ICON CORPORATE FINANCE

TECHNOLOGY M&A REVIEW

January 2018

CONTENTS

KEY STATISTICS

- DEC 31 2016 **7,117/7,688** DEC 31 2017 — FTSE **7,688** +8%
- DEC 31 2016 **4,204/4,681** DEC 31 2017 — FTSE S&CS **4,681** +26%
- DEC 31 2016 **5,432/6,903** DEC 31 2017 — NASDAQ **6,903** +27%
- DEC 31 2016 **1.23/1.35** DEC 31 2017 — US$/GB£ EXCHANGE RATE **1.35** +10%

KEY M&A STATISTICS

- DEC 31 2016 **14/22** DEC 31 2017 — US TECH IPOs **22** +57%
- DEC 31 2016 **13/6** DEC 31 2017 — UK TECH IPOs **6** –54%
- DEC 31 2016 **2,020/1,889** DEC 31 2017 — TECH M&A DEALS – EUROPE (No.) **1,889** –6%
- DEC 31 2016 **5,208/4,773** DEC 31 2017 — TECH M&A DEALS – GLOBAL (No.) **4,773** –8%
- DEC 31 2016 **568/388** DEC 31 2017 — TECH M&A DEALS – UK (No.) **388** –32%
- DEC 31 2016 **37%/41%** DEC 31 2017 — UK PERCENTAGE of CROSS-BORDER DEALS **41%** +11%
- DEC 31 2016 **24.3/21.4** DEC 31 2017 — PRICE TO EBIT (x) 12mth AVERAGE **21.4** –12%
- DEC 31 2016 **2.75/2.79** DEC 31 2017 — PRICE TO REVENUE (x) 12mth AVERAGE **2.79** +1%

HIGHLIGHTS

Global equity markets continue to hit new highs. Some Chinese tech stocks have gone stratospheric. In the US, the mega Technology FAANGs have had another great year with the likes of **Facebook**, **Amazon**, **Apple** and **Netflix** all rising more than 50% while others like **Google**, **Microsoft** and **Adobe** have also done well. The Nasdaq finished 2017 on a record high, up 27%. In the UK Technology stocks also considerably outperformed the market.

Yet the IPO market remains weak as very low interest rates continue to fuel alternative options such as private equity funding. The result is that the number of Unicorns has risen to over 220, with over 60 of them added in 2017.

The number of technology M&A deals fell in 2017, although comparison is with a very strong 2016, particularly in the UK. Globally the number of deals was 8% lower than 2016. Although the volume of deals has fallen in 2017, the market is still very healthy and the valuations remain at near record levels as buyers seek high growth/high price assets in areas such as AI (Artificial Intelligence), Machine Learning, IoT and Cloud Software.

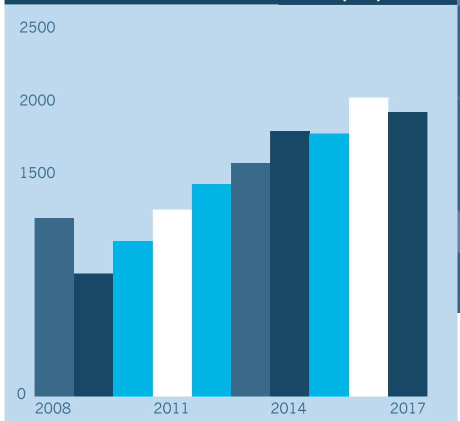
A number of larger buyers have slowed down acquisition programs in 2017, notably **Google Capita** and **IBM**, but at the same time others such as **Accenture**, **Constellation**, **ZPG (Zoopla)**, **Verisk** and most of the large System Integrators have been accelerating aggressively.

A key trend in the UK was the increase in cross border deals – 41% of UK deals had an overseas acquirer in 2017 – a new record. This has been confirmed at ICON, with 7 out of our last 10 exits being to an overseas acquirer.

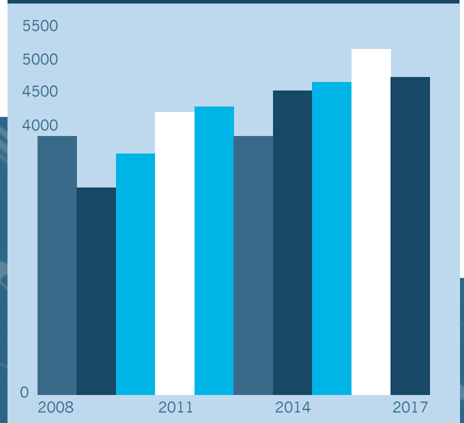
Almost all the drivers that made 2017 another active year in M&A remain in place and so we look forward to the Chinese Year of The Dog with confidence.

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

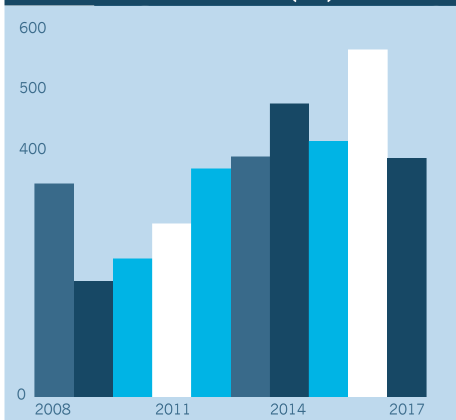
EUROPE TECHNOLOGY M&A DEALS (No.)



GLOBAL TECHNOLOGY M&A DEALS (No.)



UK TECHNOLOGY M&A DEALS (No.)



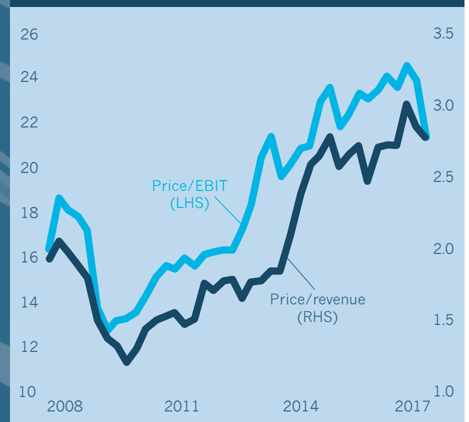
> **The supercycle is set to continue**

US interest rates have risen three times in 2017 in response to a combination of factors: faster economic growth, very low unemployment, slightly higher inflation and pending Government stimulus courtesy of Mr Trump. Despite these increases and the end of QE (quantitative easing), interest rates remain very low and the markets have continued to power ahead.

Corporate America looks in good shape with rising profitability and large tax cuts to come. So, confidence is pretty high, despite increased political risk with a steady stream of scatter-gun tweets and comments from The Donald.

UK rates 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 actually performing better than many had feared. This is partly due to a fall in the currency and also a pick-up in demand in Europe. Inflation has increased but this is expected to reduce in 2018. So the outlook is for slow but steady growth, despite the Brexit change in 2019, and interest rates may rise a bit further but will stay very low. It looks very much like more of the same.

TECHNOLOGY M&A VALUATIONS



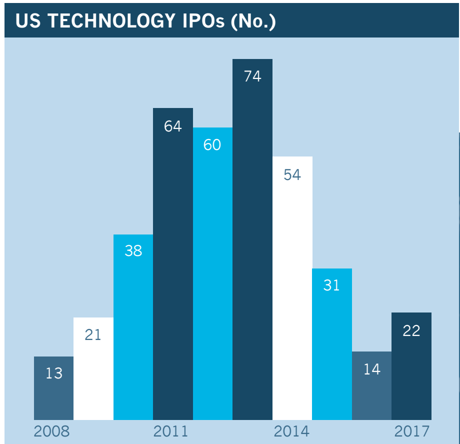
As a result of the continued economic growth and very cheap debt, the global markets have remained strong in 2017 with almost all major equity markets near their highs, as investors take higher risks to get a return on their capital. A classic example is Bitcoin where the price increased 15x in the year. The Technology sector has been one of the best performing sectors, helped by the fact that many of the major technology corporates have announced strong revenue and profits growth.

