Issue 21

Global technology M&A update

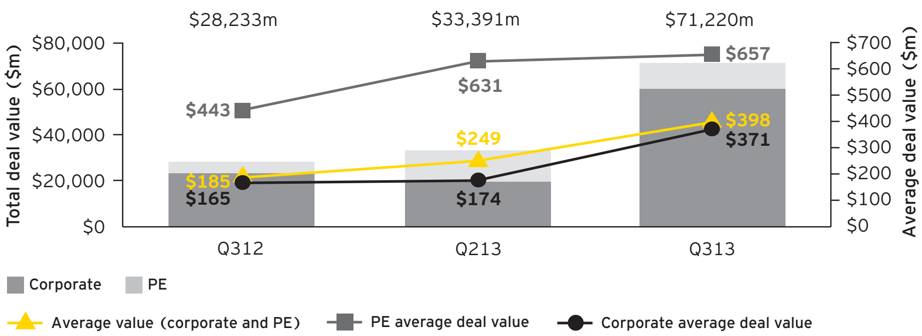
July–September 2013

Highlights

- Aggregate value of all disclosed-value deals skyrockets to a new post-dotcom-bubble era record of $71.2 billion, up 152% year-over-year (YOY) and 113% sequentially.
- Volume rises 12% sequentially but falls 6% YOY to 704 deals.
- Private equity (PE) deal value is $11.2 billion, down 20% sequentially but up 130% YOY and remaining near the top of its five-year range; PE volume (60 deals) increases for the third consecutive quarter, up 18% YOY and 5% sequentially.
- Corporate aggregate value soars 157% YOY to $60 billion, also a post-dotcom record; corporate volume (644 deals) bounces back from a four-year low last quarter.
- Cross-border (CB) deal volume and value reverse their long-term declines; value nearly quadruples sequentially to $24.5 billion and volume rises 13% sequentially to 220 deals.

Total number of all announced deals, Q312–Q313

Total and average deal values for deals with disclosed value, Q312–Q313 ($m)

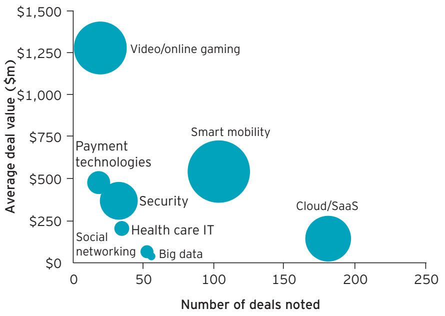


Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Note: all dollars are US$ unless otherwise indicated.

Building a better working world

A directional view of select Q313 deal-driving trends

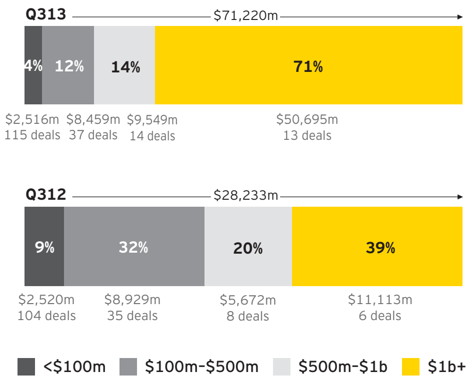


Cloud/SaaS and smart mobility drove the most deals in Q313, for the third consecutive quarter. Average values of nearly all these deal-driving trends increased significantly over previous quarters due to one or more big-ticket deals in many of the trends. In particular, health care, payment technologies and video and online gaming increased substantially in average value, after declining to the point that they "fell off the chart" in Q213.

Note: average deal value is based on the value of disclosed-value deals, while number of deals includes both disclosed-value and undisclosed-value deals; bubble size is based on each hot topic's share of total value for the quarter.

Source: EY analysis of the 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Aggregate value of announced deals by deal size, Q313 vs. Q312



The number of billion-dollar-plus deals more than doubled YOY in Q313, while the aggregate value of those deals increased about 4.5 times (to $50.7 billion from $11.1 billion in Q312). Big-ticket deals captured a dominant 71% of Q313 aggregate value. Of note, the number of disclosed-value deals increased in every deal size category. Aggregate value increased for every size except deals under $100 million, which was essentially flat (-0.2%).

Note: data and totals may appear inconsistent due to rounding.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Third-quarter picture unfolds

Deal drivers

- Smart mobility was the megatrend that made its presence felt more than usual in Q313, as Cloud/SaaS did in Q213. It drove deals targeting strategic growth through mobile technology, as well as deals targeting established companies weakened by rapid smart mobile adoption.
- Cloud/SaaS continued to drive the most deals, followed by smart mobility, big data and social networking.
- Security-driven deals more than tripled in disclosed value over Q213.
- Financial technology, including mobile payments, was a significant Q313 deal driver. Health-related technology deals increased.
- PE and non-technology companies were major buyers for the second consecutive quarter.
- Distressed and non-core asset sales continued to increase.

Deal activity

- At 704 deals, Q313 deal volume increased 12% sequentially from 627 deals in Q213 (which was the lowest level in three years). But it was down 6% YOY, from 752 deals in Q312.
- Corporate volume (644 deals) increased 13% sequentially (following three consecutive quarterly declines) but was down 8% YOY.
- PE volume (60 deals) increased for the third consecutive quarter, up 18% YOY and 5% sequentially.
- After diverging for two consecutive quarters, the long-term directional correlation we've observed between quarterly deal volume and the NASDAQ Composite Index returned: the index rose 11% in Q313 while M&A volume increased 12%.

Deal value

- Q313 aggregate announced value of $71.2 billion was up 113% sequentially and 152% YOY.
- Likewise, average value per deal achieved an all-time post-dotcom-bubble high of $398 million. It increased 115% YOY and 60% sequentially.
- Aggregate value of corporate deals jumped 157% YOY and 208% sequentially to $60 billion in Q313; average value increased 125% YOY and 113% sequentially, to $371 million.
- At $11.2 billion, PE aggregate value was up 130% YOY but down 20% sequentially from Q213 (see Figure 3, page 7).

Deals getting done

- Sector volume increased sequentially in every sector except semiconductors, which fell 36% (10 deals). However, volume was down YOY in every sector except computers, peripherals and electronics (CPE), which was up 34% (18 deals).
- Average value was mixed: five of six sectors increased YOY and four rose and two fell sequentially (see Figure 12, page 22).

Cross-border deals

- Aggregate CB deal value nearly quadrupled sequentially to $24.5 billion, which also was a 133% YOY increase. But at 34% of aggregate quarterly value, it remains below historical levels (see Figure 15, page 25).
- CB deal volume declined 12% YOY but halted a three-consecutive-quarter slide by increasing 13% sequentially to 220 deals in Q313 (see Figure 13, page 23).

"Deal-making confidence is returning to global technology M&A, as evidenced by the record value and renewed volume growth in the third quarter. The kinds of deals getting done in Q3 show just how rapidly the five transformative technology megatrends of mobile, social, cloud, big data analytics and accelerated technology adaptation are reshaping the technology landscape. And as returning confidence overcomes increased political instability, macroeconomic uncertainty and valuation gaps, we will continue to see steady growth in technology M&A volumes. According to the latest EY Capital Confidence Barometer, 65% of technology executives expect deal volumes to modestly improve over the next year."

Joe Steger

Global Technology Industry
Transaction Advisory Services Leader
EY

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Our five megatrends

EY has identified five long-term "megatrends" that are generating transformative innovation in technology and leading to technology-enabled innovation in other industries. The five megatrends are smart mobility, cloud computing, social networking, big data analytics and accelerated technology adaptation (technology companies rapidly adapting to the needs of specific industries and other industries rapidly adapting to the evolving possibilities that technology enables).

Accelerated technology adaptation challenges whether certain companies are pure technology companies or have entered the industry they are transforming. In addition, all five megatrends are driving increased information security requirements. This report focuses on how these megatrends influenced the microcosm of global technology M&A in Q313, as companies competed for market share and key technologies.

Smart mobile disruption helps drive record post-dotcom-bubble value

An unusual mix of deal drivers came together in the third quarter of 2013, spurring big-ticket deal-making and leading global technology M&A aggregate disclosed value to a new post-dotcom-bubble record of $71.2 billion. One or more of the five megatrends described in the sidebar at left were the main deal drivers. And while some of these deals envisioned accelerating growth in alignment with those megatrends, others hoped to recapture growth that was disrupted by them. An important factor behind the Q313 record was that confidence in the global economy rose to its highest level in two years, based on the results of EY's recently issued *Capital Confidence Barometer* (CCB). Other contributing factors included continued favorable PE conditions, sector consolidation, rising information security concerns, increasing divestitures and accelerated technology adaptation in certain industries, particularly financial services, health care information technology (HIT) and advertising and marketing.

Smart mobile disruption

Though there were bigger deals by dollar value, the biggest story of the quarter was deals driven by the consequences of smart mobile disruption. These included Microsoft Corporation's $5 billion bid for Nokia Corporation's devices and services business, the $4.7 billion deal to take BlackBerry Ltd. private, Nokia's $2.2 billion deal to buy Siemens out of its Nokia Siemens Networks (NSN) joint venture and Baidu Inc.'s $1.9 billion offer for 91 Wireless Websoft Ltd. That's $13.8 billion worth of smart mobile disruption, not even counting two big-ticket deals that merely touch on mobility: the $7.2 billion offer by Koch Industries, Inc. for Molex Inc., which makes electronic components used in smartphones and tablets (among other things), and Rockwell Collins Inc.'s $1.4 billion deal for ARINC, Inc., which includes technology that enables wireless broadband access from aircraft.

Volume grows, too — but lags value

Deal volume increased sequentially in Q313 after experiencing three consecutive quarterly declines, but the growth was disappointing in comparison with aggregate value growth of 113% sequentially and 152% YOY (see Figure 3, page 7). Q313 deal volume was 704 deals, up 12% sequentially but down 6% YOY. Average deals per quarter for the first nine months of 2013 were 664, 10% lower than the 734 deals per quarter seen in both 2012 and 2011. Just as in Q213, we remain concerned about a valuation gap between buyers and sellers — especially for smaller deals — given that recent volumes are at historically low levels despite continuous disruptive innovation from the five megatrends (see further discussion in "Look ahead," page 10).

But global technology M&A's volume performance bested that of all industries, which declined 16% YOY in Q313.[1] Likewise, the 152% YOY aggregate value increase compared favorably to a 41% increase by all industries.[2] In addition, the sequential volume increase put global technology deal volume back in sync with the NASDAQ Composite Index, which rose 11% during the quarter. We've observed that technology M&A volume's ups and downs correlate with the NASDAQ since 1996. However, it went out of sync in both Q113 and Q213 after doing so only once in the prior five years.

PE deal-making remains high

At 60 deals and $11.2 billion in aggregate value, PE deal-making is close to the upper end of the range we've seen in the last five years — despite the fact that the Q313 value total is the lowest so far this year. That's due to megadeals such as the $24.4 billion Q113 announcement to take Dell Inc. private. Low interest rates, wide availability of credit and opportunities created by the five megatrends (including companies weakened by the disruption) are all fueling this PE activity, and should continue to do so.

In a reversal, CB activity climbs

CB volume and average value both reversed long-term declines in Q313. In keeping with the overall volume and value trend, the CB value reversal was much bigger than that of volume. After four consecutive quarterly declines, CB volume increased 13% sequentially (slightly better than the 12% increase in all deals). CB average value, meanwhile, has declined relative to all-deal average value for seven consecutive quarters and was 43% below the all-deal level in Q213. But it reversed in Q313, tripling sequentially to $429 million, or 8% higher than the $398 million all-deal average. (Further CB analysis is on pages 23, 24 and 25.)

