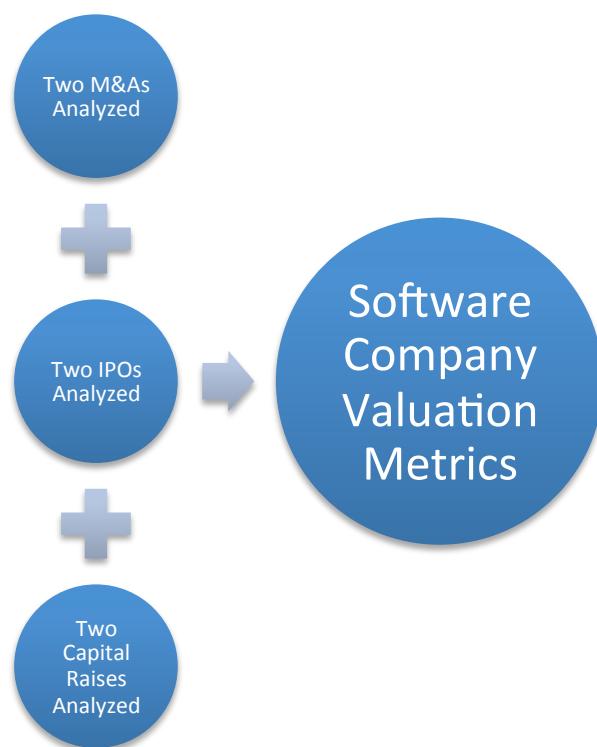


SOFTWARE CEO GUIDE:

Valuation Trends (M&As, IPOs, & Capital Raises)



From the Partners

Determining the value of a private software company in most instances is a challenging task. The proper valuation process requires analysis and evaluation of a number of complex factors including: (a) whether the company is public or private; (b) the history of revenue and profit growth; (c) company size; (d) market (mass or niche) and competition; (e) software product(s); and (f) company staff experience and expertise. The greatest challenge facing software company owners is understanding equity value. There are a number of methods used to determine a software company's value. The goal of our research (the "paper") is to provide software executives with meaningful guidance by reviewing selected software mergers and acquisitions (M&As), initial public offerings (IPOs), and private capital raises. We herein review and analyze certain strategic transactions in light of our experience as investment banking professionals. Our hope is that you will find this paper to be of interest and a useful resource.

SilverCloud Partners

Executive Summary

United States (U.S.) equities have had significant growth over the past 24 months. Specifically, 2013 was the best year for the U.S. equity markets in the past 16 years, see Bloomberg: "the broadest equity rally on record".ⁱ Strong equity markets have led to increased investor confidence in US capital markets that in turn has resulted in stronger activity in mergers & acquisitions, initial public offerings, and private capital raises. Regarding M&A, in a recent Forbes article Jeff Golman stated, "Healthy stock market performance – the S&P 500 was up nearly 30 percent in 2013 – which may push companies to demonstrate sustained growth through M&A to validate share prices."ⁱⁱ According to a recent survey by KPMG: "The United States is expected to experience the highest level of M&A activity in 2014."ⁱⁱⁱ As a result of strong macroeconomic performance, capital markets have also strengthened resulting in increased venture capital investment in pre-IPO companies. In a recent Wall Street Journal article, Zoran Basich states, "The emergence of fresh sources of capital for late-stage private companies has redefined the venture capital industry, and now investments in those pre-IPO companies is on pace to surpass even the heights reached at the

peak of the dot-com boom.”^{iv} Accordingly, SilverCloud Partners (SCP) offers insights and guidance for software companies as they explore their strategic alternatives. Our insights and guidance are based on selected transactions in 2013 and 2014. This paper covers six transactions involving selected software companies, primarily niche providers of business to business (B2B) software, and explores various valuation methods as well as facts and information about each transaction. The purpose of the paper is to provide information to software companies regarding the current environment for capitalizing on the value of their equity. The following tables list the key figures for the M&A, IPO, and capital raise transactions studied.

