Polestar

Software, Media & Technology

Sector Review H1 2024

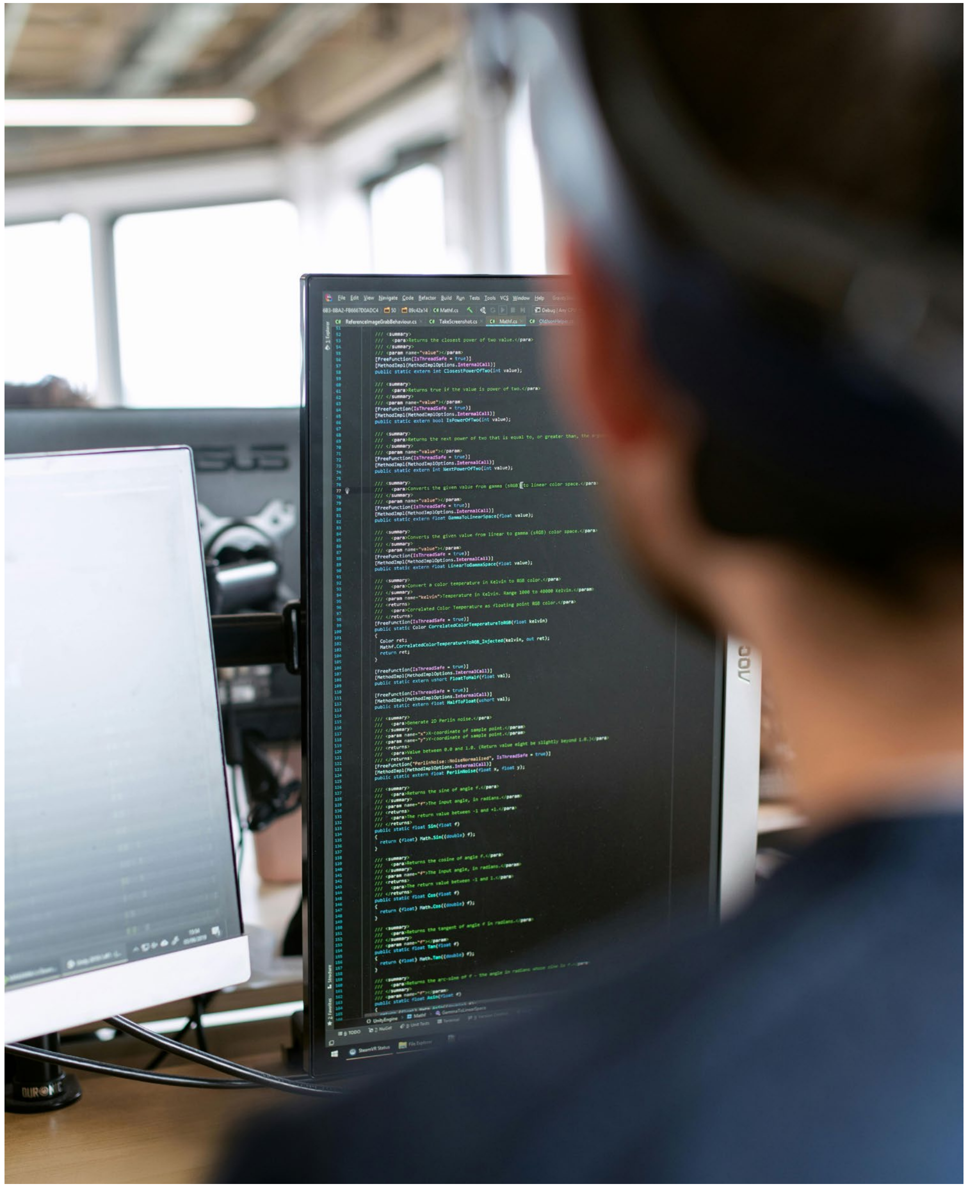
Macro Outlook

As we set afoot the new academic year, the UK is in a much stronger position than it was at the start of the year. The UK economy demonstrated resilience in the first half of 2024 and is now on track to have the fastest growth of any G7 country.

The UK's GDP grew by a total of 1.3% in H1 2024, surpassing the growth rates of the two other European powerhouses, Germany and France. This turnaround follows the late 2023 recession, with growth in GDP attributed to a burgeoning services sector, that grew by 0.8% in Q2. Growth can also be attributed to scientific research, IT and legal service sectors.

Looking forward, the picture remains rosy - the UKs real GDP, according to the IMF, is projected to grow by 1.5% in 2025, which would make it the 3rd fastest growing economy in the G7.

