

Application software

BENCHMARK REPORT Q1 2024

A REVIEW OF PUBLIC SOFTWARE
COMPANY VALUATION AND OPERATING
METRICS IN THE US AND EUROPE

Quarterly overview of public application software sector valuations

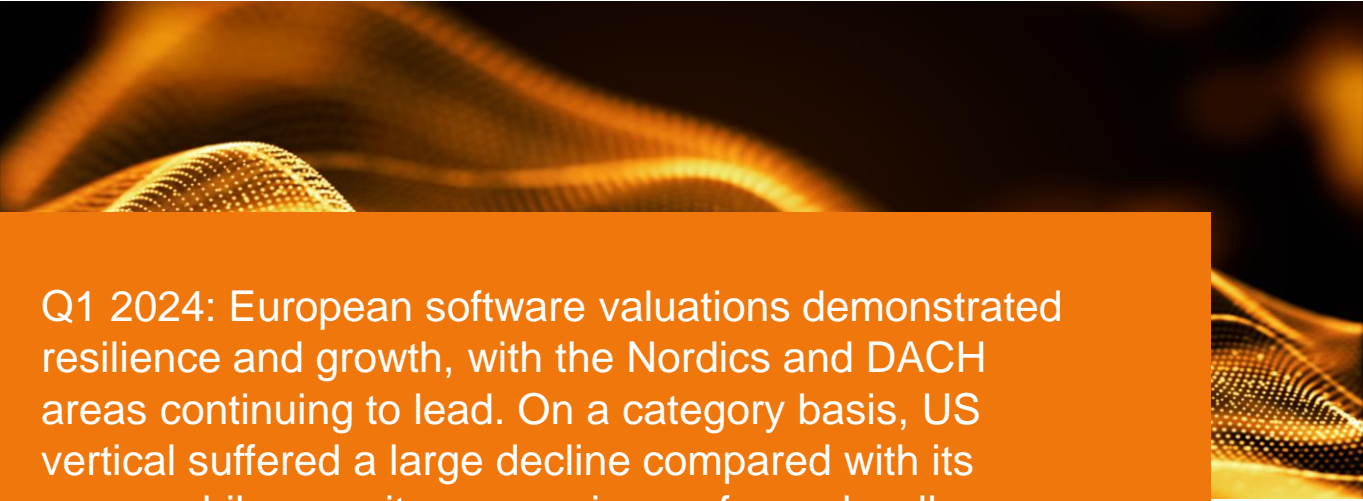
Welcome to the latest edition of the Silverpeak Benchmark report – a review of public software company valuation and operating metrics in the US and Europe.

We review median values to produce a robust industry reference benchmark. We screen US and European publicly listed software companies using the S&P Capital IQ database. Our insights and conclusions are derived from this S&P dataset, which currently consists of 564 companies.



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Q1 2024: European software valuations demonstrated resilience and growth, with the Nordics and DACH areas continuing to lead. On a category basis, US vertical suffered a large decline compared with its peers, while security companies performed well.

Quarterly macro context

In Q1 2024, two themes dominated the macro context. The first is inflation, where progress towards targets stalled in certain nations from the start of the year. Oil prices rose, in part because of geopolitical tensions, and services inflation remained stubbornly high, rising to 5.27% ^[1]. Analysts revised US GDP growth upwards for the quarter, reflecting strong productivity growth and labour supply expansion, as well as strong demand pressures that may further add to inflation. This has led to a cautious and more gradual approach to easing by the Federal Reserve ^[2].

Second, geopolitical disputes continued to disrupt the global economy, particularly the Israel-Hamas conflict and shipping disruptions in the Red Sea. These disruptions are causing trade vulnerability and potential supply shortages ^[3].

Key findings

- EV/Revenue multiples by category remained flat, except for US vertical, which fell by 18% quarter on quarter (QoQ).
- EV/EBITDA multiples declined across all categories. US category valuations declined most, with SaaS falling by 17% QoQ and vertical software following, with a 10% drop.
- On a regional basis, the Nordics and DACH recorded a 19% and 11% increase in QoQ revenue multiples. The US and UK remained relatively flat.
- All regions continued to show a drive towards profitability as more companies within the dataset became profitable in Q1 2024.
- From a sector perspective, the markets favoured security stocks in Q1. They rose by 16% on a revenue multiple basis, driven by escalating cybercrime costs that are expected to reach \$13.8 trillion by 2028 ^[4]. Enterprise software gains also continued, led by the companies seen as most likely to benefit from the artificial intelligence boom.
- Fintech declined in Q1 and year-on-year (YoY) by 2% as unfavourable market sentiment in both the public and private markets prevailed.

