

Embedded Software Development Tools M&A Market Update[©]

Addressing the M&A Needs of Technology and Telecommunications Professionals

July 2011

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About Us:

The McLean Group is a national investment bank serving middle market businesses. For more information, visit www.mcleanllc.com.




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Industry Snapshot

Technology mergers and acquisitions are off to a strong start in 2011. According to Ernst & Young's quarterly report, *Global Technology M&A Update*, technology mergers & acquisitions deals grew substantially during the first quarter of 2011. The number of deals increased 26% to 794 and total value increased 124% to \$27 billion. Similarly, Mergerstat shows an 18% increase of total deals from April 2010 to 2011, rising from 8,060 to 9,475, with most of the growth coming from the middle market deal sizes ranging from \$25 million to \$250 million.

In the embedded technology market, merger activity is strong as well. In 1H2011 we tracked 31 M&A transactions in the embedded space, with an average deal size of \$148 million. The embedded segment generating the most deals was Software Development Tools, with 18 transactions. The embedded segment generating the largest deals was Semiconductors, where transactions averaged \$626 million.

Embedded Software Development Tools & Services	Semiconductors & Hardware	Devices & Infrastructure
 <ul style="list-style-type: none"> ◇ User interface/GUI and 3D imaging software tools ◇ Code development tools ◇ Operating system software ◇ IP Telephony (VoIP), and video software ◇ DSP software ◇ Communications and networking middleware 	 <ul style="list-style-type: none"> ◇ General purpose processors ◇ Digital signal processors ◇ Wired and wireless communications 	 <ul style="list-style-type: none"> ◇ Smart phones ◇ Networking infrastructure ◇ IP phones and VoIP equipment ◇ Consumer electronics ◇ Tablet computers

Embedded Index: Public Company Valuations

The McLean Group's embedded index represents a representative sample of publicly-traded companies that are significant players in the embedded technology market. This list includes both semiconductor and software companies that sell into end-equipment markets such as smart phones, networking infrastructure, defense electronics, and other consumer devices.

Currently, EV/EBITDA valuations are very healthy, with an average multiple of 14.7x and an EV/Revenue average multiple of 3.2x.

Publicly-Traded Embedded Semiconductor and Software Companies

Semiconductor Firms	Enterprise Value	LTM EBITDA	LTM Revenue	EV/ EBITDA	EV/ Revenue
Analog Devices	\$9.60B	\$1.21B	\$3.01B	7.91x	3.19x
ARM Holdings, plc	\$35.19B	\$197M	\$655M	178.62x	53.65x
Broadcom	\$16.1B	\$1.14B	\$6.97B	14.16x	2.31x
Cadence Design Systems	\$2.70B	\$111M	\$980M	24.3x	2.76x
Cavium Networks	\$2.03B	\$36M	\$228M	56.34x	8.87x
Freescale Semiconductor Holding ¹	\$10.2B	\$1.07B	\$4.63B	9.55x	2.20x
Imagination Technologies	\$123.6B	\$15.8M	\$86.9M	7840x	1423x
Intel	\$110B	\$21.2B	\$46.2B	5.19x	2.39x
Mentor Graphics	\$1.70B	\$118M	\$915M	14.44x	1.86x
MIPS Technologies	\$278M	\$27.4M	\$87.7M	10.17x	3.17x
Nvidia	\$8.09B	\$406M	\$3.50B	19.94x	2.31x
Qualcomm	\$82.30B	\$5.28B	\$12.9B	15.6x	6.39x
Synopsys	\$3.04B	\$295M	\$1.47B	10.29x	2.07x
Texas Instruments	\$36.72B	\$5.28B	\$14.15B	6.96x	2.59x
Embedded Software Firms	Enterprise Value	LTM EBITDA	LTM Revenue	EV/ EBITDA	EV/ Revenue
Adobe Systems	\$16.1B	\$1.42B	\$3.97B	11.34x	4.06x
Autodesk	\$8.35B	\$406M	\$2.01B	20.57x	4.17x
Bsquare	\$44.4M	\$8.39M	\$106M	5.29x	0.42x
Google (Android)	\$135B	\$12.2B	\$31.1B	11.14x	4.35x
Microsoft	\$168B	\$68.6B	\$30.1B	5.58x	2.45x
National Instruments	\$2.98B	\$920M	\$173M	17.2x	3.24x
Nuance Communications	\$6.61B	\$1.21B	\$242M	27.32x	5.48x
Average EV/EBITDA ²					14.7x
Average EV/LTM Revenue ²					3.2x

