

Q3/23 Technology Sector Report

Software

IMAP



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Introduction

Digital Technology Senior-Team



Dr. Carsten Lehmann
Managing Partner



Nils Keller
Partner



Mathias Heymann
Partner



Andreas Widholz
Partner

IMAP Technology Deal Statistics

230+ deals in the technology sector
since 2015

Ø **27 deals p.a.**

>30% cross-border

>60% European targets

\$ 32m avg. deal size in 2022

IMAP's Software Report

We are pleased to release the **IMAP Software Sector Report for Q3 2023**. This sector overview provides insights into the investment activities of private equity investors as well as the valuation and share price development of listed companies as well as sector specific M&A dynamics

- Our assessment of **private equity investments in software companies** in the DACH region indicates a sustained high level of M&A activity with **21 deals YTD** across various **horizontal and vertical software subsectors**. The report analyzes **174 investments in software companies** since 2012. In general, **software companies have experienced strong demand** in recent years. In particular, **specialist investors are pursuing buy-and-build strategies** for their platforms and have carried out a **large number of transactions** in the **lower mid-market**
- **Sub-segments of listed companies in the software sector** showed a heterogeneous LTM Sept. 2023 stock performance, with some recording growth and others moving sideways or showing a decline. The varied performance of listed companies is also reflected in valuation levels, influenced by industry-specific trends as well as performance factors such as profitability and growth expectations
- **Transaction-based valuations** on the software market are in line with previous years in 2023, with transaction volumes and the number of transactions returning to 2020 levels

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Introduction to the PE Software Market in German speaking Europe

Very strong investment activity in recent years across all company sizes and sub-sectors

Introduction

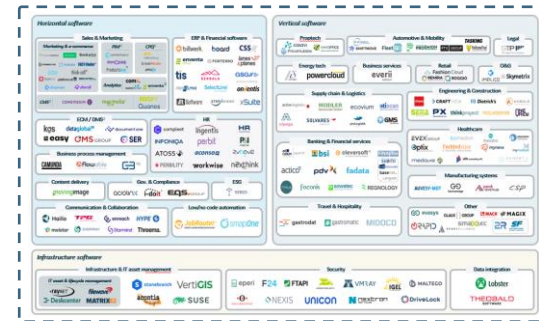
- Our analysis comprises **73 financial investors** with investments in **174 software companies** across Germany, Austria and Switzerland
- Software companies have experienced **high demand** since 2020 and we observed **more than 130 transactions**, with a peak in terms of deal activity in 2021 with 47 transactions
- Between 2020 and 2023, **99 deals** were of **primary nature** (Entrepreneur to PE) and only **34 deals** of **secondary nature** (PE to PE)
- More and more funds tend to focus on technology assets and **18% of investors** have acquired **more than 3 software companies**
- Specialized funds in the lower mid-market** such as Bid Equity, Elvaston, LEA Partners, Main Capital and Maguar have built **substantial portfolios**
- Around **23%** (11%) of the analyzed platforms generate **annual revenues of more than € 50m** (€ 100m)
- Around **26%** of the analyzed platforms **employ more than 250 people** and roughly 5% employ more than 1,000 people

Platforms by Shareholder



- Investors have developed dedicated focuses, seeking opportunities in all kinds of software companies
- While a large number of investors focus on developing only a couple of investments, others continuously enhance their portfolios
- Some of the most active consolidators are investors such as Elvaston, LEA Partners, MAIN Capital, and Bregal Unternehmerkapital

Platforms by Type of Software



- Both horizontal and vertical software is of high interest to investors
- For horizontal software, high M&A activity can be observed in the ERP/SCM space and the HR Tech sub-sector
- Similarly, Healthcare and Financial are types of vertical software that see great interest by PE investors

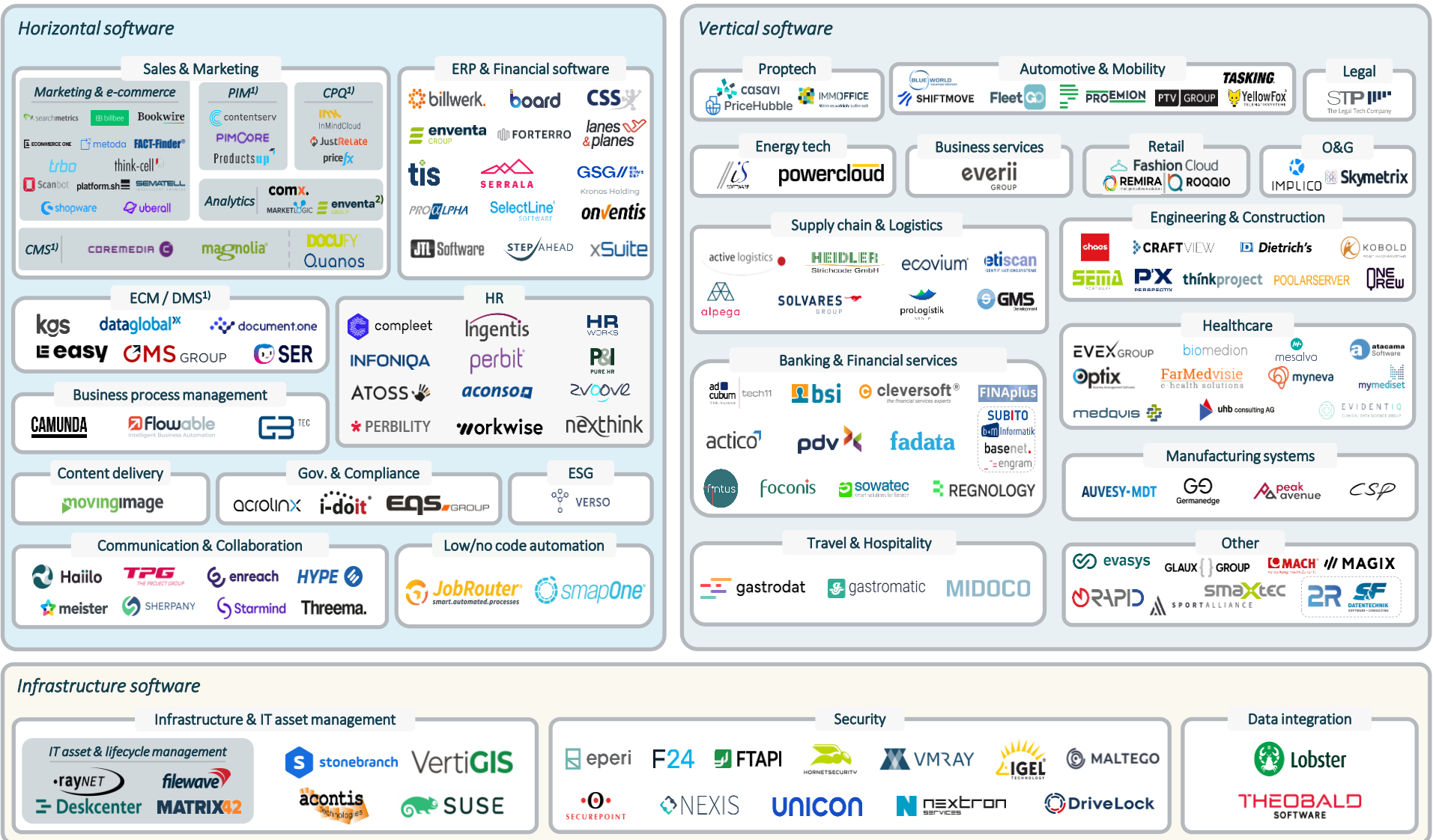
Selection of Financial Investors with DACH-based Software Portfolio Companies

Activity of Private Equity investors remains high in the software space, developing leading buy-and-build platforms



Ecosystem of Private Equity Software Portfolio Companies by Sub-Sector

Our analysis covers 78 horizontal, 74 vertical, and 22 infrastructure software companies

