



Solganick & Co.

Technology and Digital Media
Investment Banking + M&A Advisory



Software M&A Update

Q4 2017 and 2018 Outlook

February 23, 2018

Table of Contents

- M&A Market Brief – Page 3
- The Year 2017 in Review – Page 4-6
- Outlook for 2018 – Page 6-7
- Technology and Software M&A – Page 8
- Notable Software M&A Transactions in Q4 – Page 9
- Ten Most Active U.S. Software Acquirers – Page 10
- Publicly Traded Software Firms (Valuation Table) – Page 11-13
- M&A Spotlight: Aconex / Oracle – Page 14
- M&A Spotlight: BroadSoft / Cisco System – Page 15
- Buyout Spotlight: ABC Financial Services / Thoma Bravo LLC – Page 16

DISCLAIMER

Solganick & Co. is an independent investment banking and M&A advisory firm focused exclusively on the global software, IT services and digital media industry sectors. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

Sources for our research and data include: Dealogic, ValueWalk, Thomson Reuters, Company Websites, SEC Filings, MergerMarket, Berkery Noyes, Deloitte, Fortune, 451 Research, Law360, medium.com, Vista Point

M&A Market Brief

2017 Global M&A achieved \$3.57tn in deal value, exceeding \$3tn for the fourth straight year. Global tech M&A was valued at over \$500bn, and ranked the most active M&A sector in 2017.

Worldwide

- Global M&A deal value during 2017 Q4 **decreased 3.2%** from 2016 Q4.
- In 2017, there were 6,459 cross-border deals worth \$1.32 trillion, a **1.3% drop** compared to 2016. However, the share of cross-border deals as a percentage of global M&A was the **second highest percentage (41.9%)** since the financial crisis.
- It was the first time in 10 years that the global M&A market **reversed a long-term trend of outperforming the MSCI world Index**.
- 2017 Q4 saw 12,558 M&A transactions, which accounted for **41% of all individual transactions occurring in the quarter**.

United States

- In 2017, the US remained the **most active region in M&A**, with over \$1.4tn in deals.
- U.S. M&A activity in 2017 Q4 **decreased 29.7%** from 2016 Q4.
- The average EV/EBITDA multiple of US M&A deals in 2017 reached **13.2x**, tying 2014 as the **highest average EV/EBITDA multiple recorded**.
- The top M&A sector in 2017 was **TMT (\$92bn)**, followed by financial services (\$85.06) and energy, mining and utilities (\$69.34).
- 2017 Q4 closed with two mega deals in December: CVS's acquisition of Aetna (\$77bn) and Disney's acquisition of Fox (\$66.1).

Software

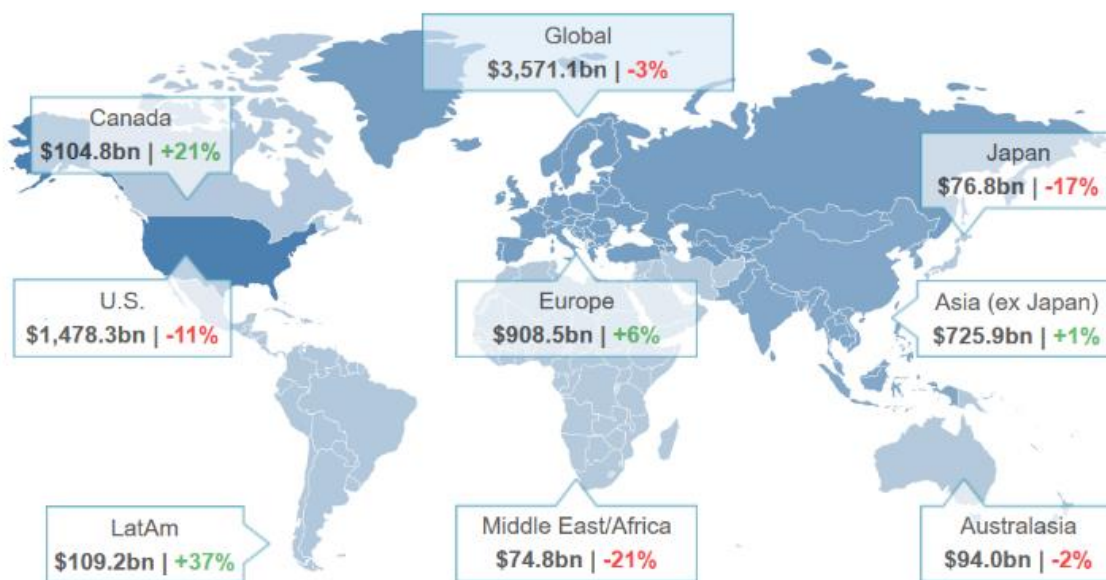
- In 2017, the sector median revenue multiple was **2.3x**, and the median EBITDA multiple was **13.3x**.
- In 2017 Q4, global strategic software M&A registered 402 acquisitions, remaining in-line with the prior quarter and representing a **15% increase** over 2016 Q4.
- Google was the most active strategic acquirer in 2017 with 13 completed transactions.
- Cisco Systems was responsible for two of the top ten largest acquisitions in this industry sector: AppDynamics for \$3.9bn and Broadsoft for \$1.87bn.

