ICON CORPORATE FINANCE

TECHNOLOGY M&A REVIEW

January 2017

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HIGHLIGHTS

FTSE
+14%
7,117
DEC 15 6,242/7,117 DEC 16

FTSE TECHMARK
+7.6%
4,335
DEC 15 4,027/4,335 DEC 16

NASDAQ
+8.5%
5,432
DEC 15 5,007/5,432 DEC 16

UK TECH M&A DEALS VOLUME (No.)
+22.3%
543
DEC 15 444/543 DEC 16

US$ GB£ EXCHANGE RATE
-16.3%
1.23
DEC 15 1.47/1.23 DEC 16

GLOBAL TECH M&A DEALS VOLUME (No.)
-7.1%
4,796
DEC 15 5,165/4,796 JUN 16

GLOBAL TECH IPOs
-30.7%
124
DEC 15 179/124 DEC 16

UK TECH IPOs
+8.3%
13
DEC 15 12/13 DEC 16

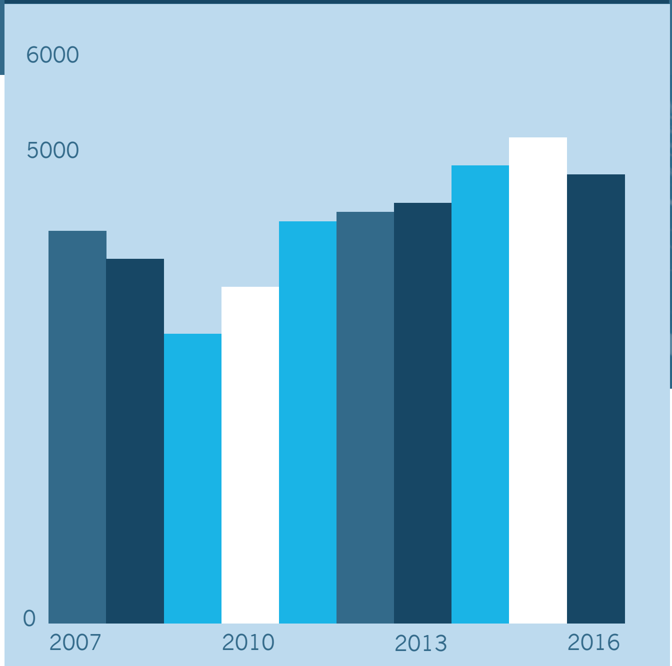
TECH M&A DEALS PRICE TO EBIT (X) 12m AVERAGE
+15.2%
25.8
DEC 15 22.4/25.8 DEC 16

TECH M&A DEALS PRICE TO REVENUE (X) 12m AVERAGE
+7.4%
2.9
DEC 15 2.7/2.9 DEC 16

- Risks posed by populist voting for Brexit and Trump in 2016 have been resoundingly ignored by global equity markets which have hit new highs.
- After a strong start Global Tech M&A fell away in 2H of 2016. The number of deals was down 7% YoY but was still the third best in the past decade.
- However, it was a different story in the UK where the weak pound boosted Tech M&A activity by 22% to record highs in 2016. In fact, nearly 40% of UK deals in 2016 had an overseas acquirer.
- Valuations increased to record levels as investors acquired high growth/high price assets in social media, IoT, cloud software, e-commerce and artificial intelligence.
- The Global IPO market remains pretty weak with only 124 Technology IPOs globally – the lowest since the 2008/9 credit crunch. It was a similar tale in the UK.

MACRO OVERVIEW

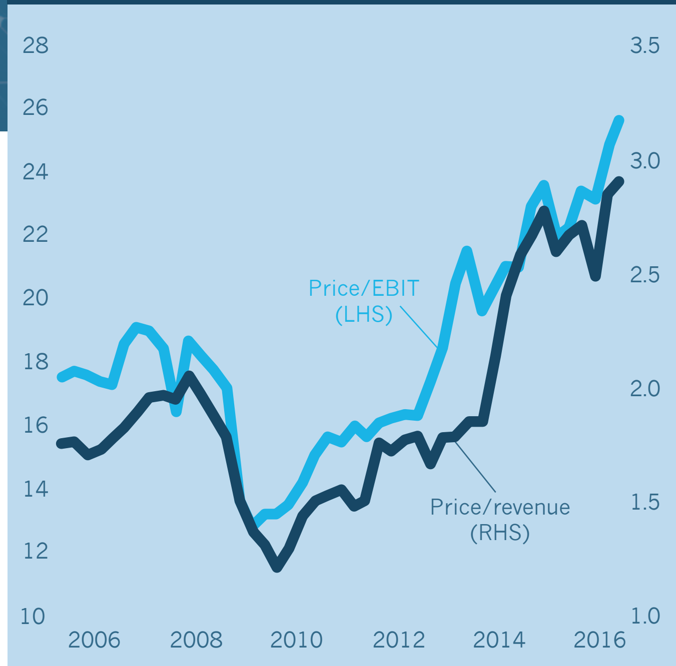
GLOBAL TECHNOLOGY M&A DEALS (No.)



It is difficult to imagine that 2017 politics could be as unpredictable as last year, with Trump being appointed and the Brexit decision. However, there seems to be a wave of populist voters that seek change and so elections in Europe this year could pile on the pressure for more change.

