

Q1 2011

SOFTWARE INDUSTRY EQUITY REPORT

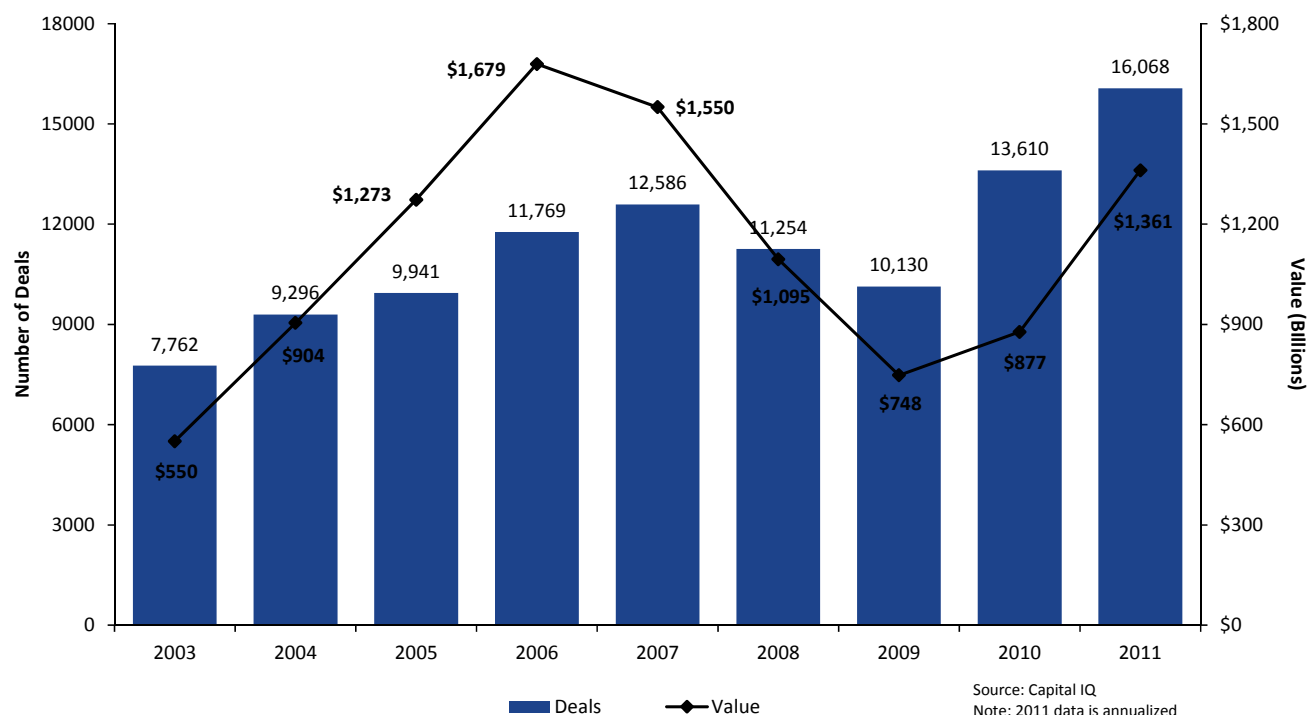




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Figure 18: U.S. Mergers & Acquisition Activity



MERGERS AND ACQUISITIONS: THE NUMBERS

M&A Deal Volume and Spending: All Industry Sectors

Globally, there were 11,904 M&A transactions in 1Q11 aggregating \$699 billion, a notable improvement from 4Q10's worldwide tally of 10,839 deals totaling \$604 billion, and markedly higher than 1Q10's 9,927 acquisitions that aggregated \$468 billion.

Domestically, 4,017 M&A transactions were announced across all industry sectors in the first quarter of 2011 (Figure 18). The 1Q11 U.S. deal total is 16.8% higher than Q4's 3,439 transactions and 19.5% higher than 1Q10's 3,361 transactions. As important, buyers loosened their purse strings significantly over the past year. 1Q11's total spend for 4,017 transactions was a healthy \$340 billion, 76.4% greater than 1Q10's aggregate price tag of \$192 billion.

