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M&A market report 2H2022

Environmental, Social & Governance Technology

ESG requirements – a world of opportunity for software and services firms

Sustainability policies around the world are evolving rapidly – both at a local and international level – and ESG compliance is getting serious.

In the wake of the European Green Deal and on the tails of several existing ESG directives, the EU is rolling out a new standard requiring 49,000 EU companies to begin corporate sustainability reporting starting in 2023. Across the Atlantic, in March 2021 the SEC proposed a new climate disclosure rule under which companies must provide an accounting of their greenhouse gas emissions, the environmental risks they face, and the measures they're taking in response.

Stepping in with a structural framework around these reporting requirements, last year the COP26 conference saw the creation of the International Sustainability Standards Board (ISSB), which aims to provide the foundation for consistent and global reporting standards that will enable companies to report on ESG factors affecting their business.

But while everything seems to point to the advent of a new age of regulatory scrutiny and corporate responsibility in the race to net-zero and other goals, businesses' ESG reporting is not yet up to scratch.

Companies and stakeholders have struggled with the myriad of sustainability standards, frameworks and metrics for ESG reporting. As an example, most ESG tracking is currently logged in-house through spreadsheets or collective databases, and multi-national corporations cannot apply a one-size-fits-all reporting strategy without heeding local regulations and reporting requirements.

Beyond safeguarding against legal missteps, ESG reporting also sets the tone for investing. ESG is now linked to longer-term performance, and some also argue that it provides opportunities for cost savings, revenue generation and risk mitigation. Stock exchanges, financial regulators, lenders and asset managers are making it part of how they invest, but only one-third of investors, on average, think the quality of the reporting they're seeing is good enough. Simply put, investors cannot easily differentiate between companies on ESG-related performance.

As a result, there is an urgent need for companies to consider using integrated digital technologies to support the real-time recording, analysis, reporting and visibility of their ESG data. This includes having suitable electronic dashboard tools so sufficient good quality data is available to inform decisions about why, where and how to allocate additional time and resources to managing ESG risks – and for public reporting on the company's ESG approaches, performance, challenges and successes.

An increasing number of software and services firms now specialise in facilitating ESG reporting capabilities, and are garnering interest as M&A targets. This report investigates some of the transactions that have targeted firms specialising in ESG capabilities in the past five years, with a focus on software; outsourced services and consulting; and technology solutions more broadly. We explore some of the key transactions, valuations and trends across the sector.

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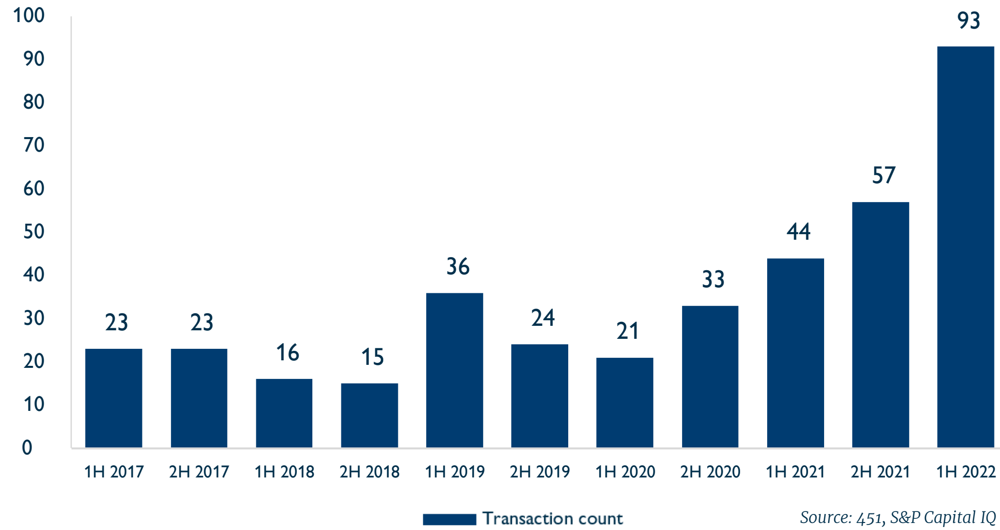
M&A summary | *Overall sector growth at an all-time high*

