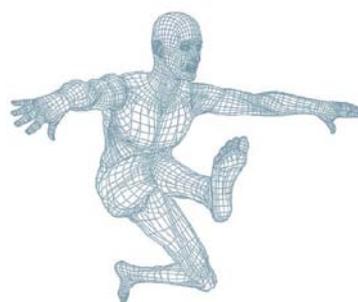


TECH M&A REVIEW

MID-YEAR 2014

KEY STATISTICS	31 Dec 2013	30 Jun 2014	Change
FTSE	6,749	6,744	-
FTSE Techmark	3,197	3,283	+2.7%
NASDAQ	4,172	4,406	+5.6%
US\$ / £ exchange rate	1.65	1.71	+3.6%
Technology M&A deals Vol. (No.) – 6m	2,356	2,389	+1.4%
Price to EBIT (x) 12m average	21.3	22.0	+1.0%
Price to revenue (x) 12m average	1.92	2.08	+8.3%



1. A MACRO VIEW

Ultra low interest rates continue to provide a flood of cheap money, inflating the value of assets globally. Quantitative easing continues in the US and the UK, albeit at lower levels than before, and the result has been that most asset classes have increased in value in the first half of 2014, although the pace of growth has slowed.

The UK FTSE is broadly flat and the Techmark having jumped nearly 30% last year is up modestly so far in 2014. It is a similar tale in US markets and bond market yields have reached record lows.

Many companies still have more cash than they know what to do with. Increasingly they are paying dividends, buying back shares and acquiring to supplement growth, which is increasingly tough to come by.

There is a lot of excitement in the IPO market globally. Last year Twitter listed successfully in the US raising \$1.8bn. This year we have seen GroPro (cameras), GrubHub (coupons) and King Digital (gaming), list with mixed success in the US. The definitive test will come with the listing in New York later this summer of Alibaba, the massive Chinese on-line retailer that hopes to raise more than \$15bn, by far the biggest IPO since Facebook.

2014 has been a pretty volatile period for many of the higher growth listed UK technology companies. Blinkx, Blur, Mobile Streams, Outsourcery and Quindell have all seen

their share price collapsing as market expectations raced some way ahead of the fundamentals.

Having seen markets rise for 5 years straight, the pace of future growth will inevitably slow, and in due course as the cycle lengthens, the balance between greed and fear will tip over. Meanwhile the party rolls on and there are no signs of the Fat Lady warming up her vocal chords just yet.

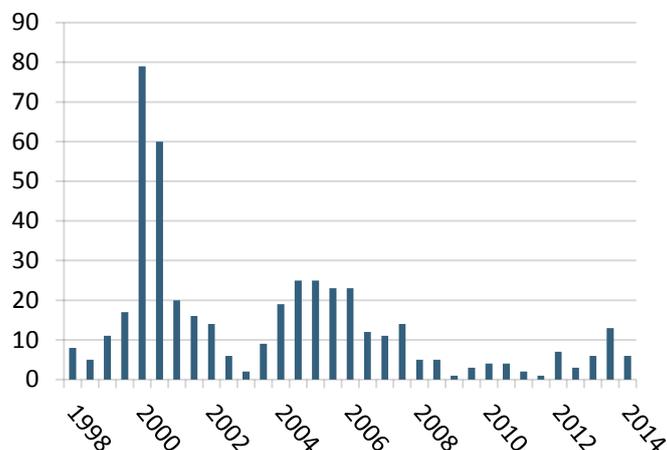
As a result the acquisition activity in the M&A sector remained active and healthy in the first six months of 2014. Google are really cranking the acquisition handle with 20 deals. Cisco though, who have acquired over 170 companies in their time, are having a rest, along with Dell and HP.

