



Cavendish

NOVEMBER 2024

Software Update

Contents

1	Software Update: Cavendish Thoughts	2
2	Software Valuations	3
3	Cavendish Transactions	5



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Welcome to the Cavendish Software Update, where we explore the latest M&A trends. High-growth, profitable SaaS businesses remain in short supply, drawing significant valuation premiums from buyers and investors. Private equity continues to target top-performing software businesses with strong underlying KPIs. AI is a focal point, especially automation and integrations with large language models (LLMs), enhancing software capabilities across industries.

Cross-border M&A is rebounding, with a notable rise in U.S. buyers eyeing European targets, with favourable valuations.

Each publication takes a closer look at a specific sub-sector; this quarter, we examine the underlying trends in the software market that are shaping valuations and acquisition strategies.

We hope you find this update insightful. If you have questions or wish to discuss anything in detail, feel free to reach out to me or any member of the Cavendish team (contact details are on the back page).

ANTHONY PLATT
HEAD OF TECHNOLOGY

Software Update

Cavendish Thoughts

The technology sector continues to build on H1 momentum, after navigating a challenging M&A landscape to close out 2023 and open 2024. The UK software sector has remained resilient, particularly in its valuations, M&A activity, and operational performance in the first half of the year.

The recent changes to capital gains tax were relatively modest compared to what the UK government might have considered. It's unlikely that the measures announced in the latest budget will significantly alter shareholder behaviour. We expect founders and entrepreneurs to continue to explore opportunities for liquidity and fundraising events.

We've summarised our insights and key takeaways across the software M&A landscape, collated from our experiences on recent transactions and interactions with our counterparties in the private equity and strategic trade communities.

01 Valuations

We anticipate UK software valuations to remain within the existing range of **4.5x** to **6.5x** current run-rate ARR throughout the remainder of 2024 and early 2025.

In the US market, the recent interest rate cut has allowed investors to re-price risk and the key indices (S&P 500 and Nasdaq) remain at or near all-time highs. With the US election results finalised, only time will tell how global sentiments will affect market conditions heading into FY25.

Investors are paying an extra turn of ARR multiple for businesses that have achieved scale with at least £100m+ in revenues (see slide 6).

02 M&A

We also anticipate **looser conditions** in the **IPO**, **M&A**, and **equity markets** for the months leading up to the end of the year, and AI is helping to increase deal activity.

H1 2024 saw a strong rebound from H2 2023 for UK software deal activity (443 vs. 417 deals completed respectively). If equity markets continue to hit fresh highs, we expect to see a surge in deals in H1 2025, driven by the backlog of fundraisings and exit plans.

The meteoric rise of AI has also led to an influx of VC activity, with every software vertical looking to understand how they can utilise and monetise the technology.

03 Growth vs Profit

With lengthening sales cycles, we expect management teams to continue to **prioritise cost control over revenue growth** for the rest of the year.

In response to slowing growth in 2023, businesses shifted attention towards cost cutting measures and extending runway, particularly as sales efficiency declined in the macro environment.

Throughout 2024, we have seen businesses focus on capital efficient growth and a balanced composition of the Rule of 40.

04 KPI Benchmarks

For those businesses seeking a premium valuation, **KPI performance** and **scale above the median** will be **required**.

Top quartile performers are growing faster than the median (46% vs. 30%) whilst maintaining a higher margin, GRR and NRR than their peers, enabling them to stand apart from the competition and justify a higher ARR or EBITDA multiple.

These businesses are also selling into a larger TAM, keeping CAC low and recouping costs more quickly than peers.

Software Update

KPI Benchmarking

We now live in a world where **KPIs are king**. Focusing on the “right” KPIs can result in premium valuation multiples paid by institutional investors and strategic trade buyers for private companies.

The tables below summarise some of the key KPIs and associated ranges that differentiate between a lower ARR multiple and higher one.

WEIGHTING	QUANTITATIVE FACTORS	LOWER ARR MULTIPLE	ARR MULTIPLE	HIGHER ARR MULTIPLE
● High	Gross Revenue Retention	< 70%	← →	> 95%
● High	Net Revenue Retention	< 95%	← →	> 120%
● High	ARR Growth	< 10%	← →	> 50%
● High	EBITDA Margin	< 0%	← →	> 40%
● High	Rule of 40	< 10%	← →	> 60%
● Medium	Gross Margin	< 60%	← →	> 90%
● Medium	LTV:CAC	< 2.0x	← →	> 10.0x
● Medium	Customer Concentration (Top 10)	> 75%	← →	< 10%
● Medium	Total ARR	< \$5M	← →	> \$30M
● Low	Revenue Growth	< 5 – 10%	← →	> 50%
● Low	Logo Retention	< 70%	← →	> 95%

