



technologyREPORT

INDUSTRY OVERVIEW

The macroeconomic headwinds of slowed growth both domestically and in BRIC and EMEA countries did not decelerate M&A activity in the technology sector in 1H 2014. Experts' mixed expectations for the sector were settled after Q2 posted a remarkable 90 US M&A transactions, about twice the typical quarterly deal volume.

Whereas deal volume soared, trading multiples cooled. With exception of the mega-deals, including the illustrious Facebook acquisition of WhatsApp for \$19 billion in February, average trading multiples for the sector dropped below 30.0x EBITDA, which, notably, is still nearly three times higher than the S&P 500 average. With large cash reserves and customer expectations driving demand for scale, large IT companies are targeting the middle market, looking for horizontal consolidation and integration into new technologies to fill product/solution gaps at a faster pace than through their own R&D.

It is difficult to expect that 2H 2014 M&A activity will match 1H, but middle market tech companies are positioned to experience exceptional activity. "If change was as easy as a directive, then the companies that made 1999's Fortune 500 list would not need to say goodbye to 238 of their peers a mere 10 years later."¹ Q2 results suggest that today's large companies are looking to M&A of middle market tech targets to remain relevant in an ever-changing business landscape.

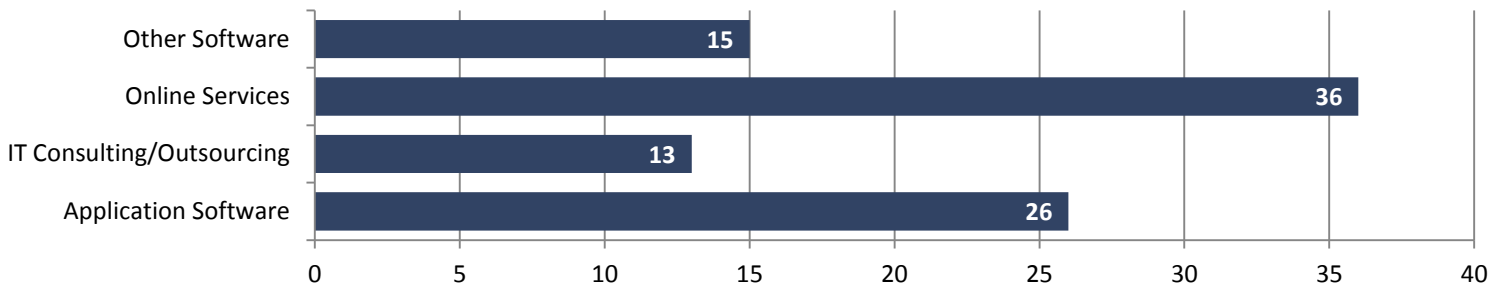
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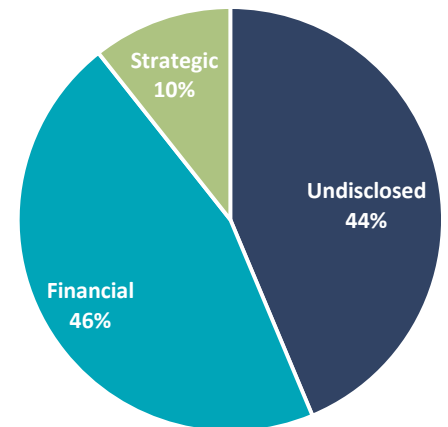
TRANSACTION HIGHLIGHTS

TRANSACTIONS # BY SEGMENT (Q2)



STRATEGIC VS. FINANCIAL TRANSACTIONS HIGHLIGHTS

STRATEGIC ACQUISITIONS	6.22.14	Oracle Corp. entered into a definitive agreement to acquire MICRO Systems, Inc. for \$5.1 billion in cash.
	5.27.14	Cubed, Inc. entered into a letter of intent to acquire WikiTechnologies, Inc. for \$9.1 million in cash.
FINANCIAL ACQUISITIONS	4.24.14	Warburg Pincus agreed to acquire an unknown majority stake in PayScale, Inc. for \$100 million.



