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Technology, Media and Telecommunications M&A Insights 2012

Deal drivers and industry trends in greater Europe and Germany

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Contents

Methodology and Terminology

The data we compile on the volume and value of transactions is for deals that completed in 2011, where the target company is in Europe, Middle-East and Africa (EMEA), as reported through a number of sources (principally MergerMarket and ThomsonReuters). We are fundamentally assessing the drivers and rationale underpinning deal activity, and assess how these change over time. While it's unlikely that any one approach will be 100% accurate, we aim to capture as wide a sample of deals as possible, and retain consistent definitions and approach year on year for comparability. In our figures we considered all transactions, regardless of the size of the transaction. We also include deals that lack information on the value of the transaction. We include transactions in the technology, media and telecommunications sectors. In our analysis, cable TV network operators are included in the telecommunications sector. We do not include gambling, casinos or sports / leisure sectors. Hence our compiled data may differ from other sources.

Welcome – M&A in the Technology, Media and Telecommunications sectors defy uncertain markets

Welcome to the 2012 edition of the TMT M&A Insights from PwC. This publication analyses the trends driving M&A activity in the European, Middle-Eastern and African (EMEA) TMT sectors and sets out our thoughts for 2012.

Even though the deal volume in the TMT sectors did not quite reach the levels of previous years, 2011 was yet another busy year. The most notable German deals in the sector were the acquisition of cable TV operator Kabel Baden-Württemberg by Liberty Global, the sale of Siemens Information Services (SIS) to Atos Origin and the acquisition of French online real-estate company Seloger.com by Axel Springer AG. The technology sector was the focus of PwC's activities in 2011. Besides delivering deal value to Siemens in preparing the sale of SIS, we advised the financial buyer of Keymile and the corporate buyer of Telent – the other two large transactions in the technology space.

The deal volume in EMEA increased to 2,369 deals with a volume of €126 billion, which is a small gain compared to the 2,288 deals worth only €106 billion in 2010. Although showing a gain, these numbers should be viewed with caution, as deal value is not disclosed for all of the deals.

Another outcome of 2011 is that the allocation of the deals to media's subsectors is changing. Deals in the field of traditional media, such as publishing and broadcasting, are losing ground to the internet. This is additionally driven by the demand of non media companies to diversify their activities with investments in internet-based content.

For 2012 we expect the momentum in the TMT sectors to remain high despite uncertain capital markets. Refinancing issues have already started to accelerate deal activity in the telecoms sector. Media companies, particularly those with proven business models in the social network or e-commerce space remain high on the acquisition agenda for financial and corporate buyers. Last but not least, investors' appetite for technology companies will not go away as technology is the key enabler for future-proof business models.

If you would like to receive further information or have any comments to make, please do not hesitate to contact us.

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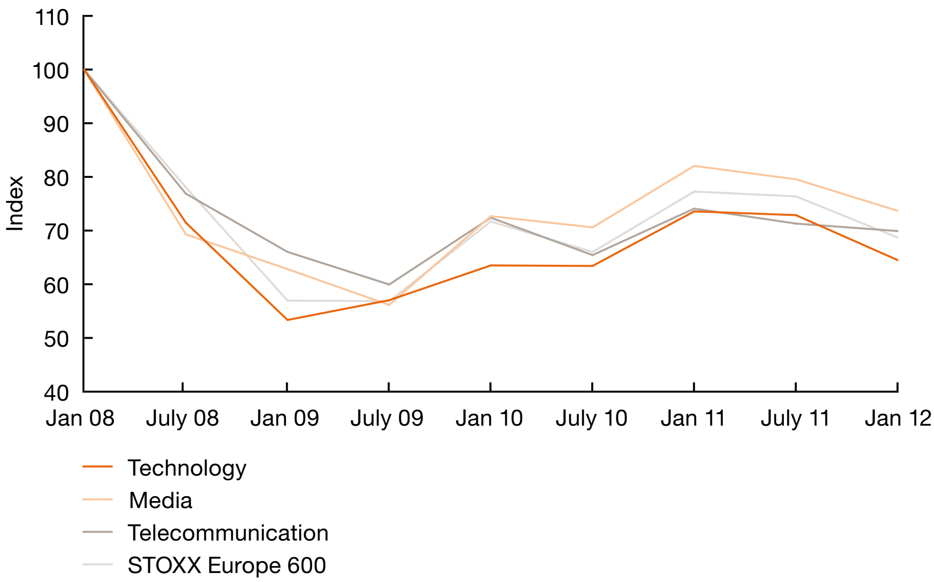
EMEA TMT deal market overview

TMT sector performance is in line with total overall industry performance, but still behind old highs

Media and telecommunication stocks slightly outperformed the market in a general downturn trend due to the Euro crisis in the second half of 2011. However, the TMT sector and the market still declined in 2011.

The recovery of the stock market after the financial crisis following the Lehman bankruptcy in 2008 was shortly interrupted by the Euro crisis in Greece and other countries in the first half of 2010. The market then experienced a second interruption at the end of 2011, which destroyed most of the gain since 2009. While growing at an average rate of 6.5% p.a. from 2009–2011, the STOXX Europe 600 declined more than 11% in 2011. Whereas the STOXX Europe 600 Technology subsector declined by 12.5% in 2011, the Media and Telecommunication subsectors only declined by 10.3% and 5.6% respectively.

STOXX Europe 600 by sector



Source: STOXX.

About the STOXX indices

STOXX Europe 600

- Subset of the STOXX Global 1800 Index
- With a fixed number of 600 components, it represents large, mid and small cap companies across 18 countries in the European region

STOXX Europe 600 subindices

- Available for 19 ‘supersectors’, based on the market standard ICB – Industry Classification Benchmark
- Number of companies included:
  - Technology: 25 (e.g. Alcatel Lucent, Nokia, SAP, Infinion, etc.)
  - Media: 31 (e.g. British Sky Broadcasting, Kabel Deutschland, ProSiebenSat.1 Media, etc.)
  - Telecommunication: 21 (e.g. British Telecom, Deutsche Telekom, France Telecom, etc.)

