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Software Club

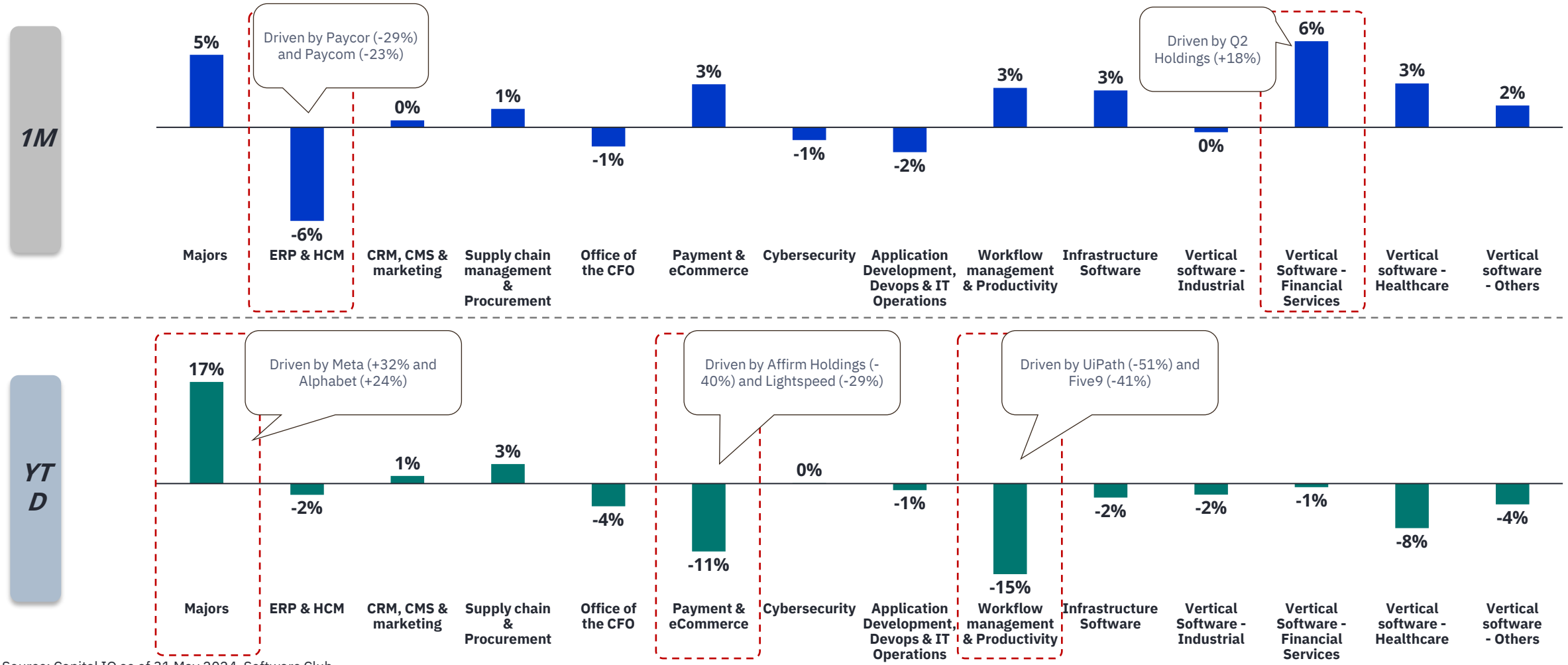
Excerpt - B2B software market update

May 31st 2024

Charts of the day – Performance of B2B software stock vary depending on the subsegments, with ERP & HCM being the worst performer in May driven down by payroll solutions

Key players
#Companies in the cluster

Majors	Business Applications					IT software				Vertical software			
amazon, Microsoft, Meta, Google, ORACLE	SAP, workday, dayforce	HubSpot, Adobe, salesforce	DESCARTES, Manhattan, kinaxis	Sage, intuit, BLACKLINE	adyen, MARQETA, shopify	paloalto, CYBERARK, RAPID7	DATADOG, JFrog, servicenow	ATLASSIAN, UiPath, zoom	snowflake, CONFLUENT, teradata.	DASSAULT SYSTEMES, ptc, Ansys	ncino, TEMENOS, GUIDEWIRE	CGM, Veeva, doximity	Unity, AMADEUS, tyler
#5	#13	#31	#10	#12	#17	#28	#20	#20	#27	#23	#16	#12	#27



Source: Capital IQ as of 31 May 2024, Software Club

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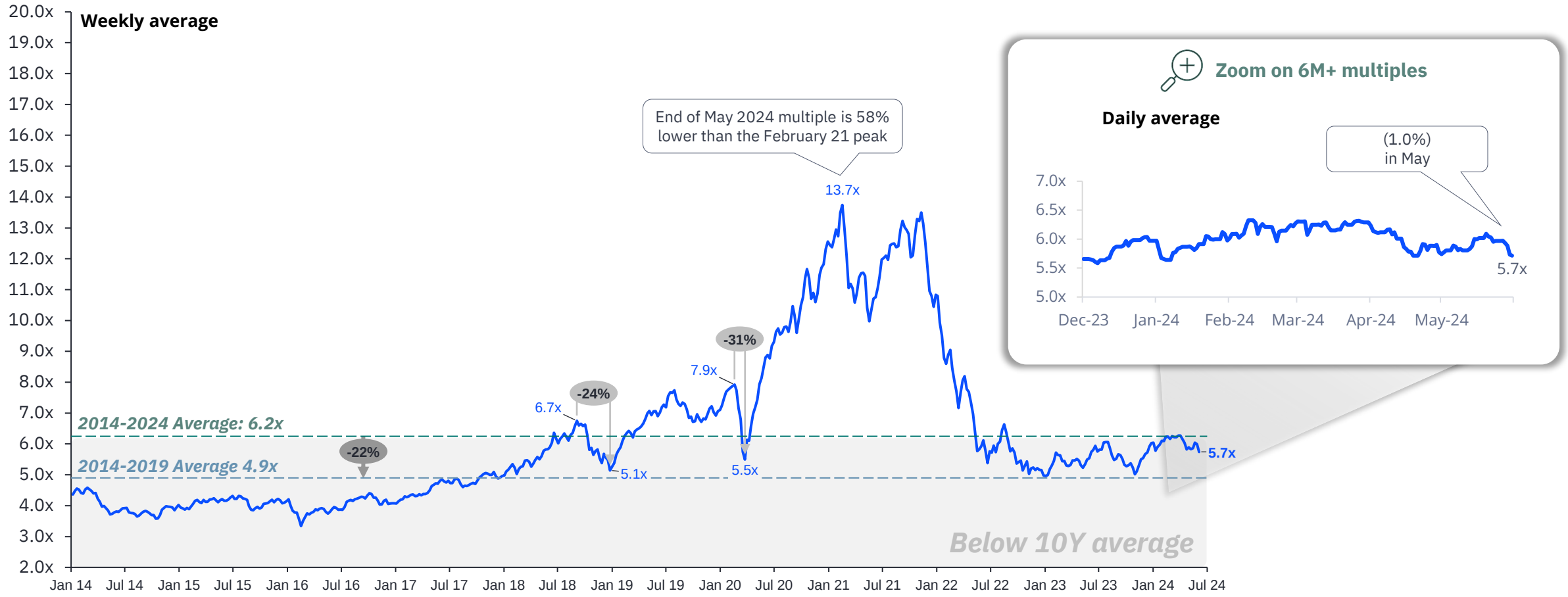
Agenda

