

Software Report

February 2023



Foreword

Macroeconomic headwinds impacting public market valuations and early-stage fundraisings are creating increasingly attractive opportunities for Private Equity investors

A rise in volatility brought about by conflict in Europe and higher inflation is leading to an increasingly bearish macro environment. Investors' mind-sets have shifted away from valuing future growth and towards nearer term profits impacting valuations across the software market (despite many of these companies continuing to trade well).

Listed software companies have seen on average a 22%¹ reduction in share prices over recent months and the IPO market is effectively closed. Consequently some public companies are reassessing acquisition strategies and are now more cautious around longer-term valuations.

A similar mind-set change has been observed in the early-stage fundraising market with investors becoming increasingly more selective, driving lower fundraising volumes in 2022. Investors are adapting and in many cases prioritising their existing portfolio. Many investors are requiring more modest growth profiles from prospective investees that see a shorter route to profitability and a lower cash burn rate.

The market movements are presenting opportunities for PE as their medium term, often sector focused, approach to investing, has meant a continued investment into high quality private software companies. Public-to-Private transactions are also becoming more attractive to PE, likely due to discounted stock prices.

Opportunities exist for investors to generate strong returns from exploring a broader range of transactions. As for software companies, those with market leading KPIs are likely to attract a disproportionate amount of investor attention as investors adopt a more cautious approach to deploying capital.

Come and talk to us...



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Whether you are a software company looking to explore strategic options for your business, or an investor / strategic buyer looking for advice on evaluating and financing an acquisition, Investec can help by providing buy-side or sell-side advice, raising investment from Private Equity / Venture Capital or via an IPO


Investec's international TMT M&A business


A global presence provides us with direct access to the software companies and investors in all key territories

UK & Europe


>150
Private equity and
M&A professionals


9
European
offices





US



>160
Private equity and
M&A professionals


8
US
offices







**Other
geographies:**





South Africa




Australia




India



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**Dan Bricken**
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**Ron Belt**
Managing Director


**Arne Laarveld**
Managing Director


**Jean-Arthur Dattée**
Managing Director


**Thomas Ellenberger**
Managing Director


**Erik Dahl**
Managing Director


Selected recent European software credentials

Sector expertise and access to a global buyer and investor landscape

Deal Highlights: 2021 to YTD

14

Software M&A transactions

>£2.3bn

Software M&A

>50%

Software M&A cross-border deals

>£400m

Raised for software companies

Recent selected software credentials

RegTech


CUBE
 Fundraise

 October 2022

Workspace Management


pronestor
 Sold to
 PSG
 September 2022

HCM


bcs
 Sold to
MAIN
CAPITAL PARTNERS
 April 2022



MarTech


BRIEF YOUR MARKET.COM
 Sold to
nurtur
nurture innovation. accelerate growth.
 March 2022

