ICON CORPORATE FINANCE

TECHNOLOGY M&A REVIEW

January 2019

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KEY STATISTICS

FTSE
6,728
–12%
DEC 31 2017 **7,688/6,728** DEC 31 2018

FTSE TECHMARK
3,309
–7%
DEC 31 2017 **3,550/3,309** DEC 31 2018

NASDAQ
6,635
–4%
DEC 31 2017 **6,903/6,635** DEC 31 2018

NYSE FANG+
2,227
0%
DEC 31 2017 **2,226/2,227** DEC 31 2018

UK TECH IPOs
17
+113%
DEC 31 2017 **8/17** DEC 31 2018

USD/GBP EXCHANGE RATE
1.26
–7%
DEC 31 2017 **1.35/1.26** DEC 31 2018

UNICORNS
261
+25%
DEC 31 2017 **209/261** DEC 31 2018

BITCOIN (USD)
3,809
–73%
DEC 31 2017 **13,860/3,809** DEC 31 2018

PRICE TO EBIT (x) 12mth AVERAGE
23.2
+5%
DEC 31 2017 **22/23.2** DEC 31 2018

PRICE TO REVENUE (x) 12mth AVERAGE
2.7
–3%
DEC 31 2017 **2.8/2.7** DEC 31 2018

UK PERCENTAGE of CROSS-BORDER DEALS
38%
–3%
DEC 31 2017 **39%/38%** DEC 31 2018

GLOBAL TECH M&A DEALS (No.)
4,487
–12%
DEC 31 2017 **5,071/4,487** DEC 31 2018

EU TECH M&A DEALS (No.)
1,468
–11%
DEC 31 2017 **1,632/1,468** DEC 31 2018

UK TECH M&A DEALS (No.)
400
–4%
DEC 31 2017 **417/400** DEC 31 2018

HIGHLIGHTS

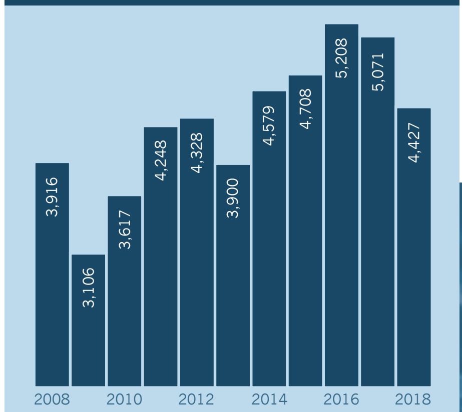
Global equity markets have had a great run, without really pausing for breath, and so a return to more 'normal' levels of volatility in the past few months is no great surprise. The US economy has powered ahead in 2018 with full employment, high corporate earnings growth fed by tax cuts. But the Fed have continued to increase interest rates and China growth is slowing, so the outlook is for US growth to slow. It is a similar story in EU where quantitative easing has just finished, which will withdraw a much needed stimulus.

The number of global technology M&A deals fell 13%, although comparison is with a strong 2017. However, the market remains healthy and some valuations are spectacular, particularly in Cloud Software. The number of deals in the UK fell by only 4%, which was impressive given all the Brexit uncertainty. One of the main drivers remains the weaker currency which attracts a number of overseas acquirers who still account for nearly 40% of all deals. In fact 9 out of our last 10 exits were to an overseas acquirer.

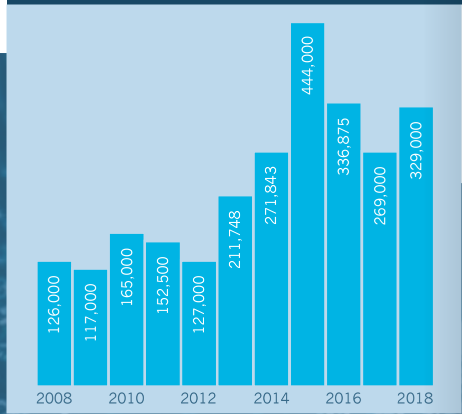
The Year of The Pig is surrounded by uncertainty, both political and economic, particularly without the safety blanket of quantitative easing. However, there still seems to be plenty of confidence about. Valuations remain high with **Microsoft**, **Google**, **Cisco**, **OpenText**, **Workday**, **RELX**, **SAP**, **Adobe**, **IBM**, **Temenos**, **Docusign**, **Salesforce** and **PayPal** all having paid more than 10x revenues for their most recent acquisitions. In Technology M&A, although the number of deals is down, the total value was up 22% last year and some of the valuations are snorters, pardon the pun. I doubt 2019 will be boaring.

MACRO OVERVIEW

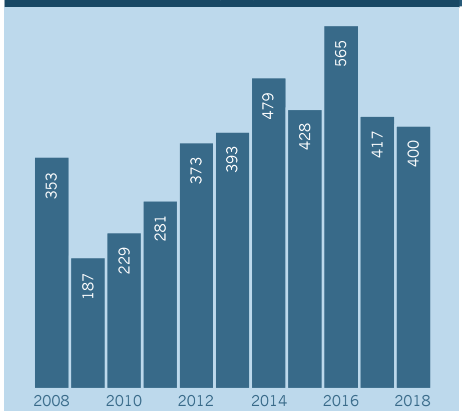
GLOBAL TECH M&A DEALS (No.)



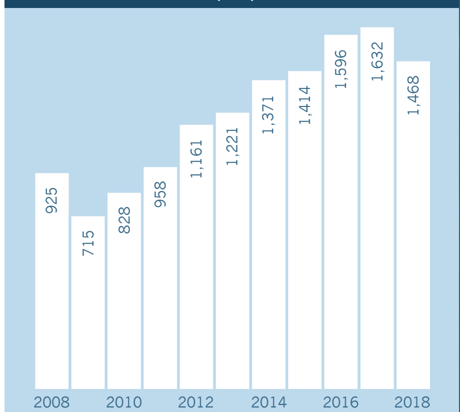
GLOBAL TECH M&A DEALS (VALUE)



UK TECH M&A DEALS (No.)

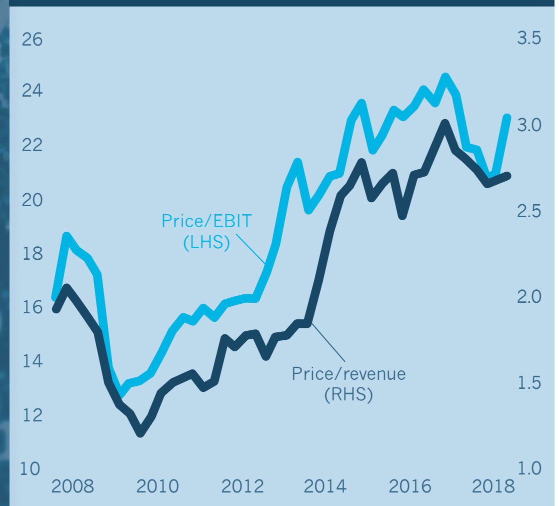


EU TECH M&A DEALS (No.)



> **Number of deals is down but valuation is up**

TECHNOLOGY M&A VALUATIONS



The bears will say, we have increased political risk with worries about US trade wars, never ending Brexit negotiations, rising interest rates, China trade, populist politics and the end of quantitative easing.

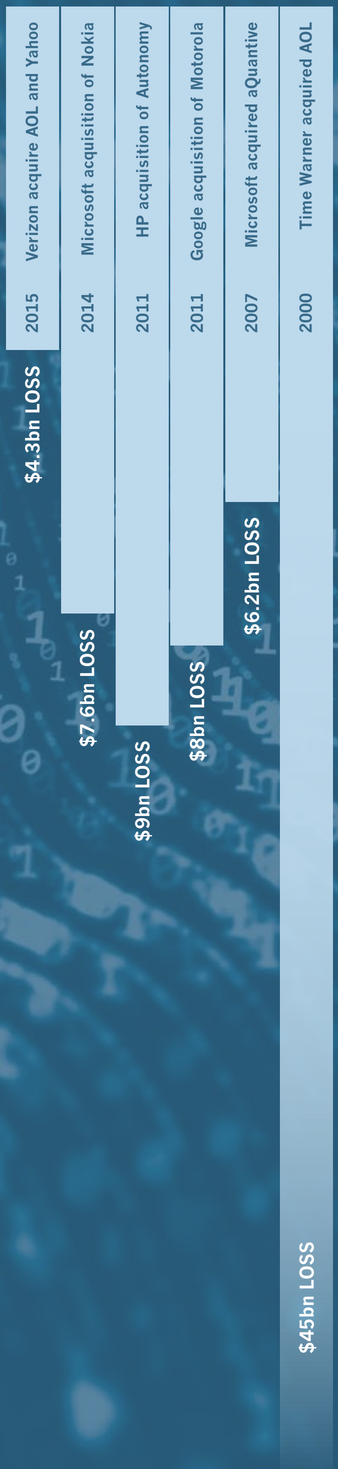
The bulls will say interest rates still remain pretty low, economic growth is OK and is pretty good in USA, there is very low unemployment everywhere, inflation is low and corporate profits are growing at a good clip, particularly in the USA. Also, in the US a significant corporate tax cut has boosted earnings and overseas cash repatriation.

