

The background of the entire page is a dark blue, abstract digital landscape. It features a glowing, wireframe-like structure on the left side that resembles a mountain range or a data visualization. Scattered throughout are various geometric shapes like triangles, squares, and circles in shades of blue, orange, and white, connected by thin lines, suggesting a network or data flow.

Application software

BENCHMARK REPORT Q3 2023

A review of public application software
company valuation metrics in Europe, the
UK, and the US

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, the UK, and the US, broken down by SaaS, vertical and horizontal.


We review median values to produce a robust industry reference benchmark¹.

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¹Note: We screen US, European and UK publicly listed software companies using the S&P Capital IQ database. We derive our insights and conclusions from this S&P dataset, which consists of 566 companies, of which 508 are still public.

Private company performance cannot be directly compared against public valuation metrics.



A mixed economic picture is playing into software valuations as the UK starts to close the gap on other regions against a backdrop of falling inflation, while the prospect of a further interest rate rise in the US has stemmed recent multiple rises in the region.

Key findings

- After a slower start than the US and Europe, the UK showed growth in EV/Revenue and EV/EBITDA multiples during Q3, up by 8% and 4%, respectively, as the market finally started to see a moderation of inflation.
- An unexpected rise in inflation, signals from the Federal Reserve of a further interest rate rise in coming months and fears of a 2024 recession dampened US valuations: US SaaS was down by 9%, and US vertical and horizontal stalled with a 1% decline by EV/Revenue. Europe also fell by 6% as the European Commission revised down GDP growth forecasts for 2023 and 2024 over the summer.
- US horizontal EV/EBITDA multiples rose by 5% as the promise of productivity gains from Big 7 technology stocks' investments in generative AI prove attractive to investors.
- Nordic application software company valuations have tracked their US counterparts closely over the cycle, but as investors favour profitability over growth, the gap between the Nordics and the rest of Europe and the UK has narrowed.
- Security software companies have led the sector pack for valuations growth by EV/Revenue multiples over the quarter, boosted by cybersecurity concerns and continued conflict in Ukraine. Fintech, meanwhile, continues to trend downwards.
- There are signs of the IPO winter starting to thaw, with several notable recent IPOs, such as Arm Holdings and Klaviyo listing in Q3, signalling increasing investor appetite and confidence and is one indicator for improving valuations and market conditions generally.



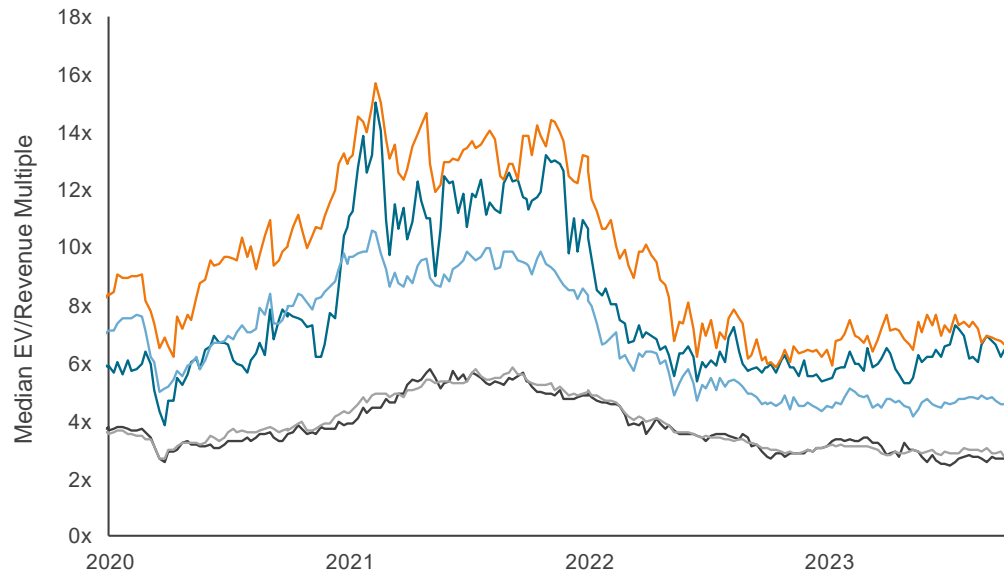
SECTION 1

Category valuation multiples

UK valuations improve in Q3, while US and Europe take a pause

UK software business valuations have had a strong quarter, with median EV/Revenue multiples increasing by 8% since the end of June 2023. This contrasts with Europe, where these multiples contracted by 6%, and US categories, which all fell. US SaaS declined by 9%, while US vertical and horizontal categories decreased, although less markedly, by 1%.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q3