Source: [1] Trading Economics [2] International Monetary Fund [3] Euromonitor [4] Statista Market Insights



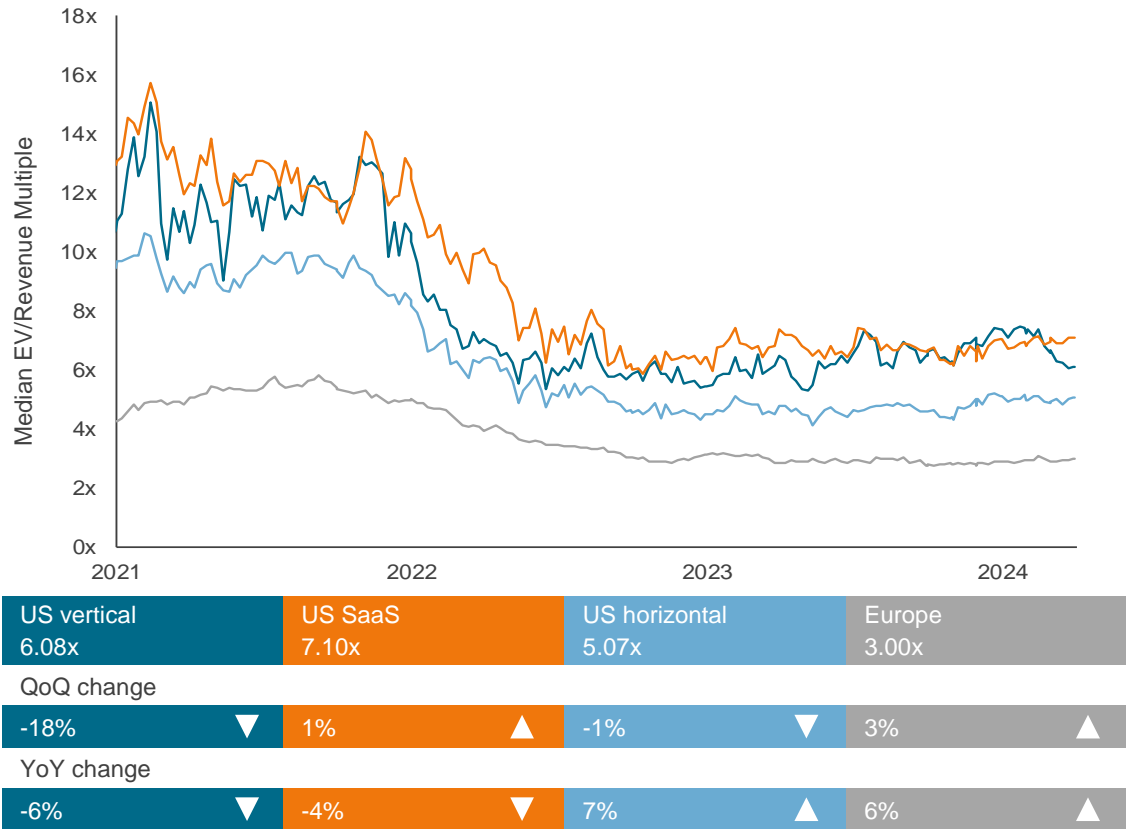
SECTION 1

Category valuation multiples

US Horizontal and SaaS stabilised, levelling out the Q4 2023 rally

Despite strong public tech markets in Q1 2024, EV/Revenue multiples in our US category software dataset trended downwards overall.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2021-2024 Q1