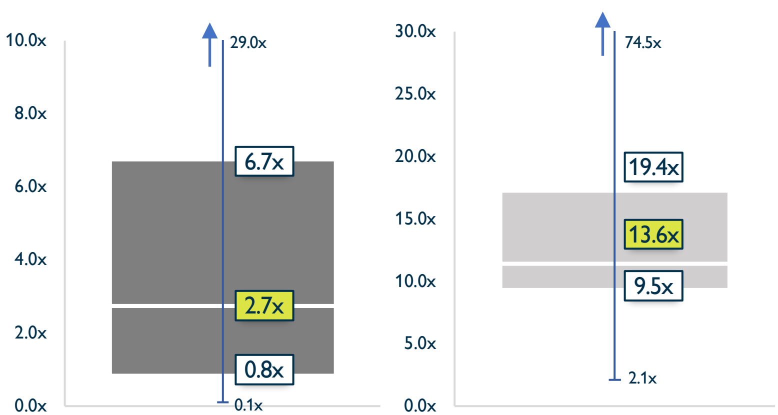
Hampleton research has tracked M&A transactions targeting ESG firms since 2017, and our most recent findings show that momentum in the sector is on the rise.

The first half of 2022 saw 93 deals target an ESG firm – a 173% increase on 1H2019 numbers. This is all the more impressive considering the relative spike in transaction volume in 1H2019, driven by changes in GDPR and compliance regulation as well as initial ESG reporting directives throughout the EU. Meanwhile, Covid-19 did not dampen enthusiasm for targets in the space, with only a slight dip in transaction volume in 1H2020.

Total number of ESG M&A transactions by half-year, 2014-2021



Source: 451, S&P Capital IQ



Trailing five-year revenue multiple

Trailing five-year EBITDA multiple

Source: 451, S&P Capital IQ

Looking at valuations across all ESG M&A targeting software, services or technology solutions, the trailing five-year median revenue has stood at 2.7x, with 50% of all deals announced being in the 0.8x to 6.7x range. The lowest was 0.1x, while the highest was 29.0x.

The trailing five-year median EBITDA multiple was 13.6x, with 50% of all deals announced in the 9.5x to 19.4x range. The lowest was 2.1x, while the highest was 74.5x.

**Very few valuation metrics are disclosed by acquiring or selling parties within this sector. In order to provide readers with a more diverse and more representative set of valuation metrics, we have opted to report valuations on a five-year trailing median basis.*

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Largest deals | *Past 30 months*

Date	Total deal amount	Valuation multiple	Target	Target geography	Target description	Acquirer	Acquirer geography
19 Nov 2020	$2.8 billion	Not disclosed	Verafin Inc.		Financial anti-fraud & compliance SaaS	Nasdaq Inc. [NASDAQ:NDAQ]	
09 Feb 2022	$2.3 billion	2.3x EV/revenue 13.6x EV/EBITDA	US Ecology, Inc. [NasdaqGS:ECOL]		Environmental services	Republic Services, Inc. [NYSE:RSG]	
02 Jun 2021	$1.6 billion	23.2x EV/revenue	Depop Limited		Apparel marketplace mobile applications	Etsy Inc. [NASDAQ: ETSY]	
06 Jul 2021	$1.4 billion	Not disclosed	Sphera Solutions, Inc.		Health & safety management software	Blackstone Inc. [NYSE:BX]	
22 Dec 2020	$1.3 billion	Not disclosed	Sparta Systems Inc.		Compliance & quality management software	Honeywell International [NasdaqGS:HON]	
25 Feb 2022	$1.2 billion	Not disclosed	ETQ, LLC		EHS & compliance management software	Hexagon AB [OM:HEXAB]	
24 Feb 2021	$1.0 billion	Not disclosed	ACL Services Ltd. [dba Galvanize]		Governance, risk & compliance SaaS	Diligent Corporation	
09 Nov 2021	$860 million	Not disclosed	Sunpro Solar Inc.		Solar systems	ADT Inc. [NYSE:ADT]	
11 Feb 2022	$813 million	Not disclosed	Alcumus Group Limited		Risk & compliance management SaaS	Apax Partners LLP	
03 Jan 2022	$754 million	Not disclosed	EVERFI Inc.		Social impact e-learning SaaS	Blackbaud Inc.	

