

IJW

North American Software & Technology

Quarterly Market Report

Q1-2024



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



Q1-2024 Macroeconomic Highlights

Interest Rates

- The Federal Reserve (Fed) and the Bank of Canada (BoC) kept rates steady at 5.25%-5.50% and 5.00%, respectively. Elevated interest rates have led to a decrease in M&A activity as the cost of financing has remained high.
- While investors initially expected at least two 25-basis point (bps) cuts this year, interest rates are now expected to remain steady throughout this year in the US in the face of a strong labor market and persistent inflation.
- While the year started off with improving macroeconomic conditions, various indicators, such as inflation, are showing signs of reversal, leading to more caution from the Fed and BoC.

Inflation

- In March, US CPI surpassed expectations at 3.5% YoY, with core CPI rising to 3.8% YoY, marking the third consecutive strong inflation reading. Investors are therefore skeptical about a Fed rate cut in June.
- The Bank of Canada expects inflation to stay around 3% entering Q2 2024, with the measure dipping below 2.5% H2. Current expectations are that inflation will return to its target rate of 2% in 2025.
- Much of the recent panic around inflation has been caused by the reversal of its downward trend this quarter. In January, US CPI inflation was at 3.1% YoY, and Canadian CPI inflation was at 2.9%.

Economic Growth










- US GDP, adjusted for inflation, increased at 1.6% YoY in Q1 2024, down from 3.4% at the end of 2023 and short of expectations.
- The Canadian economy grew by 2.5% YoY, an increase from the 1% growth observed in Q4 2023, driven by the mining, oil & gas, and transportation sectors.
- Growth in consumer spending will likely be lower this year, while housing is expected to slightly improve because of an increase in inventory as a result of a greater proportion of buyers burdened by heightened interest rates.

Employment and Wages

- Total US non-farm payroll employment rose by 303,000 in March 2024, beating the forecasts of 200,000 jobs. Non-cyclical sectors such as government and healthcare led employment gains, with 62.6% of industries reporting an increase.
- In March 2024, Canada's unemployment rate rose to 6.1% from February's 5.8%, surpassing market expectations of 5.9%. This was driven primarily by an increased number of student job seekers not previously included in the labor force.
- Canadian job losses were concentrated in food service, wholesale and retail trade, and professional services, while healthcare and social assistance saw the majority of increases.

Q1-2024 M&A Highlights









Notable North American M&A Transactions

 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$35.0B EV/Revenue: 15.4x EV/EBITDA: 46.5x Ansys is an engineering software company that provides process simulation capabilities for industries such as aerospace and automotive. This acquisition enhances Synopsys' industry-leading electronic design automation solutions with Ansys' simulation and analysis capabilities. The deal will not be immediately accretive.
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$28.0B EV/Revenue: 6.6x EV/EBITDA: 86.1x Splunk provides security and full-stack monitoring and analysis solutions. 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.
 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$14.0B EV/Revenue: 2.5x EV/EBITDA: 24.5x Juniper Networks develops and markets networking products, including routers, switches, network management software, and other solutions. The deal is expected to give HPE a significantly expanded set of tools and products to compete with other top-tier networking vendors.
 <p>has been acquired by</p>  	<ul style="list-style-type: none"> Transaction Value: \$6.4B EV/Revenue: 6.6x EV/EBITDA: NM Alteryx provides self-service data analytics software to enterprises in various industries, such as financial services and higher education. The company believes it will be able to leverage its sponsors' sector experience and resources to drive product innovation and provide valuable solutions to its customers.