- B2B software space valuations went down (1.0%) in May to 5.7x EV/Sales NTM
- US interest rate cuts will not come to reality until inflation cools down closer to FED’s objectives
- Guidance in 1Q ’24 has been affected by worsening macro-environment
- Appendix

B2B software space valuations went down (1.0%) in May to 5.7x EV/Sales NTM, evolving below their 10 years average

SWC Index (1) NTM Rev. multiples



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Avg. EV/Sales NTM	3.9x	4.0x	3.9x	4.6x	5.7x	6.7x	8.9x	11.8x	6.5x	5.5x	6.1x
# of companies	124	135	147	160	171	185	199	237	268	270	277
Avg. sales growth NTM	14.0%	16.7%	15.8%	15.6%	17.1%	19.5%	16.4%	25.8%	24.3%	13.4%	11.8%

Note: (1) Index composed of 277 software companies currently listed with market capitalization above $300m
Source: Capital IQ as of 31 May 2024, Software Club analysis

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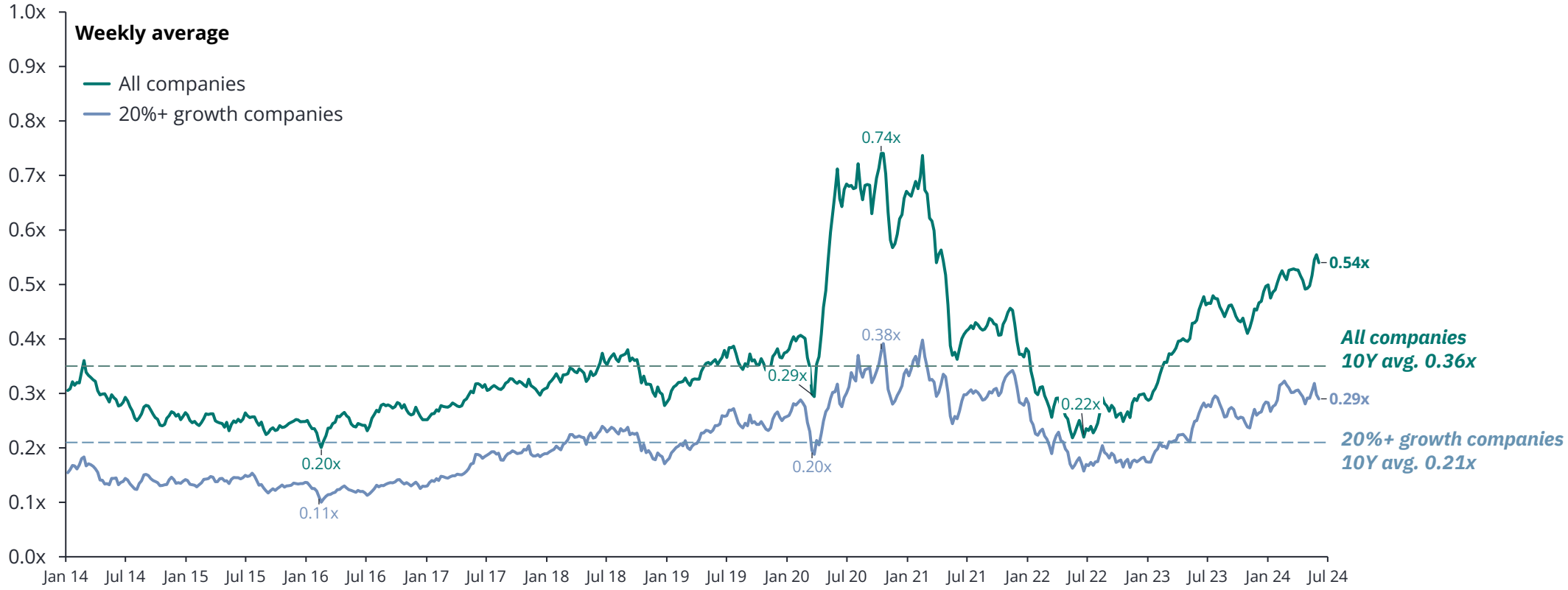
From a revenue growth perspective, B2B software valuations have become more expensive since July 22, which further accelerated in May with EV/Sales to growth standing significantly above 10 years average

SWC Index (1) EV/Sales NTM multiple to revenue growth NTM



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Avg. EV/Sales NTM	4.0x	4.1x	3.9x	4.0x	5.8x	6.8x	9.1x	12.0x	6.6x	5.5x	6.1x
# of companies	122	133	145	158	169	183	197	235	265	267	277
Avg. sales growth NTM	14.0%	16.7%	15.8%	15.6%	17.1%	19.5%	16.4%	25.8%	24.3%	13.4%	11.8%
EV/Sales NTM to growth NTM	0.28x	0.25x	0.25x	0.30x	0.34x	0.35x	0.56x	0.46x	0.27x	0.41x	0.51x

Note: (1) Index composed of 277 software companies currently listed with market capitalization above $300m
Source: Capital IQ as of 31 May 2024, Software Club analysis

