

# US technology M&A insights

Q1 2010 update

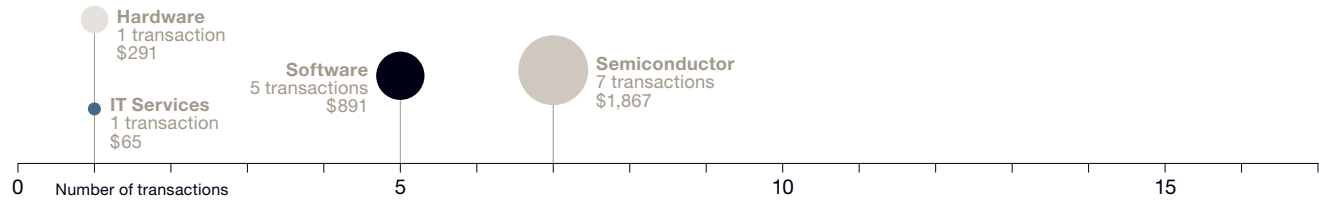
## In this issue

- Technology sector recovery takes root
- How synergies drive successful acquisitions

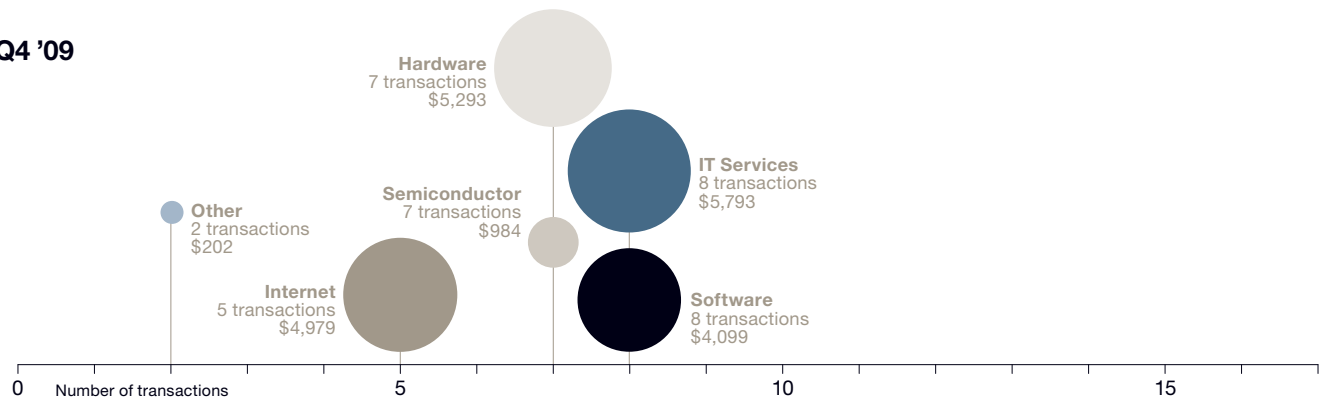
## Number of technology deals and deal value by sector, \$US million

