



The shape of things to come

Information Age's half-year review brings the IT industry's financial performance and M&A activities into focus



Feven as the clouds have darkened over the economy during 2008, the information technology industry has maintained a run of strong financial performances and a healthy appetite for M&A. On the basis of their reported results, only a handful of vendors have yet shown they are being significantly impacted by the downturn, with the message that technology is a vital tool in enhancing productivity and cutting costs seemingly gaining acceptance among enterprise and public sector IT customers.

Of course, no one is labouring under the illusion that economic stringencies will somehow bypass the IT sector. The critical question is which IT segments – and companies – will sail through the recession largely unscathed and which will founder.

The *Information Age* Global Technology Review, a comprehensive analysis of the financial performance of the sector's 200 most important companies, coupled with key M&A activity over the earlier part of this year, is a guide to the likely winners and losers.

Conducted in association with business advisory group Vantis, the research portrays an industry in relatively good shape. Based on the combined revenues of the companies tracked, the growth rate of the industry has not dipped below 10% at any point during 2008 – though all signs point to single digit growth around the turn of the year.

Indeed, while growth rates ranged from a stunning 121% (storage systems company 3Par) to a painful -56% (Sycamore Networks), average growth

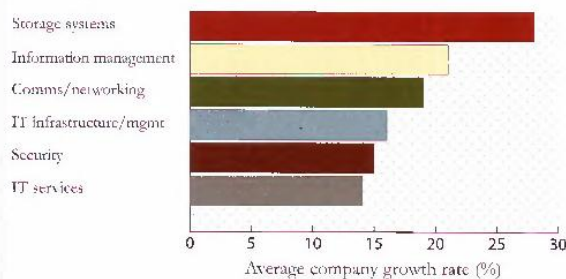
among the 200 companies in the sector – at 16.8% or 11.4% when weighted for size – has been undeniably buoyant. Even when weighted for company size, growth stood at 11.4%, with only 30 of the companies (or 15% of the list) actually showing negative growth over the research period (January to August 2008).

The story is not quite as positive when it comes to profitability. The average net margin among the 200 largest IT companies came in at around 4%, with one in four companies making losses.

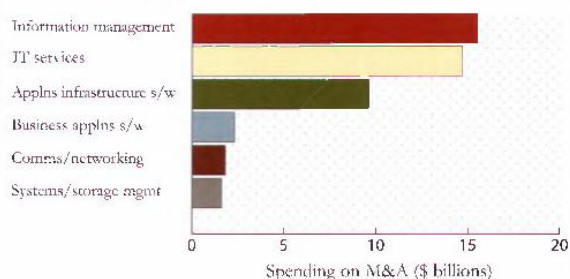
INFORMATION GLUT

Two technology industry areas stood out as being particularly upbeat – and likely to ride through the recession better than others. Information management – covering

Strongest revenue growth rates by sector



Hottest targets for M&A





content and document management, business intelligence and search – is marked by high demand as companies seek to optimise business activities through a deeper understanding of their supply chains, finances and customer buying patterns. Related to that is the second boom market: storage. Companies in this area know that customers of all sizes have one thing in common – their data storage requirements are doubling every one to two years. And that is creating strong demand among companies offering lower-cost and more efficient storage technologies.

Indeed, information management and storage companies dominated the top end of the table of fastest-growing companies, taking six of the top ten places. And, overall, half the storage systems companies tracked had growth of over 20%.

That manifests itself in growth rates: utility storage companies 3Par (121%) and Compellent (84%); and the information management hot properties Omniture (115%), Autonomy (66%) and Netezza (61%). Plus, some spectacular rises at market markers, BlackBerry-maker Research in Motion (109%) and virtualisation pioneer VMware (61%).

Within other segments – such as IT infrastructure and services – the research shows a mixed picture. Even as some server vendors begin to see demand weakening, others in areas such as data centre hosting and virtualisation show nothing but a steep upward revenue curve.

Profitability is another matter; mature software companies hold the upper hand here.

The highest profit margin over the review period was

Fastest-growing IT companies

Company	Main activity	Revenue (\$m)	Revenue growth
3Par Inc	Storage systems	78.5	121%
Omniture Inc	Web analytics	134.8	115%
NetScout Systems Inc	Net/apps perf mgmt	118.3	114%
Research in Motion Ltd	Mobile comms	4,126.3	105%
Alterian Plc	Mktg/content mgmt	20.0	95%
Compellent Technologies Inc	Storage systems	35.9	84%
Concur Technologies Inc	Expense mgmt appln svcs	108.6	69%
Autonomy Plc	Enterprise search	230.7	66%
Netezza Corp	Data warehouse appliances	86.6	61%
VMware Inc	Virtualisation s/w	894.3	61%

seen at supply chain software company i2 Technologies. But that stemmed from a one-off payment it received in settlement of an intellectual property case brought against SAP. Check Point and Microsoft were more classic earners, with eye-popping net margins of 40% and 29% respectively. Also up there were Micro Focus (27%), Oracle (25%) and Adobe (24%).

closing the top 50 publicly disclosed deals in the first half of this year alone. And the spread in value of those deals was vast – from Hewlett-Packard's table-topping \$13.9 billion acquisition of IT services giant EDS to the \$46 million consolidation in the fundraising software niche at number 50.

