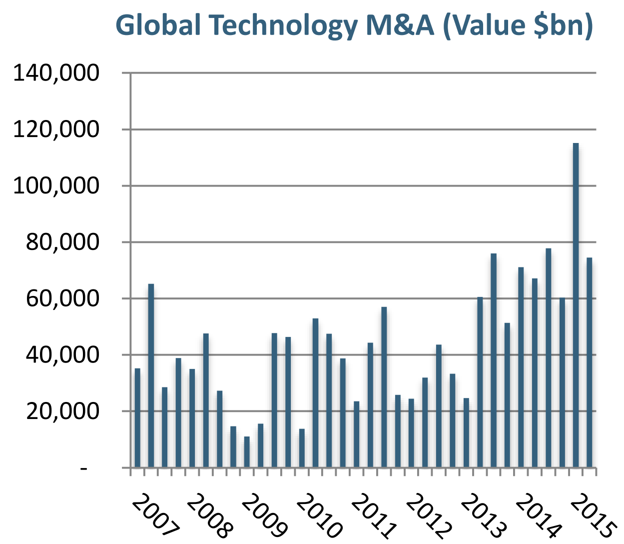
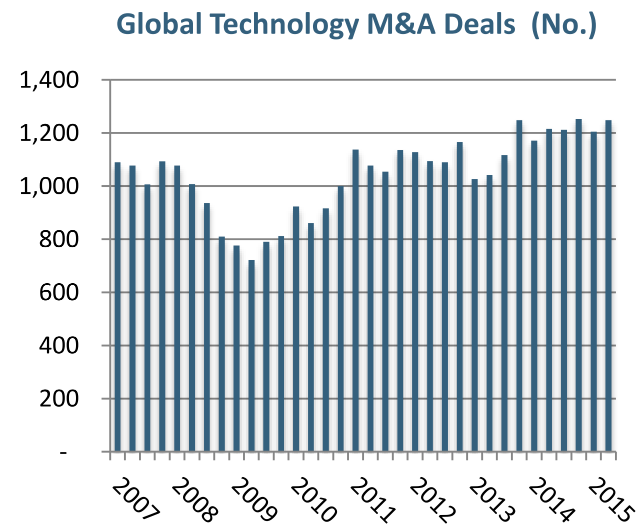
ICON CORPORATE FINANCE

TECH M&A REVIEW INTERIM 2015

Key Statistics	31 Dec 2014	30 June 2015	Change
FTSE	6,566	6,547	-%
FTSE Techmark	3,522	3,797	+7.8%
NASDAQ	4,736	4,988	+5.3%
US$ / £ exchange rate	1.56	1.57	-%
Tech M&A deals Vol. (No.) 1H	2,388	2,454	+2.8%
Tech M&A deals Val ($bn) 1H	138	190	+37.1%
Global Tech IPOs first half	144	66	-54.1%
Price to EBIT (x) 12m average	20.8	24.5	+17.8%
Price to revenue (x) 12m average	2.69	3.15	+17.1%





