

Software News & Trends

Middle-Market M&A is on Fire & the Software Sector is No Exception

The M&A market continues to boil and the outlook appears solid through 2019 as long as macro conditions stay calm and stable. That being said, it is a great time to consider all of the strategic alternatives available for a middle-market business.

Software companies are especially attractive because of growth rates, overall market opportunity and pace of innovation. Public software companies continue to trade at premium valuations and their share price gains are leading the overall market. This strong performance highlights the attractiveness of software business models once they achieve scale and the ongoing growth opportunities.

Middle-market M&A continues to scale upwards. Let's look at the reasons we believe this is the case. First, M&A activity is being underpinned by the strongest global economic growth since 2011, low inflation, low interest rates, ready availability of acquisition financing and record amounts of private equity capital competing with deal-hungry corporate acquirers looking to juice up their top-line growth. The net result is considerably more money chasing middle-market targets, thereby increasing deal activity and valuations.

Second, the biggest change in the M&A market has been the increasing prevalence of private equity firms. They raised \$453B¹ of new capital last year and now have approximately \$1.7T² to put to work. PE firms seek tuck-in acquisitions for existing platform investments within a private equity portfolio as they continue to deploy buy and build strategies to create larger platforms with broader product suites. Additionally, private equity firms now own an estimated 10 percent of middle-market companies and we believe there is little reason this will not continue to climb and drive additional M&A for private companies.

So when will we see a downturn? With 2019 shaping up nicely and 2020 being a presidential election year, we are optimistic that a U.S. downturn is still two to four years away.

With the market looking good, our team is meeting with executives and investors at the HR Tech conference in Vegas. Contact us to discuss M&A opportunities in this hot market.



Scott Rhodes
Managing Director

Software Trading Multiples

	Enterprise Value	
	LTM Revenue	LTM EBITDA
HR Tech	6.68x	15.3x
Sales & Marketing Tech	6.57x	9.7x
SaaS	9.36x	NM

Source: S&P Capital IQ

Major Indices & Rates

	Close as of 6/29/2018	% Change	
		3 Month	12 Month
HR Tech	70,445.53	3.8%	22.2%
Sales & Marketing Tech	229,335.33	14.1%	60.0%
SaaS	157,104.63	11.4%	51.1%
Dow Jones	25,187.70	0.7%	14.0%
NYSE	12,763.66	0.4%	6.5%
NASDAQ	7,819.71	6.3%	22.2%
AMEX	2,660.59	11.9%	7.7%
S&P 500	2,821.93	2.9%	12.3%
Russell 2000	1,675.32	7.4%	16.0%
USD/Euro	0.86	5.4%	(2.1%)
USD/Yen	110.84	4.2%	(1.4%)
USD/Pound	0.76	6.3%	(1.6%)
U.S. Prime Rate	5.000%	25.00 Bps	75.00 Bps
U.S. Treasury - 10 Year	2.850%	11.00 Bps	58.00 Bps
LIBOR - 3 month	2.336%	2.40 Bps	103.71 Bps
Fed Funds Overnight Rate	1.910%	23.00 Bps	75.00 Bps

Source: S&P Capital IQ

Join Us - HR Tech Conference

September 11 – 14 | Las Vegas

Scott Rhodes, MD and Software group leader, and Tom Donahue, MD and IT & Professional Services group leader, will attend the [HR Technology Conference](#). Schedule a meeting to discuss M&A sector trends and their insights:

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tdonahue@bowstringadvisors.com

Bowstring News



Why the Name Change to Bowstring Advisors?

After 10 years as CHILDS Advisory Partners, we officially announced our new name in May.

Our firm continues to grow rapidly in terms of professionals and practice areas thus we felt a “non-personal” name was more reflective of our broader reach. Our goal is to be a top 10 player in the U.S. and we feel our new name, Bowstring Advisors, supports that vision.

A bowstring joins two ends of a bow and launches an arrow toward its target. It is designed for a singular purpose – to propel. Like the bowstring, we exist to give guidance and counsel to clients that propels them and their companies toward their goals.

Bowstring Advisors 10th Annual Conference

Save the Date: 5/14/19

Bowstring Advisors 10th Annual Conference will be on May 14, 2019 at The St. Regis Hotel in Atlanta. Last year, over 400 business owners, executives and investors interested in middle-market growth opportunities were in attendance.