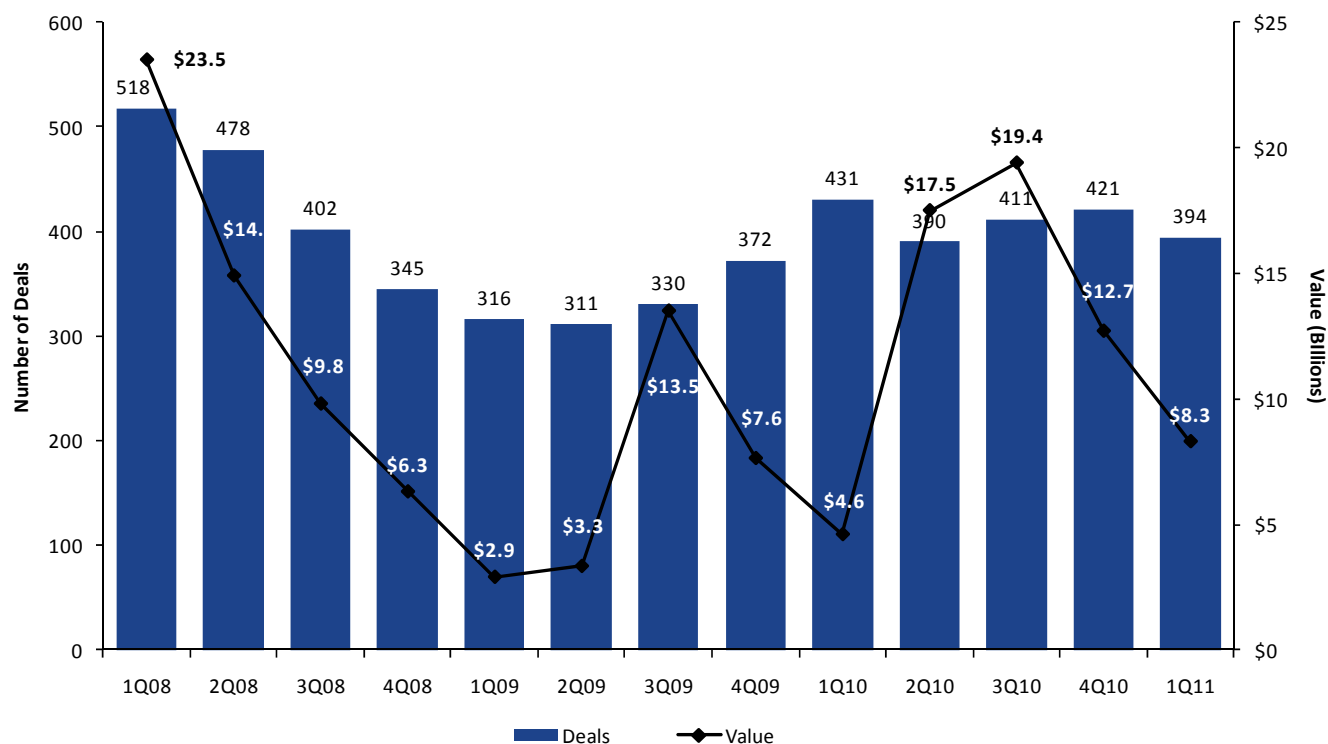
As for leveraged buyouts, there were 636 worldwide in 1Q11, worth \$21.6 billion, compared to 760 deals worth \$54.6 billion in 4Q10 and 682 transactions aggregating only \$12.6 billion in 1Q10.

