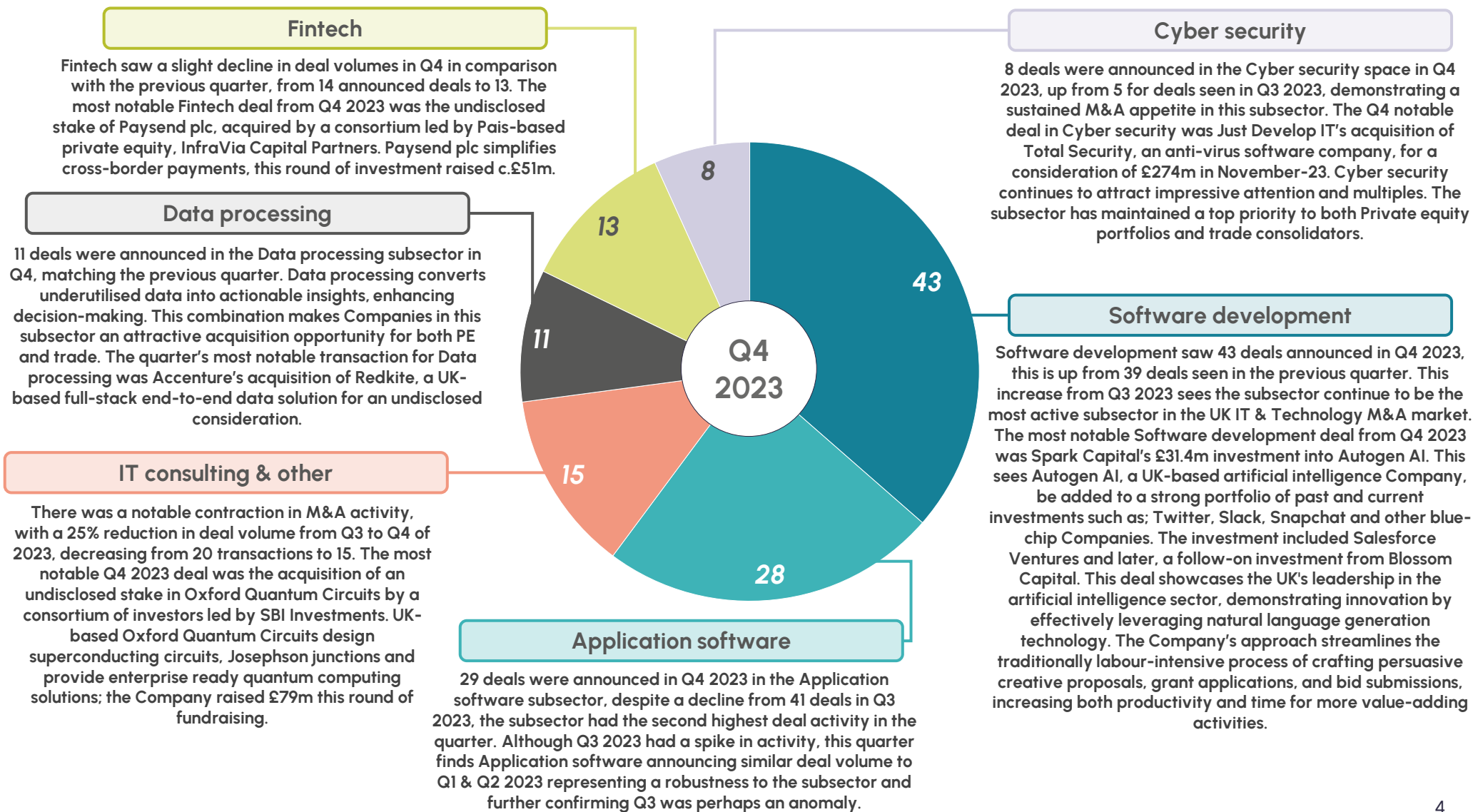


## Key themes:

- Deal volumes continued to fall in Q4, with a total of 118 completed deals. This represents a 19% reduction in volumes from Q4 2022, and a reduction of 29% from Q4 2021 but was still above those saw pre-pandemic.
- The median average of the publicly disclosed deal values in Q4 equated to £12m, marking a £3m improvement from the lows seen in Q2, as well as the highest median deal value seen across the four quarters of 2023. Implying that valuations are beginning to resurge, which is also demonstrated in our benchmark multiples analysis of quoted companies in the sector on slide 12. The average LTM EBITDA multiple of our sample of quoted companies improved from 14.7x in Q3, to 15.8x in Q4.

