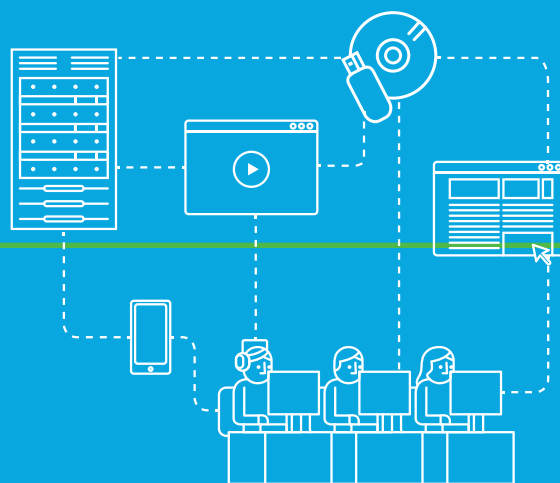


RSM QUARTERLY SPOTLIGHT

INFORMATION TECHNOLOGY



In this issue:

The big picture

P1

At a glance

P2

Analysis

P3-7

Data powered by

 PitchBook


RSM

"With regard to the changes in revenue recognition, technology companies selling perpetual and term licenses will be most impacted. Counterintuitive to the intent of the change, this will cause more confusion than clarity in the near term."

David Van Wert,
Partner, RSM Transaction Advisory Services

BIG PICTURE

Key findings

- Although more resilient than other sectors, mergers and acquisitions (M&A) volume within the information technology (IT) sector finally began slowing in 2017, although aggregate deal values remained historically healthy.
- Record-high transaction multiples for IT companies are deterring speedy closes and incentivizing greater diligence on the part of prospective acquirers, contributing to diminishing volume.
- A significant jump in debt to EBITDA ratios enabled that rise in overall EBITDA multiples.
- Private equity (PE) buyers are propelling overall M&A more than ever before, accounting for well over 30 percent of all IT M&A volume in the final quarter of 2017.

SPOTLIGHT

New revenue recognition standards contributing to change

The new standards cover a whole slew of changes, ranging from a new comprehensive model for accounting for contract modifications, to addressing both deferred and advance payment terms. Technology will be [most impacted](#), but as David Van Wert, partner with transaction advisory services, notes: "Any industry that could potentially have deferred revenue or ambiguity in terms of services or work that is actually being provided could see material changes."

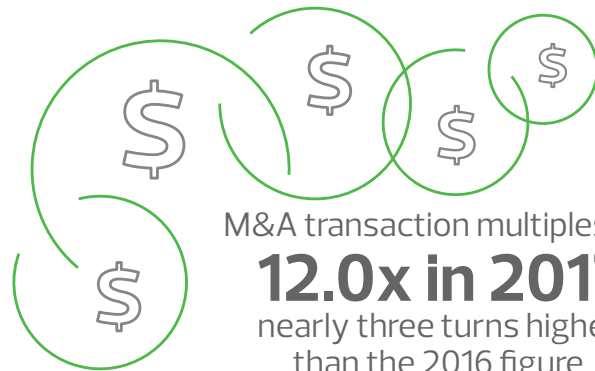
Looking ahead

As more financial sponsors look to make inroads into the technology sector, and tech giants boast massive cash reserves that some are looking to repatriate, investing in not only organic growth initiatives but additional acquisitional growth will continue to power the IT M&A cycle going forward. However, the heights observed during recent years are unlikely to be achieved overall, as prices have simply risen too high for many to justify. Accordingly, newer equilibria will be reached via the typical supply and demand dynamic, with the potential for outlier purchases of highly valued late-stage startups boosting aggregate M&A value in coming years.

LEGACY SOFTWARE SECTORS TRANSFORM: Incumbents are trying to consolidate their position and paying up accordingly

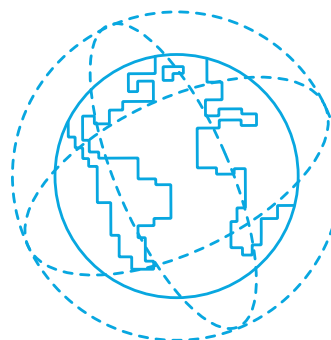
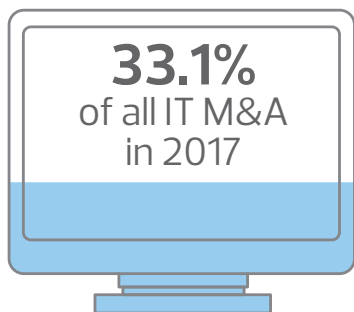