Source: Capital IQ / Yahoo Finance

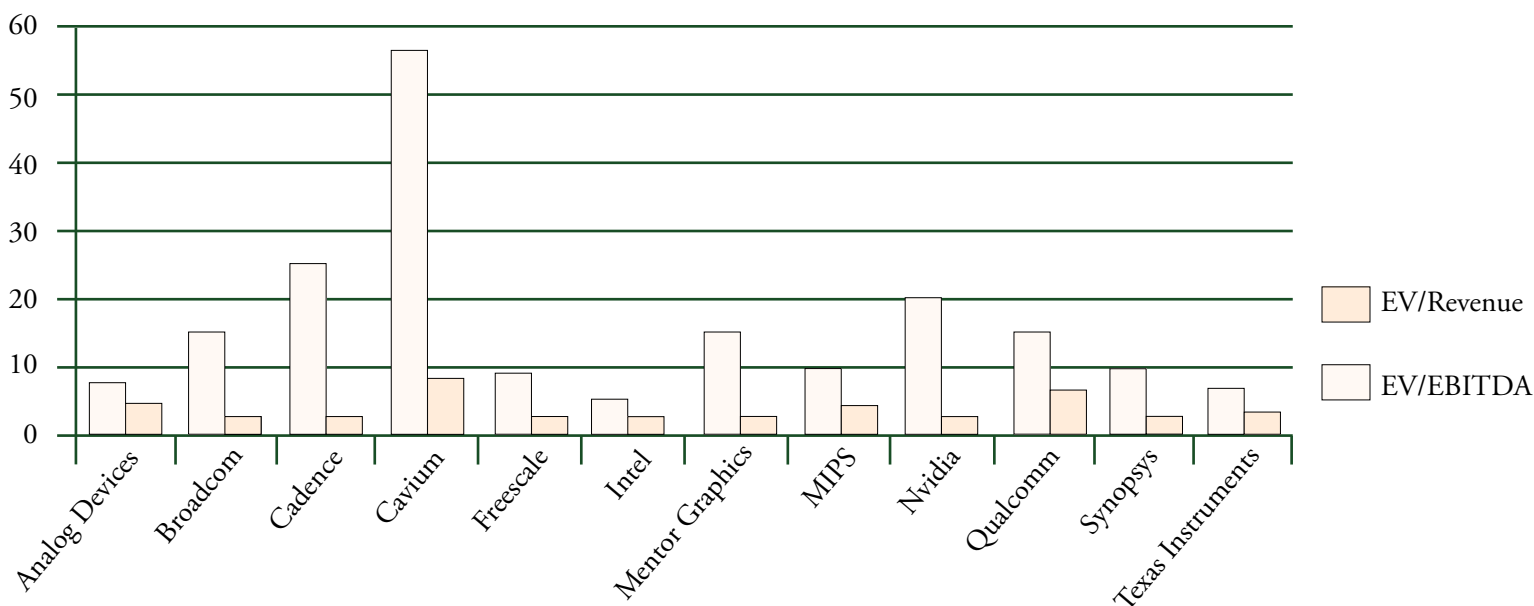
Data as of May 25, 2011

¹ Freescale data as of May 27, 2011 due to recent IPO.

