

Programmed for growth

Outlook for the technology deals market

*Technology M&A Insights
January 2012*



Focusing on the long-term

Welcome to the 2012 edition of Technology M&A Insights

This annual report by PwC¹ forecasts the outlook for M&A activity in the global technology sector in 2012, building on our analysis of the trends emerging from deals completed in 2011. We identify the underlying themes driving deal activity, look at which players are active in the acquisitions market, and analyse the market segments they are focusing their attention on.

The Technology Deals team at PwC has had an active year, advising on a range of deals including the sales of Thomson Reuters Kondor business to Vista Equity Partners; Point International to Verifone; Sungard Public Sector to Capita plc; ITIS plc to INRIX Inc, iSoft to CSC, Adapt plc to Lyceum Capital, ECI's acquisition of Wireless Logic, Lyceum Capital's acquisitions of ClearSwift, ISIS' acquisitions of Onyx Group, Misys' acquisition of Sophis and DiGiCo, as well as the merger of EDM Group with Sala International.

Based on a combination of live and near term mandates as well as ongoing discussions throughout the market, it is clear that 2012 is likely to see some interesting strategic moves across the evolving technology landscape.

If you would like further information, or to discuss in more detail any of the themes raised in this report and how they may impact your business, please do not hesitate to contact us, or your PwC relationship team.

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¹“PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network.

Trade buyers continue to have a strong appetite for strategic deals, both in the context of the middle market and mega-deals.



Table 2: Technology Sector Top 10 UK Deals 2011

Completion Date	Bid Value (Euro m)	Target Full Name	Target Nationality	Bidder Full Name	Bidder Nationality
03 Oct 2011	8,166.1	Autonomy Corp plc	United Kingdom	Hewlett-Packard Co	United States
07 Jul 2011	446.9	Intelenet Global Services	India	Serco Group plc	United Kingdom
28 Feb 2011	435.0	Sophis SCA	Ireland	Misys plc	United Kingdom
01 Nov 2011	392.7	Accuity Inc	United States	Reed Elsevier plc	United Kingdom
05 Oct 2011	345.0	i2 Ltd	United Kingdom	International Business Machines Corp - IBM	United States
19 Oct 2011	322.4	Renaissance Learning Inc	United States	Permira Advisers	United Kingdom
03 Jun 2011	269.4	Iron Mountain Inc (Digital Division Assets)	United States	Autonomy Corp plc	United Kingdom
09 May 2011	255.8	iGate Corp	United States	Apax Partners LP	United Kingdom
13 Jan 2011	251.5	OpenBet Ltd	United Kingdom	Vitruvian Partners LLP	United Kingdom
18 Apr 2011	191.1	Toluna plc	United Kingdom	Verinvest SA	Belgium

*This chart covers completed global M&A transactions, involving stakes greater than 10%, where the deal value was disclosed and greater than €10 million.
Source: Dealogic, Mergermarket*

Structural change overcomes cyclical uncertainty

Ongoing structural change across the technology landscape is encouraging large established players in the technology sector to grow via M&A, including the likes of IBM, Microsoft and Hewlett-Packard, who face relatively low organic growth prospects in their more mature established markets. The large players are making acquisitions to gain exposure to a combination of high growth markets (e.g. smartphones), high growth regions (e.g. South America) as well as to increase software and services based revenues.

These acquisitions are being made against a backdrop of a number of major long-term and evolutionary mega trends, which are impacting the way technology providers address the changing needs of businesses, governments and consumers, including:

- platform shifts with the continued penetration of smartphones and tablets across both enterprise and consumer markets
- evolving network architectures with the continued move to a private (and public) cloud environment
- increased awareness of the security needs of IT networks and the providence of digital data, especially within a cloud environment

- continued shift from paper to digital and increased automation of the associated workflows, with e-invoicing adoption rapidly approaching an inflexion point
- increased opportunity to transform data into information and hence commercial competitive advantage through data analytics
- growth of social media and the need for enterprises to be more flexible in their response
- deeper integration between technology, services and industry specific processes to deliver identifiable and quick return on investment; and
- continued rise of subscription based pricing models, as well as freemium models within consumer markets

These longer-term structural shifts have either reached or are close to reaching a tipping point in terms of influencing M&A as technology providers ‘buy to innovate’ especially in areas such as data analytics and cyber-security.