¹Toby Elwin, "The Cost of Culture, a 50% Turnover of the Fortune 500," 2010

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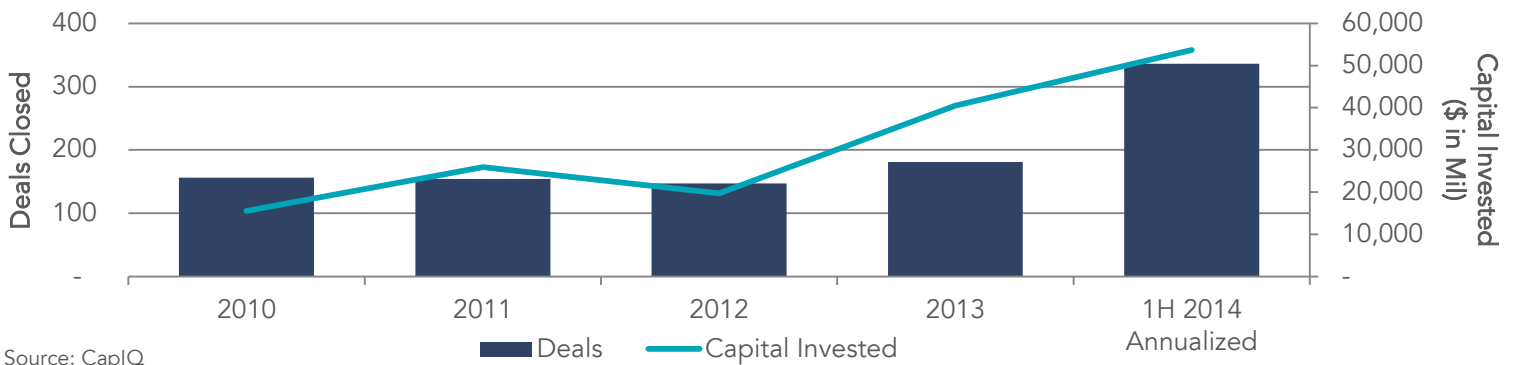


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TRANSACTION ACTIVITY

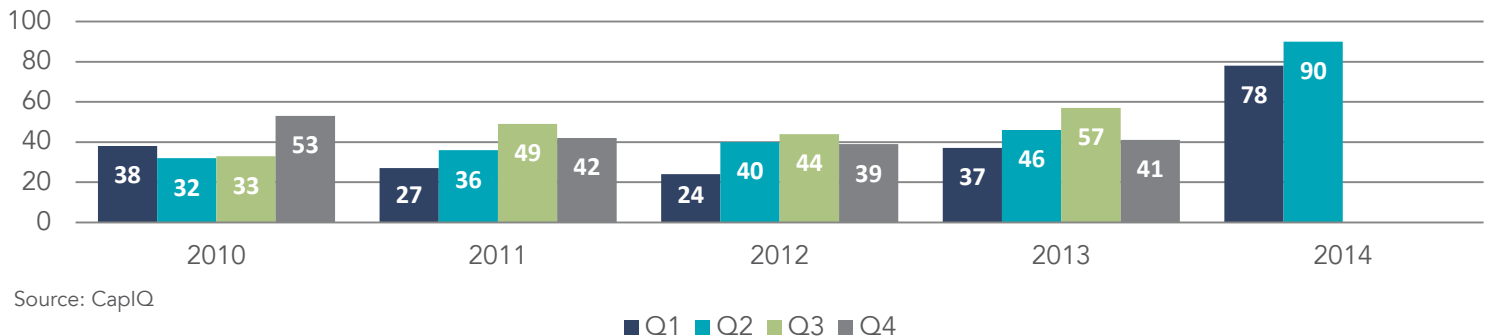
Date	Target	EV (\$mm)	Buyer	Brief
6.23.2014	MICROS Systems, Inc.	\$ 5,262.5	Oracle Corp.	Oracle Corporation entered into a definitive agreement to acquire MICROS Systems, Inc. from ValueAct Capital, LLC and other shareholders for \$5.1 billion in cash on June 22, 2014. Oracle agreed to pay \$68 per share for all the outstanding shares of MICROS. Option holders will get approximately \$180 million.
6.13.2014	OpenTable, Inc.	\$ 2,613.1	The Priceline Group Inc.	The Priceline Group Inc. entered into a definitive agreement to acquire OpenTable, Inc. for \$2.5 billion on June 12, 2014. The Priceline Group will pay \$103 per share of OpenTable. The Priceline Group will pay \$51.7 million in its own restricted shares as consideration for the restricted shares of OpenTable.
5.27.2014	WikiTechnologies, Inc.	\$ 9.1	Cubed, Inc.	Cubed, Inc. entered into a letter of intent to acquire WikiTechnologies, Inc. from Marco Garibaldi and Edward C. DeFeudis on May 2, 2014. Cubed, Inc. entered into a share exchange agreement to acquire WikiTechnologies, Inc. from Marco Garibaldi and Edward C. DeFeudis for \$9.1 million in cash and stock on May 22, 2014.
5.6.2014	ISG Holdings, Inc.	\$ 225.0	Xerox Corporation	Xerox Corporation signed a definitive agreement to acquire ISG Holdings, Inc. for approximately \$230 million on May 6, 2014. Under the transaction, Xerox will add StrataCare and Bunch CareSolutions to its portfolio.
5.2.2014	Fullscreen, Inc.	\$ 1,000.0	Relativity Media LLC	Relativity Media LLC made an offer to acquire Fullscreen, Inc. from Lerer Ventures, Comcast Ventures, The Chernin Group, LLC, WPP plc and other shareholders for approximately \$1 billion in cash on May 2, 2014.
4.24.2014	PayScale, Inc.	100.0	Warburg Pincus LLC	Warburg Pincus LLC agreed to acquire an unknown majority stake in PayScale, Inc. for \$100 million on April 24, 2014. As part of the deal, Warburg Pincus LLC is also investing new cash in PayScale. Warburg Pincus will acquire majority stake as a result of both the transactions which amount to approximately \$100 million.