2018 was a bad year for almost all asset classes as bonds, equities, property and commodities all fell. Brexit is a sideshow, the main fear is a global slowdown in economic growth caused by China, the end of quantitative easing and rising US interest rates. The UK economy has slowed due to uncertainty over Brexit but is actually muddling along alright (so far) and the weak currency has stimulated foreign investors who continue to pour money into UK to acquire everything from skyscrapers in London to football teams and well-run tech companies.

Looking ahead, the return to more “normal” monetary conditions in 2019 will likely coincide with slower economic growth globally. The result is that equity market conditions are returning to more normal conditions – i.e. they may go down as well as up. Having risen for nearly 10 years, the outlook is likely to be choppier for a while. However, few are forecasting a recession and interest rates remain pretty low everywhere. So, in a world where growth is slowing a notch then the higher growth Technology sector will continue to remain relatively attractive.

US TECHNOLOGY M&A

LARGEST TECH WRITE-OFFS



In 10 years' time when we look back at All Time Top 10 List of Odd Deals then probably the AOL/Time Warner deal will still rank as Number 1. Hard on its heels will be the acquisition by **Broadcom**, the highly acquisitive semi-conductor manufacturer, of **CA Technologies**, the mainframe infrastructure software supplier. Broadcom paid $19bn or 4.5x revenues for the slow growth main-frame business in a deal that looks at face value to have a questionable strategic fit. Broadcom, which is run by Hock Tan out of Singapore, had a $160bn bid for Qualcomm rebuffed in 2018 by Mr Trump and this looks like a rather odd replacement.

Not all deals are successful and some lead to significant destruction of shareholder value. In the list of the largest ever write offs from Technology M&A deals (see table to left) it doesn't take a team of analysts to see that when a company makes an acquisition outside its core business the alarm bells should start ringing.

Verizon's acquisitions of **AOL** and **Yahoo** at a combined cost of $8.9bn a few years ago looked somewhat ambitious and off-piste. Rebranded Oath, it looked at the time like Verizon had acquired yesterday's brands. It didn't end well, as Verizon have just written off $4.6bn of the value of Oath and dumped the name. It is however in good company, as the table above shows.

IBM acquired Linux provider **Red Hat** for $34bn in one of the largest ever deals. At 11x revenues it is another very expensive acquisition. Red Hat is growing at 20% pa and has a leading market position but that seems to be more than reflected in the price. Red Hat was founded in 1993 and has built a multi-national firm based on providing enterprise services around open source software and is best known for its Linux server operating system. It has collaborated with IBM for the past 20 years, including developing Linux for the enterprise and more recently, on hybrid cloud infrastructure which would seem to be the key attraction for IBM. In a statement, IBM CEO Gini Rometty framed the deal as one that will make IBM the leader in hybrid cloud solutions, and remain firmly committed to open source. She says Big Blue is set up to lead a market that's worth more than $1tn. The deal strategically pits IBM against Amazon Web Services and Microsoft Azure, which use proprietary platforms in their public cloud operations.

A couple of months after the Red Hat deal was announced **HCL Technologies** paid $1.8bn to **IBM** to acquire 7 software products in the marketing automation, commerce and security areas that IBM says tend to be sold on a standalone basis. HCL already has partnerships with IBM in 5 of them, so knows them well. Valuation was 3.6x revenues. The products are Appscan (vulnerabilities in mission-critical applications); BigFix (endpoint security software); Unica (marketing automation); IBM WebSphere Commerce (e-commerce platform); IBM WebSphere Portal (web portal development); Domino (collaboration); and Connections (email and file and document sharing). Looks like some housekeeping, but it is a bold call buying companies at 11x revenues and selling at 3.6x.

LARGEST TECH M&A DEALS

DATE	PURCHASER	TARGET	$m
OCT 15	Dell	EMC	67,000
MAY 15	Avago	Broadcom	37,000
OCT 18	IBM	Red Hat	34,000
JUL 16	Softbank	ARM	32,300
JUN 16	Microsoft	LinkedIn	26,200
FEB 14	Facebook	Whatsapp	19,000
JUL 18	Broadcom	CA	18,400

LARGEST US TECH M&A TARGETS IN 2018

VALUATION (EV / T/o)	PURCHASER	TARGET	EV $m
11.6	IBM	redhat	34,000
15.1	Dell	vmware	21,700
4.3	Broadcom	ca technologies	18,400
3.2	General Dynamics	CSRA	9,700
2.8	KKR	bmc software	8,500
20.0	SAP	qualtrics	8,000
25.0	Microsoft	GitHub	7,500
2.8	Elliott	Travelport	6,600
21.9	salesforce	MuleSoft	6,500
2.4	SS&C	DST	5,400
14.8	Adobe	Marketo	4,750
4.0	Atos	Syntel	3,700
1.8	FP Francisco Partners	Verifone	3,400
8.4	State Street	Charles River	2,600
6.9	SAP	CallidusCloud	2,400
21.3	Cisco	Duo	2,350
0.8	Synnex	Convergys	2,300
	AT&T	AppNexus	2,000
1.1	Altran	Aricent	2,000
6.3	IHS Markit	Ipreo	1,900
3.6	HCL	IBM	1,800
11.2	Adobe	Magento	1,680
15.0	workday	Adaptive Insights	1,550

SAP, the German enterprise software giant, acquired Qualtrics and at $8bn cash this is no tuck-in acquisition (just behind $8.3bn paid for Concur in 2014). At 20x current year revenues it is on the face of it a very expensive looking deal. Part of the reason is **Qualtrics**' was nearing a planned IPO, so a premium would be expected but the $8bn compares with $2.5bn valuation in 2017 (when it raised its last round of funding) and the IPO valuation of $4bn. To get value from that sort of purchase price SAP is going to have to extract a lot of synergies. Earlier in 2018 SAP also acquired **CallidusCloud** for $2.4bn or nearly 7x revenues. Callidus provides configure/price/quote (CPQ) and sales performance management tools delivered as a cloud service. The products are aimed at managing company sales teams, from initial lead, through to payment. SAP, which has traditionally handled the back-office of some the biggest companies in the world is moving further into the front-office with this deal. "The addition of CallidusCloud aligns perfectly to SAP's innovation strategy to transform the front office" said SAP CEO Bill McDermott. The CallidusCloud products will work in tandem with other front office tools SAP has acquired in recent years like Hybris, (eCommerce) and Gigya (identity management). Callidus has itself been quite acquisitive, acquiring 14 companies dating back to 2010, including 4 in 2017.

Global aerospace/defence firm **General Dynamics** acquired CSRA for $9.6bn. **CSRA** is a leading government IT business, providing digital and IT solutions to federal customers. Its solutions include: cyber; data and analytics; digital platforms; digital services; enterprise business services and intelligent business process services. At just under 2x revenues the valuation is pretty full for a services business.

Microsoft has acquired open source development platform **GitHub** for $7.5bn which was valued at a third of that just 3 years ago. The interesting thing is that they paid for it in Microsoft shares. The acquisition is Microsoft's largest since the purchase two years ago of LinkedIn for $26.2bn. Microsoft has become the top contributor to GitHub which hosts some 85 million code repositories and is used by over 28 million developers. Its users include Apple, Amazon and Google. When you have $140bn in the bank it is a little puzzling why you would pay for the deal in shares though. Part of the answer may be in the fact that Microsoft shares have risen by 40% in the past year. The other part may be the valuation which was an astonishing 25x revenues.

> **"Microsoft paid 25x revenues!"**

Before embarking on an exit process it is often best to check you have support of key shareholders. That's trickier if you are public. Ask **Xerox** shareholders whose directors had agreed terms with **Fuji** on a $6.1bn exit only for the deal to be ultimately rejected by Xerox shareholders at the 11th hour. Cue a lot of unhappy shareholders/ directors from both buyer and seller. Shareholder approval is a key part of any deal and is best cleared beforehand.

If you were wondering whether you are likely to get a higher value from a trade buyer rather than a financial buyer or an IPO, then the **iZettle** case may help. It may also help explain why there has been such a prolonged dearth of IPO's of quality large technology companies. iZettle is a Swedish payments (portable credit card readers for retailers) start-up and was about to become a big $1bn IPO but instead have sold to **PayPal** for $2.2bn, double that amount paying 13x revenues. It follows in a long list of Scandinavian companies that have sold out such as Skype, Mojang and Spotify and surely answers part of the question as to why there has been a dearth of IPOs. PayPal, having closed their iZettle deal in May, are certainly not resting on their laurels. In June alone they have acquired **Jetlore** (predictive start up AI for retail), **Hyperwallet** for $400m (funds disbursement) and **Simility** $120m (fraud prevention).

> **“iZettle sold for 2x IPO valuation”**

Salesforce has acquired **Mulesoft** for $6.5bn and plans to use MuleSoft’s technology to power a new Salesforce Integration Cloud, which will help customers connect multiple sources of data. MuleSoft’s existing software allows businesses to bring information in from other cloud services, as well as on-premises infrastructure. MuleSoft only went public in 2017 so had a very short public life. At 22x revenues the price is stratospheric and is the largest deal done by Salesforce.

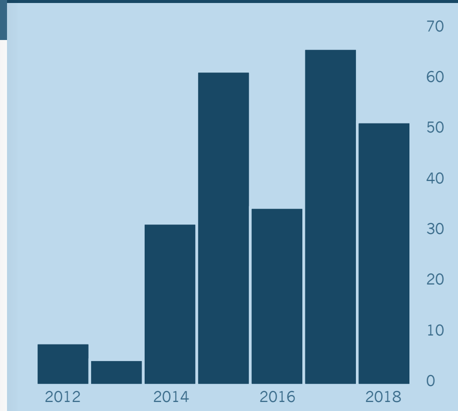
Adobe acquired **Magneto Commerce** for $1.7bn in another staggering valuation paying 11x revenues. The purchase gives Adobe a missing e-commerce platform piece that works in B2B and B2C contexts and should fit nicely in the company’s Experience Cloud. This isn’t the first time the company has been acquired. Magento was founded in 2008 and purchased by eBay in 2011 for $180m. The company went private again in 2015 with help from Permira Funds, which sources say paid around $200m. They have just made a fantastic return on that investment. Adobe also acquired marketing automation specialist (and similar sounding) **Marketo** for $4.75bn which is a staggering valuation of nearly 15x revenues. Vista Equity were not complaining as they made a profit of nearly $3bn on their investment in just 2 years. Great marketing.

Workday which focuses on HR apps has acquired **Adaptive Insights** for $1.5bn in another high valuation deal. It equates to 10x revenues for the business planning and financial modelling cloud software. Adaptive Insights filed for an IPO in 2017 and so is yet another example of higher price from a trade sale. Adaptive had revenues of $100m but was losing $40m, the key to valuation is the growth which at 30% is obviously a decent clip.

US IPO MARKET

The recent mega listing of Dell in US is a re-financing and restructuring of a complex and highly leveraged businesses. The reality is that the number of Technology IPOs in the US continues to be on the floor. Having said that, the quality of companies listing in 2018 has been pretty decent, it’s just the volume is very low. In 2017, Alteryx, Carvana, Cloudera, MuleSoft, Netshoes, Okta, SailPoint, Snap and Switch listed but the performances were fairly mixed, particularly Snap which has lost its crackle and is below its IPO price. 2018 new listings include: **Dell** (hardware and software), **Spotify** (music streaming), **Docusign** (document signature), **DropBox** (file sharing), **Pluralsight** (web development training) and **ZScaler** (cyber security). **Eventbrite** (ticketing), **SolarWinds** (cyber), **Sonos** (speakers), **Anaplan** (Fintech), **SurveyMonkey** (online surveys) all listed but the performances have also been mixed, but perhaps that is no surprise given the slump in Technology shares in 2H2018. Public appetite for large, high growth, highly valued tech companies will be tested in US in 2019, as those considering listing include an impressive list of mega cap companies such as **Airbnb**, **Uber**, **Lyft**, **Slack** and **Palantir**.

NUMBER OF NEW UNICORNS



Spotify listed on the NYSE conducting a direct listing, meaning no banks underwrote the offering and no price was set ahead of the debut. The NYSE set a reference price of $132, it rose rapidly but has fallen below $110. It has a value now of $20bn, or 4x revenue multiple, although that should fall rapidly as expected revenue growth materialises. A solid, if not crazy, tech valuation, likely softened by the fact that their gross margin is only 20% as they pay a big slice of their revenues to record companies.

> **“The No. of US tech IPOs have collapsed”**

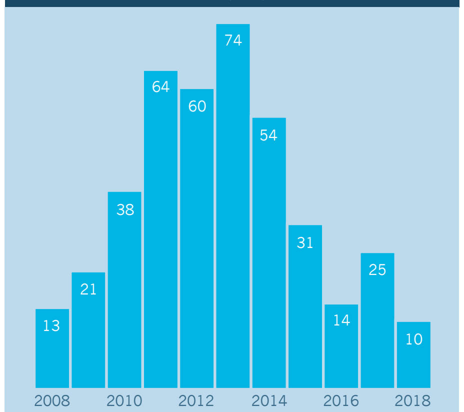
Dell was privatised in 2013 and as a result acquired a huge debt pile of over $60bn setting it apart somewhat from its cash laden peers. Then the $67bn acquisition in 2015 by Dell of EMC, was the largest IT M&A deal ever. To rebalance its books in 2016 Dell sold its services division to NTT for $3bn. It also sold its software division (Quest and SonicWALL) to private equity for $2bn. Now Dell has completed a complicated restructuring buying back the part of **VMWare** that was publicly listed (at 15x revenues) and relisting itself back on the equity markets in one of the biggest (and most complicated) tech listings ever. The big winner would seem to be Michael Dell, whose stake has apparently risen 8x to be worth £30bn.

One of the main reasons that IPO volumes remain so low is that alternatives are more attractive, be it trade sales or PE backed buyouts. There remains a wall of private equity cash that the industry has raised from investors that is still looking for a home; it is estimated to be over $1trn. With firepower like that the IPO will continue to face stiff competition.

> **“Unicorns are up 25%”**

The other side effect this wave of cash has brought is the funding of Unicorns (private technology companies that are valued at more than $1bn). There are now 261 Unicorns, that is a near 25% increase in the number of these businesses in 2018. New entrants in 2018 include just two UK companies – **Atom Bank** and **Revolut** – both FinTech. In 2017 there were 7 UK entrants including Improbable, HUT Group, Acorn Payments and Deliveroo.

US TECHNOLOGY IPOs (No.)



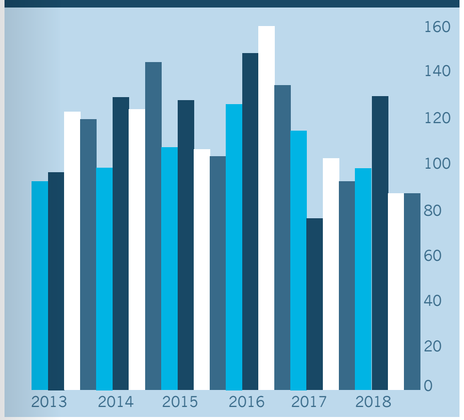
UK TECHNOLOGY M&A

LARGEST UK TECH M&A TARGETS IN 2018

VALUATION (EV / T/o)	PURCHASER	TARGET	EV £m
8.0	EQT	Micro Focus SUSE	2,535
9.0	Silver Lake	ZPG	2,200
3.0	gtt	interoute	1,750
4.4	ION	Fidessa	1,500
11.5	ICG	IRIS	1,300
4.8	TransUnion	Callcredit	1,000
15.4	Antin / West Street Infrastructure Partners	CityFibre	538
3.0	NEC	northgate	475
2.2	hp	Apogee	380
2.1	VIAVI	Cobham T&M	350
7.1	experian	ClearScore	275
4.2	Vonage	NewVoiceMedia	270
3.2	Morneau Shepell	LifeWorks	249
5.7	Macquarie and others	Capita ParkingEye	226
5.3	VISA	earthport FX	198
18.4	stamps.com	MetaPack	175
11.4	Warburg Pincus	Capita Supplier Assess.	160
0.4	OSG Overseas Shipholding Group, Inc.	communisis	154
4.3	VISA	Fraedom	142
10.0	deltatre	massive	97
3.8	F-Secure	MWR InfoSecurity	105
0.1	DBAY Advisors	Harvey Nash	98
3.8	Restore Records Management	TNT Business Solutions	88

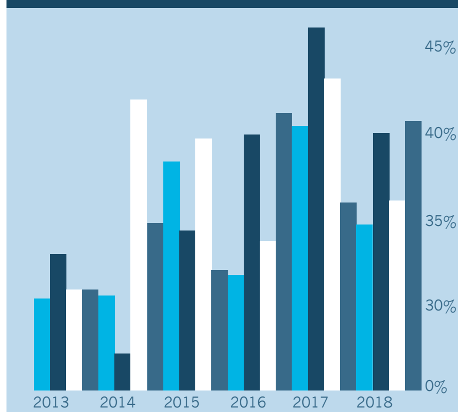
Overall, 2018 has been another strong year for UK Technology M&A activity. As the table shows, the domestic fears over Brexit have not deterred overseas acquirers who remain key, accounting for nearly 40% of all deals last year. The cheaper currency and a very attractive pool of technology talent are key drivers.

TECH M&A DEALS WITH UK TARGET



> UK deals fell 4% but overseas buyers remain strong

CROSS BORDER TECH M&A UK DEALS



SEMI CONDUCTORS

Last year **Apple** decided not to use Imagination Technologies chips in their iPhones anymore, a move which ended Imagination's independence quite quickly. Now Apple is paying $300m to 'acqui-hire' 300 **Dialog** engineers plus another $300m in prepayments for Dialog's power management chips over the next 3 years. Apple accounted for a massive 75% of Dialog revenues, which is far too high, leaving it exposed to Apple's whims, this will reduce that reliance over time. $1m per head is a very chunky recruitment fee for the engineers. It is more than other acqui-hires i.e. Google acquisition of 2,000 HTC engineers, which worked out at $500,000 each. Dialog will use the proceeds to develop its products in automotive and IoT and may have preserved its independence a bit longer.