Trump's policies are expected to accelerate growth, which in turn should fuel some inflation and cause interest rates to rise off the floor. That's probably no bad thing. Certainly stock markets seem to think so. Hopefully some of the anti-globalisation rhetoric will be toned down once he is in office – but I wouldn't bet on it. Despite having made some strong remarks about

TECHNOLOGY M&A VALUATIONS

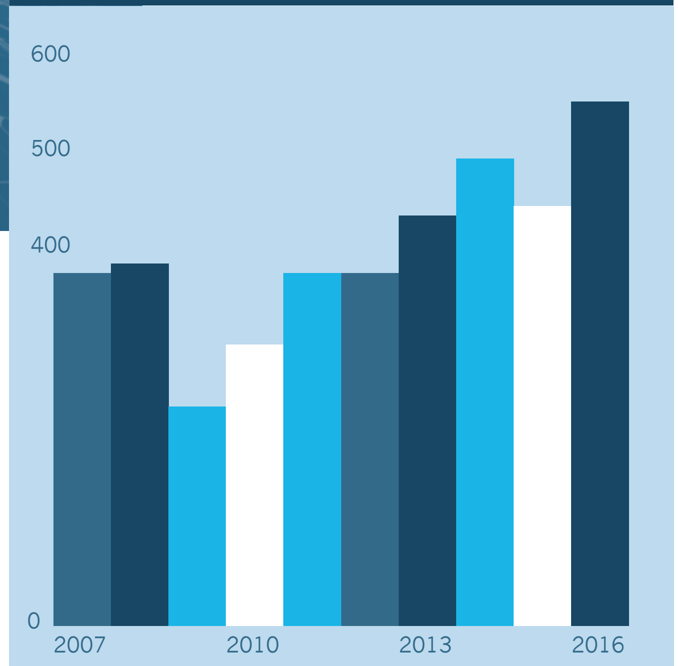


Amazon paying low taxes he is also planning a tax break to unlock the huge $1.2tn off-shore cash reserves that US companies have stock-piled. That should be good news for investment and dividends.

In the UK, since the Brexit vote last June, equities have rallied strongly pushing share prices up to record highs, boosted by a 16% fall in sterling. So, despite increased uncertainty the mood is still quite upbeat, although signs of rising inflation are everywhere.

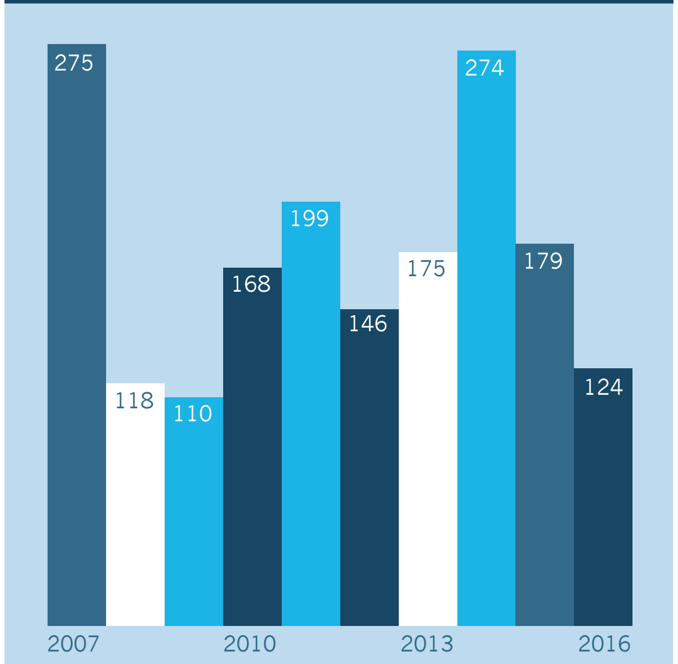
In brief, it remains a low growth, low interest rate world and as a result growth businesses are likely to remain in high demand.

UK TECHNOLOGY M&A DEALS (No.)

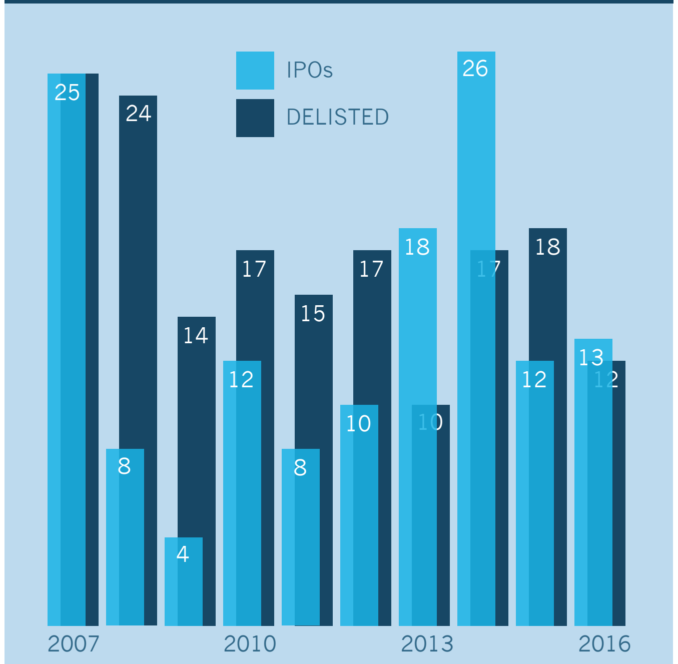


IPO MARKET

GLOBAL TECHNOLOGY IPOs (No.)



UK TECHNOLOGY IPOs (No.)



Despite world equity markets hitting new highs, the IPO market is a very nervous place. There were only 124 technology IPOs globally in 2016. That is the lowest number since 2008-9 when Lehman Brothers went pop and the world banking crisis was in its peak.

The main global IPOs in 2016 were:

Nets	Payments
Line	Instant messaging
Commercehub	e-marketplace
Takeaway.com	Food delivery
Trivago	Travel e-commerce
Twilio	Comms software
Blackline	Accounting software
Secureworks	Security software (ex Dell)

Expectations are that 2017 may include some high profile IPOs including **Snapchat** (which could be very large) and other software companies such as **Forescout**, **Yext** and **AppDynamics**.

In the UK there was a significant uptick in the quality of IPOs in 2015 with listing of **Sophos**, **WorldPay**, **Kainos** and **Softcat** but that was not followed through in 2016 when main UK listings were really technology enabled companies such as **Ascential** (exhibitions), CMC (commodities trading) and **TimeOut** (travel guides). Nevertheless, those companies that did manage to come to market did so on pretty good valuations. For example, **Blue Prism** (robotics automation) floated on 8x revs and has since tripled!, **Loopup** (remote meeting software) floated on 4x revs and flat since and **FreeAgent** (online accounting software) floated on 6x revs and risen steadily since.

Edinburgh based **FreeAgent** provides cloud-based accounting software for "micro-businesses" – competing with KashFlow and Xero. Founded by an ex-computer science graduate from University of Oxford who flew fighter jets for the Royal Air Force, Ed Molyneux started FreeAgent after struggling to manage the accounts of his own small defence consulting business. On IPO, its CEO Molyneux said "Most people have this idea that UK Plc is all about banks and supermarkets and what we see is that it is actually mostly about hairdressers and coffee shops." Quite.

