US technology M&A insights
Q2 2012 update

July 2012

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PwC's Deals practice

At a glance

Despite a drop in quarterly technology deal volumes year over year and sequentially, M&A remains a critical tool for innovation and growth.

The decline in deal activity points to a growing trend in alternative acquisition strategies that involve consortium-based minority investments and patent acquisitions.

As the global economy continues to struggle, expect deal activity to be spurred by technology companies looking to reshape their businesses by divesting of non-strategic assets to focus on core revenue generators.

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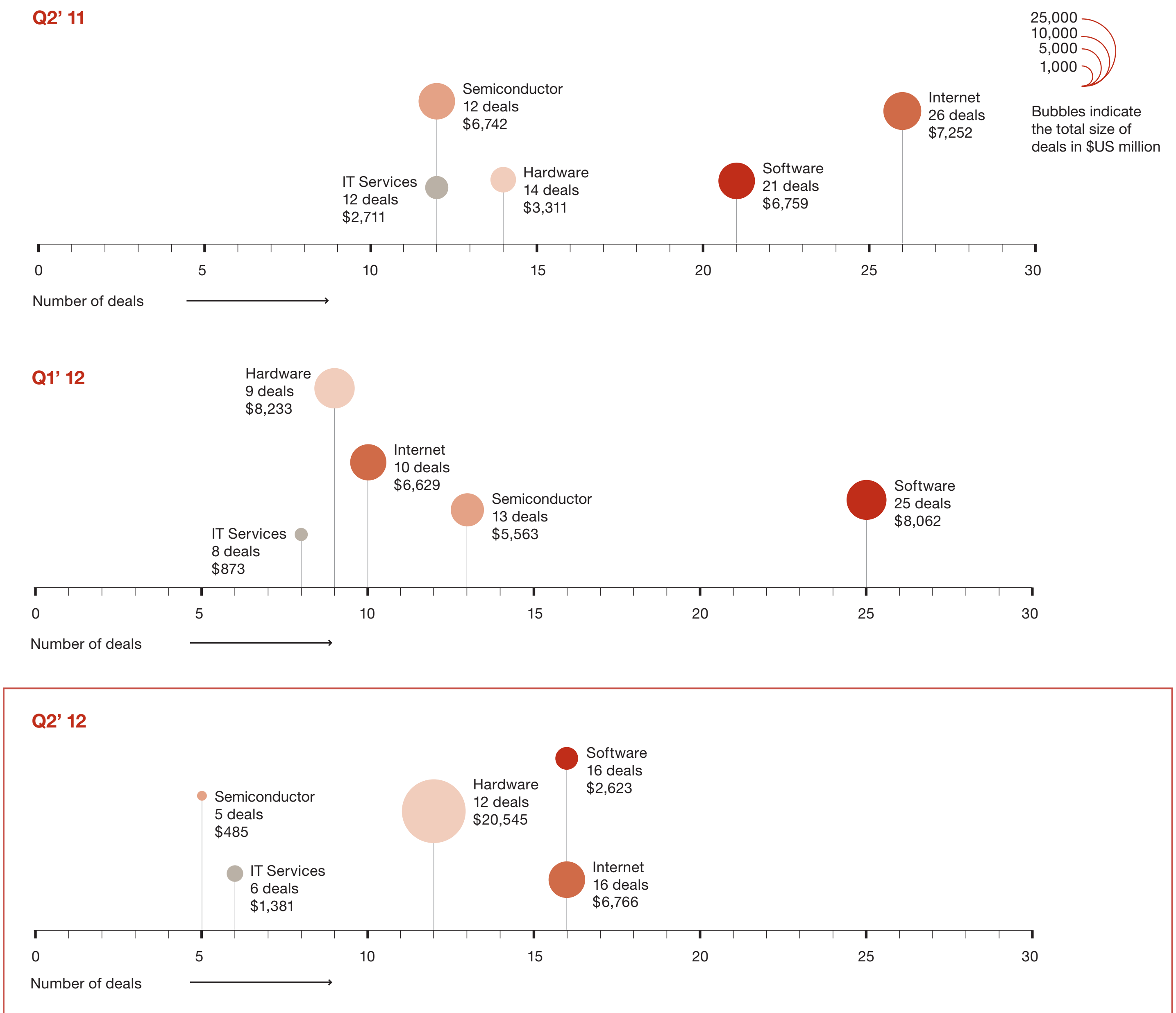
Second-quarter 2012 closed deal volume was down while deal value was up both year over year and sequentially.