Top deals by dollar value

In a quarter that had more big-ticket deals than any other in the five years we've produced these reports, the pending $9.3 billion consolidation of Applied Materials, Inc. and Tokyo Electron Ltd. was the biggest. The two makers of semiconductor manufacturing equipment were brought together by the increasing consolidation of their customers and the increasing cost and extraordinary complexity of developing the equipment needed to make ever-smaller generations of chips[3] (for more details, see the Asia-Pacific and Japan (APJ) snapshot, page 16). ASML Holding NV, the Netherlands-based semiconductor equipment supplier, has also taken bold steps to deal with the same development challenge. Last year, it announced equity and R&D investments from customers Samsung Electronics Co. Ltd., Intel Corporation and Taiwan Semiconductor

Figure 1: Global top 13 deals, July–September 2013 (corporate and PE)

We expanded the top 10 deals to 13 in this report in order to present all 13 deals above $1 billion

Buyer	Disclosed value ($m)	Announced	Status	Deal type	Multiple of EV/TTM revenue	Multiple of EV/TTM EBITDA	Premium offered
Applied Materials, Inc. to acquire Tokyo Electron Ltd.	$9,280	24 Sep	Pending	Corporate	1.5x	35.5x	20%
Activision Blizzard, Inc. and multiple investors acquired additional shares of Activision Blizzard, currently owned by Vivendi SA	$8,169	26 Jul	Completed*	Corporate	2.1x	5.7x	-1%
Koch Industries Inc. to acquire Molex Inc.	$7,200	9 Sep	Pending	Corporate	1.9x	11.7x	25%
Microsoft Corporation to acquire the devices and services business (including smartphone operations) from Nokia Corporation	$5,009	3 Sep	Pending	Corporate	0.3x	N/A	N/A
Schneider Electric SA to acquire Invensys plc	$4,908	11 Jul	Pending	Corporate	1.7x	27.6x	3%
Consortium led by Fairfax Financial Holdings Ltd. to acquire BlackBerry Ltd.	$4,700	23 Sep	Pending	PE	0.2x	14.7x	-15%
Cisco Systems, Inc. acquired Sourcefire, Inc.	$2,700	23 Jul	Completed*	Corporate	10.7x	160.5x	N/A
Nokia Corporation acquired Nokia Siemens Networks (NSN)	$2,214	1 Jul	Completed	Corporate	0.1x	0.9x	N/A
Baidu Inc. to acquire 91 Wireless Websoft Ltd.	$1,850	14 Aug	Pending	Corporate	40.9x	N/A	N/A
Rockwell Collins, Inc. to acquire ARINC Inc.	$1,390	11 Aug	Pending	Corporate	N/A	N/A	N/A
Davis + Henderson Corporation acquired Harland Financial Solutions, Inc.	$1,200	23 Jul	Completed	Corporate	5.8x	18.5x	N/A
Vista Equity Partners to acquire ACTIVE Network, Inc.	$1,050	30 Sep	Pending	PE	2.1x	35.3x	44%
Thoma Bravo LLC acquired Intuit Financial Services (IFS), a division of Intuit, Inc.	$1,025	1 Jul	Completed	PE	3.4x	N/A	N/A

The staggering cost to develop next-generation semiconductor manufacturing equipment to produce ever-smaller chips helped drive the largest deal of Q313, Applied Materials–Tokyo Electron. Otherwise, smart mobility was the pervasive megatrend behind the quarter's billion-dollar-plus deals. Restructuring precipitated by smart mobile innovation led to the Microsoft–Nokia and Fairfax–BlackBerry deals. The opportunity for mobile-powered strategic growth motivated Nokia–Nokia Siemens Networks and Baidu–91 Wireless. Rockwell Collins–ARINC also may be partly motivated by mobility, as ARINC offers technology that enables wireless broadband access from aircraft. However, while Molex makes multiple parts for mobile devices, the Koch–Molex deal appears to be primarily a financial play.[4]

The security-driven Cisco–Sourcefire deal was reflected in many smaller security deals. Likewise, there was a high number of financial technology deals in Q313, reflected in 2 of the top 13: Davis + Henderson–Harland Financial Solutions and Thoma Bravo–Intuit's IFS division (which includes products that enable mobile banking).

Seventy-one percent of Q313 aggregate value was concentrated in these 13 deals. PE buyers purchased 13% of the top 13 value, and non-technology buyers (Koch Industries, Rockwell Collins and Davis + Henderson) purchased 19%.

Note: announced deal values are often subject to change at the time of close, due to subsequent revisions to the terms of the deal. *Deal completed in October 2013.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

16%

of PE buyers acquired Q313 aggregate value.

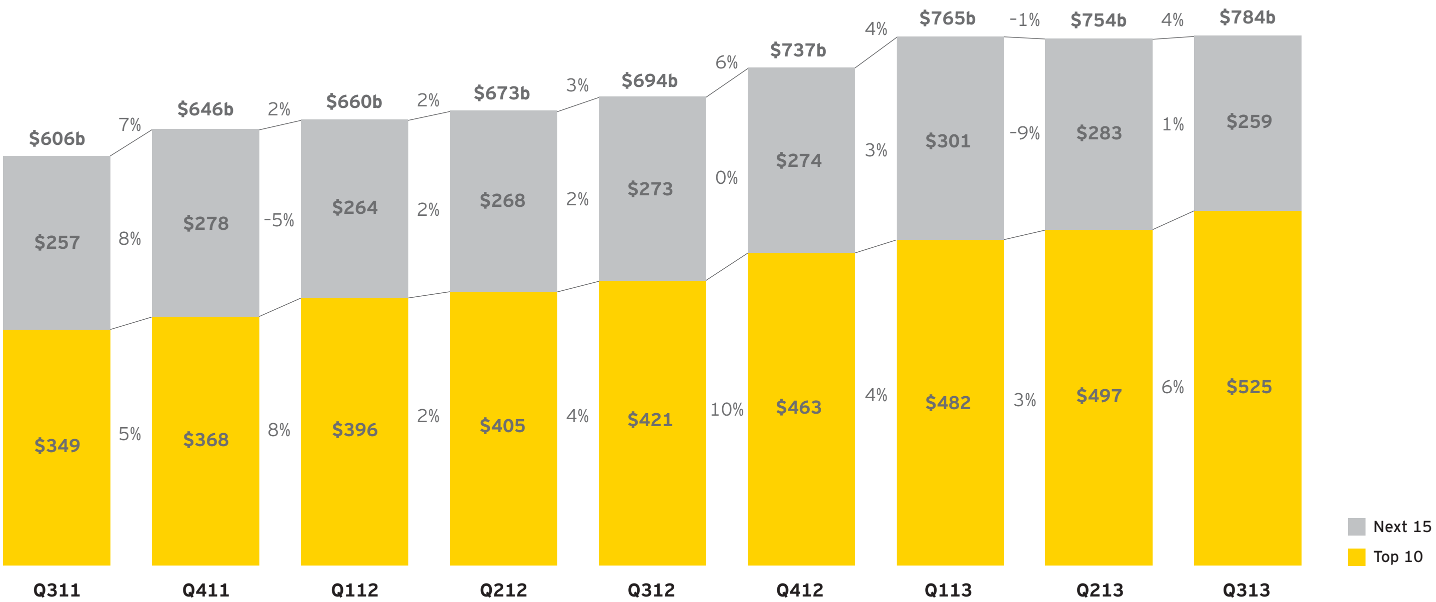
Manufacturing Co. Ltd. to help accelerate development of the extreme ultraviolet (EUV) lithography technology needed to make future chip generations; ASML also acquired US-based EUV equipment maker Cymer, Inc. for $2.5 billion.[5]

The second- and third-largest Q313 deals were unusual in that we don't often see deals like these get so large. In two separate (completed) transactions totaling $8.2 billion, Vivendi sold the majority of its shares in video game pioneer Activision Blizzard back to the company and to a private investment group that includes Activision's CEO. Vivendi is left with a 12% interest. Independence for the company means greater flexibility for expansion.[6] Koch Industries' $7.2 billion bid for Molex (see the Americas snapshot, page 14) appears to be motivated more as a financial play than as a strategic technology deal.[7] Molex has grown slowly but steadily since the early 1990s and brings Koch Industries a business that participates at the beginning of several technology industry supply chains – supply chains that can be highly volatile and, therefore, riskier, at the opposite end (where they meet consumers).[8]

Microsoft's smart mobile integration

The fourth-largest deal of Q313 was Microsoft's $5 billion pending offer for Nokia's devices and services business. Through the deal, Microsoft expects to strengthen the position of Windows Phone as a third smart mobile device ecosystem in competition with Apple Inc. and Google Inc., according to Microsoft's "strategic rationale" document.[9] Integrating device and software development within Microsoft will "reduce friction," thus accelerating smartphone innovation, increasing marketing efficiency and better promoting the Windows Phone app ecosystem, the document says.[10] As part of the deal, Microsoft will acquire 8,500 design patents and license Nokia's mapping and location-based services technology, which Nokia would continue to develop for other devices.[11] Microsoft also struck a separate $2.2 billion licensing deal covering Nokia's entire portfolio of 30,000 utility patents[12] (the patent licensing deal is not included in our M&A data). Assuming the deal closes, Microsoft will still face challenges in taking over device manufacturing, winning over app developers and integrating about

Figure 2: Aggregate cash and short- and long-term investments for the top 25 technology companies, Q311–Q313 ($b)



After a rare sequential decline in the previous quarter, the aggregate stockpile of cash and short- and long-term investments of the top 25 global technology companies* rose 4% sequentially to $784 billion in Q313, from $754 billion in Q213. YOY, the Q313 figure was 13% higher than the $694 billion posted in Q312. Both the top 10 companies and the "next 15" increased sequentially in Q313, 6% and 1%, respectively. In Q213, the next 15 caused the sequential decline (they fell 9%). We expect this metric to continue its long-term growth trend.

*Top 25 companies identified are based on average ranking of market value and sales as of 31 December 2012.

Note: numbers in above chart differ from past published reports due to changes in the composition of the top 25 companies for 2013 and the date Capital IQ database was accessed for this chart.

Source: EY analysis of Capital IQ data, accessed 31 October 2013.

32,000 Nokia employees with its own approximately 100,000.[13]

For Nokia, however, the deal was one of two in the quarter that could yield a transformation for the Finnish company. Together with its purchase of Siemens' half of NSN, Nokia is transforming from its struggling focus on the endpoints of mobile networks to a stronger position focused on core infrastructure equipment for mobile broadband networks, which is NSN's business (see the Europe, the Middle East and Africa snapshot, page 18).

BlackBerry deal to go private; Baidu's mobile moves

Like Dell in Q113 and BMC Software, Inc. in Q213, BlackBerry announced a plan to go private in order to further a turnaround without the scrutiny of public markets. While the Dell and BMC deals referenced cloud/SaaS disruption primarily and mobile secondarily, the BlackBerry deal, like the two Nokia deals discussed above, is clearly the result of smart mobile disruption. Though all deals are subject to changes before closing, the BlackBerry deal is more likely to change than most: it has multiple contingencies and a "go shop" period,[14] and the company is reported to be in discussions with other potential buyers.[15]

Chinese internet search provider Baidu pursued Q313 deals to help it grow mobile revenue models, reflecting the rapid adoption of smartphones in China (which surpassed the US as largest smartphone market by shipments in 2012). Baidu's top 13 deal for 91 Wireless Websoft brings it a leading mobile app store, considered a key mobile network "entry point" and content distribution channel for mobile users.[16]
A $160 million offer for Nuomi Holdings, Inc. brings a local group buying platform that complements Baidu's location-based services.[17]

Change to BlackBerry transaction
As this report went to press, BlackBerry announced a change to the pending deal listed in Figure 1 on page 5. Instead of taking the company private, PE firm Fairfax will lead a consortium of investors purchasing a $1 billion private placement of convertible debentures.[18] Details of the deal will be discussed more fully in our fourth quarter update.

Aggregate value for corporate deals climbed 157% YOY to

$60 billion.

Figure 3: Global technology transactions scorecard, Q313

Deals announced	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change		YOY % change	
Corporate							
Number of deals announced	701		644	13%	▲	-8%	▼
Number of deals with disclosed values	142		162	45%	▲	14%	▲
Total value of deals with disclosed values ($m)	$23,365		$60,047	208%	▲	157%	▲
Average value of deals with disclosed values ($m)	$165		$371	113%	▲	125%	▲
PE							
Number of deals announced	51		60	5%	▲	18%	▲
Number of deals with disclosed values	11		17	-23%	▼	55%	▲
Total value of deals with disclosed values ($m)	$4,868		$11,173	-20%	▼	130%	▲
Average value of deals with disclosed values ($m)	$443		$657	4%	▲	48%	▲
Corporate and PE							
Number of deals announced	752		704	12%	▲	-6%	▼
Number of deals with disclosed values	153		179	34%	▲	17%	▲
Total value of deals with disclosed values ($m)	$28,233		$71,220	113%	▲	152%	▲
Average value of deals with disclosed values ($m)	$185		$398	60%	▲	115%	▲

After being in the doldrums for two consecutive quarters, corporate deal value tripled sequentially in Q313 to a new post-dotcom-bubble high in aggregate value, while PE remained near its historical high. Consequently, Q313 achieved highs for overall (corporate and PE) aggregate and average values not seen since 2000 (the last year of the dotcom bubble).

Deal volume presents a different story. At 644 deals, corporate volume has bounced back from a three-year low posted in Q213. But it is still below its average of 686 deals per quarter in 2012 and 675 in 2011. PE's 60 Q313 deals were above its average of 48 deals per quarter in 2012 and 59 in 2011. The 2012 corporate average deal volume is only about half the dotcom bubble peak: corporate volume averaged 1,224 deals per quarter in 2000 (we don't have PE data for the period).

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Sequentially, PE and non-technology buyers increased the value they purchased by

32%.

Cloud/SaaS and mobility are like "background radiation" in deals for security, financial technology, advertising and marketing, HIT – and more

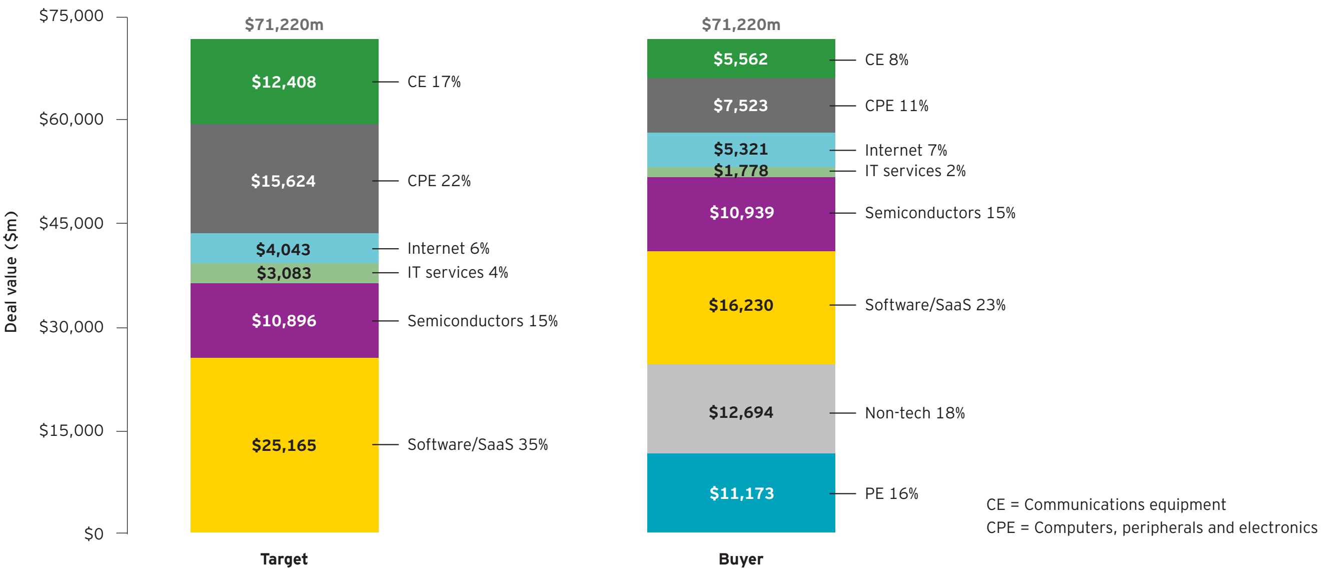
Having followed the disruptive impact of the cloud/SaaS and smart mobility megatrends for several years, we now sense they are emerging as a kind of background radiation for global technology M&A – they are very nearly omnipresent. For example, SaaS delivery was an element of the top deals for information security technology, starting with Cisco System's $2.7 billion completed deal for Sourcefire. It was cited in International Business Machines Corporation's (IBM) completed $900 million deal for Trusteer, Inc., a provider of anti-fraud software/SaaS with a mobile angle (Trusteer also offers endpoint security for mobile devices). And it was a part of EMC Corporation's $225 million deal for identity access management SaaS provider Aveksa Inc., Intel Corporation's $20 million deal for pattern-matching intrusion detection SaaS company Sensory Networks, Inc., and many more.

Financial technology, including mobile payments

Two financial technology deals made it into Q313's $1 billion+ deals, mirroring many similar, though smaller, deals. They included Canadian company Davis + Henderson's $1.2 billion deal for US-based Harland Financial Solutions (whose products include mobile banking applications), and Intuit's completed divestiture of Intuit Financial Services (IFS), which offers online and mobile banking solutions, to PE firm Thoma Bravo. The IBM-Trusteer deal cited earlier also targets the financial services industry.

Mobile payments technologies were a prevalent Q313 target, exemplified by eBay's $800 million pending plan to acquire Braintree Payment Solutions LLC, a payment service that powers many popular e-commerce sites. eBay plans to incorporate Braintree's smartphone, tablet and other payment apps as a separate service within PayPal.[19] Those apps include Venmo, a 2012 acquisition by Braintree, which enables

Figure 4: Global technology transactions value flow by sector, Q313



PE and non-technology buyers continued to change the dynamics of sector value flow in Q313, though technically their impact diminished because corporate technology buyers increased disclosed value at a faster rate. Together, PE and non-technology buyers increased the value they purchased by 32% sequentially, to $23.9 billion in Q313 from $18.1 billion in Q213. But on the same basis, corporate buyers tripled the value they purchased. Consequently, the PE and non-technology duo acquired 34% of total Q313 value, down from 54% in the prior quarter. PE buyers acquired 38% of CE value sold, all in the one Fairfax-BlackBerry announcement; and in multiple deals acquired 35% of IT services value sold, 20% of internet value and 17% of software/SaaS value. Non-technology buyers acquired 52% of the CPE value sold, mostly in the one Koch-Molex deal, and 15% of the software/SaaS value, 69% of which came in two big-ticket deals: Rockwell Collins-ARINC and Davis + Henderson-Harland Financial Solutions (see Figure 1, page 5).

Only the internet and semiconductor sectors were net buyers – and semiconductors by a negligible amount (0.4%). Internet buyers acquired 77% of the value sold within their own sector, plus 11% of IT services value sold and 7% of software/SaaS value. All the IT services value came in one deal, Twitter, Inc.'s announced $350 million deal for mobile advertising network MoPub, Inc. The software/SaaS value was spread among many deals, the largest of which was PayPal-Braintree, at $800 million.

Note: data and totals may appear inconsistent due to rounding.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

payments between individuals with no transaction fee. Separately, CVC Capital Partners Ltd. offered $797 million for a majority stake in Skrill Ltd. (formerly known as Moneybookers Ltd.), which also provides online payment services.[20] A key driver for mobile payments technology is research predicting that the mobile-payments market will grow 31% to $235 billion in 2013 and more than another threefold by 2017.[21]

Advertising and marketing deals: mobile and in the cloud

Advertising and marketing technologies targeted in Q313 also were mobile, in the cloud or both – though deal size was smaller than in recent quarters. AOL, Inc.'s $465 million completed purchase of Adap.tv brings it an online and mobile advertising network as well as related campaign management SaaS. Twitter, Inc.'s $350 million offer for MoPub, Inc., gets it a similar mobile advertising network and related bidding exchange. There were more than five dozen similar, though smaller, advertising and marketing technology deals.

Similarly, there were more than three dozen HIT deals, the largest of which was Vista Equity Partners' $644 million offer to take private Greenway Medical Technologies, Inc. Greenway provides electronic health care records (EHRs) and practice management software and SaaS.

API, MBaaS and devops deals continue

We continued to see deals in Q313 for the megatrend-enabling technologies first noted in our Q213 report: application programming interfaces (APIs), mobile back-end as a service (MBaaS) and devops, a contraction of development and operations describing a software development methodology that aims to enable greater frequency of new releases.[22] But there were none of the "household name" buyers we saw last quarter. The most notable such deal was PayPal-Braintree, already mentioned. PayPal plans to position Braintree as its "developer platform," using Braintree's APIs to enable developers to use it as an MBaaS for payments.[23]

Yahoo, Apple among most acquisitive

As in Q213, Yahoo! Inc. was the most acquisitive company in our Q313 M&A data, with eight deals – nine if you count one by the Yahoo! Japan joint venture. All were under $100 million or with undisclosed values, unlike the company's $1.1 billion Q213 deal for Tumblr, Inc. Most involved mobile apps or functions, such as mobile ad creation, content creation or social network interaction. Yahoo! also acquired technologies for facial, object and landmark recognition and social big data analytics.

More surprising were the two companies tied for second-most Q313 deals (at six each): Apple Inc. and a non-technology company, Publicis Groupe, the global advertising and marketing agency holding company. Apple's deals, all with undisclosed values, also mostly focused on mobile capabilities, including image/video compression, mapping, location-based services and low-power communications chip technology. This is a first for Apple, which has slowly been increasing M&A in recent years; for example, our data shows just five deals for all of 2012.[24] In fact, Apple CEO Tim Cook said in its earnings call that the company made 15 acquisitions in its fiscal 2013 (not all of which appear in our data because some have not been made public).[25] Publicis' deals all involved advertising and marketing technology, touching on social, mobile or both. At the other end of the spectrum: Q313 was the second consecutive quarter in which we found no acquisitions by Oracle Corporation, which almost always appears in our quarterly data. But Oracle ended its M&A hiatus in October 2013, announcing deals for two cloud/SaaS companies (which we'll say more about in our Q413 report).

