



## Mergers & Acquisitions in the Cloud Sector

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### »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 a graphical representation of the cloud computing sector, 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.

### »Cloud Computing Landscape

Agile Equity is pleased to publish our 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 MAP 2011



[click to enlarge](#)

### »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 Three Recent M&A Cloud Transactions

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

- 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 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.

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