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M&A ANALYSIS

Research and opinion on recent M&A transactions.

RealPage To Acquire CRE Global For Hipercept Data Tech

H&R Block To Acquire Wave Financial For Small Business Accounting

Allscripts To Acquire ZappRx For Specialty Medication Management

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RealPage To Acquire CRE Global For Hipercept Data Tech

Quick Take

RealPage (RP) announced it has agreed to acquire CRE Global Enterprises, a holding company for Hipercept for an undisclosed amount.

Hipercept provides data services and data analytic solutions to institutional real estate owners with over $500 billion in assets.

With the deal, RP is gaining the potential to provide an ‘all-in-one’ solution for real estate investors and asset managers throughout the investment lifecycle.

Target Company

New York-based Hipercept was founded in 2009 to provide advisory, data management, partner management, as well as application management services to real estate owners in the US, Asia, Canada, and Europe.

Management is headed by CEO Colin Kovas, who has been with the firm since 2014 and was previously a director at NewOak Capital.

Additionally, the company provides FUEL, a cloud-based commercial and multifamily real estate valuation cash flow forecasting solution, and Foundation - a data storage, governance, and analytics platform.

Company partners or major customers include insurance companies, pension funds, major banks, and asset management firms.

Market And Competition

According to a market research report by McKinsey, real estate analytic technologies provide developers and asset owners with the tools necessary to rapidly gain relevant property insight and take informed actions based on both traditional and recently-emerged non-traditional data points.

Real estate analysts have to sift through numerous records and data points to discern clear patterns and place their bets with few supporting tools, and by the time the investor collects, compiles, and processes the data needed to distill action - the best opportunities are gone.

Moreover, new and unconventional data sources, such as resident surveys, mobile phone signal patterns, and Yelp reviews of local restaurants are becoming increasingly relevant for the
identification of “hyperlocal” patterns - granular trends at the city block level rather than at the city level.

Using machine learning algorithms, real estate analytic technologies automate the data collection process by accessing application programming interfaces [APIs] and connecting various databases before preparing the data for analysis.

Other benefits of real estate analytic technologies include pressure-testing expectations for individual properties, identifying individual assets that would hold their value in declining markets, making capital expenditure decisions on specific properties, and comparing predictive-model outputs to the forecast of traditional sources of market information among others.

Competitive vendors that provide real estate analytics include:

- CoStar Group (CSGP)
- CARTO
- Real Capital Analytics
- Digital Property Group
- Quantarium
- Gnowise

Source: Sentieo

**Acquisition Terms And Financials**

RP didn’t disclose the acquisition price or terms and didn’t file a Form 8-K or provide a change in financial guidance, so the transaction was likely for a financially non-material amount.

A review of the firm’s most recent 10-Q filing indicates that as of March 31, 2019, RealPage had $252.7 million in unrestricted cash and equivalents and $1.1 billion in total liabilities, of which $283.7 was long-term debt and $126 million was deferred revenue.

Free cash flow for the three months ended March 31, 2019, was a negative ($7.0 million).

In the past 12 months, RP’s stock price has risen 3.8% vs. CoStar’s (CSGP) rise of 28.1%, as the chart below indicates:
Earnings surprises have been positive in 11 out of the last 12 quarters:

Source: Sentieo

Analyst sentiment in recent earnings calls appears to have dropped sharply in recent periods as the linguistic analysis shows below:

Source: Seeking Alpha
Commentary

RP is acquiring CRE for its Hipercept data tracking and analytics system.

As RealPage Chairman and CEO Steve Winn stated in the deal announcement:

With the addition of this acquisition to RealPage’s previously developed capabilities, RealPage will offer an integrated platform to serve the end-to-end needs of an institutional real estate and alternative asset owner. No longer will customers need to cobble together applications and services to run their business. RealPage can offer a complete solution, supported by managed services, to run their entire operational process.

RealPage intends to integrate Hipercept’s technologies as a combined ‘asset & investment management platform that integrates its existing portfolio asset management and portfolio investment management products with [Hipercept’s] Foundation and FUEL [products].’

With the deal, RP will be able to offer what it calls ‘the industry’s only fully integrated platform that aggregates and manages data across the entire investment lifecycle for real estate and alternative investments.’

