



Silverpeak Benchmark Report - Q4 2016

A review of key company valuation metrics in the UK, European and US Application Software sectors

SILVERPEAK

technology
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Silverpeak advises innovative, fast-growing technology companies on M&A and financing transactions

SNAPSHOT

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- *300+ deals and assignments completed*
- *45+ strong team*
- *Regulated by the Financial Conduct Authority*
- *Sponsor of Go4Venture's Monthly Bulletin*

- Blue-chip investment banking service to emerging growth companies, their investors & buyers
- Global reach: offices in London, Hamburg, Munich, Paris
- Where we are different:
 - Technology sector specialist
 - M&A + larger financings
 - Truly international DNA and global relationships
 - Seniority of partners



Commentary

Overview

Increased global uncertainty in the run-up to the US Presidential election prompted the sharp decline of both US and European equity markets this quarter, from which they are still recovering. US Horizontal software was the only sector showing valuation uplift, mirroring the increase in their expected growth rates. Despite this, US SaaS revenue valuation multiples continue to outperform the rest of the application software sector (as they have done since 2010 with the sole exception of Q1 2016), followed by US Verticals, US Horizontals, UK Small and Mid and then Europe.

Private equity remains interested in the application software sector. Notable examples this quarter include GTCR's **\$400m** acquisition of RevSpring, Francisco Partners' majority-stake acquisition of Prometheus Group for an undisclosed amount and EQT's acquisition of IFS for **\$191m**.

