

MARKET ANALYSIS

2010 Tech M&A Analysis Report

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IDC OPINION

2010 was a turnaround year for technology M&A activity, after slowing down during the recession period of 2007–2009. The recovery has been seen across the board, reflected in increasing volumes and values of deals. In accordance, there were \$44+ billion deals in 2010. Many of these megadeals were in the service provider networks segment of the telecom and mobile infrastructure markets as well as in IT infrastructure areas such as security, storage, and middleware. A combination of factors made 2010 a remarkable year in terms of both volumes and values of deals. First and foremost, IT spending has rebounded from the global recession. As confidence is regained, major technology vendors are using their huge amounts of cash to expand their businesses through acquisitions. This trend is evident in healthy M&A valuations, reflecting the fact that acquisitions are now much more strategic in nature compared with previous years, when acquirers were mainly pursuing opportunities to buy struggling companies at low prices. Major 2010 ICT M&A trends include the following:

- ☒ Internet companies stood out as notable active acquirers in 2010. Google has led the pack with 27 deals, followed by AOL (9), Facebook (8), Groupon (8), and Zynga (7). The return of major IT vendors to the M&A scene had a significant impact on the market sentiment. IBM, Oracle, HP, Intel, Cisco, and Dell were joined by VMware in displaying a renewed appetite for acquisitions. Quite surprisingly, Microsoft kept a low profile with only two acquisitions in the fourth quarter. As it faces intense competition across all business lines, we believe that Microsoft will take a more active role in acquisitions in 2011.
- ☒ Disruptive technologies such as cloud computing, virtualization, mobile computing and devices, and social networking are blurring the lines between "products" and "services," consumer and enterprise technologies, mobile and Internet content, and other domains. The increasing convergence between technology domains is gradually leading to more unified IT and telecommunication environments while triggering intense M&A activity.
- ☒ Many acquisitions are driven by established vendors and services companies that look to broaden the scope of their offerings to address a larger market opportunity. But there is also a more prosaic side to this story. For organizations, adopting new groundbreaking technologies means additional layers of complexity on top of already complicated environments. As a result, they are favoring to work with major players that can address most of their needs by providing a broad range of solutions spanning all aspects of their ICT infrastructure.

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IN THIS STUDY

Methodology

This IDC study provides an overview and analysis of M&A deals in 2010 across all major sectors of the information and communication technology (ICT) industry, including enterprise IT infrastructure, telecommunications, enterprise applications, IT services, semiconductors and components, Internet, and mobile. It also discusses the different business, financial, and technology trends affecting M&A activities in the ICT industry. This study also includes an accompanying Excel file detailing all major deals in ICT, providing details on over 1,900 deals in 2010.

Note: All numbers in this document may not be exact due to rounding.

SITUATION OVERVIEW

2010 Global ICT M&A Trends

This summary of 2010 M&A activity is our first industrywide study that covers all ICT fields. In our previous 1H10 reviews, we noticed significant uptick in M&A activity in the fields of security, cloud, mobile, and Internet. This time, as we look at the broader picture, we can conclude that 2010 was a turnaround year for ICT M&A activity, after slowing down during the recession period of 2007–2009. In 2010, there were 1,934 ICT M&A deals across all sectors, including \$44+ billion deals, representing a significant increase from previous years (see Table 1).

TABLE 1

Top 20 M&As, 2010

Date	Acquirer	Target Company	Deal Value (\$M)	Market	Segment
April	CenturyLink	Qwest Communications	22,400.0	Telecom	Service provider networks
January	América Móvil	Telmex	21,000.0	Telecom	Service provider networks
March	Bharti Airtel	Zain Africa	10,700.0	Mobile	Service provider networks
May	Telefónica	Brasilcel	9,560.0	Mobile	Service provider networks
August	Intel	McAfee	7,680.0	IT infrastructure	Security

