Issue 24

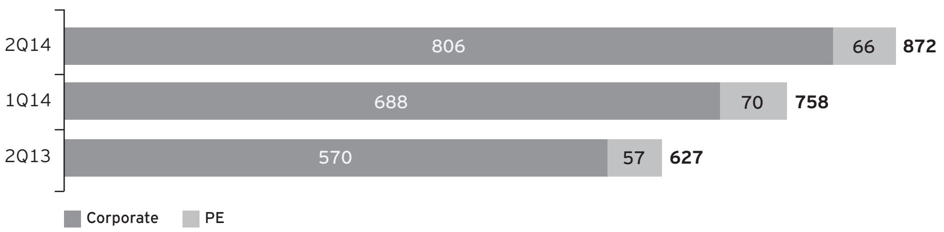
Global technology M&A update

April–June 2014

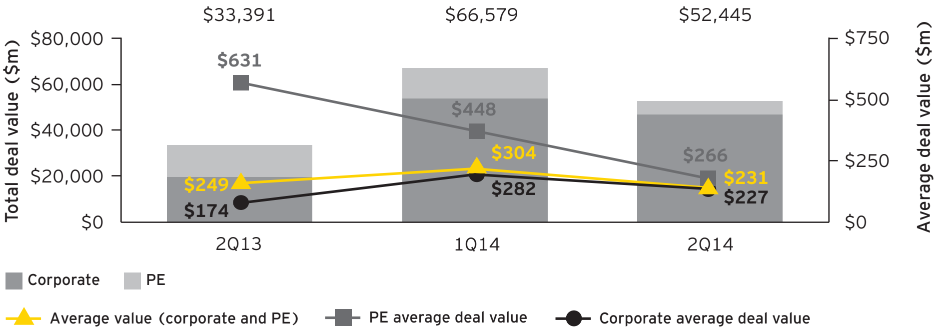
Highlights

- At $52.4 billion, aggregate value of all disclosed-value deals soars 57% year-over-year (YOY), despite falling 21% from a record-setting first quarter.
- Volume sets a second consecutive record for any quarter in the last 6.5 years we've produced these reports, rising 39% YOY and 15% sequentially to 872 deals.
- Corporate dealmakers drive the growth, increasing aggregate value 139% YOY to $46.6 billion and volume 41% YOY to 806 deals.
- Private equity (PE) deal value is $5.9 billion, at about the middle of its typical range; PE volume (66 deals) falls 6% sequentially after five consecutive quarterly increases.
- Cross-border (CB) deal value is $12.2 billion, taking a 23% portion of overall aggregate value — well below the historical CB average. But at 309 deals, CB volume is up 58% YOY and 34% sequentially.

Total number of all announced deals, 2Q13-2Q14



Total and average deal values for deals with disclosed value, 2Q13-2Q14 ($m)

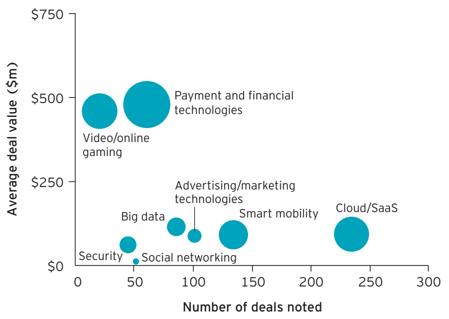


Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Note: all dollars are US$ unless otherwise indicated.

Building a better working world

A directional view of select 2Q14 deal-driving trends

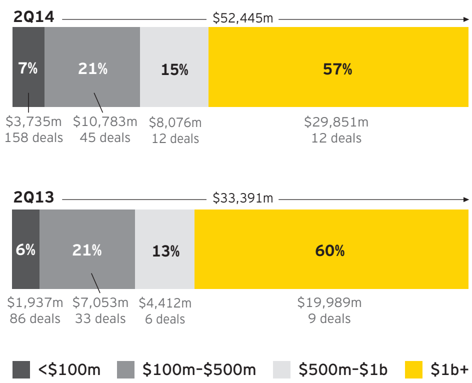


Cloud/SaaS and smart mobility continued to create a sort of "background radiation" for 2Q14 technology dealmaking, together accounting for more than 42% of volume for the quarter. The bigger story in this chart is the continuing growth of payment and financial technology, which had the highest average value among 2Q14 dealmaking trends. In volume, financial technology had roughly five dozen 2Q14 deals, which was more than 50% higher than its 2013 quarterly average. In total value, it had $8.7 billion in 2Q14, which was 141% higher than its 2013 quarterly average.

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 deal-driving trend's share of total quarterly value.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Aggregate value of announced deals by deal size, 2Q14 vs. 2Q13



For the second consecutive quarter, 2Q14 combined big-ticket deal growth with across-the-board strength in all deal-size categories, thus demonstrating widespread dealmaking support. In fact, deals above $1 billion increased least of all categories YOY, in both volume and value. Based on the data shown above, $1+ billion deals increased 33% in volume and 49% in value; deals between $500 million and $1 billion doubled in volume and increased 83% in value; deals between $100 million and $500 million grew 36% in volume and 53% in value; and deals below $100 million increased 84% in volume and 93% in value.

Note: numbers may not add to totals due to rounding.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Second-quarter picture unfolds

Deal drivers

- Big-ticket deals were diverse in terms of technologies targeted, though common themes emerged such as consumer focus and the buyer's scale as a growth accelerator.
- Financial technologies grew again as a target, especially for point-of-sale and mobile payments.
- Deals targeting cloud/SaaS, smart mobility, big data analytics, security, advertising and marketing, storage, education and collaboration technologies all increased in volume faster than all deals.
- Divestiture deals continued to increase, but at a pace commensurate with global dealmaking volume growth.

Deal activity

- 2Q14 deal volume rose 39% YOY and 15% sequentially to 872 deals, setting a second consecutive new record for the 6.5 years since we began producing these reports (+114 deals over 758 deals in 1Q14). It was the fourth consecutive quarterly volume increase.
- At 806 deals, corporate volume also had its fourth consecutive increase, up 17% sequentially and 41% YOY.
- PE volume (66 deals) declined 6% (4 deals) sequentially after five consecutive quarterly increases, but increased 16% YOY.
- Our observed long-term directional correlation between quarterly deal volume and the NASDAQ Composite Index was present again in 2Q14: the index rose 5%, while M&A volume increased 15%.

Deal value

- After an extraordinary first quarter, 2Q14 aggregate deal value declined 21% sequentially but remained at a high level: $52.4 billion, a 57% YOY increase (see Figure 3, page 7). 1H14 saw $119 billion in disclosed value (70% higher than 1H13).
- Average value per deal declined 24% sequentially and 7% YOY to $231 million, but for a relatively good reason: widespread strength at smaller deal sizes brought down the overall average.
- Aggregate value of corporate deals was $46.6 billion, up 139% YOY but down 13% from that "extraordinary" 1Q14. Average value increased 30% YOY to $227 million but was down 20% sequentially.
- PE aggregate value fell well below recent levels (which have been close to the top end of the typical PE range). At $5.9 billion, it was down 55% sequentially and 58% YOY. Average value of PE deals was $266 million, down 41% sequentially and 58% YOY — the lowest level in three years.

Deals getting done

- 2Q14 volume increased in every sector YOY, but sequential growth was split: three sectors rose and three fell (see Figure 12, page 22).
- In terms of average value, software/SaaS and IT services fell YOY, while all other sectors increased. Sequentially, communications equipment (CE) joined software/SaaS and IT services in declining, while the other three sectors all saw average value increase.

Cross-border deals

- Aggregate CB deal value had its second consecutive 22% sequential decline, falling to $12.2 billion in 2Q14 (see Figure 15, page 25). But that was up 91% YOY from $6.4 billion in 2Q13, and the sequential decline was approximately in line with the 21% decline in all-deal aggregate value.
- CB deal volume, meanwhile, increased faster than all-deal volume. At 309 deals, CB volume increased 34% sequentially and 58% YOY (see Figure 13, page 23), compared with 15% and 39%, respectively, for all deals. Consequently, CB deals rose to 35% of global transaction volume, compared with 30% in 1Q14.

"Nothing less than a technology-induced reinvention of all industries has begun, moving toward 'sense and respond' relationships between businesses and their customers and driven by the five transformational technology megatrends: smart mobility, cloud computing, social networking, big data analytics and accelerated technology adaptation. At the same time, macroeconomic conditions are supporting dealmaking with low interest rates, appealing lending terms and stability in equities markets. This confluence of factors will continue to drive record, or near-record, global technology M&A for the foreseeable future."

Jeff Liu
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2Q14 technology M&A suggests emerging "sense and respond" economy

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 2Q14, as companies competed for market share and key technologies.

The picture of the near future being painted by a record-setting volume of global technology M&A transactions in 2Q14 is of a world that until recently would be considered science fiction. Strategic deals, large and small, targeted technologies that empower more human activity to be conducted via mobile devices, more ways to detect and share information about that activity, more ways to analyze that activity and more ways to anticipate and respond to it, particularly through advertising and marketing channels. In short, 2Q14 technology dealmaking appears to envision emerging economies comprised of omnipresent digital environments that sense and respond to human activity and interests.

Cloud/SaaS, financial services, security, big data analytics and more contribute to volume record

Cloud/SaaS technology was a key enabler for a broad spectrum of these deals, and many had security or big data analytics aspects – or both. The volume of deals targeting those three technologies all increased faster, on average, than total global volume, as did deals targeting financial services technology (especially mobile payments), advertising and marketing, collaboration, education and storage. At 872 deals, 2Q14 volume increased 39% YOY to the highest level we've seen in 6.5 years producing these reports (see Figure 3, page 7) and was 29% higher than the full-year 2013 average of 678 deals per quarter. Meanwhile, cloud/SaaS deals, for example, were about 70% higher in 2Q14 than their 2013 average quarterly volume, advertising and marketing deals were more than 60% higher and financial services more than 50% higher.

