Technology Sector

M&AInsights

Analysis & opinions on global M&A activity

2009

Welcome

Andy Morgan
Technology Sector Leader
Corporate Finance
PricewaterhouseCoopers LLP
Tel: +44 (0)118 938 3191
Email: morgan.andy@uk.pwc.com

Joe Ryan
Technology Sector Leader
Transaction Services
PricewaterhouseCoopers LLP
Tel: +44 (0)20 7213 8508
Email: joseph.e.ryan@uk.pwc.com

Welcome to the 2009 edition of Technology M&A Insights. This annual report by PricewaterhouseCoopers reviews M&A activity in the global technology sector during 2008 with analysis and comment on the market's principal trends, driving forces and outlook for 2009.

What a year it has been. Twelve months ago we were anticipating an easing back in M&A activity in the sector with a forecast that aggregate global deal values would just break the €100 billion level for 2008. Few could have predicted the sheer magnitude of the global financial meltdown which has reshaped the landscape since the summer, resulting in a crisis of confidence and varying degrees of paralysis in the transaction and financing markets. Against this background, it is perhaps surprising to be looking at an end of year score card which shows deal activity in the technology sector down only 20% in volume terms, and a total transaction value which fell only marginally short of our forecast at €93.2 billion.

The technology sector has certainly held up better than many other industries. The harsh lessons learned from the bursting of the technology bubble in 2001/2 have left the industry better placed to deal with the challenges it is facing today. The key question for 2009 will be whether transaction activity can hold steady in the new world where cash is once again king and capital is both more expensive and in short supply. Has the technology deal environment developed some truly defensive attributes, or will the inevitable impact of the downturn on corporate IT budgets make deals more and more scarce?

Increasingly flexible business models can enable technology businesses to react swiftly to changing markets across the globe. With less exposure to the high levels of leverage prevalent in many other sectors, the impact of the 'credit crunch' on the technology sector has to date been less pronounced. Alongside relatively robust balance sheets, technology companies often benefit from strong cash flows and recurring revenue streams.

Good opportunities undoubtedly already exist for courageous cash-rich acquirers, as the pendulum has swung rapidly from a sellers to a buyers market and from the leveraged private equity world towards the strategic trade buyer.

In the Technology Deals Teams at PricewaterhouseCoopers, we have seen the shape and nature of transactions evolving. From the leveraged Public to Privates of Civica and NDS to the global consolidation of key industry segments through transactions such as HP/EDS and the acquisition of MessageLabs by Symantec, our deal teams remain committed to helping our clients unlock and deliver value from the transactions which will reshape our industry through the downturn and position it to capitalise on the upturn when it arrives.

We hope this report helps to put some of the challenges and opportunities facing your business into perspective. As always, your thoughts and comments are very welcome.

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

The global perspective

M&A activity – down but not out

Mergers & Acquisitions (M&A) in the global technology sector remained remarkably active in 2008 despite the 'credit crunch', depressed stock markets and gathering economic gloom. Although global volumes declined by 20% to 570 deal completions in 2008 from the post bubble peak of 713 in 2007, overall transaction activity across the year was remarkably similar to 2006 levels.

On the value front a fall-off in €1 billion-plus deals took the aggregate value of technology deals down by 26% to €93.2 billion in 2008. This falls short of the €126.7 billion returned in 2007 but actually exceeds the €87.7 billion recorded in 2006.

Not surprisingly it was not a consistent story across the year. The boom year for technology M&A in 2007 continued its energetic run into the first quarter of 2008 when 32% of deals by volume and 30% by value for the whole of 2008 were completed. Whilst the December acquisition of Foundry Networks by Brocade Communications made it into the top 10 deals for the year, Q4 2008 saw the lowest level of deal completions in the sector since the depths of the post bubble market in 2002.

Only ten €1billion-plus deals were recorded in 2008 compared with 19 in 2007 and 17 in 2006. Leading the field was the €8.3 billion takeover of Electronic Data Systems Corporation (EDS) by Hewlett-Packard (HP) in the US. This was followed by the €6.7 billion acquisition of the games developer business Activision by Vivendi. Next in line was the €5.6 billion purchase of BEA Systems by Oracle Corporation in the US.

Our prediction for 2008 that mobility and location based services would be a key driver of deal activity was one which certainly came to the fore. The acquisition of the world's two leading digital map makers, TeleAtlas and Navteq, were also among the Top Ten global technology deals in 2008. Navteq's €5.4 billion sale to Nokia followed hard on the heels of EU approval for the €2.8 billion acquisition of TeleAtlas by its major customer TomTom, Europe's biggest maker of car navigation devices. Another headline technology deal last year was the €4.8 billion acquisition by software goliath SAP of the French business intelligence specialist Business Objects.

