

SDR*Ventures*



DATA CENTER REPORT

Q2.26

SDR*Ventures*

THINKING
LIKE
OWNERS

FINANCIAL DYNAMICS AND NEAR-TERM RISKS

KEY OBSERVATIONS

- ✓ Spending on AI infrastructure has surged, with U.S. tech firms allocating about \$300 - \$400B to chips, data centers, and power in 2024 -2025.
- ✓ AI revenues remain limited relative to capital outlays, creating a build-first, monetize-later pattern.
- ✓ GPUs now account for roughly 50 - 60% of total data center costs, with 2.5 - 3.5 year refresh cycles that compress return windows and strain payback assumptions.
- ✓ Private credit and off-balance-sheet financing are increasingly used through SPVs and partner vehicles, including REIT- and insurance-linked capital, masking leverage exposure.

NEAR-TERM RISKS

- ✓ Concentration risk is building as a few chipmakers and hyperscalers dominate margins and capex, leaving lessors, developers, and OEMs exposed to pauses in top-level spending.
- ✓ Power scarcity and interconnect delays are expected to pressure rental yields and construction timelines in key markets over the next 2 - 2.5 years.
- ✓ Investors should anticipate tighter rental economics, a higher cost of capital, and potential moderation in expansion plans if enterprise AI revenue does not scale quickly.
- ✓ Despite near-term pressure, the long-term thesis remains strong; emphasize disciplined underwriting around refresh cycles, financing risk, and energy constraints.

ABOUT SDR

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.

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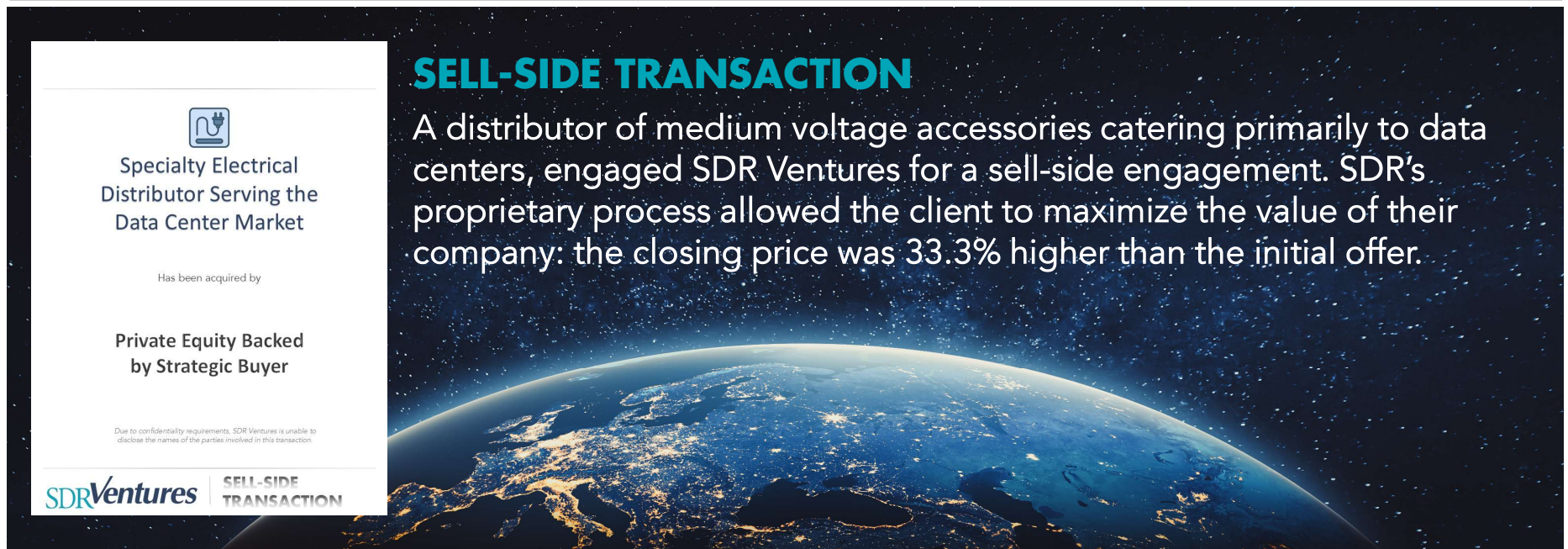
Source(s): "The AI Bubble," Plain English (podcast), 2025; WSJ, "Spending on AI Is at Epic Levels. Will It Ever Pay Off?," Sept. 25, 2025


Trends Shaping the Data Center Market

	TOPIC	DISCUSSION	EMERGING TREND
	HYPERSCALE DEMAND AND MARKET TIGHTNESS	AI and cloud workloads are driving U.S. data center growth. Major providers are locking in space years ahead, pushing vacancy in core markets to about 1 - 2% and lifting lease rates to multi-year highs.	Pre-leasing and long-term contracts are becoming standard as large tenants secure capacity early , reshaping pricing and availability.
	CONSTRUCTION AND POWER CONSTRAINTS	Rapid expansion is straining power grids, permitting systems, and supply chains, delaying builds and inflating costs. Many planned projects face interconnected backlogs or local opposition.	Developers are partnering with utilities, sourcing renewables, and deploying high-efficiency systems to overcome capacity and cost challenges.
	GEOGRAPHIC DIVERSIFICATION	As primary markets tighten, operators are expanding into secondary regions such as the Midwest and Southeast, where land, power, and permitting are more accessible.	These regions are forming new data center hubs , supported by local incentives and renewable-energy programs, which attract hyperscalers and enterprise users.
	DESIGN INNOVATION AND SUSTAINABILITY	Operators are embracing multi-story builds, liquid cooling, and higher rack densities to maximize space and performance. Sustainability is now a core design priority.	Eco-efficient data centers powered by renewables and advanced cooling are emerging as preferred sites , commanding premium lease rates from hyperscale tenants.

Source(s): Pitchbook, Colliers Data Center Research Report

Client Case Study: Data Center Electrical Equipment




Specialty Electrical
Distributor Serving the
Data Center Market

Has been acquired by

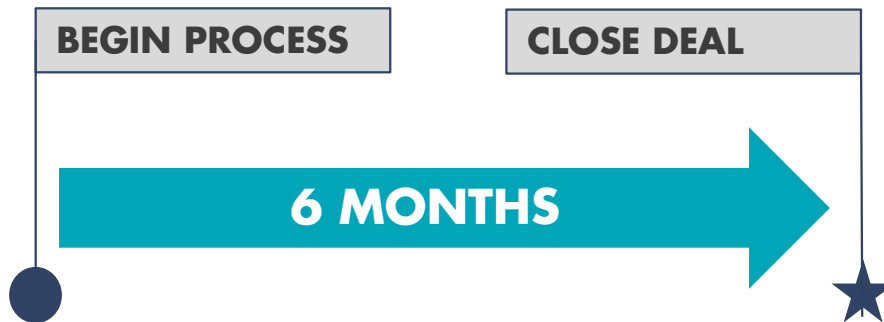
Private Equity Backed
by Strategic Buyer

Due to confidentiality requirements, SDR Ventures is unable to disclose the names of the parties involved in this transaction.

SDR Ventures | **SELL-SIDE TRANSACTION**

SELL-SIDE TRANSACTION

A distributor of medium voltage accessories catering primarily to data centers, engaged SDR Ventures for a sell-side engagement. SDR's proprietary process allowed the client to maximize the value of their company: the closing price was 33.3% higher than the initial offer.