Big-ticket and mid-priced deals drive YOY value growth

While 2Q14 aggregate value was not record-setting, it was close to the high end of the typical range for global technology M&A. At $52.4 billion, it rose 57% YOY (though it declined 21% from the robust first quarter), driven by a dozen deals of $1 billion or more. In addition, mid-priced deals were strong – on a YOY percentage basis, deals between $100 million and $1 billion increased in value faster than big-ticket deals (see chart on page 2, "Aggregate value of announced deals by deal size, 2Q14 vs. 2Q13"). And sequentially, deals in that range increased, while big-ticket deals decreased (see Figure 3 caption, page 7).

Megatrends and "moonshots" push YTD technology dealmaking ahead of all industries

Global technology M&A was outpaced in 2Q14 by dealmaking in all industries, which was up 72% YOY in aggregate value.[1] But because technology M&A started the year stronger in 1Q, its year-to-date (YTD) total of $119 billion was 70% higher than in 1H13, compared with 53% for all industries.[2] While factors that tend to support dealmaking have been in place for some time (such as low interest rates and relatively easy access to financing), low volatility in equities markets thus far in 2014 appears to be making it easier for buyers and sellers to agree on valuations.[3]

Figure 1: Global top 12 deals, April–June 2014 (corporate and PE)
We expanded the top 10 deals to 12 in this report in order to accommodate all 12 deals above $1 billion.

Buyer	Disclosed value ($m)	Announced	Status	Deal type	Multiple of EV/TTM revenue	Multiple of EV/TTM EBITDA	Premium offered
Oracle Corporation to acquire MICROS Systems, Inc.	$5,300	23 Jun	Pending	Corporate	3.5x	18.1x	69%
Amaya Gaming Group Inc. to acquire Rational Group Ltd. [dba PokerStars.com]	$4,900	13 Jun	Pending	Corporate	4.3x	11.1x	N/A
Zebra Technologies Corporation to acquire the Enterprise business of Motorola Solutions, Inc.	$3,450	15 Apr	Pending	Corporate	1.4x	10.9x	N/A
Apple Inc. to acquire Beats Electronics LLC**[4]	$3,000	28 May	Pending	Corporate	N/A	N/A	N/A
The Priceline Group Inc. acquired OpenTable, Inc.	$2,600	13 Jun	Completed*	Corporate	12.5x	52.4x	48%
Analog Devices, Inc. acquired Hittite Microwave Corporation	$2,447	9 Jun	Completed*	Corporate	7.1x	16.7x	35%
Vantiv, Inc. acquired Mercury Payment Systems LLC	$1,650	12 May	Completed	Corporate	8.1x	24.4x	N/A
Alibaba Group Holding Ltd. to acquire AutoNavi Holdings Ltd.	$1,580	11 Apr	Pending	Corporate	7.5x	N/A	32%
TE Connectivity Ltd. to acquire Measurement Specialties, Inc.	$1,499	18 Jun	Pending	Corporate	3.5x	20.2x	36%
SanDisk Corporation acquired Fusion-io, Inc.	$1,325	16 Jun	Completed*	Corporate	2.8x	N/A	38%
Kohlberg Kravis Roberts & Co. L.P. to acquire Internet Brands, Inc.	$1,100	3 Jun	Pending	PE	N/A	N/A	N/A
Sopra Group SA to acquire Groupe Steria SCA	$1,000	8 Apr	Pending	Corporate	0.5x	6.4x	56%

*Completed July 2014. **Deal value comprises $2.6b cash and $400m to vest over time, Apple Inc. press release 28 May 2014.

The top 12 deals of 2Q14 were very diverse in terms of technologies targeted, but most appeared to involve positioning for future growth or sector consolidation. Oracle–MICROS, Priceline–OpenTable and Apple–Beats, for example, are all deals in which the buyers' scale could accelerate growth of smaller but well-established brands. Alibaba-AutoNavi brings the buyer online mapping capability that is crucial to mobile services growth in China (see Asia-Pacific and Japan snapshot, page 18). Amaya–Rational envisions accelerating the re-entry into the US of the world's largest online poker operator (see Americas snapshot, page 16). SanDisk–Fusion-io is tied to the cloud-driven growth of high-performance data center storage solutions. Vantiv-Mercury seeks a greater share of growth in integrated payments technologies. And both Zebra–Motorola and TE Connectivity–Measurement Specialties ride the Internet of Things (IoT) trend, which recently transitioned from mostly vision and talk to accelerating growth. KKR–Internet Brands is interesting, in that the target generates the majority of revenue from advertising, but KKR has emphasized the growth potential of its advertising and marketing SaaS.[5]

On the consolidation side are Analog Devices–Hittite Microwave and Sopra Group–Groupe Steria, the former in semiconductors and the latter in European IT services. These 12 deals above $1 billion accounted for 57% of 2Q14 disclosed value.

Note: announced deal values are often subject to change at the time of close, due to subsequent revisions to the terms of the deal.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

2Q14 aggregate value hits

$52.4 billion,

up 57% YOY.

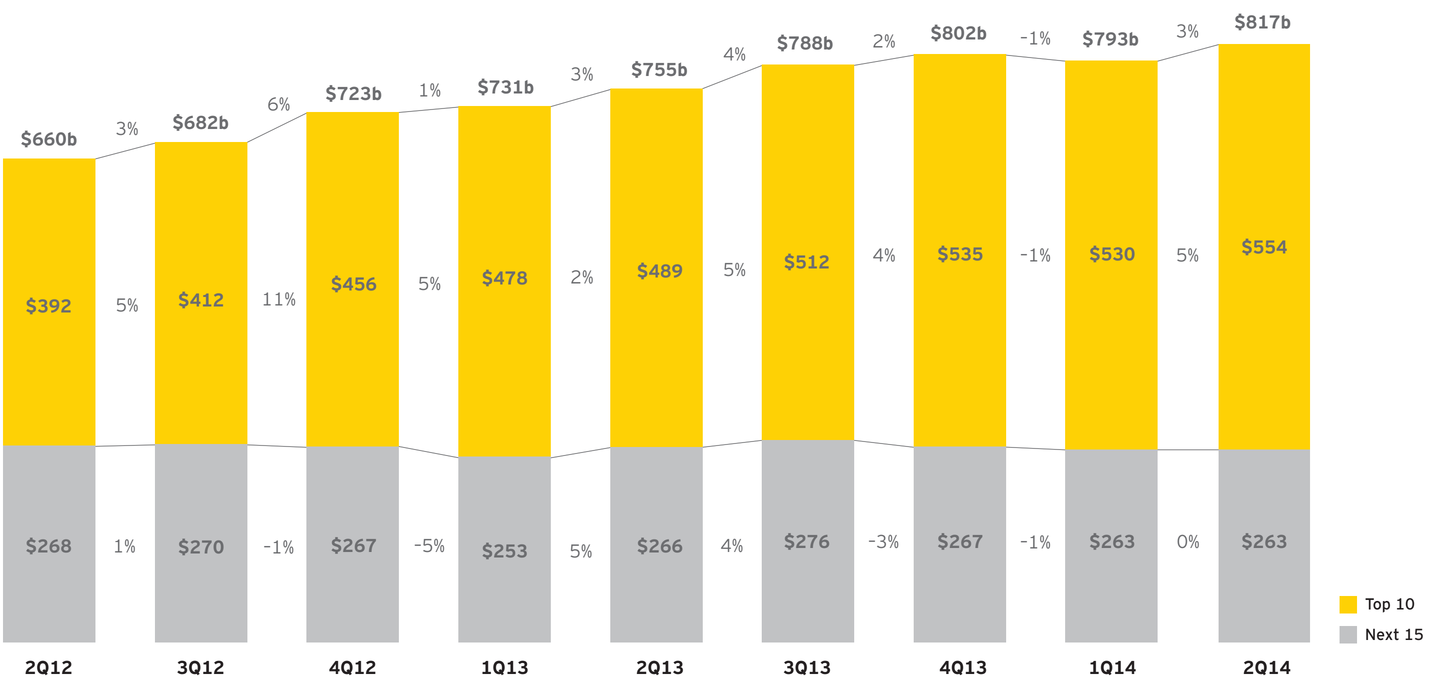
For technology M&A, a strong deal driver is increasing competition for strategic transactions related to the five megatrends of smart mobility, cloud computing, social networking, big data analytics and accelerated adaptation (see sidebar on page 4). Further, some established technology companies are making deals involving so-called "moonshots" – technologies that may drive dramatic change and commensurate returns, such as the Internet of Things (IoT) and augmented or virtual reality, but will take many years before their success or failure becomes clear.[6]

"Sense and respond" economies must know where you are ...

Many different technologies must work together to achieve the vision of "sense and respond" digital economies. But since its essence is mobile, mapping and location-aware technologies are linchpins. In 2Q14, Alibaba struck a $1.6 billion deal to acquire the 72% of AutoNavi that it did not already own, obtaining one of only a limited number of government licenses that allow mapping of China's cities and roads.[7] Alibaba competitors Baidu Inc. and Tencent Holdings Inc. also recently acquired minority interests in mapping companies.[8] Further, Google Inc.'s $500 million pending acquisition of high-resolution satellite imaging company Skybox Imaging, Inc. brings it an orbiting satellite that can help improve the company's maps right away, but also a technology that could contribute to Google's long-term "moonshot" goal of improving internet access in remote areas.[9,10] Google also acquired drone maker Titan Aerospace Holdings, Inc. for an undisclosed value in 2Q14 to further that goal.