TABLE 1

Top 20 M&As, 2010

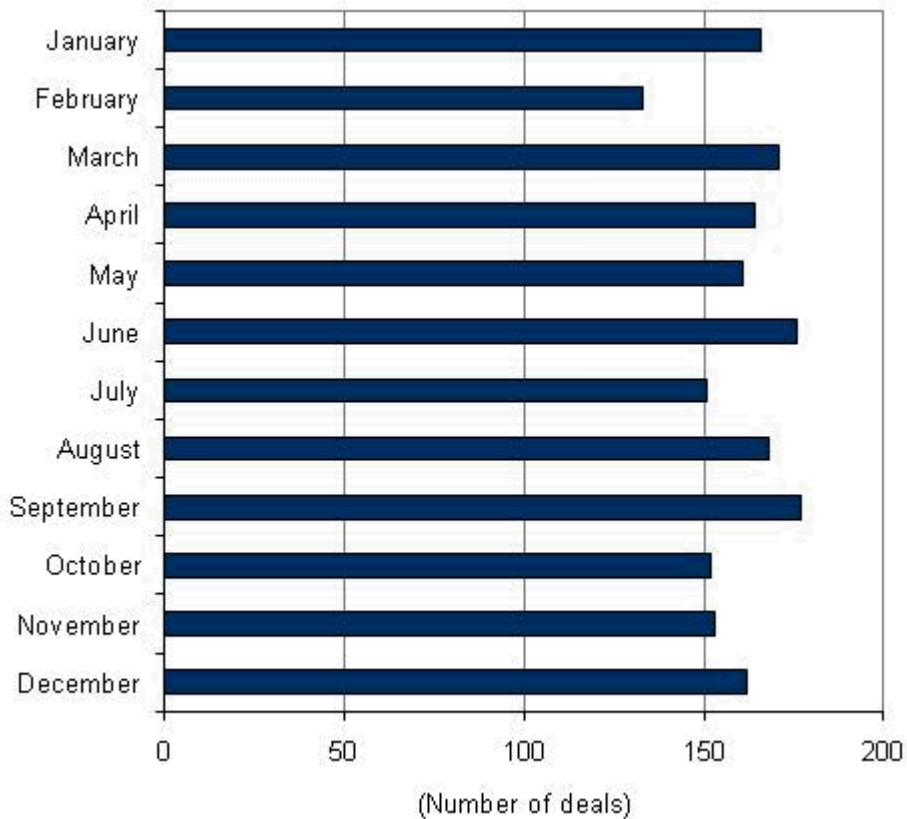
Date	Acquirer	Target Company	Deal Value (\$M)	Market	Segment
October	VimpelCom	Weather Investments	6,600.0 (pending)	Mobile	Service provider networks
May	SAP	Sybase	5,800.0	IT infrastructure	Middleware
July	AON	Hewitt Associates	4,829.0	IT services	HR BPO
January	KDDI	Liberty Global's stake in Jupiter Telecommunications	4,000.0	Telecom	Service provider networks
October	Carlyle Group	CommScope	3,900.0	Telecom	Telecom infrastructure
May	Silver Lake and Warburg Pincus	Interactive Data Corp.	3,400.0	Enterprise applications	Vertical application (finance)
September	CVC Capital Partners	Sunrise Communications (TDC)	3,250.0	Telecom	Service provider networks
August	Advent International and Bain Capital	RBS WorldPay	3,200.0	Enterprise applications	Vertical applications (finance)
July	NTT	Dimension Data Holdings	3,200.0	IT services	NA
July	BC Partners and Silver Lake Partners	MultiPlan	3,100.0	IT services	Healthcare IT services
October	Carlyle Group	Syniverse	2,600.0	Mobile	Messaging
August	HP	3PAR	2,350.0	IT infrastructure	Storage
November	EMC	Isilon Systems	2,250.0	IT infrastructure	Storage
November	Attachmate	Novell	2,200.0	IT infrastructure	Systems and network management
July	Hexagon	Intergraph	2,125.0	Enterprise applications	Spatial information management

Source: IDC, 2011

Most M&A activity concentrated in the middle of the year with 501 deals in the second quarter and 496 deals in the third quarter, while the first quarter and the fourth quarter ended with 470 and 467 deals, respectively (see Figure 1).

