TECHNOLOGY M&A REVIEW 2013 1H

KEY STATISTICS	30 Jun 2013	31 Dec 2012	Change
FTSE	6,215	5,897	+5%
FTSE Techmark	2,706	2,480	+9%
NASDAQ	3,403	3,020	+13%
US$ / £ exchange rate	1.52	1.63	+7%
Technology M&A deals Vol. (No.)	1,883	2,174	-13%
Price to EBIT (x) 12m average	18.4	16.4	+12%
Price to revenue (x) 12m average	1.81	1.75	+3%

1. A MACRO VIEW

The macro picture globally is still one of low economic growth, low inflation and low interest rates. To try and kick-start growth, the Fed started its latest round of quantitative easing (QE3) in Q312 at $40bn a month and then increased it to $85bn by the end of last year. The main impact of QE3 has been a reduction in bond yields, which has boosted other assets; including equities, which have rallied strongly in the first half of the year. However, fear that US quantitative easing will be reduced in 2H13 has meant the market has recently fallen back. In Europe, Mario Draghi's commitment last year to do "whatever it takes" to save the euro has not really been tested and the Eurozone is muddling along too. So at mid-year, most markets are up with Techmark up 9% in the UK and tech heavy NASDAQ up 13% in the US. Overall, confidence is improving and the macro environment is much more stable than this time last year.

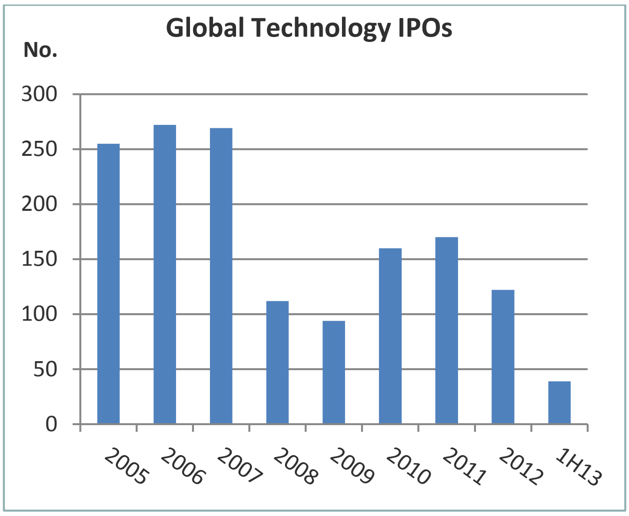
Corporates in general, remain in rude health with strong Balance Sheets and rising margins. Despite the tricky macro climate, corporates have cut costs and driven efficiencies to grow profits. Many technology companies now literally have more cash than they know what to do with.

2. GLOBAL TECHNOLOGY M&A

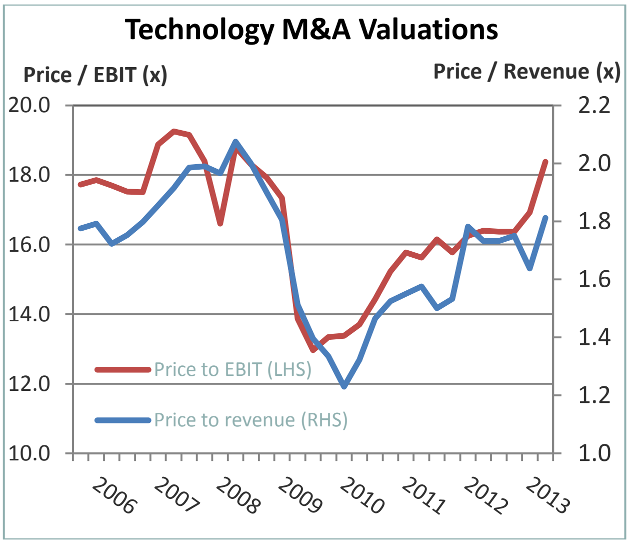
Acquisitions	2011	2012	1H13
Google	26	11	7
Cisco	6	11	6
Oracle	9	11	3
Facebook	11	9	3
IBM	18	9	3
Dell	3	6	1
Microsoft	3	5	3
Apple	2	3	1
Yahoo	2	3	12
HP	3	0	0

In the past few years Google has been by far the most aggressive acquirer of the large cap technology groups. However, in 2013 Yahoo have been pretty busy buying 12 companies. Meanwhile, others such as IBM, Cisco, Facebook and Oracle devour a steady stream of acquisitions year-in-year-out.

