TECHNOLOGY INTERIM M&A REVIEW

July 2018

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KEY MACRO STATISTICS

FTSE
7,662
0%
DEC 31 2017 7,688/7,662 JUN 30 2018

FTSE TECHMARK
3,532
–1%
DEC 31 2017 3,550/3,532 JUN 30 2018

NASDAQ
7,511
+9%
DEC 31 2017 6,903/7,511 JUN 30 2018

NYSE FANG+
2,874
+29%
DEC 31 2017 2,226/2,874 JUN 30 2018

US$/GB£ EXCHANGE RATE
1.32
–2%
DEC 31 2017 1.35/1.32 JUN 30 2018

BITCOIN (US$)
6,387
–54%
DEC 31 2017 13,860/6,387 JUN 30 2018

UNICORNS
248
+19%
DEC 31 2017 209/248 JUN 30 2018

KEY M&A STATISTICS

US TECH IPOs
7
–50%
6M TO JUN 30 2017 14/22 6M TO JUN 30 2018

UK TECH IPOs
8
+700%
6M TO JUN 30 2017 1/8 6M TO JUN 30 2018

TECH M&A DEALS – EU (No.)
874
–11%
6M TO JUN 30 2017 980/874 6M TO JUN 30 2018

TECH M&A DEALS – GLOBAL (No.)
2,264
–14%
6M TO JUN 30 2017 2,622/2,264 6M TO JUN 30 2018

TECH M&A DEALS – UK (No.)
221
+12%
6M TO JUN 30 2017 198/221 6M TO JUN 30 2018

UK PERCENTAGE of CROSS-BORDER DEALS
37%
–14%
6M TO JUN 30 2017 43%/37% 6M TO JUN 30 2018

PRICE TO EBIT (x) 12mth AVERAGE
24.5
–1%
6M TO JUN 30 '17 24.7/24.5 6M TO JUN 30 '18

PRICE TO REVENUE (x) 12mth AVERAGE
3.1
+3%
6M TO JUN 30 '17 3.0/3.1 6M TO JUN 30 '18

HIGHLIGHTS

Global equity markets have had a good run in the past few years, but for many asset classes the first half of 2018 saw little growth, with most equity markets broadly flat. The exception is Technology, and in particular large US technology companies. While FTSE was flat, the NYSE FANG+ Index was ahead 29% in the first half and continues to hit new highs. While there is global pressure building on these FANGS to patrol the internet, protect consumers data and pay their taxes, their huge growth continues to attract investors. Unlike the cryptocurrency market where Bitcoin prices have crashed over 50% so far this year.

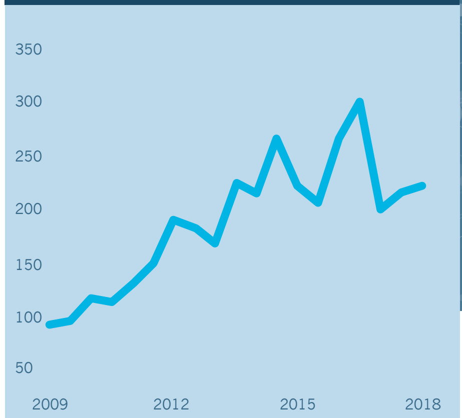
The IPO market remains weak everywhere as very low interest rates continue to fuel alternative exit options such as trade sales and private equity funding, which offer higher value exits.

There is still plenty of cash around. Private equity funds had $1trn of cash at the beginning of 2018. The five largest technology groups have nearly $700bn of cash, which is about 3.5x the level they had in 2010. That level of dry powder will underpin asset prices for quite some time, continuing to fund significant buybacks and M&A deals.

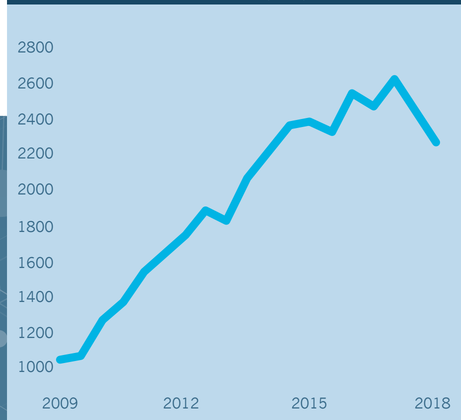
The number of global technology M&A deals fell 14%, although comparison is with a strong 2017. However, the market remains healthy and some valuations are spectacular, particularly in Cloud Software. The number of deals in the UK rose a healthy 12% going against the global trend. One of the main drivers remains the number of overseas acquirers who account for nearly 40% of all deals. This has been confirmed at ICON, with 8 out of our last 10 exits being to an overseas acquirer.

The Year of The Dog is shaping up to be similar to the last few years, with Technology outperforming the market and some of the valuations of M&A deals look...barking. For example, Microsoft, Google, Workday, RELX, Salesforce and Paypal have all paid more than 12x revenues for their most recent acquisitions.

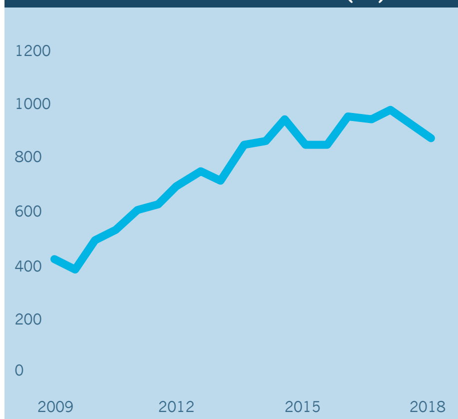
NO. OF M&A DEALS WITH UK TECH TARGETS



GLOBAL TECH M&A DEALS (NO.)

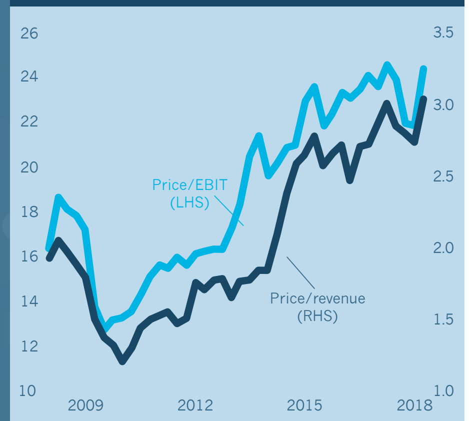


NO. OF TECH M&A DEALS – EUROPE (EU)



> **Confidence is pretty high, despite increased political risk**

TECHNOLOGY M&A VALUATIONS



> **The supercycle is set to continue**

On the one hand, we have increased political risk with worries about US trade wars, never ending Brexit negotiations, rising interest rates, North Korean missiles, Chinese debt, Italian politics, Russian Novichok poisoning and Mr Trump who seems to have started a Twitter war attacking G7, China, immigration and whatever else he can think of.