That said, the technology M&A market will not be immune to economic uncertainty. The Eurozone crisis makes cross-border deals more challenging, prompting companies and financial investors to assess the impact of a potential breakup of the Eurozone both on their current portfolio as well as potential future investments.

The over-arching point, is that the trends and hot spots in the technology sector that are generating the most interest – such as cyber security, fintech and data analytics – offer longer-term opportunities that buyers can’t risk missing just because the near-term economic outlook is bleak. Following the lead of the larger players we also expect that this confidence to do deals amid uncertainty will continue to filter down through the mid-market.

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Cash is king

At a time when debt is hard to raise, those with cash are doing deals – and tech companies, particularly at the larger end of the market, have significant cash. Post-Lehmans, the larger corporates have addressed their cost bases, improved their operational efficiency and in conjunction with a sustained period of growth are now looking to deploy the considerable cash accumulating on their balance sheets to buy growth both within the context of the current economic environment and the evolving technology landscape.

While the global top 10 deals are, on our criterion, all mega-deals with values greater than €1bn, for the buyers such as Intel, Microsoft and HP, these are not sufficiently large to be transformational. Major global, cash-rich buyers are looking for infill deals and those that provide growth as well as an alternative to developing specialist capabilities in-house. In February, for example, handset maker HTC bought Saffron Digital, a UK and US based company, which specializes in mobile content delivery services, whilst in October, Oracle announced the acquisition of RightNow Technologies, a leading provider of CRM software for around \$1.5bn.

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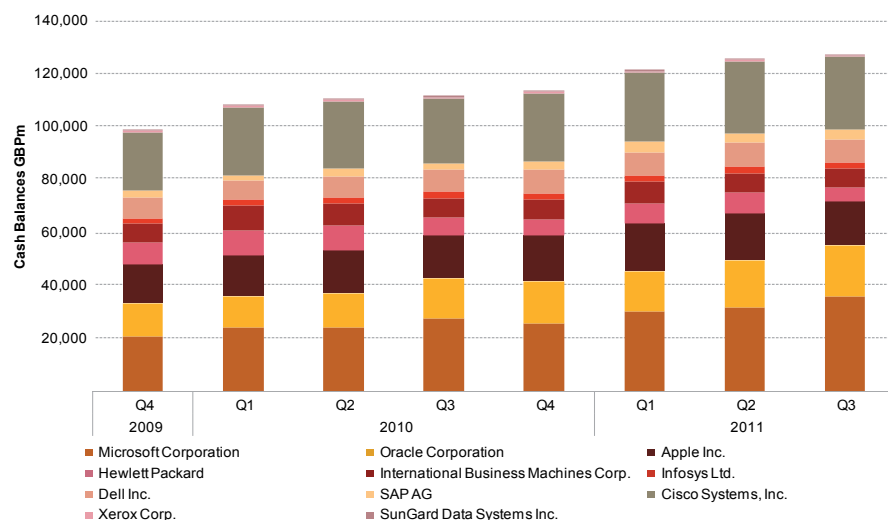
In a market where, due to the strategic need of acquirers, quality assets are highly prized, building relationships with targets with a view to pre-empt or gain advantage within competitive processes remains an important theme for strategic buyers.

Trade buyers are being aggressive in pursuing M&A and for vendors, deliverability is a key issue. This means that, given the lack of debt availability, private equity buyers are increasingly having to underwrite deals with more equity to remain in competitive processes and then look to refinance post deal. Given the focus on longer-term opportunities, private equity buyers also have to consider longer holding periods.

There continues to be a more proactive approach to deal origination, rather than relying on traditional auction processes, and this helps both buyers and sellers. Buyers are able to gain a more detailed understanding of the strategic opportunity, the nature, quantum and visibility of revenue and cost synergies, develop strong relationships with target management teams, all of which feeds through to the ability to pay a strategic premium for quality assets. Likewise from the sellers' perspective, off market discussions allow shareholders to explore strategic options, yet protect the business from being exposed to the commercial and operational risks and pressures associated with a broader auction.

Debt availability has not dried up completely for prime quality deals and there have been examples of large buyouts involving leverage in the latter half of 2011. In September, Thomson Reuters agreed to sell its trade processing and risk management unit, Kondor, to Vista Equity Partners for \$600m, up to half of which is expected to be debt financed.

