ICON CORPORATE FINANCE

TECHNOLOGY M&A MID YEAR REVIEW

July 2017

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HIGHLIGHTS

- Global equity markets continue to hit new highs. Shares in the US have been driven by the performance of FAANG stocks, namely Facebook Amazon, Apple, Netflix and Google who have risen over 17% so far this year
- The number of Technology M&A deals is down so far this year, although comparison is with a very strong 2016
- A key trend in the UK was the increase in cross border deals to 43% of the total in the first half of this year, up from 35% in the same period last year, despite sterling rallying
- Valuations remain at record levels as investors acquired high growth/high price assets in AI, IoT, and cloud software
- The Global IPO market remains weak with only 49 Technology IPOs globally - the lowest since the 2008/9 credit crunch. It was a similar tale in the UK

FTSE
7,304
+3%
DEC 16 7,117/7,304 JUN 17

FTSE TECHMARK
4,501
+4%
DEC 16 4,335/4,501 JUN 17

NASDAQ
6,140
+13%
DEC 16 5,432/6,140 JUN 17

US$ GB£ EXCHANGE RATE
1.30
+6%
DEC 16 1.23/1.30 JUN 17

GLOBAL TECH IPOs
49
–62%
6M TO JUN 16 130/49 6M TO JUN 17

UK TECH IPOs
1
–89%
6M TO JUN 16 9/1 6M TO JUN 17

EU TECH M&A DEALS (No.)
907
–13%
6M TO JUN 16 1,044/907 6M TO JUN 17

UK TECH M&A DEALS (No.)
173
–37%
6M TO JUN 16 273/173 6M TO JUN 17

GLOBAL TECH M&A DEALS (No.)
2,320
–15%
6M TO JUN 16 2,724/2,320 6M TO JUN 17

TECH M&A DEALS PRICE TO EBIT (X) 12m AVERAGE
22.9
–2%
6M TO JUN 16 23.3/22.9 6M TO JUN 17

TECH M&A DEALS PRICE TO REVENUE (X) 12m AVERAGE
3.0
+20%
6M TO JUN 16 2.5/3.0 6M TO JUN 17

UK PERCENTAGE of CROSS BORDER DEALS
43%
+23%
6M TO JUN 16 35%/43% 6M TO JUN 17

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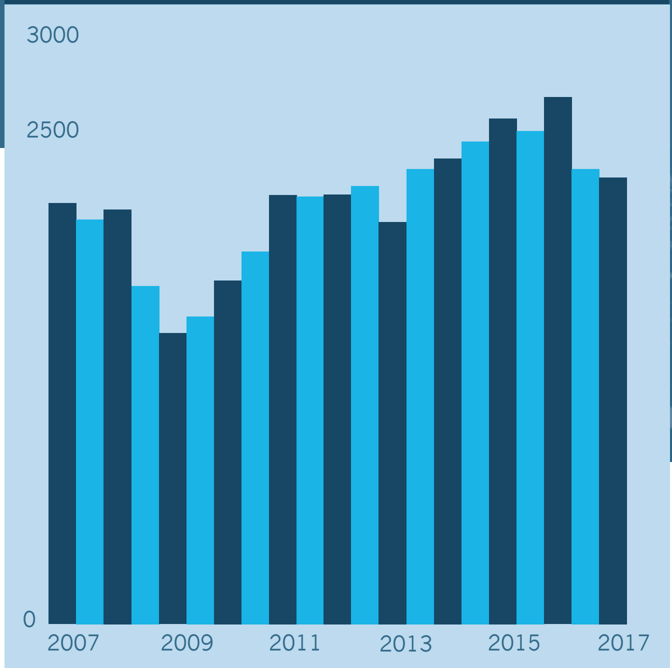
MACRO OVERVIEW

In brief, we will be living in a low growth, low interest rate world for a while yet. So although almost all assets are highly priced they are likely to stay that way. That is great news if you are an asset/business owner.

> **“Almost all assets are highly priced”**

GLOBAL TECHNOLOGY M&A DEALS (No.)

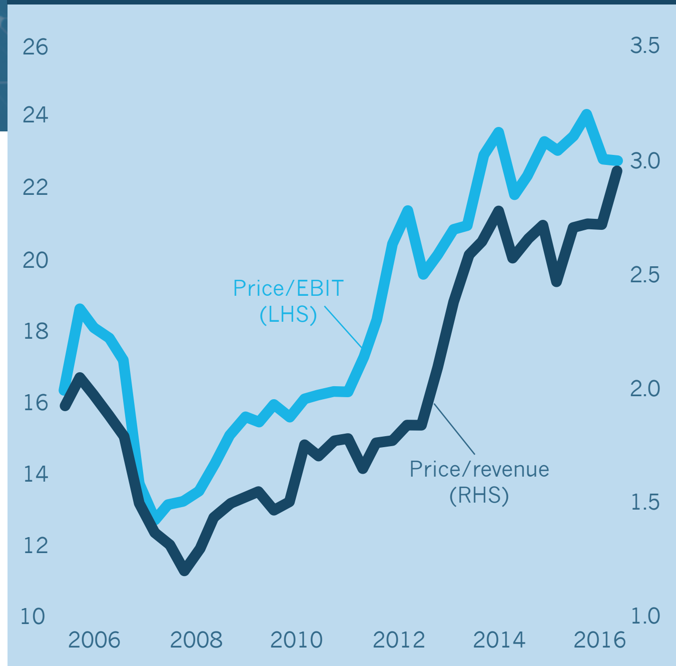


2016 politics were totally unpredictable with the appointment of Trump and the Brexit decision. While the French election result was pro-business, the recent UK election decision again highlights that we live in very unusual times, with a wave of populist voters seeking change.

