

IT & Technology M&A update Quarter 2 2024



Lexington's key highlights

Strong uptick in deals seen in the second quarter of 2024

- The second quarter of 2024 saw a total of 164 deals complete in the UK IT & Technology sector, marking an 11% uptick from the previous quarter, which saw 148 completed deals. The upward trend in deal volumes continues for the second consecutive quarter, which is perhaps indicative of growing confidence in the wider M&A landscape in light of anticipated lowering of interest rates and wider market confidence.
- Both strategic trade and Private Equity continue to consolidate and deploy capital at increasing levels in the sector, with 86 and 78 completed deals, respectively. A number of flagship deals took place in the quarter, including US-based Entrust Corp's acquisition of identification specialist, Onfido, for a consideration of £513m, and HgCapital's significant investment in Focus Group which reportedly valued the Company at over \$1bn, which provided an exit for Bowmark.
- Overall, Q2 2024 has successfully built on the strong deal volumes seen in Q1 in this sector and has delivered the volumes seen in the second quarter in 2 years. As predicted in our Q1 2024 report, the adoption of enterprise and digital workflow platforms, such as ServiceNow and Salesforce, has made partners of these platform providers attractive targets to large trade consolidators and PE alike due to their fast scale up potential and extensive client bases – we cover this in more detail later in this report.
- Lexington's outlook for the remainder of 2024 remains positive – Labours focus on digital transformation will help and we also see other key areas such cloud solutions, cyber security, and artificial intelligence showing an increase in deal activity as these services become progressively more integral with companies in all corners of the UK market.
- The major unknown at the moment is what Labour will do with Capital Gains Tax with an announcement expected in the October budget. The heightened uncertainty could lead to a surge in transaction volumes in Q3 as shareholders may seek to exit positions in anticipation of potential CGT rate increases, but it difficult to predict anything beyond that.