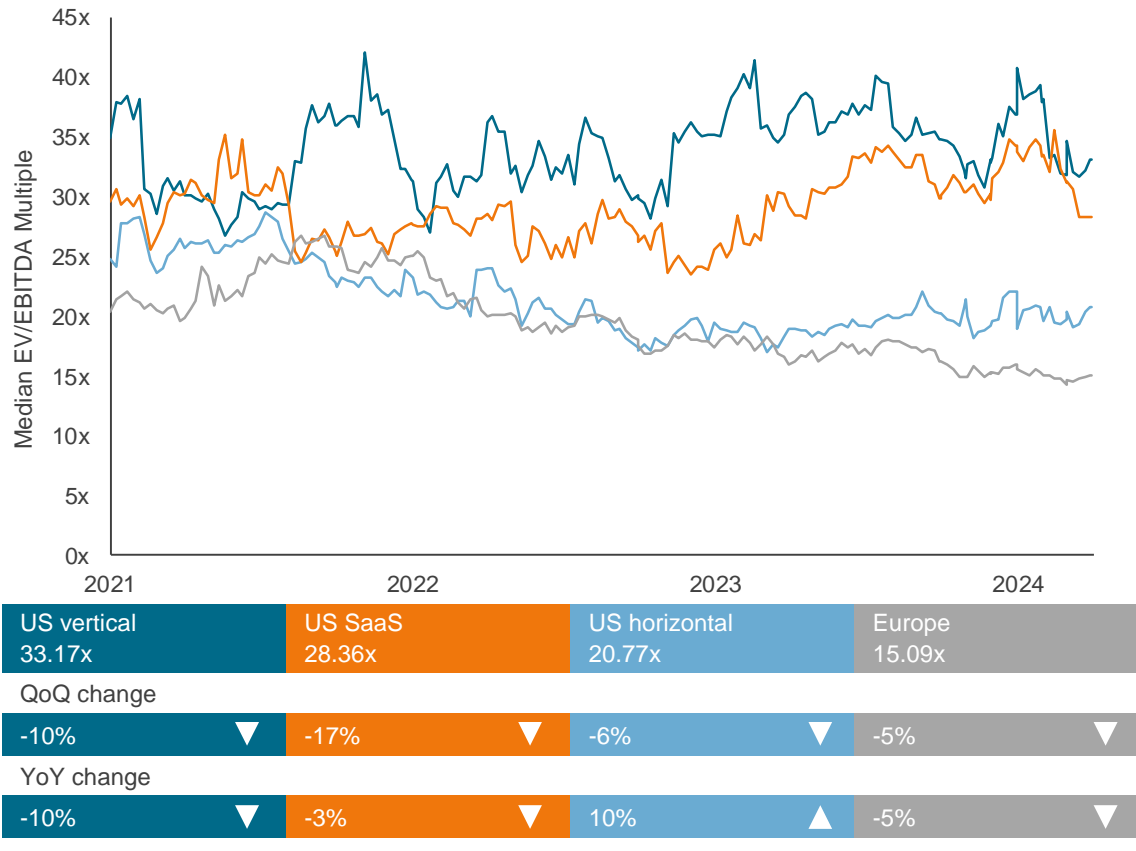


In Q1 of 2024, US vertical fell furthest, registering an 18% quarter-on-quarter (QoQ) decline re-establishing the historical pattern of its multiples tracking lower than those of US SaaS. Companies with notable decreases were App Tech Payments (down 43%) and Unity Software (down 36%), as both issued guidance below market expectations. Movements in US SaaS and US Horizontal were flat (+1% and -1%, respectively).

Europe grew slightly at 3%, signalling a resilience of investor confidence against a backdrop geopolitical tensions. Notably, Nordic e-sign and contract management software firm Oneflow AB saw a 44% increase in its revenue multiple, reflecting strong product performance and industry recognition – it won 40+ awards from business software review platform G2.

Median EV/EBITDA multiples declined across all regions. US category valuations declined most, with SaaS falling by 17% QoQ and vertical software following, with a 10% drop. This suggests that software companies may be undervalued relative to their EBITDA growth on public markets, which tend to be sensitive to macro trends. In private markets, by contrast, investors focus far more on business fundamentals and are increasingly viewing EBITDA growth favourably.

SOFTWARE CATEGORY VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2021-2024 Q1



Adobe, a key player in the US SaaS segment, saw a 17% drop in its market capitalisation with investor concerns over slowing top-line growth. Open-source AI is democratising content generation and competition from organisations such as OpenAI, which can generate creative content with minimal skills, is threatening specialist design platforms. Adobe also abandoned its planned Figma acquisition during the quarter.

In US horizontal, Dropbox experienced a 23% decline after providing revenue guidance that missed estimates. YoY figures paint a less negative picture, with US horizontal software increasing by 10% on the same period last year.