Bubble size indicates the total deal value for the sector

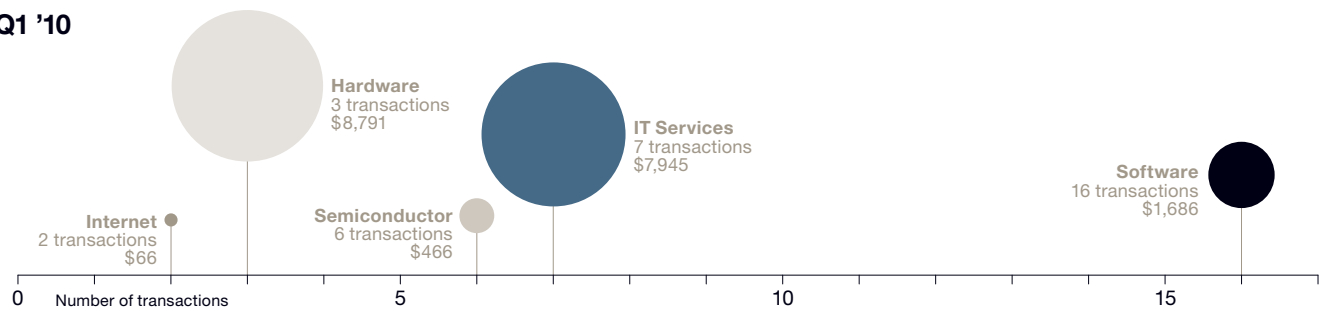
### Q1 '09



### Q4 '09



### Q1 '10



Source: DealLogic

# Technology sector recovery takes root

Welcome to the first-quarter 2010 update of PricewaterhouseCoopers' US technology M&A insights. As the first quarter of 2010 ended, the seeds of optimism that began to spread through the technology industry at the end of 2009 appeared to have firmly taken root. Record profits, renewed order backlogs, and a return to hiring pointed to a recovery that prompted industry analysts to revise their 2010 forecasts upward.

The initial enthusiasm for an initial public offering (IPO) market comeback looked to be wishful thinking as several companies priced at the low end of their ranges early in the first quarter. However, that trend began to reverse as the quarter progressed, and by the end of March the prospects for a robust and well-priced IPO market were gaining momentum.

This alternative avenue for investor liquidity appears to have filtered into the valuations for venture-backed technology companies. According to the National Venture Capital Association, 81 venture-backed technology M&A exits were announced during the first quarter, which represents one of the best quarterly numbers in five years. Perhaps more impressive than the level of activity are the anecdotal estimates of a 15 percent to 20 percent increase in returns over the comparable quarter in 2009. If President Obama's administration makes good on its promise to eliminate the capital gains tax on small business sales, these volume and value trends likely will accelerate.

As the quarter closed, a number of potentially high-profile deals were rumored in the market across the semiconductor, hardware, and networking sectors. At the same time, the concept of M&A as a means of accelerating innovation cycles ("the new R&D") began to resurface as hiring freezes were lifted, but the engineers needed for innovation were found to be in short supply. Regardless of the rationale, we expect deal activity to continue apace as the year progresses. In addition to the continuation of software transactions, look for semiconductor deals to

come to the fore as the long-awaited cyclical rebound begins to take hold. We also expect to see the realization of another of our start-of-year predictions: the continued expansion of major hardware players into software and services businesses.

## Key announced transactions

With the largest technology companies continuing to add to their already plentiful cash hoard and low-cost financing just as plentiful, the first quarter witnessed a steady stream of activity. Yet, the bulk of announced transactions were in the sub-\$500 million range as portfolio tuck-ins trumped transformational deals.

The year started off with Apple, Cisco, EMC and Oracle all announcing deals within the first week of January. While that pace slackened somewhat, there was still plenty of activity to keep deal teams busy.

Among the most notable deals announced during the first quarter were:

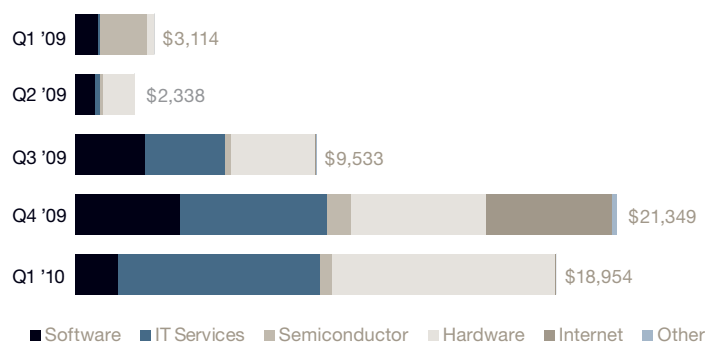
- Micron, who may have sounded the starting bell for semiconductor consolidation with its announced acquisition of memory competitor Numonyx for \$1.3 billion.
- IBM announced its acquisition of business analytics software developer Initiate, which increases IBM's exposure to the healthcare IT market. The deal was almost immediately answered by pure-play competitor Informatica's purchase of Siperian.
- Google announced five acquisitions, primarily applications developers, all of which appeared to be in the below-\$100 million range.
- Apple announced its acquisition of mobile ad developer Quattro Wireless, which appears to be finding its way to market in the recently announced iAd platform.

