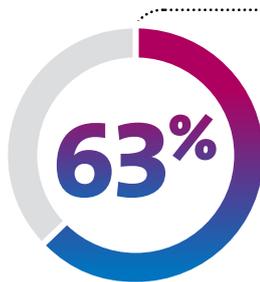


Data-Driven Business

Dealing with Data: emerging trends in M&A transactions



of US companies believe their data could eventually be as valuable as their existing products and services¹

Over the past 18 months we've seen data play an increasing role in M&A, and the recurring theme is one of opportunity and undervalued assets.

This explosion of activity naturally began with growing demand for data services and data-driven businesses, but now, data opportunities and risks are impacting the headline price, post-completion deal value and risk-allocation profile of M&A transactions in all sectors.

And yet, data remains one of the most undervalued assets, with most companies still failing to even include it as an asset on their balance sheet. Buyers and sellers who can recognise data assets and properly value them will be increasingly advantaged in future M&A transactions.

In this document we explore the emerging data trends and opportunities.

Then, in 'your M&A playbook', we offer tips to help in-house counsel and dealmakers navigate the data issues that arise in the context of mergers, acquisitions, demergers and investments to help maximise value in these transactions.

¹ Capgemini, Big & Fast Data: The Rise of Insight-Driven Business, (2015) 11
< https://www.capgemini.com/wp-content/uploads/2017/07/big_fast_data_the_rise_of_insight-driven_business-report.pdf >

➤ EMERGING OPPORTUNITIES

1 TECH SECTOR PREDICTED TO HAVE THE HIGHEST LEVEL OF M&A ACTIVITY OVER THE NEXT 12 MONTHS

In particular, we're seeing continued growth in M&A demand for data services businesses (i.e data-as-a-service businesses or businesses that enable access to data on demand). Momentum in this space shows no signs of slowing.

QUICK STATS AND FACTS

\$842 million - total value of deals struck in 2018 related to Australian fintech companies.²

\$77 billion - estimated value of the global big data industry by 2023.³

M&A ACTIVITY

- Equifax's acquisition of commercial lending and leasing solutions provider **Paynet** in April 2019 enabled access to Paynet's unique and valuable commercial leasing data assets. When combined with Equifax's own data, these data assets are expected to drive customer growth in the small-to-medium commercial space.
- Illion's 2018 acquisition of automated bank statement startup **Proviso** gave it access to the fintech's valuable data assets and enabled it to develop and launch 'Money Simple' – its free online budgeting tool.
- Woolworths' \$20 million acquisition of a 50% non-controlling interest in data analytics firm **Quantium** sought to enhance its customer insight services and develop more targeted offers to influence customers via 'one-to-one' personalisation.

2 DATA-DRIVEN DEALS ATTRACTING HUGE VALUATIONS

Even where the target is not a data services business, we're seeing enormous value being ascribed in situations where access to the target's data set is a key driver of the deal.

M&A ACTIVITY

- The 2018 acquisition of **Property Exchange Australia (PEXA)** for approximately \$1.6 billion by a consortium comprising Morgan Stanley Infrastructure Partners, Link Group and CBA.
- SAP's 2018 acquisition of tech unicorn **Qualtrics** (a customer experience survey company) for US\$8 billion – which was an astonishing 20 times revenue – equipped SAP with 1 billion records of user experience data that could be combined with operational data from 77% of the world's transactions touched by an SAP system.
- Amazon's US\$13.7 billion acquisition of **Whole Foods** was driven by Amazon's eagerness to acquire Whole Foods' customer behavioural data set – in particular, the grocery buying habits and patterns due to their frequency and consistency.
- Facebook's US\$1 billion acquisition of **Instagram** and Microsoft's US\$26 billion acquisition of **LinkedIn** were mocked at the time, given the companies had little to no revenue, but have since been described as a stroke of genius due to the data assets they gave access to.



² AFR, 'Australian tech sector gets \$326m investment boost from international giants' (26 Feb 2019), < <https://www.afr.com/technology/australian-tech-sector-gets-326m-investment-boost-from-international-giants-20190224-h1bnso> >

³ Balkhi S, 'How Companies Are Using Big Data to Boost Sales, and How You Can Do the Same', (18 January 2019) < <https://www.entrepreneur.com/article/325923> >

3 HIDDEN VALUE: INCREASING FOCUS ON THE DATA RICH ASSETS OF NON-DATA BUSINESSES

By 2020, it's predicted 10% of all organisations will have a highly profitable business unit specifically for monetizing information.⁴



Increasing value is also being attributed by buyers to the data rich assets of businesses that have not traditionally been seen as technology or data services businesses (eg healthcare services businesses). This is a shift from the historic focus on the traditional revenue streams of those businesses. As a result, we're also seeing complex negotiations over ongoing data sharing arrangements to allow cross-marketing of products between the divested and retained businesses which go directly to deal value.

And this really does affect every sector for the simple reason that technology and data now play such an important role for all companies. This is not just true of consumer-facing businesses that handle large volumes of personal information, but also organisations with trade secrets and other confidential information.

