



Technology Services M&A Report

Q4 2022



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Executive Summary

We may not have seen the mad dash to the finish line that we saw in Q4 2021, but it is fair to say that despite challenging headwinds, M&A activity in the Technology Services proved itself markedly resilient in the fourth quarter of 2022. Macroeconomic uncertainty continued to impact both activity and valuations, but considering that the pandemic bounce has well and truly passed, it is reassuring to hear from the market that the demand for service providers within the IT Services and Enterprise Software & SaaS segments remains robust.

While we may have seen a retreat in activity during Q4, with deal volumes down 6% against Q3, quarterly spend took an impressive step forward, up 64% on the previous quarter, rising from \$68bn to \$111bn to round out a challenging year on a high. This is particularly significant because not only did expenditure fall month after month during Q4, it still managed to outpace the impressive levels of end-of-year spend seen just 12 months earlier [\$93bn in Q4 2021] by ~20%.

Among buyers, we've little doubt that the participation of Private Equity (PE) players will continue to proliferate, even if the cost of debt has proven inhibitive in the latter half of 2022. As such, the proportion of deals closed by PE buyers fell around 30% compared to Q3 - surely a momentary lapse if ever we've seen one. Financial investors remain sitting on too much

dry powder to not deploy it as we enter 2023. With a potentially recessionary environment still being pushed out by forecasters, and reports suggesting inflation has seemingly peaked, dare we say we can see light at the end of the macroeconomic tunnel?

Strategics remain active but cautious, seeking quality acquisitions while actively divesting themselves of those they can no longer align to their digital transformational goals. With exciting developments in the worlds of Artificial Intelligence (AI) and Machine Learning (ML) - how could we not address ChatGPT? - arriving late in 2022, it seems that the demand for service providers that can enable emerging technologies will be deemed more essential than ever.

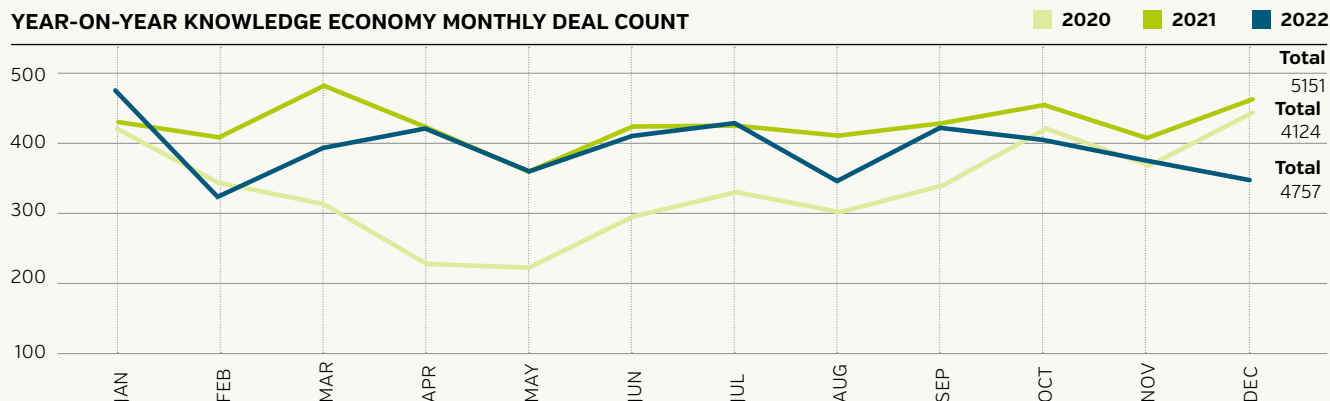
In this report, the Equiteq team provides their usual, detailed quarterly commentary on the key insights and activity seen within the IT Services and Enterprise Software segments, both of which are key sectors within the Knowledge Economy.

We also take a look back at M&A activity in these spaces during 2022 as a whole, and examine some of the key trends shaping buyer interests and habits. To find out more, please feel free to contact our team, whose details are contained within this report. [🔗](#)

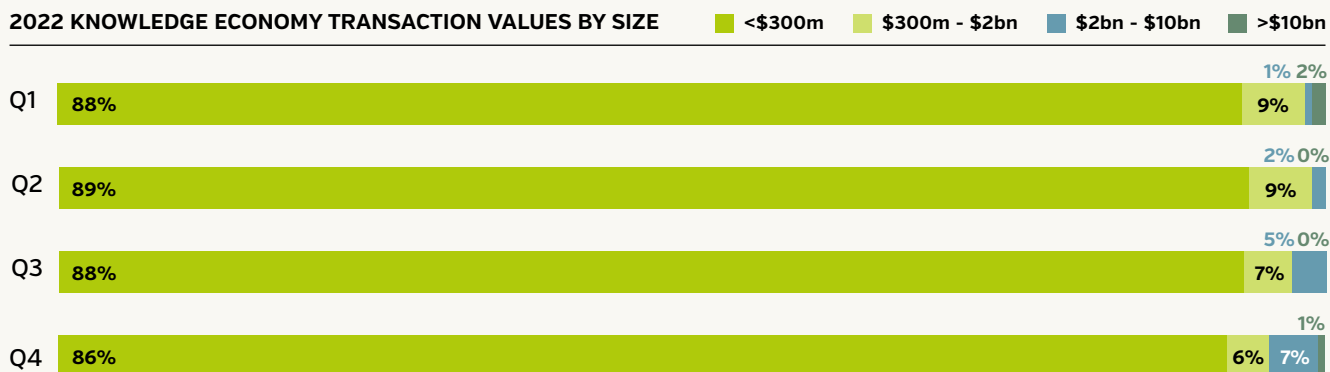
6%

fewer deals completed in Q4 2022
than in Q3 2022

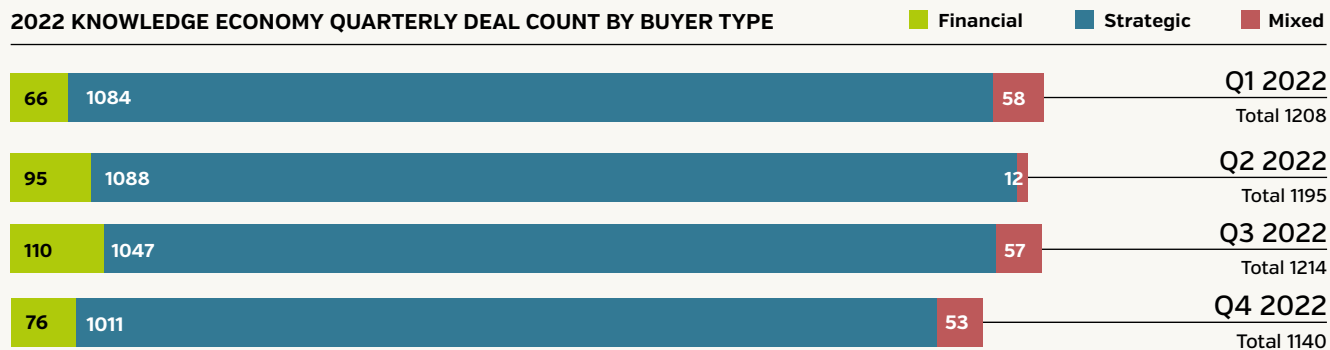
YEAR-ON-YEAR KNOWLEDGE ECONOMY MONTHLY DEAL COUNT



2022 KNOWLEDGE ECONOMY TRANSACTION VALUES BY SIZE



2022 KNOWLEDGE ECONOMY QUARTERLY DEAL COUNT BY BUYER TYPE



IT Services

Q4 M&A activity

KEY TAKEAWAYS

- Deal valuations and volumes in the IT Services space prove resilient, even if down on 2021 levels
- Buyers remain bullish in the face of short-term economic uncertainty with long-term digital transformation trends sustaining demand for IT Services firms
- Caution among established sector buyers continues to open the playing field up to new entrants in regions such as APAC

Q4 MARKET ACTIVITY

We saw a slowing of M&A activity in the IT Services space during Q4, undoing some of the gains seen in the third quarter of 2022 with deal volumes falling 16% quarter-on-quarter, down from 347 to 290. With economic headwinds still evident, CapEx decisions in terms of IT and tech decision-making and planning appear to have been deferred, pushing out potential activity to H1 2023.

