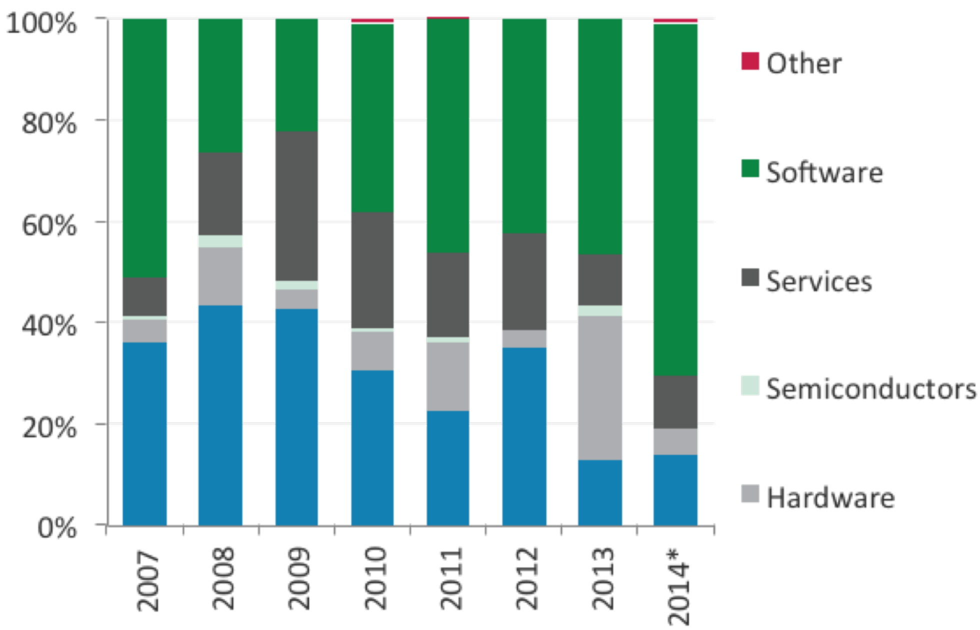
The Pulse of Private Equity – 11/10/2014

PitchBook | November 12, 2014

Software Deal Valuations are Soaring

The software sector commands an outsized share of PE dollars. About 70% of all 1Q-3Q capital invested in U.S.-based IT companies went to software, the highest percentage on record. $33.3 billion has been invested this year through the third quarter, which puts 2014 on pace to almost match the $46 billion invested in software last year, which included the $6.9 billion BMC software deal. Not many deals in the sector have been above $1 billion this year, which means the big majority of value is going to the middle market.



One of the reasons capital levels are so high today are because of soaring valuations; software companies are going as high as 13x to 15x. The industry has quite a bit of predictability built into it, especially due to high amount of recurring revenue, which is attractive to PE (and strategic) buyers. Software companies looking to cash out consider the PE route more attractive than the IPO route, which is why we see so few software companies go public. Going public and selling to PE or strategic buyers can yield some high numbers, say a 20x multiple on earnings. But the PE option wins out more often because it doesn’t come with the headaches of transitioning to a public company.

The other aspect, of course, is the amount of debt PE buyers can utilize to compete for software companies. As long as credit remains cheap, the debt market is going to remain the primary driver for PE firms and their ability to stretch their bids and buy pricy software providers.

Download [4Q 2014 U.S. Private Equity Breakdown Report]

Contact: Adley Bowden
adley.bowden@pitchbook.com