Software and IT Newsletter
April 2024

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**Source: Pitchbook..*

Tech Debt Will Bog You Down

Learn how United Effects is assisting SaaS firms untangle their technology overhang

We kick-off this month's Newsletter with a shout out to Bo Motlagh and his team at United Effects who have been assisting SaaS firms to address issues around Tech-Debt (See Next Slide). If you are running a SaaS firm and are finding that early-stage technology decisions are beginning to hold you back, reach out to Bo directly or contact us and we will be happy to connect you as well.

- SaaS firms tend to go through a lot of unplanned and organic technological evolution as they build out their solution in the early-years. To build out their client base they often design siloed one-off products and bend their company's strategy to meet the needs of their new and growing customer base.

- Net Recurring Revenue (NRR) and Net New Revenue (NNR) slip. The weight of inefficient technology decisions begins to drag down productivity. COGS start to trend up, employee retention trends down and it becomes clear that something needs to be done to meet growth and margin targets.

- While this is normal and good it can lead to issues where tactical technology decisions begin to bog down productivity ultimately leading to a chasm in which new competitors with more adaptable technology enter the market.

- United Effects is an enterprise advisory and SaaS technology company that equips businesses with innovative tools and strategies to reach their next growth phase by addressing issues around technological debt.

*Source: Pitchbook, H1 2024 VC Tech Survey.

Hidden Cost of Aging Tech Products

United Effects

$1.52 TN
Size of Problem[2]

The average developer spends 33% to 40% of their time maintaining **Technology Debt**[1]

Focus Area
SaaS Enterprise

Root Causes

- **Technical debt** ignored for years in favor of rapid scaling and frequent pivots
- **Aging, expensive, and complex technology** and architecture that grew organically
- Strategic **gaps in people, process, and technology**
- Lack of a **long-term vision** for the business
- RIO on Technology not built into firm **RAROC**
- **Data and product silos** creating complexity and poor user experiences

Early Signs of a Problem

- Unexpected **decline in client retention** and NRR at the height of your success
- **Slowing sales** and Net New Revenue
- Time-to-market has slowed to a crawl and your **engineering org can't go faster**
- **Competition has increased offering** equal or better value at lower cost
- Integration of **partner data or M&A obtained tech is proving very difficult**

Impact on Technology Firms

- An **inability to compete** with new features like insights, analytics, or ML/AI systems.
- **Unsatisfactory customer experience**
- Seriously **diminished valuation**
- **Revenue growth plateaus** or drops
- **Growth is stalled**
- **Attrition and "brain drain"** take hold
- Your next major milestone **(M&A, investment, IPO, or exit) is at risk**

Mitigations you may have tried…

- Agile or digital transformation initiatives
- Launch of a "new platform" initiative
- New UX designs and a bold new vision for the company with possible rebrand
- Various shiny new technology POCs
- Architecture and engineering teams to "solve the problem" from off to the side

You've swelled your R&D and infrastructure budget, but have not significantly improved your business KPIs

Real solutions at United Effects

A holistic approach centered around strategy, people, process, and technology to…

- Define a realistic incremental **modernization strategy**
- Build a reproducible approach for **M&A integration**
- **Innovate across siloed systems** for insights, analytics, reporting, and ML/AI opportunities
- **Lower your technology costs**
- Enable you to **compete at the pace of your market**.
- Adopt technology solutions to **save you years**

1. "CISQ Consortium for Information & Software Quality I The Cost of Poor Software Quality in the US: A 2022 Report, page 4"
2. "The Invisible $1.52 Trillion Problem: Clunky Old Software – Wall Street Journal article by Christopher Mims"

Connect with us to find acquisition opportunities in Tier 2 and Tier 3 cities in the Mid-Atlantic

- Strong growth in IT Managed services space is likely to continue although the benefits of this increased spending are more likely to accrue to larger service providers with the ability to provide industry expertise and one-stop service ability
- In an ongoing survey of small and medium businesses that we are conducting, **Industry expertise (51%) is cited as the top criteria for choosing between managed service providers followed by one stop service ability (28%)**. Both are qualities that are more likely to reside within large consolidated MSPs or smaller MSPs that are part of a larger MSP peer group.
- Tier 2 and Tier 3 cities in the US are the best places to look to make acquisitions for MSPs. These cities tend to have a higher concentration of small and medium sized businesses per MSP and are often growing at a rate that is significantly greater than larger urban centers.
  - This month we take a closer look at IT MSPs in the mid-Atlantic states including NC, SC, KY, MO and AK. In our January, February and March 2024 Newsletters we provided a brief overview of the IT MSP space in the greater NY, FL and IL areas.
  - Cities like North Charleston (SC), Charleston (SC), Winston-Salem (NC) and Little Rock (AK) are the sweet spot to target MSPs in the mid-Atlantic area. They have scale and either have higher than average SMB count per MSP, or they are cities with higher-than-average SMB growth profiles.
  - Charlotte (NC), St. Louis (MO) and Raleigh (NC) have the largest number of MSPs but represent growth profiles that are average for the region.

We have been putting together a bottom-up list of founder led MSPs serving in Tier-2 and Tier-3 cities. Connect with us to share discuss your needs and how we may be able to help.