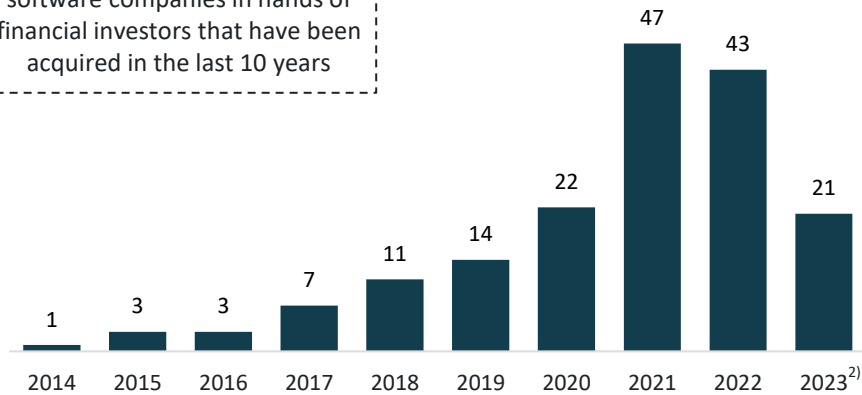


Analysis of the Investment Dynamics in the Software Landscape in DACH

Strong acquisition activity accelerated by the COVID-19 pandemic with a peak in 2021

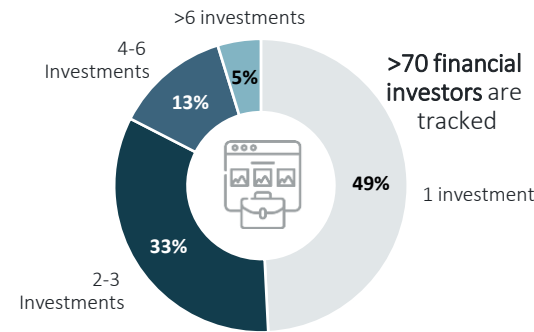
Number of Acquired Software Companies by Year¹⁾

Our analysis covers ~170 software companies in hands of financial investors that have been acquired in the last 10 years

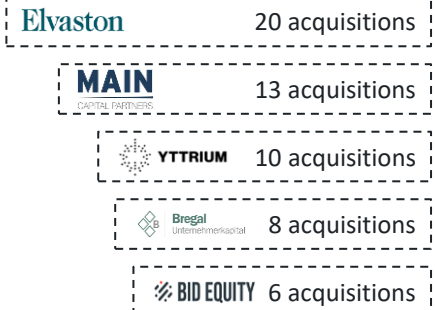


Investors

Split of financial investors according to # of software portfolio companies in DACH

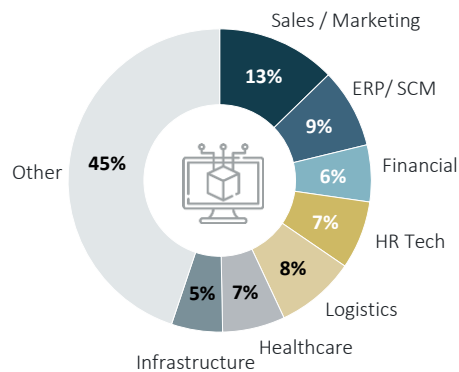


Top 5 investors by number of platform acquisitions

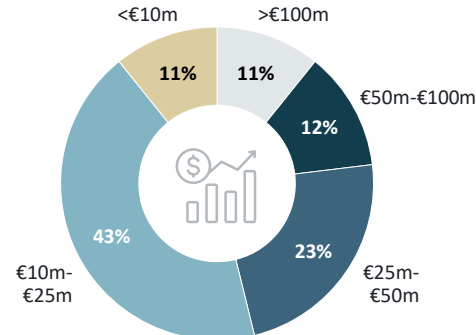


Software Platforms

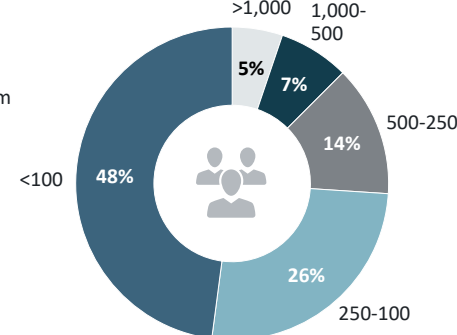
Subsectors



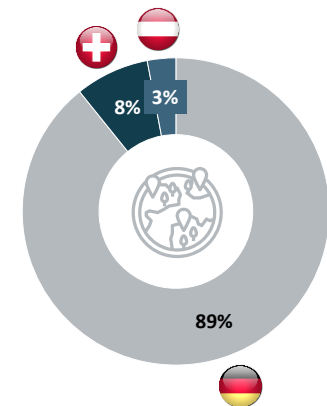
Revenue



Employees



Headquarters



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Introduction and Executive Summary on the Software Market

Overview of the software market

Executive Summary

Analysis on M&A activity in 2023 compared to the historic development in Germany and Europe:

- Following a substantial surge in M&A activity between H1 21 and H2 22, the H1 23 level, both in terms of deal count and deal value, has reverted to levels observed before 2021 in Germany and Europe
- In Germany, 81 transactions with a deal value of EUR 3.9bn were closed in H1 23, with the deal value remaining relatively stable and the deal count decreasing more sharply compared to the prior period
- In Europe (excl. Germany), 428 transactions with a deal value of EUR 14.7bn were closed in H1 23, with deal value and deal count decreasing significantly compared to the prior period
- Q3 23 transaction-based valuations in Europe are in line with previous years at 14.8x EV/EBITDA and 3.8x EV/Revenue

Stock performance and valuation analyses of selected segments of publicly listed software companies (segmentation details on the right)

- During the last 12 months, the two segments with the best stock performance were ERP & SCM (+50%) and Data Analytics & BI (+44%)
- In Q3 23 Engineering & Construction is trading at the highest EV/Revenue multiple (8.9x) and is the most profitable sub-segment with a median EBITDA margin of 36% followed by HR (7.5x) which shows the highest revenue growth (21%) among all segments
- Realizing one of the highest sector EBITDA-margins (28%), ERP & SCM reports the highest EV/EBITDA multiple (38.1x), followed by Data Analytics & BI (37.7x)
- Between 2022A and 2024E, the Rule of 40 analysis of 99 SaaS companies indicates a clear shift in focus from growth to profitability

Segmentation of Publicly Listed Software Companies

This industry report categorizes the software landscape of listed companies into the following sub-segments:



Sales & Marketing: Companies providing application software for managing relationships with existing and potential customers as well as marketing solutions



ERP & SCM: Companies offering application software that supports all processes such as procurement, production, sales or plant management within organizations



Communication & Collaboration: Companies providing application software that enables the exchange of messages in text, audio and / or video formats as well as digital collaboration



HR: Companies providing application software that supports HR functions of organizations, such as recruitment, payroll, and workforce management



Security: Companies offering application software for digital security, backup and recovery as well as solutions for critical situations



Vertical: Companies providing application software addressing the needs of business within a specific vertical industry or market



Data Analytics & BI: Companies providing application software that allows for the analysis and understanding of historical and current data

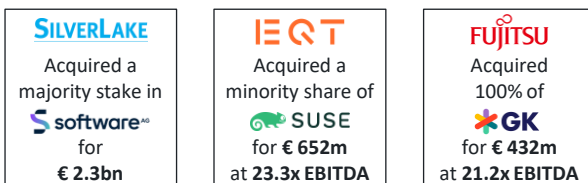


Engineering & Construction: Companies offering application software that empowers its users to design, analyze, and simulate complex systems while being more productive