Source: 451, S&P Capital IQ

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Top acquirers | *Past 30 months*

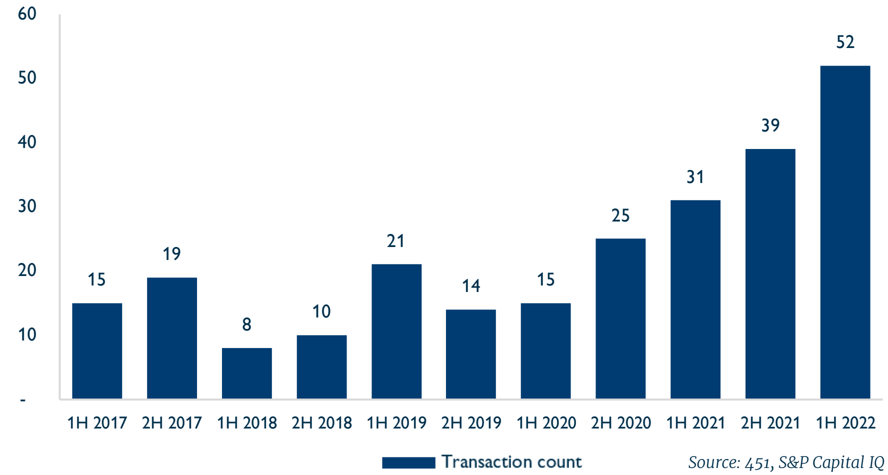
Acquirer	Acquirer country	Number of acquisitions	Targets	Details
Diligent		4	Insightia Accuvio Steele	ESG SaaS & content Sustainability & ESG SaaS Risk & compliance management SaaS
accenture		4	Akzente Greenfish Avieco	Sustainability consultancy services Sustainability consulting & engineering services Sustainability consulting services
EcoOnline		4	StaySafe Biome Environmental Nordic Port	Lone workers protection SaaS Environmental data monitoring & analysis SaaS SaaS platform for environmental management
Ideagen		4	CompliSpace Ai XPRT Qualtrax	Governance, risk & compliance SaaS AI-based compliance management SaaS Compliance management SaaS
Nasdaq		3	Metrio Puro.earth Verafin	ESG data reporting SaaS B2B marketplace of carbon-net negative tech Financial anti-fraud & compliance SaaS
riskonnect THOMABRAVO		3	Sword GRC Group iCiX North America Xactium	Project & enterprise GRC management SaaS Business risk management SaaS Risk, audit & compliance management SaaS
sciens Building Solutions The Carlyle Group		3	Elite Fire Safety Anchor Fire Protection Co Absolute Protective Systems	Fire safety systems integration services Fire protection/security systems integration svcs Fire protection systems designer & integrator
Moody's		2	PassFort Regulatory DataCorp	Compliance management SaaS GRC & compliance SaaS
EQS GROUP		2	Business Keeper Got Ethics	Whistleblowing & compliance management SaaS Whistleblowing management SaaS
cority		2	WeSustain Enviance	ESG corporate management SaaS EHS software

Source: 451, S&P Capital IQ

Enterprise Software & SaaS | *M&A summary*

We logged a high number of M&A transactions targeting software and SaaS designed to help businesses of all sizes coordinate and fulfil their ESG requirements. The first half of 2022 saw 52 deals closed in the segment – more than double the number of deals closed in the first half of 2019.

