

# M&A REVIEW



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## What to do in Times of Economic Turmoil?

As the credit crunch threatens to turn into a serious global downturn, corporate leaders have a choice: pull down their sails and ride out the storm or look for opportunities to pick up significantly undervalued assets that will help them grow and create future value for shareholders.

If history is any guide, more will follow the first course—which could be a mistake. Research by McKinsey & Company indicates that although most executives know and pay lip service to the maxim “Invest in a downturn,” few act on it. Two findings stood out from this research.

First, of potential strategic moves companies can take to grow in a downturn—divest, acquire, invest to gain share—an effective acquisition strategy (defined as growth through M&A at a rate higher than that of 75 percent of a company’s peers) created significant value for shareholders. During an upturn, on the other hand, divestments created slightly more value than acquisitions did.

Second, companies often behave in counterproductive ways. Fewer than half as many companies in the segments studied made acquisitions in downturns rather than in periods of economic growth. Significantly more divested businesses in those market segments in downturns than in upturns.

Many companies simply freeze: 60 percent of those in McKinsey’s database made no portfolio moves at all in downturns, compared with only 40 percent that made no moves in upturns. The best growth companies take a different approach. They view a downturn as a time to increase their leads and make acquisitions.

According to ZEPHYR published by BvDEP, the third quarter saw a decline in both the number of deals and total deal value. The table below reflects North American deal activity.

Announced date, North American Targets	No. of Deals	Total Deal Value (mil USD)
Q3 2007	3,965	400,543
Q4 2007	4,278	326,485
Q1 2008	3,718	229,706
Q2 2008	3,616	423,275
Q3 2008	2,480	353,938

Source: ZEPHYR published by BvDEP

## Tech M&A Spending Down in Third Quarter



Tech mergers and acquisitions were down in the third quarter, with spending falling by a third compared with the same period last year, according to a report recently released by The 451 Group. Tech deals fell to 691 transactions with a total value of \$37 billion in the third quarter, down from 822 deals and a value of \$58 billion a year ago. That marked the second consecutive year that third-quarter M&A activity declined.

Private equity firms weren't the only ones holding back. Technology titans known for their use of strategic acquisitions also curtailed activity during the third quarter, according to the report. Google, which has seen its share price take a tumble, signed off on four deals since the start of the year, compared with 14 transactions during the same period a year ago. And IBM, meanwhile, only acquired one company this year, compared with three companies within the same time period last year.

Buyers are also scaling back on the amount they're spending on a per deal basis. During the quarter, only six deals in excess of \$1 billion were announced in the September quarter, compared with 11 such deals in the previous year and 22 deals in the same period in 2006, according to the report.

Meanwhile, investment banking services firm The Jordan, Edmiston Group issued a nine-month M&A report that reflected growth in the number of deals among some technology-related sectors but declines in the valuations of those deals. Within the database information services sector, the number of deals rose to 36, up 63.6 percent compared with the same period a year ago.

Mosaic Capital reported Quarterly Transaction Metrics for the period ending 6/30/08 as reflected in the table below. In the Software Sector, Online Services led activity with Application Software a close second.

Software Sub-Sector Transaction Totals

	Q3 '07	Q4 '07	Q1 '08	Q2 '08
Application Software	625	581	579	532
Healthcare Industry Software	50	59	50	45
Home Entertainment Software	61	47	55	46
Internet Software	127	91	124	107
Online Services	743	700	724	682
Systems Software	216	203	124	200