164 completed deals in the quarter. 48% of which were Private Equity investments

Total publicly disclosed combined deal value exceeding £14.5bn

Publicly disclosed median deal values fall from £19m in Q1 to £12m in Q2

Highest second quarter deal volume, since Q2 2022

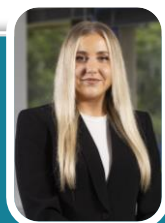
Lexington's
IT & Technology
M&A team



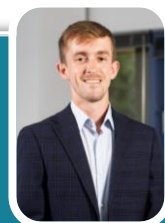
Nigel Griffiths
Commercial Director



Thomas Edwards
Director



Jade Burgess
Executive



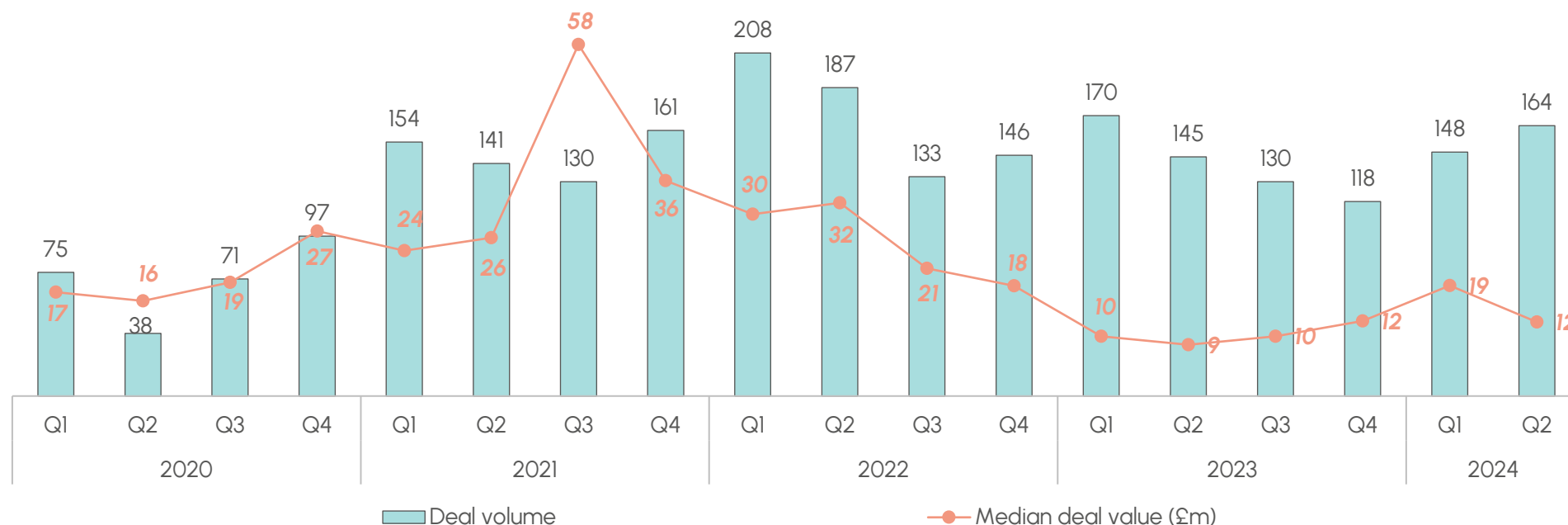
Charlie Lesbirel
Senior Associate



Ioan Brigden
Associate

Quarterly activity snapshot

2024 M&A volume resurgence continues

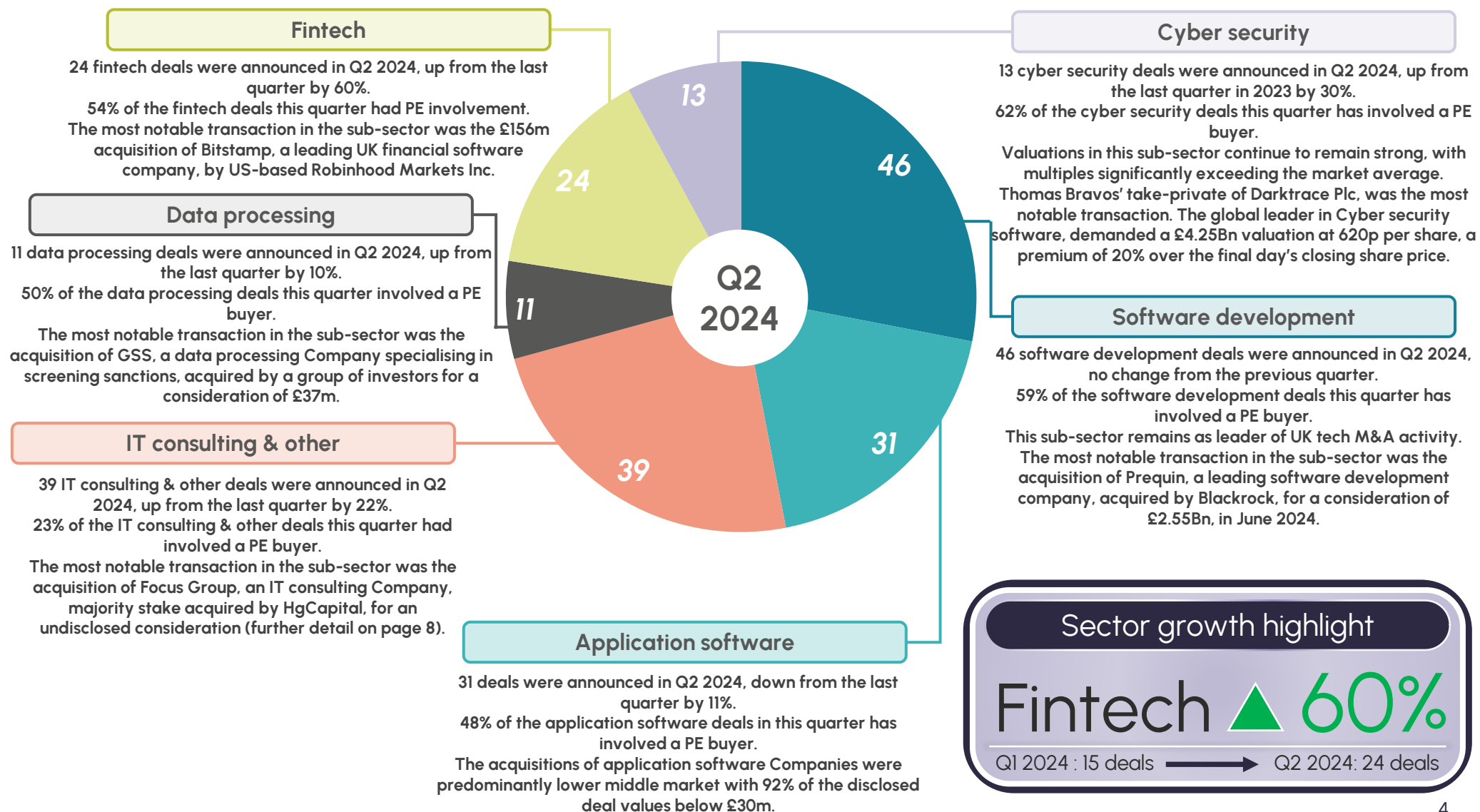


Key themes:

- In Q2 2024, deal volume increased to 164 completed transactions, an 11% increase from Q1 2024 and solidifying the reversal of the downward trend that began in Q2 2023. This uptick can be attributed to a more stable macroeconomic environment, with improved clarity around interest rates and inflation returning to target levels. These favourable conditions have created an improved landscape for companies and private equity funds to strategically deploy their capital and execute M&A strategies effectively.
- In Q2 2024, the median deal value of publicly disclosed transactions fell from £19 million to £12 million, a significant decline. Despite this substantial drop, the median value still surpasses that of Q2 2023 and remains above all quarters of 2023.

