

D|A|DAVIDSON | *mcj*  
INTERNATIONAL

Spring

20  
23

# HR TECH

INDUSTRY UPDATE



# BULLISH VIEW ON THE HR TECH MARKET DESPITE THE CHALLENGING DEALMAKING ENVIRONMENT

### INNOVATIVE HR TECH SOLUTIONS TO HELP PRESSURED ORGANISATIONS

- As we step into the year 2023, organisations are confronted with unprecedented challenges, as the pandemic has left a lasting impact on human resource management, while the economic climate and intensely competitive labour market continue to exert pressure on managers
- To help organisations succeed in this environment, there are several innovative HR Tech solutions which remain vital and benefit from increased attention, whereas certain solutions may be at risk due to the need of cost trimmings brought on by harsher macroeconomic conditions

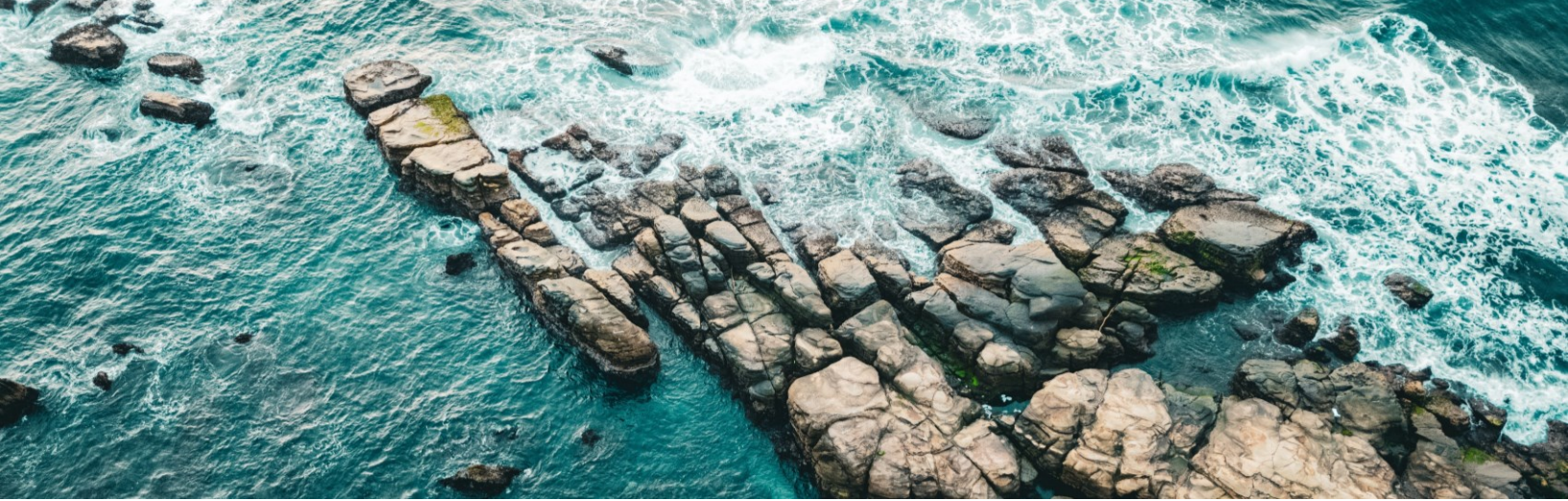
### SCARCITY OF TALENT INCREASES FOCUS ON STRATEGIC HR

- The already scarce talent market has been further exacerbated by inflationary pressures, resulting in an increase in talent retention issues, with more than 40% of the global workforce considering leaving their current jobs
- To address this situation, HR leaders must carefully examine their compensation strategy and implement measures to increase employee retention, turning attention towards Strategic HR Tech solutions that were previously regarded as nice-to-haves
- We anticipate a persistent emphasis on scalability and data utilisation, which combined with ease of use will be key differentiator