Upcoming Sector Conferences



SEPTEMBER 11 - 14, 2018
 THE VENETIAN® | LAS VEGAS
 ——— FEATURING ———
Women in
HR TECHNOLOGY™



October 4–5, 2018
 Omni Dallas Hotel
 Dallas, TX



Spotlight on Recent Bowstring HR Tech Transaction



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A PORTFOLIO COMPANY OF



Bowstring Advisors served as the exclusive financial advisor to Talent Rover, a fast-growing, leading provider of global recruitment software powered by the Salesforce platform with a number of global, marquee enterprise customers, in its acquisition by Bullhorn, the world’s leading provider of software to staffing and recruiting organizations, backed by Insight Venture Partners and Genstar Capital.

“We are very excited to join the Bullhorn family and look forward to contributing to their continued success,” said Kent Gray, co-founder and CEO of Talent Rover. “I believe the combination of our fast-growing software solution for the industry with the global scale and customer support of Bullhorn will produce amazing results for our investors and customers. The Bowstring team provided invaluable guidance and support as we considered a growth capital raise or strategic sale.”

This transaction was led by Scott Rhodes, Managing Director at Bowstring, along with our Software and Human Capital Management teams.

March 2018

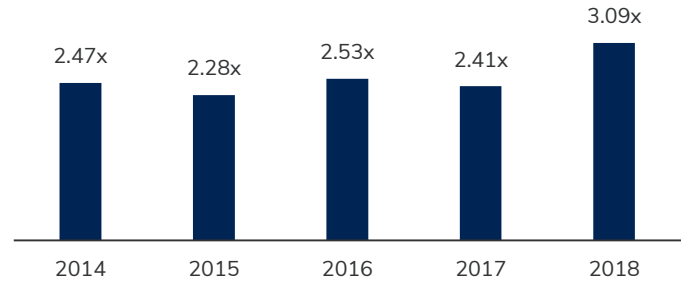


M&A Activity and Trends

- U.S. middle-market software M&A activity has remained steady in Q1 and Q2 2018 with over 919 deals announced representing a 4% total volume increase over the previous 6 months and a 4% decline over the same period last year
- Transaction volume for deals between \$100M and \$499M increased 44% to 36 closed in Q1 and Q2 2018 from 25 closed in Q1 and Q2 2017
- Software valuations remain strong in Q2 2018 with all public market composites up from Q1 2018
- Corporations remain flush with cash with dry powder at an all-time high and private equity funds raised a record amount of capital in 2017 totaling \$453B¹ raising their dry powder to \$1.7T²
- Add on investments continue to increase as PE firms deploy buy and build strategies to create larger platforms with broader product suites
- Positive trends in key indicators like business sentiment, corporate fundamentals and macroeconomic forces are likely to bolster M&A activity to keep 2018 on pace for a strong year

Software M&A Valuations

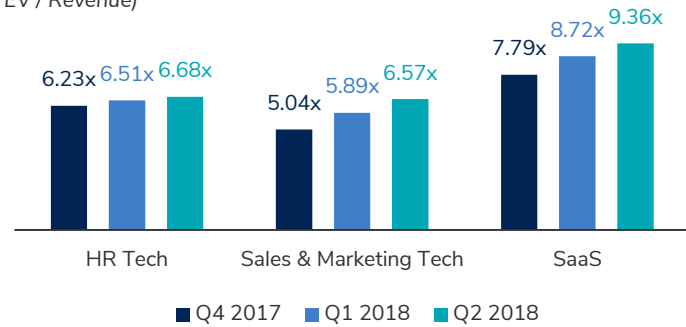
(TEV / Revenue)



