Transaction Services

US technology M&A insights

Analysis and trends in US technology M&A activity 2010

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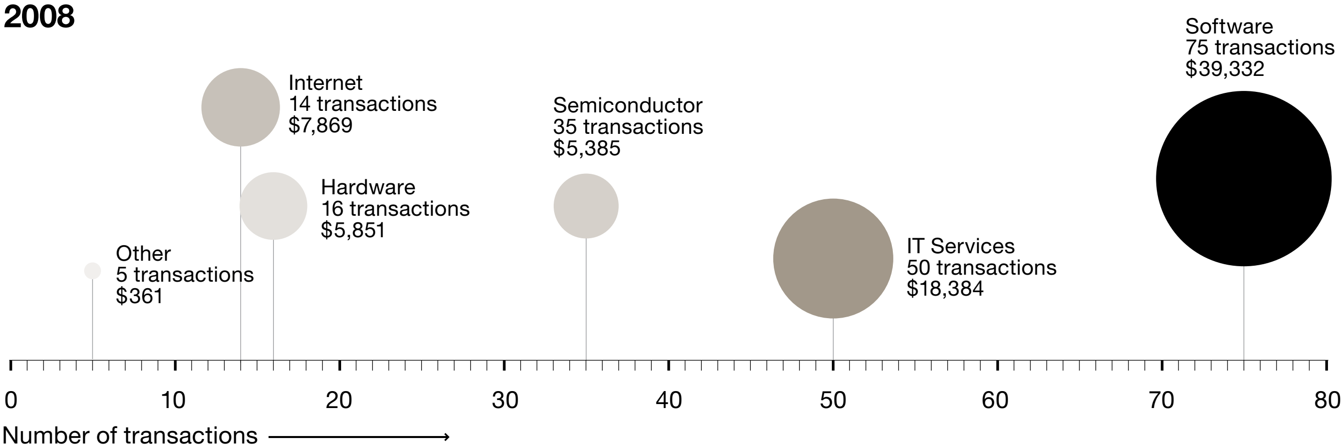
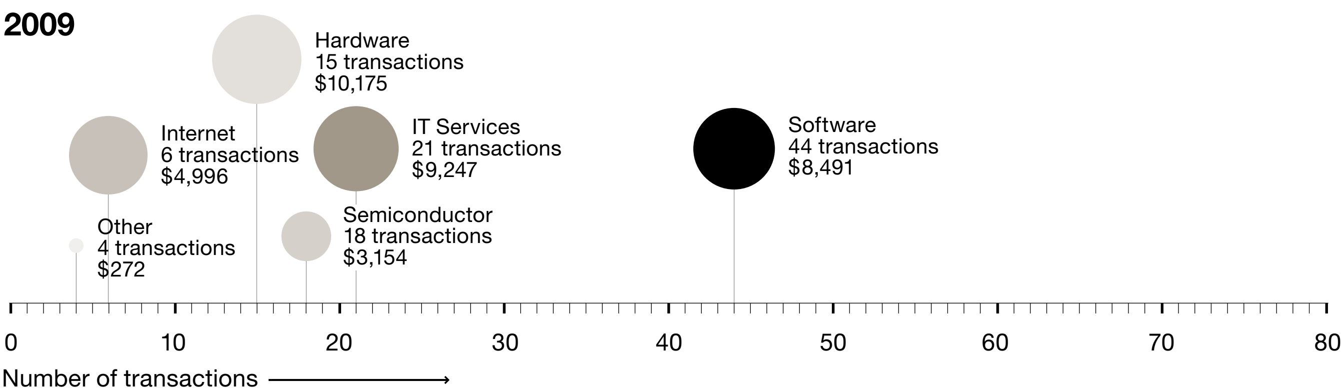
Number of technology deals and deal value by sector, $US million

Bubble size indicates the total deal value for the sector.

2008



2009



Source: DealLogic

Welcome

Welcome to the 2010 edition of **PricewaterhouseCoopers' US technology M&A insights**. Published annually with quarterly updates by PwC's Technology Transaction Services practice, this report covers deal activity and trends in the US technology industry.

While the nation rang in 2009 and the inauguration of President Obama with a sense of hope and optimism, the US technology industry was settling in for a long, hard winter. The M&A community looked in vain for signs of improving conditions through the first half of the year until a number of high-profile transaction announcements by the end of the second quarter such as Sun, Data Domain and Wind River broke the logjam. As summer turned into fall and markets began to regain some ground, CEO confidence grew that the bottom had been reached. In tune with those sentiments, technology deal makers shifted into high gear and doubled the number of deals closed during the second half of the year.

Despite those efforts, completed US technology deal volumes and values were still down 50% from the previous year. Those figures would have been much improved were it not for regulatory headwinds lengthening the time between announcement and close. At year-end, there was in excess of $20 billion of announced but not closed deals including Oracle-Sun, Xerox-ACS, Cisco-Tandberg and HP-3Com. Regardless, 2009 was largely a lost year for technology M&A.

As we enter 2010, optimism has once again emerged, this time from technology analysts who predict a cyclical industry revival in the first half of the year as companies around the world come to grips with the new "normal" and rekindle technology purchases. At the same time, there are some rather significant secular changes unfolding. The industry landscape is changing dramatically, as the technology powerhouses continue to blur the historical demarcations among software, hardware and services. In addition, cloud computing and software as a service models are rapidly realizing their potential, pushing players to fill out their offerings quickly to lock in customer transitions. With these underlying forces at work, and as long as the broader economy can avoid slipping back into recession, we expect 2010 to witness a return to more robust deal making. Although we don't expect to return to the heady levels of 2006-7, we do see indications that acquisitions have once again taken their place in the corporate strategy toolkit.

In this report, we have set out to provide knowledgeable analysis and commentary on the US technology industry's principal trends, driving forces and outlook for the coming months, both in aggregate and by key sectors: software, Internet, semiconductors, IT services, and hardware and networking. Throughout the report, we identify factors that we feel are creating attractive M&A targets within the industry.

We hope that the report provides you with a useful perspective on this continually evolving market and the opportunities it may bring for technology deals activity. If you would like further information or to discuss in more detail any of the themes raised in this report, we invite you to contact any of our dedicated team of technology industry Transaction Services partners whose names are listed on the inside back cover of this report.

Outlook for 2010

Following the reemergence of deal making at the end of 2009, we expect deal activity to continue apace in 2010, albeit still below the activity seen in 2006-7. CEOs, their business development teams and the advisors who support them are largely optimistic for deal prospects in the coming year. Stronger balance sheets, an improving credit market with continued low interest rates and market valuations that help ease the gap between buyers and sellers are all combining to improve the prospects for the return of strategic deal making.

In addition to the return of larger deals, improving valuations coupled with the need for companies to fill out their product portfolios will increase smaller technology and business-line acquisition activity. Planned divestitures that refocus companies on their core but that had been put on hold because of valuation uncertainty are expected to make their way into the pipeline. As larger deals are announced, they will most certainly garner the attention of regulatory authorities that began flexing their muscles with deeper reviews in 2009. Reviews by the US, the European Commission and the Chinese Ministry of Commerce will likely result in mandated divestments of select business units which will further add to the supply of midmarket deals.

There is much enthusiasm that the IPO market will make a big comeback in 2010. If registrations on file are any indication, this enthusiasm may indeed be founded. A quick look at technology company registrations on file at the year end over the past five years suggests that there is definitely something afoot. Whether all or some of those registrations come to market, the overall impact will be a likely increase in the competition for deals.

Add to this the potential return of private equity investors to the negotiating table and the result is improving exit multiples and more satisfied sellers. Already there are signs that venture capital-backed exit valuations are on the rise—something that was unheard of just one year ago. Yet, the major technology buyers can still afford to pay a premium when the strategic rationale is there. With almost $200 billion in cash on hand at the end of the year, they do not lack for dry powder.

With this backdrop of broad trends and activity drivers, we set out opposite several key sector themes which we believe will have the largest impact on deals for 2010.

Deals from out of the cloud(s)

As corporate IT departments dust off their checkbooks and reenter the market, many are expected to look first to SaaS models as a means to better manage cost. Whether hosted, in the cloud or managed within a customer's IT infrastructure, the SaaS model is proving increasingly popular as organizations see the benefits of moving large-scale software expenses from their capital budget to their operating budget. The companies that present the fullest portfolios of functions and services will have the advantage. To avoid missing this window, they will find it quicker to buy than build.

Security deals breach the firewall

As more data moves into the cloud, securing that information becomes more challenging. High-profile attacks, such as the one reported by Google and corroborated by other industry majors, point out that anyone can be at risk. While these incidents certainly benefit industry incumbents, there are a number of small and midsize innovators that would make ideal add-ons to cloud providers or their infrastructure vendors. The most successful of these companies are queuing for possible IPOs in 2010, which may raise the valuation stakes for would-be buyers.

Unified computing causes ripples of consolidation

The allegiances of historical business partners were put to the test in 2009, and 2010 promises increased development of holistic solutions from the major players. This means a series of miniature consolidations across the security, storage and network subsectors as well as possible forays into the software, services and PC markets. These expected moves at the top of the food chain will undoubtedly have a ripple effect across the market.

A reawakening of semiconductor buyers

After focusing the past 18 months on managing costs and surviving customer destocking activities, the semiconductor industry is expected to experience a gradual recovery in 2010 followed by growth in 2011-12. As such, 2010 is likely to see the return of emboldened semiconductor buyers looking to take advantage of less agile competitors while at the same time expanding their reach into wireless and other connectivity solutions, embedded systems and the like in preparation for the return to growth.

Real-time and real-location look really interesting

As mobile access to the Internet continues to grow in ease and importance, application developers, hardware manufacturers, infrastructure vendors, and carriers alike are fighting for users' attention (and their wallets) and don't mind buying innovation if it's proven. In particular, we expect acquisitions of and between niche players in real-time search, augmented reality and location-based applications to provide a boost to deal making in 2010.

