Goldman Sachs

The Eighteenth Annual

BerkeleyHaas

Investment Banking Case Competition

riverbed

Presented by: Goldman, Sachs & Co.

Introduction

The Haas Investment Banking Case competition has been designed to provide interested students with an opportunity to demonstrate and further develop their business skill set. While there will be a "winning team", all participants will benefit from the experience. The case is ideal for those students considering a career in investment banking, venture capital, consulting, corporate finance or technology. The presentations by the finalists will also allow the panel of judges from Riverbed, Goldman Sachs and the Haas School of Business to observe students' presentation and analytical skills.

Teams

Students should form their own teams to participate in the competition. The recommended team size is four. However, a team may compete with a minimum of three individuals. <u>There must be at least one team member who is not a Haas major</u>. This rule is intended to replicate the work environments that graduates will experience in the field.

Case Study

The case is based on an existing Company and attempts to simulate the strategic decisions that the Company and its advisors faced. While the facts cited in this case study are intended to re-create the general circumstances that existed, this case study has been adapted for the purpose of this competition and now provides a hypothetical situation – it <u>does not</u> intend to provide a complete or definitive recitation of facts or events. The financial information provided is for illustrative purposes only and does not represent current or historical projections from any of the companies cited in this case. Financial information not provided in this case will not be relevant for your analyses. Discussion with the management or any employee of the Company or any of the Company's competitors is strictly prohibited and is cause for disqualification. Students also should not discuss the case with investment banking, consulting or finance-related professionals. Any activity of this sort will be obvious to the judges and is cause for disqualification. The case should be the original work of the team members alone. Students who have current or past experiences in banking, consulting, or finance should cite these experiences in their final deliverable.

Submission Format and Due Date

Each team will present their conclusions through a written presentation (landscape format), similar to the discussion materials often used in investment banking, consulting and corporate board meetings (e.g. PowerPoint). Your presentation can be a maximum of 10 pages in length. You may have additional pages that include tables and exhibits (in addition to the 10 pages mentioned). The tables and exhibits will be a critical component of the final product as your conclusions will be based on this work. Your presentation should be converted to a PDF and cannot exceed 5 MB in size. Email your PDF presentation file to casesubmission@lists.haas.berkeley.edu and include your team number in the subject line of your message. **The email with your presentation attached is due by Thursday, October 15th at 4:00pm**. No exceptions will be made for cases submitted after this time. We will also hold a conference call to answer any questions you may have regarding the case on October 12th from 5:30-6:00PM PST (Dial-in: (212) 902-9977 **|** Participant code: 1131807).

Final Competition

The review committee, comprised of Haas faculty, Goldman Sachs professionals and a Riverbed management representative, will review the presentations and select 3-4 teams to participate in the final round. The finalists will be notified on Monday, October 19th. The 2015 Haas Investment Banking Case Competition Finals will be held Thursday, October 22nd from 6:00-9:30PM in the Wells Fargo Room at the Haas School of Business. Each of the finalist groups will make a 10-minute presentation followed by 10 minutes of questions from a panel of judges. After a short recess, the winner will be announced, followed by the judges' critique of the presentations and a discussion of what actually occurred, with time allotted for questions from the audience. Attendance to the finals will be open to all and is encouraged for all who are interested.

Background

It is August 2014. The Management team and Board of Directors of Riverbed have engaged the Goldman Sachs team to decide on the appropriate next steps for the Company. As part of the ongoing management and oversight of Riverbed's business, the Board and Management regularly discuss and evaluate the strategic direction, long-term goals, performance and prospects of the Company. In the course of these discussions, the Board and senior management intend to review the various strategic alternatives involving a possible sale of the business or other commercial transactions that could complement and enhance Riverbed's competitive strengths and market position.

On November 8, 2013, Elliott Management filed a Schedule 13D form with the SEC revealing a 10.4% stake in Riverbed, making it one of the company's largest shareholders. A few months later on January 8, 2014, Elliott Management publicly announced an offer to acquire Riverbed for $19.00 per share in cash. At the time, Riverbed's Management team decided that remaining a standalone company was a priority for the Company; Elliott Management returned with an offer of $21.00 per share, which the Company again rejected with the belief that the bid undervalued the Company.

Given the recent developments, Goldman Sachs has been asked to provide its assessment to the Board of Directors of the fundamental value of the company and Goldman Sachs' views on a potential sale or other strategic alternatives. In particular, the Board wants answers to the following questions:

- What is the appropriate standalone value of Riverbed?
- Who are the potential acquirers for Riverbed and what should the acquirer be willing to pay?
- Is now a good time to sell the business?
- If a sale is not recommended for the company, should Riverbed pursue other alternatives to return value to shareholders?

Company Description

Riverbed, founded in 2002, addresses network communication inefficiencies found in software applications, data transport and bandwidth traffic flows in wide-area networks (WAN). Riverbed addresses network issues integral to the wide-area network. Unlike computing over a local area network (LAN), which is usually fast, easy and inexpensive because locations are grouped and distances are short, WAN is constrained by longer distances and more locations. Once a company expands its business beyond the confines of one office, it encounters the challenges of WAN. The greater the distances and number of locations involved, the slower the performance of applications for users and the higher the costs for the company. The result is that computing over WAN is usually slow, costly and sometimes nearly impossible.

Riverbed's WAN optimization product, Steelhead, addresses WAN limitations by eliminating distance and location as performance variables. Steelhead consists of proprietary algorithms that streamline data transport and de-duplication, reduce bandwidth requirements for applications and improve application performance. While initially known only as a pioneer in WAN optimization, Riverbed has expanded its portfolio from a single WAN optimization product to a broader application performance platform. Its vision is to enable companies to adopt location-independent computing, which consists of three goals for IT:

- IT should not be constrained by the limitations of distance and location
- IT should be allowed to place workloads and data in the optimal location, directed by business needs
- IT should be free of performance and visibility limitations

Riverbed's Application Performance Platform is a set of integrated solutions that gives companies the flexibility to host applications and data in the locations that best serve the business while ensuring the delivery of those applications to better leverage global resources, reduce the cost of running their business and maximize employee productivity.

Industry Information

Competitive Landscape

Riverbed competes primarily in three verticals:

- **WAN Optimization**: Riverbed continues to be a leader in the WAN optimization market with 56% market share. Other major players include Cisco (18% market share), Blue Coat (8%), Citrix and F5 Networks. However, Riverbed's core WAN optimization market growth has declined to ~6%, as a result of the broader market's maturity and saturation.

- **Virtual Application Delivery Controller**: The ADC market is relatively mature and consists of F5 Networks (49% market share), Citrix (25%), A10 Networks (12%) and Cisco (<1%).The presence of dominant players has created challenges for Riverbed to gain significant market share and bolster revenue growth. Riverbed currently holds ~3% of overall ADC market and 25% of virtual ADC market. The virtual ADC market is projected to grow to $300mm in revenue by 2017 with 4-5% CAGR from 2013-2017.

- **Network Performance Management**: The APM/NPM market also has a number of well-established players, including IBM (16% market share), CA (14%), Compuware (12%) and HP (8%). The performance market is projected to have a CAGR of 5-10% and reach $5bn+ by 2017.

Overall Enterprise Network Equipment Market Experiencing Slowdown as Economy Recovers

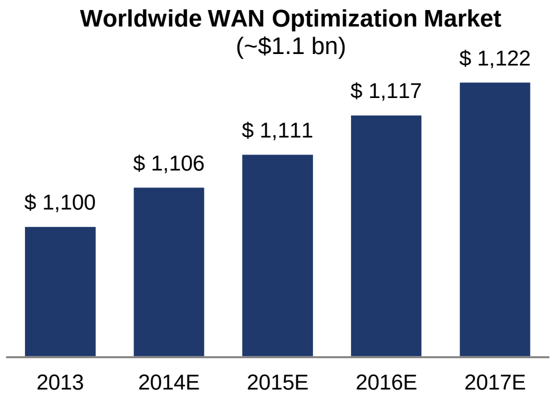
The overall enterprise network equipment market consists of Enterprise Ethernet, WLAN and WAN. It is forecasted to grow at a 2.4% CAGR and reach $47.6 bn in end-user spending by 2018. This is compared to previously forecasted 2.9% CAGR and $46.2 bn in end-user spending through 2017. Current growth within the market is driven by demand for network upgrades that are needed to effectively support cloud and mobility initiatives. However, this is countered by slow global economic recovery, restricting overall demand. Overall spending in the market will continue to be driven by replacement cycles and GDP changes.

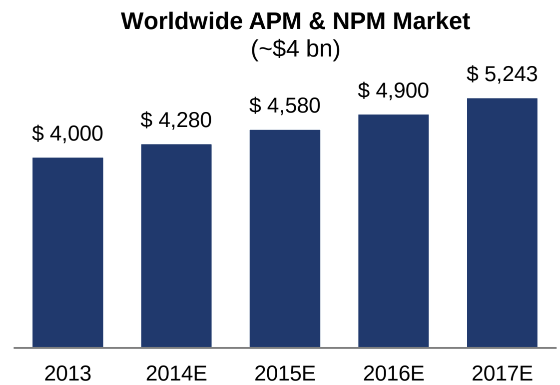
Wide-Area Network Optimization Market in Period of Stagnant Growth

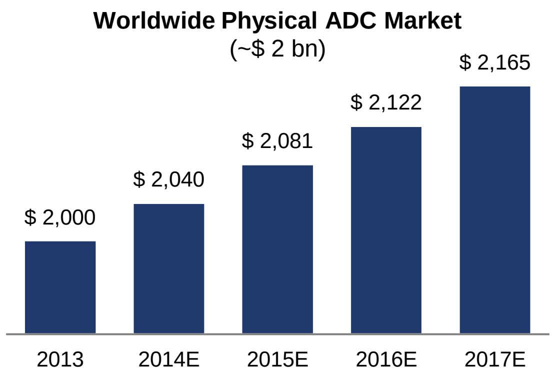
As enterprises have consolidated their IT services and applications into data centers and centralized IT organizations, there has been a growing need for a more reliable WAN connection between the central sites and branch offices. However, the demand for increased WAN optimization has been curtailed due to overall macroeconomic slowdown. Growth in the physical WAN optimization controllers (WOC) market is slated to remain stagnant or potentially decline in forecasted years as well as it has become a relatively mature market in the last 2-3 years. The market has a predicted 2013-17 CAGR of 0.5% with future sales impacted by significant price-based competition. With improving economic conditions, however, there is a possibility that the WAN optimization market will resume growth, potentially reaching a CAGR of 5.2% in 2014.

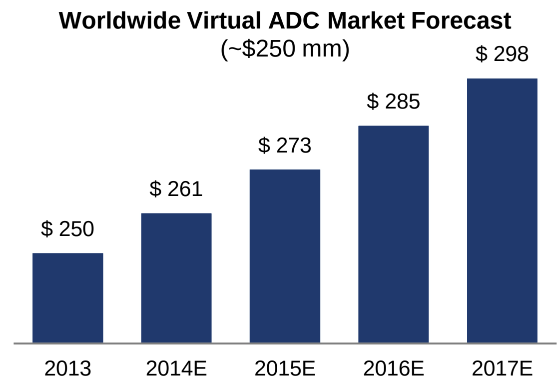
Application Acceleration Market Seeing Shift Given Growing Demand for Virtual Solutions

The transition from physical appliance to virtual appliance in both ADC and WOC will more than double sales through 2018, creating market opportunity for application acceleration equipment. By 2015, 95% of enterprise data centers will use at least one virtual appliance for networking and security services, this uptick coming as other segments' growth decline or become flat. This trend is likely to accelerate given advances in general purpose computing power and benefits that virtualization brings to network services such as easy and flexible placements in the network and alternative app-store based solution and service delivery model. Spending on application acceleration equipment declined by 5.9% in 2013 due to a drop in physical WOC sales. However, given the predicted transition to virtual ADC and WOC solutions, growth is expected to return to CAGR of 4.2% through 2018, with most of future growth driven by ADC sales.









