

M&A Update June 2020-June 2021

Information Technology

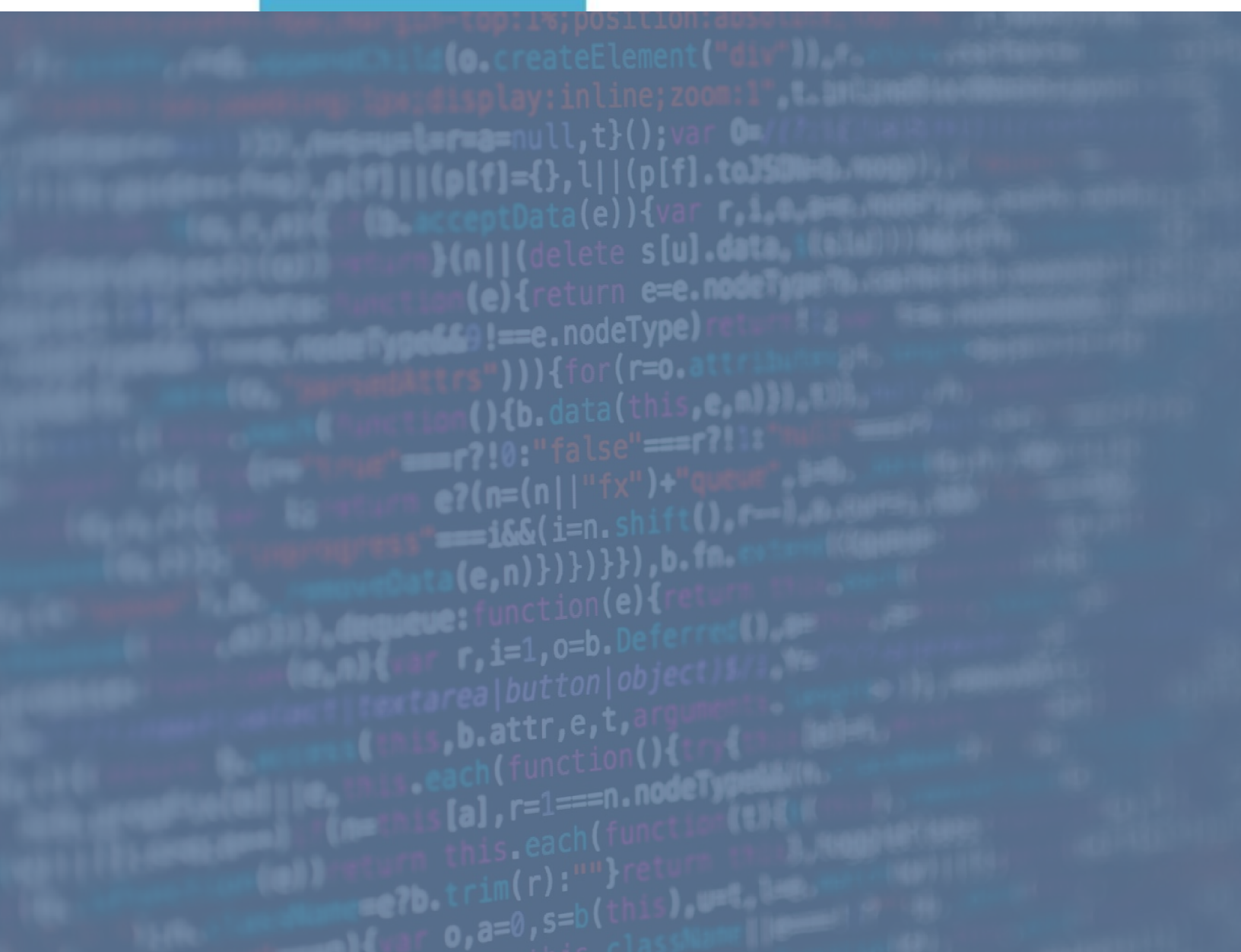


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Information Technology has become a booming industry	