Source: S&P Capital IQ

Software Public Market Valuations

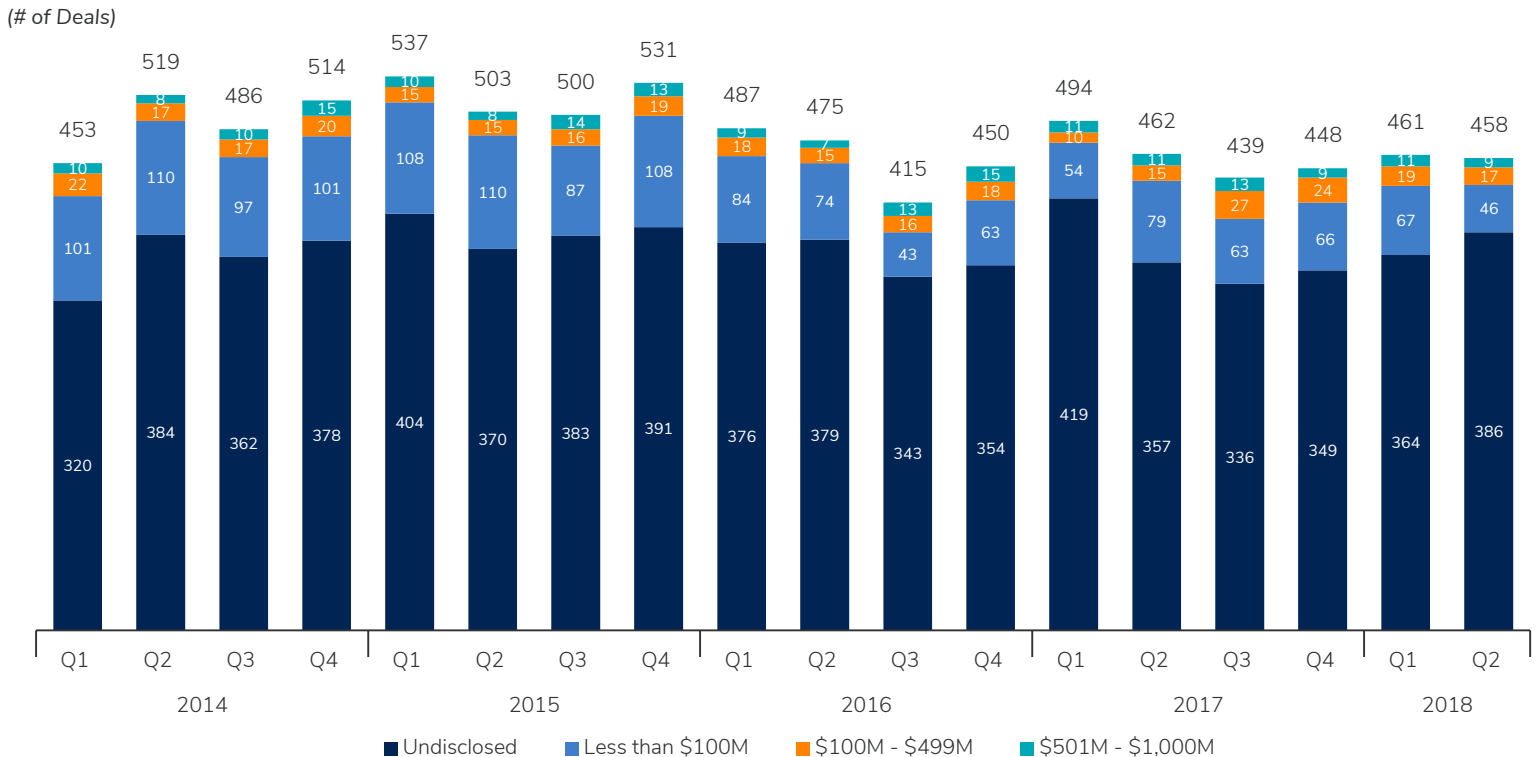
(TEV / Revenue)



Sources: ¹Preqin Ltd. "Q4 2017 Fundraising Update"; ²McKinsey & Co. "Dry powder in private equity"

Source: S&P Capital IQ

Quarterly Trends in U.S. Middle Market Software M&A Activity



Source: Pitchbook

HR Tech Notable Transactions



HAS ACQUIRED



ENTERPRISE VALUE: \$150M
EV / REVENUE: 1.41x
EV / EBITDA: 11.2x

Q2 2018

Provider of talent acquisition, talent management and workforce compliance services



HAS ACQUIRED



ENTERPRISE VALUE: \$1.2B
EV / REVENUE: 7.00x
EV / EBITDA: ND

Q2 2018

Provider of an online job searching platform that offers listings and user-generated content, including salary reports, ratings and reviews



HAS ACQUIRED



ENTERPRISE VALUE: \$2.4B
EV / REVENUE: 9.59x
EV / EBITDA: NM

Q2 2018

Provider of a cloud-based performance management platform that offers a suite of solutions in sales, marketing and customer experience

Exponent

HAS ACQUIRED



ENTERPRISE VALUE: \$400M
EV / REVENUE: ND
EV / EBITDA: 10.5x

Q2 2018

Provider of pre-employment screening tests and employee assessment tools, including predictive technologies and benchmark data



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HAS ACQUIRED



ENTERPRISE VALUE: ND
EV / REVENUE: ND
EV / EBITDA: ND

Q1 2018

Provider of a mobile recruitment platform to help organizations source, attract and hire talent



