VENTUREDEAL M&A ANALYSIS

Knowles Acquires ams' MEMS Business For Diversification Push

eBay Will Acquire Cox Automotive For Australian Auto Marketplace

F5 Networks To Acquire Shape Security For Application Security Tech

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VentureDeal

Knowles Acquires ams' MEMS Segment In Diversification Push

Quick Take

Knowles Corporation (KN) has announced the acquisition of the MEMS microphone ASIC design business of ams AG for $58 million.

ams MEMS has developed a team and related intellectual property in the MEMS microphone ASIC design industry.

KN's stock has performed admirably in the past 12 months but looks fully valued at its current level, so my bias is NEUTRAL.

Target

Switzerland-based ams MEMS was founded as a division of ams AG to develop design technologies in the MEMS microphone market.

The group also has rights to source ASIC wafers from a number of foundry partners.

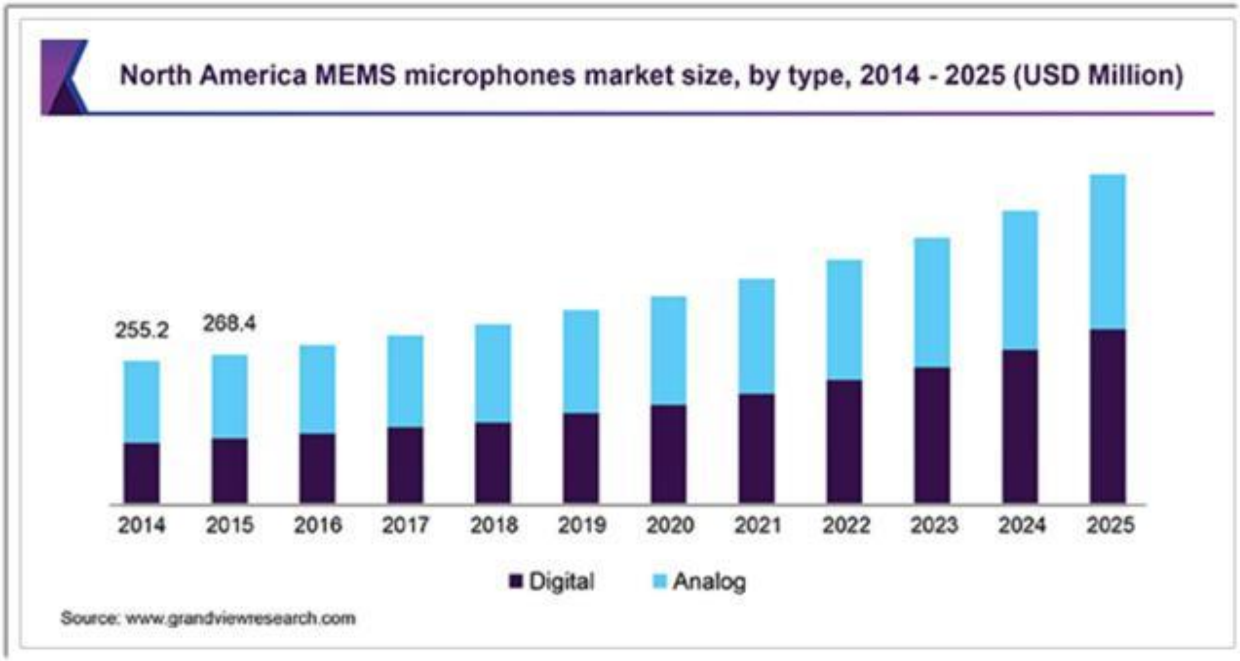
The relevant design capabilities of the business include applications for mobile, ear and Internet of Things markets.

Market And Competition

According to a 2019 market research report by Grand View Research, the market for global MEMS microphones reached approximately $1.2 billion in 2018.

The report expects a CAGR (Compound Annual Growth Rate) of 14.4% from 2019 to 2025.

The main drivers for this expected growth include growing demand for smartphones, a proliferation of Internet of Things [IoT] devices, increasing virtual reality and augmented reality headset devices, hearing aids for aging populations and other electronic consumer and industrial products. In addition, there are numerous smart city initiatives underway in various regions of the globe and combined with increasing discretionary income should result in rising demand for smartphone-based systems. Below is a historical and forecast growth graphic for the North American MEMS microphone market:



Major vendors that provide competitive services include:

- Infineon Technologies (OTCQX:IFNNF)
- STMicroelectronics (STM)
- Goertek
- Vesper Technologies
- TDK (OTCPK:TTDKY)
- Cirrus Logic (CRUS)
- CUI (CUI)
- DB Unlimited
- New Japan Radio
- Projects Unlimited
- Sonion

Source: Sentieo

Acquisition Terms And Financials

Knowles Corporation disclosed the acquisition price and terms as $58 million in cash.

