WARWICK M&A GROUP

TMT
Sector Report



Nov 2023
Issue #10

Impact of high cost of capital and sector headwinds

Goldman Sachs and General Atlantic's acquisition of Kahoot

Cisco's acquisition of Splunk

TMT M&A activity is still hampered by high cost of capital and sector headwinds

November in numbers

$12.03bn	26	$462.5m
Total deal value	No of deals closed	Average deal value
-31.7% (YoY)	*4.0% (YoY)*	*-42.1% (YoY)*

Average TEV/Revenue:	2.40x	**Average Day Prior Premium:**	37.72%
Average TEV/EBITDA:	21.68x	**Average Week Prior Premium:**	37.53%
Deals with value greater than $1 billion:	2	**Average Month Prior Premium:**	40.47%

Sectoral insight

- **Deal volume increased year-on-year by 4.0%, but average deal value decreased.** Fewer mega deals in Oct-23 compared to Oct-22 drives the decrease.
- **October indicated an increase in M&A activity** compared to previous months and Q4-23 is poised to see deal volume increase. Notably, **take-private** transactions have increased in 2023 with low public market valuations and an increase in cash reserves by strategic acquirers and **dry powder** by PE.
- **M&A activity, especially in TMT, has decreased significantly due to the higher cost of capital** resulting from the increased rate hikes by central banks to combat inflation. Furthermore, sector headwinds have pushed a strategic shift towards profitability. However, there seems to be light at the end of the tunnel with prospects of rate cuts around the corner in 2024, suggesting better macroeconomic conditions.

S&P Global 1200 Information Technology Index



Deal count by region



Global Data, S&P Capital IQ,

Goldman Sachs and General Atlantic's acquisition of Kahoot

Acquirer: Goldman Sachs Capital Partners

Goldman Sachs Capital Partners is a US-based private equity firm, engaged in corporate private equity and growth equity strategies. Its target investments are in the range of $50m to 800m in transactions like leveraged buyouts, recapitalisations, growth investments and stressed/distressed investments.

Established in 1986, the Private Equity business within Goldman Sachs Asset Management has invested over $75 billion since inception.

Acquirer: General Atlantic LLC

General Atlantic LLC is a growth investor that seeks to invest in Climate, Consumer, Financial Services, Healthcare, Life Sciences and Technology sectors.

The firm was established in 1980 by Chuck Feeney and is based in New York. With over $77 billion in **AUM** and 225 portfolio companies, General Atlantic has developed a passion for strong emerging businesses.

Target: Kahoot! ASA

Kahoot! ASA (KAHOT: OSL) is a Norwegian global learning and audience engagement platform company that aims to empower everyone, including children, students and employees to unlock their full learning potential.

Kahoot! Has established its market position, with over 1.3 million paying subscribers. It has hosted over 9 billion participants in hundreds of millions of learning sessions, including 97% of the **Fortune 500.**

Market Cap:	$1.6bn
Net Debt:	($89m)
2022 Revenue:	$146m
Net Income:	$5.9m

Transaction Summary

On July 14th 2023, Kahoot! ASA announced an agreement with the Private Equity business within Goldman Sachs Asset Management, with co-investors General Atlantic, KIRKBI, Glitrafjord AS and certain other investors for a $1.7 billion all-cash transaction.

The deal is expected to reach completion in second half of 2023 subject to customary closing conditions, including approval from 90% of Kahoot! ASA shareholder and required regulatory approvals.

Kahoot! Share Price (KAHOT: OSL)



Announcement date:	14th July 2023
Offer per share:	NOK 35
Transaction value:	NOK 17.2 bn
Implied premium:	53.1%[1]
Acquirer adviser(s):	Danske Bank, Goldman Sachs
Target adviser(s):	Morgan Stanley

[1] to the closing price on 22nd May 2023

The deal could benefit Kahoot! as a private company...