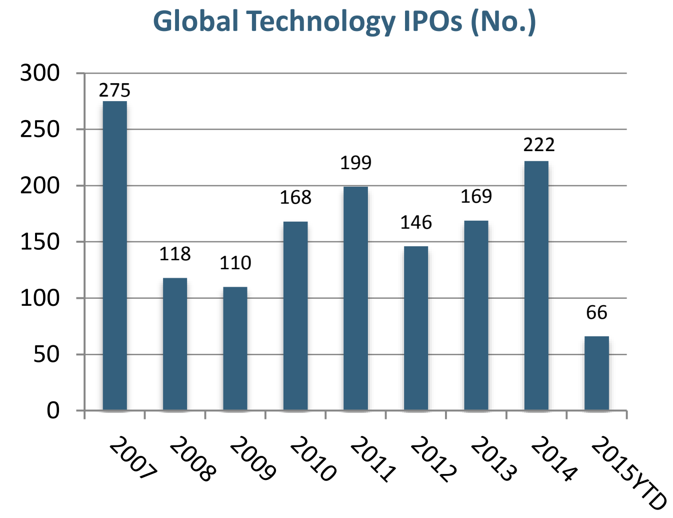
A MACRO VIEW

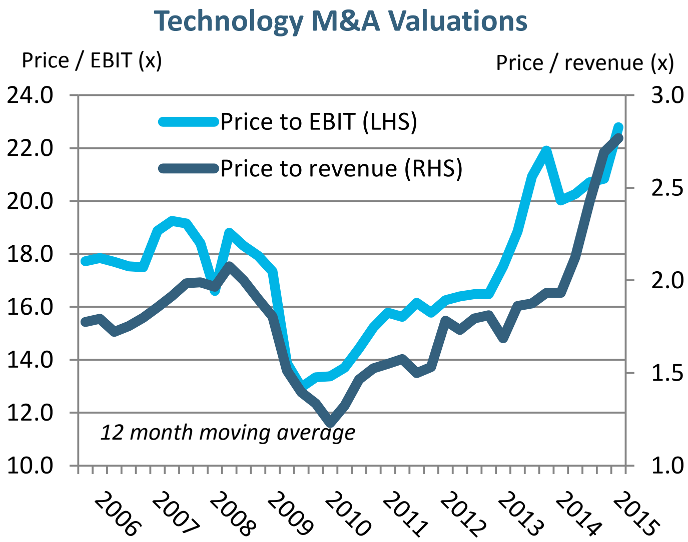
Interest rates remain low, very low; reflecting a continued low growth, low inflation world. Equity markets finished flat in 1H after being quite a bit higher a few months ago. Concerns over Grexit, China and the pace of the eventual timing of interest rate rises, have upset equities. Expectations of world growth rates seem to ebb and flow and they are the main driver behind the markets.

Technology continues to outperform. In a low growth world, the growth from technology becomes ever more valuable. The Techmark is up nearly 8% at the half year, slightly outpacing the NASDAQ.

This confidence in Technology is shown by another increase in the number of Global Tech M&A deals, which rose 2.8% compared with the same period last year.

May 2015 was in fact the biggest month ever for overall US M&A activity. In terms of the value of deals, it exceeded its previous peak in 2000. The M&A market is undoubtedly looking toppy, although comparisons with 15 years ago are probably wide of the mark, as at that time, 50% of deals were paid for in shares, while equity deals only account for about 10% today. No signs of any Fat Ladies warming their vocal chords – not yet anyway.





US Acquirers	1H14	1H15
Microsoft	3	8
Google	20	7
Twitter	-	7
Apple	5	5
Facebook	5	4
IBM	2	4
HP	1	3
Cisco	-	2
Yahoo	10	-
Oracle	5	-
	51	**40**

TRENDS AND VALUATIONS

IPOs were dominated last year by the hugely successful listing of Alibaba, the massive Chinese on-line retailer, raising a staggering $25bn, by far the biggest IPO ever. This year has been much quieter with the number of global tech IPOs falling by more than 50%, reflecting the fragile nature of the markets. The main IPOs include **Fitbit** (wearables) **MYOB** (accounting software) and **Sophos** (security).

The valuation of Global Technology M&A deals are in record territory. The median price to revenue multiples are nearer 3x than 2x and EBIT multiples are well over 20. Note this is the aggregate of all deals and does not suggest that all companies will be valued at these multiples. Values are trending higher due to a combination of factors, including more cross-border strategic deals and more acquisitions of start-ups in high growth sectors, such as social media, e-commerce, big data, digital marketing and niche software, where multiples of revenues paid are pretty exciting. More young, innovative, high value M&A deals inflate the overall valuation and there is strong interest for these higher growth businesses in a low growth world.

M&A activity is cyclical and dropped markedly after the credit crunch in 2007. However, the global technology M&A market has now been consistently strong for a number of years. The number of M&A deals globally were up 9% in 2014, and are up a further 3% in the first half of 2015.

The values grew even faster on the back of gargantuan deals in the semi-conductor space where Broadcom was acquired for $37bn and Freescale for $17bn, valuing them at 4-5x revenues and EBIT multiples in the high teens.

Interestingly, although most indicators of Volume and Value are pointing upwards, looking at the activity of the largest US Tech corporates they seem more cautious. Perhaps put off by the rise in multiples. Even Google's acquisition machine is purring along in second gear with only 7 deals in 1H 2015. This also indicates that the M&A activity market is broadening with mid-tier companies taking up the slack.