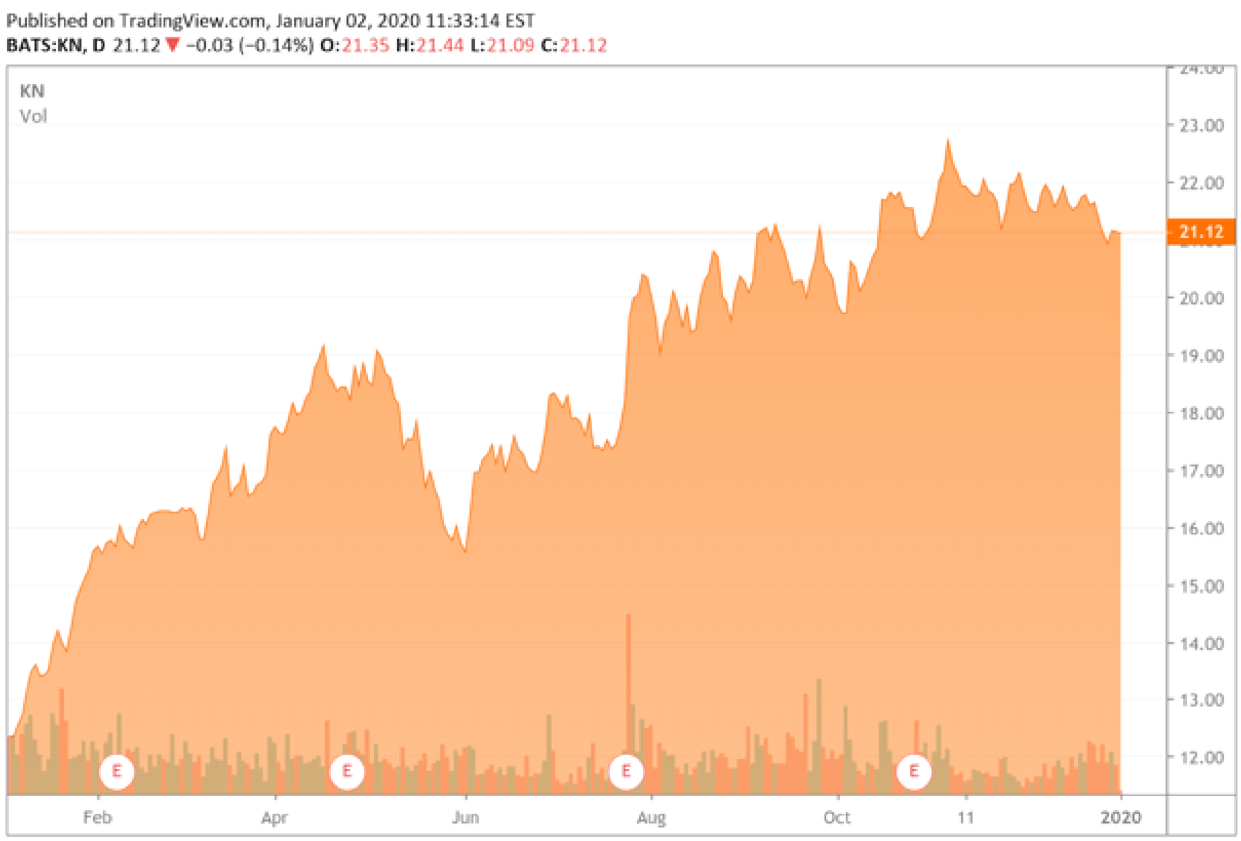
Management said it expected the deal to be 'accretive to non-GAAP diluted earnings per share beginning in the first quarter of 2020.'

The acquisition was paid for from cash on hand.

A review of the firm's most recent published [financial results](#) indicate that as of September 30, 2019, Knowles Corporation had $69.7 million in cash and equivalents and $350.2 million in total liabilities of which $154.8 million was long-term debt.

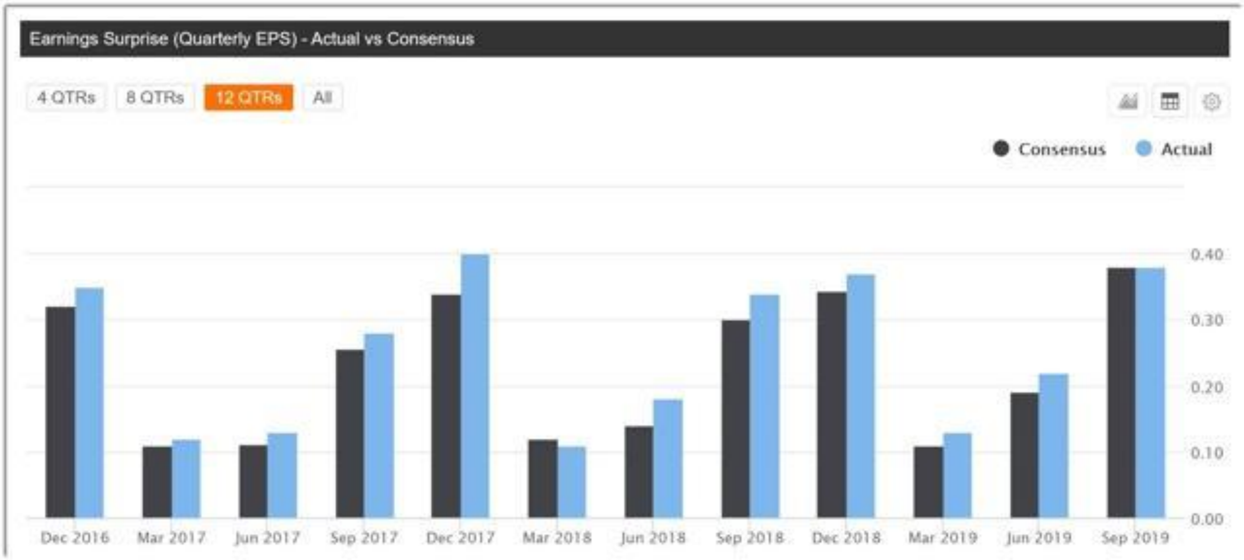
Free cash flow for the nine months ended September 30, 2019 was $18 million.

