Business values recovering in IT sector says Clearwater Corporate Finance

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The value of IT businesses is on the rise following the lows of 2008, says Clearwater Corporate Finance.

In The Wire, the firm's report on merger and acquisition (M&A) activity in the technology sector, Clearwater reveals that whilst the number of UK transactions fell by around 22 per cent in the first half of 2009 compared to the same period the previous year, IT has remained one of the strongest sectors for corporate deals.

M&A activity in the mid-market held up reasonably well, although the top end of the market was the worst affected, with a 56 per cent drop in deals worth over £100m

After 2008 – when a wave of overseas acquirers took advantage of the cheap pound to snap up UK technology companies, 2009 has seen a major comeback by UK buyers. During the first half of the year 82 per cent of IT businesses which were sold went to a UK buyer compared to just 45 per cent in the same period last year.

Serial acquirers Capita, Vodafone, Carphone Warehouse and Kelway were back with a vengeance and acquiring businesses from under the noses of overseas competition. US businesses have consistently remained the next most likely acquirers but this year has seen a range of businesses from other countries – including Israel, Australia and Japan - hot on their heels.

During 2009 there has also been a slight rise in the number of UK businesses making acquisitions in the US including Micro Focus International, Autonomy and Pearson.

There have been fewer public companies taken private or acquired by trade purchasers in 2009 as share prices have risen and bargains have dried up. Meanwhile private equity investment in the IT sector was down this year by around 27 per cent compared to the high in the second half of 2007 but technology still remains one of the most attractive sectors for these firms.

Clearwater says values for technology businesses are starting to improve, indicating that the worst of the downturn is now over. P/E ratios for listed IT companies in the second quarter of 2009 were up by 35 per cent to around 12x compared to the low in the fourth quarter of 2008. Clearwater's market intelligence suggests that the median value of a privately-owned technology business is currently around six times forecast EBITDA (earnings before interest, tax, depreciation and amortisation).

Clearwater's technology analyst Emma Leathley says: "Whilst this figure represents a fall from the highs of 2007, values have started to recover and are now, some would say, at a more sensible level. In the case of a high growth business and a strategic purchaser, this value could easily be surpassed."

Emma Leathley says that technology has fared better than most other sectors during the downturn:

“Mergers and acquisitions in the technology sector have continued to hold up well compared to other industries for a number of reasons. Companies have learnt lessons the hard way in the aftermath of the dotcom crash, and technology businesses are traditionally less burdened by debt and therefore less inhibited by the crisis in the debt markets.

“Given the number of cash-rich corporates who say they are in the market for acquisitions and the number of vendors who want to sell their companies but have delayed until things look rosier, it is likely that we could see a sharp rise in the number of businesses changing hands in the second half of the year.”

Clearwater’s Head of Technology Sector, Carl Houghton added “Many tech businesses are all about creating efficiency and saving money in the medium term – something that is right at the top of the corporate agenda. This continues to fuel deals in the sector.”

Copies of The Wire can be downloaded from:
http://www.clearwatercf.com/documents/sectors/TheWire_August_09.pdf

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Notes to Editors

Clearwater Corporate Finance is the leading independent corporate finance house in the UK with an exceptional track record of over 300 completed transactions. We advise on all aspects of corporate finance transactions from mergers and acquisitions (M&As) and company sales to management buy-outs (MBOs). Our clients include management teams, owner-managers, private equity firms and large corporates. We differentiate our service through our:

Independence – as we are not linked to any larger financial institution or consulting firm, we can provide objective advice without any potential conflict of interest.

Cross-border capability - the close communication between our four UK offices and the 60 member firms in IMAP, our exclusive partnership of international M&A firms, makes us a natural choice for cross-border transactions.

Sector expertise - our global sector teams offer clients a unique insight into M&A opportunities across the world.
Research and origination - with 25 per cent of staff focussed on these activities, we offer a market-leading capability to identify strategic opportunities for clients.

Excellence - we are committed to excellence in our service delivery and each client project is managed in a bespoke manner.
Commitment - as an owner-managed, partner-led firm, we guarantee a high level of partner involvement. We take a long-term view to build trust and lasting relationships.

The size of our team and the deals we advise on make us the most active independent corporate finance house in the markets in which we operate.

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