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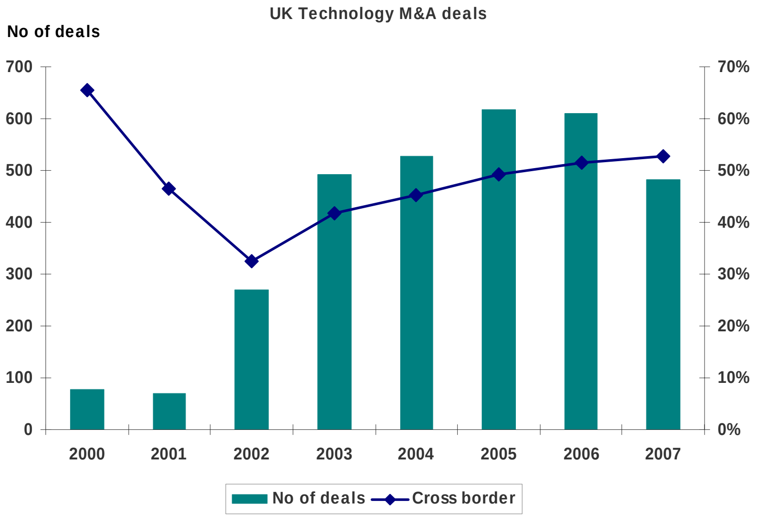
2007 Technology Sector M&A Overview

In football parlance, 2007 was a “game of two halves”. The worldwide mergers and acquisitions feast of 2005/6 carried on until half way through 2007; the second half was a disappointment as the credit crunch drained liquidity from private equity buyers and reduced confidence worldwide. The technology sector has felt the slowdown too but with lower interest rates, ongoing technological change and increasing cross-border activity the game is far from over.

The tech M&A market

In the UK, the number of Technology M&A deals fell last year by a significant 21% to 482 deals. After the buoyant conditions of 2005/6 that makes 2007 the lowest number of deals since 2002. This wasn’t mirrored by our business which was very busy, particularly in the last quarter, once Gordon Brown and friends decided to rewrite the CGT tax laws. This will ensure that at least the first quarter of 2008 is a good one for UK private M&A. The other trend from the chart is that the number of UK cross border deals rose again last year to 53% and remains remarkably steady, despite the reduction in volume and significant weakness in the dollar which impacts US buyers.



As the chart below show the worldwide technology M&A market has also fallen in 2007, albeit by only 6% with just over 4,000 deals announced. Most of the fall was in the last quarter of the year which was the slowest quarter since 2003.

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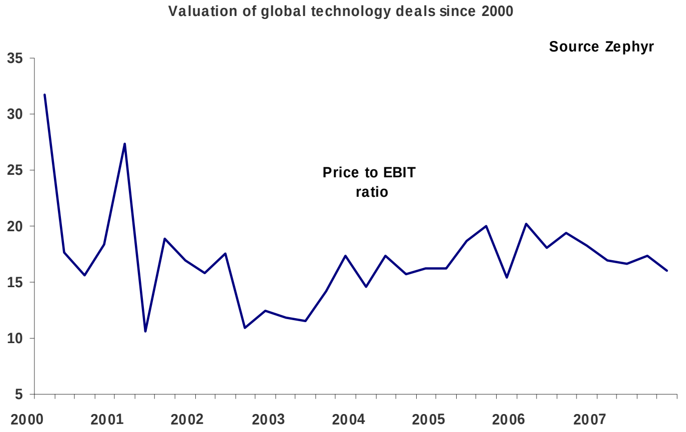
Valuation

The lower volume has reduced overall valuations. By the end of 2007 the average technology M&A deals were valued at 16 x EBIT; at the lower end of the 15-20 x valuation range seen in the past few years. However, as the chart shows, valuation throughout the cycle has remained sensible and with healthy balance sheets and solid fundamentals these lower valuations are attracting buyers (witness the number of UK IT companies that have had sale talks recently Northgate, Coda, NSB Retail, TMN, Vega…).



In the US private equity funded M&A deals fell dramatically in the second half of 2007 but trade buyers took up much of the slack. In the autumn, Oracle offered to buy BEA Systems, SAP bid for Business Objects and IBM weighed in with the proposed acquisition of Cognos. In aggregate these deals will cost a cool $18.4bn and have progressed despite the credit squeeze and should close in 2008.

The Top 10

Of the most active technology companies worldwide there was a similar pattern to 2006 with the most acquisitive Top 10 acquiring 102 companies (2006: 107). Microsoft again led the way with 13 acquisitions. All the mega caps were busy, and interestingly SAP, Google, Cisco, SunGard and First Data all were considerably more active than the prior year, despite the weaker market conditions.