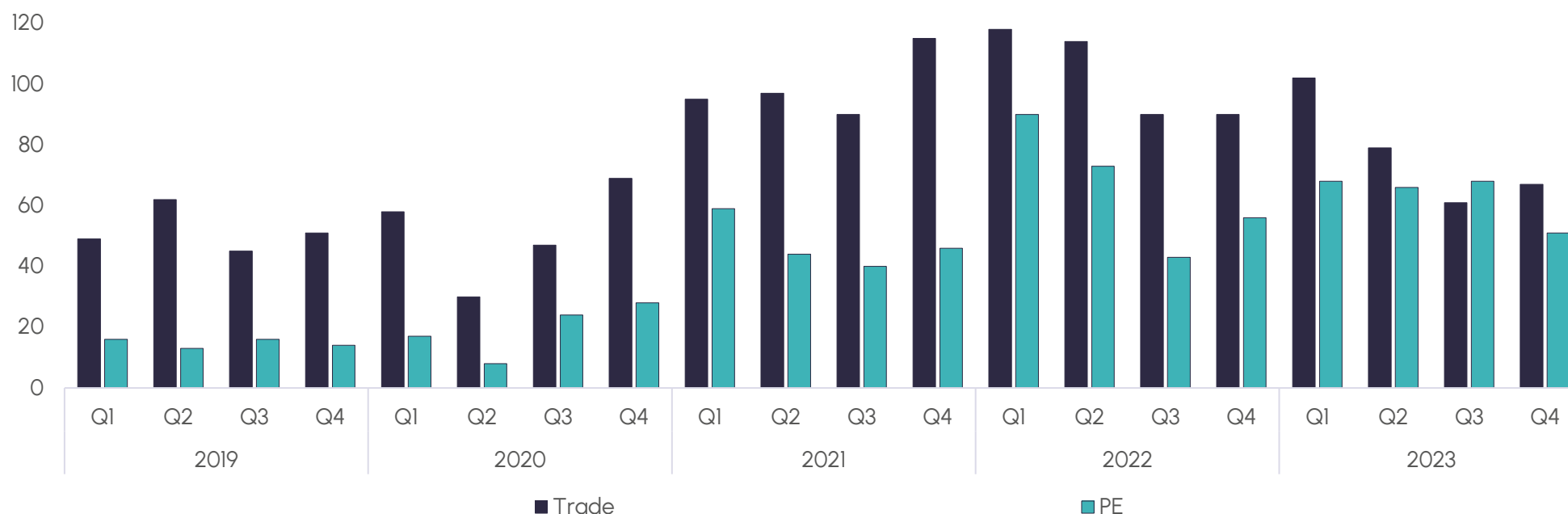
# IT & Technology M&A sub-sector analysis

Continued growth seen in the number of cyber security in deals in Q4 2023, despite M&A appetite cooling in other sub-sectors



