

# Navant Signals



# HCM Tech Briefing

*Q1 2024*



# Introduction

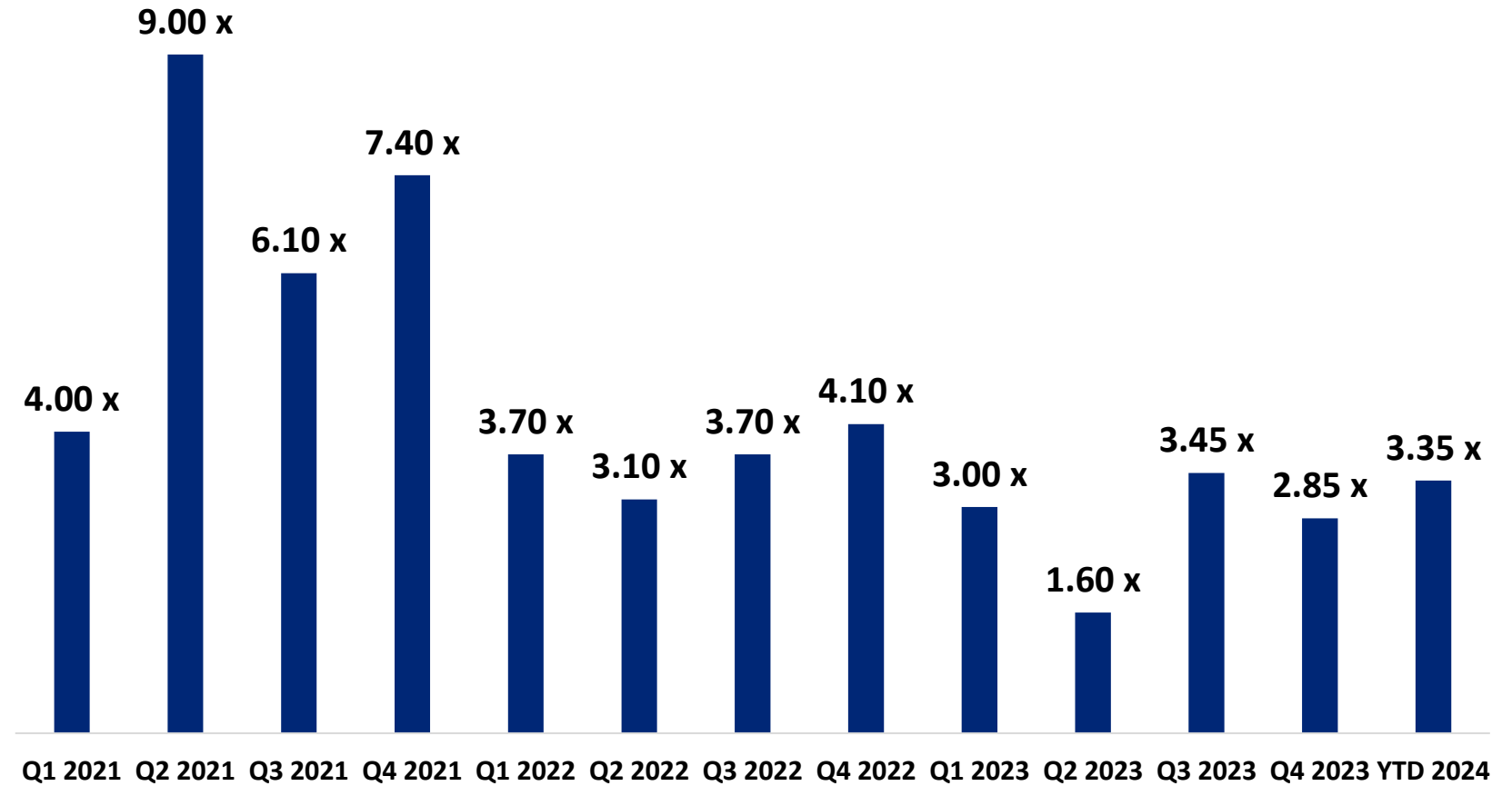
Welcome to Signals, our briefing on technology company growth and M&A. Our purpose is to provide insights into the M&A landscape that are useful to the entrepreneurs operating in the <\$100M enterprise value segment, often called the lower mid-market. We want to inform and connect with business leaders through guidance that aids their growth, corporate development and shareholder value decisions.

