



EUROPEAN SOFTWARE M&A MARKET

H1 2019 Software Market Snapshot



Our views on recent and upcoming developments in European B2B software markets

1

Private Equity loves software

An entire generation of VC funded software companies is reaching maturity. As VCs are looking for an exit and companies are ready to take the next step in funding to finance future growth, the software sector has become a prime target for Private Equity investors. These investors are attracted by significant growth perspectives and a high degree of recurring revenues of SaaS-based business models

2

Software is on the watchlist of industrial players

With the introduction of software and connectivity in more and more products, industrial players are increasing their acquisition activities in the software sector in order to improve in house technology capabilities and to keep up with a quickly changing market environment, which is primarily driven by needs for business process automation

3

Strong growth beats high profits in valuation

With highly scalable cloud/SaaS and subscription-based business models as the new industry standard for a new generation of software companies, investors put even higher valuations on high growth yet unprofitable targets – clearly preferring topline growth over profitability

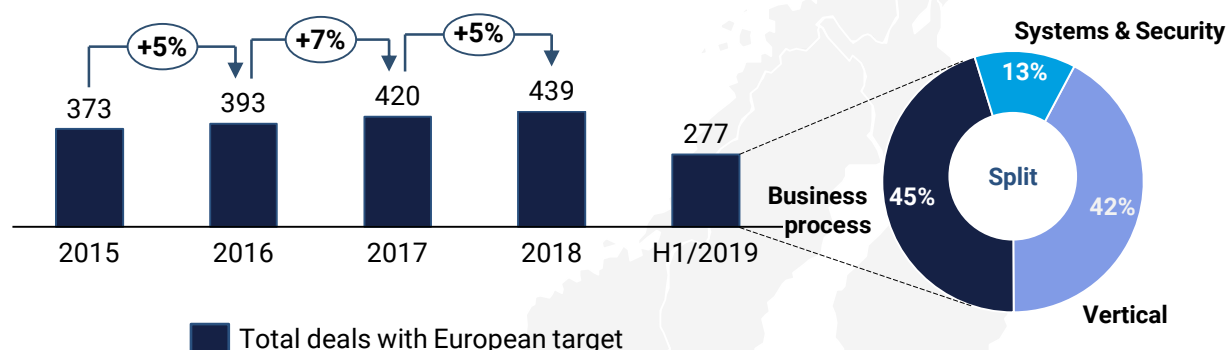
4

New breed of highly specialized startups

While consolidation within and through adjacent categories shapes new strong players, there is an ongoing flow of highly specialized software startups in existing and new verticals. Especially established best-in-class software providers are constantly looking for add-on acquisitions to deepen their own technical capabilities and expand their product and functionality offerings

European software M&A activity (2015-H1/2019)

The European software market keeps its positive trend in terms of closed transactions



- The strong positive trend within the European software M&A market continued in H1/2019. A total of 277 transactions were closed, which represents an increase of 35% in comparison to H1/2018
- The number of transactions within the Business process software segment kept their pace accounting for 45% of the total number of transactions in H1 2019 (also 45% in FY 2018)
- Systems & Security software transactions picked up its pace, representing 13% of the total number of transactions (9% in FY 2018)
- The biggest transaction within the European software space in H1 2019 was the acquisition of security specialist Gemalto by Thales with a deal value of EUR 5.7bn – another prominent example of an industrial player further strengthening its software capabilities in an increasingly connected world with increasing security standards and needs

