

The background of the entire page is a dark blue field filled with abstract, glowing data points and lines. Some points are blue, some are orange, and some are white. Lines connect these points, creating a network-like structure. A prominent feature is a glowing, wireframe-like structure that resembles a mountain range or a complex data visualization, rendered in a light blue/cyan color. The overall aesthetic is futuristic and tech-oriented.

Application software

BENCHMARK REPORT Q4 2023

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

We review median values to produce a robust industry reference benchmark. 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 568 companies, of which 498 are still public.



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As the US Federal Reserve ended the year by signalling potential interest rate cuts for 2024, stock markets surged, with US big 7 technology companies leading the way. US and European software valuations ticked upwards in Q4 as inflation started to recede, even as the geopolitical picture became more uncertain.

Key findings

Public market software company valuations by EV/Revenue registered strong growth in the final quarter of 2023 across the board, despite an escalation of conflict in the Middle East and the ongoing war in Ukraine. Investors appeared to draw confidence from a reversal in treasury yields and from the US Federal Reserve's indications that it could start reducing interest rates this year as inflation showed signs of waning.

This confidence was most evident in the US, where multiples rose in line with the wider index, which had its best quarterly performance in Q4 2023 since 2020. US multiples outperformed other geographies: EV/Revenue numbers were up (vertical and horizontal by 12% each and SaaS by 6%) as were EV/EBITDA multiples (vertical by 6%, SaaS by 15% and horizontal by 9%).

A strong final quarter for 2023 boosted US software valuations through the year, with vertical rising by 36%, horizontal by 14%, and SaaS by 9% year-on-year by EV/Revenue multiples, while by EV/EBITDA SaaS increased by 34%, horizontal by 13% and vertical by 5%.

The year-on-year trend for the UK and Europe, however, was more subdued as fears of a recession continued to dampen valuations. This uncertainty was most palpable in the UK with year-on-year EV/Revenue multiples decreasing by 12%, where the Bank of England raised the base rate five times during 2023 from 3.5% to 5.25%.

We have continued to see a trend of US companies prioritising profitability over growth: a higher percentage of our US dataset is now profitable and median growth forecasts are lower.

In Europe, the DACH region (Germany, Austria and Switzerland) stood out in Q4 for an improved median EV/EBITDA multiple. Despite the high quality of businesses here, companies have historically had limited access to public markets financing. However, we are seeing a shift in investor appetite towards the region and we have increased our firm's presence here.

The only sector to register a year-on-year EV/Revenue multiple increase, enterprise software rose by 13% in Q4. The US Big 7 technology companies, which are linked to artificial intelligence, performed particularly strongly as investors continue to back the technology's potential.



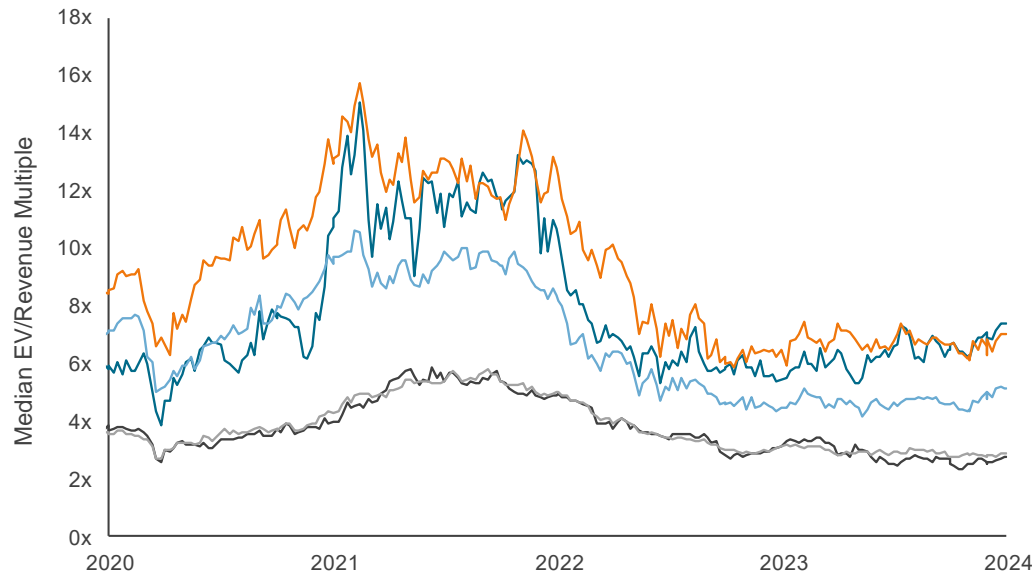
SECTION 1

Category valuation multiples

Signs of improvement for UK and European valuations, while the US sees resilient growth across all sectors

Buoyed by the stock market rally towards the end of 2023, all categories saw median EV/Revenue multiple increases in Q4 2023, with the US showing particularly strong growth and reversing the declines registered in the previous quarter. With median EV/EBITDA multiples also rising strongly in the US in the final quarter, building on increases in Q3, there are signs that software valuations in the US are starting to build momentum.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q4