Private equity also dipped a toe back into the water with a handful of small cap deals as well as a couple of more significant announced transactions including:

- A consortium including Berkshire Partners, Advent, and Bain Capital announced a \$1.1 billion acquisition of online training provider SkillSoft.
- Elliott Associates attempted a \$1 billion deal for once-high-flying software developer Novell, which the Novell board subsequently rejected.

While software and Internet deals dominated headlines, small to mid-range hardware and IT service deals quietly added to deal volume.

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



Source: DealLogic

### Key closed transactions

Technology transactions closing in the first quarter of 2010 continued the momentum gained in the last quarter of 2009, with value and volume dipping only slightly (11 percent and 5 percent, respectively). Conversely, transaction value year on year was up 500 percent, and volume was up 140 percent. Deal volume was proportionately spread across the quarter, with an average

of 12 deals closing per month, suggesting a more steady flow of technology transactions.

Two deals greater than \$1 billion were closed in the quarter representing 84 percent of the posted value. Overall, average deal value was in the \$550 million range, consistent with the fourth quarter of 2009. Without those two large deals, the first quarter average deal value would have been closer to \$100 million, reflecting the mid-market nature of the majority of the transactions. Among the most significant transactions closing during the quarter:

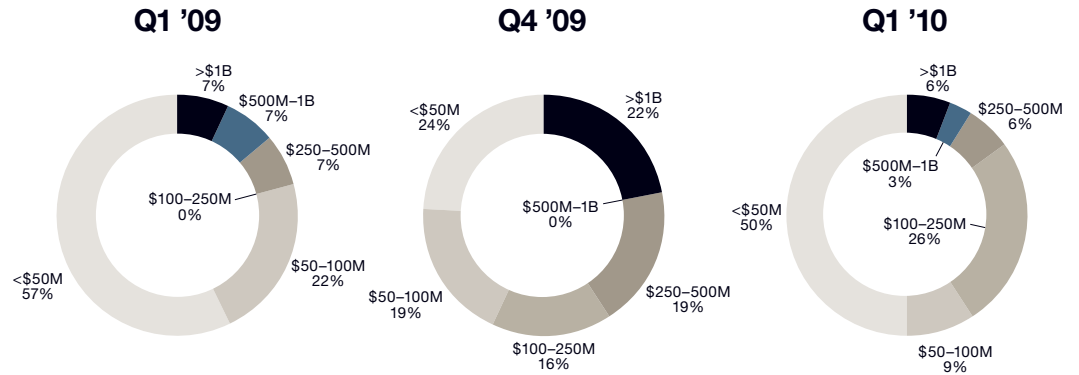
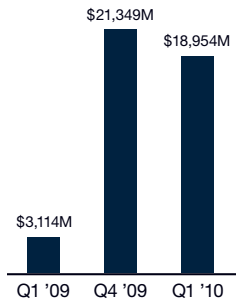
- Oracle's \$8.2 billion acquisition of Sun Microsystems, which cleared the final hurdle of regulatory review and closed in January.
- Xerox's acquisition of IT services firm ACS for \$7.6 billion.
- Dassault Systemes' acquisition of IBM's Product Lifecycle Management software sales and support operation for \$537 million.

Within the sectors, hardware and IT services dominated the quarterly value figures due to the two large transactions outlined above. Yet, in terms of volume, software reclaimed its historical place as the driver of technology deals, comprising 47 percent of total volume in the quarter as buyers looked to expand their portfolios. IT services and semiconductor transactions were the next most active, albeit both were admittedly at the small end of the spectrum with an average deal value of less than \$80 million.

The hardware sector, which dominated the rankings for 2009, posted a modest three transactions (including Oracle/Sun) while Internet transactions posted the smallest number, with just two transactions at \$66 million in total value. It is important to point out that our data includes only deals with disclosed values greater than \$15 million. So, although there has been quite a bit of Internet sector deal activity, the majority has been at undisclosed values.

