



M&A sector report

Nordic software and IT services transactions market 2020

February 2021

Letter from the editors

It has been a remarkable year for M&A activity in the Nordics, particularly within the software segment, where companies with SaaS driven business models have attracted significant interest from investors, driving transaction multiples to an all time high.

The resilience of subscription-based business models to economic downturns and unforeseen events, such as Covid-19, has also created a shift in interest from investors previously focusing on other industries. Software has become one of the most attractive sectors to invest in, with company valuations and a willingness to transact underpinned by the combination of predictability, scalability and high margins, further supported by the Nordic countries being at the forefront of digitalisation and technology adoption.

2020 cannot be summarised without mentioning Covid-19. The pandemic disrupted the market and society, seemingly overnight, and a market dip followed. However, trading valuation levels quickly rebounded and following a slower Q2, software transaction volume across the Nordics picked up in the second half of the year, finishing 2020 with the highest deal volume over the last five years.

The Nordic IT services market continued to perform strongly in 2020, trading at above average multiples and with sustained high M&A deal pricing. Similar to software, deal activity within IT services slowed down in Q2 due to Covid-19. However, a strong second half of the year resulted in transaction volume ending at a higher level in 2020 compared to 2019.

Looking at the investor base, we see that international buyers continue to show interest in Norwegian and Nordic companies, in particular within software. We expect this trend to continue given the strong fundamentals of Nordic software and IT services companies.

This report launches a new Deloitte M&A sector report for software and IT services covering Norway and the Nordics. The 2020 report reflects transactions involving a Nordic target registered by Mergermarket, as well as our transaction experience and insights on key industry trends. This publication will be followed by quarterly updates covering recent transaction data and analysis, and specific industry trends.



SaaS trading multiples at an all time high in 2020



Highest software deal volume over the last 5 years



IT services trading above average multiples with sustained high M&A deal pricing and volume



*Spotlight trend
The versatile digital workplace: the future of collaboration and interaction*



Carsten V. Haukås

Corporate Finance
chaukas@deloitte.no



Sheil Malde

M&A Strategy
smalde@deloitte.no



Kasper Harbitz Erichsen

Corporate Finance
kerichsen@deloitte.no



Trygve Faust-Rolseth

M&A Strategy
trolseth@deloitte.no

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01 Market trends

Acceleration, adoption and disruption: technology and software trends in the wake of the pandemic

Market trends

2020 in a nutshell



Looking at 2020 through the rearview mirror, it has been unprecedented in terms of highs and lows, with the technology and software sectors in the Nordics driving the highs



The pandemic has accelerated and expanded the digital transition, disrupting the status quo in lagging industries



Companies and individuals were forced to quickly find digital solutions that enabled business to continue, resulting in a step change in IT infrastructure and services demand



SaaS-based vendors who were able to scale rapidly attracted significant interest from all angles, resulting in an increased willingness for investors to pay premiums for future cash flows

Many trends emerged that help drive the digital transition during 2020. Which ones will endure beyond Covid-19?

We explore a trend that we believe will continue as we adapt to a post-Covid environment, driven by fundamental changes to attitudes towards technology and human interaction:

The versatile digital workplace

Enter the versatile digital workplace: the future of collaboration and interaction

Market trends

The new workplace

- Pre-Covid, the idea of a virtual lunch was largely unheard of, and certainly not something to look forward to
- Zoom and Teams were known, although not used as the primary tools for communicating with colleagues, customers and suppliers
- Remote working transitioned from being used sporadically (mostly on Fridays) to becoming normal across many industries; a research study¹ found that nearly ~50% of employees worked from home due to Covid, compared with ~15% pre-Covid



The digital workplace – moving from a beta version back to an alpha version

- In a Nordic context, remote working has been discussed for quite some time, and many people who can work from home, have done so occasionally
- However, we remained heavily reliant on the physical office environment for, sharing ideas, discussing various topics over lunch or by the coffee machine, building culture and relationships, and demonstrating upwards that work is being done
- When the physical environment was closed, and we had to rely entirely on the digital workspace. Many companies suddenly faced new challenges that they were not fully prepared for, such as:
 - Can employees remotely access what they need? If so, how many concurrent users can access the network remotely?
 - What software can be used to interact internally and externally?, Do we have sufficient bandwidth and resilience to make this work across the organisation?
 - Can our service providers support us throughout this period? Do they have sufficient 1st and 2nd line support to deal with the new demand?
 - Do our employees have adequate tools/devices to work remotely? Can these solutions cope with the increased workload from multi-participant video calls?
 - Do we have the right security and data protection in place? What risks have we not thought about?

The list goes on, highlighting inherent inflexibility in systems, processes and thinking

¹) Source: Erik Brynjolfsson et al., "COVID-19 and remote work: An early look at U.S. data," NBER working paper 27344, June 2020.



The honeymoon period, and the drive for new and enhanced solutions and offerings

Market trends

Another day at the (home) office



- After an initial period of shock, many companies were surprised by how well this appeared to be working:
 - The CEO of Telenor in Norway publicly stated that working from home will be an option for everyone in the company who wants it
 - Large international companies such as Facebook, Amazon and Mastercard offered their employees longer term remote working opportunities
 - Many companies provided allowances for employees to acquire office equipment such as a desk, chair and computer screen, seeing both the short term need and longer-term opportunity

"Beta" goes bananas in software and services



As a result of this forced shift in how we conduct our daily business and lives, technology companies catering to new demand experienced massive interest and growth

Initial demand addressed areas such as connectivity, collaboration, remote learning, and customer support. As the pandemic continues, HR and wellness solutions are becoming increasingly relevant

As new working habits start impacting long-term trends on commuting and where we live, how we organise transport, use energy and water, and ultimately how we plan cities will also need to change

However, the digital workplace journey needs to be rebooted...

Finding the balance and optimising it

Market trends

2021 go live for the versatile digital workplace (or maybe not)

Going into 2021, we are slightly wiser based on what worked and did not work during 2020

In our tech trends report for 2021, Deloitte identifies some potential downsides of remote working, such as:

- Relationship building and onboarding
- Development and learning
- Innovation
- Productivity

We do not believe the office is dead, we believe it has a future. However, we will have to re-learn how to work in an office and how we interact and collaborate with those who work remotely

This leads to some interesting topics on how we configure and design the workplace (intelligent workplace and workplace intelligence), and what tools and supporting technology are needed to enable working seamlessly across locations



Priorities going into 2021

- Addressing the downsides of remote working should be a priority going into 2021, including investing in the right technology, such as collaboration spaces, AI tools to assist employee productivity and satisfaction, social and learning platforms that blend on-site and remote experiences
- Regardless of area, we expect the digital workplace will accelerate the use of SaaS solutions and transition to the cloud; however, initiatives should be accompanied by an increased focus on security, not only given remote connectivity, but also the mix of devices being used and the risk of mixing personal and corporate information
- Ultimately, the digital and physical workplaces will need to integrate better and be versatile to changing needs and demands

Exciting times ahead for technology companies serving the versatile digital workplace; we believe 2021 will be an even more innovative year than 2020 as we start balancing pre and post Covid approaches to the workplace

02 Software

02 Software

17x

The SaaS index traded at approx. 17x next twelve month revenues as at year end 2020, 2x above the last 5-year average

6x

The SaaS Index has outperformed the broader market over the last 5 years and has returned six times over that period

16

The Euronext Growth market has been popular among high growth software companies in 2020 with 16 IPOs

5x

Nordic software transactions concluded at a median EV/Sales multiple of ~5x in 2020

The Nordic software M&A market has been red-hot in 2020 with a record number of both IPOs and transactions

