SOFTWARE SECTOR UPDATE Q1-2025

M&A and Capital Markets Environment – Global/Germany

May 2025

Vorschau

BDO GERMANY | TECH/SOFTWARE M&A

BDO software sector coverage

Our software sector update provides an overview of current developments and trends in software M&A and capital markets

Our segmentation of the software company universe

Horizontal Software (n = 43)	Vertical Software (n = 34)	Infrastructure Software (n = 41)
HCM	PLM & CAE	Data Mgmt/Analytics
Communication & Collaboration	Med-Tech/ Healthcare	Devplat/Devops
Sales & Marketing	Real Estate & Construction	Cybersecurity
Supply Chain	Financial Services	IT Operations Management
Business Process Management	etc.	Platforms

SaaS (n = 84)

Non-SaaS (n = 34)

BDO's periodic software sector updates cover 118 **publicly traded software companies.** These are categorized

- **By type of software (= SW):**
  - Horizontal
  - Vertical
  - Infrastructure
- **By revenue model:**
  - SaaS: >70% of revenues generated from SaaS, i.e. subscription-based*
  - Non-SaaS: software companies with >30% share of one-time/non-recurring revenues, e.g. perpetual license, consulting/customization/ professional services

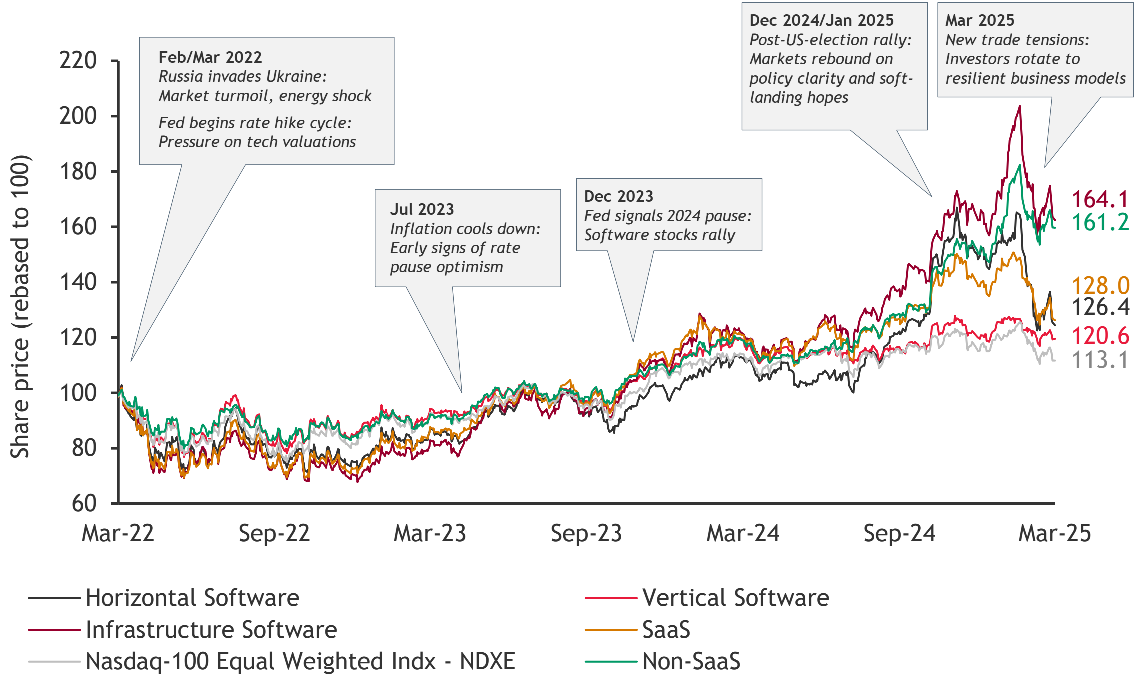
Notes: HCM = Human capital management; PLM & CAE = Product-lifecycle management & computer aided engineering
* In this report companies are classified as SaaS, if more than 70% of revenues in the last reported financial year were generated through software subscriptions

Market sentiment & KPIs

Recent software sector share price performance

Macroeconomic headwinds trigger sector-wide pullback: share price performance of Non-SaaS business models appears to be more resilient in the current market environment, e.g. interest rate uncertainty and global trade tensions

Share price performance over time by selected software subsectors



	Change (%)		
Segment	3-year	1-year	3-months
Horizontal SW	26.4%	10.6%	-16.1%
Vertical SW	20.6%	0.6%	-0.4%
Infrastructure SW	64.1%	34.1%	0.1%
Nasdaq-100 Index*	13.1%	-2.0%	-3.0%
SaaS	28.0%	4.6%	-8.9%
Non-SaaS	61.2%	34.5%	6.0%

Comments

- **Recent volatility reflects investor caution amid renewed tariff tensions and geopolitical uncertainty**, weighing on globally exposed SaaS and vertical software providers.
- **Stocks of Non-SaaS business models and Infrastructure SW outperformed over last 12 months and last 3 years**, reflecting investor preference for cash-generative, resilient business models and lower exposure to consumer-driven end markets.