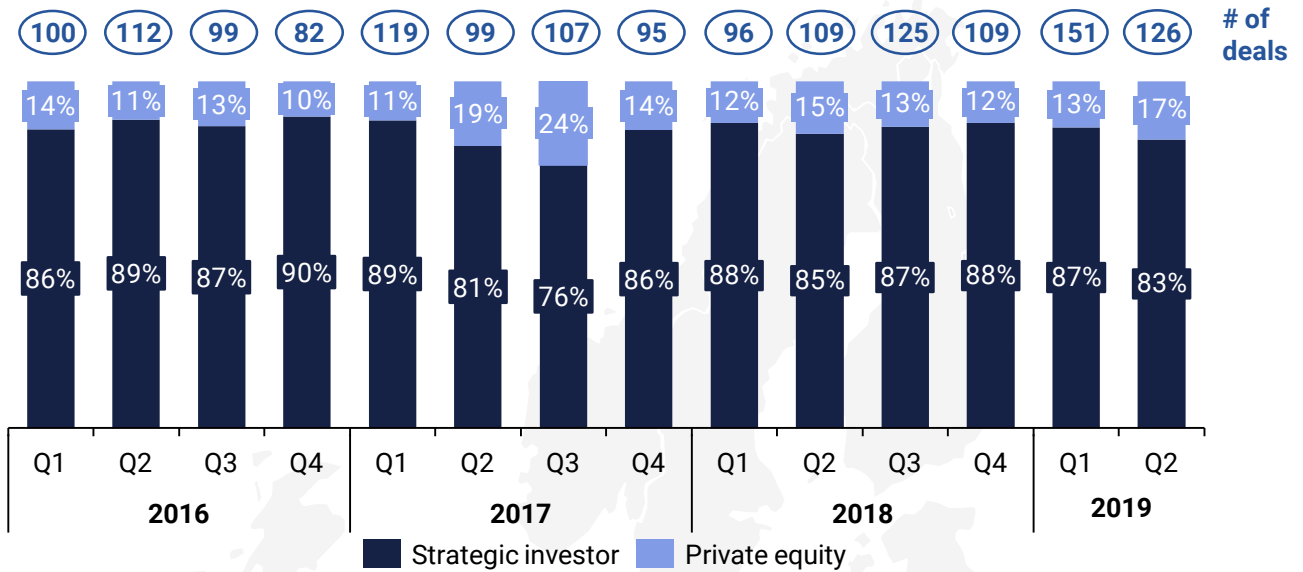
Top European M&A software transactions (last twelve months)

Date	Target	Sector	Description	Buyer/ investor	Transaction value (€ m)	EV/ sales	EV/ EBITDA
Apr 19	Gemalto	Systems & Security	Provider of digital security solutions	Thales	5,709	1.8x	13.1x
Jul 18	SUSE Linux	Systems & Security	Provider of Linux-based operating systems	EQT Partner	2,179	7.3x	22.9x
May 19	eFront	Vertical	Provider of software for investment management	BlackRock	1,151	n.a.	n.a.
Sep 18	EPiServer	Business process	Provider of CMS and marketing software	Insight V.C.	999	n.a.	n.a.
Apr 19	TomTom Telematics	Vertical	Provider of telematic software solutions	Bridgestone	910	5.2x	n.a.
Oct 18	Link Mobility	Business process	Provider of messaging and communication software	ABRY Partners	461	2.4x	23.4x
Jul 18	Metrologix	Vertical	Provider of 3D inspection software solutions	Sandvik Machining	360	8.3x	n.a.
Oct 18	NewVoice Media	Vertical	Provider of cloud-based contact centre software	Vonage Holdings	290	n.a.	n.a.
Jul 18	LifeWorks	Business process	Provider of HR management software solutions	Morneau Shepell	278	3.9x	11.2x

