Trends driving sector M&A TMT

ALANTRA IDENTIFIES THE MOST SIGNIFICANT TECHNOLOGY DEALS OF 2019 AND THE KEY TRENDS UNDERPINNING M&A FOR 2020

2019 was a strong year for M&A in the Technology sector with a number of significant deals completing in H2. Activity has been driven by the continued strength of corporate acquirers and significant undeployed capital from private equity funds. We have seen notable transactions underpinned by key trends in the market and expect these to continue into 2020:

UCaaS and CCaaS

The consolidation in the Unified-Communications-as-a-Service (UCaaS) space has gone from strength to strength as companies look to broaden their capabilities and take advantage of the relatively untapped cloud contact centre market through M&A activity. End customers increasingly expect to get contact centre services from their voice provider and, with Cloud PBX market share likely to break 50% by 2021, contact centres are next to make their way to the cloud. As such the explosion of features, compliance and security requirements will continue.

With contact centres historically dominated by native (on-premise) providers such as Cisco and Avaya and cloud currently only making up 8% of the market, CCaaS has become a hot commodity for existing Unified Communications (UC) players looking to take advantage. UC vendors are aware that they need to offer a broad suite of services within a contact centre to be successful. Transactions over the past year have shown acquirers looking to build out capabilities. 8x8's acquisition of Wavecell, RingCentral's move for Connect First and Gamma's purchase of Telsis demonstrate UC players' appetite in the space. At the same time, Contact-Centre-as-a-Service's (CCaaS) start-ups, including Gladly and Talkdesk, have found no difficulty in raising funds at premium valuations.

Private equity interest, through buy-and-build strategies, is also high. Marlin Equity Partners enhanced its existing Serenova CCaaS platform with the acquisition of ProScheduler while also adding Puzzel, a Norway based CCaaS provider, to their European portfolio. Similarly, Madison Dearborne-backed Intermedia increased its capabilities with the acquisition of omni-channel CCaaS platform Telax.

There is no shortage of potential competition and increasing pressure from large CRM players, such as Salesforce's partnership with Amazon Connect. It's now or never for UC vendors to build out their CCaaS capability and scale to gain a foothold in one of the highest growth parts of the market through M&A activity in the short term.

Cybersecurity

The global cybersecurity sector is booming, with the market growing more than 30x in the past 13 years. It is no surprise that this sub-sector continues to see strong M&A activity, with notable deals such as US private equity firm, Thomas Bravo, taking UK cyber giant Sophos private in a £3.1bn deal. Cloud security, in particular, is a major upcoming challenge and tech giants will be looking to buy or build their way into the market.

Cybersecurity behavioral analytics platform provider Darktrace has capitalised on the market appetite. Founded in 2013, the Company was valued at $1.65bn in 2018 after raising $230m over five years. Bloomberg recently reported that Darktrace has begun preparations to operate as a public company so we may see this unfold in 2020.

"We expect global technology M&A to continue at pace into 2020. From a UK perspective, the return of a significant Conservative party majority, that is likely to be in place for four to five years, increases the potential for a bow-wave of domestic M&A activity throughout H1 this year.

JAMES CHAPMAN-ANDREWS
PARTNER AND UK HEAD OF TMT

Activity levels are also high in the mid-market. Alantra recently advised international technology group RUAG on the sale of its UK cybersecurity software business Clearswift to US-based HelpSystems. Clearswift has grown well due to strong global demand for security software and the addition of Clearswift to the HelpSystems portfolio will provide customers with an expanded set of cybersecurity options to protect critical data and enable compliance with industry mandates such as GDPR.

Technology distributors

H2 2019 witnessed a number of deals in the IT distribution space with robust industry dynamics propelling activity. Notably, Apollo Global Management's $6bn bid to take US-based Tech Data private. Apollo outbid Warren Buffet for the electronics distributor giant as the price to buy Tech Data rose from $5.4bn to $6bn in less than a fortnight. This sector is also attracting private equity interest demonstrated by CVC Capital Partners acquiring ConvergeOne for $1.8bn. This now makes them significant international consolidators with Permira-backed exclusive networks.

The rise of cloud technologies is also driving M&A activity in the distribution market as large players make strategic acquisitions to obtain in-house capabilities. ScanSource, a US-based sales software and hardware distributor purchased intY, a UK cloud software distributor, highlighting the strategic value of intY's cloud services distribution platform as a new route to market for its partners. In a competitive global distribution market, dominated by a few large players (Ingram Micro, Tech Data etc.), smaller players are either consolidating or specialising technologically in order to differentiate. We expect to see more strategic acquisitions like this one from distributors in the next twelve months.

Consumer Data and Artificial Intelligence

Artificial Intelligence (AI) is becoming a key element for the digitisation of retail by tailoring the customer experience to improve business-to-consumer interactions. Paypal announced the $4bn transformative acquisition of Honey, a popular discovery tool that helps consumers find savings as they shop online. Until now, Paypal only had consumer data at the end of the online journey and did not have access to consumer purchasing intentions or online research. With Honey providing the intent data, Paypal can utilise AI and machine learning to predict what is likely to come next and can personalise consumer experiences whilst driving conversion and engagement for merchants. The combination is predicted to accelerate growth dramatically.

Even retail food giants such as McDonald's are investing in technologies that enhance the customer experience. McDonald's recently acquired Dynamic Yield, a machine learning platform that adds personalisation to the customer journey. The technology will be utilised to create a drive-thru menu tailored to weather conditions and restaurant traffic and will recommend menu choices to complement the customers taste. We predict an emergence of transactions in the consumer data/ AI sub-sector in the near future.

Smart Cities

The on-demand economy is posing both a significant challenge and opportunity to businesses operating within urban centres. With space and infrastructure being an increasingly finite resource, businesses are under pressure to innovate and devise solutions to service changing consumer demands.

The combination of innovation, a need for greater efficiency and changing consumer behaviour has resulted in the emergence of the 'Smart City'. Disrupting a range of traditional services within urban living and commerce, from waste management and parking, to mobility and traffic management, Smart City solutions strive to increase efficiency and ease for the end-user. As a result, industry leaders such as Amazon and Deliveroo, as well as the wealth of start-ups in the space, are having to deploy capital to continue to drive innovation within the Smart City sector.

One such example is Miami-based unicorn ParkJockey. Alantra advised on its significant investment from Softbank and Mubadala to acquire Impark and Citizens Parking and subsequently create a next-generation parking giant. ParkJockey is now in a position to make inroads into transforming both the parking and last-mile logistics sectors.

Numerous other sectors within the Smart City also saw investment in 2019. For example, electric scooter company Ojo's pending acquisition of Gotcha within the micro-mobility space. With the Smart City market set to be worth $1.4tn by 2024 and the on-demand economy continuing to grow, companies that can offer alternative solutions to cater to consumer needs will accelerate growth. Investor appetite remains robust and this will further fuel disruption and innovation across all verticals connected to the Smart City.

clearswift	Cuhiks	SHADOW FINANCIAL SYSTEMS A Broadridge Company	VIVATICKET	i2S INSURANCE KNOWLEDGE
SALE	SALE	SALE	SALE	SALE
helpsystems Tech solutions. Human support.	psi	Broadridge	INVESTCORP	gfi

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