On the other hand, interest rates remain pretty low, economic growth is accelerating in the USA, there is very low unemployment, inflation has moderated and corporate profits are growing at a good clip, particularly in the USA.

Markets had a hiccup earlier in the year but have pretty much ignored the political risk and have continued to power ahead.

In the UK, interest rates have increased for the first time in 10 years but remain on the floor. The UK economy has slowed due to the impact of Brexit but is muddling along pretty nicely. The currency has partially recovered in 2018, which may put a break on exports, but seems not to have been seen by the wave of foreign investors who continue to pour money into the UK to acquire everything from skyscrapers in London to football teams and well-run companies.

We have said it before, but this economic cycle has already lasted much longer than expected, and after 8 years of equity recovery one would have expected the fat lady to have been in full voice some while ago. There are risks but it would seem the supercycle is set to continue.

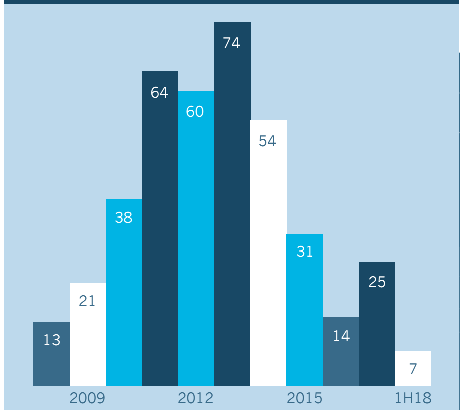
THE US IPO MARKET

The technology IPO market seems, oddly, to have an inverse relationship with the performance of the listed peer group. While the FANG companies power ahead, boosted by attractive earnings growth, the number of IPOs in the US continues to be on the floor. Having said that, the quality of companies listing in 2018 has been pretty decent, it's just the volume is very low. Last year Alteryx, Carvana, Cloudera, MuleSoft, Netshoes, Okta, SailPoint, Snap and Switch listed but the performances were fairly mixed, particularly Snap which has lost its crackle and is below its IPO price. This year, **Docusign** (document signature), **DropBox** (file sharing), **Pluralsight** (web development training), **Pivotal** (software development platform) and **ZScaler** (cyber security) all listed, and have all increased share prices by 50-70% since. So perhaps that performance will encourage others to list. Companies considering listing are: Airbnb, Dell, Lyft, Sonos and Eventbrite.

Spotify listed on the NYSE and was the largest IPO so far this year, and has a value approaching $30bn. Sales in 2017 were €4.2bn, so a 7x revenue multiple, although that should fall rapidly as expected revenue growth materialises. A solid, if not crazy, tech valuation, likely softened by the fact that their gross margin is only 20% as they pay a big slice of their revenues to record companies. Although the royalties aren't big enough for some as several really big artists like King Crimson(!), who choose to boycott them.

Dell was privatised in 2013 and as a result acquired a huge debt pile of over $60bn setting it apart somewhat from its cash laden peers. Then the $67bn acquisition in 2015 by Dell of EMC, was the largest IT M&A deal ever. 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. Now it appears that Dell is to list back on the equity markets in one of the biggest ever (and most complicated) tech listings later in 2018. The big winner would seem to be Michael Dell, whose stake has apparently risen 8x to be worth £30bn.

US TECHNOLOGY IPOs (No.)



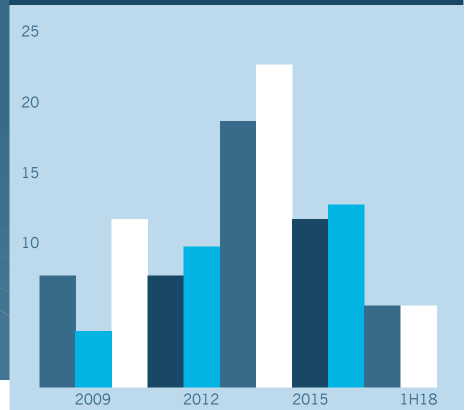
> **The No. of US tech IPOs have collapsed**

One of the main reasons that IPO volumes remain so low is that alternatives are more attractive, be it trade sales or PE backed buyouts. There remains a wall of private equity cash that the industry has raised from investors that is still looking for a home; it is estimated to be over $1trn. With firepower like that the IPO will continue to face stiff competition.

The other side effect the wave of cash has brought is the funding of Unicorns (private technology companies that are valued at more than $1bn). There are now 248 Unicorns, that is a near 20% increase in the number of these businesses in just 6 months. New entrants in 2018 include just one UK company - **Atom Bank**, following last year's new UK entrants: Improbable, HUT Group, Acorn Payments and Deliveroo.

> **Unicorns are up 20%**

UK TECHNOLOGY IPOs (No.)



THE UK IPO MARKET

Technology listings in the UK are making a gradual come back. Volume is still small but the number of IPOs in the first half was similar to the whole of 2017. Recent listings include:

Blue Prism which has been a massive success since listing in 2016. Blue Prism supplies robot software to manufacturers, and on the back of some good results the shares have gone stratospheric, with market value now exceeding £1.1bn. Not bad for a business that had revenues of £25m last year.

Alfa Financial Software, a provider of specialist software into the asset finance industry, was one of the few UK IPOs of significance in 2017. It is focused on the vehicle leasing market, and it listed on the back of record car sales in the UK in 2016. The share price chart is the polar opposite to Blue Prism. The shares have tanked by more than 70% this year as management have warned that delays in implementation of new projects will hit earnings.

Prague-headquartered cyber security company **Avast Software** listed in May and has a market cap of £2bn. Backed by CVC Partners, Avast acquired rival AVG for $1.3bn in 2016 and UK-based Piriform in 2017. Adjusted revenue for the last financial year was $780m (up 9%) with adjusted cash EBITDA of $451m, so it has a really high margin business. The share performance since listing has been uninspiring.

Codemasters is a video game developer specialising in racing games but their share price movement has been far from quick. Although with a market cap of over £300m and trading at nearly 5x revenues, the valuation is already pretty racy.

Integrafin provides an investment platform for asset management, its shares are ahead nearly 50% and already has a market cap of £1.2bn which equates to a massive 15x last year's revenues.

