



# PCE Industry Report

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IT & Telecom



# Middle Market M&A Summary

## IT & Telecom

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4th Quarter 2016

### Key Highlights

- The average value of the top ten transactions was \$6.4 billion.
- The largest transaction was the acquisition of LinkedIn Corporation by Microsoft Corporation for \$29.3 billion.
- The smallest transaction was the acquisition of Interactive Intelligence Group, Inc. by Genesys Telecommunications Laboratories, Inc. for \$1.6 billion.
- The public company industry median TEV/EBIT multiple is 21.2x.
- The public company industry median TEV/EBITDA multiple is 14.5x.

### Key Trends

- Transaction volume in the Semiconductor Equipment & Semiconductors subsector is trending positively, Diversified & Wireless Telecommunication Service subsector is seeing flat transaction volume, while the Internet Software & Services and Communication & Electronic Equipment & Computers subsector is trending negatively.
- Softbank has announced a \$1 billion stake in OneWeb, who plans to launch a massive constellation of simple satellites to encircle the globe to provide internet access anywhere on earth in a cost-effective way.
- Internet of Things (IoT) hack in 4th quarter 2016 showed the need to strengthen the security of the network controlling these everyday objects. This security concern is expected to bring new areas of technological development to prevent or limit the potential for additional breaches. Furthermore, IoT sector is projected to have increased transaction volume as it contracts into more defined products/software platforms.
- AT&T is able to leverage their past acquisition of DirecTV to offer zero-rated data options to consumers. This has a strong potential to shape the way data usage is measured and could lead to strategic partnerships with other enterprises to provide the zero-rated data.
- Net neutrality is credited for increasing investments in online streaming networks. The regulation ensures ISPs' do not limit broadband streams from one website and increase the strength of their own streams. This is considered by most in the streaming industry as creating fair play in the online space. The new administration recently tapped an opponent of net neutrality to chair the FCC.

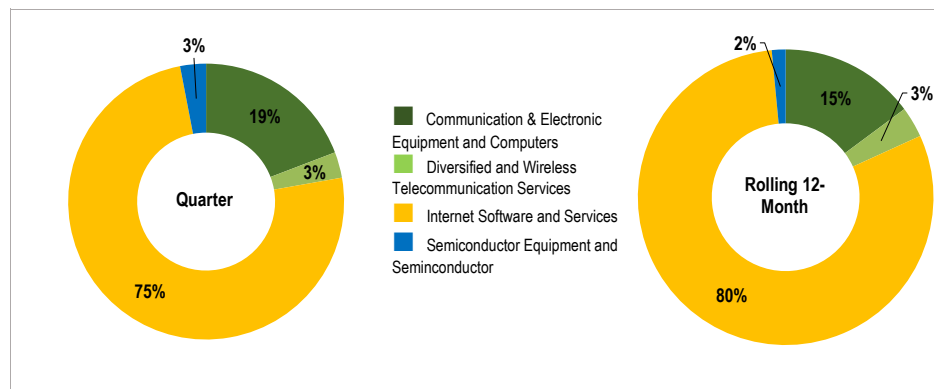
Source: IBIS World, S&P Capital IQ, and PCE Proprietary Data

### Industry Trends During Quarter

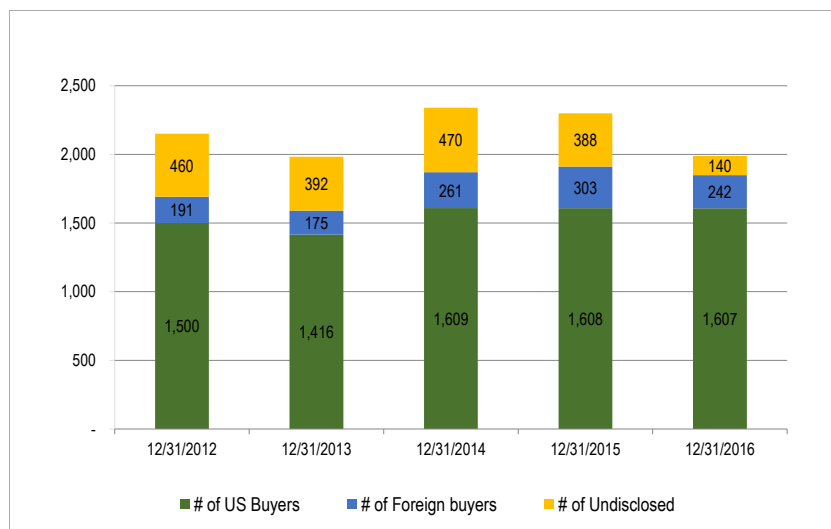
Sector	Transaction Volume	TEV/ Revenue	TEV/EBITDA
Communication & Electronic Equipment and Computers	↓	↓	↓
Diversified and Wireless Telecommunication Services	→	↓	↓
Internet Software and Services	↓	↑	↓
Semiconductor Equipment and Semiconductors	↑	↓	↑

\* Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data

### Transaction Volume as % of Industry



### Rolling 12-Month Transaction Volume Trends by Buyer Origin



### Largest Transactions Closed During Quarter by Transaction Value (\$ in millions)

Sector	Target	Buyer	Transaction Value
Internet Software & Services	LinkedIn Corporation	Microsoft Corporation	\$29,347.2
Communication & Electronic Equipment	Ingram Micro Inc.	Tianjin Tianhai Investment Co., Ltd.	\$7,253.6
Internet Software & Services	NetSuite Inc.	Oracle Corporation	\$7,083.0
Internet Software & Services	Rackspace Hosting, Inc.	Inception Parent, Inc.	\$4,949.0
Communication & Electronic Equipment	Lexmark International, Inc.	Legend Capital; PAG Asia Capital; Apex Technology Co., Ltd.	\$3,740.8
Internet Software & Services	Clarivate Analytics	Onex Corporation; Baring Private Equity Asia	\$3,550.0
Internet Software & Services	Deltek, Inc.	Roper Technologies, Inc.	\$2,800.0
Communication & Electronic Equipment	Dell Software, Inc. and Dell SonicWALL, Inc.	Francisco Partners Management LLC; Elliott Management Corporation	\$2,400.0
Internet Software & Services	Cvent, Inc.	Lanyon Solutions, Inc.	\$1,590.8
Internet Software & Services	Interactive Intelligence Group, Inc.	Genesys Telecommunications Laboratories, Inc.	\$1,560.1

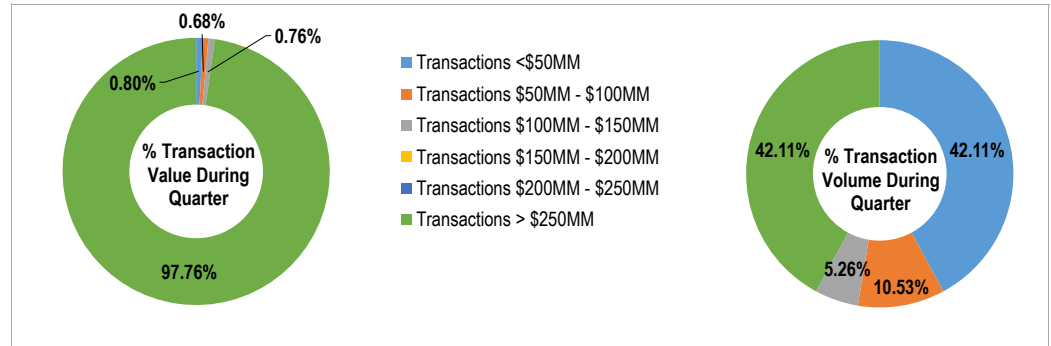
Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

## Summary of Sector Transactions During Quarter (\$ in millions)

Transaction Volume	58
Number of Transactions with Disclosed Values	19
Transaction Value*	\$17,155.75
Average Transaction Value*	\$902.93
Median Transaction Value*	\$62.00

\*Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.

