



Technology M&A Review 2008

ICON Corporate Finance
Creating Wealth from Technology



Technology Sector M&A Review – 2008

Global Credit Crunch

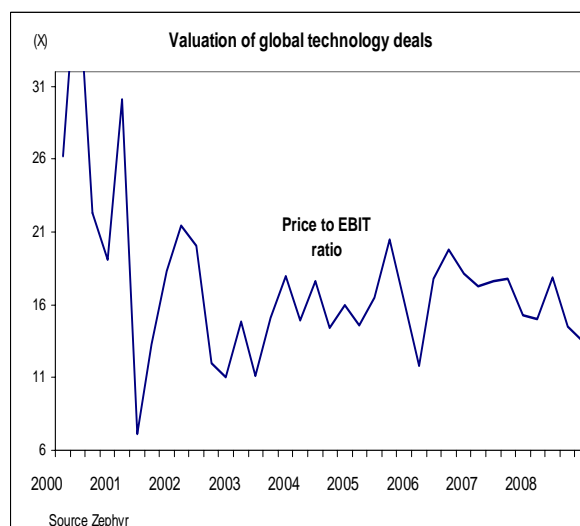
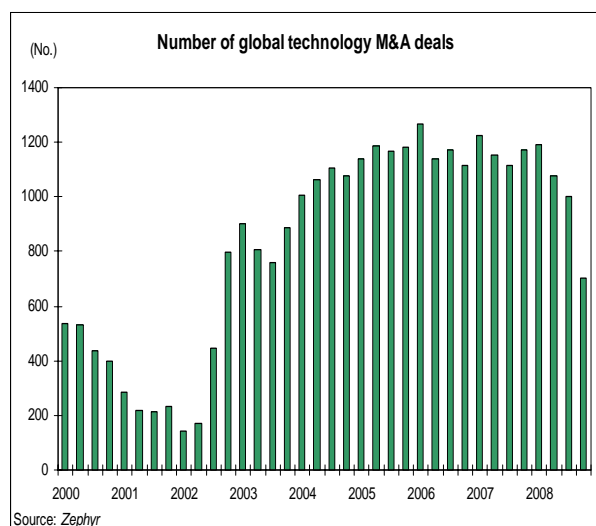
Technology M&A in 2008 was dominated by global macro economic factors with a healthy and active market correcting in the last quarter as the credit crunch hit hard. World stock markets peaked in autumn 2007 and since then have fallen considerably, particularly in the last quarter of 2008. However, unlike the last downturn, which was led by technology, with the dotcom collapse, this time technology has been dragged down by the market correction and global economic slowdown. For the large deals >\$100m, 2009 will prove difficult, as the economic conditions remain tough, but we remain more upbeat about the small and mid-market which account for over 95% of all transactions.

Key Statistics for the Year:

	1 Jan 2008	31 Dec 2008	Change
FTSE	6,457	4,434	-31%
FTSE Techmark 100	1,641	1,217	-26%
Nasdaq	2,652	1,577	-41%
US\$ / £ exchange rate	1.99	1.46	-27%
Technology M&A transactions (TTM)	4,509	3,751	-17%
Overall M&A transactions (TTM)	72,999	53,889	-16%
Private equity investments (\$bn) (TTM)	888	307	-65%

Global Technology M&A Activity

M&A activity in the Global Technology sector was still strong as we approached the final quarter but has inevitably been hit hard along with all other sectors as the cheap bank debt that has flooded markets, and driven private equity transactions this past decade, has evaporated.



M&A activity levels in the technology sector were down by 17% in 2008, similar to the fall in number of deals in the whole market. As can be seen from the above chart, most of this fall came in the last quarter when activity levels fell by 40% as confidence was drained from the market. Inevitably, valuations too have been affected, albeit not as dramatically - exit multiples have fallen 12% year on year, with median exit multiple of 13.5 x EBIT achieved in the last quarter of 2008, still quite respectable.



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The larger deals tend to get all the headlines each year and 2008 was no different with HP's mega \$13.9bn acquisition of EDS moving it up to No2 spot in IT services behind IBM.

