Technology M&A Overview

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2022 Technology M&A
2022 M&A Overview

Acquisitions in the Technology and IT space continued to dominate overall deal flow, IT alone made up 19% of total M&A deals for 2022.
2022 M&A Overview

Acquisitions by deal volume in the Technology and Media sector far surpassed the rest, despite economic pressures.

Source: White & Case Research
Target Industries

Acquirers have been focusing on expanding in the following spaces:

- **Industry 4.0 / Robotics**
- **Software**
- **IT Services**
- **AI / ML / DO**

**Why these Areas?**

- Private equity is seeking to scale investments with attractive business models and returns
- Strategic companies want to expand capabilities and increase speed to market
- Software accounted for 74% of deal values in technology in 2022
- Emerging technology such as AI, Industry 4.0 / Robotics, and energy transition are still in the early stage of adoption, providing more significant opportunities for long-term returns

*Source: PwC Global M&A Trends in Technology, JD Merit Research*
M&A Activity – North America, All Industries

While overall deal volumes in 2022 were below the record-breaking deals in 2021, they remained 9% above pre-pandemic levels.

Source: Pitchbook
Private Equity Dry Powder

PE Firms continue to raise record amounts of capital and have nearly $1 Trillion of investible equity.

PE Dry Powder in US

Source: Pitchbook, as of September 30, 2022
Role of Private Equity in Global M&A

Private Equity continues to compete against strategic buyers in global M&A, accounting for nearly 36% of transactions in 2022.

Sponsor-backed M&A as a share of all M&A deals (Global)

Source: Pitchbook, as of December 31, 2022
Strategic Buyers are Flush with Cash

US Corporations are sitting on record levels of cash. Strong corporate balance sheets can often act as another driver for increased M&A.

Source: Federal Reserve Bank of St. Louis
2023 M&A Outlook
2023 Trends

Focus on developing new technology in the following

**Industry 4.0 / Robotics**

Hyperautomation - AI, machine learning, event-driven software architecture, robotic process automation (RPA), business process management (BPM)/intelligent BPM suites (iBPMS), integration platform as a service (iPaaS), low-code/no-code tools, packaged software, and other types of decision, process and task automation tools.
2023 Trends

Focus on developing new technology in the following

Software

- The Global RPA software market is expected to reach $13.74 billion by 2028, up from $1.57 billion in 2020, with CAGR from 2021 to 2028 of 32.8%.
- Response to Supply Chain issues driving further development.
- XaaS – models continuing to drive investment

72% of tech CEO respondents plan to pursue M&A in the next 12 months, compared with 59% of CEO respondents across all industries.

Source: Grand View Research / EY Survey / JD Merit Research
2023 Trends

Focus on developing new technology in the following

**IT Services & Consulting**

- Digitization, automation, and push for efficiency of operations, continue to raise demand for IT Services.
- The Global IT services market is expected to grow at a compound annual growth rate of 10.4% from 2022 to 2027
- Support with cloud services, IoT, IIoT and Industry 4.0 platforms will all require back-end IT professionals
- Globalization trends will continue with fierce global auctions

*Source: Mordor Intelligence*
2023 Trends

Focus on developing new technology in the following

**AI / ML / Data Observability**

- AI will continue to change business and consumer markets alike
- Ubiquity of data collection unrealized will be a major opportunity for businesses to accelerate decision making
- Some predict 2023 will see the deployment of wider-scale commercial AI technologies such as last mile delivery by autonomous vehicle
- Demand for acquisition of developers of these technologies, and tech companies involved is high

Source: PwC Global M&A Outlook for 2023
The Federal Reserve has signaled that interest rates may remain high for the foreseeable future, but this does not deter deal flow

- Private equity continues to invest in technology deals with their share in deal value increasing 51% YoY
- While Technology companies are moving away from their “growth at all costs” strategy, acquirers see value in techs intellectual property and innovation
- Strategics coming down market with focused & “puzzle piece” acquisitions
M&A Drivers in 2023

Selling

• Digitization continues to drive demand for software and IT companies
• Demand for technological solutions to offset higher labor costs
• Divestitures - Disciplined corporations will cast off underperforming assets/divisions to acquire the right technology and maintain liquidity levels
• During “growth recession” premiums will be offered for higher-growth technology companies
• Global acquirers will remain active and competitive despite the US Dollar value
• Look for more minority investments from PE and creative deal structures to offset lower leverage available in the market
• Strategy resets and speed will dominate in 2023
• However diligence and risk assessment will slow time to close – Seller Patience
M&A Drivers in 2023

Acquiring

• Cash Flush Strategics will have an advantage over PE Buyers (low / no leverage)
• Add-ons will continue to dominate PE acquisitions – existing credit facilities.
• Lower seller expectations and some multiple contraction will provide opportunities to acquire new technologies.
• Valuation equilibrium coming by YE 2023.
• Dramatic technology offerings that suffer from lower VC interest and funding will become available.
• Corporate divestitures (portfolio analysis/liquidity), take-private transactions, and transformative acquisitions will increase in 2023.
• Outbound Global acquisitions will be aided by currency imbalances
• Prepare for greater regulatory scrutiny in larger deals
THANK YOU