While the macroeconomic environment continues to prove unpredictable – especially with regards to interest rates – high-impact anomalies such as the short-lived Truss government in the UK only served to solidify caution among buyers, resulting in a 12% drop in Q4 activity compared to the fourth quarter of 2021.

Despite a drop in activity, we saw valuations prove resilient in Q4, with quarterly spend up 78% compared to the previous quarter, growing from a reported value of \$7.6bn to \$10.7bn – a significant upturn. It may fall well short of the reported \$16.8bn we saw in Q4 2021 but considering the headwinds buyers have faced during the last 12 months, the IT Services market looks extremely robust.

“The IT Services space is a much bigger industry and holds much more interest for the Private Equity community than it did five years ago. It’s at a high point compared to where it has been before – bar 2021,” says Jerome Glynn-Smith, Managing Director, Head – Europe, at Equiteq in London, UK. “If you’re a seller and you’ve got a good company, will you find the pandemic-bolstered heat of 2020 and 2021 again? Unlikely. However, you will find a market today that is mature and is investing in these types of companies at good levels of valuation.”

So, while annual deal valuations in the IT Services space may be down on the previous 12 months, falling by almost a third from a reported value of \$44.1bn to \$29.8bn, we’ve also seen the total number of deals completed grow by 3% year-on-year. In other words: buyer intent remains, interesting opportunities can still entice, and light remains at the end of the tunnel even despite a significant curtailing of activity as the year ended.



The IT Services space is a much bigger industry and holds much more interest for the Private Equity community than it did five years ago.

NOTABLE DEALS

Equiteq Deal



Globant

acquires

acquires



EWAVE

LONG-TERM TRENDS PROVE RESILIENT IN THE FACE OF SHORT-TERM IMPACTS

While buying habits may shift dramatically from quarter to quarter, the drivers behind them seemingly only become more entrenched in the world of IT Services M&A.

“We continue to see real interest from buyers in the custom software development space, the data analytics space, and the cloud space,” says Greg Fincke, Managing Director, Head – North America, in Boston. “These are long-term trends that have been going on for a number of quarters now and that remain resilient. This is only strengthened by the growing interest and presence of Private Equity buyers.”

Spend continues to center on the cloud and technologies that the cloud enables, while interest is becoming more acute among buyers for firms who can utilize data to enable ML and AI. As adoption grows, we’re seeing both innovative technologies and their associated services penetrate into new areas.

“A trend that has grown throughout last year has been the advance in investment in FinOps - effectively the modernization of finance functions,” adds Glynn-Smith. “With financial operations increasingly powered by the Cloud, Data analytics, and specific platforms such as Anaplan, it’s these new technologies where our clients are seeing demand for M&A.”

SHIFTING APPETITES ACROSS THE GLOBE

Ongoing macroeconomic uncertainty in Europe continued to create challenges for buyers in Q4, with talk of a potentially recessionary environment persistently looming large over the activity of buyers and investors. While Strategic Acquirers have had to reassess their appetite to prioritize acquisitions within available CapEx, PE buyers have faced ongoing issues with their ability to raise debt at a low cost.


“While the higher cost of debt might not have necessarily affected their level of interest in acquiring, we’re seeing the impact of this flow through to valuations among financial buyers,” notes Glynn-Smith. “Whereas with trade buyers, I think we’re seeing just less appetite overall at the moment while we traverse choppy and uncertain times.”

Buyers have proven more cautious in the US too, where the increasingly expensive cost of raising capital has been felt by PE and Strategics using debt to complete transactions. However, overall buyer sentiment remains bullish in the face of what many assume to be short-term challenges.

“Certain buyers may be less comfortable operating in this environment, but it hasn’t really impacted what we’re seeing in terms of headline valuations and buyer interest,” notes Fincke. “It’s not like 2021 where we had impending issues like the rise in Capital Gains Tax driving people to complete deals before the end of the year. This year it was more about wanting to de-risk ahead of any sort of market downturn that may be coming in the near future.”

Moments of challenge can also create opportunities and the uncertain economic environment continues to open doors to new players in lieu of established buyers, particularly in the APAC region where the negative economic impacts seen elsewhere have perhaps not manifested as strongly in the region’s M&A activity.

“We’ve seen a continuation of a trend that has been growing throughout the latter half of 2022, if not earlier in the year, in which activity among bigger, more established buyers like Accenture and Deloitte has slowed down a bit,” says Alex Monck, Managing Director at Equiteq in Sydney, Australia. “In their place we’re seeing new entrants enter the market - and that’s been a good thing for regional M&A activity.”

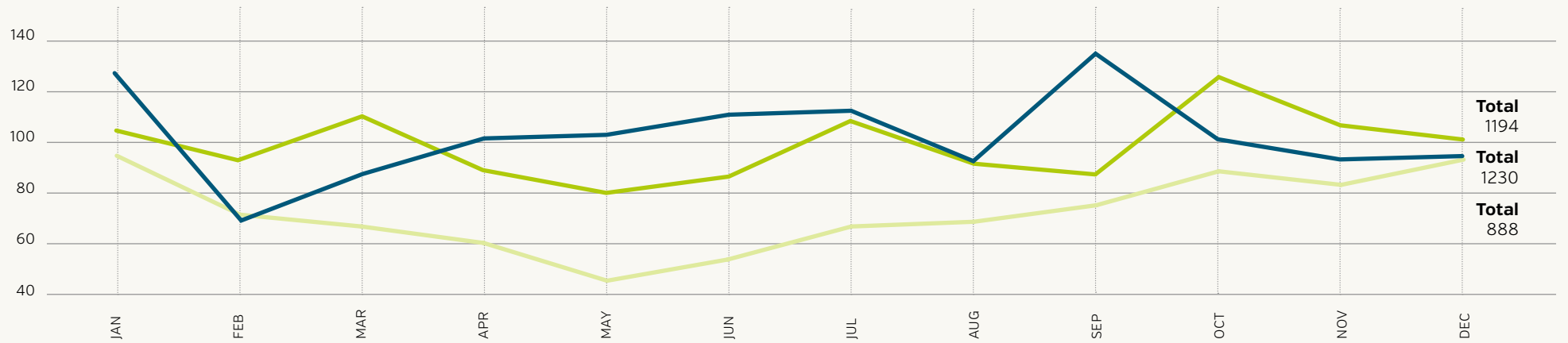
Deals from such new kids on the block in Q4 include the acquisition of the consulting, design and engineering firm Lexicon by Endava, a leading global provider of digital transformation consulting and agile software development services; as well as the acquisition of Asia Pacific’s leading digital commerce specialist, eWave, by the digital transformation firm, Globant. 



Certain buyers may be less comfortable operating in this environment, but it hasn’t really impacted what we’re seeing in terms of headline valuations and buyer interest

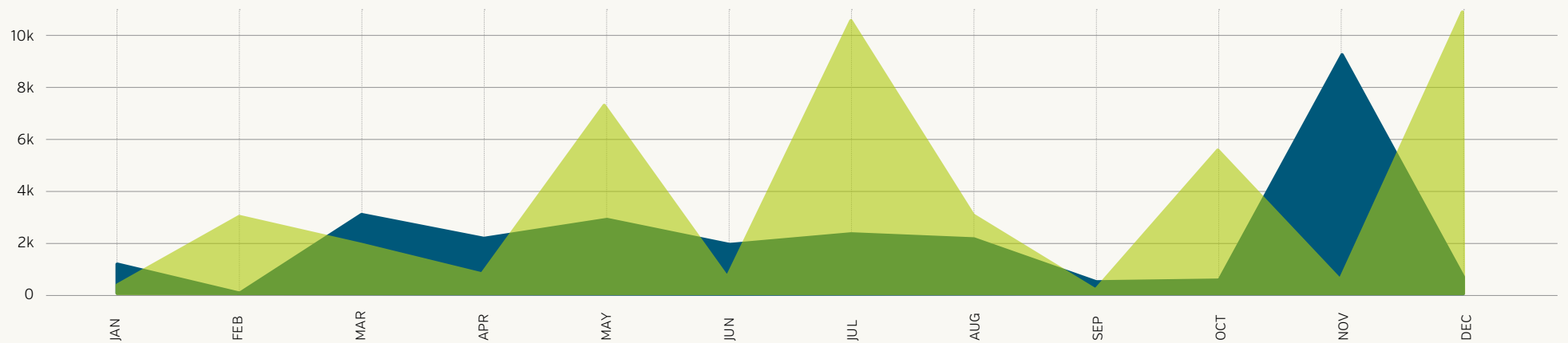
YEAR-ON-YEAR MONTHLY IT SERVICES DEAL COUNT

