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Research and opinion on recent M&A transactions.

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VentureDeal

Square To Acquire Weebly For Omnichannel Offerings

Quick Take

Square (SQ) announced an agreement to acquire Weebly for a combination of cash and stock totaling $365 million.

Weebly has developed an online service that makes it easy for small business owners to create a website and online presence.

Square is acquiring Weebly as part of a continuing acquisition strategy to build out its offerings and increase its reach domestically as well as internationally.

Target Company

San Francisco-based Weebly was founded in 2007 to enable users to easily and quickly create a website or online store.

Management is headed by co-founder and CEO David Rusenko, who had no previous significant business experience. He graduated with a B.Sc. in Information Sciences & Technology from Penn State in 2007.

Weebly's primary functionalities are focused on allowing customers to create a standalone website or an online store.

Online stores include features such as SSL security, HD video & audio streaming, e-commerce checkout and online marketing integrations.

Pricing starts at free for the standalone website up to $38/month for a 'professional' level site with access to all features.

Investors funded $35.7 million in seed through Series C funding rounds and included Sequoia Capital, Tencent, Floodgate and other firms and individual investors.

Competition

Major competitive vendors that provide similar site building features include:

- Wix
- GoDaddy (GDDY)
- Squarespace
- Jimdo
- Shopify (SHOP)
- Bigcommerce

There are numerous other lesser-known competitors for the small business website building service market, with varying degrees of sophistication and integration with e-commerce and digital marketing services.

Acquisition Terms and Rationale

Square disclosed the $365 million acquisition price ($584 per paid Weebly subscriber) as a combination of cash and stock and consideration also includes 'square restricted stock units for Weebly's founders and employees that will vest over four years subsequent to closing.'

So, it appears that existing employee stock option vesting schedules will be reset to the standard four years.

Square didn't disclose a change in financial guidance; although the acquisition price is not a small amount, it is not a significant impact on Square's nearly $19 billion market cap.

Square is acquiring Weebly for a number of reasons.

First, Weebly has 'millions of customers and more than 625,000 paid subscribers' that can be added to Square's customer base for cross-selling its services and network to.

Second, almost 40% of Weebly's customers are outside the U.S., which will serve Square in its international expansion efforts.

Third, Square will be able to increase the value of its 'ecosystem of management payments, hardware and software' as well as integration capabilities 'across a range of third-party apps.'

As Square stated in the deal announcement:

> Square and Weebly will give sellers one cohesive solution to start or grow an omnichannel business. Today, it is important that sellers can reach buyers as they move between channels (in person, online, in apps) during discovery, purchase, and even returns and exchanges. An integrated suite of services will make critical business tasks like engaging with customers, managing orders, growing sales, and making informed business decisions easier than ever for sellers.

So, the deal is about growing Square's ecosystem reach while creating a suite of services that serve to create a 'lock-in' effect for small businesses. Weebly's website builder serves as an onboarding front end into Square's network of service offerings.

Over the past 12 months, Square's stock has nearly tripled in value as the firm has posted improving financial results, as the chart below indicates:

(Source: [Seeking Alpha]())

The Weebly acquisition is one of several deals that Square has made to further build out its offerings to small business owners looking to either streamline their operations or access more potential customers.

I expect to see a steady stream of acquisitions to continue this buildout, with special emphasis on international expansion throughout English speaking countries and other regions with strong entrepreneurial activity.

ServiceNow To Acquire Vendorhawk For Subscription Management

Quick Take

Enterprise software firm ServiceNow (NOW) has announced an agreement to acquire VendorHawk in an all-cash transaction.

VendorHawk has developed a SaaS-based system that enables enterprises to track and optimize their software subscriptions.

NOW is acquiring VendorHawk to bolster its software asset management capabilities. As enterprises continue their historic transition from on-premises legacy systems to the cloud, NOW is positioning itself to take advantage of customer demand for software service optimization.

Target Company

Seattle, Washington-based VendorHawk was founded in 2015 to assist businesses in achieving greater visibility into the software subscription spending and utilization.

Management is headed by co-founder and CEO Patrick Lowndes, who previously held various positions at PayScale.

VendorHawk's offering includes the ability to analyze data from accounts payable and other expense systems to develop a full list of software apps.

It also enables the ability to track upcoming renewals and usage through its various third-party integrations.

The service offering starts as low as $450 per month.

Investors funded a total of $1.3 million in seed and Series A funding and included venture capital firms and individuals from the Northwest U.S. and Canada.

Market & Competition

The market for managing SaaS subscription spend is a relatively small but growing segment of the larger technology vendor management market.

According to a 2017 market research report by Research and Markets, the Global Vendor Management Software market is expected to grow at a CAGR of 12.63% during 2017-2021.

There is a trend toward integrated vendor management software suites that can access numerous cloud services to provide a more holistic view of software vendor status and activity.