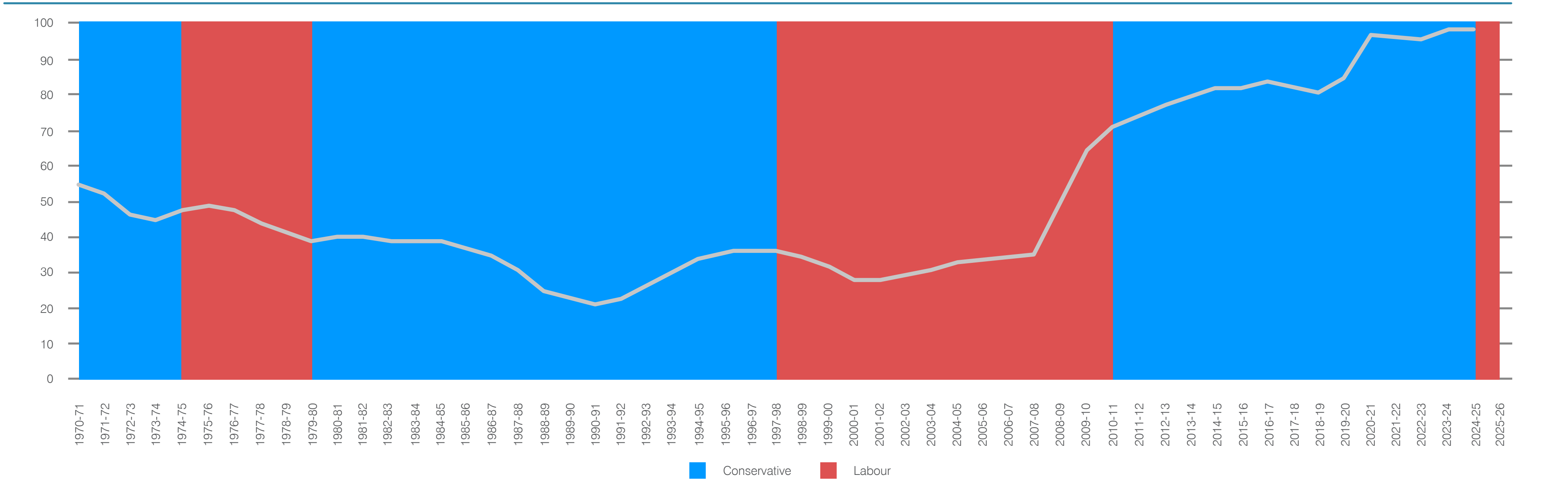
Inflation is looking to settle across the UK - positive news for public equities, and deal making, as we begin to forecast a raise in company valuations, incentivising sellers to market more opportunities.



Looking at the labour market, the estimated number of vacancies for May to July 2024, decreased from the previous quarter, the 25th consecutive period of falling vacancies. The unemployment rate in the UK was also estimated at 4.2% in April to June 2024, decreasing in the latest quarter. Wage inflation is still high, at 5.4% in the three months to June, which is double what the BoE sees as consistent with CPI staying at its target level. Generally, markets are pricing in two rate cuts, in both November and December, but median forecasts are showing that the BoE will deliver one more rate cut this year, according to economists. The benefit of further rate cuts will spill into dealmaking activity as it will lower financing costs for acquisitions but also lower the cost of capital for firms which borrow on floating rates, making business valuations more attractive, benefiting those looking to sell. Keeping an eye on further rate cuts will be the main piece of news moving forward into 2025.

Lower inflation rates, coupled with future interest rate cuts can also help the UK's growing debt problem. The UK's net-debt sits at just under 100% of GDP as of Q2 2024, and the new Labour government will be watching over this during its tenure.

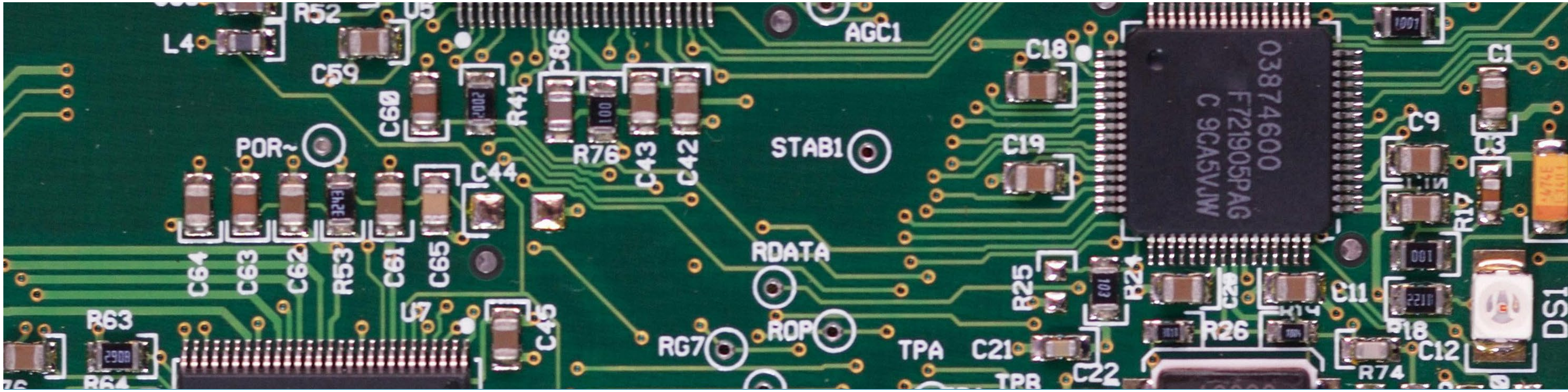
Government Net Debt - % of GDP



In summary, important trends and macro data to look out for include inflation and interest rate data as these can hugely impact valuations and financing costs.

