OBJECTIVE
Investment Banking & Valuation

Q1-Q3 2021
Technology Industry Report

Vertical SaaS Attracts Widespread M&A Interest

IN THIS REPORT:

- Trends Defining Vertical SaaS in M&A
- M&A Activity Update
- Most Active Sectors
- Market Data

Software-as-a-Service (SaaS)

Vertical SaaS Attracts Widespread M&A Interest

Recurring revenue subscriptions, institutionalization of SaaS M&A activity, and attractiveness of companies earlier in their life cycle are among the major themes driving value creation.

Strategic and private equity acquirers have exhibited strong demand for vertical Software-as-a-Service (SaaS) solutions in the first half of 2021, driving deal activity and multiple expansion for industry-specific providers of point solutions. While this surge in dealmaking activity has been well-documented, it is helpful to look beyond the data to understand the drivers of strategic buyers' and financial sponsors' interest in vertically focused SaaS companies and how this is affecting the pace and nature of M&A activity.

Based on our research and conversations with industry participants, we note key contributing factors that are driving investor interest in this space:

- **Potential acquirers are attracted to recurring subscription revenues,** which provide upside exposure to secular growth in the vertical while limiting exposure to significant downside risks of reduced technology spending in periods of stress. This revenue profile has become more valuable in the wake of COVID-19-related economic uncertainties.

- As cloud computing and software solutions have matured and become more granular over the past several years, so too have the capital markets that finance them. Deal activity that was once undertaken on an opportunistic or reactive basis has become more proactive and strategic. The resulting **institutionalization of SaaS M&A activity** is driving interest for best-in-class niche solutions at earlier stages in the product development life cycle from both strategic and financial acquirers.

- As a result of increasing competition for deals among acquirers, **entrepreneurs are being approached earlier** than in the past, presenting them with the choice between maintaining a laser-like focus on growth and dealing with the distractions of choosing how and when to raise capital.

This report delves deeper into the dynamics influencing the decisions of both acquirers and target firms and presents highlights of representative deal activity we are seeing in the healthcare, insurance, and construction verticals.

Trends Defining Vertical SaaS M&A in 1H 2021

Vertical software companies, particularly ones with point solutions that address narrow, core functions, have proven their efficacy at filling gaps left by horizontal software companies that may serve multiple industries with a single platform. The

SaaS model offers customers certain advantages over proprietary systems, including strategic flexibility, ease in administration, and more immediate access to the latest upgrades, which often outweigh higher long-run costs of developing a bespoke solution.

A common profile of successful high growth SAAS companies is in sustaining a sharp focus on solving for a specific need in an industry vertical that established platforms have under addressed or left open. A typical progression for vertical SAAS companies starts with winning new clients at an increasing rate by offering a simple and compelling point solution, gathering market share, responding to customer requests to integrate the solution with established platforms in the industry vertical, and then transitioning into a position in which they are receiving an increasing unsolicited interest from potential strategic and private equity acquirers.

The ongoing growth and maturation of the vertical-focused SaaS ecosystem has coincided with the broad-based surge in technology M&A activity over the past several quarters. This robust market for vertical SaaS dealmaking has been defined by three distinct themes.

Recurring revenue attracts widespread buyer interest. The value propositions of SaaS companies that focus on specific industries combined with the recurring revenue models of these subscription-based businesses have attracted interest from strategic acquirers and financial sponsors alike. Acquirers have recognized growing customer demand for solutions that are tailored to the unique needs of one vertical as well as the ability to scale with little incremental overhead. Vertical SaaS also presents an attractive cash flow profile across the business cycle; contractually based revenue streams for core business functions are considered more resistant to curtailment in periods of business stress.

The importance of this dynamic was highlighted during the COVID-19 pandemic; while companies may have looked to reduce staff or inventory during lockdowns, canceling subscriptions for key functions enabled by point solutions such as billing, compliance, or customer communications was not an option. The resilient cash flows of vertical SaaS provide an excellent hedge against beta risks in other portfolio assets of acquirers yet allow full participation in the secular growth of the industry vertical.

