Transcript: Megabuyte CEOBarometer podcast: Q4 2025 – Insights for UK Tech CEOs and Boards

The Megabuyte CEOBarometer is a must-listen quarterly podcast for UK tech CEOs and their boards, co-hosted by Ian Spence, Founder and Chairman of Megabuyte and Neel Arampatta, Head of Research and Consulting at Megabuyte. Each episode delivers focused analysis of trends shaping the UK technology sector, from mergers and acquisitions to capital markets, private equity, and venture capital activities. Backed by proprietary data and insights from Megabuyte's financial analysts, it provides practical perspectives to help leadership teams drive growth and strategic decision-making.

This is a transcript of the Q4 2025 episode.

While this transcript provides a detailed summary, the full podcast offers a richer experience. You can listen on platforms like Apple Podcasts, Spotify, or Podbean, or stream it at your desk via your browser here.

Speakers:
IS – Ian Spence
NA – Neel Arampatta

IS: Hi, and welcome to the Q4 edition of the Megabuyte CEOBarometer podcast. I'm Ian Spence, the founder of Megabuyte. As usual, I'm joined by my co-host, Neel Arampatta, Megabuyte's Head of Research and Consulting. Welcome, Neel.

NA: Hello.

IS: Thanks for tuning in. As usual, this quarter, our lens will be firmly on the UK Software and ICT Services sector, and we'll cover five key areas in the show: Growth and trading trends, Capital Markets - what's happening with share prices, valuations in the stock market; Private Equity, Venture Capital, and we'll wrap up, as we always do, with M&A. For each of these areas, we'll bring out the key data points, news items, and we'll discuss the underlying trends, and the aim, really, is to try and help listeners to understand what this all means for their business.

00:50 - Megabuyte 2026 Events

Before we dive in this quarter, I wanted to spend a little bit of time on our 2026 event programme, which we launched very recently, and tell you a little bit more about that. There's a lot of subscribers who listen to the show, so we want to tell you more. 2025 has been a really strong year for our events programme. We ramped things up significantly this year, and we're going to do some more next year. During 2025, we've launched the scale-up streams but focused on for CEOs in scale-up Software and ICT Services businesses. We've launched a new CFO programme, and we've extended our Working Breakfast series, so lots going on.

We're going to build on this in 2026, and we're adding a few more events, but the focus is really around building critical mass and really focusing on making the existing programme amazing, even more amazing. And importantly, we've worked hard to increase the overlap in the Venn diagram, as I describe it, between event topics, our published research and our consulting offerings. So, previously, if we're honest, they've been a little bit separate, but what you'll see next year is, starting with our State-of-the-Nation event, which I'm going to talk about in a second, us looking at the key topics we think boards should be discussing in 2026 and then running those through both our event programmes in different sessions, but also, the research team at Megabuyte looking at those topics as well in our published research and then also building, where appropriate, consulting offerings to offer deeper support to our customers in those areas, so that's going to be a key feature during 2026. There are a total of 23 events across the year, and if you want to see the calendar for those events, you can just simply search Megabuyte events on your chosen web browser, and that will come up.

So, the 2026 programme, just to tell you a little bit about this, tell you a little bit about this in a bit more detail. We've got a number of dedicated streams, as we always have. We've got the scale-up and the mid-market streams; they are really under what is really all about the CEO strategy programme, as we call it. We've got the CFO programme, as I mentioned - that was new this year - continuing growing into next year. We've got sector trends and the Megabuyte100 Awards programme. So just quickly talk you through those in a little bit more detail. The CEO strategy programme, as I said, in those two main areas, scale-up and mid-market. Scale-up, as the name suggests, is bringing together founders of businesses that are not necessarily very young - they're not startups, but they are in that, sort of, growth phase, typically below about 200 employees. And then the mid-market is, as the name suggests, more established business, probably got external investment, either PE-backed or listed businesses. The two flagship events in that programme are the CEO Strategy Offsites. We've done the mid-market CEO Strategy Offsite two-day event in June. I think this year will be our... next year will be our fifth year we've done that, and we launched the scale-up version of that in May this year, and we're doing that... it was very successful; we're doing that again next year. There are two Chair and NED dinners in that programme, specifically designed for that audience and also four working breakfasts, where we're drilling into some of the topics that we generally cover in a lighter way in the CEO Strategy Offsites. Sector Trends programme, that started, in its current form - this year, again, has been really successful. This is vertical depth, looking at the key areas of coverage that we follow at Megabuyte and helping our subscribers understand all of the trends, both from Megabuyte Analyst perspective but also, generally, getting some CEOs in those areas on the stage as well. We've got FinTech, Cyber, IT Consulting, Health and Social Care, Human Capital Management as standalone events, and then our IT Channel Conference, which really covers ITMS and Telecoms Services, and actually, we haven't had that event this year yet, and Neel will maybe chat about that in a minute, because that's coming up. CFO programme - really, really, happy with the way that's gone this year. Two roundtable dinners, but the leading event, the key event in that programme is our CFO Masterclass, which will be in February next year, so I'm actively planning for that at the moment. Really happy to have that as part of the programme. And then obviously, our awards, one of the things we're most famous for, I think. I think that must be in its 11th or 12th year now?

NA: 12th.

IS: 12th year. Next year, the big awards event in March. That will obviously roll on, as it always does, bringing, I think, 200 CxOs together in a room, representing the very best performing, financially performing, companies in the sector. So that's a quick, a quick walk through the programme for the year. I also want to just spend a minute on the State-of-the-Nation event on the 29th of January, where, actually, Neel and I think of it as a little bit of the podcast...

NA: Podcast live.

IS: ...podcast live. So it's really aiming, with this event, to be setting the agenda for boards in the tech sector for 2026, to help you guys to build product strategies, service strategies, your M&A strategy, what are you doing with funding and your growth budgets for 2026 and beyond? As I said, it's on the 29th of January, and, again, it's going to be a to and fro with me and Neel, I guess. Probably, I will focus on the products and service strategy bit. We're doing a really... I'm working at the moment on a really comprehensive reboot of our AI framework, and actually, the whole team, the whole research team is . We introduced this idea of the AI Goldilocks period last year, and we're going to really drill into that at the offsite - sorry, not the offsite - the State-of-the-Nation in January, and then Neel will focus on the financial benchmarking corporate activity, really drilling into the data and insights around data around financial results, corporate activity, valuations, etc, and how that is going to look over the next 12 to 24 months. That's the State-of-the-Nation. If you're interested in attending that, again, look on the calendar, and you can click to attend. If you're a subscriber, you can register for that, and if you're not, you can register your interest. And actually, on that point, just before we move on, just to make the point that Megabuyte events are... we do invite guests to our events, but fundamentally, they are part of the Megabuyte board subscription. If you're a subscriber, as I said, for most of the events I just talked through, you can go on to our web platform and just register for those. If you're not a subscriber, you can still register your interest on any of those events, and our team will get hold of you about that. And that's kind of it about 2026. We're really excited about that programme. I think it's going to be awesome, and we spent a lot of time on it already for thinking about the content, and we're excited to get going with it.