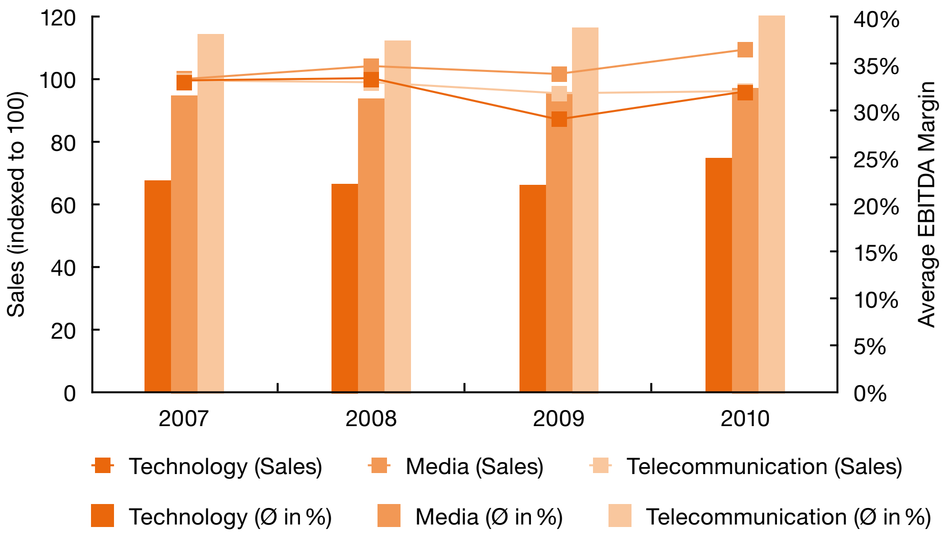
Crisis had only a marginal impact on sales and EBITDA performance in the TMT sectors

Looking at the companies of the STOXX Europe 600 TMT Indices, average sales did not change dramatically during the crisis. All losses in sales appear to be on the way back to pre-crisis levels. EBITDA margins changed even less, which also signals a certain robustness of the TMT sectors.

From 2007–2010, average sales of the European TMT sectors only declined by 0.5% p.a., although the economy faced a dramatic crisis in 2008 and 2009. On a per sector basis it becomes apparent that this small decline was mainly driven by the technology and telecommunications sector. The media sector, however, showed an average annual growth of 3%.

During the same period, average EBITDA margins increased. The margin for the technology sector grew from 19.7% in 2007 to 21.8% in 2010. Media and telecommunications margins grew from 27.6% and 32.7% to 28.3% and 35.0% respectively. Although there is still a striking difference between the higher EBITDA margins of the telecommunication sector compared to the other two sectors. Margins are likely to converge further with media relying more on technology as a driver of their profitability and telecoms profitability to decrease due to a consumer friendly regulatory environment.

Sales and EBITDA development of STOXX Europe companies



Sources: STOXX, Bloomberg.

Buyers were looking for targets to a large extent in Europe

A segmentation of deals per target region illustrates the dominance of Western and Central Eastern Europe compared to other regions. Africa and the Middle East only played a minor role as target regions.

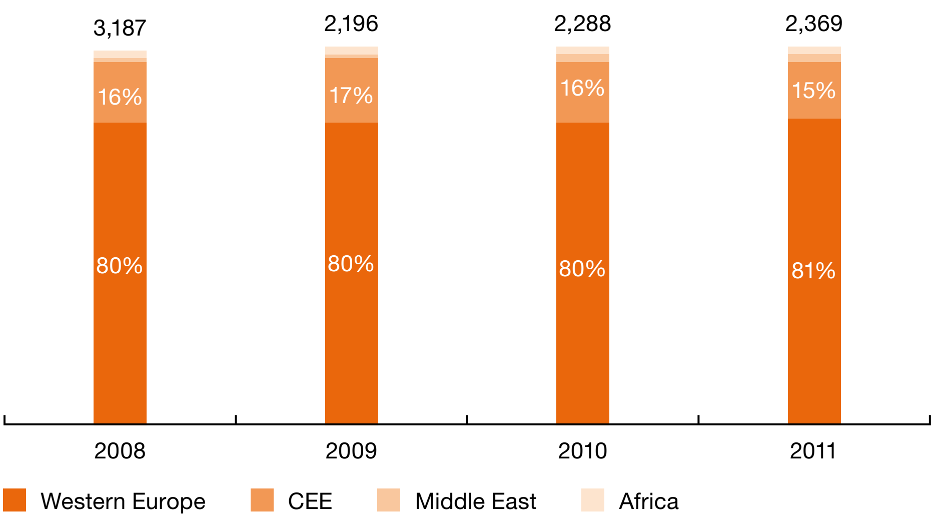
In terms of total deal volume, as well as the number of mega deals, Western and Central and Eastern Europe are the clear winners. With a volume of 81% of total deals in Western and 15% in Central and Eastern Europe, the 'old continent' is far ahead of its EMEA peers Middle East (2%) and Africa (2%).

The most attractive TMT deals region in EMEA is Western Europe.

However, compared to 2010, only Western Europe and Africa were able to grow their attractiveness as a target region. While the number of acquired companies in Western Europe increased by 5% from 1,824 in 2010 to 1,915 in 2011 (Africa by 11% from 35 to 39), Central and Eastern Europe as well as the Middle East both shrank by 3–4%. Particularly the Middle-East and Africa are still niche sectors in the TMT sectors, which only stand out, whenever there is a larger deal in telecommunication. In 2011, however, the MEA region did not matter much.

Within our sample, UK was the most attractive country within EMEA, contributing 463 deals as a target nation. On second and third rank comes France (323 deals) and Germany (317 deals). These three countries, which are also the main economic drivers of Western Europe, make up almost 60% of Western European deals volume and almost 50% of total EMEA deals volume.

EMEA TMT deals per target region, 2008–2011



Sources: MergerMarket, Thomson Reuters.

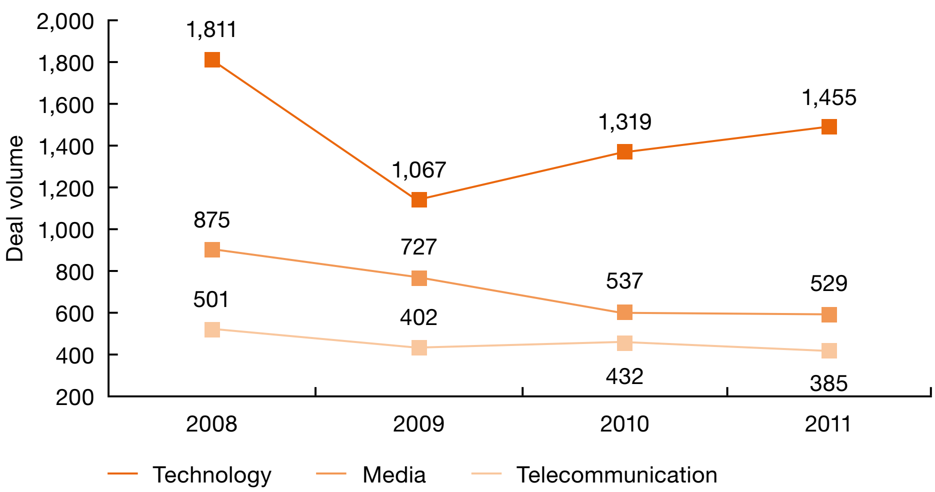
Technology deals drive the overall TMT deal market

While Media and Telecommunication deals in the EMEA region showed a steady decrease in number since 2008, the Technology sector is the only TMT sector to realize some recovery after the economic downturn.