The institutionalization of M&A activity. The dealmaking landscape in vertical SaaS has significantly matured, or become more institutionalized, over the past decade. For large strategic technology acquirers in both the U.S. and Europe, acquisition has become a key pillar of the business plan. As a result, large technology platforms and other strategic acquirers have built in-house acquisition teams that to source targets and execute transactions on a regular, proactive basis. This professionalization has improved communication with target firms and allowed buyers to identify emerging companies as potential strategic fits at an earlier stage of the product cycle and while also developing a clearer path to integration with an existing platform. The value perceived by strategic acquirers is based on their assessment of the post-acquisition economics of leveraging existing distribution and on potential synergies with the existing platform, typically creating assumptions of expected shareholder value in a 2–3-year horizon.

For private equity firms or other financial buyers, the investment thesis for vertical SaaS targets is somewhat different, but sponsors' interest in the space is every bit as strong. Financial buyers will generally not have the same in-house product development expertise of a strategic acquirer but will add value by adding financial resources and professional management to scale recurring revenues. This scale allows financial buyers to capture non-linear value creation and position the company to generate a premium multiple, typically over a 3–5-year horizon. In general, private equity firms are facing increased competition for larger deals in the cloud computing and SaaS space, forcing them to move down-market and pursue companies in niche verticals they were not established in before, and putting them in more direct competition with strategic acquirers. In selecting a strategic partner, the entrepreneur must also factor-in their preferences for legacy ownership and involvement post-transaction, which may be more substantial with a private equity buyer than for well-resourced strategic buyers, or private equity-backed strategic buyers.

Entrepreneurs are being approached earlier. Vertically focused point solution providers need to think seriously about their window of opportunity for pursuing purchase premium against the threat of the emergence of competing point solutions, which may result in a winner-take-all dynamic. The pressure to understand these potential trade offs has become heighten in today's market, as financial sponsors and strategic acquirers are approaching targets earlier in their life cycles. Waiting too long to engage with potential acquirers or investors runs the risk that enterprise platforms may develop a similar offering internally or buy one of your competitors. On the other hand, prematurely engaging acquirers or investors can present risks, as well. These include distracting the management team from growing the business or revealing strategic position or trade secrets to competitors.

Navigating these challenges highlights the importance of working with an advisor who understands the SaaS dealmaking landscape and can guide management teams through these high-stakes decisions. Investment bankers and other advisors who have worked extensively with vertical SaaS companies can map the specific competitive M&A landscape in the industry, model a range of valuations under different scenarios, and can provide transparency and introductions to high-fit acquirers well in advance of a transaction.

At Objective, we draw on our relevant experience in vertical SaaS and technology more broadly to help business owners achieve evaluate their options while remaining focused on growing the business. We do this by:

- Conducting a detailed business valuation to guide strategic decision-making
- Mapping the company's full range of strategic options and create a tailored strategy
- Identifying high-fit acquirers and/or investors from a global set of industry relationships
- Negotiating transactions to accelerate results and attempt to maximize value for shareholders

Vertical SaaS Spotlight: Healthcare, Construction, Insurance, and Marketing

Below, we share some detail on deals in SAAS industry verticals that have responded to the dynamics we outlined above:

Healthcare SaaS

The rise of telehealth during the pandemic is just one example of the widespread digitalization of the healthcare industry—a trend that has been unfolding for the past decade.

The development and scaling of point solutions and broader healthcare-focused SaaS platforms has been integral in driving all aspects of digital healthcare. This digitalization touches all phases of the patient and delivery lifecycle, including lead generation, patient scheduling and communication, electronic medical record keeping, prescription fulfillment and management, and billing and collections. Healthcare SaaS solutions must be designed to managed stringent HIPAA requirements about patient information privacy and other data-security requirements.

Over the past several years, Objective has been an active advisor in the healthcare sector. For example, in 2017 we sold Practicing Excellence, which offers an app-based video micro-learning platform that delivers progressive skill-building programs to enhance the patient experience, fuel team collaboration, and develop clinical leadership. In 2018, we sold StudyKIK, a clinical trial software provider, to Kinderhook Industries. And in 2021, we helped Contakt World, a SaaS company committed to improving health equity and disease management while solving sector specific business challenges, to acquire HealthCheck, a SaaS health screening app.

