Technology Sector Report

April 2023

Contents

Foreword

Over the last 12 months we have continued to see a flight towards high quality assets across every sector. From a technology perspective, there was a clear focus on companies that could demonstrate a specialist service capability or a differentiated product offering, and the second half of 2022 saw a renewed focus on the correlation between EBITDA and ARR performance. Whilst investors continued to take a view on quality assets that have the potential for significant growth, it was the companies that could demonstrate agility and resilience, alongside growth potential, that continued to attract the most investment interest. Despite this shift in focus, the UK technology sector has continued to experience high levels of deal activity throughout 2022, reflected in the 972 tech-focussed M&A deals completed - this represented the second highest year recorded for technology M&A activity, following the record deal activity seen in 2021.

From a NorthEdge perspective, in the last 12 months we have added to our technology portfolio investing in Cezanne HR, a human capital management software business in March 2023, and Friend MTS, a leading global provider of content protection software in September 2022. We also sold a majority stake in Cloud Technology Solutions Group, a cloud migration specialist, to Marlin Equity Partners in January 2023. The deal delivered a strong return for NorthEdge Fund II and included a material reinvestment into the business from NorthEdge Fund II and a new investment from NorthEdge Fund III, alongside Marlin, to continue to support management's strategy for growth.

In addition, across the portfolio we completed the merger of iPortalis and Hublsoft and have supported seven bolt-on acquisitions to accelerate growth, including Correla's acquisition of CloudKB, Distology's acquisition of Squareball, CMap's acquisition of Atvero, Altia's acquisition of Badger Software and three acquisitions for Catalis Group's Testronic division – Check Disc Labs, Giant Interactive and Secret 6.

Across the next 12 months, we believe there are five key themes that will continue to demonstrate resilience in the face of economic headwinds – Public Cloud, Cyber and Information Security, Public Sector Tech, Process Automation and Gaming. Throughout this report we will dive deeper to understand the key drivers, challenges, and opportunities of each theme, whilst highlighting the experience we have gained from our own portfolio.

Despite the wider macro-economic challenges the technology sector has a history of delivering transformation and innovation during times of uncertainty, becoming a catalyst for economic growth. Therefore, we look forward to supporting the continued growth of the sector throughout 2023, backing ambitious and innovative management teams to build better businesses.

Jon Pickering, Chief Investment Officer

KEY STATISTICS
Market

There were

972

UK Tech M&A deals in 2022 – the second highest year for deal activity in the sector

The combined value of UK tech companies reached over $1tn by the end of 2022 – the UK is the third country to pass this milestone after the US and China

$1tn

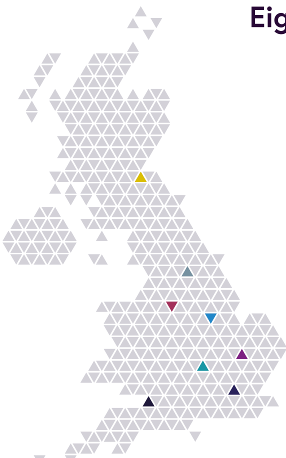
UK tech companies raised a record £24bn in 2022 - more than French and German companies combined

The UK has produced more high-growth companies than European peers having created

144

unicorns

(achieved a $1bn valuation), 237 futurecorns (set to achieve a $1bn valuation) and over 85,000 startups



Eight UK cities are now home to two unicorn companies or more including:

- Manchester
- Leeds
- Nottingham
- Cambridge
- Bristol
- Edinburgh
- London
- Oxford

People

Nearly **5m** people now work in the digital tech economy within the UK - up from **2.18m** in 2011

Outside of London, Manchester leads the field for tech vacancies with nearly **80,000** roles opened by employers (May 2021 - May 2022)

In 2022 tech roles made up **14%** of all job opportunities in the UK

In Q4 2022, **22%** of businesses recruited for Tech/IT roles

However there is still work to do to build a truly inclusive and diverse sector...

65% of ethnic minorities believe there is an ethnicity-based wage gap in tech

The gap between the average tech salary offered to men versus women is **£3,000**

Only **42%** of tech professionals think we will see truly diverse and inclusive tech companies in the next ten years

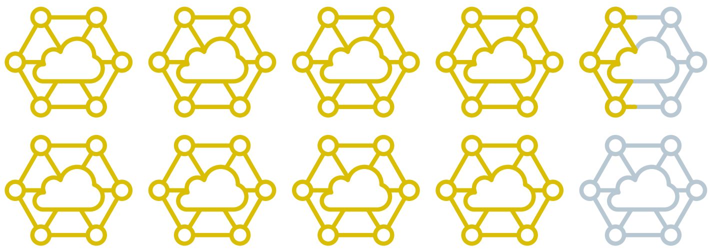
51% of tech professionals think that diversity issues could cost the UK its world-leading tech leadership position

