



Commercial Insights with Regions Bank

Episode 14:

The State of the Tech Industry in the South: From Rising Tech Hubs to M&A

It's easy to see why the South has been called "a vibrant ecosystem teeming with a herd of the billion dollar tech businesses." From Dallas to Durham, the region is home to a variety of fast-growing tech hubs, many of which are drawing in impressive numbers of tech workers. What's driving this growth, and what's ahead for the region's tech industry? In this episode of Commercial Insights with Regions Bank, Dave Sozio, Managing Director of the Technology, Media, and Telecommunications group at Regions Bank dives deep into the tech industry in the south, from VC activity and M&A to the cities that are best-positioned to become major tech hubs.

Episode Transcript

Dave Sozio:

What I think will be interesting to observe in the future is the impact on the cost of living differential between the tech hubs in the Southeast and Silicon Valley, 'cause it's pretty pronounced, and I think this is part of what's driving net inflow and net outflow of tech workers. I think it'll be interesting to see how it changes the dynamics.

Chris Blöse:

As Managing Director of Regions' technology, media, and telecommunications group, Dave Sozio has kept a close eye on the tech industry in the south. Recently, TechCrunch referred to the region as "a vibrant ecosystem teeming with a herd of billion dollar tech businesses".

That's high praise from one of the tech industry's most prominent publications — but it's not without merit.

From VC activity to M&A, tech companies in the region have seen significant growth in recent years, with Atlanta and Austin leading the charge. However, the south's tech scene extends far beyond those two cities. From Dallas to Durham, the region is home to a variety of fast-growing tech hubs, many of which are drawing in impressive numbers of tech workers.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blöse, and today, Dave Sozio is joining us to discuss the state of the tech industry in the south: what's driving this growth, which sectors are thriving, and why tech workers seem to be flocking to the region in droves.



Chris Blose:

Dave, thank you so much for joining us today on this episode.

Dave Sozio:

Yes, Chris, I'm glad to be here. Thanks for having me.

Chris Blose:

So, Dave, you and your team are obviously involved greatly with companies that are in the tech sector down in the Southeast. And so I'm curious, from your perspective, are there specific sectors in tech that seem to thrive in the Southeast?

Dave Sozio:

It's really a robust and kinda growing and varied sector, and the businesses thrive in some ways based upon the cities that they're in. So for instance, Atlanta is very much of a financial technology and payments hub. It's known as Transaction Alley, and it's really kind of been at the center of a long term shift from paper-based transactions to digital transactions. Then you have, for instance the research triangle in North Carolina, the Raleigh-Durham-Chapel Hill area. It's a major hub for bio and medical technology, and it's got a strong support system with all of the universities and research centers that are there. Nashville, Tennessee is another example, which is also a major hub for healthcare technology. And then you have Huntsville, Alabama, which is a little bit different and unique, but the tech presence there is really focused on supporting the Department of Defense activities and different US Federal Government activities in the area.

Chris Blose:

Well, I think that's interesting that they're geography-centric. So, you know, what are the factors that have contributed to Atlanta being a hub for financial technology, for example. What are the factors that make a hub kinda spring up around one particular industry or type of technology?

Dave Sozio:

So basically the foundations for the rise of financial technology and payments technology in Atlanta, you can trace them back to two circumstances from the 1980s. One was, there was legislation passed in Georgia that made it a more favorable place to host credit card operations. And two, there was the advent of more favorable laws in North Carolina which attracted more bank headquarters to North Carolina. And ultimately what it did is, it left Atlanta with a surplus of seasoned banking executives. And this was always a common theme of how some of these tech hubs develop, it really is around the talent pool. So that was a big contributing factor. And then with that, there developed within the Atlanta region, a number of what became fairly large FinTech players. Since then, it continues to attract the talent pool to



Atlanta. The other thing that feeds the talent pool in any place but Atlanta, for sure, are the presence of some top-notch educational institutions, right? So in Atlanta, you've got, you know, the likes of Georgia Tech and Emory. Not too far away, you've got Auburn and the University of Alabama. And you've got Spelman and Morehouse there. So a pool of young people, talent, engineering talent, technical talent, and that's really helped I think, to feed the development of the industry sorta from the ground up. But what also has happened in Atlanta now, like I said before is, it is not FinTech-centric only, it's much broader than that. I would say of the employment in Atlanta in the tech industry, probably 15% of it is FinTech-centric, but there's probably 275,000 tech workers in the Atlanta Metro region.