Capital Invested in Q1	Transactions in Q1	Median EV/Revenue
\$172B	1,032	2.5x

Q1-2024 M&A Highlights

Notable Canadian M&A Transactions

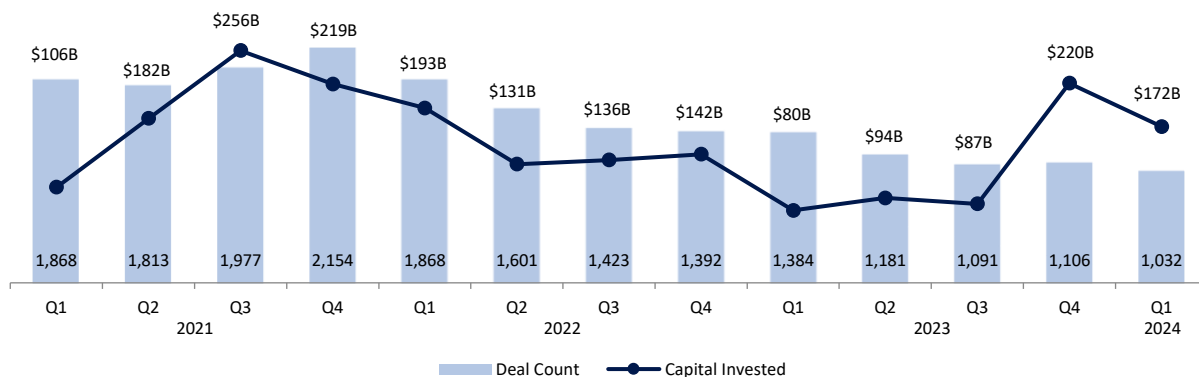
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$1.0B Undisclosed valuation multiples Plusgrade offers products that drive ancillary revenue for the global travel industry, including airlines, cruises, and rail clients. General Atlantic intends to partner with Plusgrade to support the company's continued growth, including accelerating new business segments and go-to-market efforts, pursuing strategic M&A opportunities, and key operational initiatives.
 <p>has been acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$204.3M EV/Revenue: 3.5x EV/EBITDA: NM Q4 is a powerful investor relations platform used by leading companies globally, including Visa, Shopify, and McDonald's. Q4 will utilize Sumeru's resources to drive growth by investing in strategic initiatives while further expanding their platform.
 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$188.6M EV/Revenue: 2.1x EV/EBITDA: 89.0x MDF Commerce provides SaaS solutions that accelerate commercial interactions between buyers and sellers. The company looks to leverage the resources, relationships, and expertise of KKR to fuel expansion and scale.
 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> Transaction Value: \$150.0M EV/Revenue: 6.2x EV/EBITDA: NM TrueContext is a field intelligence platform that streamlines workflows and data collection capabilities to deliver exceptional service. The transaction will allow TrueContext to continue growing in the Field Intelligence space by leveraging the sponsor's resources to deliver best-in-class workflows for field technicians.

Capital Invested in Q1	Transactions in Q1	Median EV/Revenue
\$1.8B	97	3.5x

Top Technology Transactions in Q1-2024

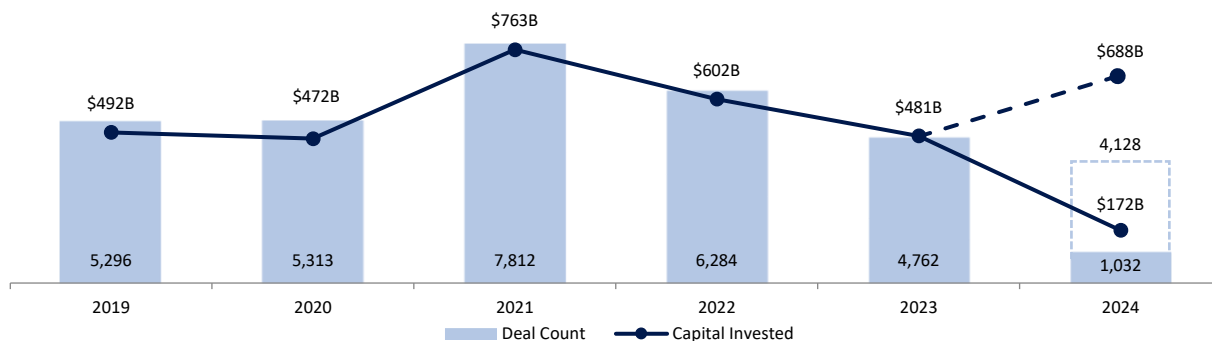
Date	Target	Acquirer	EV	EV/Revenue	Sector
Jan-24	 ANSYS	 SYNOPSYS	\$35.0B	15.4x	Engineering Simulation
Mar-24	 splunk	 CISCO	\$28.0B	6.6x	Cybersecurity
Jan-24	 JUNIPER NETWORKS	 Hewlett Packard Enterprise	\$14.0B	2.5x	Networking
Mar-24	 alteryx	 INSIGHT PARTNERS  CLEARLAKE	\$6.4B	6.6x	Data Analytics
Feb-24	 R1	 N M C	\$5.5B	2.4x	Healthcare
Jan-24	 EngageSmart	 VISTA EQUITY PARTNERS	\$4.0B	16.9x	Billing
Feb-24	 vmware (End-User Computing Division)	 KKR	\$4.0B	N/A	Business Software
Jan-24	 Axonics	 Boston Scientific	\$3.7B	10.1x	Healthcare
Feb-24	 VIZIO	 Walmart	\$2.3B	1.4x	Media
Jan-24	 Procare SOLUTIONS	 Roper TECHNOLOGIES	\$1.9B	N/A	Childcare