E-Commerce


LIONSHOME
HOME & LIVING
 Sold to
WATERLAND
PRIVATE EQUITY INVESTMENTS
 February 2022


Healthcare IT


SILVERLINK
 Sold to

 December 2021

RPA


blueprism
 Sold to
SS&C
 March 2022

Estate Management


Zig
 Sold to
MAIN
CAPITAL PARTNERS
 November 2021

Consumer Tech


LEAPFROG
 On its investment from


 October 2021

Subscription and Billing Platform



Aptitude
SOFTWARE
 Acquisition of

 October 2021

RegTech


ARIADNEXT
 Sold to
IDnow.
 Sponsored by
 CORSAIR
 September 2021

HCM


resume.io
 Sold to
Talent Inc.
 June 2021

Healthcare IT


Craneware
 Placing for the acquisition of



 June 2021

Management process automation


ACTIVEOPS
 IPO

 March 2021

CPaaS


tiimit
 Sold to

 March 2021

Cloud Communications

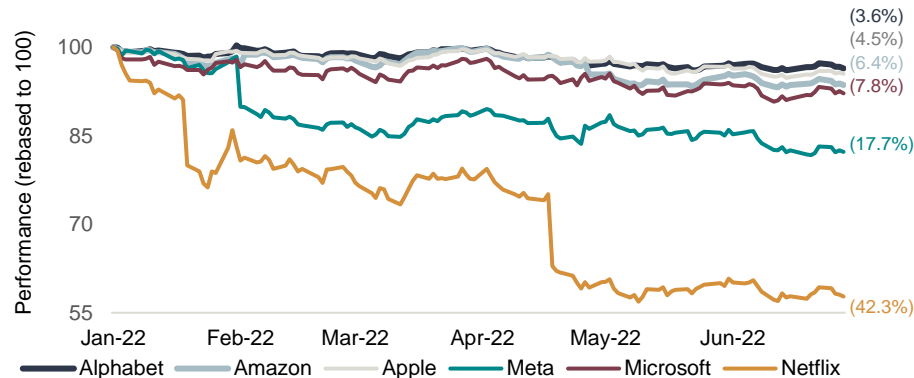

imi mobile
 Sold to

 February 2021

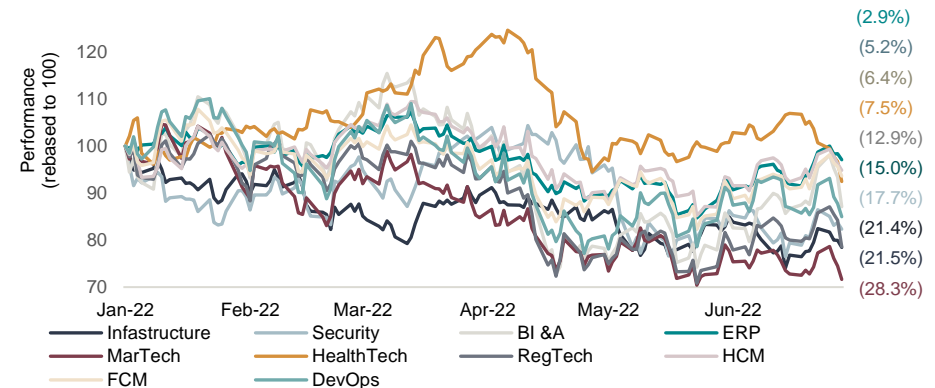
Macroeconomic headwinds defining public software valuations

Publicly-listed software valuations have been significantly impacted by the conflict in Europe, inflation and recession concerns

Even the largest TMT companies have seen their share price significantly impacted, despite continued revenue growth



Software share prices¹ are falling in the face of inflation and other macro challenges...



Market volatility impacting valuations regardless of positive trading momentum:

A rise in inflation is leading to an increase in interest rates and higher discount rates, directly reducing the future value of growth and thus impacting valuations²



Valuation delta: TMT PLCs and privately held peer valuations continue to expand while buying power for global Trade and PE remains high



HealthTech most resilient sub-sector: the impact of the pandemic on healthcare resource highlighted the need for quick diagnostic and more efficient patient management solutions³, driving investor interest and supporting valuations

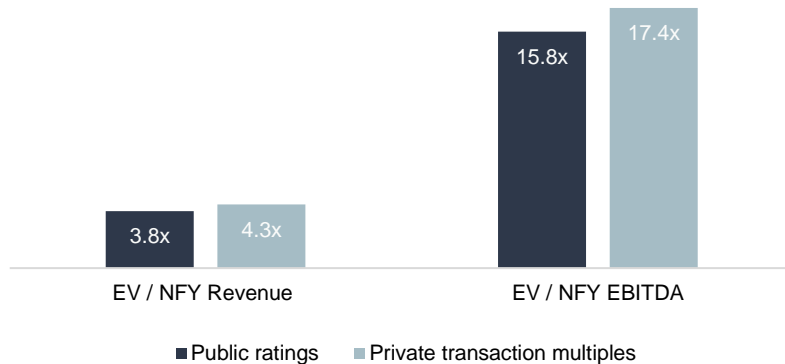


From Public-to-Private: There have been 28 European TMT take-privates since the beginning of 2021 with momentum continuing to grow

Growing delta between public and private software valuations

European software assets in the listed market are trading at a significant discount to both private and US listed peers