Software, Media & Technology

- In June 2022, the UK became the third nation worldwide to attain a $1trillion tech sector valuation – reaching $1.1 trillion as of Q1 of 2024. Attributed to rapid digitalisation and politically driven shifts within global industry, the UK remains the leading tech ecosystem in Europe. In 2023, 51,000+ new tech incorporations were registered in the UK, rates that continue to demonstrate the UKs global presence on the tech stage.
- Since our last valuation, the UK has seen many changes, and at times quite literally run riot. Despite change, the new government must retain momentum within the tech space - should Reeves' dream of "sustained economic growth" wish to prevail. AI development is at the top of governmental policy as they pledge support to remove barriers to data centres to promote development opportunities. Alongside this, a regulatory innovation office has been fabricated to support regulators with regulation updates, approval timelines and to coordinate issues that span existing boundaries.
- Whilst the UK tech market continues to flourish, geopolitical tensions continue to slog-along. With the interconnected nature of tech supply chains, such businesses are encouraged to review the manufacturing processes of their technologies and systems, to reduce supply chain volatility, raw material shortages and prepare for emerging regulation. We have, throughout the year, advised businesses to improve transparency and resilience across their supply chains, to prepare pro-actively for any remedial actions that may be required to meet the ongoing systemic risk frequently seen with prevailing hardware supply models.
- Although comprehensive reviews are often a large undertaking, premiums will be awarded to those who begin to streamline and modernise "legacy architectures" and migrate to Cloud and XaaS resources. Polestar has (to our clients) endorsed streamlined business practice, that is driven through automation, tech-debt reduction and the utilisation of innovative tools within daily tasks. The shift in tech and AI powered utilisation, offers businesses the opportunity to consider how to expand their reach into new industries, whilst utilising digital advancement opportunities to spur company transformation.
- Wide leaders should build up talent in critical areas, such as AI, robotic process automation and cyber security, and ask themselves "How can we define the correct blend of skills for competitive success?" and "Are we cultivating expertise in emerging growth areas?" - and when better to source talent than whilst big-tech ramp up layoffs!



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AI, Regulation and Digital Infrastructure

- Artificial intelligence's significance should not be underestimated, but it is fair to say generative AI is stayed… for now. Generative AI has created modest growth against last year's boom; however, policy changes will have a compounded effect on the vertical. The General Data Protection Act (GDPR), and the EU's AI Act, will help to iron out details such as copyright usage, bias mitigation and individual consent. Regulations like this will increase AIs potential, stimulating vendor and customer confidence. That is not to say that generative AI doesn't increase the value of a business,
- AI has had a knock-on effect on all technology verticals: adoption has increased the demand for computer capacity and storage, boosting demand for data centres and digital infrastructure. The number of data centre deals grew at a CAGR of 32% from 2017 to 2022, and cumulated with increased AI adoption, demand for digital infrastructure will broaden.

Q: Have we considered how embedding generative AI capabilities into our working practice could help to drive revenue and competitive advantage?

Q: Have we considered how regulation could impact our output and its impact on our business structure?

Cybersecurity

- Cybersecurity remains a priority for business owners, according to the UK government, 50% of UK businesses have experienced some-form of cybersecurity breach or attack in the past 12 months. This number rises to 70% of medium sized businesses and 74% of large businesses. On average each cyber breach costs a business £1,205, to mitigate this expense, this year we expect to see businesses update cyber hygiene policies.
- The UK government considers cyberspace in three areas: virtual, logical and physical. The rise of AI and hybrid working increases the virtual and logical risk of tech companies, whilst supply chain jitters pose a threat to the physical. The increase in monitoring has resulted in 41% of businesses seeking guidance or information on cybersecurity from external sources, most commonly from consultants or IT providers. Of medium sized businesses, 62% are insured against cyber risks, to provide financial security against a breach.
- The UK - as a global market leader in the space - was home to c.2,100 firms providing cybersecurity products and services in 2023. The FY24 annual revenue in the sector is estimated at £1.9bn, an increase of 13% from the previous year. 75% of this revenue is generated from large firms, in telecoms, aerospace, defence and security and consultancy markets.
- In 2023, UK Cybersecurity companies raised £400m capital across 85 deals. In addition to seeking new platform investments, financial sponsors are looking for bolt-ons with niche and specialist security technologies. Whilst trade buyers are looking into the sector to enhance and protect their own service offerings.

Q: Have we defined our areas of potential cyber risk and established monitoring processes?

Q: What investments should we explore in the cybersecurity and data governance to achieve compliance while mitigating cyber risk?