Also for undisclosed values, Nokia Corporation's HERE business unit (formerly known as Nokia Maps) made two mapping app acquisitions: one a so-called "cognitive map" that understands the environment within a map and uses predictive analytics to anticipate how users want to interact with it, and another that mines place

Figure 2: Aggregate cash and short- and long-term investments for the top 25 technology companies, 2Q12–2Q14 ($b)



After a slight dip in 1Q14, the cash reserves of the top 25 global technology companies resumed the growth pattern that we have observed for more than two years. The aggregate stockpile of cash and short- and long-term investments for this group of companies rose 8% YOY and 3% sequentially to $817 billion.

*Top 25 companies identified are based on average ranking of market value and sales as of 31 December 2013.

Note: numbers in above chart differ from past published reports due to changes in the composition of the top 25 companies for 2014 and the date Capital IQ database was accessed for this chart.

Source: EY analysis of Capital IQ data, accessed 28 July 2014.

descriptions and reviews to generate personalized recommendations for sightseers and business travelers.[11]

... and understand what you're doing

Sensors that communicate information about your devices, your environment or – in the case of fitness and health care IT (HIT) – your body are also crucial to the "sense and respond" vision. It is therefore no coincidence that three deals for such technology made it into the top 12 for 2Q14, along with many smaller IoT-related deals targeting sensors, telematics and wearable technology or embedded smartphone apps. The largest IoT transaction was Zebra Technologies' $3.5 billion deal to acquire the scanner business of Motorola Solutions. Zebra executives noted in their deal-announcement conference call that the combined companies would have a range of technologies that enable mobile workers in the context of the IoT, including RFID sensors, ruggedized mobile devices and a cloud-based platform for developing IoT applications that can integrate, analyze and act on data from multiple sensor-based sources.[12]

Two other targets among the quarter's deals that topped $1 billion were also sensor manufacturers: Hittite Microwave and Measurement Specialties (see Figure 1, page 5). Of note, Google's Nest Labs Inc. IoT and home automation subsidiary (acquired in 1Q14) did a $555 million deal of its own to buy Dropcam Inc., a maker of internet-enabled video surveillance cameras, related monitoring SaaS and smartphone apps. Also in 2Q14, telematics deals targeted a range of more specific IoT machine-to-machine (M2M) communications technologies, from multiple GPS vehicle fleet management deals to "guided steering" and increased car security. For the second consecutive quarter, telematics deals were popular in Europe (see Europe, the Middle East and Africa (EMEA) snapshot, page 20).

2Q14 volume of

872 deals

is the highest level in 6.5 years we've produced these reports.

Figure 3: Global technology transactions scorecard, 2Q14

Deals announced	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change		YOY % change	
Corporate							
Number of deals announced	570		806	17%	▲	41%	▲
Number of deals with disclosed values	112		205	8%	▲	83%	▲
Total value of deals with disclosed values ($m)	$19,498		$46,588	-13%	▼	139%	▲
Average value of deals with disclosed values ($m)	$174		$227	-20%	▼	30%	▲
PE							
Number of deals announced	57		66	-6%	▼	16%	▲
Number of deals with disclosed values	22		22	-24%	▼	0%	–
Total value of deals with disclosed values ($m)	$13,893		$5,857	-55%	▼	-58%	▼
Average value of deals with disclosed values ($m)	$631		$266	-41%	▼	-58%	▼
Corporate and PE							
Number of deals announced	627		872	15%	▲	39%	▲
Number of deals with disclosed values	134		227	4%	▲	69%	▲
Total value of deals with disclosed values ($m)	$33,391		$52,445	-21%	▼	57%	▲
Average value of deals with disclosed values ($m)	$249		$231	-24%	▼	-7%	▼

The top story in our 2Q14 transaction scorecard is volume: after setting a record in 1Q14 for the 25 quarters since we began producing these reports, the 26th quarter (2Q14) added another 15%, or 114 more deals. The new volume record came entirely from corporate dealmakers. PE volume, though still relatively high historically, declined 6% (4 deals) from 1Q14. The YOY total growth rate of 39% shows the result of four consecutive quarters of steady volume growth. It's worth noting that average deal volume for 2013 was 678 deals per quarter, but so far in 2014 it is 815.

Although value declined 21% sequentially it was still very strong, as reflected by the 57% YOY increase. At $119 billion for the first half, technology M&A in 2014 already has posted greater aggregate value than all of 2012 ($114.1 billion) and is 70% higher than 1H13 ($69.8 billion). Even the decline in average value has a positive cause: greater strength in midsize deals brought down the average. Transactions between $100 million and $1 billion actually increased 6% from 1Q14 ($18.9 billion versus $17.8 billion), despite the overall 21% falloff. But the decline in PE aggregate volume is surprising, unless it is simply a matter of timing (which we'll know next quarter). The last time PE value was lower was in 4Q12 ($5.3 billion).

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Unusually, CPE buyers acquired

29% of 2Q14 disclosed value.

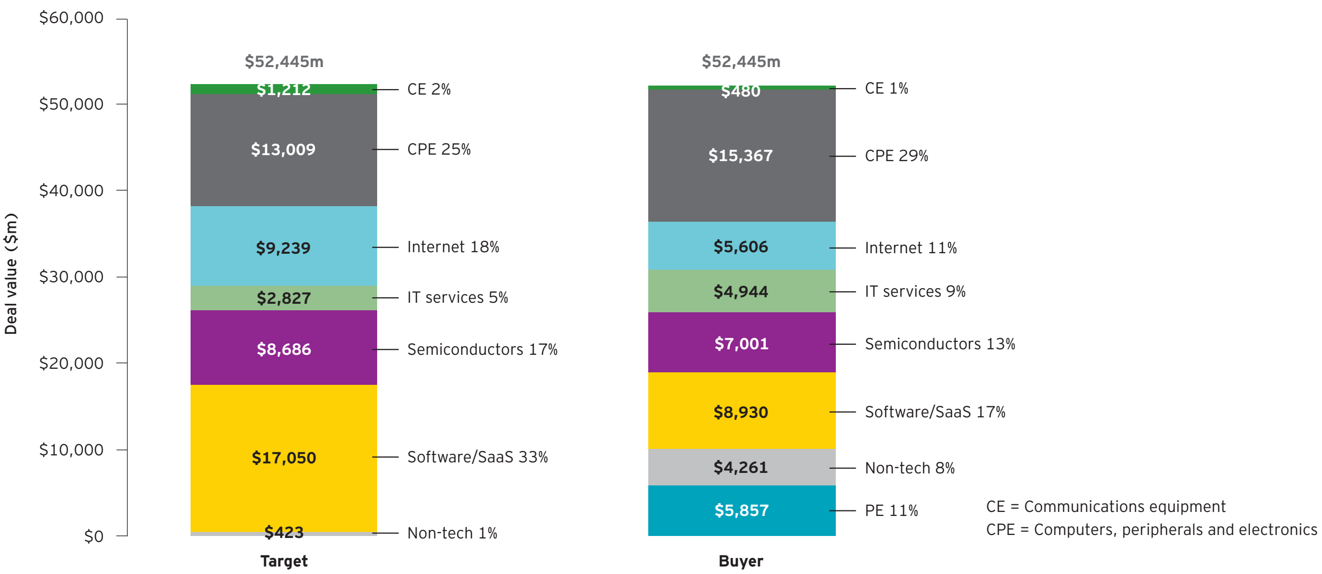
Advertising and marketing technologies "respond"

The combination of information gathering about people's activities, analyzing that information and acting on the results by delivering a personalized response appears to be happening first (and most obviously) with advertising and marketing technologies. On average, we saw slightly more than 60 deals per quarter with advertising and marketing targets in 2013, but there were more than 100 in 2Q14. The largest was PE firm KKR's $1.1 billion deal for Internet Brands (including CarsDirect.com), which generates most revenue from advertising but has also developed an advertising and marketing SaaS platform for broader use by its customers, particularly in the automotive industry.[13]

"Multitouch attribution" technology aims to improve response

There were a number of smaller and undisclosed-value deals targeting analytical technologies that get marketers closer to the goal of "multitouch attribution" – the ability to know in what channels a user was exposed to a marketer's message, and how much each channel contributed to the ultimate outcome. The goal is to deliver messages recipients will care about, when and where they are most likely to interact with those messages. Buyers of multitouch attribution technologies in 2Q14 included Google (Adometry, Inc., $150 million), AOL Inc. (Convertro, $89 million) and Rakuten Inc. (DC Storm, undisclosed). A related deal was data broker Acxiom Inc.'s $310 million acquisition of technology that essentially "identifies that a person using a web browser in the morning is the same person using a smartphone in the evening."[14]

Figure 4: Global technology transactions value flow by sector, 2Q14



When it comes to transaction value flow by sector, the "new normal" appears to be that there is no normal. In 1Q14, internet companies dominated the buyer bar, acquiring 47% of all disclosed value. For 2Q14, it is the CPE sector that skews the bar, capturing 29%. At $15.4 billion, CPE value acquired is the highest we've seen in the 6.5 years we have produced these reports, mostly on the strength of big-ticket deals like Zebra-Motorola, Apple-Beats and TE Connectivity-Measurement Specialties (see Figure 1, page 5). The only other net buyer sector was IT services, due to the Atos-Bull deal (see EMEA snapshot, page 20) and Vantiv-Mercury Systems.

Two cross-sector deals were notable as reciprocals of each other. Seagate Technology (CPE) agreed to acquire a flash manufacturing business from LSI Corporation (semiconductor) for $450 million, to enhance its presence in solid state drives (SSDs) for enterprise data centers. And for $1.3 billion, SanDisk (semiconductor) acquired Fusion-io (CPE), which builds enterprise SSDs based on flash memory chips. Also of note is that non-technology buyers continued a pattern of recent years by increasing their value acquired in 2Q14, rising to 8% of total value ($4.3 billion) in 2Q14 from 5% ($3.2 billion) in 1Q14.