**Source: Pitchbook, H1 2024 VC Tech Survey.*

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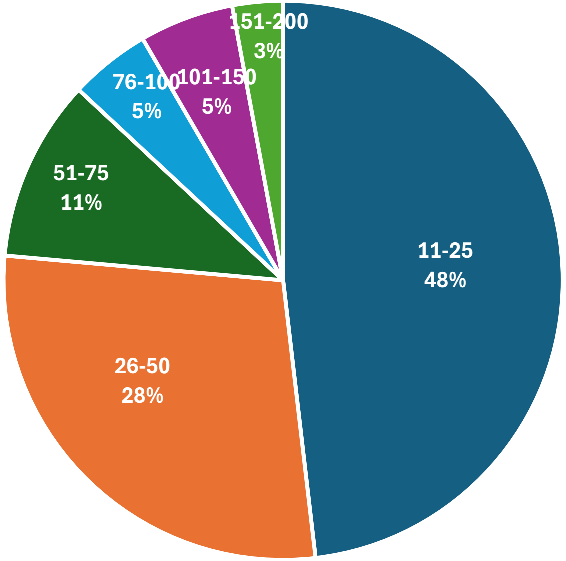
IT MSPs in Mid-Atlantic Area
MSP Count By State

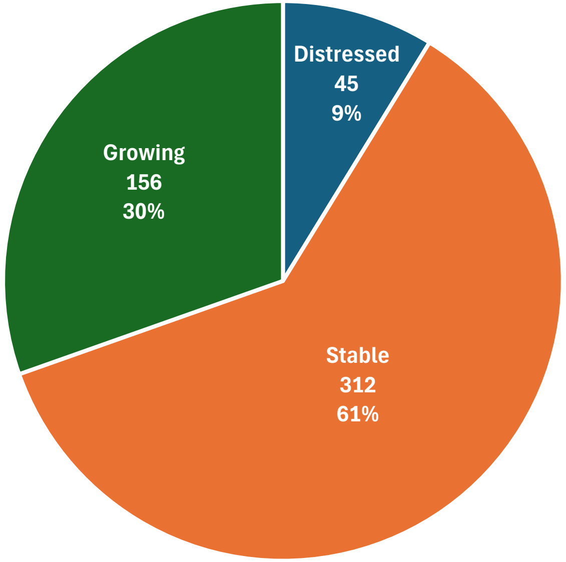
- We estimate there are 513 MSPs in the mid-Atlantic states* providing some degree of Managed IT services.
- 48% have 11-25 employees, 28% have 26-50, 15% have 51-100 and 8% have over 100 employees.**
- 61% of the MSPs have shown stable y-o-y headcount growth, 30% have grown more than 10%, while 9% have shrunk by more than 10%***.

MSPs By Employee Count in Mid-Atlantic Area
(513 Firms)



75% of MSPs
have between
11-50 employees
~
$2MN - $12.5MN
in Revenue

MSP by Headcount Growth in Mid-Atlantic Area
(513 Firms)



*Source: Linked-In.

** Mid-Atlantic states are defined as NC, SC, KY, MO and AK. TN has been excluded from this region as it had been covered in the greater FL area which was covered in an earlier edition of our Newsletter.** Firms exhibiting more than 10% y-o-y decrease or increase in headcount growth are categorized as Distressed or Growing respectively. The remaining firms are categorized as Stable. *** The Top 25 MSP cities are selected based on the number of MSPs headquartered there.*

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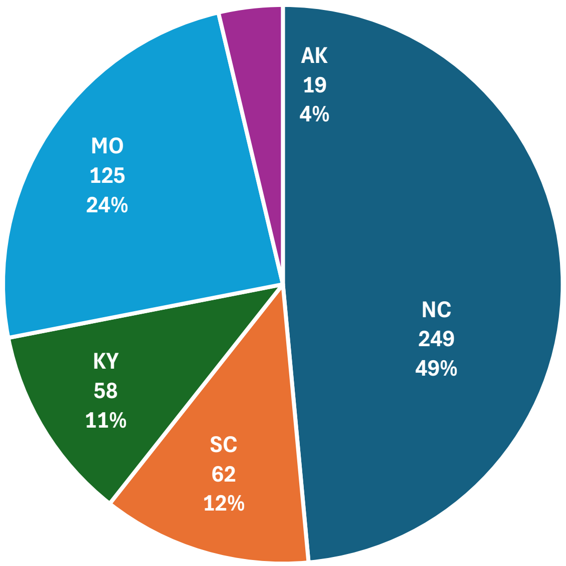
IT MSPs in Mid-Atlantic Area
MSP Count By State

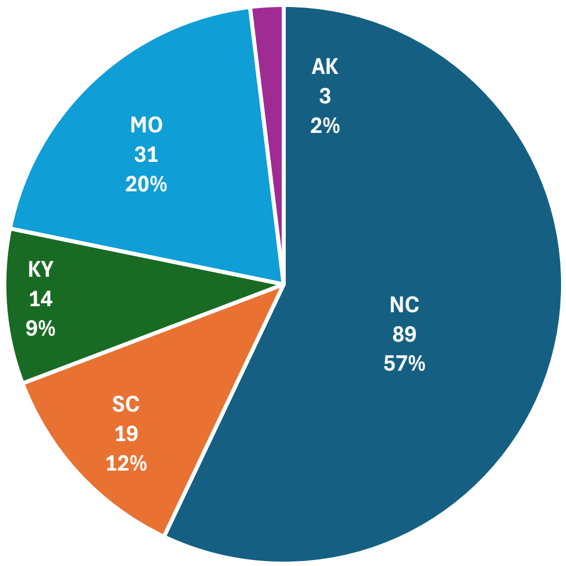
- We estimate there are 513 firms in the mid-Atlantic states providing some degree of Managed IT services. 49% located in NC, 24% in MO, 12% in SC, 11% in KY and 4% in AK.
- NC has 49% of the MSPs but 57% of the high growth MSPs.**.

