



Technology M&A Review Q3 2009

1. Macro View

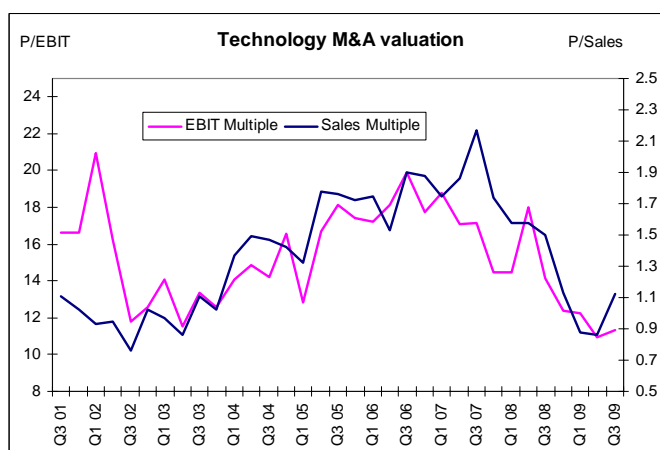
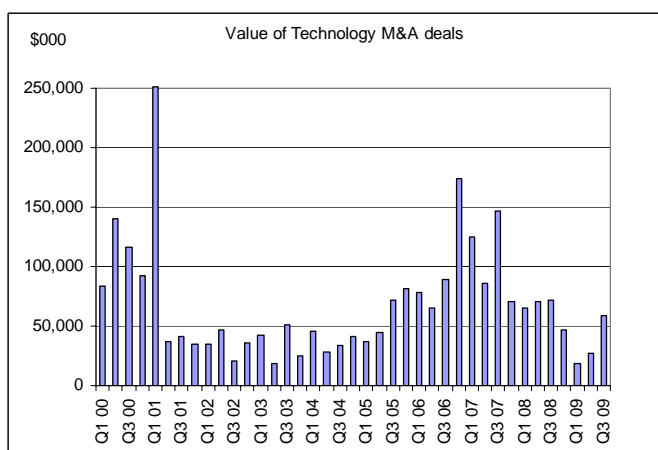
The third quarter of 2009 saw world markets enjoy their biggest quarterly increase in over 10 years as interest rates remained at record lows. Confidence returned to investors, leading to a 20%+ rise in developed markets and even more in emerging markets. This in turn has fed through to the M&A activity which has sprung back into life with the value of deals more than doubling from the previous quarter and valuations rising for the first time in over 2 years. Also, at times during the third quarter you had to rub your eyes and wonder whether it really was 2009, as the names of the M&A targets had a familiar ring to them, with the likes of Skype, Friends Reunited, Integralis and Razorfish all changing hands again.

Key statistics for the quarter:

	30 June 2009	30 Sep 2009	Change
FTSE	4,249	5,133	+21%
FTSE Techmark 100	2,172	2,635	+21%
Nasdaq	1,835	2,127	+16%
US\$ / £ exchange rate	1.65	1.60	-3%
Technology M&A transactions value	26,667	58,929	+120%
Technology M&A transactions volume	980	970	0%
Technology M&A Price to sales multiple	0.86	1.12	+30%

2. Global Technology M&A Activity

For the first time in several years, almost all the market indicators are pointed upward. Valuations are up nearly 30% in the last quarter, boosted by six mega deals valued at greater than \$1bn. In fact the value of deals announced rose by a stunning 120%. Many of the signs are positive and we are now seeing increasing moves towards planning IPOs in 2010 which should help boost the market further.





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In the USA the last quarter was a busy period for mega deals and with fewer distressed sales the valuations look increasingly attractive. Momentum is building strongly and in the last month, we have seen more large deals than in the previous two months put together. Of particular note this quarter are the following:

1. Move into services from a number of different angles:

- Xerox sprung a major surprise with a big move from its printing routes with the \$8.7bn acquisition of business outsourcer Affiliated Computer Services (ACS) in a cash and share acquisition that valued ACS at 1.2 x revenues;
- Dell is also moving away from its core hardware products by beefing up its service offerings with the \$3.9bn cash offer for Perot Systems at 1.4 x revenues. Perot has been a solid performer with significant revenues from the healthcare sector; and
- In Germany, Software AG acquired IDS Scheer, the German IT services and BPM software vendor, in another shift into services from its software roots at 1.2 x revenues.