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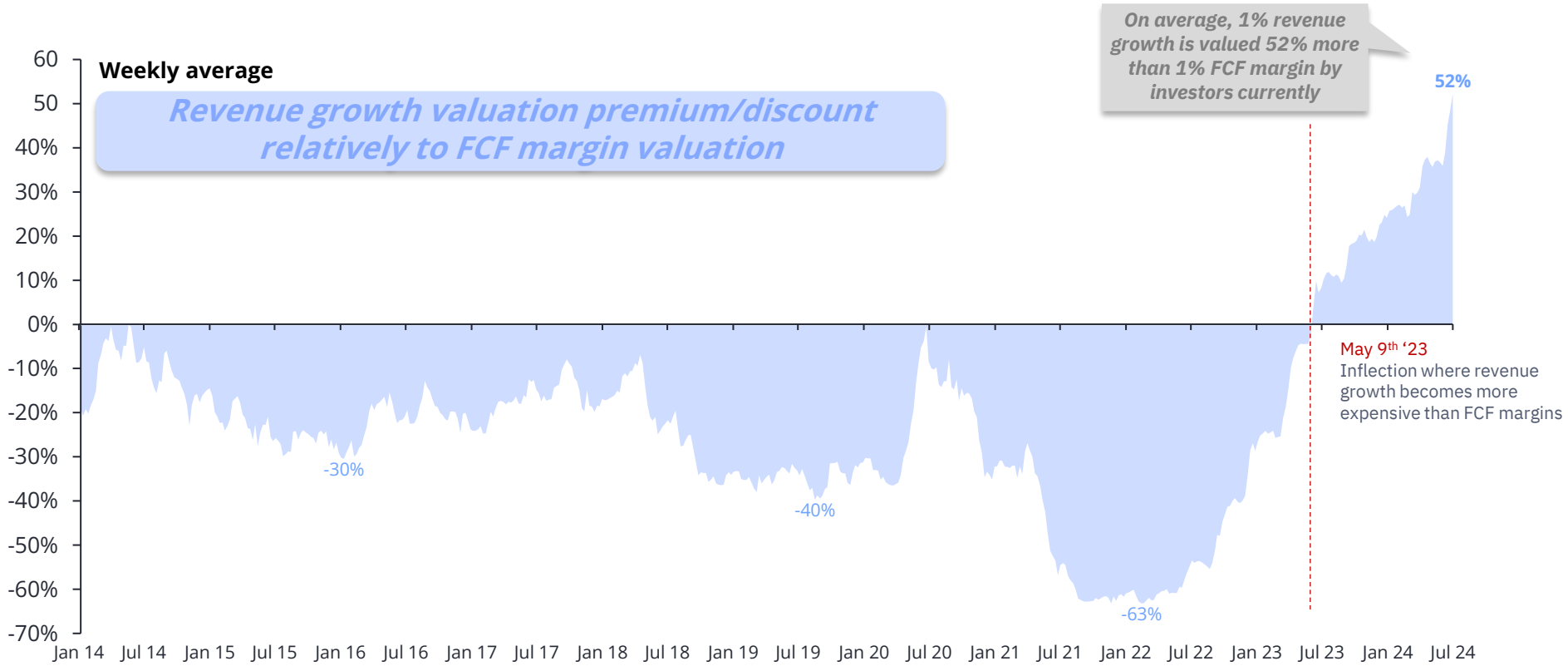
The gap between valuations compared to growth and FCF margins has well increased in May, with growth being at a significant premium of 52% since its inflection point in May 2023

SWC Index (1) EV/Sales NTM multiple to NTM revenue growth vs. EV/Sales NTM multiple to NTM FCF margins



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Avg. sales growth NTM	14.0%	16.7%	15.8%	15.6%	17.1%	19.5%	16.4%	25.8%	24.3%	13.4%	11.8%
EV/Sales NTM to growth NTM	0.28x	0.25x	0.25x	0.30x	0.34x	0.35x	0.56x	0.46x	0.27x	0.41x	0.51x
Avg. FCF margins NTM	12.4%	12.6%	12.4%	12.9%	13.0%	12.8%	12.4%	12.1%	11.7%	14.0%	15.9%
EV/Sales to FCF margins NTM	0.32x	0.33x	0.32x	0.36x	0.45x	0.53x	0.73x	0.99x	0.57x	0.40x	0.38x

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Source: Capital IQ as of 31 May 2024, Software Club analysis

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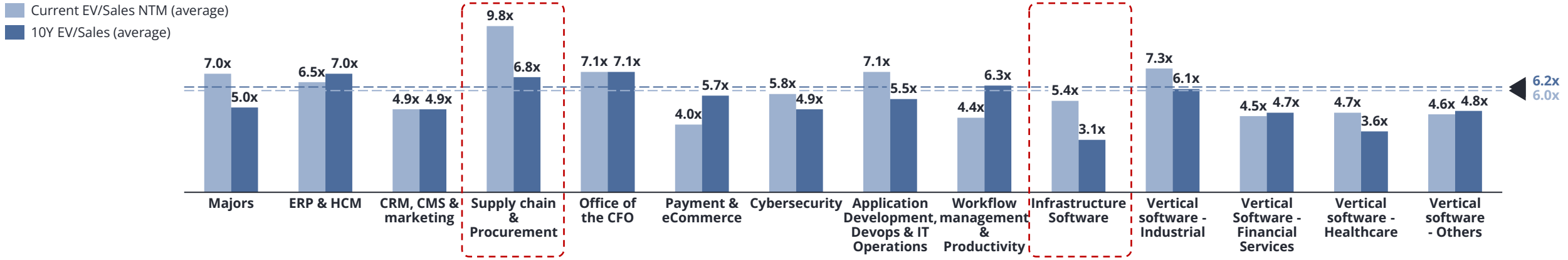
Supply Chain & Procurement and Infrastructure software still trade at a significant premium to their historical average

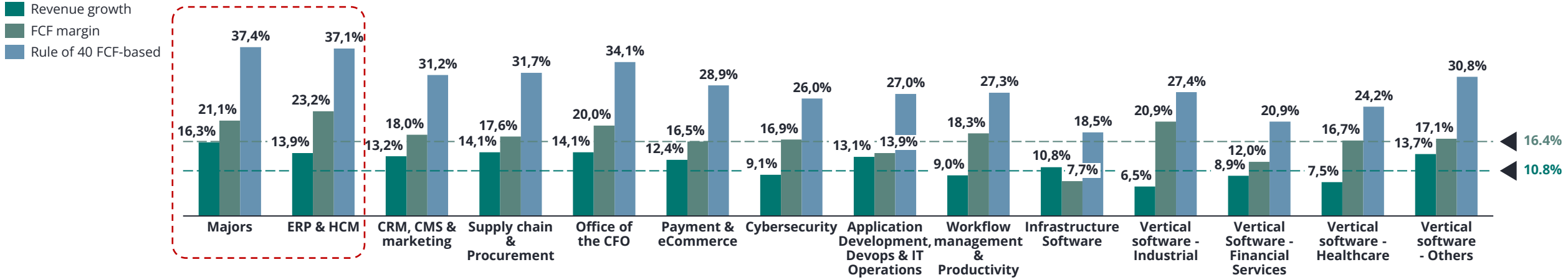
Key players
#Companies in the cluster

Majors	Business Applications					IT software				Vertical software			
amazon, Microsoft, Meta, Google, ORACLE	SAP, workday, dayforce	HubSpot, Adobe, salesforce	DESCARTES, Manthattan, kinaxis	Sage, intuit, BLACKLINE	adyen, MARQETA, shopify	paloalto, CYBERARK, RAPID7	DATADOG, JFrog, servicenow	ATLASSIAN, UiPath, zoom	snowflake, CONFLUENT, teradata.	DASSAULT SYSTEMES, ptc, Ansys	ncino, TEMENOS, GUIDEWIRE	CGM, Veeva, doximity	Unity, AMADEUS, tyler
#5	#13	#31	#10	#12	#17	#28	#20	#20	#27	#23	#16	#12	#27