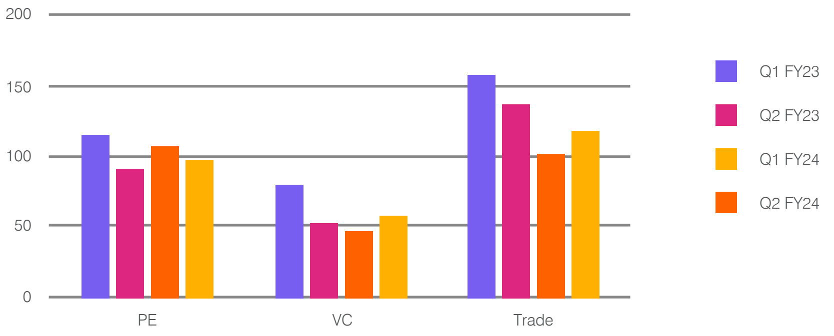
Cloud Computing

Cloud-based software solution companies have performed well in the sector. In part, this can be attributed to the premiumisation of cloud packages. The rise in cloud prices is a result of the macroeconomic environment, posing a shortage of chips and high energy prices. Demand for AI has increased the demand for cloud computing which has allowed the market to raise prices and offer consumers the premium services that drive efficiency into businesses.

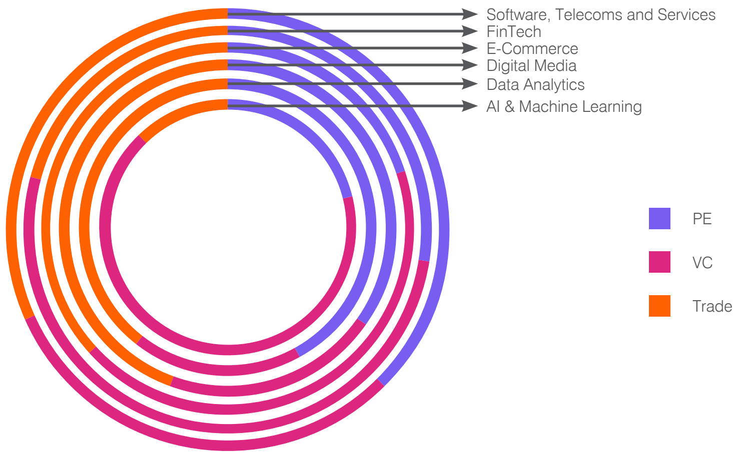
Firms are increasingly reviewing cloud strategy and become adaptable and value oriented. The enterprise cloud index suggests that 46% of UK businesses will utilise multiple clouds in the next three years, whilst globally this figure is just 26%. The reasons cited behind the multi-cloud shift are performance, cost, data sovereignty, malware protection and flexibility.

Multi-cloud preparation is not enough for UK businesses, the drive for sustainable power and accessibility is at the forefront of business owners' priority. Despite clouds sounding very pure and clean the technology is not environmentally friendly, with heavy reliance on fossil fuels. Concerns around software inefficiency will result in new technology being developed in cooling systems and computing power – the UK, a leading hub for sustainably driven businesses, will make the perfect home for these developments, fostering economic growth through green hardware development.

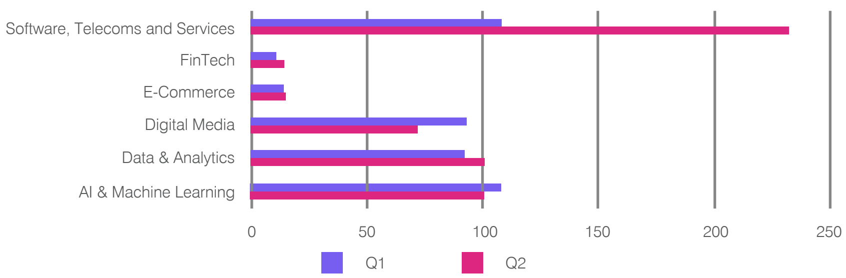
FY23 vs FY24 Deal Quantity by Type



H1 2024 - Deals Split



H1 2024 Deals by Sector



Source: Pitchbook

Deal activity has remained consistent in Q1 and Q2 of 2024, so far this year the sector has seen 526 mid-market deals at a combined-disclosed capital investment of £4bn.

Considering the economic landscape of H1 this year, it has shown only a marginal difference to the 631 deals in H1 2023, and lower disclosed investment value of £3.5bn. The resilience is a testament to the UK tech market, which remains a leader in M&A, representing 27% of all H1 2024 deals.

26% of disclosed software and tech deals record a value of £100m+ - a testament to improved economic conditions and increased buyer confidence. In H1 of 2024, 40% of disclosed deals were under £10m, the dominance behind smaller deals can be placed onto PE and public company strategy. PE transactions have remained steady and constitute 36% of H1 deals.

PE continues to consolidate smaller tech businesses, while public companies look for interesting IP to integrate into their own offerings. 70% of trade deals involved public company acquirers in add-on acquisitions, demonstrating investor appetite in new tech. Increased transaction activity promotes wider investor appetite, and increases the desirability of unique, IP rich assets.