Rationale and Outlook

The EdTech sector grew from $140 bn in 2022 to $162 bn in 2023, representing a CAGR of 16.2%. This provides an avenue for EdTech companies like Kahoot to succeed at churning out valuable learning services. With capital support, this further builds out its go-to-market strategy through investments in expanding sales and customer success functions.

As the company will be taken private, a delisting will further strengthen Kahoot's operational efficiency as management will be able to increase its focus on managing the business including developing the product roadmap and nurturing its customer base and employees and prioritise long term value creation over near-term objectives.

With the tech sector being among the worst affected by high inflation and weak consumer demand, and the adjustment of consumers and businesses using less of the digital services, Kahoot disclosed that in Q2, it made $41 million in revenues, up just 14% on last year.

Business Learning Platform



Kahoot Management Presentation

Risks and Uncertainties

Short-term challenges such as reduced demand due to in-person education and higher capital costs will likely continue affecting technology companies, as well as the boom of artificial intelligence across several landscapes, have further slowed down the growths of tech companies like Kahoot.

The objective of taking Kahoot private seems to be to shield a more niche game and EdTech group from the turbulent effects of a volatile stock market due to macroeconomic uncertainty. Kahoot's unique multiplayer features are key to capitalizing on the ubiquity of mobile devices. A take-private deal may suggest Kahoot's features may remain niche and limited to education establishments in the long term.

Kahoot Valuation (Discounted Cash Flow Model)

(All figures in Norwegian Krone unless otherwise stated)

Period							1	2	3	4	5
Year	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
Total Revenue	15	74	250	802	1,435	1,686	2,164	2,592	3,020	3,421	3,763
% growth		*383.7%*	*235.7%*	*221.0%*	*78.9%*	*17.6%*	*28.3%*	*19.8%*	*16.5%*	*13.3%*	*10.0%*
EBIT	(113)	(106)	(173)	(19)	(50)	(57)	452	748	883	1,013	1,129
% of sales	*(734.6%)*	*(142.2%)*	*(69.2%)*	*(2.4%)*	*(3.5%)*	*(3.4%)*	*20.9%*	*28.9%*	*29.2%*	*29.6%*	*30.0%*
Taxes	0	(0)	(6)	(16)	(80)	(94)	95	157	186	213	237
% of EBIT	*0.0%*	*0.4%*	*3.2%*	*85.3%*	*160.3%*	*165.1%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
NOPAT	**(113)**	**(105)**	**(167)**	**(3)**	**30**	**37**	**357**	**591**	**698**	**801**	**892**
(+) D&A	1.0	6.9	6.3	24.4	55.6	59.4	103.8	124.3	144.9	164.1	180.5
(-) Capital Expenditures	1.3	2.0	1.8	1.9	9.3	11.3	10.1	16.7	19.7	22.7	25.2
(-) Change in Net Working Capital	178.6	33.2	1,420.2	(1,669.9)	105.0	161.1	182.5	218.7	254.8	288.6	317.5
Unlevered FCF	**(292)**	**(134)**	**(1,583)**	**1,690**	**(29)**	**(76)**	**268**	**480**	**568**	**653**	**730**
Present Value of FCF							248	411	449	478	493

Terminal Value	13,267
Present Value of Terminal Value	8,972
Enterprise Value	11,052
(+) Cash	1,058
(-) Debt	81
Equity Value	12,028
Diluted Shares	493
DCF-Implied Share Price	NOK 24.41
Acquirer Offer per Share	NOK 35.00
% Acquisition Premium	**43.4%**

Valuation Assumptions	
Weighted Average Cost of Capital	**8.1%**
Terminal Growth Rate	**2.5%**

Model Summary

- As shown in the model, the DCF-implied value of Kahoot's shares comes to NOK 24.41, which is equivalent to $2.23 USD. This represents an acquisition premium of 43.4%, relative to Goldman Sachs and General Atlantic's offer of NOK 35.00 per share (or $3.29).
- Within our analysis, we have assumed a Weighted Average Cost of Capital (WACC) of 8.1%. This is based on a Risk-Free Rate of 4.10% (US 10-year Treasury yield) and an equity risk premium of 5.00%. The same WACC is applied throughout the model. We have also assumed a terminal growth rate of 2.5%.
- The projections in the model are based on analyst consensus estimates, and the tax rate is assumed at 21% throughout the model. The cash flow adjustments are based on an historical averages as a % of total revenues.