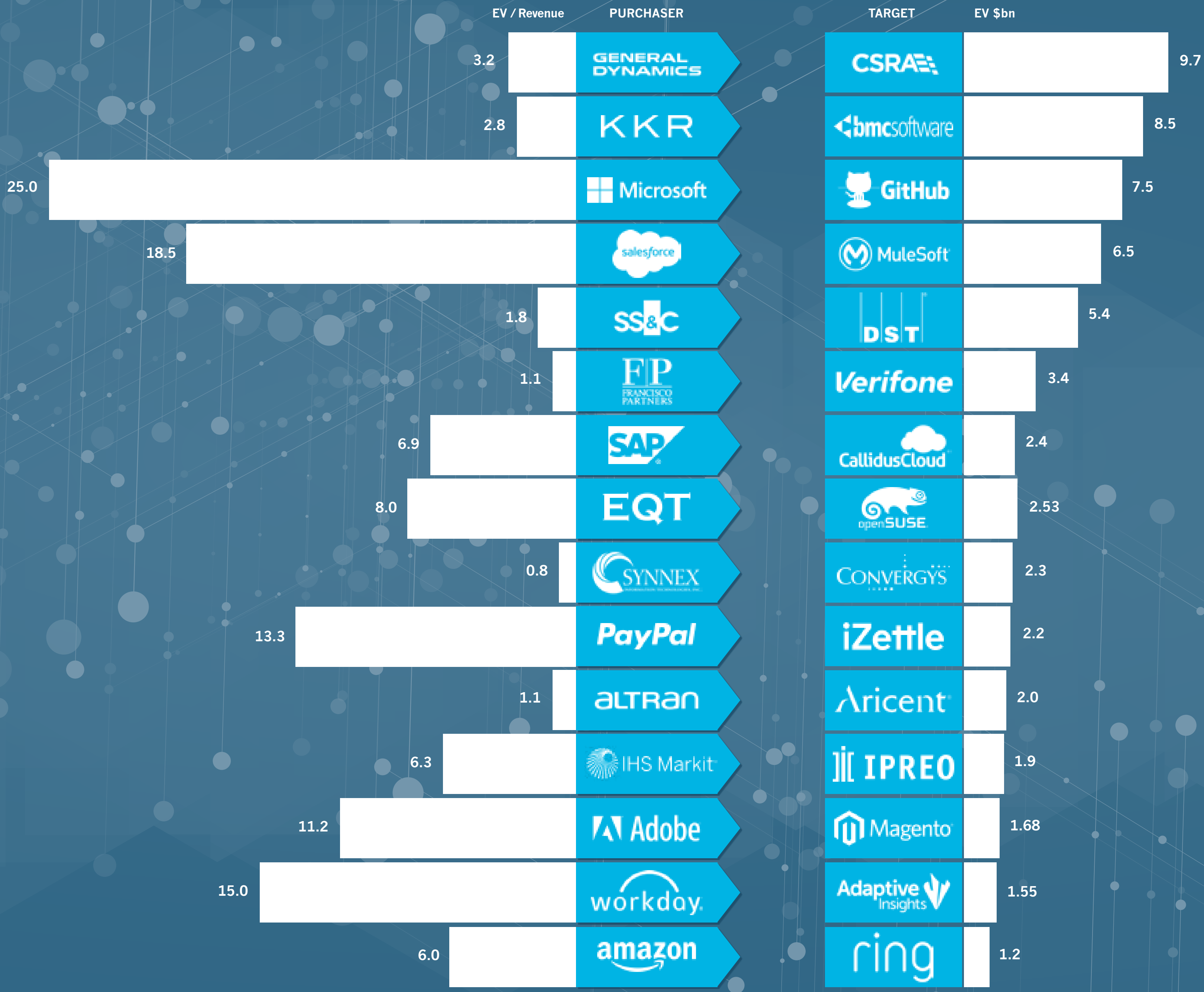
OnTheMarket the online property portal raised £30m on IPO, valuing the company at £100m. It will use the funding to launch new marketing campaigns, as well as to expand group sales, customer relations and tech development. Aiming to be a "premier search service for the most active property-seekers" the business floated at a tricky time with house prices pretty flat and estate agents feeling the pain.

> **Pretty racy valuations**

Mind Gym the behavioural science business listed in 1H18 and looks an interesting business. It has benefitted from the #MeToo movement to improve corporate culture and deal with harassment. It made profits last year of £7.8m from its 293 self-employed coaches. "Mind Gym's IPO will raise our profile and help us lead the development of psychological tools to make companies more diverse, ethical, agile, productive, innovative, healthy and profitable," said founder and wonderfully named Octavius Black.

US TECHNOLOGY M&A

LARGEST US M&A DEALS – INTERIM 2018



Consolidation continues at a rapid pace in many sectors. For example, Google now accounts for about 87% of online searches worldwide. Facebook has more than 2.2 billion monthly active users and together, the two companies (including Instagram and YouTube) take more than 60% of digital advertising spend worldwide. Having seen a wave of activity in semi-conductors last year, the focus this year has been in media in particular the battles for **Sky** and **21st Century Fox**. The latter shows the huge impact of competitive tension in a deal, Disney have bid $71bn for 21st Century Fox which is a massive 35% more than its first offer of $52bn. The main reason being that Comcast tried to scupper it with a $65bn all cash offer. This forced Disney to up their bid if they are to get their hands on Fox's content and enable them to compete with rising stars like Netflix.

SAP, the German enterprise software giant, acquired **CallidusCloud** for $2.4bn or nearly 7x revenues. Callidus provides configure/price/quote (CPQ) and sales performance management tools delivered as a cloud service. The products are aimed at managing company sales teams, from initial lead, through to payment. SAP, which has traditionally handled the back-office of some the biggest companies in the world is moving further into the front-office with this deal. "The addition of CallidusCloud aligns perfectly to SAP's innovation strategy to transform the front office" said SAP CEO Bill McDermott. The CallidusCloud products will work in tandem with other front office tools SAP has acquired in recent years like Hybris, (eCommerce) and Gigya (identity management). Callidus has itself been quite acquisitive, acquiring 14 companies dating back to 2010, including 4 in 2017.

Global aerospace/defence firm **General Dynamics** acquired **CSRA** for $9.6bn. CSRA is a leading government IT business, providing digital and IT solutions to federal customers. Its solutions include: cyber; data and analytics; digital platforms; digital services; enterprise business services and intelligent business process services. At just under 2x revenues the valuation is pretty full for a services business.

Microsoft has acquired open source development platform **GitHub** for $7.5bn which was valued at a third of that just 3 years ago. The interesting thing is that they paid for it in Microsoft shares. The acquisition is Microsoft's largest since the purchase two years ago of LinkedIn for $26.2bn. Microsoft has become the top contributor to GitHub which hosts some 85 million code repositories and is used by over 28 million developers. Its users include Apple, Amazon and Google. When you have $140bn in the bank it is a little puzzling why you would pay for the deal in shares though. Part of the answer may be in the fact that Microsoft shares have risen by 40% in the past year. The other part may be the valuation which was an astonishing 25x revenues.