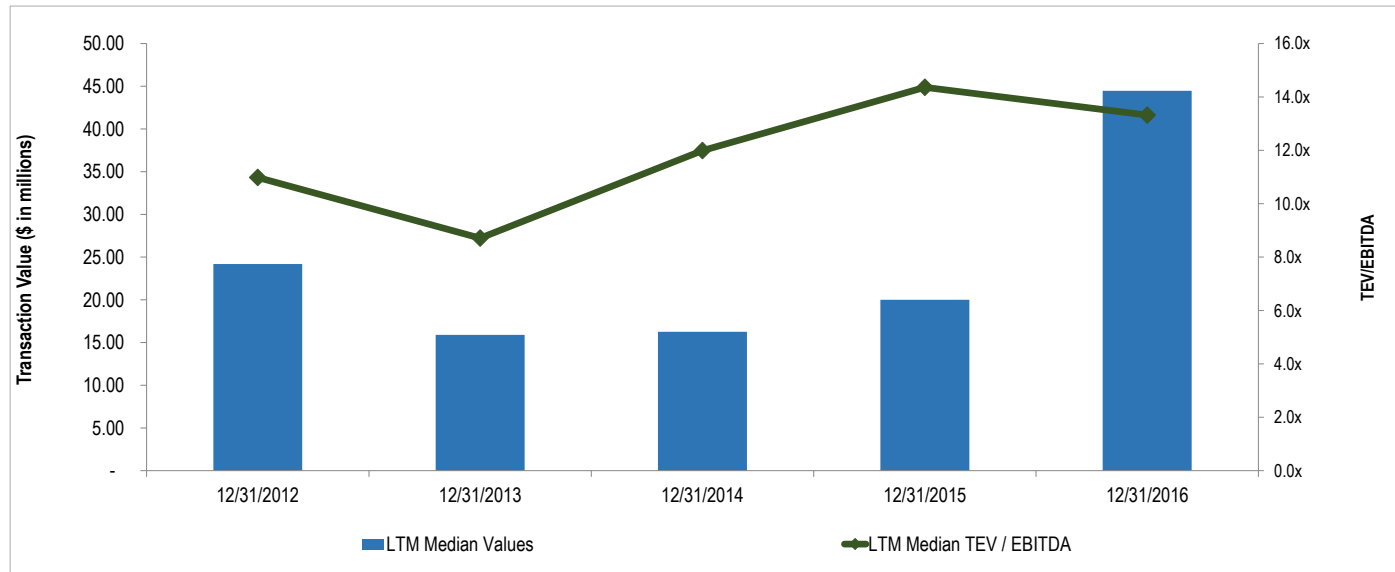
## Transactions by Value & Volume



Based on transactions with disclosed financial data only

## Private Sector Value and EBITDA Multiple Trends

Rolling 12-Month Value & Multiple Trends

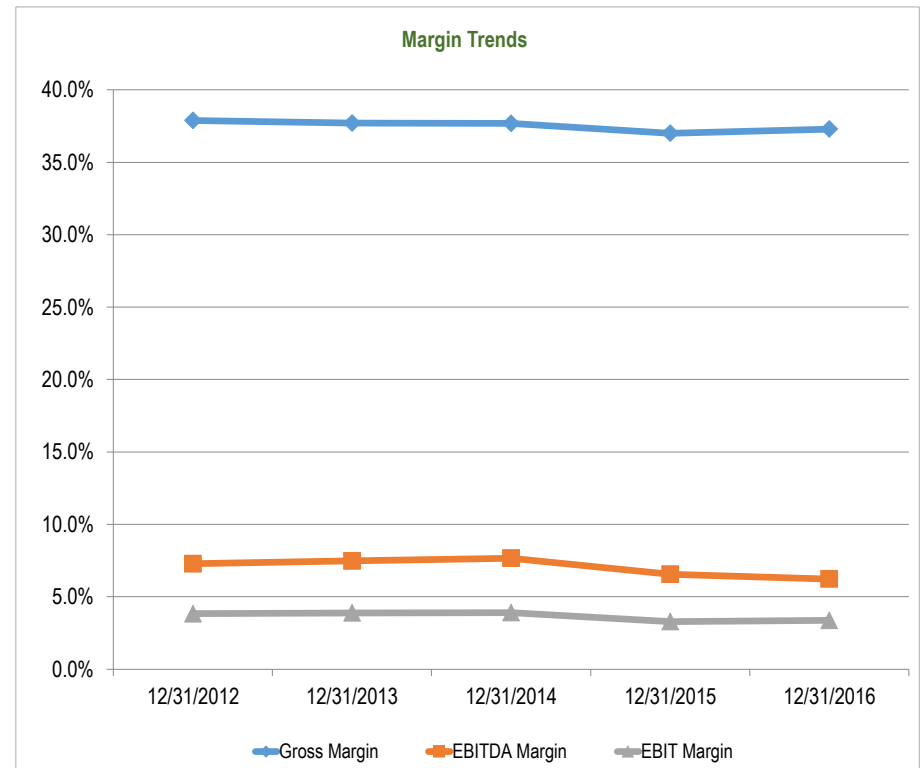
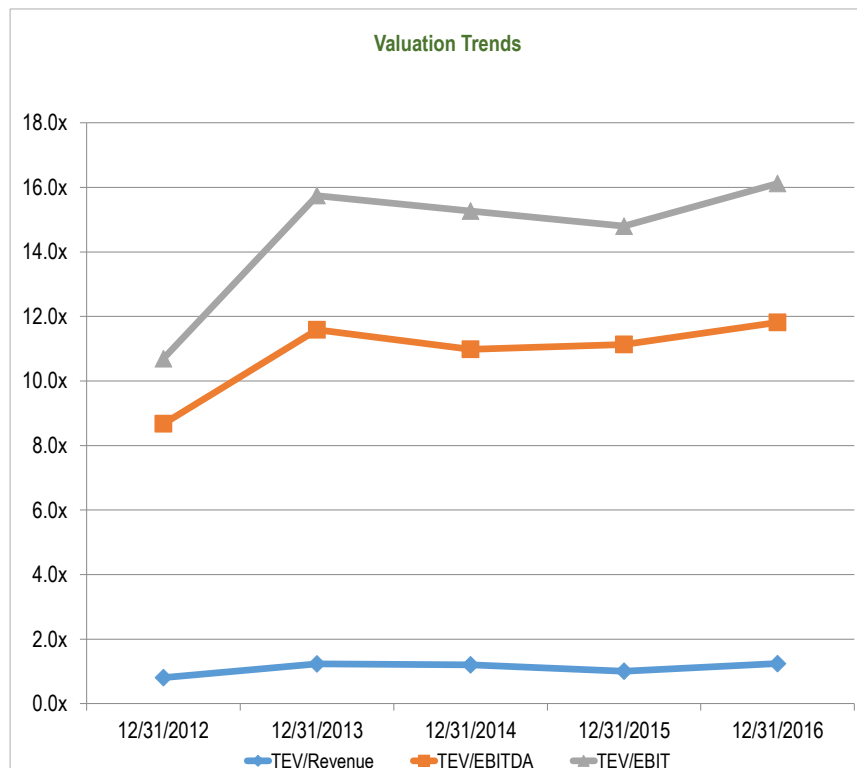


Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

## Summary of Public Comparables (\$ in millions)

	Total Enterprise Value				Last Twelve Months 12/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$6,007	3.4x	15.8x	22.1x	TEV/Revenue	↑
Median	\$325	1.2x	11.8x	16.1x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 12/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	38.6%	-0.9%	-4.0%	Gross Margin	↑
Median	37.3%	6.2%	3.4%	EBITDA Margin	↓
				EBIT Margin	↑



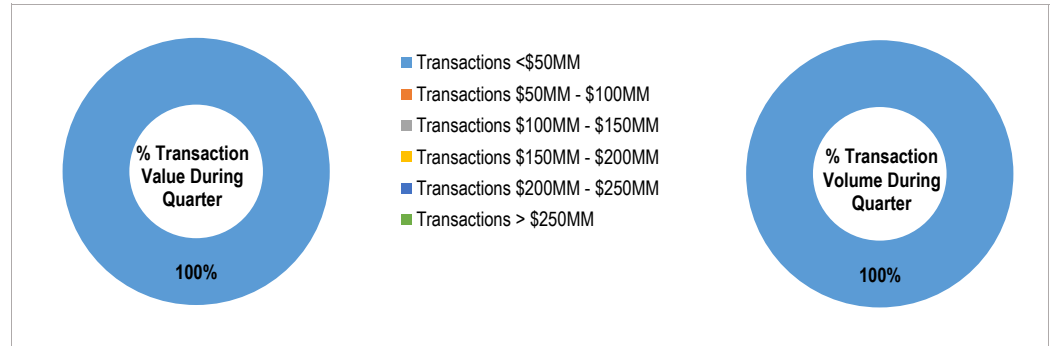
Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

## Summary of Sector Transactions During Quarter (\$ in millions)

Transaction Volume	11
Number of Transactions with Disclosed Values	3
Transaction Value*	\$38.25
Average Transaction Value*	\$12.75
Median Transaction Value*	\$5.25

\*Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.