IN FOCUS
Public Cloud

There were a total of **298** cloud M&A deals completed in 2022

The UK Public Cloud market is set to be worth **£35bn** by the end of 2023 – a 73% rise from 2019

84% of mid-to-large companies will have adopted a multicloud strategy by the end of 2023



90% of multicloud users say that it is helping them to achieve their business goals

89% of tech leaders agree that security is the most critical determinant of success for a multicloud strategy

Cloud adoption could generate **$3tn** in EBITDA value globally by 2030

Public Cloud

The mass adoption of cloud computing has been behind some of the most recent transformative tech trends – opening up new possibilities that simply weren't achievable previously. From artificial intelligence (AI) to the internet of things (IoT), companies are continuing to leverage cloud services to access innovative technologies and drive efficiencies in their own operations and processes. With cloud adoption rates continuing to rise significantly, the UK cloud market is set to be worth £35bn by the end of 2023 – a 73% rise from 2019.

Given the explosion of cloud across recent years, more businesses are relying on multiple cloud services to give themselves a competitive edge in the market. In 2020 70% of companies were still tied to one cloud service provider, whereas recent reports have found that 84% of mid-to-large companies will have adopted a multicloud strategy by the end of 2023.

Multicloud offers a range benefits, with tech decision-makers placing reliability (46%), digital transformation (43%), and scalability (42%) as the key drivers to develop their multicloud operations. Rather than being tied to one particular platform, multicloud gives businesses the freedom to utilise multiple vendors, accessing the platforms that best suit their business needs. This allows businesses to start stacking solutions without adding unnecessary layers of complexity, with 90% of tech leaders agreeing that this approach supports them to achieve business goals.

To ensure the long-term success of multicloud, having the right level of infrastructure in place to unlock its numerous benefits is key. Managing multiple technologies, applications, and APIs (Application Programming Interfaces) can breed several challenges without a centralised approach to managing operations. This is a view reflected by IT decision-makers, with skills shortages (41%) and inconsistent workflows across cloud environments (30%), cited as some of the main factors that could limit multicloud potential. Security risks should also be a key consideration, with 89% of tech leaders citing security as the ultimate determinant of success for introducing a multicloud strategy into their business.

With reports suggesting that cloud adoption could generate $3tn in EBITDA value globally by 2030, there is no doubt that cloud has and will continue to revolutionise how businesses create value. However, the businesses that will benefit from this shift the most are those that can carefully tailor a multicloud strategy to their goals. By prioritising which multicloud applications are most relevant to their business and then ensuring the necessary infrastructure is in place, businesses will give themselves the best chance of success when looking to capture value in the cloud.

Global cloud M&A deal activity continued to show strong levels of resilience throughout 2022. Whilst below the records set in 2021, the 298 deals completed in 2022 shows growth in line with the longer-term historical averages. With cloud fast becoming a necessary prerequisite to digital transformation, companies that can support businesses to successfully implement cloud strategies to support their transformation, will continue to be an attractive proposition for investors.

Dan Matkin, Director at NorthEdge

PORTFOLIO FOCUS

The Cloud Technology Solutions Group consists of two market leading companies, 'CTS' providing Google Cloud professional and managed services and 'CloudM' providing Google Workspace/O365 migration and management software. We provide solutions to help our customers adopt advanced digital business models and benefit from reduced costs with improved data analytics and efficient productivity suite management.

CTS is the largest dedicated Google Cloud partner in Europe, serving over 1,000 customers with a >90% customer satisfaction rate. To date CloudM has supported over 75 million migrations in over 107 countries worldwide, and works with a number of blue-chip clients such as Spotify, Uber and Netflix.

In 2018 NorthEdge invested in the business to support the development of proprietary software products and accelerate growth through launching new service propositions – including machine learning, artificial intelligence and data analytics. Working closely with NorthEdge we have been able to grow our revenues, develop a SaaS proposition, scale internationally and consistently invest in our people – growing our headcount from 90 people in 2018 to over 270 in 2022.

In January 2023, following a successful four-year partnership with NorthEdge, Marlin Equity Partners acquired a majority stake in the business. The deal included a material reinvestment into our business from NorthEdge alongside Marlin, which will allow us to progress with our strategy for the next phase of growth.

We believe the partnership with Marlin, and continued relationship with NorthEdge, ensures the group is well-positioned to capitalise on the momentum behind GCP (Google Cloud Platform), one of the world's fastest-growing public cloud platforms. With both firm's shared vision and support, we look forward to further strengthening CTS's position in the European market and continuing to invest in CloudM.