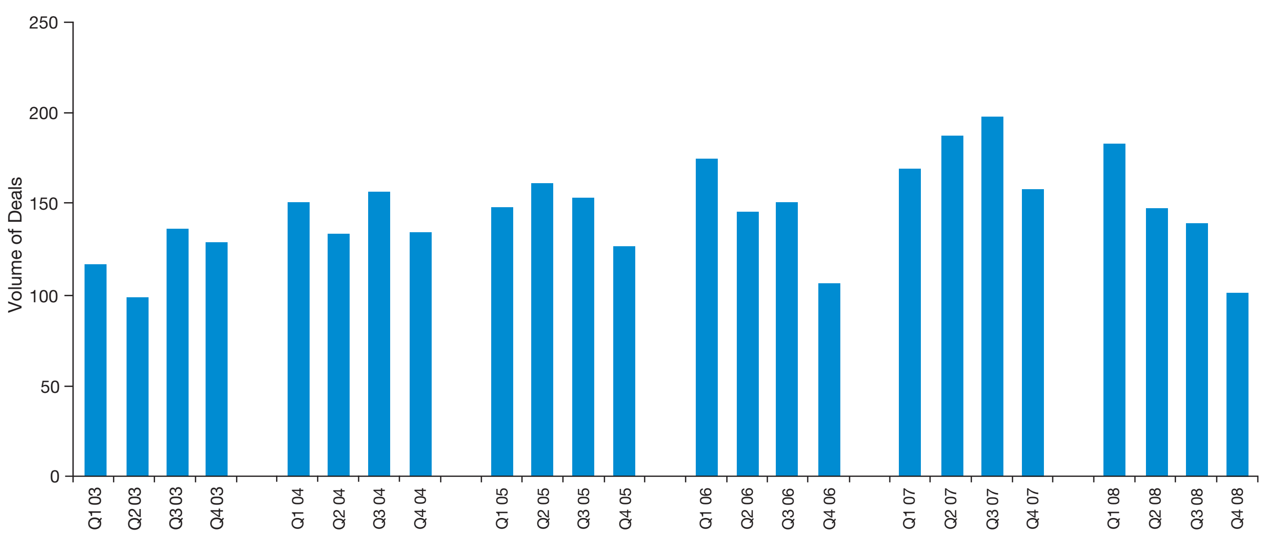
As the year progressed, the casualty rate on deals also started to rise as an increasing number of transactions fell by the wayside as a result of financing, valuation or trading performance challenges. The abortive pursuit of Yahoo! by Microsoft was perhaps the most high profile, but it was certainly not alone as the challenges of matching shareholder value expectations in the turbulent conditions which now persist proved ever more difficult.

Technology Sector Top 10 Global Deals 2008

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Aug-08	8,348	Electronic Data Systems Corp	US	Hewlett-Packard Co	US
Jul-08	6,681	Activision Inc (52%)	US	Vivendi SA	France
Apr-08	5,561	BEA Systems Inc	US	Oracle Corp	US
Jul-08	5,370	Navteq Corp	US	Nokia Oyj	Finland
Feb-08	4,800	Business Objects SA	France	SAP AG	Germany
Jan-08	3,300	Cognos Inc	Canada	International Business Machines Corp	US
May-08	2,824	Tele Atlas NV	Netherlands	TomTom NV	Netherlands
Sep-08	2,437	ChoicePoint Inc	US	Reed Elsevier plc & NV	UK
Dec-08	1,748	Foundry Networks Inc	US	Brocade Communications Systems Inc	US
Mar-08	1,119	Intel Corp (Nor Assets)	Switzerland	STMicroelectronics NV	Switzerland

Source: Dealogic, M&A Analytics

Analysis of Global Transaction Volumes by Quarter 2003 2008



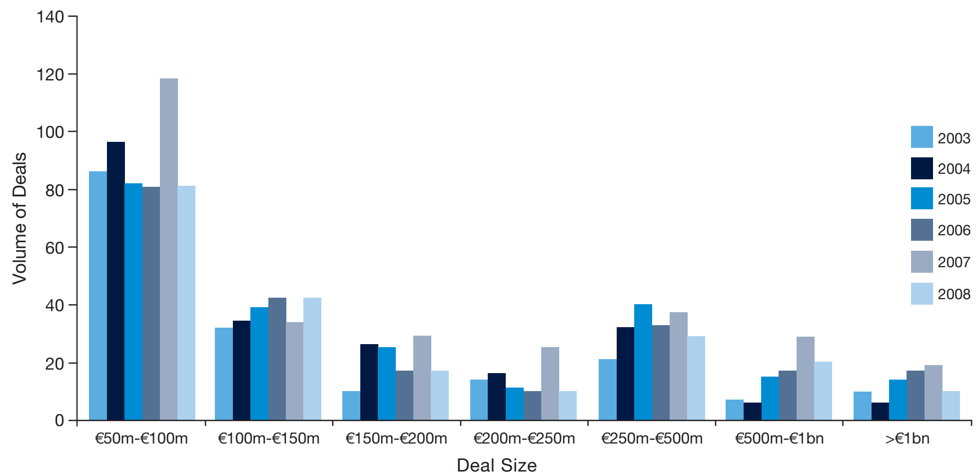
This chart covers M&A transactions completed in 2003 – 2008 globally, involving stakes greater than 10%, where the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Analytics

The mid-market stays on message

With mega-deals in relatively short supply, the mid-market continued to fuel the global technology M&A market with activity generally on a level with that seen in 2005 and 2006.

Deals valued at between €10 million and €250 million continue to account for some 94% of global volumes – a clear illustration that technology M&A remains driven by a mid market heartbeat. Interestingly the €100-150 million segment was the only one to show absolute volume growth in 2008, as platform and strategic in-fill businesses of sufficient scale to move the needle for buyers proved a particularly sweet spot for both trade and Private Equity (PE).

