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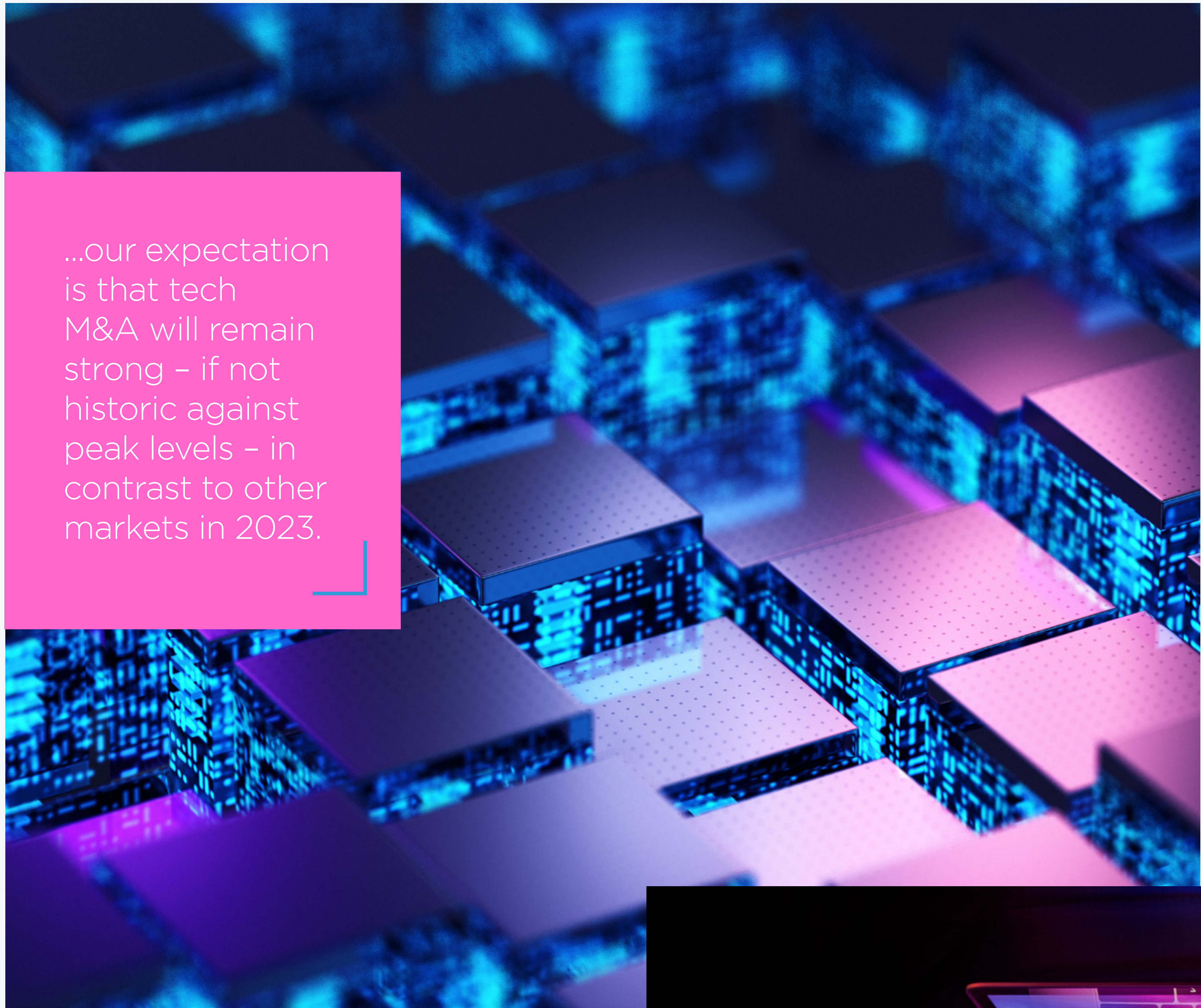
2023 M&A OUTLOOK

Post-Pandemic Boom

Will the “Great Acceleration” for Tech Continue?

