



# Technology Industry

## Software & Services Trading and Financial Trends

### INDUSTRY UPDATE

Q3 2023

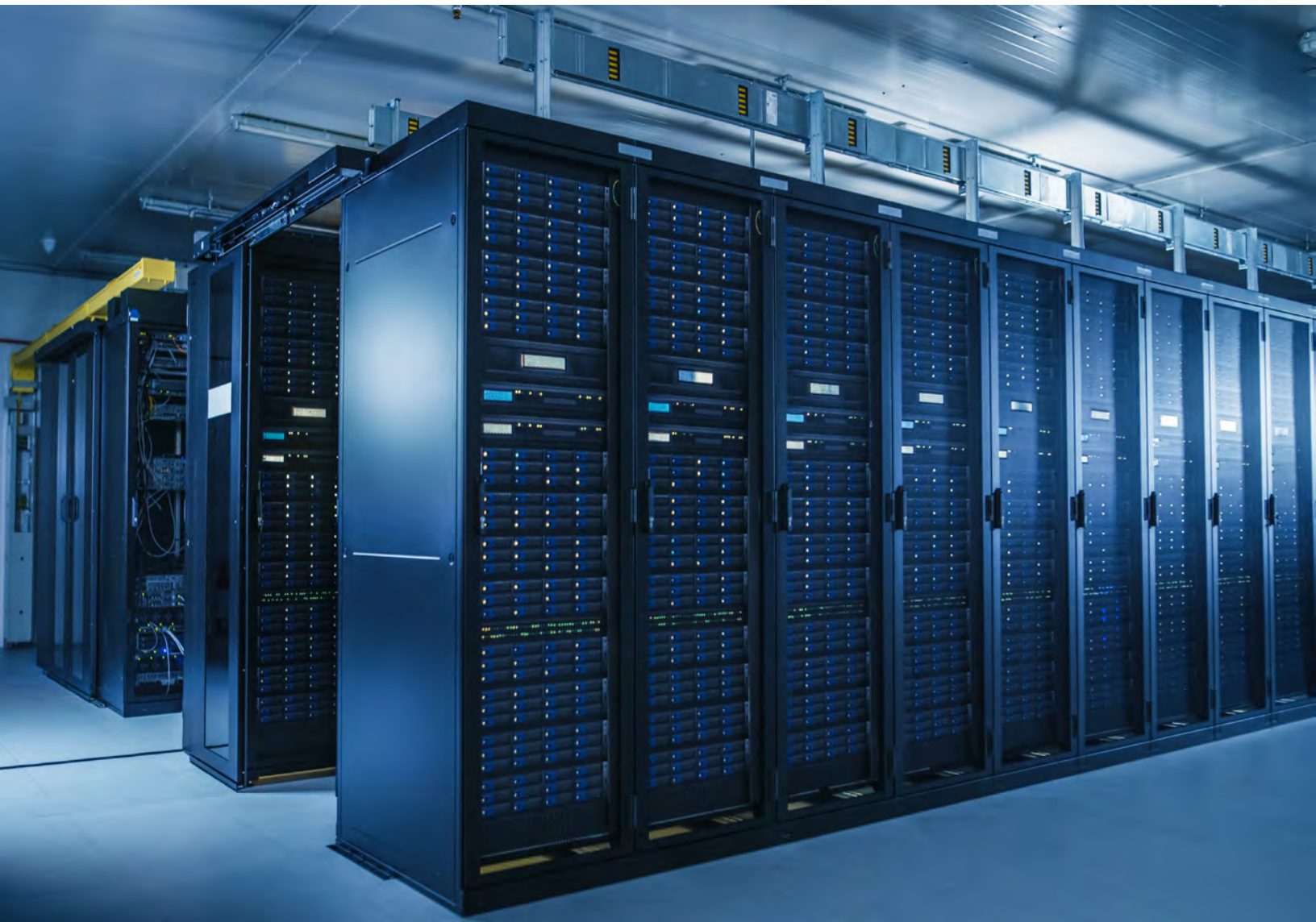
Application Software

Data Processing and Services

Internet and Infrastructure

IT Consulting

Systems Software





# TECHNOLOGY MARKETS OVERVIEW

## INTRODUCTION

Tech market valuations fell in the third quarter, with middle market declining more significantly than large cap. The Stout Software & Services Index (“Stout Index”) had a median enterprise value to trailing 12-month (TTM) revenue valuation multiple of **2.8x** on September 30, 2023, a decrease from **3.4x** at the end of last quarter and below its level 12 months ago of **3.0x**. The S&P 500 Information Technology Index (S&P 500 IT) median Enterprise Value to TTM revenue valuation multiple dropped to **5.1x** in Q3 from **5.4x** in the previous quarter. The S&P 500 IT multiple is still up from the level 12 months ago of **4.9x**.