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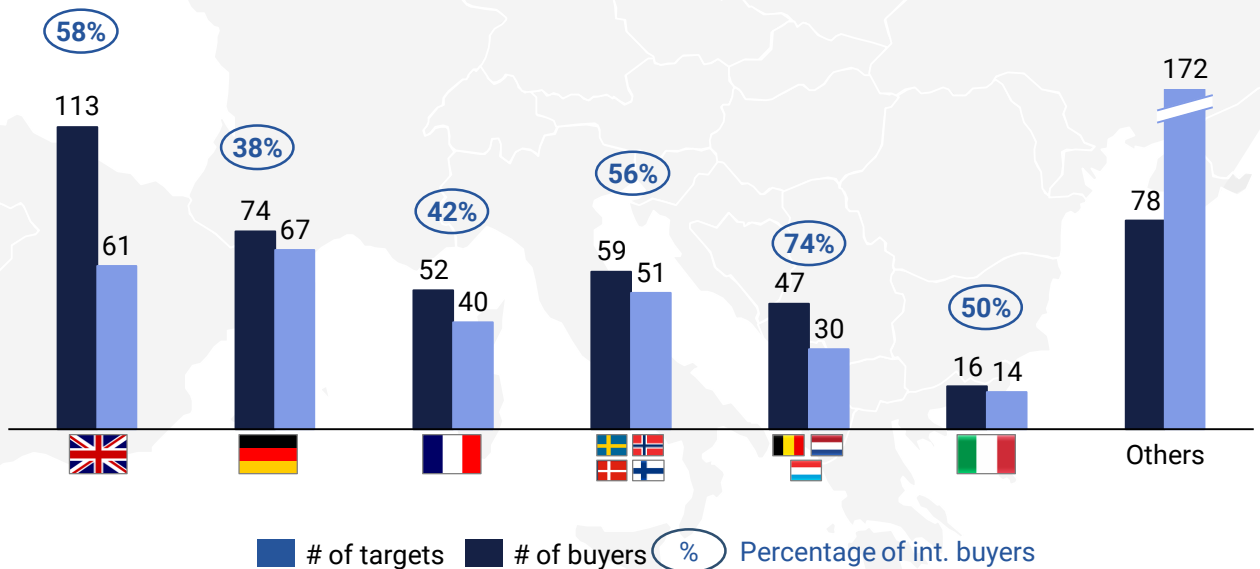
INVESTOR ACTIVITY BY TYPE AND GEOGRAPHY

Software M&A activity by investor type (2016- H1/2019)



- In H1/2019, private equity investors closed around 15% of the total number of Software transactions. Their share of the market, on a quarterly basis, was relatively stable over last 18 months (between 12%-17%)
- Awareness of digitization and the need for scalable digital business models remain the main drivers for strategic investors for acquisitions, shown e.g. by the EUR 360m acquisition of Metrologic Group by Sandvik Machining
- Strategic software buyers tap the market for vertical solutions to further diversify their product offering and to also be able to offer industry-specific software

Overview of M&A activity by geography (2018)



- Traditionally the UK and Germany are the biggest European software markets as the highest number of targets and buyers have their origin in these countries
- Benelux and UK have seen a comparatively high share of international buyers, with 74% and 58% respectively

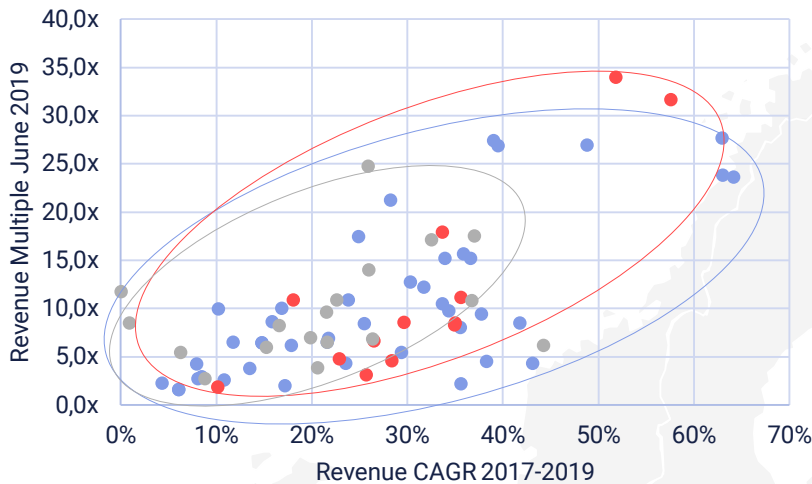
Notable transactions in the field of cybersecurity software

