

## U.K. private equity giant HG Capital buys Mississauga's Prophix Software

SEAN SILCOFF TECHNOLOGY REPORTER

PUBLISHED 20 MINUTES AGO



President and CEO of Mississauga's Prophix, Alok Ajmera, outside his home in Oakville on January 5, 2020.

British private equity giant Hg Capital LLP is buying its fourth Canadian software company in the past year, announcing Wednesday it will pick up control of Prophix Software in a deal valuing the Mississauga enterprise at US\$500-million to US\$600-million.

The deal emerges 16 months after the founder and chief executive officer of Prophix – Paul Barber and Alok Ajmera, respectively – told The Globe and Mail they had no interest in bringing in outside investors to finance their company, which provides software used by finance departments of mid-sized to large companies for budgeting, forecasting and automating reports.

They worried deep-pocketed outsiders would bring in aggressive, short-term goals and ruin the 34-year-old company's close-knit culture, including their particular pride in building a "bootstrapped" company that had eschewed outside capital providers. "Well, it's not for us, we don't want to do it, we'll carry on and succeed – and we did" without private capital, Mr. Barber said at the time.

The pandemic changed their thinking. "It woke us up to the limitations of being bootstrapped," Mr. Barber said Tuesday.

Prophix, which generated more than US\$50-million in revenue in 2020, came into last January expecting a fourth consecutive year of 150-per-cent-plus growth in revenue from selling subscriptions to its software over the internet. It has been steadily increasing that business since 2016 when it shifted its focus away from selling traditional on-premise software.

But new business dried up by the end of March as global economies shut down. In the second quarter, new bookings fell to half their levels during the same period a year earlier, and less than 30 per cent of the year's plan, even as existing customers used its software more than ever to keep up with constantly evolving business circumstances.

“It was terrifying,” Mr. Ajmera said in an interview. “When you are bootstrapped, you take exceptional risk every year. But it’s calculated, you know what you’re doing and you are betting on yourself to execute.”

But he said once COVID-19 hit, many of the company’s 300 employees grew fearful they would lose their jobs. “It brought about a level of awareness of the level of risk we’re actually playing with now. ... When you’re bootstrapped at the size and scale we’re at, a misstep could burn a hole in your balance sheet and jeopardize everything that you’ve built,” including the livelihood of employees.

Meanwhile, he and Mr. Barber knew it would have strong demand from prospective investors, after being wooed by unsolicited suitors in recent years. Prophix hired investment bank Shea & Co. last summer and began contacting potential buyers, on the premise the effort could produce a financial partner that would bring more security and help fuel its growth ambitions, including a nascent mergers and acquisitions strategy.

After talking to 150 potential buyers, Prophix weeded the group down to 25 to 30 prospects – all of whom made offers, providing “an overwhelming number of options – every flavour you could think of,” Mr. Ajmera said. Prophix narrowed the field to five and spent October in detailed talks before choosing Hg.

The veteran London-based private equity firm has made a big push outside its traditional European base into North America in the past two years. In 2019, it inked deals to buy control of Calgary philanthropy software firm Benevity Inc., Montreal medical imaging software firm Intelrad Medical Systems and Toronto accounting software firm CaseWare International Inc.

With the Prophix deal, it will have paid a combined US\$2-billion to US\$3-billion for the four Canadian companies. “We’ve been finding a lot of high-calibre situations and businesses and innovation in Canada, that’s what has led us up [here],” Hg partner Ben Meyer said. He added Hg was drawn to Prophix’s “combination of an attractive, sizable and growing end market, its market-leading product, very strong management team” and strong culture.

Mr. Ajmera said Prophix chose Hg because “it just hit all the right boxes,” including the financier’s experience backing ventures that sell into corporate finance departments and its respect for supporting the company’s growth without imposing constraints that would hurt employees.

He said his company eventually rebounded from 2020’s dip and managed to expand subscription software sales by about 125 per cent in the year.

British-born Mr. Barber said he was “thrilled to be partnering with HG. They are a great company and we’ve connected with them at an important time in our growth.”

The deal is set to close Jan. 31, with Hg becoming majority owner and employees taking a 20-per-cent to 30-per-cent ownership stake. Mr. Barber will cash out most of his stake, but remain an investor and adviser.

UPDATED JANUARY 6, 2021