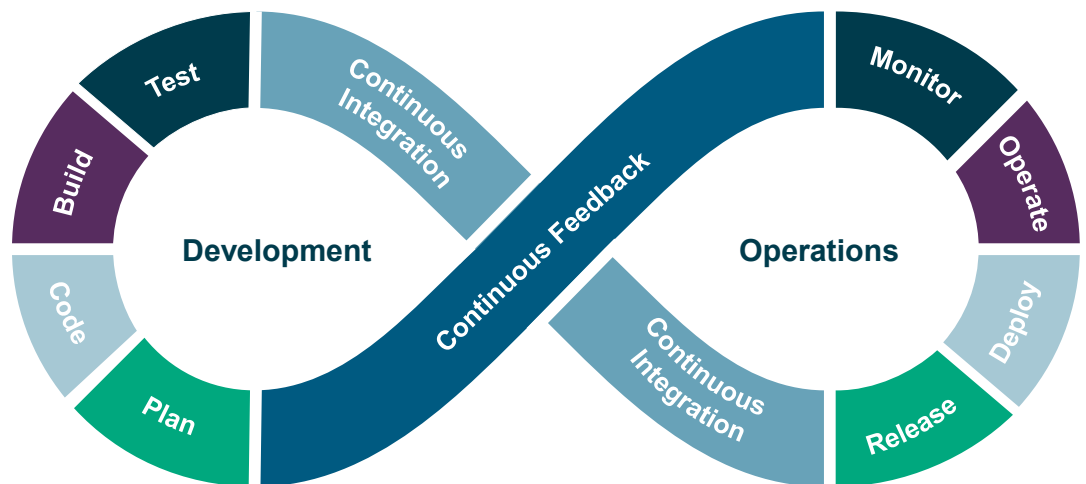# Our Economy Runs on Digital: Fueling Infrastructure Software Investment

As companies continue to move to the cloud and provide high-quality, global-scale cloud solutions, infrastructure software has seen a material increase in investment and consolidation, as evidenced by recent sponsor-led transactions such as Perforce's acquisition of 21Labs and the sales of API Fortress, Ayehu, and TestProject, a trend that Lincoln International expects to continue throughout 2021.

THE CASE FOR DEVOPS

By integrating all software functions from development to operations within the same cycle, organizations benefit from a closed loop that provides continuous feedback, creating efficiencies across multiple disciplines. The DevOps model fosters collaboration between the operations and development teams within an organization, saving time across the software development process and leveraging the continuous feedback created by this loop.

A shift to DevOps brings along several benefits that provide organizations with an edge over competitors, including:

Faster software delivery to keep up with dynamic markets: 45% of organizations report that it takes a week or more to move an application into production after it completes the development process. DevOps allows organizations to move rapidly and cater to the needs of changing markets, keeping end consumers satisfied. For example, when COVID-19 hit, rideshare companies needed to be able to quickly implement prompts for users to confirm they were wearing face masks before meeting their driver. DevOps makes implementation and release of on-demand updates like these both efficient and seamless.

Management at scale: For organizations of scale, operating and managing software development and operations can be complicated and time-consuming. DevOps allows for automation, reliability and continuity across the software development life cycle, even for large, complex or growing organizations.

Quicker bug identification and correction: Organizations with the highest software delivery performance are 2,604 times faster in recovering from incidents than those with the lowest-quality delivery performance. DevOps oriented software creation makes restoring service in the event of a disruption faster and easier.

Appropriate security, without sacrificing speed: DevOps allows organizations to retain speed and efficiency in rolling out software while ensuring they remain compliant with regulation. In fact, some are embedding security into the DevOps methodology, giving rise to DevSecOps among companies who have merged DevOps with security-related workstreams.

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As companies strengthen their software creation and delivery capabilities, Lincoln expects investment activity in DevOps to rise. In particular, several DevOps subsectors are ripe for investment:

CODE/BUILD

The Code / Build subsector has seen an increase in activity as providers continue to strengthen their version control and delivery capabilities. In order to deliver unique software experiences, companies are focusing on flawless version control that serves both as internal reference and repository and ensuring a unique software development path is shared by their teams.

Recent M&A deals: TPG's investment in Digital.ai (April 2020) and the sale of Plastic SCM to Unity Technologies (August 2020)

TEST

Continuous software improvement has solidified the requirement of continuous testing in order to provide live feedback before and after deployment on all fronts.

Recent M&A deals: The sale of API Fortress to Sauce Labs (December 2020), the sale of 21Labs to Perforce (May 2021) and the sale of TestProject to Tricentis (August 2019)

CONTINUOUS INTEGRATION (CI)

The wide range of heterogeneous infrastructure, compliance requirements and distributed teams has solidified the need for holistic, automated integration capabilities that can support the delivery of successful application outcomes at scale.

Recent M&A deals: The sale of Chef to Progress Software (September 2020) and the sale of TravisCI to IDERA (January 2021)

RELEASE & DEPLOY

As a result of multiple, sometimes daily, software update deliveries, release orchestration and deployment automation have become key differentiating factors allowing companies to support a wide range of platforms (containers, cloud, middleware and mainframes) while also provisioning these environments as needed.

Recent M&A deals: The sale of XebiaLabs to Digital.ai (January 2020) and the sale of CloudBees to ElectricCloud (April 2019)

IT OPS

The complexity of IT environments and its pervasive expansion across developers and non-developers create a large number of "incidents" that have varying degrees of complexity and criticality. These incidents require a vast amount of actions that can be successfully automated in order to execute self-service operations and reduce escalations, thus efficiently leveraging internal human resources.