Date	Target	Description	Buyer/ investor	Transaction value (€ m)	EV/ sales	EV/ EBITDA
04/19	Gemalto	Security SW & security chip card vendor	Thales	5,709	1.8x	13.1x
01/19	Imperva	Cybersecurity SW vendor	Thoma Bravo	1,824	5.0x	46.1x
12/18	Veracode	Cloud-based security analysis SW vendor	Thoma Bravo	833	n.a.	n.a.
11/18	CA, Inc.	Anti-virus and internet security SW vendor	Broadcom	15,745	4.4x	14.7x
11/18	Security Matters	Network monitoring SW vendor	ForeScout	99	n.a.	n.a.
11/18	Infradata	Security & cloud networking SW vendor	IK Invest	n.a.	n.a.	n.a.
10/18	Duo Security	Security and compliance SW vendor	Cisco	2,023	22.5x ¹	n.a.
10/18	RedLock	Cloud threat defense SW vendor	Palo Alto	151	n.a.	n.a.
10/18	RedSocks	Behavioral and network security analytics SW vendor	BitDefender	120	n.a.	n.a.
09/18	Securepoint	Unified threat management SW vendor	Maxburg	n.a.	n.a.	n.a.
06/18	EgoSecure	Endpoint security SW vendor	Matrix42	n.a.	n.a.	n.a.
02/18	Barracuda	Security and application delivery SW vendor	Thoma Bravo	1,331	3.6x	18.9x

- The global cybersecurity markets keeps up its strong momentum as security threats continue to escalate and cyberattacks and data breaches are increasingly severe. On a global scale, M&A activity has been driven by large industry players and large private equity funds
- Established cybersecurity players continuously enhance their portfolios through acquisitions of specialized solutions providers, even at early stages. Especially with cloud becoming the new industry standard, organizations increasingly recognize that traditional network monitoring tools create security blind spots since they cannot be deployed to monitor traffic to API-driven services in the cloud
- Notable transactions in this field are the acquisition of cloud security specialist RedLock by Palo Alto for €151m (RedLock was founded in 2015 and received a €7m Series A funding by Dell Technologies Capital, Sierra Ventures and Storm Ventures in 2017). In Europe, Bitdefender has acquired the behavior and network security analytics company, RedSocks Security BV for €120m (RedSocks was founded in 2012 and provides non-intrusive, real-time breach detection solutions by combining Machine Learning, Artificial Intelligence and Cyber Threat Intelligence)
- In its biggest acquisition since the AppDynamics deal in early 2017, Cisco has announced the €2bn acquisition of the 2009 founded Duo Security, a 700-person strong startup that provides cloud-based tools to prevent security breaches on devices. The ambitious valuation emphasizes the importance Cisco puts on the expansion of its cybersecurity practice. Duo Security generates approx. €90m in recurring revenues and has raised more than €100m in funding since inception. In its last funding round in 2017 the company has raised €60m on a €934m pre money valuation
- In Europe, the introduction of regulatory changes like GDPR significantly increased the public awareness for cybersecurity which also increased interest in cybersecurity acquisition targets from financial and strategic investors. In June 2018, EMERAM backed Matrix42 has acquired EgoSecure, which will add vital Endpoint Security and Encryption features to the company's digital workspace management solutions. In Sep 2018 Maxburg Capital Partners acquired a majority of Securepoint, a specialist in Unified Threat Management solutions for small enterprises (Carlsquare acted as sell-side advisor in both transactions)
- Private Equity funds are also significantly increasing their activities in the cybersecurity sector as a generation of VC-backed startups are reaching maturity and are now seeking the next stage of financial support. A particularly interesting example of this is the €833m acquisition of the application security testing specialist Veracode by Thoma Bravo from Broadcom. Broadcom had acquired Veracode as part of its purchase of CA Technologies in November 2018. After having bought Veracode for €580m in April 2017, CA had owned the business for barely a year and a half. Before the pit stop as a public subsidiary, Veracode had raised over €80m in VC funding and had a reported peak private valuation of €480 in 2014