The volume of completed acquisitions within EMEA is highly influenced by its biggest contributor, the Technology sector (61% of deals in 2011). It alone is responsible for the small overall growth in deal volume, following the trough in 2009 due to bad economic conditions. Since 2009, Technology deal volume rose by an average of 17% p.a., while during the same time, Media shrunk by 15% p.a. and Telecommunication by 2% p.a.

Surprisingly, although total deal volume is still far below the level of 2008 (3,187 deals vs. 2,369 deals), the value of disclosed transactions recovered almost completely. With a total deal value of €126 billion in 2011, the market is just €8 billion below its 2008 level of €134 billion. This implies that average deal value seems to have increased in the past.

EMEA – Deal volume by sector, 2008–2011



Sources: MergerMarket, Thomson Reuters.

Big Private Equity lags behind

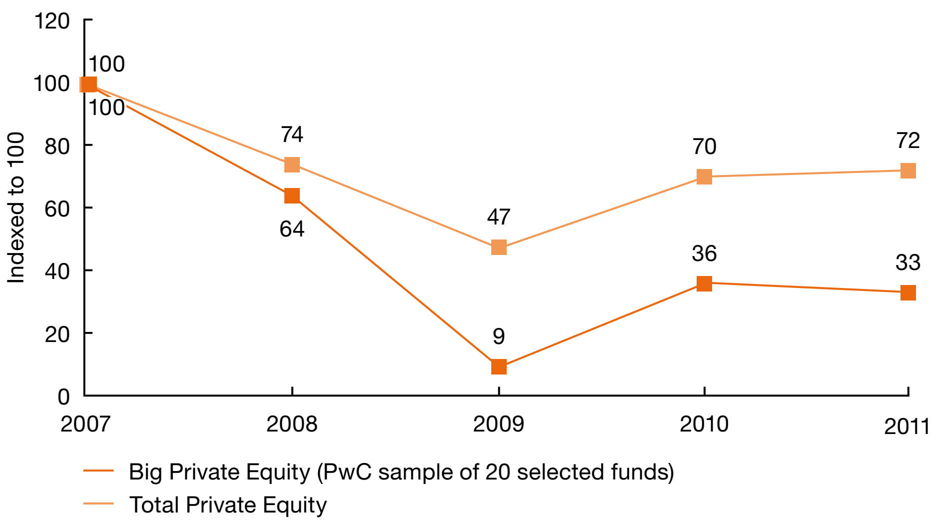
An analysis of the TMT Private Equity investments in EMEA shows that the big Private Equity player's are still below pre-crisis levels in terms of deal volume.

As market conditions cooled down severely following the Lehman bankruptcy, the Private Equity market came to a halt and deal volumes plummeted. Especially investments of the large Private Equity players dropped, as opportunities were scarce and financing was difficult. Although our ‚Big Private Equity' sample, comprised of the top 20 Private Equity firms by fundraising, slightly recovered from the trough in 2009, it is still far behind old highs and is likely to remain on this level.

Compared to 2007, deal volume of our total Private Equity sample with TMT investments is down 28%. Of this sample, our Big Private Equity subsample declined even more, having lost 67% between 2007 and 2011. The spread of 39 ppts. is a clear indicator of the difficulties Big Private Equity faces in finding and completing suitable deals in the TMT sector. The future development remains uncertain.

In the past, a major playground for Big Private Equity was the telecoms sector. The deal flow within this sector has now dried up due to consolidation and mostly small assets are still available in the market (e.g. small/regional cable network operators). Furthermore, Private Equity investors are confronted with strong strategic buyers in all three sectors, which are willing to pay a premium for attractive deals.

EMEA – 'Big Private Equity vs. Total Private Equity', 2007–2011



Sources: PEI Media, MergerMarket, Thomson Reuters, PwC analysis.

Technology deals tables

Technology sector deal volumes and values picked up in 2011

Compared to the low in 2009 and the recovery in 2010, technology sector deal volumes and values in EMEA recovered even more in 2011. Especially the second half of 2011 showed a significant upswing in deal values, while deal volumes fell back on a 2010 level. This is mainly due to some very large transactions like Autonomy Corporation, Skype and Converteam Group. All in all, 1,455 deals were completed in 2011 (up 10% from 2010), with a total value of €47.9 billion – almost 1.5 times more than in 2009 (€34.7 billion).

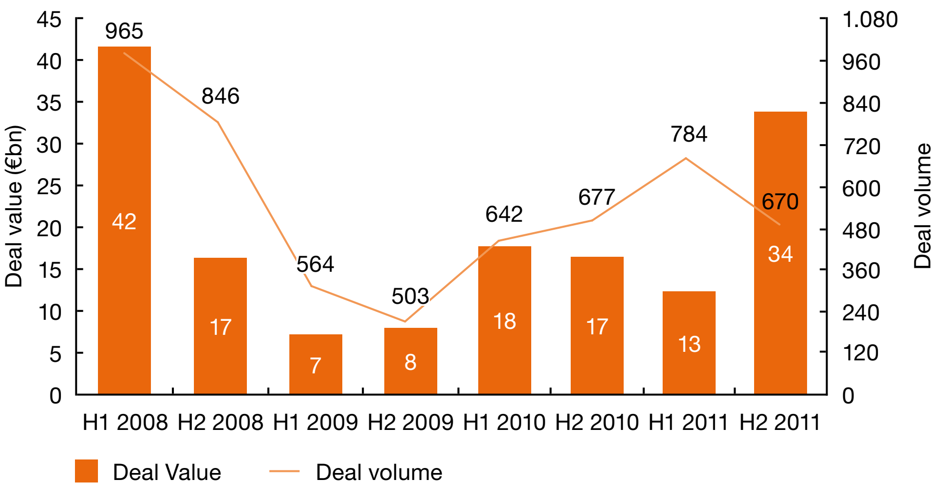
"The 2011 regain in deal volume and value has yet to prove its sustainibility in the market."

The recovery in M&A activity almost reached 2008 pre crisis levels, but should be viewed with caution, as the market outlook remains uncertain. Total deal value increased from the previous year and may be even higher than our published number as there is a large amount of deals with undisclosed deal values.

Deal dynamics, however, are changing, with several factors aligning to keep the window of opportunity for increased M&A activity open in the first half of 2012. High-quality assets are still being brought to the market. Sellers are set to take advantage of corporate buyers with the financial means for larger deals. Aggressive private equity buyers returned in 2011, but are now cautiously analyzing the market development.

During the downturn, corporates addressed their cost bases and improved their operational efficiency. Now they are looking to deploy the cash accumulating on their balance sheets to buy growth in an environment where organic growth prospects are more challenging. As a result, the number of mega-deals is still on a high level.