M&A and IPO Transactions						
Company	TTM	RR	FTM	GP	Profitable	CAGR
MICROS	4.0	11.0	3.7	7.7	Y	8%
Greenway	4.8	8.7	3.9	9.1	N	23%
Zendesk	8.8	8.8	5.3	13.3	N	67%
TubeMogul	3.5	3.5	2.3	5.4	N	54%

Capital Raise Transactions				
Company	Transaction Value	2013 Revenue	Profitable	Valuation
SurveyMonkey	\$794M	\$113M	Y	\$1.35B
Eventbrite	\$60M	\$960M	N	\$1B

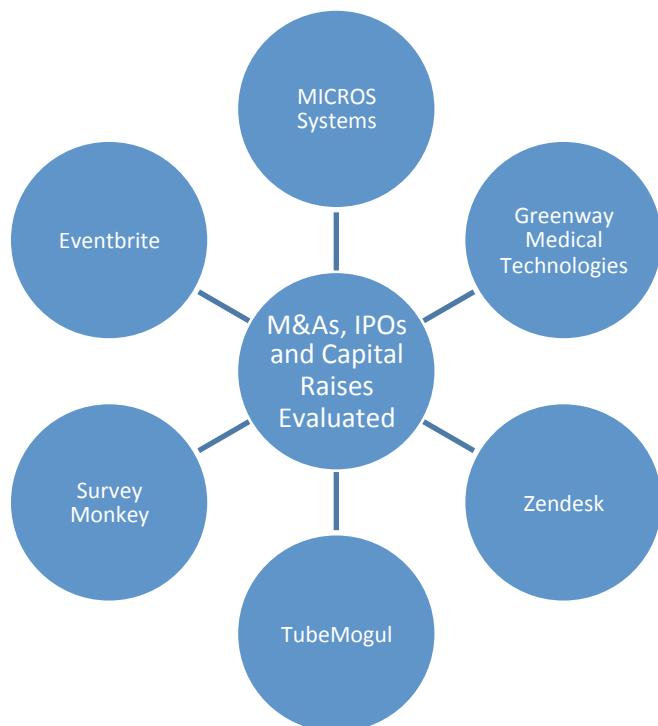
Introduction

As a result of improving macroeconomic conditions and record-high equity markets, the technology sector has seen a large volume of M&A and IPO activity as well as private capital raising thus far in 2014, which is expected to remain consistent throughout the year. In the US technology sector, year-to-date IPO activity is trending well with a total of 27 IPOs with aggregate proceeds totaling approximately \$5.7B.^v PwC Deals Partner Alan Jones said, “The US technology IPO market accelerated its pace during the second quarter of 2014 with the Software and Internet Sectors leading the way. As investors evaluate the IPO pipeline, technology companies preparing to enter the market should focus on driving growth and predictability while maximizing their scale and margin.”^{vi} The average revenue multiple

valuation for the Internet Software and Services sub-sector was 3.7x for Q1 2014 and 4.0x for Q2 2014.^{vii} Concerning M&A outlook for the rest of the year, PwC's US Technology Industry Deals Leader Rob Fisher explains, "This upward trend in IPO markets combined with the tremendous pent-up cash balances of the leading technology players bodes well in driving the momentum of technology M&A through the remainder of the year."^{viii} In a survey conducted by KPMG of over 1,000 M&A professionals, the respondents predicted that the majority of M&As in 2014 will be found in the middle market with 77% of the deals being under \$250M.^{ix} Accordingly, as a boutique investment bank SilverCloud Partners (SCP) offers insights and guidance for low to middle market software companies as they explore their strategic alternatives.

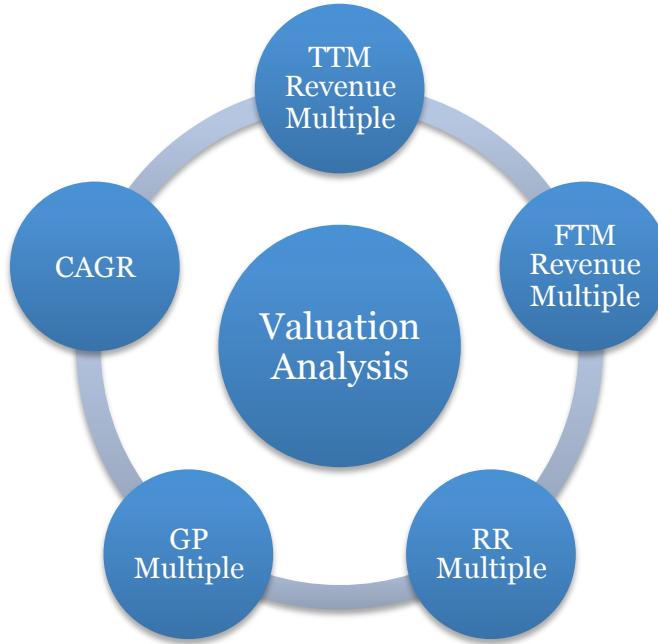
Objectives

The objective of this paper is to provide information on how software companies are currently being valued by analyzing recent noteworthy M&As, IPOs, and capital raises. This will give guidance to private software companies with regard to their potential equity/market value in view of current valuation methodologies.