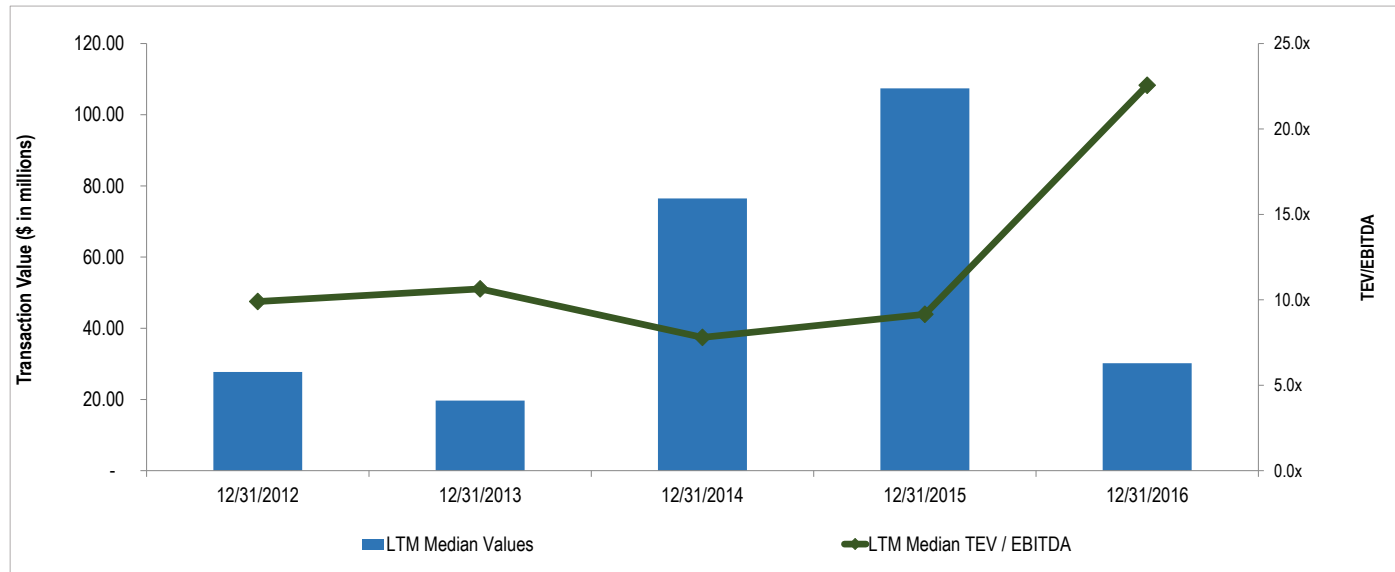
## Transactions by Value & Volume



Based on transactions with disclosed financial data only

## Private Sector Value and EBITDA Multiple Trends

Rolling 12-Month Value & Multiple Trends



Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

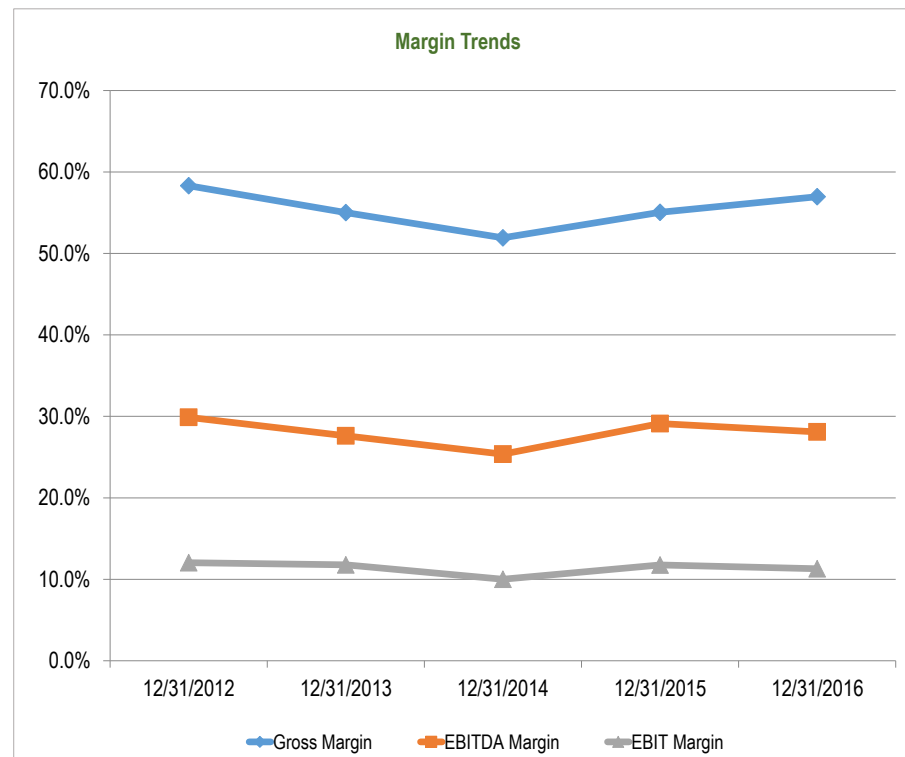
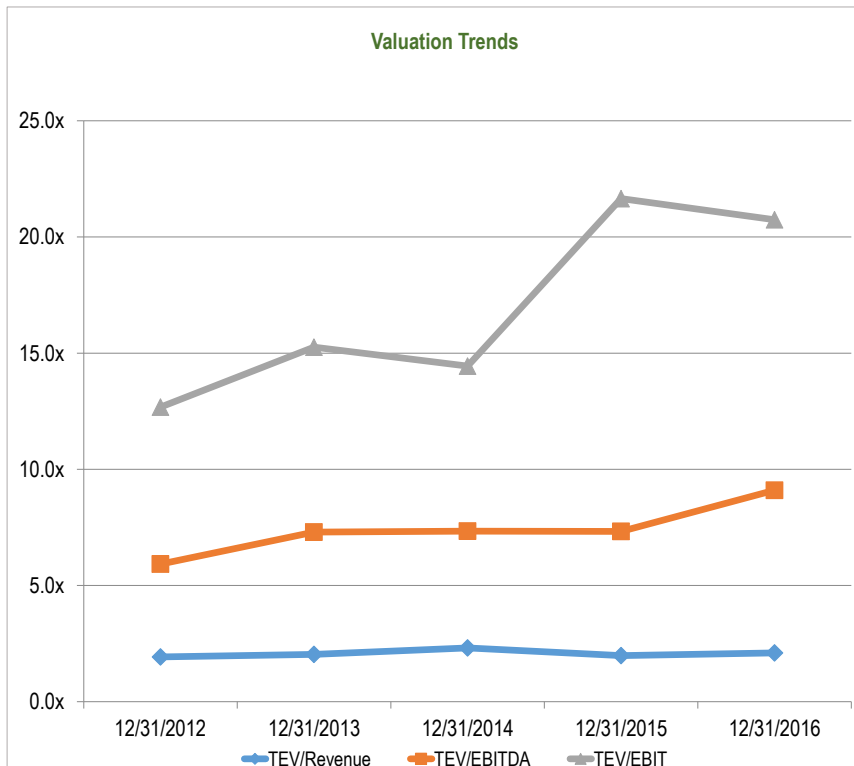
# Diversified & Wireless Telecommunication Services