Most AI and machine learning companies are not quite at the point of sale, as businesses are still on the smaller size and not yet profitable. However, investor appetite is abundant, with competition in the sector producing high valuations. Although attractive, investors are being mindful of the risk piece surrounding AI, resulting in any sell-side businesses being thoroughly vetted and considered before a transaction takes place.

Mid-market FinTech is not representative of the aggregated UK sector and made only £3.3m of the £5.7bn investment into the sector in H1 of this year. Larger businesses will be looking to acquire enhanced software solutions, perhaps aligned with AI and Machine learning developments – for the right asset we expect to see high multiples.

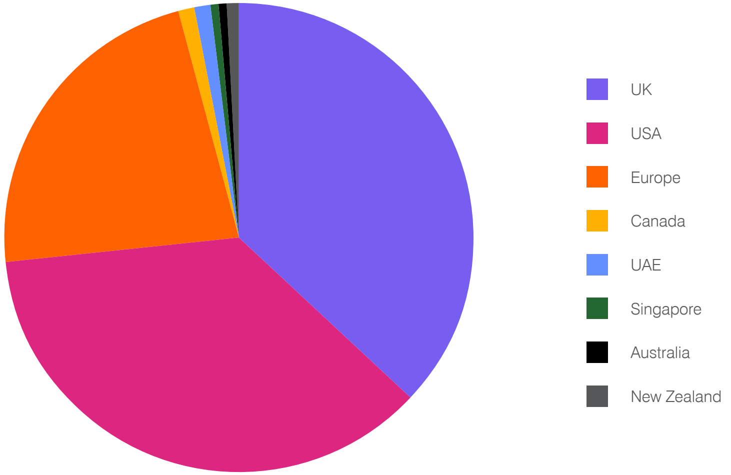
The e-commerce sector is prospering - 2023 saw c.67,200 new e-commerce businesses register in the UK, up 57% from 2022. The UK makes up the third largest global e-commerce market and is a critical component of the retail industry. Online retail has been boosted by customers looking to find affordable alternatives to combat the rising cost of living. We don't expect to see many M&A deals in the space this year, but there is appetite from trade-based buyers to incorporate key technical features into their e-commerce platforms, which will provide high valuation multiples for the right business.

This year the media and entertainment market in the UK is expected to rank as the biggest in Europe. Gaming and cinema are expected to expand and digital streaming and changes to the broadcasting landscape will also shift investment opportunities. UK broadcasting house, SKY, has commented that they look to the UK for the innovation and development of the industry as we approach the second half of the decade. PE will develop increased interest as AR and VR technologies look to offer mainstream solutions at lower prices and accompanying recurring revenues.

As the data market in the UK continues to grow businesses that offer solutions to streamline and automate the management of data see high premiums. The utilisation of data in the public sector is bolstering providers of predictive analytics and strategic resource allocation. Public demand will rise valuations for players tapped into the service offering.

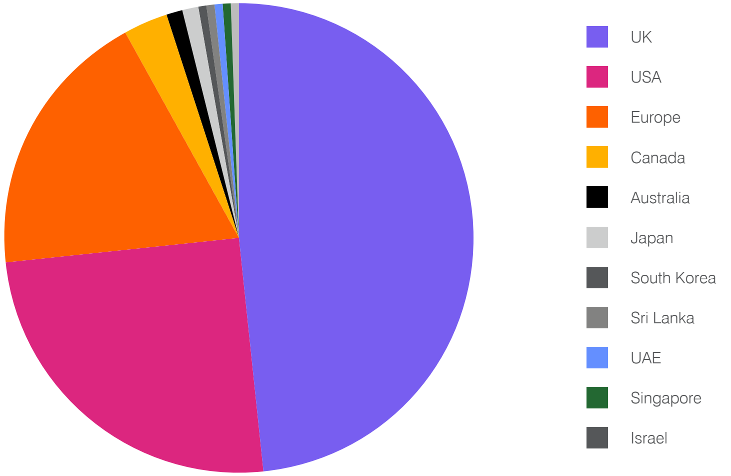
The UK - An Attractive Investment Landscape