Methodology

The following figure illustrates the process used by SCP in examining the valuation multiples received by the representative software companies.



In our analysis, we have made the following calculations to determine transaction multiples:

Trailing 12 Months Revenue (TTM) Multiple: Calculated based on quarterly/annual SEC filings for each company. To determine a calendar year amount, estimates or approximations may have been used. The TTM calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Forward 12 Months Revenue (FTM) Multiple: Calculated based on quarterly/annual SEC filings for each company along with assumptions based on the estimated growth rate per quarter. To determine a calendar year amount, estimates or approximations may have been used. The FTM once calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Recurring Revenue (RR) Multiple: Calculated based on the quarterly/annual SEC filings for each company. To determine a calendar year amount, estimates or approximations may

have been used. The RR calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Gross Profit (GP) Multiple: Calculated based on the quarterly/annual SEC filings for each company. To determine a calendar year amount, estimates or approximations may have been used. The GP calculated on an annual basis is divided into the total purchase price to obtain the multiple.

Finally, we reviewed the Compound Annual Growth Rate (CAGR) and profitability for each company as a differentiator to gain an understanding of why some companies received higher valuations. As expected, the companies with high growth and strong profit margins obtained the highest multiples.

M&A Analysis

micros®

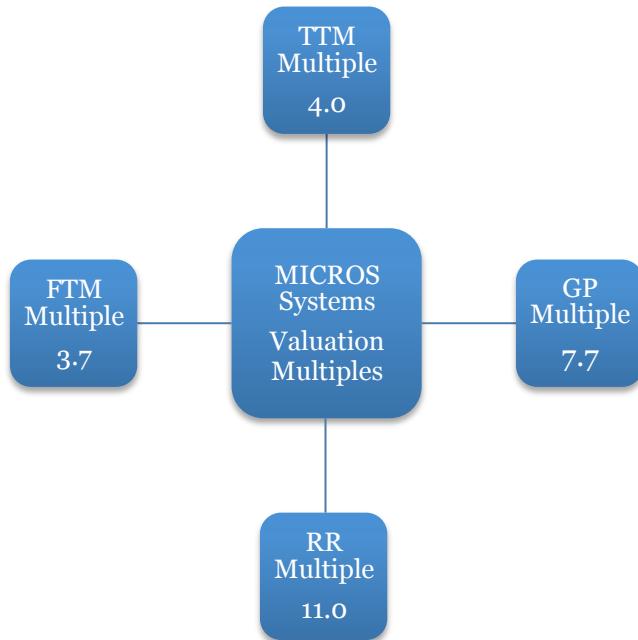
In June of 2014, Oracle acquired MICROS Systems, a vendor of hardware and software solutions for the hospitality and retail industries, for \$68 (cash) per share at a \$5.3B valuation.^x The purchase price represented a 17% premium over the stock price at the time of Bloomberg's announcement of the negotiations which occurred only six days prior to the acquisition.^{xi} In regard to the strategic value of the acquisition, MICROS Systems President and CEO Peter Altabef explained, "In combination with Oracle, we expect to help accelerate our customers' ability to innovate and differentiate their businesses by utilizing Oracle's technologies, cloud solutions, and scale. We are very excited about the great opportunities this will create for our customers and employees."^{xii} In harmony with Altabef's view, Oracle president Mark Hurd stated, "Oracle has successfully helped customers across multiple industries, harness the power of cloud, mobile, social, big data and the internet of things to transform their businesses. We anticipate delivering compelling advantages to companies within the Hospitality and Retail industries with the acquisition of MICROS."^{xiii} At the time of the transaction, TTM revenue was approximately \$1.3B and MICROS Systems was acquired for a multiple of 4.0x TTM revenues.^{xiv}