US vertical	US SaaS	US horizontal	UK	Europe
7.39x	7.04x	5.12x	2.77x	2.89x
QoQ change				
12% ▲	6% ▲	12% ▲	4% ▲	5% ▲
YoY change				
36% ▲	9% ▲	14% ▲	-12% ▼	-7% ▼

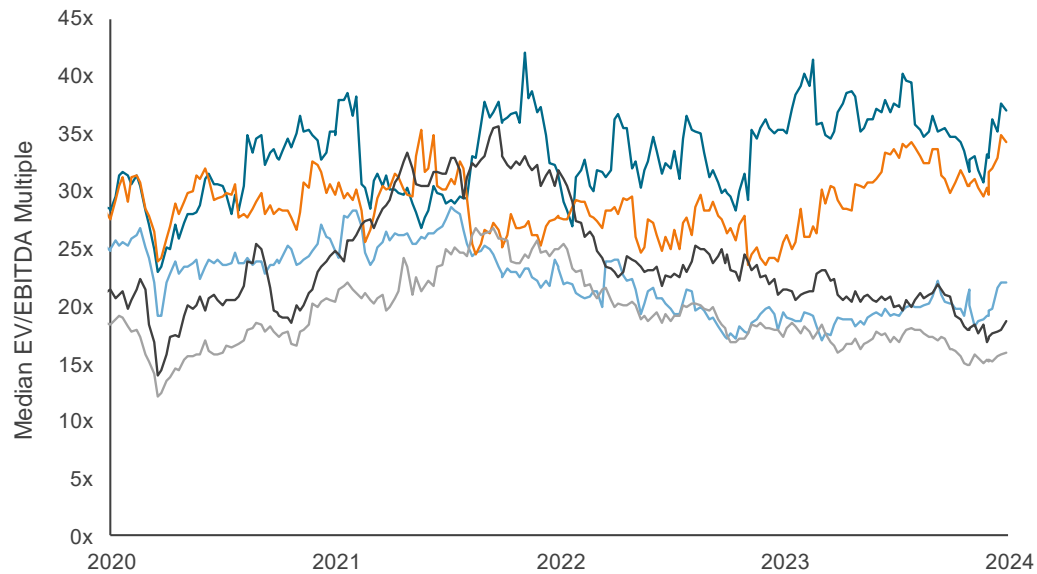
Software business valuations in the UK and European markets demonstrated stability in Q4 2023, with a 4% uptick in median EV/Revenue multiples in the UK and a 5% growth in the broader European market.

Key players driving valuations growth in the UK software landscape included cybersecurity firm Intercede Group, which saw an impressive 119% increase in EV/Revenue, enterprise software and services company Sopheon with a 99% surge, and Smartspace, a smart building space management software provider, which experienced a 56% rise.

Notably, the US SaaS sector outpaced its European counterparts, boasting a robust 6% growth, while the US vertical and horizontal categories performed even more impressively, surging by 12% each.

Despite growth across the board in Q4, annual trends showed more of a divergence by region. In contrast to the recent upturn, UK valuations declined by 12% year-on-year. A similar narrative unfolded in Europe, where multiples contracted by 7% year-on-year. However, the US software categories charted an upward trajectory during 2023, with US verticals registering robust annual growth of 36%, US horizontal categories increasing by 14%, and US SaaS notching a 9% uptick.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q4



