

Company Valuation in the Low-coding Development Platform Industry

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Abstract

The intent of the study is to understand the low-coding development platform industry and estimate the values on one of the private companies. One of the difficulties is to find comparable data in this relatively new industry. Moreover, many companies have the solution as part of the business, making the estimation even more challenging. The study would apply top-down approach to estimate the values of the Subject Company.

To better examine the result, the methodologies to project the enterprise values are Unlevered Discounted Cash Flow Model (DCF) and Relative Valuation. With these 2 approaches, the fair value of the company can be revealed and have further examination. The following part of the study would provide the detailed process on the projection of the revenue on the particular company. Combining the economic and industry data, a revenue formula can calculate the approximate sales of a European country under certain circumstances. The result can, to a certain level, reflects the enterprise value of the Subject Company.

TABLE OF CONTENTS

1. Introduction.....	4
2. Relative Valuation.....	5
3. Unlevered Discounted Cash Flow.....	7
3.1. Industry Overview	7
3.2. Estimate the revenue	8
3.3. Discounted Cash Flow	9
4. Conclusion.....	10
5. Reference	10
Bibliography	10

1. Introduction

Information Technology (IT) industry has grown rapidly in many fields and expanded to different areas where are not used to apply these tools. Many industries have been affected by and try to succeed in digital transformation¹. One of the areas is Low-Coding Development Platform (LCDP), which enables organizations of any size to design, build, customize, and deploy business apps with little to no coding. LCDP industry is relatively new concept and was not given the name until 2014.

A low-coding company in Central Europe ("The Subject Company") is examined, attempting to calculate the enterprise value of the firm. The following studies are going to demonstrate the approaches of how to estimate the values of a LCDP enterprise in Central Europe region. The methodologies to project the enterprise values are Unlevered Discounted Cash Flow Model (DCF)² and Relative Valuation³. One LCDP company in Central Europe region would be examined and calculated the values through the methods mentioned above. The company is founded in 2002 and has extensive experience in software development.

¹ A transformation of business and organizational activities, processes, competencies and models to fully leverage the changes and opportunities of a mix of digital technologies

² The model is used to remove the impact of capital structure on a firm's value and make companies more comparable

³ The notion of comparing the price of an asset to the market value of similar assets

2. Relative Valuation

According to the report published by Forrester Research, it has identified the leading LCDP companies by their strategies and current offerings. 8 listed companies are selected based on their compatibility to the subject company. In Table 1, market data have shown that market capitalization of each company ranges from €63 billion to €191 million. And, Table 2 demonstrates the financial data.

Table 1

Public LCDP Company Market Data (EUR € Million)

Company	Ticker	Price (04/13)	Out. Shares	Mkt Cap
Salesforce	NASDAQ: CRM	96.40	657	63,372
ServiceNow	NYSE: NOW	135.19	154	20,873
Pegasystems	NASDAQ: PEGA	49.37	76	3,772
Software AG	ETR: SOW	42.74	81	3,457
Progress Software	NASDAQ: PRGS	30.72	51	1,554
Appian	NASDAQ: APPN	20.72	53	1,088
Magic Software	NASDAQ: MGIC	6.60	41	271
Cybozu	TYO:4776	4.03	47	191

Table 2

Public LCDP Company Financial Data (EUR € Million)

Company	Sales	EBIT	Net Income	Net Debt
Salesforce	5,667	-3	-38	5,750
ServiceNow	881	-147	-170	838
Pegasystems	546	41	27	103
Software AG	925	204	138	386
Progress Software	299	33	16	129
Appian	103	-13	-14	34
Magic Software	132	16	12	-23
Cybozu	47	2	1	6

Valuation shows that average enterprise value in Table 3 is €12.7 billion, but the median is €2.7 billion. The big difference indicates that the values are not reflected to some of details. Further information will be needed to draw a fair conclusion. In addition, couple companies have LCDP as a part of the solutions, so isolating the

LCDP unit is not that easy. From EV/Sales data, average multiple is about 9. The range of multiple also indicates the complexity of the business.

Table 3
Public LCDP Company Valuation (EUR € Million)

Company	EV	EV/Sales	EV/EBIT	P/E	P/S	P/B
Salesforce	69,122	12x	n/a	n/a	11	9
ServiceNow	21,712	25x	n/a	n/a	24	50
Pegasystems	3,875	7x	95x	139x	7	13
Software AG	3,842	4x	19x	25x	4	23
Progress Software	1,683	6x	52x	100x	5	5
Appian	1,122	11x	n/a	n/a	11	34
Magic Software	248	2x	16x	22x	2	2
Cybozu	198	4x	118x	182x	4	8
Average	12,725	9x	60x	94x	8	15
Median	2,763	6x	52x	100	6	8

3. Unlevered Discounted Cash Flow

The Subject Company would expand the business with 3 different phases. The strategy involves the international expansion, so some mitigation between countries would be reflected. The following paragraphs would demonstrate the process and the estimation of the firm value.