Technology deal activity in EMEA, 2008–2011



Sources: MergerMarket, Thomson Reuters.

HP's Autonomy deal tops the list of European deals

Seven of the ten largest acquisitions in EMEA were executed by corporate investors in 2011.

About half of the M&A activities in the technology sector with targets in EMEA were deals involving either non-European corporates or financial investors. Of the top ten major deals, six involved a non-European company as a buyer. This underlines the importance of this region in the technology sector – for European and non-European investors.

In 2011, the largest deal in Europe, based on disclosed deal value, was the strategic acquisition of Autonomy Corporation by Hewlett-Packard. By acquiring Autonomy, HP complements its existing technology portfolio and obtains access to a global player in infrastructure software.

The distribution of buyers and sellers also shows that M&A activity in EMEA is driven by Western European companies. Central and Eastern Europe, as well as Russia and the Middle East, still play a minor role in technology investments.

Technology deals

Major European deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Oct 11	7,154	Autonomy Corporation Plc	UK	Hewlett-Packard	USA
Oct 11	6,105	Skype Global Sarl	Luxembourg	Microsoft Corp	USA
Sep 11	3,232	Converteam Group SAS	France	GE Energy	USA
Aug 11	1,607	Landis+Gyr AG	Switzerland	Toshiba Corporation	Japan
Aug 11	1,404	Telvent GIT SA	Spain	Schneider Electric	France
Mar 11	1,351	bwin.party digital entertainment plc	Austria	PartyGaming Plc	Gibraltar
Dec 11	1,150	Oberthur Technologies Group	France	Advent International	USA
Jan 11	1,106	Infineon Technologies (wireless)	Germany	Intel Corporation	USA
Nov 11	1,054	Groupe Delachaux	France	CVC Capital Partners	UK
Jan 11	900	AREVA S.A.	France	Government of France	France

Sources: MergerMarket, Thomson Reuters.

Germany: Intel leads the list

In 2011 deal volume was 36% higher compared to 2010. Deal value increased threefold to 5.9 billion compared to 1.8 billion in 2010. Main reason for the higher total deal value was the return of deals with a total value of more than €100 million.

Spurred by the acquisition of the wireless solutions business of Infineon by Intel Corporation, the manufacturer of microprocessors, the German M&A market for technology deals in 2011 left the crisis behind and resumed pre-crisis levels. Further contribution to this trend came from other high ranking deals like the sale of the Siemens IT Solutions and Services business to Atos Origin, or Lenovos acquisition of Medion AG.

Similar to the EMEA landscape, most deals in Germany were driven by corporate rather than financial buyers. Of the top 10 deals, not a single Private Equity investor was involved. As most acquirers are from outside Germany, it shows how attractive the German technology sector is for foreign investors.

Technology deals

Major German deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Jan 11	1,106	Infineon Technologies (wireless)	Germany	Intel Corporation	USA
Jul 11	850	Siemens (IT Solutions & Services)	Germany	Atos Origin S.A.	France
Aug 11	506	Medion AG	Germany	Lenovo	Germany
Mar 11	496	Loyalty Partner GmbH	Germany	American Express	USA
Aug 11	272	Roth & Rau AG	Germany	Meyer Burger	Switzerland
Aug 11	181	Elexis AG	Germany	SMS GmbH	Germany
Jan 11	152	Private Sale GmbH	Germany	eBay Inc.	USA
Mar 11	145	See Tickets Germany GmbH	Germany	CTS Eventim AG	USA
Jan 11	132	curamik electronics GmbH	Germany	Rogers Corporation	USA
May 11	101	Qimonda (manufac. facilities)	Germany	Infineon Technologies AG	Germany

Sources: MergerMarket, Thomson Reuters.

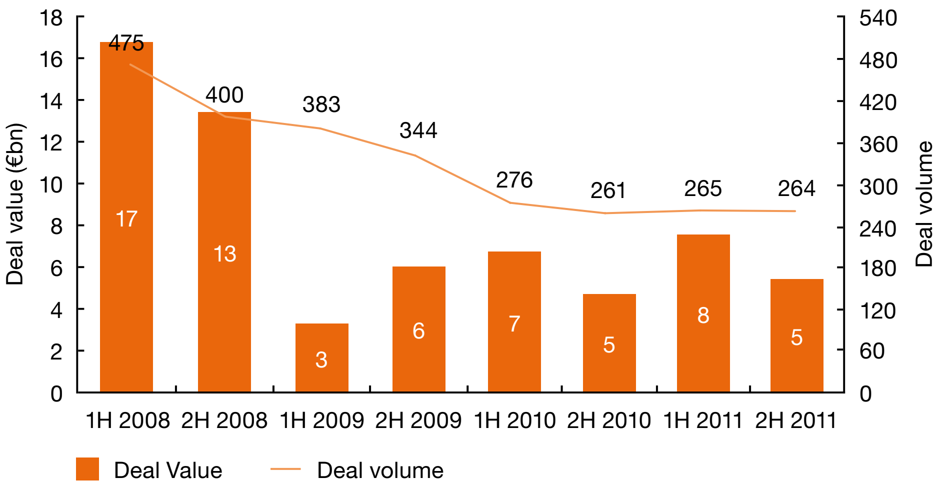
Media deals tables

Disappointing revival of M&A in European media

In 2011, deal volume was slightly lower than in 2010, however, the total value of the deals showed a healthy increase. Nevertheless, the highs of 2006 and 2007 are still far away.

In 2010, the slight recovery after the financial crisis led to increasing M&A activities in Europe, mainly driven by corporate buyers. In 2011, deal volume declined to 529 (–2% vs. 2010) and deal value grew by 13% to €12.9 billion. While total deal value increased from the previous year, it is worth noting that our analysis focuses on transactions with disclosed deal values only. The large number of deals with undisclosed deal value may be explained by a high involvement of non-public companies who are not required to disclose deal-related information and investors wanting to avoid disappointing exit prices.

Media deal activity in EMEA, 2008–2011



Sources: MergerMarket, Thomson Reuters.

Europe: High value deals are still rare

Although more than in 2010, there are still few deals with values above €1 billion.

There were only two big deals with values above €1 billion in Europe – the €1.4 billion acquisition of EMI Group by Citigroup and the €1.3 billion acquisition of SBS Broadcasting by an investor group around Sanoma. Apart from these two deals, there were five more deals with values above €500 million in the European market. The short period in 2011, in which economic growth was up again and the fear of yet another crisis hadn't been imminent, could be the reason for this slight uptick in media mega deals.

Apart from the few mega deals from Citigroup, Sanoma (and its investor group), Charterhouse Capital and Telcrest Investments, the European market was mainly driven by corporate deals with little private equity activity.