Figure 2 : Cash Balances Top Technology Companies



This chart includes figures relating to cash and short term investments
Source: Capital IQ

Sector fundamentals attract private equity

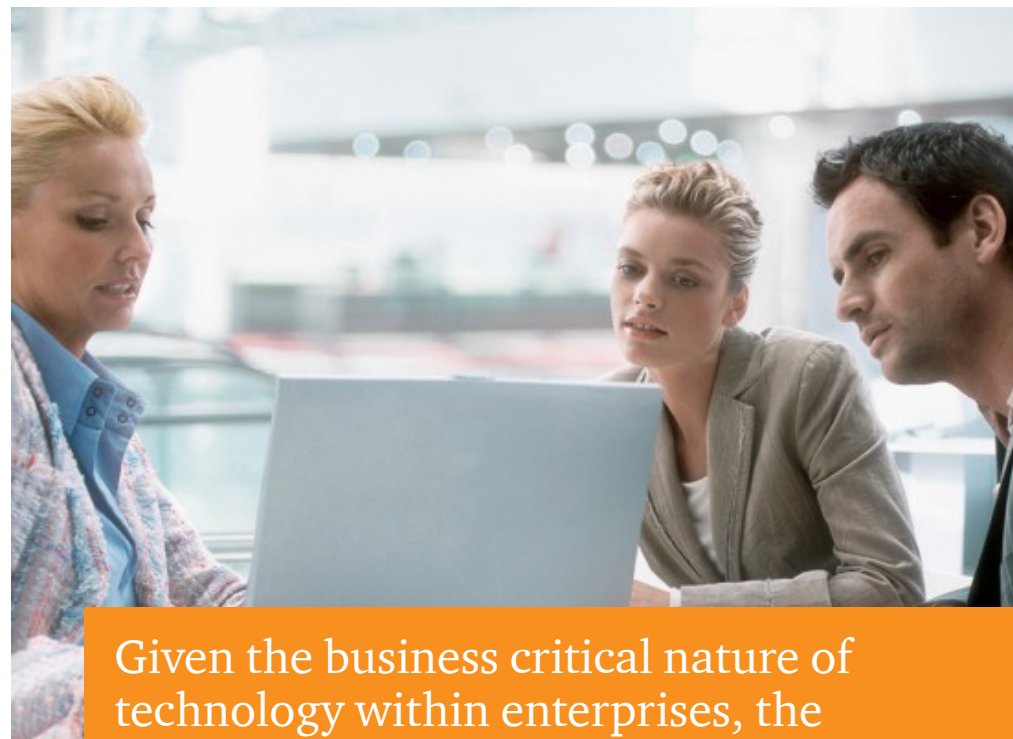
Despite the debt market conditions, many private equity buyers have significant equity that needs to be deployed, and are attracted to the underlying market fundamentals and attractive business models in the technology sector.

Given the business critical nature of technology within enterprises, the sector provides a relatively secure customer base and long term recurring cash flows which are more resilient in a downturn. This is reflected in the public markets where the Nasdaq and Techmark indices have outperformed the FTSE and the S&P since 2008. The growing trend towards outsourced services in not just software but also infrastructure and platforms, is generating new business models from which the more innovative businesses will succeed and grow market share. This will also put increasing pressure on the more traditional players to evolve quickly.

In parallel to the exponential rise and access to digital data, new business models continue to evolve which fuse complementary data sets (e.g. data sets which relate to a specific city as delivered

by MyCityApp) or analyse new data such as the data sent from a connected car which can include both operational indicators (e.g. engine diagnostics sent to breakdown recovery provider ahead of arrival) as well as environmental indicators (e.g. fog lights are switched on at a specific location)

Despite the attractiveness of technology to private equity, during the harsher economic climate there has been a polarization of activity within the private equity community. Many that dabbled in the sector have left, whilst experienced houses have continued to invest in emerging longer-term trends. For example UK mid-market group Lyceum Capital, made three acquisitions in 2011 (Clearswift, a security software company, IT services provider Adapt; and Access Technology Group, a provider of business application software) while ECI acquired Fourth Hospitality and Wireless Logic, a leading machine to machine communications specialist.