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HAS ACQUIRED



ENTERPRISE VALUE: \$50.0
EV / REVENUE: 2.60x
EV / EBITDA: ND

Q1 2018

Developer of staffing software for professional and internal recruiting teams that helps organizations manage, attract and hire talent

Other Notable Software Transactions

NICE[®]

HAS ACQUIRED

mattersight

ENTERPRISE VALUE: \$113M
EV / REVENUE: 2.29x
EV / EBITDA: NM

Q2 2018

Developer of a behavioral analytics-based software platform that captures and analyzes customer and employee data

Marketo[®]

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V VISTA
EQUITY PARTNERS

HAS ACQUIRED

bizable

ENTERPRISE VALUE: ND
EV / REVENUE: ND
EV / EBITDA: ND

Q2 2018

Developer of a SaaS marketing software platform that uses data driven insights to optimize marketing efforts

Adecco

HAS ACQUIRED

VETTERY

ENTERPRISE VALUE: \$105M
EV / REVENUE: 5.00x
EV / EBITDA: ND

Q1 2018

Provider of a recruiting platform that connects job seekers to employers

CERIDIAN

RAISED \$100M FROM

THL Thomas H. Lee Partners
EST. 1974

Q2 2018

Provider of cloud-based applications for corporations, addressing HR, benefits, payroll, workforce management and talent management

Acumatica

RAISED \$25M FROM

AKKR
ACCEL-KKR

Q2 2018

Provider of ERP software for small and mid-sized businesses, offering solutions across accounting, inventory management and CRM

SalesLoft

RAISED \$45M FROM

INSIGHT
VENTURE PARTNERS

EMERGENCE
CAPITAL PARTNERS

LinkedIn

Q2 2018

Provider of cloud-based sales intelligence software that enables organizations to connect to and convert targeted accounts into customers

Public Trading Statistics

HR Technology

Company Name	Market Data			Enterprise Value	Operating Statistics			EV as a Multiple of:				Growth	
	Stock Price 6/29/18	% of 52 Week High	Market Cap.		LTM			LTM		CY2018		16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
Workday, Inc.	\$121.12	86.5%	\$26,161.9	\$24,305.7	\$2,281.8	(\$170.4)	(7.5%)	10.65x	NM	7.33x	35.6x *	36.1%	37.4%
Paychex, Inc.	\$68.35	93.5%	\$24,537.7	\$24,113.5	\$3,380.9	\$1,425.5	42.2%	7.13x	16.9x	6.51x	15.8x	6.8%	7.3%
The Ultimate Software Group, Inc.	\$257.31	91.1%	\$7,877.3	\$7,738.7	\$989.0	\$93.6	9.5%	7.82x	82.7x *	5.73x	22.9x	20.4%	23.1%
Paycom Software, Inc.	\$98.83	83.4%	\$5,837.2	\$5,804.4	\$467.5	\$91.3	19.5%	12.42x	63.6x *	8.48x	20.4x	31.6%	40.3%
Paylocity Holding Corporation	\$58.86	91.7%	\$3,099.2	\$2,969.6	\$357.0	\$31.1	8.7%	8.32x	95.6x *	5.98x	20.7x	30.0%	36.2%
Cornerstone OnDemand, Inc.	\$47.43	88.2%	\$2,736.4	\$2,655.6	\$503.5	(\$26.9)	(5.3%)	5.27x	NM	4.69x	20.8x	13.9%	21.6%
WageWorks, Inc.	\$50.00	72.2%	\$1,981.8	\$1,334.3	\$461.7	\$91.7	19.9%	2.89x	14.6x	2.60x	8.2x	0.0%	23.6%
Benefitfocus, Inc.	\$33.60	90.9%	\$1,067.2	\$1,135.1	\$261.5	\$0.9	0.3%	4.34x	NM	3.96x	53.1x *	10.0%	20.5%
HealthStream, Inc.	\$27.31	93.7%	\$882.2	\$686.8	\$250.6	\$27.5	11.0%	2.74x	25.0x	2.86x	15.8x	9.6%	11.8%
Asure Software, Inc.	\$15.95	80.6%	\$239.2	\$330.4	\$63.0	\$10.6	16.9%	5.24x	31.1x *	3.01x	12.9x	53.2%	32.6%
DHI Group, Inc.	\$2.35	72.3%	\$121.5	\$142.8	\$198.8	\$30.2	15.2%	0.72x *	4.7x	0.91x *	4.8x	(8.4%)	(9.2%)
Mean		85.8%			\$837.7	\$145.9	11.8%	6.68x	15.3x	5.11x	15.8x	18.5%	22.3%
Median		88.2%			\$461.7	\$30.2	11.0%	6.20x	15.7x	5.21x	15.8x	13.9%	23.1%

