A new chapter for Technology M&A

Alantra's Global Technology Update

Q4 2022

ALANTRA

Hot Topics

A healthy reset

- We are experiencing a global correction in valuations and activity levels across technology M&A after a ten-plus year bull run
- Driven by a mix of value correction from the 2021 highs and the continued tough market conditions, the average deal size in the technology sector has dropped to pre-pandemic levels, from $261m to $123m year-on-year

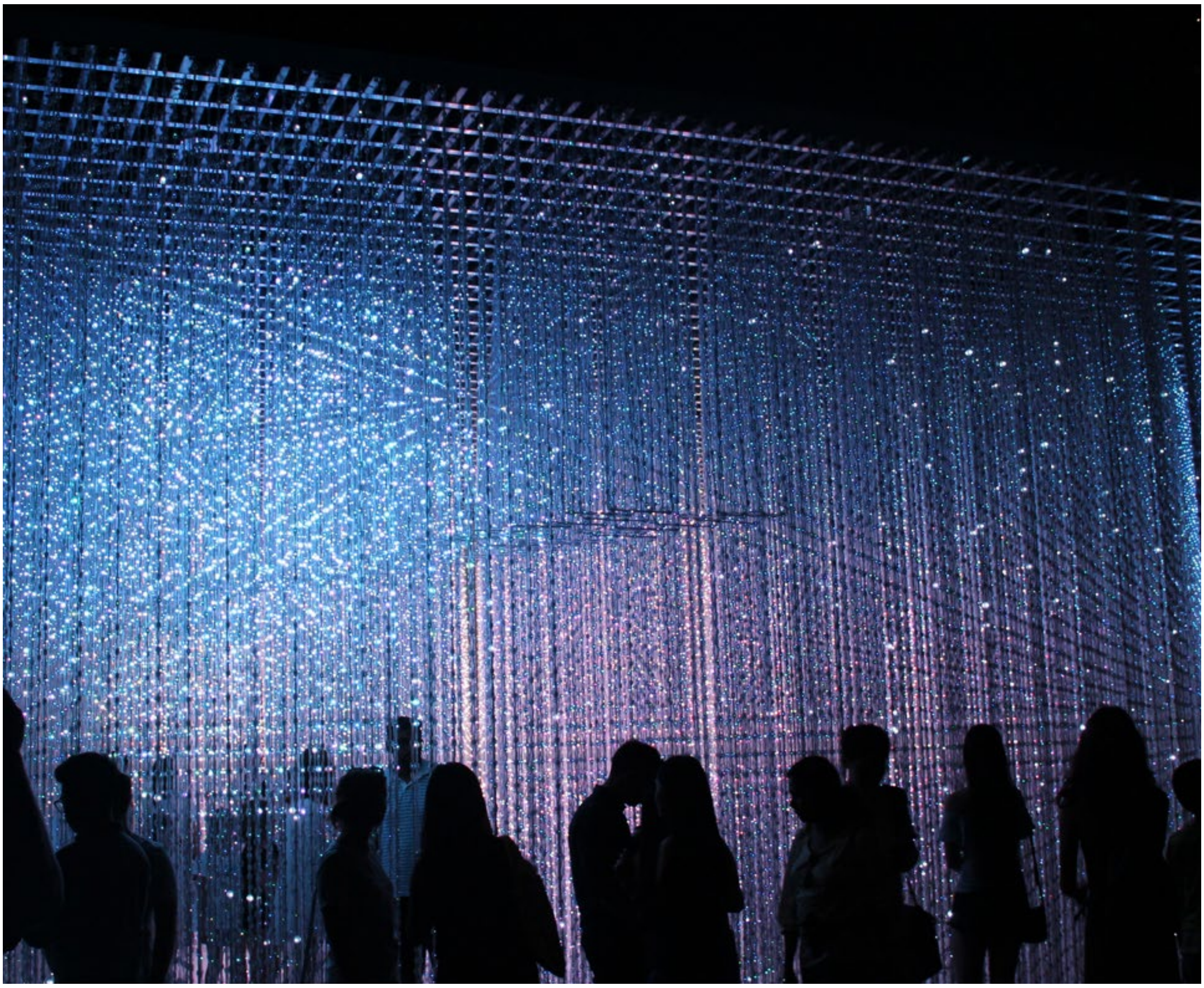
The increase in strategic add-ons

- Strategic acquirers are returning to the market as investor uncertainty and the cost of capital, driven by unstable economic conditions, results in processes becoming less competitive
- Current inflation costs and soaring energy prices may mean prioritizing business optimization for some, the need to acquire talent, innovation, and other capabilities will remain on the agenda of many technology corporates even during market fluctuations

Market bifurcation

- Global tech start-ups that prioritized growth above profitability are now struggling to raise more capital, driving them to rethink business plans
- Private equity and growth equity investors report a 'bifurcation' in the market related to a lack of deal flow and quality, with the very best companies still commanding premium multiples

A healthy reset



It is rare for two black swan events to coincide, but the Russian invasion of Ukraine and the worst inflation surge in 40 years have done just that. In turn, we are experiencing a global correction in valuations and activity levels across technology M&A after a ten-plus year bull run.

