DC advisory

The Future of Tech M&A

featuring insights from The Montgomery Summit sponsored by DC Advisory

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Introduction

The technology investment landscape underwent a dramatic shift between 2020 and 2023. Our global Tech & Software team discusses the key investment trends shaping investor priorities, and the outlook & opportunities for the next 12 months.

Our global Technology & Software team

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Discover our full team

Executive summary

2020 – 2021: The golden age

Fueled by low interest rates and a seemingly endless supply of venture capital, 2020 and 2021 were boom years for tech startups. Investors backed companies with exciting ideas and promising products, often prioritizing ‘growth at all costs’ business models over immediate profitability, which in many cases led to aggressive hiring strategies. As a result, this period saw valuations reaching record highs.

2022: The perfect storm

The euphoria of 2020-2021 gave way to a sobering reality in 2022, as rising interest rates forced investors to prioritize profitability over growth potential and rethink valuation metrics. Many Series A companies, burdened by high costs, struggled to meet expectations. Tech companies were forced to raise money at significantly lower valuations, resulting in a lack of confidence among investors and founders.

2023: Finding new footing

During 2023, the market was finding new footing as companies adjusted their business models and focused on core. It also saw the emergence of generative AI, and the market showed significant enthusiasm for future use cases of the new technology.

What does this mean for 2024?

Recent signs of macroeconomic stability have ignited investor optimism, fostering a more predictable environment for the market. We have seen an increase in pipelines with promising new ventures. We anticipate a future marked by a more measured approach to growth, coupled with a resurgence in investor confidence.

The technology investment landscape

Key trends

A shift towards sustainable growth models
Investors are adopting a more discerning approach to investment strategies, prioritizing tech companies with demonstrably sustainable business models and clear paths to profitability. We are also witnessing a moderate pivot back to growth compared to pure profitability, with investors willing to fund targeted geographic or product expansion.

A more constructive market environment
While a bid-ask spread persists, it can narrow with effort. Investors are looking for opportunities to deploy capital sensibly, while companies / founders are adjusting to new valuations and beginning to focus more on the opportunity cost of not raising capital to meet strategic goals.

Europe is emerging as a growth hotspot
European startups are attracting the attention of prominent US growth equity funds. This trend presents opportunities for potential cross-border partnerships and strategic expansion into new markets.

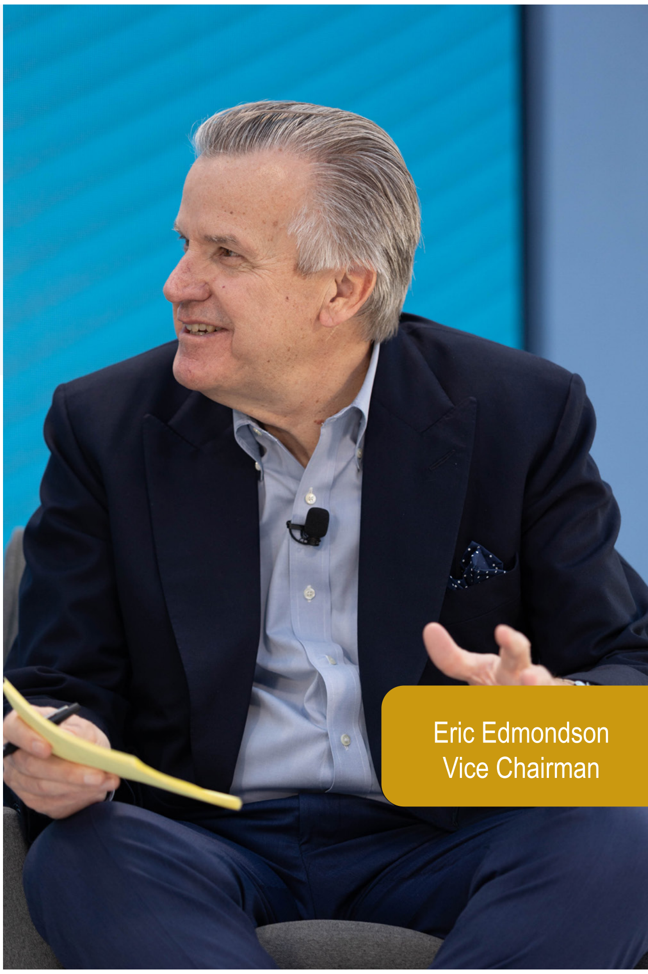
Disruptors take center stage
Smaller companies leveraging innovative technology solutions are competing with established players, and in some instances attracting premium valuations.