Behind such moves were some revealing trends that highlight both changing geographical buying patterns and the most desired technology targets.

The vast majority of buyers were US-headquartered, with 33 of the top 50 deals initiated in the States. Trailing that by some margin, but still noteworthy, was the UK, where six of the transitions were launched. While that might have not been a big departure from previous years, there was one country whose M&A deal making

represent a new phenomenon. Indian companies, with three top 50 deals in the first half of 2008 alone, were the third most active, indicating significant changes

Amount spent on the top 50 M&As: **\$46.6 billion** Number that were UK based: **17**

M&A DYNAMICS

The desire by some vendors to arm themselves against the recession by adding hot technologies might explain why the technology M&A market is only now showing signs of slowing.

Together companies spent \$46.6 billion in

in the outsourcing sector, as India's IT services giants seek to grow their global footprint beyond national boundaries.

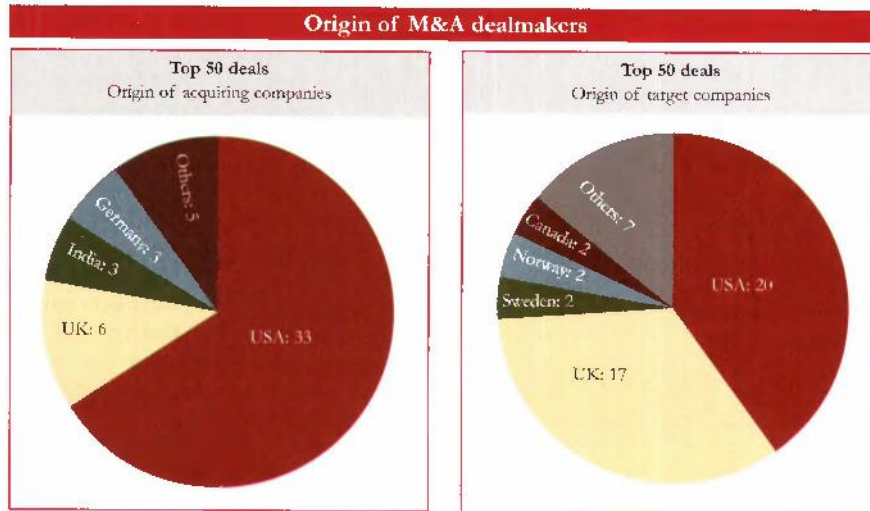
The location of acquisition targets should also raise a few eyebrows. While 20 of the top 50 deals involved a US-based target (almost exclusively US companies buying

their compatriots), there was a different picture in the UK. In the survey period, of the 17 UK companies were acquired, only four were internal transactions. As that suggests, the UK has become well-established as a hot house for technology development. But the shareholders in those companies see the most likely and palatable exit as coming from acquisition rather than initial public offering.

The pattern of acquisitions,

Ten most profitable IT companies

Company	Main activity	Revenue (\$m)	Net income (\$m)	Net profit margin
i2 Technologies Inc	Supply chain mgmt s/w	127.3	84.9	67%
Check Point Software	Security s/w	391.2	157.5	40%
Electronic Data Processing	Payment processing svcs	7.0	2.1	30%
Microsoft Corp	Applns & systems s/w	30,294.0	8,688.0	29%
Brocade Communications	Storage networking switches	720.6	193.7	27%
Infosys Technologies Ltd	Offshore IT services	2,286.0	617.0	27%
Micro Focus Plc	Application modernisation s/w	119.3	32.6	27%
Oracle Corp	Database & applns s/w	12,570.0	3,114.0	25%
Adobe Systems Inc	Document s/w	1,777.3	434.3	24%
Fidessa Plc	Financial & CRM applns s/w	167.9	36.6	22%



All figures relate to the first half of 2008 or companies' closest corresponding financial period

up to the middle of the year, had one singular theme – of the top 50 acquisitions, 12 were in the booming area of information management. That broad slice of the industry, that covers all aspects of how organisations gather, store, analyse and present their information, saw SAP and IBM buy their way into the business intelligence software market, Microsoft enter enterprise search and Sun spend almost \$1 billion to gain control of the open source database management sector. Those 12 deals alone amounted to \$15.5 billion of spend on information management.

While the pace of the high-tech M&A market has barely slowed as the credit crunch has unfolded, in coming months as many financial performances come under pressure, the already rampant consolidation evident across most of the industry's sectors is likely to accelerate. Many technology companies will be keen to sell off non-strategic assets, and inevitably there will be rich pickings for the strong as distressed technology companies come up for auction.

As those dynamics suggest, anyone with a stake in the IT industry – from investors and advisers to buyers – needs to arm themselves with the best information available on the strengths and weaknesses of key players.

Global Technology Review 2008: THE FULL REPORT

This is an extract from a comprehensive new research document undertaken by *Information Age* in association with business advisory group Vantis, on the M&A strategies and financial performances of the IT industry's top 200 companies.

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