2020 2021 2022



MONTHLY IT SERVICES DEAL VALUE (US \$, MILLIONS)

2021 2022



Enterprise Software & SaaS

Q4 M&A activity

KEY TAKEAWAYS

- Deal volumes and valuations dropped by a fifth in Q4 as financing difficulties impact M&A activity in the Enterprise Software & SaaS space
- Bigger deals can still occur, but this is likely to be tempered as we move through H1 2023
- Non-tech companies in the retail and consumer space are an emerging subset of formidable buyers as they look to accelerate their digital transformation efforts

Q4 ACTIVITY OVERVIEW

M&A activity in the Enterprise Software & SaaS segment also took a nosedive in the fourth quarter of 2021, with deal volumes down quarter-on-quarter by almost a fifth [19%] following five consecutive months of decline, falling from a year's high of 264 deals in Q3 to 222 in Q4. Consequently, deal volumes are 29% lower than in Q4 2021, leaving the annual volume of Enterprise Software & SaaS deals down 15% on the previous twelve months, dropping from 1,147 last year to finish at 970 this year.

"We've seen public market access and financing in the form of IPOs and SPACs completely dry up in the last 12 months, especially for private companies," says

Arun Nayak, APAC M&A Director in Singapore "This has made it more challenging for those looking to make deals and if there is any financing still happening, it's taking much longer to achieve and this has impacted activity in the market."

A knock-on effect has been a 20% fall in quarterly spend, with reported Q4 valuations of \$28bn down from the \$35bn reported in Q3. However, while the dramatic decline in late-stage financing has impacted unprofitable firms hardest - and made it increasingly difficult for shareholders (especially VCs) to achieve liquidity and return funds - there are sectors within the Enterprise Software & SaaS world proving resilient. As a result, deals for firms in the cybersecurity, data analytics, ESG, and automation spaces continue to achieve higher valuations than other software sectors, in turn helping to push annual Enterprise Software & SaaS M&A investments to grow by 2% year-on-year.

"These select sectors will still continue to see very strong demand and will be valued quite favorably," says Nayak. "But more important than sector is profitability. Any company that's unprofitable has certainly faced a much bigger hit or will face a much bigger hit in the near future in comparison to their profitable peers. Buyers no longer want growth at all costs, but rather a balanced triumvirate of achievable near-term revenue, growth, and profitability."



Buyers no longer want growth at all costs, but rather a balanced triumvirate of achievable near-term revenue, growth, and profitability

NOTABLE DEALS



acquires





Non-tech buyers that were traditionally out of the race for these previously very high valuation deals, are now becoming a formidable buyer subset

NOTABLE DEALS



acquires

KnowBe4

BIG DEALS CAN STILL HAPPEN IN THE FACE OF UNCERTAINTY

Despite a sizable drop in quarterly activity, valuations for Enterprise Software & SaaS remained relatively consistent during Q4 - and though not quite reaching the heady heights of Q3, a reported outlay of almost \$28bn is not insignificant by any means. In fact, bigger deals continued to happen as we came to the closing months of 2022 largely because valuations remained extremely attractive, having fallen from the astronomical highs that software companies were trading at circa 18 months ago. Such valuations have proven to be an attractive entry price point that have piqued the interest of numerous buyers.

"We've still seen some big deals happening at the very high end of the spectrum, especially among larger Private Equity or Private Equity-backed players," says Nayak. "Even with high amounts of leverage, the valuations at which some of these deals are available today makes it extremely attractive to financial investors."

Among the most prominent deals in the fourth quarter is the October acquisition of KnowBe4, the provider of the world's largest security awareness training and simulated phishing platform, by Vista Equity Partners in an all-cash transaction valued at approximately \$4.6bn on an equity value basis. Similarly, the tech investment firm Thoma Bravo once again flexed its financial muscles, following up its \$2.3bn of Ping Identity in Q3 with the \$8bn acquisition of Coupa Software, a leader in Business Spend Management [BSM], in mid-December.

SHIFTING BUYER POWER DUE TO VALUATION CORRECTIONS

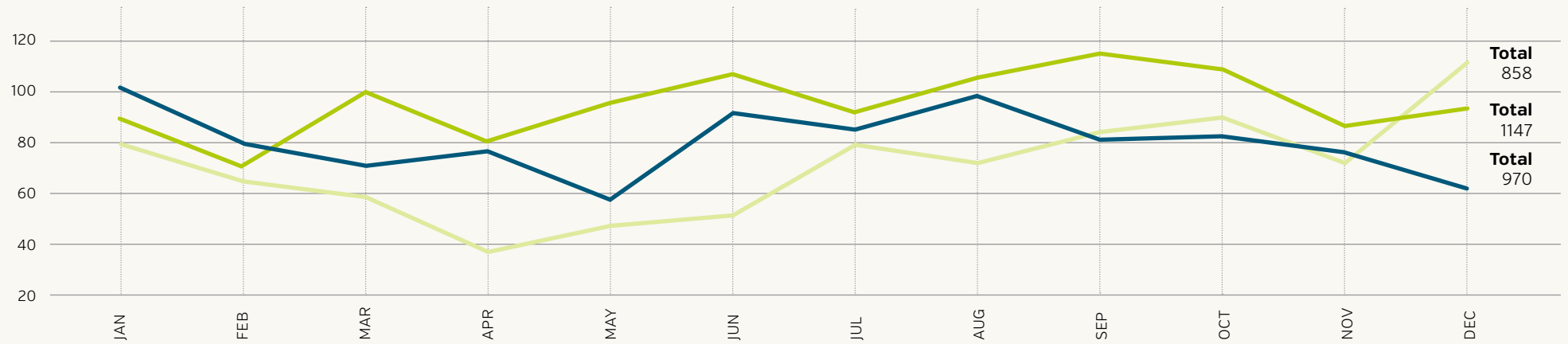
We continue to see buyers closely monitoring the near-term profitability and resilience of software firms (as elsewhere in the Knowledge Economy) and this is a trend that is likely to persist for the foreseeable. In turn, this market caution is driving a shift in balance among buyers.

"One interesting thing that we are seeing is that, because valuations are being corrected downwards, non-tech buyers that were traditionally out of the race for these previously very high valuation deals, are now becoming a formidable buyer subset," says Nayak. "These are well-funded buyers in traditional sectors like consumer goods or food and beverages, who have been digitally challenged by the transformation that's happened globally and that are now beginning to take a very serious look at the opportunities presented by acquiring IP and good teams."

With interest burgeoning in software spaces such as security, ESG, smart cities and utilities, and the like, the availability of such opportunities at much more attractive price points means that we're likely to see an increasingly large pool of disparate buyers entering the Enterprise Software & SaaS M&A market. [▶](#)

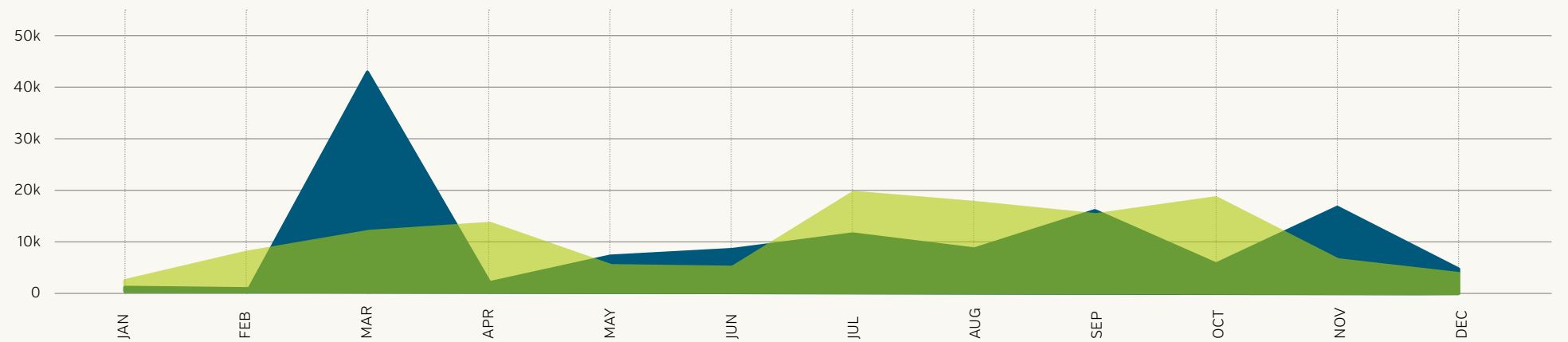
YEAR-ON-YEAR MONTHLY ENTERPRISE SOFTWARE DEAL COUNT

2020 2021 2022



MONTHLY ENTERPRISE SOFTWARE DEAL VALUE (US \$, MILLIONS)

2021 2022



2022: 5 Key Takeaways

1

M&A activity cooled off in H2

2

European M&A activity hit harder by macro-uncertainty compared to US and APAC.