Private equity adjusts to the new normal

The slowly recovering debt market will continue to dictate the size and nature of technology deals pursued by private equity houses in 2010, with valuations likely to remain stagnant as multiples mirror those seen in 2009. Bolt-on acquisitions for portfolio companies looking to bulk up prior to an IPO and the occasional opportunistic buy are the most likely outcomes for a year in which private equity firms, like the technology industry at large, adjust to the new normal.

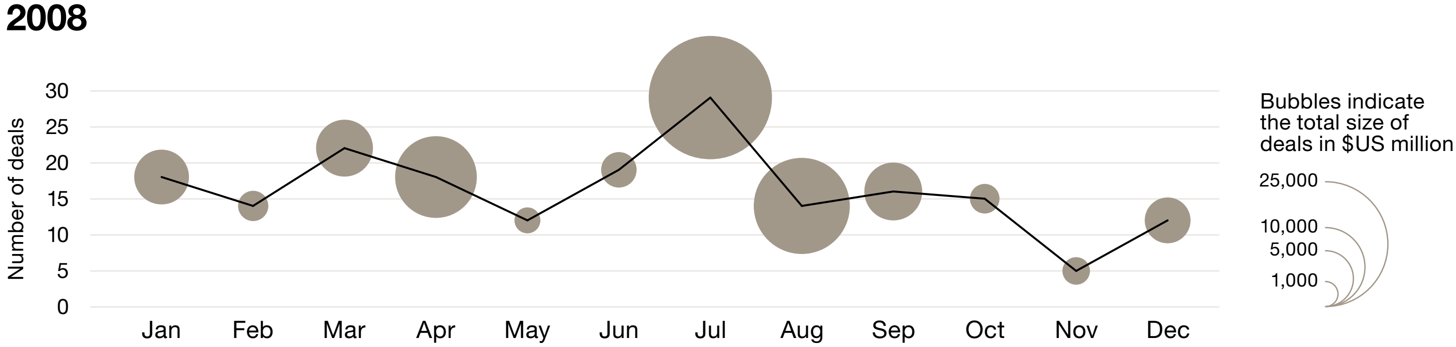
2009 by the numbers

Deals, values drop 50% as buyers sit out the first half of the year

The declines in overall transaction value and volumes that began at the tail end of 2007, continued in 2008 and accelerated during 2009. Closed deal values dropped 53% to just over $36 billion compared with the $77 billion posted in 2008. At the same time, volumes plummeted from 195 to 108, with software deals giving up the most ground at a 78% decline from the previous year. Software and IT services posted the most significant declines because of the lack of megadeal repeats on the order of HP-EDS and Oracle-BEA. Semiconductor volumes were also down almost 50% with the majority of deals that did transpire hovering in the $100 million price range. The Internet sector was the quietest, posting a slim six transactions, two of which comprised 90% of the posted deal value. Amid these precipitous falls, the hardware and networking sector stepped into the fray, notching up roughly the same number of deals as were closed in 2008 but with an outsize 74% increase in deal value, resulting in an average deal size of approximately $675 million. This was thanks to bookend deals from Cisco (Pure Digital $590 million and Starent Networks $2.9 billion) helped along by EMC's acquisition of Data Domain for $2.1 billion.

US technology deals by month

2008



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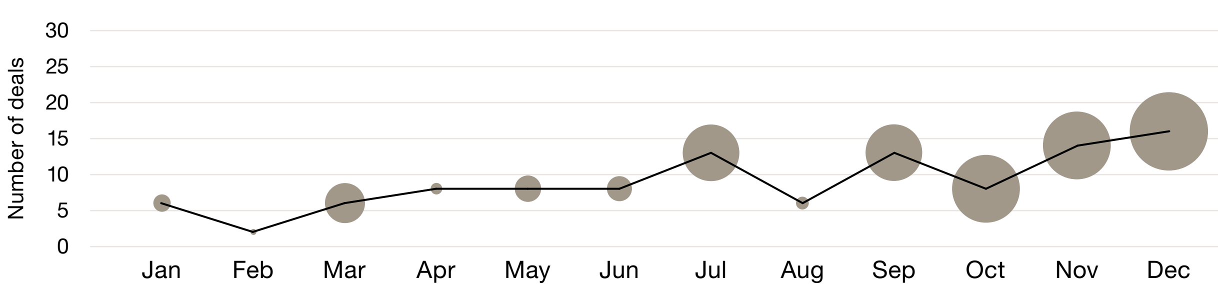


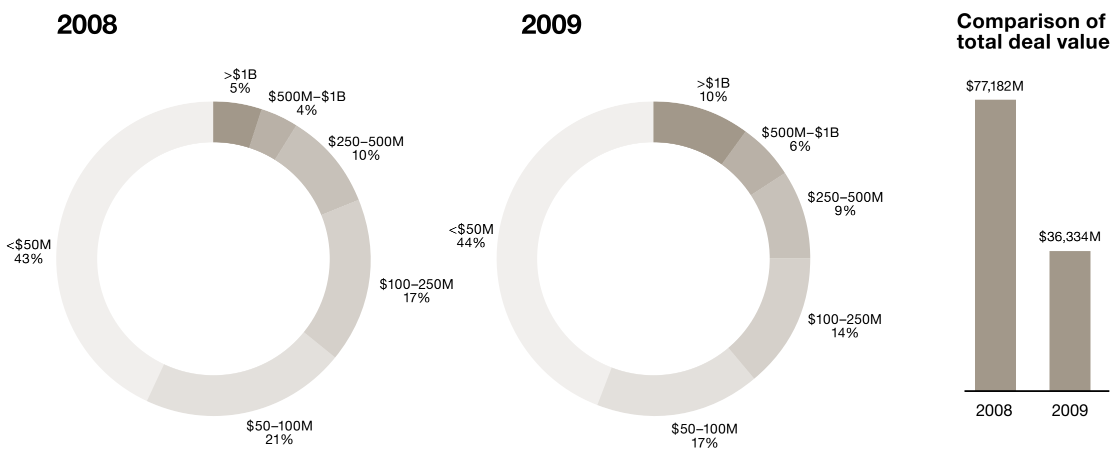
Source: DealLogic

The majority of the deal declines manifested themselves in the first half of the year, when uncertainty reigned supreme and companies struggled to forecast their next quarter's results. As the year progressed, markets stabilized and then rebounded (the NASDAQ gaining nearly 40% on the year), valuation gaps began to shrink and deal activity slowly returned. Of the total deals closed during the year, 65% of the volume and 85% of the value occurred in the second half (in fact, almost 50% of the total deal value occurred in the last two months of 2009).

As companies looked to return to core operations amidst the recession, divestitures as a percentage of total deals reached as high as 41% by the third quarter of 2009 before dropping slightly at year-end. This phenomenon was further borne out by the increase in asset deals, which some estimates put at close to 30% of all technology deals for the year. This would be the highest proportion of asset deals since the dot-com bust of 2001.

Overall, midmarket transactions gave up a little ground from the previous year, when transactions in the sub-$500 million range represented over 90% of all transactions consummated. Thanks to some larger transactions coming to closure in the second half of the year, particularly in hardware and networking, this number dropped to 84% in 2009. However, most of the remaining sectors experienced proportional declines across deal value ranges thus maintaining the long-term trend of midmarket deals providing the bulk of technology industry volumes.

US technology deals by volume



In $US millions, except #	2008 Number of deals	2008 Total deal value	2009 Number of deals	2009 Total deal value
< $50M	83	$2,659	48	$1,206
$50M to $100M	40	2,776	18	1,234
$100M to $250M	34	5,438	15	2,421
$250M to $500M	20	6,713	10	3,427
$500M to $1B	8	6,180	6	4,134
> $1B	10	53,416	11	23,912
Total	**195**	**$77,182**	**108**	**$36,334**

Source: DealLogic

Top US technology deals of 2009

	Target	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Perot Systems USA	Dell Inc. USA	100%	$3,937	Provider of information technology services and business solutions	November 3
2	Metavante Technologies Inc. USA	Fidelity Information Services USA	100%	$2,944	Provider of banking and payments technology	September 30
3	Starent Networks Corp. USA	Cisco Systems Inc. USA	100%	$2,941	Provider of network infrastructure services delivering mobile multimedia services	December 18
4	AOL Inc. USA	Time Warner Inc. (Shareholders) USA	95%	$2,405	Provider of Internet-based technologies and e-commerce services	December 9
5	Skype Technologies SA (eBay) USA	Silver Lake Partners LP; Canada Pension Plan Investment Board; Index Ventures; Andreessen Horowitz Fund USA	70%	$2,114	Developer of Internet-based telecommunication software systems; specializes in voice over Internet protocol (VoIP)	November 19
6	Data Domain Inc. USA	EMC Corp. USA	100%	$2,053	Provider of disk-based data protection	July 23
7	Omniture Inc. USA	Adobe Systems Inc. USA	100%	$1,884	Supplier of website analysis software to businesses	October 23
8	TASC Inc. USA	General Atlantic LLC; Kohlberg Kravis Roberts & Co. USA	100%	$1,601	Provider of computer systems for US intelligence agencies, non-government agencies and commercial customers	December 18
9	Foundry Co. USA	Advanced Technology Investment UAE	66%	$1,595	Semiconductor manufacturing company	March 2
10	SPSS Inc. USA	International Business Machines USA	100%	$1,285	Manufacturer of statistical software products	October 2

