Transaction Services

US technology M&A insights

Q2 2010 update

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PricewaterhouseCoopers

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

Bubble size indicates the total deal value for the sector

Source: Dealogic

Technology M&A momentum continues

Welcome to the second-quarter 2010 update of PricewaterhouseCoopers' US technology M&A insights. It has been a period of contradictions, with the Dow dropping roughly 10 percent from first quarter levels despite outstanding earnings results from the major tech players. Trends such as housing starts, payroll additions and consumer confidence were all closely monitored as economists tried but failed to agree on whether the end of the recession, or a double-dip are on the horizon.

One relatively bright spot during the quarter was the initial public offering (IPO) market. Continuing the momentum from the second half of 2009, US IPO activity pushed forward in the second quarter of 2010 with 39 listings, nearly tripling the number of deals during the same period in 2009. While the overall IPO news was good, volatile markets contributed to lackluster aftermarket performance for many. Nonetheless, 68 companies registered new deals during the second quarter, suggesting that the IPO market will remain open in the quarters to come. Within the broader IPO numbers, there were 11 technology listings, of which 9 were venture-backed. Alongside listings, venture-backed technology deals also continued, although, at 78 deals, they were slightly off the record pace seen in the first quarter.

While not as active as the IPO market, there were 8 divestitures during the quarter with disclosed deal values in excess of $15 million, reflecting 22 percent of total deal volume. Deal activity was evenly spread across each of the technology sectors and ranged in value from $20 million to $200 million, as companies continue to look for ways to compete by focusing on core operations.

Having weathered what is hopefully the worst of the recession, large technology companies saw record profits and favorable revisions in investors' expectations; but delivering more than recovery-based growth will require innovation. M&A as an innovation accelerator has firmly taken hold, as evidenced by the large number of venture-backed deals in the first half of this year. This will continue to drive mid-market transactions, which have historically dominated technology deal volumes.

Better valuations and a friendly IPO market should encourage sellers looking to deliver returns delayed for the past two years by the economic environment. Software transactions at both ends of the size scale will continue as incumbents round out their offerings or acquire industry-specific applications, and as major hardware players expand into end-to-end solutions. Finally, consumer technology and Internet majors will continue to work their way along the value chain to capture market and mindshare as mobile computing, entertainment and communications markets converge on intelligent and user-friendly devices.

Key announced transactions

Despite the ebb and flow of news about jobs, housing and financial markets, the quarter witnessed a steady stream of deal announcements. At the same time, the unprecedented cash accumulations by the largest technology companies continued unabated. Despite the financial stockpiles at their disposal, mid-market deals dominated and, for the most part, transformational deals remained on the side-lines.

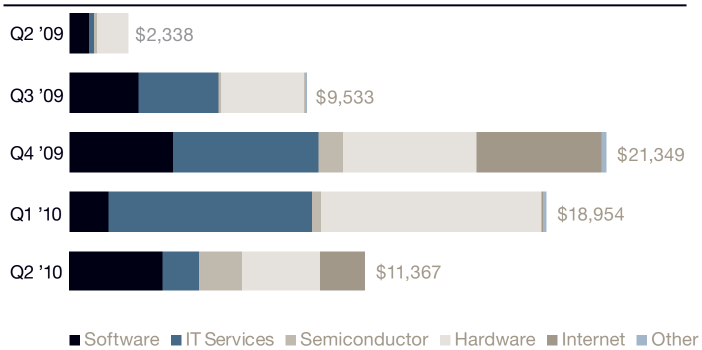
Among the most notable deals announced during the second quarter were:

- SAP announced its largest acquisition since 2007, touting a "newer, bolder SAP," with the proposed takeover of database developer Sybase for $5.8 billion.
- Visa announced its proposed $2 billion acquisition of online payment processor CyberSource—validating one of our start-of-year predictions for e-payment deals.
- Symantec proposed a $1.3 billion acquisition of Verisign's identity and authentication business.
- HP announced its proposed acquisition of Palm for $1.2 billion after a reportedly competitive bid process.
- Apple, Google and IBM each announced acquisitions, primarily of applications developers, all appearing to be in the below-$200 million range.

Private equity also remained a force in the market with several announced transactions on the buy and sell-side during the quarter including:

- Silver Lake Partners and Warburg Pincus' announced $3.4 billion acquisition of online information provider Interactive Data Corporation.
- TPG Capital and JMI Equity's announced acquisition of insurance industry software provider Vertafore for $1.4 billion from private equity firm Hellman & Friedman.