This economic cycle has already lasted much longer than most previous ones and after 8 years of equity market recovery one would have expected the fat lady to have been in full voice some while ago. Some commentators point to a number of warning signals, mainly around valuation of almost all assets. However, interest rates and volatility remain very low and it would seem the super cycle is set to continue. In particular, with the planned US tax cuts and proposed tax breaks to unlock the huge $1.2tn off-shore cash reserves, many US technology companies will look to 2018 with a degree of optimism.

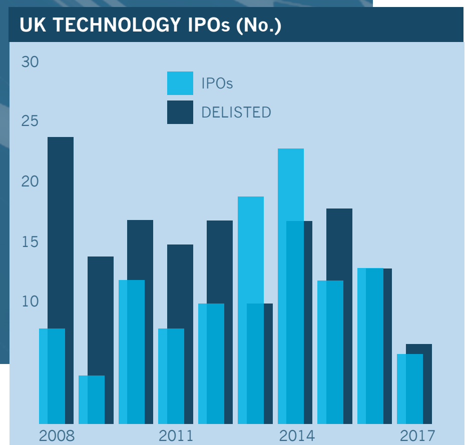
There have been a reasonable list of good quality companies listing in the US such as **Alteryx**, **Carvana**, **Cloudera**, **MuleSoft**, **Netshoes**, **Okta**, **SailPoint**, **Snap**, **Switch** and **Yext**. Snap is the most valuable 2017 tech IPO, valued at just over $20bn. Or it was $20bn. Early enthusiasm quickly waned and the shares are now below the IPO price of $17, as its business performance has been below expectations. There has also been increased concern surrounding its issue of non-voting shares at IPO, as a result, Snap has lost its crackle! **Spotify**, **Pinterest**, **Airbnb** and **Dropbox** are all very interesting companies potentially looking to list in 2018, but founders looking to issue non-voting shares take note, its clearly something you can only contemplate a) in a very frothy market, b) if the founders are irreplaceable or c) if you really are the next Facebook or Google.

Only one of the US IPOs had a value of less than $1bn. So pretty sizeable. So where is the public appetite for young tech businesses? It's a particularly tough question to answer when so many listed technology companies have done so well. I guess part of the answer is the competition from the wall of private equity cash that the industry has raised from investors that is still looking for a home; it is estimated to be over $12trn. As a result, there is a disconnect between private "Unicorn" valuations of many PE backed businesses with high leverage and tax deductible interest charges and the more traditional listed equity market valuations based on a multiple of projected profits. Some Unicorns like Airbnb which raised $1bn at a $30bn valuation in 2017 may justify the early enthusiasm, but many others (like Shazam) will clearly not.

In the UK the IPO market seems as reliable as The Southern Rail timetable. Back in 2014 there was a significant uptick in activity and things were looking up with listings of bigger tech companies in 2015 such as **Sophos**, **Kainos** and **Softcat**. Then in 2016 there were



"Blue Prism shares have gone stratospheric"



"Snap has lost its crackle"

a reasonable number of listings but mainly much smaller AIM listings such as **Blue Prism** (robotics automation), **Loopup** (remote meeting software) and **FreeAgent** (online accounting software) all on good valuations.

2017 was the lowest number of tech listings since 2009, in the midst of the financial crisis. The lack of activity in 2017 is all the more odd as some recent IPOs have done pretty well. Highlights are:

Blue Prism which has been a roaring success since listing. Blue Prism supplies robot software to manufacturers, and on the back of some good results the shares have gone stratospheric, increasing 10x since IPO last year and with market value approaching £500m it is now valued at over 25x revenues.

Alfa Financial Software, a provider of specialist software into the asset finance industry, is one of the few UK IPOs of significance in 2017. Set up in 1990, the company has more than 250 employees worldwide. It made profits of £17m on £73m of revenue last year. Alfa has built a strong position in asset finance, its share price rose over 30% on IPO. It is focused on the vehicle leasing market, and it listed on the back of record car sales in the UK in 2016. So timing looked opportunistic, but the business has continued to do well.

Appscatter, which as the name suggests has an app distribution and management platform, is a young business whose platform only launched in 2017, so was essentially pre-revenue on listing. The shares listed at 65p and are currently 47p so has had a tough start but looks a bit too early stage to be listed.

Document management software supplier **GetBusy** listed on AIM following a £3m rights issue. The Cambridge UK HQ'd company is the result of a demerger from Australian listed **Reckon**.

US TECHNOLOGY M&A

US MEGA CAP ACQUISITION TRENDS

	2014	2015	2016	2017
AMAZON	3	6	4	10
ALPHABET	35	13	17	9
APPLE	8	10	9	9
MICROSOFT	9	19	8	9
CISCO	4	8	5	6
ORACLE	8	3	9	4
IBM	4	11	12	3
HP	2	3	4	3
FACEBOOK	8	5	5	2
INTEL	3	5	5	1
TWITTER	8	8	3	0
DELL	1	1	0	0
	2014: 93	2015: 92	2016: 81	2017: 56

The number of deals completed by mega cap US technology companies has fallen quite sharply in 2017. Perhaps that is no great surprise after such a long period of aggressive expansion. Highlights are:

Amazon has historically only made a few infill acquisitions but this year has gone shopping for an impressive 10 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 and therefore not included in our Technology M&A Review!

> "Amazon has gone shopping"

The $67bn acquisition in 2015 by **Dell** of **EMC**, was the largest IT M&A deal ever (although it may well be easily surpassed if **Broadcom** successfully acquire **Qualcomm** in 2018). 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. To rebalance its books in 2016 Dell sold its services division to **NTT** for $3bn. It also sold its software division (**Quest** and **SonicWALL**) to private equity for $2bn. Neither valuation was compelling, but it paid down debt and may well free up Quest to return to acquisitions which were a key feature of its growth before 2012, but in 2017 there were no acquisitions.

Another major corporate that is only just emerging from its own make-over is **HP Enterprise (HPE)** with only 3 acquisitions, the largest being **Nimble Storage**, a provider of predictive all-flash and hybrid-flash storage solutions costing $1.2bn.

Oracle splashed $9.3bn or 10x revenues for **Netsuite** in 2016 in a push to move away from its traditional "on-premises" revenue model to a cloud model. In 2017 there have been only 4 deals in: digital advertising measurement, API testing, continuous integration and most recently its largest deal, Aconex in construction project management.

Microsoft has bought more than 200 companies in its time. In 2015 it bought a massive 19 companies, then 9 in 2016 and another 9 in 2017 so it is pretty aggressive. Its acquisition of **LinkedIn** last year for $26.2bn was a really big one. This year there have been deals in AI, 3D gaming, VR, cloud management and collaboration plus the $100m acquisition of **Hexadite**, the Israeli cyber security business.

Google/Alphabet not long ago was a very prolific acquirer, buying 30 companies a year, but that has slowed considerably as it has cut back some of its blue sky expansion. Its mission statement is to "Organize the world's information and make it universally accessible and useful." Nevertheless, it is still pressing ahead with plenty of expansion with 9 acquisitions in 2017. It paid $1.1bn to acquire IP and a team of 2,000 people from smartphone manufacturer **HTC** to boost its Pixel phone and the creation of a hardware division. Equating to almost $0.5m per head it is quite a hiring fee. This isn't the first time Google has made a major investment in smartphone hardware development, Google also bought **Motorola** in a $12.5bn deal in 2011, only to resell it to **Lenovo** for $2.9bn three years later, although it did retain Motorola's most valuable asset, its patent portfolio. Google has an emerging hardware division with the Google-branded phone, the Pixel, the Daydream View VR headset and the Google Home smart speaker. Other deals in 2017 were centred around AI and VR primarily in the US with no UK acquisitions since **Dark Blue Labs** in 2014.

