



Merger and Acquisition Trends in Silicon Valley and the
Greater Washington Region:
2006 – 2011

Jonathan Aberman

Managing Director TandemNSI and Amplifier Ventures

October 2012

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Executive Summary

What do a region's merger and acquisition patterns say about its prospects and desirability as a location for growing and monetizing new technology businesses? In comparison to Silicon Valley, the widely recognized leader in technology company merger and acquisition ("M&A") activity, the Greater Washington Region¹ fares very well. Moreover, the growing diversity of the GWR's business community creates a pathway to accelerate startup and ramp up growth in the region that could rival or exceed Silicon Valley's success. FounderCorps, a Virginia not for profit that promotes startup entrepreneurship, and StartupVirginia, want this report to promote conversation and catalyze approaches to address perceived shortcomings in the GWR entrepreneurial community.

Technology entrepreneurship and company formation tends to cluster in certain regions in the United States and around the world. The GWR has many attributes that suggest it should be a predominant creator of high-growth technology businesses and a recognized and preferred location for entrepreneurs to start and grow important businesses. Nevertheless, the GWR is often seen as a less attractive and successful location for technology-related entrepreneurship than other nationally-recognized technology centers and Silicon Valley in particular. This report looks at M&A activity as an indication of regional strength and opportunity, and its conclusions challenge the perception that Silicon Valley is unique and not amenable to duplication or challenge by the GWR.

Section I of this report discusses the importance of M&A to a successful entrepreneurial community. Section II examines the broad M&A trends in six industry sectors that together include "technology businesses" -- companies that rely on intellectual capital for their operations, growth or expansion. Section III provides a more granular view of each industry by identifying specific industry segments where acquisition activity has occurred. Section IV contains conclusions and a call to action for the GWR's business leaders and entrepreneurs.

¹ The Term Greater Washington Region or "GWR" is used by this report to describe the combined economies of Virginia, Maryland and the District of Columbia.

Section I: Introduction and Overview

Why Can't We Be More Like Silicon Valley?

For many years, members of the GWR business and entrepreneurial communities have asked why the region is not nationally recognized as a center of technology entrepreneurship. The question is usually prefaced with a list of the GWR's many positives:

- Wealthiest region in the US on a per capita basis
- More technology workers than any other region
- Highest concentration of government and university labs doing basic and advanced technology research
- Proximity to government, which has become a growing consumer of technology
- Large concentration of experienced entrepreneurs
- Strong philanthropic behavior from successful entrepreneurs

By asking the question in this way, of course, observers then generally conclude that: (i) accelerated development of local entrepreneurial startups is only a matter of time, or (ii) the failure of the GWR to “fulfill its promise” is attributable to some missing element in the region's entrepreneurial ecosystem. The typical solutions offered have been:

- Efforts to promote cultural change in entrepreneurial attitudes through networking, education and community development activities
- Seeking and providing new sources of risk capital
- Creating government programs to promote entrepreneurial business formation
- Efforts to promote the formation of businesses that are involved in the same industries as Silicon Valley Model startups

The GWR's economic growth has long benefitted from federal and state spending that drives economic opportunity and growth. As governments at all levels reduce their spending, the GWR must find new economic activities to take the place of government money. Because high growth business formation and job creation are strongly and positively correlated, the obvious

question is whether technology startup formation and development can become the region's economic driver.

When policy makers and market participants look for models of promoting technology entrepreneurship, they inevitably look to the “Silicon Valley Model.” If they can capture the essence of Silicon Valley in their own communities, then they can duplicate Silicon Valley's economic success. These efforts focus on duplicating infrastructure, mimicking cultural aspects, or both.

Experts who focus on Silicon Valley's infrastructure tend to do an inventory and assessment of the various parts of a community that appear to support startup business formation. They tend to believe that certain core characteristics are necessary to create a successful clustering of startup entrepreneurship, technology innovation and economic growth. These characteristics are generally described as a concentration of entrepreneurs, university leadership, access to capital, access to an experienced service provider community, a skilled work force and suitable infrastructure.

Other experts believe that it is not the infrastructure that makes Silicon Valley unique, it is the entrepreneurial culture. The phrase often used to describe this cultural difference is that in Silicon Valley, “everyone works for Silicon Valley.” Participants in Silicon Valley entrepreneurship often note the high level of interconnectedness of entrepreneurs with the larger community, the wide willingness to take risks, the lionization of successful entrepreneurs, and enthusiasm about “new things” as examples of these pervasive characteristics. It is also sometimes suggested that the nature of the industries pursued in Silicon Valley – high technology – engenders different cultural approaches to startup entrepreneurship.

