

Software Sub-sector Insights: Industrial Software

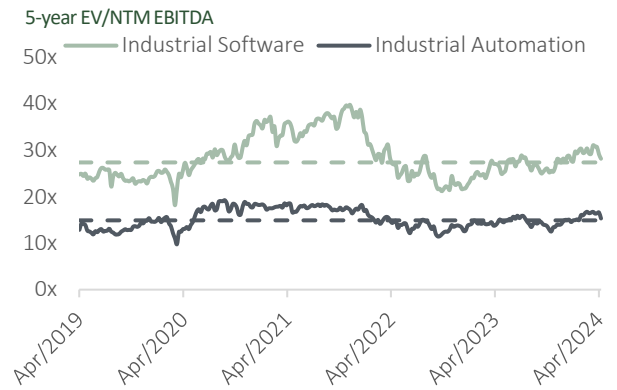
Valuation levels are stable despite deal volumes contracting in line with the overall market. Underlying trends remain intact, supporting continued investment within industrial software

Spring 2024

Overview of Industrial Software Market Dynamics

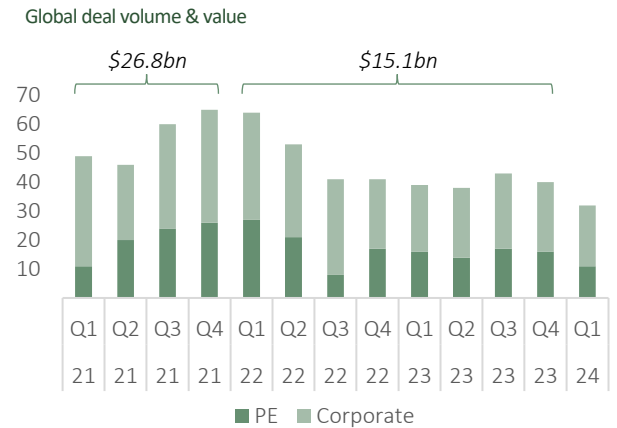
Valuations | Public companies trading close to 5-Y medians

- 2023 represented a period of relative stability in valuations, with a steady uplift through the year from an opening EV/NTM EBITDA of 21.8x to closing multiples of 28.8x. Notably, valuations in the sub-sector now sit above pre-COVID levels.
- Valuation levels in 2024 have maintained their upward trajectory, building upon the momentum established in 2023. The peak was observed in early April, reaching 30.8x NTM EBITDA. Although the sudden onset of market volatility has led to a recent decline in valuations, they remain elevated above the 5-year median levels.



Global industrial software M&A volumes | Down YoY but premium assets still attracting strong interest

- Global deal volumes experienced a 20% decline in 2023 compared to 2022, on the back of a period of peak activity in late 2021/ early 2022, with lower but steadily increasing thereafter. Despite lower deal volumes in 2023, deal values increased compared to 2022 indicating a steady growth trajectory and resilience within the market despite challenging conditions.
- While the overall number of deals decreased by 17% in Q1 2024 compared to the same period last year, there was a notable surge in deal values, primarily fueled by a select few corporate and sponsor-driven transactions, such as Synopsys' ~€30bn acquisition of Ansys.



Key trends | Anticipated strong investment in industrial software to streamline operational efficiency and protect long-term profitability



Propelling Industry 4.0 Evolution



IIoT Integration



Adaptation to Market Volatility



Expansion of Aftermarket Offerings



Elevating Capabilities through AI & Machine Learning



Growing Adaptation of Digital Twin



Cybersecurity Risks Amidst Increasing Automation



Advancing Sustainable Manufacturing Through Technology

Market insights | Anticipated strong investment in industrial software to streamline operational efficiency and protect long-term profitability



Propelling Industry 4.0 Evolution

Industry 4.0 continues to develop the complexity of industrial operations and processes, driving demand for software solutions to optimize operations by boosting efficiency, ensuring transparency, and cutting costs across the production cycle



Elevating Capabilities through AI & Machine Learning

AI and machine learning will continue to be highly prioritized when looking to expand capabilities especially regarding predictive maintenance, quality control, and real-time data analysis



IIoT Integration

Increased investment in integration capabilities such as cloud computing will be essential to efficiently process and analyse the substantial amounts of data gathered from manufacturing facilities via IIoT



Growing Adaptation of Digital Twin

Digital twin technology will increasingly be adopted in the manufacturing sector facilitating real-time monitoring, simulation, and optimization of industrial systems



Adaptation to Market Volatility

Resulting from the abrupt demand fluctuations, significant supply-chain constraints, and workforce limitations in recent years, manufacturers are increasingly prioritising flexible software solutions to effectively address dynamic market conditions



Cybersecurity Risks Amidst Increasing Automation

As Industry 4.0 evolves, cybersecurity remains a top concern. Increased automation throughout decision-making and processes means the risk and potential damage from cyberattacks also rises