# Trade v PE

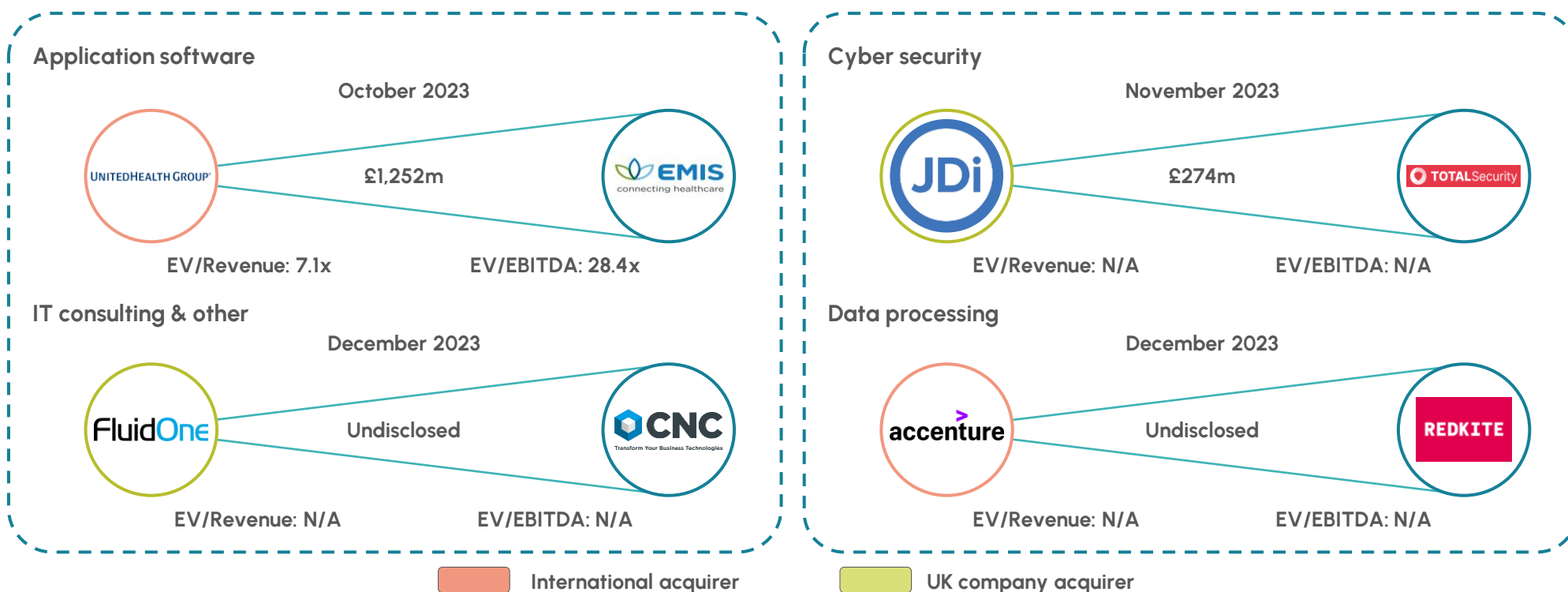
Strategic trade deal volumes up 6.5% in Q4 from Q3



- In Q4 2023, the UK IT & Technology sector announced 118 deals: 66 strategic trade deals and 52 PE deals. Overall deal volumes have decreased by 9% on the previous quarter but remain above pre-pandemic levels. Despite this decrease in overall deal volumes, we have seen multiples in the sector continue to strengthen as the macroeconomic outlook starts to improve and investor confidence returns.
- Private Equity transactions announced this quarter have decreased by 23.5% on the previous quarter, highlighting that Private Equity funds are cautious due to macro-economic hurdles while the climate remains uncertain. The lower ratio of Private Equity transactions compared with trade deals in the sector marks a shift from previous quarters. Trade deals, witnessed a modest 6.5% increase, suggesting the downward trend in appetite from strategic trade stabilised in Q3.
- During the quarter, Private Equity funds continued to grow portfolio companies through ambitious acquisition strategies. For example, BGF invested in Purple Wifi, a platform provider for WiFi social login and location analytics, for a consideration of £10.5m. Other notable Private Equity transactions include Soho Square's minority growth investment in Assured Data Protection, a managed service provider focused on backup and disaster recovery using Rubrik software.
- Despite economic factors faced in the UK during the year, IT & technology remains an active sector for M&A. With strong multiples in the space (page 10), we are optimistic that deal opportunities will start to increase in the coming months, aiding the M&A market recovery into 2024.

