

SEMINAR

# Best practice when exiting a tech company

1 NOVEMBER 2023

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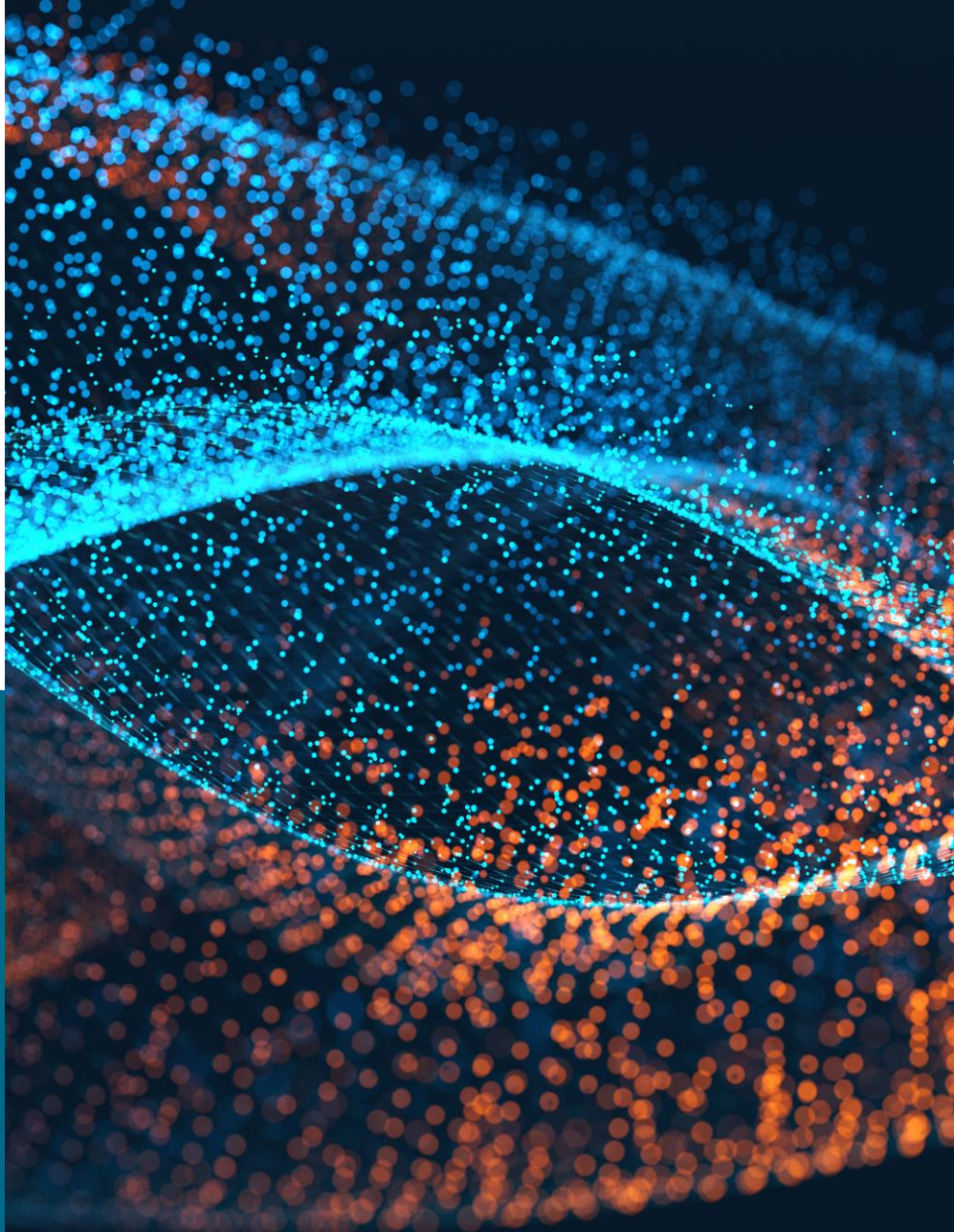
# Trends in software deal-making

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1 NOVEMBER 2023

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# Agenda

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Public valuations

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Funding

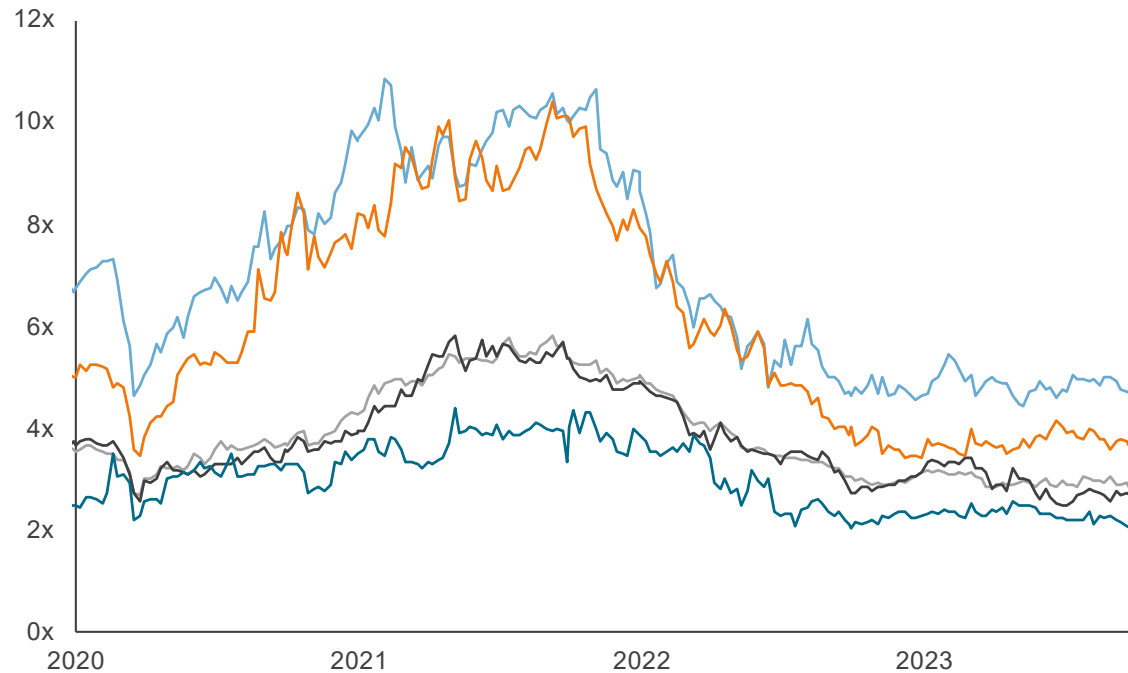
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M&A

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# EV/Revenue multiples of publicly listed sw companies have stabilised, below pre-Covid levels, in part because companies “grew into their valuations”

MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q3

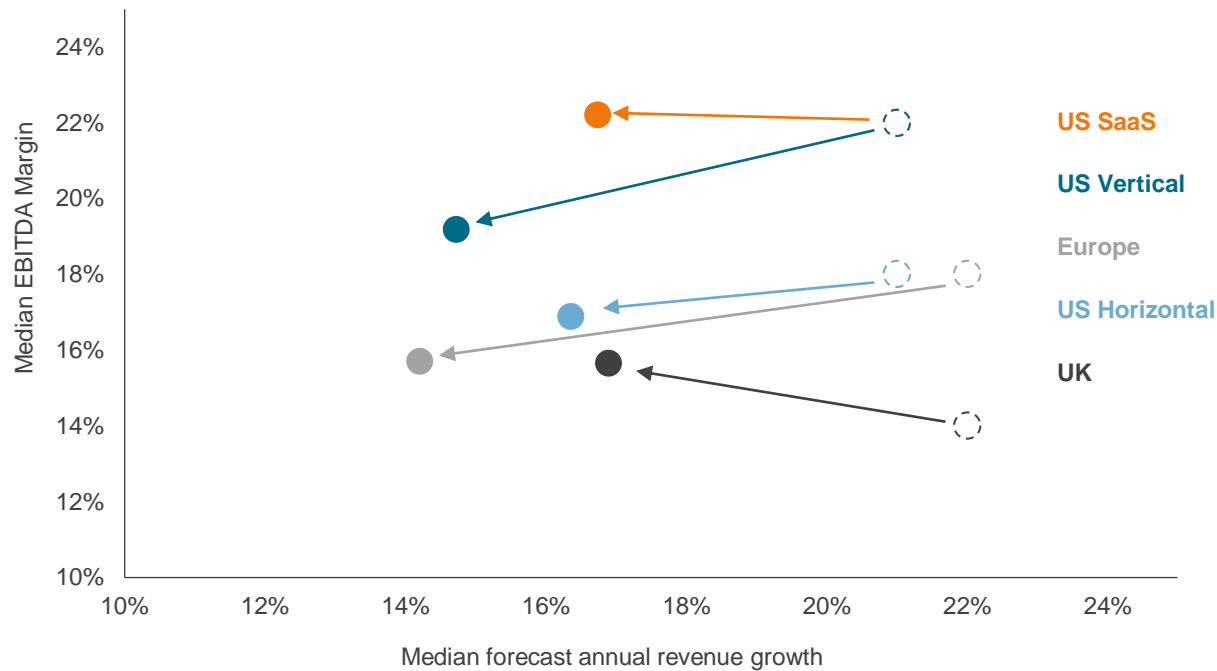


Region	DACH	NORDICS	US	UK	Europe
Current Multiple	2.03x	3.55x	4.67x	2.68x	2.75x
QoQ change	(9)%	(12)%	(1)%	8%	(6)%
YoY change	0%	(11)%	1%	(5)%	(9)%
Change from peak	(53)%	(66)%	(57)%	(54)%	(53)%

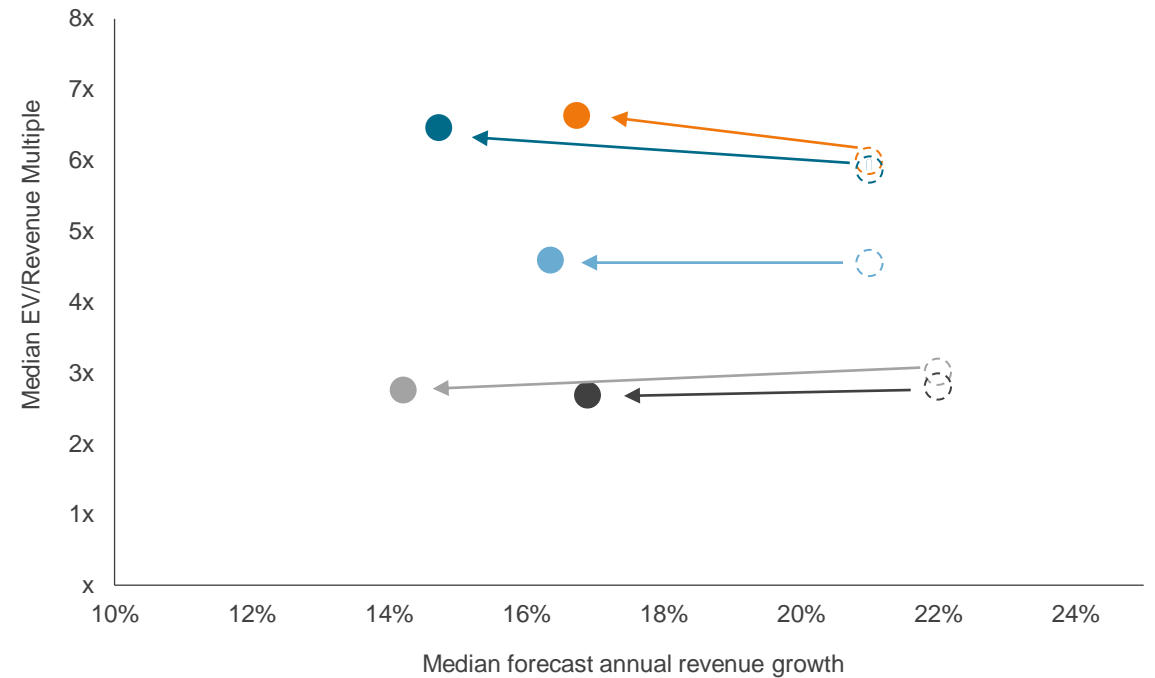
“The denominator effect”: revenues grew 55-75% from the peaks in 2021 to 2023, which accounts for a 35-40% reduction in the EV/Revenue ratio (at constant EV)

# Growth has come down from 21-22% in Q3-22 to 14-17% in Q3-23, whilst profitability and EV/Revenue multiples stayed broadly flat

CATEGORIES – REVENUE GROWTH X EBITDA MARGIN



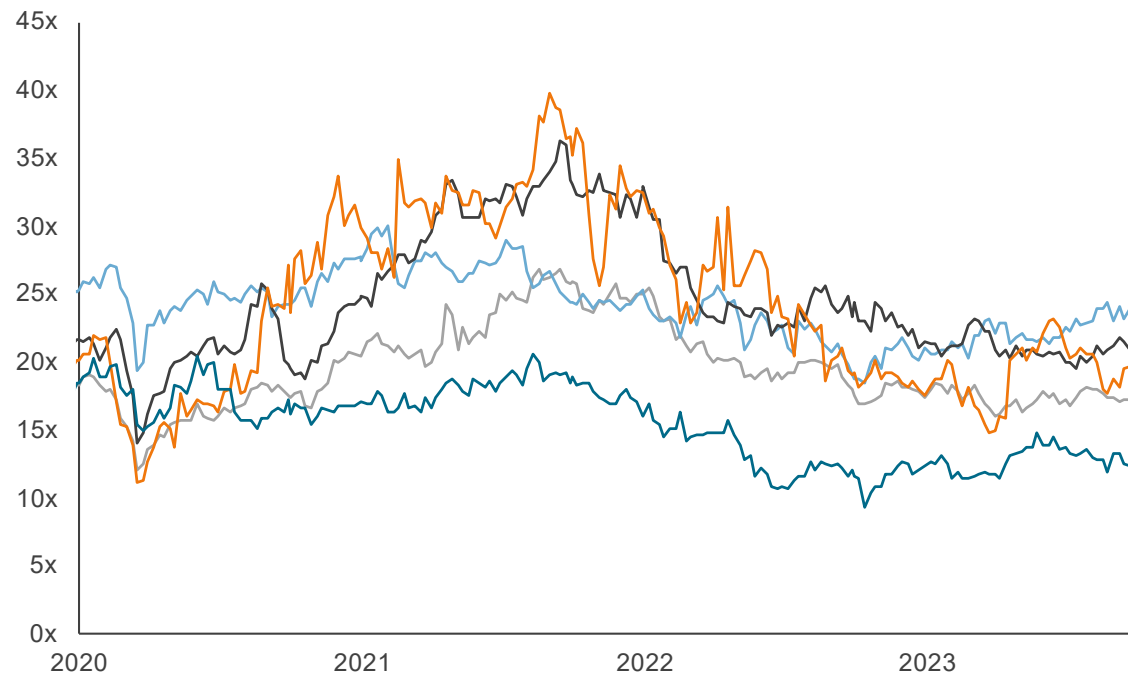
CATEGORIES – REVENUE GROWTH X EV/REVENUE MULTIPLE