Taken together, these transactions reflect a recent market trend which we mentioned above: Acquirers have focused more heavily on vertical software companies with highly-specific point solutions than horizontal software companies that offer broader, more generalized solutions to multiple industries. As we noted, acquirers have recognized increasing market demand for solutions that are optimized to the specific needs of one vertical, and which offer the ability to scale with little incremental overhead.

Marketing Technology

Companies are increasingly adopting digital marketing techniques to engage with and attract customers, ultimately resulting in the rapid development of innovative marketing and advertising solutions. As innovation across marketing technology and social media continues, we believe that companies offering unique and compelling marketing tech solutions within key sub-sectors will attract substantial acquisition interest. As an example of recent deal activity in the space, Objective advised Myers Media Group (MMG) on its sale to Resurgent Ventures in early 2021. MMG is a provider of data-driven software products that help to improve the visibility of e-commerce websites.

Major marketing tech sub-sectors of interest include:

- Email/SMS marketing
- Social media and influencer marketing
- Artificial intelligence (AI)-based marketing
- Seamless in-app marketing and e-commerce
- SEO and targeted search solutions
- Media streaming ad marketing
- Tech-focused out-of-home physical marketing

The fragmented and evolving nature of the marketing tech industry has created a trend toward consolidation. Companies of all sizes increasingly demand an integrated marketing/ad tech suite, which we believe will result in increased M&A activity. In addition, it seems likely that large marketing tech companies will seek to grow through strategic acquisitions, while mid-sized companies will continue to broaden their integrated tech suites. Meanwhile, we expect that agencies will be motivated to acquire tech-focused companies in order to enhance their internal marketing capabilities. In addition, we anticipate that private equity firms will aggressively look for add-on acquisitions to create unified marketing tech platforms, which should ultimately result in premium valuation opportunities.

Insurance SaaS

Large strategic acquirers are continuing to aggressively pursue M&A opportunities in the insurance sector in an effort to expand product and service offerings. Against this backdrop, we believe that the M&A market for insurance SaaS companies will continue to grow in Q4 2021 and next year, driven by a continuing emphasis on digital transformation, demand for enhanced customer experiences, and the attractive economics that insurance SaaS companies offer.

Objective has been an active advisor in the insurance SaaS sector. Earlier in 2021, we sold an insurance software provider to the largest for-profit managed healthcare company in the United States.

E-commerce SaaS

According to eMarketer, e-commerce sales will increase approximately 27% percent year-over-year in 2021, driven primarily by consumers' increasing preference for online purchases and the growth of tech-enablement software. From traditional retailers to digitally-native brands, companies across all industries are focused on e-commerce strategies to drive expansion. Categories that appear especially poised for growth include mobile commerce, augmented reality, data and analytics, and logistics. Within this environment, companies offering innovative and unique e-commerce technologies are well-positioned for growth in terms of operational results and valuations.

As a result, we are monitoring the e-commerce SaaS vertical very closely. We believe that e-commerce SaaS companies will be attractive acquisition candidates as digitally-native companies continue to grow and as traditional retailers move toward e-commerce. In particular, we anticipate that strategic buyers will seek to gain competitive advantages, while private equity investors will look to capitalize on opportunities for industry consolidation.

SaaS M&A Market Data Summary

SaaS M&A transaction volume reached an impressive 1,253 transactions for Q1 – Q3 2021, a 42% growth vs. the same period in 2020. M&A volume is expected to accelerate as sellers continue to capitalize on a premium M&A valuations within the SaaS sector

1,253
SaaS M&A Transactions Completed Q1 – Q3 2021

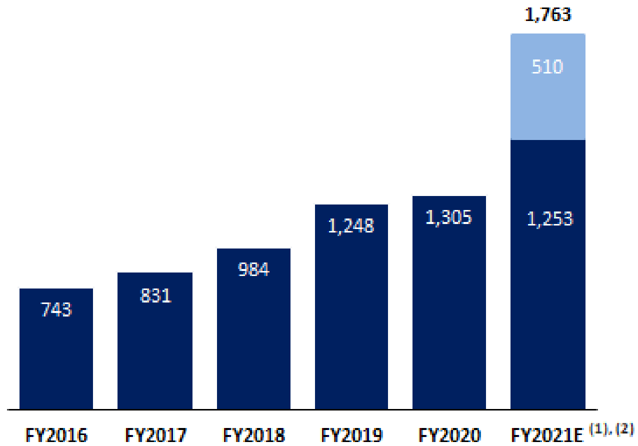
42%
Growth in M&A Volume During Q1 – Q3 2021 vs. Q1 – Q3 2020

8.0x
Median EV/Revenue Multiples Achieved in Q3 2021

55%
Of Transactions in Q3 2021 Were From Private Equity Investments

SaaS M&A Transaction Volume

Represents internal estimate for Q4 2021

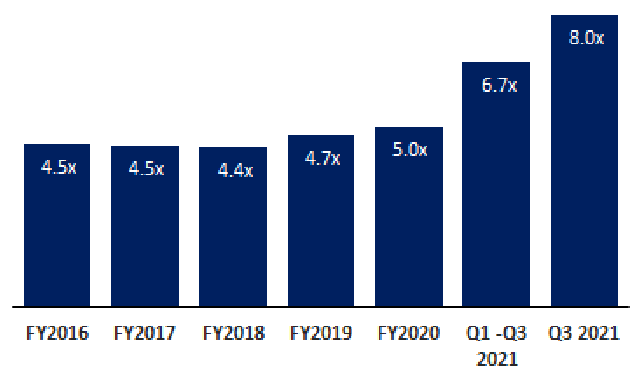


(1) FY2021E includes actuals for Q1 – Q3 2021 and an assumption for Q4 2021

(2) Q4 2021 assumes a modest transaction volume growth rate of 15% vs. Q4 2020

SaaS M&A Median EV/Revenue Multiples

Fueled by strategic buyers necessity to grow through M&A, along with substantial dry powder from private equity, SaaS companies remain, and will continue to be an attractive asset across a broad range of industry sectors



Notable & Active Strategic Acquirers

Cisco, Microsoft, lightspeed, helpsystems, volaris, IRIS, PaySimple, WELL Health Technologies Corp, Lone Wolf Technologies

Notable & Active Private Equity Investors

Vista Equity Partners, Thoma Bravo, Hg, Alpine, TA Associates, Providence Equity, Clearlake Capital, AKKR, Marlin Equity Partners

 Source: Pitchbook, S&P Capital IQ, 451 Research, FactSet, Internal Knowledge

Select Transactions

Undisclosed Insurance Software Provider Company

Has been acquired by

Undisclosed Premier Healthcare Services Provider Company

Sell-Side Advisor to the Insurance Software Provider Company

grasp technologies inc.

Has been acquired by

WRS

Sell-Side Advisor to Grasp Technologies

Undisclosed Healthcare Technology Company

Has been acquired by

Undisclosed San Francisco Based Private Equity Firm

Sell-Side Advisor to the Undisclosed Healthcare Technology Company

myers media group

Has been acquired by

RESURGENT CAPITAL PARTNERS

Sell-Side Advisor to Myers Media Group

Select Awards & Recognitions

Sell-Side Advisors of the Year by M&A Advisor

Technology Deal of the Year ($100M-$1B) by M&A Advisor

Corporate / Strategic Deal of the Year ($100-250M) by M&A Advisor

Boutique Investment Banking Firm of the Year by M&A Advisor

OBJECTIVE
Investment Banking & Valuation

Objective, Investment Banking & Valuation is a leading investment banking and valuation firm offering M&A Advisory and Valuation Advisory Services for lower middle market companies. Founded in 2006, Objective's seasoned professionals have collectively executed over 500 M&A advisory engagements and thousands of business valuations within its five practice groups: Business Services, Consumer, Healthcare & Life Sciences, Manufacturing & Distribution, and Technology. Objective is tenaciously invested in providing world-class, sector-focused advisory services aligned with its clients' objectives. The services we provide are below:

M&A Advisory

- Sell-side
- Buy-side

Valuation Advisory

- Strategic Advisory
- Transaction Opinions
- Financial Reporting
- Tax Compliance

Please direct inquiries to:

Trever Acers*
Managing Director
trever.acers@objectivecp.com
(858) 663-8662

Michael Kim*
Managing Director
michael.kim@objectivecp.com
(858) 264-6580

Jack White*
Associate
jack.white@objectivecp.com
(760) 505-0356

*Registered Representative of BA Securities, LLC.