WARWICK M&A GROUP

TMT
Sector Report



Dec 2023
Issue #11

M&A activity at a turning point, which overall sentiment improving

OpenText's divestment of its AMC business to Rocket Software

Telefónica acquires shares of Telefónica Deutschland

TMT M&A activity looks to be turning a corner as overall market sentiment improves

December in numbers

$38.98bn	32	$1.18bn
Total deal value	No of deals	Average deal value
+48.5% (YoY)	*+18.5% (YoY)*	*+30% (YoY)*

Average TEV/Revenue:	5.09x	**Average Day Prior Premium:**	39.75%
Average TEV/EBITDA:	42.64x	**Average Week Prior Premium:**	41.98%
Deals with value greater than $1 billion:	5	**Average Month Prior Premium:**	31.04%

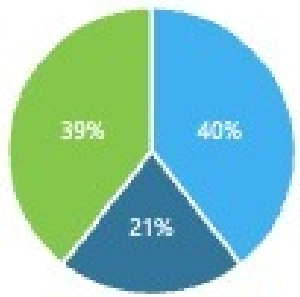
Sectoral insight

- **It has been 5 months since the last Federal Reserve rate hike.** As the macro backdrop continues to stabilize and rate cuts are expected as early as March 2024, we are seeing a significant YoY increase in Total and Average deal value in the sector.
- **As 2023 winds down, there is meaningful optimism for TMT M&A activity going into 2024.** Notably, **take-privates** – such as Blackstone's acquisition of software company Cvent for $4.6bn – have increased in 2023. This trend is expected to continue in 2024 as PE firms seek to deploy **dry powder** that accumulated throughout a relatively sluggish dealmaking environment in 2023.
- **It is becoming harder for companies to close megadeals** – such as Intel's attempted acquisition of Tower Semiconductor Ltd. This is due to increased regulatory scrutiny coupled with high costs of debt financing due to interest rates.

S&P Global 1200 Information Technology Index



Deal count by region



EMEA ■ APAC ■ Americas

Global Data, S&P Capital IQ

OpenText's divestment of its AMC business to Rocket Software

Acquirer: Rocket Software

Rocket Software Inc is a US-based software technology firm founded in 1990. The company develops enterprise software solutions in areas like application lifecycle management and business analytics and is mostly owned by Bain Capital Private Equity.

In recent years Rocket Software has partnered with large enterprises such as IBM, Dell EMC, and Hitachi, to solve their most complex IT challenges. Its hybrid cloud strategy empowers customers to optimise their application portfolio, enabling them to bridge the gap to modern use cases without disrupting their mission-critical operations.

Target: OpenText (AMC)

OpenText's Application Modernization and Connectivity (AMC) business has been a leader in application modernization for many years, providing industry-leading tools including **COBOL** and **host connectivity**. These tools enable organizations to leverage their core applications and offer flexibility for modernization.

The AMC business of OpenText was formerly part of Micro Focus and Open Text acquired Micro Focus for a transaction value of $6 billion last year.

Seller: OpenText

OpenText (NASDAQ: OTEX) is Canada's fourth-largest software company that develops and sells enterprise information management software headquartered in Waterloo, Canada.

The company has pursued an acquisition-led strategy throughout its 30-year history.

Market Cap:	$10.9 bn
Net Debt:	$8.1 bn
2022 Revenue:	$3.5 bn
LTM EV/Revenue:	3.7x

Transaction Summary

On November 28th 2023, Open Text Corporation announced that it has reached a definitive agreement to **divest** its AMC business to Rocket Software, Inc., a Bain Capital portfolio company, for $2.275 billion in cash.

The combination of AMC and Rocket Software's will create one of the world's largest IT mainframe modernization and connectivity software companies. Under the terms of agreement, the software, associated services, and approximately 750 employees of AMC will be integrated into Rocket Software. The deal is expected to close in Q2 2024 ending June 30, 2024.