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

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

But there were also dozens more deals targeting technologies that use analytics to make marketing more efficient and effective, with buyers including Google, Microsoft Corporation, Qihoo 360 Technology Company Limited and Twitter Inc., along with non-technology buyers such as retailers (Walmart Inc.) and advertising agencies (WPP plc). Several buyers did multiple deals each.

Deals grow for financial services, including payments

No economy is complete without mechanisms for paying — which explains the continuous acceleration in deals targeting financial services technologies that we have seen for a year or so. There were more than 60 such deals in 2Q14, compared with an average of just under 40 per quarter in 2013. While a large number of 2Q14 financial technology deals targeted mobile payment technologies, the largest by dollar value targeted technologies that integrate payment systems with other business applications, including customer relationship management (CRM) and accounting. That was the focus of Vantiv's $1.7 billion deal for Mercury Payment Systems, which had previously filed for a public offering.[15] And the largest deal of the quarter, Oracle's $5.3 billion plan to acquire MICROS Systems, included such technology within MICROS' broader set of software/SaaS for the hospitality and retail industries.

Apple, Priceline respond to mobile-driven changes in consumer behavior

Two of the top 12 deals for the quarter show focused responses to the way smart mobile devices and applications are changing consumer behavior. Apple's largest-ever acquisition by dollar value is its $3 billion deal for Beats Electronics. This deal adds premium consumer headphones, speakers and audio software and streaming music subscription service to Apple's existing products and services.[16] And as mobile reservations app usage grows, Priceline completed its $2.6 billion deal for OpenTable, seeing opportunity to accelerate the target's growth internationally and by cross-selling within the two companies' customer bases ("travelers are diners," as Priceline's CEO noted in the conference call announcing the deal).[17]

12 deals at or above $1 billion total

$29.9 billion,

or 57% of aggregate quarterly value.

At $12.2 billion, aggregate value of CB deals is only

23% of total 2Q14 value.

Enterprise mobility, collaboration and HIT drive deals

2Q14's consumer-oriented technology dealmaking appeared to be additive – in other words, there was no slowdown in deals targeting enterprise-focused technologies. Of note, the enterprise mobility management target we saw growing in recent quarters continued in 2Q14, exemplified by Google's undisclosed-value deal for Divide, a mobile-device-management startup; the deal reportedly signals a growing focus on increasing Android use within corporations.[18] Popular related targets were mobile software development platforms for enterprises, in which Google and Software AG were buyers, and securing mobile content for the enterprise, in which Symantec Corporation and Dropbox, Inc. were buyers.

Real-time customer chat and collaboration deals, mostly small or with undisclosed values, was a mini trend we observed. Technologies for chatting and co-browsing between site visitors and customer service or sales were targeted in several deals (with Oracle, LivePerson, Inc. and Zendesk, Inc. among the buyers). Other mini trends included secure document sharing and vertical industry collaboration – for example, there were three HIT collaboration SaaS deals, including a $225 million acquisition by Xerox Corporation. Overall, HIT deals increased, compared to their 2013 quarterly average, at about the same pace as total global volume in 2Q14 and were mostly in the US (see Americas snapshot, page 16). But this could change, spurred by separate announcements during 2Q14 of HIT data integration and application development platforms by Apple, Google and Samsung.[19]

Deals grow for security, big data analytics – and securing Hadoop

Security, big data analytics or both were included as elements in many of the deals already discussed – and were often embedded in each other's deals. Many security deals focused on aggregating threat data or analyzing real-time network traffic to identify and respond to malware or attacks-in-progress, exemplified by Cisco Systems, Inc.'s undisclosed-value deal for ThreatGRID, Inc. ThreatGrid will help strengthen Cisco's Security strategy and combine with technology from Sourcefire,[20] which it acquired for $2.7 billion in 3Q13. From the big data analytics side, we saw multiple undisclosed-value deals that added security to Hadoop software. Hadoop provider Cloudera Inc. acquired cloud-based encryption software, and Hortonworks Inc. acquired security administration and authentication software for its Hadoop distribution. In an unrelated deal, Fair Isaac Corporation (FICO) acquired Hadoop query construction and collaboration software to provide an interface for its FICO Analytic Cloud.

Data center growth drives storage deals

Finally, SanDisk's $1.3 billion completed deal to acquire Fusion-io exemplified several deals targeting flash memory technology to accelerate data center server performance. Other buyers included Seagate Technology, EMC Corporation and SK Hynix Inc. Separately, Microsoft, for an undisclosed value, acquired cloud middleware software to add high-performance computing capability to its Azure cloud.[21]

Notable divestitures

Divestitures grew in 2Q14 at about the same sequential pace as global volume, up roughly 15% to nearly 80 deals in 2Q14 from just shy of 70 deals in 1Q14. One such deal made it into the quarter's top 12 deals: Zebra's plan to acquire the scanner business of Motorola Solutions. Among other notable divestitures was Sony Corporation's sale of its Vaio PC business (see Asia-Pacific and Japan (APJ) snapshot, page 18). We also noted about a half-dozen data centers were divested by various companies, and both International Business Machines Corporation (IBM) and Hon Hai Precision Industry Company Ltd. sold patents. IBM sold storage patents to Pure Storage, Inc., and Hon Hai sold communications patents to Google, both for undisclosed values.

In addition, 2Q14 saw at least three deals focusing on natural language and translation technology, two of which came in divestitures. For $30 million, Intel Corporation acquired natural language processing technology, assets and personnel; and for an undisclosed value, eBay, Inc. acquired multidirectional language translation technology. In the third (non-divestiture) deal, also for an undisclosed value, Google acquired Quest Visual, Inc., whose mobile app translates text in real-time after viewing it through a smartphone camera.

CB deal volume soars

58% YOY

to 309 deals.

Look ahead

With the first half behind us, there can be little doubt that global technology M&A is on course for a blockbuster year in 2014.

In fact, the math suggests that 2014 aggregate disclosed value could top all but the year 2000, when the dotcom bubble drove technology M&A to heights not seen before or since. But even if values moderate a bit from the record-setting first half, 2014 global technology M&A will easily top the previous seven* years for which we have combined corporate and PE data.

"What I find most encouraging for continuing technology M&A growth is the ongoing strength of mid-priced deals, not just the transformational big-ticket deals. Confidence in the global economy and the force for change of the five transformative technology megatrends clearly is being felt at all company sides. Consequently, transformational, strategic, tactical and bolt-on type deals are all getting done — in abundance."

Jeff Liu
Global Technology Industry
Transaction Advisory Services Leader
Ernst & Young LLP

The math, at least, is simple and clear. Looking at the last seven years of data, global technology M&A posted an average of 45% of annual aggregate value in the first half of the year and 55% in the second half. Should that hold true for 2014, we'd see roughly $145 billion in 2H14 and $264 billion for the full year. That would likely set a post-dotcom-boom record (though we have only corporate data for the years before 2007 and therefore cannot make precise comparisons). It would be roughly 40% higher than the $188.2 billion in full-year 2013, which was the highest of the last seven years for which we have complete data (corporate and PE). Volume patterns for the last seven years have been more erratic and work out to an almost 50-50 split, on average, between first and second halves, with a slight bias toward the first half. Doubling first-half volume of 1,630 deals projects 3,260 for the full year, which would be 20% higher than 2013 but shy of the 3,345 posted in 2007.

Conditions remain ripe for such extreme dealmaking. Technology companies are cash rich, interest rates are low, rapidly changing technology continues to create many new opportunities and equities markets so far in 2014 have remained resilient, exhibiting low volatility despite growing geopolitical unrest. That reinforces executives' confidence in the global economy and, in M&A, makes it easier for buyers and sellers to agree on valuations. Further, rapid change induced by the five transformative technology megatrends (smart mobility, cloud computing, social networking, big data analytics and accelerated technology adaptation) is causing increasing numbers of companies to find themselves at a crossroads — adding to potential acquisition opportunities.

In addition, another factor suggests that the strength of global technology dealmaking runs deep: as described on pages 2 and 4, volume and value growth in mid-priced deals (between $100 million and $1 billion) is stronger than in bigger-ticket deals.

All in all, we're expecting an exciting finish to an already impressive year for global technology M&A.

*To date, we have produced these reports for 6.5 years; however, we have 7 years of historical data prior to 2014 (2007-2013) that includes both corporate and PE buyers. That's because the first reports (in 2008) included 2007 data for comparison purposes.

Consider the following questions and how the answers may shape dealmaking over the next few quarters:

- Will equities markets remain stable enough to support ongoing agreement on valuations?
- Given growing geopolitical unrest, will technology executives' confidence for M&A erode?
- Technology may be entering a new phase, empowering all industries with "sense and respond" digital customer relationships in which new opportunity emerges from the analysis of big data. How much acceleration will this add to global technology dealmaking?
- How high will growth momentum take dealmaking volume?
- Will robust dealmaking at mid-sized values ($100 million to $1 billion) continue?
- Can M2M and IoT technology dealmaking continue to accelerate, or will it plateau?
- PE dealmaking, which had been pushing the top end of its historical range, declined slightly in 2Q14, especially in aggregate value. Is that simply deal timing, and will it return to recent form in 3Q14?
- Semiconductor sector consolidation continued at its slow pace in 2Q14; will it accelerate soon or continue as is?
- Will public concern about information security continue to fuel increasing volume and value of security deals?
- When will increased shareholder activism drive more carve-out or whole enterprise M&A?
- CB deal volume growth outpaced all-deal growth in 2Q14, but value remained far below the level of recent years. Will it catch up later this year?
- The share of technology deals acquired by non-technology companies grew sequentially in 2Q14. Will it continue increasing all year, as in recent years?
- Will advertising and marketing technology continue to be a major target?
- The technology industry appears to be splitting along two lines: mature hardware and software infrastructure providers increasingly challenged by megatrends-induced industry evolution, and younger, high-growth companies that created those megatrends or launched to take advantage of them. How will industry dealmaking evolve as a result?