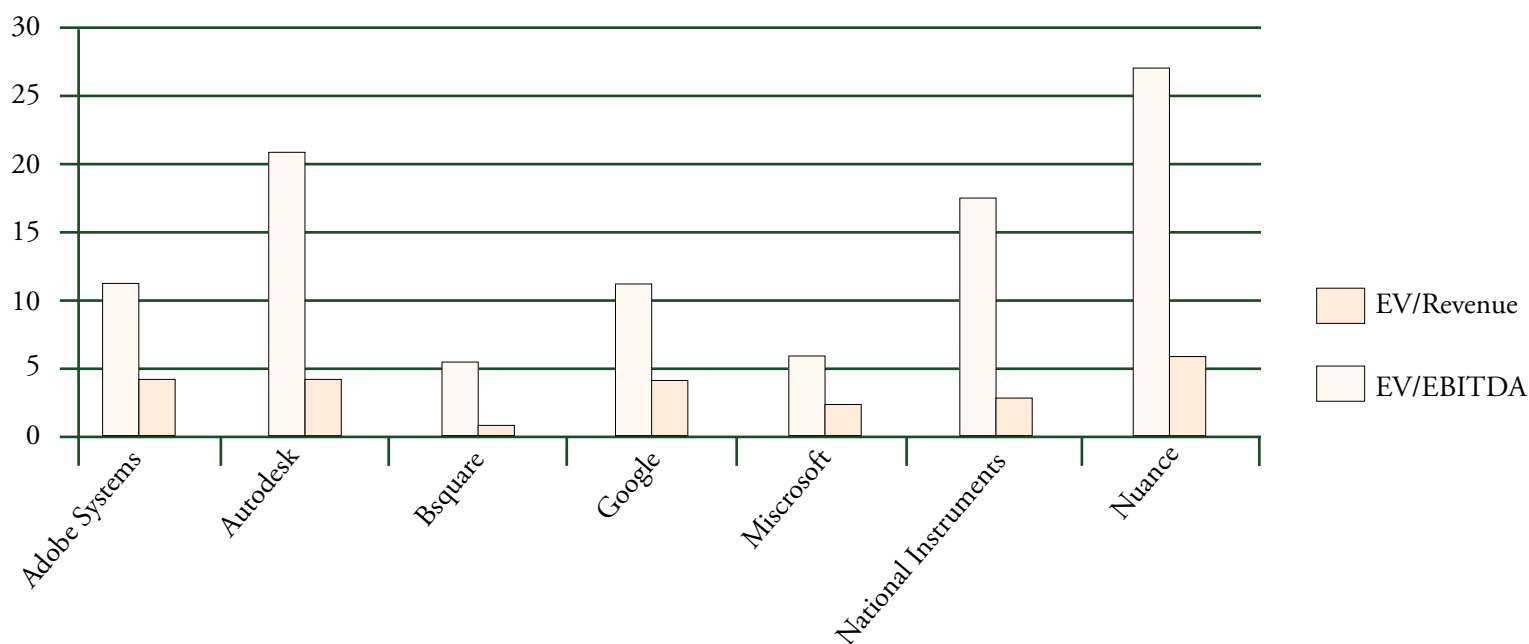
² EV/EBITDA and EV/Revenue Ratios above do not include ARM Holdings or Imagination Technologies data.

³ Multiple vendors may compete primarily in one market but also represent another sub-segment. Examples include: Intel owns Wind River Systems, Google owns Android, and Cavium owns MontaVista. Separate operating results for the embedded software portion of these companies are unavailable.

Embedded Semiconductor Company Valuations



Embedded Software Company Valuations



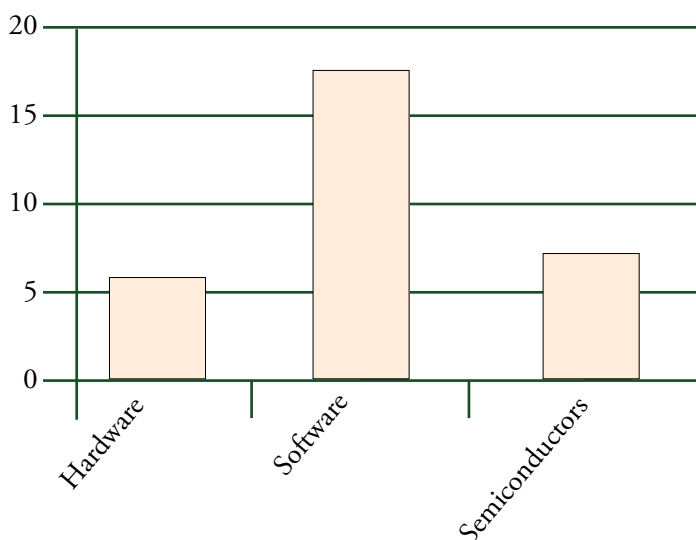
Embedded Technology M&A Deals Spring 2011

Merger and acquisition activity remains strong in the first half of 2011 in the embedded space. While software deals counted for more than half of the 31 deals we tracked, their average size was significantly smaller than the average deal size of semiconductor and hardware companies in the embedded space. The average size of tracked software deals was \$46 million, while the average semiconductor deal closed at a much higher \$626 million. Given the size of most of these deals, such multiples as EV/EBITDA typically are unavailable, and the limited number of available multiples does not suffice to make useful comparisons.