Tom Ray, CEO of Cloud Technology Solutions Group

IN FOCUS
Cyber and Information Security

Globally there were

410

cyber security M&A deals in 2022 – the fourth consecutive year over 400 deals were completed

Global cyber attacks increased by

38%

in 2022, compared to 2021

By 2025, **60%** of organisations will use cyber security risk as a primary determinant in conducting third-party transactions and business engagements

98%

of organisations experienced at least one cloud data breach in the last 18 months

53.5bn

people worldwide visited piracy sites in Q1 2022

47%

of these visits were to view pirated TV content

Cyber and Information Security

Global cyber attacks increased by 38% from 2021 to 2022, forcing governments and organisations worldwide to step up their efforts again in order to protect themselves. Reports suggest that by the end of 2023, 65% of the world's population will have personal data covered under modern privacy regulations - up from just 10% in 2020. It's also forecast that by 2025, 60% of organisations will use cyber security risk as a primary determinant in conducting third-party transactions and business engagements. These stats highlight how the future of cyber and information security is coming into sharper focus as organisations look to integrate cyber risk mitigation and management strategies across the entire business. It's no longer viewed as simply an IT problem but rather a key factor in supporting strategic business objectives and sustainable growth.

The key driver behind all of this appears to be the rapid adoption of cloud technologies. Despite the many benefits Public Cloud brings it has led to an increase in cyber threats, with 98% of organisations experiencing at least one cloud data breach in the last 18 months. It's no surprise that when adopting new cloud strategies, many leaders are investing heavily in an effective cyber infrastructure to maximise protection against risks. Recent reports show that cloud infrastructure security ranks amongst the top five security priorities for companies in the next 18 months, and a further 85% of organisations plan to increase their security spending this year - with a significant portion being allocated to cloud infrastructure security.

With the growth of Public Cloud, we are also beginning to witness the expansion of cyber crime in new territories and markets. Cyber and information security is no longer just relevant to the protection of private data, it now spans across multiple areas and can impact everything from the protection of digital assets, such as film and video content, to specialist software. With the rapid growth of on-demand entertainment services such as Netflix, Amazon Prime and Sky Go, consumers have access to thousands of pieces of content at the click of a button. Given these providers operate on a subscription model, protecting their content from the threat of piracy is key to protecting their revenues.

Figures show that 53.5bn people worldwide visited piracy sites in Q1 2022 – a 29% increase when compared to Q1 2021. Ranking 9th in the world, the UK was responsible for 1.4bn of those visits, with 47% of people pirating TV content, particularly live sports events and TV series. In the midst of a cost-of-living crisis, these figures could signal the start of a worrying trend whereby consumers look towards pirated content as a means of accessing entertainment. With the British Audience Research Board (BARB) announcing that Netflix and Amazon lost around 800,000 subscribers between April and June 2022, it's a race against time for content creators and owners to put anti-piracy measures in place.

From an investment perspective, global cyber security M&A deal activity remained strong throughout 2022. Over 400 deals were completed for the fourth consecutive year, with 410 total deal announcements in 2022 and M&A activity showing no signs of slowing. Businesses that can support organisations to minimise the threat of cyber attacks and improve their resilience will be well-placed to build long term strategic value.

Simone Masterson, Investment Manager at NorthEdge

PORTFOLIO FOCUS

Friend MTS

Friend MTS is a leading global provider of content protection and anti-piracy software. Friend MTS's Emmy® Award winning software has established it as one of the foremost content security providers to the global sports, media and entertainment industries, with long-term contracted revenues from blue-chip clients including Sky, UEFA, Serie A, Warner Bros Discovery, Rogers and United Group.

Friend MTS supports its clients through:

Content Monitoring

Detecting illegally redistributed live and on-demand content across web, social media, mobile apps, pirate IPTV services, illicit streaming devices, add-ons, plugins, etc.

Watermarking

Watermarking allows the business to identify the source of illegal redistribution of live and on-demand content to shut down piracy in real-time.

Business Intelligence

Providing detailed insights and metrics into the consumption of pirated content to help clients understand the impact on their business and drive better content protection decisions.

IN FOCUS
Public Sector Tech

65%

of public sector organisations plan to invest in at least one type of emerging tech over the next five years

80%

of public service leaders agree that personalised services could benefit their sector

Around

2%

of all UK businesses are currently piloting AI

10%

plan to adopt at least one AI technology in the future

Data access and sharing can create

20 to 50

times more value for the wider economy

Public Sector Tech

Powerful and exciting technologies are continuously emerging, offering better opportunities to enhance outcomes for the public, whether that's better healthcare, easier access to frontline services, reduced administrative costs or greater public insights. The public sector is increasingly investing in these technologies, with 65% of public sector organisations planning to invest in at least one type of emerging tech over the next five years.

The first tech trend within the public sector centres around 'personalisation as a service'. On a daily basis, consumers are surrounded by technology that monitors behaviours, patterns and activities to provide personalised recommendations on what they should watch, listen or buy. Consumers will start expecting the same level of personalisation from services delivered by the public sector. This opens up a number of opportunities for organisations across multiple industries – such as enabling healthcare organisations to utilise this technology to provide bespoke medicines and care services to patients. With 80% of public service leaders agreeing that personalised services could benefit their sector, more organisations will be looking at how they can tap into this personalised approach to better serve the public's needs.