US TECHNOLOGY M&A

In May, Singapore based **Avago** agreed to acquire US rival, **Broadcom**, in a $37bn deal for the chip maker. Although it's not as high profile as say the **WhatsApp** $19bn acquisition by **Facebook** in 2014, it is in fact, the largest acquisition in the technology space since the dotcom era and the ill-fated merger of AOL/TimeWarner. In a timely twist, **AOL** who separated from Time Warner a while ago also disappeared this year. It was acquired by **Verizon** for $4bn or just 1.5x revenues, quite a fall from its peak valuation of $350bn. The attraction is advertising, and like so many deals in the past few years, it is the attraction of targeting advertising to mobile devices.

In addition to Avago/ Broadcom ($37bn), two other mega deals in semi-conductors, Intel/Altera ($17bn) and NXP/Freescale ($12bn), has led to a rapid consolidation in that sector and accounts for quite a slug of the transaction volume in the first half of 2015. The push for scale and new products that can meet demand in fast growing sectors, such as Internet of Things, is the key driver.

There is no doubt that, aside from the scale of the semi-conductor deals, the main story of the year so far has been the extraordinary amounts of money and eye watering valuations put on unlisted technology companies (mainly in the US). This is part of the reason behind the reduction in the number of IPOs in 2015, as companies delay floating because they can access capital at great valuations in private markets. So far in 2015 and according to CB Insights some $600m was raised from IPOs, compared with $20bn from "private IPOs" to venture backed funds. Companies such as **Uber, Snapchat, Airbnb** and **Pinterest** have raised capital at ever eye popping valuations. It's estimated that the number of these businesses valued at greater than $1bn has increased nearly tenfold in the past three years. Looks like a bubble!

Acquirer	Target	EV $000	EV / T/o	*Activity of Target*
Avago	Broadcom	37,000,000	4.4	*Semi-conductor chips for smart phones*
Intel	Altera	16,700,000	9.8	*Semi- conductors for data centres PLDs*
NXP	Freescale Semi	12,000,000	2.6	*Semi- conductor chips for connectivity IoT*
Permira	Informatica	5,300,000	7.1	*Middleware for data management and services*
Verizon	AOL	4,400,000	1.5	*Internet provider and media content*
CapGemini	iGATE	4,000,000	1.3	*Indian outsourcing*
HP	Aruba Networks	3,000,000	4.1	*Mobile services and wireless network provider*
SS&C Tech	Advent Software	2,700,000	6.8	*Investment management software*
Bain	BlueCoat	2,400,000	4.9	*Mobile web security*
Equinix	Telecity	2,350,000	6.7	*Data centre services*
Raytheon	Websense	1,900,000	5.2	*Online security software*
LinkedIn	Lynda.com	1,500,000	15.0	*Online learning/ video tutorials*
DH Corp	Fundtech	1,250,000	4.8	*Online financial software*
EMC	Virtustream	1,200,000	12.0	*Hybrid cloud solutions*
Optimal Payments	Skrill Group	1,100,000	3.6	*Digital payments services, digital wallets and vouchers*
Lexmark	Kofax	1,000,000	3.4	*BPA Business Process Automation software*

Looking at the list of major US deals, there is clearly a lot of interest in payments, IoT, big data, e-commerce, mobile, video, IT security and digital marketing. Valuations paid in these sectors remains pretty eye-watering. Although, perhaps reflecting the higher prices, there were no mega deals from heavy weights such as **Oracle, Microsoft, Google, Cisco** or **IBM**.

Google has about $65bn in cash so can afford to make a few bets on next generation technology and that is exactly what it's doing, particularly in artificial intelligence, robotics, prediction and navigation spaces, as they build exciting new products. They have now acquired over 170 companies in a myriad of sectors, so it's difficult to keep up with the activity. Having said that, the pace of expansion in these "moonshot" projects is now slowing as it refocuses on driving profit.

HP may have turned the corner. It made a significant £3bn acquisition of Aruba Networks (mobile networks) this year, and is by far its biggest deal since 2011 when it acquired Autonomy for nearly 12x revenues. HP is expected to split in two, later this year, in what could be the next big trend if markets stay kind. An HP PC/printer unit spin-off would help make a 300,000 employee business a bit more agile. **PayPal** was recently spun out of eBay and others rumoured to be looking at this are **Yahoo, Microsoft and IBM.**

Informatica the integration/data management and big data solutions provider was acquired by Permira Private Equity for $5.3bn or a whopping 7x revenues.