Key Q3 2023 ● Q3 2022 ○

# EV/EBITDA multiple have been more stable

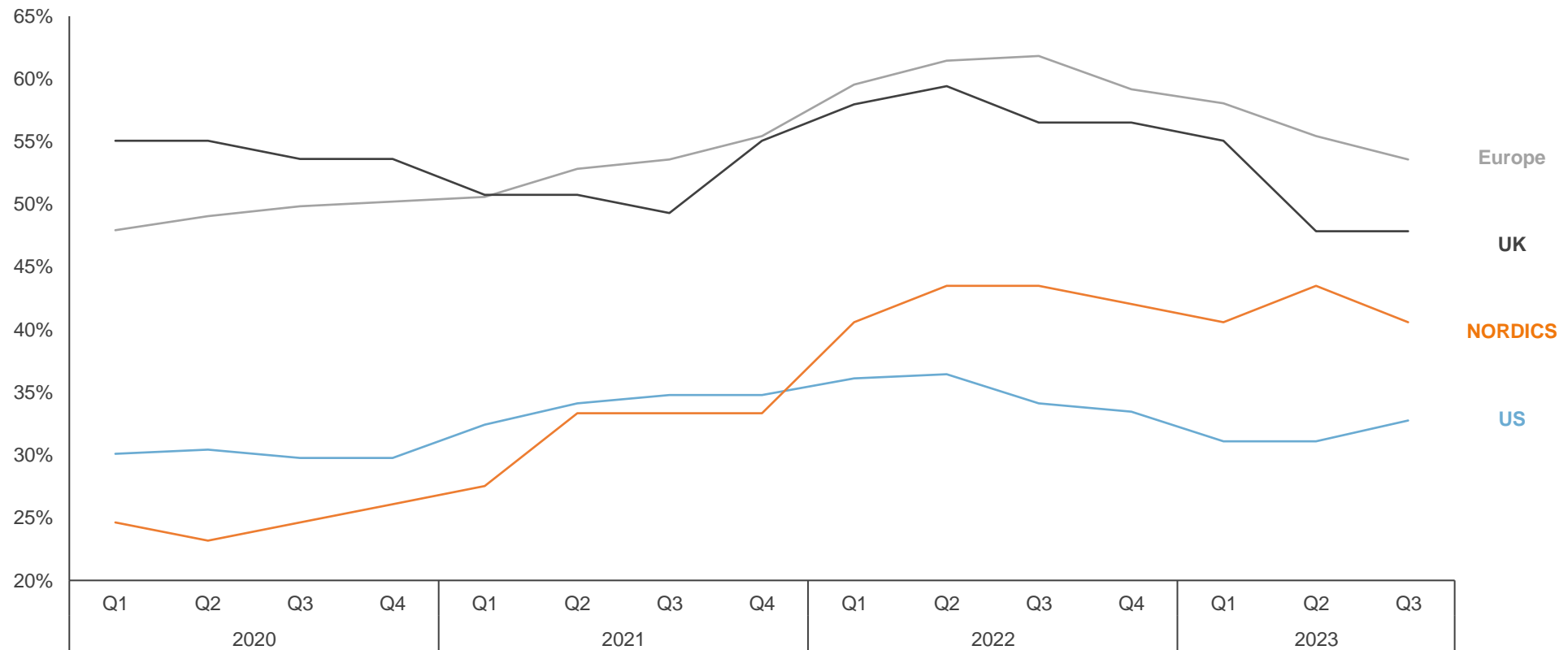
## MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q3



Region	DACH	NORDICS	US	UK	Europe
Current Multiple	12.36x	20.03x	23.08x	20.75x	16.20x
QoQ change	(9)%	(4)%	2%	4%	(6)%
YoY change	7%	4%	23%	(15)%	(7)%
Change from peak	(40)%	(50)%	(23)%	(42)%	(40)%

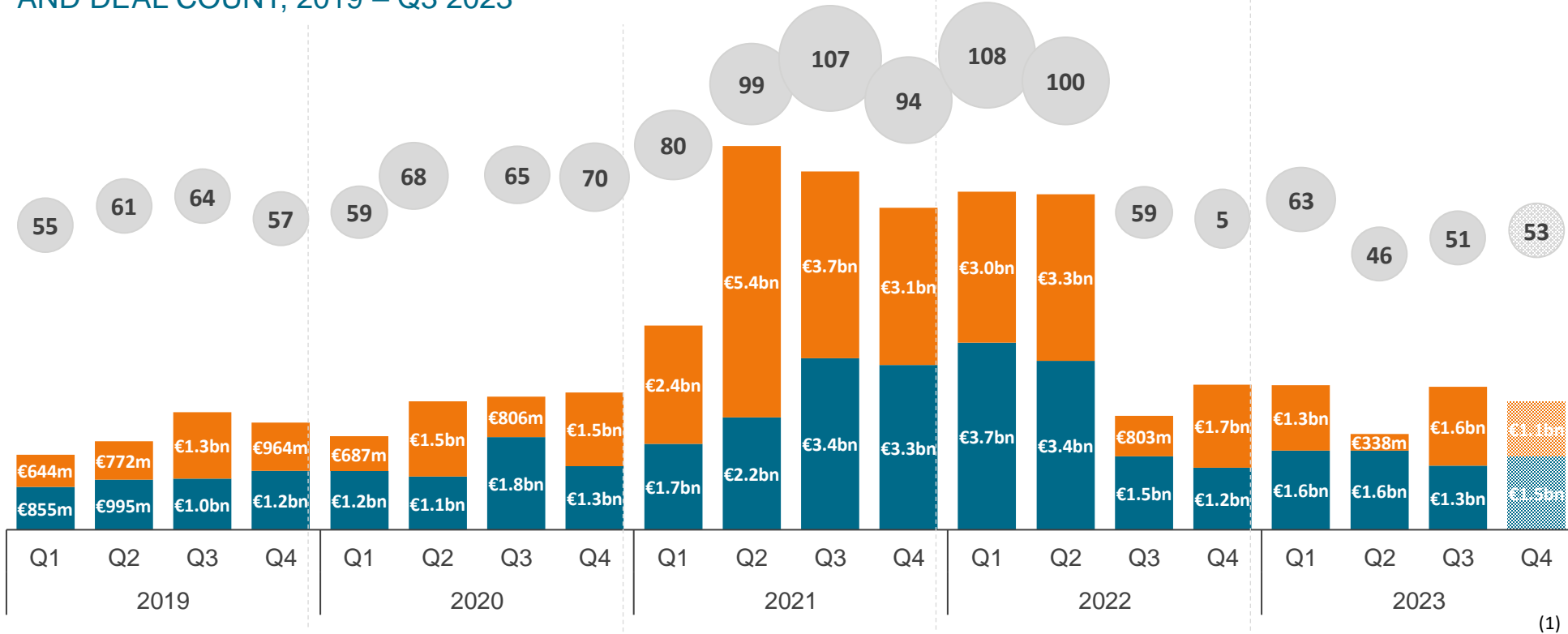
# More European, UK and Nordic software businesses are profitable than US counterparts

% OF PROFITABLE COMPANIES IN THE DATASET



# Series B value is stable at around €1.4bn for the fifth quarter in a row, whilst series C value fluctuates and is recovering in Q3-23 from a low Q2

SERIES B&C TOTAL FINANCING AMOUNTS AND DEAL COUNT, 2019 – Q3 2023



Series B&C  
DEAL COUNT  
**-34%**  
2023E vs 2022A

SERIES C  
CAPITAL INVESTED  
**-51%**  
2023E vs 2022A

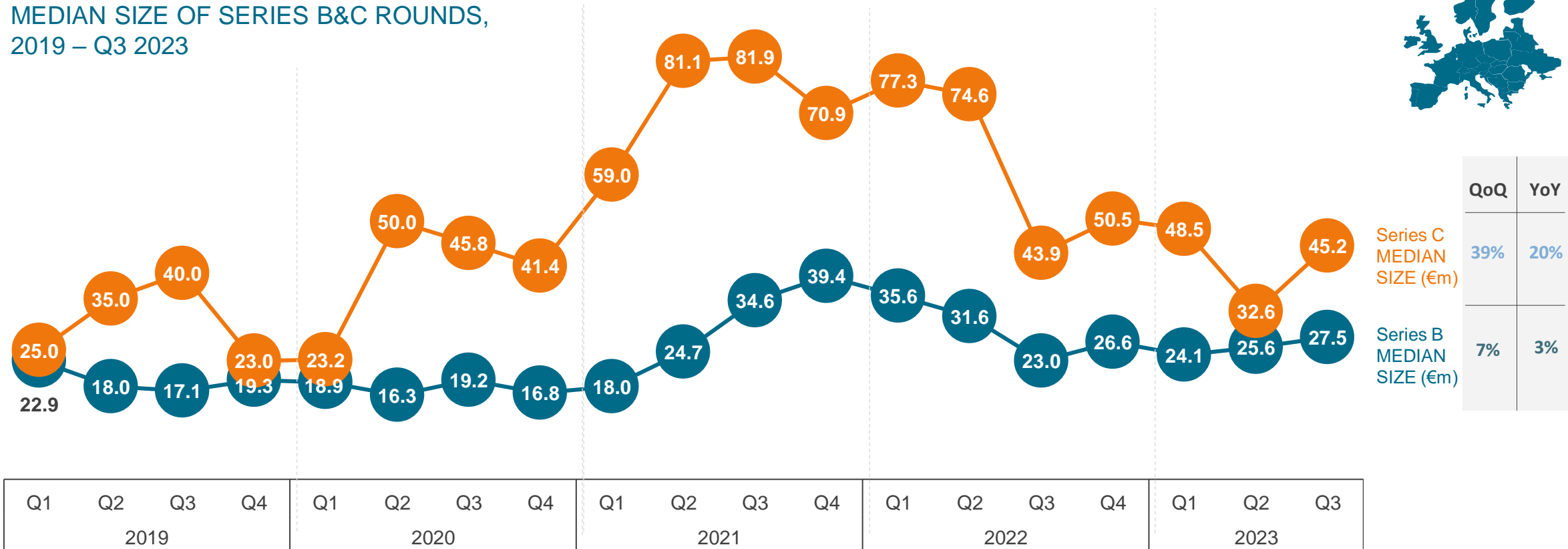
SERIES B  
CAPITAL INVESTED  
**-40%**  
2023E vs 2022A