Closed deal value by sector, $US million



Source: Dealogic

Key closed transactions

Technology transactions closing in the second quarter of 2010 picked up right where the first quarter left off with volume up slightly at 36 deals but value down 40 percent due to smaller mega-deal values. Year-on-year volume was up 50 percent and values up nearly 400 percent as the second quarter of 2009 marked the low point of technology deal activity in the prior year. Deal volume was evenly spread across the quarter, with an average of 12 deals closing per month, equal to the first quarter average and thus signaling a more steady flow of technology transactions.

Underlying all of this reported activity is a growing trend of non-disclosed deal values. By some estimates, close to 80 percent of announced deals during the quarter did not disclose pricing terms. Data included in our analysis reflects deals with disclosed values greater than $15 million.

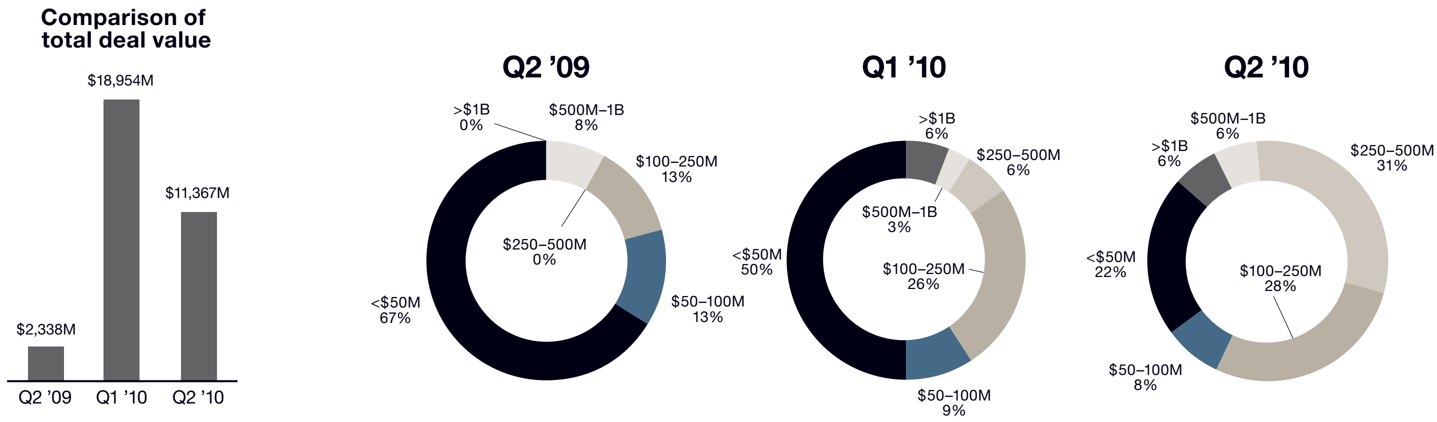
It is therefore important to note that on top of the improving metrics reported herein, there is a significant amount of additional acquisition and divestiture activity at undisclosed values occurring, and this trend appears to be building momentum.

Two deals greater than $1 billion were closed in the second quarter, representing 35 percent of the total value in the period. Overall, average deal value was in the $300 million range, a drop of roughly $200 million from the previous two quarters. However, without those two large deals, the second quarter average deal value would have been closer to $200 million. This points to an increase in the size of mid-market deals coming to closure. Among the most significant transactions closing during the quarter were:

- HP's $2.8 billion acquisition of 3Com, which cleared its final hurdle of regulatory review and closed in April.
- A consortium including Berkshire Partners, Advent and Bain Capital's acquisition of online training provider SkillSoft for $1.1 billion.
- Google's acquisition of AdMob for $750 million closing almost six months after the initial announcement due to an extended FTC antitrust review.

Within the sectors, software reclaimed the top spot for closed transaction value at 31 percent and maintained its position as the driver of volume at 38 percent. Semiconductor deals showed signs of life, representing 24 percent of deal volume and an average deal value of $200 million. Internet and IT services posted steady results with each representing roughly 15 percent of value and volume figures. Finally, thanks to the HP-3Com closure, the hardware sector made up 26 percent of total deal value in the quarter, but transaction volume remained slim at only three deals.