3

Continued investment in core cloud technologies and cloud-enabled platforms

4

Strong buyer interest in Data Analytics, Cybersecurity, ESG, and Public Sector

5

Demand for Tech Services providers remains strong



JEROME GLYNN-SMITH
Managing Director,
Head - Europe

Glynn-Smith comments: "The cost of debt is key as it flows through to a buyer's ability to finance deals - and that was obviously very different in H2 than in H1 with central banks trying to fight inflation. We also saw activity in the first half of the year in Europe benefit from spillover momentum from 2021, while the visibility of a recession in 2023 was much more real in the second half, which impacted the forecasting of large organizations."



GREG FINCKE
Managing Director,
Head - North America

"We had a really strong start to the year in H1 and a very busy H2 in the Americas. There weren't any big events that changed the landscape for us," adds Fincke. "We had talk of a recession that kept getting pushed out, so despite all the noise in the macro market, it was actually a pretty stable year for the Tech Services sector. I would say the theme of 2022 was one of cautious optimism."



ARUN NAYAK
Director,
Asia Pacific

Nayak mirrors: "The frenzy of 2021 seemed to cool off after May-June of 2022 because the impact of inflation coupled with interest rates, geopolitical instability in Europe, and weaker demand outlook resulted in a perfect storm for an upcoming potential recession. But it hasn't quite happened yet. So, while activity may have slowed in Q3 and Q4, we've still seen deals happening because interesting Tech and Software opportunities are arising at much more attractive valuations."

M&A 2023: Trends & Outlook

TREND 1: ONGOING ECONOMIC CHALLENGES

TREND 2: THE DIGITAL TRANSFORMATION AGENDA

TREND 3: EMBRACING EMERGING AND NEXT-GEN TECHNOLOGIES

TREND 4: THE INCREASING PARTICIPATION OF PRIVATE EQUITY

TREND 5: VERTICAL-SPECIFIC SOFTWARE SOLUTIONS

TREND 1: ONGOING ECONOMIC CHALLENGES

KEY TAKEAWAYS

- M&A activity will likely continue to see a slowdown in H1 2023 as a result of high interest rates, inflation, and availability of capital
- Private Equity buyers still hold significant amounts of dry powder that needs to be deployed, while Strategics remain more cautious
- Niche Tech Services firms will likely better weather market uncertainty and prove more attractive to buyers

Macroeconomic uncertainty continues to impact M&A activity in the Technology Services space as we move into 2023 and it remains unclear how long this environment will persist. Global data suggests that inflation has peaked, with annual price growth in the US falling since June

last year, inflation in the Eurozone falling in December for the first time in almost 18 months, and even the UK seeing an easing of inflation in late Q4 despite feeling the ongoing fallout from the disastrous mini-budget from the Truss government in September.

“Interest rates remain high, and this flows through to the cost of debt and ability to finance deals,” says Nayak. “This means that we will likely see not just a slowdown in M&A activity in the first half of 2023 but an impact on valuations as a result too.”

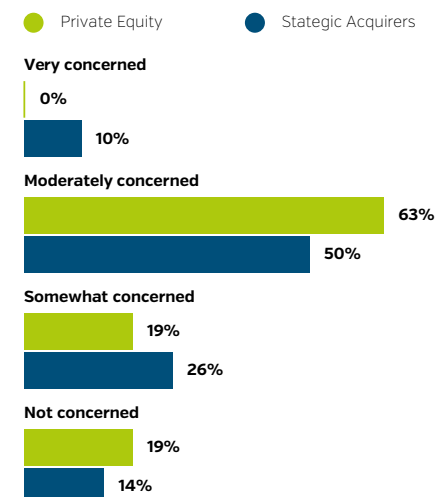
However, with 2022 levels of M&A activity only slightly down on the impressive performance of 2021, it appears that the Technology Services space (and arguably the wider Knowledge Economy) remains to some degree decoupled from the financial impacts seen in wider markets. Still, buyers are not fully insulated from this uncertainty with more than **80% of respondents** [see graph on the right] indicating that they still hold concerns about the economic outlook. As such, we should expect inflation and interest rates to continue posing a challenge for buyers, while also acknowledging that impacts are increasingly being felt beyond cost.

“We’ve seen inflation not only in terms of cost but also in terms of people and people costs,” adds Sylvaine Masson, Managing Director, Head of Asia Pacific, in Singapore. “Companies are looking into options to



We will likely see not just a slowdown in M&A activity in the first half of 2023 but an impact on valuations as a result too

HOW CONCERNED ARE YOU ABOUT THE ECONOMIC OUTLOOK?





While there will be lower volumes for larger assets in 2023, smaller and niche providers will continue to get investment and be acquired for the skill sets that they bring to the table

stay competitive and the impact of this will compress margins and affect their ability to generate not only the right margin but also the growth that they're anticipating. This potentially means less capital available for acquisitions, which could further affect valuations in 2023."

Among buyer sets, Private Equity still retains excessive amounts of dry powder that needs deploying, while Strategics continue to display a degree of caution in the face of a potentially recessionary environment. This is also reflected in our 2023 Buyers Report survey, with 68% of Private Equity buyers saying they expect capital to increase next year compared to just 28% of Strategics.

"The higher cost of debt hasn't necessarily negatively affected the appetites of Private Equity, but it has led to a softening of valuations," says Glynn-Smith. "Whereas I think we're still seeing reduced appetites at the moment among Strategics while the economic environment remains uncertain. But it's all relative. M&A activity has been very strong in Tech Services throughout the last two years, and while there will be lower volumes for larger assets in 2023, smaller and niche providers will continue to get investment and be acquired for the skill sets that they bring to the table."

Overall, while certain buyers have undoubtedly tailored their plans during 2022 and will continue to do so going forward, many are keen to remain active on an M&A front. With more than 50% of respondents in our 2023 Buyers Report indicating that the economic situation has had no impact on their M&A plans, the Knowledge Economy continues to prove itself to be resilient. With reported total deal valuations exceeding \$150bn during 2022, we expect buyers to remain bullish in the face of what most assume to be short-term economic challenges.

TREND 2: THE DIGITAL TRANSFORMATION AGENDA

KEY TAKEAWAYS

- The cloud - and everything it enables - will remain a fundamental driver of M&A activity in the Technology Services space during 2023
- Digital transformation continues to penetrate ever deeper and the adoption of innovative technologies underpinned by 5G and web 3.0 are driving new business models and attracting significant interest from buyers
- There is a growing opportunity for Tech Services firms to add value to clients - even if the underlying technology platforms themselves may be underperforming

For many businesses IT and technology spend is no longer discretionary. The demand for the cloud - and the infrastructure and business models it enables - are inescapable. The need for data security and data centers to protect operations and maintain uptime is essential. Digital transformation was arguably the biggest driver of M&A activity in the Knowledge Economy last year - and it remains so going into 2023.

