

Software sub-sector insights: HCM

HCM software showed strong resilience in 2023 with valuations outperforming the Alantra Software Index

Q1 2024

2023 in review

Valuations | Valuations were ahead of wider software sector

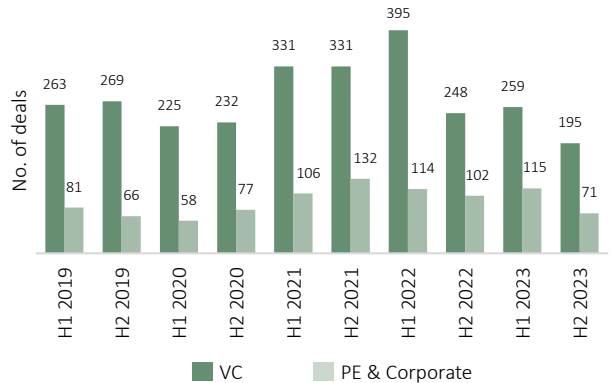
- 2023 represented a period of relative stability in valuations, with a steady uplift through the year from an opening EV/LTM revenue multiple of 6.0x and EV/LTM EBITDA multiple of 18.4x, to closing multiples of 6.5x and 20.9x. Notably, valuations in the sub-sector now sit above pre-COVID levels.
- The performance mirrors growing confidence across the wider software sector which rebounded in 2023 (+42% LTM), however the HCM sub-sector's multiples exceed the wider index (5.4x revenue), which saw a more significant decline through 2022.



M&A volumes | Down YoY but premium assets still attracted strong interest

- Corporate transaction volumes decreased by 18% compared to 2022, however, strategic buyers continued to pay premium valuations for attractive assets.
- There was also a flow of PE buy-outs, with recurring software investors deploying further cash into the sub-sector. Although in line with a quieter overall market, PE deals through H2 were lower than H1.
- The wider software sector saw an overall fall in deal volume of 32%, compared to 25% in HCM, further highlighting the relative attractiveness of the sub-sector.

Index	Pre-Covid av.	Dec-23	LTM change
HCM software ¹	6.1x	6.5x	7.3%
Other software ²	5.8x	5.4x	41.6%
S&P 500	2.5x	3.0x	17.7%



Key trends | Enterprise focused providers are increasingly looking to play in the mid-market

- The less saturated mid-market is gaining attention from global enterprise players looking to take market share in a more fragmented vendor landscape.
- Workforce management continues to be a growth market with UK scaled players delivering strong organic growth, supplemented with strategic M&A.
- Demand for employee engagement software remains strong with businesses still experiencing challenges with staff disconnect.
- Buying focus has shifted to cost optimisation, which had a 69% increase in 'mentions' in 2023 versus 2022*, as businesses are increasingly looking to deliver efficiencies across their software ecosystem. Furthermore, 'justifying the investment' was noted as the second most significant hurdle impacting HCM technology purchasing*.

Selected recent transactions








Target	Buyer	Date	Rationale
bob ³	FARALLON	Sep-23	Broaden product modules, geographies and partners
Edward Gateway	edentred	May-23	Strong commercial reach, product / tech alignment
workvivo	zoom	Apr-23	Cross-sell, employee collaboration capabilities
cezanne	North Edge	Mar-23	Accelerate growth and advance product roadmap
naturalhi	moorepay zellis	Mar-23	Adds a broad range of non-payroll HR capabilities

*Gartner 2024 HR Technology Imperatives

Note 1: Alantra HCM software index consisting of 13 listed companies
 Note 2: Alantra software index consisting of 326 listed companies
 Note 3: Series D funding round

2024 outlook

Market themes and emerging trends | Continued strong HCM performance expected with AI at the forefront

-  89% of HR leaders are looking to maintain or increase their HCM technology budget in 2024 according to Gartner.
-  Working patterns will continue to drive HCM software adoption, including mobile adaptability. Employee engagement and wellbeing solutions will spearhead this.
-  AI will increasingly become core across the HCM landscape, aimed at driving improvements in efficiency alongside generative AI for content creation and specific vertical focused capabilities.
-  There will be increasing demand for cloud-based and flexible payroll solutions. Real time/on-demand payroll is central to this, especially for frontline workers who have low/volatile incomes.
-  The slowdown in recruitment has highlighted the importance of maximising the value of existing talent. AI-enabled skills management and flexible training software will thrive.
-  Enterprise players will continue to shift their focus to the mid-market by tailoring products and pricing structures.
-  Fragmentation of the ecosystem will continue to drive M&A, with the large players seeking to enhance offerings and maintain share of wallet.



The momentum we've seen behind AI in HCM will continue and accelerate during 2024, broadening applications including: automating routine tasks like candidate screening, improving employee engagement through personalised interactions and enhancing workforce planning through predictive analytics. This will all play well to the continuation of more efficient and effective HCM practices, justifying investment in technology.

ROBERT YOUNG
DIRECTOR

Extensive experience in HCM software

 Saville Assessment Buy-side advisory 	 Joblogic Sell-side advisory 	 Wormhole Sell-side advisory 	 Wedogift Sell-side advisory 	 Activpayroll Buy-side advisory 	 Project Spitfire Buy-side advisory Mobile workforce management software	 Cubiks Sell-side advisory 	 Argos Wiyu TalenTia Refinancing 	 Project Tag Sell-side advisory Integrated HCM software
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Includes deals from Alantra Managing Directors' professional experience prior to joining Alantra

International sub-sector experts



Robert Young
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Renee Shaening, Managing Director



Daniel Lilliehöök, Managing Director



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Alantra software track record

Deals completed in the last 24 months

25

Combined value of deals in last 24 months

c.\$2.0bn

Deal size range

c.\$50m-\$250m