martinwolf

YEAR-END LETTERS

A LOOK BACK AT
MARTY WOLF'S
HOLIDAY LETTERS.

25 YEARS

Celebrating 25 Years as Trusted M&A Advisors

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HOLIDAY LETTERS

We have expertise when it comes to selling IT-enabled businesses. Leveraging exclusive market intelligence and active monitoring, we offer clients relevant and up-to-date knowledge of their market subset. This insight enables unique opportunities and gives us a notable edge in negotiations.

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To Clients, Partners and Friends of ***martin**wolf* | M&A Advisors,

2012 marked our 16th year in business and more than 115 transactions completed in seven countries. Our track record of completing deals makes us a world-leading middle market IT M&A advisory.

This past year we also went global with our MW IT Index®, proprietary research and analysis of the enterprise valuations of companies in the IT Services & Business Processing Outsourcing (BPO), IT Supply Chain, Software and SaaS industries. We initiated the Index for U.S. companies on January 1, 2008. In 2012, we expanded our analysis to include IT firms in India and China. We now publish our global Index and related commentary every quarter.

A Right Way and a Wrong Way
If there is one thing we've been reminded of over and over in the past 16 years, it's that initiating, managing and completing the purchase (or sale) of a company is a complex process with many pitfalls along the way. Some pitfalls are external and cannot be controlled by either buyers or sellers. Others can be avoided, but not without a disciplined approach and a 100% commitment to getting the deal completed.

With so many things that can go wrong, it's not hard to understand why a poorly managed M&A process will nearly always fail. And of course, while closing the deal is tough, getting two companies integrated and aligned after a deal is even tougher.

Add into the equation cross-border transactions – known inside our firm as "mixed marriages" because buyers and sellers are located in different countries – and the potential for mistakes multiply exponentially. It's like moving off the farm in Wisconsin and buying a penthouse in a high rise off Central Park. Some people can make the transition – most people can't. And no matter how hard he tries, the guy who runs around Central Park looking for cows won't find them. They aren't there.

By definition, cross-border transactions involve not just two companies in two countries with two organizational cultures, but two national cultures, two sets of accounting rules, business laws and norms for doing business, and, often, two languages. Some even involve companies in two very different kinds of businesses, which in my view dramatically diminishes the odds of success.

On this last point, think of Time Warner and AOL, an M&A deal that occurred back in 2000 when there was a really big difference between a traditional media company and an online community. More recently was HP's multi-billion dollar overpayment for the business intelligence firm Autonomy. HP took an $8.8 billion write-off on that transaction in November. Even now, the deal has yet to produce any discernable benefit for either business and has instead Autonomy's top-line revenue has declined.

Regardless of the challenges of closing deals and integrating companies, there are some very good reasons why some companies in some industries do it anyway. For starters, bigger really is better. That's why in 2012 the pace of middle market M&A activity in IT can only be described as brisk and the outlook for 2013 is even better – especially for cross-border transactions, the most difficult nut to crack.

But before I dip a toe into the dangerous ocean of prognostication, I'm going to cruise calmer waters with a brief review of what happened in 2012 in the IT sectors and geographies we follow and in which we do business. These developments inform our view of how things will unfold in 2013.

SaaS Valuations Still Up and to the Right (Mostly)
M&A activity and valuations in SaaS over the past 24 months had a lot in common with a Ferrari: fast, expensive and definitely noticed.

Not much more than a decade old, the SaaS industry in 2012 transitioned from its “early” phase – when industries are first established and enterprise value is growing but unrealized – into its “growth” phase. The growth phase is when many companies start up and are sold as an industry begins to define itself. Enterprise value is accelerating (as in pedal to the metal). This is the case with SaaS.

Even though SaaS enterprise valuations were flat for the last six or seven months of 2012, they were up about 20% for the year. Salesforce.com did even better with valuations up 20% over the past six months and 50% for the year. Furthermore, SaaS is outperforming all of the other industries we track in our MW IT Index.

This growth in value has been jet-fueled by market demand and by some intense competition among major traditional Software players looking to establish a strong position in SaaS. New SaaS startups in their infancy are segmenting and specializing and this makes them prime targets for acquisition.

Just ask Salesforce.com. Between January 2011 and July 2012, Salesforce.com bought a string of a dozen young companies to beef up its mobile, social and cloud-computing portfolio, which it rightly believes is the future of enterprise tech. Most notable were Model Metrics, a mobile-social cloud consulting firm, in November 2011; and Buddy Media, provider of a social-media marketing platform, in June 2012.

These acquisitions went largely unanswered by competitors until September 2011 when Oracle announced that it would acquire SaaS enterprise CRM provider RightNow Technologies for $1.5 billion. Until then, Oracle focused its acquisition dollars on traditional enterprise software applications. From RightNow on, it is clear that Oracle hopes to rule SaaS over time, just as it has grown to dominate traditional enterprise software. Oracle paid more than 7 times trailing 12-month revenue for RightNow. My bet is that over the next year or two, Oracle will make that multiple look like a bargain.

In the fourth quarter of 2011, software industry giants IBM and SAP also bought SaaS companies – IBM purchased DemandTec and SAP went for SuccessFactors. Both also paid more than 7 times trailing 12-month revenue. In fact, SAP paid more than 12 times trailing 12-month revenue for SuccessFactors, a leader in SaaS-based human capital management solutions. SuccessFactors had revenue of $291 million in the 12 months prior to its purchase; SAP paid $3.5 billion. Not a bad return for SuccessFactors stockholders.

(To put the prices that were being paid for SaaS companies in perspective, over the same timeframe, companies sold in IT Services/BPO space went for .5 times to a little more than 2 times trailing 12-month revenue.)

SaaS acquisition fever continued throughout 2012. But what started out looking like a land grab among titans quickly became a mano a mano between Salesforce.com and Oracle.

I’ve already talked about the 12 acquisitions made by Saleforce.com in 2011 and 2012, five of which were announced in 2012.

After buying RightNow in late 2011, Oracle went on to make 11 (mostly cloud) acquisitions in 2012. The streak started in February with Taleo, a provider of cloud-based talent management services, which Oracle acquired for 5.8 times trailing 12-month revenue, or $1.9 billion. It was punctuated in May with the purchase of social marketing platform provider Vitrue (financial terms not disclosed). And it was capped by the acquisition of Eloqua in December for an implied 8 times trailing 12-month revenue, or $810 million.

(To be fair, IBM acquired human capital management company Kenexa in August 2012 in a cash deal for 3.8 times trailing 12-month revenue, or $1.26 billion. While this was a significant transaction, IBM's overall acquisition activity did not rival the moves made by Salesforce.com and Oracle in 2012).

Despite dueling acquisitions by Oracle and Salesforce.com in 2012, ultimately, success will boil down to the ability to execute. Compared to Oracle, Salesforce.com is a relative novice. And in terms of both strategy and execution, Oracle is really, really good at acquisitions. The company has spent billions on about 90 companies since its acquisition of PeopleSoft closed in 2005. Oracle's chief skills are identifying companies that fit well into its long-term business strategy at the front end of the process and its ability to integrate and act on these strategies at the back end.

But I wouldn't bet against Salesforce.com. The company beat Wall Street's third quarter 2012 estimates for sales and profit, reporting revenue of $788 million, up 35% year over year and 7.6% from the previous quarter – in no small measure the result of being able to rapidly capitalize on some of these acquisitions. While the jury is out, initial results are positive.

We've just closed our fifth transaction in the SaaS space ourselves – and we have five additional active engagements in the space.

Of course, given the outsized SaaS valuations we're seeing, there are some naysayers who ask: Is SaaS another bubble like the Internet was in 1999? I addressed this precise question in April of 2012 in an article I wrote for *Mergers & Acquisitions*.

My answer – which I stand by today – is definitely not.

Unlike the dotcom companies of the late 1990s – whose IPOs and market caps were fueled by too much venture money being poured into too many companies that failed to turn a profit – SaaS companies are the real deal. They have real solutions, real customers, real sales, real profits, and real enterprise value – because they provide real ROI to their customers.

So no, this is not a bubble. Instead we're witnessing the coming out party of an industry that is destined to define how enterprises plan and execute IT strategies for many years to come. And while the ultimate winners are yet to be determined, there is plenty of jockeying for leadership in the lucrative SaaS market – with Salesforce.com responding to competitive threats with a smart business strategy – supported by smart acquisitions.

And by the way, Salesforce.com's stock price at the close of market December 31, 2012 was $168.10 per share – a gain of 66.1% for the year.

If I Were a VAR

Of all the sectors we track, none has fared worse in 2012 than IT Supply Chain. It's not a pretty picture.

In fact, it was marked by a mid-year explosion – the decision by Microsoft to blow up the ecosystem (that Microsoft and Intel created some three decades ago) by announcing in June that it would for the first time in its 37-year history make a hardware product: the Surface tablet. With the announcement of Surface, the decades-old network of partners that Microsoft and Intel built got a formidable new asset-rich competitor: Microsoft.

I get Microsoft's motivation for this shift in strategy and it's perfectly understandable: the company desperately needed a new business strategy that would allow it to compete in the post-PC era and with Apple as the de facto leader heading into it.

Still, the June announcement was stunning because it signaled that Microsoft is willing to do whatever it takes to re-tool – including blowing up the partner network that has been the linchpin of the company's dominance for the past 30 years.

This shift in strategy was terrible news for Microsoft's hardware OEMs, which will be relegated by Microsoft to the low-margin desktop and laptop PC business. But it was devastating news to other players in the supply chain, an industry that has been in a "mature" phase for several years now and contributed to an unprecedented decline in enterprise valuation in the IT Supply Chain sector.

As we reported in our most recent MW IT Index report for the third quarter of 2012, Between April 1 and November 30, 2012, valuations for companies in the IT Supply Chain industry in the United States decreased 23.3%. The decline was the result of a confluence of factors disrupting this portion of the PC industry. We expect valuations to continue sliding, if not accelerate.

Bottom line, prospects for companies in this sector are dimming rapidly as consumers shift from PCs to smartphones and tablets, and enterprises from on-premise data centers to the cloud. There are simply few easy paths to growth left.

