



Generation

Equity Advisors

Technology and Digital Media Investment Banking

Human Capital Management (HCM) Software M&A – Q3 2011 Update



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Generation Equity Advisors, LLC is an independent investment bank and M&A advisory firm focused exclusively on the global *Software, IT Services and Digital Media* industry sectors. We advise buyers and sellers of companies and efficiently execute transactions to increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current relationships globally with technology and media companies as well as leading private equity firms.

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Data Sources: *Gartner Group, FactSet Mergerstat, The 451 Group, Generation Equity Advisors Research and Company websites.*

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After a strong start, M&A slows for Q3

According to *The 451 Group*, and our own research, from the start of July until the middle of August, dealmaking followed the same arc of recovery that it had tracked for most of 2011. And then, seemingly overnight, the stability and confidence vanished, swept away by renewed concerns about the state of the global economy. That left M&A in the back half of the quarter looking a lot like it did in the recession years of 2008 and 2009, rather than earlier this year. Of course, the abrupt decline in M&A during the second half of the third quarter correlates very closely with the performance of the equity market during Q3. After topping out at nearly 2,900 in early July, the NASDAQ had plummeted to just above 2,300 a mere month later.

Acquisitions became less of a priority in the second half of the quarter, as the storm clouds that have been swirling over the global economy since the summer have left dealmakers uncertain about what – if anything – they should be buying right now. A number of recent economic indicators appear disconcertingly similar to levels we sank to during the Great Recession. Meanwhile, many of the problems that got exposed during the economic downturn have proven intractable, whether we look at the stubbornly high 9.5% unemployment rate or the lingering mortgage mess.

Compounding all of the worries around this is the sobering realization that what got us out of the first part of the recession – for the most part, federal spending – isn't going to be available to get us out of what could be the next recession. Don't forget that the historic downgrade of the creditworthiness of the US came during the third quarter.

As the possibility of a double-dip recession started getting talked about in August and September, **no area of the market got hit harder than the IPO market**. The pipeline got dramatically thinned out in the third quarter as companies that had put in their paperwork pulled their S1's, either to stay independent or become part of a larger company. Both **WageWorks** and **Trustwave** withdrew their S1s in early August, while **BlueArc**, **The Telx Group** and **Force10 Networks** all dual-tracked their way into trade sales in the past three months.

Against those five IPO candidates in the US that didn't make it to market in the third quarter, we tallied only two enterprise technology vendors that actually did manage to get public. And both, to be candid, have had rather muted debuts. **Tangoe**, which went out in late July, and **Carbonite** (Nasdaq: CARB), which followed in early August, both trade at essentially where they came out and have created just \$700m of market value between them.

The third quarter saw promising firms such as **Jive Software** and **Eloqua** put in their IPO paperwork in August.

Given the dramatic decline in M&A activity during Q3, the remainder of 2011 is shaping up to be a tough time for dealmaking. The year had been tracking to a level of dealmaking that basically put it at twice the rate we saw during the Great Recession. But now the recovery seems much less certain, as the broader economic woes appear to be increasingly weighing on M&A.

And those concerns may get even heavier before the year is out. *ChangeWave Research* surveyed more than 2,600 consumers in the first half of September about their expectation for the economy through the end of 2011. Fully three out of five respondents (61%) said they expected the economy to worsen in the coming three months, compared to just 8% who said it will improve through the end of year. The sentiment hasn't been that heavily bearish since March 2009.

Overall, Q3 doesn't appear to raise many concerns for the tech M&A market. After all, compared to the same quarter last year, spending on July-September deals ticked up a healthy 20% to \$62bn.

A few notable announced M&A transactions for Q3 2011 included:

- ✓ **Google** (Nasdaq: GOOG), looking to bolster its mobile business through both hardware and patents, acquired **Motorola Mobility**. The \$12.5bn deal will cost the search giant twice as much as it has spent, collectively, on all of its previous M&A.
- ✓ **Hewlett-Packard** (NYSE: HPQ) started an overhaul of its business, perhaps looking to divest its PC unit while, simultaneously, acquiring **Autonomy Corp** (LSE: AU.L) for \$11.7bn, which stands as the largest software acquisition in seven years.
- ✓ **Broadcom** (Nasdaq: BRCM) announced its largest-ever purchase, paying \$3.9bn in cash for **NetLogic Microsystems** (Nasdaq: NETL). The transaction valued the maker of network communications processors at more than 9 times revenue.
- ✓ Buyout shops also remained active, with **Blackstone Group** and **Providence Equity Partners** each erasing a publicly traded company in a pair of billion-dollar take-privates.

2011 M&A activity, month by month

Period	Deal volume	Deal value
September 2011	279	\$8.5bn
August 2011	335	\$40.2bn
July 2011	319	\$12.9bn
June 2011	332	\$14.3bn
May 2011	322	\$27.2bn
April 2011	288	\$25.7bn
March 2011	300	\$63.7bn
February 2011	285	\$10.3bn
January 2011	323	\$11.7bn

Source: *The 451 Group*

Human Capital Management (HCM) Software - Industry Overview and Update

Research Analysts forecast the Global Recruitment Software market to grow at a CAGR of 9 percent over the period 2010-2014.

