

Tech M&A Outlook 2020

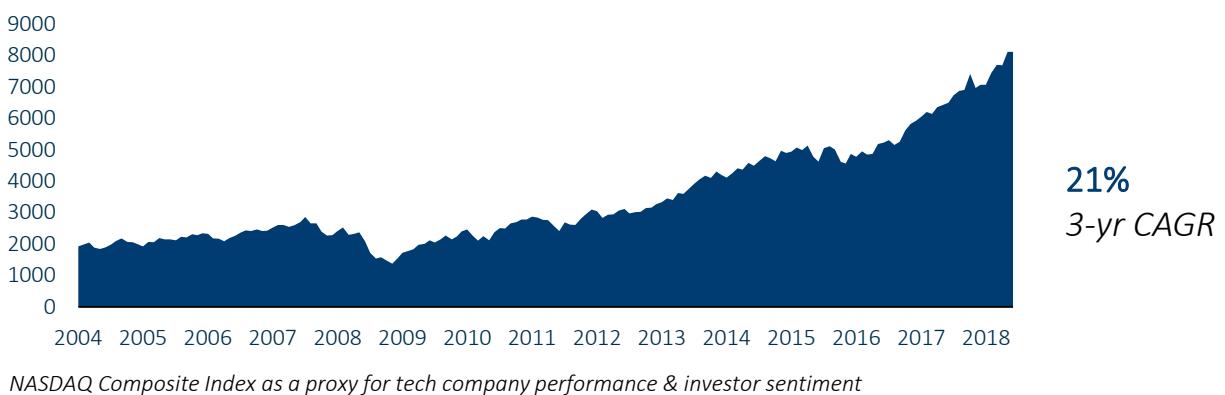


Context and review – M&A sentiment

Rebound in tech M&A

With high levels of investor confidence, a constant stream of innovation, relatively cheap capital, rapidly developing supporting technologies and a strong push to create earnings growth through acquisitions, one would expect technology M&A to continue to boom. However, overall trends have shown a correction from 2015's peak volumes and total deal values to a low in 2017 and finally a slight rebound during the first half of 2018. This correction and rebound is indicative of M&A's cyclical nature, however a strong 2H2018 may be an early warning-sign of investor sentiment being overly optimistic.

NASDAQ Composite Index 2004-Present



Technology M&A transaction volume and total disclosed value



2018 NASDAQ disconnect & outlook

Technology company performance and investor sentiment has generally had a strong correlation with disclosed tech M&A values since 2004. Since Q12016 however, there was a growing disconnect between these two metrics until 1H2018 delivered good M&A performance and several high-value transactions. Optimistic stock markets, low interest rates and indications of full M&A pipelines among investment bankers indicate that 2H2018 will follow the strong first half, causing a convergence back towards the NASDAQ. However, as the markets continue to go up, the risks of a coming correction grow.