Transaction Value \$5.3B	Revenue (TTM) \$1.3B	Profitability Positive
Market Retail and Hotel IT Software Solutions	Strategic Buyer Oracle	Growth CAGR 8%

MICROS Systems' enterprise-wide software and IT solutions are utilized globally by an impressive portfolio of customers consisting of over 26,000 hotels and more than 100,000 retail stores located in over 180 countries.^{xv} MICROS Systems' cloud-based, mobile, and on-site software applications include business intelligence, eCommerce, CRM, inventory management, and much more. MICROS Systems generated net income of approximately \$171M in 2013.^{xvi}

Oracle is a mass-market software provider that concentrates on shifting the complexity from IT, moving it out of the enterprise by engineering hardware and software to work together in the cloud and in the data center. A major portion of Oracle's product portfolio was derived from past mergers and acquisitions. "Oracle is one of the most acquisitive companies in the tech industry, having spent \$50 billion to acquire about 100 companies over the past 10 years, Bloomberg reports."^{xvii}

Valuation Multiples



Related Articles

- ✓ <http://www.forbes.com/sites/greatspeculations/2014/06/27/a-closer-look-at-oracles-acquisition-of-micros-systems-part-1/>
- ✓ <http://www.bloomberg.com/news/2014-06-17/oracle-said-to-near-deal-to-buy-micros-systems.html>
- ✓ <http://www.sec.gov/Archives/edgar/data/320345/000032034514000010/mcrsfy2014q310-q.htm>
- ✓ <http://www.sec.gov/Archives/edgar/data/320345/000144530513002486/mcrsfy2014q110-q.htm>



In September 2013, Vista Equity Partners completed a take-private acquisition of Greenway Medical Technologies for a total transaction value of \$644M. Vista paid Greenway stockholders \$20.35 in cash per share for their common stock, representing a 62% premium to Greenway's 90-day average share price and a 20% premium to the stock's closing price the day before the transaction's announcement.^{xviii} Greenway Medical Technologies provides IT solutions to thousands of primary care providers to help them improve financial performance and deliver more efficient care. Regarding the value-add of the purchase, Greenway founder and chairman W. Thomas Green explained, "It (the acquisition) provides substantial cash

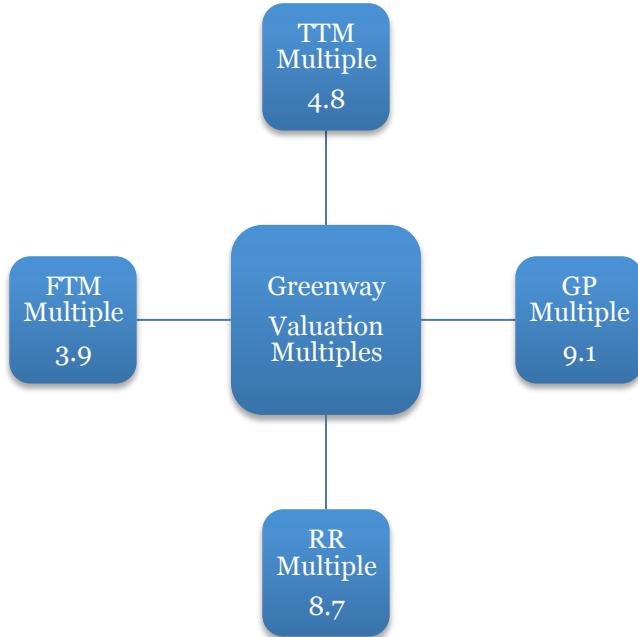
value to our stockholders, and reflects our deep commitment to drive innovation that helps healthcare professionals succeed and thrive in today's evolving healthcare landscape.”^{xxix} As a component of the strategic transaction, Vista Equity Partners merged Greenway Medical Technologies with Vitera Healthcare Solutions to form “Greenway.” As a combined entity, “Greenway” serves almost 13,000 medical organizations and 100,000 providers making it one of the largest ambulatory healthcare IT providers in the U.S.^{xx}

Transaction Value \$644M	Revenue (TTM) \$135M	Profitability Negative
Market Healthcare IT Solutions	Financial Buyer Vista Equity Partners	Growth CAGR 23%

Greenway Medical Technologies is a leading provider of integrated IT solutions for the US healthcare industry. Among the company’s product and service offerings is PrimeSUITE, an integrated application with interoperability, practice management, and electronic health record functionality.^{xxi}