MSPs By State in Mid-Atlantic Area
(513 Firms)



North-Carolina has a larger than proportionate share of high-growth MSPs

MSP Share That is Growing in Mid Atlantic Area
(513 Firms)



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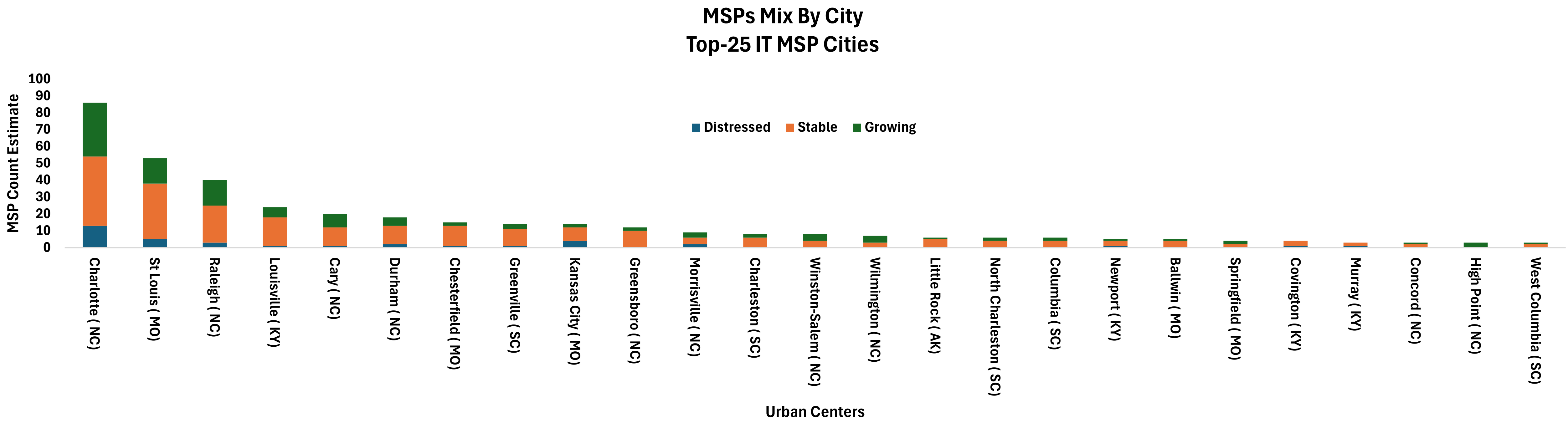
IT MSPs in Mid-Atlantic Area
MSP Count By City

- Charlotte (NC), St. Louis (MO) and Raleigh (NC) have the largest number of MSPs.
- The Top-25 MSP cities have 376 MSPs, about 73% of the total MSP count in the mid-Atlantic states*.



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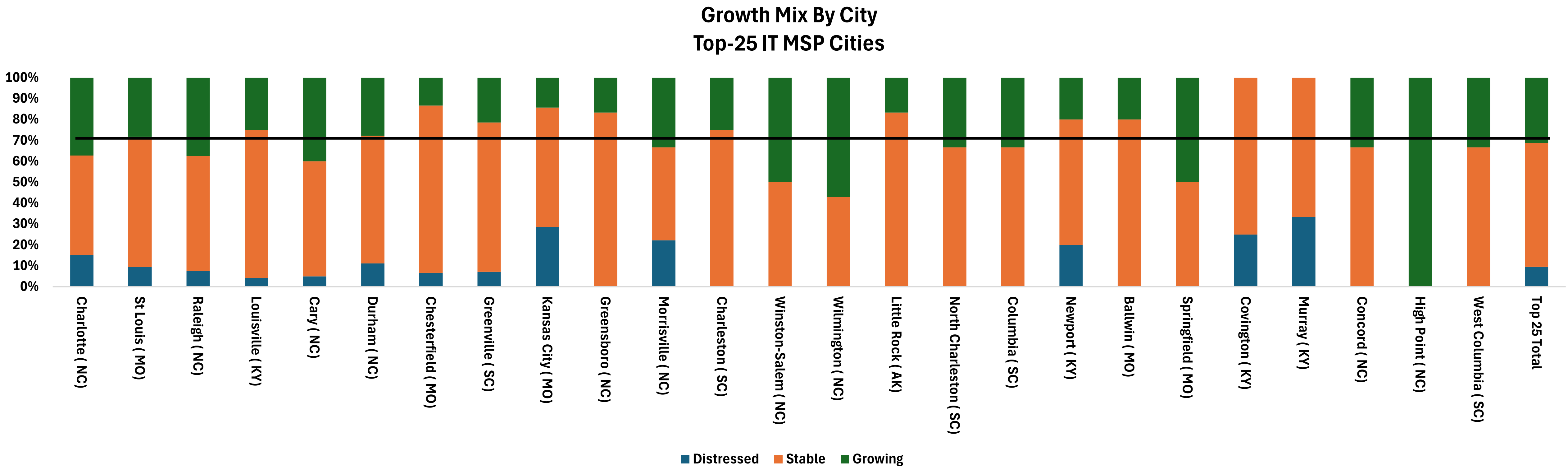
IT MSPs in Mid-Atlantic Area
MSP Growth Mix By City

- Amongst the top 5 cities by MSP count. Charlotte (NC), Raleigh (NC) and Cary (NC) have a higher-than-average percentage of high growth MSPs.



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IT MSPs in Mid-Atlantic
SMB per MSP and SMB Growth%

- To assess how attractive it might be to target an MSP business in a city, we look at two key metrics
  - SMB per MSP: The number of Small and Medium Sized Businesses (SMBs) per MSP. The greater the number of SMBs per incumbent MSP the more desirable it would be to target an MSP. Across all top 25 MSP cities, the average value for this metric is 476.
  - SMB Growth%: The fraction of SMBs in a city that grew y-o-y headcount by over 10%. The greater this fraction the more desirable it would be to target an MSP. Across all top 25 MSP cities, the average value for this metric is 14%
  - Kansas City (MO), Charleston (SC), Little Rock (AK), Columbia (SC) and Springfield (MO) have over 1000 SMBs per MSP. North Charleston (SC) has the highest SMB Growth % at 19%.

