SPECIAL REPORT
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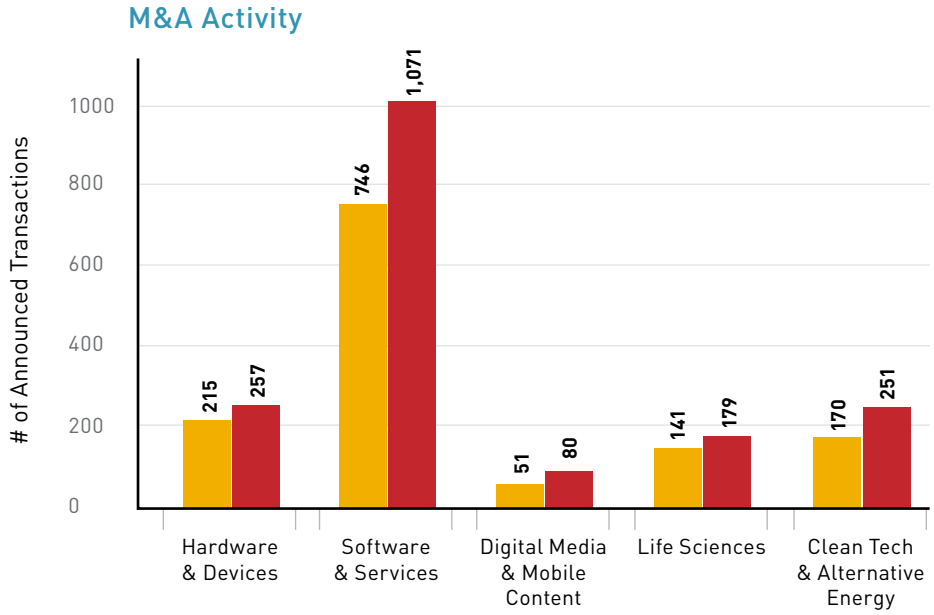
Technology & Life Sciences

Three Trends to Watch: M&A Activity

- Continued growth that will become exponential in the last quarter of 2010 and into the first quarter of 2011
- A significant increase in activity in the hardware/device, software/services, and digital media/content sectors that will be driven by market consolidations and integration
- An expanding number of niche or tuck-in deals that will help accelerate major vertical integration

See recent M&A transactions on page 3.



Year-to-date (YTD) period is through September 15.

Another Transformation for Technology M&A is on the Way

by Taft Kortus, Partner
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We're seeing a fundamental shift in the motivation for merger and acquisition activity in the technology sector. Before the credit crisis, M&A activity was driven primarily by financial investors seeking short-term profits enabled by cheap and abundant credit.

Now, however, market leaders are reassessing the future and deciding how to put their conserved cash and retooled strategies to work in order to emerge from the dislocation in a stronger position that will help grow their top line.

Meanwhile, despite historic highs of capital overhang, financial buyers are confronted by a lack of credit for leveraged buyouts, shrinking portfolio values, and investor discontent—all of which is driving a more cautious investment strategy. As a result, financial buyers have remained internally focused on maintaining the optimal value of their portfolios. And the bottom line for them is still the same—uncertain values, a lack of deals, and a buildup of transactions that appear ready to be negotiated and consummated.

But now, as we close 2010 and open 2011, we're about to enter a new M&A cycle—one that will reshape many industries, especially technology. Deals are going to be dominated and governed by market leaders and corporate sponsors. Financial buyers may not have the appetite or strategic ability to play and take product risks that corporate players can afford. And they'll continue to move to boutique and niche investments to profit. But at the same time, many will move down-market.

There will be many opportunities in the technology sector, because corporate leaders in the industry are pushing a mass consolidation in an effort to

integrate both vertically and horizontally. Their ultimate goal is to offer integrated, one-stop-shop solutions that blend what's historically been sold piecemeal: hardware, software, digital content, business process management, analytics, and consumer interface.

We're already seeing this in the corporate battles between HP, IBM, Oracle, Cisco, Google, Intel, and Microsoft. (See below for a closer look at a recent deal involving Cisco.) Indeed, all these behemoths are now entering each other's traditional domains, which used to be single-sector. So, in essence, the Oracles of the world are now being forced to expand beyond software and offer sweeping turnkey solutions.

In terms of M&A, this core strategic revolution is going to create a wide variety of values, multiples, and deals in the coming months. Companies that can demonstrate value—across any technology sector—will certainly be rewarded. That's why it's absolutely critical to understand your value proposition and your place in the value chain.

The emerging technology transformation will also force companies to become either targets or predators. In the end, though, the real winners will be those entities that can help the giants build and offer vast, wide-angle megasolutions.