Vista Equity Partners is a low volume, high value private equity firm with a portfolio of software and technology-focused companies currently valued at approximately \$13B. Vista strives to leverage their understanding of the software business model with world-class management teams to fully reach the potential of the newly acquired companies. Vista Equity Partners’ investment philosophy is to invest in strong businesses with attractive market dynamics with an ultimate goal of long-term value creation through operational optimization and best practices.^{xxii}

Valuation Multiples



Related Articles

- ✓ <http://www.modernhealthcare.com/article/20130924/NEWS/309249950>
- ✓ <http://www.reuters.com/article/2013/09/23/us-greenway-offer-idUSBRE98M17H20130923>
- ✓ <http://medicaleconomics.modernmedicine.com/medical-economics/news/ehr-companies-greenway-vitera-merge-following-acquisition?page=full>
- ✓ http://www.sec.gov/Archives/edgar/data/1080747/000118811213002704/t77369_10k.htm

IPO Analysis

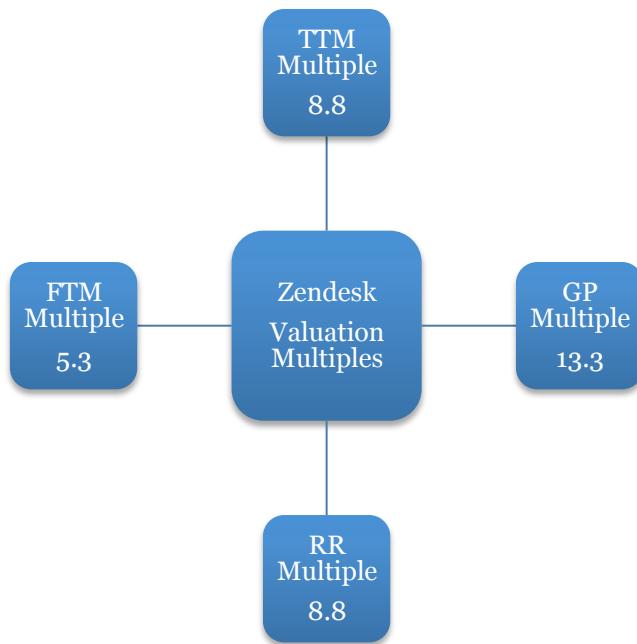


In May of 2013, Zendesk raised \$100M in an IPO of 11,111,111 shares priced at \$9 per share for a total market capitalization of approximately \$632M. At the time of the transaction, TTM revenue was estimated at \$72M yielding a valuation multiple of 8.8x TTM revenue. The primary purpose of the IPO was to increase financial flexibility and create a public market for the company's stock. The proceeds were used to fund working capital and other general expenses related to expansion of the sales organization, international expansion, and further

software development. Zendesk's underwriting banks, led by Goldman Sachs, Morgan Stanley, and Credit Suisse, had access to an additional 1.67 million shares if demand exists.^{xxiii}

Zendesk is a customer service SaaS solution that provides a cloud-based platform that includes ticketing, self-service options, and customer support functionality. In addition, Zendesk allows its users to measure customer satisfaction and customer support performance as well as track overall organizational performance to the industry benchmark. Although Zendesk was founded in Denmark in 2007, it has since relocated its headquarters to San Francisco, California and currently employs approximately 500 people with offices in the North America, Europe, and Australia.^{xxiv}