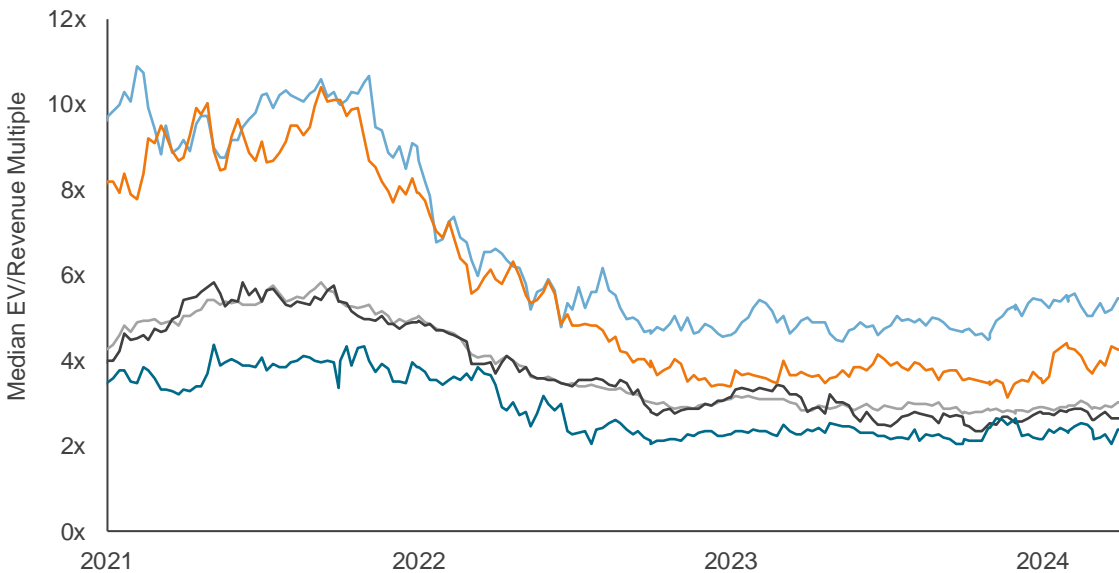
SECTION 2

Valuation multiples by region

DACH and Nordics experienced a surge in valuations on revenue basis whilst Europe and US were stable

There were significant regional disparities in EV/Revenue valuation performance in Q1. The Nordics performed most strongly, with a 19% increase QoQ, and the DACH region followed behind with an 11% median growth multiple rise.

REGIONAL US & EUROPEAN VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2021-2024 Q1



US	Europe	UK	DACH	NORDICS
5.46x	3.00x	2.66x	2.38x	4.26x
QoQ change				
1% ▲	3% ▲	-4% ▼	11% ▲	19% ▲
YoY change				
9% ▲	6% ▲	-5% ▼	0%	17% ▲

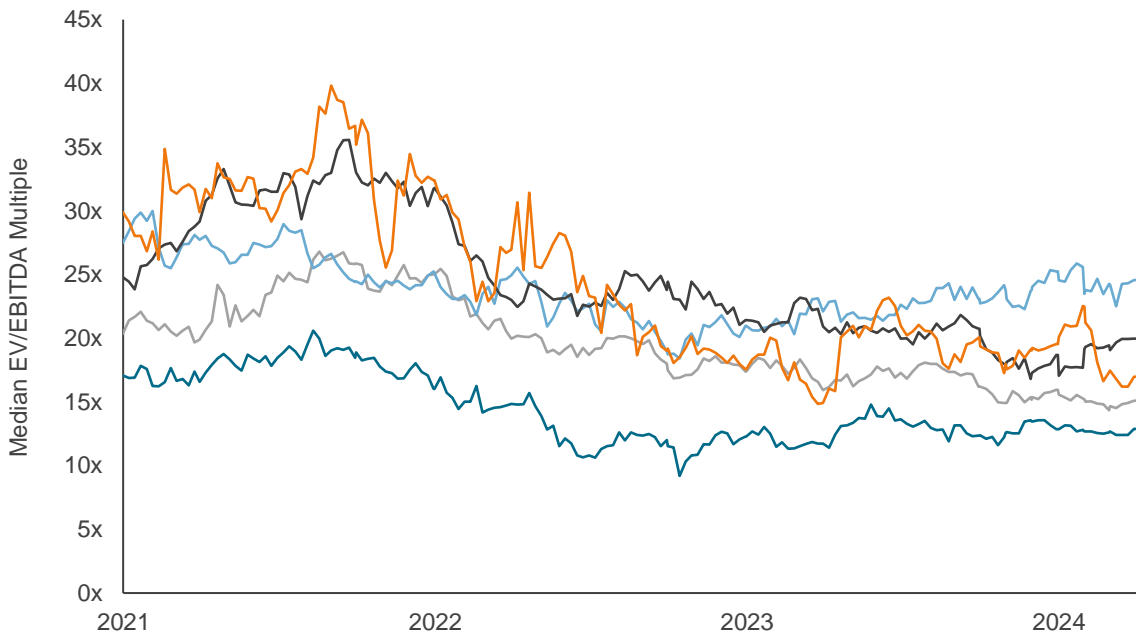
Some of the Nordics' largest gains came from autonomous vehicle software company Terranet AB, which saw a 302% QoQ increase, and Mapspeople, up 116%. Other significant increases include Lime Technologies, which rose by 23%, reflecting investor confidence in the e-mobility sector.

In the DACH region, IT security business cyan AG's EV/revenue multiple rose by 134% in Q1 2024 on the back of an improved sales pipeline as cybersecurity saw sustained demand.

The UK experienced a decline of 4%. This compares with a rise of 3% for Europe as a whole.

By EV/EBITDA multiples, regional software valuations moved in the opposite direction: in the Nordics, for example, they declined by 13% QoQ. The Nordics has a lower proportion of profitable businesses than the rest of Europe, and it may be that investors in Nordic markets rewarded growth over profitability. Among those to see falls in valuation multiples was Oslo-listed Cyviz AS, a collaborative work solutions provider, with a share price decline of 20% in Q1.