But before we move on, just a quick word on 2025; we're not done yet. As I said, we've got three events coming up for the rest of this year: ICT Channel Conference on the 6th of November, the HCM Sector Seminar and a working breakfast around founder CEO succession. Neel, did you want to mention anything about the ITC Channel Conference for this year?

NA: Honestly, I'm really excited. I think we've got, I think, a massive lineup of speakers, but also, I think we're almost now packed in terms of the room. I think we've got 170 signups, something like that. I think, from my perspective, there's been a lot going on in the channel, which we'll talk about in the podcast today, through this year, and there are some pretty important topics worth talking about. We've got our keynote right at the very start on what's going on in the space, and we'll be giving our views on what the outlook is for 2026, what are our growth expectations, what are the key drivers, service drivers, that are going to improve things next year. We're going to be having a panel on verticalisation. We'll be having a couple of interesting companies talking about their AI strategies, like internal AI strategies. People who listened to the podcast last quarter will know that I went on a bit of a bit of a monologue on that, but there's some interesting stuff going on there. And then for our Telecoms guys, there is a very, very interesting panel on the PSTN switch off. We've done a lot of research around that recently. It feels like we're sleepwalking into a bit of a disaster zone, and I'm not just being click-baity on that one. So, yeah, there's lots going on. If you haven't already registered, there might be some spaces left, but, yeah, get on it.

IS: Yeah, I think it's going to be a winner, and I'm particularly looking forward to it because I don't have to do anything.

NA: Yes, that's true. You're just going to be a guest.

IS: I'm just going to be a guest and listen. I'm sure I'll learn a huge amount, because I spend most of my time thinking about the software side of our coverage, so I'll learn a lot, I'm sure. So, look, please go and have a look at that on the web if you've got time, and if you're a subscriber, get signed up for those because some of them are going to be a sellout. I'm pretty sure the State-of-the-Nation is going to be a sellout. It was this year, so get on it. Forgive me for taking a bit of time on that, but hopefully, that was useful.

08:30 - Growth Outlook

So, moving on to our first key, kind of, theme around growth trends, what's happening with growth trends in the market, both in terms of the stats and also some of the underlying themes. The numbers, the raw numbers, before we get into it, we track, at Megabuyte - those of you who know our service - we track the organic growth of 1,800 companies now?

NA: Yeah.

IS: Something like that. So we get a good sense of what's happening out there. The usual caveat is it's a rear-view mirror, so a lot of the results that we're talking about for the quarter just ended really relate to calendar 2024 for the private companies we track, which is the vast majority. But the trend is interesting. And the overall trend has stabilised to some degree. Post-COVID growth rates went up substantially, as you know; they've come rattling back since then, but the overall growth rate is stabilising about 9%, but the interesting thing is that we're seeing that stabilisation in software, which was flat in the quarter at 12%, but services still dropping and coming back down to 4% from 6%, so still quite a substantial drop there, and I think... I'll talk about Software in a minute, but maybe, Neel, if you want to just chat a bit about some of the underlying themes, maybe, that's going on underneath that number.

NA: Yeah, fundamentally, I think it is, as you described there, it's the post-COVID, sort of, drop in... you know, COVID was driven by massive digital transformation programmes, people buying things left, right and centre, putting through projects. Suddenly, budgets were unlocked. What we saw was basically the antithesis of that, post-COVID, where, fundamentally, a combination of ‘Oh, crap, I've bought way too much stuff. I don't actually need all of this stuff. I don't really know what I'm spending on’, and then B) macroeconomic downturn, fundamentally, at a global level, as well as some serious shocks, including international wars, oil price shocks; all of that has had massive impacts on macroeconomics, and ICT is quite exposed to that, so there's a fundamental drop, in that perspective. I think, also, there is an element here around - and I've talked about it last time - you know, Professional Services is one of the hardest hit areas in that it is the closest proxy to when the good times are good, consulting is good; when bad times are bad, consulting is bad, and it was no different in this situation. What we have seen, though, is, obviously, that, as you said, 2024, those numbers now starting to - well, we've sort of completed the year now in terms the 2024. I don't know if I'm getting ahead of myself here, but actually, 2025, we've got very clear views on what's going on there. I'll be talking about that a bit more in the ICT Channel Conference, but, really, from my perspective, there was expectations that 2025 would be better. It has not been.

IS: Not so much.

NA: Yeah, I don't know if we can swear on this podcast...

IS: No, we definitely can’t, but point taken, yeah.

NA: ...but it's been rubbish. So, those fundamental, sort of, downturn economics have continued into 2025. I think we're calling for this year to be sort of a low- to mid-single-digit organic growth year for the ICT Services sector as a whole. Some elements of that is even lower, so IT Consulting, I think, we're saying flat.

IS: The tracking at that… we're at 4% now, so you think tracking at that kind of level?

NA: Yeah, probably. Maybe even a bit lower.

IS: A bit lower, yeah.

NA: And really, again, Professional Services is the worst-hit area that I think we talk about flat being good, flat being fine.

IS: I've lost track. Where are the public companies on that now in terms of the forward looking? Are they still looking for… some of them, because there was a period where the average was a minus. I think that's not quite as bad.

NA: Not quite as bad. I think there have been certain improvements that we've seen in some areas. But again, the problem with ICT Services is there's so few public companies that, actually...

IS: It’s hard to tell.

NA: ...you’ll get a com… you'll have a Softcat that's absolutely smashing it, and then their, kind of, guidance just skews the whole thing. So, when we look at it, when we normalise it, it has improved slightly. But it's only been in the second half of 2025 as well, so if you've had a really rubbish H1, even if there's an improvement in Q4, it's not enough to offset what's happened in H1, and, as a result, maybe there's a bit more positivity around 2026, but I don't want to shoot myself in the foot, because I said the same thing at the end of 2024, that things are going to get better this year, and they haven't, so we're being quite conservative about it. There are signs that some areas are improving. Public Sector certainly seems to have opened up through the middle of this year. We saw them really reduce, or just pause spending ahead of the election, and then the spending reviews and things like that. They seem to have opened up through this year. But again, only some people are benefiting from that, so I can't say it's a sector-wide improvement. We'll talk about it later, but there are people that are actually doing some really interesting things that are allowing them to outpace the market, but overall, the market has not been good.