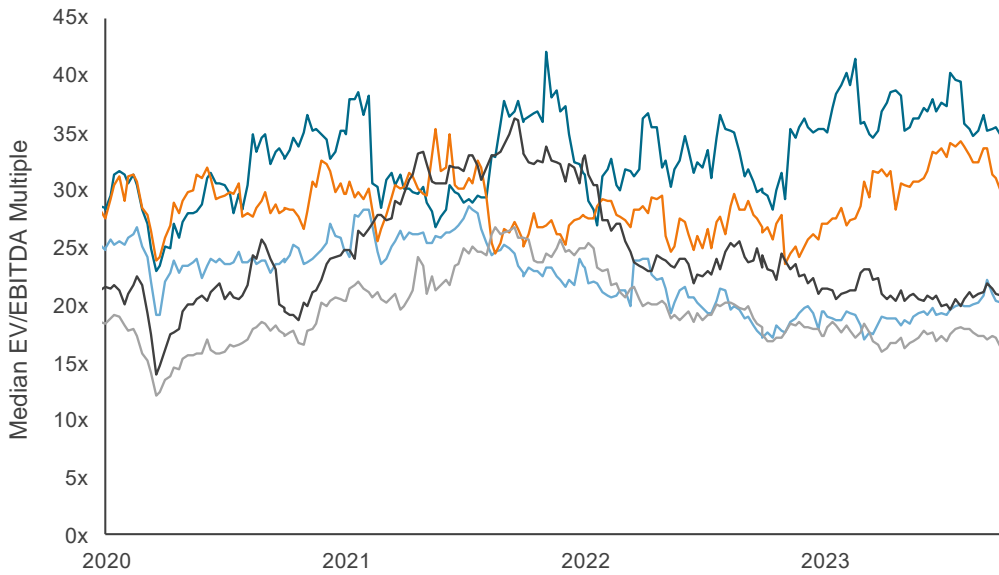
US vertical 6.46x	US SaaS 6.62x	US horizontal 4.59x	UK 2.68x	Europe 2.75x
QoQ change				
(1)% ▼	(9)% ▼	(1)% ▼	8% ▲	(6)% ▼
YoY change				
10% ▲	11% ▲	1% ▲	(1)% ▼	(9)% ▼

The UK recovery has been slower than that in Europe and the US, as factors such as higher inflation than other regions (it was 8.7% in the UK in May, versus 6.1% in Europe) weighed on software valuations. Yet over the past quarter, UK inflation has moderated, falling to 6.7% in August, although it still remains higher than in Europe, which registered 5.2%. The UK multiple EV/Revenue multiple still lags Europe slightly, at 2.68x versus 2.75x, respectively, and, while it remains considerably below all the US categories, this is in line with historical trends. Some of the companies leading UK software valuation growth include data collection and management business D4t4 Solutions, which was up by 60%, cloud video editing company Blackbird (up by 124%) and cybersecurity services specialist Crossword Cybersecurity (up by 32%).

Annual trends show that, despite the US falls this quarter, all US categories have risen versus a year ago, with US SaaS showing growth of 11%, US vertical not far behind with 10% and a marginal increase in US horizontal of 1%. The UK has remained largely static, while Europe has fallen by 9%.

By EV/EBITDA, US SaaS and vertical valuations have had a more challenging quarter. Inflation in September came in higher than expected, at 3.7%, with the Federal Reserve signalling the potential for a further interest rate rise before the end of 2023. US Treasury yields also increased during the quarter to 4.7%, which suggests that investors are expecting a bumpier ride ahead, even though the US economy has remained largely resilient to rising interest rates to date.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q3



US vertical 34.78x	US SaaS 29.88x	US horizontal 20.25x	UK 20.75x	Europe 16.20x
QoQ change				
(8)% ▼	(11)% ▼	5% ▲	4% ▲	(6)% ▼
YoY change				
17% ▲	14% ▲	18% ▲	(15)% ▼	(7)% ▼

US horizontal valuations by EV/EBITDA, meanwhile, registered an increase of 5%. This may well reflect investor confidence in the prospects for generative AI in these businesses. The Big 7 technology companies have been investing heavily in generative AI capabilities over the past year, moves that could well bring about productivity improvements further down the line. US horizontal has also performed the strongest of all categories on an annual basis, rising by 18%.

