TECHNOLOGY M&A REVIEW 2012

Key Statistics	31 Dec 2011	31 Dec 2012	Change
FTSE	5,572	5,897	+5.8%
FTSE Techmark	2,064	2,480	+20.1%
NASDAQ	2,605	3,020	+15.9%
US$ / £ exchange rate	1.56	1.63	+5%
Technology M&A deals Vol. (No.)	4,229	4,137	-2%
Price to EBIT (x) average	15.7	16.6	+6%
Price to revenue (x) average	1.6	1.7	+10%

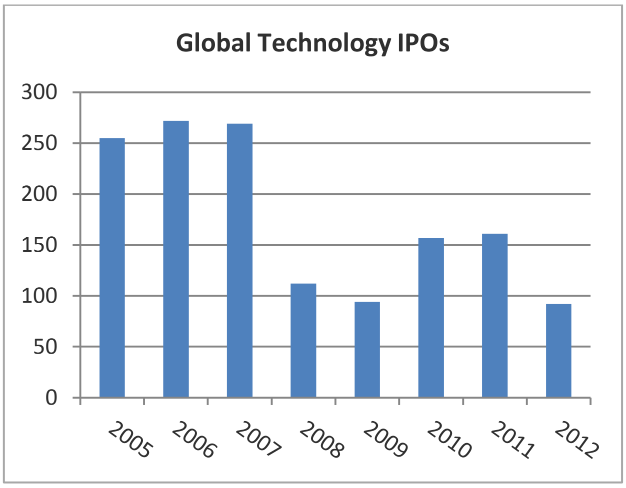
1. A MACRO VIEW

Equity markets finished 2012 strongly and FTSE ended up a healthy 6%. However, technology shares had a great year, with a 20% rise in Techmark and 16% rise in NASDAQ indices. The three words uttered by Mario Draghi (Head of the European Central Bank) who promised to do “whatever it takes” to save the Euro, was undoubtedly the key event of the year. This calmed a lot of nerves, particularly in Greece, Spain, Portugal and other heavily indebted countries. However, the key economic concerns of last year still remain, namely, the weight of debt in Europe, fiscal cliffs in the US, hard landing in China, double/treble dips and the political will to cut bloated public sector costs. As a result of all that, the slow global economic growth looks set to continue. Concerns over these issues have ebbed and flowed, and in the last quarter of 2012 those fears have receded and equity markets have rallied, as investors have taken a more positive view. The market recovery is primarily driven by unprecedented loose monetary policies in the US, UK, EU and Japan, as central banks print money and keep interest rates very low. Most economists expect 2013 to be very much more of the same with slow growth, low inflation and low interest rates.

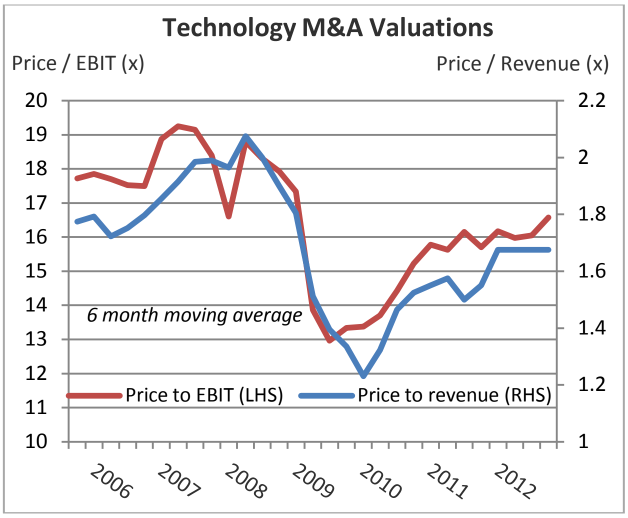
At the corporate level though, it is a rather different story with profits at record levels, boosted by an extended period of restructuring and cost cutting. So, although revenue growth is harder to achieve, the corporate sector is still in excellent shape with strong balance sheets and high profitability.