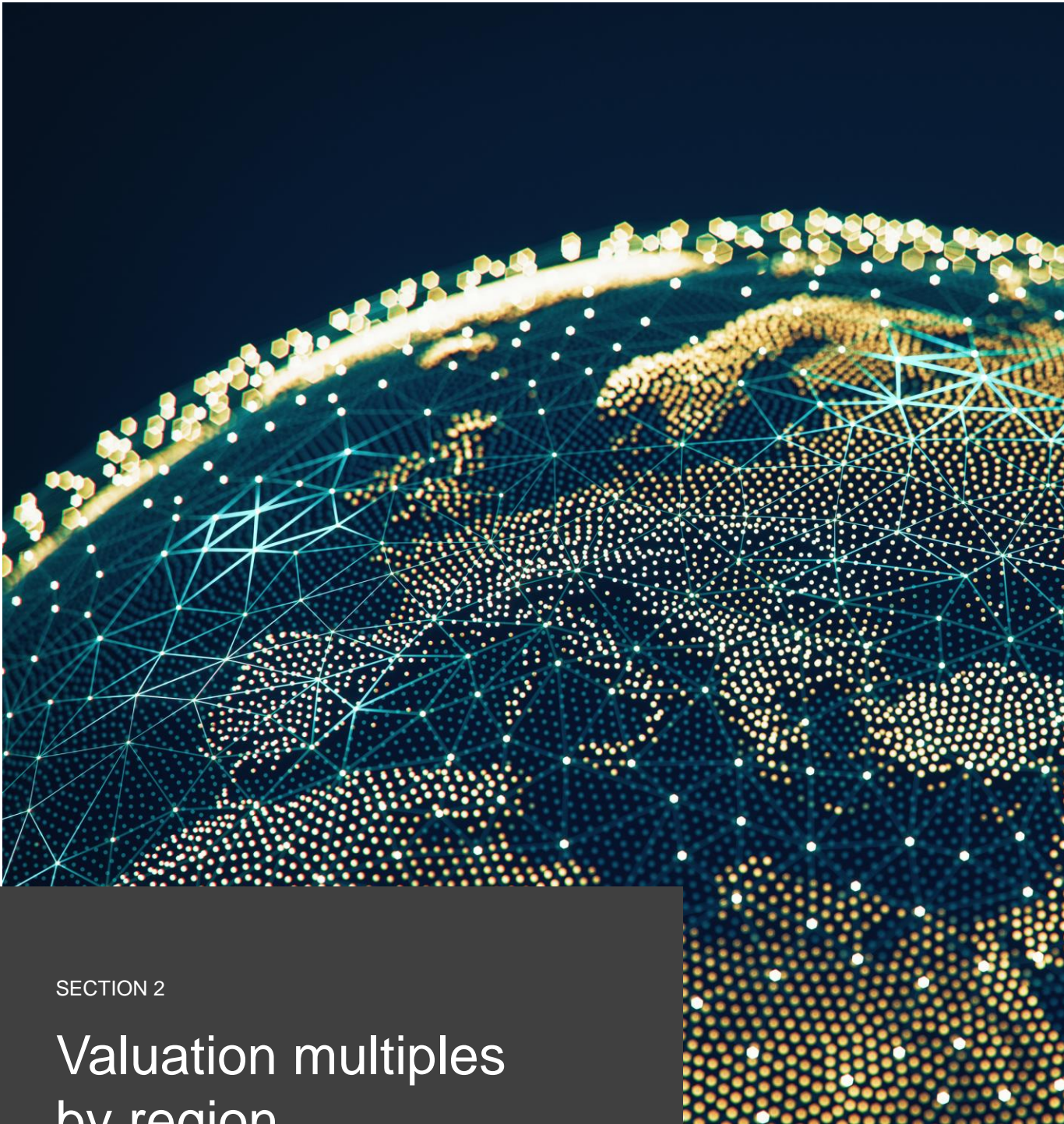
US vertical	US SaaS	US horizontal	UK	Europe
36.94x	34.27x	22.08x	18.69x	15.95x
QoQ change				
6% ▲	15% ▲	9% ▲	-10% ▼	-2% ▼
YoY change				
5% ▲	34% ▲	13% ▲	-13% ▼	-8% ▼

By EV/EBITDA metrics, the US SaaS category rose strongly in the last quarter, with an impressive 15% surge. US horizontal and vertical valuations also grew robustly, recording increases of 9% and 6%, respectively.

The broad upswing in US technology company valuations reflect a more positive sentiment on public markets, as inflation rates stabilise and markets anticipate an imminent fall in interest rates. With many expecting a cut by March 2024, US tech stocks rallied during Q4 2023, propelling a rise in the Nasdaq Composite Index of 14.6% and bringing its 2023 growth to 41%.

There were some significant valuation spikes in the US SaaS sector, with DocuSign up by a remarkable 165%. In US horizontal, PubMatic rose by 87%, while Rimini Street, posted a 60% increase.

Conversely, median software valuations by EV/EBITDA in the UK and Europe faced more challenging conditions in Q4 2023. The UK median fell most sharply, by 10%. The Bank of England’s frequent base rate interventions in 2023 likely influenced the UK’s fall: interest rates rose five times during the year, reaching 5.25%. By contrast, European valuations were more stable, with a more modest decrease of 2%. On a year-on-year basis, UK valuations registered a notable 13% dip, indicative of investor unease amid the base rate volatility.



