



TECHNOLOGY M&A REVIEW 2013

KEY STATISTICS	30 Dec 2013	31 Dec 2012	Change
FTSE	6,749	5,897	+14%
FTSE Techmark	3,197	2,480	+29%
NASDAQ	4,172	3,020	+38%
US\$ / £ exchange rate	1.65	1.63	+1%
Technology M&A deals Vol. (No.)	4,281	4,328	-1%
Price to EBIT (x) 12m average	20.5	16.4	+24%
Price to revenue (x) 12m average	1.92	1.81	+6%



1. A MACRO VIEW

A huge amount of medicine, in the form of cheap money, has flooded the world, particularly in the US, UK and Japan. As a result, ultra-low interest rates have inflated the value of assets globally. Quantitative easing (QE) started in 2012 and is still key to supporting economic recovery from the significant collapse in economies worldwide since 2008. The medicine seems to be working, as most economic indicators are now showing signs of recovery. However, fear that the medicine may be removed, or at least the dose dramatically reduced (i.e. tapering), has led to some wobbles most recently, particularly in emerging markets.

2013 was a great year for equities with FTSE up 14%, the Techmark up an impressive 29% and in the US the tech heavy NASDAQ up an incredible 38%. As a result, confidence is the highest in several years.

Corporates are faced with a struggle to grow revenues at anything like historic rates, but do still have strong Balance Sheets and rising margins. We have said it before, many technology companies still have more cash than they know what to do with. Increasingly they are paying dividends, buying back shares and acquiring young high growth, innovative companies to supplement growth.

2. GLOBAL TECHNOLOGY M&A DEALS

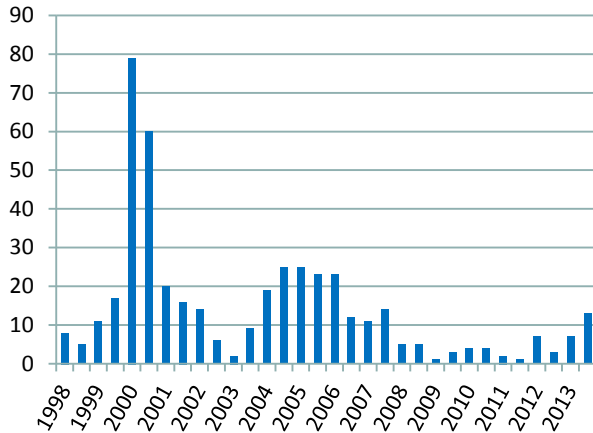
Acquisitions	2011	2012	2013
Yahoo	2	2	23
Google	26	12	18
Apple	2	4	11
Cisco	6	5	9
IBM	18	9	9
Twitter	6	7	8
Facebook	11	8	8
Microsoft	3	5	7
Oracle	9	11	5
Dell	3	6	1
HP	3	0	0
Total	89	69	89

In the past few years Google has been by far the most aggressive acquirer of the large cap technology groups. However, in 2013 Yahoo has overtaken them, buying 23 companies. Apple having historically relied on R&D for innovation has cranked up its M&A too. Meanwhile, others such as IBM, Cisco, Facebook and Oracle devour a steady stream of acquisitions year-in-year-out.

Several tech giants are conspicuous by their absence. HP has bought virtually nothing since its \$11bn acquisition of Autonomy in 2011 and Dell has been focused on its own MBO.