OpenText (NASDAQ: OTEX) Share Price



Announcement date:	28th November 2023
Transaction value:	$2.275 bn
AMC's FY23 Revenue multiple:	4.6x
AMC's FY23 Adjusted EBITDA multiple:	8.3x
Acquirer adviser(s):	Barclays, Deutsche Bank, RBC Capital Markets, UBS
Target adviser(s):	Goldman Sachs

The deal could enhance Rocket Software modernization portfolio

Rationale and Outlook

Rocket Software has steadily built a significant infrastructure and legacy system support portfolio spanning over 20 acquisitions. This continues to enhance its modernization portfolio that aligns with customer demands, whether on-premises or through a hybrid cloud strategy, strengthening retention rate, cross-sell opportunities and drives sustainable growth

For OpenText, the benefits are centered around the growth opportunities in Cloud and AI, while accelerating OpenText's plan to reduce debt (<3x Leverage Ratio within 90 days of closing)

The AMC division of Micro Focus did not fit into OpenText technically and culturally, but this deal still leaves a lot of its teams behind, including their own HP software acquisitions, which come with a healthy revenue stream and customer base.

AMC Divestment Benefits

Faster and Higher Future Cloud Growth	• Higher Cloud as % of revenue • R&D focused on cloud innovation
More Predictable Growth	• Higher **ARR** as % of revenue
Lower Leverage	• Net Leverage of < 3x • Lower interest expense
Returns OpenText to Capital Flexibility	• Dividends • Potential future share buybacks

Risks and Uncertainties

OpenText acquires a lot of companies but rarely divests those businesses at a later date. In over 20 years, this is the first divestiture and only significant one in the company's history. Going forward, it remains to be seen whether more divestitures will come. This strategic deal may give OpenText the appetite for larger deals, followed by lucrative divestment of the acquired assets.

Generative AI creates uncertainty in the future of software. For horizontal software players like OpenText will stand to integrate quickly with Gen AI applications or risk losing customers. However, these companies are in a flimsier position if overly subscribed to external AI modelling products since they don't operate in an industry niche where value creation can be more easily achieved.

Telefónica's acquires shares of Telefónica Deutschland

Acquirer: Telefónica

Telefónica, S.A. and its affiliated companies offer telecommunications services across Europe and Latin America. They provide a range of mobile services including voice, data, internet, and additional services.

These include mobile-related offerings such as corporate, roaming, fixed wireless, as well as trunking and paging services. With approximately 384 million customers, it is a leading telecommunications provider in the regions it serves. It is headquartered in Madrid, Spain.

Market Cap:	€20.7bn
Net Debt:	€4.5bn
2022 Revenue:	€40.8bn
EV/EBITDA	6.6x

Target: Telefónica Deutschland

Telefónica Deutschland provides telecommunication services to both individual and corporate customers in Germany. These services include mobile and stationery voice and data capabilities.

Additionally, the company offers IoT services and advertises their products under O2, Blau, and Ortel, in addition to Telefonica. It is based in Munich and is one of the leading telecommunications provider in Germany, serving more than 44 million mobile accesses and 2.3 million broadband accesses.

Market Cap:	€6.99bn
Net Debt:	€4.6bn
2022 Revenue:	€8.7bn
EV/EBITDA	5.5x

Transaction Summary

On November 7th, 2023, Telefónica entered an agreement to acquire a 18.52% stake in Telefónica Deutschland Holding AG for €1.3 billion in an all-cash transaction at €2.35 per share, 37.6% to the closing share price on 6 November 2023 and a premium of 36.3% to the preceding 3-months volume-weighted average price.

The acquisition of the Telefónica Deutschland shares as part of this offer as well as the transaction costs will be covered entirely from the existing liquid assets and liquid cash equivalents. The deal is expected to reach completion in January 2024.

Telefónica Deutschland (XTRA:O2D) Share Price



Announcement date:	7th November 2023
Offer per share:	€2.35
Transaction value:	€1.3bn
Implied Premium:	37.6%[1]
Acquirer adviser(s):	Bank of America, JPMorgan Chase& Co.
Target adviser(s):	Citigroup, Goldman Sachs

Telefónica could increase IoT presence...

Rationale and Outlook

This acquisition will increase Telefónica's market share in the telecommunications industry and this will enable them to benefit from the industry's projected CAGR of 6.2% from 2023 to 2030. The industry size is expected to reach $3103bn in 2030. The CEO of the Telefónica Group projects free cash flow to be EUR 4bn as a result of the acquisition.

Telefónica and Telefónica Deutschland serve different regions; however, the acquirer could benefit from an increased presence in all core regions, Brazil, Germany, Spain and the UK. Additionally, Telefónica Deutschland has partnerships with companies such as O2 and Ortel. Customers could benefit from the increased connectivity that such companies provide.