Deal Dashboard

Software M&A Market

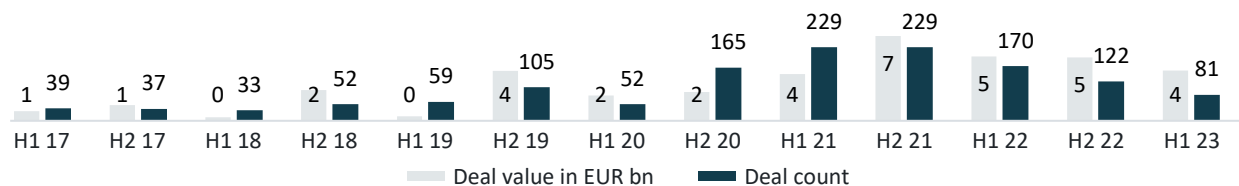
Top 3 German Transactions in 2023⁵⁾



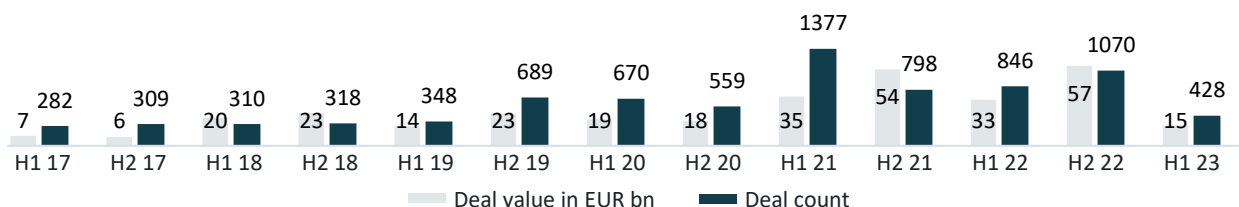
Top 3 European Transactions in 2023⁵⁾



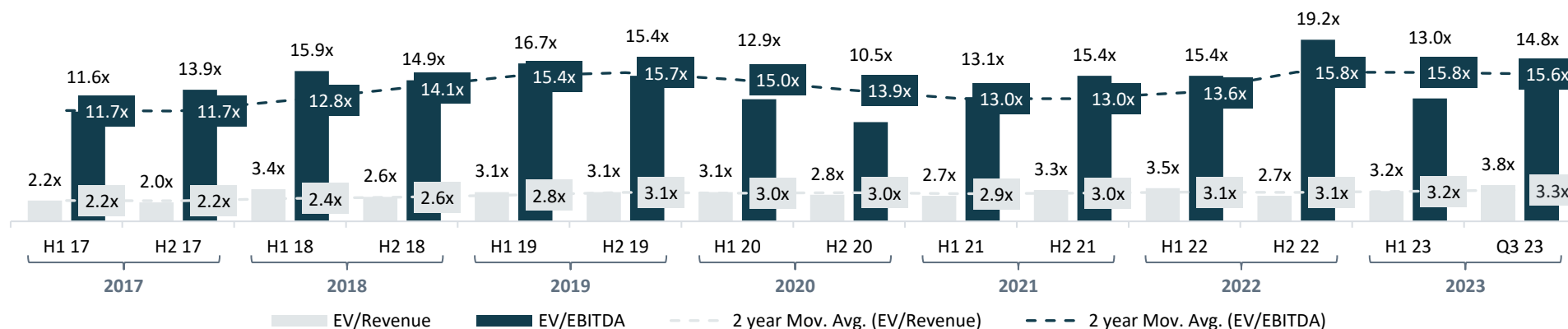
Development of Published German M&A Deal Value & Count



