

## September 2009 - Monthly Briefing

8<sup>th</sup> October 2009

### At Last – the Industry is Starting to Think Big Again as the Cheque Books Open

September began with the news that Deutsche Telekom AG, owner of the T-Mobile brand, was to merge its UK operations with France Telecom, which owns Orange, with a view to creating the UK's largest mobile phone provider. The merger was confirmed on September 8<sup>th</sup> after both firms announced that they had entered into exclusive negotiations to form a 50:50 joint venture company with pro forma revenues of £7.7 billion and a 37% share of the market. "In the second-biggest market in Europe, which is undoubtedly one of the toughest and most competitive, we are giving T-Mobile UK a clear and strong future," said Timotheus Höttges, chief financial officer of Deutsche Telekom.

Later in the month came the first of two hardware/IT services transactions. Dell, making its largest acquisition to date, is paying \$3.9 billion in cash for Perot Systems in a deal that it expects to complete by the end of its fiscal fourth quarter (January 2010). The combined Dell/Perot IT services revenues are estimated to be \$8.5 billion for its most recent fiscal year, but that includes hardware support services. The business will cover a range of offerings from the traditional Large Enterprise operations from Perot to Dell's Modular Services business, which is primarily aimed at SMBs. As one analyst commented "To put that into perspective, it means that 'Perot Systems, a Dell Company', will be comparable to a vendor-agnostic rival such as Atos Origin (which has revenues of approximately \$8 billion)".

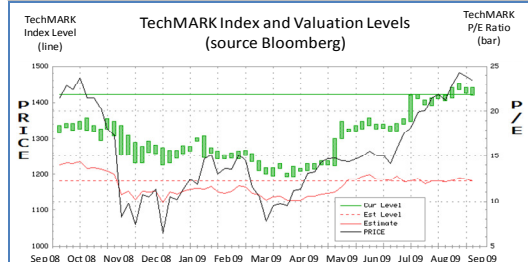
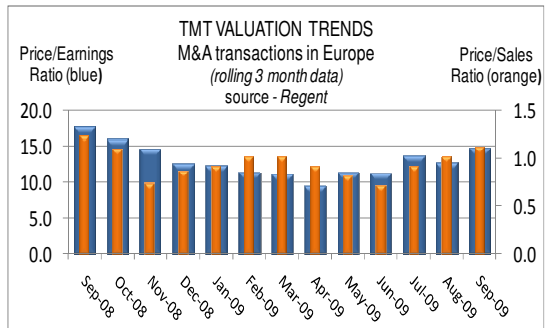
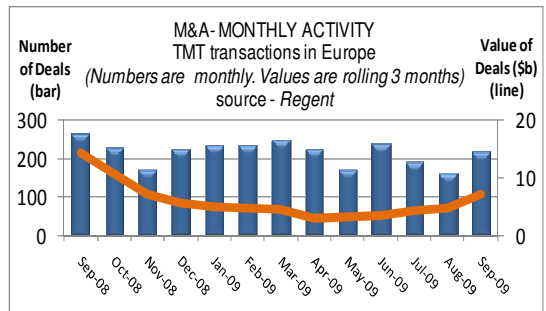
Not to be out-done, a few days later Xerox, announced it was acquiring diversified BPO and IT services player, Affiliated Computer Services (ACS). Xerox will be paying \$6.4 billion of which 30% will be in cash. At \$63.11 per share, this is a 34% premium to ACS' \$47.25 closing price the week before. Given the \$2 billion of debt that Xerox is also going to assume, that gives an Enterprise Value (EV) to Sales ratio of about 1.3, an EV to EBIT ratio of 12 and P/E ratio of approximately 18.

Further afield, NEC Corporation, Casio Computer and Hitachi jointly announced an agreement to merge their respective mobile terminal businesses in 2010, following the establishment of Casio Hitachi Mobile Telecommunications back in 2004. The joint venture company formed from the merger will combine each firm's expertise in technological and product development, while drawing on the integration of the business functions of NEC's mobile terminal operations unit.

Finally, in the closing days of September, Adobe Systems announced a major agreement to acquire Omniture, in a deal valued at approximately \$1.8 billion. The acquisition will allow Adobe to combine its content creation tools and clients with the web analytics, measurement and optimization technologies offered by Omniture.

#### REGENT's view of the month

All of our key activity and valuation measures moved up strongly in September. The number of TMT deals across Europe rose to 218 in the month compared to 163 deals in August. These had a combined valuation of \$11.6 billion, the highest level since the beginning of the recession back in August 2008. Valuations are heading back towards the long-term norm with median Price to Sales (PS) ratios of 1.2 and median Price to After Tax Earnings ratios of 15.7.



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