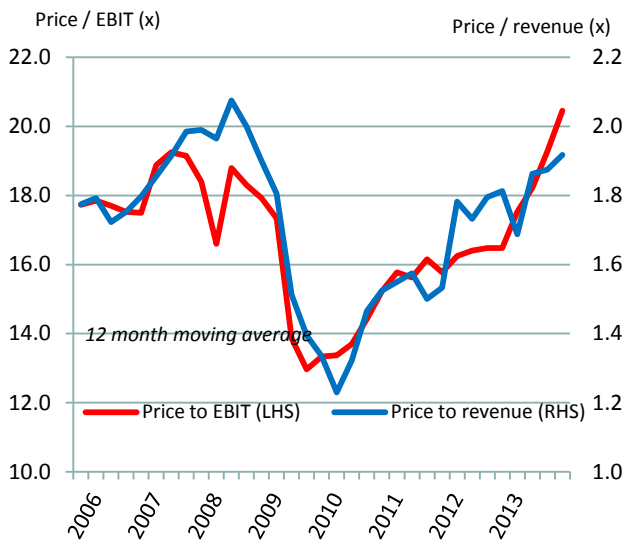


UK Technology IPOs



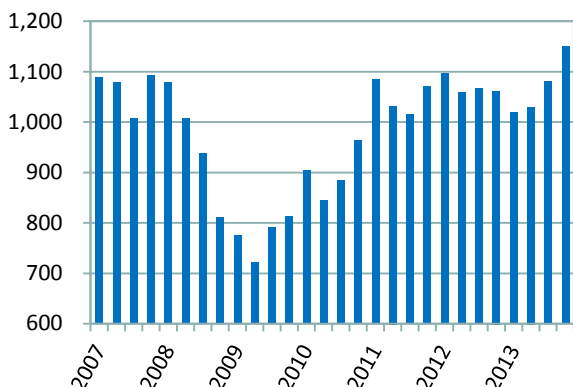
The IPO market has had a tough period but has come bursting back to life in 2013. Recent IPO's like **Facebook** have recovered strongly and **LinkedIn** has increased sixfold since listing. **Twitter** was another success having risen 100+% after raising \$1.8bn in 2013. There has been a rising number of younger businesses list, such as **Fireye** (security), **Tableau** (data visualisation) and a plethora of e-commerce businesses. In the UK, the hugely successful Royal Mail IPO has given a new lease of life to the market and as a result **Servelec** (health and controls) raised £122m in 2013. There has also been a stream of smaller software IPO's like **Rightster** (video), **Kalibrate** (petrol retail), **Outsourcery** (cloud-based computing) and **MoPowered** (mobile banking). As a result the second half of 2013 was the busiest period for tech IPO's for six years.

Technology M&A Valuations



Valuations of technology M&A deals are heading back to the top of the previous cycle. Average price to revenue multiples are 1.9x and EBIT multiples are just over 20. Note this is the aggregate of all deals and does not suggest that all companies will be valued at these multiples. Values are trending higher due to a combination of factors, including more cross-border strategic deals and less distressed/restructuring transactions. There has also been more acquisitions in high growth sectors such as social media, digital marketing and niche software where multiples of revenues paid are pretty exciting. A greater number of young, innovative, high value targets does inflate the numbers but also shows the growing levels of confidence among acquirers.

Global Technology M&A Deals (No.)

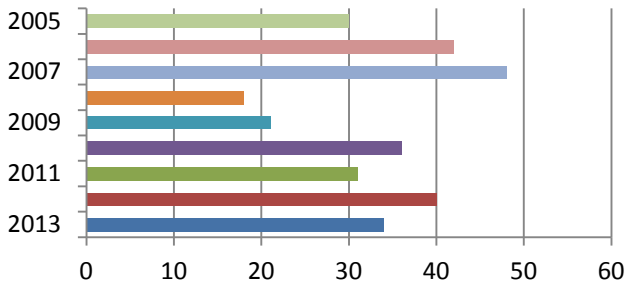


After a strong finish to the year, the number of deals announced in 2013 was very similar to the same period in 2012. In particular, the final quarter of the year was very strong with the highest number of deals announced in a long time and the sort of activity last seen six years ago.

Yet again the technology sector seems to have outperformed most sectors and is in good shape.



Tech Deals > \$1bn



After a quiet start, the number of mega deals (i.e. over \$1bn) increased as the year progressed. Earlier in the year the MBO of **Dell** (\$24bn) and the bid for **Virgin Media** (£15bn) grabbed the headlines. Regulatory approval for these larger deals can take a while, for example **Vodafone's** \$130bn exit from US based Verizon Wireless should close shortly and the sale of **Nokia's** mobile handset business to Microsoft should also close this year. Other announced stand out deals included the sale of **BMC Software** for \$6.8bn to Bain/Golden Gate after a private equity consortium bid battle.