We've seen cloud providers actively begin seeking new areas of growth and start hiring their own consulting and professional services teams to help their partners grow better and stronger, especially as adoption penetrates deeper into enterprises. Yet there is a long way to go on the cloud adoption cycle even if there is already widespread usage of the three key public cloud platforms:

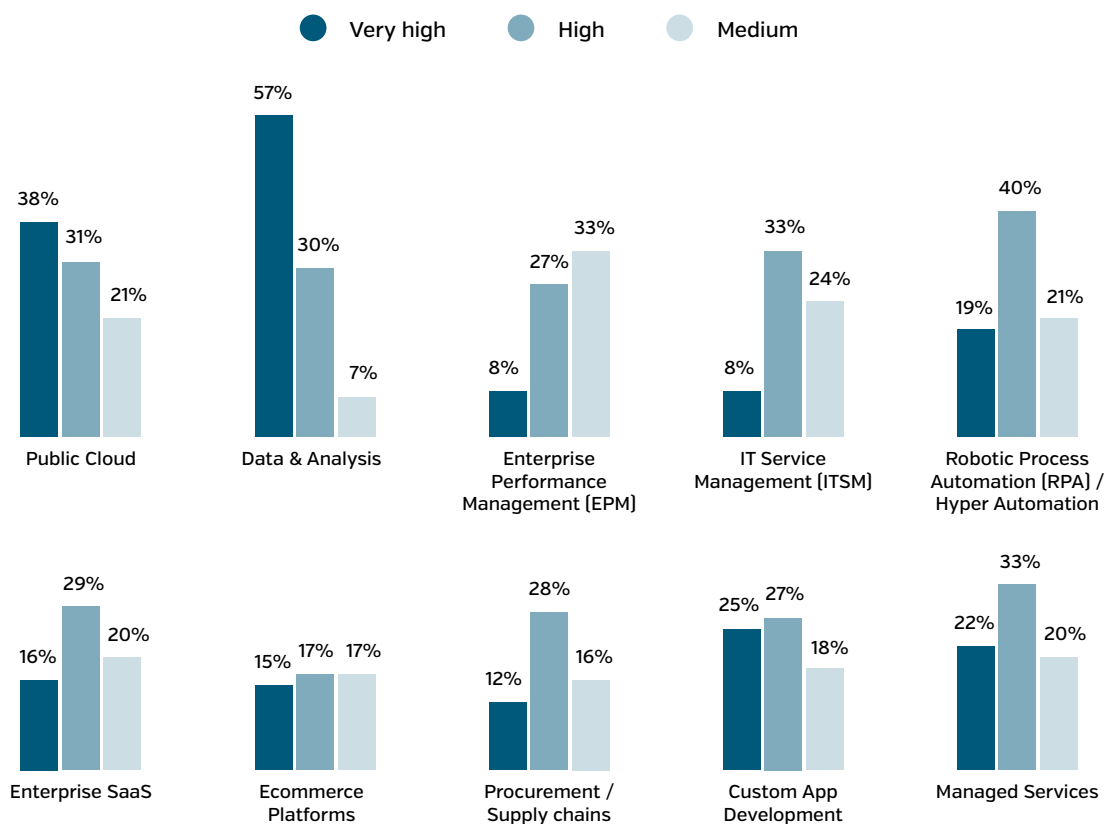
platforms: Azure, AWS, and Google Cloud. This presents a real opportunity for cloud providers to support change programs among their partners while driving the rapid development of their own broader base of capabilities and services.

“Beyond cloud, we’re seeing growing interest on the telecoms side with connectivity, 5G, and low power networks and what that means for consumption through mobile devices or smart devices in industrial and manufacturing setups,” says Glynn-Smith. “Likewise, there is also interest around web 3.0 and the decentralized and deregulated internet, and how that is potentially catalyzing new business models.”

Buyer interests are also turning towards firms with capabilities around trained models and AI in the ML space that can solve data challenges and enable greater automation. Such sentiments are further reinforced by the findings of our [2023 Buyers Report](#) in which the top three digital areas of interest for buyers were named as data & analytics [94%], public cloud [69%], and custom app development [52%].

“Digital transformation in 2023 is ultimately about helping businesses make better decisions and bigger firms perhaps haven’t necessarily invested in these more innovative areas,” says Glynn-Smith. “So we can expect buyers to look towards smaller boutiques that have created specialist environments of like-minded teams that specialize in these areas. Those boutiques will become something quite desirable for larger companies.”

BUYER INTEREST* ACROSS DIGITAL SERVICE LINES IN THE NEXT 2-3 YEARS



** Proportion of respondents expressing high or very high interest in each service line

As the need to maximize technology penetrates ever deeper, we can expect to see buyer interests coalesce around those service providers that can not only solve problems, but who are doing so in a strategically commercial manner.

"We're seeing a growing interest in businesses that can go in and help solve problems within large Fortune 500 companies," says Fincke. "Those firms that have focused

on account planning and maximizing their existing accounts will be more likely to expand their wallet share and attract buyers looking to grow and provide robust services. Those that are perhaps reliant on new sales may not be able to establish longer term relationships and could struggle if this trend persists."

A further consideration then will be where a potential acquisition's capabilities and offering sit in the digital transformation cycle. Does it sit early in the cycle or later on? With the overall digital segment maturing at pace, the door is opening for smaller, more agile players to infiltrate what may have previously been closed shops. Companies that are innovating within areas of demand - for example, Tableau and Databricks in the data analytics space - will be most likely to demonstrate substantial prospective growth to parties interested in a potential deal [as we saw with Tableau's 2019 acquisition by Salesforce].

"I think there's obviously an advantage if you're a business involved in, for example, AI or data on the cloud, both of which come much later in the cycle of transformation," says Glynn-Smith. "That's an area that firms are now actively moving towards and where there's a legitimate interest in buying relevant services rather than, say, content management or content migration, which is the first step that you need before you put your infrastructure in the cloud - and a lot of companies have already moved past it."

Equally, while plenty of larger companies invested in technology in meaningful ways coming out of the pandemic, we're now seeing the economic climate cause a slowdown in activity and investment. While this may be negatively impacting technology companies, it is simultaneously creating real opportunities for services providers in the Knowledge Economy to support and enable organizations' Digital Transformation agendas.

"There's a growing opportunity for Technology Services firms to really engage with their clients and help them maximize the technology investments they've already made," says Fincke. "We could see a very strong year for service providers in 2023, even if the underlying technology providers may not be performing nearly as well."

“

There's a growing opportunity for Tech Services firms to really engage with their clients and help them maximize the technology investments they've already made





You can't simply deploy [ChatGPT] in, say, a high street bank and the next day have real time AI-driven interactions within your mobile banking app. That's where custom software development companies will find their niche, but it's a way off yet

TREND 3: EMBRACING EMERGING AND NEXT-GEN TECHNOLOGIES

KEY TAKEAWAYS

- Advances in AI and ML are accelerating driven by the need for organizations to maximize the insight and value of ever-growing pools of data
- Monetization remains an essential hurdle for emerging technologies to overcome if they are to become more mainstream and attract significant buyer interest
- A lack of market leaders in more innovative areas of technology means that buyers may have to temper their expectations when considering interesting opportunities

The need to capture, interpret, and utilize ever greater volumes of data is a key driver behind many of the emerging and next-gen technologies piquing the interest of buyers across the Knowledge Economy.

"Data is core to developing and leveraging insights across an organization, so there is an ever sharper focus on actually being able to use that data," says Emmanuel Kostucki, Managing Director at Equiteq. "We can see a growing number of companies emerging out of this trend, but many are still relatively small and have extremely focused skill sets that can be hard to scale - but that's not to say there is no buyer interest."

Areas such as advanced AI, ML, and machine-written code are all growing and can be most obviously seen in

how OpenAI's Optimized Language Model chatbot, ChatGPT, took the internet by storm upon its release in November 2022. Yet, while talk of an AI-driven future proliferated in its wake, the number of articles extolling how it might change the zeitgeist currently outnumber its practical applications.

"These AI-driven technologies will almost certainly reduce the need for certain skill sets in businesses, but I think we're a few years away from this still," says Kostucki. "And the bigger question that needs to be answered first is: how do you monetize them in the first place? We've already seen OpenAI introduce a subscription model, but this is still an early step in their roadmap and other companies have created - or are developing - their own, similar software too."

THE IMPACT ON CUSTOM SOFTWARE DEVELOPMENT

However, while the impact of intelligent AI models and ML algorithms will undoubtedly have a significant impact on the wider technology sector in the long-term, we are unlikely to see a dramatic impact on areas such as custom software development in the immediate future.