Competitive vendors that provide similar capabilities include:

- Blissfully
- Meta SaaS
- BetterCloud
- Onspring
- Zylo

Acquisition Terms and Rationale

ServiceNow didn't disclose the acquisition price and didn't file an 8-K or disclose a change in financial guidance, so the all-cash transaction was likely for a non-material amount to its $29 billion market cap.

NOW is acquiring VendorHawk as part of an initiative to rapidly expand its offerings in the software asset management space.

As enterprise customers continue their transition to the cloud, they are increasing their usage of subscription-based software and data vendors. In addition, the need to determine which software expenditures are being relatively underutilized is increasing.

As ServiceNow stated in the deal announcement,

> ServiceNow Software Asset Management helps:
>
> - Automate asset management with real-time views across the entire organization
> - Minimize software compliance exposure
> - Optimize existing software assets
> - Eliminate unnecessary and underutilized assets

VendorHawk will be added to the Now Platform as part of its Software Asset Management release in 2019.

ServiceNow's stock has risen dramatically in the past 12 months, from $94.00 to as high as $174.

NOW announced the acquisition as part of its current quarter earnings release and investors are bidding up the stock over 5% in response to those earnings.

The chart below shows NOW's stock performance in the past year:

(Source: [Seeking Alpha](#))

While the deal itself is a small acquisition, it presents investors with a window into understanding management's interest in expanding its offerings in the software asset management space.

I expect to see additional moves by NOW to increase its capabilities in this growing area as enterprises are still in the early phases of what promises to be a multi-decade move from on-premises, legacy systems to the cloud and connected applications.

Trimble To Acquire Viewpoint For Construction Software Buildout

Quick Take

Trimble (TRMB) has announced an agreement to acquire Viewpoint for $1.2 billion in an all-cash deal.

Viewpoint has developed a fully integrated construction software suite for construction companies of all sizes.

TRMB is acquiring Viewpoint as part of a larger strategy to focus on construction management as the industry continues its transition to digital technologies.

Target Company

Portland, Oregon-based Viewpoint was founded in 1976 to provide construction-specific solutions to companies seeking to improve productivity, reduce costs and project results.

Management is headed by Chairman and CEO Manolis Kotzabasakis, who has been with the firm since August 2015 and previously held senior positions at Aspen Technology.

Viewpoint’s primary offerings within its software suite include:

- Field Productivity
- Operations
- Service Management
- Financials
- Payroll and HR
- Project Management
- Estimating
- Collaboration

Its software is used in several construction-related subgroups such as General Contractors, Specialty Subcontractors, Heavy/Civil Contractors and Owner Operators.

In April 2014, Bain Capital Private Equity acquired a sizeable stake in Viewpoint for $230 million from two existing investors, Updata Partners and TA Associates.

The deal was considered a relatively small size for the private equity arm.

Market & Competition

According to a 2017 market research report by Technavio, the global construction software industry was expected to grow at a CAGR of 13.70% from 2017 to 2021.

The main drivers for this forecasted growth are a demand for construction management software in the APAC region as well as within the utilities sector, according to a Research and Markets report.

Major competitive vendors that provide construction software include:

- Newforma
- Procore
- ComputerEase
- BuilderTREND

There are numerous other smaller providers of various suites and subsets that the major vendors including Viewpoint sell.

Acquisition Terms And Rationale

Trimble is paying $1.2 billion in an all-cash deal, which it expects to be funded through cash on hand and new debt.

TRMB's most recent 10-K indicates that as of the end of 2017, the firm had $537.4 million in cash, equivalents and short-term investments and total liabilities of $1.93 billion.

Management did not disclose the breakdown of cash vs. new debt, but it appears the firm has adequate resources to close the deal without undue hardship. Trimble currently has a market cap of $8.84 billion relative to this $1.2 billion acquisition.

Trimble is acquiring Viewpoint as a complement to its existing construction software unit and its recent acquisition of e-Builder for $500 million. The e-Builder deal was also an all-cash deal financed by a combination of cash on hand and new debt.

As Trimble CEO Steven Berglund stated in the deal announcement:

> The acquisitions are strategically significant and position us to play a unique and central market role in providing comprehensive enterprise and project solutions. They also provide significant financial opportunity and contribute strong growth trajectories. The current trajectories can be further enhanced by a large addressable market enabled by the combined capabilities of the three companies.

TRMB's stock has been volatile on the announcement as the chart below indicates:

(Source: [Seeking Alpha](#))

Although the news was initially positively received by public investors, it was subsequently caught in the larger market downdraft as a result of 10-year Treasury interest rates reaching the 3% level.

Management expects the deal to be 'accretive to Trimble's operating cash flow in 2019.'

The transaction appears to make strategic sense as Trimble builds out its construction management offerings. With the generally favorable environment for infrastructure and other construction projects in North America, many firms are jockeying to position themselves to take full advantage of the prospects for increased spending.

The construction industry needs to continue its move to the cloud and the adoption of efficiency-generating technologies and we are still very much in the early days of that process.

I view the deal as a medium-term strategic plus for Trimble as management makes the necessary bold moves to improve its position in the industry.