So there's a lot of other industry sectors there too, largely software and technology-enabled services and businesses like that. So what happened then from there that's made it much more diverse is just you always have either executives or people in the ranks that split off from the big company, they've got a good idea. They've got a good new market that they want to serve. And so now you've had a host of much smaller companies that have emerged as well. So that's Atlanta as a good example, but those themes of what drives the tech sector in a focused area are common across the board. And you've got other things too, like access to infrastructure and logistics, airports, things like that. And then of course, state and local, economic support, tax incentives, how friendly overall is the business climate, the tax environment. So an awful lot of ingredients go into it, but that's the case in Atlanta and I think it's the case in other places as well.

Chris Blöse:

Well, I think it's noteworthy that you point out the talent factor as well 'cause I know, you know, you're talking about North Carolina, you're talking about healthcare and biomedicine and a lot of that is driven obviously by research. You're talking about Huntsville, you know, a lot of defense-related and government-related talent around there as well. But when you add all the factors together and you think about, you know, whether it's support, whether it's infrastructure, whether it's the way local policies are written, are there any other burgeoning cities that you see as maybe posing competition in becoming the next big tech hub?

Dave Sozio:

Yes, I do think there are, there's a number of interesting cities in the South and Southeast that might fit that description. Some of them might fly a bit below the radar and surprise people when I point them out. One example I would say would be Tampa. And within Tampa, one of the interesting things there is just looking at a LinkedIn, study of tech workers. In Tampa, they've had the sixth largest net migration or net inflow of tech workers of any of the major MSAs in the country. They have a favorable cost of living index when you compare them to other large MSAs, and they have a very favorable overall living environment. There are some universities in the area as well that are helping to support its growth. So over time, I could see Tampa develop more significantly.



Charlotte's an interesting one. I happen to live in Charlotte. And obviously Charlotte's a banking capital, but that has actually contributed to their rise as a tech hub. There's a talented labor pool that tech companies have found they can pull from in Charlotte. There's good access to capital with banks and the financial services industry that's around in Charlotte. And after the financial crash in 2008, Charlotte has evolved into a much more diverse economy that includes a lot of tech presence. Charlotte happens to have the third highest inflow of tech workers for all those MSAs that I was referencing before with the LinkedIn study. And they also have the second best cost of living index for those same MSAs. And there's really emerged the presence of some pretty large notable fast-growing tech companies in the area. I won't necessarily go through and name them one by one, but there's a new company that will be going public that has filed for an IPO that's really a financial and payments technology, a B2B company. There's a publicly traded marketplace exchange company that is based in Charlotte. And there's a very large private equity-backed data and analytics company that is headquartered in Charlotte as well. So Charlotte's sort of an interesting case.

But what I would really say is the one city that has already made that breakout and it's really getting everyone's attention is Austin, Texas. And so Austin is known as Silicon Hills. Austin has actually the number one inflow of tech workers using that LinkedIn study that I've mentioned. The trends that are going on in Austin have manifested themselves in a number of big company headline announcements, moving of headquarters. The one that really I think is an attention getter is Oracle announcing that they were moving their headquarters from Silicon Valley to Austin in December of last year. So lots of high profile headline activity there. The cost of living in Austin is probably a little bit higher than some of the other Southeastern cities, but it still is well below that of San Francisco, New York, Boston, D.C. And Austin has a bunch of other ingredients that really I think have driven it to where it is, like top-tier educational institutions, you know, UT at Austin, SMU, Texas Tech, Texas A&M and a real diverse set of residents in Austin. And I would say Austin, and then Atlanta too, which we talked about before, probably have the greatest level of venture capital funding activity of any cities in the South or Southeast, with Austin exceeding Atlanta by a little bit.

I will point out though, even while there's increased flow of venture capital into companies in those two cities, it really does still pale in comparison to the activity both by dollars and number of deals, to the West Coast. But I would say Austin is really the one to be on the watch for.

Chris Blöse:

So I think it's interesting, obviously the comparison to Silicon Valley keeps coming up. It's a natural comparison. So other than maybe the VC support, how does the tech industry in the Southeast compare with that traditional tech hub of Silicon Valley? What are the similarities, what are the differences?



