

M&A in the UK IT services sector: Q4 2024

IT services sector continues to outperform

Our view of the market

2024 was a very good year for M&A in the IT services sector. We counted a total of 641 UK deals last year, which is a 3% increase on 2023's 620 completed transactions.

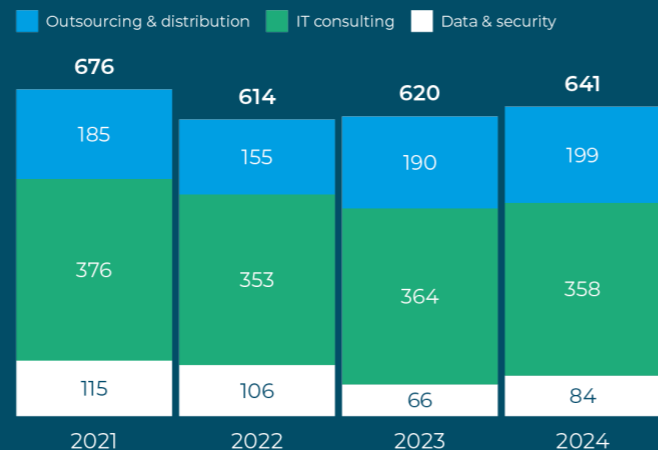
We saw consistently high activity throughout the year. However, Q4 2024 showed a significant increase in the number of deals completing – 172 deals compared with the 162 transactions we logged in Q3, an increase of 6%. Q4 2024 also revealed a significantly higher level of activity than the same period in 2023, with deal completions up by 10% on the comparative quarter. This can partly be attributed to a flurry of activity in the run-up to the Chancellor's Budget at the end of October.

The UK IT services sector is outperforming many others. The UK's economy showed signs of improvement in 2024 but failed to live up to pundit predictions at the start of the year. Market commentators expected 2024 to usher in lower inflation, a more stable economic environment and reduced interest rates – all of which should have led to increased M&A activity.

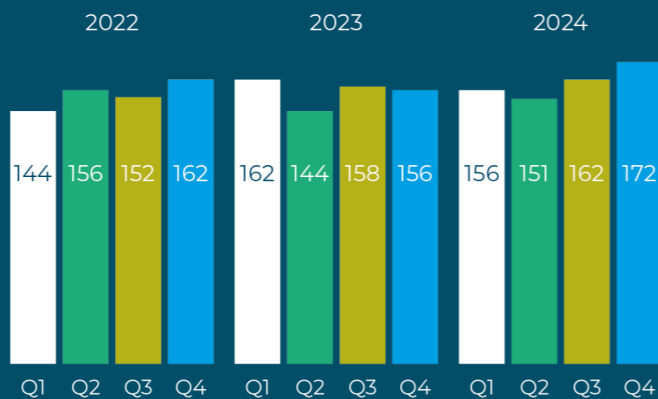
Inflation did come down during 2024 but not as far as anticipated. More worryingly, it actually started to increase again in the final quarter. The UK's base rate was trimmed by 50 basis points during 2024 but again this was less than people had hoped for at the start of the year. As a result, M&A activity and capital raising in some sectors were subdued. However, our data shows M&A activity in the UK IT services sector remained resilient, indicating that acquirers and investors are targeting this space, and the opportunities for growth that it affords, at the expense of others.

Nick Thompson, Partner, comments: "M&A in the IT services sector held up extremely well in 2024, outperforming many other industries. Acquirers may be cautious while macroeconomic conditions are volatile but they remain committed to this sector and are attracted to opportunities within it."

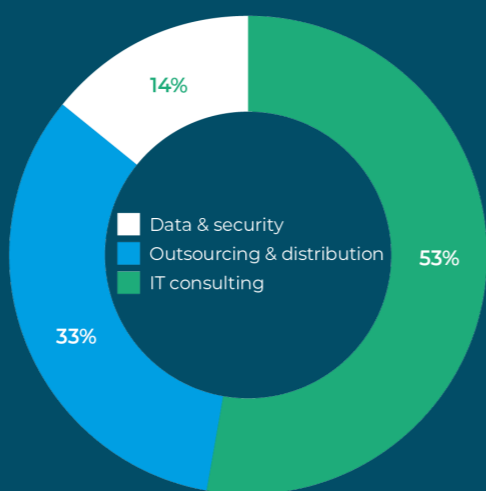
Annual deal volume



Quarterly deal volume



Q4 deals by sector



Spotlight on: Data storage

Data storage deals accounted for 56% of all the Q4 transactions we recorded in the data and security space, which represents a huge increase on the 22% we recorded in Q3. According to a 2024 MarketsandMarkets the global data storage market is expected to grow from an estimated \$65.1 billion in 2024 to \$90 billion by 2029. The growth of the data storage market is driven by an expanding need for real-time data and the increasing adoption of connected devices and Internet of Things technologies.

One notable data storage deal in Q4 was the acquisition of London-based hardware-encrypted data storage provider iStorage by Swedish company CAST. The deal, which was announced in November, followed iStorage's acquisition in September of Kangaru Solutions, a US-based provider of high-security data storage.