## US technology deals by volume

### Comparison of total deal value

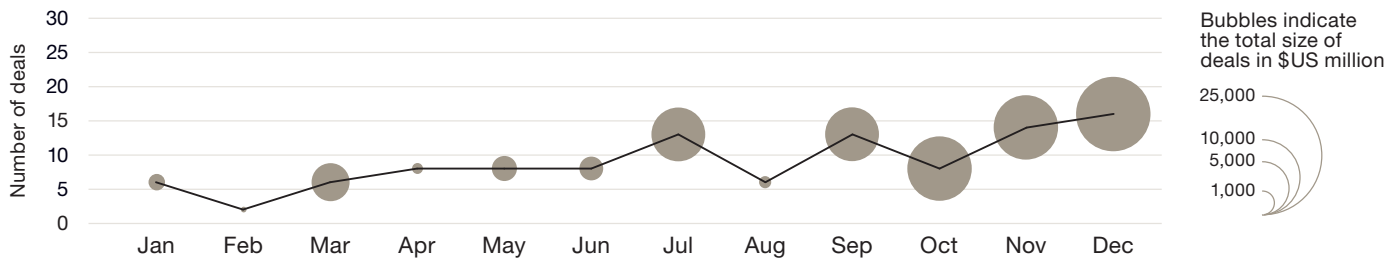


\$ in millions, except #	Q1 '09		Q4 '09		Q1 '10	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
< \$50M	8	229	9	229	17	476
\$50M to \$100M	3	221	7	433	3	170
\$100M to \$250M	—	—	6	984	9	1,173
\$250M to \$500M	1	291	7	2,383	2	781
\$500M to \$1B	1	778	—	—	1	537
> \$1B	1	1,595	8	17,320	2	15,817
<b>Total</b>	<b>14</b>	<b>\$3,114</b>	<b>37</b>	<b>\$21,349</b>	<b>34</b>	<b>\$18,954</b>

Source: DealLogic

## US technology deals by month

### 2009



### 2010



Source: DealLogic

# How synergies drive successful acquisitions

## Identifying, realizing, and tracking synergies in the M&A process

The market rewards or punishes shareholders of a combined company depending on how well its management succeeds at establishing, and ultimately achieving, one primary objective: create value that exceeds the acquisition cost.

Synergies enable a superior return for both buying and selling shareholders. The seller's shareholders receive an acquisition premium, and the buyer realizes shareholder value by capturing synergies above that deal premium. Acquisition justification normally requires synergies and sophisticated and repetitive buyers must orient their acquisition processes—from screening through post-integration monitoring—to focus deal and business unit teams on identifying, executing, and tracking synergies. The following leading practices were compiled from two synergy-focused roundtables recently hosted by PwC.

### Modeling synergies

Companies consistently experience challenges with accurately identifying and validating synergies during the early stages of due diligence:

- **Synergy identification:** Traditional diligence often is impaired by the issuance of standardized and exhaustive diligence request lists. Leading practices in due diligence focus on:
  - Analyzing baseline historical results and forecasts to assess standalone value.
  - Identifying synergies, including the probability of success, the timing of realization and the cost to realize synergies.
  - Assessing and mitigating key risk areas and potential deal killers.
- **Synergy validation:** Companies experience greater success when deploying a broader team that includes representatives with in-depth knowledge of the functional units to better validate underlying revenue and cost synergies. This practice typically results in more accurate models and EPS projections.