The problem with both of these ways to look at Silicon Valley's success is that they are ultimately self-defeating. By comparing another economic region to the structure or culture of Silicon Valley, experts miss the point. Silicon Valley is unique, as is every other region in the United States. Each has inherent advantages and disadvantages. Understanding the importance of clustering of resources and an entrepreneurial culture, does not create a recipe book for other regions to succeed. In a world where imitation is the highest form of flattery, Silicon Valley should be blushing.

To this point, the GWR's business leaders and entrepreneurs have believed that by focusing on addressing perceived infrastructure limitations (for example, creating a "local Stanford" or attracting more venture capital) or engendering cultural change (for example, networking, co-location or entrepreneur education and development) the GWR could mimic Silicon Valley's success and accelerate regional economic development. These well-meaning attempts are missing the point: these actions are an important part of creating a successful startup region, but they are not the path to make it happen. Anyone who focuses on structural aspects and cultural change that would make the GWR more like Silicon Valley misses the point and sets the GWR up for failure. Silicon Valley's history created a unique set of reinforcing structural characteristics and cultural attributes that can't be exactly duplicated. If the goal is to become "another Silicon Valley" a region will always fail if it relies on imitation.

However, there is a way for the GWR to be as successful as Silicon Valley. That path is revealed in M&A activity.

Mergers and Acquisitions Are the Life Blood of a Successful Startup Region

Because successful exits are the central theme of startup lore, the importance to a successful startup region of the conditions supporting exit transactions is often overlooked. It's almost assumed that if you build the infrastructure and the culture and create a large number of startups, then success will follow. Success means growing numbers of entrepreneurs starting businesses, selling them, and then starting another. This constant cycle of business creation and monetization drives all that surrounds it. It is the serial nature of this activity which creates the clustering of resources, not the reverse. Therefore, more than any other factor, the velocity of business formations and sales dictates the likelihood of success of a startup region. If it is easy for entrepreneurs to grow and sell businesses in a relatively short period of time, they are much more likely to pursue this activity, and also to repeat it. A high level of exits, or a high velocity time line between business formation and exits, tends to reward entrepreneurs who are creative and aggressive. It also rewards the various funding sources and service providers that surround and reinforce an entrepreneurial community. The phrase "success breeds success" is never truer.

It is a well-known truism that businesses do not get sold, they get bought. This means that businesses are acquired when they provide access to a technology, processes or customers

that the acquirer wants. These days it is rare for a business to be acquired by another company where there is no overlap in operations, market opportunity or industry focus.

M&A also has certain challenges, which center on human nature. The business's prospects are rarely as good as the sellers say it is, nor are the business's current operations as inefficient as the potential buyers claim. Additionally, most business acquisitions, at the younger stages of a business are very much about the people. Thus, the likelihood of successfully integrating an acquired business will be driven by how well the acquirer manages the unexpected (but likely) divergences between the business it thought it acquired and the one it actually got. In most cases, the primary determinant of this success is how well the acquirer integrates the personnel and leadership of the acquired businesses. Not surprisingly, the ability to retain personnel and supervise and implement a successful post M&A integration is enhanced where the cultural, business and operational experiences of the acquired and the acquirer are similar. It should not be surprising to note therefore, that acquisitions that are within an overlapping industry, geographic location or other primary characteristic are more likely to be successfully integrated into an acquirer's business.

It follows that regions with a high level of integration and overlap between potential acquirers and the businesses that they acquire are more likely to be places where more M&A -- and more successful M&A -- is likely to occur. One way to measure integration is to look at a level of M&A activity in a particular industry sector or segment and infer that comparatively higher levels integration must exist. Another way to measure integration is to look at the level of in-market M&A activity.

This report looks at M&A activity in Silicon Valley and the GWR over the last five years in sectors that are generally perceived as having a high concentration of creators or customers of "technology." This report uses technology as a broad term to describe businesses that rely on intellectual capital and grow by exploiting that intellectual capital's uniqueness. As will be discussed in more detail below, the market trends provide some interesting points to consider:

- A high degree of physical proximity between buyers and sellers often increases M&A activity
- Silicon Valley's success in technology entrepreneurship might be due in significant part to its high degree of concentration and integration in a small number of sectors

- The GWR has a much broader base of in-market M&A, and, within certain industry segments, evidences similar M&A patterns to Silicon Valley

It's true that determining whether the GWR could become a more productive location for startup formation can be answered by whether it can be like Silicon Valley. It's just that the answer isn't the familiar one about infrastructure and culture; it's about exploiting the good climate for M&A that already exists.

Section II: Results – A View by Industry Sector

Between 2006 and 2011, there were 2,775 technology M&A acquisitions in Silicon Valley and 1,875 in the GWR. Silicon Valley acquisitions were concentrated in High Technology (~64%). The GWR M&A activity was more diverse.

