

SOFTWARE SECTOR UPDATE Q2-2025

M&A and Capital Markets Environment – Global/Germany

September 2025

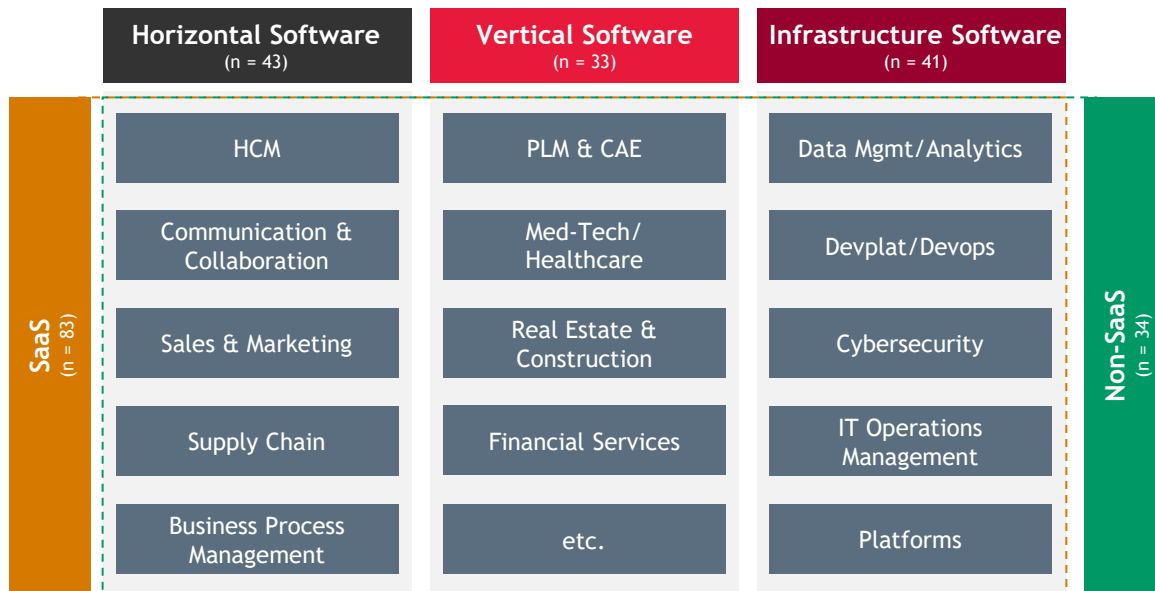
Vorschau

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



BDO's periodic software sector updates cover recent and historical M&A activities in the sector as well as 117 **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

