



Technology M&A Market Update

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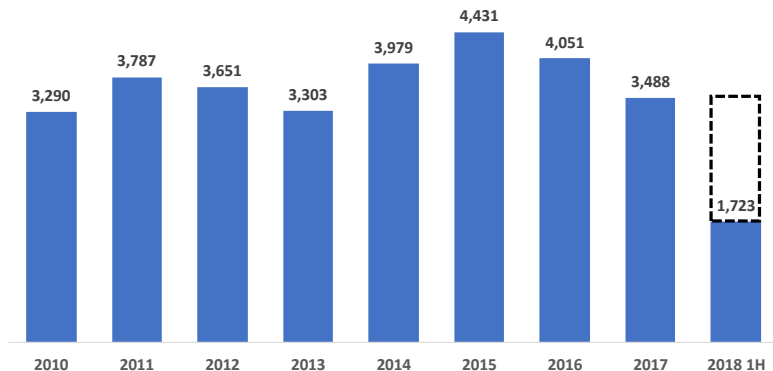
October 2018



Technology M&A Market Update

The Tech M&A market has been robust for the past several years. Total Tech M&A activity has remained strong in 2018 with 1,723 deals completed in the first half of the year. 2018 is currently on track to be as active as last year, and is keeping pace with deal activity over the past several years.

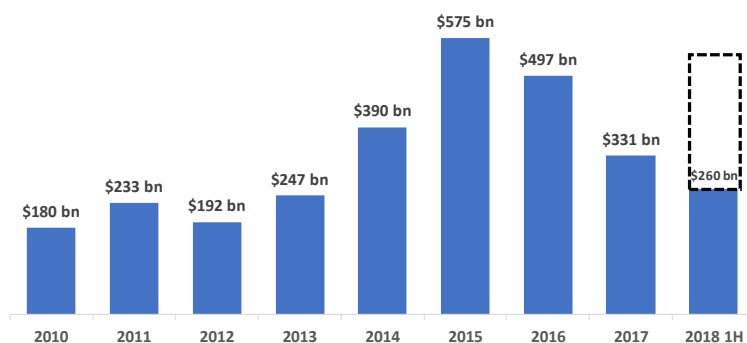
Number of Technology M&A Deals¹



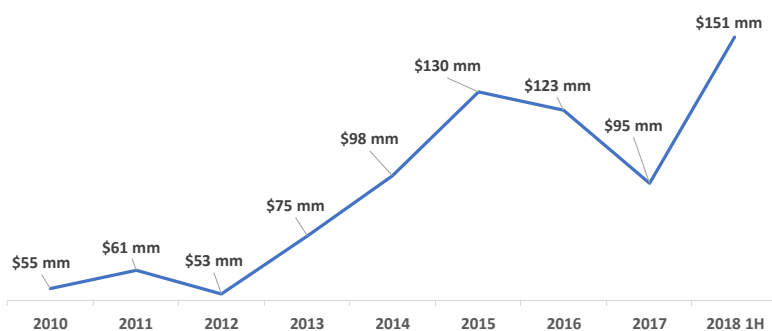
Private equity funds, flush with cash, continue to drive M&A deal activity, especially with Software companies. Strategic acquirers also have more cash reserves, 65%, up from 58% in 2016, and most larger corporations have expressed an intent to use their cash to pursue acquisitions. Strategic acquirers are in search of corporate growth and continue to acquire companies outside of their main industry verticals. The technology market has seen a trend of industry convergence, whether by entrance into a related business stream or through vertical integration. There are high expectations for this trend to continue into the year ahead.

Deal volume in the first half of 2018 was much higher than the same period last year. Deal volume for 2018 is expected to far surpass 2017 levels and potentially reach 2015-2016 levels which were much higher than the preceding five year period. According to a recent survey conducted by Deloitte, the top strategic driver for M&A deals is to acquire technology assets – accounting for 20% of respondents, up from 6% in 2016. The next most apparent driver is the need to expand customer base in existing markets (19%) followed by expanding/diversifying products or services (16%), pursuing a digital strategy (12%), and talent acquisition (9%).

Tech M&A Deal Volume¹
(\$ billions)



Tech M&A - Average Deal Size¹
(\$ millions)



A key driver of higher deal volume has been a continued uptick in average deal size. The average deal size for all Tech M&A deals in the first half of 2018 reached \$151 mm compared to \$95 mm last year and compared to an average of \$104 mm over the past five years. Strong economic conditions have had a positive impact on M&A deal volume and size. General economic conditions remain strong heading into the end of the year notably, the unemployment rate in the U.S. at 3.8% (lowest level since 2000).

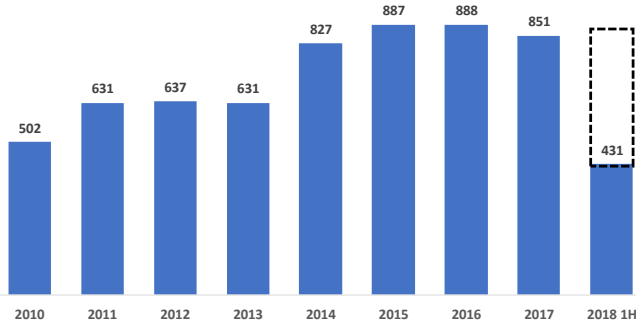
Through most of this year, public markets have remained strong and investors have ignored global economic uncertainty and the negative impact of the trade war between the U.S. and China. While volatility remains high in the public markets, M&A deal activity is expected to remain strong through the end of the year. Additionally, the Tech IPO market has been wide open this year and investors' hunger for high-growth companies is translating into the busiest IPO market in years. Tech IPOs, mostly software companies, have raised \$12.2 billion in 28 deals in the first half of 2018, nearly double the volume from the same period in 2017 and a more-than-tenfold increase from 2016 volume.

(1) Sources: CapIQ, 451 Group, and Wall Street Research

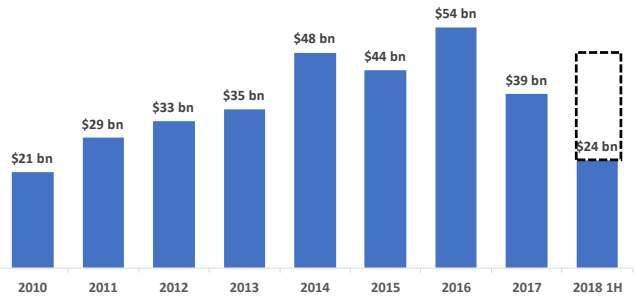
Application Software and Internet

Software M&A deal activity in the first half of 2018 kept pace with 2017 and is on track to remain at the robust levels experienced over the past five years. Deal volume in the Application Software sector is up relative to last year and on track to be in line with recent years.

Number of Application Software Deals¹

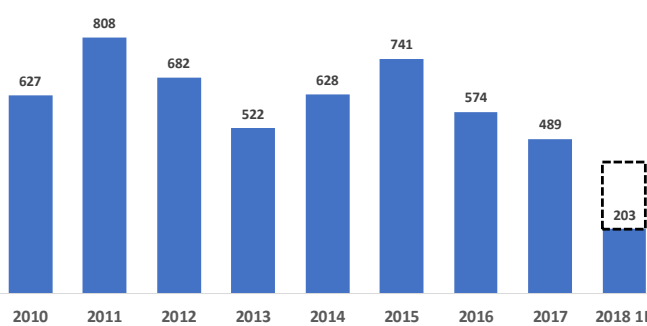


Application Software M&A Deal Volume¹ (\$ billions)

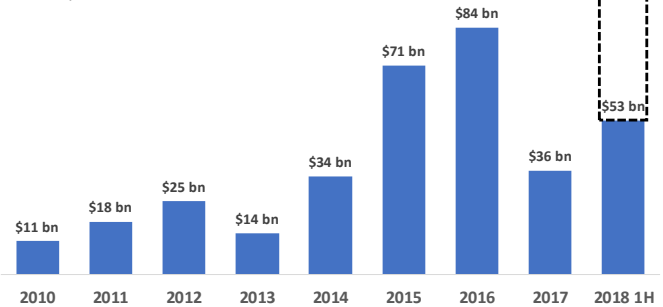


On the other hand, the number of Internet Content & Commerce deals has continued to decline with 2018 on track to be the slowest year for Internet deals since 2010. However, in spite of fewer deals, Internet deal volume is up significantly and 2018 is on track to be the biggest year ever for Internet M&A in terms of deal volume – due to a material uptick in the average Internet deal size.