Sales & Marketing Technology

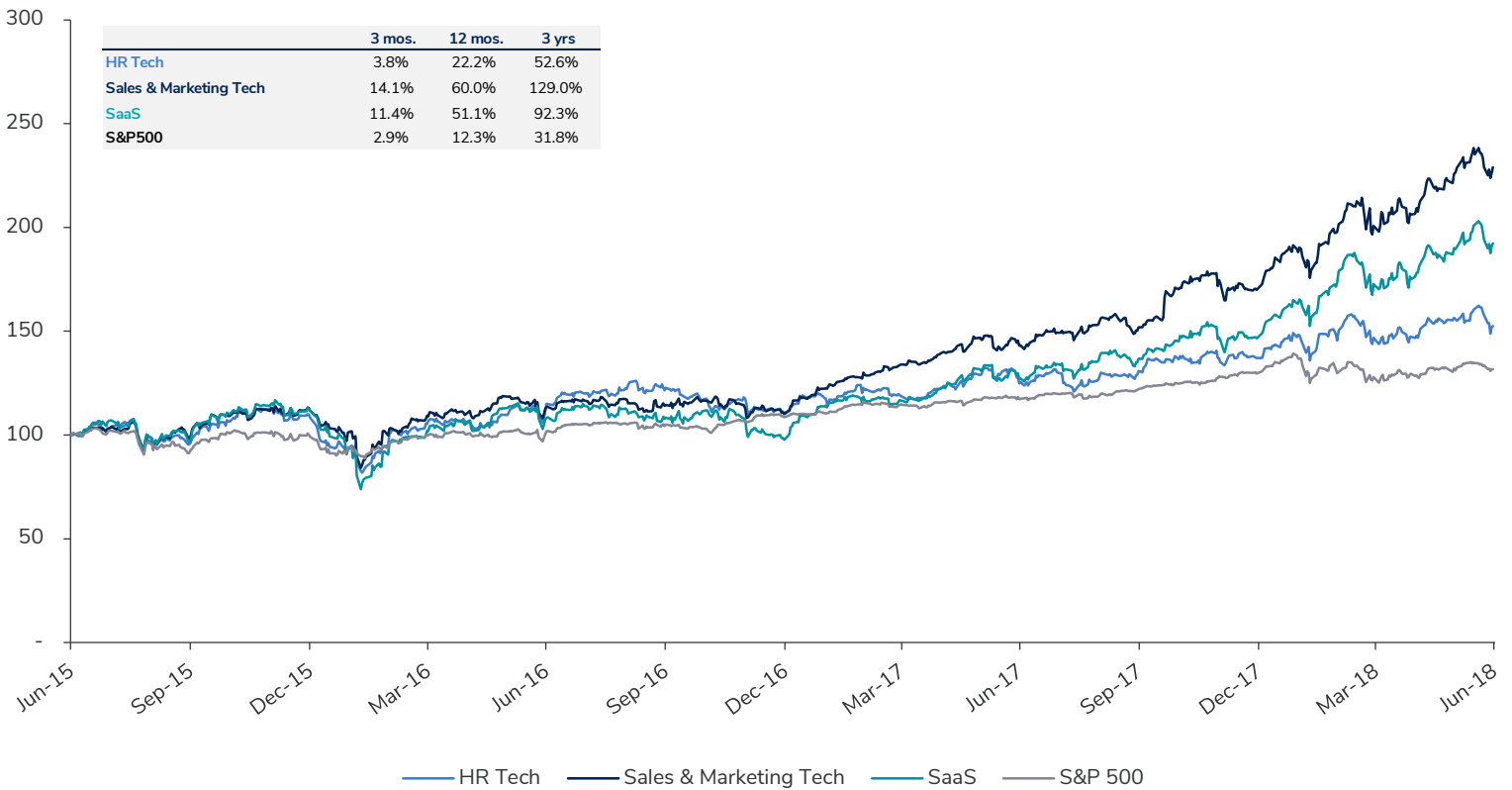
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	Stock Price 6/29/18	% of 52 Week High	Market Cap.		LTM			LTM		CY2018		16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
Adobe Systems Incorporated	\$243.81	94.2%	\$119,384.7	\$114,934.7	\$8,122.0	\$2,912.7	35.9%	14.15x	39.5x *	12.86x	28.9x	24.7%	23.1%
salesforce.com, inc.	\$136.40	96.0%	\$101,332.9	\$98,161.9	\$11,089.0	\$1,044.7	9.4%	8.85x	94.0x *	9.40x	32.9x *	25.9%	25.1%
Amdocs Limited	\$66.19	92.3%	\$9,434.4	\$8,930.7	\$3,916.5	\$724.7	18.5%	2.28x	12.3x	2.25x	11.1x	4.0%	2.7%
HubSpot, Inc.	\$125.40	87.7%	\$4,816.5	\$4,590.5	\$407.9	(\$32.8)	(8.0%)	11.25x	NM	9.21x	65.2x *	38.6%	46.5%
Criteo S.A.	\$32.85	61.1%	\$2,179.4	\$1,717.8	\$2,344.2	\$246.0	10.5%	0.73x *	7.0x	1.79x	37.0x *	27.7%	28.0%
LivePerson, Inc.	\$21.10	87.6%	\$1,281.1	\$1,223.7	\$226.2	\$9.8	4.4%	5.41x	124.4x *	4.96x	42.1x *	(1.8%)	0.6%
QuinStreet, Inc.	\$12.70	86.7%	\$598.6	\$551.5	\$374.4	\$16.7	4.5%	1.47x	33.1x *	1.40x	10.9x	0.7%	10.3%
ChannelAdvisor Corporation	\$14.05	89.9%	\$380.9	\$326.4	\$125.7	(\$5.1)	(4.0%)	2.60x	NM	2.49x	11.3x	8.2%	12.5%
Mean		86.9%			\$3,325.7	\$614.6	8.9%	6.57x	9.7x	5.55x	15.5x	16.0%	18.6%
Median		88.8%			\$1,376.1	\$131.3	6.9%	2.60x	3.5x	2.37x	11.0x	16.5%	17.8%