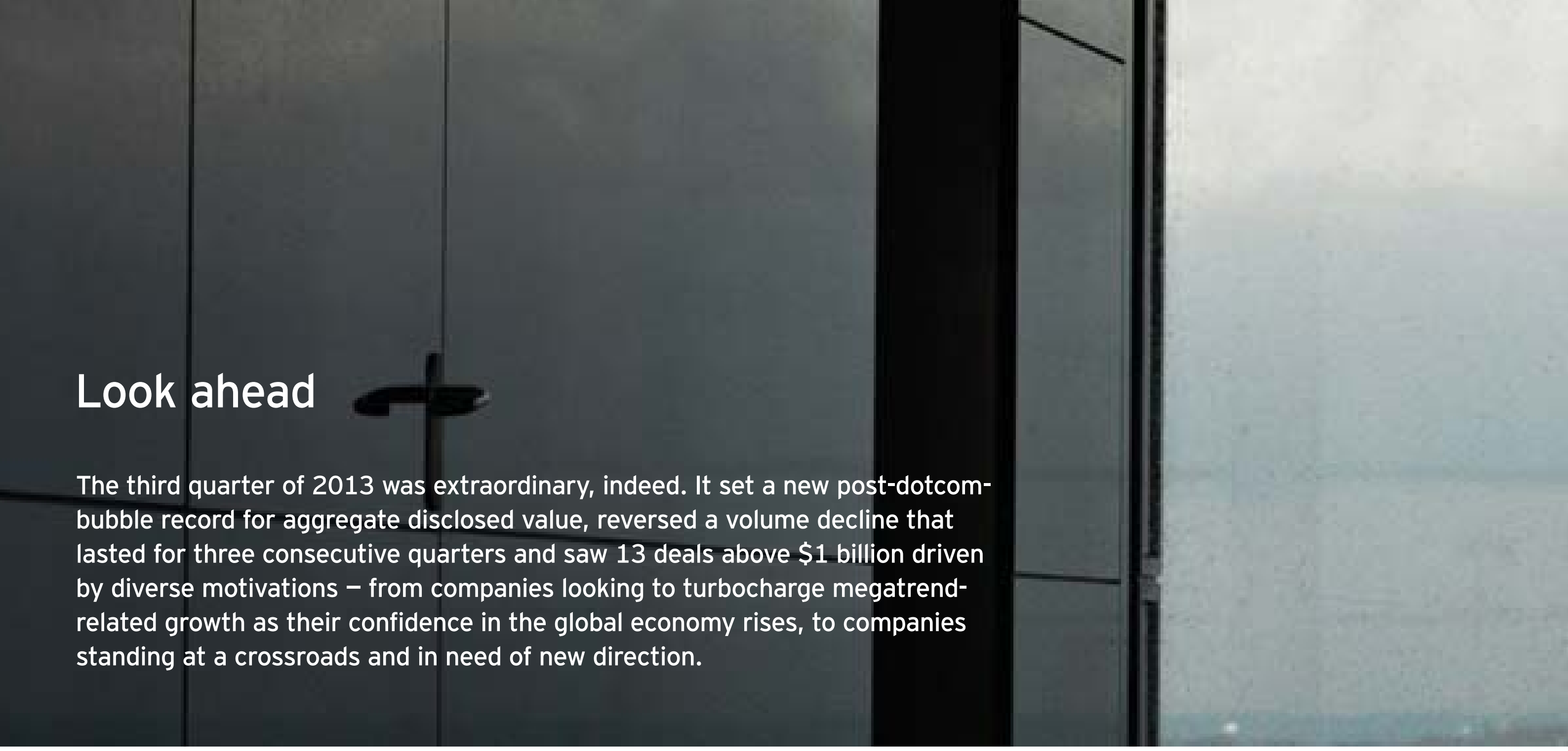
Rounding out the top 13 deals were Schneider Electric-Invensys, a $4.9 billion deal that appears to be focused on access to the target company's base of industrial automation technology customers, and Vista Equity Partners-The Active Network, a $1.1 billion deal in which the target offers event management, transaction processing and facilities management software and SaaS.

Notable divestitures

Corporate divestitures increased again in Q313, rising to more than four dozen deals (compared with slightly more than three dozen in Q213) as technology companies continued to seek restructuring, a return to core focus or portfolio optimization. Two made the top 13 deals and have been discussed already: Nokia's $5 billion pending sale of its mobile devices and services business to Microsoft and Intuit's completed $1 billion sale of its IFS division to PE firm Thoma Bravo. Intuit had a second Q313 divestiture, with no disclosed value: it sold Intuit Health back to Steve Malik, the founder of the company Intuit acquired in 2010 to form the unit. Q313's third-largest technology company divestiture was the pending sale of Omnitracs, Inc., a subsidiary of Qualcomm Inc., which provides GPS fleet tracking services, to Vista Equity Partners for $800 million. Qualcomm also sold its related Snaptracs division, which uses GPS technology in a pet-tracking device, to Karmel Capital for an undisclosed value. For $505 million, IBM plans to sell its business process outsourcing customer care services business to Synnex Corporation, and for $300 million, Emerson Electric Company plans to sell its embedded computing and power division to PE firm Platinum Equity. And Intel acquired important mobile technology when Fujitsu Ltd. divested its Fujitsu Semiconductor Wireless Products Inc. subsidiary (for an undisclosed value), which developed an advanced multimode LTE RF transceiver.[26]

Cross-border disclosed deal value soared 283% sequentially and 133% YOY to

$24.5 billion.



Look ahead

The third quarter of 2013 was extraordinary, indeed. It set a new post-dotcom-bubble record for aggregate disclosed value, reversed a volume decline that lasted for three consecutive quarters and saw 13 deals above $1 billion driven by diverse motivations — from companies looking to turbocharge megatrend-related growth as their confidence in the global economy rises, to companies standing at a crossroads and in need of new direction.

"As the five megatrends — especially smart mobility and cloud computing — continue to transform the technology industry landscape, deal-making by leading innovators and by 'companies at a crossroads' will drive technology M&A volume up, even if volume for all industries continues to decline."

Joe Steger
Global Technology Industry
Transaction Advisory Services Leader
EY

It's worth noting that we anticipated the "companies at a crossroads" a year ago in our Q312 report, with a section titled, "Economic malaise, mobility and the cloud place many companies at a crossroads."[1] In it, we noted two factors that would lead many technology companies of all sizes to their crossroads: first, the long-term economic malaise has made organic growth difficult to achieve. Second, the cloud computing and smart mobility megatrends have grown so rapidly that resulting changes in customer requirements are occurring too fast for companies to respond adequately. In every quarter of 2013 so far, at least one large technology company has sought to go private to help accelerate its transformation from just such a crossroads.

But where will global technology M&A go from here?

While we don't have a crystal ball, we do have the twice-yearly *Capital Confidence Barometer* (CCB), which in September 2013 surveyed 181 technology executives worldwide. The April 2013 CCB correctly anticipated returning volume growth and increasing values, and the October results are consistent with that view — though with a caveat. Confidence in the global economy is at its highest point in two years. Sixty-five percent of technology executives anticipate economic growth, compared with 62% in April 2013 (which was a near-tripling of the 23% who expressed confidence in October 2012). Only 5% expect deal volumes to decline and 65% expect volumes will "modestly improve." The caveat comes in the form of potentially widening valuation gaps between buyers and sellers: respondents who expect valuation gaps in the next 12 months to stay the same or contract have declined to 55% in October from 82% in April, and those expecting valuation gaps to widen increased to 45% from 18%.[2]

Given all the above, we continue to expect moderate growth in deal volumes for the next few quarters. That means that the forces of disruptive innovation from the five megatrends (smart mobility, cloud computing, social networking, big data analytics and accelerated adaptation) and technology executives' growing confidence (shown via the CCB) will overcome valuation disconnects and the growing belief by some large corporate buyers that they need to make fewer, but larger, deals to have a more meaningful impact on revenue and earnings growth. We still have a long way to go before the 664-deal-per-quarter average so far in 2013 catches up with the 734 average seen for the last two years.

Aggregate disclosed value is more of a wild card. The need for companies to grow both at the top line and bottom line still persists, and companies at a crossroads are still out there. But we are unlikely to see so many taking action simultaneously again. Consequently, we expect value to grow, but not from the Q313 record of $71.2 billion. Rather, value growth will pick up where it left off. It will grow modestly from the trailing 12-month average before Q313, which was $31.9 billion per quarter.

65%

of technology industry executives expect modest M&A deal volume growth in the coming year.

Consider the following questions and how the answers may shape deal-making over the next few quarters:

- Will volume continue on its reversed, upward, course? Or, return to the declines of the previous three quarters?
- The most recent EY CCB predicts widening valuation gaps between buyers and sellers. How will the change influence deal volume?
- Will favorable PE conditions (low interest rates, appealing lending terms and attractive technology opportunities) continue to drive PE volume and values at the top end of expectations?
- To what extent will slowly improving macroeconomic conditions continue to instill confidence in technology M&A buyers for making the really big, transformative deals seen in Q313?
- How many more "companies at a crossroads" (weakened by the cloud/SaaS or smart mobility megatrends) will attempt to go private or be acquired?
- Is another wave of semiconductors/semiconductor equipment consolidation coming, triggered by the $9.3 billion Applied Materials-Tokyo Electron deal?
- To what extent can the Applied Materials-Tokyo Electron deal open doors in Japan, where companies have been historically reluctant to enter deals with foreign buyers?
- Non-technology companies are on a buying spree, acquiring 18% of Q313 aggregate value compared with 13% in Q213 and only 1% in Q113. Will it continue?
- Information security deals continued to increase in deal size in Q313 amid a security technology portfolio-building trend and growing public concern — but volume declined. Should we expect more big-ticket security deals to come? And will overall security volume grow?
- Seventy-one percent of global deal volume has been concentrated in the US so far in 2013. Will debt-default "brinksmanship" diminish deal-making confidence if it returns to the US early next year — as many anticipate?
- Is the CB volume and value reversal (back to growth in Q313) the beginning of a long-term CB growth trend, based on greater confidence in macroeconomic conditions?
- How much longer can advertising and marketing technology continue to be a major target?
- Will activist shareholder involvement remain a factor in driving companies with depressed valuations to put themselves up for sale or divest underperforming business units?
- IPO activity continues to increase; will this drive up valuation expectations and conversely lower deal activity for technology M&A?

As innovation accelerates, portfolio management becomes a "must have"

The relentless acceleration of advancing technology constantly makes new things possible, while continually creating newer, faster, lower-cost ways of doing what is already possible. That's why there are so many technology start-ups and so much investment in technology innovation — especially around the five disruptive technology megatrends (mobile, social, cloud, big data analytics and accelerated technology adaptation). And, as the growing number of corporate divestitures suggests, that's also why there is so much need for established technology companies to be proactive in managing their business portfolios.

"The increasing numbers of divestitures in global technology M&A so far this year are actually a lagging indicator of the need for proactive portfolio management."

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With few exceptions, however, technology companies have not been really proactive portfolio managers. "The increasing numbers of divestitures in global technology M&A so far this year underscores the need for proactive portfolio management," says Barak Ravid, Transaction Advisory Services, EY.

When companies institutionalize portfolio management with well-defined strategies and proactive processes, they are better able to divest business units at the optimal time, balancing their portfolio smoothly, over time, with fewer bursts of transaction activity. As the graph on the left side of Figure 5 indicates, most companies end up investing more than is optimal in maturing businesses. But as the right side suggests, proactive portfolio management can drive competitive advantage.

Aligning your portfolio with rapidly evolving markets

Further, one of many possible outcomes of a rigorous portfolio management process is to divest business units that have either matured or have a lower profit growth potential or are no longer in line with strategic objectives. Because proactive portfolio management actually starts with in-depth analysis of customers and markets, it detects market changes, compares a company's portfolio with current market needs and identifies any gaps that need to be filled in order to align the portfolio with the market. "Effective portfolio management helps you see where to invest in organic growth, where inorganic options such as M&A may be best and where to lower investment — or divest — in mature businesses to help fund those growth activities," notes Kripa Rajshekhar, Transaction Advisory Services, EY.

The move toward integrated security portfolios

A current example of portfolio management is in information security, and was discussed in our Q213 M&A report.[1] According to that report, corporate customers are reacting to the greater complexity of modern information security challenges by seeking single-source, end-to-end solutions providers that can "hide" the complexity and take responsibility for the overall solution. That, in turn, is driving consolidation among providers of different types of security solutions, as they seek to achieve the product breadth and scale that customers want.