Median M&A
deal size:
**NEW HIGH OF
\$50.5M**



TECHNOLOGY: A turning point for PE firms in 2017

PE buyers' portion of IT is
only growing as of late:



New high in IT deal
volume in 2017:

1,319 transactions
across North America
and Europe

SAAS IMPACT: Consolidation by PE firms amid key IT segments

Median IT buyouts hit

\$95M

A CLEAR RECORD



Add-ons as a
portion of all
IT buyouts in
Q4 2017



66%

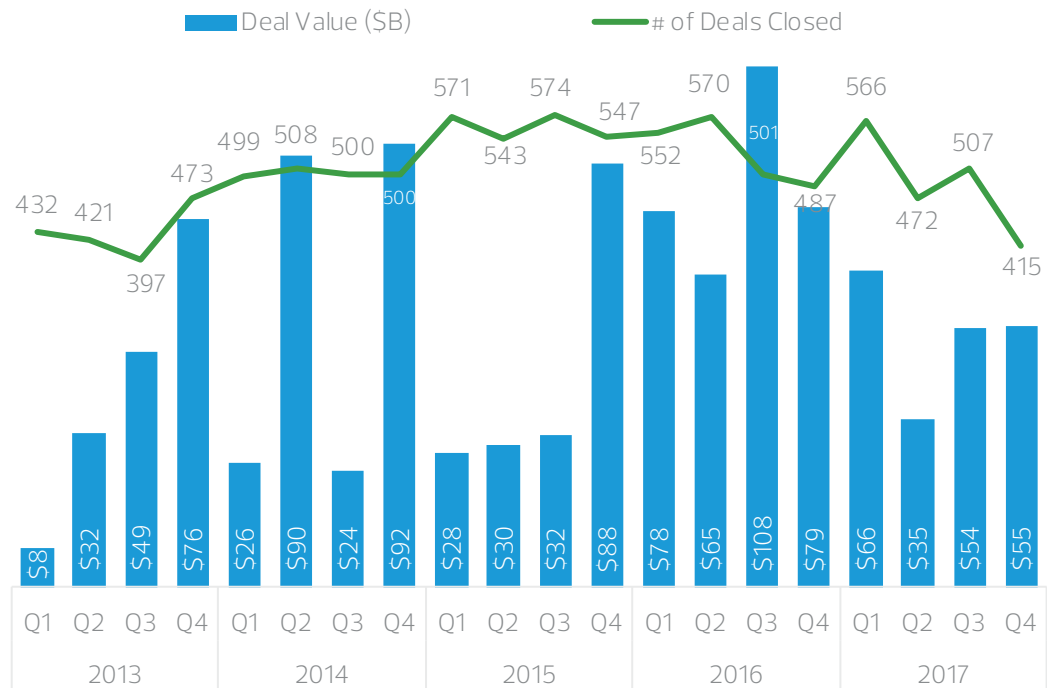
one of
the highest
on record

REGIONAL ANALYSIS

The tech M&A cycle looks poised to enter later stages

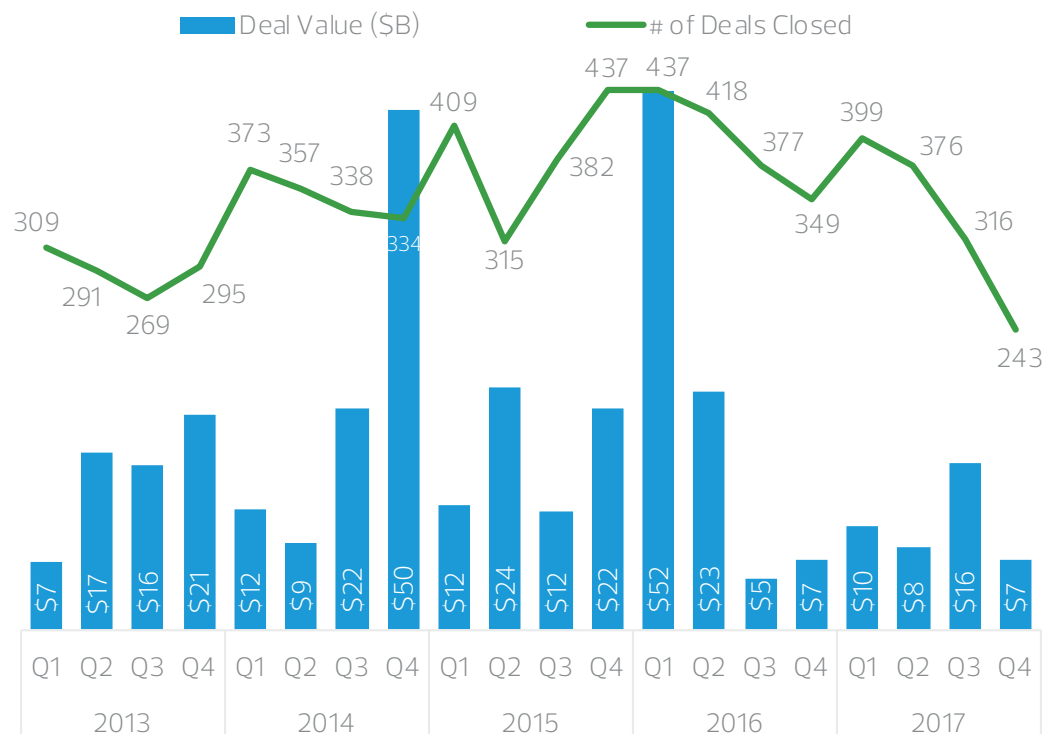
- Year over year (YoY), M&A volume across Europe and North America declined by 21 percent in the final quarter of 2017.