Media deals[1]

Major European deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Feb 11	1,407	EMI Group PLC	UK	Citigroup Inc	USA
Jul 11	1,225	SBS Broad-casting BV	Netherlands	Investor group	Finland
Sep 11	960	Bureau Van Dijk	Belgium	Charterhouse Capital	UK
Apr 11	951	Telewizja Polsat	Poland	Lyfrowy Polsat	Poland
Jun 11	752	CTC Media, Inc (25.2% Stake)	Russia	Telcrest Investments	Russia
May 11	654	Lagardere Active	France	Hearst Corporation	USA
Feb 11	637	Seloger.com SA	France	Axel Springer AG	Germany
Oct 11	605	Synovate Ltd.	UK	Ipsos SA	France
Apr 11	492	Shine Group Limited	UK	News Corporation	USA
Oct 11	384	UKTV Interactive Ltd	UK	Scripps Networks	USA

[1] Cable TV network operator deals are included in the telecoms sector.

Sources: MergerMarket, Thomson Reuters, PwC UK.

Marketing services related deals are most popular among media sub-sector deals

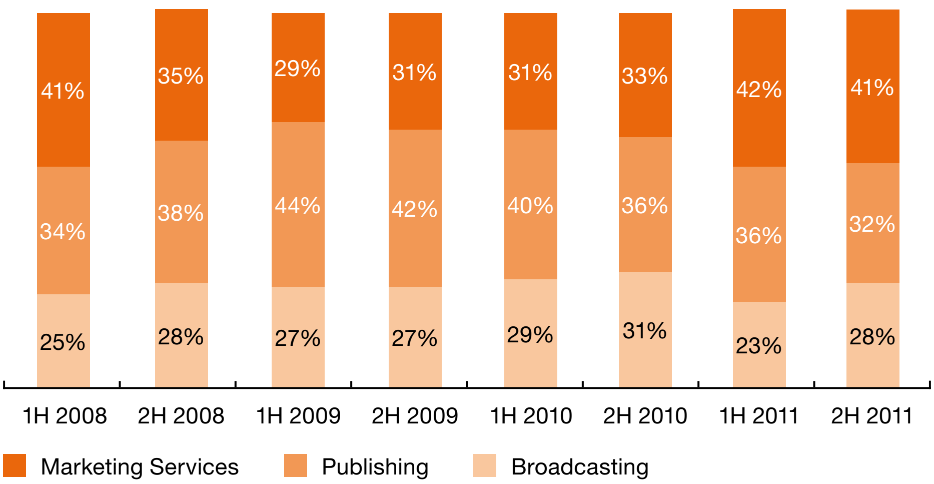
Of the three sub-sectors in Media, the share of publishing and broadcasting related deals declined further in 2011. While marketing services increased from 33% in 2H 2010 to 41% in 2H 2011, publishing lost 4 ppts. to 32% and broadcasting 3 ppts. to 28%.

Traditional media companies are more and more confronted with the impact of the success of online media companies on their core businesses and are forced to transform their legacy business models to defend their market shares.

The increased usage of smart-phones and tablet PCs by consumers, offers traditional media companies the opportunity to tap into new revenue streams such as mobile gaming. As such, they are on the lookout for new companies with interesting business models.

This makes publishers regular buyers of digital companies, which allows them to compensate eroding print revenues with digital revenues. On the other hand, digital companies also offer new distribution channels for traditional media companies in a similar business segment. Increasing mobile usage affects nearly all kinds of media. Gaming and online gaming are significantly influenced by this change and force traditional gaming developers to invest in new mobile-oriented business models. Investments in online/social gaming companies was one of the focus areas of financial and corporate investors alike. Investors focused in particular on games developers in Germany, where more than five games developers changed or added owners in 2011 (e.g. Bigpoint, wooga, burda:ic, GameDoctors, Scoreloop).

Media deal activity by subsector in EMEA, 2008–2011



Sources: MergerMarket, Thomson Reuters, PwC analysis.

Germany: M&A in media shows a slight increase

2011 did not reach the high level of deal value from 2010, as no such mega deal as the €2,240 million acquisition of Springer Science + Business took place. Nevertheless, excluding this deal from the analysis, deal value increased from €229 million to €295 million.

In 2011 the largest completed media deal with a disclosed deal value in Germany was the €125 million purchase of Smartclip, the European leader in video advertising, by Adconion Media Group. Other main deals in 2011 played in the same league as last year's deals, with the exception of the Springer mega deal.

Continuing from 2009 and 2010, deal activity concentrated on smaller corporate deals and deals with undisclosed deal values. Overall, there were 82 media deals in Germany, compared to 71 in 2010, which is an increase of 15%. Deal value increased by 29% (excluding the Springer deal) from €229 million to €295 million. This means that the upward trend from 2009 and 2010 continued through 2011, however, with a lower growth rate.

Media deals[1]