Development of Published European M&A Deal Count & Value^{1), 3), 4)}



Median of Published EV Multiples in Europe between 2017 and Q3 2023^{2), 3), 4)}



Software Universe

Overview of selected public software players by segment

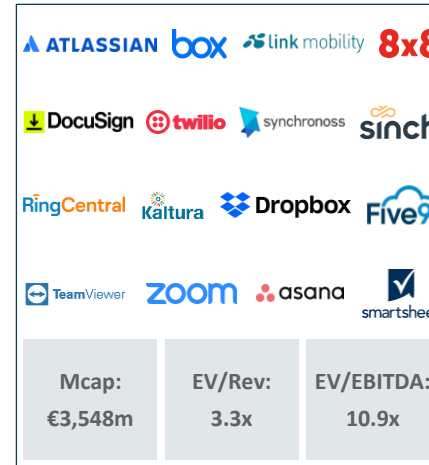
Sales & Marketing



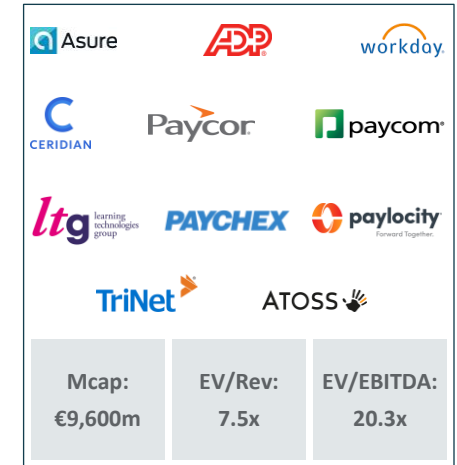
ERP & SCM



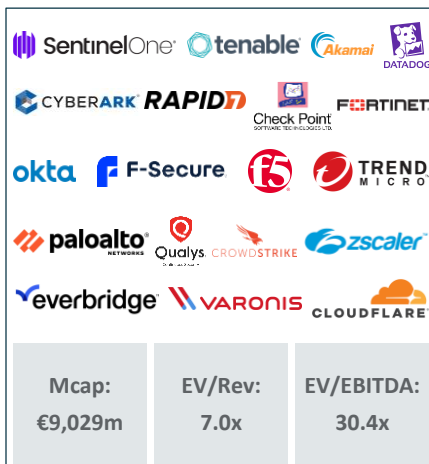
Communication & Collaboration



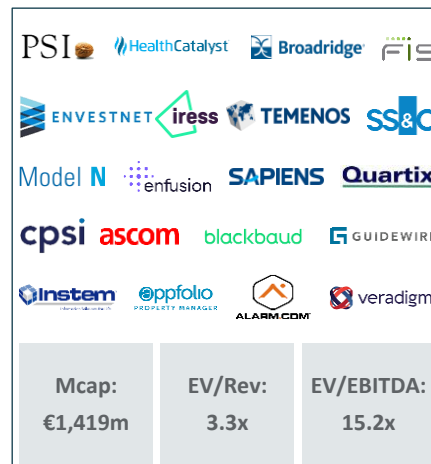
HR



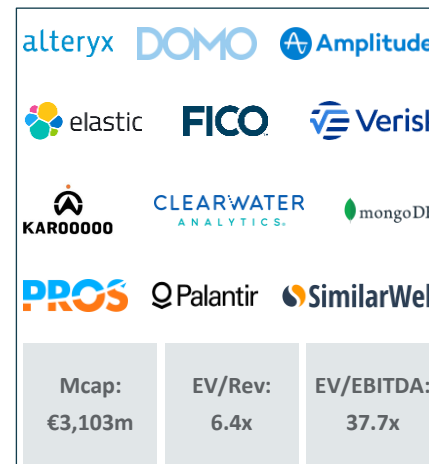
Security



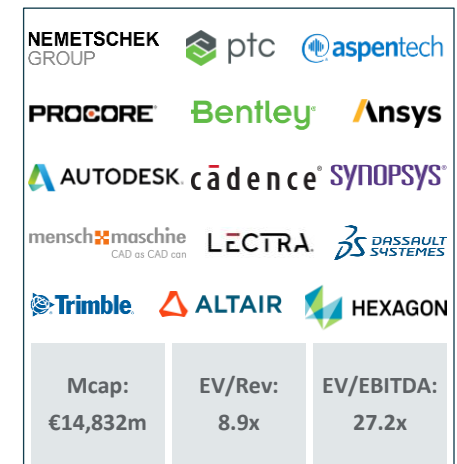
Vertical



Data Analytics & BI



Engineering & Construction



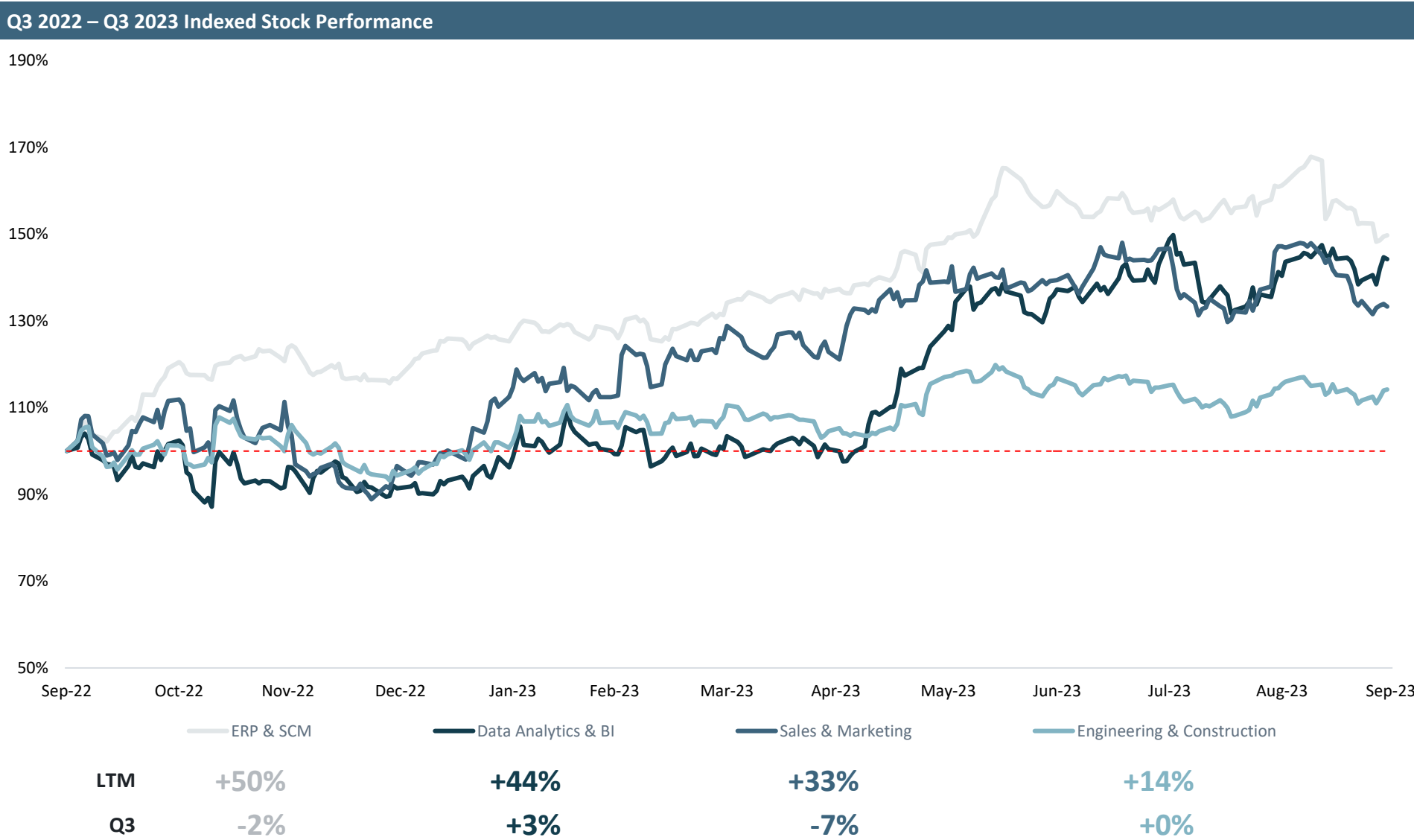
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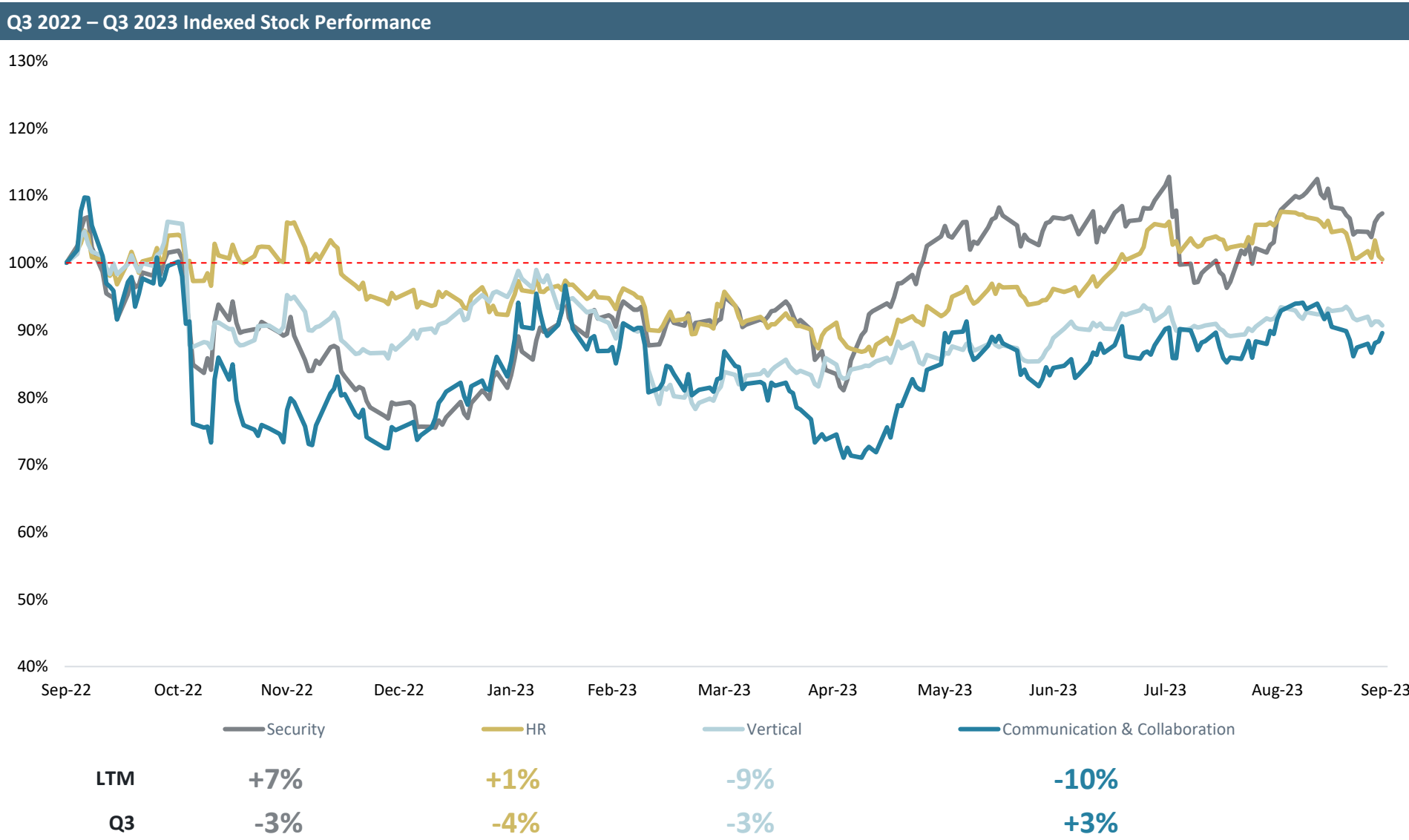
Stock Performance – Top 4 Segments