WEIGHTING	QUANTITATIVE FACTORS	LOWER ARR MULTIPLE	ARR MULTIPLE	HIGHER ARR MULTIPLE
● High	Delivery Model	On-premise	Hybrid	Pure Cloud
● High	Pricing Model	Non-Recurring	Transactional	Contracted Recurring
● High	Product/Position	Commoditised	Differentiated	Highly Differentiated
● High	Market Attractiveness	Pure Horizontal	Multi Vertical	Vertically- Focused
● Medium	Technology	Legacy	Leading Edge	State-of-the Art
● Medium	Management Team	Less Experienced	Strong, Deep	Proven History
● Low	Market Growth	< 0%	1 – 5%	> 5%
● Low	Total Addressable Market	< \$100M	\$100M – \$1 Billion	> \$1 Billion
● Low	Assessment of Trends	Decelerating	Incremental	Accelerating

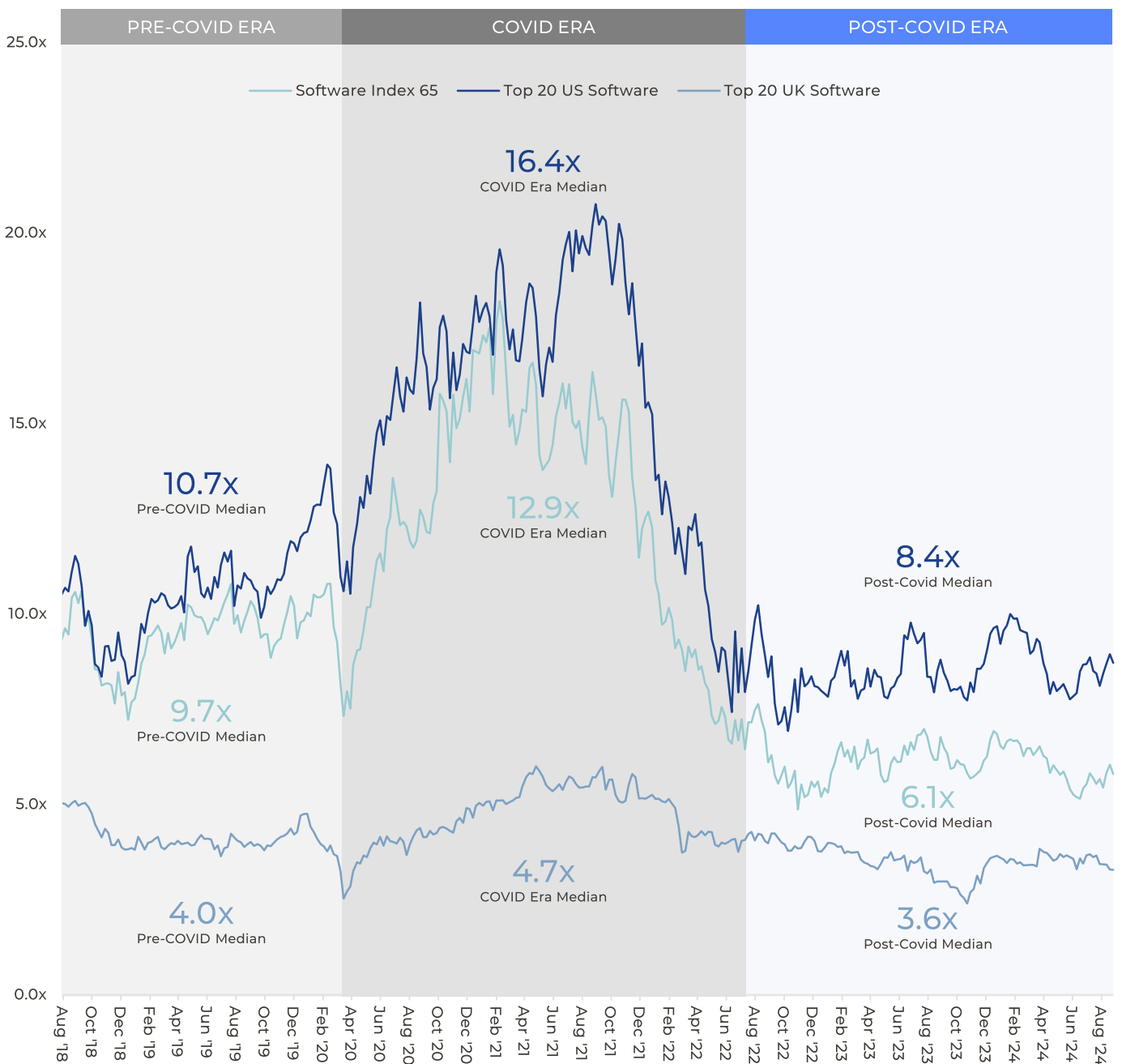
Software Update

Cavendish Tech Index

The Software Index 65 below tracks 65 public B2B software companies with recurring revenue models to help understand valuation trends in the public market. NTM revenue, which we have used as a proxy for ARR, serves as the most accurate measure of scale of a SaaS business.

