



MCROCK Industrial Software INDEX

Q3 2024
REPORT

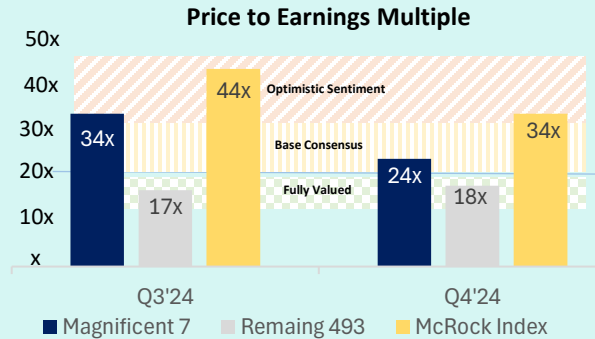
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Industrial Software Q3 2024 Market Update

Reflecting on Q3'24, stocks have navigated a challenging macroeconomic environment, buoyed by solid earnings growth that extends beyond AI companies & continues to support market prices. U.S. equities-maintained gains from Q2, despite persistent inflation, robust economic data, & scaled-back expectations for Federal Reserve rate cuts tempering the strong momentum from Q1. The market rally was primarily led by the “magnificent 7”, supported by strong Q1 earnings, which further elevated valuations. By July, the 'Magnificent 7' mega-cap stocks were trading at ~**34x** earnings, while the remaining 493 in the S&P 500 were valued at a modest **17x** earnings. Comparing this with McRock Index, it has traded at a **44x** earnings in Q3. Looking ahead at Q4'24, the earnings & multiples disparity in the Indexes will move towards a market parity in earnings & valuations →



**80+ Transactions Over \$50B
YTD 2024**

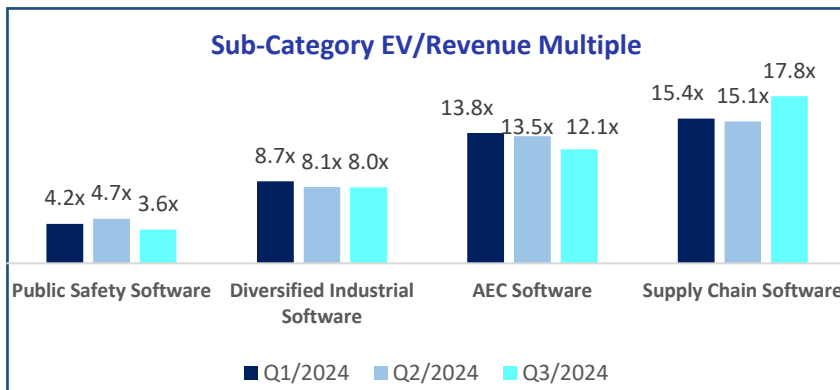
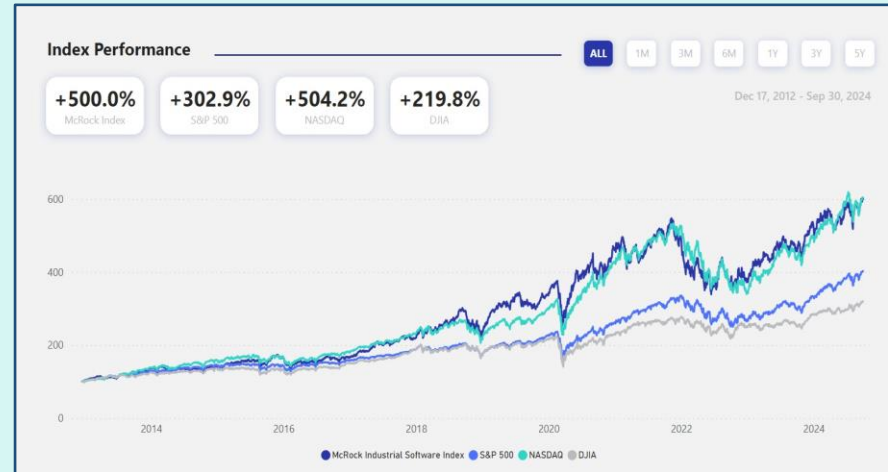
Source: TD Bank SaaS Update

Macro factors such as inflation and interest rates continue to influence daily market movements across most indices. However, the much-anticipated & larger than usual federal rate cuts of 50 bps in Q3 & anticipated company earnings growth is likely to drive increased dispersion among index levels, potentially leading to mean reversion between market leaders and laggards. In addition to strong interest in semiconductors, we are seeing a platform-level optimism around AI, resulting in innovative strategies to capitalize on this megatrend. Key areas of opportunity include companies that manage data, memory providers, power companies, industrials supporting AI infrastructure—such as data center cooling systems—and upcoming AI-ready PCs set to launch this year.