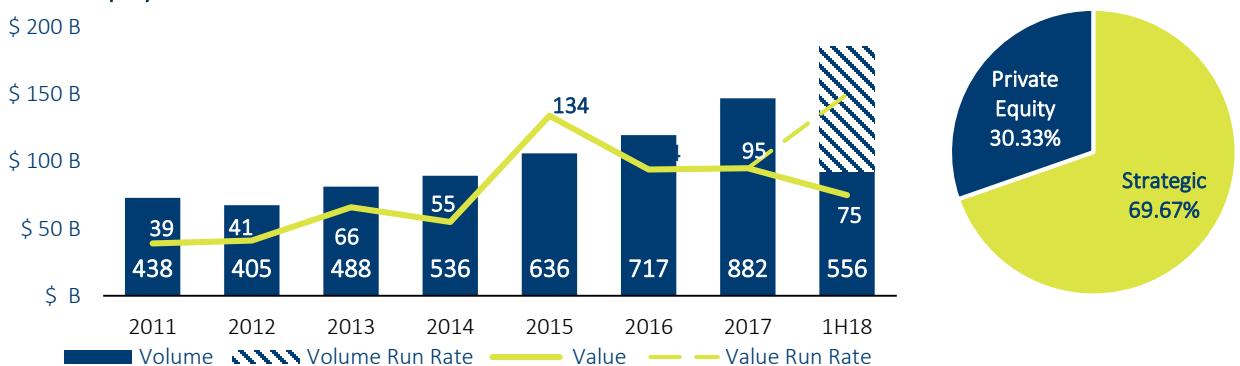


Current trends and drivers

The private equity feeding frenzy

While strategic investors significantly reduced their tech M&A spending in 2017, private equity firms have grown more confident and are showing their muscle in M&A bids with more cash than ever before. Private equity firms and their portfolio companies completed a total of 556 transactions during 1H2018, totalling 30 percent of all tech M&A. Nearly all 2H 2018 sector reports provided by Hambleton Partners reference increasing private equity activity as a trend that is expected to continue throughout 2018 and into 2019. According to research from the 451 Group, corporate buyers expect a significant increase in competition from PE firms in technology M&A bids over the coming year.

Private equity tech M&A



The flood of cash and strong competition to make returns among buyout funds have resulted in increasing valuations and higher levels of leverage placed on targets post acquisition. In addition, private equity firms have become increasingly present in mega deals such as the acquisition of Thomson Reuters Corporation for \$17 billion at 5.2x sales by Blackstone Group LP. This private equity boom is a worrying sign of a bubble, while low interest rates may allow this trend to continue as long as the assets remain sellable.

Hambleton Partners is bullish on tech M&A

Evidence suggests that the lower overall tech M&A volumes of 2016 and 2017 were an anomaly rather than a cyclical downturn, as shown by the divergence and convergence to the NASDAQ. As long as interest rates remain low and cash continues to pile up with both strategic and financial investors, we expect a continuation of the 2018 tech M&A rebound. The space will continue to see a high degree of consolidation in several industries, while new, upcoming technologies such as blockchain, AI/machine learning, autonomous/connected vehicles, big data, IoT, and cloud will bring fresh tech to the market.

In summary, Hambleton is bullish on tech M&A in for the coming twelve months, but we remain wary of bubble-like trends in private equity, debt levels and investor sentiment.