Silicon Valley's M&A patterns also had significantly higher in-market activity in certain industry segments, including consumer software and biotechnology. Overall in Silicon Valley, 1,244 (~45%) of acquired companies were acquired by Silicon Valley-based firms, while in the GWR, 695 (~37%) of acquired companies were acquired by GWR-based firms. Tables 1 and 2 provide the total number of acquisitions by year for each of industry sector.

Industry Sector	2006	2007	2008	2009	2010	2011	Total
Financials	47	48	40	43	35	27	240
Healthcare	43	60	49	65	45	46	308
High Technology	265	313	330	235	329	296	1,768
Industrials	17	28	31	16	30	15	137
Media & Entertainment	37	32	28	38	35	40	210
Telecommunications	16	21	13	24	25	13	112
Grand Total	425	502	491	421	499	437	2,775

Table 1: Total M&A Transactions by Industry Sector within Silicon Valley

Table 2 below shows M&A patterns in the GWR. Like Silicon Valley, the largest portion of the M&A activity (~37%) was in the High Technology industry sector. M&A activity other than High Technology is roughly equivalent for the two regions, with the GWR matching or exceeding aggregate deal activity in Silicon Valley in all other industry sectors.

Industry Sector	2006	2007	2008	2009	2010	2011	Total
Financials	57	81	82	67	41	40	368
Healthcare	43	49	32	49	26	32	231
High Technology	128	142	118	91	111	97	687
Industrials	34	59	34	28	35	27	217
Media & Entertainment	47	59	40	32	37	29	244
Telecommunications	27	30	30	11	22	8	128
Grand Total	336	420	336	278	272	233	1,875

Table 2: Total M&A Transactions by Industry Sector within the GWR

Section III: Results – A View by Industry Segment

In this section, the industry sectors identified above will be further divided into industry segments allowing for a more accurate analysis of the acquisition activities, including the total number of in-market acquisitions, the percentage of local acquisitions against the total for the region and the total acquisitions in which a firm in Silicon Valley acquired a firm in the GWR and vice versa.

Financials

This industry sector includes companies that provide financial or technical services to commercial and retail customers including banks, investment institutions, insurance companies, thrifts and mortgage institutions and companies that operate as holding companies for specific industries, such as metals and mining, personal products, telecommunications and electronics.

Between 2006 and 2011, there were 608 M&A acquisitions in the Financials industry sector in Silicon Valley and the GWR. About 61% took place in the GWR. As shown in Tables 3 and 4 below, on a percentage basis, more firms in the GWR were acquired by local firms. Additionally, Silicon Valley and GWR firms each acquired 15 firms in the other region.

It should also be noted that there were several industry segments within each region where there was no M&A activity. In Silicon Valley, there was no activity in Aerospace and Defense, Airlines, Hotels, Restaurants and Leisure, Machinery and Media. Conversely, in the GWR, there were no transactions in Diversified Telecommunications Services, Metals and Mining, Personal Products and Semiconductors and Semiconductor Equipment.

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Capital Markets	65	29	44.6%	1
Commercial Banking	57	33	57.9%	8
Consumer Finance	9	3	33.3%	1
Diversified Telecommunications Services	2	0	0.0%	0
Financial Services	38	17	44.7%	1
Healthcare Providers and Services	2	0	0.0%	0
Information Technology	15	9	60.0%	0
Insurance	38	13	34.2%	4
Metals and Mining	4	3	75.0%	0
Personal Products	2	0	0.0%	0
Semiconductors & Semiconductor Equipment	1	0	0.0%	0
Software	1	0	0.0%	0
Specialty Retail	1	0	0.0%	0
Thriffs & Mortgage Finance	5	2	40.0%	0
Grand Total	240	109	45.4%	15

Table 3: Financials in Silicon Valley – Segment Analysis

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Aerospace & Defense	1	0	0.0%	0
Airlines	2	0	0.0%	0
Capital Markets	72	40	55.6%	3
Commercial Banking	137	108	78.8%	3
Consumer Finance	12	5	41.7%	1
Financial Services	54	23	42.6%	6
Healthcare Providers & Services	3	1	33.3%	0
Hotel, Restaurant & Leisure	1	1	100.0%	0
Information Technology	12	4	33.3%	1
Insurance	52	17	32.7%	0
Machinery	2	0	0.0%	0
Media	1	1	100.0%	0
Specialty Retail	1	0	0.0%	0
Thriffs & Mortgage Finance	18	9	50.0%	1
Grand Total	368	209	56.8%	15

Table 4: Financials in GWR – Segment Analysis

Healthcare

This industry sector includes companies involved in providing medical services, designing and developing medical equipment, researching and developing pharmaceuticals, biotechnology and a variety of medical products including software.

Between 2006 and 2011, there were approximately 539 M&A acquisitions within the Healthcare industry sector. Almost 57% (308) were in Silicon Valley. As seen in Tables 5 and 6 below, on a percentage basis, more firms in Silicon Valley were acquired by local firms than in the GWR. Additionally, the number of firms in the GWR acquired by Silicon Valley was three times as many as the total number of acquisitions in the Silicon Valley by GWR firms.