Generative AI
Investment into generative AI is on the rise, with private equity firms alone pouring \$2.18bn in 2023, compared to \$1bn the year prior[i].

[i]S&P Global Market Intelligence, March 2024: Private equity-backed investment surge in generative AI defies 2023 deal slump | S&P Global Market Intelligence (spglobal.com)

Paths to liquidity in 2024

Companies seeking to go public or raise capital faced a unique set of challenges in 2023, fueled by recession fears, global election cycles, and fluctuating valuations impacting traditional exit strategies.



Eric Edmondson
Vice Chairman

Key trends

Alternative exits may take the lead in 2024

The dramatic interest rate hike sent shockwaves through the market, significantly impacting valuations, and widening the gap between buyer and seller expectations. This was suggested to have resulted in a general decline in traditional M&A exits.

While there are signs of improvement in the IPO window, overall exit markets remain muted. This is prompting private equity firms to explore alternative liquidity solutions, such as secondaries, continuation vehicles, and debt financing. These alternative exit strategies may take center stage in 2024 as traditional M&A activity recovers.

Proactive strategies contribute to a brighter outlook

Despite these near-term challenges, we have observed positive signs for the long-term. The key to navigating this shifting landscape lies in a proactive approach. Forward-thinking private equity firms are focusing on value creation strategies, particularly operational improvements, to counter the headwinds from rising interest rates.

This shift towards operational efficiency may not only position companies for a stronger future but can also make them more attractive exit candidates when traditional M&A activity rebounds.

What's next for growth company exits in 2024?
Watch here >

The Future of FinTech

The global economic climate is impacting FinTech's ability to raise capital and pursue acquisitions. This shift is driving a focus on organic growth and the adoption of AI-driven solutions to reshape business operations. These trends will influence investment strategies and the future of FinTech in 2024 and long after.

Tommaso Zanobini
Managing Director

Key trends

A shift to organic growth strategies

FinTech companies traditionally relied on acquisitions for rapid growth. However, a significant shift in capital allocation is underway, driven by economic and regulatory factors. This suggests a strategic move towards organic growth strategies within the FinTech space.

The complex evolution of payment systems

FinTech companies are becoming more agile and are continuously innovating to stay competitive within the rapidly evolving payments landscape, particularly for their increasingly tech-savvy customer. This focus on innovation has led FinTech companies to leverage artificial intelligence (AI) and data analytics to enhance payment systems.

What's next for FinTech companies in 2024?
Watch here >

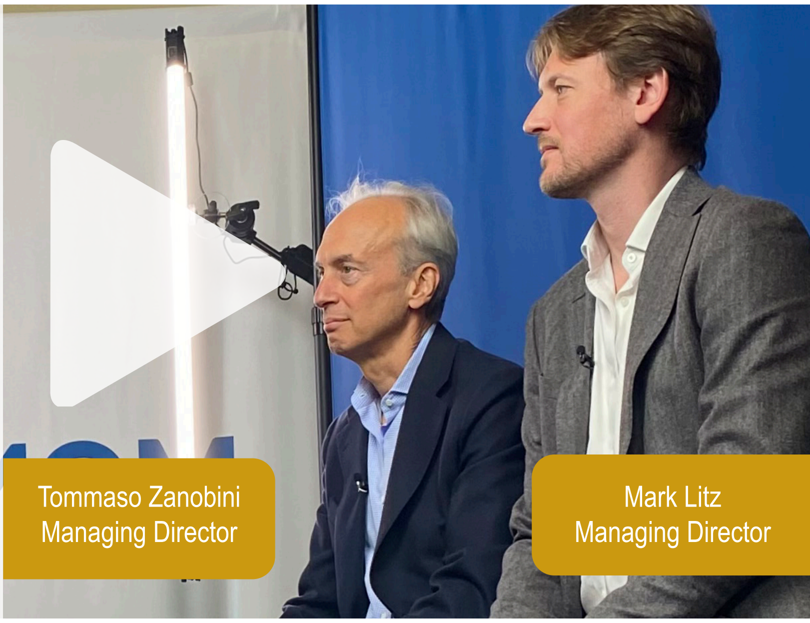
The Future of Tech: Outlook & Opportunities