2. GLOBAL TECHNOLOGY M&A

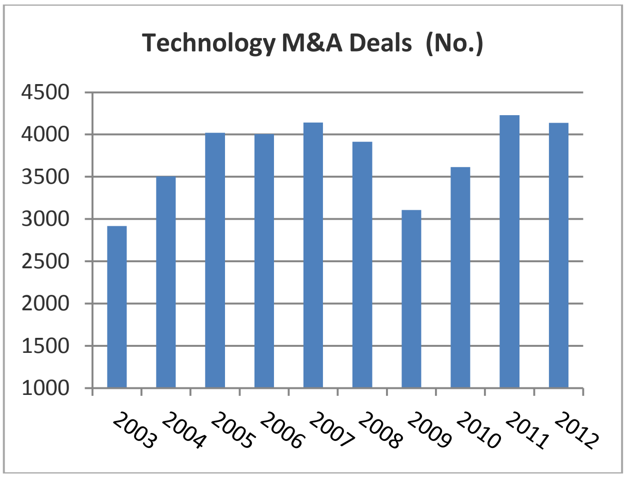
Both the number and the value of tech M&A transactions has fallen marginally in 2012, mainly due to an absence of landmark mega deals from the largest caps. This is also because the number of very large private equity funded deals has fallen quite significantly, as the lack of debt financing that they rely on starts to bite. Apart from that, the market is in good shape and valuation multiples have risen again. The technology sector balance sheets are still very strong, despite the rush of companies in the US who are returning cash to shareholders at an unprecedented rate in Q4 ahead of the feared “fiscal cliff” in 2013. The Top 10 tech stocks still have over $350bn in cash and are therefore well positioned to fund M&A activity without recourse to funding.



The IPO market remains very difficult. There have been a few successes such as, LinkedIn and the UK digital media company, Perform, but there have been too many over-priced offerings like Groupon and Zynga which have collapsed and of course, Facebook, who has since rallied but is still some 30% below its IPO value of $100bn. In the UK there is a flicker of activity with the listing of smaller tech companies such as Blur, Incadea and the biggest success story, Wandisco, which has more than doubled since its IPO in the summer. LSE are set to loosen the listing rules, but at the moment the IPO market doesn't seem a viable exit route for most UK technology companies.

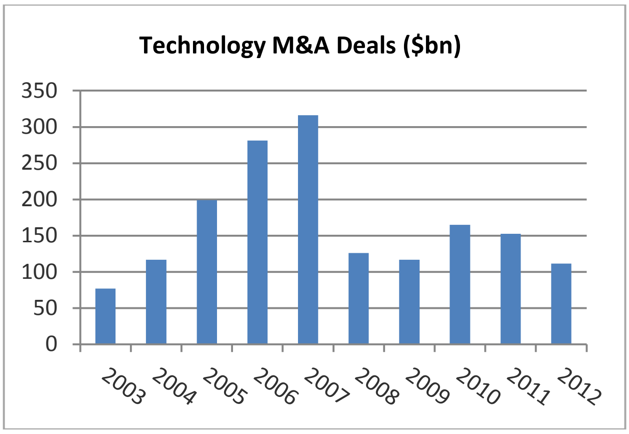


Valuations of technology M&A deals has not changed much in the past year with price to revenue multiples of 1.7 and EBIT multiples just over 16. However, the broader trend is certainly on the up. This is probably the result of several different factors including more cross-border strategic deals, less distressed transactions and more acquisitions in high growth sectors such as social media, digital marketing and niche software, where multiples of revenue paid tend to be higher. Valuations tend to be cyclical and we appear to be mid cycle.



The number of deals announced in 2012 was slightly down on 2011, a fall of just 2%. However, as the chart shows, it is still similar to the number of deals completed in the bull market period of 2005-2008, indicating a healthy and active market.

Given the slowdown in the overall M&A market since the credit crunch, the technology sector seems to have outperformed most sectors and is in good shape.



The aggregate value of deals announced in 2012 actually fell quite considerably to $111bn. However, this was greatly impacted by a series of gargantuan deals in 2011, such as; Google/Motorola Mobility for $12.5bn, HP/Autonomy for $10.3bn and Microsoft/Skype for $8.5bn.

Although there was a lack of similar landmark deals in 2012, there were nonetheless similar levels of mega deals, with 30 transactions valued at greater than $1bn, one less than last year.

Number of Acquisitions	2010	2011	2012
Google	27	26	12
Cisco	5	6	11
Oracle	9	9	10
Facebook	8	11	9
IBM	15	18	8
Dell	6	3	6
Microsoft	2	3	5
Apple	6	2	3
HP	5	3	-

The mega cap IT companies are still devouring tech companies at a heady rate with over 200 acquisitions in the past three years. In fact, many deals pass under the radar unannounced, so the number is a fair way north of that. Google is by far the most aggressive acquirer in the past 3 years, (65 deals) followed by IBM (41) who have really cranked up their dealflow.

The aggregate number has fallen this year, partly due to a lack of deals at HP. It has also been a slightly less frenetic year at Google but they still completed a deal a month. Apple made only a few acquisitions, preferring to invest in new product R&D.

3. US TECHNOLOGY M&A

The Biggest US Deals in 2012

Date	Purchaser	Target	EV ($m))	EV/ T/o (x)	*Activity of target*
May-12	SAP	Ariba	4,300	10.0	*Cloud based ecommerce platform*
Jun-12	Dell	Quest Software	2,400	2.8	*Information management solutions*
Feb-12	Oracle	Taleo	1,900	6.3	*HR talent management software SaaS*
Nov-12	Red Prairie	JDA Software	1,900	2.6	*Supply chain software /merchandising*
Nov-12	Priceline.com	Kayak	1,800	8.0	*Travel search engine*
Oct-12	Permira	Ancestry.com	1,600	4.0	*Family history website*
Sep-12	IBM	Kenexa	1,300	4.5	*HR / talent management software*
Jul-12	VMWare	Nicira	1,260	40.0	*Software defined networking*
Jun-12	Microsoft	Yammer	1,200	80.0	*Corporate social networking*
Nov-12	Cisco	Meraki	1,200	15.0	*Cloud network management tools*
May-12	Ericsson	Telcordia	1,150	4.8	*Mobile broadband and ent. networks*
Aug-12	Thomas Bravo	Deltek	1,100	3.2	*Software and services – prof. services*
Apr-12	Microsoft	AOL Patents	1,000	-	*Over 900 patents related to mapping*

The biggest US deal was **SAP** acquiring cloud based e-commerce platform **Ariba**, for $4.3bn or 10x sales. Ariba is a business platform that combines cloud-based applications with the world's largest web-based trading community. Over 700,000 customers use the Ariba network to enable businesses to connect to their trading partners. With an exit value at over $40 a share the deal sounds great; unless you acquired your shares in the dotcom boom when they touched a mind boggling $1,000 a share.

HP has had a tough year, the shares have plunged over 40%, the CEO has changed and 29,000 staff laid off. Then the mud started slinging in the direction of Mike Lynch, after the Autonomy $10.3bn purchase in 2011. An $8.8bn+ provision has been made against that deal, partly due perhaps to the hefty 10x revenues paid! Many of the deals in the past few years have been to diversify into faster growing markets (i.e. Palm, EDS and 3Com) at some lofty prices, so it’s not really a surprise to see the odd one fail. **Microsoft** also quietly wrote off $6bn in 2012 from overpaying for eQuantive a few years back, and it is unlikely to be the last write off.

Dell have historically acquired a few businesses such as Perot Systems (services) and 3PAR (storage) but this year they have really cranked up activity, despite a falling share price. AppAssure (recovery), SONIC Wall (security), Wyse (thin client), Clerity (app hosting), MAKE (modernisation), Quest (migration), Gale Technologies (infrastructure automation) and Credant (security) indicate a business in a hurry to diversify. Dell outbid private equity house, Insight, by paying $2.4bn or 3x sales for **Quest**, the information management group. Quest itself is an acquisition machine, having been formed from 28 earlier acquisitions and as a result, revenues have increased from $70m to $850m in 12 years – pretty impressive growth that Dell will hope to repeat.

Despite all the distractions of its overpriced IPO, **Facebook** was still acquisitive - the highlight being popular photo sharing website **Instagram**, with minimal revenues and only 13 staff - bought for $1bn. There was a land grab for enterprise focused social media businesses, such as **Yammer** for $1.2bn by **Microsoft.** Very high prices were paid relative to revenues for other social media businesses like Buddy Media, Demandforce, Vitrue and Roundarch; buyers included Oracle and Salesforce.com. No doubt some of these will prove to be good investments, but many social media deals look like speculative punts from investors with deep pockets. Value is difficult to assess but social media is certainly massively popular and growing at a rapid rate with Facebook passing 1bn users, Youtube passing 4bn views a day, Twitter 500m users and 175m on LinkedIn. As a result of this growth, the valuation metrics of many of these companies in our table are starting to look more familiar, if hardly in bargain territory!

