MOSSADAMS

2024

Technology Investment Spotlight

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SECTION ONE

Technology Investment Trends Overview

Private investment in technology has had a strong showing this year, even beyond AI, which received the most media attention and fortified venture capital (VC) investment. Cumulative private equity (PE) deal value is on track for annual growth, and mergers and acquisitions (M&A) activity has already surpassed last year's total.

Software continues to dominate IT. However, other subsectors have shown progress, including semiconductors and computer hardware. The IT services subsector is also a popular arena for PE and M&A transactions, bolstered by demand for datacenters.

Enterprise software as a service (SaaS) remains a staple of private tech investing, accounting for 16.2% of total IT private investment value year-to-date (YTD). For VC specifically, enterprise SaaS represents more than half of all IT VC deal value YTD, as venture investors continue to funnel new capital into stable and familiar business models even amid macroeconomic uncertainty.

Squarespace's $6.9 billion take-private by Permira represents the largest enterprise SaaS PE deal this year, and points to a wave of public-to-private transactions taking place for companies that initially listed in 2021 and subsequently faced major headwinds. Total IT take-private deal value has risen 39% YTD.

Cybersecurity also accounts for a material share of tech investment activity at 6% of total IT private investment value YTD. The segment has seen overall investment value compressed since 2022, though quarterly deal counts signal more consistency. Rubrik's IPO in April provided a boost to cybersecurity exit value in Q2, which, along with several sizable acquisitions, has caused the segment's exit value to already outpace last year's annual total with more than a quarter left to go.

Windstream, NetCo, and Frontier Communications all secured majority-stake transactions over $10 billion in the telecom space so far this year as fiber network buildouts continue to draw in strong private investment in the tech space.

TAFT KORTUS

Partner
Technology Industry Group Leader

SECTION TWO

Technology Industry Trends

SOFTWARE

CrowdStrike's July outage brought renewed attention to the risk of overreliance on software systems. On July 19, 2024, a faulty update to the cybersecurity firm's popular Falcon endpoint detection and response platform caused a widespread outage of Windows machines. The incident grounded flights worldwide, disrupted health care and financial systems, and shackled operations for several corporations.

> "The current cybersecurity landscape for SaaS companies is characterized by heightened threats and regulatory scrutiny, prompting an evolution in contracts and due diligence processes that emphasize stricter security requirements, enhanced risk management, and collaborative incident response efforts to better protect customer data and maintain trust."
>
> – Bryan Schader, Partner, Technology Services

In response to the outage and its implications, there have been more warnings about the risk of overreliance on software programs that could be vulnerable to outages, as well as calls for more diligent assessment of backup plans for critical platforms.

Vendor selection and management for tech operations are as crucial as ever, with greater investment in cybersecurity a likely ripple effect, especially among enterprise clients seeking to fortify digital infrastructure.

DATACENTERS

Datacenter costs are projected to rise, driven by enterprise complexity and AI models. **Gartner projects** overall global IT spending to reach $5.3 trillion by the end of 2024, a 7.5% increase from 2023.

The largest drivers of the projected growth are datacenter systems and software, with individual projected 2024 spending growth of 24.1% and 12.6%, respectively. Datacenter owners report that **demand for computing power is on the rise** alongside increasingly dense enterprise infrastructure workloads as well as generative AI training.

ELECTRIC VEHICLES

Electric vehicle tech remains in the crosshairs of United States-China geopolitical tensions, with new developments. Under the Biden administration, the United States Department of Commerce **proposed new rules** in September 2024 to restrict the sale or import of connected vehicles that include certain technologies, specifically automated driving sensors and computer-controlled vehicle movement, from countries of concern such as Russia and China.

A greater volume of tariffs has been levied against China since 2018, including on imports such as consumer goods and industrial parts. President-elect Trump announced plans to impose tariffs on all imports, including heavier tariffs for Chinese-made goods, when he takes office in 2025.

HARDWARE

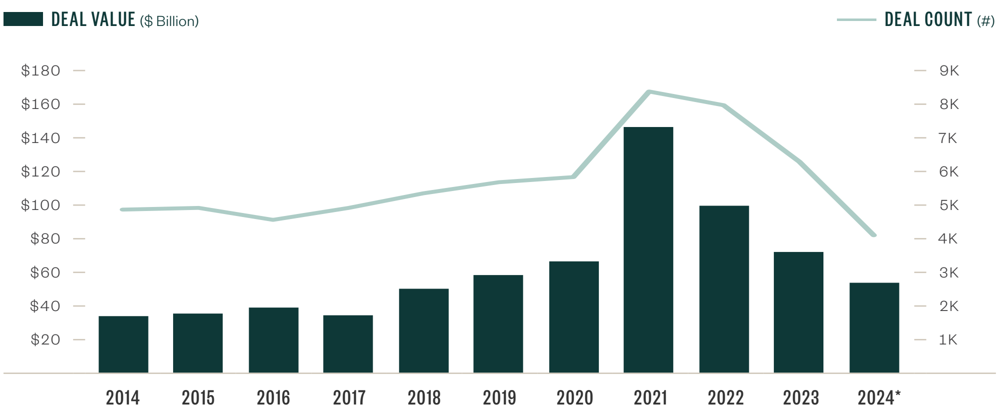
Hardware challenges persist as AI carves out a place for itself. AI-integrated consumer hardware is an uphill battle for manufacturers, with several early gadget models failing to break through a market saturated with tangential offerings. However, some established direct-to-consumer brands have shown promise through partnerships with tech giants. Meta has launched two smart glasses lines with EssilorLuxottica's Ray-Ban since 2021, with **better sales figures for the latest version** launched in 2023. Costs and commercialization hurdles are among reasons why AI will likely converge with existing technologies like smartphones and wearables.

