

# IJW

## North American Software & Technology Quarterly Market Report Q3-2023



\*All dollar values in this report are USD, except where noted CAD.

## Q3-2023 Macroeconomic Highlights

### Interest Rate Hikes

- On July 6<sup>th</sup>, the US Federal Reserve (Fed) announced yet another 25 bps rate hike aimed at curbing persistent inflation, bringing the Federal Funds rate to 5.25% to 5.5%, the highest level in 22 years. Labor market conditions ultimately led the Fed to institute yet another rate hike, with wage growth continuing to raise inflationary concerns.
- At their next meeting on September 19<sup>th</sup>, the Fed announced its decision to pause its hiking campaign following the release of encouraging inflation data. However, the Fed did not rule out the possibility of one more interest rate increase before the end of 2023.
- Like their American counterparts, the Bank of Canada (BoC) increased its policy interest rate by 25 bps on July 12<sup>th</sup>, bringing the target overnight rate to 5%. While global inflation rates were showing signs of decline, persistent consumer demand and wage growth had resulted in inflated service costs.
- In its subsequent announcement on September 6<sup>th</sup>, the BoC chose to leave its target overnight rate unchanged, with the BoC maintaining its stance on quantitative tightening, citing sticky measures of core inflation.
- The Boc also announced that Canada has now entered a period of weaker growth, which, in their view, is needed to bring the economy back to supply-demand equilibrium.

### Inflation

- In July, Canadian CPI rose 3.3% year-over-year, following a 2.8% increase in June. The increase was largely attributed to increased gas prices. However, Canadian inflation accelerated to 4.0% in August, once again due to higher gasoline prices, as well as increased housing prices.
- In September, Canadian CPI rose 3.8%, with several measures of core inflation showing signs of improvement. The deceleration in inflation was led primarily by lower prices for durable goods, groceries, travel-related services, and gasoline.
- Meanwhile, US CPI rose 3.2% in July, below analyst expectations. Inflation then accelerated to 3.7% in August as a result of increased gasoline and property rental prices.
- US inflation remained unchanged in September, with lower energy prices the primary reason for CPI stability.
- Despite encouraging signs that inflation is being contained, the Fed does not expect to achieve its goal of returning inflation to its 2% target before 2026.

### Employment & Wages

- US nonfarm payrolls rose by 187,000 in both July and August, before rising a further 336,000 in September. The US's unemployment rate remained unchanged between August and September at 3.8%, while hourly wages increased 4.2% YoY.
- Employment gains were observed primarily in the hospitality, healthcare, government, scientific, and social assistance sectors.
- Meanwhile, Canada's unemployment rate rose by 0.1% in July to 5.5%, where it has remained since. Gains were observed primarily in the education and transportation sector, while employment fell in finance & insurance, construction, and recreation.



## Q3-2023 M&A Highlights

### Notable North American M&A Transactions









 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$28.0B</b></li> <li>• EV/Revenue: <b>6.7x</b></li> <li>• EV/EBITDA: <b>425.0x</b></li> <li>• Splunk provides security, as well as full-stack monitoring and analysis solutions.</li> <li>• The acquisition significantly accelerates Cisco’s cybersecurity strategy by gaining access to Splunk’s industry-leading, AI-powered solutions. The transaction is expected to be immediately accretive.</li> </ul>
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$13.1B</b></li> <li>• EV/Revenue: <b>8.6x</b></li> <li>• EV/EBITDA: <b>17.6x</b></li> <li>• Black Knight provides integrated software, data, and analytics solutions for the real estate, mortgage, and capital markets sectors.</li> <li>• The acquisition expands ICE’s mortgage technology division, which it has successfully scaled in recent years through its acquisitions of Ellie Mae, MERS, and Simplifile.</li> </ul>
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$6.5B</b></li> <li>• EV/Revenue: <b>6.4x</b></li> <li>• EV/EBITDA: <b>NM</b></li> <li>• Based in San Francisco, CA, New Relic’s cloud-based observability platform allows engineers to analyze and troubleshoot their software.</li> <li>• The deal aligns with TPG’s and Francisco Partners’ focus on digital infrastructure management and will allow both firms to capitalize on the increasing demand for visibility software.</li> </ul>
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$4.9B</b></li> <li>• Undisclosed valuation multiples</li> <li>• Based in Culver City, CA, Scopely is a maker of mobile games, known for Monopoly Go!, Stumble Guys, Yahtzee, and Wheel of Fortune.</li> <li>• The acquisition will allow Savvy Games, owned by Saudi Arabia’s Public Investment Fund, to strengthen its global position as it plans to accelerate growth.</li> </ul>