From supporting police in criminal investigations to maintaining the UK's energy infrastructure, a number of organisations are already using AI within the public sector.

Another trend is the utilisation of AI in the public sector. The stark reality is that with the increased demand for public services, there are simply not enough people employed in the sector to deal with the demand. As a result, more organisations are leaning towards AI as a way of enhancing a human's ability to perform tasks and make informed decisions. Reports estimate that 2% of businesses are currently piloting AI and 10% plan to adopt at least one AI technology in the future. From supporting police in criminal investigations to maintaining the UK's energy infrastructure, a number of organisations are already using AI within the public sector. With reports estimating that AI could add £232bn to the UK's economy by 2030, embedding AI across all sectors has the potential to create thousands of jobs and drive economic growth.

Reports estimate that AI could add £232bn to the UK's economy by 2030

With data being produced and stored each day at an unprecedented rate, more leaders are looking for ways to optimise and share this data to drive research, develop new technologies and offer better services to the public. Untapped data has the power to unlock more resilient healthcare services, smart city initiatives, reduce crime and identify solutions that can help make the environment greener. Research even suggests that data access and sharing can create 20 to 50 times more value for the wider economy (induced impact) and help to generate social and economic benefits worth between 1% and 2.5% of GDP. The protection of privacy and the investment in skills required to analyse the data is key to success, however if policy makers can facilitate the right data governance frameworks then the value of increased data sharing can be realised across the entire economy.

The Government's Science and Technology framework aims to cement the UK's place as a global science and technology superpower by 2030.

Although the public sector has traditionally been more cautious than the private sector when it comes to tech-based spending, the breakneck speed at which the public continue to adopt emerging technologies means they must invest to avoid the risk of missing potential opportunities. Government schemes can go a long way to supporting these ventures, such as the GovTech Catalyst - a fund introduced to help solve public sector challenges using innovative digital technology, as well as the recent Science and Technology framework, which aims to cement the UK's place as a global science and technology superpower by 2030.

Public sector organisations are increasingly looking to invest in best of breed cloud-based software solutions in order to replace ageing on-premises deployments and typically underinvested internal IT functions. The public sector technology landscape is typically highly fragmented with small owner managed businesses often securing high proportions of niche public sector service provisions, providing significant market consolidation opportunities. This coincides with a period of macro-economic uncertainty, resulting in investors looking for target companies with sticky and stable recurring revenues in sustainable markets. As such, we believe that niche software providers with established positions in public sector markets will become an increasingly attractive proposition for both trade and institutional investors alike.

Kevin O'Loughlin, Director at NorthEdge

PORTFOLIO FOCUS

Altia is a global provider of specialist investigation and intelligence software for government departments and law enforcement agencies across 18 countries, including the UK, US, Canada and Australia. The firm allows police forces and investigation teams to automate processes using technology – reducing time and money spent on investigations and improving prosecution rates.

Altia's investigation solutions include digital casefile and business workflow management software, toolkits to analyse data in financial investigations as well as software for covert operations. Since investment, we have supported Altia to complete three bolt-on acquisitions to enable both product and geographical expansion.

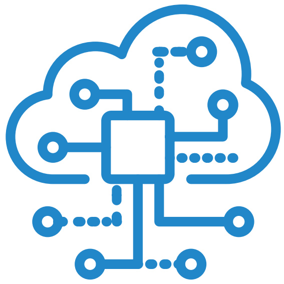
At Altia, we've been helping improve the management of criminal and civil investigations for almost 30 years. Our software makes investigations more efficient and effective, whether it's fraud or financial crimes, incidents or even covert operations, and we're proud to play a part in helping to bring more criminals to justice. We believe we can continue using our unique knowledge and insight to truly make the world a safer and fairer place for everyone.

Rob Sinclair, CEO of Altia

IN FOCUS
Process Automation

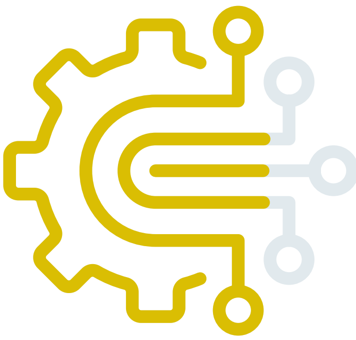
The worldwide market for hyperautomation-enabling software reached

$600bn in 2022



83%

of IT leaders believe automation is an essential component to achieving digital transformation



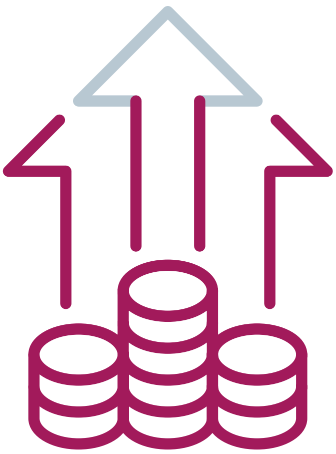
By 2025 up to

80%

of organisations will have adopted intelligent automation systems

85%

of businesses are planning to either increase or sustain their organisation's hyperautomation investments over the next 12 months



47%

of technology decision makers are in favour of buying automation tools as a service

Process Automation

In an attempt to streamline business operations, more companies are using automated tech solutions to boost operational efficiency and support decision-making processes for complex projects. In fact studies show that 48% of businesses are currently using automation solutions and by 2025 up to 80% of organisations will have adopted intelligent automation as a core part of their operating model.