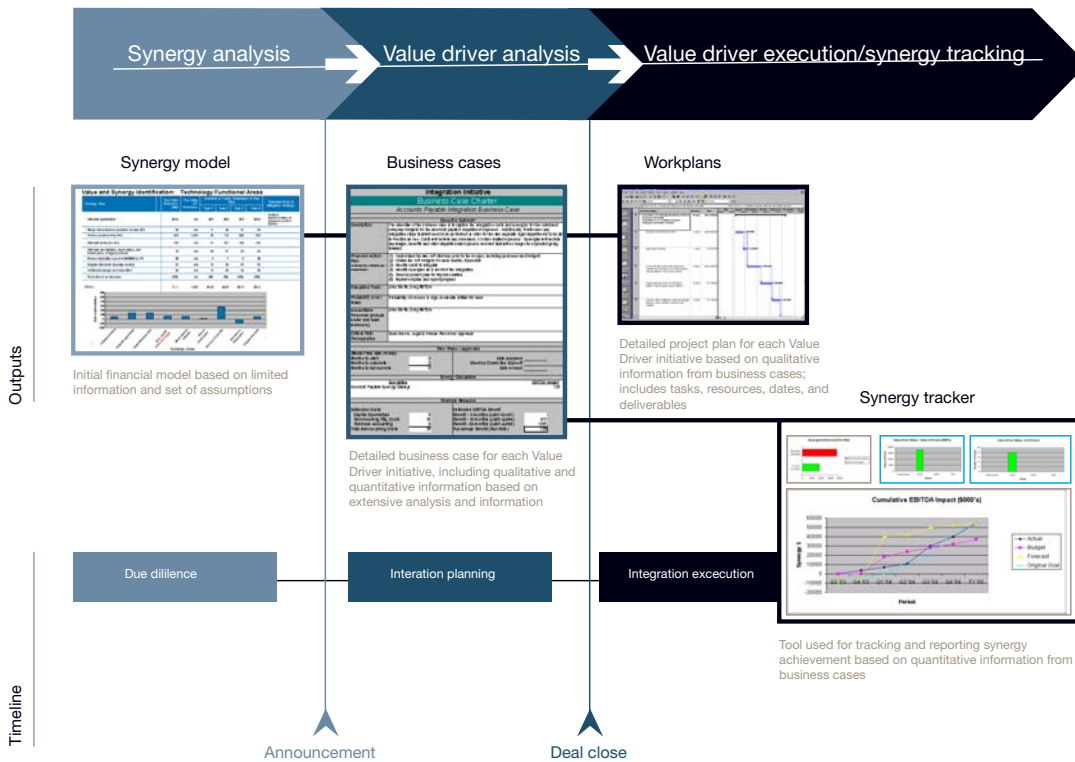
- **Negative synergies:** Negative synergies are frequently overlooked. They can have a considerable impact on the financial model, and identifying such negative synergies is critical in developing accurate EPS projections. Negative synergies vary widely but may include external factors (i.e. customer attrition due to competitive expansion), one-time costs (i.e. employee retention or severance packages), or recurring costs (i.e. benefits harmonization).

### Executing synergies

Roundtable participants expressed frustration with driving synergy accountability and, hence, successfully executing on synergies. Seventy percent of respondents to a recent PwC M&A survey of corporate development executives stated that a delay in implementing a planned action is the most common obstacle hindering synergy realization. Leading practices to better realize synergies include focusing on:

- **Transparency:** Transparent reporting tends to encourage more accountability and ownership. However, functional teams and business units must initially accept the targets. For this reason, a leading practice is for synergy owners to validate their synergies during due diligence, thus aligning announced synergy projections with synergy execution.
- **Integration:** A disciplined and process-oriented integration approach that is customized to the deal rationale will mitigate delays in integration plans. For a deeper dive into integration, refer to PwC's *How to complete the M&A integration process, minimize disruptions, and achieve desired synergies*.
- **Synergy Life Cycle Framework:** Synergies are more readily achieved when they are translated into detailed value driver business cases, then supported by precise, cross-functional integration work plans. The following chart refers to PwC's Synergy Life Cycle Framework, which outlines our approach to realizing synergies.