4th Quarter 2016

## Summary of Public Comparables (\$ in millions)

	Total Enterprise Value				Last Twelve Months 12/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$17,637	4.5x	14.3x	23.1x	TEV/Revenue	↑
Median	\$1,002	2.1x	9.1x	20.7x	TEV/EBITDA	↑
					TEV/EBIT	↓

	Margins			Last Twelve Months 12/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	54.4%	25.1%	5.2%	Gross Margin	↑
Median	57.0%	28.1%	11.3%	EBITDA Margin	↓
				EBIT Margin	↓



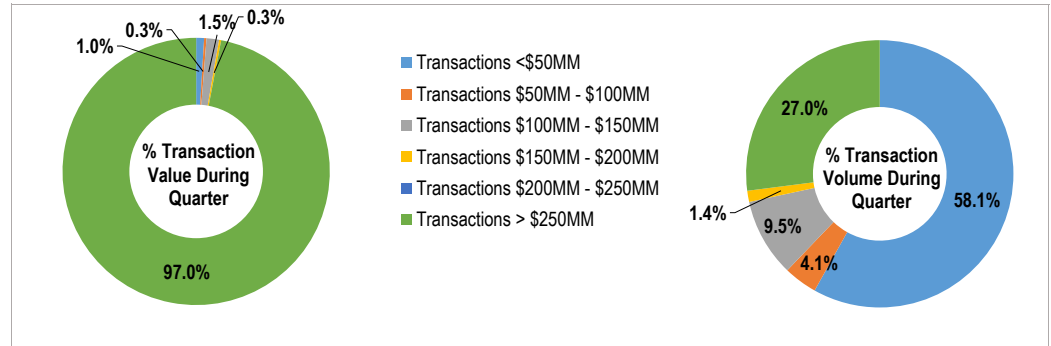
Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

## Summary of Sector Transactions During Quarter (\$ in millions)

Transaction Volume	362
Number of Transactions with Disclosed Values	74
Transaction Value*	\$60,878.23
Average Transaction Value*	\$822.68
Median Transaction Value*	\$34.50

\*Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.

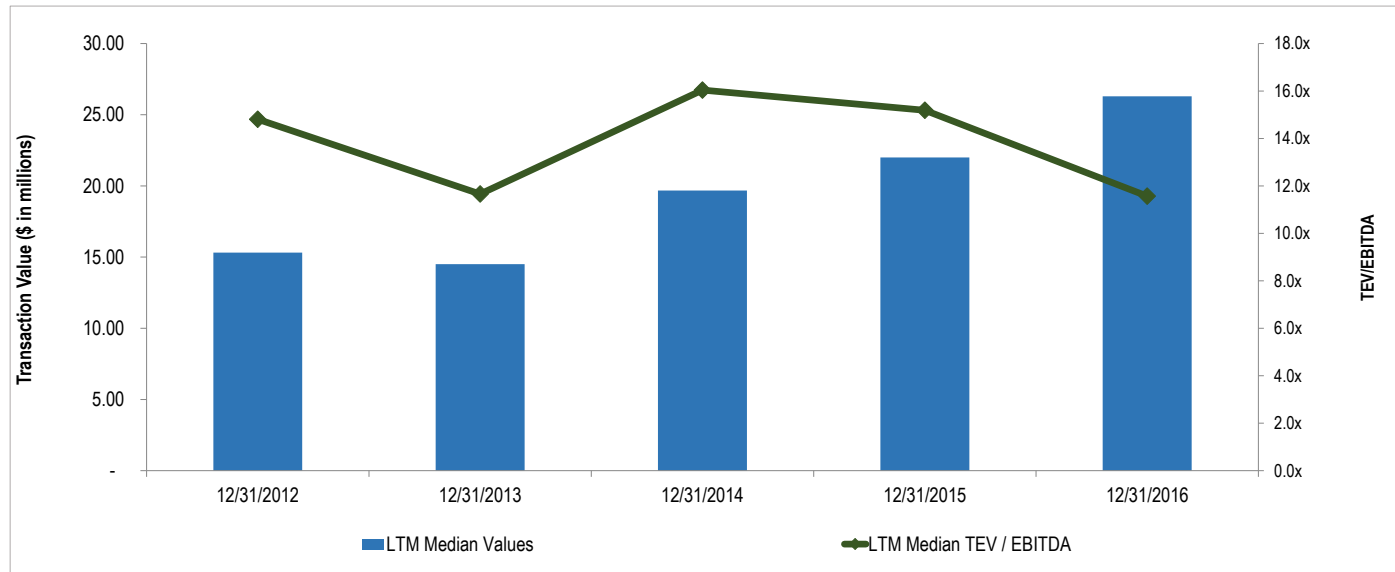
## Transactions by Value & Volume



Based on transactions with disclosed financial data only

## Private Sector Value and EBITDA Multiple Trends

Rolling 12-Month Value & Multiple Trends



Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data



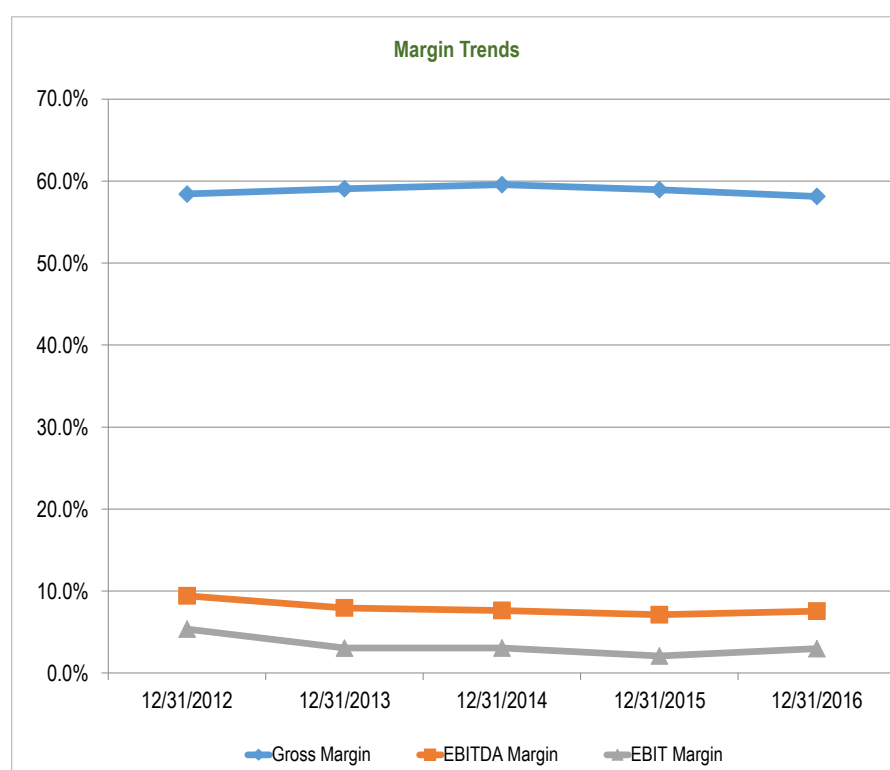
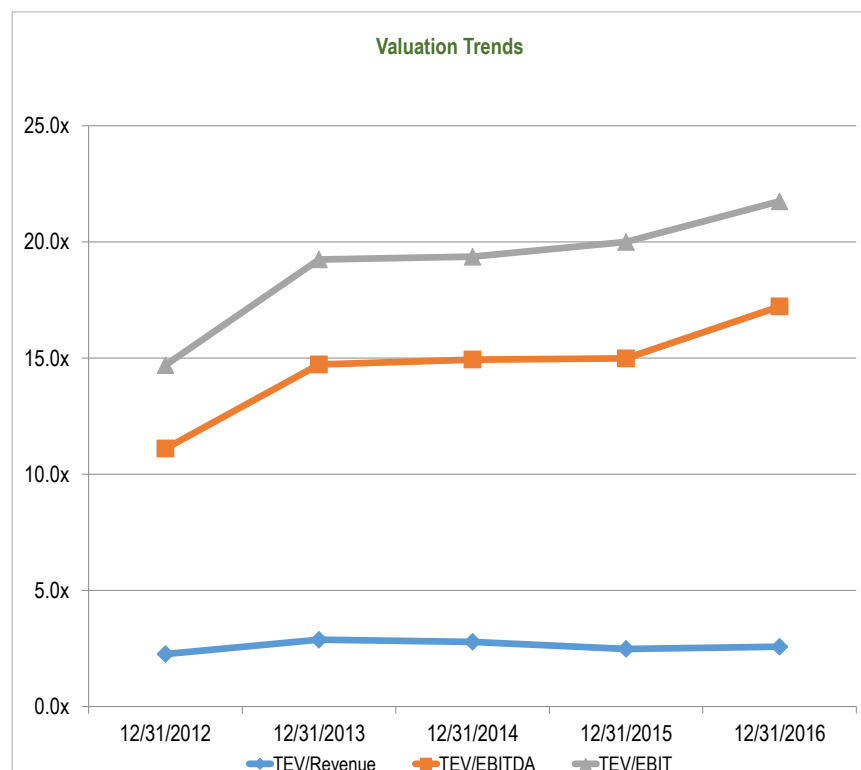
# Internet Software and Services