SWC Index(1) average NTM rev. multiples by category of B2B software



SWC Index(1) median current NTM revenue growth and NTM FCF margin by category of B2B software



Note: (1) Index composed of 277 software companies currently listed with market capitalization above $300m
Source: Capital IQ as of 31 May 2024, Software Club analysis

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YTD multiples' variations are discriminated by growth levels, being negative for 10% to 20%+ growth companies and +14.5% for low growth (<10%) cohort

Weekly average of SWC Index [1] NTM revenue multiple by NTM revenue growth buckets [2] (2014 – Today)

Multiples Variation	Since Feb '21	Since Jan '23	2024 YTD
High growth (>20%)	(62.3%)	27.8%	(4.6%)
Mid growth Co. (10%-20%)	(35.7%)	22.4%	(11.6%)
Low growth Co. (<10%)	(37.9%)	28.2%	14.5%

Note: (1) Index composed of 277 software companies currently listed with market capitalization above $300m
Note: (2) Growth cohorts can evolve at every new forecasts release
Source: Capital IQ as of 31 May 2024, Software Club analysis

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Correlation between 'rule of 40' and EV/Sales NTM multiples currently shows a 9.3x multiple for a 'rule of 40' company (NTM FCF-based)

Current SWC watchlist(1) NTM revenue multiple by NTM Rule of 40 FCF NTM-based

Note: (1) Composed of 49 companies whose EV/Sales multiple below 25.0x, and rule of 40 FCF-based between 0.0% and 75.0%.
Source: Capital IQ as of 31 May 2024, Software Club analysis

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EV/Sales multiples keep being pressured by high interest rates, that are unlikely to be eased down in June by the Fed

Daily average of SWC Index (1) NTM revenue multiples in NA vs United States Treasury Constant Maturity - 10 Year

(1) Index composed of 277 software companies currently listed with market capitalization above $300m
Source: Capital IQ as of 31 May 2024, Software Club analysis

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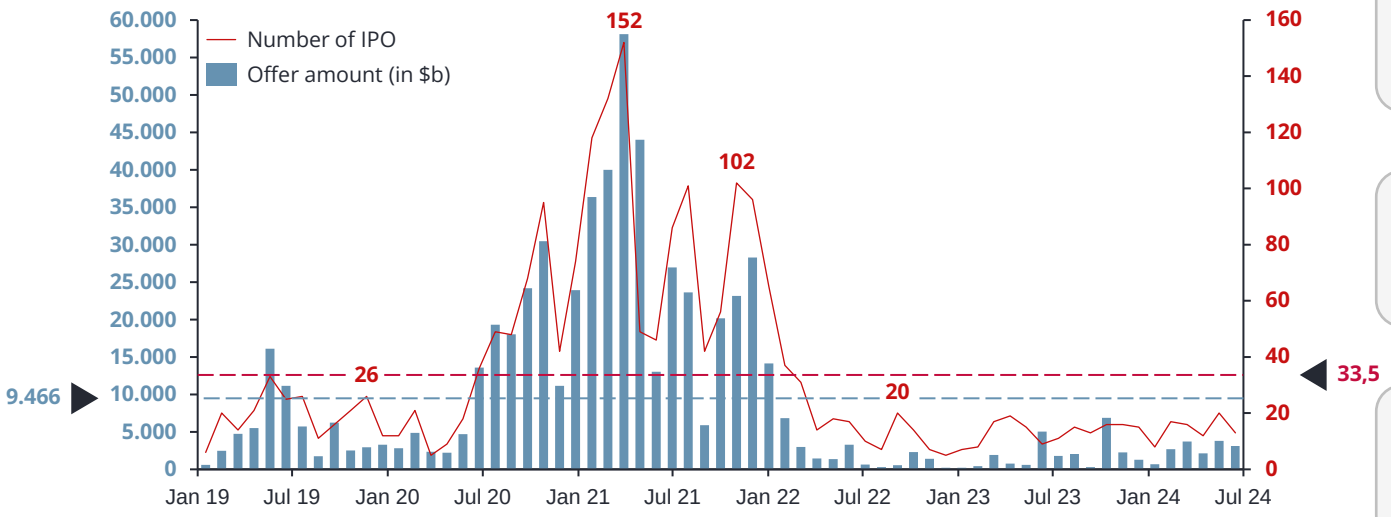
IPO monitor – IPOs volume overall remains low but important tech & software IPOs over the past months including Rubrik, Reddit and Planisware can nurture hopes for a market restart

IPO tracker – Total IPO amount on Nasdaq & NYSE (all sectors)



	2019	2020	2021	2022	2023	2024 YTD
Offer amount (in $ m)	63,007	157,586	333,692	21,543	23,987	15,500
Number of IPO	231	477	1,045	187	162	78
Average offer amount (in $ m)	273	330	319	115	148	199

Key tech & software IPOs – Last 12 months

Not exhaustive

September '23 ARM instacart klaviyo

March '24 reddit AsteraLabs.

April '24 rubrik Planisware

Next potential candidates Klarna stripe EGNYTE

Source: Nasdaq, CapitalIQ, Software Club Analysis, companies websites

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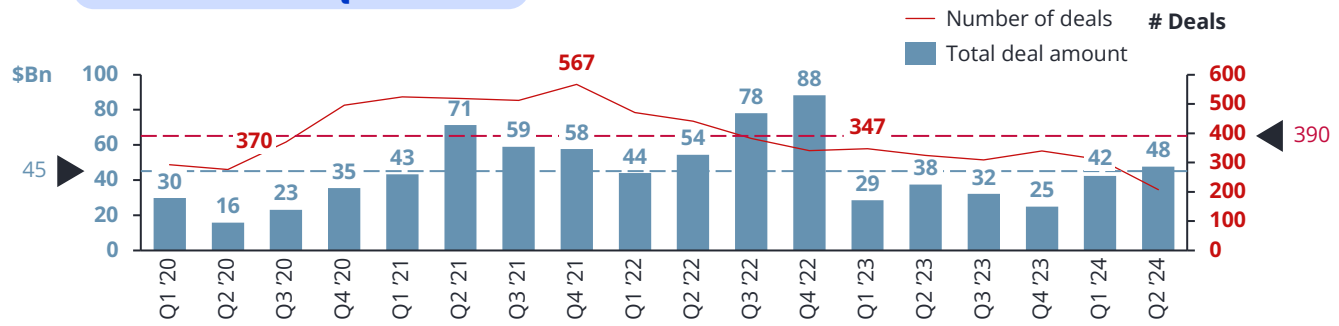
Private deals monitor – Private Equity and Venture Capital total deals amounts show a positive trend over past quarters, which is more volatile for corporate M&A that occasionally includes mega deals