Efforts to combat inflation, by ending the unprecedented cheap money supply that infused massive levels of liquidity in the markets, have served as the long-awaited trigger to cool dizzying valuations and deal activity. The market is now stabilizing from the record liquidity seen in the institutional private and the public markets during the pandemic, as the technology sector's ability to provide solutions for a locked down population drew attention from investors. Driven by a mix of value correction from the 2021 highs and the continued tough market conditions, the average deal size in the technology sector has dropped to pre-pandemic levels, from $261m to $123m year-on-year.[1]

1 'UK stock market experienced quiet third quarter', Business Leader, October 2022

Market bifurcation

With the changing market conditions, after raising a record $621bn in 2021—ten times what was raised a decade ago[2]—global tech start-ups that prioritized growth above profitability are now struggling to raise more capital, driving them to rethink business plans. With funding harder to come by, many start-up tech companies are having to shed costs to slow down the rate at which they burn through cash, with 766 start-ups laying off more than 118,000 employees in 2022 so far, not to mention the recently announced significant layoffs at Meta, Twitter, and other leading tech strategics.[3]

As public market valuations have corrected, activity in the private market has slowed as well. However, there is still strong demand for quality assets driven by a continued need for digital transformation and a record-level of dry powder from private equity firms. Based on our interactions with technology-focused fund managers and strategic acquirers, we are seeing that while deal flow slowed down meaningfully from 2021 highs, activity has begun to pick up again as sellers settle into expectations aligned with the new normal. Many private equity and growth equity investors report a 'bifurcation' in the market related to lack of deal flow and quality, with the very best companies still commanding premium multiples, while valuations for the remainder have seen further downward pressure.