4th Quarter 2016

## Summary of Public Comparables (\$ in millions)

	Total Enterprise Value				Last Twelve Months 12/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$10,277	3.5x	30.2x	34.8x	TEV/Revenue	↑
Median	\$891	2.6x	17.2x	21.7x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 12/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	57.0%	4.2%	-1.5%	Gross Margin	↓
Median	58.1%	7.6%	3.0%	EBITDA Margin	↑
				EBIT Margin	↑

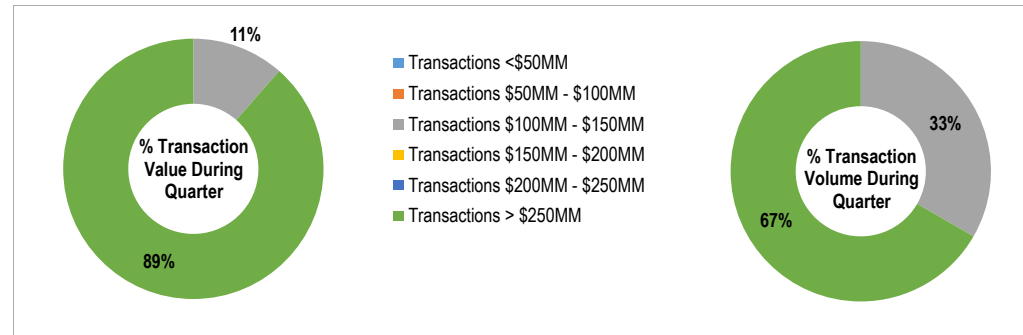


Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

## Summary of Sector Transactions During Quarter (\$ in millions)

Transaction Volume	9
Number of Transactions with Disclosed Values	3
Transaction Value*	\$1,186.59
Average Transaction Value*	\$395.53
Median Transaction Value*	\$300.00
*Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.	

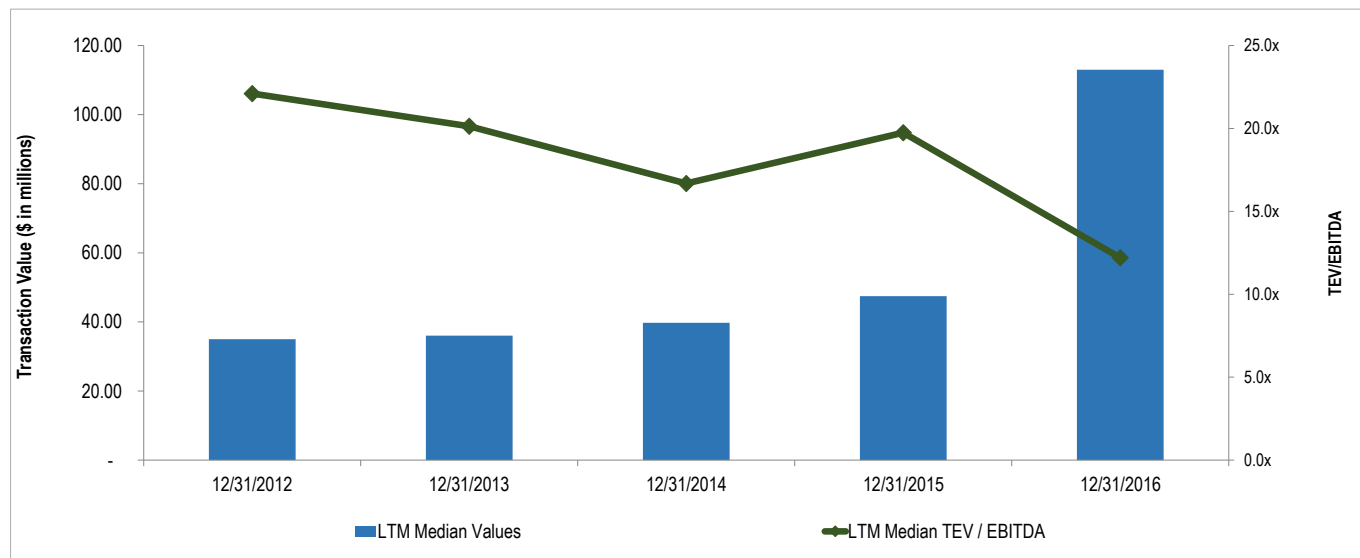
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Rolling 12-Month Value & Multiple Trends