“Microsoft paid 25x revenues!”

Before embarking on an exit process it is often best to check you have support of key shareholders. That's trickier if you are public. Ask **Xerox** shareholders whose directors had agreed terms with **Fuji** on a $6.1bn exit only for the deal to be ultimately rejected by Xerox shareholders at the 11th hour. Cue a lot of unhappy shareholders/directors from both buyer and seller. Shareholder approval is a key part of any deal and is best cleared beforehand.

Amazon has historically only made a few infill acquisitions but in 2017 acquired an impressive 11 companies including: Harvest, Thinkbox Software, Do.com, Souq.com, GameSparks, Graphiq and Wing. However, by far the largest deal was the $13.7bn acquisition of Whole Foods Market which as the names suggests is a US supermarket chain. This year they have aimed their cannons at disrupting another few sectors. They have acquired online pharmacy distributor **PillPack** in a $1bn deal that has sent the shivers around the pharma retail sector. They also spent $1.2bn on **Ring** - a home security products supplier.

If you were wondering whether you are likely to get a higher value from a trade buyer rather than a financial buyer or an IPO, then the **iZettle** case may help. It may also help explain why there has been such a prolonged dearth of IPOs of quality technology companies. iZettle is a Swedish payments (portable credit card readers for retailers) start-up and was about to become a big $1bn IPO but instead have sold to **PayPal** for $2.2bn, double that amount. Yes, twice as much! It follows in a long list of Scandinavian companies that have sold out such as Skype, Mojang and Spotify and surely answers part of the question as to why there has been a dearth of IPOs. PayPal, having closed their iZettle deal in May, are certainly not resting on their laurels. In June alone they have acquired **Jetlore** (predictive start up AI for retail), **Hyperwallet** for $400m (funds disbursement) and **Simility** $120m (fraud prevention).

Salesforce has acquired **Mulesoft** for $6.5bn and plans to use MuleSoft's technology to power a new Salesforce Integration Cloud, which will help customers connect multiple sources of data. MuleSoft's existing software allows businesses to bring information in from other cloud services, as well as on-premises infrastructure. MuleSoft only went public last year so had a very short public life. At 17x revenues the price is stratospheric and is the largest deal done by Salesforce. It follows the $2.8bn deal for Demandware in 2016 and its acquisition of MetaMind, which helped lay the groundwork for the company's Einstein AI capabilities.

Adobe acquired **Magento Commerce** for $1.7bn in another staggering valuation paying 11x revenues. The purchase gives Adobe a missing e-commerce platform piece that works in B2B and B2C contexts and should fit nicely in the company's Experience Cloud. This isn't the first time the company has been acquired. Magento was founded in 2008 and purchased by eBay in 2011 for $180m. The company went private again in 2015 with help from Permira Funds, which sources say paid around $200m. They have just made a fantastic return on that investment.

“iZettle sold for 2x IPO valuation”

Workday which focuses on HR apps has acquired **Adaptive Insights** for $1.5bn in another high valuation deal. It equates to 10x revenues for the Business planning and financial modelling cloud software. Adaptive Insights filed for an IPO in 2017 and so is yet another example of a higher price from a trade sale. Adaptive had revenues of $100m but was losing $40m last year, the key to valuation is the growth which at 30% is obviously a decent clip.

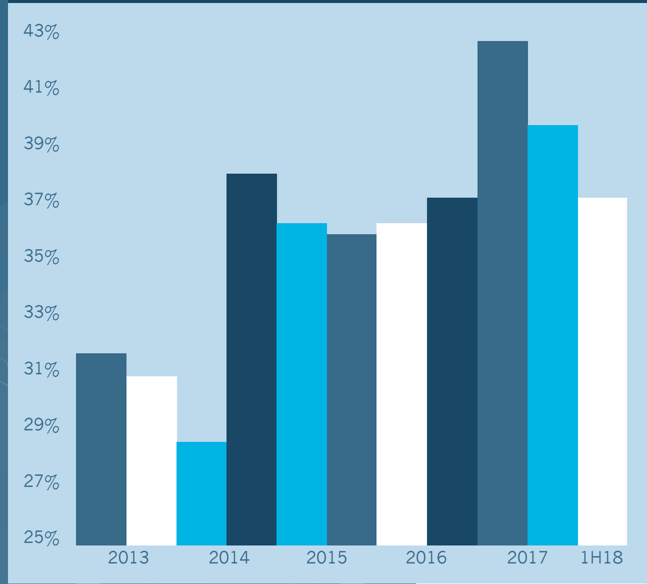
In July, highly acquisitive semi-conductor manufacturer **Broadcom** has bid nearly $19bn for **CA Technologies**, the infrastructure software supplier. They are paying 4.5x revenues for the main-frame business in a deal that looks at face value to have a questionable strategic fit.

LARGEST UK M&A DEALS – INTERIM 2018

PURCHASER	TARGET	EV £m	EV / Revenue
EQT Partners	Micro Focus / SUSE	2,535	8.0
GTT Communications	Interoute	2,300	3.0
Silver Lake	ZPG	2,200	9.0
Ion Trading	Fidessa	1,500	4.4
ICG	IRIS Software	1,300	11.5
Transunion	Callcredit	1,000	4.8
Permira	NDS	1,000	
Antin / WSIG	City Fibre	538	15.4
NEC	Northgate Public Sector	475	3.0
Viavi Solutions	Cobham T&M	350	2.1
Experian	Clearscore	275	7.1
Vitruvian	Travel Counsellors	200	1.3
Livingbridge	Love Holidays	180	6.0
Warburg	Capita Supplier Assessment	160	11.4
Visa	Fraedom	142	4.3
F-Secure	MWR Infosecurity	105	3.8
Restore	TNT Business Solutions	88	3.8
Loopup	MeetingZone	61	2.7
TT Electronics	Stadium Group	60	1.1
RBS	FreeAgent	53	6.6
Vermeg	Lombard Risk Management	52	2.0
Moneysupermarket	Decision Technologies	40	3.5

UK TECHNOLOGY M&A

UK CROSS BORDER TECH M&A DEALS



"**The power of competitive tension**"

FINTECH

Temenos approached UK listed **Fidessa** and made a £1.4bn offer which was agreed and was just about to be tied up when up popped both SS&C and **ION Trading**. SS&C had a look and declined to bid, but ION made an offer that was £100m greater and won the deal for the asset management software provider. Another classic example of why you should not accept an offer when someone knocks on your door to buy your company – unless it is a knock out valuation of course. It's the power of competitive tension. At 4.2x revenues it was a pretty good price too.

Experian acquired **Clearscore** in £275m deal. Experian, the world's biggest credit data company, has bought London-based FinTech company Clearscore, which was only launched in July 2015 and now offers over 6 million UK customers free credit checks.

The company, which generates income from products it sells to customers who get credit checks, said it's on track to make £39m in revenue in 2018. Experian are paying a whopping 7x prospective sales in acquiring the start-up, Experian will be hoping to expand its services while also diversifying its customer base into South Africa. It is the first sizeable acquisition by Experian in a while.

Italian **Gruppo Banca Sella** bought mobile banking app **Vipera** for $34m. Vipera was founded in 2015 and went public in 2010. They have now grown to 125 employees and an impressive 3 million registered users. Last year, Vipera acquired SoftTelecom for $1.5m.

"Payments frenzy"

There has certainly been a major frenzy of activity in the payments space in the past few years and 2018 is shaping up no different. In particular, we have seen landmark deals such as:

- Vantiv's acquisition last year of UK's Worldpay for £7.7bn, 1.7x revenues. Cincinnati based Vantiv is one of the largest payments processors in the US, with 2016 net revenues of $1.9bn. **Worldline** then acquired **SIX Payments** for €3bn this year in another big deal.

- Blackstone acquired Paysafe last year in a $3bn cash deal (2.9x revenues). Paysafe had previously acquired Skrill for $1.2bn in 2015 taking them into the Premier League of digital payments. However, life goes on under PE ownership with **Paysafe** acquiring US based **iPayment** in June.

- Private equity (H&F) also acquired the Danish payment processor Nets in 2017 for $5.3bn, 4.4x revenues, which is a decent return on the $4.5bn valuation that Nets achieved on listing just a year earlier.

- In the USA, **Verifone**, the payment terminal business, was also acquired by PE for $3.4bn or 1.7x revenues.

- **VISA** acquired **Fraedom**, a SaaS technology company providing payments and transaction management solutions for financial institutions and their corporate customers. It is not a Scottish company, as it may sound, but was previously part of travel group Hogg Robinson. Fraedom has been a VISA partner for nearly ten years, and its technology underlies VISA IntelliLink Spend Management, a core platform for VISA's commercial and small-business clients. "Increasingly, businesses are replacing inefficient paper-based payment systems with digital tools," said Vicky Bindra, global head of products and solutions, VISA.

- **Cake Technologies**, the U.K. FinTech that helps you pay your restaurant or bar bill, has been acquired by **American Express** for £10m. It's tempting, but corny, to say that will do nicely but having raised £7m in funding (including £1m crowdfunding round on Crowdcube in 2015) the deal was hardly a piece of cake.

Last year we saw Aviva invest heavily in Wealthify. Now **Invesco** have bought wealth management platform **Intelliflo**. It offers a comprehensive front-to-back office technology platform for financial advisers and their support teams. The business currently supports 19,000 investment professionals who manage in excess of £300bn of assets so the software platform is the backbone of the UK wealth sector, supporting financial advisers across the "full advice journey". Growing at nearly 20% a year and with 90% recurrent revenues one can see the attractions.

Elsewhere **Lombard Risk Management**, the listed insurance software provider was acquired by **Vermeg** for £52m or 2x revenues. Vermeg is a Dutch HQ'd FinTech with European presence but revenues of just €54m, so this is a big move for them. We also noted **StatPro** picked up the performance analytics part of **UBS**, and **Verisk** continues its cross Atlantic shopping spree acquiring **Business Insight** (risk modelling).

CYBER SECURITY

Helsinki listed **F-Secure** acquired **MWR InfoSecurity**, a cyber security company operating globally but with its HQ in sunny Basingstoke. "MWR InfoSecurity's threat hunting platform (Countercept) is one of the most advanced in the market and is an excellent complement to our existing technologies," said F-Secure CEO Samu Konttinen. With close to 400 employees, MWR InfoSecurity is among the largest cyber security service providers serving enterprises globally. Countercept provides extensive proactive attack detection and its suite of managed phishing protection services. MWR had revenues of £28m and break even last year and so the price of £105m including £25m earn out was a thumping 3.8x revenues and looks a very full price.

In Europe one of the largest deals last year was **Thales** beating French rival Atos to acquire Dutch headquartered **Gemalto** for €5.6bn. Thales, with a focus on defence and security products, won approval over Atos which is more focused on services. Gemalto which makes SIM cards and security for credit cards has struggled a bit in the last few years, hence the value was less than 2x revenues.

Shearwater Group the AIM listed cyber security provider is heading in the right direction and building a really interesting group. Acquisitions have been key – last year's deals were SecurEnvoy (6x revenues) and Newable Consulting (since rebranded as Xcina Consulting). GDPR introduced in May will also have helped. This year it acquired cloud access security broker GeoLang and cyber security solutions supplier Crystal IT to add scale. This could be one to watch.

Having acquired Sec-1 last year, **Claranet** acquired **NotSoSecure**, a company providing global pen-testing services and "ethical hacking" training courses to customers in the US, UK and Europe. It is headquartered in Cambridgeshire, and has teams in San Francisco and India. Similarly, **Intertek** acquired pen-tester **NTA Monitor** (who have offices in Kent and off-shore operation in Malaysia). There has been quite a consolidation in cyber services (Altran/IRM last year) as there is a severe shortage of skilled staff.

"Consolidation in cyber services"

GB Group is another to watch. They have not announced any deals this year but the identity data intelligence software provider was pretty busy last year acquiring Worcester based SaaS software provider PCA Predict (aka Postcode Anywhere) for EV of £63m (4.5x revenues or 14x EBIT) and before that IDscan Biometrics for £37m cash plus £8m earn out (4.9x revenues or 12x EBIT).

AI AND MACHINE LEARNING

Oracle acquired Cambridge UK-based **Grapeshot**, whose contextual intelligence platform keeps brands safe by ensuring ads are not placed against damaging content. Grapeshot examines keywords to gauge context and avoid inappropriate placement. Oracle have completed quite a few adtech/data acquisitions, including Compendium, Moat, Involver, Vitrue, Market2Lead, Collective Intellect, BlueKai, DataLogix, Maxymiser, Responsys, Eloqua and AddThis. Grapeshot has previously received funding of c.$23m from IQ Capital Partners, Draper Esprit and Albion. Growth is reported as over 100% annually.