US TECHNOLOGY M&A ACTIVITY



Source: CapIQ

TECHNOLOGY TRANSACTIONS # OF TRANSACTIONS BY QUARTER



Source: CapIQ

*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the industry.



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PUBLIC BASKET

Publicly traded tech companies made relatively few, though noteworthy, large platform acquisitions in 1H 2014, and instead focused on divesting non-core business and buying companies that enhance current offerings.

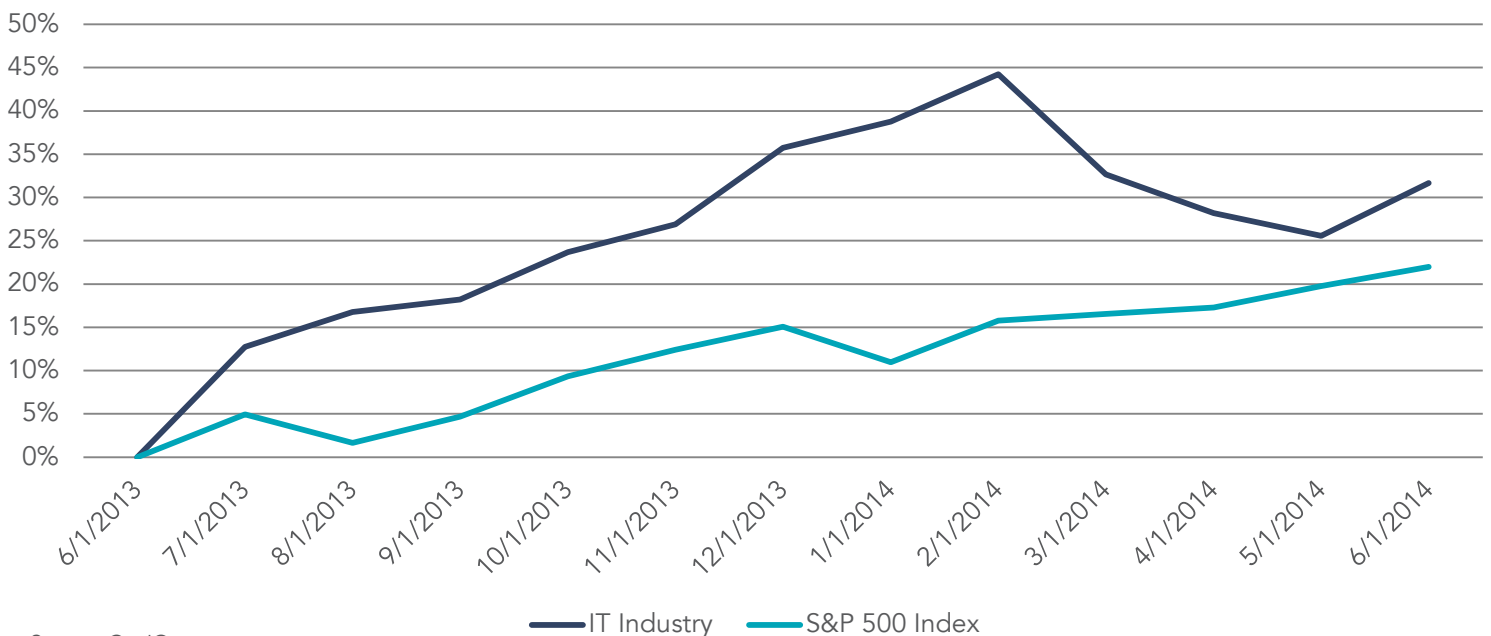
Among top performing players, Priceline Group (NASDAQ: PCLN) acquired OpenTable (NASDAQ: OPEN) for a 46% premium over its 06.12.14 closing price in order to further expand its core offerings. Meanwhile, Limelight Networks (NASDAQ: LLNW) sold its Web Content Management business to Upland Software to transition its energy on further expanding its content delivery capabilities. Since then, LLNW has increased 52%. Indeed, Wall Street favored companies with strategies aimed at enhancing core business.