Trending: Artificial intelligence

One of the key drivers of IT services M&A in 2024 was AI and the need for acquirers to expand their skills in this area. The UK government has identified AI as the key to delivering economic growth in the coming years. It announced plans to invest more heavily in this area and to legislate to create a more favourable environment for AI businesses. The UK's AI market is the third largest globally, behind the US and China, and contributes £2.7 billion to the UK economy annually. We expect to see expanding M&A activity in the AI arena in 2025.

The biggest AI deal in Q4 was the completion of the all-cash acquisition of FTSE 100 constituent Darktrace plc, a Cambridge-based specialist in cyber security AI, by US PE house Thoma Bravo, in a deal which valued Darktrace at approximately \$5.3 billion.

"Artificial intelligence is the defining opportunity of our generation. It is not a technology that is coming; a future revolution on the horizon. It is already here, materially changing lives – preventing illness in our NHS, creating exciting new companies in our economy, pushing the boundaries of scientific discovery in our universities. It will turbocharge every mission in this government's Plan for Change. And the potential for further innovation is vast."

Sir Keir Starmer, Prime Minister

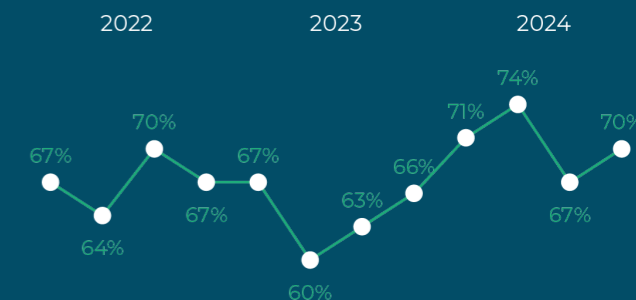
Source: Gov.uk

Private equity

Of the 172 transactions we recorded in Q4, 70% involved PE investment, either directly or via an existing portfolio company. This is an improvement on Q3 and closer to the first half of 2024. Looking at the year as a whole, PE-backed investments accounted for 70% of the 641 deals we recorded. This is higher than the 64% in 2023 and the 67% in 2022. PE remains the fundamental driver of M&A activity in the IT services market. Even though interest rates continue to be relatively high, this does not appear to have dampened PE houses' enthusiasm for the sector.

In Q4, Moore Kingston Smith's new debt advisory team advised Actica Consulting, which specialises in technology transformation and cyber security services for the UK public sector, on its acquisition of software and data engineering company Gemba Advantage. Actica is backed by PE house Sovereign Capital Partners and is expanding rapidly through a buy-and-build strategy, having previously acquired a digital engineering practice, Ntegra, in August 2024.

Percentage of PE-backed deals



"IT services businesses remain attractive to PE investors because they offer predictable cash flows, high growth potential and scalable, asset-light models in a rapidly expanding digital market. These characteristics make businesses in the sector more appealing to debt providers, allowing investors to leverage transactions."

Guy Taylor, Debt Advisory Partner

Q4 KEY STATS:



172

Deals completed



-3%

Moore Kingston Smith IT Services Index



70%

Deals backed by PE



Moore Kingston Smith advises Actica Consulting on Gemba Advantage acquisition



Moore Kingston Smith advises Prime Networks on Solution Support acquisition

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Notable UK mid-market deals



In December, AIM-listed FD Technologies sold its Northern Ireland-headquartered managed services and consulting business for the capital markets industry First Derivative to NYSE-listed EPAM Systems for £230 million.



In October, AIM-listed Glasgow-based group iomart announced it was acquiring Microsoft Solutions Partner Atech Cloud for £57 million.



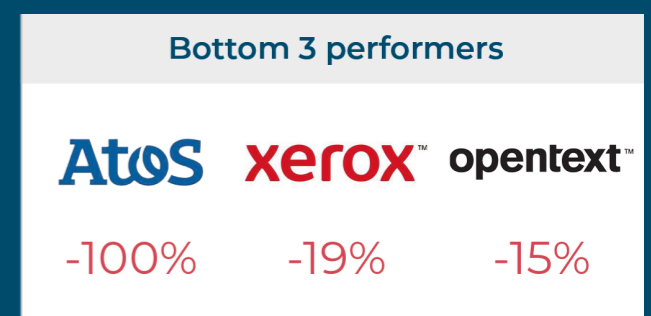
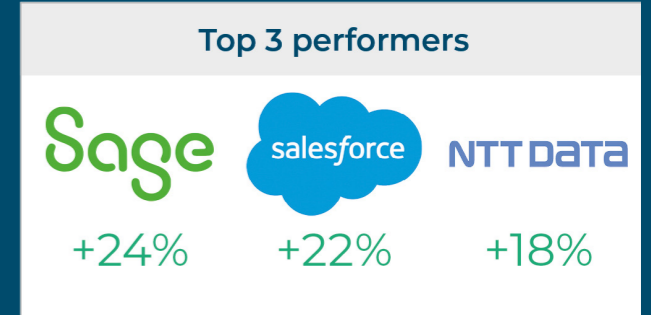
Also in October, Moore Kingston Smith advised client Prime Networks on the acquisition of Tamworth-based IT support, services and security business Solution Support. Prime Networks is backed by Clydesdale Bank and this is the fourth acquisition by the company that Moore Kingston Smith has advised on.