By Gregory Bedrosian, Managing Partner & CEO of global tech investment bank, Drake Star



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GREGORY BEDROSIAN, MANAGING PARTNER & CEO

Executive summary

As we look towards 2023, the financial markets and the global economy are approaching a historic point of inflection.

The COVID-era environment of 2020 and 2021, fueled by trillions of dollars of government stimulus and two years of a pandemic quarantine lifestyle, has led to what some have deemed the "great acceleration" for tech companies and tech dealmaking.

2021's levels of M&A were always going to be a herculean effort to meet. With nearly $6 trillion in deal value and well over 60,000 transactions in that year, the post-pandemic boom was an epic period in the market. In odds with a strong previous year, 2022 has seen a considerable cooldown in M&A activity, primarily driven by macro-economic and geopolitical volatility not seen in decades.

Despite the decline in dealmaking activity in 2022, our expectation is that tech M&A will remain strong – if not historic against peak levels – in contrast to other markets in 2023.

M&A DRIVERS

Flashing yellow lights

While it is crucial for tech companies to strive towards innovation and growth, it is equally important to act in consideration of current and potential future market dynamics. Understanding the drivers behind this environment is key to identifying the best opportunities for moving forward.

The typical driving forces of M&A activity can be roughly divided into three segments: strategy, finance, and confidence.

Much like a traffic light, one of those indicators is flashing "green" and the other two are flashing "yellow".

Strategy is a green light and innovation is still king. The cycle of young, disruptive, entrepreneurial companies becoming value-add acquisition targets for mature or growing tech giants and investors will continue in 2023. There is even reason to believe we may see a "mini boom" in tech M&A during 2023. Headwinds in financing markets and shifts in valuations may combine with compelling strategic rationales and fewer options to produce more tech matchmaking in 2023 than expected.

Unfortunately, the other two key indicators of M&A, finance, and confidence, are flashing yellow at best as we enter the new year.

Both investors and leadership in public markets are feeling discomfort amid a century-scale downturn. In addition to this environment, the "rite of passage" for elite tech companies – the IPO market – is essentially closed.

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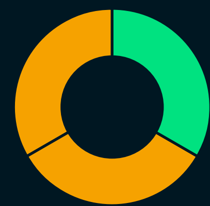


The typical driving forces of M&A activity can be roughly divided into three segments:

1. STRATEGY
2. FINANCE
3. CONFIDENCE

THE M&A BARBELL

Finding the sweet spot

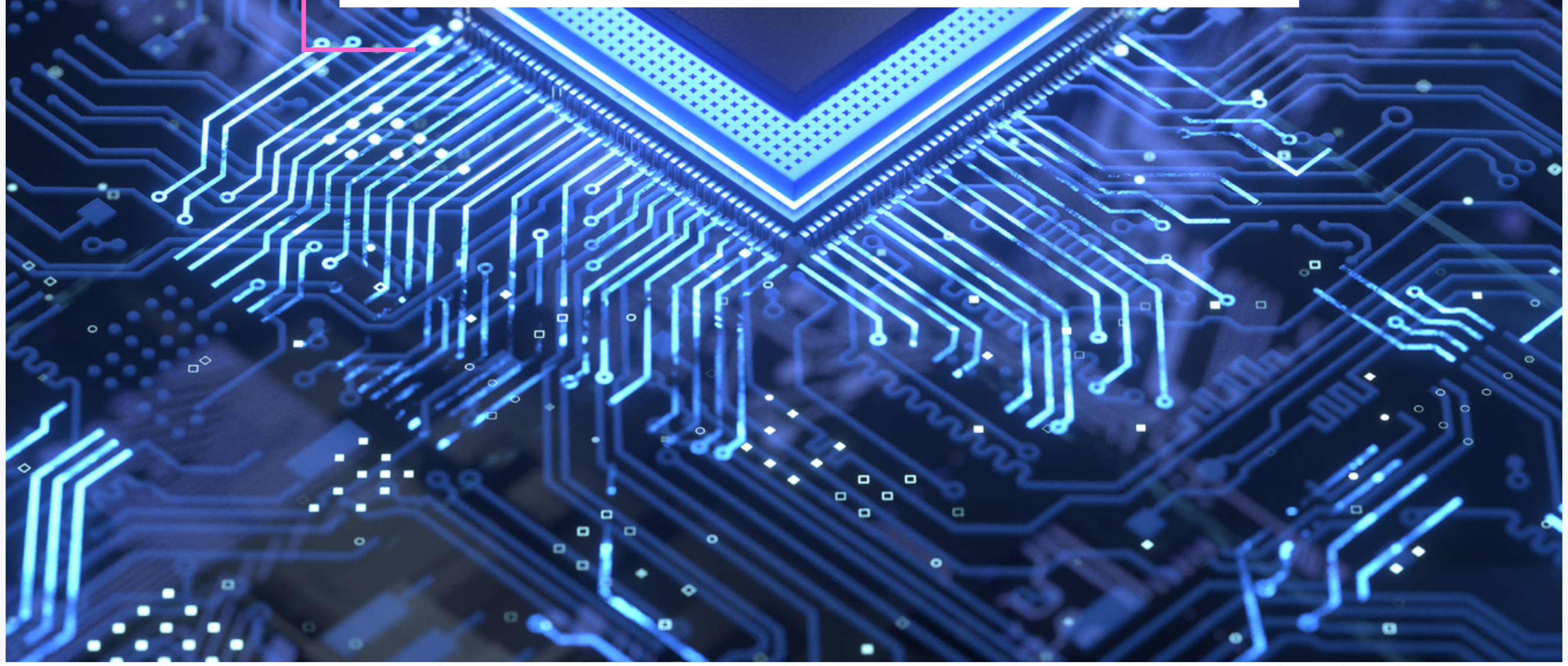
In uncertain times, I rely on what I call the “M&A Barbell,” and any company considering a high value deal should avoid being at either end of it.

Early-stage companies with negative cash flow aspiring to change the world are at the lower end of the barbell. They need significant cash infusions to support years of runway before reaching profitability.

In 2021, buyers were eagerly exploring ways to acquire these tech darlings. Today, acquirers shun this profile, leaving these former favorites now focused solely on survival.

At the opposite end of the barbell are well-financed, high-performing tech businesses that may have attained “unicorn” status and expected to go public in 2023. Those hopes have withered along with the rest of the IPO market as volatility shattered private valuations and easy access to capital.

The M&A “sweet spot” sits comfortably in between - companies with consistent, sustainable revenue and cash flow growth are now attracting the lion’s share of M&A interest. For those on either end of the barbell, the choice is to postpone an exit for one or two years or explore more opportunistic near-term M&A.



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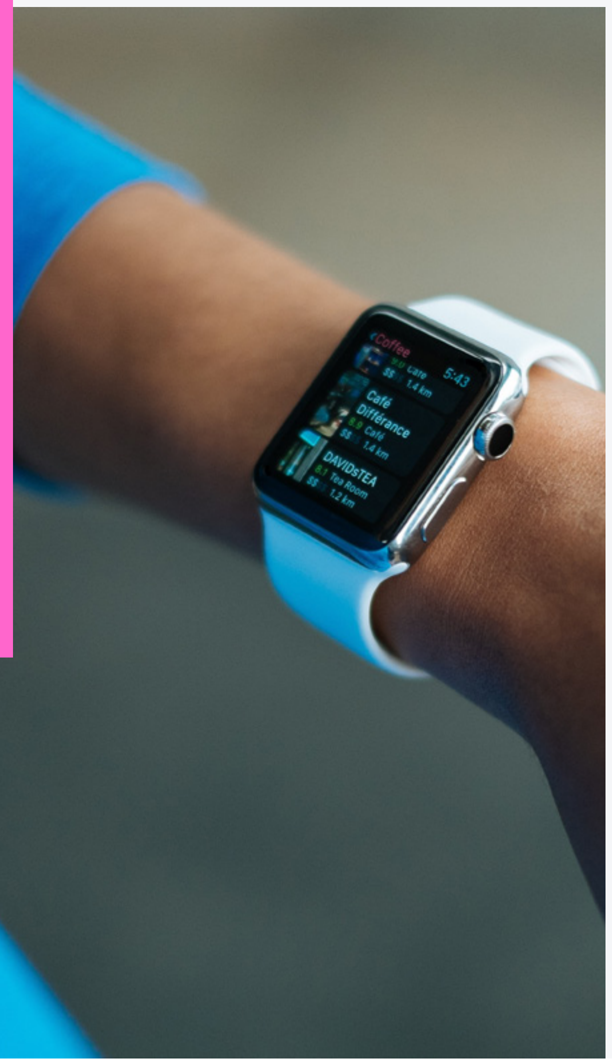


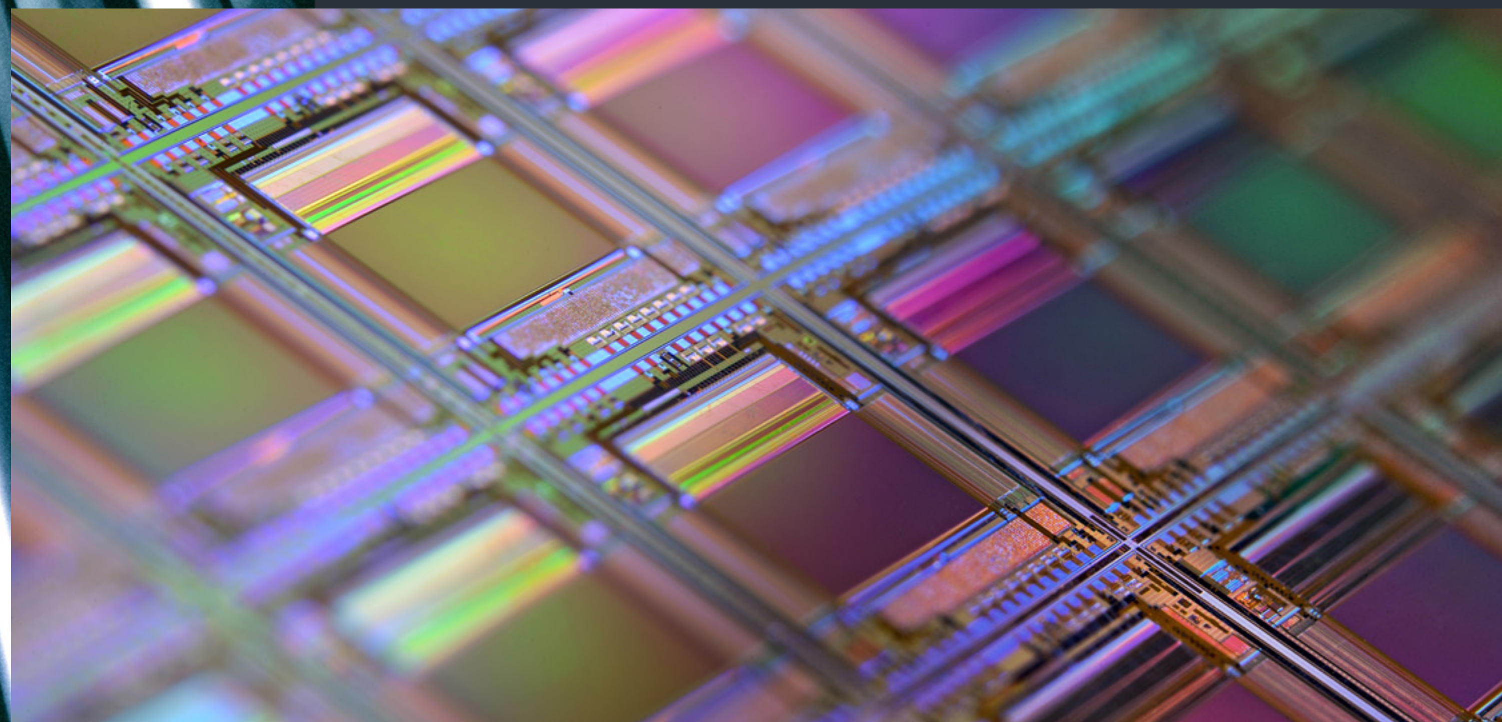
M&A markets are still broad and deep, with tens of thousands of deals and trillions of dollars in transaction values per year.