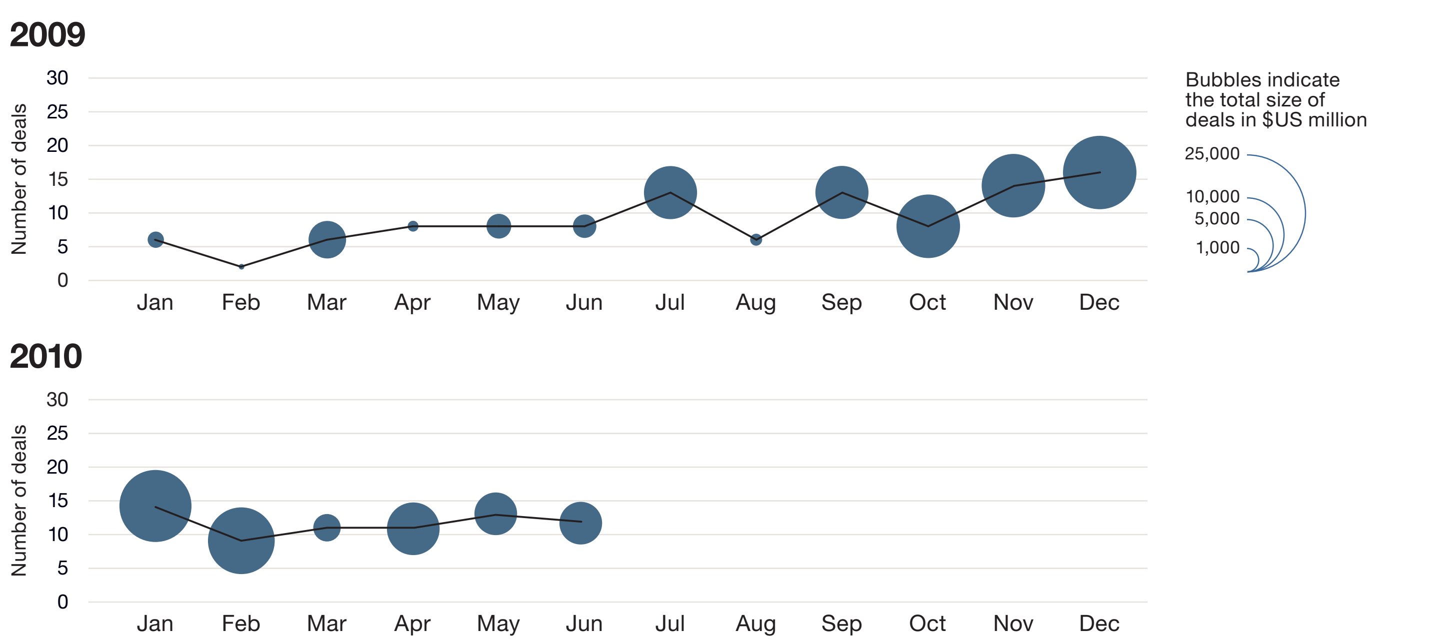
US technology deals by volume



	Q2 '09		Q1 '10		Q2 '10	
$ in millions, except #	**Number of deals**	**Total deal value**	**Number of deals**	**Total deal value**	**Number of deals**	**Total deal value**
< $50M	16	403	17	476	8	205
$50M to $100M	3	234	3	170	3	212
$100M to $250M	3	436	9	1,173	10	1,572
$250M to $500M	-	-	2	781	11	3,673
$500M to $1B	2	1,265	1	537	2	1,685
> $1B	-	-	2	15,817	2	4,020
Total	**24**	**$2,338**	**34**	**$ 18,954**	**36**	**$11,367**

Source: Dealogic

US technology deals by month



Source: Dealogic

Increasing the probability of deal success

The evolving integration capabilities of Silicon Valley companies

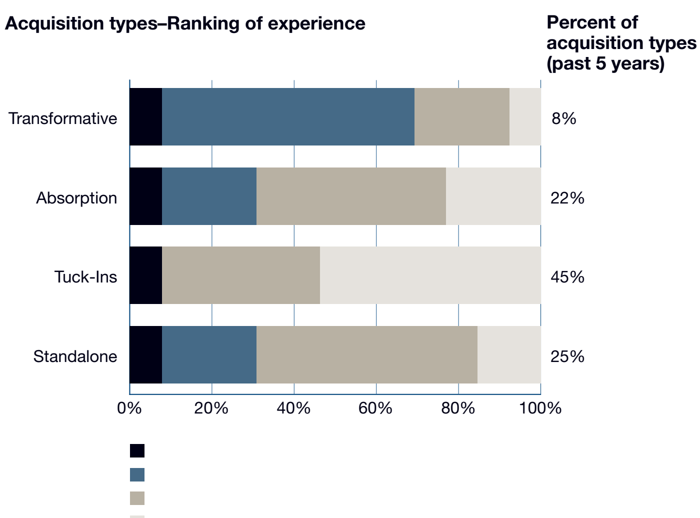
Silicon Valley companies are known for embracing mergers and acquisitions as an essential component of growth strategy. The companies most likely to succeed on this path will be well prepared for integration with experienced, dedicated teams and an integration approach that complements the type of acquisition.