### DEAL ACTIVITY EXPECTED TO BEGIN TO PICK UP IN THE SECOND HALF OF 2023

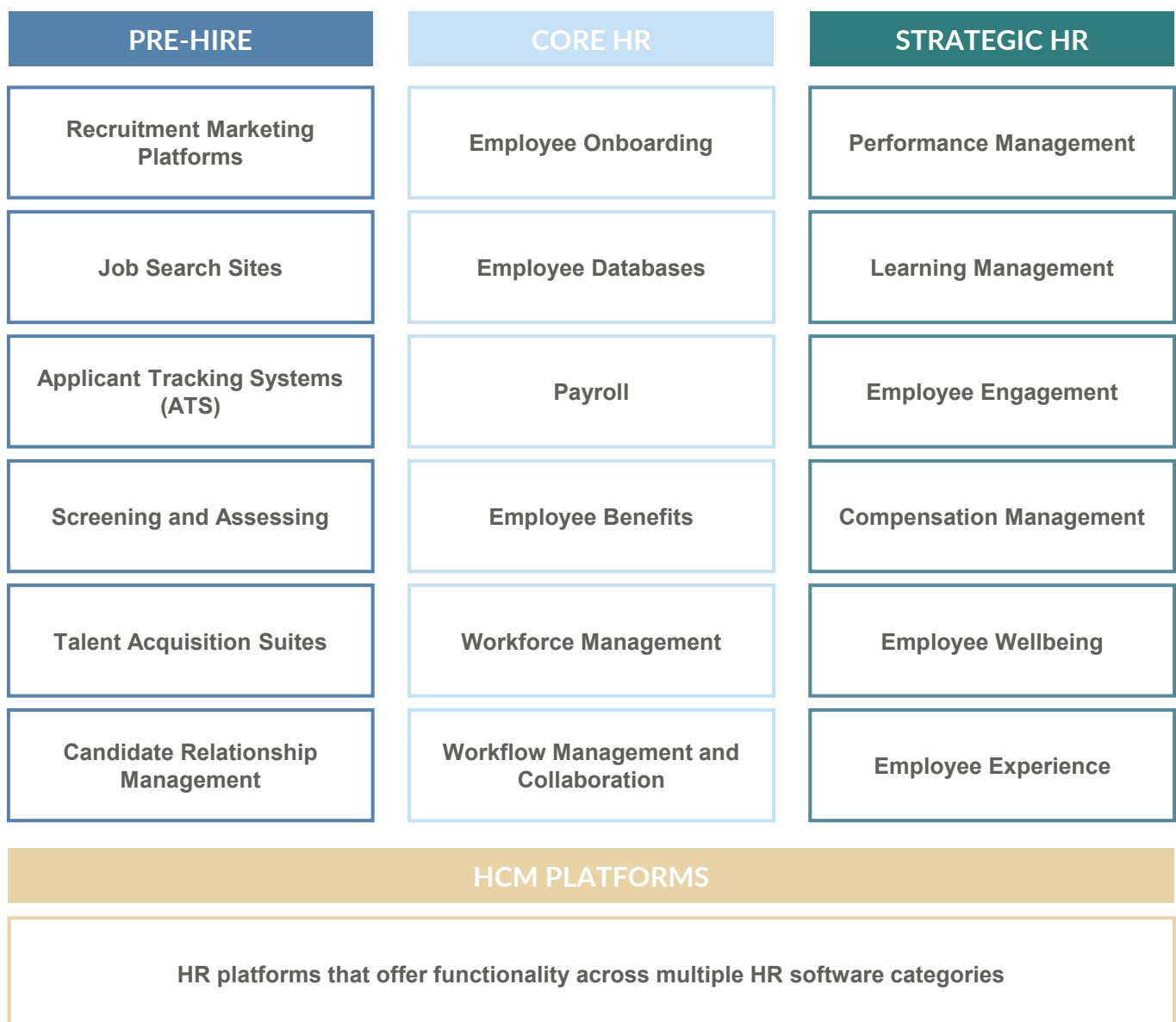
- In 2022, there was an overall slowdown in activity, resulting in a significant drop in valuation, which continued in the beginning of 2023 as sponsor-driven transaction volumes were down 34% in Q1, and fundraising activity was down 44% during the same period
- On the bright side, strategic M&A activity is still strong as the number of HR Tech transactions in the US and Europe are back at the same level as in Q1 2022, showing that strategic acquirers are seizing the opportunity to add product tuck-ins to a fairer market value
- Despite the expectation of a slower Q2 2023, D.A. Davidson MCF International is optimistic about the HR Tech market where we anticipate transaction activity to pick up in H2 2023, particularly in H1 2024, owing to the interest in funding product innovation and the continued strategic importance of creating best-in-class integrated platform solutions





## THE EVOLVING HR TECH TAXONOMY

ACCELERATED INNOVATION CONTRIBUTES TO A QUICKLY EVOLVING HR TECH TAXONOMY WITH HEIGHTENED FOCUS ON STRATEGIC HR





## FUTURE OF WORK TRENDS 2023

### QUIET HIRING REPLACING QUIET QUITTING

HR leaders are likely to adopt the practice of quiet hiring, which involves acquiring new skills without adding new full-time employees. This approach stands in contrast to the recent viral trend of quiet quitting, wherein organisations retain their employees but lose their valuable skills.

### HYBRID FLEXIBILITY AT THE FRONT LINE

Since hybrid work is now a permanent feature for desk-based employees, it has also reached frontline workers in various industries like healthcare and manufacturing. The top role attractors in this segment are work schedule control, paid leave, and work schedule stability.

### NEED FOR UPSKILLING AND TRAINING

The demands of today's working environment have heightened the need for training and upskilling at all levels in the organisation. Management skills are under pressure due to employee expectations and need to implement hybrid work strategies, whereas Gen Z has missed out on developing soft skills during the pandemic.