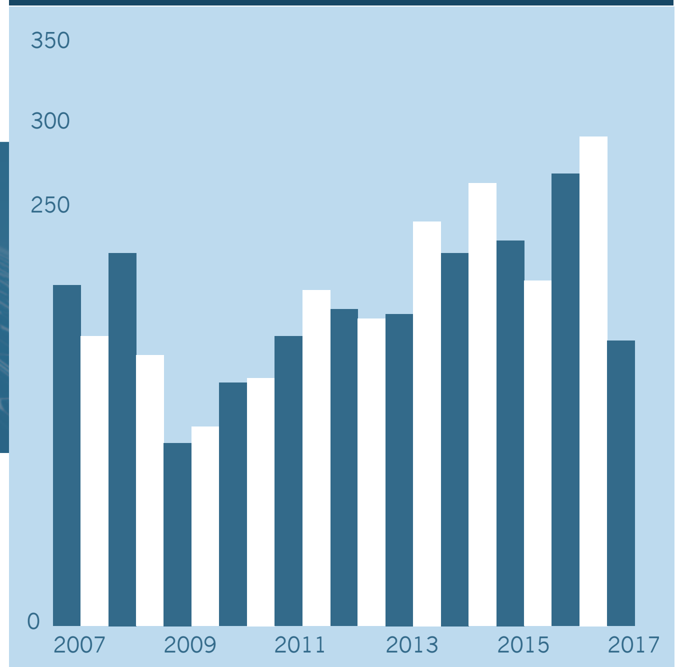
Most of Donald Trump’s pre-election promises have failed to materialise so far, yet corporate America is benefiting from the anticipation of economic stimulus. As a result, the US corporate results this year have been a little better than forecast, helping boost equity markets. Hopefully the planned tax break to unlock the huge $1.2tn off-shore cash reserves that US companies have stock-piled will provide a further confidence boost (as and when it happens). Technology companies will be a major beneficiary of this. For example Apple now has a mind blowing $250bn in cash reserves, which is greater than the cash reserves of the UK!

In the UK, since the Brexit vote last June, equity markets have been quite strong and, after an initial sell off, sterling has strengthened a bit too. However, a minority conservative government is hardly ideal and while overseas investors pile into UK the domestic mood remains more cautious, with economic growth slowing. So, while inflation has risen, expectations for interest rate hikes remain pretty modest in the UK.

TECHNOLOGY M&A VALUATIONS

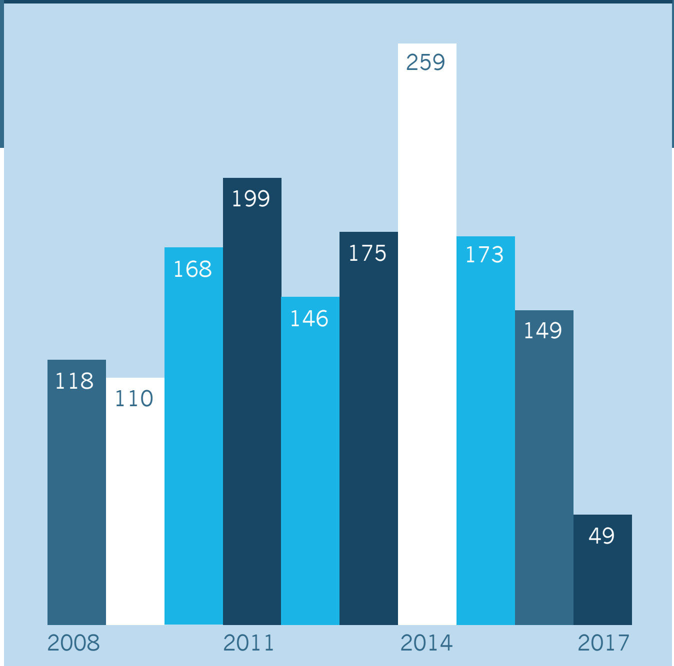


UK TECHNOLOGY M&A DEALS (No.)



IPO MARKET

GLOBAL TECHNOLOGY IPOs (No.)



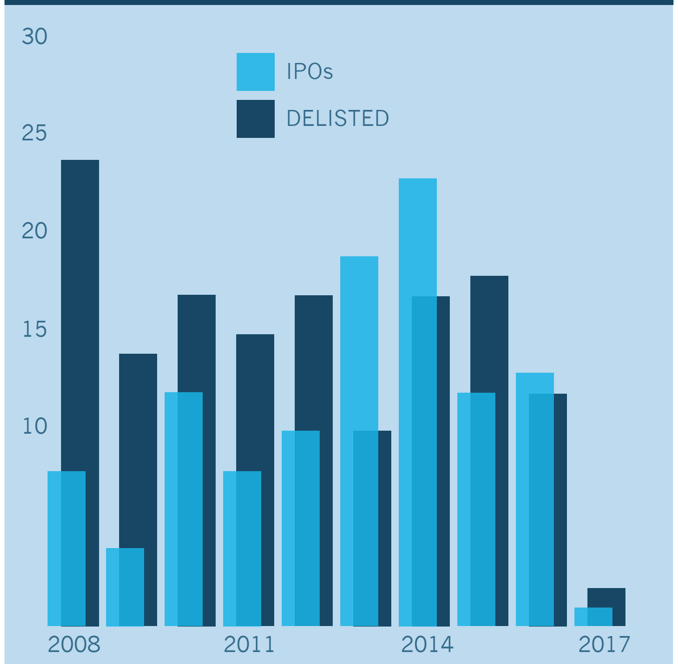
There has been a real dearth of IPO activity globally so far this year. Unless there is a turnaround then it could actually be one of the worst since the dotcom crash. In the US only 9 technology companies have gone public in 2017: Alteryx, Carvana, Cloudera, Elevate Credit, Mulesoft, Netshoes, Okta, Snap and Yext, although AppDynamics got pipped at the post by Cisco. Snap is the most valuable 2017 tech IPO, valued at just over $20bn, although early enthusiasm has waned as the shares are now below the IPO price of $17. Interestingly only one of the IPOs had a value of less than $1bn.

> “Blue Prism has gone stratospheric”

So where is the public appetite for young tech businesses? It's a particularly tough question to answer when so many listed technology companies have done so well. I guess part of the answer is the competition from the wall of private equity cash that has been raised from investors that is still looking for a home, it is over $800bn at end of last year. The other is the disconnect between private “unicorn” valuations of many PE backed businesses and lower listed market valuation. That gap may take some while to bridge.