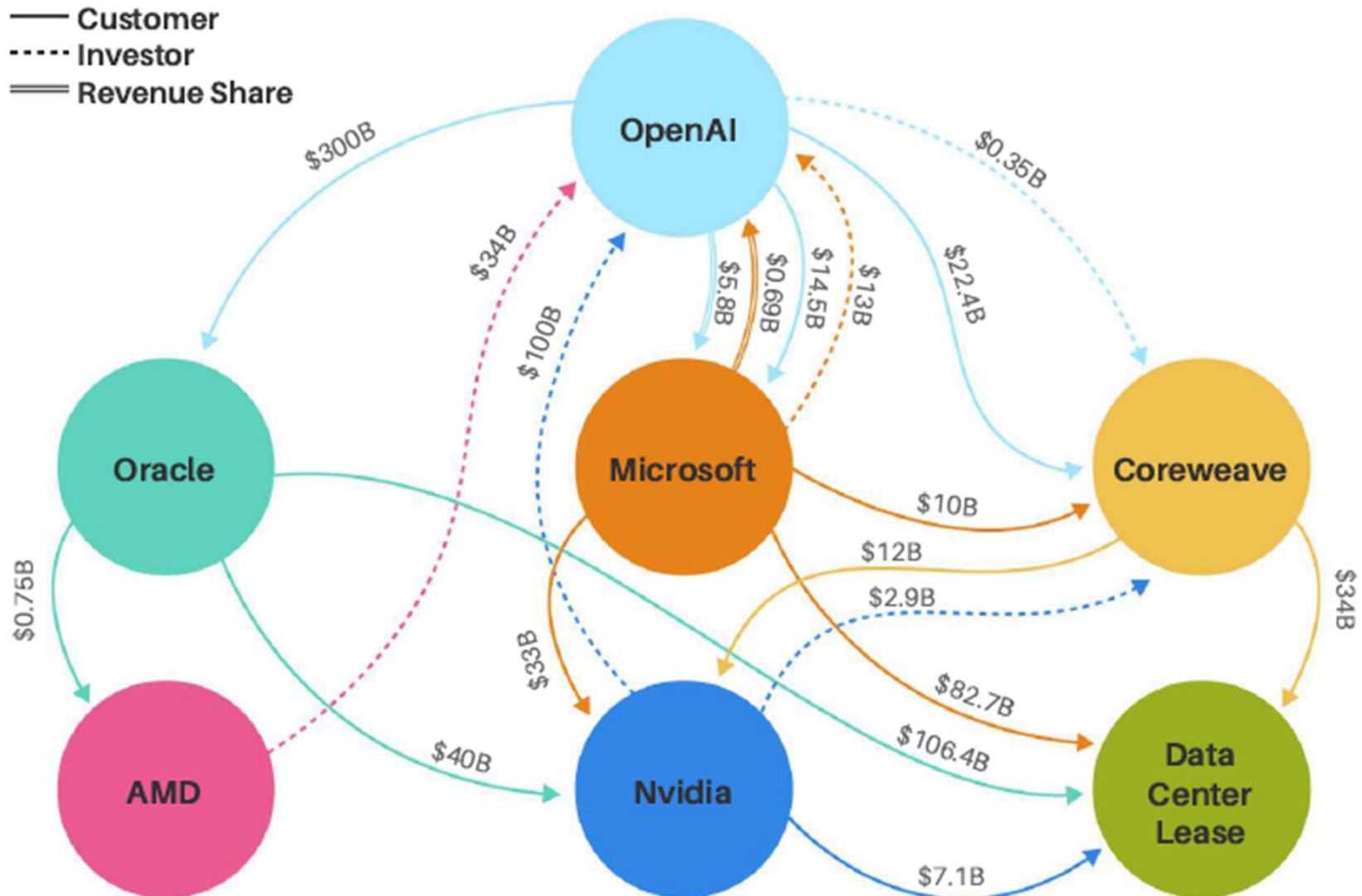
"Thanks to Ben, Scott, & the entire SDR Team, after 20 years of building the business, we were able to succeed in finding a great partner that will take care of our employees and shepherd the company into its next phase of growth and success."

- Owner

AI's Circular Financing Loop

Multi-billion-dollar equity, financing, and purchasing deals between Nvidia, OpenAI, Microsoft, Oracle, AMD, and CoreWeave are effectively recycling capital within the same small group of companies, making it harder to tell how much AI demand is organic versus propped up by circular financing.

Circular Financing Among Key AI Players

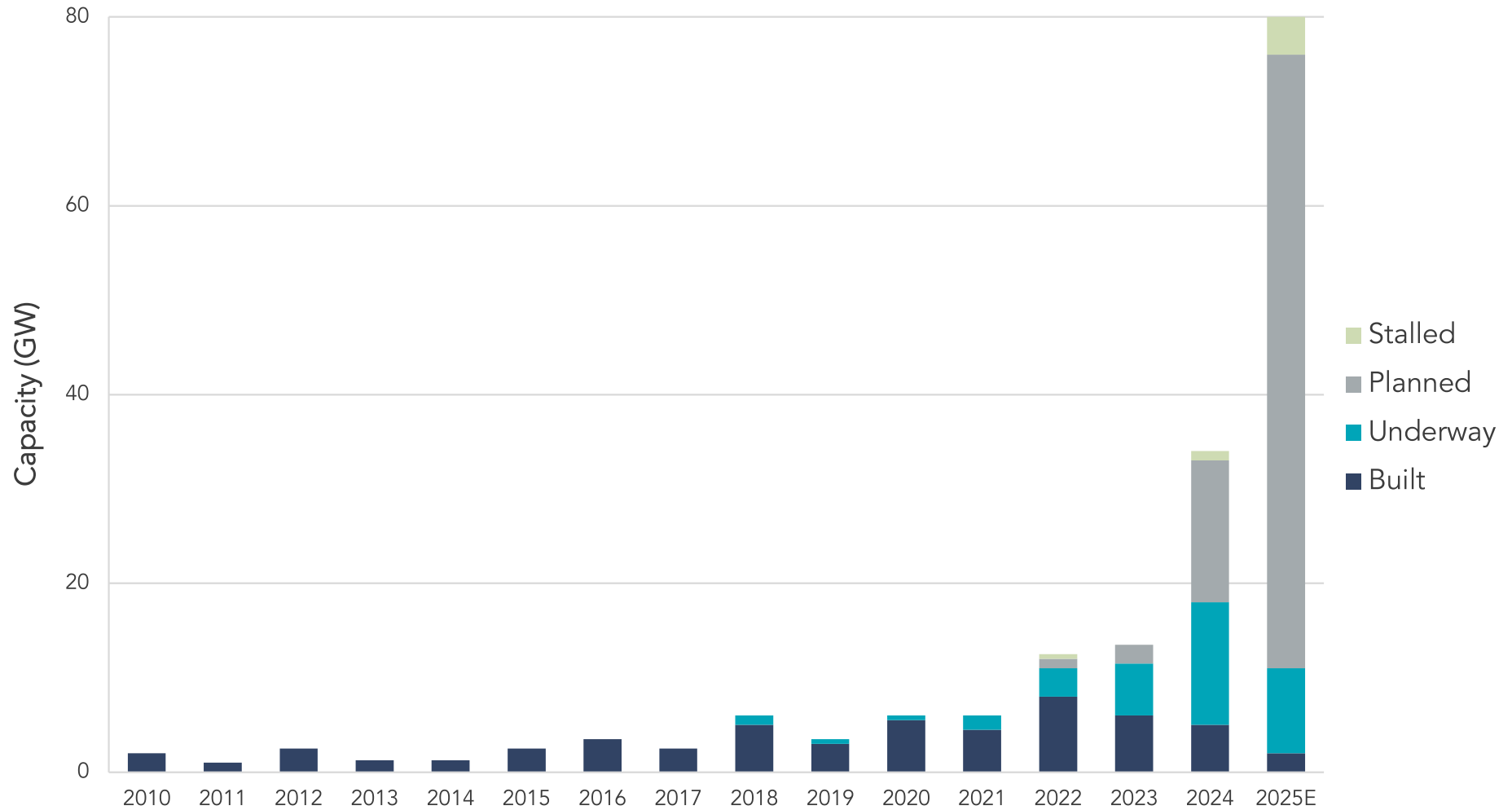


Source(s): Morgan Stanley; Barron's, "Nvidia, Microsoft, and OpenAI: This Chart Captures AI's 'Circular Financing,'" Oct. 10, 2025

U.S. Data-Center Build-Out Pipeline

Record AI infrastructure spending has created a massive U.S. data-center pipeline. Yet, many projects remain only planned or stalled because developers are running into hard limits on power availability, grid connections, and local approvals that slow actual construction.