### HEALING PANDEMIC TRAUMA

The societal, economic and political turbulence of recent times have resulted in numerous individuals experiencing mental health challenges. This can lead to underperformance, raising the importance for employers to view their employees as complete individuals and implement tools to promote sustainable performance.

### THE ROLE OF AI

The growing utilisation of emerging technologies, such as AI and machine learning, in hiring processes and data collection on employees raises concerns on algorithmic bias and privacy boundaries. This puts pressure on organisations to become more transparent about their use of data.

## CONTINUED INTEREST AND CAPITAL DEPLOYED IN GROWTH AREAS CREATES BULLISH VIEW ON THE FUTURE OF THE HR TECH MARKET



### POST-COVID FUNDING ACTIVITY SPURRED INNOVATION AND PRODUCT DEVELOPMENT

- The surge in HR Tech investments, with more than USD 22bn invested in the market during 2021 and 2022, has allowed HR Tech companies to secure the necessary funds to grow and innovate
- In the long term, these innovations will transform how companies manage talent. However, in the short run there is a confusion in the market, leading to a need for coordination across the value chain as HR Tech leaders increasingly look for integrated solutions



### INCREASED IMPORTANCE OF STRATEGIC HR TECH SOLUTIONS FOCUSED ON EMPLOYEE ENGAGEMENT TO AID EMPLOYEE RETENTION

- Strategic HR Tech solutions that prioritise employee engagement and wellbeing are growing in importance for organisations as they confront talent shortages and a global workforce where over 40% of employees consider leaving their jobs
- In addition to improved retention rates, Strategic HR Tech solutions provide opportunities to prevent costs associated with sick leaves and underperformance due to health challenges



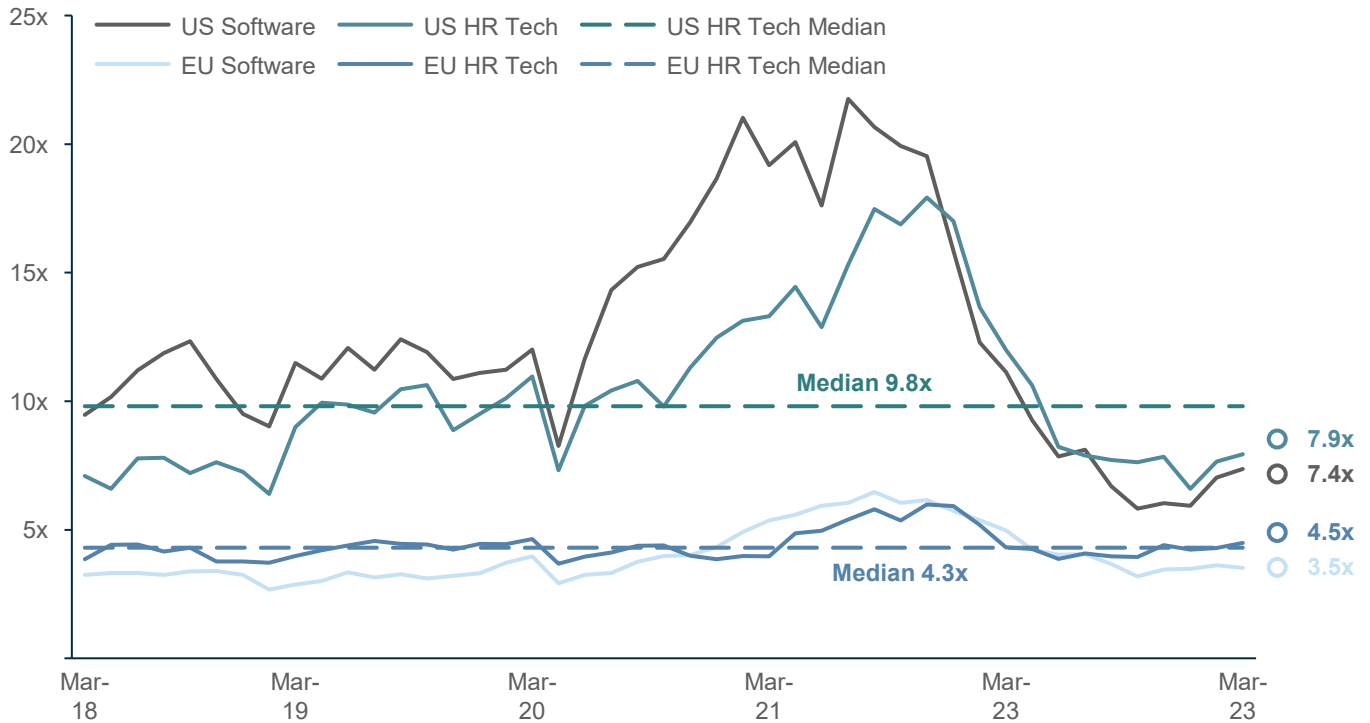
### INCREASING NUMBER OF HR TECH COMPANIES AT SCALE EXPECTED TO SPUR MARKET ACTIVITY OVER COMING YEARS

