



Technology Sector M&A - Mid Year review



Technology Companies Outperform

1. Macro View

While 2009 was a year of seismic changes, with economic and financial collapse and then sharp recovery, the first six months of 2010 have been more steady, if a little nervous. Confidence is rebuilding, but is still fragile as most financial markets are now lower than at the start of the year. However, the technology sector is significantly outperforming the market and M&A activity levels have continued to recover, being up 12% on the second half of last year.

Key statistics for 2010 so far:

KEY STATS	31-Dec 2009	30- June 2010	Change
FTSE	5,413	4,916	-9%
FTSE Techmark 100	1,704	1,774	+4%
NASDAQ	2,269	2,109	-7%
US\$ / £ exchange rate	1.59	1.51	-5%
Technology M&A deals Val.(\$bn) – trailing 6m	77	88	+14%
Technology M&A deals Val.(\$bn) – trailing year	97	165	+70%
Technology M&A deals Val.(No.) – trailing 6m	1,590	1,783	+12%
Technology M&A deals Vol. (No.) – trailing year	3,106	3,373	+9%

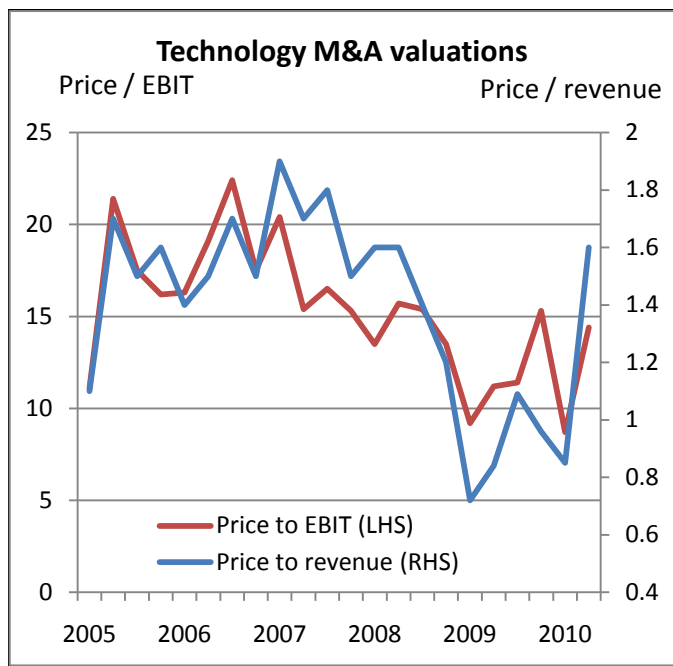
2. Global Technology M&A Activity

To use a football analogy in a World Cup year, 2009 was very much a game of two halves. The first half was very quiet, as uncertainty and fear of economic collapse kept buyers at bay. However, in the second half of 2009 we saw a strong bounce in both activity levels and the value of transactions with over 70% of the mega deals (>\$1bn) happening in the second half.

A lot of noise has been made about the number of companies planning IPOs in 2010. Well so far, they have not materialised and this mainly reflects the slightly nervous state of the equity markets this year. Last year we saw the IPOs in the US of Emdeon and Medidata, SolarWinds, Rosetta Stone and others, but so far 2010 has been very quiet for IPOs in the US, as markets retreat from their recent highs. A notable exception is in the UK where we saw EMIS Group (the healthcare software group) raised £50m in March 2010. This makes it the biggest Technology IPO this year (in the US or the UK) and the first technology IPO of any size in the UK since Telecity in 2007! In the queue to list in the UK are quite a few larger technology groups who are rumoured to be waiting for the right conditions including: Promethean, Codemasters, Icera and Acision (ex Logica) but many of these may end up being sold instead.



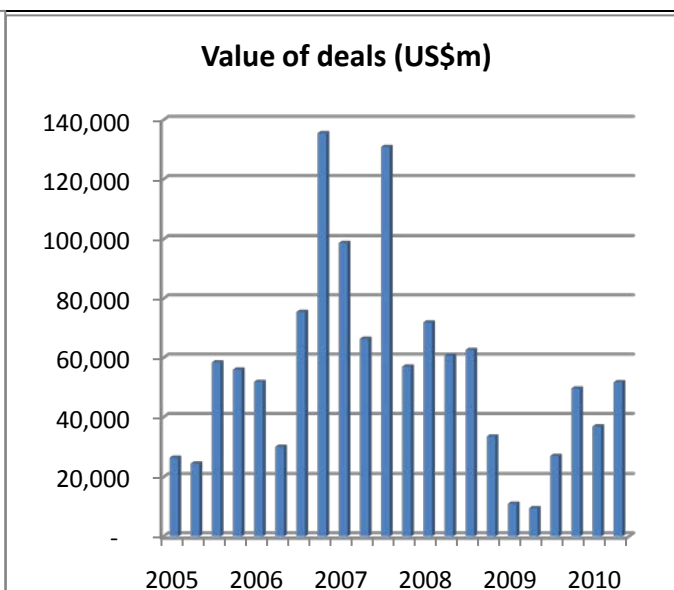
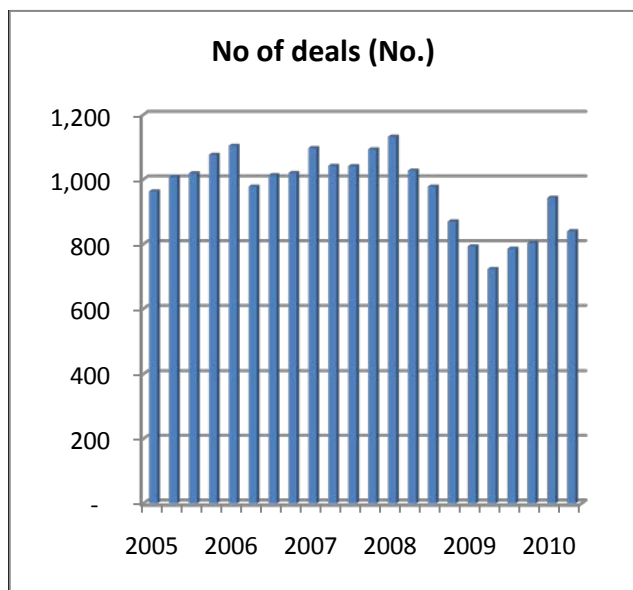
Technology Sector M&A - Mid Year review



Valuations peaked nearly three years ago, in early 2007, but bottomed early last year and have since made a good recovery.

In Q2 2010 the average price to trailing revenue rose to 1.6x and the average price to EBIT was 14.4x both of these being at, or near, two year highs.

In the past six months the number of deals has increased 12% and the value of deals has increased 14%, despite the very volatile macro environment. The increasing influence of private equity buyers who still have lots of cash and a loosening of corporate purse strings would seem to be the main reasons for the growth.



While the amount of technology deals is on the road to recovery, the pace of spend has not kept up with cashflow generated. The FT estimated in April 2010 that the Top Ten largest technology companies have added \$65bn to their cash reserves since the previous year; with Apple now having \$42bn in cash. So there is still plenty of cash around.

However, the number of corporate buyers is now on the rise. For example, **IBM** CEO Sam Palmisano said recently that he expects IBM to spend \$20bn on acquisitions in the next 5 years – more than they spent in the previous 10 years!

In his time as CEO IBM has not been deal shy, having acquired over 100 companies including PWC (\$3.5bn), ISS (\$1.3bn), and last year SPSS the business analytics business for \$1.2bn. With \$14bn in cash on the balance sheet and a business that is generating piles of cash annually, financing shouldn't be a problem. **IBM** have spent over \$2.4bn so far in 2010, of which \$1.4bn went on Sterling Commerce (and the balance on smaller deals such as Initiate Coremetrics and Intelliden). Sterling Commerce, the supply chain software group, changed hands again (at 2 x revenues) having been owned by SBC Communications and AT&T in the past ten years.



Technology Sector M&A - Mid Year review

Deals Worth Highlighting so far in 2010:

SAP has agreed to acquire US rival Sybase in a deal worth \$5.8bn. Not renowned for its mega deals, this is SAP's biggest acquisition since it acquired Business Objects for \$6bn in 2007. Funding is being provided partly by a whopping €2.8bn loan facility. The commercial logic in melding a business management software business with mobile application technology could be compelling in an increasingly mobile business environment.

Apple's amazing growth has been organically fuelled by developing new products (iPhone, iPod, and now the iPad) but has accumulated \$42bn in cash as a mark of its success. However, Apple seems to have turned a corner and has started utilising some of the cash hoard with the acquisition of Siri (mobile internet services) and Quatro Wireless (mobile publishing). The former, Siri, was acquired for \$200m despite only having sales last year of estimated \$2m.

Google has stepped out of the blocks fast this year. Having only acquired 5 businesses in 2009 (including AdMob) they have already acquired 13 companies in 2010 with interesting names like Aardvark, Picnik, DocVerse, LabPixies and PlinkArt. They are targeting a range of high growth sectors such as social search, photo sharing, music, video and advertising.

Another example of the growing confidence in M&A is **Symantec** who clearly like acquisitions, having acquired 57 companies since 1984. However, last year they only bought two small companies but already this year, they have paid \$1.6bn to acquire 4 companies (Gideon, PGP, GuardianEdge and most recently Verisign to boost their capabilities in encryption, endpoint data protection and authentication). The original PGP Inc, a startup based on "Pretty Good Privacy" encryption software, was acquired by McAfee (then Network Associates) in 1997. Then in 2002, McAfee sold its assets to former PGP Inc. executives, who have now cashed in for \$300m, which equates to 4 x historic sales.

Having acquired EDS in 2008 for \$13.9bn, **Hewlett Packard** has continued making sizeable acquisitions with the purchase of 3Com for \$1.2bn last year and most recently the announcement that they are to acquire smartphone operating system Palm Inc for \$2.7bn. At 1.6 x sales and 10 x EBIT the Palm deal reflects the competitive landscape in which Palm operates where it is up against some gorillas.

Not everyone has upped the pace of acquisitions, of note:

- Last year **Cisco** was the top acquirer again, but has been quiet in the last six months as they digest their most recent feast – they have quite a bit of digesting to do, having acquired over 130 companies in the past 25 years.
- The increased activity levels from Asia that we saw last year have not really followed through although there have been notable acquisitions from NTT, CDC and PCCW in the past six months.
- **Microsoft** has had no mega deals in 2009 or 2010.
- The mega deals last year included the acquisitions of large services and outsourcing groups such as: Affiliated Computer Services by Xerox for \$8.7bn, Dell acquiring Perot Systems for \$3.9bn and Software AG acquiring IDS Scheer – all these deals were valued at circa 1.3 x trailing revenues. This year there have been more software mega deals.
- Having only just completed its \$7.4bn acquisition of Sun Microsystems, not surprisingly **Oracle** have not been too aggressive in 2010 but still managed to buy Phase Forward the life sciences software specialist for \$570m.



Technology Sector M&A - Mid Year review

Biggest Deals so far in 2010

Date	Acquirer name	Target name	Deal (US\$m)	T/o multiple
May-10	SAP	Sybase	5,800,000	5.0
May-10	Warburg Pincus	IDC	3,400,000	4.6
Apr-10	Visa	Cybersource	2,000,000	7.5
Mar-10	MCSCI	RiskMetrics	1,550,000	5.0
Jun-10	IBM	Sterling Commerce	1,400,000	2.0
Jun-10	Hellman and Friedman	Vertafore Inc	1,400,000	9.4
May-10	Symantec	Verisign (part)	1,280,000	3.2
Jun-10	Allscripts/Misys	Eclipsis	1,270,000	2.5
Mar-10	Abry Partners	RCN Corporation	1,200,000	1.6
Apr-10	HP	Palm	1,200,000	1.6
May-10	CGI	Stanley Inc	1,100,000	1.3
May-10	ABB	Ventyx	1,100,000	7.3
Feb-10	MBO (Advent)	Skillsoft	750,000	3.5
Jun-10	Thomas Bravo LB	Sonic Wall	717,000	3.6
Apr-10	Avnet	Bell Micro	594,000	0.2
Apr-10	Oracle	Phase Forward	576,000	2.7
Jun-10	Hearst Corp	iCrossing	375,000	16.5
Mar-10	Pegasystems	Chordiant	369,000	4.8
Mar-10	CA	Nimsoft	350,000	11.0
Jun-10	Sonic Solutions	DivX	323,000	4.6
May-10	Jack Henry	iPay	300,000	31.0
Jun-10	Symantec	PGP Software	300,000	4.0
May-10	Lexmark	Perceptive Software	280,000	7.8
Jan-10	Apple	Quatro Wireless	275,000	-
May-10	Vision Solutions	Double Take Software	242,000	2.9

The top prices paid (as can be seen from the above table) have been higher than we have seen for a while with the highest prices relative to revenues paid for the following companies, all of whom are valued at more than 7 times sales!