UK software has grown by EV/EBITDA multiple over the past quarter. Increasing by 4%, the UK multiple of 20.75x is significantly higher than Europe’s 16.2x and even US horizontal’s 20.25x – end-of-life device data erasure business Blancco Technology Group illustrates this trend, trading at 21.49x, up 46% in the quarter. The growth in public markets mirrors what we have seen in the private markets over the past six months, where high quality UK businesses are trading at strong EV/EBITDA multiples.



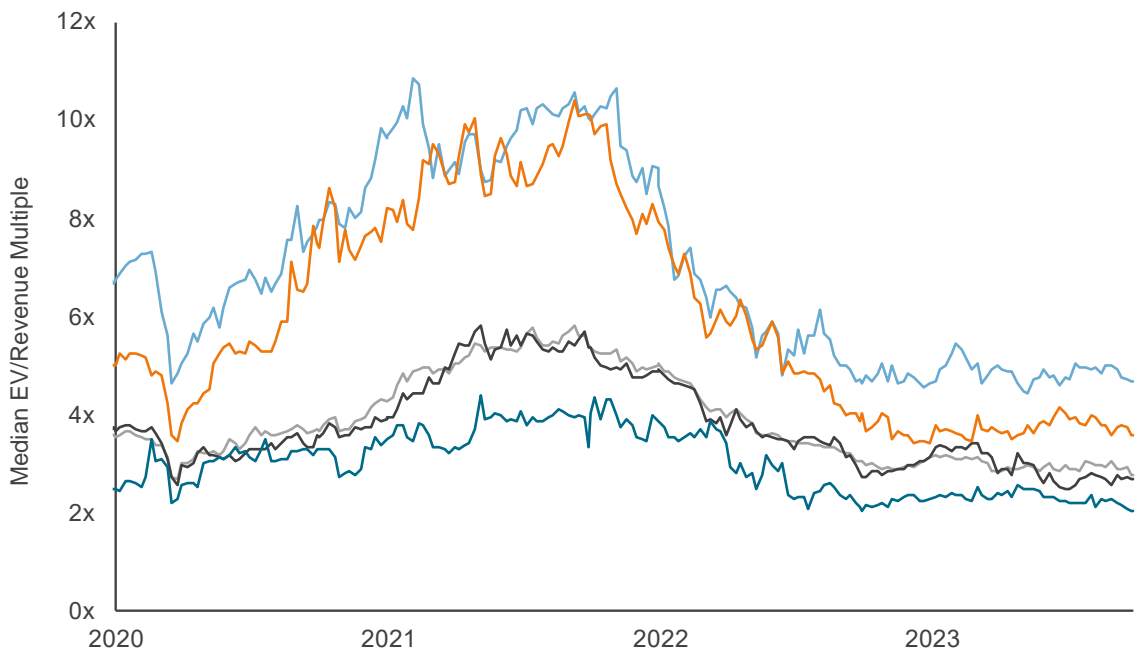
SECTION 2

European valuation multiples

Nordic region correlated with US software valuations by EV/Revenue multiples

For this quarter’s Software Benchmark report, we have broken Europe into subcategories to compare trends across the Nordics, DACH and the UK as well as Europe and the US.

SOFTWARE EUROPEAN VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q3



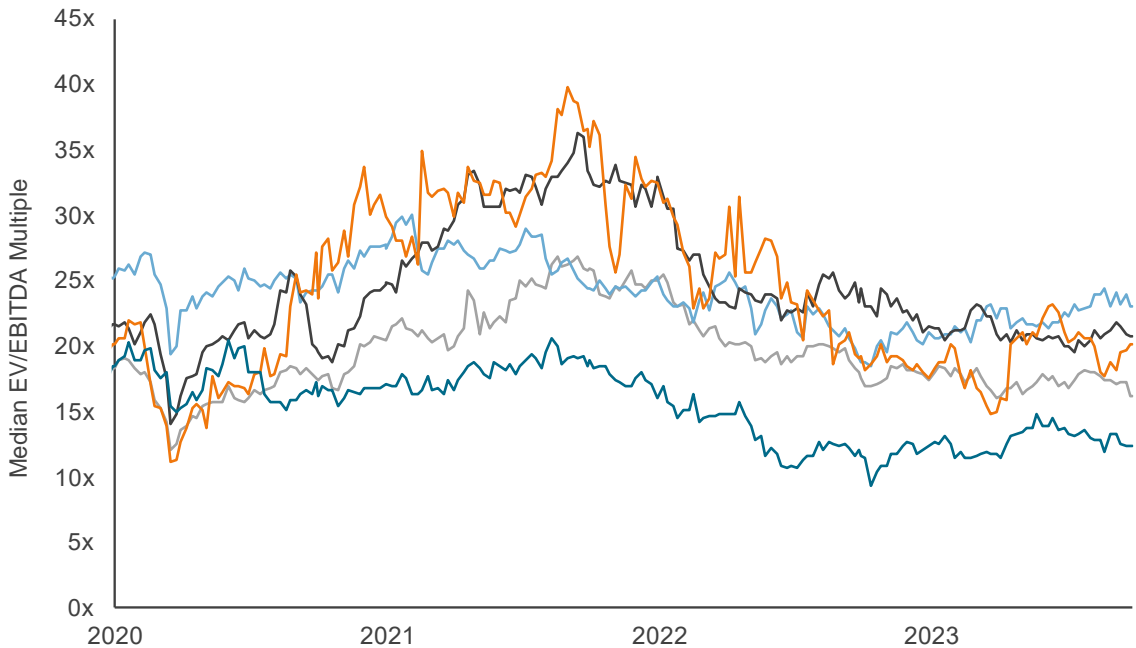
DACH 2.03x	NORDICS 3.55x	US 4.67x	UK 2.68x	Europe 2.75x
QoQ change				
(9)% ▼	(12)% ▼	(1)% ▼	8% ▲	(6)% ▼
YoY change				
0% ▲	(11)% ▼	1% ▲	(1)% ▼	(9)% ▼

