

Start With the Exit in Mind

2024 Tech M&A Playbook



About TechStrat

At some point, every mid-market tech company will need to make an M&A decision. Let an expert dealmaker guide yours.

We are a Seattle-based M&A advisory firm with a global outlook

- TechStrat is an advisory firm that helps technology and tech-enabled service companies grow through M&A.
- Through our work, we are transforming the tech landscape, improving careers, and enhancing organizations.

Our Process

- Creating and executing an M&A strategy requires a multidisciplinary approach that includes legal, financial and management expertise, and maintains strict confidentiality.

Our Mission

- We help clients open new chapters in their lives and create opportunities for others.
 - When a deal closes, we want you to say "I'm glad I did that."

Our Experience

- We've been at this for 20 years and have closed more than 100 transactions in dozens of verticals and with industry leaders like Google and Microsoft.

Our Clients

Our clients are builders. They're smart people who have created value for themselves, their employees, and their partners.

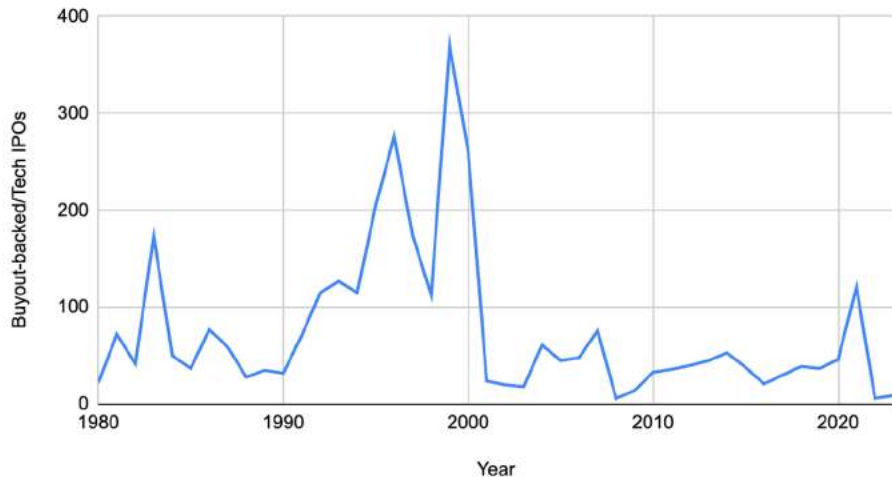
Typically, our clients are founders or Investors whose companies have:

- EV of \$10-\$150 million
- differentiating technology and/or service that supports a competitive advantage in software, services or content
- constraints to growth that are solvable through partnership/acquisition or capital
- a stable or growing business
- a genuine interest in effecting positive change for management, owners, employees, and partners

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“Exit” Defined

3,320 Tech IPOs since 1980



“In 2023, only 148 companies completed an initial public offering (IPO). This was the worst year on record and followed a 15% decline from the number of IPO's in 2022, another disappointing year. In 2023, ARM was the sole blockbuster tech IPO.”

3,800 Tech Company Shutdowns in 2023



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Planning for Strategic M&A Exits in 2024