1H14 aggregate value totals

$119 billion,

70% higher than 1H13 and on course to the highest annual level since the dotcom era.

Top of mind

Getting valuations right in an extraordinary M&A environment

The high valuations placed on start-ups in today's extraordinary M&A environment have led many to ask whether we're seeing a return to the "irrational exuberance" that characterized the dot-com bubble of 2000. The reality is that today's technology landscape is very different from that of the dot-com era, and M&A is more important than ever to keep up with the breathtaking pace of change. However, new valuation metrics are needed that better reflect the transformative growth potential of today's acquisitions.

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A few statistics underline the remarkable state of the current technology M&A landscape. The first half of 2014 included 25 announced deals above $1 billion, including Facebook's $19 billion acquisition of messaging company WhatsApp Inc. Overall, aggregate M&A deal value leapt 70% in the first half of 2014 compared to the same period the previous year, and the multiples paid for technology targets are as high as they have been in over six years. In a further indication of the value placed on technology firms, the Nasdaq Composite Index has finally climbed back to a level that approaches its 2000 peak.

Accelerating pace of change requires M&A

Considering today's size and price of acquisitions, some buyers may be tempted to sit on the sidelines and avoid the "deal frenzy" that they compare to the dot-com era. But it's important to note that the technology landscape has changed dramatically since 2000. The pace of technological change has accelerated due to the proliferation of the internet, coupled with powerful technology megatrends: smart mobility, cloud computing, big data analytics, social networking and accelerated technology adaptation. As technologies associated with these megatrends lower barriers to market entry, new innovative competitors have the ability to disrupt entire industry ecosystems.

"The environment we're in today is quite different from 2000," says EY's Jeff Liu. "A company's ability to accelerate from 0 to 60 mph is much greater today than it was 10 years ago. A significant number of these new companies have real business models and revenue growth, with the ability to grow to hundreds of millions of users almost overnight — the kind of reach and scale that was almost unheard of in 2000."
In this environment, M&A is a vital strategy for enabling established technology firms to keep pace with innovative start-ups. Many of the biggest deals this year have seen acquirers placing large bets on technologies with the potential to ensure future business growth. Of the dozen 2Q14 deals greater than $1 billion, three-quarters targeted internet or cloud/SaaS companies or firms linked to the internet-of-things trend.

Why it's critical to get valuations right, despite the challenges

The accelerating pace of change also means that the biggest risk for established technology firms is to do nothing — to sit on the sidelines and avoid M&A activity altogether. "The technology environment is changing so rapidly that if companies are hesitant about making acquisitions — because valuations are so high and they don't understand them — they're going to miss opportunities. Those missed opportunities may significantly compromise the company's strategic position in the future," says EY's Jim Reinhart, "The technology landscape is littered with examples of companies that are strategically hindered today because they were not aggressive enough in acquiring new technologies to innovate at a pace in line with the market's demands."

At the same time, it's essential to understand and determine appropriate valuations for acquisition targets, despite the challenges of assessing the value of start-ups with huge potential but very little current revenue. "Acquirers are very cognizant of the need to spend their money wisely and justify their investments," Reinhart says. "Activist shareholders are closely scrutinizing investments to determine whether they deliver value and highlighting those that do not.

Overpay for an acquisition and today's investors are not afraid to step in and agitate for change."

Traditional metrics don't reflect today's valuations

In today's M&A environment, how can buyers determine whether they are overpaying? What are the best methods for understanding and estimating valuations? Clearly, traditional valuation metrics based on multiples of current earnings or revenues don't accurately reflect the future expectations that the valuations imply in recent large transformative transactions. Consider the $19 billion price tag placed on WhatsApp, which reportedly generated only about $20 million in 2013 revenue[1] — a multiple of 950x revenue! In fact, applying traditional valuation approaches may cause companies to overlook acquisitions that can transform their business by propelling growth in new markets or industries.

At least in the near term, understanding valuations may require different perspectives that take into account other factors, such as the number of users or future revenue growth. "On the surface, some of these deals may appear to revisit the exuberance of the dot-com era," Liu says. "But when you peel back the layers and examine the companies more closely, there are fundamentals that might justify the price being paid, particularly when you look at the transformative nature of the transactions."

Looking deeper: MAU to future revenue growth

One common approach used today is to consider valuation in terms of the price per monthly active user (MAU), particularly since many start-ups focus first on user growth and only later on generating revenue, and ultimately profitability, from those users. However, when estimating the value of each user, it's important to consider factors such as how those users engage with the company's products.

With some social networking services, most users contribute as well as consume content; that makes those users more valuable than if they were simply passive consumers of content. "MAU is a loosely defined term, and each company's definition may be different," Reinhart says. "The value per user increases with the level of user engagement."

There is a need to augment this MAU approach, in the current environment, with an emphasis on sustainable hyper-growth. For this reason, we developed a model that focuses directly on a company's predicted future revenue growth. To develop the model, EY analyzed data for 350 public companies that are generating revenue but not profits. For 70 of these companies, we were able to obtain estimates of revenue growth over the next three years and calculate the resulting three-year compound annual growth rate (CAGR). The relationship between enterprise valuation multiples and three-year estimated revenue CAGR is shown in Figure 5. We found that apparently high valuations seemed more reasonable, especially when examined together with other valuation approaches considered in developing and justifying the purchase price.

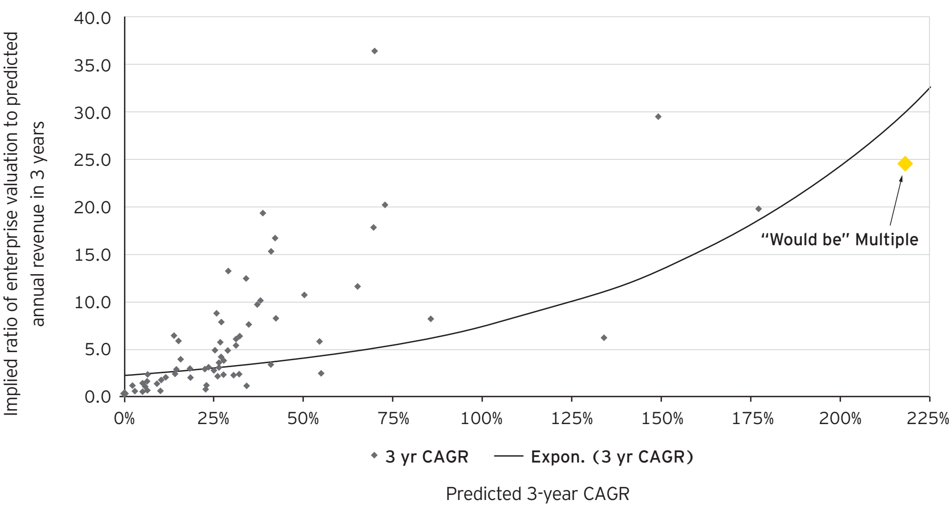
"If you believe the longer-term growth rates, traditional valuation metrics begin to make more sense," Reinhart says. "But you have to analyze the growth predictions to determine whether they are realistic.

Where does the revenue come from? Is it from more predictable sources, such as subscriptions, or more uncertain sources like advertising? Are there multiple revenue streams? Will the company's technology enable it to expand from its current market to capture a share of additional revenue-generating markets? Are there ancillary markets where the company can generate revenue?"

Bottom line

M&A is an essential tool for driving growth and keeping up with the accelerating pace of technology change. Though current valuations can seem daunting, avoiding acquisitions presents a greater strategic risk of compromising future growth. At some point, there will likely be a return to traditional valuation approaches based on profitability — and even in the current environment, companies that miss estimates are likely to face harsh market consequences. However, in the near term, new valuation approaches are needed that take into account growth in users and future revenue. To successfully navigate the rapidly changing and globally complex technology landscape, companies should seek third-party guidance to help define their acquisition strategies and identify and value the right assets.

Figure 5: Modeling valuations based on predicted 3-year CAGR



Based on EY analysis of 3-year revenue estimates for 70 public companies with current revenues but no earnings.

Regional snapshot: Americas

Big-ticket deals drive value growth

Americas' buyers captured 9 of the 12 $1 billion-plus deals during 2Q14, along with nearly three-fifths of global cloud/SaaS deals and many deals involving smart mobility, big data analytics, health care IT (HIT), financial services and online and mobile marketing technologies.

"Not only did Americas companies acquire the most volume of any region in 2Q14, but Americas technology remained a primary target for cross-border buyers in Asia-Pacific and Europe. Americas companies were targeted in 108 CB deals this quarter, or 35% of all CB deals. Thoughtful integration will be key to ensure these acquisitions achieve their targeted ROI."

Joe Steger
Americas Inbound/Outbound Transaction Advisory Services Leader
EY

Americas volume increased 45% YOY to 626 deals in 2Q14 — the highest level we've seen since we began breaking out regional data three years ago. Total value increased 48% YOY to $40.9 billion, though it fell 15% sequentially from the record-setting first quarter.

The region's top five deals were also the top five deals globally, and therefore are mostly described in the report's main narrative (beginning on page 4). Among them was the $4.9 billion deal by Canadian gambling company Amaya Gaming Group to acquire Rational Group, owner of the online poker brands PokerStars and Full Tilt Poker. Though considered the largest online poker operators in the world, those brands have been excluded from the US for three years after being sued by the US Justice Department — which has since reversed its position on the legality of online gaming.[1] Amaya has said that the deal will facilitate the brands' reintroduction to the US, where Amaya already has operations.[2]

Americas buyers accounted for about 90% of global HIT deals in 2Q14 and all of the disclosed value we identified. The largest HIT deal was a $550 million PE acquisition by Summit Partners of Ability Network, which links health care providers to private insurance companies and the US Government's Medicare system for medical billing. Another deal saw information and services provider IMS Health Inc. paying $520 million for several businesses divested by health care technology company Cegedim of France, including customer-relationship management software for life sciences companies. In addition, Xerox Corporation acquired SaaS for health benefits management and medical case management team collaboration in a $225 million deal for ISG Holdings, Inc.