"I can't see tools like ChatGPT having a major impact in the near-term because I still think there will be a lot of personalization that is required to differentiate the end output for clients from that of the basic ChatGPT app," says Nayak. "You can't simply deploy in, say, a high street bank and the next day have real-time AI-driven interactions within your mobile banking app. That's where custom software development companies will find their niche, but it's a way off yet."

PRIVATE EQUITY AND EMERGING TECH

We've also seen the impact of PE's growing presence in the Knowledge Economy have a knock-on effect. With significant market consolidation in recent years reshaping the market and reducing the long tail of smaller companies, it is an area that will require a few years to effectively scale back up and realize the potential of the next technology cycle.

"A lot of Private Equities have been acquiring services firms within the Knowledge Economy, looking to power the engines they are trying to create. This market consolidation has opened up space for new, independent companies," says Kostucki. "But these firms are still small, many have fewer than a hundred employees, and it will take some time to grow and recreate companies with some scale."

"So, it's not that there are no companies at scale available to buyers in these next-gen technology spaces because we've been in a period of high valuations for the last two to four years," continues Kostucki. "Those that possess the right combination of scale and capabilities haven't seen their valuations drop. But higher interest rates have negatively impacted valuations in the market and so those companies that PEs might want to exit may prove expensive for other buyers and as such may mean accepting a lesser return as a result."

Buyers then will need to be agile and open when considering interesting emerging technology opportunities in 2023, as they are unlikely to find exactly what they want at the ideal size or price. Foresight will be key for any buyer looking to play the emerging technology trend.

TREND 4: THE INCREASING PARTICIPATION OF PRIVATE EQUITY

KEY TAKEAWAYS

- High levels of dry powder will continue to sustain a growing level of M&A activity among Private Equity and Private Equity-backed buyers
- The need to see returns in the 2026-33 bracket will see financial investors drive further market consolidation through buy-and-build investments
- Short-term macroeconomic uncertainty is unlikely to significantly impact Private Equity participation in 2023, compared to Strategics who may need to be more cautious with capital

The dry powder that Private Equities have accumulated in recent years continues to burn a hole in the pocket as funds reach maturity and the need to deploy becomes increasingly acute.

"We are talking about trillions of dollars of capital, of which more than 50% is dry powder and that money needs to flow," says Kostucki. "That will push people to act regardless of size and try to do deals. We'll continue to see more buy-and-build platform investments, which will sustain the consolidation that we've seen occurring in recent years."

Backed by three consecutive years (2019, 2020, 2021) of exceptionally positive fundraising exercises, the resulting injection of capital into the financial investor pool combined with a growing interest in - and understanding of - the Tech Services landscape



Equities have been acquiring services firm to power the engines they are trying to create. This market consolidation has opened up space for new, independent companies





In 2023 and beyond, Private Equity and Private Equity-backed assets in the mid-market space are going to be the most formidable buyers compared to Strategics

means that PE participation in Knowledge Economy M&A markets continues to increase.

With investor returns occurring between 2026-2033, the need to deploy capital and put it to work to generate those returns is essential. As such, we're seeing mid-market funds emerge as a particularly prominent buyer set, less encumbered by the economic uncertainty affecting Strategic Acquirers.

"In 2023 and beyond, Private Equity and Private Equity-backed assets in the mid-market space are going to be the most formidable buyers compared to Strategics," says Nayak. "The latter obviously need to be more cautious in the current macroeconomic climate, because dealing with public markets is like walking a tightrope right now. In addition, they also have to navigate the potential fallout and backlash from large-scale layoffs, which is proving difficult to manage for many tech firms."

"Private Equity investment in this space will remain strong because many funds have theses around certain parts of the Tech Services landscape that are longer term bets on key trends," adds Fincke. "They can see past the short-term disruption in the market and so we'll continue to see more PE investors in this space as more and more funds get creative to close deals and then demonstrate successful exits."

With services providers likely to become increasingly valuable as companies look to divestitures to streamline operations, maximize the technology they retain, and accelerate digital transformation, this will only continue to heighten the interest of Private Equity in the Knowledge Economy.

TREND 5: VERTICAL-SPECIFIC SOFTWARE SOLUTIONS

KEY TAKEAWAYS

- Key verticals of interest among buyers are: FinTech, healthcare, life sciences, and sustainability
- Valuations for vertical-specific Tech Services firms are down on H1 2022, but will likely remain at a stable level throughout 2023
- Profitability remains a critical concern among nearly all buyers of vertical-specific firms - but this doesn't mean that they should be afraid of still investing in innovation

Interest in vertical-specific software niches remains another key trend driving M&A activity in the Knowledge Economy, although we've also seen during the past 12 months a correction in terms of valuations with many of the buyers and big actors in this space having seen a significant impact on their share price. So while valuations may be lower than in H1 2022, we can expect them to remain stable over the coming six months. However, premiums for such firms will be dictated by size and scale.

"Size matters when it comes to valuations and this is more evidently impacting smaller deals compared to bigger software transactions," explains Masson. "There is a scarcity value attached to larger vertical-specific companies, which can make them a good, sizable play for some Private Equities. Whereas smaller businesses will be more impacted because they are perceived by potential buyers to be a bit less solid."

VERTICALS OF INTEREST

Vertical software continues to play a vital role in differentiating specialized providers from their larger, broader-based competitors, especially in the eyes of Private Equity buyers looking to bolt on capabilities to their buy-and-build plays. As such, we can expect to see an uptick in demand for software across a variety of sectors.

“An interesting trend is that we’ve seen a growth in activity around supply chain logistics during the past year for a number of reasons,” says Nayak. “Firstly, the situation in Ukraine created a real need for firms, especially in Europe, to pivot and optimize their supply chains at pace. Secondly, in a potentially recessionary environment or in an environment where the economic outlook is bleak, businesses will look to cut costs by having the cheapest supply chains and being able to procure goods and services at the cheapest rate. So software companies that can enable this are very interesting to buyers right now.”

Demands for specific software solutions within FinTech continue to attract investment, while the government and public sectors also continue to prove resilient, as the need to invest in healthcare and life sciences is in effect non-discretionary - as is the need to meet, deliver, and report on ESG and sustainability targets.

“Both ESG and sustainability have really moved to the forefront from a software perspective. It’s broad-based but from a compliance and reporting standpoint both are being made mandatory by a lot of jurisdictions globally,” adds Nayak. “This is especially true for publicly listed companies, so any kind of software that helps large enterprises report these kinds of findings is where we will see a lot of uptake and activity.”

As with the broader digital transformation agenda, software that can enable automation and efficiency will continue to attract buyers, especially in industrial and engineering spaces. Buyer interests are already attuning to such ventures, with Robotic Process Automation/Hyper Automation on the radar of four-in-five buyers in our 2023 Buyers Report survey. Likewise, those industry-specific solutions tailored towards protecting the vast amount of business-critical data stored in the cloud will also see a lot of activity.

“Software that can optimize and protect operations is increasingly becoming a must-have,” says Nayak. “When it comes to more advanced solutions that enable real-time interaction via AI, or can provide peace of mind security for digital assets and data - cyber security software - we will also see increased investment from buyers.”

For sellers, the advice is clear - ensure a clear product or market fit and that it remains profitable, even if not actively growing right now. Economic downturns often lead to shifts in technology cycles and can be periods of rapid evolution.

“I think the most important thing for mid-stage and larger software companies is to remain innovative and ensure the right balance between maintaining growth and profitability, while not under-investing in R&D,” says Nayak. “We’ve seen a lot of people miss the boat when they’ve focused too much on reigning in spending and subsequently underinvested in R&D and tech innovation.”