Sources: Company filings, Morgan Stanley Research, The Buckingham Research Group Research Report, Gartner "Forecast Analysis: Enterprise Network Equipment, Worldwide, 1Q 14 Update"

Elliot Management Background

Elliott Management is a hedge fund founded in 1977. It is one of the largest funds, managing up to $8.5 bn in assets, and has offices in the US, England and Hong Kong. Elliott uses a generalist approach to research its portfolio structure – it uses both top-down and bottom-up approaches, emphasizing fundamental analysis in selecting investment opportunities.

In recent years, Elliot has become known for its activist position in a number of high-profile companies. As an activist fund, Elliott looks to secure minority stakes in distressed or underperforming companies in an attempt to influence strategic and operating decisions that improve market performance. As of June 2014, Elliott is actively invested in companies including Hess Corporation (5.6% stake), Kabel Deustchland (13.5%), Juniper Networks (8.3%), Emulex (6.4%), Hittite (9.2%) and Compuware (9.6%), among others.

Elliott also invests in emerging markets, derivatives and private placements using a variety of hedges that range from, but are not confined to, event driven styles, such as risk arbitrage and distressed securities, to market-neutral styles like short-selling and convertible arbitrage.

Examples of Elliott Management's Campaigns

	Elliott's Demands	Tactics	Company's Response	Outcome
Actelion	■ Removal of CEO and other directors ■ Shareholder election of chairman ■ Form a special committee to explore strategic options including a sale ■ Board representation ■ Remove corporate governance protections	■ Proxy fight ■ Personal attack on CEO ■ White paper ■ Enlist former executives of Actelion ■ Discussions with shareholders	■ Public letters to Elliott that outlined the Board's independent structure, extensive expertise and high corporate governance standards ■ Published white paper with detailed information on the Board and its corporate governance approach ■ Added two outstanding new directors and a new chairman	■ Shareholders elected the entire company slate of directors and rejected all of Elliott's proposals ■ Elliott sold out of its position
Epicor	■ Explore strategic alternatives ■ Offer for company	■ 13D filing ■ Tender offer	■ Epicor rejected Elliott's offer ■ Standstill agreement reached where Epicor increased the Board size and appointed two of Elliott's nominees	■ Elliott terminated the offer after extending the deadline twice ■ Epicor was later acquired by Apax Partners
National Express	■ Sale of company ■ Board representation	■ Acquired 19% of company ■ Press releases ■ Nominated 3 directors to the board ■ Letter to shareholders	■ Extensive road show led by management ■ White paper	■ Elliott lost proxy fight (no seats), and management negotiated a standstill to provide a graceful exit (whereby a mutually agreeable director would be added to the board)
Novell	■ Bid for company	■ 13D filing ■ Bid by Elliott to acquire company	■ Announced review of strategic alternatives ■ Non-disclosure agreement with Elliott, with a standstill provision for a period of 60 days	■ Novell agreed to be acquired by Attachmate Corporation for $2.2 bn

Sources: FactSet, Public sources

Summary of Riverbed Press Releases

- **28-Oct-2013**: Riverbed announced its fiscal third quarter 2013 results, reflecting positive year-on-year revenue growth.
- **Nov-2013 – Jan-2014**: Prior to the receipt of Elliott's proposal, Riverbed and representatives of its financial advisor received six unsolicited inbound inquiries from private equity firms, including Thoma Bravo, soliciting Riverbed's interest in an acquisition transaction. Based on the Board of Directors' determination to proceed with management's standalone operating plan, however, Riverbed's Board of Directors determined that Riverbed should not engage in substantive discussions with any of the parties at such time.
- **15-Jan-2014**: Riverbed issued a press release announcing that it was rejecting Elliott's $19.00 per share proposal. The Company also released on the same day preliminary financial results indicating that fourth quarter 2013 revenue and earnings were expected to exceed previously announced guidance.
- **29-Apr-2014**: Riverbed issued its earnings release for the first quarter of 2014, reporting positive revenue growth, with non-GAAP revenue up 5% from the corresponding quarter of 2013 and meeting prior Riverbed guidance.

- **14-Jul-2014**: Riverbed announced preliminary second quarter 2014 financial results, which reflected lower revenue results in relation to previously announced guidance, principally due to longer-than-expected sales cycles.
- **24-Jul-2014**: Riverbed announced financial results for the second quarter of 2014. Although the second quarter revenue results fell short of expectations, management remained confident in the Company's standalone operating plan.

Research Commentary

Analyst Price Targets:

Broker	Date	Rating	Target Price	Valuation Methodology
BMO Capital Markets	25-Jul-14	Hold	$20	P / E
Cowen and Company	25-Jul-14	Hold	$19	P / E
Deustche Bank	24-Jul-14	Hold	$16	P / E
FBN Securities	27-Jul-14	Hold	$21	NA
Janney Capital Markets	25-Jul-14	Buy	$21	P / E
Jefferies	24-Jul-14	Hold	$17	P / E
JMP Securities	25-Jul-14	Hold	NA	P / E
MKM Partners	25-Jul-14	Hold	$21	P / E
Morgan Stanley	24-Jul-14	Hold	NA	P / E
Piper Jaffray	24-Jul-14	Hold	$20	P / E
RBC Capital Markets	25-Jul-14	Hold	$20	P / E
Stephens Inc.	25-Jul-14	Hold	$20	P / E
Sterne Agee	25-Jul-14	Hold	$19	P / E
UBS	24-Jul-14	Hold	$20	P / E
William Blair	25-Jul-14	Buy	NA	P / E
Wunderlich Securities	25-Jul-14	Hold	$20	P / E
Median			**$20**	

Analyst Commentary:

- "We look for activist investor Elliott to remain highly engaged, and for management to quietly explore alternatives while holding them at bay. A transformational change to the go-to-market process or becoming part of a larger organization may be needed to deliver on the promise of the strong product portfolio." – *Janney Capital Markets*
- "We would expect that execution pressure on Riverbed is likely to mount through 2H14, particularly as Elliott has recently reiterated its $21/share offer for the company. The company has struggled with execution post OPNET acquisition…" – *Morgan Stanley*
- "While we were encouraged by management's guidance for robust sequential growth, we are concerned the company will continue to struggle with sales execution and a decelerating core market." – *JMP Securities*
- "We believe valuation will continue to be driven more by the potential for an acquisition of the Company as meaningful market and execution risk remain…Following this weak performance, we believe that it is now more likely that the Board will begin soliciting bids or begin a serious dialogue with Elliot Management…" – *Stephens Inc.*
- "Revenue slippage is attributed to lengthier-than-anticipated cycles for complex sales, especially those involving network and application performance management." – *Wunderlich*

Your Role

Riverbed has asked your Goldman Sachs team to evaluate strategic alternatives, which requires you to develop your views on the current and potential future valuation of the company, industry positioning and potential sale of company to Elliott Management or other potential acquirers. You will present your preliminary considerations and conclusions at Riverbed's upcoming Board meeting. Your Managing Director has asked your team to put together a short presentation addressing the following questions in your presentation:

- **Valuation:**
  - — What is the potential fair value of Riverbed?
    - – We suggest you use Discounted Cash Flow, Comparable Company multiples and comparable M&A transactions valuation methodologies
    - – For the DCF analysis, we suggest that you attempt to evaluate potential performance of the Company beyond the projection period (for example, consider a 5-year DCF) and how performance over the period may impact your views on value
  - — Describe key assumptions and methodologies used to determine the value of Riverbed

- **Potential Sale:**
  - — Do you believe now is a good time to consider selling Riverbed?
  - — Who are the best potential acquirers? Consider both strategic acquirers and financial sponsors
  - — What can these potential acquirers pay for the Company? What would that imply for their returns on investment?

- **Positioning:**
  - — What are Riverbed's strengths relative to its peers?
  - — What are potential concerns the Board should have in considering a sale process for the company now?

- **Recommendation:**
  - — Should Riverbed consider selling the company? Why or why not?
  - — What do you believe is a fair valuation for Riverbed?
  - — What are your suggested next steps for the Board of Directors?

Judging Criteria for the Case Analysis

PLEASE NOTE THAT THERE IS NO SINGLE "CORRECT" ANSWER AND THAT YOU WILL NOT BE JUDGED VERSUS WHAT ACTUALLY HAPPENED, GIVEN THAT THE FACTS AND ASSUMPTIONS **MAY HAVE BEEN CHANGED** FROM WHAT REALLY OCCURRED. THE CRITERIA USED BY THE JUDGES WILL INCLUDE:

- Quantitative and qualitative analyses supporting your recommendation
- Judgment of the current situation and overall thought process
- Presentation skills (written and oral), including the ability to succinctly present analysis
- Breadth of knowledge (each team member should understand all aspects of the case)
- Teamwork and creativity

Note: Any financial data obtained from outside sources will not be applicable. Any publicly available information should only be used to gain an understanding of the Company and the industry in which it operates.

Riverbed Case Exhibits

Goldman Sachs

Riverbed Non-GAAP Historical and Projected Financials

Income Statement

($ in millions, except per share data)

	Fiscal Year Ending December 31				
	2012A	2013A	2014E	2015E	2016E
Revenue	$ 840	$ 1,057	$ 1,134	$ 1,230	$ 1,296
Cost of Goods Sold	180	223	239	264	283
Non-GAAP Gross Profit	**$ 660**	**$ 835**	**$ 896**	**$ 966**	**$ 1,013**
Sales and Marketing	$ 281	$ 371	$ 390	$ 417	$ 426
Research and Development	115	163	174	175	175
General and Administrative	43	58	58	63	67
Non-GAAP Operating Income	**$ 221**	**$ 243**	**$ 273**	**$ 312**	**$ 346**
Interest Income	$ 2	$ 1	$ 1	$ 1	$ 2
Interest Expense	1	24	12	11	11
Other Income (Expense)	0	0	(0)	-	-
Non-GAAP Pre-Tax Income	**$ 222**	**$ 220**	**$ 263**	**$ 302**	**$ 336**
Income Tax	$ 59	$ 51	$ 69	$ 78	$ 87
Non-GAAP Net Income	**$ 163**	**$ 169**	**$ 194**	**$ 223**	**$ 249**
After-Tax Stock-Based Compensation (SBC)	$ 93	$ 93	$ 88	$ 88	$ 88
Non-GAAP Net Income (Incl. SBC)	71	77	106	135	161
After-Tax Non-Recurring Income (Expense)	16	89	48	38	29
GAAP Net Income	**$ 55**	**$(12)**	**$ 57**	**$ 98**	**$ 131**
Fully Diluted Shares	165	168	165	167	169
Non-GAAP Diluted EPS	**$ 0.99**	**$ 1.01**	**$ 1.17**	**$ 1.34**	**$ 1.47**
Non-GAAP Diluted EPS (Incl. SBC)	**$ 0.43**	**$ 0.46**	**$ 0.64**	**$ 0.81**	**$ 0.95**
GAAP Diluted EPS	**$ 0.33**	**$(0.07)**	**$ 0.35**	**$ 0.58**	**$ 0.78**

Source: Company filings and Morgan Stanley Research

Riverbed Historical and Projected GAAP Financials

Balance Sheet

($ in millions, except per share data)

	Fiscal Year Ending December 31		
	2013A	2014E	2015E
Cash and Cash Equivalents	$ 208	$ 153	$ 423
Short-Term Investments	251	207	207
Trade Receivables	94	130	133
Inventory	25	21	22
Deferred Tax Assets	7	17	17
Prepaid Expenses and Other Current Assets	49	19	19
Total Current Assets	**$ 634**	**$ 546**	**$ 822**
Long-Term Investments	$ 73	$ 95	$ 95
Fixed Assets, Net	58	76	77
Goodwill	704	704	704
Intangible Assets	405	319	237
Deferred Tax Assets, Non-Current	0	-	-
Other Assets	24	21	21
Total Assets	**$ 1,898**	**$ 1,762**	**$ 1,956**
Current Debt	$ 15	$ 15	$ 15
Accounts Payable	46	49	52
Accrued Liabilities	37	28	29
Accrued Compensation and Benefits	52	-	-
Deferred Revenue	217	69	71
Total Current Liabilities	**$ 366**	**$ 161**	**$ 166**
Long-Term Debt	$ 510	$ 410	$ 410
Accrued Compensation and Benefits	-	92	92
Deferred Revenue, Non-Current	95	88	88
Other Non-Current Liabilities	97	94	94
Total Liabilities	**$ 1,069**	**$ 845**	**$ 850**
Total Shareholder's Equity	**$ 829**	**$ 917**	**$ 1,105**
Total Liabilities and Shareholder's Equity	**$ 1,898**	**$ 1,762**	**$ 1,956**

Source: Company filings and Morgan Stanley Research

Riverbed Historical and Projected GAAP Financials

Cash Flow Statement

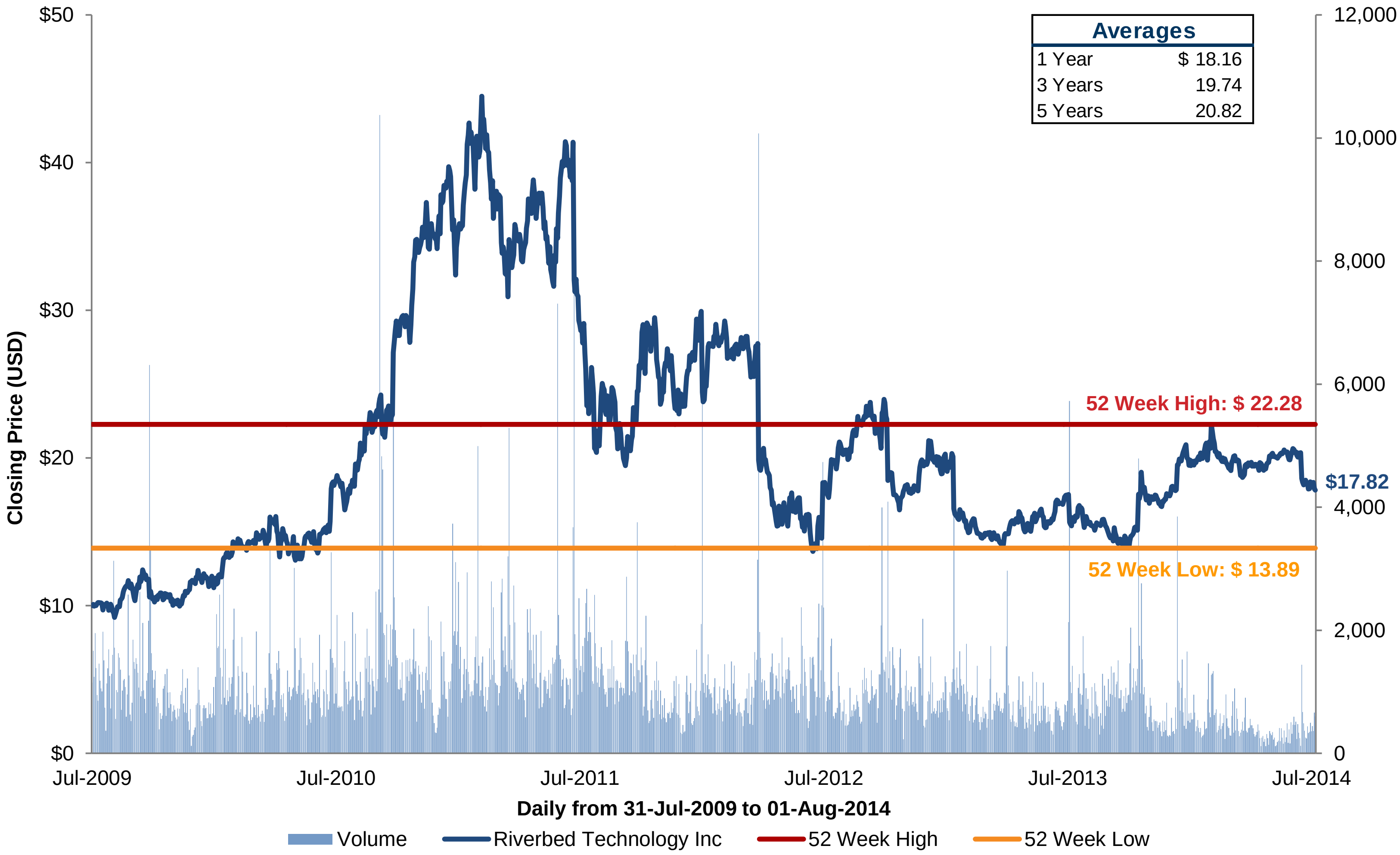
($ in millions, except per share data)

	Fiscal Year Ending December 31				
	2012A	2013A	2014E	2015E	2016E
Net Income	$ 55	$(12)	$ 57	$ 98	$ 131
Depreciation and Amortization	40	126	116	117	109
Stock-Based Compensation	89	91	89	91	91
Write-Off of Deferred Debt Issuance Costs	-	12	-	-	-
Deferred Taxes	6	(55)	(16)	-	-
Excess Tax Benefit From Employee Stock Plans	(24)	(9)	(5)	-	-
Other Non-Cash Items	-	2	-	-	-
Changes in Working Capital					
Trade Receivables	(13)	19	(36)	(4)	(8)
Inventory	(6)	(1)	4	(1)	(2)
Prepaid Expenses and Other Assets	8	6	33	(1)	(1)
Accounts Payable	5	(11)	3	2	4
Accrued and Other Liabilities	(15)	10	(59)	1	2
Acquisition-related Contingent Consideration	(16)	-	-	-	-
Income Taxes Payable	20	(3)	2	-	-
Deferred Revenue	91	42	(156)	2	4
Cash Flow from Operations (CFO)	**$ 239**	**$ 217**	**$ 34**	**$ 305**	**$ 331**
Capital Expenditures	(22)	(26)	(49)	(35)	(37)
Purchases of AFS Investments	(445)	(401)	(171)	-	-
Proceeds from maturities of AFS securities	344	300	166	-	-
Proceeds from sales of AFS securities	258	24	25	-	-
Acquisitions, Net of Cash and Cash Eq. Acquired	(790)	(1)	-	-	-
Cash Flow from Investing (CFI)	**$(654)**	**$(104)**	**$(28)**	**$(35)**	**$(37)**
Issuance of Common Stock under Employee Stock	48	73	49	-	-
Taxes Paid related to Net Shares Settlement of Equity Awards	(27)	(15)	(8)	-	-
Payments and Proceeds from Debt	560	(54)	(100)	-	-
Payments for Repurchases of Common Stock	(127)	(200)	(8)	-	-
Tax Benefits from Stock-Based Compensation	24	9	5	-	-
Cash Flow from Financing (CFF)	**$ 477**	**$(188)**	**$(62)**	**-**	**-**
Foreign Exchange Effects	3	2	(0)	0	-
Net Increase (Decrease) in Cash	65	(72)	(56)	270	294
Cash at Beginning of Period	216	281	208	153	423
Cash at End of Period	**$ 281**	**$ 208**	**$ 153**	**$ 423**	**$ 717**

