



SILVERPEAK

APPLICATION SOFTWARE BENCHMARK REPORT Q3 2022

A review of public Application Software company valuation metrics in Europe, UK and the US

CONTENTS

Key takeaways	4
Categories: valuation multiples	5
Categories: operating metrics	6
Sectors: valuation indices	7
Methodology	8



QUARTERLY OVERVIEW OF PUBLIC APPLICATION SOFTWARE SECTOR VALUATIONS

Welcome to the latest edition of the Silverpeak Benchmark report – a review of public Application Software company valuation metrics in Europe, UK and the US, broken down by SaaS, Vertical and Horizontal.

By reviewing median values, our aim is to provide a robust industry reference benchmark¹.

¹ Note: private company performance cannot be directly compared against public valuation metrics.



KEY TAKEAWAYS

In Q3, market declines slowed; there are early signs of valuations recovering in the US



1

Q3 has seen inflation reach record highs, driven by various macroeconomic trends, including continued geopolitical instability, rising energy prices, and supply chain disruptions.

Both the ECB and the BoE have raised interest rates as a result of inflation skyrocketing to 10%. Interestingly, despite the US having lower inflation (8.5%), the Fed's 3.25% interest rate remains 1.50% higher than the UK and EU average.

The profits of growth stocks, which comprise a significant proportion of the dataset, tend to be further out into the future as revenue growth is prioritised in the short-term. Rising interest rates increase the discount rate applied to future profits, consequently having a more pronounced impact on growth stocks' valuations. We see this in our dataset, with average EV/revenue multiples dropping -50% YoY whereas EV/EBITDA multiples only falling -18%, implying an increase in the relative importance of EBITDA to investors.



2

Our data shows that EV/revenue multiples are beginning to stabilise across the board. We can see the rate of decline this quarter (-9%) is much lower than in Q1 (-23%) and Q2 (-21%) of this year. Markets seem to be sensing that central banks are nearing the end of the rate rising cycle and inflation peaking, which is giving some support to prices in Q3. Furthermore, reported results remained stable this quarter, emphasising that changes in public market valuations have been due to macroeconomic factors rather than firm-specific factors.



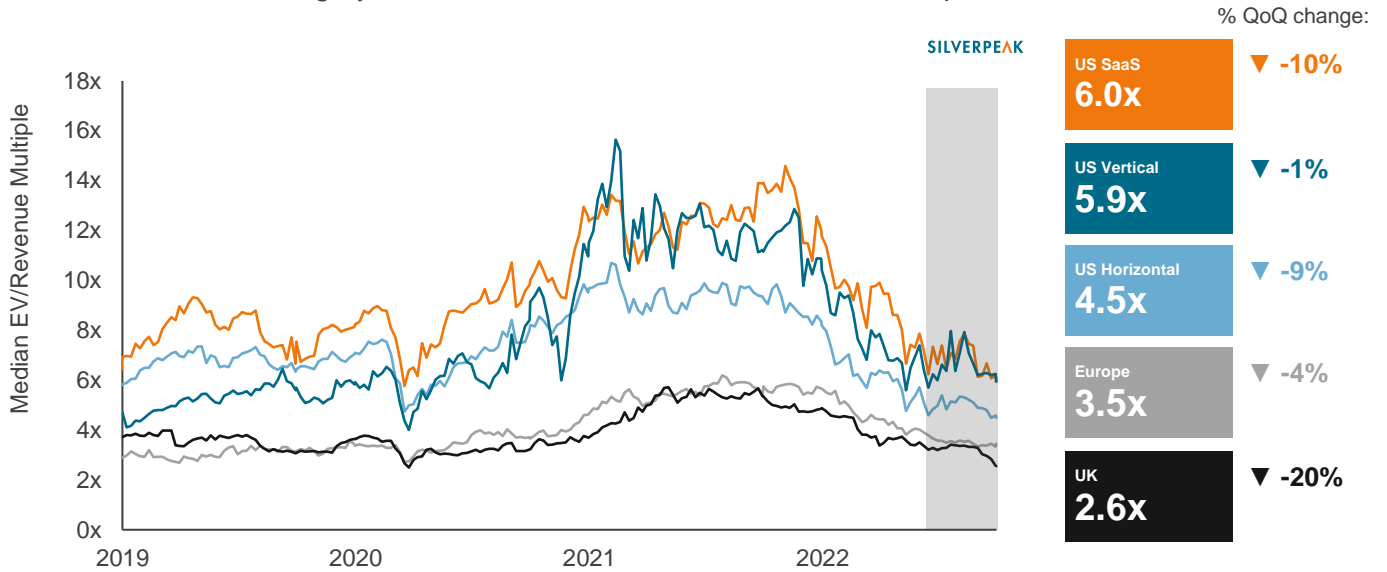
3

In 2022, the IPO market for software companies was particularly barren, only witnessing 9 IPOs, which, compared to a record 107 IPOs in 2021, is extremely low. The frequency of IPOs is highly correlated to bull markets, as companies rely on strong valuation momentum to maximise the value of shareholder equity.