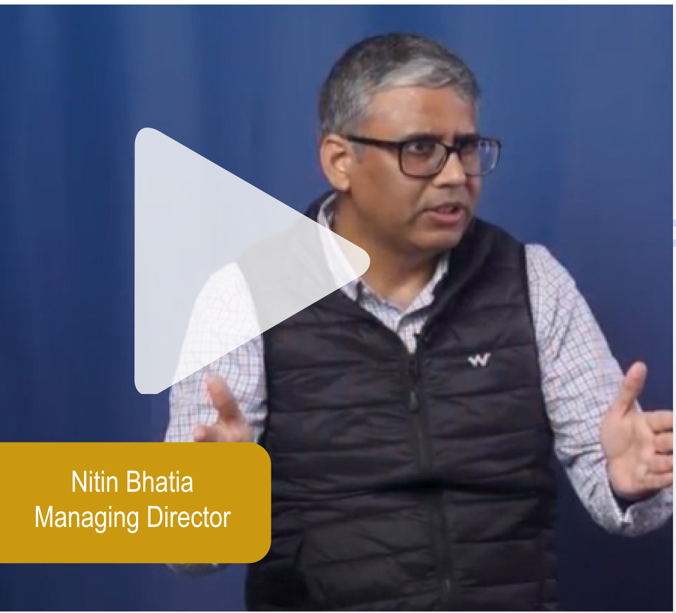
Our global Technology & Software experts from the US, UK, and India lend their views on opportunities and the outlook for 2024 and beyond.

“FinTech, BioTech, and Software should have an exciting year ahead. Within these three areas, companies are being financed more and more by venture capital and private equity, as strategic acquirors are earnings driven and prefer ‘off balance sheet’ funding of new initiatives and disruptive technologies.

Once the market acceptance is clear and the business metrics are proven, they step in and buy companies, as their core strength is scaling. As a result, venture / private equity is taking the opportunity to work with founders / entrepreneurs in buying and scaling businesses to a point where strategics must step in.”

“There is opportunity for Software services to address verticalization within the FinTech sector. The FinTech players competing globally are those that are going deeper into their markets to create additional revenue streams and improve client retention.”





“Generative AI is the ‘Y2K’ moment of Education. As the Education sector is traditionally data poor, there is opportunity for technology, especially AI, to bridge this gap. In the India EdTech market for example, we believe AI will take over a large amount of delivery currently executed by the services industry in the near future.

For US investors interested in the India market, we suggest having a good handle on price point. India is a complex market, and overestimating the market opportunity at high price points can be a common mistake.”

DC Advisory gold sponsors of The Montgomery Summit 2024

DC Advisory was proud to partner with The Montgomery Summit, one of North America's leading technology conferences, for the 11th year running on March 5 & 6. We had over 100 presentations from companies representing the US, Europe, Japan, Israel, and India. Insights from our panel discussions, company presentations and networking forums, on the latest innovations in technology and tech-enabled business services, have been featured in this publication.

1,150+
tech entrepreneurs

115+
presenting companies

11th
year running

Previous summit attendees:

ArmorCode
kissflow
NETRISE
ATOM INVEST
transfr
Goldcast
MirrorWeb
TRUEFORT
VIDEOVERSE
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Making a difference

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