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TECHNOLOGY · MEDIA · TELECOM

THIRD QUARTER   **2015**

This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Information Technology, Media and Telecom M&A

M&A activity for North American based target companies in the technology sector for Q2 2015 included 384 closed deals, according to data published by industry data tracker *FactSet*. The average transaction value was $289 million. The quarter was sparked by some impactful deals including one of the largest pure technology deals ever when Avago Technologies (AVGO) acquired Broadcom for $37 billion in May. Cloud computing continues to be an area drawing significant attention. On May 26, enterprise cloud computing company Virtustream – founded in 2009 – was acquired by EMC (EMC) for $1.2 billion in cash. According to finance software firm *Dealogic*, global M&A activity in the technology sector topped $143 billion through H1 2015 – a 30% increase over 2014. In addition, technology startups continue surpass prior valuations oftentimes eclipsing the $1 billion mark before generating any revenue.

Technology Start Up Valuations
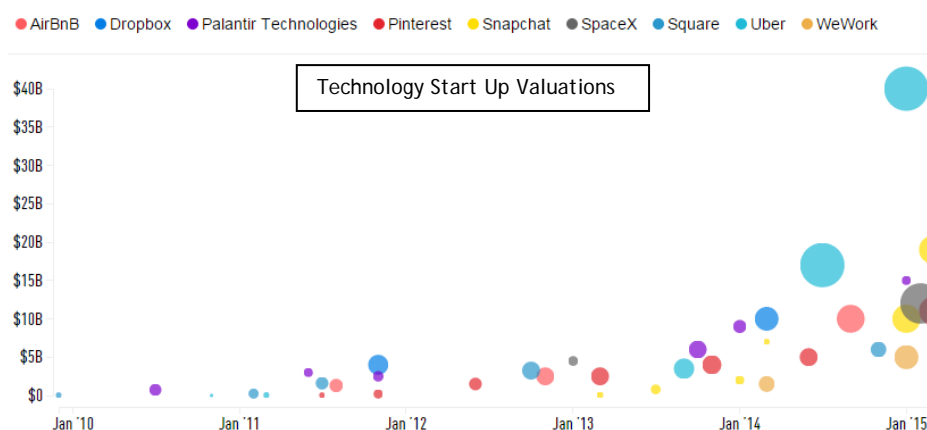
Source: CB Insights

Transactional Overview

June 2015 - RingCentral, Inc. acquired Glip Inc. for US$12.8 million in cash, stock and contingent payout. RingCentral, Inc. provides software-as-a-service solutions for business communications. Glip Provides cloud messaging and collaboration services.

June 2015 - BroadSoft Inc. acquired mPortal Inc., a portfolio company of New Venturetec AG for US$14.8 million in cash and stock. BroadSoft, Inc. provides software and services that allow mobile, fixed-line, and cable providers to deliver voice and multimedia services to its customers. mPortal, Inc. designs and develops mobile content and applications.

June 2015 - GameStop Corp acquired via tender offer, Geeknet Inc. for US$134.6 million in cash and other payments. GameStop Corp. operates as a multichannel video game, consumer electronics and wireless services retailer. Geeknet, Inc. is an online network for the global geek community, comprised of technology

professionals, technology enthusiasts and general consumers of technology-oriented goods, services and media.

M&A Trends

There appears to be no end in sight to M&A activity in the ever-evolving technology space as new applications, software and hardware continue to have meaningful global impacts. Estimates from Cisco Systems (CSCO) project Internet data traffic to triple by 2019. Data traffic is expected to increase nearly 168 petabytes, or 168 billion megabytes, per month. In addition, approximately 50% of the Internet traffic is expected to come from the devices other than traditional desktop computers. As giant strategic players like Apple and Google fight for dominance, gaining new technology through M&A will certainly continue to be part of the course.

Selected Q2 Closed Transactions	
Target/Issuer	Buyers/Investors
Medsight Solutions LLC	Aris Global LLC
Contractor Management Services	Riverside Partners LLC
Geeknet, Inc.	GameStop Corp.
Digital Kitchen LLC	Kyu Investment, Inc.
Signature Technology Group, Inc.	Tech Data Corp.
Followon Media, Inc.	PLS, Inc.
Pixelpushers, Inc.	Events.com, Inc.
Lacoon Mobile Security	Check Point Software Technology

Industry Update

Demand for software applications for smartwatches and other wearables is expected to increase as more consumers and businesses adopt the devices. The recent launch of a wearable computing device by Apple could jumpstart the smartwatch category, creating new opportunities for software developers. The company launched a line of Apple Watches in nine countries in April 2015. Combining the functionality of a timepiece with communication capabilities and health-related applications, the devices will compete against offerings from LG, Pebble, Samsung, and Sony, among others. The burgeoning list of applications for the Apple Watch already includes business, home automation, music, news, sports and travel apps, and the device's long-awaited debut is expected to spur development efforts across the market. Good Technology, Microsoft, and Salesforce.com are among the companies developing collaboration, productivity, and sales apps for the Apple Watch, according to Network World. Game makers are also targeting the Apple Watch and other wearables, despite the challenge presented by the devices' small screen size.

Demand for enterprise software will drive overall IT spending growth during 2015, according to a recent report from Gartner. The market research firm forecasts worldwide spending on enterprise software will increase 5.5 percent year-over-year in 2015, reaching $335 billion. Outpacing the projected 2.4 percent increase in overall IT spending, the uptick in global software expenditures is expected despite growing pricing pressure in key market segments such as customer relationship management (CRM) and database management, where a shift to cloud-based offerings is fueling competition between incumbent enterprise vendors and a host of newer cloud specialists.

- US retail sales for electronics and appliance stores, a potential measure of demand for computer software, decreased 1.2 percent in the first seven months of 2015 compared to the same period in 2014.
- Total US revenue for computer systems design and related services rose 4.6 percent in the first quarter of 2015 compared to the previous year.