The Industrial Software market shows positive momentum, with industrial SaaS customers planning to spend **US\$25-30B** on applications. Key drivers include Industry 4.0 complexities, a focus on tech solutions amid supply chain issues, growing cybersecurity concerns, and AI capability enhancements. Although the number of deals eased by 17% in Q1'24 compared to last year, deal values surged, notably due to significant transactions like Synopsys' €30B acquisition of Ansys.

Index Performance and Highlights

- As of Q3'24, McRock's Industrial Software Index has outperformed the S&P and DJIA, while holding its own against the NASDAQ. With the rise of digital transformation in industries worldwide, McRock's Index is well-positioned for continued long-term growth, reflecting strong demand for cutting-edge industrial technologies.
- Key valuation metrics of most indices remained steady in Q3'24, however a market adjustment towards lower valuation multiples is expected over the next few quarters
- For the 3rd consecutive quarter in 2024, Supply Chain software led McRock's Industrial Software Index in terms of revenue growth. Further, Samsara led the way in Supply Chain Software with a revenue growth of 40%
- In other software categories, Diversified Industrials maintained a steady EV/Revenue multiple. Meanwhile, the AEC and Public Safety sectors saw a decline as mixed signals impacted the markets following the activities of Ansys and Everbridge.
- In terms of operations, AEC emerged as a leader with average GP Margin at ~80% & a rule of 40 of 29% followed by Diversified Industrial & Supply Chain both at a GP Margin of ~67% & a rule of 40 of 5% & 7% respectively



Index Company Spotlight: Cadence Systems

cadence

McROCK
Industrial Software
INDEX

Business Summary

Cadence Systems is a leading developer of industrial software solutions tailored for highly complex & regulated environments, where the optimization of the entire lifecycle—from asset design and operation to maintenance—is critical for operational success. Its suite of solutions is utilized across several key sectors including performance engineering, modeling & design, predictive maintenance, and digital grid management. Cadence has also been a prolific investor in the Industrial Software space and most recently acquired Beta CAE for US\$1.2 Mn.

Macro Trends from the Company's Perspective

- With increasing pressure from governments and industries to reduce carbon emissions, Cadence's solutions are built to facilitate efficient, eco-friendly operations. The rise of carbon capture and hydrogen projects signals a growth area for their industrial software
- Cadence's software aligns with the accelerating digital transformation trend by enhancing asset performance and data management
- Industry labor shortages drive automation. Cadence software boosts productivity and reduces manual work
- Cadence is aligning its solutions with the transition to new energy systems, including hydrogen and renewables

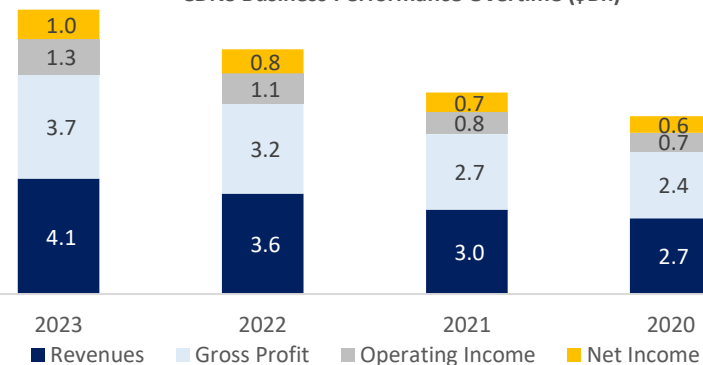
CDNS Performance in 2024

▲ CDNS has seen strong demand in AI, hyperscale, and automotive, leading to robust financial performance. Looking at CDNS' financial health broadly, the co. reported a resilient Q2 with a **US\$6.0B** backlog, signaling strong demand for its offering

▲ In Q2'24, CDNS surpassed expectations with a non-GAAP EPS of **US\$1.28**, outpacing estimates by US\$0.05, and a revenue of **US\$1.06B** that exceeded forecasts by \$20M. The fiscal outlook for 2024 looks promising with projected revenues of **US\$4.60B** & operating margins between **41.7% to 43.3%** (Non-GAAP)

▲ Cadence looks to capitalize on AI driven semiconductor market through its Palladium Z3 and Protium X3. Further Cadence diversified its simulation portfolio through acquisition of BETA CAE Systems in 2024, adding **US\$40M** to its topline

CDNS Business Performance Overtime (\$Bn)



A Look at Cadence's Acquisition Strategy

In the last 2 years, Cadence Design Systems has made several acquisitions with an objective to consolidate its business in software, hardware and reusable Integrated Circuit (IC). Key Acquisitions made by Cadence are:



System Analysis Opportunity in Industrial, Automotive & Aerospace – BETA CAE Systems