Note: (1) Q4 forecast using simple average method  
Source: Pitchbook. Deals below €5m have been excluded. Data as of 30/09/2023



The low Series C value in Q2 was also due to a drop in size which bounced in Q3, Series B median size is broadly stable around €25m

MEDIAN SIZE OF SERIES B&C ROUNDS, 2019 – Q3 2023

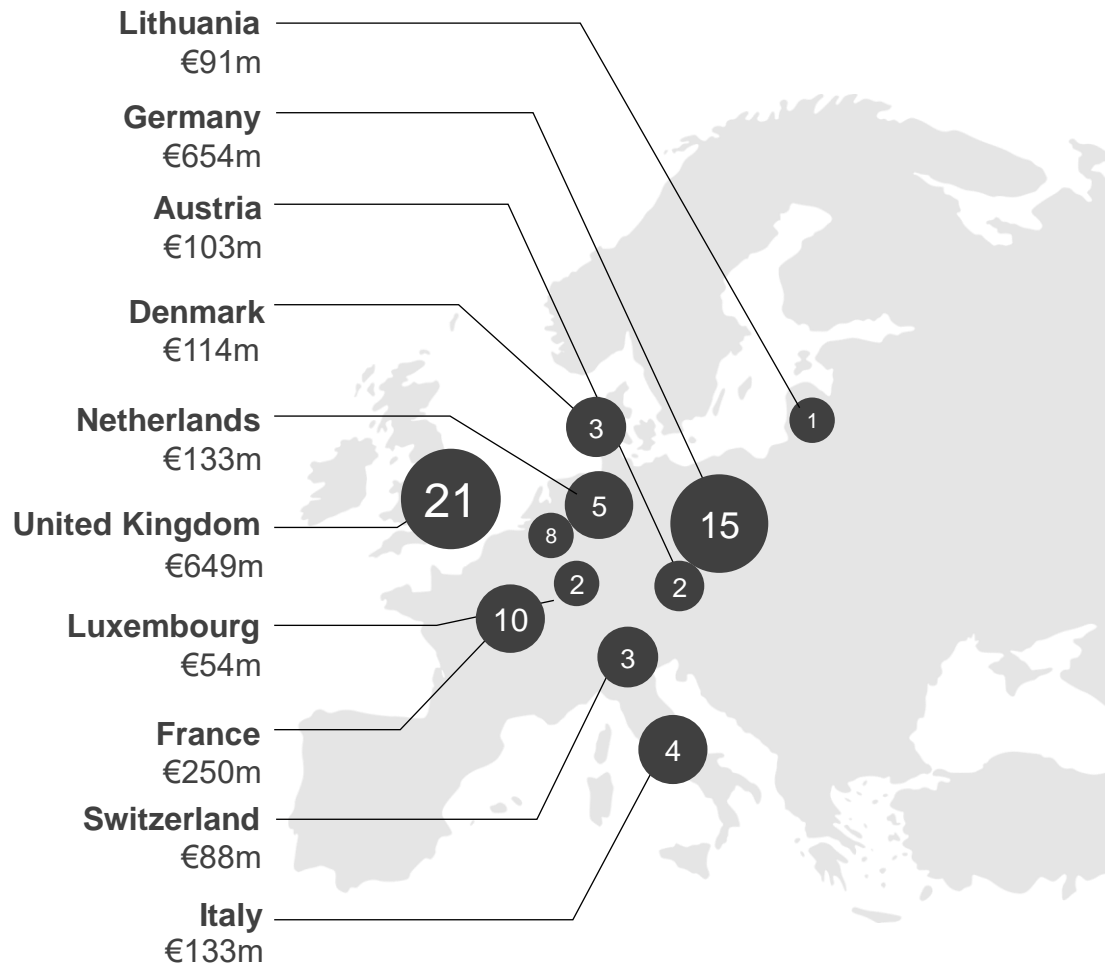


	QoQ	YoY
Series C MEDIAN SIZE (€m)	39%	20%
Series B MEDIAN SIZE (€m)	7%	3%

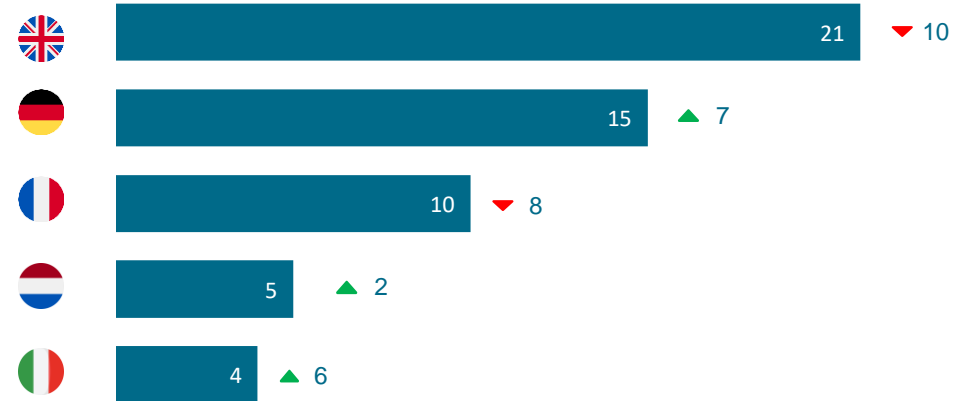
Source: Pitchbook. Deals below €5m have been excluded. Data as of 30/09/2023

Series B deal count and value by country, Q2-23 & Q3-23

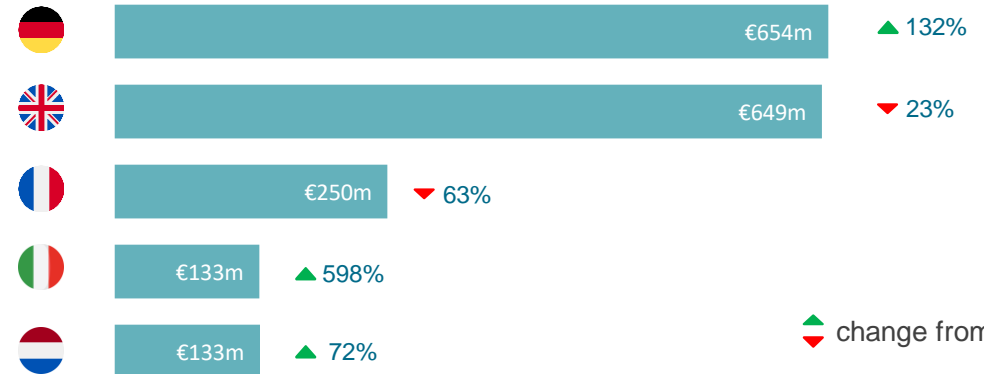
Germany is gradually climbing towards the top spot, both in terms of deal value and count