Cisco's Acquisition of Splunk

Acquirer: Cisco Systems (NASDAQ: CSCO)

Cisco is a digital communications technology conglomerate, with a wide product range across IoT, cloud computing, and networking.

Cisco is an industry leader in cybersecurity. Their Secure Firewall, Secure X, and UCS X-Series platforms provide security for businesses by detecting and averting threats, across cloud software and hardware. This is enabled by deep data insights.

Market Cap:	$196.7bn
Net Debt:	$8.7bn
2022 Revenue:	$51.6bn
Net Income:	$11.8bn

Target: Splunk (NASDAQ: SPLK)

Splunk is a software company provides AI solutions. Its product range spans cybersecurity, cloud computing, and observability.

Their platforms, such as Splunk Cloud Platform, provide users with analytics dashboards, with visuals and metrics to help monitor their systems and identify and prevent risks using artificial intelligence.

Market Cap:	$6.0bn
Net Debt:	$1.4bn
2022 Revenue:	$818.1m
Net Income:	($337.4m)

Transaction Summary

On September 21st, 2023, Cisco entered an agreement to buy Splunk for $28 billion in an all-cash transaction at $157 per share, a 31 percent premium to where its stock closed on 18th September and 25 percent above the company's 52-week high.

The deal is expected to reach completion in the September 2024. "Hopefully, Cisco can shore up the costs of the storage of log data. We have been seeing customers looking to move off Splunk because of cost." - Kevin E. Greene Public sector CTO, OpenText Cybersecurity.

Splunk (NASDAQ: SPLK) Share Price



Announcement date:	21st September 2023
Offer per share:	$157
Transaction value:	$28.5m
Implied Premium:	31.28%
Acquirer adviser(s):	Tidal Partners, Wells Fargo, RBC Capital Markets
Target adviser(s):	Qatalyst Partners, Morgan Stanley

[1]above undisturbed share price on 30 November 2023

The deal could improve Cisco's AI capabilities...

Rationale and Outlook

Splunk is a leading company in the security information industry, with over 2,200 partners, and Cisco is a market leader in high-technology. Combining Splunk's data analytics with Cisco's networking monitoring capabilities will lead to the accelerated development of Cisco's Full-Stack Observability platform, increasing demand from businesses.

Splunk has a strong online customer services presence, with 1,800+ experts on their website, ready to help businesses construct and deploy solutions for their teams. Through this acquisition, Cisco might gain synergies from taking the experts onboard. Additionally, Splunk President and CEO Gary Steele will join Cisco's executive team.

Cisco already has XDR capabilities and will now benefit from gaining SIEM capabilities from Splunk, allowing them to be a key player in both important markets.

Brand Portfolio

twinwave

Plumbr

FLOWMILL

TRUSTAR

RIGOR

streamlio

Splunk's acquisitions

Risks and Uncertainties

There might be integration issues. For example, Splunk Hybrid Cloud is only aligned with Google Marketplace and AWS. Additionally, Cisco does not have a good track record of integrating new software, as evidenced with their acquisition of AppDynamics, in the initial stages.

Splunk is criticized for not having flexible pricing structures offered to customers. Cisco's acquisition could lead to more aggressive pricing, which could lead to a dip in customer subscriptions, especially in the current macroeconomic environment.

We selected 4 deals with the biggest potential impact on the industry...