An interesting trend is that we’ve seen a growth in activity around supply chain logistics during the past year for a number of reasons



TREND 6: NEARSHORING CONTINUES TO APPEAL

KEY TAKEAWAYS

- Talent scarcity challenges may have eased slightly in the latter half of 2022 but the demand for skills in the face of high people costs remains a key driver of nearshoring M&A activity
- Buyers in Europe are starting to look further afield for essential tech skills as traditional nearshoring talent bases continue to be impacted by the ongoing situation in Ukraine
- Nearshoring deals are taking longer to complete as buyer due diligence becomes more granular and stringent, especially for firms looking to invest in potentially new markets

The nearshoring trend continues to progress strongly with businesses still in need of resources amid an ongoing scarcity of talent in the Tech Services sector. Further, the significant impact of inflation on organizational people costs means that to stay competitive, maintain margins, and enable growth, nearshoring - and even rightshoring - is proving a more affordable way of accessing skills needed to deliver critical projects.

While we saw tension ease in the market in terms of recruiting and retaining people during the latter half of 2022, the underlying drivers of the nearshoring trend remain the same and will continue to underline its appeal to many buyers in the Knowledge Economy.

"There is a cost arbitrage when you enter into a recessionary environment where businesses look for cheaper ways to scale, especially if it's difficult to find the right talent pool to meet their requirements," says Kostucki. "You need to find the right resource at the right cost to ensure that you can not only develop new things but maintain existing things too. It's this cycle that helps to sustain nearshoring as a viable option."

Kostucki notes that for many businesses - in Europe in particular - the situation in Ukraine has increased the demand for nearshoring, as many talent hotspots in Eastern Europe have been impacted indirectly if not directly by the escalating conflict with Russia.

"One thing we're seeing within M&A is the demand for access to skills accelerating in the wake of the war in Ukraine, because a lot of large-scale companies were leveraging talent pools in Russia, Ukraine, and nearby countries," says Kostucki. "Many of these former Eastern Bloc countries have become European Union member states and that has created a significant number of deals at extremely high valuations from companies

that were too exposed to those geographies. So we're seeing buyers show interest in countries like Croatia and Greece, and even further afield for pools of talent, especially developers."

This puts a renewed emphasis on buyers fully understanding the shop they are acquiring or investing in if looking at opportunities abroad. They will need to do the necessary due diligence on performance metrics, growth, profitability, local regulations and legislation, and especially on the people, if they are to complete transactions and ensure long-term success.

"Historically, people were doing less due diligence than they perhaps ought to have done," says Kostucki. "But buyers are more careful today and looking closer at what they are acquiring rather than acquiring just because the cycle is in a positive position. When we talk of nearshoring from an M&A perspective, we're seeing deals taking longer and due diligence being more in-depth. And that's not a bad thing." ●

Q4 2022: Deal highlights

Equiteq Deal ZainTech acquires BIOS Middle East



- Equiteq has advised BIOS Middle East, a 140-person managed cloud provider, on its sale to ZainTech, a digital and ICT solutions powerhouse of Zain Group.
- Established in 2002 and based in Dubai, BIOS has served over 300 global and regional customers by offering managed services and cloud solutions.
- The new partnership allows BIOS to accelerate and scale, as they aim to become the region's leading multi-cloud managed services provider.

Equiteq Deal Softline acquires Value Point Systems



- Equiteq has advised Value Point Systems, a 1,200-person Indian cybersecurity and digital transformation leader, on its sale to Softline (now operating under the trademark Noventiq)
- Value Point Systems has over 30 years of experience, seven offices across India, and has built a portfolio of end-to-end solutions and services in cybersecurity, data center modernization, network transformation, cloud transformation, digital workplace, and IT managed services.
- This was Softline's fourth acquisition in 2022 in line with its strategy to invest in India for India.

Equiteq Deal Endava acquires Lexicon



- Equiteq has advised Lexicon, an Australian 145-person consulting, design, and engineering firm, on its sale to Endava, a global digital transformation consulting firm.
- Founded in 2016, Lexicon provides new digital solutions and accelerates digital transformation programs across enterprise systems, products, and IoT using agile delivery methodologies.
- The acquisition enhances Endava's presence in Australia and it gains a nearshore delivery location in Vietnam, complementing Endava's operations in Singapore and Malaysia.

Globant acquires eWave



- Globant has acquired eWave, a 260-person digital commerce experience specialist with offices in Australia, Hong Kong, and Singapore.
- Founded in 2009, eWave is a multi-award-winning Adobe Platinum Partner and Salesforce Gold Partner.
- The acquisition reinforces Globant's leadership in digital and cognitive transformation, strengthens its expertise in Salesforce Commerce Cloud and Adobe Commerce, and expands its presence to Australia and several APAC countries.

Q4 2022: Deal highlights

Vista Equity Partners
acquires KnowBe4



KnowBe4

- Global investment firm Vista Equity Partners has acquired KnowBe4, the world's largest security awareness training, and simulated phishing platform, in a transaction valued at approximately \$4.6 billion on an equity value basis.
- The investment will enable KnowBe4 scale, access additional resources and support, and provide enhanced value to its customers.

Thoma Bravo to acquire
Coupa Software



- US private equity firm Thoma Bravo is to acquire business spend management software leader Coupa Software for \$8 billion.
- Coupa is a cloud-based platform that unifies processes across the supply chain, procurement, and finance functions.
- The transaction will enable Coupa to drive innovation, better serve its customers, and accelerate important growth initiatives during this next chapter as a private company.

Merkle acquires
Aware Services



- Merkle, part of dentsu Group, has acquired Aware Services, an Australian-owned 115-person Salesforce, MuleSoft, and Tableau partner.
- Founded in 2018, Aware Services has data and analytics capability, working with a range of clients and public and private sectors. Aware Services will bolster dentsu's Customer Transformation & Technology capabilities.
- Equiteq advised on Merkle's UK acquisition of Platinum Salesforce Partner Pexlify earlier in 2022.

LDC invests in
Acora



- LDC has secured a minority investment in Acora, a 550-person IT services firm, ranked number 1 MSP in the UK and top 10 globally.
- Founded in 2006, Acora specializes in providing managed IT services to mid-market customers and is pioneering a new approach to managed services through its Experience Led Agreement.
- The deal follows Acora's 2.5-year partnership with Palatine Private Equity, which enabled Acora to complete five acquisitions. The investment round, supported by debt funding from Ares and HSBC, will provide long-term financing for future growth.

Q4 2022: Deal highlights

EY Oceania acquires Red Moki



- EY Oceania has acquired Red Moki, a 74-person elite ServiceNow specialist headquartered in New Zealand.
- Founded in 2017, Red Moki operates throughout Australia, New Zealand, and India, delivering tailored solutions to manage intelligent automated workflows.
- The Red Moki team will join EY Oceania Technology Consulting as a response to the growth in demand for ServiceNow.

Quadrant Private Equity partners with Cevo, Arinco and D6 Consulting



- Quadrant Growth Fund No.2, a buyout fund worth AU\$530 million managed under Quadrant Private Equity, has partnered with Australian cloud services leaders Cevo, Arinco, and D6 Consulting.
- Cevo, Arinco, and D6 Consulting form Australia's fastest-growing cloud services providers, working with enterprise and government clients. Combined they have a 250-person team across cloud migration, cloud modernization, data engineering, cloud security, and managed services.
- This is Quadrant's second major investment in IT Services, following its partnership and sale of Arq Group for AU\$290 million in March 2022.

Grid Dynamics acquires Mutual Mobile



- Grid Dynamics, a US digital-native technology services provider, has acquired, Mutual Mobile, a 200-person product design and development house based in the USA and India.
- Founded in 2009, Mutual Mobile offers end-to-end design and development of next-generation applications, combining mobile, AR/VS/Mixed reality, and cloud edge/IoT practices to startups and Fortune 500 companies across numerous industry verticals, within Technology, Healthcare, Automotive, and Financial Services.
- The acquisition will diversify Grid Dynamic's global talent and strengthen its digital transformation portfolio.

Technology & Strategy acquires Lisbon Nearshore



- Technology & Strategy (T&S), a French engineering and digital consultancy has acquired Lisbon Nearshore, a 90-person technology & digital services firm based in Portugal.
- Founded in 2017, Lisbon Nearshore combines nearshore development and IT consulting services including application development, mobile development, and open data solutions, mainly for luxury markets.
- This add-on provides greater expertise within the T&S group's Digital services line and further expands its alliance or brands across Europe and Asia.

Q4 2022: Deal highlights

DEPT acquires
Melon

DEPT



- DEPT, a global digital agency owned by Carlyle Group has acquired Melon, a 100-person Salesforce-focused commerce agency.
- Founded in 2017 and based in the USA, Melon delivers strategy, design, and implementation of commerce experiences, with a focus on maximizing the power of Salesforce.