SECTION THREE

Investment & Market Overview

VC INVESTMENT: RESILIENCE BUOYED BY LARGE AI SOFTWARE PLAYS

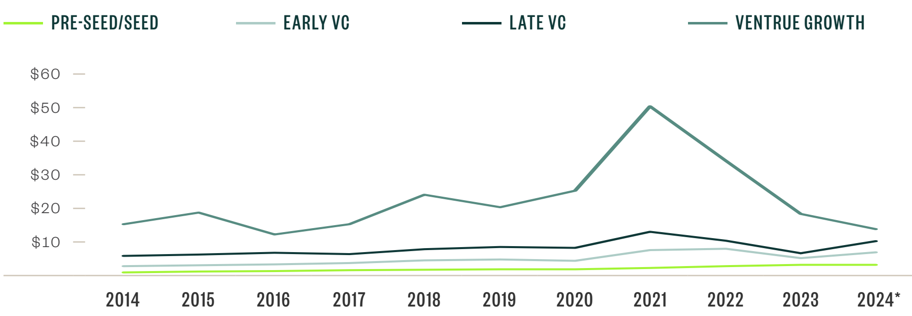
FIGURE 1: IT VC Deal Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VALUE	$33.9	$35.2	$38.8	$34.1	$50.3	$58.1	$66.2	$146.6	$99.8	$72.0	$53.7
COUNT	4,872	4,917	4,559	4,921	5,343	5,670	5,838	8,390	7,982	6,303	4,093

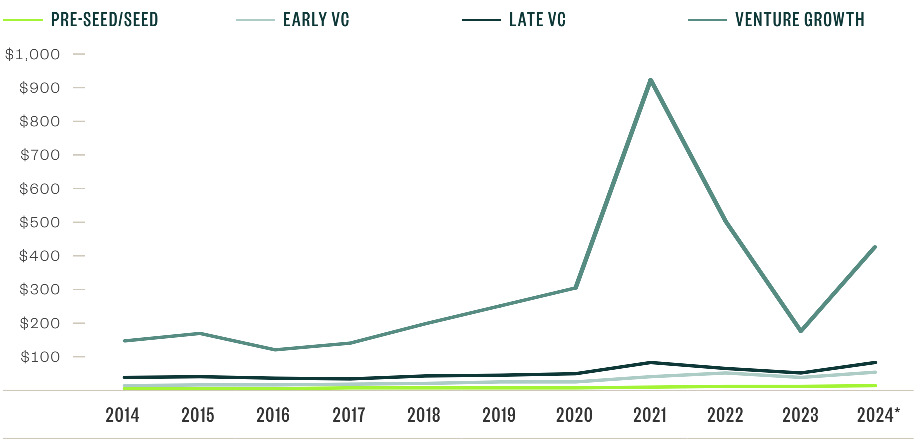
*As of 9/10/2024

FIGURE 2: Median IT VC Deal Value ($ Million) by Stage



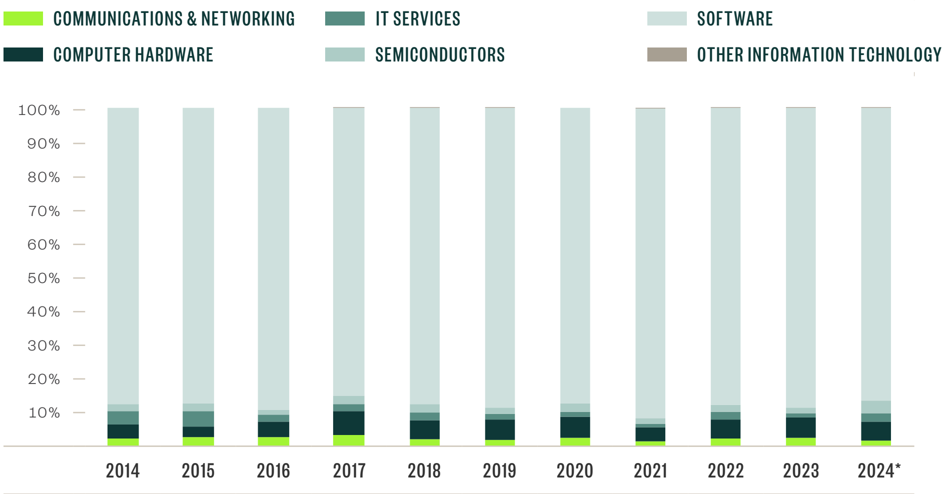
*As of 9/10/2024

FIGURE 3: Median IT VC Pre-Money Valuation ($ Million) by Stage



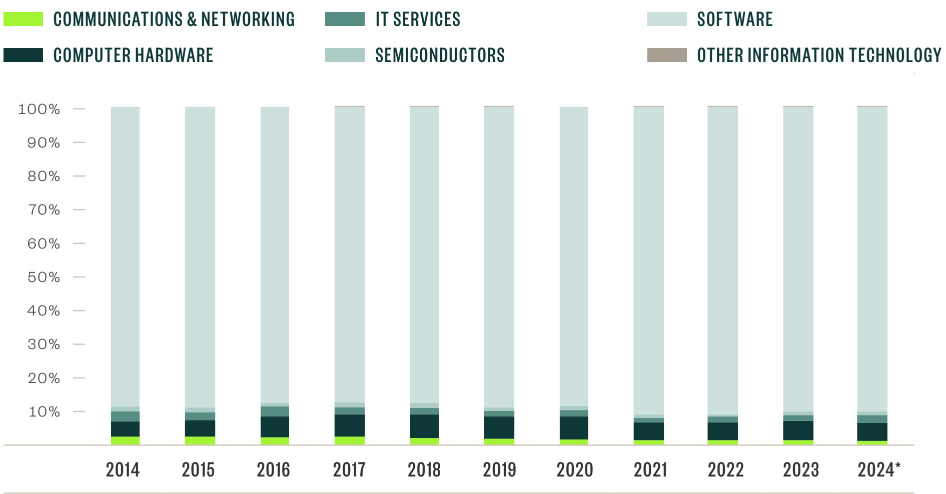
*As of 9/10/2024

FIGURE 4: Share of IT VC Deal Value by Industry Group



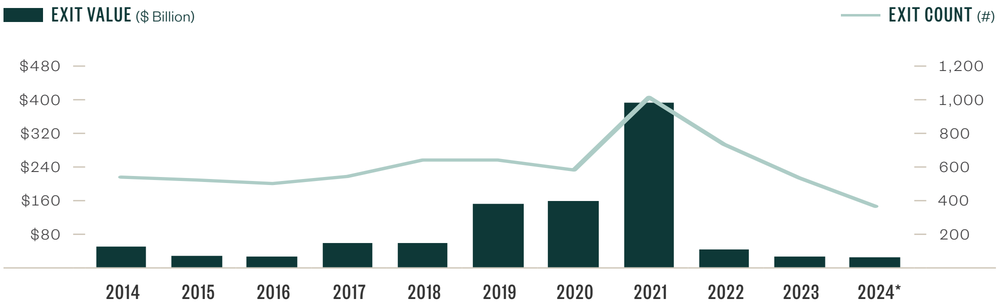
*As of 9/10/2024

FIGURE 5: Share of IT VC Deal Count by Industry Group



*As of 9/10/2024

FIGURE 6: IT VC Exit Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VALUE	$50.7	$27.9	$26.4	$58.0	$59.3	$152.6	$159.6	$394.4	$43.3	$25.8	$25.1
COUNT	540	523	501	546	644	643	583	1019	738	535	368

*As of 9/10/2024

VC has a strong association with innovative technologies, but the asset class represents just 16.7% of total private capital invested in IT since 2019. Its prevalence isn't to be underestimated, however, as dealmakers remain committed to the industry and new avenues are emerging that fit well within VC's risk appetite.

Tech VC dealmaking held steady in 2024 after two years of declines, with AI megadeals boosting total deal value to $53.7 billion. If quarterly volumes remain unchanged in Q4, 2024 may close out with nearly as much capital raised as last year.

Median deal sizes grew for the early and late stages but held flat for the pre-seed or seed stage and decreased for the venture growth stage. Valuations followed similar trends, though the venture growth stage did see its median pre-money valuation grow in 2024 despite the decline in deal size.

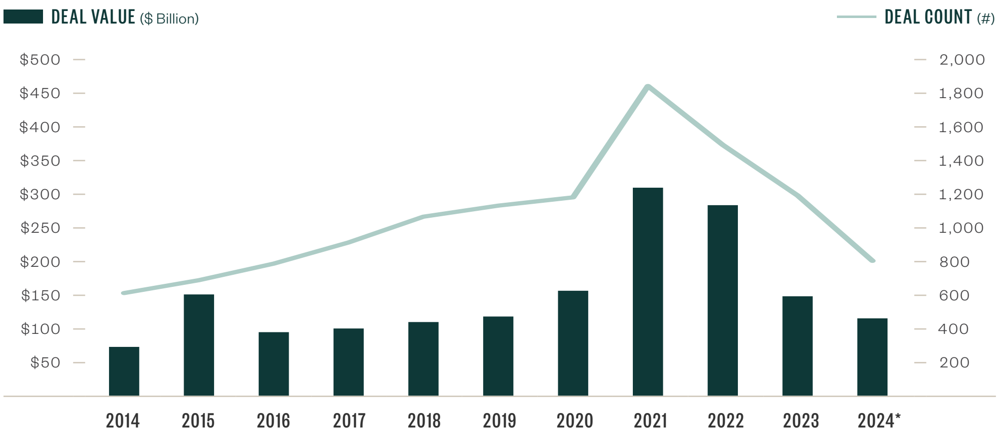
VC commands a strong presence in enterprise SaaS compared with strategic M&A and PE, accounting for more than half of all private capital dollars invested YTD and nearly a quarter of total private deal count. AI has bolstered capital flows to and from venture firms this year as enterprise SaaS integrations shape up to be the most natural fit for the technology. Recent surges in generative AI investment have touched every tech subsector, but they especially drove software to further eclipse other subsectors.

Software VC investment totaled an eye-popping $46.6 billion YTD, with a massive gap between it and the next largest IT subsector, computer hardware, which brought in $3 billion in the same period. Six AI software megadeals over $1 billion each have closed so far this year, and additional tens of billions in investment is being deployed to a swath of smaller companies as firms across the board remain eager for cap table real estate in the AI race. Firms are searching for companies with access to unique inputs and proprietary data for their models, as well as platforms with embedded AI features that will drive enterprise efficiencies.