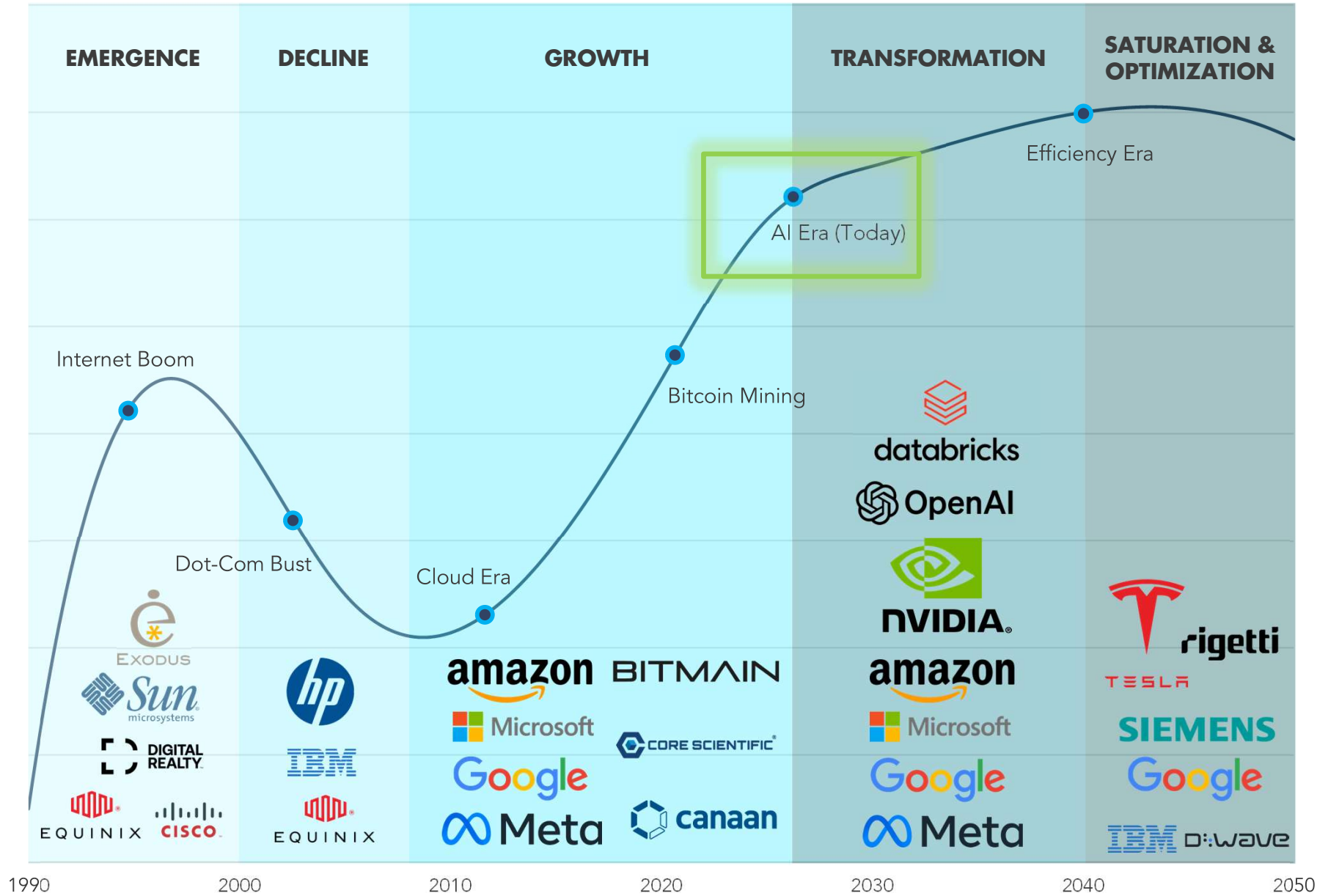
U.S. Data-Center Capacity by Status



Source(s): WSJ, "When AI Hype Meets AI Reality: A Reckoning in 6 Charts," Nov. 14, 2025