Dec-12	Valuation US $m	Users (m)	Revenue ($m)	Value / revenue	Value / user ($)
ebay	65,000	100	11,600	5.6	650
Google	230,000	400	73,723	3.1	575
Yahoo	22,800	281	4,984	4.6	81
LinkedIn	12,000	175	522	23.0	69
Facebook	61,200	1,000	3,700	16.5	61
Groupon	3,145	65	1,600	2.0	48
Skype	8,500	280	860	9.9	30
Twitter	10,000	500	260	38.5	20
Zynga	2,000	238	1,140	1.8	8

Priceline.com acquired travel search business Kayak for $1.8bn and **Oracle** acquired Eloqua, a SaaS marketing software business, for 9x sales. Interestingly, both of these targets only listed in the summer.

IBM (like many of the big boys) has continued to acquire a broad range of tech businesses. This year it acquired 8 companies, the largest being Kenexa (HR and talent management) for $1.3bn, other targets were in search, cloud testing tools, storage and migration.

One of the most acquisitive companies this year has been **Constellation Software** and its subsidiaries like Volaris and Trapeze. They have acquired 9 companies in focused verticals, such as passenger transport systems. Its acquisition spree is certainly popular with investors as it shares have doubled in the past two years.

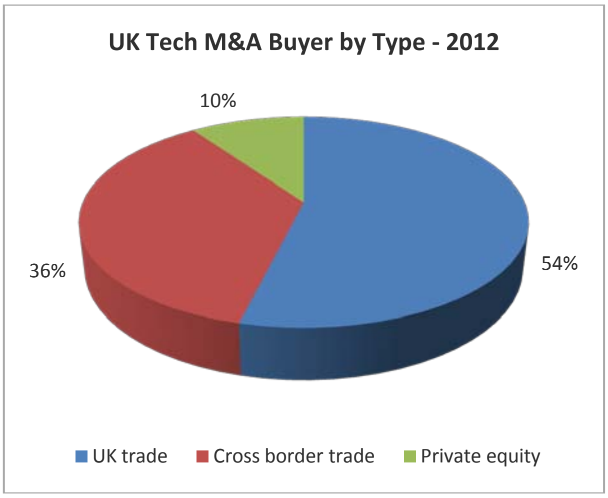
Other deals of note include the headline grabbing prices paid by **Riverbed** and **Cisco** for telco network management / optimisation software suppliers OpNet ($921m) and Cariden ($141m) at 5x and 20x revenues respectively.

Outgoing Head of Corporate Development at **Google,** David Lawee, recently revealed that the secret of their M&A programme (where 96% of term sheets get completed), was in knowing the target and doing their research. Even then, he reckons one in three of their deals don’t reach internal targets set. With the huge variety of the acquisitions (for example in 2012 - travel guides, social media, payment, security and even facial recognition software) that actually sounds a good result.

4. UK TECHNOLOGY M&A

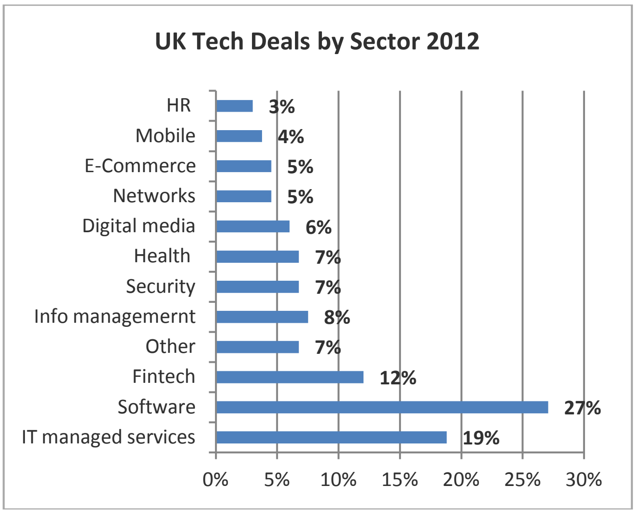
Top Valuations for UK Technology M&A Targets

Date	Purchaser	Target	EV £000	EV / T/o	*Activity of target*
Jun-12	Tesco	We7	10,800	12.3	*Web based music download*
Jun-12	Corporate Executive Board Co	SHL	426,000	8.2	*Talent assessment aptitude testing*
May-12	MBO Bridgepoint	BigHand	49,000	8.0	*Voice productivity software*
Sep-12	Epicor	Solarsoft Business Systems	96,000	7.7	*Software and IT services - manufacturing*
Jul-12	Chime Communications	VCCP Search	8,000	7.3	*Marketing software*
Jun-12	KBC Advanced Technologies	Infochem	8,200	6.8	*Oil and gas fluid software*
Feb-12	Myriad Group	Synchronica	23,600	6.0	*Mobile messaging software*
Jun-12	Moneysupermarket	MoneySaving Expert	87,000	5.5	*Money saving advice online*
Feb-12	Mindspeed Technologies	Picochip	48,500	5.2	*Signal processing chip developer*
Mar-12	Cisco	NDS	3,187,500	5.2	*Video technology set top TV boxes*
Sep-12	MBO (Gresham)	Investis	25,000	4.1	*Digital communications solutions*
Jun-12	Peer 1 Hosting	Netbenefit	25,000	4.0	*Managed hosting division of NBT*
Mar-12	Bottomline	Albany Software	20,000	3.8	*Financial software*
Jul-12	CRISIL	Coalition	29,000	3.5	*Analytics for investment banking sector*
Feb-12	Certara Group Inc	Simcyp	20,000	3.5	*Modelling and simulation for drug R&D*
Mar-12	Vista Equity	Misys	1,266,000	3.4	*Financial software developer*
Mar-12	Quindell Portfolio	IT Freedom	9,400	3.2	*Insurance software*
Dec-12	Pulsant	ScoLocate	26,000	3.0	*Co location managed services*
Sep-12	Cupid	Uniform Dating	7,000	2.8	*Online dating for armed/emergency services*



The list of UK publicly listed technology companies dwindled further in 2012 with the acquisitions of: Aegis, Misys, Logica, C&W, Torex, Psion, Kewill, Tikit, Netbenefit, SHL, Maxima and Atlantic Global. This decline is perhaps part of reason why UK buyers often cannot compete with the increasing number of overseas acquirers which are driving the M&A market. One of the most significant changes in 2012 was the increase in the number of overseas buyers in the UK technology sector.

Two years ago, the number of deals with a foreign trade buyer accounted for only 18% of the deals, but in 2012 that percentage increased to 36% of all deals tracked. That is a very significant shift and it represents a big increase in the confidence of global technology companies.



As the chart above shows, the key focus for investors in the UK in 2012 was software companies (mainly in niche verticals ranging from warehouse management to voting software). This was followed by IT/managed services which remains fragmented and FinTech, which is still very active, despite the poor banking climate.

UK deals that caught ICON's eye in 2012 were:

The biggest UK deal was the $5bn **Cisco** acquisition of **NDS,** which develops software solutions for the pay TV industry. It was Cisco's first big deal for a couple of years - they said NDS was a strategic fit for its video system Videoscape, as NDS' software allows cable and satellite TV companies to deliver encrypted content through televisions and other devices. Staines based NDS was established in 1988 as an Israeli start-up company. It was acquired by News Corporation in 1992 but following an earlier IPO, private equity player Permira was the 51% shareholder at exit.

Several mid-cap players reshaped and trimmed their activities by selling off divisions such as **Serco** who sold their non-core defence consulting business to **AMEC**, **Maxima's** document management business was acquired by **m-hance**, **Sanderson's** retail division was sold to **Torex**, **SCC**'s distribution business was sold to **TechData** for £225m and **Vertex** public software sold to **Serco** to complete the merrygoround.

Motorola acquired **Psion** for £128m or 0.7x revenues. Hardly an exciting exit for the handheld computer company, particularly as it was one of the founders of the PDA (personal digital assistant) in the mid-1980s. However, just as RIM is facing severe challenges to its retail handheld products, Psion, which now focuses on retail and warehouse industrial handheld products, is also facing softer markets. While Motorola paid 88p a share in cash, a significant uplift in the 60p price that Psion was trading at beforehand, it is some distance from the peak valuation of £30 for which the shares traded back in the dotcom boom.