- The high investment activity within the HR Tech space has created a landscape with many companies at scale. Over the coming years, many of these companies will evaluate their growth and strategic options, which is expected to drive Strategic M&A activity
- US strategic acquirers, which have been more passive in the past 12 months, already in Q1 2023 indicated an increased acquisition appetite and are expected to continue to drive activity as they are looking for best-of-breed product tuck-ins to expand capabilities

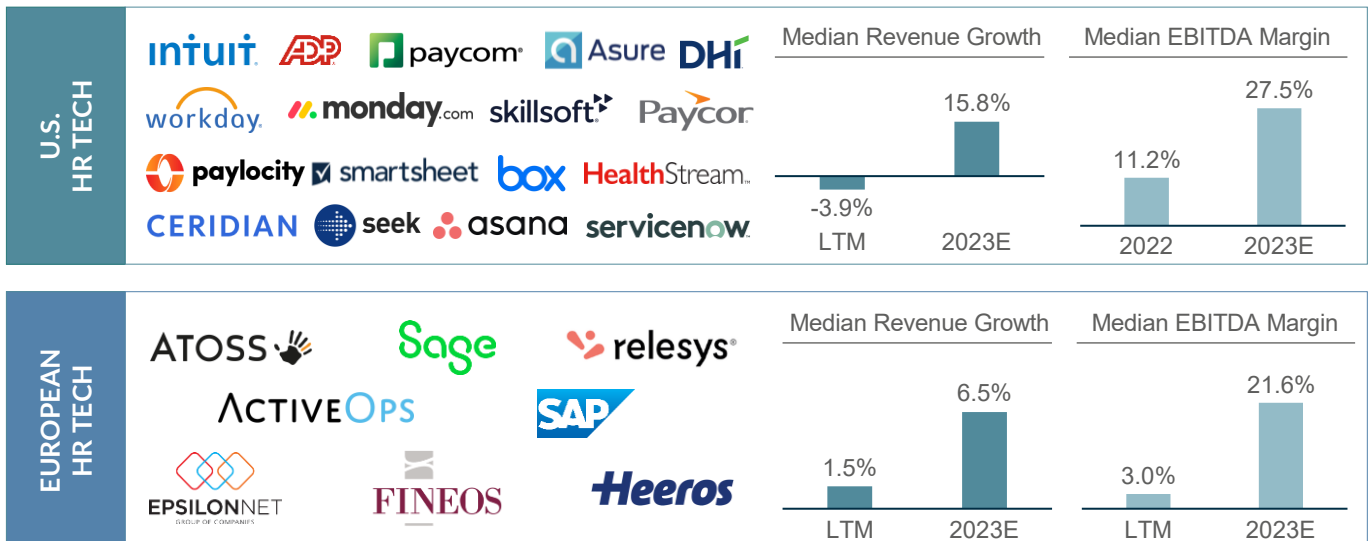
# PUBLIC VALUATION ENVIRONMENT

## US AND EUROPEAN HR TECH COMPANIES ARE TRADING HIGHER THAN SOFTWARE INDICES

### LTM EV/REVENUE DEVELOPMENT OF HR TECH AND SOFTWARE COMPANIES



- Over the past twelve months, HR Tech companies have been valued higher than their respective software indices, with the European group currently trading above the five-year median at 4.5x
- As the market has shifted its focus towards profitability, the gap between high-growth and low-growth software companies has narrowed. This trend is also evident when comparing US HR Tech companies, historically known for higher growth rates, with European HR Tech companies



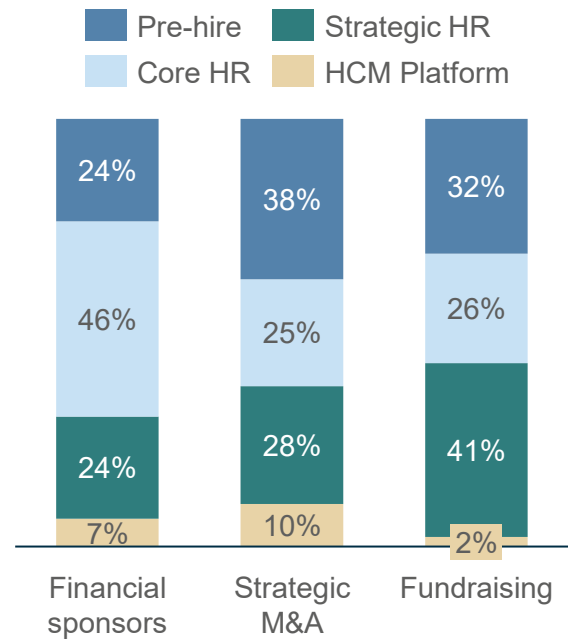


# M&A ENVIRONMENT

## PE DRIVES ACTIVITY WITHIN CORE HR WHEREAS VC IS MORE FOCUSED ON STRATEGIC HR SOLUTIONS

- Despite a decline in valuation levels and a global downturn in M&A activity during 2022, the HR Tech dealmaking stayed at healthy levels in 2022
- As we move into 2023, the M&A environment has become less confident, with financial sponsor activity falling by 34% compared to Q1 2022 and fundraising activity declining by 44%
- Looking at the deal taxonomy in Q1 2023, five out of ten of the largest deals have been within Strategic HR, reflecting the trend of increased focus on employee engagement and learning management