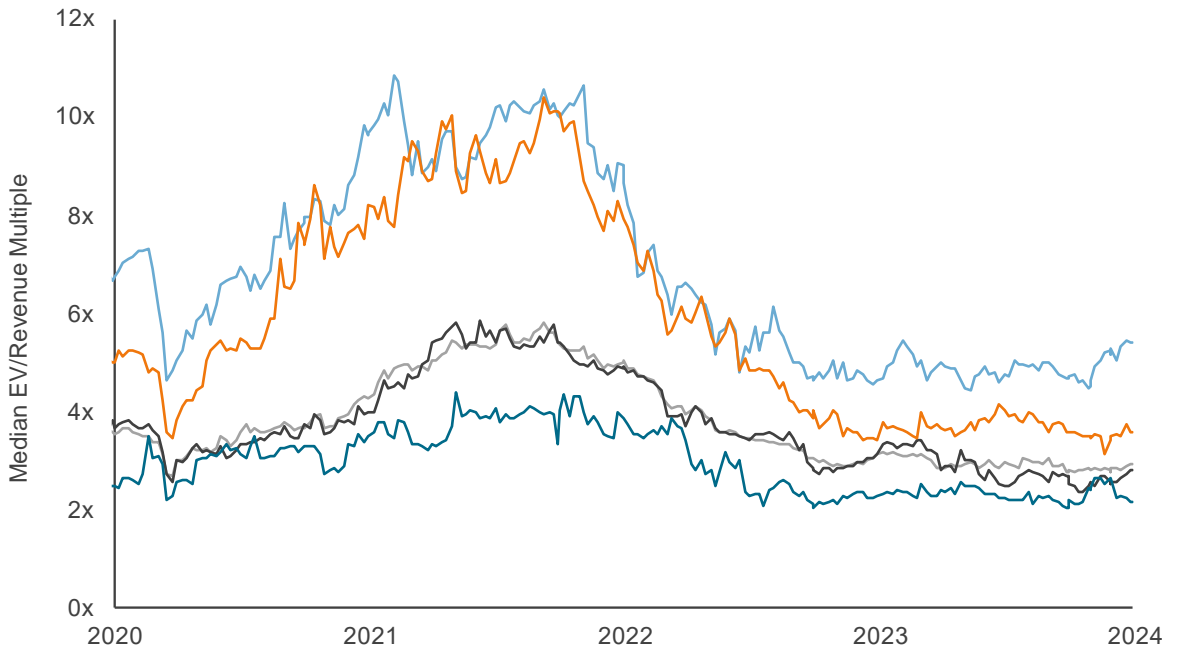
SECTION 2

Valuation multiples by region

Q4 2023 software valuations highlight Nordic resilience, DACH surge, and US tech dominance

Europe’s top performer over the past quarter was the DACH region (Germany, Austria and Switzerland) by both median EV/Revenue and EV/EBITDA, while the Nordics’ annual growth outperformed the rest of the continent.

SOFTWARE EUROPEAN VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q4



DACH	NORDICS	US	UK	Europe
2.15x	3.57x	5.40x	2.77x	2.89x
QoQ change				
6% ▲	1% ▲	16% ▲	4% ▲	5% ▲
YoY change				
-5% ▼	5% ▲	17% ▲	-12% ▼	-7% ▼

As the chart above shows, software company valuations in the DACH region tend to be correlated with that of their counterparts in the UK and broader Europe, both on a quarterly and yearly basis. However, the Nordics emerge as slight outliers in both short-term and long-term trends.

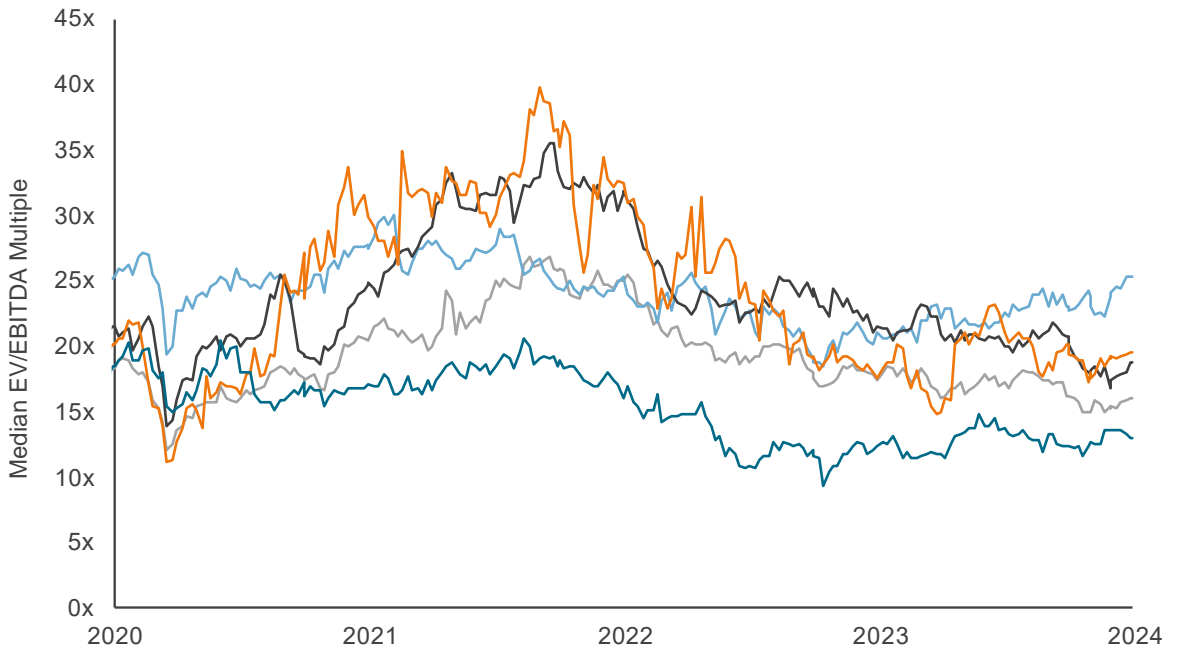
While the Nordic software sector showed a modest 1% median EV/Revenue growth in Q4 2023, its valuations have consistently remained robust on a yearly basis. They were up by 5%, displaying a resilience despite the challenging market conditions that affected the rest of the UK and Europe. As we highlighted in our previous Application Software Benchmark report, the region’s tech success stories, such as Klarna and Spotify, mean that Nordics valuations align more closely with those of their US counterparts, particularly in terms of EV/Revenue multiples.

This longer-term trend is also evident in EV/EBITDA multiples (see chart below), where Nordic valuations rose 11% year on year.