Quarterly Deal Volume & Capital Invested



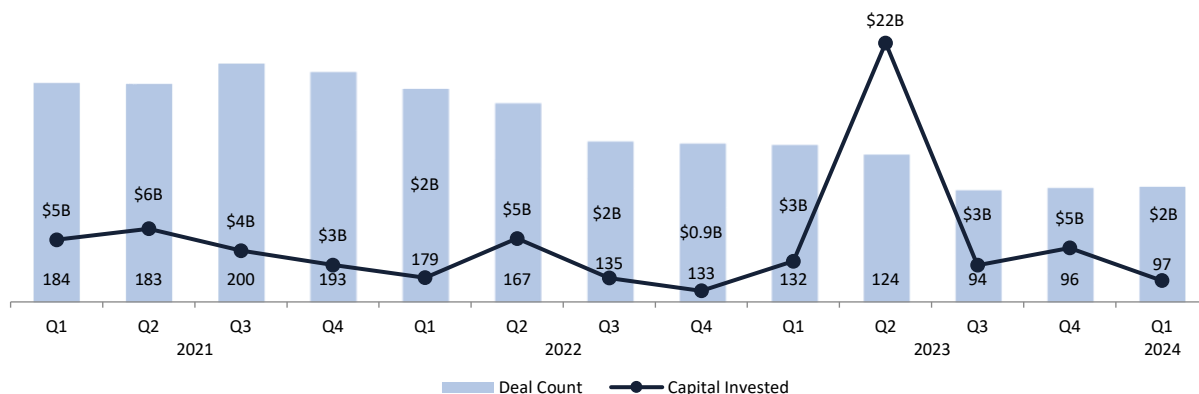
- The year started strong, with double the capital invested in the sector compared to Q1 2023, resulting from an optimistic market reacting to improving macroeconomic signals.
- After four quarters of decline, the number of large transactions (over \$1B) has significantly increased, with the sector seeing 17 out of the 34 transactions above \$1B that took place this quarter across all sectors.
- While deal activity has improved in the last two quarters, increasing uncertainty surrounding macroeconomic conditions may be enough to slow down activity.
- Given financing conditions, there have been more all-stock deals, with management teams reluctant to take on leverage for large transactions given financing costs.