IT & Technology M&A sub-sector analysis

IT Consulting & other continues to attract investments



Trade v PE

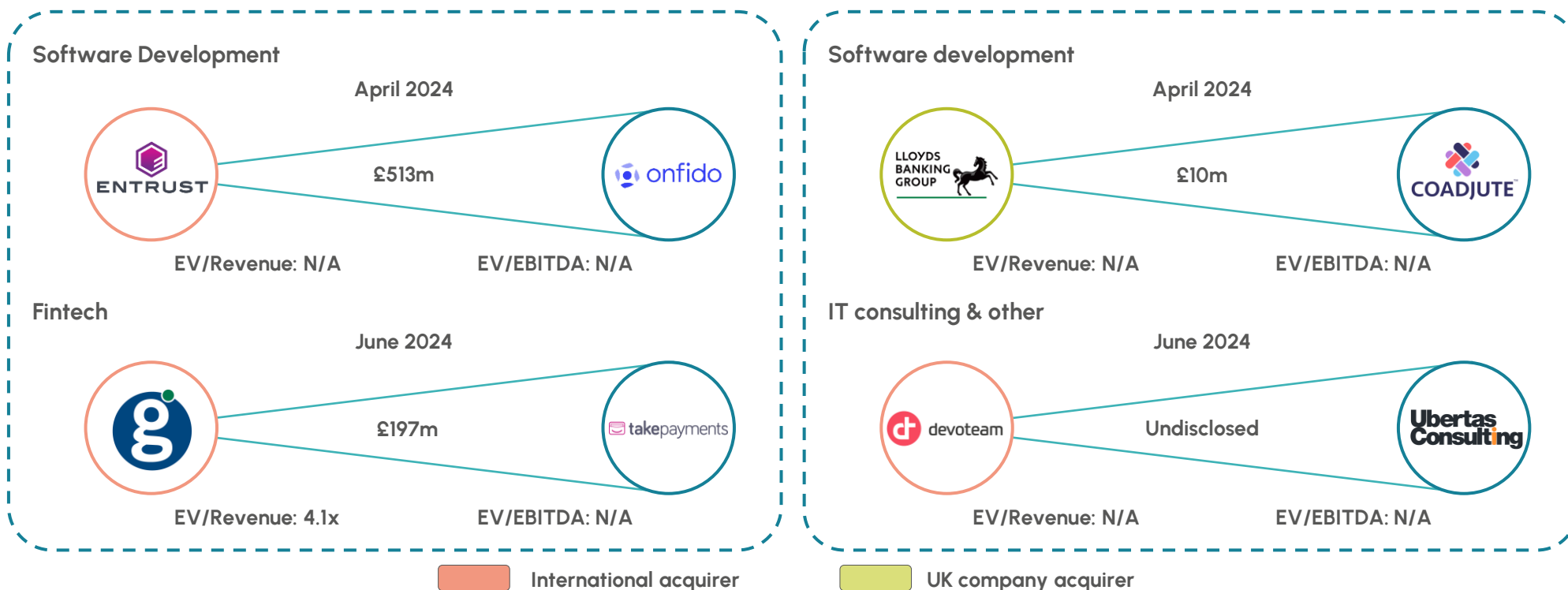
Q2 2024 sees trade and PE volumes remain buoyant over Q2 2023 levels



- In Q2 2024, the UK IT & Technology sector announced 164 deals comprising of 86 strategic trade deals and 78 PE deals. Overall deal volumes increased by 11% on the previous quarter. Strategic trade acquisitions recorded 86 deals this quarter, marking a 6% increase compared to the previous quarter. This growth reflects the sustained return of M&A appetite, reversing the trend of hesitancy toward inorganic growth strategies observed throughout 2023. Notably, IT Consulting & Other acquisitions accounted for 35% of all trade deals and 77% of all deals within the IT Consulting & Other sub-sector this quarter. This sub-sector continues to attract significant interest in consolidation and service expansion, with technology consultancies increasingly leveraging M&A to drive growth and enhance their market positioning.
- Private Equity accounted for 48% of total M&A activity this quarter, executing 78 deals; this is the highest quarterly volume outside of Q1 2022 and an increase of 16% over Q1 2024. This surge reflects the return to confidence among funds in the UK market, which has also drawn significant global interest, particularly from the US and the Middle East. The Software Development sub-sector attracted substantial attention from Private Equity, with 59% of deals in this sub-sector facilitated by these funds. The ongoing appeal of AI and AI-driven companies continues to drive Private Equity investments across various industries.
- This quarter continued the uptick in M&A activity within the UK IT & Technology sector, with 164 deals announced – a clear indication of the sector's continued strength. The 6% rise in strategic trade deals reflects the return of confidence in inorganic growth strategies, particularly within the IT Consulting & Other sectors, which have become focal points for consolidation and expansion. Meanwhile, Private Equity's strong presence, contributing nearly half of all M&A activity and achieving the highest deal volume since early 2022, underscores a robust return of investor confidence, both domestically and internationally. The heightened interest in Software Development, driven by AI and related technologies, further cements the sector's role as a key driver of innovation and investment in the broader market landscape. Together, these trends suggest a promising trajectory for continued growth and strategic evolution within the UK's technology sector.