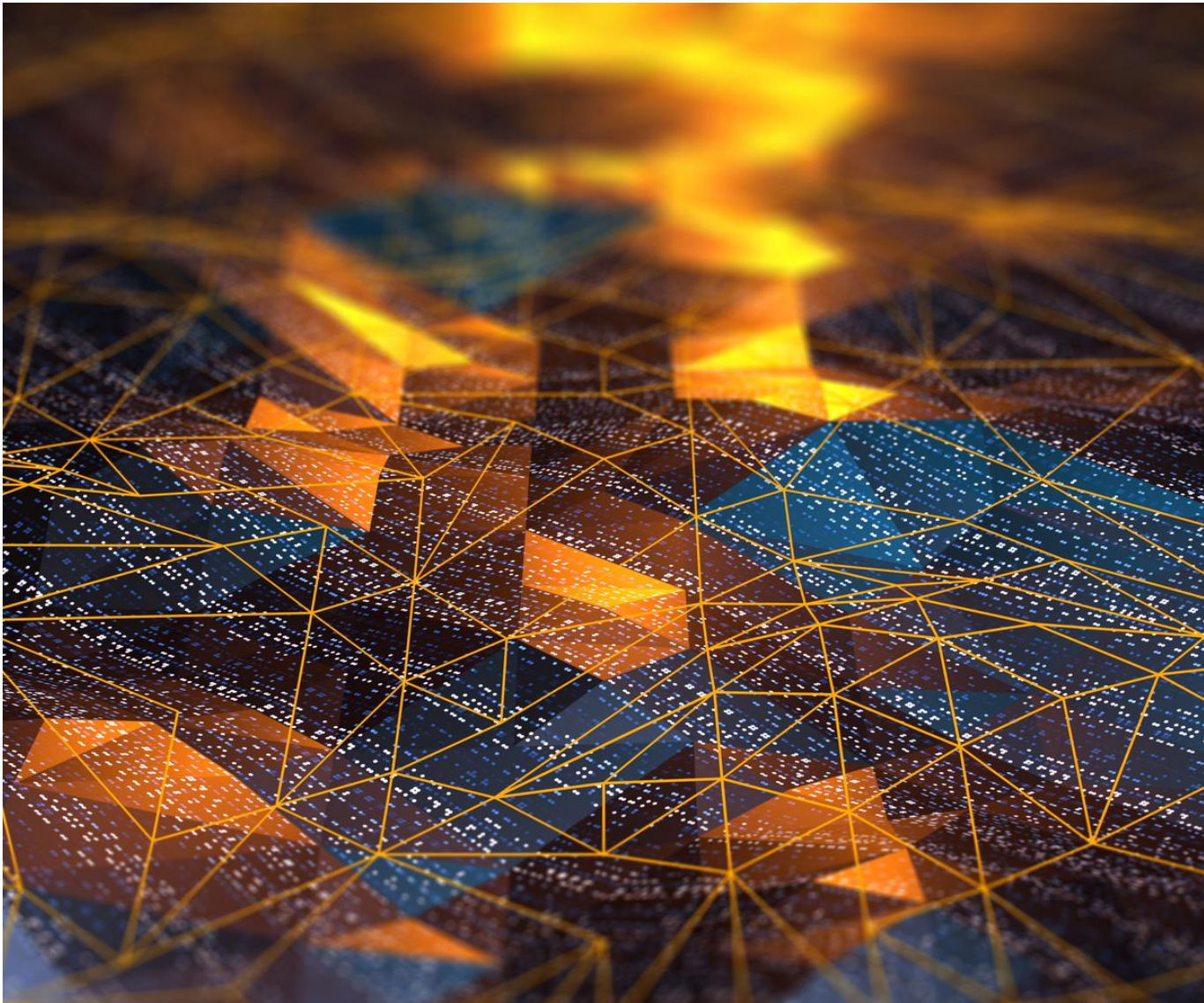
On a quarterly basis, however, the Nordics and Europe, both declined, while the DACH region rose by 4%. Some of the companies behind this growth were enterprise software company OTRS, posting an 89% increase and INIT (Innovation in Traffic Systems), which grew by 31%. This helped boost a yearly increase for the DACH region, where median multiples rose by 5%. This is despite the region facing several headwinds through 2023, when GDP was forecast to have fallen by 0.3% in Germany as the market adjusted to higher energy costs and as supply chain issues affected the country disproportionately because of its heavy manufacturing base. The pick-up in valuations may well reflect a brighter economic outlook for 2024, with the European Commission predicting a return to GDP growth and improved investor sentiment about the region.

Reflecting the category trends we outlined in Section 1, the US market stands out. Median EV/EBITDA multiples grew 9% in Q4 2023 and increased by an impressive 20% during the year.