> "Computer vision for autonomous driving"

The motor industry is facing perhaps the greatest disruptive change of any, with the fast development of driverless cars. Car manufacturers are chasing to catch up with **Honda** investing in **Grab**, **General Motors** investing in **Lyft** and **Toyota** investing in **Uber**. **Samsung** then made its largest ever overseas acquisition - the $8bn cash acquisition of **Harman** the connected car audio supplier in 2016. In 2017 the largest deal was the $15bn acquisition by **Intel** of **Mobileye**, a leader in computer vision for autonomous driving technology, the biggest-ever acquisition of an Israeli tech company. Mobileye covers sensor fusion, mapping, front- and rear-facing camera tech and beginning in 2018, crowdsourcing data for high-definition maps, as well as driving policy intelligence underlying driving decisions. This looks like a key development in the relentless push for driverless cars.

LARGEST GLOBAL M&A DEALS

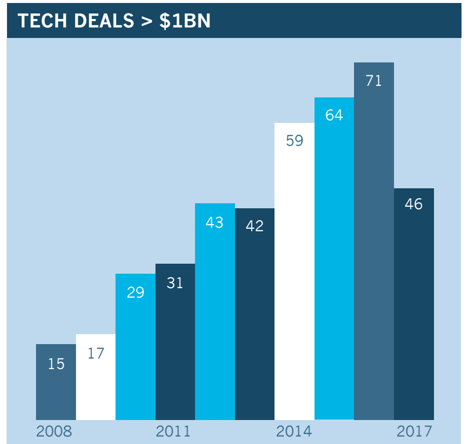
EV / T/o	PURCHASER		TARGET	EV £€$m
87.0	Intel	ISR	Mobileye	15,000
1.7	Vantiv	UK	Worldpay	7,700
4.4	Hellman & Friedman	DEN	Nets	5,300
1.8	Apollo	US	West	5,100
1.4	Atos	HOL	Gemalto	4,300
21.1	Cisco	US	AppDynamics	3,700
8.6	Advent International Global Private Equity	US	CCC Information Services Inc.	3,000
2.9	The Blackstone Group / CVC Capital Partners	UK	Paysafe	3,000
3.7	Internet Brands	US	WebMD	2,800
1.6	Vista Equity Partners / Misys Financial Software	US	D+H	2,565
2.2	LGP Leonard Green & Partners	UK	CPA Global	2,400
1.4	ICG	NOR	Visma	2,380
6.5	The Blackstone Group	US	Ascend Learning	2,000
2.9	Altran	US	Aricent	2,000
3.9	ABB	EU	B&R	2,000
5.6	Cisco	US	Broadsoft	1,900
5.6	Peak 10	US	ViaWest	1,675
4.9	Keysight Technologies	US	Ixia	1,600
4.6	Thoma Bravo	US	Barracuda	1,600
7.4	Schneider Electric	UK	AVEVA	1,550
2.4	Thoma Bravo	US	Kofax	1,500

Combined with announcements that China is to ban production of petrol and diesel cars, France is to ban sales of petrol and diesel cars and Volvo are to stop making them. This sector is certainly facing massive disruption.

Cisco acquired **AppDynamics**, which helps companies monitor application performance, for $3.7bn. Cisco is in the midst of a pretty major, and on-going, staff retrenchment programme, but is still making sizeable bets on faster growing parts of the technology stack – it paid $4.1bn for **Jasper Technologies** in 2016 and $1.9bn, or 5.6x revenues for **Broadsoft** the call software provider. Other smaller deals included AI and machine learning specialist **MindMeld** for $125m, as well as software-defined WAN vendor **Viptela** for $610m. The AppDynamics deal was a last-minute move for a company that was on the cusp of IPO'ing. Given that some of the PE backers are making 25x their money, they were no doubt delighted with the outcome.

> **Private equity accounts for 50% of larger deals**

Thoma Bravo, acquired **Lexmark's** enterprise software business, which is comprised of **Kofax**, **ReadSoft** and **Perceptive**. As part of the transaction, Kofax and ReadSoft have been combined under the Kofax brand, focused on process automation. Lexmark's Perceptive business has been acquired by **Hyland Software**, another Thoma Bravo portfolio company and a leading provider of enterprise information software. Kofax was originally a UK company listed on AIM and after a number of its own acquisitions was acquired by Lexmark just 2 years ago. In a colourful history, Lexmark was originally the print operation of **IBM** and after a series of acquisitions that took it further away from its printing roots was acquired by private equity for $3.6bn in 2016. Complicated.



Key trends in the US are:

- The automotive market faces massive disruption as driverless cars move ever closer. Mobileye is the largest and by far the highest valuation of major tech deals in 2017
- In an ever more connected world the Internet of Things is exploding. Also high demand for automation of office and industrial processes, cyber security, healthcare payments and artificial intelligence
- Major technology groups like Microsoft, IBM, Oracle, Facebook, and Google all failed to land significant deals in a slowdown by mega caps
- Private equity is still a huge influence in larger deals, accounting for more than 50% of the largest deals, fuelled by cheap debt and leverage
- Cash is the M&A currency. Only 10% of all US deals were mergers in 2017, compared to more than 50% of all deals at the top of the dotcom boom. With interest rates on the floor, there is plenty of cash around

UK TECHNOLOGY M&A

LARGEST UK M&A DEALS IN 2017

EV / T/o	PURCHASER	TARGET	EV £m
1.7	vantiv	worldpay	7,700
2.9	The Blackstone Group / CVC Capital Partners	Paysafe	3,000
2.2	LGP Leonard Green & Partners	CPA GLOBAL	2,400
7.4	Schneider Electric	AVEVA	1,550
3.9	Partners Group	civica	1,050
4.7	CVC Capital Partners	QA	700
4.6	Canyon Bridge	Imagination	550
5.3	priceline.com	momondo	423
32.0	Invesco	Source	388
13.0	Solera	Autodata	340
13.0		Shazam	298
9.6	Verisk	sequel	250
	Vector Capital	experian	234
3.7	Montagu	servelec group	224
7.5	Zoopla	hometrack	120
0.5	AVX	TT Electronics	118
8.3	ESG	utiligroup	100
3.8	blackbaud	JustGiving	95
5.0	HomeServe	Checkatrade.com	90
1.6	MML	csi	80
3.3	Zoopla	money.co.uk	80
1.2	fiserv	monitise	74
1.0	RM plc	Connect Education	64
4.6	GBG	PCA Predict	63

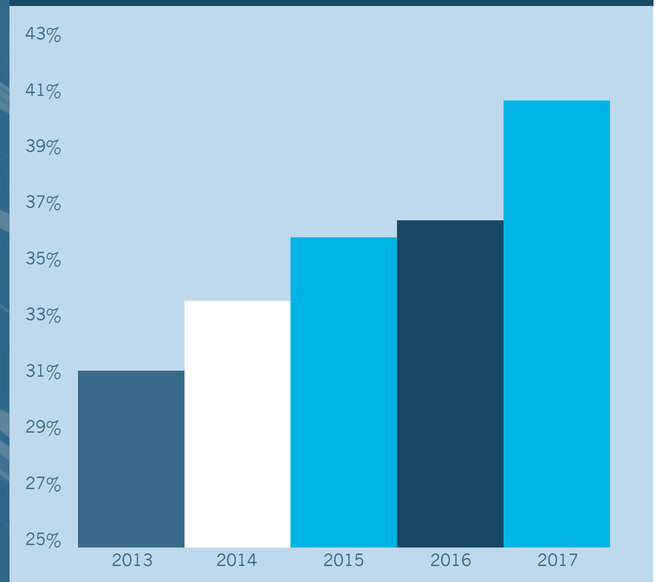
The key trends in the UK Tech M&A activity in 2017 were:

- A drop in deal volume to more normal levels after a huge record number of deals closed in 2016
- A total of 388 deals closed which was higher than average this century (376) but lower than last year's 568
- Overseas acquirers accounted for 41% of UK deals in 2017, significantly up from 37% last year
- Cyber Security, Travel, Payments and Cloud software consultancy were particularly active

There is no doubt that one of the main drivers for UK Tech M&A activity in the past few years has been overseas acquirers. In 2017 overseas acquirers accounted for 41% of Tech deal activity in the UK, up from 37% in the same period last year. The headlines have been taken by the mega acquisitions of **Aveva**, **Worldpay**, **Skyscanner**, **Shazam** etc. However the bulk of exits were of smaller innovative technology companies that have grown in domestic markets, but need help in achieving international expansion. Part of the attraction is that the pound has weakened since Brexit. The US exchange rate has fallen from 1.55 to a low of 1.22 before strengthening to 1.35.

> **"Overseas buyers account for 41% of deals – a record"**

UK CROSS BORDER TECH M&A DEALS



INTERNET OF THINGS

In 2016 we saw the biggest ever tech deal in Europe, the acquisition of **ARM** for £24.3bn by Japan's **Softbank**. A weakened pound and its strong position in the mobile chip market seemed the main attractions. ARM itself also acquired **Apical** for $350m. Apical 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. In 2017 ARM acquired **Allinea Software** for £18m, Allinea was a spinout from the University of Warwick and develops tools to optimise performance in supercomputers.

> **“Don't put all your Apples in one basket”**

Having all your eggs (or Apples) in one basket is far from ideal and one of the key metrics that buyers are wary of in looking at targets. It also creates opportunity as quite a few businesses that are reliant on **Apple** have lost their independence. The biggest will be the **Broadcom** $130bn acquisition of **Qualcomm** (if it closes). Qualcomm has been in dispute with its biggest client – Apple and its shares have weakened. It was a similar tale at **Imagination Technologies** which struggled after Apple announced plans to stop using the company's intellectual property within the next two years. Its shares fell and it was acquired by China backed **Canyon Bridge PE** for £550m in 2017. **Dialog** shares have also slumped after Apple announced it may stop using its power management circuits in 2019. A Chinese state controlled chip company has started buying Dialog so its days of being independent may be limited. Looks like Dialogs chips are down.

FINTECH

In 2016 the semi-conductor sector consolidation dominated, in 2017 it was in the Payments space. There were three mega deals:

- The biggest deal was **Vantiv**'s acquisition of UK's **Worldpay** for £7.7bn, 1.7x revs. Cincinnati based Vantiv is one of the largest payments processors in the US, with 2016 net revenues of $1.9bn. The deal is actually more of a merger and dilutes Vantiv's exposure to US retailers and gains access to Worldpay's technology.
- UK listed **Paysafe** acquired **Skrill** for $1.2bn in 2015 taking them into the Premier League of digital payments. However, they were acquired by private equity in 2017 in a £3bn deal,2.9x revs, that was announced just a month after it had made a pretty significant acquisition of **MCPS** in the US for $470m.
- Then in September **Hellman & Friedman** acquired **Nets** the Danish payment processor for $5.3bn, 4.4x rev, which is a decent return on the $4.5bn valuation that Nets achieved on listing just a year earlier.

One of the most exciting deals announced in 2017 was the investment by **Aviva** to acquire a significant stake in **Wealthify**, a low cost, 'robo' investment service which is making investment affordable and accessible to the UK mass market. Launched in April 2016 and based in Cardiff, Wealthify aims to attract millennials and those who are new to investment by providing a simple, easy to use and low fee digital investment service. Richard Theo, Co-founder and CEO of Wealthify, said: “This significant investment in the emerging 'robo' market, by one of the world's largest and most recognised financial services brands, is validation of the vision we set out to achieve three years ago to change investing for the better. Aviva's investment and access to their millions of UK customers gives us confidence that we can become the leader in this market in the UK and beyond. Aviva's investment in our business reflects a clear shift in market demand for high-quality, technology-enabled financial services solutions”.

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

Open GI has acquired **Transactor**, the Winchester based insurance software developer, for £40m. Having grown 20% a year since inception in 2003, Transactor has done really well, building policy administration and rating platforms in the UK general insurance market. Worcester based Open GI were acquired in 2014 by Montagu Private Equity and are a leading provider of software to insurance brokers.

Fiserv bought **Monitise Group** for £65m. After a tough couple of years Fiserv acquired the digital banking platform with more than 400 people with expertise and experience in banking and commerce. The price paid is a long way from the earlier $1bn valuation but having lost support of VISA a couple of years ago, it has been a struggle.

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

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

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

> **“Exciting robo advisor deal”**

Microgen has acquired US based **RevStream** for a total consideration of £12m. That equates to nearly 5x last years revenues, but with revenues expecting to double, that will fall rapidly. RevStream, which is based in California, is quite a big move for Microgen who have in recent years made very small in-fill acquisitions in wealth management. RevStream uses big data technologies such as in-memory and in-Hadoop processing to deliver high-performance applications, as you would expect from its name, it is based around revenue management.

TRAVEL

US based **Priceline Group** have acquired UK based **Momondo** for a sizeable $550m in cash. Momondo Group, with its Momondo and Cheapflights metasearch brands, will be rolled into Kayak, the Priceline search product. The valuation of 5x revenues is great. Boston based Great Hill Partners took a majority stake in the Momondo Group in 2014 with a $130m investment that valued the company at $210m and so makes a tasty return. It comes hot on the heels of the sale of **Skyscanner**, the price comparison site for flights, hotels and car rentals, which was bought by Chinese travel giant **Ctrip** for £1.4bn in 2016. With 12m Chinese travellers each year and the market growing by 18% pa the synergy attraction is obvious. It also partly explains the 11x revenue valuation the Chinese paid, double the Momondo valuation.

> **Time kills deals**

Despite its change in ownership, Skyscanner also made the acquisition of **Twizoo** (which is a social media app for restaurant/hotel recommendations). We are increasingly seeing new owners supporting acquisitions as part of their growth strategy post deals.

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

ENERGY

You need commitment in the M&A game, if at first you don't succeed try and try again. That is certainly what happened after **Schneider Electric** and **Aveva** twice called off a £1.3bn merger after extensive talks. At the third time of asking, French Schneider Electric has acquired Aveva. After approaches in 2015 and 2016 broke down the only real change has been CEO Richard Longdon's retirement. He did a pretty good job - Aveva used to be called CadCentre and its shares are up over 20x since 2000. Richard Longdon said after the collapse of the first approach that "the industrial logic was always good and still is. But they say that time kills deals. Too much time had gone on." Sometimes you need to play the long game.

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

Energy Services Group (backed by Accel-KKR) from the US has acquired **Utiligroup** for an estimated £100m. Utiligroup was owned by NorthEdge Capital and is based in Chorley. It provides software solutions for energy providers. At 8x revenues and 22x EBIT it is a full price, but reflects the revenue growth of over 40% last year. The value of having a quality energy supply and back-up was highlighted by computer chaos at British Airways in May that stranded 75,000 passengers, costing the airline over £150m. It seemed to be caused by a dis-connection of the uninterruptible power supply. Someone pulled the plug out.

