



MCROCK Industrial Software INDEX

Q2 2024
REPORT

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Industrial Software Q2 2024 Market Update

Despite ongoing inflation concerns and delayed rate cut expectations, broad stock markets posted strong gains in the quarter buoyed in part by continued AI euphoria and the outsized impacts of the Magnificent 7. Recent Generative AI developments present a significant opportunity in Industrial Software as these capabilities are being tested and deployed by Index constituents but markets have not yet priced in the effects they will have on adoption and ROI to end users. This is likely because users of industrial software in energy, critical infrastructure, or agriculture, for example, cannot test and deploy new software at the speed of other non-mission critical businesses.



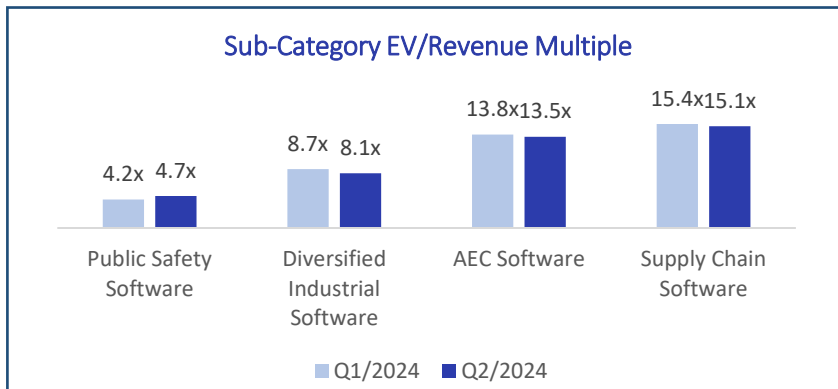
11 Transactions Over \$1B
January – June 2024

While global conflicts and their sectoral impacts continue, attention has turned to the US election. Some macro trends like weak labour productivity, increasing and changing energy demands, and de-globalisation/re-shoring, have bipartisan support to drive toward solutions. Other sectors such as green technology, automotive, and supply chain, though, could be dramatically impacted based on the election results. This uncertainty is expected to cause some corporations and their investors to take a ‘wait and see’ approach.

Transactions in industrial software are telling a different story. The combination of right-sizing in private market pricing with strong public market stock price performance (leading to cash on hand) has been fueling transaction activity. The result, illustrated further on page 8, has been one of the biggest strings of large transactions that the industrial software market has ever had.

Index Performance and Highlights

- A positive sign of market stability, key valuation metrics remained steady in Q2 and seem to have found their long-term average.
- For the second consecutive quarter, Supply Chain software led the Index with the best performance.
- Strong performance by Altair Engineering, C3.AI, and WiseTech was counterbalanced by the mixed results from other stocks in the Diversified Industrials and AEC sectors, leading to flat overall index performance in the quarter. Meanwhile, the S&P 500 and NASDAQ experienced strong growth, heavily driven by the impact of NVIDIA



Index Company Spotlight: AspenTech

Business Summary

Developer of Industrial Software addressing complex environments where it is critical to optimize the asset design, operation, and maintenance lifecycle. Its software is used in performance engineering, modeling and design, supply chain management, predictive and prescriptive maintenance, digital grid management, and industrial data management.

Macro Trends from the Company's Perspective

- While the chemicals sector has struggled globally, other sectors, like EPC and utilities, have remained strong and are benefiting from large-scale projects in Hydrogen and carbon capture/storage.
- Corporations are echoing the same key trends as the media in labour shortage, productivity declines, and sustainability goals.
- Operational digitalization continues to be a trend with no signs of slowing

AZPN Performance

- “AspenTech remains aligned with megatrends of global decarbonization, electrification, and transition to new energy system”. Based on this in conjunction with the key trends listed above, business fundamentals remain strong.
- YoY stock price increase >20%
- Energy and Chemicals customer base was slower to spend in most recent quarter
- AspenTech's view is that this increased caution is due to recency bias of the latest downturn and, to some degree, waiting for a reversal in interest rates.