# Notable transactions – Trade

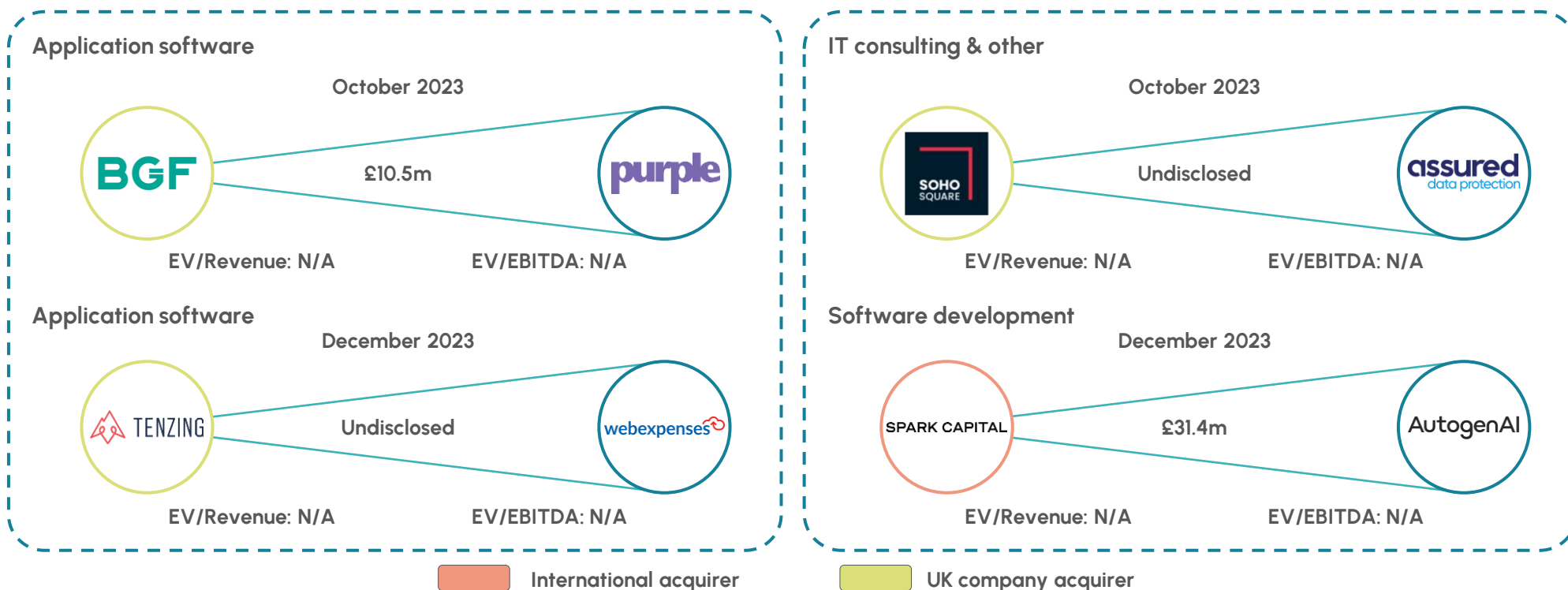
## Recent strategic trade acquisitions in the UK IT & Technology sector



- The acquisition with the largest publicly disclosed deal value in Q4 was UnitedHealth Group's take-private of EMIS Group plc, a leader in providing connected healthcare software, for £1,252m. Which centres the combined group at the forefront of healthcare technology innovation in the UK. The revenue and EBITDA multiples for the acquisition were 7.1x and 28.4x, respectively. The deal also marks one of six take private acquisitions in the sector in Q4. The popularity of take private transactions seen in 2023 is potentially a consequence of the overall stagnation seen in UK indices over the year, making companies on both LSE and AIM attractive in value for trade acquirers.
- Other notable deals include FluidOne's third acquisition in the IT consulting subsector for the year of Brighton based Computer and Network Consultants. Further strengthening FluidOne's IT consulting solutions. The Cyber Security subsector continues to be a hotbed for deals, demonstrated by Just Develop IT's acquisition of Total Security which represents one of the largest deals from a UK acquirer in the quarter with a deal value of £274m. Accenture rounded up the year with its acquisition of Redkite Data Intelligence. Which is Accenture's third deal in the IT & Technology space in the UK, suggesting the UK continues to be a geographic region of interest for the Company.