Taft Kortus, Northwest regional leader of the firm's Technology & Life Sciences practice, specializes in a range of assurance services, including revenue recognition, equity- and debt-based transactions, and business combinations.

RECENT TRANSACTION PROFILE

Cisco Systems, Inc. acquisition of ExtendMedia Corp.

Deal Date: August 26, 2010
Target: ExtendMedia Corp. (Newton, MA)
Deal Size: $80 million (4-5x revenue)
Buyer: Cisco Systems, Inc. (NSDQ:CSCO, San Jose, CA)

- ExtendMedia is a leading provider of software-based Content Management Systems (CMS) that manage the entire lifecycle of video content through monetization for pay media and ad-supported business models.
- The transaction value was approximately $80 million, according to Streaming Media's Dan Rayburn, which is equal to 4-5x Revenue. Cisco has recently made a number of large acquisitions in the video space, including last year's $3.41 billion purchase of Tandberg and the $590 million deal for Flip camera manufacturer Pure Digital.
- Over the past year, ExtendMedia has been working to power cable companies' "TV Everywhere" services to devices other than the PC. Its main product, the OpenCASE software platform, supports video distribution to mobile devices as well as game platforms, set-top boxes, and WiFi-enabled HDTVs.
- That "multi-screen" approach is what attracted Cisco to ExtendMedia. Cisco expects to quickly fold those services into its own video architecture once the deal is complete. While online video is still relatively small in terms of overall internet advertising revenues, it's the fastest growing segment.
- Cisco designs, manufactures, and sells Internet Protocol (IP)-based networking and other products to the communications and IT industry worldwide. Cisco generates approximately. $40 billion in revenue annually.

Source: CapitalIQ, Company press releases, paidContent.org

Four Trends to Watch: P/E Multiples

- P/E ratios are generally rising across the board, but especially in the hardware/device and software/services sectors.
- The range of P/E ratios will expand significantly, because strategic value in some deals will outweigh the financial value or metrics.
- We'll see a meaningful uptick in P/E ratios during the fourth quarter of 2010 and the first quarter of 2011.
- P/E ratios will become somewhat misleading and less of an overall indicator of the reasonableness of valuations.

Middle Market P/E Multiples

	Today (9/15/10)	1 Month Ago	1 Year Ago	Δ from 1 Month Ago	Δ from 1 Year Ago
Hardware & Devices	20.2 x	19.3 x	25.8 x	0.9 x	-5.6 x
Software & Services	32.5 x	30.5 x	32.3 x	2.0 x	0.3 x
Digital Media & Mobile Content	31.3 x	28.9 x	32.6 x	2.3 x	-1.3 x
Life Sciences	15.0 x	14.6 x	18.0 x	0.4 x	-3.0 x
Clean Tech & Alternative Energy	23.0 x	21.9 x	26.6 x	1.1 x	-3.6 x

Recent M&A Transactions

Date	Acquirer/Investor	Target	Target Description	Deal Size
9/08/10	Selling Source, LLC	Q Interactive, Inc.	Online digital marketing services	-
9/07/10	Man in the Maze, Inc.	Direxion, Inc.	Digital marketing services	-
8/26/10	Cisco Systems, Inc.	ExtendMedia Corp.	Software and media services	$80.0
8/24/10	Reeltime Rentals, Inc.	EnabledWare, Inc.	Digital media content delivery system	-
8/24/10	Research In Motion, Ltd.	Cellmania, Inc.	Mobile content platform	-
8/13/10	Telestream, Inc.	Grab Networks, Inc.	Digital media production	-
8/12/10	Blackmagic Design, Inc.	Echolab, Inc.	Digital media production	-
8/12/10	JWT	Digitaria Interactive, Inc.	Digital marketing services	-
8/05/10	Coughlan Companies, Inc.	Portage Interactive, LLC	Game development	-
7/23/10	Glam Media, Inc.	Sportgenic, Inc.	Digital sports media advertising network	-
7/13/10	Vitec Multimedia	Focus Enhancements, Inc.	Digital media video systems	-
7/07/10	Relativity Media, LLC	ARTISTdirect.com and ARTIST direct Network	Digital entertainment network	-
7/06/10	Synchronoss Technologies, Inc.	FusionOne, Inc.	Mobile services	75.0
6/29/10	LibreDigital, Inc.	Symtio, E-commerce Platform	Digital media platform	-
6/28/10	Media Exchange Group, Inc.	Malibu Entertainment Group, Inc.	Mobile application unit	-
6/28/10	VeriGreen Group, LLC	Interlink-US-Network, Ltd.	Multi-media devices	0.4
6/23/10	Natixis Private Equity; others	Alloy, Inc.	Digital marketing services	139.3
6/15/10	International Business Machines Corp.	Coremetrics, Inc.	Web analytics & digital marketing services	-