# of Series B rounds in Q2-23 & Q3-23



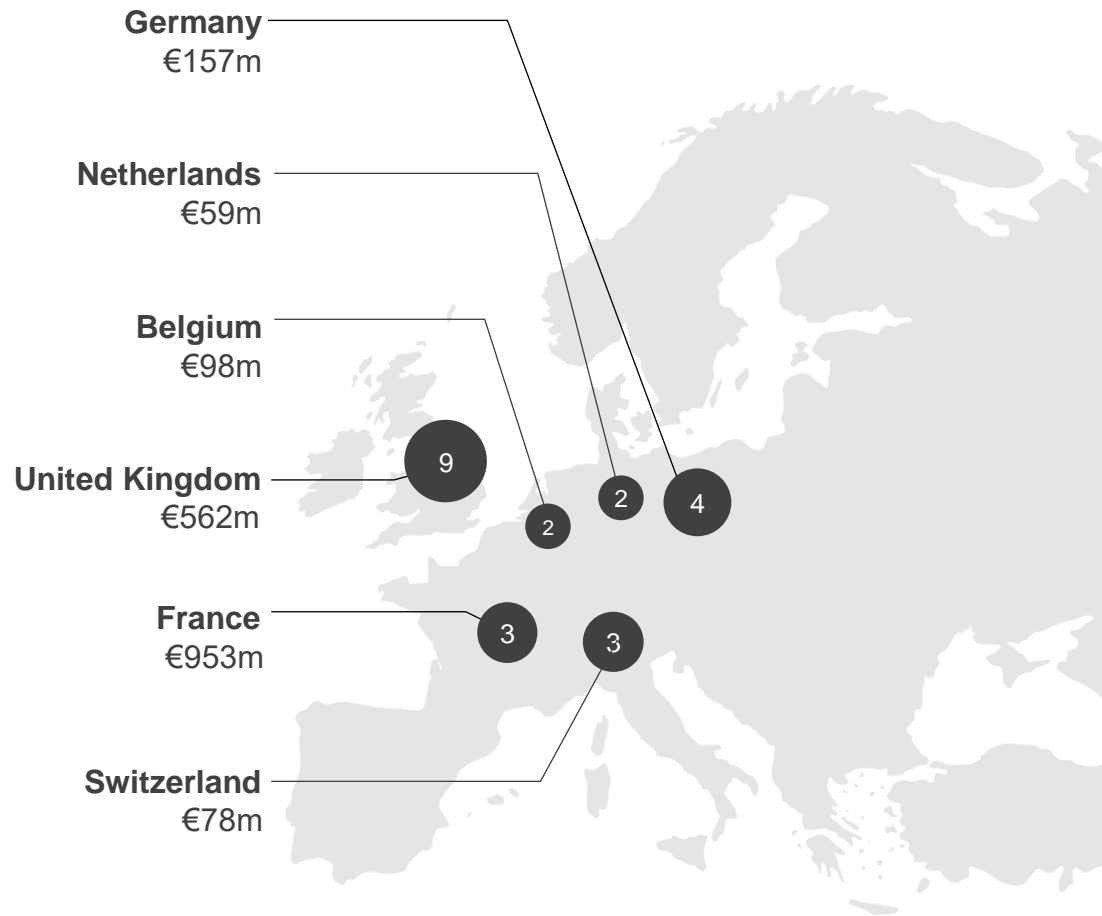
Value of Series B rounds in Q2-23 & Q3-23



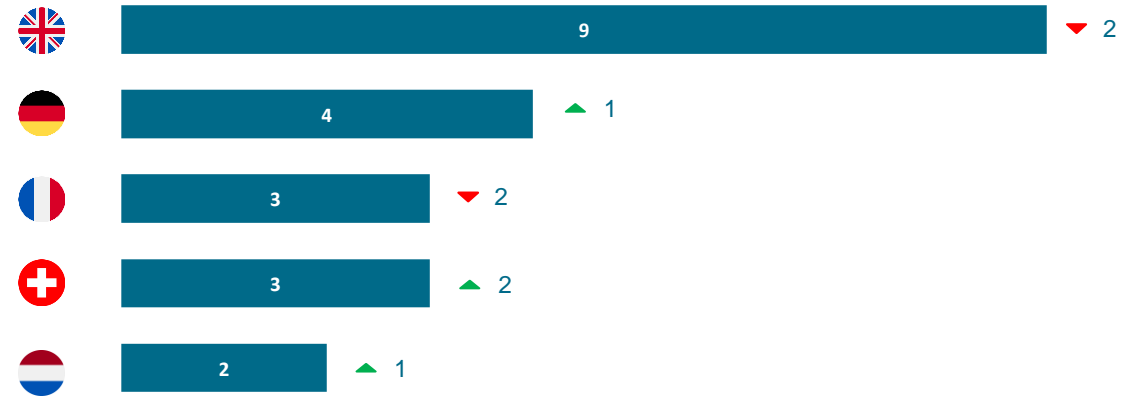
▲ change from (Q1-23 & Q4-22)

Series C deal count and value by country, Q2-23 & Q3-23

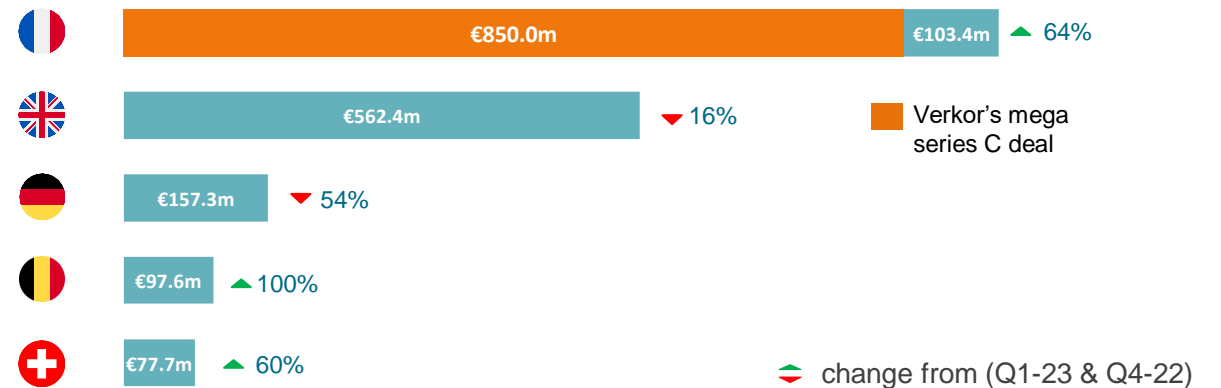
UK maintains highest number of transactions, though total value is skewed by one French mega-deal



# of Series C rounds in Q2-23 & Q3-23

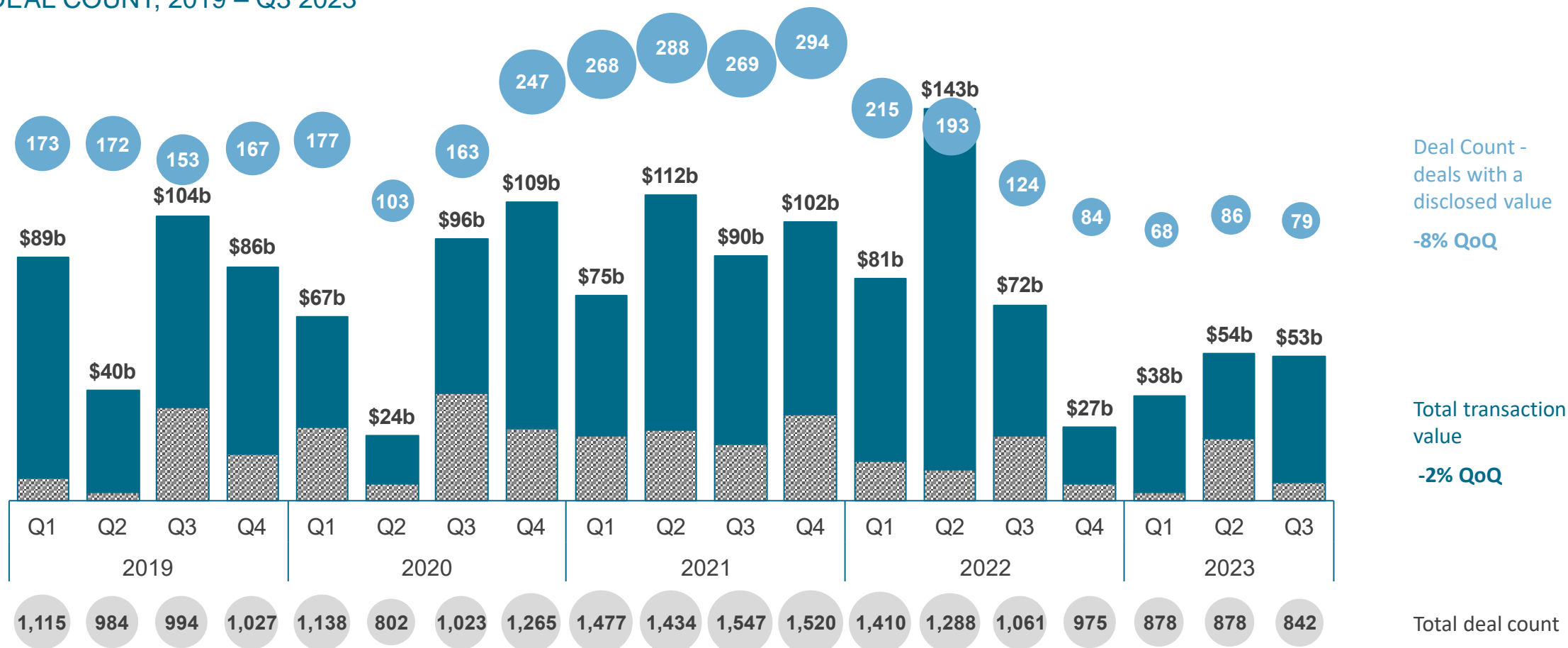


Value of Series C rounds in Q2-23 & Q3-23



# European and North American M&A value continued to recover in Q3-23, the total # of deals and the # of deals with disclosed value are low

