panamoure

REALISING VALUE THROUGH CRM

AN ARTICLE FOR

PRIVATE EQUITY FIRMS AND CORPORATE COMPANIES

"Gone are the days when you can manage relationships in a spreadsheet. You need the integrations between your deal tracking platform or CRM, your portfolio management platform and the regulatory considerations are a lot different now, so reporting is more complex."

Eric Feldman, Chief Innovation Officer at Riverside Company

Eric Feldman is absolutely correct in his assessment of Customer Relationship Management systems and the alluded to importance of their integration with other essential business operating platforms. He is, of course referring to the operations of a private equity business, but his insight holds true for portfolio companies too.

Customer Relationship Management, or CRM, is a convenient catch all label that today encompasses far more sophisticated client management, segmentation, targeting and predictive insights and goes way beyond many legacy CRM offerings that entered the market in the 1990s. Many businesses continue to struggle to improve upon those early CRM platforms, while other more innovative companies have gone on to find value in more advanced marketing services for some years.

Implementation of CRM systems is frequently a vital element for much of Panamoure's client work. Having observed the growing interest of clients introducing or upgrading CRM platforms, as well as growing interest of businesses acquiring components of such systems, in early 2021 we reviewed over 18,000 global M&A transactions, completed between 2009 and 2020, of companies offering a broad range of marketing related services, including those dedicated to data services. We screened detailed business descriptions for more than 170 free text, CRM-related, terms taken from marketing technology, display, social, search, content, commerce, and sales technology, data management and analytics. Those acquired businesses we then classified into eleven CRM-related categories to ascertain the scale of those sub-sectors, and the value being placed upon them by strategic acquirers and financial investors.

We found that median M&A valuations for CRM-related businesses have been rising since 2016 and even continued to increase through a turbulent 2020. Financial investors continue to spar with an expanding group of consumer-facing acquirers, looking to utilise sophisticated, data-backed marketing solutions to attract new customers and enhance their experience.

Our analysis also shows that those marketing technology-related companies that offer more sophisticated services, are more likely to achieve sought-after higher valuations. Key among these is the efficient utilisation, analysis and interpretation of data and social marketing. The next few pages provide a bit more granularity on the specific CRM-related components that have been of most interest to acquiring investors over the last few years.

"Data is a precious thing and will last longer than the systems themselves."

Tim Berners-Lee

2,000

Average number of **M&A events** each year, since 2012, involving companies with **CRM–related capabilities**

14%

Share of all martech-related M&A **acquired by Financial Investors** in 2020, up from 9% in 2012

43%

of the CRM-related deals since 2012 included some form of **data management, analytics or interpretation**

15.5x

Median EBITDA purchase price multiple paid for CRM–related companies with **advanced data analytic**s capabilities since 2012

The beginnings of modern CRM platforms were in the late 1980s and early 1990s. The entry of Enterprise Resource Planning (ERP) companies, and their inclusion of CRM applications to their offerings, made for a highly competitive market over the next two decades and the rapid development of more sophisticated CRM products. Salesforce, for example, added its Service Cloud offering in 2009, which led to a 20% increase in revenue in the next financial year.

As with all innovation-led sectors, the market continues to develop. Data Management Platforms (DMP) facilitating improved segmentation of target client groups advanced CRM capabilities in the 2000s. DMPs were followed by Customer Data Platforms (CDP) and unified customer profiling just a few years ago. For many businesses CRM has transformed to a more focused customer experience and data-led function that enables companies to acquire new customers, and repeatedly engage with existing customers to help drive revenue.

