

Forbes M+A SaaS Quarterly Sector Update. The goal for this newsletter is to include more insight than just historical transaction related information. That is why we also include interviews with industry experts to discuss noticeable industry trends, qualitative insights and what to expect in the short and mid term.

This quarter I had the privilege to speak with Lucky Gilja from [Alpine Investors](#).

Please feel free to reach out with any feedback or specific questions to add to next quarter's industry update. Thanks, and enjoy!



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SaaS Interview

[Lucky Gilja \(Alpine\) Interview](#)

Dan: Hi Lucky, thank you for taking the time to speak with me today.

Lucky: Thank you for having me.

Dan: Do you mind starting off by providing a brief overview of Alpine?

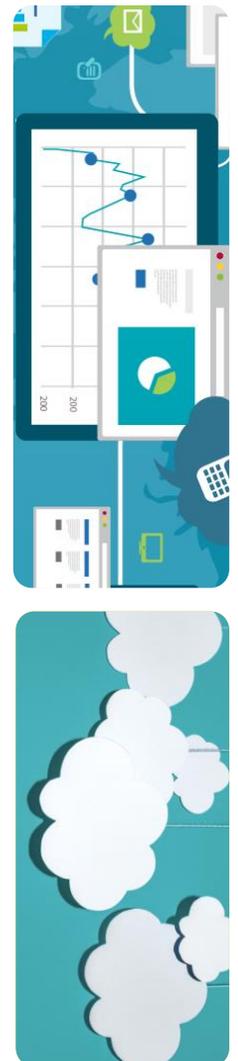
Lucky: We are a Private Equity financial partner that puts up strong results while focusing on treating people well. We focus on investing in exceptional people to create exceptional businesses.

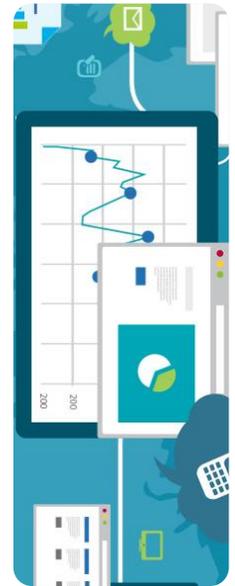
Dan: What is your typical Investment Criteria?

Lucky: We are looking to invest in businesses that produce EBITDA between \$1M-\$50M with an enterprise value up to \$1 billion. Industries we like are software, business services, and consumer services with recurring or reoccurring revenue. We can do deals in the US, Canada, Europe and Australia.

Dan: What was your outlook for 2022 at the beginning of the year and how has that changed?

Lucky: The year started optimistically, we saw so many deals at the end of Q4 and even into Q1 of this year, but we've recently started to see signs of slowdowns. Given the interest rate hikes we have going concerns of how the market can continue performing. We've already seen public tech companies take a hit, which naturally leads to concerns about private markets doing the same thing. We are already playing in industries that are recession resistant and will continue to do so.





Dan: What do you think are the current trends in Software valuations?

Lucky: It really comes down to the trends in the estimated exit multiple in the software space. Similar to the public markets, the market has been pumped up for so long, and I think there was a bubble to some extent. Buyers are scared that if they invest X in the business today and the tech markets soften, then the exit will not provide the investment return they are looking for.

The longer we are in a corrective market, the more stable the valuations will get. I'm worried about business owners' expectations for a sale. Business owners are going to have a hard time adjusting to the new normal and that might take several years. I'll caveat all this by saying that this also depends on which industry the software caters to. For example, a marketing software versus a CRM that is mission critical to the operations of the business. If the software is ancillary to the business operations the values are likely to see a normalization.

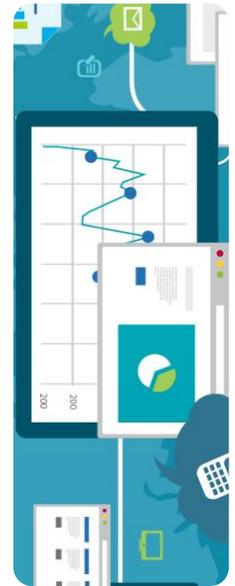
Dan: How has inflation impacted your portfolio companies and how will it impact your future investment perspective today?

Lucky: That has not materially impacted our portfolio companies on a day-to-day basis much, but the real worry is from an investment perspective. When the cost of money was at near zero, everyone was eager to deploy capital and get 5X leverage. That made the initial entry point more palatable because of the cheaper money. Now that money is getting more expensive, it makes it less easy to deploy.

Dan: What interesting trends do you see in the software space moving forward into 2022/23?

Lucky: Business owners seem to be holding off on going to market right now, because they want to see what is going to happen. However, if you have a pristine asset, you may be one of a very few investment options out there and could see most buyers get very aggressive on that asset. So, it really depends. We are also seeing a lot of other buyers starting to move away from the tier 2 and tier 3 deals. If that trend continues, we will likely go after more tier 2/3 deals because they could be good value buys.

