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Navigating M&A in a Volatile Market

May 2025

Executive Summary

Reduced IPO Activity

IPO activity has slowed down as the public market has been volatile and economic headwinds have raised the bar to IPO. Further, the market has been recently roiled by tariff announcements, increasing uncertainty and making it even more challenging for companies to go public

Shrinking Public Markets, Growing Private Equity Assets

Public markets have shrunk, with US listings down by ~43% since 1996, while US PE AUM has grown 5x to $3.5T. Companies now prefer to stay private longer, raising large sums via VC/PE and relying on M&A and secondary sales for liquidity. For late-stage companies PE is becoming a likely exit path

Distributed to Paid-in Capital (DPI) under Pressure Increasing Reliance on M&A and Secondaries

With DPI under pressure and limited IPO prospects, VC and PE firms are increasingly leaning on strategic M&A, continuation vehicles and GP-led secondaries. Strategic and PE exits are becoming the norm as liquidity remains challenging to get

Preparing and Managing Metrics Key for Stronger M&A Outcomes

Founders who prepare early, balance growth with profitability (Ex – Rule of 40)[1], build strategic partnerships[2] and run disciplined processes are consistently realizing stronger M&A outcomes in today's selective market. With exits driven by PE, later stage companies should focus on financial metrics even more

Tariff Impacts, Tech Resilience

New tariffs have created sector-specific headwinds, especially for manufacturing and hardware, while software and tech-enabled businesses are less impacted. Strategic tech assets are increasingly viewed as safe bets, reinforcing sector-specific M&A momentum

Note: 1. Rule of 40 = Revenue Growth + EBITDA Margin
2. For further insights, read [Forbes Article]

Rise of PEs For Exits with Decline of IPOs

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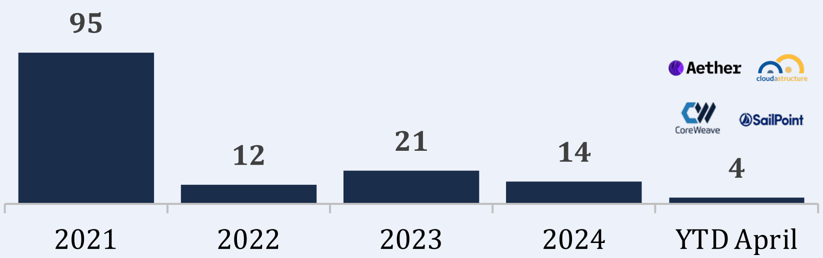
As IPOs decline sharply, record PE capital for M&A are reshaping tech exits landscape

Slowing US Tech IPO Activity Over Time



IPO Market Uncertainty Persists

Market volatility and macro headwinds continue to delay IPO's

Private Exits are Compelling

Companies are choosing PE and strategic buyers over IPO as they offer quicker liquidity and avoid onerous IPO processes (e.g., AppDynamics sale to Cisco, Qualtrics sale to SAP)

CoreWeave

- Completed its IPO, driven by strength in the AI infrastructure market despite customer concentration
- Post-listing, shares have traded well below the IPO price, and proceeds fell short of expectations

Ongoing volatility and trade policy shifts are forcing top tech players to delay or reconsider IPOs – Figma is an exception

Klarna. StubHub CIRCLE eToro

Surging Private Equity Capital

AUM ($T)

2006		2024
$0.6	5X Since 2006	$3.5

US Listings

1996		2024
~7K	~43% No. of publicly listed companies	~4K

Why the shift?

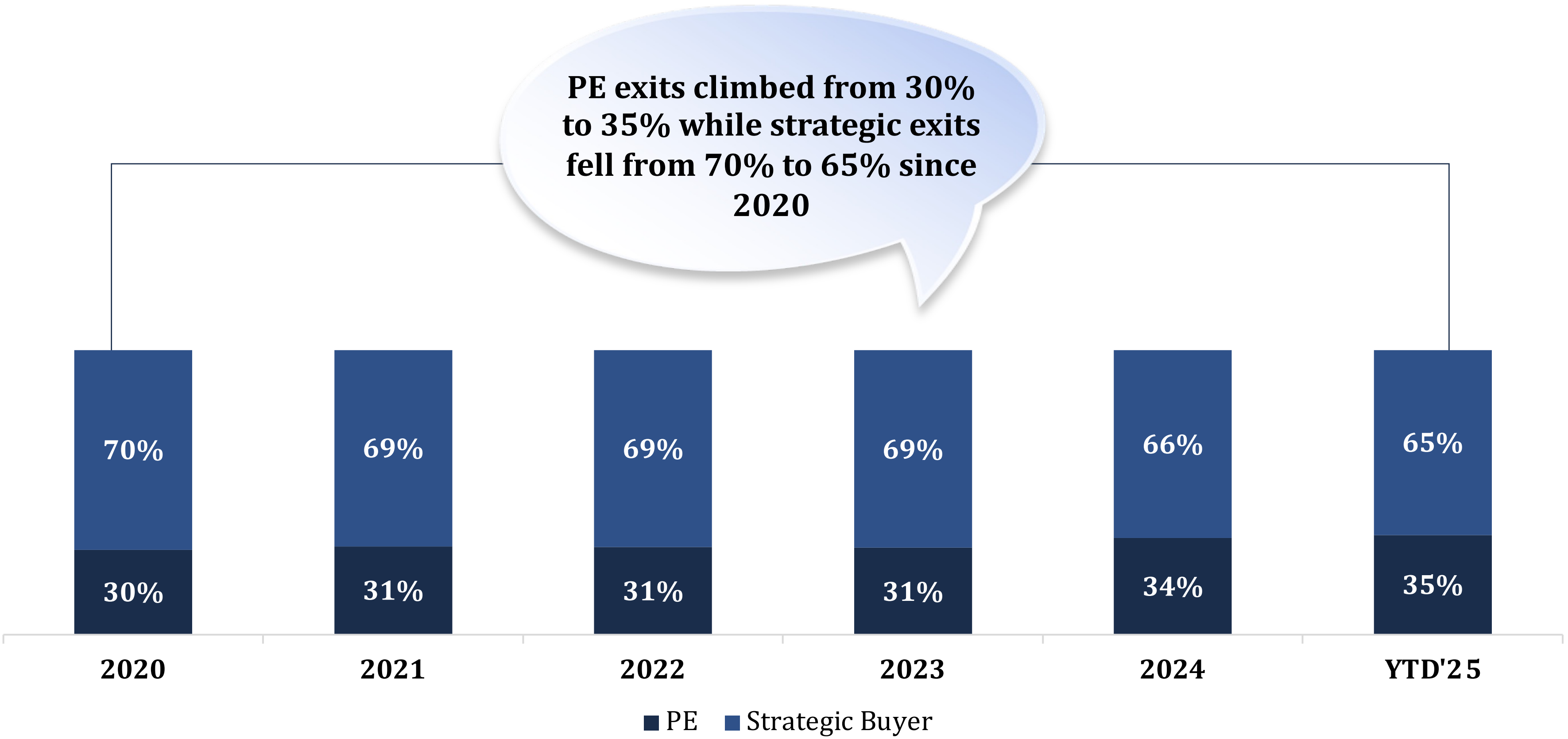
- IPO market stagnated after 2021
- PE has offered good returns
- Buyers prioritise strong P&L, cash flow visibility and sustainable growth

PE's Role

- Disciplined buyers with large capital reserves and mandate to invest
- PE deals providing attractive outcomes through financial engineering and operational enhancements

Source: Allied Advisers' various databases and Press Releases

PE Acquisitions Outpacing Strategic Exits



PE's interest in software space has risen with increasing dry powder and attractive financial metrics

$1.5T
Dry powder

+

3-4X
Potential Leverage

=

>$7.5T
PE Buying Power

Source: Allied Advisers' various databases
Note: Global data as of April 10, 2025.

Challenging Landscape for PE/VC Portfolio Exits

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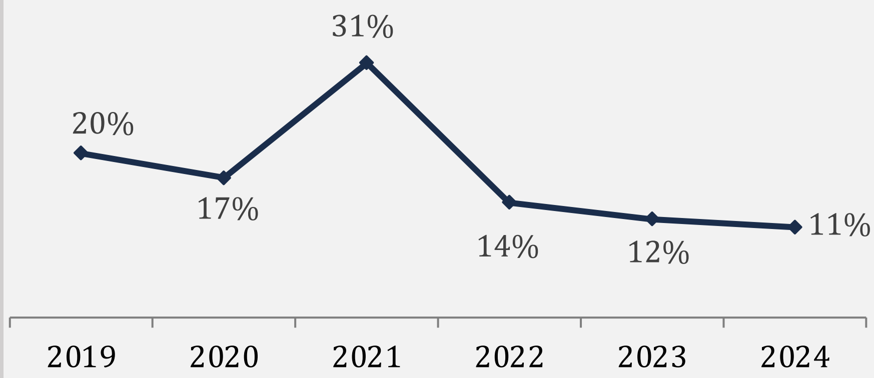
Exit Channels are Somewhat Constrained

Public markets remained largely unavailable, with IPO window limited since 2021, accounting for just 6% exit value in 2024

Secondary market liquidity is thin with fewer buyers and lower prices

DPI is Under Pressure

Global PE distributions as a % of NAV



M&A Exits Provides Viable Options vs. IPO

- Strategic M&A now the dominant path, especially in tech and healthcare space
- Many undervalued public companies being taken private (e.g., SolarWinds)
- Continuation vehicles and structured liquidity deals becoming common[1]

- With the exception of a spike in 2021, DPI (Distributions to Paid-In or capital returned to investors) has consistently lagged behind the industry's expanding scale
- Limited Partners (LPs) demand cash realizations, not just paper gains, putting GPs under pressure
- We expect more portfolio companies to be put on the block to improve DPI

Sources: Bain & Company, Bain Global Private Equity Report 2025
Note: 1. A continuation fund is a private equity vehicle designed to extend the holding period of one or more assets from an existing fund that has reached or is approaching the end of its lifecycle.

Despite Volatility, Large Tech M&A Deals Continue

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In 2025, Tech M&A Has Had Large Exits in AI, Cloud and Cybersecurity – Wiz is the Largest VC M&A Exit Ever

16-Jan-2024	Synopsys	Announced acquisition of	Ansys	for $35.0B	**Engineering Technology**
18-Mar-2025	Alphabet	Announced acquisition of	Wiz	for $32.0B	**Cloud Security**
17-Apr-2025	globalpayments	Announced acquisition of	worldpay	for $24.3B	**Fintech**
09-Jan-2024	hp	Announced acquisition of	Juniper Networks	for $14.0B	**Networking**
30-Oct-2024	Siemens	Announced acquisition of	Altair	for $10.6B	**Engineering Technology**
24-Sep-2024	Blackstone; Vista Equity Partners	Announced acquisition of	smartsheet	for $8.4B	**Work Management**
01-Aug-2024	TowerBrook; Clayton Dubilier & Rice	Announced acquisition of	R1	for $7.9B	**Healthcare Technology**
13-May-2024	Permira	Announced acquisition of	Squarespace	for $7.5B	**Online Publishing**
24-Apr-2024	IBM	Announced acquisition of	HashiCorp	for $6.4B	**Infrastructure Software**
26-Apr-2024	Thoma Bravo	Announced acquisition of	Darktrace	for $5.5B	**AI Cybersecurity**
25-Jul-2024	KKR	Announced acquisition of	Instructure	for $4.8B	**Education Technology**
06-Feb-2025	Turn/River	Announced acquisition of	SolarWinds	for $4.4B	**IT Management**
07-Jan-2025	Paychex	Announced acquisition of	Paycor	for $4.1B	**HR & Payroll Technology**
16-Apr-2025	OpenAI	Announced acquisition of	windsurf	for $3.0B	**AI Technology**
09-Mar-2025	servicenow	Announced acquisition of	Moveworks	for $2.9B	**AI Applications**
08-Apr-2025	Bain Capital	Announced acquisition of	HealthEdge	for $2.6B	**Healthcare Technology**

Source: Allied Advisers' various databases and Press Releases

Note: ▭ Denotes Strategic Buyer ▭ Denotes PE Buyer

Software PE/Aggregators Most Active Over the Last 3 Years

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Company Name	Total No of Software Investments	Select Software Acquisitions from 2022					
Constellation Software Inc.	106*	IRIS tech	SeikiSOFTWARE	ZUPA	valeyo	CloudMD	Eduarte
Visma / Hg	68	Link My Books	TimeChimp	Penn30	finthesis	vakanta	invoicexpress
Valsoft	61	DPSI	anju	futura	acom SYSTEMS	Edelweiss	enrich
access / Hg	28	Guestline	paytronix	FastTrack360	QikServe	ProspectSoft	paycircle
IBM	18	HashiCorp	Apptio	kubecost Cloud	webMethods	Polar	StreamSets
Cisco	17	splunk	Accedian Networks	Sam Knows	Armorblox	wgtwo	{deepfactor}
Google	14	Mandiant	foreseeti	Cameyo	Alter	photomath	BrightBytes
NVIDIA	14	Shoreline	run:ai	OctoAI	Brev	Lepton AI	nebulon
Shift4	14	Revel Systems	givex	Vectron	Pinnacle Hospitality Systems	Eigen	CRS Solutions
Descartes	11	sellercloud	Supply Vision	GroundCloud	localz	XPS ship.com	MyCarrier Portal
salesforce	10	Own	Spoke	[ZOOMIN]	airkit.ai	Troops	Respell

Source: Allied Advisers' various databases and Press Releases
Note: It includes the acquisitions made by the subsidiaries of Constellation Software.*
Allied Advisers' recent report on "software consolidators" highlights key players in the space, including Constellation Software and Valsoft (Link).

Market Reality: "M&A Barbell"

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Companies that are not in extremes of M&A spectrum will have successful outcomes

Early-stage companies with high cash burn

M&A sweet spot: Lightly funded companies with sustainable revenue and cash flow growth

Heavily funded unicorns with unrealistic valuations

Middle Market Continues to be Sweet Spot for Software M&A

Deals <$200M, which account for ~96% of global software M&A activity over the past 5 years, represents the sweet spot for M&A transactions.

M&A Analysis (Deal size Over The Last 5 years)

Deal Size ($MM)	No. of Deals	% of Deals
Undisclosed Values*	25,518	79.4%
< 50.0	4,215	13.1%
50.0 – 100.0	655	2.0%
100.0 – 200.0	572	1.8%
Total Undisclosed – 200.0	30,960	96.4%
200.0 – 1,000.0	803	2.5%
> 1,000,0	366	1.1%
Total	**32,129**	**100.0%**

Why the Middle Market Matters

Larger universe of strategic and PE buyers

Attractive for tuck-in acquisitions, easier to integrate

More insulated from economic conditions than large deals

Source: Allied Advisers' various databases
**Note: All undisclosed deal values are estimated to be below $100M.*

Keys to Successful M&A Outcomes in the Current Environment

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M&A strategies must be tailored to a company's stage — early-stage and late-stage businesses require distinct approaches to maximize value in today's market.