Listed software assets are trading lower than their private peers...¹

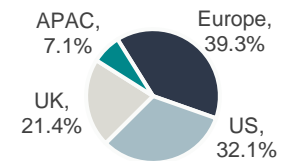


Trading at a discount: UK listed TMT businesses trade at a clear discount to private counterparts across a range of sub-sectors

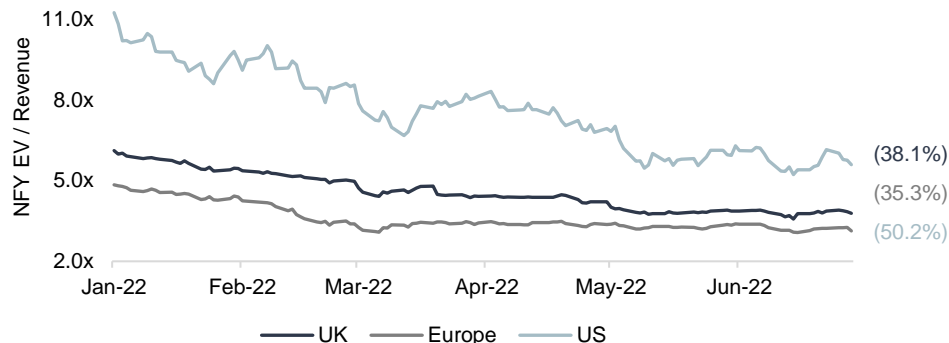


Attracting the attention of global buyers: US firms have actively targeted European P2P transactions over the last 18 months

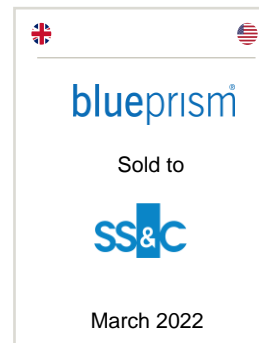
European P2P acquirers by geography from '21-H1'22



UK and European listed assets are significantly undervalued versus US peers



Case Study: P2P of UK-listed Blue Prism by US-listed SS&C



UK vs US valuation differential:

	blueprism	5.6x ² NFY EV / Revenue
	UiPath	34.5x ³ Avg. NFY EV / Revenue

Target: Leading UK-based RPA provider of back office automation software

Rationale: RPA and Intelligent Automation consolidation at a fraction of the cost of acquiring Blue Prism's US equivalent, UiPath

Software M&A market review

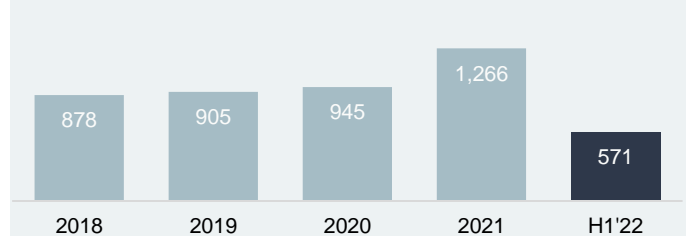
Private Equity and PE-backed Trade have continued to be highly active in M&A markets

- Activity levels in H1'22 have remained strong compared to all previous years bar 2021, where pent-up demand appeared to drive a particularly strong year for M&A
- Trade and PE-backed Trade have historically represented >80% of M&A activity, however 2022 has seen levels reduce to <70%. This appears to be partly driven by lower M&A levels among Trade but also due to record levels of deals from PE. Listed peers have struggled due to an inability to raise money to finance deals and this has provided an opportunity for PE
- M&A deals by value have reduced in 2022 as average deal size has trended downwards following fewer deals over £0.5bn
- Debt market and increasingly concern about broader technology spend is seeing further cooling, albeit long-term recurring revenue provides a more stable environment to enter any recessionary environment and proves resilience