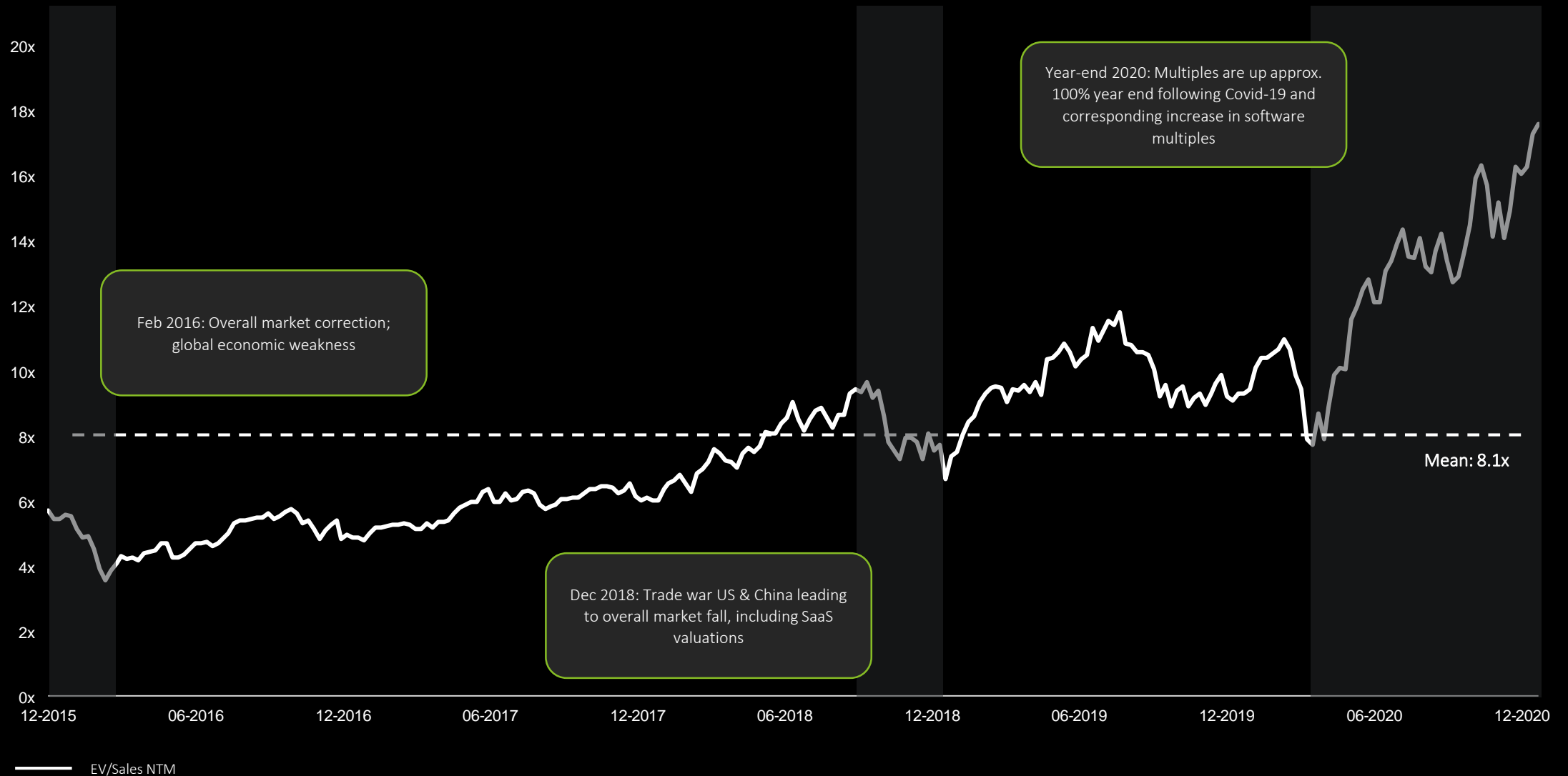
Software company valuations globally have rebounded, following the Covid-19 market dip in March, to all-time high valuations at around ~17x Sales (NTM)

Following a lower Q2 software transaction volume, due to Covid-19, across the Nordics, volumes have picked up in the second half of the year, finishing 2020 with the highest deal volume over the last five years

Nordic transaction multiples are also at record high levels and available transaction data showcases a median EV/Sales multiple (last 12 months) for 2020 of ~5x Sales

In Norway, strategic buyers were involved in 54% of all software transactions, while financial investors and PE backed companies accounted for 34% and 12% respectively

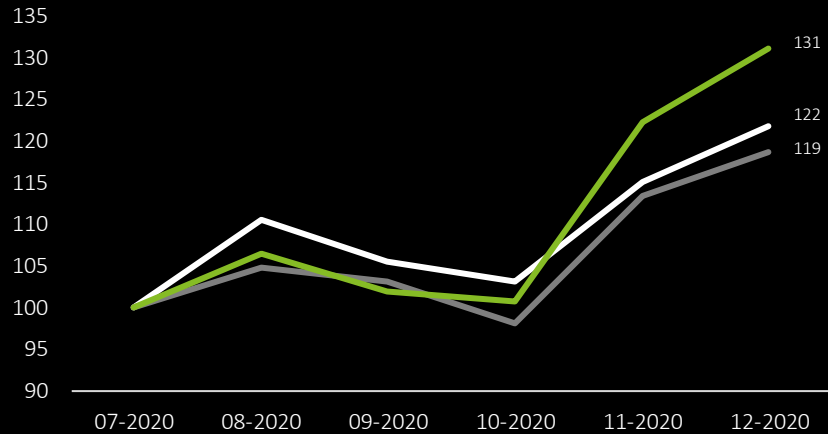
At year end 2020 the SaaS index traded at approx. 17x next twelve month revenues, two times above the last 5-year average



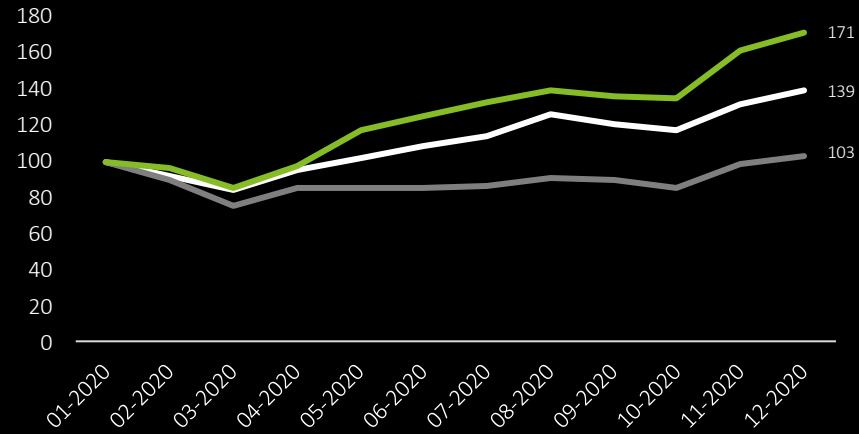
SaaS Index outperforms broader markets over the last 5 years

Deloitte SaaS index

Deloitte SaaS index vs Nasdaq Composite and OBX - L6M



Deloitte SaaS index vs Nasdaq Composite and OBX - L12M



Key take away



Over the last five years the SaaS index has outperformed broader market indices

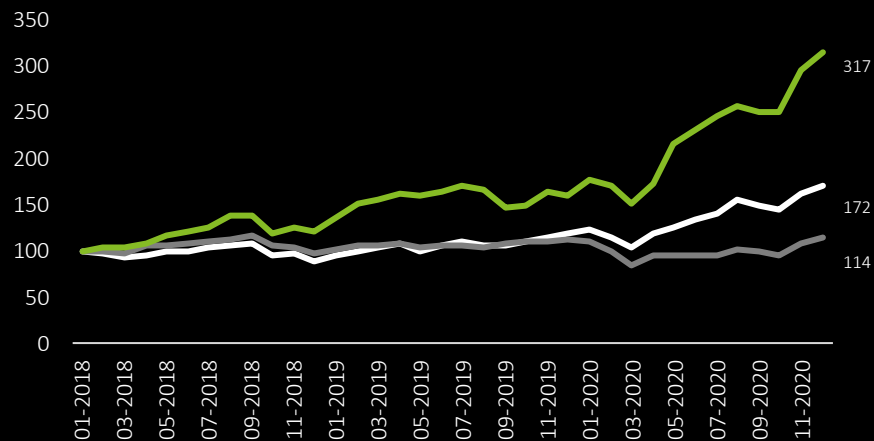


The SaaS index was most resilient during the Covid-19 downturn, and has had the strongest rebound throughout the year

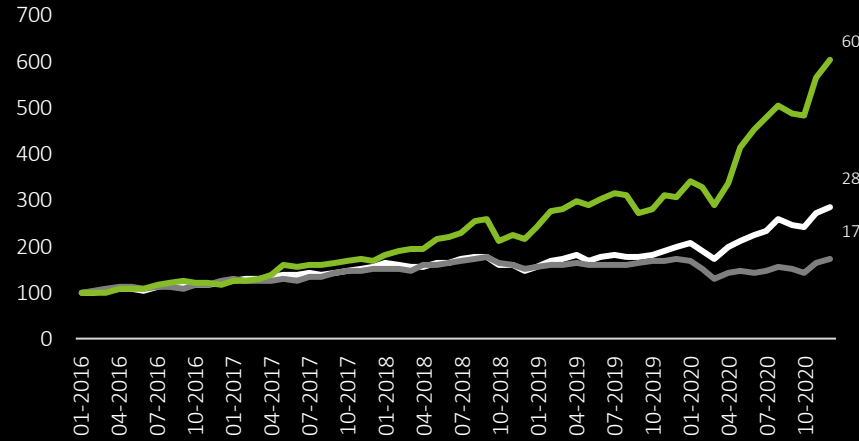


The overall outperformance versus Nasdaq underlines investor demand for companies with SaaS business models and willingness to value future growth