Best Practices for Both Stages

01	Map buyers and build strong, strategic relationships and partnerships[1]
02	Focus on growing firm value by improving operational efficiency and business KPIs
03	Prepare thorough and accurate financial reporting, QoE is recommended for larger companies
04	Develop, manage and track operational and financial metrics closely
05	Cut cash burn and secure 12+ months of runway; buyers can sense desperation otherwise
06	Ensure cap table, legal documents, data room and financials are in order to avoid deal friction
07	Focus on efficient growth and profitability — highlight metrics like CAC payback and gross margin
08	Develop an integration plan early in the process
09	Focus on aligning strategic goals with the acquirer
10	Stay laser-focused on ICP, retention metrics, and category dynamics — know your moat and stay agile
11	Understand your value to buyers: ex. - are you expanding TAM or boosting NRR as a plug-and-play fit
12	Run a competitive banker-led process for price discovery

Note: 1. For further insights, read Forbes Article
Allied Advisers' has prepared a report on "Preparing Your Bootstrapped Company for a Successful Funding or Exit".

External Factors affecting M&A

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Macroeconomic Conditions

High inflation and rising interest rates increase the cost of capital, making leveraged buyouts and debt-financed deals less attractive, specially for larger buyouts

Technology and Market Disruptions

AI has fundamentally reshaped the competitive landscape and has impacted every sector. Companies are rapidly building in-house AI capabilities or acquiring tech-driven firms to enhance their product portfolios, driving strategic M&A activity

Regulatory and Antitrust Scrutiny

Governments review M&A deals for competition, causing delays and rejections, but the current administration is expected to speed up approvals. The Alphabet – Wiz transaction is a good signal that regulations may ease

Geopolitical Uncertainty

Political instability, sanctions and regional conflicts impact investor confidence, reducing cross-border deal activity

Trade Policies and Tariffs

Tariffs and trade volatility continue to create M&A uncertainty. However, despite the regulatory climate under current administration, the tech M&A market is insulated from tariff impacts and remains active, with deals like Google–Wiz indicative of continued exits

Tariffs Disrupt, But Tech Resilient

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Tariff Shock

- New tariff regime has led to a pullback in public indices, with a disproportionate sectoral impact
- It has adversely affected certain sectors more than others, notably manufacturing, supply chain operations and hardware-exposed industries due to heightened supply chain risks and operational disruptions

Resilience in Strategic Tech Assets

- Software and tech-enabled services remain somewhat resilient, largely shielded from supply-chain exposure
- M&A activity in sectors like AI, cybersecurity and infrastructure remain relatively healthy, as buyers continue to acquire tech-driven firms to enhance their product portfolios

Pressure on Cross-Border Deals

- Geopolitical tensions and tariffs have increased scrutiny on cross-border M&A
- Heightened regulatory risk is leading to longer deal timelines and more selective targeting
- Buyers are prioritizing domestic or “friendly jurisdiction” targets to reduce complexity

Key Impacts of Tariffs on Private Equity

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Tech sector shows relatively lower impact compared to other industries. We have seen this at Allied Advisers with 4 exits in Q1' 25 and several clients currently with LOI.

Impact Area	Observed Effects	Sectors Most Affected
Deal Flow	Overall transaction volumes have declined, with numerous deals either paused or repriced amid prevailing market uncertainty	Industrials, Manufacturing
Exits	Exit activity has decelerated, characterized by extended holding periods and reduced IPO/M&A opportunities	Cross-border, Import-Heavy Firms
Valuations	Valuations have become more conservative, particularly within sectors exposed to tariff volatility, resulting in downward adjustments	Automotive, Manufacturing
Supply Chains	Enhanced due diligence and selective operational reconfiguration are evident, though transformative structural changes remain limited	Global Supply Chain Companies
Investment Focus	Capital deployment has increasingly favored technology, healthcare and business services, with diminished interest in tariff-sensitive industries	**Tech, Healthcare (Least Affected)**
Strategic Moves	There is a notable increase in carve-outs, distressed asset acquisitions and secondary transactions as alternative exit pathways	Distressed Sectors
Investor Sentiment	Investor confidence has moderated, reflected in more selective capital deployment and a cautious stance toward new investments	All Sectors