Servelec is being acquired by **Montagu Private Equity** for £224m cash, a 27% uplift on the value of shares 3 months before the offer. Servelec provides software, hardware and services to the healthcare, education, oil and gas, energy and utility sectors and has been listed since December 2013 - prior to that it was part of Singaporean CSE Group. The offer is 185% return on IPO price, which is not too shabby, but the offer comes just over two months since the Group warned its order book had dropped as customers deferred their orders, so is a bit opportunistic. The exit price equates to 17x profits and 3.4x revenues which sounds fair.

Other Utility related acquisitions included **EDW/Team Energy**, **Gentrack/Junifer**, **Sword/Venture Info Systems** and the buyout of **Ensek** by **LDC**.

CYBER SECURITY

In Europe one of the largest deals of the year has come right at the end of December with **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.

GB Group the identity data intelligence software provider has been busy of late. It acquired Worcester based SaaS software provider **PCA Predict** (aka Postcode Anywhere) for EV of £63m in 2017. As the name suggests PCA does postal address, email address and mobile phone number verification, as well as offering data quality services. GB placed new shares to raise the £58m. It is another significant move from GB, and the valuation paid of 4.5x revenues or 14x EBIT is a great exit for owners and suggests there may be some synergies from the two data intelligence businesses. It comes on the back of its acquisition in 2016 of **IDscan Biometrics** for £37m cash plus £8m earn out. IDscan is an identity verification business and was acquired on valuation of 4.9x revenues and nearly 12x EBIT.

> **Cyber security – still hot**

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

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

Other cyber security deals that caught our eye included the acquisition of **IRM** (cyber consulting and GRC platform) by French defence company **Altran** and **Claranet** (which is also French) buying penetration testing consultants **Sec-1**. Private equity investors were also active with **Volpi** acquiring **Digital Barriers** video security operations for £26.5m or just 2x revenues and **Tenzing** PE acquiring security reseller **Smoothwall**.

AI AND MACHINE LEARNING

At a recent visit to a PE house an investment director said that "he could not remember the last pitch deck that he had seen when the business did not claim to use artificial intelligence". There are only a few quality AI businesses of scale, yet there have been some interesting AI funding deals in 2017 that have caught our attention:

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

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

Cambridge-headquartered cybersecurity start-up **Darktrace** raised an additional $75m of Series D funding, bringing its total to $180m since its inception in 2013. The company is now valued at 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.

> **“Improbable valuation”**

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

EDUCATION

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

E-learning group **Learning Technologies Group** has agreed to buy **NetDimensions** through a cash deal that values the management software group at around £54m, which is double the price of the shares a few months before and 2.4x revenues. Learning Technologies funded the deal through a £46m placing. LTG also paid $26m for US e-learning interoperability standards developer **Rustici Software** in 2016.

RM announced its biggest ever deal, the proposed acquisition of **Connect Group Plc's** education supplies business for £56.6m in early 2017, paying just 6x EBITDA it reflects the tough climate in Education supplies, but will unleash some synergies and has done wonders for the share price which rose 40% in 2017.

Bahrain based **Investcorp** acquired **Impero** for £27m having previously bought **Ageras** in March 2017 and **Calligo** in November 2016. Impero Education Pro provides classroom instruction and monitoring tools, a network management suite, and has revenues of around £6m. So valuation was 3.5x revenues. The value of the business has tripled since 2014, when Impero undertook a £10m MBO backed by **Connection Capital** and **BLME**, delivering a very healthy return for Connection Capital's private investors.

LOCATION

Location based information has emerged as a core component in many software products and is helping in automation of many processes. One example is the news that in 2019 London City airport is to replace air traffic controllers with cameras and sensors, relaying the 360 degree info to NATS control centre 90 miles away. NATS Head, Steve Anderson, believes such decentralisation can cut costs of managing traffic by 30%.

Lyceum has invested £20m in new platform company **Wireless Innovations** based in Gloucestershire. It specialises in M2M IoT connectivity services, particularly useful in utilities that use IoT to keep track of geographically dispersed assets in hostile environments.

In 2016 **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. In 2017 **Isotrak**, which is owned by Lyceum, acquired **Verilocation** which provides telematics software for managing fleets of vehicles. German photonics group **Jenoptik** acquired **Essa Technology**, a specialist in police ANPR (automatic number plate recognition), back office and traffic enforcement software. Based in Plymouth, its back office software allows for ANPR data to be efficiently processed and evaluated, for example providing real-time alerts to a police car from a central server.

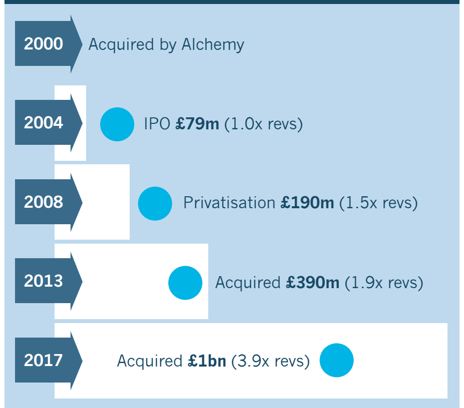
> **“Location location”**

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

PUBLIC SECTOR

Civica has changed hands again. It has an interesting history dating back prior to 2000 when it emerged after **Alchemy** privatised **Sanderson**. It also shows the big increase in valuation of the company during the past few years, albeit one that has grown consistently. Basically the valuation has increased from £79m or 1x revenues at IPO back in 2004 to a massive £1bn or 3.9x revenues in the latest acquisition by **Partners Group** in 2017. During that time it has been a steady devourer of mainly public sector focused businesses.

CIVICA



> **Civica has been sold – again**

Capita has deleveraged after a series of management changes and profits warnings. It has sold it's public sector recruitment operation **Affinity Workplace** to **Endless PE** for an estimated £25m equating to only 0.4x revenues and a modest EBIT multiple. Together with the much larger sale of its **Asset Services Group** to Australian financial services firm **Link** for some £888m, this brought the debt/EBITDA ratio down to a more manageable 1.8x. Capita may never return to the acquisition animal of a few years ago when it regularly devoured 10-15 companies a year. However, they are continuing to make niche in-fill acquisitions despite their long serving Head of M&A Ian West moving on. In 2017 Capita acquired Southampton based **Call Vision Technologies**, a bespoke voice and data solutions specialist for the emergency services and other critical response organisations.

CLOUD SOFTWARE

Micro Focus announced the acquisition of HPE software assets in a huge $8.8bn deal in 2016. Only $2.5bn was payable in cash, so HP has become a big shareholder in Micro Focus. The software assets acquired included **Arcsight**, **Mercury Interactive** and **Autonomy** (with which we are all familiar). These assets cost over $17bn so was a 50% loss to HP. However, it appears to be a fantastic opportunity for Micro Focus to join the top table and its shares have performed pretty well in 2017, given the significant impact. 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 around. Also, paying 2.8x revenues looks a much more sensible price than the multiple of 11.8x when Autonomy was acquired in 2011. You may have thought that such a large acquisition would keep the acquisition machine pretty busy, but right at the end of 2017 they snuck in another deal, acquiring Paris based **COBOL IT**.

Ideagen is on a good run having closed its 12th acquisition in 9 years. It had a busy 2016 acquiring 3 companies, namely **IPI**, **Covalent** and **Logen**. In 2017 Ideagen acquired **PleaseTech** for up to £12m plus cash on balance sheet. The valuation at 3x revenues is a really good exit for shareholders, including CEO David Cornwall. PleaseTech has over 180 customers worldwide using its PleaseReview collaboration software product, including 70% of leading pharmaceutical and biotech organisations and 4 of the largest global defence organisations.

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

There has been quite a bit of consolidation in the property/facilities management space with US based **MRI Software** being particularly active. MRI is backed by GI Partners and they acquired UK based **Cube Global** and **Real Asset Management** in 2017, plus several other targets in the US and South Africa making 6 acquisitions in the year.