Yearly M&A Deal Volume & Capital Invested



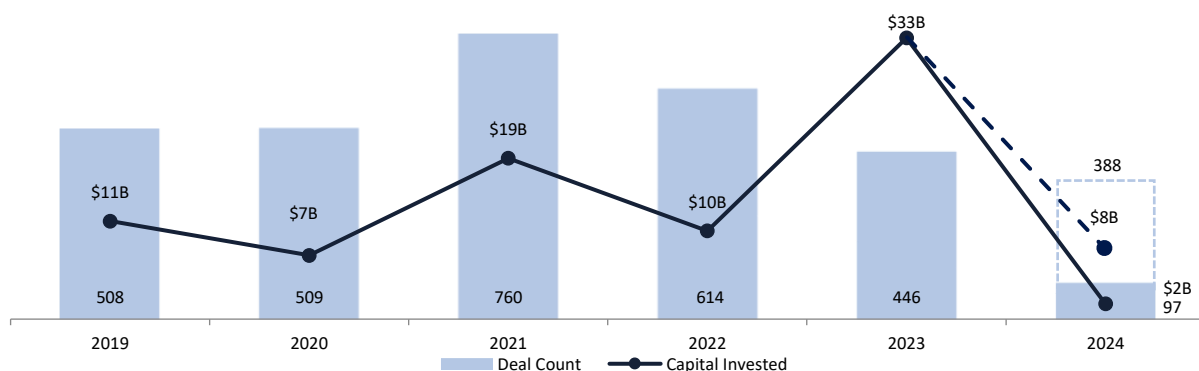
- M&A activity has transitioned to smaller deals (<\$1B) since 2021 but is anticipated to revert to larger deals this year. Nearly half of the capital invested in Q1 is represented by this quarter's four largest transactions, further underscoring this trend.
- AI is expected to continue to dominate as many companies seek to acquire technology to support their functions and growth. While we see this as a driving force for large transactions, such as Cisco's acquisition of Splunk, we expect the proportion of mid-market AI transactions to increase.
- Private equity, representing 18% of all 2023 deals, holds over \$2T in dry powder. Active PE involvement is expected in the tech sector this year, driven by converging valuation expectations and a need to deploy capital. PE exits will also likely increase given the need to return capital to investors.

Canadian Quarterly Deal Volume & Capital Invested



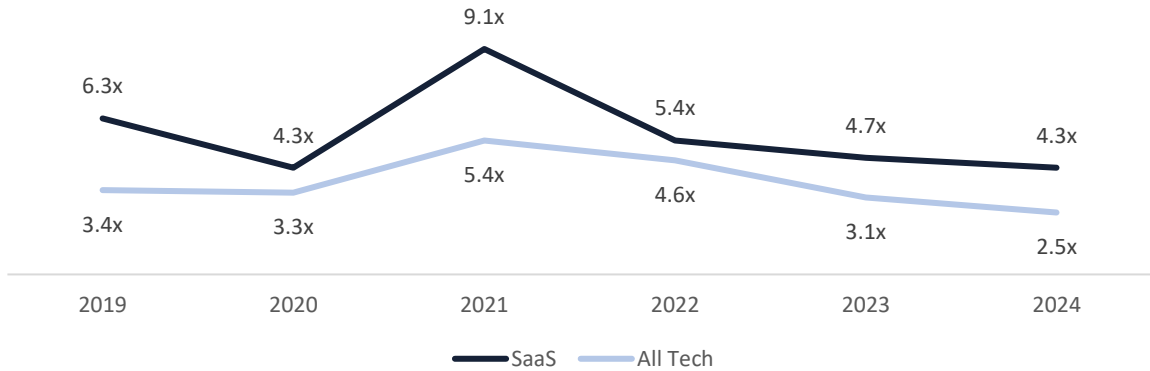
- While equity and debt markets picked up in the first quarter of 2024, M&A activity was lackluster. This trend continued in the technology sector, with capital invested lower than all quarters of 2023.
- Stagnant levels of activity in the Canadian tech sector may be attributed to companies delaying exits. Investors may be waiting for more validation of the current recovery trend before deciding to transact.
- Distressed M&A may play a more significant role in the Canadian M&A market in 2024 as businesses succumb to various macroeconomic strains and changing supply-demand dynamics.
- Market participants expect this year to be similar to 2023, with deal activity picking up in the second half. Small and mid-cap deals will likely do well, while fewer large deals are expected to be completed.

Canadian M&A Deal Volume & Capital Invested



- Just as in the US, Canadian companies are prioritizing acquiring the appropriate technologies to drive their growth, including AI, which will stimulate M&A activity in certain market segments.
- As valuations come down, the Canadian tech M&A market will likely see a growth in activity. M&A will likely be driven by smaller deals structured to rely less on debt financing in a high-interest environment.
- Given the current financing environment, acquirers are pursuing various financing options beyond traditional debt, such as vendor takeback notes to offset the need to access acquisition financing.
- Transaction timelines have extended universally, with dealmakers attributing an extra one to three months for thorough due diligence and risk mitigation, mainly due to elevated financing expenses.

