

Navant Signals

NAVANT
GROWTH & EXIT

HCM Tech Briefing

Q1 2024



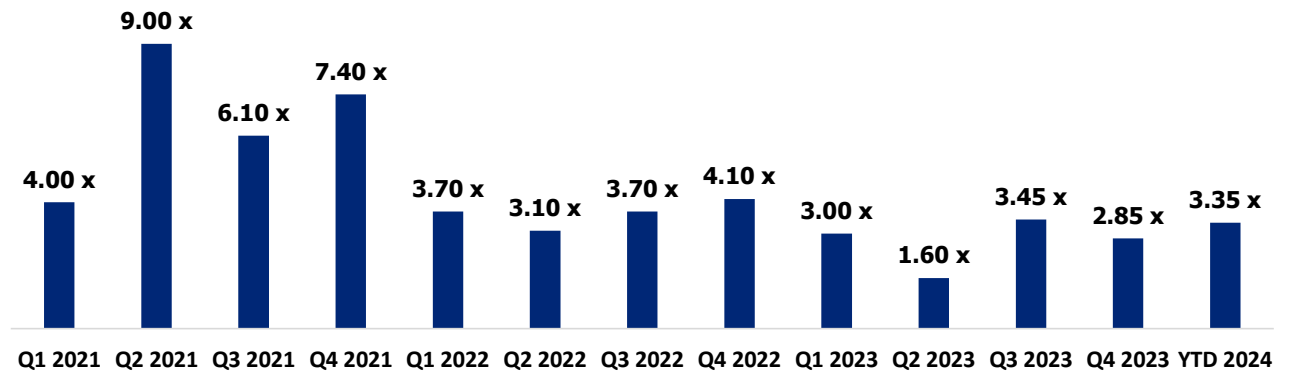
Introduction

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 entrepreneurs operating in the <\$100M enterprise value segment, often called the lower middle-market. We want to inform and connect with business leaders through guidance that aids their growth, corporate development and shareholder value decisions.

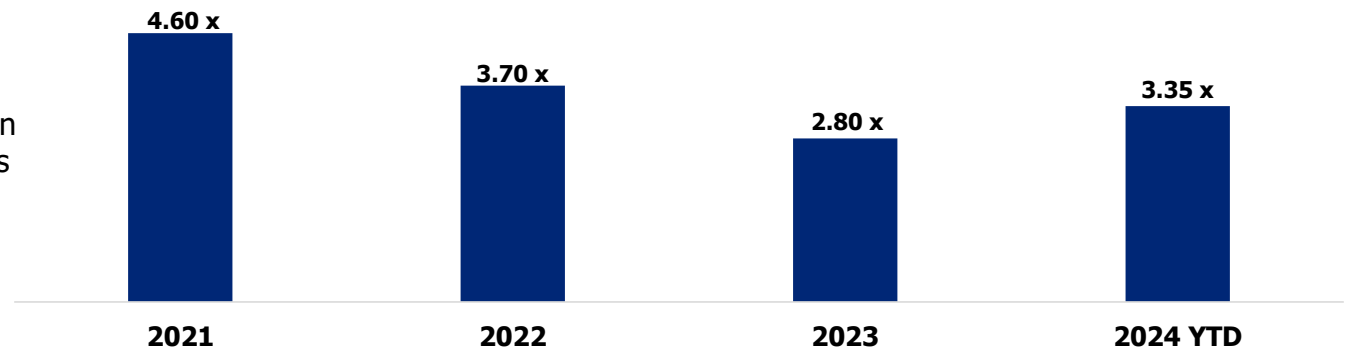
Signals covers various aspects of the tech M&A landscape. In this briefing, we report on valuation trends for private B2B software companies across multiple industries, insights into M&A activity in the HCM Tech sector, and news and insights drawn from experience, including perspectives from our deals and anecdotes of operating executives from their transaction experience.

Valuation Multiples for Lower and Middle Market Private B2B Software Companies (<\$500M EV)

- Revenue multiples for privately-held B2B software companies across multiple industries showed an uptick in 2024 back to the historical average, following the swings in value observed in 2021 and 2023.