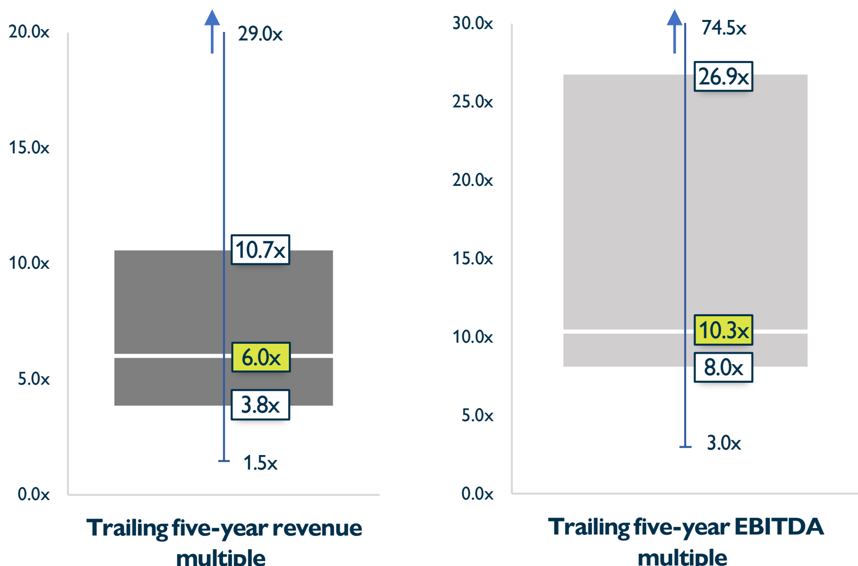
The segment has continued to see a broad range of deals. While many acquirers have targeted “generic” ESG reporting software and risk or compliance management SaaS, several others have focused on specialised software catering to only a handful of verticals.



Source: 451, S&P Capital IQ

Over the past five years, the trailing five-year median revenue multiple for ESG software stood noticeably higher than the overall median at 6.0x, with 50% of all deals announced being in the 3.8x to 10.7x range. The lowest was 1.5x, while the highest was 29.0x.

The trailing five-year median EBITDA multiple was 10.3x, with 50% of all deals announced being in the 8.0x to 26.9x range. The lowest was 3.0x, while the highest was 74.5x.



Source: 451, S&P Capital IQ

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Enterprise Software & SaaS | *Selected deals*

In February 2022, Hexagon, a provider of connected sensors and industrial software employing over 3,000 in the US and worldwide, announced the $1.2 billion acquisition of the SaaS EHSQ ("environment, health, safety & quality") management software vendor, ETQ.

HEXAGON
Feb 2022
ACQUIRED
$1.2bn
etq

Founded in 1992, ETQ is headquartered in Massachusetts, USA. Its QMS solution "ETQ Reliance" allows users to automate the collection and delivery of manufacturing quality control data, non-conformance reports, customer feedback and more, providing an enterprise view of quality management across the entire product lifecycle.

Its 185 employees serve customers across the life sciences, healthcare, heavy manufacturing, electronics, food and beverage, and automotive verticals.

ETQ's valuation of around 16 times their estimated 2022 revenue can be attributed to numerous factors, namely its trailing 3-year CAGR of 60%.

According to Hexagon, this investment illustrates the company's diversification strategy, pushing further into the EHS, quality, compliance and ESG markets. In integrating data from its metrology systems with ETQ Reliance, Hexagon reportedly aims to increase levels of autonomy that improve a customer's ability to put quality and process data to work.

EcoOnline, a Swedish publicly traded provider of SaaS for chemical and occupational safety, added two key ESG players to its portfolio of solutions in the first half of 2022.

In March, it acquired Biome, a SaaS company specialising in environmental data monitoring and analysis. Biome is based in Dublin, Ireland, and counts Intel and Canon as customers. According to EcoOnline, integrating Biome's environmental management and corporate social responsibility (CSR) software will be an essential strategic step in strengthening its expertise and ability to provide organisations with end-to-end management and reporting of ESG data.