Volume of Deals Analysed by Size 2003 2008



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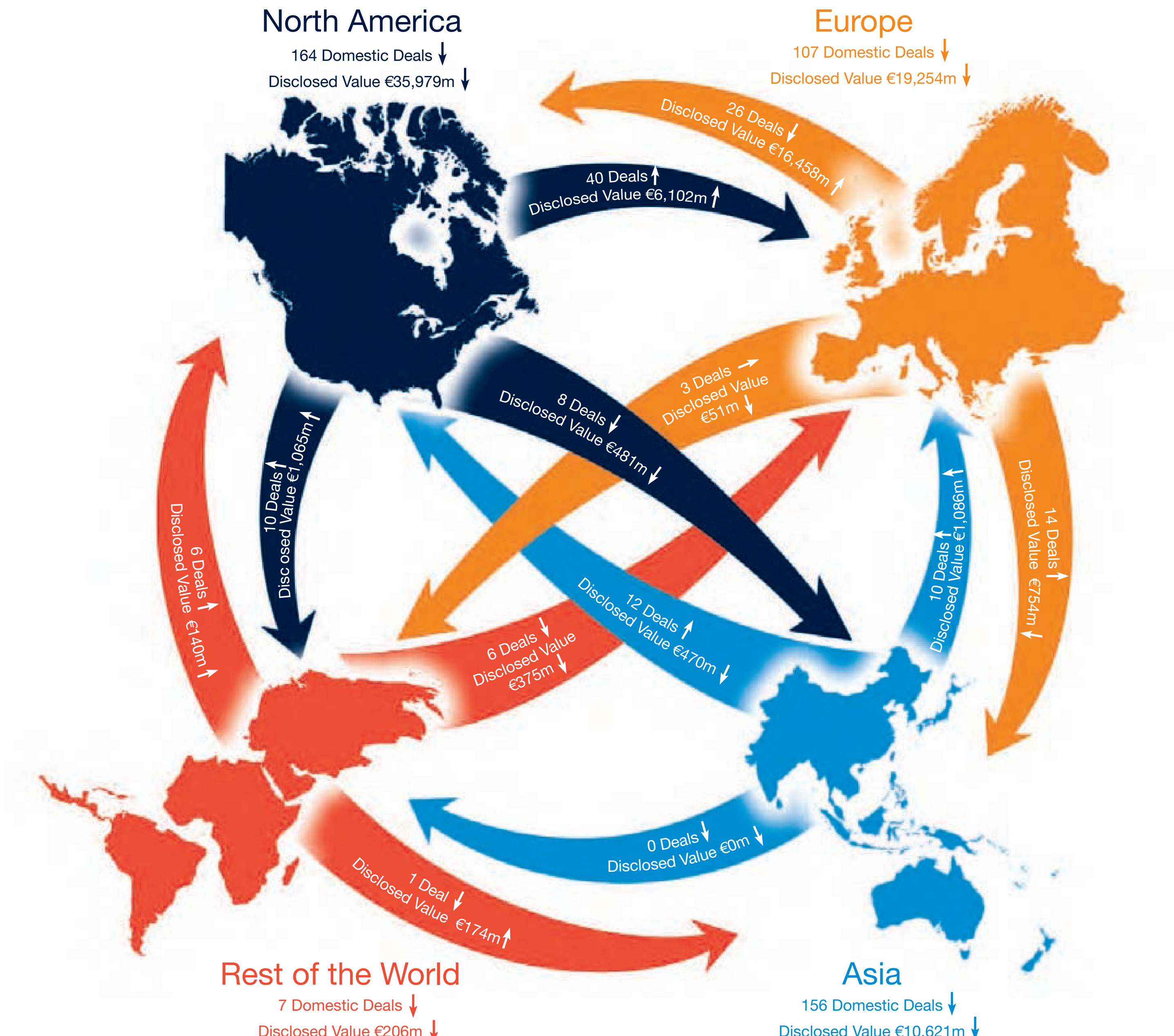
Asian buying spree at home and away



Source: Dealogic, M&A Analytics

As in 2007, global technology deal volumes last year continued to be underpinned by a large number of domestic Asian transactions.

These accounted for 36% of global domestic deal volumes in 2008 with Europe responsible for 25% and North America 38%.

Asian – and particularly Indian – technology companies are expected to play an increasingly important role in encouraging the region's rapidly evolving domestic markets. Asian acquirors are also making their presence felt in terms of the scale and ambition of their international M&A forays. The €557 million takeover of SAP specialist Axon Group in the UK by the Indian outsourcing company HCL Technologies (in a fiercely contested battle with Indian rival Infosys) topped the tables. HCL also acquired the financial services business of UK-based Liberata, a provider of business process outsourcing (BPO) services, enhancing its ability to become an end-to-end insurance industry service provider.

The UK's Serco returned the compliment in a small yet significant way at the end of last year, entering the fast-growing domestic Indian BPO market through acquisition of a 60% stake in InfoVision Group, one of India's largest call centre operators. Serco has also agreed to acquire the remaining 40% of InfoVision from its founders in two tranches over the next two years.

Top 10 Technology Deals with an Asian Bidder or Target 2008					
Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Mar-08	927	Neusoft Group Ltd	China	Shenyang Neusoft Co Ltd	China
May-08	636	ASE Test Ltd (53.48%)	Taiwan	Advanced Semiconductor Engineering Inc	Taiwan
Dec-08	557	Axon Group plc	UK	HCL Technologies Ltd	India
Feb-08	527	Siltron Inc (49%)	South Korea	KTB Network Corp; Vogo Fund	South Korea
Oct-08	524	Oki Electric Industry Co Ltd (Semiconductor Division)	Japan	Rohm Co Ltd	Japan
Apr-08	472	Intec Holdings Ltd	Japan	TIS Inc	Japan
Mar-08	419	IPS Alpha Technology Ltd (Large-scale Liquid Crystal Panel Display Business)	Japan	Matsushita Electric Industrial Co Ltd	Japan
Sep-08	367	Unisteel Technology Ltd	Singapore	Kohlberg Kravis Roberts & Co	Singapore
Oct-08	360	Victor Co of Japan Ltd - JVC (83%)	Japan	Kenwood Corp	Japan
May-08	305	SUMCO Techxiv Corp (49%)	Japan	SUMCO Corp	Japan

