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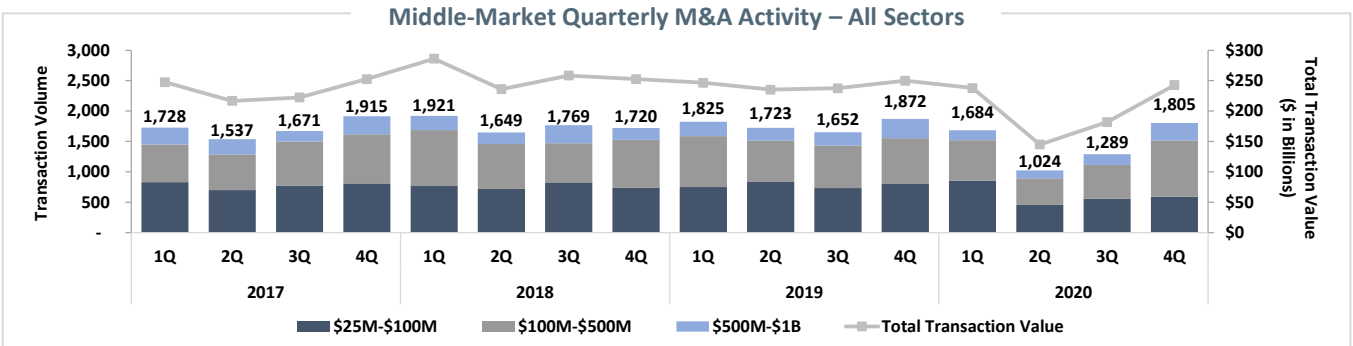
**ENTERPRISE SOFTWARE
SECTOR UPDATE
4Q20**

February 2021

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4Q20 M&A Update & Outlook

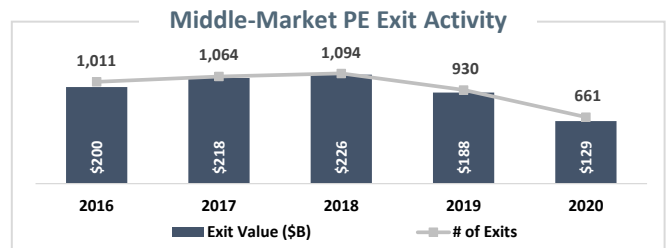
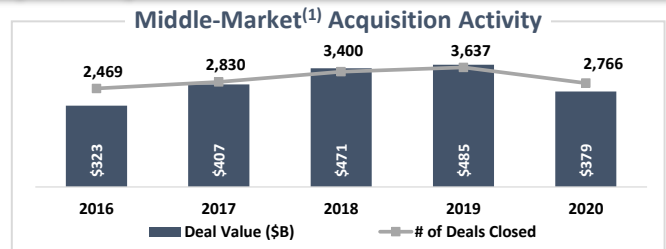
Despite a turbulent first half of the year, U.S. deal-making was able to fend off complete collapse in 2020 with M&A activity accelerating through 3Q20 and finishing the year on a high note. Sponsors initially focused on helping portfolio companies weather the storm but turned their attention back to add-on and eventually new platform investments in the second half of the year, buoyed by the Federal Reserve's historic support and improving credit conditions. Technology and healthcare remain favored sectors for private equity ("PE") investment, particularly companies utilizing a SAAS business model. BCA expects continued momentum in the M&A markets in 2021.



Source: Pitchbook.

Private Equity Activity

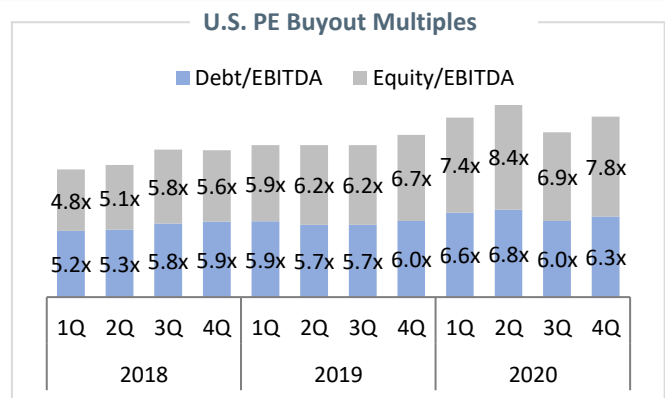
- U.S. PE funds invested ~\$380 billion across ~2,800 middle-market deals in 2020. This is a promising result after a complete free fall in deal-making activity during 2Q20.
- 2020 middle-market exit activity was approximately 30%+ lower than 2019. This is partially due to PE firms' ability to delay exits until more favorable market conditions return.
- PE funds invested in a greater proportion of less risky add-on opportunities in 2020, which resulted in a median deal size of \$150+ million, the lowest since 2016. This trend had already started prior to the pandemic, as PE investors looked for accretive ways to put money to work given high valuation multiples garnered by stand-alone platforms.
- Despite continuing uncertainty around COVID-19, PE funds continue to have ample dry powder to put to work, especially for high-quality assets that have successfully managed through the pandemic.



Source: Pitchbook. (1) Middle-market includes deal values of \$25M - \$1B.