Valuation Multiples



Related Articles

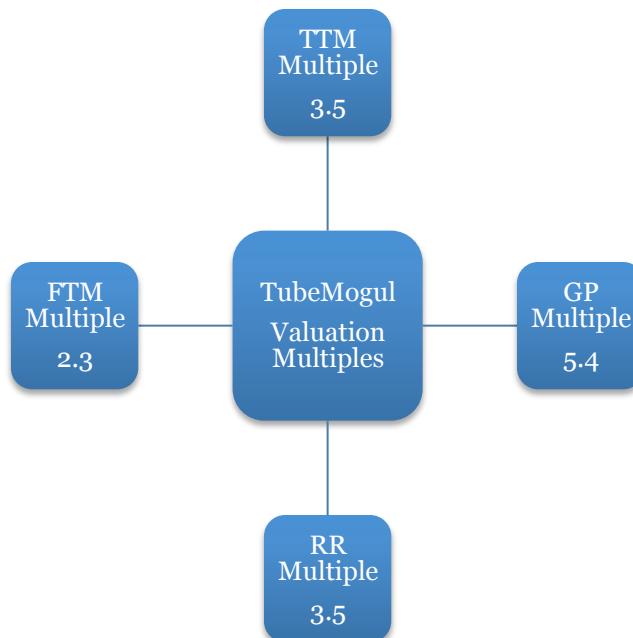
- ✓ <http://venturebeat.com/2014/05/15/zendesk-raises-100m-in-ipo-and-traders-love-it/>
- ✓ <http://www.forbes.com/sites/briansolomon/2014/05/15/the-cloud-roars-back-zendesk-pops-40-after-ipo/>
- ✓ http://www.sec.gov/Archives/edgar/data/1463172/000119312514137878/d665368ds1.htm#toc665368_11
- ✓ <http://secfilings.nasdaq.com/filingFrameset.asp?FileName=0001193125-14-201860%2Etxt&FilePath=%5C2014%5C05%5C16%5C&CoName=ZENDESK%2C+INC%2E&FormType=424B4&RcvdDate=5%2F16%2F2014&pdf>



In July of 2014, TubeMogul went public with an offering of 6.25M shares priced at \$7.00 a share for a capital raise of \$43.75M and market capitalization of approximately \$201M. At the time of the transaction, TubeMogul's estimated TTM revenue was approximately \$57M resulting in a TTM multiple of 3.5x. The purpose of the IPO was to increase the company's visibility in the marketplace, increase capitalization and financial flexibility, and create a public market for common stock. TubeMogul plans to use the proceeds for working capital, sales and marketing, and other general corporate purposes.^{xxv} More than half of the 6.25M shares offered were purchased by existing shareholders.^{xxvi}

TubeMogul is an enterprise software platform for online video advertising that utilizes real-time bidding technology to advertise using online video across multiple devices. Founded in 2006, the ad-buying company is based in Emeryville, California and has over 300 employees located in North America, Europe, Asia, and Australia. TubeMogul provides marketing solutions in over 70 countries.^{xxvii}

Valuation Multiples



Related Articles

- ✓ <http://www.bizjournals.com/sanjose/news/2014/07/17/tubemogul-ipo-raises-43-8m-after-hitting-bottom-of.html?page=all>
- ✓ <http://techcrunch.com/2014/03/26/tubemogul-files-for-75m-ipo-with-57m-in-revenue-and-a-7m-net-loss-for-2013/>
- ✓ <http://www.forbes.com/sites/alexkonrad/2014/07/18/tubemogul-ipo-jump-looks-great-but-ad-tech-struggles/?partner=yahootix>
- ✓ <http://secfilings.nasdaq.com/filingFrameset.asp?FileName=0001193125-14-272383%2Etxt&FilePath=%5C2014%5C07%5C18%5C&CoName=TUBEMOGUL+INC&FormType=424B4&RcvdDate=7%2F18%2F2014&pdf>

Capital Raise Analysis



In January 2013, SurveyMonkey acquired funding of approximately \$794M for the purpose of distributing a tender offer to allow employees and early investors the opportunity to cash out. The online polling company was able to use all of the raised capital for this purpose as its retained earnings are sufficient enough to fund operations and expansion. The capital raise consisted of both debt and equity, \$350M and \$450M respectively, resulting in a company valuation of \$1.35B with a valuation multiple of 12.0x 2013 revenue.^{xxviii} The equity portion of the capital raise was financed by Google Capital, Laurel Crown Partners, Iconiq Capital, The Social+Capital Partnership, Tiger Global Management, and SurveyMonkey CEO, Dave Goldberg, while the debt portion was financed by JPMorgan Chase & Company. Spectrum Equity, co-leader of a takeover of SurveyMonkey in 2009, planned to maintain a large stake in the recapitalization.^{xxix}

SurveyMonkey, the world's largest survey company, serves over 20M customers comprised of Fortune 500 companies, start-ups, academic institutions, sports organizations, and more.^{xxx} Since 1999, the company has been providing online polling solutions to organizations worldwide allowing users to design customized surveys and collect responses in real time. SurveyMonkey's analytical toolset converts raw respondent data into meaningful charts and graphs providing valuable insight to users. Based in Palo Alto, California, SurveyMonkey employees over 250 people in both North America and Europe.^{xxxi}