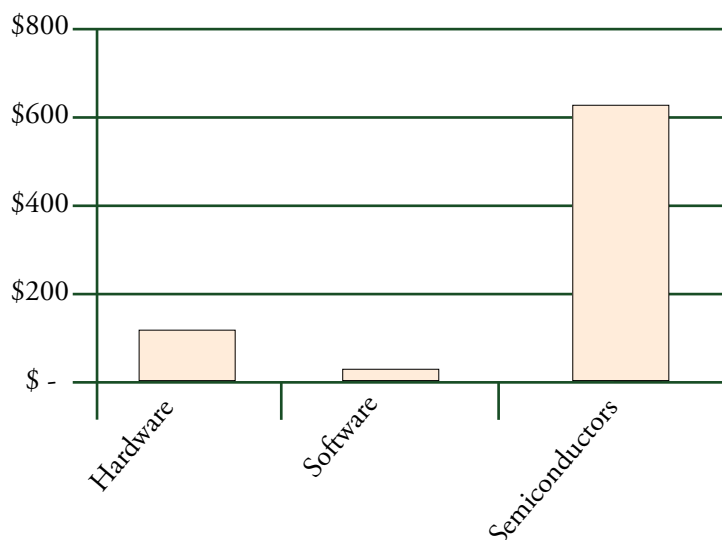
Number of Embedded M&A Deals by Segment

Segment	# Deals	Average Deal Size (\$M) ¹
Software ²	18	\$46
Semiconductors	7	\$626
Hardware	6	\$96

Deals



Average Deal Size (\$M)



When broken down further by vertical market, most transactions have been completed in the software development tools market, followed by video & media and wireless.

Number of Technology M&A Deals by Vertical Market

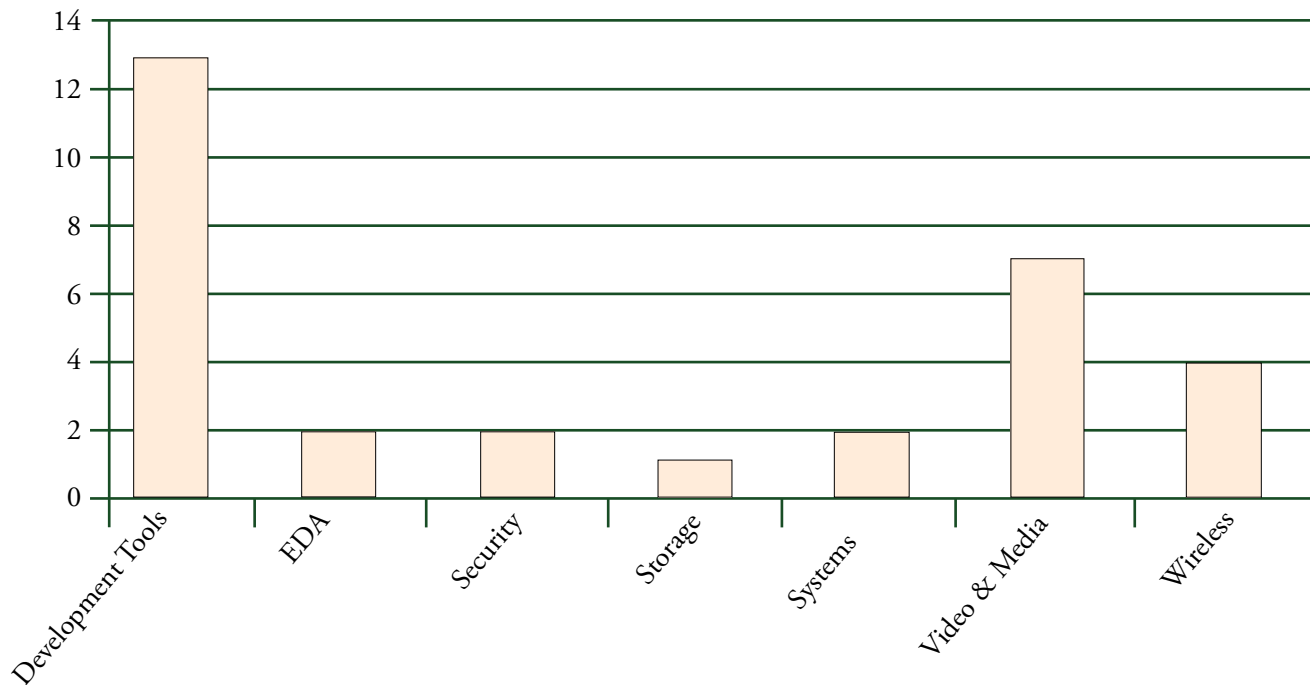
Segment	Vertical Market	# Deals	Average Deal Size (\$M) ³
Hardware	Storage	1	\$327
Hardware	Systems	2	\$69
Hardware	Video & Media	3	\$37
Software	Development Tools	13	\$44
Software	Security	1	N/A
Software	Video & Media	3	\$50
Software	Wireless	1	N/A
Semiconductors	EDA	2	N/A
Semiconductors	Security	1	\$288
Semiconductors	Video & Media	1	\$645
Semiconductors	Wireless	3	\$190