Our briefings are organized into three sections. Part 1 is an overview of the tech M&A landscape. Part 2 narrows the focus to a single market segment. In Part 3, we deliver news and insights drawn from experience, including perspectives from our deals and anecdotes of operating executives from their transaction experience.

Let us know how if you have questions and how we are doing.

# EV/Revenue Multiples for Private B2B Software (<\$500M EV)

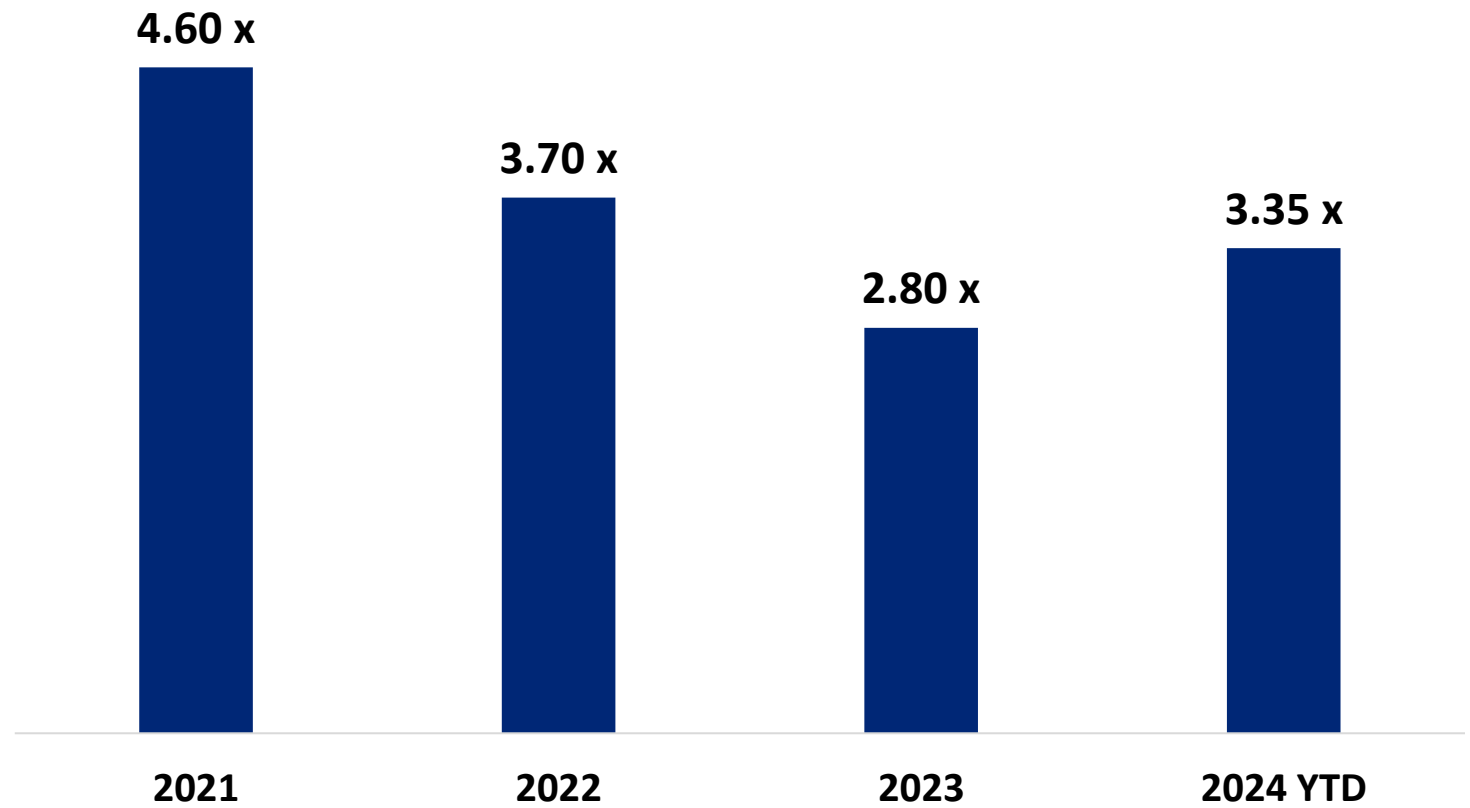
- Revenue multiples for privately-held B2B software companies showed an uptick in 2024, back to historic levels, following the swings in value observed in 2021 and 2023.
- This pattern follows broader market conditions, where COVID-era inflation was followed by the interest rate hikes of 2022-23, which caused valuations to contract in both public and private markets.