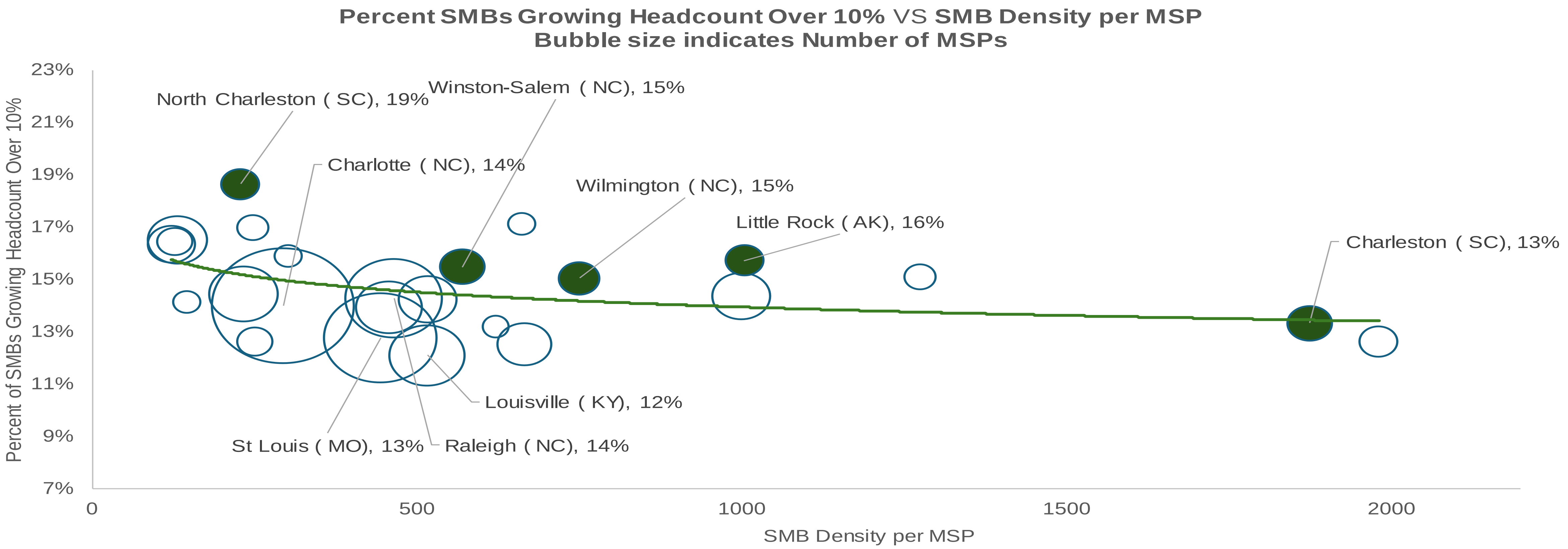
** % Large MBs is the proportion of SMBs with 11-500 employees*

Top 25 MSP Towns	SMB (1-500) / MSP	% Large MBs*	SMB Growth%	MSP Count
Charlotte (NC)	294	13%	14%	86
St Louis (MO)	443	15%	13%	53
Raleigh (NC)	464	14%	14%	40
Louisville (KY)	516	18%	12%	24
Cary (NC)	232	14%	14%	20
Durham (NC)	456	15%	14%	18
Chesterfield (MO)	132	23%	17%	15
Greenville (SC)	516	17%	14%	14
Kansas City (MO)	1000	14%	14%	14
Greensboro (NC)	665	15%	13%	12
Morrisville (NC)	122	23%	16%	9
Charleston (SC)	1875	13%	13%	8
Winston-Salem (NC)	570	18%	15%	8
Wilmington (NC)	750	14%	15%	7
Little Rock (AK)	1005	17%	16%	6
North Charleston (SC)	228	24%	19%	6
Columbia (SC)	1981	16%	13%	6
Newport (KY)	127	19%	16%	5
Ballwin (MO)	250	14%	13%	5
Springfield (MO)	1274	18%	15%	4
Covington (KY)	248	18%	17%	4
Murray (KY)	146	14%	14%	3
Concord (NC)	621	14%	13%	3
High Point (NC)	662	19%	17%	3
West Columbia (SC)	302	15%	16%	3
Top 25 Total	**476**	**15%**	**14%**	**376**

**Source: Linked-In.*

IT MSPs in Mid-Atlantic
Tier 2 and 3 Cities Are Sweet Spots

- Cities like North Charleston (SC), Charleston (SC), Winston Salem (NC), Wilmington (NC) and Little Rock (AK) are the sweet spot to target MSPs. They have reasonable scale and either have higher than average SMB count per MSP, or they are cities with higher-than-average SMB growth profile.