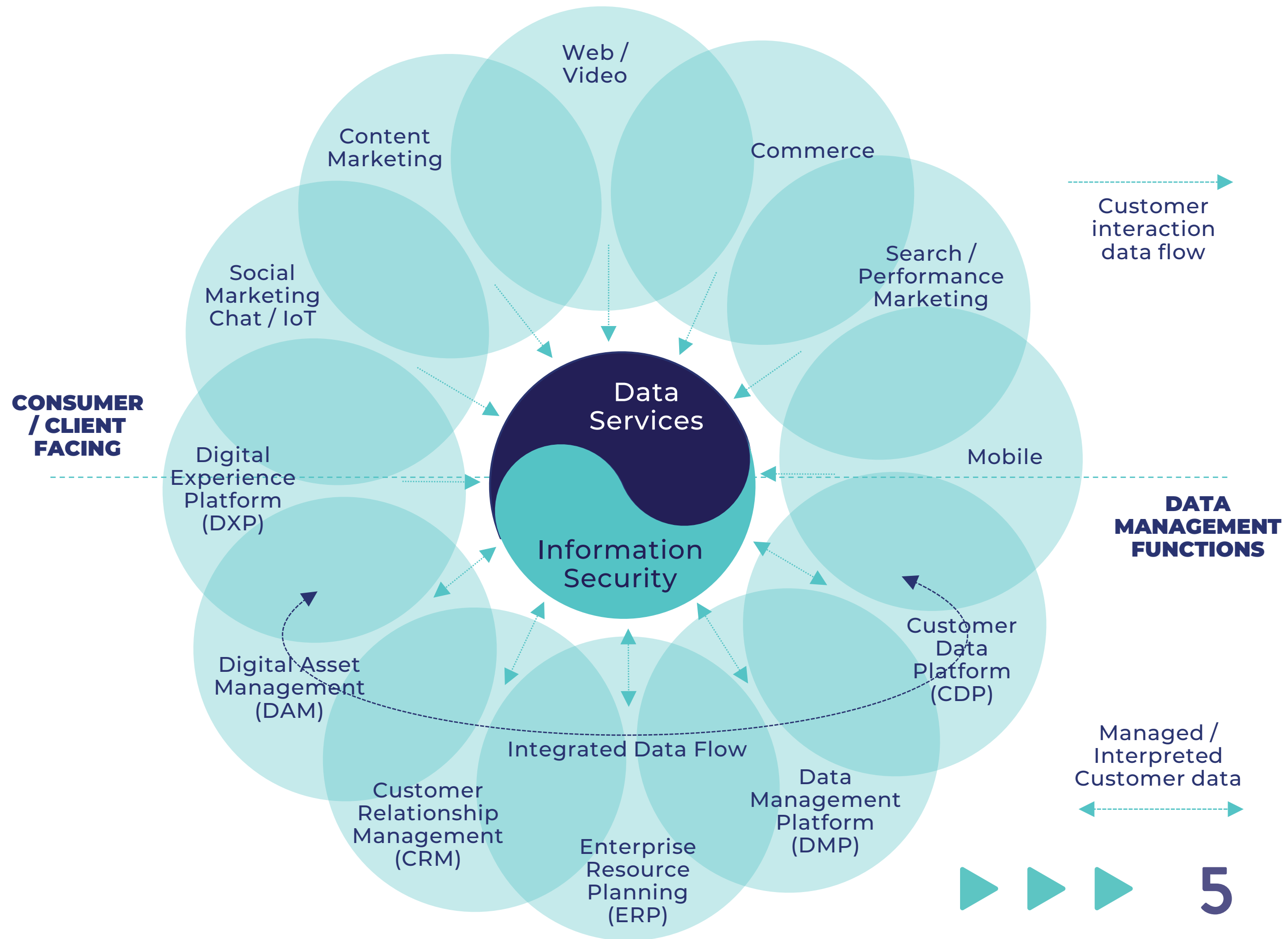
The likes of Salesforce, Oracle, SAP and Microsoft continue to pursue new levels of excellence in this area through development of products incorporating machine learning, advanced data analytics and the beginning of some true artificial intelligence.

The terminology used to describe modern CRM functions is extremely loose but what is clear is that companies possessing more advanced data analytics and social marketing capabilities are highly valued by forward thinking strategic businesses and financial investors.