The mature phase of any industry is marked by slower growth, declining margins and lower valuations. For the supply chain industry, the recession accelerated this inevitable market evolution – end-user IT customers slashed IT budgets to survive and VAR customers reduced the number of partners they support to cut costs. Things are looking up with IT budgets as confidence in the economy slowly improves. But it's unlikely that VAR customers will look to add new partners.

To keep growing, VARs have moved up the value chain, offering managed services to attract new and larger customers. They have made acquisitions or been acquired to breathe new life into their businesses through scale. They have acquired their way into new businesses.

A good example of a company that has chosen the last option is Presidio. Privately held with annual revenues of roughly $2 billion, Presidio employed more than 2,000 people in 50 locations and offered a range of managed and cloud services, hosted infrastructure and hosted backup and recovery when it announced it was acquiring BlueWater Communications in February 2012. BlueWater was a roughly $250 million solutions provider focused on unified communications, cloud computing and data center technologies, and its acquisition carries the additional benefit of providing executive leadership going forward. The transaction followed close on the heels of Presidio's acquisition of INX, a U.S. provider of

IP-based unified communications and data center/cloud solutions, in November 2011.

Nevertheless, this is a truly a time in the industry when smaller VARs will have a hard time surviving. And it begs the question: what now?

Well, if I were a VAR, there are five things I'd do right now to optimize the value of my company. They all have to do with staying relevant in an industry that has undergone seismic shifts in just about every way you can think of.

1. Size matters

If you're a VAR and you have scale, capital and management ability, you need to get bigger. In this market, the least risky way to do this is to consolidate and become more profitable by cutting expenses.

2. If you can't go big, go niche

Sometimes the way to deepen a company's value is to narrow its focus. For example:

- Go mobile: I'd want to help my customers manage their end-user mobility strategies, including mobile device management, apps, data and security.
- Explore healthcare: Healthcare presents several great opportunities, especially with provisions of the Patient Protection and Affordable Care Act going into effect on January 1, 2014. This means companies will require new strategies for workforce management, health benefits management and healthcare IT. That's an opportunity for VARs.

The key is to go beyond core business processes into specialized ones so customers can outsource them – for example, in business analytics, security, electronic data integration and payment processing systems.

3. Either way, head for the clouds

My top priority would to get into the business of selling cloud services and reinvent my business model to do it – white label, partner or acquire to make it happen quickly – because building it takes too long. Also, I'd put the cloud's efficiencies to work for my own company.

4. Find strategic partners to fill the gaps

I don't believe a VAR can do everything under one roof, but it can create partner networks that deliver complete solutions to customers. If I were a VAR, I'd rethink what "strategic partner" means. Above all, I'd work hard to make my partnerships real.

India: Keeping An Eye on China

Indian IT companies have long been the global leader in IT Services and BPO by offering better, faster, less expensive solutions. But its days of easy growth are gone, victims of five long years of global economic uncertainty, low-cost outsourcing becoming a low-margin business and increased competition from other geographies with even lower cost structures.

In attempts to spark new growth, Indian IT companies have moved up the enterprise value chain, turning their attention to cloud computing and cloud services.

This is a good thing, because the solution to new strategies for growth is evident in this simple statement: “What you *do* matters.” When I say matters, I mean matters to the value of a company. Here are some results from the past 12 months that make my point:

- BPO companies (voice) sold for 4.7 times EBITDA, while Managed Services & Infrastructure Services companies were sold at 15.6 times EBITDA, or 3.3 times more than BPO.

- Smaller, specialized vertical niche players like Healthcare IT Services companies were sold at 11.7 times EBITDA, versus 9.5 times EBITDA for Financial IT Services – both outpacing valuations of much larger BPO companies. Yet, healthcare is worth more right now.

What is clear from these examples is that many of India’s IT companies must change or adapt what they do – or they will continue to work harder for less.

In our view, however, Indian IT companies face the most serious threat yet to their global leadership in the space: the rise of China.

China: Keeping Both Eyes on the Prize

Despite high volatility of Chinese IT companies over the past decade, they are currently outperforming Indian Tier I and Tier II IT companies by more than 1.5 times on enterprise value based on EBITDA,, and by more than 3 times on enterprise value as a multiple of revenue. This is despite the fact that Chinese IT companies’ sales are increasing while profits are relatively low.

While GDP growth in China was, until recently, slowing, the upward potential of the Chinese domestic market for cloud computing remains huge and it’s in its early days. According to IDC, the market for cloud computing in China in 2011 was nearly USD 286 million, or about 10% of the global market. IDC expects cloud computing in China to reach USD 410 billion in 2012 – a growth rate of nearly 44% – and it is on track to exceed USD 1 billion by 2016.

With a pace of growth that fast in the domestic Chinese market, it is easy for individual companies to post big sales gains. Profits are not keeping pace with sales growth, though, because Chinese IT companies are still delivering relatively low-value, low-margin, mostly application development and staffing-oriented services.

However, Chinese IT companies are not going to just settle for the low-end services market share. How do we know? Because the Chinese government is making a huge investment in cloud computing infrastructure – one that directly benefits Chinese companies providing cloud services that are higher up the value chain and is enticing others to make a similar transition.

As one of the seven “national emerging industries” targeted as a way to boost GDP growth in China’s 12th Five-Year Plan (2011-2015), cloud computing will be the focus of a Chinese government investment of more than USD 150 billion in 25 cloud computing centers by 2015. The intent is to shore up the country’s relatively immature cloud computing infrastructure so that the market can flourish.

The impact of this large and focused government investment in cloud computing will no doubt be a rapid acceleration of the growth and development of the domestic market and of the companies that make up the Chinese cloud ecosystem that is growing up to support it.

Bottom line, it won't take nearly as long for Chinese IT Services companies to move up the value chain to offer cloud services as it has taken Indian IT companies.

But, will Chinese companies be able to break into the global market? The answer: yes, but maybe not overnight. Chinese IT companies have clear political and cultural disadvantages compared to Indian companies – a situation that cannot be overcome with government investment alone.

Simply put, there is distrust between the U.S. and Chinese governments that has culminated in trade wars and thwarted deals between the two countries.

Further Chinese government policies affect investments by U.S. companies in China. There are barriers to U.S. companies investing in China – more numerous and much greater than U.S. companies investing in India.

Examples include China's censorship and sweeping state secrecy laws, which cause concern about data security and privacy, especially for foreign companies unaccustomed to such restrictions. Another is China's weak intellectual property law.

However, the potential opportunities for U.S. companies in China are so huge that most companies invest anyway. But for U.S. companies to be successful in China, they need Chinese partners.

An example of investing in China despite hurdles is Microsoft. Its latest investment in cloud computing in China, announced in September 2012, will add 1,000 employees in China and invest an additional 15% in R&D. It is part of a cloud push aimed at competing more effectively with Apple and Google in the world's most populous mobile Internet market.

Cross-Border M&A: A Path to Growth and Value

With the state of IT industries being what they are, it makes sense that IT companies around the world are looking to cross-border mergers and acquisitions as a path to higher valuations.

Cross-border M&A is a natural evolution for the IT Services industry. Consider India. In the 1990s and early 2000s, companies such as Infosys, Tata Consultancy Services and Wipro grew to USD 1 billion+ in annual revenues based on more and higher value work coming from multinational companies seeking to cut costs.

Starting in the mid-2000s, cross-border M&A became a new strategy for growth, market access and global reach for Indian IT Services companies. The impact on second tier IT Services was immediate and dramatic: they had to grow or perish. This sparked a wave of consolidation that continues today – with the reward being higher valuations to companies with revenue of more than USD 500 million compared to companies with less than USD 500 million.

There is every reason to believe that the IT Services industry in China and other markets will evolve in a similar fashion, with companies looking outside their home market and to cross-border M&A as a new growth strategy for Tier 1 companies and as a survival strategy for Tier 2 companies.

An Art, Not a Science
Creating value across two cultures is an art, not a science. Many such deals don't work because buyers commit the following errors:

- **Focus on price not value**. Buyers must factor in stability and cultural fit of the seller's staff or value can quickly erode.

- **Buy only what is presented to them opportunistically**. Chances are the best companies are not "for sale" until the right buyer comes along. Buyers need a comprehensive search to seek out acquisition targets.

- **Don't really know what they are buying.** Buyers need to understand market dynamics and think through a post-acquisition integration and long-term strategies for creating value before they buy.

While cross-border M&A offers the best opportunity for many IT companies to grow and scale, a rigorous process is a must and a random process spells disaster. In our experience, competent advisors are critical to identifying, recruiting, negotiating and managing transactions.

So for 2013, we expect a robust year of deals, with market pressures causing China, India and U.S.-based companies to do cross-border deals. Success will be measured both on whether a deal gets done and whether the companies and cultures can mesh and perform well going forward.

Going in, each party should remember: there are no cows in Central Park; and with the rapid pace of change in IT – few sacred cows in deals.

I wish you a Happy New Year, and continued success!

Sincerely,

Marty Wolf

In 2014, Cook Up Something New

To Clients, Partners and Friends of ***martin****wolf* | M&A Advisors,

According to disruptive innovation guru Clayton Christensen, established companies have a hard time inventing new business models when they need to. As a result, game-changing opportunities often pass them by and new market entrants ascend to leadership.

This happened in the 1980s in the IT industry when PCs displaced mainframes and minicomputers. It's happening now as tablets, smartphones and the cloud are displacing PCs and on-premise datacenters.

In the early days of disruptive innovation, it's hard to pick winners and losers. It's sometimes even difficult to predict the actions companies will take to gain a foothold in the new world order.

From my vantage point looking back on 2013, here are five disruptive deals I could not have imagined a year ago.

1. In February, Dell announced it was going private as part of the largest tech leveraged buyout deal in history – the first in a series of significant go-private deals in North America in the space that continued throughout the spring.

2. In June, CDW, a technology services provider that went private in 2007, went against the grain and returned to the public market, raising about $396 million through an IPO at a valuation premium of 39% over its peer group.

3. In late August, Microsoft announced that it would buy Nokia's devices and related services business and license its intellectual property for about $7.2 billion.