1) Adapting and winning in today's challenging market

2) Winning strategies in every market

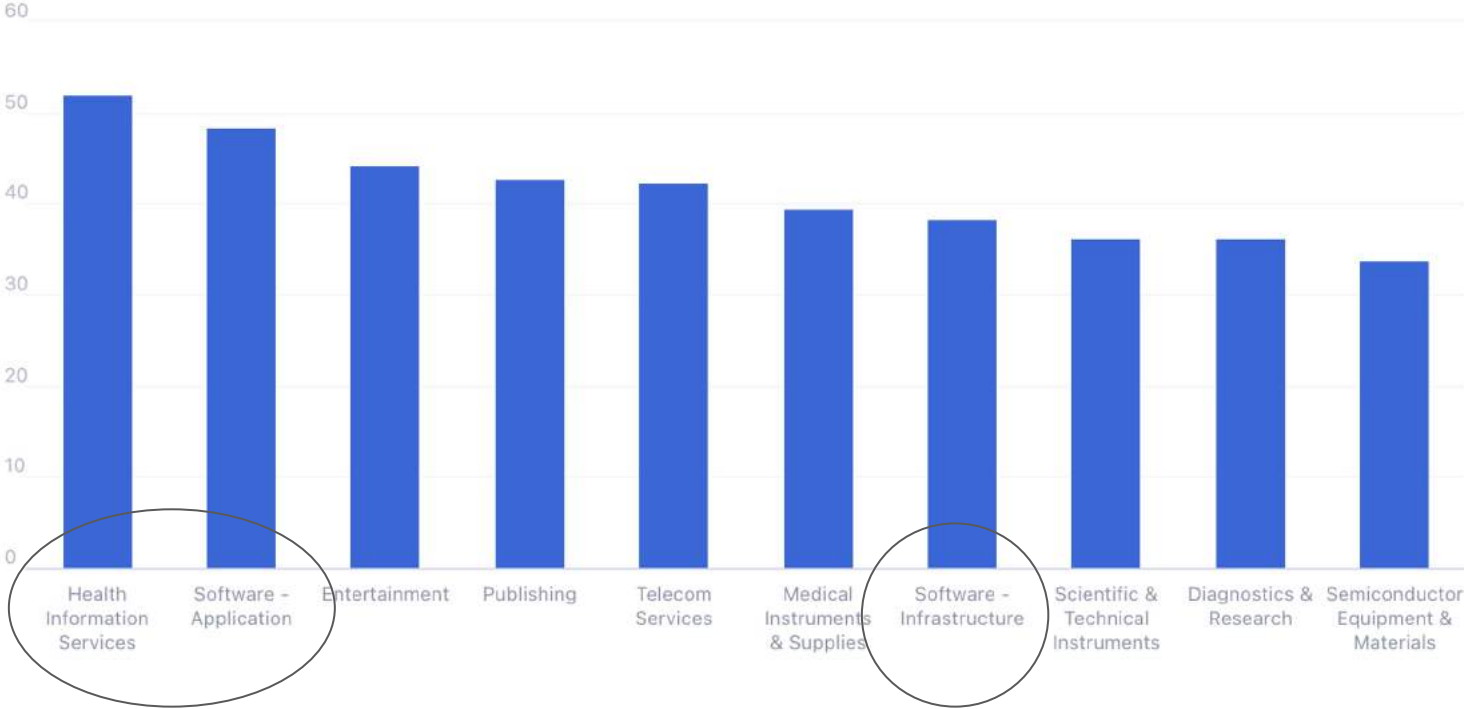
Tech M&A Should Be Accelerating

1 Year NASDAQ Composite Index



High PE Ratios in our Segments

Industries with the Highest PE Ratios

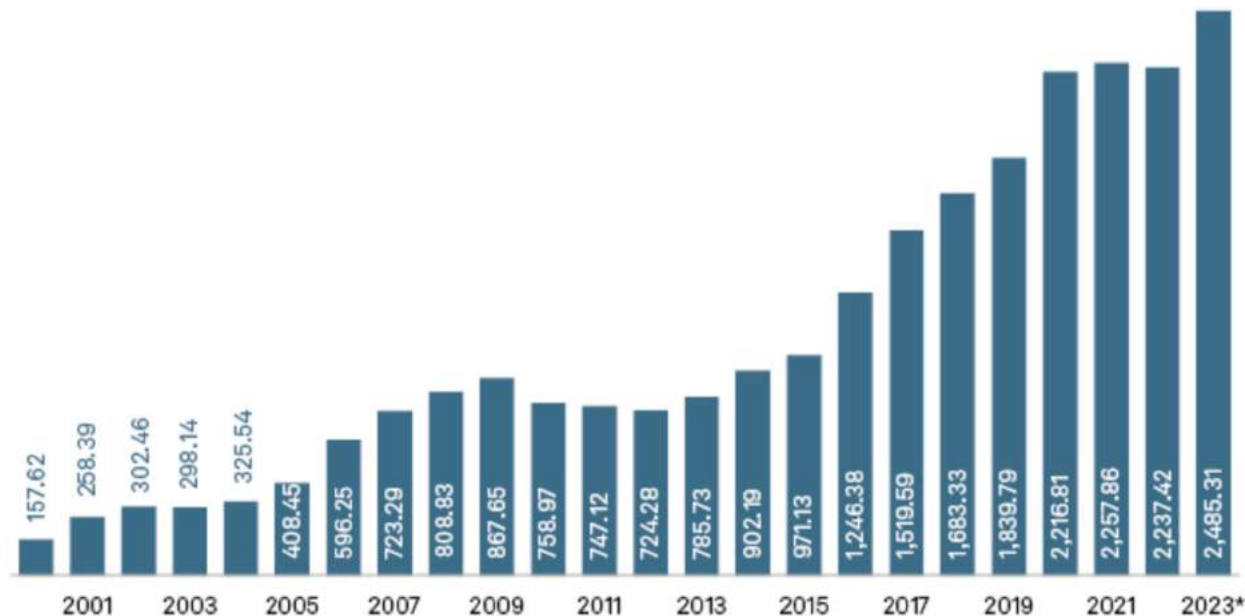


Record Pubco Cash Reserves

Top 13 Cash holders on the S&P 500 hold over \$1 Trillion in balance sheet cash

Company	Symbol	Cash and investments (\$ billions)	% of cash held by S&P 500	Sector
Apple	<u>(AAPL)</u>	166.5	6.30%	Information Technology
Alphabet	<u>(GOOGL)</u>	149.6	5.70%	Communication Services
Microsoft	<u>(MSFT)</u>	121.1	4.60%	Information Technology
UnitedHealth	<u>(UNH)</u>	92.3	3.50%	Health Care
Exxon Mobil	<u>(XOM)</u>	69.1	2.60%	Energy
Amazon.com	<u>(AMZN)</u>	66.5	2.50%	Consumer Discretionary
Pfizer	<u>(PFE)</u>	59.7	2.30%	Health Care
General Electric	<u>(GE)</u>	59.7	2.30%	Industrials
Meta Platforms	<u>(META)</u>	59.7	2.30%	Communication Services
Chevron	<u>(CVX)</u>	56.4	2.10%	Energy
Elevance Health	<u>(ELV)</u>	45.1	1.70%	Health Care
CVS Health	<u>(CVS)</u>	39	1.50%	Health Care
Amgen	<u>(AMGN)</u>	38.6	1.50%	Health Care

Record PE Funds



Data compiled July 3, 2023.

* As of July 3, 2023.

Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2023.

Dry powder data is supplemented by Preqin.

Source: S&P Global Market Intelligence.