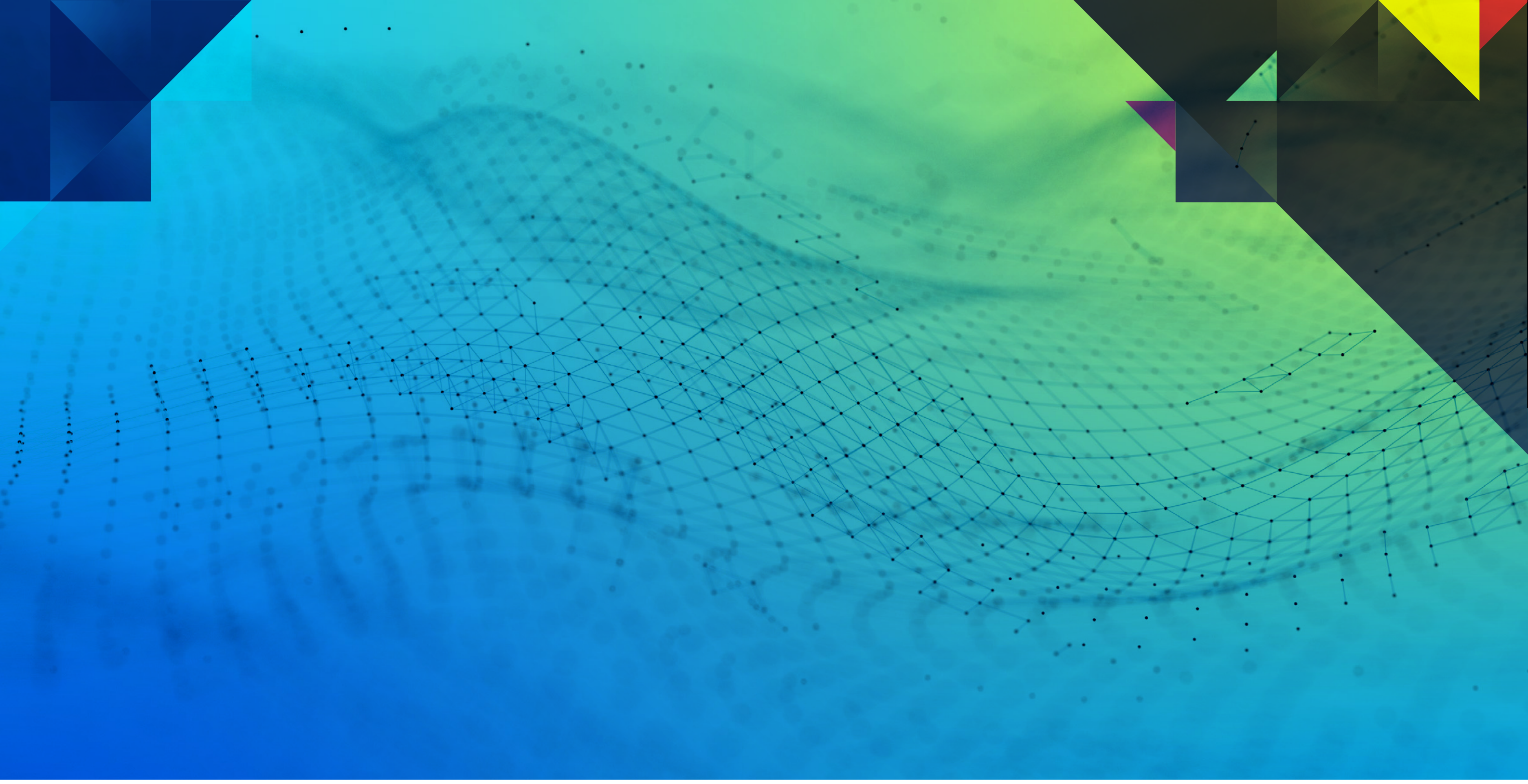
With global spend on digital transformation set to reach $2.8tn by 2025, automation is no longer viewed as just a tool for eliminating repetitive tasks, with 83% of IT leaders believing it is an essential component to achieving digital transformation.

With organisations layering several automation tools on top of their current tech stack, it can create an unnecessary level of complexity that serves as a roadblock to the success of projects. That's why organisations are having to turn to hyperautomation – which sees businesses using a combination of Artificial Intelligence, Machine Learning and Robotic Process Automation to support them to achieve their objectives. Hyperautomation opens up several operational efficiencies for businesses, allowing them to complete key tasks with consistency, accuracy, and speed. It's also rapidly shifting from simply an option to a key necessity for many businesses. This is reflected in terms of spend, with a reported 85% of businesses planning to either increase or sustain their organisation's hyperautomation investments over the next 12 months.