RELX, the British publishing group turned analytics company, has paid £580m for **ThreatMetrix**, a fraud detection tool. RELX is investing heavily to move away from its print publishing of magazines like New Scientist along with academic journals and data for medics, lawyers and other professionals. Print now accounts for just 10% of its revenues – down from 50% a decade ago. This is its largest acquisition in that time. ThreatMetrix's Digital Identity Network is one of the largest repositories of online digital identities, encompassing 1.4 billion unique online identities from 4.5 billion devices in 185 countries. It analyses over 100 million transactions per day across 35,000 websites. Nick Luff, the company's chief financial officer, said AI was a "key theme of how we are building our profits and developing our business". ThreatMetrix, which launched in 2005, collects information like device type, location and user behaviour to make sure the person logging in to things like banking services is definitely who they say they are, which eliminates the need for complicated login.

> "RELX – largest acquisition in a decade"

Artificial intelligence is a very hot area. Last year saw some interesting Unicorn AI funding deals, notably:

- 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. It was the biggest ever early stage investment for a venture-backed European company.
- **CrowdStrike** has raised $100m in Series D funding. 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.
- **Darktrace** raised an additional $75m bringing its valuation to nearly $1bn. Its Enterprise Immune System platform uses AI and machine learning algorithms to automatically detect and respond to cyber threats by monitoring/analysing endpoints, networks, industrial control systems, IoT devices and users in real time for behaviour patterns that suggest suspicious or unusual activity. Clever stuff.

PUBLIC SECTOR

Capita sold **Supplier Assessment Services**, including Constructionline, to funds affiliated with **Warburg Pincus** for £160m in cash which will be used to reduce indebtedness. Capita has grown and commercialised Supplier Assessment Services and rapidly grown the business, particularly since acquiring Constructionline in January 2015, having previously operated it as a concession. Given its underlying revenue and operating profit were £14m and £6m respectively in the year to 31 December 2017 it seems to have got a really good price at 11x revenues. New CEO, Joe Lewis, is making headway in clearing out "non-core" businesses having sold Affinity Workplace to Endless and Asset Services Group to Australian financial services firm Link for some £888m. In July Capita have also sold **Parking Eye**, their car parking solutions division to a consortium for £226m which equates to over 5x revenues in another boost to the coffers.

> "Capita – clearing the decks"

Advanced was a very acquisitive animal under Vin Murria. After a pause for several years it appears that in-fill acquisitions are very much back on the agenda with acquisitions of **Science Warehouse** and **Information Balance** in March 2018, and Hudman Solutions last year. At the end of June they also announced the acquisition of **Docman** a healthcare workflow/document management. More than 5,400 GP practices and 115 NHS Trusts currently use Docman's document management and workflow solutions. Advanced also made the £16m acquisition of **Science Warehouse**, a SaaS-based e-procurement platform which accelerates Advanced's cloud strategy. As CEO Gordon Wilson said: "the Cloud is increasingly seen as the fuel for digital transformation projects, which is why accelerating our Cloud capabilities is at the heart of our business vision." Established in 2000, and a spinout from the University of Leeds, Science Warehouse is a provider of spend management and eMarketplace systems to commercial, government, higher education, NHS and housing customers. Its cloud-based SaaS technology drives efficiencies through the procurement process for both buyers and suppliers.

Civica changed PE owners in a huge £1bn deal last year valuing it at nearly 4x revenues. It has since acquired cashless catering and EPOS provider **Nationwide Retail Systems** (NRS) to expand its payment systems business. Barnsley-based NRS is an established provider of integrated payment solutions, particularly in the education sector where it provides cashless catering systems to more than 2,000 local authority, school and college customers. NRS looks a nice tuck in for Civca having made profit margins of over 35% on its £7m revenues and brings new technologies such as identity management.

NEC Corporation acquired **Northgate Public Services** division for £475m from Cinven. This is another deal where the strategic tie up is not that obvious. Established in 1969, Northgate sells mainly to local police forces, tax collection offices, social security offices and housing authorities. The link is that NEC has an international safety business capitalizing on biometrics technologies, including face recognition and fingerprint recognition technologies that have been evaluated as the world's most accurate, and provides identification systems to more than 30% of state police forces in the United States. It is a tenuous reason to make an acquisition but you can see some logic.

CLOUD SOFTWARE

ICG have joined Hg Capital in taking a stake in **IRIS Software Group**, the acquisitive Berkshire-based accountancy and payroll solutions provider, valuing it at £1.3bn and became one of UK's largest ever private equity led software buyouts. IRIS has 80% recurrent revenues and grew 15% last year. The valuation was a whopping 11x revenues. At the same time IRIS has bought **Taxfiler**, the cloud tax and accounts provider for small accountancy practices. Founded in 2012, Taxfiler offers a monthly subscription service for agents and accountants to submit statutory accounts and tax returns and follows two other recent deals – payroll systems provider Star Computers Ltd and education software specialists Contact Group.

One of the strangest deals in a while was the acquisition of **FreeAgent** by **RBS**. Yes, the bank. The UK-based provider of SaaS accounting software solutions for micro-businesses IPO'd in late 2016. It has been purchased at 5x revenue, or £53m, by RBS.

FreeAgent, has many value-added features, including good dashboarding, templated forms and systems to support tax reporting. After a 4Q 2017 rollout, over 10,000 RBS customers are "signed up to use the FreeAgent solution". RBS plans to operate FreeAgent as an "independent member of the RBS Group", offering the solution across its customer base. FreeAgent's strapline is "For managing your business it's the whole enchilada". That's a wrap.

> **FreeAgent – "the whole enchilada"**

Hg Capital have sold **Allocate Software** to **Vista Equity** in another private equity pass the parcel. Interestingly, since its investment at the end of 2014 Hg has been pretty busy. It would seem they supported the management through hiring new key personnel, completed a refinancing in 2016 returning 30% of the original investment, completed two acquisitions, entered four new markets and launched two major new products. The acquisitions were firstly to enter the French market and secondly, a small IP acquisition. The company won new customers on the core platform in Germany, Denmark and Spain, in addition to the acquisition in France. The new product launches include a new platform for scheduling community healthcare professionals and Cloudstaff, a platform that enables trusts to share nurse banks, reducing agency spend. It has impressive financial results with 17% revenue growth and 22% EBITDA growth in 2017.

Mandata the Northumberland-based supplier of software for the transport and logistics industry was sold by Synova to **LDC** in another PE shuffle. It has not been an overnight success having started way back in 1974. Mandata was acquired by LDC for £20m or 3.5x revenues. That gave Synova a return of 8x money invested. Nice.

Escher has been acquired by **Hanover Private Equity** for £35m. It represents just under 3x revenues for the software supplier to the postal sector. It is an exit for Liam Church the founder who has just been through a 2 year restructuring to kickstart growth.