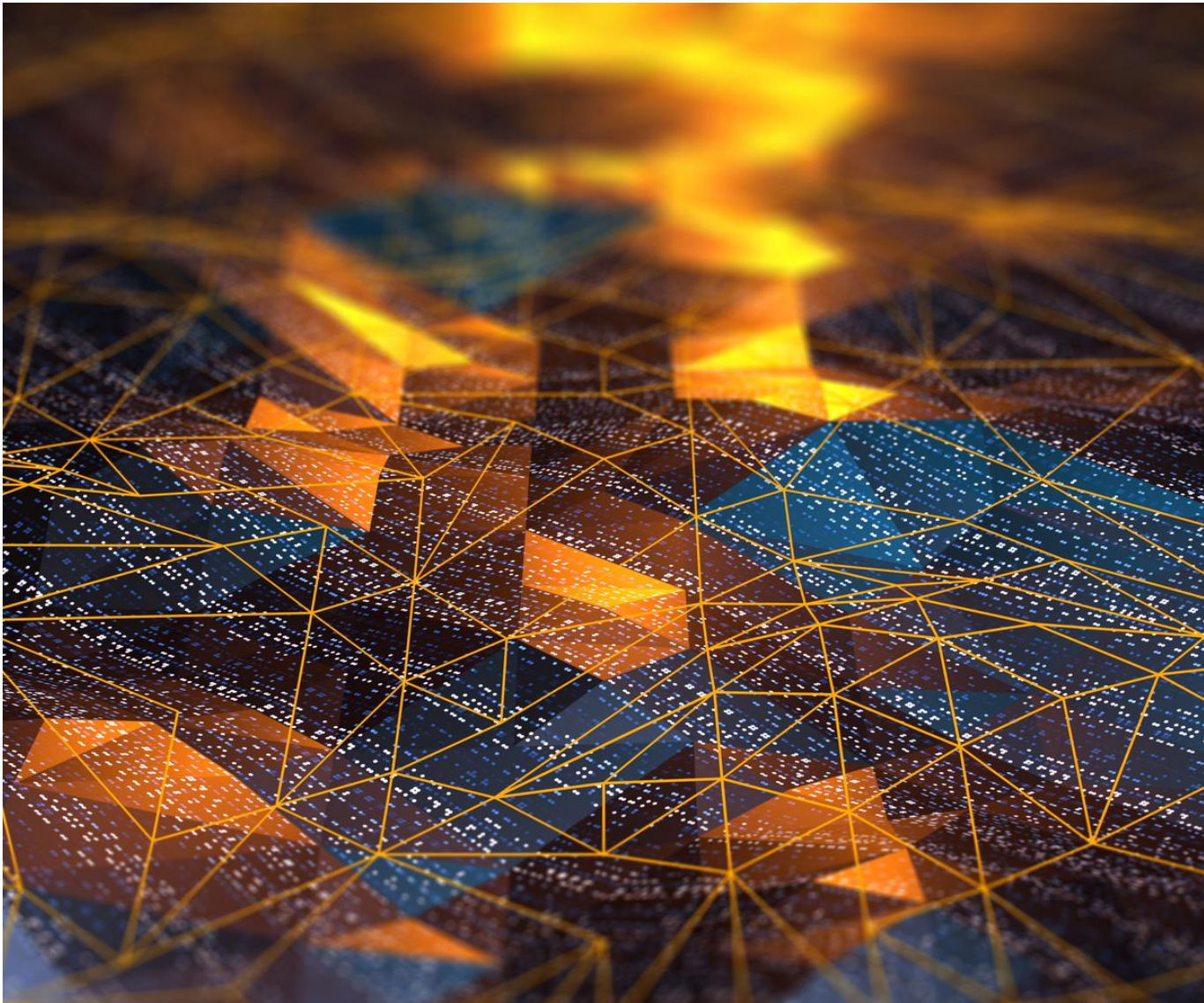
REGIONAL US & EUROPEAN VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2021-2024 Q1



US	Europe	UK	DACH	NORDICS
24.57x	15.09x	19.97x	12.88x	16.98x
QoQ change				
-3% ▼	-5% ▼	7% ▲	0%	-13% ▼
YoY change				
11% ▲	-5% ▼	-5% ▼	10% ▲	14% ▲

However, the UK’s market performance by EV/EBITDA multiples was stronger, rising by 7%. Within UK software, Microlise Group, specialising in fleet management and connected assets in industrials, saw a notable 42% increase QoQ in its EV/EBITDA multiple.

