



# Enterprise Software M&A Report

2024

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# Market Analysis

**The enterprise software industry** continues to demonstrate robust growth, driven by increasing demand for innovative solutions that enhance productivity, streamline operations, and drive digital transformation across various sectors.

With the proliferation of cloud computing, artificial intelligence, and data analytics, companies are continually seeking strategic acquisitions to expand their product offerings, enter new markets, and stay competitive in an evolving landscape.





# Newsworthy M&A Transactions (Last Twelve Months)

01



## Salesforce's Acquisition of Slack

In December 2023, Salesforce completed its acquisition of Slack, a **leading collaboration platform, for \$27.7 billion**. This transformative deal underscores the importance of integrating communication and collaboration tools within enterprise software ecosystems.

02



## Microsoft's Acquisition of Nuance Communications

In April 2023, Microsoft announced its acquisition of Nuance Communications, a **pioneer in conversational AI and speech recognition technology, for \$19.7 billion**. This strategic move reinforces Microsoft's commitment to enhancing its cloud-based productivity solutions.

03



## Adobe's Acquisition of Frame.io

In September 2023, Adobe announced its acquisition of Frame.io, a **leading video collaboration platform, for \$1.275 billion**. This acquisition aligns with Adobe's vision of empowering creative professionals with cutting-edge tools for content creation and collaboration.



# Key Considerations for Sellers



Given the current market conditions, sellers in the enterprise software space should consider several key factors:



## Strategic Fit

Assessing the alignment between the acquirer's business objectives and the seller's product portfolio is crucial for maximizing value and ensuring long-term success post-acquisition.



## Valuation

Evaluating the company's financial performance, growth potential, and market position can help sellers determine an optimal valuation and negotiate favorable terms.



## Integration Planning

Developing a comprehensive integration strategy and addressing potential synergies and challenges early in the process can facilitate a smooth transition and mitigate risks.



# Key Considerations for Sellers

In addition to the overarching market conditions, several specific factors can significantly impact the valuation of a seller in the enterprise software space. Here are some critical criteria that potential acquirers may consider:



## Recurring Revenue

The presence of recurring revenue streams, such as subscription-based models or maintenance contracts, is highly favorable and can increase the valuation of a seller. Predictable revenue provides stability and visibility into future cash flows, making the business more attractive to acquirers seeking sustainable growth opportunities.



## Year-over-Year Growth

Demonstrating consistent year-over-year growth in revenue and profitability is a key indicator of a company's health and potential for future success. Acquirers often place a premium on companies with strong growth trajectories, as they represent opportunities to capture market share, expand customer bases, and drive increased shareholder value.



## Churn Rate

A low churn rate, indicating high customer retention and satisfaction, is essential for maintaining long-term revenue streams and maximizing the value of recurring revenue models. Companies with low churn rates are perceived as having sticky products or services that deliver ongoing value to customers, which can positively influence valuation.



## Gross Margin

Healthy gross margins reflect a company's ability to generate revenue efficiently and cover operating expenses. Higher gross margins indicate pricing power, cost-effective operations, and potential for scalability, all of which can enhance valuation. Acquirers often prioritize companies with strong gross margins, as they offer greater profitability and resilience to market fluctuations.



# Key Considerations for Sellers (cont.)



### Customer Concentration

Diversification of customer base reduces risk and increases attractiveness to potential acquirers. A seller with a broad and balanced customer portfolio is perceived as less vulnerable to the loss of any single customer or market segment, mitigating risk and enhancing valuation.



### Technology Differentiation

Unique technology or intellectual property that provides a competitive advantage, fosters innovation, or addresses unmet market needs can significantly increase valuation. Acquirers seek companies with distinctive capabilities or proprietary assets that offer sustainable differentiation and barriers to entry in the marketplace.



### Market Opportunity

The size and growth potential of the target market can influence valuation, with larger addressable markets and clear growth trajectories commanding higher premiums. Sellers positioned in fast-growing or emerging markets with compelling opportunities for expansion may attract greater interest and valuation from acquirers seeking strategic growth initiatives.