IS: Yeah. Okay. Good to know that. I mean, I think from a Software perspective, the story is one and more of stabilisation, I think. Not just with the number that I just mentioned but just generally talking to companies. And also, the data, when you look at the Software Barometer Reports - we publish two really comprehensive reports at Megabuyte, one on ICT Services and one on Software every quarter. I mean, there's more granularities, lots of... there's a whole suite of reports, but these are two of our, kind of, leading reports, and we track the upgrade/downgrade balance for public companies, and I think I talked last... in the last episode about the vast majority of results that were announced in the preceding quarter - that would be the June quarter - with downgrades, much more balance in the balance of upgrades and downgrades in the quarter just finished. So that's a positive sign, I think, for the Software sector. The Rule of 40 still remains at cyclical lows, as an average of about 30, whereas the average was 40 in the post-COVID period, so, you know, that's interesting as well, I think. I mean, I think, looking forward, similar dynamic, I think, for ICT Services. I think that 2025 has been a challenging... in some ways, a more challenging year, but again, a lot of it's vertical specific. I think, going back to your point about Public Sector, same for Software as it is for ICT Services in the sense that last year was pretty horrible because you had the election followed by the Budget and just a hiatus of public-sector spending. So, if you're in public sector, 2025 in Software probably feels better than 2024. Other areas, for example, Retail and Hospitality, with all the tax changes that were brought in in November last year, that definitely doesn't feel better in 2025. So it's very much vertical specific, I think. I mean, I think - and we're going to talk about this in the State-of-the-Nation, because it's one of our feature - spoiler alert here - but it's one of our feature points for, and board points for, 2026, and we talk about this more and more at our events and dinners. I was hosting a dinner of scale-up software companies last night, and everyone was kind of agreeing that everyone's just got to get on with it now. You can't expect any help from the economy. It might be up a bit; it might be down a bit - probably down a bit, let's be honest - and actually, expecting - and this is true for private-equity investors as well - expecting the economy to help you deliver enhanced growth over the next couple of years is just not, we don't feel, is going to happen. So, finding renewed growth strategies, particular for new logo growth strategies. I mean, you've talked extensively about the fact that growth has been coming from existing customers in the last couple of years, and that's great, but you've got to get back to new logo. So, we'll talk about that a lot during our 2026 event programme, and I think that's a key feature for boards is like, how are you reinventing, if you need to, your go-to market to make sure that you can drive the growth you need to, to drive shareholder value in a zero-growth economy?

NA: And it's a bit of a spoiler, but I think, you know, verticals, ICP, subject-matter expertise, whichever one of these terms you want to use, I think that is where we are seeing that new... if you do want to return to new logo, where is that coming from? Is it a generalist strategy? I think, from an ICT Services perspective, it has got to be from some level of specialisation, and it might be vendor specialisation, it might be vertical specialisation, we know. I keep getting asked all the time, sort of, what are the verticals you'd back at the moment? And there are some, to be fair, the public sector is doing quite well again. Legal is another area that we're seeing huge, sort of, market drivers in the legal sector, not just consolidate... there's a big consolidation play going on in legal, but also, just digital transformation legal, who have historically been, maybe, laggards, if that's a mean term to use to describe them. But yeah, you’ve got that... even areas like not for profits, we're seeing quite a lot of interesting stuff going on there. So, verticals is one area that we think is particularly interesting.

IS: And you may have... sorry, you may have said, but we've got a session on that, haven't you?

NA: We've got... yeah, yeah.

IS: In the ICT channel conference...

NA: Yeah, so we've got a panel on that. We've got some vertically specialised or segmented, sort of, companies speaking on the panel. But again, next year, we've got the event in March, I think it is.

IS: Yes, it is. The first working breakfast of the year is around ICP, the importance of ICP.

NA: Yeah.

IS: I'm just putting the speakers together for that. We'll get a CRO, CMO and a CEO, probably, to talk about what they... they have done that particularly well...

NA: Yeah.

IS: ...and how you can... you know, focus on ICP is a way of driving, you know, one of the key ways of driving, you know, that new logo growth...

NA: Yeah.

IS: ...in a low-growth environment.

NA: And the way I think my thinking has changed is that historically, for the last year or two, it's been, 'Okay, focus on the ICP for existing customers to help deliver better services to existing customers', but actually, I think it's also critical for new logo, if you are looking for new logo, that kind of subject matter expertise, verticalisation, things like that, that's where that's coming from.

IS: So, to wrap up on this bit, then, I think, what are we saying? What are we trying to say? You know, it's - what are we now? Mid-October. We're recording this late October. People are thinking about their 2026 budgets. What are we saying about growth? I think we're, overall, probably saying similar. If you... whatever you're growing at the moment, you should probably be thinking about that's probably a fair starting point for your growth budget, your revenue growth budget for the following year. Again, the caveat there is around verticalisation and... or not verticalisation, but which vertical you currently operate in and the dynamics of that particular vertical, but then layering on top of that, making your own luck with your budget and being able to add... layer additional growth on there through specific initiatives around some of the things we're going to talk about in these events.

NA: Mm-hmm, yeah. There's a lot of focus on go-to-market, I think, at the moment, just people maybe even ripping up the playbook and just going how do I actually try and convince people to move in an environment where they don't want to move. When I think about ITMS, that's kind of the key question, or if you're a consultancy, it's how do I get people to finally press go on some of these projects that have just been in limbo for 12 to 18 months? And a different approach seems to be what's working.

IS: A slight segue, but I was at one of the CEO's - I won't say the company name - but one of the CEOs at the dinner last night was talking about - it's an IT Consulting business - how they feel like they're disrupting their market. They're going up against some of the big Sis, and they're coming at a lower price because they know that they're going to leverage agentic AI to deliver the project, and so, they see themselves as a disruptor in that business model by competing with the guys who have to sell bodies on the bench, still, by not doing that, and they're unlocking projects that have been maybe shelved, simply by doing it at probably half the price, but still making a return because they're leveraging agentic AI, so...

We've done well. What are we - 20 minutes in and we haven't really talked about AI?

But obviously, that's a key feature of those. It's not just about go-to market. It's about products and service strategies. We're not going to delve into that too much today because we talked about it a lot last quarter, but it will be, obviously, a key feature of the State-of-the-Nation.

19:07 - Capital Markets

IS: So, overall commentary on deals. So we're going to cover our various different segments of deal and valuation activity, as we always do, but looking at the overall corporate activity in the market, we track all of these myriad stats in the Megabuyte platform. Again, really quiet quarter. We seem to say that every quarter. It's even quieter this quarter. There's a couple of really standout things. But just to give you the numbers. So, the total deal numbers were down 29% in the quarter to 207, and, you know, we're typically seeing a run rate of about 250 deals at the moment, which, again, is significantly lower than it was post-COVID. I always make the caveat that the deal number tends to be revised upwards somewhat, so that minus 29% number is probably a little bit negative. It's probably not quite as bad as that, but it's been a very quiet market. We'll talk a bit about the IPO market because there's been a lot of talk about sentiment around that, but the capital markets were incredibly quiet again. I mean, almost laughably quiet, though it's not really funny. I think one of the most striking stats - and we'll get into this later - that I said when I was going through that, or I saw when I was going through the numbers this quarter, is two management buyouts in our sector in the September quarter. Two. That's it. I mean, we were recording 15 to 20 at the peak, which obviously is... you're comparing different ends of the spectrum, but typically, five to 10 per quarter. Two. And one of which wasn't really management buyout; it was sort of a secondary buyout that's, sort of, been so long in the tooth that we've reclassified it. So, we'll get into that and what's happening. We'll spend a bit of time on that. And again, we don't spend a lot of time talking about fibre on the pod, but actually, there's been a lot going on in that market. It's been a fascinating market. Our colleague, Philip Carse, does a huge amount of work on that, really interesting, and it's been quite challenging. But there's been a lot of new debt going into that market for the first time in a while. The quarters will touch a bit on that.