Source: DealLogic

Top US technology deals of 2008

	Target	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Electronic Data Systems Corp.—EDS USA	Hewlett-Packard Co. USA	100%	$12,318	Provider of systems and technology services, business process management, management consulting, and electronic business services	August 26
2	Activision Inc. USA	Vivendi SA France	52%	$10,486	Publisher of interactive entertainment software products	July 10
3	BEA Systems Inc. USA	Oracle Corp. USA	100%	$8,695	Provider of enterprise software solutions and standards-based platforms that accelerate the secure flow of information and services	April 29
4	Navteq Corp. USA	Nokia Oyj Finland	100%	$8,429	Provider of digital mapping and navigation software	July 10
5	ChoicePoint Inc. USA	Reed Elsevier plc & NV UK	100%	$3,503	Provider of risk management and fraud prevention information and related technology solutions to the insurance industry	September 19
6	DoubleClick USA	Google Inc. USA	100%	$3,193	Provider of online advertising and management services to advertisers	March 31
7	Foundry Networks Inc. USA	Brocade Communications Systems Inc. USA	100%	$2,523	Manufacturer of networking products	December 19
8	NXP Semiconductors USA	STMicroelectronics NV USA	100%	$1,497	Provider of wireless operations	July 28
9	EqualLogic Inc. USA	Dell Inc. USA	100%	$1,420	Supplier of consolidated storage in a modular, self-managing, IP-based storage area network	January 8
10	TriZetto Group Inc. USA	Apax Partners LP; Blue Cross Blue Shield of Tennessee; Regence Group USA	100%	$1,352	Provider of healthcare software applications	August 4

Source: DealLogic

No passports necessary, as cross-border deals take the year off

Cross-border activity, both inbound and outbound appeared to have taken a holiday for 2009 as volumes dropped 60% from 2008 levels. The drop-off was relatively consistent across geographies for inbound deals. Although the euro began to regain ground on the dollar starting in March, the global nature of the recession apparently proved too much for European buyers to browse the US market for opportunistic deals.

US outbound activity was similarly impacted across the board, although US to Asia deals were hardest hit, posting a paltry three deals totaling $104 million. As economic woes proved too much for early decoupling theories, US companies appear to have slowed their plans for Asian expansion and focused on shoring up operations in their home markets.

Early indications for 2010 suggest increased activity inbound from Asia to the United States as Asian technology players shop for brands and market entry. Look also for opportunistic outbound activity from the United States to certain European markets as long as weaker exchange rates make local players look more attractive.

Top 5 cross-border technology deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Foundry Co. USA	Advanced Technology Investment UAE	66%	$1,595	Semiconductor manufacturing company	March 2
2	Interwoven Inc. USA	Autonomy Corp. plc UK	100%	$778	Provides web content management solutions	March 17
3	GE Security, Inc. USA	Safran SA France	81%	$580	Provides explosive and narcotics detection	September 8
4	Lifesize Communications Inc. USA	Logitech International SA Switzerland	100%	$420	Provider of high definition video communications solutions	December 11
5	Vignette Corp. USA	Open Text Corp. Canada	100%	$333	Provider of content management and portal software products and services	July 21

Source: DealLogic

US cross-border technology deal value

In $US millions, except #

	2008					2009				
	Domestic	US as target	US as bidder	Net import (export)	Total	Domestic	US as target	US as bidder	Net import (export)	Total
Number of deals	146	49	63	14	258	88	20	24	4	132
Total deal value	$50,696	$26,485	$15,836	($10,650)	$93,018	$31,827	$4,507	$2,396	($2,111)	$38,730
Average deal value	$347	$541	$251	N/A	$361	$362	$225	$100	N/A	$293

US as a target	2008					2009				
	Europe	Asia	Canada	Rest	Total	Europe	Asia	Canada	Rest	Total
Number of deals	26	11	6	6	49	11	5	1	3	20
Total deal value	$25,314	$663	$302	$207	$26,485	$2,395	$119	$333	$1,660	$4,507
Average deal value	$974	$60	$50	$34	$541	$218	$24	$333	$553	$225

US as an acquirer	2008					2009				
	Europe	Asia	Canada	Rest	Total	Europe	Asia	Canada	Rest	Total
Number of deals	38	8	7	10	63	17	3	3	1	24
Total deal value	$8,272	$663	$5,288	$1,613	$15,836	$1,579	$104	$544	$169	$2,396
Average deal value	$218	$83	$755	$161	$251	$93	$35	$181	$169	$100

Source: DealLogic

Private equity

Down but not entirely out

For much of the past 18 months, private equity investors have been frequently forced to cede the deal making spotlight to corporate buyers, as deteriorating confidence, difficult debt market conditions and portfolio preoccupations kept many on the sidelines. Nevertheless, financial buyers still managed to close north of $5 billion worth of deals in 2009, with purchases running the gamut from IT services and Internet to software and semiconductor.

Through much of the year, private equity owners were diligently preparing many of their most promising portfolio companies for public listing. Interestingly, roughly 35% of all US IPOs in 2009 were private equity backed, the highest level on record. Within the technology sector, semiconductor designer Avago Technologies, backed by KKR and Silver Lake, made the biggest splash when it listed in August at an implied valuation of $3.5 billion.

Top 5 private equity technology deals of 2009

	Target and its region	**Bidder and its region**	**Acquired stake, %**	**Bid value ($US million)**	**Target business description**	**Completion date**
1	Skype Technologies SA (eBay) USA	Silver Lake Partners LP; Canada Pension Plan Investment Board; Index Ventures; Andreeson Horowitz Fund USA	65%	$2,114	Developer of Internet based telecommunications software systems. Specializes in voice over Internet protocol (voIP)	November 19
2	TASC Inc. USA	General Atlantic LLC; Kohlberg Kravis Roberts & Co. USA	100%	$1,601	Provider of computer systems for US intelligence agencies, nongovernment agencies and commercial customers	December 18
3	Foundry Co. USA	Advanced Technology Investment UAE	66%	$1,595	Semiconductor manufacturing company	March 2
4	MSC Software Corp. USA	Symphony Technology Group LLC USA	100%	$410	Computer aided engineering software developer	October 14
5	Entrust Inc. USA	Thoma Bravo LLC USA	100%	$123	Provider of digital certificates, security and encryption software	July 28

Source: DealLogic

The majority of the technology deals sought by financial buyers in 2010 will likely be smaller bolt-on acquisitions. The much-anticipated return of the IPO market portends increased exit activity in 2010 for technology companies acquired in the front to middle of the last M&A boom. There is no better way to prepare a business for sale than to buy a complementary company whose overhead costs can be supplanted by those of an existing portfolio company's infrastructure, thereby quickly adding revenues and enhancing cash margins.

Exit activities will not be the only thing on the minds of financial investors. There will also likely be opportunistic acquisitions in which the larger, deal-starved private equity shops find companies with a solid track record of operating cash flows that can be leveraged once the banks feel less squeamish about debt ratios. Although cash will continue as king in 2010, technology companies across all verticals whose cash flows and valuations are depressed by public company costs and suboptimal finances or operations will also be targets.

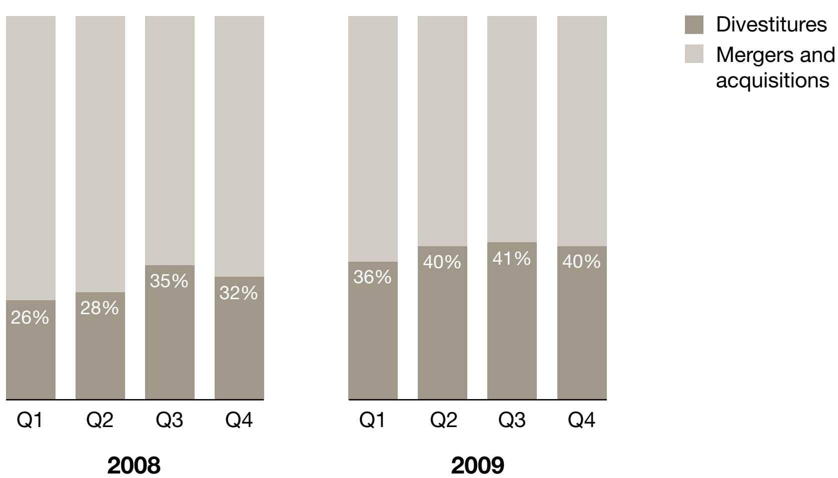
Overall, look for 2010 to deliver higher levels of private equity acquisitions and exits than those witnessed over the past 18 months, but don't expect valuations to improve. These firms have a lot of cash to put to work, but their main focus will be on improving what they already have in their portfolios.

Divestitures

Returning to the core

After a delayed start, technology industry divestitures in 2009 began to approach historical recessionary levels. Our research of divestitures (i.e., the sale of a portion of a business) suggests a countercyclical relationship between divestitures and M&A activity. In looking at deals from 1999 to 2009, we see that as the total volume of M&A activity decreases, divestitures as a percentage of total deal volume increase. As the myriad economic factors pushed acquisitions to the brink of extinction in the first half of the year, divestitures as a percentage of total closed M&A deals steadily ramped up. By the third quarter of 2009, divestitures achieved a high point of 41% of all deals, evidencing the many companies taking action to return to their core operations.

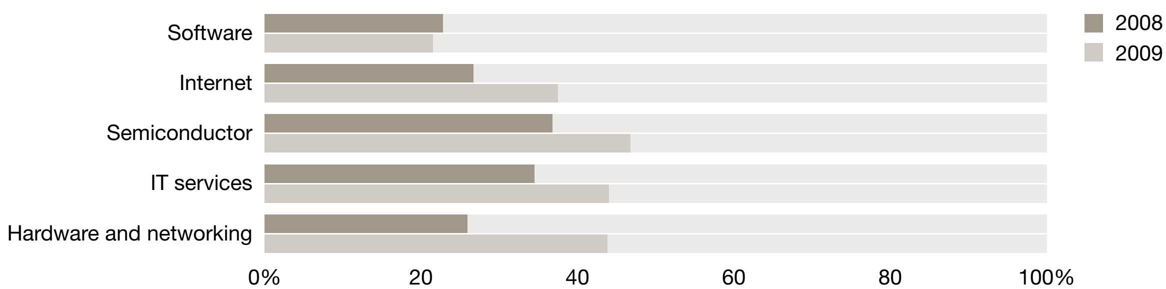
Trailing 8 quarters of divestiture activity for the technology sector



Source: DealLogic

Divestitures as a percent of total M&A activity within each technology subsector increased from 2008 to 2009, with the exception of the software sector, which historically hovers around the 20% mark.