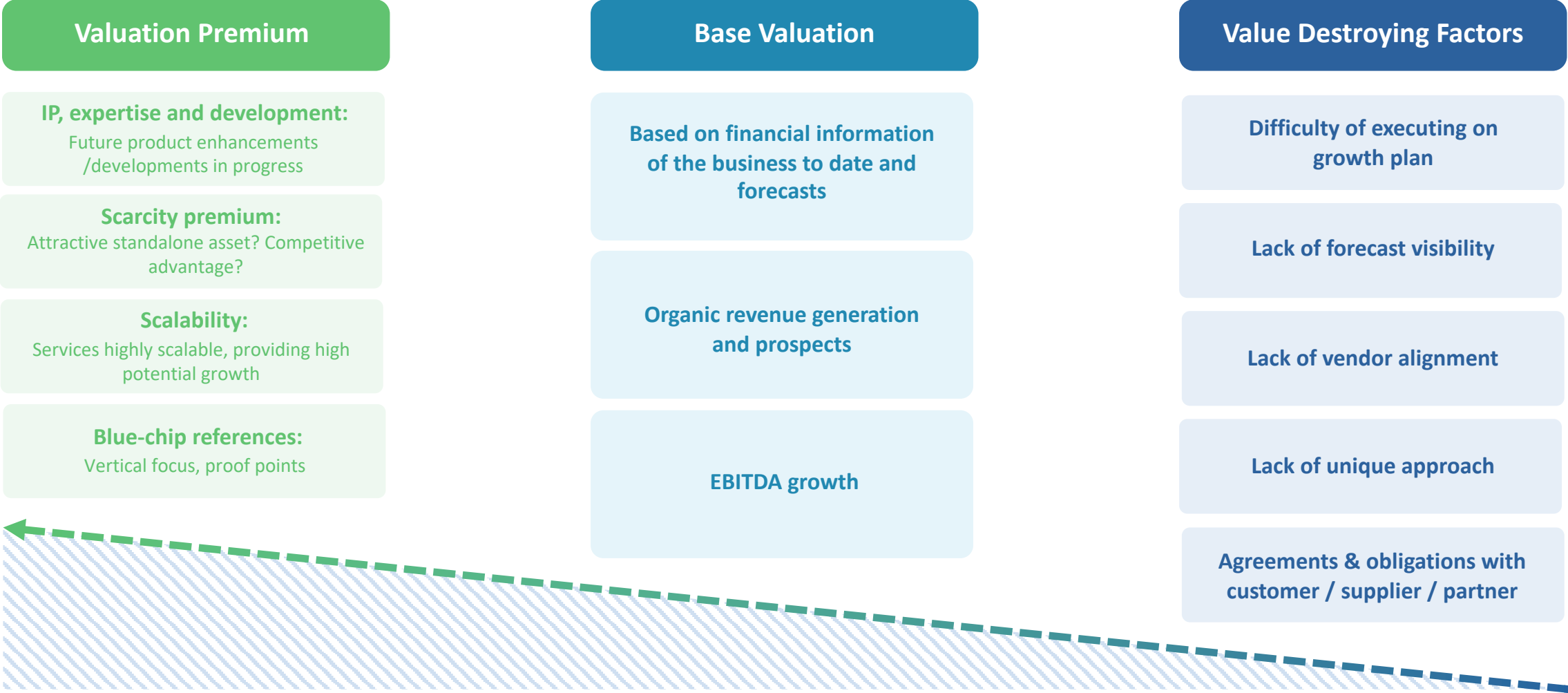
### Operational Efficiency

Efficient operations, streamlined processes, and scalable infrastructure contribute to higher valuations by maximizing profitability and minimizing risk. Acquirers value companies with well-defined operational frameworks, scalable business models, and effective cost management practices.

Overall, sellers that excel in these key criteria are likely to command higher valuations and attract greater interest from potential acquirers in the competitive enterprise software M&A landscape. By emphasizing strengths in recurring revenue, growth, customer retention, gross margin, and other value drivers, sellers can position themselves for successful transactions and maximize shareholder value.



# Roadmap for Achieving a Premium Valuation





# Why Arrowroot Advisors?

As a boutique M&A advisory firm specializing in the enterprise software sector, Arrowroot Advisors offers unparalleled expertise, personalized attention, and a client-centric approach. Here's why we can provide more value than larger M&A advisory firms:



## Specialized Focus

Our team possesses deep industry knowledge and a proven track record of executing successful transactions within the enterprise software space. We understand the unique dynamics and challenges of the market, allowing us to provide tailored guidance and strategic insights to our clients



## Hands-On Approach

Unlike larger firms that may prioritize volume over individual client needs, Arrowroot Advisors prioritizes quality over quantity. We take a hands-on approach to every engagement, dedicating extensive time and resources to understand our clients' goals, customize our approach, and deliver exceptional results.



## Access to Networks

Through our extensive network of industry contacts, strategic partners, and investors, we can facilitate connections and opportunities that may not be readily available to larger firms. This network enables us to identify potential buyers, navigate complex transactions, and maximize value for our clients.




In conclusion, Arrowroot Advisors is committed to guiding sellers through every step of the M&A process, from initial strategy development to successful transaction execution. With our specialized expertise, personalized approach, and dedication to client success, we are well-positioned to help companies achieve their strategic objectives and unlock value in today's dynamic enterprise software market.





# Select Transaction Experience

Our collective transaction experience allows Arrowroot to draw on best practices to optimize transaction outcomes

<p><b>Buy-Side Advisory</b></p>  <p>Has Been Acquired by</p> 	<p><b>M&amp;A Advisory</b></p>  <p>Has Been Acquired by</p> 	<p><b>M&amp;A Advisory</b></p>  <p>Has Been Acquired by</p> 	<p><b>M&amp;A Advisory</b></p>  <p>Has Been Acquired by</p> 	<p><b>M&amp;A Advisory</b></p>  <p>Has Been Acquired by</p>  <p>\$50,000,000 Sale of company</p>	<p><b>Capital Raise</b></p>  <p>Seed &amp; Series A Equity Investment by</p>  <p>And Associated Angels</p>
<p><b>M&amp;A Advisory</b></p>  <p>Exclusive M&amp;A Advisor</p>	<p><b>Capital Raise</b></p>  <p>ShipHawk raised \$6.5 million in equity capital from a venture capital firm and existing investors</p>	<p><b>M&amp;A Advisory</b></p>  <p>Sell side advisory for a provider of governance, risk, and compliance software solutions</p>	<p><b>Capital Raise</b></p>  <p>Exclusive Capital Financing and M&amp;A Advisor</p>	<p><b>Capital Raise</b></p>  <p>\$5,000,000 Series B growth Equity Investment by</p>  <p>Capital Raise And Investment Advisory</p>	<p><b>M&amp;A Advisory</b></p>  <p>Exclusive M&amp;A Advisor</p>

**Contact Arrowroot Advisors today to  
learn how we can assist you with your  
M&A needs.**

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