Software's prevalence in deal activity naturally results in its dominance of VC exit action as well, with $19.5 billion logged so far this year. Across all subsectors, VC exit value is set to outpace last year's total at $25.1 billion YTD, representing a gap of less than $700 million compared to the 2023 annual figure. Markets are making a slow march back to historical levels of action after two very sluggish years, and the strongest tech start-ups are leading the charge.

PE INVESTMENT: APPROACHING ANNUAL GROWTH DESPITE LACK OF BLOCKBUSTER DEALS

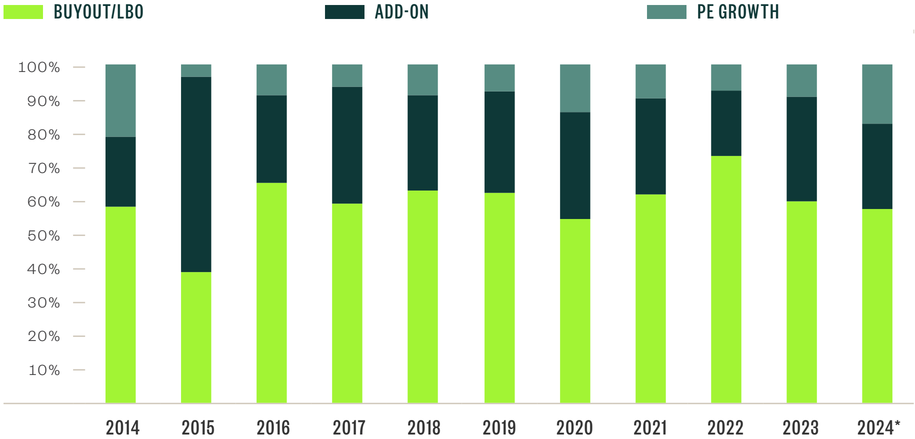
FIGURE 7: IT PE Deal Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VALUE	$72.4	$150.3	$93.6	$99.4	$108.7	$117.0	$155.6	$308.5	$282.7	$147.7	$113.9
COUNT	609	688	782	909	1,063	1,128	1,179	1,842	1,493	1,187	801