Capital Invested in Q3	Transactions in Q3	Median EV/Revenue
\$142.3B	1,032	3.8x



## Q3-2023 M&A Highlights

### Notable Canadian M&A Transactions

 <p>has been acquired by</p>  <p>WT GROUP</p>	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$3.8B</b></li> <li>• EV/Revenue: <b>1.3x</b></li> <li>• EV/EBITDA: <b>NM</b></li> <li>• Future Electronics is a technology company focused on electric component distribution.</li> <li>• The strategic acquisition of Future Electronics was done in order to add long-term sustainable value to the company and customers as they offer highly complimentary products and services.</li> </ul>
 <p>Carbon Engineering</p> <p>has been acquired by</p>  <p>OXY Occidental</p>	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$1.1B</b></li> <li>• Undisclosed valuation multiples</li> <li>• Carbon Engineering is a company that provides direct air capture technology.</li> <li>• Despite the direct air capture technology being far away from mass commercial adoption, Oxy believes that it will be able to accelerate Carbon Engineering's go-to-market strategy. The acquisition will also help Oxy achieve its net zero goals.</li> </ul>
 <p>has been acquired by</p>  <p>CROSSPOINT Capital</p>	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$820.0M</b></li> <li>• EV/Revenue: <b>3.7x</b></li> <li>• EV/EBITDA: <b>40.0x</b></li> <li>• Absolute Software provides cloud-based endpoint visibility and a control platform for the management and securing of computing devices.</li> <li>• Crosspoint Capital has a well-regarded team of technology experts that will assist with accelerating Absolute's future growth through the execution of strategic initiatives.</li> </ul>
 <p>has been acquired by</p>  <p>LIONSGATE</p>	<ul style="list-style-type: none"> <li>• Transaction Value: <b>\$500.0M</b></li> <li>• Undisclosed valuation multiples</li> <li>• Entertainment One is a leading Canadian entertainment company that produces movies and television series.</li> <li>• Lionsgate is acquiring Entertainment One from Hasbro, who purchased the company for \$4B in 2019. The acquisition provides Lionsgate with access to world-class media talent and a library of 6,500 titles.</li> </ul>

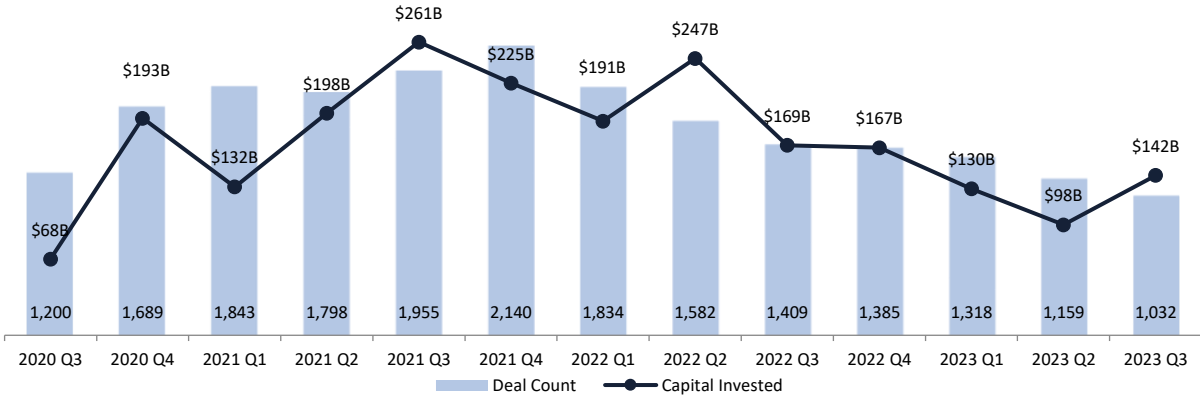
Capital Invested in Q3	Transactions in Q3	Median EV/Revenue
\$6.8B	97	4.6x