The Year 2017 in Review

Global and U.S. M&A activity slowed down in 2017. The global M&A transaction value continued to grow for the 4th consecutive year, while the transaction volume continued to decline since 2015. The total deal value in U.S. also declined by 11%. Yet, foreign buyers had a strong M&A presence in North America, as they accounted for 22% of the overall buyer base. This is because the U.S. market showcased strong growth and stability, while foreign strategic targets presented lackluster organic opportunities. This trend represents a considerable opportunity for middle market sellers.

The total value of global technology M&A activities, though slightly declined over 2016, remained the most active transaction sector of all.

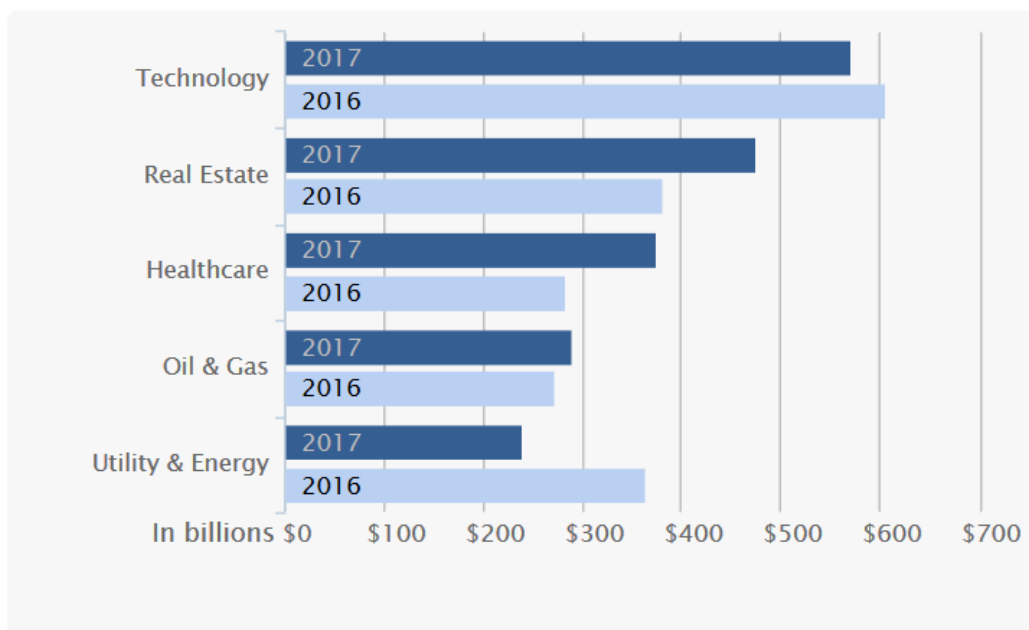
Fig 1. Global M&A Deal Value – Regional Comparison