Revisiting the OSI Acquisition and Integration

In their May earnings release, AZPN stated that DGM (Digital Grid Management), the product of Emerson's \$1.6B acquisition of OSI in 2020 and subsequent combination with AspenTech, is expected to grow at 40% YoY, which accounts for nearly 30% of 2024 total ACV growth. The strong growth potential of utility industry software has motivated the company to focus strategic investment on DGM and was reason for a retrospective review of the integration.

Grid Opportunity

- AspenTech views today's grid to be in the same position as oil and gas and chemical industries 10-15 years ago in terms of the need for digitalization to drive savings through automation and optimization.
- While the exact mix between energy sources cannot be predicted, the composition of global energy supply is changing at the same time as demand is growing steeply.
- These complexities and challenges represent strong drivers globally with significant funding for grid digitalization

GLOBAL ELECTRICITY
GENERATION GROWTH

75%

by 2050, 90% renewables

“Its not an energy transformation, its a **transition to a new energy system**”

OSI Integration

- With a significant portion of OSI revenue from services and AspenTech preference being pure software, OSI was not a typical target but its potential to fit into the AspenTech model over time and the strength of grid technology was too good to pass up.
- Once integrated, OSI capabilities formed the bedrock for DGM
- If the current growth trend continues, DGM growth could begin to rival the company's core Energy and Chemicals business growth over the next 5-10 years

Sector Spotlight: AEC Software

Several macro trends that are profoundly affecting broad markets have demonstrated particularly notable impacts on the Architecture, Engineering, and Construction (AEC) sector which includes non-construction engineering design. Key among these trends are labor shortages and a widening skills gap. However, these challenges also present substantial opportunities for AEC software development. Such software aims to enhance worker efficiency, automate design processes, and improve data sharing among stakeholders, effectively counteracting the adverse effects of these macro trends.

Across the four Index sectors, AEC has the best Rule of 40 and best Gross Margin. While the second quarter was roughly flat for the sector, it was in part due to pressure from Procore which had the worst performance across the Index. Innovation in the AEC sector is advancing rapidly, with software from several promising new players being adopted by leading brands and major projects worldwide

Index companies have reported an uptick in front-end engineering work on green projects such as carbon sequestration and hydrogen. These projects are expected to progress to the construction phase just as interest rates are projected to decline, reigniting other previously sidelined construction activities. Coupled with the aforementioned macro sector challenges, this will lead to increased demand and accelerated adoption of digitalization across the AEC industry.

Q1 Index Sector Performance

EV/Annual Revenue	EV/Annual EBITDA	Revenue Growth (%)	Gross Profit Margin (%)	Net Profit Margin (%)	Rule of 40 (%)
13.5x	50.0x	13.4%	77.7%	14.7%	28%

Index Constituents



Emerging Players



Private Market Activities Highlights

Notable deals announced in Q2 2024

Selected M&A Transactions

Strategic-led Transactions

Acquirer	Target	Amount (\$M)
Honeywell	CAES Systems	1,900
Costar Group	Matterport	1,600
Nemetschek Group	GoCanvas	700
Armis	Silk Security	150

PE-led Transactions

Acquirer	Target	Amount (\$M)
EQT Private Equity	Avetta	3,000
Clearlake & Francisco Partners	Synopsys Software Integrity Group	2,100
Francisco Partners	Jama	1,200