3. US TECHNOLOGY M&A

The Biggest US Deals in 2013

Purchaser	Target	Ent. Val (\$m)	EV / T/o (x)	Activity of Target
MBO Silver Lake	Dell	24,400	0.5	PC laptop manufacture and software
Bain/Golden Gate	BMC Software	6,900	3.3	Mainframe computer software
Cisco	Sourcefire	2,700	12.1	Security software
Salesforce.com	ExactTarget	2,500	8.6	Cloud based social marketing software
IBM	SoftLayer Technologies	2,000	5.0	Online storage leasing for hosting
Oracle	Acme Packet	1,700	6.2	IP session border control technology
Priceline.com	Kayak Software	1,650	504.0	Online travel search platform
NCR	Digital Insight Corp	1,650	17.6	Online banking and e-commerce
Oracle	Responsys	1,500	7.5	Digital marketing software
IHS	RL Polk	1,400	3.9	Automotive intelligence
Total System	Netspend	1,400	33.0	Mobile payments - prepaid cards
Davis and Henderson	Harland Financial	1,200	8.3	Software and services for finance sector
Thom H Lee	CompuCom Systems	1,100	1.0	IT consultancy
Yahoo	Tumblr	1,100	91.7	Blogging site
Fire Eye	Mandiant	1,100	6.9	IT network security. Response mgt.
Google	Waze	1,030	14.7	Travel collaboration app for mapping
Thomas Bravo	Intuit	1,020	3.4	Digital banking technology
Fiserv	Open Solutions	1,015	4.1	e-banking software
TPG	Eze Castle	1,000	14.9	Hedge fund / financial trading software
Vista Equity	Websense	1,000	2.7	Security software
PWC	Booz & Co	1,000	1.0	Consultancy

Looking at the list of major US deals above, then it is pretty clear that buyers are focused on three main sectors: online banking/payments, IT security and digital marketing. Valuations paid for the targets in these sectors remains pretty eye-watering. Key things that caught our eye include the following:

IBM continues to be a steady acquirer of businesses. Nothing of the scale of the \$5bn Cognos (BI) deal in 2008 but nonetheless a steady flow. Much of the activity in the past year or two has been into data analytics as it makes a big push into fast growth 'Big Data' and acquiring mobile technology. In 2013 the headline deals were the acquisition of Trusteer (cyber security)

for \$1bn and SoftLayer Technologies (cloud infrastructure) for \$2bn. However, markets remain unimpressed with its shares down and the stock trading on just 11x earnings as fears for future growth multiply.

Google's shares on the other hand are up over 50% in the last year and are now worth nearly \$400bn. It is still growing strongly (22% in the last quarter) and its PE ratio is now 3x that of IBM's. With over \$50bn in cash, Google can afford to make a number of bets on next generation technology. Interestingly, in the past year they have done exactly that, with 18 acquisitions mainly in the artificial intelligence, robotics, prediction and navigation spaces as they build new products. They also win the



prize (again) for the most weird names of the targets, this year it is BitSpin, Holomni, Bump, Waze, Wavi. 2014 has also started with a bang with the \$3.2bn acquisition of home automation specialist Nest Labs, as it expands its interests in Internet of Things.

Apple, have in some ways become a victim of their own success, alongside intense competition with Samsung. Investors want growth and when you (only) sell 51m i-phones in a quarter and the market is disappointed then your shares fall. Utilising its cash reserves that had risen to a mind boggling \$145bn is one of the keys to future growth. Apple launched a \$55bn share buyback and has for the first time made a more aggressive push into acquisitions. There were no landmark deals but 13 acquisitions is a step change. The key focus to their acquisitions has been in mapping software and more surprisingly in semi-conductors.

Yahoo appointed a new CEO, Marissa Meyer, and she has had a huge impact - the shares doubled last year. Yahoo is looking to re-invent itself into a faster growth, mobile internet play. Having made only 2 acquisitions a year in 2011 and 2012 they have completed an amazing 23 deals in 2013 funded by \$4bn+ raised in 2012 from a partial sale of its stake in massive Chinese site, Alibaba. Deals in 2013 are varied with a focus on digital content such as Photography, Sports, News, Surveys, Gaming and Blogging. The biggest acquisition by Yahoo was the purchase of on-line blogging/social networking platform Tumblr for \$1.1bn, a price that seems to bear no relation to its \$13m in 2012 revenues. With over 100m blogs it is clearly a great platform for something!

It has only taken 5 years for the massively leveraged private equity deals to return. In the past few years private equity investors have been active but with lower leverage. In 2013 the leverage returned to the previous peak. Who says banks are not lending? Last year several large players like **BMC Software**, **Websense**, **Springer Science** and **Scout24** were all acquired by private equity at 3-4x revenues. Surely it would make more sense for the large technology groups to acquire assets like this rather than get a nominal return from cash in the bank?