It is likely that a strong recovery in valuations will be needed before there is a significant increase in IPO activity.

Q3 SHOWED EARLY INDICATIONS OF REVENUE MULTIPLES STABILISING

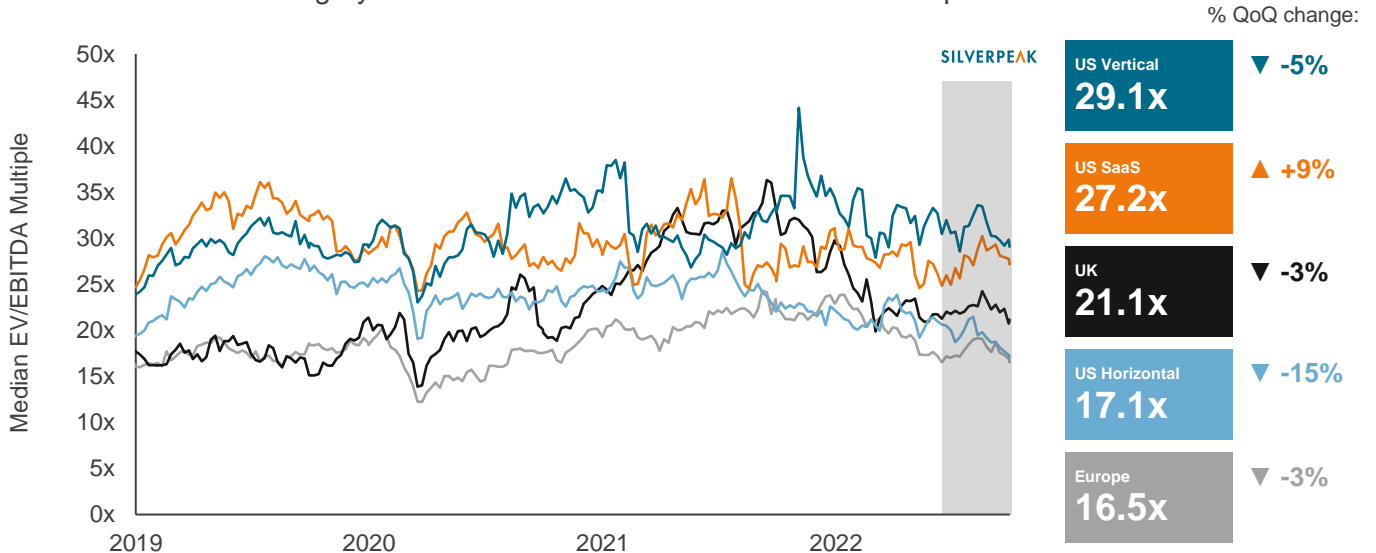
Software category valuation metrics: median EV/revenue multiples 2019-2022 Q3²



The average decline this quarter (-9%) compared to Q1 and Q2 of this year suggests signs of the markets stabilising. Except for the UK, which was an outlier, with its EV/revenue multiple falling twice as much as the next worst category.