FIGURE 1

M&A Deal Volumes, 2010



Source: IDC, 2011

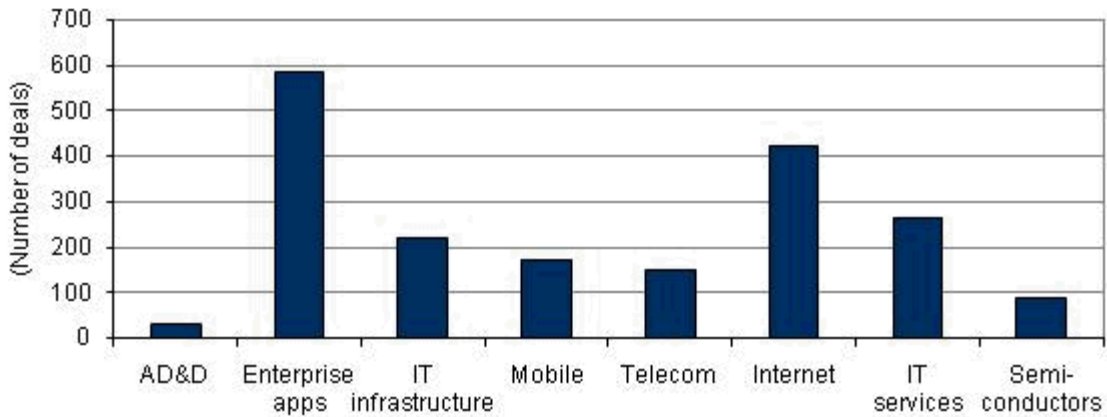
A combination of factors made 2010 a remarkable year in terms of both volumes and values of deals. First and foremost, IT spending has rebounded from the global recession (and is expected to further increase in 2011, according to IDC data). As confidence is regained, major technology vendors are using their huge amounts of cash to expand their businesses through acquisitions. This trend is evident in healthy M&A valuations, reflecting the fact that acquisitions are now much more strategic in nature compared with previous years, when acquirers were mainly pursuing opportunities to buy struggling companies at low prices.

The vast majority of deals were concentrated in application-related areas, including enterprise applications (586 deals) and Internet (421 deals), as well as mobile, wherein 57 of the 174 acquisitions tracked in 2010 were in the mobile applications

space. But M&A activity has also surged in the infrastructure side, and the number of 219 IT infrastructure deals in 2010 well manifests this trend. The diversity of deals shows that as the ICT industry is transforming, vendors and services companies are rapidly moving to fill in gaps and obtain the required capabilities across all fields (see Figure 2).

FIGURE 2

M&As Breakdown by Sector, 2010

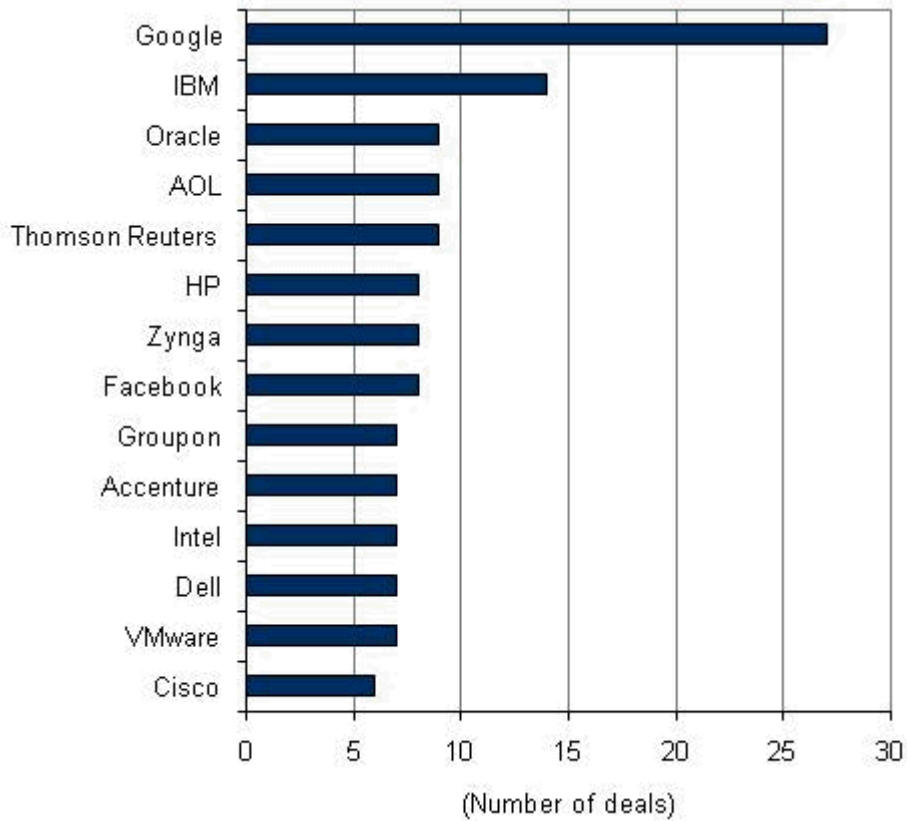


Source: IDC, 2011

In terms of most active buyers, Internet companies stood out in 2010 (see Figure 3). Google has led the pack with 27 deals, followed by AOL and Facebook with 9 deals each, Groupon (8), and Zynga (7). The return of the major IT vendors to the M&A scene had a significant impact on the market sentiment. IBM, Oracle, HP, Intel, Cisco, and Dell were joined by VMware in displaying a renewed appetite for acquisitions. Quite surprisingly, Microsoft kept a low profile with only two acquisitions in the fourth quarter. As it faces intense competition across all business lines, we believe that Microsoft will take a more active role in acquisitions in 2011 (see Figure 3).

FIGURE 3

Most Active Acquirers, 2010



Source: IDC, 2011

2010 also saw increasing values and volumes of private equity (PE) M&A deals, including several billion-dollar-plus acquisitions. The most active PE firm was Marlin Equity Partners with five acquisitions, followed by Thoma Bravo with three. Most PE deals were in the enterprise application segment, followed by telecom, but overall acquisition activity was diverse and spanned all major technology fields. Another indication of the ICT industry recovery is the IPO market. More than 40 companies went public in 2010 — more than double compared with the previous year (see Table 2).

TABLE 2

Notable Private Equity Deals, 2010

Date	Acquirer	Target Company	Deal Value (\$M)	Market	Segment
October	Carlyle Group	CommScope	3,900.0	Telecom	Telecom infrastructure
May	Silver Lake and Warburg Pincus	Interactive Data Corp.	3,400.0	Enterprise software/IT	Enterprise applications
September	CVC Capital Partners	Sunrise Communications (TDC)	3,250.0	Telecom	Service provider networks
August	Advent International and Bain Capital	RBS WorldPay	3,200.0	Enterprise software/IT	Enterprise applications
July	BC Partners and Silver Lake Partners	MultiPlan	3,100.0	IT services	Healthcare IT services
October	Carlyle Group	Syniverse	2,600.0	Mobile	Messaging
April	Cerberus Capital Management	DynCorp	1,500.0	IT services	Government IT services
June	Cablevision Systems	Bresnan Communications (Providence Equity Partners)	1,370.0	Telecom	Service provider networks
March	ABRY Partners	RCN	1,200.0	Telecom	Service provider networks
October	Veritas Capital	Lockheed Martin's Enterprise Integration Group	815.0	IT services	Government IT services
August	HgCapital	TeamSystem	747.0	Enterprise software/IT	Enterprise applications
June	Thoma Bravo and Ontario Teachers' Pension Plan	SonicWALL	717.0	Enterprise software/IT	Security
September	Hellman & Friedman	Internet Brands	640.0	Internet	Consumer Internet and ecommerce
November	Veritas Capital	CPI International	525.0	Telecom	Satellite