FINTECH

Temenos approached UK listed **Fidessa** and made a £1.4bn offer which was agreed and was just about to be tied up when up popped both SS&C and **ION Trading**. SS&C had a look and declined to bid, but ION made an offer that was £100m greater and won the deal for the asset management software provider. Another classic example of why you should not accept an offer when someone knocks on your door to buy your company – unless it is a knock out valuation of course. It's the power of competitive tension. At 4.2x revenues it was a pretty good price too.

Experian acquired **Clearscore** in £275m deal. Experian, the world's biggest credit data company, has bought London-based FinTech company Clearscore, which was only launched in July 2015 and now offers over 6 million UK customers free credit checks. The company, which generates income from products it sells to customers who get credit checks, said it's on track to make £39m in revenue in 2018. Experian are paying a whopping 7x prospective sales in acquiring Clearscore, Experian will be hoping to expand its services while also diversifying its customer base into South Africa. It is the first sizeable acquisition by Experian in a while.

> **"The power of competitive tension"**

First Derivatives has paid $54m for remaining shares in **Kx Systems** having acquired a stake in 2014. Kx has developed a high performance, in-memory database, paying a further US$53.8m on terms agreed back when the earlier deal was done. Kx's ability to analyse huge volumes of data is to be deployed to monitor solar activity to predict space weather. The company will also apply artificial intelligence and machine learning techniques to support the new NASA Transiting Exoplanet Survey Satellite.

Italian **Gruppo Banca Sella** bought mobile banking app **Vipera** for $34m. Vipera was founded in 2015 and went public in 2010. They have now grown to 125 employees and an impressive 3 million registered users. In 2017, Vipera acquired **SoftTelecom** for $1.5m.

There has certainly been a major frenzy of activity in the UK payments space in the past few years and 2018 was no different. Activity was kick-started in 2017 by **Vantiv**'s acquisition of UK's **Worldpay** for £7.7bn, 1.7x revenues. WorldPay then acquired **SIX Payments** for €3bn in 2018 in another big deal.

Also in 2017 **Blackstone** acquired **Paysafe** in a $3bn cash deal (2.9x revenues). Paysafe had previously acquired Skrill for $1.2bn in 2015 taking them into the Premier League of digital payments. However, life goes on under PE ownership with Paysafe acquiring US based **iPayment** in June 2018.

VISA acquired **Fraedom**, a SaaS technology company providing payments and transaction management solutions for financial institutions and their corporate customers. It is not a Scottish company, as it may sound, but was previously part of travel group Hogg Robinson. Fraedom has been a VISA partner for nearly ten years, and its technology underlies VISA IntelliLink Spend Management, a core platform for VISA's commercial and small-business clients. "Increasingly, businesses are replacing inefficient paper-based payment systems with digital tools," said Vicky Bindra, global head of products and solutions, VISA.

VISA also acquired listed **Earthport** in December 2018 for £198m, or 5.3x revenues. Earthport provides cross-border payment services to banks and businesses. Through Earthport APIs, clients can seamlessly manage payments to almost any bank account in the world, reducing costs and complexity to meet their customers' evolving expectations of price, speed and transparency. The deal comes after a difficult year for Earthport in which it lost a major a customer, saw reduced transaction volumes and underwent a management shakeup. That partly explains why Visa offered 250% higher price than the quoted share price as it is only 50% higher than at similar time last year.

> **"Payments frenzy"**

Cake Technologies, the UK FinTech that helps you pay your restaurant or bar bill, has been acquired by **American Express** for £10m. It's tempting, but corny, to say that will do nicely but having raised £7m in funding (including £1m crowdfunding round on Crowdcube in 2015) the deal was hardly a piece of cake.

In 2017 we saw Aviva invest heavily in Wealthify. Now **Invesco** have bought wealth management platform **Intelliflo**. It offers a comprehensive front-to-back office technology platform for financial advisers and their support teams. The business currently supports 19,000 investment professionals who manage in excess of £300bn of assets so the software platform is the backbone of the UK wealth sector, supporting financial advisers across the "full advice journey". Growing at nearly 20% a year and with 90% recurrent revenues one can see the attraction.

Elsewhere **Lombard Risk Management**, the listed insurance software provider was acquired by **Vermeg** for £52m or 2x revenues. Vermeg is a Dutch HQ'd FinTech with European presence but revenues of just €54m, so this is a big move for them. We also noted StatPro picked up the performance analytics part of **UBS**, and **Verisk** continues its cross Atlantic shopping spree acquiring **Business Insight** (risk modelling) amongst others.

CYBER SECURITY

Helsinki listed **F-Secure** acquired **MWR InfoSecurity**, a cyber security company operating globally but with its HQ in sunny Basingstoke. "MWR InfoSecurity's threat hunting platform (Countercept) is one of the most advanced in the market and is an excellent complement to our existing technologies," said F-Secure CEO Samu Konttinen. With close to 400 employees, MWR InfoSecurity is among the largest cyber security service providers serving enterprises globally. Countercept provides extensive proactive attack detection and its suite of managed phishing protection services. MWR had revenues of £28m and only breaks even and so the price of £105m including £25m earn out was a thumping 3.8x revenues and looks a very full price.

Shearwater Group, the AIM listed cyber security provider, is heading in the right direction and building a really interesting group. Acquisitions have been key – 2017 deals were **SecurEnvoy** (6x revenues) and **Newable Consulting** (since rebranded as Xcina Consulting). In 2018 it acquired cloud access security broker **GeoLang** (£1.7m), cyber security solutions supplier **Crystal IT** and **Brookcourt** (£30m, of which 76% is in cash and 24% in shares) funded by a placing. The Brookcourt deal was on a reasonable 1.3x revenues and 7x EBIT. Shearwater are one to watch but the shares, which doubled in early 2018, have halved since the summer.

> “Consolidation in cyber services”

There has been quite a consolidation in cyber services as there is a severe shortage of skilled staff. Having acquired Sec-1 in 2017, **Claranet** acquired **NotSoSecure**, a company providing global pen-testing services and “ethical hacking” training courses to customers in the US, UK and Europe. It is headquartered in Cambridgeshire, and has teams in San Francisco and India. Similarly, **Intertek** acquired pen-tester **NTA Monitor** (who have offices in Kent and off-shore operations in Malaysia). **Six Degrees** added **CNS Convergent** a 50 strong team of pen testers. Managed service provider **Six Degrees Group** has purchased **CNS Group**, a specialist in managed security services, penetration testing, consultancy and compliance assessments adding 50 staff and revenue of over £7m. It also brings a dedicated Security Operations Centre (SoC). CNS Started back in 1999 as Convergent Network Solutions based in London with a SoC in Camberley.

GB Group is another one to watch. They have not announced any UK deals in 2018, but the identity data intelligence software provider was pretty busy in 2017 acquiring Worcester based SaaS software provider PCA Predict (aka Postcode Anywhere) for £63m (4.5x revenues or 14x EBIT) and before that IDscan Biometrics for £37m cash plus £8m earn out (4.9x revenues or 12x EBIT). They did however expand in Australia during 2018 acquiring **Vix Verify**, an ID verification and location software business for £38m, which is a reasonable looking 1.8x revenues and looks a good fit.

AI AND MACHINE LEARNING

Oracle acquired Cambridge UK-based **Grapeshot**, whose Contextual Intelligence platform keeps brands safe by ensuring ads are not placed against damaging content. Grapeshot examines keywords to gauge context and avoid inappropriate placement. Grapeshot has previously received funding of c.$23m from IQ Capital Partners, Draper Esprit and Albion. Growth is reported as over 100% annually.

RELX, the British publishing group turned analytics company, has paid £580m for **ThreatMetrix**, a fraud detection tool. RELX is investing heavily to move away from its print publishing of magazines like New Scientist along with academic journals and data for medics, lawyers and other professionals. Print now accounts for just 10% of its revenues – down from 50% a decade ago. This is its largest acquisition in that time. ThreatMetrix’s Digital Identity Network is one of the largest repositories of online digital identities, encompassing 1.4 billion unique online identities from 4.5 billion devices in 185 countries. It analyses over 100 million transactions per day across 35,000 websites. Nick Luff, the company’s Chief Financial Officer, said AI was a “key theme of how we are building our profits and developing our business”. ThreatMetrix, which launched in 2005, collects information like device type, location and user behaviour to make sure the person logging in to things like banking services is definitely who they say they are, which eliminates the need for complicated login.

> “RELX – largest acquisition in a decade”

Netwrix Corporation, a US provider data security and risk mitigation in hybrid environments, acquired **Concept Searching** for circa £8m, a global leader in semantic metadata generation, auto-classification and taxonomy management software. Another cross Atlantic deal.