This year the standout mega deal was the long running privatisation of **Dell** by founder, Chairman, CEO and largest shareholder, Michael Dell, in partnership with Silver Lake. With the explosion in mobile Dell has been hit by a drop in sales of its desktop products. The \$24bn deal is at least partly funded by the \$11bn in cash held at the company. With all that going on and a massive redundancy programme just announced, then it wasn't a year for in-fill acquisitions.

HP bought no businesses again in 2013. It has endured a lot of pain since 2011 with 29,000+ staff laid off. The trouble is at least partly because HP paid way too much for Autonomy (nearly 12x revenues). Lawyers have been called in and the mud-slinging has commenced.

FinTech, and in particular e-banking/e-payments, remains a busy sector. Targets such as Digital Insight (17x revenues) Netspend (33x revenues), Harland (8x revenues), Open Solutions (4.4x revenues) and Eze Castle (15x revenues) point to valuations at the top end of the spectrum.

The other key sector with multiple acquisitions at the highest end of the valuation scale is **IT security**. Targets such as Sourcefire, Mandiant, Websense, Six3 and Trusteer were all sold at valuations of 3x revenues and greater.

Bebo has joined the scrap heap of fallen stars. Its story has a certain symmetry to it. The social networking site was sold to AOL in 2008 for a whopping \$800m but was re-acquired by its founders for \$1m! It is a similar story to Myspace in 2012.

MoPub a mobile ad network sold their business to **Twitter** for \$350m just prior to its IPO. Not bad for a company with \$6m in revenue in the previous 6 months. The really smart move though was taking the consideration in Twitter shares which are now worth \$900m, surely a contender for Deal of The Year.

China based **Lenovo** is the world's biggest PC maker. They don't buy companies very often, but they have certainly got off to a strong start as we enter The Year of The Horse. Their last big deal was acquiring IBM's PC business in 2005. In January this year they have acquired both IBM's Intel based x86 server business and Motorola's handset business from Google for a combined cost of \$4.6bn, paying under 0.5x revenues.



4. NON US TECHNOLOGY M&A

Purchaser	Target	Ent. Val (\$/€m)	EV / T/o (x)	Activity of Target
Microsoft	Nokia	5,400	0.5	Mobile phone unit of Nokia
BC Partners	Springer Science	4,400	4.4	Online specialist knowledge
Hellman & Friedman	Scout24	2,700	3.0	Provider of online marketplaces
Nokia	Nokia Siemens	2,262	0.5	Communications equipment
BC Partners	Allflex	1,300	4.8	Animal tagging ID
SAP	Hybris	1,200	11.0	e-Commerce software
Advent	Unit4	1,170	2.4	Accounting software
CVC	Cerved	1,130	4.2	Information database developer
Tech Mahindra	Satyam	1,120	1.0	IT consultancy and outsourcing
IBM	Trusteer	1,000	10.0	Security software

Nokia has undergone the biggest transformation in 2013 shedding its handset hardware in a €5.4bn deal with Microsoft and buying Siemens out of its share of the Nokia Siemens communications equipment business. Both deals were valued at less than 0.5 x revenues. The Microsoft deal will add €15bn to Microsoft's annual revenues, so is a pretty big bet. It is a clear move away from its core enterprise software business along the lines of the Skype deal a few years ago. Clearly it will acquire a lot of high growth mobile technology but equally it will use up a slug of its massive cash reserves that are parked overseas and are tough to remit without paying significant US tax.

At the other end of the valuation scale, **IBM** acquired Israel based IT security specialist Trusteer at 10 x revenues and **SAP** who are becoming an increasingly active acquirer are paying a racy 11 x sales for Hybris the Swiss e-commerce platform developer.

Private equity buyers remain very active at the top end of the market (accounting for 50% of The Top 10 Deals) and consistently paying 2-4x sales multiples that are common for software businesses.

5. UK TECHNOLOGY M&A

UK deals that caught ICON's eye in 2013 were:

Vodafone in selling its stake in Verizon Wireless which will release about \$83bn in cash and near cash to its happy shareholders in a complicated restructuring. It is the third biggest M&A deal ever and the effect will be like an additional dose of quantitative easing with those funds looking for a home in other TMT or related equities in due course.

Servelec (healthcare and automation software) was the largest UK tech IPO for over three years when it listed in December. Valued at over £160m (4x revenues), Servelec was spun out of Singapore's **CSE Global**.

The failure of **2e2** with over £400m revenues and 2000+ staff was arguably the worst news in the UK IT market in 2013. RIP.