PROACTIS, the e-procurement solution provider acquired US based **Perfect Commerce** for up to $132.5m, to fund it they also raised £70m in new equity. It is a very big deal for PROACTIS as Perfect has revenues that are about 50% bigger than theirs. It is paying 3.3x revenues for the provider of spend management solutions, which doesn't sound too bad for a transformational deal that will add considerable bulk to its operations.

Interesting to see **Vista** owned **Advanced**, which under Vin Murria was an aggressive acquirer (**Cedar**, **Fabric**, **CSH**), has emerged from an extended M&A pause to acquire Cwmbran based **Hudman Solutions**, with its pure SaaS Central ERP. It was a small deal but hopefully signals further activity under Vista PE.

Kerridge Commercial Systems which is backed by **Accel-KKR** has acquired **Lakeview**, a provider of ERP solutions to the wholesale, distribution and manufacturing sectors, its focus is food & beverage. Since Accel-KKR's investment in 2015, Kerridge has made 5 acquisitions namely: **Dancik** and **Mincron** in the US, and **Integrity** and **IQ Retail** in Southern Africa plus Lakeview. Interestingly Lakeview is the 87th "add-on" acquisition completed by Accel-KKR in its history, and 18th in 2017 showing how private equity owned businesses embrace in-fill acquisition programmes.

> **87th add-on acquisiton by Accel-KKR**

Sage Group has agreed to purchase **Intacct**, a 19-year-old cloud accounting software company, for $850m. However, on the face of it, the valuation looks very toppy at 12x revenues, for the loss-making company. The San Jose based outfit had raised more than $130m in equity funding, dating back to 2000. **Battery Ventures**, **Bessemer Venture Partners**, **Sigma Partners** and **Emergence Capital** were among its backers. "This is an 'overnight success' many years in the making," Bessemer Venture Partners' Byron Deeter quipped. In a related move, **GTCR**, a leading private equity firm, acquired **Sage Payment Solutions** for $260m. SPS, headquartered in Reston, Virginia, is a leading provider of payment processing and merchant acquiring solutions in North America. Sage are exiting its payment processing assets.

E-COMMERCE

ZPG (owner of Zoopla and USwitch) is expanding aggressively.

- In 2017 **ZPG** paid £120m in cash to acquire **Hometrack** a property analytics business expanding its b2b clients. Hometrack, which was founded in the UK back in 1999, sells automated house price valuation services and is used by mortgage lenders, new home developers, housing associations and local authorities. What a great business; 55 staff, growing at CAGR of around 15%, with revenues of £16m (70% recurrent) and adjusted EBITDA of £7.1m -an operating margin of 46%. EBITDA multiple is 16 and EV/rev is a whopping 7.5x.
- **ZPG** then acquired **Money.co.uk** for £80m plus an earn-out of up to £60m. Money.co.uk compares the cost of mortgages, loans, credit cards, bank accounts and insurance. The upfront cost is 3.3x revenues but only 10x EBIT as the business has a fantastic net margin of 35%. Money will continue to operate as a standalone brand and platform, headed up by founder & CEO, Chris Morling.
- Then **GoCompare** rejected an unsolicited takeover offer of £420m from ZPG. It offered a modest premium to share price valuation and comes pretty early in its days as an independent company, having only recently demerged from Esure. Interestingly GoCompare itself has made an acquisition in the last days of 2017 acquiring **Global Voucher** for £35m or 2.8x revenues.

Blackbaud the $4bn US listed provider of not for profit software has acquired **JustGiving** in a £95m deal, valuing it at a tasty 3.8x revenues and nearly 60x profits. JustGiving was established in 2001 in London and has developed into a leading fund-raising platform for charitable giving. It has over 2m registered users and has been used to raise over $4.5bn in funding. It is clearly not being valued on profits but should benefit from Blackbaud's scale in the US. Past acquisitions by Blackbaud include **Convio**, **everydayhero** and **MyCharity** in another fast consolidating industry – **Just Membership** was also acquired earlier in the year in the US.

> **JustGiving is taking £95m**

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

HomeServe looks like a reliable home for **Checkatrade**. It looks a neat fit strategically too. It acquired the business in two stages, acquiring an initial 40% stake and then in November acquired the remaining 60% at a £90m valuation. Checkatrade, provides a popular online directory of UK customer recommended tradespeople. It looks like its new acquisition will be used to expand globally. Not a bad exit for an ex-carpet cleaner who started the business in 1998 in his spare bedroom. He has in that period saved thousands of needy households from rogue traders.

Love Home Swap has been acquired by holiday timeshare firm **RCI**. Founded in 2011 by Debbie Wosskow, Love Home Swap's platform allows people to exchange high-end homes with other Love Home Swap members for an annual fee. The £40m deal comes 2 years after RCI invested £7.5m in June 2015. Wosskow, who has recently set up her own platform called AllBright to fund female founders, will remain an advisor, while her brother Ben has been appointed MD. There is a real land grab going on with **Onefinestay** acquired by **Accor**, Europe's largest hotel group, for around £120m a year before. Love Home Swap's early investors, include venture capital firm **MMC Ventures**.

COMMUNICATIONS

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

> **Constellation Software has now completed over 300 deals**

Unified communications (UC) provider **AdEPT Telecom** has been mopping up smaller UC firms, such as **Comms Group** for an initial consideration of £3.5m plus **Cat Communications** and **Progressive Communications**. In 2017 AdEPT acquired London based 24 hour computer support operation **Our IT Department**. It paid £4.8m upfront and an earn out of another £3.75m. Based on the upfront payment that equates to 0.9x revenues and just over 10x EBIT.

UK managed communication service provider **Maintel** has snapped up **Intrinsic Technology** in a deal worth around £5m. It acquired the unified comms provider in a move that looks like an effort to bulk up further, after the acquisition of **Azzurri** last year. It is loss making but employs 150 staff and will help raise Maintel revenue to around £160m.

Netcall has acquired **MatsSoft**, a cloud-based low-code software provider. The initial consideration is £11m in cash and the issue of 3.5m shares in Netcall. There is also earn out consideration of up to £2.3m cash and 9.5m shares that are based on revenue and share price targets. The acquisition is being partly funded via a £7m loan note from the Business Growth Fund. MatsSoft is headquartered in Bedford and has approximately 60 customers including Vodafone, Nationwide Building Society and ITV. The valuation equates to about 2.3x revenues, based on upfront consideration, but that could increase quite a bit if deferred payments are made. Interesting to see a company issuing shares as part consideration, it is quite a big deal for Netcall, so is sensible and probably reflects its own high-ish valuation of over 20x 2019 profits.

Volaris Group (which is part of Canadian operation Constellation Software) has acquired another 12 companies in 2017 spanning asset management, education, transport and communications. The last was a carve out from the Bournemouth based Wireless Data Services business of **Conduent**. Based on device information spanning smartphones, tablets, broadband routers, feature phones and IoT devices, the software ensures the device is recognized on the network, configured accurately and updated in life. "We see great opportunities for this business moving forward as new devices enter the market and the IoT market explodes" said David Nyland of Volaris.

CLX Communications, a Swedish provider of global cloud-based communication solutions, has acquired **Dialogue** Group for £32m. The acquisition of Dialogue, which has offices in Sheffield, London, Sydney and Singapore is the company's fourth acquisition since its IPO in 2015 – **Mblox** and **Sinch** in 2016, and **Xura Secure Communications** earlier in 2017. Johan Hedberg, president and CEO of CLX Communications, said: "we are building the world's largest and leading CPaaS company". I guess there could be more deals then.