The chart shows that Nordic software company valuations by EV/Revenue are more correlated with their US peers than their European ones over time, and particularly during the 2021 to 2022 market peak. While they have fallen more than other categories, at 3.55x, the median multiple for Q3 was higher than in other European regions.

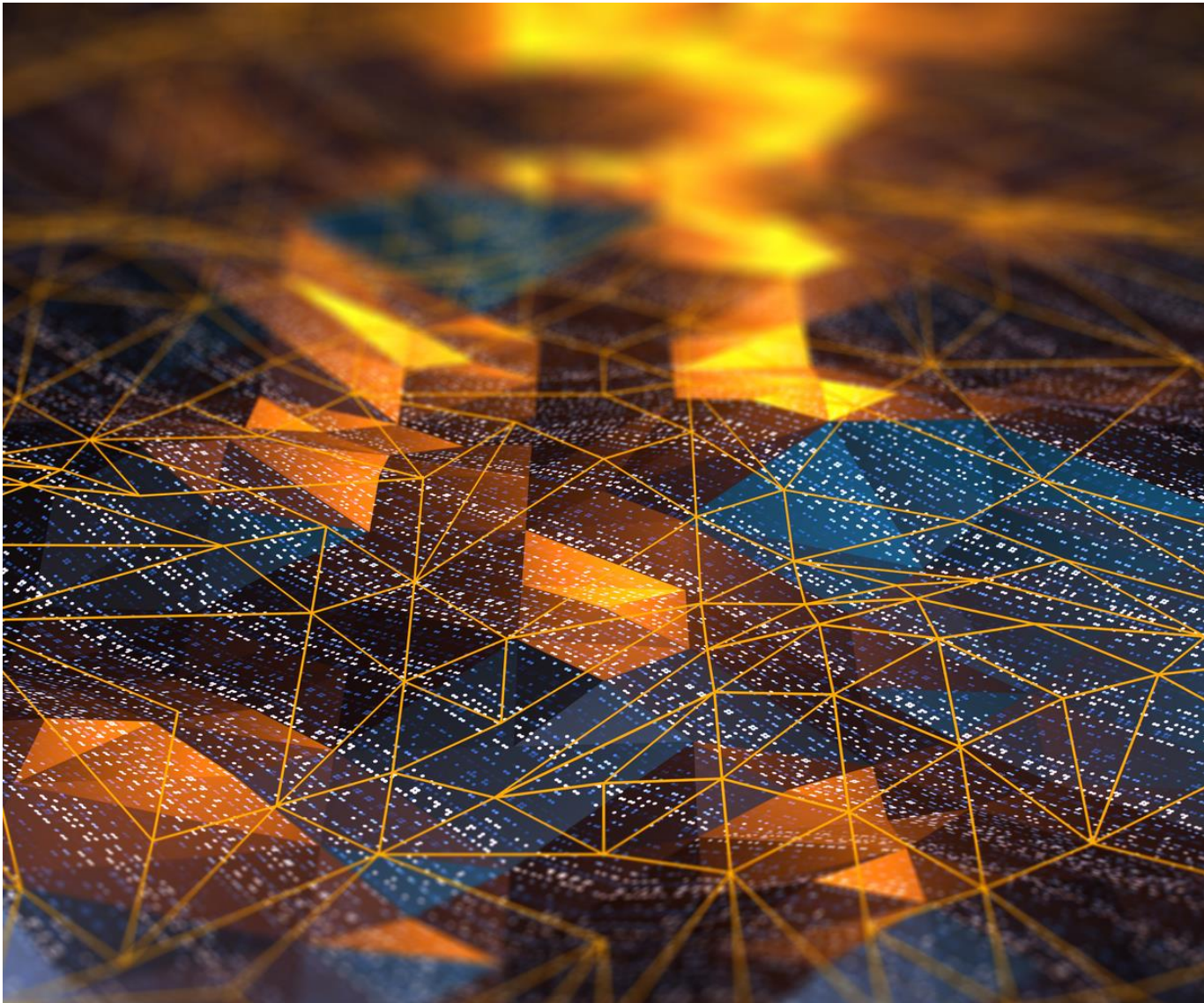
The Nordic region is home to 65 software companies in our sample, higher than the 59 in the UK and 31 in the DACH region, reflecting the strong technology company base and talent pool that have grown up there over the past decade or more. The success of home-grown companies such as Skype, Spotify and Klarna has helped sow the seeds for the creation of an ecosystem that attracts both local and international capital for entrepreneurial technology businesses. The fact that each Nordic market is relatively small has fostered an international and global outlook among entrepreneurs seeking growth. Local stock markets have been instrumental for many of these businesses in raising capital – the top five companies in our sample in the region are listed on Nasdaq Stockholm and Nasdaq Oslo.

