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MIRUS CAPITAL ADVISORS

VIEWPOINT

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MERGERS AND ACQUISITIONS IN PLM

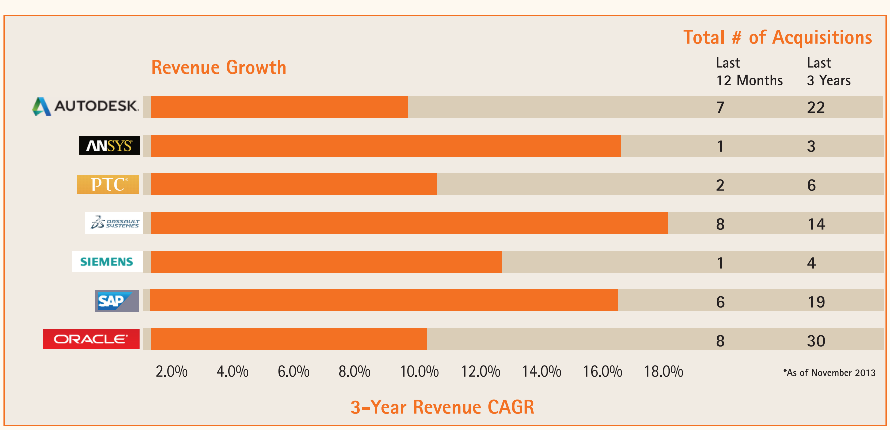
By Bruce Boes and Peter Alternative

*In a 2012 white paper entitled **PLM – A Unique Opportunity for Mergers and Acquisitions**, we wrote that there was a unique window of opportunity for deal making within the PLM industry. We cited Hugely Competitive Oligopolies Vying for Dominance, Major Technology Shifts, and an Improving Economy with corresponding increase in Global Demand for PLM as major drivers that would kick off a new round of M&A. We went on to predict that the major technology shifts occurring in the PLM market such as cloud computing, social media, mobile platforms, and industry specific applications would draw the attention of the large PLM players, and are fostering opportunity for young entrants into the space as users change how they buy and use PLM applications. In addition, for the latest on M&A in PLM, be sure to read the Q3, 2014 Update appended to the end of this document.*

WHERE ARE WE NOW?

So far in 2014, we have found that not only has the pace of acquisitions been maintained from 2013, but in at least one case it has accelerated. The key driver of this ongoing velocity is the need to augment organic growth, with inorganic growth, and the search for product differentiation becomes a key strategy in the battle for dominance. Below is a quick analysis of the volume of transactions of several major PLM companies over the past 12 months and 3 years respectively, along with approximate compound annual growth rates during that time frame.

Mirus has found that the major force driving many of these acquisitions is the "winner takes all" game for PLM and CAD seats that is currently being played out at numerous major accounts. In fact, this high stakes scenario has manifested itself in a battle for new technologies in the hope of differentiation and sustained price per seat. In this context, it has become common for complementary applications to become pawns in this battle for supremacy ($100M deals are not uncommon) if they are perceived as strategic to the PLM customers' future direction.



WHAT ARE THEY BUYING?

Overall, the acquisitions made by these primary PLM players can be broken down into two main areas, applications and software development tools.

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Clearly driving activity are new technologies for Social, Cloud, and Mobile, which accounted for almost 50% of software development tool acquisitions.

Software Development Tools: Approximately 25% of acquisitions over the most recent 3 year period were of software development tools with virtually all major players participating. Oracle, however, was the most proliferate acquirer of software development tools with approximately a dozen purchases over the past 3 years – accounting for almost half of all software development tool acquisitions.

Clearly driving this activity are new technologies for Social, Cloud, and Mobile, which accounted for almost 50% of software development tool acquisitions as major players found it easier to take advantage of the innovation of young startups to provide tools with which to extend their existing applications, build their next generation platforms, and integrate existing applications with new technology applications. Great examples are tools for the implementation of cloud based applications, which may also provide mobile access and integration capabilities for traditional in-house hosted apps.

One of the most interesting transactions was an acquisition by traditional CAD/PDM player PTC in the software development tools market, as they strove to extend PLM to the management of the software portion of their customers' products as a part of the PLM lifecycle. In this case, the end solution could be considered more application than tool. Will this be the beginning of a new PLM battleground?