Segmented, indexed stock performance¹⁾



Stock Performance – Bottom 4 Segments

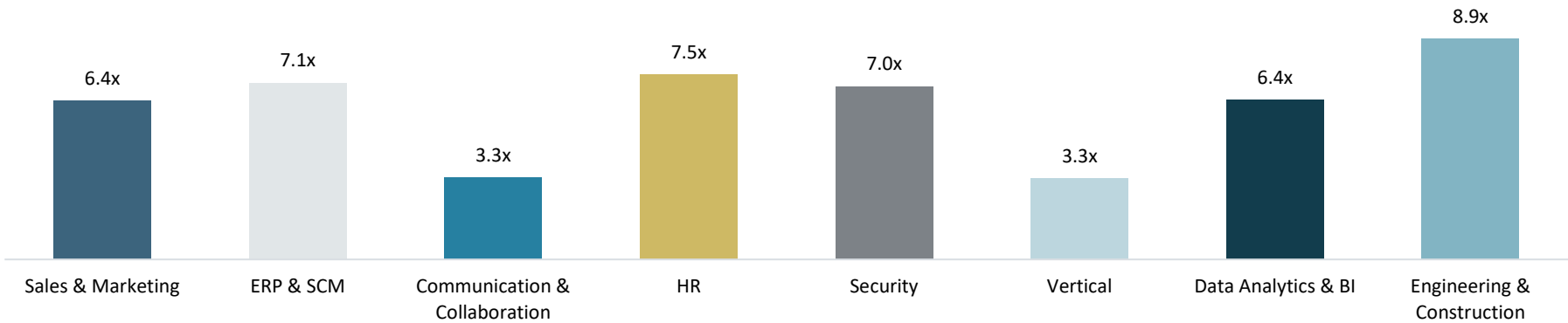
Segmented, indexed stock performance¹⁾



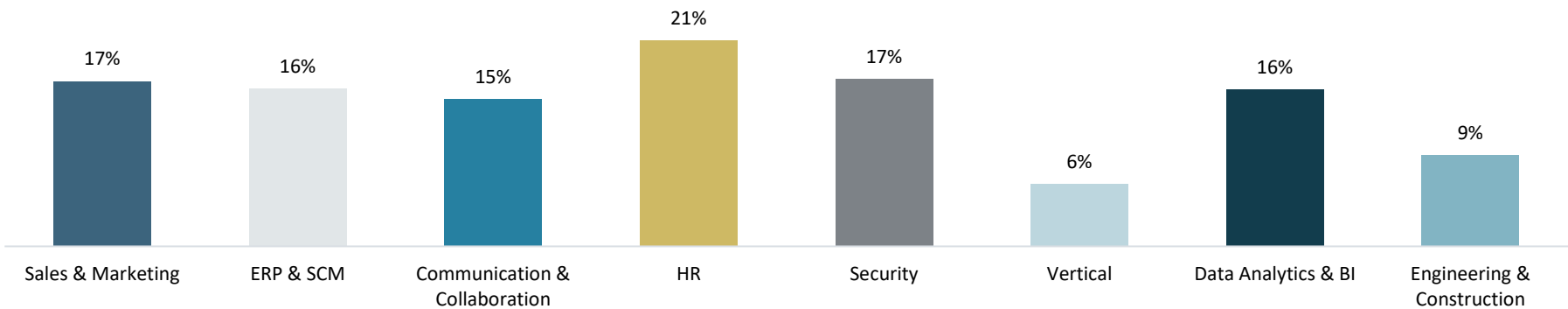
Software Valuation (I/IV)

Median segment valuation metrics in 2023E

EV/Revenue 2023E



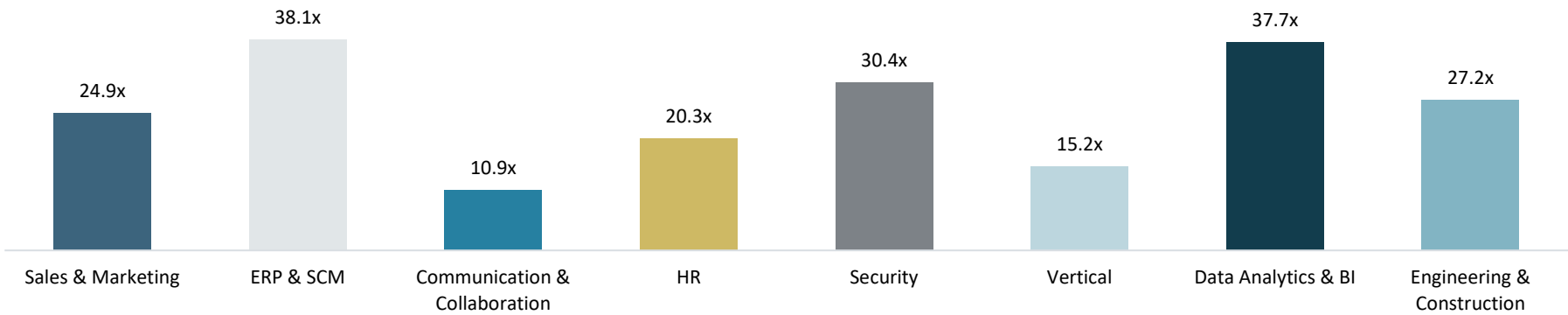
Revenue Growth 2023E



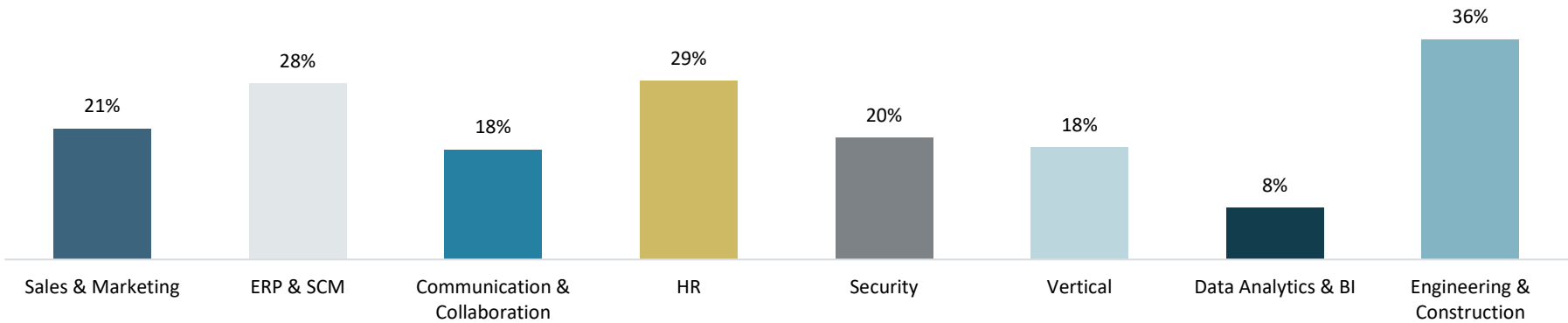
Software Valuation (II/IV)

Median segment valuation metrics in 2023E

EV/EBITDA 2023E



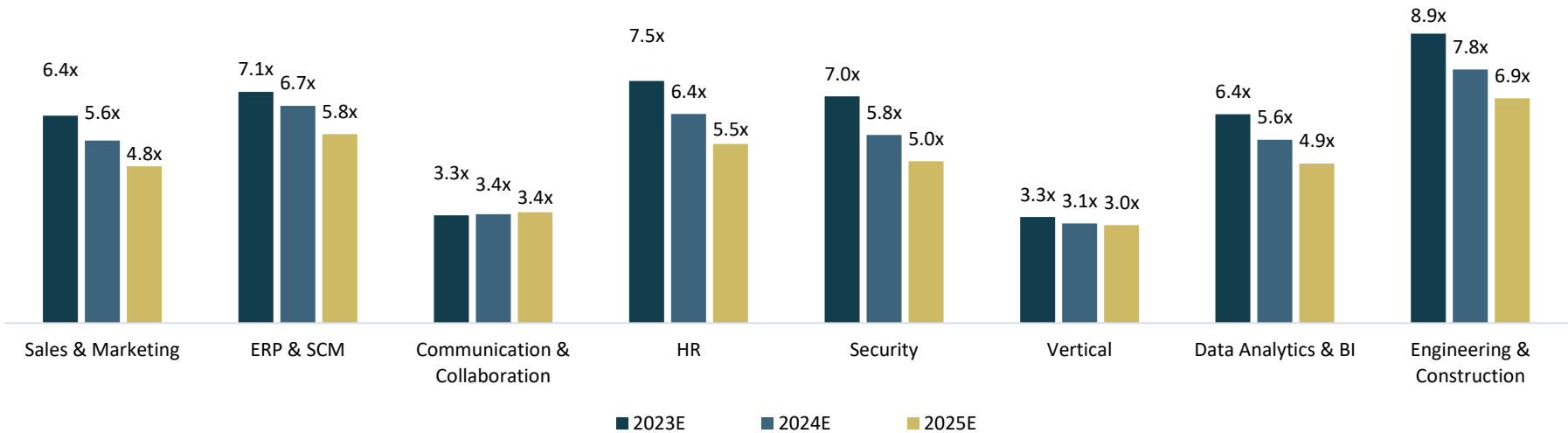
EBITDA-margin 2023E



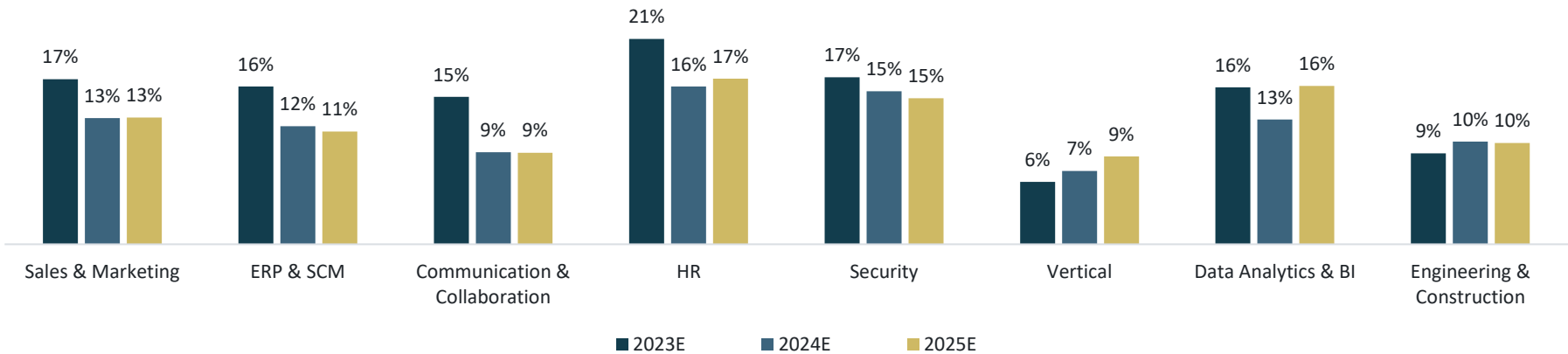
Software Valuation (III/IV)