In the past 12 months, Knowles Corporation's stock price has risen 67.9% vs. the U.S. Electronic industry's rise of 34.2% and the U.S. S&P 500 Index's growth of 32.35%, as the KN chart indicates below:



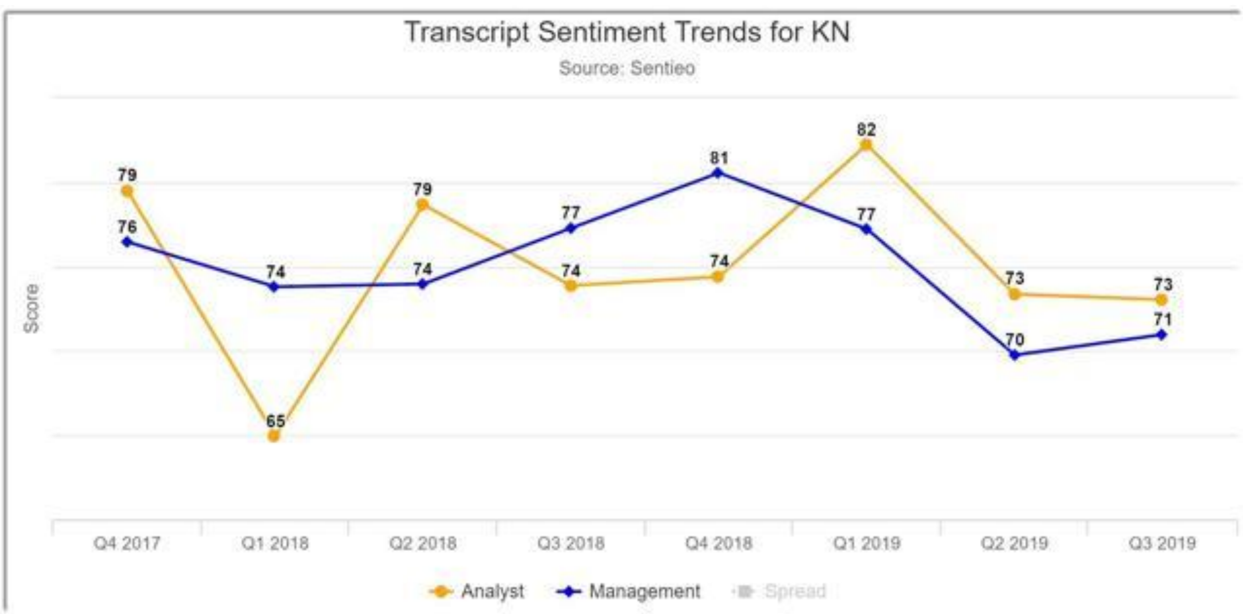
Source: Seeking Alpha

Earnings surprises versus analyst consensus estimates have been positive in ten of the last twelve quarters, as the chart shows below:



Source: Seeking Alpha

Analyst sentiment in recent earnings calls has dropped somewhat from a high reading in Q4 2018, as the linguistic analysis shows here:



Source: [Sentieo]

Valuation Metrics

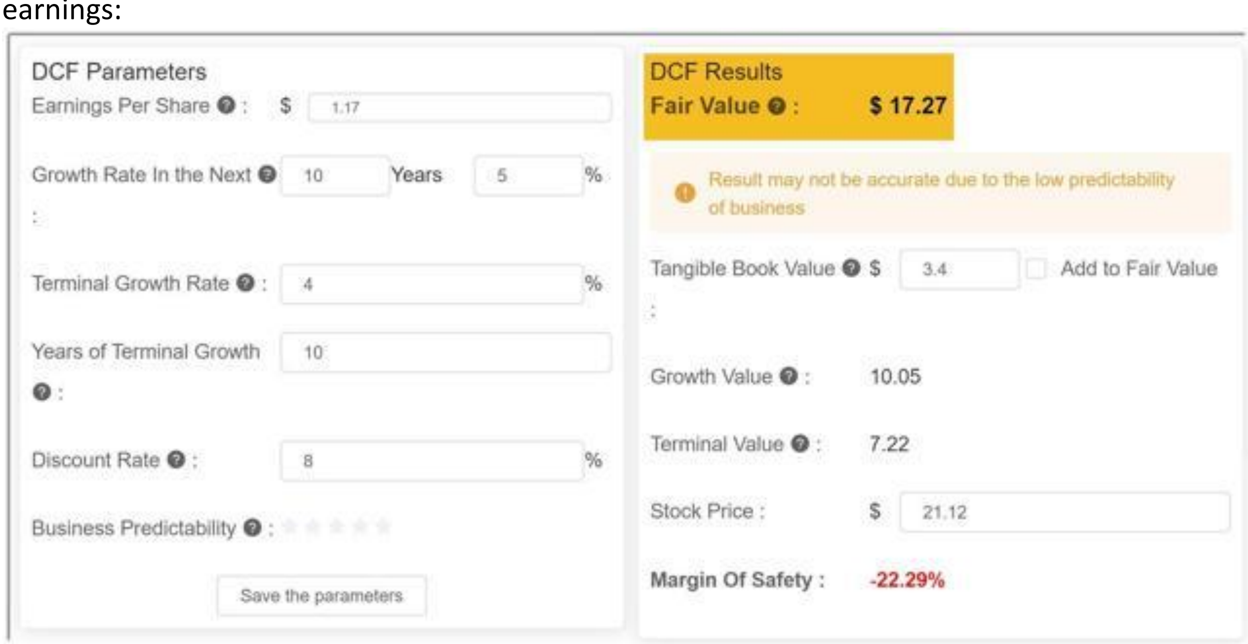
Below is a table of relevant capitalization and valuation figures for the company:

Measure	Amount

Market Capitalization	$1,940,000,000
Enterprise Value	$2,070,000,000
Price / Sales	2.27
Enterprise Value / Sales	2.45
Enterprise Value / EBITDA	14.28
Earnings Per Share	$1.16
Total Debt To Equity	15.97%
Free Cash Flow [TTM]	$41,590,000
Revenue Growth Rate	3.19%

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm’s projected growth and earnings:



Assuming the above generous DCF parameters, the firm's shares would be valued at approximately $17.27 versus the current price of $21.12, indicating they are potentially currently overvalued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

KN acquired ams' MEMS segment to deepen its design capabilities and combine it with its existing segments.