Digital advertising and marketing technology continued to attract intensive M&A activity as corporate advertising budgets continue to shift to online channels; roughly six dozen of more than 100 related deals had Americas buyers. Amobee, a US-based mobile advertising firm owned by Singapore Telecommunications, agreed to acquire US digital advertising firm Adconion for $209 million and advertising analytics firm Kontera Technologies for $150 million. In another deal, PE firm GTCR, LLC agreed to pay $447 million for Vocus, Inc., which provides marketing and public-relations SaaS-based services, including social media monitoring and press release distribution. Google and Twitter also acquired digital advertising technology startups. Google paid $150 million for Adometry, which analyzes advertising effectiveness; Twitter acquired mobile ad-targeting firm TapCommerce for $100 million. Twitter also did four undisclosed-value deals, including another advertising analytics company, ad-creation technology, online video-editing SaaS and a mobile app for organizing application icons on Android device home screens.

The quarter also included nearly 20 deals focused on education, including the $752 million acquisition of iParadigms LLC by PE firms Insight Venture Partners and GIC. The company is best known for Turnitin, an online service used by educators to detect plagiarism in students' work by comparing it against an academic database. The deal follows two other large PE acquisitions of educational SaaS in 1Q14.[3]

Americas aggregate deal value rose 48% YOY to

$40.9 billion.

Figure 6: Top five Americas deals, 2Q14 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
Oracle Corporation to acquire MICROS Systems, Inc.	$5,300	23 Jun	Corporate	69%
Amaya Gaming Group Inc. to acquire Rational Group Ltd. [dba PokerStars.com]	$4,900	13 Jun	Corporate	N/A
Zebra Technologies Corporation to acquire Enterprise business of Motorola Solutions, Inc.	$3,450	15 Apr	Corporate	N/A
Apple Inc. to acquire Beats Electronics LLC	$3,000	28 May	Corporate	N/A
The Priceline Group Inc. acquired OpenTable, Inc.	$2,600	13 Jun	Corporate	48%

Figure 7: Americas transactions scorecard, 2Q14

Deals announced	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change	YOY % change
Corporate					
Number of deals announced	390		581	17% ▲	49% ▲
Number of deals with disclosed values	71		141	23% ▲	99% ▲
Total value of deals with disclosed values ($m)	$16,152		$36,738	-5% ▼	127% ▲
Average value of deals with disclosed values ($m)	$227		$261	-23% ▼	15% ▲
PE					
Number of deals announced	42		45	-6% ▼	7% ▲
Number of deals with disclosed values	18		11	-42% ▼	-39% ▼
Total value of deals with disclosed values ($m)	$11,533		$4,199	-56% ▼	-64% ▼
Average value of deals with disclosed values ($m)	$641		$382	-24% ▼	-40% ▼
Corporate and PE					
Number of deals announced	432		626	15% ▲	45% ▲
Number of deals with disclosed values	89		152	13% ▲	71% ▲
Total value of deals with disclosed values ($m)	$27,685		$40,937	-15% ▼	48% ▲
Average value of deals with disclosed values ($m)	$311		$269	-25% ▼	-14% ▼

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Regional snapshot: Asia-Pacific* and Japan (APJ)

Mobility drives record volume

APJ volume reached its highest level in at least two years in 2Q14, fueled by smart mobility, semiconductors sector consolidation and a major divestiture.

"By continuing their aggressive and diverse M&A activity, Chinese internet firms are positioning themselves for international expansion as well as capitalizing on the country's rapid growth in mobile users."

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

Volume rose 50% YOY to 72 deals — the largest percentage increase of any region and the highest level for at least two years. Aggregate disclosed value rose 35% YOY to $4.5 billion but fell sequentially due to a series of big-ticket deals in 1Q14.

The quarter saw continuing M&A activity within China's internet sector as companies vie for the country's fast-growing mobile population. This included the latest in a series of deals by e-commerce company Alibaba Group Holding, which is preparing for an IPO in the US that may fund further increases in M&A activity. In the region's top 2Q14 deal, Alibaba agreed to pay $1.6 billion for the 72% of online mapping service AutoNavi that it doesn't already own. Detailed online map data has emerged as crucial to feed into location-based e-commerce, search and other mobile services. Two other Chinese internet companies, Baidu Inc. and Tencent Holdings Inc., already have similar services.[1]

Alibaba bought an initial 28% stake in AutoNavi last year. Alibaba's IPO filing explains that taking minority stakes enables the company to evaluate potential acquisition targets before buying them outright.[2] Chinese internet companies continued in 2Q14 the string of minority-interest deals that we first described in our 1Q14 report[3] (minority-interest deals are not included in our dataset because our methodology requires at least 50% ownership (see Methodology, page 27). In 2Q14, Alibaba increased its involvement with online entertainment, as it and entities it controls acquired an 18.5% stake in online video company Youku Tudou for $1.2 billion[4] and a 20% stake in internet-TV firm Wasu Media Holding for $1.1 billion.[5] Alibaba also contributed to a $250 million funding round for US ride-sharing service Lyft;[6] took a 10% stake in Singapore's national postal service to expand its logistics capabilities;[7] and even invested in a soccer team. Other minority-interest activity in China included a $736 million deal by Tencent Holdings for online classified-advertising service 58.com.[8]

The quarter's top five deals included two semiconductor sector transactions in Taiwan. One deal focused on LEDs: Epistar, a maker of LED chips used in displays and lighting, is acquiring Formosa Epitaxy, another LED chipmaker, as that semiconductor segment seeks scale through consolidation.[9] The other semiconductor deal was one of several recently to focus on integrating technologies for controlling touch screens used in smartphones and tablets. FocalTech, which makes touch-control technology, agreed to acquire Orise Technology, which makes chips that drive LCD screens. The quarter included several more deals related to display technology, including at least one other focused on integration of touch and display: the $475 million acquisition by US-based Synaptics of Japan's Renesas SP Drivers.

Also among the region's top five deals was Chinese Government-owned Shanghai Pudong's plan to take semiconductor maker Montage Technology Group private in a $693 million PE transaction, less than a year after the company went public.[10] Montage makes chips for set-top boxes, smart TVs and other devices. There also was another deal that likely would have made the top 5, except its value was not disclosed: Sony divested its Vaio PC business, transferring it to a new company named Vaio Corporation that will be 95% owned by PE firm Japan Industrial Partners Inc., with Sony retaining a 5% stake.[11] As part of its ongoing effort to return to profitability, Sony also spun off its TV business into a wholly owned subsidiary.[12]

*Asia-Pacific includes India.

APJ volume climbed 50% YOY to

72 deals.

Figure 8: Top five Asia-Pacific and Japan deals, 2Q14 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
Alibaba Group Holding Ltd. to acquire AutoNavi Holdings Ltd.	$1,580	11 Apr	Corporate	32%
Shanghai Pudong Science and Technology Investment Co., Ltd. to acquire Montage Technology Group Ltd.	$693	11 Jun	PE	44%
EPISTAR Corporation to acquire Formosa Epitaxy Inc.	$639	30 Jun	Corporate	24%
iSoftStone Holdings and China Everbright Investment Management Limited announce a management buyout of iSoftStone Holdings Limited	$332	18 Apr	PE	18%
FocalTech Corporation Ltd. to acquire Orise Technology, Inc.	$288	7 Apr	Corporate	30%

Figure 9: Asia-Pacific and Japan transactions scorecard, 2Q14

Deals announced	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change		YOY % change	
Corporate							
Number of deals announced	44		64	8%	▲	45%	▲
Number of deals with disclosed values	8		25	-29%	▼	213%	▲
Total value of deals with disclosed values ($m)	$1,047		$2,992	-75%	▼	186%	▲
Average value of deals with disclosed values ($m)	$131		$120	-65%	▼	-8%	▼
PE							
Number of deals announced	4		8	60%	▲	100%	▲
Number of deals with disclosed values	3		7	40%	▲	133%	▲
Total value of deals with disclosed values ($m)	$2,293		$1,526	-36%	▼	-33%	▼
Average value of deals with disclosed values ($m)	$764		$218	-54%	▼	-71%	▼
Corporate and PE							
Number of deals announced	48		72	13%	▲	50%	▲
Number of deals with disclosed values	11		32	-20%	▼	191%	▲
Total value of deals with disclosed values ($m)	$3,340		$4,518	-69%	▼	35%	▲
Average value of deals with disclosed values ($m)	$304		$141	-61%	▼	-54%	▼

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

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

Volume, value rise on broad range of technology targets

Record-setting 2Q14 EMEA deal volume was driven by big-ticket deals in sensors, wireless technology and IT services, while many smaller deals involved cloud/SaaS, smart mobility, big data analytics and advertising/marketing technology targets.

> *"As economic confidence continues to increase, I expect a surge in European technology dealmaking due to bottled-up demand from a long period of relatively subdued activity."*
>
> **Staffan Ekström**
> Global Telecoms Leader – Transactions
> TMT Leader, Nordics
> EY

EMEA deal volume rose 18% YOY to 174 deals, which (as in the other regions) was the highest level we've seen for at least two years. Aggregate deal value leapt 195% YOY and average deal value increased 133%, though neither set records.