Deloitte SaaS index vs Nasdaq Composite and OBX - L3Y



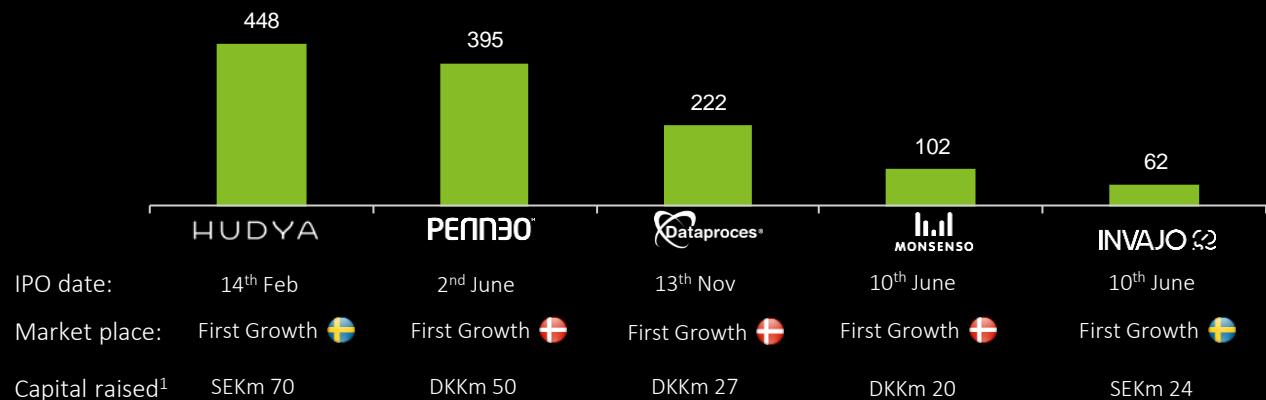
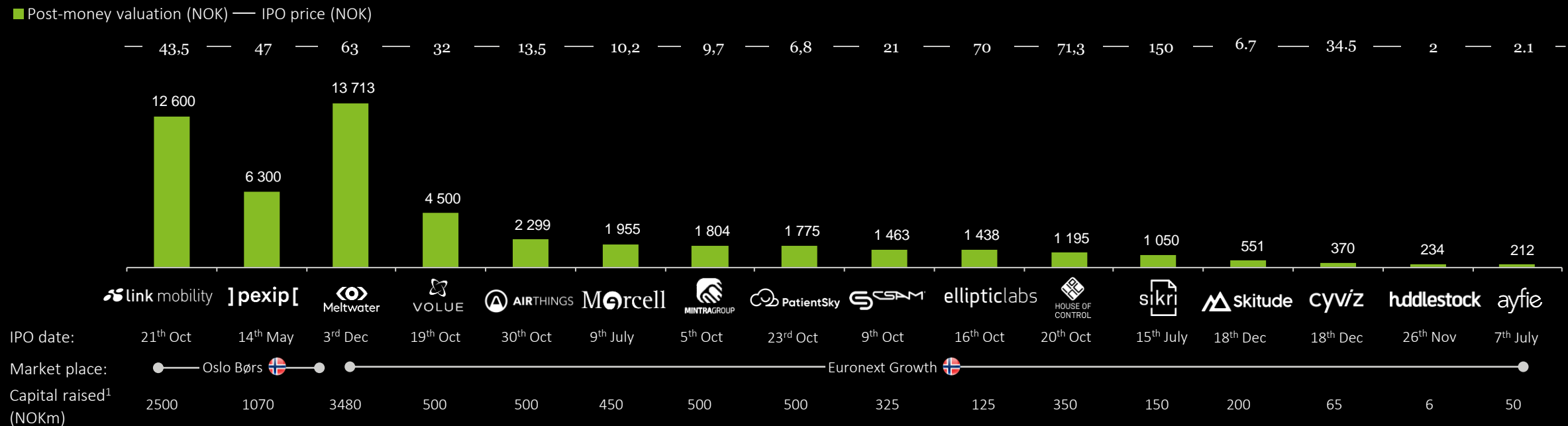
Deloitte SaaS index vs Nasdaq Composite and OBX - L5Y



Deloitte SaaS index Nasdaq Composite OBX

The Euronext Growth market has been attractive for high growth software companies in 2020

Nordic Software IPO activity



The Euronext Growth marketplace has seen phenomenal growth in the number of listings in 2020 and has become attractive among high growth software companies. Many companies see Euronext as a straight forward way to access growth capital with relatively light documentation requirements compared to a traditional IPO. Low interest rates, high multiples and investors looking to deploy capital has seen investors flocking towards the companies listed on Euronext.

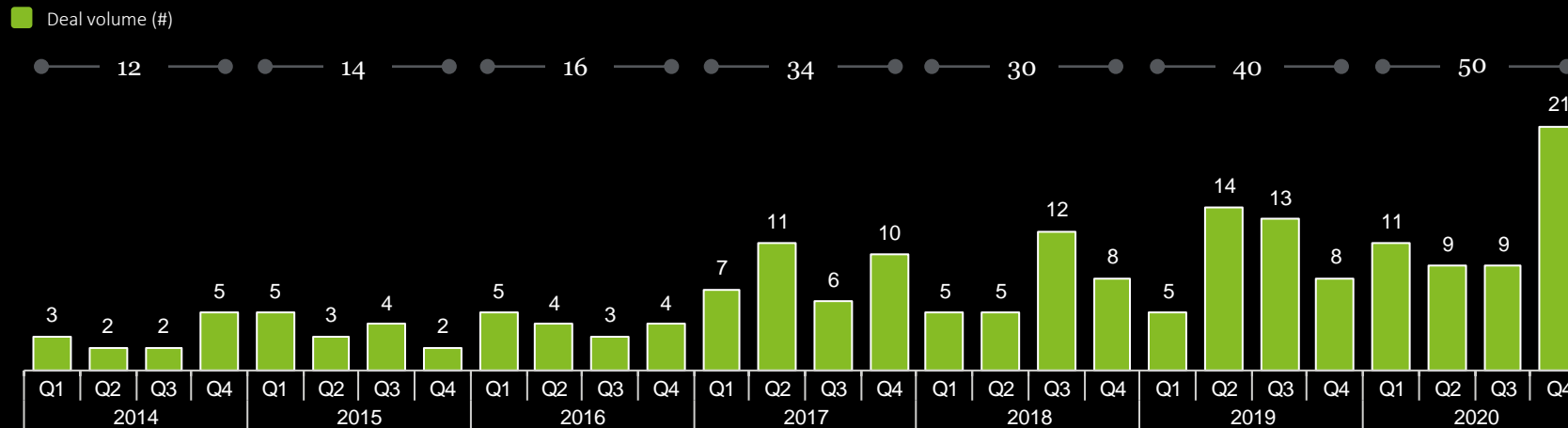


Nasdaq First North Growth has seen less activity for software IPOs than the Norwegian market and lower levels of capital raised among the companies listed. The highest capital raise was from the Norwegian company Hudya, which ended up bankrupt after only four months on the exchange.

High deal activity within software across the Nordics with continued interest from international investors

M&A Transaction volume

Significant increase in the number of software deals in Norway...



Key take away



The number of software transactions involving Norwegian companies reached record highs in 2020 with a YOY growth of 25% compared to 2019

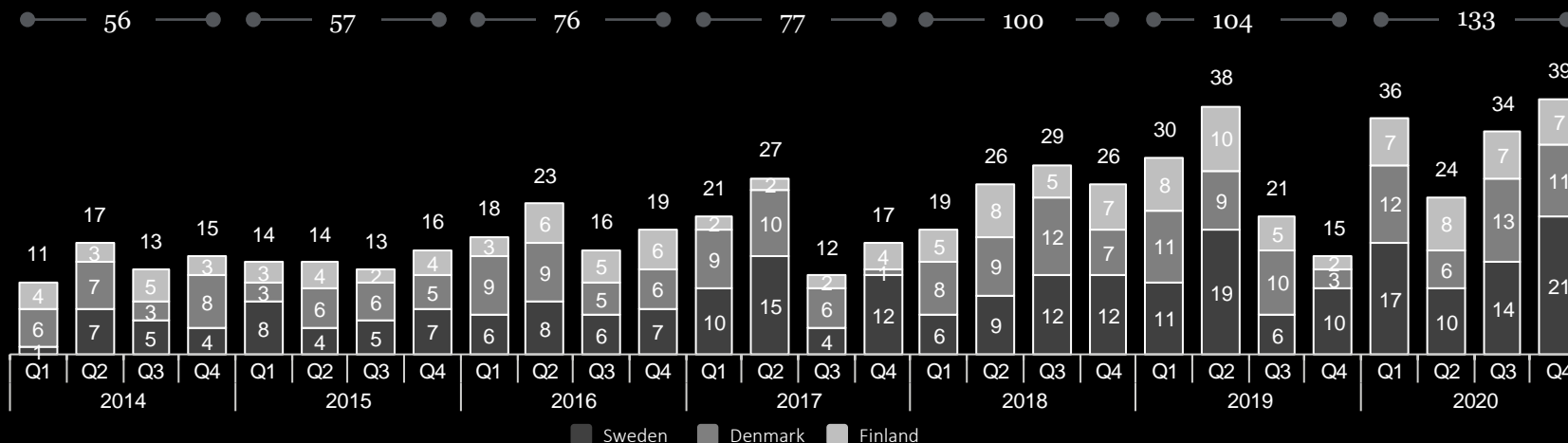


Strategic investors accounted for 54% of the deals in 2020, with financial sponsors and PE backed companies accounting for 34% and 12% respectively



Norwegian software companies continue to attract interest from both Nordic and international investors, accounting for 11 and 16 deals respectively

...and significant increase in the number of software deals in the rest of the Nordics



Key take away



Record year in the number of software transactions for the rest of the Nordic countries, with a YOY growth of 28% compared to 2019



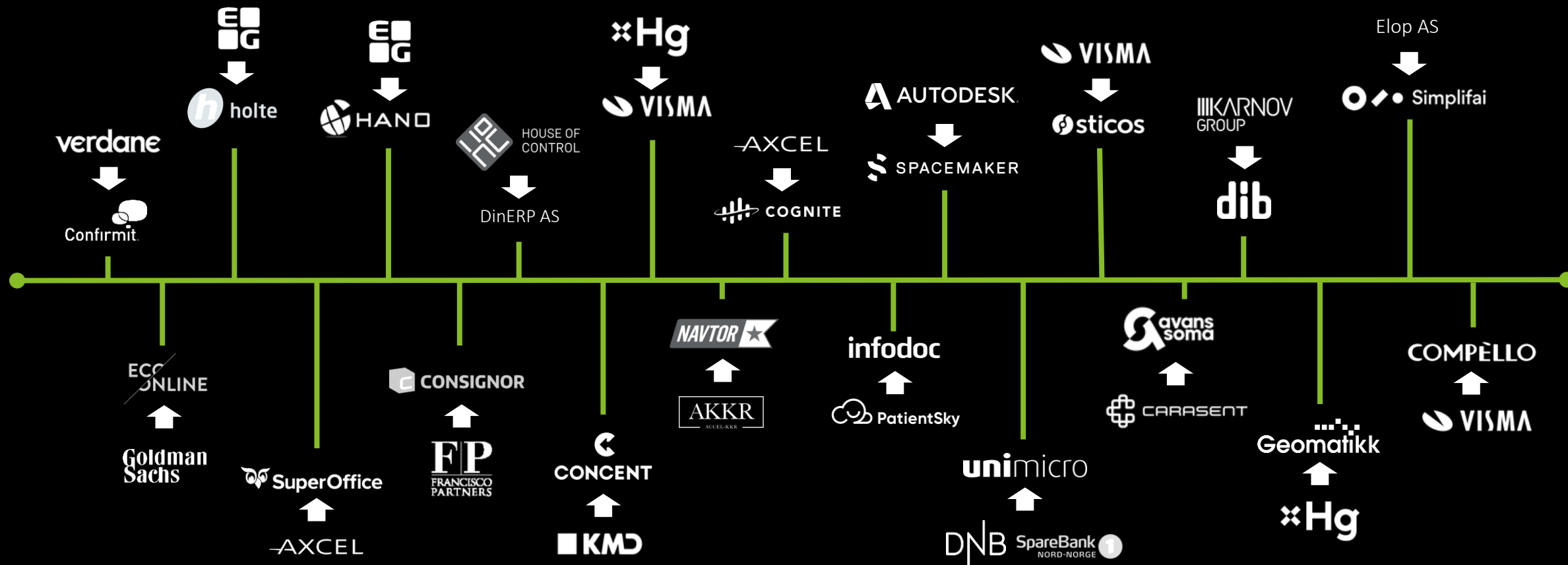
Sweden continues to have the highest deal activity in the Nordics with 62 transactions in 2020



Strategic investors completed 72 of the deals in 2020, of which 31 were international companies. Financial sponsors completed 43 deals, of which 21 were international investors and PE backed companies completed 18 transaction, of which 4 were international

Several high profile software transactions completed in 2020

Selected Norwegian software transactions



A number of high-profile transactions were completed in 2020, with the largest reported transaction being the new funds raised by Visma, led by HG, valuing the company at ~EURb 10



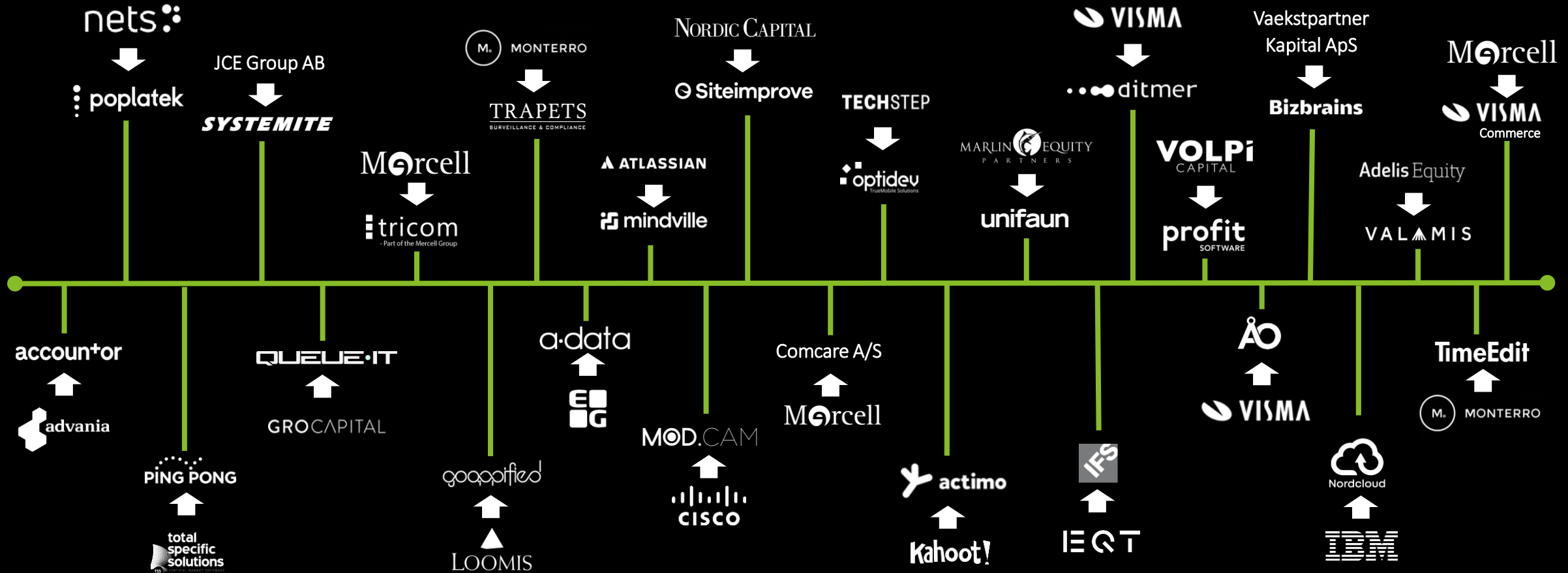
The fantastic story of Norwegian founded company Spacemaker was another high-profile transaction in 2020, with the American IT giant Autodesk acquiring the company at a valuation of ~EURm 200



The US private equity firm Axcel's investment in Aker-owned Cognite, valuing the company at ~EURm 465, was also a notable transaction in 2020

Significant deal activity across the rest of the Nordics from both financial and strategic investors