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



Source: Thomson Reuters

Technology deals dip in the face of competing priorities for time and capital

Welcome to the second-quarter 2012 update of PwC's US technology M&A insights. Mergers and acquisitions (M&A) activity across the US displayed signs of a slowdown in the second quarter. In spite of a drop in volumes from comparable periods, technology-focused acquirers were still among the most active in the market, generating approximately 21% of total US deal volume in year-to-date 2012. A combination of factors contributed to the decline as the traditionally busiest acquirers appear to have switched gears toward integrating large acquisitions closed in the past year, increased their acquisitions of intellectual property (IP) vs. whole companies and focused on identifying potential noncore assets to shed in the coming months.

Much of the decrease in US deal activity can be attributed to global macroeconomic trends, which continue to undermine stability and create a less-than-ideal environment for deals. The European credit crisis remains a key factor among global businesses, and continuing concerns about the recovery of the US economy give pause to would-be acquirers, despite overall positive second quarter earnings announcements from technology majors.

US equity markets remain volatile as well. After a positive first quarter, the Dow Jones, NASDAQ, and S&P 500 all gave back a portion of those gains in the second quarter, ending the quarter down approximately 3%, 5%, and 3%, respectively. What appeared in the first quarter of 2012 to be a move away from the volatility experienced in 2011 now looks like merely a continuation of these market gyrations.

After a robust first quarter of initial public offering (IPO) activity with 13 technology IPO placements, IPOs appear to have pulled back slightly among technology players. The 10 technology IPOs in the second quarter (a 23% decline over last quarter) is better than the overall US IPO trend, which saw IPO volumes decrease 39% from the first quarter. Technology IPOs led all other industries during the quarter not only in terms of volume, but value as well, thanks largely to the much anticipated Facebook IPO in May. The impact of the broader deceleration in IPO activity on seller valuation expectations remains to be seen.

The second quarter of 2012 highlighted several trends in the deal market, including an increasing number of consortium deals by private equity buyers, a higher number of minority stakeholder transactions, and a growing number of IP acquisitions, with the latter two investment strategies contributing to a declining number of acquisitions.

Consortium deals involving multiple private equity and corporate investors taking both majority and smaller stakes in innovative businesses are providing access to key technologies and talent while also enabling diversification of investment dollars across a myriad of potential technologies. In addition, transactions involving the purchase of IP and patent portfolios have provided an alternative to the acquisition of businesses holding such portfolios. The second quarter saw an increase in both the number and size of these types of transactions, as companies sought methods outside of M&A to expand or defend competitive market positions. These trends point to creativity in the face of adversity and the continuous drive by technology players for growth and innovation.

Sector trends in the second quarter of 2012 mirrored those of the first quarter, with more and more deal activity concentrated on the software and Internet sectors. E-commerce and cloud-based information services and solutions, along with stand-alone and Internet-based Software products, provided approximately 58% of deal volumes during the quarter, further highlighting a trend in deal activity that has been prevalent in recent quarters.

During the second half of 2012, we expect continued focus at technology majors on integrating recent acquisitions and a renewed effort by these and other technology companies on reshaping their businesses by divesting of non-strategic assets to focus on core revenue generators. With potential buyers still sitting on stockpiles of cash, these divestitures will add fuel to technology deal activity through the end of the year and well into 2013.