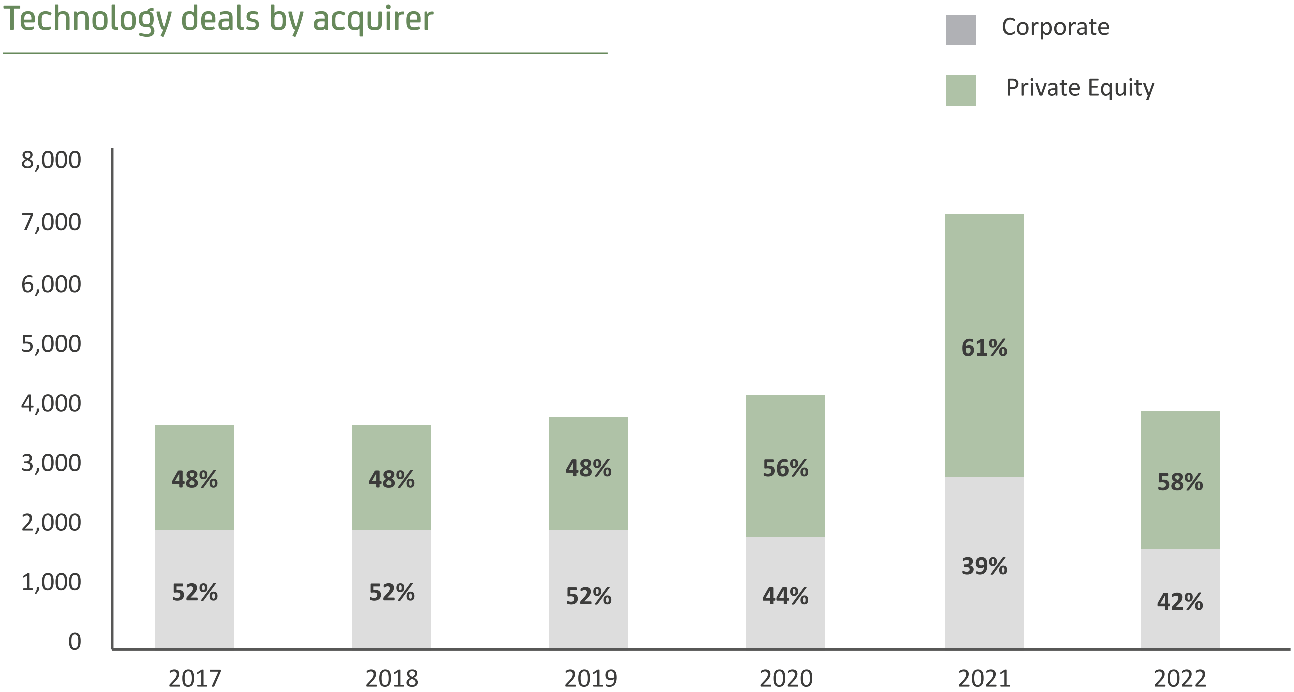
2 'The great Silicon Valley shake-out', The Economist, July 2022

3 Layoffs.fyi Tracker (as of 11th November 2022)

The increase in strategic add-ons

This split in the market is creating a Darwinian environment. Strong players, who continue to attract funding, use these funds to scoop up the talent from weaker rivals or buy them outright at discounted prices. Similarly, many larger corporates and PE-backed strategic platforms rely on M&A to fill strategic product and technology gaps, increase revenue growth, and acquire new talent. We have seen corporates, particularly the technology giants, increase their spending in the M&A space by 23% over the last twelve months compared to the same period last year.[4] Strategic acquirers are returning to the market as investor uncertainty and the cost of capital, driven by unstable economic conditions, results in processes becoming less competitive (see graph below).[5] This year, 60% of the 25 largest technology deals completed were by strategic acquirers- including **Broadcom's approximately $61bn cash acquisition of VMware, Microsoft's acquisition of Activision Blizzard,** and **Adobe's approximately $20bn cash and stock acquisition of Figma.**[6]

Technology deals by acquirer



Although current inflation costs and soaring energy prices may mean prioritizing business optimization for some, the need to acquire talent, innovation, and other capabilities will remain on the agenda of many technology corporates even during market fluctuations.

4 Capital IQ (as of 30th September 2022)

5 Mergermarket, Technology deals, 2017-2022 (as of 19th October 2022)

6 Mergermarket, Technology deals, 2017-2022, 1 November 2022

A recent deal example is **the sale of Troops Inc. (Troops) to Salesforce,** for which Alantra advised Troops. Troops' 'Slackbots,' similar in functionality to Microsoft's Viva Sales, bridge the gap between a company's SaaS systems of record (CRM, ERP, etc.) and digital systems of engagement (messaging, voice, collaboration) to deliver actionable data and event-based aFlerts. Salesforce acquired Troops to jumpstart its development of innovative sales operations and communication & collaboration solutions, which will be needed to power the next generation 'digital HQ'.