Notable transactions – Trade

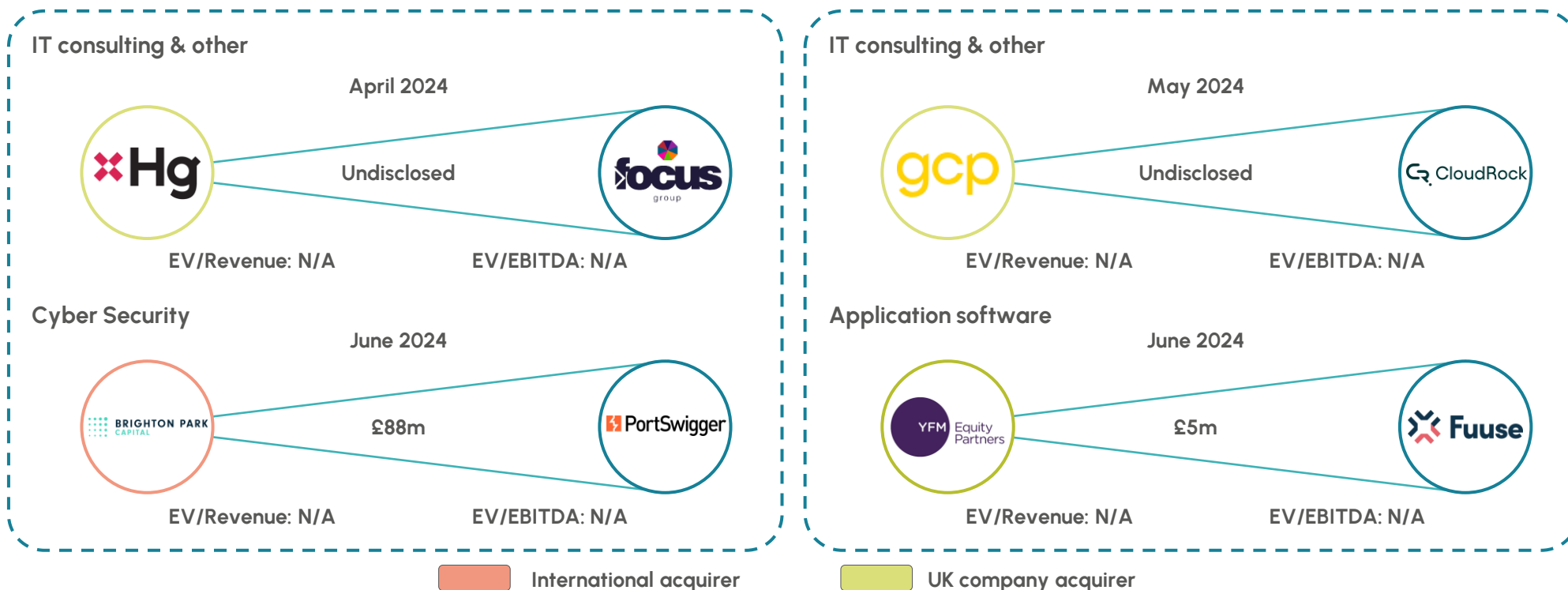
Recent strategic trade acquisitions in the UK IT & Technology sector



- In Q2 2024, 86 strategic trade transactions were completed, an increase from the 81 deals in Q1. International acquirers continue to show strong interest, evidenced by the acquisition of Onfido, a University of Oxford spinout specialising in ID verification solutions, by Minneapolis-based secure payments specialist Entrust Corp. This acquisition, valued at £513 million, stands as one of the largest publicly disclosed deals in the tech space so far in 2024. Onfido's clients include notable companies such as Revolut and Orange.
- Other significant international trade deals that took place in the quarter were:
 - Atlanta-based and NYSE-listed Paytech firm, Global Payments' acquisition of TakePayments, a Stockport-based operator and provider of consumer payment networks. The consideration for the transaction was £197m.
 - French digital transformation specialist and ServiceNow Elite Partner, Devoteam's acquisition of London-based Amazon Web Services (AWS) consultancy, Ubertas Consulting, for an undisclosed consideration. This transaction is an example of the growing demand from global consolidators to tap into the lucrative UK digital transformation market, by acquiring expertise and capability in in areas such as cloud computing and artificial intelligence. This is discussed further in the ServiceNow market focus on pages 8 to 10.
- Another notable transaction that occurred in April was the £10m of funding raised by London-based PropTech firm, Coadjute, led by Lloyds Banking Group.