Traditional M&A is combining with alternative approaches to diversify investment dollars across a myriad of potential technologies

Key announced transactions:

After 2011 saw several announced deals in excess of $10 billion, the first and second quarters of 2012 witnessed a thinning in the size of technology transactions, with fewer announced deals above the $1 billion mark. Corporate deals at or over $1 billion in the second quarter of 2012 included:

- SAP AG's US subsidiary acquisition of cloud-based business commerce network, Ariba, for approximately $4.3 billion. Ariba represents the second multibillion-dollar acquisition by SAP announced in a period of just six months.
- Microsoft's announced acquisition of Yammer, a social media platform developer for businesses, for approximately $1.2 billion. Microsoft intends to incorporate Yammer into its current suite of Office products.
- Just prior to the company's IPO, Facebook's announced acquisition of Instagram, a mobile-based photo-sharing software provider, for $1 billion. Instagram provides an additional photo solution to Facebook's rapidly growing mobile user base.

Social media activity has generated significant noise in the past six months, with the Facebook IPO and recent acquisitions of and by social media companies. In addition to those noted above, a trio of social-centric acquisitions by Oracle in each of May, June and July follows suit with our year-end prediction that social media tools would continue to creep into the workspace and thus be a driver of deal activity.

With acquisition targets demanding higher valuations fueled by a robust IPO market and credit markets still suffering fallout from the Great Recession, private equity buyers have teamed up with other players to invest increased equity stakes in technology businesses. Large private equity announcements in the second quarter were limited, with the only deal valued at or above $1 billion related to Apax Partners' and JMI Equity's acquisition of Paradigm Software, a maker of seismic data management software used by drilling and mining companies, for $1 billion.

Key closed transactions:

The volume of technology deals closed in the second quarter of 2012 continued the downward trend experienced in 2011 and the first quarter of 2012. Volume decreased 15% to 55 deals in the second quarter compared with 65 deals closed in the previous quarter. Although deal volume declined, second-quarter cumulative deal value increased 8% to $31.8 billion thanks to the closing of the Google-Motorola Mobility Inc. (MMI) transaction, valued at $12.9 billion.

Compared with deal activity in the second quarter of 2011, which totaled 85 transactions and a cumulative deal value of $26.8 billion, deal volumes decreased 35% while deal value increased 19% in the second quarter of 2012.

The second quarter saw six deals in excess of $1 billion closed with a combined value of $23.3 billion. With the Google-MMI transaction, average deal value for the quarter was $578 million, the largest average deal value since the fourth quarter of 2011 and well above the $315 million average in second-quarter 2011 (adjusted for the Google-MMI deal, average deal value was $343 million).

The first and second quarters of 2012 have benefited from the number of large deals announced in 2011 that closed in later months after receiving regulatory approvals. Average deal value is expected to decline in the latter part of 2012, signaled by fewer deals announced above $1 billion and no deals announced in excess of $5 billion in the past six months.

The largest transactions closed during the quarter include:

- Google's acquisition of MMI for $12.9 billion, Google's largest acquisition to date and the largest US technology transaction closed since 2008.
- LAM Research's acquisition of Novellus Systems, a supplier of wafer fabrication equipment, for approximately $3.4 billion.
- Agilent Technologies' acquisition of cancer diagnostics business Dako Denmark for $2.2 billion.
- Oracle's acquisition of cloud-based talent management company Taleo for $1.9 billion, further extending Oracle's suite of cloud-based products.

Although not among the top deals, private equity buyers were active and comprised the next three largest deals closed during the second quarter. Advent International and GS Capital, Veritas Capital Partners, and Cerberus Capital Management all closed deals valued near or more than $1 billion during the quarter, and each was focused on Internet-based services.

The software and Internet sectors each contributed 29% (58% total) of deal volume for the second quarter. With more and more software products moving to Web-based platforms, we expect the line between Internet and software to become even more blurred. Software and Internet deals comprised 8% and 21%, respectively, of transaction value during the quarter.

