Executive Forum 2024: Navigating growth in the tech industry — organic and inorganic strategies for success in 2025

Teaser Video Transcript

Long-term Customer Stickiness

We did just recently publish a survey of M&A professionals and about 67% of those respondents, they said that they're, they're expecting a, a rise in deal volume over the next six months. And technology was sort of identified as one of those top industries for M&A activities. So, and I think, you know, we we've all been waiting for for the deal activity to pick up. I think a year and a half ago a lot of us were saying it was going to pick up in six months and then six months later we said it was pick up in six months. So hopefully now we're at a point where, and, you know, it'll pick up in six months and I do think at least I'm sure Victoria will attest to this, but I know that we're getting more busy in my group.

And so I think, you know, we might actually be at that point where our our prediction is going to be correct. So, you know, and you know, and, and related to that, I mean that, you know, private equity firms have been holding cash for a while and you know, at some point they're going to have to return capital to those investors if they don't make deals, right? And you know, portfolio companies have been being held for longer. I know you know, looking at pitch books, I think the average holding period is somewhere around four years now. So we're definitely getting to a point where where we're getting much longer holding periods. And then you know, within that same survey, 77% of PE respondents we're we're somewhat very optimistic about how their portfolio companies would perform over the next 12 months. So you know, again, I think you know, all positive indicators there. And then you know, now pivoting specifically towards software, you know, if you look here at these charts, we've got MI activity by quarter. I've started in 23 and gone through the latest Q3 of 2024. It's definitely again, you know showing signs of stabilization here. Right now. The median enterprise value of the next 12 month EBITDA is around 24.7, which is pretty consistent with the historical of this same.

I think that sort of indicates a balanced view on you know sort of growth and growth and profitability in the software sector. And then we'll we'll sort of get to more sustained valuation levels. Sort of feels like we're being cautious, but we have an optimistic outlook. Activity itself has been subdued. If you look at the the chart up above, again, if we were to extend that backwards three years, I think this, this, these bars would look a lot shorter. So you know, we've, we've definitely seen some activity, but you know this definitely it's been subdued and you know around valuation.

I think you know, these new newer entrants are going to have lower profit margins and obviously you you have higher R&D in sales and marketing expenses. And so these, the larger players that are going to be active in this market are going to really be able to be create value and be accretive very quickly because of that, because of their, their, their, they're being entrenched and having their cost structures in place. I think for small companies, for anyone listening and it's, you know, I think you know that the old days, you could sort of just focus purely on revenue growth, just constant revenue growth, not worry about your bottom line, not necessarily worry about contract terms of customers, you know, sort of get the customer on board and just move forward. But that, that, that's definitely something that, you know, I think is, is gone. You know, you, you really have to make sure that you are, are thinking about the long term stickiness of those customers and, and not having unsustainable contracts. So, and then

another thing with the software, I think there's challenges around the workforce and I think that actually probably crosses all the industry here in tech. And so that's something that with acquisition you can really improve on. And I know you probably have heard the term, but a lot of people are talking about Aqua hire lately where you're basically acquiring a workforce and, and all the other assets are pretty, pretty minimal.