Selected Nordic software transactions



The IFS transaction, where EQT and TA Associates acquired IFS from EQT Fund IV at a deal value of EURbn 3, highlights a multiple expansion from 3x sales and 18x EBITDA to 4.3x sales and 22x EBITDA compared to the delisting in 2016



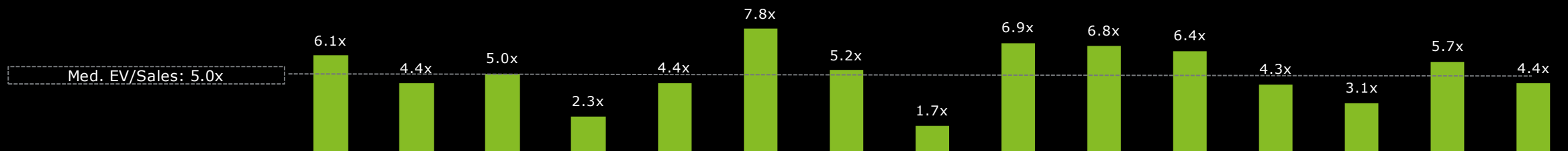
Visma continues to execute its M&A strategy across the Nordics and was the most active acquirer with 2 acquisitions in Denmark and Sweden each, and 1 in Finland



Mercell and Monterro were the other highly active acquirers with 3 software deals each in 2020; Mercell's acquisition of Visma Commerce at an EV of ~EURm 200 was one the largest transactions in 2020

Nordic software transactions concluded at a median EV/Sales multiple of ~5x in 2020

Transaction multiples

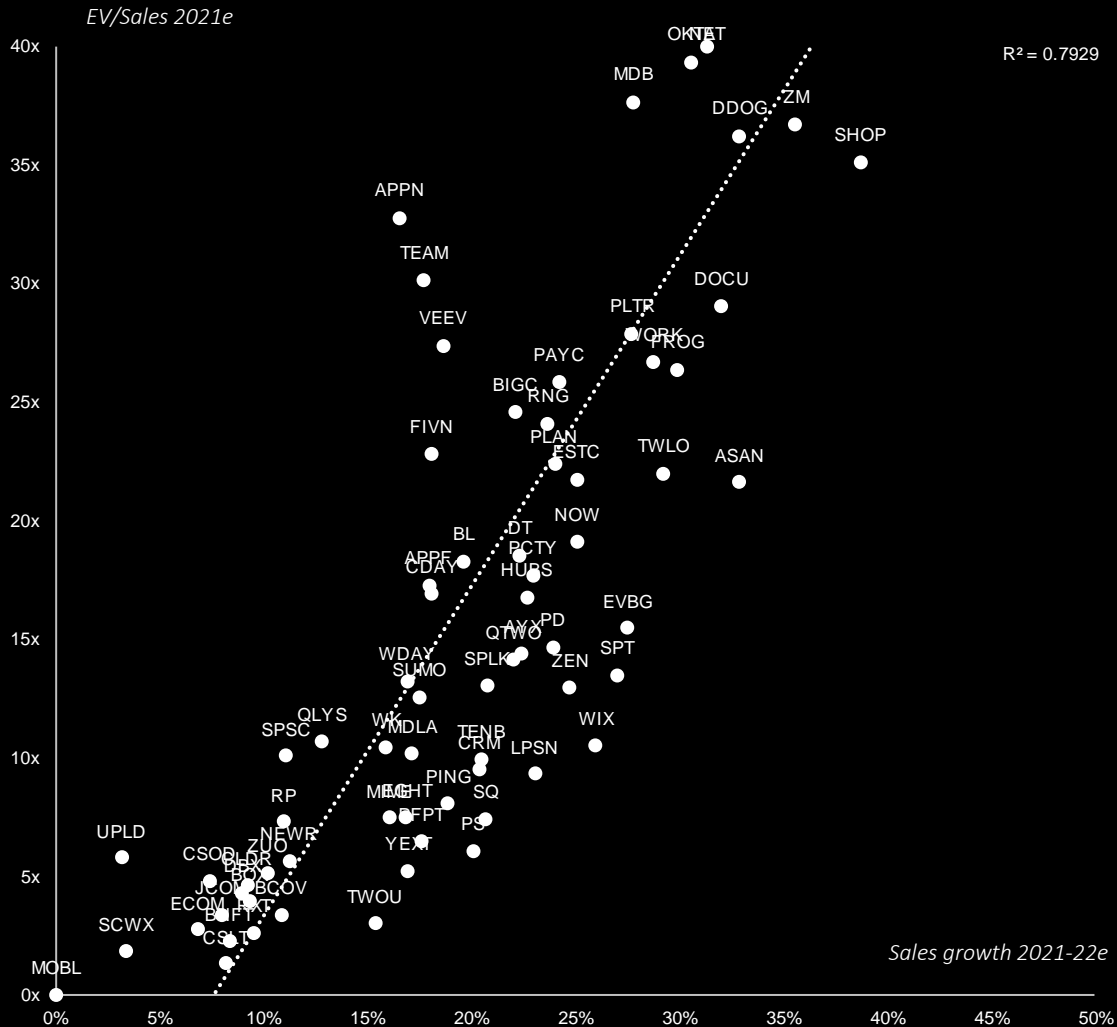


NOKm

Target	dib	avans soma	GOTETHICS	Loxyssoft	TimeEdit	Filemail	infodocID	aptilo NETWORKS	actimo	VISMA	CONSIGNOR	IFS	TOCOMAN	TRAPETS SURVEILLANCE & COMPLIANCE	LINDBAK
Country															
Enterprise value	328	122	104	157	152	74	270	148	228	107,084	1,453	31,130	107	318	757
Year	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2020	2019
Stake	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	70%	100%
Revenue (LFY)	54	28	21	70	37	9	52	89	33	15,859	226	7,224	34	55	173
EBITDA (LFY)	13	3	n.a	n.a	n.a	7	5	n.a	(1)	4,286	39	1,435	2	n.a	29
EBITDA-margin (LFY)	25%	9%	n.a	n.a	n.a	73%	10%	n.a	-4%	27%	17%	20%	7%	n.a	17%
EBIT-margin (LFY)	24%	9%	n.a	6%	n.a	58%	9%	n.a	n.a	11%	15%	n.a	n.a	n.a	15%
Acquirer	KARNOV GROUP	CARASENT	EQS GROUP	LeadDesk	MONTERRO	Jottacloud	PatientSky	ENEAA	Kahoot!	*Hg	FP FRANCISCO PARTNERS	IEQT	admicom	MONTERRO	EGC

EV/Sales multiples for SaaS companies strongly driven by expected sales growth

Software valuation correlation to revenue growth



Sales growth correlates strongly with the valuation of the software companies in the SaaS Index



The higher the expected sales growth over the next twelve months the higher the EV/Sales-multiple



SaaS-companies with high growth are therefore able to sustain cash burn and still maintain high EV/Sales multiples



Lower revenue growth can be offset by higher profitability (higher free cash flow margin)

03 IT services

03 IT services

12x

The IT services index traded at approx. 12x next twelve month EBITDA at year-end 2020, 1.2x above the last 5-year average

3x

The IT services index has returned three times over the last 5 years, slightly outperforming the Nasdaq Composite index

19

IT services M&A activity in Norway rebounded in Q4 with 8 transactions completed, bringing the total to 19 for 2020

9x

Nordic IT Services transactions concluded at a median EV/EBITDA multiple of ~9.3x in 2020

The Nordic IT services M&A market continues to perform strongly, trading at above average historical multiples and with sustained high M&A deal pricing