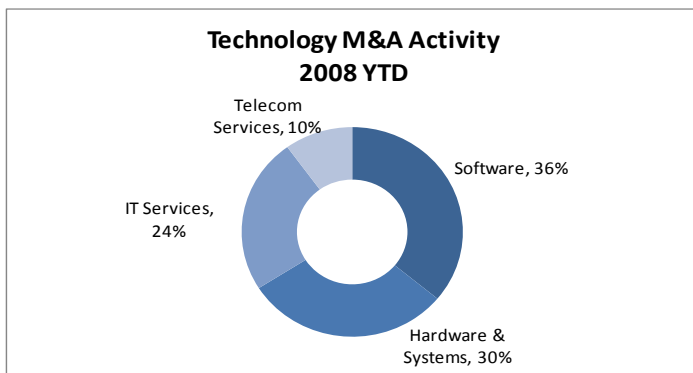
Source: Mosaic Capital

## IMAP—Amsterdam Fall Conference

Our partner organization, the International Network of M&A Partners (IMAP) held its 2008 Fall Conference in Amsterdam, Netherlands. Core Capital Group attended the conference which welcomed delegates from 33 countries. The purpose of the meeting was to create even stronger working relationships among IMAP members and to share ideas and information on the M&A advisory business. IMAP's global presence and cross border capabilities are unparalleled in the corporate finance world.

## Software Continues to Dominate Technology M&A

For 2008 year-to-date, the number of merger and acquisition announcements targeting US information and communication companies totaled 1,199 compared to 1,112 for the same period in 2007. In September, the Software sector accounted for 36% of all announced transactions per the chart below.



In spite of attention given to cross-border transactions led by foreign firms, US buyers accounted for 82% of the announced transactions. Countries with two or more announced transactions include Canada (10), the United Kingdom (6), India (3) and South Korea (2).

## Information Technology Demand Trends

Washington Technology recently reported on Gartner analyst comments at the firm's Symposium/ITxpo 2008 conference in Orlando, FL. The No. 1 item on Gartner's list of what IT execs have to prepare for was the worst of all, from a manager's standpoint: hiring freezes and possibly even layoffs. It was a somber message for the 6,000 attendees at the conference. "The next big thing in IT is not a technology — it is cost reduction, risk management and compliance," said Peter Sondergaard, Gartner's global head of research.

*We at Core Capital believe that forward-leaning IT service providers will focus on the most basic of all value propositions: tailor your offerings to provide savings for your clients.*

## Recent Transactions

### Cisco Systems Inc [CA] acquires Jabber Inc. [CO]

Cisco Systems Inc. (Nasdaq:CSCO), which manufactures and wholesales networking and communications products with specialization in education, government and home communications, plans to acquire Jabber Inc., a developer and retailer of web-based communications software, from Webb Interactive Services Inc.

### Northrop Grumman Corp. [CA] signed a definitive merger agreement to acquire 3001, Inc. [VA]

Northrop Grumman Corp. [CA] signed a definitive merger agreement to acquire 3001, Inc. [VA] from CM Equity Partners, 3001's management and TICC Capital Corp. (NasdaqGS:TICC). 3001, Inc., a geospatial company, provides geospatial data production and analysis solutions in the United States. It offers solutions, including airborne imaging, surveying, mapping, and geographic information systems.

### Infotech Enterprises America [CT] acquires Time To Market Inc. [CA]

Infotech Enterprises America Inc., which provides engineering, information technology and geospatial services in North America, planned to acquire Time To Market Inc., a provider of ASIC design and embedded software solutions services.

### Red Hat Inc. [NC] acquires Qumranet Inc. [CA]

Red Hat Inc. (Nasdaq:RHT), developer of Linux and open source solutions software for Internet infrastructure, acquired Qumranet Inc., a developer of enterprise software, for an estimated USD 107.0mn in cash.

### Deltek Inc. [VA] acquires Planview Inc.-MPM Solution [TX]

Deltek Inc. (Nasdaq:PROJ), which develops project management software, acquired the MPM solution and related assets of Planview Inc., a developer of enterprise software, for an estimated USD 16.0mn in cash.

### Tyler Technologies Inc. [TX] acquires School Information Systems Inc [MO]

Tyler Technologies Inc. (New York:TYL), which develops information management software and government integrated software applications and services, acquired all the outstanding stock of School Information Systems Inc., a developer of educational management software.

### Boeing Integrated Defense Sys [MO] acquires Tapestry Solutions Inc. [CA]

Boeing Integrated Defense Systems, which manufactures commercial aircrafts, military airplanes and helicopters, missiles, space vehicles and stations, air defense systems, computing software and communications equipment, agreed to acquire Tapestry Solutions Inc., a provider of information technology services.

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