No. of acquisitions	No. of acquisitions	
	1H13	1H14
Google	7	20
Yahoo	12	10
Oracle	3	5
Facebook	5	5
Apple	2	5
Microsoft	4	3
IBM	3	2
HP	0	1
Dell	1	1
Cisco	5	0



2. TRENDS AND VALUATIONS

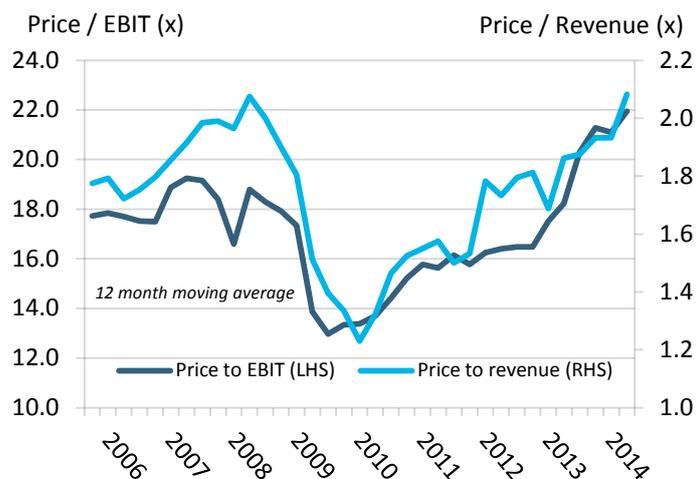
UK Technology IPOs (No.)



The global IPO market has sprung into life resulting in global M&A activity jumping. In the UK we have seen the listing of quite a few e-commerce/crowd sourcing businesses such as **AO World**, **Just Eat**, **Zoopla** (property website) and **MySale** (online retail). The number of more traditional Technology IPOs still remains quite modest. **Servelec** (health and controls) raised £122m and video group **Righster** raised £20m in 2013. This year we have seen **FDM** (IT services) and **Rosslyn Analytics** (big data) IPO but the enthusiasm for IPOs in general has not translated into a wave of UK IPOs in the Technology sector. Not yet anyway.

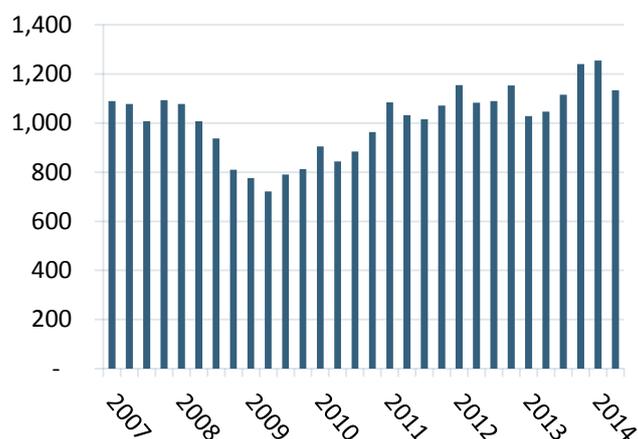
One of the larger IPOs this year in the US was **Markit**, which chose to list in the USA despite it being started in a shed in St Albans. A classic high growth Fintech company, it focuses on off-market pricing of financial trading and is now worth nearly \$5bn on NASDAQ.

Technology M&A Valuations



The valuations of Technology M&A deals are heading back to the top of the previous cycle. Average price to revenue multiples are back over 2.0x 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 have also been more acquisitions of start ups and high growth sectors such as social media, e-commerce, big data, digital marketing and niche software where multiples of revenues paid are pretty exciting. A greater number of young, innovative, high value M&A targets inflates the overall valuation as there is strong interest for these higher growth businesses in a low growth world.

Global Technology M&A Deals (No.)



M&A activity is cyclical and dropped markedly after the credit crunch in 2008. However, the overall M&A market has come roaring back to life with the value of M&A deals globally up by >26% in the first half of 2014. As our chart opposite shows, the story in the Technology sector is somewhat different. The Technology M&A market contracted in 2009 and 2010 but quickly returned back to pre-crisis levels and has grown steadily ever since.