¹ Includes only transactions where deal size was disclosed.

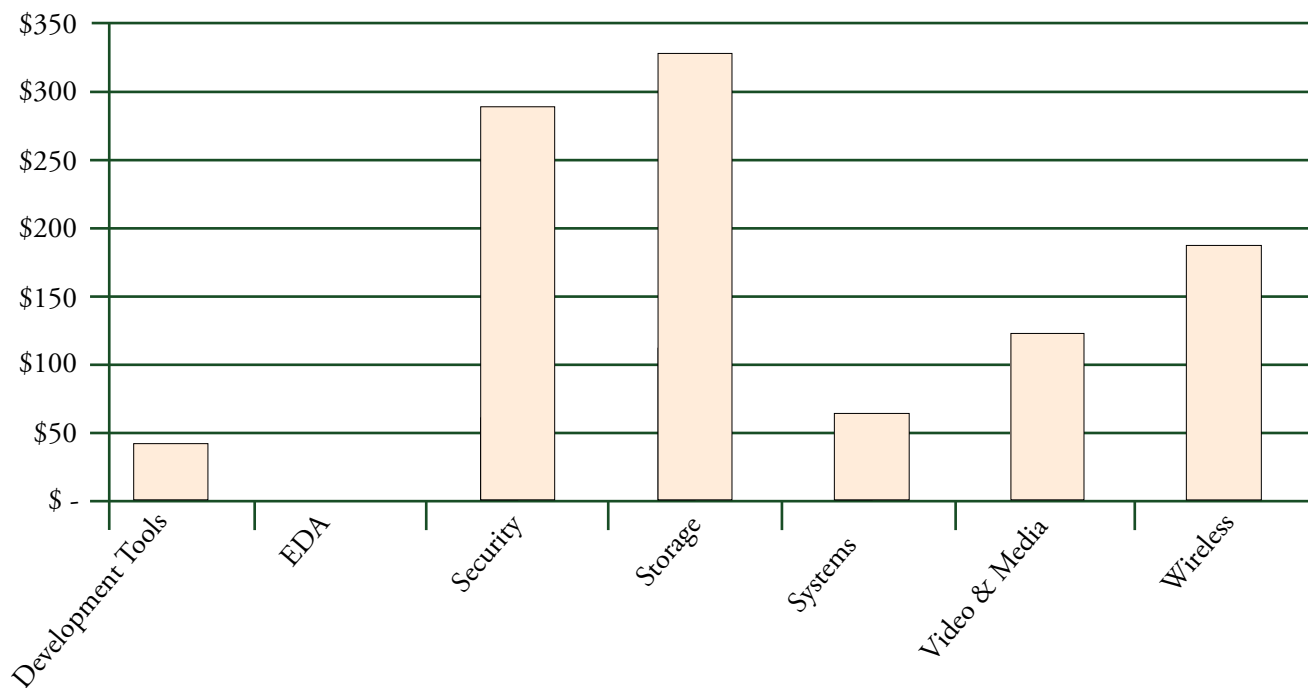
² Software average deal size does not include Skype.