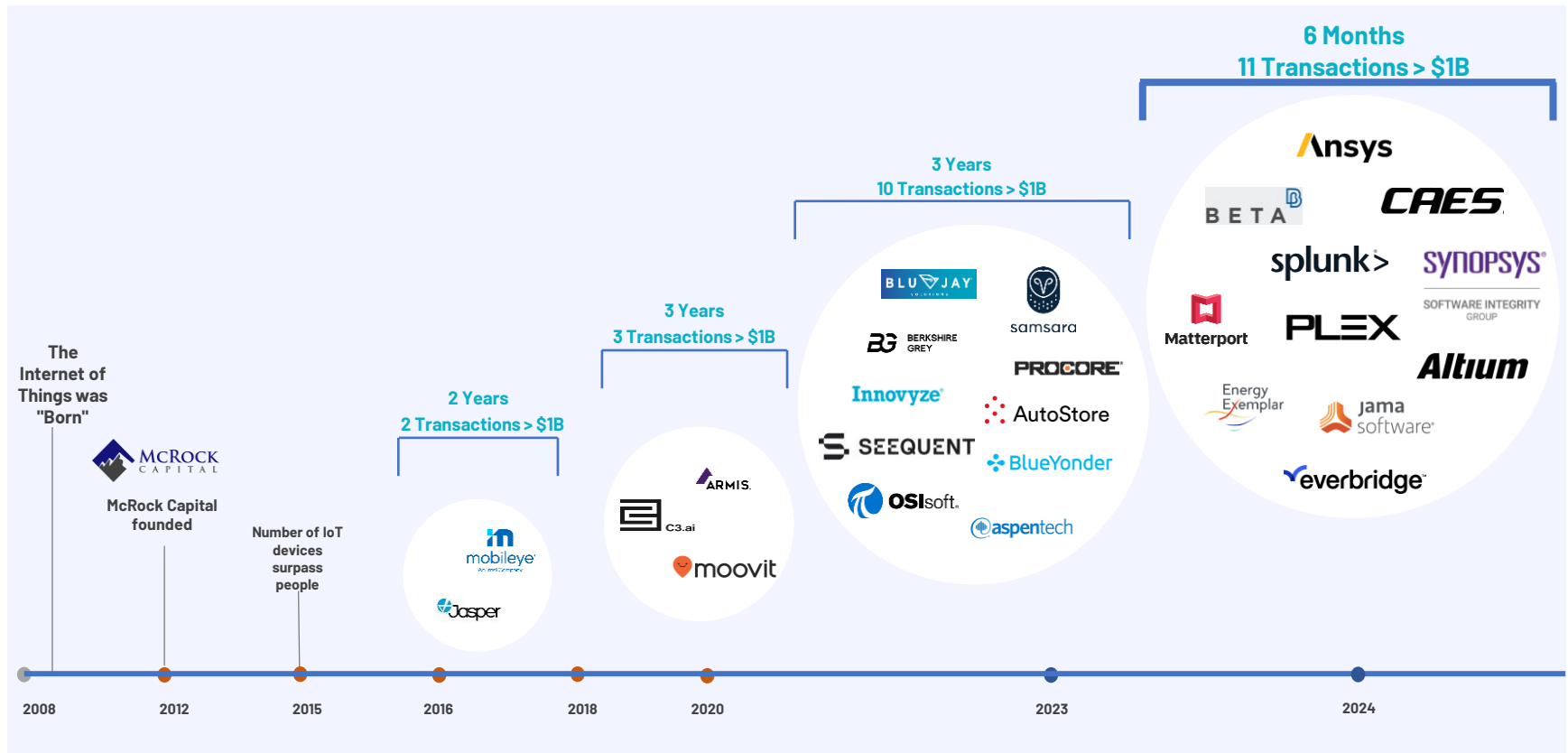
Selected Investment Deals

Equity Investments

Financial Investors	Strategic Investors	Company	Round Size (\$M)
Accel	Amazon, Cisco Systems, NVIDIA	Scale AI	1,000
Prologis Ventures	Daimler Trucks North America	Platform Science	125
Drive Capital	General Motors	Vecna Robotics	100
Blackhorn Ventures	Mitsubishi HC Capital	Formic	27
Innovius Capital, Emerald VC	Bentley iTwin Ventures	SewerAI	15

Large Transaction Volume Tells the Story of a Growing Segment

In just the first 6 months of 2024, there have been more transactions valued over \$1 Billion than in any prior 3-year period.



McRock Capital – Industrial Software Pioneer



McRock Capital is the first dedicated Digital Industrial venture capital fund manager focused on the intersection of data and software in large industrial markets and smart cities.

McRock’s history of trailblazing in industrial technology started over 10 years ago with Fund I having been the first Industrial IoT VC fund.

Today, the funds invest in Industrial Software across North America, Europe, and Israel. The McRock team has a unique background of building high-growth Industrial SaaS companies while having deep domain experience in the power, water, and oil and gas industries.

Our Investors

Backed by world class corporate and institutional investors including:



Our Portfolio



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