- Aggregate deal value across Europe and North America for the entirety of last year was a massive \$250.3 billion—quite healthy by historical standards, if below the blockbuster six quarters between the end of 2015 and the first quarter of 2017.
- North American consolidation and buying by PE have been more robust overall, leading to a gentler diminishing in activity throughout 2017, as well as considerable volatility.
- Europe, however, has seen a steeper slide in the tally of completed M&A deals in IT; as purchase prices remain elevated, deals are simply taking longer to close while typical supply dynamics are contributing to a somewhat thinner market than before.

Information technology M&A flow by quarter in North America



Source: PitchBook

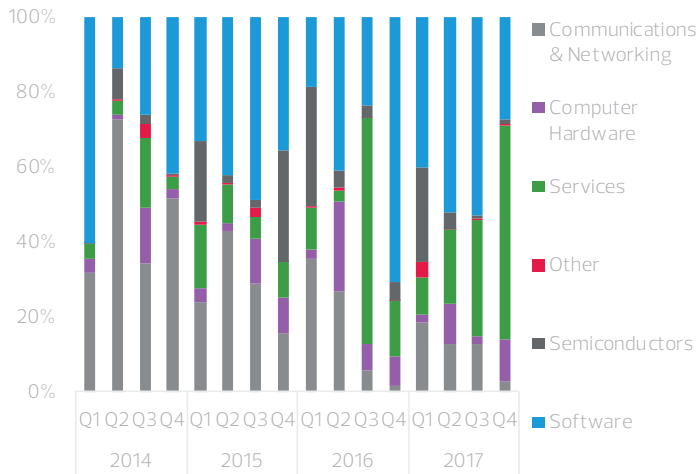
Information technology M&A flow by quarter in Europe



