

SILVERPEAK

APPLICATION SOFTWARE BENCHMARK REPORT Q4 2022

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

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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 Q4, we saw a re-rating of the software markets to pre-bubble levels

1

In Q4, software stocks were more resistant to macroeconomic factors than expected, as can be seen by the stabilisation in our dataset. During this past quarter, we saw ongoing geopolitical instability, rising energy prices and supply chain disruptions from Q3 as a result of the continued Russia-Ukraine conflict. Inflation increased to highs of 11.1% in the UK and 10.1% in Europe, with the biggest driver in the Euro area being energy with an inflation rate of 25.7% caused by the continuing gap in supply from sanctions imposed on Russian oil.

To combat further climbing inflation rates the BoE increased their interest rate to 3.5% in December, being a 1.25% increase in the quarter. Both the Fed, which had raised its bank rate by 3.75% since March, and the ECB similarly raised bank rates in an attempt to restore price stability. Contractionary monetary policies tend to impact software markets more significantly due to the large proportion of growth stocks, which prioritise revenue growth in the short term whilst profits tend to be seen further out into the future.

2

Our data shows that EV/Revenue multiples not only stabilised in Q4 but showed significant growth in certain categories and sectors such as UK companies (+12%) and security companies (+17%). After decreasing by 22% QoQ on average over Q1 and Q2, the software markets have steadily normalised and returned to levels similar to pre-2020 levels.

With regard to EV/EBITDA multiples, we have seen a much clearer QoQ change (+7%) as investors continued to place higher importance on EBITDA. US companies experienced a much stronger recovery in EV/EBITDA multiples than in the UK and Europe.

Q4 saw winners and losers with regard to sector valuation trends. Fintech was the biggest loser, with EV/revenue multiples in the sector falling by 12%. Comparatively, the security sector's EV/revenue multiples rose by 17%, with its EV/EBITDA multiples also rising by 11%.