PUBLIC SECTOR

Capita sold **Supplier Assessment Services**, including Constructionline, to funds affiliated with **Warburg Pincus** for £160m in cash which will be used to reduce indebtedness. Given its underlying revenue and operating profit were £14m and £6m respectively in the year to 31 December 2017 it seems to have got a really good price at 11x revenues. New CEO, Joe Lewis, is making headway in clearing out “non-core” businesses having sold Affinity Workplace to Endless and Asset Services Group to Australian financial services firm Link for some £888m in 2017. Capita also sold **ParkingEye**, their car parking solutions division to a consortium for £226m. The valuation represents a healthy profit on the £58m that Capita paid for the business five years ago and equates to over 5x revenues and 15x EBIT. ParkingEye manages car parks for retail, hospitality, education and the NHS. When added to the disposals already undertaken it will raise more than £400m for Capita, well ahead of the target of £300m. Proceeds are likely to be used to reduce Capita’s debt.

> “Capita – clearing the decks”

Advanced was a very acquisitive animal under Vin Murria. After a pause for several years it appears that in-fill acquisitions are very much back on the agenda with acquisitions of **Information Balance** in March 2018 and Hudman Solutions in 2017. At the end of June they also announced acquisition of **Docman** a healthcare workflow/document management. More than 5,400 GP practices and 115 NHS Trusts currently use Docman’s document management and workflow solutions. Advanced also made the £16m acquisition of **Science Warehouse**, a SaaS-based e-procurement platform, which accelerates Advanced’s cloud strategy. As CEO Gordon Wilson said: “the Cloud is increasingly seen as the fuel for digital transformation projects, which is why accelerating our Cloud capabilities is at the heart of our business vision.” Established in 2000, and a spinout from the University of Leeds, Science Warehouse is a provider of spend management and eMarketplace systems to commercial, government, higher education, NHS and housing customers. Its cloud-based SaaS technology drives efficiencies through the procurement process for both buyers and suppliers.

Civica changed PE owners in a huge £1bn deal in 2017 valuing it at nearly 4x revenues. It hasn’t halted acquisitions, far from it, Civica has acquired 7 companies in 2018!!! The latest is e-recruitment software specialist **Trac Systems**, which provides cloud software and related services to the NHS and the wider public sector for the complete recruitment process, from advertising vacancies and managing applications to on-boarding and induction. Others include cashless catering and EPOS provider **Nationwide Retail Systems** (NRS) to expand its payment systems business. Barnsley-based NRS is an established provider of integrated payment solutions, particularly in the education sector where it provides cashless catering systems to more than 2,000 local authority, school and college customers. NRS looks a nice tuck in for Civica having made profit margins of over 35% on its £7m revenues, and brings new technologies such as identity management. Civica also acquired **ERS Group** (Electoral Reform Service) who had revenues approaching £40m last year. ERS was formed in 1988 when it spun out of The Electoral Reform Society, providing end-to-end ballot, election and voting services and has managed more than 50 million registrations.

NEC Corporation acquired **Northgate Public Services** division for £475m from Cinven. The strategic tie up is not that obvious at first glance. Established in 1969, Northgate sells mainly to local police forces, tax collection offices, social security offices and housing authorities. The link is that NEC has an international safety business capitalizing on biometrics technologies, including face recognition and fingerprint recognition technologies that have been evaluated as the world's most accurate, and provides identification systems to more than 30% of state police forces in the United States. It is a tenuous reason to make an acquisition, but you can see some logic. Following that deal Northgate acquired **i2N**, which supplies specialist software to the UK's Ministry of Justice's HM Prison and Probation Service and the Youth Justice Board. Following the deal, over 50% of police officers in England will be using Northgate technology. In early 2019 Northgate have made a further acquisition of **APD Communications** which has mission critical control room software for police forces, airports etc.

HR

Allocate Software has acquired Leicester based provider **247 Time** for an undisclosed fee. Formed in 2011, 247 Time supplies SaaS-based contingent workforce solutions. Vista owns Allocate and is another example of PE supporting acquisition programs and is perhaps not a big surprise as they grew revenues 20% last year.

Tech recruiter **Harvey Nash Group** has been acquired for just under £100m by **DBAY** who already controlled 26% of Harvey Nash shares. DBAY took a significant stake in Harvey Nash in 2017. Valuation of the deal was just 10% of revenues but 9x EBIT. The 130p valuation looks good relative to its share price but not so pretty compared with its £8 peak in the dotcom boom. DBAY are UK value investors who "invest in companies overlooked or deeply misunderstood by the market and in many instances out of favour with investors, often taking a contrarian view." They quote Benjamin Graham "The intelligent investor is a realist who sells to optimists and buys from pessimists".

Morneau Shepell, the US HR consulting business, acquired London based **LifeWorks** which is an employee well-being business which combines employee assistance, wellness, recognition and incentive programs. LifeWorks' solution features an evolved employee assistance program, HR communications and community, perks and savings, rewards and recognition, and a wellness program. "Its best-in-class user experience and support services help improve employee health and productivity".

PROPERTY SOFTWARE

US-headquartered **CoStar Group** (which owns LoopNet.com and Apartments.com) a global provider of commercial real estate information, analytics and online marketplaces, has snapped up UK based commercial property portal **Realla**, which has 90,000 listings. Realla was only founded in 2016 and has become the Rightmove of Commercial property in UK. CoStar Group founder and chief executive, Andrew Florance, said: "It's not The Shard we're talking about selling – its typically a high street retail property in Ipswich". Glamorous.

Marlowe who provide regulated inspection, testing and compliance services for commercial properties, acquired **William Martin Compliance** for £30m right at the end of the year. Formed in 2004, William Martin is a leading technology-enabled UK provider of property-related compliance in areas such as health and safety, fire safety, water safety, asbestos management. It is paying 4.5x revenues or 15x EBITDA. It is predominantly a cash deal with a small amount of shares and an earn out.

Bentley Systems is a regular shopper in UK market. Having acquired Dutch Geo-technical modelling company **Plaxis** earlier in the year, they acquired **Legion**, a pedestrian simulation software provider. It simulates and analyzes the foot traffic on infrastructure assets that include rail and metro stations, stadiums, shopping malls and airports. So operators can accurately test designs and operational or commercial plans to enhance footfall, wayfinding, crowd management and safety. Clients include Gatwick airport, although it's a pity it doesn't simulate drone traffic.

CLOUD SOFTWARE

Nasdaq listed **Sykes Enterprises**, acquired **Symphony Ventures** Limited, the leading best-of-breed provider of Robotic Process Automation (RPA) services. Founded in 2014 and headquartered in London, Symphony is a premier provider to blue chip clients, offering RPA consulting, implementation, hosting and managed services. Approximately 200 people strong, Symphony has one of the largest independent global teams of Intelligent Automation experts. Symphony holds partnerships with leading RPA software vendors, including Automation Anywhere, Blue Prism, NICE, Thoughtonomy and UiPath, and has grown roughly four-fold since fiscal year 2016. The cost was £52m which equates to 2x revenues, pretty good for a services business and a good exit for Livingbridge.

ICG have joined Hg Capital in taking a stake in **IRIS Software Group**, the acquisitive Berkshire-based accountancy and payroll solutions provider, valuing it at £1.3bn, and became one of UK's largest ever private equity led software buyouts. IRIS has 80% recurrent revenues and grew 15% in 2017. The valuation was a whopping 11x revenues. At the same time IRIS has bought **Taxfiler**, the cloud tax and accounts provider for small accountancy practices. Founded in 2012, Taxfiler offers a monthly subscription service for agents and accountants to submit statutory accounts and tax returns and follows two other recent deals – payroll systems provider Star Computers Ltd, and education software specialists Contact Group.

> **"FreeAgent – "the whole enchilada""**

One of the strangest deals in a while was the acquisition of **FreeAgent** by **RBS**. Yes, the bank. The UK-based provider of SaaS accounting software solutions for micro-businesses IPO'd in late 2016. It has been purchased at 5x revenue, or £53m, by RBS. FreeAgent has many value-added features, including good dashboarding, templated forms and systems to support tax reporting. After a 4Q 2017 rollout, over 10,000 RBS customers are "signed up to use the FreeAgent solution". RBS plans to operate

FreeAgent as an "independent member of the RBS Group", offering the solution across its customer base. FreeAgent's strapline is "For managing your business it's the whole enchilada". That's a wrap.

Hg Capital have sold **Allocate Software** to **Vista Equity** in another private equity pass the parcel. Interestingly, since its investment at the end of 2014 Hg has been pretty busy. It would seem they supported the management through hiring new key personnel, completed a refinancing in 2016 returning 30% of the original investment, completed two acquisitions, entered four new markets and launched two major new products. The acquisitions were firstly to enter the French market and secondly, a small IP acquisition. The company won new customers on the core platform in Germany, Denmark and Spain, in addition to the acquisition in France. The new product launches include a new platform for scheduling community healthcare professionals and Cloudstaff, a platform that enables trusts to share nurse banks, reducing agency spend. It has impressive financial results with 17% revenue growth and 22% EBITDA growth in 2017.

Mandata the Northumberland-based supplier of software for the transport and logistics industry was sold by Synova to **LDC** in another PE shuffle. It has not been an overnight success having started way back in 1974. Mandata was acquired by LDC for £20m or 3.5x revenues. That gave Synova a return of 8x money invested. Nice.

Escher has been acquired by **Hanover Private Equity** for £35m. It represents just under 3x revenues for the software supplier to the postal sector. It is an exit for Liam Church the founder who has just been through a 2 year restructuring to kickstart growth.