SOFTWARE EUROPEAN VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2023 Q4



DACH	NORDICS	US	UK	Europe
12.86x	19.54x	25.25x	18.69x	15.95x
QoQ change				
4% ▲	-2% ▼	9% ▲	-10% ▼	-2% ▼
YoY change				
5% ▲	11% ▲	20% ▲	-13% ▼	-8% ▼

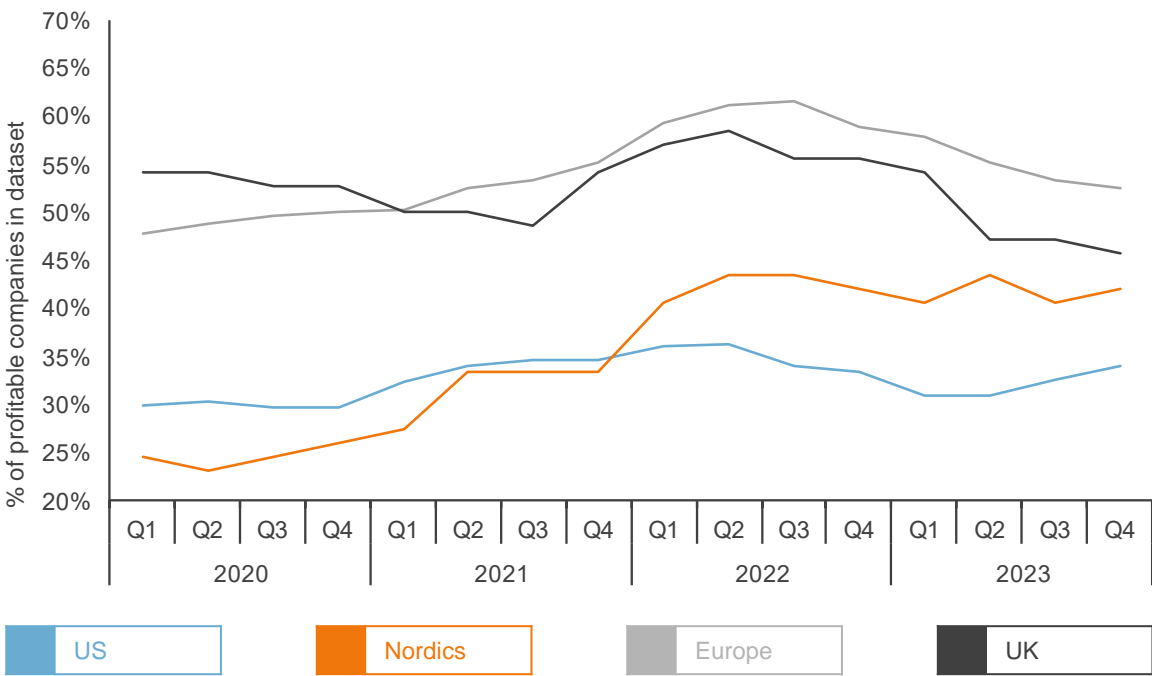


SECTION 3

Operating metrics

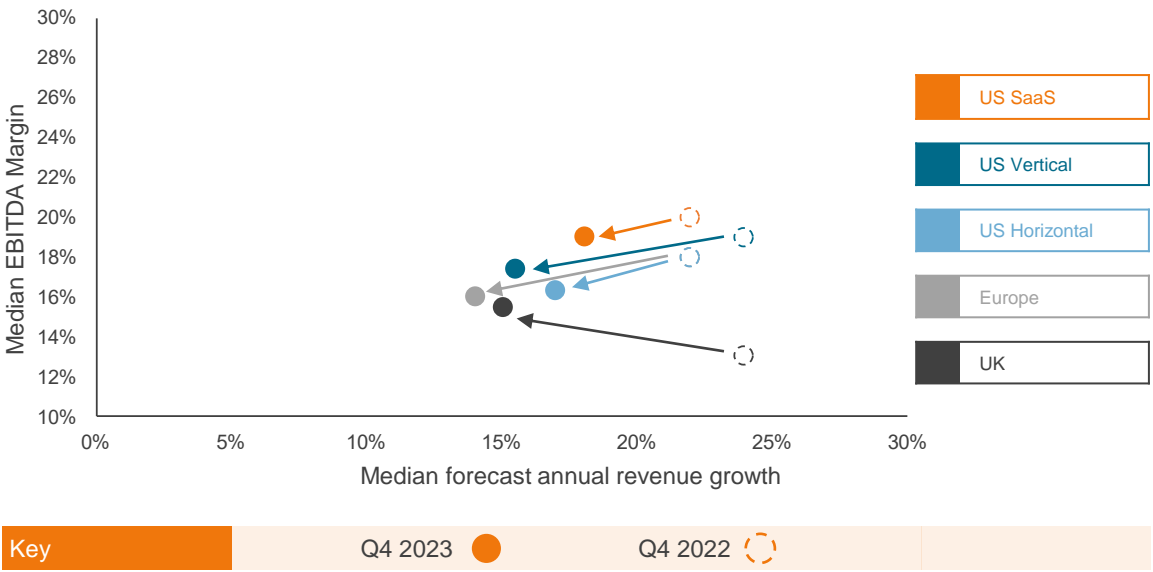
US companies edge up in profitability moving more in line with UK and Europe

As financing costs remained high, US software companies continued to focus on profitability over growth, while European and UK valuations held firm despite fears of a recession.