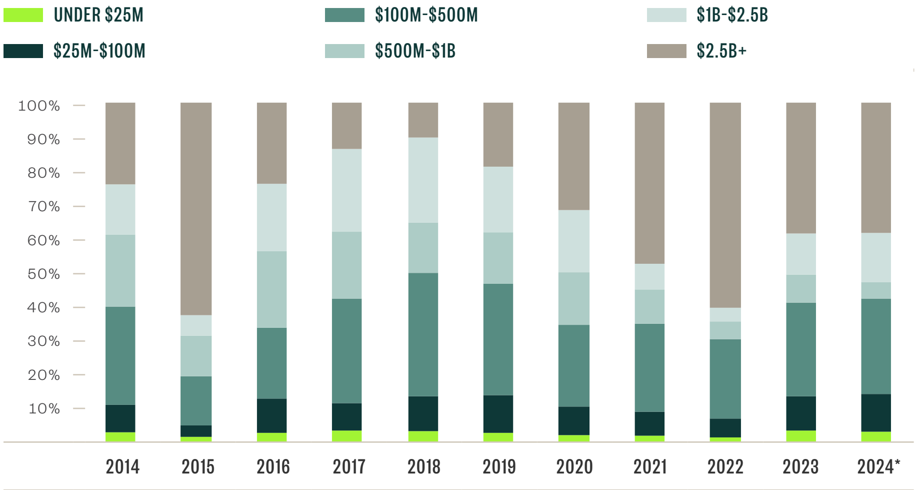
*As of 9/10/2024

FIGURE 8: Share of IT PE Deal Value by Type



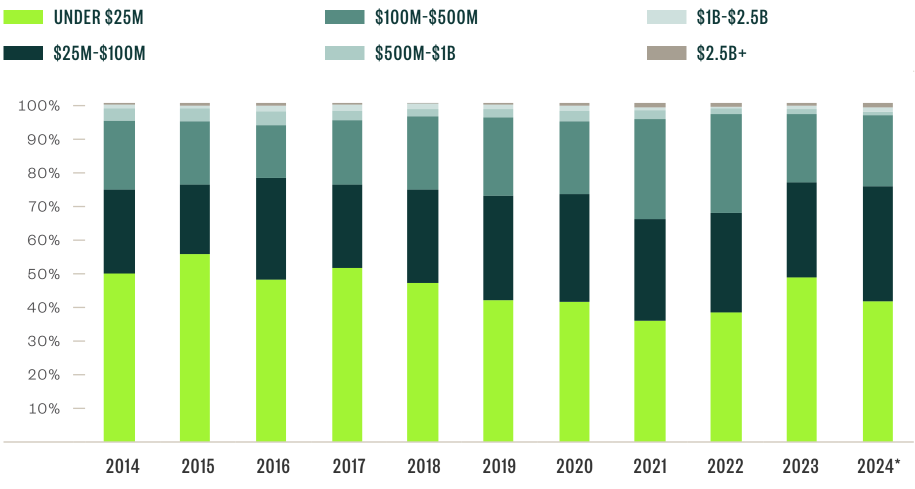
*As of 9/10/2024

FIGURE 9: Share of IT PE Deal Value by Size Bucket



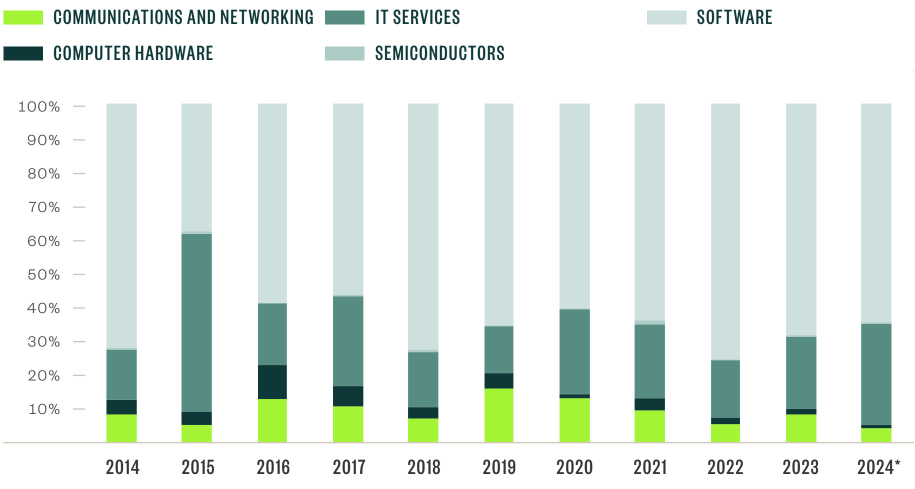
*As of 9/10/2024

FIGURE 10: Share of IT PE Deal Count by Size Bucket



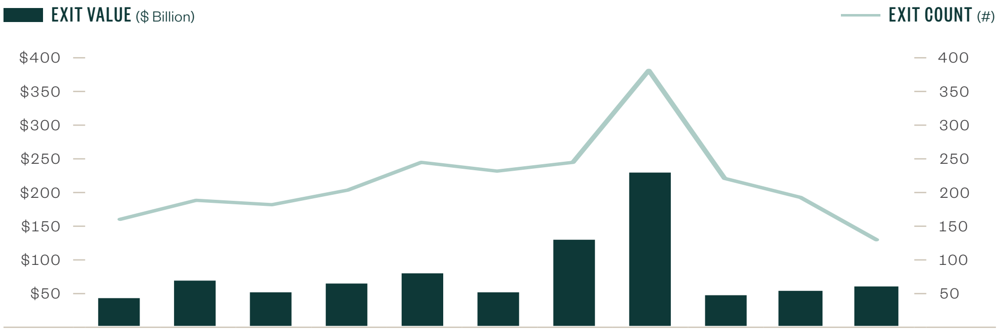
*As of 9/10/2024

FIGURE 11: Share of IT PE Deal Value by Industry Group



*As of 9/10/2024

FIGURE 12: IT PE Exit Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VALUE	$41.4	$68.4	$49.6	$64.5	$78.9	$49.9	$129.6	$228.0	$45.4	$53.8	$59.3
COUNT	159	188	182	203	244	230	245	381	220	191	129

*As of 9/10/2024

Tech is familiar territory for PE firms, and dealmaking appears on track for growth this year after a sharp correction in 2023. Quarterly deal values have trended higher at an average of $38.0 billion in 2024 compared with $36.9 billion in 2023, and a cumulative YTD total of $113.9 billion represents more than three-quarters of last year's sum.

Buyouts unsurprisingly account for the majority of total deal value this year, but PE growth deals have grown in value and overall share with over $20 billion closed YTD, already outpacing last year's total. The median tech PE growth deal also grew in value from $22.0 million last year to $25.0 million YTD.

In terms of YTD deal count, growth deals also exhibit greater resilience compared with both buyouts and add-on deals. Minority-stake investments have provided a work-around for firms seeking deployment in a tightened liquidity environment.

One notable growth deal this year was for Vantage Data Centers, which received $9.2 billion in development capital for next-generation datacenters to match rising costs and demand. Datacenters and energy storage present unique opportunities, as demand for these services has skyrocketed and existing infrastructure is strained.

With just over 400 add-on deals so far this year, firms are demonstrating deceleration in their tech buy-and-build strategies compared to prior years. 2023 saw over 600 add-ons completed, and 2022 totaled 850. The window of opportunity for heavily discounted portfolio additions has narrowed as the economic outlook improves, but add-ons will retain their position as a popular option for PE-directed transformations as the competitive environment in tech remains heated.

Middle-market deals have taken up an increased share of total value since the correction in 2022, with deals between $100 million and $500 million accounting for 28% of value in both 2023 and YTD. Even smaller deals between $25 million and $100 million account for 34% of PE deal count YTD versus 28% in 2023. The momentum in PE growth activity has contributed to this rise.

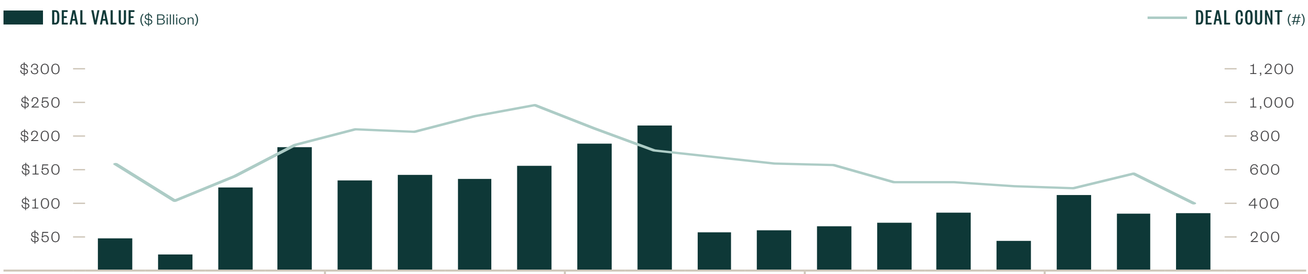
In addition, there exists an industry-wide divergence of capital flows between the leading areas of hype—namely AI—and all others. While AI captures headlines and multibillion-dollar financings, PE firms are still actively engaged with related and legacy industries like IT services, which has seen 8.1% more deal value YTD compared with 2023.