Divestitures by technology subsector



Source: DealLogic

Individual transactions highlighting the trends identified above include: VeriSign, in the Internet sector, finalizing a program of divesting of certain non-core businesses; Leadis Technology, in the semiconductor sector, with the sale of its capacitive touch sensor business; BearingPoint, in the IT services sector, implementing plans to sell substantially all of its businesses in North America, Europe, Latin America, and the Asia Pacific region; and AMD, in the semiconductor sector, divesting the majority ownership of its chip manufacturing operations as well as certain handheld media assets throughout the year.

As the M&A market regains momentum, we expect to see a corresponding decline in divestiture percentages, but don't be fooled into thinking that they've gone away. As larger transactions return, regulatorily-mandated divestitures of business units will most certainly increase. Regardless of that trend, with continued low interest rates, thawing debt and equity markets and improving market valuations, divestitures will continue to be used as a valuable tool for companies as they assess investment returns on particular assets or continue the pruning necessary to implement corporate strategies recently refocused on their core businesses.

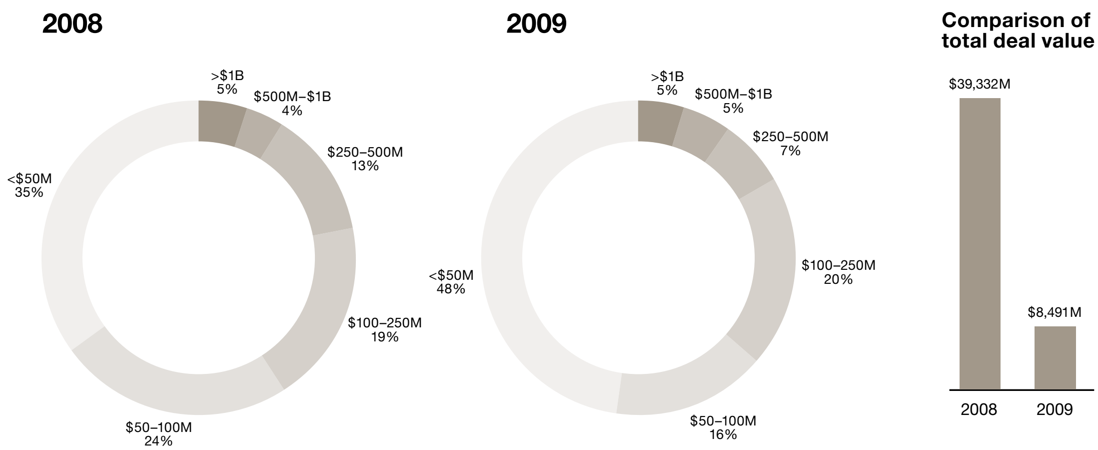
Sector analyses

Software

Deals plummet as the midmarket dries up

The software sector has long been the driving force for technology deals, representing over 50% of deal value in 2008. But as customers focused on making do with what they had and new implementations were put on hold, deal volumes suffered, dropping 41% on the prior year to just 44 completed transactions. More dramatically, total deal value plummeted 78% as the typically robust activity in midmarket deals dried up. What remained was a handful of large deals completed at the tail end of the year with the vast majority of the remainder in the sub-$100 million range, as borne out by the drop in average deal size from $524 million in 2008 to $193 million in 2009.

Software sector deals by volume



In $US millions, except #	2008 Number of deals	2008 Total deal value	2009 Number of deals	2009 Total deal value
< $50M	26	$ 804	21	$ 476
$50M to $100M	18	1,140	7	548
$100M to $250M	14	2,344	9	1,472
$250M to $500M	10	3,428	3	1,164
$500M to $1B	3	2,654	2	1,662
> $1B	4	28,962	2	3,169
Total	**75**	**$ 39,332**	**44**	**$ 8,491**

Source: DealLogic

Top 5 software deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Omniture Inc. USA	Adobe Systems Inc. USA	100%	$1,884	Provider of website analysis software for businesses	October 23
2	SPSS Inc. USA	International Business Machines USA	100%	$1,285	Manufacturer of statistical software products	October 2
3	Wind River Systems Inc. USA	Intel Corp. USA	100%	$884	Provider of embedded software and services for smart devices in the Internet age	July 17
4	Interwoven Inc. USA	Autonomy Corp. plc UK	100%	$778	Provider of Web content management solutions	March 17
5	SpringSource USA	VMware Inc. USA	100%	$420	Provider of open source software for mission-critical enterprise applications	September 29

Source: DealLogic

Leading the pack in 2009 was Adobe Systems' bet on Web analytics market leader Omniture for $1.9 billion. The acquisition reportedly provided Adobe with a roughly 40% market share but at the same time pits the company against Google, Yahoo! and others that are vying to capture their own piece of this rapidly evolving market sector.

IBM increased its presence in the business intelligence realm with its $1.3 billion deal for business analytics software developer SPSS. The transaction complements IBM's 2007 purchase of Cognos and sparked speculation of continued consolidation in the sector from the likes of SAP and SAS.

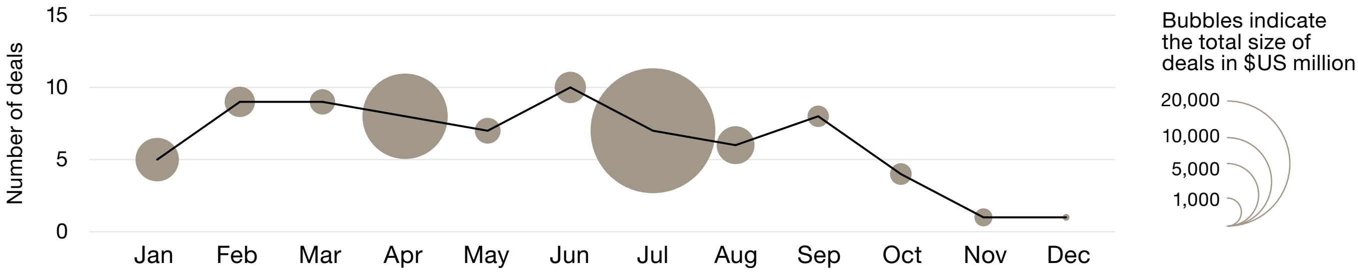
Rounding out the sector's top deals of the year were Intel's acquisition of Wind River Systems for $884 million, representing a foray into embedded systems and out of traditional PC and server markets, and Autonomy's purchase of Interwoven for $778 million. This was one of the few sizable transactions early in the year and showed that companies were willing to deal where the strategic fit reduced risk. Finally, VMware's acquisition of Java tools developer SpringSource for $420 million is expected to result in closer integration of the two companies' virtualization and Java applications. Coming in the second half of the year, this transaction provided a reminder that early stage companies with desirable intellectual property continue to have an attractive alternative to the IPO markets, registering a 20x trailing revenue multiple.

On the margins, one apparent victim of the downturn was Borland Software, at one stage the second-largest software company behind Microsoft, which was acquired by Micro Focus for $110 million.

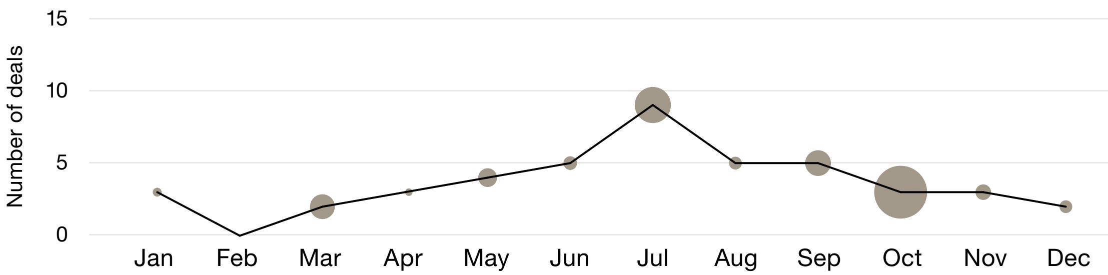
In retrospect, 2008 deal activity looks positively giddy. Leading the pack then was French entertainment giant Vivendi, which acquired a majority stake in the US gaming company Activision for $10.5 billion. After its initial offer was rebuffed, Oracle shored up its considerable position in the software industry with its $8.7 billion purchase of "middleware" maker BEA Systems. Nokia padded its lead in the mobile-phone market with the $8.4 billion acquisition of Navteq, a major digital map maker for GPS devices.

Software sector deals by month

2008



2009



Source: DealLogic

Volume returns, but megadeals still lag

As the economy continues to stabilize, the application license sales declines that began in late 2008 should finally turn upward. As customers open their IT wallets, SaaS and other offerings from the cloud will likely take center stage as a means of cost management. Companies with gaps in their portfolio will find that it is better to buy now than build later. Although the number of SaaS companies at scale remains limited, those that have started to gain critical mass are increasingly attractive targets for both corporate and PE buyers, with the latter drawn to these companies' cash profile and forward visibility.