Updated Jan 29, 2018 1:23 am EST

Source: Dealogic

Fig 2. M&A Activity by Sectors



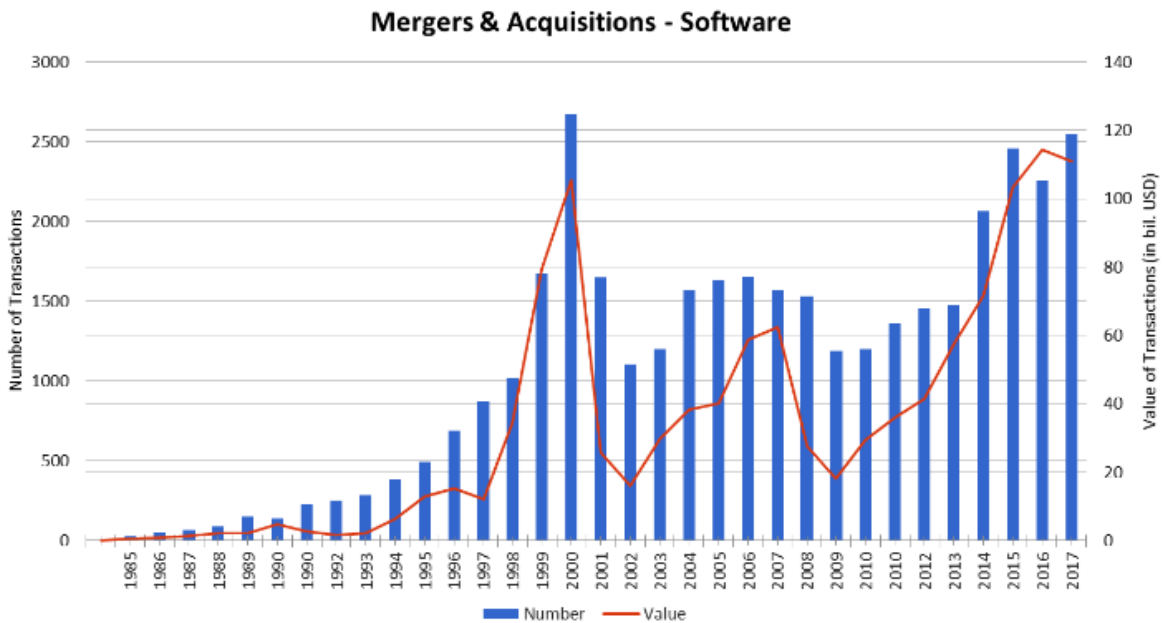
excludes spin-offs

Source: Dealogic

For the software market, the **total M&A transaction volume in 2017 increased by 4%** over 2016, from 2,100 to 2,191. However, **total transaction value in 2017 declined by 16%** over 2016. The transaction activity in the sector started strong in Q1 2017 with many deals valued at over a billion dollars. Deal values and volume slowed down during Q2 and Q3 but seemed to pick back up in Q4. While the strategic deal volume remained constant, the private equity backed deal volume increased by 22% over the year. Yet, the majority of transactions remained strategic (78% of the total volume in 2017), which has been the trend for the past three years. The “niche software” market had significantly larger transaction volume than the other segments: business software, infrastructure software and consumer software. (BN Software Report)

Both deal volume and value decreased in Q4 2017 over Q4 2016 by 21% and 42% respectively. The scenario of multi-billion dollar deals that happened in 2016 were not matched in 2017. Notable deals in the space include Cisco's acquisition of BroadSoft for \$1.7 billion, Elliot Management's acquisition of Gigamon for \$1.6 billion, and Thoma Bravo's acquisition of Barracuda Networks for \$1.6 billion. (JEGI Transaction Database and 451 Research LLC)