Portfolio management starts with the "right" metrics

To maximize the value of a portfolio management process, it's important to start by defining metrics for portfolio evaluation. Though what's "right" will vary from company to company, too often companies choose metrics that are backward-looking, such as historical operating profit. Instead, "business lines should be compared in the context of future market and profit opportunity, asset investment and intensity, tax considerations, manufacturing synergies or IP use across lines," says Rajshekhar. Portfolio management processes generally break down into some easily defined — though not always easy-to-execute — steps that fall into two broad categories:

- Portfolio strategy (value identification)
  - Define the relevant metrics
  - Assess the portfolio
  - Identify gaps and opportunities
  - Prioritize resulting initiatives

- Portfolio operations (value realization)
  - Identify and evaluate targets for inorganic growth
  - Realign investments in mature businesses, including options for divesture or "ramp down"

Rajshekhar emphasizes that it is important to include objective external factors (that many organizations overlook) at every step of the process, along with internal factors and short- and long-term objectives. And when assessing a portfolio, it's important to evaluate each unit on a stand-alone basis, as well as its contribution to the whole portfolio.

Harder than it looks

Both Ravid and Rajshekhar acknowledge that several factors make portfolio management hard to execute. For example, the external metrics that are so important to understanding a business line's future potential are not easy to measure against. "Most companies have very good data on which of their products are selling well and which are not, but they typically don't combine it with robust data on what the market and their competitors are doing, how that's going to be changing and what customers are going to be wanting in the future," explains Ravid.

Further, differing internal points of view can create hurdles in multiple dimensions. First, most forecasts are made independently, by business line managers with different goals and perspectives, and therefore, are difficult to compare objectively. Second, to arrive at the correct investment prioritization, subjective perspectives of different stakeholders must be overcome. "Consistently prioritizing investment opportunities may be the most difficult part of portfolio management," notes Rajshekhar. Third, even after achieving consensus on investment priorities, connecting capital allocation to strategic planning can be a challenge. "Capital allocation is typically led by the finance department, and strategic planning is business-unit-led – this makes it hard," says Rajshekhar.

"These are difficult conversations that are hard to have objectively within the organization, because there are always competing interests, whether at the corporate level or the business unit level. That's why so many organizations never really achieve effective portfolio management without engaging a trusted third party that can bring external data and an independent perspective to help reduce the noise and drive objective decision-making," Rajshekhar explains.

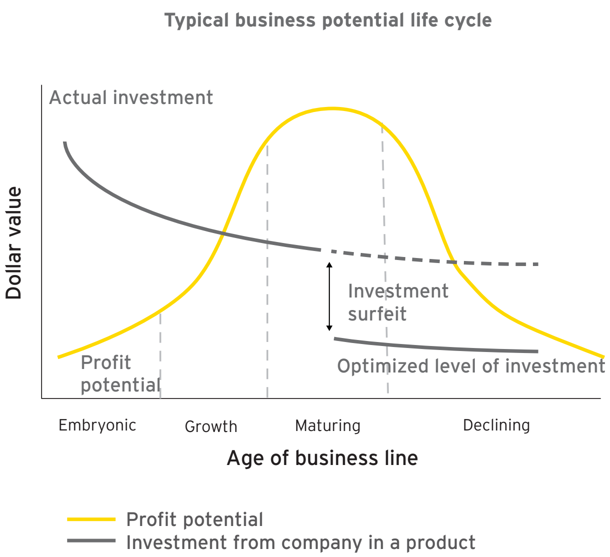
Accelerating change demands iterative portfolio management

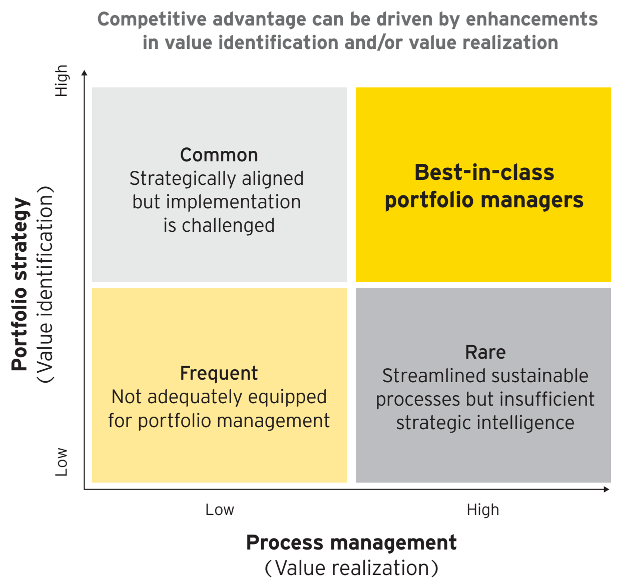
As challenging as it can be to do portfolio management well just once, the constantly shifting technology landscape demands that it be done regularly – at least annually. For example, technology companies serving data centers have been evolving for several years from individual providers of servers, storage, networking and software to integrated providers of all four. This trend requires the companies to continually reassess their portfolios. As in the information security example, customers' need to hide complexity via seamlessly integrated solutions is driving the changes. "These technology companies are recognizing they need to evolve their revenue models from selling products to providing solutions on a subscription basis – and so they are missing lots of pieces in their portfolio to enable that, from bits of technology to areas of geographic support," explains Ravid.

What is more, the data center technology landscape is rapidly evolving, even as the companies evolve their portfolios. Flash storage use is climbing, software-defined networking is emerging and rising use of big data analytics is demanding new software architectures and approaches. Companies involved in this trend would find continual portfolio management a distinct competitive advantage.

Whether your organization is participating in the data center trend or is otherwise caught up in the transformative disruptions being driven by the five megatrends, investing in effective portfolio management is key to maintaining competitiveness – or even getting ahead of the changes.

Figure 5: Aligning investment levels with future profit potential necessitates proactive portfolio management





Source: EY analysis, 2013.

Regional snapshot: Americas

Big-ticket deals drive value to 13-year record

Americas aggregate disclosed deal value leapt 146% YOY to reach a post-dotcom bubble record of $58 billion in Q313 as the region's buyers captured 10 of the 13 global transactions above $1 billion. Mobile, social, cloud and big data analytics trends continued to drive many Americas deals; advertising and marketing technology, HIT and security also were significant drivers.

"The volume of the Americas' M&A activity that's focused on acquiring marketing and advertising technology reflects the speed at which media and entertainment audiences are moving online, driven by the accelerating mobile-social-cloud megatrends."

Joe Steger
Global Technology Industry
Transaction Advisory Services Leader
EY

Together, the five top deals (see Figure 6) accounted for $34.4 billion, or 59% of the Americas' aggregate value. Total Americas deal volume declined by 3% YOY to 519 deals, compared with a global average volume decline of 6%. Sequentially, however, deal volume increased 20%, compared with 12% globally; Americas sequential increase of 87 deals was actually more than the global increase, due to volume decline in EMEA (see page 18). PE deals remained significant: PE aggregate value rose 122% YOY to $9.5 billion. However, it declined from the two previous quarters, which included deals to take private Dell Inc. ($24.4 billion in Q113) and BMC Software, Inc. ($6.9 billion in Q213).

The largest Q313 Americas deal was the pending merger of semiconductor manufacturing equipment firms Applied Materials and Tokyo Electron, which is discussed further in the APJ snapshot (see page 16).

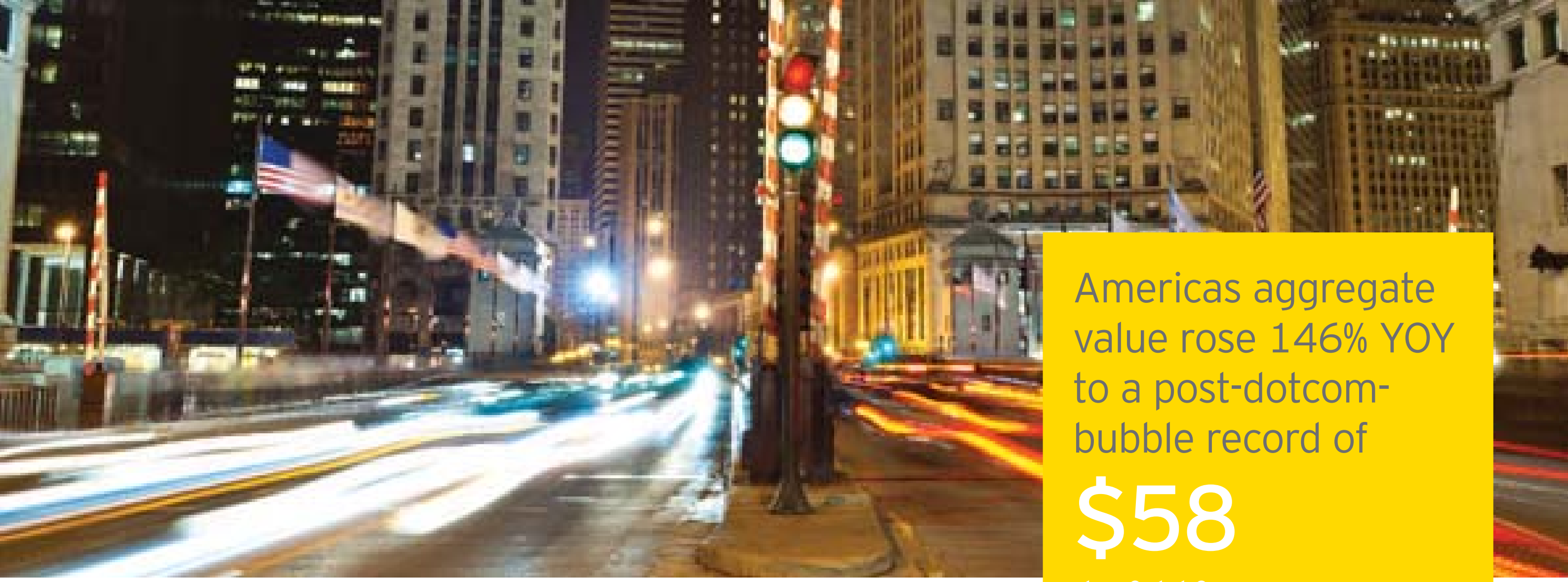
Another top five deal focused on interactive gaming. Activision Blizzard and a consortium of investors (see page 6 for deal specifics), agreed to pay $8.2 billion in two separate transactions to buy most of Vivendi's 61% share of the company, which stemmed from the 2008 merger of Activision with Vivendi's games unit.[1] After the deal, Vivendi will retain approximately 12% equity.[2] The deal was temporarily delayed by a court decision requiring a full shareholder vote, but that decision was overturned.[3]

Two other top five deals highlighted the transformative impact of smart mobility on the technology industry: Microsoft's acquisition of Nokia's devices and services business and the PE buyout of BlackBerry. Both are discussed in this report's main narrative, beginning on page 4. The final top five deal also included a link to mobility. Koch Industries, which owns a diverse portfolio of manufacturing and consumer products companies, plans to expand into electronic components with the announced purchase of Molex. Molex supplies connectors, antennas and other components to makers of computers, smartphones and industrial equipment, including Apple.[4] Overall, mobility was a factor in more than six dozen deals.

Other megatrends drove many more deals: Cloud/SaaS was a driver in more than 140 Americas deals, and social networking and big data analytics factored into more than three dozen deals each. Advertising and marketing technology, which drove a top 10 deal in Q213, factored into more than 40 Q313 deals, but all with small or undisclosed values.