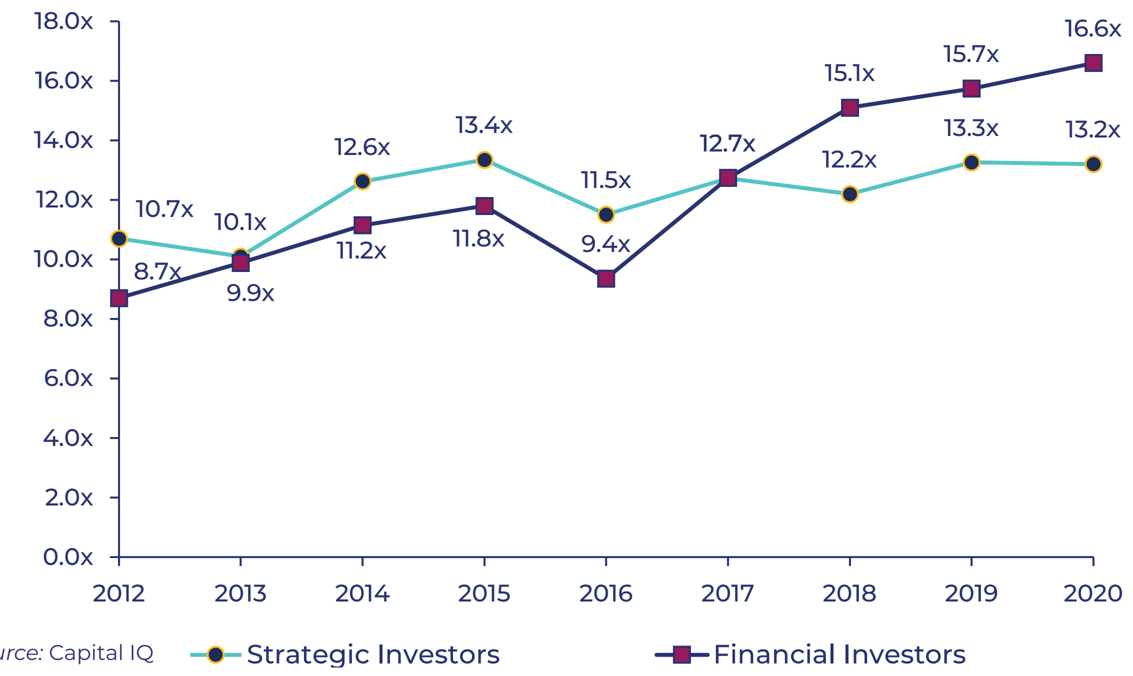
On the following pages we examine some of the drivers contributing to the rising M&A valuations offered for companies delivering leading CRM capabilities:

- **Ongoing Scarcity –** continuing scarcity of CRM companies coming up for sale, particularly of quality assets with well-defined, differentiated services and accomplished talent that can help drive sales and create value.
- **Valuing Data –** growing recognition that more advanced data analytics is essential to the next horizon in CRM in the pursuit of sales growth and improved customer experience. In parallel, so too is the requirement for adequate privacy and data security.
- **Growing Field of Interested Investors –** strategic tech, financial investors and particularly consumer-facing strategic investors are increasingly seeking to invest into martech and data-related companies. Private equity investors have also awakened to the potential for significant financial return.

1 PANAMOURE’S (SELECT) MODERN CUSTOMER RELATIONSHIP LANDSCAPE



M&A VALUATIONS ACROSS THE BROAD CRM-RELATED SECTORS INCREASED TO ALMOST 14X EBITDA IN 2020



Source: Capital IQ

2 MEDIAN M&A MULTIPLES PAID FOR CRM-RELATED COMPANIES BY STRATEGIC AND FINANCIAL INVESTORS – 2012 TO 2020

With large pools of capital to put to work financial investors have found rationale to pay high valuations for many CRM-related companies.

Globally, acquisition multiples paid for companies offering CRM-related services have gradually crept up since 2012, when investors were paying a median of 8.9x EBITDA. At the end of 2020 this had gone up to a bubble-bursting 13.6x, more than 50% higher than values paid in 2012.