## Top Technology Transactions in Q3-2023

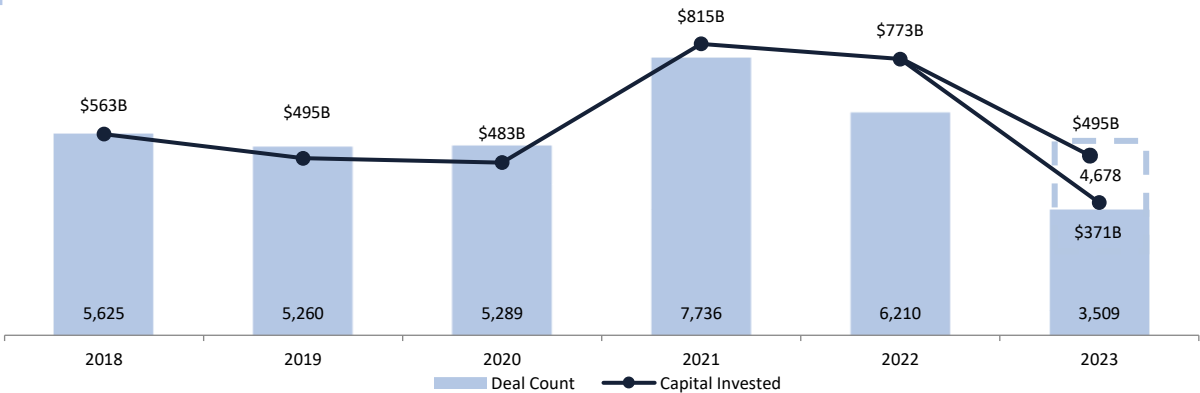
Date	Target	Acquirer	EV	EV/Revenue	Sector
Sep-23	 splunk>	 CISCO	\$28.0B	6.7x	Cybersecurity
Sep-23		 ICE	\$13.1B	8.6x	Real Estate Tech
Jul-23	 new relic	 FP FRANCISCO PARTNERS	\$6.5B	6.4x	Analytics & Diagnostic Tools
Aug-23	 SCOPELY	 SAVVY GAMES GROUP	\$4.9B	N/A	Mobile Gaming
Aug-23	 APPTIO	 IBM	\$4.6B	N/A	Business Management Software
Sep-23	 FUTURE ELECTRONICS	 WT GROUP	\$3.8B	1.3x	Hardware
Jul-23	 imperva	 THALES	\$3.6B	N/A	Cybersecurity
Sep-23	 NUVASIVE Creative Spine Technology®	 GLOBUS MEDICAL	\$3.1B	2.5x	Health Tech
Sep-23	 Virginia pulse	 HealthComp	\$3.0B	N/A	Health Tech
Sep-23	 Forcepoint	 TPG	\$2.5B	N/A	Cybersecurity