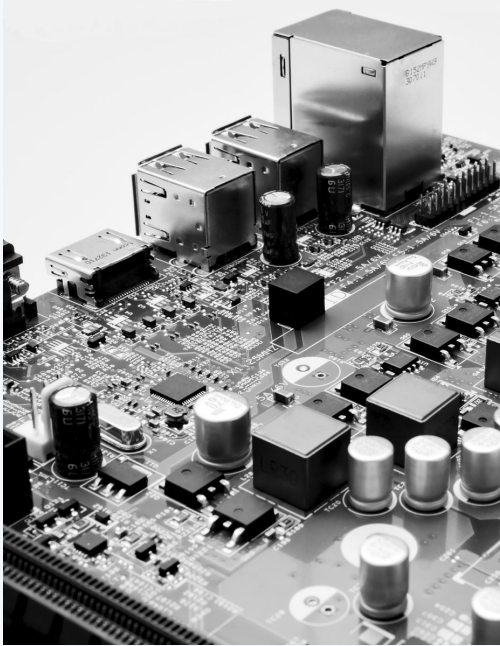
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Summary

The Information Technology industry has proven to be the heart of the economy

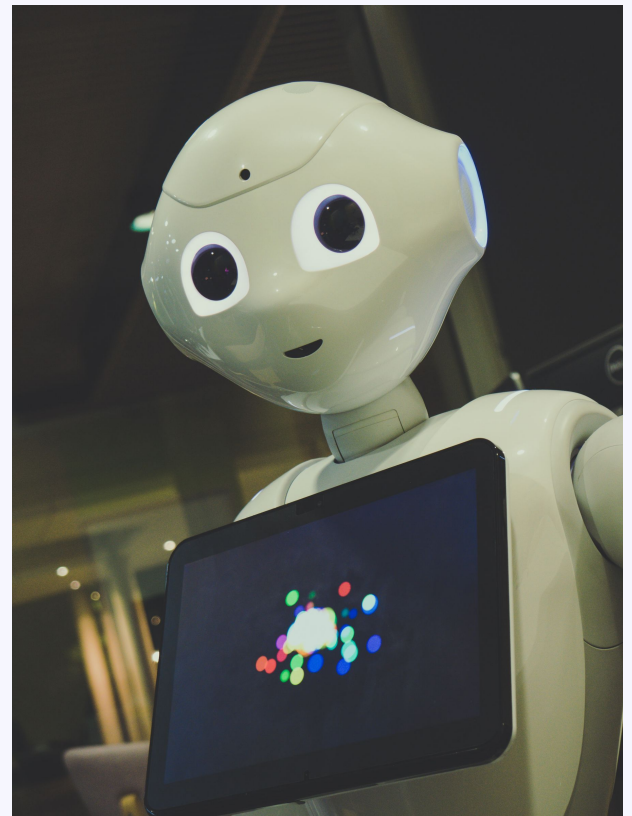


Primed for explosive growth

COVID-19 has fundamentally changed the way the world will operate in the future, and the Information Technology industry is at the forefront of this change. As global economies were forced to adapt to lockdown procedures and global public health ordinances to reduce the spread of the infectious disease, the technology sector scrambled to provide alternative ways to keep industries alive. A boom in technological innovation occurred during this timeframe, with companies in videoconferencing, ecommerce, robotics, and artificial intelligence coming out on top. The world has been transformed into a digital age, and companies in the Information Technology industry have the opportunity to take advantage of this new demand and realize substantial growth in the future.