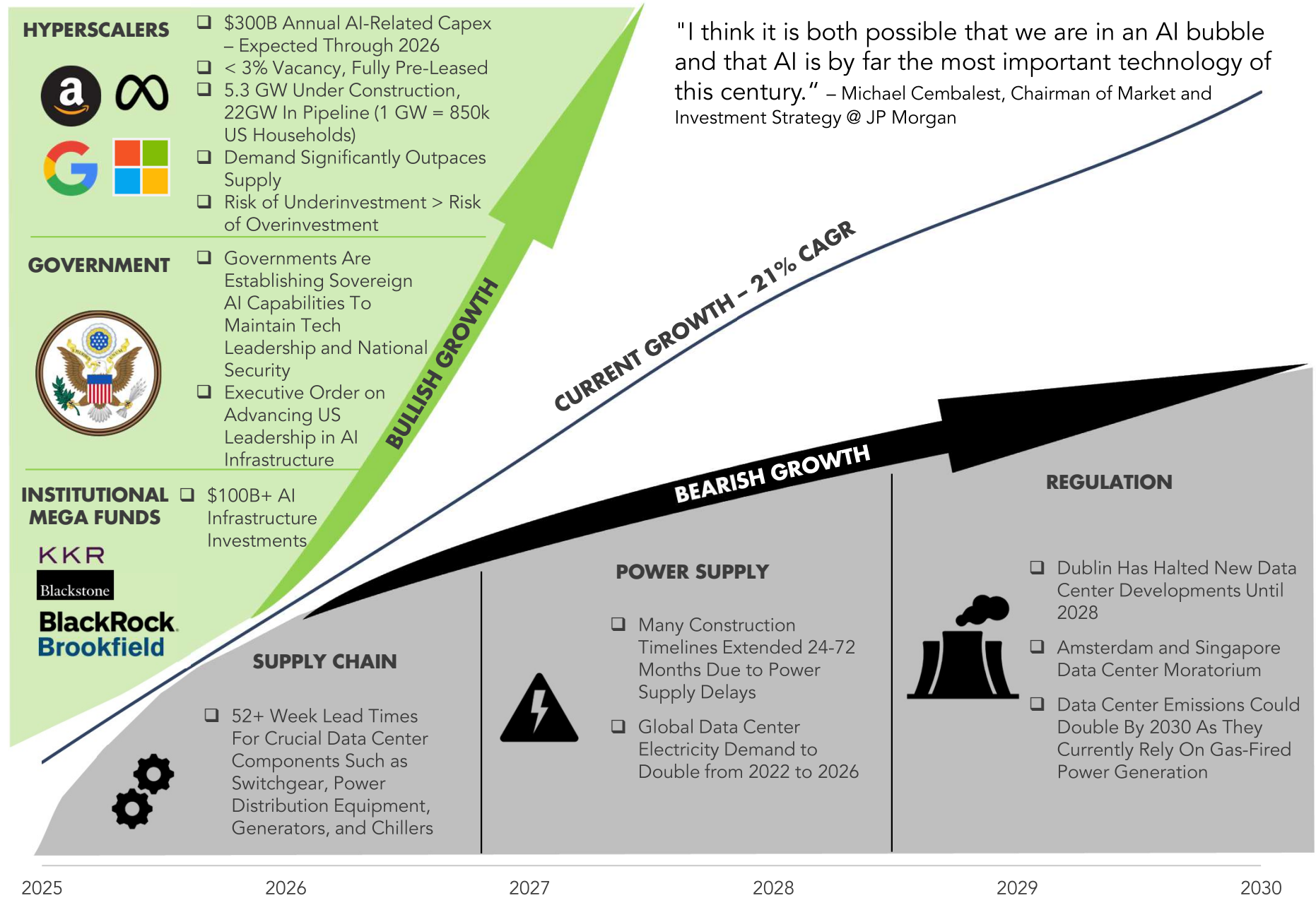
SDR VENTURES DATA CENTER OVERVIEW

Data Center Industry Lifecycle



SDR VENTURES DATA CENTER OVERVIEW

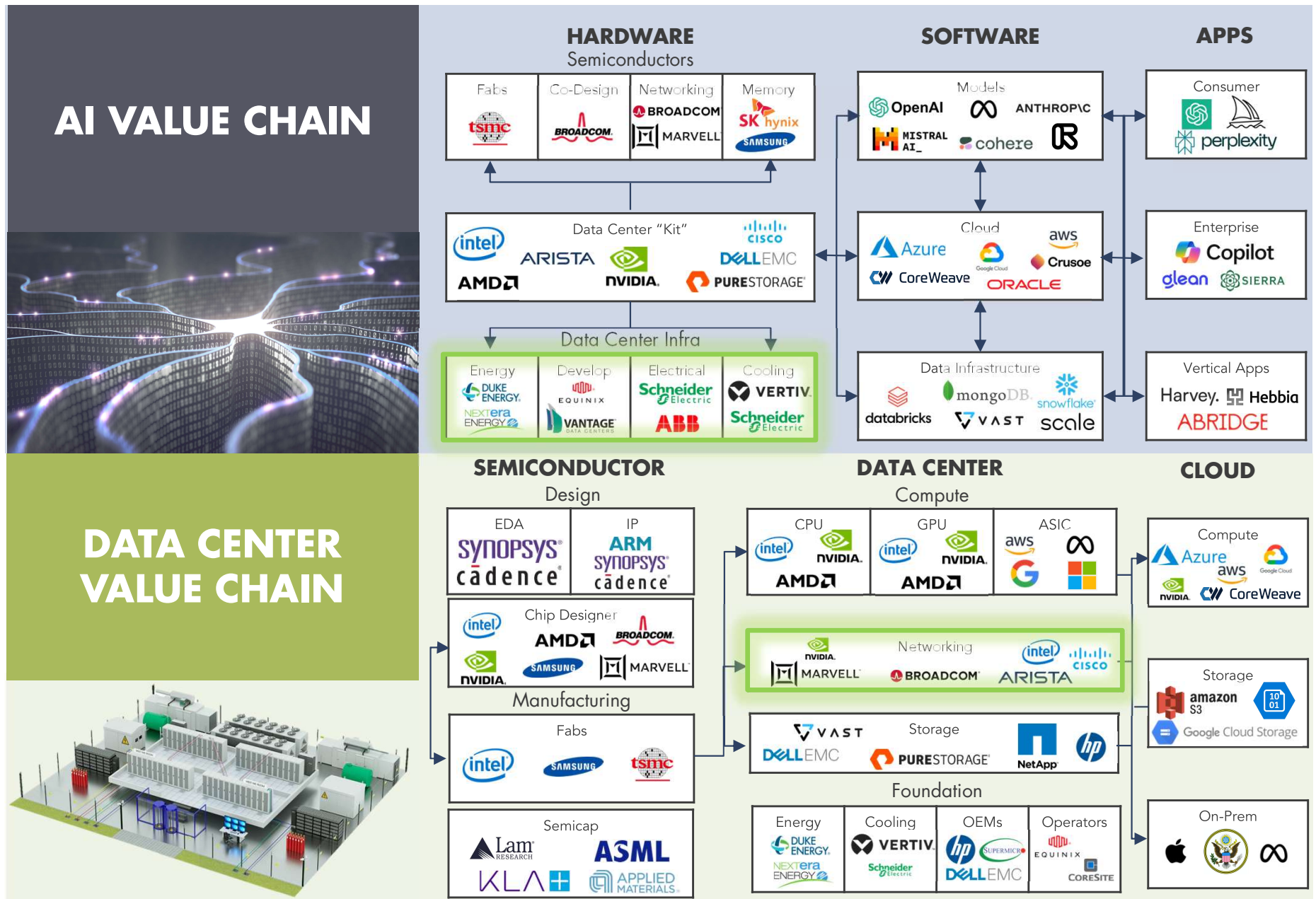
Data Center AI Era Growth Trajectory



Source(s): JLL, Bloomberg, Data Center Frontier, International Energy Agency, Reuters, Data Center Dynamics, Deloitte, CBRE

SDR VENTURES DATA CENTER OVERVIEW

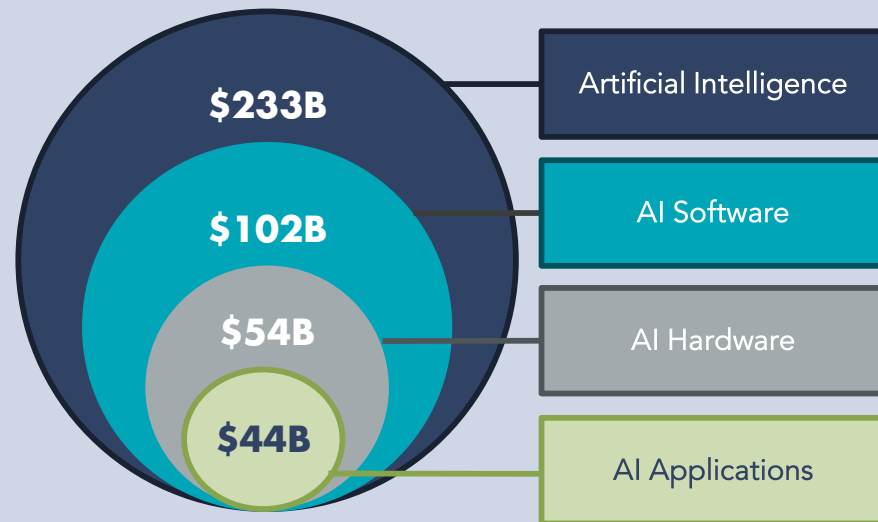
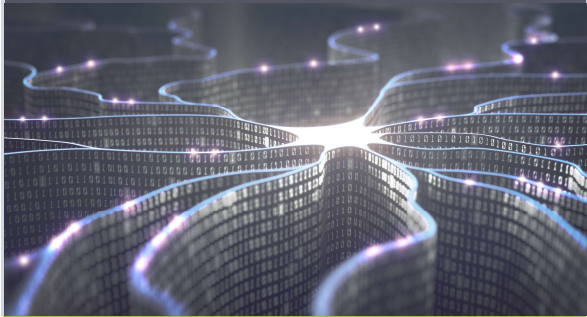
AI & Data Center Value Chains



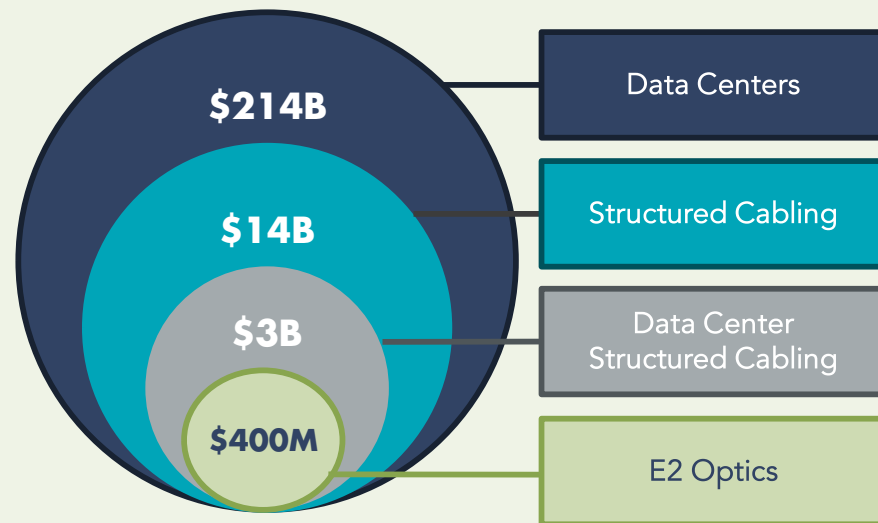
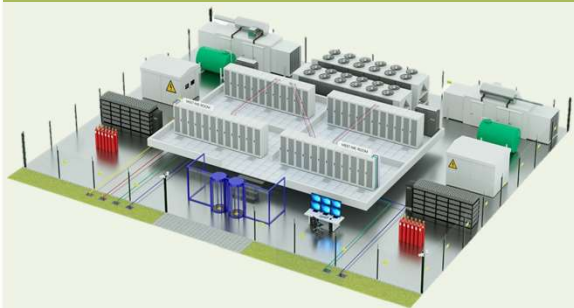
Source(s): Public Comps