In the UK the IPO market seems as reliable as The Southern Rail timetable. Back in 2015 there was a significant uptick in activity and things were looking up with listings of bigger tech companies such as Sophos, Kainos and Softcat. Then in 2016 there were a reasonable number of listings but mainly much smaller AIM listings such as Blue Prism (robotics automation), Loopup (remote meeting software) and FreeAgent (online accounting software) all on good valuations. This year so far there has been just one technology IPO in the UK – Alfa Financial (asset finance software).

UK TECHNOLOGY IPOs (No.)



The lack of activity in 2017 is all the more odd as some recent IPOs such as **Blue Prism** have been a great success since listing. Blue Prism supplies robot software to manufacturers and on the back of some good results the shares have gone stratospheric, increasing 10x since IPO last year. With market value approaching £500m it is now valued at over 25x revenues.

Loopup (remote meeting software) has had a steadier start to listed life. It now trades at nearly 5x revenues, whilst it is growing at 30-40% per annum. **Big Sofa** is another new entrant (it does not sell furniture by the way) but with just 23 staff the video analytics business is still in its embryonic days.

Alfa Financial Software, a provider of specialist software into the asset finance industry has listed on LSE. Set up in 1990, the company has more than 250 employees worldwide. It made profits of £17.2m on £73m of revenue last year. Alfa has built a strong position in a complex niche of the financial services business, in particular asset finance. Its share price rose over 30% on IPO. Focused on the vehicle leasing market, it is a well-timed IPO, with record car sales in UK.

UK Technology IPOs

2015	2016	2017
Defenx	ECSC	Alfa
Softcat	Big Sofa	
Kainos	FreeAgent	
Sophos	GoCompare	
Stride	Loopup	
AutoTrader	Osirium	
	TimeOut	
	Blue Prism	

US TECHNOLOGY M&A

Key trends in US activity are:

- In an ever more connected world the Internet of Things is exploding
- The automotive market faces massive disruption as driverless cars move ever closer
- Restructuring/spin off by major tech groups last year (HP, Dell, CSC, eBay), particularly in IT services
- IBM's revenue fell short of analysts' projections in April, marking a 20th consecutive quarterly decline, highlighting the dragging effect of legacy hardware and software sales
- Search for higher growth areas such as cloud services, FinTech, AI, infrastructure/storage and security
- Private equity is still a major influence in larger deals

The motor industry is facing perhaps the greatest disruptive change of any with the fast development of driverless cars. Car manufacturers are chasing to catch up with Honda investing in Grab, General Motors investing in Lyft and Toyota investing in Uber. **Samsung** then made its largest ever overseas acquisition - the $8bn cash acquisition of **Harman** the connected car audio supplier. This year's largest deal has been the $15bn acquisition by Intel of **Mobileye** a leader in computer vision for autonomous driving technology, the biggest-ever acquisition of an Israeli tech company. Mobileye covers sensor fusion, mapping, front- and rear-facing camera tech and beginning in 2018, crowdsourcing data for high-definition maps, as well as driving policy intelligence underlying driving decisions.

Mobileye's CTO and Co-Founder Amnon Shashua said the company is working with 27 car manufacturers, including 10 production programs with Audi, BMW and others going into 2017. Brian Krzanich, Intel's CEO, in a statement said "Together, we can accelerate the future of autonomous driving with improved performance in a cloud-to-car solution at a lower cost for automakers." This looks like a key development in the relentless push for driverless cars. Combined with recent announcements that France is to bar diesel cars and Volvo are to stop making them then this sector is certainly one to watch.

Cisco has acquired **AppDynamics**, which helps companies monitor application performance, for $3.7bn. Cisco is still in the midst of a pretty major, and on-going, staff retrenchment programme but is still making sizeable bets on faster growing parts of the Technology stack – it paid $1.4bn for Jasper Technologies not that long ago. This year, Cisco also bought artificial intelligence and machine learning specialist **MindMeld** for $125m, as well as software-defined WAN vendor **Viptela** for $610m. The AppDynamics deal was a last minute move for a company that was on the cusp of IPO'ing. Given that some of the PE backers are making 25x their money, they were no doubt delighted with the outcome.

The $67bn acquisition in 2015 by **Dell** of **EMC**, is by far the largest IT M&A deal ever and its effects are still reverberating. Dell was privatised in 2013 and is now PE owned with a huge debt pile of over $60bn, setting it apart somewhat from its cash laden peers. 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. Neither valuation was compelling but it paid down debt and may well free up Quest to return to acquisitions which were a key feature of its growth before 2012.

Many of the larger technology deals in 2017 so far have been less familiar high growth businesses from a broad range of sectors such as **Viawest** (co-location services), **Ixia** (telecoms testing), **Readsoft** (document processing), **KCG** (forex trading), **Cologix** (network neutral connections) and **Covermymeds** (prescription authorisation software).

> "Driverless cars are coming"

Micro Focus announced that it is to acquire the **HPE** software assets in a huge $8.8bn deal last year. Only $2.5bn is payable in cash so HPE will become a big shareholder in Micro Focus. The software assets acquired include Arcsight, Mercury Interactive and Autonomy with which we are all familiar. These assets cost over $17bn so it looks like a 50% loss to HP. However, it appears to be a fantastic opportunity for Micro Focus to join the top table. Its earlier acquisitions of Attachmate and Serena for $1.7bn looked bold, but this is in a different league. Nice to see a large cross-border deal with a UK buyer as it is so often the other way round. Also it is worth pointing out that paying 2.8x revenues looks a much more sensible price than the multiple of 11.8x when Autonomy was acquired in 2011. The deal is expected to close shortly.