Source: Dealogic, M&A Analytics

Top 10 Technology Deals with a European Bidder or Target 2008					
Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Jul-08	6,681	Activision Inc (52%)	US	Vivendi SA	France
Jul-08	5,370	Navteq Corp	US	Nokia Oyj	Finland
Feb-08	4,800	Business Objects SA	France	SAP AG	Germany
May-08	2,824	Tele Atlas NV	Netherlands	TomTom NV	Netherlands
Sep-08	2,437	ChoicePoint Inc	US	Reed Elsevier plc & NV	UK
Mar-08	1,119	Intel Corp (Nor Assets)	Switzerland	STMicroelectronics NV	Switzerland
Jul-08	953	NXP Semiconductors (wireless operations)	Netherlands	STMicroelectronics NV	Switzerland
Aug-08	926	ersol Solar Energy AG (85.48%)	Germany	Robert Bosch GmbH	Germany
Apr-08	782	Fast Search & Transfer ASA	Norway	Microsoft Corp	US
Mar-08	773	Northgate Information Solutions plc	UK	Kohlberg Kravis Roberts & Co	UK

Source: Dealogic, M&A Analytics

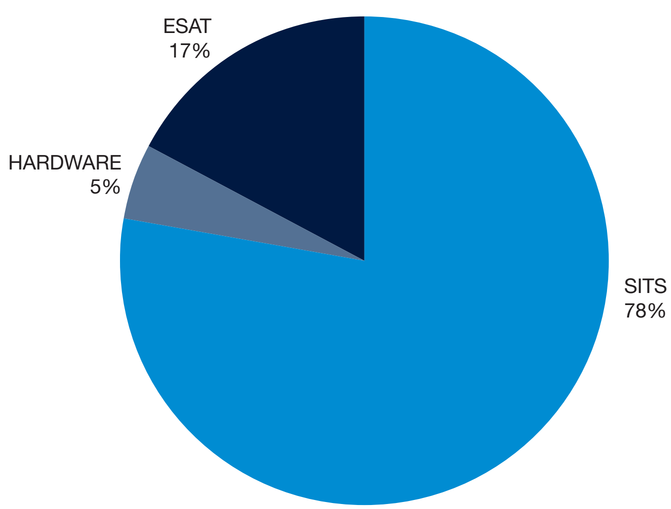
Spotlight stays on the SITS segment

Software and IT Services (SITS) remained the dominant sub-sector for technology M&A globally last year with 394 deals worth a combined €73 billion completed.

This represented a consistent 69% of the market by volume but jumped significantly to 78% of total transaction value (2007 – 58%). This was heavily impacted by the transformational acquisition of EDS by HP which topped the overall deal tables for the year. This reflects both the importance of scale and global delivery capability in the big ticket services market, but also an interesting contrast in strategy between the integrated hardware and services model of the likes of HP and Fujitsu and the more pure play services providers.

Electronics, Semiconductors and Advanced Technologies (ESAT) deals were sharply down on the previous year to 127 worth a combined €15.5 billion from 145 totalling €42 billion in 2007. There was also a steep fall in hardware deals last year – down to 48 totalling €4.5 billion from 74 worth a combined €11 billion in 2007.

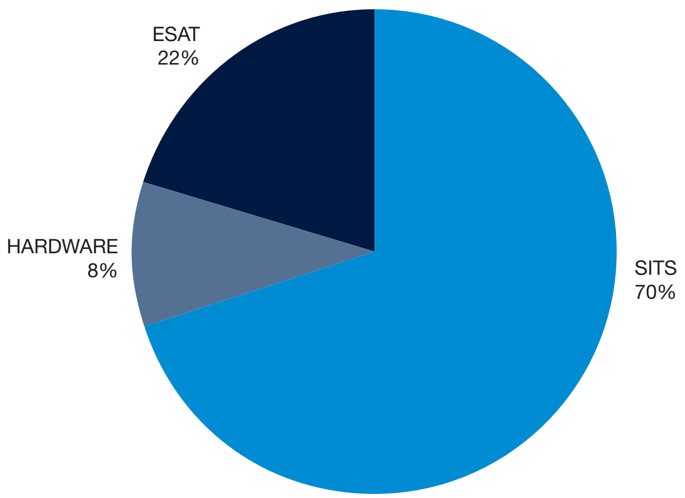
Segmental Analysis by Value



This chart covers M&A transactions completed in 2008, involving stakes greater than 10%, where the deal value was disclosed and greater than €10 million.

