

# US technology M&A insights

Q2 2009 update

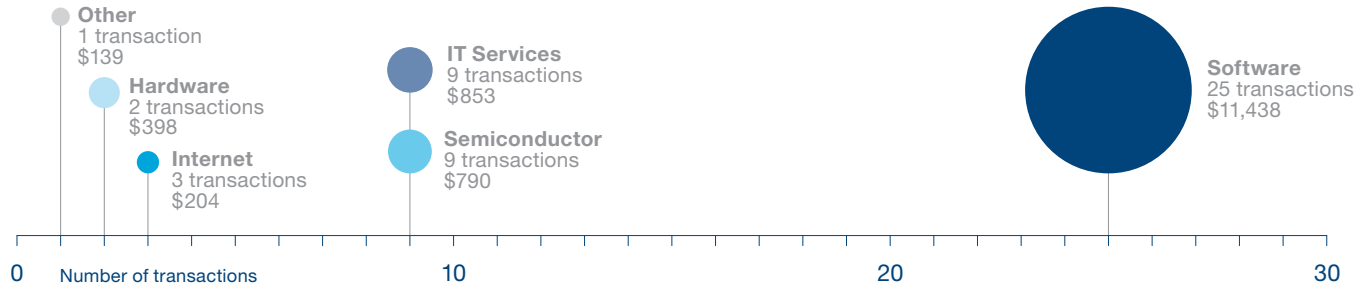
## In this issue

- Strategic acquisitions take center stage
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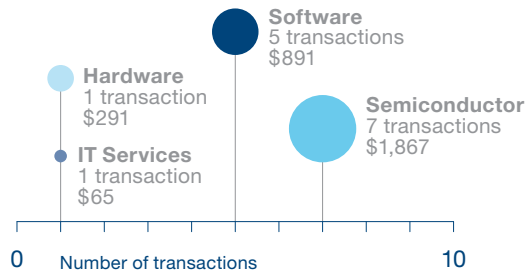
## Number of closed technology deals and deal value by sector, \$US million

Bubble size indicates the total deal volume for the sector.

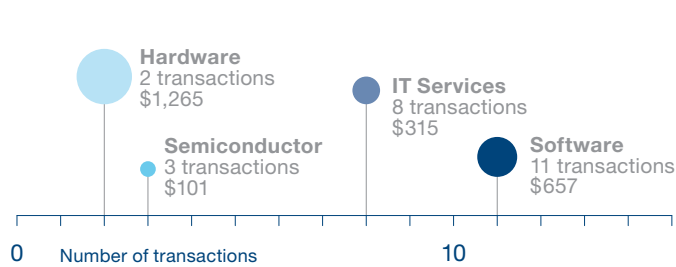
### Q2 '08



### Q1 '09



### Q2 '09



Source: DealLogic

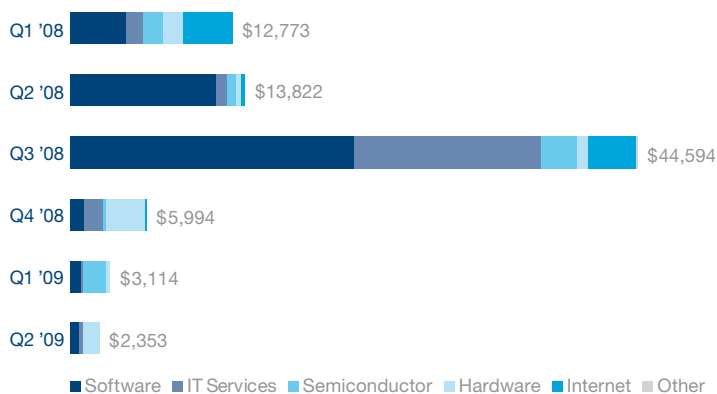
# Strategic acquisitions take center stage

Welcome to the second quarter 2009 update of PricewaterhouseCoopers' US technology M&A insights

Announced deals in the 2009 second quarter indicated a move away from the opportunistic distressed transactions of the first quarter toward a number of high-profile strategic transactions—headlined by Oracle's announced acquisition of Sun, the bidding war between NetApp and EMC over Data Domain—in which EMC appears to have finally outbid NetApp, and the announced takeover of Wind River Systems by Intel.

This is a positive sign compared with the sharply lower level of closed deals during the fourth-quarter 2008 through second-quarter 2009 period, which followed the large number of transactions in the third quarter of 2008.