Security deals should receive a boost this year in response to increased attempts on commercial and consumer data stored in the cloud. Google's announcement in January 2010 of a major attack on its corporate infrastructure is a sobering reminder to all that no one is immune. Companies such as Symantec and McAfee will most certainly reap benefits from these incidents but at the same time, there are also a number of smaller players with innovative solutions. Many are eyeing the thawing IPO markets as a suddenly viable option, but many others will shun the cost and regulatory scrutiny in favor of the warm embrace of a technology buyer. Regardless of the outcome, this competition for their attention should serve to move valuations up the curve.

Although we expect volumes to increase, the number of large ($1 billion plus) software transactions might struggle to reach 2008 levels as investors remain selective. When they happen, such large transformational deals will likely involve companies looking to expand beyond their core competencies. Technology companies that haven't traditionally played in the software sector are likely to continue to enhance and diversify their product and service offerings in an effort to provide seamless solutions. This blurring of the lines between software and hardware vendors will bring with it operational challenges as the acquirers struggle to integrate two very different margin models. One upside for these deals: The new software revenue recognition rules implemented late in 2009 should provide for an acceleration of accretive returns.

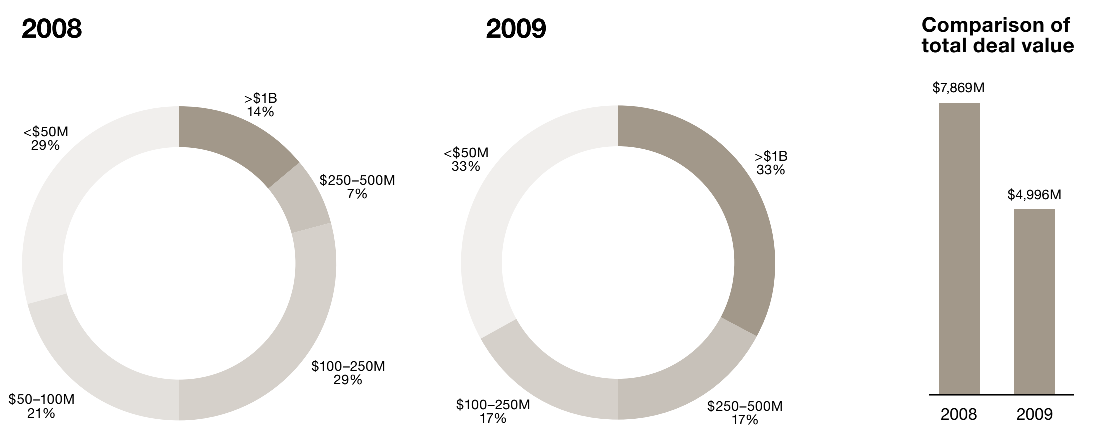
Look for midmarket deals to reclaim their place as the engine of software deal activity. Although the valuation gaps of 2009 still run the risk of continuing because of competition from buyers and the improving IPO markets, our expectation is that smaller players will either bulk up with portfolio expansions or be bought up as someone else's tuck-in buy. These will run the gamut from business intelligence to security and mobile applications to SaaS.

Internet

Volumes down 60% as major players stay on the sidelines again

It was a case of déjà vu for Internet deals in 2009 as the major players once again all but sat out the year. With the exception of Google's announced Admob buy for $750 million and Zappos being added to Amazon's shopping cart (at the time of publication, neither deal had closed yet), the titans of the Internet extended their large deal drought. Deal volume was down 60% and values dropped 37% to total $5 billion, with all of that activity occurring in the second half of the year.

Internet sector deals by volume



In $US millions, except #	2008 Number of deals	2008 Total deal value	2009 Number of deals	2009 Total deal value
< $50M	4	$ 130	2	$ 57
$50M to $100M	3	243	–	–
$100M to $250M	4	501	1	152
$250M to $500M	1	300	1	268
$500M to $1B	–	–	–	–
> $1B	2	6,696	2	4,519
Total	**14**	**$7,869**	**6**	**$4,996**

Source: DealLogic

Top 5 Internet deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	AOL Inc. USA	Time Warner Inc. (shareholders) USA	95%	$2,405	Provider of Internet technologies and e-commerce services	December 9
2	Skype Technologies SA (eBay) USA	Silver Lake Partners LP; Canada Pension Plan Investment Board; Index Ventures; Andreessen Horowitz Fund USA	65%	$2,114	Developer of Internet-based telecommunication software systems; specializes in voice over Internet protocol (VoIP)	November 19
3	Retail Convergence Inc. USA	GSI Commerce Inc. USA	100%	$268	E-commerce and online sales platform	November 18
4	NYFIX Inc. USA	NYSE Euronext USA	100%	$152	Provider of electronic trading infrastructure	November 30
5	Kana Software Inc. USA	Accel-KKR LLC USA	100%	$40	Developer of integrated suite of e-business infrastructure	December 23

Source: DealLogic

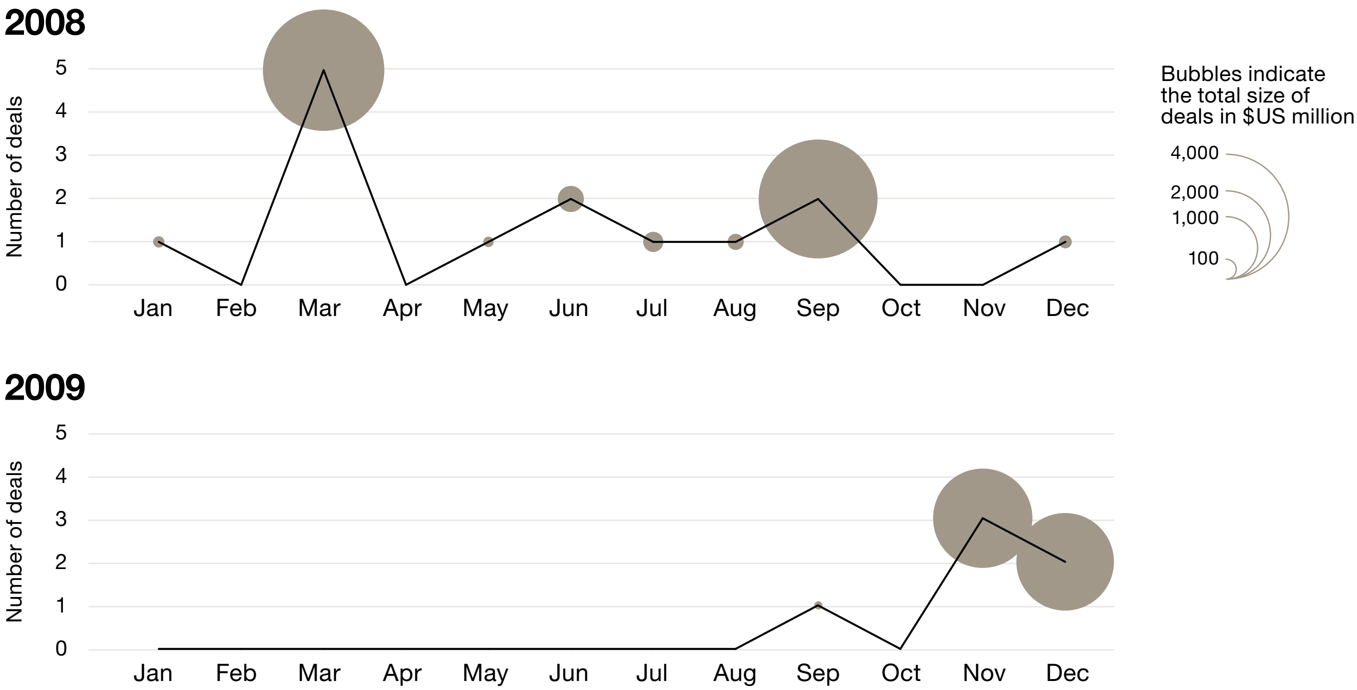
The $2.4 billion AOL spin-off to Time Warner shareholders saw AOL emerge as an independent Web services company for the first time in almost 10 years. The deal brought to a close one of the most high-profile legacies of the dot-com era—one that still stands as the largest (and some say worst) merger in American business history.

Earlier in the year, a consortium led by private equity firm Silver Lake Partners assisted in the unwinding of another megadeal of the Internet's past when it acquired Skype for $2.1 billion. In this case, however, eBay continues to have involvement in Skype, retaining 35% of its former subsidiary. Interestingly, the acquiring consortium utilized a 2:1 debt-to-equity ratio, significantly down from pre-credit crunch leverage levels and a possible harbinger for private equity deals in the coming year.

These two transactions represented approximately 90% of 2009 deal value in this sector. As the economy struggled, online advertising became more concentrated with the large companies, leaving midmarket players to focus on cutting costs and riding out the year rather than making deals. While mostly quiet on the large-deal front, Google was active in acquiring a handful of start-ups throughout the year, with the majority coming in the back half of the year. Yahoo! on the other hand started the summer with its purchase of Xoopit but, aside from its acquisition of Arabic website Maktoob the following month, remained uncharacteristically quiet.

In 2008, we saw two deals greater than $3 billion. First, Reed Elsevier paid $3.5 billion for ChoicePoint, thus creating a global information-gathering powerhouse, albeit arguably noncore to the sector. The other blockbuster was Google's closing of its acquisition of online-advertising innovator DoubleClick for $3.2 billion. Meanwhile, Amazon expanded its e-book horizons with the $300 million purchase of Audible, one of the largest purveyors of downloadable digital audio books.

Internet sector deals by month



Source: DealLogic

Internet deals outlook

Tuck-ins with the chance for a few surprises

Google may well have fired the starting gun on 2010 Internet deals with their announcement in September 2009 that they expect to acquire one company per month in the coming year. Many other Internet giants appear to have their houses well in order to support increased deal making which all point to growth for Internet M&A in 2010. There are a variety of niche players in real-time search, augmented reality and location-based applications that will find themselves in demand as the larger companies vie for distinctive leadership in these fast-growing areas. Similarly, online payment-related deals look to heat up on the heels of American Express' announced purchase of Revolution Money late in 2009. It would appear that eBay's PayPal and BillMeLater solutions will soon have some company.

