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Partner Nick Abrahams authors an article in The Australian Financial Review about recent trends in tech M&A and investment activity.

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Australian tech millionaire production line gathers pace

By Nick Abrahams

I spent Saturday night as the odd man out surrounded by the young and beautiful. This was a crowd who would not be out of place at the Ivy or even the Logies. But no, it was The Australian Startup Awards - a group of early-stage technology companies brought to fever pitch by uber-disruptor Ruslan Kogan who gave a rousing speech in favour of the pursuit of profits and success. They are right to be enthusiastic. The opportunity has never been bigger. The first half of this year has delivered great riches to Australian tech entrepreneurs. Here are the hot spots.

US venture capital loves us

Australian tech entrepreneurs used to shoot for a $20 million to $40 million exit and after that, it was Byron Bay time. But the stakes have changed - Australia is growing tech companies to massive valuations in timespans as short as those seen in Silicon Valley. This has been spotted by US venture capitalists and seven or eight of the main Silicon Valley VCs are on regular trips to Australia looking for the next Atlassian.

Insight Venture Partners led a $250 million investment into quiet achiever, Campaign Monitor. While the valuation was not officially released, it is rumoured to be about $US600 million ($644 million).

This is one of the largest US VC deals of recent years anywhere in the world, only bested by funding rounds into Airbnb, Uber and Dropbox.

It was the first capital raise for the 10-year-old company and a great tribute to the founders, Ben Richardson and Dave Greiner.

Insight Venture Partners gave the cheque book another nudge, with one of its investees, Unitrends, acquiring NICTA spin-out and cloud integrator, Yuruware for $10 million.

Facebook and Expedia investor Technology Crossover Ventures* made its first foray into the Australian market with a $30 million Series B investment into SiteMinder, a global force in online hotel booking.

Online video provider, Viocorp, got an injection from niche US funder Partners for Growth.

PFG offers a novel form of debt/equity funding specifically for tech companies. It is unlike any funding available in Australia and they have completed a substantial number of transactions over here with relatively mature companies.

Other US deals are due to be announced in the not distant future.

What we do well in Australia

The internet has overthrown the tyranny of distance that kept Australia from being a global tech player.

Recent deals like Campaign Monitor and US giant Fleetmatic's acquisition of online field force management platform, Connect2Field* show Australia can build globally competitive companies that solve a problem for small and medium businesses at a low price point.

Look to the remarkable market cap of Xero - the Russell Crowe of the tech world. Born in NZ, matured in Australia and now experiencing great success on the US stage.

The key thing US investors are looking for in Australian tech companies is an overseas customer base. Getting product/solution fit in Australia then expanding to a global market is sure to raise the interest of major investors.

Online Consolidation

The internet is maturing and consolidation is rife. Sydney-based task-sourcing website Airtasker acquired Melbourne's Occasional Butler. Fairfax expanded its Domain business across Canberra and rural NSW by ponying up $50 million for All Homes.

When listed web host Melbourne IT bought up rival domain registry NetRegistry Group, $50 million was also the magic number.

Love was in the air as Australia's two largest dating sites, Oasis Active* (part owned by the Ten Network) and RSVP hooked up in a $90 million merger.

APN, after its acquisition of brandsExclusive two years ago*, left the online fashion world by selling its stake in that company to IPO aspirant Aussie Commerce and Australian Associated Press* left the media monitoring world with the well-timed sale of that business to iSentia.

The search for scale online is always important. Matt Barrie's Freelancer acquired Ukraine-based digital content marketplace fantero.com. An interesting geographic expansion at this time in Ukraine's history.

Financial services - always a winner for Australia

Financial services is one of our strongest industries and is the focus of many online players.

Classifieds giant Carsales.com made a big move into the financial services sector by buying a 50.1 per cent stake in online lender Stratton* for $60 million.

ASX-listed financial services firm Rubik acquired two mortgage broking software companies, Stargate Information Systems for a reported $20 million upfront and Infinitive for $2.4 million. The two companies between them handle around 25 per cent of all Australian broker-originated mortgage settlements.

Not keen to sit back and wait for the disruptors, Westpac, has shown it wants to get closer to them. Through its venture capital arm Reinventure, Westpac invested $5 million into Australia's first peer-to-peer lender, SocietyOne. They were joined in the investment by German internet powerhouse Rocket Internet and Justin Reizes, Australian head of KKR.

Telstra continues to be active

Telstra had a big start to the year selling 70 per cent of Sensis to PE fund, Platinum Equity for $450 million and using $50 million of spare change to joint venture in the monitored security industry with SNP and $40 million for network integrator O2 Networks. Offshore, Telstra invested in US mobile phone authentication provider TeleSign.

Overseas exits

There were some great exits to overseas companies. The world's largest travel site, TripAdvisor, paid $US200 million for Sydney-founded online tour agency Viator.

But British companies are also picking up Australian companies at a great rate. UK gambling giant Ladbrokes acquired Alan Eskander's Melbourne online bookmaker, Betstar, for something north of $20 million.

Tribal Group, a UK government-focused education support provider acquired Human Edge Systems, an Aussie provider of student management systems for $15 million.

Not to be left out, GB Group, a UK-listed identity intelligence business bought Australian fraud detector, DecTech for $37 million.

Forget mining - get into the cloud

With the decline in the resources sector, we have seen numerous listed shells (and their ready-made register of shareholders) become available for backdoor listing. And the tech companies have really responded - feels just like old dotcom times.

Bulletproof Networks did a reverse takeover of mining company Spencer Resources. Macro Energy had been trading at 2¢ a share. It acquired bitcoin trading house digitalBTC, changed its name to Digital CC and its stock shot up 42 per cent.

Cloud financial planner Decimal Networks backdoored into mineral exploration companyAviva Corporation. Information security player Cocoon Data integrated with uranium explorer Prime Minerals.

Cloud applications builder PRM Clouds integrated with miner Minerals Corporation. Q&A social network Spring.me integrated with property player GRP Corporation. Cloud platform provider Cloud Central integrated with wine companyDromana Estate. PieNetworks bolstered its ASX standing with the acquisition of leading crowd-sourced journalism platform Newzulu.

Australian-founded mobile gaming company Mig33 got a $10 million investment from tech manufacturing giant Foxconn ahead of its integration with Mineral explorer Latin Gold.

However, one of the most remarkable deals is where Silicon Valley HR startup 1-page is doing a reverse takeover of ASX listed InterMet Resources.

1-page has no specific link to Australia but is hoping to use the listing as a springboard to a NASDAQ listing. We may see more US start-ups coming to Australia to tap our capital markets.

The next six months

We will continue to see strong tech M&A and investment activity, especially with US venture capitalists looking to invest in companies with a global customer base and enterprise value of $80 million plus.

While the backdoor to the ASX will continue to swing, we may see more IPOs from the likes of Amaysim, Ingogo and Yatango.

We also see IT services businesses searching for acquisitions to bolster their cloud capabilities. These businesses are struggling with the death of the 5-year software replacement cycle as their customers move to "as-a-service" models.

Cloud businesses that solve a problem for SMBs at a low price point will continue to be attractive acquisition targets as a result.

Telstra will also continue to buy and invest, especially in healthcare and mobile-related high-tech out of Silicon Valley.

Elsewhere, media companies are more prepared to write cheques than they have been for a while.

For example, Nine just upped its investment in Quikflix by taking out HBO. Hopefully, this will continue.

The consolidation of online businesses will continue to occur, especially in the business to consumer space and financial services.

Further afield, the massive size and appetite for acquisitions of Chinese internet companies like TenCent and Alibaba means it can't be too long before we see them coming down here.

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