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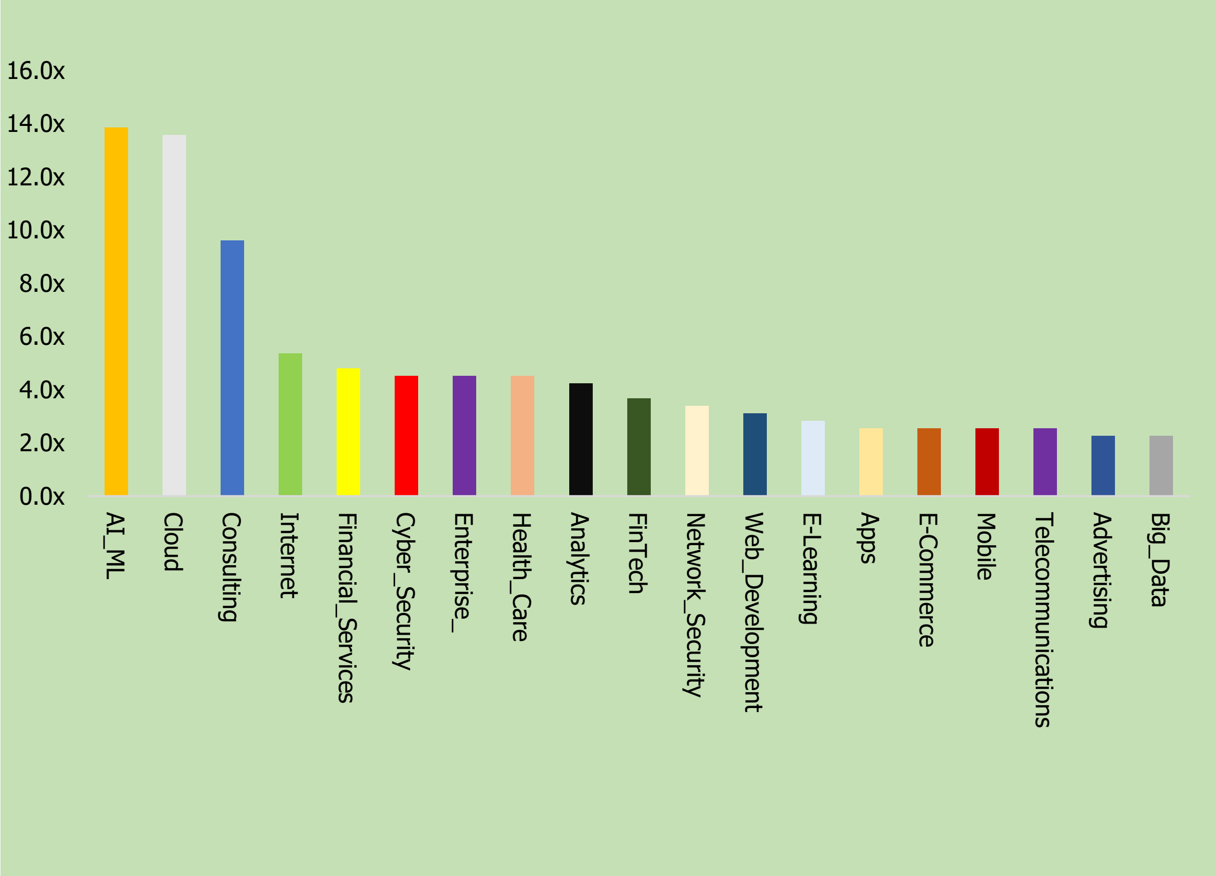
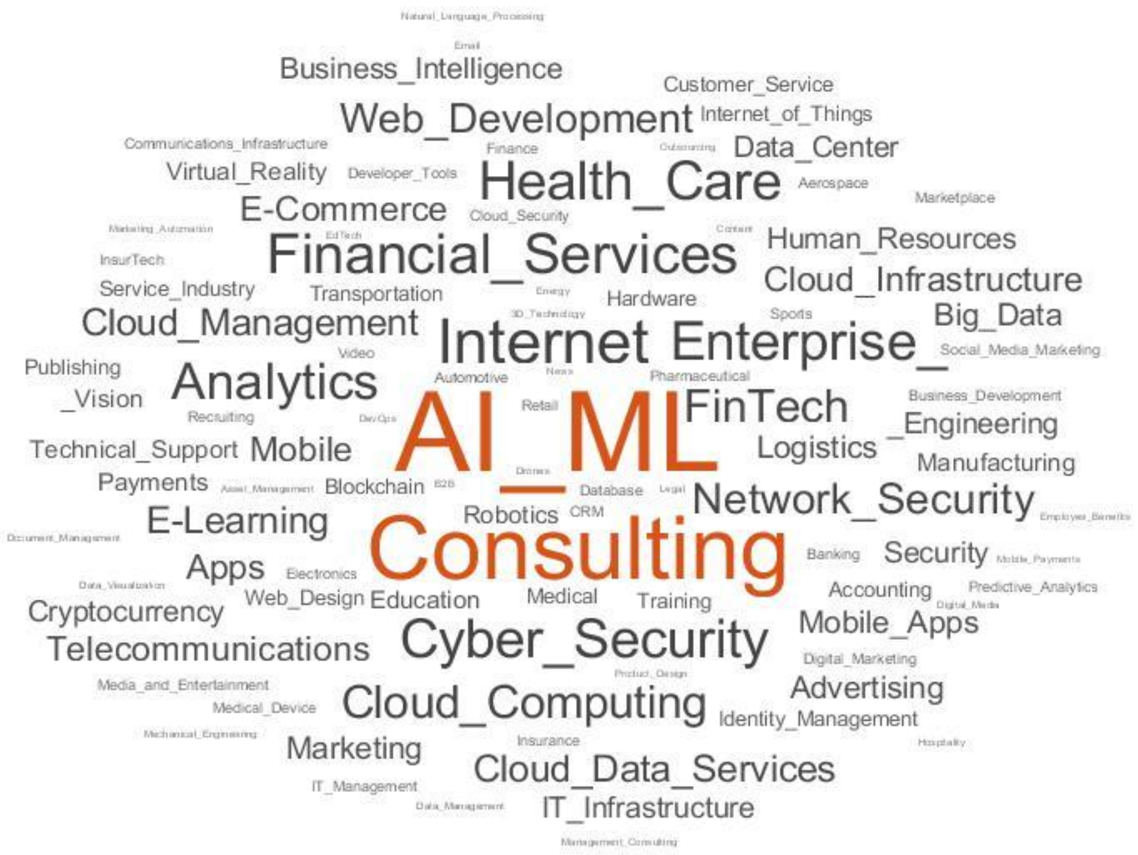
Software and IT M&A Activity Picked up in April 2024 but Funding Activity receded.*