SaaS

Company Name	Market Data			Enterprise Value	Operating Statistics			EV as a Multiple of:				Growth	
	Stock Price 6/29/18	% of 52 Week High	Market Cap.		LTM			LTM		CY2018		16 - '17 Growth	3 Year Rev CAGR
					Revenue	EBITDA	% Margin	Revenue	EBITDA	Revenue	EBITDA		
salesforce.com, inc.	\$136.40	96.0%	\$101,332.9	\$98,161.9	\$11,089.0	\$1,044.7	9.4%	8.85x	94.0x *	6.22x	26.5x	25.9%	25.1%
ServiceNow, Inc.	\$172.47	91.5%	\$30,471.2	\$29,740.0	\$2,093.5	\$24.6	1.2%	14.21x	NM	8.87x	32.1x *	39.0%	40.5%
Workday, Inc.	\$121.12	86.5%	\$26,161.9	\$24,305.7	\$2,281.8	(\$170.4)	(7.5%)	10.65x	NM	7.33x	35.6x *	36.1%	37.4%
DocuSign, Inc.	\$52.95	79.3%	\$8,291.2	\$8,569.6	\$560.8	(\$267.3)	(47.7%)	15.28x *	NM	10.85x	118.7x *	52.3%	ND
The Ultimate Software Group, Inc.	\$257.31	91.1%	\$7,877.3	\$7,738.7	\$989.0	\$93.6	9.5%	7.82x	82.7x *	5.73x	22.9x	20.4%	23.1%
Cornerstone OnDemand, Inc.	\$47.43	88.2%	\$2,736.4	\$2,655.6	\$503.5	(\$26.9)	(5.3%)	5.27x	NM	4.69x	20.8x	13.9%	21.6%
Mean		88.8%			\$2,919.6	\$116.4	(6.7%)	9.36x	NM	7.28x	21.9x	31.3%	29.6%
Median		89.7%			\$1,541.2	(\$1.2)	(2.1%)	8.85x	NM	6.78x	22.9x	31.0%	25.1%