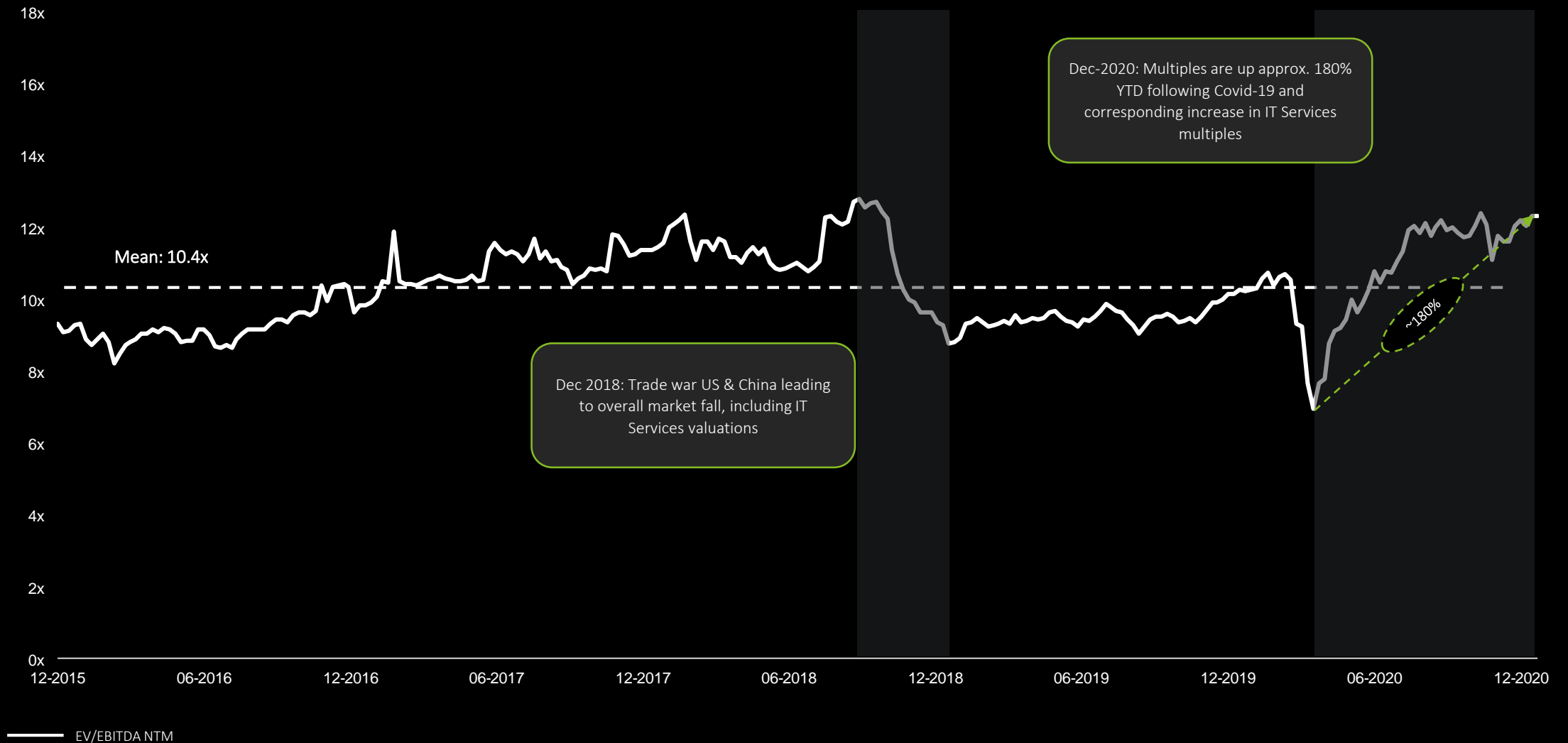
The IT services index is trading 2x above the 5-year average after a strong rebound from the Covid-19 dip in March

M&A activity within the IT services industry has been fairly stable over the last five years, but slightly down in 2020 compared to the 2018-high. Norwegian deal activity in 2020 was flat from 2019-levels

Transaction multiples with available price information in the Nordic IT services market concluded at a median EV/EBITDA multiple of ~9.3x in 2020

Both PE and strategic buyers remained active in the M&A market throughout 2020, each acquiring approx. 50% of all IT services targets in Norway

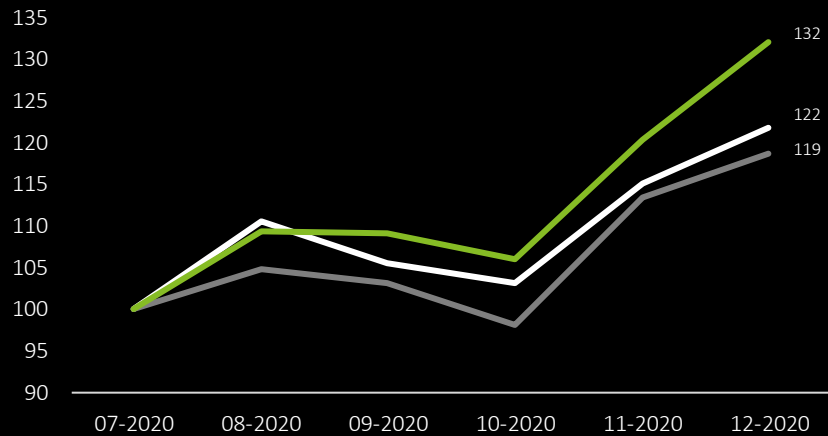
At year end 2020, the IT Services index traded at approx. 12.3x next twelve month EBITDA, approx. 2x above the last 5-year average



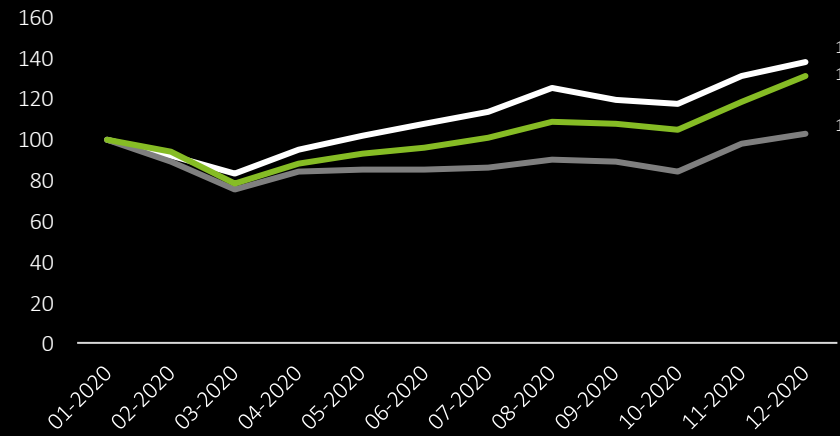
Strong performance last 6 months, but out-performed by the Nasdaq index during the last five years

Deloitte IT services index

Deloitte IT services index vs Nasdaq Composite and OBX - L6M



Deloitte IT services index vs Nasdaq Composite and OBX - L12M



Key take away



Over the last five years the IT services index has underperformed the Nasdaq index, but is tracking the index last three years



The IT services index has performed in line with the broader Nasdaq index during the Covid-19 downturn, and outperformed over the last six months

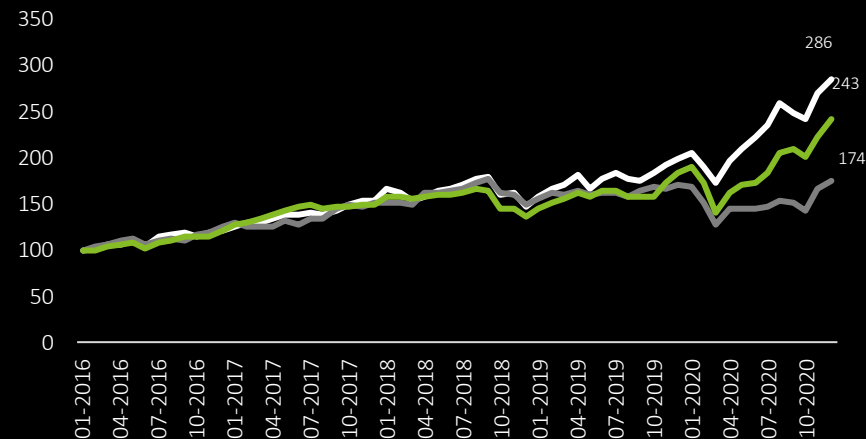


The overall strong performance of the index underlines the continued strong demand for IT services companies