In the current market conditions, larger private equity firms are also turning their eye towards public markets where there are numerous scaled public companies at relatively attractive valuations, as the public markets tend to re-price faster than private markets. This trend has seen take-privates replace large private platform deals this year, with the value of take-private deals announced or closed by buyout funds at $96bn in the first half of 2022.[7] Additionally, in the past 18 months, information and technology companies have made up more than half of the take-private deal activity, up from one-third five years ago.[8]

We are also seeing public companies seeking to focus resource allocation by selling non-core strategic assets. For example, **Alantra advised Renesas on the sale of its industrial edge computing business unit to EnOcean GmbH (EnOcean).** EnOcean not only acquired the technology but also transitioned the personnel as well as hardware and software products from Renesas.

As technology leaders witness the impact current geopolitical turbulence is having on their company, it is important that they consider their wider risk management strategy. The need for companies to innovate and re-invent their businesses, either through M&A or organically, will be imperative over the next year.

7 Prequin, 'Trending Data: Public-to-private deals', July 2022
8 Prequin, 'Trending Data: Public-to-private deals', July 2022

Conclusion

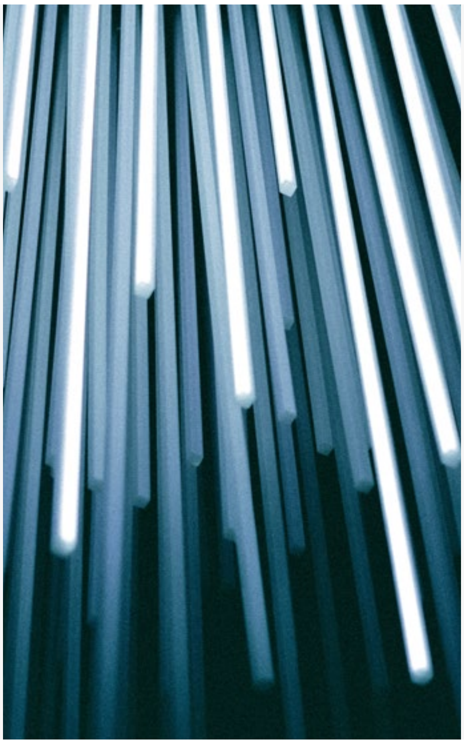
Continuous technology upgrade cycles —driven by constant innovation, digital transformation, and talent acquisition— will remain on the agenda for well-capitalized companies. We therefore believe growth agendas of large corporates and lower valuations will drive M&A activity in the sector.

Though recent levels of activity were unprecedented, over the past two decades we've seen technology advancements and values tend to grow in step functions. Periods of dizzying growth, followed by rationalization and reconfiguration—which we are currently experiencing—inevitably lead to another growth cycle. Additionally, greater visibility on interest rate policy and less uncertainty in the market could further stabilize M&A activity in the sector.

It is unlikely we will see the 2021 record levels of valuations again in the next few years; however, we believe technology M&A will return to pre-pandemic or higher levels, as investment opportunities, high levels of dry powder from new PE funds, and necessary corporate growth remains. We expect Technology to be a sector that will continue to transact where others may struggle.

Case study

Alantra advises Troops on its sale to Salesforce Inc.



