

US technology M&A insights Q1 2012 update

April 2012

*A publication from
PwC's Deals practice*

At a glance

Technology businesses continue to lead other sectors in U.S. M&A activity, generating \$28.9 billion of deal value in the quarter despite lower deal volume.

Lofty IPO valuations have many companies pursuing a dual track to liquidity, preparing for both a sale and IPO, with attendant increases in valuation expectations.

Innovation and time to market will continue to fuel technology M&A as companies race to stay ahead of their competitors.

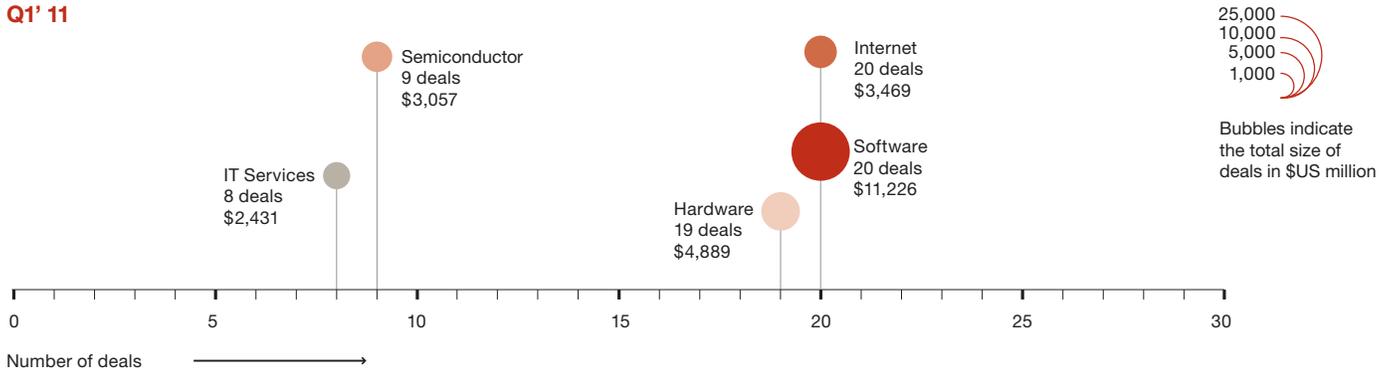
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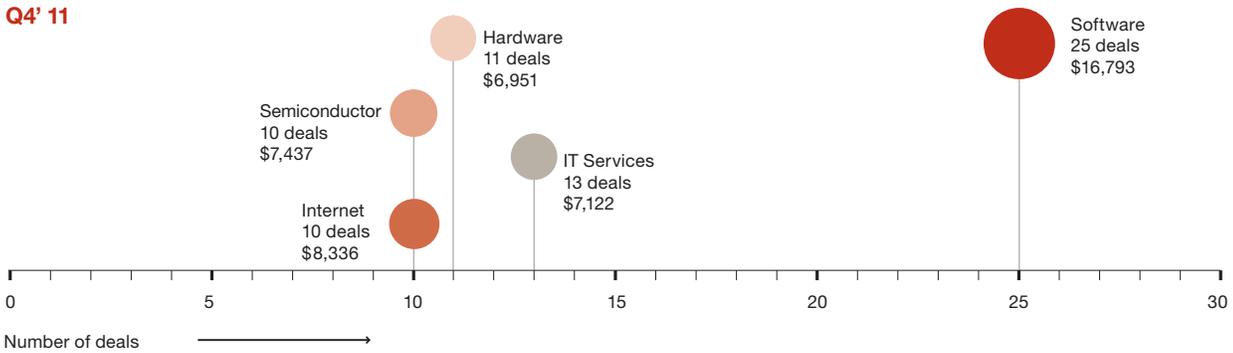
First quarter 2012 closed deal volume was down year-over-year and sequentially, while value remains in line with 2011 quarterly averages.