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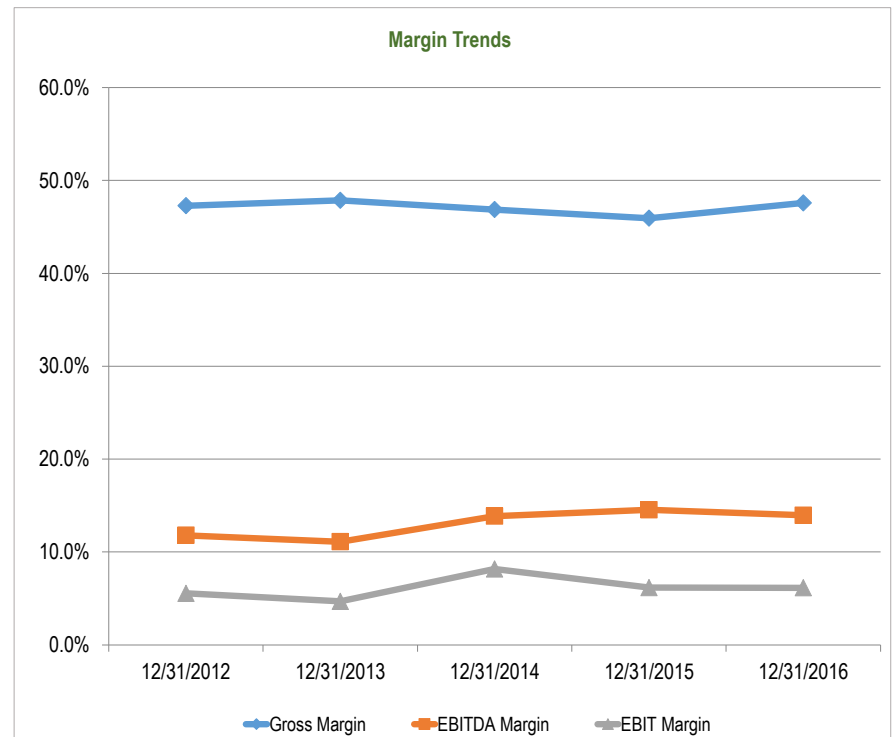
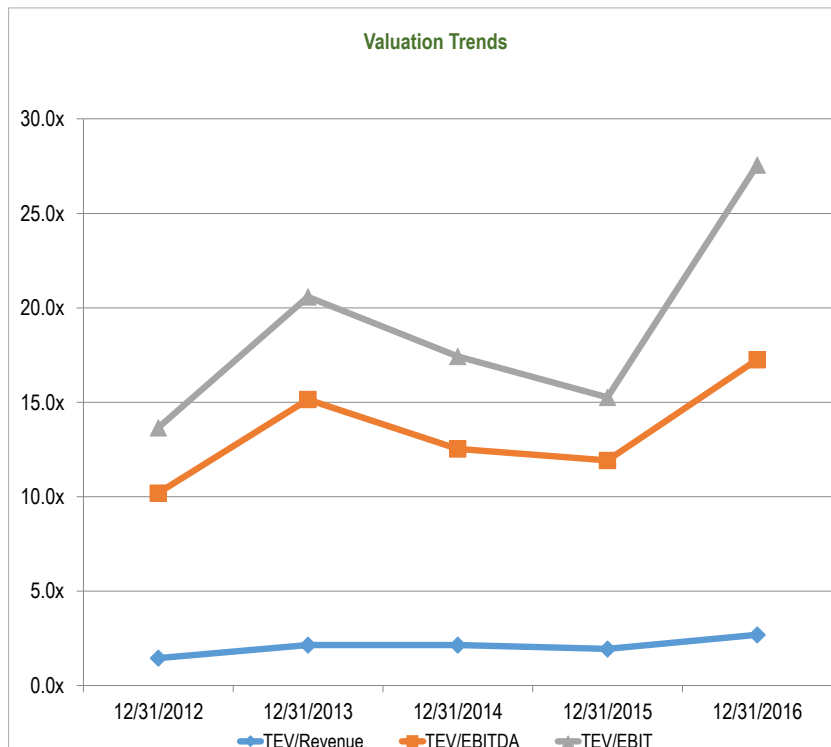
# Semiconductor Equipment & Semiconductors

4th Quarter 2016

## Summary of Public Comparables (\$ in millions)

	Total Enterprise Value				Last Twelve Months 12/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$7,742	3.4x	23.4x	37.1x	TEV/Revenue	↑
Median	\$1,245	2.7x	17.2x	27.6x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 12/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	44.3%	8.7%	1.5%	Gross Margin	↑
Median	47.6%	13.9%	6.1%	EBITDA Margin	↓
				EBIT Margin	↓



Source: S&P Capital IQ as of 1/19/2017 and PCE Proprietary Data

# About PCE

When you're navigating the critical and sometimes challenging phases of the business life cycle, nothing is more important than getting the right advice at the right time. At PCE, that's our specialty. Providing clients with the insightful strategies, creative solutions, and expert guidance they need to address the challenges they face today and achieve the goals they set for tomorrow.

PCE, a leading financial services firm for mid-market companies, offers a full range of services:

- M&A (mergers & acquisitions)
- Growth Capital – Equity & Debt
- Business Valuation
- ESOP (Employee Stock Ownership Plans)
- Financial & Management Consulting
- MBO (management buy outs)
- Bankruptcy
- Restructuring
- Fairness and Solvency Opinion
- Management Consulting
- Succession Planning
- Strategic Analysis
- Litigation Support

Experienced in all market sectors, PCE has established several specialty practice areas:

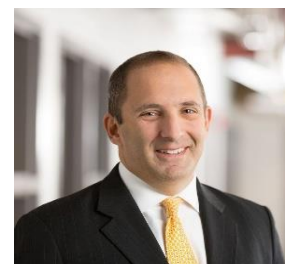
- Aerospace & Defense
- Banking, Finance & Insurance
- Building Products & Construction
- Business Services
- Consumer & Food
- Diversified Industrials
- Healthcare
- IT & Telecom
- Power & Energy
- Transportation & Logistics

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## PCE Locations

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Chicago  
New York

## Data Assumptions

This report represents transaction activity as mergers & acquisitions, consolidations, restructurings and spin-offs. Targets are defined as U.S. Based companies with either foreign or U.S. based buyers. Transaction information provided is based on closed dates only.

## Glossary

EBIT - Earnings Before Interest and Taxes  
EBITDA - Earnings Before Interest, Taxes, Depreciation, Amortization  
LTM - Last Twelve Months  
TEV - Total Enterprise Value