Applications: Clearly the vast majority of acquisitions (approximately 75%) over the past 3 years were of end user applications. Applications in the CAE, manufacturing management and human resource domains topped the list, accounting for one-third of all applications acquired, with other significant application areas including AEC, Business Analytics, ECAD, and CAM rounding out the domains with a significant focus.

Once again, cloud and social computing played a significant role in acquisition strategy, this time in the application arena, with almost 40% of applications carrying a significant concentration in these new technologies. In many cases this signifies a broadening of the acquirer's product lines to include these new technologies to either enrich existing apps or replace them with more modern architectures and use cases. Oracle particularly placed emphasis on cloud and social strategies, with one-third of their overall acquisitions having social and/or cloud capabilities.

Inevitably, this number of transactions over a relatively short period of time serves to highlight company expansion strategy and direction. For example, traditional CAD leaders, Dassault and Siemens, continued to battle it out in CAE, while SAP and PTC made the most acquisitions in manufacturing management. SAP bought the vast majority of HR applications, while Autodesk played to their strength in AEC and took on a new front in consolidating CAM companies in an attempt to become a significant CAM player on par with competitors Dassault and Siemens. This market extension was also obvious in ECAD where Ansys and Dassault made significant acquisitions to bolster their PLM portfolios and bring electronic design capabilities under their umbrella.

One notable missing application domain is data management, which had been a hot M&A market for a number or years prior to this study. However, during this 3 year period, only one of the primary PLM vendors made a single purchase in the data management application space (not counting social media tools which could be used to extend existing applications into the cloud). Is this due to application saturation? Perhaps.

WHAT TO EXPECT IN 2014?

In 2014, expect more of the same with a few adjustments:

First, clearly there is a lot of activity in the PLM market and Mirus feels this will continue as the major players in the oligopoly continue to round out their portfolios and battle to service the diverse needs of their customer bases. Software development and EDA are spaces that customers are demanding be brought under the broad PLM management umbrella along with a host of niche manufacturing management applications. In this context, smaller applications will be gobbled up either by the oligopoly or by second tier PLM players that must grow, merge, or wither away.

Second, applications continue to be the place to be. While software development tools have had a surprising run, much of this bubble is attributable to the recent rise in social and cloud technologies and now that most major players have established their strategies there appears to be glut of tools (many that failed to find applications) available on the market now that the music has stopped.

Third, cloud and social applications are real, they are not going away, and most new application startups would be wise to try to figure out how to leverage these trends where practical. Major PLM players will continue to evolve their portfolios and look for ways to incorporate these technologies into their offerings and will look for help to accelerate time to market for these technologies Having said this, cloud and social are not applicable in many spaces, and as such do not need to be force fed into the system to have satisfactory outcomes. Applications that solve a hard problem for customer will have a place in the industry; social or cloud based, or not.

CONCLUSION

So to the degree that current and past trends are indicative of the market (with the adjustments suggested above), we believe that 2015 will to be another banner year for M&A. Stock markets are up, mid-market and software M&A is strong, and in the opinion of many economists we are in the middle of a seven year economic expansion period. Cash is plentiful and PLM companies continue to fight to outgrow their competition, both organically and through acquisition. In addition, Mirus believe that the current level of activity will trickle down to the second tier of PLM vendors who must strengthen to survive.

From the sell side, many companies have recovered from the recession and have posted consecutive years of growth that establishes company stability. Smart owners with exit strategies should consider this time as ripe for exit, as it enters the mature phase of the expansion prior to the inevitable weakening of growth.

All of these facts bode well for another strong year in mergers and acquisition in PLM and Mirus is here to help you navigate the intricacies of the PLM M&A market. By taking a long term view toward liquidity planning, we help our clients to decide when the time is right for them and what actions to take now to prepare their companies for an exit in the future. If you are interested in exploring the specifics of liquidity planning, or of the details behind the material described in this paper, please feel free to contact us at **boes@merger.com** or **alternative@merger.com**.

Q3 2014 UPDATE

At the end of 2013, we published our view of the driving forces behind M&A in PLM. Now with the first three quarters of 2014 behind us we wanted to take a minute to make a few observations that update those thoughts.

