

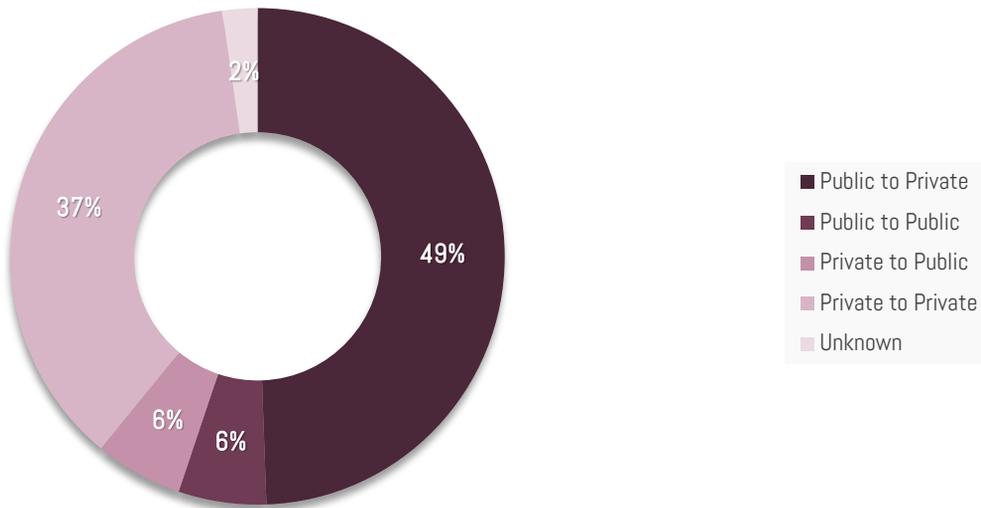
Australian Technology M&A Transactions Report



Technology

Over the last twelve months there has been a wide variety of buy/sell transactions in the broad Australian technology space. In 2017, the last full calendar year there were 87 recorded deals in the price bracket \$1-200m.

These transactions were broken down in the following ratios between public and private transactions.



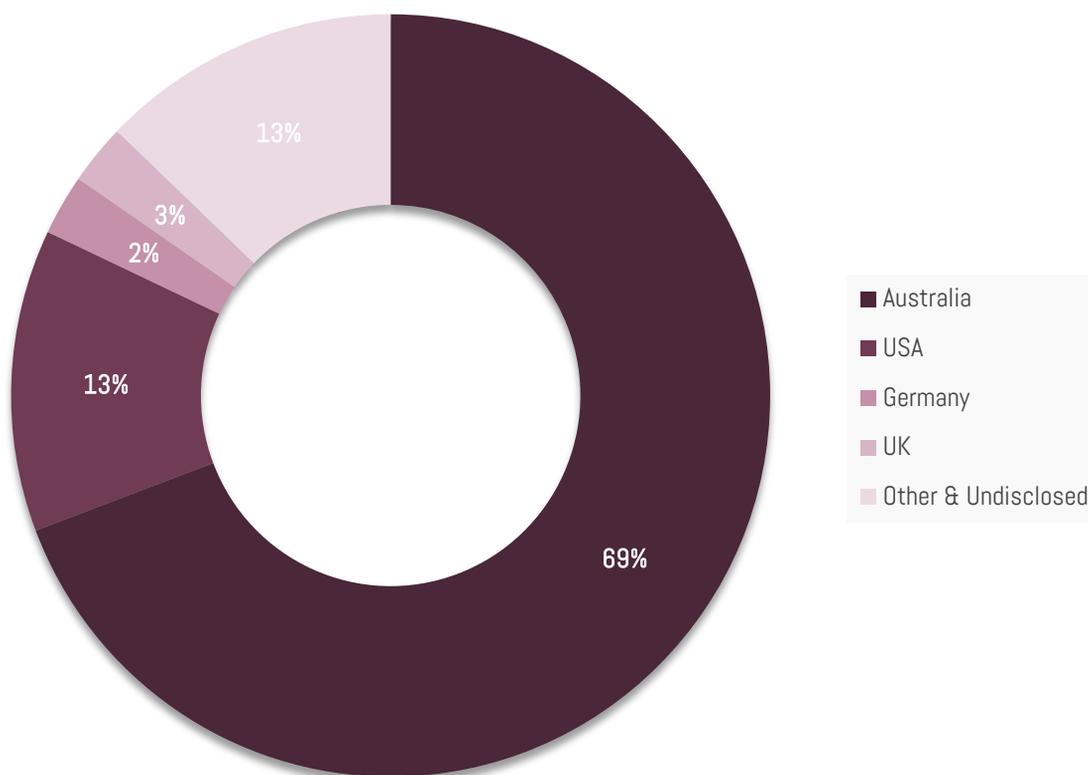
Future business values are likely to align with expected advances in technology.