Dave Sozio:

There are just a greater number of startups in Silicon Valley than there are in the Southeast. And I think if you go to Silicon Valley, it's very, very broad-based across the whole tech ecosystem and there's a lot more people, entrepreneurs, startups, founders and that kinda thing on the ground. What I think will be interesting to observe in the future is the impact on the cost of living differential between the tech hubs in the Southeast and Silicon Valley, 'cause it's pretty pronounced. So if you were to look at sort of top 15 MSAs where there's a lot of tech activity, you would see that all of the most favorable ones from a cost of living standpoint are in the Southeast, and all of the most expensive ones are Silicon Valley, New York, Boston, Chicago, places like that. So over time, and I think this is part of what's driving net inflow and net outflow of tech workers, I think it'll be interesting to see how it changes the dynamics.

Chris Blöse:

So I'm curious too, you know, you've talked about access to labor, obviously being one major factor, and also access to capital. So with the access to capital in mind, where are most of the investments in tech in the South coming from, and does that vary depending on how mature a tech hub is?

Dave Sozio:

It's really coming from all kinds of different sources and because technology is still very much a growth business and one of the biggest growth sectors in the whole economy, it attracts equity dollars, whether it's private equity, whether it's public equity, or whether it's venture capital.

Chris Blöse:

So, I'm curious, if I am an entrepreneur in the region or I am a current business owner or business decision maker in the region, what is the outlook for growth, for mergers, for acquisitions for the tech sector in the South right now?

Dave Sozio:

Sure. I would say it's very good as a general comment. Overall the secular, um, trends and the macro outlook are very good and, and those just are gonna drive opportunities for participants wherever they are located. When you look at things like spending expectations over the next five years, whether it's software or whether it's IT services or whether it's financial technology, those trends are very, very good depending upon what vertical, the five-year compounded annual growth rate's gonna be anywhere between 6% and 12%.

I would also say that COVID has really helped to further accelerate what was already going on, which is, digitization for all kinds of companies. It's really driven a huge growth in spending on all kinds of connectivity. So that's kind of the overall drivers. And then from an M&A



standpoint, you know, you can look at things like software M&A deal value or software, M&A by deal count and you would see that they're up significantly the last three sequential quarters, through Q1 of 21. There was a big fall-off in the second quarter of 2020 for obvious reasons, but really for the last three quarters of deal count and dollar value has gone up significantly for software, for FinTech. I think with FinTech, we'll continue to see consolidation at the top with the big players, but we'll also continue to see the development or emergence of lots of small companies. You know if you have a neat new idea, capital is out there to support your growth.

Chris Blose:

So in this robust environment, if I'm a founder or an entrepreneur in the region, what key takeaways can you offer me? What should I be watching for?

Dave Sozio:

So, I would say that valuations for businesses across the whole tech ecosystem are still near peaks generally, although those valuations have moderated a little bit recently. Valuations with public companies, those are gonna help drive valuations for M&A transactions and ultimately for smaller companies as well. So there's that. So, you're still looking at very attractive valuations if you're a seller. Like I said, they're at-near peaks.

There's certainly a lot of uncertainty that's out there too that people have to be watchful for, and these are pretty well-known themes, I would say. But you know, obviously taxes are gonna have an impact on M&A activity and valuations. What's gonna happen, and this is of course tied to taxes, with spending by the federal government, the fiscal and monetary policy, and their impact on inflation,-that's also gonna, drive valuations. So while on the one hand I would say the conditions are very good both from a, you know, secular trend standpoint, valuations are attractive, there's plenty of uncertainty too and if an owner is looking at either an exit strategy or looking for capital to help fuel a new initiative or something like that, it's probably a good time to act upon that now.

Chris Blose:

Those are great takeaways. And, you know, despite any caveats, I would say, it sounds like it really is robust in the region right now, and people who are interested in tech would be wise to pay attention.

Dave Sozio:

Absolutely.

Chris Blose:

Well, thank you so much, Dave, for joining us today, we really appreciate getting your perspective on this.



Dave Sozio:

Thank you, Chris.

Chris Blöse:

If we've learned one thing during our many discussions on Commercial Insights with Regions Bank, it's this: disruption leads to opportunity, and I think that message rings especially true in today's discussion. One thing's for certain: Dave Sozio has given us plenty to watch for in the coming months.

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