## Quarterly Deal Volume & Capital Invested



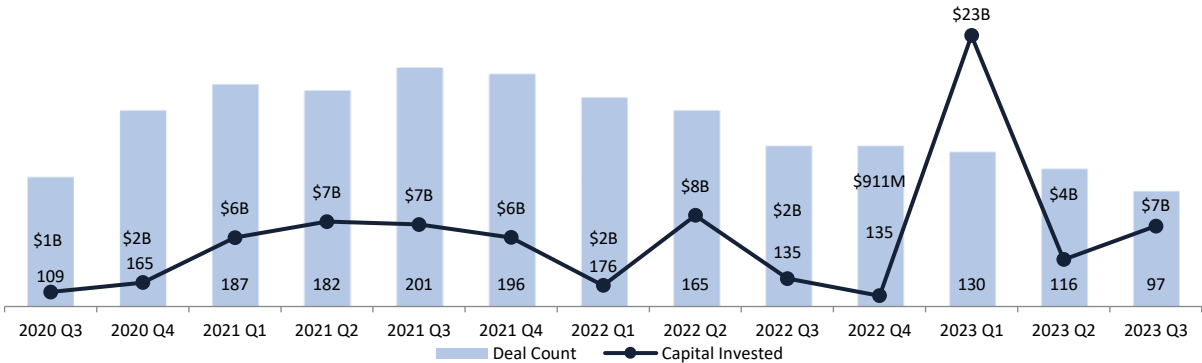
- The sector saw a total of 1,032 M&A deals and \$142B in capital invested in Q3-2023, ending the downward trend seen since Q2-2022.
- Throughout Q3, the balance of M&A activity between strategic and private equity-backed deals shifted significantly in favor of strategic acquirers. Strategic deals accounted for seven of the quarter's ten largest transactions.
- Well capitalized strategics are becoming increasingly confident in executing transactions due to better-than-expected financial performance and a stabilizing rate environment.
- Disparities in buyer-seller valuation expectations have continued to decrease, leading to smoother negotiations. The proportion of terminated M&A transactions is currently at its lowest level since 2020.

## Yearly M&A Deal Volume & Capital Invested



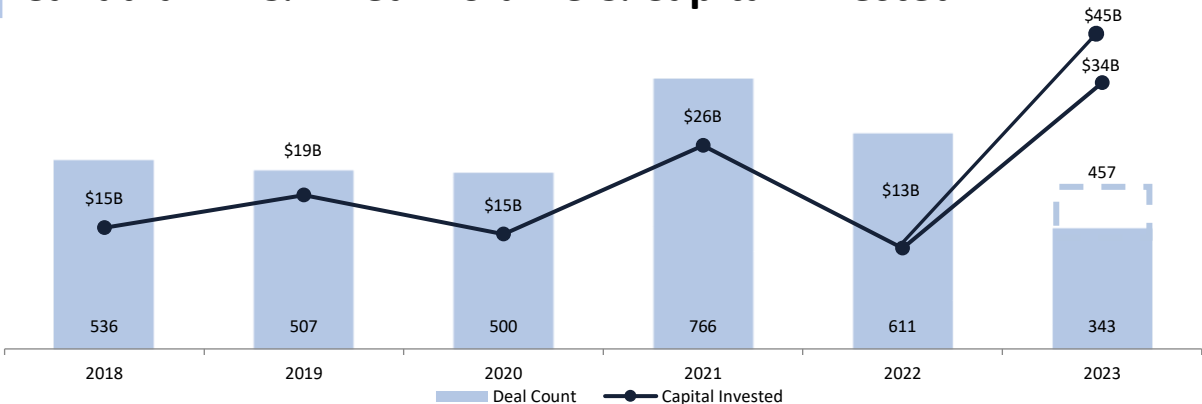
- At this rate, technology M&A activity in 2023 will remain in-line with pre-pandemic levels.
- While the lending environment and increased antitrust scrutiny has led to less activity at the upper end of the market, the mid-market has remained active, with acquirers focusing on smaller, highly strategic transactions with the goal of value creation.
- Activity progressively ramped up throughout the quarter, with September seeing 344 transactions and \$95.7B deployed, setting the stage for what is traditionally the most active period of the year when it comes to M&A dealmaking.
- A stabilizing rate environment and a return to more normal IPO conditions, coupled with pent-up demand for M&A, should lead to stronger levels of activity through the rest of the year and into 2024.