The divergence between large-cap and mid-cap tech valuation performance has continued in 2023, after large cap outperformed mid cap during the broader selloff in 2022. The Stout Index valuation has declined **63%** from its peak valuation multiple of **7.6x** in October 2021. The S&P 500 IT multiple, by comparison, has fallen **24%** from **6.7x** in the same period. Middle-market tech now trades at a significant discount to its large-cap peers, a rare occurrence prior to this tech selloff. We believe a decrease in strategic M&A and a preference for larger deals by private equity (PE) are factors weighing on middle-market tech valuations this year compared to large cap. The TTM revenue growth rate for the Stout Index at **11%** still stands higher than the S&P 500 IT of **7%**, but the growth rate has slowed in recent quarters.

Deal flow across software and IT services was down in Q3 2023 compared to last year’s second quarter according to Pitchbook. Strategic M&A deal count in Q3 2023 was **334** with a volume of **\$65 billion** compared to **466** deals and a volume of **\$82 billion** in Q2 2022. Private equity deal count in Q3 2023 was **193** with a volume of **\$24 billion** compared to **282** deals and a volume of **\$52 billion** in Q3 2022.

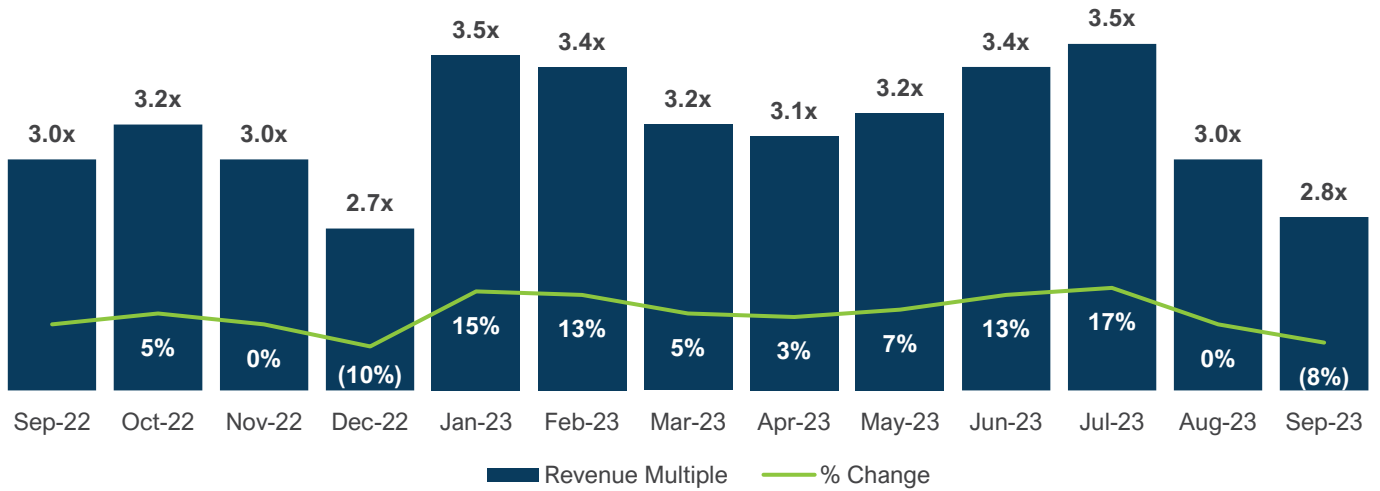
In speaking with buyers across PE and strategics, we see strong interest in dealmaking, but the volume of high-quality deals in the market has been low. Many middle-market tech companies have put off sale conversations recognizing they may receive offers significantly below values they could have received two years ago. Debt markets remain open to finance tech deals, though higher interest rates dampen LBO return profiles and lender appetite for higher leveraged transactions has waned.

There was one M&A transaction in our Stout Index that occurred during the quarter. ForgeRock was acquired by Thoma Bravo in August (9.5x revenue). Its data has been removed from our index calculations.