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 SERVICES

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

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

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

"Cloud consulting land grab"

The move towards the cloud has been huge. Cloud software providers such as **ServiceNow**, **Salesforce** and **Workday** are growing very rapidly, and there is a huge shortage of skilled technical/consulting staff able to provide all the associated services around cloud software sales. As a result, there is a significant land grab going on amongst the independent partner communities, with almost all sizeable Salesforce and ServiceNow Partners being acquired, as the large systems integrators scramble to position themselves as consultancies for the digital age.
Accenture have been very aggressive acquiring skills in this space having kicked things off with acquisition of **Tquila** and **Cloud Sherpas** two years ago. In 2017 they acquired **Focus Group Europe** the largest remaining independent consultancy purely focused on ServiceNow. While the acquisition only added 70 technical staff to Accenture's roster of 400,000 staff, it establishes Accenture as the leading partner in Europe for fast growing ServiceNow consultancy. You can see the attraction when you realise that ServiceNow was only founded in 2003, yet had global revenues of $1bn last year and a target of $4bn by 2020. If it achieves its targeted revenues it will throw off a huge amount of Service revenues for consultants such as Accenture, **Atos**, **NTT**, **Fujitsu**, **DX (CSC)** and others. Hence the land grab.

Other ServiceNow services acquisitions in 2017 included **Computacentre** buying **Team Ultra**, **Deloitte** acquiring **Day1 Solutions** and in Europe **DXC** acquired **Logicalis** SNC business. Atos were busy acquiring both **ImaKumo** and **EngageESM**. Basically there are virtually no independent sizeable consultancies left.

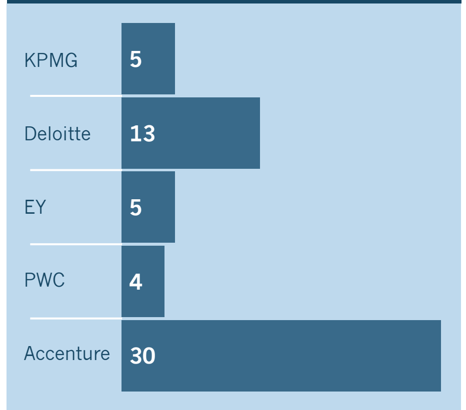
The big 4 accounting firms have markedly increased their M&A activity in the last year or so with Deloitte, **PWC**, **EY** and **KPMG** acquiring 27 companies between them in 2017, with Deloitte way ahead of the pack with 13 deals. In fact, KPMG have announced the acquisition of IAM specialist cyber consultancy **Cyberinc** in the first days of 2018.

"Accenture is expanding aggresively"

However, they are being left behind by Accenture which is making a major move into the digital world and made 30 acquisitions in 2017. **Accenture** has a very aggressive acquisition plan entailing an investment of $1.8bn compared with $1bn the year before. The company has clearly been driving growth in digital transformation technology areas through the acquisition of a huge number of smaller firms.

Foresight Group has sold ultra-secure managed services provider **The Bunker** to **Palatine Private Equity** for an undisclosed sum. The Bunker builds, hosts and manages high security, high availability IT infrastructure platforms. Foresight first invested back in 2006 when

DEALS IN 2017



The Bunker had acquired data storage facilities in Ash and Greenham Common from the MoD. At the time, it was loss making on revenue of £1.8m but revenues have now grown to £9m. The Bunker has become a high security expert in the FinTech space, benefiting as customers look to move to the cloud and increase security levels around hosting.

AbacusNext acquired **HotDocs**, the Edinburgh based document automation software provider. HotDocs was released in 1993 and has a colourful history. In 1998, HotDocs Corporation was purchased by Matthew Bender and was subsumed into LexisNexis a year later. In 2009, Capsoft UK, the largest independent reseller of HotDocs software, bought the HotDocs business from LexisNexis. It has now been bought by AbacusNext who are backed by **Providence PE**, they also acquired **Results Software** and **Cloudnine Realtime** in the year. There has been a lot of activity in this sector with **Thomson Reuters** and **Mitratech** particularly active.

In 2015 **CACI** acquired **Rockshore**, big data, and the following year acquired **Purple**

Secure Systems, cyber security services. In 2017 CACI acquired **Spargonet Consulting** which was founded 20 years ago by Tony Spargo, funnily enough. It provides managed services and IT services to the likes of BMW, John Lewis, Inmarsat, Mastercard and Waitrose. CACI is US listed with a market cap of $3.3bn, yet has only £100m in revenues in the UK and so continues to make in-fill acquisitions here, this one will add another £13m to the revenues.

SQS, the UK listed but German based software testing services business, has been acquired by German based **Assystem Technologies** for £281m. Given that this is over 50% higher than the share price, it is a very attractive looking all cash deal. The valuation is a mere 1x revenue though. SQS offers quality assurance and process consulting capabilities, while Assystem is involved in engineering product design. So the strategy is a bit cloudy, but Assystem also acquired **ESI Group**, a provider of virtual prototyping software earlier in the year, so they are on a roll.

CSI (Computer Systems Integration) has been on a buy and build program acquiring **APSU** in 2016. In 2017 they have refinanced taking £36m in funding from **MML Partners** to fund further expansion in the IT managed service space. Valuation was 1.6x revenue.

MEDIA

Apple has paid $400m for music recognition app **Shazam**, which was counted amongst the UK's Unicorns – i.e. private companies valued at $1bn+. So, it has faced a big drop in valuation, which will not exactly be music to the ears of their high profile shareholders! Yet they still achieved a 10x revenue multiple on exit, so it's not all bad. One of the main reasons for Shazam's success has been the iPhone and Shazam's inclusion in the App store. However, it has found it difficult to monetise its huge traffic, as its mere £40m in revenues attest. For Apple, it's a sizeable deal and the biggest since acquiring **Beats** in 2014 but hardly puts much of a dent in its $250bn overseas cash pile. Other acquisitions have been smaller in AI, machine learning, wireless charging and mapping.

> **"Shazam – unicorn no more"**

In an unusual move, **Experian**'s Cross-Channel marketing business, incorporating its Marketing Suite, CheetahMail and Mail Publisher offerings, professional and strategic services, is being 75% acquired by **Vector Capital**, and former ExactTarget co-founder, Peter McCormick. The deal values the business at US$400m. Experian will retain a 25% stake in the spin-off business and has realised value of circa 8x EBIT. The key reason would seem to be to refocus on its core offerings as organic growth has slowed.

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

Elsewhere in the Media space where Technology and marketing services converge, several large systems integrators made acquisitions such as **Accenture/Brand Learning**, **Cognizant** bought **Zone** (the London based digital interactive agency a BGF investment) and **Infosys** bought **Brilliant Basics** a digital design consultancy.

HR

LogBuy's Employee Engagement platform offers Reward & Recognition, Salary Sacrifice services, and discounts on over 10,000 brands, for over 650,000 employees of Lego, McDonalds, Siemens, Motorola and Microsoft. Just before Xmas 2016, **Reward Gateway** acquired the UK operations of LogBuy. Then early in 2017, the Danish part of the LogBuy business was acquired by **Visma** to complete a complex exit process.

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

Civica has acquired **Carval Computing**, which provides integrated HR and payroll systems. Based in Plymouth Carval is a small bolt-on acquisition for Civica, their clients include Middlesbrough Council, Staffordshire Housing Association, the Royal Mint and National Express.

Sage Group has acquired **Fairsail** a cloud human resource software provider. Fairsail has been successfully deployed within Sage, and is used by leading businesses including Aveva, Skyscanner, Trainline and Quest Software. Fairsail will form part of Sage's golden triangle vision, offering customers a single cloud solution to manage people & payroll, payments and accounting. Fairsail has grown from being a £1m to a £10m revenue business over the past three years.

US based **Verint** acquired 3 companies in 2017, including UK listed, **eg Solutions** which was acquired for £26.3m or 4.8x sales. Stafford based eg Solutions offer workforce management solutions for back office automation and improving efficiency. The shares have gone nowhere for 6 years and so the buyout is great news for embattled shareholders who got more than 2.5x the level they started 2017.