Notable transactions – Private Equity

Recent Private Equity deals in the UK IT & Technology sector

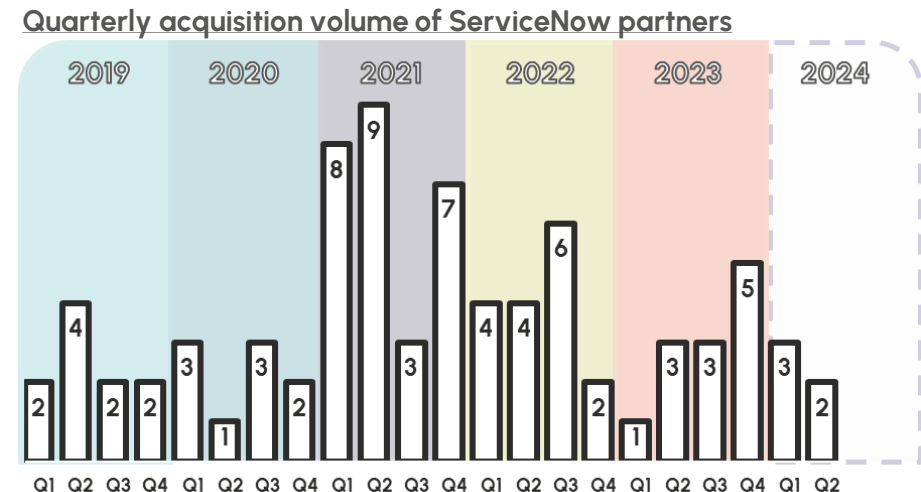
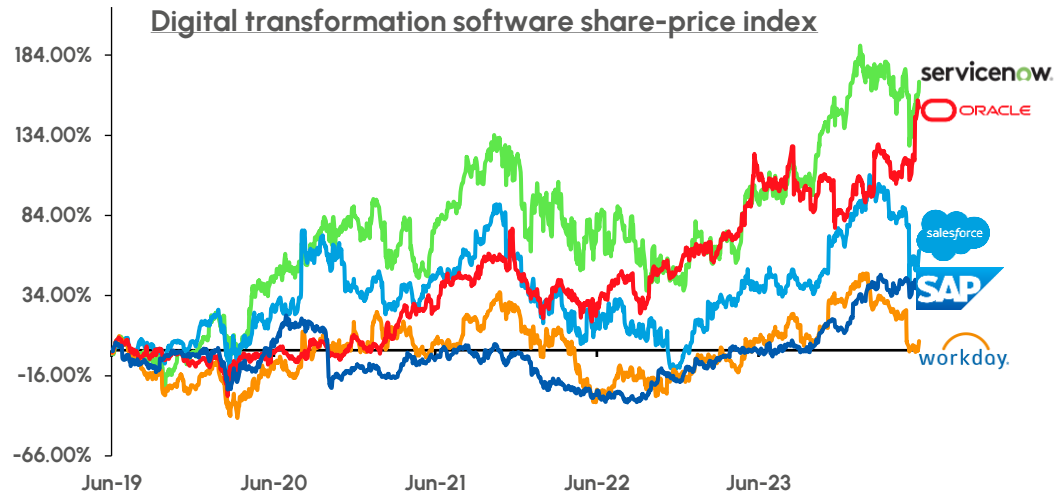


- Private Equity investments in the IT & Tech sector saw a substantial increase in deal volumes from Q1, up by 12 to 78 completed deals in Q2.
- One of the flagship investments of the quarter was Hg Capital's majority investment in Focus Group which has reportedly valued the Company at over \$1bn. Focus Group is a leading provider of digital workplace solutions which at the time of the deal had approximately 30,000 SME customers, revenues in excess of £250m and over 900 staff. The investment marks the exit of Bowmark Capital's 25% stake, which it acquired in 2020.
- Other notable UK-based Private Equity investments in the quarter include Growth Capital Partners' investment in CloudRock, an Enterprise Resource Planning (ERP) and digital transformation business for an undisclosed consideration, and YFM's £5m growth capital investment in Lancaster-headquartered Fuuse. Fuuse is a provider of EV charging software and following this growth capital injection it is now seeking to expand its customer base and increase density in the UK market.
- Connecticut-based Brighton Park Capital's £88m investment in Portswigger demonstrates overseas Private Equity's continued interest in the UK IT & Tech sector. Portswigger is a specialist in developing advanced web application and API security tools. The investment represents Portswigger's first external investment, enabling the Company to accelerate its product development.

Spotlight: ServiceNow M&A

ServiceNow's success drives strategic consolidation among UK partners

- Digital transformation companies have been frequent targets in the UK M&A market. Technologies such as SAP, Amazon Web Services, and Oracle have expanded the digital transformation landscape and created a market for consulting companies to design and implement systems for intricate and unique practices. ServiceNow has recently become a flagship digital transformation software, with regular and innovative updates that have gradually positioned ServiceNow as a market leader.
- ServiceNow's leading performance has been a catalyst for the consolidation of its partners globally (see page 9), particularly seen within the UK market, having several deals occur in 2023 and 5 so far in 2024. Rather than pursuing organic growth, many companies are opting for consolidation to quickly scale their ServiceNow capabilities. As you can see, its leading performance has translated to the significant growth in ServiceNow's share price, placing further confidence in buyers and fuelling ServiceNow partner M&A activity.