For businesses looking to move beyond the innovation curve and get ahead of competition, hyperautomation will be essential to delivering operational excellence, and subsequently cost savings, in a digital-first world. To tap into the capabilities that hyperautomation offers, businesses are increasingly turning to specialist solution providers that offer these advanced capabilities. With 47% of technology decision makers in favour of buying automation tools as a service, it appears that outsourcing is the preferred solution – which is in stark contrast to just 27% who would consider building tools themselves from scratch.

Demand for hyperautomation is being driven by a strong need for digital transformation and automation of business and IT processes. This presents an exciting opportunity from an investment perspective, especially with forecasts expecting the worldwide hyperautomation software market to grow to the value of $860bn by 2025. Businesses that can support organisations to implement these automated solutions, and take the steps towards digital transformation, will be well placed to drive long term growth in the market.

Sam Allen, Investment Manager at NorthEdge



PORTFOLIO FOCUS

CMap provides integrated, cloud-based project management software to clients across a range of sectors including professional services, architecture, engineering, healthcare, creative and consulting. The CMap platform has thousands of users in over 60 countries worldwide, with over 500 customers and 100,000 projects annually being managed through the system. In February 2023, the business completed the strategic acquisition of Atvero, a leading provider of document and email management software to Architects, Engineers & Construction (AEC) firms. This acquisition represents another significant milestone for CMap and allows the business to broaden its product proposition for new and existing customers in the AEC market.

We pride ourselves on providing a market leading product to our customers and this has been a key driver of the strong growth that we have enjoyed to date. We believe that the quality of our solution and the continued investment from NorthEdge provides the platform for us to further accelerate this growth in the future, both in the UK and internationally.

Dave Graham, CEO of CMap

Phoebus Software Limited ("PSL") provides software and services to financial institutions across the UK, including Atom Bank, Legal & General and OSB. The software allows clients to make better-informed decisions and react rapidly to changing market needs. It can also automate several processes making it easier for lenders, deposit takers and servicers to provide a consistent, streamlined administration structure within their business.

Phoebus has enjoyed strong periods of growth and continued to make positive progress with its existing clients. As a result the business now has £98bn in Assets Under Management (AUM) on its software platform.

Hublsoft is a decision intelligence platform provider that bridges the gap between data analytics and real-world decision making. The Hublsoft technology leverages data to amplify and empower the human decision-making experience.

In November last year, NorthEdge portfolio company iPortalis merged with Hublsoft to create a newly formed group that trades under the Hublsoft brand. The integration of the iPortalis technology allows automation to be applied to a number of decision scenarios; particularly where significant operational and cost efficiencies can be achieved, such as the automated optimisation of cloud or software licensing economics. This is critical for businesses, providing immediate cost-saving solutions whilst protecting capacity and business performance.

We've always set out to create technology that amplifies human intelligence, rather than trying to artificially replace it, which demands a powerful blend of both automation and human control. The merger with iPortalis allows us to broaden our capabilities, enhance our platform and continue providing an exceptional service for all our customers.

Nick Cowlen, CEO of Hublsoft

IN FOCUS
Gaming

Since 2019, the global gaming industry has received over

$240bn

in investment from venture capital, private equity, and technology and media giants, alongside continued investment from traditional gaming companies

Revenues in the cloud gaming market are set to top

$5bn

by the end of 2023

1 in 4

gamers have purchased micro-transactions in the last year

Close to

40%

of gamers watch streams via YouTube or Twitch

22%

post on social media about their gaming experiences

23%

participate in online forums such as Reddit

Gaming

Numerous major players have continued to invest in the cloud gaming market over the last few years, 2023 is showing no signs of slowing down with revenues expected to top $5bn globally by the end of 2023. New technology is changing the landscape of the market, bringing high-end experiences to a wider customer base. Increased processing power and greater connectivity are all major drivers for delivering a seamless cloud experience to gamers.

The popularity of cloud gaming has the potential to turn almost any device into a powerful gaming platform. Rather than being powered by hardware, such as a console, games are streamed from the cloud via a data centre which provides all the processing power. This gives consumers the freedom to select a catalogue of games without needing to own a 'hard copy' and the flexibility to play them on any device or platform. It also benefits publishers and developers who can scale games up or down quickly at lower costs without any specific hardware constraints.

Cloud gaming will also have a major impact on the gaming industry business model. The traditional model of selling games as packaged goods is becoming less common, replaced by subscription-based models and in-game purchases. Downloadable content (DLC) and micro-transactions are add-on features for gamers to upgrade their character or unlock bonus content. They have fast emerged as prominent sources of revenue, with 1 in 4 gamers having purchased micro-transactions in the last year. Gaming giant Activision-Blizzard made $1.95bn in revenue between July and September 2020, $1.2bn of which came solely from in-game micro-transactions. This shift presents new opportunities for game developers, who can utilise micro-transactions to develop new forms of recurring revenue streams.