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

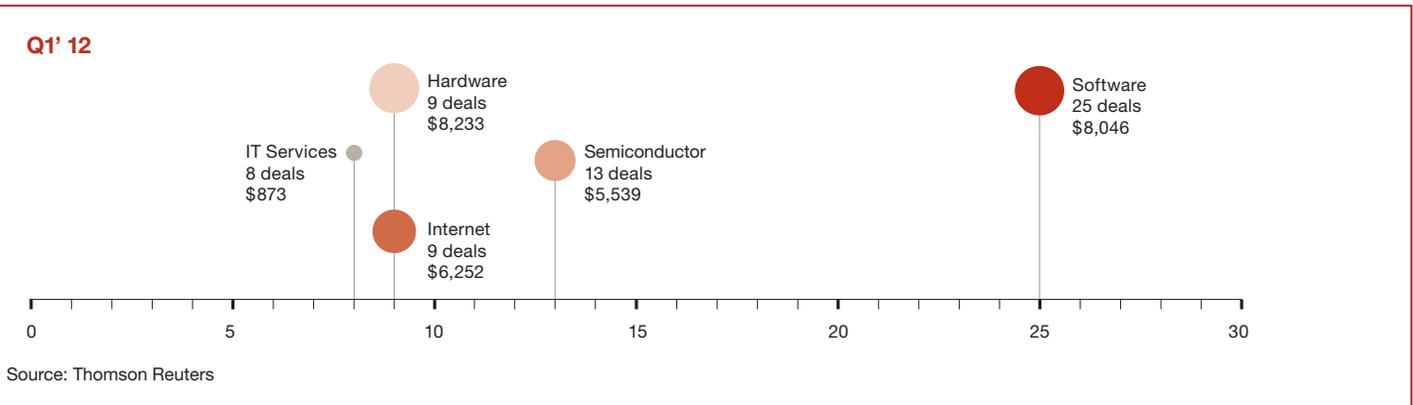
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Technology deals down as IPO fever lifts valuations

Welcome to the first-quarter 2012 update of PwC's US technology M&A insights. Year to date 2012 deal activity followed close to form of a tumultuous 2011 that witnessed a decline in M&A volumes despite some of the largest technology transaction announcements in recent history. While technology acquirers continued to identify and close large acquisitions, volumes at the lower end continued their decline. This in part due to resurgent tech IPO valuations, which came in spite of lower technology growth rate forecasts from Forrester and Gartner.

As the year began, the global macro-economic environment continued its disruptive gyrations. Quiet for most of the quarter, the European credit crisis looks poised to create further uncertainty, with EU members considering or expanding calls for austerity that were met with heated and sometimes violent backlash. Good, but not great, US jobs growth data could not bring the US unemployment rate below 8%, and soaring gasoline prices ate into already weary consumer budgets. These issues, plus the still-ailing US housing market, promise to be the focus of numerous political debates as we work towards the US presidential election in November.

Despite these myriad concerns, not all economic indicators signaled doom and gloom for US companies. The Dow Jones, NASDAQ, and S&P 500 all posted sizeable gains during the first three months of 2012, ending the quarter up 8%, 19%, and 12%, respectively. After a volatile 2011, healthy financial market growth in the quarter fueled IPO activity in the first three months leading to 13 technology IPOs and another 14 IPO registrations. Largest among these is the much anticipated Facebook IPO announcement. The large volume of technology IPO listings is a continuation of the trend started in 2011, which witnessed 65 technology listings, a 27% increase over the prior year.

With listings on the rise, technology businesses have increased their use of a "dual track" (parallel preparation for IPO or sale) approach to M&A. Further, robust IPO market valuations may have contributed to the decrease in transactions valued at less than \$250 million, which fell from 312 in 2010 to 218 in 2011 (average of 78 and 55, respectively, per quarter) and was similarly low in the first quarter of 2012 at 41.

Sector trends witnessed in the latter part of 2011 also carried into 2012. The shift away from historical M&A stalwarts, hardware and IT services, toward the software and Internet sectors continued, with the latter two sectors combining to contribute close to half of deal volume and value for the quarter. This appears to be the natural result of an inexorable transition to cloud computing technologies. As companies seek to satisfy consumer demand for ubiquitous access to information via mobile, tablet, and other network-connected devices, Internet and software acquisition candidates are providing the necessary tools. Media development and delivery, access to corporate and personal data, and of course, social networking, continue to comprise the core focus of both internal development and external innovation acquisition activities.

That need for innovation has also spurred a number of companies to shore up their patent portfolios to protect their position, resulting in a number of announced transactions below the billion dollar range focused on companies with proven and patented IP. We expect this activity to continue as businesses seek ways to protect existing technologies in an increasingly litigious environment while at the same time ensuring that they have a clear stake in the technological foundations of the future.

Technology M&A to remain strong, unless IPO enthusiasm fuels unrealistic valuation expectations.

Key announced transactions:

After a record-setting fourth quarter in 2011 in terms of cumulative value of announced deals, activity returned to normal in the new year with a few large acquisitions announced in the first quarter. Corporate deals close to or over \$1 billion announced in the first quarter of 2012 included:

- Cisco's planned acquisition of NDS Technologies for \$5 billion. The purchase of NDS, a provider of software solutions to the satellite television industry, represents Cisco's largest acquisition since the 2006 purchase of Scientific Atlanta.
- Oracle's planned acquisition of Taleo, a provider of cloud-based talent management solutions, for \$1.9 billion. The addition of Taleo increases Oracle's suite of cloud-based services building on previous acquisitions, including RightNow Technologies (closed in the current quarter).
- Amazon's planned acquisition of Kiva Systems, a provider of warehouse automation systems and equipment, for \$775 million. The acquisition represents the first in its space as Amazon adds capabilities in picking and packing products for customers.

Two of our year-end sector predictions for increased activity bore fruit in the first quarter. First up in the security sphere, Dell announced the acquisition of SonicWALL, a provider of security appliance solutions, which some analysts estimate to be valued at over \$1 billion. In the social/gaming sphere, Zynga announced the acquisition of OMGPOP, the maker of the overnight social game sensation "Draw Something," with estimates of a \$200 million valuation.

Large private equity announcements were fewer than in previous quarters. The larger private equity announcements in the first quarter included:

- Insight Venture Partners' acquisition of Quest Software in a buyout transaction valued at \$2 billion.

- The GTCR-backed acquisition by Zayo, a provider of fiber-based bandwidth services, of AboveNet for \$2.2 billion, expanding the company's customer access network.

This level of private equity activity is in line with historical expectations. While a number of large private equity buys were announced and closed in 2011, private equity transactions in the technology space have historically represented only 5-10% of total deal volumes.

Key closed transactions:

The volume of deals closed in first quarter of 2012 continued the downward trend experienced in the last two quarters of 2011. Volume decreased 7% to 64 deals in the first quarter compared to 69 deals closed in the previous quarter. Despite the decline in volume, cumulative transaction value of \$28.9 billion remained consistent with last year's trend of quarterly deal values of at least \$25 billion. A year ago, deal volumes totaled 76 transactions with a cumulative deal value of \$25.1 billion, demonstrating the year-over-year decline in volume evident throughout 2011.

Nine deals in excess of \$1 billion closed during the first quarter with a combined value of \$20.5 billion, the second-highest value of mega deals since 2008. Due to the number of transactions over \$1 billion, coupled with the lower overall volumes, average deal value for the quarter was \$452 million, well above the first quarter of 2011 at \$330 million and the average for all of 2011 at \$406 million. Last year's average deal value was bolstered by a record fourth quarter, which saw the highest quarterly deal value closed in recent years with 69 transactions and a cumulative deal value of \$46.6 billion (average of \$676 million per transaction). Some of the momentum generated in the fourth quarter of 2011 appears to have carried into the current quarter.

The largest transactions closed during the quarter include:

- Western Digital completed the Viviti Technologies acquisition, announced a year ago, after receiving regulatory approvals. The transaction valued at \$4.8 billion represents the largest transaction closed during the period.
- Broadcom closed its acquisition of NetLogic for \$3.7 billion, expanding the chipmaker’s market share in the growing segment of streaming video and data.
- SAP completed its \$3.7 billion acquisition of SuccessFactors, announced in December 2011, adding to its suite of cloud-based services.
- Oracle closed its acquisition of cloud-based customer service provider RightNow Technologies for \$1.8 billion, bolstering its cloud offering.

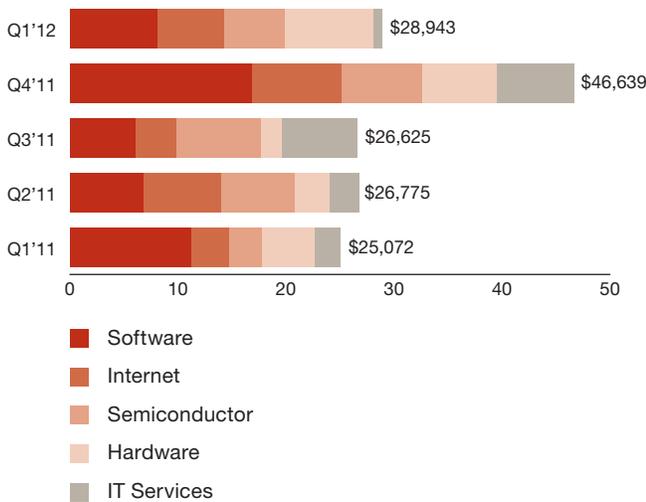
The first quarter of 2012 saw continued focus on software and semiconductor acquisitions. Software transactions by far outweighed other subsectors, contributing 39% of deal value and 28% of deal volume. Software was followed by the semiconductor sector, which contributed 19% of deal value and 20% of deal volume during the quarter.

Hardware deals, which provided a stable base of M&A activity in 2010 and the first quarter of 2011, contributed only nine deals, but a total deal value of \$8.2 billion driven by the Western Digital-Viviti acquisition. Internet deals contributed total deal value of \$6.3 billion across only nine deals in the quarter, while IT services barely hit the radar. With only eight transactions closed and a cumulative deal value of less than \$1 billion, the IT services sector has left room for growth in the coming quarters.

Conclusion

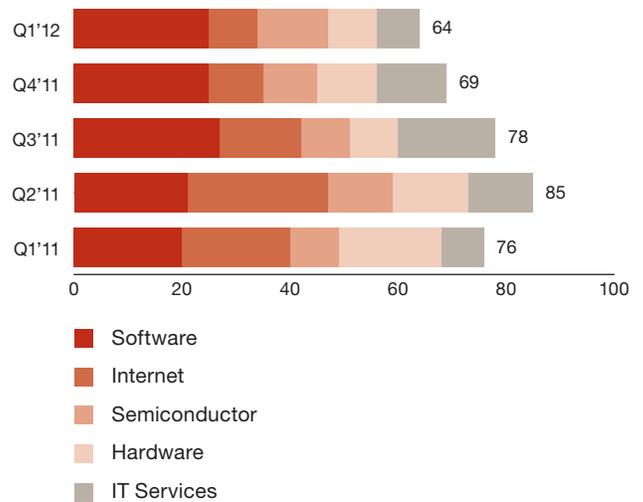
Against the backdrop of general economic uncertainty, technology businesses continue to lead other sectors in M&A activity. While they are not immune to economic headwinds, the relentless pace of technological change means that a “wait and see” approach will lead to competitive disadvantage. So long as frothy IPO valuations do not spill too heavily into sellers’ expectations, we expect continued strength in technology M&A activity through the rest of the year.