2. Back in late 2005 eBay made a significant \$2.6bn acquisition of Skype, the internet communications business that (at the time) had revenues of just \$7m. Four years on, the business now has revenues of circa \$600m but the valuation remains broadly the same! Silver Lake Partners, the private equity investors, have offered to take a major stake that values Skype at \$2.7bn or 4.6 x revenues. Still a very tasty valuation.

3. Some particularly hot sectors where valuations stand out are:

- Adobe paid \$1.8bn or 6 x revenues to acquire Omniture, the online advertising measurement platform;
- IBM acquired SPSS, the business intelligence software vendor, for \$1.2bn or 4 x revenues;
- EMC bought Data Domain (after a scrap with NetApp) and ended up paying over 6 x revenues for the data storage and solutions provider;
- Computer Associates paid over 3.5 x revenues for network performance management software developer NetQoS; and
- SpringSource the Java platform software company sold for over 20 x revenues to, virtualisation company, VMWare.

4. Razorfish has had an interesting decade. It was at one point a high-flying \$2bn market cap “interactive agency” but was tripped up by the dotcom crisis and was subsequently sold to SBI for a mere \$8m in 2002. They then flipped the business a year later to aQuantive for \$160m. aQuantive were then bought by Microsoft in 2007 and they have just sold Razorfish again, this time to advertising group Publicis, in a \$530m deal that values the digital design and marketing agency at 1.4 x revenues.

Biggest Deals in the Quarter

Date	Acquiror	Target	US (\$' 000)	T/o multiple
Sep-09	Xerox Corporation	Affiliated Computer Services	8,700,000	1.2
Sep-09	Dell Computer Corporation	Perot Systems Corporation	3,900,000	1.4
Jul-09	EMC Corporation	Data Domain Inc.	2,100,000	6.1
Sep-09	Silver Lake Partners LP	Skype Technologies SA	2,025,000	4.6
Sep-09	Adobe Systems Inc.	Omniture Inc.	1,800,000	6.1
Jul-09	IBM Corporation	SPSS Inc.	1,200,000	4.0
Sep-09	Avaya Inc.	Nortel (Enterprise Solutions)	900,000	0.4
Jul-09	Software AG	IDS Scheer AG	672,613	1.2
Aug-09	Publicis Groupe SA	Razorfish LLC	530,000	1.4
Aug-09	Vmware Inc.	SpringSource Global Inc.	420,000	21.0
Sep-09	Naspers Ltd	BuscaPé.com Inc	342,000	4.8
Sep-09	CA Inc.	NetQoS Inc.	200,000	3.5
Sep-09	Intuit Inc.	Mint Software Inc.	170,000	17.0
Sep-09	Maximus Holdings Inc.	MSC Software Corporation	377,454	1.5

