

December 2023

Dear Clients, Partners, and Friends,

With another year wrapping up, I want to take time to thank you for your continued support, reflect on the past year, and look ahead to what we believe will be a better and more dynamic 2024.

This past year we closed transactions in the United States, Canada, Australia, Netherlands, Italy, UK, and India, further expanding our global footprint. This experience adds to our ability to manage regulatory, cultural, and financial differences which ultimately leads to better outcomes for our clients. Further, by leveraging our AI-enhanced database, we expect more cross-border successes.

Big Trends We Anticipated

In last year's letter, we highlighted two major factors affecting how financial markets changed:

1. Work From Home (WFH)

- It's here to stay.
- McKinsey survey: 1 of top 3 reasons people look for jobs.
- CEOs believe productivity is reduced, harder on developing culture and discipline.

This will continue to create growth opportunities in security, connectivity, and be an IT tailwind for the foreseeable future.

2. China

- Enhanced decoupling – it's accelerating
- Capital controls ▲
- Foreign direct investments (FDI) ▼
 - The rule of law, specifically contracts, is not adhered to. Certain foreign executives are held against their will.
 - The real estate problem is worse and larger than people can comprehend (makes the Resolution Trust Corporation (RTC) look like a walk in the park).
 - Xi's new focus on state-owned enterprises (SOEs) starves private companies of capital and is inefficient. Consequently, China's GDP will slow, affecting global standards of living, and the decoupling will be inflationary – both are bad.
 - Five years ago, Alibaba's market cap was over \$500B. Now 70% less.

High Profile Channel Transactions

Despite an overall decline in M&A activity compared to 2022, the IT industry has seen several high-profile deals close in the last four months, including Cisco's \$28B purchase

of Splunk, MSFT's \$76B acquisition of Activision Blizzard, as well as Broadcom's \$69B purchase of VMWare.

Other notable transactions:

- Accenture acquired Inspirage:
 - Closed January 4.
 - Purchase price: Undisclosed.
 - 700 Inspirage employees joined Accenture's Oracle team.
 - Enhances Accenture's Oracle Cloud capabilities.

- Insight acquired SADA Systems:
 - Closed December 1.
 - Purchase price: \$800M.
 - Insight reinforces position as a Solutions Integrator, offering multi-cloud solutions, moving away from commodity devices.

- H.I.G. acquired Mainline Information Systems:
 - Closed December 5.
 - Purchase price: Undisclosed.
 - 537 employees, revenue in excess of \$1B
 - Mainline is an IBM-centered IT solutions provider serving enterprise infrastructure.
 - HIG is also the owner of GTS, a Texas-based networking integrator.



Three Areas of Opportunity in '24

1. Artificial Intelligence

- There are two kinds of companies in the AI marketplace: those who talk about AI and those who actually leverage AI.
- AI will have as great an impact on the channel as did the PC, Internet, or mobility.
- The readers of this year-end letter are largely service providers, i.e., selling shovels and jeans to gold miners. They will profit from this innovation and create stickier customer relationships.

2. MRR/ARR

- Recurring revenue business models centered around managing applications, infrastructure, and security continue to be in strong demand and will continue for the foreseeable future.
- Simply put, they're more reliable for investors. Consequently, they trade at much fuller valuations, and this is in meaningful demand in the marketplace.

3. Security

- Wallis Simpson, Duchess of Windsor, said "You can never be too rich or too thin."
- In the security space, you can never have too much security.
- Continues to be in high demand with strong valuations.

Big Winners

Microsoft

- For the third year in a row, Microsoft remains the big winner. Last year when they won, we didn't even mention AI.
- In 2024, they will monetize AI-based Copilot in a meaningful way, which will materially impact Azure.
- Microsoft continues to be the best positioned in terms of capabilities and services, and their relationships with the channel (with all the normal conflicts) dramatically exceeds AWS. It's theirs to lose.

Nvidia

- Who says monopolies aren't great?
- Jensen Huang, CEO, is truly the Da Vinci of our time.
- Their profitability grew YoY from \$680M in Q3 2022 to \$9.2B in Q3 2023. That would be 13.5x growth.
- I've always maintained that business is the greatest source of good in the world, and their chips and the people who follow them (e.g., AI) will do more good for the world than the polio vaccine.

Big Overhangs

Without overstating it, this is the most uncertain time economically in my lifetime. There are three drivers for this uncertainty:

1. Regional Conflicts

- Between Russia, Ukraine, Israel, Palestine, Iran, Syria, Libya, and various African countries, we live in a new, multi-polar world, with a decoupling between a Western and China-axis, with Taiwan being the potential wild card.
- Remember, World War I started with an assassination of an archduke in Sarajevo.
- This movement guarantees lower standards of living for everyone, less GDP growth, and higher cost.

2. Government Regulation

- This is the most overtly hostile regulatory regime since the early 20th century trustbusters.
- They believe punishing and raising the cost of doing business helps consumers. That's backwards.
- Our Regulators have been thoroughly rebuked multiple times by judges who overrule their regulatory decisions.
- You cannot have that record of failure unless it's intentional.
- Businesses today are starting to challenge them more with M&A that works, knowing judges will support them when Lina Khan from the FCC challenges them.

3. Polarization

- As this is written, both leading candidates have extremely low popularity and three-fourths of US voters want alternate choices.
- They are both very polarizing, too old, and do not attempt to unify people.
- Neither have economic policies that are friendly to the market. Between tariffs and heavy, heavy government regulation and intervention, we need a younger, more moderate alternative.
- The losers with the current choices aren't the one-percenters. They're Gen Zs and Millennials.
- We need a younger, more vigorous campaign with someone who is a unifier, not a polarizer. Not likely, but possible.

martinwolf Gives Back

We have a saying when it comes to philanthropy: **"If you can, you must."** Everyone in our firm participates in service projects throughout the year. Together we accrued 223 volunteer hours and participated in a myriad of organizations that included donating meals to St. Malachi's soup kitchen (18,000 meals in the last five years), sorting books for underprivileged children, The Foster Alliance, Hospice of the East Bay Thrift Shop, Wounded Warrior Project, and St. Pat's Hunger Center. We have so much to be thankful for, and it's only right to pay it forward.

Conclusion

It's hard to believe we are celebrating 27 years in business. Equally significant are the milestones for our General Manager, Linda Youk, and Managing Director, Anthony Lembo, both of whom are celebrating 25 years with ***martinwolf***. I'm indebted to each for their contributions over the decades, as I am to all our colleagues.

Thank you for being part of our journey. May your New Year be filled with prosperity, success, and good health.

Keep Selling!

A handwritten signature in black ink, appearing to read 'Marty'.

Marty