4. In October, IBM gave up an eight-month legal challenge to the CIA's decision to award a $600 million contract to Amazon to provide cloud datacenter services to the spy agency.

5. In November, Chinese technology services provider ChinaSoft International paid $42 million to acquire Catapult Systems, a premier Microsoft-focused consulting company based in Austin, Texas.

What do these major deals mean for companies in the global IT industry in 2014? It means you should expect more of the unexpected.

And if you had any doubts about it before, be assured: now is the time to reinvent your business model – or be left behind.

Surviving in the post-PC era
For any company whose fortunes depend on PCs, 2013 was a bad year. For Dell, it was a very bad year – but with a pretty good ending.

When Dell's proposed LBO was announced last February, the company already had been trying for several years to make a complex transition from products to solutions and reinvent its business model, primarily by acquiring companies with higher value offerings. But having to answer to Wall Street every 90 days had been holding Dell back, especially when some of its acquisitions went south.

This was a key driver behind founder Michael Dell's decision to partner with Silver Lake to take the company private. As a private company, Dell could make decisions that would be good for the long-term prospects of the business away from the public eye. The result could be a transformed business that would potentially be a lot smaller, but could have higher margins and rising value.

It was a long haul and there were moments when it appeared the gambit would fail. But finally in late October, the deal was completed. Dell went private after investors raised just shy of $25 billion.

We didn't know it when the Dell deal was announced, but there were more go-private deals on the horizon involving companies in the PC supply chain.

VARs turned services providers choose private equity
In April, two companies that started out as VARs and are transitioning to become services providers – CompuCom and Softchoice – made similar decisions to Dell, electing to stay or go private to complete their complex transitions. Before I continue, I will note that we have sold assets to CompuCom and done multiple transactions with Softchoice.

CompuCom announced that Thomas H. Lee Partners would purchase the company from Court Square Capital Partners for a rumored $1.1 billion. Softchoice announced that it would be acquired and taken private by Birch Hill Equity Partners for about $412 million.

For CompuCom, this actually marked the third time it had been acquired by a private equity firm since 2004, each time at a higher valuation. An infusion of capital, going private and a new – yet experienced – management team had been instrumental in helping CompuCom dramatically change the makeup of its business, increase gross margins and grow its enterprise value. In fact, CompuCom can serve as a blueprint for other VARs seeking to reinvent their business models.

While CompuCom's journey began in 1999 and unfolded over a dozen years, what set Softchoice apart is the speed at which the company is making its transition from products to services. Over just 16 months prior to its acquisition, the company introduced its first cloud services offering, its first North American-wide managed services offering and completed a key acquisition, UNIS LUMIN, a Cisco networking and managed services provider. Softchoice also was doing a superb job of leveraging existing customers to sell new offerings and move up the value chain.

Despite their many differences, what Dell, CompuCom and Softchoice had in common was the need to transition to survive. For all three, going private provided the essential cover needed to execute on decisions that sometimes take a long time to bear fruit.

A successful IPO in a lukewarm market

In contrast, CDW, a privately held technology solutions provider, went in the opposite direction to raise capital for its transition. Despite an unreceptive market for IT IPOs for the past decade, CDW broke through last summer, going out at $17 a share.

So far, CDW stock has held its value. The company's stock price as of December 31, 2013 is $23.36 per share. For the third quarter of 2013 – its most recent reported results – CDW reported profit of 0.50 a share on $2.9 billion in revenue, handily beating analysts' earnings estimates of $0.47 per share.

Public or private, 2013 proved that moving up the value chain requires both access to capital for organic growth and acquisitions and good relationships with customers that companies can leverage to sell higher value offerings.

Meanwhile, back at Microsoft

The announcement last summer that Microsoft will be buying Nokia's phone business made it clear that even as CEO Steve Ballmer prepares to exit, far from abandoning its new strategy to become a devices and services company, the company is doubling down.

Success is by no means guaranteed. Just as launching its own tablet and selling it direct in the United States put Microsoft in direct competition with its OEM PC hardware manufacturers, getting into the smartphone business pits Microsoft against the other Windows Phone makers, including Samsung, HTC and Huawei.

The move also reaffirms the message Microsoft sent to its channel partners when it announced it would enter the tablet business back in the summer of 2012: we're unhappy with your lack of innovation in tablets and smartphones, and we're making big changes. We're going to launch our own line of tablets and we're going to sell direct, at least in the United States.

This announcement caused massive disruption in Microsoft's partner network at the time, and uncertainty intensified in 2013. Despite a relative lack of success in the tablet business, all year long Microsoft has been tweaking its channel programs and partners, tacking actions designed to cull weak partners and generally diminish the importance of partners in its new businesses.

In September, Microsoft announced the most recent major overhaul of its partner programs. In a nutshell, the cloud is now definitely center stage and tablets and smartphones along with it. Managed services partners now have a place to call home.

All along, I've cautioned Microsoft channel partners that to continue to grow revenue and enterprise value, they will need to develop new solutions, new markets, new strategies and new vendor-partners. Going into 2014, my advice still stands, with another added dimension.

This year, I would add to my caution that all vendors with robust channel programs – not just Microsoft – are taking hard looks at their channel partners and making tough choices about who to support with additional resources and who to starve.

Bottom line, if you're not at the center of your partners' competencies and strategies going forward, to quote John Houseman playing fictitious Harvard Law Professor Charles W. Kingsfield in the classic movie *Paper Chase*, "Look to your left, look to your right. One of you won't be here next year."

Not every cloud has a silver lining

While the PC hardware business and its supply chain continued sorting itself out, the cloud wars reached a fever pitch last year, with companies competing fiercely for contracts that could define their market positions for years to come. Taking a page from Christensen's disruptive innovation playbook, it would not have been surprising for an upstart cloud vendor to win a big contract by vastly underbidding an established leader.

But it should surprise you that a company that sells everything from toys to toilet paper bested a well-established federal contractor for a $600-million contract to provide cloud services to the CIA – now here's the real shocker – with a bid that was 58% *higher*.

I'm talking about Amazon and IBM. And while I know that calling Amazon an upstart is a stretch, it is no less shocking that company ended up winning the contract – the first time the company known as the world's leading public cloud company won a major contract to provide private cloud services.

So why did Amazon win the contract? A chart in the GAO memo announcing the decision tells the story. Of the 8 criteria visible against which each company was evaluated, Amazon beat IBM on 5 and tied on 1. Crucially, the overall proposal risk for Amazon was judged to be "low," while the risk of IBM's proposal was deemed "high."

We have all heard of "high risk, high reward." When the CIA is the buyer, apparently "low risk" pays off with a "high reward."

A turning point in China

For the last two years, I've been observing and writing about China as a potential threat to India's leadership in IT services. It's something that Indian IT executives worry about and Chinese IT executives aspire to. But until 2013, there was no strong evidence that China's IT companies are ready to take their place on a global stage.

The main issue was that Chinese IT companies thus far have been unable to pull off cross-border acquisitions of any notable size – which is essential in a go-global strategy in a maturing industry. Most successful deals have had valuations of less than $20 million, and truthfully more in the USD 8-10 million range. Instead, they need to be in the range of USD 50-100 million.

This was not for lack of trying, but negotiating and closing cross-border acquisitions is difficult even for experienced buyers. Chinese IT companies are relatively new to the game and their inability to close deals tended to make potential sellers wary of offers from them.

That could be changing, as evidenced by ChinaSoft's acquisition of Catapult Systems, for the following reasons:

> ChinaSoft paid nearly $42 million for the Catapult – double the price of previous similar transactions.
>
> Catapult is an emerging leader in the Microsoft-focused consulting space – a well-respected company with a strategic management team.
>
> Catapult's revenue for the 12-month period ending September 30, 2013 was $62.3 million, an increase of 24% over the same period a year prior, with a gross margin of 37.2% and an adjusted EBITDA margin of 9.5%.
>
> The combined company will be one of the most accredited and certified Microsoft partners in the world.

This acquisition is a bold move by ChinaSoft, and if the companies successfully integrate, it could serve as model for other Chinese IT companies.

What to do in 2014

Now, I am going to digress a bit. In early November, one of the greatest disruptive innovators of our time, Charlie Trotter, died of a stroke at the age of 54. As many of you know, Charlie was not a tech or IT guru, but a restaurateur. Long before farm-to-table was commonplace, he went to local sources for his ingredients and offered equally appealing vegetarian menus.

Once in an interview, Charlie attributed his success to being "unrelenting in trying to pursue a single goal: to refine and redefine what we stand for as a restaurant."

He went on to say, "It's also about never growing complacent. I have long ascribed to the idea that if it ain't broke, break it. So, we continue to find ways to push the envelope."

This idea of "if it ain't broke, break it," should be the watchword of the IT services industry in 2014. Because if you are not the company doing the breaking, I assure you a competitor, customer, partner or supplier will be breaking you.

After all, times change, and no one wants the same thing over and over and over again, forever. It's akin to eating the same meal everyday. Even the best food will lose its appeal eventually.

So, a word or two of advice for 2014: listen to the late, great Charlie Trotter… and cook up something new.

Marty Wolf

Happy Holidays!

To Clients, Partners and Friends of ***martin**wolf* | M&A Advisors,

As we begin to close out the firm's 18th year of operation and start looking forward to 2015, I'd like to take this last opportunity to look back on some of the biggest trends and developments in the IT space for 2014.

First, allow me some space to talk about what this year has meant for us as a firm. We celebrated our 1-year anniversary at our Walnut Creek Headquarters with a new website, closed transactions in eight new geographies across the globe and introduced a new publication: our monthly Executive Perspective piece featuring a leading executive from the IT industry. If you haven't yet made it out to our office, let me know the next time you're in the San Francisco Bay Area. We'd be happy to host you.

All that in addition to our regular commentary on important industry developments and major transactions in the space. And it's been a busy year, both in quality and quantity. The past 12 months have seen escalations of existing trends that I identified at the beginning of the year as well as shifting priorities and developments that have rocked global markets. In the next few pages I'll share some closing thoughts for 2014 and identify what to keep an eye on heading into 2015.

With that, let's roll up our sleeves and get started.

Larger than Life

Throughout 2014 there have been headlines about the near unprecedented growth of annual deal activity. Global dealmaking in 2014 as of the close of Q3 reached $2.66 trillion, higher than it has been for five years. And this hasn't just been limited to the technology industry—the energy sector is highest in terms of total value, while the healthcare sector has seen its strongest period since 1980.

The reason for this? This year is a good year for M&A. And what that means is that there's a real market. Buyers are finally willing to accept that it's not 1929, and sellers don't think that it's 2001. The result is a healthy amount of activity on every level, with incentives for both buyers and sellers to work together and create value.

The US market and overall economy is also showing important signs of renewed vigor. Despite increased uncertainty abroad (we'll get to that later), US annual GDP last month grew 5 percent in the third quarter, its fastest rate in more than a decade. On top of that, the latest unemployment numbers showed a growth of 321,000 jobs, the biggest burst in nearly three years. It's great news, and the fact that it hasn't been accompanied by increased inflation means we can continue heading forward with more optimism than caution.

Major US market indicators are also reflecting this optimism and close 2014 on a good note overall. Despite a recent dip fueled in large part by increased global uncertainty, the S&P 500 and NASDAQ are both up more than 10 percent from where they started. Pundits have begun to predict a modest 5 percent growth rate for 2015—but as the Wall Street Journal pointed out, that's the same prediction that was made last year.

Uncertainty Abroad

Once you go abroad, however, the optimism begins to falter. I wrote about this in more detail in October, but if the US economy is a roaring fire what we're seeing elsewhere is more along the lines of embers. It's very difficult to forecast meaningful growth for international companies because Europe is doing so poorly. And with many large IT players either expanding into or building a presence in Europe, this has significant consequences for the IT industry. I expect to see significant downward pressure on margins and increased price competitiveness, especially for companies that have a strong European presence.

Unfortunately, rather than working to roll back regulations and build a more inviting policy, European policymakers are seemingly bending over backwards to keep conditions hostile. Established companies like Google are facing increased scrutiny on privacy and copyright grounds designed to inhibit competition, and startups like Uber face protectionist and recalcitrant labor laws.

BIC—Not Just A Pen Name

Emerging markets, understandably, are taking this uncertainty the hardest. With the exception of India and its new prime minister Narendra Modi, the BRIC countries are facing severe challenges—particularly as a result of the strong US dollar. China continues to wrestle with slower growth and institutional corruption, though it faces unexpected stimulus from the record low oil prices. But what giveth, taketh away, and while all BRIC countries will be dramatically impacted by the lower costs of oil, in Brazil and Russia that impact is appropriately characterized as disastrous.

Brazil may have pulled off the World Cup this year, but the reelection of President Dilma Rousseff means the country is denied a "Modi Moment" and will struggle to reverse an economic climate with virtually zero foreign direct investment and tepid growth.

And the ruble's free-fall acts as a de facto sanction on top of all of the existing sanctions—Apple is the latest high-profile company to suspend sales in Russia as the biggest interest rate hike since 1998 fails to stem the currency's hemorrhaging. Putin needs to do something, and fast, but he's reaching the bottom of his toolbox. And unless this trend is reversed, BRIC risks becoming an anachronism.

India and China—Still Primarily a Story of Potential

From India and China, we're not seeing the dramatic effects that we expected on the overall IT industry. There are multiple reasons for this—but more importantly, there are multiple indications that this will be changing in 2015.

The main issue is that Indian and Chinese technology companies first came onto the M&A scene with smaller acquisitions designed more to test the waters or establish beachheads rather than implement long-term strategic shifts.

But starting last year, we anticipated that changing. In my letter at the start of 2014 I called attention to ChinaSoft's $42 million acquisition of Catapult Systems, a Microsoft-focused consulting company that was notable for being one of the first major cross-border acquisitions by a Chinese buyer. While we haven't seen any unprecedented acquisitions originating in China in 2014, the region's increased prominence has been impossible to ignore—especially in emerging hot spots like mobile and e-commerce.

In fact, China's Alibaba accounted for the biggest IPO in the world, at $25 billion, rocketing the company to unprecedented heights and sending ripples through the broader IT industry (starting with Yahoo, which offloaded 140.3 million shares for more than $9.5 billion in pre-tax cash).

In India, we're seeing major players recognize that they need to act fast to build capabilities and better compete with established global players. But this is yet to largely translate into activity.

One notable exception: Cognizant's September acquisition of private healthcare IT services provider TriZetto for $2.7 billion. It's a landmark deal, spurred by the changing US healthcare landscape. But the key takeaway is that it secures Cognizant's access to more than half of the insured population in the United States, while positioning the Indian company to strengthen its position in a growing global market.

And while Brazil missed its 'Modi Moment,' Modi himself is facing his own Margaret Thatcher Moment. When the coal unions in the UK went on strike in 1984, Thatcher's uncompromising response broke the power of the unions and cemented her government's ability to enact policy. Now, Modi's efforts to make the Indian energy sector more efficient is setting up a similar confrontation—all eyes are on him to ensure the country continues its upward growth trajectory.

(Supply) Chain Lightning

One of the biggest stories of 2014 is the rebounding of the overall PC industry, which saw a confluence of factors contributing to strong overall performance.

Big names like Intel and Cisco end the year up significantly from where they started (44% and 28%, respectively), as they and their peers improve both their products and the ancillary services that they sell along with them. Last year, Michael Dell was in the headlines for orchestrating the largest technology LBO ever. This year, he was writing op-eds in the Wall Street Journal trumpeting the success of his company's reorganization. And Microsoft, synonymous with the PC industry, found success this year by hiring a new "cloud-first, mobile-first" CEO and taking several important steps like bringing Microsoft Office to iOS (for free, no less) and focusing resources behind cloud and services.

But while Dell's LBO was the big story of 2013, HP's split was the big news for 2014. While striking in its boldness, it's not really a surprise. HP has long been operating as a union of two separate efforts—one featuring low value-add products and one offering high-margin solutions. The two have few synergies, and this change will allow each effort the dedicated focus and support that it needs.

Even VARs and major distributors got in on the action. While some of this newfound life can be credited to Microsoft forcing upgrades by discontinuing support for Windows XP, this year has been all about the broader move to services, often facilitated (and financed) by private equity players. In fact, this year there has been the most consolidation among VARs and professional services providers that we've seen in ten years. And this means buyers are expanding beyond traditional markets. CDW, long a stalwart of the sector, signaled it was ready to make its first international acquisition with its minority stake in Kelway.

Let's Talk 2015

As always, what to look for in 2015 has been heavily influenced by the key trends of today. IT Security was the hot space of 2014, and it will continue to only increase in desirability as it does in prominence. With major attacks like the ones on Sony, Target and the US government (to name only a select few), demand is clearly there. And with big M&A news like the Blackstone/Accuvant deal, Andreesen Horowitz's investment in Tanium and the Accuvant/FishNet merger all happening this year, supply is rising up to meet that demand.

A word of advice for security companies: start doing some research to see how you can take advantage of these opportunities. And, if you haven't already, consider hiring a PR agency to get quoted in all of these stories!

But with the positive conditions for M&A showing every sign of continuing, I'd like to go back to a topic that I return to from time to time: acquisitions are tough business, and it's important to make sure you're doing everything possible to set yourself up for success. This doesn't just mean going through the motions and signing off on a press release. It means doing the necessary work to ensure that post-acquisition, the new company is well equipped to work together as a cohesive whole and realize the new value creation.

Let's look at Synnex, which this year completed its acquisition of IBM's customer care BPO business. At the time, it was making a $505 million bet that IBM's low-margin services would for it be a relatively high-margin success story. This year, we found out the bet paid off. The stock is up approximately 50 percent since one week before the acquisition, and the company is benefitting from both its ambitious gambit and successful integration ability.

Despite the broad economic uncertainty, smart acquisition strategy and prescient positioning remains key to success—especially for mid-market IT companies that are not ready to go public or have run into challenges sustaining organic growth in their traditional field. 2014 has paved the way for some of the best conditions in recent history. In 2015, let's *carpe diem*!

I wish you all Happy Holidays, a Happy New Year and, as always, Happy Selling!

Sincerely,

Marty Wolf

To Clients, Partners, and Friends of ***martin****wolf* | M&A Advisors,

Wow.

2015 was a huge year by every measure. From the announcement of the biggest tech M&A transaction in history to the first interest rate hike in nine years, so much has changed since our last letter one year ago.

At the time, I wrote on five main themes:

1. The tremendous growth of annual deal activity
2. Increasing uncertainty in the global economy
3. The rise of Chinese and Indian IT companies on a global scale
4. The reinvigoration of the PC industry
5. Expectations of continued, high-value M&A activity in 2015

Looking back on the letter today, it's clear that the stage was being set for a hugely consequential year: one in which significant value could be found if you knew where to look.

The tremendous deal activity of 2014 became this year's record $4.5 trillion (a 42% increase). Uncertainty in the global economy has uneasily settled into a new normal, especially dampening the once-bright BRIC prospects. And the PC industry is adjusting to its own new normal, prioritizing higher value offerings and consolidating to cut costs in a low-growth environment.

In this letter, I'll talk about key developments this year for the overall economy, the IT industry, and finally for our firm. In January, we celebrate our 19th anniversary—and I have no doubt our 20th year as a firm will be our best one yet.

Interest Rates

In a press conference earlier this month, Janet Yellen announced that the Fed was raising its benchmark interest rate to between 0.25 percent and 0.50 percent. In her announcement, she was careful to announce that the increase did not signify a dramatic shift in monetary policy—the median projected target interest rate for 2016 was 1.375 percent, and much emphasis was placed on the 'gradual' path to expect as the economy feels out the change.

We're not convinced that the Fed will go through with all four expected interest rate increases—it remains to be seen how the economy performs over the next twelve months. Consequently, we do not expect a major disruption to M&A markets because of interest rates, particularly in the lower mid-market space.

According to Yellen, the long-awaited increase was due to the "considerable improvement" in the US labor market and other economic statistics. But "considerate improvement" does not mean that the economy has regained its pre-recession vigor.

We're not convinced that this raise was data-dependent. With its statements throughout the year, the Fed created a culture of expectation that boxed itself in—and if it had not increased interest rates, we would have seen a significant negative impact in the markets.

Real threats remain for the US economy. Dodd-Frank has led to an overall lack of liquidity, limiting the availability of banks to play market maker. Low-to-modest growth continues to characterize many US industries, and a record low labor force participation rate reveals there is much more to go.

The New Normal: Low Growth Across the Globe

But while we may be the one-eyed man, we rule over a land of the blind. From major economic blocs like the European Union to the once-promising BRIC association, there are major weaknesses imperiling a broader recovery. The European Central Bank announced this month that it would be expanding its bond-buying program (though not as much as some observers pushed for) amid major concerns that economics are just one of several existential threats facing the shaky political union.

Even India, the standout economic performer among a faltering BRIC plagued by low growth, political corruption, and falling mineral and natural resources prices, needs to do something to its legal and regulatory systems. Its peers have their own problems. China and Brazil battle low growth and high pollution, with Brazilian President Dilma Rousseff facing impeachment.

There is opportunity for the struggling economies. The relative ascendancy of the US economy has brought with it the ascendancy of the US dollar, making it increasingly costly for large US companies to conduct their global operations and creating the possibility for cost arbitrage benefitting European and Asian companies.

Oil Bust

Another major story for 2016 has been the major decline in oil prices, with a barrel today trading as low as in the mid-30s. Declining oil prices have long been thought to have a stimulus effect on consumer products. Recently, that has not turned out to be true—as people are hesitant to believe this is a permanent shift, oil savings are being used to pay down debt rather than increase consumption. Historically, declining oil has been the sign of impending recession, but it’s not clear whether that is the case today. Between fracking in the US and the prospect of Iranian oil flooding on the markets, there is a global oversupply. This also has a direct impact on IT. Global oil companies, historically large IT consumers, have prioritized paying dividends and buying back stock to stabilize their share prices (even if it means borrowing money). Today, as resources continue to dry up, capital expenditures are being cut, leading to decreased IT spending for the foreseeable future.

2015 in IT: A Story of Consolidation

With low overall growth and blockbuster M&A, the real story is one of consolidation. The smallest segments are the fastest growing. SaaS, Cloud and Analytics companies see growth rates of 40 percent and above, while traditional software, equipment reselling and professional services firms are instead seeing growth rates between 2 and 6 percent, according to industry tracking firms like Gartner.

Because organic growth in these markets is so slow (especially with unfriendly economic conditions such as those in Europe and Asia), 2015 has seen a pattern of acquisitions aimed at reducing costs and securing top-line and profitability growth. CSC's acquisition of UXC brought the solution provider increased profitability and access to a new market at a meaningful discount thanks to the deterioration of the Australian economy. Capgemini's acquisition of IGATE earlier this year provided similar benefits in the North American market.

Last year, we commented that we were seeing more consolidation among professional services providers than we've seen in ten years. This year, the trend only increased.

Cloud Cover

We continue to think that the cloud is very disruptive in a negative way for many of the people who are reading this. While the cloud revenue model can be very lucrative, a successful transition requires transforming the capital structure behind how products and services are delivered across the IT supply chain.

A key component of the solution provider business model involves wrapping high-margin services around low-margin product offerings and financing operations through product sales. But the cloud model precludes this approach, negatively affecting both growth and top-line—and thus cash flow. While in some cases profitability increases, it's difficult to increase the value when the top-line declines and financing tightens.

New vs Old

Another interesting trend that we've seen this year has been the changing face of IT. Today, the big movers are FANG: Facebook, Amazon, Netflix and Google—not Cisco, HP, Oracle or the other storied names of Silicon Valley.

That doesn't mean that the traditional names are down for the count. Instead, it means that maintaining a top market position requires significantly transforming one's business. On the product side, Dell has been the biggest example. Fresh off its record-breaking LBO of two years ago, the company announced in October another record-breaking transaction—a bid for cloud computing provider EMC. It's a very clever and opportunistic move, and we expect it to be successful.

In the software space, both Oracle and Microsoft are moving to transform their business away from the license sales model toward a recurring or cloud focus. Oracle is undergoing its transformation, but currently it's finding that its newer revenue is not growing fast enough to cover the decline of its traditional software sales. We expect eventual success, in no small part due to the company's strong install base

Microsoft has seen a dramatic change since Satya Nadella took over as CEO, and today we see it as better positioned. It's a meaningful player in many segments, and aside from its debatable Xbox initiative, it is trying to allocate its resources in a way that creates maximum value both with products in the channel and cloud initiatives.

Apple faces the same need to transform. The company, famous for its track record of innovation, needs to prove to investors that it is more than just a cell phone company. It's making steps in the right direction by embracing the trend of "smart" everything and focusing on its services such as music and storage. But BlackBerry, Nokia, Motorola, Sony and GoPro were all market leaders before they stopped innovating and their margins deteriorated. Apple must continue being transformative to avoid a similar fate.

What This Year Has Meant for Us

This year has been a very good year for our firm, with successfully closed transactions involving providers of Microsoft products, Microsoft services, Oracle products, Oracle services, and outsourcing solutions; a non-core division of a Fortune company; and other supply chain assets located in Australia, Canada, India, Ireland, the Netherlands, Singapore, the UK and the US.

We've also proud to highlight the content brought to you this year through our ***martin****wolf* Intelligence network:

- Five thought pieces about major industry trends published via LinkedIn
- Ten interviews with leading industry executives through our Executive Perspective series
- Sixty-eight Spotlight emails detailing noteworthy M&A or other business news

And, of course:

- Quarterly market and industry analysis in our IT Index publication
- Quarterly commentary and industry multiples in our Valuation and Deal Insights publication
- Weekly Tracker and Scoreboard publications detailing financial statistics and notable transactions

As we look forward to our twentieth year as a firm beginning in January, I want to thank you for the role that you have played in our success.

I wish you all Happy Holidays, a Happy New Year, and, as always, Happy Selling!

Sincerely,

Marty Wolf

To Clients, Partners, and Friends of ***martin**wolf* | M&A Advisors,

Happy Holidays and Happy New Year!

2016 was our 20th year of operations, and we knew from the beginning it was going to be a big year. But no one—least of all, us—could possibly have known just how significant of a year it would be.

The overriding theme for the year was *change*, both dramatic and evolutionary. From politics to economics to M&A to ***martin**wolf* itself, we've seen and experienced significant developments that shaped a year unlike any other and have presaged exciting times to come.

Before we close out 2016 and prepare to officially toast both the new year and our 20th anniversary on January 13, 2017, I hope you'll join me in looking back at some of these changes—and how they shaped the overarching trends of today.

Political Change

Much has been written about the 2016 election, but despite the stark disagreements on all sides, one thing is clear: the new administration represents a significant change from the policies, statements, and priorities of our 44th president.

The only certainty? Uncertainty. Never before has a president governed through late-night missives of 140 characters or less. And as executives at Boeing and Lockheed Martin found out, the light of a president-sized spotlight can get painfully hot (even if it's quick to move on to the next target).

But with uncertainty comes significant opportunity. Since the election, markets are thriving. The Dow has celebrated 17 record closes, and today flirts with 20,000.

We expect real growth in the economy overall—perhaps even 3 - 4 percent (though not less than 2 percent). For investors, growth is no longer seen as such an elusive target—whereas before it all but guaranteed an extreme premium (resulting in the rise of FANGO), today there are many inexpensive growth stocks offering strong returns to the average investor. As a result, the market will continue to shift away from income equities.

It's not clear where our incoming president will be on anti-trust issues. Our current president has made it very difficult, but we are not facing a typical Republican administration. Look to the resolution of the Time Warner/ AT&T transaction for an indication of what to expect going forward for large-scale M&A.

Economic Change

Last year, the Federal Reserve made news by announcing its first interest rate hike in nearly a decade. At the time, it projected four quarter-percentage-point increases in 2016—though we pointed out that it wasn't clear whether this was data-dependent or the result of the Fed being boxed in by its own expectation-setting.

On Dec. 14 of this year, it felt like déjà vu. The Fed once again announced its long-telegraphed sole interest rate hike of the year—though this time, the economy appears much stronger.

We expect more rises in 2017 than in 2016, and continued improvement on economic metrics. The rate of underutilized employment (or U6 rate) should drop, and as the country approaches full employment we even expect a little wage inflation.

Perhaps one of the biggest changes for 2017 is that we expect meaningful fiscal stimulus for the first time in 8 years. From an economic standpoint, expect the new administration to implement deregulation in meaningful quantities, provide for new infrastructure (some in partnership with private entities, to maximize efficiency), and to finally address our bloated and outdated tax policy.

The repatriation of 2 - 3 trillion in foreign cash, if achieved at a meaningful level, has the potential to directly impact the economy. As Warren Buffett put it, capital allocation is a critical skill for high-performing companies. To the extent that some of the most profitable companies in the world have less restricted access to capital from abroad, we expect strong benefits in every sector of the economy (particularly technology, which accounts for 5 of the top 10 companies holding cash abroad).

Foreign Affairs

Looking abroad, the situation continues to be more of a mixed bag. Japan is a basket case unless the yen keeps going down, though the Japanese economy expects slight improvement to 1.5 percent growth in the next year. 2016 marked the introduction of negative interest rates by the country's central bank, and the fact that the country—the third largest global economy—is set to continue at these levels for the foreseeable future remains stunning.

The number 2 economy faces its own problems, heightened by its own political uncertainty. China overtook the US in outbound M&A volume, but expect a slowdown as the government institutes capital controls aimed at keeping money inside the country. It's very unclear whether we're going to continue to see large acquisitions like HNA's purchase of Ingram Micro or ChemChina's acquisition of Syngenta in the coming year.

Currency issues will continue to dog communist leadership, as each proposed acquisition will force regulators to determine whether it is a smart transaction or just a means of committing yuan to US dollar assets beyond their reach. Expect the Chinese government to work to adjust interest rates, discount rates and reserve ratios—especially in the face of the anti-free trade rhetoric sweeping countries across the globe.

Even India, which has had perhaps the strongest economics-oriented leader in the world for the past year or two, is experiencing its own hiccups. By demonetizing existing 500 and 1,000 rupee notes, the country scrapped 85% of its currency overnight, sending shockwaves through the economy and crashing the major exchanges. India's oursourcing-heavy tech sector stands to benefit, but now more than ever it needs to transform itself. The country's historical advantage has been its labor arbitrage—today, IT leaders have built cost-effective frameworks designed to manage the world's cloud offerings. Tomorrow's success will be experienced by those who are able to secure unique IP—through growth both organic and inorganic.

The result of this global uncertainty (evident as well in Europe with Brexit and continental populist movements) has been a strengthening dollar—good for domestic companies but problematic for multinational IT companies.

M&A & Markets

Last year may have been the record-setter for M&A, but it set the stage for the largest market we've ever seen. Today, there are more mid-market companies for sale than ever before—and, as a consequence, there are more broken processes as well. As public markets continue to close off, the path toward exit increasingly looks to involve a private sale. Presidio, which filed IPO paperwork in November, is the exception that might prove the rule. Given its size, there are few buyers that could afford an acquisition. We expect them to get public in 2017, but stranger things have happened. The best way to sell your company is to file for an offering—as Optiv demonstrated by getting swooped up by KKR less than one month after filing its own paperwork.

But what's missed in this whole notion of the merits of going public is that so many major players in our space are private. For every CDW, Insight and PCM there is a privately held leader like SHI, World Wide Technology, and Zones. Many, like Sirius, SPS and ConvergeOne, are backed by private equity, and we expect to continue to see visible rollups in the coming year.

As a consequence we expect higher demand, higher deal values and higher multiples. In sum: it's a great time to jump in to the market.

Looking Back, and Looking Forward

As our 20-year anniversary approaches in January I've found myself looking back at what has been an incredible two decades. We've never purported to understand cutting edge technology—that has not been our strong point. But we've been intimately involved with IT Solutions and Services providers through thick and thin, and we've seen waves of technological progress that have both elevated and decimated value across the industry.

In order to survive, members of the IT supply chain have become exceptionally hardy, selling other people's IP and figuring out how to stay ahead of every change in the marketplace to make a profit. Today, many of the companies that were in existence when we started have been acquired. But even those that still exist are different—entire franchises have been disrupted, destroyed or consolidated.

Success required a unique collection of finance, technology, sales, and operations skills, and for many it resulted in significant wealth. But continued success is a rare accomplishment, and it has required continuous reinvention to stay ahead. When we started, solution providers traded on revenue. Today, they trade as multiples of EBITDA, and they are under constant siege from disruptors of all shapes and sizes.

But the solution provider space continues to be a source of reinvention, innovation, and value creation. I've met countless leaders who see the widespread disruption as opportunity, and today our active engagements span both the globe and the IT industry.

I'm excited as I look forward to what's next. In our first transaction, we sold a company for $2.5 million, paid out over three years. In our first quarter last year, we collected 2 fees greater than $2.5 million each and our average transaction size was over $100 million. Even with our average transaction significantly larger than those from where we started, there are a few core qualities that have never changed. The mid-market remains our focus, and we always join our clients in long-term, intimate engagements. We work only with people we respect and can learn from, and we will only take an engagement if we know we will beat expectations.

There are too many businesspeople to thank over the past 20 years for me to name individually, so I hope you understand if I simply say this: some of the best people I've ever worked with are the leaders I've come to know from the solution provider space, past and present. Thank you all for the role that you have played in our success—we could not have done it without you and we look forward to creating new value together in the years to come.

I wish you all Happy Holidays, a Happy New Year, and, as always, Happy Selling!

Sincerely,

Marty Wolf

To Clients, Partners, and Friends of ***martin****wolf* M&A Advisors,

Happy Holidays!

2017 was a strong year for our firm, for the IT industry and for the US economy.

I hope you'll join me in looking back at some of the instrumental developments of 2017—and what the ***martin****wolf* team looks forward to as we enter the new year.

A Top Performance:

If this year's economy were to be graded, it would receive an A. And the Federal Reserve would agree.

In light of the economy's continued growth this year, the Fed lifted its benchmark interest rate a quarter point to a range of 1.25 percent to 1.5 percent on December 13—the third rate hike this year and the fifth since the financial crisis. The Dow—which has risen for five straight sessions and closed at a record four straight times— ended at a record after the rate increase, rising 0.3% to 24,585.43.

Unemployment is at the lowest level in 17 years, and is expected to fall even further next year. Increasing business investments and robust spending have contributed to an economic expansion that is now the third longest in U.S. history. The current expansion, if continued into the second half of 2019, can possibly exceed the 10-year growth from the economic boom during the Clinton Administration.

Continued Channel M&A:

In the IT space, 2017 was a year that marked more than just a few blockbuster deals. Intel's $15 billion acquisition of Mobileye, Cisco's $3.7 billion acquisition of AppDynamics and $1.9 billion acquisition of Broadsoft, HPE's $1 billion acquisition of Nimble Storage and Office Depot's $1 billion acquisition of CompuCom Systems made headlines this year. Acquisitions have continued to shed light on the intensifying competition to capture resources in software, services and the cloud.

The quick pace of change in the channel has led to traditional retailers shedding their previous roles as they pivot to the services sector, and has also solidified a trend we forecast years ago: the increasing role of private equity. As anticipated, private equity's influence in the channel has continued to drive big deals in 2017, while conversely, the IPO market has seen a slowdown.

Apollo Global Management bought West Corp. for $5.1 billion, KKR & Co. completed its $2 billion acquisition of Optiv Security, and Thoma Bravo acquired Barracuda Networks for $1.6 billion this past year. With many major players in our space backed up by private equity, such as Sirius, SPS and ConvergeOne, the advantage of capital has led to a series of smart strategic acquisitions. As a result, we expect to see more of private equity's hand in the future, as the path toward a successful exit increasingly looks to involve a private sale.

Opening Up the Floodgates:

While this past year has been an active one, we anticipate 2018 to leave a mark in the history books.

The biggest catalyst to intense economic growth will be the potential implementation of the much-debated tax reform bill. As the House and Senate coordinate their versions of the Tax Cuts & Jobs Act, the U.S. will soon see the largest change to its tax system since 1986.

***martin**wolf's* response to the proposed tax package, echoing the likes of industry leaders, is overwhelmingly positive. We anticipate it will stimulate the U.S. economy by creating opportunity at every level—but especially for smaller companies in the IT space.

The lower corporate taxes (down to 20 percent from the current 35 percent) will undoubtedly benefit large corporations, as the combination of greater and a lower cost of capital through accelerated depreciation will create more opportunities for M&A.

In addition, the repatriation of corporate profits held overseas, totaling $3 trillion, will be profoundly impactful for US companies, with the imposition of a one-time tax rate as low as 10 percent—whether it's through the buyback of stock or the payment of dividends.

What This Year Has Meant for Us

This year has been a very good year for our firm. Earlier in the year, Insight closed its acquisition of Datalink, and in February, AST received equity investment from Tailwind Capital. We were the strategic advisor for Insight and AST in those transactions, and are excited for what 2018 has in store.

We're also proud to highlight the content brought to you this year through our ***martin**wolf* Intelligence network:

- Eight thought pieces and op-eds about major industry trends published via LinkedIn and Business Insider
- Eleven interviews with leading industry executives through our Executive Perspective series
- Sixty-eight Spotlight emails detailing noteworthy M&A or other business news

And, of course:

- Quarterly market and industry analysis in our IT Index publication
- Quarterly commentary and industry multiples in our Valuation and Deal Insights publication

- Weekly Tracker and Scoreboard publications detailing financial statistics and notable transactions

As we look forward to our twenty-first year as a firm in 2018, I want to thank you personally for the role that you have played in our success. I wish you all Happy Holidays, a Happy New Year, and, as always, Happy Selling!

Sincerely,

Martin D. Wolf

To Clients, Partners, and Friends of martinwolf M&A Advisors!

Happy Holidays and wishing you a wonderful New Year as we look ahead into a new decade.

But first, a few quick notes on 2019. This has certainly been an eventful year— globally and for us here at the firm. I expect that movement to continue into 2020. As in past years, I want to take this brief opportunity to reflect on the biggest takeaways from 2019. I hope you'll join me in doing so.

Another Active Year
We're closing in on another promising year for tech M&A, but there has been a clear slowdown in activity compared to 2018's exceptional year. Fewer, larger deals have closed and there's been a major increase in the time it takes to close them. While overall deal value and volume were down from recent years, 2019 saw announcements of many mega deals, with 108 deals with a value of over $600 billion. Companies in all industries remained active through cross-industry acquisitions – with the most significant transactions in the IT space.

An especially active area in 2019 for transactions was Fintech. Fidelity National Information Services' acquisition of Worldpay for $43 billion, Global Payments' acquisition of Total System Services for $26 billion and Fiserv's acquisition of First Data for $22 billion were some of the most notable deals from the last year. A nascent technology just a few years ago, Fintech has morphed into a booming industry.

We've also seen increasingly higher valuations and more acquisitions from leading software and SaaS providers. Microsoft finally reached the $1 trillion valuation mark and completed one of its most acquisitional years with 20 transactions in its 2019 fiscal year. Google purchased data analytics firm Looker for $2.6 billion and Fitbit for $2.1 billion, and VMware acquired Pivotal and Carbon Black for $4.8 billion. Salesforce made two significant acquisitions as well – with a $2.6 billion acquisition of ClickSoftware and its $14.5 billion acquisition of Tableau.

Globally, IT Solution Providers are in desperate need of consolidation. What we've seen in our own pipeline is that transactions are getting larger, more complicated, and closing at a slower pace. In the coming year, I suspect consolidation will be a necessity for these companies. We saw distinct movement this year, such as CDW's acquisition of Canadian VAR Scalar for $250 million, Staples' acquisition of Dex Imaging, Insight and PCM, Inc.'s $537.8 million merger, HPE's $1.3 billion acquisition of Cray, Presidio's $2.1 billion buyout to go private and Intel's $2 billion acquisition of Habana Labs. Not all of these deals were friendly—consider Xerox's hostile takeover bid for HP. To stay ahead of the curve though – before the aforementioned 'recession,' uncertainty, or risk becomes too much to bear -- solution providers must take steps to consolidate to stay relevant and competitive in today's market.

IT services also had a dynamic year, albeit with fewer high-profile transactions than their software and SaaS counterparts. Cloud-based connectivity provider LogMeIn was bought by Francisco Partners and Evergreen Coast Capital for $4.3 billion, DXC Technology acquired seven companies including its $1.8 billion acquisition of Luxoft Holding, Inc., and Accenture has announced the completion or acquisition of over 30 companies.

Strategics and private equity buyers have been active this year – and pending any unforeseen upheavals in the M&A market, we expect the cautious but persistent deal pace to continue.

The 'X Factor' Realized

Last year in our annual letter, I wrote that the real X factor of 2019 would be the trade cold war with China. At that point tariffs were limited and the impact on the multi-trillion-dollar global economy was muted. That's not the case anymore. In 2019, we have moved beyond a trade 'skirmish' and it appears we are in the actual 'war' territory now. US-China trade impact is not just limited to soybeans and wheat. That suggests that it will be a long-term affair where years, not months, of combat are counted.

It was recently announced that the Trump Administration 'signed' off on a Phase 1 trade deal. The signing of the Phase 1 deal lessens the risk of the near-term trade conflict – but the future is still opaque. It should become clearer over the 180 days after the agreement is executed if China will comply, particularly in regard to IP restrictions. The trade war has negatively impacted numerous technology giants (primarily hardware vendors) including Apple, Broadcom, Qualcomm, Cisco, Intel, AMD, Nvidia, Micron, and Texas Instruments. Phase 1 is a step in the right direction, but it's much too early to claim victory.

Increased scrutiny and the trade war with China have proved to severely impact cross-border M&A between the US and China. It has been almost nonexistent this year – down 90 percent from its peak in 2016. Additionally, numerous cross-border deals have been blocked by the Trump administration. Regulators forced Beijing Kunlun Technology Company to sell the US-based developer of dating app Grindr, and video app TiKTok, owned by a Chinese company, is under the same scrutiny. The Committee on Foreign Investment in the US (CFIUS) has also expanded its blacklist to include many high-profile Chinese tech companies.

The trade war is bad for M&A in general but damaging for technology companies in particular. American and Chinese technology firms are especially vulnerable – and that vulnerability grows by the day. We've seen Chinese technology companies reigning in operations that rely heavily on US technology, with demands from the government to eliminate use of US tech from government offices and public institutions within three years. State-operated-entities (SOEs) create friction in global commerce that slows global market growth. Huawei recently achieved a big step with the deployment of its new 5G phone without any US components. But China's reliance on US tech should not be understated and many companies simply cannot operate without our technology – unless, of course, China does not follow terms in the trade agreement and continues to steal US IP.

Either way it's clear that companies, especially in the tech industry, should prepare to wither a much longer conflict that far outlasts the current administration. To paraphrase the famous Chinese proverb, *"A journey of a thousand miles begins with a single step."*

The Election of the Decade

Not only is 2020 a new decade, it's a pivotal election year. And M&A is on the ballot.

During a presidential election year investors and business owners are shrouded with uncertainty. But heading into 2020 – they have a right to be overtly more cautious. In early November the House Financial Services Committee held a hearing dubbed "America for Sale? An Examination of Practices of Private Funds," that examined private equity's role in American capital investment. This comes on the heels of Democratic Senator and presidential contender Elizabeth Warren's striking criticisms of the industry, policy plans to dramatically change the industry, and new legislation introduced in the Senate called "Stop Wall Street Looting Act of 2019." The US Chamber of Commerce predicted that if this bill passes 6.2 million to 24.3 million jobs could be lost. It cannot be overstated that private equity has been the lubricant for all M&A, even when strategics ultimately prevail.

Leading market participants think the election of left-wing Democrats like Warren would be detrimental to the industry and the market. Billionaire investors Leon Cooperman, Steve Cohen and Paul Tudor Jones all think the market would plunge anywhere from 15 to 25 percent. Hedge fund manager Stanley Druckenmiller predicts an even bigger drop of 30 to 40 percent. I'm with Stan.

If the White House flips and the policies introduced during the primary come to fruition, our corner of the financial industry would be severely impacted. A flip in the White House and Senate would cause a ripple effect on the industry. If PE firms become convinced that the White House and policymakers will crack down and impose new regulations, U.S.-based deals will slow, at best. Specifically, if policymakers raise the corporate tax rate back to 35%, we'll likely see tax inversions. The last time we saw tax inversions, American companies such as Accenture, Johnson Controls, ADP, Eaton Corp. and Medtronic PLC restructured such that they are now owned by foreign entities, mostly to avoid double taxation and higher U.S. rates. In this case, companies would be acquired by foreign buyers, largely arbitraging a lower offshore tax rate with the United States' higher tax rate; that would move jobs, deal flow and capital elsewhere.

Now What?

Economic shocks, market downturns or dramatic policy changes could send dealmakers on the defensive. However, unless there is a Black Swan in our midst, strong multiples, accelerated consolidation and record cash on balance sheets are all good indicators that the midmarket remains a favorable place to be.

It appears that the tech M&A market will not have a blow-off-the-top 2020 – but will remain steadfast and consistent. There's too much uncertainty both domestically and globally to predict either a buyers' or sellers' market. One positive we've seen in the last month is that the cloud has been lifted on Brexit. We think Brexit is good for Europe and Britain, but especially positive for the US. The introduction of a trade agreement between the US and Britain should help ease certain global economic trade uncertainty. Much of this assessment can change from a myriad of other factors – a backtrack on the Chinese trade deal, unexpected changes in interest rates, and significant policy changes out of Washington.

Right now, I see no immediate prospect of turmoil within the M&A ecosystem. I expect today's deal pace to continue. Private equity firms and strategic buyers still have cash in their pockets – but I expect moving forward they will be even more careful about where they spend their money.

We're cautiously excited and optimistic as we look ahead to 2020 and the resolve of some of these uncertainties.

On a Personal Note

I know I say this every year, but this truly has been one of our most productive and fulfilling years ever. We had and are experiencing a number of notable developments:

- We moved into our new Arizona headquarters in 2019 and our team remained as devoted as ever. The long tenure, dedication, loyalty and domain expertise our associates bring is what allows us to prosper. Thank you to the entire ***martin****wolf* team!
- We've continued to solidify our domain expertise and have closed more VAR 500 transactions than any other boutique investment bank in North America.
- We released more than 80 new pieces of Intelligence, launched a new publication (Quarterly Earnings Reports), and added over 1,000 new subscribers to surpass 50,000 total contacts.
- We've been called on by the media more than 50 times this year including by prestigious publications such as Business Insider, Fortune, Yahoo! Finance, US News & World Report, Entrepreneur, The Economic Times, TechTarget, CRN and M&A Magazine.
- We've continued to expand our global reach and currently have active engagements in North America, India, Pakistan, Germany, the UK, Netherlands, Australia and the Philippines.
- LMM Group, a division of ***martin****wolf* that launched last year serving companies with enterprise values of $10 - $30M, closed its first transactions in the security and MSP space and has numerous active engagements in the works.
- We were a keynote speaker at one channel conference and attended several other industry gatherings, including the invite-only Captains of the Industry dinner at Canalys Channel Forum in Barcelona where we met with leaders in the solution provider space.
- We worked with numerous smart clients on both the buy and sell side, learning about management, corporate strategy, go to market focus and sales techniques from real thought leaders in the industry.

Which brings me to the most important part of this letter – in which I thank you for your contributions to our success. We would not be where we are today without you – and I hope we have the opportunity to continue to profit together in the new year.

Happy Holidays, Happy New Year, and, as always, Happy Selling!

Marty Wolf

Dear Clients, Partners, and Friends of ***martin****wolf* M&A Advisors,

Well, that didn't go exactly as I expected when I was writing last year's annual letter!

But by this point, enough ink has been spilled on 2020. I want to instead focus on going forward.

At the end of the day, businesses are valued on discounted future cash flow. Today, the S&P500 P/E ratio is over 37x vs 25x at the beginning of the year. Either prices will come down or earnings will go up. It's *highly unlikely* next year will be worse—so we think it's highly likely that earnings will increase rather than prices decreasing.

In this letter, I'll touch on a few key developments we've observed over the past twelve months that I expect to continue or accelerate. As always, it's an exciting time for our industry.

One major theme that's become clear is we have begun an economic decoupling with China. And while the complexity of the relationship means this will be a long-running process, I expect this trend to continue and accelerate post-Trump. China has become an increasingly present force on the global stage. Foreign investment such as the Belt and Road Initiative, once limited to developing economies, is now making inroads into Europe and even Australia. Technology and telecommunications led by Huawei and 5G are enticing long-skeptical traditional US allies. We have a major advantage—Chinese technology, built largely from espionage and duplication, isn't yet at our level. Yet. But the country's swift recovery from the economic impact of COVID-19, and the fact that its growth is not constrained by environmental, labor or human rights considerations, mean that we won't enjoy that advantage forever.

This will ripple throughout the global economy. China's lack of inhibitions is one of the reasons we've had so little inflation over the past several years. And an increasing technological sophistication will be very disruptive for our leading global technology companies like Microsoft, Qualcomm, Intel and Apple. They're clearly aware of this—Apple has notably explored iPhone manufacturing in Vietnam and India. But it will be a disruptive and expensive process for them and their large IT Services partners. Google and Facebook are already banned from China, so their challenge comes in the form of China's homegrown competitors. Expect further fragmentation among the global community into Western and Chinese-dominated ecosystems—which means duplication, and more expense.

Another major trend we've observed over the last year is the rise of a "Work from Home" / "Work from Anywhere" culture. Many workers are finding that they prefer loose work-from-home policies and their added flexibility. The secret for many businesses is that with Work and Home blending together, people are spending more time working rather than commuting or "leaving" the office. What this means for culture is yet to be seen, but the impairment to large office communities like New York City and San

Francisco is clear. This has implications for cities and central business districts, but also real estate, pension funds, unions and small mom-and-pop stores.

Just as businesses are required to look at the intangible assets on their balance sheets, cities are going to be suffering severe writedowns. And planners who think that things will quickly revert back to "normal" are going to be sadly mistaken. I expect growth to predominantly center around growing regional cities like Phoenix, Austin and Detroit. It's the second inning of a nine-inning game. And Oracle's announcement earlier this month that they were relocating their headquarters from Redwood City is a wake-up call for both Silicon Valley executives and their counterparts across the country. A final note on this point: cities looking to fill their 2020-sized budget gaps with new taxes on high-net-worth individuals and corporations will find a rapidly shrinking tax base—especially cities in New Jersey, New York, Illinois and California.

I've read at least one commentator suggest that we replace Ben Franklin on the $100 bill with Jerome Powell. He's arguably done more for asset appreciation than almost anyone else in recent history, creating so much liquidity that risk assets and stocks look positively frothy. This creates strange conditions in the markets, and valuations today in certain sectors like space travel and electric vehicles seem completely disassociated with reality. And when IPO pricing is so mismatched with demand (see AirBnB, DoorDash), SPACs, which have historically been "go-public" schemes and yellow flags, are now increasingly seen as legitimate alternatives. Traditional investing has been turned on its head. Many of the companies now being traded are pre-revenue, pre-EBITDA, and market activity is highly speculative. It's good while it lasts, but there's no guarantee it will end well.

Vinyl, "mom jeans," distributors—retro is back, and Ingram's $7.2 billion acquisition by Platinum Equity this month marked the second major recent private equity investment in the channel after Tech Data's acquisition by Apollo. This is a wholly different trend than the SPAC rush described above—private equity is smart money, and through diversification, expense management and other moves we expect these operators to bring residual benefits to both their platform companies and their partner networks.

Finally, I'm running out of time in the year here, so I'll close out with my thoughts on today's Best and "Worst" positioned companies, and a look ahead.

Let's start with the negative (it is 2020). You can't have a "Worst" list without IBM—I haven't for the last 10+ years—but in perhaps the biggest 2020 twist, I'll use this space to applaud IBM for taking one of the first positive advancements in years. By spinning off the company's infrastructure services and doubling down on cloud, CEO Arvind Krishna is correctly focusing the company toward the future. And that's a significant improvement from the usual.

On a (more) positive note, best positioned for 2021 is Microsoft. The company has strong applications, a significantly growing cloud business (Azure), a dominant position in Windows (which is declining in value over time), and an unparalleled partnership network. This last point is its single biggest advantage. While Amazon and Google need to develop, Microsoft has proven over time that it can be a partner—and its continued investments and broadening services portfolio only enhance that partnership. Runners-up in Cloud are Amazon and Google. Together, the three businesses offer compelling value propositions and margin opportunities to their partners—a cut above current and aspiring alternatives.

Looking ahead, we expect a V-shaped recovery because of the vaccines and ongoing improvements in care. Expect a very difficult first quarter, but accelerated growth following. Accumulated net worth is off the charts, and in 2021 rather than spending money on improving home offices or home schools, businesses and people alike will be able to shift their focus to investing in technology. We will see a lot of M&A, and multiples will stay higher, not lower. If we learned one thing during the pandemic, it's that there continues to be a demand for quality assets.

One last point: 2020 was a year of change. Consider Apple and Disney as prime examples. Apple has historically been a hardware company, and its share price rose and fell on news of phone production. Disney has been more diversified, but each earnings report its share price inevitably dropped on ESPN subscriber losses. Today, thanks to investments in Disney+, Apple One, and other services, the businesses are getting rerated and becoming more valuable. What can you do to achieve the same?

As always, thank you to you—our clients, partners, and friends. We hope you have remained well and we're excited to together experience what next year will bring.

Happy Holidays, Happy New Year, and Happy Selling! See you in 2021!

Marty Wolf

Dear Clients, Partners, and Friends,

Today marks 21 years since we first opened our doors. We hope you'll be joining us in a toast as we look ahead to another successful year!

One year ago, as we celebrated our twentieth anniversary, we were featured in a profile in
CRN in which we went through some of the highlights of the past two decades. At the time,
I said "we are looking forward to many big deals ahead." In 2018, this trend is only accelerating.

At the beginning of this year, we published our latest annual letter. We forecasted that this year will leave a mark on the history books given the strong economic recovery, continued channel M&A and the growth catalyst that is the new tax plan.

Come Monday, we'll be back in the office working with you to build value. But today we celebrate -- and thank you for your continued role in our success.

To 21 years!

U.S. would add to the costs and—by flowing elsewhere instead—likely benefit U.S. competitors.”

- Another trend we all witnessed, and continue to witness, is “Work from Home/ Work from Anywhere” culture. The effect of this trend is two-fold, drawing reactions from employees and companies. Office attendance in 2021 was down over 60% compared to a usual year as employees continue to embrace the opportunity to work remotely. Secondly, we will keep seeing companies move to places like Austin, Detroit, Miami and Phoenix as they seek more favorable business conditions compared to traditional large office communities like New York City and San Francisco. For example, Tesla joined Oracle and Hewlett-Packard by moving its headquarters out of California in favor of Texas while well-known Silicon Valley companies like Twitter, Yelp, Airbnb and Dropbox have all investigated subleasing their San Francisco office space.

Big Deals & Big Winners

Big deals and mergers were a defining part of 2021 in the IT space. I want to call out two deals that will prove to be channel-altering.

- First, CDW’s acquisition of Sirius Computer Solutions will cause ripple effects in the channel. Based on CDW’s track record integration, this transaction will give the already dominant company solutions, product, service, enterprise, data centers and workspace.
- The SYNNEX/Tech Data merger is a brilliant deal that creates leverage for both. We consider SYNNEX to be the most innovative in the space as shown by this deal and 2020’s spin-off of Concentrix. The company has a good track record of anticipating market needs and growing its business.

This year I’m adding CDW to my list of winners and continuing to praise Microsoft.

- CDW is the leader in the large integrator space, which is a space that will be dominated by five or six real “survivors” on a global scale. All integrators will be fighting to be a part the group of survivors.
- Microsoft continues to be the best positioned channel company because of its historical relationship with the channel. The channel partners have very valuable customer relationships, and Microsoft applications like Azure and Windows remain industry leaders. Microsoft’s market performance reflects belief in the company as its year-to-date growth (53%) more than doubles that of the Nasdaq Composite Index (22.5%).

Looking to 2022

Now that we’ve reflected backward and highlighted some accomplishments, let’s take a look ahead at several landscape-changing issues.

- Inflation is a real problem, and will continue impacting both the economy as a whole and valuations specifically. As a result, we will see more aggressive tapering and rate increases in 2022. Buyers and sellers take note: with increasing rates come lower multiples. Still, it’s too early to tell whether we will see “Stagflation” as some economists have predicted. We will have to wait and see what the Fed will do next as it’s clear that interest rates are going to increase in 2022. The central bank said it will wrap up its stimulus program faster than originally announced, and the only thing that remains unclear is the trajectory of the interest rate increases.

- Many of today's business leaders have never experienced these levels of inflation. While inflation is disproportionately a tax on the poor, it is also a heavy burden on growth companies. So, bottom line: liquidity will be less, interest rates will be higher, and transaction multiples will be lower.
- This past year we have had too many IPOs, too many SPACS, and too many securities have been brought to the marketplace that were subpar. As a result, there are many businesses that don't generate revenue and do not have earnings—meaning their securities have no floor. At the end of the day, the value of a company is the supply and demand for its security. Without actual revenue and earnings, these securities will eventually have no demand.
- I expect deal-making to continue to be very active in 2022, although the current administration will likely influence where that activity occurs. Historically, this administration has not approved—or in some cases actively discouraged—large, horizontal transactions, even when those deals were not widely considered to be anticompetitive. This means that consolidation, which by definition is vertical, won't even be attempted.
- Limiting large deals will not be good for the US economy as it hinders our country's ability to compete with "national champion" companies like Yoplait in France or Huawei in China. Consolidation is not necessarily anticompetitive and does not always result in negative pricing issues for the consumer as many fear. Consider the following:
- In 2019 the Sprint/T-Mobile Merger would have given the US three champion providers in the race to build 5G networks. The transaction eventually closed in 2020, and thus far has had a positive affect on customers via several new offerings without raising prices. You'll recall that I was quoted in "Fortune" supporting the merger, despite states filing lawsuits to block it:

"Verizon and AT&T can finance a 5G rollout, but it's not clear that these two companies can on their own," said Martin Wolf, president of ***martin****wolf M&A Advisors, an IT merger and acquisition consultancy. "And from a competitive perspective, I'd rather have three 5G providers than two, especially considering the US is behind the rest of the world in 5G. The principal beneficiaries of a successful, cost-effective roll out are the under-served, the poor, the old and the rural."*

- I cannot finish this letter without addressing COVID-19 and our future with the virus. While transmission is still happening, we have to work. Unless we commit an unforced error, we are going to learn to live and work with the virus. States like Colorado and Arizona have provided us with roadmaps to balancing health and productivity. This week, the CDC reduced the amount of time it recommends people should isolate after testing positive for COVID-19, from 10 days to five. Health officials also reduced the amount of time one should quarantine after coming into contact with someone who tests positive. This is significant economically as it allows US workers to return sooner to jobs that cannot be done remotely.

- We will not only be working in a hybrid cloud environment, but we are also going to live in a hybrid work environment. This presents a lot of opportunity for the IT industry as telecommuting becomes standard. There will be increased duplication and a greater need for security as “WFH” professionals voice their desire to continue working remotely for the long term.

And Finally, A Big Thanks

Now that we have come to the end of the letter, we arrive at the most important part. I thank you all for the role that you have played in our success. As we commemorate our firm’s 25th anniversary in 2022, it’s clear we would not be where we are today without our clients, partners, global network of buyers, friends of our firm, and loving family members.

Happy Holidays, Happy New Year, and, as always, Happy Selling!

Sincerely,

Marty Wolf

martinwolf

25 YEARS

Celebrating 25 Years as Trusted M&A Advisors