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Transformational Megatrends

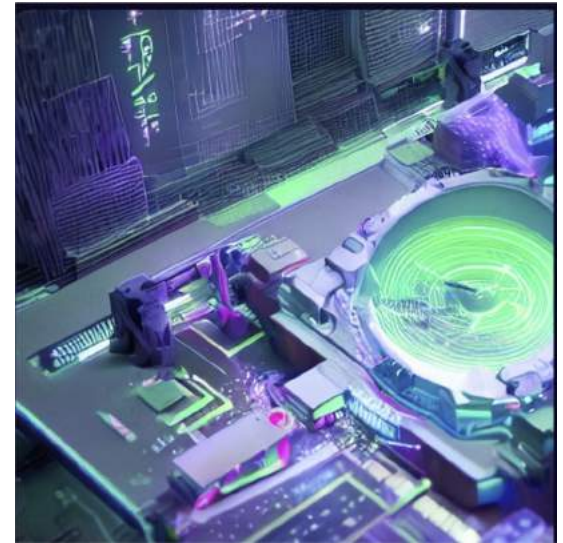
Artificial Intelligence



SaaS

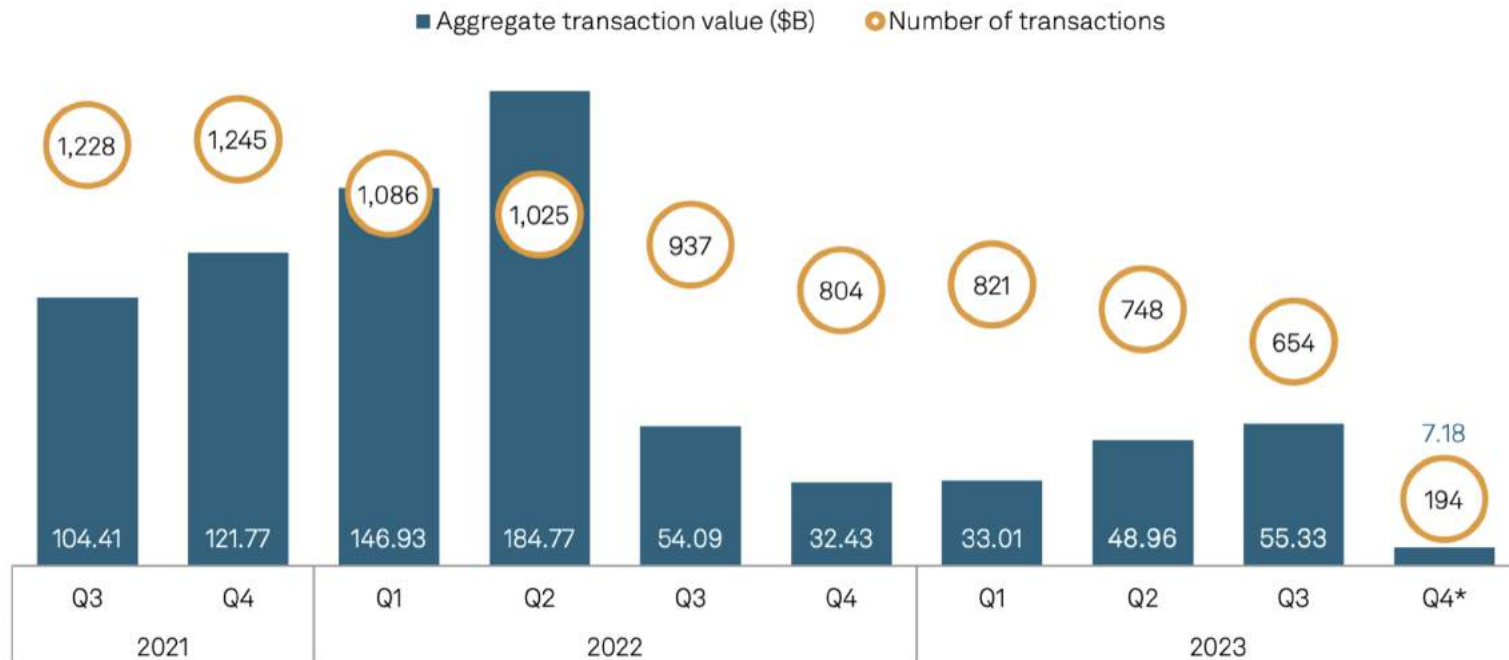


Big Data



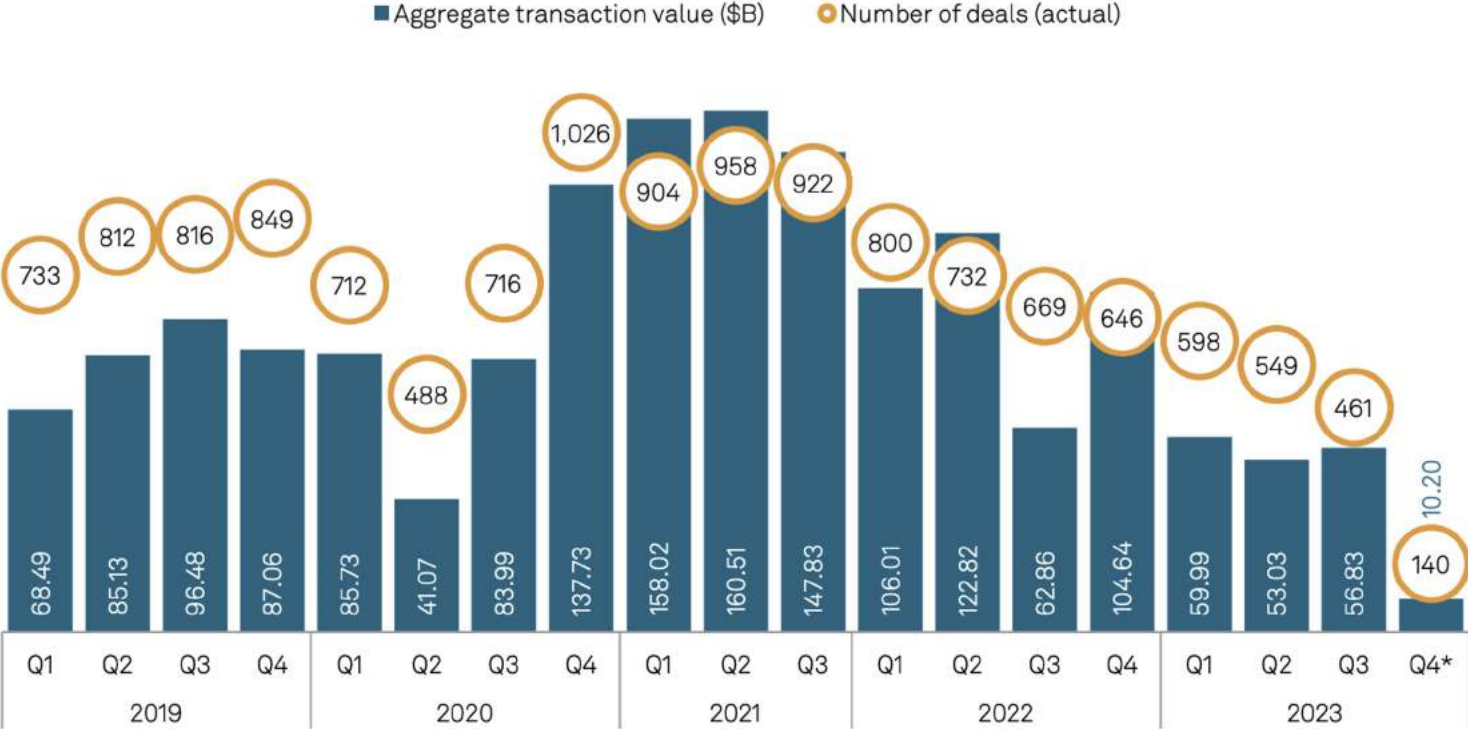
Instead, M&A Has Stalled

US M&A deals since Q3 2021 – technology, media and telecommunications



PE is on the Sidelines

Global private equity and venture capital entries worldwide, 2019–2023



M&A Market Headwinds

Bid/Ask Valuation Gap; Sellers live in past, buyers wait for a future reset

Expensive capital - high interest rates; expensive and scarce equity

Reduced headcounts, more efficient operations, high resistance to adding people (the “year of efficiency” per Zuckerberg)

Harsh regulatory environment with rigorous anti-trust enforcement

Disruption without end; it is impossible to predict future IT spend

Digital transformation and cloud migration slowed

Migration to cloud encouraged **vendor lock**

Moribund IPO market discourages company-building by PEs



M&A Market Headwinds

Blind **race toward efficiency has hamstrung innovation**; there is no slack in procurement budgets; benefits must be instant

Nationalist isolationism has prioritized security and self interest over trade

The rise of **“The App Store”** has made M&A redundant

Low hanging fruit has been picked; **remaining problems are narrow, specialized and complex**

It is harder to hire and retain good people in the face of **the rising cost of living**



Sailing Through

Valuation Gap: Understand your CURRENT value

Expensive capital: Pursue high-margin business model

Reduced Headcounts: Revine an efficient business model;
outsource everything

Harsh **regulatory environment:** Be hyper-focused on your segment,
the narrower the better

Disruption without end: Identify and refine your ICP

Digital transformation ... slowed: Focus on recurring business value,
not transition

Vendor lock: Seamless integration, differentiated value proposition,
move past MSP model

Moribund IPO market: Sell early in the growth journey, look more
broadly for buyers and merger partners



Sailing Through

Race toward efficiency has hamstrung innovation: Startups have to get creative on revenue and financing models

Nationalist isolationism: Understand that the US and its allies have clearly defined “no fly zones”