The quarter's largest deal was the pending $1.5 billion acquisition of US-based sensor maker Measurement Specialties by TE Connectivity of Switzerland. The deal greatly expands TE Connectivity's presence in the fast-growing market for sensors, which are being incorporated into an ever-increasing variety of devices as the IoT trend unfolds. Measurement Specialties' sensors measure a multitude of variables, including temperature, force and pressure, in vehicles, home appliances and medical equipment.

A continuing wave of transactions targeted fleet management companies that track and optimize truck operations using telematics, a technology that has become part of the growing IoT trend. This included one top five deal, in which France's Michelin Group agreed to pay $592 million for Brazil's Sascar Tecnologia Automotiva. In an undisclosed-value deal, Dutch GPS provider TomTom NV purchased a French provider of GPS fleet management software, which was one of several similar deals. These deals continue a trend seen in 1Q14, which included two top five EMEA telematics technology acquisitions.[1]

In another top five deal, UK defense and aerospace firm Cobham agreed to buy wireless technology company Aeroflex to increase its presence in faster-growing commercial markets as military spending declines.[2] Aeroflex makes electronics and testing equipment, including communications technology used in satellites and systems used to test LTE network base stations.[3]

The quarter also saw a new chapter in the long and complex story of France's Bull SAS, once one of Europe's biggest computer manufacturers.[4] Bull's more than 80-year history included relationships with Honeywell Inc. and General Electric Company, as well as multiple government bailouts and a period of government ownership.[5] Now, French IT services firm Atos — whose chief executive is a former Bull vice chairman — plans to acquire Bull for $847 million. Atos reportedly is seeking to capitalize on Bull's strengths to become a larger player in cloud computing services, security and big data analytics.[6] Besides services and software, Bull's products include general-purpose and high-performance servers.

Rounding out the top five was another French IT services deal, Sopra Group's acquisition of Groupe Steria. Of note, Atos launched an unsuccessful offer for Steria earlier during the quarter, before announcing its Bull acquisition.[7] The Sopra-Steria deal will create the third-largest French IT services firm, after Capgemini and Atos,[8] with combined revenue of $4.3 billion.

Average value of EMEA deals rose 133% YOY to

$163 million.

Figure 10: Top five EMEA deals, 2Q14 (corporate and PE)

Buyer	Disclosed value ($m)	Announced	Deal type	Premium offered
TE Connectivity Ltd. to acquire Measurement Specialties, Inc.	$1,499	18 Jun	Corporate	36%
Sopra Group SA to acquire Groupe Steria SCA	$1,000	8 Apr	Corporate	56%
Cobham plc to acquire Aeroflex Inc.	$920	20 May	Corporate	28%
Atos SE to acquire Bull SAS	$847	26 May	Corporate	35%
Michelin Group to acquire Sascar Tecnologia Automotiva SA	$592	9 Jun	Corporate	N/A

Figure 11: EMEA transactions scorecard, 2Q14

Deals announced	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change		YOY % change	
Corporate							
Number of deals announced	136		161	22%	▲	18%	▲
Number of deals with disclosed values	33		39	-3%	▼	18%	▲
Total value of deals with disclosed values ($m)	$2,300		$6,858	151%	▲	198%	▲
Average value of deals with disclosed values ($m)	$70		$176	159%	▲	151%	▲
PE							
Number of deals announced	11		13	-24%	▼	18%	▲
Number of deals with disclosed values	1		4	-20%	▼	300%	▲
Total value of deals with disclosed values ($m)	$67		$132	-87%	▼	97%	▲
Average value of deals with disclosed values ($m)	$67		$33	-84%	▼	-51%	▼
Corporate and PE							
Number of deals announced	147		174	17%	▲	18%	▲
Number of deals with disclosed values	34		43	-4%	▼	26%	▲
Total value of deals with disclosed values ($m)	$2,367		$6,990	85%	▲	195%	▲
Average value of deals with disclosed values ($m)	$70		$163	94%	▲	133%	▲

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Appendix: additional charts, source notes and methodology

Figure 12: Global technology corporate and PE transactions scorecard by sector, 2Q14

	Number of deals					Average value ($m)				
	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change	YOY % change	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change	YOY % change
Corporate deals by sector (based on target sector)										
CE	12		23	-15% ▼	92% ▲	$114		$184	-30% ▼	61% ▲
CPE	38		69	1% ▲	82% ▲	$101		$434	44% ▲	330% ▲
Internet	77		93	1% ▲	21% ▲	$191		$365	99% ▲	91% ▲
IT services	146		193	20% ▲	32% ▲	$135		$80	29% ▲	-41% ▼
Semiconductors	26		32	45% ▲	23% ▲	$124		$381	41% ▲	207% ▲
Software/SaaS	271		396	25% ▲	46% ▲	$223		$151	-62% ▼	-32% ▼
Total	570		806	17% ▲	41% ▲	$174		$227	-20% ▼	30% ▲
PE deals by sector (based on target sector)										
CE	4		2	-50% ▼	-50% ▼	$167		$28	-89% ▼	-83% ▼
CPE	5		4	-33% ▼	-20% ▼	$35		$216	-28% ▼	517% ▲
Internet	13		8	-27% ▼	-38% ▼	$1		$403	-49% ▼	40,200% ▲
IT services	8		19	19% ▲	138% ▲	$558		$65	-92% ▼	-88% ▼
Semiconductors	2		1	0% –	-50% ▼	$701		$693	3,200% ▲	-1% ▼
Software/SaaS	25		32	0% –	28% ▲	$1,080		$317	32% ▲	-71% ▼
Total	57		66	-6% ▼	16% ▲	$631		$266	-41% ▼	-58% ▼
Total deals by sector										
CE	16		25	-19% ▼	56% ▲	$134		$167	-36% ▼	25% ▲
CPE	43		73	-1% ▼	70% ▲	$96		$420	40% ▲	338% ▲
Internet	90		101	-2% ▼	12% ▲	$144		$370	58% ▲	157% ▲
IT services	154		212	20% ▲	38% ▲	$198		$78	-68% ▼	-61% ▼
Semiconductors	28		33	43% ▲	18% ▲	$239		$395	56% ▲	65% ▲
Software/SaaS	296		428	22% ▲	45% ▲	$350		$167	-55% ▼	-52% ▼
Total	627		872	15% ▲	39% ▲	$249		$231	-24% ▼	-7% ▼

CE = Communications equipment
CPE = Computers, peripherals and electronics

All sectors increased deal volume YOY in 2Q14, as volume reached a record of 872 deals for the 6.5 years we've produced these reports. Corporate deals increased in all sectors and rose 41% YOY overall. PE deals also increased overall, by 16% YOY, but PE growth was concentrated in software/SaaS and IT services. Software/SaaS volume increased 45% YOY to 428 deals, accounting for nearly half (49%) of total deal volume — an even higher proportion of deals than the average in 2013 (43%) or 2012 (42%). IT services deals accounted for the second-largest number of deals (212), a 38% YOY increase.

CPE volume once again achieved the greatest YOY percentage increase (70%), continuing the steady growth trend seen over the past three years. Buyers targeted a wide variety of CPE technologies, highlighting the growing IoT trend and increasing types of connected hardware devices. Targeted technologies included sensors, displays, wearables, home automation, PCs and servers; contract manufacturers also were targeted.

Average deal value fell by 7% YOY and 24% sequentially in 2Q14, largely due to lower PE average value. The quarter included just one $1 billion-plus PE deal (KKR-Internet Brands, $1.1 billion). Consequently, 2Q14 PE average value dropped 58% YOY compared with 2Q13, which included the $6.9 billion PE buyout of BMC Software and two other $1 billion-plus deals, and it fell 41% sequentially from 1Q14, which included four deals greater than $1 billion. CPE saw the greatest YOY percentage increase in average deal value (338%) of any sector, due in part to four big-ticket deals: Zebra-Motorola, Apple-Beats Electronics, TE Connectivity-Measurement Specialties and SanDisk-Fusion-io. The quarter's CPE acquisitions also included the $847 million Atos deal to acquire Bull SAS.

Internet average value surged 157% YOY, in part because the quarter included 3 top 10 internet deals: Amaya Gaming-Rational, Priceline-OpenTable and KKR-Internet Brands. Software/SaaS and IT services average values fell 52% and 61% YOY, respectively, with declines posted in both PE and corporate dealmaking.

Note: average value based on deals with disclosed values.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7July 2014.

Figure 13: CB corporate and PE transactions scorecard by sector, 2Q14

	Number of CB deals					Average CB value ($m)				
	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change	YOY % change	2Q13	2Q 3Q 4Q 1Q 2Q	2Q14	Sequential % change	YOY % change
Corporate CB deals by sector (based on target sector)										
CE	6		10	0% –	67% ▲	$132		$226	-72% ▼	71% ▲
CPE	14		27	0% –	93% ▲	$101		$225	1% ▲	123% ▲
Internet	19		38	73% ▲	100% ▲	$100		$508	2,440% ▲	408% ▲
IT services	41		61	27% ▲	49% ▲	$70		$12	-77% ▼	-83% ▼
Semiconductors	14		12	50% ▲	-14% ▼	$113		$288	2,300% ▲	155% ▲
Software/SaaS	91		148	51% ▲	63% ▲	$139		$59	-62% ▼	-58% ▼
Total	185		296	39% ▲	60% ▲	$120		$177	3% ▲	48% ▲
PE CB deals by sector (based on target sector)										
CE	0		1	-50% ▼	N/A ▲	$0		$0	-100% ▼	N/A –
CPE	1		0	-100% ▼	-100% ▼	$0		$0	N/A –	N/A –
Internet	3		0	-100% ▼	-100% ▼	$0		$0	-100% ▼	N/A –
IT services	2		6	50% ▲	200% ▲	$662		$0	-100% ▼	-100% ▼
Semiconductors	0		0	N/A –	N/A –	$0		$0	N/A –	N/A –
Software/SaaS	4		6	-25% ▼	50% ▲	$607		$15	-50% ▼	-98% ▼
Total	10		13	-28% ▼	30% ▲	$635		$15	-97% ▼	-98% ▼
Total CB deals by sector										
CE	6		11	-8% ▼	83% ▲	$132		$226	-65% ▼	71% ▲
CPE	15		27	-4% ▼	80% ▲	$101		$225	1% ▲	123% ▲
Internet	22		38	52% ▲	73% ▲	$100		$508	1,237% ▲	408% ▲
IT services	43		67	29% ▲	56% ▲	$144		$12	-97% ▼	-92% ▼
Semiconductors	14		12	50% ▲	-14% ▼	$113		$288	2,300% ▲	155% ▲
Software/SaaS	95		154	45% ▲	62% ▲	$158		$57	-61% ▼	-64% ▼
Total	195		309	34% ▲	58% ▲	$143		$175	-16% ▼	22% ▲

CE = Communications equipment
CPE = Computers, peripherals and electronics

CB deal volume grew 58% YOY, faster than all-deal volume growth (39%). CB YOY volume growth outpaced all-deal growth in all sectors except semiconductors, where CB volume declined by two deals (14%), while all-deal volume increased 18%. Sequentially, CB volume grew 34%, compared with a 15% rise for all deals. CB volume accounted for 35% of global transaction volume, compared with 30% in 1Q14 and an average of 32% in 2013.