The number of Technology M&A deals in the first half of 2014 is up 1.4% on the previous six months with nearly 2,400 deals, again showing the Technology sector is active and healthy and confidence remains positive.



3. MEGA DEALS

Every so often a very large deal is announced that leaves a lot of people scratching their heads. The **WhatsApp** acquisition earlier this year by **Facebook** was one of those. While you can argue about the fact that it is not all cash and that part of it is deferred, nevertheless \$19bn is a lot of money for a business with \$20m in revenues and 50 staff. In fact it is about \$380m per head! Not content with this, Facebook also paid \$2.3bn or 100x revenues for a virtual reality headset business just two months later.

We thought it would be interesting to look back and remind ourselves of the very largest non-private equity M&A deals in the past 15 years. Ignoring mergers like AOL/TimeWarner, then the Facebook/WhatsApp deal is in fact the biggest tech trade deal of the past 15 years.

Looking at the table of mega deals below, **HP** has been the most aggressive mega acquirer, albeit with pretty mixed success as it is yet to recover from its \$10bn acquisition of Autonomy in 2011. In fact they have only acquired one small company (Shunra) since. **Oracle** has also been a very consistent acquirer making big calls every few years (including Micros Systems this year) but they have avoided paying the WhatsApp/Autonomy type premiums, they consistently seem to pay 3-5x revenues for targets.

The table below is interesting in that it highlights that although there is plenty of exuberance around, the \$19bn WhatsApp deal is not part of a wave of mega deals in 2014. Actually, the market in general is not getting carried away, albeit with a few spectacular exceptions.

Date	Purchaser	Target	EV (\$'000)	EV / T/o	Activity of Target
Feb-14	Facebook	WhatsApp	19,000,000	950.0	Messaging App.
Sep-00	HP	PWC Consulting	18,000,000	3.5	Management consultants
Mar-08	HP	EDS	13,900,000	0.7	IT services
Aug-11	Google	Motorola Mobility	12,500,000	1.1	Mobile smartphone mfr and patents
Jun-03	Oracle	Peoplesoft	10,300,000	5.2	ERP vendor
Aug-11	HP	Autonomy	10,300,000	11.8	Search data management and eDiscovery
Oct-07	Oracle	BEA Systems	8,500,000	7.1	Business software
May-11	Microsoft	Skype	8,500,000	10.0	Internet telephony.
Oct-07	Nokia	Navteq	8,100,000	13.0	Mapping software
Aug-10	Intel	McAfee	7,680,000	4.0	Anti-virus software
Sep-09	Xerox	ACS	7,600,000	1.1	BPO outsourcing IT services
Apr-09	Oracle	Sun Micro	7,400,000	0.4	Server and storage technology developer
Sep-13	Microsoft	Nokia	7,200,000	0.5	Mobile phone unit of Nokia
Sep-05	Certegy	Fidelity Info	6,844,600	10.0	Financial software
Oct-07	SAP	Business Objects	6,700,000	15.0	Business intelligence software
May-07	Microsoft	Aquante	6,000,000	10.0	Online advertising and digital agency
May-10	SAP	Sybase	5,800,000	5.0	Database and e-comm software
Nov-07	IBM	Cognos	5,000,000	4.9	Business intelligence software
Jun-14	Oracle	Micros Systems	4,600,000	3.8	POS systems to retail and hotel/leisure

4. US TECHNOLOGY M&A

Before delving into a review of US M&A activity, two funding deals caught our eye:

- A lot of technology groups claim they have developed “disruptive technology” but none have succeeded like **Uber**. The taxi hailing app brought a very different type of disruption to roads in many European cities in June following a protest by 30,000 taxi drivers. Its latest round of fund raising had been carried out at an extraordinary valuation of \$18bn which equates to about 100x revenues.