# Notable transactions – Private Equity

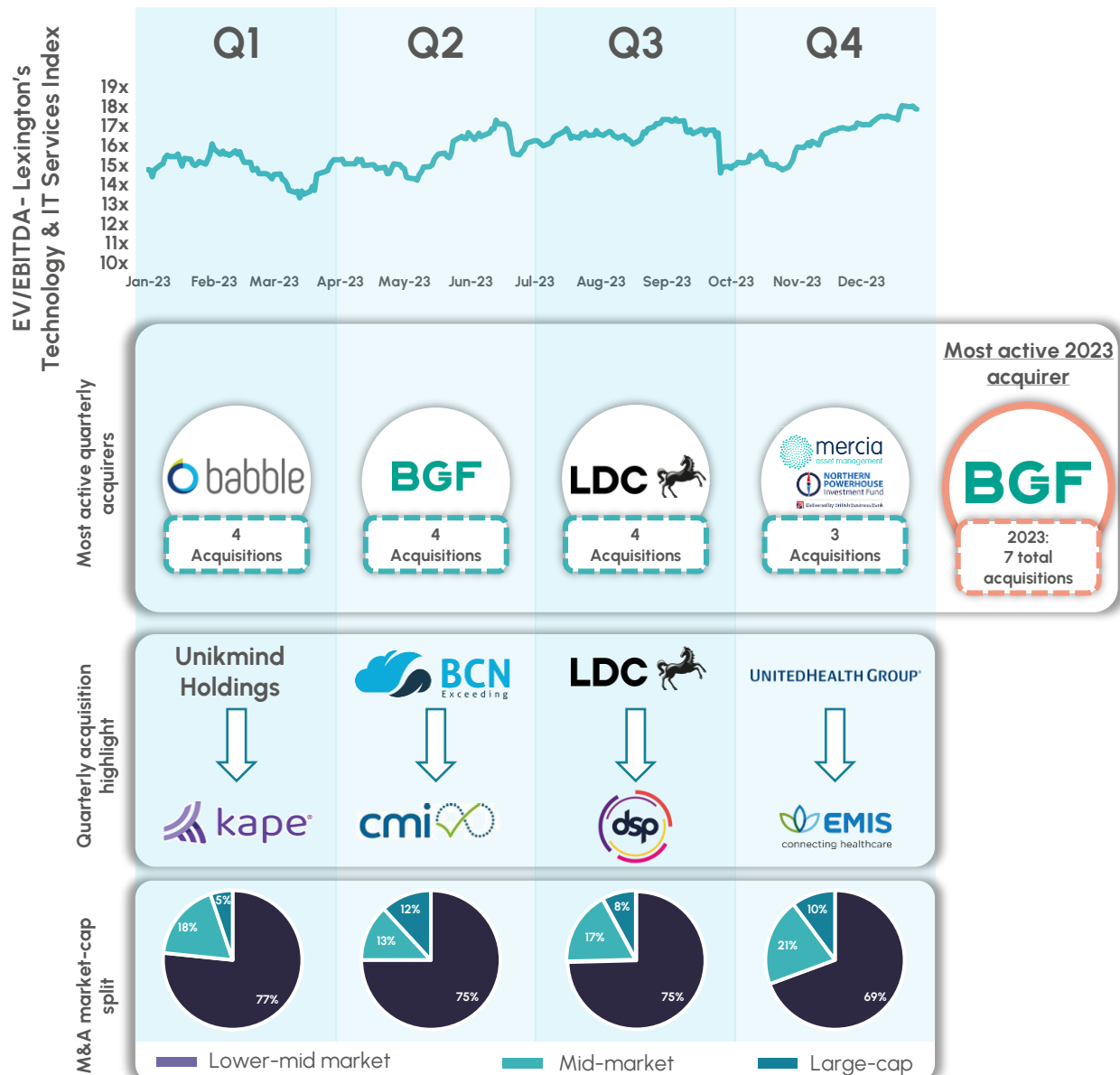
## Recent Private Equity deals in the UK IT & Technology sector



- 52 Private Equity investments took place in Q4 with a total publicly disclosed deal value exceeding £1,300m. Of the investments with publicly disclosed deal values, over 70% took place in the lower mid-market. Investments involving targets in the software development and application software spaces accounted for 33 of these 52 completed investments.
- In the quarter, BGF invested Purple Wifi, a platform provider for WiFi social login and location analytics, for a consideration of £10.5m. Alongside this investment, BGF was active in the sector with a couple of exits. The first being its exit from Instem plc, a provider of life sciences software solutions, to ArchiMed in November. BGF was the second largest shareholder in Instem with an 8.5% stake. The second exit was the MBO of Antser Group, a leader in tech innovation and solutions for social care, which was backed by YFM.
- Other notable deals include Soho Square's minority growth investment in Assured Data Protection, a managed service provider focused on backup and disaster recovery using Rubrik software. Whilst Tenzing expanded its SaaS portfolio through its investment in Webexpenses, a provider of expense management automation software.
- Overseas investment continued to be prevalent in Q4. Demonstrated by Boston based PE and VC, Spark Capital, leading the Series B fund raising round for AutogenAI, a developer of AI-based writing tools. Raising a total of £31.4m during the round.

# 2023 – Key takeaways

562 transactions in the Technology & IT Services sector



## 2023 at a glance

2023 for Lexington's Technology & IT Services Index started at a strong 14.7x EV/EBITDA multiples. The Index had a robust performance, finishing 2023 at a yearly high of 17.9x.

Each quarter saw a different leading acquirer, with Private Equity outpacing Trade Consolidators, despite the challenges and complications from macro-economic factors affecting Private Equity firms. This confident appetite breathes cautious optimism from many consolidators and is considered a positive for UK M&A activity.