Capital Raised \$794M	Revenue (2013) \$113M	Profitability Positive
Market Online Polling	Capital Raise Structure (E/D) 56%/44%	Valuation \$1.35B

Relative articles

- ✓ <http://www.reuters.com/article/2013/01/18/us-venture-funding-surveymonkey-idUSBRE9oG1GB20130118>
- ✓ <http://firstround.com/article/how-dave-goldberg-of-surveymonkey-built-a-billion-dollar-business-and-still-gets-home-by-5-30>
- ✓ <http://dealbook.nytimes.com/2013/01/17/surveymonkey-raises-nearly-800-million-while-staying-private/>



In March of 2013, Eventbrite obtained \$60M in equity funding from Tiger Global Management and T. Rowe Price to fund its strategic goals of product development and continued geographic expansion. All of the capital raised was primary capital since Eventbrite had offered secondary opportunities to employees and early investors in a prior funding round. In regard to the company's product development and international expansion, Eventbrite planned to use the funds to finance the creation of new products for event planners as well as expand organically and inorganically in Europe, Latin America, and Asia.^{xxxii}

Eventbrite is an online ticketing solution that enables event planners to sell tickets, manage events, and publish event promotions across social media sites such as Twitter and Facebook. Eventbrite also serves consumers allowing them to find and purchase tickets to events. The company charges event coordinators \$0.99 per ticket plus 2.5% of the ticket price. No revenue

is generated for free events. The company is based in San Francisco, California and has offices in Tennessee, England, and Brazil with over 350 employees.^{xxxiii}

Capital Raised \$60M	Revenue (2013) \$960M	Profitability Negative
Market Online Ticketing	Capital Raise Structure 100% Equity	Valuation \$1B

Relevant Articles

- ✓ <http://thenextweb.com/insider/2014/01/14/eventbrite-2013-nearly-1bn-ticket-sales-2-9m-events-held-187-countries/>
- ✓ <http://venturebeat.com/2014/03/13/eventbrite-reportedly-raises-50m-at-1b-valuation/>
- ✓ <http://www.rudebaguette.com/2013/09/06/reading-into-eventbrites-first-two-acquisitions-a-shift-in-focus-towards-attendees-globally/>

Conclusion

M&A and IPO Transactions						
Company	TTM	RR	FTM	GP	Profitable	CAGR
MICROS	4.0	11.0	3.7	7.7	Y	8%
Greenway	4.8	8.7	3.9	9.1	N	23%
Zendesk	8.8	8.8	5.3	13.3	N	67%
TubeMogul	3.5	3.5	2.3	5.4	N	54%

Capital Raise Transactions				
Company	Transaction Value	2013 Revenue	Profitable	Valuation
SurveyMonkey	\$794M	\$113M	Y	\$1.35B
Eventbrite	\$60M	\$960M	N	\$1B

- Oracle as a strategic buyer paid a high multiple on Recurring Revenue. However, MICROS Systems' valuation based on TTM Revenue was not overly aggressive in comparison to other transactions, which is most likely due to its low CAGR.
- Vista Equity Partners paid higher multiples than would be expected by a financial buyer. However, the high valuation can be explained by the current attractiveness of the healthcare industry and perhaps Vista's interest to be in that space.
- Strong CAGRs allowed Greenway Medical Technologies, Zendesk, TubeMogul, and Eventbrite to earn high valuation multiples despite negative profitability.
- High CAGR, profitability, and strong Recurring Revenue led to a high valuation for SurveyMonkey.
- Strong investor confidence and favorable macroeconomic conditions have led to increased activity in M&A, IPO, and capital raises.

As software companies review this analysis to obtain a sense of their potential valuations, it should be noted that MICROS Systems, Greenway Medical Technologies, Zendesk, and TubeMogul were public companies. Public software companies in most cases command a higher valuation when compared to private companies. The various valuation methods and multiples have been used as benchmarks along with company historical growth rate, profitability level, size, market niche and mix of revenue (recurring versus non-recurring). In addition, the companies evaluated have been highly successful in their respective markets. The valuations for these companies can be used as guidelines; however, every company's valuation differs based on overall market factors.