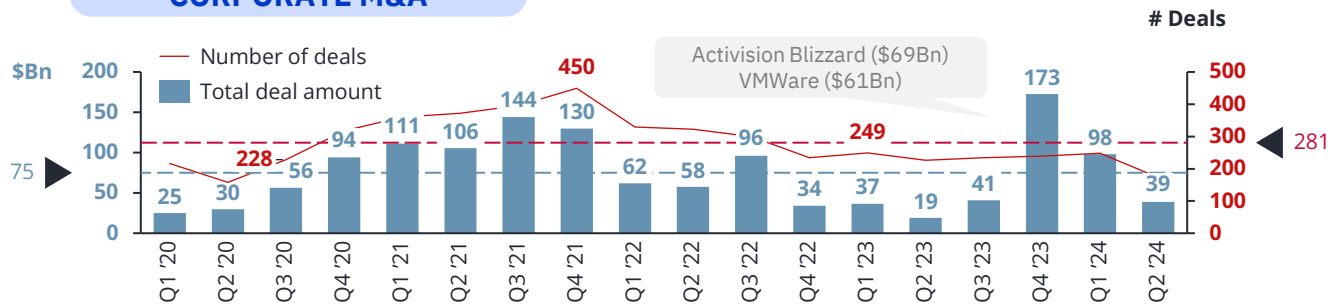
Total software deals, global[1]

PRIVATE EQUITY



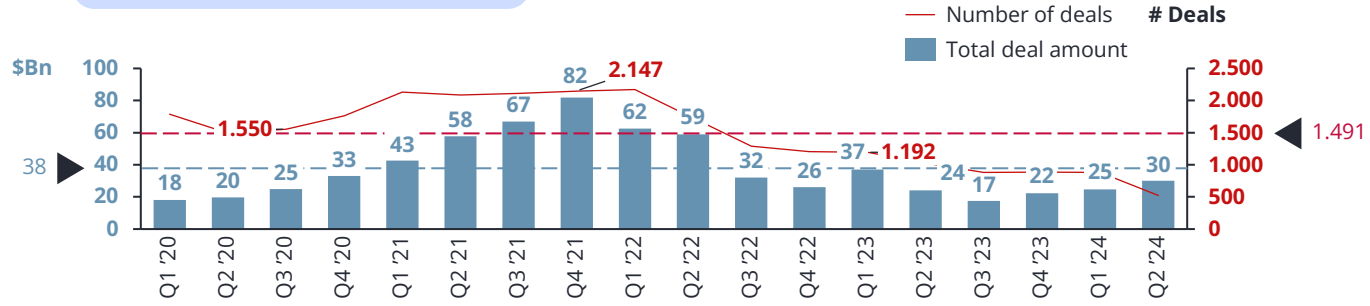
	2020	2021	2022	2023	2024 YTD
Total deal amount ($Bn)	104	231	265	123	90
Number of deals	1,434	2,122	1,634	1,319	517
Average deal size ($m)	73	109	162	93	174

CORPORATE M&A



	2020	2021	2022	2023	2024 YTD
Total deal amount ($Bn)	206	490	250	269	137
Number of deals	920	1,578	1,187	948	421
Average deal size ($m)	224	311	210	284	326

VENTURE CAPITAL



	2020	2021	2022	2023	2024 YTD
Total deal amount ($Bn)	96	249	179	101	55
Number of deals	6,591	8,470	6,389	3,977	1,402
Average deal size ($m)	15	29	28	25	39

Note: Based on 50+ employees private deals reported on Pitchbook and listed by deal completion dates
Source: Pitchbook, Software Club Analysis, companies websites

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Key B2B software deals in May 2024

PRIVATE EQUITY

Office of the CFO / Others – GRC

AUDITBOARD to be acquired for $3Bn *(announced on May 23th, more details)*

- Auditboard offers a **risk workflow / GRC platform which enables users to store all audit, risk, ESG, and compliance data in one single system of record.**
- After a $40m Series B round in 2018 led by Battery Ventures, **HG Capital will acquire the company in a $3Bn deal.**
- The company achieved **$200m in ARR in the end of 2023.**

Others – Location software

IQGeo to go private in a $396m deal *(announced on May 14th, more details)*

- IQGeo Group provides **geospatial software to design and manage network infrastructures** of telecoms and utility companies.
- The $396m deal from KKR values the company **6.3x FY+1 revenue** and **31.4x FY+1 EBITDA offer price**, a 19% premium to the stock's last close before the announcement.

Application Development, Devops & IT Operations

SQUARESPACE to go private in a $6.9Bn deal *(announced on May 14th, more details)*

- Squarespace offers **SaaS website design and hosting solutions.**
- Squarespace achieved **$1.0Bn in revenue** (**+16.8% YoY**) with a **12.2% EBITDA** margin in FY23 with projected **19.0% in growth** and **21.8% EBITDA margins** for FY25.
- The Permira **$6.9Bn all-cash deal** values the company **5.7x FY24 revenue** and **26.2x FY24 EBITDA,** which is a **15% and 29%** premium vs. respectively **closing price the day prior the acquisition and the 90-day average.**

CORPORATE M&A

Cybersecurity

CYBERARK acquires Venafi for $1.5Bn *(announced on May 20th, more details)*

- Venafi offers **security solutions for digital identity management.**
- It is expected to add a **$150m in ARR** (95% of total revenue) and generates synergies through up-sell, cross-cell and geographic expansion.

Payment & eCommerce

Corpay to acquire paymerang for ~$475m *(announced on May 8th, more details)*

- Paymerang is a US-based **invoice and Accounts Payable (AP) automation**. The company claimed in 2023 a **40% growth in revenue since 2018.**
- Corpay, the **corporate payments solutions company,** seek to better cover **AP automation and 4 verticals** (education, healthcare, hospitality, manufacturing).