Telefónica Deutschland also offers extensive **Internet of Things (IoT)** capabilities. The acquisition could lead to increased innovation in this sector, which has a CAGR of 26.1% to 2030.

Brand Partnerships

Telefonica Deutschland's partnerships

Risks and Uncertainties

Telefónica has had issues with regulation issues in the past. For example, in 2019, when the EU Competition Commision suspected that Telefónica violated commitments it had made to the antitrust body to gain approval for its E-Plus acquisition. With the Telefonica Deutschland acquisition leading to a possible increase in Telefonica's market share in different regions, they could potentially violate competition laws in those regions which would result in hefty fines that could deteriorate the company's financial health.

Telefónica Deutschland recently lost a major wholesale client, 1&1, and are currently undergoing a 3-year recovery plan to mitigate this loss. The 1&1 departure is expected to create a EUR 200m loss on free cash flow for Telefónica Deutschland. If they are not able to successfully implement their mitigation plan, this potential cash flow loss could have a negative impact on the Telefónica group due to the acquisition.

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

Nov 21st, 2023 **€14bn**

PERMIRA Blackstone

Have entered take private discussions with:

Adevinta

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

Comment: A consortium of private equity firms led by Permira and Blackstone are looking to take Adevinta private for c. €14bn. Adevinta is a Norwegian advertising company operating in online marketplaces, which was spun off by Norwegian media company Schibsted in 2019. Adevinta is listed on the Oslo stock exchange (OB:ADE).

The current bid is a c. 50% premium on the last three-month trading price. Adevinta's board did not formally recommend the offer but mentioned it was worth considering and "within the range of what is fair". If the deal is completed it would be the largest TMT buyout of the year, but it will face challenges regarding valuation and financing.

Nov 2nd, 2023 **$6.5bn**

EQT

Renewed discussions to acquire:

GLOBAL SWITCH

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

Comment: EQT has renewed talks to acquire Global Switch, a London-based company which runs 13 data centers in Europe and APAC, for $6.5bn. Owners, Chinese steelmaker Jiangsu Shagang Group and Avic Trust, have considered options since 2019. The latest round of bidding in late 2022 involving EQT, KKR, and PAG failed due to valuation disagreements—the owners value the company at c. $10bn. Apart from valuation, legal matters involving data regulations could complicate the deal.

The rising reliance on technology has made data centers an attractive assets, promising stable returns and growth through the increased reliance on technology.

Nov 24th, 2023 **€2.2bn**

PJT

Indicated as top choice to advise the lenders of:

open fiber

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

Comment: Some 30 banks, including Banco BPM, BNP Paribas, Intesa Sanpaolo, and UniCredit, that have lent to Open Fiber, an Italian wholesale-only telecommunications company, have PJT as the top choice to advise them on the €2.2.bn funding gap. Open Fiber has previously drawn down c. €5bn of a €7.2 bn credit line provided in 2021 and now wants to access the remainder as spending to bring the network to rural areas of the country has been higher than expected.

Lenders are expected to ask shareholders for burden-sharing for the funds and some international lenders with limited exposure are weighing the sale of their holdings. CDP Equity owns 60% of the company and Macquarie Asset Management 40%.

Nov 15th, 2023 **~$75bn**

SPACEX

Is reportedly considering the spin-off of:

X

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

Comment: Reports of StarLink's spin-off from SpaceX began picking up in mid-November with an article written by Bloomberg indicating that SpaceX has been moving the satellite unit's assets to a wholly owned subsidiary that would ultimately be spun off in the IPO. Confidence in the IPO is high on the street however the exact timing is still up for speculation with estimates ranging from as early as 2024 to 2027. CEO Elon Musk denied the IPO reports but has previously mentioned potential for a Starlink IPO, contingent on the company's ability to accurately forecast cash flows.

A significant portion of SpaceX's $180bn valuation has been attributed to Starlink. Starlink's estimated valuation falls between $75bn to $100bn.

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

COBOL: Development and deployment tooling for distributed COBOL applications

IoT: Refers to the collective network of connected devices and the technology that facilitates communication between devices and the cloud

Host Connectivity: Mainframe/Unix emulators, application access, process automation and security solutions

Divest: to sell a company's investments, divisions, or assets

ARR(Annual Recurring Revenue): a subscription economy metric that shows the money that comes in every year for the life of a subscription

Volume-weighted average price: the average price a security has traded at throughout the day, based on both volume and price.

The Team



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