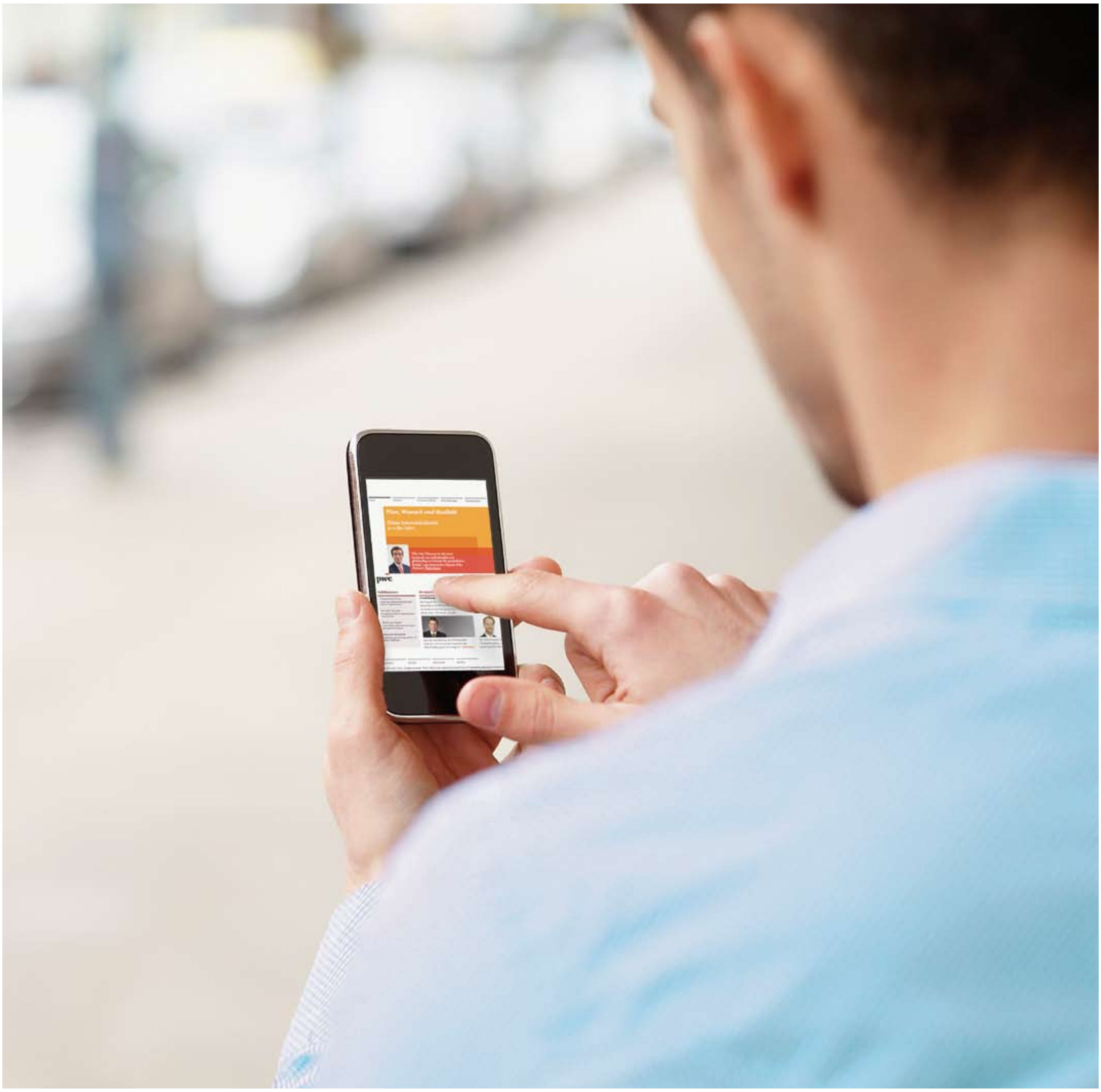
Major German deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Nov 11	125	Smartclip AG	Germany	Adconion Media Group	UK
May 11	79	DirectGroup-French Business	Germany	Najafi Cos	USA
Dec 11	40	Visual Meta GmbH (78% Stake)	Germany	Axel Springer AG	Germany
Dec 11	15	mediasports Digital GmbH	Germany	Perform Group Plc	UK
May 11	10	metapeople GmbH	Germany	NetBooster SA	France
Sep 11	8	mokono GmbH	Germany	Populis Media	Ireland
Apr 11	8	Swiat Ksiazki sa	Poland	Verlagsgruppe Weltbild	Germany
Jun 11	4	Countdown Media GmbH	Germany	Undisclosed Acquiror	Unknown
Jul 11	3	Il Sole 24 ORE SpA-Business	Italy	vwd	Germany
Jun 11	2	brand eins Medien AG	Germany	bmp media investors	Germany

[1] Cable TV network operator deals are included in the telecoms sector.

Sources: MergerMarket, Thomson Reuters.

Telecommunication deals tables



Mixed telecoms deal landscape in 2011

Deal value in the telecoms sector may have reached its inflection point in 2011, but low results for the second half of 2011 imply uncertain future.

Deal activity in the telecoms sector showed a decline in 2011, albeit by just 11%. In 2011 we noted 385 deals compared to 432 deals in 2010. What is striking, is that the disclosed deal value increased by 10% (compared to 2010) to €65.4 billion. This development is driven by more high-value deals, most notably the acquisition of Wind Telecom by VimpelCom for some €16 billion.

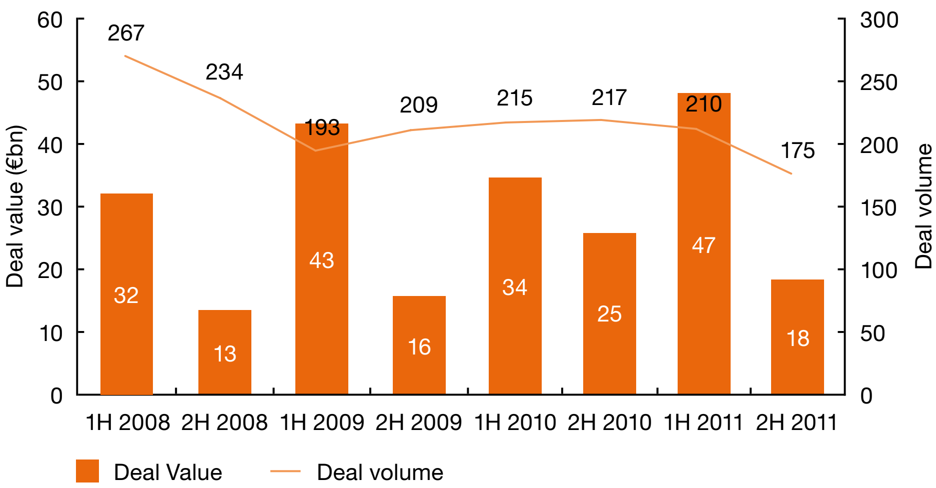
As the total deal value in our analysis is linked to the number of deals with disclosed deal value, the higher value is driven by the mega deals, as fewer deals that reveal the transaction value were noted. From the 385 deals in 2011, 166 (43%) announced their values, while in 2010, 198 of 432 deals (46%) did so.

While many deals targeted companies in Europe, the ten largest deals, with a deal value of more than €1 billion, focused mostly on developing and emerging countries like Poland, Russia, Ukraine and Egypt. The majority of deals, however, are smaller with a value of less than €100 million.

As in 2010, most deals were completed in the Russian Federation, where the actual number of deals increased by 11 to a total of 99. This is a strong lead over the second-most important deal country in the telecommunications sector, which is the UK with 48 deals in 2011.

As we predicted in last year's Telecoms M&A Insights, the deal momentum in Russia still seems sustainable. Consolidation in the Russian telecoms market continues and Russian telecoms companies are using their leverage to acquire companies abroad. This is highlighted by Rostelecom, which is the acquirer in three of the Top 10 ranked telecoms deals in EMEA.

Telecommunications deal activity in EMEA, 2008–2011



Sources: MergerMarket, Thomson Reuters.

Europe: More high-value deals and increased activity in emerging markets

In EMEA, some 385 deals worth €65.4 billion were completed in 2011. While the number of deals fell slightly from the previous year by 11%, the total value increased by 8%.

The disclosed deal value of the top ten deals in the EMEA region declined by ca. 3% from €41.2 billion to €39.9 billion in 2011. This confirms that high-value deals are still on the agenda, but deals below €1 billion are picking up.

The busiest deal makers were clearly large corporates. Of the top ten deals in EMEA, just two involved a Private Equity company.