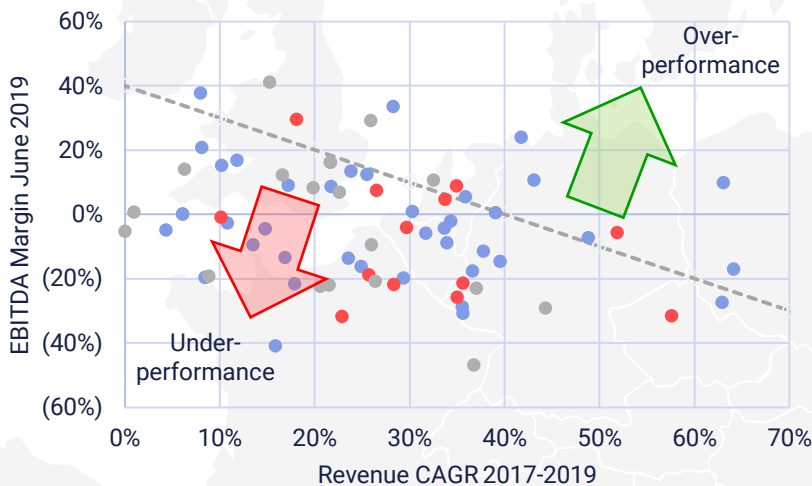
1) Multiple on recurring revenues

Expected revenue CAGR 2017 to 2019 compared to revenue multiple of June 2019



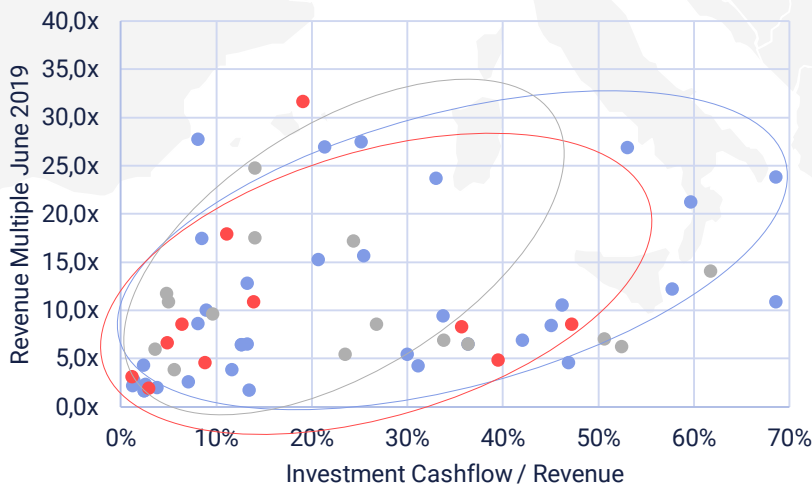
- Strong revenue prospects are highly valued by market participants
- Systems & security software is valued at the highest median multiple – underscoring the current need for cloud-based security software solutions

Expected revenue CAGR 2017 to 2019 vs. EBITDA margin – Rule of 40%



- The rule of 40 states that the sum of revenue growth and EBITDA margin should equal 40% for sustainable SaaS businesses
- Hence, strong growth can compensate for low/negative EBITDA margins, at least in the mid term
- Double digit revenue multiples are mostly observed on the middle right side of the dotted line

Investing Cash Flow to revenue ratio vs. revenue multiple June 2019



- A high proportion of reinvested revenue into organic growth or into other companies (via M&A) proves to yield higher revenue multiples
- The hunt for increased market shares – via organic growth or M&A – is valued most by investors
- Profitability is not to be neglected but is not valued as strongly as revenue growth