AI & Data Center Value Chains – Global Market Sizing

AI VALUE CHAIN



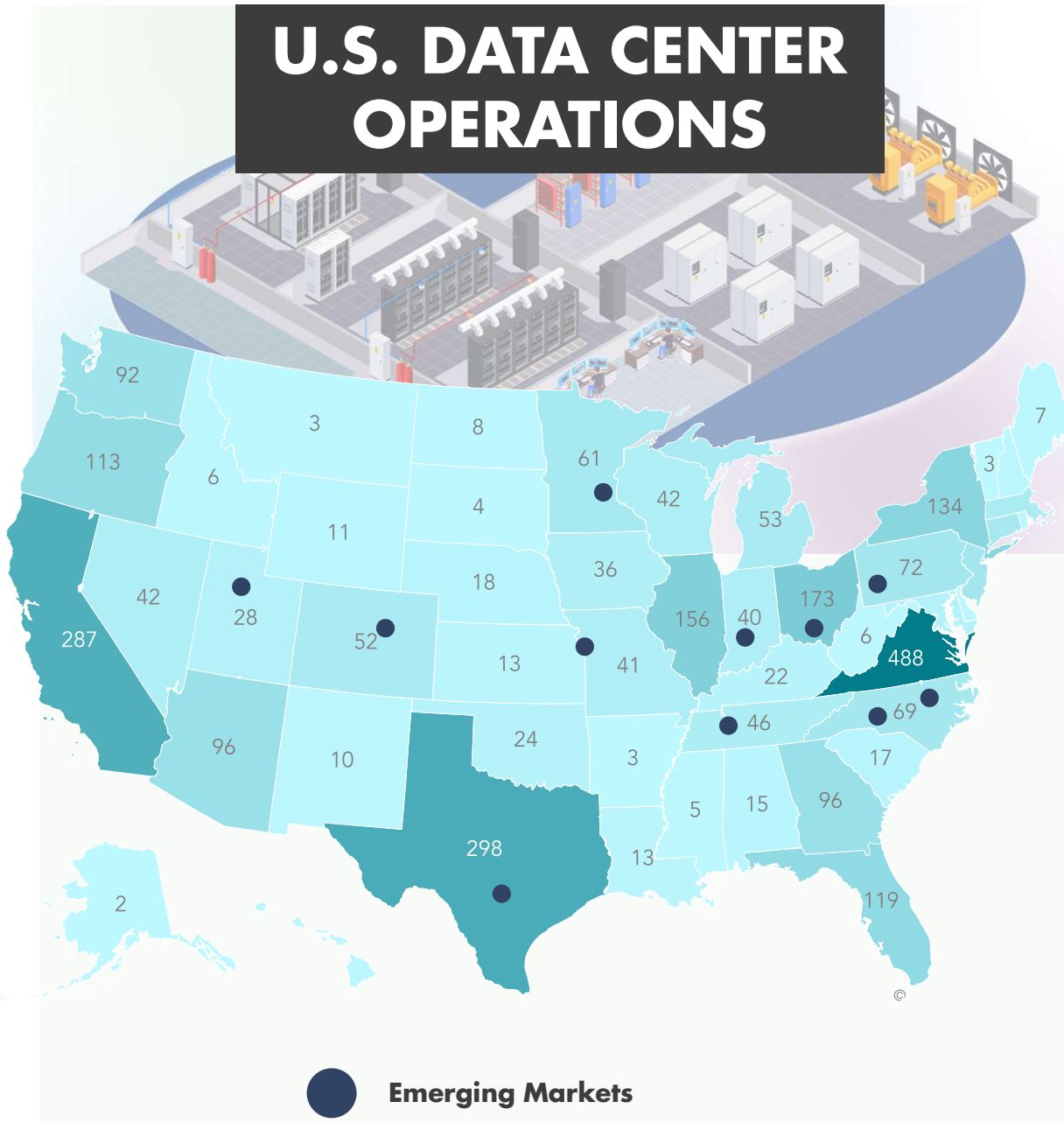
DATA CENTER VALUE CHAIN



Source(s): Data Bridge Market Research, Mordor Intelligence, Fortune Business Insights, Precedence Research, Grand View Research, Bloomberg Intelligence, Imarkgroup, Future Market Insights

Data Center Markets Primed for Growth

U.S. DATA CENTER OPERATIONS

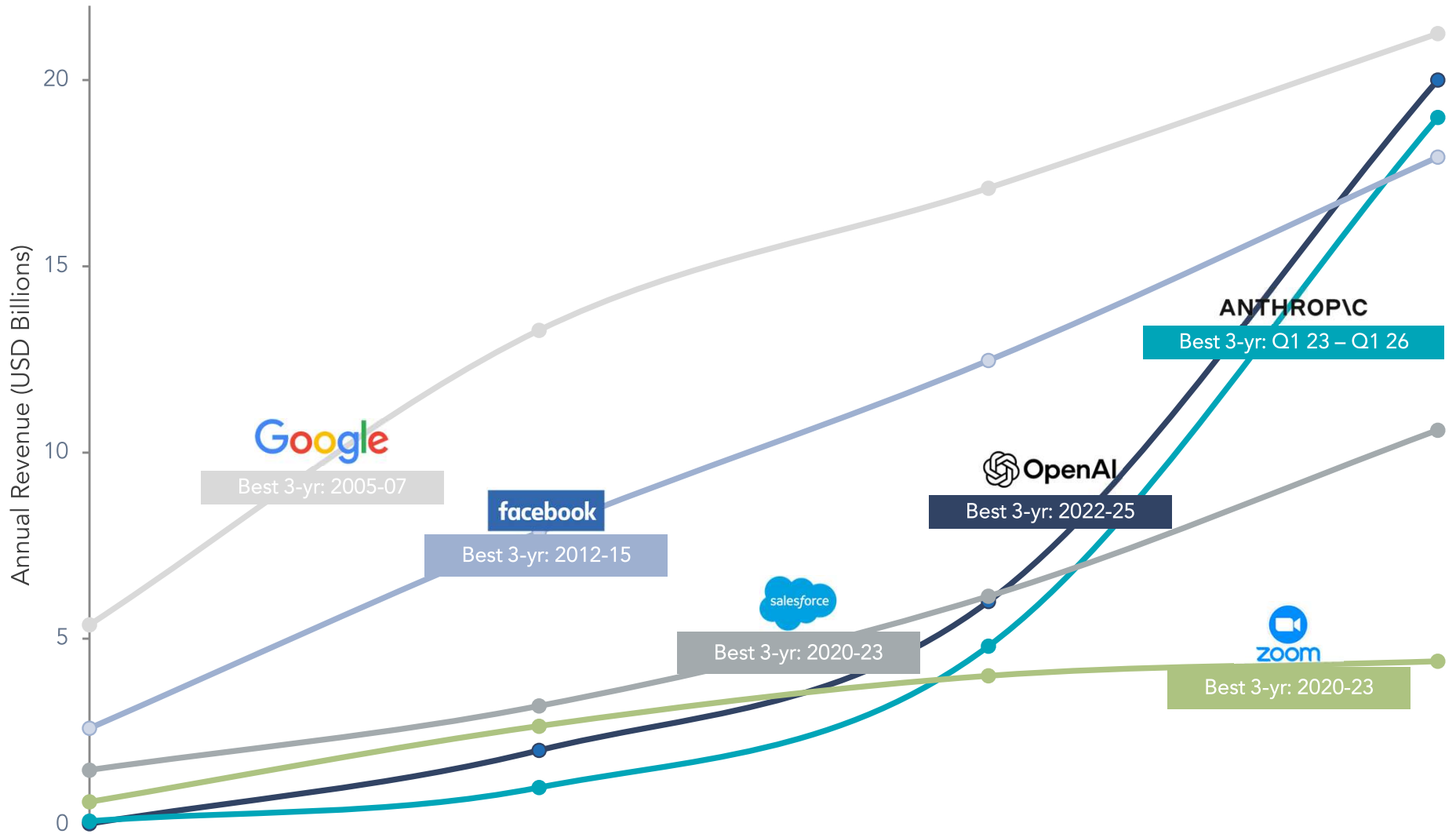


COLUMBUS, OHIO	<input type="checkbox"/> Access to major fiber routes, affordable real estate, supportive economic policies
KANSAS CITY, MISSOURI	<input type="checkbox"/> Central location, robust infrastructure, competitive costs
SAN ANTONIO, TEXAS	<input type="checkbox"/> Low risk of natural disasters, affordable energy, business-friendly
DENVER, COLORADO	<input type="checkbox"/> Central location, favorable climate, growing tech ecosystem
INDIANAPOLIS, INDIANA	<input type="checkbox"/> Low cost of living, central location, growing tech community
MINNEAPOLIS, MINNESOTA	<input type="checkbox"/> Reliable power grid, cool climate, supportive govt.
SALT LAKE CITY, UTAH	<input type="checkbox"/> Seismic stability, low energy costs, growing tech workforce
RALEIGH-DURHAM, NORTH CAROLINA	<input type="checkbox"/> Research Triangle presence, skilled labor force
CHARLOTTE, NORTH CAROLINA	<input type="checkbox"/> Financial industry presence, skilled workforce, favorable tax environment
NASHVILLE, TENNESSEE	<input type="checkbox"/> Central location, expanding tech scene
PITTSBURGH, PENNSYLVANIA	<input type="checkbox"/> Emerging tech hub, access to academic institutions

Source(s): Data Center Frontier, Data Center Map

Revenue Run-Rate of Open AI & Anthropic










The below graph shows annual revenue for each listed company over its strongest three-year period, measured by greatest revenue growth.



Source(s): OpenAI and Anthropic: PitchBook (TTM estimates; private company, not audited financials). Google, Facebook, Salesforce, Zoom: SEC EDGAR 10-K filings. Historical comparables reflect each company's fastest 3-year revenue growth window, indexed to 2022–2025 for visual comparison only.

Picks & Shovels Companies

While Nvidia dominates headlines, the real infrastructure layer (power, cooling, grid equipment, chip-making tools, and private neocloud buildout) sits beneath the surface.