The ever acquisitive SS&C Technologies acquired **Advent Software** for US$2.7bn. That makes over 40 deals (including DST just 6 months ago). Advent generated US$397m of revenues in 2014, so the deal equates to over 6x trailing revenues and creates a very significant player in the investment management software space.

Yahoo acquired over 20 companies in 2014 deploying some of the $9bn wealth created from its Alibaba shareholding. The focus is online advertising, mobile, video, photos and messaging. Marissa Mayer is reinventing the company and its shares have responded – up over 20% in 2014. However, this year they remain on the starting grid.

Microsoft is using acquisitions as a way of entering new and adjacent markets. They've made some odd looking deals such as Skype ($8.5bn), Yammer ($1.2bn), Nokia mobiles ($7.9bn) and Mojang the Swedish creator of Minecraft for $2.5bn. However, after a $7.6bn write off of its Nokia investment (yes almost all the amount they paid), it shows the danger in executing on its strategy. It's also not a first time offender. It also provided over $6bn for its digital advertising deals not that long ago, the remnants of which it then sold to AOL. Clearly not all acquisitions add value. Windows 10 is the short term focus but with the huge shift of users from PC to tablet and mobile, this is not a trend they can ignore forever.

Lexmark the printer company has taken a further step to diversify into business process automation (BPA) by acquiring document capture and smart process applications player **Kofax**. It's paying a hefty $1bn or 3.4x revenue. This will nearly double the size of Lexmark's enterprise software revenues which comprises the earlier acquisitions of **Readsoft** and **Perceptive Software** and will help in its strategic shift towards greater exposure into BPA.

UK TECHNOLOGY M&A

In the UK, the IPO market was understandably quiet in the run-up to the election, but has since accelerated, with two very interesting IPOs in the past few weeks. Last year we saw the IPO of quite a few wannabe tech companies such as AO World (fridges), Just Eat (take away food), Zoopla (property), boohoo and MySale (fashion) and some smaller companies such as Rosslyn Data Analytics (big data), Actual Experience (supply chain) and Allied Minds. This year has seen the biggest tech IPO ever in UK – namely, **Sophos,** the Abingdon based IT security company. Having previously flirted with an IPO in 2007 and 2009, it opted for an Apex investment, valuing it at $800m in 2010. After a successful float in June, it is currently valued at nearer $1.5bn. Perhaps that's no surprise as it has margins of over 25% and has over 80% of revenues from recurrent subscriptions, so is high quality and aimed at a wide number of SMEs. The IPO is really positive for the UK market after the privatisation of so many of the larger Tech companies listed in London (Autonomy, Northgate, Logica, Daisy, CSR, Civica) it's great to see a reversal. It was then followed by the listing of **Kainos** the IT services supplier, which is good news for Queens University Belfast which founded Kainos in 1986. Again, it is performing strongly with revenues up 29% and profits up nearly 50% this year.

Two important M&A strategy lessons were learned in the first half of the year:

Lesson 1: Getting shareholder approval for an exit is a rather obvious sounding pre-requisite for a successful M&A process. It's obviously trickier if you are a PLC and this is done in public. Customer engagement provider **Eckoh** was in 'advanced discussions' with rival **Netcall**, about a £88m takeover recently. However the offer was rejected just a week later, as a large Netcall shareholder would not support the merger.

Lesson 2: Competitive tension adds significant value to a transaction. **Telecity** (the data centre provider) thought they had agreed a merger offer from InterXion at £2.2bn. That alerted Equinix who trumped the offer with a £150m uplift. At 28x EBIT the offer is certainly a full one, but Telecity is a rare opportunity to add scale in a sector where scale is key.

Quindell, the insurance claims outsourcing technology business has had a very messy existence so far. The shares hit £6 in 2014 but then fell 90% as confidence in it and its founder Rob Terry evaporated. Quindell had acquired nearly 30 companies in an unhealthily short time, but having now sold its key insurance claims business to Slater and Gordon for £637m, it has shrunk back and will no doubt be renamed.

The insurance sector remains pretty active with LDC acquiring the majority stake in **SSP,** the insurance software provider, for 3x revenues.

Monitise has also had a pretty tough year, its shares are down over 80% in the past year and the mobile payment provider has lost support of one of its larger shareholders, VISA. In fact, it has spent a lot more on acquisitions in the past few years than the current market cap of £150m.

The key FinTech deal this year was in the payments space, where UK listed **Optimal Payments** acquired **Skrill** for $1.2bn taking them into the Premier League in digital payments. They paid just over 9x adjusted EBITDA.

