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Technology M&A Review
Q2 2009

ICON Corporate Finance
Creating Wealth from Technology

Technology Sector M&A Review – Q2 2009

1. Macro View

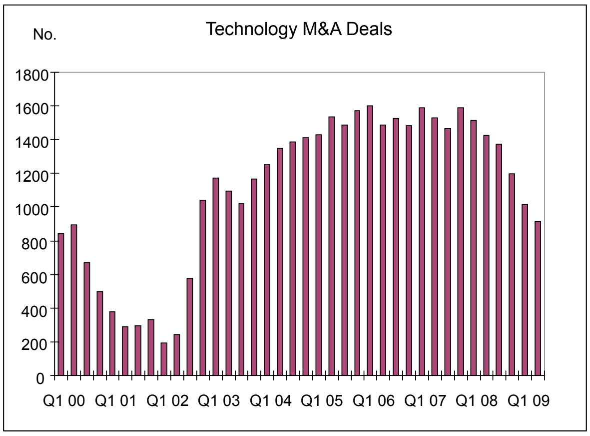
The last few months have seen stock markets rebound as investors expect the worst of the banking crisis to have passed. Interestingly, the technology heavy NASDAQ and FTSE Techmark indices have both outperformed the FTSE market with rises of 16% and 10% respectively so far this year. One of the biggest moves recently has been the strengthening of sterling against the US dollar, but at 1.65 it still remains much cheaper than at anytime during the past five years, making UK assets cheap for US buyers.

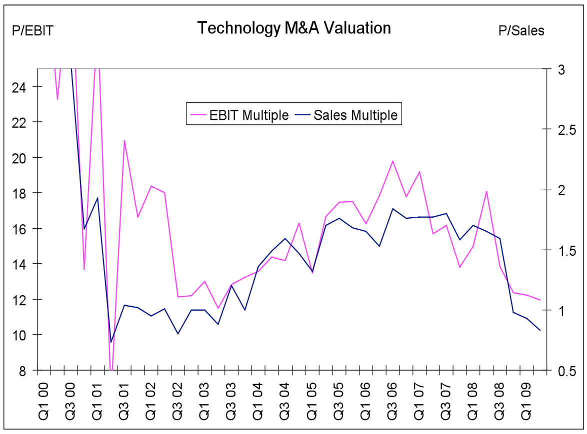
Key statistics for the year so far:

	1 Jan 2009	30 Jun 2009	Change
FTSE	4,434	4,249	-4%
FTSE Techmark 100	1,217	1,341	+10%
NASDAQ	1,577	1,835	+16%
US$ / £ exchange rate	1.46	1.65	+13%
Technology M&A transactions (TTM)	5,512	4,499	-18%
Overall M&A transactions (TTM)	30,953	26,058	-16%

2. Global Technology M&A Activity

M&A activity in all sectors remains down year on year. However, there are some signs of recovery with the re-emergence of some larger deals but the number of tech deals still fell to 915 in Q2 2009, a 10% decline from Q1.





Valuations of M&A transactions in the technology sector have fallen quite significantly in the past year. However, this is due to the impact of distressed deals which have brought down the overall valuations. It has become a two tier market with some valuations that still appear attractive (as highlighted in the table overleaf) and yet others where lower valuations reflect the distress. Average valuations are now 11.6 x trailing EBIT and less than 1 x historic sales.

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The Top Deals in the First Half 2009

Date	Acquirer	Target	£ '000	T/o multiple
20/04	Oracle Corp	Sun Microsystems	5,005,313	0.5
01/04	Fidelity NIS	Metavante	3,067,411	2.6
10/02	Live Nation	Ticketmaster	1,679,005	2.0
06/07	EMC	Data Domain	1,450,000	7.2
15/04	eBay	GMarket	805,821	7.1
18/06	WebMD Health	HLTH Corp	786,431	3.4
29/06	Fiji	Emulex Corp	552,642	1.9
21/01	Autonomy	Interwoven	550,837	3.0
04/06	Intel Corp	Wind River Systems	542,522	2.5
19/06	Nokia Siemens	Nortel –CDMA/LTE	397,745	-
04/06	General Dynamics	Axsys Technologies	394,617	2.6
24/04	Safran SA	GE Homeland Protect	394,198	-
19/03	Cisco Systems	Pure Digital Tech	374,831	3.9
08/01	TD Ameritrade	thinkorswim Group	370,776	1.6
06/04	NTT DoCoMo	Oak Lawn Marketing	208,005	-
06/05	Open Text Corp	Vignette Corp	205,818	1.8

A glance at the above table of the largest technology sector M&A deals shows the following key points:

- As Mark Twain said "there are three types of lies: Lies, damn lies and statistics". This may explain why overall market valuations show price to sales multiples of under one times trailing revenues but only one of the mega cap deals above (Sun Microsystems) came close to that valuation. Thus supporting our earlier comments about there being a two tier market in terms of valuations with some attractive prices being paid for healthy businesses.
- There have been only four deals over £1bn (i.e. relatively few mega deals) but the Oracle bid for Sun Microsystems is a headline grabbing mega deal at over $5bn.
- There were no private equity led large cap leveraged buyouts – a reversal from recent years as these transactions dominated the market until a year ago. In fact, buyouts accounted for a massive 20% of all M&A deals by value a few years ago, but have now slumped down to 3% of all deals – back to the levels of the 1990s.
- Along with the reduction in volume of big cap deals, there has been a drop in cross-border activity. However, there have been some notable deals - Autonomy acquired Interwoven at 3 x sales in the worst of the market conditions in January and more recently MicroFocus is in the process of buying both Borland and Compuware's applications testing business.
- Mega cap technology companies (Oracle, eBay, Symantec, Cisco, HP and Intel) all continue to invest in acquisitions throughout the economic cycle. By way of illustration, Cisco is 25 years old this year and has completed an amazing 126 acquisitions in that time.
- Attractive valuations remain in higher growth sectors such as mobile apps, financial software, storage and networking, security, online payment and virtualisation. Storage is a particularly active sector in 2009 with Data Domain (which is subject to a $2.1bn bidding war between EMC and Net Apps). Data Domain had $270m revenues in 2008 and although the business is growing rapidly the $2.4bn valuation is eye watering.

- Vignette, one of the darlings of the dotcom era which peaked with a share price of nearly $1,000 a share back in 2000, has been sold for $12.70 a share to OpenText in a $323m deal. At 1.8 x sales the valuation seems quite attractive – but not if you bought your shares in 2000.

3. UK Technology M&A Activity

The Top UK Targets

Date	Acquirer	Target	£ '000	Value / T/o
May-09	TalkTalk Telecom	Tiscali UK	236,000	2.3
Feb-09	Meetic SA	Match.com (Europe)	93,979	1.8
Feb-09	SQEX	Eidos	84,348	0.6
Jul-09	Freedom4 Group	Daisy Comms	81,000	1.5
Mar-09	Management	Snell & Wilcox	72,000	1.7
Jun-09	NTT Communications	Articon Integralis	64,500	0.5
Jul-09	Freedom4 Group	Vialtus	42,000	1.1
Feb-09	BS Private Equity	Tiscali Int Network	41,374	1.3
Jun-09	Capita Group	Carillion IT Serv.	36,000	0.4
May-09	ACS	Anix Group	31,500	0.7
May-09	Amor Group	Pragma Systems	27,800	1.1
May-09	Adv. Comp Software	Bus. Systems Group	11,399	0.5
Jan-09	West End Ventures	dotMailer	7,500	3.0
Jan-09	Innovise	Infrasolve	6,668	1.4

Highlights of the past six months in the UK are as follows:

Unlike in the US, private equity still accounts for a meaningful slug of UK technology deals. However, the influence is clearly significantly lower than last year when we saw many larger public–to–private transactions in the UK technology sector, such as Northgate, Ascribe and Civica.

The MessageLabs sale in Q4 2008 was one of the headline deals last year but this time two deals stand out - Tiscali and Freedom4:

1. The acquisition of Tiscali UK by Carphone Warehouse subsidiary TalkTalk for £236m continues their trend of consolidating the ISP sector; having already acquired AOL (UK) and others. They have built a substantial group via acquisition and are now the UK's number 3 broadband provider, serving over 3.9m fixed line customers (comprising 2.8m broadband and 1.1m voice-only and narrowband customers). At a price of 3 x Tiscali EBIT the price looks attractive.
2. Freedom4 has completed two major acquisitions at a combined cost of £123m (one third cash and two thirds shares). They have also raised £83m via a new share issue in a deal that would not have been possible in Q1 of 2009 and shows that the market for funding deals is coming back to life. However, at a combined valuation of 1.3 x sales or 7 - 8 x EBIT the valuations are realistic for telecoms resellers and managed service providers in the SME sector.

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Capita is one of the lone UK companies to have continued acquiring sizeable UK technology companies throughout the economic cycle. In fact, Capita have acquired another 5 companies so far in 2009 at a total cost of over £80m.

Other acquirers of UK businesses that have been active but are not in the table include: 365iT, Ci-Net, Brady, IDOX, CDC, Miles 33, XLN, Hitachi Consulting, NCC and RM.

Japanese telecoms business NTT Communications has surprisingly bid €75m for German listed Integralis AG (the leading IT security VAR in the UK) and at a valuation of less than 0.5 x sales they are hardly overpaying. The cross-border deal is also another example of the convergence of data and telecoms markets.

4. Outlook

The last quarter has seen the beginning of a recovery with a number of interesting and high profile deals by the likes of Oracle, EMC, Intel, TalkTalk, Freedom4, Capita and NTT. At ICON we are also seeing an increase in both enquiries and dealflow. Confidence is starting to rebuild.

Brian Parker
Head of M&A

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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

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London Office 53 Davies Street, London W1K 5JH T +44 (0)207 152 6375 F +44 (0)207 152 6376
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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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