Don't be surprised if 2010 witnesses the long-speculated acquisitions (or IPOs) of some or all of the social Web leaders such as Twitter, Facebook and LinkedIn. Although the public markets continue to look with a skeptical eye toward their long term business models, they all represent logical extensions of the various unified communications strategies in the market. Regardless of whether these come to pass, we expect to see an uptick in smaller Internet deals in 2010. Look for technology tuck-ins similar to Apple's announced acquisition of LaLa.com or smaller versions of AdMob as companies across the technology, media and entertainment sectors look for ways to position themselves for the increasing convergence in media and devices.

While most speculation about the Internet industry focuses on user interfaces and content delivery, the core technologies that power the Internet could themselves experience radical shifts over the next year. Two significant trends we see are the continued acceptance of search as the standard by which people find and connect to Internet sites and the move by ICANN, the not-for-profit organization responsible for overseeing the Internet's domain name system, to release more top level domain names to the public. Both trends could signal consolidation or bolt-on M&A among Internet companies in 2010 and beyond, as the lines between user interfaces and infrastructure blur in a way similar to that which the software sector is currently experiencing.

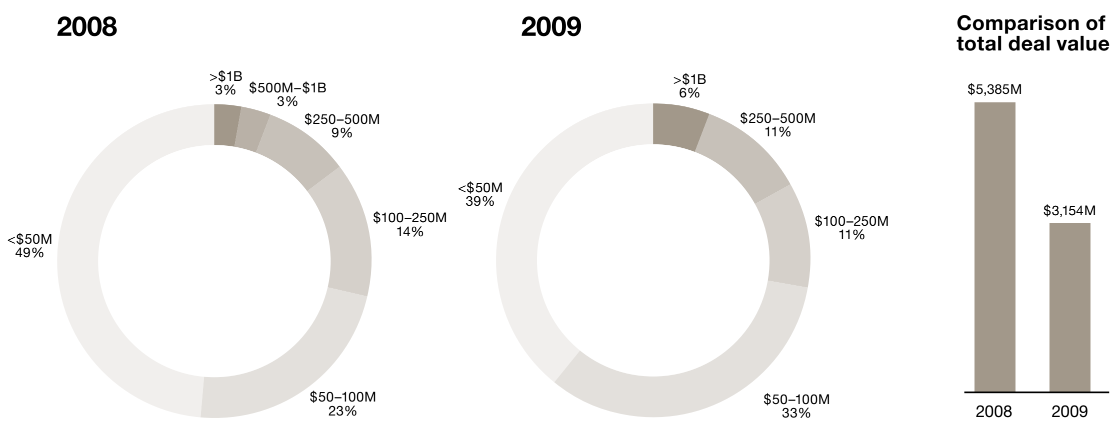
Finally, although we said it last year, we'll reiterate our forecast for acquisitions along the distribution channel for online, on-demand delivery of movies, television and other media as access points via low-cost receivers and game consoles become ubiquitous.

Semiconductor

Deals drop 50% as market majors hunker down

Deal volumes in the semiconductor sector dropped by 49% to 18 deals while total value shed 41% as most players focused on survival. The economic crisis was particularly hard on the semiconductor industry, which is expected to post its sixth revenue decline in 25 years and one of the worst since the dot-com bust in 2001. Higher memory prices resulting from supply-side shortages helped some market majors weather the storm better than others. Nevertheless, customer destocking that began at the end of 2008 continued in earnest through much of the year as both industrial and consumer segments postponed purchases. As the economy began to see signs of recovery, suppliers to the PC and mobile markets were the first to see orders returning. However, year-on-year sales growth did not return until November, on the back of better-than-expected consumer electronics demand. These events forced most companies in the sector to simply hunker down and focus on reducing costs to a minimum in an attempt to survive, and these actions were surely reflected in the near-silent deal market.

Semiconductor sector deals by volume



	2008		2009	
In $US millions, except #	Number of deals	Total deal value	Number of deals	Total deal value
< $50M	17	$ 521	7	$ 189
$50M to $100M	8	597	6	384
$100M to $250M	5	781	2	377
$250M to $500M	3	1,006	2	609
$500M to $1B	1	982	–	–
> $1B	1	1,497	1	1,595
Total	**35**	**$ 5,385**	**18**	**$ 3,154**

Source: DealLogic

Top 5 semiconductor deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Foundry Co. USA	Advanced Technology Investment UAE	66%	$1,595	Manufacturer of semiconductors	March 2
2	Semitool Inc. USA	Applied Materials Inc. USA	100%	$355	Manufacturer of semiconductor equipment	December 17
3	Intellon Corporation USA	Atheros Communications USA	100%	$254	Manufacturer of powerline communications solutions for home networking and smart grid applications	December 15
4	RMI Corporation USA	NetLogic Microsystems USA	100%	$203	Provider of high-performance, low power multi-core, multi-thread processors	October 30
5	Dune Networks USA	Broadcom Corp. USA	100%	$174	Supplier of fabless semiconductor networking devices facilitating the build of data center, enterprise and carrier ethernet switching platforms	December 14

Source: DealLogic

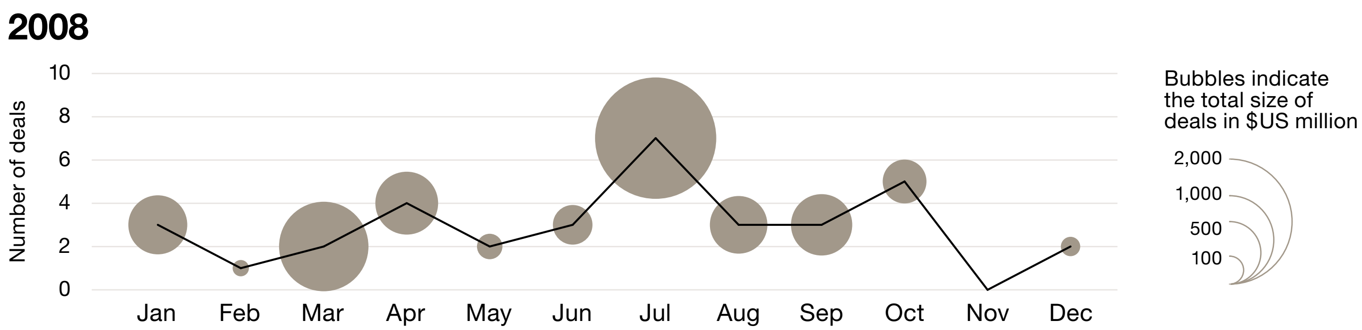
The year began with the completion of AMD's spin-off of its chip manufacturing operations to a joint venture with Advanced Technology Investment Co. (a company owned by the Abu Dhabi government) for $1.6 billion. The formation of the new company, ultimately named GlobalFoundries, represented an opportunistic buy during distressing times. The company has since gone on to further consolidate the industry with the purchase of Singapore-based Chartered Semiconductor later in the year and rumors of more in the pipeline.

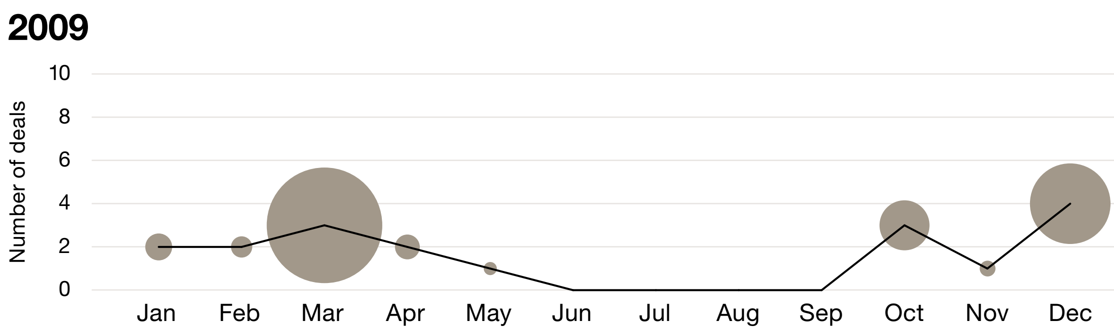
As the details of the GlobalFoundries deal were being finalized, AMD continued its refocusing strategy when it disposed of certain handheld media assets to Qualcomm for $65 million. In February, HiFn Technology, a small publicly traded data compression and encryption chip maker, ended a presumed courtship with Adaptec when it was acquired outright by Exar for $59 million. These early starts did not spur further substantive industry activity, and it would take the rest of the year before strategic deals once again began to surface. This was the case despite on-again, off-again rumors of divestitures such as Freescale's mobile chips business and others.

In October, NetLogic Microsystems further diversified its end-market penetration with its $203 million acquisition of RMI Corp. December witnessed a slow but steady return of semiconductor deals with Applied Materials' purchase of Semitool Inc. for $355 million, extending its coverage of the advanced packaging market and putting the company in direct competition with Novellus, the current leader in the field. Atheros Communications' $254 million acquisition of Intellon expanded its coverage of the broadband home to include powerline communication solutions with the added benefit of smart grid exposure. Broadcom's $174 million acquisition of Dune Networks shows that chip makers too are focusing on opportunities presented by the cloud. In this instance, Dune Networks' high-speed chipsets were viewed as a means for Broadcom to expand its portfolio for customers building cloud networks.

The prior year had similarly witnessed declines in deal activity coming off several heady deals in 2007. The only transactions greater than $1 billion in 2008 were STMicroelectronics' $1.5 billion acquisition of the wireless chip unit of NXP Semiconductors during the summer and ON Semiconductor's acquisition of AMIS Holdings for just less than $1 billion earlier in the year.