In 2023, BGF emerged as the most active investor in the Technology & IT Services sector, with significant investments in digital transformation and software. Notably, their investment in Voicescape, a voice technology solution prevalent in social housing, underscores BGF's commitment to technology that has substantial ESG impact.

Lower-mid market has made up the majority of the transactions completed in 2023; 74% of the deals have been lower-mid market. Large cap deals have been the minority of the activity in the UK however have been consistent quarter-to-quarter.



# What will 2024 hold?

## Our predictions for the IT & Technology sector in 2024

### Predicted hotspots for deal activity



#### Cyber Security

Cyber-attacks continue to be an increasing problem in the UK for companies of all industries as cybercriminals exploit new vulnerabilities in areas such as the cloud, making cyber security services more important than ever. Therefore, we expect deals involving Cyber Security targets to remain buoyant in 2024.



#### Artificial intelligence

The UK has a thriving AI ecosystem with a number of big-ticket deals occurring in 2023, notably Microsoft's strategic investment in Builder.ai in March 23. The UK Gov has also shown commitment to supporting AI research with £1bn<sup>[1]</sup> of funding pledged in March 2023, suggesting an increase in deal volumes in 2024.



#### IT consulting

As companies across various industries undergo digital transformation initiatives, there is an increasing demand for IT consulting services. This increasing demand may drive deal activity in 2024 as consulting firms look to expand their capabilities to meet client needs.

### Key factors that will shape the market



#### The 2024 US & UK elections

Election periods inherently bring uncertainty into the markets which may stifle deal activity in 2024. However, speculation around changes to US tax policy with a potential Trump second term, and speculation around CGT policy may result in a spree of activity as vendors look to take advantage of the existing tax rates and reliefs.



#### Monetary policy & debt markets

The BoE has kept the UK base rate at 5.25% since August making financing deals more costly in 2023. However, with inflation beginning to stabilise, we expect to see a relaxation of monetary policy moving forward which in turn could increase confidence in the markets and reignite deal activity in the sector.