Look out for more disruption as it aims to dominate the market ahead of Lyft, Hailo, Flywheel and others.

- Another disruptive app which is disruptive/annoying in more ways than one is **Yo** - an app that allows you to only send a Yo message. It passed 1m downloads 4 days after launch and 4m Yos were sent in one day. Not bad for an App that took less than a day to code and raised \$1.5m in seed funding.



The Biggest US Deals in First Half 2014

Date	Purchaser	Target	EV (\$'000)	EV / T/o	Activity of Target
Feb-14	Facebook	WhatsApp	19,000,000	950.0	Messaging app
Jun-14	Oracle	Micros Systems	4,600,000	3.8	POS systems to retail and leisure
May-14	Zebra	Motorola Solns	3,450,000	1.4	Mobile computing and data capture
Jan-14	Google	NestLabs	3,200,000	21.0	Home automation products
May-14	Apple	Beats	3,000,000	3.0	Headphones
Apr-14	Facebook	Oculus VR	2,300,000	100.0	Virtual reality headsets
Jan-14	Lenovo	IBM x86	2,300,000	0.5	IBM's x86 server business
Jan-14	Lenovo	Motorola Mobility	2,300,000	0.5	Mobile handset business ex Google
Mar-14	Pointwell	Skillsoft	1,700,000	5.9	Online learning
May-14	Vantiv	Mercury Payment	1,650,000	73.0	POS payments software
Feb-14	VMWare	AirWatch	1,450,000	29.0	Mobile device management / security
Apr-14	MBO	Renaissance Learning	1,100,000	5.5	Online learning
Jun-14	MBO	Internet Brands	1,100,000	20.0	Online media and e-commerce
Feb-14	Rakuten	Viber	900,000	-	Messaging App. Internet based calls
Jan-14	MBO	Accelrys	750,000	4.5	Scientific lifecycle management
Jan-14	Verint Systems	Kana Software	514,000	3.4	CRM software
Jul-14	Facebook	Liverail	500,000	820.0	Online video advertising
Feb-14	IBM	Cloudant	500,000	50.0	Database as a Service software

In general, the heads of US major companies are still quite cautious and in response to shareholder activism have increased the amounts given back to shareholders. Apple has spent \$18bn buying back its own shares in just the first three months of 2014, as share buy backs of cash rich US companies reach new peaks. With earnings growth being increasingly challenging then another way of increasing the EPS (Earnings per Share) is to reduce the number of shares in issue through buybacks. Nevertheless, S&P500 companies still hold \$1.2trn of cash, so there is plenty of fuel to fund that and M&A activity.

Some may have thought that the advent of the financial crisis would have been a hammer blow to private equity which relies on cheap bank leverage. Far from it, they are still key players, particularly in larger deals. Although, with over a third of private equity sales now to other private equity buyers there's a smell of pass the parcel about it. There is still plenty of cash out there looking for a home.

Looking at the list of major US deals, there is clearly a lot of interest in payments, IoT, big data, e-commerce, 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:

Oracle acquired Micros Systems for a hefty \$5.3bn. Micros Systems provides e-commerce POS systems and related hardware, software and technology services to retail and leisure markets with over 330,000 locations. Interestingly, Micros had not that long ago acquired UK-based Torex. Given the flat revenues at Oracle, it is clearly finding it tough to grow the top line. This may explain why it has paid 3.8x revenues, its biggest acquisition since the 2010 purchase of Sun Microsystems. Maybe the value is in the retail data or maybe they are just very keen on the name Microsystems! In addition to this deal they have also acquired in big data, cloud services and collaboration.

In 2013 **IBM** acquired Trusteer (cyber security) for \$1bn and SoftLayer Technologies (cloud infrastructure) for \$2bn. This year has been more modest with Cloudant, a \$500m deal for the database as a service business at a hefty 50x sales. IBM's shares remain unimpressed having stayed flat in the past few years.