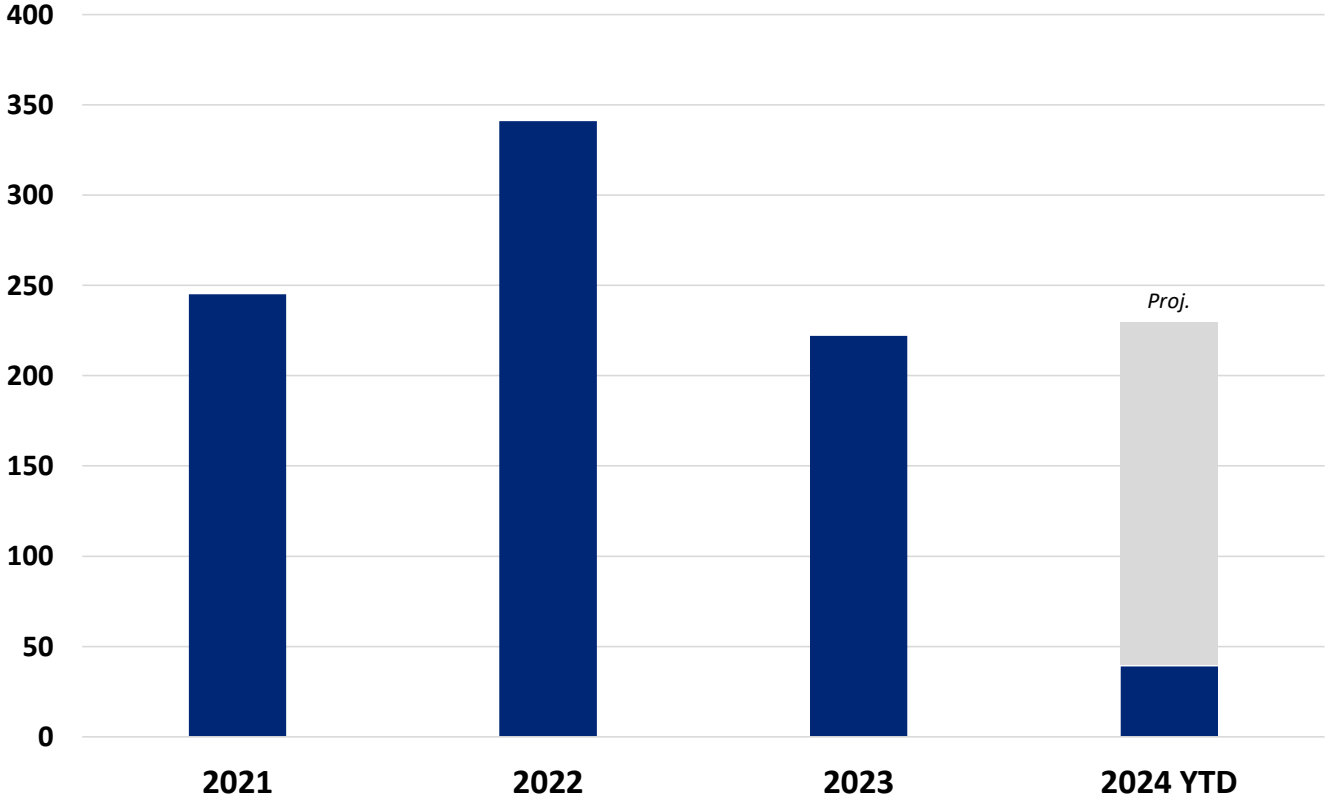
- This pattern follows broader market conditions, where COVID-era inflation was followed by the interest rate hikes in 2022 and 2023, which caused valuations to contract in both public and private markets.



Source: 451 Research, Application Software, Information Management

2024 YTD HCM Tech Deal Activity

- M&A activity in the HCM 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.
- In the months ahead, heightened enforcement of anti-trust laws may depress megadeal activity and overall transaction value, but opportunities remain for well-positioned software companies in the lower middle-market to achieve strong valuations in the near term.
- In the longer term, macroeconomic factors and the increasing adoption of disruptive AI technologies will continue to shape the Tech M&A landscape in the coming years.