As they look for investment opportunities for their $200 billion in cash, more and more technology companies are expected to contemplate large-scale acquisitions to transform their businesses, gain entry into new markets or significantly bolster market share and competitive advantage.

However, our 2010 PwC survey of Silicon Valley area companies reports that nearly 70 percent of respondents cite a lack of experience with these types of deals. Companies who conduct “serial acquisitions” have proven that the odds of successfully realizing synergies typically drop as integration complexity rises. In these types of companies, experience and preparation are acknowledged keys to success.

Today’s integration teams

Most companies surveyed reported a need for additional resources, which, over the last five years, led to an increase in headcount dedicated to integration effectiveness.



- **Dedicated integration effectiveness teams:** All companies surveyed reported having a dedicated integration team with at least one person dedicated to integration management office (IMO), HR, Finance and IT functions, as well as an established integration methodology or “playbook.”

- **Rapid growth in experience:** No company reported having an integration team in place for longer than 5 years, but the integration proficiency of the teams was self-reported at the core competence or somewhat experienced level.

Early involvement: Involving the integration team early in the deal process leads to improved results, including critical focus on pre-validation activities such as refining integration strategy and assumptions, controlling the costs of integration and the realization of synergies, preparing brand or positioning communications, and post-announcement integration planning. An effective integration plan should be validated with functional teams and supported by the business.

The evolution of integration

Acquisitions can generally be classified by type and corresponding integration approach.

- **Tuck-Ins**—Typically smaller companies with a key product or technology. The integration approach focuses on employee on-boarding, product/technology roadmap integration, and channel enablement for sales.
- **Absorption (or consolidation)**—Generally for deals involving competitors or similar companies. The integration approach focuses on driving high cost synergies, integrating overlapping back-office, infrastructure and go-to-market capabilities.
- **New business models (transformative or standalone)**—Normally utilized when acquiring into new markets, channels, operations or products. The integration approach focuses on go-to-market alignment and readiness while driving high revenue synergies or growth.

Since the 1990s, acquisitions in Silicon Valley have been mostly tuck-ins, and many companies are proficient in doing these types of deals. The tuck-in acquisition effort typically involves the integration of a smaller company with a key product or technology into the acquirer's existing portfolio.

Since 2003, several industries have seen some larger players grow by acquiring competitors and absorbing them into their existing infrastructure. Several large-scale transformational acquisitions have also occurred. The complexity of the integration effort is often a factor of the maturity of the acquired company. As would be expected, the more mature the target company, the more complex the challenge to fully integrate.

Planning today for deals tomorrow

Companies that plan to become more acquisitive—and in particular, those that are contemplating doing deals of a different type than those completed in the past–should critically assess their current integration planning processes. Given that the odds of deal success tend to drop as integration complexity rises, failure to assess experience and resources for the integration effort can adversely impact the ability to extract deal value and in turn, shareholder value.

A PwC Point of View

While playbooks often include integration checklists, companies shouldn't stop there. The following should also be considered:

Resources and capabilities—Experienced acquirers recruit and assign resources by function. The optimal solution includes integration program management experience combined with deep functional subject matter expertise where individuals effectively team with the leaders and enablers within their functions.

Executive sponsorship—Larger and more complex deals typically require the involvement and support of senior executives. Executive attention is needed to ensure that the integration effort remains focused on value creation. Without executive buy-in, the ability to fully realize planned synergies is at risk.

Governance model and program charter—It takes preparation to implement a robust integration program—one with the requisite amount of cross-functional coordination and dependency management. Larger, more complex deals involve more functions and resources throughout the organization. Strong program management enables smoother coordination between integration team members.

Buyer infrastructure—Absorption and transformative integration requires a simplified and standardized foundation on which to succeed. If the buyer's policies, processes and systems are overly fragmented, integration complexity increases exponentially, potentially slowing integration momentum and adversely impacting value.

Corporate development insights

To read about additional topics from our 2010 Silicon Valley integration survey and PwC's point of view on evolving integration capabilities, contact one of our technology team members or download *Evolving integration capabilities of Silicon Valley companies* on the Publications page at www.pwc.com/ustransactionservices.

About PricewaterhouseCoopers' Technology Transaction Services

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

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

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

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

About the data

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

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes utilized throughout this report are based on completion-date data for transactions with a disclosed deal value greater than 10 million Euros, as provided by Dealogic as of July 5, 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 Dealogic 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.

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