Development of the median segment valuation metrics between 2023E and 2025E

EV/Revenue 2023E-2025E



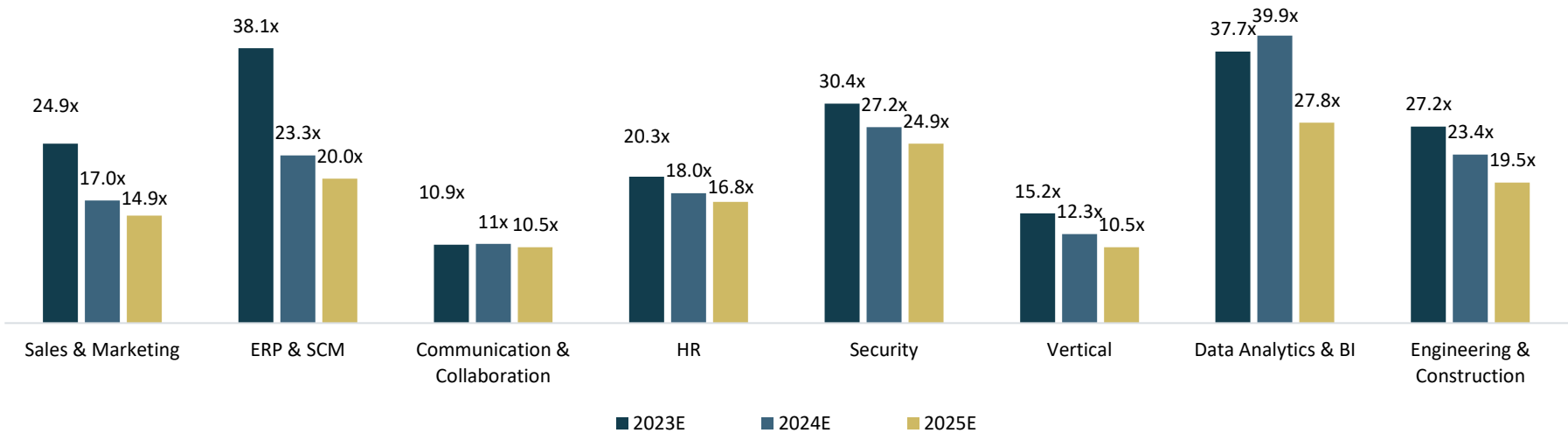
Revenue Growth 2023E-2025E



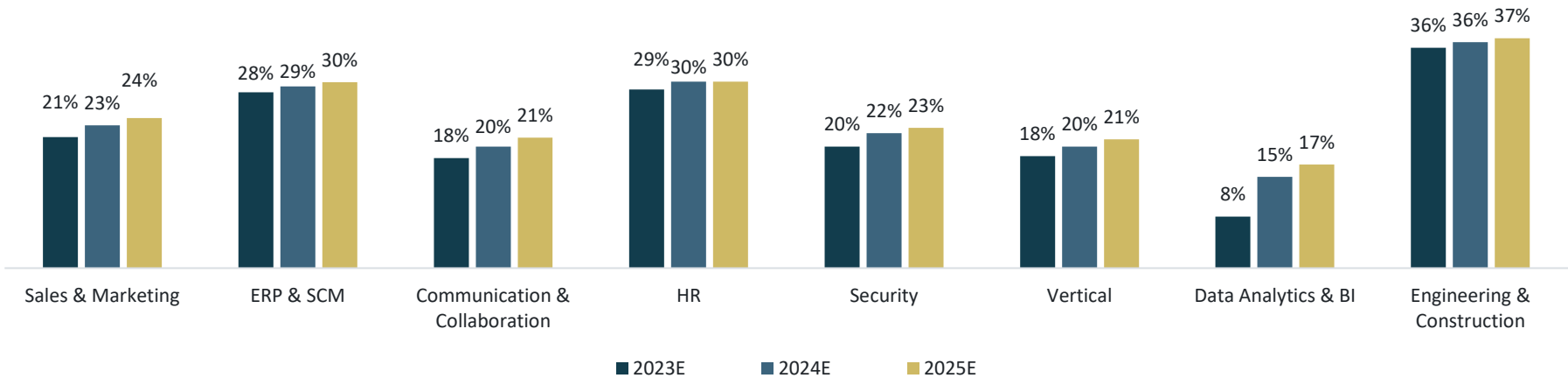
Software Valuation (IV/IV)

