

# CAPITAL THINKING: M&A Surges as Tech Transformation Accelerates

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In the numerous discussions held with corporate management teams during the early stages of the pandemic, one word was uttered more than any other – “survival.” For many companies, survival still equates to success in what remains a highly uncertain economic environment. However, far from just surviving, one element of the economy has been thriving over the course of the past year or so: the technology sector. As many parts of the world remain under strict pandemic restrictions, the rapidly evolving tech space continues to demonstrate its importance in the ongoing functioning of the global economy – which has accelerated the interest of the marketplace.

## Remote Work Gains Traction

The amount of change within tech has been profound, particularly in relation to the workplace. While remote working was already well established, the pandemic is likely to forever alter working habits – as corporates recognise professionals can be productive anywhere, and at any time. Many businesses will reap the benefits of widespread videoconferencing use, both in decreased office space requirements and a reduction in the need for national and international travel.

Enterprises and governments are increasingly making use of remote tools, applications, and video to manage interactions historically undertaken face-to-face. This is driving increased concerns about personal data and the protection of corporate information. These trends are likely to persist and become more embedded, supporting further growth in digital transformation. It will also heighten investor appetite for companies servicing these uses directly, or in adjacencies. Data management, control and security will be increasingly important as the use of remote technology services continue to grow.

Additionally, as a result of more remote working, businesses have also recognised the need to prepare for increased cybersecurity threats. Home-based networks are inherently less secure than a network within the office, particularly with the wireless nature of most home networks. For a hacker, there are numerous vulnerable areas to exploit within these networks. There is also a major difference between a company-issued laptop featuring up-to-date security software patches and the standard security software on personal computers.

## Digital Revolution Intensifies M&A Activity

With expectations of a different post-coronavirus corporate world, legacy tech system providers have seen the writing on the wall and initiated migration plans. This change has been rapid. Less than two years ago, a maintenance service provider for legacy office IT equipment would have been viewed as a stable source of long-term recurring revenues. However, such systems are becoming increasingly obsolete, as the focus turns to more efficient software-based solutions utilising the power of the cloud.

This pressing need to adopt transformative tech solutions has powered a major M&A surge in the technology space over the past 12 months. Despite initial expectations of a relatively muted M&A environment due to countless pandemic-related uncertainties, there has been significant investor activity.

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Information technology deals accounted for approximately 20.8% of all M&A deals globally in the second quarter of 2021, compared with approximately 12.9% of all deals in 2011, according to PitchBook data<sup>1</sup>. M&A activity in the IT sector for the US, Canada and Europe averaged nearly \$400 billion in value annually from 2016 to 2020, and this year surpassed \$428 billion in value from January through the middle of August, according to PitchBook.

European companies have been ripe for the taking, with American investors particularly drawn to the lower valuations on offer relative to opportunities in the US. This is highlighted by recent Refinitiv data, which showed takeovers of UK companies hit a 14-year high by value over the first seven months of 2021<sup>2</sup>.

While US groups are increasingly targeting Europe, it is not all one-way traffic. For example, earlier this year we served as the exclusive financial advisor to Radius Payment Solutions – a holding company of UK mid-market private equity firm Inflexion – on its acquisition of the Huntington Beach, California-based firm Modus<sup>3</sup>. Through this strategic deal, Radius – which has a suite of telematics and connected vehicle products – expands its reach into insuretech. This is just another example of how digital transformation is powering what is likely to be a multi-year M&A wave within tech.

We also are the exclusive financial advisor to Austin-based Periscope Holdings, which announced the signing of a definitive agreement for the Canada-based SaaS solutions provider mdf commerce to acquire the Texas firm<sup>4</sup>. The transaction, once complete, is intended to better position Periscope – which already serves U.S. states, agencies and suppliers – to operate as an eProcurement leader in North America that potentially can serve mdf commerce's existing Canadian and US government agency customers.

One of our recent domestic transactions has been to serve as the exclusive financial advisor to Nashville-based CyberMaxx on its acquisition by the Chicago-based private equity firm Periscope Equity<sup>5</sup>. CyberMaxx is a healthcare-focused managed security service provider (MSSP) that helps prevent, detect and respond to cyberattacks for hospitals.

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Our technology team has extensive expertise that includes business application software, infrastructure software, communications and enterprise systems, internet and information services, security software, healthcare information technology, financial technology and payments, as well as vertically focused software applications.

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