## Closed deal value by sector, \$US million



Source: DealLogic

As we predicted in our 2009 M&A forecast, the IT services sector is undergoing significant consolidation because of both the acquisitions of distressed players and strategic consolidation, exemplified by Fidelity National Information Services' acquisition of Metavante Corp. for \$2.94 billion.

The interface between the technology sector and government applications was strong in the first half of 2009, perhaps reflecting continuing federal spending and the ongoing influence of global military operations. General Dynamic's acquisition of Axsys (a maker of military imaging systems) for \$643 million, Safran's acquisition of GE's security division (strengthening Safran's homeland security offering) for \$580 million and Harris' acquisition of Tyco's Electronics Wireless Communications division for \$675 million all reflect this trend.

For deals that actually closed, the second quarter of 2009 was significantly lower than both the first quarter of 2009 and the second quarter of 2008 in terms of deal value—\$2.3 billion compared with \$3.1 billion and \$13.9 billion, respectively. The closed transactions are yet to reflect a number of large announced deals that have yet to close as well as the rollover effect of a lower announced deal pool in the fourth quarter of 2008 and first quarter of 2009.

Overall it is clear that technology transactions restarted in the second quarter, after a first quarter that the Wall Street Journal reported as the first in seven years without an announced technology acquisition of more than \$1 billion. As expected, the transactions thus far have been led by corporate players, with little private equity presence. As valuation expectations continue to converge, transformational deals in the technology sector are expected for the second half of 2009.

## Key closed transactions

**Cisco** closed its \$590 million acquisition of Pure Digital, manufacturer of the flip camera, continuing the broadening of Cisco's consumer product footprint. The **Harris-Tyco** transaction mentioned earlier also closed in the quarter. A number of smaller transactions in the second quarter provide some interesting market vignettes:

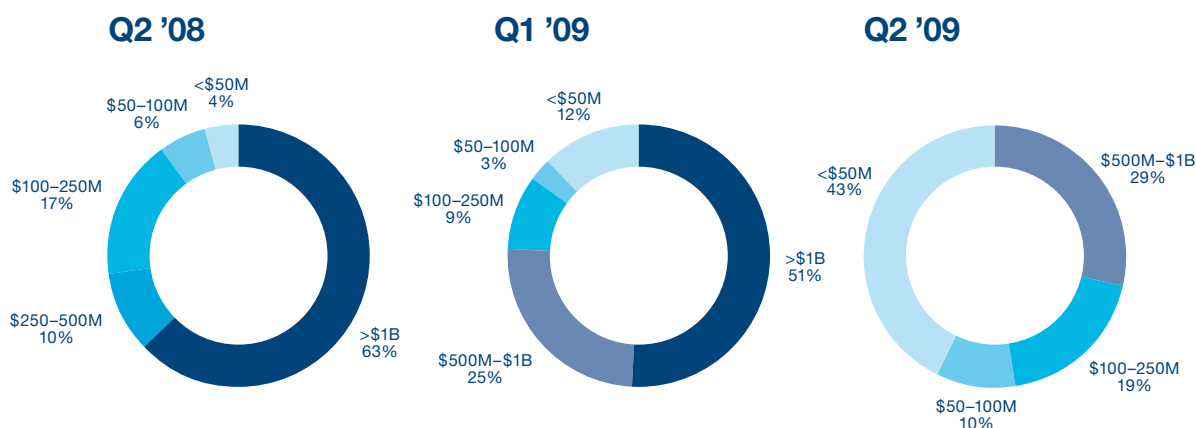
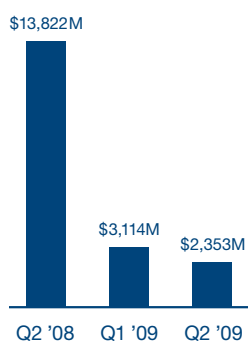
**I-many**, a registrant, was taken private by US private equity fund LLR Partners for \$47 million, which

demonstrates the trend toward private equity funds taking advantage of the depressed values of a number of smaller registrants. Similarly, **InFocus**, which once had a valuation of \$2.2 billion, went private in a \$39 million transaction.

**VeriSign** divested its Communication Services Group to TNS Inc., a successful example of a growing number of strategic divestitures being planned and executed by major technology corporations.