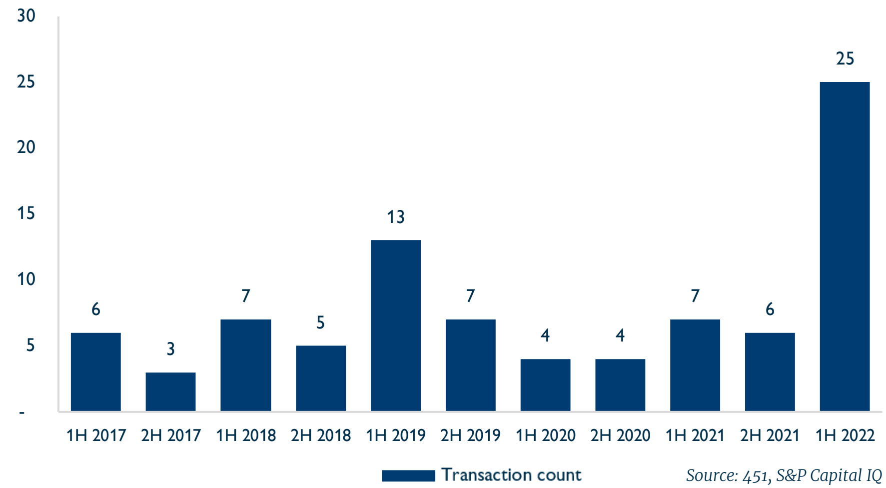
EcoOnline
Mar 2022
ACQUIRED
$1.2m 3.7x EV/revenue
Biome

Later, in June, EcoOnline acquired StaySafe, a provider of cloud-based remote monitoring solutions designed to protect lone or at-risk workers. Founded in 2012 and with 35 employees based in London, StaySafe provides global coverage, with over 850 clients and more than 40,000 users across the UK, Ireland, USA, Canada, Australia, and New Zealand. Amongst its loyal customer base are several blue-chip customers such as Nokia, KPMG and GE.

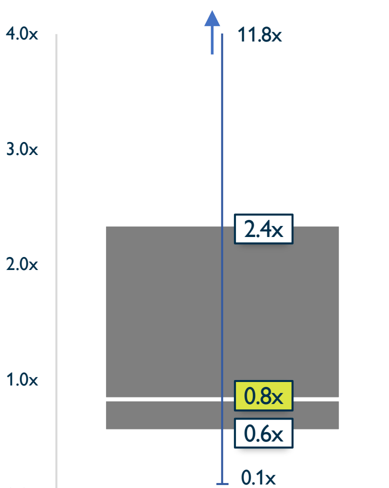
EcoOnline
Jun 2022
ACQUIRED
$27m
StaySafe®
Lone Worker

Outsourced Services & Consulting | *M&A summary*

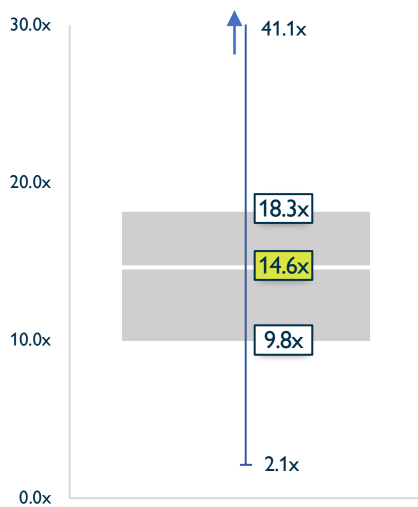
According to recent analysis by Consultancy.org, sustainability today is one of the three fastest growing segments within the global consulting industry. Moreover, recent research by Verdantix pegs the sustainability consulting market at $6.2 billion worldwide, with almost $10 billion expected to be added by the close of 2027. Across the consulting industry, large consulting firms are launching new offerings (for instance, BCG teamed up with SAP), establishing dedicated practices (L.E.K. Consulting for instance last year established centre of excellence for sustainability), and turning to inorganic growth to accelerate capabilities.