- 319 M&A transactions were announced globally in April 2024, up from 230 deals announced in March 2024 and up from a monthly average pace of 276 transactions over the LTM period ended April 2024.
- 653 private software and IT companies received some form of funding in April, down 59 (8%) from 712 in March and down 36 (5%) from the average monthly rate of 689 over the trailing twelve months (TTM) ending April 2024.
- Artificial Intelligence (AI) and Machine Learning (ML) were the dominant theme for funded companies in March, no different from the TTM. AI and/or ML were mentioned as one of the capabilities for 39% of the funded companies in March, up sharply from 28% of the funded companies over the TTM.
- VC funding dropped to 585 in April 2024 from 642 in March 2024 down 9%. The share of Early-stage VC (Angel, Seed and Series-A) funding was up slightly at 67% in April 2024, down from 65% in March 2024. Early-stage VC funding is in line with its TTM share of 65%.
- Changes in global funding activity were mixed across regions although regional shares remained mostly in line with TTM average levels. North America, Western Europe and Australasia accounted for 48%, 16% and 12% of total funding activity in April with the Rest of the World accounting for the remaining 23%.

**Source: Crunchbase. Excludes deals with less than $1mn in funding.*

AI/ML, Cloud, Consulting, Internet, Financial Services and Cybersecurity were the key M&A themes in Apr-24





Source: Crunchbase.

Selected IT/Software Transactions in Apr-24

Notable IT MSP and Software Deals of the Month

MSP

PE-Owned IT MSP

Acquiror – Ntiva

PE-Owner IT MSP

Target – Purple Guys

- Ntiva's acquisition of the Purple Guys.
- TPG is based out of Kansas City, Kansas while Ntiva is based out of McLean Virginia. The acquisition is one between two large full service MSPs who both have had a past history of making smaller acquisitions to expand their footprint. The acquisition of TPG will help Ntiva further strengthen its presence amongst SMB clients in Central and Southern US. TPG leadership is expected to continue at Ntiva, with Kevin Cook, CEO of TPG, joining Ntiva's Board.

Software

Acquiror – ComplyAdvantage

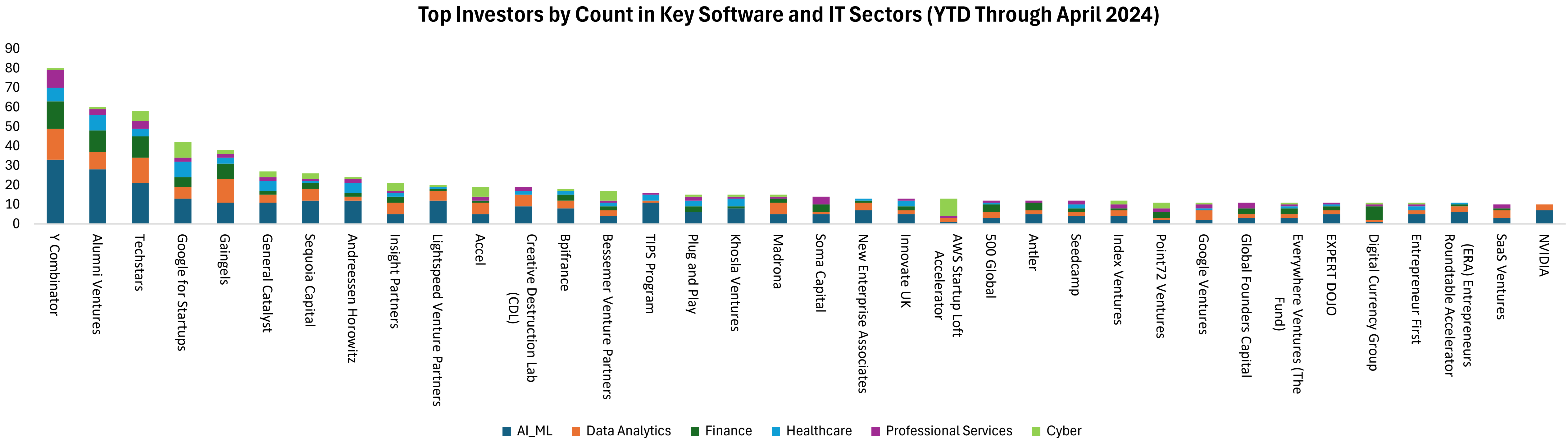
Target – Golden

- ComplyAdvantage, a leader in financial crime intelligence, recently acquired Golden (Golden Recursion Inc), a San Francisco-based innovator.
- Golden is a San Francisco-based innovator automating the construction of one of the world's largest knowledge graphs, which shows interconnected data points and their relationships for the purpose of analyzing complex information.
- ComplyAdvantage is an AI-based fraud and AML risk detection platform for banks, insurance, and cryptocurrency industries

**Source: Crunchbase.*

Early-Stage Funding Activity YTD Through April 2024

Over 3,500 funds globally provided some form of funding to early-stage companies YTD through April 2024. The top 1% of these firms accounted for 10% of the total funding by count.