> "Successful IPOs require technology companies to approach back office technology, staffing and processes with the same rigor and resourcing as a new product launch. This means assessing their readiness, developing a comprehensive plan and making enough progress before the final org meeting sprint to be able to go out when the IPO window is open."
>
> – Findley Gillespie, Partner, Technology Consulting Services

PE-backed exits have also exhibited strength this year with nearly $60 billion in total exit value already representing a 10.3% increase from 2023. Windstream's $13.4 billion acquisition by Uniti Group provided the biggest single boost in total exit value and represents a strong showing for the telecom industry as fiber buildouts continue to drive inorganic growth. OneStream and Waystar closed two of the few PE-backed IPOs this year for $4.3 billion and $2.6 billion, respectively, in a nod to continued strength in enterprise SaaS plays as the IPO window nudges open.

M&A ACTIVITY: STRONG START TO THE YEAR WITH VALUE ALREADY OUTPACING 2023

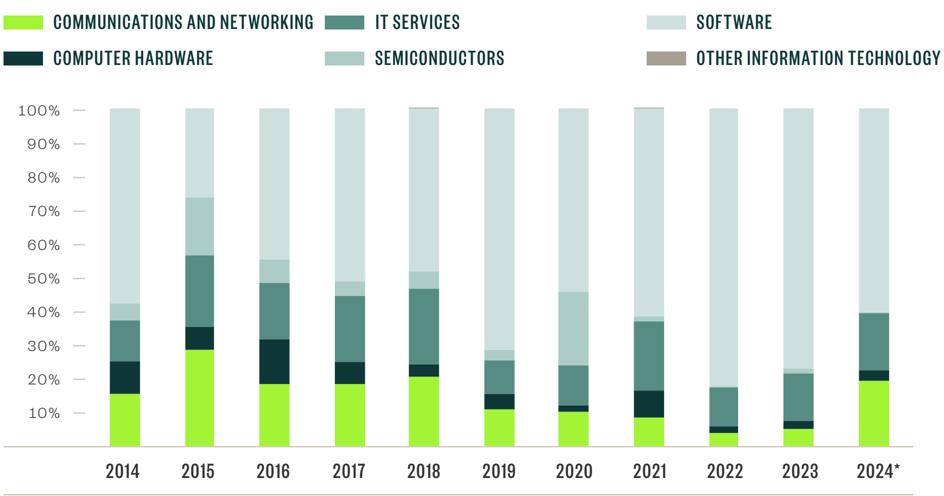
FIGURE 13: IT M&A Deal Activity



	2020				2021				2022				2023				2024*		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
VALUE	$46.8	$22.5	$122.0	$181.7	$132.3	$141.0	$134.5	$153.9	$187.2	$213.6	$55.3	$58.5	$64.8	$69.7	$84.8	$43.0	$110.6	$82.8	$84.0
COUNT	626	409	556	740	834	818	909	975	838	706	669	629	621	520	519	496	484	569	394