Source: 451, S&P Capital IQ



Trailing five-year revenue multiple



Trailing 30-month EBITDA multiple

Correspondingly, ESG consultancies and providers of outsourced ESG services are in high demand in the M&A market. The segment saw a high 25 deals closed in 1H2022 – more than all deals closed in 2020 and 2021 combined.

Over the past five years, the trailing five-year median revenue multiple stood at 0.8x, with 50% of all deals announced being in the 0.6x to 2.4x range. The lowest was 0.1x, while the highest was 11.8x.

The trailing five-year median EBITDA multiple was 14.6x, with 50% of all deals announced being in the 9.8x to 18.3x range. The lowest was 2.1x, while the highest was 41.1x.

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Outsourced Services & Consulting | *Selected deals*

This year, Accenture has continued its buy-and-build campaign in the sustainability landscape, purchasing several European ESG consultancies. In April, it acquired Avieco, a 60-person London-based sustainability consultancy. Founded in 2007, Avieco serves clients such as BNP Paribas, Emirates, Porsche as well as professional groups such as Allen & Overy, BDO, and Deloitte.

Secondly, Accenture acquired Brussels-headquartered Greenfish, a consulting and engineering firm that helps clients with decarbonisation and sustainability services. Founded in 2010 and with offices across Europe, Greenfish advises clients in the energy, pharma & life sciences, water, construction, infrastructure, transport, and retail sectors.

accenture
Apr 2022
ACQUIRED
Not disclosed
avieco

accenture
Apr 2022
ACQUIRED
Not disclosed
GREENFISH

accenture
May 2022
ACQUIRED
Not disclosed
akzente

Most recently, Accenture acquired akzente, a German sustainability consultancy. Founded in 1993, akzent's client base is spread chiefly across the automotive, financial services, energy and consumer goods industries. The firm specialises in sustainability strategy, non-financial and ESG reporting, communications, and stakeholder management.

In June, CBRE Group, a NYSE-listed, Dallas-headquartered company and one of the world's largest commercial real estate services and investment firm, announced its acquisition of Green Soluce.

Green Soluce provides ESG advice on real estate matters to public and private sector clients in France. Its expertise covers four areas: Advisory, Learning, Sustainable Finance and Content.

According to CBRE, the acquisition of Green Soluce is part of its strategy to further strengthen its ESG advisory capabilities across continental Europe.

Moreover, the company has grown organically and banks on strategic in-fill acquisitions to boost its service offerings and geographic reach. With an expanded capability to service, the company's number of large clients has increased significantly over the past years. As large corporations continue to seek consolidation of the number of service providers, CBRE Group is expected to remain a beneficiary of this trend.

CBRE
Jun 2022
ACQUIRED
Not disclosed
GREEN SOLUCE

Other | *M&A summary & selected deals*

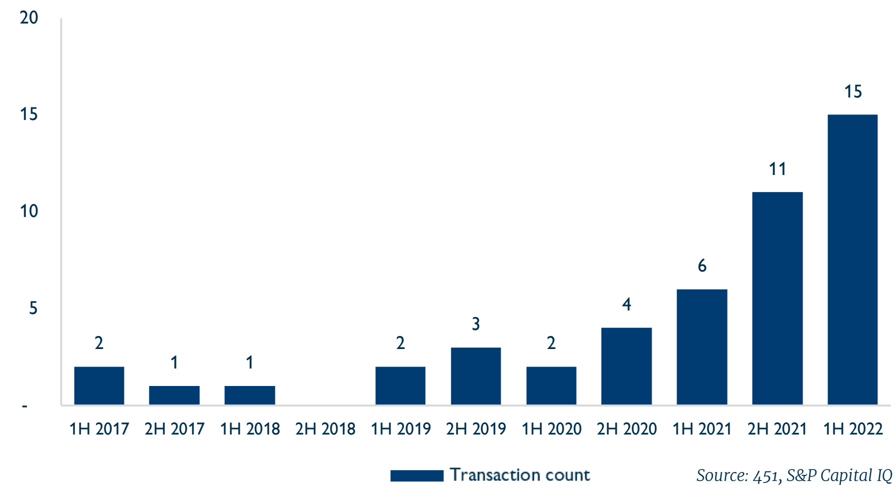
Beyond ESG-focused enterprise software, SaaS, outsourced services and consulting, in recent years we've also seen many environment- and ESG-friendly acquisitions target environmental technology and hardware. This includes electric vehicle (EV) technology, which is a vital component in reducing carbon pollution.