In July 2018 **Kerridge Commercial Systems** acquired listed **Electronic Data Processing** (EDP) which, as the name suggests provides ERP solutions to the merchanting and wholesale distribution industry. The £11.8m offer is a 33% bump on the share price ahead of the offer and brings to a close its listed status which goes back over 30 years and has been somewhat less than exciting, struggling to break £5m revenues. Since Accel-KKR's investment in 2015, Kerridge has made 8 acquisitions, late in 2018 they also added **Insphire** (heavy plant software) and **Current RMS** (AV and events software). Clearly showing how private equity owned businesses embrace in-fill acquisition programmes.

> **"DMGT make 14x return on ZPG sale"**

Ideagen have completed another successful year buying three businesses (two in the US). In the UK, they acquired **Morgan Kai** for £20.5m or nearly 4x revenues. Morgan Kai is a Leeds based audit management software provider but has nearly 80% of its customers overseas. David Hornsby, Executive Chairman of Ideagen, said: "Morgan Kai is an extremely valuable addition to the Group and is in line with our strategy of acquiring GRC business that have strong IP and growing recurring revenues". This is their 13th acquisition and unlikely to be their last.

E-COMMERCE

MetaPack has been acquired by **Stamps.com**, the leading provider of postage online and shipping software solutions, for £175m. Stamps.com offers postage online and shipping software products in the US SME market whereas MetaPack's platform is focused on the retail enterprise space in Europe, so a good fit. London based MetaPack is an e-commerce software platform responsible for more than 600 million packages sent annually by leading e-commerce retailers. Its client list is impressive including ASOS, M&S, John Lewis, Argos and Halfords.

Silver Lake agreed to buy property platform **ZPG** (Zoopla/USwitch) for almost £2.2bn. Its shares jumped 30% on the news and delighted shareholder DMGT who had 14x return on their investment. ZPG owns and operates a number of online property portals, and acquired financial services website Money.co.uk for £80m (3.3x revenues) and property data provider Hometrack for £120m (7.5x revenues). It also made an offer for **GoCompare** for £420m but this was rejected, having only recently demerged from Esure.

Online estate agent **Emoov** has merged with rival **Tepilo** in a deal that also includes the web-based lettings agency **Urban.co.uk** and makes the combined group the UK's second-largest digital estate agent. The acquisition of Urban.co.uk marks a significant expansion into online lettings for Emoov, at a time when the property sales market in many parts of the UK is suffering as wage inflation is low and valuations high. The combined value of the three companies was £89m, and the newly enlarged business has secured £15m from existing and new shareholders. Included in that is an airtime-for-equity investment from Channel 4's commercial growth fund, which will see the broadcaster work on the company's advertising campaign, and a cash investment from Northern & Shell, the UK media group and Tepilo's largest shareholder. Online agents accounted for just 7% of the market, clearly the expectation is that this will rise.

Moneysupermarket is to acquire home communications and mobile phone comparison business **Decision Technologies** for £40m, which operates brands including broadbandchoices.co.uk as well as supplying white label technology for the likes of Moneysavingexpert. Choosing home communications, broadband and mobile phone deals is "complex and confusing" according to Mark Lewis, CEO of Moneysupermarket.

The online travel sector has had a really good shake out in the past few years. Skyscanner was acquired by Ctrip and Priceline acquired Momondo in the past few years. This year **Travel Counsellors** and **Love Holidays** have been acquired by private equity. Valuations are high but not reaching the high watermark of 11x revenues set by the Chinese acquisition of Skyscanner. The high street travel agent would seem to have gone the way of the dodo.

COMMUNICATIONS

Gamma Communications acquired Dutch telecoms group **DX Groep**, or Dean One, for a total of €27m (about half up front and half in an earn out). "It is an ideal way for us to expand into a new geography" said Chief Executive Andrew Taylor. Indeed. This is its first major acquisition in 6 years, but the focus on organic growth has not held back Gamma's shares which have increased 4 fold since its IPO in 2014.

Listed broadband provider **CityFibre** has been acquired by **Antin Infrastructure Partners** and Goldman Sachs managed **West Street Global Infrastructure Partners** (WSIP). They have paid £537.8m cash for CityFibre, whose revenues doubled to £35m with Adjusted EBITDA of just £4.5m. CityFibre had been quite acquisitive itself buying assets from KCOM Group, Redcentric and Entanet as it aims to build a network to compete with BT in certain markets. CityFibre think that this can best be done in private, rather than in public market. The 90% uplift from the share price before the approach may have helped persuade any doubters.

Remote meetings company **LoopUp Group** acquired conference services provider **MeetingZone** from GMT Communications Partners for £61.4m. The company also announced a chunky £50m share placement to fund the deal. MeetingZone is a UK-based AV conferencing specialist with a worldwide customer base of around 6,000 companies. LoopUp are UK listed, after their recent £40m IPO in 2016. They have paid 2.7x revenues or only 12.2x EBIT – a pretty reasonable price to add considerable scale to their business. The shares had a tough second half.

> **LoopUp calling the tune**

TalkTalk had agreed to sell its business broadband to **Daisy** for £175m, but Daisy pulled out having failed to agree final terms after DD. Key lesson here is that a deal is never done until it is done.

GTT Communications, has been on an aggressive acquisition spree buying UK based **Interoute** (formerly Easynet) for $2.3bn in 2018. Interoute is Europe's largest privately held cloud services platform. The deal equates to 3x revenue for the fibre optic carrier. It follows on from 2017 deals – Giglinx, Hibernia Networks, Perseus and Transbeam all helping to swell GTT's revenues and profits. However, since the deal was announced GTT's shares have halved and this may put a brake on further deals in the short term.

Basingstoke based call centre specialist **NewVoiceMedia** was acquired for £275m by US based VoIP platform provider, **Vonage**. US shareholders don't seem too happy though as the shares have dropped 40% since the deal.

Upland Software acquired **Rant & Rave**, a leading provider of cloud-based customer engagement solutions. Rant & Rave's voice of customer (VoC) and voice of employee (VoE) applications enable users to capture, analyse and act on real-time customer and employee feedback across multiple channels including Short Message Service (SMS), mobile, email, web and social media. The purchase price paid for Rant & Rave was $58.5m in cash at closing, and a $6.5m cash holdback payable in 12 months (subject to indemnification claims). Upland expects the acquisition to generate annual revenue of approximately $21.0m, so is paying 3x revenues which are almost entirely recurrent. Upland reckons it will generate "at least $9.5m in Adjusted EBITDA annually once fully integrated" so is paying about 7x that amount.

IT MANAGED SERVICES

HP acquired **Apogee** – a Maidstone based office equipment dealer (OED) and Europe's largest independent provider of print, outsourced services and document and process technology for £380m. The attraction would seem to be the move to Managed Print Services and other value-added solutions to add to product revenues. Apogee themselves acquired Balreed Digitec in 2015 and have built an impressive business with over 24 offices.

Computacenter has acquired San Francisco based, **FusionStorm** – a Sourcing and Professional Managed Services specialist. Computacenter paid an initial cash consideration of $70m and will pay an additional $20m depending on profit levels. That looks a canny price as FusionStorm had revenue of $600m and a profit before tax of $4m. Computacenter has not made that many acquisitions but also made a purchase in the Netherlands in 2018.

Managed Services Provider, **IT Lab** (which is backed by ECI Partners), has acquired Microsoft partner, **Content and Code**. The newly combined entity has revenue of almost £60m and 550 staff in London, Manchester and Cape Town. Content and Code, founded in 2001, is a Microsoft specialist and claims to be the UK's largest SharePoint consultancy. Revenue in FY17 was £12m, with an operating margin of 15%. Tim Wallis, founder of Content and Code, has become Chief Digital Officer at IT Lab. IT Lab's Peter Sweetbaum remains CEO.

Document management and office services provider **Restore** has acquired **TNT**'s records management business, for £88m. It primarily provides records management services but also has a presence in scanning. The business employed more than 250 staff, and in particular will strengthen Restore's public sector exposure. Restore funded the deal with a £51.5m placing with institutional investors and has developed into a sizeable business with a market cap of £400m. Much of this has come through acquisitions like Cintas, Wincanton and PHS building a powerful market position in document management.

> **Upland is ranting and raving**

RedstoneConnect sold its managed services and system integration divisions for £21.6m to focus solely on its software development arm. Included in the sale is **Commensus** and **Comunica**. It will focus on its OneSpace occupancy management software solution. Having received only 0.5x revenues for its IT services businesses it was clearly very keen to off-load them.

SCC (which is owned by Rigby) the IT services player has announced the acquisition of **Hobs Group** who focus on business outsourcing, and will be combined with M2 – SCC's existing specialist Managed Print business. Hobs On-Site provides specialist services in document digitisation, document process re-engineering, print room, mail room etc.

Claranet, which has pursued an active acquisitive strategy growing to revenues of over £200m (a third of which is in the UK), has announced the acquisition of Surrey-based **Union Solutions** who have turnover of £10m and 30 employees. Union Solutions will help Claranet build on its cloud-based capabilities. In particular, its Azure capabilities and back-up, disaster recovery and security of data are key focus areas.

