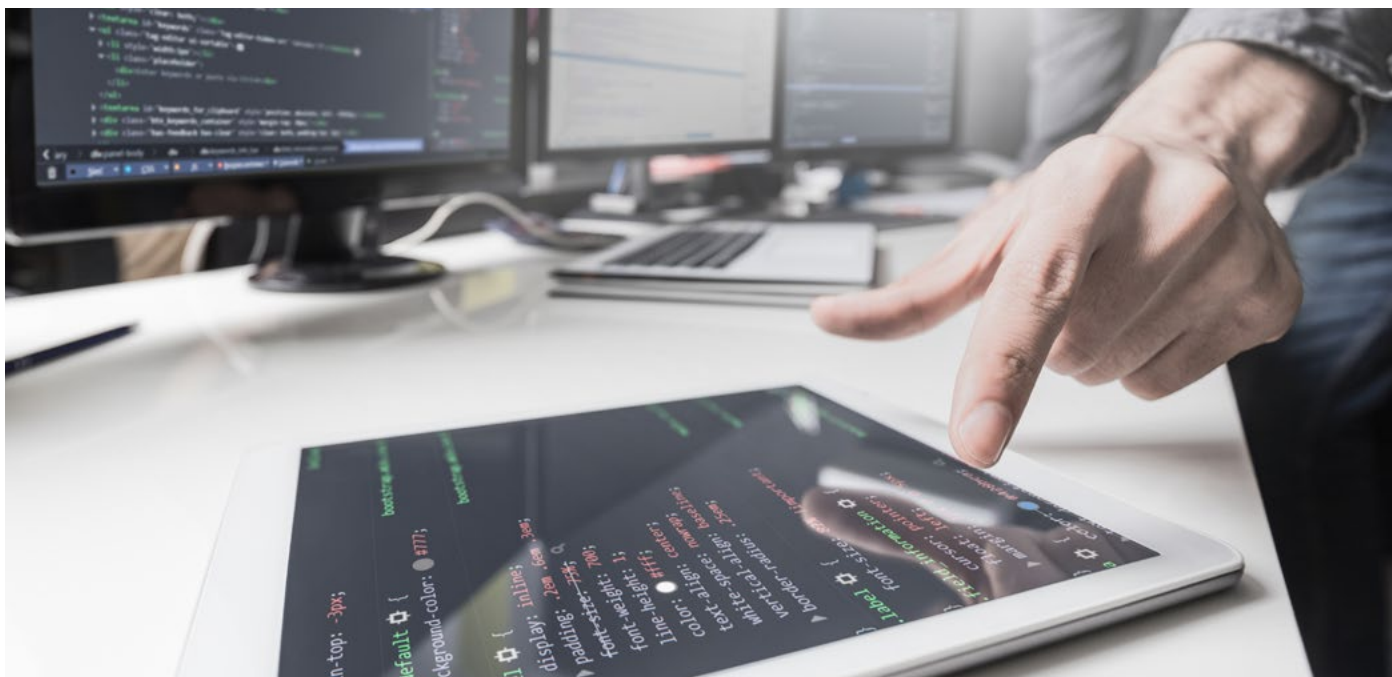


# Software Development

The software development industry, and particularly the Software as a Service (SaaS) vertical, has developed considerably over the past ten years.

In business and as individuals, we use technology in most aspects of our lives, with tools such as browsers, social media, operating systems and communication software being integral components of modern culture. Continued advances in technology have assisted solid industry growth, resulting in the UK software development sector revenue increasing at a CAGR of 7.2%, from 2015 to 2020. Revenue is expected to reach £32.2 billion this year.



## Overview

**The software industry is complex, with many subsectors and verticals, although this can be divided into two: development and publishing.**

Software development is all that is involved in the process of developing software from conception through to final manifestation and maintenance. Software publishing is the intermediary company between the developer and the distributor. This report focuses on the development subsector. Within this, there are several verticals including Software as a Service (SaaS), FinTech and gaming.

The rapid increase in the adoption of smartphones, tablets and computers has driven demand, along with a significant increase in business software investment over the past five years. Customised software for the IT and financial sectors has also amplified sales. Some segments of the industry, particularly in the development of video games, have also benefited from public funding such as the UK Games Fund.

## Technology continues to rapidly evolve



**4.3% increase in the number of businesses** in the software market in the last five years



**30% wage increase in 2020**, as skilled technical developers are in very high demand



**£380 billion of global software market revenue** in 2019 and projected to increase

## M&A

Research shows that many large companies in the UK are now implementing merger and acquisition strategies to gain digital capabilities. With technology driving economic growth, and software revolutionising businesses, the market remains very attractive to investors.

The software publishing subsector is dominated by well-known software firms such as Oracle (11.6%), IBM (9.4%) and Microsoft (8.2%).



The development subsector is much more fragmented, with no single firm dominating the industry. The UK market leader holds just 3.4% market share and the top 20 firms combined, account for less than 10%, with the fragmented nature of the market being another reason for the significant number of M&A deals in the last 12-18 months.

More than half of UK companies involved in M&A activity cited a need for next-gen technology as a major contributing factor of the deal. In the last 12 months alone, more than 330 UK Software M&A deals have taken place, with over £100 billion of capital invested. Of these deals, more than 100 were SaaS businesses with a combined total of approximately £48 billion.