³ EDA average deal size does not include Mentor Graphics.

Deals by Vertical



Average Deal Size (\$M) by Vertical



Deal Highlights

Highlighted Mergers & Acquisitions

Microsoft acquired Skype for \$8.5 billion. The Skype acquisition, reflecting further consolidation of VoIP technology to consumers and enterprises, also is Microsoft's largest acquisition to date.

RadiSys acquired Continuous Computing for \$120 million. The deal included \$73 million in cash and 3,666,667 shares of RadiSys common stock. Continuous Computing develops ATCA-based hardware systems used in communications markets, and also the Trillium protocol stack, acquired from Intel in 2003.

Atego acquired HighRely, a leading provider of high reliability engineering solutions, services and tools for critical embedded product and systems development. HighRely is known as a market leader in DO-178B and DO-254 certification and training services.

Intel acquired SySDSoft, based in Cairo, Egypt. SySDSoft designs state-of-the-art IP solutions in the software stack and physical layer domain, and RF/analog circuits embedded in mobile platforms. The acquisition is expected to accelerate Intel's efforts in 4G LTE.

Autodesk acquired Scaleform for \$36 million in cash. Scaleform is a middleware and user interface (UI) tools company that has aided in the development of more than 800 games for a variety of hardware platforms, including Microsoft Xbox 360, Nintendo Wii and Sony Playstation 3 (PS3).

Autodesk acquired Blue Ridge Numerics for \$39 million in cash. Blue Ridge develops simulation software that allows engineers to design and manufacture products that are prepared for real-world conditions. Autodesk will integrate Blue Ridge Numerics into its Manufacturing Industry Group.

National Instruments acquired AWR Corporation for \$58 million. AWR is a leading supplier of electronic design automation (EDA) software for designing RF and high-frequency components and systems for the semiconductor, aerospace and defense, communications and test equipment industries.

Digia PLC acquired the Qt commercial licensing and services business from Nokia. Nokia had acquired the Qt platform from its \$153 million acquisition of Trolltech in 2008. The divestiture is a strategic realignment for struggling Nokia, which has begun a migration from Symbian and Qt to Windows. Digia will support the roughly 3,500 companies that currently use Qt commercially.

Netscout acquired Psytechnics, a provider of quality management software for IP voice and video. Its installed base manages more than a million Internet telephony users in the US and Europe.

Selected Transactions

The following represents transactions in the embedded market for Spring 2011. Because many of these are smaller private transactions, such transaction data as Transaction Value, Enterprise Value (EV) or EBITDA may not be provided.