Vista Equity Partners acquired financial software provider, **Misys**, for £1.2bn. Misys (like Psion) is no youngster, having been formed in 1979 to supply software to insurance brokers. Earlier this year they were approached by Swiss rival Temenos, but terms could not be agreed and when talks faltered, Vista swooped. At over 3x sales and 15x EBIT I would think the shareholders were quite happy at that price.

The UK banking sector may still be busy restructuring after the credit crunch but **FinTech** is still a very active space for M&A and valuation multiples are high. Notable targets in 2012 were: **Adeptra** (fraud management) for 3x sales, **Zephyr** (wealth management) 2.7x sales, **Coalition** (investment bank analytics) 3.5x sales, **Albany Software** (payments) 3.8x sales, **RedKite** (trading software) and **Morningstar** (investment). Also French based IT player **Sopra** made two significant investments to boost their UK presence, acquiring the UK arms of **Business and Decision** and financially focused, **Tieto,** at a combined cost of £48m.

Elsewhere in FinTech sector, German listed **Software AG** acquired U.K. middleware company **my-Channels**, which develops low-latency messaging software. Its Nirvana platform is a good fit for next-generation cloud, mobile, social and big data applications. The product is capable of streaming hundreds of thousands of messages to many thousands of clients within micro seconds.

Quindell Portfolio have built a £240m revenue insurance and telecoms business in an impressively short space of time, raising £80m of debt and equity in 2012, part of which has been deployed in a series of acquisitions.

Logica has had a tough decade with its shares having fallen significantly over that time. So it's perhaps no surprise that they were acquired following a cheeky £1.7bn bid from Canadian **CGI,** who were actually smaller than Logica.

US listed **CACI** returned to the acquisitions table with the purchase of £20m revenue, **Tomorrow Communications,** to boost its managed services. Consolidation in the fragmented IT services sector continued with **Star, Netbenefit, Maxima, Network Resource** and **ScoLocate** all acquired in the year. Vin Murria's **Advanced Computer Software** acquired **Fabric,** the London based IT services provider, paying 9x EBIT for the £11m revenue mid-tier supplier. It also acquired **Serco Learning**, both appear slightly off-piste moves for ACS which is focused on the health sector.

MoneySavingExpert, owned by consumer finance evangelist Martin Lewis, sold for £87m to **MoneySupermarket** in a cash and shares deal that will make Martin very wealthy. He has generously given £10m of the deal to benefit charities. With revenues of £15.8m and profits of £12.6m one gets a glimpse at the staggering profitability of the "click through" revenue model when you get it right. It looks a great deal for Martin at over 5x revenues.

MICROS Systems acquired Dunstable based, **Torex Retail**, a leading provider of POS and back office technology to the retail, hospitality, convenience and fuel markets. MICROS, yet another US acquirer, supplies the hospitality and retail industries worldwide and this deal broadens their already wide base, as they are apparently already in more than 180 countries globally. The valuation of 1.1x revenues and 13x EBIT reflects the generally tough retail environment.

Shareholders at logistics software supplier **Kewill** were happy to accept an £89m offer (net of its cash) made by $2.5bn US private equity player, Francisco Partners, after a tussle with another private equity fund, Symphony. Guildford based Kewill has had a tough time recently, this is reflected in a valuation of 1.6x revenues.

Foreign buyers dominated in the mobile space with mobile messaging specialist **Synchronica** acquired by Swiss based, **Myriad,** at an attractive 6x revenues. Other buyers in the sector were **Aircom, Xerox** and **u-Blox** from Germany.

AIM listed, project management software company **Atlantic Global** based is Cleckheaton, Yorkshire was acquired by Minneapolis based **Keyedin Solutions**. The acquirer, KeyedIn, is a name we may see a lot more of as George and Lauri Klaus start to build another business similar to Epicor, which they grew from $30m to nearly $1bn in ERP revenues, before it was sold to Activant.

Capita continued its acquisition spree taking their total deals above 70 in the past 5 years. The targets remain diverse - this time its employee benefits, healthcare software and SAP consulting. To fund this spree they raised £290m in cash by issuing new shares which will shore up the balance sheet after a busy couple of years. The key valuation metric (per Ian West of Capita) is to achieve 15% post tax return within 12 months, and so they pay accordingly.