Google can afford to make a number of bets on next generation technology and that is exactly what it is doing, with 18 acquisitions in 2013 and now a staggering 20 in first half of 2014, mainly in the artificial intelligence, robotics, prediction and navigation spaces as they build new products. The \$3.2bn acquisition of home automation



specialist, Nest Labs, is the highlight although having now completed over 160 deals in a myriad of sectors it is difficult to keep up with the activity.

Apple, had amassed a mind boggling \$150bn in cash and has started to use it both by launching a \$55bn share buyback program and it has also cranked up acquisitions. Deals will complement new product development with the iWatch launch expected shortly. Thirteen acquisitions last year was a step change and this year Apple acquired the Beats headphones and music business for \$3bn. This is its biggest ever deal and although much of the press focus was on owner rapper, Dr Dre, the real value may be the Beats music streaming service, which gives Apple extra firepower in its fight with rivals Spotify and Pandora.

HP bought only a small emulation business in 2014, but it is its first since 2011 when it paid Autonomy nearly 12x revenues. Lawyers have been called in and the mud-slinging has commenced, mainly targeted now at Mike Lynch, the previous CEO.

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 gallop in The Year of The Horse. Their previous big deal was acquiring IBM's PC business back in 2005 then, rather like waiting for a London bus two come along at once. 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.

5. UK TECHNOLOGY M&A

Activity has picked up with good appetite for e-commerce / crowd sourcing type listings such as **AO World** (fridges), **Just Eat** (take away food), **Zoopla** (property), **boohoo** and **MySale** (fashion). It is also good to see some traditional technology listings too such as; **Servolec** (which listed late last year) and **FDM** which was founded as Brighton-based IT services provider in 1991. Inflexion who bought the business just four years ago exited having made 16x its money.

Several listed Technology companies hit the buffers in 2014. Probably the most spectacular was **Quindell**, the insurance claims outsourcing technology business. Having more than doubled in the early part of the year its shares subsequently crashed after rumours and doubt spread from a US broker. However, the insurance sector is certainly very active despite the fact that Quindell (which acquired nearly 30 companies in its time) is resting. The use of technology and

big data analysis in particular to assess, compare and price risk is an obvious route to competitive advantage.

After a good run in the technology sector a number of other tech companies have suffered alongside Quindell with **Blur**, **WANDisco**, **Outsourcery EnablesIT** and **Blinkx** all having significant setbacks, with share prices falling by more than 50% as expectation got too far ahead of reality.

In January we saw two really exciting eye catching UK deals: **Google** paid \$400m for DeepMind, a 2 year old artificial intelligence start up that has yet to even launch a product. It specialises in machine learning, advanced algorithms and systems neuroscience. It should complement some of the robotics acquisitions it made last year and Nest Labs in the US.

Zynga acquired Natural Motion (creator of CSR Racing and other mobile games based in Oxford) for \$527m. Founder Torsten Reil, who runs NaturalMotion, used his zoology background to design software that could realistically animate 3D movement.

It is striking this year how many MBO/private equity funded deals have completed. Not just the buyouts of technology businesses but also the acquisition by private equity funded businesses, as they seek to aggressively expand. Not only larger deals like **Pulsant** (data centre services), **Autodata** (motoring info) and **Metronet** (CCTV installer) but also smaller deals such as **Utiligroup** £16m previously a subsidiary of **Bglobal** (utility management), **Intelligent Office** £10m (document management), **Vista** £12m (network services) and **Acal** £10m (inventory management).

Following a wave of Fintech deals last year (Alaric, Braintree, OB10, FfastFill, IT2 Treasury...) this year has been a bit quieter, but nonetheless there were notable deals by **Innovation Group**, **Monetise**, **Xchanging** and **Equifax** who paid £200m or 11x revenue for a debt collection platform.