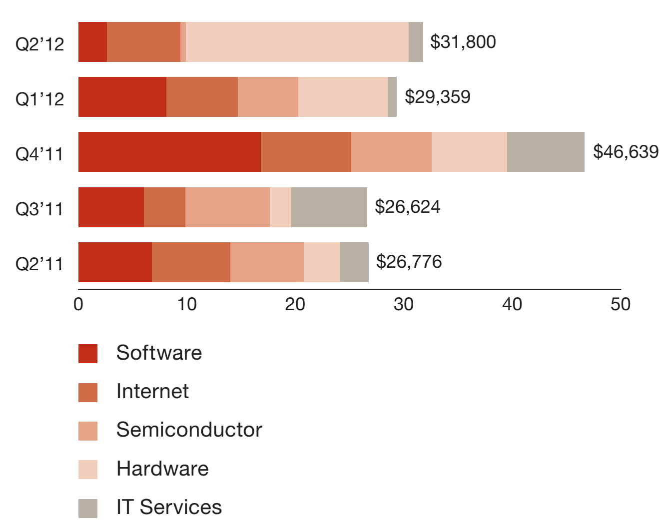
All sectors were dwarfed in terms of transaction value by the hardware sector thanks to the Google-MMI deal. Although the hardware sector contributed 22% of deal volume for the quarter, hardware represented 65% of total deal value. Large acquisitions by LAM and Agilent also contributed to the high value of hardware deals in the second quarter.

The semiconductor and IT services sectors contributed 20% of deal volume (a total of 11 transactions) and only 6% of deal value during the quarter (approximately $1.9 billion of combined deal value). The volume and value of semiconductor transactions has significantly tapered off after several quarters of robust deal activity.

Conclusion

The decline in deal volume experienced in recent quarters will not continue indefinitely. With technology companies' insatiable appetite for growth, a substantial portion of which will come from inorganic activities, deals are sure to continue. US S&P 500 corporate cash balances are estimated at more than $1.1 trillion, much of which is held by technology corporates poised for acquisitions of technology, talent, and opportunities to address new markets. These cash balances combined with private equity dry powder, a portion of which will fuel future technology buys, offer plenty of potential for technology deals, albeit at a slightly slower pace in the short term. As the global economic outlook improves and US markets stabilize, we expect technology deal activity to return to higher levels.