Outlook for 2018 to 2020

	Trends	Sector Outlook
	Volume	Valuations
	→	↑
	↑	↑
	↑	→
	↑	↑
	↑	↑
	→	→
	→	→
	↑	→



Automotive Technology

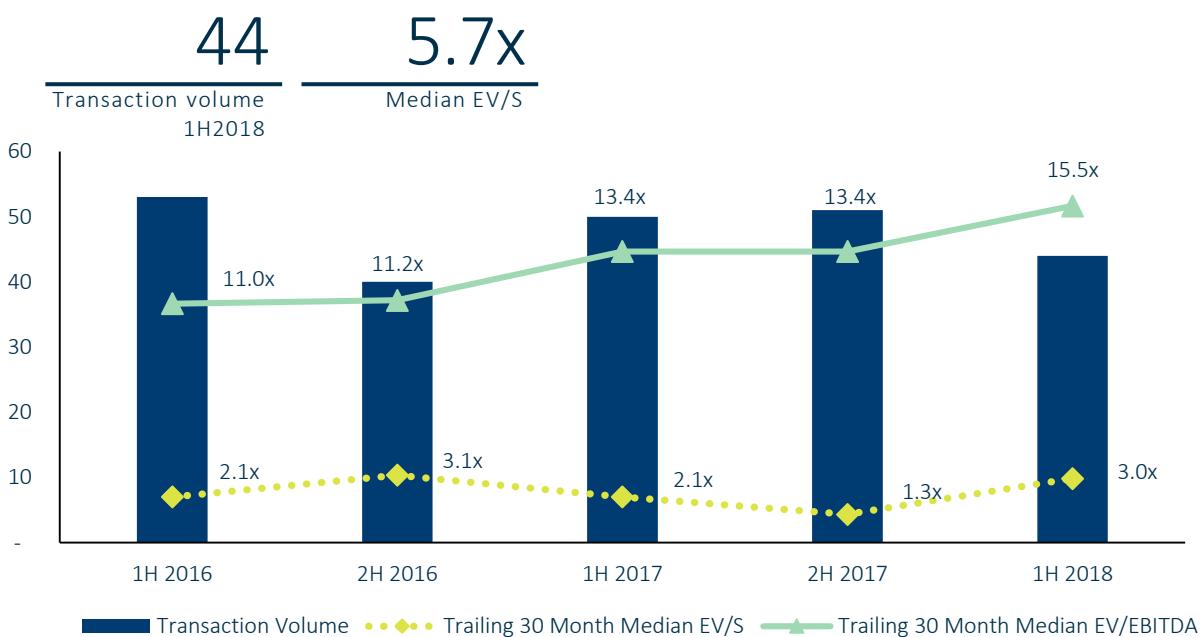
Stable deal volumes

The autotech sector has plenty of fuel for another prolific year of automotive M&A activity. Resilient transaction volume in the first six months of 2018 means the year is already on track to match previous years, which have delivered roughly 100 transactions per annum.

There is a constant flow of technologies coming out of innovative start-ups and established businesses in a race to win a market share of the new world order in the auto industry.

Acquiring tech capabilities

The future of cars is increasingly autonomous and connected as a host of stakeholders ramp up M&A efforts to stay ahead of the market. Where there is a rapidly changing technology market, incumbents and challengers alike are vying for a foothold in a market that will soon enter a shakeout phase. The pie-in-the-sky notion that cars will be driving themselves is quickly becoming a reality: the question is, whose badge will adorn the grille?



David Riemenschneider
Director
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"We anticipate an active year in Autotech, and the first several weeks of 2018 have certainly not disappointed. The next few years will continue at a similar pace, with 2018/19 likely being the peak of the Autotech M&A boom."

Download the Automotive technology report or any other sector report at <https://hambletonpartners.com/research/>



Digital Marketing

Transaction volume continues its upward trajectory, edging ever closer to its former peak in 2015. With 185 announced acquisitions, it was up 20.1% compared to the same period last year. At the same time, the trailing 30-month median EV/S multiple increased from 1.6x to 1.8x. Consulting firms such as Accenture and IBM remain acquisitive in the space, announcing three acquisitions between them. Meanwhile, private equity firms' share of deals is also on the rise, increasing consistently since the middle of 2016 and representing a quarter of all transactions for the first time on record.

Digital Agencies and Marketing Services Providers

With talent being a scarce resource in the market, skilled teams of more than 40-50 people become a natural target.

97
Transaction volume
1H2018

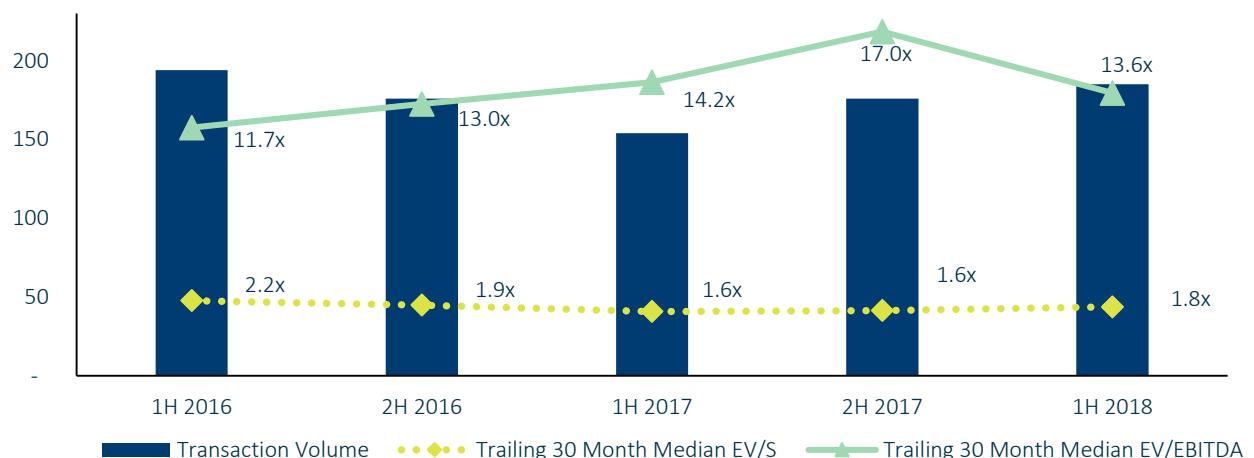
1.5x
Median EV/S

Marketing Application Software

Artificial intelligence is expected to revolutionize the sector in the form of chat bots, voice assistants and mass customization