US SAAS SHOWS POSITIVE QOQ GROWTH FOR THE FIRST TIME THIS YEAR

Software category valuation metrics: median EV/EBITDA multiples 2019-2022 Q3²

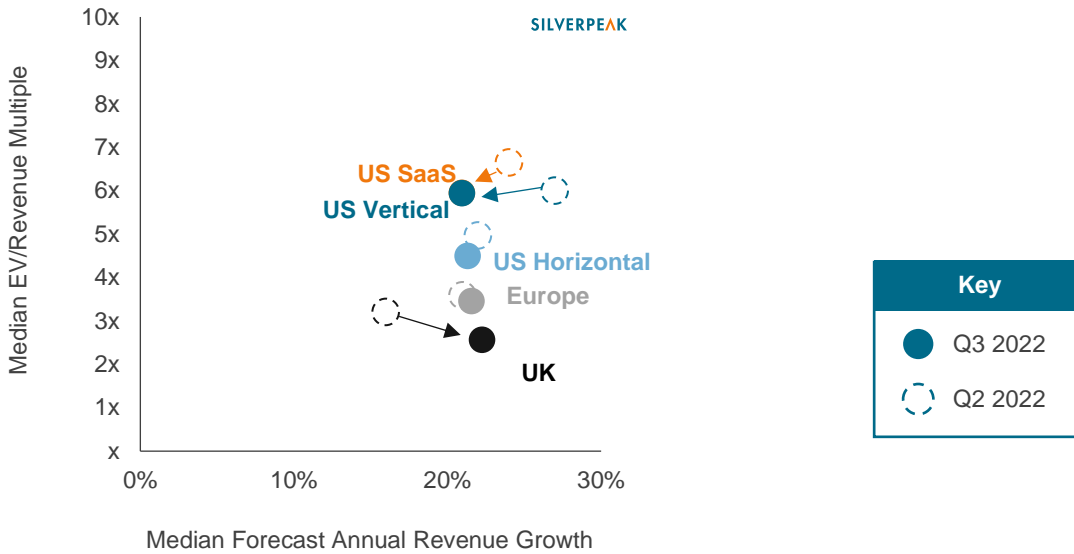


US SaaS was the only category that showed an increase (+9%) amid a declining set of peers averaging -6.5% growth this quarter.

² Source: Capital IQ, Silverpeak. Note: Q3 2022 multiples are taken at 30/09/22, LTM.

US CATEGORIES SAW DECLINES IN FORECAST REVENUE GROWTH WHILST EUROPE & UK INCREASED

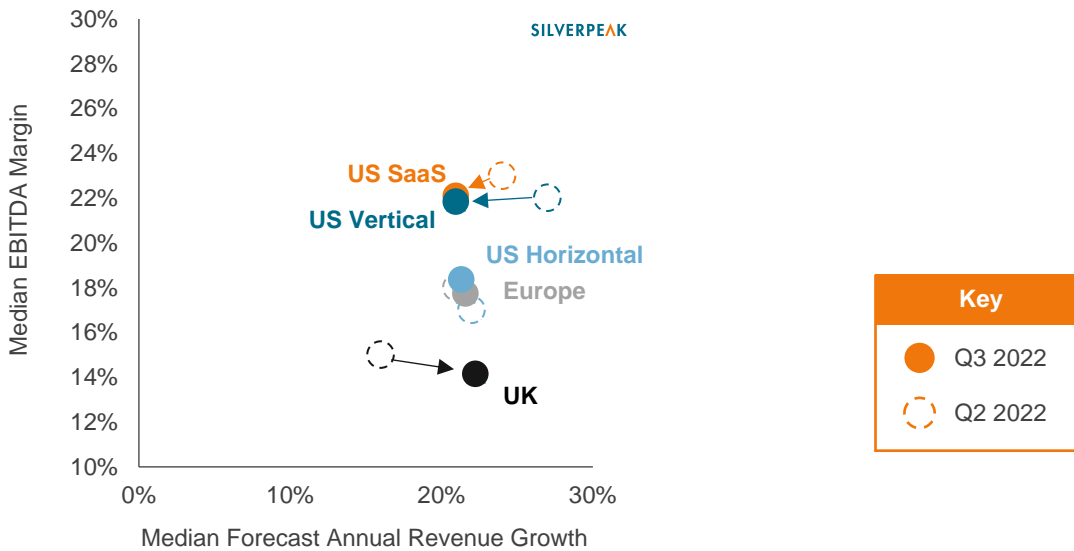
Median EV/revenue multiple vs. median forecast annual revenue growth³



This quarter, the UK exhibited the steepest decline in revenue multiples (-20%) despite achieving the highest revenue growth (+6%) across all categories.