However, some larger companies have reduced M&A activity, in particular; HP which is in the midst of a big restructuring, Dell which is the subject of a large MBO and Apple who continue to horde cash, preferring to invest in new product R&D.

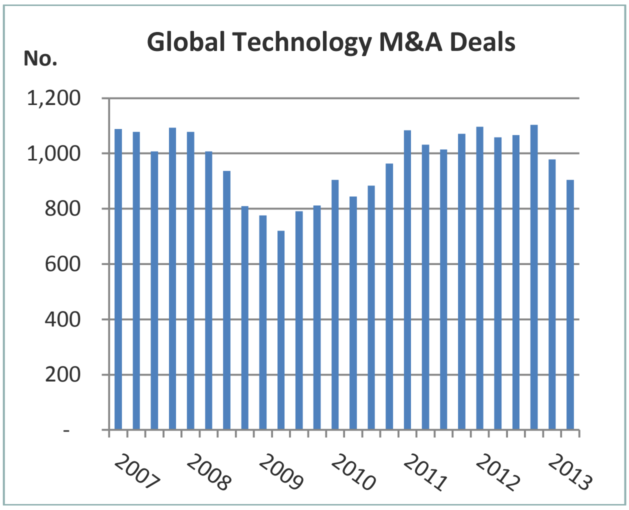


Despite a pretty buoyant period in equity markets, the IPO market is very quiet. The larger IPOs in recent years seem to have been heavily overpriced and so Groupon, Zynga and of course Facebook are all well below water. However, there have been some IPO success stories, such as Workday (human capital management), Splunk (big data analytics) Tableau Software (data analytics) and Eloqua (revenue performance, which listed in summer last year but was then acquired by Oracle before Christmas). In the UK the lights are on but there is not much going on. Some smaller tech companies such as Blur, Incadea and, the biggest success story, Wandisco, have listed. However, for those looking to realise value in the current climate, trade acquirers or private equity players can offer better terms than listing.



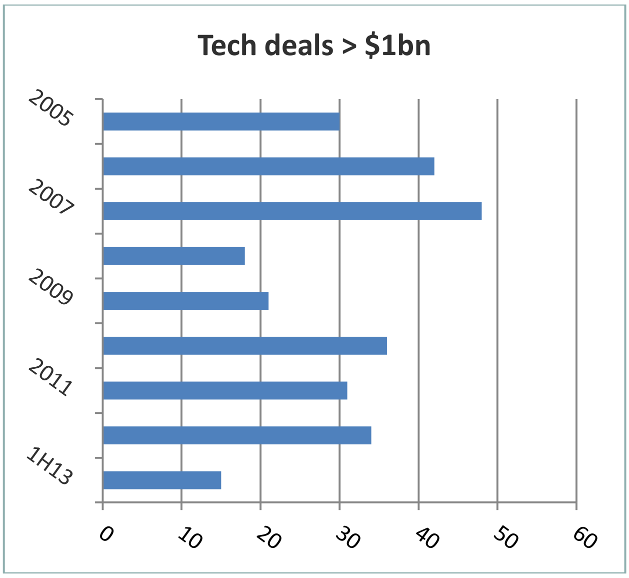
Valuations of technology M&A deals remain pretty solid with average price to revenue multiples of 1.8 and EBIT multiples just over 18. The trend is certainly on the up. Given that volumes have dropped, this is perhaps surprising and is probably the result of several different factors, including more cross-border strategic deals, less distressed/restructuring transactions and more acquisitions in high growth sectors such as; social media, digital marketing and niche software where multiples of revenue paid are pretty exciting.

Valuations tend to be cyclical and we appear to be at the higher end of the cycle.



The number of deals announced in 1H13 was down on the same period in 2012, a fall of 11%. However, although volume has fallen there are still a lot of deals closing with nearly 1,900 deals captured by Zephyr in the first half.

Given the slowdown in the overall corporate 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 1H13 actually fell quite considerably. However, the timing of mega deals such as the MBO of Dell ($24bn) and the bid for Virgin Media (£15bn) significantly impacts the numbers. Assuming the Dell and Virgin deals close in the second half, this will significantly redress the fall in 1H.

Similarly the number of mega deals fell, although this too should rebalance as the year progresses and deals in progress close.