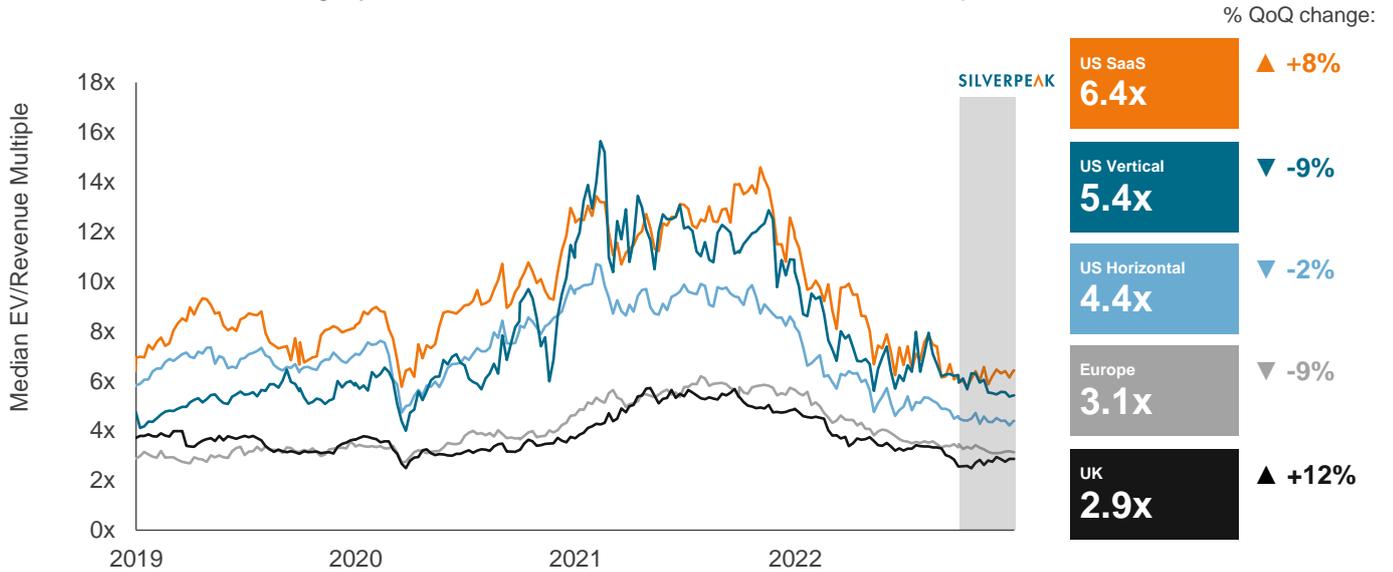
3

Market sentiment continues to place higher importance on profitability as opposed to forecast revenue growth, which can be seen by the 7% average increase in EV/EBITDA multiples over Q4.

Due to valuation multiples remaining low in comparison to 2021 levels, the IPO market remained quiet in Q4, with no additional IPOs. The year closed with a total of 9 IPOs of companies that fit our criteria, compared with the 107 IPOs in 2021, this shows the extent to which investor sentiment and software valuations suffered last year.

CONTINUED SIGNS OF REVENUE MULTIPLES STABILISING

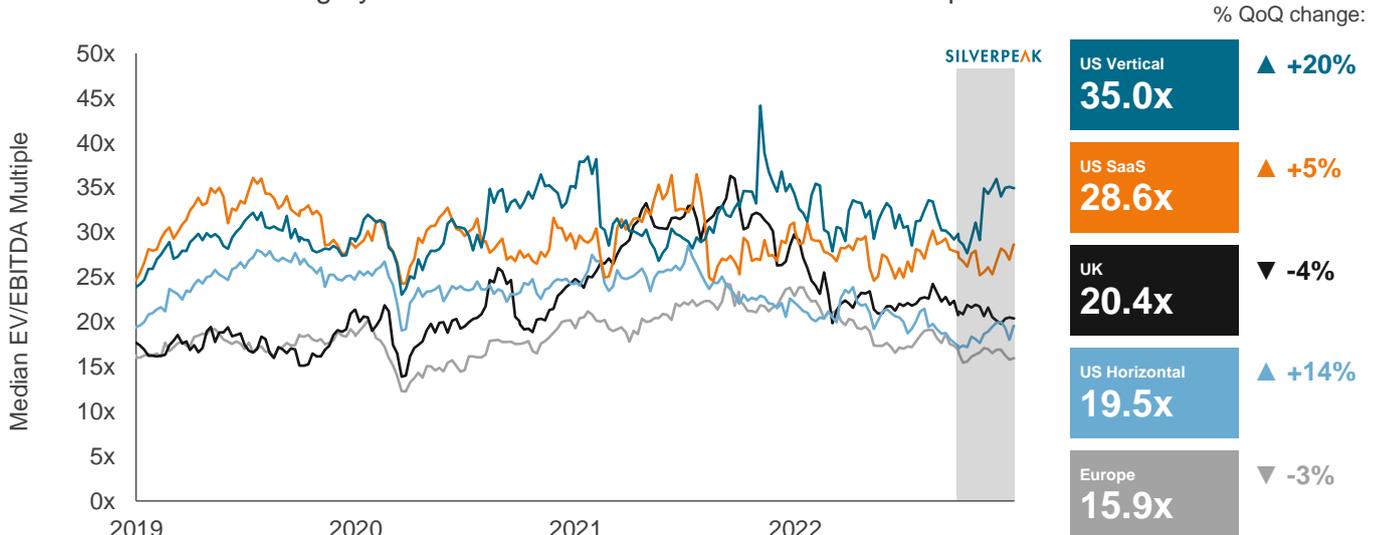
Software category valuation metrics: median EV/Revenue multiples 2019-2022 Q4²



EV/Revenue multiples continued to trend towards pre-bubble levels following the tech sell-off at the end of 2021. The UK (+12%) and US SaaS (+8%) even experienced an increase compared to Q3 2022.