FreeAgent's float was a rare success in another very quiet year for IPOs. The number of IPOs was actually slightly higher than the number of companies delisting (for only the third time in a decade) but those that delisted were far larger businesses such as ARM, Xchanging, Alternative Networks, ANS and ServicePower and so the value of UK listed technology companies continues to shrink.

US TECHNOLOGY M&A

Key trends in US activity are:

- M&A mania in the semiconductor space in 2015-16 as buyers push to increase exposure to the Internet of Things and mobile internet.
- Restructuring/spin off by major tech groups (HP, Dell, CSC, eBay), particularly in IT services.
- Search for higher growth areas such as cloud software, FinTech, storage and security.
- Big increase in Asian buyers who accounted for 6 of the Top 17 deals in the US (i.e. over 35%)
- Strong start but a weak finish to activity levels during 2016.

> **Search for higher growth areas such as cloud software, FinTech, storage and security**

The $67bn acquisition in 2015 by **Dell** of **EMC**, the storage business and owner of **VMWare**, is by far the largest IT M&A deal ever. 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 Dell has sold its services division to **NTT** for $3bn. The transaction included **Perot Systems**, which alone cost $3.9bn and so was sold at a considerable loss. More recently it also sold its software division to private equity for $2bn. Given that it paid a combined sum of around $3.6bn for **Quest** and **SonicWALL** the numbers are not exactly compelling but Dell needs the cash to fund the mega EMC deal. Acquisitions have dried up but more sales may follow.

HP made a significant £3bn acquisition of **Aruba Networks** (mobile networks) in 2015 but has spent most of the last year re-inventing itself in a bewildering and confusing re-engineering. It split into consumer focused (HP) and Enterprise (HPE). It then spun out of HPE the IT services business, which contains the old EDS business. Thirdly, the IT services unit has at the same time merged with **CSC** to create a $26bn services gorilla. Then in late summer UK listed **Micro Focus** announced that it is to acquire the HPE software assets in a huge $8.8bn deal. Only $2.5bn is payable in cash so HPE will become big shareholders in Micro Focus. The software assets acquired include Arcsight, Mercury Interactive and a certain Autonomy with which we are all familiar. These assets cost over $17bn so it looks like a 50% loss to HP. However, it looks 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.

> **A fantastic opportunity for Micro Focus to join the top table**

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BIGGEST US DEALS OF 2016

Valuation - EV / Rev (x)	PURCHASER	TARGET	Deal value - EV $m
8.8	Microsoft	LINKEDIN	26,200
12.4	ORACLE	NETSUITE	9,300
2.8	MICRO FOCUS	HP SOFTWARE	8,800
3.0	QUINTILES	IMS HEALTH	8,750
1.1	SAMSUNG	HARMAN	8,000
0.6	CSC	HP ENTERPRISE	7,000
0.1	HNA 海航物流	INGRAM MICRO	6,000
3.2	IHS	MARKIT	7,042
1.0	verizon	YAHOO CORE ASSETS	4,800
1.5	SIEMENS	MENTOR GRAPHICS	4,500
1.4	APOLLO	RACKSPACE	4,300
1.0	CHINESE CONSORTIUM	LEXMARK	3,600
3.3	KKR	EPICOR	3,300
3.0	ONEX online express / Baring Private Equity Asia	THOMSON REUTERS IP	3,300
1.0	leidos	LOCKHEED MARTIN IT	3,200
1.0	NTT Data	DELL SERVICES	3,050
4.0	THOMA BRAVO	QLIK	3,000

Yahoo have had an interesting ride under the stewardship of Melissa Meyer. After quite a few strategy reviews and a splurge of over $3.3bn on acquisitions such as **Tumblr**, **Summly** and **BrightRoll**, they have thrown in the towel, selling their operating businesses to **Verizon** for $4.8bn, although the deal is not yet signed and recent revelations of massive cyber-attacks on Yahoo accounts will make for nervous times at Yahoo. Having already acquired **AOL**, Verizon have mopped up two ageing internet rock stars of yesteryear but given that the digital advertising market is dominated by fast growing Google and Facebook who have 72% market share outside China it seems a brave call. Facing a saturated US mobile market the expansion seems to be more about exploring new growth areas. Verizon has also entered the connected car market with the $2.4bn acquisition of **Fleetmatics** the telematics business listed in the US but HQ'd in Ireland. At over 8x revenues the price reflects the growth of the Internet of Things (IoT) where revenues are growing 20%+ pa and profits at an even faster clip.

> **"Every cloud has a silver lining"**

The push for cloud software continues as **Oracle** splashed $9.3bn or 10x revenues for **Netsuite** in a push to move away from its traditional "on-premises" revenue model. A pretty steep price but Larry Ellison owned 40% of Netsuite already, so it seems every cloud has a silver lining.

Microsoft (like many big companies) is looking to kick start growth. As a result, in 2015 it bought a massive 19 companies in a range of sectors, particularly data analytics, gaming, security and organisation apps. Microsoft has rolled the dice again after announcing the acquisition of **LinkedIn** for $26.2bn. LinkedIn shares were trading at three year lows after a slowing of revenue growth at the social network for professionals. It would seem that one of the main attractions to Microsoft is LinkedIn's data. As Microsoft CEO Satya Nadella explained "it's about being able to do machine learning and AI at scale". In order to do that you need data and LinkedIn has lots of that, with a unique professional database. The best thing is that it is "self-cleansing" as users put in their own data and their networks validate it. Nice, but quite expensive at 8x revenues. As ever, the key is whether Microsoft can monetize the 433m registered LinkedIn members as it equates to only $60 per head. Add to this the fact that 75% of members are not active monthly users and the real cost is actually much higher. The Microsoft M&A track record isn't great. Their previous mega deals (**Skype** $8.5bn, **Nokia** assets $7.5bn and **aQuantive** $6.3bn) have not exactly been runaway successes. Far from it, aQuantive and Nokia mobile assets have had to be entirely written off. Regardless, with $80+bn of net cash on its Balance Sheet none of this will stretch the finances.