BIGGEST US DEALS OF 1H 2017

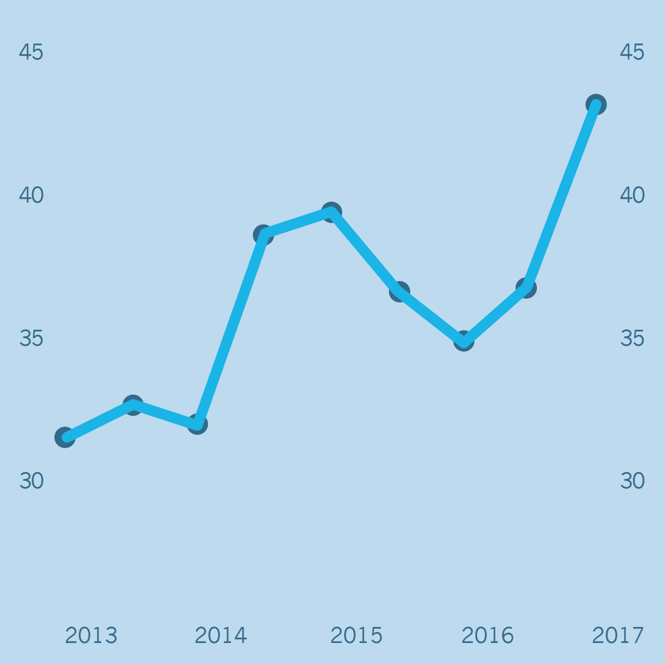
EV / T/o	PURCHASER		TARGET	EV $000
87.0	Intel	MAR 17	Mobileye	15,000,000
17.6	Cisco	JAN 17	AppDynamics	3,700,000
1.6	Vista Equity Partners / Misys Financial Software	MAR 17	D+H	2,565,000
8.0	The Blackstone Group	APR 17	Ascend Learning	2,000,000
3.9	ABB	APR 17	B&R	2,000,000
	Peak 10	JUN 17	ViaWest	1,675,000
4.9	Keysight Technologies	JAN 17	Ixia	1,600,000
	Thoma Bravo	APR 17	ReadSoft	1,500,000
0.4	Virtu Financial	MAY 17	KCG	1,400,000
	Temasek	MAY 17	GHX	1,300,000
37	Stonepeak	FEB 17	Cologix	1,300,000
22.0	McKesson	JAN 17	CoverMyMeds	1,100,000

HP Enterprise (HPE), has acquired data management platform SimpliVity for $650m in cash. **SimpliVity** has “hyperconverged infrastructure,” or in other words computing, storage and networking in one system. HPE has also acquired **Nimble Storage**, a provider of predictive all-flash and hybrid-flash storage solutions. HPE paid $1.2bn.

Oracle splashed $9.3bn or 10x revenues for **Netsuite** last year in a push to move away from its traditional “on-premises” revenue model to cloud model. Last year there were a total of 9 acquisitions in a range of activities from warehouse management, construction, security and virtualisation. This year there have been 3 so far in digital advertising measurement, API testing and continuous integration.

Microsoft has bought more than 200 companies in its time. In 2015 it bought a massive 19 companies, then 9 in 2016 in a range of sectors, particularly data analytics, gaming, security and organisation apps. Its acquisition of **LinkedIn** last year for $26.2bn was a big one. This year there have been 5 more deals in artificial intelligence 3D gaming and collaboration plus recent $100m acquisition of **Hexadite** the Israeli cyber security business.

CROSS BORDER TECH M&A UK DEALS (%)



The key trends in UK Tech M&A activity in the first half of 2017 were:

- A drop in deal volume after a frantic record number of deals closed in 2016
- Overseas acquirers accounted for 43% of UK deals in 1H significantly up from 35% last year
- Cyber Security, Travel, Compliance and Cloud software consultancy were particularly active
- Wave of overseas acquirers, primarily from the US but also increasingly Asia

There is no doubt that one of the main drivers for UK Tech M&A activity has been overseas acquirers. In the last first half of 2017 overseas acquirers accounted for 43% of Tech deal activity in UK up from 35% in the same period last year. The headlines have been taken by the mega acquisitions of ARM, Sky, Worldpay, Skyscanner etc. However the bulk of exits were of much smaller technology companies.

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UK TECHNOLOGY M&A

INTERNET OF THINGS

Last year we saw the biggest ever tech deal in Europe, the acquisition of **ARM** for £24.3bn by Japan's **Softbank**. A weakened pound and its strong position in the mobile chip market seemed the main attractions. ARM itself also acquired **Apical** for $350m. Their technology is used to dynamically adjust images to improve their quality and also makes it easier to add screens to devices such as white goods and security cameras, making it critical not only for IoT but also in other areas such as driverless cars. ARM also acquired **Allinea Software** for £18m. Allinea was a spinout from the University of Warwick and develops tools to optimise performance in supercomputers.

Intel acquired chipmaker **Movidius** for circa £350m. Movidius specialise in designing and manufacturing computer vision processors used in virtual reality (VR) devices and drones. Its chips help a computer to process multiple video streams and convert them from visual form into readable data.

> "Overseas acquirers jump to 43% of total"

Telit has raised £39m to fund IoT acquisitions. Chief executive Oozi Cats (who surely has the coolest sounding name in the industry) is looking for more deals. Previous buys have included Motorola's M2M business in 2011; Navman Wireless OEM Solutions in 2012; CrossBridge Solutions in 2013; and NXP Automotive Telematics On-board unit Platform (ATOP) in 2014. Telit also snapped up the low-power Bluetooth and cellular assets from Stollman and Novatel Wireless in 2016.

TRAVEL

Blackstone has acquired a majority stake in cloud computing business **Cloudreach** for an undisclosed sum. London-based Cloudreach has operations in seven countries, with clients including travel booking sites Sky Scanner and Trainline and publisher Time Inc.

US based **Priceline Group** have acquired UK based **Momondo** for a sizeable $550m in cash. Momondo Group, with its Momondo and Cheapflights metasearch brands, will be rolled into Kayak, the Priceline search product. The valuation of 5x revenues looks great. Boston based Great Hill Partners took a majority stake in the Momondo Group in 2014 with a $130m investment that valued the company at $210m and so makes a tasty return. It comes hot on the heels of the sale of **Skyscanner**, which has been bought by Chinese travel giant **Ctrip** for £1.4bn. Skyscanner, which compares prices for flights, hotels and car rentals and with 120m Chinese travellers each year and the market growing by 18% pa the synergy attraction is obvious. It partly explains the 11x revenue valuation the Chinese paid – more than double the Momondo multiple.

AIM listed **Accesso** is acquiring entertainment ticketing distributor **Ingresso** for up to £28m in cash. Accesso, which provides software for events queuing, ticketing, point-of-sale and guest management, is buying Ingresso for a potential 3.4x net revenue of £8.2m. This will include an initial upfront cash payment of £17.5m and the rest dependant on Ingresso hitting its performance targets over the next year. It sounds like there will be plenty of synergies there.