Expansion of Aftermarket Offerings

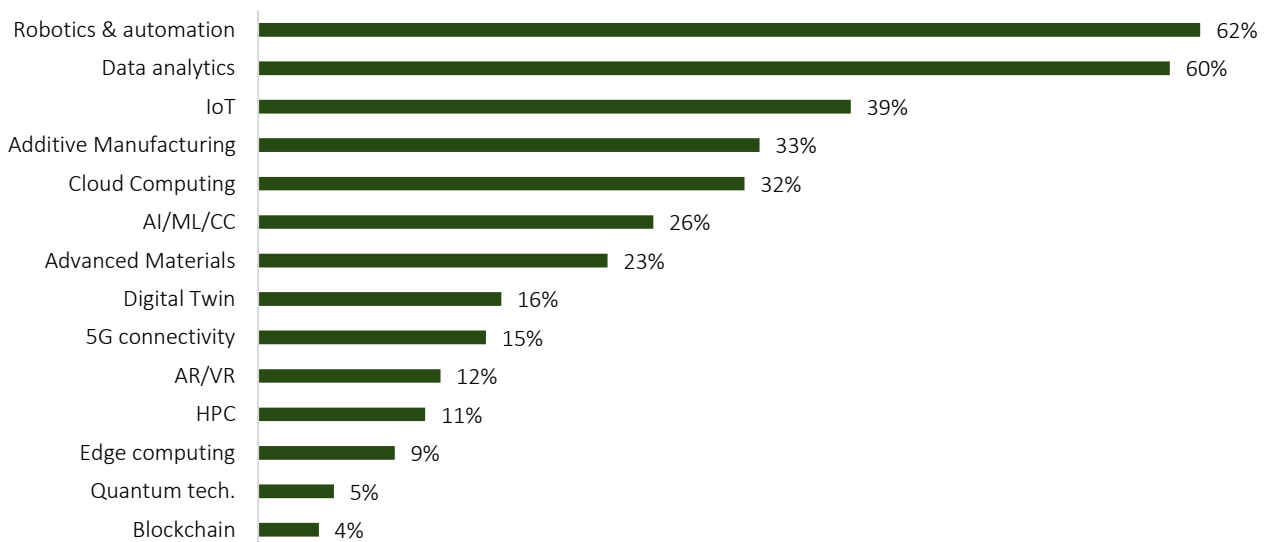
Industrial companies will invest further in digital technologies aiming to enhance and expand aftermarket offerings to bolster customer loyalty while also capitalizing on upselling and cross-selling opportunities



Advancing Sustainable Manufacturing Through Technology

Regulatory pressure and societal expectations favouring environmentally friendly manufacturing processes are driving sustainable production methods, companies are turning to digital solutions to accelerate this development

Manufacturers are seeking investment in robotics & automation and data analytics



Earnings Call Topics | Embracing AI, data analytics and sustainability: key goals for leading industrial software vendors

AUTODESK



Andrew Anagnost
President & CEO

- **“Cloud-based platforms and services represent an expanding market opportunity as customers adopt our next-generation technology and services to enable transformation within and between the industries we serve.”**
- **“Encompassing more personas and connecting more workflows in the cloud to drive efficiency and sustainability.”**

HEXAGON



Paolo Guglielmini
President & CEO

- **“In 2024, we stand on a steep curve of widespread technology innovation and a growing desire to capture and harness data effectively.”**
- **“I also think about an entire workforce passionate about decarbonisation, a growing appetite for localised technology and expertise, and an urgent need for expert specialisation in automation and autonomy.”**

DASSAULT SYSTEMES



Pascal Daloz
CEO

- **“We are entering an era defined by the principles of the 'Generative Economy', centered on understanding and mirroring the magic of life's transformative method. This approach implies a metamorphosis of both the industry and society.”**
- **“As virtualization is the catalyst and enabler of the Generative Economy, we want to push our Virtual Twin experience approach further.”**

ptc



Niel Barua
CEO

- **“We expect that SaaS adoption in the CAD and PLM markets will be gradual at first, then accelerate significantly, given constraints such as the length and cost of conversion projects and budgeting timelines of our customers.”**
- **“Continue enhancing PTC's already strong market position and execution by continuing to invest significantly in technologies that meet the evolving needs of our customers.”**

Bentley®



Greg Bentley
Chairman & CEO

- **“While striving for consistent operational performance, we will increase our focus on marketing, and continue to adopt digital twin technology throughout Bentley Infrastructure Cloud and within our modeling and simulation applications.”**
- **“For 2024, we see asset analytics as our most compelling investment case—scalably leveraging and extending our iTwin® Platform to underlie digital twin AI processing services.”**

ALTAIR



James R. Scapa
Founder, Chairman & CEO

- **“We are seeing strong momentum across a number of verticals, where computational intelligence is becoming increasingly important. We are excited about our recent and upcoming product releases and believe that our investments in engineering AI are positioning us as a leader in this important and growing domain.”**

M&A activity from active industrial software acquirers | Continued resilience for industrial software M&A in unstable markets