Date	Target	Total Transaction Value (\$M USD)	Buyer	Segment	Vertical	Description
05/23/11	AWR Corporation	\$58.00	National Instruments	Software	Development Tools	RF Design Software
05/16/11	Pliant Technology, Inc.	\$327.00	SanDisk Corporation	Hardware	Storage	Enterprise Flash Drives
05/12/11	Cryptography Research, Inc.	\$288.33	Rambus Inc.	Semiconductor	Security	Security Chip IP
05/10/11	Keynectis S.A.		E.I.S. Euro-Information Services; Gemalto NV Morpho SA	Software	Security	Security
05/10/11	Skype	\$8,500.00	Microsoft	Software	Application	VoIP
05/10/11	Cadence Design Systems, Inc.		Altos Design Automation, Inc.	Semiconductor	EDA	
05/09/11	Icera	\$367.00	Nvidia	Semiconductor	Wireless	
05/03/11	HighRely		Atego	Software	Development Tools	Avionics, DO178B
05/03/11	Continuous Computing	\$120.00	Radisys	Hardware	Systems	Communications
04/23/11	Maestro Mobile Services		e-Zest Solutions Ltd.	Software	Development Tools	Smartphone Application Development
04/01/11	RDDS Avionics Limited	\$2.41	Oak Manor Investments Ltd.	Hardware	Video & Media	Video Surveillance
03/28/11	Psytechnics		Netscout	Software	Development Tools	VoIP Quality Management
03/26/11	tinyHippos Inc.		Research In Motion Limited	Software	Development Tools	Mobile Application Development Tools
03/24/11	Accordent	\$50.00	Polycom	Software	Video & Media	Video Content Management
03/22/11	Masterimage 3D, LLC	\$15.00	Samsung Venture Capital	Hardware	Various	3D Display Components
03/15/11	SySDSoft, Inc.		Intel Mobile Communications GmbH	Semiconductor	Wireless	RF/Analog Circuits for Wireless Baseband
03/08/11	SGI Japan, Ltd.	\$17.90	Silicon Graphics International Corp.	Hardware	Systems	
03/07/11	Nokia Qt		Digia Plc	Software	Development Tools	Qt Development Tools and Libraries
03/03/11	Rocket Pack		Disney	Software	Development Tools	Game Development Environment
03/02/11	Webia Technologies		D2 Technologies	Software	Development Tools	Android-Based Set-Top Box Media Player
02/26/11	Lapis Digital		VerticPortals Inc.	Software	Development Tools	Mobile Flash Applications
02/23/11	Mentor Graphics Corporation	\$1,815.06		Semiconductor	EDA	EDA Development Tools
02/21/11	Zoran Corporation	\$645.34	CSR plc	Semiconductor	Video & Media	Audio and Video Compression
02/17/11	Blue Ridge Numerics	\$39	Autodesk	Software	Development Tools	Engineering Simulation
02/15/11	Kinoma, Inc.		Marvell Technology Group Ltd.	Software	Video & Media	Mobile Media Players
02/15/11	Scaleform	\$36	Autodesk	Software	Development Tools	Flash-Based UI Tools for Gaming
02/14/11	Conceivium		Fixmo	Software	Wireless	Mobile Device Management
02/09/11	SurfKitchen Limited		Teleca AB	Software	Development Tools	Mobile Internet Platform
02/05/11	Transpera, Inc.		Tremor Media, Inc.	Software	Development Tools	Mobile Ad Development Platform
02/04/11	InletTechnologies	\$95.00	Cisco	Hardware	Video & Media	ABR Digital Media Processing
01/25/11	Wavesat Inc.	\$12.50	Cavium Networks, Inc.	Semiconductor	Wireless	Broadband Wireless

About the Author

Brent Lorenz, a Vice President in The McLean Group's headquarters office, has more than 15 years' experience driving business development, sales and product management for such high technology companies as Texas Instruments, IBM and venture capital-funded startups. He focuses on M&A for embedded software firms and semiconductor manufacturers and specializes in smart phone, mobile consumer device, and enterprise telephony markets. Specifically, he targets firms developing products centered around technologies such as VoIP, video software, DSP software, code development tools, graphical user interface (GUI) tools, and device management software.

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The McLean Group Technology & Telecom Practice

The Washington, DC area incubates a large number of technology companies serving the federal government, telecommunications and Internet industries. Many government agencies and corporations produce a steady stream of entrepreneurs who establish and grow successful middle market businesses in the region.

We have served these regional technology firms among others nationally and worldwide. Whether product- or service-oriented, our research, analysis, valuation and investment banking professionals have experience with a broad array of technology companies. We are well-equipped to help our clients build value and close successful transactions.



About The McLean Group

The McLean Group is a national, middle market investment bank providing mergers & acquisitions (M&A), capital formation, market intelligence, business valuation, litigation support and exit planning services. Headquartered in the Washington, DC metropolitan region's technology, communications and government contracting corridor, the firm is among the top middle market investment banks in the nation.

- **M&A:** The McLean Group uses its considerable expertise in a wide variety of industries to identify the most probable and suitable candidates to complete transactions under the most favorable terms for its clients.
- **Market Intelligence:** By leveraging superior competitive analyses, the firm provides business executives with comprehensive market intelligence reports, which provide the market insight and analytical expertise required to reduce risk and uncertainty in strategic decision making.
- **Business Valuation:** As a core competency and complement to its M&A business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transactions, financial reporting and tax purposes.