

Mergers & Acquisitions in the Cloud Sector

Introduction

In recent years, cloud computing has been a central topic in IT spending discussions at companies across the globe. As young businesses have developed new cloud-focused products and services, larger companies have expressed a desire to make acquisitions to bolster their cloud technology portfolios. As a result, M&A in the cloud sector has received much attention from industry leaders and financial sponsors alike. The following report provides an overview on the recent trends in cloud computing M&A, along with precedent transactions and public company comparables to demonstrate the most recent valuations throughout the industry. Additionally, a graphical representation of the cloud computing sector, organized by sub-sector, has been provided.

Cloud Computing Landscape

Agile Equity is pleased to publish a 2011 Cloud Computing Industry Landscape that provides a macro view of the various niche sectors and the companies within these specific areas. This informative graphic presents a comprehensive selection of cloud companies. We have selected what we consider to be the best examples of cloud computing initiatives for each of the industry categories we've identified. Given the long-term prospects and disruptive procurement opportunities for cloud technologies, we have a high level of confidence that some companies will carve out large markets.



Cloud Computing: M&A Overview

In 2011, companies large and small are expressing a growing interest in cloud computing technologies. As IT buyers begin to trust the security and dependability of virtualized IT systems, demand for cloud products and services is skyrocketing. The growth of cloud computing throughout the last year has initiated a surge in M&A activity, as large companies scoop up their smaller, innovative counterparts to expand their product offerings and acquire engineering talent. This is most noticeable in the Software-as-a-Service industry, where vendors have been the most active in M&A of any cloud-related sector. Established companies provide economies of scale and global distribution, allowing cloud products to reach a much broader customer base.

Two prominent trends have fueled the rapid rise in demand for cloud computing companies. First, in recent months, consumers have begun to see the utility and flexibility of using cloud technologies to keep digital media in one centralized, universally accessible location. Improved consumer demand provides telecommunications companies with incentive to obtain cloud computing capabilities, allowing customers to access digital media from a variety of devices and from any location. Second, the growing replacement of traditional business-IT structures by cloud technology makes small cloud companies attractive to large companies seeking to expand their cloud computing product line. Based on these two factors, cloud computing M&A will remain very active and valuation multiples for cloud computing companies will continue to be robust, since we view this as the initial wave of activity.

Top M&A Cloud Transactions in 2011

Below are the top three recent M&A transactions in the cloud sector:

- 07/21/2011 - iGware, a provider of software and infrastructure tools that support consumer devices, was acquired by Acer for about \$395 million in total consideration. iGware offers cloud software and infrastructure tools that support more than 100 million consumer devices worldwide, including Nintendo game consoles. This complements Acer's focus on mobile devices to drive future growth. Acer is expected to start integrating iGware into its cloud software and platform and will launch an Acer Cloud product some time in 2012.
 - 07/12/2011 - Cloud.com, a provider of software infrastructure platforms for cloud providers, has been acquired by Citrix Systems for about \$190 million. With the technology acquired from Cloud.com, Citrix is expected to enhance its VDI and application streaming capabilities, which is its core strength. Cloud.com also brings some marquee customers and a well regarded automation and orchestration platform for Citrix to build upon. Citrix plans to continue to support OpenStack and provide integration with the OpenStack API till 2011.
-

-
- 4/26/2011 – CenturyLink acquires Saavis for 3.04x revenue and 12.93x EBITDA, valuing the firm at \$2.96B. With the purchase, CenturyLink, a telecommunications provider, expands its managed hosting business and provides its wireless customers with the ability to sync media and contact data across all mobile devices. Additionally, the company, which is partnered with DirecTV, enables customers to access media recorded on their DVR devices from anywhere in the world.
 - 2/1/2011 – Time Warner acquires NaviSite for 2.5x revenue and 12.33x EBITDA, valuing the firm at \$327.77M. The acquisition improves Time Warner’s ability to provide business customers with managed hosting solutions and centralized file storage at reduced costs compared to the more traditional IT infrastructure.
 - 1/27/2011 – Verizon Communications acquires Terremark Worldwide for 5.41x revenue and 22.43x EBITDA, valuing the firm at \$1.84B. The acquisition gives Verizon customers the ability to access entertainment media from various devices, and provides governments and businesses less-expensive ways to store large amounts of data online.

Valuation Multiples

Below are a selection of precedent transactions and comparable companies in the cloud sector. The valuation multiples in the cloud sector are robust compared to the general technology sector. Comparable companies in the general technology sector trade at revenue multiples of 3.06x and EBITDA multiples of 9.31x. Currently, the cloud sector is white hot, trading at an average of 4.71x revenue and 29.5x EBITDA. However, as established companies continue to acquire small cloud companies, the size of the buyer universe will shrink and as cloud technology is implemented on a large scale, becoming the industry standard, the valuation multiples will fall back to earth in the medium term.