Source: Dealogic, M&A Analytics

Segmental Analysis by Volume



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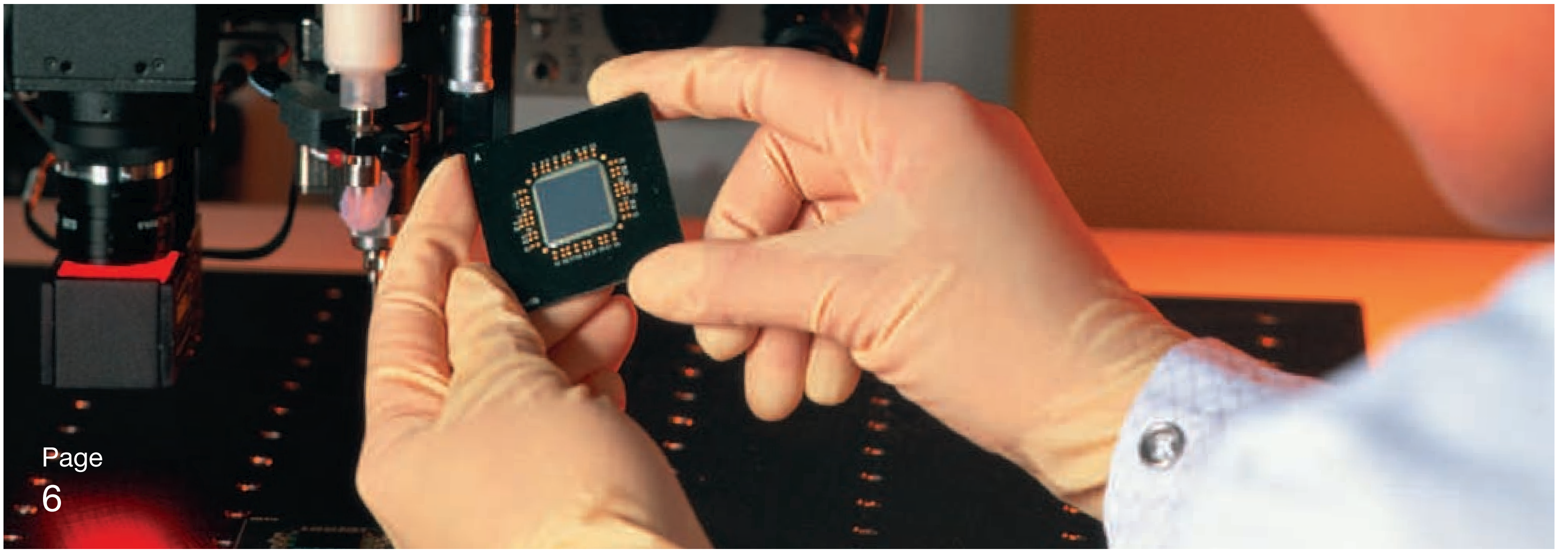


‘Credit crunch’ constrains private equity

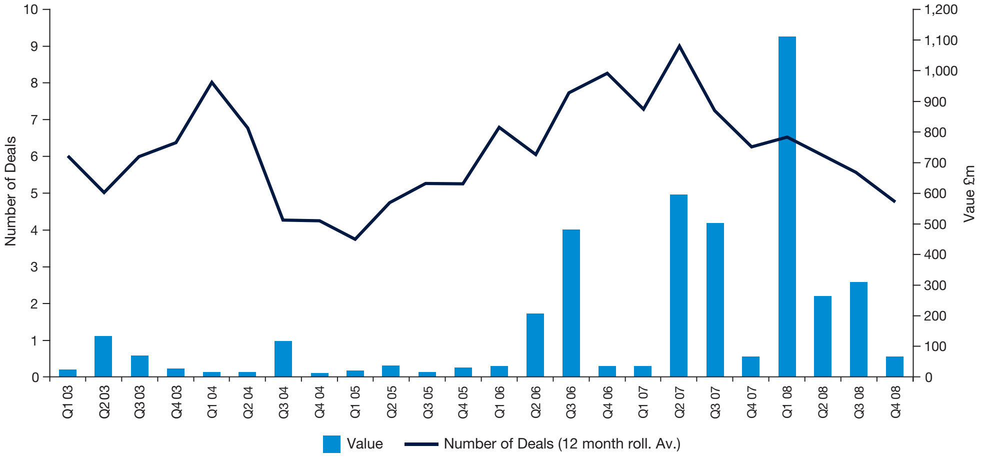
The lock down in the debt markets made the second half of 2008 uncharacteristically quiet for private equity investors in the technology sector.

Last year 36 buyouts worth a combined €5.2 billion were recorded compared with 80 worth an aggregate €17.4 billion in 2007. The UK proved to be a more resilient market than most and accounted for 19 deals totalling some €1.7 billion. This tally was boosted significantly by the €773 million LBO of Northgate Information Solutions by Kohlberg Kravis Roberts (KKR) and the €243 million public to private of Civica Group by 3i. Both these public sector software deals completed in the first four months of 2008 with PE investment activity in the ensuing eight months significantly curtailed by the credit crunch.

The defensive characteristics of the public sector markets, and the strong recurring revenue streams and cash generation profile of many software companies operating in the sector, certainly proved something of a hot spot for deal activity. This was amply demonstrated by Northgate’s follow on acquisition of the Public Sector division of Anite for €68 million four months after its KKR-backed LBO.

The M&A landscape for PE houses in the sector has changed fundamentally. Backing existing portfolio companies for follow on deals, higher levels of equity (or even all-equity deals), minority investments and creative deal structures to bridge value gaps are now the order of the day. Whilst liquidity may remain difficult, we also expect to see more public-to-private (PTP) transactions once public market valuations find more of a level – perhaps as early as Q2 2009 – as PE houses look for value and institutional investors continue to prefer the security of cash and a flight to scale and perceived “blue chip” assets. The UK’s AiM market may continue to prove a fertile feeding ground for transactions. The ECI Partners backed €36 million PTP of healthcare IT group Ascribe, announced at the end of December, is perhaps illustrative of the type of deals we may see more of in 2009.