About two dozen deals targeted security firms. They included the region's sixth largest transaction — Cisco Systems' $2.7 billion completed acquisition of Sourcefire, which sells intrusion-prevention systems, firewalls and anti-malware software. In addition, IBM acquired privately held Trusteer for $900 million. Trusteer's products, which include SaaS solutions, are widely used by financial institutions to protect online bank accounts and prevent fraud.

While health care reform remains a continuing debate in the US, about 30 deals focused on HIT. They included Vista Equity Partners' pending $644 million deal for Greenway Medical Technologies, Inc., a supplier of electronic health records and medical practice management applications, including SaaS.



Americas aggregate value rose 146% YOY to a post-dotcom-bubble record of

$58 billion

in Q313.

Figure 6: Top five Americas deals, Q313 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
Applied Materials, Inc. to acquire Tokyo Electron Ltd.	$9,280	24 Sep	Corporate	20%
Activision Blizzard, Inc. and multiple investors acquired additional shares of Activision Blizzard, currently owned by Vivendi SA	$8,169	26 Jul	Corporate	-1%
Koch Industries, Inc. to acquire Molex Inc.	$7,200	9 Sep	Corporate	25%
Microsoft Corporation to acquire the devices and services business (including smartphone operations) from Nokia Corporation	$5,009	3 Sep	Corporate	N/A
Consortium led by Fairfax Financial Holdings Ltd. to acquire BlackBerry Ltd.	$4,700	23 Sep	PE	-15%

Figure 7: Americas transactions scorecard, Q313

Deals announced	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change		YOY % change	
Corporate							
Number of deals announced	496		473	21%	▲	-5%	▼
Number of deals with disclosed values	95		108	52%	▲	14%	▲
Total value of deals with disclosed values ($m)	$19,300		$48,496	200%	▲	151%	▲
Average value of deals with disclosed values ($m)	$203		$449	98%	▲	121%	▲
PE							
Number of deals announced	41		46	10%	▲	12%	▲
Number of deals with disclosed values	9		13	-28%	▼	44%	▲
Total value of deals with disclosed values ($m)	$4,297		$9,547	-17%	▼	122%	▲
Average value of deals with disclosed values ($m)	$477		$734	15%	▲	54%	▲
Corporate and PE							
Number of deals announced	537		519	20%	▲	-3%	▼
Number of deals with disclosed values	104		121	36%	▲	16%	▲
Total value of deals with disclosed values ($m)	$23,597		$58,043	110%	▲	146%	▲
Average value of deals with disclosed values ($m)	$227		$480	54%	▲	111%	▲

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Regional snapshot: Asia-Pacific* and Japan

Deal value hits two-year high

Asia-Pacific and Japan (APJ) M&A activity intensified in Q313, as mobile, internet, display and financial technology deals drove aggregate value to its highest level since 2011.

"Diversification and globalization of Asia-Pacific and Japan's large internet companies — especially their accelerating adaptation to smart mobility — will likely continue to drive more deals in the next few quarters."

Ben Kwan
Transaction Advisory Services Leader
Technology, Media & Telecom (TMT) Market
Greater China
EY

Aggregate disclosed deal value grew 19% YOY and 1% sequentially to $3.4 billion. Q313 was the second successive quarter of value growth following two sequential declines, and it brought APJ aggregate value to its highest level since Q311 ($3.6 billion). Still, Q313 APJ growth was far slower than the global average of 152% YOY and 113% sequentially (see Figure 3, page 7). Volume, though, grew 6% YOY and 19% sequentially to 57 deals, the highest level since Q212. Global transaction volume declined 6% YOY and increased 12% sequentially.

The biggest APJ story of Q313 involved an in-region target in the largest dollar-value deal of the quarter: the $9.3 billion announced merger of US-based Applied Materials and Japan's Tokyo Electron. The deal mirrors the growing concentration of semiconductor equipment customers and illustrates how equipment makers are being driven to take bold, creative approaches as the cost and complexity of developing new semiconductor technology rises.[1] Shareholders of Applied, which ranks as the largest semiconductor equipment maker, will hold 68% of the merged entity, while shareholders of Tokyo Electron, the third-largest, will hold 32%.[2] Applied's CEO would be CEO of the new company but move to Japan to run it, and it would be incorporated in the Netherlands, which the companies say was chosen as a neutral location (while observers note potential tax benefits).[3] The deal, which is the largest in six years in which a foreign buyer has targeted a Japanese company, is expected to face the scrutiny of regulators.[4] Observers say it is likely to pass that scrutiny, because the way the two companies' market strengths differ make it unlikely that the combined entity will dominate specific market segments.[5]

Mobile internet technology was behind the region's largest deal with an APJ buyer. Chinese search-company Baidu offered $1.9 billion for mobile app store 91 Wireless Websoft, the only deal with an APJ buyer over $1 billion. Baidu has made other purchases to broaden beyond search, including a Q313 deal for a 59% stake in Chinese group-buying site Nuomi Holdings, Inc. for $160 million. Another top five deal focused on online video: Japanese internet services giant Rakuten agreed to acquire Viki, a global TV site offering TV programs in the language of your choice. Its unique social media model crowdsources program subtitles into multiple languages.

Next-generation display technology was also targeted in a top five deal. Samsung agreed to acquire Novaled AG, of Germany, which develops organic light-emitting diode (OLED) technology. The global market for OLED displays is projected to surge to nearly $26 billion by 2018 from about $5 billion in 2012.[6]

Of note, the global transaction activity targeting financial and security technologies was also seen among APJ top five deals. IRESS Market Technology, an Australian provider of financial trading and wealth management solutions, acquired Avelo FS Holdings, which provides practice management and CRM software for mortgage and wealth management businesses in the UK. And rounding out the top five was the management buyout of Japan-based 1st Holdings, Inc., which owns several companies offering business software and internet security services.

*Asia-Pacific includes India.

APJ aggregate value hit $3.4 billion, up

19% YOY.

Figure 8: Top five Asia-Pacific and Japan deals, Q313 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
Baidu Inc. to acquire 91 Wireless Websoft Ltd.	$1,850	14 Aug	Corporate	N/A
Samsung Electronics Co. Ltd. to acquire Novaled AG	$346	9 Aug	Corporate	N/A
IRESS Ltd. acquired Avelo FS Holdings Ltd.	$321	6 Aug	Corporate	N/A
1st Holdings, Inc. management buyout	$312	22 Aug	Corporate	N/A
Rakuten, Inc. to acquire Viki Inc.	$200[7]	3 Sep	Corporate	N/A

Figure 9: Asia-Pacific and Japan transactions scorecard, Q313

Deals announced	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change		YOY % change	
Corporate							
Number of deals announced	53		56	27%	▲	6%	▲
Number of deals with disclosed values	19		22	175%	▲	16%	▲
Total value of deals with disclosed values ($m)	$2,827		$3,377	223%	▲	19%	▲
Average value of deals with disclosed values ($m)	$149		$154	18%	▲	3%	▲
PE							
Number of deals announced	1		1	-75%	▼	0%	–
Number of deals with disclosed values	0		0	-100%	▼	N/A	–
Total value of deals with disclosed values ($m)	$0		$0	-100%	▼	N/A	–
Average value of deals with disclosed values ($m)	$0		$0	-100%	▼	N/A	–
Corporate and PE							
Number of deals announced	54		57	19%	▲	6%	▲
Number of deals with disclosed values	19		22	100%	▲	16%	▲
Total value of deals with disclosed values ($m)	$2,827		$3,377	1%	▲	19%	▲
Average value of deals with disclosed values ($m)	$149		$154	-49%	▼	3%	▲

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Regional snapshot: Europe, the Middle East and Africa (EMEA)

Deal value climbs to highest level in three years

EMEA aggregate disclosed transaction value rose to its highest level in more than three years, as the region achieved a Q313 YOY increase almost three times the global average. Deal volume, however, declined YOY by more than the global average.

"The reshaping of EMEA's technology landscape due to the mobile, social, cloud, big data analytics and accelerated adaptation megatrends gained momentum in the third quarter, and will likely continue to increase."

Staffan Ekström
Global Telecoms Leader – Transactions
TMT Leader, Nordics
EY

EMEA Q313 aggregate value climbed 442% YOY to $9.8 billion — the highest level since Q210 — compared with a global YOY increase of 152%. EMEA aggregate value also increased 314% sequentially — a second consecutive increase, thus breaking the remarkable pattern of alternating up and down quarters that we observed for more than two years. EMEA volume declined 20% YOY and 13% sequentially to 128 deals. In comparison, Q313 global volume decreased 6% YOY but increased 12% sequentially.

The exceptionally high EMEA Q313 deal value was mostly due to two large transactions. In Q313, the largest deal by dollar value was the $4.9 billion offer by French electrical and industrial equipment maker Schneider Electric for UK-based Invensys, a supplier of automation and control systems to the oil, gas, chemical, mining and other industries. The deal was the biggest by an EMEA buyer since May 2010, when SAP AG agreed to acquire Sybase Inc. for $6.1 billion.

The second-largest transaction was Nokia's $2.2 billion completed deal to buy Siemens out of its Nokia Siemens Networks (NSN) joint venture was one of a series of significant transactions during the quarter that illustrated how smart mobility is reshaping the technology industry. It was also one of two deals that transformed Finland's Nokia from its focus on the endpoints of mobile networks to a stronger position focused on core infrastructure equipment for mobile broadband networks (NSN's business). During the last two years, as Nokia struggled to turn around its mobile devices business, it had more success turning around NSN, which surprised investment analysts earlier this year with a Q213 operating margin nearly double market expectations.[1] In Q313, Nokia first announced the NSN deal then revealed its agreement to sell its loss-making mobile devices unit to Microsoft for $5 billion (as discussed in the main narrative beginning on page 4).

The transformed Nokia will consist of three primary businesses. NSN is the largest, and the business has been renamed Nokia Solutions and Networks (thus keeping the NSN acronym). The others are HERE, which offers mapping and location-based services from the cloud, and Advanced Technologies, which essentially licenses Nokia's patent portfolio.[2]

In another top five deal linked to mobility, Dialog Semiconductor plc, a maker of chips used in smartphones, tablets and other portable devices, agreed to pay $310 million to acquire iWatt, Inc., a US provider of digital power management chips. Overall, there were more than a dozen mobility-related deals by EMEA buyers during the quarter.

Cloud/SaaS was a factor in more than two dozen EMEA deals, including the top five transaction in which PE firm Cinven acquired Host Europe Group GmbH, a provider of internet services, including cloud hosting to consumers and small- and medium-sized businesses. Rounding out the top five deals was the agreed acquisition of online payments firm Skrill by CVC Capital Partners.

Other significant deal drivers were big data analytics and advertising and marketing technology (each of which factored into approximately a dozen EMEA deals) and security, which drove nearly two dozen — slightly more than half of all Q313 security deals.

At $9.8 billion, EMEA Q313 aggregate value increased YOY by

442%.