Company	Symbol	State	Market Cap		Stock Price		Price/ LTM EPS	Price/ Book	Price/ Rev	Price/ EBITDA
			(\$ in Mil)	Date	Month Change	YTD Change				
UBIC, Inc.	TSE:2158	##	\$ 26,875	\$ 781.0	73.56%	195.61%	NM	7.7x	6.3x	NM
Shutterstock, Inc.	NYSE:SSTK	NY	\$ 3,044	\$ 86.5	32.96%	3.41%	113.6x	15.3x	11.0x	60.4x
China Finance Online Co., Ltd.	NasdaqGS:JRJC	##	\$ 95	\$ 4.3	30.18%	(32.11%)	NM	1.3x	1.1x	NM
Splunk, Inc.	NasdaqGS:SPLK	CA	\$ 6,320	\$ 53.3	27.33%	(22.38%)	NM	8.0x	16.6x	NM
MICROS Systems, Inc.	NasdaqGS:MCRS	MD	\$ 5,065	\$ 67.8	26.90%	18.16%	34.8x	4.3x	3.3x	16.8x
SAP AG	DB:SAP	##	\$ 67,536	\$ 56.6	0.65%	(9.53%)	21.4x	4.1x	4.0x	11.5x
eGain Corporation	NasdaqCM:EGAI	CA	\$ 162	\$ 6.4	(3.20%)	(37.89%)	NM	43.8x	2.3x	NM
Higher One Holdings, Inc.	NYSE:ONE	CT	\$ 170	\$ 3.6	(4.26%)	(63.11%)	8.1x	2.0x	1.2x	5.1x
Attunity, Ltd.	NasdaqCM:ATTU	##	\$ 116	\$ 7.8	(9.39%)	(24.52%)	271.9x	3.9x	3.5x	41.4x
Voltari Corporation	NasdaqCM:VLTC	NY	\$ 9	\$ 1.9	(21.90%)	(44.90%)	NM	NM	2.0x	NM
Average			\$ 10,939	\$ 106.9	15.28%	(1.73%)	89.9x	10.0x	5.1x	27.0x

