

Technology sector M&A in Covid times



State of M&A activity in 2020

The first six months of 2020 included an unprecedented period for the UK software and services sectors.

Here we provide insight on the Covid impact on M&A based on our involvement of performing buy and sell side mandates for our clients and our own market engagement outside of those activities.

Key indicators

M&A activity returning to normal levels lead by the Buy-side

- ❖ Market now very active led by the Buy-side
- ❖ Vast majority of target companies contacted willing to pro-actively engage
- ❖ Only a minority of PE and some trade buyers are remaining on the side lines. Trade buyers because they judge now is not a good time to take on debt and PE because they are seeking more certainty around valuations

Valuations

- ❖ Technology stock indices and valuation metrics are back to pre-Covid record highs following an initial Covid fall
- ❖ Valuations remain strong and resilient particularly for recurring revenue businesses.

Beneficiaries - More acquisition activity in some sub-sectors, such as:

- ❖ Those offering digital transformation as Covid is accelerating trend and helpful to the value proposition of technology companies.
- ❖ e-industries: e.g. e-commerce, e-learning, e-pay, e-gaming and e-health will gain
- ❖ Distributed network security and network performance to support increase in online usage
- ❖ So will data rich industries, such as data centres, data and cyber security, virtual conferences, data analytics, logistics and edge computing.

Private Equity fully open for business

- ❖ There is a huge pool of money needing to be invested
- ❖ PE keen to invest themselves, often for MBOs, and are encouraging and supporting their investee companies to acquire.

A complete standstill in first two months post-Covid-19

- ❖ Mandates generally suspended with clients focusing on internal issues especially cash, reviewing customer payment risk, planning for and implementing home working and reviewing staff utilisation and whether furloughing and redundancy were necessary
- ❖ Target companies and those considering M&A activity did not wish to engage for the same reasons
- ❖ Volume of sector M&A transactions down and delayed rather than failed. Those completing Q2 were well advanced pre-pandemic.

Sell-side remains uncertain

- ❖ Suspended sell-side mandates and companies and owners wishing to exit are holding back for at least another few months
- ❖ Reasons include many taking a performance hit because of delays in new signings and frustratingly not being able to recognise income because of not being able to implement solutions on customer premises. They are waiting for this to be corrected
- ❖ Fear buyers will not pay a fair price although that seems unfounded for good businesses.

International interest in UK tech

- ❖ This continues to be strong especially from North American software buyers who are adjusting to progressing and closing deals without international travel.

Value buyers

- ❖ There remain value buyers who are seeking viable businesses which are not badly distressed and believe they will see a flurry of sellers induced by Covid uncertainty
- ❖ Those and other buyers are not wanting to take on businesses which are greatly reliant on distressed sectors for their customers e.g. hospitality, travel, retail, property, and aerospace
- ❖ So, most are continuing to make contact, avoid the distressed opportunities and expect later in the year will be a more conducive period.