EBITDA MARGINS REMAINED STABLE ACROSS THE BOARD IN Q3

Median EBITDA margin vs. median forecast annual revenue growth³



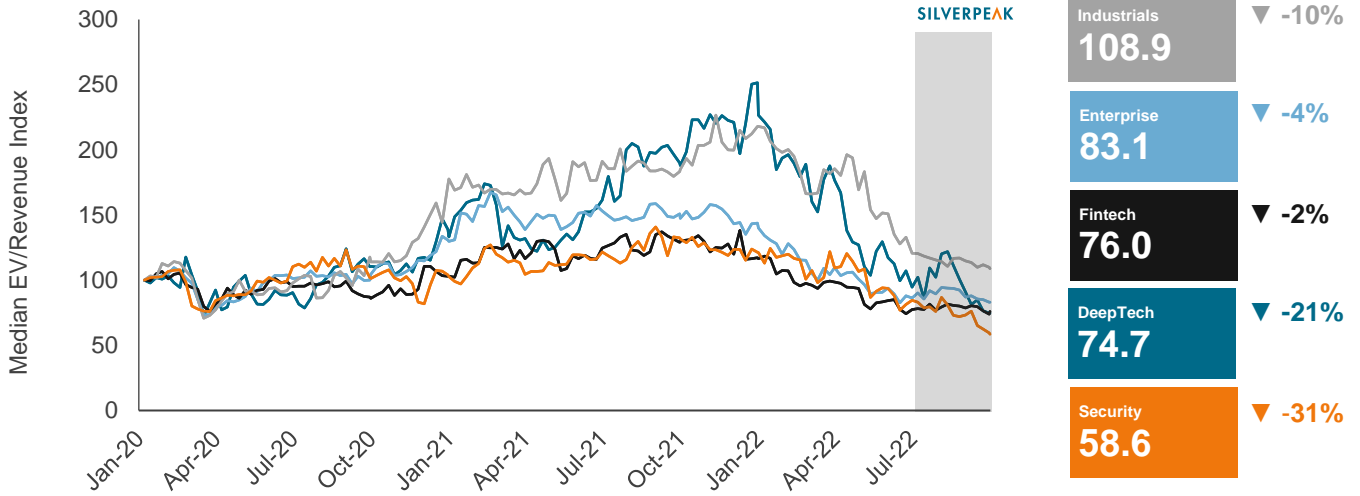
The UK (14%) maintained the lowest EBITDA margin in Q3 compared to the other categories, who averaged 20% between them.

³ Source: Capital IQ, Silverpeak

EV/REVENUE INDICES CONTINUED TO DECREASE INTO Q3, ESPECIALLY SECURITY AND DEEPTECH

Software sector valuation metrics: median EV/revenue index 2020-2022 Q3⁴

% QoQ change:

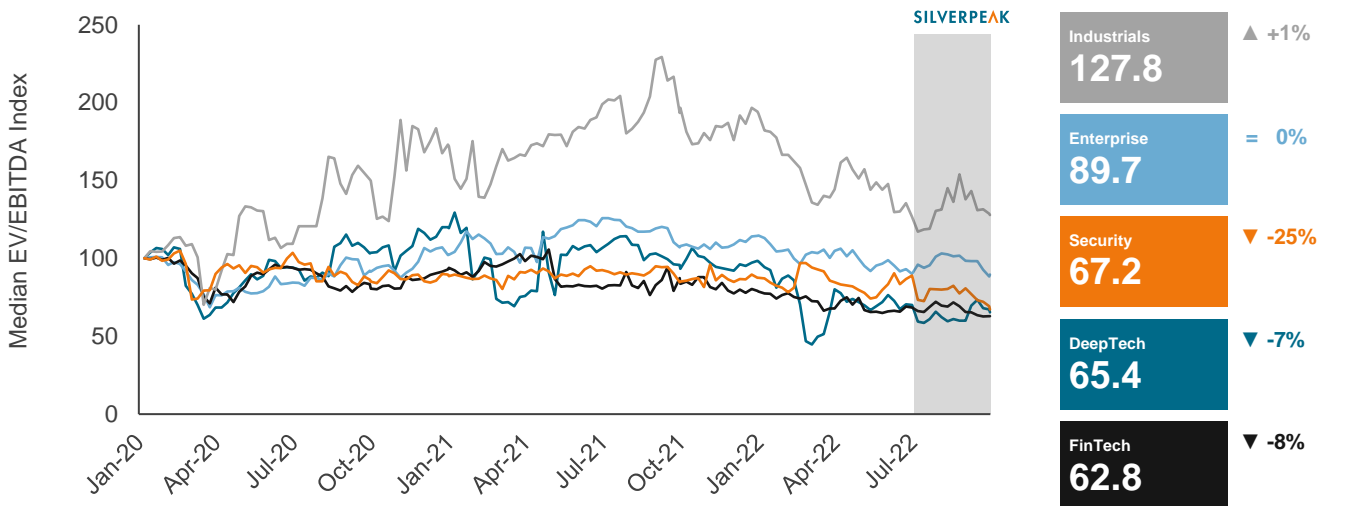


EV/revenue indices fell by an average of -48% YoY across all sectors compared to the moderate decline of -20% since January 2020. On average, the Security and Deeptech sectors fell -26%, compared to only -5% across the remaining sectors.

