Equiteq

THE SAAS / SOFTWARE GLOBAL M&A REPORT 2020

Market trends and key transactional insights for owners of knowledge-intensive services and software businesses

Management consulting

Technology services

Marketing, communications and information services

Engineering consulting & services

Human capital management

SaaS / Software

FOREWORD

David Jorgenson
CEO Equiteq

Equiteq is delighted to present the results of our thirteenth annual review of M&A and equity market trends across the enterprise software industry.

In 2019, enterprise software deal count rose, but there was a dip in capital invested in the industry. M&A drivers include rising sophistication of clients' digital demands, soaring stock prices and strong levels of capital available for new deals. There was a particular rise in demand from private equity for larger acquisitions. Regionally we noted growth in M&A activity in North America, rising deal count in Europe, as well as an uplift in capital invested in the Asia Pacific and Australia & NZ. The year was marked by a range of mega deals from strategic buyers like Salesforce and major private equity investors like KKR.

The Equiteq Enterprise Software Share Price Index outperformed broader equity market indices. Entering the new decade, we are experiencing new stock market turmoil, but also continue to observe strong levels of dry powder among buyers. Solid levels of capital available for M&A is coupled with scarce acquisition opportunities in hot areas of the market. This is maintaining some pressure on strategic and financial buyers to put their cash to work on new disruptive acquisitions.

We are observing many listed strategic software buyers broadening their scope to acquire new capabilities or gain access to new markets. This is part of a shift over the last four years from a historic focus on building scale in existing competencies. Artificial intelligence, cloud and data analytics remained common themes across scope deals.

Despite recent market volatility, buyers are pushing forward with their acquisition strategy. The outlook for the remainder of 2020 is expected to be more uncertain than the prior year. Nevertheless, there remains an unparalleled opportunity for pioneering business owners and entrepreneurs to create value, and make profitable exits within the disruption zone of the industry. We hope that this latest edition of The Enterprise Software Global M&A Report gives you a taste of Equiteq's deep insights into deal activity within this space.

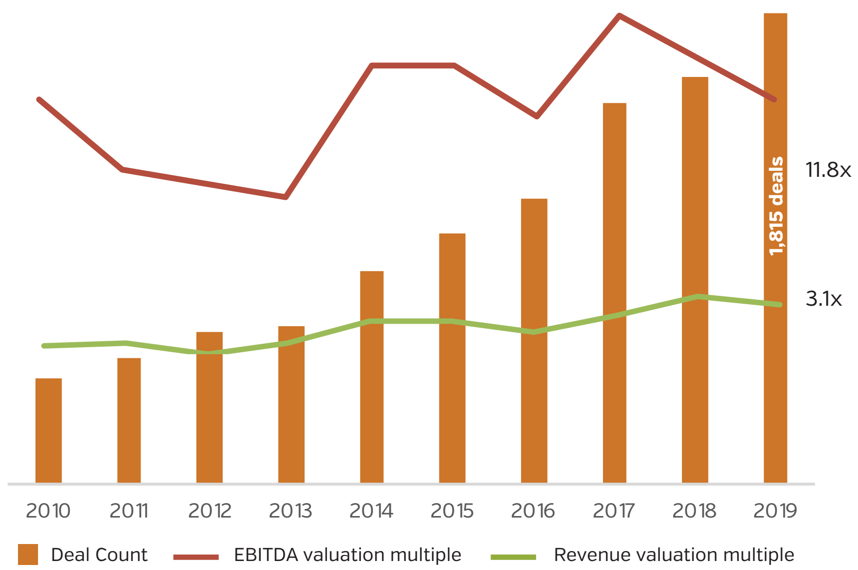
If you would like to have a chat about your current sale journey as a business owner or acquisition strategy as an acquirer, please get in touch.

SEGMENT REVIEWS

SAAS / SOFTWARE

KEY FINDINGS

Deal count rose strongly to a ten-year high, but capital invested and valuation metrics dipped.



