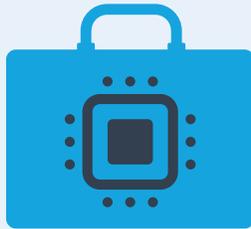


PErspective in TECHNOLOGY – HARDWARE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE TECHNOLOGY INDUSTRY.

Dealmaking in the hardware sector has been very robust this year, driven by market pressures to improve profit margins and efforts to create efficiencies of scale.



Nowhere has this been seen more than in the semiconductor space, which has given rise to some of the biggest deals of 2015 – including Avago's \$37 billion acquisition of Broadcom, the largest-ever merger of chipmakers.

The recent semiconductor M&A boom is providing exit opportunities for PE firms. In a partial exit, Freescale Semiconductor's PE owners agreed to sell their majority stake to Dutch chipmaker NXP Semiconductors NV in a \$11.8 billion cash-and-stock deal. Freescale's PE owners – which include Carlyle Group, TPG Group Holdings and Blackstone Group – recouped their investment, as the shares were sold at close to the price it cost them to buy the company eight years ago. After the transaction was completed in July, Freescale shareholders retained 32 percent ownership.

When it comes to startups, companies tend to enjoy larger exits than those in other sectors. CB Insights analyzed technology deals between Q1 2010 and Q1 2015 and found that the median hardware exit was valued at \$224 million – around twice the valuation seen in the mobile and Internet sectors. Notable deals during that period included the \$2.7 billion IPO of Arista Networks and GoPro's \$2.96 billion IPO, the largest consumer hardware IPO in 23 years. Meanwhile Chinese smartphone maker Xiaomi, founded just five years ago in 2010, is aiming to become the world's most valuable private hardware company with a valuation of \$40 billion or higher.

Among the larger industry players, growing pressure from shareholder activists is driving exit activity. Data storage leader EMC, for example, is reviewing its strategic options in an effort to stabilize its

plummeting stock due to activist influence. The activist fund Elliott Management, which supplanted two board members earlier in the year, is pressuring EMC to consider a buyout by its own subsidiary VMWare in a downstream merger. Elliott argues the unconventional buyout would reduce combined operational costs and revitalize EMC's undervalued stock. Industry insiders suggest investors would also be appeased by a PE buyout of the EMC Federation, as the combined entities are known.

But savvy hardware firms are seeking creative growth opportunities of their own volition. In the era of Big Data, hardware firms are expanding into complementary sectors. IBM is targeting the healthcare industry, recently announcing plans to acquire medical imaging company Merge Healthcare in a \$1 billion transaction, with the goal of using its supercomputer Watson to visualize complex medical data and information. This deal is part of the Watson Health Initiative launched in April, and marks the firm's third acquisition to further this effort, according to a Forbes report.

Sources: Bloomberg, Re/code, ValueWalk, CB Insights, Forbes

PErspective in Hardware is a feature examining the role of private equity in the hardware industry.



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