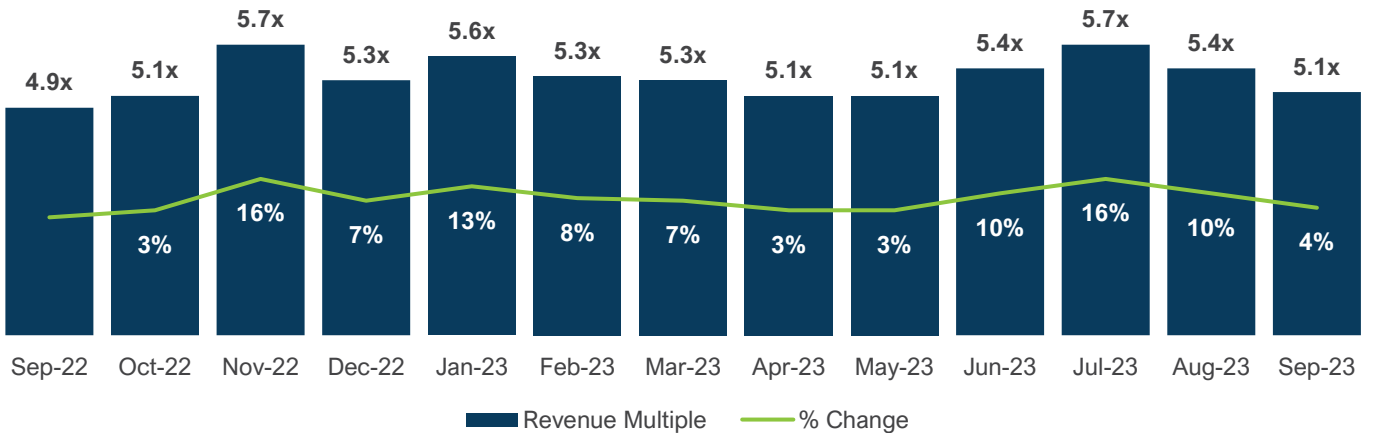


## MEDIAN ENTERPRISE VALUE / REVENUE MULTIPLES FOR THE TRAILING 12 MONTHS

### STOUT SOFTWARE & SERVICES INDEX



### S&P 500 INFORMATION TECHNOLOGY

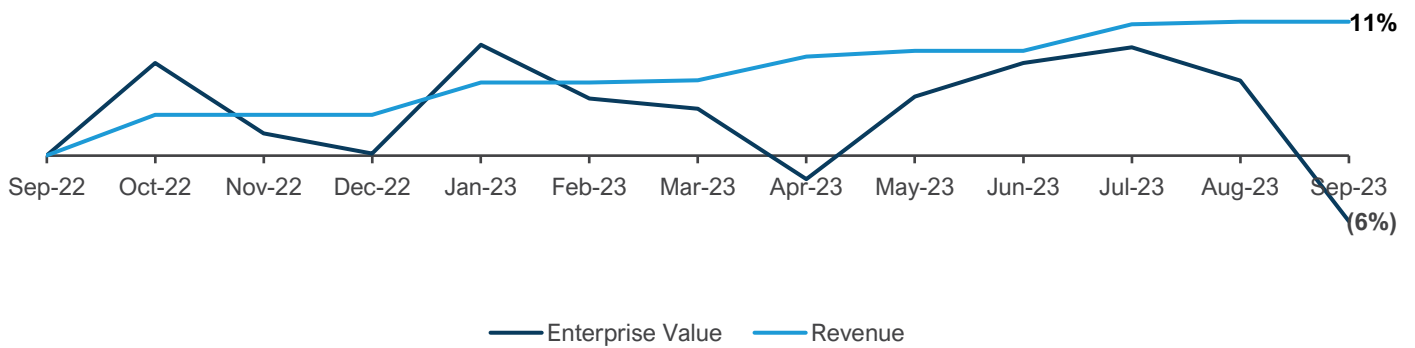


Source: CapitalIQ

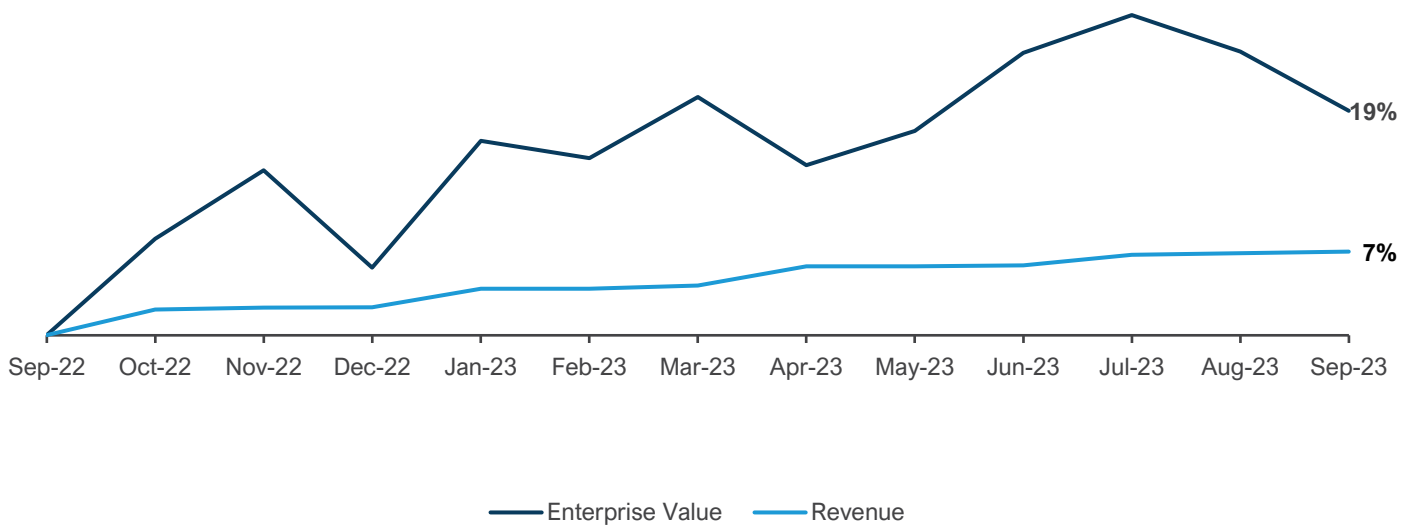


## MEDIAN ENTERPRISE VALUE & REVENUE PERCENT CHANGE FOR THE TRAILING 12 MONTHS

### STOUT SOFTWARE & SERVICES INDEX



### S&P 500 INFORMATION TECHNOLOGY

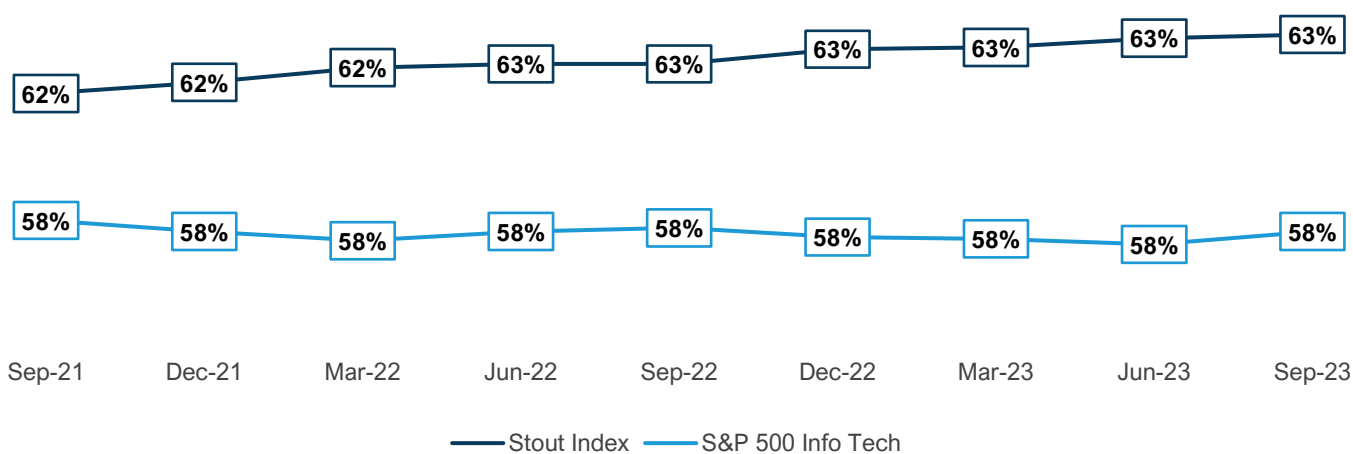