Closed deal value by sector, \$US millions



Source: Thomson Reuters

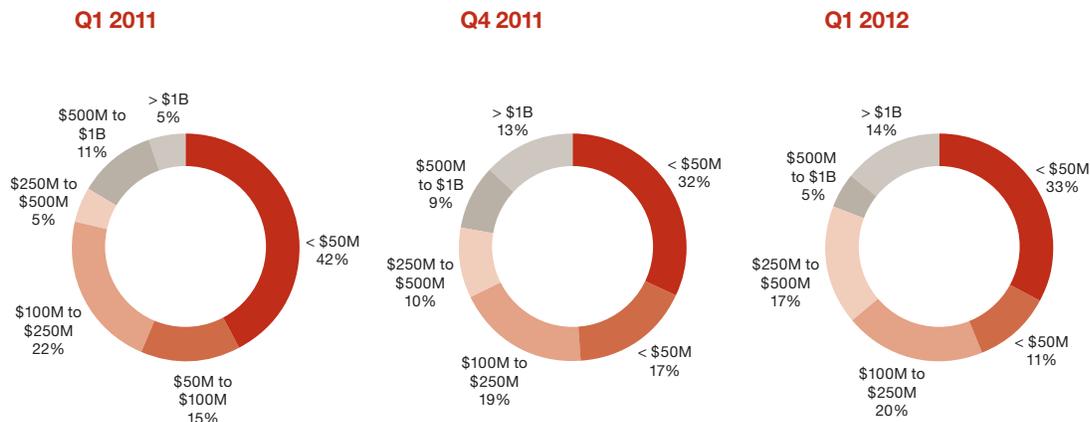
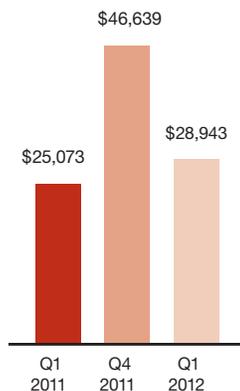
Closed deal volume by sector



Closed US deals by value

Comparison of total deal value

Transaction value
\$ in millions



Source: Thomson Reuters

In USD million, except # of deals	Q1 2011		Q4 2011		Q1 2012	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
< \$50M	32	\$857	22	\$583	21	\$600
\$50M to \$100M	11	\$729	12	\$923	7	\$486
\$100M to \$250M	17	\$2,742	13	\$1,719	13	\$2,052
\$250M to \$500M	4	\$1,318	7	\$2,352	11	\$3,696
\$500M to \$1B	8	\$5,841	6	\$3,702	3	\$1,579
> \$1B	4	\$13,586	9	\$37,361	9	\$20,530
Total	76	\$25,073	69	\$46,639	64	\$28,943

Source: Thomson Reuters

US technology deals by month



Source: Thomson Reuters

About PwC's Deals practice

Our deals professionals help clients understand the risks in transactions, so they can be confident they are making informed strategic decisions. From their deal negotiations, to capturing synergies during integration, we help clients gain value; and ultimately, deliver this value to stakeholders. For companies in distressed situations, we advise on crisis avoidance, financial and operational restructuring and bankruptcy.

PwC's Deals 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 9,800 deals professionals in 75 countries, we can deploy seasoned deals teams that combine deep technology industry skills with local market knowledge virtually anywhere and everywhere your company operates or executes transactions.

Although 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, valuation, 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 services in the technology industry, please visit www.pwc.com/us/deals or www.pwc.com/technology.

About the data

We define M&A activity as mergers and acquisitions where targets are US-based companies acquired by either US or foreign acquirers or foreign targets acquired by US technology companies. 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 \$15 million, as provided by Thomson Reuters as of April 2, 2012, and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters for deals closed during previous periods but not reflected in previous data sets.

Because many technology companies overlap multiple sectors, we believe that the trends within the sectors discussed herein are applicable to others as well. Technology sectors used in this report were developed using 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.