NUMBER OF DEALS PER SEGMENT



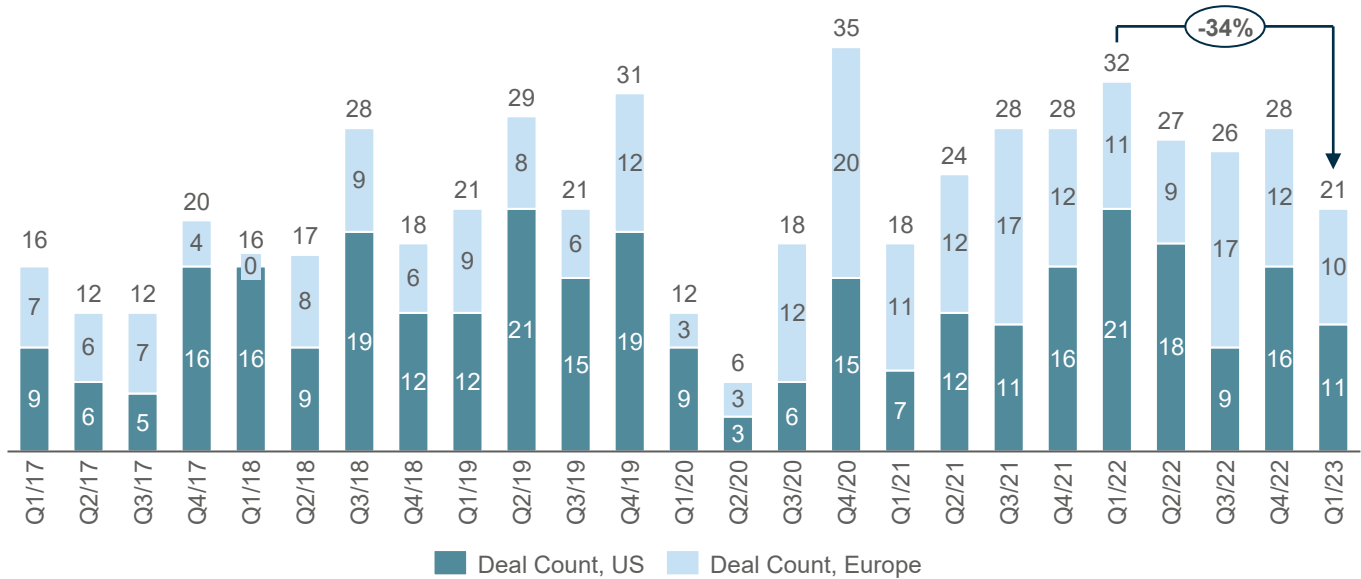
## TOP 10 LARGEST DEALS IN 2022 AND Q1 2023

	2022	Q1 2023	TOTAL
PRE-HIRE	 	 	7 DEALS
CORE HR	 		4 DEALS
STRATEGIC HR	 	  	7 DEALS
HCM PLATFORMS	 		2 DEALS

# FINANCIAL SPONSOR ACTIVITY

## DECLINE OF FINANCIAL SPONSOR ACTIVITY IN THE FIRST QUARTER OF 2023

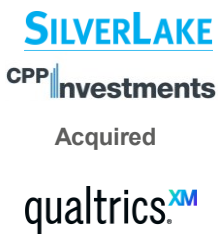
NUMBER OF FINANCIAL SPONSOR TRANSACTIONS: Q1 2017 - Q1 2023



## HIGHLIGHTED TRANSACTIONS IN Q1 2023

### NORTH AMERICA

EMPLOYEE EXPERIENCE



Acquired

Qualtrics, a pioneer in the employee experience management segment, was taken private by a consortium led by Silver Lake and Canada Pension Plan Investment Board

Enterprise value: EUR 11.2bn  
Valuation: 8.2x EV/Revenue



EMPLOYEE ENGAGEMENT



Acquired

Employee Mentorship Software MentorcliQ secured over USD 80m growth investment from PSG to help enterprises globally build more inclusive cultures and reduce employee turnover

Enterprise value: NA  
Valuation: NA



### EUROPE

HCM PLATFORM



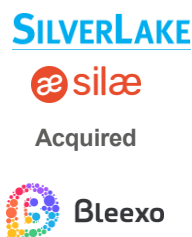
Acquired

NorthEdge completed a primary MBO into Cezanne HR, a UK provider of HCM software and payroll services, allowing the company to accelerate growth plans and broaden the software