Debt & Leveraged Loan Market

- The leverage loan market has recovered from the stress of 2Q20-3Q20 and remains open and favorable for high-quality borrowers, further supporting M&A activity.
- Leverage multiples have not rebounded to the pre-COVID-19 levels, but access to capital does exist especially for companies isolated from the impact of COVID-19 that have highly recurring business models.
- Lenders have become more conservative in stringently evaluating EBITDA add-backs, as aggressive adjustments have not always come to fruition.
- BCA believes high-quality borrowers and PE funds will continue to have ample access to debt capital albeit at lower leverage multiples.



Sources: Pitchbook; Fitch Ratings 2021 Outlook.

BCA Market Commentary

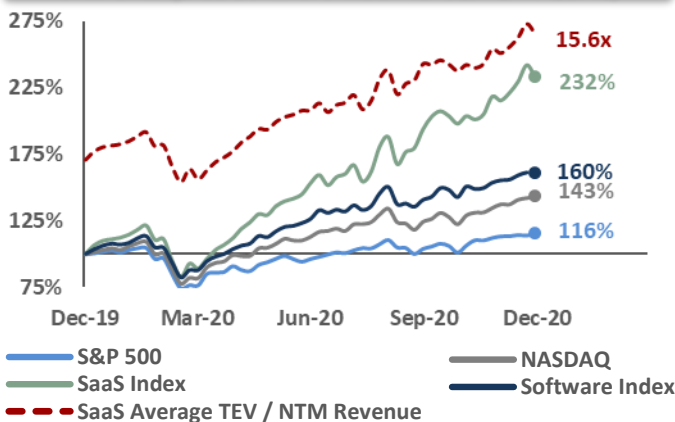
- Record levels of investor dry powder, strong balance sheets and elevated stock valuations combined with the return of postponed deals drove a historically busy 4Q20 for software—M&A deal count and value were up 24% and 130% YoY, respectively. Software M&A dollar value for 2020 was up 46% over 2019.
- The number of >\$1b+ software M&A and financing deals grew to multi-year highs during 4Q20, driven by (i) strategic acquisitions such as Slack (Salesforce), Segment (Twilio), Workfront (Adobe) and Llamasoft (Coupa) and (ii) PE platform deals such as RealPage (Thoma Bravo), Pluralsight (Vista) and Planview (TA+TPG).
- Continued robust software deal activity has highlighted (i) numerous secular growth tailwinds that have been accelerated by the pandemic, (ii) software's inherently scalable and durable business models and (iii) software's mission-critical importance to businesses' day-to-day operations.
- While the software sector is performing well with Wall Street's median NTM growth forecast 23.5%, the average software NTM revenue multiple at year-end was at an all-time high of ~12.5x—almost 2x the 5-year average—and investors are paying huge premiums for growth—average SAAS TEV/CY22 rev/growth is 2.4x the 5-year average.
- Software sectors where we are seeing significant activity include HR Tech, GRC, Vertical Market SAAS and Function/Vertical-specific Analytics Platforms.

Sources: Pitchbook, Thomas Reuters and Wall Street Research.

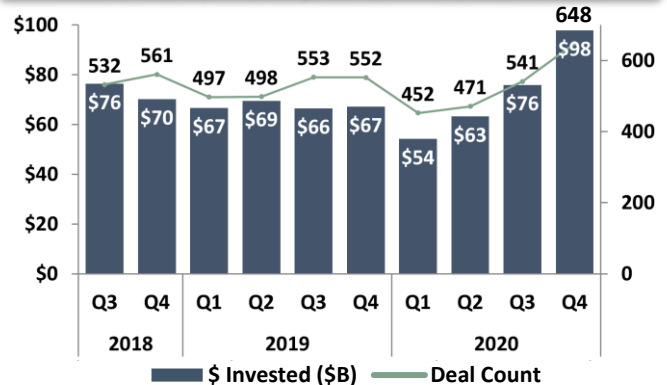
Select M&A Transactions

Date	Target	Acquiror	Target Business Description	TEV (\$M)	TEV/LTM	TEV/NTM	% Revenue
					Revenue	Growth	
12/22/20	Sparta Systems	Honeywell	Enterprise quality management software.	\$1,300	N/A	10.4x	N/A
12/21/20	RealPage	Thoma Bravo	Rental housing industry software.	\$10,200	9.1x	8.2x	11.7%
12/13/20	Pluralsight	Vista Equity Partners	Cloud-based technology learning platform.	\$3,500	9.3x	8.2x	14.2%
12/1/20	Slack	Salesforce	Real-time messaging communication platform.	\$27,700	33.2x	25.9x	28.1%
11/30/20	Gainsight	Vista Equity Partners	Customer experience and analytics software.	\$1,100	11.0x	N/A	N/A
11/10/20	PlanView	TPG, TA Associates	Resource-based project management software.	\$1,600	5.9x	5.6x	5.0%
11/2/20	Llamasoft	Coupa	Supply chain analytics and planning platform.	\$1,500	15.0x	11.5x	30.0%
10/22/20	Information Builders	TIBCO Software	Business intelligence and integration software.	\$1,000	3.2x	N/A	N/A
10/21/20	SmartBear	Vista Equity Partners	Software testing and development tools.	\$1,700	11.3x	N/A	N/A
10/13/20	SkillSoft	Churchill Capital Corp II	Learning management system and content.	\$1,500	2.3x	2.3x	0.0%
10/12/20	Segment	Twilio	Customer data and analytics management.	\$3,200	21.3x	N/A	~50.0%

LTM Enterprise Software Index vs. S&P & NASDAQ



Middle-Market⁽¹⁾ Enterprise Software M&A Trends



(1) Middle-market includes deal values of \$25M - \$1B.

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