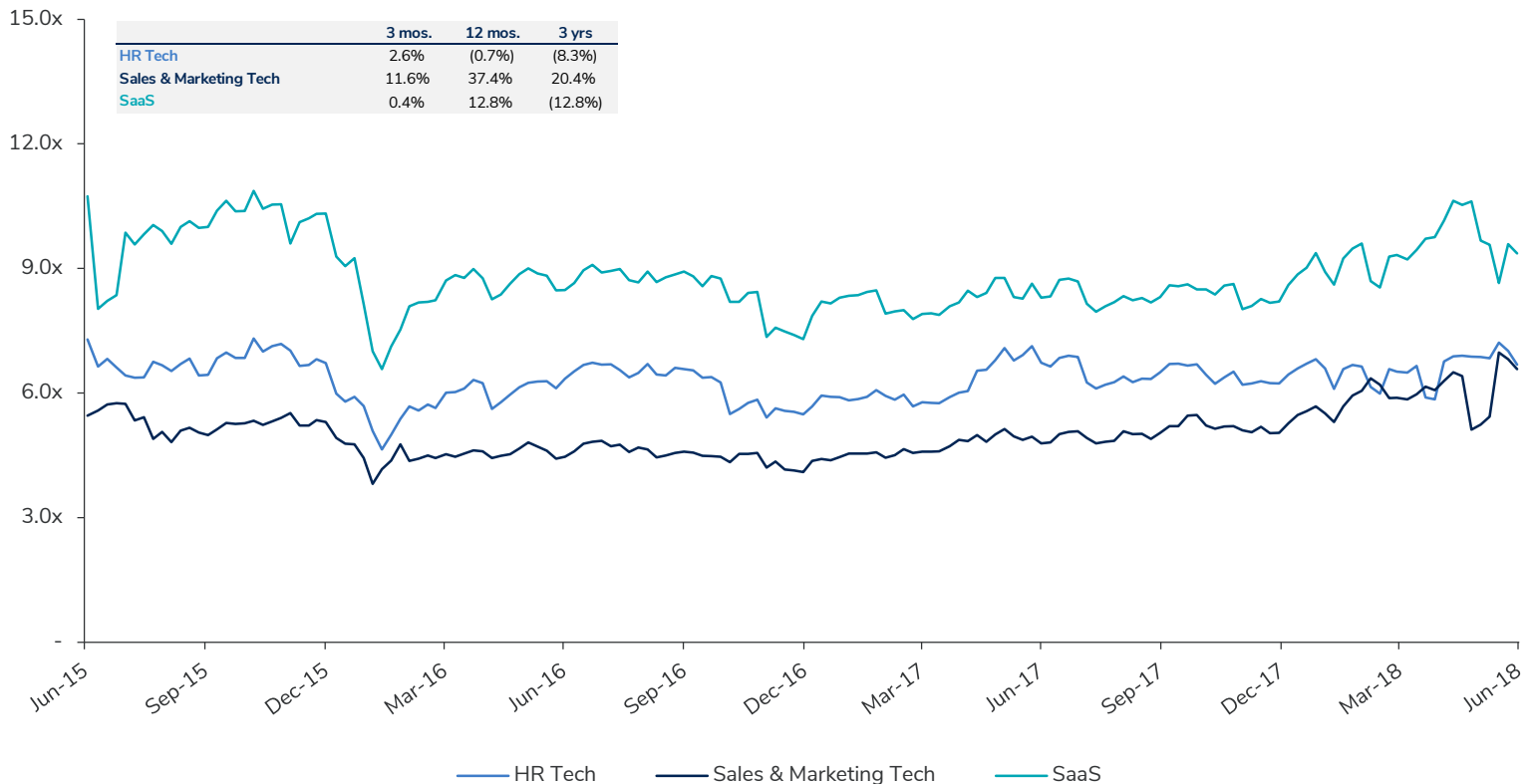
Stock Market Fundamentals

Subsector Index vs. S&P 500



Source: S&P Capital IQ

Valuation Trend Data (EV / LTM Revenue)



Source: S&P Capital IQ



We are the next generation middle-market investment bank.

We combine sector intelligence with a client-focused approach to realize your company's true value.