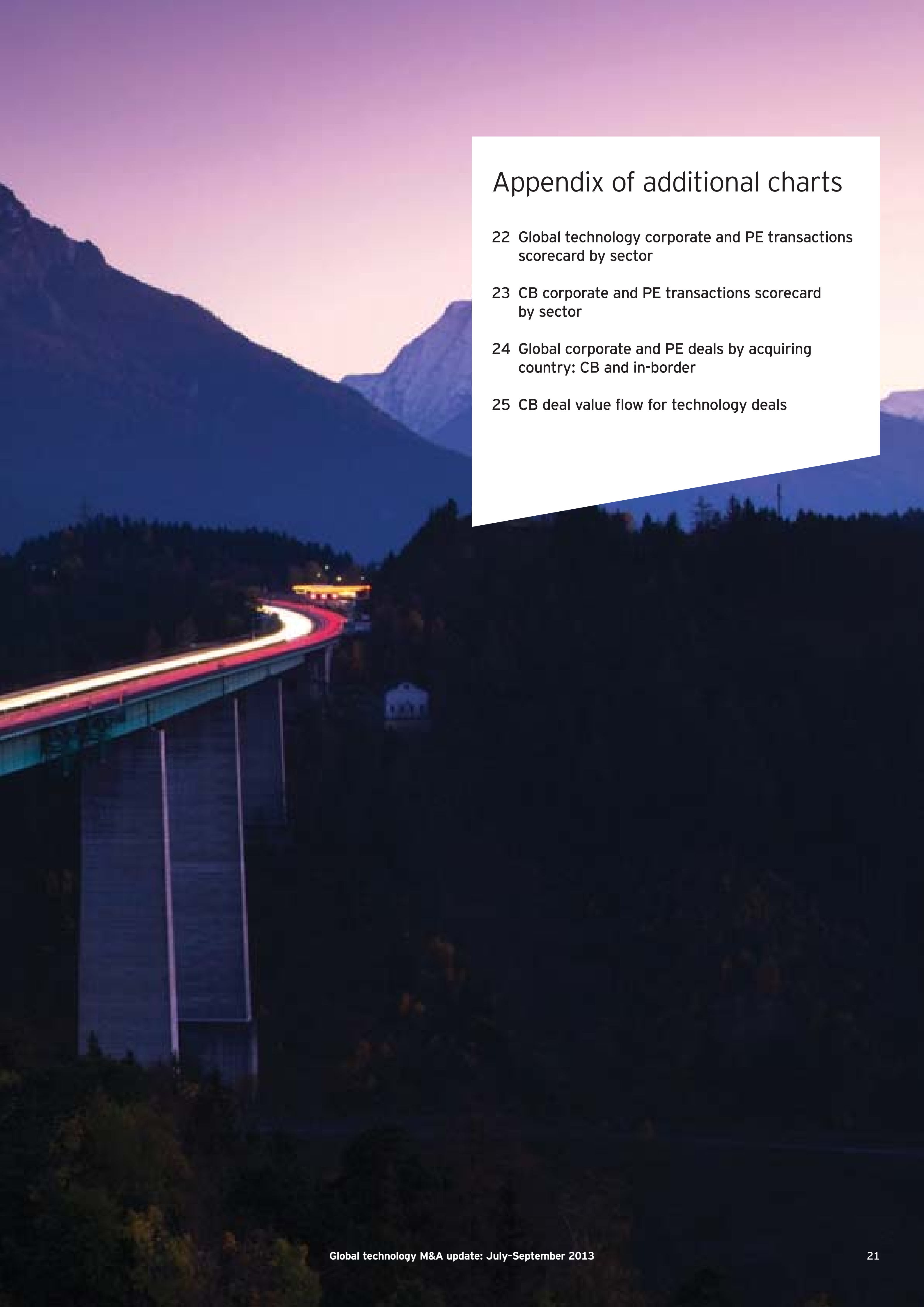
Figure 10: Top five Europe, the Middle East and Africa deals, Q313 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
Schneider Electric SA to acquire Invensys plc	$4,908	11 Jul	Corporate	3%
Nokia Corporation acquired Nokia Siemens Networks (NSN)	$2,214	1 Jul	Corporate	N/A
CVC Capital Partners Ltd. to acquire Skrill Ltd.	$797	19 Aug	PE	N/A
Cinven Ltd. acquired Host Europe Group GmbH	$664	19 Jul	PE	N/A
Dialog Semiconductor plc to acquire iWatt, Inc.	$310	2 Jul	Corporate	N/A

Figure 11: Europe, the Middle East and Africa transactions scorecard, Q313

Deals announced	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change		YOY % change	
Corporate							
Number of deals announced	152		115	-15%	▼	-24%	▼
Number of deals with disclosed values	28		32	-3%	▼	14%	▲
Total value of deals with disclosed values ($m)	$1,238		$8,174	255%	▲	560%	▲
Average value of deals with disclosed values ($m)	$44		$255	264%	▲	480%	▲
PE							
Number of deals announced	9		13	18%	▲	44%	▲
Number of deals with disclosed values	2		4	300%	▲	100%	▲
Total value of deals with disclosed values ($m)	$571		$1,626	2,327%	▲	185%	▲
Average value of deals with disclosed values ($m)	$286		$407	507%	▲	42%	▲
Corporate and PE							
Number of deals announced	161		128	-13%	▼	-20%	▼
Number of deals with disclosed values	30		36	6%	▲	20%	▲
Total value of deals with disclosed values ($m)	$1,809		$9,800	314%	▲	442%	▲
Average value of deals with disclosed values ($m)	$60		$272	289%	▲	353%	▲

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.



Appendix of additional charts

CE achieves highest average value in at least five years; volume increases sequentially for all but semiconductors

Figure 12: Global technology corporate and PE transactions scorecard by sector, Q313

	Number of deals					Average value ($m)				
	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change	YOY % change	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change	YOY % change
Corporate deals by sector (based on target sector)										
CE	26		22	83% ▲	-15% ▼	$41		$1,101	866% ▲	2,585% ▲
CPE	50		66	74% ▲	32% ▲	$167		$697	590% ▲	317% ▲
Internet	117		94	22% ▲	-20% ▼	$120		$147	-23% ▼	23% ▲
IT services	179		159	9% ▲	-11% ▼	$123		$69	-49% ▼	-44% ▼
Semiconductors	24		17	-35% ▼	-29% ▼	$461		$1,090	779% ▲	136% ▲
Software/SaaS	305		286	6% ▲	-6% ▼	$176		$290	30% ▲	65% ▲
Total	701		644	13% ▲	-8% ▼	$165		$371	113% ▲	125% ▲
PE deals by sector (based on target sector)										
CE	4		1	-75% ▼	-75% ▼	$0		$4,700	2,714% ▲	N/A ▲
CPE	3		5	0% –	67% ▲	$2,000		$300	757% ▲	-85% ▼
Internet	8		8	-38% ▼	0% –	$0		$399	39,800% ▲	N/A ▲
IT services	15		9	13% ▲	-40% ▼	$43		$358	-36% ▼	733% ▲
Semiconductors	0		1	-50% ▼	N/A ▲	$0		$0	-100% ▼	N/A –
Software/SaaS	21		36	44% ▲	71% ▲	$348		$430	-60% ▼	24% ▲
Total	51		60	5% ▲	18% ▲	$443		$657	4% ▲	48% ▲
Total deals by sector										
CE	30		23	44% ▲	-23% ▼	$41		$1,551	1,057% ▲	3,683% ▲
CPE	53		71	65% ▲	34% ▲	$275		$679	607% ▲	147% ▲
Internet	125		102	13% ▲	-18% ▼	$120		$168	17% ▲	40% ▲
IT services	194		168	9% ▲	-13% ▼	$118		$96	-52% ▼	-19% ▼
Semiconductors	24		18	-36% ▼	-25% ▼	$461		$1,090	356% ▲	136% ▲
Software/SaaS	326		322	9% ▲	-1% ▼	$196		$307	-12% ▼	57% ▲
Total	752		704	12% ▲	-6% ▼	$185		$398	60% ▲	115% ▲

CE = Communications equipment
CPE = Computers, peripherals and electronics

If the 12% sequential deal volume increase in Q313 portends the beginning of a turnaround after three consecutive quarterly volume declines, Figure 12, above, shows that nearly all technology sectors are participating in the growth. The only sector to decline sequentially was semiconductors, which had a low quarter in both volume and value except for Applied-Tokyo Electron deal, which was the largest dollar-value deal of the quarter. But the YOY column shows that any potential volume growth still has a way to go, as every sector declined YOY except for CPE. CPE volume appears to be growing on the strength of data center technologies, not only involving flash technology for solid state drives (SSD) but also server and power technology.

Average value, meanwhile, continued an upward march with a fourth consecutive quarter of YOY increases, beginning in Q412. Nearly every sector participated in the Q313 increase, though CE, CPE and semiconductors drove it. The extraordinary percentage increases for CE came from that sector's three major deals, Microsoft-Nokia's mobile devices and services business, Fairfax-BlackBerry and Nokia-NSN. Of note, the CE average value seen above is the highest in the five years we have collected this data,* topping the Q311 quarter in which Google announced its $12.5 billion acquisition of Motorola's mobile phone business. For CPE, the increase came from the Koch-Molex and Schneider Electric-Invensys deals; for semiconductors, from Applied-Tokyo Electron. Software/SaaS declined sequentially, but from a Q213 average that was its highest in the five years we have collected this data.* Only IT services declined both YOY and sequentially.

*Though based on two different data sources, we believe these comparisons are useful from a directional perspective. For a full explanation of our methodology, see page 27.

Note: average value based on deals with disclosed values.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

CB volume halts its declining trend; average value triples sequentially

Figure 13: CB corporate and PE transactions scorecard by sector, Q313

	Number of CB deals					Average CB value ($m)				
	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change	YOY % change	Q312	Q3 Q4 Q1 Q2 Q3	Q313	Sequential % change	YOY % change
Corporate CB deals by sector (based on target sector)										
CE	17		9	50% ▲	-47% ▼	$48		$1,718	1,202% ▲	3,479% ▲
CPE	27		24	71% ▲	-11% ▼	$133		$782	674% ▲	488% ▲
Internet	29		24	26% ▲	-17% ▼	$144		$71	-29% ▼	-51% ▼
IT services	51		42	2% ▲	-18% ▼	$181		$41	-41% ▼	-77% ▼
Semiconductors	14		8	-43% ▼	-43% ▼	$594		$2,513	2,124% ▲	323% ▲
Software/SaaS	104		105	15% ▲	1% ▲	$98		$91	-35% ▼	-7% ▼
Total	242		212	15% ▲	-12% ▼	$171		$425	254% ▲	149% ▲
PE CB deals by sector (based on target sector)										
CE	0		0	N/A –	N/A –	$0		$0	N/A –	N/A –
CPE	0		2	100% ▲	N/A ▲	$0		$0	N/A –	N/A –
Internet	0		1	-67% ▼	N/A ▲	$0		$0	N/A –	N/A –
IT services	1		1	-50% ▼	0% –	$10		$664	0% ▲	6,540% ▲
Semiconductors	0		0	N/A –	N/A –	$0		$0	N/A –	N/A –
Software/SaaS	8		4	0% –	-50% ▼	$187		$0	-100% ▼	-100% ▼
Total	9		8	-20% ▼	-11% ▼	$151		$664	5% ▲	340% ▲
Total CB deals by sector										
CE	17		9	50% ▲	-47% ▼	$48		$1,718	1,202% ▲	3,479% ▲
CPE	27		26	73% ▲	-4% ▼	$133		$782	674% ▲	488% ▲
Internet	29		25	14% ▲	-14% ▼	$144		$71	-29% ▼	-51% ▼
IT services	52		43	0% –	-17% ▼	$167		$93	-35% ▼	-44% ▼
Semiconductors	14		8	-43% ▼	-43% ▼	$594		$2,513	2,124% ▲	323% ▲
Software/SaaS	112		109	15% ▲	-3% ▼	$113		$91	-42% ▼	-19% ▼
Total	251		220	13% ▲	-12% ▼	$169		$429	200% ▲	154% ▲

CE = Communications equipment
CPE = Computers, peripherals and electronics

CB volume and value halted long-term declines in Q313. While a welcome change, it's too soon to say whether this is a one-time event or the beginning of a long-term trend.