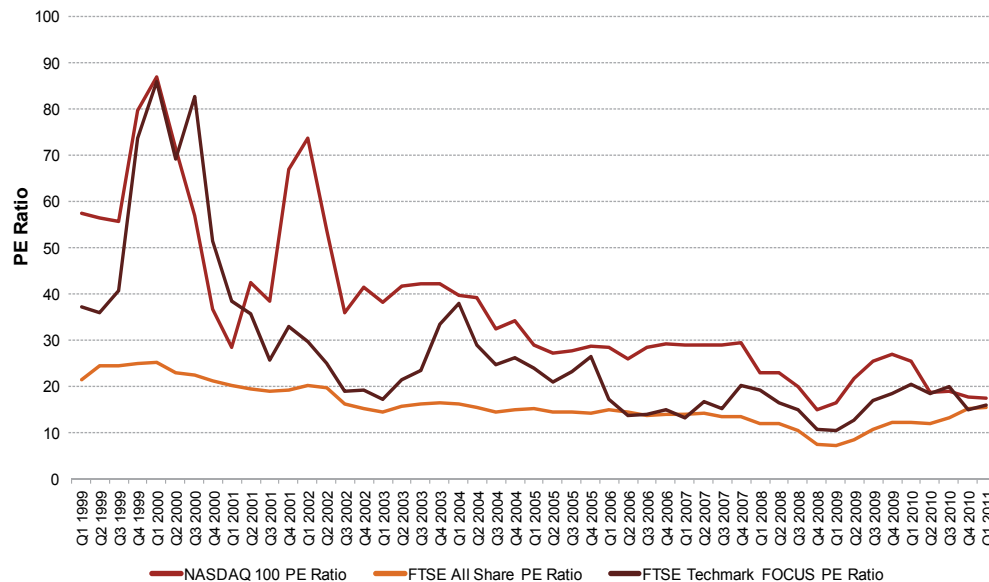
Given the business critical nature of technology within enterprises, the technology sector provides a relatively secure customer base and long term recurring cash flows which are more resilient in a downturn.

Valuations are not excessive

A further factor underpinning M&A in the technology sector is that, in general, valuations do not appear excessive. For more established listed businesses the valuation multiple gap between the tech sector and the overall market is minimal and can generally be explained by the higher expected growth path for technology companies. (see fig 3)

Where strategic premiums are being paid for technology assets these are often linked to an informed view on the quantum and timing of revenue and cost synergies as well as the longer term market opportunity.

Figure 3: PE Valuations for Technology and Main Markets



Source: Datastream

The prospect of long-term structural change in an industry which offers visibility of revenues and where valuations can be supported, will continue to offer buyers compelling reasons to pursue acquisitions despite the tough market.

A clear trend in 2011 has been the increased value placed on Intellectual Property with patent acquisition being the driver behind a number of deals, particularly in the area of mobility. The groundbreaking purchase of Motorola's handset business by Google is a good example of this.

Looking ahead to the coming year, while the macroeconomic and capital markets

outlook remains very uncertain, buyers, both corporate and private equity, retain their appetite for M&A in the sector and have the necessary cash to conclude deals. The prospect of long-term structural change in an industry, which offers visibility of revenues and where valuations can be supported, will continue to offer buyers compelling reasons to pursue acquisitions despite the tough market.



Hot spots for technology sector deals

Cyber Security

In an ever more connected world, people appreciate the many benefits that unprecedented information sharing and communication create, but are also increasingly aware of how vulnerable such extensive and complex networks can be.

Vast amounts of data are available more readily to more people than ever before, but there is equal recognition that managing and securing this data explosion is increasingly difficult.



The divide between work and home is blurring, with constantly connected mobile users now working in ways that create challenges for corporate IT in securing their systems without damaging productivity.

The use of the internet becomes increasingly mobile with smart phones and tablets already accounting for a high proportion of internet activity – around 25% of people rely on them for their main internet access point. The perceived vulnerability of those technologies will add to the demand for higher levels of security. The adoption of Cloud computing for personal, corporate and government use will also drive the need for greater protection.

Added to these broad trends are the specific impacts of e-finance with transactions increasingly taking place online, tough regulatory standards for data protection and privacy and the development of new large private networks and walled garden models for media and other forms of distribution.