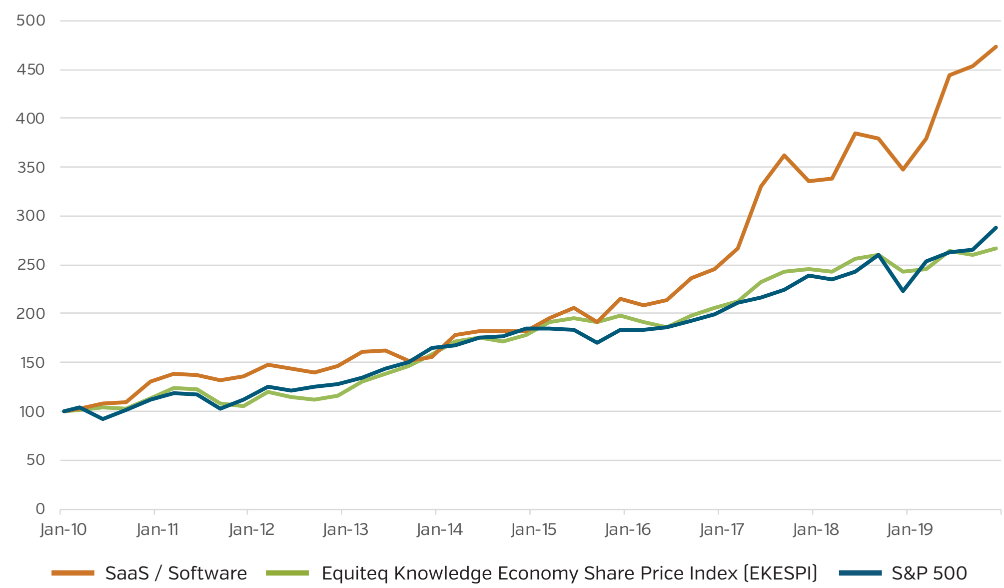
12% Deal count 2019 vs. 2018

11% Capital invested 2019 vs. 2018

39% of deal count by private equity

43% of capital invested by private equity

The Equiteq SaaS / Software Share Price Index (ESSSPI) rose strongly, outperforming broader equity market indices.



37% **ESSSPI** return 2019

37% **ESSSPI** average return 10 years

26% **EKESPI** return 2019

17% **EKESPI** average return 10 years

KEY TRENDS

Strategic buyers expand software product scope.

Strategic software buyers are broadening their scope to acquire new capabilities or gain access to new markets. This is part of a shift over the last four years from a historic focus on building scale in existing competencies. This trend is being driven by customers that are looking to software providers to offer them a complete set of digital transformation solutions. Artificial intelligence, cloud and data analytics remained common themes across scope deals.

Private equity increased appetite for large software deals.

There was a notable increase in private equity buyer activity. Private equity deals accounted for 39% of deal count in 2019, up from 36% in 2018. Capital invested by private equity rose to 43% in 2019, from only 16% in 2018. This uplift reflected a particular increase in financial buyer participation on larger deals.

Private equity are successfully gearing the recurring revenues of many software firms, which has enabled them to pay premium prices and compete with strategic buyers for quality assets in high-growth segments. Financial buyers have significant capital available for new deals and are looking to deploy it in high growth industries. Notable deals included KKR's purchase of MYOB Technology and Exact Software.

Mega deals from prolific strategic buyers benefiting from soaring stock prices and robust cash balances.

The Equiteq SaaS Software Share Price Index rose 37% over 2019. The total capital raised by investors in SaaS / Software companies rose to a ten-year high. These trends are driving strong demand among prolific listed strategic buyers for new mega acquisitions in hot spaces of the market.

Such milestone deals included Salesforce's largest acquisition to date of data visualization business Tableau for over $15bn in stock, Workday's acquisition of procurement and software business Scout RFP for $540m and BlackBerry's purchase of cyber security firm Cylance for $1.4bn.

Outlook

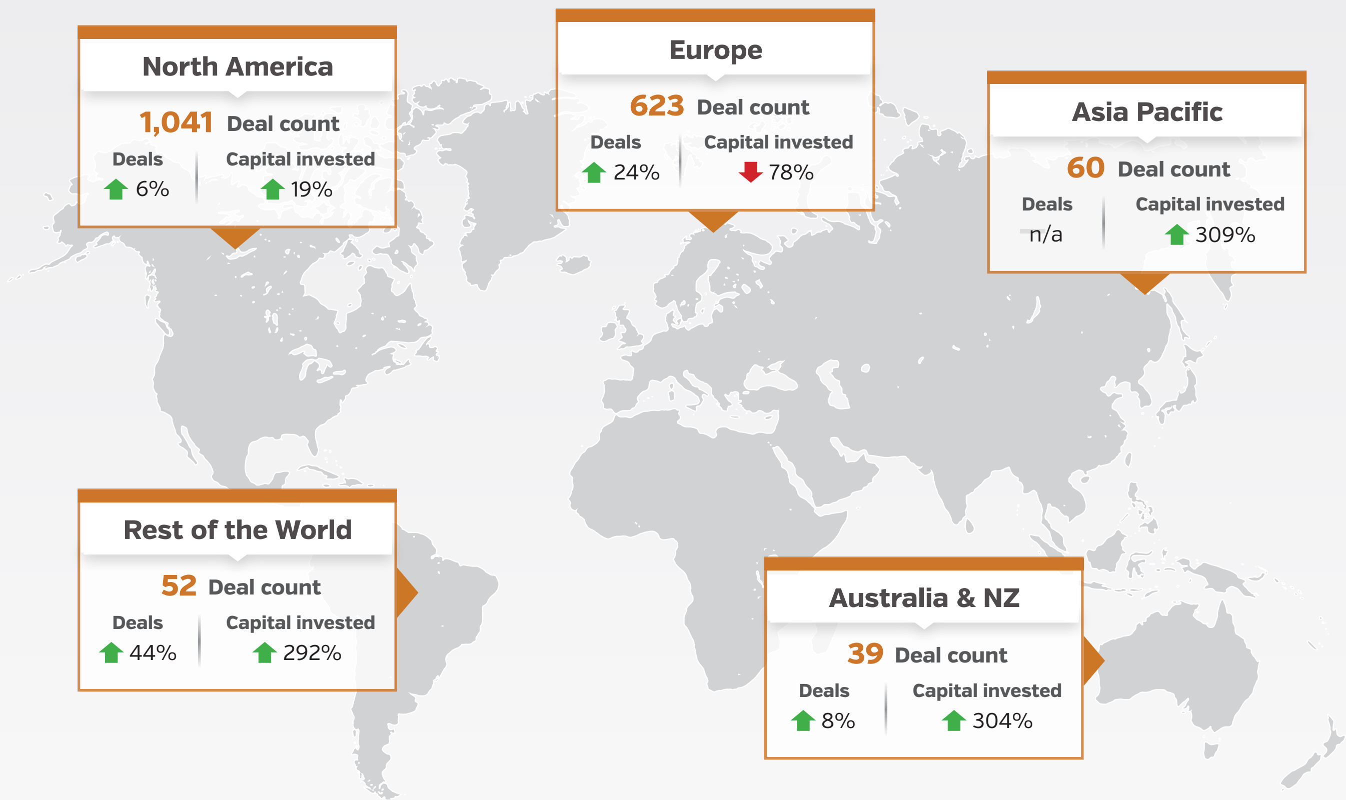
The need for consistent innovation through the Fourth Industrial Revolution will drive the growth in investment in the latest applications and specialized software solutions. We expect strong expansion in solutions embedded with the latest prescriptive analytics tools and immersive technologies. Private equity will remain an important buyer group, both for large platform investments and with respect to bolting on to existing investments in the space.