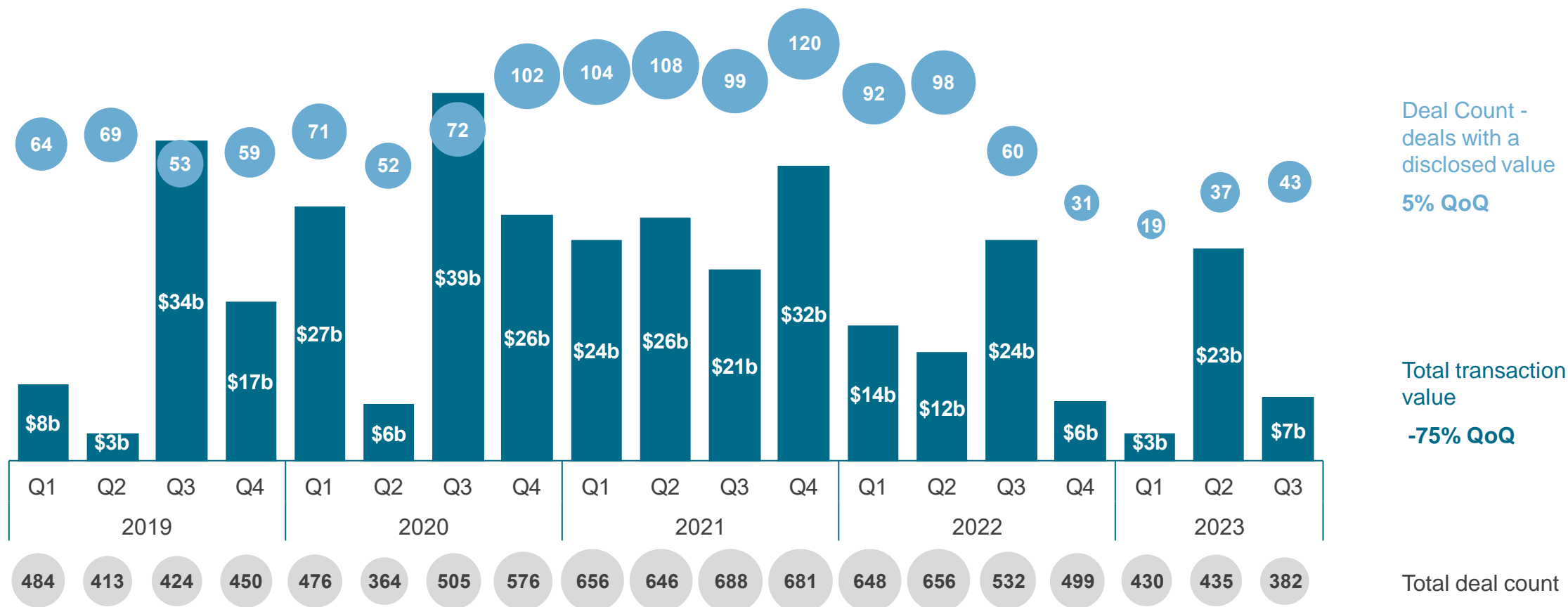
SOFTWARE M&A TOTAL TRANSACTION VALUE AND DEAL COUNT, 2019 – Q3 2023



Source: CapitalIQ, Pitchbook. Only deals greater than \$5m shown here. \$ values shown are implied EV. Data as of 30/06/2023

# European software M&A volumes dip in Q3 as market remains lumpy

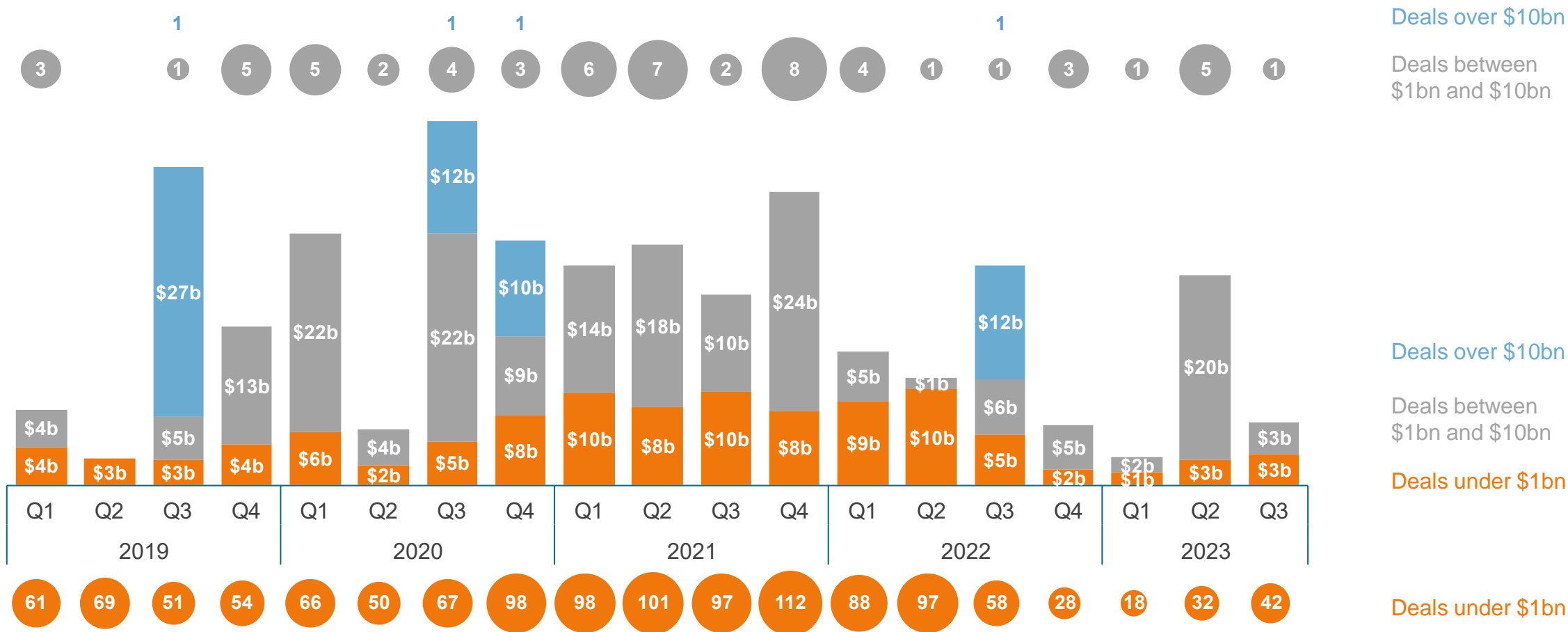
SOFTWARE M&A TOTAL TRANSACTION VALUE OF EUROPEAN TARGETS, DEAL COUNT, 2019 – Q3 2023



Source: CapitalIQ, Pitchbook. Only deals greater than \$5m shown here. \$ values shown are implied EV. Data as of 30/09/2023

In Q2-23 there were 42 EU deals worth < \$1bn each (in total worth \$3bn and less than \$100m on average), only one deal was > \$1bn