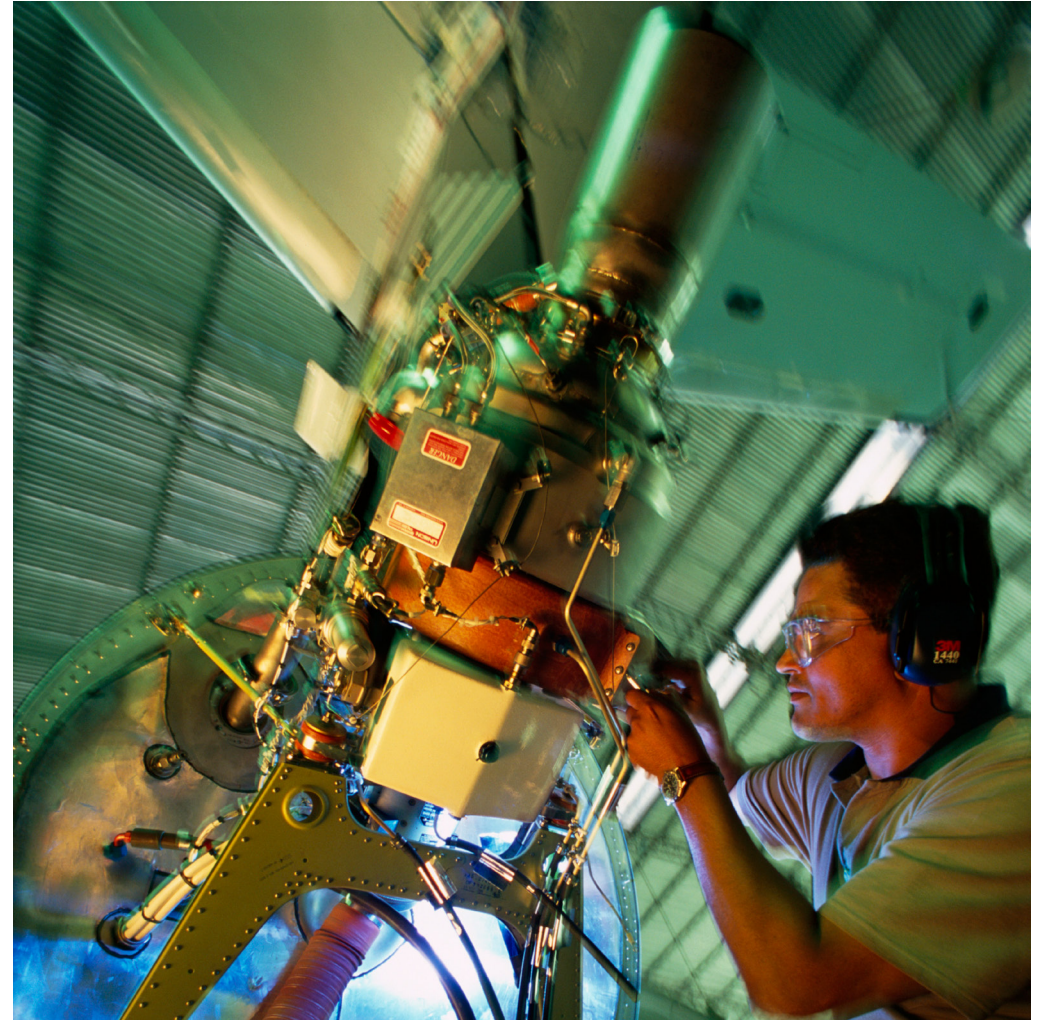
These trends are set against a backdrop of heightened awareness of hacks, malware and deliberate attacks on institutions and companies. As consumers and organisations become more aware of the wide and growing array of threats that are ranged against their data and services, they will demand more from the companies that they select for hardware and software. Existing providers will continue to seek acquisitions that can rapidly differentiate their offerings with enhanced levels of security.

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Intel's acquisition of McAfee for \$7.8bn in February 2011 highlights the importance of security for large established technology businesses. Some commentators attributed the deal to Intel's long-term plan to embed security in its chipsets, while others focus on Intel's desire to move further into the high-growth mobile market, where McAfee has a range of security products.

A further significant strand of the cyber security trend is focused on the defence industry. Defence contractors increasingly perceive the need to expand their offerings to governments and corporates, both to provide additional security services and in the development of a wide range of cyber weaponry that will be used for both offensive and defensive purposes.

In January, BAE Systems agreed to buy Norkom, a financial software company specialising in regulatory compliance and crime detection products, for €189m. This was followed in March by their acquisition of ETI Holdings, a Danish cyber and intelligence company providing advanced technology products and services to government and commercial clients worldwide, for €161m.



Fintech

The financial technology sector was, as predicted, one where there was much deal activity, as awareness increases that financial institutions will require significant investment in their systems to meet the wave of structural and regulatory changes being forced on the industry. A number of subsectors stand out as being of most interest.