Source: 451 Research,

2024 Focus Areas for HCM Tech 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.

Source: 451 Research

Notable Transactions 2024 YTD

Acquirer

Target

Seller Description



Benefits management software for SMBs



Benefits administration software



Payroll automation software



Workforce learning and engagement software



Talent acquisition and orchestration SaaS



AI-based employee enablement SaaS

Source: 451 Research

Notable Transactions 2024 YTD

Acquirer

CERIDIAN

Target

eloomi

Seller Description

AI-based employee training software

SOVOS

 **AATRIX**

Payroll tax reporting software

Bullhorn 

m | ployee
staffing software

Salesforce-based HR software for staffing

MITRATECH

Mineral

HR & compliance software

Stierling

VAULT
HEALTH

Workforce health screening management SaaS

ZVOOVE

 **Planbition**
Your Planning. Our Ambition

Workforce management SaaS for staffing

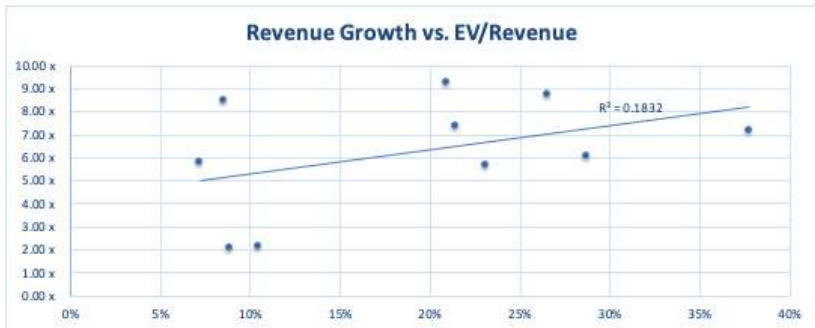
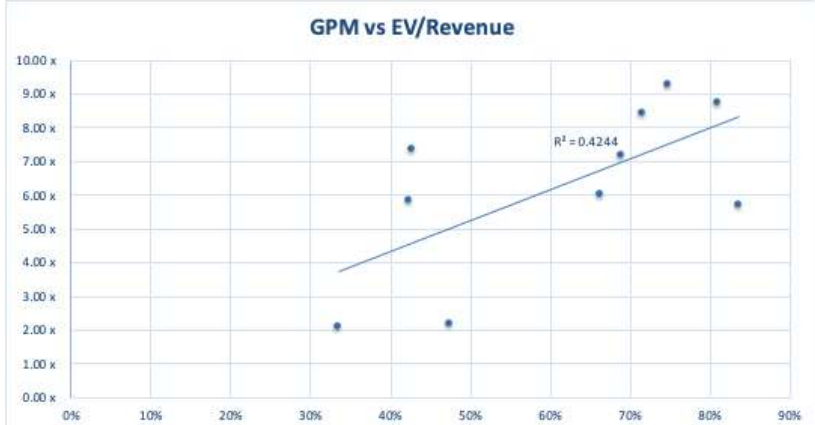
Source: 451 Research

Public Index: HCM Software and 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 public peer index for HCM Tech consists of companies providing payroll software and tech-enabled services, recruiting SaaS, and benefits administration platforms. The gross profit margins of publicly traded HCM 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.



Source: Yahoo Finance

Navant News

**A STRATEGIC
ACQUIRER**

HAS ACQUIRED

Compaas[®]

NAVANT PARTNERS SERVED AS THE M&A ADVISOR FOR COMPAAS

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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.



"When it was time to sell our company, we asked Navant to find the right acquirer – and get it done quickly. They did both. We chose Navant because of their expertise in the HCM/HRTech space and their team's demonstrated ability to get a deal closed. They anticipated potential issues and made the entire process as smooth as possible. I would work with them again."

- bethanye Blount, Founder & CEO, Compaas



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