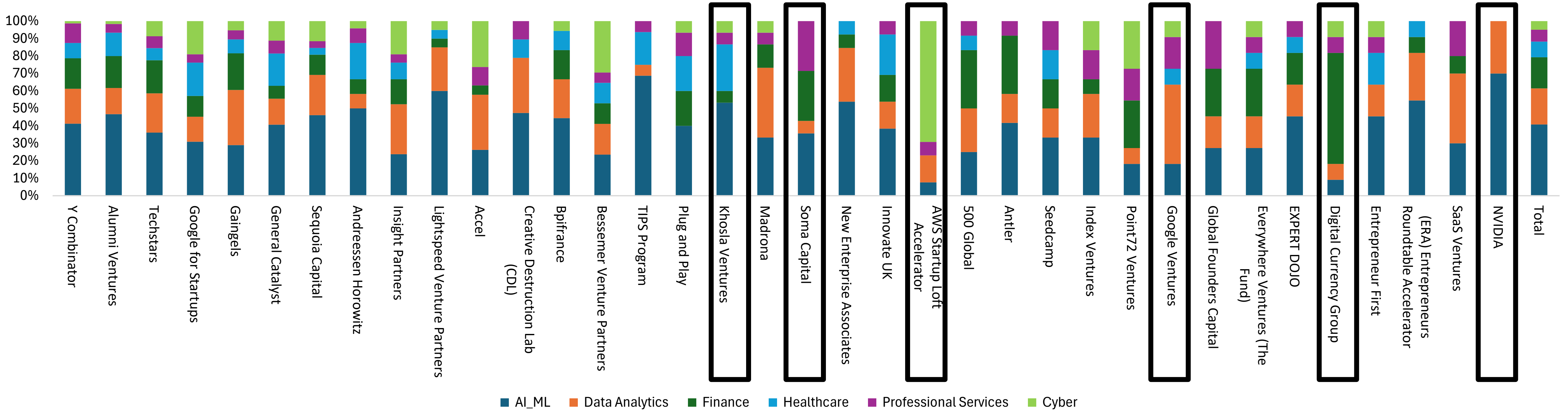


Source: Pitchbook.

Early-Stage Funding Activity
YTD Through April 2024

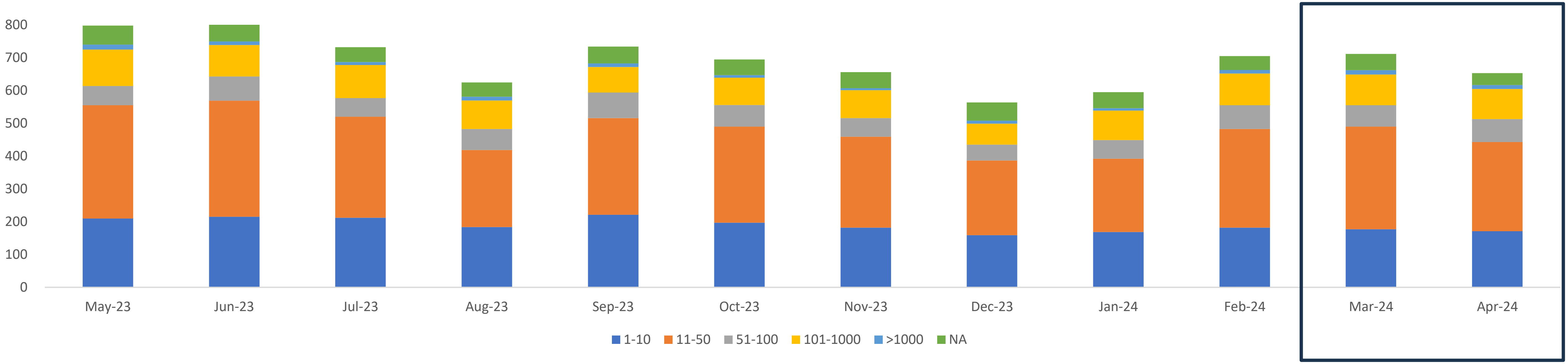
At the aggregate level funding across key sectors was diversified. But some firms chose to focus on specific themes. For example, 70% of NVIDIA's investments were in AI-ML, 45% of Google Venture's investments were in Data Analytics, 69% of AWS Accelerator's investments were in Cybersecurity and 64% of Digital Currency's investments were in Finance.

Investment Mix by Count in Key Software and IT Sectors (YTD Through April 2024)



*Source: Pitchbook.

Funding for Software and IT Firms By Firm Headcount: Dropped 8% from Levels in March 2024



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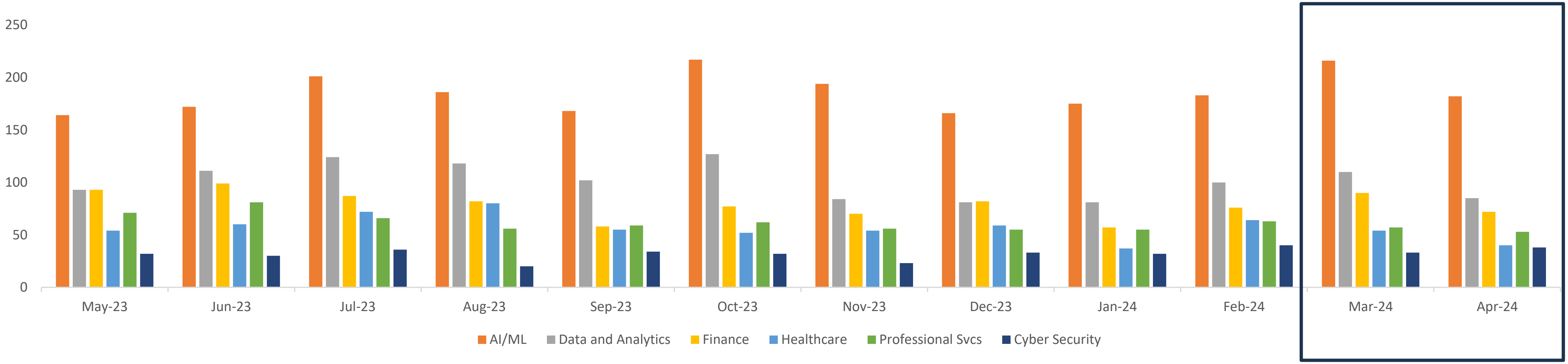
*Source: Crunchbase.