<p>Liquid Cooling NVT • NYSE</p>  <p>First mover in data center liquid cooling, the fastest growing segment in its portfolio. Direct to chip cooling is essential as AI racks reach 50 to 100 kW.</p>	<p>Power Grid HUBB • NYSE</p>  <p>Power line and substation components for the grid feeding data centers. Under 10% direct DC revenue, but a highly lucrative utility segment with a wide moat.</p>	<p>Power Generation GEV • NYSE</p>  <p>Gas turbines (55% of EBITDA), transformers and switchgear. AI demand is lifting margins sharply, expected to double by 2028. Largest installed turbine fleet globally.</p>
<p>Electrical Equipment ETN • NYSE</p>  <p>About 20% of revenue from data center electrical products: switchgear, PDUs and UPS. Wide moat, also benefiting from grid modernization beyond AI.</p>	<p>Chip Equipment ASMR • AMS</p>  <p>Morningstar's #1 pick in wafer fab equipment. Pure play on atomic layer deposition (ALD), critical for advanced AI chips, with share gains as ALD adoption rises.</p>	<p>Chip Equipment AMAT • NASDAQ</p>  <p>Best play on advanced packaging for AI chips, with top market share among equipment vendors. Trades below peers Lam and KLA despite similar AI growth.</p>
<p>Grid Construction PWR • NYSE</p>  <p>T&D infrastructure contractor; over 50% of revenue from transmission and distribution. Acquired Cupertino Electric for direct DC exposure and grid buildout upside.</p>	<p>Renewable Power FSLR • NASDAQ</p>  <p>Morningstar's top renewable pick for AI power demand. Solar is set to supply 25% of incremental AI power by 2030, at a discount to baseload gas peers.</p>	<p>Private: Networking & Edge AI Private • VC-backed</p>  <p>Celero (\$140M, early stage): networking ICs linking AI accelerators. Tachyum (\$220M, late stage): universal processor for AI training and inference.</p>

- Power Generation / Construction
- Liquid Cooling
- Electrical Grid Equipment
- Semiconductor Equipment (WFE)
- Private / VC-Backed

Source(s): PitchBook/Morningstar Equity Research: "DeepSeek Sparks Selloff in US Industrials" (Jan 2025); "Powering Tomorrow's AI Data Centers" (Jul 2025); "Technology Observer: AI Is Etching an Attractive Growth Cycle for Chip Equipment" (Oct 2025); "Q4 2025 Advanced Computing PE and VC Trends" (Mar 2026); "Q3 2025 Launch Report: Advanced Computing" (Dec 2025). All company characterizations and data points sourced from PitchBook research.

The Great AI Debate: AI Job Apocalypse?

Goldman Sachs estimates 300M jobs are exposed globally; the IMF projects 60% of advanced-economy jobs could be affected. Will this lead to widespread job displacement or to added efficiency and growth across the economy?

▲ BULL CASE

AI augments workers, history repeats

New jobs dwarf displacement

WEF projects ~97M new roles vs. 85M displaced by 2025. Every prior tech wave created more jobs than it destroyed.

Most jobs are reshaped, not erased

JPMorgan's 2026 outlook: 60% of firms expect no headcount change. AI automates tasks, not whole jobs, and McKinsey sees ~15% higher productivity.

GDP upside absorbs disruption

Goldman sees AI lifting global GDP 7% (~\$7T); McKinsey estimates \$13T more activity by 2030. More output historically funds new job categories.

Acemoglu's caution: speed matters, not scale

MIT's Daron Acemoglu: severity depends on how fast models improve, not scale. Gradual adoption gives labor markets time to adjust.

▼ BEAR CASE

This time is different

Cognitive labor is exposed

Goldman: AI can automate 25% of U.S. work hours. This wave targets law, finance, software and consulting, the roles that once absorbed displaced workers.

Early data is already alarming

Challenger Q1 2026: AI blamed for 8% of U.S. job cuts, up from 3% in 2023. Tech layoffs are up 51% YoY; Block cut headcount ~50%.

Transition speed exceeds retraining capacity

PitchBook: on a 2025 to 2030 curve, adjustment will outpace workforce retraining systems, especially in emerging markets reliant on manufacturing jobs.

Dario Amodעי's "white-collar bloodbath" thesis

Anthropic's CEO warns of deep disruption to knowledge work. The IMF estimates half of exposed jobs face wage cuts or reduced hiring.

Source(s): Goldman Sachs Global Economics Research (2024); IMF World Economic Outlook (2024); World Economic Forum Future of Jobs Report; Challenger, Gray & Christmas Job Cut Report (Q1 2026) via PitchBook-NVCA Venture Monitor (Apr 2026); JPMorgan Chase 2026 Business Leaders Outlook via PitchBook Q4 2025 Venture Monitor; PitchBook market research, Business Insider (Apr 2026). Informed by: Plain English with Derek Thompson, Spotify

The Great AI Debate: Is AI a Bubble?

Hyperscalers are projected to spend approximately \$658B on capex in 2026, equivalent to about 2.2% of U.S. GDP. This unprecedented level of investment reflects expectations for significant future AI demand and adoption.

▲ BULL CASE

Capex is backed by real demand, not hype

Hyperscaler capex backed by cash flow, not VC speculation

PitchBook (Q3 2025): capex runs ~60% of free cash flow, unlike dot-com. Amazon, Google, Meta and Microsoft each generate hundreds of billions in free cash flow a year.

Revenue is scaling alongside spend

Q4 2025: OpenAI at \$20B ARR, Anthropic \$9B, with Replit and Cursor growing 10x YoY. Nasdaq 100 trades at 28x P/E vs. 89x at the dot-com peak.

Agentic AI is the ROI engine

PitchBook (Q4 2025): the capex surge and SaaS reset are one trend, building the agentic runtime. Enterprises already report Q4 productivity gains.

Physical demand is contracted and measurable

5.3 GW under construction, 22 GW in pipeline, vacancy at 1 to 2%, GPU lead times over 52 weeks. These are contracted, deposited commitments, not speculation.

▼ BEAR CASE

Circular capital, missing revenue, dot-com echoes

Capex consuming ~92% of operating cash flow by 2026

Jefferies (2026): hyperscaler capex/OCF jumped from 41% (2023) to 92% (2026). The top five issued \$121B in bonds in 2025 vs. a \$28B average. The buildout leans on external debt.

Circular financing echoes the dot-com era

Hyperscalers fund OpenAI and Anthropic, the labs buy compute back, and revenue is booked in a loop. PitchBook warns OpenAI's 2030 FCF is 3 to 7x above trajectory.

AI investment cycle 60% larger than dot-com at its peak

Panmure Liberum (May 2026): tech is 93% of U.S. GDP growth vs. 56% at the TMT peak. Series A AI pre-money hit \$78M in Q1 2026. Builder.ai collapsed in 2025 after inflating revenue.

OpenAI/Anthropic/xAI IPOs could reprice all of private AI

PitchBook (Jun 2026): combined IPO float could reach \$180B to \$365B in Q4 2026, topping all 2021 U.S. proceeds. A public rejection of OpenAI's economics would reprice all private AI.

Source(s): PitchBook market research; Jefferies Equity Strategy (May 2026); Panmure Liberum / Fortune (May 2026); ARK Invest Dec 2025 Market Update; Michael Cembalest, JPMorgan. Informed by: Plain English with Derek Thompson, Spotify ep. 4nEDmFv16KtNG4tkCEyXOU.

Select M&A Transactions: Data Center Products and Services

DATE	TARGET	BUYER	DEAL DESCRIPTION
5/28/2026	 Government Acquisitions	 Computacenter	The company reached a definitive agreement to be acquired by Computacenter (LON: CCC) for an estimated \$92 million on May 28, 2026. The consideration consists of performance-based payments of up to \$29 million through the end of 2027.
5/4/2026	 American Megatrends	 LATTICE SEMICONDUCTOR	The company reached a definitive agreement to be acquired by Lattice Semiconductor (NAS: LSCC) for \$1.65 billion on May 4, 2026. Under the terms of the definitive agreement, the cash-free/debt-free total consideration consists of \$1 billion in cash and an estimated \$650 million in shares of Lattice Semiconductor common stock.
3/26/2026	 Aligned™ Adaptive Data Centers	 BlackRock NVIDIA Microsoft	The company was acquired by BlackRock, Nvidia, Microsoft, xAI, MGX, Kuwait Investment Authority, Temasek Holdings, and Global Infrastructure Partners through a \$40 billion LBO on March 26, 2026. The transaction was supported by \$11 billion of debt financing.
2/2/2026	 celestial AI™	 MARVELL®	The company was acquired by Marvell Technology (NAS: MRVL) for \$6 billion on February 2, 2026. This acquisition positions Marvell to be a technology leader in the emerging scale-up interconnect market, adding a significant and completely incremental new total addressable market (TAM).
12/23/2025	 POWER SOLUTIONS	 DYCOM	The company was acquired by Dycom Industries (NYS: DY) for \$1.99 billion on December 23, 2025. With this acquisition, Dycom Industries diversifies its business and significantly enhances the potential to generate long-term growth and value creation.
12/4/2025	 purecolo power security transit	 CARRIER CONNECT DATA SOLUTIONS	The company was acquired by Carrier Connect Data Solutions (TSX: CCDS) for CAD 7.73 million on December 4, 2025. The acquisition of PureColo represents significantly increased revenue and square footage.
11/18/2025	 Informatica	 salesforce	The company was acquired by Salesforce (NYS: CRM) for \$11.231 billion on November 18, 2025. This acquisition will enhance Salesforce's trusted data foundation, which is critical for deploying powerful and responsible agentic AI.
9/1/2025	 CEC	 STERLING INNOVATION IN INFRASTRUCTURE	CEC Facilitate Group was acquired by Sterling Infrastructure (NAS: STRL) for \$505 million, based on a 9.6x EBITDA multiple and a 1.2x revenue multiple. The acquisition aligns with Sterling's strategy, aiming to deliver more efficient solutions and industry innovation.