Top Ten Most acquisitive tech companies 2007	
Microsoft Corporation	13
3M	12
Cisco Systems	12
Google	11
Oracle Corporation	11
SunGard	10
First Data Corporation	9
IBM	8
Nuance Communications	8
SAP	8

2007 Technology Sector M&A Overview

Hot hot hot

Sectors that were particularly hot in 2007 included: Security (again) with the sale of Altiris, Iron Port, Protect Data AB, CyberTrust, SurfControl Postini, Online Marketing (Double Click Trade Doubler, Aquantive, Right Media, Blue Lithium, Hitwise 24/7 Real Media - all who were acquired at very high valuations of up to 10 x sales), Search Engine (Spannerworks), Business Intelligence Software (Hyperion, Spotfire, Business Objects, OutlookSoft and Cognos), PLM (UGS and Agile Software), Digital Mapping (MapInfo, Multimap, TeleAtlas) and IT Services (Xansa, Getronics, Covansys, Mandator). Also traditional media companies have continued to buy digital media assets to address the change in consumer behaviour and the prices reflect that demand. For example, Disney acquired Penguin Club social networking site which they paid $350m or 35 x forward sales! But the 2007 ICON Singed Digits Award for what appears a ludicrous price for an acquisition is Citrix who in September paid $500m for a virtualisation software business with $1m of revenues!

In UK Experian was again the most acquisitive

Experian was the hungriest of the UK buyers for the second year in a row with 6 deals. Following its listing last year it has continued to consolidate with the acquisition of Hitwise for $240m or 6 x sales. BT Group was also very active in acquiring IT and network service businesses internationally including INS (USA), ComSat (S America), Net2S and CS Systemes in France and Frontline in Singapore. Elsewhere the acquisition activity was steady with acquisitive groups like Maxima, Innovation Group, 2e2 Group, Northgate and others continuing to consolidate in their sectors.

Other noteworthy UK deals include the canny sale of Revenue Assurance (old XKO) to Spice for £103m or 7 x sales. IDOX completed the transformational acquisition of CAPS and Multimap found an ideal buyer in Microsoft. At the other end of the price scale Lorien and Glotel IT recruitment and contracting businesses were sold on valuations of less than 20% of revenues. There was also an increasing emerging market influence with Hitachi, CDC and Infosys amongst other Asian acquirers.

Some UK deals that caught the eye include:

UK private tech M&A deals of interest	
IDOX	CAPS Solutions
CAPCO	City Practitioners
Meetic SA	Dating Direct.com
Computacentre	Digica
CMC Markets	Digital Look
Hitachi Consulting	Impact Plus
Associated Newspapers	JobsGroup.net
CBS Corporation	last.fm
Royalblue	Latent Zero
Microsoft	Multimap
Datamonitor	Ovum
BAE	Petards division
CDC	Respond
Trade Doubler	Interactive Marketing
Infosys	Smartstream

2007 Technology Sector M&A Overview

UK PLCs taken private

Last year saw the disappearance of 12 well known UK listed technology groups (and several others like Northgate and Vega are on the way). The acquirers were a fairly equal mix of MBOs, private equity, cross border and trade acquirers. iSOFT PLC was probably the longest running and high profile given its spectacular collapse the year before. It was a busy year at Computer Software Group PLC who completed a £100m MBO and delisted in May (and acquired FAST at the same time). Then with less than a month under the HG Capital funded umbrella, they were acquired again, this time by Hellman and Friedman (along with Iris Software) for £500m.

UK public tech companies that were taken private	
2e2 Group	Compel Group
Avaya	Ubiquity Software
BT Group	PlusNet
Equinix	IX Europe
HG Capital	Computer Software Group
IBA Health	iSOFT
Informa	Datamonitor
Phoenix IT Group	ICM Computer
Spring	Glotel
SSP Holdings	Sirius Financial Solutions
Steria	Xansa
Websense	SurfControl

It was also a reasonably good year for new listings with twice as many IPOs than exits in the UK technology sector, although many of the new ones were smaller. By far the largest IPO was Moneysupermarket.com, the finance price comparison website which raised £170m in July. Telecity also did well raising £96m in October well after the credit crunch had hit.

Top UK Technology IPOs 2007
Moneysupermarket.com Group
Xchanging
Telecity Group
Medicsight
DQ Entertainment
Monitise
Craneware
Blinkx
Bglobal

2007 Technology Sector M&A Overview

The excesses of the bull market may be behind us, but the game is far from over. In the UK, activity levels are expected to be good in the first quarter, ahead of the proposed CGT changes. The greater challenges lie in the second half.

On behalf of all of the ICON team, best wishes for a prosperous 2008.

Brian Parker
Head of M&A

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.

Contact Information:

Brian Parker
brian@iconcorpfin.co.uk
+44 (0) 207 152 6375

Alan Bristow
alan@iconcorpfin.co.uk
+44 (0) 1179 220505

FORTHCOMING EVENTS

ICON's IT GIANTS – An Evening with Richard Fiddis, MD, Experian
Tuesday, 4th March 2008

SUCCESSFUL EXITS MASTERCLASS
Wednesday, 23rd April 2008