Number of Industrial software deals per year for the selected groups 2020-2023



Strategic investors

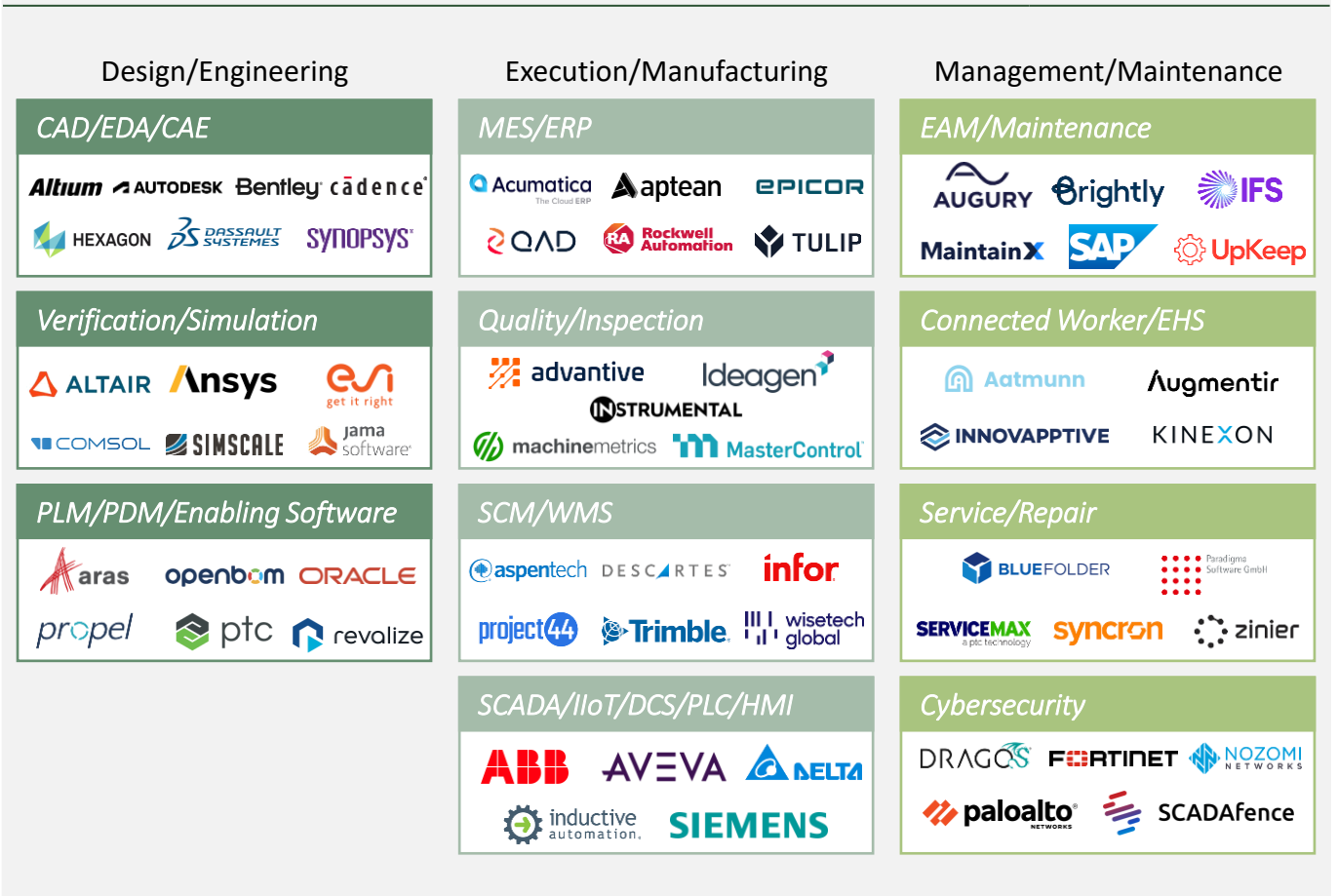
Private Equity investors

Selected notable recent deals

Announcement	Target Company	Bidder Company	Sellers	EV
Apr-24	Avetta	IEQT	WCAS	€2,791m
Mar-24	jama software	FP FRANCISCO PARTNERS	INSIGHT PARTNERS	€1,103m
Jan-24	Ansys	SYNOPSYS	Public	€30,843m
Feb-23	Redzone	QAD	SUMMIT PARTNERS	€917m

Industrial Software landscape | Major enterprises are dominating the market, leaving room for smaller contenders to thrive in specific verticals

Value-chain



*Illustrative depiction of landscape

International sub-sector experts

- Oliver Parker, Managing Director
- Aakash Bhasin, Managing Director
- Daniel Lilliehöök, Managing Director
- Oriane Durvy, Managing Director
- Michael Lenoce, Managing Director
- Heiko-Daniel Scheller, Vice President

Alantra software practice

- Deals completed in the last 24 months: 25
- Bankers located in 5 key tech locations: 50+
- Average years' experience in Tech - per MD: 20+