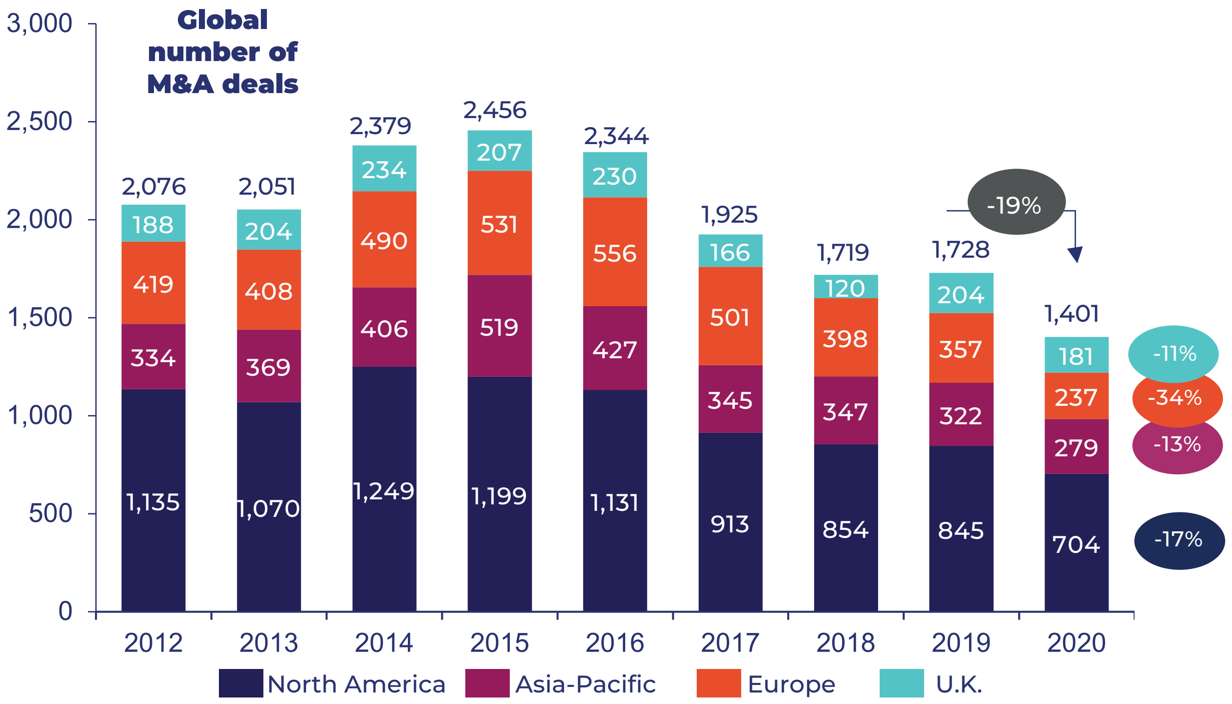
Figure 2 shows that private equity groups have been paying increasingly aggressive multiples for business across the broad CRM-related sector since 2016 and, in some cases, are paying more than strategic investors. The median paid by private equity investors crept up to an astonishing 16.6x by the end of 2020.

In anticipation of attractive investment returns, private equity investors have been prepared to pay rising entry multiples for assets with advanced CRM capabilities. A couple of outlier examples from the UK serve to illustrate. Thoma Bravo completed its acquisition of UK-based cybersecurity company Sophos in the first half of 2020 for over £3 billion and multiple of around 32x EBITDA. In August 2019, BC Partners acquired a 50% stake in UK marketing IT, Cloud and data solutions business Advanced Computer Software Group for an enterprise value of £2 billion and 20x trailing EBITDA.

Each transaction situation is unique of course, and there is an enormous spread of valuations. But enough strategic and financial investors continue to foresee advantage to be gained from acquiring CRM-related businesses possessed of innovative marketing solutions to drive the current level of record-breaking median valuations.

Driver 1: Ongoing Scarcity

GLOBAL M&A TRANSACTION VOLUME INVOLVING CRM-RELATED BUSINESSES FELL 19% IN 2020 BUT JUST 11% IN THE UK



Source: Capital IQ

3 VOLUME OF CUSTOMER RELATIONSHIP M&A ACTIVITY BY REGION - 2012 TO 2020

One of the main drivers of rising M&A valuations for recently acquired CRM businesses is the ongoing scarcity of differentiated assets of quality.

The peak of the current M&A cycle for CRM-related businesses was in 2015 with 2,456 transactions completed in North America, Asia-Pacific and Europe. Since then the trend in activity has been downward and the arrival of a pandemic in 2020 contributed to the lowest level of M&A activity since before 2012 – down 19% on 2019 and 43% lower than the record year of investment in 2015.