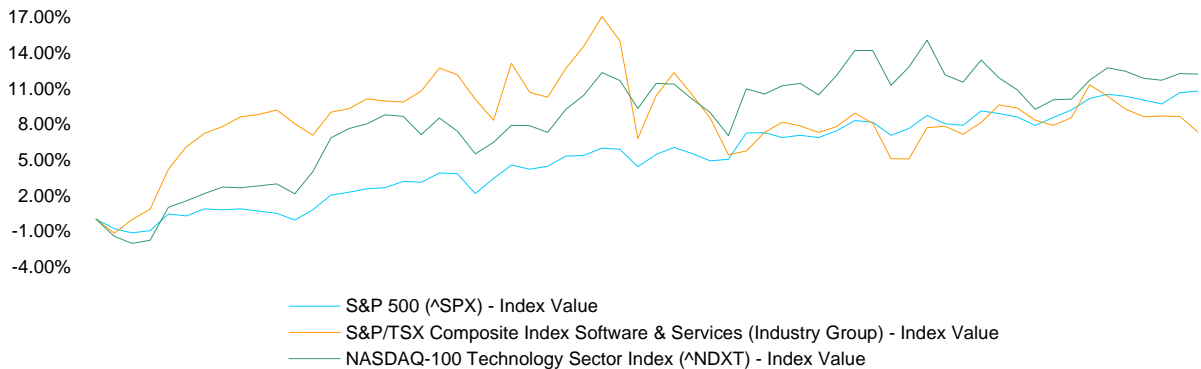
Median SaaS vs All-Tech Revenue Multiples



- Multiples in SaaS and other technology company M&A have shown a consistent decline because of high financing costs and uncertainty surrounding the movement in interest rates.
- The decrease in multiples since 2021 can be seen as more of a reversion to the mean. A higher cost of capital and economic uncertainty have depressed valuations, leading to decreased multiples across the board. As multiples decrease, this may drive M&A as gaps in valuation expectations converge.
- Although the overall level of multiples has come down, certain bright spots remain such as big data and health-tech transactions, which saw median revenue multiples of 6.6x and 5.3x in Q1 2024, respectively.
- Going forward, we see multiples stabilizing or slightly increasing as economic conditions normalize.

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

*Q1 2024 relative performance



- The NASDAQ-100 Technology Sector and S&P/TSX Composite Software & Services indices ended the quarter +1.41% and -3.45%, respectively, compared to the S&P 500's return this quarter.
- Driving results in the first half of the quarter were improving market sentiment surrounding macroeconomic conditions. As the sentiment soured, market performance slowed.
- Super Micro Computer and Nvidia have been the big winners of the quarter, posting a ~250% and ~80% gain this quarter as leaders of AI development.
- Analysts predict a stock market rebound in 2024, driven by the tech sector's strong performance due to public interest in semiconductors and AI, although some stocks have been affected by low expectations.