Deloitte IT services index vs Nasdaq Composite and OBX - L3Y



Deloitte IT services index vs Nasdaq Composite and OBX - L5Y

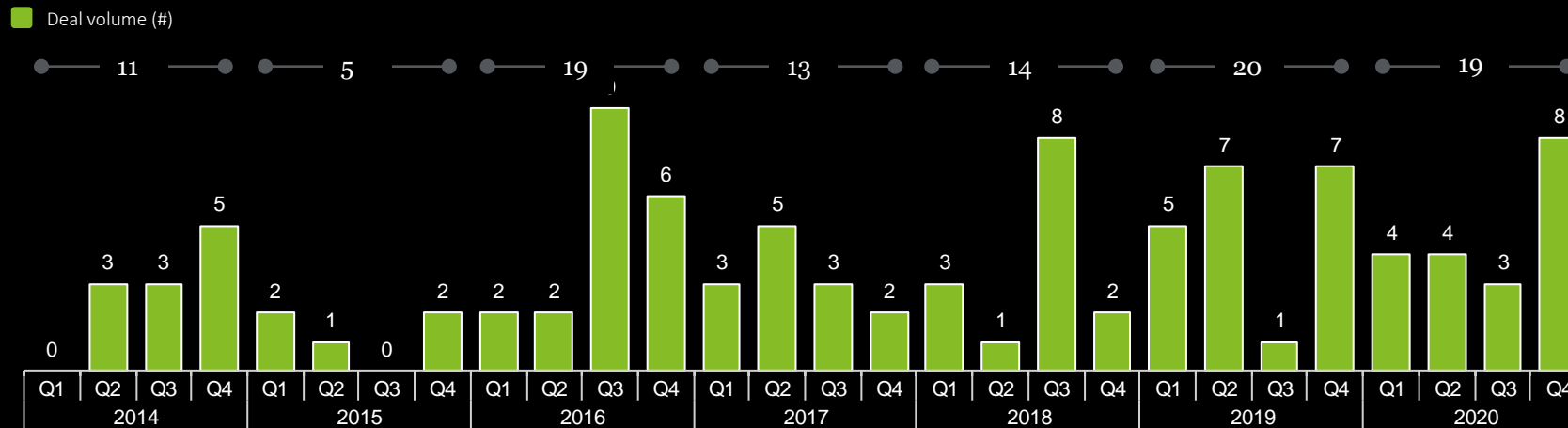


Deloitte IT services index (green line), Nasdaq Composite (black line), OBX (grey line)

Deal activity within IT services remained stable across the Nordics in 2020 compared to 2019

Transaction volume

Norwegian deal volume within IT services was stable in 2020 vs historic levels



Key take away



The number of IT services transactions in Norway remained fairly stable in 2020 compared to 2019

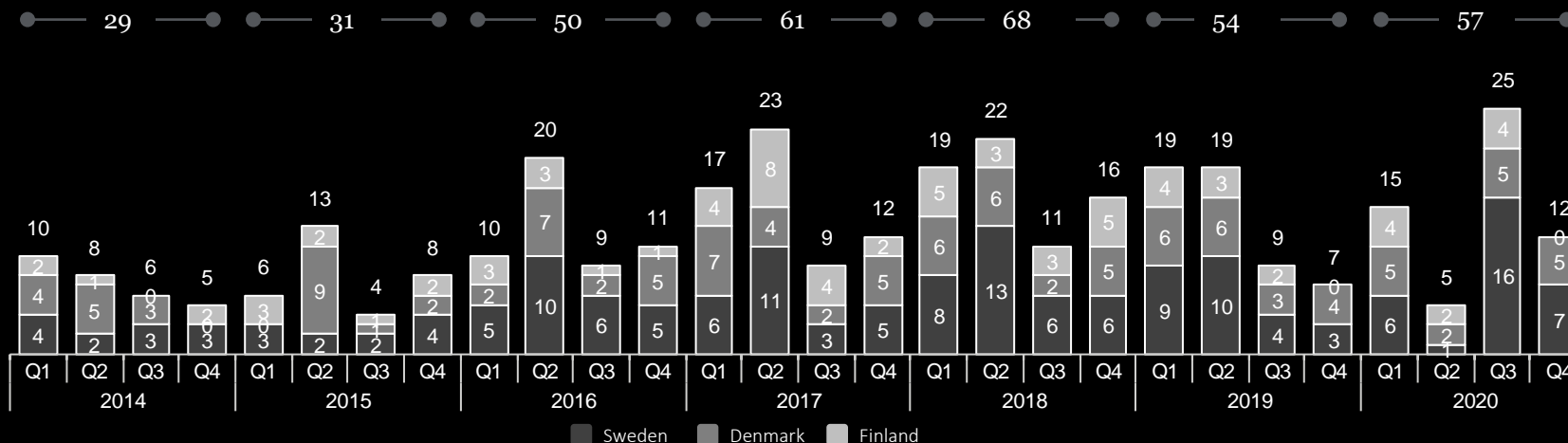


Strategic investors accounted for ~47% of the deals in 2020 with financial sponsors accounting for ~24% and PE backed companies completing ~29% of the transactions



Norwegian IT services companies attracted interest primarily from other Norwegian companies completing 10 deals, of which three was from strategic investors. Nordic investors completed 5 deals and international buyers 4

Deal volume within IT services in the rest of the Nordics remains at a high level with a small increase in 2020



Key take away



Slight growth in the number of IT services deals across the rest of the Nordics in 2020 compared to 2019



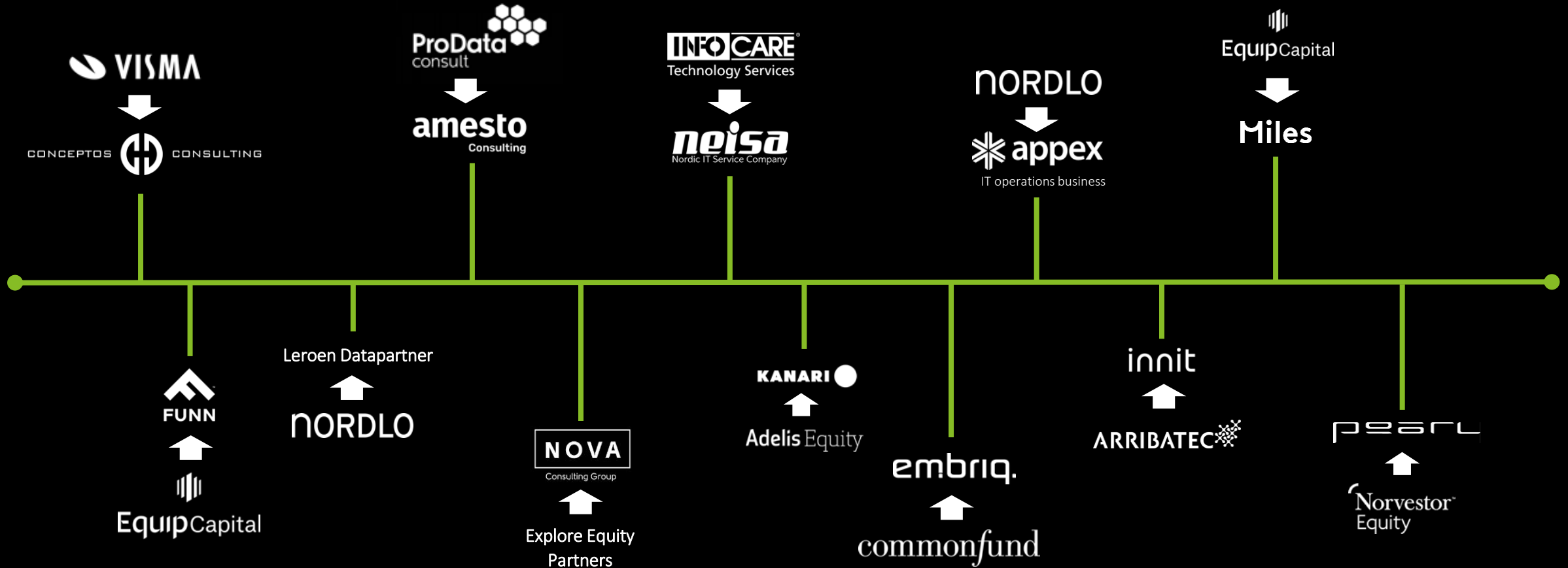
Sweden continues to have the highest deal activity in the Nordics with 30 transactions in 2020







Strategic investors completed 30 of the deals in 2020, of which 6 were international companies. Financials sponsors completed 14 deals, of which 5 were international investors and PE backed companies completed 13 deal of which 4 were international

Acquisitions in the Norwegian IT services market were primarily completed by Nordic investors