The biggest deal was the €16 billion acquisition of Wind Telecom by the Netherlands based, but mainly in Eastern Europe and Russia operating company VimpelCom. The next biggest deal was the 44% stake in SFR SA, bought by Vivendi for €7.8 billion, which is still larger in value than last year's biggest acquisition of a 50% share in Brasilcel by Spain's Telefonica.

Telecommunication deals

Major European deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Apr 11	15,998	Wind Telecom SpA	Egypt,Italy	VimpelCom Ltd	Netherlands
Jun 11	7,750	SFR SA (44% Stake)	France	Vivendi SA	France
Nov 11	4,524	Polkomtel SA	Poland	Spartan Capital	USA
Dec 11	3,160	Kabel BW GmbH & Co. KG	Germany	Liberty Global, Inc.	USA
Sep 11	1,800	Com Hem AB	Sweden	BC Partners Limited	UK
Apr 11	1,562	Uralsvyazinform OAO	Russia	Rostelecom	Russia
Apr 11	1,337	TsentrTelekom	Russia	Rostelekom	Russia
Apr 11	1,308	Sibirtelecom OJSC	Russia	Rostelekom	Russia
May 11	1,247	Ukrtelecom VAT	Ukraine	ESU LLC	Austria
Feb 11	1,175	Draka Holding N.V.	Netherlands	Prysmian Cables & Systems	Italy

Sources: MergerMarket, Thomson Reuters.

Germany: Telcos M&A landscape similar to last year

In Germany, 38 deals with a total value of almost €5.8 billion were completed in the telecommunications sector in 2011.

In 2011, deal volume increased by 15% to 38 deals and total deal value by 14% to €5.8 billion. The distribution of deals, however, looks similar to last year, as we can again observe one mega deal (in 2010: acquisition of Unitymedia by Liberty Global), followed by several deals in the range of €50 to €500 million.

The biggest deal in 2011 was Liberty Global's acquisition of Kabel BW for €3.2 billion from EQT Partners. The Germany based cable company was sold from Blackstone to EQT Partners in 2006 for €1.3 billion. Interestingly, as in 2010, it is again Liberty Global to make the largest acquisition in the German telco sector.

The €124 million acquisition of the fourth ranked PTC deal represents the last 3% stake Deutsche Telekom so far did not own in PTC (a Polish telecom operator). With this deal, a long lasting dispute between Deutsche Telekom and Vivendi over the ownership of PTC came to an end.

Telecommunication deals

Major German deals 2011

Date	Value (€m)	Target	Target country	Acquirer	Acquirer country
Dec 11	3,160	Kabel Baden-Wuerttemberg	Germany	Liberty Global, Inc.	USA
Jun 11	420	OTE SA	Greece	Deutsche Telekom AG	Germany
Feb 11	140	United Internet AG (5.29% Stake)	Germany	Warburg Pincus LLC	USA
Jan 11	124	Polska Telefonia Cyfrowa Sp	Poland	Deutsche Telekom AG	Germany
May 11	53	Info AG	Germany	QSC AG	Germany
May 11	28	LambdaNet Communications AG	Germany	euNetworks GmbH	Germany
Jan 11	6	Nowtilus	Germany	Sonic Solutions	USA
Apr 11	5	DBD GmbH (58.35% Stake)	Germany	Spectrum Investments	USA
Mar 11	4	TelDaFax Holding AG	Germany	Multiple Investors	
Aug 11	0.3	eteleon e-solutions AG	Germany	Drillisch AG	Germany

Sources: MergerMarket, Thomson Reuters.

M&A Outlook for the TMT sectors

M&A trends for 2012: Despite uncertain economic conditions, corporate and financial investors are likely to buy TMT businesses

Despite the ongoing concern about the future of the Euro zone in light of the debt crisis, corporate and financial buyers are still optimistic. Fundamentally, not much has changed and, more important, cash is available and ready to be invested. These are our cross sector M&A deal drivers for 2012:

Strong market fundamentals

As shown, fundamentally, the TMT market survived the crisis with only minimal losses, making it an attractive market for acquisitions. Corporations seeking external growth, as well as the Private Equity industry are very likely to use the current market situation as an opportunity to invest. However, valuations in certain areas in the technology and media sectors reached hype levels in 2011. For 2012 we expect valuations in most sectors to retreat to more sensible levels.

Available cash reserves look for deals

Dry powder of Private Equity funds as well as the good level of cash balances of large corporations across all sectors could be a hint towards increased future deal activity. We expect high volume deals in the technology sector led by big IT players and in the telecommunication sector, led by big Private Equity funds.

Deal flow likely to remain stable

Although still bearing some uncertainty, the sovereign debt crisis in Europe appears less dramatic than expected for the M&A environment in the TMT sectors. However, the uncertain environment combined with some restraints in obtaining debt financing, the overall deal flow is likely to show little to no growth in 2012. Fire-sales are unlikely to happen and Private Equity investors will only buy selectively. Corporate deals are likely to continue dominating the deals market.

Refinancing to stimulate deal activity in telecommunication

During the Private Equity boom years from 2005 to early 2008, deals were made using a considerable larger amount of debt than possible nowadays. This debt is now coming back and is waiting to be refinanced in 2012 and beyond. As financial markets have started to deteriorate again, refinancing will be more expensive now than it used to. Although we do not expect many distressed assets to appear in 2012, we expect the refinancing issue overall to bring more deals to the market particularly in telecommunications sector.

Advanced market consolidation drives smaller deals

Consolidation in the TMT sectors is already at an advanced stage. Especially large corporates have been active consolidators in the market. In light of this situation, smaller deals will continue to dominate the M&A business in the TMT sectors.

Technology sector specific trends

Driven by three major trends - network optimization, business intelligence software and Cloud computing, the technology sectors offers M&A opportunities especially for large strategic investors with little sensitivity to premium valuations. While this market is clearly dominated by big IT companies in the US, European competitors try to follow close behind.

Network optimization

Tablet computers and smartphones are becoming more and more prevalent. With this trend comes an increase in mobile data volume leading to bottlenecks in access backhaul networks. Equipment vendors and system operators are looking for outside solutions to manage and optimize networks, without physically changing the network. This includes companies specializing in e.g. data policy management, content delivery networks, bandwidth management and diameter routing.

To complement its data centre strategy, Dell for example acquired Force10, an equipment vendor that specializes in high-performance computing, orchestration and automation. Another recent deal example is the acquisition of Keymile in Germany, a provider of flexible and robust multi-service access platforms and stand-alone transmission solutions, by Riverside and Halder, a Private Equity firm.

Business Intelligence Software

For corporations with large amounts of data, it is becoming more and more important to effectively manage and analyze this data. Most of the available information does not come in structured spreadsheets, but rather in unstructured documents like presentations, emails, videos and social networks. Fast and easy access to this unstructured information is where the value for corporations lies.