As the chart below shows, by EV/EBITDA, however, the correlation is less pronounced. In addition, in the past year, US software valuations by this metric have performed more strongly than elsewhere, rising by 23%, versus just 4% in the Nordics.

SOFTWARE EUROPEAN VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q3



Region	DACH	NORDICS	US	UK	Europe
Median EV/EBITDA 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)% ▼

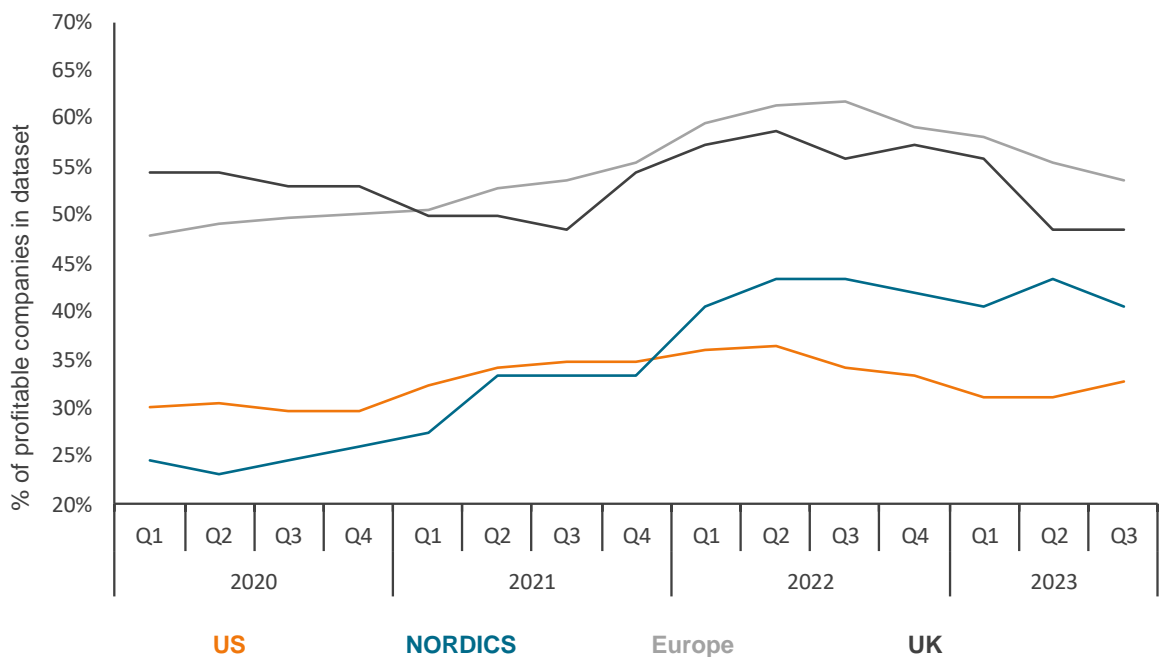


SECTION 3

Operating metrics

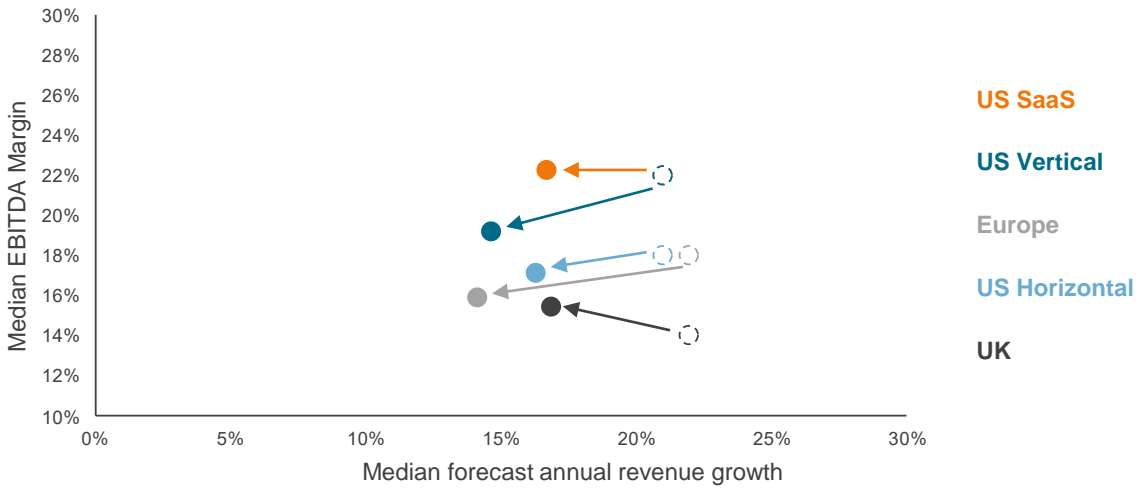
European and UK software businesses consistently more profitable than US counterparts

While US valuations have historically been higher than Europe and the UK, our data on the percentage of profitable companies tells a different story. European and UK software companies clearly and consistently focus more on profitability than their US counterparts, which have often placed more emphasis on growth.