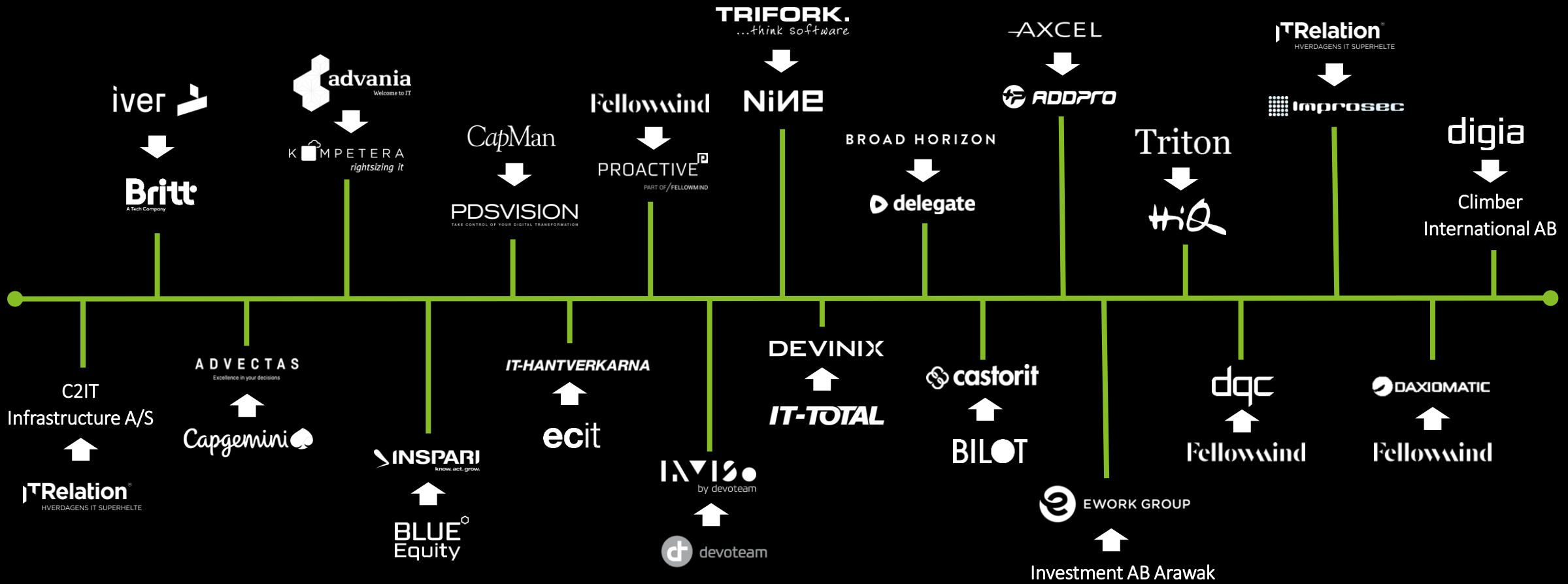
Selected Norwegian IT services transactions



 EquipCapital  Equip and FSN Capital backed Nordlo were the most active investors in the Norwegian IT services market in 2020, completing 2 deals each	 Norvestor Equity's acquisition of Pearl Group was a notable transaction within the Norwegian IT Services space at an estimated EV of above EURm 50	 The acquisition of Embriq by Magnesium Capital along with the management of the company from Rejlers was another significant transaction at an EV ~EURm 38
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Continued high deal activity level within IT services across the Nordics

Selected Nordic IT services transactions

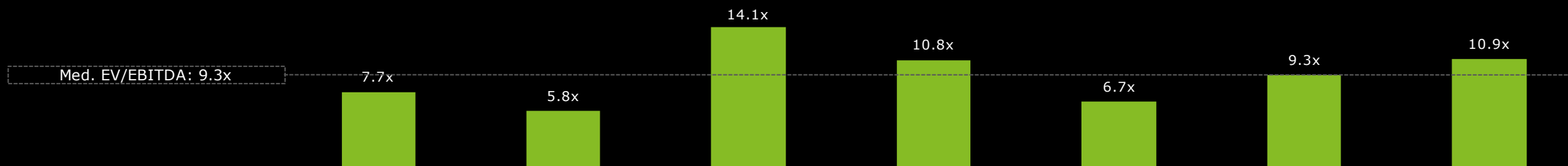


hiQ The standout transaction of 2020 within the Nordic IT services space was Triton Partners acquisition of HIQ at an EV of EURm 365

ADDPRO Another notable transaction was the acquisition of AddPro by Axcel at an EV of ~EURm 107

Fellowwind FSN Capital continued its highly acquisitive strategy with their portfolio company Fellowwind, completing 3 transactions across the Nordics

Nordic IT services transactions concluded at a median EV/EBITDA multiple of ~9.3x in 2020



NOKm

Target	Climber International AB	sensa	HiQ	ework GROUP	RUN	castorit	PROACTIVE ² <small>PART OF FELLOWMIND</small>
Country							
Enterprise value	85	215	3,817	1,483	81	92	420
Year	2020	2020	2020	2020	2020	2020	2020
Stake	100%	100%	100%	69%	100%	100%	100%
Revenue (LFY)	137	370	1,838	12,560	42	76	391
EBITDA (LFY)	11	37	271	137	12	10	39
EBITDA-margin (LFY)	8%	10%	15%	1%	29%	13%	10%
EBIT-margin (LFY)	5%	n.a	12%	1%	25%	12%	8%
Acquirer	digia	Crayon	Triton	Investment AB Arawak	Stockwik Forvaltning AB	BILOT	Fellowwind

04 Deloitte Insights

Deloitte professionals covering TMT in Norway

Contact details


Corporate Finance Advisory



Carsten V. Haukås
Corporate Finance
+47 91 555 035
chaukas@deloitte.no
[LinkedIn](#)



Kasper Harbitz Erichsen
Corporate Finance
+47 906 50 679
kerichsen@deloitte.no
[LinkedIn](#)



Andreas Barfod
Corporate Finance
+47 901 02 027
abarfod@deloitte.no
[LinkedIn](#)

M&A Strategy



Sheil Malde
M&A Strategy
+47 959 20 982
smalde@deloitte.no
[LinkedIn](#)




Jan Henry S. Fosse
M&A Strategy
+47 412 74 524
jafosse@deloitte.no
[LinkedIn](#)




Trygve Faust-Rolseth
M&A Strategy
+47 924 34 437
trolseth@deloitte.no
[LinkedIn](#)

M&A Transaction Services



Are Skjøy
Transaction Services
+47 907 26 899
askjoy@deloitte.no
[LinkedIn](#)



Nikolai Maldan
Transaction Services
+47 952 68 729
nmaldan@deloitte.no
[LinkedIn](#)




Audun Frøland
M&A Tax
+47 913 48 997
afroland@deloitte.no
[LinkedIn](#)

M&A and Business Transformation



Joachim Gullaksen
Post Merger Integration
+47 905 34 970
jogullaksen@deloitte.no
[LinkedIn](#)



Ole Rødland
Technology Due Diligence
+47 938 89 949
orodland@deloitte.no
[LinkedIn](#)



Mari Wetlesen
M&A Legal Services
+47 909 65 187
mwetlesen@deloitte.no
[LinkedIn](#)



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Dronning Eufemias Gate 14
0191 Oslo, Norway

Further insights into market trends can be found in other Deloitte publications

Suggested further reading



Deloitte Tech Trends 2021

Deloitte's 12th annual Tech Trends report identifies nine trends that are likely to transform businesses in the next 18 to 24 months, with insights around strategy, risk, and finance implications that can empower technology leaders, business leaders, and board members.

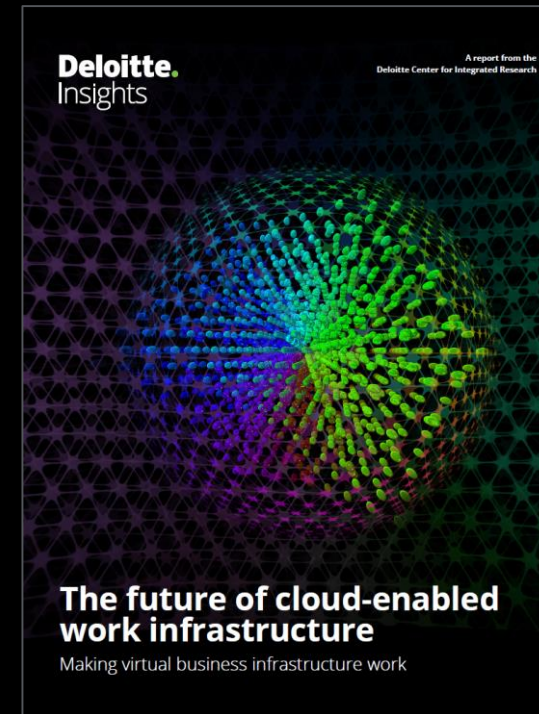
[Download the report](#)



TMT Predictions 2021

Deloitte Global's annual TMT Predictions report provides an outlook on technology, media and telecommunications trends that may disrupt and transform the business and consumer ecosystems worldwide.

[Download the report](#)



The future of cloud-enabled work infrastructure

The future of cloud-enabled work infrastructure is a tango of multicloud solutions, federated security, and distributed DevOps. COVID-19 has driven a fundamental shift in business-architecture assumptions. Overnight, many organizations have had to shift their cloud infrastructure strategies.

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