- Siri (mobile internet)
- iPay (online payment)
- iCrossing (search engine)
- Nimsoft (IT performance and service level solutions)
- Vertafore (insurance software)
- Cybersource (online payment)
- Perceptive (data management software)
- Verifx (energy and utility software)



Technology Sector M&A - Mid Year review

3. UK Technology M&A Activity

The recovery in UK Technology M&A activity continues to lag the US, but there has nonetheless been an increasing number of high profile deals. In fact, surprisingly the biggest trend in the first half of 2010 is the return of **private equity** buyers who have dominated the midcap sized deals in the past six months. Of the large deals in 2010, half were acquired by private equity buyers.

- **Advent International** acquired Xafinity from Duke Street Capital at a cost of £190m (1.4 x sales) representing a reasonable return on its £125m buyout in 2005 from Hogg Robinson. Xafinity is a pensions and healthcare technology and administration business.
- **Trafficmaster Plc** the telematics business whose share price reached over £10 a share in the dotcom boom of 2000, has succumbed to a 47p a share offer from Vector Capital that values the Cranfield based business at £73m, which equates to about 1.3 x sales or 10 x EBIT.
- **Sophos Plc** the anti-virus software maker based in Oxfordshire has been acquired by Apax Partners in a \$830m deal that values the business at 3 x revenues. The sale provides an exit for TA Associates who took a 20% stake in 2002 and who have looked at floating the business several times without success. Apax are funding the deal with two thirds equity to one third debt (a far cry from the debt laden deals of a few years ago). At 3 x sales it also clearly shows that there are still attractive prices being paid for higher growth businesses (Sophos cashflow grew by 40% last year).
- **Morse Plc** whose shares also touched £10 each in the midst of the dotcom madness in 2000, has also been sold to private equity backed 2e2 for 51p a share. The deal values the company at £69.8m and equates to 8 times EBIT and about 30% of historic sales from the IT supplier. The shares have however show a big turnaround from 18 months ago when they fell to 5p a share. Boss Mike Phillips is off and will seek a new challenge.
- **Portrait Software Plc** has been acquired by MapInfo, the Pitney Bowes subsidiary in a £44m deal that valued the CRM business at 3 x sales. Back in the dotcom boom the company was valued at over £40 a share compared with the offer of 31p, which at 3 x sales actually seems pretty reasonable.
- **Alphameric Plc** has agreed to sell its bookmakers software division to Orbis for 1.1 times revenues. Customers include William Hill, Ladbrokes, Coral and the Wigan-based Tote as well as independent bookies.
- Not all **WIN Plc** shareholders were happy with a 141p offer from IMI Mobile – the private equity backed Indian mobile services company. The offer represented about a third of annual sales and is a long way from the company's peak of 390p a share a few years ago. The business creates mobile advertising campaigns for ad agencies and mobile operators.
- **Capita** is still buying businesses, as it has throughout the credit cycle. Capita acquired another 11 companies in 2009 at a total cost of over £150m and bought Ramesys earlier this year for £15m. Ramesys provides ICT solutions to the education sector with a team of 290 technicians.
- **Daisy Group Plc** were busy last year with a string of deals and have started this year in similar fashion closing the acquisitions of: BNS Telecom, Managed Communications, Fone Logistics and MurphX Innovative Solutions partly funded by the sale of WiMAX licences to the UK arm of PCCW.
- Vin Murria's **Advanced Computer Software** raised £45m in May 2009 in a placing and then bought Business Systems Group for £11.4m and a couple of other small deals. In February, ACS acquired COA Solutions (Cedar OpenAccounts, Belmin etc) in a £100m deal that valued the company at 1.7 x historic sales or 8 x EBIT. The sale provides an exit for Alchemy who invested in a management buyout eight years ago. ACS with a market cap of £127m has at a stroke become a meaningful player in the health and care sector with over 7,000 customers. This is unlikely to be the last acquisition for ACS who are building strong momentum.