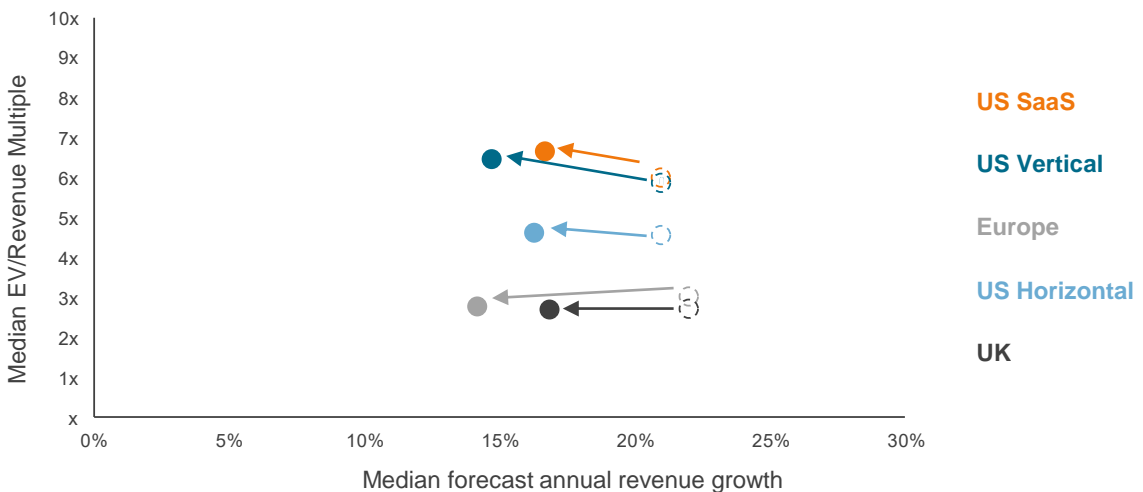


In Q3, 54% of European software companies in our sample were profitable, 49% in the UK and just 33% in the US. Similar to our findings on EV/Revenue multiples, the Nordic region has pursued a different path from the rest of Europe, suggesting that companies and their investors valued growth over profitability in the boom years of 2020 and 2021 in a similar way to those in the US. During this period, the percentage of profitable Nordic software companies in our sample was lower even than in the US, although this has shifted considerably since the technology market correction. In Q3 2023, 41% of Nordic companies were profitable, up markedly from the roughly 25% in 2020.