Source: CapitalIQ



## STOUT SOFTWARE & SERVICES INDEX | S&P 500 INFORMATION TECHNOLOGY

### MEDIAN GROSS MARGIN BY QUARTER

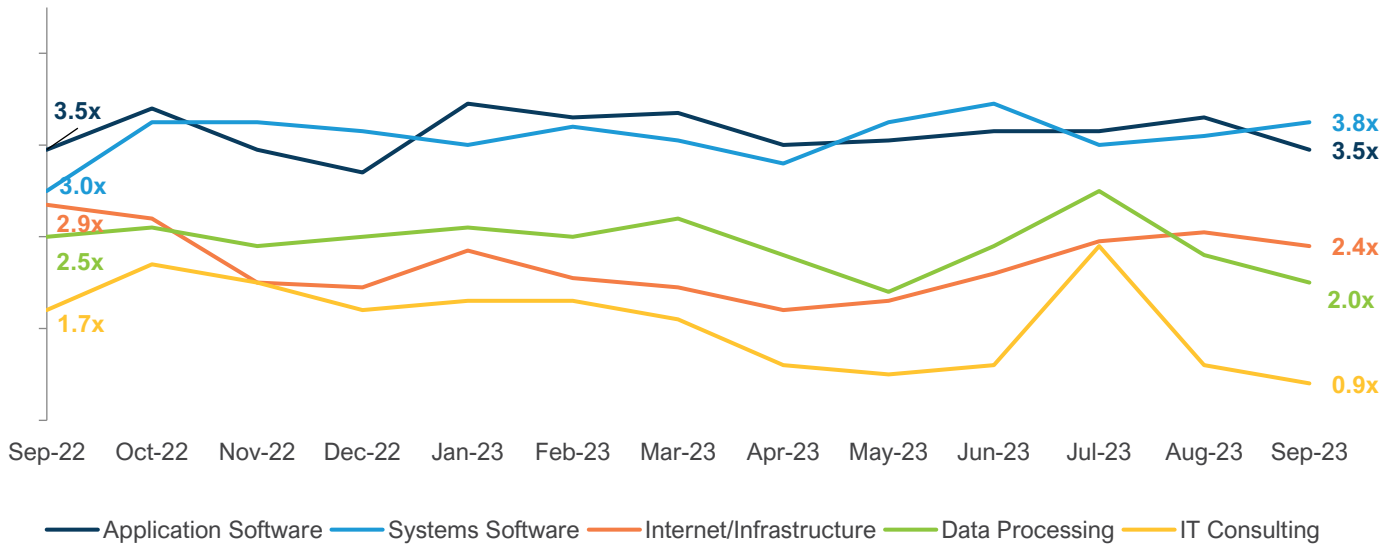


Companies in hardware, software, and IT services are included in the S&P 500 Information Technology sector, which may explain some of the difference in median gross margin for this sector compared to the Stout Index, which excludes companies that are primarily classified as hardware. In September 2018, S&P reclassified a number of its sector indices to account for the significant rise in the technology sector as a portion of the overall S&P 500. The S&P 500 Telecom sector was renamed the S&P 500 Communications Services sector. Alphabet and Facebook (now Meta) were moved from Information Technology to Communications Services. Disney, Comcast, Netflix, Twitter, and CBS were moved from the Consumer Discretionary sector to Communications Services at the same time.