TABLE 2

Notable Private Equity Deals, 2010

Date	Acquirer	Target Company	Deal Value (\$M)	Market	Segment
August	GI Partners and SoftLayer Technologies management	SoftLayer Technologies	450.0	Enterprise software/IT	Hosting infrastructure
April	Oak Hill Capital Partners	ViaWest	420.0	Enterprise software/IT	Hosting infrastructure
August	Welsh, Carson, Anderson & Stowe	Peak 10	400.0 (estimated)	Enterprise software/IT	Hosting infrastructure
September	Sovereign Capita	Enable Infomatrix	NA	Enterprise software/IT	Security
August	Thoma Bravo	LANDesk	NA	Enterprise software/IT	Systems and network management

Source: IDC, 2011

IT Transformation Drives Cross-Industry Convergence

Technologywise, our tech M&A analysis shows increasing cross-industry convergence and consolidation, which already started in 2009 and has significantly intensified in the past year. At first glance, it appears that everyone is buying everyone — IT services companies buying software vendors, software players acquiring hardware vendors, networking vendors acquiring their way to the application tier, mobile companies moving into telecom, and vice versa.

Many cross-industry transactions may seem a little out of the blue as they bring together companies from industries that traditionally had limited overlap, if at all. This made industry watchers scratch their heads more than once throughout the year (and Intel-McAfee is not the only case). However, there is an interesting story behind these "anomalies" that is attributed to what appears to be the beginning of a major transformation of the ICT industry.

As we already noted in our previous M&A coverage of specific tech domains, there are several major trends that undermine the traditional structure of the technology markets. Disruptive technologies such as cloud computing, virtualization, mobile computing and devices, and social networking are heralding a new model of enterprise IT. One of the most important attributes of the new model is that it enables a much broader audience of users to easily consume and utilize IT without really mastering the underlying bits and bytes.

Beyond altering the way IT is used within organizations, this transformation has far-reaching implications on the traditional balance of forces in the IT industry. To a large extent, the new order challenges the traditional distinction between technology domains. For example, cloud computing blurs the lines between "products" and "services;" consumer and enterprise technologies are converging as more and more organizations make use of social networks, Web 2.0 tools, and so forth.

These convergences are gradually leading to a more unified ICT environment while serving a major trigger for M&A activity. Indeed, many acquisitions nowadays are driven by established vendors and services companies that look to broaden the scope of their offerings to address a larger market opportunity. But there is also a more prosaic side to this story. For organizations, adopting new groundbreaking technologies, especially as they are still far from reaching maturity, means additional layers of complexity on top of already complicated environments. As a result, they are increasingly favoring to work with major players that can address most of their needs by providing a broad range of solutions spanning (preferably) all aspects of their ICT infrastructure.

This customer-driven shift has sparked an arms race within the IT industry, as major players are rapidly expanding to create these end-to-end combinations. The move toward "converged infrastructure," defined by IDC as the bundling of server, storage, network, operating system, hypervisors, and management, is one notable example of such convergence that is spurring M&A activity. Furthermore, in 2010, we have seen bidding wars between industry leaders over lucrative targets (e.g., HP and Dell for 3PAR and probably in the case of McAfee and others), as they look to take pole position in this race.

As data becomes ubiquitous and cloud services are available to users regardless of platform and device, the lines are also beginning to blur between pure consumer Web and mobile players. Content providers from both domains add assets to serve users better. Yet, since traditionally Web entities are more established, they are more often found on the acquirer side, buying their mobile counterparts. Internet market bellwethers such as Google and Facebook are looking at the mobile sector as a business opportunity and are increasingly seeking lucrative acquisition targets in these domains.

The need for new revenue engines is also driving regional consolidation. For example, the growing saturation of mature mobile markets has sent many of the world's leading carriers to scour for new global business opportunities, often finding them in Africa, Latin America, and Southeast Asia. Cheap to buy and economic to maintain, mobile phones adoption is rising significantly in emerging markets, as they sometime serve as a substitute for both the fixed phone and the PC for voice and data connectivity.