ALL US SOFTWARE CATEGORIES SAW A Q4 INCREASE IN EV/EBITDA MULTIPLES

Software category valuation metrics: median EV/EBITDA multiples 2019-2022 Q4²

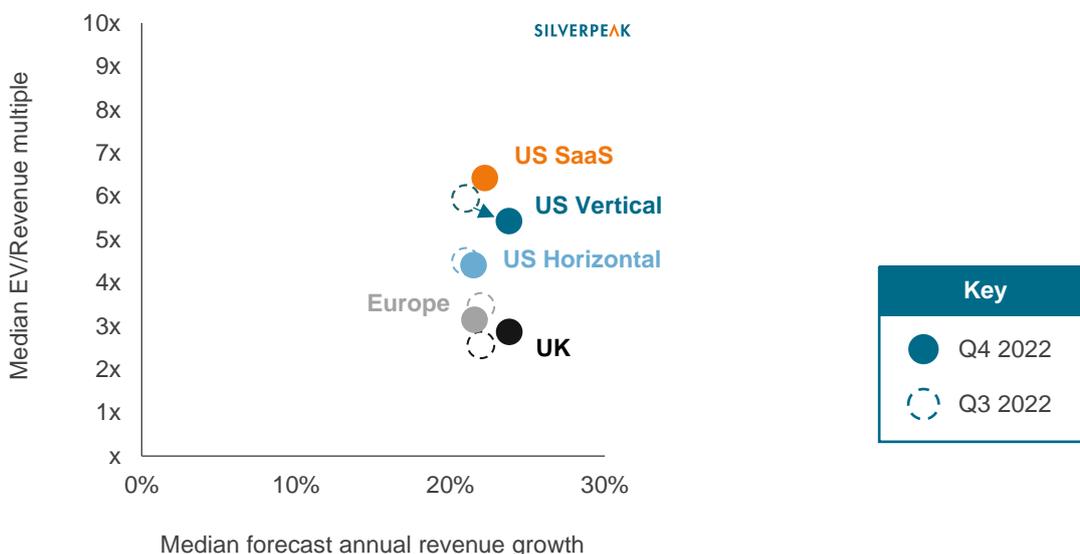


In Q3, only US SaaS recorded an increase in EV/EBITDA multiples, whereas in Q4, an increase in multiples applied to US SaaS, Vertical & Horizontal.

² Source: Capital IQ, Silverpeak. Note: Q4 2022 multiples are taken at 31/12/22, LTM.

FORECAST ANNUAL REVENUE GROWTH RATES REMAIN UNCHANGED IN Q4

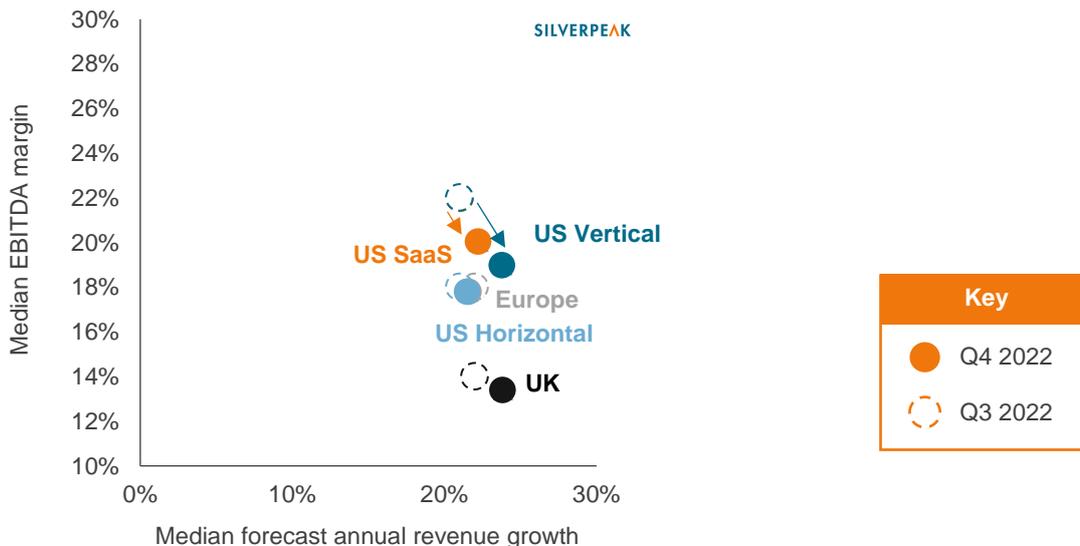
Median EV/Revenue multiple vs median forecast annual revenue growth³