Source: Company filings and Morgan Stanley Research

Riverbed's Historical Stock Price Performance

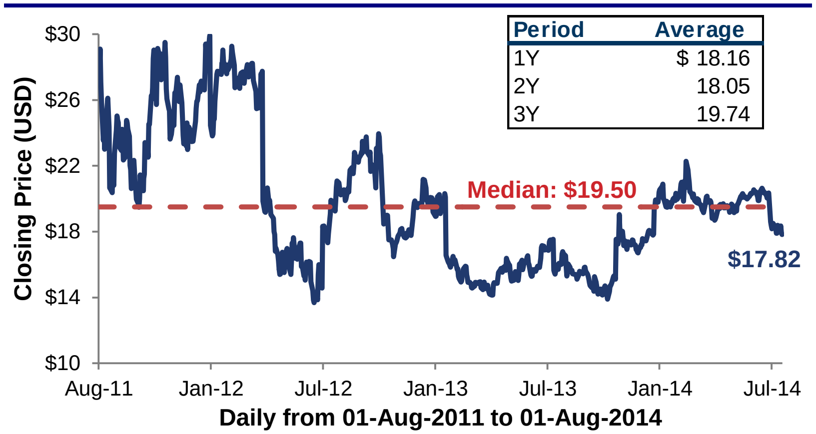
Since 2009



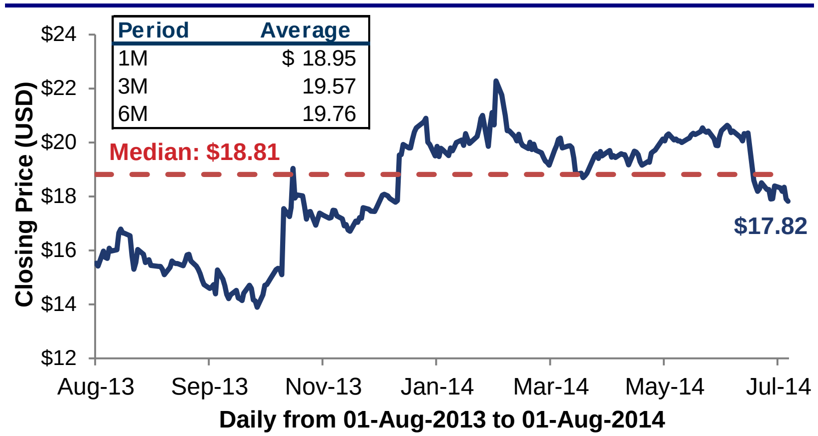
Data provided in this case is for educational purposes only and does not represent actual projections