However, the market for mega deals peaked in 2007 and were the main casualty of the credit crunch as the number of deals valued at greater than \$1bn fell by more than half. Similarly, large cap deals in the \$100m-\$1bn range were also hit by the contraction of credit but fell a lesser 36%. However, as the table below shows the sub \$100m deals (which account for over 95% of all deals) fell a much more modest 15%, as these are less affected by lack of credit as are more likely to be funded out of cashflow.

Technology Deals by Size 2008		
Size of Deal	No of Deals	Change YoY
> \$1bn	24	-51%
\$100m-\$1bn	139	-36%
<\$100m	3,621	-15%

One of the biggest factors affecting the overall global M&A market in 2008 was the significant reduction in the value of private equity participation in deals. In total the private equity investments in all sectors have collapsed 65% to \$308bn in 2008 and now account for some 8% of the M&A market, down from 17% at its peak in 2006.

The Top 12 Overseas Deals in 2008		
Acquiror Name	Target Name	Deal Value (£000)
Hewlett-Packard Company	EDS Corporation	7,543,530
Oracle Corporation	BEA Systems Inc.	3,625,200
Brocade Communications.	Foundry Networks Inc.	1,731,080
Freenet AG	Debitel AG	1,289,883
Qatar Telecom QSC	Indonesia Comms Ltd	911,160
CBS Corporation	CNET Networks Inc.	878,258
Microsoft Corporation	Fast Search & Transfer ASA	649,075
Iliad SA	Liberty Surf Group SA	637,065
eBay Inc.	Bill Me Later Inc.	602,248
Sun Microsystems Inc.	MySQL AB	509,900
Vodacom Group (Pty) Ltd	Gateway Comms (Pty)	483,700
AOL LLC	Bebo.com LLC	434,435

Outside the UK, mega deals were dominated by HP/EDS and to a lesser extent Oracle/BEA tie ups. Most of the action was in the first half of the year when more credit was available. Also, interestingly, none of these larger overseas deals were acquired by private equity.

However, although mega deals are more scarce there are still a healthy number of sizeable acquisitions (>\$100m) announced in the last quarter such as eBay/DB Avis AS, Jupiter Comms/Mediatti, Imtech NV/NVS AB, AT&T/Wayport and HP/Left Hand Networks.

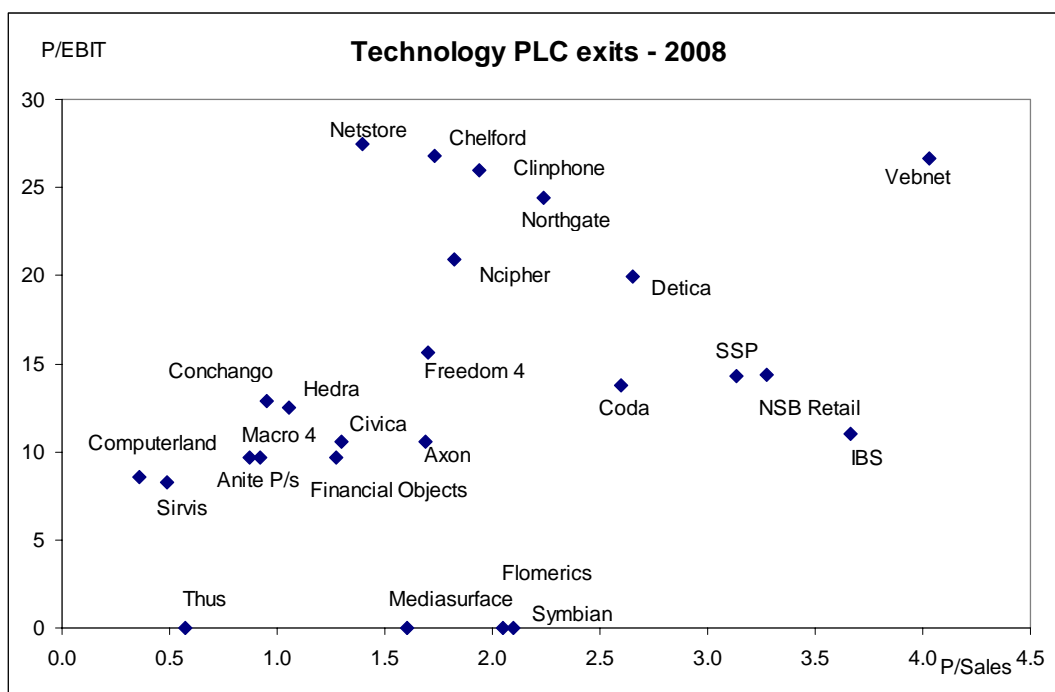
Popular sectors include mobile software, financial software, VOIP/comms solutions, online advertising, storage and networking, security, defence, online payment solns, green IT and virtualisation.