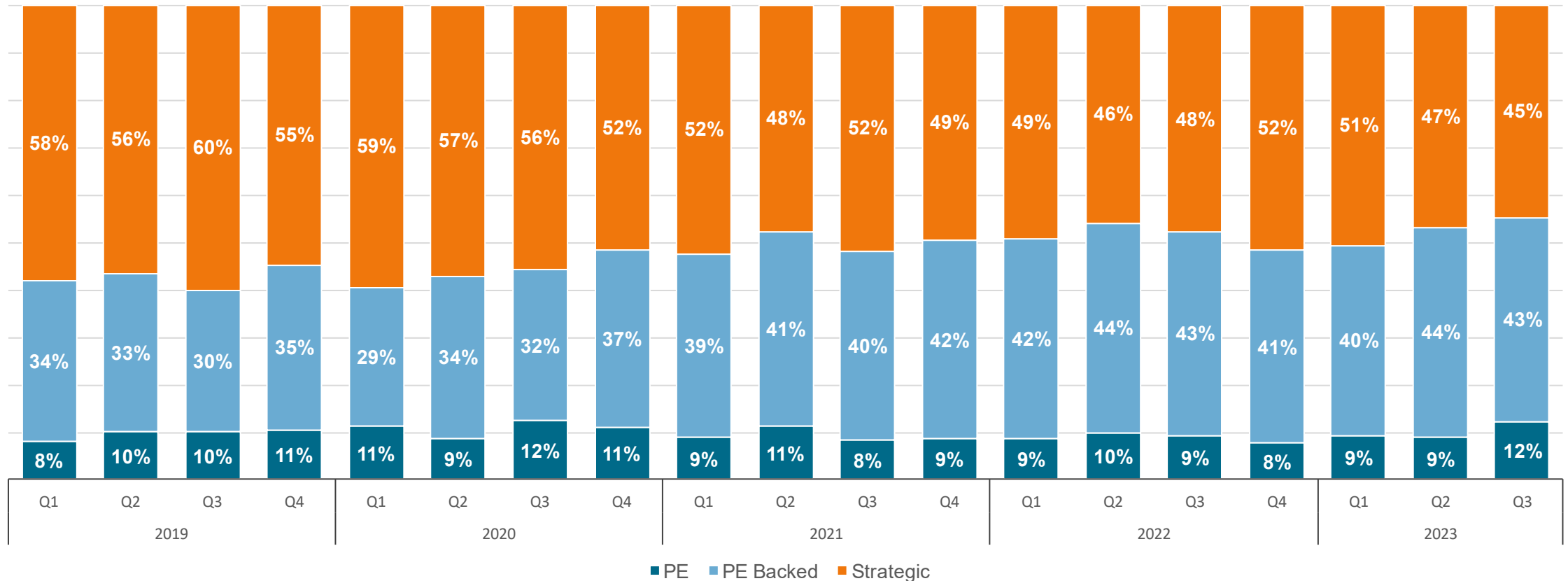
M&A TOTAL TRANSACTION VALUE OF EUROPEAN TARGETS, DEAL BREAKDOWN 2019 – Q3 2023



Source: CapitalIQ, Pitchbook. Only deals greater than \$5m shown here. \$ values shown are implied EV. Data as of 30/09/2023

# PE-led transactions continue to increase their weight

DEAL COUNT BY BUYER TYPE: STRATEGIC, PE OR PE BACKED DEALS



Source: CapitalIQ

Note: Smaller data set of 11,824 transactions from CapitalIQ used – no minimum deal size.

# Incentive arrangements and exits

- Liz Hunter
- Partner – Incentives
- E: [Liz.Hunter@Mishcon.com](mailto:Liz.Hunter@Mishcon.com)



**Mishcon de Reya**

It's business. But it's personal.



# Life cycle of incentives

## Early

Keep it Simple!

- Compliance
- Beware non-employees & non-UK
- Non-tax-advantaged v. tax-advantaged
- Investor reliefs (EIS)
- Care re Good Leavers
- Cash preservation

## Scaling

Optimise

- Optimise for tax
- Health-check risk
- Beyond EMI
- Multiple plans
- Dilution
- Group reorgs, M&A
- ESG aspects

## Global

Tech enabled

- Country by country diligence (legal, tax, valuation)
- Tech enablement / administrator
- Cost v benefit
- Internationally mobile employees + EOR / PEO

## Exit

De-risk

- Readiness review
- What type of exit?
- Remedial action
- Liquidity check
- **Deal structuring**
- Reporting + tax withholding
- Communications

# TYPICAL PLANS

## Enterprise Management Incentive (EMI)

- EMI options are mainly used for earlier stage companies
- Eligibility conditions re the size of company and trading activity
- **N.B Discretion use** but recent easements in admin
- **“Relevant IP” can be a key issue for tech cos**
- Challenges re M&A and reorgs
- WTC re 25hrs / 75% working time
- Very flexible and tax breaks are very generous but devil in the detail...
- **Biggest source of DD red-flag issues on exit!**

## Non-tax-advantaged options

- Cheap in but expensive out!
- No eligibility conditions but beware grants to non-employees
- No need for tax valuation of shares at grant
- Very flexible re design but beware the implications re accounting and leavers
- Earnings income tax treatment – when is there NIC?
- Who bears the NIC cost?
- Greater dilution to deliver meaningful post-tax reward
- **Statutory corporation tax deduction on options v transaction cash bonus**

## Company Share Option Plan (CSOP)

- Options granted with market value exercise price at time of grant
- Options can be granted to any employee inc p/t but directors must be f/t
- Recent changes in the Spring Budget limit £60k and flex re any class of share
- If all the conditions are met, no income tax on the exercise of options, just CGT on sale.
- Exercise no earlier than 3 years from grant, usually, for tax advantages

## Growth shares

- Used by companies that have outgrown or are ineligible for EMI
- **Risk re interaction with SEIS / EIS**
- Complex
- Tax valuation of shares is key. Urban myth nil value
- Upfront income tax – how to manage funding of this?
- Future gains should be capital (UK specific), s431
- Less favourable re corporation tax deduction – is this a concern or is business exiting pre-profit?
- Transparency v. nominee

# IMPACT OF A TRANSACTION



How will the options/awards be **affected** by the transaction?



How will the Purchaser **acquire** the shares?



How will the shares be **sourced**?

# DILIGENCE – What is scrutinised?

## 1. Scope of incentive arrangements

- Total number of awards, relevant exercise price
- Cash based or share based awards
- Employee benefit trust?
- Jurisdiction of employees – especially any US citizens / green card holders even if in UK
- Key documents – plan rules, award documents, investment agreement and any loan agreement

## 2. Vesting and exercise

- Whether options have vested or will vest as a result of the transaction. N.B. use of discretion under EMI.
- Cashless exercise permissible?

## 3. Tax issues (not an exhaustive list!) = price chip!

- Income tax and NICs vs CGT N.B. Vermilion judgment by Supreme Court this month
- Whether employer NICs have been transferred to employees & point shares become RCA
- Evidence of EMI grant notifications and signed 431(1) elections
- Disguised remuneration re an EBT (any early ‘earmarking’ of awards or loans for example)
- Corporation tax deduction – this is a valuable cash-like asset.

# MECHANICS RE A PRIVATE TRANSACTION

- **How many options will be exercised?** Performance criteria and time pro-rating
- **EMI** – use of discretion and have all qualifying requirements been met?
- **Communications** - what will be sent to option holders and how and when will they exercise their options?
- **Power of attorney**
- **Cashless exercise?**
- **Tax** - proper indemnities to cover employer NICs / s. 431 tax elections? Earn-out?
- **What happens to incentive arrangements post transaction?** Any TUPE considerations?
- **Funds flow** - enough cash in the deal to meet all demands? Exercise price, tax, re-investment roll re PE?
- **Post deal incentives negotiated**
  
- **Different forms of exit have different aspects to consider, IPO, trade sale (earn-out), PE roll re-invest, EOT etc.**

