



SILVERPEAK

APPLICATION SOFTWARE BENCHMARK REPORT Q1 2023

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

US showing the first signs of recovery with growth in Europe expected to follow



1

During Q1, there were various macroeconomic factors that impacted software valuations, principally persistent inflation, and tighter monetary policies around the world. However, we are starting to see improvements, a key example being European natural gas prices falling 26% to pre-Ukraine war levels, which is reducing inflationary pressures in the region.

In a continued effort to quell rising inflation rates, interest rates were increased by the BoE, the ECB, as well as the FED. This was done despite fears that higher borrowing costs could trigger a domino effect across a banking sector already reeling from the collapse of SVB. These rate increases are intended to control price stability, but the general impact continues to be pressure on software valuations.



2

Our dataset shows that EV/Revenue multiples continued the trend of stabilisation detailed in our Q4 2022 report. This quarter there were signs of recovery and double-digit growth in the US, which averaged 17% across all US categories versus -5% across Europe and UK.

With regard to EV/EBITDA multiples, US SaaS (20%) and US vertical (10%) distanced themselves from the other categories, increasing significantly over the period. Contrastingly, all of the remaining categories fell, most significantly Europe, which saw its multiple fall by 11% over the period.

Poor market conditions in Europe and UK pulled down the sector indices, apart from enterprise software and deeptech, with an average decrease of 6% across the EV/Revenue indices. Versus 2022, the EV/Revenue indices are still down 41% on average.

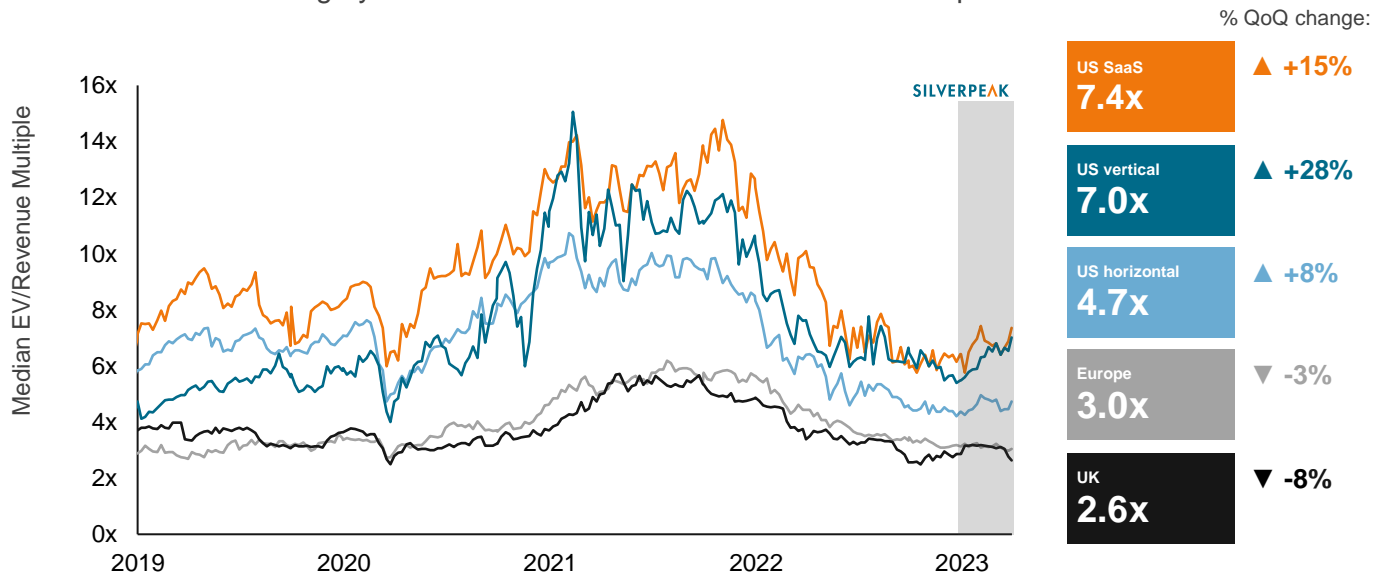


3

US vertical is outperforming US horizontal on both an EV/Revenue (+2.3x) and EV/EBITDA (+19.0x) basis, which indicates a shift in investor preferences. A reason for this could be that vertically focussed companies tend to offer a more specialised solution to the end customer, generating higher customer stickiness/retention. This gives companies the ability to charge higher prices, resulting in better profitability when compared to their horizontal counterparts. Since valuations peaked in 2021-22, investors have been valuing US vertical higher than US horizontal, indicating that this is a potentially long-term trend.