While BuyAnything may sound like the M&A strategy of several large US tech players, it is also the name of the mobile commerce platform at **Monetise**, the mobile payments business. They have spent up to £55m in equity (£24m upfront) acquiring MyVoucherCodes, which works with 60,000 brands and retailers, providing voucher, coupon and discount deals for 80% of the UK's major online retailers. Paying in shares is a smart move by Monetise, particularly as they are rated at over 9 times 2014 sales. MyVoucherCodes owner, 34 year old Mark Pearson, who was brought up on a Liverpool council estate, had the idea to launch the company when he was buying train tickets online and noticed a box for promotional codes.



Xchanging, the outsourcer, has recently made two aggressive moves outside its core area into technology, spending £80m on two insurance software businesses for a mix of cash and earn out. It is another example of strategic acquirers from outside the normal “technology stack”. Similarly, **Callcredit**, the credit reference agency, who (in the midst of their own refinancing) acquired Coactiva (big data analysis). Outsourcer **Equiniti** acquired Yorkshire based Pancredit Systems, an intelligent loans software supplier. Finally, South African financial services group **Momentum** acquired BlueSpeck Financial, owner of YourWealth.co.uk.

In the **Media sector**, digital media agency **WeAreSocial** sold to Chinese group Blue Focus (8x profits plus earn out) in a really surprising move. In the broadcasting software space

Sintec Media acquired listed **Pilat Media** for just under £50m in a deal that valued them at 2.7x sales. Elsewhere **Vislink** made a biggish move, for them, acquiring Pebble Beach Systems, which also has software for the broadcast and TV market but paid quite a bit less at 1.6x sales. **Dalet** also acquired Amberfin (a broadcasting platform).

In the **Public sector**, **Capita’s** acquisition spree rumbles on with a host of chunky deals, spending over £200m on 6 deals. **Civica** acquired Coldharbour (healthcare financials) and Keystone (social housing), continuing its acquisition record under new ownership, having themselves been acquired by Ontario Teachers a year ago. Elsewhere, **Symphony** bought the overseas arm of McKesson Health.

Top UK Technology M&A Targets

Date	Purchaser	Target	EV (£000)	EV / T/o	Activity of Target
Jan-14	Zynga	NaturalMotion	318,000	2.2	Computer games software (CSR Racing Clumsy ninja)
Apr-14	Cirrus Logic	Wolfson Micro	291,000	2.8	Semi-conductors for digital audio devices
Jun-14	Summit	Masternaut	266,000	4.0	Online fleet management
Jan-14	Google	DeepMind	242,000	-	Artificial intelligence start up
Jan-14	Equifax	TDX	200,000	11.6	Debt collection and recovery software
Jun-14	OakHill Capital	Pulsant	200,000	5.0	Managed data centre services
Jun-14	Five Arrows	Autodata	150,000	-	Online automotive data
Apr-14	Capita	AMT Sybex	105,000	2.3	Software and data management to Utilities
Mar-14	Capita	Updata	80,000	2.0	Network services
Jul-14	Xchanging	Agencyport	64,100	3.4	Healthcare insurance software
Jun-14	Intertain	Mandalay Media	60,000	3.7	Online bingo operator
Jun-14	Monitise	Markco Media	55,000	-	MyvoucherCodes. Mobile vouchers. All share deal
Feb-14	Innovation	LAS/Crashworth	50,000	1.5	Insurance claims management
Jul-14	Rightster	Base79	50,000	15.2	Online video. YouTube content provider. MCN
Feb-14	SinTecMedia	Pilat Media	49,800	2.7	Broadcasting software
May-14	LDC	Anite Travel	45,000	2.3	Travel software
Jan-14	Alt Networks	Control Circle	39,400	1.9	IT managed and cloud services
Jun-14	PTC	Atego	30,300	2.5	Engineering software (PLM CAD/CAM...)
May-14	Mergermarket	Perfect Info	26,000	4.3	Online workflow and financial info
May-14	Halma	Adv Electronics	24,200	1.6	Emergency light and heat software
Jun-14	GFT Group	Rule Financial	24,000	0.5	IT services and consultancy in banking
Jan-14	Blue Focus	WeAreSocial	22,500	1.0	Social media marketing agency
Mar-14	St Ives	Realise	21,700	1.8	Digital marketing agency.
Jul-14	Xchanging	Total Object	21,000	-	Insurance software
Feb-14	Gtech	Probability	18,000	2.1	Gambling software services
May-14	MBO	Utliligroup	16,100	32.0	Utility management software
Apr-14	Smart Meter	Utility Partnership	14,000	1.3	Meter management for utilities
Jan-14	Naaster	e-know.net	13,000	1.9	Provider of hosted desktop and managed IT services
Jan-14	Alt Networks	Intecept	12,950	1.3	Hosted Desktop as a Service
May-14	MBO	Vista	12,300	1.0	Data and voice network services
Feb-14	Adv Comp Soft	Compass	11,900	2.5	Education software higher education
May-14	MBO	Intelligent Office	10,000	1.0	Document management services
Apr-14	Inside Secure	Metaforic	9,700	-	Security software - mobile secure payments
Mar-14	Vislink	Pebble Beach	9,000	1.6	Automation and CM for TV and broadcasting
Apr-14	Learning Tech	Line Comms	9,000	1.1	Learning software provider