3.1. Industry Overview

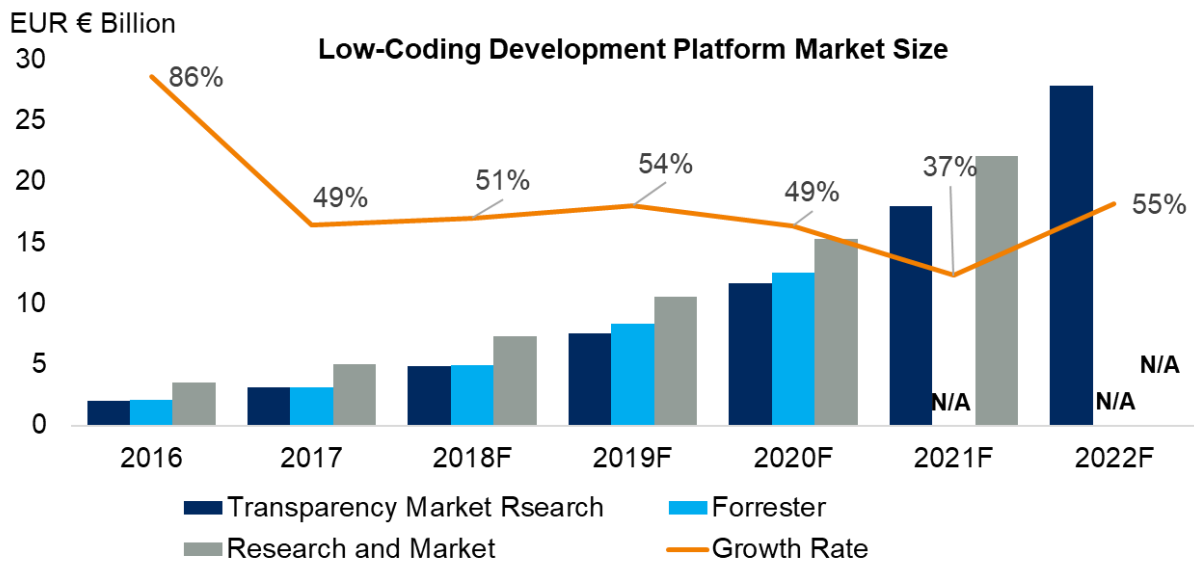
LCDP can shorten the time to build up an application. Also, the application allows users to design and quickly deploy the functions within the business. According to the Forrester research report, Low-Coding platforms are able to bolster the progress of developing a new software. In Table 4, the Low-Coding can save 75% of the development time for a customized app. And, it lifts the progress of web channel and administration system up to 78%.

Table 4
LCDP Development Timeframe

Task / Result	Low-Code (Week)	Code (Week)
Customer-specific app	3	12
Web channel and administration system	13	60

The industry has a rapid growth rate in the next 5 years (see Figure 1). According to the research reports from Forrester, Transparency Market Research, and Research & Market, the average of the growth rate is 54%. Moreover, the majority of the companies locates in United States of America because of the mature environment of technology.

Figure 1
Low-Coding Platform Market Size



3.2. Estimate the revenue

To calculate the revenue streams from different phases, top-down approach⁴ is deployed by using macro data. With sales per employee, the contribution can be captured. Because of the non-disclosure agreement, some data would not be shown. From the following formula, the revenue by country can be fairly estimated. Hence, the information reflects the total revenue of each phase.

$$\frac{\frac{\text{Sales}}{\text{Employee}} \times \text{Growth Rate} \times \text{CPL} \times \text{Labor Force}}{\text{Penetrated Countries}} = \frac{\text{Revenue}}{\text{Country}}$$

⁴ The breaking down of a system to gain insight into its compositional sub-systems in a reverse engineering fashion.

From the table 5, 5-year projection indicates a rapidly growth rate of estimated revenue. By 2022, total revenue of the Subject Company is about €10.5 million. The sales have grown 10 times in 5 years.

Table 5
5-year Projection Revenue Stream (EUR € Million)

	2018	2019	2020	2021	2022
Phase 1	1.0	1.3	1.3	1.8	2.8
Phase 2	-	0.6	0.5	0.6	0.8
Phase 3	-	-	2.7	4.6	6.9
Total	1.0	1.9	4.5	7.0	10.5

3.3. Discounted Cash Flow

To fairly calculate the enterprise value, Free Cash Flow for the Firm (FCFF) is introduced. The discount rate is 18% based on the market condition. The Terminal Value about €7.9 million. The estimated enterprise value is about €10.9 million.

$$FCFF = EBIT \times (1 - Tax Rate) + Depreciation - CAPEX - Net Working Capital$$

Table 6
Discounted Cash Flow

	2018	2019	2020	2021	2022
Total Revenue	1,094	1,876	4,404	7,030	10,539
FCFF	251	430	1,009	1,611	2,415
Present Value	212	308	611	826	1,048

4. Conclusion

The estimate values (EV) are limited by other factors such as market competition and adaptability. Top-down approach is relatively straight-forward to calculate the enterprise value when the data is limited. The result of the study clearly depicts the potentials of the Low-Coding Development Platform. Given the market condition, EV is believed to be undervalued because the assumptions are comparatively conservative.

5. Reference

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