Software & IT Funding Activity in April 2024
Funding by Sector

Funding for Software and IT Firms By Industry Mix: AI/ML Continue to be the Dominant Theme



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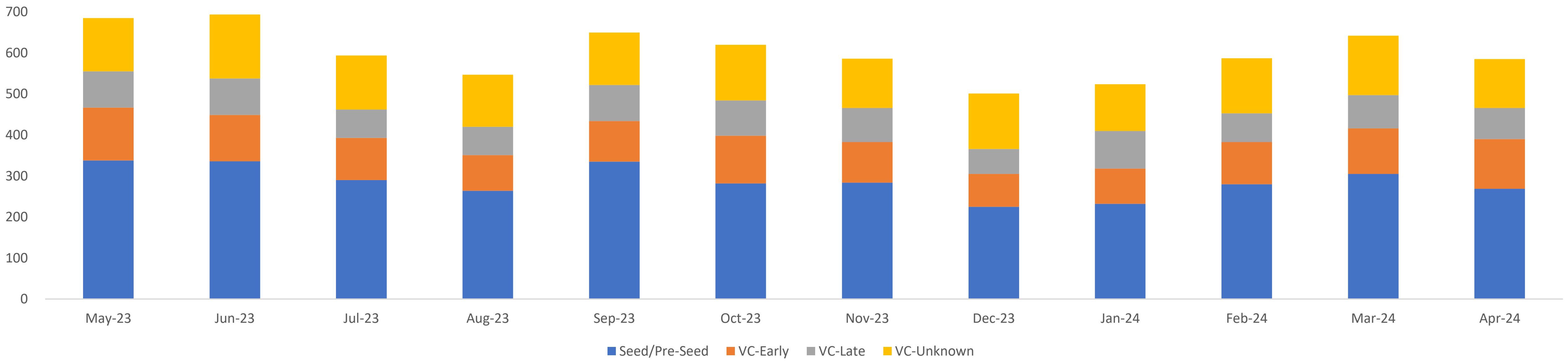
**Source: Crunchbase.*

VC Funding for Software and IT Firms By Stage over TTM: VC funding dropped 9%; 67% Early Stage



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Source: Crunchbase.

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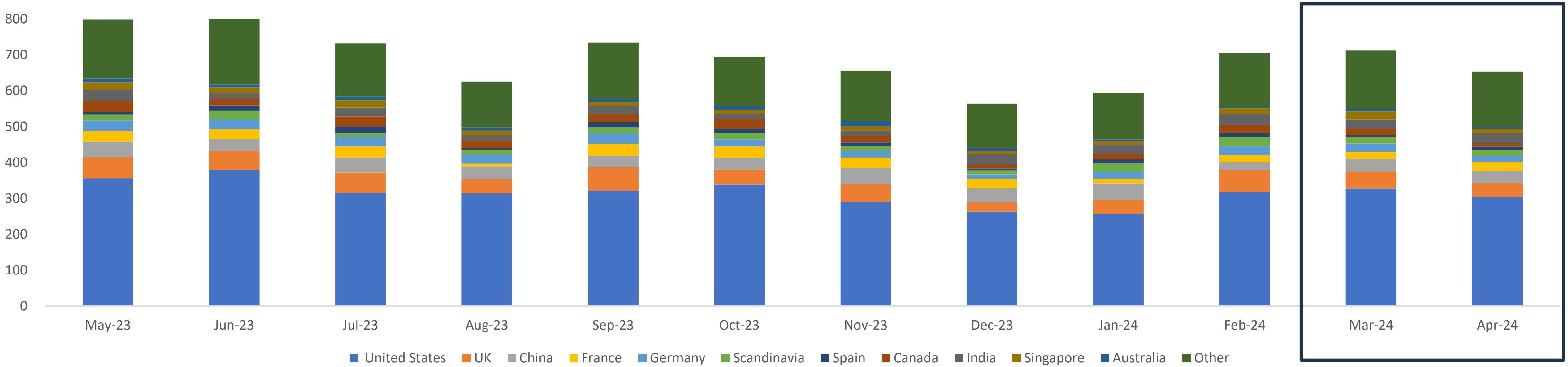
Software & IT Funding Activity in April 2024
Funding by Region

Funding for Software and IT Firms By Regional Mix: NA (48%), W. Europe (16%), Australasia (12%)



Changes in global funding activity were mixed across regions although regional shares remained mostly in line with TTM average levels. North America, Western Europe and Australasia accounted for 48%, 16% and 12% of total funding activity in April with the Rest of the World accounting for the remaining 23%.

**Source: Crunchbase.*

Madhur has over 20 years of experience in middle market IT and software Mergers & Acquisitions and Consulting.

Prior to joining Excendio, Madhur worked in various senior transaction advisory and middle market SME roles at firms such as Citibank, Barclays, Lehman Brothers, New York Life, KPMG, Moody's and KBRA.

He has worked extensively with companies in the $10MN-$1BN revenue range across a range of strategic initiatives including exits and acquisitions, working capital optimization, IT implementation, financial planning, valuation and debt restructuring.

Middle market businesses are personal and can often be someone's passion and life's work. As such, Madhur focuses not just on the specifics of the transaction, but also on how it fits into the life goals of the owner and the importance of career transition for them.

Madhur will often connect founders looking to exit with the right industry participants to ensure founders can confidently exit knowing they've maximized their business's value, gaining the clarity, confidence, and peace of mind they deserve.

Madhur has a PhD in Financial Economics from UC Berkeley, Haas School of Business. He lives with his wife and son in New Jersey. He loves tennis, wine, the outdoors and spending time with family and friends.

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