Source: PitchBook

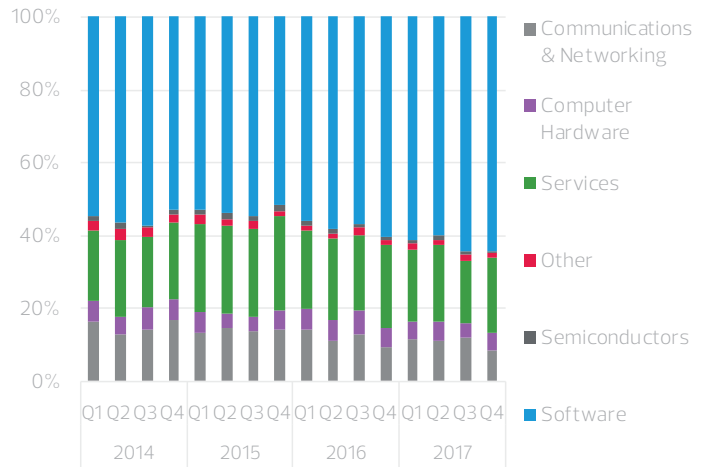
SECTOR ANALYSIS

M&A transactions (\$B) by sector



Source: PitchBook

M&A transactions (count) by sector

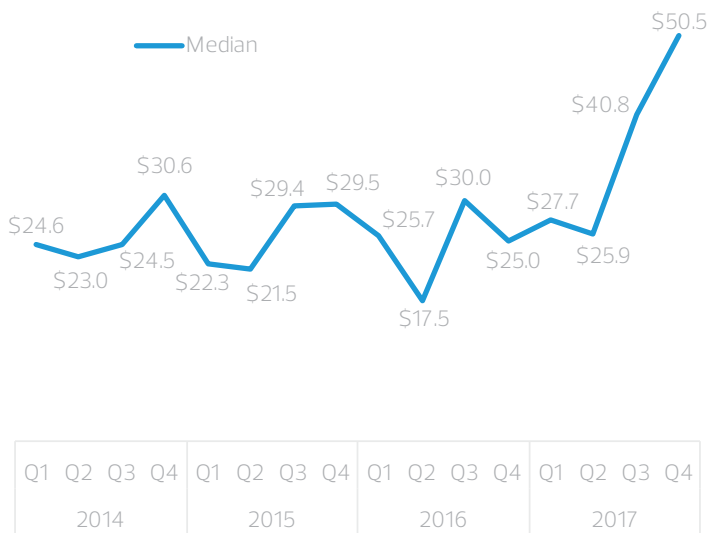


Source: PitchBook

Consolidation among software accounting for the majority of volume still

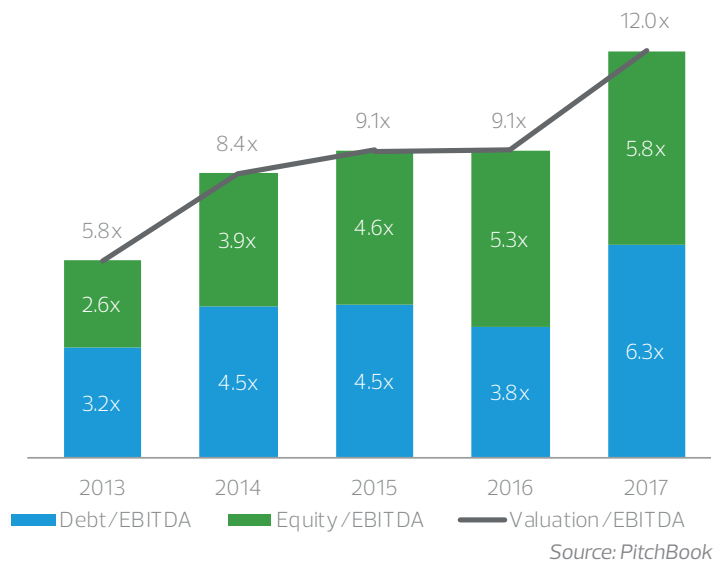
- Since 2016 began, the portion of aggregate IT M&A volume accounted for by software has yet to decline below 55 percent, speaking to the continued effects of software-as-a-service (SaaS) adoption and incumbents' efforts to stay abreast of key niches.
- Median M&A size in the IT sector hasn't been higher in years, testifying to just how much debt has helped fuel PE inroads into the technology space overall as well as buyers' avidity.
- Increased debt loads in 2017 can't be entirely chalked up to PE buyers—the fact of the matter is that access to debt remains historically cheap and consequently when necessary acquirers have more than enough wherewithal to tap lenders to enable surging transaction prices.

Median M&A deal size (\$M)