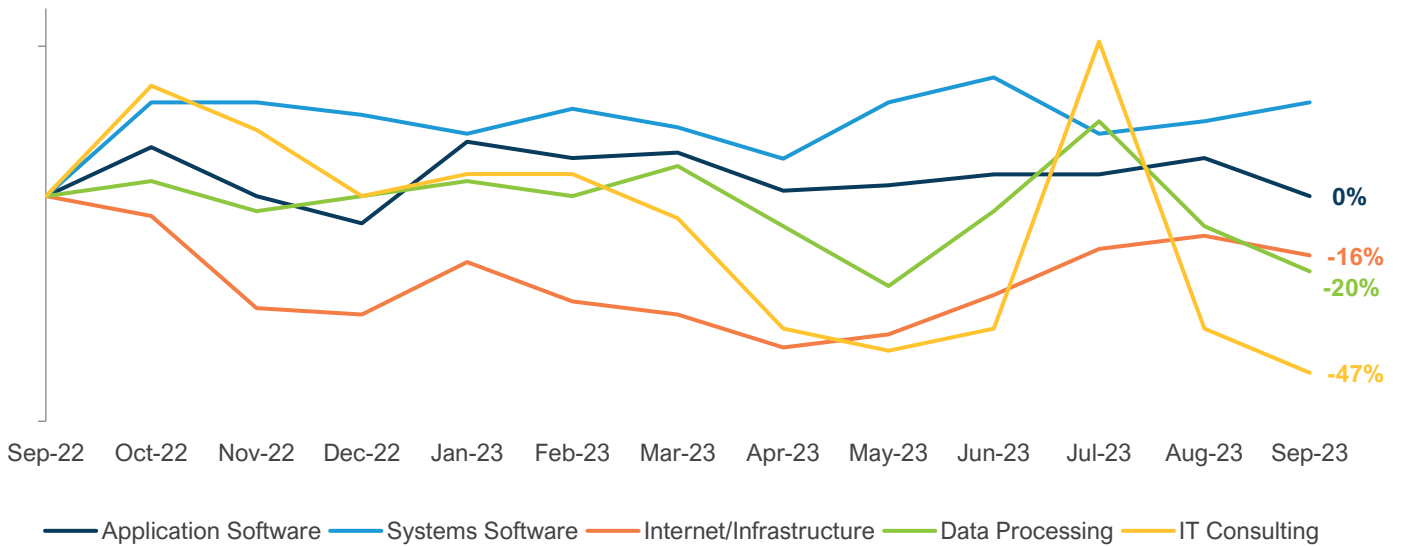


## STOUT SOFTWARE & SERVICES INDEX

### REVENUE MULTIPLES BY SEGMENT TRAILING 12 MONTHS



### PERCENT CHANGE IN REVENUE MULTIPLES BY SEGMENT TRAILING 12 MONTHS



Source: CapitalIQ

# Stout Software & Services Index

## Q3 2023 LIST

Company Name	Segment	EV/Revenue	EV	Gross Margin
Altium Limited (ASX:ALU)	Application Software	13.7x	3,431	53%
Matterport, Inc. (NasdaqGM:MTTR)	Application Software	13.7x	209	39%
Clear Secure, Inc. (NYSE:YOU)	Application Software	10.1x	1,271	63%
PagerDuty, Inc. (NYSE:PD)	Application Software	9.0x	1,897	82%
Information Services Group, Inc. (NasdaqGM:III)	IT Consulting	8.1x	276	39%
Agilysys, Inc. (NasdaqGS:AGYS)	Application Software	7.8x	1,612	61%
Verra Mobility Corporation (NasdaqCM:VRRM)	Data Processing	7.0x	4,137	62%
Amplitude, Inc. (NasdaqCM:AMPL)	Application Software	7.0x	1,055	72%
Vertex, Inc. (NasdaqGM:VERX)	Application Software	6.7x	3,531	61%
Consensus Cloud Solutions, Inc. (NasdaqGS:CCSI)	Application Software	6.6x	1,194	82%
Sprout Social, Inc. (NasdaqCM:SPT)	Application Software	6.3x	2,608	77%
Grid Dynamics Holdings, Inc. (NasdaqCM:GDYN)	IT Consulting	6.3x	683	38%
Q2 Holdings, Inc. (NYSE:QTWO)	Application Software	6.0x	2,153	47%
Axway Software SA (ENXTPA:AXW)	Application Software	6.0x	609	22%
Zeta Global Holdings Corp. (NYSE:ZETA)	Application Software	5.8x	1,864	64%
Riot Blockchain, Inc. (NasdaqCM:RIOT)	Application Software	5.7x	1,463	12%
JFrog Ltd. (NasdaqGS:FROG)	Systems Software	5.5x	2,189	78%
AgileThought, Inc. (NasdaqCM:AGIL)	IT Consulting	5.5x	99	33%
Remitly Global, Inc. (NasdaqGS:RELY)	Data Processing	5.4x	4,392	53%
Marathon Digital Holdings, Inc. (NasdaqCM:MARA)	Application Software	5.3x	2,388	24%
AvidXchange Holdings, Inc. (NasdaqGS:AVDX)	Data Processing	4.7x	1,628	65%
Fastly, Inc. (NYSE:FSLY)	Internet Services and Infrastructure	4.7x	2,575	52%