NA: We should clarify that's a subsector of Telecoms, not the food group, fibre.

IS: Yeah, we're not talking about keeping your gut biome healthy. Different kind of fibre. Although you should definitely also keep your gut biome healthy. So, those are some of the themes, and then we'll, as we always do, we'll walk through the different segments. I'll start with capital markets, just talk through some of the share prices, because I think that's interesting, as a backdrop. So the Megabuyte research universe of stocks that we cover... I mean, overall, share prices have been pretty soggy in the UK, not so much in the US, as is often the case. So the universe of UK listed stocks we tracked is about 100. I used to say it's 150 of them. I think it's nearer 100 now because so many of them have gone, for one reason or another. That was down 5%. The average valuation across Software and ICT Services was down very slightly, down 2% to 10.4x. Not a hugely relevant stat in some ways. More relevant is the sector valuation. So, Software stocks were down, on average, 4%. ICT Services down 7%. Software valuations down a touch to 11.3x current year EV/EBITDA. ICT broadly flat at 8x. So that's, kind of, where we are. Feels like we're in a bit of a holding pattern with those guys. For context, the FTSE 250 was up 1%, so the market, the tech sector underperforming the overall market. As you will probably be aware, much stronger dynamics in the US market. The Nasdaq was up 12% on the quarter, the September quarter. The EV/EBITDA up very slightly, up 4% to 18, just over 18x as an average. Obviously, the Nasdaq isn't a tech index, but it's tech heavy, increasingly tech heavy. The Bessemer Venture Partners Nasdaq Cloud Index, which is an index of 100 US... yeah, all the US-listed SaaS stocks, mainly SaaS stocks, down 3%. EV sales multiple there is broadly flat at 8x. It's been roughly in that range for quite a long time now. So, mixed fortunes for share prices and valuations across different sides of the Atlantic.

Corporate activity - and this is the juxtaposition here we'll get into in a minute on IPO – but, you know, there is a lot of talk of IPOs, but there is very, very little actually happening in the sector in terms of fundraising. So, total deals in the quarter, six down from 11 in the same quarter last year. No IPOs compared to three last year. Sorry, just reading my stats. Six follow-on public offerings compared to eight last year, so that was down. But the more relevant stat, really, is only 11 million raised in total from those six fundraisings.

NA: Only 11?

IS: Only 11 million compared to, frankly, only 40, but that was a better number. So across all of those companies, for a whole quarter, the sum total of money raised on the market in our sector was 11 million in the September quarter.

NA: What are the fees on that versus 11 million raised?

IS: I mean, it's just... so, you know, this idea that the stock market that I've talked a lot about on the podcast that we have, and, you know, it's not a significant pool of capital anymore for companies that we track at Megabuyte, certainly not, not at the moment. Talking about IPOs – so, there has been some IPO optimism, clearly, Beauty Tech, Shawbrook. Beauty Tech listed - that's the face-mask business.

NA: Yeah, it doesn't, technically, fit in Megabuyte's coverage universe, which is...

IS: No, but, so then, none of these do...

NA: Yeah.

IS: ...so I think that's kind of the key point. Shawbrook is coming to the market - that's the finance company. Starling Bank has said it's probably going to list. So there's stuff going on generally. Visma is the big one for our sector. So if you're not familiar with, this is a 20 billion euro/pound - I'm not sure – Norwegian, highly acquisitive software company that's been in the PE world for many... a couple of decades now.

NA: We talked about it last quarter, but obviously, that could have, potentially, big impacts for UK Software, the Software buy-and-builds, because if that goes well, that could be a positive...

IS: I think that's the key takeaway from that particular element of this story is that... I think we've talked about this, and I do think it's going to be very interesting if Visma gets done, and I understand, from our friends in the City, they are very actively warming up for that. It's going to be massive. It's like a top of the FTSE 100, 20 billion.

NA: Yes.

IS: But you've got Axis groups, Civica, IRIS, some of these larger – particularly Axis Group, I think - larger PE-backed businesses that have got... I mean, Axis' last deal was, I think, six or seven billion. So these are very substantial businesses that might find that continuing to do PE rounds is not viable for them, just because of their scale apart from anything else. If Visma gets done, I think we're likely to see others coming in that scale. That doesn't mean that a £20 million software company is going to do it.

NA: Yes.

IS: I think they're separate things.

NA: Yeah.

IS: They're separate things. So, I think the last time we saw the IPO market open was post-COVID. 2021, there were 25 IPOs, but really very few companies in our, kind of, core coverage, and we talked about some stats, and you listed these out earlier when we were running through this, Neel. 458 companies in the Megabuyte coverage universe with more than 5 million of EBITDA. Of those, 237 are PE-backed, 72 are owner-managed, and 26 are either VC or Growth Capital-backed. So, there's plenty out there...

NA: Yeah.

IS: ...but we just don't see. It's the same old, same old, isn't it? We just don't see. Private equity don't like floating their businesses because it's uncertain outcome. Valuations are still... and what are valuations in ICT for quoted versus private at the moment?

NA: Oh, massive differentiation.

IS: Right.

NA: Because if you look at the stats you talked about there in terms of 8x, but if we want to really think about that contextually, quite a lot of the publicly listed companies in ICT are quite large.

IS: Yeah.

NA: If they were private companies, they would have very different, sort of, valuation profiles, if I'm completely honest, so it feels that there's a very clear bifurcation between private and public...

IS: Yeah.

NA: ...company valuations for ICT.

IS: And you've got some of the companies on the market that are in the single-digit multiples that might also be in single-digit multiples if they were private.

NA: Yes.

IS: But you've got - I don't know, I'm picking some recent deals - Bridewell, Transparity. I mean, they wouldn't have achieved... even after some improvement in public sector for public company valuations, they wouldn't achieve those kind of valuations on IPO.

NA: It's difficult because also, I think there's the obvious element that there's a huge amount of debt involved in those deals as well to get to those valuations when it's private equity. You wouldn't use the same leverage, sort of, ratios when it comes to a public company listing, so would they have got to the same valuations in that respect? Difficult to say. It's hard to say because it sounds like we're being very negative. I think the way that I take it is that I just talk to the management teams. I talk to the management teams, and I talk to the private equity owners. It's not even a feature...

IS: Yeah.

NA: ...in their, sort of...

IS: Thinking.

NA: ...exit thinking, and so, something has to change, and I think... the hope is that even if it's not in our, sort of, universe, something like a Beauty sec, if Shawbrook does well, if Starling comes on and does well, and I don't mean like 2021 style, absolutely, you know...

IS: Yeah, you kind of don't want that.

NA: No, we don't want those extremes anymore. What we want is for them to come on, do well, the share price rises a sensible amount, and actually, two years down the line, you can go, 'That was the right decision for Starling. That was the right decision for Shawbrook and etc'. That is what I think will then start to change the views of these management teams and their owners as well.