One of the key factors contributing to this market growth is the increasing demand for recruitment process outsourcing (RPO) services worldwide.

The Global Recruitment Software market has also been witnessing an increasing preference for cloud-based recruitment software.

However, the competition from the in-built recruitment software products of the recruitment service companies could pose a challenge to the growth of this market.

Key vendors dominating this market space include **Taleo Corp.**, **SuccessFactors Inc.**, **Lumesse**, **Peopleclick Authoria**, and **Kenexa Corp.**

The HCM software market continues to evolve, and is being increasingly disrupted by new solutions and vendors, and market consolidation.

Social media, software as a service (SaaS) and mobile technology have altered the HCM technology landscape.

The disruption is not just in the edge processes, but also in the core of HR management systems (HRMSs).

Many organizations are reassessing their older administrative systems, and deploying newer alternatives.

The "traditional" HRMS's are now off the Hype Cycle (re: *Gartner*), and a lot of the new license spending is going to a new wave of vendors. We have seen a significant shift in deployment patterns, as SaaS vendors grow at the expense of on-premises offerings.

Potential Acquisition Opportunities (Technology) in HCM

- ✓ **Administrative applications** (personnel, travel expenses, payroll and benefits management, often delivered through an integrated HRMS)
- ✓ **Talent management applications** (workforce planning, e-recruitment/contingent workforce management, employee performance management, career development/succession planning, learning, and compensation management)
- ✓ **Workforce management applications** (labor scheduling, time and attendance, and task/activity management)
- ✓ **Service delivery applications** (employee self-service, manager self-service, HR service center and travel management)
- ✓ **Workforce planning and analysis** (see "Examining the Market for Workforce Planning and Analysis Solutions")

YTD and Q3 2011 – Human Capital Management (HCM) Software M&A Transactions (announced)

Announced	Acquirer	Target	Target Abstract	Target Primary Sector	Val./Rev.	Total Deal Amt.
2011-09-23	Capita Group plc	Cedar HR Software Limited	Police HR management software	Application software / Enterprise resource planning / HR / General		\$23,503,000
2011-09-19	Pansoft Co., Ltd.	Hefei Langji Technology Co., Ltd	HR management software provider	Application software / Enterprise resource planning / HR / General		\$591,000
2011-08-12	Allocate Software plc	Zircadian Ltd	Medical workforce management SaaS	Application software / Enterprise resource planning / HR / Workforce management		\$8,930,000
2011-07-22	Quindell Portfolio Plc	LearnED Limited	Employee training software provider	Application software / Enterprise resource planning / HR / Training		\$698,560
2011-07-21	Xero	Paycycle	Payroll processing software provider	Application software / Enterprise resource planning / HR / Benefit and payroll management		\$1,599,000
2011-06-21	Taleo Corp.	Jobpartners plc	Workforce management software provider	Application software / Enterprise resource planning / HR / Workforce management	2.5	\$38,000,000
2011-06-10	Callidus Software Inc.	Litmos Limited	Employee training SaaS provider	Application software / Enterprise resource planning / HR / Training		\$2,600,000
2011-06-07	Concur Technologies, Inc.	GlobalExpense Limited	Expense management SaaS provider	Application software / Enterprise resource planning / HR / Other		\$19,684,000
2011-05-18	Petrofac Limited	Tritanium Company BV, The (SkillsXP assets)	Employee skills management software	Application software / Enterprise resource planning / HR / Workforce management		\$1,413,000
2011-05-03	Paychex, Inc.	ePlan Services, Inc.	Employee benefits management SaaS	Application software / Enterprise resource planning / HR / Benefit and payroll management		\$15,200,000
2011-04-26	SuccessFactors Inc.	Plateau Systems, Ltd.	Workforce management SaaS provider	Application software / Enterprise resource planning / HR / Workforce management	4.8	\$290,000,000
2011-03-28	Callidus Software Inc.	Salesforce Assessments Ltd (assets)	Salesforce assessment SaaS assets	Application software / Enterprise resource planning / HR / Workforce management		\$260,000
2011-03-11	SS&C Technologies, Inc. [NASDAQ: SSNC][Carlyle Group]	BenefitsXML, Inc.	Employee benefits management software	Application software / Enterprise resource planning / HR / Benefit and payroll management		\$15,100,000
2011-02-01	Taleo Corp.	Cytiva Software Inc [fka CareerExchange Interactive Corp]	Employee recruitment SaaS provider	Application software / Enterprise resource planning / HR / Other	2.2	\$10,982,000
2011-01-06	Administaff, Inc.	HumanConcepts (OrgPlus small business software assets)	Organizational chart software assets	Application software / Enterprise resource planning / HR / Workforce management		\$10,800,000
2011-01-05	GSE SYSTEMS Inc.	EnVision Systems Inc.	Employee training software provider	Application software / Enterprise resource planning / HR / Training	0.3	\$1,200,000
2011-01-05	SumTotal Systems Inc. [Vista Equity Partners]	GeoLearning, Inc.	Employee training SaaS provider	Application software / Enterprise resource planning / HR / Training	3.8	\$150,000,000
					Average	2.7
					High	4.8
					Low	0.3

Source: The 451 Group



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