Fig 2. Software M&A Activity by Year



Source: Institute for Mergers, Acquisitions and Alliances

Outlook for 2018

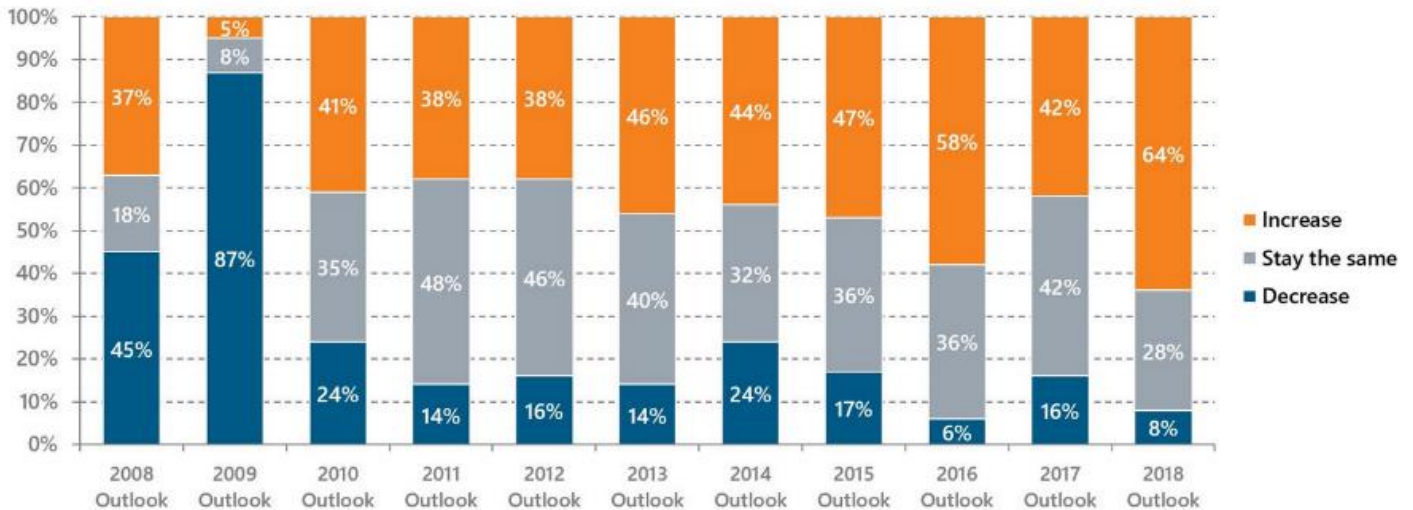
M&A activity slowed in 2017 but is anticipated to pick back up in 2018. Enterprise security is expected to be the most active sector within the technology M&A space. According to a survey conducted by 451 research, most bankers expect technology M&A valuation to stay the same, with only 33% of them expecting higher valuations and 23% expecting lower valuations. (451 Research)

Private equity firms have more funds than ever to use for acquisitions. Therefore, technology M&A is expected to be continuously driven up by PE buyouts in 2018 for the 5th consecutive year. In addition, PE firms are also starting to invest in the relatively early-stage, cash burning businesses that they rarely ever touched before. Though less strategic buyers are involved in technology M&A, the new tax plan approved in December 2017 does favor corporate acquirers.

Fig 3. P.E. M&A Outlook

Projected competition from PE firms for target companies

Source: 451 Research Tech Corporate Development Outlook Survey



The tax reform announced in December 2017 will enable companies to bring back cash held overseas at lower rate, which could potentially stimulate more transactions or transactions with higher value. While Microsoft, Oracle and SAP have the most cash in stock, VMware and Red Hat, for instance, are also stockpiling their cash. Furthermore, the rising interest rate environment may scale back stock market gains, resulting in a more affordable pricing of the target companies for acquirers. Microsoft, Oracle, Adobe Systems, Cisco and other software giants will continue announcing strategic acquisitions to capture market share.

Technology and Software M&A

Acquisition of technology assets is currently the main strategic driver for M&A activity. Of over 1,000 executives at corporations and private equity firms Deloitte surveyed, 20% ranked acquiring technology assets as the primary reason for acquisition, followed by expanding customer base, and developing new products and services. Therefore, cross-industry transactions targeting technology companies will become more prevalent.

SaaS companies appear to be the fastest growing ones in the software industry sector. The SaaS market grew by 23% in the first half of 2017, while the whole software market grew by 8%. Workday and ServiceNow are two of the most desirable target companies, despite their high valuations.