UK PE Deals   Software and IT Services



Source: Thomson, SDC

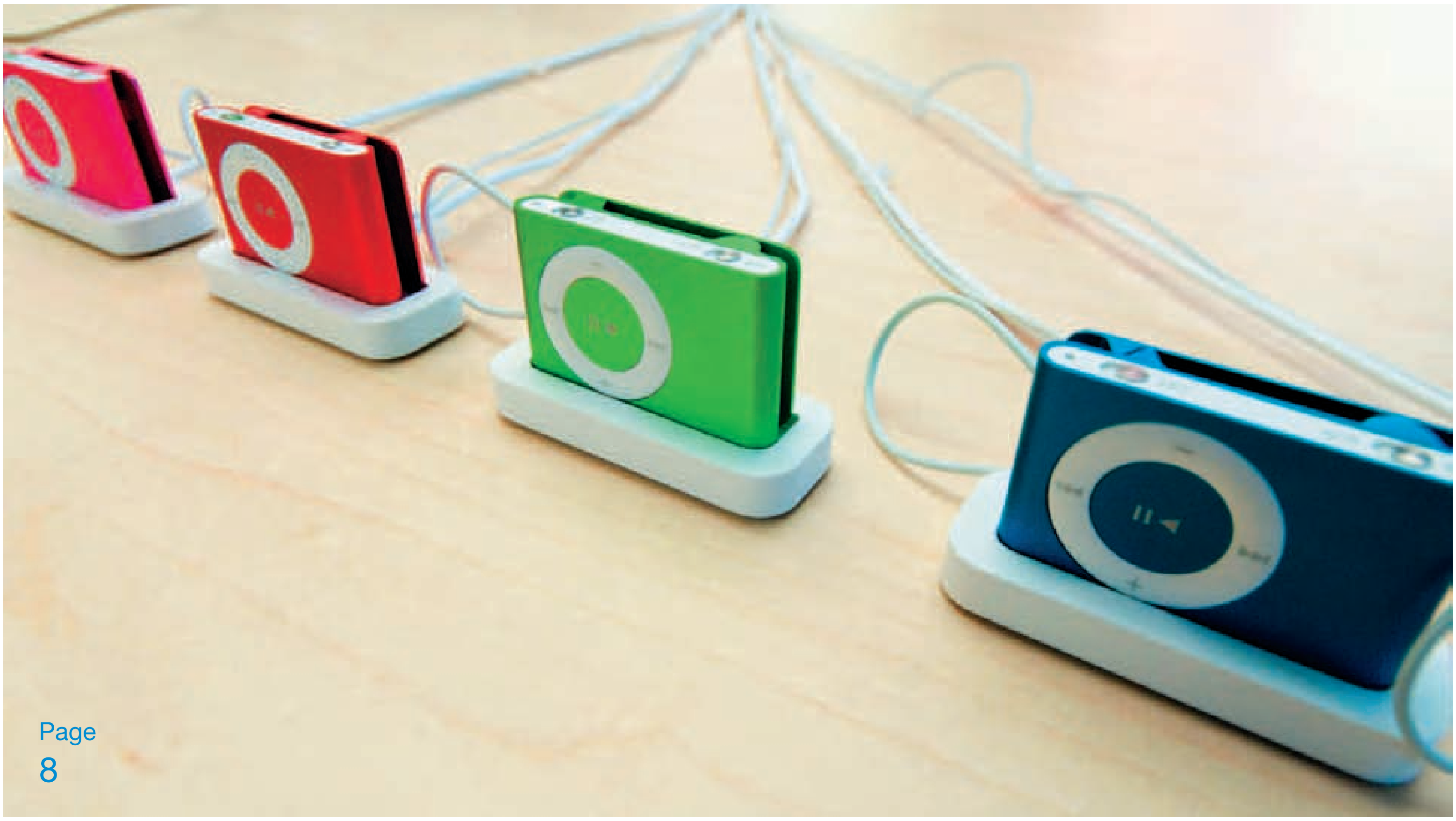
UK market shows resilience

The overall value of UK-inspired technology transactions increased by nearly 10% last year compared with 2007, however, deal volumes were down by 13%.

The UK technology M&A market fared significantly better than the global deals arena. During 2008 162 deals (with the UK as a bidder or target) worth a combined €17.7 billion were completed compared with 184 totalling €15.7billion in 2007.

The aggregate deal value was boosted by a handful of mega-deals notably the €2.4 billion acquisition by Reed Elsevier, the Anglo Dutch publishing and information group, of the US insurance data and analytics provider ChoicePoint; the €773 million LBO of Northgate Information Solutions by the US private equity (PE) firm KKR; the €661 million recommended takeover of the UK's Detica Group by the global defence and aerospace company BAE Systems; and HCL of India's €557 million takeover of Axon.

An emerging trend, enhanced by the current economic climate, is the growing appetite for publicly-funded sectors where committed, contract-based government spending gives companies greater forward earnings visibility. This was illustrated by BAE's takeover of Detica which provides information management capabilities to the national security and resilience sector; KKR's LBO of Northgate which provides specialist software, outsourcing and IT services to the human resources, local government, education and public safety markets; and 3i's PTP of Civica, a provider of consulting, software and managed services to the public sector.



In terms of quarterly deal flow, the UK market steamed ahead in Q1 but tailed-off as the year progressed and was reduced to a trickle in the final quarter in parallel with the UK's economic slowdown. Nevertheless, the middle market remained relatively active with deals in the €10 million – €250 million range accounting for 91% of UK target deal volume in 2008 compared with 89% in 2007. Four UK target deals were valued at €500 million – €1 billion (compared with two in 2007) with the €1 billion-plus UK transaction continuing to prove illusive. With only four UK technology companies currently in the FTSE100 – Sage, Capita, Autonomy and Serco – deals are likely to be less than super-sized leaving room for further consolidation and growth.

With sterling weakening, the UK is starting to look a more attractive target destination for overseas acquirors again. Cross-border acquisitions of UK technology companies was a notable hot spot with 29 deals in 2008, up from 21 in 2007.