3. US TECHNOLOGY M&A

The Biggest US Deals in 2013

Acquirer	Target	EV ($)	EV / T/o (x)	Activity of Target
MBO Silver Lake	Dell	24,400,000	0.5	PC laptop manufacture and software/services
IHS	RL Polk	1,400,000	3.9	Automotive intelligence
Bain/Golden Gate	BMC Software	6,900,000	3.3	Mainframe computer software
Salesforce.com	ExactTarget	2,500,000	8.6	Cloud based marketing software - social networks
IBM	SoftLayer Technologies	2,000,000	5.0	Online storage leasing for website hosting
Oracle	Acme Packett	1,700,000	6.2	IP session border control technology developer
Yahoo	Tumblr	1,100,000	91.7	Blogging site
Google	Waze	1,030,000	25.7	Travel and traffic collaboration app for mapping
Fiserv	Open Solutions	1,015,000	4.1	e-banking software
TPG	Eze Castle	1,000,000	14.9	Hedge fund and financial trading software
Thom H Lee	CompuCom Systems	1,100,000	1.0	IT consultancy

IBM usually make a large acquisition each year and this year has proved no exception. In the past few years they have acquired Cognos (BI), SPSS, Sterling Commerce (integration), Netezza (data warehousing), Kenexa (talent management) and in June this year they acquired SoftLayer Technologies (cloud infrastructure) for $2bn. Interestingly, acquisitions at IBM in the past few years have been heavy on the data analytics as it makes a big push into fast growth 'Big Data'.

Google revenues topped $50bn in 2012 and they now have cash of a similar amount. Cash keeps rolling in. For example; Psy's 'Gangnam Style' video has now been viewed over 1.5bn times and alone generated over $8m in advertising revenues in its first six months for YouTube. Acquisitions in GPS, cloud computing, e-commerce and social prediction still leave Google with lots of wonga.

It has been an interesting year for **Apple,** who became the largest company in the world when their stock hit $7 last year. However, its shares have since slumped, hovering at just over $4 in 2013. Apple's biggest problem seems to be how to sensibly utilise its cash reserves that have risen to a mind boggling $145bn level. The problem is that two thirds of it has been earned outside the US and so if it is used in the US it will be taxed. US hedge fund manager, David Einhorn, is threatening to sue Apple over its "Depression-era" mentality, given its tendency to play safe. As a result, Apple has launched a $55bn share buyback and because it doesn't have enough cash in the US to fund it, it is issuing bonds to plug the gap. The net result though is that Apple retains its off-shore cash hoard and still seems reluctant to spend any on M&A.

Yahoo has set off at a gallop in 2013 with 12 deals announced in the first six months. Perhaps the most headline grabbing deal in the UK was the $30m acquisition of mobile news app developer, Summly. UK based Summly was created only two years ago by Nick D'Aloisio at the tender age of just 17, with backing from Horizon Ventures. Using clever algorithms, which he partly developed as a 15 year old to help with his school work, the app delivers news in bite sized chunks which can be easily read on mobile phones and had been downloaded more than 1m times. On the face of it, splashing out $30m on such a young thing sounds a bit mad, but as Yahoo point out "some 300m of their 700m users now access Yahoo on their mobile", and so the company needs to adapt to changes in internet habits. In fact Summly was just one of several deals closed by new CEO, Marissa Meyer, others include; Ghostbird (Photo app), Roundee (IP based conference calls), Qwiki (video sharing), Xobni (address book app) and aLike (recommendation app). However, the biggest acquisition by Yahoo was the purchase of on-line blogging/social networking platform, Tumblr, for $1.1bn, a price that seems to bear no relation to its $13m in 2012 revenues. With over 100m blogs it is clearly a great platform for something! The question is whether you can monetise that traffic without losing it. Yahoo raised over $4bn in 2012 from a partial sale of its stake in massive Chinese site, Alibaba. In many ways this spree looks like a partial reinvestment of that money, in the hope that Yahoo can re-invent itself into a faster growth mobile internet play.

In a relatively quiet period for mega deals the acquisition of **BMC Software** by private equity group Bain and Golden Gate stands out. The $6.9bn deal will take BMC off NASDAQ at a cost of just over 3x historic revenues. The service management software provider was founded back in 1980; its 3 founders were programmers at Shell. Over the past 30 years it has steadily devoured companies, including one or two larger deals such as Remedy and BladeLogic.