Closed:
July 2022

Transaction type:
Sell-side

DAN REICH
TROOPS CEO

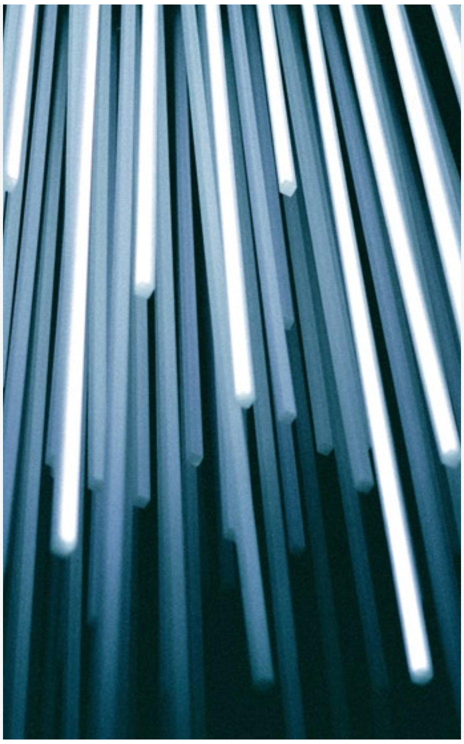
"This announcement marks an incredible milestone in the Troops journey, and we'd like to thank our community, our valued customers, our partners, our investors, and our team for all your support and partnership.

Transaction overview

- Based in New York since 2015, Troops is a messaging-first communications platform that bridges the gap between SaaS systems of record (CRM, ERP, HCM, ITSM) and digital systems of engagement (messaging, voice, collaboration) to deliver actionable data and event-based alerts to organizations
- Troops combines real-time insights with the ability to directly access real-time data from systems of record from collaboration and a system of engagement environments
- Salesforce unites marketing, sales, commerce, service, and IT teams from anywhere with Customer 360, one integrated CRM platform that powers the entire suite of connected apps
- Alantra acted as sole financial advisor to Troops on this transaction
- The addition of Troops' platform and team will significantly accelerate the integration of the Salesforce and Slack platforms and the development of innovative revenue operations and communication/collaboration solutions needed to power a "digital HQ"

Case study

Alantra advises Renesas on the sale of its Industrial Edge Computing business unit to EnOcean



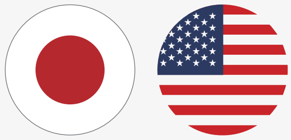
RENESAS

dialog SEMICONDUCTOR

EnOcean Self-powered IoT

Closed :
October 2022

Transaction type:
Carve-out



APURBA PRADHAM
BUSINESS UNIT DIRECTOR, RENESAS

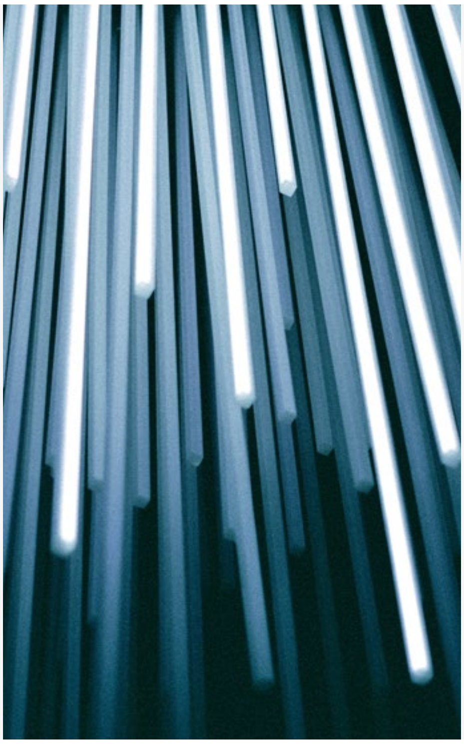
"Together, we're building on our technologies to provide next-generation solutions for smart buildings that focus on sustainability, waste reduction, and occupant experience.

Transaction overview

- Renesas' Industrial Edge Computing (Renesas) business unit specializes in providing an extensible device and data integration platform for systems integrators, IoT solution providers, and value-added resellers
- Renesas' edge computing software is embedded in off-the-shelf hardware and engineered to simplify integration, management and monitoring of multi-vendor, legacy, or next-generation IoT deployments
- Renesas engages in the design, research, development, manufacture, sale, and servicing of semiconductor products
- EnOcean produces self-powered IoT products and systems to create smart environments at a lower carbon footprint
- With thousands of product variations in over one million buildings across the world, EnOcean has a wide array of self-powered IoT solutions with interoperability within the product set
- Alantra managed a detailed process with several interested parties and ultimately supported the diligence and close of the divestiture with EnOcean, a party that Renesas brought to the table