With close to 40% of gamers watching streams via YouTube or Twitch, 23% participating in online forums such as Reddit, and 22% posting on social media about their gaming experiences, there is also a huge opportunity for businesses to tap into the potential of the gaming community. In recent years the industry has built itself a vast ecosystem where players come together to share their gaming experiences online. The participants in these communities can be considered brand ambassadors who help to build momentum around the latest releases. Publishers that can leverage these advocates will be able to build better relationships with their target audience and increase the success of title releases.

Since 2019, over $240bn in investment has poured into the industry from venture capital and private equity, alongside technology and media giants. If cloud gaming takes off in the way we expect this year, it has the potential to cause seismic shifts across the gaming and digital media landscape. This will create a number of exciting opportunities for companies who can adapt their business models to become cloud-first, alongside businesses that provide services into the gaming industry as the market continues to proliferate.

Jon Pickering, Chief Investment Officer at NorthEdge

PORTFOLIO FOCUS

Catalis

Catalis provides publishing and testing services into the high growth, global media market through two divisions: Curve Digital; and Testronic. Curve is a cloud-native publisher specialising in independent video games across all major console and PC platforms. Testronic provides testing and quality assurance services to the global games, film and TV markets.

The games business as we know it is growing exponentially and one of the reasons is the move from physical to digital. Physical copies can be risky due to the high costs during production and the added headache of ordering too many copies, which is why the digital space is proving more attractive for publishers. Whilst the switch has been happening for a number of years now, the pandemic really saw this trend take off.

Dominic Wheatley, CEO of Catalis

Gaming is now the largest entertainment market globally and the continued demand for content, the mainstreaming of gaming culture and investment from global technology operators will continue to drive growth. The Catalis team have demonstrated a strong understanding of the market dynamics and the model they have developed is ideally positioned to capitalise on this opportunity.

To enable Catalis to accelerate growth and capitalise on the shift to cloud gaming, NorthEdge has supported the business to complete five bolt-on acquisitions to date; Whyttest, IronOak, Check Disc Labs, Giant Interactive and Secret 6. These acquisitions have allowed the business to expand its range of services and global scale.

TAKING RESPONSIBILITY

70%

of the global economy have a net zero commitment - up from just

16%

in 2019

74%

of tech CEOs without a net zero strategy believe that tech businesses don't need to focus on improving their environmental impact

In a review of academic literature on sustainability initiatives,

90%

of reports conclude that good ESG standards lower the cost of capital

A further

88%

show that incorporating ESG into a business strategy leads to better operational performance

Taking Responsibility

In our last report we highlighted the growing importance of ESG in the sector, particularly around putting the right people initiatives in place to counteract the talent and diversity shortage, and how a focus on ESG can become a key driver of value.

However, there is still a general misconception within the sector that tech companies do not need to focus on improving their environmental impact. Although 70% of tech companies are reporting on carbon reduction targets, just 44% link them to global climate change goals. Additionally, of the companies that haven't committed to a net zero strategy, CEOs are citing that their company doesn't produce a significant amount of emissions to justify one. Figures show that 74% of tech CEOs cite this reason for not having a net zero strategy, in comparison to 57% CEOs across all other sectors. Whilst technology companies themselves may not generate high emissions, leaders need to start to look at the impact of their wider value chain and use their position to influence change outside of their own business.

For example, technology leaders can review which providers they are using and assess their commitment to sustainability – Google has made a commitment to operate carbon-free energy, 24/7, at every single data centre by 2030. This is a major milestone for the sector and will reinforce Google's position as the global leader in delivering sustainable cloud computing. Alongside this they are continually supporting their partners to be part of the solution to climate change and using their wide influence to innovate, iterate and share best practice to encourage others to take action.

Whilst it can be challenging for tech companies to implement a net zero strategy, due to limited budget, knowledge and direct influence, there are resources and third-parties who can offer expertise and provide support. Third party agencies can help to first measure, report and then support businesses to put an action plan in place for reducing emissions across the entire value chain. There are also wider sector initiatives, such as Tech Zero, that offer valuable resources and guidance to support businesses on their first steps in their sustainability journey.

In a recent review of academic literature **90%** of reports conclude that good ESG standards lower the cost of capital and **88%** show that incorporating ESG into a business strategy leads to better operational performance.

It will take a collective effort from the sector to support the global net zero targets, but by taking responsibility and setting an example for the wider industry, businesses can have a positive impact on the planet whilst setting themselves up for sustainable growth. As well as global targets, up to 71% of c-suite leaders are now feeling pressure from investors to implement sustainability plans, and three-quarters experience this pressure from board members, customers and increasingly employees.