As Knowles' CEO Jeffrey Niew stated in the deal announcement:

In addition to bringing in world-class mixed signal circuit design talent and IP, this transaction will provide significant cost synergies. We plan to leverage this ASIC design team and IP to develop innovative new products, further broadening our industry-leading portfolio of MEMS microphones.

KN is pursuing a diversification strategy away from its reliance on mobile and the acquisition is part of that strategy as it seeks to generate new sources of revenue from Internet of Things and ear technologies.

One could also envision additional wearable computing devices that would be a further strategic benefit from adding to its diversification efforts.

The deal makes strategic sense. However, KN's stock looks fully valued at its current level, even with generous DCF assumptions.

Management will need to produce more growth to justify a further catalyst to the stock after a very strong run-up in the past 12 months.

My current bias is NEUTRAL absent a major stock catalyst.

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eBay Will Acquire Cox Automotive Media For Australian Auto Marketplace

Quick Take

eBay (EBAY) has announced the proposed acquisition of Cox Automotive Media Solutions for an undisclosed amount.

Cox Automotive has developed two car-oriented websites for the Australia automotive information and purchase marketplace.

With the deal, EBAY seeks to continue its 'verticalization strategy' within the automotive vertical.

Based on generous DCF terms, the stock appears fully valued at its current level, so my bias is NEUTRAL.

Target Company

Australia-based Cox Automotive was founded to create CarsGuide.com, which is a substantial automotive review and editorial website.In addition, the firm has more recently launched Autotrader.com.au, which is an online marketplace that provides services for car dealers and enables car buyers to shop for deals online.

Management is headed by Chief Executive Officer Shaun Cornelius, who has been with the firm since October 2018 and was previously CEO at Hey You App and a non-executive director at Skuvantage.

Below is an overview video of a sample car review:

Source: CarsGuide

Market & Competition

According to a 2019 market research report by IBISWorld, the market for the motor vehicle dealer industry is expected to reach $60 billion in 2019.

The industry actually contracted by an estimated 0.9% from 2014 to 2019.

Over the past five years, volatile fuel prices have encouraged Australian consumers to purchase smaller and more fuel efficient cars, which have also had lower price points.Also, dealers are having to sell a higher number of cheaper cars to hit their volume targets, resulting in higher per car processing costs.

Acquisition Terms & Financials

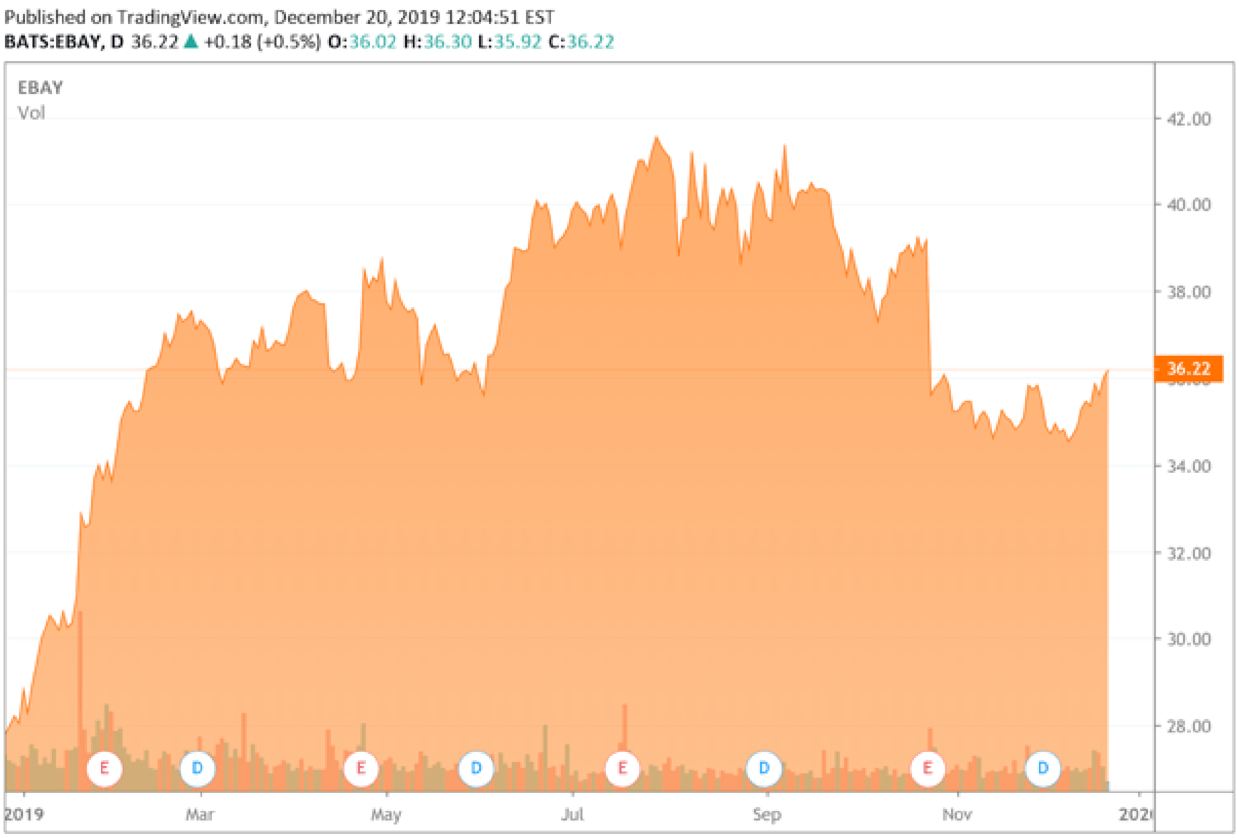
eBay didn't disclose the acquisition price or terms and didn't file a form 8-K, so the deal was likely for a financially non-material amount.