## PwC synergy life cycle framework



## Tracking synergies

A mature deal process incorporates a thoughtful, proactive approach to tracking synergies. Leading practices to measure deal success often include an emphasis on:

- **Synergy tracking process and tools:** Tracking synergies requires planning to ensure synergy targets are well defined and that a process or tool is in place to track each synergy.
- **Deal process:** Deal success is driven by defining and deploying a repeatable, scalable, and evolving M&A process. A well structured process instills the right tollgates and discipline to drive successful acquisitions, from deal sourcing through due diligence and integration. We view the critical steps in managing the deal process as:
  - Deal evaluation
  - Negotiation and close

- Integration
- Capturing value

- **Measuring shareholder value:** Few companies comprehensively measure the economic value added by acquisitions. However, such an analysis will ensure a cause-and-effect scenario is built for each transaction. This will improve a company's understanding of deal successes and failures and enhance decision-making.

## Corporate development insights

To read about additional topics from our corporate development roundtables and PwC's point of view on how synergies drive successful acquisitions, contact one of our technology team members or download *How synergies drive successful acquisitions—identifying, realizing and tracking synergies in the M&A process* on the Publications page at [www.pwc.com/ustransactionsservices](http://www.pwc.com/ustransactionsservices).

# About PricewaterhouseCoopers' Technology Transaction Services

Smart deal makers are perceptive enough to see the value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisers to help them fashion a deal that works.

PricewaterhouseCoopers' Transaction Services group can advise technology companies and technology-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, through developing strategies for capturing post-deal profits, to exiting a deal through a sale, carve-out or IPO. With more than 6,000 transaction specialists in 90 locations worldwide, we can deploy seasoned deal teams that combine deep technology industry skills with local market knowledge virtually anywhere and everywhere your firm operates or executes transactions.

While every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration and post-deal services. In short, we offer integrated solutions tailored to your particular deal situation and designed to help you complete and extract peak value within your risk profile, whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process.

For more information about M&A and related PricewaterhouseCoopers services in the technology industry, please visit our websites at [www.pwc.com/ustransactionservices](http://www.pwc.com/ustransactionservices) or [www.pwc.com/technology](http://www.pwc.com/technology).

## About the data

We define US M&A activity as mergers, acquisitions, shareholder spin-offs, consolidations and restructurings where targets are US-based companies acquired by either US or foreign acquirers. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based seller.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes utilized throughout this report are based on completion-date data for transactions with a disclosed deal value greater than 10 million euros, as provided by DealLogic as of April 7, 2010. As many technology companies overlap multiple sectors, we believe the trends within the sectors discussed herein are applicable to others, as well. Technology sectors used in this report were developed using the DealLogic NAIC codes, with the semiconductor sector being extracted from semiconductor and other electronic component manufacturing codes by reference to SIC codes. In certain cases, we have reclassified deals regardless of their NAIC or SIC codes to better reflect the nature of the related transaction.



# Contacts

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:

## Silicon Valley

### **Rob Fisher**

M&A Advisory  
US Technology Industry Leader  
408.817.4493  
rob.fisher@us.pwc.com

### **Amity Millhiser**

M&A Advisory  
408.817.7850  
amity.s.milhiser@us.pwc.com

### **Todson Page**

M&A Advisory  
408.817.1223  
todson.page@us.pwc.com

### **Jeannette Martin**

M&A Tax  
408.817.3722  
jeannette.martin@us.pwc.com

### **Gregg Nahass**

Merger Integration  
213.356.6245  
gnahass@us.pwc.com

### **Chris Smith**

M&A Accounting Advisory  
408.817.5784  
christopher.j.smith@us.pwc.com

### **Jeff Kotowitz**

M&A Accounting Advisory  
415.498.7305  
jeff.kotowitz@us.pwc.com

### **Bryan McLaughlin**

Capital Markets & Divestiture  
408.817.3760  
bryan.mclaughlin@us.pwc.com

## New York

### **Brian Levy**

M&A Advisory  
646.471.2643  
brian.michael.levy@us.pwc.com

## Boston

### **Dan Kabat**

M&A Advisory  
617.530.5431  
dan.kabat@us.pwc.com

## Central

### **Dana Drury**

M&A Advisory  
214.758.8245  
dana.drury@us.pwc.com

## Southeast

### **Matt McClish**

M&A Advisory  
678.419.4163  
matt.mcclish@us.pwc.com