Development of the median segment valuation metrics between 2023E and 2025E

EV/EBITDA 2023E-2025E



EBITDA-margin 2023E-2025E

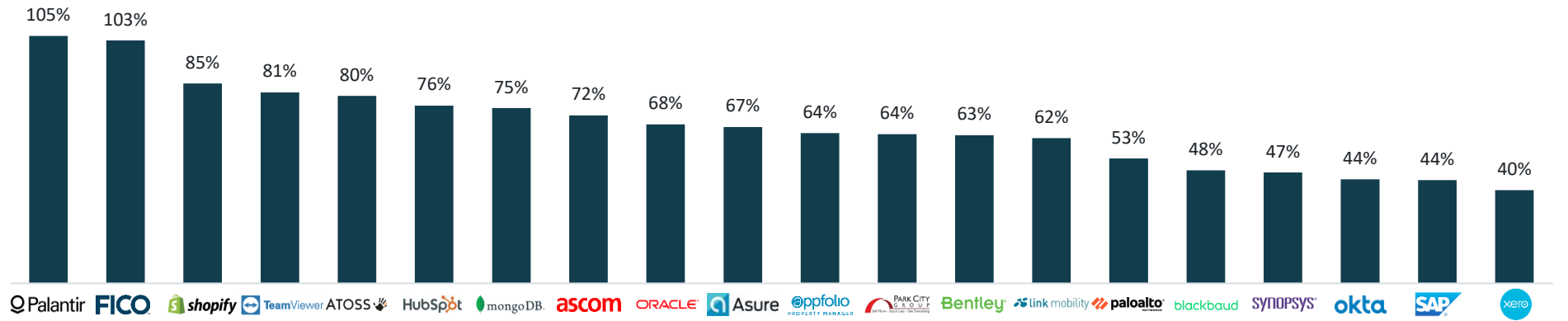


Top and Bottom Performers

Top and bottom public companies by LTM share price performance

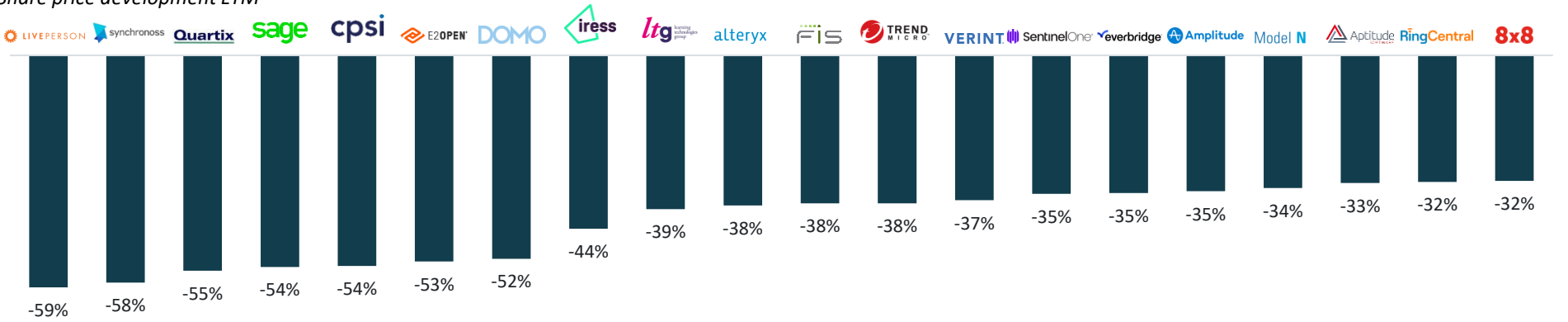
Top 20 Performers

Share price development LTM



Bottom 20 Performers

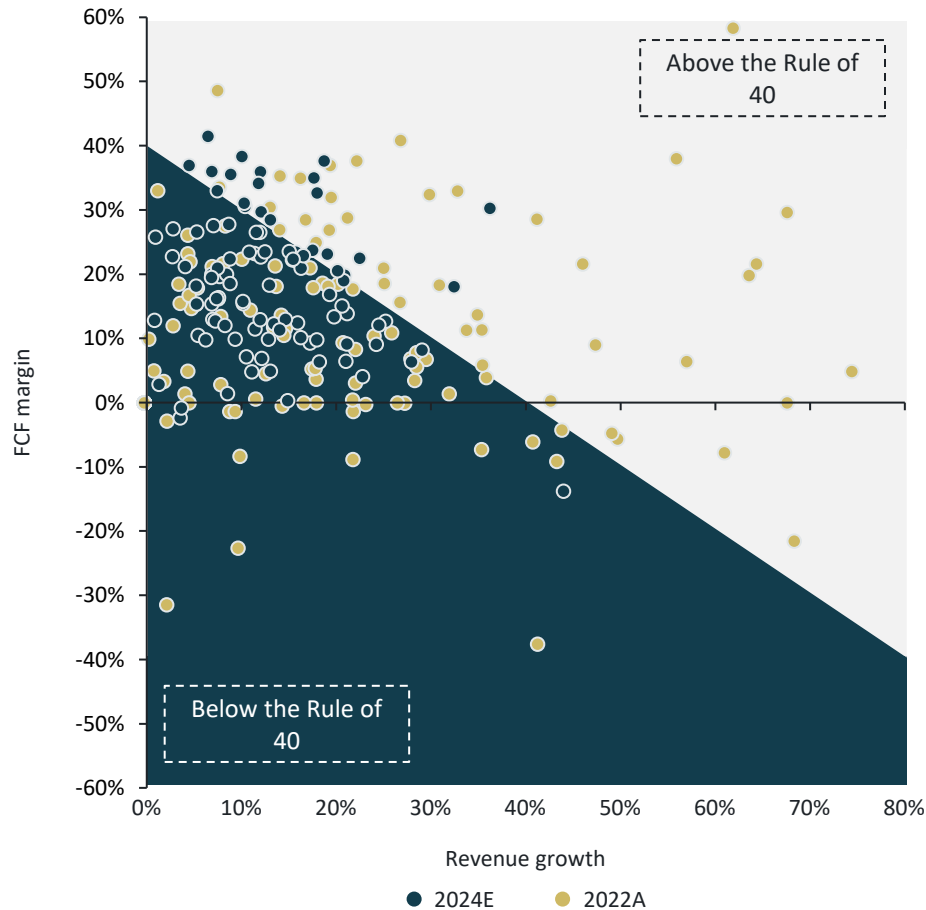
Share price development LTM



The Rule of 40: Introduction

Companies above the Rule of 40 achieve significantly higher valuations

Overview “Rule of 40”¹⁾



Trade-off between Growth and Profit

- The Rule of 40 is a method for valuing software and in particular SaaS companies, measuring the trade-off between growth and profitability
- Companies with a combined sales growth and free cash-flow margin of over 40% are considered as being efficient in its growth and profitability development (efficiency score)
- Companies exceeding the Rule of 40 are likely to achieve higher valuations, as they are in a favorable position to attain long-term growth and profitability
- 99 SaaS companies were analyzed for 2024E and 2022A

Results

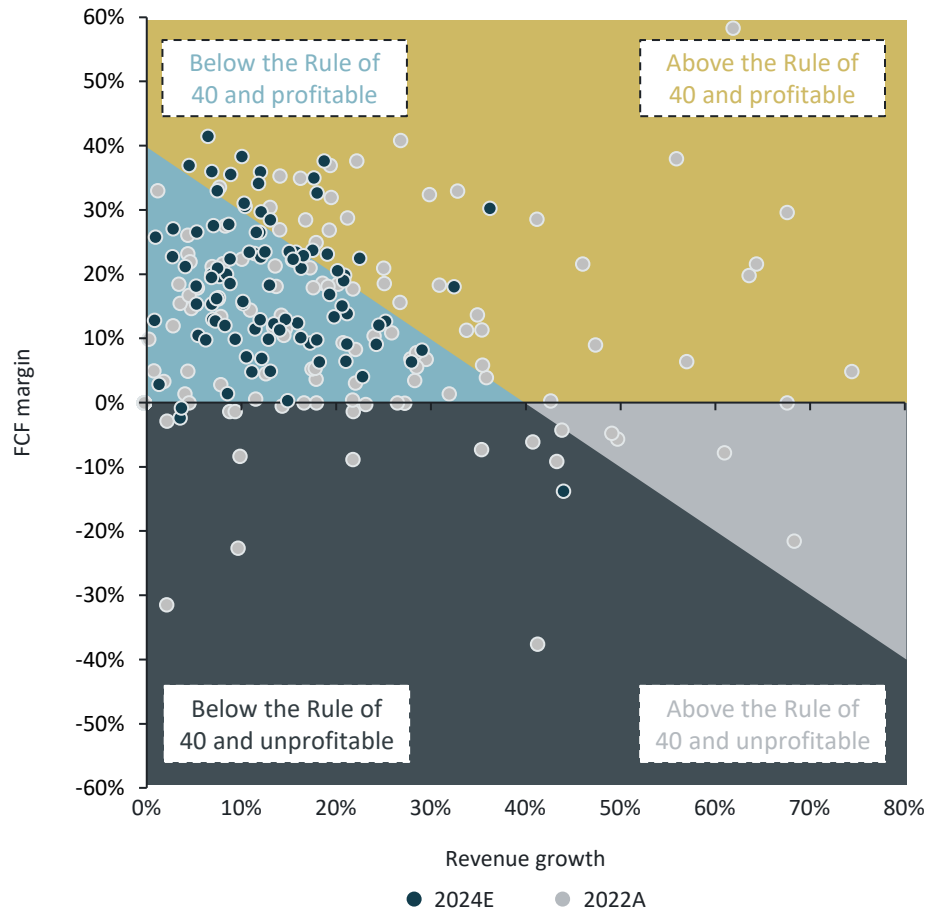
- The development from 2022A to 2024E shows a substantial shift in focus from growth to profitability
- While a lot of companies managed to achieve or maintain profitability, the majority lost substantial growth momentum on the way
- Out of 99 analyzed SaaS companies 21 satisfy the rule of 40 for 2024E compared to 34 for 2022A and 78 (2024E) lie below the rule of 40 compared to 65 (2022A)

Category	No. Of companies ²⁾	Market Cap (€bn) ³⁾	Rev. Growth 23E-24E ³⁾	FCF Margin 24E ³⁾	EV/Rev. 24E ³⁾
Above the rule of 40	21 (34)	24.4	12.1%	32.6%	10.4x
Below the rule of 40	78 (65)	3.7	11.1%	14.4%	3.9x

The Rule of 40

Companies face a tense financing market and increase efforts to reach or maintain profitability

Rule of 40¹⁾



Selected Constituents and Results

- 99 SaaS companies were analyzed on their satisfaction of the Rule of 40 for 2022A and 2024E
- Reflecting the shift of focus towards profitability, from 2022A to 2024E the number of companies positioned in the golden, black, and grey zones decreased and in turn the number of companies in the blue zone increased substantially

Blue zone

ADP, workday, DASSAULT SYSTEMES, zoom, FIS, ORACLE, salesforce, SAP

Large and mature software companies maintaining profitability

Golden zone

Veeva, cadence, FORTINET, Palantir, paloalto, Dropbox, TeamViewer, ATLISSIAN

Top companies with efficient growth while maintaining strong profitability

Black zone

SentinelOne, tecsys, kaltura, DOMO

Struggling companies without efficient growth and negative profitability

Grey zone

Facing slowed revenue growth, companies fall into the black zone or move to the blue zone reaching profitability