Semiconductor sector deals by month





Source: DealLogic

Semiconductor deals outlook

Consolidation resumes as industry recovers

The global semiconductor industry is expected to begin a gradual recovery during 2010, with output reaching 2008 levels by 2011 and growth strong thereafter. As the major players emerge from their bunkers, expect an increase in consolidation similar to the approach being taken by GlobalFoundries. The announced recommencement of the sale process of Hynix Semiconductor may help to get the ball rolling.

While there are several large players with cash balances in the multiple billions, there also remain many smaller chip makers, public and private, that are struggling under heavy debt loads and still others that have been starved for cash during the downturn. This provides a plethora of potential targets for companies preparing to make the most of the next cyclical upturn by rounding out their technology offerings.

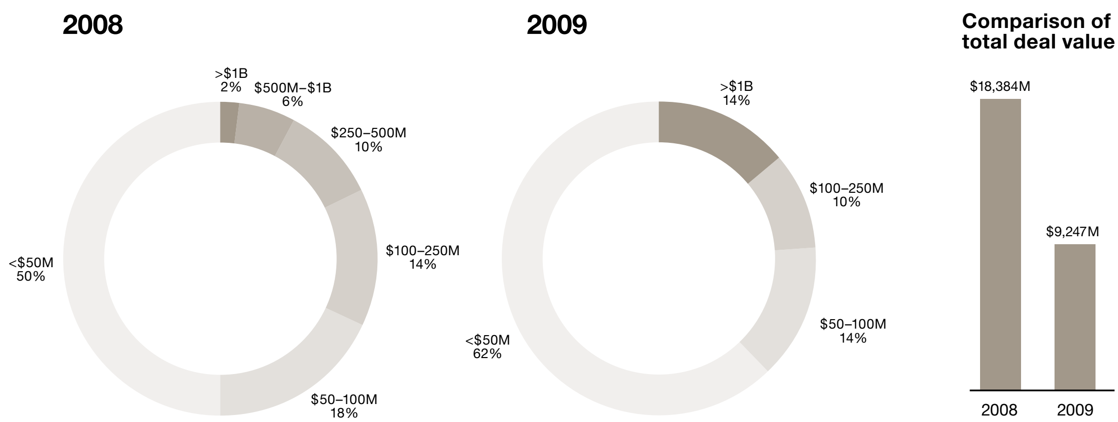
Wireless technologies such as cellular, Bluetooth and Wi-Fi should all be on buyers' shopping lists as they work to ensure that they are winning as big a piece as possible of the rapidly growing connectivity market. It remains to be seen whether growth in smartphone and similar devices will take a bite out of the market advances made by netbooks in 2009 or if there is room for all to coexist.

Data-storage deals never took off in 2009 as we predicted. Despite this, we continue to believe that as the cloud extends its reach, the increasing demand for central storage will incite larger players to add data storage to their shopping lists. Similarly, we expect to see continued interest in integrated device makers from the likes of Intel, Qualcomm and Texas Instruments as they expand ever further into market verticals.

Despite game changers, deals still down 50%

Coming off a rather unusual 2008 with HP's $12.3 billion transformational acquisition of EDS, deal activity in the IT services sector was destined to drop. Although both deal values and volume decreased by 50% or more, the decline was tempered by several transactions in the over $1 billion range. Average transaction size remained relatively consistent, in the $400 million range. Close activity was heavily weighted to the second half of the year with more than 97% of transaction value occurring then.

IT services sector deals by volume



In $US millions, except #	2008 Number of deals	2008 Total deal value	2009 Number of deals	2009 Total deal value
< $50M	25	$819	13	$352
$50M to $100M	9	661	3	174
$100M to $250M	7	1,162	2	238
$250M to $500M	5	1,606	–	–
$500M to $1B	3	1,818	–	–
> $1B	1	12,318	3	8,482
Total	**50**	**$18,384**	**21**	**$9,247**

Source: DealLogic

Top 5 IT services deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Perot Systems USA	Dell Inc. USA	100%	$3,937	Provider of information technology services and business solutions	November 3
2	Metavante Technologies Inc. USA	Fidelity Information Services USA	100%	$2,944	Provider of banking and payments technology	September 30
3	TASC Inc. USA	General Atlantic LLC; Kohlberg Kravis Roberts & Co. USA	100%	$1,601	Provider of computer systems for US intelligence agencies, nongovernment agencies and commercial customers	December 18
4	Entrust Inc. USA	Thoma Bravo LLC USA	100%	$123	Developer of products and services to manage electronic communications and transactions over Internet	July 28
5	Segovia Inc. USA	Inmarsat plc UK	100%	$115	Provider of satellite and telecom services	November 23

Source: DealLogic

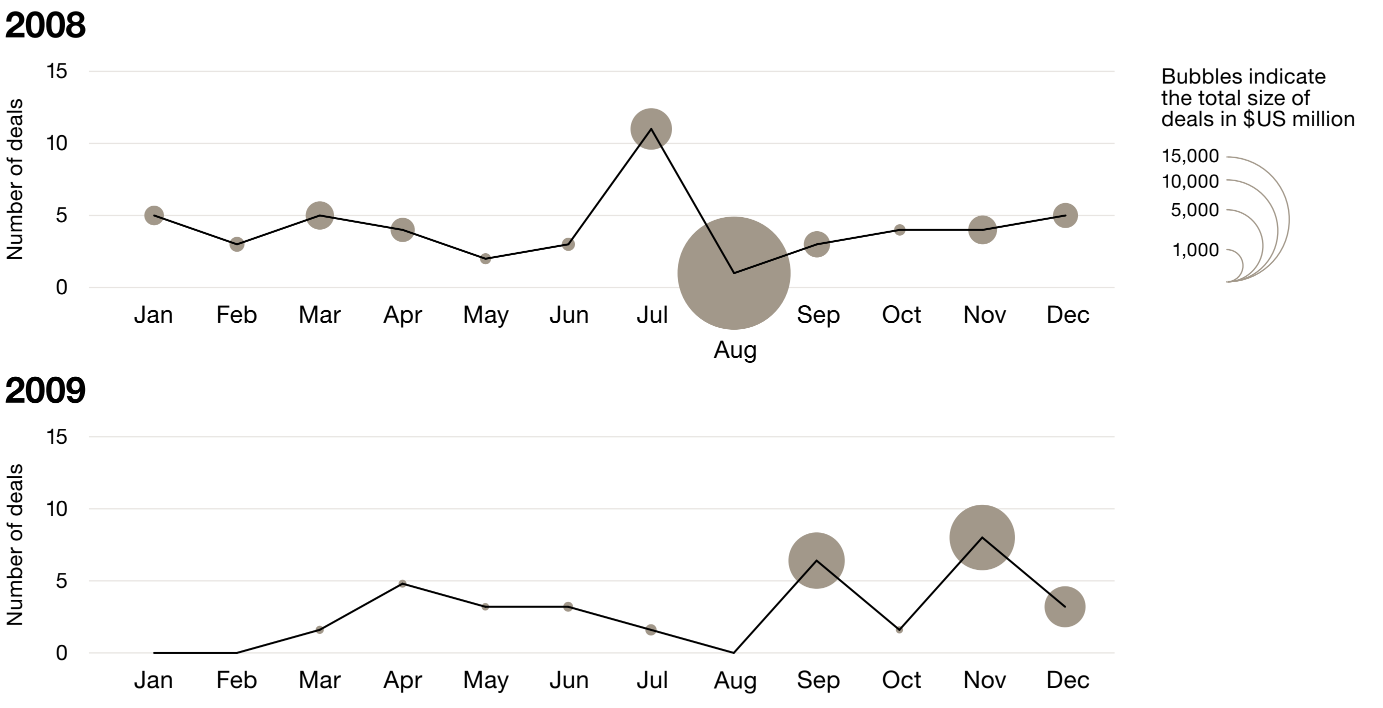
Despite the dismal headline figures, IT services activity in 2009 was much more interesting than it first appears. Fidelity Information Services fired the starting gun with its acquisition of Metavante Technologies for $2.9 billion, an attempt to bulk up before the technology giants encroach further into the outsourcing space. Not to be outdone, Dell upped the ante with a $3.9 billion bet on Perot Systems. The move placed the PC giant squarely into competition with HP and IBM in the systems integration space while some said this could potentially distract much-needed management attention with integration concerns during a challenging year for the PC market.

Suddenly, it seemed that everyone wanted to be a services company as Xerox announced, but has yet to close, its own $5.7 billion acquisition of Affiliated Computer Services to help them combat the combined HP-EDS in the battle for supremacy of print managed services.

Perhaps a bit more quietly out of the spotlight, the buyout of TASC Inc. for $1.6 billion by a consortium of KKR and General Atlantic, which closed in late December, hinted at a return of private equity. At the same time, it might also mark a focus shift toward defense-related opportunities, spending on which is estimated to reach $680 billion in budget year 2010.

Looking back, although in 2008 there was only one IT services transaction greater than $1 billion (HP's acquisition of EDS for $12.3 billion), the total consideration was greater than that of the five largest transactions in 2007. More than half of the transactions in 2008 were in the sub-$100 million price range.

IT services sector deals by month



Source: DealLogic

IT services deals outlook

Appetite continues, but large targets scarcer

We expect more large-scale IT services acquisitions in 2010 but are cognizant that likely targets are becoming scarcer. As hardware companies become increasingly commoditized, the logical solution is to expand into value-added services. This coupled with the expected return of corporate IT spending will put increased pressure on the services “have-nots” to find one for their own. The new IT spend mandate is likely to have a much higher emphasis on cost efficiency, thereby increasing the potential reward for those vendors that can bundle IT outsourcing with their product portfolio.