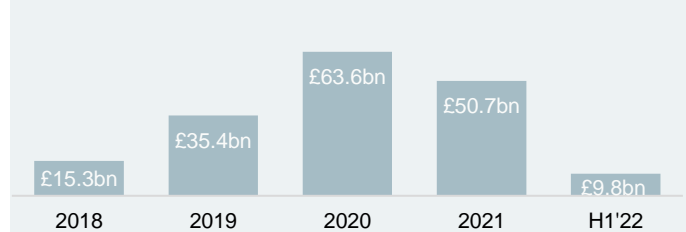
Selected M&A transactions

Date	Target	HQ	Target description	Acquirer	EV (£m)	LFY	
						EV/Sales	EV/EBITDA
Jun-22	EMIS		HealthTech solutions to NHS		1,194	7.1x	28.4x
Jun-22	Piteco		Corporate treasury and financial planning software		240	7.3x	20.6x
Jun-22	EcoOnline		Chemical management software		300	9.6x	n/m
May-22	MERCCELL		E-tendering SaaS solutions		247	4.2x	39.3x
May-22	LUNESTON NETWORK		Automated invoice and analytics software		64	1.8x	13.6x
May-22	ideagen		Information management software		1,093	14.5x	n/m
Apr-22	TICTRAC		Information management software		35	4.3x	n/m
Apr-22	basware		Invoice and accounts payable software	AKKR BCM	565	4.4x	29.5x
Mar-22	A.naplan		Business planning & analytics software		7,448	17.0x	n/m

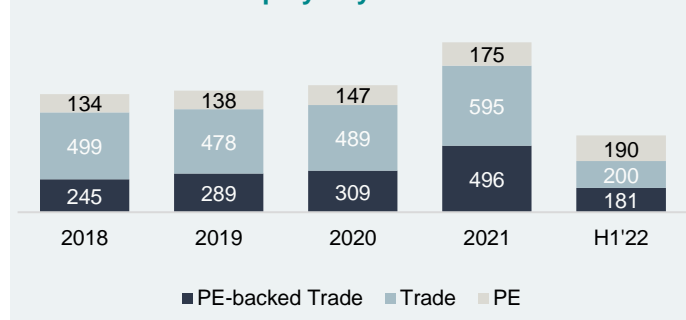
Software M&A deal count¹



Software M&A deal value^{1,2,3}



Trade vs Private Equity buyers¹



Rising M&A demand for procurement and supply chain software

There is increased focus on unlocking efficiencies and better governance across supply chains, this is leading to increased investor attention on relevant software companies

Trends driving the digitalisation of procurement and supply chains...^{1,2}



Sustainable procurement: Rising demand for platforms, which enable sustainability e.g. carbon emission accounting or compliance adherence



Automation, data and AI: Utilised to drive efficiencies in tendering, auctioning, contract management and error detection



Cloud and connectivity: Allowing for greater mobility, flexibility, speed compared to legacy systems. Can integrate well with other tech e.g. AI



Cybersecurity: With the digitalisation of procurement, there is increased need for risk management



Blockchain: Drives efficiency and transparency of the supply chain. Tools can track and trace goods or services flow from sourcing to payment



Systems integration: Supply chains can be managed better by integrating ERP, CRM and supplier management systems

M&A overview

- 341 acquisitions of procurement and supply chain software companies have taken place across Europe over the last four years
- M&A volumes have significantly risen since the beginning of 2021 with the last two years seeing more than double the deal activity of the prior two years
- The sub-sector has seen increased investor and buyer interest as demand grows for greater supply chain efficiencies, partly brought about by rising inflation pressures but also by an increase in lead times and labour shortages