IS: I mean, funnily enough, what I think we may see - which we saw last time with companies like ActiveOps, was... I mean, ActiveOps wasn't owner managed, but it was controlled by the founder from a shareholder perspective - is I think you might see a couple of those businesses coming to the market, where the owner manager goes... that if the valuation differential is not too great, that's typically what we might see from our universe, but the PE to IPO dynamic doesn't really change, I don't think. As you said, we don't want to be too negative. There are a lot of companies who do struggle with their listing on AIM, and the recent tax changes, particularly on AIM, has made that a lot harder. I'm on the board of an AIM-listed business as a non-exec, and, definitely, there's redemptions in our shareholder base in that company, specifically down to the changes in IHT tax change...

NA: Right.

IS: ...so it does present more challenges for AIM-listed companies, undoubtedly. But a lot of people talk very positively about it, so we're not saying don't try and list your company, we just think that, particularly, the PE-backed businesses which are more than half of the companies that are the right sort of size, are very unlikely to because PE companies, PE-backed companies, rarely, very rarely do in our sector.

NA: And if there's a liquidity pool and that capital is readily available, particularly for some of these acquisitive businesses where acquisition is a core part of their strategy and they've got a good organic, sort of, profile themselves, public markets are actually a good place for it. They have demonstrated in the past that that is a good model. They like that model, and they have been supportive of their model. What they don't like is lots of debt in there, but actually, if you can do it with equity, and you've got a good kind of core business, it's a good market. It is a good exit opportunity if you've got those liquidity pools available and...

IS: Well, the brokers will tell you it's not an exit. When I was in broking, this was always the thing we used to say. Companies would come to you and want to do a listing, and you always said, 'This is not an exit. You might be able to take some money off the table, but it is not an exit. It is the next stage in your growth journey, and it's funding your growth journey', which is true, actually, to be fair, but anyway, I'm being... I'm being pedantic.

NA: Well, that definitely will, then, put some people off if they do want to exit.

IS: Yeah, yeah, yeah. So yeah, that's where we are with capital markets.

29:26 - Private Equity, Venture & Growth Capital

On private equity, again, very quiet. Just talk through the numbers, and then we can get into some of the underlying themes.

So a total of 10 deals, which, again, is just a very low number, compared to 20 in the same quarter in 2024. So, my amazing skills, math skills, tell me that's down 50%. Six Software deals. Only four ICT Services deals. And management buyouts, two management buyouts, both of those ICT Services. No Software Management buyouts in the quarter at all, which is extraordinary. Secondary buyout, seven compared to seven. So the secondary buyout market feels a bit more level, and we'll talk about... this flight to quality thing we'll talk about is still a thing. Public to private is nought compared to nought last year. Carve-out is one compared to two last year. So, you know, really super quiet.

And so, we'll get into some of the sector trends in a minute, but just on this private equity management buyout drought. And I know, Neel, you go out there and talk a lot to our private equity subscribers. What's your kind of take on this?

NA: Yeah, so without sort of giving up confidences, I think there's a couple of different factors behind this, and they won't be permanent, and things will change, and I think maybe we're expecting a slightly better quarter this quarter. It might be down to deal timings, but really, there's still just a couple of 'complaints'.

I think the first one is they describe it as a dearth of PE-ready companies, and by that, I don't just mean size, because if you look at size, you'd still mention sort of 70-odd 5 million EBITDA plus sort of, you know, businesses across Software and IT Services. If you looked at 2 million EBITDA plus – let's take that as a benchmark – the number goes up quite significantly. So there are still a good number of companies that are the right size for private equity, but in terms of PE ready, do they have the right strategy? Do they have the right management team? Do they have... Are they in the right markets with the right thesis? Do the private equity firms themselves have a clear thesis for what they would do with that business going forward? I think that a lack of that has been a problem for deal making, particularly in IT Managed Services, where we have, I think, now, almost 20 PE-backed buy-and-builds. They're all there; they're all competitive. So when a new private equity firm is looking at, right, how do they jump into this market, they look at the kind of platforms they could invest in. There just aren't that many companies that are ready for that sort of platform strategy. So when one does come to the market, then it's almost like everyone pounces on that one. So it's a sort of interesting strategy.

I think the other one is just generally trading. You know, this is just not a good time. If you're missing numbers, you're behind budget, it's just a terrible time, probably, to try and get into a deal, unless you're one of the few, again, that are not missing numbers, and you're ahead of numbers, and you've got something that's different about you, you've got some differentiation. Again, in that case, everyone's pouncing on that because they're trying to figure out what makes you different and what's working.

So the lack of sort of, you know, scale businesses that are PE-ready is general trading. It is interest rates. It is, unsurprisingly, interest rates that has affected the private equity model quite significantly. It doesn't mean they can't do deals, but the valuations they can get to, the kind of leverage, the ratios that they put into the business have to change. And that can affect the end valuation that they can pay on the way in, and if that doesn't meet vendor expectations – and I think there is a bit of that, just they're not able to get to the multiples people expect – a deal doesn't get done. So I think they're just... they feel very significant, and they are very significant. Then all of those are potentially temporary; those things can change. But that, I think, is why we've seen a real dearth...

IS: And trade winning out a bit more over PE as well.

NA: Yeah, potentially. I think, yeah, they're probably in a situation, especially around valuations. If you've got a trade buyer – maybe it's a large trade buyer that's just using cash – you know, they can get to a valuation that private equity can't get to.

IS: Or have got revenue synergies, potentially, although, you know...

NA: Yeah, exactly. Yeah.

IS: ...that's not as easy to do as it is to say.

NA: It's uh, yeah, we love the term revenue synergies...

IS: Yeah.

NA: ...because it sounds really good on PowerPoint. But yeah, I think there's an element of that as well. So there are deals happening. Are they going to trade? Would they have gone to private equity if private equity could get there? It's an interesting question. But it will change. I mean, it has to change because fundamentally, some of these companies don't want to exit to trade. They aren't done yet, but they do want that next chapter. Maybe they want to partially exit or exit founders. They've got a management team that's ready to take the next step. So there are these businesses that are ready, but being able to find those companies, knowing them, building relationships with them, that is now the challenge for private equity, and that's a kind... We see private equity now, historically, which would have been maybe more generalist, are now focusing themselves on verticals or particular areas, and also, importantly, they're now building their own origination functions. They've got dedicated origination functions in there to try and find and talk to these companies early, trying to avoid a process if they can. So it's all very interesting. There's definitely developments in that industry.

IS: Again, I don't want to spend too much time on AI in this edition, but do we think that's holding investors back? Because they're looking for businesses that are AI ready, which, of course, there really aren't very many, or not AI ready but maybe have a kind of fit for purpose AI strategy. I don't think that's a thing yet.

NA: Mmm, yeah.

IS: I think it might become a thing.

NA: I think what will give them confidence is that if – again, this comes back to being PE ready – if you've got a strategy, and you go, 'I haven't executed an AI strategy yet because frankly, I haven't had the capital to do so because I need to spend X, Y, Z, but I know once I get the investment, this is what I'm going to spend it on.' That will certainly do you well. I don't think that's killing a deal or not making deals happen now, but I certainly think... within the next 12 to 18 months, I think that will change because fundamentally, almost every single sector within tech that we're seeing that we cover is changing. It's going to affect the exits of the current PE-backed companies. So I think that that's going to make private equity think about it when it's on the way in.