Riverbed's Share Price Performance and Trading Activity

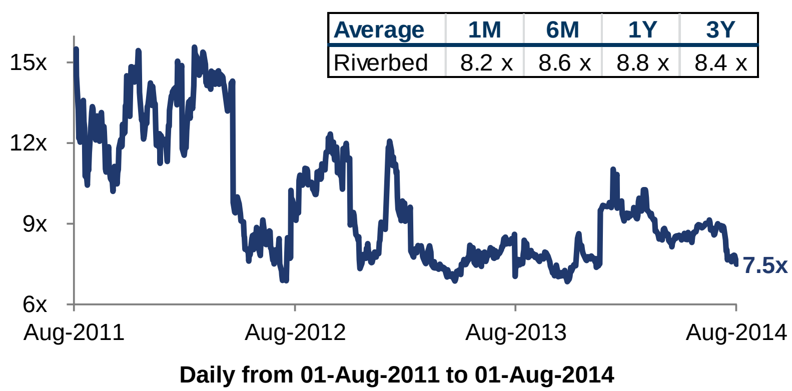
Share Price Performance
Last 3 years



Share Price Performance
LTM



Next Twelve Months EV / EBITDA Multiple
Last 3 Years

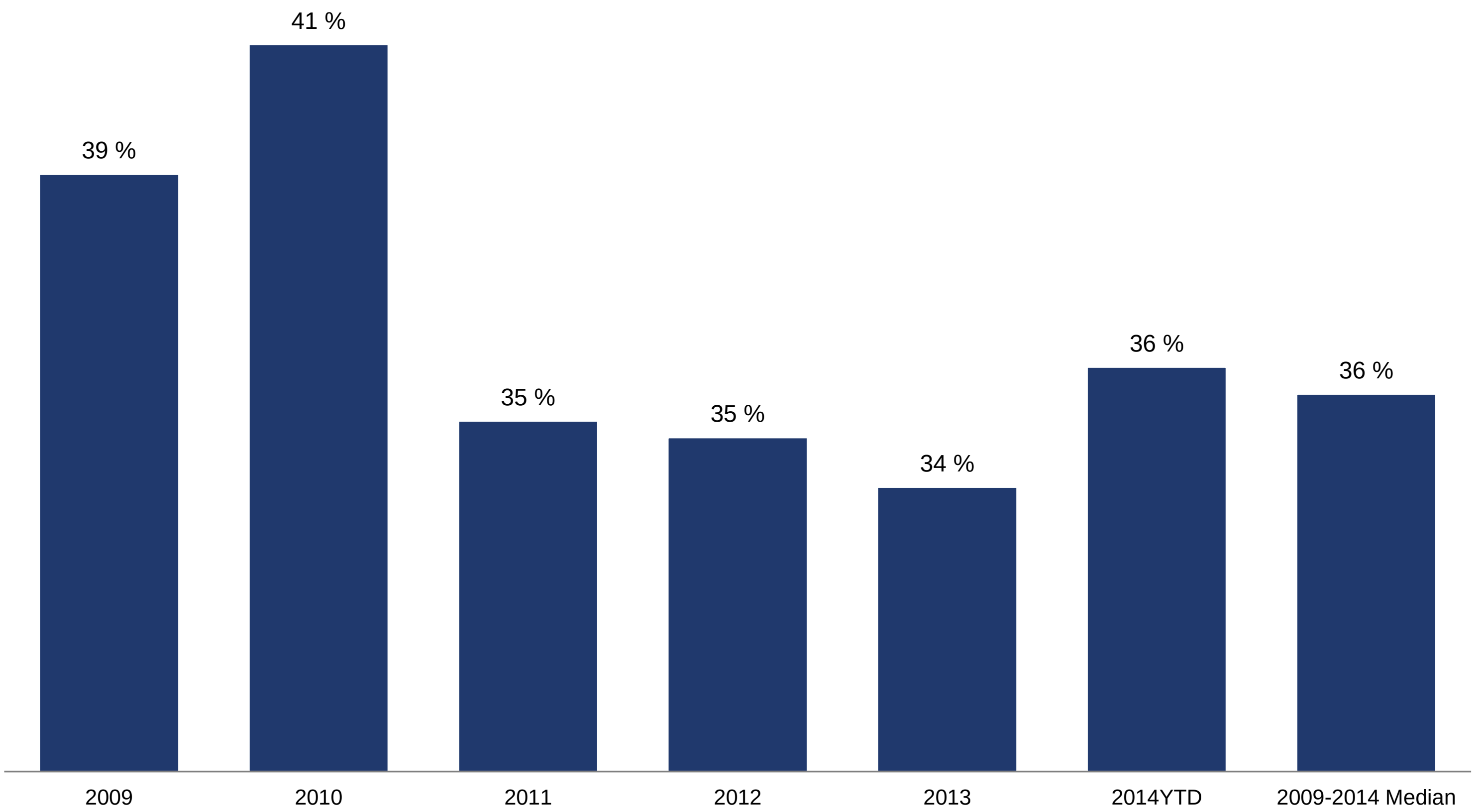


Next Twelve Months P / E Multiple
Last 3 Years

Source: Thomson Reuters, Dealogic

Acquisition Premia in US Technology M&A

Cash Deals Only | US Targets | Year-to-Date



Source: Thomson SDC as of 01-Aug-2014

Note: Reflects the premium relative to the target's stock price 1-day prior to announcement. Excludes transactions with premiums in excess of 150% or less than (50)%. Technology M&A deals based on SDC screen which includes: (i) target and/or acquiror Mid-Industry of Computers & Peripherals, eCommerce, Electronics, Internet Infrastructure, Internet, Internet Software & Services, IT Consulting, Other high tech, Semiconductors, Software and Telecom Equipment; (ii) target and/or acquiror NAIC codes for the Semiconductors industry; (iii) rank value of $500mm or higher; (iv) deals with undisclosed value when one of GS, MS, JPM, CS, DB, BarCap, QP, BAML, Centerview, Citi, Lazard, UBS, Jefferies, or Allen & Co advised. SDC screen excludes share buybacks and acquisitions of partial interest if the percentage of shares owned after the transaction is below 50%.

Comparison of Selected Companies

($ in millions, except per share data)

Company	Closing Price 1-Aug-2014	% of 52 Week High	Adjusted Equity Market Cap (1)	Adjusted Enterprise Value (1)	Enterprise Value Multiples (2) Sales 2014	Sales 2015	EBITDA 2014	EBITDA 2015	Calendarized P/E Multiples (2) 2014	2015	'14-'15 Revenue Growth	5-Year EPS CAGR (2)	2015 PE/5-Year EPS CAGR	LTM Margins (1) EBITDA	EBIT
Riverbed	$ 17.82	80 %	$ 3,020	$ 3,018	2.7 x	2.5 x	7.7 x	7.0 x	15.2 x	13.3 x	8.4 %	NA	NA	6.6 %	5.6 %
A10 Networks	$ 11.46	69 %	$ 750	$ 628	3.3 x	2.7 x	NM	NM	NM	NM	22.0 %	25.0 %	NA	(1.0)%	(6.0)%
Akamai	57.09	90	10,162	9,433	4.9	4.2	11.4	9.7	24.9	21.2	16.7	15.0	1.4	35.5	26.5
Brocade	9.07	83	4,127	3,587	1.6	1.6	5.6	5.6	10.7	10.3	1.7	5.0	2.1	25.5	18.6
Check Point Software	66.59	95	13,093	9,463	6.4	6.1	11.0	10.5	18.3	16.8	5.7	6.6	2.6	55.4	54.6
Cisco	25.00	94	132,562	103,002	2.2	2.1	6.6	6.5	12.0	11.4	4.3	10.0	1.1	27.7	22.6
Citrix (3)	67.40	87	9,544	9,227	2.9	2.7	9.5	8.7	21.7	18.4	9.1	14.0	1.3	22.7	13.6
Extreme Networks	4.59	56	446	463	0.8	0.7	9.1	7.1	13.9	9.1	14.1	15.0	0.6	4.6	(0.2)
F5 Networks	112.20	95	8,349	7,184	4.1	3.6	10.5	9.3	20.4	17.5	12.3	15.0	1.2	30.7	28.2
Fortinet	24.18	92	4,228	3,340	4.7	4.1	23.7	19.7	48.4	40.3	13.0	17.7	2.3	13.0	10.6
Juniper Networks (4)	23.27	81	11,515	9,311	1.9	1.8	7.2	6.2	14.4	11.5	5.3	12.0	1.0	17.0	13.3
Palo Alto Networks (5)	78.67	92	7,037	7,140	10.8	8.1	NM	48.1	NM	NM	32.2	40.1	2.2	(5.0)	(7.7)
Polycom	12.45	89	1,703	1,308	1.0	0.9	6.3	5.8	16.4	14.8	2.9	15.0	1.0	10.4	4.5
Radware	16.26	83	772	486	2.3	2.0	11.8	9.3	21.1	16.4	9.9	18.4	0.9	15.4	11.2
	High	95 %			10.8 x	8.1 x	23.7 x	48.1 x	48.4 x	40.3 x	32.2 %	40.1 %	2.6 x	55.4 %	54.6 %
	Mean	85			3.6	3.1	10.2	12.2	20.2	17.1	11.5	16.1	1.5	19.4	14.6
	Median	89			2.9	2.7	9.5	9.0	18.3	16.4	9.9	15.0	1.2	17.0	13.3
	Low	56			0.8	0.7	5.6	5.6	10.7	9.1	1.7	5.0	0.6	(5.0)	(7.7)

Note: Riverbed financials are based on publicly available financial statements and Morgan Stanley Research.