Risk management software

Increasing regulation as a result of the financial crisis provides a strong driver for deal activity in the risk management software sub-sector. A greater focus on transparency and risk management is contributing to a large increase in the volume of financial data being processed, helping fuel demand for integrated software solutions. The growth of high frequency and automated trading has also significantly raised the levels of data that need to be monitored. While some of the larger banks will design and develop their own IT platforms, many are looking to software providers to simplify this process and deliver industry best practice.

For the software providers, there is an opportunity to capture synergies in a fragmented market that is ripe for consolidation, managing the cost base downwards and focusing on efficiencies. There is also an opportunity to evolve product offerings from single point solutions to more integrated systems. The financial crisis revealed the highly

integrated nature of risk across asset classes and banks and other financial institutions need a better understanding of their full exposure in complex trading positions.

In many cases it is faster and more cost effective for software providers to achieve these objectives through acquisition rather than organic growth. In February 2011, financial services software provider Misys completed the acquisition of capital markets software vendor Sophis for €435m. Private equity groups, are also hotly pursuing investment opportunities in the space, In September 2011, Thomson Reuters risk management unit, Kondor, was sold to Vista Equity Partners after a strongly contested auction involving several other private equity groups as well as trade buyers in the earlier rounds.

Buyers are also pursuing smaller niche players in the risk management space. In September, Carlyle Group bought ITRS, a UK company whose software helps banks, brokers and hedge funds monitor their risks in real time across multiple asset classes and exchanges.

Wealth Management Platforms

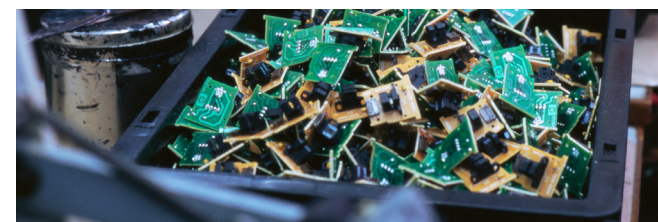
While activity in the risk management space is focused on improving internal processes, front-end customer facing and wealth management technology is another hot spot in the fin tech sector. There are two key drivers forcing change on this sub sector; new regulation and increasing

commoditisation. The recent Retail Distribution Regulatory Review will fundamentally change the way fund managers interact and remunerate intermediaries and brokers. This will require a radical upgrade of the wealth management platforms and for many institutions the requirement for a major in-house investment in new flexible IT systems will not be feasible.

We expect this will lead to a greater level of outsourcing to specialist platform and process providers. Businesses who should expect to benefit from this trend are the Australasian duo Bravura and FNZ, both of whom have developed attractive Wrap platforms that support the fund supermarket concept and are growing fast in the UK.

A corollary of the investment challenge is that we could see a number of institutions looking to spin off or consolidate their in-house wealth management platforms.

To tackle the increasing commoditisation of their products, wealth managers need to find other angles for differentiation. The development of front-end software that provides customers with an intuitive user interface that allows them to monitor and manage their own portfolio will also be a hot area. Solutions that make it easier and faster for financial services providers to develop and bring their products to market and which make them more attractive to customers are likely to be in demand and will command high multiples.



For the software providers, there is an opportunity to capture synergies in a fragmented market that is ripe for consolidation, managing the cost base downwards and focusing on efficiencies.

Big Data

Turning data into information

As the amount of data collected from internet connected devices continues to grow, the need for technology to turn this raw material into value-adding information to make advertising and CRM more effective is also increasing.

In November, eBay acquired Hunch, a company, which analyzes data from social networks and questionnaires to make personal recommendations. eBay will use Hunch's technology to suggest products for shoppers on its online marketplace. In December, translation software group SDL announced the acquisition of the UK's Alterian, which uses proprietary data analytics and marketing platforms to allow companies to engage more meaningfully with customer across multiple channels, for £68m.

Developing algorithms that can turn data into information in combination with deep end market insight is a specialist skill and such expertise is in short supply.

Acquisitions in this space are therefore motivated by the desire to acquire talent as much as already developed products. In 2011, Twitter acquired social media analytics company BackType and also Bagcheck, whose product allows people to comment on and share lists – “bags” – which can be any curated collection of items. In both instances the addition of expertise to Twitter's development team was perceived as a valuable part of the acquisition.