It's interesting that the largest technology companies have ridiculous amounts of cash on their Balance Sheet, yet it is left to private equity players to headline most of the larger deals. For example, **Websense** was acquired by Vista Equity in another $1bn deal or 3x revenues for the security software company. Surely it would make more sense for the large technology groups to acquire assets like this rather than get a nominal return from cash in the bank?

There are always stand out deals each year and recent examples are Google/Motorola Mobility for $12.5bn, HP/Autonomy for $10.3bn and Microsoft/Skype for $8.5bn. This year the standout deal is the long running attempted privatisation of **Dell** by founder, Chairman, CEO and largest shareholder, Michael Dell, in partnership with Silver Lake. Dell has been hit hard by the popularity of mobile computing with a drop in sales of its desktop products. An initial offer of $24bn has been considerably complicated as it angered some investors and attracted interest from activist Carl Icahn. Given Dell has $11bn in cash he thinks the offer is not high enough and is proposing an alternative scheme that will return some of that cash to shareholders.

HP endured a lot of pain in 2011 and 2012 and perhaps not surprisingly it changed its CEO who then started a restructuring with 29,000 staff laid off. The trouble is partly because HP paid way too much for Autonomy (nearly 12x revenues). Lawyers have been called in and mud-slinging has commenced. Meanwhile, with that sort of background it is perhaps not surprising that HP have not made any acquisitions in the past 2 years.

FinTech remains a busy sector. Two $1bn+ deals that stick out are Open Solutions (e-banking) acquired by **Fiserve** (4.4x revs) and Eze Castle (hedge fund /trading software). Also, although announced on 1 July it was interesting to see **Intuit** was acquired by private equity for just over $1bn, paying 3.4x trailing revenues for the digital banking player.

Bebo has joined the scrap heap of fallen stars. Its story has a certain symmetry to it. The social networking site was sold to AOL in 2008 for a whopping $800m. But it didn't work out and they ended up selling it on to private equity group Criterion for just $10m. That also didn't work out and it then filed for Chapter 11 bankruptcy protection this year. This week it was acquired by its founders for $1m! It is a similar story to Myspace in 2012.

4. UK TECHNOLOGY M&A

Top UK Technology M&A Targets

Acquirer	Target	EV (£'000)	EV / T/o (x)	Activity of Target
Omers Private Equity	Civica	390,000	1.9	Public sector software
Cisco	Ubiquisys	205,000	58.0	Small cell mobile telco technology
Electra	UBM Data Services	160,000	0.9	Data services division of UBM PLC
Legal & General	Cofunds	131,000	2.5	Financial investment platform
Advanced Computer Software	Computer Software Holdings	110,000	1.8	Back office accounting software
Intel	Aepona	80,000	34.0	Mobile telecoms software
ION Trading	Ffastfill	74,000	5.7	Derivatives financial trading software
Reed Elsevier	Mendeley	65,500	30.0	Online research
Capita	Northgate Managed Services	65,000	0.5	IT and managed services division
JDS Uniphase	Arieso	55,000	4.3	Location intelligence software
MBO	Node4	52,000	3.0	Data centre in Derby
MBO - Dunedin	Trustmarque	43,000	0.3	Reseller and mid market managed services
Capita	iQor	42,000	2.0	Debt recovery services. BPS
WPP	Salmon Group	34,000	1.0	IT consulting and services
St Ives	Branded3Search	25,000	6.1	SEO and digital marketing
Kennet/Fidelity	Rivo	20,000	2.0	Governance and compliance SaaS
Yahoo	Summly	18,000	22.0	Mobile news app developer

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

The £15bn acquisition of **Virgin Media** is still pending, as is the £10bn cable acquisition by Vodafone in Germany. Both deals highlight the fast moving convergence in telecoms media and TV. Particularly as they are hard on the heels of the move last year by BT to acquire ESPN in Europe and move into media services with the launch of BT Sport.

The failure of **2e2** with over £400m revenues and 2000+ staff was arguably the worst news in the UK IT market in 2013. Over the years 2e2 has been an aggressive acquirer, including targets such as Compel, Morse and Netstore to name just a few. However the real problem seems to be leverage. Debts approaching £300m are a heavy burden and bankers in 2013 remain a nervous lot, particularly after the company broke its banking covenants. A buyer never materialised, although data centres were acquired by Daisy and other bits like Diagonal Consulting found a new home.

