

IJW

North American Software & Technology Quarterly Market Report Q3-2024



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

Q3-2024 Macroeconomic Highlights

Interest Rates

- Long-awaited interest rate decreases were announced in Q3-2024. The Federal Reserve reduced the federal funds rate by 50 bps, easing monetary policy for the first time in 4 years. This lowered the target range from 5.0% to 4.75%.
- The Bank of Canada (BoC) has also reduced its policy rate by 25 bps to 4.25%, its third consecutive rate cut this year.
- It is widely expected that rates will continue to decline into 2025, with potentially additional cuts in 2024 as well, which would increase M&A activity due to attractive borrowing costs.

Inflation

- U.S. inflation fell to its lowest level since 2022 and much closer to the 2.0% target rate, as it hovered at 2.4% YoY in September, vs. its COVID-19 period peak of 9.1%.
- Canadian CPI fell to 2.0% YoY in August, which is the BoC inflation target.
- Following the release of recent inflation data, official figures reflected a jump in joblessness, pushing investors to increase their bets on a quarter-point cut at the US central bank's November meeting. Markets were pricing in a roughly 90% probability of a quarter cut in November following these releases, up from 80% previously.

Economic Growth

- Although the US real GDP slowed in the first quarter of the year, it rebounded strong with an annual growth rate of 3.0% in Q2-2024. The rise in economic activity was driven by consumer spending and private inventory investment. The overall growth is expected to reach 2.7% for 2024, indicating that interest rate cuts and elevated government spending will continue to fuel the economy.
- Canadian GDP grew at an annual growth rate of 2.1% in Q2-2024, although, GDP per capita fell for the fifth straight quarter. The growth surpassed the expectation of the BoC by 0.6%, led primarily from spending on necessities such as, rent, food, and electricity.

Employment and Wages

- Total US non-farm payroll employment rose in September, with the unemployment rate at 4.1%, better than the consensus forecast of 4.2%. The most significant increases by sector were concentrated in the food & beverage, healthcare, and government sectors.
- Canada's labour market added a modest net 22,000 new positions, roughly on par with expectations and primarily in part-time job positions.
- Looking across sectors, job gains were concentrated in education services, health care and social assistance, finance, insurance, and real estate.

Top Technology Transactions in Q3-2024

Date	Target	Acquirer	EV	EV/Revenue	Sector
Announced 05-Sep-2024			\$20.0B	3.27x	Telecomm
Announced 01-Aug-2024		TOWERBROOK 	\$8.9B	3.67x	Healthcare
Announced 24-Sep-2024		Blackstone 	\$8.4B	7.38x	Productivity Software
Announced 26-Jul-2024		APOLLO	\$6.3B	7.79x	Gaming
Completed 01-Aug-2024		RENESAS	\$6.1B	Undisclosed	Electronics Design
Announced 24-Jul-2024	METRONET	T-Mobile KKR	\$4.9B	Undisclosed	Telecomm
Announced 19-Aug-2024		AMD	\$4.9B	Undisclosed	IT Infrastructure
Announced 25-Jul-2024		DRAGONEER INVESTMENT GROUP KKR	\$4.8B	7.82x	EdTech
Announced 11-Jul-2024		Bain Capital, BlackRock, Fidelity, more.	\$4.5B	3.35x	FinTech
Announced 13-Aug-2024	EPICOR	CVC CAPITAL PARTNERS	\$4.0B	Undisclosed	Business Software

