

Software Industry M&A Trends 2022/2023

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



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Mergers and acquisitions of software companies dominated 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 in 2021, now rebranded as special purpose acquisition companies (SPACs), led to increased competition for acquisition targets between SPACs, traditional PE, and strategic buyers. However, the historic number of M&A transactions completed in 2021 has slowed down dramatically due to current economic conditions. As a result of inflation raging, interest rates rising from .25% in early 2020 to rates ranging from 4.75% to 5.00% in March of 2023, and equity markets dramatically falling globally, borrowing money to finance these transactions has become significantly more expensive, resulting in M&A transactions declining in volume and transaction value.

Trends in Deal Value and Deal-making Activity

With the completion of approximately 2,421 deals in 2022, total software company M&A transaction volume was lower relative to 2021 (2,878 deals were completed in 2021). However, total transaction value for the sector increased by 12% going from \$403.21 billion in 2021 to \$452.75 billion in 2022, according to Berkery Noyes. Driving this uptick in transaction value was a record number of mega-deals valued at over \$1 billion. By far the largest software M&A deal of 2022 was Broadcom's purchase of VMware, a provider of enterprise software, for \$70.36 billion. There is an expectation for M&A to stay at lower levels during the first half of 2023, with a potential increase if the Federal Reserve reduces its quantitative tightening efforts in the

second half of 2023. It will be interesting, however, to see the long-term impact of global inflation resulting from the massive amounts of government stimulus pumped into the economy on M&A activity in the technology industry.

Many private equity firms are sitting on plenty of dry powder to be able to invest, however, due to the unpredictable and volatile economic conditions, many are reluctant to finance transactions at this time. Private equity firms could use accruing, participating, and pay-in-kind dividends with a senior liquidation preference to structure around the rising interest rates, and could leverage this combined with larger equity checks to complete potential deals. However, only time will tell if this will be what ultimately leads to an uptick in M&A activity in 2023.

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 decrease in movement in 2022, the median revenue multiple decreased from 5.1x to 3.7x, from 2021

to 2022. Prior to 2022, the median revenue multiple for software M&A deals had 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 decreased, from 18.9x in 2021 to 16.7x in 2022. Given the decreasing EBITDA multiples, value-driven investors may have more luck finding strategic opportunities in software M&A as economic conditions return closer to more “normal” conditions.

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](https://www.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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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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