As at Oct-24, B2B software companies in Software Index 65 are trading at a post-covid median of 6.1x NTM Revenue, in line with the median transaction multiple for deals with targets who have achieved scale (see slide 6). In-month median valuations at Oct-24 are trading at 5.8x, reinforcing our views that the software market has normalised to the long-term average post the Covid era.











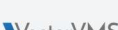


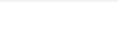
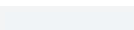
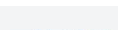

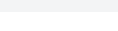

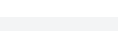





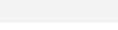



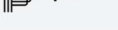




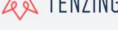





The Top 20 US Software Index below includes large, robust organisations like Salesforce and Palo Alto Networks, whereas its UK counterpart consists of much smaller businesses by comparison, hence the valuation delta between the two.



Sources: Cavendish research, CapIQ

Selected UK Software Transactions

Deals below £100m EV












































DATE	TARGET	TARGET BUSINESS DESCRIPTION	INVESTOR	EV £M	EV/SALES	EV/EBITDA
Sep-24	 MirrorWeb	Provides unified communications supervision software to financial services firms, governments, and other regulated industries		-	10.0x	-
Jul-24	 IDGateway	Provides airport worker pass solutions and ID pass management systems.		18	4.5x	18.0x
Jul-24	 PRINCIPAL	Provides software solutions to manage and optimise warehouse and supply chain operations.		25	4.2x	-
Jul-24	 ocumen	Provides consulting and analytics services for CPG manufacturers to optimise the impact of their promotional investment.		22	4.4x	-
Jul-24	 klipboard	Provides mobile workforce management platform to optimise the operations of field service businesses.		5	4.5x	-
Jun-24	 VectorVMS	Provides vendor management solutions for organisations.		39	4.4x	-
May-24	 sales-i	Provides revenue intelligence platform for businesses to improve sales function performance.		ND	5.5x	-
May-24	 swipeclock	Provides cloud-based workforce management solutions to small and medium sized business.		45	4.5x	-
May-24	 elay	Provides an engagement automation platform to help recruiters automate their candidate attraction and business development engagement.		10	6.7x	-
Apr-24	 InPhase	Provides business management software to help managers get critical alerts of their universal business issues in real time.		15	5.0x	15.0x
Mar-24	 iress	Provides mortgage sales and origination software (MSO) and associated consulting services to banks and building societies in the UK.		85	4.6x	-
Mar-24	 The 55 Group	Provides services and software for procuring and managing complex construction projects, particularly for public sector and large enterprise clients, through trading entities Pagabo, Sypro, and Loop.	 	55	4.9x	17.2x
Mar-24	 SoftCo	Provides Procure-to-Pay (P2P) and compliance software solutions to streamline financial processes.		85	5.7x	-
Feb-24	 pento	Provides payroll automation platform.		32	6.4x	-
Jan-24	 AppLearn	Provides digital adoption platform that helps enterprises improve the data quality and productivity of their key internal systems.		20	5.1x	-
Dec-23	 webexpenses	Provides expense management software primarily serving SMEs and mid-market enterprises.		40	4.4x	26.7x
Nov-23	 Mayden	Provides software that supports healthcare services to deliver data driven, outcome focussed and patient-centred care.		50	5.1x	15.6x
Oct-23	 sopheon	Provides innovation management software solutions.		97	3.1x	22.2x
Sep-23	DEVONWAY	Provides compliance and operations management software to sectors including energy and utilities, advanced manufacturing, nuclear power generation, and US national laboratories.		40	5.0x	-
Sep-23	 Diversely	Provides inclusive recruitment solutions for staffing firms globally.		8	7.5x	-