Source: CapitalIQ

# Stout Software & Services Index

## Q3 2023 LIST (CONT.)

Company Name	Segment	EV/Revenue	EV	Gross Margin
i3 Verticals, Inc. (NasdaqGS:IIIV)	Data Processing	4.7x	982	78%
Boku, Inc. (AIM:BOKU)	Data Processing	4.6x	430	97%
WM Technology, Inc. (NasdaqGS:MAPS)	Application Software	4.6x	235	93%
AvePoint, Inc. (NasdaqGS:AVPT)	Application Software	4.4x	1,053	71%
Progress Software Corporation (NasdaqGS:PRGS)	Systems Software	4.3x	2,922	87%
Adeia Inc. (NasdaqGS:ADEA)	Systems Software	4.3x	1,690	100%
Intapp, Inc. (NasdaqGS:INTA)	Application Software	4.2x	2,212	68%
CS Disco, Inc. (NYSE:LAW)	Application Software	4.1x	231	75%
Alkami Technology, Inc. (NasdaqGS:ALKT)	Application Software	4.0x	1,642	53%
Sabre Corporation (NasdaqGS:SABR)	Data Processing	4.0x	5,611	58%
Appgate, Inc. (OTCPK:APGT)	Systems Software	3.9x	162	62%
Semrush Holdings, Inc. (NYSE:SEMR)	Application Software	3.9x	1,003	82%
Cyxtera Technologies, Inc. (NasdaqGS:CYXT)	Internet Services and Infrastructure	3.9x	2,300	62%
KLDiscovery Inc. (OTCPK:KLDI)	Application Software	3.9x	633	50%
Model N, Inc. (NYSE:MODN)	Application Software	3.8x	931	56%
MeridianLink, Inc. (NYSE:MLNK)	Application Software	3.7x	1,707	68%
Flywire Corporation (NasdaqGS:FLYW)	Data Processing	3.6x	3,521	63%
Squarespace, Inc. (NYSE:SQSP)	Internet Services and Infrastructure	3.6x	4,275	82%
Varonis Systems, Inc. (NasdaqGS:VRNS)	Systems Software	3.6x	2,908	86%
InterDigital, Inc. (NasdaqGS:IDCC)	Application Software	3.6x	1,912	87%
BigBear.ai Holdings, Inc. (NYSE:BBAI)	IT Consulting	3.6x	405	26%
BigCommerce Holdings, Inc. (NasdaqGM:BIGC)	Internet Services and Infrastructure	3.6x	794	75%

Source: CapitalIQ



# Stout Software & Services Index

## Q3 2023 LIST (CONT.)

Company Name	Segment	EV/Revenue	EV	Gross Margin
Digital Turbine, Inc. (NasdaqCM:APPS)	Application Software	3.6x	955	47%
Commvault Systems, Inc. (NasdaqGS:CVLT)	Systems Software	3.4x	2,704	83%
Conduent Incorporated (NasdaqGS:CNDT)	Data Processing	3.3x	1,929	22%
SoundThinking, Inc. (NasdaqCM:SSTI)	Application Software	3.2x	218	56%
Sprinklr, Inc. (NYSE:CXM)	Application Software	3.0x	3,147	76%
Repay Holdings Corporation (NasdaqCM:RPAY)	Data Processing	3.0x	1,054	77%
Mitek Systems, Inc. (NasdaqCM:MITK)	Application Software	3.0x	517	87%
Clearwater Analytics Holdings, Inc. (NYSE:CWAN)	Application Software	2.8x	3,776	71%
N-able, Inc. (NYSE:NABL)	Systems Software	2.7x	2,618	84%
SolarWinds Corporation (NYSE:SWI)	Internet Services and Infrastructure	2.7x	2,648	90%
Blend Labs, Inc. (NYSE:BLND)	Application Software	2.7x	346	42%
Everbridge, Inc. (NasdaqGM:EVBG)	Application Software	2.6x	1,219	70%
Verint Systems Inc. (NasdaqGS:VRNT)	Application Software	2.4x	2,133	70%
LiveRamp Holdings, Inc. (NYSE:RAMP)	Application Software	2.4x	1,454	71%
The Hackett Group, Inc. (NasdaqGS:HCKT)	IT Consulting	2.4x	681	40%
Kaltura, Inc. (NasdaqGS:KLTR)	Application Software	2.4x	223	64%
American Software, Inc. (NasdaqGS:AMSW.A)	Application Software	2.3x	277	60%
Zuora, Inc. (NYSE:ZUO)	Systems Software	2.2x	1,013	63%
Cerence Inc. (NasdaqGS:CRNC)	Application Software	2.1x	1,001	65%
Yext, Inc. (NYSE:YEXT)	Application Software	2.1x	699	76%
International Money Express, Inc. (NasdaqCM:IMXI)	Data Processing	2.0x	674	33%
SecureWorks Corp. (NasdaqGS:SCWX)	Systems Software	2.0x	481	58%