The printing industry is looking to reinvent itself in a race to adapt or die. **Lexmark** tried hard to diversify into related areas such as business process automation (BPA) by acquiring **Kofax** for $1bn following earlier acquisitions of **Readsoft** and **Perceptive Software**. In April it died. Succumbing to a $3.6bn bid from a Chinese consortium (1x revs). **Xerox** joined the lengthening list of larger technology companies that are spinning off parts to increase transparency and kick start growth. Having acquired BPO player **ACS** for $6.4bn, its attempts to diversify away from its ailing equipment sales have stalled and much of the cash generated has been paid to shareholders as dividends. It is now spinning off ACS. So it looks like its back to the drawing board for Xerox.

> **"It's about being able to do machine learning and AI at scale"**

The motor industry is facing huge change 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. However the biggest move was **Samsung's** largest ever overseas acquisition – the $8bn cash acquisition of **Harman** the connected car audio supplier. Samsung said "The vehicle of tomorrow will be transformed by smart technology and connectivity in the same way that simple feature phones have become sophisticated smart devices over the past decade." Samsung know a thing or two about smartphones, although the Galaxy Note 7 launch did not go so well in 2016.

Samsung are not the only Asian buyers that have been busy. **HNA** – a Chinese based shipping and tourism group, made an offer for US **Ingram Micro** for $6bn – just 10% of revs but 22x profits; **NTT** acquired **Dell Services** and **Leidos** acquired **Lockheed Martin IT**'s services assets

London based **Markit** is to merge with **IHS** to form a new $3.3bn revenue group to challenge **Bloomberg** and **Thomson Reuters** in financial data and analytics. The deal follows a wave of acquisitions in the space over recent years including sales of **IDC**, **Russell** and **Wood Mackenzie**.

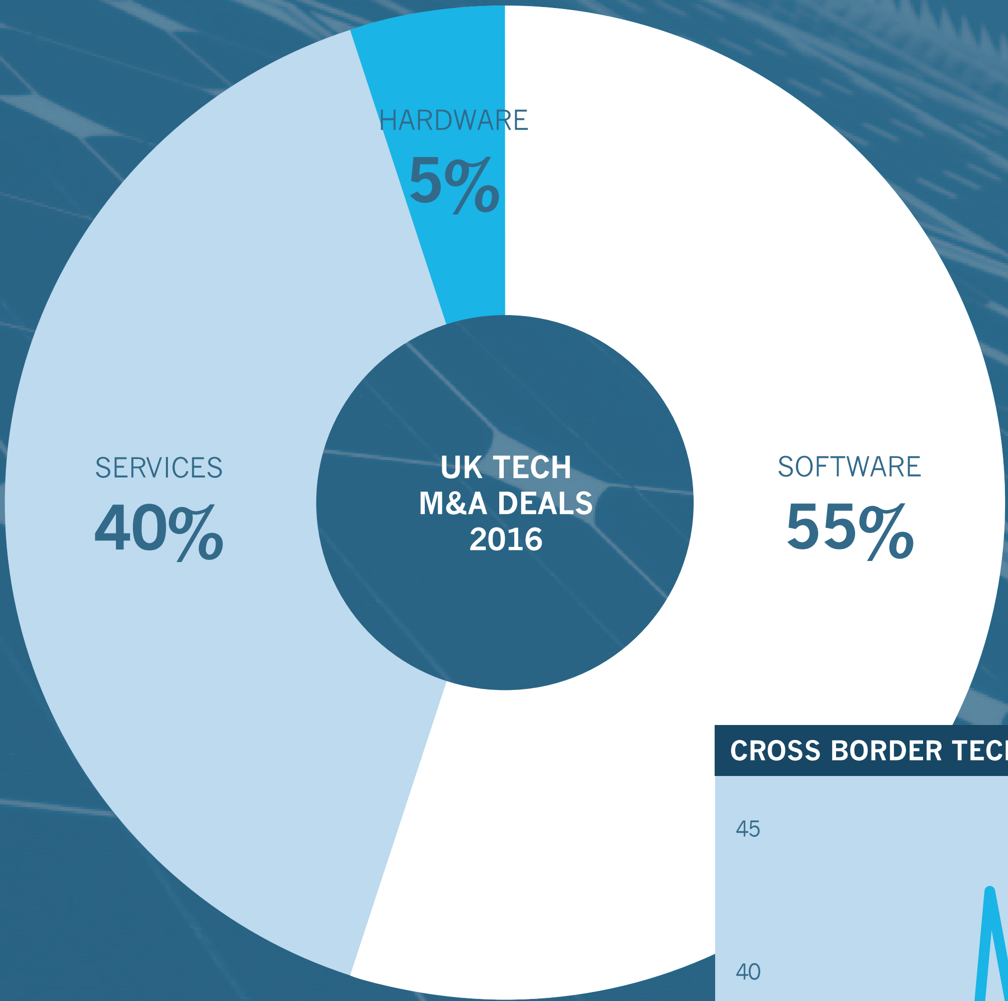
> **"Asian buyers have been busy"**

Alphabet (or Google) has regained its crown as the most acquisitive of the larger US IT players but things have calmed down after a major splurge in 2013-14 at both Yahoo and Google. Interesting to see both IBM and Microsoft among the most acquisitive in the past two years as they acquire in areas such as AI, cloud, security and other leading edge areas of technology.

> **"Alphabet (or Google) has regained its crown"**

M&A DEALS (No.)