Number of Internet Content & Commerce Deals¹

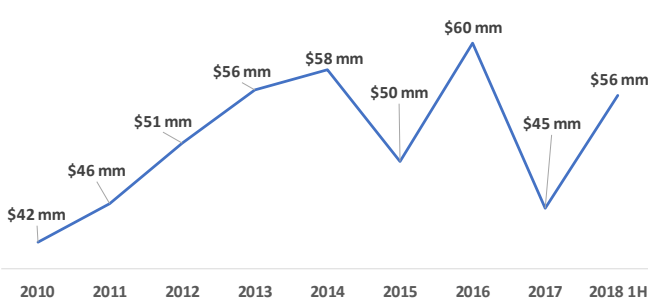


Internet Content & Commerce Deal Volume¹ (\$ billions)

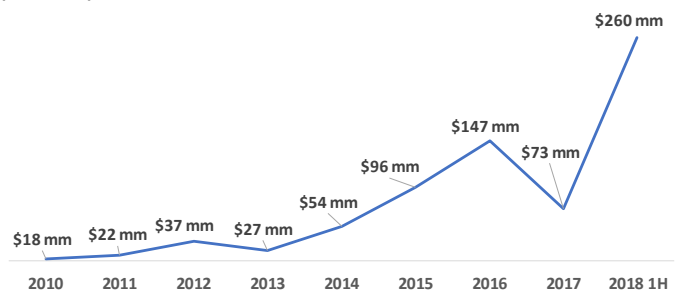


In the first half of 2018, notable large software deals included: Salesforce’s acquisition of Mulesoft for \$6.8bn; and Microsoft’s acquisition of Github for \$7.5bn. However, most Software deals were still less than \$100 MM and the average deal size for the Software sub-sector in the first half 2018 was \$56 MM, in line with the past few years. As noted, the average Internet deal size has substantially increased this year to \$260 million, the highest in almost 10 years. Notable billion dollar plus Internet deals in the first half of 2018 include; Adobe acquiring Magento for \$1.7bn and Recruit buying Glassdoor for \$1.2bn.

Application Software M&A - Average Deal Size¹ (\$ millions)



Internet Content & Commerce - Average Deal Size¹ (\$ millions)

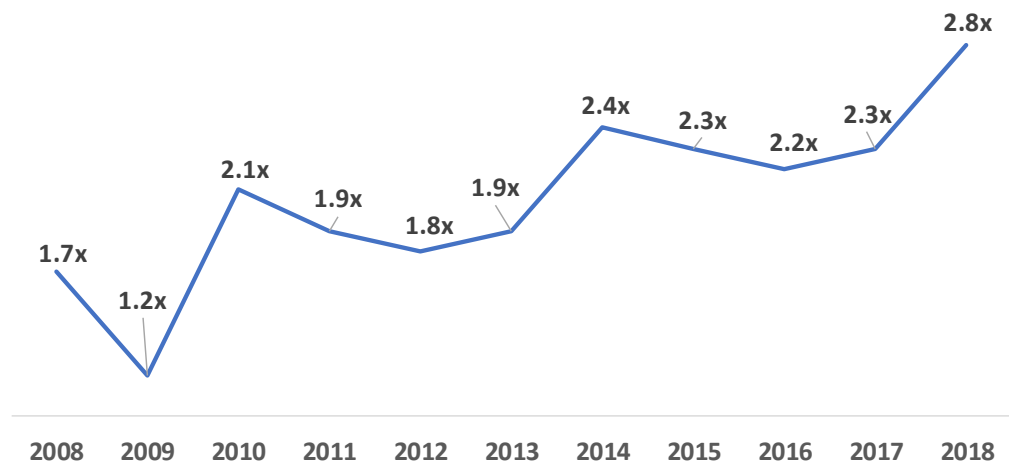


(1) Sources: CapIQ, 451 Group, and Wall Street Research

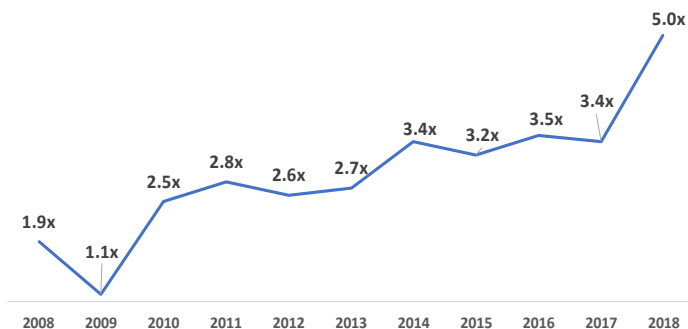
Technology M&A Valuation Multiples

The most dramatic trend in the Tech M&A market has been the uptick in valuation multiples seen over the past ten years. The median revenue multiple for Tech overall has reached 2.8x, up significantly from 2.3x last year and a dramatic increase from the average level seen in 2009 of 1.2x. Higher public company valuations in the tech market have helped drive up trading multiples in the private M&A market. The success of public companies in the ecosystem continues to drive confidence in the private M&A market.

Median Revenue Multiple - Overall Tech M&A¹



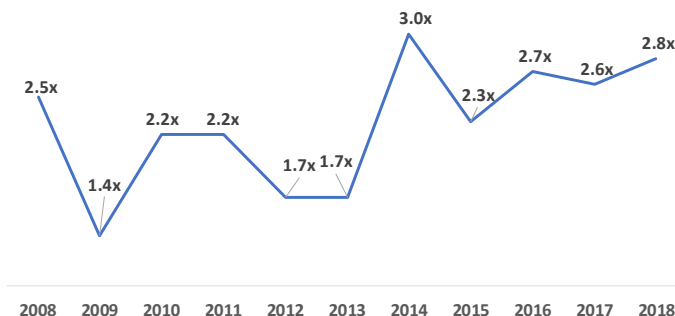
Software M&A: Median Revenue Multiple¹



The increase in revenue multiples has been even more dramatic for software companies. The average LTM revenue multiple for Software M&A transactions has increased sharply, reaching 5.0x in the first half of 2018, up from 3.4x in 2017, and materially higher than in prior years. Private Equity has been a key driver of Software M&A activity and valuations. The willingness of PE sponsors to pay up for good assets with strong recurring revenue, coupled with the wide availability of cheap leverage (in many instances up to 6-7x EBITDA), has driven up valuations.

Revenue multiples for Internet transactions have been more tempered and remained at the same levels as recent years. The Median Revenue Multiple for Internet M&A transactions in the first half of 2018 was 2.8x compared to 2.6x last year.

Internet M&A: Median Revenue Multiple¹



(1) Sources: CapIQ, 451 Group, and Wall Street Research

In spite of the continued strength in the Tech M&A market, there are some looming headwinds that may cause a slowdown in the number, volume, and size of M&A deals. The main concern for many is global economic outlook uncertainty and the impact of trade tensions between the U.S. and China. U.S. firms looking to invest in China are reluctant to do so with the current state of relations and in some cases firms looking to transact have delayed their plans until greater clarity.

Some of these challenges have been offset by the positive impact of tax reform. U.S. tax incentives have brought in off-shore cash which has had a positive impact on the tech M&A market. Through the reduction of corporate tax rates and repatriation incentives granted to large corporations who hold large amounts of cash overseas, U.S. corporations and investors are holding nearly \$2.4 trillion in surplus cash¹. This is an indicator that large-scale M&A may speed up portfolio transformation. This trend will also lead to an increase in divestiture and ultimately boost supply of potential acquisition targets.

In addition to economic challenges, the Tech M&A market faces challenges around data privacy and protection of consumer data. For some of the largest companies in the ecosystem 2018 has brought to light issues surrounding data privacy and this concern looms over the market. Many are starting to boycott platforms including Facebook which was at the forefront of the scandals surrounding data privacy earlier this year. This so called, 'Techlash', has had an adverse effect on the way the public views big tech companies and their access to users data.

(1) Sources: CapiQ, 451 Group, Wall Street Research, and Federal Reserve Board Data

Application Software Highlights

Selected Application Software Deals¹:

Acquirer	Target	Date	Enterprise Value	EV/Revenue	EV/EBITDA
		06/04/2018	\$7.5bn	261.3x	N.A.



- GitHub is the world's leading software development platform. It is a vast code repository that has become popular with developers and companies hosting their projects, documentation, and code
- The deal will help accelerate enterprise use of GitHub, and bring Microsoft's developer tools and services to new audiences
- GitHub was valued at \$2 billion in 2015, prior to Microsoft's acquisition

		03/20/2018	\$6.86bn	23.1x	N.A.
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- MuleSoft provides a cloud enterprise platform connecting applications, data, and devices
- Salesforce acquired MuleSoft in order to bolster its offering beyond customer relations software
- Salesforce bought MuleSoft for a 36% premium; prior to the acquisition, MuleSoft was backed by Bain Capital and Cisco, among others

		05/21/2018	\$1.1bn	N.A.	N.A.
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- PowerPlan provides regulatory, tax, and budgeting solutions for asset-centric businesses
- Roper Technologies' acquisition fits its mission of acquiring high performing, niche businesses that grow and compound the company's cash flow
- PowerPlan was previously owned by private equity firm Thoma Bravo. Thoma Bravo's acquisition in 2015, and its approach of working with the company's existing management resulted in an increase in the company's valuation

		05/29/2018	\$8.3bn	3.8x	16.3x
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- BMC helps companies accelerate cloud adoption, it also provides a solution suite that unifies information and processes from disparate management tools; and consulting, implementation, integration, and educational services related to its software products
- BMC will join KKR's \$26bn portfolio of technology sector companies that make software used by businesses
- KKR agreed to buy BMC from private equity firms Bain Capital and Golden Gate Capital, which acquired BMC in 2013 for \$6.9 billion

(1) Sources: CapIQ, 451 Group, and Wall Street Research

Internet Content & Commerce Highlights

Selected Internet Content & Commerce Deals¹:

Acquirer	Target	Date	Enterprise Value	EV/Revenue	EV/EBITDA
 Adobe®	 Magento®	05/21/2018	\$1.7bn	N.A.	N.A.
		02/27/2018	\$1.0bn	N.A.	N.A.
 amazon	 ring				
		05/08/2018	\$1.2bn	106.2x	N.A.
 RECRUIT	 glassdoor				
		04/26/2018	\$365mm	N.A.	N.A.
 Square	 weebly				

- Magento is an ecommerce platform that provides online merchants with more options, content, and control
- The addition of Magento will enable commerce to be seamlessly integrated into the Adobe Experience cloud, delivering a single platform that serves both B2B and B2C customers globally
- Magento was previously owned by eBay

- Ring is a maker of smart video cameras, doorbells and other smart home technologies
- Ring will be joining Amazon's rich portfolio of smart-home products such as Echo and Alexa
- Ring raised a total of \$200 million in funding over 6 rounds before the Amazon acquisition; past investors include: Goldman Sachs, DFG Growth, First Round Capital, and more





















- Glassdoor is a user-generated, anonymous review website focused on jobs, salaries, and company culture
- Recruit, a Japanese HR/staffing giant, and its US based online job board subsidiary, Indeed, acquired Glassdoor to further penetrate the online job market and to drive innovation across the Recruit portfolio
- Prior to its acquisition, Glassdoor had raised a total of \$200 million in funding over 9 rounds from leading tech focused investors including Tiger Global, CapiutalG, and Battery Ventures

- Weebly is a platform that allows users to start and grow an online business with curated website templates, ecommerce, and integrated marketing
- Through this acquisition, Square can achieve one of its top focus areas in 2018 - to become an omnichannel business by offering sellers one cohesive solution
- Weebly had raised a total of \$35 million in funding over 4 rounds; investors included: Sequoia Capital, Tencent Holdings, and Baseline Ventures

(1) Sources: CapIQ, 451 Group, and Wall Street Research

Other Highlights

Other noteworthy Tech M&A deals include¹:

		Enterprise Value	EV/Revenue	EV/EBITDA
	▶ 	\$2.2bn	4.6x	15.1x
	▶ 	\$1.5bn	13.1x	N.A.
	▶ 	\$2.4bn	9.5x	N.A.
	▶ 	\$1.9bn	5.3x	N.A.
	▶ 	\$125mm	7.6x	N.A.
	▶ 	\$40mm	N.A.	N.A.
	▶ 	\$5.1bn	2.3x	11.7x
	▶ 	\$1.2bn	12.7x	N.A.
	▶ 	\$1.0bn	N.A.	N.A.
	▶ 	\$8.3bn	3.8x	16.3x

(1) Sources: CapIQ, 451 Group, and Wall Street Research



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- Healthcare Services
- Marketing and Information Services
- Transaction Processing

VERTICAL FOCUS

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Media / Entertainment

Healthcare

Travel

Legal

Education

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