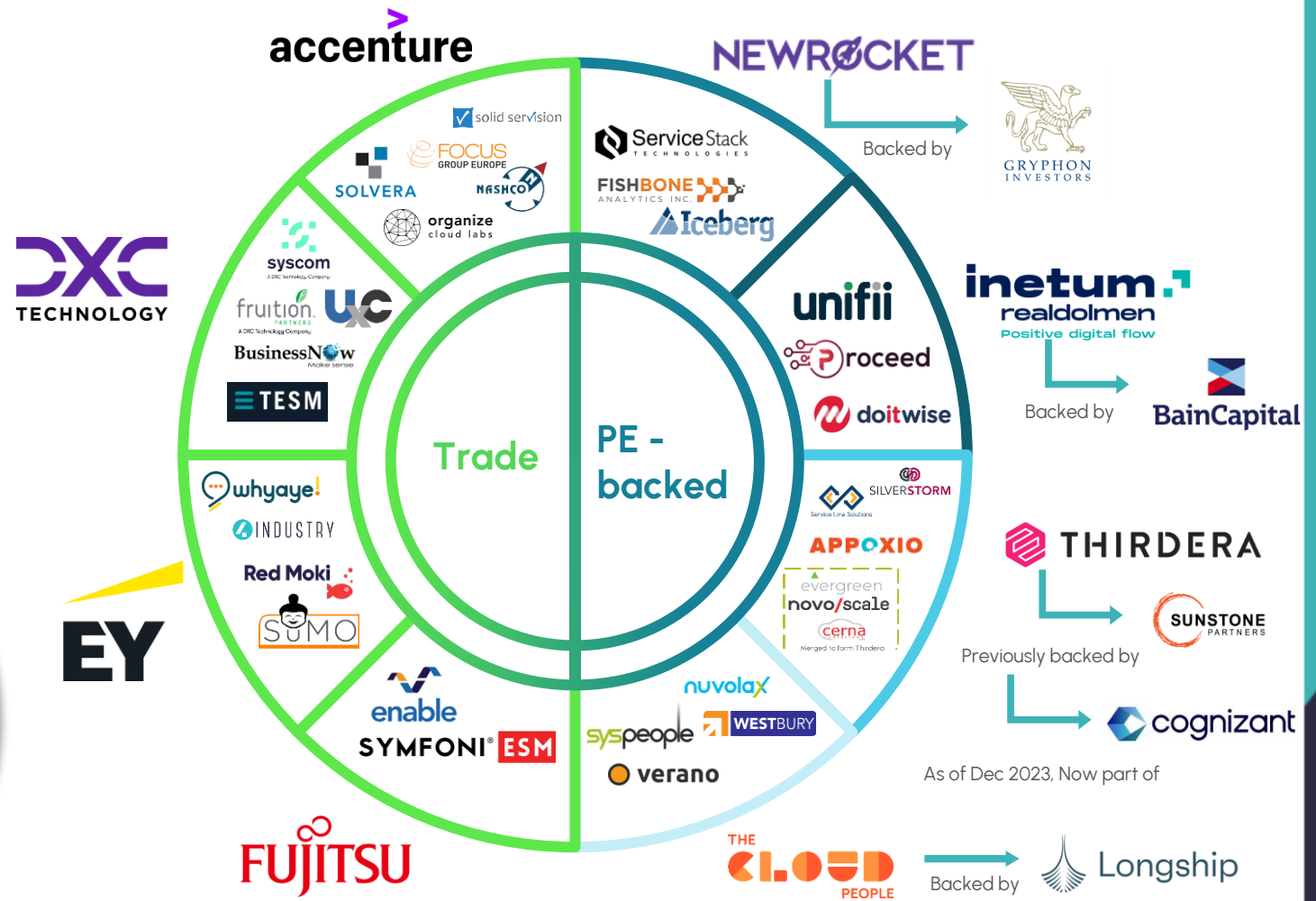


Market focus - ServiceNow

The global ServiceNow partner M&A ecosystem

8 global consolidators actively acquiring ServiceNow targets

31 ServiceNow partner acquisitions by leading consolidators



ServiceNow – UK M&A deals

2023 saw 55% of the previous nine UK ServiceNow partner deals

2017-2022



2023 transactions

inetum.
realdolmen
positive digital flow



unifii

1st Dec 2023
Undisclosed

NTT DATA



sapphire
frictionless digital

8th Nov 2023
Undisclosed

inetum.
realdolmen
positive digital flow



Proceed

27th Sep 2023
Undisclosed

EY



whyaye!