If so, that’s quite a tall offering, and assuming RP didn’t overpay, would appear to provide the firm’s sales teams with a differentiated offering, probably more relevant for smaller and mid-sized real estate firms that may value an all-in-one solution.
H&R Block To Acquire Wave Financial For Small Business Accounting

Quick Take

H&R Block (HRB) announced it has agreed to acquire Wave Financial for $405 million.

Wave has developed a small business financial solutions platform that covers payments, payroll, invoicing, accounting, and receipts, with over 400,000 users globally.

HRB is making a logical push into expanding its range of offerings beyond its traditional tax software solutions. The deal makes excellent strategic sense.

Target Company

Toronto, Ontario-based Wave was founded in 2009 to provide free accounting, invoicing, and receipt-tracking software while generating revenue by offering payment processing, payroll services, as well as bookkeeping services.

Management is headed by Co-Founder and CEO Kirk Simpson, who has previously co-founded Outdoorsica.com and served as a board member at Sustainability Network.

Wave’s primary offerings include accounting, invoicing and receipts solutions.

Company major customers include:

- Steel & Oak Designs
- Change Connect
- Geek Girls in Vegas
- Happy Pops
- Fitness4Youth

Source: Wave

Investors have invested at least $79.5 million in the company and include Social Capital, CRV, HarbourVest Partners, Exhibition Ventures, BDC Venture Capital, OMERS Ventures, NAB Ventures, National Australia Bank, OurCrowd, and Portag3 Ventures, among others (Source: Crunchbase).

Market & Competition

According to a market research report by Transparency Market Research, the global accounting software market was valued at $5.72 billion in 2017 and is projected to reach $11.77 billion by 2026.
This represents a CAGR of 8.6% between 2018 and 2026.

The main drivers for this expected growth are the need for better accounting software and nearly consumer-like interface, as well as its many benefits, such as rapid identification of cash flows, broad reporting possibilities, cost- and time-effectiveness, and gaining valuable insight.

The North American region is projected to dominate the market during the forecast period due to the integration of accounting software with smartphones, tablets, and computers across the region.

Major competitive vendors that provide accounting software include:

- NetSuite (ORCL)
- Sage Group (OTCPK:SGPY)
- Workday (WDAY)
- Zeta Software
- Microsoft (MSFT)
- Infor
- SAP (SAP)
- Intuit (INTU)
- Epicor Software Corporation

Source: Sentieo

**Acquisition Terms and Financial**

HRB disclosed the acquisition price and terms as $405 million in cash and said it would fund the deal from available cash.

Based on its estimate that Wave will generate $42.5 million of revenue for fiscal 2020, it is likely at an annual run rate of around $50 million, leading to a price multiple of approximately 8.1x.

While not cheap, this multiple isn’t unreasonable given the strategic nature of the acquisition.

HRB did not provide a change in financial guidance, as it said ‘the financial impact of this transaction is subject to the timing of the actual close of the transaction.’

A review of the firm’s most recent 10-K filing indicates that as of April 30, 2019, HRB had $1.6 billion in cash and equivalents and $2.8 billion in total liabilities, of which $1.5 billion was long-term debt and $350 million was deferred revenue and other current or non-current liabilities.

Free cash flow for the twelve months ended April 30, 2019, was $511 million.

In the past 12 months, HRB’s stock price has risen 23.3% vs. Intuit’s rise of 32.5%, as the chart below indicates:
Earnings surprises have been positive in seven of the last twelve quarters:

Source: Sentieo

Analyst sentiment in recent earnings calls has dropped markedly into negative territory, as the linguistic analysis shows below:

Source: Seeking Alpha
Commentary

HRB is acquiring Wave as part of a strategic move into providing a much broader range of services to small business and freelancer customer segments.

As HRB president and CEO stated in the deal announcement:

"Bookkeeping and cash flow management are significant pain points for small business owners and essential to successful annual tax preparation. Wave addresses these concerns by delivering financial solutions and a simple user experience on a single platform. Wave provides us the opportunity to accelerate our small business strategy and is a great strategic fit, as both companies can leverage each other's capabilities to bring tax and financial solutions to small business owners, serving more clients in more ways."