88
Transaction volume
1H2018

2.5x
Median EV/S



"Now that mobile and desktop advertising revenue has surpassed that of TV, the next few years are poised to see technology drive change in not just how digital marketing services are delivered, but also by whom."

Ralph Hübner
Marketing & E-Commerce Sector
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Download the Digital Marketing report or
any other sector report at
<https://hambletonpartners.com/research/>



E-Commerce

The rebound in transaction volume seen in 2018 is emblematic of companies positioning themselves to fend off Amazon's online dominance. As competition intensifies, strategic deals are enabling established retailers and online players to buy out competitors or snap up individual retail niches.

Meanwhile, private equity investment has gone from strength to strength as more buyout funds chase huge returns from the digitalisation of struggling brick-and-mortar retailers and from expanding the reach of nimble digital players.

Going forward, a string of distressed buys in the e-commerce sector, alongside ever-rising demand from consumers in India and China, is likely to encourage further deals.

Internet & Information Services

137
Transaction volume
1H2018

3.1x
Median EV/S

Media, Entertainment & Retail

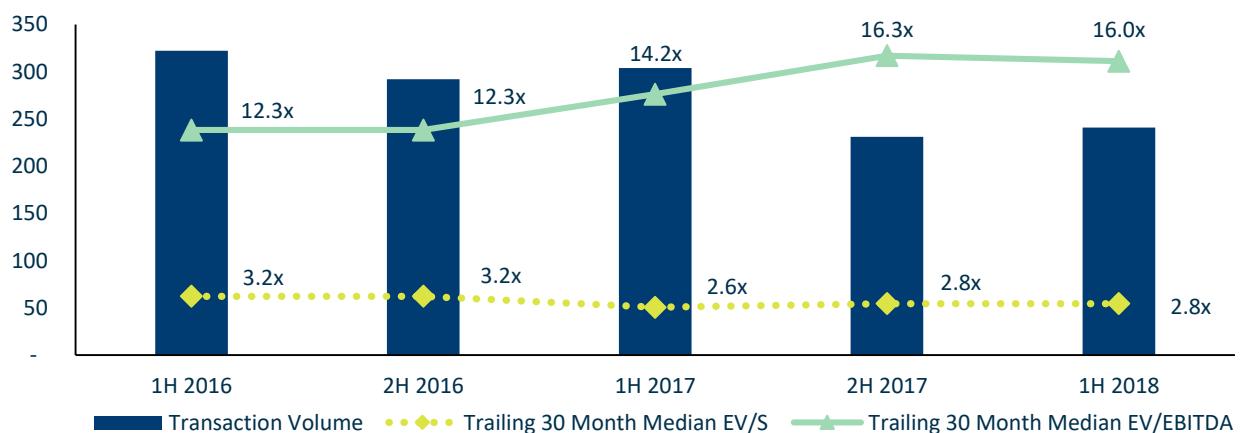
41
Transaction volume
1H2018

1.7x
Median EV/S

Social Networking

63
Transaction volume
1H2018

3.8x
Median EV/S



"After a phase of consolidation within the sector, we now expect more cross-channel and cross-vertical activity. The merger of digital marketing and e-commerce will be a driver for the next few years. Overall, we expect a stable e-Commerce M&A market."

Download the E-Commerce report or any other sector report at

<https://hambletonpartners.com/research/>

Ralph Hübner
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Enterprise Software

The ongoing digital migration continues to foster strong growth in the enterprise software industry, as firms shift more of their IT budget to software as a service (SaaS), affecting all corners of business from commerce to data storage. With much of this investment historically led by software and cloud companies, new players – many of them supported by financial investors – are fast-moving in on the space to push the boundaries of what used to be impossible.