IS: Yeah, yeah, I think that's right. I mean, I think this quarter, it's a bit of a mugs game to try and predict things quarter to quarter but because of the Budget as much as anything else, not that we're expecting any Capital Gains Tax changes that affect transaction volumes like we've had in the past, but it feels like it's going to be quiet again. We've got... I mean, our VDD, CDD practice, still quite quiet at the moment, but a few vendor diligence things coming down the pipe...

NA: Yeah.

IS: ...but they won't close now until the first quarter of next year, if not later. Most of them, I think. So it feels like this quarter is going to be quiet again. But I think, I hope we see a bit more of a tick up next year.

NA: Phone is ringing a bit more, but again, it's all very prospective. So, you know, will it complete this quarter? As you say, difficult.

IS: Yeah, not so much.

NA: Yeah.

IS: So just looking... we spent a little bit of time on the different sectors. I mean, as I say, no Software Management buyouts , so nothing to talk about on that from a Software perspective. Valuations, we track those very closely, and they are stable in PE land. Averages are misleading, but about 20x or just under 20x on a trailing basis for the deals we look at. But what you have to realise within that is this ongoing flight to quality is probably making that... probably inflating that number because the deals – Neel, you slightly alluded to it – the deals getting done are generally the higher quality businesses. Just... I won't spend a lot of time on this, but a few to mention.

Joblogic was an interesting one from Vista Equity Partners. I think there was some money in on that deal as well as money out. You know, really interesting business, high growth business at breakeven, but over Rule of 40, Joblogic. I think we think that deal was done at about 8x revenue; that's our estimate.

FundApps, FTV Capital, I talked about last quarter. You know, again, we think about a £400 million deal, 26% organic growth, and margins rising into double digits. So approaching Rule of 40, that business.

Cinven was a chunky deal. Cinven acquiring, I think, a majority, if not all of. Smart Communications, we think that was a £1.4 billion deal with Accel KKR reinvesting. Again, that's a business with a scorecard, Megabuyte scorecard of 78, which is pretty much as good as it gets, well over the Rule of 40, and we think that was probably done at about 10x EV sales. And then also, not that I'm saying Intelliflo is not a quality business but a slightly different deal away from this sort of view on flight to quality is Invesco selling to Carlyle. I just thought it was... it just... it made us smile a little bit, that deal, if I'm really honest, because we looked at Invesco buying Intelliflo, which is a really high quality multinational software business in the wealth management space that did really, really well under HG's ownership and prior to that, and HG sold it for, we think, about £200 million in 2018. And we always look at these big corporates that aren't tech companies buying software companies thinking, yeah, that's not going to work. And indeed, I'm not saying it's been terrible, but they've invested a tonne of money in product in Intelliflo over the last however many years – that is seven years – and we think it was sold for less than Invesco paid for it back to Carlyle. So, interesting to see that back in private equity hands, and we'll see how it does when it's released from its enterprise shackles. So an interesting deal there.

So yeah. So that's where I think we are, some highlights on the software deals. Anything you wanted to pick up on?

NA: I think the big one...

IS: There's not a lot...

NA: No, there isn't a lot.

IS: Not a lot to go over.

NA: But there is one really positive story, which is this company called CSL, which are sold by ECI to ECI from one fund to another.

IS: To another, yeah.

NA: They describe it as a continuation fund or something similar. But actually, that is a... technically, I think on a dollar basis, it's a unicorn. So a billion-dollar EV deal. You know, mission-critical, life-critical IoT kind of connectivity services. So relatively niche, but actually, a really, really good business, really strong fundamentals behind it in terms of both the growth of the business but also profitability, its core platform, its IP, its customer base, what it's actually doing. So in a world where it's a bit depressing, you can still see these businesses doing really well and doing what they do really well and getting to really significant scale. I think the deal, you know, a billion on sort of 33.6 million EBITDA is kind of w hat we have as the latest numbers FY25 March. You know, really, really strong from that perspective. So there are really good businesses out there. They can go for very interesting multiples and can get a great deal done. ECI selling to ECI. The positive reading of that is we like it. We want to hang on to it.

IS: ECI getting into the continuation fund game.

NA: Yeah, we've seen a bit more of that.

IS: Good on them.

NA: Yeah. That's a positive situation, and I think there have been others.

IS: And we talked about Wireless Logic in the last episode.

NA: Yes, yeah.

IS: Absolutely smashing it.

NA: Yeah.

IS: You know, did a chunky deal in the previous quarter.

NA: Yeah.

IS: You know, just a really amazing kind of UK success story that a lot of people don't know a lot about...

NA: No.

IS: ...because what it does is a little bit esoteric, and we don't call it end-to-end anymore, do we?

NA: No, no.

IS: It's IoT.

NA: It’s IoT now.

IS: Yeah, it was end-to-end, and then it was IoT.

NA: Yeah.

IS: It's probably AI now. I spoke to Oliver Tucker recently about his international expansion strategy, and they’re just doing so well, that company.

NA: Yeah. So yeah, there's definitely positive stories, and this is a good example of how you can turn that into really, really good shareholder returns.

IS: Yeah, yeah. Yeah, just interesting stuff. Okay, interesting on the private equity world.

So venture and growth capital, we're going to talk about… Funnily enough, we wanted to talk a little bit more about the fibre stuff, which is not really venture – well, it’s not venture capital, but it is growth capital for the most part. But before we dive into that, just a few stats. Actually, interestingly, total funds raised in VC was up 40% this quarter, year on year, to 1.6 billion, and a chunk of that was the 500 million equity part of CityFibre’s raise, 2.3 billion. We'll talk about that in a minute. Series A was flat. So Series A has been pretty solid, actually, for the last few quarters. 17 deals in the quarter, flat, same number as in the same quarter in the previous year. So that's good; that's solid, and that's been going well for a while. The problem with VC is around the pre-Series A, the very early-stage deals. There was only eight of those announced in the quarter, and again, that's down 70% or 80% of where it was peak, the peak of the post-COVID sort of boom, if you like. Down 58% year on year. We will probably revise that number up a bit, but even so, it really is bumping along the bottom. And the thing that we've talked about quite a lot on the show but remains an issue is, it's all very well having the Series A deals doing well, but if you've got not enough pre-Series A deals coming through, where's the next wave of Series A deals coming from? So that remains a bit of an existential issue, I think.

NA: I've read some stuff that, particularly in Silicon Valley, it's almost as dramatic as if you're not sort of an AI startup, you don't get any funding. Is it that? Is it there's just not many AI startups?

IS: Yeah, I think there is an interesting conversation to be had about the UK, and we can get into sort of... I'm not suggesting we do, but you could get into a conversation about how the UK PLC is doing with AI. And there's some really, really interesting, exciting businesses around. You know, we talk about Luminance...

NA: Yeah.