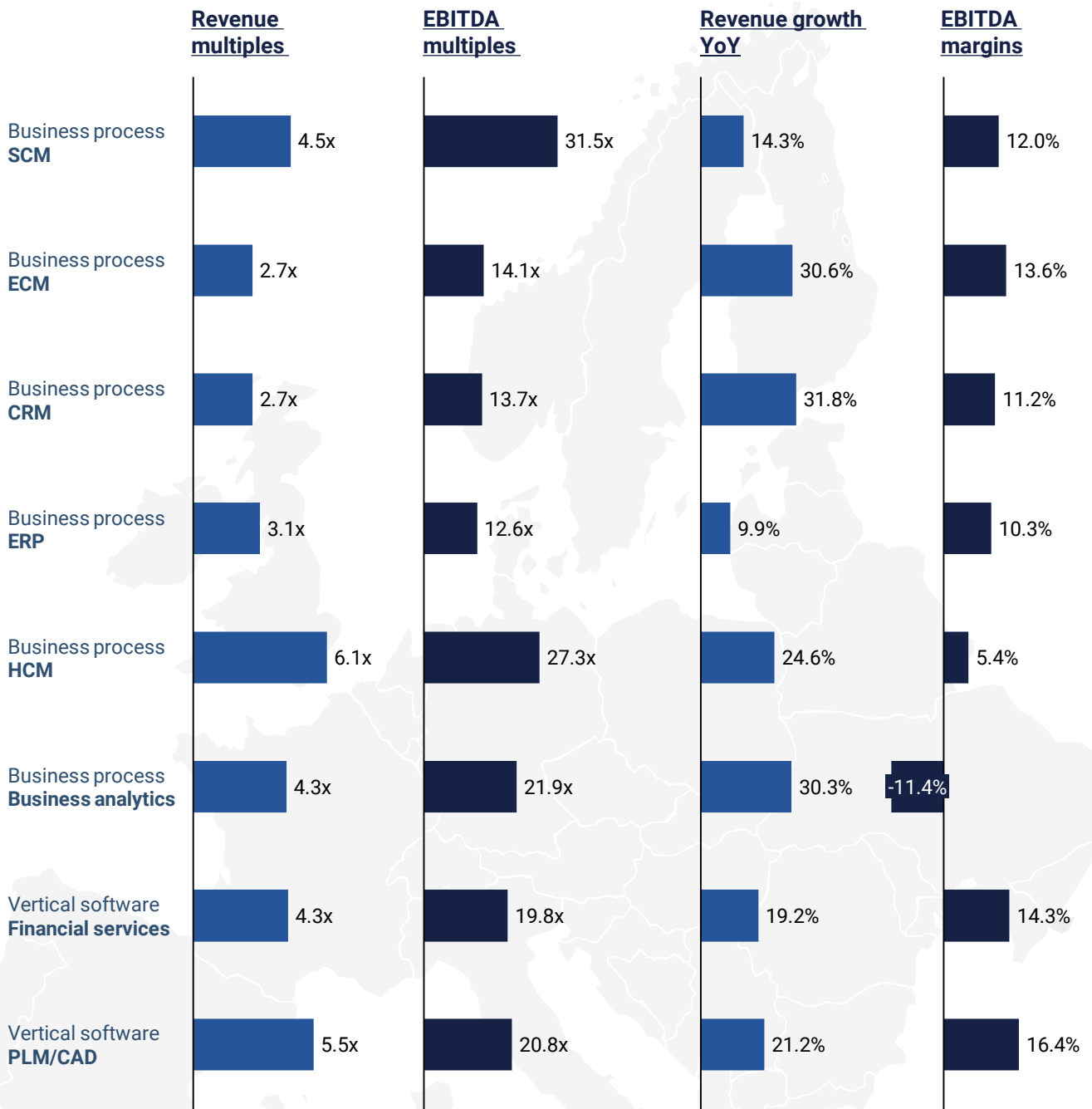
● Business process ● Industry specific ● Systems & Security

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VALUATIONS & KEY METRICS



Global trading multiples (SaaS & On Premise) / as of 30/06/2019¹



¹ Median values

Global trading multiples - summary

- Across all software subsegments, high valuation levels could be observed for publicly traded companies - this applies to revenue as well as to EBITDA multiples
- Generally it can be noted that companies with higher growth experience smaller EBITDA margins – growth is “bought” at the cost of profitability
- Mature software segments like SCM and PLM exhibit stable and high profitability multiples, which is in line with high margins and less growth compared to other subsegments

 sold a majority stake to   	 sold to   	 acquired   	 sold to   	 acquired   
 sold to   	 acquired   	 sold to   	 sold to   	 sold a majority stake to   
 sold to   	 acquired   	 addition of shareholder   	 sold to   	 Invested in   

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