While overall growth expectations remain positive, consensus revenue growth forecasts are down or stable from last quarter for all categories apart from US Horizontal and UK Small and Mid.



Commentary

Report highlights

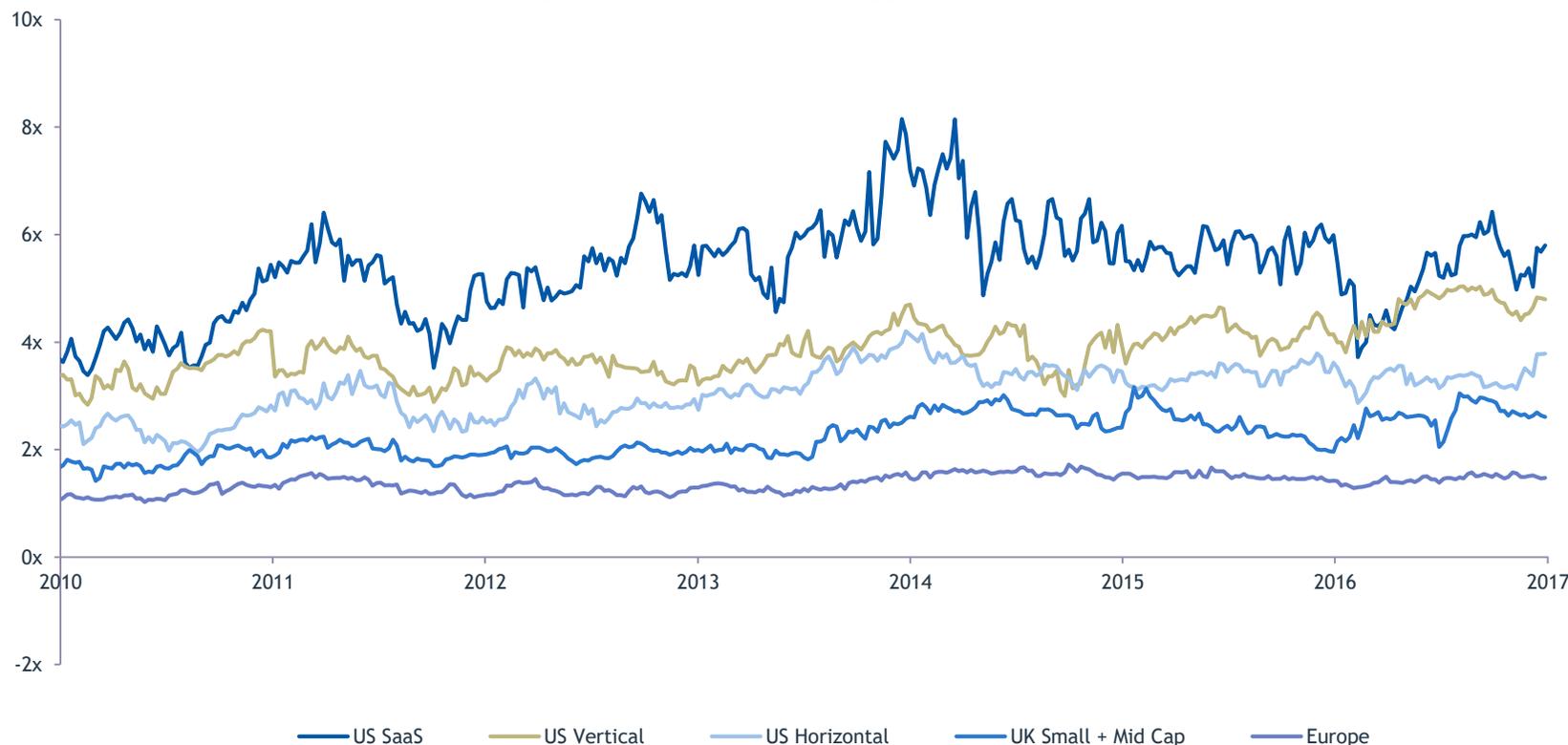
- After a sharp decline at the start of the quarter (min = **4.4x**), US SaaS valuation multiples have recovered slightly to end Q4 at TEV/Rev **5.8x** (still well below the Q3 at TEV/Rev **6.4x** and the Q4 2015 end of **6.6x**)
- Recovering from a slight dip, US-Vertical valuations have stabilised at TEV/Rev of **4.8x** and TEV/EBITDA of **19.1x**, both within **0.2x** of the last two quarters. Over the course of the year, this subsector has shown the steadiest increase in TEV/Rev valuations, rising by **+15.6%**, narrowing the distance to US SaaS
- US-Hizontals, the only subsector which saw valuation uplift, rose slightly towards the end of Q4, ending the year at TEV/Rev **3.8x** (**+0.6x** up from last quarter and **+0.2x** year-on-year), with median growth expectations rising from **3.0%** to **4.1%**
- UK application software companies' valuations corrected slightly this quarter, with both revenue and EBITDA multiples down **+0.2x** to **2.6x** and **16.1x** respectively, following the sharp valuation spike in Q3 buoyed by the pound's post-Brexit decline. Median growth expectations remain high and growing at **14.9%** (**+6.9%** year-on-year)
- European company valuations continue to show stable yet low valuations (TEV/Rev unchanged since last quarter at **1.5x**)



Software sector valuation metrics: revenue multiples

Median Revenue Multiple

Median SaaS company revenue valuation multiples continue to outperform the rest of the application software sector



Median revenue multiples¹:

Q4 2016

US SaaS
5.8x

US Vertical
4.8x

US Horizontal
3.8x

UK Small & Mid
2.6x

Europe
1.5x

1. As at 31st December, 2016

Source: Silverpeak / S&P Capital IQ



Software sector valuation metrics: EBITDA multiples

Median EBITDA Multiple

SaaS companies are relatively early in their corporate evolution; their EBITDA valuation multiples are highly volatile

Median EBITDA multiples¹:

Q4 2016

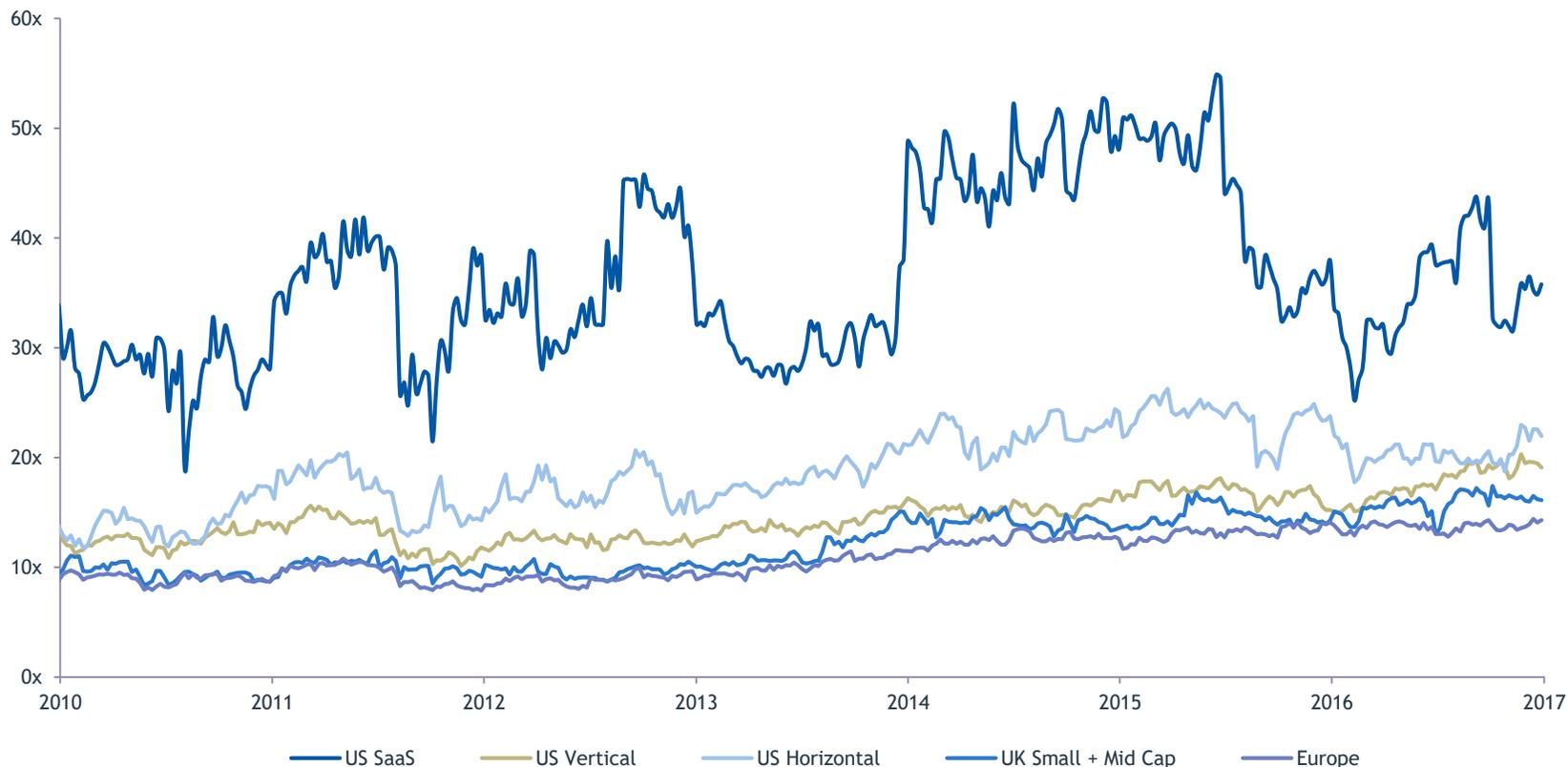
US SaaS
35.8x

US Horizontal
22.0x

US Vertical
19.1x

UK Small & Mid
16.1x

Europe
14.3x



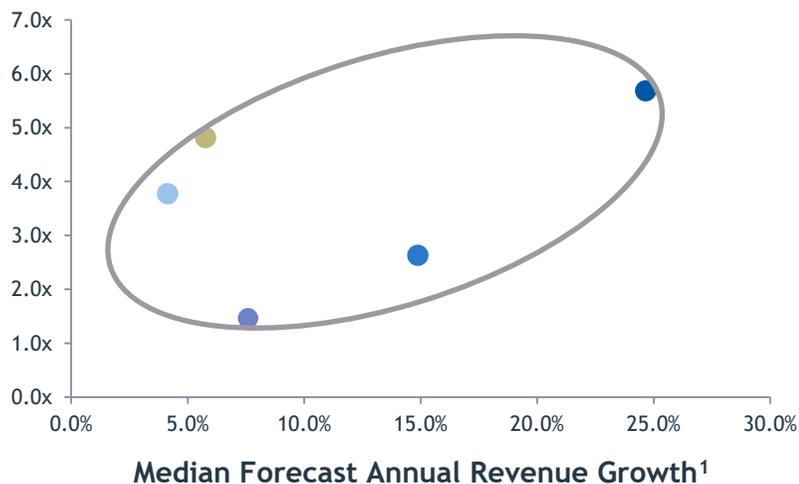
1. As at 31st December, 2016

Source: Silverpeak / S&P Capital IQ

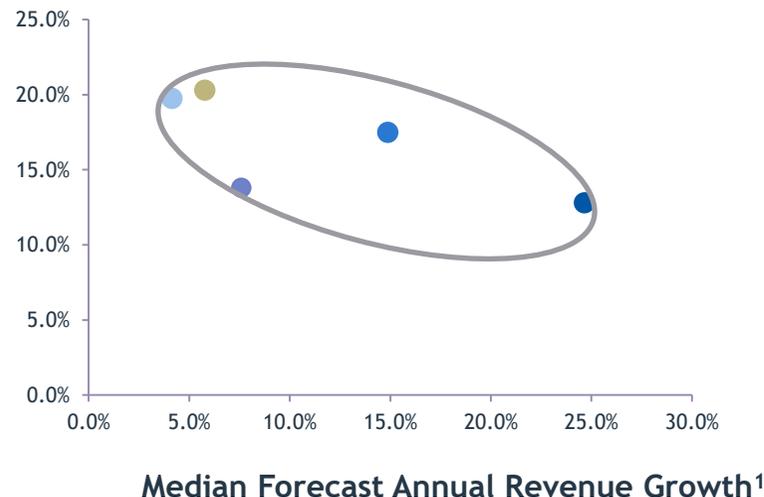


Software sector valuation metrics¹: summary

Median Revenue Multiple¹



Median EBITDA Margin¹



● US SaaS ● UK Small + Mid Cap ● US Horizontal ● US Vertical ● Europe

1. As at 31st December, 2016

Definitions:

US SaaS - US publicly quoted application software companies operating a pure Software as a Service model.

US Vertical - US publicly quoted application software companies with a strong focus on one (or a small number of) vertical market(s) e.g. healthcare, financial services etc.

US Horizontal - US publicly quoted application software companies selling solutions across a wide range of verticals.

UK Small+Mid - Small and medium sized (by market capitalisation) UK publicly quoted application software companies. *Europe* - listed application software companies.

Source: Silverpeak / S&P Capital IQ



Notes

Company categorisation

For comparison purposes, we've grouped companies covered in the report into one of five categories:

- **US SaaS** - US publicly quoted application software companies operating a pure Software as a Service model