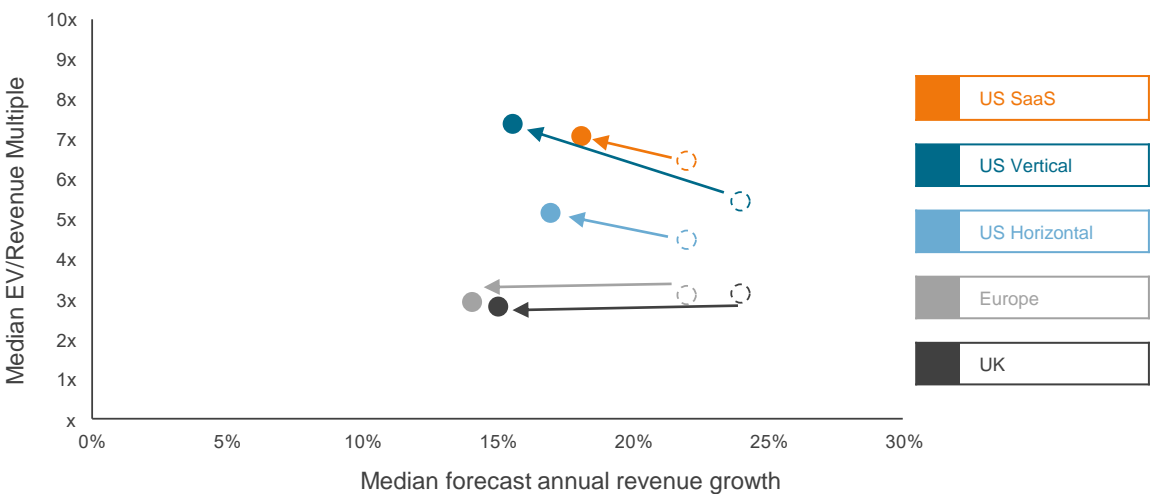
European and UK companies continued to be more profit-focused than their US counterparts. Although the US still lags Europe, the percentage of profitable companies inched up from 33% to 34% in Q4 2023. This gradual shift towards profitability in the US over the past year stems from high borrowing costs and the disappearance of the kind of 'easy' investor funding that was available in 2021 and 2022. Since the market correction in late 2022, tech companies have sought to build sustainable profitability to attract investment.

By contrast, profitability in the UK and Europe dipped from the start to the end of 2023. However, Q4 figures for these regions remain high relative to the US, at 46% for the UK and 53% for Europe.



The dispersion in median forecast annual revenue growth between US and European software companies narrowed over the year to Q4 2023, reflecting the focus on profitability over growth. US vertical and UK forecasts declined the most from Q4 2022 levels, falling to 16% and 15%, respectively. Relative confidence in US SaaS remains; it declined the least from Q4 2022 levels and had the highest forecast, at 18%. It is worth noting that although the percentage of profitable companies has increased in the US, margins overall declined.

In Europe and the UK, EV/Revenue multiples were flat versus a year ago, showing that valuations are holding despite recession concerns.



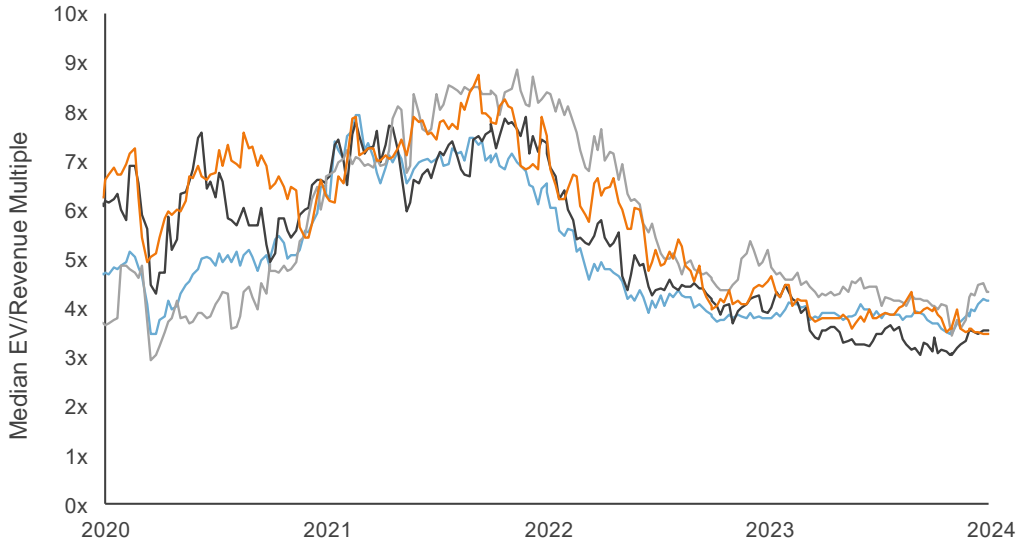


SECTION 4

Sector valuation multiples

Enterprise software gains 10% YoY, fintech peaks in Q4 2023 amid market rally whilst cybersecurity faces challenges

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2023 Q4



Security	Enterprise	Fintech	Industrials
3.49x	4.17x	3.54x	4.34x
QoQ change			
-11% ▼	13% ▲	14% ▲	7% ▲
YoY change			
-23% ▼	10% ▲	-9% ▼	-16% ▼