Cybersecurity

Akamai to acquire noname for ~$450m *(announced on May 8th, more details)*

- Noname Security helps better **protecting APIs from attacks** through a security platform. Akamai offers a range of **cloud and cybersecurity solutions** and will strengthen its **existing API security product.**
- Noname Security is expected to generate **$20m in revenue for FY+1.**

VENTURE CAPITAL

Application Development, Devops & IT Operations

scale, an **LLM customization platform** raised **$1Bn** in a late-stage funding round valuing the company **$13.8Bn** *(announced on May 21st, more details)*

WAYVE, a Microsoft-backed company developing **AI-based automated driving** raised **$1bn** with Softbank and Nvidia (main new investors) *(announced on May 20th, more details)*

Note: (1) Based on private deals, VC and 50- employees companies excluded, (2) Deal completion dates
Source: Nasdaq, CapitalIQ, Software Club Analysis, companies websites

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HG Capital further strengthens its exposure to the GRC market with Auditboard, looking to develop and expand a modern audit and risk management platform

AUDITBOARD

Founded in **2014, Cerritos, California**

Employees [2]

~830 employees (06/2024)
Main Geography: ***United States***

Financials [1]

Rev.: **$200m+ ARR** (end of 2023)

Ownership / Transactions [3]

~$3Bn buyout – HG Capital (May 2024)
Series B – Act One Ventures / Mucker Capital *(2018)*

Revenue Geographic Distribution

Europe	USA	Asia
N/A	*Main Geography*	N/A

Foundation | **AuditBoard was founded by former auditors and childhood friends Daniel Kim and Jay Lee in 2014**. The software started out as a specialized SOX(6) audit workflow tool, before being expanded to cover a broader range of use cases (including financial/internal audits and cybersecurity). Today, the company is said to serve 1,750+ customers, including 40% of Fortune 500 firms[4].

What does it do? | **AuditBoard offers a risk workflow platform which enables users to store all audit, risk, ESG, and compliance data in one single system of record.** The system helps companies to be more organized and efficient with their audit and compliance processes. The system can be used to support a variety of audits, including financial, internal, and cybersecurity audits. Users can store their controls in a registry, and information can be exported as a CSV file. According to one alum, software represents 97% of the company's revenue.

Differentiation | AuditBoard is fairly differentiated, mainly due to:

1. **Their strong subject-matter expertize,** as their sales and support representatives come from an auditing background
2. **Their unlimited users and unlimited storage model**, which is particularly attractive for enterprises operating at a large scale (i.e., **Walmart**)
3. **The strong interconnectivity** between their different modules, as they have a **'one-click approach'**
4. **Their strong pricing**, as their solution is said to be **very-well priced** for the market when compared to competing solutions

- AuditBoard serves a **wide variety of customers**. Though they started out offering SOX support to SMBs, they now target **mid-sized** and **enterprise-grade businesses** across a broad range of verticals (i.e., tech, retail, pharma). They report that they work with **40% of the Fortune 500**, showing their success at the top end of the enterprise market. Their solution is **highly scalable**, meaning that they can continue to support mid-sized companies as they scale and become large enterprises. Their client base is primarily made up of the US businesses, but they also have some clients in Europe.
- AuditBoard is a **challenger** in a **niche segment** (Integrated Risk Management[5] space) of a **large emerging fragmented market** (information security and risk management). Gartner report that, on a global level, firms spent $6.2 billion on IRM in 2022, with a YoY growth of 15.4% from 2021, and they predict that this growth trend will continue[4]. The company competes against a high number of competitors, with **Diligent** said to be their closest competitor.
- AuditBoard's competitive positioning is **not likely to be disrupted**, as the market in which they operate is a **highly resilient market of cross-segment relevance that is set to grow**. This growth will likely be due to the increasing trend of vendor risk management and to the increase in the use of IRM tools for cybersecurity audits. However, the market has experienced a period of fragmentation, and there is an influx of **new entrants** in the space which could pose a threat to AuditBoard, making it harder for the company to win deals.
- **In terms of growth prospects, AuditBoard's strong growth** (60% YoY in 2022) **is likely to continue**, driven by (1) the increasing demand for GRC workflow software, (2) their capacity to upsell to client companies, (3) the increase in cybersecurity use cases for IRM, (4) the increasing focus on vendor risk management. They will also be able to grow through internationalization, though it is said that their geographic expansion will be hindered by the fact that their team is predominantly English-speaking.
- **AuditBoard's sales team is strong**, and because all of the company's reps have a background in auditing, they understand the concerns of clients and prospects, helping them to forge closer connections and to perform better in client-facing scenarios. Their sales model is hybrid, as they do both direct sales and indirect sales (through a network of partners such as **PwC**).
- The **company had a recent change in leadership in 2020**, bringing in seasoned CEO **Scott Arnold**. Arnold previously held the position of CEO at Shutterfly, and AuditBoard has also recruited a number of C-level additions to the company.
- Despite its strong positioning, **AuditBoard should improve through technical development**, as they should (1) develop a mobile interface, which would serve as a strong differentiator, (2) work on strengthening the tool's capacity to integrate with external solutions, (3) work on developing AI-powered functionalities in order to remain competitive in a technologically evolving market.

Sources: [1] Company [2] LinkedIn, [3] Crunchbase and GRC Report, [4] Gartner Report,
Notes: (5) IRM: Integrated Risk Management

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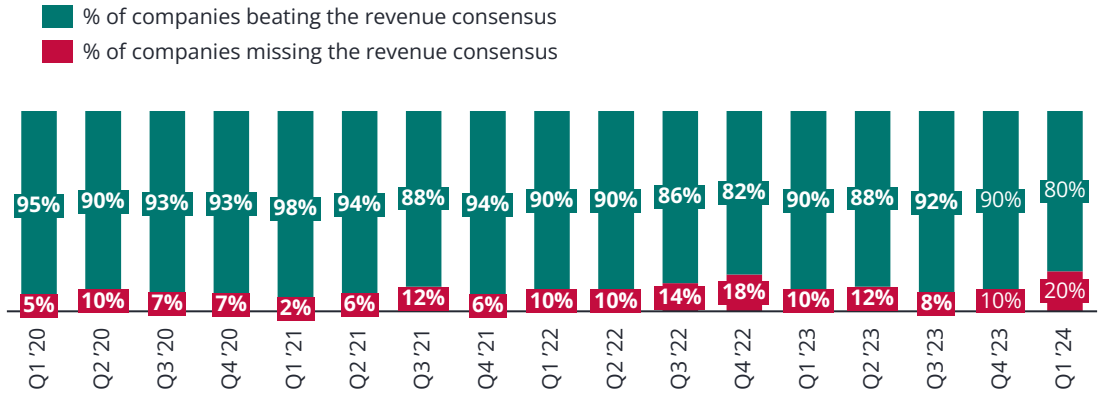
While 1Q got kicked-off with encouraging cloud consumption figures from AWS, GCP and Azure, it ended up disappointing investors on revenue guidance