Spotlight article

Finance M&A function and its increasing importance in the deal process

Silicon Valley companies are known for embracing mergers and acquisitions as an essential component of their growth strategy. The companies most likely to succeed on this path will be well prepared for integration with experienced, dedicated teams and an integration approach that complements the type of acquisition. In 2011, finance M&A professionals from some of technology's most acquisitive companies gathered together for a PwC M&A roundtable to discuss their evolving roles and challenges.

A clear commonality emerged: finance M&A professionals are critically important to doing deals—and doing them well.

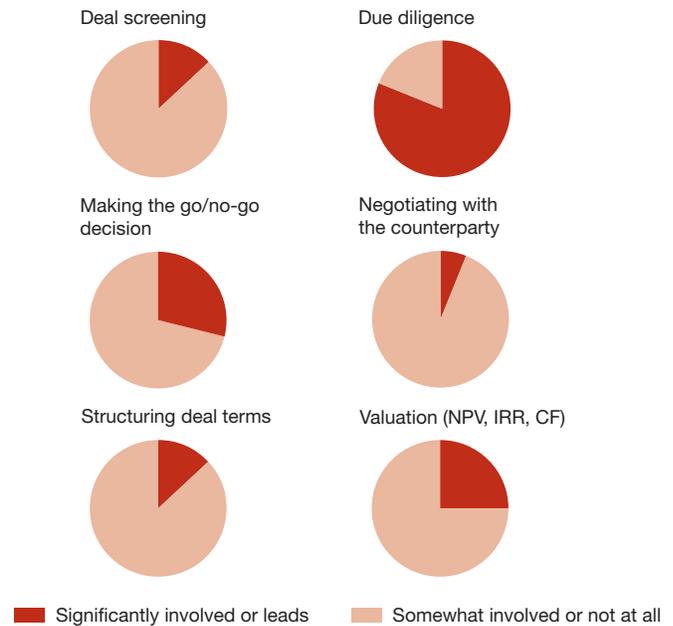
What role does finance M&A play in a deal?

Finance professionals play an important part in a wide range of deal-related activity and finance M&A tends to be involved in most aspects of the M&A process. The role they play varies from company to company, but historically it focuses on due diligence in the early stages of a deal and broadens to a range of tactical activities post-close.

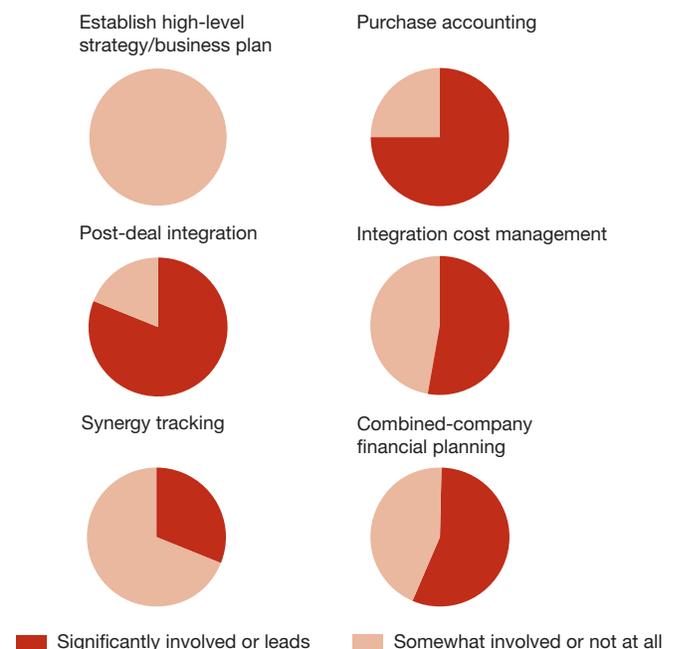
Not surprisingly, our survey showed that finance M&A's role expands significantly during later stages of deals and focuses largely on the tactical aspects of the transaction. Finance M&A teams help drive purchase accounting, integration activities, integration cost management, synergy tracking, and combined financial reporting for the deal. And it also serves as liaison between the business unit and the controller to help ensure a clear understanding of expectations.