Source: CapIQ

TECHNOLOGY INDUSTRY VS. S&P 500

RUNNING 12 MONTHS



Source: CapIQ



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INDUSTRY SEGMENTS

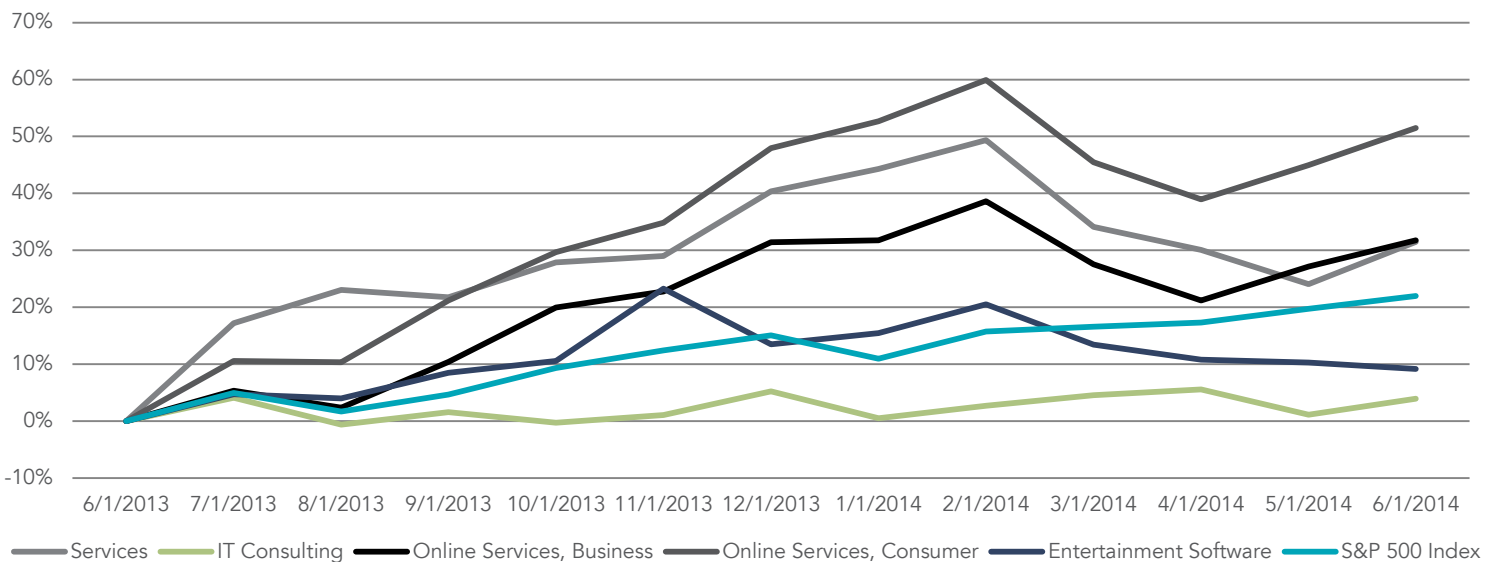
Incumbent IT players worked overtime to get more “cloud DNA” into their organizational structure this quarter, driving up trading multiples and share prices in the Systems Software segment. One of the most compelling case studies of the year has been the VMware (NYSE:VMW) acquisition of AirWatch, an enterprise mobile management software provider, on February 24th. VMW’s “hybrid” cloud allows companies to offer data centers and software to their customers via an integrated PC/mobile-device interface. With this acquisition, VMW is now touching the three most lucrative segments: Business Online Services, Systems Software and Consumer Online Services (by way of end users), and its share price, which is up nearly 50% from one year ago, reflects the market’s approval of that strategy.

Middle market software providers, which generally have latitude in organizational structure, can take advantage of a market that is frothy for online services and systems software. As larger players continue to access solutions through acquisitions – as opposed to R&D – targets will position themselves for exceptionally high trading multiples if they can demonstrate value in these areas.

Market Segment	Market Cap	Stock Price Delta			Price/ LTM EPS	Price/ Book	Price/ Sales	Price/ EBITDA
		Month	YTD	LTM				
Services	\$ 43,093	6.0%	(6.3%)	31.5%	26.80x	7.49x	2.29x	15.53x
IT Consulting	\$ 8,590	2.7%	(1.3%)	3.9%	26.80x	10.68x	1.61x	16.15x
Online Services, Business	\$ 8,684	3.6%	0.2%	31.7%	61.56x	5.54x	4.71x	35.30x
Online Services, Consumer	\$ 24,470	4.5%	2.4%	51.5%	40.18x	4.00x	4.86x	25.03x
Entertainment Software	\$ 22,149	(1.0%)	(3.8%)	9.2%	30.53x	2.28x	3.62x	12.26x
Data Processing	\$ 9,036	(0.5%)	(5.9%)	19.7%	27.12x	4.88x	2.86x	15.26x
Systems Software	\$ 14,708	1.5%	7.3%	24.1%	62.63x	8.53x	6.69x	34.42x
Industry Average	\$ 16,004	4.9%	352.1%	31.7%	54.63x	8.02x	4.74x	28.09x
S&P 500 Average	\$ 35,547	1.9%	6.0%	22.0%	27.94x	4.76x	3.14x	11.69x