Case study

Alantra advises Graphite Capital on its investment in Digital Space



GraphiteCapital

digital space

Closed :
October 2022

Transaction type:
Buy-out

HUMPHREY BAKER
SENIOR PARTNER

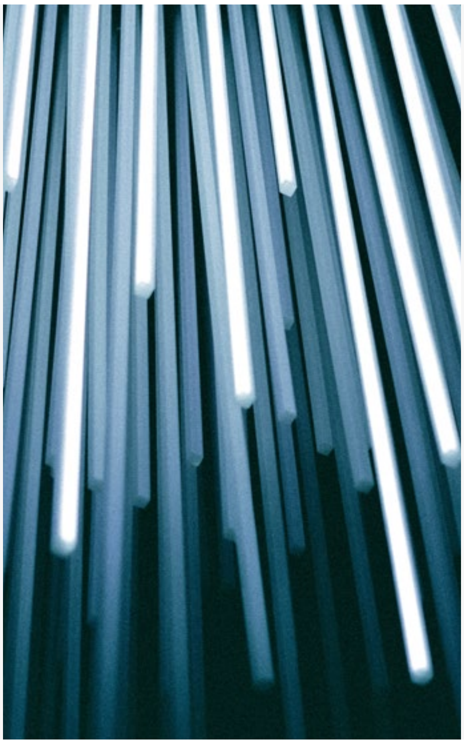
"Digital Space has the potential to be a highly differentiated player in this growing and resilient market, driven by the high-quality provision of critical services to private and public sector organizations in the UK.

Transaction overview

- Digital Space provides a comprehensive, integrated connectivity, security and hybrid cloud managed service, underpinned by its own datacentres, core network and network operations centre
- Digital Space works with organisations looking to improve their operational workflow and accelerate growth through digital transformation
- Graphite Capital is a private equity firm focused on mid-market leveraged buy-out investments, primarily in the UK
- Graphite Capital works with organizations looking to improve their operational workflow and accelerate growth through digital transformation
- The addressable IT managed services market is estimated to be £58bn, with the areas Digital Space serves forecast to grow at 10% a year for the next five years
- Digitial Space is set for strong expansion, building on the success of its strategic acquisitions and organic growth momentum

Case study

Alantra advises Intentsify on a significant strategic investment by BV Investment Partners



Closed:
December 2021

Transaction type:
50/50 investment

MARC LAPLANTE
CO-FOUNDER OF INTENTSIFY

"Working with Alantra was one of the best decisions we made in the process.

Transaction overview

- Founded in 2018, Intentsify is a leading intent data-based activation platform powering account-based marketing and sales strategies for global enterprise B2B customers including Amazon, Adobe, Microsoft, Oracle, and Honeywell
- Building on its own proprietary data, its software layers multiple intent data feeds to identify accounts showing the strongest buy-cycle activities—as well as the issues they're most concerned with—and then converts these insights into actions, helping marketers efficiently scale pipeline velocity and revenue
- Intentsify has been achieving 200%+ revenue growth over the last three years, strong profitability, with 20% of revenues attributable to SaaS services
- Intentsify was 100% bootstrapped and is still led by its original founding team
- Based in Boston, BV Investments has made over 100 platform investments totaling approximately $3.8bn
- BV's deep experience with software and tech-enabled services businesses, and a proven track record in investing alongside founders made them a compelling fit as growth partner to the founders in accelerating Intentsify to the next level
- The Alantra team helped facilitate diligence workstreams between management, BV, and numerous third-party diligence providers, achieving an expeditious close in less than six weeks