IS: ...and obviously, Quantex, which is effectively an AI business doing amazing things in the banking and, increasingly, other sectors. But they're not enough of them, I think is probably where I would get to with it. So... and yes, you're right. If you're a vanilla HCM software company startup, and you're a vanilla SaaS business, you ain't going to be getting VC funding. That world has changed. So they are looking at the very least for some kind of AI angle to things. And I think you're right; I think there aren't enough of those of quality and scale. And, you know, slight segue, but I'm doing a lot of work with our colleague, Cameron, on the customer experience, the call centre market, and actually, Philip's working on that with us as well at the moment. And we talk a lot about... in that about conversational AI. So much noise in that market.

NA: Ironically.

IS: There are dozens – yeah, ironically, pardon the pun. There are so many, so many vendors, and lots of them are just not really cutting through.

NA: Right.

IS: You know, they're sort of ChatGPT Plus. Obviously, it's conversational AI, so it's a bit more than that. I'm being a little bit unfair, but they don't... and so, there'll be a lot of fallout in that part of the market. And a lot of them are getting material funding. A lot of them are European, actually, but...

NA: Yeah, I was going to say, are they UK, are they US, are they European?

IS: Actually, funnily enough, a lot of them are European; a lot of them are not UK European.

NA: Ah, fine.

IS: So Central European. A lot of those that we spoke to one called Druid AI, which I'm going to get this wrong, Romanian, Bulgarian but, you know, Eastern European. So there is quite a... they are getting some of them, and that business is getting good funding, and there's been some interesting M&A there as well. I guess the point – I'm rambling a bit – the point I'm trying to make here is that I think you're right. I don't think there are enough high-quality AI stories coming through in the VC world at the moment. So it'd be interesting to see how that goes.

NA: And what's – I suppose, a tidbit from me – what's really interesting, speaking to some of the private equity guys – we don't talk so much to venture capital, but to the private equity guys is – and some of the people we talk about in other sectors – it's not a lack of talent. And I think there is some disconnect here because you could argue, okay, the funding ecosystem in Silicon Valley is much bigger and all that kind of stuff. But actually, if... anyone I talk to, if you talk about, actually, the tech availability and the data science availability, the AI scientist availability, significant in the UK, but that is not converting yet into startups.

IS: Well, but I think the other thing is that you're not seeing the adoption from the customer end.

If you think about most of these startups that are going to start in their home territory by definition...

NA: Yeah.

IS: ...I just think we're not seeing enough adoption in Europe compared to the US, which I...

NA: Fine, okay.

IS: ...think is probably... So you can scale an AI startup to the magic 100 million ARR probably in the US, but you just... there just isn't an addressable market yet to do that in... certainly in the UK and probably in Europe and in anything other than very, very niche – well, not niche but very few areas. So I think it's a bit of a circular problem in some ways.

NA: You need a bit of a change in buyer behaviour as well.

IS: Yeah, it's just a more cautious – as is often the case, a more cautious attitude, I think, in Europe towards adopting AI.

And until that changes, you end up with a slightly vicious circle, I think, with the startup.

NA: And maybe the hope is that like with cloud and the move to SaaS, that the UK kind of leads the rest of Europe on that initially, because that's what we saw with cloud and SaaS... was basically the UK sort of led the charge. Outside of the US, we were sort of the next furthest along. So you can hope that maybe from an AI perspective, that's also the case.

IS: I don't want to have a downer on it. There's some very cool stuff going on in the UK with AI, undoubtedly, but you aren't seeing the volume at the moment...

NA: Yeah.

IS: ...definitely.

All right. So that's the sort of VC bit. Growth capital bit, we'll talk a little bit about this in terms of... I just think it's interesting what's going on in fibre. It's been a real rollercoaster.

We do some fantastic research on this. I mean, I think we lead in a lot of areas. I think we particularly lead on this in our world in terms of our research. So there was 2.25 billion of new debt raised because obviously, these fibre players digging up roads are often debt funded because it's an infrastructure play. CityFibre, 2.3 billion, half a billion of new equity, the rest in different various forms of debt. Netomnia, 140 million new debt. GoFibre, 125 million of debt. Grain Connect, 225 million of debt. So, lots going on, and I talked to Philip about this, our lead on this and also co-founder of Megabuyte, and he's a... I mean, he's a telecoms analyst with a million years' experience, even older than me, and he knows what he's talking about is the understatement of the century. I think you and I discussed this when we were prepping. Is this a case of capital flowing to the winners?

NA: Yeah.

IS: And Philip was like, well, it's not quite as simple as that. There is an element of that, but actually, what you've got is you do have an element of that, but also, there's still some pretty challenging metrics in this part of the market. Not one of the ones I just mentioned, but Philip mentioned one of the larger players has got £1,400 of bank debt per premise passed, which equates to about £5,000 of bank debt per subscriber. When you think that the ARPU is whatever it is, £30 with discounts or whatever...

NA: Yeah.

IS: ...I mean, that just doesn't work, does it?

NA: Yeah. The payback on that is quite significant, yeah.

IS: So what's interesting about this is a lot of this new debt going in, when we're thinking about what this means for the future of that part of the market, consolidation. I think we talk in our quarterly... we've got a quarterly report on this part of the market. 90-ish providers now in that part of the market. And everyone, including Philip, has been talking about consolidation. There has been some consolidation. That should theoretically accelerate with all of this new debt funding going in, because a lot of the new debt is predicated on M&A. But there's a little bit about who moves first, apparently. And actually, it's not obvious what the... you know, if you've got that kind of metrics I talked about with £1,400 of bank debt per premise passed, are you going to get acquired even for your bank debt, let alone any equity upside? So I think there might be a bit of a waiting game in seeing who moves first in this before we see some more accelerated M&A.

NA: And also, importantly, from our perspective, for all the software companies that just switched off there for a little while, obviously talking about fibre, this stuff is important for you as well. If your customers, end users, they don't have proper internet connectivity, as still some parts of the UK don't, this has a big impact. And these guys are supposed to be the sort of next generation of that connectivity, both for both business and consumers. This affects the rest of the digital transformation, the AI journey, all of that. If you're running on a one meg line, and then you've got the PSTN switch off coming in early 2027, reportedly – at least that's the current deadline – that's going to have a big impact on everything that people spend on. If they're then going to have to spend quite a lot of money on putting new lines in, that's budget that's going away from something else. So this does matter for all areas of the tech sector. It's your generational shift kind of thesis and framework that we've been running on for the last 20 years, almost. It does matter because all of this other SaaS stuff relies on good, if nothing else, good internet connectivity.

IS: Yeah, I just think it's a really interesting part of the market. And a shoutout to Philip's research on this, and obviously Tom as well, Tom Oughton, who works with Philip on it. We do some cracking work in that. So if you're a subscriber, and you're interested in this part of the market, I strongly recommend you have a read of that because it's great stuff. They have got a mega spreadsheet...

NA: Yeah, it's like...

IS: ...of all the...

NA: ...stats.

IS: Yeah, it's like spreadsheet heaven. And most of it gets into that quarterly report, so go and check that out.

So I think that's it on venture and growth capital.