Source: PitchBook

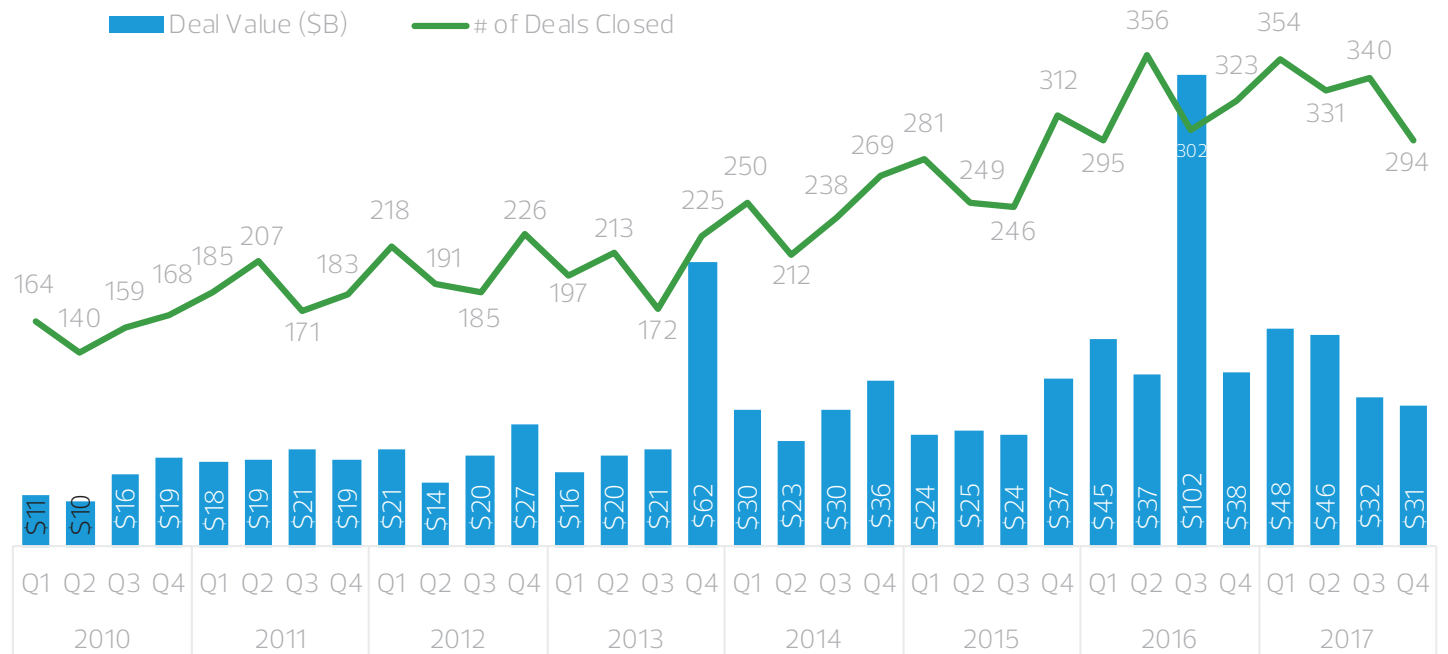
Deal multiples



Source: PitchBook

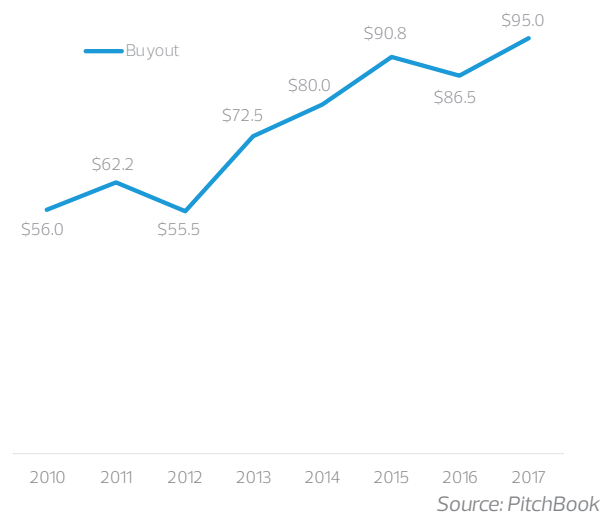
FINANCIAL SPONSOR ANALYSIS

IT private equity deal flow by quarter



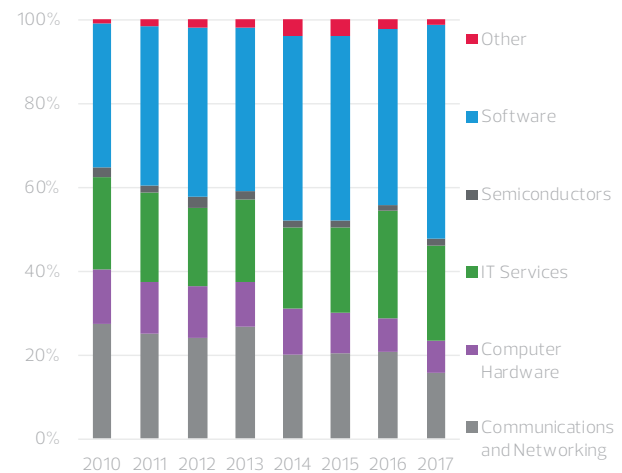
Source: PitchBook

Median PE deal sizes (\$M)