Leaders should start taking action, not only as it's the right thing to do, but because it can also support commercial growth. This was supported in a recent review of academic literature on sustainability initiatives, where 90% of reports conclude that good ESG standards lower the cost of capital and 88% show that incorporating ESG into a business strategy leads to better operational performance.

PORTFOLIO FOCUS

Portfolio business Cloud Technology Solutions Group has recently been certified as a B Corporation, joining an advancing group of companies that are reinventing business by pursuing purpose, as well as profit. The company has been certified by B Lab, the not-for-profit business behind the B Corp movement, following the business meeting a number of social, corporate and environmental standards.

The B Corp certification addresses the entirety of a business' operations and covers five key impact areas of governance, workers, community, environment and customers. As part of the certification process, applicants must attain a benchmark score of over 80 and demonstrate their commitment to social and environmental responsibility. This includes policies related to energy supplies, water use, employee compensation, diversity, and corporate transparency. To complete the certification, the company has legally embedded their commitment to purpose beyond profit in their company articles.

Having achieved a score of 85.2, with a view to growing this further, CTS joins a community of 6,279 companies globally who have been certified as B Corps. The B Corp community in the UK represents a broad cross section of industries and sizes, comprises over 1,100 companies and includes well-known brands such as The Guardian, innocent, Patagonia, The Body Shop and organic food pioneers Abel & Cole.

This certification highlights the businesses' commitment to employee benefits and company culture, as well as their dedication to continuous improvement.

CTS is also supporting other businesses to become more sustainable through their 'Sustainability Hero' workshops. The workshops are designed to highlight the possibilities of becoming more sustainable, review existing data to get a performance baseline, then explore how technology can be used to reimagine business models and help organisations reach their sustainability goals.

Sustainability is core to the foundations and values in our business. It represents a golden thread through a wide range of activities from our community involvement, learning and development, DEI and of course the environment. We want to build a business which we are proud of and our teams are proud to work within. Our new B Corporation certification helps to underline that quality.

Chris Bunch
Managing Director of CTS

We're delighted to have achieved this certification. It provides us with a great framework to work towards, allowing us to remain true to our mission about our growth and goals.

Charlotte Batters
Head of People at CTS

Our Technology Track Record

NorthEdge has an established investment track record across technology software and services, with equity investments ranging in size from c.£5m to c.£60m. We have increased our rate of investment into technology in recent years as our knowledge and understanding of the sector has developed.

Year	Services	Software
2013	JIGSAW24 – Apple managed service provider (bolt-ons: Square, Matrix, Root 6)	
2014	SUMO DIGITAL – Video games development	utiligroup – Energy data management
2017	CUBIC MOTION – Animation and computer visualisation	CUBIC MOTION – Animation and computer visualisation
2018	cts – Public cloud services and software (bolt-on: Qlouder)	cts – Public cloud services and software (bolt-on: Qlouder)
2019	Catalis – Global publishing and testing business for the media market (bolt-ons: Whyttest, IronOak, CDL, Giant Interactive, Secret 6)	pimberly – Product information management (bolt-on: Open Range); hublsoft – Decision intelligence platform; PHOEBUS – Financial services software
2020	lights4fun – B2C Ecommerce platform	CMap – Professional services automation (bolt-on: Atvero); altia. – Specialist intelligence and investigation software (bolt-ons: Excelpoint, VeriSaaS, Badger Software)
2021	correla – Energy data services and software (bolt-on: CloudKB)	correla – Energy data services and software (bolt-on: CloudKB)
2022	Distology. – Cyber security services partner (bolt-on: Squareball)	Friend MTS – Anti-piracy and content protection
2023		cezanne – Human Capital Management software

bolt-ons

To date our realised technology investments have delivered a combined 4.5x MOIC return

We have invested c.£215m across 11 new investments in the past 5 years, alongside supporting 12 bolt-on acquisitions in the portfolio

About NorthEdge

NorthEdge is a lower-mid market private equity firm headquartered in the North, owned and built by its senior team, supported by a global blue chip investor base. We have £900m AUM across four regionally focused funds.

Headquartered in Manchester, with offices in Leeds and Birmingham, we have a 25-year track record of investing in businesses with ambitious management teams and significant growth potential. Our current portfolio of 26 businesses employs c.7,400 people.

We look to invest in like-minded businesses and management teams who have real ambition and the potential to shape global markets. We back management teams, in the Technology, Healthcare, Business Services and Specialised Industrials sectors, who recognise the value of having an experienced business partner alongside them, supporting them to build a better business.

If you would like to get in touch, please contact any member of our Technology sector team:

Jon Pickering, Chief Investment Officer

jon.pickering@northedge.com

Dan Matkin, Director

dan.matkin@northedge.com

Kevin O'Loughlin, Director

kevin.oloughlin@northedge.com

Simone Masterson, Investment Manager

simone.masterson@northedge.com

Sam Allen, Investment Manager

sam.allen@northedge.com

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North Edge.

Building better businesses, together.

Technology Sector Report