In the broadcasting software space **Sintec Media**, **Vislink**, **Dalet**, **Qumu**, **Rightster** were all busy last year. This year **Ooyala** (a US subsidiary of **Telstra**) made its second acquisition in a year, with the acquisition of Nativ - a provider of cloud-based media logistics and workflow software for video production, pre-production and broadcast planning for hybrid OTT and on-air video services. Last year it also acquired Videoplaza with its video ad technology. Telstra is clearly in an acquisitive mood having also acquired **Dr Foster** (healthcare work management) this year.

Elsewhere in the broadcasting space, **Pace** who provide Pay TV hardware solutions was acquired by US group **ARRIS** for $2.1bn or 8x EBITDA.

The broadcasting and media space is facing an explosion in social video streaming and having the right technology to capture and handle this is key. For example, Facebook began streaming video last autumn and by this spring was already recording 4bn daily views of video!

Computacenter sold its IT disposal and recycling subsidiary, **RD Trading Ltd** to **Arrow Electronics**, for £56m. It equates to 1.1x sales or 15x EBIT. This will let Computacenter focus on its infrastructure services and also lead to another cash return to shareholders.

Accumuli has been accumulated. The IT security managed services buy and build operator, has been acquired for £55m or about 2x sales by **NCC Group PLC** (the listed testing and escrow management provider). Accumuli has been a busy acquirer in the past few years buying RandomStorm at the end of last year.

The travel market exploded last year with transactions involving Cheapflights, Griffin, GoCompare, LastMinute.com and Anite Travel. This year **thetrainline.com,** which was looking to float in London, was acquired by private equity with KKR paying £450m or 4.5x revenues for the online rail ticket business.

The Energy management sector has also seen a plethora of deals. Starting at the end of last year when **M&C Energy** Group was acquired by **Schneider Electric** after a busy 30 months as part of the Lyceum stable, when it made 5 acquisitions itself. Then this year **RWE npower** acquired Welsh based **RUMM**, a university spinout that uses the latest innovations in cloud-based data analytics to help businesses monitor and control their energy in real time. **Utilitywise** acquired **T-mac Technologies** (real-time energy management software). Similarly **Zoopla,** making a big move out of its property focus, acquired **uSwitch** (comparison website) for £190m. All were on attractive multiples.

Lyceum made a very nice return on its £50m investment in **Access Group,** the mid-market business software group which was sold to TA Associates. They owned it for 3.5 years and in that time did 18 acquisitions and increased the EBITDA from £4.3m to circa £12m. No wonder they did well.

There has been an increase in the number of spin-offs and restructurings. For example, at the end of last year **Northgate** (which is still under KKR ownership) sold its public sector business to Cinven for £375m (2x revenues - a great price for public sector software).

Starting life as Cray Electronics in 1973, **Anite** has been acquired by US based **Keysight Technologies** for 3.7x sales. Anite shed its travel business last year, clearing the way for a bid for the core wireless testing business. Interestingly, Keysight are a spin out of Agilent, who in turn were a spin out of HP back in 1999. Another UK listed company departs to a US acquirer.

Public sector acquisitions have slowed a bit but this has not stopped **Capita** which has become an acquisition machine buying 10 more businesses in 1H ranging from online construction to business intelligence and outsourcing.

Jon Moulton's Better Capital was no doubt quite pleased with the sale of **Calyx Managed Services** (CMS) for a total consideration of £9m to MXC Capital. However, within a month MXC had doubled their money selling the Break Fix division (to **Daisy Group**) and Carrier Services (to **Chess Limited**), for £5.55m and then, selling the rump of the business to **Redcentric** for £12m. Ouch.

It has been a busy period for Tony Weaver's related businesses with **Castleton** acquiring again; to build a mid-sized IT managed services business. It made three smallish acquisitions in social housing and also Brixx Solutions (financial modelling).