When it comes to the accounting aspects of a transaction, finance M&A typically is structured to manage the majority of the accounting integration-related activities. While some subteams within finance retain more specialized expertise in specific areas, the finance M&A team is critical for organizing assumptions and coordinating activities across the disciplines. For instance, several participants said that although their technical accounting teams own the overall purchase price allocation, finance M&A coordinates with tax and shared services to drive push-down accounting into the subledgers.

Early-stage deal activity of finance-focused deal professionals



Later-stage deal activity of finance-focused deal professionals



Measuring the success of M&A

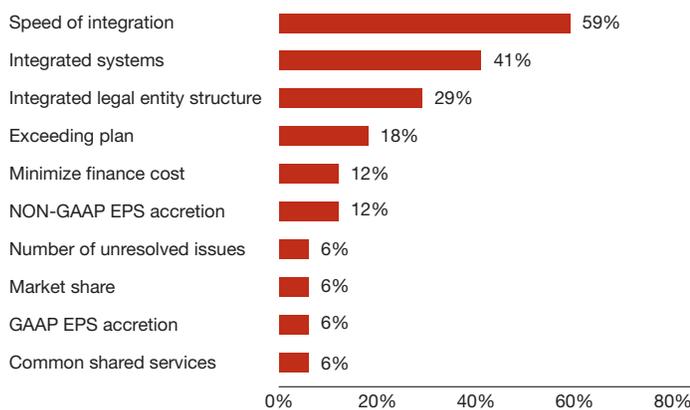
Most of the finance M&A participants said they are involved in measuring deal success. We found that for finance M&A, tactical execution overrides other measures of success. The most common measure is how quickly the acquired business can be integrated into the business unit. The next-most-common measures involve integrating IT systems and legal entity structures.

Roundtable participants agreed that it is important to consider all of a deal's benefit over the lifecycle of a technology acquisition and not just the initial KPIs that were established when the deal was negotiated and closed. To track metrics and analytics on an acquisition-by-acquisition basis, some companies design scorecards to define and measure deal success. For many participants, the finance M&A team drives the scorecard process.

Approach to integration and the timing of execution

After closing an acquisition, a company has to make multiple decisions about integration. The roundtable participants shared viewpoints ranging from "Get it into the business as quickly as possible, otherwise you won't see anything left" to "They [the acquired business] have a real spirit; let's help them keep that intact so we're all better able to react quickly [to the market] and grow", demonstrating the range of integration efforts from full integration to limited integration.

How does finance define M&A success in your organization?

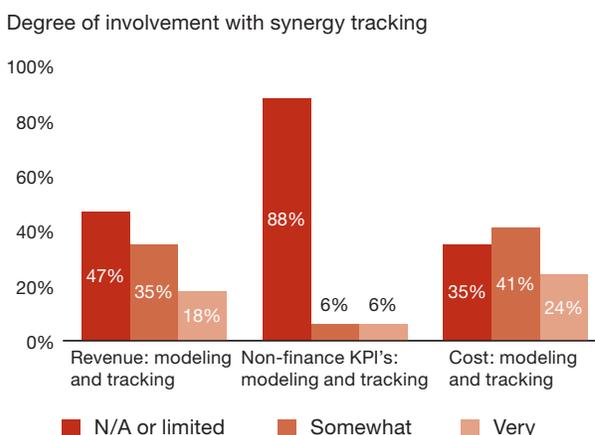


Conclusion

Finance plays a critical role in the M&A transactions of leading technology companies. Finance often co-leads the diligence process with corporate development. Post-announcement, Finance most often delivers the greatest value when participating in the tactical execution of post-acquisition activities within and outside finance. Just as integration can take many forms — from the limited integration of mission-critical activities to full absorption into a corporate or business unit entity — so, too, M&A success can look very different in different circumstances. But one thing is for certain: Finance has a major role to play, both in achieving that success and in measuring it.

Go to www.pwc.com/us/deals to download the full publication.

Finance M&A's degree of involvement with synergy tracking



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