48:27 - M&A

So on M&A, just to wrap up. Again, pretty quiet. Q3 numbers, 27% down. Again, we will add a few to probably by the time we've revised it all, so maybe not quite as bad as that, but definitely down significantly quarter on quarter in the September quarter. 130 deals. Year-to-date, 450 deals down 17%. It's probably a better barometer of where we're at this year, I think, compared to last year. Software deals, 82 deals down 23%, year-to-date down 14%. And just very subdued. I mean, the thing that's... one of the most striking things, I think, about Software M&A in the most recent quarter is how few significant deals there were. We talked about SS&C Calastone last quarter in the last quarter's episode because it was out before we recorded. That was an 800 million-ish deal. So that was significant, but there's not really been much else besides that. There's still a lot of the run rate stuff going on, Ideagen, Sage, ClearCourse, the kind of volume acquirers continuing to acquire, mainly not in the UK. Those strategies have notably shifted a few years ago to international, and that's continuing.

So yeah, valuations still in that 14 to 16x trailing range for EV/EBITDA, but the data points, again, are quite limited for the last quarter. But I think instinctively, intuitively, that feels like the right range. And again, flight to quality. You know, talk about Calastone. I think that was a 20 to 25x cash EBITDA multiple. So chunky, decent multiple for that business with a really good, strong, again, 76 on the Megabuyte scorecard, 19% organic growth, 25% EBITDA margins. So, really strong business.

So yeah, I think that's all I've got to say on Software, really.

NA: I think on ICT, actually, what's really interesting, some of the bigger M&A that we've seen over the last couple of months have actually been in the data centre space, which probably, then, when you think about what's going on with AI is maybe not a surprise. But in the US, there's been a huge... and there's all the talk about the AI bubble, which we won't get into. But actually, from a data centre perspective, people are looking for data centre assets. They are looking for locations; they are looking for pre-built infrastructure. So this morning, Redcentric, which bought a big sort of data centre business a couple of years ago, has now sold that off to a company called Stellanor. We've also seen some other sort of Pulsant buying data centres from other companies. That's actually some of the biggest M&A that we've seen in this space just because, you know, that's the stuff that's funding edge computing sort of requirements and then AI data centres, whether it's AI for the software companies – this is the private cloud; that's where they're putting all of their infrastructure and their platforms – or it's for individual companies themselves looking for space, trying to, you know...

IS: Is that slightly counterintuitive versus the hyperscalers that that's all going on? Or is there more mixed strategies coming in now?

NA: I don't think it's counterintuitive, because when you think about the hyperscalers, there is obviously a huge amount of demand for hyperscalers from an AI use case perspective. But also, if you talk to a lot of our software companies, they're building their AI models. If they are doing AI work, it's in private cloud; it's in DC, fundamentally, because they want to control everything before they start launching. Even if they're using open AI, or they're using some pre-built models, actually, they're then putting that into their own private cloud. And some of the DC guys are going quite heavy in terms of marketing, going 'We are the place for the start of your AI journey as a software company.' But also, I think just fundamentally, in a world that is struggling with organic growth, actually, the DCs benefit from the hyperscalers. You know, this is the age-old argument of hosting versus DC. Hosting competes with the hyperscalers. DC benefits from or just, you know, supports the hyperscalers. So picks and shovel of the cloud world. That's quite an interesting one. And then by the time this podcast goes out, the deal will have been announced, but the other area we're seeing a bit of consolidations, actually, in the reseller world. So we saw boxxe buy CAE – not necessarily the happiest story – and then just today, it's going to be announced is Trustmarque buying Ultima.

IS: Oh, okay.

NA: Another scale...

IS: Oh, wow. I didn't know that.

NA: Yeah, another scale Microsoft reseller. Again, maybe not the happiest story. But fundamentally, you know, you see some of that scale consolidation happening in the reseller world, the valuations of which I don't know, but they're not going to be significant.

IS: Get big, get niche or get out.

NA: It's still right, even five years on.

IS: Yeah, five years from that seminal bit of research you did.

NA: So yeah, I think from my perspective, I think you're right. There isn't a huge number of big deals, but where they are happening, actually, is in some of these clusters. So that's quite interesting.

IS: I mean, it's interesting the data centre stuff you're talking about in terms of the AI stuff because again, one of the – again, spoiler alert, and we'll talk a lot more about this during 2026 – is what's next for... What's the outlook for M&A generally? We can go back to that. But also, what does the next wave of M&A look like in an increasingly AI world?

Because it's pretty clear that – well, I mean, maybe we'll discuss, and we will discuss this certainly in the State-of-the-Nation. You know, is the M&A strategy playbook of the last 10 or 15 years relevant going forward? To a large degree, probably not. Doesn't mean people won't try it, and you can probably get away with it if you're paying 5x for stuff in ICT Services and sub 10 for Software. But actually, what does a great AI-driven M&A strategy look like, which is one of our working breakfasts we've got for next year, exactly on that strategy, because I think it's fascinating to understand how both ICT and Software companies are going to do that.

NA: The Buy and Build is Dead: Long Live the Buy and Build.

IS: The event is called The Buy and Build is Dead: Long Live the Buy and Build. I was quite happy with that one. I quite like that one.

NA: Yeah.

IS: Yeah.

NA: I can see... and all the stuff I talked about last time, and frankly, for any of our subscribers, I'm going to keep talking about it in terms of the analyst briefings. If you want me to come and talk to your analyst briefing about AI, I can do. But one of the interesting things about that is if you have built a scalable AI-based – I'm not saying it's an AI IT Services but AI-based IT service platform, that affects the M&A that you can do because you look at now bolt-ons, and you go, what do I actually need them for? It's not processes; it's customers and maybe some high-quality staff that's in those businesses. That's a very different valuation profile than paying 8/9x for 2 million of EBITDA.

IS: But it's also a different value driver...

NA: Yeah.

IS: ...profile, theoretically, but you've got to get it right.

NA: Yes.

IS: You've got to find the right target, and you've got to integrate it correctly.

NA: Yeah, you don't want to be on the wrong side of that conversation as well. Someone's looking at you going 'What do you actually add to my business other than just some customers and some good quality staff?'

IS: Yeah, and I'm sorry to be like a stuck record but just to do another final shoutout for the State-of-the-Nation. Neel and I are very excited about this event. We're doing a huge amount of work on AI as a team at the moment. Everyone, all the analysts are engaging with all... We've got 600 plus board level relationships at Megabuyte. We are literally speaking to pretty much every single one of them that we can, talking about what their AI strategy is, how they're approaching it, but we're also doing a lot of our own original thinking around this. We launched the original Megabuyte AI framework last spring. As I said earlier, we're going to be fundamentally updating that at the State-of-the-Nation on the 29th January, and we are going to be pushing all of that thinking into all of our practice area. We are already pushing that into our practice area team. So subscribers are going to see a tonne of research on this over the next, well, going forward, frankly.

NA: Yeah, this is not over, and it's not a one-off thing as well.

IS: No, it's a multi-year thing, so.

Okay, that's it. Thank you, Neel, and thanks to you for listening to the CEOBarometer again this quarter. If you found value in this episode, you can explore more insight, sector analysis and the proprietary intelligence that sets it apart at Megabuyte. Just go to megabuyte.com. And you can follow us on your preferred podcast platform and join us next time for another conversation shaping the future of UK tech.