12th May 2023
£23.7m

brillio



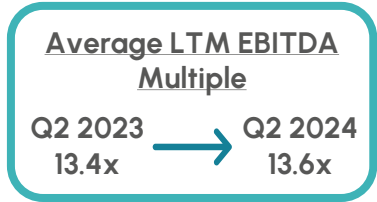
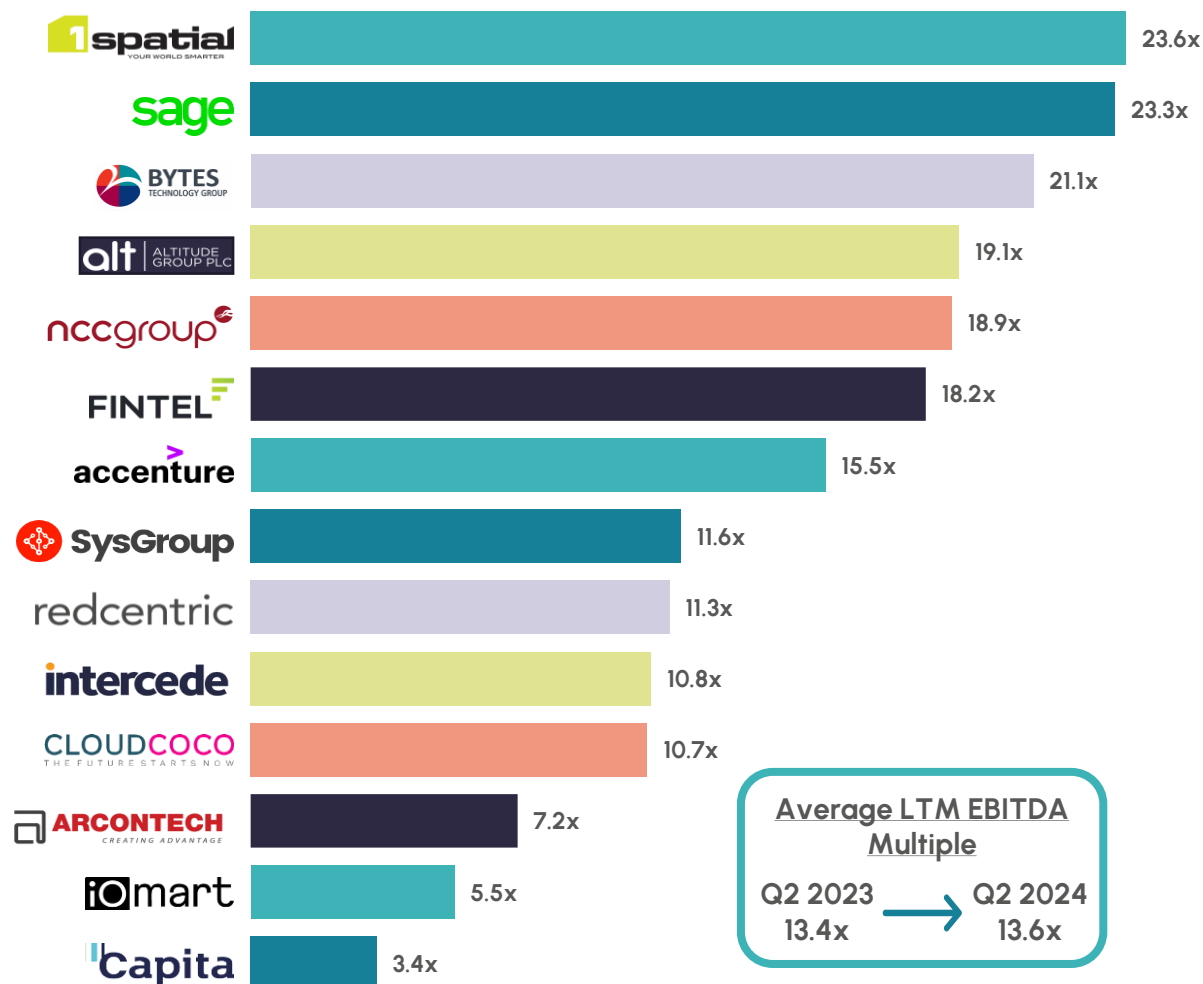
CLOUD STRATEX

2nd May 2023
Undisclosed

Five of the previous nine transactions occurred in **2023**

Quoted company benchmark multiples

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



Overview

Lexington has identified fourteen publicly traded IT & Technology companies across the UK and Ireland. Lexington analysis reveals that 43% of these firms experienced an increase in EV/EBITDA valuation multiples over the last quarter, most notably SysGroup plc's EV/EBITDA rising from 7.1x to 11.6x – a 63% uplift.