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TECH M&A DEALS (>£25M) WITH UK TARGETS

EV / T/o	PURCHASER		TARGET	EV £000
5.3	priceline.com	FEB 17	momondo	441,000
13.0	Solera	FEB 17	Autodata	340,000
7.5	Zoopla	FEB 17	hometrack	120,000
8.3	ESG Empowering Energy Choice	APR 17	utiligroup	100,000
1.5	fiserv.	JUN 17	monitise	65,000
1.0	RM plc	FEB 17	Connect Education	64,400
4.6	GBG	MAY 17	PCA Predict	63,500
2.6	ltg learning technologies group	FEB 17	NetDimensions	54,000
5.7	opengi	APR 17	TRANSACTOR	50,000
0.9	LYCEUM CAPITAL	FEB 17	timico	50,000
3.3	idp	JAN 17	hotcourses group	35,000
4.4	Wireless Telecom Group	FEB 17	CommAgility	31,200
21.7	HANOVER PARTNERS, INC	MAR 17	Kalibrate	28,900
0.8	CityFibre	JUL 17	entanet	28,000
3.4	accesso	APR 17	ingresso	27,900
5.0	Novanta	FEB 17	Laser Quantum	25,500
2.3	ATTRAQT	JAN 17	FREDHOPPER	25,000
0.2	ENDLESS	JUN 17	Affinity Workforce	25,000
0.6	The Blackstone Group	FEB 17	CLOUDREACH	25,000

ENERGY

Schneider Electric and **Aveva** have had a little dance twice now and have twice walked away from a £1.3bn merger after extensive talks. However current rumours are that the Germans have returned for another once around the dance floor and as a result the Aveva shares are back up to £20. The Aveva dance card looks pretty full.

Energy Services Group (backed by Accel-KKR) from the US has acquired **Utiligroup** for an estimated £100m. Utiligroup was owned by NorthEdge Capital and is based in Chorley. It provides software solutions for energy providers. At 8x revenues and 22x EBIT it is a full price but reflects the revenue growth of over 40% last year.

The value of having a quality energy supply and back-up was highlighted by computer chaos at British Airways in May that stranded 75,000 passengers costing the airline over £150m. It seemed to be caused by a "dis-connection of the uninterruptible power supply". Someone pulled the plug out.

CYBER SECURITY

GB Group the identity data intelligence software provider, has acquired Worcester based SaaS software provider **PCA Predict** (aka Postcode Anywhere) for EV of £63m. As the name suggests PCA does postal address, email address and mobile phone number verification, as well as offering data quality services. GB is placing new shares to raise the £58m. It is another significant move from GB, and the valuation paid of 4.5x revenues or 14x EBIT is a great exit for owners and suggests there may be some synergies from the two data intelligence businesses. It comes on the back of its acquisition last year of **IDscan Biometrics** for £37m cash plus £8m earn out. IDscan is an identity verification business and was acquired on valuation of 4.9x revenues and nearly 12x EBIT.

AIM listed **Shearwater Group** bought **SecurEnvoy** Limited, a provider of multifactor authentication software solutions. £20m consideration is half in cash and half in shares and last year had revenues of £3.2m and EBITDA of £2.2m (ie over 6x revenues and 9x profits). I suspect this may not be Shearwaters last deal as it aims to add further companies that have "scaling issues" faced by SME information security and cyber security companies.

Sophos paid $100m cash to acquire US malware protection firm **Invincea** which was equivalent to a punchy 7.5x revenues and plans to integrate it into its machine learning threat detection technology. It has a further 20% to pay on earn out. As Sophos points out "The Invincea endpoint security portfolio prevents, detects and remediates zero-day and sophisticated attacks, and combines neural-network based machine learning and behavioural monitoring to enhance detection through artificial intelligence and stop evasive malware before damage occurs".

The £2.3m acquisition of **Secure Information Assurance** (S-IA) by Manchester-based cloud hosting company **UKFast** is designed to add high-profile public sector customers to the UKFast fold along with additional IL3/IL4 accredited data centre hosting capacity which is important in gaining more public sector customers.

AI AND MACHINE LEARNING

Cambridge-based simulation platform developer **Improbable** raised $502m investment in a Series B funding round led by Japan's Softbank. It implies a valuation of more than $1bn. Founded in 2012, Improbable's platform SpatialOS is used by third parties to develop massive virtual and simulated worlds, mainly used in gaming to date. Improbable was founded only 5 years ago by three friends, two of whom met while studying computer science at Cambridge and the other who went to Imperial College in London. It uses cloud-based computing to digitally simulate complex real-world locations. The software can be used in hyper-realistic gaming but also to design infrastructure and scenarios for self-driving vehicles. "This is only just the beginning of where we need to go," quoted 29-year-old Improbable CEO Herman Narula after the biggest ever early stage investment for a venture-backed European company.

> "Improbable valuation"

CrowdStrike has raised $100m in Series D funding. Founded in 2011, CrowdStrike, the security start-up best known for discovering that Russians were behind the hack of the Democratic National Committee, develops a cyber security technology that provides malware protection, threat intelligence and incident response solutions. This values the business over $1bn and seems to have taken advantage of the surge in demand after the WannaCry attack hit the NHS and other organisations. It uses machine learning to recognise threats rather than many peer anti-virus products which compare threats with a list of known viruses.

Tractable, a deep learning company specializing in computer vision received an $8m investment led by Ignition Partners. Tractable develops proprietary AI algorithms that can learn and perform visual tasks, just like humans. Tractable helps companies overcome one of the main issues in training computers to perform such tasks – labelling the data. Using Tractable, clients increase the productivity of their human experts, allowing them to focus on more meaningful, high-value work. Their key focus is insurance where Tractable can assess damage to a vehicle and what repairs are needed by analyzing photos.

Centrica has acquired US software provider **Rokitt** for its machine learning fueled Rokitt Astra data discovery software, adding to Centrica's existing data analytics capabilities. Centrica already has Io-Tahoe, its own big data management company (expertise in data science, analytics and systems architecture) and the Rokitt acquisition will add to it's capability. An interesting acquirer from left field.