Source: PitchBook

IT private equity deals (count) by sector

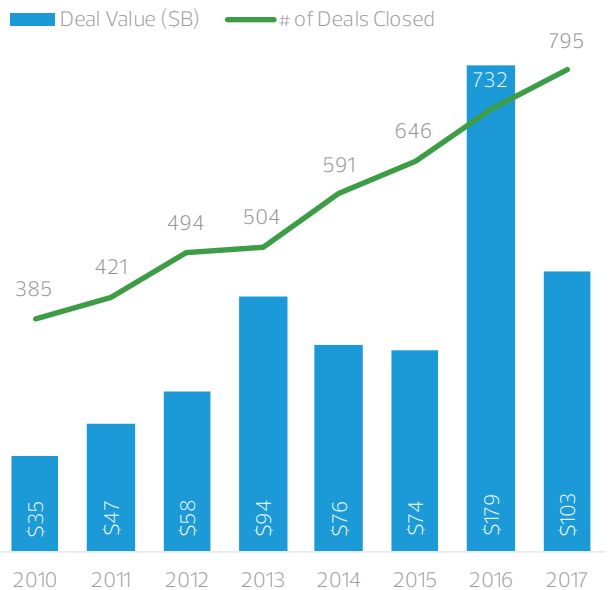


Source: PitchBook

Tech as popular as ever among PE

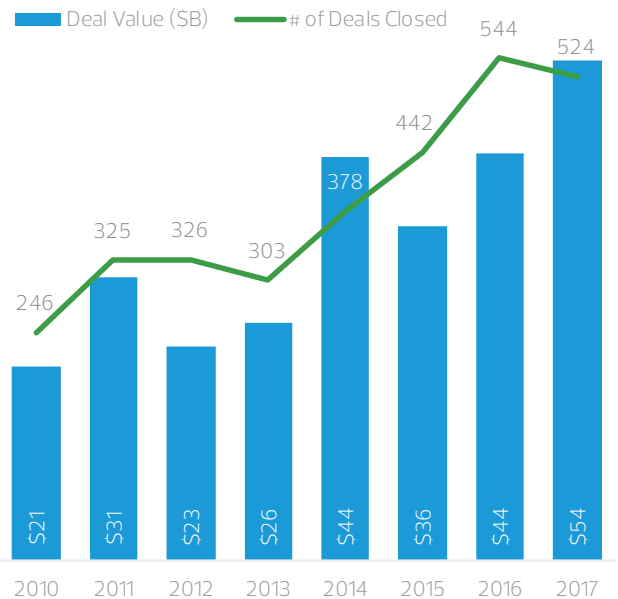
- The steady rise and consequent sustained popularity in overall PE activity within IT was inevitable, as PE firms are undeniably attracted to the recurring revenues inherent in the SaaS model.
- At \$95 million in 2017, the median IT buyout size has never been higher, aided in no small part by judicious tapping of debt markets.
- Add-ons remain quite popular among PE buyers in part to their ability to help blend down initial costly purchases but also due to their efficacy amid more fragmented sector niches, such as IT services or software segments like systems information and management or enterprise.
- Software has accounted for a plurality of PE deal flow in the past, but in 2017, it exceeded 60 percent of all PE activity.