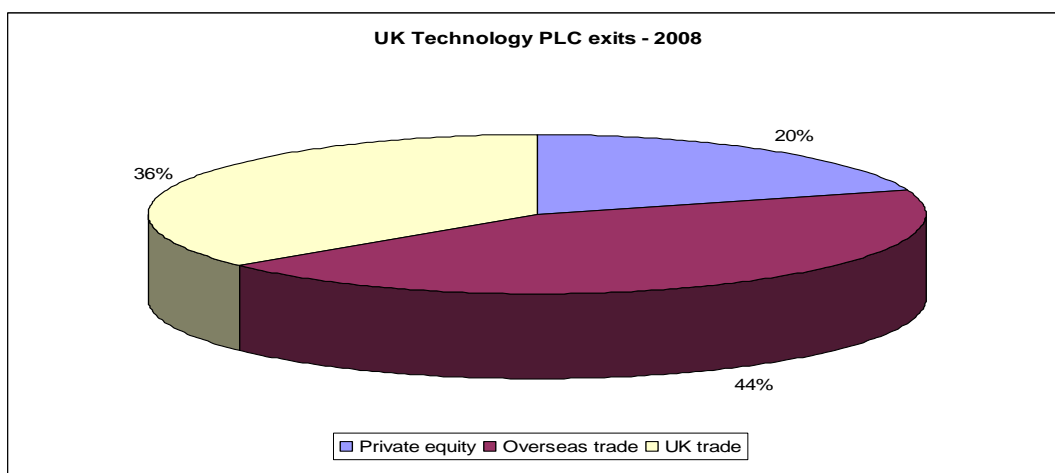
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UK Technology M&A Activity

In the UK, the trends are similar with a healthy market correcting in the final quarter. It has been a busy time for PLC exits with a record number of technology exits. The scatter chart below shows the range of valuations of these exits with Vebnet sold to Standard Life as a stand out in valuation terms. Capita acquired IBS and Computerland at similar price to EBIT (earnings before interest and tax) multiples but very different price to sales multiples reflecting the very different margins that the two targets had.



The buyers of these PLCs were a mix of private equity, overseas trade acquirers and UK trade acquirers, the latter only accounting for a mere 36% of the deals as shown in the chart below. Overseas buyers currently dominate the UK technology mergers and acquisitions market and that is likely to continue particularly as private equity transactions peaked in the first half of 2008. However, the number of these larger PLC exits has slowed considerably during 2008 and are likely to remain quiet in the short term.





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The Top 20 UK Deals in 2008		
Acquiror Name	Target Name	All Deal Values (£000)
KKR	Northgate Info Solutions plc	1,400,000
BAE Systems (Holdings) Ltd	Detica Group plc	531,000
Symantec Corporation	MessageLabs Ltd	469,055
HCL	Axon Group plc	441,095
Nokia Oyj	Symbian Ltd	224,124
Hellman & Friedman	SSP Holdings plc	198,200
3i Group	Civica plc	190,000
Epicor Retail Solutions, Inc.	NSB Retail Systems plc	160,124
Agresso Ltd	Coda plc	158,093
Host Europe WVS Ltd	FREEDOM4 Comms (part)	120,000
Nokia Siemens Networks Oy	Apertio Ltd	104,011
Solera Holdings Inc.	HPI Ltd	94,400
PAREXEL International	ClinPhone plc	90,661
Capita Group plc	IBS OPENSsystems plc	77,727
GFI Group Inc.	Trayport Ltd	75,000
AOL LLC	Perfiliate Technologies Ltd	62,825
Alchemy Partners LLP	Geo Networks Ltd	62,000
Finmeccanica SpA	Vega Group plc	61,557
2e2 Ltd	NetStore plc	58,100
Thales UK plc	nCipher plc	50,717