## A selection of recent M&A Activity

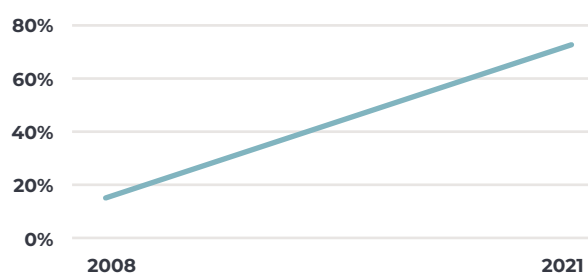
Target Company	Investor	Vertical	Deal Amount
Worldpay	Fidelity NIS	Fintech	£397BN
Red Hat	IBM	SaaS/TMT	£269BN
Tableau Software	Salesforce	Big Data	£126BN
Medidata Solutions	Dassault Systemes	SaaS	£46BN
Plaid	Visa	Fintech	£41BN
Pivotal Software	Vmware	SaaS	£27BN
SendGrid	Twilio	Mobile/SaaS	£23BN
Carbon Black (US)	Vmware	Cybersecurity	£18BN
SignalFx	Splunk	AI/SaaS	£849M
Zynstra	NCR	TMT	£100M
intY	ScanSource	SaaS/TMT	£49M
Slightly Mad Studios	Codemasters	Gaming	£22M
Excitech	Symetri	TMT	£22M
Early Birds	Attraqt Group	AI/SaaS/Big Data	£14M
Crimson Consultants	Tribal Group	SaaS	£10M
Saracen Datastore	Iron Mountain Europe	SaaS	£7.5M
Pulsar Platform	Access Intelligence	Big Data	£4.5M
Stampplay	Apple	SaaS/TMT	£4.3M
HermexFX	Equals Group	Fintech	£2M
Yippee! Entertainment	Team17 Digital	Gaming	£1.4M

The leading verticals within the software development subsector include Fintech and SaaS. These verticals make up over 75% of the M&A deals completed and their market dominance continues to persist. Notable deals include the acquisition of global payments leader, Worldpay, by NYSE listed banking giant, FIS, for £38.7 billion and the sale of international SaaS provider, Redhat, to tech leader, Fidelity, for c£27 billion. Details of the UK top ten deals within the last 12 months in the software industry are detailed above, as well as a selection of other notable recent deals.

## SaaS

SaaS is an increasingly dominant part of the software industry and continues to expand, with 88% of businesses intending to invest in new SaaS applications over the next three years. It is predicted that by 2021, 73% of UK companies will be using SaaS apps compared to approximately 12% in 2008.

## UK companies using SaaS apps



SaaS apps eliminate the need to install and run applications at a company's premises. Running apps in data centres via the cloud enables businesses to save resources, time and money.

2019 was a notable year for software security within the SaaS market, particularly due to the increase in privacy regulations, such as GDPR. Security remains a primary concern for SaaS users with a major source of vulnerability being employee negligence.

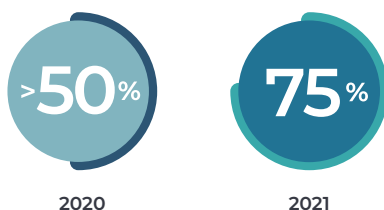




Companies have begun investing in zero-trust techniques to better manage their risk and as such, high-level security SaaS products are becoming increasingly popular.

Another major market aspect within SaaS is machine learning products and Artificial Intelligence (AI). This disruptive technology streamlines and automates processes, enhancing productivity while continually improving efficiency. The tendency for businesses to invest in these features is forecast to continue, with more than half of businesses already incorporating AI in their strategic plans and 75% of business software products are expected to have integrated AI by 2021.

#### Businesses incorporating AI in their strategic plans



### FinTech

Fintech is another dominant vertical in the software industry with continued rapid growth driven by the success of digitalised payments, peer-to-peer financing and fund transfers led by companies such as Funding Circle, Transferwise and Revolut.

Whilst globally the Fintech market has been declining, in the UK, M&A activity has almost doubled in the last year with over £2.15 billion invested in 2019. These deals were primarily private equity backed, with significant

interest from overseas and over half of the deals completed in 2019 receiving international investment.



For more information on the FinTech Sector, [read our FinTech report.](#)

### Threats to the sector

The software development sector includes the development, production and supply of video game software. Demand for computer game publishing has been historically robust but is expected to decline in the coming years as the second-hand game market grows and consumers begin to anticipate new console releases.

Whilst niche sub-sectors such as SaaS are expected to grow, the number of new entrants is also expected to rise. This increased competition presents another threat to the sector and is forecast to negatively affect profit margins by up to 12.5% in 2020 as companies compete to offer the best service at the lowest price.

As mentioned, the primary concern for SaaS users is security. GDPR and other such regulations work to protect the privacy of users, yet employee negligence and external attacks, which can cause data breaches, are still rife. In the last year, trusted companies such as Microsoft and Capital One have experienced significant security breaches, exposing confidential customer data of millions of users. It appears that breaches are on the increase, so it is imperative that SaaS companies prepare and work to prevent such events in order to retain their customers' trust and maintain a competitive position.



## Outlook

Over the next five years, industry revenue growth is anticipated to grow at a CAGR of 5.1% and total UK revenue to reach £41.3 billion by 2025. Growth is not quite as significant as the previous five years due to the continued uncertainty surrounding Brexit. This will likely restrict technological investment, especially from international investors and will particularly affect the FinTech market.

Nevertheless, the industry is forecast to grow at a significantly higher rate than most other UK markets, and disruptive technologies will continue to revolutionise businesses worldwide. Newer niche technologies, such as cloud computing, are expected to dominate the market going forward and business acceptance and adoption of these technologies

continues to thrive. Large operators are predicted to absorb some of the smaller companies in the industry, with the intention to increase their specialisation in newer, more lucrative segments. This will likely result in increased M&A activity over the coming years.

## Gerald Edelman services

We have significant experience delivering services to those within the Technology and Software Development sectors, including;

- ▶ Fundraising
- ▶ M&A and deal advisory
- ▶ Business development and strategy
- ▶ Asset finance and leasing
- ▶ HR advisory



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