IT PE deal flow by year in North America



Source: PitchBook

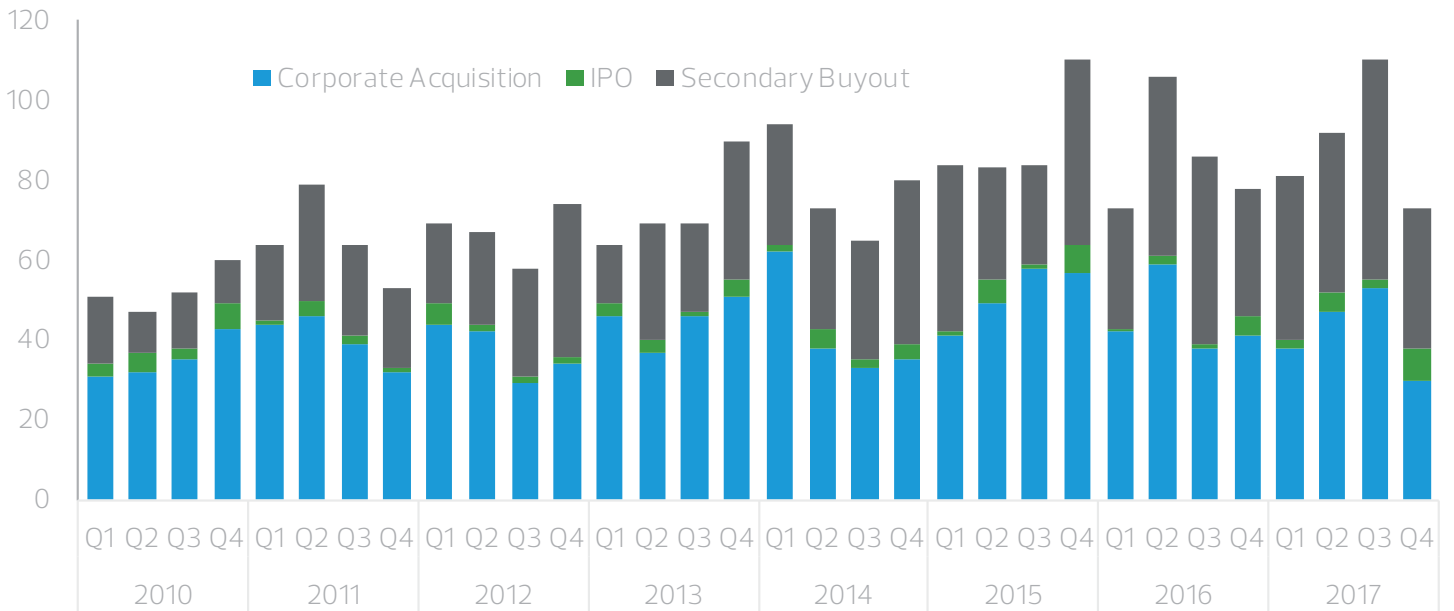
IT PE deal flow by year in Europe



Source: PitchBook

FINANCIAL SPONSOR-BACKED SALES

IT private equity exits by quarter



Source: PitchBook

Record sponsor-to-sponsor sales signal the stage of the liquidity cycle

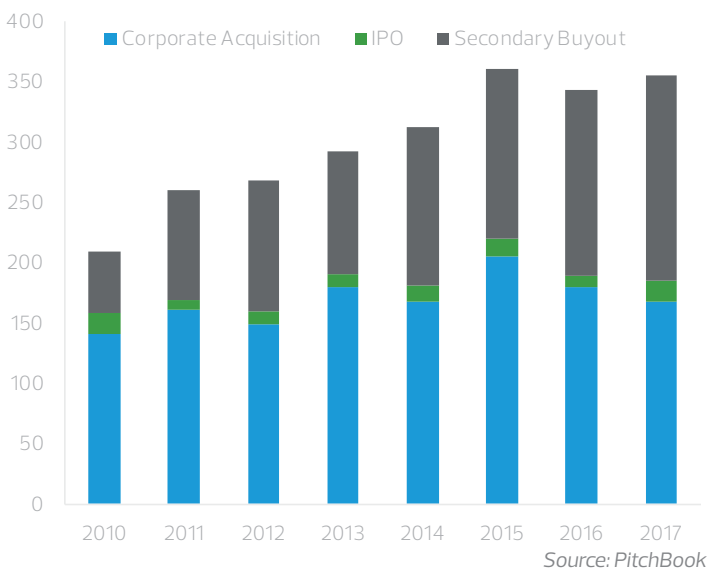
The later stages of a PE-backed exit cycle are often characterized by increased incidence of secondary buyouts—for the first time ever, IT secondary buyouts outpaced corporate acquisitions in 2017 in volume, at 171 to 168.

The third quarter of 2017 saw the true peak of the reversal between a plurality of PE-backed exit flow, at 55 secondary buyouts relative to 53 sales to corporate acquirers.