Acquirer (by Country)

Geographically, 69% of these midmarket deals were between an Australian acquirer and an Australian seller.

Overall acquirers of these businesses were as follows:

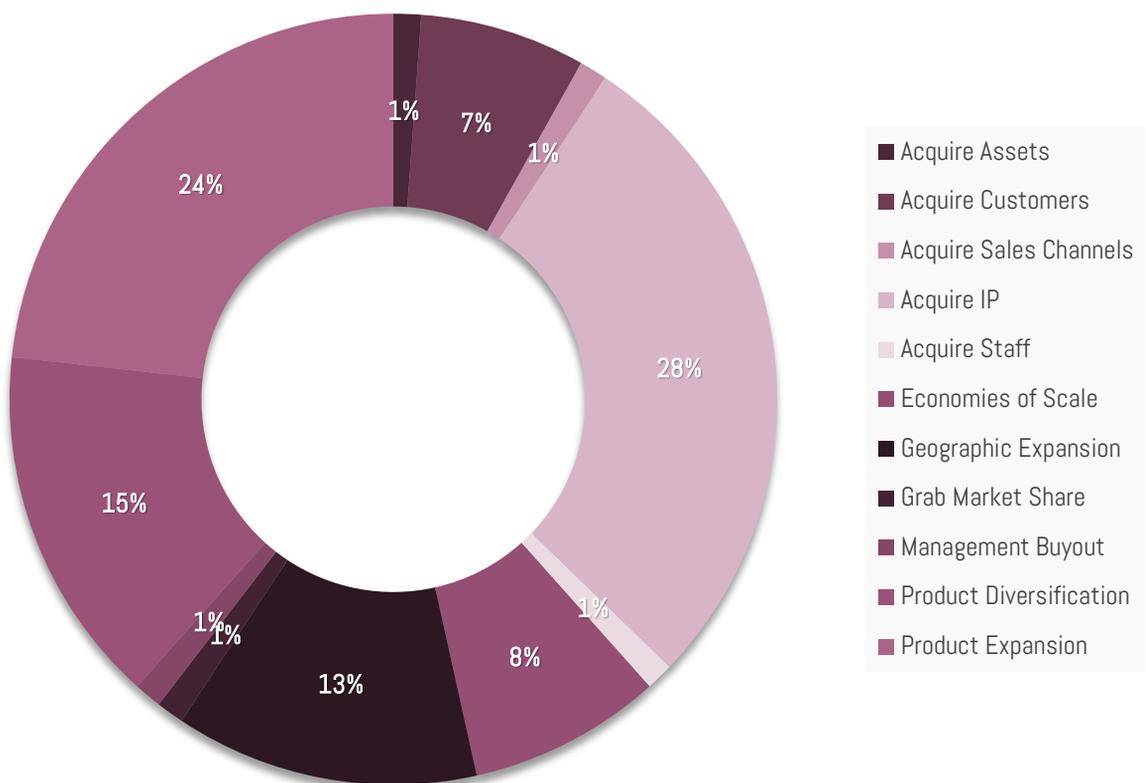


The USA was the single largest international acquirer in 2017, though current economic uncertainty including capital market volatility and a possible return to broader trader protectionism may see this shift in the remainder of 2018 and beyond.

The overall technology space covers product areas as diverse as application software, cloud transactions, e-retailing, security and consulting.

What is the motivation behind these acquisitions?

Many of the recorded transactions were strategic in nature where a smaller private company was acquired by a larger, often public company. Within the technology space the usual motive for this was to acquire the intellectual property of the smaller business in order to deploy that technology across a larger client base with a broader range of products. The full breakdown of primary acquirer motives are as follows:



There are many, diverse reasons for pursuing deals. Some of the most often cited reasons for acquisition of a business is for the acquisition of its underlying technology regardless of the client base or current geographical penetration. The acquirer sees that the intellectual property offers them the opportunity to expand their client base in existing markets.