In accordance, 2011 has seen massive megabillion-dollar deals concerning cross-border deals — some, like the acquisition of Zain Africa assets by Bharti Telecom and Telefónica takeover of Brasilcel, made it through, while others, such as the VimpelCom-Weather Investments deal, are still pending. However, the race for more subscribers and bigger global market share does not necessarily mean higher profitability rates, as global carriers need to attend to local regulation, adjust to

different revenue structure, and keep an eye for political stability. A similar picture is evident in the IT services market, which has seen several major cross-border deals — again, mainly in the emerging markets of Latin America and Southeast Asia.

"Big Data" = Big Challenges

IDC predicts that in 2011 the "digital universe" — the amount of information and content created and stored digitally — will grow to 1.8ZB in 2011, up 47% from 2010, and rocket toward over 7ZB by 2015 (see *IDC Predictions 2011: Welcome to the New Mainstream*, IDC #225878, December 2010). Digital video and image creation and replication, accounting for over 90% of the growth in 2011, will be the real driving force — including the impact of transition to digital TV around the world. This is continuing to deluge networks and datacenters, creating opportunities for whoever figures out how best to manage and analyze all of this unstructured information.

The social media domain provides an interesting manifestation of this issue, which is commonly referred to as the "Big Data" challenge. At its essence, social media enables millions of users to publish content, interact with one another, and expand their social graph. Such interactions translate into billions of data units, some of which becomes irrelevant after a period of time and some update on a regular basis.

Converting these sheer amounts of ever-flowing bits of data into tangible information (e.g., for supporting various marketing requirements) creates significant technological challenges, ranging from the collection, structuring, and storing of data to analyzing and catering it.

Scouring myriad data units across vast numbers of social media Web sites requires carefully designed crawlers and a massive bucking processing power. Even when focusing only on pre-determined destinations, the scale of data collected is substantial as user-generated content (UGC) tends to grow at alarming rates.

Transforming unstructured data into coherent, standard-based information is essential for storing and analyzing purposes. Although some of the data could be easily structured, the social media is saturated with user-generated text that needs to be organized. Text analytics and semantic analytics techniques must be employed to bridge the gap between chaos and order.

Managing and storing vast amount of terabytes is done by many companies and organizations and is nothing new. However, things get complicated when adding the real-time ingredient. With traditional database architectures, the organization snaps a mirror of a data source in a given moment; it's applying the changes from the source as quickly as possible, and making them available for analysis and queries is the real pain.

Analyzing the gathered data and transforming it into valuable information is the heart of advanced analytic applications (including predictive analytics), social media marketing tools, decision management solutions, and others. While customers may be unaware of most of the technological processes working in the background, what they see and could relate to is the final product. Vendors need to employ sophisticated analytical methods that are both fast and accurate and are able to deal with a plethora of data. Contextual, semantics, and behavioral analytics are all

methods that vendors in this space should utilize to scrutinize and examine online interactions, behaviors, and content publishing.

In 2010, we have started to see some M&A activity that is aimed at addressing the Big Data challenge. For example, the major storage deals of 2010 — HP-3PAR (\$2.35 billion), EMC-Isilon (\$2.25 billion), NetApp-Bycast (not disclosed), and Dell-Compellent (\$960 million) all revolved around scale-out architectures, which are essential for effectively handling massive amounts of data. In addition, SAP's \$5.8 billion acquisition of Sybase, which provided SAP with assets such as columnar database for high-performance reporting and analytics and in-memory database technology, is also highly relevant for this matter.

Big Data was also a key driver for several noteworthy deals in the analytics space, and especially in areas that relate to customer and marketing data. The Web analytics and marketing automation areas continued to see major acquisitions, following deals such as Adobe-Omniture and IBM-SPSS from previous years. IBM continued to play a key role here with the acquisitions of marketing automation vendors Unica (\$480 million) and Coremetrics (not disclosed). IBM also made an important data warehousing deal, acquiring data warehousing vendor Netezza for \$1.7 billion. This move was aimed at helping IBM compete more effectively against the likes of Oracle and Teradata. The latter also made a notable Web analytics deal in 2010 when it acquired Unica's main competitor, Aprimo, for \$525 million.