Business Intelligence & Customer Analytics

54	3.7x
Transaction volume 1H2018	Median EV/S

Enterprise Networking & Storage

35	2.1x
Transaction volume 1H2018	Median EV/S

Vertical Applications

175	3.3x
Transaction volume 1H2018	Median EV/S

Enterprise Resource Planning

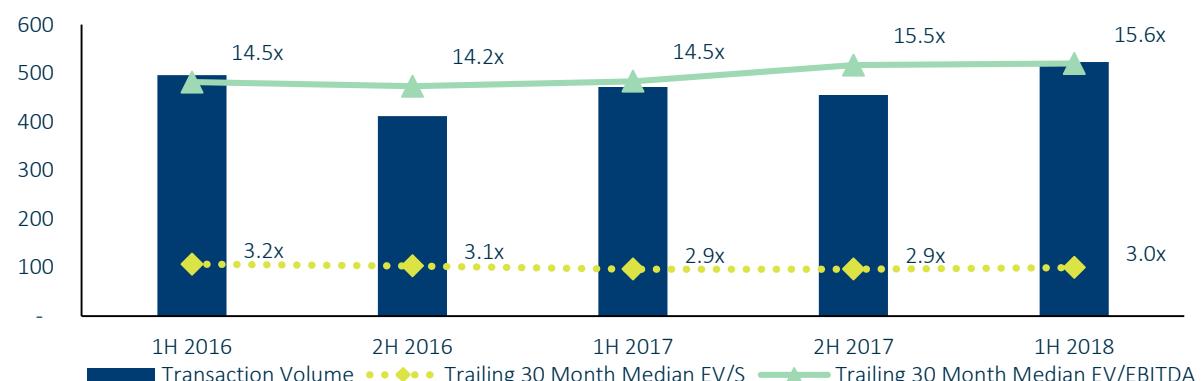
157	3.5x
Transaction volume 1H2018	Median EV/S

Information Management

76	2.6x
Transaction volume 1H2018	Median EV/S

Design, PLM, Project & portfolio management

26	4.6x
Transaction volume 1H2018	Median EV/S



“Private equity activity has reached record levels, setting new highs for fundraising and PE is turning away money faster than ever. PE funds have masses of dry powder, leading many to bid heavily against strategic acquirers. We expect strong competition from buyout funds moving forward, putting upward pressure on enterprise software valuations.”

**Download the Enterprise Software report
or any other sector report at
<https://hambletonpartners.com/research/>**

Miro Parizek
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Fintech

Transaction values high in Fintech

M&A activity in the Fintech sector remains stable with 141 transactions noted in 1H2018. The total disclosed transaction value however surged to \$39 billion due to big ticket transactions such as Blackstone's acquisition of Thomson Reuters for \$17 billion. This is up 26% from the prior half year period and more than a tripling year-over-year.

European banks step up

With Europe's challenger banks acting aggressively to fuel growth, banks are also stepping up with deals aimed at updating legacy infrastructure by targeting software companies across a range of segments from capital markets and trading to sales and accounting.

Enterprise financial software

52 Transaction volume 1H2018	6.4x Median EV/S
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Fintech IT Services

39 Transaction volume 1H2018	2.6x Median EV/S
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Online Financial Services

50 Transaction volume 1H2018	14.7x Median EV/EBITDA
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Mike Woods
Sector Principal
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"We expect waves of digital disruption driven by investment in chatbots, machine learning and artificial intelligence as well as in blockchain technology, gaining momentum with growing interest from large banks and private equity bidders."

Download the Fintech report or any other sector report at [hambletonpartners.com - Fintech](http://hambletonpartners.com)



Healthtech

Values and valuations on the rise

Transaction volume in the sector remained steady compared to 2H2017, but was up 26% year-over-year. The trailing 30-month revenue multiple remained stable as well, inching down slightly from 2.8x in 2H2018 to 2.7x in 1H2018. Its EBITDA equivalent slightly decreased as well but remained in line with what we have seen over the last two years.

Five multi-billion dollar deals in the healthtech sector pushed the total disclosed transaction value to \$13.4 billion. In comparison, there were just three disclosed deals valued at a billion or more the prior half year and just one such deal in the first half of 2017.