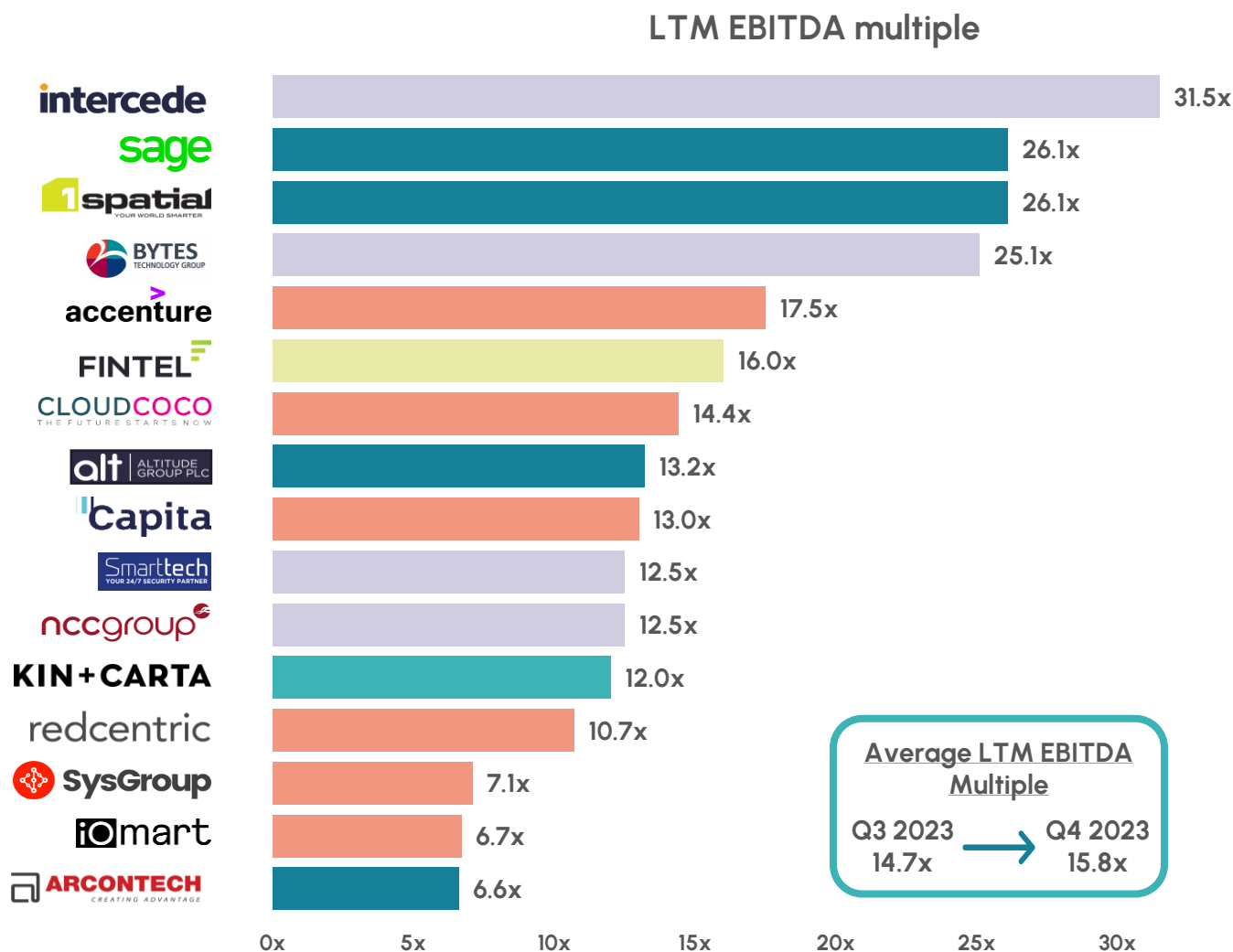


#### Skill shortage

The skills gap in the UK IT & Technology sector continues to persist, with particular shortages seen in the IT support services and Cyber Security<sup>[2]</sup>. As a result, we may see increased levels of consolidation in the market in 2024 as an inorganic means of acquiring talent, allowing acquirers to grow and scale.

# Quoted company benchmark multiples

The listed companies in the UK that are active in the IT & Technology sector



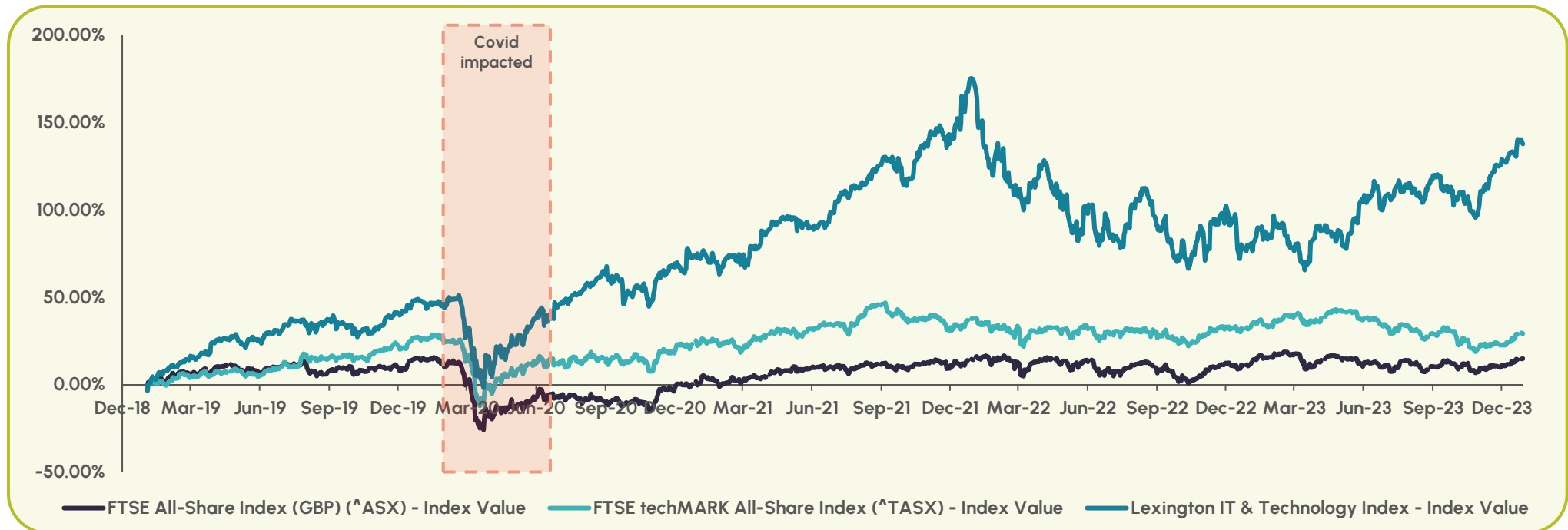
## Overview

Lexington has identified 16 publicly traded IT & Technology firms in the UK and Ireland. The data shows that most cyber security multiples have grown with Intercede and Bytes growing by 61% and despite a slight decrease in multiples in the X space, the average LTM EBITDA multiple has grown from 14.7x in Q3 2023 to 15.8x in Q4 2023. This increase in Q3 multiples has been underpinned by the impressive growth and performance of companies in the sector this quarter.