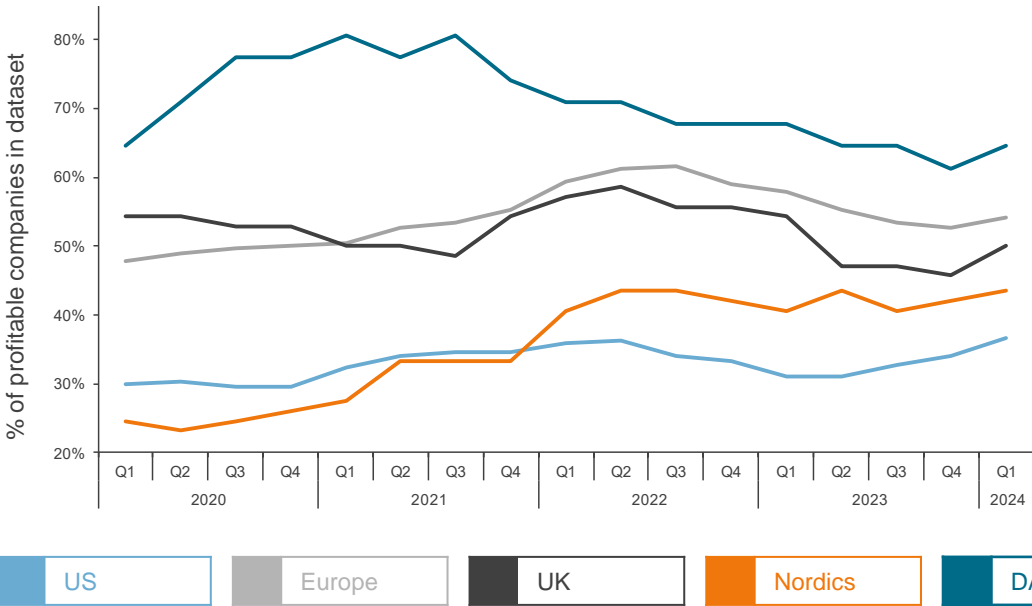
In the US, there was a moderate 3% decline in EV/EBITDA multiples in Q1 2024, but the YoY change tells a different story: it increased 11%, which likely reflects the tech market rally in the second half of 2023.



SECTION 3

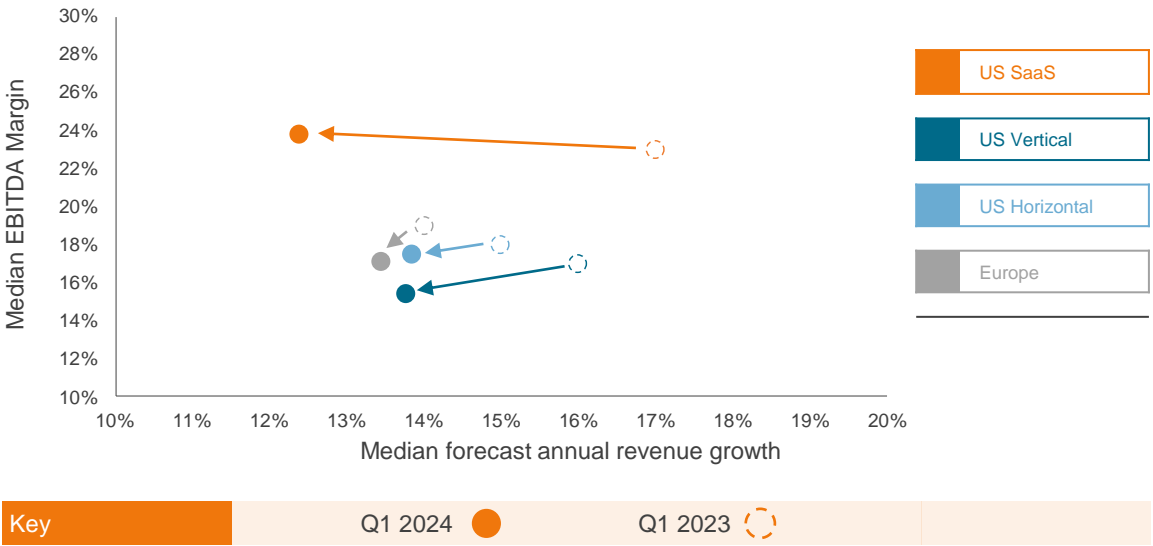
Operating metrics

As financing costs remained high, software companies continued to focus on profitability over growth