▲ At the beginning of Q3, Cadence announced a **US\$1.24B** (60% cash & 40% stock) acquisition of Beta CAE Systems, a system analysis platform provider of multi-domain, engineering simulation solutions

▲ Cadence expects to add **US\$40M** in 2024 & **US\$100M** in 2025 to its topline as Beta will accelerate Cadence's Intelligent System Design™ strategy by expanding its Multiphysics System Analysis portfolio and by enabling entry into the structural analysis segment, unlocking a multi-billion-dollar incremental TAM opportunity

TAM for Simulation Software Industry
\$20B
 & \$40B by 2030

Source: Precedence Research

Customers acquired through Beta:



"The Structural Segment space requires an increased convergence of electrical & mechanical designs as the automotive industry is moving towards EV" – Dr. Anirudh Devgan, President & CEO Cadence

The Gap, Thesis Behind The Acquisition:

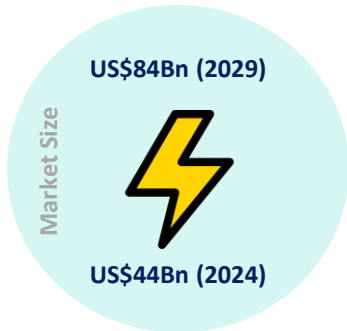
- Increasing system complexity and time-to-market pressures from accelerating mechanical and electrical hyperconvergence, along with the digital transformation in multiple industries, are driving the need for Multiphysics Simulations early in the design cycle.
- Over the past few years, Cadence has expanded its system analysis portfolio to build out a comprehensive Multiphysics platform including Electromagnetics (EM), Electrothermal (ET) & Computational Fluid Dynamics (CFD) solutions, and with BETA CAE, Cadence will enter structural analysis, the largest system analysis segment.

Sector Spotlight: Energy Management







For decades, large industrial facilities such as refineries, mills, and other manufacturers have sought to improve their energy performance to minimize costs and optimize processes; Energy Management is a key component of these efforts.

Key growth drivers:

2°C Pledge	Collective goal of the Paris Agreement to keep warming well below 2°C while pursuing efforts to limit warming to 1.5°C
3x RE Capacity	The 2°C goal can be achieved if world increases Renewable Energy capacity by >3x or 11,000 GW by 2030 and doubles the global average annual rate of Energy Efficiency improvements from 2% to over 4% every year until 2030.
\$84B Opportunity	▲ This creates an inherent opportunity for the Energy Management sector as the it is poised to grow from \$44B in 2024 to \$84 by 2029



Source: COP28 & PR Newswire

Liquidity Trends	Featured Emerging Players	Investment Themes
<p>340</p> <p>Co.s founded in past 3 years</p>	 <ul style="list-style-type: none"> Energy Management Systems for buildings, EV infra, & microgrids <ul style="list-style-type: none"> Raised \$6m Series A 	 <ul style="list-style-type: none"> Energy Efficiency & Management Renewable Energy Integration
<p>\$23B</p> <p>Total Raised to Date</p>	 <ul style="list-style-type: none"> Automation suite for utilities and IPPs by executing control commands & managing data workflows. <ul style="list-style-type: none"> Raised \$7 Series A 	 <p>Grid Management & Decentralization</p>
<p>2K+</p> <p>Exits to Date</p>	 <ul style="list-style-type: none"> AI Platform designed for integrated platforms that optimizes energy forecasting & management <ul style="list-style-type: none"> Raised \$3.3 series A in Sep'24 	 <ul style="list-style-type: none"> SaaS based energy management services <ul style="list-style-type: none"> AI & Big Data Analytics

\$ Liquidity Trends

▲ Liquidity in the Energy Management space can be separated in “pre & post 2021 era”. For the 3 years leading to 2021, US\$17B was invested across 700+ deals whereas in the 2021 alone US\$36B was invested across 400 deals

▲ Since 2021, market has seen corrections of “over” liquidity as the invested capital has formed a new base i.e., US\$20B in YTD'24 across 219 deals.

▲ In the last decade, most of the exits in the sector has been through M&As, comprising 85%-90% of exit activity every year

▲ Revenue Multiples for cleantech startups were 8x however energy management achieved higher multiples of 9-10x

Private Market Activities Highlights

Notable deals announced in Q3 2024

Strategic M&A Transactions

Date	Buyer	Target	Val. US\$M
Jul-24	Nemetschek	GoCanvas	700
Sep-24	Nvidia	OctoAi	165
Sep-24	PowerFleet	Fleet Complete	200

Strategic Financing Transactions

Date	Investor	Company	Val. US\$M
July 2024	Thoma Bravo	Everbridge	1,800
Sept 2024	Vista Equity Partners & Warburg Pincus	Redwood Software	2,500