For example, CB volume increased 13% sequentially in Q313, which was slightly better than the 12% increase of all deals (CB plus IB). But YOY, CB volume is 12% lower, compared with 6% lower for all deals (see Figure 3, page 7). That shows the effects of the four quarterly declines in CB volume that preceded Q313. As a result, CB volume remained at 31% of total quarterly volume in Q313 for the second consecutive quarter, compared with 33% in Q312 and for all of 2012. Though four out of six sectors increased CB volume sequentially, none were able to buck the YOY downward trend.

The reversal in average value was much stronger. Before Q313, CB average value declined relative to all deal average value for seven consecutive quarters. CB average value was historically higher than all deals, but fell 9% below in Q312 and continued to decline, reaching 43% lower in Q213. However, CB average value tripled sequentially to $429 million in Q313 from $143 million in Q213. All deal average value increased by "only" 115% to $398 million (see Figure 3, page 7), so CB average value surpassed all deal average value by 8%.

But here our concern is that the difference came from a handful of big-ticket deals that are unlikely to be repeated soon. For example, both Q313 and Q213 had 17 CB deals valued at $100 million or higher; but Q213 had only two big-ticket CB deals, topping out at $1.1 billion (Google-Waze). Q313 had four: Applied-Tokyo Electron ($9.3 billion), Microsoft-Nokia's mobile devices and services business ($5 billion), Schneider Electric-Invensys ($4.9 billion) and Davis + Henderson-Harland Financial Solutions ($1.2 billion) (see Figure 1, page 5). We continue to believe that macroeconomic conditions will hold down CB deal volume and value more than IB due to the added complexity and risk inherent in CB transactions. The Q313 activity most likely is an anomaly.

Note: average value based on deals with disclosed values.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

US and France drive 15% sequential increase in corporate CB volume; PE CB deals fall for second consecutive quarter

Figure 14: Global corporate and PE deals by acquiring country: CB and in-border, Q313

Corporate deals				Q313	
Top countries	Q312 deals	Q313 deals	% total deals	No. IB deals	No. CB deals
US	459	442	69%	345	97
UK	58	36	6%	16	20
Canada	34	28	4%	13	15
France	23	18	3%	4	14
India	15	14	2%	8	6
Germany	15	13	2%	8	5
Australia	11	13	2%	11	2
Japan	12	12	2%	6	6
Sweden	5	9	1%	1	8
China/Hong Kong	7	8	1%	5	3
Other	62	51	8%	15	36
Total	**701**	**644**	**100%**	**432**	**212**

PE deals				Q313	
Top countries	Q312 deals	Q313 deals	% total deals	No. IB deals	No. CB deals
US	40	45	75%	41	4
UK	2	11	18%	8	3
Other	9	4*	7%	3	1
Total	**51**	**60**	**100%**	**52**	**8**

After declining 20% sequentially in CB deal volume in Q213, the US bounced back with a 47% increase to 97 deals in Q313 from 66 in the prior quarter. That 31-deal increase was larger than the entire sequential increase in corporate CB deals, which was 27 deals (15%). France had the second-largest sequential increase in CB deals (+7), while the UK and China/Hong Kong added 3 deals each. Of countries that dropped sequentially in CB deals, Germany declined 7 and Canada and India fell 3 each. Of the remaining countries shown, Australia and Japan declined 1 CB deal each and Sweden added 2.

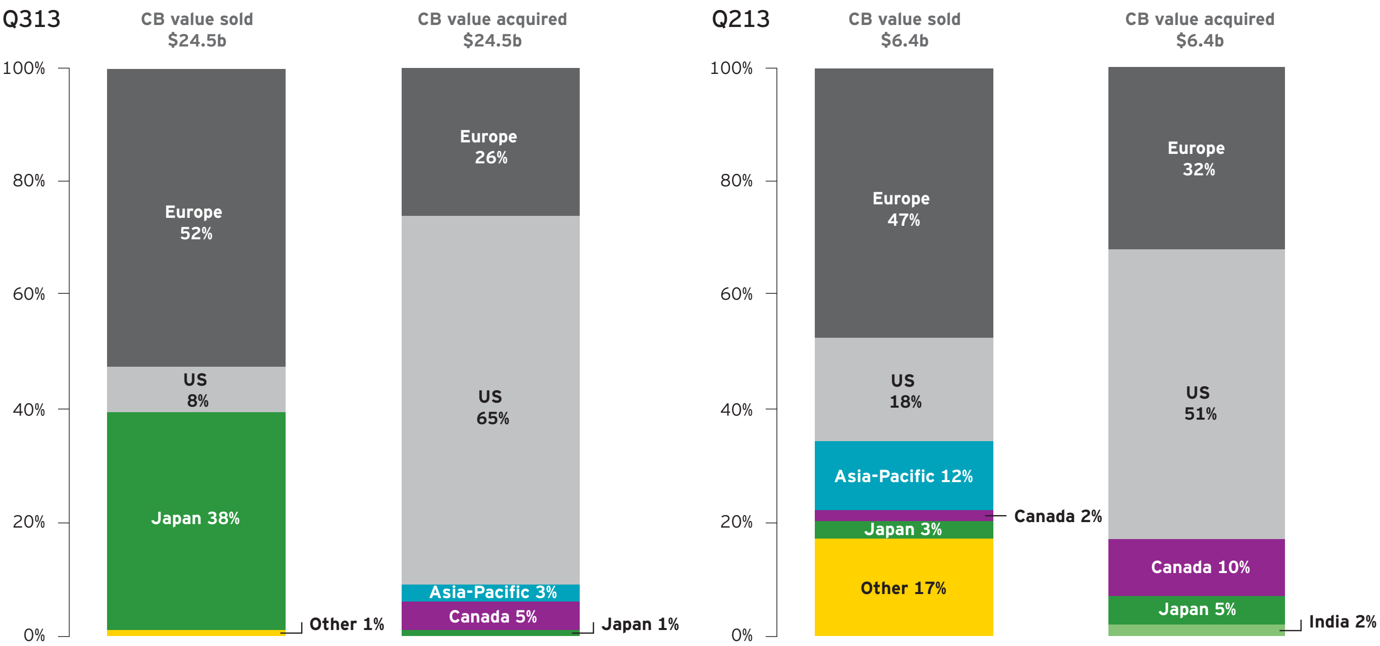
Although all-deal PE volume (CB + IB) rose 5% sequentially in Q313, PE CB volume fell to 8 deals from 10 (-20%). Although this is the second consecutive quarter of declining PE CB deal volume, the average number of PE CB deals per quarter so far in 2013 is 11, which is ahead of the full-year 2012 average of 10 deals per quarter. This is because the 16 PE CB deals of Q113 were unusually high given recent trends — for example, higher than in any 2012 quarter.

*Additional countries with one PE deal in Q313: Canada, China/Hong Kong, Germany, Poland.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

After two consecutive increases, total CB value still remains below historical level; Europe and APJ are biggest sellers for third consecutive quarter

Figure 15: CB deal value flow for technology deals (disclosed value), Q313 versus Q213



Despite two dramatic consecutive quarterly increases, CB aggregate value of $24.5 billion in Q313 remains below CB's historical proportion of all-deal aggregate value. Aggregate CB deal value nearly quadrupled sequentially from $6.4 billion in Q213, which itself was double the Q113 tally of $3.2 billion. Similarly, CB's share of all-deal aggregate value rose to 34% in Q313 from 19% in Q213. But that share is below the 41% average for full-year 2012.

Of note, the US and Europe did not switch positions as net buyer and seller from the second to the third quarters. This was the second consecutive quarter in which they did not switch, following two years in which they switched positions in every quarter.

- The largest CB deal by dollar value was Applied Materials' $9.3 billion announced merger with Japan's Tokyo Electron, which represented 99% of the CB value sold by companies in the Asia-Pacific and Japan region.
- European companies acquired 45% of the European CB value sold in Q313, most of which (86%) came in the $4.9 billion Schneider Electric-Invensys deal (France-UK).
- But the US was the biggest buyer of European CB value, acquiring 50% ($6.4 billion) of European value sold. Seventy-nine percent of that was in one deal: Microsoft-Nokia ($5 billion).
- In all, US companies acquired $15.9 billion (65%) of CB value sold in 21 deals, though 90% of that value came in the two deals already mentioned (Applied-Tokyo Electron and Microsoft-Nokia). The third-largest deal was Arrow Electronics, Inc.'s $308 million acquisition of a German distributor.
- European buyers purchased $564.5 million (28%) of the US value sold, spread across eight deals, one targeting a Canadian company and seven targeting US companies.
- Nearly all the remaining US value sold (59%) came in one deal: Davis + Henderson's (Canada) $1.2 billion deal for Harland Financial Solutions.

Note: data and totals may appear inconsistent due to rounding.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 4 October 2013.

Source notes

Smart mobile disruption helps drive record post-dotcom-bubble value

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Look ahead

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Top of mind: As innovation accelerates, portfolio management becomes a "must have"

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Regional snapshot: Americas

[1] "Activision Borrows $4.6 Billion to Buy Its Independence; CEO Says Company Will Have 'Significant' Cash After Buying Out Vivendi," *The Wall Street Journal Online*, 27 July 2013, via Factiva, © 2013 Dow Jones & Company, Inc.

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Regional snapshot: Asia-Pacific and Japan

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Regional snapshot: Europe, the Middle East and Africa

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Methodology

- *Global technology M&A update: July-September 2013* is based on EY's analysis of The 451 Group M&A KnowledgeBase data for 2012 and 2013. Deal activity and valuations may fluctuate slightly based on the date the database is accessed.
- Technology company M&A data was pulled from The 451 Group M&A KnowledgeBase based on the database's own classification taxonomy, and deals were then aligned to the following sectors: CE, CPE, semiconductors, software/SaaS, IT services and internet companies. Alignment was based on the sector of the target company.
- The data includes M&A transactions between two technology companies, technology companies acquiring non-technology companies, and non-technology companies acquiring technology companies.
- Joint ventures were not included.
- Corporate M&A activity data was analyzed based on the sector classification of the target company. Prior to 2012, we reported based on the classification of the acquiring company; the change enables a clearer picture of the technologies being focused on for acquisition.
- Equity investments that involved less than a 50% stake were not included in the data.
- PE M&A activity includes both full and partial stake transactions in excess of 50% and was analyzed based on acquisitions by firms classified as private equity, sovereign wealth funds, investment holding companies, alternative investment management groups, certain commercial banks, investment banks, venture capital and other similar entities.
- Unsolicited technology deal values were not included in the dataset, unless the proposed bid was accepted and the deal closed based on data available at the time of analysis.
- The value and status of all deals highlighted in this report are as of 30 September 2013, unless otherwise noted.
- All dollar amounts are in US dollars, unless otherwise indicated.
- In this report, disclosed deal values may vary from other published values because The 451 Group database methodology automatically subtracts cash acquired, net of debt, to arrive at enterprise value. Additionally, announced deal values are often subject to change at the time of close, due to subsequent revisions to the terms of the deal and/or changing stock valuations to the extent stock was used as a deal consideration.
- As used in this report, "total value" refers to the aggregate value of deals with disclosed values for the period under discussion.
- Other definitions:
  - "TTM" equals trailing 12 months.
  - "Multiple of EV/TTM revenue" is the transaction value multiple representing total enterprise value over trailing 12 months of target revenue.
  - "Multiple of EV/TTM EBITDA" is the transaction value multiple representing total enterprise value over trailing 12 months of target EBITDA (earnings before interest, taxes, depreciation and amortization).
  - "Premium offered" represents the percentage difference between the purchase price and the share price value 30 days prior to the announcement of deal; where data is unavailable from The 451 Group, premium data was accessed via Capital IQ.

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