With the deal, HRB will be able to expand its ‘share of wallet’ for its existing customer base with new and synergistic cross-selling opportunities as well adding Wave’s 400,000 strong customer base.

This deal appears to make natural sense as HRB seeks to build on its tax-based core business by providing a wider service offering to the roughly 31 million small businesses in North America and millions more freelancers.

HRB has much room to grow with the deal, especially targeting Intuit’s small business service offerings with competing solutions.
Allscripts To Acquire ZappRx For Specialty Medication Management

Quick Take

Allscripts (NASDAQ: MDRX) announced it has agreed to acquire ZappRx for an undisclosed amount.

ZappRx has developed a digital specialty medication prescription and prior authorization platform.

MDRX is acquiring ZappRx to expand its access to data and related capabilities for its Veradigm business segment.

Target Company

Boston, Massachusetts-based ZappRx was founded in 2012 to enable healthcare providers, pharmacists, and patients to digitally interact with one another to fill a specialty medical prescription.

Management is headed by co-founder and CEO Zoë Barry, who is also an advisor at Remy and Boston Microfluidics.

Features of ZappRx's platform include digital initiation of the prescription enrollment process, the ability to populate information for a patient at the same time as prescribing a specialty drug, obtaining digital patient consent, as well as prescription status checking.

Company partners include:

- Teva Respiratory (TEVA)
- Bayer (OTCPK:BAYZF)
- Genentech (OTCQX:RHHBY)

Source: ZappRx

Investors have invested at least $41 million in the company and include GV (NASDAQ: GOOG) (NASDAQ: GOOGL), SR One, Atlas Venture, Qiming Venture Partners, and individual investors. Source: Crunchbase

Market and Competition
According to a market research report by Grand View Research, the global medication management market was valued at $1.2 billion in 2017 is projected to reach $5.97 billion by 2025.

This represents a CAGR of 20.5% between 2018 and 2025.

The main drivers for this expected growth are hospitals' focus on improving workflow, rapid advancement in medical technology, adoption of IT technologies in healthcare practices, as well as an increase in focus on reducing medication errors.

The Asia-Pacific region is projected to grow at the fastest CAGR of 20.9% during the forecast period due to the rise in healthcare expenditure, improving healthcare infrastructure and facilities, presence of a large patient pool, and increase in the number of hospitals.

Major competitive vendors that provide medication management software include:

- CareFusion (BDX)
- GE Healthcare (GE)
- McKesson Corporation (MCK)
- Cerner (CERN)
- Omnicell (OMCL)

Source: Sentieo

**Acquisition Terms and Financial**

Allscripts didn't disclose the acquisition price or terms and didn't file a form 8-K or provide a change in financial guidance, so the acquisition was likely for a financially non-material amount.

A review of the firm's most recent 10-Q filing indicates that, as of March 31, 2019, MDRX had $137.2 million in cash and equivalents and $1.8 billion in total liabilities of which $766 million was long-term debt and $504 million was deferred revenue.

Free cash flow for the three months ended March 31, 2019, was $969 million.

In the past 12 months, MDRX's stock price has dropped 7.2% vs. Cerner's rise of 15.5%, as the chart below indicates:
Positive earnings surprises have occurred only four instances over the past twelve months:

Source: Sentieo

Analyst sentiment in recent earnings calls has been trending upward, as the linguistic analysis chart shows below:

Source: Seeking Alpha

Analyst sentiment in recent earnings calls has been trending upward, as the linguistic analysis chart shows below:
**Commentary**

Allscripts is acquiring ZappRx to expand its offerings into the specialty medication management space.

As Allscripts stated in the deal story,

The specialty-prescribing space is a key focus area for Veradigm, our payer and life sciences business unit.

By acquiring ZappRx, Allscripts gains more end-user data to enhance its data business, which is a big part of Veradigm.

Apparently, MDRX acquired the firm for less than the venture capital investment in it, although the amount was not disclosed.

If so, it would present an opportunistic play by management to acquire an asset at a favorable price.

The deal makes strategic sense as Allscripts is continuing to bolster its Veradigm business as a diversification from its main EHR software business.