We expect the gap between the US and Europe to narrow over the coming year as annual growth forecasts have continued to drop. US vertical and European forecasts have declined the most, falling to below 15%. Median EBITDA margins have also fallen in most categories (most sharply in US vertical and horizontal), while the UK's improved margins perhaps help to explain the rising multiples we outlined earlier. The UK also has the highest forecast annual revenue growth, with a median of 17%.



And, while US vertical has suffered an EBITDA margin decline and is forecasting lower revenue growth, its median EV/Revenue multiple has increased over the past year, as the chart below shows. Other categories show a flat EV/Revenue multiple versus a year ago, suggesting that the correction seen in 2022 has not deepened.





SECTION 4

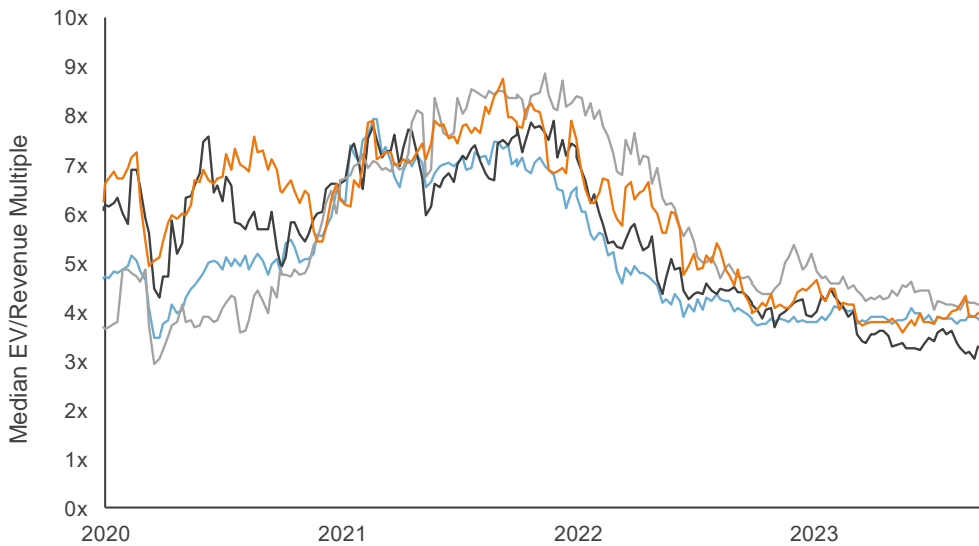
Sector valuation multiples

Security grows by EV/Revenue, Fintech falls

Over the past quarter, security is the only software sector that saw improved EV/Revenue multiples, rising by 4%. It is also the sector that has fallen the least over the past year, with just a 1% decline. Factors such as the continuing war in Ukraine and a number of cybersecurity attacks hitting the headlines over recent times seem to have held security software valuations steady. The conflict in Israel and Gaza that has recently escalated may well drive further increases in this sector over the coming quarter as investors see opportunity for growth.

Despite a 9% decline in Q3, industrials remains the top sector by median multiple, with 4.05x, a position it has held over recent quarters and keeping it above pre-Covid levels. The companies in our sample serve some of the biggest listed businesses, providing secure future revenues that investors value highly at a time of economic uncertainty.