REGIONAL REVIEW

Growth in M&A activity in North America, rising deal count in Europe, as well as an uplift in capital invested in the Asia Pacific and Australia & NZ.

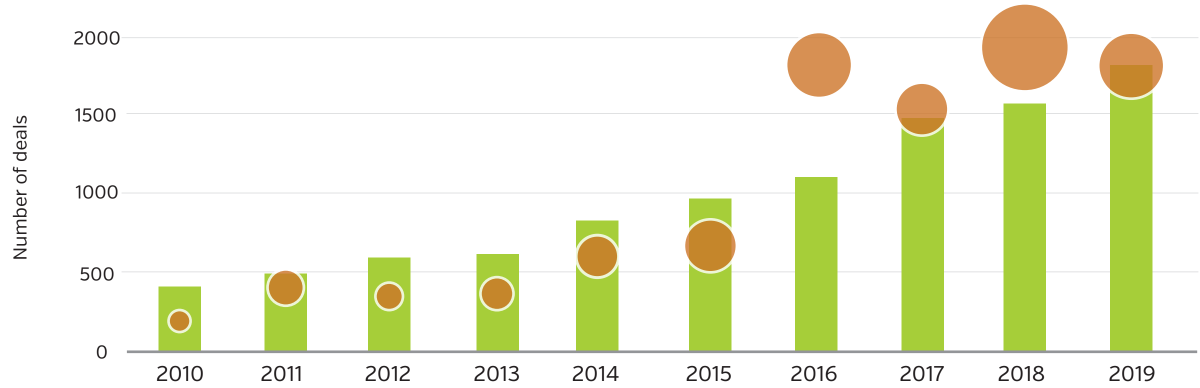
High-profile cross-border acquisitions across the knowledge economy are common and enable foreign buyers to penetrate new markets, gain new clients and grow revenues with existing global accounts. See **Consideration 4** in the back for our perspectives on incorporating international buyers into your sale process.

Figure 1 Regional M&A and cross-border review



The proportion of M&A that was cross-border in nature accounted for 35% of all deals in 2019 (versus 33% in 2018)

Figure 2 SaaS / Software M&A activity, annually (2010 to 2019)



Note: Bubble size reflects comparative average deal size for the respective year.

The optimum size of a transaction will vary among buyers and the specific opportunity that they are considering. See **Consideration 1** in the back of the report for our perspectives on the relationship between business size and acquisition appetite.

In addition to running a competitive well-negotiated sale process, there are plenty of steps that owners can take to reduce risk in the eyes of a buyer which can make a material difference to their target deal structures. See **Consideration 2** in the back for our perspectives on the factors that influence deal structures.

INDUSTRY TRENDS

Areas of industry convergence

Customer Experience

Advanced building information modeling and predictive engineering analytics

Hot spaces

- **Artificial intelligence**
- **Extended reality**
- **Internet of things**
- **Web applications**
- **Blockchain**
- **Cybersecurity**

Buyers in adjacent industries may be willing to pay a strategic premium for an acquisition that enables expansion into a new space. See **Consideration 3** in the back for our perspectives on how to consider buyers across adjacent industries.

OVERVIEW OF EQUITY MARKET PERFORMANCE

The Equiteq SaaS Software Share Price Index outperformed broader equity market indices.