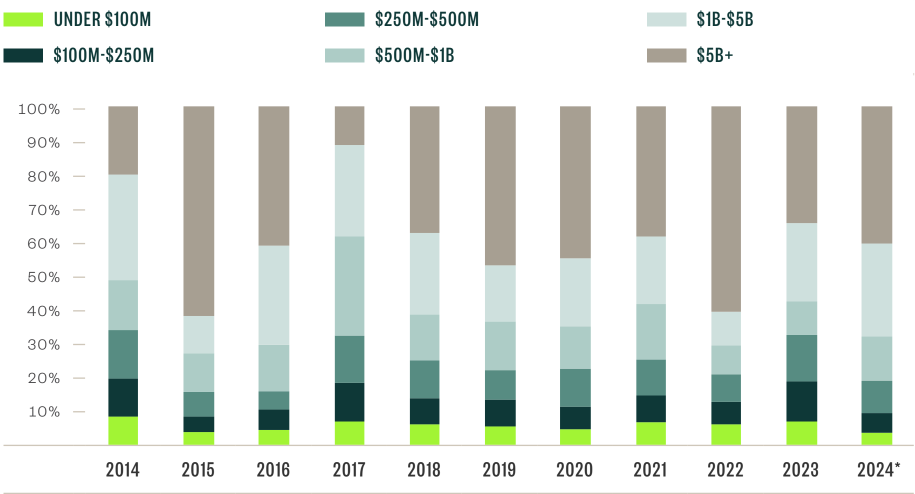
*As of 9/10/2024

FIGURE 14: IT M&A Deal Value ($ Million) by Industry Group



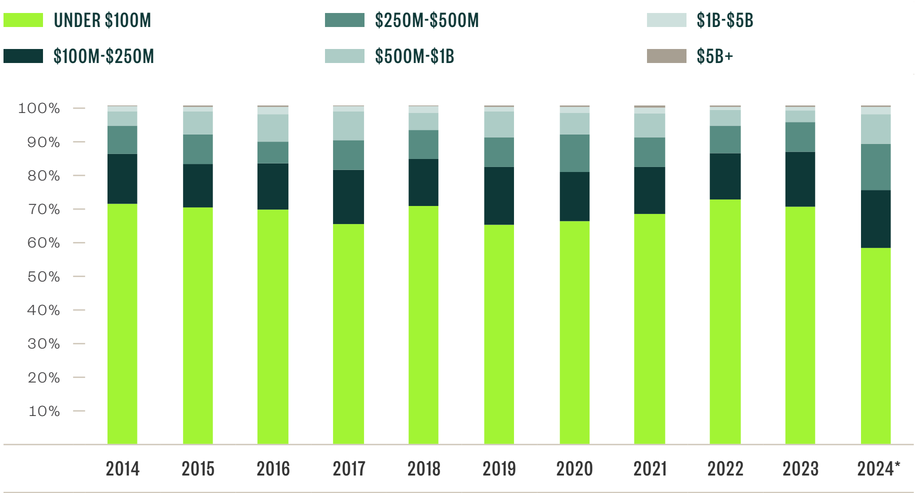
*As of 9/10/2024

FIGURE 15: Share of IT M&A Deal Value by Size Bucket



*As of 9/10/2024

FIGURE 16: Share of IT M&A Deal Count by Size Bucket



*As of 9/10/2024

Tech M&A picked up this year with more than $277 billion closed YTD compared with $262 billion in 2023. As discussed in the **2024 Semiconductor Spotlight**, the chips industry is a highly capital-intensive and competitive space with supply chain and geopolitical pressures that add to considerations for private investors.

Consolidation between the largest manufacturers is top of mind, with **Qualcomm reportedly approaching Intel** with an acquisition offer in September amid struggles to stave off competitor AMD's production advances. If the deal were to move forward, United States antitrust proceedings would more than likely intervene given the size and strategic importance of semiconductor production in the public sector's view. Despite these risks, multibillion-dollar transactions are flowing again after a slower year in 2023 when valuations were broadly lower.

Synopsys' $35 billion purchase of Ansys tops the list of overall tech M&A deals so far this year. The deal is intended to expand Synopsys' abilities in the electronic design automation market, where design software has risen in popularity alongside the rise in demand for semiconductor chips. This deal alone accounted for nearly one-third of total M&A value in Q1 2024, resulting in the strongest quarter for deal value in nearly two years, since Q2 2022.

Software and IT services remain the top subsectors for tech M&A, but the communications and networking sector drove a larger portion of total deal count this year. Four of the top 10 largest transactions so far in 2024 were closed by telecom service providers, including KKR's $23.7 billion buyout of NetCo, previously a subsidiary of Italian fiber network FiberCop, and Verizon's announced $20 billion acquisition of Florida-based Frontier Communications.

The communications and networking sector's share of total M&A deal value jumped up from 4.9% last year to 19.3% this year due to these megadeals. The two deals represent both sides of the M&A coin—PE buyouts and strategic acquisitions—and their role in the telecom industry's continued evolution, particularly in the build-out of fiber networks and infrastructure.

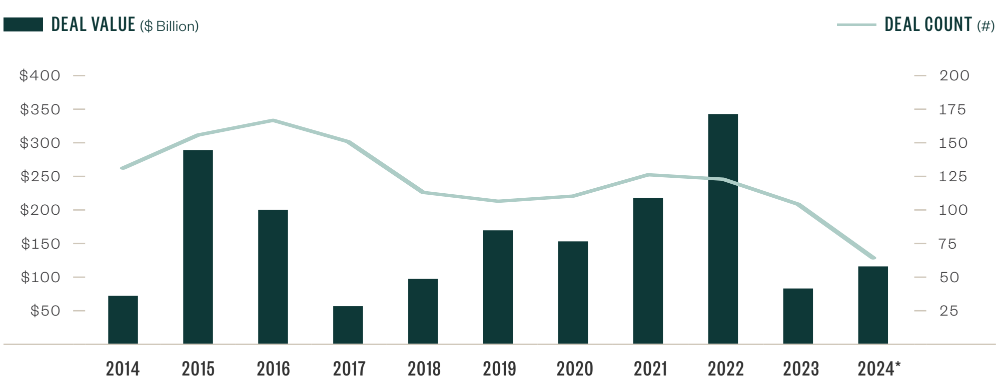
In contrast to PE deals where smaller transactions are gaining traction, larger M&A deals have coalesced to drive a greater share of total activity in their respective arena. M&A transactions of $500 million or less have yet to outnumber deals of that size from 2023, while deals above $500 million have notched 51 transactions in 2024 compared with 46 last year.

> "In the current economic climate, companies need to consider a dual track of M&A or IPO and be truly ready for each scenario. This requires a comprehensive IPO readiness plan and enough work to make either scenario possible to drive maximum shareholder value."
>
> – Findley Gillespie, Partner, Technology Consulting Services

Larger transactions underscore rising valuations across the technology ecosystem, and a rising number of these transactions that successfully close indicate a favorable view of the value proposition for many technology targets. Giant incumbent firms face increasing pressure to position themselves against competitors, while smaller innovators consolidate in order to keep pace.