We review many of these transactions below.

Asset Acquisition

The “Big Four” consulting firms continue their growth into technology based solutions buying in specialised technology services that assist the operating performance of their large client base. For example, Deloitte acquired JK Vine to form a Platform Test and Optimisation Unit so that clients computer systems performed optimally. Deloitte also acquired Strut Digital (AWS Cloud expertise) complementing three previous transactions.

Other large consultancies including legal firms such as Clayton Utz acquired technology businesses. Clayton Utz acquired a small forensic practice, while Gilbert + Tobin backed start-up Legal Vision engaging in tech and consulting work.

Customer Acquisition

Business, through a process of horizontal integration may grow by acquiring other businesses in related industries, both to increase their product and service portfolio or by acquiring customers that they can sell their own products or services to. MYOB, Australian developers of accounting software acquired Paycorp, a business specialising in electronic payment and billing for \$48m, while business name registration business Melbourne IT acquired Outware systems, a developer of mobile apps for \$48m

The online employment classifieds business, Seek also sought to increase its client base and product portfolio by purchasing two businesses offering complementary service. They acquired a 30% stake in Online Education Services for \$118.5m as well as paying an undisclosed sum for GO1, a developer and aggregator of workplace training materials.



Intellectual Property

Non-technology businesses also purchase technology businesses in order to both utilise the IP and potentially prevent it from being utilised by competitors. Indian based Jain Irrigation bought Observant – an Australian business engaged in providing in-field hardware and cloud based applications for precision farm water management. In the digital financial space, Kaplan, Inc., a US-based provider of educational and career services bought, Red Marker – a niche provider of AI apps using financial compliance solutions for compliant digital content.

Intellectual property was utilised in various functional ways. Zuse 3D, a modelling business specialising in the building industry bought Progress Claim to form a platform for construction and building operations, while Xped bought Jemsoft Technologies to strengthen its core capability of controlling & monitoring of devices and appliances through smartphones.

Australia's major telco, Telstra acquired VM Tech to speed up its growth of Network Applications and Services business in Australia and internationally, while Australian IP went offshore with Riverside Companies acquisition of a controlling stake in energy Exemplar, developer of energy market simulation & modelling software. Also going overseas was US

based Callidus Software acquiring Learning Seat Pty. Ltd., an Australia-based provider of compliance and professional development online learning services.

IP transfer was not all one-way-out as CollinStar Holdings, an Australia-based investment organisation dedicated to global blockchain cryptocurrency technology investment and digital asset operations acquired BiWang Group, Ltd. (BWG), a China-based blockchain mining chip company.



Product Expansion / Diversification

The prime motivation for more than 40% of all acquisitions is the acquirers motivation to expand their product range or facilitate some diversification. A strategic acquisition enables an acquirer with market reach to commercially benefit from an innovation that the original innovator ever could. For example, MSL Solutions, providers technology assets to strengthen client loyalty in such industries as golf, clubs and associations, acquired the assets of Pallister Games, a provider of software and an online merchant shop utilised in club venues.

As the technology space continues to develop in the years to come, we are likely to see an upsurge in the number of acquisitions of relevant IP, innovations and products able to be more successfully brought to market by larger players with significantly more audience reach.