Stock market performance

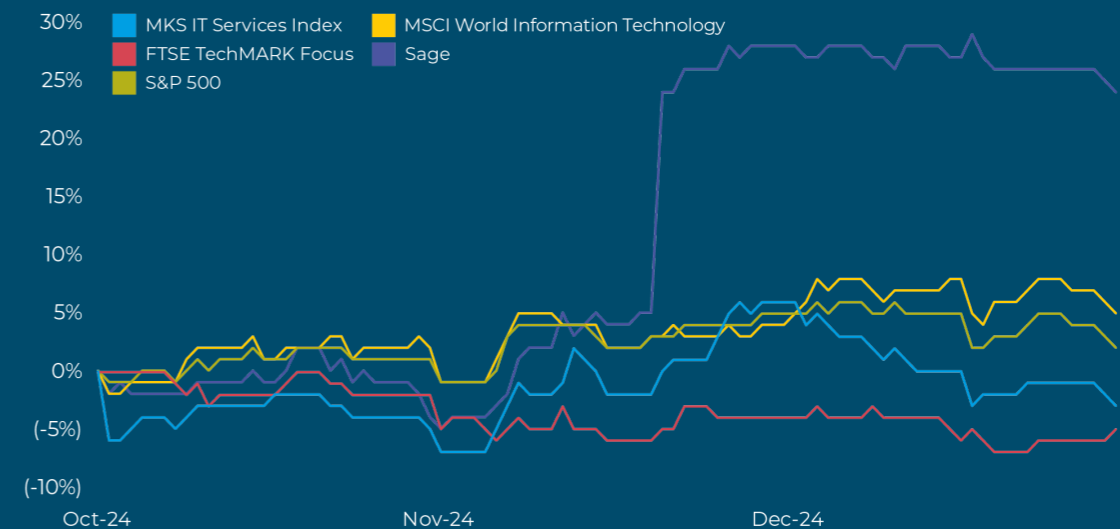
Global stock markets showed small gains in Q4. The S&P 500 was up by 2% in the final quarter. However, the Moore Kingston Smith IT Services Index lagged the market, ending Q4 down by 3%. This was better than one of our technology-specific indices, the FTSE TechMark Focus Index, which fell by 4%. However, it was some way behind the MSCI World Information Technology Index, which ended Q4 up 5%.

Of the 21 companies in the Moore Kingston Smith IT Services Index, ten ended the quarter in positive territory. Q4's star performer was Sage, which saw its share price increase by 24% across the period. Sage's share price hit an all-time high in November, after it announced reassuring results and a £400 million share buy-back.

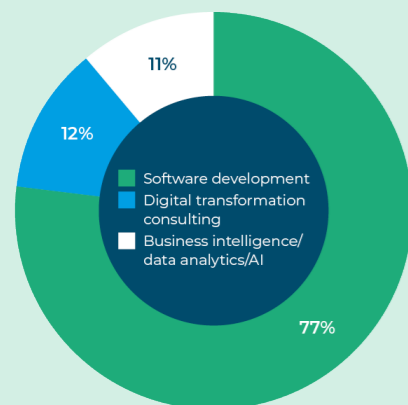
Our worst performer in Q4 was Atos, which saw its share price lose 100% of what little value it had left in Q4. This followed a massive dilution of its shares, as part of its planned financial restructuring and conversion of debt into equity in December. The company remains quoted for now but its future as a public company remains uncertain, with consideration being given by the French parliament to its possible nationalisation.



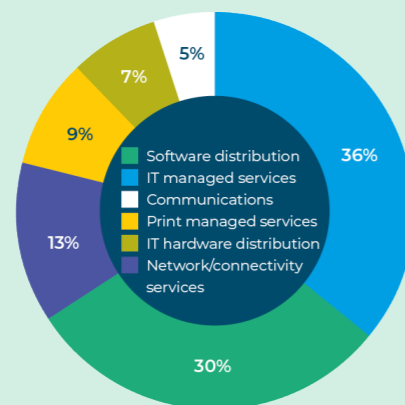
Moore Kingston Smith IT services index



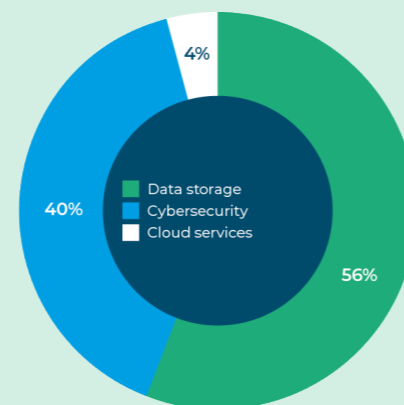
Q4 sector subcategories



IT consulting



Outsourcing & distribution



Data & security

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