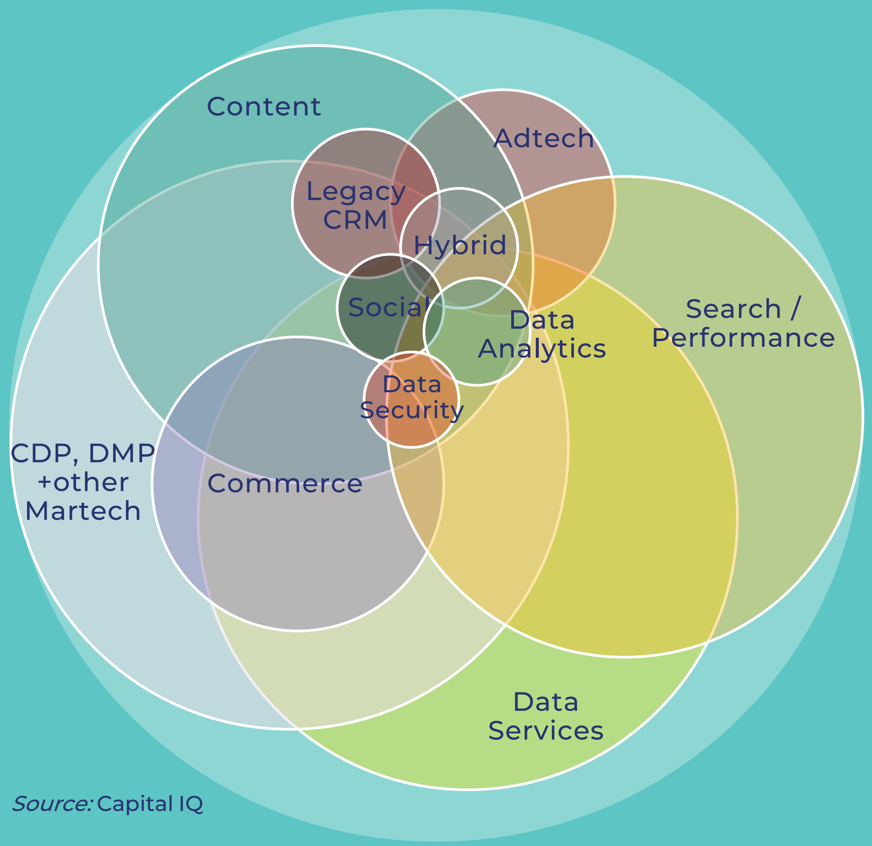
Valuations of target CRM-focused companies were already high in 2015. Part of the reason for reduced investment activity and accompanying increased valuations is the reduced supply of really outstanding and differentiated assets coming to market.

One indicator of this is the reduced investment activity of venture capital money into CRM-related companies. CRM VC investors have followed a trend observed across all VC technology sectors. There is a growing tendency for funds to commit more capital to fewer, later stage companies. VC investors increasingly participate in bigger, less risky, investment rounds alongside other co-investors, in preference to early stage investing. VC investment into CRM was still considerable in 2020 but about 75% the volume invested at the peak of activity in 2015.

One area that has held up well has been investment into the more specialised martech-related companies, describing data, commerce, or social marketing capabilities. In 2020, companies offering these services accounted for 20% of all venture-backed, CRM-related investments. Back in 2012 the proportion was just 12%.

Driver 2: Valuing Data

THE EXTENSIVE MIX OF SUPPORTING SERVICES OFFERED BY CRM FIRMS IS LED BY DATA-RELATED FUNCTIONS



Source: Capital IQ

4 SERVICE OFFERINGS OF ACQUIRED CRM-RELATED COMPANIES IN 2020

The CRM and related services M&A market is considerable but reduced from the peak of activity recorded between 2014 and 2016.

Figure 4 depicts the broad mix of services offered by martech and CRM-related companies acquired during 2020. In addition to less well-defined martech-related activities, data and analytics, content, search and performance measurement are the most frequently described functional services described by CRM-related target companies.