Geographic Expansion

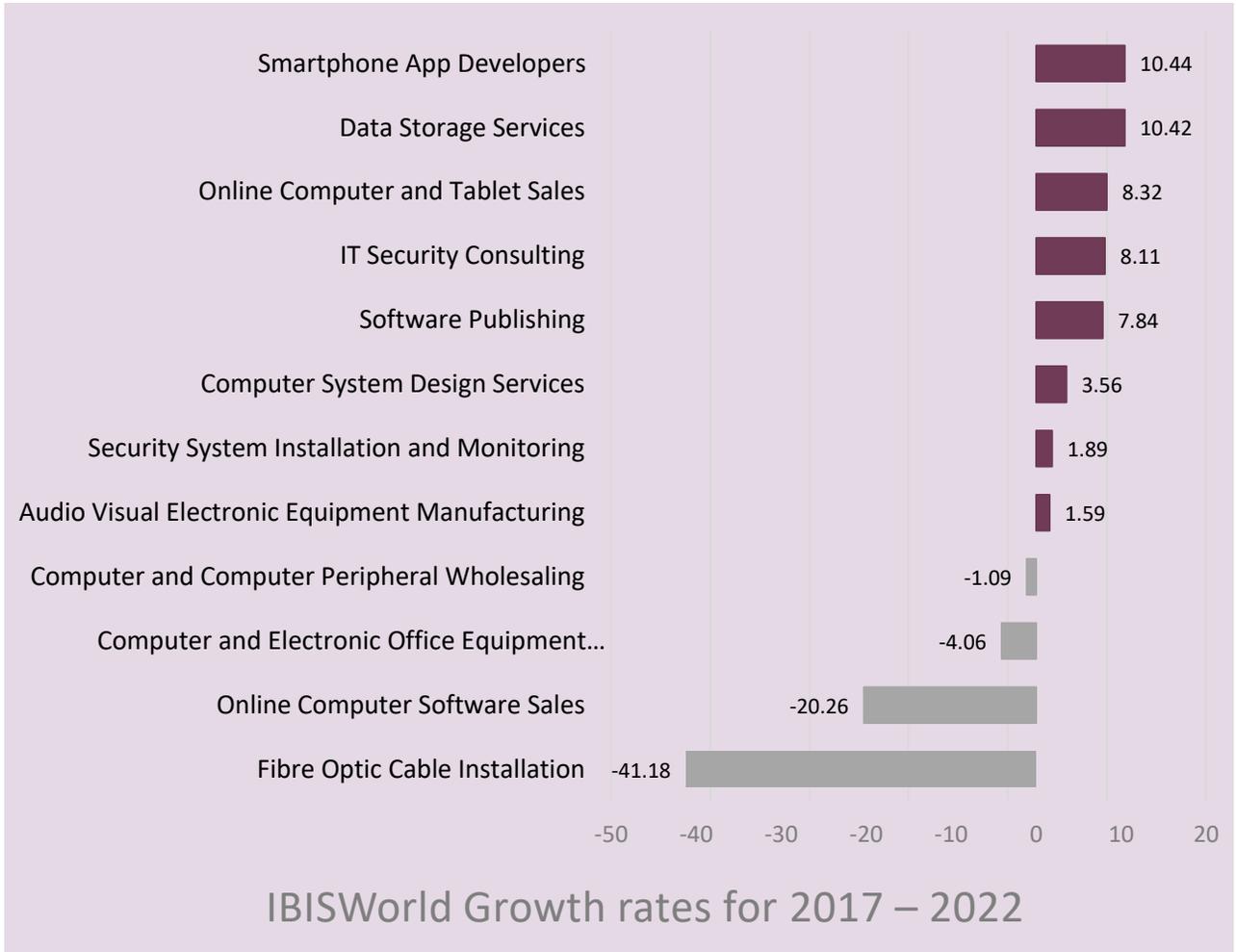
The other major category for acquisition is where existing global players seek to expand their footprint in Australia or where Australian businesses seek foreign expansion. Singaporean based DCI Data Centres, acquired Sunguard Data Centres in SA to facilitate non-domestic growth, while geographic expansion combined with technology acquisition as the Swiss based banking software Tememos group acquired Rubik Financial, a cloud based software suite for financial services market for \$65.33m.

This acquisition was designed to capitalise on growth opportunities in Australia financial software while providing Tememos with increased scale and growth acceleration.



Industry Growth trends

Total combined revenue for technology businesses in the next 5-years will increase from \$253.81 billion in 2017 to \$279.11 billion in 2022. The compounded annual growth rate (CAGR) will be 1.67%.



Top 3 fastest growing industries are Smartphone App Developers (10.44%), Data Storage Services (10.42%) and Online Computer and Tablet Sales (8.32%). Growth is predominantly driven by businesses related to smartphone and data storage services.

Bottom 3 slowest growing or negative growth industries are Fiber Optic Cable Installation (-41.18%), Online Computer Software Sales (-20.26%) and Computer and Electronic Office Equipment Manufacturing (-4.06%).

Contributors



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Mark Ostryn is the founder and CEO of Strategic Transactions. Mark's focus is to transact the sale or acquisition of a business at the optimal value and terms for the owner. This involves detailed market search, financial decision support and project management throughout the transaction.



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Strategic Transactions

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