PE Investment in UK Technology Sector by Country/Region



Source: Pitchbook

Trade Investment in UK Technology Sector by Country/Region



Source: Pitchbook

UK Tech in the global landscape

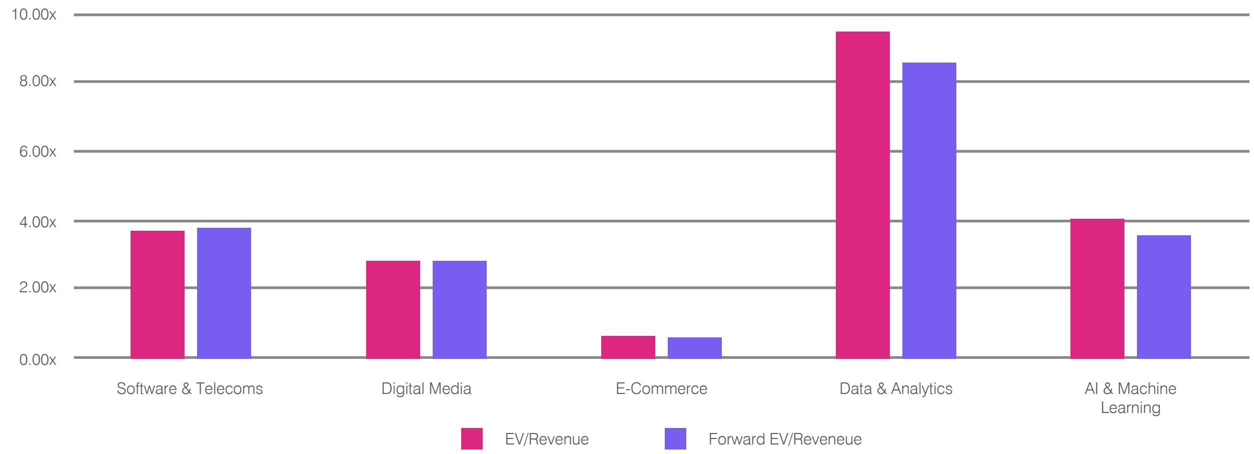
The UK remains a leader in innovation, technical prowess and attracts investment from global players. The new government will be tested on its reaction to growth and development within the tech sector, with hope that the UK's stable and established systems and laws will continue to provide a secure operating environment without the risk of political volatility. Historically, the government has shown support through initiatives, tax incentives and grants which have encouraged external investment.

The UK is home to a skilled and diverse workforce that maintains a strong expertise in the software development, engineering and adjacent fields, this knowledge is continuously enhanced with a steady stream of graduates from top-ranking universities. The high level of knowledge and continued government funding nurtures innovation and research, the UK is well known for its collaboration between business and academia, and its role in fostering cutting edge innovation. The presence of numerous startups, tech companies and research institutions also adds to the mixing pot of software investment in the UK.

H1 2024 has seen US and European corporates continue to expand operations through UK buy-outs. The rapid development of emerging technologies within the UK has spiked demand as cross-border investors look to markets with rapid advancements and revolutionary products. Robust IP laws within the UK protect innovation and increase investment within tech businesses of all sizes.

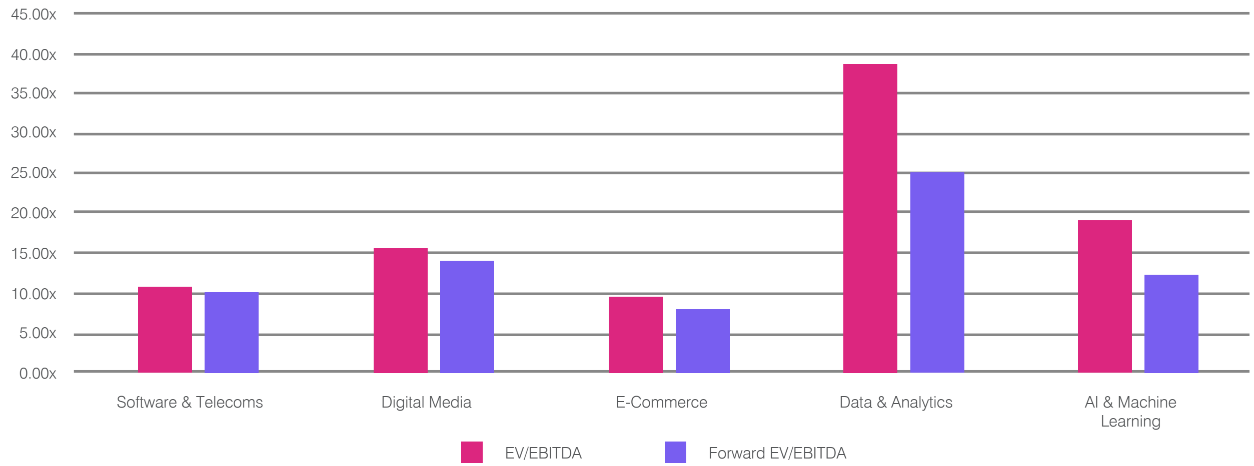
Listed Multiples

Listed Software, Media & Technology H1 2024 Average EV/Revenue Multiples



Source: Pitchbook

Listed Software, Media & Technology H1 2024 Average EV/EBITDA Multiples



Source: Pitchbook

Multiples, as predicted, have fallen. AI and machine learning has taken the biggest hit to multiples, which reflects its transition from a hyped-up newcomer to an established sector. Strong investor confidence has subdued to a more realistic valuation environment, which in turn has helped to weed out speculative investment and focus resources onto companies with solid business models and innovative technologies.

Digital media and e-commerce remain steady investment prospects, as each have remained out of the negative news cycle and deliver sustained growth. The same can be said for the wider software, telecoms and services sector as consumer and investor focus remains heavily on the data & analytics and AI & machine learning sectors.

Bets are still being made in the data & analytics sector as we wait for sector specific front runners to emerge with solutions to our daily data driven tasks. The sector will remain in high demand and high competition throughout the year, and businesses within the sector will receive high multiples, whilst listed companies use buy and build tactics as they battle to position themselves as the shoo-in.