In July this year **Kerridge Commercial Systems** acquired listed **Electronic Data Processing** (EDP) which as the name suggests provides ERP solutions to the merchanting and wholesale distribution industry. The £11.8m offer is a 33% bump on the share price ahead of the offer and brings to a close its listed status which goes back over 30 years and has been somewhat less than exciting, struggling to break £5m revenues. Since Accel-KKR's investment in 2015, Kerridge has made 6 acquisitions namely: Dancik and Mincron in the US; Integrity and Lakeview in the UK; and IQ Retail in South Africa. Clearly showing how private equity owned businesses embrace in-fill acquisition programmes.

E-COMMERCE

Silver Lake agreed to buy property platform **ZPG** (Zoopla/USwitch) for almost £2.2bn. Its shares jumped 30% on the news and delighted shareholder DMGT who had 14x return on their investment. ZPG owns and operates a number of online property portals, including Zoopla, and acquired financial services website Money.co.uk for £80m (3.3x revenues) and property data provider Hometrack for £120m (7.5x revenues). It also made an offer for **GoCompare** for £420m but this was rejected, having only recently demerged from Esure.

Online estate agent **Emoov** has merged with rival **Tepilo** in a deal that also includes the web-based lettings agency **Urban.co.uk** and makes the combined group the UK's second-largest digital estate agent. The acquisition of Urban.co.uk marks a significant expansion into online lettings for Emoov, at a time when the property sales market in many parts of the UK is suffering as wage inflation is low and valuations high. The combined value of the three companies was £89m, and the newly enlarged business has secured £15m from existing and new shareholders. Included in that is an airtime-for-equity investment from Channel 4's commercial growth fund, which will see the broadcaster work on the company's advertising campaign, and a cash investment from Northern & Shell, the UK media group and Tepilo's largest shareholder. Online agents accounted for just 7% of the market, clearly the expectation is that this will rise.

> **DMGT make 14x return on ZPG sale**

Moneysupermarket is to acquire home communications and mobile phone comparison business **Decision Technologies** for £40m, which operates brands including broadbandchoices.co.uk as well as supplying white label technology for the likes of Moneysavingexpert. Choosing home communications, broadband and mobile phone deals is "complex and confusing" according to Mark Lewis, Moneysupermarket CEO.

The online travel sector has had a really good shake out in the past few years. Skyscanner was acquired by Ctrip and Priceline acquired Momondo in the past few years. This year **Travel Counsellors** and **Love Holidays** have been acquired by private equity. Valuations are high but not reaching the high watermark of 11x revenues set by the Chinese acquisition of Skyscanner. The high street travel agent would seem to be dead.

COMMUNICATIONS

Listed broadband provider **CityFibre** has been acquired by **Antin Infrastructure Partners** and Goldman Sachs managed **West Street Global Infrastructure Partners** (WSIP). They have paid £537.8m cash for CityFibre, whose revenues doubled to £35m last year with adjusted EBITDA of just £4.5m. CityFibre had been quite acquisitive itself buying assets from KCOM Group, Redcentric and Entanet as it aims to build a network to compete with BT in certain markets. CityFibre think that this can best be done in private, rather than in public market. The 90% uplift from the share price before the approach may have helped persuade any doubters.

Remote meetings company **LoopUp Group** acquired conference services provider **MeetingZone** from GMT Communications Partners for £61.4m. The company also announced a chunky £50m share placement to fund the deal. MeetingZone is a UK-based audio and video conferencing specialist with a worldwide customer base of around 6,000. LoopUp are UK listed, after their recent £40m IPO in 2016. They have paid 2.7x revenues or only 12.2x EBIT – a pretty reasonable price to add considerable scale to their business.

> **LoopUp calling the tune**

TalkTalk had agreed to sell its business broadband to Daisy for £175m, but Daisy pulled out having failed to agree final terms after DD. Key lesson here is that a deal is never done until it is done.

GTT Communications, has been on an aggressive acquisition spree buying **UK Interoute** (formerly Easynet) following on from last year's deals – Giglinx, Hibernia Networks, Perseus, and Transbeam all helping to swell GTT's revenues and profits.

In the first days of 2018, Irish cloud communications management business **Blueface** was merged in $500m deal with **Star2Star** to build scale in the enterprise technology sector and compete with the likes of Cisco, which is still expanding aggressively.

IT MANAGED SERVICES

Document management and office services provider **Restore** has acquired **TNT**'s records management business, for £88m. It primarily provides records management services but also has a presence in scanning. The business currently employs more than 250 staff, and in particular will strengthen Restore's public sector exposure. Restore funded the deal with a £51.5m placing with institutional investors and has developed into a sizeable business with a market cap of over £600m. Much of this has come through acquisitions like Cintas, Wincanton and PHS building a powerful market position in document management.

RedstoneConnect sold its managed services and system integration divisions for £21.6m to focus solely on its software development arm. Included in the sale is **Commensus** and **Comunica**. It will focus on its OneSpace occupancy management software solution. Having received only 0.5x revenues for its IT services business it clearly was keen to off-load it.

> **“IT services sold for just 0.5x revenues”**

SCC (which is owned by Rigby) the privately-owned IT services player has announced the acquisition of **Hobs Group** who focus on business outsourcing and will be combined with M2 – SCC's existing specialist Managed Print business. Hobs On-Site provides specialist services in document digitisation, document process re-engineering, print room, mail room etc.

Claranet, which has pursued an active acquisitive strategy growing to revenues of over £200m a third of which is in UK, has announced the acquisition of Surrey-based **Union Solutions** who have turnover of £10m and 30 employees. Union Solutions will help Claranet build on its cloud-based capabilities. In particular, its Azure capabilities and back-up, disaster recovery and security of data are key focus areas.

Elsewhere in IT services we note acquisitions from **DXC**, **Accenture** and **Lyceum**, who acquired a new portfolio company **DMC Canotec**.

MEDIA

Inflexion has completed the buyout of **Chambers**, a provider of legal rankings. Founded in 1990, Chambers ranks over 80,000 lawyers and law firms by practice area in almost 200 jurisdictions. The rankings are relied upon by corporates when selecting their legal advisers and by law firms and individual lawyers to support their business marketing activities. There has been quite a bit of activity in the legal sector in the past few years. For example, AbacusNext acquired HotDocs, the Edinburgh based document automation software provider; Thomson Reuters and Mitratech have also been particularly active.