Table 1. Notable Software M&A Transactions, Q4 2017

Announcement Date	Target	Buyer	Target Description	Deal Size	EV/ Revenue	EV/ EBITDA
12/17/2017	Aconex Limited	Oracle Corporation	Construction software developer that connects teams on construction and engineering projects through its online platform. Provides web conferencing, team collaboration and content management SaaS, enabling sales teams to present materials to clients through online sales presentations and track customer engagement.	\$1200M	7.3x	198.2x
12/12/2017	Clearslide	Corel	Provides time-tracking and scheduling SaaS for small and medium-sized businesses, and the self-employed.	\$60M	1.7x	
12/5/2017	TSheets	Intuit	Developer of windows and Web based student information systems for postsecondary educational institutions. The company also offers financial aid consulting and loan management services.	\$340M		
11/28/2017	Financial Aid Management for Education, Inc.	Volaris Group	Provider of an imaging platform for the home furnishing and décor industry.	\$112M		
11/16/2017	Outward, Inc.	Williams-Sonoma, Inc.	Payment and software provider for the fitness industry.			
11/8/2017	ABC Financial Services, Inc.	Thoma Bravo LLC	The company's cloud integration solutions help professionals connect the applications, data and systems that help them do their jobs.	\$25M		
11/7/2017	Jitterbit	Kohlberg Kravis Roberts & Co. LP	Provider of carrier-grade messaging security and infrastructure solutions for fixed, mobile, and social networks.	\$110M		
11/7/2017	Cloudmark	Proofpoint	A virtual private network browser security application.			
11/6/2017	SurfEasy	Symantec	The company secures & manages open source software worldwide, eliminating open source security vulnerabilities & license compliance pain.	\$565M		
11/2/2017	Black Duck Software, Inc.	Synopsys, Inc.	Developer and Provider of asset management and geographic information systems.	\$45M		
10/31/2017	Data Transfer Solutions, Inc.	SNC-Lavalin Group, Inc.	Developer of software that enables mobile and fixed-line service providers to deliver real-time communications via their IP networks.	\$1900M	4.4x	66.4x

10/16/2017	Paradigm Ltd.	Emerson Electric Co.	Developer of exploration and production software for the oil and gas industry worldwide.	\$510M	
10/13/2017	RISA Technologies, Inc.	Nemetschek Ag	A popular structural engineering software suite in the US that develops cutting-edge structural design and optimization software.	\$25M	3.3x
10/10/2017	Tenmast Software	MRI Software LLC	Provider of public housing authority (PHA) and private affordable housing management software.		
10/6/2017	Cyence	Guidewire Software	The company empowers the insurance industry to understand the economic impact of cyber risk.	\$275M	
10/4/2017	AltspaceVR	Microsoft Corporation	Virtual reality software company		

Source: Mergr.com & Crunchbase

Table 2. Ten Most Active U.S. Software Acquirers – Q4 2017

Company	# of Acquisitions
Thoma Bravo	4
Emerson Electric	3
Amazon	2
LLR Partners	2
GP Strategies	2
MRI Software	2
Togetherwork	2
The Glimpse Group	2
PDI	2
Higher Logic	2

Source: CB Insight

Publicly Traded Software Firms, Valuation Table

(Average EV/EBITDAs are calculated excluding the companies with negative EV/EBITDA)

Enterprise Software	Stock Price (as of 12/29)	Market Cap (\$USD mm)	Enterprise Value (EV) / Revenue	EV/EBITDA
Microsoft Corporation [MSFT]	\$85.57	\$715,450	7.4	21.2
Oracle Corporation [ORCL]	\$47.28	\$210,954	5.3	13.7
Pegasystems Inc. [PEGA]	\$47.15	\$3,963	4.7	68.4
Red Hat, Inc. [RHAT]	\$121.04	\$23,269	8.1	42.5
SAP SE [SAP]	\$112.36	\$127,090	4.8	18.9
SS&C [SSNC]	\$40.48	\$10,283	7.5	20.1
Average (Mean)			6.3	30.8