"The worst set of results I have ever had to provide commentary for" said CEO Ian Smith of IT managed services provider **IDE Group**. To stem the bleeding IDE sold **365 ITMS** which it acquired in 2017 in a £5.4m cash and share deal. The MBO team are paying £3m cash to IDE, financed by a 3-year loan from related shareholder, MXC Capital (also run by Ian Smith) for a 12% coupon. Let's hope things improve for Ian in 2019. IDE shares fell over 90% in 2018. IDE has an interesting history stretching back to 2005, when 'casual dating service' Easydate was admitted to AIM and rebranded as Cupid. The dating activities were sold in 2013 (realising some £38.6m) and Cupid was renamed Castle Street Investments and then bought Selection Services. They were rebranded as Coretx and then IDE. Colourful.

Elsewhere in IT services **Lyceum** (now **Horizon**), who acquired a new portfolio company **DMC Canotec** (printing and document management services). From the same stable, **Timico** also made its first acquisition – London based **25Seven**, an IT managed services provider which focuses on the hospitality sector.

DIGITAL MEDIA

Fast growing digital agencies (who in another era might have been acquired by the large media and advertising groups like WPP and Interpublic) continue are now being consistently acquired by the large global Systems Integrators as they look to build internal advertising technology and marketing analytic capabilities. Accenture have been aggressively acquiring 20-30 companies a year but other examples in the last few years include:

BUYER	TARGET
Cap Gemini	June21
Tata Consulting	W12 Studios
Cap Gemini	Adaptive Labs
Cognizant	Zone
Cognizant	Netcentric
Infosys	Brilliant Basics
TechMahindra	BIO Agency

Facebook acquired UK based **Bloomsbury AI**. "The Bloomsbury team has built leading expertise in machine reading and understanding unstructured documents in unnatural language to answer any questions," a Facebook spokesperson said. Bloomsbury AI developed an artificial intelligence system called Cape that reads documents and answers content-related questions. I guess that AI based businesses like this are very useful for Facebook to identify "fake news".

Inflexion has completed the buyout of **Chambers**, a provider of legal rankings. Founded in 1990, Chambers ranks over 80,000 lawyers and law firms by practice area in almost 200 jurisdictions. The rankings are relied upon by corporates when selecting their legal advisers and by law firms and individual lawyers to support their business marketing activities. There has been quite a bit of activity in the legal sector in the past few years. For example, AbacusNext acquired HotDocs, the Edinburgh based document automation software provider; Thomson Reuters and Mitratech have also been particularly active.

Apple paid $400m for music recognition app **Shazam**, which was originally counted amongst UK's Unicorns. So, it has faced a big drop in valuation, but still achieved a 10x revenue multiple on exit.

NDS have had an interesting history. The Staines based business was started in Israel and was listed in the USA in the late 1990s. It was privatised in 2009 by News Corp and Permira for $3.6bn, and then acquired by Cisco in 2012 when it changed name to Videoscope. Earlier this year Cisco announced that it has sold the video technology assets of NDS (subsequently rebranded as **Synamedia**) back to **Permira** again for an estimated $1bn as it separates out the Pay TV assets.

> **"SI's grab digital agencies"**

Communisis, which offers integrated marketing services and communications for brands, has been acquired by US outsourced billing, communications and payments provider **OSG**. The £154m valuation represents a 40% premium over the share price and is pitched at less than 0.5x revenues and about 9x EBIT, so hardly a racy valuation. It is an interested move for OSG which has made 17 acquisitions and is controlled by investment fund Aquiline Capital Partners who are aggressively running buy and build programs in several verticals.

Tech industry sourcing intelligence supplier **Pivotal iQ** has been acquired by US based market intelligence firm **HG Data**.

US listed **Upland** (Enterprise Work Management software), acquired **Adestra**, an Oxford based provider of email marketing, transaction and automation software from BGF. This is their 17th acquisition. The customer engagement market is apparently growing at over 20% per annum. The price of $60m is 3.3x revenues but according to Jack McDonald, CEO of Upland Software " is immediately and meaningfully accretive to Adjusted EBITDA per share" and is within Upland's target range of 5-8x pro forma Adjusted EBITDA.

HEALTH

Dublin-based **Clanwilliam Group** has acquired medical correspondence and clinical reporting specialist **Dictate IT** (£10m revenues) which provides digital dictation, outsourced transcription, and speech recognition services to 27 healthcare providers. Impressively it's the 18th business Clanwilliam has acquired since it was formed in 2014. Others include **Informatica Systems** (based in Cobham, Surrey which provides practice management), **Maxwell Stanley Consulting** and **Medisec Software**. All part of the move to improve efficiency and automation in the NHS.

Chippenham based **Optimum Contact** a leading provider of SaaS-based Patient Feedback and Audit Compliance Software has been sold to US HealthTech provider IQVIA, which was formed following the merger of Quintiles and IMS Health.

> **"IQVIA makes optimum contact"**

IQVIA is a $20bn information and technology services organisation with more than 55,000 employees who already supports the NHS at both national and local levels, supplying costing, benchmarking and analytical services. With the addition of Optimum Contact, those services will now be available to over 156 NHS Trusts and Healthcare organisations. Terms were not disclosed but it is another example of very large US corporate acquiring a UK based technology provider.

UK RISING & FALLING STARS

UK LISTED TECHNOLOGY COMPANIES BEST AND WORST PERFORMERS 2018

SOPHEON +231%

EARTHPORT +170%

CORERO +85%

ZOO DIGITAL +78%

CRANEWARE +69%

RISERS

Sopheon the product development lifecycle software provider had a fantastic year steadily rising after continued strong revenue performance. **Earthport** (the cross border payments network) shares bounced at year end as it was approached by VISA who tabled a £198m bid after a tough year. Its 250% premium looks a winner. **Corero** the network security company had an interesting investment from Juniper Networks who will re-sell Corero products. That has already led to new orders that should boost revenues that have been pretty flat for the past three years. **Zoo Digital** provides cloud-based media production services and software to creative organisations, predominantly in the entertainment industry and was re-rated after a significant uptick in revenues showed a step change in growth. Scottish based **Craneware** sells software to US healthcare industry and continues to perform well as reflected in its valuation of 10x revenues.

Several high growth technology companies had a great first half of the year and then with the de-rating of the Technology sector fell by more than 50% in the second half of the year. A few examples are – **Seeing Machines** shares have had an interesting year, more than doubling by mid-year but then falling 65%. Their software detects driver fatigue. The shares themselves look pretty tired. It was similar tale at **Learning Technologies** the e-learning company, despite good results and a plan to hit £200m in run rate revenues by 2021 as it makes a deeper push into HR and corporate learning. **Keywords Studios** also bought big in the US in 2017 with the $66m acquisition of VMC Consulting as it boosts technical services for the booming video gaming industry, although it hasn't had the same effect on the share price, not yet anyway. **WANdisco** is the world leader in Active Data Replication which allows distributed development teams to collaborate, as if they are all working in one location. Many of these company valuations just got ahead of themselves for example WANdisco rating fell from 20x to 10x revenues.

FALLERS

Alfa Financial provides software for asset leasing industry including cars. Having only listed in 2017 it initially did well being valued above £5 a share at the start of the year but has been massively de-rated to just over £1 by year end. A combination of lofty valuations, crumbling car sales and delayed orders are the main reasons. It is a similar tale at both **Appscatter** and **BigSofa** which are other recent UK listings that have seen their shares fall by more than 60% this year and are now well below IPO prices. Clearly not good news for the IPO market.

Audioboom Group acquired podcasting platform **Triton Digital**, for $185m cash. Or at least that was the plan. The deal fell apart as it could not raise the significant financing. It was a pretty big move as Audioboom itself has a market cap of just £35m. It was in many respects a reverse takeover. AudioBoom is a kind of NetFlix for audio. Audioboom's deal seems to have blown up.

IQE who are now one of the few UK listed semi-conductor related companies, has seen its valuation slump to just 3x revenues as investors have become more cautious about revenue prospects, particularly to Apple who is investing heavily to bring its supply chain in-house. Revenue expectations were also clipped by supply chain overbuild.

Micro Focus have had a tough 2018 with its shares dropping 50% in March following fall out from its massive $8.8bn HPE acquisition after revenues fell short of expectations. However, they subsequently sold their Linux business (SUSE). The sale of SUSE for $2.3bn will change the Balance Sheet and an exit value of 8x revenues or 24x EBIT and will lead to a significant gain. The shares have started to recover a bit as a result.