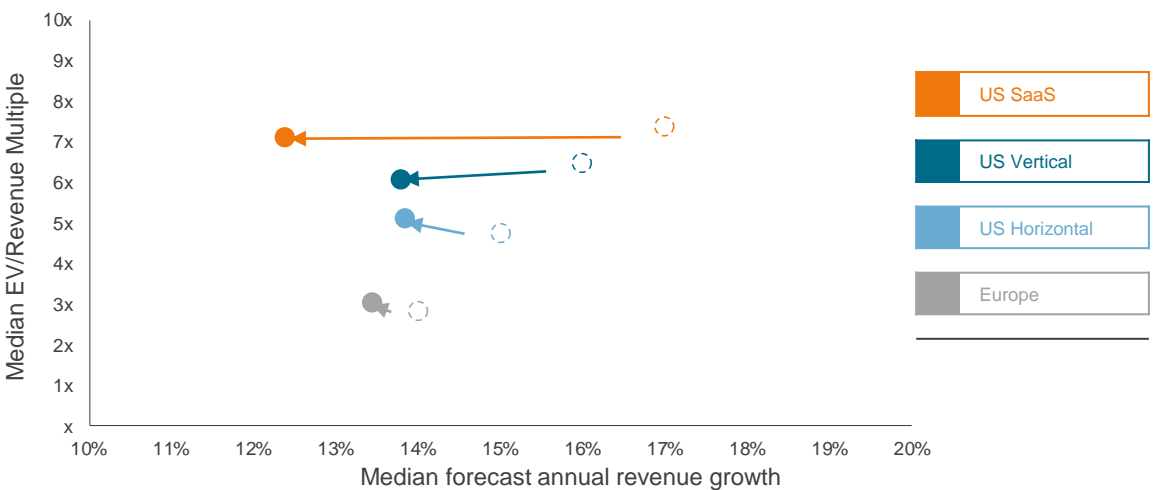
All regions continued to show a drive towards profitability as more companies within the dataset became profitable in Q1 2024.

Europe’s companies continued to be more profitable than their US counterparts, with the UK and DACH region seeing the greatest increase in the number of profitable companies in the dataset: the proportions rose from 46% to 50% and 61% to 65%, respectively. The percentage in the Nordics, which is more aligned to the US in terms of growth goals, remained flat, rising just 1%.



Median annual revenue growth forecasts retracted for all our categories, while EBITDA margins remained largely flat. US SaaS, where EBITDA margin improved by 1% and revenue growth forecast fell by 5%, is continuing to rely less on the growth-at-all-costs strategy companies pursued up to 2022.

While forecast revenue growth declined across the board, valuations remained stable YoY, reflecting some investor optimism. US horizontal rose 7% YoY on its revenue multiple, despite a 1% decline in revenue forecast.



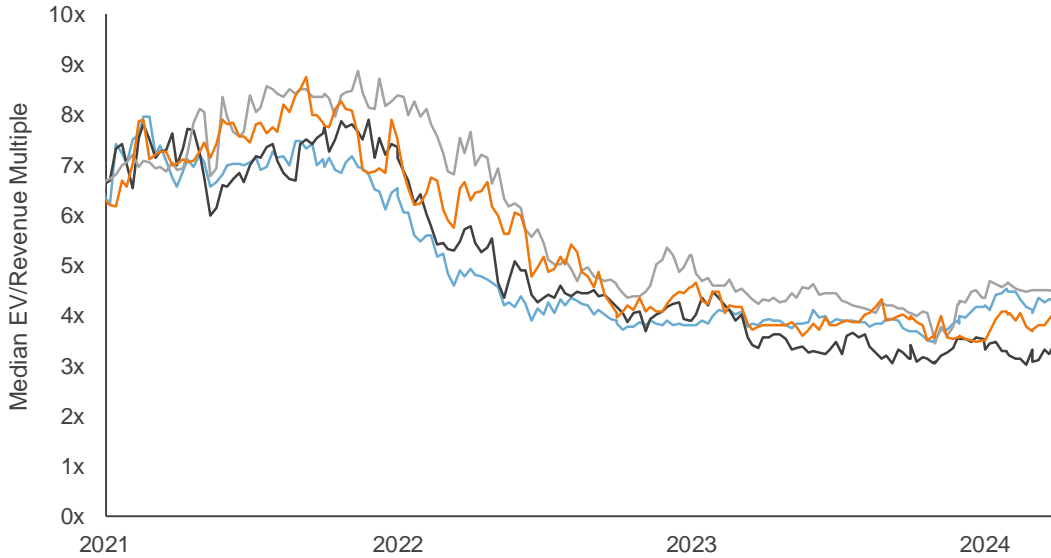


SECTION 4

Sector valuation multiples

Security and industrials dominated however fintech remained out of favour

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/REVENUE MULTIPLES 2020-2024 Q1



Security	Enterprise	Fintech	Industrials
4.06x	4.31x	3.48x	4.48x
QoQ change			
16% ▲	3% ▲	-2% ▼	3% ▲
YoY change			
7% ▲	11% ▲	-2% ▼	4% ▲

The market favoured security stocks in Q1. These rose by 16% on a revenue multiple basis as cybercrime costs escalated – they are expected to reach \$10.3 trillion by 2025 and \$13.8 trillion by 2028, up from \$8.44 trillion in 2022 [1].

Enterprise and industrials were both up by 3%.

Fintech declined this quarter and YoY by 2%, as market sentiment towards the sector remained unfavourable. This is consistent with what we saw in private markets, where the \$7.3 billion funding that fintech startups secured in Q1 2024 marked a 16% decline from the previous quarter and the lowest level since early 2017.

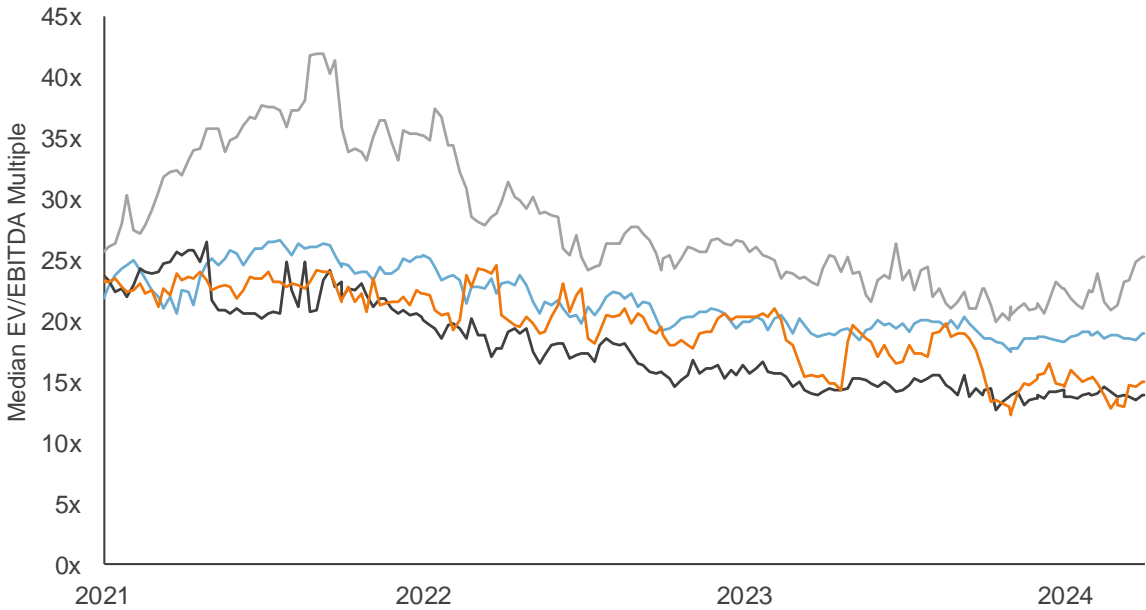
Source: [1] Statista Market Insights

Valuations on an EBITDA multiple basis followed a similar trend with security, enterprise and industrials all up QoQ. Industrials dominated, up 11%, with energy, utilities and materials stocks leading the markets in the quarter’s closing month.

AIM-listed Quartix technologies, which provides commercial car fleet tracking, is one example of industrial companies’ strong performance last quarter: its EBITDA valuation multiple surged by 315%.

Enterprise software companies continued to perform well on the public markets, a theme we also saw in private markets; investors are backing this segment because they perceive AI applications for enterprise customers to offer strong return potential.

SOFTWARE SECTOR VALUATION METRICS: MEDIAN EV/EBITDA MULTIPLES 2021-2024 Q1



Security	Enterprise	Fintech	Industrials
15.08x	19.01x	13.86x	25.28x
QoQ change			
2% ▲	4% ▲	-3% ▼	11% ▲
YoY change			
-3% ▼	1% ▲	-3% ▼	4% ▲



SECTION 5

Methodology

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>BE IE Feb 2024</p>  <p>Data science & analytics provider for CX transformation</p> <p>Sale to</p> 	<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> 

Methodology

US and European 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 (268)

European (including UK, DACH and Nordics) headquartered, publicly quoted software companies.

US SaaS (93)

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

US Vertical (58)

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

US Horizontal (241)

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 (232)

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

Fintech (85)

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

Industrials (32)

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

Security (84)

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

We go further to understand a company's full value

There is often hidden value in a company's technology, growth potential, management team and its vision.

We unlock all this potential value and articulate it to the acquirers or investors who prize it 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.

HERMAN MARKS, CHAIR, SHIPSERV

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

123 VICTORIA STREET,
LONDON, SW1E 6DE, UK

SILVERPEAK LLP



Paddy McGwire
Managing Partner
pm@silverpeakib.com



Matthew Gilmour
Senior Associate
mjg@silverpeakib.com



Callum Townsend
Analyst
ct@silverpeakib.com



Dominic Taurins
Analyst
dt@silverpeakib.com

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