SPOTLIGHT: TAKE-PRIVATES RE-EMERGE

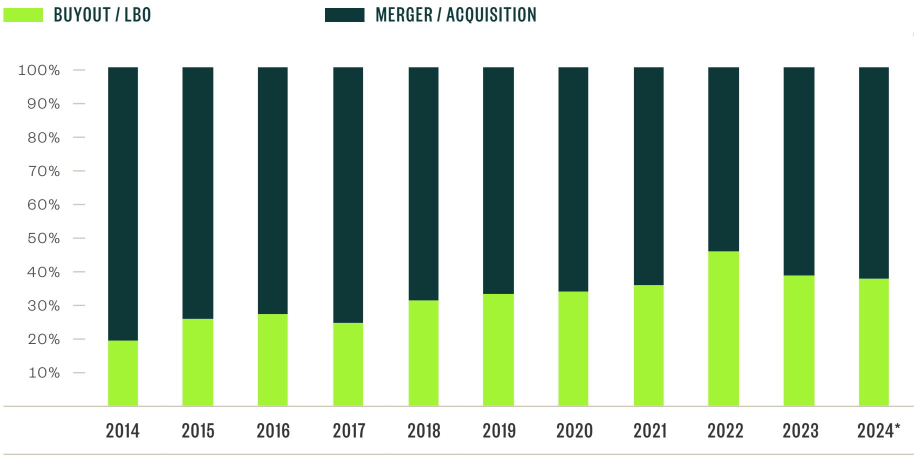
FIGURE 17: IT Public-to-Private Deal Activity



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
VALUE	$71.2	$288.7	$199.5	$56.2	$96.3	$168.7	$153.1	$217.8	$343.0	$82.5	$114.9
COUNT	131	156	167	151	113	106	110	126	123	104	64

*As of 9/10/2024

FIGURE 18: Share of Acquisitions of Public IT Companies by Type



*As of 9/10/2024

Public-to-private deal activity likewise grew this year, with total deal value up 39% YTD. Most of these deals have been enacted by strategic acquirers as opposed to PE firms, but some notable PE buyouts are still materializing. Permira's $6.9 billion take-private of Squarespace, announced in May, represents the largest single PE deal in the enterprise SaaS segment YTD. Squarespace was one of many companies to IPO in 2021 in an era flush with cash and accessible debt capital. As the macro picture dimmed in 2022, many of these companies faced a reckoning in their valuations and growth projections, making a return to private ownership a more attractive option in the short time since they listed.

Take-private deal value hit a record $343.0 billion in 2022—a 57.5% rise in a year when most other private investment figures dropped dramatically. The following year saw a return to a much lower sum of purchase prices at just $82.5 billion, though deal count held steady. This year's activity suggests a recalibration following the correction last year, with a more balanced number of opportunities presenting themselves for take-privates.

A record 45.5% of public IT company acquisitions in 2022 were enacted by PE sponsors as opposed to strategic acquirers. This percentage has ticked downward since then as corporate buyers take the reins once more.

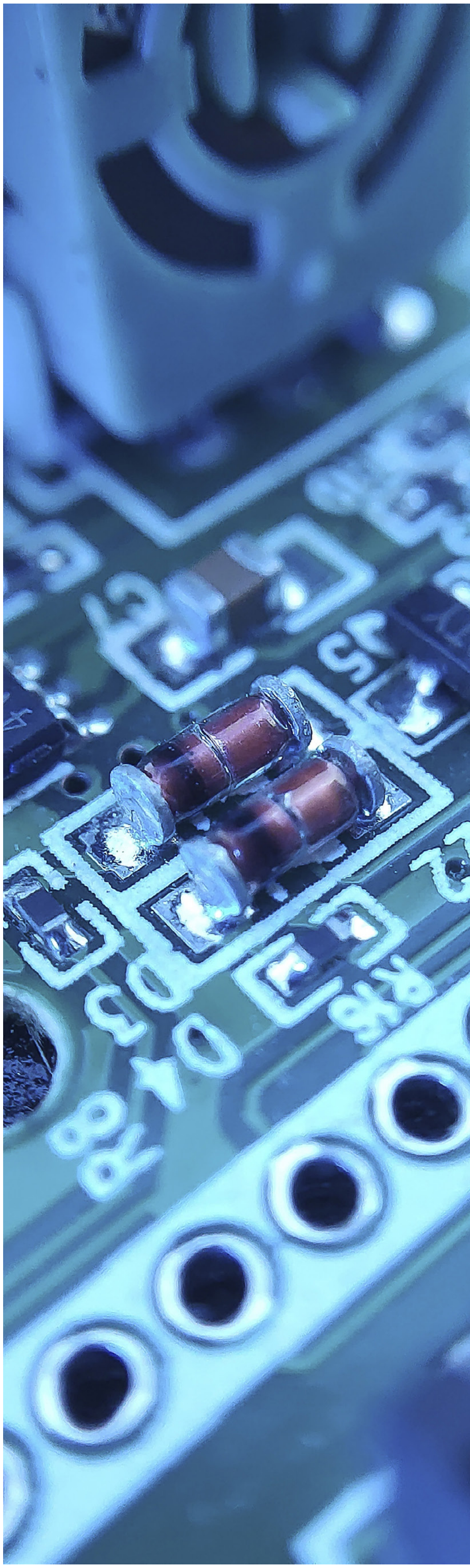
Rising tech M&A deal values indicate a sustained appetite for larger transactions, which raises the value creation pressure for buyers in a highly competitive space. As valuations begin to trend upward again, the era of discounted acquisitions is over and strategic positioning is key. PE investors will likely continue pulling back from new take-private deals on a larger scale to focus on their existing portfolios, especially as public valuations regain footing.

SECTION FOUR

Methodology

Standard PitchBook methodology regarding venture transactions and venture-backed exits was used for all datasets, and similarly for PE or other private investment types. Full details can be found **here**.

Technology is defined in this report using PitchBook's dedicated information technology (IT) industry code. Enterprise SaaS is defined using PitchBook's dedicated business products & services (B2B) industry code and software-as-a-service (SaaS) vertical.



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