Figure 3 Equiteq SaaS Software Share Price Index (2019)

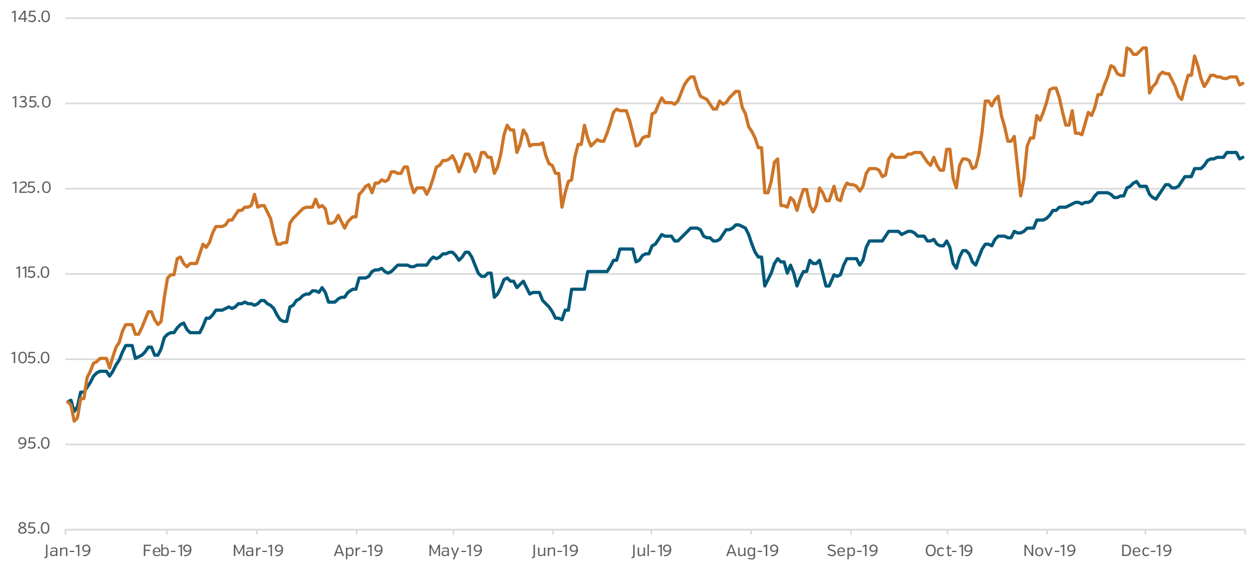
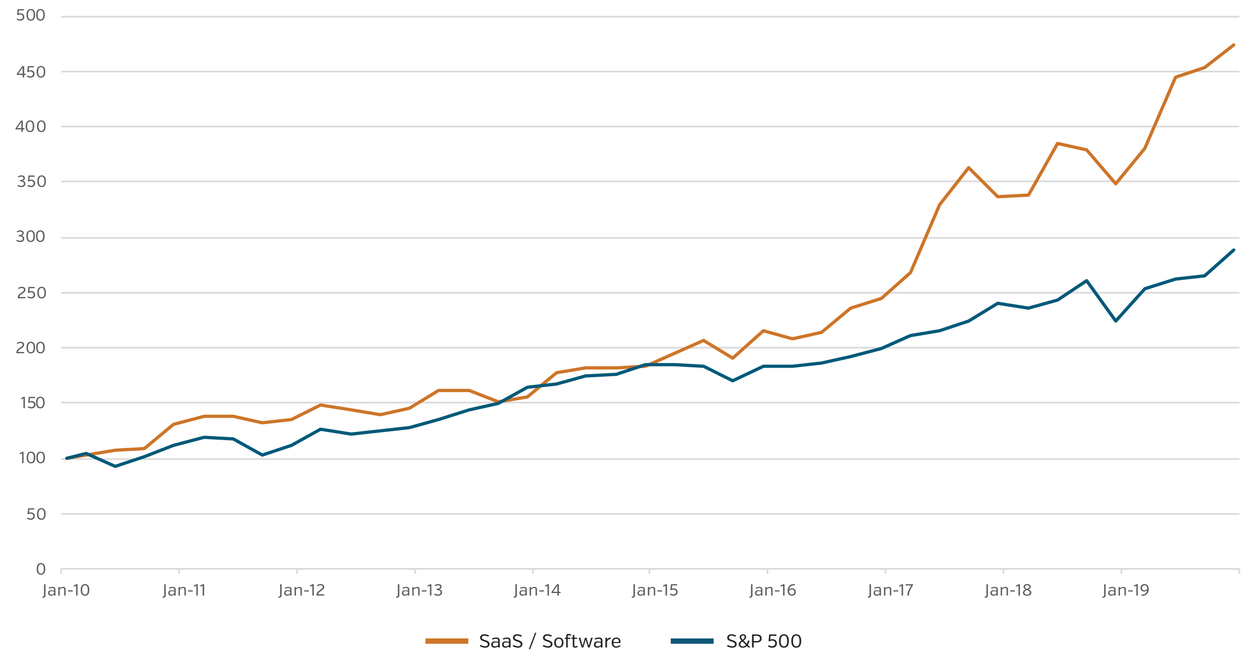


Figure 4 Equiteq SaaS Software Share Price Index (2010 to 2019)



Note: Equiteq SaaS Software Share Price Index is the only published share price index which tracks the listed companies within the SaaS / Software industry. You will be able to receive further information on the index and its performance by joining Equiteq Edge at equiteq.com/equiteq-edge. The index is continually revised to consider new listed companies and to remove businesses that are no longer relevant in each quarter.