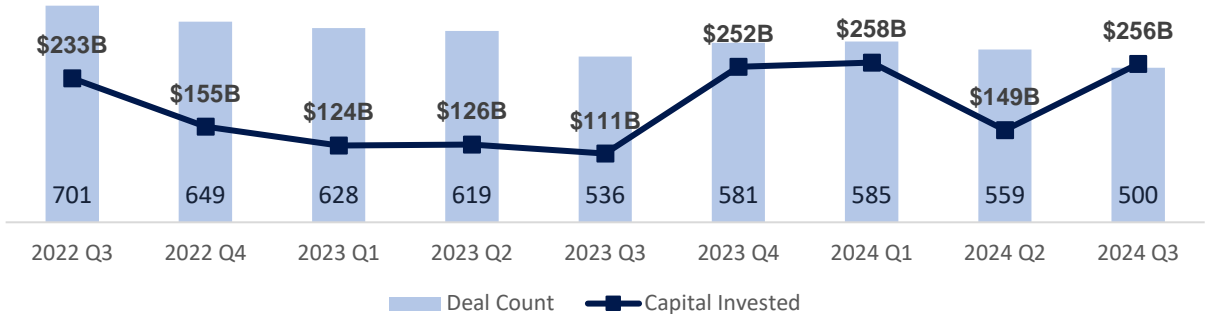
Q3-2024 M&A Highlights

Notable North American M&A Transactions

 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$20.0B • EV/Revenue: 3.3x • EV/EBITDA: 8.6x • Frontier Communications delivers fiber-optic internet, voice, and video services to residential and business customers. • This acquisition extends Verizon’s fiber network reach, integrating Frontier’s 2.2 million fiber customers to enhance broadband services nationwide.
 <p>is getting acquired by</p>  	<ul style="list-style-type: none"> • Transaction Value: \$8.9B • EV/Revenue: 3.7x • EV/EBITDA: 20.3x • R1 RCM specializes in revenue cycle management and technology-driven services for healthcare providers. • This acquisition strengthens CD&R and TowerBrook’s position in the healthcare sector, utilizing R1’s technology to optimize administrative efficiencies in healthcare delivery.
 <p>is getting acquired by</p>  	<ul style="list-style-type: none"> • Transaction Value: \$8.4B • EV/Revenue: 7.4x • EV/EBITDA: NM • Smartsheet operates a work management and automation platform that helps organizations plan, track, and automate projects. • 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.
 <p>is getting acquired by</p> 	<ul style="list-style-type: none"> • Transaction Value: \$6.3B • EV/Revenue: 7.8x • EV/EBITDA: 22.3x • Everi Holdings provides casino gaming technology, financial products, and loyalty solutions to gaming operators. • This take private transaction will allow the company to continue to invest in and enhance its growing core segments.

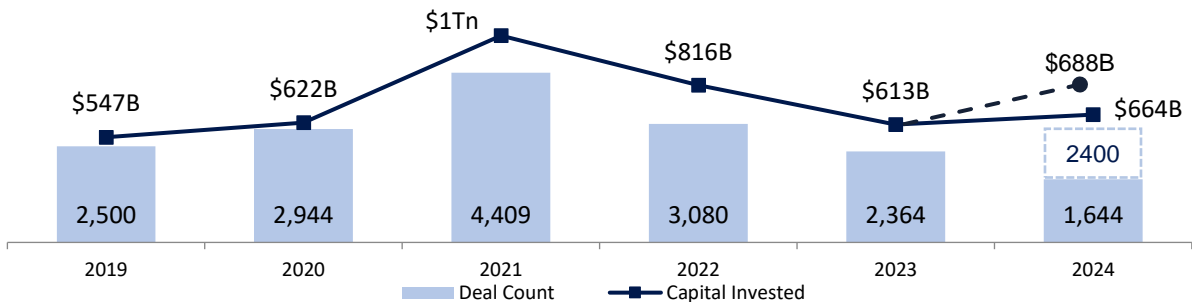
Capital Invested in Q3	Transactions in Q3	Median EV/Revenue
\$252B	500	2.3x