As far as industry predictions, I'd say retail related software will be in the bottom quartile. We see health tech sector as a very attractive place to be right now. We also think compliance related software will be critical in the short to mid-term. The ultimate value driver is not necessarily the industry the software is in, but the solution that it presents and how critical it is to the success and sustainability of the business it serves.



Dan: Is right now the best time to sell?

Lucky: If you are a mission critical company and will do well through a recession then, now is the time. If you serve an industry that is not as sticky, or recession proof, it's probably better to hold off for a while to see what happens. How long? We think that things will continue to get worse over the next 6-12 months.

Like I said before, if the business is a pristine asset, for example, it has high growth, solid financials, you know... all the value drivers are clicking at a high level, that business would likely garner an attractive multiple, especially in a competitive bidding process.

Dan: What are Alpine Investors top 3-5 value drivers for evaluating software deals?

Lucky: We first look at the Revenue Quality meaning what percentage of revenue comes through recurring means such as a license or subscription. Modernization of the technology is going to become increasingly important, for example cloud vs multi-tenant. The other important factor we consider is how mission critical and recession resistant is the software.

A few KPIs that we see as important:

- Gross revenue retention needs to be north of 85%
- Net revenue retention should be north of 95% closer to 100%+
- Logo retention should be north of 90%
- We like to see GREM over 50%

Dan: Thanks Lucky, I know your time is valuable

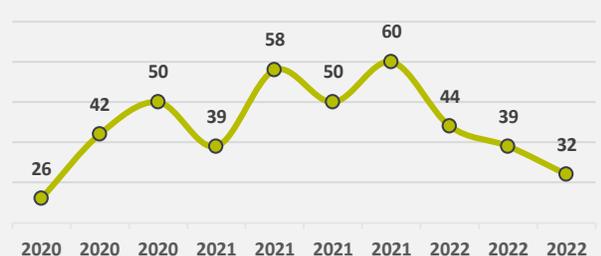
Lucky: Thank you!, It's been a pleasure.

About Alpine Investors

Alpine focuses on investing in North America-based, high growth companies primarily in the services, software, and online sectors. Alpine seeks to make control investments in founder-owned companies in the lower middle market, where the Firm can deploy best in class management at close of an investment to effect meaningful operational improvements, drive revenue growth and implement strategic add-on acquisitions. For additional information, visit www.alpine-investors.com.

M&A Market Update

Closed Middle-Market Software Transaction Volume (US & Canada)



Source: Capital IQ

SaaS TEV/ARR Multiples (Rolling 12 Month Average)



TEV defined as Total Enterprise Value of the Target
 "Middle Market" defined as Total Transaction Value \$10mm-300mm
 Source: Capital IQ / GF Data
 n=10

- ▶ Deal flow for the SaaS industry continued its downward trend shown from the first two quarters of 2022
- ▶ SaaS M&A volume followed the overall market trend and decreased to 32 total deals closed
- ▶ Q3 2022 deal valuations shrank with the median deal value at \$25.8 million

- ▶ Mirroring the trend seen in transaction volume, valuation multiples continue to drop from their Q1 high
- ▶ As the economy slides further into a recession, the slowdown of quality SaaS opportunities hitting the market declined from Q2
- ▶ Key drivers for SaaS Companies include Growth Rate, Capital Efficiency (i.e. LTV/CAC Ratio, payment terms, etc.), Market Demand Premium, and Certainty of Continuity (i.e. size of ARR, churn, cash flow, etc.)

Notable Q3 2022 Deals

Target: **brightline**

Acquirer:  THE GLIMPSE GROUP

Aug. 1, 2022 – The Glimpse Group (NASDAQ: VRAR) completed the acquisition of Brightline Interactive for \$35.4 million. Brightline is a global provider of VR, AR, 5G integration, spatial computing, and deep tech software and service solutions. It offers its services to many blue-chip commercial customers in addition to its government customers.

Target:  Stratus

Acquirer:  SGH™

Aug. 29, 2022 – SMART Global Holdings, Inc. (NASDAQ: SGH) has completed the acquisition of Stratus Technologies for \$275.0 million. Stratus ensures the continuous availability of business-critical applications by delivering zero-touch Edge Computing platforms that are simple to deploy and maintain, protected from interruptions and threats, and autonomous.

Target: **AMOBEE**

Acquirer: **TREMOR INTERNATIONAL**

Sep. 13, 2022 – Tremor International Ltd. (NASDAQ: TRMR) completed the acquisition of Amobee, Inc. for \$239.0 million. Amobee is a leading global advertising platform that optimizes outcomes, improves consumer experiences, and optimizes cross channel performance, while driving growth through detailed analytics and reporting.

Forbes M+A Awards

	CorporateINTL GLOBAL AWARDS WINNER 2022 M&A FIRM OF THE YEAR COLORADO The Forbes M+A Group		CorporateINTL GLOBAL AWARDS WINNER 2021 M&A FIRM OF THE YEAR COLORADO The Forbes M+A Group
wealth&finance2020 businessexcellence awards best m&a advisory firm	wealth&finance2020 businessexcellence awards mid-market m&a transactions		CorporateINTL GLOBAL AWARDS WINNER 2020 M&A FIRM OF THE YEAR COLORADO
		CorporateINTL GLOBAL AWARDS WINNER 2019 COLORADO M&A FIRM OF THE YEAR	
	CorporateINTL GLOBAL AWARDS WINNER 2018 COLORADO M&A FIRM OF THE YEAR		
			wealth&finance2017 businessexcellence awards mid-market m&a transactions

SaaS Coverage Team Overview

Industry leading veterans that possess a depth and breadth of experience across both M&A and private industry as founders, operators, advisors, and executives.