Enterprise value: NA  
Valuation: NA



EMPLOYEE ENGAGEMENT



Acquired

Silae, a provider of payroll and HR software platform owned by Silver Lake Partners, acquired Bleexo, offering an employee engagement platform based on AI technologies

Enterprise value: NA  
Valuation: NA

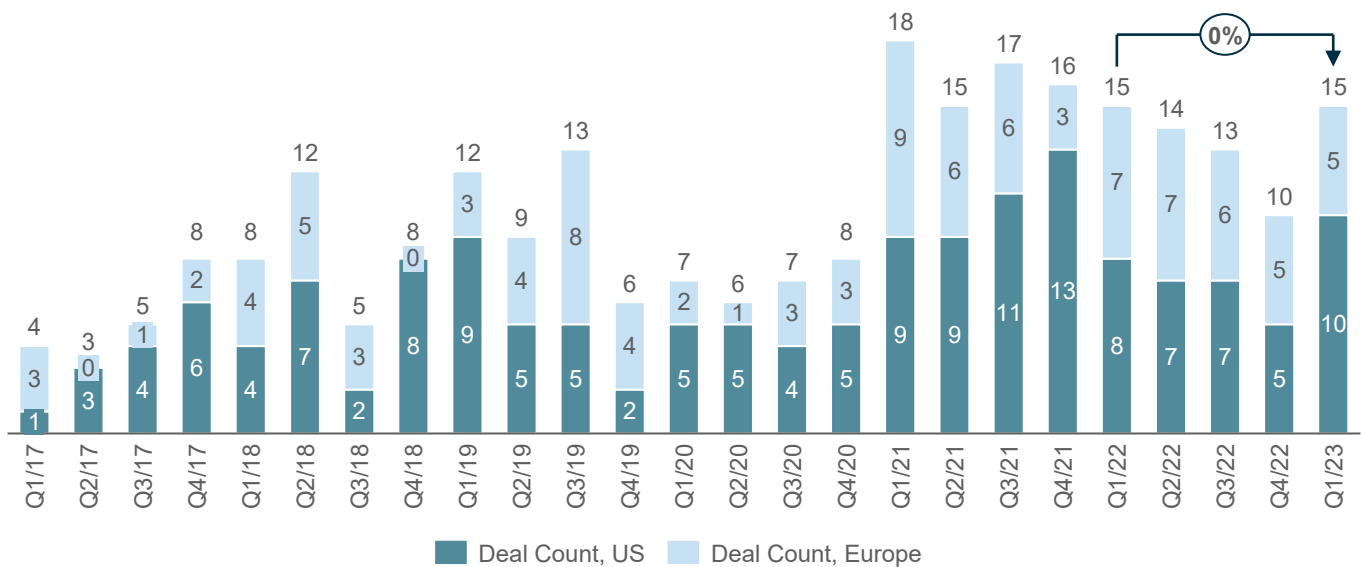




# STRATEGIC M&A ACTIVITY

## STRATEGIC M&A ACTIVITY BACK AT SAME LEVEL AS ONE YEAR AGO

NUMBER OF STRATEGIC M&A TRANSACTIONS: Q1 2017 - Q1 2023



## HIGHLIGHTED TRANSACTIONS IN Q1 2023

### NORTH AMERICA

SCREENING & ASSESSING

**karat**<sup>^</sup>

Acquired

**TRIPLEBYTE**  
(technical assessment unit)

Enterprise value: NA  
Valuation: NA



Karat, the world's largest interviewing company, acquired leading adaptive assessment technology from Triplebyte

### EUROPE

CANDIDATE RELATIONSHIP

**textkernel**

Acquired

**JOBOTI**

Enterprise value: NA  
Valuation: NA



Textkernel, an AI-powered recruitment software company backed by Main Capital Partners, acquired candidate engagement start-up Joboti, marking a significant step in the company's global buy-and-build strategy

PAYROLL

**deel.**

Acquired

**CAPBASE**

Enterprise value: NA  
Valuation: NA



Remote payroll and compliance startup Deel acquired FinTech company Capbase, thereby entering the equity management space and expanding the reach to help startups scale as they hire team members and issue equity