Comparable Companies

| Company | Date | Enterprise Value | Revenue (TTM) | EBITDA (TTM) | EV / Revenue (TTM) | EV / EBITDA (TTM) |
|-------------------------|-----------|------------------|---------------|--------------|--------------------|-------------------|
| Akamai Technologies | 6/27/2011 | \$4,897.66 | \$1,059.50 | \$399.10 | 4.62x | 12.27x |
| CA Technologies | 6/27/2011 | \$9,543.76 | \$4,429.00 | \$1,538.00 | 2.15x | 6.21x |
| Compuware Corporation | 6/27/2011 | \$1,871.31 | \$928.90 | \$200.60 | 2.01x | 9.33x |
| Informatica Corporation | 6/27/2011 | \$5,456.48 | \$683.00 | \$165.30 | 7.99x | 33.01x |
| Pegasystems | 6/27/2011 | \$1,534.37 | \$363.90 | \$21.40 | 4.22x | 71.70x |
| Quest Software | 6/27/2011 | \$1,663.03 | \$784.10 | \$146.40 | 2.12x | 11.36x |
| Rackspace Hosting | 6/27/2011 | \$5,234.86 | \$831.80 | \$232.30 | 6.29x | 22.53x |
| SAVVIS | 6/27/2011 | \$2,937.49 | \$973.40 | \$229.20 | 3.02x | 12.82x |
| Salesforce.com | 6/27/2011 | \$18,867.59 | \$1,784.70 | \$138.70 | 10.57x | 136.03x |
| VMWare | 6/27/2011 | \$36,320.95 | \$3,067.50 | \$662.70 | 11.84x | 54.81x |

Precedent Transactions

| Date Announced | Acquirer | Target | Enterprise Value | Target Revenue (TTM) | Target EBITDA (TTM) | EV / Target Rev. (TTM) | EV / Target EBITDA (TTM) |
|----------------|-------------|--------|------------------|----------------------|---------------------|------------------------|--------------------------|
| 4/27/2011 | CenturyLink | SAVVIS | \$2,962.68 | \$973.44 | \$229.18 | 3.04x | 12.93x |

| | | | | | | | |
|------------|---|-----------------------|------------|------------|----------|--------|---------|
| 4/4/2011 | Apax Partners | Epicore Software | \$951.45 | \$453.29 | \$54.35 | 2.10x | 17.51x |
| 3/11/2011 | Golden Gate Capital; Infor Global Solutions | Lawson Software | \$1,779.35 | \$755.16 | \$134.36 | 2.36x | 13.24x |
| 2/14/2011 | EchoStar Satellite Services | Hughes Communications | \$1,941.52 | \$1,043.33 | \$209.01 | 1.86x | 9.29x |
| 2/1/2011 | Time Warner Cable | NaviSite | \$327.77 | \$130.99 | \$26.59 | 2.50x | 12.33x |
| 1/27/2011 | Verizon Communications | Terremark Worldwide | \$1,841.76 | \$340.71 | \$82.10 | 5.41x | 22.43x |
| 1/21/2011 | ACF Industries Holding Corporation | XO Holdings | \$1,006.77 | \$1,529.24 | \$190.75 | 0.66x | 5.28x |
| 11/22/2010 | Attachmate Corporation | Novell | \$1,017.93 | \$811.87 | \$117.51 | 1.25x | 8.66x |
| 9/20/2010 | International Business Machines Corporation | Netezza Corporation | \$1,593.42 | \$223.32 | \$19.71 | 7.14x | 80.84x |
| 9/10/2010 | ACF Industries Holding Corporation | XO Holdings | \$914.24 | \$1,511.04 | \$157.89 | 0.61x | 5.79x |
| 8/23/2010 | Hewlett-Packard Company | 3PAR | \$2,215.83 | \$204.08 | \$6.46 | 10.86x | 343.01x |

AGILE EQUITY

Agile Equity is dedicated to providing superior merger & acquisition advisory services to market leading companies. Our extensive industry knowledge and transaction leadership experience spans the software, digital media, and IT services sectors. Our professionals have global relationships with leading technology companies and financial investors. Thoughtful advice, deep experience and technology expertise, creativity and attention to detail from our senior technology bankers have resulted in a track record of consistently exceeding our clients' expectations.

Ben Boissevain
Managing Partner
228 Park Avenue S.
Suite 16347
New York, NY 10003
O: (212) 475-1100
M: (646) 286-4589

David Cummings
Managing Partner
228 Park Avenue S.
Suite 16347
New York, NY 10003
O: (212) 475-1100
M: (917) 770-0108

Rob Forgione
Associate
228 Park Avenue S.
Suite 16347
New York, NY 10003
O: (212) 475-1100
M: (516) 749-1110

benb@agileequity.com davec@agileequity.com robf@agileequity.com



IMaCS Virtus Global Partners (“IVG Partners”) is one of the leading US-India cross border transaction and advisory firms. Our key investment banking service offerings include US-India cross border M&A, transaction advisory services, and Partner/ Target Search. We provide investment banking services in partnership with Chatsworth Securities LLC, a FINRA registered broker dealer. We are part of ICRA Management Consulting Services Limited, which is a fully-owned subsidiary of ICRA Limited, one of India's leading credit rating agencies.

Anil Kumar
Managing Director
Ph: (646) 807-9290
akumar@ivgpartners.com

Shaleen Agarwal
Manager
Ph: (+91)9558111350
sagarwal@ivgpartners.com

Saurabh Arora
Senior Analyst
Ph: (+91)9650222525
sarora@ivgpartners.com