Relevant Technology Credentials

NOV 2022	Five Arrows	Growth investment	A2MAC1
OCT 2022	Cathay Capital	Buy-side advisory	Shiro Games
OCT 2022	Renesas	Sell-side advisory	EnOcean
OCT 2022	Graphite Capital	Buy-side advisory	digital space
SEP 2022	North Edge	Buy-side advisory	Friend MTS
SEP 2022	Bowmark Capital	Buy-side advisory	littlefish
AUG 2022	inoapps	Buy-side advisory	Tier 1
AUG 2022	Blue Granite	Sell-side advisory	3Cloud
JUL 2022	wormhole	Sell-side advisory	crehana
JUL 2022	TROOPS	Sell-side advisory	salesforce
JUL 2022	reign	Sell-side advisory	Apply Digital
JUL 2022	nuvias	Sell-side advisory	Infinigate
JUN 2022	LDC	Buy-side advisory	cellhire
JUN 2022	Solid Solutions / LDC	Sell-side advisory	TRIMECH
JUN 2022	TECMA Business.Beauty	Global Coordinator and Bookrunner	
JUN 2022	TelcoSwitch	Sell-side advisory	Queen's Park Equity
JUN 2022	making science	Global Coordinator	
MAY 2022	Kabel	Sell-side advisory	avanade
MAY 2022	LivingBridge	Buy-side advisory	imagesound
APR 2022	Sovereign Capital Partners	Buy-side advisory	ACTICA
APR 2022	struct	Sell-side advisory	VIA equity
MAR 2022	Bridgepoint	Buy-side advisory	teamitg
FEB 2022	zenika	Sell-side advisory	bpifrance
FEB 2022	Analytical Wizards	Sell-side advisory	Definitive Healthcare
FEB 2022	BBR	Sell-side advisory	evertec
FEB 2022	inoapps	Sell-side advisory	abry partners
JAN 2022	Baby tuto	Sell-side advisory	Walmart
JAN 2022	ORYX Groupe immobilier	Sell-side advisory & Debt financing	Five Arrows, ABENEX, Tikehau
DEC 2021	INTENSIFY	Growth Inverstment	bv
DEC 2021	madrid hifi	Sell-side advisory	QUEKA

Deep Sector Expertise

56
Deals 2021

$5.6bn+
Aggregate value 2021

40+
Global professionals

Alantra's global Technology sector advisory team has a proven track record of helping established and emerging growth companies achieve their growth and liquidity objectives. Our team's breadth and depth of sector expertise and relationships across the technology sector enables creative and credible positioning in a global landscape of buyers and investors to achieve superior outcomes. Our senior banker-led teams have executed transformative, high-value transactions due to our uncompromising focus. Our cross-border platform enables seamless collaboration across more than 20 countries in Asia, Europe, LATAM, and North America, providing our clients access to a global buyer and investor landscape as well as region-specific knowledge.

Technology sub-sectors that we cover include:

- Communications & Networking
- Financial Technology
- Internet & Digital Media
- IoT & Smart Industry
- Software
- Technology Enabled Business Services
- Gaming

Global Senior Technology Team

Alantra's clients benefit from a global senior Technology team with deep local presence, able to reach global strategics and investors

Irfan Iqbal
Partner
USA

James Chapman-Andrews
Partner
United Kingdom

Oriane Durvye
Managing Partner
France

Oliver Parker
Partner
United Kingdom

Renee Shaening
Partner
USA

John Emery
Managing Partner
USA

Michael Lenoce
Partner
USA

Dragan Manoev
Managing Director
USA

Franck Portais
Managing Partner
France

Mathias Heymann
Managing Director
Germany

Robert Cronin
Managing Director
USA

Amit Mujumdar
Managing Director
USA

Jonas Bauréus
Managing Partner
Sweden

Frederic Laurier
Managing Director
USA

Lodewijk Sodderland
Managing Director
Netherlands

Richard Zhu
Managing Director
China

Kurt Rüegg
Managing Partner
Switzerland

Sebastian Hougaard
Managing Partner
Denmark

ALANTRA

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France • Germany • Greece • Hong Kong • Ireland • Italy • Netherlands • Portugal
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