The number of U.S. LBOs dropped to 198 in 1Q11 from 260 in 4Q10 and 219 in 1Q10. The total price tag of U.S. LBOs fetched an aggregate \$8.3 billion in 1Q11, down considerably from \$24.7 billion in 4Q10, yet up from the relatively paltry \$5.0 billion spend in 1Q10. The significant drop in 1Q11 transaction dollars was due to only one deal worth over \$1 billion, compared to seven in 4Q10. The largest LBO in 1Q11 was Clayton, Dubilier & Rice's \$3.3 billion acquisition of Emergency Medical Services Corporation. With the continued easing of the credit markets and billions in dry powder, look for LBO activity and spending to remain healthy in 2011.

Software M&A Deal Volume and Spending

There were 394 software M&A transactions in 1Q11 totaling \$8.3 billion, compared to 421 transactions in 4Q10 aggregating \$12.7 billion, and 431 transactions in 1Q10 totaling \$4.6 billion (Figure 19). Although 1Q11 deal volume ticked down slightly from 4Q10 and 1Q10, it is still well above the average deal volume in 2009 of 332.

Figures 19: U.S. S/W Merger & Acquisition Activity

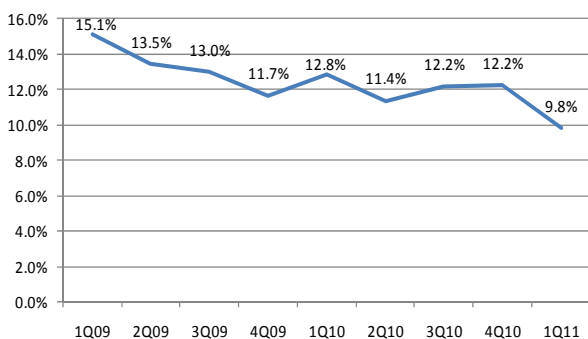


Software deals accounted for 9.8% of all U.S. M&A activity in 1Q11, a decline from the 12.2% and 12.8% share in 4Q10 and 1Q10 respectively (Figure 20). Software M&A accounted for 37% of all technology M&A in 2010, up from 10% in 2009 according to Goldman Sachs.

Lawson Software (\$1.80 billion, 2.4xEV TTM revenue).

Note: Each quarter, we recast prior quarters' software M&A activity to ensure the most accurate deal volume and spending metrics. As such, data from prior quarters often fluctuates and may not be the same from report to report.

Figure 20: Software M&A Deals as % of Total U.S. M&A Deals



Although the aggregate quarterly deal volume declined year-over-year from 1Q10 to 1Q11, the total software M&A dollars spent nearly doubled. The 80.4% jump in Q1's aggregate software M&A spend was achieved despite only one mega-deal (transactions with enterprise value greater than \$500 million). Infor's announced acquisition of

Software M&A Deal Currency

The percentage of sellers receiving stock or a combination of cash and stock decreased to 21% from 27% in 4Q10, most likely because sellers perceived the stock of their public buyers as either overpriced or too volatile. Concomitantly, the percentage of all-cash software M&A transactions increased from 73% in 4Q10 to 79% in 1Q11 (Figure 21). The overwhelming preference for cash is a longstanding phenomenon that's attributable to a host of factors: Buyers owned by PE firms often eschew dilution of their pre-IPO portfolio company; the seller's founders want retirement funds stability, and the seller's investors are anxious for a real IRR.

To download the complete and complimentary Q1 2011 Software Industry Equity Report, visit Software Equity Group's website:

http://www.softwareequity.com/research_quarterly_reports.aspx

Our Q1 report assesses how public software, Internet and SaaS companies performed in Q1; how they've benefited from the rebound in IT spending and record levels in Internet retail sales and on-line advertising spend in 2010; and how their stock prices and market valuations have responded. Our 1Q11 Report also enumerates and analyzes the software IPOs in the first quarter, looks at the current IPO pipeline, measures M&A deal volume and exit valuations overall and by software product category.



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CONTACT INFORMATION:

Software Equity Group, L.L.C.
12220 El Camino Real, Suite 320
San Diego, CA 92130
www.softwareequity.com

p: (858) 509-2800
f: (858) 509-2818



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