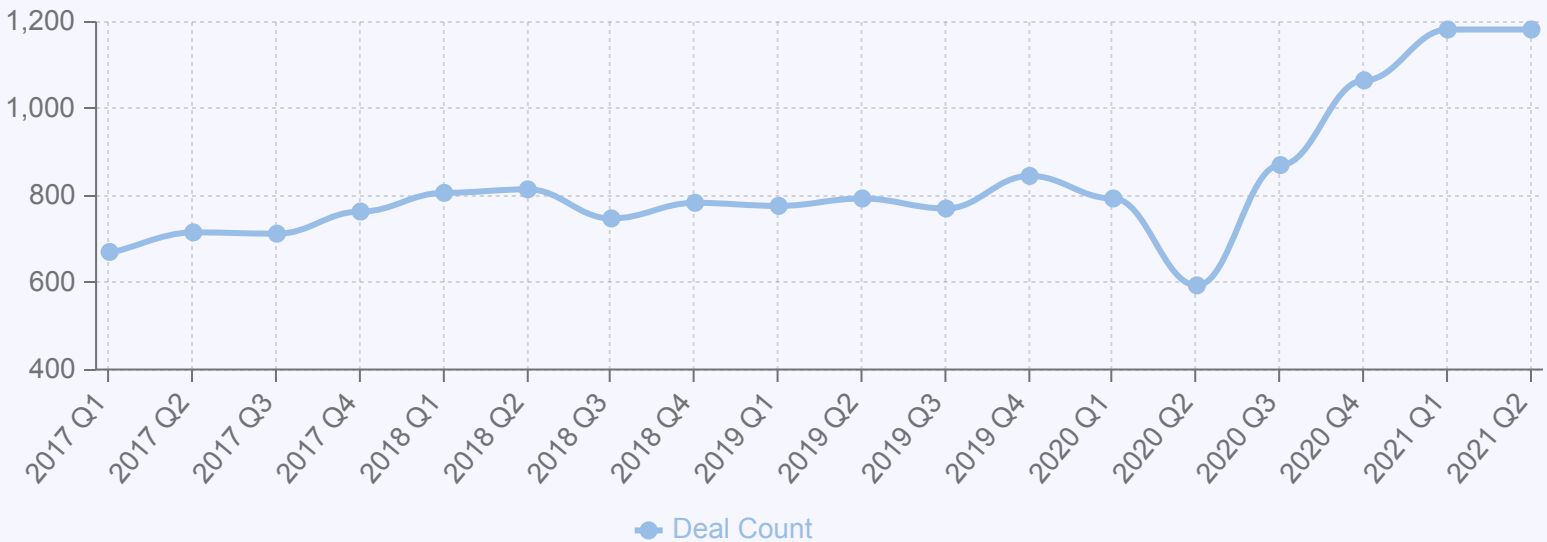
Tech M&A at an all time high

The transaction size and volume of M&A deals in the tech industry remained depressed in the first two quarters of 2020, with Q2 dropping to the lowest volume since 2015. In the second half of 2020, however, pent-up demand as well as overwhelming confidence in the tech industry to thrive caused deal value volume to skyrocket. The average totals for both Q3 and Q4 came in 40% higher than that of the first half of the year. This final spending push launched the total deal value of M&A transactions in 2020 to the highest level ever recorded. Q1 of 2021 saw yet another jump, with Q2 coming in close behind. The number of tech M&A transactions in 2021 have reached levels significantly higher than ever seen, and is easily on pace to become the most active year for this industry in history.



Total Transactions: 2020-2021

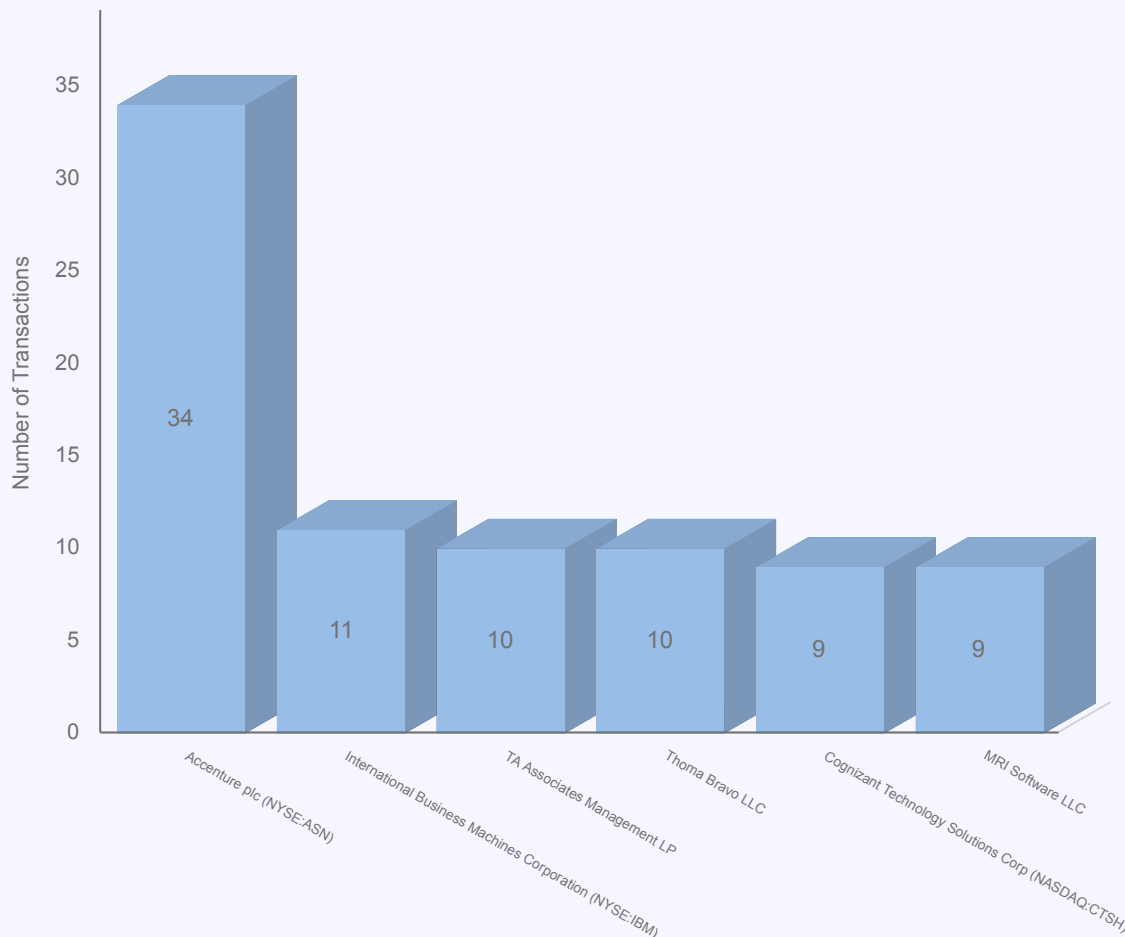
Global M&A Deal Volume: Number of Transactions Per Quarter Information Technology Industry



Accenture Plc Tech Takeover

Accenture plc lead the market in terms of the number of IT acquisitions from 2020-2021. The Ireland based consulting giant has turned to an aggressive takeover strategy in order to maintain a competitive edge in the digital tech space. Most acquisitions have been small, but the numerous purchases allow them to quickly soak up talent and ideas to become a bigger force in the entire industry. Accenture is focused on scaling the business anywhere there seems to be a big market opportunity, and right now they see that opportunity in the tech space.

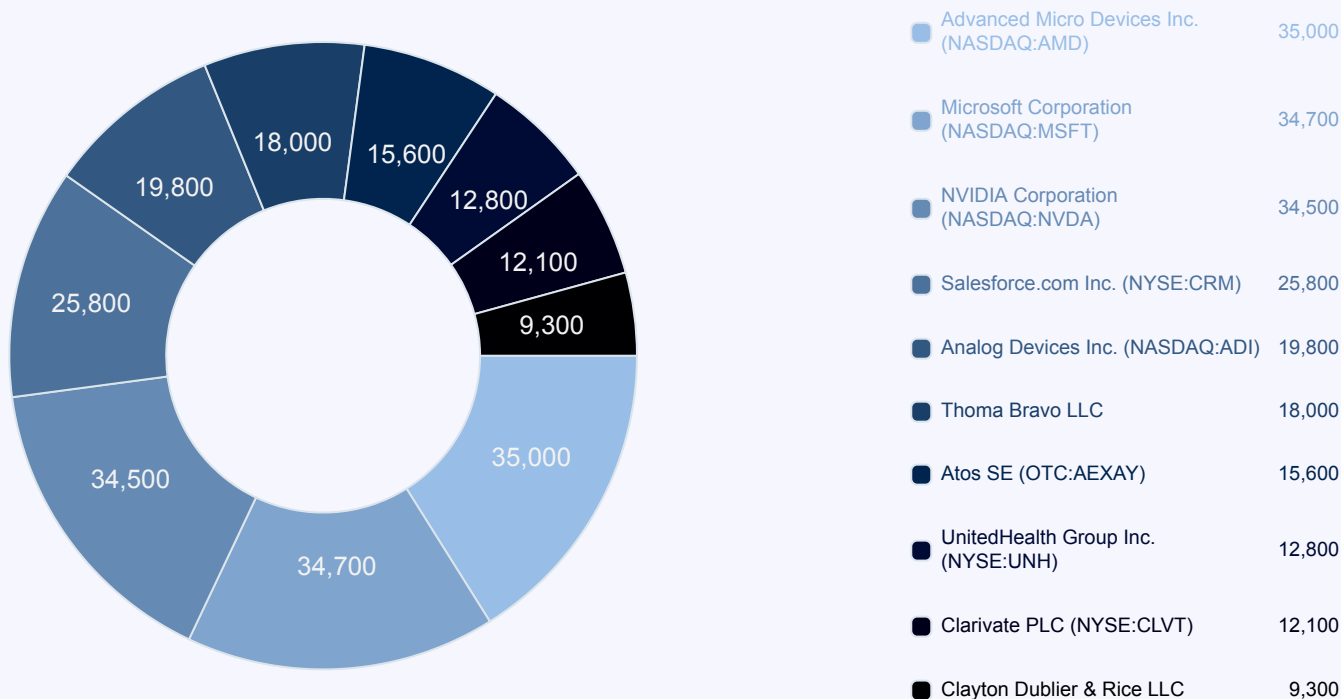
Most Active Investors by Number of Transactions (U.S 2020-2021)