Banking and Financial Software	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV / Revenue	EV/EBITDA
CA Technologies Inc. [CA]	\$33.28	\$14,879	3.7	12.6
CoreLogic, Inc. [CLGX]	\$46.21	\$3,941	2.9	14.1
NCR Corp. [NCR]	\$33.99	\$4,548	1.1	8.4
DST Systems Inc. [DST]	\$62.07	\$5,040	2.7	13.8
Fidelity National Information [FIS]	\$94.09	\$34,275	4.6	16.9
Fiserv, Inc. [FISV]	\$131.13	\$29,705	6.2	19.6
Genpact Limited [G]	\$31.74	\$6,569	2.8	16.4
Jack Henry & Associates [JKHY]	\$117.29	\$9,670	6.7	21.6
Average (Mean)			3.9	15.4

CRM	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
Microsoft Corporation [MSFT]	\$85.57	\$715,450	7.4	21.2
Oracle Corporation [ORCL]	\$47.28	\$210,954	5.3	13.7
Salesforce.com, Inc. [CRM]	\$102.23	\$81,064	8.2	146.5
SAP SE [SAP]	\$112.36	\$127,090	4.8	18.9
Average (Mean)			6.4	50.1

Security Software	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
CA Technologies Inc. [CA]	\$33.28	\$14,879	3.7	12.6
Check Point Software [CHKP]	\$103.62	\$17,065	8.5	17.1
FireEye Inc. [FEYE]	\$14.22	\$2,787	3.7	-19.7
Fortinet, Inc. [FTNT]	\$43.69	\$7,954	4.7	39.5
Imperva, Inc. [IMPV]	\$39.70	\$1,480	3.7	-170.2
Progress Software Corporation [PRGS]	\$42.57	\$2,341	5.8	16.4
Red Hat, Inc. [RHT]	\$121.04	\$23,269	8.1	42.5
Symantec Corp. [SYMC]	\$28.06	\$16,504	4.6	35.2
Average (Mean)			5.4	20.4

Software - NEC	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
BroadSoft, Inc. [BSFT]	\$54.9	\$1,745	4.4	66.5
CA Technologies Inc. [CA]	\$33.28	\$14,879	3.7	12.6
CommVault Systems, Inc. [CVLT]	\$52.50	\$2,418	3.0	403.54
PTC Inc. [PTC]	\$60.77	\$8,469	7.4	75.48
Splunk Inc. [SPLK]	\$82.84	\$12,843	10.5	-47.4
Average (Mean)			5.8	139.5

HR/HCM Software	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
Cornerstone OnDemand [CSOD]	\$35.55	\$2,375	5.2	-49.8
Workday Inc. [WDAY]	\$101.74	\$22,255	11.4	-110.7
Average (Mean)			8.3	N/A

Business Intelligence & Analytics	Stock Price (as of 12/29)	Market Cap (\$USD mm)	EV/Revenue	EV/EBITDA
Teradata Corporation [TDC]	\$38.46	\$4,948	2.2	27.6
MicroStrategy Inc. [MSTR]	\$85.57	\$715,450	7.4	21.2
Average (Mean)			4.8	24.4

Source: PitchBook, NASDAQ, Yahoo Finance

Note: Average EV/EBITDA's are calculated excluding the companies with negative EV/EBITDA

M&A Spotlight



Aconex Acquired by Oracle for \$1.2B in Cash

DEC 17th, 2017- Oracle (NYSE: ORCL) announced that it has entered into an agreement to acquire Aconex Limited (ASX: ACX), a leading cloud-based solution based in Melbourne that manages team collaboration for construction projects, for AUD \$7.80 (about USD \$5.97) per share in cash. The transaction is valued at approximately US\$1.2 billion, net of Aconex cash. This price represents a 47% premium over Aconex's Friday closing price of AUD \$5.29 (about \$4.05).

The Aconex project collaboration solution digitally connects owners, builders, and other teams, providing complete visibility and management of data, documents and costs across all stages of a construction project lifecycle. Aconex has been used in over \$1 trillion in projects across 70,000 user organizations in over 70 countries.

The Oracle Construction and Engineering Cloud already offers customers the industry's most advanced solutions for planning, scheduling and delivering large-scale projects. Together, Oracle and Aconex will provide an end-to-end offering for project management and delivery that enables customers to effectively plan, build, and operate construction projects.