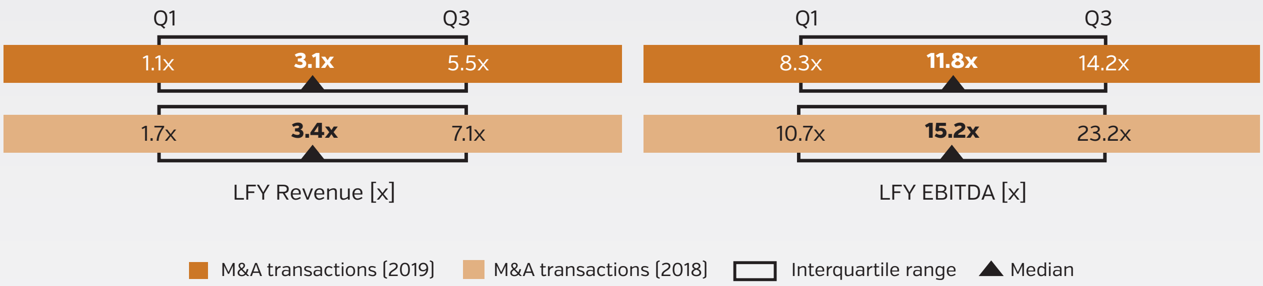
VALUATION MULTIPLES AND TRENDS

Valuation multiples for M&A transactions dipped, but remain at a premium to the broader knowledge economy.

When reviewing this section, please note the issues of interpretation, along with the wide range of company and deal specific factors that influence the valuation of a knowledge economy business. The figures in this report are primarily a comparative guide and should not be used by sellers or buyers to value a business, for which we recommend you obtain independent financial advice.

See **Consideration 5** in the back on the key considerations when interpreting valuation metrics.

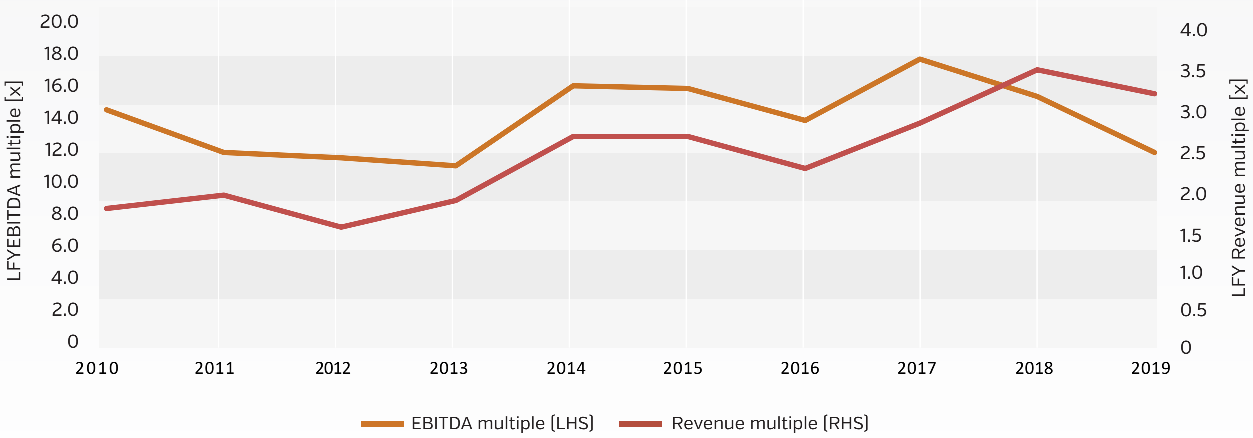
Figure 5 Enterprise Value (EV) as a multiple of Last Full Year (LFY) unadjusted revenue and EBITDA



Note: The interquartile range is a measure of variability, based on showing the range of data in ascending order from the 25th percentile (Q1, 1st quartile) result to the 75th percentile (Q3, 3rd quartile) result.

As their quoted valuation metrics and cash balances rise, so does competition for assets from listed buyers, who are looking for new avenues of growth and are able to make earnings accretive acquisitions by paying a discount to their premium earnings ratio. See **Consideration 6** in the back for our perspectives on what rising share prices implies for listed buyers.

Figure 6 Valuation metrics, 2010 to 2019 (M&A transactions)



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BUYER TRENDS

Prolific buyers consist of listed strategic players that are buoyed by strong share price growth.

39% [2019] **36%** [2018]

% of deal count by private equity

43% [2019] **16%** [2018]

% of capital invested by private equity

Selected notable strategic buyers

Salesforce - US-headquartered developer of CRM applications.
In 2019, Salesforce acquired six businesses globally. This included its largest acquisition ever of Tableau for $15.7bn. It also included the purchase of ClickSoftware for $1.35bn. The buyer has set a goal to double the company's revenue within the next five years, with many analysts expecting further mega deals to achieve these growth targets. As we go to press, *RBC Capital Markets* has said that Google could buy Salesforce, with a projected purchase price of as high as $250bn. This would imply a premium of c.70% to the buyer's market cap.

Oracle - US-headquartered developer of ERP applications.
The buyer acquired three businesses across the globe. This included Brazil-headquartered NetSuite cloud network Oxygen Systems. It also included the purchase of speech-driven communication intelligence software Speak Ai. Oracle also acquired a cloud-based customer loyalty platform called CrowdTwist. At the end of the year, *Trefis* outlined an analysis discussing the potential of a merger between Amazon and Oracle in order to maintain Amazon's top position in the cloud market.