# My experience of selling a company

HOTEL

Destination

Arrival

Departure

SEARCH

Frank Reeves  
Former CEO, AVVIO



# Reaching a successful outcome

**PADDY MccGWIRE**  
Managing Partner, Silverpeak  
pm@silverpeakib.com





Be clear on  
your objectives





COMPANY



SHAREHOLDER



MANAGEMENT

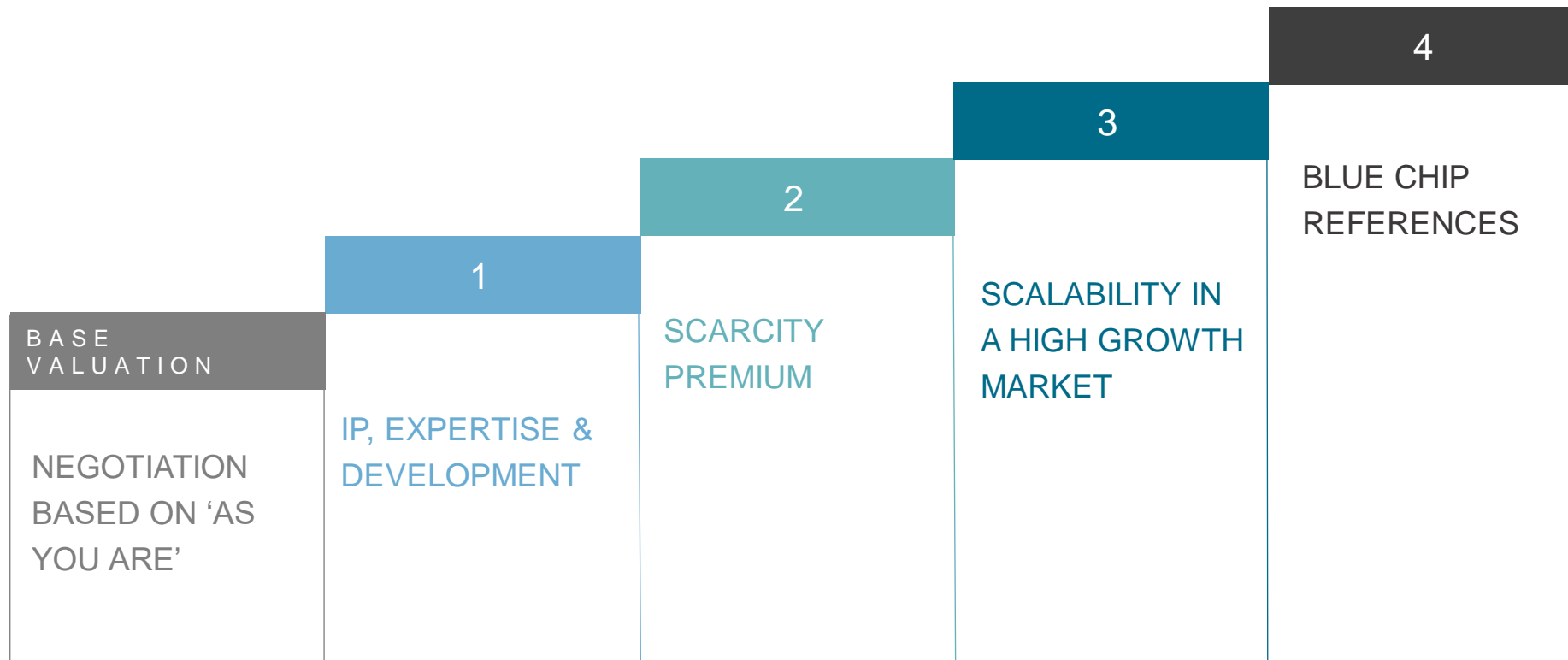
Identify individual objectives

# How to deliver a strategic premium

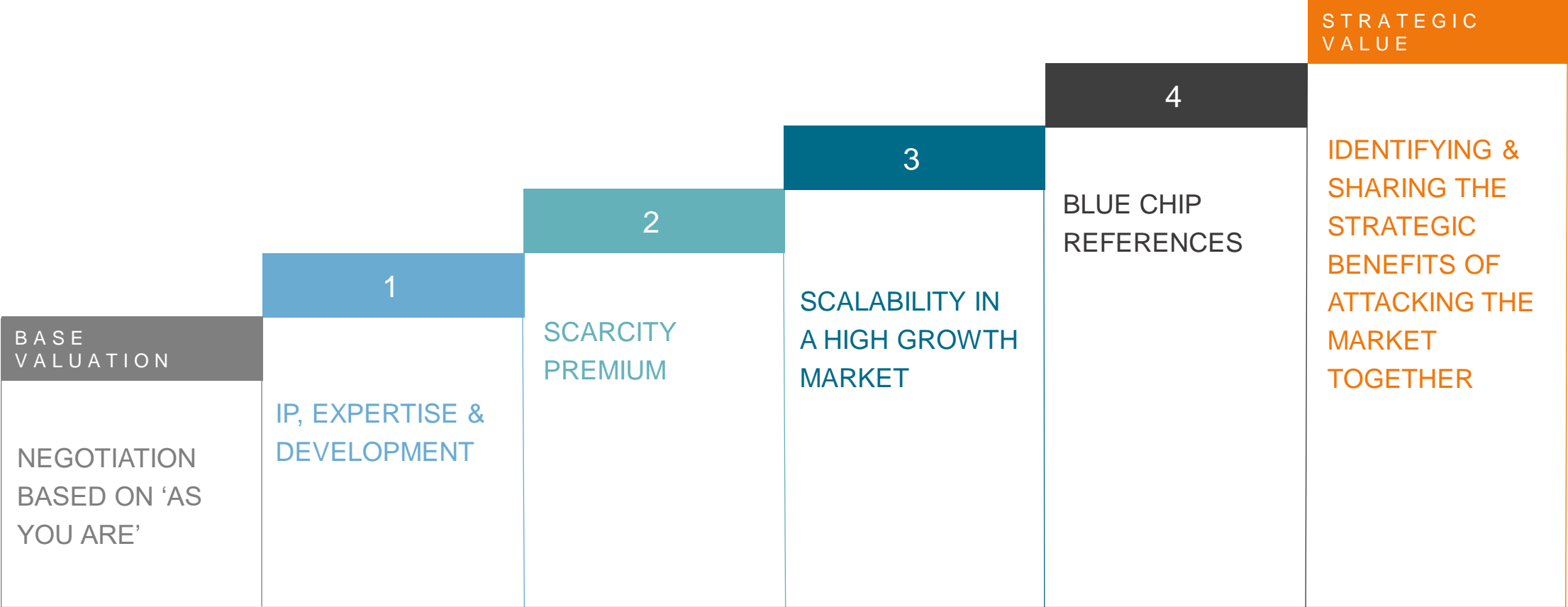
BASE  
VALUATION

NEGOTIATION  
BASED ON 'AS  
YOU ARE'

# The key ingredients to change the narrative



# Moving away from 'cost' to 'the value to the buyer'



## Three different buyer groups

Each buyer group has their own dynamics – what suits you?

### PE PLATFORMS

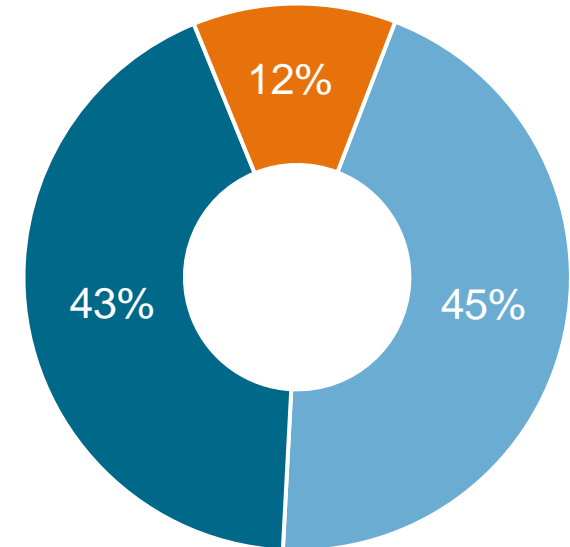
Typically have strong organic growth focus with acquisitions

### PE-BACKED CONSOLIDATORS

PE-backed companies are often consolidators focused on achieving synergies

### STRATEGIC ACQUIRERS

More willing to pay for true strategic value



# Understanding the buyer decision landscape

## DECISION MAKERS

### “CHAMPIONS” CENTRAL/REGIONAL

Responsible for “sponsoring” the deal

- CEO
- Business Unit Head
- PE investment partner



### “EXECUTION”

Responsible for deal execution

- Corporate Development
- M&A team

# Negotiation tactics



Your adviser is the  
'problem solver'



# Panel Q&A

## CHAIR

Paddy MccGwire  
Managing Partner, Silverpeak

## PANEL

Tom Wrenn  
Managing Partner, ECI Partners

Pietro Strada  
Managing Partner, Silverpeak

Liz Hunter  
Partner, Mishcon de Reya

Frank Reeves  
Former CEO, Avvio



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Thank you