Source: CapitalIQ

# Stout Software & Services Index

## Q3 2023 LIST (CONT.)

Company Name	Segment	EV/Revenue	EV	Gross Margin
Olo Inc. (NYSE:OLO)	Application Software	1.9x	606	66%
Tingo, Inc. (OTCPK:TMNA)	Internet Services and Infrastructure	1.9x	153	95%
Cantaloupe, Inc. (NasdaqGS:CTLP)	Data Processing	1.8x	448	33%
Rimini Street, Inc. (NasdaqGM:RMNI)	Application Software	1.8x	141	63%
Life360, Inc. (ASX:360)	Application Software	1.7x	1,010	71%
Upland Software, Inc. (NasdaqGM:UPLD)	Application Software	1.7x	522	67%
OneSpan Inc. (NasdaqCM:OSPN)	Systems Software	1.6x	354	66%
CSG Systems International, Inc. (NasdaqGS:CSGS)	Data Processing	1.6x	1,888	48%
PROS Holdings, Inc. (NYSE:PRO)	Application Software	1.5x	1,737	61%
LivePerson, Inc. (NasdaqGS:LPSN)	Application Software	1.5x	674	64%
IBEX Limited (NasdaqGM:IBEX)	Data Processing	1.5x	304	28%
Couchbase, Inc. (NasdaqGS:BASE)	Application Software	1.4x	648	86%
Core Scientific, Inc. (NasdaqGS:CORZ)	Internet Services and Infrastructure	1.4x	1,140	-
Expensify, Inc. (NasdaqGS:EXFY)	Application Software	1.3x	237	60%
TaskUs, Inc. (NasdaqGS:TASK)	Data Processing	1.3x	1,120	42%
Weave Communications, Inc. (NYSE:WEAV)	Application Software	1.2x	511	66%
E2open Parent Holdings, Inc. (NYSE:ETWO)	Application Software	1.2x	2,526	66%
Cass Information Systems, Inc. (NasdaqGS:CASS)	Data Processing	1.2x	248	43%
Rackspace Technology, Inc. (NasdaqGS:RXT)	Internet Services and Infrastructure	1.2x	4,159	24%
C3.ai, Inc. (NYSE:AI)	Application Software	1.1x	2,211	64%
Ebix, Inc. (NasdaqGS:EBIX)	Application Software	1.0x	902	39%
8x8, Inc. (NYSE:EGHT)	Application Software	1.0x	708	69%

Source: CapitalIQ

# Stout Software & Services Index

## Q3 2023 LIST (CONT.)

Company Name	Segment	EV/Revenue	EV	Gross Margin
Payoneer Global Inc. (NasdaqGM:PAYO)	Data Processing	0.9x	1,645	85%
Brightcove Inc. (NasdaqGS:BCOV)	Internet Services and Infrastructure	0.8x	147	62%
Edgio, Inc. (NasdaqGS:EGIO)	Internet Services and Infrastructure	0.8x	313	37%
EverCommerce Inc. (NasdaqGS:EVCN)	Application Software	0.7x	2,346	65%
Shift4 Payments, Inc. (NYSE:FOUR)	Data Processing	0.7x	4,468	26%
EVERTEC, Inc. (NYSE:EVTC)	Data Processing	0.6x	2,630	51%
Cerberus Cyber Sentinel (NasdaqCM:CISO)	IT Consulting	0.6x	37	6%
Jamf Holding Corp. (NasdaqGS:JAMF)	Application Software	0.5x	2,394	80%
Telos Corporation (NasdaqGM:TLS)	Systems Software	0.4x	75	36%
A10 Networks, Inc. (NYSE:ATEN)	Systems Software	0.3x	979	80%
Priority Technology Holdings, Inc. (NasdaqCM:PRTH)	Data Processing	0.3x	1,068	35%
Unisys Corporation (NYSE:UIS)	IT Consulting	0.2x	378	30%

Source: CapitalIQ

# Technology Practice Overview

## ABOUT

For more than 30 years, Stout has exclusively focused on serving the unique M&A transaction advisory needs of middle-market clients. Our firm is a trusted advisor to leading organizations due to our deep industry knowledge, senior-level attention, process expertise, and relentless focus on delivering unparalleled results.

The Stout Technology team has deep experience and expertise across numerous industry subsectors, processes, and end markets.

## FOCUS AREAS

### Software

- Enterprise Software
- Consumer
- Cybersecurity
- Data Analytics
- Managed/IT Services
- Digital Transformation
- Healthcare Software
- Education Software
- Cleantech Software
- Fintech/POS

### Hardware

- IoT
- Industrial Tech
- Semiconductors
- Electronic Components
- Cloud Infrastructure
- Wearables
- Medical Devices
- Smart Cities
- Cleantech Applications
- Critical Infrastructure

## SELECT TECHNOLOGY TRANSACTIONS

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 <p>PRIVATE PLACEMENT</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>SELL-SIDE ADVISOR</p>
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Note: Transaction experience may include work by Stout professionals while at prior firms



## ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [Investment Banking services](#).

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