Source: CapIQ

TECHNOLOGY SEGMENTS VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ

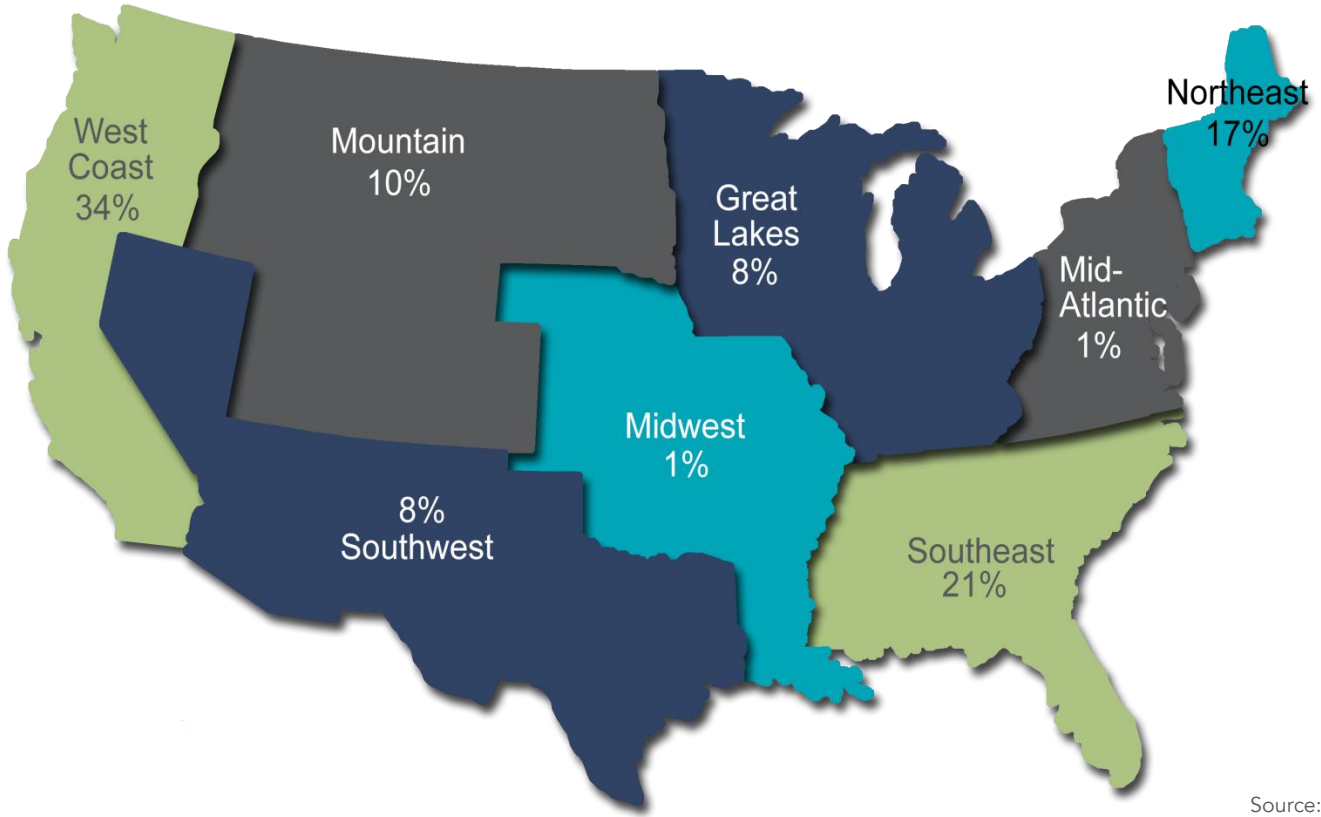


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INDUSTRY GEOGRAPHY

COMPANIES BY REGION

TECHNOLOGY COMPANIES BY REGION AS OF JUNE 30, 2014



Source: CapIQ

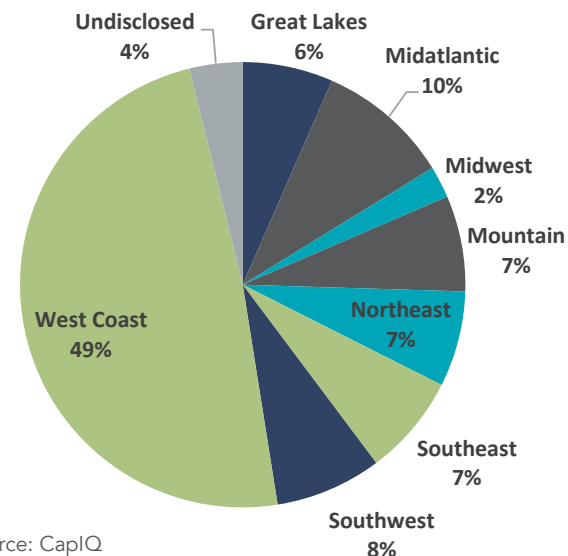
COMPANIES BY SIZE

State	Undisclosed	\$ 0 - 5 Revenue	\$ 5 - 10 Revenue	\$ 10 - 25 Revenue	\$ 25 - 50 Revenue	\$ 50 - 100 Revenue
AZ	104	22	227	10	0	1
CO	200	23	433	14	11	1
KS	42	3	80	0	2	0
ND	4	0	10	0	0	0
NE	0	0	0	0	0	0
NM	19	2	29	1	0	1
OK	27	3	68	1	1	0
SD	4	0	10	0	0	0
TX	88	12	237	4	1	1
UT	83	20	208	10	2	1
WY	1	0	11	0	0	0