AS WE ENTER 2023, WE SEE FURTHER STABILISATION AND SIGNS OF RECOVERY IN THE US

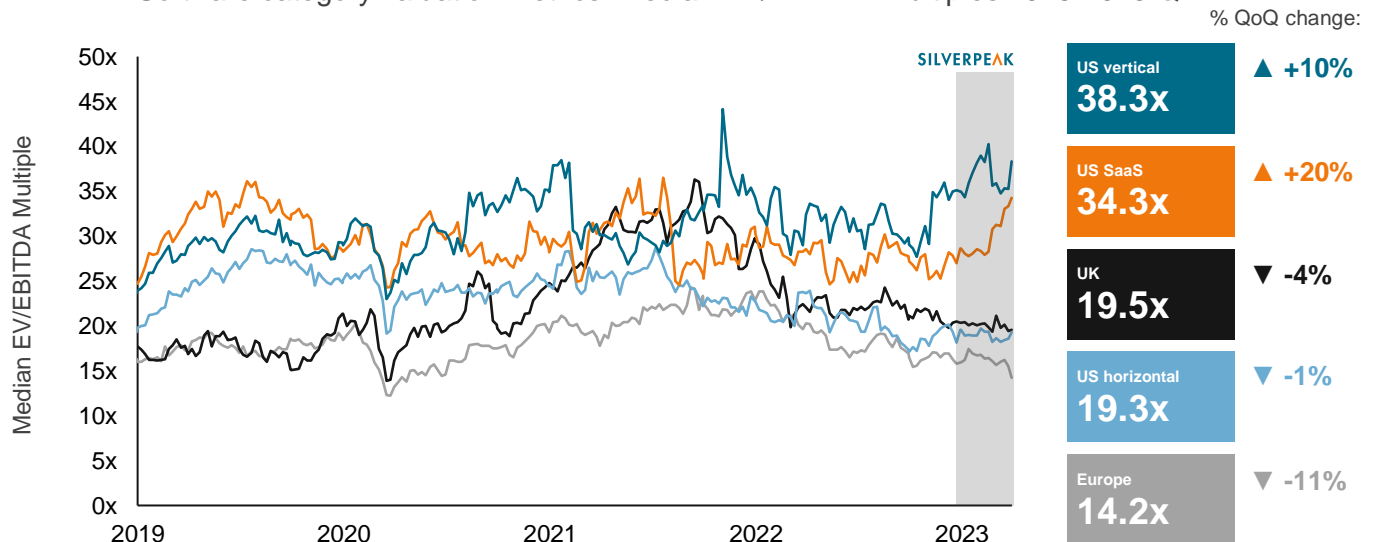
Software category valuation metrics: median EV/Revenue multiples 2019-2023 Q1²



EV/Revenue multiples continued to trend towards pre-bubble levels following the tech sell-off at the end of 2021. US SaaS (+15%) and US vertical (+28%) led this recovery, achieving significant increases from Q4 2022. Although the UK suffered in Q1, premium assets in the UK are still attracting multiples far superior to the median, exemplified by Schneider acquiring Aveva at an 8.3x EV/Revenue multiple in January.