Again, many of the UK's largest technology deals were in the first half and virtually all the private equity backed UK deals were in the first half. However, the market has actually remained relatively active since and MessageLabs (over 5 x sales) and Axon (1.7 x sales) were both closed in the last quarter at a combined cost of over £900m.

Also in the final quarter there has been a continued string of smaller and mid cap deals, notably active were Capita, Amdocs, Qinetiq, NCC, Unicom, GBST and Sabre.

What is evident from the above list is the continued globalisation trend. This has been mirrored in our own business. Our global reach has now extended to almost all parts of the globe and the past 12 months has seen a significant increase in our global activity. Of our last 9 trade sales 7 of them have been sold to overseas trade buyers.



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ICON Client	Buyer	Country
Insurance4carhire.com	Towergate	UK
Insight Test Services	Sogeti	France
Splashpower	Alticor	USA
Fluency Voice	Enghouse	Canada
Covelus	Anoto	Sweden
Practique	Merced Systems	USA
RSE Consulting	Tribal Group	UK
Screen Technology	Scaent Holdings	Holland
E2B	Sabre	USA

Outlook for 2009

2008 has been quite tough for a lot of people but 2009 looks a lot tougher. Some leading economists are forecasting a long and painful recession, others see recovery in the second half of 2009 given the massive state intervention globally. The recapitalisation of over-leveraged banks, reduction in interest rates to record low levels and the fiscal stimulus made through tax cuts will all help. Given the speed and magnitude of the intervention we can foresee some recovery as 2009 progresses. Crucially, this should rebuild confidence which has been shattered by recent events.

The first half of 2009 is likely to be challenging economically. However, we remain cautiously optimistic for the technology sector mergers and acquisitions as the year progresses based on the following reasons:

- As highlighted above, some 95% of all technology M&A deals are less than \$100m in value and that segment of the market is holding up much better than the headline grabbing larger deals.
- The technology sector has already been through a significant dotcom downturn just 6 years ago and is now in good shape with little leverage (apart from those that are private equity owned). Also fundamentals are stronger with most tech businesses now cashflow positive and profitable.
- The tech acquirers generally do not rely on bank debt for acquisitions and as cash purchasers, current conditions can present some excellent 'buying' opportunities.
- The sector remains fragmented and so there remains significant opportunities to improve efficiencies by consolidating. With revenue growth likely to remain challenging M&A activity becomes a more attractive way to improve shareholder value.
- Tech acquirers are still prepared to pay good prices for 'technology solutions' and IPR which is essential to their 'strategic objectives'.
- Technology is now an integral part of virtually all businesses and so is a "must have" rather than a "nice to have". In many cases, technology expenditure also leads to improvements in productivity and efficiency, reducing costs. So, while overall growth will slow, technology spending should be reasonably resilient in a downturn.



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- Record low interest rates and low stock markets mean that the cost of capital is now very low. In many countries it is at its lowest level ever. This could be a major boost to M&A activity for trade acquirers that are cash generative as they will otherwise get a very low return on their excess cash.
- Sterling has been very weak against most major currencies and was down 27% against the dollar in 2008. As a result, anyone from overseas has received a significant reduction in the price of UK assets. That too should stimulate demand for M&A activity in the UK technology sector from overseas buyers once confidence returns.

On behalf of all of the ICON team, best of luck for 2009!

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.

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Wednesday, 29th April 2009

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