Selected precedent private company fundraising transactions³

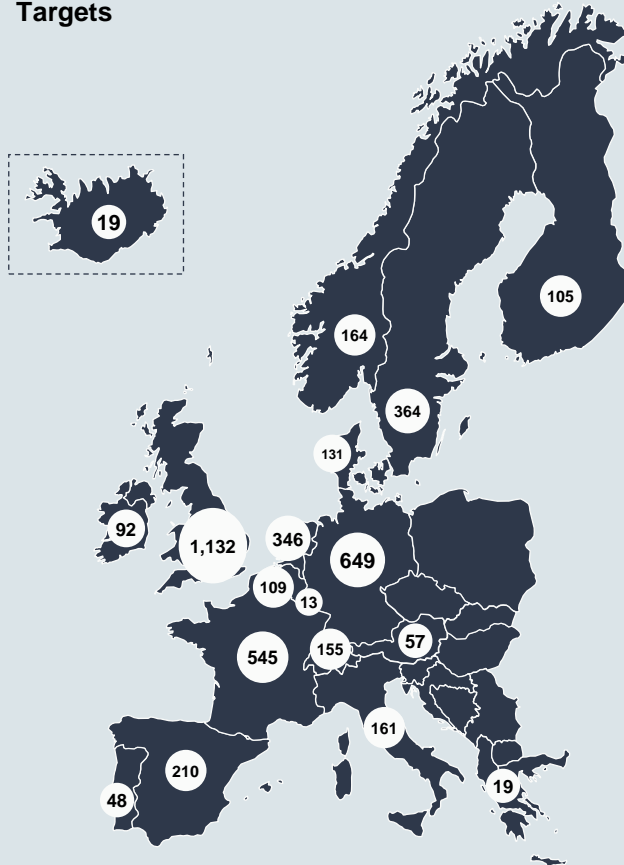
Date	Target	HQ	Target description	Acquirer	EV (£m)	LFY EV/ Sales	EV/ EBITDA
Jan-23	onventis		Cloud based e-procurement solutions	KEENSIGHT CAPITAL	n/m	n/m	n/m
Jan-23	GRAPHYTE		Smart warehouse solutions	KPS	n/m	n/m	n/m
Jan-23	SHIPPEO		Automation and AI supplier solutions	ORLEN	n/m	n/m	n/m
May-22	TUNOSTEN NETWORK		Invoice and purchase order automation	PAGERO	63.9	1.8x	13.6x
Apr-22	basware		Purchase-to-pay and e-invoicing solution	AKKR BCM PARTNERS	557.5	4.4x	29.5x
Jun-21	cloudia		Digital tender and contract management	MERCELL	88.3	11.1x	37.1x
Apr-21	proactis		Source-to-pay solutions	POLLEN STREET DBAY Advisors	75.1	1.7x	7.2x
Feb-21	Nego metrix		E-procurement and contract solutions	MERCELL	23.7	4.5x	n/m

Software M&A targets and acquirers by European country

Over the last 3 years, US buyers have represented >20% of all European software acquirers and are expected to increase given US\$ strength and valuation arbitrage

European M&A activity: Locations of Targets & Acquirers

Targets



Through analysing **4,500+ European transactions** (defined by target location) performed in the past three years, we have come to learn that M&A activity in the European market is ranked as follows:

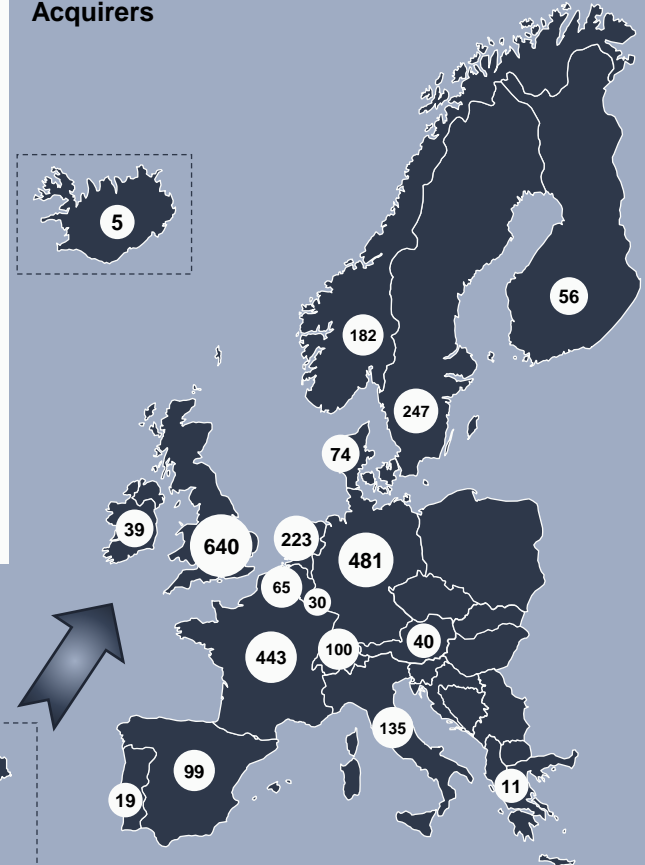
Targets

1	United Kingdom
2	Germany
3	France
4	Netherlands
5	Sweden

Acquirers

1	United States
2	United Kingdom
3	Germany
4	France
5	Sweden

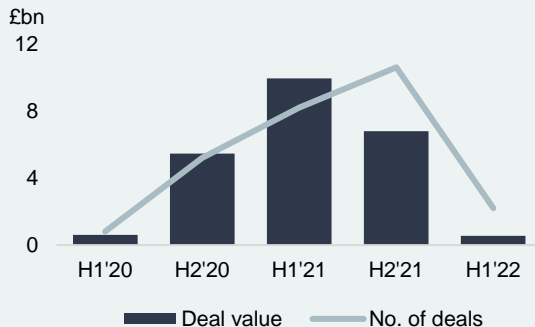
Acquirers



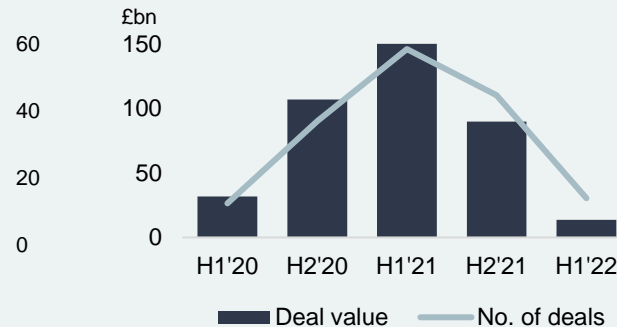
Software IPO market review

Activity volumes significantly reduced over H1'22 and are expected to remain subdued

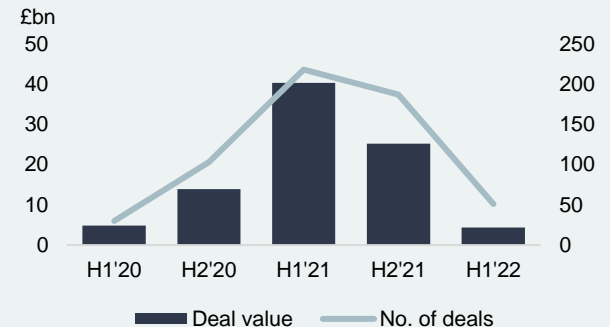
UK IPO activity



US IPO activity



European IPO activity



- Globally, only £1.5bn raised over nine IPOs in the software sector vs. £55.8bn across 189 IPOs in H1'21
- Eight of the IPOs were completed on US or European exchanges with the remainder completed on the Dubai Financial Market ('DFM'). The latter representing the only sizable transaction
- The broader TMT sector remains more active than other sectors but is not immune to an increasingly mixed monetary policy outlook, persistent inflation and low economic growth are all contributing to a below average IPO year so far
- Many IPO candidates acknowledge current conditions but also recognise that this can change quickly and so more are focusing on becoming transaction ready

2022 Software IPOs

Date	Target	Exchange nationality	Size (£m)	Mcap (£m)	Prim. / sec. (%)	Change in share price (Δ%)
Jun-22	broadpeak	FR	19	67	100 / 0	(2%)
May-22	4G GROUP	SE	42	96	22 / 78	1%
May-22	witted	DE	7	68	100 / 0	(5%)
Apr-22	ENGELVÖLKERS DIGITAL INVEST	DE	5	49	100 / 0	(36%)
Apr-22	GeniusGroup	US	17	99	100 / 0	(36%)
Apr-22	oneflow	SE	26	92	91 / 9	(3%)
Apr-22	SPAD	FR	8	26	100 / 0	(34%)
Feb-22	REBELLE	SE	16	50	100 / 0	(51%)
Jan-22	Elm	EG	611	2,037	0 / 100	128%