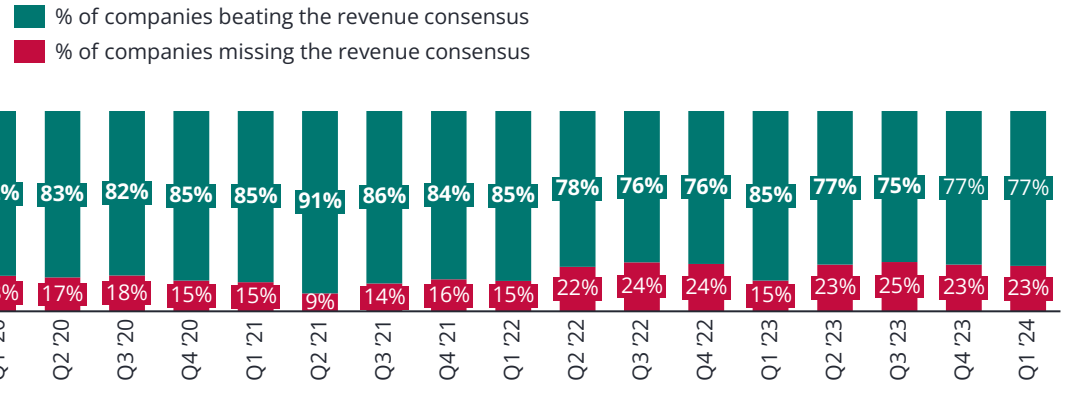
SWC watchlist – 53 companies



	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24
	3.9%	4.9%	3.8%	5.2%	3.8%	4.3%	3.9%	2.9%	3.2%	2.8%	1.9%	2.4%	2.0%	1.9%	2.0%	2.2%	1.5%
12.0 %	0.8%	4.8%	1.4%	0.3%	2.2%	1.2%	1.4%	2.2%	2.3%	0.3%	1.0%	0.5%	0.5%	1.8%	0.5%	1.1%	

Median beat & miss

Index - B2B software space – 280 companies



	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24
	3.2%	4.1%	4.0%	4.1%	3.4%	4.4%	3.0%	3.1%	2.7%	2.6%	2.2%	2.5%	2.2%	2.2%	1.9%	1.9%	1.6%
	-2.7%	-1.5%	-2.5%	-2.3%	-1.5%	-1.4%	-1.9%	-1.1%	-1.4%	-1.7%	-1.3%	-1.2%	-0.9%	-1.1%	-1.7%	-1.2%	-1.4%

Median beat & miss

Key positive releases in Q1 '24

Alphabet

ncino

Key negative releases in Q1 '24

mongoDB.

workday.

salesforce

- **Disappointing 1Q earnings** with an **increasing number of software companies in our watchlist missing the consensus**, and a **large majority guided Q2 below consensus, indicating a challenging environment.**
- **Despite expectations**, **AI revenue hasn't significantly boosted forward estimates**, and its impact has been limited to certain areas like compute. Meanwhile, companies are investing heavily in AI, leading to an investment cycle where costs hit before revenue shows up, **causing margin degradation**.

> *Now let me briefly address the buying environment. We continue to see the measured buying behavior similar to what we experienced over the past 2 years and with the exception of Q4 where we saw stronger bookings. The momentum we saw in Q4 moderated in Q1 and we saw elongated deal cycles, deal compression and high levels of budget scrutiny.*
>
> Salesforce 1Q24 earnings call

Source: Capital IQ, Company filings, Software Club

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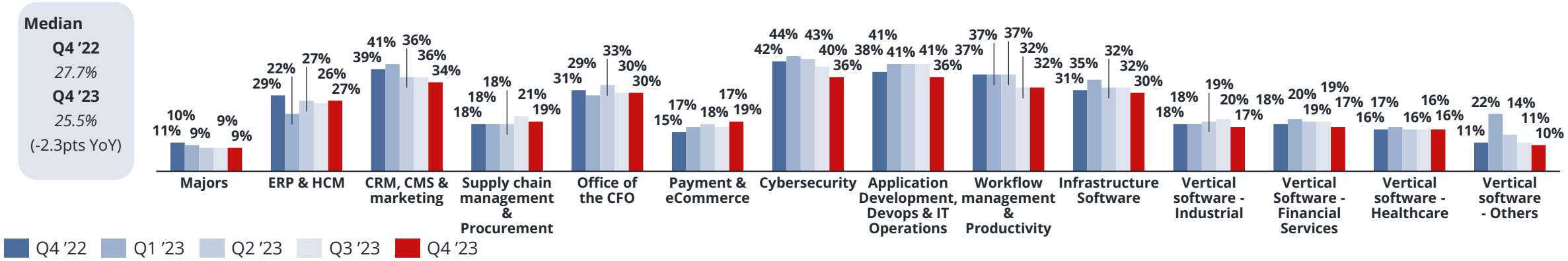
OPEX spendings in B2B software have been decreasing in Q4 '23, both in Sales and Marketing (-2.3 pts YoY in % of revenue) vs. Research and Development (-1.0pt YoY in % of revenue)

Key players
#Companies in the cluster

Majors	Business Applications					IT software				Vertical software			
amazon, Microsoft, Meta, Google, ORACLE	SAP, workday, dayforce	HubSpot, Adobe, salesforce	DESCARTES, Manhattan, kinaxis	Sage, intuit, BLACKLINE	adyen, MARQETA, shopify	paloalto, CYBERARK, RAPID7	DATADOG, JFrog, servicenow	ATLASSIAN, UiPath, zoom	snowflake, CONFLUENT, teradata.	DASSAULT SYSTEMES, ptc, Ansys	ncino, TEMENOS, GUIDEWIRE	CGM, Veeva, doximity	Unity, AMADEUS, tyler
#5	#13	#31	#10	#12	#17	#28	#20	#20	#27	#23	#16	#12	#27