Jonathan Simnett
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"The response of the incumbents in healthtech to a new competitive pressure will undoubtedly be to increase the intensity of their M&A activity with a resulting upward pressure on valuations."

Download the Healthtech report or any
other sector report at
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High Tech Industrials & Industry 4.0

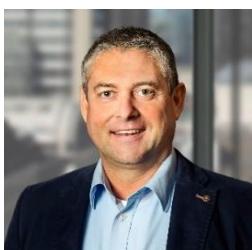
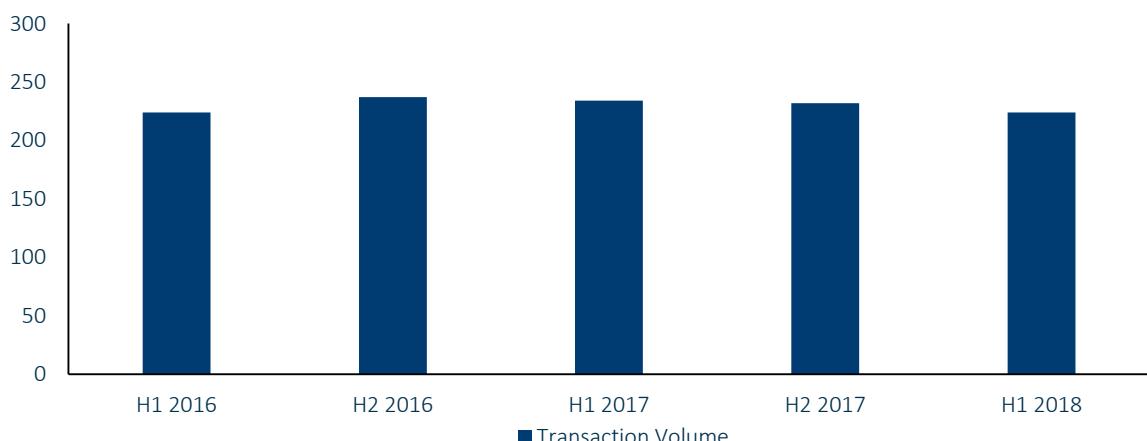
A consolidating industry

Industry 4.0 means going beyond traditional manufacturing processes and increasing the level of automation and inter-operability within and between factories. This includes technology that enables machines, sensors and devices to interface and work together over the Internet of Things to achieve unachievable results like individualized mass production, all the while giving an unprecedented level of insight and control into the production process. The industry's strong M&A volume is currently driven by a heightened degree of consolidation, a flurry of new tech solutions, and traditional market players in need of modernisation.

Traditional manufacturers buying tech

Traditional companies are continuing to expand into technology based industries via M&A. Headline grabbing examples include Walmart's purchase of Jet.com for \$3 billion and Unilever's acquisition of Dollar Shave Club for \$1 billion.

In a transaction recently advised by Hambleton, the traditional manufacturer Heidelberger Druckmaschinen made a similar move to strengthen its industry 4.0 and digital platforms offering by acquiring DOCUFY software.



"Industry 4.0, now closer to a fact of life for manufacturers than a dream, is driving M&A in the High Tech Industrials sectors, especially in the German-speaking world where the DACH countries can flex their traditional strength in high-quality engineering and innovative high-tech products."

Dr. Peter Baumgartner
Sector Principal, High-Tech
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Download the Industry 4.0 report or any other sector report at
<https://hambletonpartners.com/research/>



IT Services

Public sector IT spending on the rise

IT services companies with capabilities in cloud solutions, cybersecurity and analytics are all tipped for big revenue increases on the back of rising US government spending on IT infrastructure, and M&A activity has followed suit so far this year. The industry's largest transaction in 1H2018 was the \$9.7 billion sale of IT services giant CSRA to US defense contractor, General Dynamics.

The total disclosed transaction value hit yet another record - \$39 billion - in 1H2018. This makes it the top performing half-year period on record. Total value was up 67% year-over-year and up 23.8% from 2H2017.