Daisy Group, the telecoms services provider, has done a few acquisitions in its time as it looks to build a unified communications group. Although revenue growth has dried up, they were static in 2013/14, it is on the lookout for further sizeable deals to kick-start the growth and has lined up an additional £200m from banks to fund it.

Ian Smith is at it again, with a 'buy and build' venture with the acquisition of IT managed services firm, **Montal by Castleton Technologies**, (previously Redstone). Castleton paid £3.8m for Montal, equivalent to about 10x pre tax profits.

In the UK we still see really strong interest from **overseas acquirers** buying UK based assets - they account for over a third of deals. A few of the larger deals grabbed headlines, but below the radar they acquired smaller companies too. **Google** not only acquired DeepMind, they also made two other acquisitions in the UK, in retail software and advertising security. **Facebook** acquired a UK solar powered drone manufacturer. Other big acquirers making often quite small UK deals included: **Dun&Bradstreet, Genpact, IBM, Twitter, PWC** and **Deutsche Borse**. The strength of sterling certainly isn't putting them off.

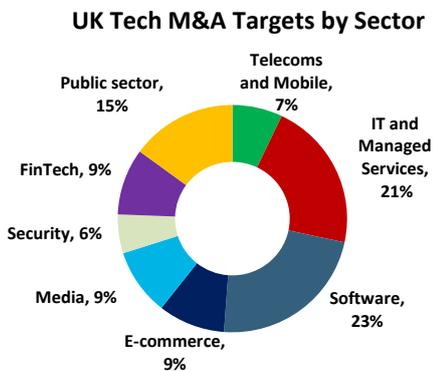
6. OUTLOOK

There is a general feeling that the **UK Technology sector** is in a good place. The UK is clearly the largest tech hub in Europe and support from the likes of TechCityUK has helped promote it. The launch of new funds in the UK, such as the recent new European \$100m Google Ventures fund and Mike Lynch's \$1bn Invoke Capital fund are good news for funding UK start-ups and should help fuel the sector in the future too.

Buyers want to acquire growth and there is clearly particular attraction for "disruptive" technology that challenges established business models. For example, in the **FinTech** space the growth of peer to peer lenders like Funding Circle shows technology being used to create a new industry that simply didn't exist before, yet has now lent nearly £1bn in total to SMEs in UK.

This is all good news for creative UK businesses and is attracting acquirers who are searching for new higher growth businesses. We see this trend continuing, with particular interest from private equity funded and overseas acquirers in the UK technology market.

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