Management also didn't provide a change in financial guidance as a result of the proposed transaction.

A review of the firm's most recent published financial results indicate that as of September 30, 2019 eBay had $3.1 billion in cash and short-term investments and $15.4 billion in total liabilities, of which $7.2 billion was long-term debt.

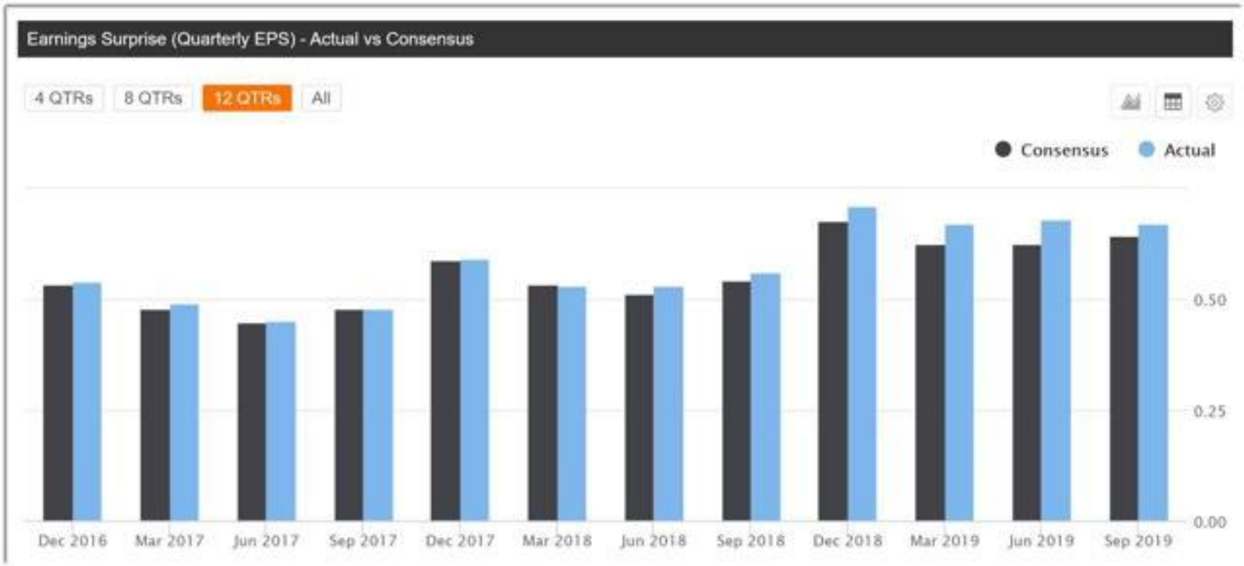
Free cash flow for the twelve months ended September 30, 2019 was $3.0 billion.

In the past 12 months, eBay's stock price has risen 30% vs. the U.S. Online Retail industry's rise of 33.2% and the U.S. S&P 500 Index' growth of 29.8%, as the EBAY chart indicates below:



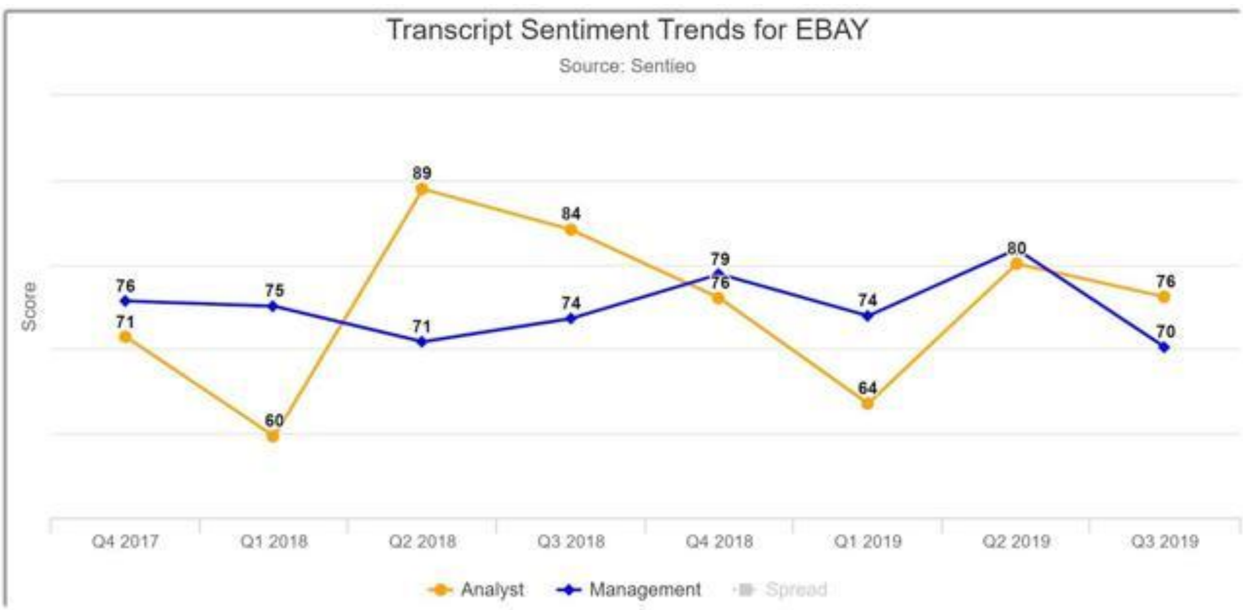
Source: Seeking Alpha

Earnings surprises versus analyst consensus estimates have been positive in ten of the last twelve quarters, with the size of the beats increasing in the last four quarters, as the chart shows below:



Source: Seeking Alpha

Analyst sentiment in recent earnings calls rebounded from a drop Q1 2019, as the linguistic analysis shows here:



Source: [Sentieo](#)

Valuation Metrics

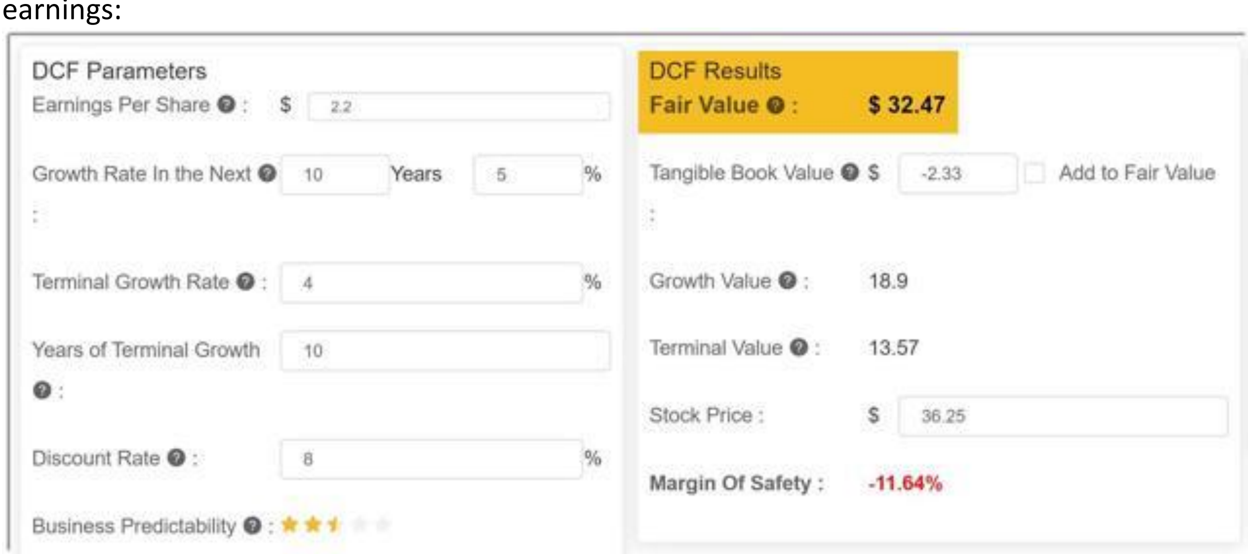
Below is a table of relevant capitalization and valuation figures for the company:

Measure	**Amount**

Market Capitalization	$29,320,000,000
Enterprise Value	$34,650,000,000
Price / Sales	2.93
Enterprise Value / Sales	3.19
Enterprise Value / EBITDA	11.13
Earnings Per Share	$2.20
Total Debt To Equity	257.25%
Free Cash Flow [TTM]	$2,420,000,000
Revenue Growth Rate	2.65%

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm's projected growth and earnings:



Assuming the above generous DCF parameters, the firm's shares would be valued at approximately $32 versus the current price of $36, indicating they are potentially currently overvalued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

EBAY is acquiring Cox Automotive to expand its offerings for the automotive information and purchase market in Australia.

As Richard Dicello, Head of Motors at Gumtree Australia stated in the deal announcement,

This acquisition will strengthen our position in the automotive market by providing consumers with access to thousands of additional listings, automotive research, reviews and content, as well as a strong dealer tool and car buying destination. Together with Gumtree Australia, these brands create a robust customer experience in auto buying — from research to purchase.
eBay Classifieds is pursuing a 'verticalization strategy' in the automotive segment by seeking to expand its reach and selection of offerings to consumers.

By owning the entire stack from first inquiry to purchase, eBay/Gumtree believe they can capture a larger part of the transaction value by providing buyers with the services they need throughout the car purchase process.

Dealers win by selling cars more efficiently, an imperative as consumers buy smaller, cheaper cars.

The deal makes strategic sense for eBay as it continues to build out its English-speaking country automotive vertical.

However, EBAY the stock appears potentially fully valued at its current level, at least according to the DCF analysis above.

With top-line revenue growth rates in the lower single digits, management will need to find ways to grow the business at a higher rate to produce a meaningful price catalyst.

My current bias on EBAY at its current level is NEUTRAL.

F5 Networks To Acquire Shape Security For Application Security Tech

Quick Take

F5 Networks (FFIV) has announced the proposed acquisition of Shape Security for $1 billion in cash.

Shape has developed a system to help protect organizations from automated cyber attacks and fraud.

With the deal for Shape, FFIV hopes to combine its complementary security technologies to provide a full range of application security offerings to organizations under threat of increasingly sophisticated cyber attacks.

However, FFIV's stock appears richly priced given its current level and low single-digit revenue growth rate, so my bias is NEUTRAL.