Source: 451 Research

# EV/Revenue Multiples for Private B2B Software (<\$500M EV)

- In the months ahead, heightened enforcement of anti-trust laws may depress megadeal activity, but opportunities remain for well-positioned software companies in the lower middle-market to achieve premium valuations in the near term.
- Macroeconomic factors and the increasing adoption of disruptive AI technologies will continue to shape the Tech M&A landscape for the foreseeable future.



Source: 451 Research

# 2024 Notable HCM Transactions (YTD)

Acquirer	Target	Seller Description
 Remodel Health®	 PeopleKeep®	Benefits management software for SMBs
 RUBICON technology partners	 VIMLY® BENEFIT SOLUTIONS	Benefits administration software
 bob	 pento	Payroll automation software
 QUANTUM®	 trivie	Workforce learning and engagement software
 workday.	 HiredScore	Talent acquisition and orchestration SaaS
 deel.	 zavvy	AI-based employee enablement SaaS

# 2024 Notable HCM Transactions (YTD)

Acquirer	Target	Seller Description
		AI-based employee training software
		Payroll tax reporting software
		Salesforce-based HR software for staffing
		HR & compliance software
		Workforce health screening management SaaS
		Workforce management SaaS for temporary staffing

# 2024 Focus Areas for HCM M&A



## Compliance Management

- Complexity around state and local laws necessitates compliance management solutions.
- Flurry of new laws around minimum wage, paid leave, and transparency expected to drive demand.



## Payroll Automation

- Shift toward automated, cloud-based, and integrated payroll solutions.
- Driven by advances in artificial intelligence (AI) and machine learning (ML) systems.



## Benefits Management

- Shift toward personalized benefits packages that improve retention and increase employee engagement.
- Increasing demand for family planning flex-time and mental health benefits.