EDUCATION

IDP Education, has acquired **Hotcourses Group** for £30m. With more than 66m visits and 2m users accessing Hotcourses Group's database of 0.5m courses from more than 5,000 institutions in 48 countries, the move expands IDP's digital service offering to students and clients. The Hotcourses Group was established in 1996 by Mike Elms and Jeremy Hunt, a conservative MP and currently the UK's Health Secretary, as an educational print directory for learning opportunities in London. It now employs more than 300 people with offices in the UK, Australia, Asia and North America. IDP Education has an unusual structure as it is 50% owned by 38 Australian universities and the remaining 50% is public.

E-learning group **Learning Technologies Group** has agreed to buy **NetDimensions** through a cash deal that values the management software group at around £54m, which is double the price of the shares 4 months ago. Learning Technologies will fund the deal through a £46m placing. LTG also paid $26m for US e-learning interoperability standards developer Rustici Software last year.

RM announced its biggest ever deal, the proposed acquisition of **Connect Group Plc's** education supplies business for £56.6m. paying just 6x EBITDA it reflects the tough climate in Education supplies but will unleash some synergies.

LOCATION

Location based information has emerged as a core component in many software products and is helping in never ending automation. One example is the news recently that London City airport is to replace air traffic controllers with cameras and sensors in 2019 relaying the 360 degree info to NATS control centre 90 miles away. NATS Head Steve Anderson believes such decentralisation can cut costs of managing traffic by 30%.

Last year **Verisk Analytics**, the data analytics provider, acquired **GeoInformation Group**, which offers large-scale mapping services and geospatial data and analytic solutions to a wide array of companies. This year **Isotrak**, which is owned by Lyceum, have acquired **Verilocation**, which provides telematics software for managing fleets of vehicles. German photonics group **Jenoptik** acquired **Essa Technology**, a specialist in police automatic number plate recognition (ANPR) back office and traffic enforcement software. Based in Plymouth, its back office software allows for ANPR data to be efficiently processed and evaluated, for example providing real-time alerts to a police car, from a central server.

In a related space, Surrey based **Send For Help Group** has acquired lone worker safety provider, **Rocksure Systems** for £10m. Send For Help was founded in 2010 by brothers James and Will Murray, sons of PC World founder Jan Murray, when they spotted a gap in the market to provide lone worker protection utilising GPS personal safety devices and apps to provide 24/7 personal protection.

> “Location location”

British marine radar and security company **Kelvin Hughes** has been purchased by **Hensoldt**, the German sensor producer. The company employs approximately 200 people, most of them based in London. It's the second acquisition by Hensoldt since Airbus spun off its defence electronic and optronics businesses into the newly formed company in March 2017. Last month, the company acquired the small German civil avionics producer EuroAvionics.

CLOUD SOFTWARE

Ideagen is on a good run having closed its 12th acquisition in 9 years. It had a busy 2016 acquiring 3 companies, namely IPI, Covalent and Logen. In March Ideagen acquired **Pleasetech** for up to £12m plus cash on balance sheet. The valuation at 3x revenues is a really good exit for shareholders, including CEO David Cornwall. PleaseTech has over 180 customers worldwide using its PleaseReview collaboration software product, including 70% of leading pharmaceutical and biotech organisations and 4 of the largest global defence organisations. As David Hornsby CEO of Ideagen said "It once again re-iterates our commitment to our long-term growth strategy of acquiring business with strong IP and healthy recurring revenues."

There continues to be plenty of activity in niche areas of software, primarily driving increased office automation. Examples so far this year include **Tax Systems** acquiring **Osmo Data Technology** which has data extraction software. The price of nearly 3x revenues for SaaS looks reasonable, although unusually this was all payable in shares. **Unit4** acquired **Assistance Software** which provides cloud based Professional Service Automation and **Iris** acquired **FS Financials** a Peterborough based accounting software supplier.

Streaming music service **Spotify** acquired **Sonalytic**, makers of an audio detection technology that can identify songs, mixed content and audio clips, as well as track copyright-protected material, and aid in music discovery. London-based Sonalytic, was only founded last summer. The company offers both a web-based interface for low-volume customers of its technology, as well as an API for larger customers. It sounds like a next generation Shazam.

E-COMMERCE

Zoopla paid £120m in cash to acquire **Hometrack**, a property analytics business expanding its B2B clients. Hometrack, which was founded in the UK back in 1999, sells automated house price valuation services and is used by mortgage lenders, new home developers, housing associations and local authorities. What a great business. With 55 staff, growing at CAGR of around 15%, with revenues of £16m (70% recurrent) and adjusted EBITDA of £7.1m, and an operating margin of 46%. The EBITDA multiple is 16 and EV/rev is a whopping 7.5x.

Attraqt has acquired **Fredhopper**, a division of SDL for £25m. It is a cloud-based provider of onsite search, navigation, recommendation and visual merchandising platform for clients such as ASOS. Attraqt is an e-commerce specialist but was only valued at £13m beforehand, so it's a transformational deal. Seems a neat fit and Fredhopper had over £11m in revenues last year, of which 90% are recurring, - so was valued at 2.2x revenues.

MOBILE/COMMS

Pagers have gone the way of the dodo. They were first used by doctors in 1950 and grew massively with 61 million in use in 1994. Today they are still used by a few bird watchers, who like to send messages about what they have spotted without making a sound and a few public sector workers but that is about it. **Vodafone**, is selling its pager business to **Capita**. Pagers are dying with Vodafone having just 1,000 customers in the UK. Orange and O2 have already sold their networks. Consideration was nominal but due to its competitive position it is bizarrely subject to approval by the Competition and Markets Authority.

Unified communications (UC) provider **AdEPT Telecom** has been mopping up smaller UC firms such as **Comms Group** for an initial consideration of £3.5m plus **Cat Communications** and **Progressive Communications**. This year AdEPT paid nearly £5m for London-based 24 hour computer support operation **Our IT Department**. It has paid £4.8m upfront and an earn out of another £3.75m based on the upfront payment that equates to 0.9x revenues and just over 10x EBIT.

IT SERVICES

Lyceum Capital, has acquired a majority stake in **Timico Technology**, a Managed Cloud Service Provider in a deal valued at over £50m. Operating in Newark, Winnersh and London, it has a core client base of 500 mid-market and enterprise customers, revenues of £56m and employs over 300 people. Expect further add-on acquisitions in a similar way that Lyceum grew Adapt, prior to its sale to US-based Datapipe in 2016.