● Cyber security ● Software development ● Application software products ● IT consulting and other ● Fintech

# Tech v FTSE index

The IT & Technology sectors continues to be one of the UK's outperforming industries in Q4 2024



- The above graph illustrates how the IT & Technology market has performed against the market as a whole. We have compared the performance of the FTSE techMARK All-Share Index and our own tech index (which includes the 16 quoted companies, see page 12) against the FTSE All-Share Index. The techMARK All-Share Index tracks the performance of all quoted large cap to lower mid-market IT and technology companies included in the Financial Times Stock Exchange Group (FTSE).
- In Q4, the Lexington IT & Technology index saw a significant increase, rising by over 30%, compared to the FTSE all-share index which rose just about 3%. The tech market usually follows the broader market's movements, at an increased value, but the Lexington IT index showed a pronounced sensitivity to the Q4 rally, climbing tenfold relative to the all-share index. Suggesting continued confidence in the IT & Technology industry

# Who we are

Corporate Finance advisory boutique with focus on the IT & Tech mid-market



An entrepreneurial, corporate finance advisory boutique, providing hands-on, trusted advice to businesses, owners and investors with growth, succession and buyout ambitions.

[www.lexingtoncf.co.uk](http://www.lexingtoncf.co.uk)



# Feedback from the clients we work with

We are really proud of the testimonials we receive from our clients



*Lexington advised the shareholders of Evo-Soft, a Microsoft Dynamics 365 specialist, on its sale to BCN Group*

"The BCN acquisition provides a true opportunity for Evo-Soft to continue its growth as a leading Microsoft Dynamics 365 Business Central solutions provider, and represents a huge milestone in Evo-Soft's successful history. Lexington's services have been invaluable to us throughout every step of the sale process, and I'd have no hesitation in recommending them or using their services again."

**Ashley McIntyre,  
Managing Director**



*Lexington advised the shareholders of Redcortex, a digital transformation consultancy, on the sale to TPX Impact PLC*

"Lexington really helped us through this process, providing invaluable advice at every step and helping make sure we achieved a good valuation for RedCortex. The Lexington team made sure the transaction ran smoothly and kept us informed at every stage."

**Martin Britton,  
Executive Director and Founder**



*Lexington advised the shareholders of DevOpsGroup, a cloud services consultancy, on the sale to Amdocs*

"Lexington were an excellent corporate finance partner. They took time to understand what support and guidance we needed, and provided invaluable advice throughout the process. The team were professional and easy to work with, always available when needed and the clear and frequent communication throughout, delivered an extremely successful outcome for DevOpsGroup."

**James Smith,  
Chief Executive**



*Lexington advised the shareholders of CashCalc, a cashflow planning provider, on the sale to FE fundinfo (backed by HG Capital)*

"We're delighted to join the FE fundinfo family and we'd like to thank Lexington for all the work they put into making this happen. Thomas and Pablo were both efficient and effective and we would highly recommend them. Everyone at CashCalc is incredibly excited, so a big thank you from all of us."

**Ray Adams,  
Director and Founder**

# lexington



**Nigel Griffiths – Commercial Director**  
ngriffiths@lexingtoncf.co.uk  
07771 756 032



**Thomas Edwards – Director**  
tdmedwards@lexingtoncf.co.uk  
07432 053 868



**Charles Lesbirel – Senior Associate**  
clesbirel@lexingtoncf.co.uk  
07539 986 698



**Jade Burgess – Senior Associate**  
jburgess@lexingtoncf.co.uk  
07377 500 976



**Ioan Brigden – Associate**  
ibrigden@lexingtoncf.co.uk  
07940 162 664

If you would like to learn more about our services and how we can assist you in your growth journey or exit, please don't hesitate to get in touch with any member of our technology team