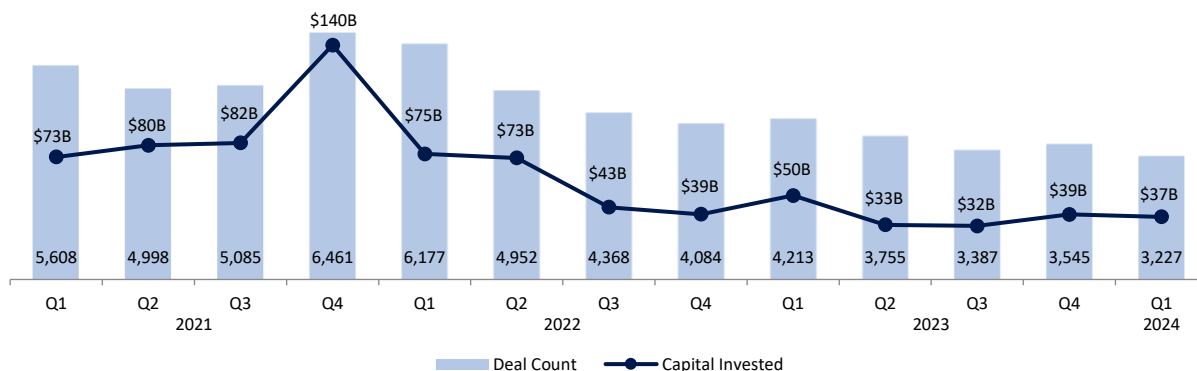
Notable North American VC Transactions

Date	Investee	Investor	Size	Stage	Sector
Mar-24	ANTHROPIC	amazon	\$4.0B	Later Stage	AI
Feb-24	EPIC GAMES	WALT DISNEY	\$1.5B	Later Stage	Gaming
Feb-24	FIGURE	Microsoft NVIDIA	\$675.0M	Later Stage	AI
Mar-24	AXONIUS	Lightspeed Accel	\$400.0M	Later Stage	Cybersecurity

Notable Canadian VC Transactions

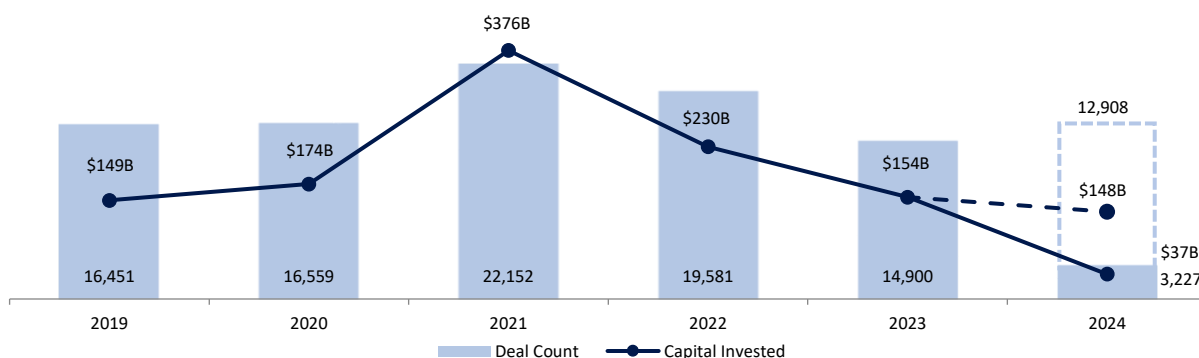
Date	Investee	Investor	Size	Stage	Sector
Feb-24	Ideogram	andreessen horowitz Index Ventures	\$59.3M	Early Stage	Media
Feb-24	TAALAS	Quiet	\$50.0M	Early Stage	AI
Mar-24	PocketHealth	Round13 Capital Deloitte.	\$33.0M	Later Stage	Healthcare
Mar-24	Borderless / AI	SIG SUSQUEHANNA Aglæ VENTURES	\$27.0M	Seed	AI

Quarterly Venture Capital Investment



- Venture capital funding in Q1 2024 saw a slight decline from the last quarter. Late-stage funding has remained significantly lower YoY, while the early stage has held up better.
- Overall, early-stage funding across all sectors for Q1 2024 came in at \$13.2B, driven by investments in AI, climate technology, and biotechnology.
- While AI has seen much attention over the last few quarters, quantum computing solutions are expected to see renewed interest. Software is also expected to see an inflow of investment in the near term.
- While Q1 2024 did see an uptick in IPO and M&A activity, secondary market activity has picked up, especially in the US, as a way to access liquidity.

Yearly VC Investment



- Despite holding substantial dry powder, investors are cautious in deploying capital due to economic uncertainty. However, top sectors like information technology and biotech/health-tech have witnessed several rounds exceeding \$100M this quarter.
- US VC fundraising hit \$9.3B in Q1, reflecting investor hesitance and potentially tougher deal conditions.
- Valuations have also steadily decreased with deals based more on performance than potential, with investors emphasizing realistic growth plans and sustainable business models.
- M&A activity fueled by start-ups running out of capital is likely, especially related to those focused on AI, as many start-ups took risks to profit from the AI wave.

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