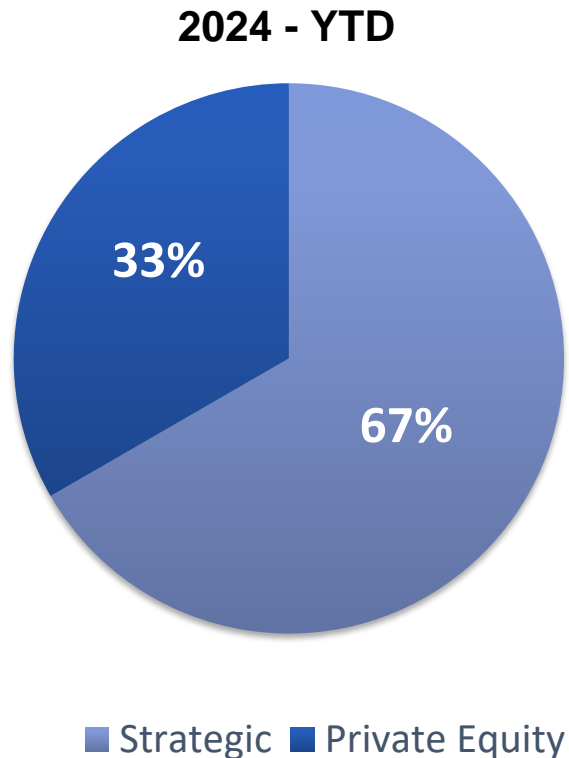


## Employee Development

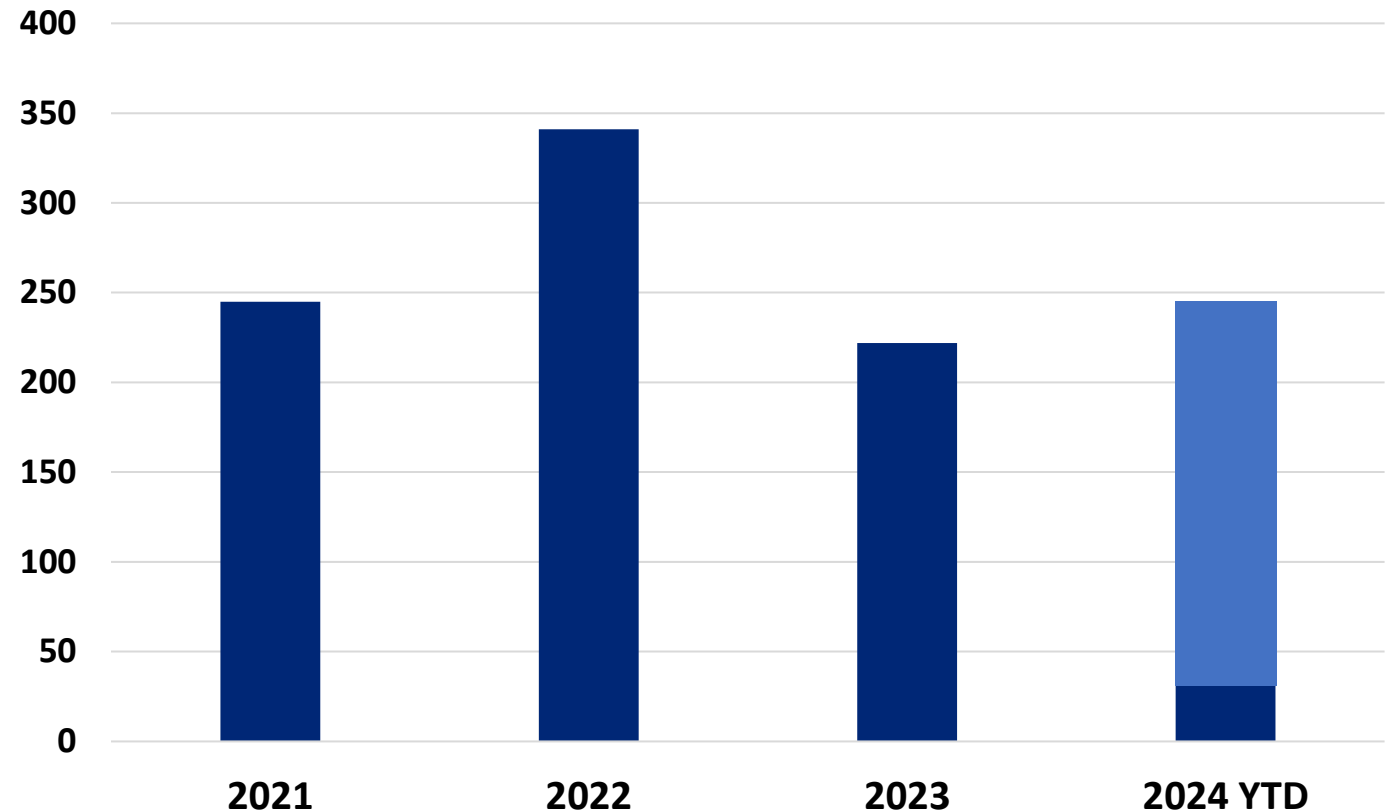
- Renewed emphasis on employee development and upskilling to improve retention.
- Increasing use of AI tools to deliver adaptive learning experiences.

# 2024 HCM Deal Activity (YTD)

So far in 2024, two thirds of buyers were strategic acquirers while the other third consisted of private equity firms and their portfolio companies.



M&A activity in the HR Tech sector was down over 30% year over year in 2023. However, deal activity in 2024 is higher than the same time last year, and on track to meet or surpass 2023 levels on an annualized basis.



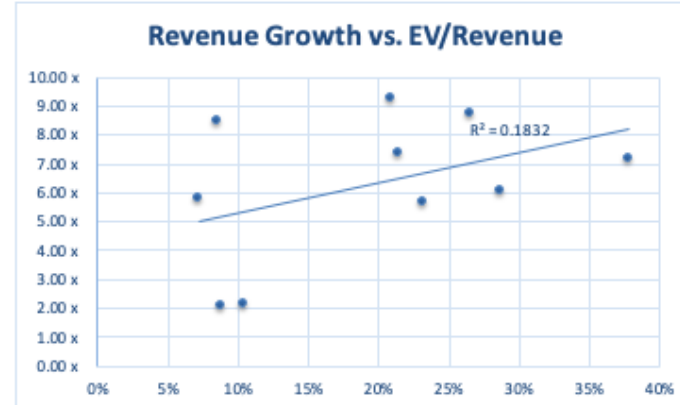
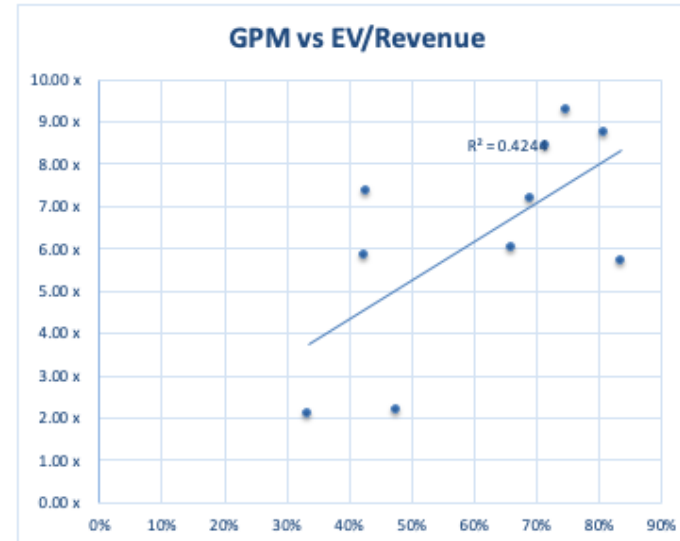


# Public Index: HCM Software & Tech-Enabled Services

Ticker	Company	Gross Profit Margin	Revenue Growth	EV/Revenue
NasdaqGS:ADP	Automatic Data Processing Inc.	42%	7%	5.82 x
NasdaqGS:PYCR	Paycor HCM Inc.	66%	29%	6.03 x
NasdaqGS:PAYX	Paychex Inc.	72%	9%	8.44 x
NYSE:PAYC	Paycom Software Inc.	84%	23%	5.68 x
NasdaqGS:PCTY	Paylocity Holding Corporation	69%	38%	7.19 x
NYSE:ALIT	Alight Inc.	33%	9%	2.09 x
NasdaqGS:DCBO	Docebo Inc.	81%	27%	8.73 x
NYSE:HRT	HireRight Holdings	47%	10%	2.17 x
NYSE:DAY	Ceridian Dayforce Inc.	43%	21%	7.34 x
NasdaqGS:WDAY	Workday Inc.	75%	21%	9.27 x
	Industry Average	61%	19%	6.28 x
	Industry Median	68%	21%	6.61 x
	Industry Median with Liquidity Discount (25%)			4.96 x

**Summary**  
 The gross profit margins of publicly traded HR Technology providers ranged from 42% to 84%, with a median of 69% and average of 64%. Revenue growth rates for this group ranged from 7% on the low end to 38% on the high end. The median EV/Revenue multiple for the publicly traded peer group stands at 6.61x revenue, or 4.96x revenue when including a public to private liquidity discount. We observed a slight positive correlation between Gross Profit Margins vs EV/Revenue multiples, but a weaker correlation between Revenue Growth vs. EV/Revenue multiples, reflecting the renewed emphasis on profitability in the broader tech industry.



# Navant News

**A publicly traded payroll provider has acquired the Compaas software product family.** Compaas is the industry's most comprehensive solution for compensation management. The SaaS product scales from mid-market to enterprise, combining secure, seamless workflow, detailed analytics and a full picture of the compensation mix into a total solution. The acquisition comes at a time when compensation professionals and HR leaders are focused on the quality of the employee experience more than ever. The adequacy of total compensation is the leading factor affecting employee experience and is behind high retention and low attrition. Compaas will be integrated into the strategic acquirer's human capital management platform that addresses people management from recruiting, onboarding and payroll to career development and retention. Navant Partners served as the exclusive M&A advisor to Compaas.





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