Although listed businesses may feel a far step away from private business, multiples offer a guide to the value of your business, private companies often range 1-2x lower in EBITDA valuations due to relative size, transparency and liquidity, for a true valuation of your business please reach out to us.

Active Buyers

Active PE Investments - H1 2024	Sub-Sector	Number of Investments
Epiris	FinTech	1
LDC	AI & Machine Learning	1
Accel-KKR	Data & Analytics	1
Hg	Software, Telecoms and Services	9
TowerBrook Capital Partners	Digital Media	2

Source: Pitchbook

Active Corporate Investments - H1 2024	Sub-Sector	Number of Investments
Coupang	E-commerce	1
Tembo Money	FinTech	1
Cloudflare	AI & Machine Learning	2
Exante Data	Data & Analytics	1
Autodesk	Software, Telecoms and Services	1
Accenture	Digital Media	1

Source: Pitchbook

- Epiris, a UK based PE fund, has invested £2.3bn since 2011. The firm invests £50m-£250m in UK and international businesses. Epiris's portfolio company, Nucleus Financial, acquired Third Financial Group, a developer of custodial and outsourcing software to serve investment and wealth management firms.
- LDC, an established UK investor. Portfolio company, Croud, a full-service media agency, acquired Metageni, a provider of data analytics services that uses AI to help companies grow online. The acquisition provides Croud with a data and analytics company, deepened expertise in AI, and a wider media product offering across its global customer base.
- Accel-KKR has completed over 350 investments. The firm has a true software focus, specialising in mid-market enterprise software companies. Accel-KKR's portfolio company SugarCRM, an intelligence-driven sales automation platform, acquired Sales-i, a developer of sales enablement software designed to analyse invoice data from back-office systems, identifying sales and streamlining processes. The acquisition brings together two companies with complementary products and expertise in AI and machine learning to unlock the value of back-office and front-office data.
- Hg, a PE firm covering the UK, Europe, and North America, has over $70bn funds under management. Focused on software and services businesses, it is very active and has pursued a range of bolt-on and buyout deals across the UK, with a median deal size of £40m.
- TowerBrook Capital is an investment management firm that has raised almost $23bn to date. It is an active investor in the technology and media space and has a median deal size of £70m.

- Coupang, sometimes referred to as the 'Amazon of Asia', is an e-commerce company, in H1 2024, it acquired Farfetch, an e-commerce company connecting sellers and buyers of luxury goods. The deal helped Farfetch avoid bankruptcy by providing it with $500m in emergency funding.
- There have been several rescue deals in the UK across the sector, particularly in food and furniture e-commerce verticals. In the same period, Flair Furniture acquired Cuckooland, a collapsed e-commerce furniture and homeware company.
- VC-backed Tembo Money, an online residential mortgage platform, helps first-time buyers. Acquired Nude Finance, a financial platform designed as a savings account and financial coach for first time buyers.
- US based Cloudflare, offers security and web performance systems. In H1 2024, it acquired two UK companies in the AI space, to expand its serverless application.
- Exante Data provides data analytics services that delivers proprietary data and analytical assistance to professional investors around the globe. Acquired Trounceflow, a developer of a global data analytics platform. The acquisition will help Exante deepen its product offering and enhance its emerging markets and flow coverage.
- Autodesk serves a wide range of industries in architecture, engineering and construction. It acquired Datum360, an engineering information and asset data platform intended to increase efficiency in the process of energy extraction.
- Accenture has made several acquisitions of technology assets including Unlimited, a provider of marketing insights and communication services. Unlimited will become part of Accenture Song, the world's largest tech-powered creative group and bolster Accenture Song's capabilities to drive marketing transformation and unlock greater value from generative AI.

Selected Transactions - Private Equity

AI & Machine Learning
June 2024

Investor	Seller
Marlin Equity Partners via aprimo	personify xp

Developer of an anonymous "personalisation experience" platform designed to track online consumer behaviour. The company's platform utilises artificial intelligence and machine learning to automatically identify a website visitor's mission from their behaviour onsite. Aprimo acquired Personify XP to create more personalised experiences. The acquisition brings together Aprimo's content operations with Personify content tracking, powered by AI.

Deal Size: N/K	Revenue Multiple: N/K	EBITDA Multiple: N/K

FinTech
April 2024

Investor	Seller
STG	Gresham

Gresham is a leader in mission critical software and automation solutions for financial services. The platform helps firms manage risk and stay compliant. Following the acquisition, STG intends to merge the fintech with its other portfolio company Alveo, to create a leading enterprise data automation firm.

Deal Size: 146.7	Revenue Multiple: 14.1x	EBITDA Multiple: 3x

Data Analytics
May 2024

Investor	Seller
Agilence via Cuadrilla Capital	IntelliQ

IntelliQ is a developer of a forensically minded analytics platform intended to help industries generate a sustainable return on investment. The acquisition strengthens its global loss prevention capabilities, and expands its presence into the EMEA and APAC regions.