TOTAL TRANSACTION VALUE BY COMPANY: 2020-2021

Most Active Investors by Transaction Size

Values in Millions (\$)



Salesforce acquires Slack

The cloud-based software company Salesforce, specializing in customer relationship management, has acquired the popular business communication platform Slack for \$27.7 billion. If Salesforce is able to leverage the communication integrations within Slack to create a seamless cross-domain customer experience, it has the opportunity to become a true powerhouse for business collaboration. Slack at the time of the acquisition was reporting negative earnings, giving it an EV/EBITDA of -149.5 and an EV/Revenue of 25.86.

AMD to purchase Xilinx for \$35B

In the largest single transaction tech acquisition of 2021, Advanced Micro Devices Inc. (AMD) has entered into a definitive agreement to purchase the tech company Xilinx for \$35 billion total. Xilinx produces programmable logic devices and semiconductors, which compliment AMD's current product line of high performance processors. The acquisition could establish AMD as the world's leader in high performance computing.

COVID-19 Recovery

Technologies developed to combat issues caused by COVID-19 will shape the future

Growth in the Entire Industry

The IT industry has experienced some extraordinary growth over the past year, and it doesn't seem to be slowing down anytime soon. Global spending in the IT industry is forecasted to be over \$4 trillion in 2021, an increase of 8.4% from 2020. The market size of the entire industry is expected to continue growing at a generous rate of about 8% per year through 2026. As remote and hybrid work has taken over the workplace, devices and enterprise software will be leading the industry growth at expected rates of over 10% through 2022.

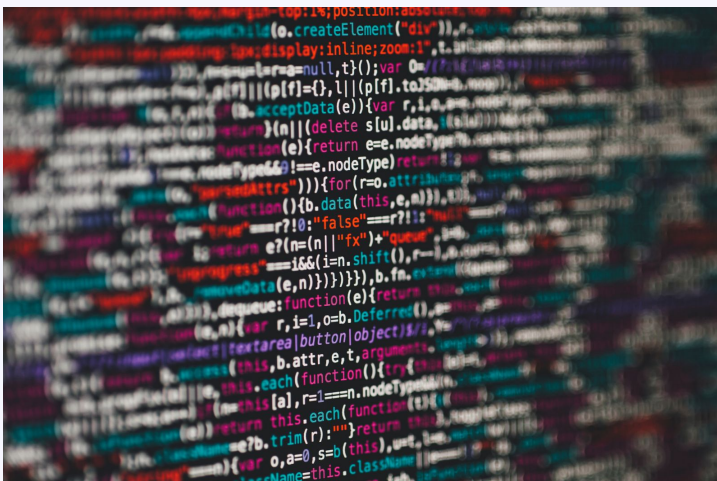
Remote work is here to stay

Videoconferencing software such as Zoom, Google Meet and Microsoft Teams became necessities during the stay at home orders to stay productive in the midst of the pandemic. With over 50% of the U.S population vaccinated, businesses are finally starting to open their doors at full capacity once again. This would suggest people are going back to the office, but that doesn't seem to be the case. 97% of employees don't want to return to the office full-time, and 74% of professionals expect remote work to become standard. Large corporations such as Twitter and Slack have announced the option for their employees to work from home permanently, while others such as Salesforce have implemented hybrid work options. If this trend continues into the future, which many people believe it will; cybersecurity, software, cloud storage, and telecommunications will likely see above average growth through 2022.



Key players in sustained growth

Cloud computing based IT services have gained momentum due to the relatively low costs and the ability to easily scale businesses. This does, however, lead to exposure of a number of risks including privacy concerns, data breaches, and identity theft. Increased cybersecurity and protective IT services will be a necessary addition to any business looking to expand their growth capabilities.