Source(s): Pitchbook

SDR VENTURES DATA CENTER OVERVIEW

Select M&A Transactions: Data Center Products and Services (Cont.)

DATE	TARGET	BUYER	DEAL DESCRIPTION
8/20/2025			Limestone Networks, a leader in bare metal infrastructure, announced the acquisition of BreezeTech Holdings and its four brand: BreezeTechHosting, Silver Hosting, Snowside Hosting, and NextArray, marking an expansion into the VPS and web hosting markets.
8/19/2025			Blue Owl Capital completed a leveraged buyout of Dallas-based Gigabit Fiber, acquiring 100% of the company for an undisclosed amount. The transaction positions Blue Owl as the new private equity sponsor backing Gigabit Fiber's continued growth in digital infrastructure.
8/18/2025			Daikin Applied of Daikin Industries acquired San Diego-based DDC Solutions, a provider of cooling cabinets and data center management software, for an undisclosed amount. The deal expands Daikin's capabilities in advanced data center cooling and infrastructure.
8/1/2025			ZiPLY Fiber was acquired by Bell Canada, a subsidiary of BCE (TSE: BCE), for CAD 7.6 billion on August 1, 2025. The transaction enhances Bell Canada's growth profile and strategic position by giving it a foothold in the large, underpenetrated U.S. fiber market, while increasing its scale, and unlocking significant growth opportunities.
7/7/2025			The company was acquired by Sikich, via its financial sponsor Bain Capital, through an LBO on July 7, 2025 for an undisclosed amount. The acquisition adds scale to Sikich's existing cloud services at a time when demand among clients is high.
6/1/2025			Mission Critical Group was acquired by Capital Southwest and CFT Capital Partners through an LBO on June 1, 2025 for an undisclosed amount. The transaction was supported by \$384.69 million of debt financing.
4/22/2025			Parade Technologies acquired San Jose-based Spectra7 for \$9mm, resulting in the company's delisting. Spectra7 develops advanced active cable technologies, and the acquisition allows Parade to expand its high-speed connectivity solutions.
4/1/2025			Fibrebond was acquired by Eaton (NYS: ETN) for \$1.45 billion. The value was based on a was based on a 7.9x EBITDA multiple and a 2.3x revenue multiple. The acquisition provides Eaton differentiated offering in fast-growing markets.

Source(s): Pitchbook

SDR VENTURES DATA CENTER OVERVIEW

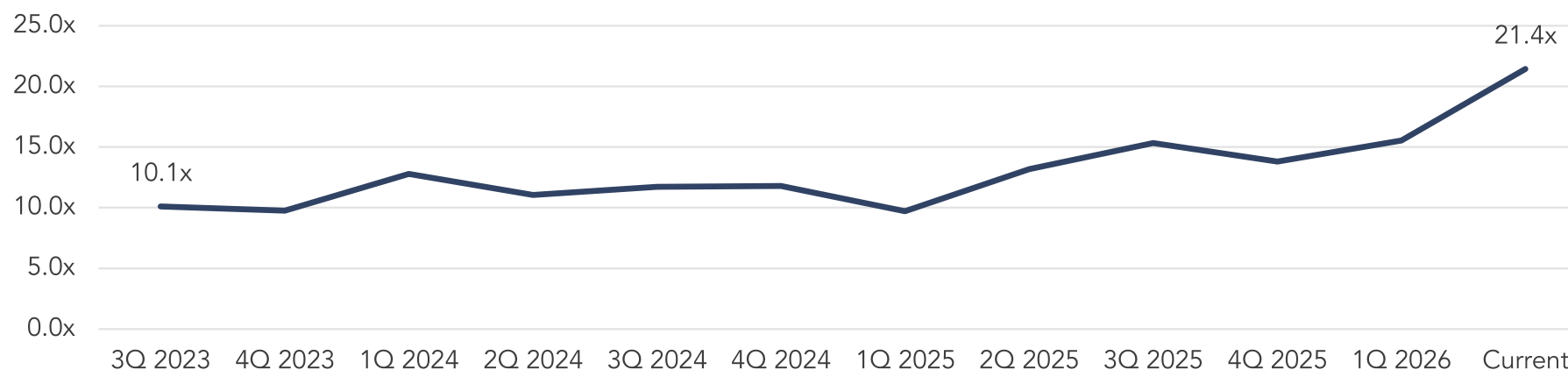
Data Center and Data Center Services

Infrastructure Cabling & Facility Integration Services

Company Name	Symbol	Market Stats					Operating Stats		LTM Multiples		
		Market Cap (\$ in mm)	Price (\$)	Quarter Change	YTD Change	% of 52 Week High	EBITDA Margin	TEV/ Rev	TEV/ EBITDA	Price/ EPS	
Quanta Services	PWR	\$ 105,380	\$ 702.25	26.4%	66.4%	89.0%	8.9%	3.0x	33.1x	77.1x	
Emcor Group	EME	\$ 37,178	\$ 836.59	15.4%	36.7%	87.9%	11.2%	1.7x	14.7x	22.5x	
MasTec	MTZ	\$ 30,000	\$ 379.66	26.3%	74.7%	86.0%	8.0%	1.7x	21.6x	53.2x	
IES Holdings	IESC	\$ 14,194	\$ 711.29	62.8%	82.8%	91.3%	14.7%	3.1x	21.0x	30.3x	
MYR Group	MYRG	\$ 7,180	\$ 460.74	77.4%	110.9%	95.1%	6.9%	1.5x	21.4x	40.6x	
Segment Average				41.7%	74.3%	89.9%	10.0%	2.2x	22.4x	44.7x	
Segment Median				26.4%	74.7%	89.0%	8.9%	1.7x	21.4x	40.6x	



Median EV / EBITDA



Source(s): Deal Stats, PitchBook

DATA CENTER + TECH SERVICES FOOTPRINT



**INFRASTRUCTURE
BUILD**



SOFTWARE / SAAS



**MANAGED IT
SERVICES**



COOLING SYSTEMS



**TECHNOLOGY
OUTSOURCING**



**SYSTEM
INTEGRATION**

COLLABORATING WITH FOUNDERS & ENTREPRENEURS SINCE 2002

CABLENET
Aerospacex, Inc.

Has been acquired by

ISC INTERCONNECT SOLUTIONS COMPANY

A portfolio company of

TIDEROCK

SDR Ventures SELL-SIDE TRANSACTION

All Traffic Data

Has been acquired by

SEAPORT CAPITAL

SDR Ventures SELL-SIDE TRANSACTION

MVA
Medium Voltage Accessory Supply, Inc.

Has been acquired by

RADWELL

A portfolio company of

CVC CAPITAL PARTNERS

SDR Ventures SELL-SIDE TRANSACTION

CYBERTRAILS

A portfolio company of

REPUBLIC

Has been acquired by

Neustek

A portfolio company of

LIGHTVIEW

SDR Ventures SELL-SIDE TRANSACTION

COOLING CONCEPTS
VULNERATED TRAILER LEASING

Has been acquired by

STAR
STAR COMPANY

A portfolio company of

i1 SQUARED CAPITAL

SDR Ventures SELL-SIDE TRANSACTION

ID Intelligent Demand

Has been acquired by

2X

A portfolio company of

RECOGNIZE

SDR Ventures SELL-SIDE TRANSACTION

SUPPLY CHAIN TECHNOLOGY

In Market

SDR Ventures SELL-SIDE TRANSACTION

VALA
SECURE

Has been acquired by

BAYMARK ■ PARTNERS

SDR Ventures SELL-SIDE TRANSACTION

cdo
magazine

Has been acquired by

gop

A portfolio company of

SDR Ventures SELL-SIDE TRANSACTION

MCAD

Has been acquired by

COMPUTER AIDED TECHNOLOGY

A portfolio company of

MANGROVE

SDR Ventures SELL-SIDE TRANSACTION

VetlinkPRO
Full-time live work with your practice

Has been acquired by

JONAS

A subsidiary of

CONSTELLATION SOFTWARE INC.