SAP - US-headquartered developer of ERP applications.
SAP acquired three businesses globally. This included the $8bn acquisition of Qualtrics, a provider of survey and feedback software. The implied valuation of Qualtrics was over 20 times revenue. The deal will strengthen SAP's offering in the customer relations management sector. The buyer also made investments in emerging software businesses like visual search platform Nyris, customer success software Totango and enterprise platform Simreka.

Microsoft - US-headquartered software and electronics company.
The buyer made 20 acquisitions totaling over $9bn by the third quarter of 2019. The buyer's most notable acquisition was of hosting for software development firm GitHub for $7.5bn. Microsoft also made a variety of large venture capital or corporate investments. This notably included a later stage VC investment in on-demand ride-hailing platform Grab Holdings, unified data analytics platform Databricks for $250m and online shipping logistics platform Loggi TECHNOLOGY.

Workday - US-headquartered provider of human capital software solutions.
Workday acquired two businesses as it continues to extend its capabilities beyond the core human capital solution offering. The buyer acquired developer of a blockchain based secure digital identity platform Trusted Key Solutions. The purchase of Scout also added a SaaS RFP and sourcing platform for $540m. Workday had previously invested in Scout via Workday Ventures. The platform extends the buyer's procure-to-pay services and the delivery of its source-to-pay solution.

SELECTED TRANSACTIONS

Announced date	Target	Key services of target	Buyer	Deal value	EV / LFY revenue (x)
Jan-20	ChoiceFS	Fintech firm focused on consumer deposit automation	Raisin	-	-
Dec-19	Duett	Accounting and financial system software	Accel-KKR	-	-
Dec-19	Recondo	Revenue cycle automation solutions	Waystar Health	-	-
Nov-19	MarketFactory	Currency software supplier	ION Group	-	-
Nov-19	CareWorks	Cloud based case management software	Advanced Computer Software Group	-	-
Nov-19	Scout RFP	Online procurement platform	Workday	$540m	-
Oct-19	CrowdTwist	Customer loyalty solutions	Oracle	-	-
Oct-19	ClearCare	SaaS platform	WellSky	-	-
Oct-19	Asure Software [Workspace Management Business]	Human capital management solutions	FM:Systems	$120m	-
Sep-19	Burning Glass Technologies	Real-time labor market data source	KKR	-	-
Sep-19	RSD	Enterprise software solutions	Rocket Software	-	-
Sep-19	Convey HealthSolutions	Specialized healthcare technology	TPG Capital	-	-
Sep-19	Mam Software Group	Business-management software solutions	Kerridge Commercial Systems	$154.2m	3.9
Aug-19	Affinity Sports	Sports management software	Stack Sports	-	-
Aug-19	NanoSec	Cloud-native cybersecurity platform	McAfee	-	-
Aug-19	Lockpath	Integrated Risk Management [IRM] software solutions	NAVEX Global	-	-
Jul-19	Ooliba	Actuarial solutions and regulatory compliance	Prima Solutions	-	-
Jul-19	SafeDK	Software Development Kit [SDK] management tool	AppLovin	-	-
Jul-19	Optima Healthcare Solutions	Cloud-based electronic medical record software	Net Health Systems	-	-
Jul-19	Acuris	Financial intelligence, data and analytics	ION Group	£1,380m	7.1
Jul-19	Lemontech	Legal tech software	Accel-KKR	-	-
Jun-19	Thoughtonomy	SaaS-based automation platform	Blue Prism	£80m	7.9

SELECTED TRANSACTIONS

Announced date	Target	Key services of target	Buyer	Deal value	EV / LFY revenue (x)
Jul-19	Rifiniti	Advanced workspace analytics	FM:Systems	-	-
Jun-19	Halfpenny Technologies	Clinical data exchange platform	Accumen	-	-
May-19	CLTRe	Security culture measurement	KnowBe4	-	-
May-19	Ximble	Workforce management solutions	Paycor	-	-
May-19	Lighthouse	Mobile workforce management platform	TEAM Software	-	-
Mar-19	eFront	Investment software provider	BlackRock	$1,300m	18.7
May-19	Salesfusion	Marketing automation platform	SugarCRM	-	-
May-19	MYOB Technology	Accounting software	KKR	$1,130m	4.2
May-19	Bonobo	Conversational intelligence platform	Salesforce	$45m	-
Apr-19	MapAnything	Geo-analytics and location intelligence	Salesforce	-	-
Apr-19	Notified	Cloud media monitoring and measurement tools	Intrado	-	-
Apr-19	ReServe Interactive	Hospitality management software	Infor Global Solutions	-	-
Apr-19	AgileHR	Employee performance management solutions	PrismHR	-	-
Mar-19	APTARE	Storage resource management	Veritas Technologies	-	-
Mar-19	Sweetspot Data Solutions	Marketing intelligence platform	ClickDimensions	-	-
Feb-19	Exact Software	Business and accounting software	KKR	-	-
Feb-19	Cylance	Cybersecurity software	Blackberry	$1,400m	-
Feb-19	ZoomInfo	Business contact database	DiscoverOrg	-	-
Jan-19	SER Group	Enterprise Content Management (ECM) solutions	The Carlyle Group	-	-
Jan-19	roundCorner	Enterprise CRM solutions	Salesforce	-	-
Jan-19	Wisenet Information Systems	Learning relationship management software	Adapt IT Holdings	$3.8m	-
Jan-19	Griddable.io	Synchronized data integration platform	Salesforce	-	-

KEY CONSIDERATIONS

The following considerations relate to some of the strategic issues that business owners on a sale journey should consider while reviewing the data analysis and findings within the report.