In-the-market Software IPOs



Software fundraising market review

'Mega' fundraises underpinned H1'22 transaction levels but volumes significantly reduced vs prior periods

- Despite geopolitical and market turmoil, there is a substantial amount of committed funds for venture capital firms to deploy, with £50bn¹ having been raised by European tech investors so far this year
- Current macro conditions has led many start-ups to re-think growth plans as investor mind-set shifts away from growth at all costs towards more modest levels of growth with a quicker path to profitability as well as looking to raise longer runways and preparing for more dilution
- Total funding has largely been driven by the mega rounds raised by some European fintech start-ups including Onefootball (£200m), Exotec (£300m) and Sonar Source (£300m), with deal volumes having reduced against recent quarters, a sign that investors are becoming more selective

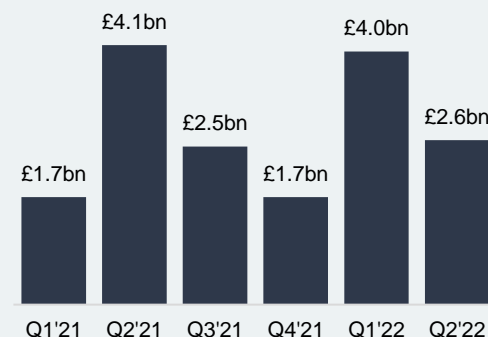
Selected precedent private company fundraising transactions^{2,3}

Date	Company	HQ	Company description	Selected investors	Stage	Funds raised (£m)	Software sub-sector
Jun-22	axelar		Open-source business process management	interinvest capital	Series A	8.1	ERP
Jun-22	CYBSAFE		Security and data analytics software platform	evo/ution IQ CAPITAL	Series B	22.7	Security
Jun-22	PROXIMIE		AI, ML-based virtual collaboration for clinicians	Advent Life Sciences SoftBank	Series C	64.9	HealthTech
May-22	PYRAMID ANALYTICS		AI-based decision intelligence platform	BBB ICLAL	Series E	96.4	Analytics
May-22	Whoz		AI-driven talent and project management	PROVIDENCE EQUITY PARTNERS	Series A	24.9	ERP
May-22	Legl		Cloud-based digital solutions to law firms	octopus ventures First Round	Series B	14.5	ERP
Apr-22	OnePlan		Event planning, design and management software	Pembroke ECV EPPEES CREEK VENTURES	Series A	4.0	MarTech
Apr-22	symmetrical		Global payroll software	TARGET GLOBAL partech MARKET CAPITAL	Series A	14.3	HCM
Apr-22	GRIPABLE		Mobile software platform for hand and arm assessments	Parkwalk iparup	Series A	8.2	HealthTech

European early-stage Investment by deal number^{2,4}



European early-stage Investment by deal value^{2,4,5}



SaaS valuation benchmarking

Investors and buyers look to specific performance metrics to benchmark both public and private investment opportunities