Closed technology deal value by sector, $US millions



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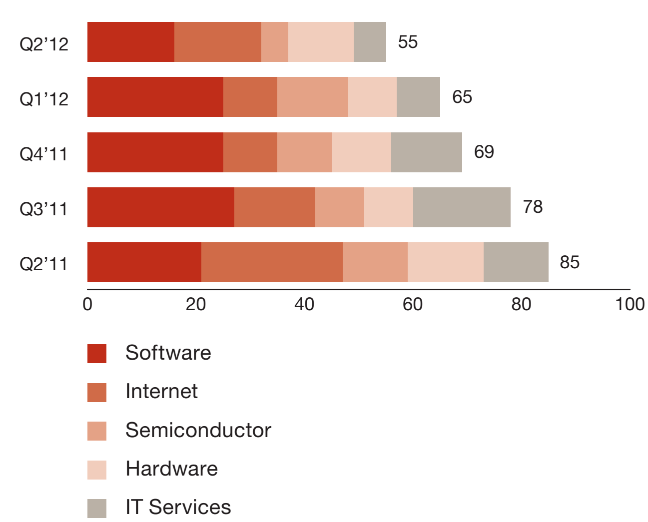
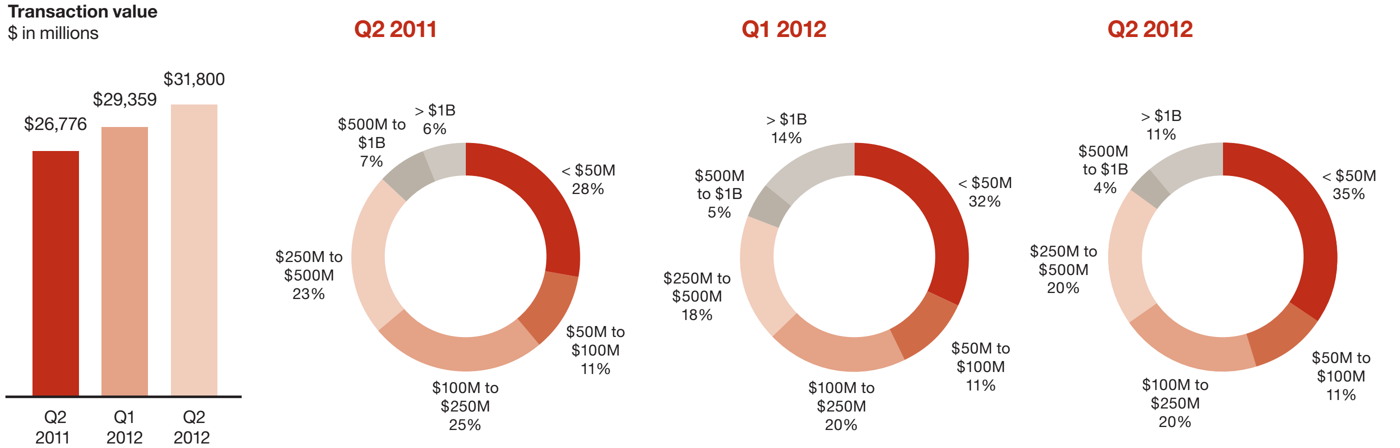


Source: Thomson Reuters

Closed US technology deals by value

Comparison of total deal value

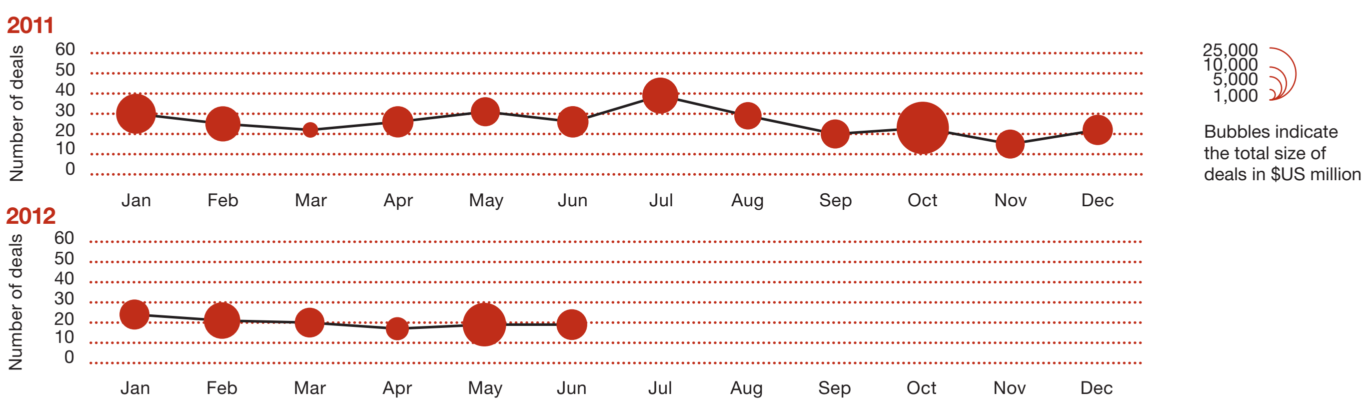


Source: Thomson Reuters

In USD million, except # of deals	Q2 2011		Q1 2012		Q2 2012	
	Number of deals	Total deal value	Number of deals	Total deal value	Number of deals	Total deal value
< $50M	24	$781	21	$600	19	$598
$50M to $100M	9	$649	7	$486	6	$413
$100M to $250M	21	$3,539	13	$2,052	11	$1,722
$250M to $500M	20	$6,700	12	$4,103	11	$4,013
$500M to $1B	6	$4,382	3	$1,588	2	$1,725
> $1B	5	$10,724	9	$20,530	6	$23,329
Total	**85**	**$26,776**	**65**	**$29,359**	**55**	**$31,800**