Consideration 1:

The relationship between business size and acquisition appetite

Although landmark deals grab headlines, there is notable deal flow at smaller transaction sizes, as highlighted by the large difference between mean and median deal sizes across segments each year. Nevertheless, we typically find that serial buyers do not focus on smaller deals below certain revenue thresholds, unless they offer exceptional synergy or intellectual property or are part of a team hire with limited cash consideration being paid. Buyers may also pay a premium for larger businesses with an established brand, attractive client relationships, embedded intellectual property and the investment in infrastructure that will enable future growth. The importance of revenue size to many buyers, highlights the benefits of setting a clear growth plan and a target scale at exit.

Consideration 2:

The factors that can influence a deal structure

A knowledge-intensive services acquisition can be structured in a variety of ways, but typically involves some mixture of upfront cash element, fixed deferred cash and an earn-out. The earn-out offers additional compensation in the future if the business achieves certain financial goals. There are many factors which influence deal structure, however those features which tend to drive more significant earn-out elements include:

- Owners' desire to share in synergy benefit and access to the buyers' clients;
- Buyers' perceived risk of acquisition, including dependency on the owner and ability to retain talent;
- Nature of the buyer;
- Nature of the sale process; and
- Owner awareness and ability to negotiate on deal structuring options.

There are a variety of steps that owners can take to reduce transaction risk for a buyer, which can improve target deal structures. Furthermore, we find that deal structures can be improved upon in well-managed competitive negotiations.

Consideration 3:

Considering buyers across adjacent industries

Convergence is a continuing trend in both operational and M&A growth for large players across the knowledge economy. Buyers in adjacent segments are often willing to pay premium prices that reflect the considerable synergy opportunity of cross-selling a broader set of complementary services among existing and new clients. Sellers should be aware that the highest price could therefore come from a strategic buyer outside of your core industry. Considering appropriate buyers across adjacent segments and appropriately positioning the synergy opportunity with these buyers is crucial to effectively managing a broad sale process.

Consideration 4:

Considering international buyers

Acquiring in desirable regions enables strategic buyers to gain quick access to lucrative markets, brands, intellectual property, local market knowledge, new clients and specific local expertise. As a result of this, overseas buyers may pay a premium to gain a market foothold.

It is therefore important to consider a range of appropriate international buyers in a broad sale process. To attract these buyers to the local market, it is important to demonstrate the attractiveness of the market and its position. It is also key to articulate why the acquisition will be less risky and deliver a faster return than opening an office and recruiting local talent.

Consideration 5:
Key considerations when interpreting valuation metrics

The typical metrics used by a buyer to value a knowledge economy business are Enterprise Value (EV) as a multiple of a seller's last full year (LFY) of revenue and EV as a multiple of a seller's LFY of EBITDA (referred to as "valuation multiples"). A buyer will typically consider reported valuation multiples on comparable M&A transactions, although only a small proportion of deals in the knowledge economy report revenue multiples and an even lower proportion report EBITDA multiples.

On larger transactions, buyers may also consider the valuation multiples of large global listed companies that are tracked within the Equiteq Knowledge Economy Share Price Index. Their valuation multiples are quoted publicly on a stock exchange at a given point in time and are therefore useful benchmarks of valuation based on current market sentiment.

It should be noted that to directly compare publicly quoted valuation multiples with transaction multiples requires the application of a strategic control premium and a liquidity discount, which can vary between company and equity market. Furthermore, valuation multiples for both transactions and listed companies typically relate to historic unadjusted financials. These issues with interpretation are compounded for EBITDA valuation metrics, where companies may under-report profits and not account for adjustments with respect to one-off items and equity components within salary expenses.

Given these issues of interpretation, along with the wide range of company and deal specific factors that influence the valuation of a knowledge economy business, valuation multiples will vary widely. The figures in this report are therefore primarily a comparative guide and to show trends year on year. They should not be used by sellers or buyers to value a business, for which we recommend you obtain independent financial advice.

Consideration 6:
What rising share prices means for listed buyers

As the publicly quoted valuation multiples and cash balances of listed buyers rise, so does competition for assets from this buyer group. Listed companies that are growing will be looking for new avenues of growth to meet shareholder expectations, and acquisitions quickly enables them to achieve this.

Earnings per share is a key metric that is tracked by public company shareholders to consider the dividend potential of the business. Earnings accretive acquisitions are often a key target of listed businesses. An accretive acquisition will increase a listed buyer's earnings per share and is expected to quickly be achieved by paying a forward EBITDA multiple that is at a discount to a buyer's own quoted EBITDA ratio. Therefore, premium and rising publicly quoted earnings ratios offers a buyer more scope to make earnings accretive acquisitions at higher prices.

With respect to deal structuring, some of these buyers will also be able to offer equity components to target companies. Listed equity is increasingly valuable as share prices rise and can be used to create potentially more compelling offers over private acquirers.