SECURITY EV/EBITDA INDEX EXPERIENCED A SIGNIFICANT CONTRACTION IN Q3

Software sector valuation metrics: median EV/EBITDA index 2020-2022 Q3⁴

% QoQ change:



On the whole, QoQ median EV/EBITDA indices only fell by -8%. However, the Security sector suffered significantly, decreasing by -25% in Q3, 6 times more than the average across the remaining categories.

⁴ Source: Capital IQ, Silverpeak. Note: index is based at 01/01/2020, Q3 2022 multiples are taken at 30/09/22, LTM.

METHODOLOGY

US, European and UK publicly listed software companies are screened using the S&P Capital IQ database. The dataset is reviewed and updated on a quarterly basis to include newly listed and de-listed companies and to ensure that existing companies remain pertinent to the report. A variety of financial indicators are tracked on a weekly basis including EV/Revenue and EV/EBITDA multiples, forecast annual revenue growth, gross margin, EBITDA margin and others. Companies with Enterprise Values (EV) of less than \$10m were excluded from the sample and multiples outside the 1x-100x range were disregarded from median calculations.

COMPANY CATEGORISATION

BY CATEGORY

For comparison purposes, we have grouped companies covered in the report into one of five categories.

Europe

European headquartered, publicly quoted software companies. This category excludes UK headquartered companies.

UK

UK headquartered, publicly quoted software companies.

US SaaS

US headquartered, operating a Software as a Service (SaaS) model, which Silverpeak defines as having a minimum 75% gross margin.

US Vertical

US headquartered, with a strong focus on one (or a small number of) vertical market(s).

US Horizontal

US headquartered, selling solutions across a wide range of vertical markets.

BY SECTOR

The dataset was further categorised by the most common sectors⁵.

DeepTech

Companies that aim to develop breakthrough technologies in engineering, sciences, and other complex processes. E.g., computer vision.

Enterprise Software

Software designed to improve enterprise operations. E.g., HR, CRM, and supply chain management solutions.

FinTech

Covers software technologies which facilitate payments and financial services. E.g., InsurTech, blockchain, mobile wallets.

Industrials

Software for use in industrial sector applications. E.g., EnergyTech, ConstructionTech, design automation.

Security

Companies that provide software solutions oriented for data, applications and IT environments. E.g., cybersecurity.

⁵ Source: Capital IQ, Silverpeak

ABOUT SILVERPEAK

Silverpeak is a mid-market technology specialist representing European growth businesses in M&A and financing transactions. Our high energy team of technology enthusiasts have completed over 200 deals between them.

We have deep business and product understanding which we use to focus on discovering the full, and often hidden, strategic value in a company. We then articulate this value to the right buyers and investors wherever they are.

RECENTLY COMPLETED MANDATES

GB | UAE | NO | US
October 2022

Uaarst
ROVCO

Autonomous subsea robotics technology

\$26M+ Series B investment by

Legal & General equinor 
 SDF FUTURE PLANET CAPITAL iqt
 Martlet Foresight

IT | US
May 2022

Additive manufacturing services and proprietary composite materials

Investment by

 **ITT**

GB | GB
March 2022


worksmart
REGULATORY CHANGE MEETS BUSINESS ADVANTAGE

RegTech SaaS solution

Sale to


 **Davies**

IT | WW
January 2022



D-ORBIT

In-space services and satellite transport

\$51.5m pre-SPAC convertible bond by


COBHAM
 **iqt** IN-Q-TEL
 & OTHER INVESTORS

GB | GB
October 2021

 **cloudtrade**

Data extraction & document automation SaaS ML platform

Sale to


advanced
People. Partnership. Solutions.

NO | CA
September 2021

 **Safran**

Project management and risk analysis software

Sale to

JDM Technology Group

WE GO FURTHER TO UNDERSTAND A COMPANY'S FULL VALUE

Where is the hidden value in the technology, the growth potential, the management team and their vision?

Only when we unlock all of the potential value do we articulate it to the acquirers or investors who would benefit most.

“

Silverpeak engaged with us in a process that was highly collaborative. They helped us find the right investment partner for Login VSI at this stage of our growth. Their team and process were transparent and insightful.

Eric-Jan van Leeuwen, CEO, Login VSI

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