Recent M&A deals: Ayehu's sale to Resolve Systems (June 2021) and the sale of Rundeck to PagerDuty (September 2020)

MONITORING & OBSERVABILITY

Monitoring heterogenous infrastructure has proven to be an increasing, but required, challenge. Today, monitoring companies need to be able to cover a wide range of hardware and software solutions from datacenters to cloud to the edge. On the other hand, observability solutions focus their efforts on the external data and service levels exposed by a system instead of directly monitoring internal pieces of the system. Ensuring high-quality customer experiences make monitoring and observability a necessity, as operators need to support high levels of runtime to be able to innovate—and successfully deliver—software faster.

Recent M&A deals: The sale of Pixie Labs to New Relic (December 2020) and the sale of API Fortress to Sauce Labs (December 2020)

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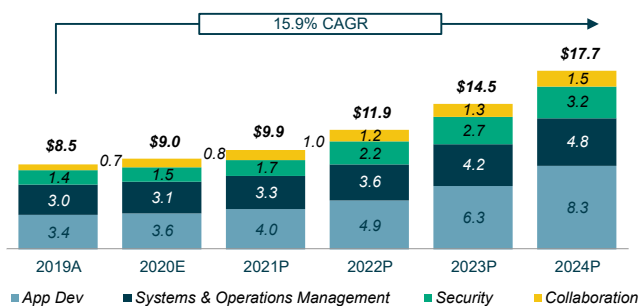Connect with us at www.lincolninternational.com

Companies continue to recognize the power of DevOps, and strategics and sponsors are taking notice. The DevOps market is still fragmented and primed for consolidation; despite an active deal market in 2020, no single player has yet emerged as the sole market leader.

However, the DevOps methodology is still evolving to face new challenges. For example, where software was once based on a monolithic platform, today's global microservices mean thousands of services run across a wide range of infrastructure solutions, throughout many geographies and reaching a wide range of different devices at the same time. As a result, these complex networks become a challenge for the DevOps loop—especially when it comes to monitoring and observability—something that investors should keep in mind when evaluating opportunities. Strong targets have forward-looking plans to address potential roadblocks.
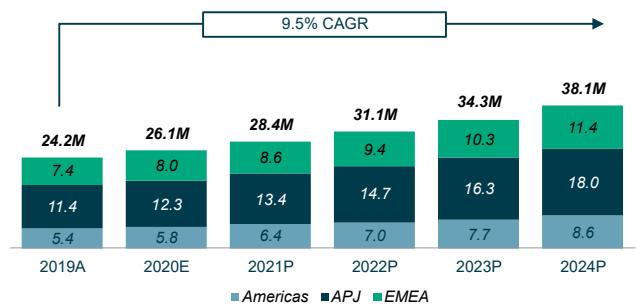
For investors considering DevOps companies, Lincoln recommends noting the following market conditions and opportunities:

1 | **Strategics span both private equity platforms and publicly traded vendors**
Private equity investors—supported by large amounts of dry powder—continue to consolidate DevOps players. In fact, private equity-backed platforms have become a force as large (or larger) than publicly traded vendors in DevOps.

2 | **Investor appetite in DevOps startups emerges**
As a result of increased consolidation in the space, Lincoln has seen increasing appetite in differentiated startups such as Circle CI, Cypress, Kobiton, Lightbend, NowSecure, Postman and Quali. Looking forward, we expect this trend to continue as a result of an ever-evolving DevOps landscape in which leading startups create new and efficient ways to solve existing industry problems.

3 | **Ideal DevOps targets exhibit clear growth potential**
Investors should focus on companies with attractive customer-level profitability, expanding cohorts showing positive net churn and healthy returns on marketing spend.

4 | **Overall software market poised for additional growth**
IDC projects 15.9% compound annual growth rate (CAGR) for DevOps software revenue between 2019 and 2024, compared to a 9.5% CAGR for the global developer population. As software solutions grow faster than the amount of people who develop them, there is a need for solutions that will make this employee base more efficient. Leading solutions ensure efficiency and speed without sacrificing the high-quality services that consumers demand.

DevOps Software Revenue Forecast *($ in billions)*

15.9% CAGR

	2019A	2020E	2021P	2022P	2023P	2024P
Total	$8.5	$9.0	$9.9	$11.9	$14.5	$17.7
Collaboration	0.7	0.8	1.0	1.2	1.3	1.5
Security	1.4	1.5	1.7	2.2	2.7	3.2
Systems & Operations Management	3.0	3.1	3.3	3.6	4.2	4.8
App Dev	3.4	3.6	4.0	4.9	6.3	8.3

■ App Dev ■ Systems & Operations Management ■ Security ■ Collaboration

Global Developer Population Growth *(# of developers)*

9.5% CAGR

	2019A	2020E	2021P	2022P	2023P	2024P
Total	24.2M	26.1M	28.4M	31.1M	34.3M	38.1M
EMEA	7.4	8.0	8.6	9.4	10.3	11.4
APJ	11.4	12.3	13.4	14.7	16.3	18.0
Americas	5.4	5.8	6.4	7.0	7.7	8.6

■ Americas ■ APJ ■ EMEA

5 | **Go-to-market traction occurs across geographies**
In today's market, most solutions run on the cloud, and a company doesn't need to have an established presence in a region to approach a customer in that location. As a result, DevOps companies access customers globally and, at the same time, see global interest from potential buyers and investors.

For other perspectives, visit us at www.lincolninternational.com/perspectives. Learn more about DevOps investment opportunities and connect with Lincoln's TMT Group at www.lincolninternational.com/technology.