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 July 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

Corporate divestitures: four guiding principles to optimize value

Introduction

Buying or selling a company is a complex process fraught with risk and uncertainty. That's why buyers have historically used due diligence to help reveal hidden risks or opportunities that will help them negotiate a better price.

The frenzied markets of the past put the seller at an advantage because heavy competition for business hampered buyers' due diligence process. Now, in a much tougher, post-Great Recession deal market, the smaller pool of likely buyers and increased demands from banks heighten the need for extensive buyer due diligence and lengthen closing time frames. Now more than ever, the seller shoulders the burden of being prepared. You must know what the buyer will need to know — or risk failing to close, missing value targets, or stumbling along a protracted timeline.

While sellers may think they know their divestiture target's operations inside and out, they are usually too close to the business to look at it from a buyer's perspective, making it difficult to clearly understand its value and viability on a stand-alone basis. This is particularly true when the target is part of a division or a product line and the business has been ignored or is underperforming. Failure to see the target through the buyer's lens increases the odds that the buyer's diligence findings will derail the transaction, weakening the seller's hand at the negotiating table and destroying value while employees, customers, and stakeholders jump ship and head for safer ground.

A robust divestiture preparation process can help sellers successfully exit their businesses in a shorter time frame, avoid sale price erosion at the negotiating table, minimize distractions to the core business, and ultimately derive the desired value from the sale.

The four guiding principles of a successful divestiture

In a divestiture setting, one way to avoid value erosion is to design and implement a process that supports rapid deal completion. To accomplish this, most successful sellers in today's market use a thorough process that follows the four guiding principles of successful divestitures: **planning** for all aspects of the divestiture process, **presenting** financial information tailored to the deal, **preparing** thoroughly, and **positioning** for the exit and execution.

1. **Plan for all aspects of the divestiture process.** Careful planning is critical to a successful divestiture:

- *Establish scope, goals, and objectives of the transaction*— Clearly outline the parameters surrounding the assets to be disposed. This includes determining what to include in and exclude from the transaction, the expectations about structure, and issues related to employees.
- *Develop a divestiture project plan* — Create a clearly defined timeline and team that has sound project management experience. Develop a realistic view of the demands on — and capabilities of — the internal team, as well as the scope and objectives of the transaction.
- *Determine what's left behind* — Divestitures often result in unexpected stranded costs being left behind with the seller. Planning for these costs includes committing to any restructuring decisions that may be required.

2. **Present financial information tailored for the deal.** Because each transaction and each potential buyer is different, presenting financial information tailored to the transaction will help guide a more efficient divestiture process:

- *Describe the business in a clear and cohesive manner* — Avoiding inconsistencies in the message and data provided to buyers and communicating credible, supportable forecasts and assumptions are critical to obtaining top value and accelerating the divestiture process.
- *Evaluate information requirements and articulate a "bridge"* — Sellers should carefully consider what information will be needed by potential buyers, what information is available, and how to best present it. Multiple sets of data that cannot be reconciled or bridged can erode buyer confidence.
- *Address the potential need for carve-out audited financial statements* —Preparation of carve-out financial statements can be extremely complicated and time intensive. Sellers should consider the needs of potential buyers early on in the process and prepare accordingly.

3. **Prepare, prepare, prepare.** After prepping the dataroom and financial presentations, the next step is to prepare for the rigorous due diligence process that buyers and their lenders will undertake:

- *Identify operational issues and opportunities and anticipate questions and requests* — Thorough sell-side due diligence enables sellers to anticipate requests and questions from potential buyers and prepare for these matters. They'll create confidence for a buyer and the acquisition's management team and bolster value retention.