Civica have changed ownership again but management remain. Having been privatised by 3i in 2008, the investors have sold their stake to OMERS Private Equity for \$600m (just under 2x revenues). They continue to be a consistent acquirer.

Advanced Computer Software acquired Computer Software Holdings for £110m paying 8x EBIT or 1.8x revenues but it

comes with lots of recurrent income and rebalances ACS' revenues away from reliance on the public sector. Having said that, it also boosted its interest in the Health and Education sectors with in-fill deals.

One of an increasing number of IPO's in London was **Kalibrate Technologies**, which raised £6m. Since being acquired by Eurovestech in 2003 it has made an impressive 30x return.

Mike Lynch's \$1bn technology fund **Invoke Capital** has made its first investment in Darktrace (cyber security) giving a welcome boost to the UK tech funding scene.

Quindell are in a hurry to build an insurance claims outsourcing technology business. It has been an interesting ride in the past year and the shares have doubled in 2014 already! Acquisitions are a key part of the aggressive growth strategy.

In 2013 we saw a lot of **IT and Managed Services** deals. The shift to cloud computing has sparked up demand for data centres, hosting, cloud backup, desktop as a service and similar businesses. Targets included **Host Europe, InTechnology, Control Circle, Back-up Technology** and **e-know.net**.



Top UK Technology M&A Targets

Purchaser	Target	EV £000	EV / Rev (x)	Activity of Target
Paypal	Braintree	800,000	8.0	Online and mobile payments
Cinven	Host Europe	438,000	4.0	Hosting for SMEs
MBO (Omers)	Civica	390,000	1.9	Public sector software
MBO (BC Partners)	Mergermarket	382,000	7.5	Online M&A database provider
CBRE	Norland	321,000	2.1	Workforce management and logging
Iress	Avelo	210,000	4.2	Online comparison/ mortgage sourcing
Cisco	Ubiquisys	205,000	58.0	Small cell mobile telco technology
Autodesk	Delcam	172,000	3.7	CAD/CAM manufacturing sector
Electra	UBM Data Services	160,000	0.9	Data services division of UBM PLC
Legal & General	Cofunds	131,000	2.5	Financial investment platform
Adv Comp Software	Comp. Software Hldgs	110,000	1.8	Back office accounting software
Tungsten Corp	OB10	99,000	56.0	e-invoicing
Intel	Aepona	80,000	6.5	Mobile telecoms software
Amdocs	Atix	77,190	3.9	Mobile network performance analytics
DMGT	Decision Insight Info.	75,000	1.0	Property search application
ION Trading	Ffastfill	74,000	4.2	Derivatives financial trading software
Reed Elsevier	Mendeley	65,500	32.0	Online collaboration platform for research
Capita	Northgate Mged Serv.	65,000	0.5	IT and managed services division
Redcentric	InTechnology Serv.	65,000	1.5	Managed services
EMIS	Ascribe	60,000	2.5	Health IT
Capita	ParkingEye	57,500	2.2	Number plate recognition software
JDS Uniphase	Arieso	55,000	4.3	Location intelligence software
NCR	Alaric Systems	51,300	9.3	Secure transaction payment software
MBO (Dunedin)	Trustmarque	43,000	0.3	Reseller and mid market managed services
Perform Group	Opta Sports Data	40,000	3.6	Sporting data analysis
Inflexion	HotCourses	35,000	3.0	Online courses - training
WPP	Salmon Group	34,000	1.0	IT consulting and services.
Babcock Intl	ContextIS	32,000	3.2	IT security consultancy
Genband Inc	Fring	31,600	9.0	Mobile instant messaging app developer
St Ives	Branded3Search	25,000	6.0	SEO and digital marketing
iomart	Backup Technology	23,000	4.4	Cloud data backup and recovery
Blue Focus	WeAreSocial	22,500	1.0	Social media marketing agency
Kennet/Fidelity	Rivo	20,000	2.0	Governance and compliance SaaS
Yahoo	Summly	19,710	28.0	Mobile news app developer

In the **FinTech** space we again saw plenty of eye catching deals particularly around payments. Deals include **ION/Ffastfill** (derivatives - 4x revenues), **L&G/Cofunds** (investment platform - 2.5x revenues), **Iress/Avelo** (comparison website - 4.2x revenues), **PayPal/Braintree** (payments - 8x revenues), **NCR/Alaric** (secure payments - 9.3x revenues). Finally the £99m acquisition of **OB10** (e-invoicing) by newly listed **Tungsten** will likely be the first of many deals by them.