ALPHABET	35	13	15
IBM	4	11	12
APPLE	8	10	9
ORACLE	8	3	9
MICROSOFT	9	19	8
INTEL	3	5	5
FACEBOOK	8	5	4
HP	2	3	4
TWITTER	8	8	3
CISCO	4	8	3
YAHOO	22	1	0
	111	85	72



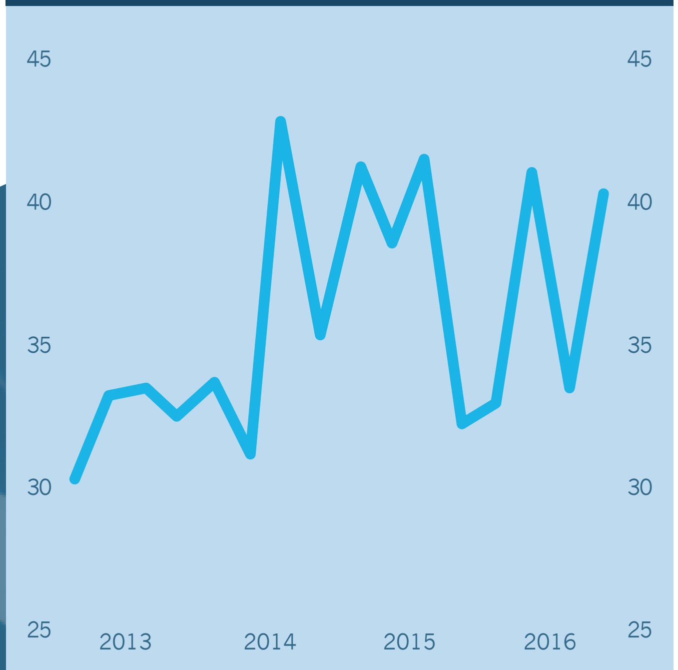
UK TECHNOLOGY M&A

The key trends in UK Tech M&A activity in 2016:

- A record year for UK Tech M&A with deals up 22%.
- 55% of targets were software businesses.
- Cyber security, Travel, Compliance and Communications were particularly active.
- Wave of overseas acquirers from US and increasingly Asia.

There is no doubt that one of the main drivers for UK Tech M&A activity has been overseas acquirers. That is not about to change. In fact with the collapse in sterling to levels not sustained since the Thatcher years it may even accelerate further. In the last quarter of 2016 overseas acquirers accounted for 40% of Tech deal activity.

CROSS BORDER TECH M&A UK DEALS (%)



> **“In the last quarter of 2016 overseas acquirers accounted for 40% of Tech deal activity”**

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TECH M&A DEALS (>£100M) WITH UK TARGETS

Valuation - EV / Rev (x)	PURCHASER	TARGET	Deal value - EV £m
25.0	SoftBank	ARM	24,346
4.9	GoDaddy	HOST EUROPE	1,600
9.7	Ctrip	SKYSCANNER	1,400
6.0	GENERAL ATLANTIC	ARGUS	1,000
1.0	DATWYLER / AVNET	PREMIER FARNELL	792
2.7	TELEDYNE	E2V TECHNOLOGIES	627
	intel	MOVIDIUS	325
4.2	NYX GAMING GROUP	OPENBET	275
2.5	L3 communications	MACDONALD HUMFREY	254
18.0	ARM	APICAL	242
2.9	News Corp	WIRELESS GROUP	220
7.0	Levine Leichtman Capital Partners	GL EDUCATION	212
2.9	SHANDONG HONGDA	JAGEX / RUNSCAPE	200
5.2	HgCapital	CITATION	185
3.0	YOKOGAWA	KBC ADV. TECHNOLOGY	180
17.0 1.0	Microsoft	SWIFTKEY/TOUCHTYPE	174
1.1	daisy.	ALTERNATIVE NETWORKS	165
2.0	asset international	MATRIX DATA	132
1.8	accenture	KURT SALMON	127
2.1	Tech Mahindra	TARGET	112

SEMI CONDUCTORS

In July, just weeks after the Brexit vote, the biggest ever tech deal in Europe was announced – the acquisition of **ARM** for £24.3bn by Japan's **Softbank**. ARM's chips are used in 95% of smartphones and over 30% of all microchips, making it a global powerhouse in the semiconductor market. With nearly £1bn of revenues it is a huge bet on continued growth and at nearly 40x 2017 profits is a full valuation by any measure. However, mobile computing is a huge growth area and one in which ARM has strong IP. The Cambridge based business started life as a joint venture primarily between **Acorn Computers** and **Apple** who invested £1.5m. Apple remain a big customer. It will provide a tasty return for its founders and investors.

> **In July, just weeks after the Brexit vote, the biggest ever tech deal in Europe was announced – the acquisition of ARM for £24.3bn**

Just a month before its own sale ARM made its biggest acquisition since 2004 acquiring Loughborough based **Apical** for $350m. Its founder was previously a researcher in semiconductor quantum theory at Oxford University. Apical chip 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. At 14x revenues that potential is reflected in the high valuation. Completing a busy year, in December 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. Intel said it will be used in VR, drones and even digital security cameras.

> **It is one of a handful of British "unicorns" – technology start-ups valued at more than $1bn**

TRAVEL

The Edinburgh based flights comparison service **Skyscanner**, has been bought by Chinese travel giant **Ctrip** for £1.4bn. Skyscanner, which compares prices for flights, hotels and car rentals is a massive success story with more than 60m monthly users and annual revenues of over £120m. It is one of a handful of British "unicorns" – technology start-ups valued at more than $1bn. It was set up in 2001 in the wake of the dotcom bust by three IT entrepreneurs. Scottish Equity Partners made an estimated £470m from deal after investing initial £9m. With 120m Chinese travellers each year and the market growing by 18% pa the synergy attraction is obvious.

ENERGY

Competitive tension benefits to exiting shareholders were clearly shown in sale of UK listed **KBC Advanced Technologies** (oil and gas software) who having accepted an offer from **Aspen** ended up teasing out a 15% higher offer of £180m from **Yokogawa Electric**. Money talks.

Last December **Schneider Electric** and **Aveva** called off a £1.3bn merger after 6 months of talks. "Integration challenges" were mentioned as one of the main reasons for the collapse. Talks resumed in June 2016 but lasted just two days after a £2bn offer from Schneider was rejected. Complexity of the offer has not helped, neither has a softening in Aveva's business on the back of a slump in both commodities and shipping markets.

Servelec has taken major strides forward having been spun out of **CSE Global** a few years ago. It has made several acquisitions in health and social care and added Tribal Childrens' care software this year for £20m, paying a punchy 3x sales. However a profits warning in June at its Oil and Gas businesses has halted progress and has pushed back further acquisitions.