Acquirer	Target	EV £000	EV / T/o	*Activity of Target*
Equinix	Telecity	2,350,000	6.7	*Data centre services*
ARRIS	Pace	1,400,000	0.8	*Set top box for subscription television*
Slater & Gordon	Quindell Prof Services	637,000	1.8	*Legal and claims management services*
KKR	Thetrainline.com	450,000	4.4	*Online train reservations*
Keysight Technologies	Anite Group PLC	388,000	3.7	*Wireless testing software*
Playtech	TradeFX	335,000	4.1	*International payments*
TA Associates	Access	225,000	4.2	*Accounting and business software*
LDC	SSP	207,000	3.0	*Insurance software*
HGGC	The Foundry	200,000	9.0	*Visual effects software*
Zoopla	uSwitch	190,000	3.0	*Price comparison in home services/utilities*
Charlesbank	SixDegrees	160,000	2.3	*ICT services. Telecoms services/infrastructure*
Daisy Group	PhoenixIT	130,000	0.6	*IT services and business continuity*
LDC	Synexus	83,000	2.0	*Clinical trial research*
NCC Group	Accumuli	65,000	2.4	*Cyber security software and services*
Playtech	AVA Trade	63,800	5.0	*Online financial trading platform*
Arrow Electronics	RD Trading	56,000	1.0	*Computer recycling and disposals*
St Ives	Solstice Consulting	50,000	3.0	*Mobile digital software*
AVG Technologies	HideMyAss	40,000	3.5	*Internet security*
Capita	Constructionline	35,000	3.7	*Online database for construction/tendering*
Market Tech	Stucco Media	34,500	5.5	*e-commerce market technology*
Staffline	A4E	34,500	0.2	*Training and welfare to employment*
Apple	Semetric	31,000	-	*Social media analytics. Music analytics*
Capita	GL Hearn	30,000	1.0	*Property consultancy*
MBO	Defaqto	27,600	3.5	*Financial compliance software*
Aveva	Bover8	26,600	-	*Online contract risk management*
Basware	Procserve	18,900	7.4	*SaaS procurement software*
KPMG	Crimson Wing	18,500	1.3	*IT and e-commerce*
Creston	How Splendid	15,700	3.9	*Digital design and app dev*
Iomart	SystemsUp	12,500	3.1	*Public cloud solutions consultancy*
Redcentric	Calyx Managed Services	12,000	1.3	*IT managed services.*

In cyber security there continues to be strong interest from defence companies to move into commercial security. This year US based Raytheon acquired Websense for $1.9bn or 5x revenues. This follows similar deals such as **Babcock** acquiring ContextIS in 2013 and **BAE** acquiring SilverSky last year.

One of the stranger sounding deals was the £40m acquisition by **AVG** of **HideMyAss** at 3.5x revenues. The target offers personal privacy solutions, using its VPN encryption service. It was started by Jack Cator in a small village in Norfolk when he was 16. Initially it was started on a sofa and used by school kids to access social media while at school, but it now has 100 staff and 10m users a month.

As ever, there are a huge number of deals that fall under the radar such as **Facebook,** whose virtual reality business Oculus acquired **Surreal Vision,** a Watford based computer vision/augmented reality business in May. **Apple** acquired **Semetric** a $50m music analytics business. Semetric tracks

music streaming, downloads and social analytics and is expected to form part of new Beats streaming music services. It is certainly cheaper than buying **Shazam** which was valued at $1bn in a recent funding round. Google has acquired 5 UK companies in the past year or so, including **DeepMind, spider.io, Rangespan, Dark Blue Labs** and **Vision Factory**.

Other overseas acquirers that were active in UK included: **Claranet, Elsevier, Siemens, Ricoh, Canon, Rakuten, Accenture, KPMG, Herjavec** and **Bentley Systems.**

There is no doubt that private equity buyers are much more aggressive than they were just a few years ago. Last year they invested in a range of tech businesses from Advanced Computer Software, Daisy, Open International, Masternaut, Pulsant, Allocate Software and more. This year thetrainline, Access, Six Degrees and Defaqto have continued the trend. This refinancing has in turn led to a much more aggressive acquisition strategy of targets. For example **Six Degrees** acquired Capital Support Group just barely two weeks after its recent change of ownership to US based Charlesbank Capital.

OUTLOOK

This is the sixth year of recovery in M&A market activity and there is no doubt a fair bit of exuberance about – particularly in the private equity funding rounds of Uber and Shazam etc. which seem to offer very little upside. Aside from that, there's lots of activity in data analytics, mobile, video, health, security/compliance, FinTech and managed services.

Many tech companies continue to perform strongly – just look at the two new IPOs in London - Sophos and Kainos - which both grew revenues more than 20% last year. In a world where growth is likely to remain elusive, the price for growth is likely to remain high.

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