- *Plan for key terms in the purchase agreement* — Proactive sellers take the lead in drawing up key contractual terms. This entails giving careful consideration to the basis for an appropriate adjustment mechanism and the benchmark, as well as key terms and conditions.

- *Validate forecast assumptions and bridge to historical results* — The seller must make a clear, consistent link between historical and forecast results. This involves laying out key actions that drive enhanced profits and addressing likely concerns over synergies and stand-alone costs in a way that makes sense to the buyer.

- *Provide stand-alone cost estimates* —Sellers should establish a thoughtful point of view on stand-alone costs, bridge differences from allocated costs, and prepare robust support for stand-alone cost assumptions.

4. **Position for the exit and execute.** While the planning, presentation, and preparation stages of a divestiture are vital, value realization all comes down to execution:

- *Manage the process* — Sellers that actively manage the transaction process experience fewer delays and retain more value than those that allow potential buyers to dictate the process and timeline.

- *Draft transition service agreements* — Moving expeditiously from signing to closing is critical. Explicit plans for transitioning of vital services, systems, supply agreements, and back-office operations to the divested business often drive this outcome.

- *Structure for taxes* — Understanding different tax structures for transactions and potential costs and benefits can help the seller leverage additional value with potential buyers.

- *Maintain a competitive process* — Sellers should consider the volume of potential bidders and when (and if) it's necessary to enter into an exclusivity agreement.

Conclusion

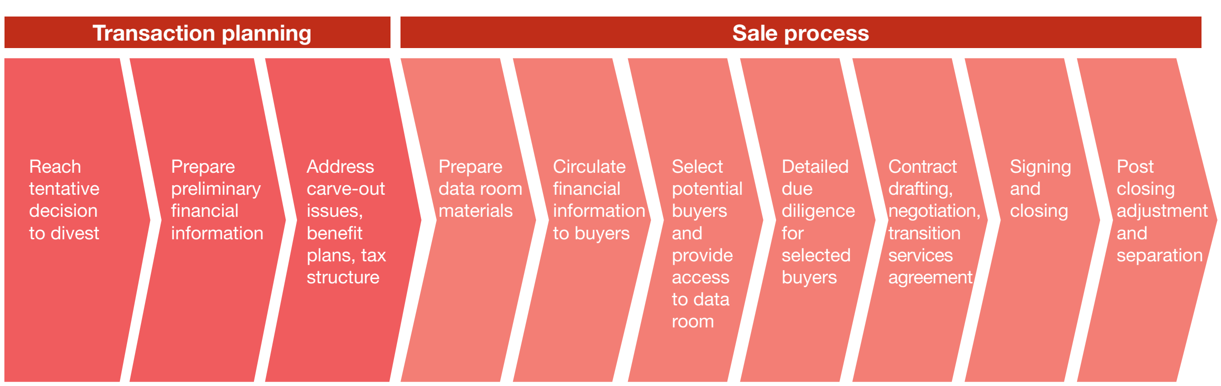
Thorough preparation is crucial to a successful divestiture in today's market. Such a process arms a seller with the critical information needed to present the business most effectively, address deal issues early on, answer challenging questions, and boost value for the assets in play.

Savvy sellers tap tenured deal professionals who bring to the team experience and capabilities beyond those of legal and banking professionals. These deal professionals can advise on the preparation of financial information for prospective buyers and the positioning of the business for a favorable sale, using consistent, sound accounting principles.

An independent point of view that is not tied to the deal's success helps identify potential deal killers or, at the very least, highlights early the likely challenges buyers will face, giving the seller time to take appropriate steps before buyer due diligence begins.

For the full article, go to: http://www.pwc.com/us/en/issues/divestiture-strategies/publications/corporate-divestitures-from-strategy-to-execution-optimize-value.jhtml

Typical divestiture deal continuum



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