## Top closed US deals by value

### Change in total deal value



\$ in millions, except #	Q2 '08		Q1 '09		Q2 '09	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
< \$50M	17	527	10	360	16	403
\$50M to \$100M	12	873	1	91	3	234
\$100M to \$250M	14	2,307	1	291	3	436
\$250M to \$500M	5	1,419	-	-	-	-
\$500M to \$1B	-	-	1	778	2	1,265
> \$1B	1	8,695	1	1,595	-	-
<b>Total</b>	<b>49</b>	<b>\$13,822</b>	<b>14</b>	<b>\$3,114</b>	<b>24</b>	<b>\$2,338</b>

Source: DealLogic

# Divestitures as a strategic solution—what works for sellers and buyers

The economic slowdown has increased the pressure on companies to revisit their operational strategies and portfolio of businesses.

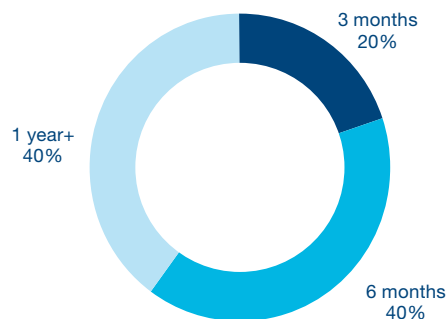
PwC recently facilitated a roundtable discussion in Silicon Valley, where 14 corporate development executives from leading technology companies and a representative from a well-known private equity firm gathered to share perspectives and experiences on divestiture strategies and solutions. The event provided these business leaders a forum to share their experiences and best practices and to collectively learn from earlier obstacles each had overcome. Based on their discussions, the participants developed several recommendations for technology companies exploring divestiture options.

## Lessons learned—corporate development (sellers)

### Identifying candidates

- **Our panelists identified timing, price, and ease as important considerations to balance and prioritize when evaluating divestiture candidates.** Companies should develop a recurring, metric-driven portfolio review process that regularly assesses a company's portfolio mix to identify solidly performing business units that might not fit seamlessly into the company's overall strategy for growth and value-creation.
- **Position the company to seize opportunities when value is high.** Employ a systematic review process to identify appropriate divestiture candidates based on financial, operating, and commercial parameters.
- **Manage the political impact.** Management buy-in, well-crafted incentives for vital employees, clear project leadership, and commitment from top executives can help overcome the institutional resistance that often strangles potential deals before they get started.

## How much time is required to execute a divestiture from the initial decision to divest?



Source: PwC roundtable survey

## Executing quickly to minimize value deterioration

- **Recognize the longer divestiture timeline.** Panelists agreed that a divestiture can take three to four times as long to complete as an acquisition. This is because it takes much more time to develop an accurate financial portrait of the divested business unit or carve-out. Disentangling employees and operations from the parent company are also complex and time consuming, and business unit sales often require first-time audits prior to close.
- **Preparation is critical.** Ease buyers' concerns by answering key questions in advance, such as why the asset is for sale (particularly if it has been underperforming), and why it should do well outside the company. It pays to perform risk assessment early in the process, particularly in the case where intellectual property is a key underlying asset.
- **Manage the managers.** Appoint a senior executive in the divesting division to mediate and act as an ultimate decision maker.

### Lessons learned—private equity (buyers)

Macro-economic realities might force buyers to remain cautious for the foreseeable future, but many private equity (PE) investors see opportunity in the current valuations of many technology companies. Our private equity panelist acknowledged that the combination of current values and the potential for future global growth makes the technology industry one of the most attractive industries that his firm follows.

- **Explore alternative deal structures.** With reasonably priced debt financing virtually unavailable in the current credit market, alternative deal structures are becoming more prevalent. These include seller financing, straight equity purchases, or “clubbing” with other PE firms.
- **Expect a rigorous diligence process.** PE investors apply a deep diligence approach to deals, including consultation with industry experts to enhance their targeting efforts. This requires more thorough preparation on the part of sellers.
- **Fully prepare the management team in advance.** Since the quality of the management team that goes with the acquisition can significantly impact the buyer’s valuation, it is critical to fully prepare them before they meet with the buyer.
- **Buyers are requesting audited financial statements.** Previously, the need for audited financial statements was driven more by statutory or capital financing requirements. In today’s economy, it is commonplace for buyers to express a need for audited financial statements, adding time and complexity to the process.

### For more on these topics

To read about additional topics from the corporate development roundtable, and PwC’s point-of-view on making divestitures successful, contact one of our technology team members on the following page, or download *Corporate development executives in the technology industry share their insights* from the Publications page at [www.pwc.com/ustransactionsservices](http://www.pwc.com/ustransactionsservices).

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To have a deeper conversation on the industry or on any of the topics covered in this report, please contact any of our dedicated technology M&A team:

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