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Biotechnology	70	22	31.4%	1
Healthcare Equipment & Supplies	121	39	32.2%	2
Healthcare Providers & Services	32	18	56.3%	1
Healthcare Technology	3	1	33.3%	0
Life Sciences Tools & Services	33	12	36.4%	1
Personal Products	1	0	0.0%	0
Pharmaceuticals	47	19	40.4%	0
Professional Services	1	0	0.0%	0
Grand Total	308	111	36.0%	5

Table 5: Healthcare in Silicon Valley – Segment Analysis

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Biotechnology	33	7	21.2%	5
Healthcare Equipment & Supplies	27	2	7.4%	2
Healthcare Providers & Services	120	41	34.2%	5
Healthcare Technology	4	0	0.0%	0
Life Sciences Tools & Services	9	2	22.2%	0
Personal Products	8	6	75.0%	0
Pharmaceuticals	22	3	13.6%	3
Professional Services	8	3	37.5%	0
Grand Total	231	64	27.7%	15

Table 6: Healthcare in GWR – Segment Analysis

High Technology

This industry sector includes firms that manufacture electronics, create software, computers, or products and services relating to information technology.

Between 2006 and 2011, there were approximately 2,455 M&A acquisitions within the High Technology sector. About 72% (1,768) were in Silicon Valley. As can be seen in Tables 7 and 8 below, on a percentage basis, more firms in Silicon Valley were acquired by local firms than in the GWR, and Silicon Valley also acquired more firms in the GWR (81) while GWR firms only acquired 28 firms within Silicon Valley.

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Aerospace & Defense	1	0	0.0%	0
Biotechnology	4	1	25.0%	0
Commercial Services & Supplies	12	4	33.3%	1
Communications Equipment	100	48	48.0%	2
Computers and Peripherals	91	51	56.0%	0
Construction & Engineering	3	1	33.3%	0
Distributors	1	0	0.0%	0
Diversified Consumer Services	3	2	66.7%	0
Diversified Telecommunications Services	2	1	50.0%	0
Electronic Equipment, Instruments & Components	89	33	37.1%	0
Healthcare Technology	24	9	37.5%	1
Household Durables	7	1	14.3%	0
Insurance	4	2	50.0%	0
Internet Software & Services	479	231	48.2%	11
IT Services	64	18	28.1%	2
Life Sciences Tools & Services	3	3	100.0%	0
Machinery	4	1	25.0%	0
Media	37	16	43.2%	1
Metals & Mining	1	0	0.0%	0
Professional Services	14	5	35.7%	0
Semiconductors & Semiconductor Equipment	265	164	61.9%	0
Software	557	266	47.8%	10
Telecommunication Services	3	0	0.0%	0
Grand Total	1,768	857	48.5%	28

Table 7: High Technology in Silicon Valley – Segment Analysis

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Aerospace & Defense	15	4	26.7%	0
Capital Markets	3	0	0.0%	1
Commercial Services & Supplies	12	1	8.3%	2
Communications Equipment	23	7	30.4%	1
Computers & Peripherals	11	5	45.5%	1
Construction & Engineering	4	2	50.0%	0
Distributors	1	0	0.0%	0
Diversified Consumer Services	3	1	33.3%	0
Diversified Telecommunications Services	7	2	28.6%	1
Electronic Equipment, Instruments & Components	19	7	36.8%	2
Healthcare Technology	38	6	15.8%	3
Household Durables	1	0	0.0%	1
Insurance	1	0	0.0%	1
Internet Software & Services	101	29	28.7%	14
IT Services	205	103	50.2%	19
Media	23	4	17.4%	5
Professional Services	24	11	45.8%	4
Semiconductors & Semiconductor Equipment	9	1	11.1%	0
Software	182	48	26.4%	26
Telecommunication Services	5	3	60.0%	0
Grand Total	687	234	34.1%	81

Table 8: High Technology in GWR – Segment Analysis

Silicon Valley has more acquisitions in the majority of the foregoing industry segments and is much more engaged than the GWR when it comes to in-market acquisitions. However, when it comes to supplying services, specifically IT and professional such as consulting, the GWR is much more engaged in in-market transactions than Silicon Valley.

Industrials

This sector includes companies in aerospace and defense, industrial machinery, tools, lumber production, construction, cement, metal fabrication, transportation and other services involved in the development and in support of these activities. This sector contains more industry segments than any of the other sectors in this report.

Between 2006 and 2011, there were approximately 354 M&A acquisitions within the Industrials sector. About 61% (217) took place in the GWR. Tables 9 and 10 below show the

wide variety of industry segments in which transactions took place. On a percentage basis, there were more in-market acquisitions within the GWR. Additionally, