

TECHNOLOGY INDUSTRY spotlight

COLLABORATIVE SOFTWARE INDUSTRY

SEPTEMBER 2001

COLLABORATIVE SOFTWARE BENEFICIARY OF BUSINESS DESKTOP LANDGRAB ▶

Simply stated, optimizing the way businesses work, interact, and communicate with employees, customers, suppliers, and other business partners on the web is a priority for decision makers holding the IT purse strings. With research organizations, like The Yankee Group, projecting that corporations stand to save an estimated \$11 billion in 2001 and \$84 billion in 2005 by improving communication and interaction among employees, customers and extended enterprise partners, we begin to understand why. As a result, the collaborative software space is on track to hit revenues of \$2.5 billion in 2001 and is expected to grow to \$7.3 billion by 2003, representing a CAGR of 70%. Moreover, despite lower valuations there are an increasing number of M&A transactions and only a slight decrease in the number of private equity financings within the collaboration sector.

INDUSTRY TRENDS ▶

From our analysis of 2001 YTD merger and acquisition activities, three dominant themes emerged.

- First, mature portal functionality is considered a critical component for those wishing to own the business desktop.
- Second, an increasing number of business productivity application providers choose purchase instead of partner when it comes to team-based collaborative functionality.
- Third, cash-starved point solution providers look to accelerate reaching critical mass and improve survivability by joining sector roll-ups.

Large and small software vendors continue to scramble to offer a single, personalized entry point to both structured and unstructured enterprise and extended enterprise information as evidenced by portal plays from SAP, Devine and Citrix. With an increasing focus on the extended enterprise and in facilitating distributed workforces, the familiar browser has emerged as the preferred gateway to the business desktop. With limited growth opportunities in their legacy businesses, companies like SAP and Citrix paid rich multiples (20X P/S and 10X P/S respectively) and used precious cash reserves to purchase portal providers in an attempt to leverage and extend the life of their existing products and customers. Similarly, in an effort to fulfill the market's demand for more complete, integrated, business productivity solutions, numerous software vendors added collaborative functionality to their product suites.

NOTABLE TRANSACTIONS ▶

- Ezenia's \$20M cash acquisition of Infoworkspace;
- Hummingbird's \$20M cash acquisition of PeopleDoc;
- CommerceOne's \$60 million dollar acquisition of Exterprise; and
- Autodesk's \$25M cash acquisition of Buzzsaw.

With continued softness expected in IT spending we have seen the re-emergence of sector roll-ups. Divine Interventures has led the roll-up charge, executing four transactions in the content management/portal spaces over the course of the last two quarters. Polycom and Genesys have begun the consolidation efforts in the conferencing arena; while IT

RCW MIRUS INC. ▲ INVESTMENT BANKING SERVICES

Factory has completed two acquisition in the knowledge management space.

While the weak operating environment coupled with plummeting stock prices has equated to lower M&A valuations, overall Y/Y M&A activity both in terms of cumulative deal value and number of transactions has increased. Based on our sample data of the first nine months of transactions reported, the frequency of M&A transactions increased 80%, while the cumulative deal value increased from \$670M to \$1.45 Billion. Average price-to-sales multiples dropped 60% from 7.2X in 2001 compared to 11.45 in 2000. The fact that our sample index of acquirers yielded a -44% 52 week return and an average P/S multiple of 3.2 helps explain the surprisingly tight correlation between the richest valuation multiples and cash-based transactions. The tight capital markets also help explain increased M&A activity.

The disdain for technology and weak economic environment in general has greatly impaired the collaborative software firms' ability to raise capital in the IPO market. In 2000, there were five IPOs priced at more than 30X revenue and one withdrawn. With the exception of one company that was purchased, all the companies that went public in 2000 are currently trading significantly below their IPO price. However this year, with the IPO window closed, Mirus has yet to find one successful IPO. In fact, four collaborative software companies have withdrawn from the IPO market YTD.

On the other hand, private equity funding for collaborative software companies remains healthy when comparing the first nine months of 2000 and 2001. While the total number and value of private equity fundings 2001 decreased on average 18% from 2000; the average funding size inched marginally higher to \$15.5M from \$14.0M in 2000. The appetite for new projects and early stage funding in 2000 has been replaced by later stage funding as VCs continue to protect their investments. Later stage fundings represented 70% of all financings in 2001 compared to 45% in 2000. For instance, Portera, a PSA vendor recently reported a 5th round of financing, bringing the total capital raised to \$120 million. We have also seen strategic investors retrench, with investment activity decreasing 34.8% from 2000 levels. We do expect strategic investment to continue as Companies look to test the waters before contemplating acquisition as we saw with SAP's acquisition of top tier. Verticalized and wireless collaboration start-ups continued to see significant new investment in 2001.

Mirus anticipates increased M&A activity as the ocean of best-of-breed knowledge management, workflow, collaboration, document/content management, and analytics players converge in order to increase survivability and meet the market's demand for integrated, and comprehensive enterprise and extended enterprise business productivity solutions.

If you would like to discuss consolidation and mergers and acquisitions in the collaborative software industry, please contact Peter Alternative at 617-338-1333.

RCW MIRUS 100 FRANKLIN STREET, BOSTON, MA 02110
(P) 617.338.1333 (F) 617.338.1315 (W) WWW.MERGER.COM