North American Quarterly Deal Volume & Capital Invested



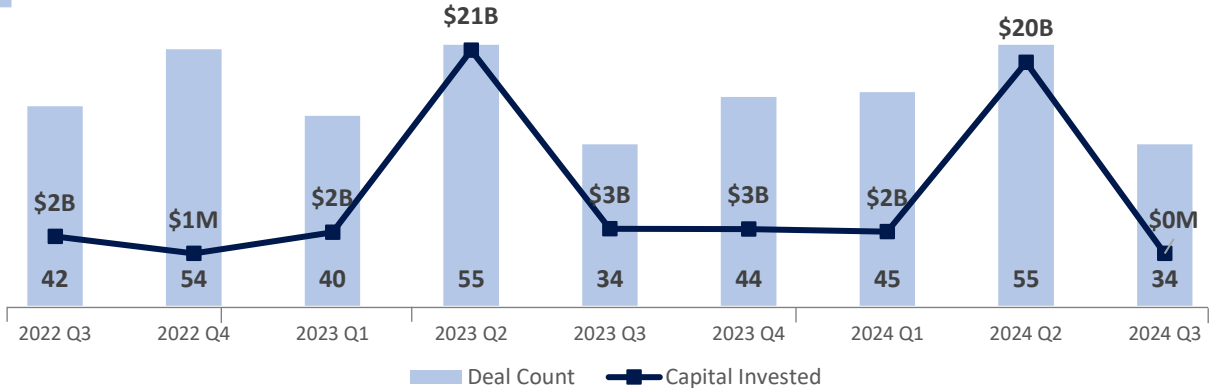
- The sector has experienced a strong rebound, with Q3-2024 seeing a significant increase in capital invested, more than doubling from the previous quarter, suggesting renewed investor confidence. This growth signals a market reacting positively to stabilizing economic conditions.
- Following several quarters of subdued activity, there is a noticeable rise in the number of substantial deals, with Q3-2024 marking a resurgence of transactions exceeding \$1 billion, underscoring its renewed momentum.
- Lingering concerns about the macroeconomic landscape could temper growth in the coming months. The persistence of high financing costs has led to an increase in all-stock transactions, as companies remain cautious about taking on additional debt in the current environment.

North American Yearly M&A Deal Volume & Capital Invested



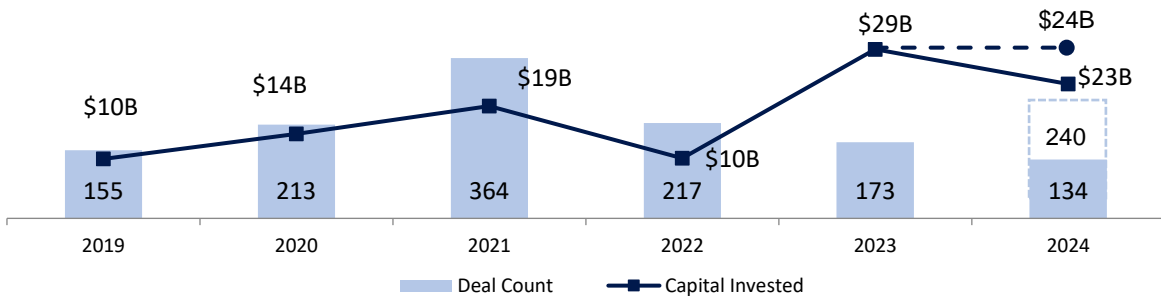
- M&A activity has shifted toward mid-sized deals since the peak in 2021. However, the increase in capital invested in 2024 signals a potential return to larger transactions, with nearly half of the capital concentrated in the year's biggest deals.
- AI continues to be a major focus, driving both significant acquisitions and a rise in mid-market transactions. Major deals including Cisco's acquisition of Splunk in Q1-2024 highlight AI's impact.
- Private equity, which made up only 18% of all 2023 deals, is playing a more active role in 2024 (~40% of all deals). As valuation gaps close and capital demands grow, we anticipate a rise in PE-driven transactions in the tech sector, along with an uptick in exits as firms look to return capital to investors.

Canadian Quarterly Deal Volume & Capital Invested



- Despite a dip in Q3, Canadian M&A activity remains resilient, with steady deal flow, particularly in smaller and mid-cap transactions. The fluctuations in deal volume and capital invested are indicative of strategic pacing, with many market participants positioning themselves for stronger activity in the latter half of 2024.
- While capital invested decreased compared to Q2, the market shows long-term potential, with sectors like technology and life sciences adapting to macroeconomic shifts, including capitalizing on capital efficient growth. This sets the stage for a strong finish to 2024 and growth into 2025.
- Strategic exits and asset carve out opportunities are expected to drive increased M&A activity, positioning the market for a robust recovery.