In another interesting related deal, EMC acquired data warehouse and analytics software vendor Greenplum (for an estimated sum of \$400 million). This deal further reflects EMC's expansion into the upper layers of the IT stack. Utilizing its presence in the storage tier as well as its strong data and content management assets, the integration of data warehouse and analytics into the pack will enable it to address the aforementioned Big Data opportunity.

Another interesting deal that emphasizes the need for real-time analytics was Twitter's acquisition of Smallthought Systems, the creator of the Dabble DB database. The acquisition was mainly aimed at Smallthought's Trendly, an analytical dashboard service, which will enable Twitter to incorporate analytics into commercial Twitter accounts to provide customer with real-time marketing insights.

Enterprise Applications

The enterprise applications market is undergoing major changes, driven mainly by the rapid adoption of SaaS. This revolution is well manifested in recent enterprise applications M&A trends, as traditional players are looking to obtain SaaS capabilities through acquisitions.

As SaaS is rapidly crossing the chasm into mainstream adoption, many companies are already providing dual offerings or are in the process of migrating their solutions to the cloud. As a result, it is becoming impractical to tell who is — and especially who is not — a SaaS vendor. In fact, according to our rough (and conservative) estimates, at least half of the 586 enterprise applications deals in 2010 were associated with SaaS. This is why we no longer look at SaaS as a standalone market in our M&A analysis.

However, moving into SaaS might be a bumpy ride for on-premise software vendors, which many of them are pursuing a strategy that ideally combines on-premise and SaaS offerings. Although it is too soon to draw definitive conclusions, it appears that this hybrid model involves significant challenges. SaaS and on-premise software represent entirely different business and revenue models. They also dictate different operational approaches, software development and support cycles, sales, marketing and channel strategies, and so forth. In other words, each model requires a different company DNA. Getting the two models to coexist under the same roof is a task that not many vendors can do successfully.

In fact, we believe that for the most part, the hybrid model is mainly feasible for very large enterprise applications vendors that have the resources to sustain this duality. This does not mean, however, that midsize on-premise players cannot successfully play in the SaaS field. For them, a more suitable alternative can be to spin off a SaaS activity or acquire a SaaS company and operate it as a subsidiary. We are also seeing an increasing number of small software vendors that restart as SaaS vendors.

Naturally, these dynamics are manifested in enterprise applications M&A trends. In 2010, established on-premise players continued to acquire their way into the cloud. Notable examples include Oracle's acquisition of healthcare SaaS vendor Phase Forward for \$685 million. Oracle also acquired CRM vendor Art Technology Group, which has been moving to provide SaaS solutions, for \$1 billion. CDC Software continued its SaaS shopping spree of recent years, acquiring Information Development Consultants, TradeBeam, Computility, and PeoplePoint. It also partnered and invested in supply chain management SaaS vendor eBizNET.

Apart from these transactions, the enterprise applications market leaders were relatively less active in M&As in 2010. On the other hand, the leading SaaS pure-players were highly involved. Salesforce.com, for example, acquired three start-up companies to enrich its CRM offering — Etacts (email contact management), Activa Live (chat software), and Jigsaw Data (customer master data management). It also acquired Heroku and Sitemasher for its PaaS offering.

The two largest enterprise applications transactions of 2010 were PE deals — the acquisition of Interactive Data Corp. by Silver Lake and Warburg Pincus for \$3.4 billion and the acquisition of RBS WorldPay by Advent International and Bain Capital for \$3.2 billion. Both deals were related to financial industry.

Other notable enterprise applications private equity deals include Kohlberg Kravis Roberts-Visma ASA (\$1.9 billion), SSI Investments-SkillSoft (\$1.55 billion), TPG Capital-Vertafore (\$1.4 billion), and HgCapital-TeamSystem (\$747 million).

"SaaSification" Continues

Perhaps the most conclusive indication for the impact of SaaS on the enterprise applications M&A scene is the fact that the strongest M&A fields within enterprise applications are highly associated with SaaS. For example, of the 586 enterprise applications we tracked in 2010, 293 were vertical specific. As we noted in our previous coverage of the cloud computing M&A arena, the SaaS model has created a "long tail" effect, which is manifested in the ability to reach and capitalize on niche

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