HEALTH

Huntsworth and **Wilmington** made acquisitions in healthcare marketing and information provision for 1x and 2x revenues respectively. **Informa** was also active in this space. **The Mission Marketing Group** acquired 30 strong medical communications agency **RJW & Partners**. The cost of £2m upfront and an earn out of more than £4m, sounds reasonable given it made PBT of £400k on just £1.6m of revenues in 2016.

IMImobile acquired **Healthcare Communications** (HC) a provider of patient communication services, working with 140 NHS organisations and delivering more than 100m secure patient communications a year via SMS, IVM, telephone and email through its internally developed 'Envoy' software platform saving the NHS time and money, which is no bad thing. HC is growing rapidly with 50% revenue growth. The terms were £9m cash plus £6m earn out and that equates to 2.5x revenues at completion. Funding was provided by a loan from Silicon Valley Bank.

Constellation owned **Quantitative Medical Systems**, the US market leader in dialysis revenue cycle management has acquired **Clinical Computing**, the developer of a web based electronic medical record solutions for the renal therapeutics market. Clinical Computing's technology platform has been implemented in the US, Canada, the UK, Australia and New Zealand. "We believe our respective products and markets are complementary and provide our customers and staff with increased choice and opportunity." said Sanjay Gandhi, CEO of Clinical Computing.

UK – BEST & WORST 2017

RISERS

The biggest gainer in 2017 was **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 helped by "disruptive innovation in the sector by vendors such as Amazon, Hulu, Apple and Google".

IQE who are now one of the few UK listed semi-conductor companies, has seen its valuation rise and it is now worth over £1.2bn, not bad for a company that has under £150m in revenue, but those are the laws of supply and demand.

> **WannaCry and Petya – good news for Sophos**

Blue Prism has had a spectacular start to life as a publicly listed company and is one of the few pure robotics process automation plays. Its valuation of £700m+ bears little relationship to its P&L account – revenues are less than £30m. But it has captured the imagination of those looking to invest in the robot revolution.

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. Interim revenues nearly tripled and the shares have followed suit as investors latch on to the big data opportunities.

Microgen, which had gone sideways for 5 years, has sprung into life. Its shares have more than doubled in 2017 in response to profits growth returning, some new contract wins and a few in-fill acquisitions along the way.

The WannaCry ransomware attack has affected organisations throughout the world, bringing cyber threats to the top of the agenda in almost all companies and Government departments. The Petya ransomware attack that started in the Ukraine has had a major impact globally on businesses as diverse and sophisticated as WPP, Reckitt, Maersk and TNT. **Sophos** has been a big beneficiary – its shares doubled in 2017 and it now trades on nearly 7x revenues.

FALLERS

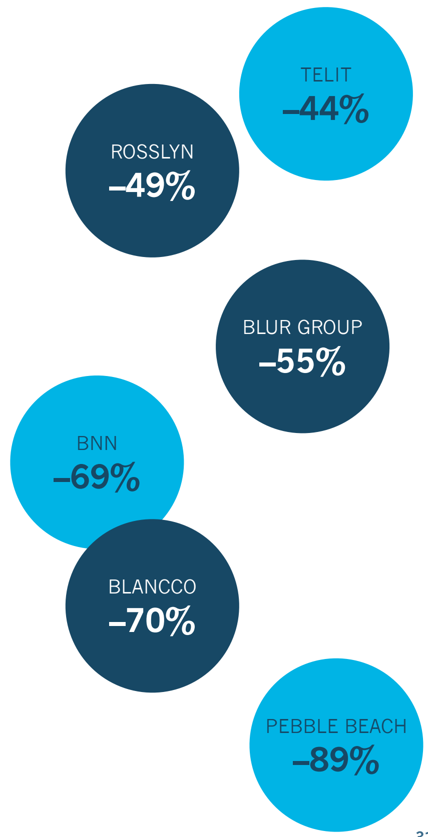
It's not all rosy in the Brexit garden. There is a rising list of companies that have announced profit warnings since the Brexit vote including **Capita**, **NCC**, **Servelec**, **Redcentric**, **Sepura** and **Mitie**. These are mainly due to delays or loss of big contracts, although quite a few have since recovered. While the uncertainty remains, most tech companies are actually in good shape.

Pebble Beach Systems (formerly Vislink) sold its Communication Systems division to US based **xG Technology** in 2016, but its troubles remain. Its shares fell a further 89% in 2017, partly it would seem due to its debt burden.

> **Cool for Cats**

Rosslyn Data the big data analytics business listed in 2014 and it has been a bit of a struggle to match early expectations. They acquired data miner Integritie for just over 1x sales but this has not helped arrest the slide, with shares falling by half in 2017.

Telit has made plenty of acquisitions: Motorola's M2M business in 2011; Navman Wireless OEM Solutions in 2012; CrossBridge Solutions in 2013; and NXP Automotive Telematics On-board unit Platform (ATOP) in 2014; the low-power Bluetooth and cellular assets from Stollman and Novatel Wireless in 2016. Ex-CEO Oozi Cats (who surely has the coolest sounding name in the industry) is however looking for a new job, after it has emerged that he may not have been entirely truthful about some earlier personal indictments in the US. As a result, the shares have more than halved in 2017 but the IoT connectivity business will no doubt recover, albeit under new management.



OUTLOOK

"Not another one!" said 75 year old Brenda from Bristol on hearing Theresa May was calling a snap election in 2017. With no elections scheduled and prolonged economic growth forecast, it looks like 2018 will be a good year for Brenda and quite a few others.

Brexit is probably the main risk and Michael Bloomberg has described it as the 'single stupidest thing any country has ever done'. Although he did follow that up with the admission that the election of Donald Trump may be even more stupid! The billionaire media mogul and former New York mayor cannot get his head around why the UK chose to quit Europe. I guess his views are connected to the massive new UK Bloomberg headquarters he has just built in the City, designed by Norman Foster and costing £1bn. While he has a point that there is some increased risk of expanding in Post Brexit Britain, the largest technology companies on the planet clearly have a very different view. For example:

- **Facebook** announced doubling of London employees as it is seeking over 1,300 new staff
- **Amazon** is hiring 6,000 new staff in the UK
- **Google**'s new HQ at Kings Cross will employ an additional 3,000
- **WeWork** will open the largest co-working space in the world near Waterloo
- **Apple** will lease a huge 500,000sf London HQ in the new Battersea Power station

The UK economy continues to muddle along but it is very much business as usual. Sterling has fallen and so UK assets are relatively attractive for overseas acquirers and investors. As a result, we continue to see a wave of overseas companies coming to the UK to acquire technology assets.

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ICON SELECTED M&A DEALS

clinicalcomputing SOLD TO QMS quantitative medical systems / Constellation Software Inc.	SECTOR	HealthTech
Cypad SOLD TO ParentPay	SECTOR	FinTech
wealthify FUNDING Aviva	SECTOR	FinTech
pleasetech SOLD TO ideagen	SECTOR	Collaborative Doc Mgmt
FOCUS GROUP EUROPE SOLD TO accenture	SECTOR	ITSM Consulting
LogBuy Benefits people SOLD TO Reward Gateway	SECTOR	HCM
MATILLION FUNDING YFM Equity Partners	SECTOR	Big Data
ContactEngine FUNDING BERINGEA / Amadeus Capital	SECTOR	Customer Engagement
Applicable SOLD TO NTT Communications	SECTOR	Unified Comms
MARIMATECH SOLD TO TRELLEBORG	SECTOR	IoT
BusinessIntegrity SOLD TO THOMSON REUTERS	SECTOR	LegalTech
MERIT SOFTWARE FUNDING SYNOVA CAPITAL	SECTOR	FinTech

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