Technology Sector M&A - Mid Year review

- **NCC** were back buying in the first half of 2010 with the acquisition of SDLC a software testing business for £15m (of which half is an earn out) and also a smaller deal of £3m deal for Meridien a payment scheme auditor.
- **Xploite** again was active, having sold its Anix IBM storage operations for £31m (13x EBIT) last year, it was then absorbed into listed marketing services company Avisen Plc this year in an all share transaction valuing it at £11m.
- **Gladstone Plc** was approached by Constellation Software some time ago, but despite a years cooling off, have come back and acquired the leisure sector software provider in an attractive looking deal at only 1.3 x sales. It was valued at £18m but had cash, strong asset backing and a nice cash generative business.

Other deals of note this year in the UK include: the sale / MBO of simulation software business Lanner, the sale of Mettoni to Enghouse and two SaaS software transactions - Dynamic Change was acquired by Allocate Software Plc (at 2 x sales) and compliance software business Cobent which was acquired by Access Intelligence Plc (at 3.5 x sales).

Top UK Technology M&A Targets – 2010 so far

Date	Acquirer name	Target name	Deal (£m)	T/o multiple (x)
Feb-10	Oxatis	Moneybookers	347,000	10.5
May-10	Apax Partners	Sophos	261,200	3.0
Feb-10	Advent International	Xafinity	190,000	1.4
Feb-10	Advanced Computer Software	COA Solutions	100,000	1.7
Mar-10	HG Capital	StepStone	99,100	2.0
Jun-10	Vector Capital	Trafficmaster	73,200	1.3
Apr-10	2e2	Morse	69,800	0.3
Mar-10	Amdocs	MX Telecoms	66,600	1.2
Jun-10	Pitney Bowes	Portrait Software	44,400	3.0
Feb-10	Playtech	Virtue Fusion	36,000	2.4
Feb-10	MBO (Primary Capital)	Amtech	35,000	-
Apr-10	MBO (Gresham)	Team Telecom (Spice)	32,800	1.0
Mar-10	MBO (Inflexion)	FDM Group Plc	28,400	0.5
May-10	Bravura Solutions	Mutual Fund Technologies	19,000	7.4
Mar-10	MBO (NVM)	ADP Comm. / Kerridge	18,200	1.0
Mar-10	Ebiquity	Xtreme Info Services	18,000	1.0
May-10	Orbis	Alphameric	15,500	1.1
May-10	Ace Technologies	Axis Network Tech	23,600	6.5
Apr-10	Enghouse	Mettoni	15,150	1.0

4. Outlook

There is no doubt that confidence is rebuilding. The US tends to lead the way and there have been some very attractive looking multiples being paid there for high growth technology businesses in 2010. In the UK, the recovery has been slower, but is building and at ICON we have seen a good pick-up in demand from vendors looking to sell in late 2010 and early next year. More importantly, we have seen an increasing number of international buyers coming back into the market seeking to acquire good quality UK technology businesses.

Brian Parker, Head of M&A



Technology Sector M&A - Mid Year review

For further details visit www.iconcorpfin.co.uk or contact:

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

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

Our Track Record of Global Deals

 SOLD TO  Germany Sector: Electronics Design	 SOLD TO  UK Sector: GaN Wafers	 SOLD TO  USA Sector: Wireless Power	 SOLD TO  CANADA Sector: Voice Biometrics	 SOLD TO  USA Sector: E-commerce Software	 SOLD TO  ITALY Sector: Financial Software	 SOLD TO  USA Sector: ICM Software	 SOLD TO  FRANCE Sector: Software Testing
--	---	--	---	---	--	--	---

London Office 53 Davies Street, London W1K 5JH T +44 (0)207 152 6375 F +44 (0)207 152 6376 Regulated by the Financial Services Authority. Member of the BVCA. Registered in England & Wales No. 3714426

Note: The information and opinions in this report were prepared by ICON Corporate Finance Ltd. The data was provided by Zephyr, a Bureau Van Dijk database product and public sources. 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 completed in the period under review.