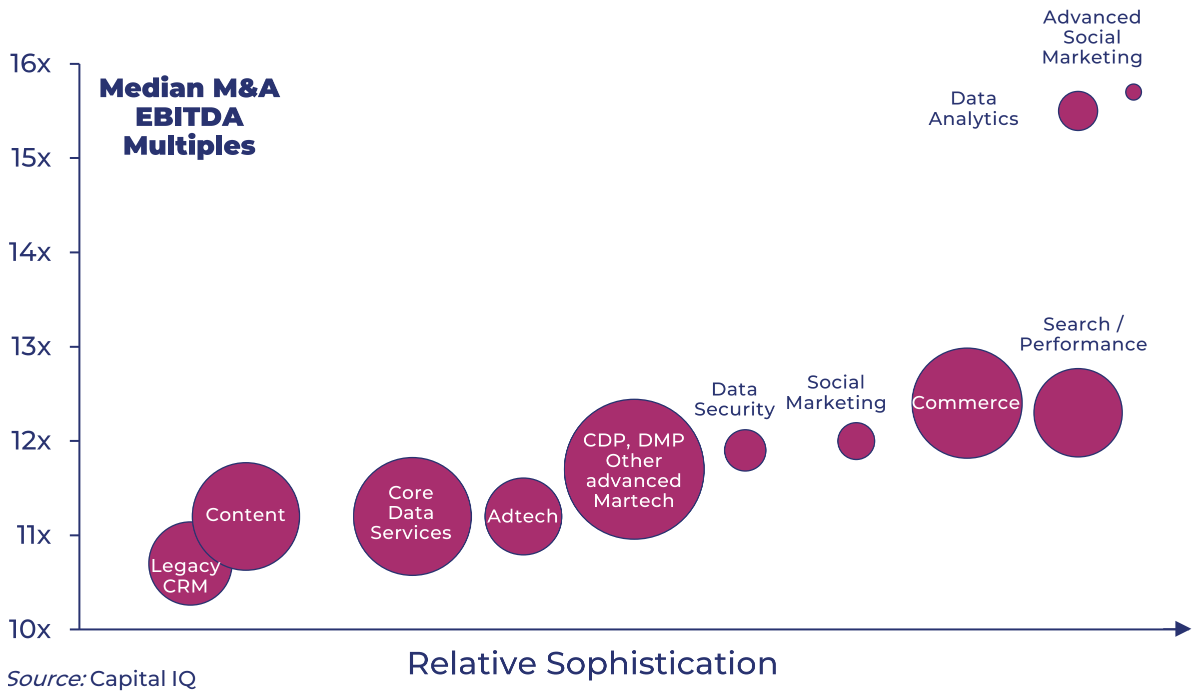
Legacy adtech and CRM businesses have experienced the greatest squeeze on M&A activity since 2012. They have declined as a proportion of the whole martech-related M&A arena, down to just 21% in 2020, from a peak of 33% in 2012.

5% of all target companies offered advanced data analytics services. This is just 12% of all companies describing some form of data management. Most target companies continue to offer relatively undeveloped services like data capture, storage or processing.

Companies with social marketing services are even more scarce with just 15% of acquired business describing some form of basic service and just 2% offering something more advanced.

Companies with highly valued services remain in short supply and that scarcity is contributing to the overall rise in M&A valuations.

DATA ANALYTICS AND SOCIAL MARKETING COMPANIES ARE ATTRACTING THE HIGHEST CRM-RELATED M&A VALUATIONS



Source: Capital IQ

5 CRM-RELATED BUSINESS FUNCTIONS MEDIAN M&A VALUATIONS – 2012 TO 2020

The marketing services value chain has broadened and evolved to include higher value services.

The size of the bubbles in Figure 5 represent the relative volume of acquired companies that described those CRM and martech-related services over the last 9 years. The scale is compared to the corresponding reported median EBITDA M&A multiple over the same period.

Companies providing advanced social marketing and data analytics represent some of the rarest opportunities, as well as securing the highest median M&A valuations; 15.7x and 15.5x EBITDA, respectively.

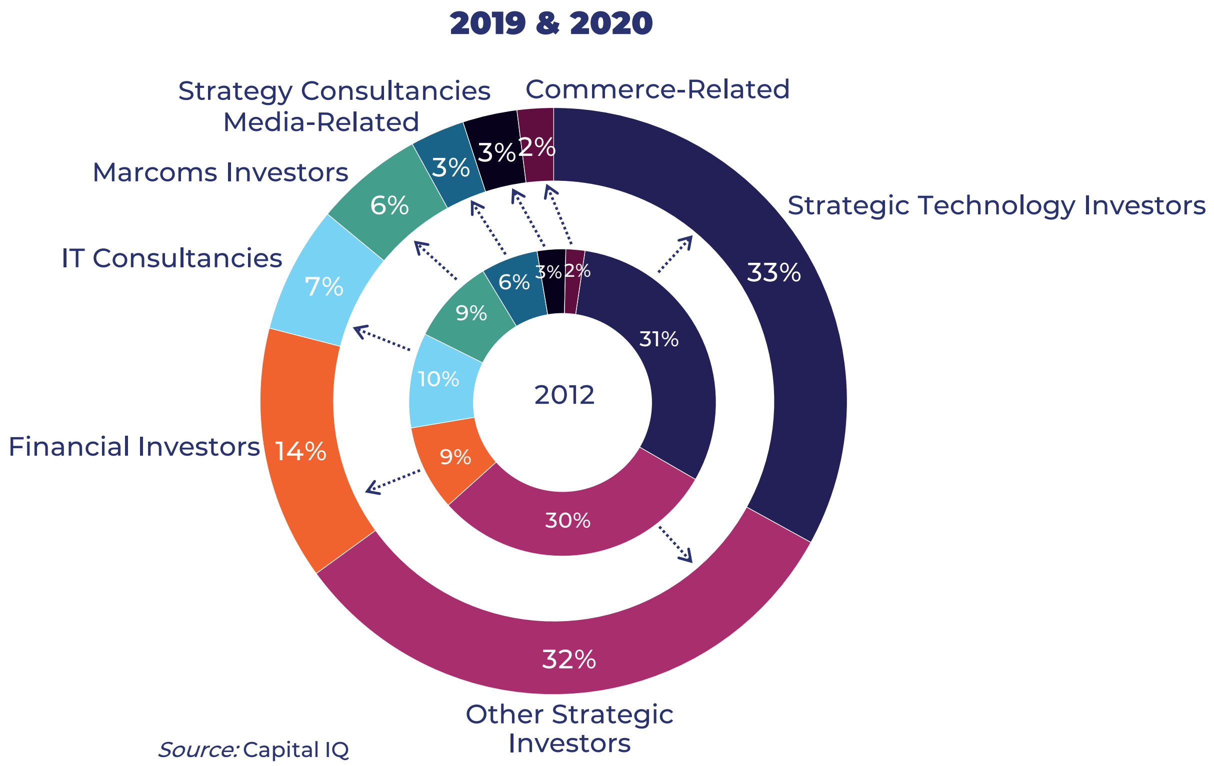
The prevalence of data-service companies stands out, but also how relatively few are offering sophisticated services to provide clients with leading customer insight.

Larger businesses in particular are recognising the importance of these advanced offerings. For example, Adobe acquired marketing automation company, Marketo, for c. £3.6 billion, or almost 15x trailing revenue, from its private equity backer, Vista Equity Partners in 2018.

UK-based exhibitions and festival organiser, Ascential acquired U.S. based One Click Retail which provides eCommerce data measurement, sales analytics, and search optimisation services for over £170 million in a transaction valuing the company in excess of 60x EBITDA.

In the UK, Cognizant acquired AI, machine-learning, and data analytics consultancy, Inawisdom in late 2020 and Equifax acquired transaction data analytics company AccountScore Holdings in January of this year. Companies like this, with advanced data analytics capabilities will continue to get snapped up.

TECH-FOCUSED AND TRADE BUYERS HAVE BEEN THE MOST ACTIVE ACQUIRERS OF CRM-RELATED COMPANIES SINCE 2018



Source: Capital IQ

6 CHANGING SHARE OF GLOBAL CRM-RELATED M&A INVESTOR TYPES - 2012 to 2020

Tech and consumer-facing companies acquired almost two-thirds of CRM related businesses in 2019 and 2020.

The global M&A arena for CRM and associated businesses is led by tech companies, with investors like Microsoft, IBM, Google and Cisco accounting for almost a third of all M&A transactions in 2019 and 2020.

Investors from consumer-facing sectors comprised 32% of all CRM-related acquisitions in the last two years. The rationale for these investors to acquire companies that can provide data-led insights, that can provide the personalisation required to deliver the necessary customer experience to secure first and repeat sales, is obvious.

Financial investors have also shown increasing appetite for both such businesses. At 14% of the global transaction volume recorded in 2019 and 2020, this was the most significant increase in investment activity of any buyer group since 2012. Private equity funds take a relatively long-term view and as we presented in figure 2, those firms with their own due diligence insight capabilities have sometimes been prepared to pay more for CRM focused investments than strategic buyers. At least in some scenarios.