Civica have changed ownership again. Having been privatised by 3i in 2008, the investors have sold their stake to OMERS Private Equity, the investment arm of Canadian Ontario Municipal Employees Retirement Scheme for $600m. Given that Civica supplies software to the public sector, then its new owner sounds well matched, given their own public sector interests.

Advanced Computer Software acquired Computer Software Holdings for £110m in what looked a pretty big move earlier this year. However, given that ACS CEO, Vin Murria, was CEO of that business until 6 years ago and sold it for £100m at that time, then one imagines she knows what she is buying. ACS paid 8x EBIT or 1.8x revenues but it comes with lots of recurrent income and rebalances ACS' revenues away from reliance on the public sector. So it looks like another smart deal, and investors were so enthusiastic that having sought £25m of funding ACS ended up taking £44m. No wonder the shares continue to do well.

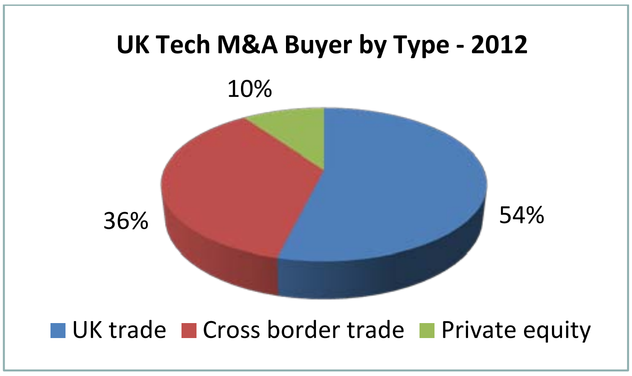
Quindell Portfolio are in a hurry to build an insurance claims outsourcing technology business. It has been an interesting ride in the past year with the shares trebling then halving (and recently recovering again). Acquisitions are a key part of the growth having raised over £90m to fund numerous deals last year.

St Ives is reshaping itself into a digital marketing business from being a traditional printer, following a couple of M&A deals and its shareholders love it - the shares have doubled in the past year.

Capita listed as a £25m revenue business back in 1991 and last year revenues passed the £3.3bn mark. Organic growth is part of the reason, so is its voracious appetite for acquisitions. In 2012 it raised £290m in cash by issuing new shares and already this year it has acquired Northgate Managed Services (£65m) and iQor (£42m) plus a slew of smaller deals.

Other UK acquirers that operate below the radar include fast growing young companies such as **Digital Barriers** (defence technology), **Six Degrees Group** (telco services), **Adapt** (managed services) **Accumuli** (IT security), **Restore** (data records management), **Access** (business software), **Idox** (public and engineering software).

In the UK we still see strong interest from overseas acquirers buying UK based assets. As can be seen from the chart below, over a third of deals last year were mopped up by foreign acquirers. The trend continues and so far in 2013 we have seen **Cisco** pay over £200m for small cell mobile technology specialist Ubiquisys with only a few £m of revenues. **Intel** did something quite similar with Aepona, **JDS Uniphase** acquired Arieso (4.3x revenues) and **ION Trading** mopped up Ffastfill (5.7x revenues), not to mention the Virgin Media, Civica and Yahoo deals.



5. OUTLOOK

The technology sector in the UK remains a very vibrant place to be. For example, TechCity at Silicon Roundabout has established a new hub with an estimated 5,000 technology companies now based around this area. New creative technology businesses are constantly being started up, grown and nurtured. As a result, the UK continues to attract a steady stream of foreign trade and private equity acquirers to feed their appetite for new technology and hence fuel their own future growth.

McKinsey identify the following Top Ten IT Trends and these are likely to be the focus of investor appetite in the near future:

- Social technology used in business
- Big data and analytics
- Internet of Things
- Anything as a service
- Automating knowledge work
- Emerging market digitalisation
- Physical / wearable technology
- Free business model
- Digital commerce
- Transforming govt, health and education

This trend is not about to change. It's all about growth, world economies may be muddling along but there is still plenty of cash in the Technology sector looking for quality growth businesses.

For further details contact:

Brian Parker, Head of M&A
T: +44 (0) 207 152 6375 E: brian@iconcorpfin.co.uk

Alan Bristow, CEO
T: +44 (0) 207 152 6375 E: alan@iconcorpfin.co.uk

London Office 53 Davies Street, London W1K 5JH T +44 (0)207 152 6375 F +44 (0)207 152 6376