Target Company

Santa Clara, California-based Shape was founded to create technologies that protect against automated cyber attacks, botnet attacks and fraudulent application activity.

Management is headed by co-founder and Chief Executive Officer Derek Smith, who was previously head of Raytheon Oakley Systems and was a Senior Advisor for Cyber Policy at the Pentagon.

The company provides its solutions to the following industries:

- Bank and financial institutions
- Airlines
- Retailers
- Government agencies

Shape has a robust set of partner programs for Global Systems Integration partners, distributors, authorized resellers, referral partners and technology partners.

Investors have invested at least $183 million and include Norwest Venture Partners, Kleiner Perkins Caulfield & Byers, HPE Growth and C5 Capital.

Market & Competition

According to a 2017 market research report by Grand View Research, the market for application security software is expected to reach $10.7 billion by 2025.

This represents a forecast CAGR (Compound Annual Growth Rate) of 17.7% from 2016 to 2025

The main drivers for this expected growth the need for Web application security, the increased use of machine learning to respond to the always changing nature of cyber attacks and the continued transition of enterprise networks from on-premise environments to the cloud.

Major vendors that provide competitive services include:

- IBM (IBM)
- Hewlett Packard Enterprise (HPE)
- Qualys (QLYS)
- Veracode
- WhiteHat Security

Source: Sentieo

Acquisition Terms & Financials

F5 Networks disclosed the acquisition price and terms as $1 billion in cash.

Management said it will fund the deal with $600 million from cash on hand and $400 million in a new Senior Unsecured Term Loan.

The firm said it 'expects to achieve breakeven non-GAAP EPS within 24 months of closing the acquisition and anticipates that the combination will be accretive to free cash flow per share within 12 months of closing.'

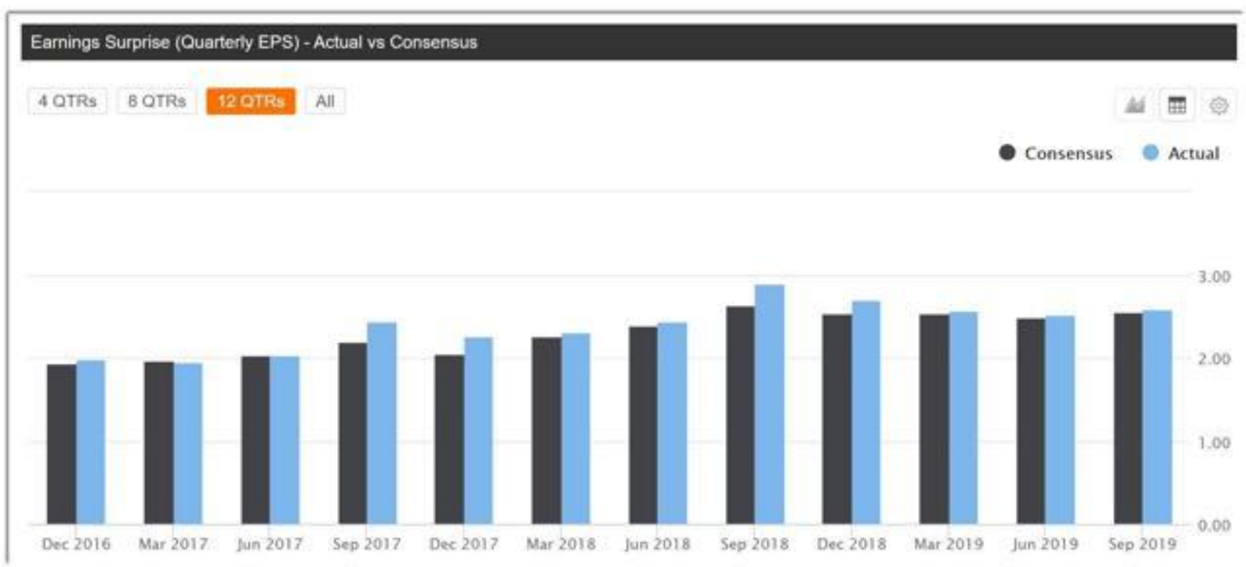
A review of the firm's most recent published financial results indicate that as of September 30, 2019, F5 Networks had $972.3 million in cash and short-term investments and $1.6 billion in total liabilities with no long-term debt.

Free cash flow for the twelve months ended September 30, 2019 was $748 million.

In the past 12 months, F5 Networks's stock price has fallen 14.06% vs. the U.S. Communications industry's rise of 11.9% and the U.S. S&P 500 Index' rise of 29.8%, as the FFIV chart indicates below:

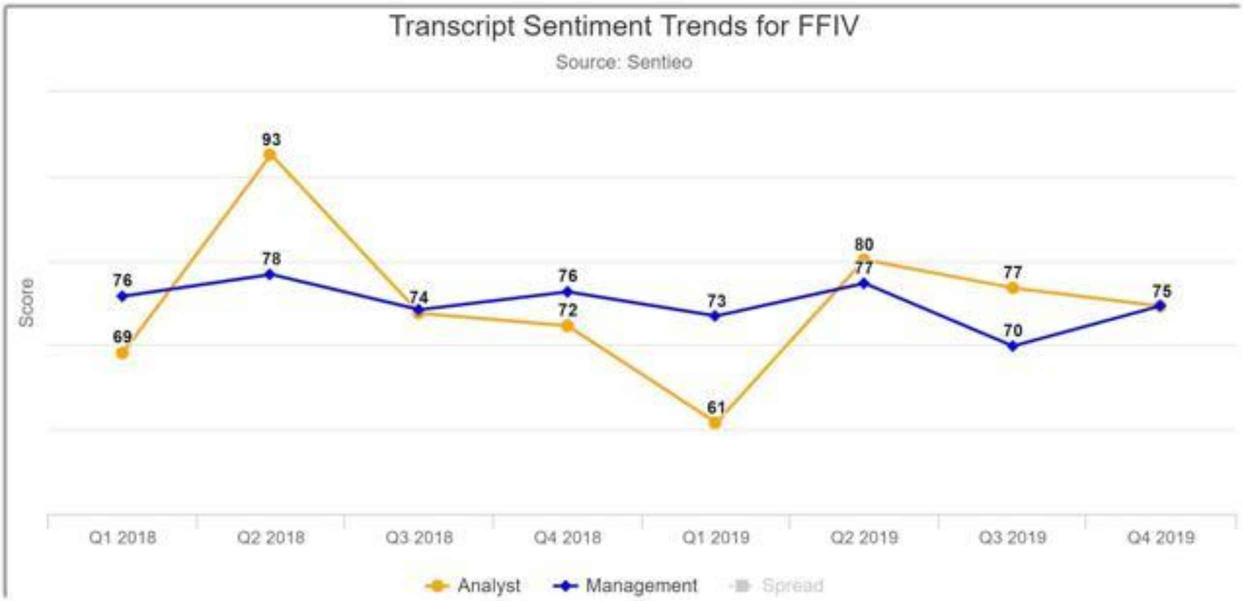
Source: Seeking Alpha

Earnings surprises versus analyst consensus estimates have been positive in ten of the last twelve quarters, as the chart shows below:



Source: Seeking Alpha

Analyst sentiment in recent earnings calls has been relatively stable, according to a linguistic analysis shown here:



Source: Sentieo

Valuation Metrics

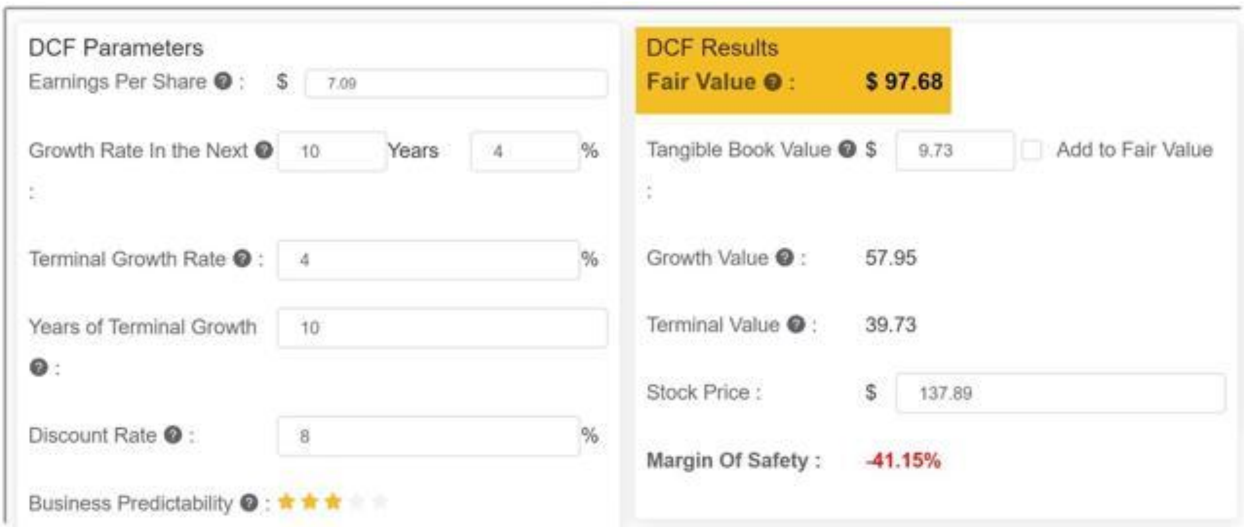
Below is a table of relevant capitalization and valuation figures for the company:

Measure	**Amount**
Market Capitalization	$8,740,000,000
Enterprise Value	$7,760,000,000
Price / Sales	3.85
Enterprise Value / Sales	3.46
Enterprise Value / EBITDA	13.06
Earnings Per Share	$7.09

Total Debt To Equity	0.00%
Free Cash Flow [TTM]	$446,500,000
Revenue Growth Rate	3.75%

Source: Company Financials

Below is an estimated DCF (Discounted Cash Flow) analysis of the firm's projected growth and earnings:



Assuming the above generous DCF parameters, the firm's shares would be valued at approximately $98 versus the current price of $138, indicating they are potentially currently overvalued, with the given earnings, growth and discount rate assumptions of the DCF.

Commentary

FFIV is acquiring Shape as part of its stated ambition to create a fully end-to-end multi-cloud application services suite of offerings.

Management believes that Shape's credentials protection capabilities combined with F5's application defenses will provide a compelling combination for customers and prospects.

As F5 stated in the deal announcement,

> The acquisition of Shape is consistent with F5's vision to build the best end-to-end multi-cloud application services company. It accelerates F5's product and total revenue growth; speeds F5's transition to a software- and SaaS-driven business model; and is expected to meaningfully increase F5's software subscription mix in fiscal year 2020.

However, as to the Shape transaction itself, analysts have criticized the use of so much cash with no EPS return within the first two years of the deal as a negative mark on the deal structure.

F5's stock also appears to be richly valued at its current price level, at least according to my generous DCF assumptions.

Perhaps deals like the one for Shape will reignite F5's underwhelming growth rate.

Given the firm's currently low single-digit growth rate, my current bias is NEUTRAL.