5.0x
AVERAGE

4.8x
MEDIAN

Selected UK Software Transactions

Deals above £100m EV

DATE	TARGET	TARGET BUSINESS DESCRIPTION	INVESTOR	EV £M	EV/SALES	EV/EBITDA
Aug-24	 BOARD INTELLIGENCE	Provides board management software platform serving over 40,000 leaders across 3,000 organisations worldwide.	 KI INVESTMENT MANAGEMENT	230	13.5x	-
Jul-24	 ENSEK	Provides digital transformation services in the energy sector.	 centrica	275	5.5x	-
Jul-24	 acturis	Provides a multi-tenant SaaS platform providing administration, distribution, and underwriting capabilities to insurers and insurance brokers.	 astorg	1,900	13.2x	26.7x
May-24	 EQU2	Provides cloud-based business management software solutions to c.3,000 customers in the UK construction sector.	 BOWMARK CAPITAL  WESTBRIDGE CAPITAL	130	5.1x	20.3x
May-24	 IQGEO	Provides geospatial software to telecommunication and utility operators.	 KKR	316	7.1x	48.0x
Apr-24	 DARKTRACE	UK-based cyber security company.	 THOMABRAVO	3,995	9.2x	28.7x
Apr-24	 zellis	Provides payroll and HR software solutions to customers in the UK and Ireland.	 Apax	1,250	6.2x	18.1x
Apr-24	 ATG AUTOMOTIVE TRANSFORMATION GROUP	Provides automotive technology focused on omnichannel retail solutions.	 keyloop	235	5.6x	23.0x
Apr-24	 rimes	Provides EDMaaS (enterprise data management as-a-service) and investment platform solutions.	 Five Arrows Private Investments	730	9.4x	31.4x
Mar-24	 SmartSearch	Provides digital compliance and anti-money laundering (AML) software to clients across regulated verticals.	 Triple PRIVATE EQUITY	110	5.3x	21.2x
Mar-24	 perkbox	Provides a perks, benefits and rewards platform.	 vivup	120	4.0x	-
Mar-24	 finova	Provides a suite of SaaS based software to help lenders and brokers in the Mortgage, Lending and Savings sectors.	 BainCapital	150	4.1x	-
Feb-24	 SYNECTICS SOLUTIONS	Provides risk and fraud prevention solutions.	 SYNOVA CAPITAL	180	6.6x	43.9x
Feb-24	 MARLOWE	Provides tech-enabled services and software to manage business risks and ensure compliance within legal & regulatory standards.	 inflexion	430	5.0x	13.7x
Feb-24	 ogilio SOFTWARE	Provides frontline healthcare operations software to automate and optimise critical operational functions, such as workforce management, compliance and clinical assets tracking.	 Five Arrows Private Investments  TA ASSOCIATES	240	11.9x	29.6x
Feb-24	 CubeLogic	Provides risk management software to the energy, commodities and financial markets.	 BOWMARK CAPITAL	175	10.6x	-
Feb-24	 onfido	Provides digital identity verification and fraud detection solutions.	 ENTRUST	515	5.0x	-
Dec-23	 flood	Provides a unified commerce platform helping retailers engage with shoppers across all customer touchpoints.	 GLORY	145	3.2x	12.1x
Dec-23	 IRIS	Provides software solutions for accountancy, payroll, HR management, education management and financial management.	 LGP LEONARD GREEN & PARTNERS  Hg	3,150	9.2x	22.2x
Nov-23	 CIVICA	Provides cloud-based enterprise software to help professionals in the public service sectors.	 Blackstone	2,000	4.7x	17.1x

7.2x AVERAGE
5.9x MEDIAN

Cavendish

About Cavendish

Cavendish has completed 16 technology transactions in 2024 so far. Select credentials include:










Software

 has received debt funding from  eDiscovery Software	 has been acquired by  a portfolio company of  CRM Software	 has been acquired by  a portfolio company of  Workspace Management Software	 Proposed takeover by  Geospatial Software	 has been acquired by   HCM Software
 has been acquired by  a portfolio company of  Innovation Management Software	 has been acquired by  Health Software	 has been acquired by  HCM Software	 has been acquired by  GRC Software	 has been acquired by  Mobility Software











Cyber Security

 Has been acquired by  Cyber Security	 received investment from  Cyber Security	 Has been acquired by  a portfolio company of  Cyber Security	 has been acquired by  Cyber Software	 Has been acquired by  a portfolio company of  Cyber Security
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IT Services

 has been acquired by  IT Services	 received investment from  IT Services	 has been acquired by  IT Services	 has received minority investment from  IT Services	 has been acquired by  IT Services
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Other Technology

 has been acquired by  Authentication Technology	 Has been acquired by  AI Imaging Technology	 has been acquired by  Defence Technology	 has been acquired by  Defence Technology*	 secured growth capital investment from  Financial Technology
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