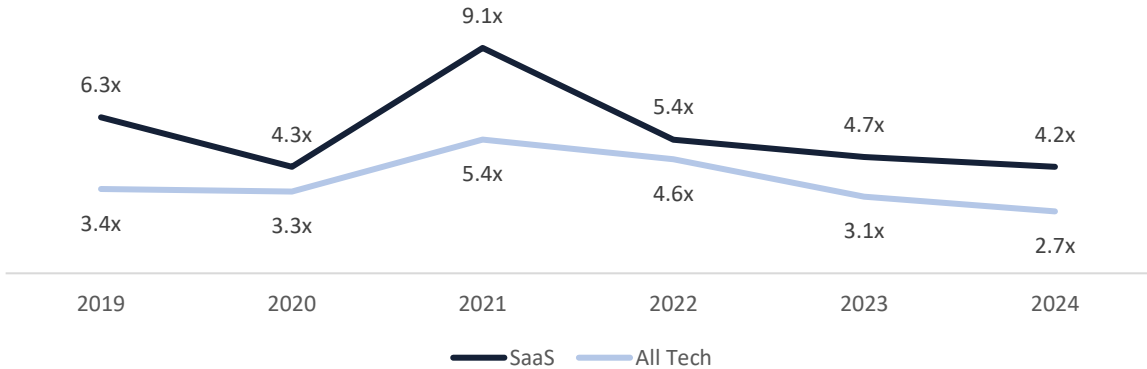
Canadian M&A Deal Volume & Capital Invested



- Canadian M&A activity continues to grow, driven by companies prioritizing key technologies like AI to fuel their expansion. This trend is expected to stimulate dealmaking, especially in tech-driven sectors.
- As valuations adjust, the market is well-positioned for renewed activity, with smaller, strategic deals becoming more common. Acquirers are leveraging innovative financing options in response to high-interest rates, such as earnouts and vendor financing.
- Looking ahead, the M&A landscape is poised for further growth into 2025, with market participants adapting to evolving economic conditions and seeking creative ways to fund their transactions.
- Extended deal timelines reflect the increased focus on thorough due diligence and risk mitigation, ensuring a solid foundation for sustained M&A activity in the coming years.



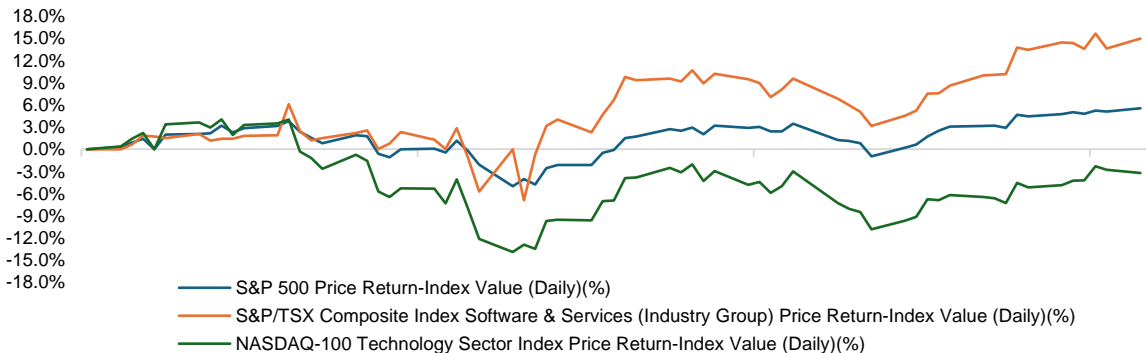
Median SaaS vs All-Tech Revenue Multiples



- Multiples in SaaS and technology M&A have shown signs of stabilization after a consistent decline from 2021 due to 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 and historical averages. A higher cost of capital and economic uncertainty have depressed valuations, leading to decreased multiples across the board.
- **As of Q3-2024**, financing constraints have somewhat eased with recent interest rate cuts and improved economic stability. This reduction in multiples has driven more M&A activity, as buyers and sellers are beginning to find common ground on valuation expectations, with smaller bid-ask-spreads.
- Going forward, we see multiples stabilizing or slightly increasing as economic conditions normalize.

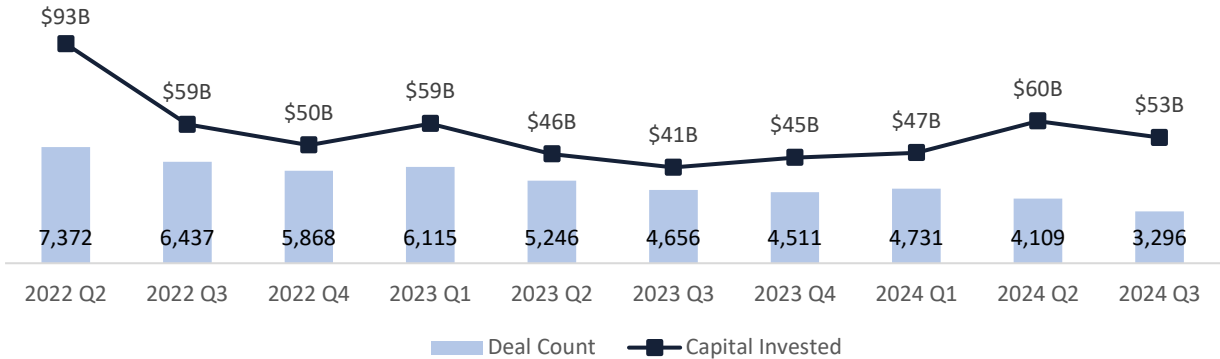
Public Market Indexes: S&P 500 vs. Market Indexes