US SAAS AND VERTICAL CATEGORIES SAW A SIGNIFICANT INCREASE IN EV/EBITDA MULTIPLES OVER Q1

Software category valuation metrics: median EV/EBITDA multiples 2019-2023 Q1²

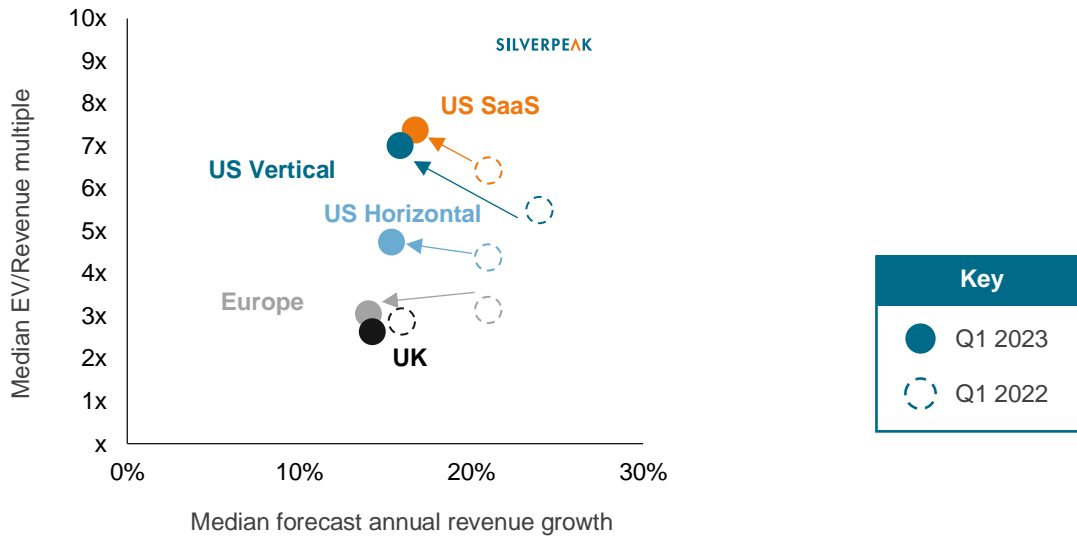


In Q1, US vertical and US SaaS increased the gap between themselves and the other categories, achieving double-digit QoQ percentage increases in EV/EBITDA multiples. This trend is illustrated by Zoom's 145% growth in EV/EBITDA multiple QoQ, to 45.45x.

² Source: Capital IQ, Silverpeak. Note: Q1 2023 multiples are taken at 31/03/23, LTM.

FORECAST ANNUAL REVENUE GROWTH RATES FALL ACROSS ALL SECTORS

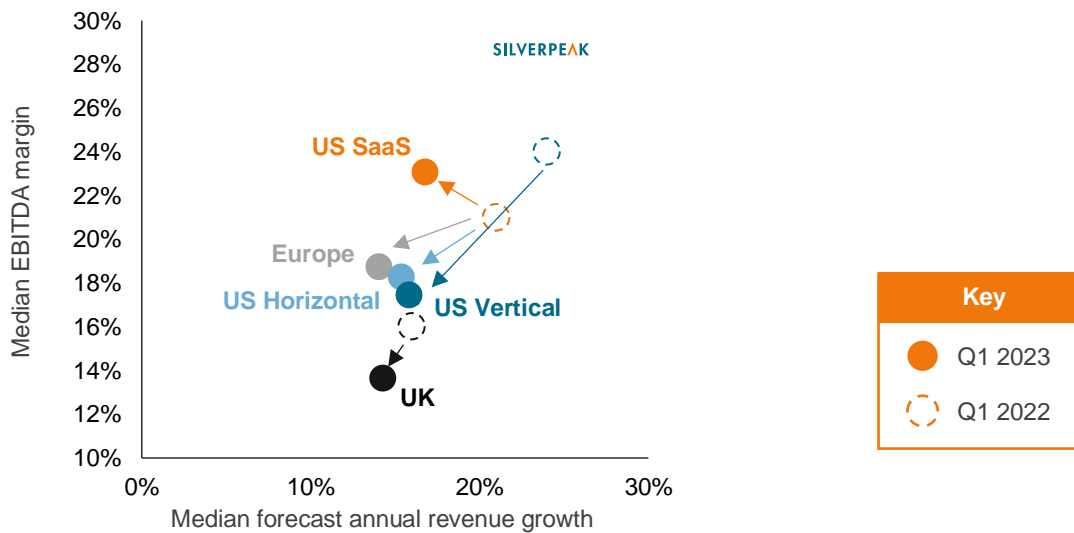
Median EV/Revenue multiple vs median forecast annual revenue growth³



Over the past year, annual revenue growth forecasts have contracted across all categories due to unfavourable macroeconomic conditions. Of all the categories, the UK was the most resilient, only falling 2% compared to an average 6% decrease across the remaining categories.