Consideration 7:
Key considerations when selling to a private equity firm

Private equity (PE) buyers differ from strategic buyers, in that the former acquire strictly to realize a cash return on their invested equity. Strategic buyers typically acquire to realize long-term strategic value. As a result, PE buyers will look for specific traits in an acquisition and selling to a PE buyer will have different implications as compared with selling to a trade buyer.

To make a return on their invested equity, PE buyers look for a company that has value enhancement potential and acquire it at a favorable price with financing. With knowledge economy businesses, they are attracted by the relatively high profit margins compared to other industries, the potential for high growth if a business is in a hot space and the barriers to entry that can be maintained if proprietary expertise is retained and leveraged through intellectual property.

ABOUT EQUITEQ

Equiteq is a global leader in providing strategic advisory and merger & acquisition services to owners of IP-rich technology and services businesses

There are unique challenges to value growth and equity realization for shareholders and investors in the knowledge economy. Equiteq helps owners transform equity value and then realize maximum value through global sale processes.

Selected recent Equiteq transactions:

Equiteq advised on the transaction	Sold to
Allolio&Konrad Telecoms Consultancy	**Analysys Mason**
ChoiceFS Fintech software	**Raisin**
The Shelby Group Procurement operations	**WestView Capital Partners**
Access Partnership Public policy advisory	**Mobeus Equity Partners**
Intuitus Technology Advisory services	**Endava**
Caiman Consulting Management Consulting	**Sia Partners**
Mitrais Software Development	**CAC Holdings**
Live Rice Index Price Reporting Agency	**S&P Global Platts**
WGroup IT Management Consulting	**Wavestone**
RevUnit Digital Strategy & Product Studio	**Mountaingate Capital**
Cervello Data Analytics Consulting	**A.T. Kearney**
Orbium Business & Technology Consulting	**Accenture**

KEY DEFINITIONS

Equiteq segments the knowledge economy into six key segments, which span a broad array of knowledge-intensive industries. These sub-sectors are defined further below:

Management Consulting	**Firms engaged in strategic or operationally focused business advisory services.**
Technology Services	**Firms focused on IT architecture, IT strategy, IT implementation or IT maintenance.**
Media Agencies	**Firms in this space cover all the main disciplines relating to the advertising and marketing process.**
Engineering Consulting & Services	**Firms involved in professional services relating to engineering, design and construction.**
Human capital management	**Firms engaged in human capital management or related technology consulting, employee benefit services, leadership consulting, training and recruitment.**
Software / SaaS	**Providers of computer software used to satisfy the needs of an organization rather than individual users.**

For the purposes of this report we have broken down buyers into four groups, defined further below:

Private equity or financial buyers
Investment firms investing private capital into "portfolio companies", which are typically held, grown organically and with "add-on acquisitions", and then exited after a hold-period.

Serial buyers or prolific buyers
Buyers that have made multiple knowledge economy acquisitions over the last three years.

Strategic or corporate buyers
Non-private equity investors who have existing businesses which will typically make acquisitions that form part of their existing operations.

Listed buyers
Buyers whose equity is publicly traded on a stock exchange.

EQUITEQ MARKET INTELLIGENCE AND DATA SOURCES

The report utilizes multiple data sources including proprietary newsfeeds, press releases, various third-party information sources and data services. Additionally, our daily activities in the M&A marketplace with buyers and sellers provide insights into emerging trends and informs our research report's point of view. It is important to note that financial data, including valuation multiples, are derived from various sources including PitchBook and S&P Capital IQ information databases, combined with findings from our daily activities in the market with buyers and sellers that we utilize on an anonymized basis.

FURTHER RESOURCES

Join Equiteq Edge, a source of information, advice and insight to help you prepare for sale and sell your knowledge economy firm. Equiteq Edge gives you access to the findings of unique research conducted amongst buyers of knowledge economy firms from around the world, insight from those who have sold their businesses and other expert advice.

Join Equiteq Edge at equiteq.com/equiteq-edge

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Note 1: The returns of the S&P 500 index in this presentation act as appropriate benchmarks for comparison to the Equiteq Knowledge Economy Share Price Index and its constituent segment indices. The S&P 500 represents the Standard & Poor's 500 Index. We believe it is relevant to compare the Equiteq Knowledge Economy Share Price Index with broad U.S. and international public equities. These indices each focus on large capitalization public equities and can be viewed as proxies for the market overall. Notwithstanding the foregoing, there will not necessarily be a correlation between the performance of the Equiteq Knowledge Economy Share Price Index, on the one hand, and either of these indices, on the other hand. Investments cannot be made directly in indices and such indices may re-invest dividends and income.

Publication date: 12 March 2020

Equiteq

CONTACT YOUR REGIONAL OFFICE

New York and Boston: +1 212 256 1120

London: +44 (0) 203 651 0600

Paris: +33 (0) 173 053 941

Singapore: +65 3109 1955

Sydney: +61 2 9051 9007

If you would like more information on our company or the various services we offer, please get in touch.

info@equiteq.com

equiteq.com

Equiteq has global reach through its offices in New York, Boston, London, Paris, Singapore and Sydney.

equiteqedge.com

@consultingmanda