

The Leading Advisor in Government Software

We have been among the most active advisers to the Government Software vertical, advising on nearly \$6Bn+ in transaction value in the last three years across sell-side, buy-side and capital raising mandates. Our experience spans public administration and public safety across all levels of government, and our clients have included thesis-driven investors, major platforms / consolidators as well as emerging SaaS vendors.

Representative Transactions: \$6Bn+ in Advised Value in Government Software in the Last Three Years



has been acquired by



has acquired



Public Sector & Healthcare

has been merged with



has been merged with



Formation of:



Industry leader in public safety and #2 in public administration, serving 7,500 organizations and 3 in 4 citizens



has acquired



has made an investment in



has been acquired by



has acquired



has acquired



Our View on the Market: What's Driving Interest?

Government software has been a highly active market and transaction volume has increased in each of the last five years. Transaction activity continues to be driven by consolidation-minded private equity firms, but we are also seeing "green shoots" of increased venture and growth equity investing (generally in the next-generation of modern SaaS solutions), in addition to emerging pockets of strategic interest from established and emerging consolidators in the market. We see no signs of transaction activity abating given industry fragmentation and strong investor interest.

Undeniable Industry Tailwinds

We view public sector as at least a decade behind the private sector in technology modernization. Growing demand for software, combined with rising IT budgets, citizen demands for digital government, a gradual shift to the cloud and a younger generation entering the government workforce provide for sustainable, decades-long growth drivers in this market.

A "Rule of 40" Market

While government sales cycles and market growth rates typically do not support 20%+ organic growth at scale, the market has generally supported average organic growth rates of 10% - 15% for scale businesses with 25%+ EBITDA margins, creating an ideal mature financial profile for private-equity owners. Most mature businesses in this market exceed the "Rule of 40."

Gravitation to "Defensive" Sectors

Given perception of where we are in the market cycle, we have seen buyers gravitate towards more resilient sectors that have proven themselves through market corrections. Government software is a poster child for a defensive category given high retention rates (95%+ gross \$ average) and high profitability models.

Consolidating a Fragmented Market

Fragmentation exists both from a solution and geographic perspective. In a market where (i) new customer acquisition is (relatively) inefficient, (ii) national scale and distribution are a major advantage, and (iii) there is a propensity to buy more from trusted vendors, it is an ideal landscape to create meaningful value through M&A. This consolidation strategy has been repeated with success by each of the major platform vendors.

Premiums Being Paid for Platforms

There is a disparity in valuations between platforms (on average 4x - 5x LTM revenue / 15x+ LTM EBITDA) and smaller businesses (on average 3x - 4x LTM revenue / 12x+ LTM EBITDA), where we define platforms as companies with \$30MM+ in revenue with a national footprint. We have seen many private equity firms "create" new platform businesses by piecing together multiple companies and seeing exit multiple accretion.

Platform Creation in Private Equity

Transaction activity continues to be driven by private equity, with private equity backed platforms being the most active group of buyers. Almost every one of the major platforms in the market (CentralSquare, Granicus, Accela, etc.) have transacted in the last three years which has further catalyzed transaction activity given a desire to undertake M&A early in the investment hold period and "buy down" the platform multiple.

Government Software by the Numbers

Benchmarking our database of industry and transaction data highlights some of the unique dynamics that characterize government software.

96% / 107%

Average Gross \$ / Net \$ Retention

Theme: High customer stickiness and ability to cross-sell solutions

0.60

Average New Revenue per \$ S&M

Theme: Relative sales inefficiency compared to private sector average of 0.8

15x+

LTM EBITDA for Platform Businesses

Theme: Premiums are paid for platform businesses are 25%+ higher than regional players

13% / 42%

Average Organic Growth Rate / Rule of 40 for Mature Businesses

Theme: Maturity is characterized by decent growth but high profitability

Benchmarking data based on Shea & Company's analysis of dozens of government software businesses and transactions

Our Top 3 in Q2 2019: Sectors, Themes and Trends We Like

Government software is often referred to as a “vertical of verticals.” Within the broader landscape, there are dozens of different themes and sectors that we actively track. Our top 3 is informed by (i) our analysis of transaction activity, (ii) where we are seeing “unnatural” growth from operating companies and (iii) our conversations with the leading investors in the market.

1 Government Payments

- We like payments because it allows for rapid growth relative to licensing models, given revenue exposure to the high-growth trend of payments switching from paper to digital
- Digital payments in government represent <20% of \$1.5Tn in total payment volume, and there is a massive push being made by municipalities to shift more volume to digital channels
- Payments today are very siloed (e.g. pure-play utility billing, tax, parking, etc.) and we see a huge opportunity to centralize payments. We are tracking multiple organic and consolidation plays as companies try to broaden out across different payment types

2 ERP Modernization

- Core ERP is arguably the most mature sector of government software, but there is a large ecosystem of vendors that are “modernizing” the ERP by offering best-of-breed point solutions that are deeply integrated into the ERP
- Major areas we track include asset management, budgeting and HR / workforce management
- We like this theme because (i) many of these vendors are at least single-tenant SaaS, (ii) integration into the ERP creates high stickiness, and (iii) there is strong customer demand to extend the value of the ERP, with most vendors in these segments seeing faster-than-average growth

3 Connecting Citizen Engagement to the Systems of Record

- Citizen demands for digital services is an undeniable trend, and many vendors have been created to manage the “pane of glass” of website, mobile, etc.
- However, where we see a major pain point is linking these endpoints with the core document and information repositories – digital citizen engagement only works if you can access the information
- The core repositories are highly fragmented legacy systems of content management, records management, etc., and there is a large opportunity for vendors to provide the “connective tissue” between the systems of record and the “panes of glass”

Contact Us

Please contact us to discuss our more detailed views on subsectors or transaction activity in the government software market, or if you would like access to our market maps, transaction database or industry benchmarks.

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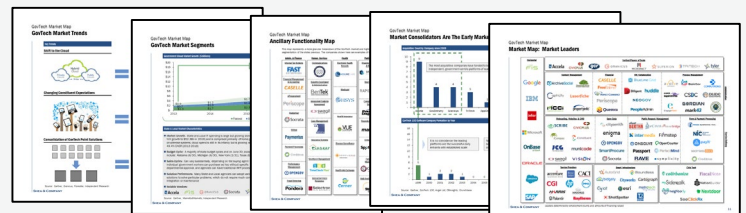
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Research, Market Map Coverage & Industry Benchmarks

We undertake primary research and maintain market maps of several different sectors in government software, including market taxonomies in public administration and public safety.



For more information on our firm, transactions or coverage of other subsectors of software, please visit our website at www.shea-co.com