

ICON
CORPORATE FINANCE

Independent Corporate Finance House of the Year 2009



Technology M&A Review

Q1 2009

ICON Corporate Finance
Creating Wealth from Technology



Technology Sector M&A Review – Q1 2009

1. Market Conditions

The first quarter of 2009 has been a torrid time for most asset classes as the economic downturn has hit hard. However, April has seen a significant rebound in stock markets from the lows and this has led to some signs of an improvement in confidence and an uptick in M&A activity. Interestingly, the NASDAQ and FTSE Techmark 100 Index have both outperformed the market with rises of 9-10% so far this year - FTSE still remains just below where it started the year. At a time when economic and corporate growth is increasingly hard to come by, the Tech Sector is back in favour with its low leverage and better growth.

Key statistics for the year so far:

	1 Jan 2009	30 Apr 2009	Change
FTSE	4,434	4,243	-4%
FTSE Techmark 100	1,217	1,342	+10%
NASDAQ	1,577	1,719	+9%
US\$ / £ exchange rate	1.46	1.49	+2%
Technology M&A transactions (TTM)	4,887	4,206	-14%
Overall M&A transactions (TTM)	29,105	25,888	-11%

As can be seen from the NASDAQ chart below, the market fell by nearly a half last year but in the past two months has rallied strongly and is now over 30% up from its lows indicating some return of confidence.

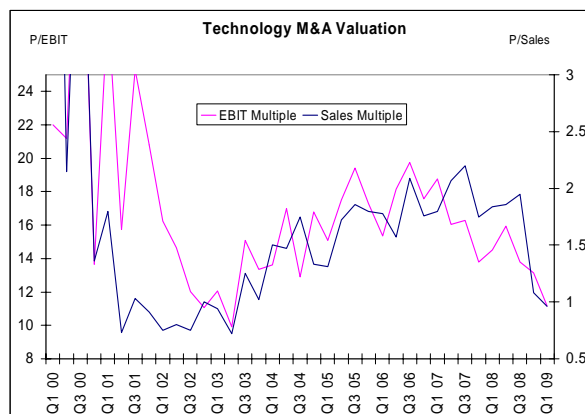
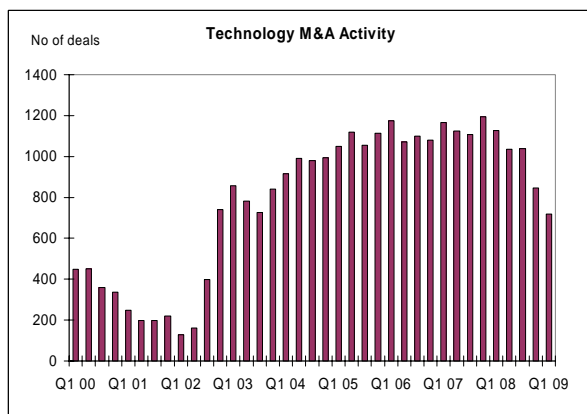


2. Global Technology M&A Activity

M&A activity in all sectors is down due to the credit crunch. Cheap bank debt (which has fuelled the market for the past few years) has evaporated. As a result, M&A activity levels are down by over a third in the first quarter of 2009 but there are positive signs of an improvement, most recently with several large deals in April.



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Valuations of M&A transactions in the technology sector have fallen quite significantly in the past year as the impact of distressed deals brings down the overall valuations. However, it does seem as though there are still hot spots where valuations still appear attractive and yet others where lower valuations reflect the distress. In the case of Satyam who were recently rescued by Tech Mahindra (after Satyam misplaced a \$1bn cash fund) the new capital is being raised at only 3 x trailing EBIT. Yet elsewhere, eBay has spent nearly \$2.5bn on three acquisitions at a combined valuation in excess of 6 times trailing revenues!

Overall though, the sector remains relatively lowly geared with the possible exception of the private equity owned companies who face higher leverage in their structures. In fact, Fitch Rating estimate cash resources of all technology companies remains high with aggregate balances in the sector of \$250bn. In fact several large companies like Symantec, HP and Cisco continue to be active acquirers, but the stand out deal so far this year was the recently announced acquisition by Oracle of Sun Microsystems at a net cost of \$5.6bn.