IDE –93%

ALFA FINANCIAL –78%

AUDIOBOOM –65%

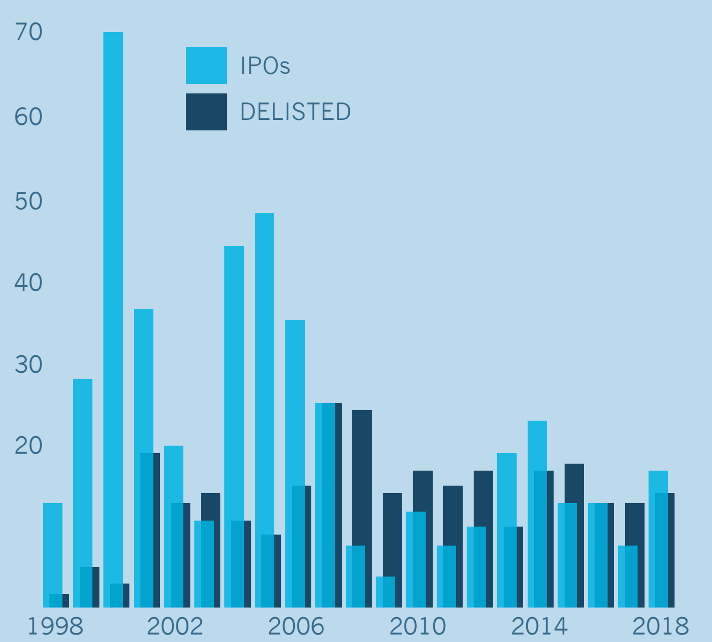
IQE –52%

MICRO FOCUS –42%

UK TECH IPOs

> An up-and-down year for IPOs

UK TECHNOLOGY IPOs (No.)



Technology listings in the UK are making a gradual comeback with the number of new listings in UK well ahead of the previous year. 2018 listings include:

Prague-headquartered cyber security company **Avast Software** listed in May and now has a market cap of £2.7bn after a strong first year of listing. Backed by CVC Partners, Avast acquired rival AVG for $1.3bn in 2016 and UK-based Piriform in 2017.

Codemasters is a video game developer specialising in racing games but their share price movement seems to be stuck in reverse falling 40%. Although with a market cap of over £220m and trading at 3.5x trailing revenues, the valuation is no longer very racy.

Integrafin provides an investment platform for asset management, its shares are ahead despite falling in the autumn and with a market cap of £1.2bn equates to over 12x trailing revenues.

OnTheMarket the online agent backed property portal raised £30m on IPO, valuing the company at £100m It is now worth £50m, so not ideal. The business floated at a tricky time with house prices soft and estate agents feeling the pain. It is also busy spending on marketing to increase its coverage and grow the brand.

Mind Gym the behavioural science business listed in 2018 and has also had a tough start. It has benefitted from the #MeToo movement to improve corporate culture and deal with harassment. "Mind Gym's IPO will raise our profile and help us lead the development of psychological tools to make companies more diverse, ethical, agile, productive, innovative, healthy and profitable," said founder and wonderfully named Octavius Black. Unfortunately, the shares are not behaving.

Funding Circle is more of a SME lender than a Fintech but even so has had a mixed start to public life its shares priced at 440p falling over 20% by year end. Yet growth is impressive and a loan book approaching £3bn that is growing at 60%pa.

Panoply is a relative tiddler but looks like it may grow rapidly by acquisition if its first few weeks as a newly listed company are anything to go by. It made its first acquisition (a digital agency) just a week after listing in December.

Sensyne Health is looking a bit "under the weather" having fallen below its IPO price. It develops health products using artificial intelligence for example by improving patient care and generating value from anonymised NHS patient data. Having listed in August it is now below its IPO price having de-rated along with many other high growth tech companies.

OUTLOOK

Markets have corrected in 2018, as equity and bond markets adjust to the end of quantitative easing and rising US interest rates, with liquidity tightening a notch. After an extended 10-year bull market run, a return to more "normal" market volatility is long overdue.

However, we continue to live in a low growth, low inflation world where interest rates will remain relatively low for some time to come. Growth looks set to slow everywhere, so the value of higher growth businesses will remain at a premium and the pressure remains for all businesses to continue to drive efficiency and automate to boost profits when revenue growth is difficult. Artificial intelligence, robotics, machine learning, cyber security, IoT and a continued push into the cloud are some of the innovation growth drivers that will continue to stimulate growth for some time to come. The technology sector continues to look relatively attractive.

In the UK, we remain confident that Brexit uncertainty will be resolved in due course, although slightly fearful that Jeremy is waiting patiently in the wings.

You may think that Brexit uncertainty would have put off M&A investors but that didn't stop the likes of **Civica**, **Allocate**, **MRI**, **ClearCourse**, **VISA**, **Upland**, **Northgate**, **Verisk**, **EMIS**, **Netwrix**, **Access Group**, **Servelec** and **Tata** all closing UK M&A deals recently.

2018 was very much a "game of two halves", a great start and a tough finish. The Year of The Pig may also turn out to be the same, only in reverse. Lets hope it doesn't live up to its name.

Brian Parker, Head of M&A

> **"Year of The Pig, lets hope not"**

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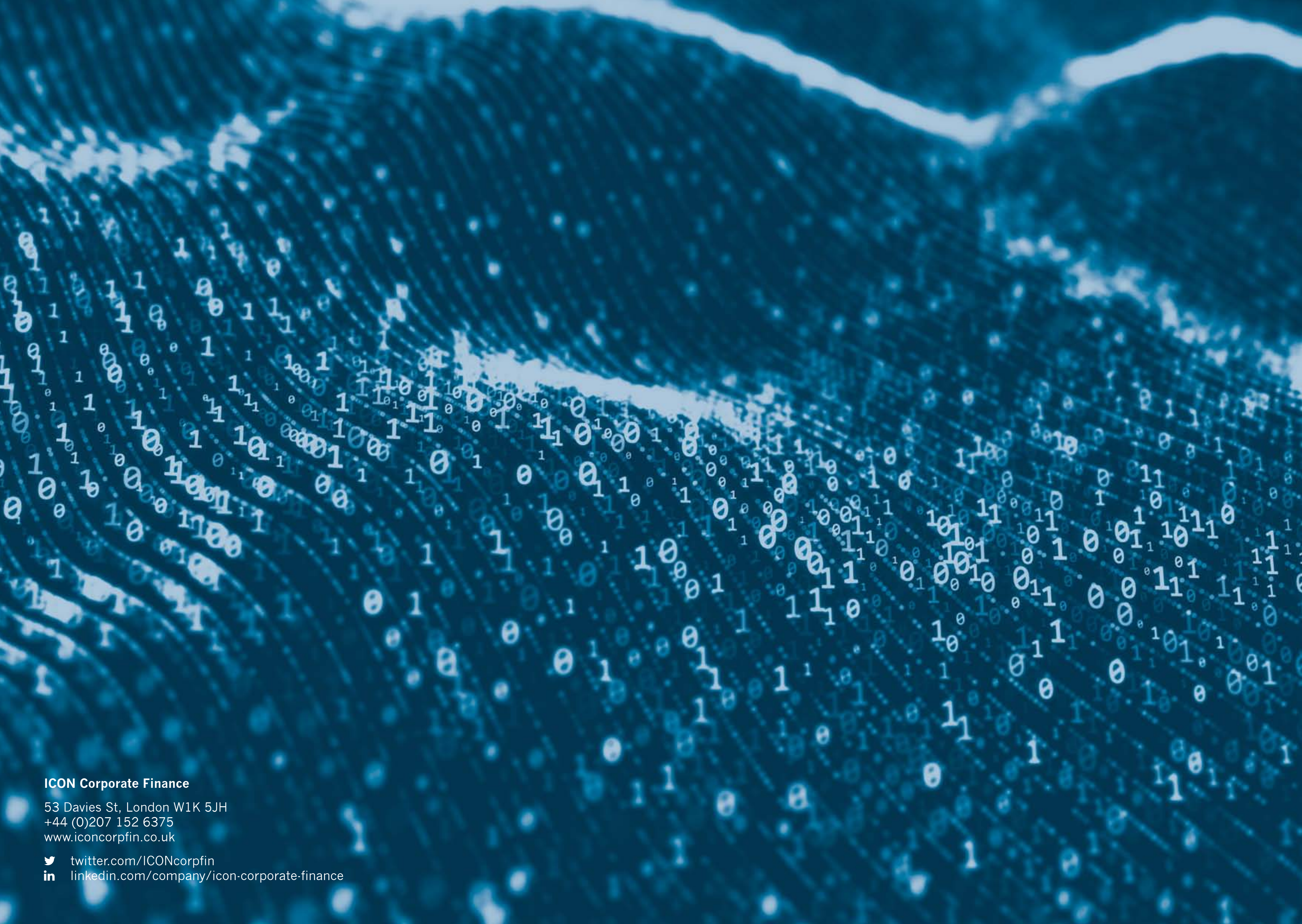
ICON SELECTED M&A DEALS

Company	Deal	Counterparty	Sector
silverbear	SOLD TO	Aquiline Capital Partners LLC	Membership software
SentryBay	MBO	Thincats	Cyber security
imx software	SOLD TO	Infinea	FinTech
Applicable	SOLD TO	NTT Communications	Unified Comms
pleasetech	SOLD TO	ideagen	Collaborative Doc Mgmt
Focus Group Europe	SOLD TO	accenture	ITSM Consulting
clinicalcomputing	SOLD TO	QMS / Constellation Software Inc.	HealthTech
Cypad	SOLD TO	ParentPay	FinTech
wealthify	FUNDING	AVIVA	FinTech
Marimatech	SOLD TO	Trelleborg	IoT
BusinessIntegrity	SOLD TO	Thomson Reuters	LegalTech
Merit Software	FUNDING	Synova Capital	FinTech



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