Contributors

Paul Plaia III
Partner
E: paulplaia@silvercloudpartners.com

Paul Plaia Jr.
Partner
E: pplaia2@silvercloudpartners.com

James Barrett
Partner
E: jbarrett@silvercloudpartners.com

Nathan Vessels
Analyst
E: nathan@silvercloudpartners.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014, SilverCloud Partners a Georgia LLC. All rights reserved.

Publication name: SOFTWARE CEO GUIDE:

Publication number: 09182014

Publication date: September 2014

Endnotes

-
- ⁱ <http://www.bloomberg.com/news/2013-11-04/best-stock-market-since-1997-seen-with-s-p-500-year-end-momentum.html>
 - ⁱⁱ <http://www.forbes.com/sites/jeffgolman/2014/01/13/6-reasons-2014-will-be-a-strong-year-for-ma-activity/>
 - ⁱⁱⁱ <http://www.kpmg.com/us/en/issuesandinsights/articlespublications/press-releases/pages/strong-ma-market-expected-in-2014.aspx>
 - ^{iv} <http://blogs.wsj.com/venturecapital/2014/07/31/the-daily-startup-vcs-on-pace-to-break-late-stage-record/>
 - ^v <http://www.pwc.com/gx/en/technology/publications/assets/ipo-review-q2-2014.pdf>
 - ^{vi} <http://www.pwc.com/gx/en/technology/publications/assets/ipo-review-q2-2014.pdf>
 - ^{vii} <http://www.pwc.com/gx/en/technology/publications/assets/ipo-review-q2-2014.pdf>
 - ^{viii} <http://venturebeat.com/2014/08/07/tech-ma-ipos-were-up-considerably-in-the-second-quarter/>
 - ^{ix} <http://www.kpmgsurvey-ma.com/>
 - ^x <http://www.oracle.com/us/corporate/press/2225227>
 - ^{xi} <http://www.businessinsider.com/oracle-is-working-on-a-huge-acquisition-2014-6>
 - ^{xii} <http://www.micros.com/content/OraclePR.pdf>
 - ^{xiii} <http://www.micros.com/content/OraclePR.pdf>
 - ^{xiv} <http://www.bizjournals.com/baltimore/news/2014/06/23/oracle-to-acquire-micros-systems-for-5-3-billion.html>
 - ^{xv} <http://www.micros.com/Company/OurCustomers/>
 - ^{xvi} <http://www.businessinsider.com/oracle-is-working-on-a-huge-acquisition-2014-6>
 - ^{xvii} <http://www.bloomberg.com/news/2014-06-17/oracle-said-to-near-deal-to-buy-micros-systems.html>
 - ^{xviii} <http://www.modernhealthcare.com/article/20130924/NEWS/309249950>
 - ^{xix} <http://www.modernhealthcare.com/article/20130924/NEWS/309249950>
 - ^{xx} <http://www.modernhealthcare.com/article/20130924/NEWS/309249950>
 - ^{xxi} <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=166314>
 - ^{xxii} <http://www.vistaequitypartners.com/>
 - ^{xxiii} http://www.mercurynews.com/business/ci_25763611/zendesk-prices-ipo-at-9-share-brings-100
 - ^{xxiv} <http://en.wikipedia.org/wiki/Zendesk>
 - ^{xxv} <http://www.nasdaq.com/markets/ipos/company/tubemogul-inc-791479-74986>
 - ^{xxvi} <http://www.bizjournals.com/sanjose/news/2014/07/17/tubemogul-ipo-raises-43-8m-after-hitting-bottom-of.html?page=all>
 - ^{xxvii} <http://en.wikipedia.org/wiki/TubeMogul>
 - ^{xxviii} <http://www.reuters.com/article/2013/01/18/us-venture-funding-surveymonkey-idUSBRE90G1GB20130118>
 - ^{xxix} http://dealbook.nytimes.com/2013/01/17/surveymonkey-raises-nearly-800-million-while-staying-private/?_php=true&_type=blogs&_php=true&_type=blogs&_r=1
 - ^{xxx} <https://www.clearslide.com/customers/casestudies/surveymonkey>
 - ^{xxxi} <http://en.wikipedia.org/wiki/Surveymonkey>
 - ^{xxxi} <http://fortune.com/2014/03/13/exclusive-eventbrite-joins-1-billion-club/>
 - ^{xxxiii} <http://en.wikipedia.org/wiki/Eventbrite>