IDOX continued its successful growth, despite a tough public sector climate. The shares doubled in 2012 and there were three acquisitions: Opt2vote, the voting solutions company, Currency Connect, an R&D advisory business and FMx in facilities management.

Digital Barriers bought a further 3 very small, niche, defence technology related businesses in 2012 and another in early 2013. Targets are in video, surveillance and screening. This takes their acquisitions up to 12 since their IPO just a few years ago. Profits are still somewhat distant but investors backed a £10m equity funding.

In 2012 **IBM** acquired 8 companies globally, including 2 in the UK: London based Green Hat, the cloud based software testing business and Butterfly, a migration software provider, again highlighting that mega caps do acquire niche UK businesses.

A new kid on the block is mid-market consolidator **6 Degrees Group,** which has acquired 11 companies in a year and a half and has also managed to secure £8m in new funding from backers Penta Capital. It has gone from start-up to £50m player in the mid-market in UK. It mirrors **Adapt** (Lyceum backed) who continue their buy and build strategy with the £13m acquisition of Cardiff based eLINIA (cloud services).

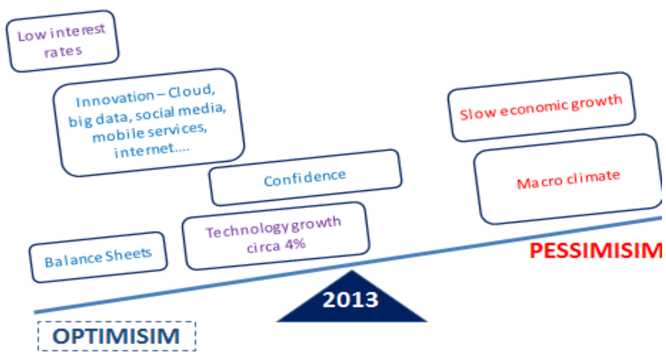
One of the strangest deals of the year must be the acquisition by **BT Group,** which has been very shy about acquisitions in the past few years after troubles in its Global Services division. It acquired Tikit, a UK listed software supplier to the legal profession for £64m or 2.5x sales. This clearly shows that if you are planning an exit in the next few years you may need to think a bit laterally in looking for an ideal strategic partner, as the highest premiums seem to be paid by complimentary rather than competitive acquirers.

Japanese buyers are like London buses, you wait ages and then several come along at once. **Dentsu** acquired ad/media group Aegis in a mega deal, but also we saw **NTT Data** acquire two IT consultancy businesses and **Hitachi Consulting** acquired Celerant, a £100m revenue consultancy.

Private equity is still a key component of the UK market with HG, Gresham, Bridgepoint and Phoenix all active. Also, US based Insight Venture Partners invested a significant $62m in UK email archiving and management business **Mimecast** to help it expand in the US.

5. OUTLOOK

Following the Facebook and Groupon flops, the IPO market is likely to remain quiet in the short term, so for UK technology shareholders looking to realise their equity, the M&A route still remains the only realistic option. The good news is that trade acquirers from overseas are actively looking for deals and are prepared to pay attractive prices. In return they are looking for growing, well run businesses that are scalable. Also, it is encouraging to see a raft of UK listed technology companies raise additional equity for acquisitions, for example, Digital Barriers, Capita, Quindell Portfolio and Cupid all raised new equity in 2012.



Gartner Top Predictions for 2013

- Mobile phones overtake PCs for web access
- Mobile apps on a variety of architectures
- Personal cloud for storage
- Enterprise app stores
- Communication of intelligent devices
- Cloud services
- Big data – info management
- Analytics and simulation
- In Memory Computing
- Integrated ecosystems
- Internet Of Things

While companies will seek to buy expertise/technology in new fast growth trends (see Gartner list above) many of these are still emerging. We still see the greatest demand from buyers in core areas such as e-commerce, information management, FinTech, cloud/managed services, niche software, business intelligence/analytics and IT security.

Macro events are again likely to dominate in 2013. Views on the potential for economic growth are likely to ebb and flow. Investors start the Year of The Snake in a relatively bullish mood after the market rally in Q4 2012. Let's hope that Mario's promise is not tested in 2013 and that the growing confidence continues to rebuild.

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