THE TECH FUTURE

Predictions for 2023

My prediction for 2023 overall M&A activity is cautious compared to 2022 levels. However, if we narrow the focus to the tech sector, I foresee a flat 2023 with the potential for some upside in the M&A activity as the year progresses. The yellow lights, enduring strategic value of tech, and the mini booms counteracting one another should keep tech M&A activity on pace with 2022.

Private equity and large-cap tech corporates have stored up billions worth of dry powder and sectors with recurring B2B revenue models, such as SaaS and digital services businesses, remain in favor. Other sectors experiencing material disruption, such as digital media and fintech, are likely to see M&A consolidation among the winners and losers. In a strong but not peak environment, sellers benefit because they stand out more. Regardless of how far the market slumps, M&A markets are still broad and deep, with tens of thousands of deals and trillions of dollars in transaction values per year. As corporate boards and C-suite executives discuss and debate future strategic steps, M&A alternatives for 2023 remains a sound strategy for well-prepared and well-positioned companies that have shareholder liquidity to leverage.



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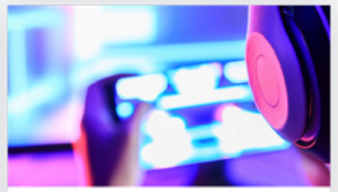

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Travis Witteveen, CEO

AVIRA

"Drake Star was a terrific advisor for Wildmoka, providing me and Cristian [CEO] with a strategic market perspective along with the team and resources to run a comprehensive and well-organized process..."

Thomas Memguy, CTO

WILDMOKA

WHERE WE ARE

DEAL HIGHLIGHTS

Avira — SALE TO INVESTCORP TECHNOLOGY PARTNERS AND ROLLOVER OF MANAGEMENT SHARES — CYBERSECURITY SOFTWARE

Sale of largest German cyber security software provider to leading global PE for $180m

PACVUE — SALE TO assembly, a portfolio company of Advent International & PSG — RETAIL MEDIA

Sale of leading marketplace advertising and intelligence SaaS platform

Parcel2Go.com, a portfolio company of MAYFAIR EQUITY PARTNERS — MAJORITY SALE TO EQT — LOGISTICS TECH

Sale of UK's largest parcel delivery marketplace to leading global PE

fintecsystems — COMBINATION WITH tink — FINTECH / SOFTWARE

Largest B2B FinTech exit in Germany in the past 10 years

ubitricity — SALE TO Shell — ELECTRIC VEHICLE CHARGING SOLUTIONS

Sale of leading EV charging powerhouse to Shell, enabling Shell to expand its leading market position

NUMECA INTERNATIONAL — SALE TO cādence — COMPUTATIONAL FLUID DYNAMICS SIMULATION SOFTWARE

Sale of leading simulation software provider to Cadence Design Systems (Market Cap >$40bn)

]init[— SALE OF SHARES TO EMERAM CAPITAL PARTNERS AND ROLLOVER OF MANAGEMENT SHARES — DIGITAL TRANSFORMATION SERVICES

Sale of leading digital services provider to the public sector

freepikcompany — MAJORITY SALE TO EQT — VISUAL CONTENT PLATFORM

Largest digital media transaction in Spain

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