Predicting the year ahead

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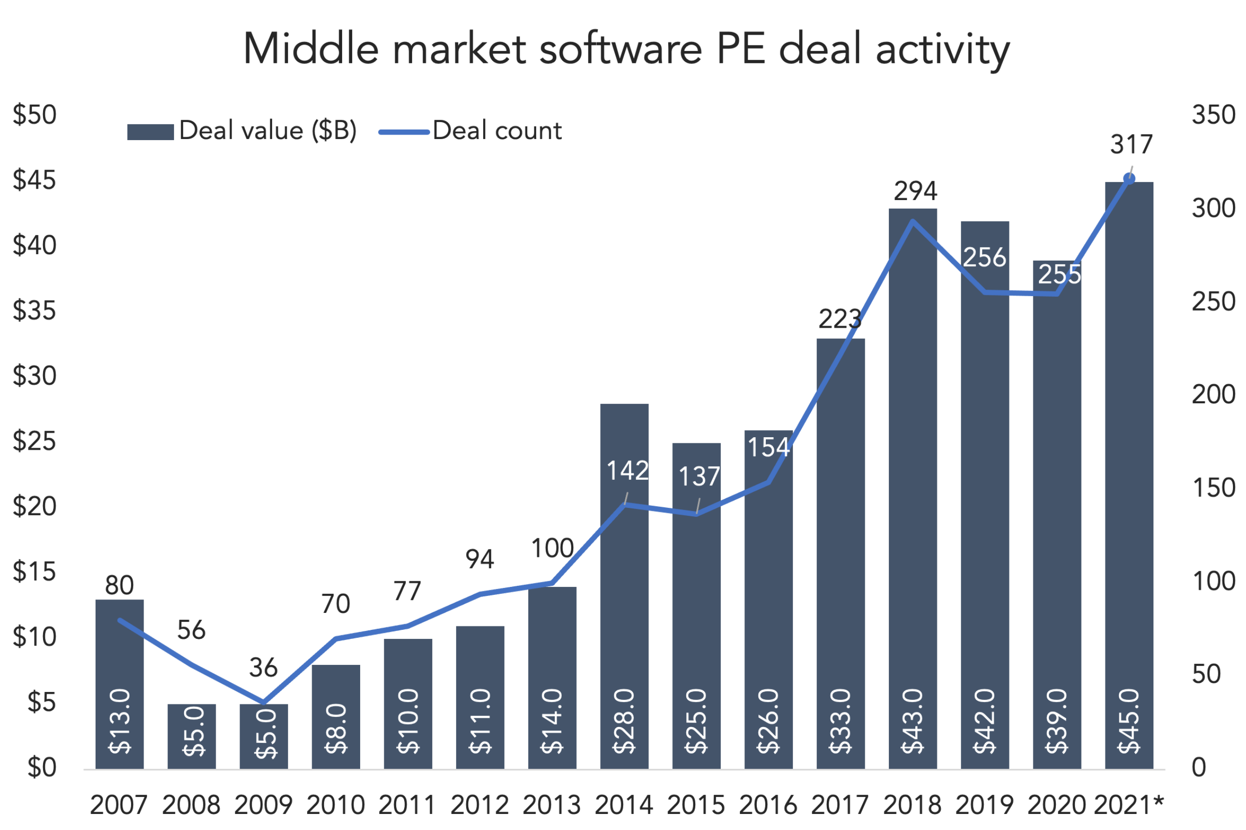

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Every year, PitchBook gets into the prediction game. This year's US Private Equity Outlook has 7 predictions, including an intriguing one for middle market software investment. 2021 set records for PE software activity – 317 deals totaling $45 billion in aggregate value. For 2022, we're predicting 400 software deals in the middle market, which would be a 26% increase over last year's record.

PE's foray into software has been well-documented, but the topic is often framed at the high end of the market. The ripple effects of COVID have contributed to that – when Salesforce acquired Slack last July, for example, Slack CEO Stewart Butterfield called the deal a "once-in-a-generation opportunity to rethink and reshape how and where we work." Similar dynamics will trickle down to the middle market, as pandemic-accelerated trends like e-commerce and remote working will re-emphasize the need of adding more and more tech capabilities. In the middle market, investors are also keen on cloud systems, data integration, and platforms that can optimize business processes.

400 deals would be a big increase, but percentage-wise, we've seen bigger YoY increases before, including in 2017 and 2018. Software activity is often heavily influenced by public market comparables, and a drop in stock prices could chill the private market. An opposing caveat, though, is that software EBITDA multiples remain elevated, pushing successful but midsized companies into the $1 billion range. PitchBook's methodology cuts off the middle market at that size, so some of the most ambitious middle market deals would be disqualified from our prediction.

(Past performance is no guarantee of future results.)