*Revenue in millions

Source: CapIQ

TRANSACTIONS BY REGION



Source: CapIQ

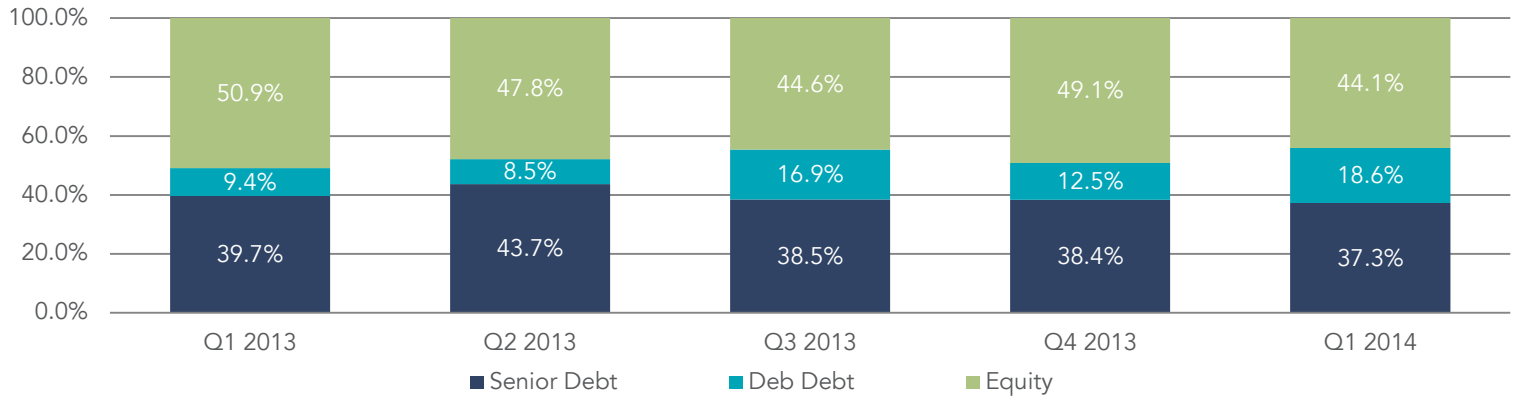
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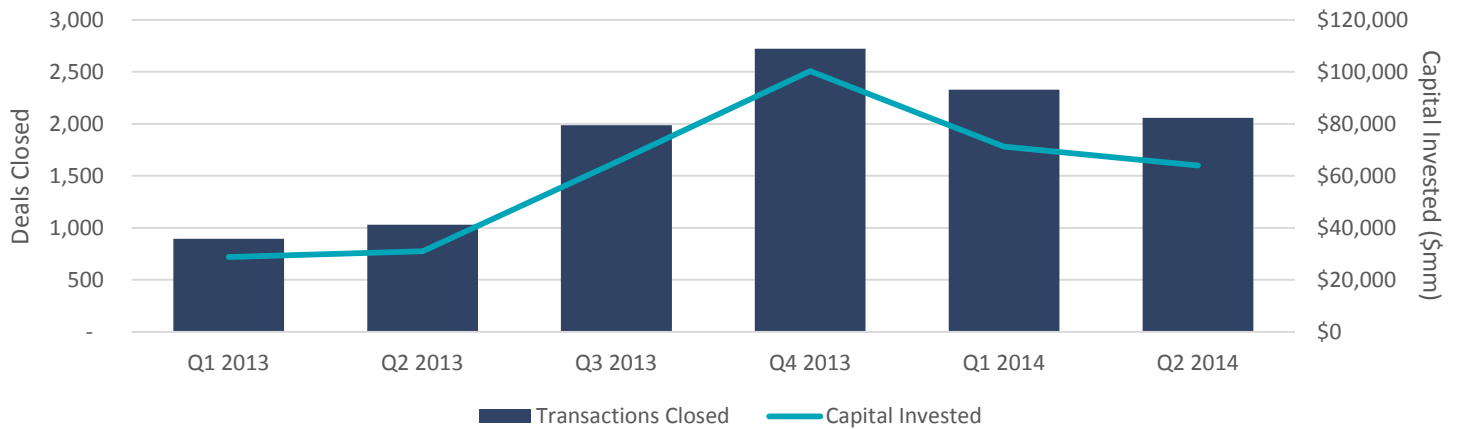
M&A MARKET ACTIVITY – OVERALL LOWER MIDDLE MARKET