Valuations

Over \$500 Billion of Disclosed Deal Value: June 2020-June 2021

Average Deal Value (Millions of \$)	799.9
Average TEV/Revenue	3.21
Average TEV/EBITDA	15.65

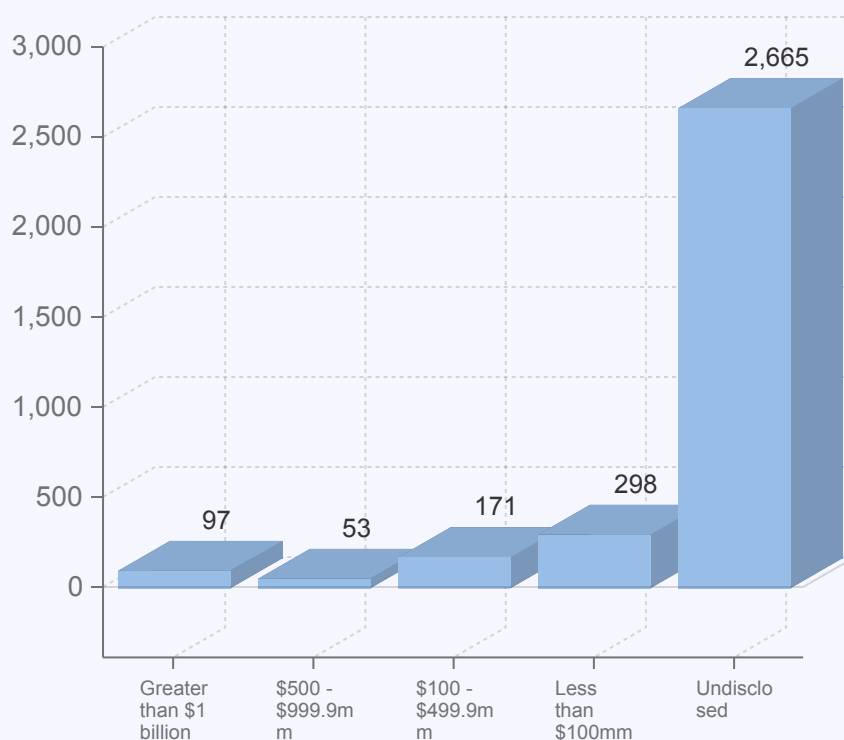
Booming Market for Megadeals

The increase in valuation multiples over the past year has created a trend towards closing megadeals (transactions over \$1B). From 2017 to 2020, out of all disclosed transactions, about 6.7% were over the \$1B threshold. From June 2020 to June 2021 alone, the proportion of megadeals out of all disclosed deals has increased to 15.7%. Meanwhile, the percentage of small deals (less than \$100mm) has decreased from 70% of all disclosed deals from 2017 to 2020, to just 48% of all deals disclosed in the 2020 to 2021 timeframe. The total number of deals in the past 12 months beat the average annual deal volume from 2017 to 2020 by 40%. Investors are paying a premium for whatever prospect for growth they can acquire in the tech industry to scale their business and adapt to future markets.

Seller's Market for Tech Companies

Over the past 12 months, valuations for tech companies have continued to grow higher and higher as investors realize the importance of growth in this industry. The data in the table shown to the left is for all transactions announced in the U.S from June 2020 to June 2021. The multiples have skyrocketed in the past year, with a 68% increase in the average Total Enterprise Value (TEV)/Revenue and a 49% increase in the average TEV/EBITDA. The multiples are even higher when looking at companies with revenue below \$200mm. The average TEV/Revenue for companies in this range is 3.67, and the average TEV/EBITDA is 17.56. Valuations may start to see declining growth for the rest of 2021, then start to level off and gradually decrease in the next two to three years.

Number of Tech M&A Deals by Transaction Range



Conclusion



A New Digital Age of the Workforce

Even though the distribution of vaccines globally has eased lockdown orders and the global economy is beginning to reopen, much of the workforce has become accustomed to working from home and prefers to continue doing so in some capacity. This new work environment creates increased demand from many sectors within the Information Technology industry such as cloud computing, cybersecurity, telecommunications, and software.



Increased Valuations and Spending

Multiples continue to increase steadily as businesses are seeing the value that new technology provides in terms of scaling business operations and adapting to new environments. While spending volume in the tech sector has decreased since it's high in Q4 of 2020, it will likely continue to be at elevated levels through 2022 as compared to previous years.



Growing Industries in Technology

Technology has been developed over the past year to account for a reduced labor force as a result of the pandemic, allowing for businesses to automate processes with artificial intelligence that were previously done by humans. Growth in artificial intelligence and computing hardware will continue to expand, as automation provides opportunities to cut costs and increase efficiency, providing a safe haven from potential future risks such as higher inflation and contractive monetary policy.

Senior Management Team



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Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.



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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.



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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from \$5 million to \$200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

ASA Ventures Group

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