WORKFORCE MANAGEMENT

**moorepay**  
Payroll & HR Solutions

Acquired

**naturalhr**

Enterprise value: NA  
Valuation: NA



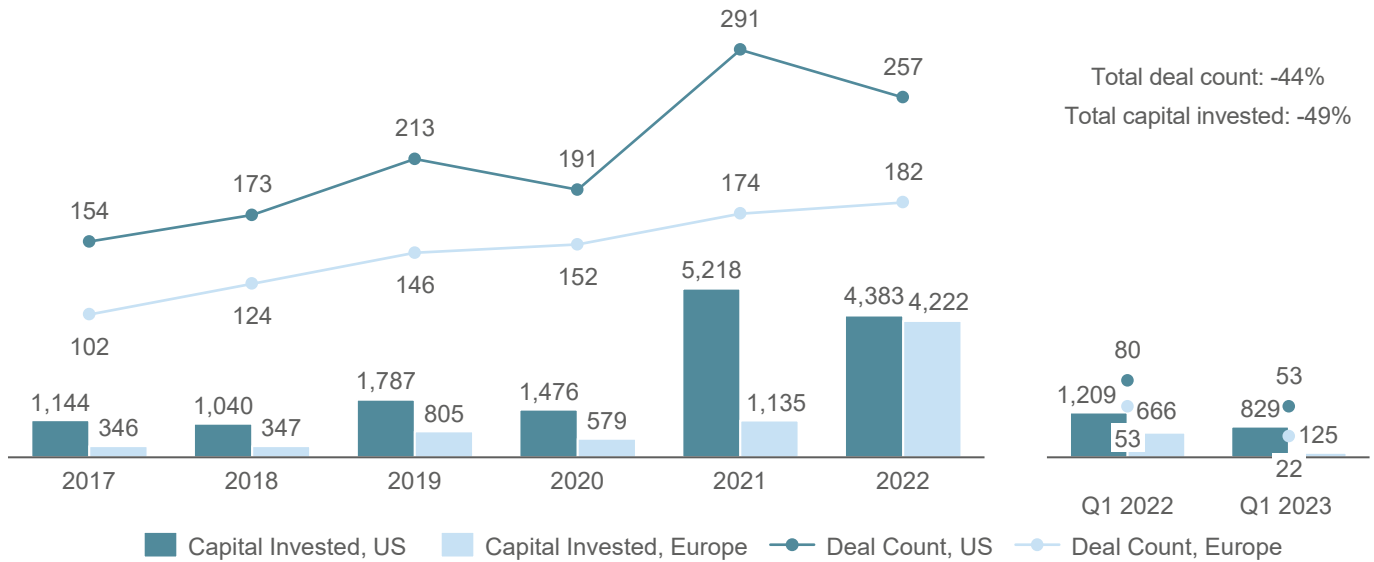
Moorepay, a supplier of packaged payroll services, acquired Natural HR, a resource management platform, in line with its strategy to offer a fully integrated, modular suite of payroll and HR software

# FUNDRAISING ACTIVITY

## CHALLENGING DEALMAKING ENVIRONMENT CAUSED DEAL VALUE AND COUNT TO FALL IN Q1 2023

FUNDRAISING TRANSACTIONS: 2017 - 2022

Q1 2022 VS Q1 2023



## HIGHLIGHTED TRANSACTIONS IN Q1 2023

	NORTH AMERICA	EUROPE
<b>EMPLOYEE BENEFITS</b>	<p><b>Bonusly</b></p> <p>Raised Series B financing from ANKONA CAPITAL, access CAPITAL, NEXT FRONTIER CAPITAL (among others)</p> <p>Enterprise value: NA Valuation: NA</p>	<p><b>MEDWING</b></p> <p>Raised Series C financing from NORTHZONE, CHEF RY, QUARTILE (among others)</p> <p>Enterprise value: NA Valuation: NA</p>
<b>WORKFORCE MANAGEMENT</b>	<p><b>RIPPLING</b></p> <p>Raised Series E financing from GREENOAKS</p> <p>Rippling, a workforce management company, raised USD 500m in Series E funding from Greenoaks as a response to the collapse of Silicon Valley Bank</p> <p>Enterprise value: USD 11.25m Valuation: NA</p>	<p><b>Welcome to the Jungle</b></p> <p>Raised Series C financing from bpi france, XAnge, CIPIO PARTNERS (among others)</p> <p>French employment site Welcome to the Jungle raised EUR 50 m in Series C funding, which the company will use for expanding its operations to the US</p> <p>Enterprise value: NA Valuation: NA</p>

## IN AN INCREASINGLY INTERCONNECTED WORLD, OUR CLIENTS REQUIRE A GLOBAL APPROACH

The D.A. Davidson MCF International brand is a strategic partnership between D.A. Davidson and MCF Corporate Finance. Together, we offer clients unparalleled access to a transatlantic M&A and debt advisory platform. Our team's international expertise provides best-in-class capabilities to clients in the middle market.

### D A DAVIDSON

**D.A. Davidson** is a US-based, employee-owned financial services firm offering a full-service platform spanning Investment Banking, Equity Research, Sales & Trading, Fixed Income Capital Markets and Wealth Management.



**MCF Corporate Finance** is a leading independent M&A and debt advisory firm with offices in Hamburg, Helsinki, London, Stockholm and Frankfurt. Our mission is to provide honest and relationship driven advice, tailor made to fit each client's business journey.