Fast growing (young) companies with negative profitability

Category	No. Of companies ²⁾	Market Cap (€bn) ³⁾	Rev. Growth 23E-24E ³⁾	FCF Margin 24E ³⁾	EV/Rev. 24E ³⁾
Golden zone	21 (31)	24.4	12.1%	32.6%	10.4x
Blue zone	75 (52)	3.8	11.4%	15.1%	4.0x
Black zone	3 (14)	0.3	3.6%	-2.4%	1.3x
Grey zone	0 (3)	-	-	-	-

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IMAP is a Leading Mid-Cap M&A Firm Specialized in Privately Owned Companies

Strong track record of c. 220 transactions p.a. with transaction values ranging from c. € 20m – 300m



Leading global M&A organization with more than **60 Offices in 41 Countries**, thereof 3 in Germany



450+ Advisors, **50 thereof in Germany**



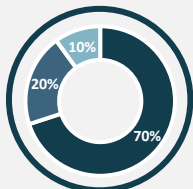
Ø 220 Transactions p.a., **25 thereof in Germany**
c. 80% Sell-side advisory



Transaction-volume p.a. > **€ 15bn**
Value per Transaction between **€ 20m-300m**



Successful in the German market since **1997 - managed by partners** with long-term experience, who are responsible only to the client



Primarily active for entrepreneurs and founders

- Family-owned SMEs
- Private Equity
- Corporate groups



International sector-focused teams connected via **global IT platform**



Consistently among the **Top 10 M&A advisory firms** in various industry rankings

Transactions per Industrial-sector



Our Corporate Values:

Execution



Dedication



Informality

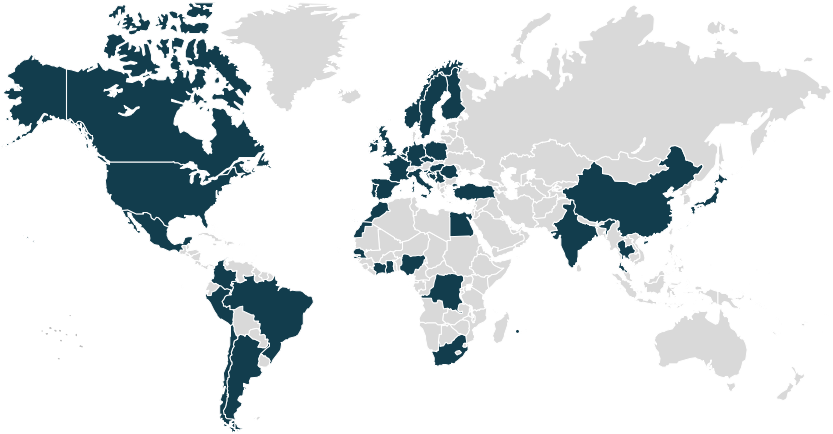


Talent



IMAP Global

IMAP combines global sector-expertise with direct access to main investors in all relevant markets



IMAP Global

„IMAP means internationality“

- **International sector- and project teams**
- **Resources and knowledge pool** for all sector specific projects and access to all relevant databases
- **Access to all relevant** national and international investor groups by **combining local knowledge with international reach**
- Standardized, **IMAP-wide working routines** for market development and project execution
- Globally rotating IMAP conferences & symposia – close and regular exchange among IMAP experts

252
M&A
Transactions
(in 2022)

€26bn+
Transaction-
volume
(in 2022)

26%
Cross-Border
Transactions

450+
M&A
Professionals

49
Countries

60+
Offices around
the globe

Insights



IMAP Deal Statistics

IMAP technology deal statistics and German digital technology deals

German Digital Technology Deals since 2018 (selection)

ALLGEIER

Acquired Majority Control of Business Operations

SDX

Advisor to SDX

foconis

A Portfolio Company of

MAIN

CAPITAL PARTNERS

Acquired 100%

GENODATA

Advisor to GenoData

LEA

PARTNERS

Acquired Majority Control of Business Operations

S&F

DATENTECHNIK
SOFTWARE · CONSULTING

Advisor to S&F

MAIN

CAPITAL PARTNERS

Acquired 100% of Business Operations

pdv

Advisor to pdv financial software

FSN

CAPITAL

Acquired Majority Control of Business Operations

Lobster

Advisor¹⁾ to FSN Capital

Elvaston

Acquired Majority Control of Business Operations

Dietrich's

Advisor to Dietrich's

grupa pracuj

Acquired 100% of Business Operations

(softgarden)

Advisor¹⁾ to Grupa Pracuj

Elvaston

Acquired 100% of Business Operations

GDI

SOFTWARE

Advisor to GDI Software

PINOVA

CAPITAL

Has entered into a Partnership

rayNET

Advisor to raynet

SNP

Acquired Majority Control of Business Operations

exa AG

Advisor to EXA

PARAGON

Acquired Majority Control of Business Operations

semv x

A CARAD GROUP COMPANY

Advisor to SemVox

STP III

The Legal Tech Company

Acquired 100% of Business Operations

INOBAS

Advisor to Inobas GmbH

IMAP Technology Deal Statistics

230+ deals in the technology sector
since 2015

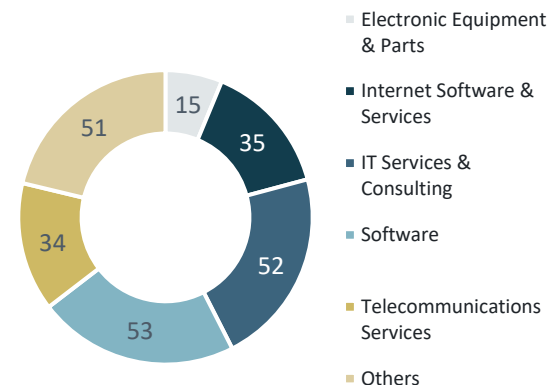
Ø **27 deals p.a.**

>30% cross-border

>60% European targets

\$ 32m avg. deal size in 2022

Deal Split by Technology Subsector since '15



IMAP Digital Technology Deals

Selected IMAP international deals since 2019

 <p>Acquired Majority Control of Business Operations</p>  <p>Advisor to S&F</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to GenoData</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Orange Logic</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Gamepires</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vitec</p>	 <p>A Portfolio Company of</p> <p>Acquired 100% of Business Operations</p>  <p>Advisor to ManageYOURID</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Wireless</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vigil</p>
 <p>Acquired 100% of Business Operations</p>  <p>Advisor to SYAC</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vitec</p>	 <p>Acquired Selected Assets</p>  <p>Advisor to InHouse</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Geniem</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Grupa Pracuj</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to pdv financial software</p>	 <p>Acquired Majority Control of Business Operations</p>  <p>Advisor to Dietrich's</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Sentaca</p>
 <p>A Portfolio Company of</p> <p>Acquired 100% of Business Operations</p>  <p>Advisor to On Point</p>	 <p>Acquired 100% of</p>  <p>Advisor to InnovateMR</p>	 <p>Acquired 100%</p>  <p>Advisor to jivo</p>	<p>Private Investors</p> <p>Acquired Investment Interest</p>  <p>Advisor to Pharmagest</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to GDI Software</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Brandify</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vitruvian</p>	 <p>Acquired Majority Control of Business Operations</p>  <p>Advisor to Inovatec</p>
 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Unicorn Systems</p>	 <p>Acquired Majority Control of Business Operations</p>  <p>Advisor to Carlyle</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Unicorn Systems</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vitec</p>	 <p>Acquired Majority Control</p>  <p>Advisor to Adelis</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Lagash SAU</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to WinBooks</p>	 <p>Acquired 100% of Business Operations</p>  <p>Advisor to Vitec</p>

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A hand is shown interacting with a tablet. The tablet screen displays a grid of hexagonal icons representing various concepts like Wi-Fi, lightbulb, person, bar chart, and IoT. Overlaid on the screen is a block of Java code for an Android application, including methods for ViewPager, onPageChangeListener, onPageScrolled, onPageSelected, and initToolbar. The word 'IMAP' is written in large, white, serif font across the center of the image.

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