ONLY US SAAS RECORDED A YOY INCREASE IN MEDIAN EBITDA MARGIN

Median EBITDA margin vs median forecast annual revenue growth³

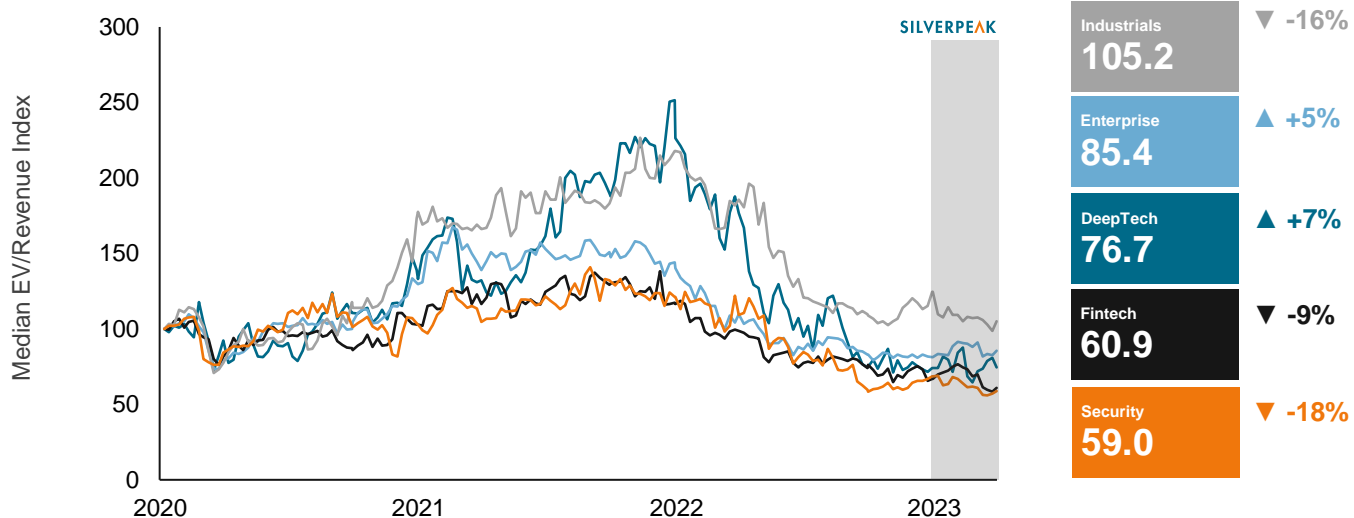


In line with the wholesale decrease in forecast annual revenue growth, EBITDA margins also fell YoY, except for our US SaaS category, which increased by 2%. On average, the remaining categories fell 3%, with US vertical recording the largest decrease at 7%.