Energy company **Centrica** acquired **FlowGem**, which has developed an innovative IoT technology in water leak detection and flow monitoring to remotely detect water leaks. It cost £13m, yet is just two years old.

RESELLERS

Premier Farnell agreed a sale to Swiss **Datwyler** for £792m, although this alerted **Avnet** who have now made a competing offer. The Leeds based maker of ultra-cheap mini-computer Raspberry Pi has sold 8m of its mini computers but it is actually mainly a component distributor and has had margins squeezed incessantly.

In November **DCC Technology** acquired **Medium**, a distributor of professional AV equipment from the likes of LG, NEC and Samsung. They also acquired **Hammer**, a specialist distributor of server and storage solutions to resellers based in Basingstoke. The deal was £38.3m which is 0.24x revs and 6x earnings although there is also a 3 year earn out which could help add value.

> **"The cyber security market continues to grow at a rapid pace"**

SECURITY

The cyber security market continues to grow at a rapid pace. The increasing prevalence of cybercrime is thought to cost the UK economy nearly £30bn a year with Mckinsey & Company reporting that globally cybercrime has become more profitable than the illegal drugs trade, with annual revenues of over £2trn!!

Defence contractor **L-3 Communication** acquired **MacDonald Humfrey** for about £224m (2.5x revs), beefing up its position in the global aviation-security market. Luton based MacDonald Humfrey manufactures automation and control products, including airport scanners. The purchase price is subject to an upward adjustment of up to £30 million based on MacDonald Humfrey's post-acquisition performance for the next three years.

> **"GB Group made a punchy acquisition of IDscan Biometrics"**

US based **Rambus** has acquired **Smart Card Software** to boost its cryptography research division. Rambus will also get **Bell ID**, a secure mobile payment platform, and East Kilbride based **Ecebs**, a smart ticketing platform, both crucial features in internet security. Rambus paid 2.6x revenues.

GB Group made a punchy acquisition of **IDscan Biometrics** for £37m cash plus £8m earn out. A major move and required a £25m funding. IDscan (as the name suggests) is an identity verification business and was acquired on valuation of 4.9x revs and nearly 12x EBIT.

C5 Capital, a technology VC has acquired **ITC Secure Networking** for £24m. ITC was established in 1995 by CEO Tom Millar and is headquartered in Docklands. It provides organisations with assured IT and specialises in providing its NetSure360 managed infrastructure and security services (MSS). Valuation was 1.7x revenues reflecting its services offering.

CYBER SECURITY SERVICES CONSOLIDATION

BUYER	TARGET
BLACKBERRY	ENCRIPTION
CACI	PURPLE SECURE
CAPITA	WESTPOINT
SECURELINK	NEBULAS
CALLCREDIT	RECIPERO
RELIANCE	ACSN
C5	ITC SECURE

There has been quite a bit of consolidation in the cyber security services sector (see table). There is such a shortage of skilled staff that there has been a wave of activity following on from similar deals last year from NCC, Intellisecure and Cisco

Finally, email security software provider **Clearswift** has been sold by Lyceum to Swiss group RUAG who are a network defence specialist from Berne with over 8,000 employees. Lyceum has now exited several successful tech investments such as Adapt and Access who were regular acquirers.

AI AND MACHINE LEARNING

In addition to its LinkedIn deal, **Microsoft** made headlines in the UK acquiring **Swiftkey** which enables predictive text on mobile, applying machine learning technologies to learn from users' typing history and the internet to predict what they want to type next. Its technology is used on c300m Android and iOS devices. For the $250m Microsoft is reported to have paid, it is getting cutting edge machine learning technology skills and less than £10m in revenues. Started by two Cambridge graduates in 2008, the attraction is the firm's artificial intelligence research, including its recently launched Neural Alpha app, which uses neural networks rather than classic AI algorithms to predict strings of text. Clever stuff.

> **At about £10m per PhD that is quite a headhunting fee**

Twitter acquired **Magic Pony**, a London based, 2 year old, machine learning start up that only had 14 staff (including 11 PhDs). It applies machine learning in the form of image processing to video and live streams to create high-quality videos from poor quality footage. At about £10m per PhD that is quite a headhunting fee. Octopus was an investor in both Swiftkey and Magic Pony and evidence of the leading role that UK plays in the AI revolution.

Google has acquired five UK companies in recent years, including **DeepMind**, **spider.io**, **Rangespan**, **Dark Blue Labs** and **Vision Factory**. Its DeepMind business hit the news in March when it beat a world champion at Chinese board game Go – passing a significant step in the artificial vs human intelligence race.

> **Cloud technology for gamers taking VR to next level**

Snapchat announced it is to have its overseas business run out of UK and has acquired 3D photo app maker **Seene** (aka Obvious Engineering). It lets you capture 3D models from your phone with a simple smartphone camera. Snapchat could use Seene's new selfie lenses for a new 3D photo format or even future VR projects.

COMPUTER GAMES

In one of the odder moves, Cambridge based **Jagex**, known for the MMO RuneScape computer game, has been acquired by a group of Chinese investors from an iron-ore mining company. Yes you did read that correctly – they paid nearly 3x revenues.

Improbable, a curiously named UK start up is leading the way in cloud technology for gamers taking VR to next level through distributive computing. It has already aligned with Google and been valued at about $100m.

CONSTRUCTION / PROPERTY

The brunt of the Brexit impact has been felt by the Property sector. Yet it is interesting to see that US based **Deltek** acquired Nottingham based **Union Square Software** in July just days after the vote. Although it is international, Union Square mainly supplies architects, engineers and the construction industry with project collaboration software and so is a vote of confidence by Deltek.

Zoopla the property website made a big move out of its property focus, acquiring **uSwitch**, a comparison website, for £190m in 2015. In 2016 it paid £75m to acquire **Property Software** which is closer to home, offering back office software for estate agents. At 4.5x revenues it is far from cheap but has clear cross selling opportunities.

> **Clear cross selling opportunities**

Bentley Systems acquired Birmingham based **ComplyPro**, who's software is used to manage infrastructure projects and **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.