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q3

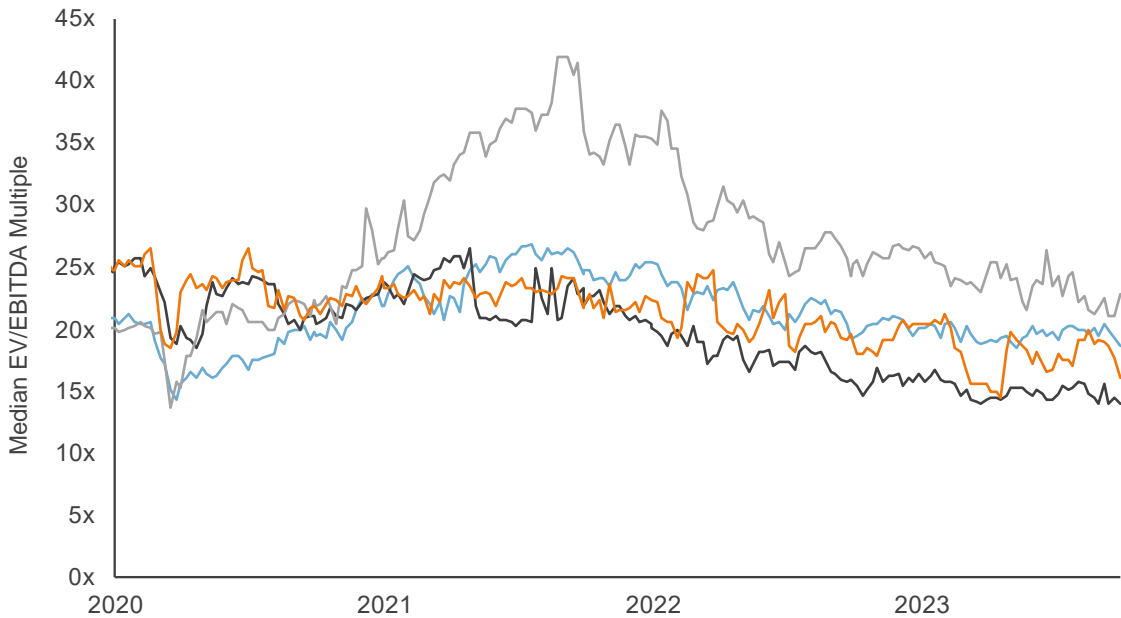


Security	Enterprise	Fintech	Industrials
3.93x	3.68x	3.12x	4.05x
QoQ change			
4% ▲	(6)% ▼	(10)% ▼	(9)% ▼
YoY change			
(1)% ▼	(4)% ▼	(25)% ▼	(12)% ▼

Fintech, meanwhile, continued to fall through Q3 by 10%, compounding declines in previous quarters, with a year-on-year fall of 25%. Lower corporate and consumer spending are affecting payments company revenues, while high-profile blockchain and cryptocurrency failures have dented investor confidence in the sector.

The story by EV/EBITDA multiples is more nuanced. No sectors registered an increase in Q3 and even security fell by 4%. However, Fintech’s low median EV/EBITDA multiple of 13.95x compared with the other sectors is quite a shift from 2020, when it registered multiples of over 20x. Since late 2021, it has consistently trended lower than other sectors. This aligns with some of the trends we have seen in private markets, where the hype around the sector during the pandemic has given way to lower valuations.

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q3



Security	Enterprise	Fintech	Industrials
15.97x	18.65x	13.95x	22.72x
QoQ change			
(4)% ▼	(6)% ▼	(2)% ▼	(3)% ▼
YoY change			
(16)% ▼	(3)% ▼	(11)% ▼	(10)% ▼



SECTION 5

Methodology

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 classification

BY CATEGORY

To allow comparison, we group companies covered in the report into one of four categories.

(In brackets, the number of public companies in each dataset.)

Europe (245)

Europe or UK headquartered, publicly quoted software companies..

US SaaS (88)

US-headquartered, operating a Software as a Service (SaaS) model, with a gross margin of 75%+.

US Vertical (55)

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

US Horizontal (207)

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

BY SECTOR

We also classify companies according to common sectors.

(In brackets, the number of public companies in each dataset.)

Enterprise Software (212)

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

Fintech (75)

Software technologies that facilitate payments and financial services, such as insurtech, blockchain, mobile wallets.

Industrials (29)

Software for use in industrial sector applications, including energytech, constructiontech, design automation.

Security (73)

Companies that provide software solutions for data, applications, and IT environment, such as cybersecurity.

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>UK UAE August 2023</p>  <p>Maritime e-procurement platform Sale to</p>  <p>backed by</p> 	<p>UK JP WW April 2023</p>  <p>Institutional digital asset infrastructure provider \$36m Series A financing</p>  <p>AND UNDISCLOSED INVESTORS</p>	<p>EU UK FR April 2023</p>  <p>High-end CPU for HPC and data centres €90 Series A financing</p> 
<p>CH PL LU US December 2022</p>  <p>In orbit servicing and space debris removal \$29m Series A investment by</p> 	<p>AU DE December 2022</p>  <p>Travel P2P marketplace €30m acquisition of</p> 	<p>UK US November 2022</p>  <p>Hotel technology platform driving direct bookings Sale to</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.

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Silverpeak hasn't disappointed in a transaction whose size and industry-changing nature made the process complex and unusually long. We are delighted with the results which will allow SiPearl to deliver its first product next year.

Philippe Notton, CEO of SiPearl

+44 (0) 20 7529 5400
london@silverpeakib.com
silverpeakib.com

123 VICTORIA STREET,
LONDON, SW1E 6DE, UK

SILVERPEAK LLP



Nick Jones
Partner

nj@silverpeakib.com



Matthew Gilmour
Senior Associate

mjg@silverpeakib.com



Dominic Taurins
Analyst

dt@silverpeakib.com



Paddy MccGwire
Managing Partner

pm@silverpeakib.com

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