SDR Ventures SELL-SIDE TRANSACTION

spinnaker SCA

A merger of

SCA ■ **SPINNAKER**

Has been acquired by

Black Lake Capital

SDR Ventures SELL-SIDE TRANSACTION

Resolute
PROPERTY TAX SOLUTIONS

Has been acquired by

Elysian

SDR Ventures SELL-SIDE TRANSACTION

The CFO Project

Has been acquired by

BROADTREE

SDR Ventures SELL-SIDE TRANSACTION

Miller&Associates

and

dado

Have been acquired by

precocity

SDR Ventures SELL-SIDE TRANSACTION

myClinicalExchange

Has been acquired by

HealthStream

SDR Ventures SELL-SIDE TRANSACTION

NORCAST

Has been acquired by

DIGITAL WEST

A portfolio company of

FCP FARRAGUT

SDR Ventures SELL-SIDE TRANSACTION

WORKFORCE DEVELOPMENT TECH SERVICES

In Market

SDR Ventures SELL-SIDE TRANSACTION

SDR VENTURES DATA CENTER OVERVIEW

Technology Thought Leadership

- Over 1,100 investment firms have a specified investment interest in technology (including private equity, family office, independent sponsors and search fund contacts).
- We have 650+ subscribers to our Software & IT Services Industry Report, 200+ private equity professionals.
- SDR has been reporting on technology since 2014.

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SDR has a very wide aperture when approaching the market of technology investors.

- Deep family office relationships
- Robust proprietary database

SOFTWARE & IT SERVICES REPORT

Explore M&A Activity, Capital Market Conditions and Current Trends for the Software & IT Services Industry

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2H 2024

2H 2024 | VOL 1 | ISSUE 2

SOFTWARE & IT SERVICES REPORT

SOFTWARE AND IT SERVICES 2H24: WHAT TO KNOW

- Cybersecurity is on of the things in life you don't notice until it fails. If 2H24 was an indication, it's time to notice. Cybersecurity matters.
- Said or unsaid, it appears we're in a semiconductor chip cold war. There's an ongoing global race to develop, build, and deliver ever faster and more powerful chips (and there's money in that).
- Even as futurists eye the evolution of quantum computing, it's more important than ever to take the advanced AI technologies we already have beyond the gee-whiz phase and put them to work on practical, profitable solutions.

Today's Tech, Cyberbarbarians at the Gate

So maybe this software thing will stick around after all. The sector sure made headlines in 2024 and attracted a ton of private equity investment. Think billions. Although plenty of the names-you-know publicly traded firms weren't going to be left out, including IBM, Nvidia, and Salesforce.¹

But unlike last year, there was more to talk about than AI. Sure, applications and evolutions of AI made the news, but we were also talking about quantum computing and its futuristic possibilities. And then there was cybersecurity, the services you rarely think about until something goes terribly, horribly wrong. Spoiler: it did.^{2,3}

In late July, cybersecurity company CloudStrike was humming along protecting the world from bad guys when the company initiated an update. Never a bad idea to update the old software, and that's when computers around the world choked on a one or zero and went dark. The update triggered a massive failure. Microsoft estimated about 8.5 million computers freaked out. Airlines canceled thousands of flights worldwide. Luggage piled up in airports amid miserable, seething passengers. Hospitals canceled operations. Screeners went dark. Delta Airlines sued CloudStrike seeking to recover \$500 million in lost revenue. CloudStrike sued Delta claiming its IT teams sink. And this wasn't the only security blip. To start the year, UnitedHealth Group had its payment processing arm, Changes, headed, sparking a massive upheaval in health-care nationwide. Then, in October, UnitedHealth announced the attackers also stole the personal information of 100 million people. In December, Chinese hackers burrowed into the U.S. Treasury Department's systems. Health-care providers, credit unions, cities, school districts, the U.S. Marshall's Office, even an automated cow milking system all fell victim to hackers in 2024.^{4,5,6,7}

CONTENTS

- Transaction Activity
- Active Buyers
- Public Basket
- M&A Market Activity about SDR Ventures

ABOUT SDR

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.

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SOFTWARE & IT SERVICES REPORT

TRANSACTIONS BY SEGMENT

Segment	Count
Enterprise Software	498
Managed IT Services	66
Supply Chain Software	28
IT Services & Strategy	70
Cybersecurity	284
Data & Analytics	70

TRANSACTIONS BY TYPE

Type	Percentage
Financial	42%
Strategic	58%

TRANSACTIONS BY LOCATION

Map showing transaction density across the United States. Legend: 21 or more transactions (darkest blue), 11-20 transactions (medium blue), 1-10 transactions (light blue), 0 transactions (white).

TRANSACTION ACTIVITY

Deal ID	Date	Target	Buyer(s)	Segment	Amount (\$ in M)	TEV/Rev	TEV/EBITDA
20240421	09/00/24	Quintec Technology Solutions	HHS Capital	Managed IT Services	15.73	1.2x	-
23072307	07/10/24	Redwood Software	Vera Equity Partners, Vantage Private	Enterprise Software	2,500.00	-	-
23060107	09/00/24	MobilityOne	Gen Capital	Enterprise Software	264.44	1.8x	5.5x
23020107	09/00/24	BigITcan	Unifund	Enterprise Software	58.80	1.5x	5.0x
20240107	09/00/24	Jaguar	Vera Equity Partners	Enterprise Software	3,000.00	-	-
20240107	09/00/24	MFC Investment Solutions	Truist Technology	Managed IT Services	97.00	0.5x	3.0x
20240107	09/00/24	Highgreen	Adviser, Arton Capital, Wallis Global Growth Services, Cherry Hill Capital Group, Double Capital, Capital Group, Capital Ventures, Capital Group, Capital Ventures	Data & Analytics	208.04	1.0x	6.0x
20240107	09/00/24	Truist	Truist Technology	Enterprise Software	100.00	1.2x	4.0x

If You are a Business Owner Looking for Additional Transaction Activity Within Your Industry, Please Call Our Offices at 720.221.9220.

Source: PitchBook Financial Data and Analytics
Note: This data represents recorded transactions only and is not all-inclusive. Nevertheless, they are typically representative of the industry.

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RECAPITALIZE A BUSINESS

Optimize One of the Most Important Events in an Entrepreneur's Life

- Maximize Consideration
- Increase Certainty of Close
- Manifest Closure for the Next Chapter



EXIT PREPAREDNESS

The Right Support at the Right Time

- Business Valuation
- Business Value Survey
- Exit Readiness Assessment



BUY A BUSINESS

Grow Your Company

- Outsourced Corporate Development
- "Off the Radar" Opportunities
- Negotiate Favorable Terms



CAPITAL FORMATION

Restructure Or Raise Capital

- Minority Recapitalization
- Leverage Debt & Equity Capital
- Fuel For Growth

The SDR Difference

20%
INCREASE ABOVE AVG. OFFER

59%
INCREASE ABOVE UNSOLICITED OFFER

36%
CIM CONVERSION

35%
IOI CONVERSION

23%
TIME CLOSE WITH "B" TERMSHEET

8.2
AVG. ENGAGED TIME TO CLOSE (MO)

226
AVG. BUYERS APPROACHED PER DEAL

81
AVG. CIM PER DEAL

10
AVG. IOI PER DEAL

5.3x
SDR COST INVESTMENT PRIOR TO CLOSE

Terminology

CIM (Confidential Information Memorandum): A ~50-page marketing document distributed to potential buyers.

CIM Conversion: $CIM / Buyers$

IOI (Indication of Interest): A conditional, non-binding statement of interest in purchasing a Company.

IOI Conversion: IOI / CIM

Avg. Time to Close: 8.2 months assumes the deal closes with the first signed LOI

Who We Are & What We Do

ABOUT OUR FIRM

- ❑ 25+ years serving founders and entrepreneurs in the middle-market
- ❑ Headquartered in Denver, CO, with a second office in Colorado Springs, CO
- ❑ 140+ deals completed within the firm
- ❑ Exclusively focused on helping entrepreneurs create and unlock enterprise value in their business
- ❑ A holistic approach to M&A that seeks to optimize life-after-deal for the entrepreneur
- ❑ Supporting lower middle-market and middle-market companies across two divisions:
 - SMB: enterprise values of \$10 - \$30mm
 - IB: enterprise values of \$30 – 400mm
- ❑ Client advocacy over deal advocacy, every single time

ABOUT OUR SERVICES

- ❑ SDR creates markets for middle market businesses by finding the right investors for each situation
- ❑ Services
 - Sell-side
 - Buy-side
 - Capital raise
 - Exit preparedness
- ❑ We are a FINRA-registered broker-dealer
- ❑ We serve clients nationally
- ❑ Specialized in guiding middle market entrepreneurs, not a single industry
- ❑ Broad exposure with primary industry experience across eight sectors and their verticals

OUR RESULTS



25+
YEARS

Serving Business
Owners Nationally



88%

Transaction
Close Rate



19.8%

Higher Than Average
Closing Price



140+
DEALS

Completed Within
the Firm