“The App Store”: Avoid at all costs

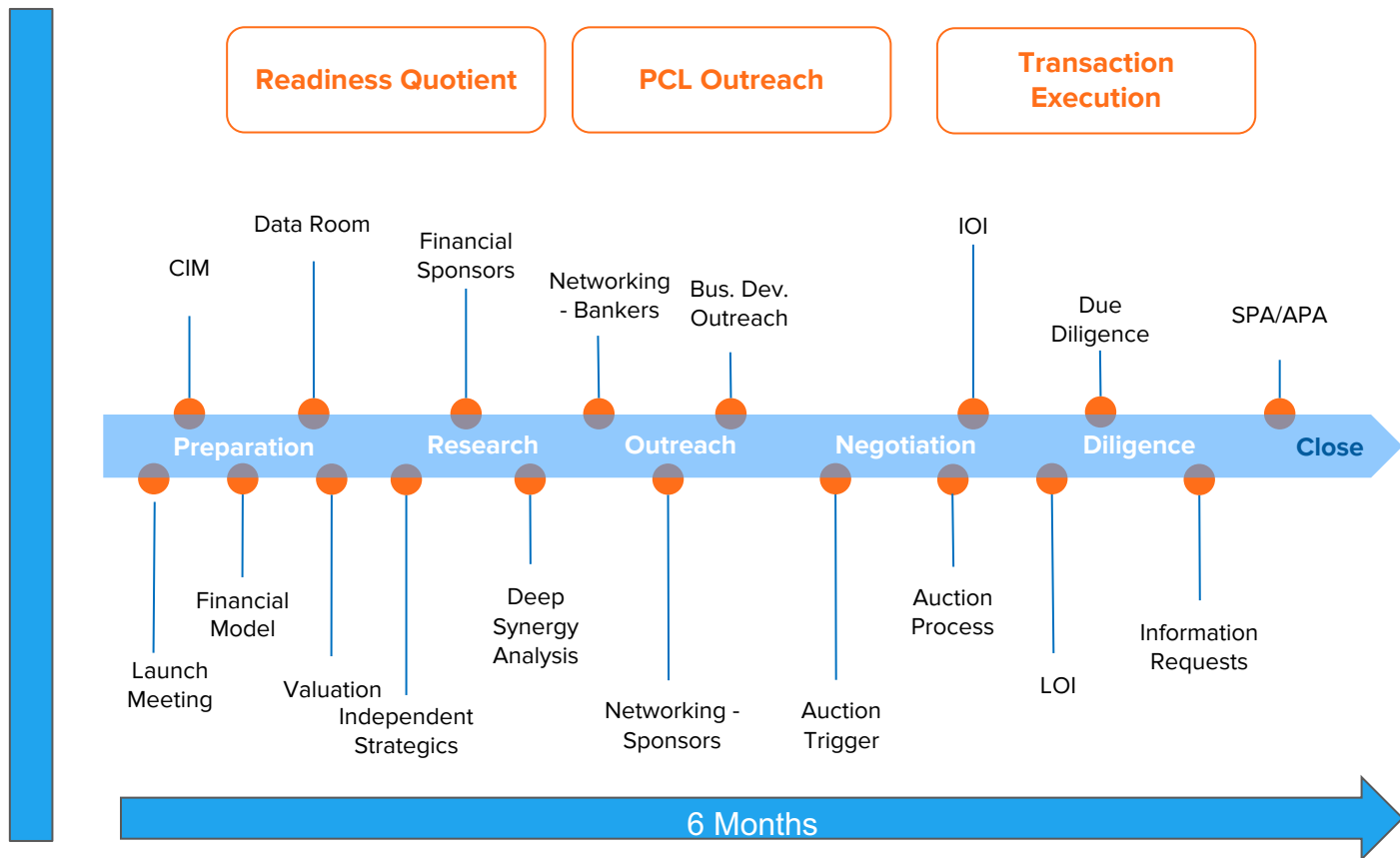
Remaining problems are narrow, specialized and complex: a broad vision is a red flag.

The rising cost of living: where you are headquartered matters more than the salary you can pay



Start with the Exit in Mind: Winning in Any Market

1. Process
2. Alignment
3. Structure
4. Finance
5. Data Room
6. Buyers
7. Timing
8. Valuation
9. Execution
10. Advisors



Celebrating our Clients: “Why Not Us? Why Not Now?”



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