October 23rd, 2023 — **€1.6bn**

FORTIVE

Entered into a definitive agreement to acquire:

Elektro-Automatik

Stage of the deal: ●●●○○ **Chances of success:** Medium

Comment: Elektro-Automatik is Europe's leading supplier of test solutions for energy storage, hydrogen, and renewable energy markets, which will help to strengthen Fortive's position in the high-growth electronic test and measurement market.

The deal is expected to be financed with available cash and debt financing and it will be modestly accretive to adjusted earnings per share in fiscal year 2024.

The acquisition is subject to customary closing conditions and regulatory approvals and is expected to close in the early first quarter of 2024.

October 23rd, 2023 — **~$2.5bn**

VISTA EQUITY PARTNERS

Entered into a definitive agreement to acquire:

EngageSmart

Stage of the deal: ●●○○○ **Chances of success:** Low

Comment: The purchase price represents a transaction premium of approximately 23%.

Under the terms of the deal, EngageSmart Inc, shareholders will receive $23 in cash and its shares jumped nearly 12% in premarket trading after the deal was announced.

The definitive agreement includes a 30-day "go-shop" period that will expire at 11:59 ET on Nov 22, 2023, which permits the Special Committee and its financial advisors to solicit and consider alternative acquisition proposals. In the case of deal termination, EngageSmart Inc. will be required to pay a termination fee of $144.37 million.

October 31st, 2023 — **£360m**

GLIL INFRASTRUCTURE

Acquiring a minority stake in Cornerstone from:

Virgin Media O2

Stage of the deal: ●●●●○ **Chances of success:** High

Comment: Virgin Media O2 confirmed an agreement to sell a 16.67% minority stake in its mobile tower joint venture, Cornerstone, to GLIL Infrastructure LLP. The transaction is still being finalized and is expected it to close in the coming weeks.

Virgin Media O2's rationale behind the sale is to monetize its tower infrastructure while still retaining operational and strategic control in a key asset as they roll out 5G to more areas of the UK, as well as boost current 4G connectivity.

This comes after a host of telcos spun off their tower infrastructure lately, notably Vodafone with its Vantage Towers unit and Deutsche Telekom with its GD Towers unit.

October 12th, 2023 — **$980m**

ATLASSIAN

Entered into a definitive agreement to acquire:

loom

Stage of the deal: ●●●○○ **Chances of success:** Medium

Comment: Total consideration will consist of approximately $880 million in cash, and the remainder in Atlassian Corporation equity. The cash consideration is expected to be funded through existing cash balances.

Loom will remain as a standalone product until the acquisition is complete. Thereafter, Atlassian will be integrating it across their team collaboration software tools so that customers will be able to add context and video capabilities to their workflow.

The transaction is subject to customary closing conditions and required regulatory approval and it is expected to close in the third quarter of 2024.

Glossary

Take-private: A take-private transaction, also known as a public-to-private ("P2P"), refers to a situation whereby the shares of a publicly-traded companies are taken off the market by an investor, therefore converting the ownership from public (i.e. listed in the stock market) to privately owned

Dry Powder: Cash that has been committed by investors but has yet to be allocated by investment managers to a specific investment

Cost of Capital: The return that a company needs to achieve in order to justify the cost of a capital project, usually derived from the weighted average cost of all capital sources.

Assets Under Management ("AUM"): This refers to the total amount of assets that a buyside firm in industries such as a private equity, asset/wealth management, or hedge funds is invested in.

Compound Average Growth Rate ("CAGR"): Compound annual growth rate) is a business and investing specific term for the geometric progression ratio that provides a constant rate of return over the period in question.

Fortune 500: The term Fortune 500 refers to a list of 500 of the largest companies in the United States compiled by Fortune magazine every year.

The Team



Ryan Saccoh
Sector Head



James Chan
Analyst



Jessica Nosike
Analyst



Dennis Ilmelä
Analyst



Gordon So
Analyst