- **US Vertical** - US publicly quoted application software companies with a strong focus on one (or a small number of) vertical market(s) e.g. healthcare, financial services etc.
- **US Horizontal** - US publicly quoted application software companies selling solutions across a wide range of verticals
- ***UK Small+Mid** - Small and medium sized (by market capitalisation) UK publically quoted application software companies
- **Europe** - European publicly quoted application software companies

**We've grouped UK companies in this manner because sample sizes do not permit a breakdown into horizontal vs. vertically focused companies.*



Silverpeak's recent software experience

Germany / China



Hotel management SaaS

has been sold to



Advisor to Hetras

AUGUST 2016

Germany / Germany



Shipping logistic & foreign trade software solutions

has been sold to



Advisor to MHP Solution Group

JULY 2016

UK / US



Machine learning for video processing

has been sold to



Advisor to Octopus - investor in Magic Pony Technology

JUNE 2016

Germany / US



Airline cost management and profitability solution

has been sold to



Advisor to Airpas Aviation

APRIL 2016

Germany / Netherlands



Insurance software

has been sold to



Advisor to GENEVA-ID

DECEMBER 2015

UK / Japan



Electronic ticketing software for transit, tourism and loyalty schemes

has been sold to



Advisor to Smart Transactions Group

AUGUST 2015

UK / France



Health and personal protection insurance software

has been acquired by



Advisor to Activus

JULY 2015

Mauritius / South Africa



BSS and analytics software for mooperators in emerging markets bile

has acquired control of



Advisor to Digitata

JULY 2015

UK / Hong Kong



orchestration SaaS for Unified CNext-genomunications

has been acquired by



Advisor to Syntelligence

JUNE 2015

UK / UK



Workflow software for B2B sales persons

Venture debt & equity financing



Advisor to Artesian

MAY 2015

Contact

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