Talan Group acquires
Dataroots

Talan*

dataroots
experts in data science

- Talan Group, the French technology and transformation consultancy has acquired Dataroots, a 100-person company providing artificial intelligence and next-generation data platform solutions.
- Founded in 2016 and based in Belgium, Dataroots is a smart data engineering firm that offers a complete suite of software, infrastructure and consultancy for enterprise clients.
- The acquisition will build on Talan's "Ambition 2025" plan to push the boundaries of AI and leverage its potential to drive progress and innovation on a global scale.

Valiantys acquires
Expium

 **valiantys**

Expium

- Global Atlassian partner, Valiantys, backed by Keensight Capital, has acquired Expium, a 30-person Atlassian Platinum Solutions partner based in USA.
- Formed in 2015, Expium specializes in transforming business processes using Atlassian technologies, focusing on delivering complex solutions like fleet management platforms and DevOps integration. They serve over 2,000 enterprises including Fortune 100 companies.
- The acquisition combines Expium's expertise in custom application development, DevOps, and advanced training capabilities, with Valiantys' global reach and deep expertise in IT Service Management transformations and managed service.

Contegix acquires
Blended Perspectives

CONTEGIX

**blended
perspectives** 

- Contegix, a USA-based Atlassian Platinum Solutions Partner has acquired Blended Perspectives, a 47-person Atlassian Platinum Solutions Partner based in Canada.
- Blended Perspectives delivers technical consulting services for the entire Atlassian tool suite for high-end enterprises. It is known for its Marketplace Analytics Research Service (MARS) and SYNTHESIS framework.
- The acquisition provides Contegix with the greatest breadth of Atlassian expertise in the marketplace for Application Engineering, IT Service Management, Agile Planning and DevOps.

Q4 2022: Deal highlights

Acacia Group acquires Isos Technology



- Investment firm Acacia Group has acquired Isos Technology, a 90-person Atlassian Platinum and Enterprise Solutions Partner based in USA.
- Founded in 2005, Isos was also named Partner of the Year in the Enterprise category in 2019 and in the ITSM category in 2020.
- Acacia's growth strategy for Isos includes the combination with MajorKey Technologies, Acacia's digital transformation portfolio company. The combined businesses form one of the largest in the Atlassian partner ecosystem with over 120 employees supporting clients across the USA.

Xebia acquires Netlink Digital Solutions Group



- IT consulting and software development firm Xebia, backed by Waterland, has acquired Netlink Digital Solutions Group (NDS), a 600-person provider of low-code digital transformation services.
- Founded in 1998 and headquartered in the USA, NDS is an industry leader in the OutSystems ecosystem having trained over 700 OutSystems professionals globally.
- This acquisition will enable Xebia to provide better end-to-end digital transformation services focusing on DevOps, QA/QC, and Managed Services.

ARICOMA Group acquires Musala Soft



- ARICOMA Group, a European NextGen IT Services provider part of KKCG, has acquired Musala Soft, a 750-person custom software development firm based in Bulgaria.
- Founded in 2000, Musala Soft builds future-generation software products and enterprise solutions in AI, Big Data, IoT, Analytics, Cloud, and Integration.
- This acquisition marks ARICOMA's goal to become the leader in custom software development from southeastern Europe.

KKR to acquire Ness Digital Engineering



- Global investment firm KKR has agreed to acquire 100% of Ness Digital Engineering (Ness), a 4,000-person global digital transformation firm, from The Ryhatyn Group, for a reported \$500 million from its Asian Fund IV.
- Founded in 1998 and headquartered in the USA, Ness offers a wide range of digital practices including cloud engineering, data and analytics, experience design, intelligent engineer, and Salesforce.
- KKR will work with Ness' team across India, Eastern Europe, and the USA, to scale Ness' digital-first platform, scale globally, and better enable its customers to remain competitive in the digital economy.

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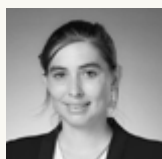
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Meet Equiteq

We are the leading global investment bank for the Knowledge Economy

Equiteq is the leading specialist in Knowledge Economy investment thanks to our first-hand insight and research, our close relationship with the key acquirers in the sector, and through the deals we complete.

Who are we?


Equiteq is a fast-growing, global M&A specialist. We sell the world's smartest knowledge-based and technology firms. Being close to active buyers and investors helps us to understand their acquisition needs and this informs how we can add value to founders and shareholders who want to sell their businesses.

Why Equiteq?

We are the recognized specialist advisor in the Knowledge Economy where intellectual property has historically been delivered through people in consulting firms, but more and more is delivered in combination with technology.

Our benchmarking studies – produced for the last 15 years – have become the industry standard and are supported with detailed insight reports on a range of disciplines within our sector.

Our aim

It's simple - our goal is to bring you to the smartest deal. 

Equiteq Services

Our clients sit at the heart of every transaction we advise upon, whether helping you to dramatically increase your return on M&A or by helping you to achieve the best possible valuation.

Our services in the Knowledge Economy cover the following key areas:

Sell Advisory

Equiteq supports owners of innovative knowledge-based and technology firms seeking to realize equity value. We advise on all aspects of M&A, from helping ambitious owners find capital to inject into their business to accelerate growth, through to a full company sale. We use our unparalleled understanding, experience, and access to find you the right buyer or investor, at the best price and terms.


Buy Advisory

Equiteq supports Strategic Acquirers and financial sponsors seeking to dramatically increase their returns on M&A in knowledge-based and technology services businesses. After 15 years exclusively advising owners of firms towards exit, we have the assets, systems and experience to help you enhance and execute your M&A strategy.

Corporate Divestitures

We work with corporations to meet their divestiture objectives, including disposal of non-core or underperforming assets that either have synergistic potential within other businesses or could form part of a private equity portfolio investment. After 15 years exclusively advising owners of firms in the sector towards exit, Equiteq has the people, processes, sector insight and market access to deliver your transaction at the right price and with preferred deal terms.

Strategic Deal Origination

We work with Strategic Acquirers and Financial Sponsors to develop detailed, insight-driven plans for investment into new markets. By leveraging our sector insight and purpose-built methodology, we can rapidly convert an attractive investment thesis 'on paper' into an actionable plan to realize the opportunity, helping you to exploit key innovation trends through a less crowded, lower risk route. 

Equiteq Highlights

Our global teams remain active throughout the year, advising on deals, as well as sharing their expertise in market-leading reports and events.

Here are our highlights. Click the links below each topic to find out more.

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Insights

Global Buyers Report 2023

For the eighth year, we're pleased to present the findings from our annual survey of global Strategic buyers and Private Equity investors across the Knowledge Economy. Download the report now for exclusive insights into the insights and habits of buyers across the Knowledge Economy.

[Download the report](#)

Consulting Services M&A Report Q4 2022

This industry report is a compilation of quarterly insights from the Consulting Services sector, created to help you make well-informed, critical decisions about the future of your business.

[Download the report](#)

Environmental & Sustainability Consulting M&A Report 2023

M&A within the Environmental and Sustainability sector continues to be very active for consulting and technology companies. Both PE and trade buyers are actively engaged in the market, resulting in 43% more deals in 2022 than in 2021.

[Download the report](#)

Life Sciences Consulting M&A Report 2022

M&A within the life sciences sector continues to be very active for consulting and technology companies, with recent attention-grabbing acquisitions like AmeriSourceBergen's purchase of PharamaLex for \$1.3bn in September 2022.

[Download the report](#)

Resources

50 Tips for Owners of Consulting and Technology Services Firms to Maximize Value

Our team has distilled their years of dealmaking and sector experience into these 50 Tips, that owners can use to achieve their firm's strategic objectives.

[Access 50 Tips](#)

Webinar: Maximize your consultancy's exit value and prospects

Hear insights from Equiteq and Growth Capital Partners on how to fully maximize your firm's valuation, providing actionable insights into how to prepare for exit and attract the right buyers.

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Equiteq advises Value Point Systems on its sale to Softline Holdings [now NOVENTIQ] [October 2022]

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Equiteq advises MML Capital on its investment in Kickmaker [February 2023]

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