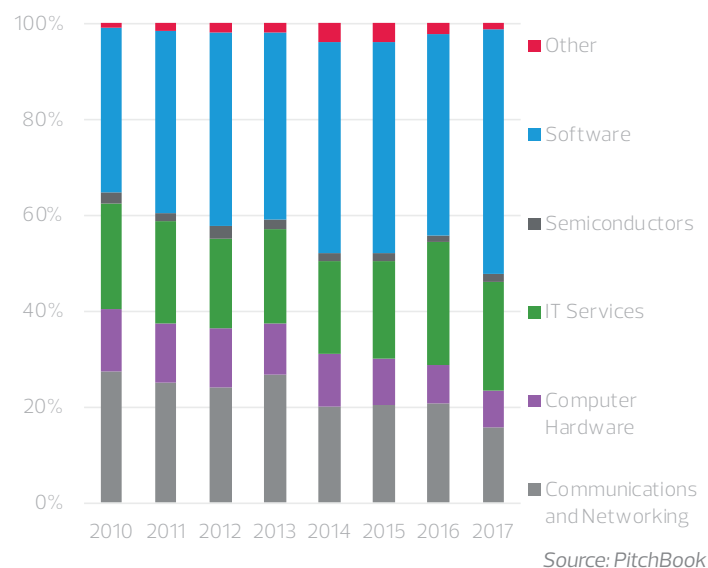
It's important to note that even amid a greater incidence of sponsor-to-sponsor transactions, software remains as popular as ever at 51 percent of overall IT PE volume, signifying that larger buyout funds are focused on snapping up smaller software companies to bring them to scale.

IT services remains a significant component, likely due to consolidation amid regional markets that has often proven a key cornerstone of PE platform-building strategies.

IT private equity exits (count) by type

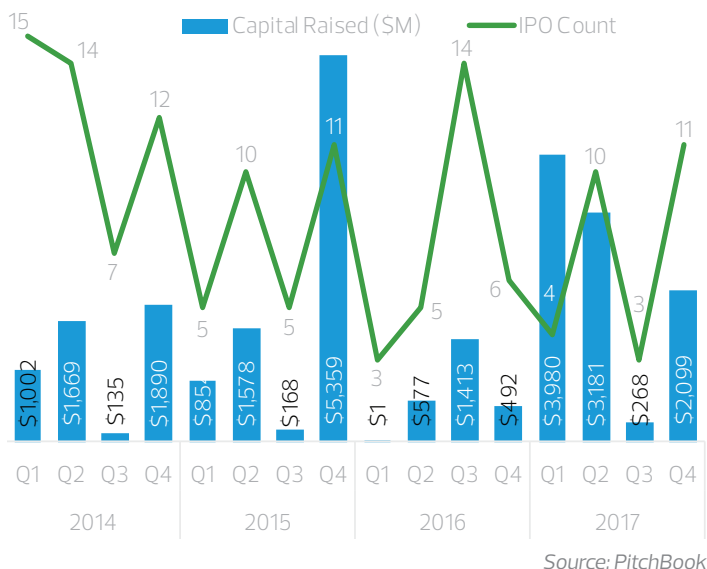


IT private equity exits (count) by sector

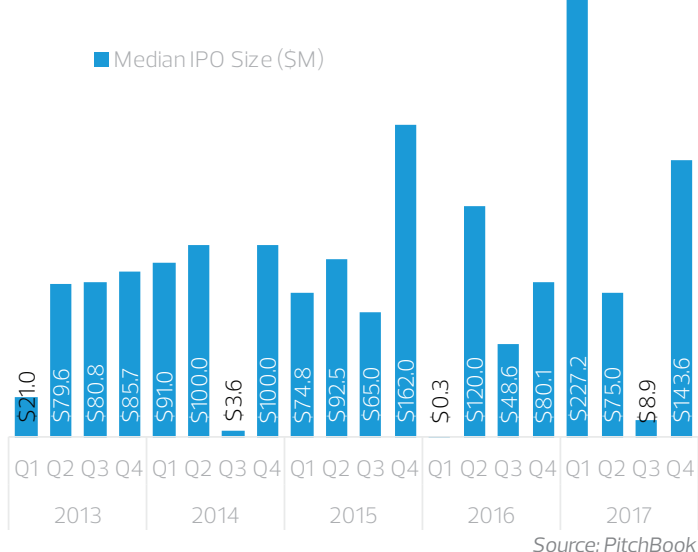


IPO ACTIVITY

U.S. IPOs in the IT industry



Median U.S. IPO size (\$M)



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The following list shows a detailed breakdown of the PitchBook industry codes for the IT industry.

6. INFORMATION TECHNOLOGY

6.1 Communications and networking

6.4 Services

6.2 Hardware

6.5 Software

6.3 Semiconductors

6.6 Other information technology



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