IT consultancies such as Capgemini and Cognizant, marcoms groups like WPP and IPG have invested less as a proportion in the last two years. This might seem surprising, given their focus on technology and advertising respectively, but this is because both those groups acquired so much CRM collateral even before 2012.

ABBREVIATIONS AND DEFINITIONS

CRM

(Customer Relationship Management)

Technology used to efficiently manage interactions with existing and potential customers. A CRM system helps organisations build customer relationships and streamline processes so they can increase sales, improve customer service, and increase profitability. For the purposes of this paper, CRM is used as a catch-all term to describe early CRM applications and later, more advanced versions.

ERP

(Enterprise Resource Planning)

Platforms used by companies to manage and integrate operational parts of the business. They permit companies to implement resource planning by integrating essential, but otherwise distinct processes, needed to run companies efficiently, with a single system. An ERP software system can integrate planning, procurement, sales, CRM, finance, human resources, reporting and governance functions.

DMP

(Data Management Platform)

Software platforms used for collecting and managing data retrieved from multiple, potentially unrelated, third-party sources that enable companies to categorise specific audience segments which can be used to target specific users in online advertising campaigns.

CDP

(Customer Data Platform)

Software platforms which secure data from multiple sources, is then cleaned and analysed to generate a single customer profile that can then be utilised by other marketing systems.

DXP

(Digital Experience Platform)

An integrated set of technologies to support the creation, management and delivery of relevant digital experiences to individual customers and potential customers. They can be single product, but are often a collection of integrated products to, deliver digital customer experiences, and gather customer and prospect insights.

DAM

(Digital Asset Management)

A centralised and secure system that simplifies the storage, sharing and organisation of digital content in a central domain. It improves the efficient use of digital products that includes could include videos, documents, logos, images, presentations, images, audio and other formats.

DO YOU REALLY NEED TO DIGITALLY 'TRANSFORM'? 'OPTIMISATION' COULD BE THE WAY FORWARD

The preceding pages show the great and growing value that corporate and financial acquirers are placing on CRM-related services. The reason CRM, more sophisticated DMPs and CDPs remain so attractive to strategic acquirers and financial investors is the edge they provide B2C and B2B focused businesses. IT market intelligence firm, IDC publishes a *Global Datasphere Forecast* report which nicely documents and forecasts the exponential growth of company, consumer and other sources of data generated each year. Its most recent report predicts the global 'datasphere' will be over 175 zettabytes by 2025 and though that number might be meaningless on its own, it is vast and growing at more than 26% each year. Their latest release announced 'the amount of data created over the next three years will be more than the data created over the past 30 years'.

The volume of data being collected by companies, including Panamoure's clients, is accumulating at an astonishing rate and this is why CRM platforms and their modern iterations have become so critical to modern, digitally progressive businesses. As well as there being a vast pool of tremendously useful data to collect, manage and from which it is possible to predict customer needs and behaviours, it is increasingly imperative for businesses to target meaningful content to the most appropriate customers and prospects. The social media marketing expert, Mark Schaefer wrote an interesting piece in 2014 in which he describes 'Content Shock', which he defined as "The emerging marketing epoch defined when exponentially increasing volumes of content intersect our limited human capacity to consume it." There is just too much content to be consumed. Hence the need for companies to be able to generate informative, engaging content that can be navigated to the most appropriate audiences to ultimately generate a financial return.

There is no one size fits all product to enhance the sales opportunity for all companies. Different businesses have different customer needs and strategies. The admittedly powerful insights and deliverables that might be gained from many of the expensively acquired offerings behind the M&A activity indicated in this paper will not be affordable, or even necessary, to many smaller businesses. Often all that is required is a straightforward assessment and organisation of existing client data, which can often be considerable but sadly under utilised. What is certain, however, is that any company with ambitions of growth in increasingly digital and competitive arenas, populated by more demanding existing and potential customers, will struggle to meet those growth ambitions without an appropriate CRM function.

If your business in need of a CRM platform, an upgrade or advanced data analytics capability to launch you on to the next wave of your growth strategy, please do get in touch so that we can go over some of the insights we have shared with many of our clients who have successfully transformed their ways of working utilising just such technologies.

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Barry is a CTO/CIO accustomed to working with private equity funds to deliver ROI through a reduction in the TCO of IT, Cloud migrations, bespoke software development and delivering efficiencies which help SMEs grow into larger organisations.

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