Quick Facts

- 40 professionals across three offices in U.S. with headquarters in Atlanta
- 81 transactions closed since 2014
- Named U.S. Boutique Investment Bank of the Year by *The M&A Advisor*
- Nationwide coverage provides access to strategic buyers, financial sponsors and family offices

Service Offerings

Mergers & Acquisitions

Capital Raises

Financial & Strategic Advisory

Bowstring Core Coverage

Healthcare Services	Human Capital Management	Industrial Services	IT & Professional Services	Software
<ul style="list-style-type: none"> ▪ Provider Services ▪ Practice Management ▪ Pharma Services ▪ Alternate Site Care 	<ul style="list-style-type: none"> ▪ Staffing / Recruiting ▪ Education & Training ▪ HR Services ▪ BPO / Professional Services 	<ul style="list-style-type: none"> ▪ Facility ▪ Distribution / Supply Chain ▪ Environmental ▪ Infrastructure 	<ul style="list-style-type: none"> ▪ Consulting ▪ Solution Providers ▪ Managed Services ▪ Tech-Enabled Services 	<ul style="list-style-type: none"> ▪ Human Resources ▪ Marketing ▪ Product / Supply Chain Management ▪ Vertical SaaS ▪ Data & Analytics

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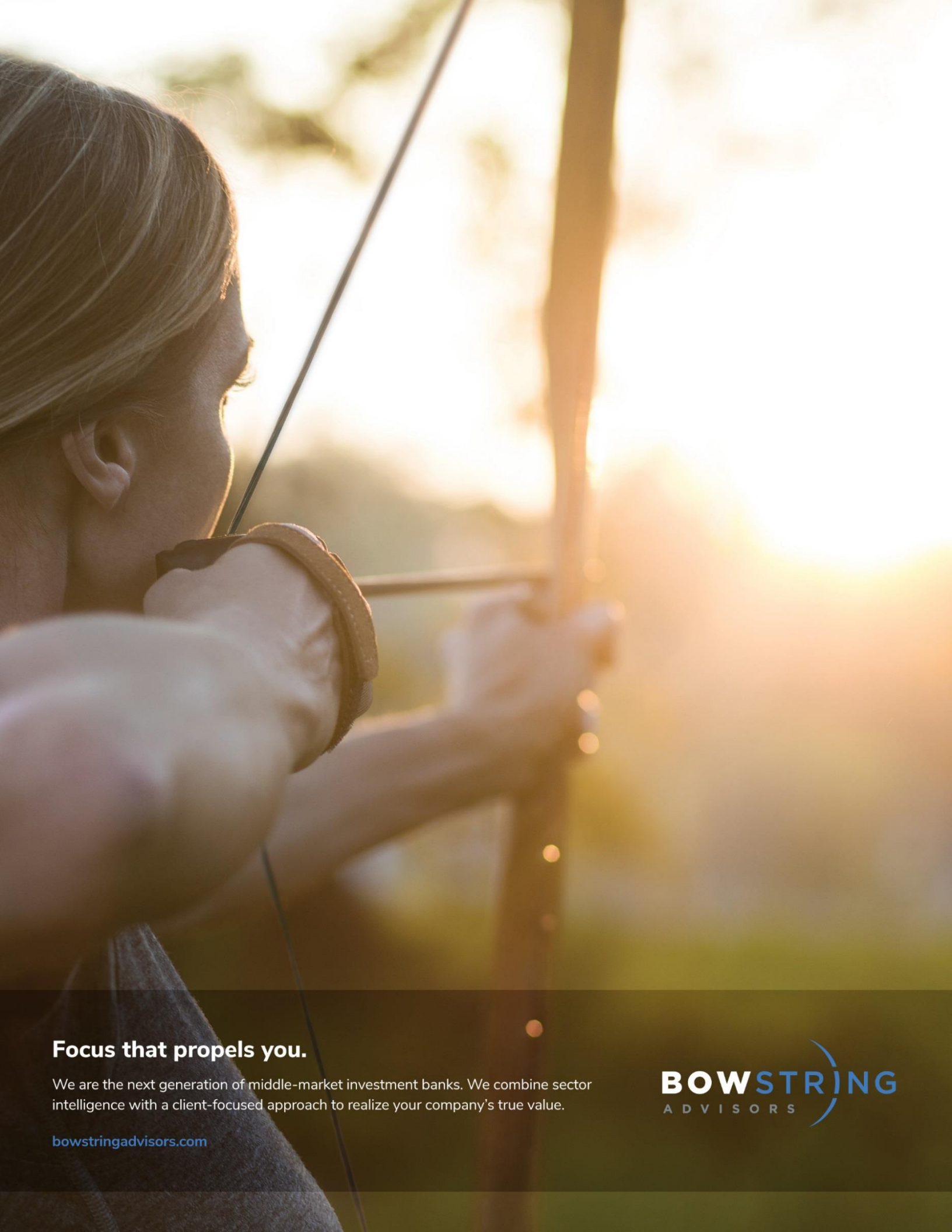

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