Notes: * NASDAQ-100 Equal-weight Index
Market data as of 31st March 2025; sector constituents limited to top 20 companies by market capitalization;
Sources: CapitalIQ, Equity Research, BDO analysis

Software M&A sentiment & KPIs Q1-2025

Global software M&A deal value >8% in Q1-2025 vs. Q1-2024 driven by few mega deals* — German software M&A remains active, with private equity accounting for 41% of all deals with German targets

M&A sentiment — the big picture

Global

No. of deals	**1,528** in Q1-2025 1,670 in Q1-2024
Deal value	**EUR 186bn** in Q1-2025 EUR 172bn in Q1-2024
EV/Sales (x) (median-based)	**3.0x** in LTM Q1-2025 2.1x in LTM Q1-2024

Germany

No. of deals with German targets	**63** in Q1-2025 69 in Q1-2024
Private Equity involvement	**41%** in Q1-2025 (GER) 47% in Q1-2025 (global)

Implied software sector trading multiples & operating statistics (median-based)

Sector	EV/Sales 2025E	EV/EBITDA 2025E	Sales growth 2025E	EBITDA margin 2025E
Horizontal Software	5.0x	19.1x	9.3%	31.1%
Vertical Software	6.7x	18.2x	9.1%	29.9%
Infrastructure Software	6.7x	19.7x	13.7%	25.4%
SaaS	6.2x	18.2x	11.0%	27.9%
Non-SaaS	4.7x	17.1x	6.2%	34.1%

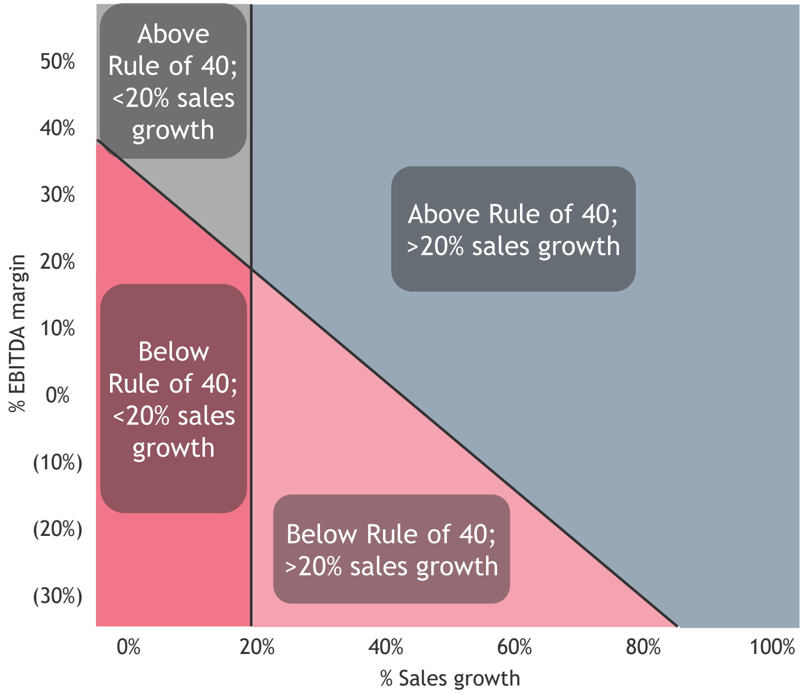
Notes: * e.g. Google's acquisition of Wiz (USD 33bn); SoftBank's investment in OpenAI (USD 30bn);
Transaction data as of 22 May 2025; M&A sentiment transaction volume based on deals with disclosed figures; EV = Enterprise value (median-based)
Sources: CapitalIQ, Mergermarket, BDO analysis

The ‘Rule of 40’

The ‘Rule of 40’ as a key (value creation) metric for software companies

Indicating the balance between growth and profitability, the ‘Rule of 40’ helps software entrepreneurs/management teams to enhance strategic decision-making as well as investors to assess the attractiveness of a software business

The ‘Rule of 40’ matrix



The ‘Rule of 40’ concept

- The ‘Rule of 40’ began to be popularized by venture capitalists in 2015 as a high-level health check to quickly assess the performance of (earlier stage) SaaS companies.
- Over the last decade, it has become a widely accepted metric to gauge the performance and assess the attractiveness of software companies more broadly as it neatly captures the fundamental trade-offs of balancing growth and profitability.

How is it calculated?

- Combines a software company’s growth rate and profit margin, i.e. % sales growth rate + % profit margin, into a single metric
- While there are some differing views on which measure of profitability to use (e.g. free cash flow, EBIT or net income), it is most common to use EBITDA margins as profitability metric.

Why does it matter?

- Meeting or beating the ‘Rule of 40’ indicates a strong company performance (‘a healthy software business’). SW companies consistently outperforming the ‘Rule of 40’ are viewed as esp. attractive investment opportunities by investors and are typically rewarded with higher valuation multiples.
- It also helps entrepreneurs/executives measure (and manage) the trade-offs between investing in growth (incl. new products/SW development, customer acquisition) and short-/long-term profitability – thereby adding financial discipline to strategic/budget decision-making processes.

Sources: Web Search/Industry Reports; BDO experience

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