There were mostly positive changes to growth rates in the period, being generally supportive of stable valuations. However, US Verticals multiples suffered (-9%) despite slightly improved growth (+3%).

EBITDA MARGINS REMAINED STABLE DURING Q4

Median EBITDA margin vs median forecast annual revenue growth³



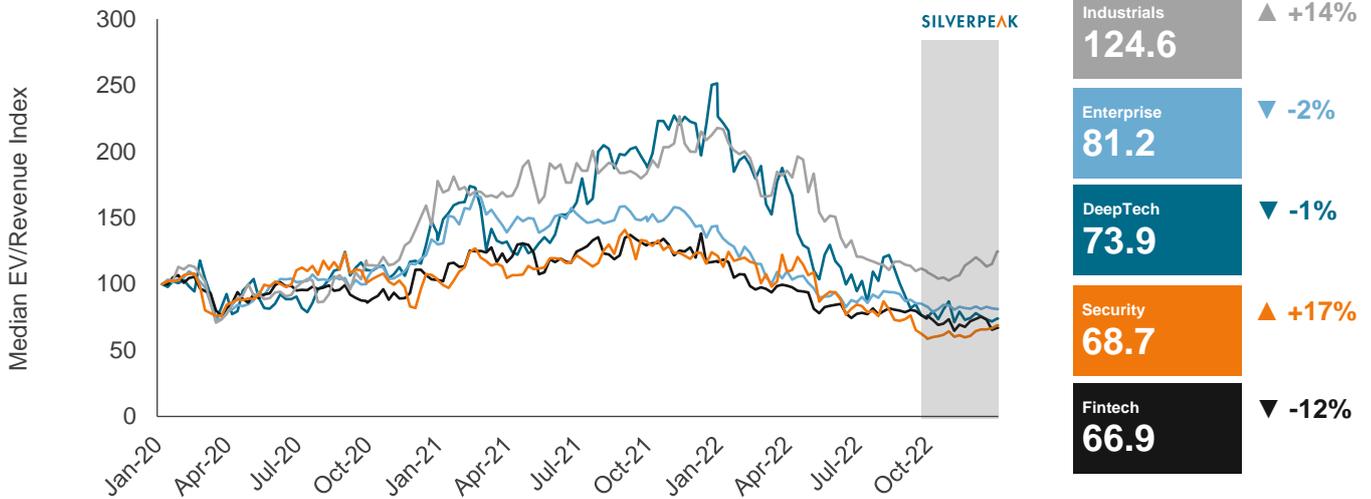
In Q4, EBITDA margins stabilised with only US SaaS (-2%) and US Vertical (-3%) falling more than 1%.