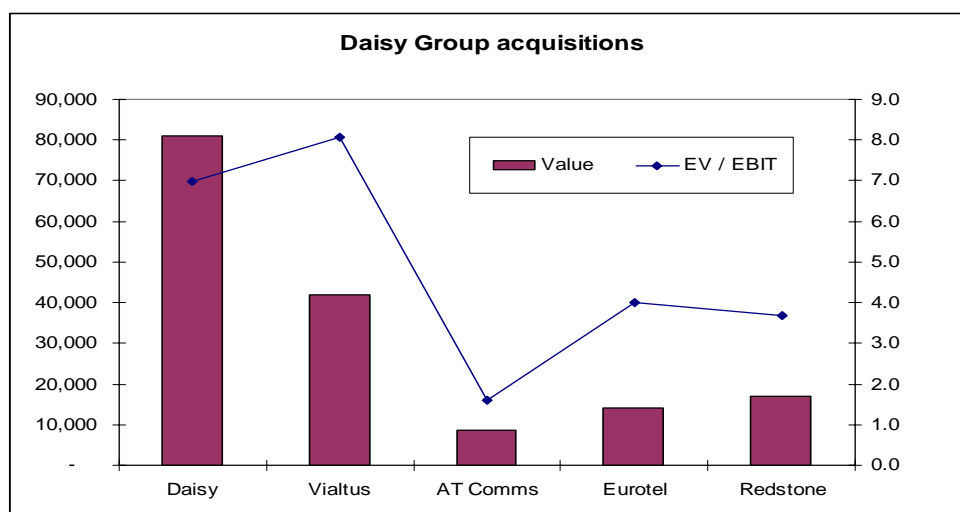


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3. UK Technology M&A Activity

While the recovery in UK Technology M&A activity has lagged the US, there has nonetheless been an increasing number of high profile deals, albeit at mainly modest valuations. Earlier in the year the stand out deals were the acquisition of Tiscali UK by Talk Talk, Integralis by Japanese telco NTT and the numerous acquisitions by Freedom4 (now Daisy) and Capita. Highlights in the third quarter were:

1. Vertex sold Exchange FS to a management team backed by Lloyds Development Capital in a £115m deal that had an eye catching valuation of 6 x revenues and over 20 x EBITDA. While the valuation looked full, it is interesting to see activity in the private equity sector again and LDC have now completed 10 deals in the UK so far this year.
2. Friends Reunited was sold by ITV in a £25m deal that valued the site at 1.4 x revenues – hardly the sort of valuation one would normally expect for an internet business and a far cry from the £120m (or nearly 10 x revenues) paid by ITV in the heat of the market in late 2005. The buyer, Brightsolid, is a subsidiary of Dundee based publisher DC Thomson.
3. Daisy completed its fourth acquisition in as many months after its reverse acquisition by Freedom4 as it rapidly consolidates the telecoms services market. They have acquired Eurotel, AT Communications, Redstone Telecoms, and Vialtus plus the reverse of Daisy Communications. In total they have spent £162m acquiring these resellers and in aggregate the valuation works out at a very attractive looking 0.7 x revenues and just over 5 x EBIT. As the chart below clearly shows, the early bird catches the worm as the earlier deals had much more attractive valuations.



4. The public sector has also been busy:

- Capita flipped the IBS Opensystems R&B (Revenue and Benefits) business to Civica in a £10m deal, after being told to dispose of the division by The Competition Commission after Capita's acquisition of IBS last year;
- System C Healthcare acquired Liquidlogic, the social care software provider, in a £14.2m deal with £10m in cash upfront and the balance in an earn out. At over 2 x revenues and 15 x EBIT System C paid a full price. Nonetheless the market seems to have given the deal the thumbs up as System C shares rose 20% in September;
- Vin Murria's Advanced Computer Software Plc raised £45m in May in a placing and has since bought Business Systems Group for £11.4m and Staffplan for just over £1m. Further bigger deals are expected in the health space in due course; and
- Finally, Civica also acquired in4tek, the social care software house, and CACI bought, online Government services developer, EzGov.



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Other deals of note in the UK include the sale of Systems Group and VirtualizeIT to US buyers in the virtualisation space, Iris did an infill legal acquisition and other smaller deals were closed by Alterian, Avisen, Netcall and Monitise amongst others.

4. Outlook

Confidence is continuing to rebuild and the recovery is being led by large acquisitions from mega caps such as Oracle, Dell, EMC, Adobe, IBM and Amazon who have all made significant acquisitions recently.

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Our Track Record of Global Deals

 SOLD TO USA Sector: Wireless Power	 SOLD TO CANADA Sector: Voice Biometrics	 SOLD TO UK Sector: Financial Services e-commerce	 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	 SOLD TO USA Sector: Software
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