³ Source: Capital IQ, Silverpeak

EV/REVENUE INDICES FELL SIGNIFICANTLY IN INDUSTRIALS AND SECURITY

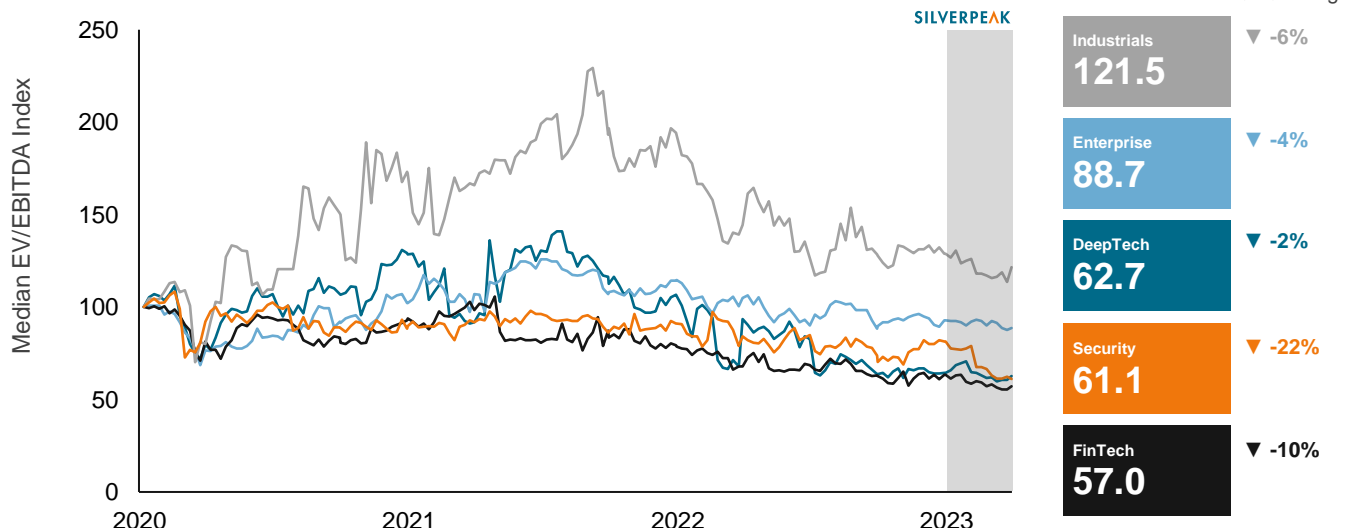
Software sector valuation metrics: median EV/Revenue index 2020-2023 Q1⁴



During Q4 2022, the industrials and security sectors grew on average by 16%, however, over the course of Q1, their EV/Revenue indices altered course and fell on average by 17%. In addition to this, fintech also suffered during Q1, especially in Europe, where EV/Revenue valuations fell 17%. This trend is exemplified by Worldline’s 14% drop, ending the quarter at 14.3x.

EV/EBITDA INDICES SUFFER A CONTRACTION IN Q1, ESPECIALLY IN DEEPTECH

Software sector valuation metrics: median EV/EBITDA index 2020-2023 Q1⁴



In Q1, all sectors’ EV/EBITDA indices recorded a decrease, which is quite a contrast to Q4 2022, during which all indices grew. However, despite the 6% fall in the industrials index, there is evidence of the market rewarding top quality assets such as Ansys who saw their EV/EBITDA multiple increase 32% to 40x this quarter.

⁴ Source: Capital IQ, Silverpeak. Note: index is based at 01/01/2020, Q1 2023 multiples are taken at 31/03/23, LTM.

METHODOLOGY

US, European and UK publicly listed software companies are screened using the S&P Capital IQ database. Our dataset, made up of 485 companies, 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.

The number represents how many companies are in each dataset.

Europe (162)

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

UK (59)

UK headquartered, publicly quoted software companies.

US SaaS (42)

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

US Vertical (42)

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

US Horizontal (222)

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

BY SECTOR

The dataset was further categorised by the most common sectors⁵.

The number represents how many companies are in each dataset.

Deeptech (22)

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

Enterprise Software (195)

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

Fintech (79)

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

Industrials (30)

Software for use in industrial sector applications. E.g., Energytech, Constructiontech, design automation.

Security (65)

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 experience of over 300 completed 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

| | | |
|---|--|---|
| <p>EU UK FR April 2023</p>  <p>High-end CPU for HPC and data centres</p> <p>€90 Series A financing</p>       | <p>CH PL LU US December 2022</p>  <p>In orbit servicing and space debris removal</p> <p>\$29m Series A investment by</p>       | <p>AU DE December 2022</p>  <p>Travel P2P marketplace</p> <p>€30m acquisition of</p>  |
| <p>UK US November 2022</p>  <p>Hotel technology platform driving direct bookings</p> <p>Sale to</p>   | <p>UK UAE NO US October 2022</p>  <p>Autonomous subsea robotics technology</p> <p>\$26M+ Series B investment by</p>        | <p>IT US May 2022</p>   <p>Additive manufacturing services and proprietary composite materials</p> <p>Investment by</p>  |

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.

“

Our dedicated Silverpeak team were impressive from day-one and quickly established a strong, collaborative relationship with us. I was impressed by their global reach to all the relevant strategic buyers and private equity bidders.

Frank Reeves, CEO & Co-Founder, Avvio

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