At the end of 2017 **Apple** paid $400m for music recognition app **Shazam**, which was originally counted amongst the UK's Unicorns. So, it has faced a big drop in valuation, but still achieved a 10x revenue multiple on exit. This year, Apple acquired **Texture**, the digital magazine subscription service which gives users unlimited access to over 200 magazines for one monthly subscription fee. John Loughlin, CEO of Texture, was quite pleased with the outcome, he said “the Texture team and its current owners, Condé Nast, Hearst, Meredith, Rogers Media and KKR, could not be more pleased or excited with this development. We could not imagine a better home or future for the service.” In 2016, Texture was chosen by the App Store editorial team as one of the most innovative apps and games for iOS users.

NDS have had an interesting history. The Staines based business was started in Israel and was listed in the USA in the late 1990s. It was privatised in 2009 by News Corp and Permira for $3.6bn, and then acquired by Cisco in 2012 when it changed name to Videoscope. Earlier this year Cisco announced that it has sold the video assets of NDS back to Permira again for an estimated $1bn as it separates out the Pay TV assets.

> **“NDS – return to sender”**

HEALTH

Dublin-based **Clanwilliam Group** has snapped up another healthcare technology provider – **Informatica Systems**, which has become the 16th since 2014. Informatica Systems is no start-up, it was established in 1993 and is based in Cobham, Surrey. It provides practice management, clinical performance and health solutions to the NHS in England and Wales and will join companies such as Bluespier, Maxwell Stanley Consulting and Medisec Software in the Clanwilliam Group portfolio.

Optimum Contact has been acquired by $20bn market cap, US based, HealthTech provider **IQVIA**, which was formed following the merger of Quintiles and IMS Health. Optimum Contact is a leading provider of quality, safety and performance improvement systems to the NHS, including patient feedback, audit compliance, outcomes and more, receiving awards for its work to improve patient safety. IQVIA is a leading global information and technology services organisation with more than 55,000 employees across 100 countries. IQVIA already supports the NHS at both national and local levels, supplying costing, benchmarking and analytical services. With the addition of Optimum Contact, those services will now be available to over 156 NHS Trusts and Healthcare organisations. Terms were not disclosed but it is another example of a very large US corporate acquiring a UK based technology provider.

> **“IQVIA makes optimum contact”**

UK LISTED RISERS & FALLERS – INTERIM 2018

ZOO DIGITAL
+98%

SEEING MACHINES
+98%

> **MicroFocus has lost its focus**

ELECOSOFT
+84%

SHEARWATER
+84%

WANDISCO
+67%

FIDESSA
+56%

RISERS

After a strong recovery last year the biggest gainer in 2018 was once again **Zoo Digital**, which provides cloud-based media production services and software to creative organisations, predominantly in the entertainment industry. A significant uptick in revenues showed a step change in growth.

Seeing Machines' shares have also doubled this year. Their software detects driver fatigue. The shares themselves looked pretty tired until they took off in May. Ironically, they announced a revenue slippage but more importantly an EU Commission has mandated advanced safety features in all cars by 2021. Hence the rating of nearly 20x last year's revenues.

Learning Technologies' shares have doubled in the past year. The market clearly liked its big US acquisition last year of People Fluent for £108m as it makes a deeper push into HR and corporate learning. **Keywords Studios** also bought big in the US last year with the $66m acquisition of VMC Consulting as it boosts technical services for the booming video gaming industry, although it hasn't had the same effect on the share price, not yet anyway.

WANdisco is the world leader in Active Data Replication which allows distributed development teams to collaborate, as if they are all working in one location. Investors are united in their optimism as it also trades on more than 20x revenues.

UK listed **Elecosoft** acquired **Shiresoft** for £6.3m or 3.3x revenues for the asset maintenance and management software used for plant and equipment. Elecosoft have had a great year so far with their shares rising over 80%.

FALLERS

IQE who are now one of the few UK listed semi-conductor companies, has seen its valuation slump to just 5x revenues as investors have become more cautious about revenue prospects, particularly to Apple who is investing heavily to bring its supply chain in-house.

Micro Focus have had a tough six months with its shares dropping 50% following fall out from its massive $8.8bn HPE acquisition after revenues fell short of expectations. However, they have just announced the sale of their Linux business (**SUSE**). The sale of SUSE for $2.3bn will change the Balance Sheet and, on exit value of 8x revenues or 24x EBIT, lead to a significant gain.

Audioboom Group acquired podcasting platform **Triton Digital, Inc**. for $185m cash. Or at least that was the plan. The deal fell apart as it could not raise the significant financing. It was a pretty big move as Audioboom itself has a market cap of just £35m. It was in many respects a reverse takeover. AudioBoom is a kind of NetFlix for audio. Audioboom's deal seems to have blown up.

IDE has a colourful history stretching back to 2005, when 'casual dating service' Easydate was admitted to AIM and rebranded as Cupid. The dating activities were sold in 2013 (realising some £38.6m) and Cupid was renamed Castle Street Investments and then bought Selection Services. They were rebranded as Coretx and then acquired managed services firm 365IT which itself was a buy-and-build. Follow all that? Yet despite that frantic activity its shares are down 70% in the past year.

IQE
–30%

SOLID STATE
–32%

AUDIOBOOM
–37%

MICRO FOCUS
–50%

ALFA FINANCIAL
–69%

OUTLOOK

While there are plenty of political risks around the world, it is a great time to be an owner of a technology business. In a low growth world there is a continual push to improve productivity and automate. There is also a wave of new technology, in particular around artificial intelligence, machine learning and IoT alongside a continued push into the cloud. The result is that most technology companies are growing faster than many other sectors which is reflected in share prices, valuations and in turn management confidence of buyers. As a result, M&A volumes remain strong and valuations continue to be high as buyers seek growth and innovation. What's not to like.

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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
ideagen
SECTOR
Collaborative Doc Mgmt

FOCUS GROUP EUROPE
SOLD TO
accenture
SECTOR
ITSM Consulting

LogBuy
SOLD TO
Reward Gateway
SECTOR
HCM

MARIMATECH
SOLD TO
TRELLEBORG
SECTOR
IoT

clinicalcomputing
SOLD TO
QMS
CONSTELLATION SOFTWARE INC.
SECTOR
HealthTech

BusinessIntegrity
SOLD TO
THOMSON REUTERS
SECTOR
LegalTech

Optimum Contact
SOLD TO
IQVIA
SECTOR
HealthTech

Cypad
SOLD TO
ParentPay
SECTOR
FinTech

mosaic
FUNDING
J.P.Morgan
SECTOR
FinTech

The Mobility House
FUNDING
MITSUI & CO.
DAIMLER
SECTOR
CleanTech

wealthify
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AVIVA
SECTOR
FinTech

Applicable
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NTT Communications
SECTOR
Unified Comms

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