Private Equity & Buyouts

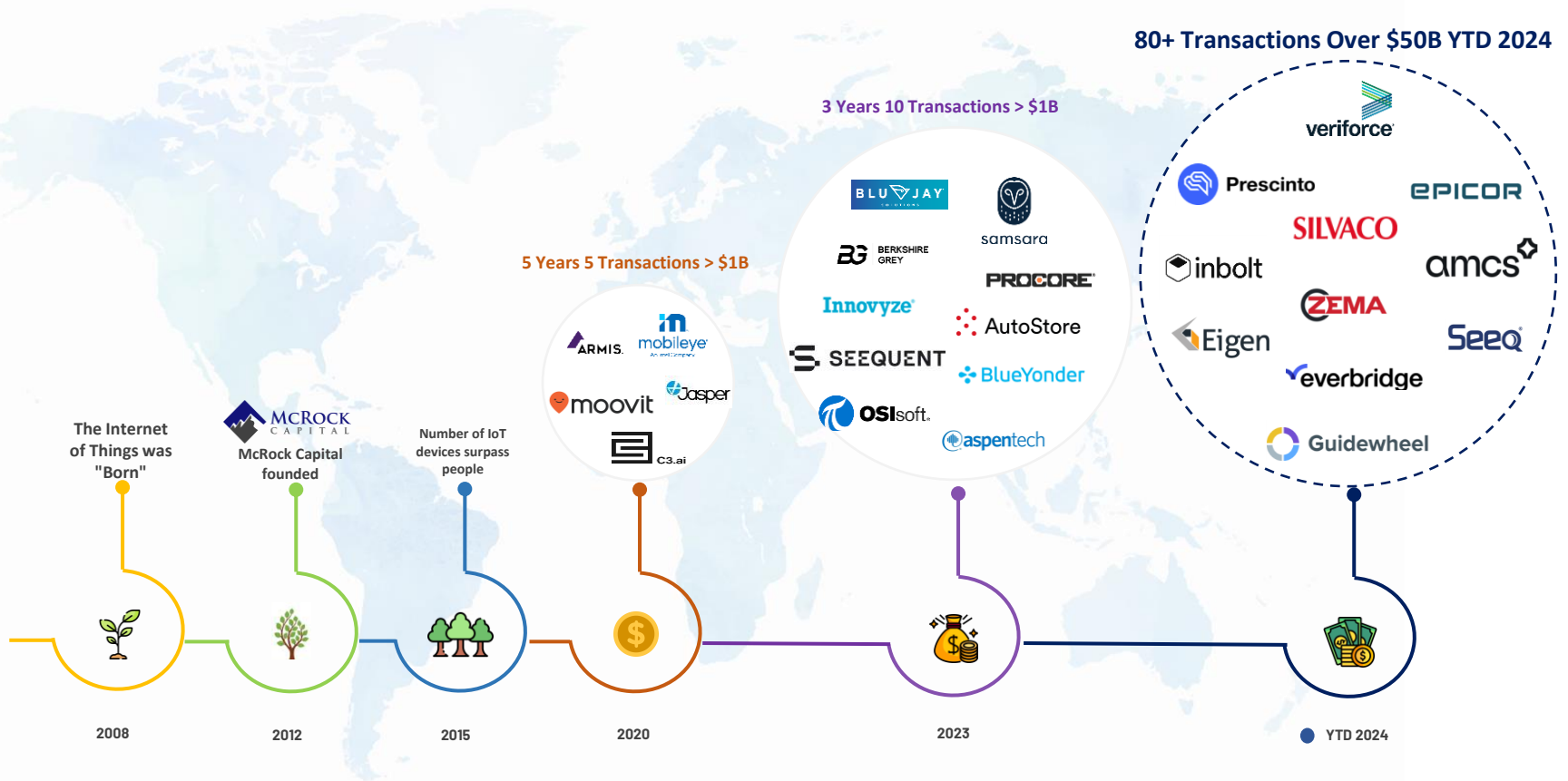
Date	Buyer	Target	Raise US\$M
July 2024	Nvidia and others	Cohere	500
July 2024	Rockwell Automation and Others	Infinitum	35

Venture Capital Transactions

Date	Investor	Company	Raise US\$M
July 2024	Reinforced Ventures	Mach9Robotics	14.4
July 2024	Orien, NRPO Zero	Heimdall power	25
July 2024	Edison Partners	Seismos	15
Aug 2024	Decarbonization Partners(BlackRock & Temasek)	GuideWheel	31
Aug 2024	Sixth Street Partners, Aramco Ventures	Seq	50
Sept 2024	Coatue, GGV	Flex Compute	53

Large Transaction Volume Tells the Story of a Growing Segment

2024 has already been outstanding for funding & transaction volume in the Industrial SaaS sector, with over 80 deals completed and a transaction value of over US\$50 Bn



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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