The Top Deals

Date	Acquirer name	Target name	Deal values US\$	EV / EBIT	EV / T/o
Apr-09	Oracle Corporation	Sun Microsystems	5,600,000,000	8.4	0.4
Apr-09	Fidelity National Info	Metavante Technologies	4,393,879,000	13.0	2.6
Nov-08	Brocade Comms	Foundry Networks Inc.	2,600,000,000	31.4	4.3
Apr-09	eBay Inc.	GMarket Inc.	1,200,000,000	59.8	7.1
Oct-08	eBay Inc.	Bill Me Later Inc.	945,000,000	-	154.9
Jan-09	Autonomy Corp	Interwoven Inc.	775,000,000	24.7	3.0
Oct-08	Symantec Corp	MessageLabs Ltd	695,000,000	79.9	12.1
Jan-09	TD Ameritrade Holding	thinkorswim Group Inc.	606,000,000	7.2	1.6
Mar-09	Cisco Systems Inc.	Pure Digital Technologies	590,000,000	-	52.2
Nov-08	Fujitsu Ltd	Fujitsu Siemens Comp	572,664,800	12.4	0.1
Oct-08	Oracle Corp	Primavera Software Inc.	500,000,000	51.9	4.6
Oct-08	eBay Inc.	Den Blå Avis A/S	381,540,697	39.7	6.5
Oct-08	Hewlett-Packard	LeftHand Networks Inc.	360,000,000	-	22.2
Oct-08	Waterfront Media Inc.	Revolution Health Group	300,000,000	-	10.5
Dec-08	Manhattan Software	MYOB Ltd	293,795,625	16.1	2.2
Apr-09	Tech Mahindra	Satyam Comp Services	227,538,136	3.3	0.7



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

- There have been only four deals over \$1bn and three of these were in the last month.
- No private equity led buyouts – a reversal from recent years.
- Only 31% cross border mega deals, indicating some caution – although that is understandable but we can still see a decent level of cross border activity given the market conditions.
- Only one UK buyer - Autonomy
- Only one UK target - Message Labs
- Megacap technology companies (Oracle, eBay, Symantec, Cisco, HP) continue to invest in acquisitions through the cycle.
- Attractive valuations remain in higher growth sectors such as mobile apps, financial software, storage and networking, security, online payment and virtualisation.

3. UK Technology M&A Activity

The Top UK Targets

Date	Acquirer name	Target name	Deal values US\$	EV / EBIT (x)	EV / T/o (x)
Oct-08	Symantec Corp	MessageLabs Ltd	695,000,000	79.9	12.1
Dec-08	Solera Holdings Inc.	HPI Ltd	141,784,319	10.9	3.7
Feb-09	SQEX Ltd	Eidos plc	121,185,683	-	0.6
Mar-09	Private equity / VC	Snell & Wilcox Ltd	101,643,485	32.4	1.7
Dec-08	Private equity / VC	DMATEK Ltd	75,464,677	15.6	1.7
Nov-08	Amdocs Ltd	Changing Worlds Ltd	60,000,000	29.6	3.5
Dec-08	Private equity / VC	Ascribe plc	46,885,527	8.2	1.9
Dec-08	Private equity / VC	Fayrewood plc	42,102,068	19.3	0.2
Dec-08	Unicom Systems Inc.	Macro 4 plc	40,436,280	31.6	1.2
Nov-08	GBST Holdings Ltd	Coexis Ltd	32,405,425	56.3	3.8
Oct-08	Capita Group plc	ABS Network Solutions	23,387,790	41.2	0.8
Oct-08	Mandalay Media Inc.	AMV Holding Ltd	22,765,000	-	-
Mar-09	Sintec Media (Europe)	Pilat Media Global plc	22,406,414	11.5	0.9

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

Surprisingly, private equity still accounts for 30% of the larger deals in the last six months, although much of this has now fizzled out. Private equity have had a busy year or two with public-to-private transactions in the technology sector in the UK, taking advantage of lower valuations and cheap money. However, we suspect much of that has now passed.

Continued spectacular increase in cross-border M&A activity. In over 60% of these larger deals the acquirer was a foreign technology company. We have seen similar trends in our own deals - of ICON's last 8 trade sales 6 of them (i.e. 75%) have been sold to overseas trade buyers.

From the above table you can clearly see that the highest prices paid were all by foreign buyers. MessageLabs (Messaging security), HPI (vehicle info services), Changing Worlds (mobile information access software), Coexis (global capital markets software) and AMV (mobile internet content services) all sold at attractive valuations in excess of three times sales. What bear market?



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Of the UK acquirers only a few companies (like Capita) seem to have continued making sizeable UK technology acquisitions through the credit crunch cycle and in fact Capita have gone on to acquire another three smaller deals so far in 2009. At the smaller end of the market, UK acquirers that have been active but are not in the table include: DMG, UBM, Qinetiq, NCC, ESRI, Innovise and RM.

4. Outlook

Clearly the world is in the midst of a very challenging economic climate and that is unlikely to disappear in the short term. However, we still remain cautiously optimistic for the Tech Sector mergers and acquisitions as the year progresses. There are clear signs of a recovery in April in financial markets that will help re-build confidence, which should boost M&A activity. If you are considering an exit for your technology business, it is a good time to be getting your house in order and building your exit strategy as there are signs that the worst of the storm may have passed.

Brian Parker
Head of M&A
Independent Corporate Finance House of the Year 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 10 June 2009 In association with Intellect

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