Top 10 Technology Deals with a UK Bidder or Target 2008

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Sep-08	2,437	ChoicePoint Inc	US	Reed Elsevier plc & NV	UK
Mar-08	773	Northgate Information Solutions plc	UK	Kohlberg Kravis Roberts & Co - KKR	UK
Sep-08	661	Detica Group plc	UK	BAE Systems plc	UK
Dec-08	557	Axon Group plc	UK	HCL Technologies Ltd	India
Nov-08	512	MessageLabs Ltd	UK	Symantec Corp	US
Sep-08	322	QinetiQ Group plc (18.9%)	UK	Market Purchase	UK
Dec-08	289	SI International Inc	US	Serco Group plc	UK
Sep-08	277	M/A-COM Inc	US	Cobham plc	UK
Dec-08	264	Symbian Ltd (52.1%)	UK	Nokia Oyj	Finland
Apr-08	243	Civica plc	UK	3i Group plc	UK

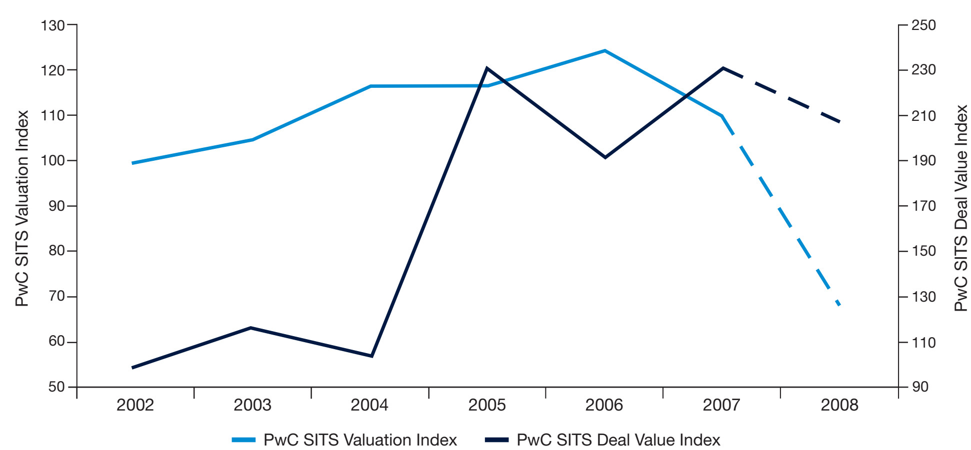
Source: Dealogic, M&A Analytics

Where next for valuations?

The volatility in valuation levels remains extreme as fragile confidence and fundamental uncertainty around future economic conditions looks set to cloud the picture for some time to come.

What is clear is that there remains a dislocation between public market valuations and private deal valuations, and the gap has been widening. While average deal multiples for the transactions that are being done have fallen by some 10%, average stock market trading multiples during 2008 fell by some 38%. A reflection perhaps of both the cost synergy potential underpinning many of the trade consolidation deals which are happening, but also the nervousness in the public markets surrounding the implications for future profitability in 2009 and 2010 of cuts in IT budgets.

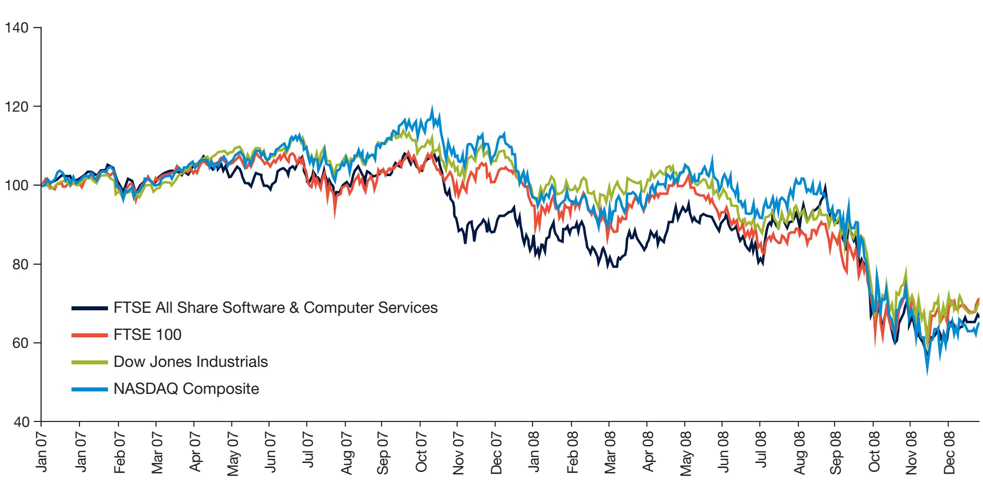
PwC SITS Valuation and Deal Value Indices 2002 2008



Source: Dealogic, M&A Analytics, Thomson Reuters, PwC Analysis

Technology indices have broadly tracked other global indices – experiencing an earlier downgrade at the end of 2007 but then proving more resilient through to the summer as the sector was initially viewed as having reasonable defensive qualities. There has been little differentiation in the pain for investors across all sectors in Q4.

Global Indices: Key Trends



Source: Thomson, Datastream

Outlook for 2009

Weathering the storm:

Although industry-wide global economic conditions are generally considered to be the worst for decades, technology companies which survived the turmoil of the dot.com crisis of 2001/2 are expected to be better equipped to weather the toughest of economic storms. These companies are likely to have a strong focus on cash management and, as recession loomed, will have been taking mitigating action ahead of companies in less risk-aware sectors.

Upturn ahead?