The biggest transaction by far in this space was the purchase of Autonomy by HP for €8.2bn, which was completed in October. Autonomy employs a combination of technologies to form a contextual understanding of all digital content, as well as understand people's interaction with the data. Autonomy's technology eliminates the traditionally manual and costly operation of processing and analyzing information by performing these functions automatically and in real-time.

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Machine-to-machine (M2M)

The machine to machine sector continues to attract a lot of attention as the relevant eco-systems, including network infrastructure, broadband connectivity and data analytics software, are reaching a point whereby attractive business models can be effectively delivered.

The space is attractive to a wide range of different businesses including

- automotive companies, for whom providing enhanced navigation, routing, traffic information and new services provide competitive advantage
- mobile operators are especially interested in the space due to their hunger for data-based revenues in the context of commoditised voice businesses and the ability to leverage their existing network
- financial services companies are interested in the ramifications for insurance pricing models, for example, pay-as-you-go insurance for younger drivers who can't afford high annual premiums or by offering discounts based on better driving. In the UK, Ingenie, which is underwritten by insurer Ageas, uses telematics to offer young drivers discounts in this way
- utility companies are under a regulatory obligation to deliver smart meters by 2020, ultimately to be able to manage household and business energy consumption more effectively

- data aggregators and information providers are carefully considering how they can use the data to provide new services to benefit users including corporate, commuters and home owners

The vehicle is one of the last bastions of 'white space' in the connected mobile environment, but the connected vehicle, with two way communication via a SIM card, is fast becoming a reality enabling vehicle2vehicle and vehicle2infrastructure services.

Vehicle telematics, based on GPS, has been around for some time, but the range of data that can now be collected and disseminated as well as received is set to increase rapidly. Not only will a vehicle's position be monitored, but services such as real time re-routing and the dissemination of key operational data can be distributed throughout an increasingly integrated supply chain to deliver visible returns across the supply chain. Within the consumer space new business models will continue to evolve with location based push marketing to the vehicle one key area of interest for many providers.



The winners will be those providers who combine best in class technology and practices together with a deep understanding of their clients' end markets and processes and we expect to see continued consolidation through the telemetric sector in 2012.

There were several deals in the M2M space in 2011 and deal activity is likely to increase as smart meters become more widespread. In August ECI Partners bought Wireless Logic for £38m, the largest independent operator in the UK M2M communications sector, whose technology connects embedded sensing devices in machines, via SIM-based technology. In September US tech group INRIX acquired the UK's ITIS plc for £37m. ITIS' proprietary platform

collects, fuses and analyses traffic data from a variety of sources including proprietary Cellular Floating Vehicle Data (CFVD) technology, to provide real time traffic and travel data for drivers, mobile operators and infrastructure management providers. In July, California-based Trimble acquired privately held PeopleNet, a leading provider of integrated onboard computing and mobile communications systems for effective fleet management.

Smart phones

The continuing growth in the number of smart mobile phones underpins two strands of M&A activity: applications and components.

To date Apple has dominated the smart phone market with the iPhone, but competitors such as Samsung and HTC are producing high quality rival handsets and are aggressively looking to differentiate their products. The desire for differentiation is driving acquisitions that provide or enable content to be delivered. In February HTC acquired UK mobile video specialist Saffron Digital for £30m. Saffron's technology optimises the delivery of video to work across different mobile devices and the company plans to extend its capabilities into games and music.

The next stage in the evolution of the market will involve utilising Cloud technology to integrate content usage across smart phones, tablets and PCs. Apple, for example, has introduced iCloud, which provides this capability. The aim is to lock customers into an ecosystem where they view content across one provider's different devices.

The end result is likely to be an increasingly polarised market, with different customers locked into competing manufacturers ecosystems. Winners and losers will emerge from this process, creating the conditions for further M&A activity.

The boom in smart phone usage also creates demand both for online security and mobile payments applications, which have been discussed earlier as other likely drivers of further M&A activity.

The growth of smart metering may also provide additional business streams for mobile operators and technology providers. Many of the markets providing applications technology for smart phones are fragmented, providing considerable scope for aggregators to consolidate.

The second strand to the smart phone M&A story is provided by the specialist chip manufacturers, which provide the components necessary to run the growing array of applications in mobile devices. While in terms of overall size, the UK is a relatively minor player in the global technology market, it is home to a large number of high quality chip design companies, including Wolfson, ARM, CSR and Imagination Technologies. We believe that these and other world-class UK technology assets could prove to be attractive acquisition targets in the near future.