*Q3 2024 relative performance



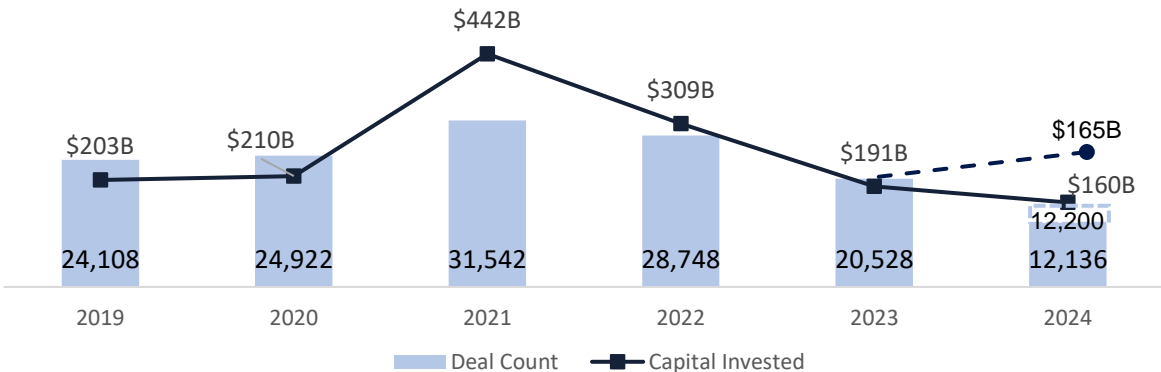
- The NASDAQ-100 Technology Sector and S&P/TSX Composite Software & Services indices ended the quarter -3.2% and +14.9%, respectively, compared to the S&P 500's return of 5.5% this quarter.
- Improving macroeconomic conditions overall supported the S&P 500 performance, along with the TSX.
- The NASDAQ-100 was more heavily impacted by the shares of major semiconductor industry players who posted double-digit losses in September, with NVIDIA and Broadcom down 13.9% and 15.9% respectively. The impacted other behemoths like Microsoft and Google-Alphabet, which fell 3.7% and 7.9% over the week of the posted results from the overlap between the supply chain.
- Analysts are optimistic that, despite starting from higher valuations, the continued decline in interest rates will support favorable conditions, enabling total returns to potentially exceed historical averages.

Quarterly Venture Capital Investment



- Despite a slight dip in Q3-2024, venture capital investment has remained consistent since 2022. However, Median Deal Size has increased from \$22.0M in 2023 to \$28.7M across 2024, signaling a shift in investor activity towards larger deals. AI remains a key driver of investment, while quantum computing and software sectors are expected to see growing interest in the near term, particularly across later stage deals.
- The most defining feature of venture capital for 2024 is deals centered on AI, including OpenAI's \$6.6B round in October, along with xAI's \$6.0B series B, and CoreWeave's \$1.1B Series C.
- Investors are adapting to current market conditions, with the VC secondary market activity providing liquidity and fueling opportunities, especially in the U.S.

Yearly VC Investment



- Despite economic uncertainty, key sectors like information technology and biotech/health-tech continue to attract significant investments, with multiple \$100M+ rounds seen this quarter.
- Investors are becoming more selective, prioritizing companies with strong growth potential and sustainable business models as valuations adjust to market conditions.
- The venture capital landscape is poised for a resurgence as strategic opportunities arise, particularly in AI-driven sectors, where early-stage companies continue to innovate.
- Start-ups that effectively manage their runway and capitalize on evolving trends like AI are expected to drive M&A activity as they seek growth and exit opportunities.



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