Deal Size: N/K	Revenue Multiple: N/K	EBITDA Multiple: N/K

Digital Media
Feb 2024

Investor	Seller
bd-capital	TLC experiences make life more rewarding

TLC is an operator of a marketing promotions agency intended to drive customer acquisition, engagement and loyalty. It produces marketing and loyalty programs for global brands. The acquisition will drive the firm's growth strategy and combine ex-CEOs to offer the next stage of the firm's expansion.

Deal Size: £150m	Revenue Multiple: N/K	EBITDA Multiple: N/K

Software, Telecoms & Services
April 2024

Investor	Seller
HgT	focus group

Provider of communications and information technology services for all sizes of businesses.

The company specialises in integrated solutions, including hosted voice, cloud applications, mobile and connectivity, to help clients secure data and teams connected and its customers. Bowmark Capital realised the investment to Hg, after Focus Group made 4 bolt-ons earlier in the year.

Deal Size: £471.3	Revenue Multiple: 1.9x	EBITDA Multiple: N/K

Source: Pitchbook

Selected Transactions - Trade

FinTech Feb 2024	Investor	Seller
	HiBob	pento

Pento develops an online payroll platform designed to optimise workflow services. HiBob's acquisition of Pento is a move to enhance their HRIS platform by integrating Pento's advanced payroll automation capabilities.

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Deal Size: £31.6m	Revenue Multiple: N/K	EBITDA Multiple: N/K

Data Analytics Jan 2024	Investor	Seller
	Ipsos	JARMANY

Jarmany is an operator of an analytics and insights agency, it helps businesses manage and utilise data. Ipsos is one the world's leading market research companies, and the acquisition strengthens its data analytics capabilities, and broaden its offering.

Deal Size: N/K	Revenue Multiple: N/K	EBITDA Multiple: N/K

Software, Telecoms & Services Jan 2024	Investor	Seller
	GLORY	flooid

A developer of point-of-sale (POS) software designed to meet the evolving needs of consumer shopping habits. The company's platform offers in-store cloud-hosted environments to connect leading retail partners with shoppers.

Flooid's relationship with major global retailers will build on Glory's present portfolio.

Deal Size: £153m	Revenue Multiple: 4.9x	EBITDA Multiple: 86.6x

AI & Machine Learning May 2024	Investor	Seller
	AdvT	CELATON

Celaton is a provider of a machine learning platform designed to offer AI and cognitive learning technologies. The platform automates information streams into firms, such as customer correspondence or employee records. AdvancedAdvT's acquisition of Celaton will allow it to build upon its existing platform.

Deal Size: £5m	Revenue Multiple: N/K	EBITDA Multiple: N/K

Digital Media Feb 2024	Investor	Seller
	CuCo	COAST AGENCY

Coast Agency is a provider of advertising services, serving a wide range of clients. The deal allows CuCo to offer its clients a wider range of services and broader expertise.

Deal Size: N/K	Revenue Multiple: N/K	EBITDA Multiple: N/K

E-commerce May 2024	Investor	Seller
	VELSTAR	9xb ecommerce without limits

9xb is a b2b e-commerce company that offers scalable and secure e-commerce stores. The acquisition of 9xb will help Velstar continue to achieve client centric growth.

Deal Size: N/K	Revenue Multiple: N/K	EBITDA Multiple: N/K

Source: Pitchbook

Polestar: Uncompromised Advice

Selected Polestar Software, Media & Technology Transactions

Mental Wellbeing Support Provider
M&A
COMPANION

ESG Consultancy & Software Provider
Exit
EVORA

Entertainment
M&A
CAKE

System Software Provider
Exit
engage

Smart Packaging & Tableware Supplier
Debt Advisory
eGreen
Smart Packaging & Tableware.

IT Support and Distribution
Exit
ChilternIT

E-commerce Specialist
Exit
Soak&Sleep

Telecommunications
Exit
duPré

Mission: to guide shareholders to achieve their business goals and give our people rewarding and purposeful work.

Polestar is a mid-market corporate finance boutique providing advisory services to businesses across our five key sectors: Software, Media & Technology; Business Services; Manufacturing & Distribution; Health & Education; and Sustainability.

Our team comprises M&A and corporate finance professionals with many decades of experience in lead advisory services including debt and equity raising, corporate restructuring, buyside advisory and management buyouts.

Since inception, we have completed more than 200 deals with a combined value of >£6bn worth of transactions. Over the years we have won a number of awards, most recently the Insider Media South East Dealmakers Awards for Corporate Finance Advisory Team of the year 2023. The key to our success is that we will always advise as if we would do the deal on the table; on occasions, we have followed that up by co-investing. We pride ourselves on building an inclusive and exciting environment for all our staff, the heart of which is in our Guildford office. The culture we have developed focuses on personal development offering the opportunity to both learn and grow. In our work we follow three key principles - collaboration, innovation and creativity.

These principles underpin the work we undertake as every deal has its unique challenges and nuances that must be navigated and overcome. Like the Polestar, used by maritime navigators as a constant for plotting their route, we will pilot you safely to your destination.

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