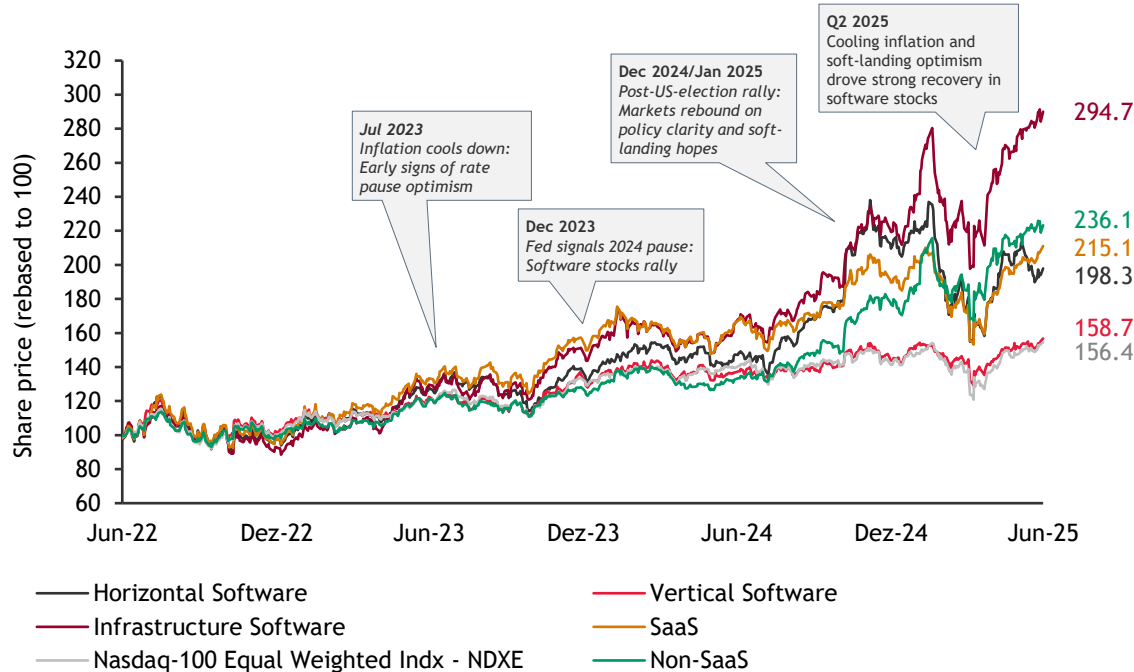
Market sentiment & KPIs



Software sector share price performance (1/2)

Infrastructure software stocks have outperformed peers over the past three years, fueled by their role as key enablers of AI and secure cloud growth

3-year share price performance over time by selected software subsectors (indexed)



Segment	Change (%)		
	3-year	1-year	3-months
Horizontal SW	98.3%	34.6%	10.4%
Vertical SW	58.7%	13.7%	9.2%
Infrastructure SW	194.7%	72.6%	30.5%
Nasdaq-100 Index*	56.4%	10.0%	12.8%
SaaS	115.1%	26.3%	21.2%
Non-SaaS	136.1%	73.3%	19.8%


Software M&A sentiment & KPIs Q2-2025

Global software M&A remained strong in Q2-2025 with EUR 174bn in deal value (-3% YoY), though deal volume softened to 1,510 transactions (-21% YoY). Public markets reward infrastructure software with premium multiples

M&A sentiment – the big picture


Global

 **No. of deals** **1,510** in Q2-2025
1,920 in Q2-2024

 **Deal value** **EUR 174bn** in Q2-2025
EUR 178bn in Q2-2024

 **EV/Sales (x)** **3.0x** in LTM Q2-2025
(median-based) 2.6x in LTM Q2-2024

Germany

 **No. of deals with German targets** **45** in Q2-2025
77 in Q2-2024

 **Private Equity involvement** **44%** in Q2-2025 (GER)
51% in Q2-2025 (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	15.4x	8.6%	30.8%
Vertical Software	6.3x	19.0x	9.1%	29.8%
Infrastructure Software	6.6x	22.2x	14.0%	25.1%
SaaS	6.3x	19.0x	10.6%	26.4%
Non-SaaS	5.2x	17.2x	6.0%	34.1%

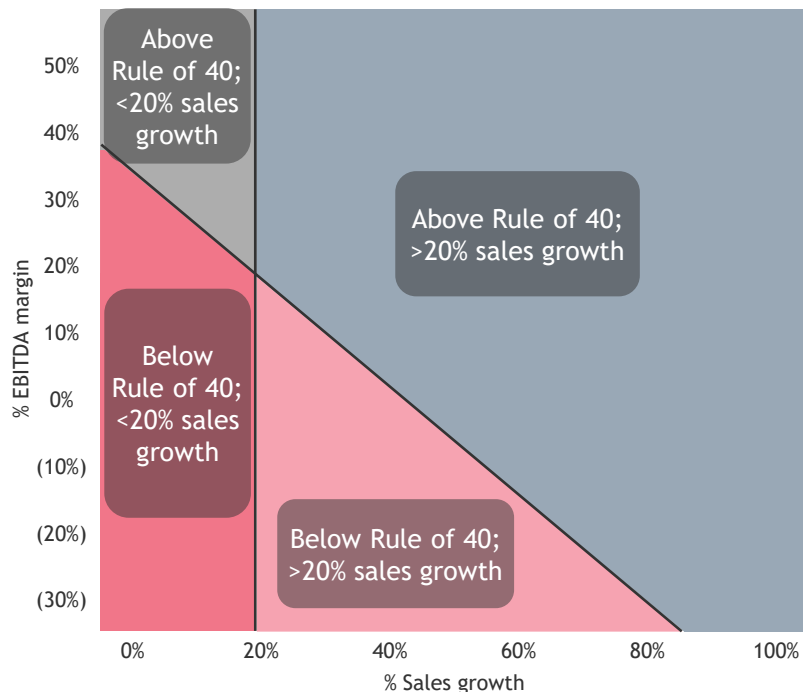
The 'Rule of 40'



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.

Key contacts in BDO Germany's Tech/Software M&A team



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