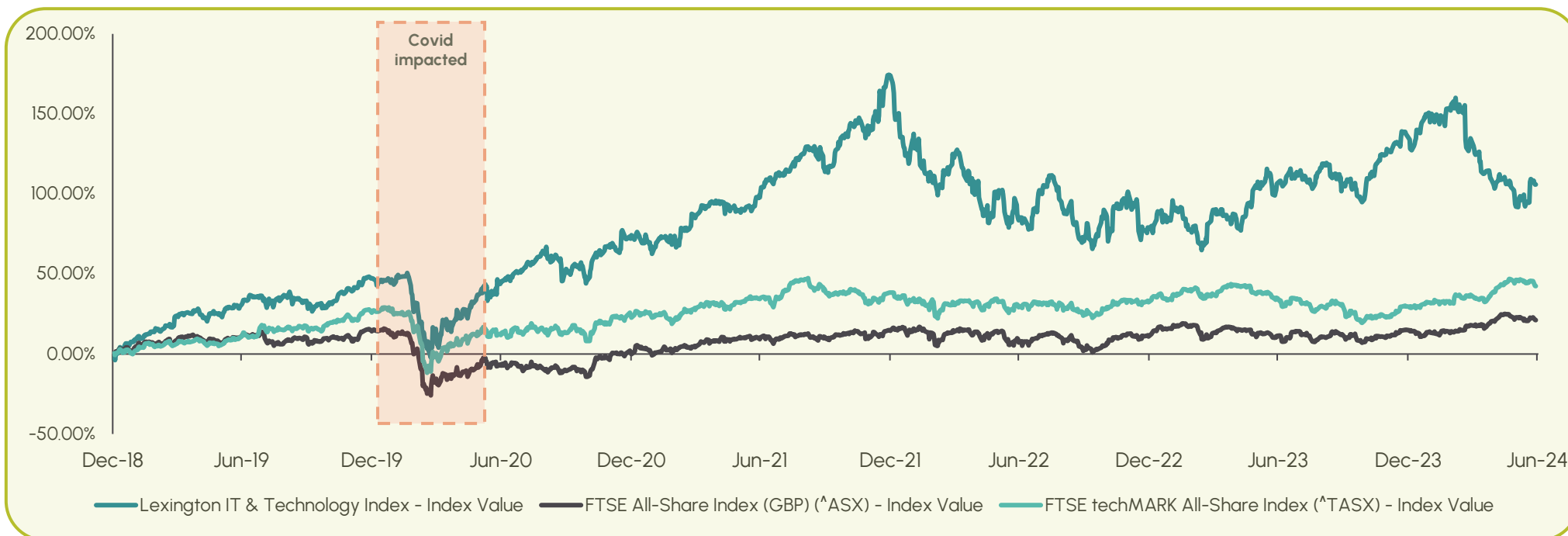
Intercede concluded Q2 2024 with an EV/EBITDA multiple of 10.8x, positioning it at the top end of market valuations. However, this valuation marks a significant 72% decrease from the Q1 2024 peak of 38.5x. Across the fourteen companies analysed, 57% experienced a contraction in valuation. The median EV/EBITDA for Q2 2024 closed at 13.6x, reflecting a slight decline from the Q1 2024 median of 14.0x.

The IT & Technology sector's continued outperformance of the market in EV/EBITDA valuations can be attributed to several macroeconomic and microeconomic factors, along with investor sentiment. On the macroeconomic front, the continued digital transformation across industries, having been accelerated by remote work trends and the ever-growing reliance on cloud computing, has driven sustained demand for technological solutions. This sector's resilience during economic downturns, coupled with high margins and growth potential, makes it an attractive investment. From a microeconomic perspective, many IT & Technology firms have strong balance sheets, recurring revenue models, and the ability to scale rapidly, which further enhances their valuation multiples. Investors are drawn to this sector due to its consistent innovation, healthy cash flows, and the perception of being less vulnerable to traditional economic cycles. IT & Technology is consistently at the epicentre of long-term growth trends, such as artificial intelligence (AI), cyber security, and the rise of Internet of Things (IoT). The ability of the sector to capitalise upon these trends drives institutional investment, thereby augmenting valuations.

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

Tech v FTSE index

The Lexington IT & Technology Index drops significantly



- The graph above illustrates how the IT & Technology market has performed against the market. We have compared the performance of the FTSE techMARK All-Share Index and our own tech index (which includes the 14 quoted companies, see page 13) against the FTSE All-Share Index. The techMARK All-Share Index tracks the broader performance of all quoted large cap to lower mid-market IT and technology companies included in the Financial Times Stock Exchange Group (FTSE).
- In Q2 2024, the Lexington IT & Technology index saw a downward movement for the quarter, dropping by 31% before slightly recovering at quarter end. The Lexington Index did not perform well against the steady FTSE all-share index which increased by 8%, for the quarter. The tech market usually follows the broader market's movements, at an increased sensitivity, however this quarter the Lexington IT index showed abnormally high volatility and performed worse than the FTSE all-share index.

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



Feedback from the clients we work with

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



PURECYBER

Lexington advised the shareholders of PureCyber, a leading cybersecurity services provider, on its investment from BGF

"Anyone that has been through the investment process knows that it can be a testing time, when the teams around you play a crucial role in a successful outcome. The experience and support we have had from Thomas Edwards and the team at Lexington has been superb."

**Damon Rands,
Founder and CEO**



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



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



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



Jade Burgess – Executive
jburgess@lexingtoncf.co.uk
07377 500 976



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



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