MOBILE/COMMS

Daisy is 50 not out. It announced its 50th acquisition after it acquired listed **Alternative Networks** for £165m plus debt. The IT and telecoms business sold for around 1x current year revenues and 9x EBIT. Having already acquired troubled **PhoenixIT** this was a similar deal as Alternative Networks shares have halved in the past two years – having warned on profits 3 times as the business was hit hard by non-EU reduction in roaming charges. Meanwhile PE owned Daisy is flowering.

> **Daisy is 50 not out**

Another notable post Brexit deal was the acquisition of **Wireless Group** by **NewsCorp** for £220m in a move to diversify from the slow growth newspaper market. Facing increased threats from online groups like Google and Facebook the deal seems to make sense and is less daring than the £114m acquisition last year of **Unruly** the video ad start up.

Imaging sensor maker **e2v Technologies** was acquired in by US based Teledyne Technologies for £620m cash. e2v makes sensors for cameras and radio frequency generators and received a premium of nearly 50% to the share price. It has a colourful past. Having been initially known as English Electric Valve Company, it was acquired by Marconi and then following collapse of Marconi was subject to a management buy-out (supported by 3i) and has been listed since 2004. Having only warned of order delays in November the US bid was tabled within a month.

Satellite Solutions has emerged as a growing listed provider of satellite broadband services to remote locations that do not have wired solutions. With the regulator having a good look at BT Openreach it is a sector that has been in the news. Satellite Solutions has been busy consolidating the space and has made a number of acquisitions to build scale including two French suppliers in 2016 and part funded it through a BGF loan.

Vislink has agreed to sell the assets of its Communication Systems division to US-based **xG Technology**, which specialises in providing critical wireless communications for use in challenging operating environments. Vislink received £13.1m which will allow it to focus on its software business Pebble Beach Systems.

> **A premium of nearly 50% to the share price**

Sierra Wireless acquired Cambridge based **BlueCreation** for £2.4m. It is an engineering team formed by ex-CSR employees who specialise in Bluetooth and other embedded wireless technologies to build innovative devices i.e. Bluetooth stereo wireless speakers, wireless fitness and health devices, and wireless toys controlled by smartphone applications.

Communications technology business **Sepura** is in talks with Chinese **Hytera Communications**. Sepura shares have slumped in recent times due to cashflow issues and order delays. Founded in 1993 in Shenzhen, China, Hytera has grown to be a key player in Mobile Radio communications using TETRA, DMR and PDT technologies.

Another notable Asian acquisition was the purchase by **Arkadin** (an NTT company) of **Applicable** one of the leading cloud unified comms providers. Applicable specialises in Microsoft Lync and Skype technology and has over 330,000 application users.

> **Another notable Asian acquisition**

DATA

Restore also made a transformational £60m move for **Wincanton Records** storage business in 2015. It has further expanded with the acquisition of **PHS Data Solutions** the data shredding arm of PHS for £83m. It shares are up nearly 25% in 2016 and its market cap is now over £400m.

Konica Minolta acquired **ProcessFlows** whose solutions manage inbound information taking intelligent action to recognise and store it securely. Clearly useful for control and compliance purposes and real-time reporting.

Crownpeak, acquired digital governance platform **ActiveStandards**, in another Compliance driven deal. Alongside the deal Crownpeak raised $50m investment to support future product enhancements.

GoDaddy acquired **Host Europe** for a whopping $1.8bn from Cinven. Both offer email and web hosting to very small businesses. Who's the Daddy now?

IT SERVICES

It has been a pretty mixed period for Tony Weaver's related businesses (**Redcentric**, **adept4**, **Castleton** and now **Coretx**). **MXC Capital** owns part of all these businesses and renames them regularly so its tough to keep up. Cupid acquired Bromley based **Selection Services** for £35m or 1x revenue/10x EBITDA. It then became Castle St and then Coretx. In May Pinnacle acquired **adept4** and changed its name to adept4 PLC. It paid £4.5m cash plus add-ons which equated to around 6x EBIT and was funded by a BGF loan. The shares of many of the MXC companies fell in 2016 mainly due to knock on effect of Redcentric whose shares halved after a £20m hole was found in the accounts.

> **"Who's the Daddy now?"**

In the last two years **Capita** has bought 24 businesses at a cost of £460m. However, going forward the pace may slow somewhat as it made its first profits warning in living memory in September 2016 and the shares have tanked 50%. It would seem a delay in technology spend at some of its VAR subsidiaries was one of the main culprits. Anyway, given the number of deals they have closed its remarkable how many plates have been kept spinning for so long. This year it acquired **OrangeBus**, **ITR Amity Westpoint** and **Trustmarque** the software reseller which they paid £57m at just 50% of net revenues but a hefty 13x profits.

> **"Its first profits warning in living memory"**

There is a bit of a land grab going on amongst the ServiceNow Partners. The cloud software's huge growth in service management has led to a chase to secure skilled staff. As a result independents such as Cloud Sherpas, Fruition and Symfoni have all been acquired by large SI's and Slough based **Engage ESM** (previously Innovise) was acquired by **Atos** right at the end of 2016.

Indian outsourcer **Tech Mahindra** acquired Cardiff based **Target Group** for £110m. Target offer outsourcing-as-a service to the financial services sector, particularly insurance. The ink was barely dry on that deal when Tech Mahindra also acquired BIO Digital, a digital agency, for up to £40m – over 3x historic revenues.

HR

Diversis Capital, has made a cash offer for ServicePower valuing it at just under £14m. Stockport-based **ServicePower** provides workforce management software. It had been approached earlier by Constellation Software, who had a look but were rebuffed. They had better luck at **Bond International** who had a mixed record. Constellation is acquiring the company at just over 1x revenues reflecting its recent struggle. Given its exposure to economically sensitive recruitment sector it is another example of confidence as the bid was tabled at the end of June, just after Brexit. It also shows the merit in not accepting a first offer as Constellation was forced to increase its initial offer by a further 15% to gain acceptance.

> **"A land grab going on amongst the ServiceNow Partners"**

Just before Xmas, **Reward Gateway** acquired the UK operations of **LogBuy**. Founder & CEO, Glenn Elliott said, "We're looking for any opportunity to make the world a happier place to work." It certainly made LogBuy shareholders happy at Xmas.