## Canadian Quarterly Deal Volume & Capital Invested



- Despite low deal volume, capital deployed as part of Canadian transactions nearly doubled from Q2 in Q3, primarily due to two transactions with an enterprise value greater than \$1B (Future Electronics and Carbon Engineering).
- Canadian private equity firms have also remained active. However, the average deal size has dropped as private equity continues to favor smaller add-on acquisitions amid high borrowing costs.
- Experts indicate that the M&A market conditions are beginning to return to pre-pandemic norms, with many believing that activity bottomed out earlier this year.
- The stable interest rate environment that Canada has been experiencing has released some of the additional pressure on businesses and will likely result in increased deal flow moving forward.

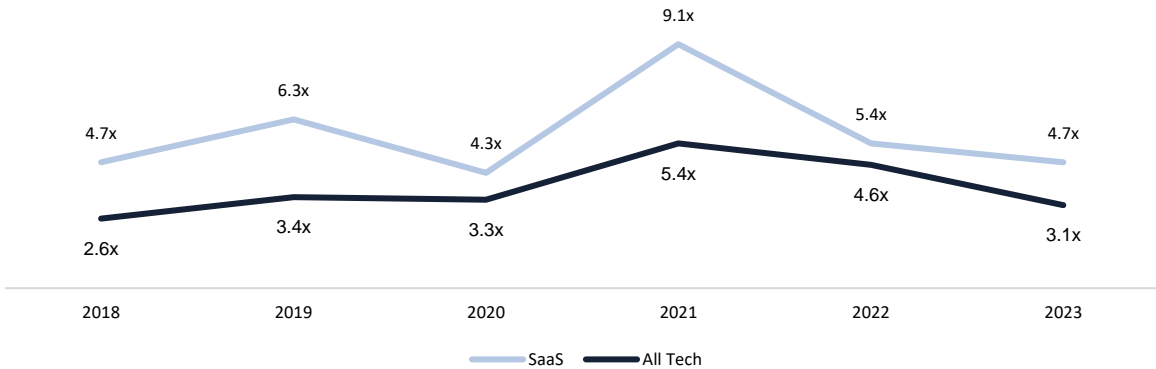
## Canadian M&A Deal Volume & Capital Invested



- Driven by several large transactions, notably Rogers' \$19B acquisition of Shaw Communications and WT Microelectronics' \$3.8B acquisition of Future Electronics, capital invested in Canadian technology M&A deals has already surpassed 2022 levels.
- Canada witnessed a slowed inflation rate in the month of September, allowing the BoC to keep interest rates unchanged. Nevertheless, there continues to be uncertainty surrounding the future interest rate environment as inflation has been less responsive to fiscal tightening measures than expected.
- However, there is optimism among Canadian dealmakers that M&A activity will increase in 2024. Private equity currently holds \$1.4T in dry powder, with US corporates holding a further \$4.1T in cash on their balance sheets. This should lead to more M&A activity in 2024 in both Canada and the US.