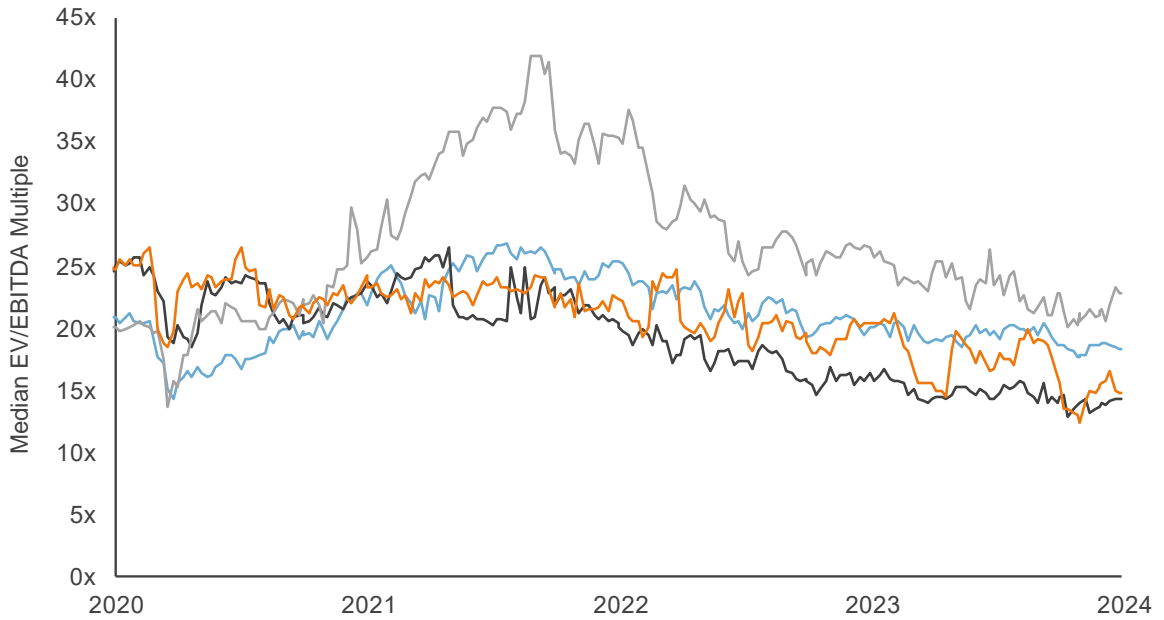
Drilling down into the sectors, enterprise software valuations by median EV/Revenue multiple continued an upward path, growing by 10% since Q4 2022. Its strong performance likely reflects the high concentration of companies in our data set linked to artificial intelligence; these benefited from positive market sentiment as investors backed the technology’s potential.

Fintech had the strongest quarter, with its EV/Revenue multiple rising 14%. However, this quarterly rise maybe down to the general tech market rally in November and December, as falling inflation created hope among traders for an interest rate cut in 2024. By contrast, fintech’s longer term trend is negative, down 9% year-on-year, mirroring the 7% drop in the industrials sector.

Contrary to expectations, given the uncertain geopolitical backdrop, cyber security software had a difficult 12 months and was the only sector that fell in Q4 2023. Its annual performance was also down, by 23%. Illustrating the trend, AIM-listed Smarttech247 Group revenue multiple fell by 40% from the previous quarter and Nasdaq-listed Gorilla Technology was down 30%. It is unclear why investors were less positive on this sector, although reports of slowing orders in the face of industry and economic headwinds may be a contributing factor.

On an EV/EBITDA multiple basis, enterprise, fintech and industrials remained broadly flat in Q4, although the annual median figures were down more sharply (shown in the chart below). Industrials were down by the most, showing a 14% fall from 2022 levels. This may reflect the trend among investors and buyers to seek profitable growth. We would therefore expect to see an upwards trend in EBITDA multiples over the coming few quarters.

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2020-2024 Q3



Security	Enterprise	Fintech	Industrials
14.79x	18.33x	14.32x	22.73x
QoQ change			
-7% ▼	-2% ▼	3% ▲	0% ▲
YoY change			
-27% ▼	-8% ▼	-12% ▼	-14% ▼



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.

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

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 (239)

Europe or UK headquartered, publicly quoted software companies.

US SaaS (81)

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 (204)

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 (208)

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

Fintech (78)

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 (70)

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 400 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>CA US UK ROW Aug 2023</p>  <p>Photonically networked silicon spin quantum computers</p> <p>\$100m financing</p>     <p>Delivered by British Business Bank</p> 	<p>UK UAE Aug 2023</p>  <p>Maritime e-procurement platform</p> <p>Sale to</p>  <p>backed by</p> 	<p>UK JP WW Apr 2023</p>  <p>Institutional digital asset infrastructure provider</p> <p>\$36m Series A financing</p>  <p>AND UNDISCLOSED INVESTORS</p>
<p>EU UK FR Mar 2023</p>  <p>High-end CPU for HPC and data centres</p> <p>€115m Series A financing</p>     	<p>AU DE Dec 2022</p>  <p>Travel P2P marketplace</p> <p>€30m acquisition of</p> <p>Germany market leader</p> 	<p>UK US Nov 2022</p>  <p>Hotel technology platform driving direct bookings</p> <p>Sale to</p>  <p>backed 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.

“

Silverpeak ran a structured process from inception to completion, resulting in a signed transaction within just four months. The expertise of Silverpeak's entire team was evident, and we have been impressed by the way they kept us informed throughout the process. We are all very happy with the outcome.

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