PUBLIC SECTOR

In April **Civica** acquired legal software supplier **Norwel** and then a couple of weeks later acquired digital transformation specialist **IPL**. IPL, based in Bath, with 370 staff is no overnight success, it was founded 37 years ago. As a system integrator focused on digital innovation it has delivered secure software solutions the Foreign and Commonwealth Office, the Environment Agency, Highways England, Nationwide Building Society, First Group and Kent Police amongst others. Civica has also bought **Abritas**, the Reading-based UK social housing sector software provider which sells to more than 170 local authorities and housing associations.

> **“IPL is no overnight success”**

Richard Kellett-Clarke has handed over the reins at **Idox** which seems to have loosened the purse strings as it then made a pretty big move acquiring NHS-focused software provider **6PM** for £18.5m. Idox is also issuing more shares to raise up to £20.5m to help fund the deal. At 1.7x revenues it's a fair price for public sector software.

IBM announced the acquisition of Kent based **Optevia**, a systems integrator specialising in Microsoft Dynamics solutions. Optevia's main focus is on UK emergency services, government, health, housing and social enterprises. An odd deal for IBM but may be a tuck-in deal for Curam which it bought a few years back

FINTECH

The news from **Monitise** doesn't get any better. In 2015 the mobile payment provider crucially lost support of one of its larger shareholders, **VISA**. In 2016 attempts to sell its **MyVoucher** business have failed after talks collapsed. The shares remain on the floor. 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 mainly recovered.

Factset acquired both **CYMBA** and **Vermillion** in the last quarter of 2016 spending over £60m boosting its front office and client reporting capability for investment managers.

> **“While the payments space is facing a wave of new disruptive technology not all can be successful”**

While the payments space is facing a wave of new disruptive technology not all can be successful. Dan Wagner's **Powa Technologies**, the mobile payments business, has been bought by **Thompson Investments** shortly after going into administration. Powa had chewed through more than $200m of funds and was once worth over £1.5bn before its collapse. Thompson previously rescued **Friends Reunited**, acquiring it from ITV for £25m. However, even though it has 10m registered users monetisation has been tough and it finally closed its doors early in 2016. RIP.

> **“Monetisation has been tough”**

Pune based **Zensar**, popped onto the acquisition radar acquiring design agency **Foolproof** who employs some 100 people and has offices in Norwich and Singapore. Foolproof mainly focuses on the the Banking & Financial Services sector.

ICON
CORPORATE FINANCE

RISERS

It has been a good year for shares with the FTSE Techmark up nearly 8% in 2016. There have been some massive takeovers of public companies such as ARM and e2v. However, the biggest gainers in 2016 include **Sopheon**, **WANdisco**, **Filtronic**, **Triad**, **IQE** and **ServicePower** and of course **Micro Focus** whose share are up 70% in 2016 in a huge vote of support for its $8bn acquisition of HPE Software assets.

WANDISCO
+126%

TRIAD
+214%

TRIBAL
+142%

FALLERS

It's not all rosy in the Brexit garden. Far from it. There has been a rising list of companies that have announced profit warnings such as **Capita**, **NCC** and **Mitie** mainly due to delays or loss of big contracts in a more uncertain post Brexit Britain. Elsewhere, **Redcentric** shares halved (£20m hole found in the accounts), **Sepura** shares have fallen nearly 90% following two profit warnings after delay in orders for its digital radios (although this alerted Chinese group Hytera who have stepped in to acquire the business albeit at a fraction of value a year ago). **Alternative Networks** also had the same fate - it also got hammered after a profits warning but was quickly gobbled up by Daisy who made a similar move a year earlier for Phoenix IT. **1Spatial** shares halved after disappointing interims. **Laird** (the Apple component manufacturer) downgraded forecasts after a reduction in smartphone production. **Servelec** shares hit a significant speed bump in the summer falling 50% after delays in its Oil and Gas and Healthcare businesses. Brexit also put the skids on **Kainos** shares which halved despite assuring the market that trading was unaffected although half of these losses have since been regained.

CAPITA
–56%

REDCENTRIC
–52%

NCC
–35%

ICON CORPORATE FINANCE

OUTLOOK

In the UK, the key unknown variable is the impact of the Brexit decision on the economy and therefore confidence levels to support M&A activity. Fears of a self-induced economic meltdown have proved well wide of the mark – so far anyway. There have been some delays in decision making, but in most tech areas it is business as usual. Sterling has fallen and so UK assets are 15-20% more attractive for overseas acquirers and investors. The Softbank/ARM mega deal is the stand out acquisition of 2016 but we have also seen a wave of overseas deals, particularly from US and Asia attracted by the drop in sterling.

Major tech companies are continuing to invest in London post Brexit, cementing its position as one of the leading global tech-hubs with strong creative talent and infrastructure. For example, last year Google announced their new Thomas Heatherwick designed 10-storey “landscraper” in Kings Cross, which will be as long as the Shard is tall. This year the owners of Snapchat are planning a massive IPO and have announced they will use London as their international HQ. Great news for the London tech market.

> **“Major tech companies are continuing to invest in London post Brexit”**

2016 was a record year in UK tech M&A and the drivers remain in place. However, with The Donald in charge forecasting just got a whole lot more difficult. Nevertheless we enter the year of The Rooster (how apt) with optimism.

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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

ICON would like to thank all our clients and our network of friends for making 2016 a success. We look forward to continued success attracting the major global acquirers.

Deal	Acquirer / Investor	Sector
Marimatech SOLD TO	TRELLEBORG	SECTOR IoT
Business Integrity SOLD TO	THOMSON REUTERS	SECTOR Legal Software
INVESTMENT	MATILLION	SECTOR Cloud Data Management
Parmenion Capital SOLD TO	Aberdeen Simply asset management.	SECTOR Wealth Mgmt Software
LogBuy SOLD TO	REWARDGATEWAY THE EMPLOYEE ENGAGEMENT PEOPLE	SECTOR HR Software
Applicable SOLD TO	arkadin COLLABORATION SERVICES an NTT Communications Company; NTT Communications	SECTOR Unified Comms
Nativ SOLD TO	OOYALA; TELSTRA	SECTOR Digital Media & Telco
INVESTMENT	Preservica Digital Preservation	SECTOR Cloud Data Management