Integration Services

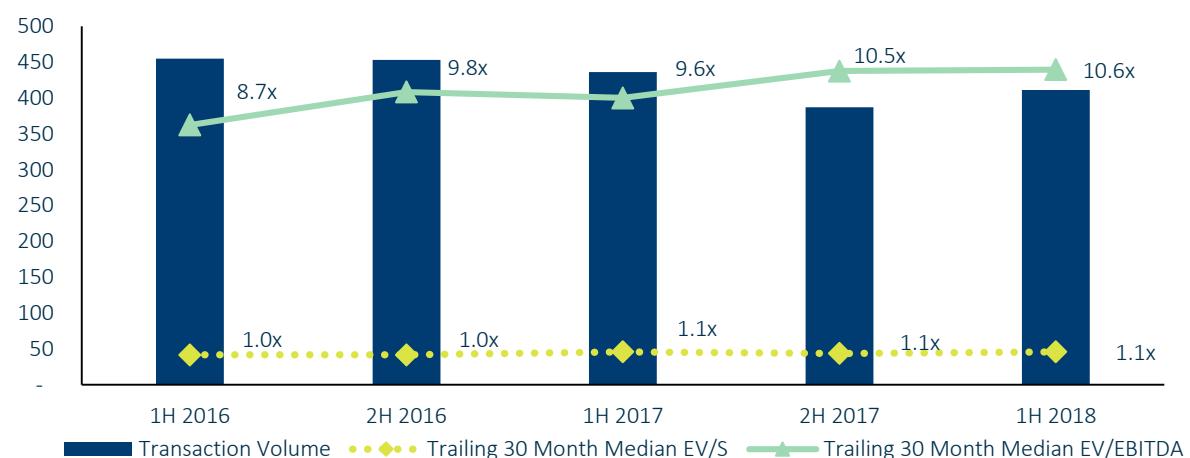
92	17.3x
Transaction volume 1H2018	Median EV/EBITDA

IT Outsourced Services

147	9.4x
Transaction volume 1H2018	Median EV/EBITDA

Tech Services & Support

172	10.8x
Transaction volume 1H2018	Median EV/EBITDA



"In most companies, cybersecurity continues to be handled internally, however, internal resources are becoming scarcer and more expensive, and the knowledge required to keep up with IT security is growing even faster. We therefore expect to see an increasing number of interesting transactions in this segment, which will continue to drive deal flow and maintain valuations."

Download IT Services report or any other sector report at

<https://hambletonpartners.com/research/>

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About Hambleton

At the forefront of technological innovation

Hambleton is an international M&A and corporate finance advisory firm serving technology companies.

Hambleton was established with the purpose of assuring its clients the greatest likelihood of success; providing the broadest reach coupled with the highest degree and quality of service locally. Hambleton achieves this through its strong team of local resources and strategic specialised expertise, while leveraging its intercontinental reach.

Our team has extensive experience working internationally and running global processes. Hambleton maintains offices in key geographies with senior executives in the United States, United Kingdom, Scandinavia, and Germany.

A selection of recent transactions where Hambleton acted as sole financial advisor to the target company:

spectris has acquired 	automotive engineering iav has acquired 	CERTARA has acquired 	ZURICH has acquired 
Vehicle Simulation	HPC Managed Services	Data Visualisation	Connected Car Platform
HEIDELBERG has acquired 	 zalando has acquired 	DESCARTES has acquired 	 has acquired 
Industry 4.0	Digital Marketing	E-Commerce	Embedded Systems Simulation



Hambleton produces regular reports on M&A activity in the following sectors

- ▶ AR/VR
- ▶ Digital Marketing
- ▶ Healthtech
- ▶ Artificial Intelligence
- ▶ E-Commerce
- ▶ Industry 4.0
- ▶ Automotive Technology
- ▶ Enterprise Software
- ▶ Internet of Things
- ▶ Cybersecurity
- ▶ Fintech
- ▶ IT Services

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Data Sources: We have based our findings on data provided by industry recognised sources. Data and information for this publication was collated from the 451 Research database (www.451research.com), a division of The 451 Group. For more information on this or anything else related to our research, please email the address provided below.

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