

# Software Industry M&A Trends 2021/22

A Practical Guidance® Practice Note by I. Bobby Majumder, Esq., Frost Brown Todd LLC



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Mergers and acquisitions of software companies continued to dominate the global technology mergers and acquisitions (M&A) landscape in 2021, with deals aggregating over \$1 trillion in value and the completion of over 3,400 M&A transactions according to Renfinitiv. SAAS deals comprised more than half of those deals according to SEG Capital Advisors. This represented a 11.3% YOY increase in the number of closed transactions over 2020. Software company M&A mainly encompasses the following types of companies:

- **Application software (including SAAS).** Companies whose software is created for a specific purpose to be utilized by end users.
- **IT software.** Consists of companies whose software is developed to efficiently process and distribute data.
- **Infrastructure management software.** Companies whose software enhances the flow of information in an information system while also increasing efficiencies.
- **Information management software.** Companies whose software delivers information throughout the information supply chain while simultaneously analyzing the information to produce reports, breakdowns, and insight.
- **Hosted services software.** Companies who act as outsourced IT systems, whereby software is hosted and managed by the software manufacturer.

- **Security software.** Companies whose software protects a computer or network from viruses, malware, ransomware and other potentially damaging items.

The re-emergence of blank-check companies, now rebranded as special purpose acquisition companies (SPACs), has led to increased competition for acquisition targets between SPACs, traditional PE, and strategic buyers. Software company M&A is expected to remain the leading source of liquidity in the technology sector in 2022, as software companies offer SPACs, strategic acquirers, and private equity firms effective avenues for growth with lower capital-resource requirements than hardware-focused businesses. Due to an uptick in mega-deals, the software M&A market has grown rapidly in terms of aggregate transaction value and in terms of volume.

## Trends in Deal Value and Deal-making Activity

With the completion of approximately 2,275 deals, total software company M&A transaction volume in 2021 was significantly higher relative to 2020 with the number of closed deals going from 2,275 in 2020 to 2,854 in 2021. Total transaction value for the sector doubled going from \$200.68 billion in 2020 to \$401.01 billion in 2021, according to Berkery Noyes. A record number of mega-deals valued at over \$1 billion drove this uptick in total transaction value. By far the largest software M&A deal of 2021 was Oracle's purchase of Cerner, a provider of digital health information systems, for \$28.3 billion. Other notable transactions in 2021 include Microsoft's \$19.7 billion purchase of Nuance Communication and Salesforce.com's \$27.7 billion purchase of Slack.

The Deloitte 2022 M&A Trends Survey indicates that global CEOs expect M&A to rise in 2022. 70% of strategic buyers and 68% of private equity firms expect that the average number of M&A deals that their organization closes will be higher over the next 12 months. 75% of strategic buyers and 66% of private equity firms also expect the enterprise size of their deals to increase in 2022. It will be interesting however to see the impact of global inflation resulting from the massive amounts of government stimulus pumped into the economy on M&A activity in the technology industry. In a rising inflation market, investors tend to pivot to more tangible asset companies.

Relative to strategic transactions, the percentage of software M&A transactions conducted by private equity, venture capital and other investment firms has increased yearly since 2019, accounting for 26% of software deal volume in 2021 and 42% of the total value, respectively. Overall confidence in the technology sector, combined with the trend among private equity funds to focus on building portfolios of related investments, could lead to further value-driven deal activity, particularly by funds that conditioned their capital raise on entry into the software sector or the technology industry more broadly.

## Trends in Deal Structure

### Valuation Multiples

The software M&A market has seen significant upticks in both revenue and earnings before interest, taxes, depreciation, and amortization (EBITDA) enterprise value multiples.

Consistent with movement in previous years, the median revenue multiple increased from 3.2x to 5.1x, from 2020 to 2021. The median revenue multiple for software M&A deals has increased consistently from 2015 to 2021. The median

revenue multiple for software M&A is, however, significantly higher than the median revenue multiple relative to the technology sector as a whole.

The median EBITDA multiple moved upward, from 15.9x in 2020 to 18.9x in 2021. Given the increasing EBITDA multiples, value-driven investors may have more difficulty finding strategic opportunities in software M&A.

### Goodwill Impairment

A goodwill impairment charge is recorded when the acquisition price of an entity exceeds such entity's actual value. Duff and Phelps's U.S. Goodwill Impairment Study indicates that, unlike companies in other industries, software companies have consistently recorded fewer goodwill impairment charges in M&A transactions for each of the past three years. This trend is likely explained by strong competition among strategic and private equity acquirers driving record-high valuations, which narrow the gap between book values and acquisition prices.

Source of data in this article (except as otherwise specified): Berkerynoyes.com.

## Recent Software Business Acquisitions

Below are recent examples of oil and gas industry acquisition transactions in Market Standards, the searchable database of publicly filed M&A deals from Practical Guidance that enables users to search, compare, and analyze its comprehensive database of transactions using over 150 detailed deal points to filter search results. You can customize this search to your needs by adding filters or modifying the search criteria. For more information on Market Standards, click [here](#).

Acquiror	Target	Transaction Value	Date of Agreement	Agreement
Oracle Corporation	Cerner Corporation	\$28.3 billion	December 20, 2021	Agreement and Plan of Merger
Nordic Capital, Insight Partners	Inovalon, Inc.	\$7.3 billion	August 19, 2021	Agreement and Plan of Merger
Thoma Bravo, LLC	Proofpoint, Inc	\$12.3 billion	April 25, 2021	Agreement and Plan of Merger
Microsoft Corporation, Inc.	Nuance Communications, Inc.	\$19.7 billion	April 11, 2021	Agreement and Plan of Merger
salesforce.com, inc.	Slack Technologies, Inc.	\$27.7 billion	December 1, 2020	Agreement and Plan of Merger

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## **I. Bobby Majumder, Esq., Member, Frost Brown Todd LLC**

Bobby is a member in the Dallas office and focuses his practice on corporate and securities transactions primarily in the energy (oil & gas, coal, and renewables), mining, health care, and information technology industry verticals. He represents underwriters, placement agents, and issuers in both public and private offerings of securities; public and privately-held companies in both cross-border and domestic mergers and acquisitions (M&A); private equity funds, hedge funds, and venture capital funds in connection with their formation as well as their investments; and companies receiving private equity and venture capital financing.

Bobby advises established companies, as well as new and emerging issuers, in connection with raising capital from both the public and private capital markets in the United States and Europe (including Rule 144A / Regulation S offerings) such as the \$706M Initial Public Offering of the CPSE ETF, an Indian exchange traded fund. He also advises US and foreign private issuers in connection with their SEC reporting and compliance obligations.

Bobby has extensive M&A experience advising companies in the IT, telecoms, mining, energy, and health care industry sectors such as the \$603M sale of Regency Energy Partners LP to GE Energy Financial Services.

Finally, Bobby also has extensive experience representing private equity sponsors, hedge funds, and venture capital funds in their investments in both public companies and privately-held companies such as Amazon.com's \$60M investment in BankBazaar.

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