(1) Source: Latest publicly available financial statements. Equity Market Cap based on diluted shares outstanding

(2) Source: LTM numbers are based on latest publicly available financial statements. Projected revenues, EBITDA, EBIT, and EPS are based on IBES median estimates and/or other Wall Street research. All research estimates have been calendarized to December

(3) Pro-Forma of $1.25 bn of 0.500% Convertible Senior Notes Offering on 20-Apr-2014 and subsequent purchase of $1.50 bn in common stock

(4) Pro-Forma of $175 mm Patent Litigation Settlement between Juniper and Palo Alto Networks on 28-May-2014

(5) Pro-Forma of $175 mm Patent Litigation Settlement between Juniper and Palo Alto Networks on 28-May-2014. Pro-Forma of $575 mm of 0% Convertible Senior Notes Offering on 01-Jul-2014

Selected Precedent Public Company Transactions

Last 5 Years
($ in millions)

				Levered Multiple of:		Equity Multiple of:		Premium
Date of Announcement	Acquirer	Target	Enterprise Value	LTM Sales	Forward Sales	LTM Net Income	Forward Net Income	Prior to Announcement
6/23/2014	Oracle Corp	MICROS Systems	$ 4,672	3.5 x	3.2 x	31.7 x	25.7 x	3.4 %
6/16/2014	SanDisk Corp	Fusion-io	1,290	2.8	2.6	NM	NM	22.4 %
7/23/2013	Cisco	Sourcefire	2,700	10.9	6.4	NM	NM	28.2 %
2/4/2013	Oracle	Acme Packet	2,004	6.0	5.8	NM	71.3	22.0 %
12/10/2012	Honeywell	Intermec, Inc.	603	0.7	0.7	NM	NM	31.4 %
10/29/2012	Riverbed Technology	OPNET Technologies	921	5.0	4.1	59.3	33.7	34.3 %
7/31/2012	Cisco Systems	NDS Group	5,022	5.0	NA	98.5	NA	37.4 %
12/9/2011	Thoma Bravo	Blue Coat Systems	1,279	2.0	1.9	NA	27.8	44.8 %
8/15/2011	Google	Motorola Mobility	12,033	0.7	0.6	NA	42.7	85.8 %
10/28/2010	The Carlyle Group	Syniverse Holdings	2,177	4.2	3.9	27.0	15.6	32.4 %
10/26/2010	The Carlyle Group	CommScope, Inc.	4,460	1.2	1.4	27.8	16.4	42.1 %
9/16/2010	Calix	Occam Networks	163	1.4	1.2	NA	35.1	74.4 %
11/11/2009	Hewlett-Packard	3Com	3,401	2.7	2.7	73.7	22.6	48.5 %
10/13/2009	Cisco	Starent	2,114	7.3	6.6	32.5	34.6	25.1 %
High				10.9 x	6.6 x	98.5 x	71.3 x	85.8 %
Mean				3.8	3.2	50.1	32.5	38.0 %
Median				3.1	2.7	32.5	30.7	33.4 %
Low				0.7	0.6	27.0	15.6	3.4 %

Additional Information
Formulas and Assumptions

- **Multiples Analysis**
  - Revenue Multiple = Enterprise Value (also known Levered Market Cap) / Forward Revenue Estimate
    - Enterprise Value = Equity Market Cap + Debt - Cash
  - EBITDA Multiple = Enterprise Value / Forward EBITDA Estimate
  - P/E Multiple = Stock Price / Forward Earnings Estimates Per Share
  - PEG Ratio = (P/E Multiple / 5 year EPS growth rate)
  - These metrics should be calculated based on forward estimates
- **Discounted Cash Flow Analysis**
  - Free Cash Flow = Operating Profit * (1 – Tax Rate) + Non-Cash Expenses – Capital Expenditures – Increase in Working Capital
  - Terminal Value may be calculated by one of the following two methods:
    - Perpetuity Growth Method: (Final Year Free Cash Flow * (1 + g) / (WACC – g)) / (1 + WACC)^(year of final cash flow)
      - g is the growth rate you expect the business to grow at once it reaches steady state growth
    - Exit Multiple Method: (1-year forward EBITDA * 1-year forward EBITDA Multiple) / (1 + WACC)^(year of final cash flow)
  - WACC = (Debt / (Debt + Equity)) * (1 – Tax Rate) * Cost of Debt + (Equity / (Debt + Equity)) * Cost of Equity
  - Cost of Equity = Risk-free Rate + Equity Beta * (Equity Risk Premium – Risk-free Rate)
  - Both Free Cash Flows and the Terminal Value need to be discounted using WACC to arrive at present value of future cash flows
    - PV of Future Free Cash Flows = ∑ [Future Free Cash Flow / (1+WACC)^(year of Future FCF)]
  - Equity Beta = Asset Beta * (1 + Debt / Equity * (1 – Tax Rate))
- **Assumptions**
  - Effective Tax Rate: 25%, US Statutory Tax Rate: 35%
  - Risk-free Rate (US 20-Yr Treasury Yield): 2.94%
  - Pre-Tax Cost of Debt: 5.50%
  - Interest on Cash: 0.50%
  - US Historical Equity Risk Premium: 7.00%
  - Max Leverage (Debt/EBITDA) in a Sponsor Buyout: 7.5x, Interest Rate: 7.00%
  - Suggested Target Capital Structure: 20% Equity, 80% Debt