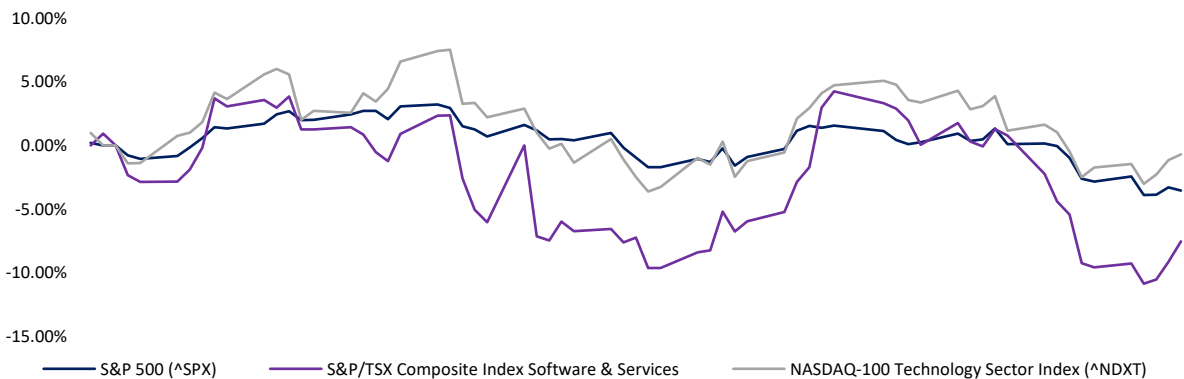


## Median SaaS vs All-Tech Revenue Multiples



- SaaS companies have transacted at a median 4.7x revenue year-to-date, while assets throughout the broader technology sector have transacted at a median 3.1x revenue. SaaS multiples appreciated quarter-over-quarter due to improved deal flow and increased competition for assets.
- The highly strategic nature of many of the quarter's deals have resulted in companies transacting at higher multiples than earlier in the year, with acquirers willing to pay a premium for "perfect fits".
- Companies in the cybersecurity, AI & ML, big data, and real estate technology subsectors have transacted at a premium relative to the rest of the market so far this year.
- Due to stabilizing interest rates, experts believe M&A activity will increase as we approach 2024. This will allow buyers to be more aggressive, leading to increased competition for quality assets.

## Public Market Indexes: S&P 500 vs. Market Indexes



- The Nasdaq-100 Technology Sector and S&P/TSX Composite Software & Services indexes ended the quarter -0.7%, and -7.6% compared to the S&P 500, respectively. The S&P 500 was down -3.6% in the quarter, reaching a three-month low.
- Concerns surrounding oil prices, rising bond yields, and economic growth led to a widespread selloff in September.
- While the strength of large cap technology stocks drove the S&P 500 into bull market territory in June, their performance since has been lackluster, with Q3 earnings reports from several companies, including Amazon and Apple, being met with a mixed reception in public markets.





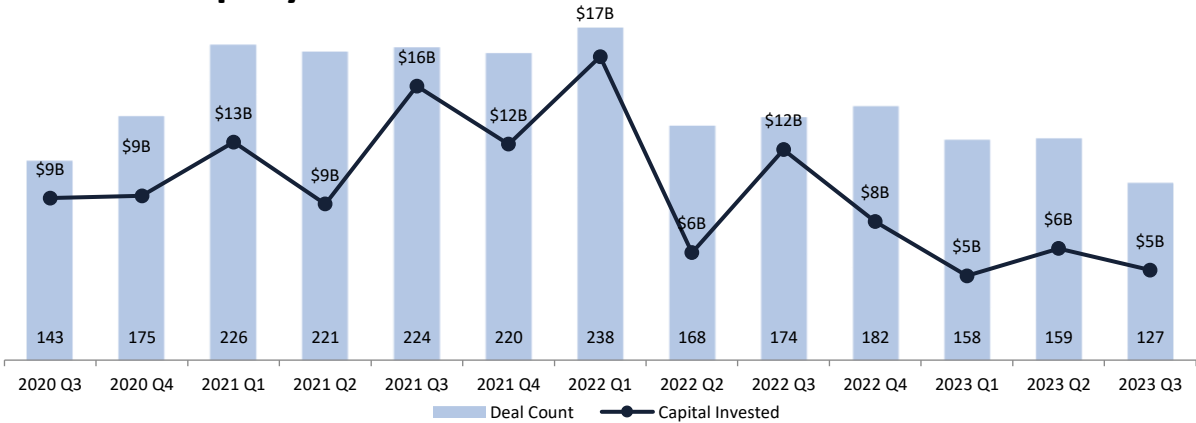
## Notable North American Growth Equity Transactions

Date	Investee	Investor	Size	Headquarters	Sector
Sep-23	PROMETRIC	Undisclosed	\$902.0M	Baltimore, MD	Assessment Technology
Aug-23	PEREGRINE ENERGY	CARVAL	\$700.0M	Calgary, AB	Renewables
Apr-23	altafiber	ARES MACQUARIE	\$600.0M	Cincinnati, OH	Telecom
Sep-23	enfinity	ICG	\$434.8M	Miami, FL	Renewables

## Notable North American VC Transactions

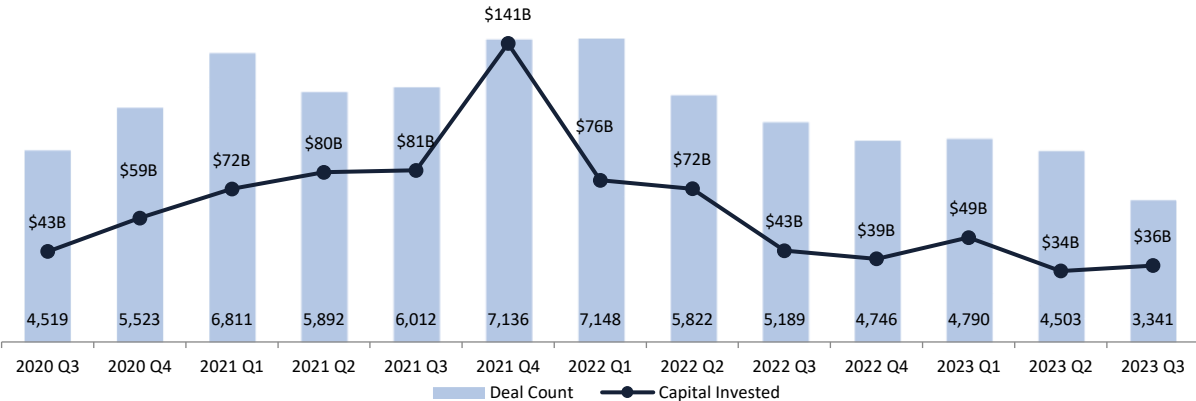
Date	Investee	Investor	Size	Stage	Sector
Sep-23	ANTHROPIC	amazon	\$4.0B	Later Stage	AI
Aug-23	REDWOOD MATERIALS	PRICORN INVESTMENT GROUP Goldman Sachs	\$997.0M	Later Stage	Climate Tech
Sep-23	databricks	T.RowePrice® NVIDIA	\$500.0M	Later Stage	Data Analytics & AI
Sep-23	ASCEND ELEMENTS	Decarbonization Partners BlackRock    TEMASEK	\$460.1M	Later Stage	Climate Tech

## Growth Equity Investment



- Growth equity activity slightly decreased in Q3, with the asset class seeing a total of \$5B in capital deployed across 127 transactions throughout the North American technology sector.
- Growth equity activity decreased in Q3 as private market investors began shifting their investment preferences to more risk-averse strategies. Experts believe investors are retreating to safer investments due to ongoing market uncertainty and an evolving geopolitical landscape.
- Despite current market conditions, growth equity firms are routinely valuing target companies in the the 6-10x revenue range.
- Like other asset classes, growth equity investors have increasingly targeted the renewables sector.

## VC Investment



- Q3-2023 saw a total of \$36B invested across 3,341 VC deals, with levels of VC activity appearing to stabilize. A flat quarter should be considered a positive development considering the asset class's recent performance.
- Later stage funding increased compared to Q2 as IPO markets show signs of recovery, with two VC-backed startups going public in September. The average cheque size of later stage investments also grew.
- Consistent with trends seen earlier this year, early-stage generative AI companies continued to attract investment, as did deep tech startups. However, the number of early-stage rounds and total funding fell quarter-over-quarter.



## Team



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