Streamwire acquired Huntingdon based VAR **EACS**, the combined company will have revenues of just under £20m, and follows the acquisition in 2015 of specialist technology business EvEnt Computer Services. Kevin Timms, who co-founded Streamwire will become the new CEO of the combined company, which will trade as EACS.

Australian telco **Telstra** acquired **Company85**, a UK-based technology services business and leading provider of data centre, workspace, cloud, security and network services. Established in 2010 with headquarters in London, Company85 has approximately 75 employees and provides services to leading UK-based business and government customers such as the BBC, NHS, Royal Mail, London City Airport and AstraZeneca. Formerly the UK and EMEA consulting arm of Symantec Global Services, it is being added to the Telstra stable. This is yet another example of convergence of quite different businesses as traditional players move into faster growth areas via acquisition.

The move towards the cloud has been huge. Cloud software providers such as **ServiceNow**, **Salesforce** and **Workday** are growing very rapidly and as a result there is a huge shortage of skilled technical/consulting staff able to provide all the associated services around cloud software sales. As a result, there is a significant land grab going on amongst the independent partner communities, with almost all sizeable Salesforce and ServiceNow Partners being acquired as the large systems integrators scramble to position themselves as consultancies for the digital age - see table. **Accenture** have been very aggressive acquiring skills in this space having kicked things off with acquisition of Tquila and Cloud Sherpas two years ago. Most recently they acquired **Focus Group Europe**, the largest remaining independent consultancy purely focused on ServiceNow. While the acquisition only added 70 technical staff to Accenture's roster of 400,000 staff, it establishes Accenture as the leading partner in Europe for fast growing ServiceNow consultancy. You can see the attraction when you realise that ServiceNow was only founded in 2003 yet had global revenues of $1bn last year and a target of $4bn by 2020. It also has an impressive 98% renewal rate from existing customers. If it achieves its targeted revenues it will throw off a huge amount of Service revenues for consultants such as Accenture, Atos, NTT, Fujitsu, DX (CSC) and others. Hence the land grab.

"Cloud services – land grab"

DATE	PURCHASER	TARGET
Apr-17	Computacentre	TeamUltra
Mar-17	Deloitte	Day1 Solutions
Mar-17	Accenture	Focus Group Europe
Jun-17	Accenture	Phase1 Consulting
Jan-17	Perficient	RAS Associates
Dec-16	Atos	Engage ESM
Dec-16	4C Consulting	CloudSocius
Nov-16	Accenture	Nashco
Oct-16	Accenture	DayNine
Oct-16	NTT Data	Nefos
Oct-16	Deloitte	Cinder
Oct-16	Wipro	Appirio
Aug-16	Fujitsu	Symphoni ESM
Apr-16	IBM	Bluewolf
Apr-16	Publicis/Sapient	Vertiba
Mar-16	Inergex	Crossfuze
Mar-16	CSC	UXC Keystone
Sep-15	Accenture	CloudSherpas
Aug-15	CSC	Fruition Partners
May-15	Accenture	Tquila

The big 4 accounting firms have markedly increased their M&A activity in the last year or so with **Deloitte**, **PWC**, **EY** and **KPMG** acquiring 24 companies between them since the start of 2016, with Deloitte at the head of the pack with 10 deals. However, they are being left behind by Accenture which is making a major move into the digital world and has made 36 acquisitions in the same period, including 17 so far this year. **Accenture** has an aggressive acquisition plan entailing an investment of $1.8bn this year compared with $1bn last year. The company, has clearly been driving growth in digital technology areas through the acquisition of smaller firms.

HR

LogBuy's Employee Engagement platform offers Reward & Recognition, Salary Sacrifice services, and discounts on over 10,000 brands, for over 650,000 employees of Lego, McDonalds, Siemens, Motorola and Microsoft. Just before Xmas, **Reward Gateway** acquired the UK operations of **LogBuy**. Then early in 2017 the Danish part of the LogBuy business was acquired by **Visma** to complete a complex exit process.

Access Group bought recruitment software specialist **Safe Computing** in an £18m deal that valued them at just 1x revenues, which sounds cheap on the face of it. They also acquired Selima, a workforce management software for the retail and hospitality sector.

As **Capita** deleverages after its profits warning last year, it has sold it public sector recruitment operation **Affinity Workforce** to Endless PE for an estimated £25m equating to only 0.4x revenues and a modest EBIT multiple. Together with the much larger sale of its **Asset Services Group** to Australian financial services firm, Link for some £888m, this will bring the debt / EBITDA ratio down to a more manageable 1.8x. Shareholders clearly like it as its shares are up 25% this year- although still nearly half of their previous highs in 2015. It may be a while before Capita returns to the acquisition animal of a few years ago when it regularly devoured 10-15 companies a year.

FINTECH

FIS sold a 60% equity interest in **Capco** who specialise in business, digital and technology consulting services for the financial services industry, to private equity fund Clayton, Dubliner & Rice, receiving net cash proceeds of $477m. FIS will retain a 40% equity interest in the business post-completion.

Open GI has acquired **Transactor** for £40m, the Winchester based insurance software developer. Having grown 20% a year since inception in 2003, Transactor has done really well building policy administration and rating platforms in the UK general insurance market. This is another example of PE owned businesses (Montagu Private Equity) making in-fill acquisitions to accelerate growth.

After a tough couple of years, **Fiserv** is to buy **Monitise Group** the digital banking platform for £65m. The price paid is a long way from the earlier $1bn valuation but having lost the support of VISA a couple of years ago it has been a struggle.

In the face of ever mounting financial compliance hurdles, **Thomson Reuters** has moved to strengthen its KYC management services by buying **Clarient** and **Avox**. Clarient was set up by a number of major banks in 2014 to provide centralised services for all client data and documents needed for internal on-boarding and to also help firms meet broader regulatory requirements including KYC, FATCA and Dodd-Frank. UK-based Avox supplies legal entity data, hierarchies and identifiers on financial entities globally for its clients.