In the **Media sector** **Summly** was acquired by Yahoo for \$30m. It was created only two years ago by Nick D'Aloisio at the tender age of just 17, the app delivers news in bite sized chunks. Other notable UK mobile app developers deals were **Monitise/Grapple** £36m and **Genband/Fring** £32m. **St Ives and Communis** are both reshaping themselves into a digital marketing business from printers through M&A. Also digital media agency **WeAreSocial** sold to Chinese group **Blue Focus** (8x profits plus earn out) in a really surprising move.

In the **Public sector**, **Capita** were busy as usual, while **Serco** and **Idox** both suffered setbacks. There were quite a few in-fill health sector acquisitions, the highlight was the chunky £60m acquisition by **EMIS** of Bolton based **Ascribe** (health software - 2.5x revenues). **Ascribe** was privatised in 2009 by **ECl** who have pretty much sold at double their initial cost. It was also interesting to see **Lockheed Martin** acquire Scottish based **Amor Group** boosting its UK revenues by £57m.

Consulting businesses tend to be acquired for around 1x revenues, so it was surprising to see **Babcock** pay over £32m or 3x revenues for **ContextIS**, a UK based IT security consultancy.

Other UK acquirers that operate below the radar include fast growing young companies such as **Digital Barriers** (defence technology), **Six Degrees Group** (telco services), **Adapt** (managed services), **Access** (business software), **Liberata** (outsourcing), **EnablesIT** (IT services) and **Accumuli** (security).

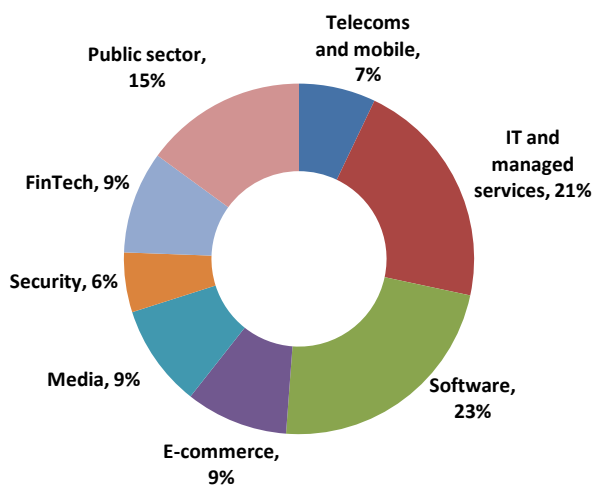


In the UK we still see strong interest from overseas acquirers buying UK based assets - they account for over a third of deals. In 2013 we have seen **Cisco** pay over £200m for small cell mobile technology specialist Ubiquisys with only a few £m of revenues and **Intel** did something quite similar with Aepona. Other notable acquisitions from large overseas acquirers included: **JDS Uniphase** acquired Arieso (4.3x revenues), **Amazon** acquired EVI (Q&A technology), **Autodesk** acquired Delcam (CAD) and **Amdocs** acquired Atix (network performance), both of the last two deals at nearly 4x revenues.

6. OUTLOOK

The Year of The Horse has started at a gallop, particularly in the UK, where in January we have already seen some really exciting deals notably: **Google/DeepMind** (artificial intelligence), **Zynga/Natural Motion** (mobile games) for \$400-500m each, **Callcredit/Coactiva** (big data analysis), elsewhere **Alternative Networks** bought two IT managed services businesses and **Equifax** paid 11x revenue for a debt collection software platform.

UK Tech M&A Targets by Sector



At ICON, we start the year with optimism having seen a stepped increase in activity levels among our clients. We also had a huge response to the first ever **FinTechCity London** – an initiative which we co-founded with **TheCEOAgenda** to provide an opportunity for FinTech CEOs to engage with leaders in financial services, investors, funders and acquirers through a series of exclusive events, culminating in the announcement of [The FinTech50 2014](#). A big Thank You to our partners: [Silicon Valley Bank](#), [Hotwire](#) and [Fox Williams](#), and to all our panellists, speakers and guests.

Although governments globally continue to hand out medicine (in the form of cheap money) to stimulate growth, in technology there is much excitement around new high growth areas such as social media, big data analytics, internet of things, anything as a service, wearable technology and e-commerce. As a result, Tech M&A remains in rude health.

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