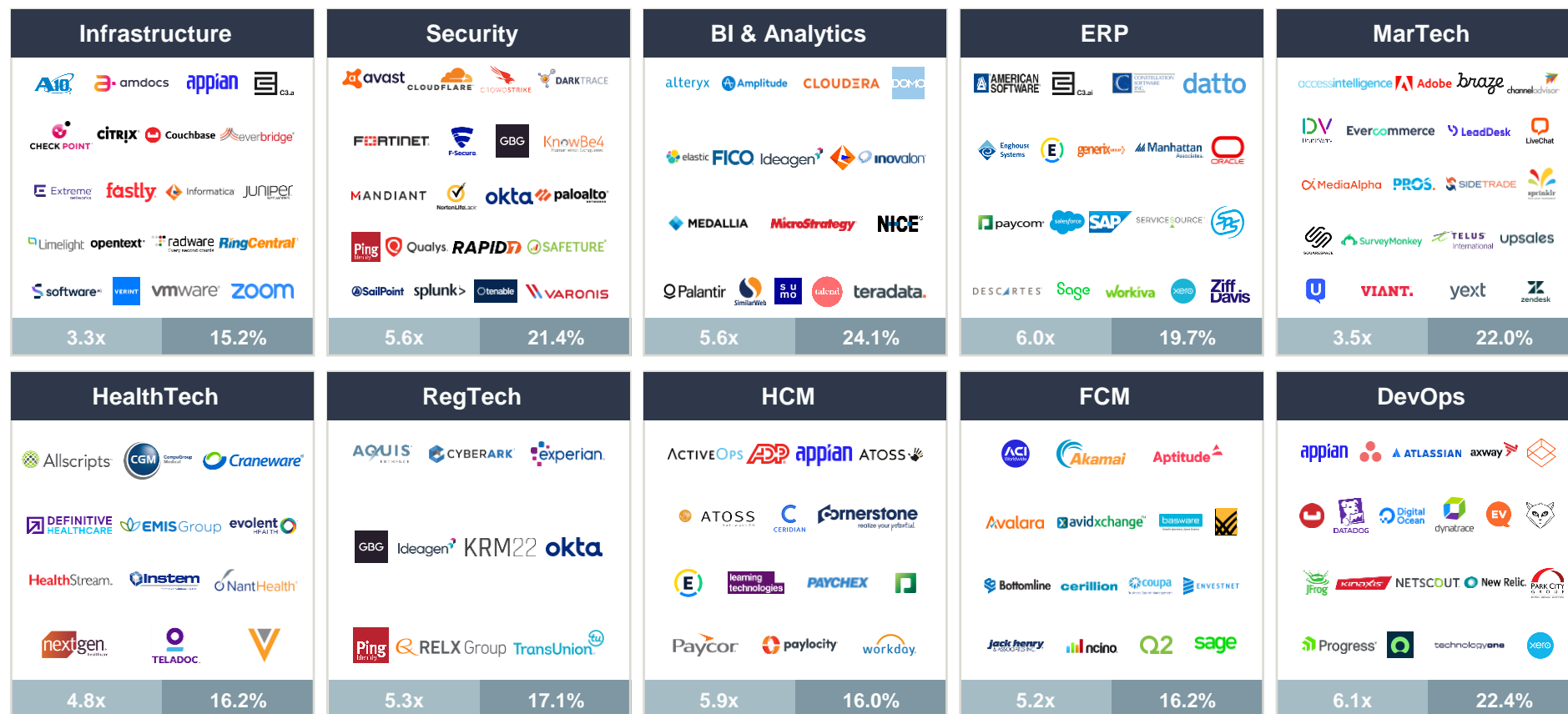
Characteristics	Typical peer group benchmarks		
Typical Financial KPIs	Min		Best in class
Revenue growth (organic)	10%	←→	>60%
Revenue visibility – recurring / structurally repeating	70%	←→	>90%
ARR as a % of total revenue	90%	←→	>120%
Net revenue retention	80%	←→	140%
Average Revenue per account (YoY increase%)	<5%	←→	>20%
Gross profit margin	70%	←→	90%
EBITDA margin	0%	←→	40%
EBITDA / Operating free cash flow	40%	←→	100%
Lifetime value / customer acquisition cost	2:1	←→	5:1
Customer churn	>10%	←→	<5%
Typical non-financial KPIs			
Ownership of bleeding-edge IP	Defensive / Limited	←→	Strategic
Total addressable market	>\$0.5bn	←→	>\$10.0
Evidence of cross-selling	Low product penetration	←→	High product penetration
Staff longevity and attrition rates	>10%	←→	<10%
R&D spend as a percentage of revenue	<5%	←→	>20%
Client concentration	High	←→	Low
Valuation range			
Enterprise value / revenue	3x	←→	8x
Enterprise value / EBITDA	12x	←→	20x

Appendix



The InvesTech Valuation Index¹

Investec's TMT team tracks the following sub-sectors closely; with latest reports focusing on HealthTech, RegTech and DevOps



■ FY23f Sales Multiple ■ FY23f / FY22f Sales growth

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