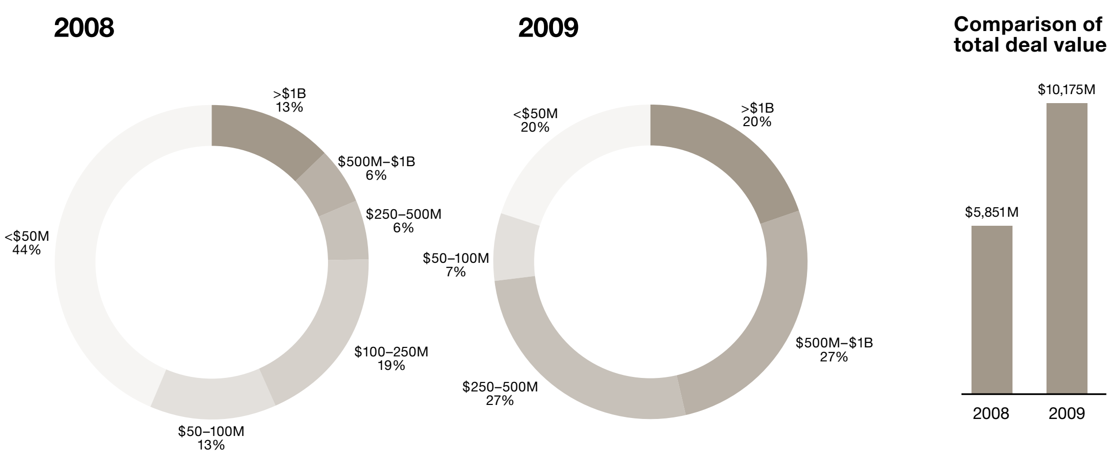
Government and healthcare-related opportunities should still provide an impetus for deal making among midmarket players as they attempt to broaden their service offerings or simply buy into existing governmental relationships. As stimulus funds have yet to fully work their way into the local markets, those companies that are quick to act will be most likely to claim the prize.

Hardware and networking

M&A activity comes roaring back

After an abysmal 2008 in which deal activity hit a five-year low, deals in the hardware and networking sector looked on track for a repeat performance through much of the first half of the year. As the economic woes all but eliminated CEOs' visibility into their markets, most players spent the winter and spring months focusing on cost management and attempting to strengthen their balance sheets. Those in the best position were quick to act on early signs of a rebound, and late summer preparations led to a flurry of announcements in the fall. As a result, deal values ended the year up 74% on 2008 at $10.2 billion with volumes remaining flat. Average deal size was up at $678 million vs. the $366 million of a year ago, reflecting several transactions greater than $1 billion. More than any other sector, these numbers would have been significantly higher if regulatory approvals had not postponed the closure of several more multibillion-dollar deals including Oracle-Sun ($7.4 billion), Cisco-Tandberg ($3.0 billion), HP-3Com ($2.7 billion) and Agilent-Varian ($1.5 billion).

Hardware and networking sector deals by volume



	2008		2009	
In $US millions, except #	Number of deals	Total deal value	Number of deals	Total deal value
< $50M	7	$240	3	$96
$50M to $100M	2	135	1	73
$100M to $250M	3	433	–	–
$250M to $500M	1	373	4	1,386
$500M to $1B	1	727	4	2,473
> $1B	2	3,943	3	6,147
Total	**16**	**$5,851**	**15**	**$10,175**

Source: DealLogic

Top 5 hardware and networking deals of 2009

	Target and its region	Bidder and its region	Acquired stake, %	Bid value ($US million)	Target business description	Completion date
1	Starent Networks Corp. USA	Cisco Systems Inc. USA	100%	$2,941	Provider of network infrastructure services delivering mobile multimedia services	December 18
2	Data Domain Inc. USA	EMC Corp. USA	100%	$2,053	Provider of disk-based data protection	July 23
3	Avocent Corp. USA	Emerson Electric Co. USA	100%	$1,153	Supplier of connectivity systems	December 10
4	Tyco Electronics Ltd. USA	Harris Corp. USA	100%	$675	Wireless systems business	June 1
5	Pure Digital Technologies USA	Cisco Systems Inc. USA	100%	$590	Provider of consumer-friendly video solutions	May 21

Source: DealLogic

Cisco Systems dominated the hardware and networking sector deal boards in 2009. The company started the year with the $590 million acquisition of Pure Digital, manufacturer of the Flip camera, aimed at broadening its consumer product footprint. This turned out to be a mere precursor to a very busy autumn when the company announced two multibillion-dollar transactions, Tandberg and Starent Networks, in as many weeks and followed them up with two smaller transactions, ScanSafe and DVN, within the following month. The Starent transaction closed quickly, but Tandberg suffered a prolonged but ultimately successful tender offer process that saw Cisco raising its initial offer to woo reluctant European shareholders. As noted, this deal, like many in the hardware and networking sector, is awaiting regulatory approval.

In July, EMC emerged the victor in a heated public battle with NetApp for control of Data Domain, paying $2.1 billion in cash for the data backup company. Unlike other large-scale transactions in the sector, this deal closed quickly with only US competition authorities involved.

Emerson Electric, an industrial equipment maker, responded to the siren call of the data center market with its $1.2 billion acquisition of Avocent in December. Emerson plans to utilize Avocent's network management suite to expand its coverage of the network power systems segment, where it already provides power distribution units, cooling systems and server rack components.

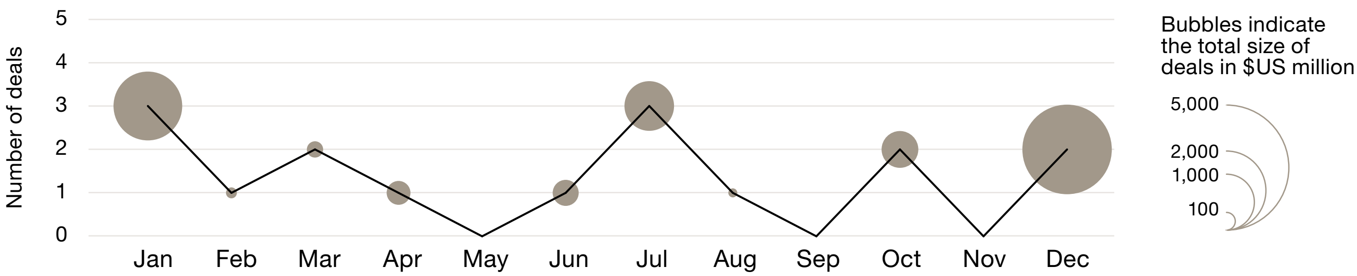
The interface between the technology sector and government applications was strong in 2009, perhaps reflecting continuing federal spending and the ongoing influence of global military operations. Harris' acquisition of Tyco's Electronics Wireless Systems division for $675 million was one of several deals underlying this trend.

One additional deal to note was computer peripheral maker Logitech's foray into the video telepresence market with its $420 million purchase of LifeSize Communications Inc. late in the year. This was a clear response to the combining market forces of cost management and air travel security concerns and came on the heels of Cisco's announcement of the Tandberg acquisition.

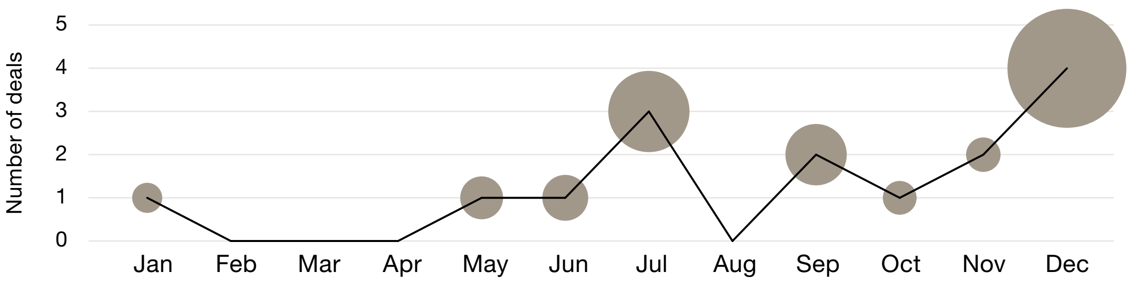
A year earlier in 2008, Dell completed its plan to increase market share in the Internet storage market by acquiring EqualLogic, a data-storage network systems maker, for $1.4 billion. What followed was a relatively quiet year, until the silence was broken by the $2.5 billion purchase of Foundry Networks, a maker of switching and routing equipment, by Brocade Communications Systems. The acquisition was seen as a move to bolster Brocade's position in the data-networking equipment market dominated by Cisco.

Hardware and networking sector deals by month

2008



2009



Source: DealLogic

Hardware and networking deals outlook

More deals to come as landscape continues to change

We expect the flurry of hardware and networking deals begun in 2009 to continue apace in 2010. Primary among the drivers will be the unfolding changes in the historical allegiances of technology business partners. These relationships were put to the test in 2009 as the major players looked to expand their coverage of the network from the front end and the back. As these strategies unfold, look to see increased development of holistic solutions from the major players. The solutions could arise from a series of miniature consolidations across security, storage and network subsectors as well as possible forays into the software, services and PC markets.

Midmarket transactions will regain some ground in 2010 as smaller players become more assured of the business environment and their related valuations. There are a number of smaller (but not small) companies with innovative technologies in the storage and security subsectors that are likely to either build out their offerings through bolt-ons or succumb to acquisition by one of the majors.

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 January 8, 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 code 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.

For 2008 data, we excluded the Computer Sciences Corporation private placement transaction in March valued at $1.3 billion, as it was not deemed to be a technology transaction within the assumptions set out above.

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 advisors 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** or **www.pwc.com/technology**.

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