This transaction was Oracle's second acquisition of a cloud-based construction software maker, which was followed by its purchase of contract and payment management platform Textura for \$663 million in 2016. Oracle had combined Textura with its own construction management software, called Primavera, to form the Oracle Construction and Engineering Global Business Unit.

Source:

<https://techcrunch.com/2017/12/17/oracle-to-buy-construction-collaboration-software-maker-aconex-for-1-2b-in-cash/>

<https://www.oracle.com/corporate/pressrelease/oracle-buys-aconex-121717.html>



BroadSoft Acquired by Cisco System for \$1.9B in Cash

OCT 23, 2017 - Cisco (NASDAQ: CSCO) and BroadSoft (NASDAQ: BSFT) announced a definitive agreement for Cisco to acquire publicly-held BroadSoft, Inc., headquartered in Gaithersburg, MD. Pursuant to the agreement, Cisco will pay \$55 per share in cash, an aggregate purchase price of approximately \$1.9 billion net of cash, assuming fully diluted shares including conversion of debt. The acquisition has been approved by the board of directors of each company.

More and more businesses expect fully featured voice and contact center solutions with the ability to deploy them on premises or in the cloud. By combining BroadSoft's open interface and standards-based cloud voice and contact center solutions delivered via Service Provider partners, with Cisco's leading meetings, hardware and services portfolio, the combined company will offer best-of-breed solutions for businesses of all sizes and deliver a full suite of collaboration capabilities to power the future of work.

The acquisition of BroadSoft reinforces Cisco's commitment to Unified Communications and enhances its ability to address the millions of aging TDM lines poised to transition to IP technology and cloud native solutions over the coming years.

The acquisition is expected to close during the first quarter of calendar year 2018, subject to customary closing conditions and regulatory review. Prior to the close, Cisco and BroadSoft will continue to operate as separate companies. Upon completion of the transaction, BroadSoft employees will join Cisco's Unified Communications Technology Group led by Vice President and General Manager Tom Puorro.

Source:

<https://newsroom.cisco.com/press-release-content?articleId=1887125>

Buyout Spotlight



ABC Financial Services Acquired by Thoma Bravo LLC

NOV 8th, 2017 - Thoma Bravo, a leading private equity investment firm, announced that it will acquire ABC Financial Services, Inc. ("ABC Financial"), a software and payment processing company servicing more than 6,700 health clubs throughout North America and Europe. The transaction is expected to close in the fourth quarter of 2017, subject to usual and customary closing conditions and regulatory approvals. Financial details of the transaction were not disclosed.

ABC Financial is the nation's leading software and billing provider for the health and wellness industry. Its comprehensive software services include payment processing solutions and advanced health club management tools, such as DataTrak, that allow gym owners and managers to track and manage memberships, member and employee schedules, drive member engagement, and automate payment processing functions.

Thoma Bravo's investment is expected to enable ABC Financial to grow the services it offers to customers by scaling the company's operations and further developing its industry-leading suite of innovative software products. Leveraging its operational and technological expertise, Thoma Bravo plans to partner with ABC Financial's management team to expand the company's global footprint and ability to deliver cutting-edge products to the rapidly growing health and wellness industry.

Source:

<https://thomabravo.com/2018/01/02/thoma-bravo-completes-acquisition-of-abc-financial/>

<https://www.prnewswire.com/news-releases/thoma-bravo-to-acquire-abc-financial-services-inc-300551821.html>



About Solganick & Co.

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global software, IT services, and digital media industry sectors. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

Please contact us for information regarding this report or to inquire about an M&A transaction.



Solganick & Co., Inc.
811 W 7th Street, Ste 1200
Los Angeles, CA 90017
+1 (310) 684-3130
www.solganickco.com

Aaron Solganick, CEO
aaron@solganickco.com

Frank Grant, Managing Director
fgrant@solganickco.com

Rachael Fang, Vice President
rfang@solganickco.com

Alex Khoras, Director of Business Development
akhoras@solganickco.com

Sam Sheedban, Associate
sam@solganickco.com

Sergio Rivera Vazquez, Managing Director
srivera@solganickco.com

Follow Us on Twitter: @[Solganickco](https://twitter.com/Solganickco)