This year, Blink, a leading owner, operator and provider of electric vehicle charging equipment and services, agreed to acquire SemaConnect, an electric vehicle infrastructure company, for approximately $200 million.

Founded in 2008, SemaConnect provides electric vehicle charging infrastructure solutions to the North American commercial, residential and fleet market and serves the likes of CBRE, JLL, Hines, GreyStar, AvalonBay Communities, and General Electric.

The transaction adds nearly 13,000 EV chargers to Blink's existing footprint, an additional 3,800 site host locations, and more than 150,000 registered EV driver members. Beyond the number of new vehicles, Blink will benefit from SemaConnect's in-house R&D, hardware design, and manufacturing capabilities. The deal will also help Blink comply with requirements of the new Buy American initiative, which includes $7.5 billion to help place electric vehicle chargers along US highways.

blink
Jun 2022
ACQUIRED
$160m
SemaConnect



Source: 451, S&P Capital IQ

Meanwhile, BrightDrop, a provider of electric vehicles and related services, acquired fleet optimisation software from Marain, a startup founded by UC Berkeley and Stanford alumni, for an undisclosed amount.

As commercial fleets ramp up electrification efforts, there are increased challenges around operationalising a highly complex delivery system, including interpreting data, predicting trends and controlling assets within fleets. For BrightDrop, therefore, bringing Marain's software in-house will allow BrightDrop to help fleet customers maximise uptime, improve efficiencies and keep goods flowing through the delivery ecosystem 24/7.

brightdrop
Jun 2022
ACQUIRED
Not disclosed
MARAIN

Conclusion & contacts

M&A activity in the ESG technology space has grown exponentially over the past five years.

The first half of 2022 saw 93 ESG technology and services deals, representing a 173% increase in transaction volume between 1H2019 and 1H2022.

Within the ESG software and SaaS segment, we noted many intra-industry deals, with large ESG software vendors such as Diligent or EcoOnline acquiring to plug in the gaps in their software offerings and geographical presence. But other players are also making in-roads into ESG, as illustrated by Hexagon's acquisition of ETQ, a vendor of EHSQ management software.

Within the software segment, trailing median valuations over the past five years came in at 6.0x EV/revenue and around 10.0x EV/EBITDA.

On the Outsourced Services & Consulting front, recent deals were inked by large consultancies with a worldwide presence, such as Accenture, expanding more aggressively into ESG services.

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Valuations in this segment have been consistent with IT Services and consultancy valuations, with a trailing five-year median of around 1.0x EV/revenue and above 14.0x EV/EBITDA. Importantly, however, this higher-than-average median EBITDA multiple reflects the popularity of outsourced engineering services providers within the ESG space.

Beyond M&A, there is increasing conversation around the use and usefulness of ESG reporting. Some criticise ESG as a public relations move, or even a means to cash in on the higher motives of customers, investors, or employees. Far from negating the case for rigorous reporting, it is our belief that these debates will amplify the need for accurate and robust disclosure, thus spurring more active regulation with increasingly granular requirements. In turn, this will open many doors for ESG software and services providers helping customers navigate the ever-changing ESG landscape.

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