CB average value rose 22% YOY, compared with a 7% decline in all-deal average value. Sequentially, CB average value fell 16%, compared with a 24% decline in average value of all deals. But average CB deal value ($175 million) remained lower than all-deal average value ($231 million) for the second consecutive quarter, after two quarters in which the CB value was higher than all-deal average value.

The largest YOY and sequential percentage increases in average value were in the internet and semiconductor sectors. Internet CB deals attracted the highest average value, due in part to the Amaya Gaming–Rational deal. Semiconductor average deal value was lifted by five deals greater than $300 million, the largest being the $920 million deal by British aerospace and military systems company Cobham to acquire US-based Aeroflex.

Note: average value based on deals with disclosed values.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Figure 14: Global corporate and PE deals by acquiring country: CB and in-border, 2Q14

Corporate deals					2Q14		
Top countries	2Q13 deals	2Q 3Q 4Q 1Q 2Q	2Q14 deals	% total deals	No. IB deals	0% 50% 100%	No. CB deals
US	355		536	67%	390		146
UK	52		67	8%	27		40
Canada	33		36	4%	14		22
France	15		20	2%	9		11
Australia	7		15	2%	11		4
Germany	16		12	1%	6		6
India	15		12	1%	9		3
Sweden	12		11	1%	4		7
China/HK	6		9	1%	7		2
Switzerland	6		8	1%	1		7
Other	53		80	10%	32		48
Total	**570**		**806**	**100%**	**510**		**296**

PE deals					2Q14		
Top countries	2Q13 deals	2Q 3Q 4Q 1Q 2Q	2Q14 deals	% total deals	No. IB deals	0% 50% 100%	No. CB deals
US	37		43	65%	36		7
UK	8		5	8%	4		1
China/HK	2		5	8%	5		0
Germany	1		4	6%	3		1
Canada	5		2	3%	2		0
Netherlands	0		2	3%	0		2
Other	4		5*	8%	3		2
Total	**57**		**66**	**100%**	**53**		**13**

The US accounted for a combined corporate and PE deal volume of 153 CB deals in 2Q14, an increase of 60 deals over 1Q14. Consequently, US buyers' share of combined PE and corporate CB deal volume increased to 50% in 2Q14, compared with 40% in 1Q14.

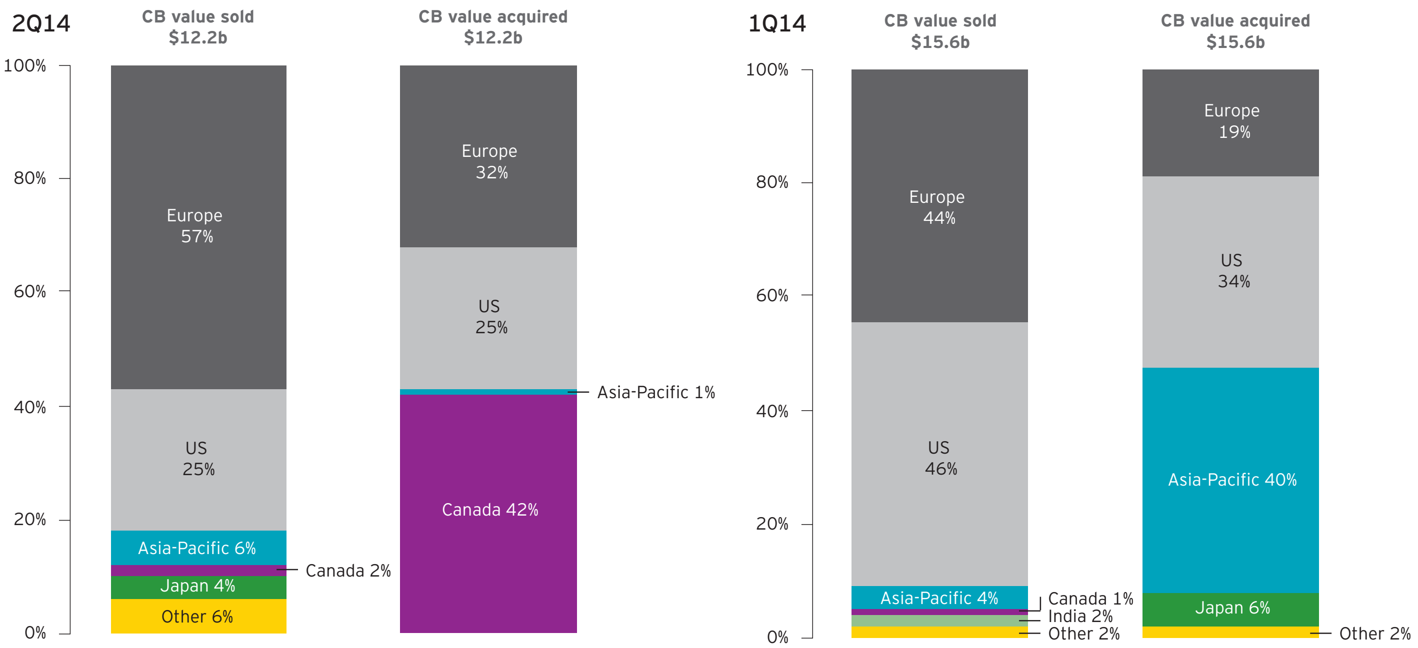
UK buyers accounted for 41 corporate and PE CB deals in 2Q14 (9 more than in 1Q14), taking the second-largest share of CB volume (13%). Other countries experiencing sequential increases in CB volume included Canada (+6 deals), Australia (+1) and Sweden (+2). Countries with fewer deals in 2Q14 compared with 1Q14 included France (-1), Germany (-1) and India (-1).

*Additional countries with one PE deal in 2Q14: France, Japan, India, Singapore and Sweden.

Note: percentages do not total 100% due to rounding.

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Figure 15: CB deal value flow for technology deals (disclosed value), 2Q14 vs. 1Q14



CB dealmaking value continued to fall below historical levels in 2Q14. Aggregate value of 2Q14 CB deals declined 22% sequentially to $12.2 billion, marking the third consecutive quarterly decrease. There were only two $1 billion-plus deals in 2Q14 (representing 52% of 2Q14 CB value), compared with six in 1Q14. CB deals accounted for 23% of global transaction value, lower than the 29% average during 2013 and well below the historical average of around 40%.

The US and Europe, which have historically switched positions from quarter to quarter as net buyers and sellers, were both net sellers for the second consecutive quarter (although the US buyer and seller totals both rounded to 25%). Europe accounted for the majority (57%) of value sold.

- Canada was the largest net buyer, accounting for an unusually large percentage (42%) of value acquired, due primarily to a single deal: the $4.9 billion acquisition by Amaya Gaming of UK-based Rational Group, the parent of PokerStars.com. The one deal represented 40% of total 2Q14 CB deal value and 70% of European value sold.
- The other 2Q14 CB deal valued at more than $1 billion was the pending $1.5 billion acquisition by Swiss-based TE Connectivity of Measurement Specialties (US).
- European buyers focused primarily on targets outside the EU: only 5% of CB deal value acquired by European buyers was within Europe. US targets accounted for 74% and 15% came from Brazil in a single deal (the $592 million acquisition by French tire-maker Michelin of Sascar Tecnologia Automotiva SA, a maker of GPS-based fleet-tracking and navigation systems).
- The largest CB acquisition by a US buyer was a $520 million deal by IMS Health to acquire the customer-relationship management and information solutions business of France's Cegedim.
- Of the value acquired in Asia-Pacific, 75% came in two deals by US semiconductor companies to acquire Taiwanese companies. One was the $329 million acquisition by Microchip Technology of ISSC Technologies, a provider of low-power wireless technology focused on IoT. The other was the $223 million deal by Exar for Integrated Memory Logic, which makes technology for flat-panel displays.
- The majority of Japan CB value sold was due to another semiconductor sector deal, the $475 million acquisition by US-based Synaptics of Renesas SP Drivers, a maker of chips that manage LCD displays.

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

Source: EY analysis of The 451 Group Research M&A KnowledgeBase, accessed 7 July 2014.

Source notes

2Q14 technology M&A suggests emerging "sense and respond" economy

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Top of mind

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Methodology

- *Global technology M&A update: April–June 2014* is based on EY's analysis of The 451 Group M&A KnowledgeBase data for 2013 and 2014. 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 June 2014, 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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