Data mining and enterprise content management companies are therefore one focus area within the technology sector. Large IT companies have already picked up on this M&A trend, as it is a good fit to their business and provides higher margins.

This is emphasized by last year's acquisition of Autonomy Corporation, an infrastructure software company, by Hewlett-Packard. Interestingly, HP in 2011 also bought Vertica a provider of real-time analytics solutions and has now announced to offer a platform that combines the services of both companies. Another big deal in 2011 was Oracle's acquisition of Endeca, which is also active in business intelligence software.

Cloud services

The rapid development of virtualization and security technologies has underpinned the Cloud proposition. The prospect of significant cost savings and the ability to handle large data volumes is making corporates take notice and become more open to exploring the creation of a private Cloud or of outsourcing to public Cloud providers. While initial interest was confined to the larger companies, the SME sector now realizes the significant potential for future benefits. Major software companies are therefore aggressively investing in this trend, which becomes visible by looking at the acquisition of RightNow by Oracle, the acquisition of SuccessFactors by SAP, or the six acquisitions of CRM companies done by Salesforce – all in 2011. Furthermore, Cloud services is the playground for many start-ups, which are, due to the appetite for acquisition of big IT companies, also likely to profit from this trend.

Media sector specific trends

The media sector has not changed dramatically in the past year and as such our last year's predictions are still valid for 2012.

In the 2011 M&A insights we identified five key deal drivers for the media space. Reflecting on what happened during 2011 and looking forward, one sector did not perform as expected and we will take it off our list for 2012: paid content. After much excitement, reality set into the paid content sector. Publishers and platform developers realized that the paid content market –particularly for the publishing industry, is still not there where market participants had hoped with the launch of tablet PCs. The paid content market has still a long way to go. We are confident that the following sectors will receive more attention from investors in 2012:

Online marketing

Online marketing remains a very hot topic in the media sector as marketing budgets shift to the online channel. Online marketing is also one of the fastest growing market segments in the media space, with an expected annualized growth rate of 11.8% until 2015. In 2011, we saw Adconion buy Smartclip of Germany. Video advertising is still a nascent market segment that promises higher CPMs than traditional banner advertisement. As such, Ad Networks try to tap into this business segment. The challenge of video Ad Networks is still to attract suitable ad inventory as well as campaigns. With the convergence of TV with the Internet, such Ad Networks will become ever more important and thus are on the shopping list for agencies as well as traditional media companies.

Online gaming

The online and mobile gaming sector, was a very sought after sector particularly in Germany. Ownerships of such companies as Bigpoint, wooga and others changed in 2011. Although the IPO of US based market leader Zynga dampened the excitement somewhat, online gaming as likely to become a much bigger business than traditional video gaming was. Driven by the ubiquity of smartphones and tablet PC, the market penetration of games among consumers as likely to be much higher than what it used to be. As such the revenue potential is higher as well. The growth of the games sector makes it a very interesting investment particularly for strategic investors, which are willing to invest even if multiples are high.

Social commerce

2011 was the year for group buying and couponing sites. Ebay entered the market by buying the owners of dress-for-less in Germany, and Google entered the German market by buying daily-deal.de. A year earlier, the start-up citydeal.de was bought by the couponing market leader Groupon. In the aftermath of Groupon's IPO there was a lot of talk about the sustainability of the business model of couponing. This remains to be seen, but receiving discounts is something customers really like. We expect to see more deals happening in this space, which again is driven by the increased usage of smartphones for location based services. There are a range of companies in the social commerce space that are likely to be of interest to strategic buyers when those firms become available.

Telecommunication sector specific trends

Due to the maturity of the industry, market consolidation is in full swing and 2012 deal drivers are more operational in nature than strategic.

Contrary to the technology and media sector, we cannot see products or business propositions that are likely to drive the number of deals in the telecommunication sector in the current year, with the exception of Cloud based services, which we discussed among the technology trends. Of the three key deal drivers that we identified last year, only one seems still valid for 2012: convergence.

Convergence will drive deal activity albeit on an opportunistic level

In last years's issue of our Telecoms M&A Insights we predicted to see more convergence deals among western European telecommunications operators. While the media sector is still high on the agenda for operators, they have so far shied away from large scale acquisitions. In 2011, the only high profile convergence deal took place in the US and was the acquisition of Motorola Mobility by Google. Although this deal was an online media company buying a telecommunication hardware manufacturer, it could be more viewed as Google buying a patent portfolio in an attempt to defend their Android customers (HTC, Samsung, etc.) against future attacks from other platforms, such as Apple. We hypothesized that carriers would buy more media companies to avoid the "dumb-pipe" syndrome and to branch out into markets that show higher growth rates. But strong competition together with a consumer friendly regulatory environment weakens the financial fire-power of Europe's premier telcos. Combined with operational challenges that are discussed further below, larger convergence acquisitions are unlikely to be on the agenda of telcos in this year.

As such we notice more opportunistic moves into the technology and media space than strategic. M&A executives monitor the markets closely and are eager to look in the technology and media space. However, with limited financial leverage, most firms prefer to look at early stage companies rather than established market leaders. As such they look for ancillary businesses that complement their existing offering portfolio. Looked at it from this angle, the media sector is likely to dominate the deal activity of telcos as most of them are already active in the online media field and the amount of smaller deals in this space is much higher than in the technology sector. The businesses they look for are mostly in the areas that we discussed in our media trends: local commerce, as this fits to the mobile business of carriers and online marketing, as this complements their existing online content offerings.

Recapitalization efforts drive divesture activities and offer opportunities for big Private Equity

The telecoms industry is by nature a large and capital intensive industry. Therefore, carriers always require a significant amount of debt to upgrade and modernize the infrastructure. In 2012, another large part of the existing debt of European telecommunications companies has to be refinanced. While debt financing itself should not be an issue as telcos generate significant cash flows, the interest on debt is likely to be higher now than it used to be. This applies in particular to those operators, which are based in countries where the economies are suffering from the aftermaths of the financial crises of 2009. Spain and Italy to name just a few.

But we do not expect any refinancing effort to fail completely. Instead we do expect carriers to actively manage their balance sheets. As such, they are currently reviewing their asset portfolios and are more willing than ever to divest businesses that are non core or non performing (e.g. the sale of SFR and Polkomtel by Vodafone). Even for the core business, they are more willing than ever to exit countries, where market leadership or a second best position is not achievable.

Although this should primarily lead to more market consolidation in the European telecommunication markets, it also offers a window of opportunity for foreign companies, particularly from Asia, to enter certain markets. It also offers an opportunity for big Private Equity to acquire larger assets, restructure the businesses and wait for a more favourable market environment to exit the business again. It should be mentioned, however, that especially corporate buyers might face difficulties in an M&A process due to anti-trust regulation.

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