³ Source: Capital IQ, Silverpeak

EV/REVENUE INDICES ROSE SIGNIFICANTLY IN SECURITY AND INDUSTRIALS

Software sector valuation metrics: median EV/Revenue index 2020-2022 Q4⁴

% QoQ change:

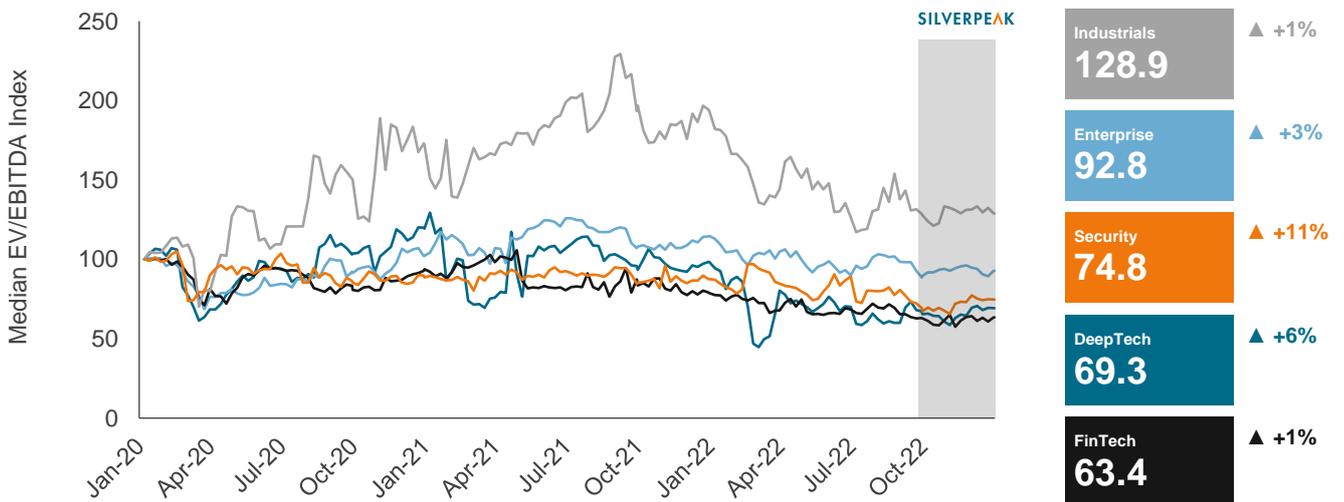


On average, the Industrials and Security sectors grew by 16% whilst Fintech’s EV/Revenue index suffered a 12% contraction. The Industrials sector’s growth in Q4 resulted in a widened gap between its EV/Revenue index and those of the other sectors.

EV/EBITDA INDICES BOUNCE BACK FROM AN 8% CONTRACTION ACROSS ALL CATEGORIES IN Q3

Software sector valuation metrics: median EV/EBITDA index 2020-2022 Q4⁴

% QoQ change:



The security sector (11%) achieved the most significant increase in its EV/EBITDA index in Q4, compared to the remaining sectors that averaged only 3%.

⁴ Source: Capital IQ, Silverpeak. Note: index is based at 01/01/2020, Q4 2022 multiples are taken at 31/12/22, 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

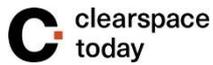
ABOUT SILVERPEAK

Silverpeak is a mid-market technology specialist representing European growth businesses in M&A and financing transactions. Our high energy team of technology enthusiasts has over 300+ completed deal experience 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

CH | PL | LU | US
December 2022



In orbit servicing and space debris removal

\$29m Series A investment by



AU | DE
December 2022



Travel P2P marketplace

€30m acquisition of



UK | US
November 2022



Hotel technology platform driving direct bookings

Sale to



UK | UAE | NO | US
October 2022



Autonomous subsea robotics technology

\$26M+ Series B investment by



IT | US
May 2022



Additive manufacturing services and proprietary composite materials

Investment by



UK | UK
March 2022



Regtech SaaS solution

Sale to



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 are true technology enthusiasts who brought vitality and professionalism to every stage of our transaction. They displayed tenacity and sophistication when it really mattered, to achieve the very best deal

Franco Cevolini, CEO,
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