Total closed acquisitions are on a Q3 run rate that will exceed last year's totals by approximately 5% within the major PLM players. If you include announced (yet to close) deals, the Q3 run rate totals are likely to exceed last year's total by 15% but with the following observations:

1) Only three players accounted for the vast majority of these transactions. Autodesk led the way with seven, followed by Oracle with six and Dassault with five. PTC closed three deals, with Ansys and Siemens bringing up the rear with two and a single deal respectively. So while on the surface M&A has picked up some speed, the acceleration is in reality more isolated than broad-based.

2) Each of the 4 major acquirers made large investments in new areas of technology for them. Autodesk made a major move to broaden their portfolio into CAM with the acquisition of Delcam (almost $250M); Oracle went for marketing applications through Blue Kai and Responsys (over $1.5B); and Dassault Systems targeted the hot biotech segment with the Accelerys/QUMAS combination ($700M). Dassault Systems' acquisition of asset management and supply chain planning company Quintiq is also noteworthy since it's the first time this PLM giant has endeavored into what is traditionally ERP territory. PTC continued this trend as it furthered its commitment to Service Lifecycle Management (SLM) and MRO with its Internet of Things (IOT) acquisitions of Axeda and Thingworx ($300M).

As we mentioned in our Manufacturing Automation Research, we expect further encroachment from both ERP and PLM around the battle to win the master bill of materials (BOM). And finally Autodesk, the acquisition leader by number, appears to be placing multiple bets on a variety of technologies across multiple domains.

As an interesting side note, Ansys made a move into CAD with their purchase of SpaceClaim, flying contrary to the recent trend of CAD companies to acquire the remaining independent CAE platforms. This move clearly reinforces Ansys' intent to remain independent and viable as a standalone company.

3) Mobile, social and cloud-based applications continued to be recurring themes, but tools to implement these technologies were noticeably absent versus the prior 12 months suggesting that perhaps a level of saturation has been reached for these tools within the PLM vendors.

So to reiterate our previous position, 2014 should be another banner year for M&A. Stock markets are still up, mid-market and software M&A is strong, and the opinion of many economists that we are in the middle of a seven year economic expansion period still appears solid. Cash and cheap debt continues to be plentiful allowing PLM companies to continue to fight to outgrow their competition, by broadening their portfolios into new domains.

At the same time some,major PLM leaders are placing bets on evolving technologies with the notion that one or more may be the next wave of the future, often at significant premiums, highlighting the scarcity value of truly unique, differentiated technology and domain expertise.

From the sell side, many companies have recovered from the recession (if they are going to) and have posted consecutive years of growth that supports their future trajectory. Owners should be considering this time as ripe for exit, given the current seller's market and maturation of the economic expansion, which will inevitably turn downward in the years ahead.

If you see yourself in this position, and are reluctant to ride out the economy for another cycle, it may be worth a discussion on how you can take advantage of the current trends in M&A for PLM. For more information on the specifics of liquidity planning, or of the details behind the material described in this paper, please feel free to contact us at **boes@merger.com** or **alternative@merger.com**.

THE MIRUS CAPITAL ADVISORS APPROACH

To assess and build value, and to advise on the best time to unlock that potential, Mirus has developed its own proprietary framework and empirical benchmarking model to help business owners and boards of directors "look around the corner." Using this model along with its deep expertise in the software industry in general and PLM specifically, Mirus builds its relationship with shareholders long before a transaction is imminent. As a trusted advisor, Mirus provides an honest and objective "sounding board" to owners regarding liquidity planning matters related to creating and unlocking value, from initial planning through final transaction. To quote Vistagy Chief Executive Officer, Steve Luby, "I haven't always agreed with everything that Mirus said, but I've always benefited from the exchange."

NEW RESEARCH

Beginning in 2014, the Mirus Software Team began publishing regular industry update reports highlighting noteworthy transactions, along with public and M&A valuation data. If you have a colleague that you think would be interested in receiving this type of information please direct them to our website and/or forward this research. As always, feel free to connect with us directly to share thoughts and perspectives.

Peter Alternative *and* **Bruce Boes** *are partners at Mirus Capital Advisors, Inc. Founded in 1987, Mirus is a middle-market investment bank that specializes in advising companies on strategic mergers and acquisitions. By combining a proven process, industry and transactional expertise, creative thought, and personalized service, Mirus has completed hundreds of transactions for both public and private companies. Mirus is a registered broker-dealer and FINRA Member. Additional information is available at* **www.merger.com**.