Many of the markets providing applications technology for smart phones are fragmented, providing considerable scope for aggregators to consolidate.

UK and European-based technology companies remain attractive targets for overseas acquirers. Interest is from a diverse range of potential buyers, but US technology companies continue to be at the forefront of transaction activity.

Well-funded US corporate buyers have significant cash balances and continue to look for in-fill deals that expand their geographic reach and provide increased access to high growth markets. Rather than expand overseas through organic growth, many companies that have acquired sufficient scale in the US market are looking to grow through acquisition. In October, for example, Ariba completed the acquisition of b-process, a privately owned French company, which provides France's largest e-invoice network. Whilst the deal is a relatively small one for Ariba – about €35m – it provides the US group with the desired access to the French market. Similarly, the purchase of UK real-time traffic information provider ITIS plc by INRIX gives the US buyer increased access to key geographic markets including the UK and Germany.

Potential targets' expertise and patent portfolios are further important factors motivating US buyers to look to Europe, and particularly the UK, which has a number of companies with very specialist high-end skills. In the advanced telematics market, a number of companies hold key patents over different aspects of the market. Increasingly, negotiations over patent infringements are a feature of this sector – albeit often conducted out of the public eye. Patents are being used defensively and more aggressively – with the threat of the patent being used to buy time to bring products to market.



Well-funded US corporate buyers have significant cash balances and continue to look for in-fill deals that expand their geographic reach and provide increased access to high growth markets.

US companies face competition for the assets they are pursuing, but often appear more willing to pay higher valuations and also to conclude transactions more swiftly than some of their competitors. Part of the willingness to pay a higher price may reflect a greater understanding of the potential of technology businesses in the US. But it also reflects the extent of the buyers' available funding and the small size of many of the deals relative to the size of the buyer's balance sheet. Some deals are being quickly clinched by US buyers, based on relatively light due diligence. These are assets that buyers consider to be strategic in sectors in which they already have significant insight.

The final factor underpinning US interest in European acquisitions is tax. Major global technology providers such as Apple, Microsoft, Cisco, Oracle, Google and Dell tend to have large cash balances and typically the majority is offshore for tax purposes, having been generated from operations outside the US.

It may be more logical and cost effective in these circumstances to use the funds for investment in M&A in Europe rather than pay tax in the US. Both Microsoft and HP cited a need to find a healthy return on overseas cash when announcing the

acquisitions of Skype and Autonomy respectively

Looking ahead, however, we believe that US buyers will face more fierce competition from potential Indian, Chinese, Japanese and other Far Eastern acquirers. These buyers are often present in competitive M&A processes, but to date have generally moved more slowly and have not been prepared to pay as much as US companies. Therefore, US buyers have to date been seen as better able to deliver a strategically priced deal.

However we can see through our client relationships, that the level of interest from Asian buyers is high and we detect a growing willingness to pay higher prices to acquire established brands, gain market experience, and move more quickly on strategic deals.

India's large software services and IT players have made no secret of their desire to expand overseas and there has been a significant uptick in the level to which the leading Indian providers are proactively pursuing opportunities throughout key European markets including the UK, Germany, France and the Nordics. One area where we expect to see Indian M&A activity throughout 2012 is within the public sector, where Indian providers are well placed to be

able to deliver significant benefits and are looking for "best in class" assets that can help them increase their relationships throughout local and central government.

Whilst more visible acquirers such as Infosys and Tata Consultancy Services continue to search the market for strategic acquisitions, we expect to see the continued involvement of more left field international buyers from Asia throughout 2012.

Indeed given the structural changes across the technology landscape and the uptick in Asian participation in M&A throughout 2011, we believe that 2012 could be the year that Asian buyers come of age in the Technology M&A market.

Conclusion

Despite the broader economic malaise, we remain positive on the outlook for technology M&A, set against a backdrop of powerful structural changes across the technology landscape. Timing for individual deals will be key, given the need to ensure both the target business is ready for exit as well as key decision makers within strategic acquirers are fully bought into the strategic merits of the transaction. M&A processes need to be carefully crafted as appropriate to the target business, the shareholders and the population and location of strategic acquirers to maximise both deliverability and value for shareholders.

We look forward to working with many of you throughout 2012 and if you have any questions or comments on this report please do not hesitate to contact us or your PwC relationship team



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