Deal conditions and liquidity are unlikely to improve materially over the next six to nine months although we do anticipate an upturn in M&A activity towards the end of 2009. Meanwhile there are still interesting deals to be done but structures will need to be more equity-led with the focus swinging away from private equity to trade-oriented strategic acquisitions. Deals will also take longer to conclude with due diligence requirements becoming ever more onerous. Lack of forward visibility, and simply not knowing what end-markets are going to look like, will be a major problem in deal structuring.

Valuation gap:

In the private arena, valuation expectations still appear to need more time to adjust to the straitened economic conditions. In many cases, vendor price expectations have not yet fully adjusted to current market conditions. Downside scenario analysis will be robust and very much to the fore as would-be acquirors remain highly disciplined and generally prepared to ‘think the unthinkable’.

PTP prospects:

Fuelled by the continuing dislocation between transaction valuation multiples in the private sector and public markets capitalisations, we expect PTPs to make a selective comeback in 2009. The trend evidenced in 2008 of a decreasing listed stock of technology businesses is likely to continue with many companies moving off the public markets either through trade acquisitions or via PTPs. Other bright spots for transaction activity include minority equity investments with industry restructurings and rationalisations also likely to produce a string of non-core divestments and disposals.

Private equity goes to ground:

Due to continuing debt-funding difficulties, business confidence issues and portfolio preoccupations; there will be fewer PE-backed deals in 2009. Acquisitions through existing portfolio companies are likely to be the key focus. Cash buyers able to determine an ‘angle’ on a deal and prepared to call the bottom of the market will likely look back on 2009 as a vintage year from a returns perspective. On the exit front, with IPO markets closed for the foreseeable future, few PE houses will be achieving stock market realisations in 2009. Exits by way of trade sales and secondary buyouts will continue where there is a compelling strategic story.

Asian activity:

Asian and particularly Indian acquirors are increasingly focusing their M&A energies on Europe with growth in off-shoring opportunities in the UK set to outpace the US. The successful integration of the major overseas forays made by the Indian SITS players in 2008, will likely shape the enthusiasm for a continued quest for acquisitions in Europe in 2009. Cross-border acquirors are likely to find the UK an attractive destination with the weakness of Sterling producing some keenly-priced assets.

Technology trends

Specific ‘hot spots’ set to generate M&A activity

Cloud computing and Software as a Service (SaaS):

The flexible nature of the increasingly prevalent phenomenon of ‘cloud computing’ allows for the use of product ‘mash-ups’ to either enhance existing applications or bring together applications from various spaces. The cloud computing environment will facilitate the expansion of SaaS into areas beyond ERP, CRM and HR management systems and into areas such as social networking sites and other internet applications.

Mobile Enterprise Applications:

The Blackberry trend has meant that the mobile use of e-mail and the web has become the norm. Now, newer units such as the Apple iPhone are taking mobile computing to the next level. Firms such as Salesforce.com and Oracle have already adapted enterprise applications for the iPhone, whilst mobile operators are looking to increase their service-based offerings. The ability to truly monitise the new application opportunities will be the key to driving M&A.

Green IT:

The development and utilisation of Green IT is becoming increasingly prevalent, as a means of improving both corporate image and cost efficiency, with chip and PC manufacturers moving toward more energy-efficient components. The convergence of green consulting with technology, such as the analysis of energy and environmental data, will likely be a deal driver. 2009 will be a pivotal year as we see whether CleanTech will continue to simmer or start to boil as a real source of deal activity.

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Media M&A Insights 2009

The latest edition of Media M&A Insights analyses the trends driving M&A activity in the European media sector. The analysis includes:

- European and UK deal activity
- Private Equity involvement in media
- Sector themes for 2009
- Sub-sector M&A trends

Telecoms M&A Insights 2009

This latest edition of the report analyses the Global Telecoms sector. The analysis includes:

- The impact of the credit crunch just how badly has it impacted telecom deal volumes?
- How the trends differ by region
- How debt maturity profiles in telecoms could define the opportunities in 2009 and beyond

Technology Executive Connections: Volume 6

Managing the Risks & Rewards of Collaboration

PwC surveyed over 150 senior technology industry executives worldwide, and conducted in-depth personal interviews with industry leaders and PwC subject matter professionals. Given the growing complexity and interdependency of technology products, it is increasingly difficult for any single company to be able to deliver all things to all customers. This underscores the need for formal kinds of collaboration with third parties. But collaboration can introduce a new and broader set of business risks.

For further information, other than US residents enquiring about corporate finance related services, please contact:

Europe

Corporate Finance	Andy Morgan	+44 (0)118 938 3191	morgan.andy@uk.pwc.com
Transaction Services	Joe Ryan	+44 (0)20 7213 8508	joseph.e.ryan@uk.pwc.com

North America

Corporate Finance (not including the US)	Keith Mosley	+1 416 941 8307	keith.mosley@ca.pwc.com
Transaction Services	Rob Fisher	+1 408 817 4493	rob.fisher@us.pwc.com

Asia Pacific

Corporate Finance	Amitava Guharoy	+65 6236 4118	amitava.guharoy@sg.pwc.com
Transaction Services	Curt Moldenhauer	+86 212 323 2811	curt.moldenhauer@us.pwc.com

Rest of World

South Africa	Simon Venables	+27 11 797 5660	simon.venables@za.pwc.com
South America	Fabio Niccheri	+55 11 3674 3859	fabio.niccheri@br.pwc.com

For US residents requiring information on corporate finance related services, please contact our registered FINRA Broker Dealer within the US, PricewaterhouseCoopers Corporate Advisory and Restructuring LLC, which can be contacted directly at:

USA	Rakesh Kotecha	+1 312 298 2895	rakesh.r.kotecha@us.pwc.com

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San Jose	Bo Parker	+1 408 817 5733	bo.parker@us.pwc.com

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