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Select Middle-Market SaaS Transactions – Q3 2022

Date	Target	Buyer	Enterprise Value (\$mm)	Implied EV / LTM	
				Revenue	EBITDA
29-Sep-22	Eleviant Technologies, Inc.	Computer Task Group, Incorporated (NASDAQGS:CTG)	\$23.6	NA	NA
27-Sep-22	IND Corporation	ReachOut Technology Corp.	\$6.6	NA	NA
22-Sep-22	Blue Water Financial Technologies Holding Company, LLC	Voxtur Analytics Corp. (TSXV:VXTR)	\$94.7	NA	NA
22-Sep-22	SSIMWave Inc.	IMAX Corporation (NYSE:IMAX)	\$25.6	NA	NA
16-Sep-22	RapidMiner, Inc.	Altair Engineering Inc. (NASDAQGS:ALTR)	\$100.0	NA	NA
13-Sep-22	Amobe, Inc.	Tremor International Ltd (AIM:TRMR)	\$239.0	NA	NA
12-Sep-22	Newcomp Analytics Inc.	Converge Technology Solutions Corp. (TSX:CTS)	\$20.3	0.6x	6.0x
12-Sep-22	Uplogix, Inc.	Lantronix, Inc. (NASDAQCM:LTRX)	\$12.0	NA	NA
08-Sep-22	Phly, Inc.	droppLabs	\$25.0	NA	NA
08-Sep-22	Web 3.0 Holdings Corp.	Looking Glass Labs Ltd. (NEOE:NFTX)	\$2.0	NA	NA
30-Aug-22	GigWorld Inc.	Alset EHome International Inc. (NASDAQCM:AEI)	\$0.1	9.4x	NA
29-Aug-22	Stratus Technologies, Inc.	SMART Global Holdings, Inc. (NASDAQGS:SGH)	\$275.0	NA	NA
24-Aug-22	Starboard Solutions Corp.	Logility, Inc.	\$6.5	NA	NA
17-Aug-22	Planck Aerosystems Inc.	AeroVironment, Inc. (NASDAQGS:AVAV)	\$5.6	NA	NA
16-Aug-22	SailPoint Technologies Holdings, Inc.	Thoma Bravo, L.P.; Thoma Bravo Fund XV, L.P.	\$7,431.0	14.3x	NA
15-Aug-22	SumTotal Systems, LLC	Cornerstone OnDemand, Inc.	\$200.0	NA	NA
04-Aug-22	Brightly Software, Inc.	Siemens Smart Infrastructure	\$1,875.0	NA	NA
03-Aug-22	MST Solutions, L.L.C.	Mastek Inc.	\$111.6	4.5x	NA
02-Aug-22	PC Specialists, Inc.	Converge Technology Solutions Corp. (TSX:CTS)	\$74.0	0.2x	6.2x
01-Aug-22	Brightline Interactive LLC	The Glimpse Group, Inc. (NASDAQCM:VRAR)	\$35.4	7.1x	NA
01-Aug-22	Podchaser Inc.	Acast AB (publ) (OM:ACAST)	\$35.0	NA	NA
25-Jul-22	Speedtelecom1 LLC	All Things Mobile Analytic Inc. (OTCPK:ATMH)	\$0.3	NA	NA
21-Jul-22	Resonant Analytics, LLC	NowVertical Group Inc. (TSXV:NOW)	\$1.8	1.0x	3.6x
20-Jul-22	ServiceSource International, Inc.	Concentrix Corporation (NASDAQGS:CNXC)	\$163.4	0.9x	78.5x
19-Jul-22	GCommerce, Inc.	SPS Commerce, Inc. (NASDAQGS:SPSC)	\$45.0	NA	NA
14-Jul-22	Playte Group	Hulk Labs	\$0.4	NA	NA
07-Jul-22	GTY Technology Holdings Inc.	GI Manager L.P	\$398.9	6.6x	NA
06-Jul-22	GlideFast Consulting LLC	ASGN Incorporated (NYSE:ASGN)	\$350.0	NA	NA
06-Jul-22	CyberViking LLC	Cerberus Cyber Sentinel Corporation (NASDAQCM:CISO)	\$1.9	NA	NA
05-Jul-22	DNA/GPS Inc.	RetinalGenix Technologies Inc. (OTCQB:RTGN)	\$10.0	NA	NA
01-Jul-22	SideChannel Inc.	SideChannel, Inc. (OTCQB:SDCH)	\$12.1	NA	NA
01-Jul-22	Redi2 Technologies, Inc.	Envestnet, Inc. (NYSE:ENV)	\$90.0	NA	NA