InvestCloud has acquired **Babel Systems**, a back office provider for wealth managers for £16.4m. US based InvestCloud boasts around 660 institutional clients with assets over $1.6tn. It provides client communication and management systems as well as data analytics and investment platforms. Babel provides trade and accounting platforms for wealth managers and family offices. Sounds like a good fit.

TA Associates acquired **ITRS**, a London based provider of real-time monitoring and analytics software to the financial services sector, from The Carlyle Group. It has two products Geneos, a real-time monitoring tool for managing complex and interconnected IT estates and Insights, a streaming big data analytics platform.

Elsewhere in the payments space, UK listed **Paysafe** acquired Skrill for $1.2bn in 2015 taking them into the Premier League of digital payments. They paid just over 9x adjusted EBITDA. However, evoking past memories of Quindell who were aggressively targeted by “short sellers” Paysafe shares slumped at the end of 2016 after a US Research house claimed it was facilitating gambling in China (which is of course illegal there). Paysafe has denied any wrongdoing and its shares have fully recovered rising over 40% so far in 2017.

RISERS

The biggest gainers in 2017 so far include **Wandisco** and **Bango** who have recovered after falls and **IQE** who are now one of the few listed semi-conductor companies.

Microgen, which has gone sideways for 5 years, has sprung into life. Its shares have risen over 70% this year in response to a strong start to the current year with profits growth returning and a few in-fill acquisitions along the way.

The WannaCry ransomware attack has affected organisations throughout the world, bringing cyber threats to the top of the agenda in almost all companies and Government departments. More recently the Petya ransomware attack that started in the Ukraine has had a major impact globally on businesses as diverse and sophisticated as WPP, Reckitt, Maersk and TNT. **Sophos** has been a big beneficiary and its shares are up over 70% so far this year.

FALLERS

Bad news this year for Hertfordshire based **Imagination Technologies**. Apple announced it plans to stop using its GPU technologies in its new products in 2 years or so. Apple is by far Imagination’s biggest customer, representing just over half of FY16’s £120m revenue, so not surprisingly its share price crashed by nearly 70% on the news. Imagination’s strongly-worded statement says that Apple will be developing its own graphics technology for future products, but “Imagination believes that it would be extremely challenging to design a brand new GPU architecture from basics without infringing its intellectual property rights”. Looks like a case of having too many eggs in one basket.

It’s not all rosy in the Brexit garden. There was a rising list of companies that announced profit warnings in 2016 such as **Capita**, **NCC**, **Servelec**, **Redcentric**, **Sepura** and **Mitie** mainly due to delays or loss of big contracts in a more uncertain post Brexit Britain. While the uncertainty remains, so far this year the number of tech companies warning on performance has reduced and some of the above have made partial recoveries.

Pebble Beach Systems (formerly Vislink) sold its Communication Systems division to US-based **xG Technology** last year but its troubles remain. Its shares have fallen a further 80% in 2017, partly it would seem due to its debt burden.

When **Yahoo** bought **Summly** 4 years ago for $30m it made a 17 year old from Kings College London rich and famous. However, Summly’s path hasn’t been quite so smooth sailing from there, as CEO Nick D’Aloisio stayed just 2 years then left. Then in June his news summarisation algorithm business was closed with traffic redirected to Yahoo’s own news app. Given the changes at Yahoo, which is now part of Verizon after a $4.5bn deal last year, it is perhaps not big news! Nick is currently a student at Hertford College, Oxford University, where he is studying Computer Science and Philosophy. Sounds like he should be giving the course, rather than taking it.

ICON CORPORATE FINANCE

UK LISTED TECHNOLOGY COMPANIES 1H2017 BEST AND WORST PERFORMERS

WANDISCO +220%

BANGO +168%

IQE +110%

MICROGEN +72%

SOPHOS +71%

BLUE PRISM +72%

“WannaCry and Petya – good news for Sophos”

ROSSLYN –53%

ALLIED MINDS –52%

IMAGINATION –43%

K3 –53%

BLUR –76%

PEBBLE BEACH –81%

OUTLOOK

The UK economy continues to muddle along and although there have been some delays in decision making, in most tech areas it is very much business as usual. Sterling has fallen since Brexit and so UK assets are relatively attractive for overseas acquirers and investors. As a result we continue to see a wave of overseas companies coming to the UK to acquire technology assets. We are also seeing significant investment in London by the mega technology groups.

> **“A wave of overseas buyers in the UK”**

Three examples are firstly the massive new Google HQ being built at Kings Cross. Secondly the largest co-working space in the world will open at South Bank near Waterloo later this year when We Work, which has 100,000 members around the world, will take on the 280,000sf project by the Thames. The space will be a hub for innovation and ideas, ideal for emerging technology businesses. Thirdly, Apple will lease a huge 500,000sf London HQ in the new Battersea Power station. While it is unlikely to be in the same league as its new Global HQ in Cupertino, which cost $5bn, it is nonetheless another major investment in London.

2016 was a record year in UK tech M&A and the drivers remain in place. We continue to see strong demand in the following key areas:

- **Cloud Computing**
- **Artificial Intelligence**
- **Cyber Security**
- **FinTech**
- **Automation**
- **Digital Media**

Technology is continuing to provide massive disruption to a whole variety of industries around the world. As a result, technology companies from Amazon to Zoopla are investing in these exciting high growth areas through a combination of both R&D and M&A. With strong Balance Sheets, low interest rates and good levels of confidence the drivers remain in place for more of the same.

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Note: The information and opinions in this report were prepared by ICON Corporate Finance Ltd. The data was partly provided by Zephyr, a Bureau Van Dijk database product plus various public sources and includes estimates as often full financial info is not disclosed. We have endeavoured to provide accurate and timely information but we cannot guarantee it. The brief sector overview is provided for information purposes only and is based on deals announced in the period under review. Note EV referred above is Enterprise Value which is the value of the deal including earn out adjusted for the level of debt/cash held by the target.

ICON SELECTED M&A DEALS

PleaseTech SOLD TO	Focus Group Europe SOLD TO	LogBuy SOLD TO
SECTOR Enterprise Software	SECTOR ServiceNow Consulting	SECTOR HCM Software
Business Integrity SOLD TO	Marimatech SOLD TO	Applicable SOLD TO
SECTOR Doc Mgmt Software	SECTOR IoT Software	SECTOR Unified Comms