'THIS REALLY DOES AFFECT EVERY SECTOR FOR THE SIMPLE REASON THAT TECHNOLOGY AND DATA NOW PLAY SUCH AN IMPORTANT ROLE FOR ALL COMPANIES'.

M&A ACTIVITY

- First State Super was awarded a \$2.9bn, 40-year concession to operate **Victorian Land Registry Services** and to manage the c.800,000 property dealings performed annually in the State. The granting of the concession to a private operator is intended to result in new innovations in the way in which land registry services (and associated data products) are provided to the market.
- PEP's \$211 million purchase of medical devices manufacturer **LifeHealthcare** and Navis Capital's \$700 million acquisition of medical devices supplier **Device Technologies**.

4 THE NEXT BIG WAVE OF INFRASTRUCTURE INVESTMENT: CORE-PLUS ASSET DEALS SET TO EXPLODE

The exponential growth in data consumption has, in turn, effected an upsurge in core+ asset deals that offer stable, long-term returns. As traditional 'core' infrastructure assets have become scarcer (eg roads and ports), we have seen an increase in institutional investors looking at 'core+' or 'infrastructure-like' opportunities. This means an increased demand for:

- connectivity infrastructure such as high-bandwidth, interactive and online services (including advanced technologies like 5G);
- cellular towers;
- smart metering; and
- data centres and innovative data storage services.



increase in the volume of transactions in the European infrastructure market since 2013, driven largely by growth in the core+ market.⁵

M&A ACTIVITY

- In February 2019, three large international tech companies (**Equinix**, **Cisco** and **Zoho**) announced investments totalling \$326 million into Australia to meet the infrastructure needs that come with growing digitisation and data collection.⁶
- PEP-backed **IntelliHub's purchase of Origin Energy's smart metering business** for \$267 million in 2018.
- In 2018, Macquarie Infrastructure and Real Assets acquired the **Crown Castle Australia** business – the largest independent tower operator in Australia (boasting approx. 1800 sites) – for \$2 billion.
- Brookfield – a long term specialist infrastructure investor – has recently increased its attention towards data-related assets, paying approximately \$250 million for **DCI data centres** in Australia, Asia and the US, acquiring **AT&T data centres** in the US for \$1.5 billion and working in partnership with Infratil to acquire Vodafone New Zealand for NZ\$3.4 billion.

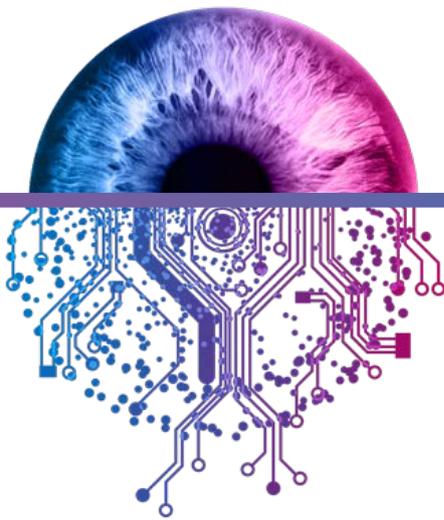
4 Gartner CDO Report, 'Third Gartner CDO Survey – How Chief Data Officers Are Driving Business Impact', (30 November 2017)

5 Linklaters, 'Opportunity Plus: 2019 edition', 6

6 AFR – 'Australian tech sector gets \$326m investment boost from international giants' (26 February 2019)

➤ NAVIGATING THE RISKS

For all the M&A activity and opportunities in this space, there are also a number of unique risks capable of causing significant value erosion. For our tips on how to navigate these data issues and maximise transaction value, read *Dealing in data: Your M&A Playbook*.



CONTACTS



Gavin Smith
Partner, Head of Technology,
Media and Telecommunications
T +61 2 9230 4891
Gavin.Smith@allens.com.au



Valeska Bloch
Partner
T +61 2 9230 4030
Valeska.Bloch@allens.com.au



Michael Morris
Partner
T +61 7 3334 3279
Michael.Morris@allens.com.au



Michael Park
Partner
T +61 3 9613 8331
Michael.Park@allens.com.au



Ian McGill
Partner
T +61 2 9230 4893
Ian.McGill@allens.com.au



Mark Malinas
Partner
T +61 3 9613 8485
Mark.Malinas@allens.com.au



Jacqueline Downes
Partner
T +61 2 9230 4850
Jacqueline.Downes@allens.com.au



Chris Blane
Partner
T +61 2 9230 4298
Chris.Blane@allens.com.au



Phil O'Sullivan
Managing Associate
T +61 2 9230 4393
Phil.O'Sullivan@allens.com.au



David Rountree
Managing Associate
T +61 2 9230 4773
David.Rountree@allens.com.au



Jessica Mottau
Managing Associate
T +61 2 9230 4587
Jessica.Mottau@allens.com.au



Elyse Adams
Managing Associate
T +61 3 9613 8534
Elyse.Adams@allens.com.au



Dominic Anderson
Senior Associate
T +61 2 9230 4099
Dominic.Anderson@allens.com.au



David Mierendorff
Senior Associate
T +61 2 9230 4038
David.Mierendorff@allens.com.au