## BULGE BRACKET CAPABILITIES & BOUTIQUE FOCUS ON CLIENTS

173

Investment Banking Professionals

85+

M&A Transactions (2022)

17

Transatlantic Locations

30+

Equity & Debt Financings



UNITED STATES



EUROPE

Atlanta

Chicago

New York

Salt Lake City

Hamburg

Stockholm

Boca Raton

Denver

Orange County

Seattle

Helsinki

Frankfurt

Boston

Great Falls

Portland

Toronto

London

# OUR TECHNOLOGY PRACTICE

## BRINGING DEEP DOMAIN EXPERTISE ACROSS KEY VERTICALS

<p><b>APPLICATION SOFTWARE</b></p>	<p><b>FINTECH</b></p>	<p><b>INFRASTRUCTURE SOFTWARE</b></p>
<p><b>INTERNET &amp; DIGITAL MEDIA</b></p>	<p><b>TECH-ENABLED SERVICES</b></p>	<p><b>COMMUNICATION &amp; HARDWARE</b></p>

## OUR TEAM OFFERS DIFFERENTIATED ADVICE TO LEADING TECHNOLOGY BUSINESSES

<p><b>ONE TEAM DEVOTED TO MIDDLE MARKET TECHNOLOGY TRANSACTIONS</b></p>	<p><b>DEEP VERTICAL EXPERTISE TRANSLATING INTO SUPERIOR RESULTS</b></p>	<p><b>GLOBAL M&amp;A EXECUTION EXPERTISE PAIRED WITH LOCAL PRESENCE</b></p>
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D.A. Davidson MCF International’s technology team offers honest, relationship-driven and informed advice to clients in sell-side and buy-side M&A, capital raises, strategic transactions as well as debt advisory.

We offer access to an international investor universe, using our comprehensive coverage of the financial sponsor space on both sides of the Atlantic. D.A. Davidson MCF International has an extensive list of successful references across a variety of transactions involving sponsors and trade buyers.

Our scale and deep domain expertise give us direct access to senior executives and decision makers at major strategic acquirers, ensuring that we have real time insights into market value drivers. Our joint practice is enriched by D.A. Davidson’s proprietary equity research, market reports and thought leading industry events.



# TECHNOLOGY REFERENCES

## ONE OF THE MOST ACTIVE MID-MARKET FIRMS WITH EXTENSIVE EXPERIENCE IN THE HR TECH SPACE

<p>TECHNOLOGY</p> <p><b>LiquidPlanner</b><sup>®</sup> a portfolio company of</p> <p><b>TVC CAPITAL</b> sold to</p> <p><b>Tempo</b> a portfolio company of</p> <p><b>DIVERSIS CAPITAL</b></p> <p>SELL-SIDE ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>ADWAY</b> Automated Social Recruitment Marketing</p> <p>Series A Funding</p> <p><b>octopus ventures</b></p> <p>FINANCIAL ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>ASSESSIO</b></p> <p>sold to</p> <p><b>MAIN</b> CAPITAL PARTNERS</p> <p>SELL-SIDE ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>CHRONUS</b></p> <p>has received growth equity investment from</p> <p><b>LEVEL EQUITY</b></p> <p>FINANCIAL ADVISER</p> 
<p>TECHNOLOGY</p> <p><b>CHURCHILL CAPITAL II</b></p> <p>has acquired</p> <p><b>skillsoft</b></p> <p>FINANCIAL ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>REMARKABLE HEALTH</b></p> <p>sold to</p> <p><b>Netsmart</b></p> <p>a portfolio company of</p> <p>GI PARTNERS <b>TA ASSOCIATES</b></p> <p>SELL-SIDE ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>ADWAY</b></p> <p>received an investment from</p> <p><b>spintop ventures</b></p> <p><b>brightly VENTURES</b></p> <p>SELL-SIDE ADVISER</p> 	<p>TECHNOLOGY</p> <p><b>alight</b></p> <p>has been acquired by</p> <p><b>FOLEY TRASIMENE ACQUISITION CORP.</b></p> <p>FINANCIAL ADVISER</p> 

## INDUSTRY LEADING PUBLIC RESEARCH CAPABILITIES

### DIFFERENTIATED EQUITY RESEARCH

<b>150+</b>	Technology companies under research coverage
<b>60+</b>	Technology focused equity capital markets professionals
<b>12</b>	Senior equity research professionals dedicated to publishing coverage reports across the tech sector

### HR TECH COVERAGE

<b>workday</b>	<b>paylocity</b>
<b>Paycor</b>	<b>CERIDIAN</b>
<b>skillsoft</b>	<b>paycom</b>
<b>monday.com</b>	

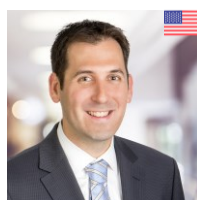


## CONNECT WITH US



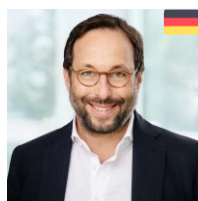
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