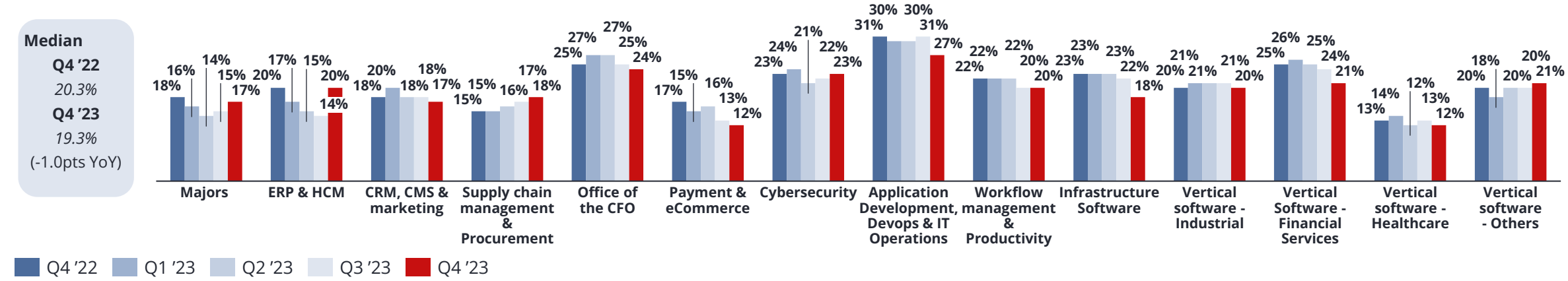
SWC Index(1) median S&M expenses in % of revenue, by category of B2B software

Median
Q4 '22
27.7%
Q4 '23
25.5%
(-2.3pts YoY)



SWC Index(1) median R&D expenses in % of revenue, by category of B2B software

Median
Q4 '22
20.3%
Q4 '23
19.3%
(-1.0pts YoY)



Source: Capital IQ as of 31 May 2023, Software Club analysis

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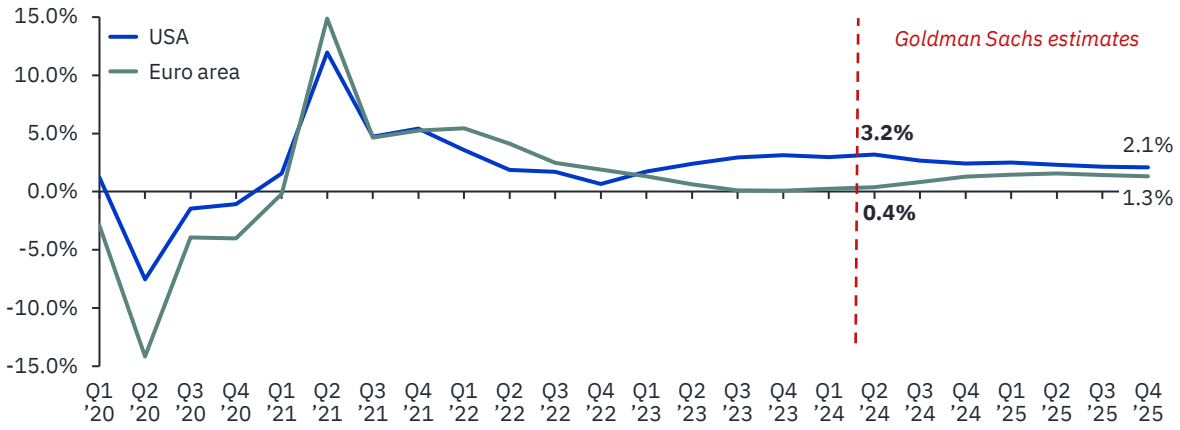
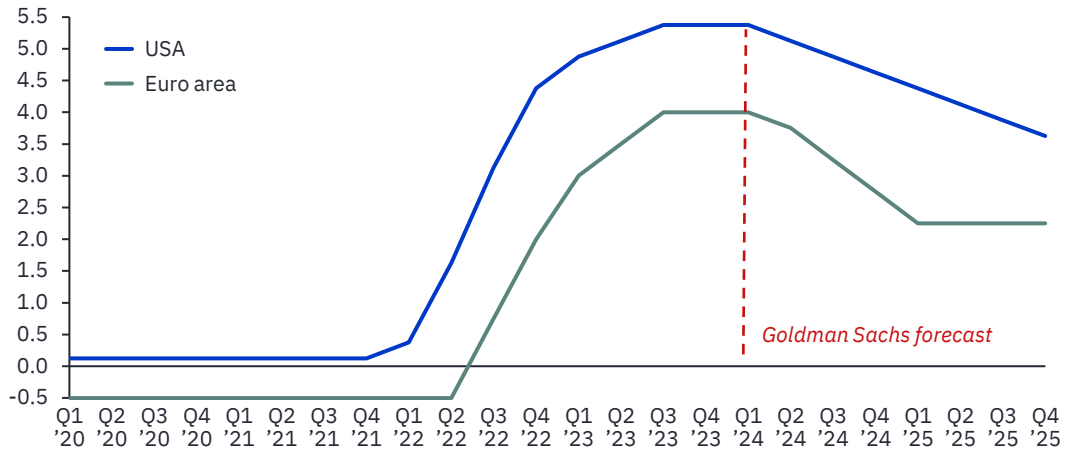
Macro mood – Macro indicators are stabilizing with relatively high inflation and interest rates

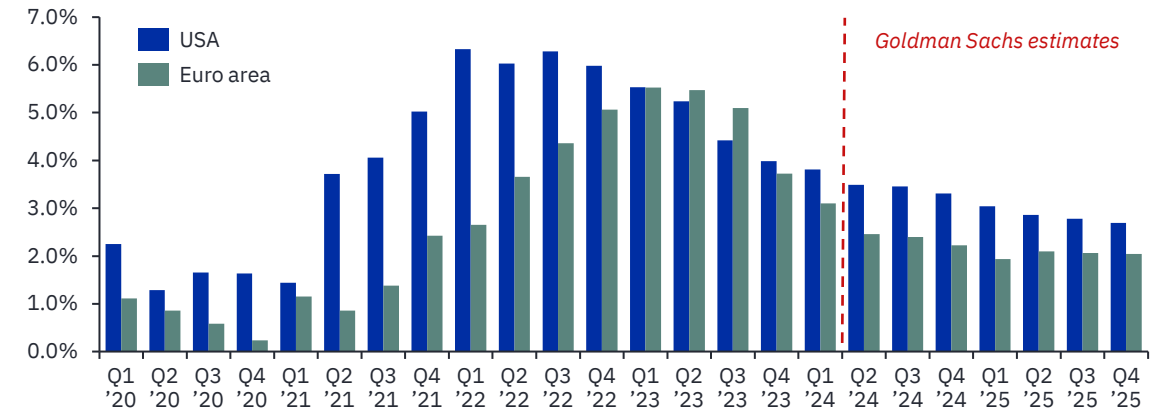
Real GDP growth YoY (%) - US vs. Europe gap is expected to reduce



Interest rates (%) – Rates policy are expected to have reached a maximum since Q4 '23



Customer Price Index (CPI) YoY change (excl. food & energy) - Inflation is expected to stabilize at relatively low pace levels (~2% – 3%)



USD has been rather stable vs. EUR and GBP since November 23

Source: Goldman Sachs, OECD, Software Club analysis

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