CAPITAL STACK



Source: GF Data

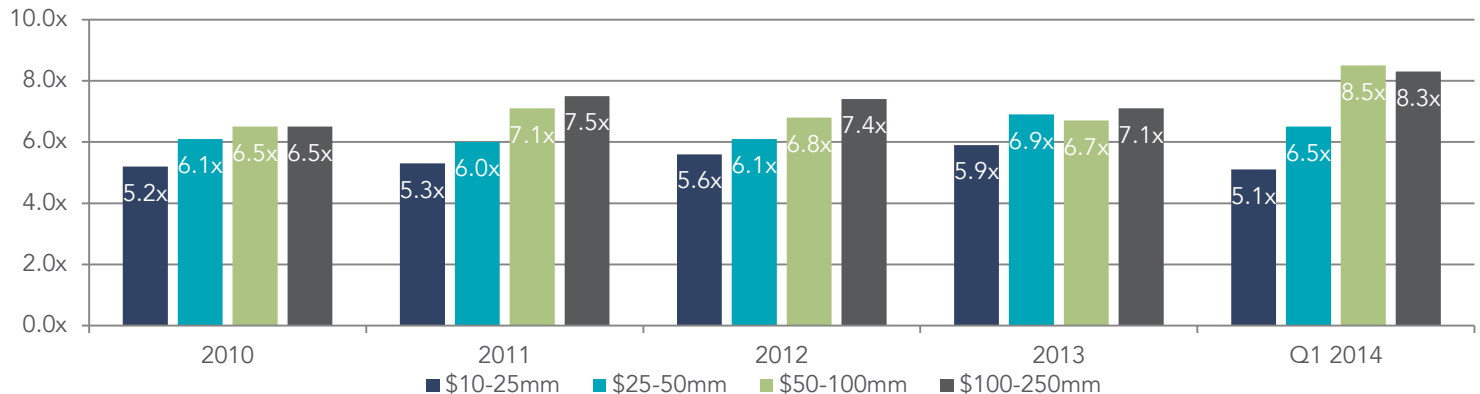
US MIDDLE MARKET M&A ACTIVITY



Source: Capital IQ

TRANSACTION MULTIPLES

EBITDA MULTIPLES BY TRANSACTION SIZE



*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the industry.

Source: GF Data



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ABOUT SDR VENTURES

SDR Ventures is a boutique investment bank serving privately held business owners of companies with values up to \$300 million. Operating beyond the confines of a traditional investment bank, SDR's approach of Thinking Like OwnersSM helps business owners maximize value in their business. SDR offers transaction advisory, capital formation, strategic advisory and performance exchange services.



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SERVICES

TRANSACTION ADVISORY

Buy Side

Running a proven process effective at generating responses, identifying "off-the-radar" opportunities, negotiating and closing accretive acquisitions.

Sell Side

Our process is designed to identify the "right" buyer and maximize shareholder value for our clients.

CAPITAL FORMATION

Private Capital Placement

An effective and efficient process negotiating favorable debt and equity with the right capital partner for our clients

RECENT TRANSACTIONS

JULY 2014




Has been acquired by


REVELSTOKE CAPITAL PARTNERS LLC

SDR Ventures **SELL SIDE TRANSACTION**

JULY 2014




Has been acquired by



FRONTENAC COMPANY

SDR Ventures **SELL SIDE TRANSACTION**

APRIL 2014



Has been acquired by


Barkwood, Inc.

SDR Ventures **SELL SIDE TRANSACTION**

MARCH 2014

PAN Capital Holdings LLC


Commercial real estate loan provided by



Hexagon

SDR Ventures **CAPITAL FORMATION**

NOVEMBER 2013




Has acquired


A Business Unit of a Public Company

SDR Ventures **BUY SIDE TRANSACTION**

OCTOBER 2013



Debt Financing provided by



CoBiz Structured Finance
CoBiz Financial

SDR Ventures **CAPITAL FORMATION**

SEPTEMBER 2013



SDR Ventures **CAPITAL FORMATION**

SEPTEMBER 2013




Has acquired


Zeus & Company

SDR Ventures **BUY SIDE TRANSACTION**

NOVEMBER 2012




Has acquired




SDR Ventures **BUY SIDE TRANSACTION**

JUNE 2012



Has been acquired by



SDR Ventures **SELL SIDE TRANSACTION**

MAY 2012


Cohio Ventures LLC

Has acquired




SDR Ventures **BUY SIDE TRANSACTION**

MARCH 2012



Capital provided by



SDR Ventures **CAPITAL FORMATION**

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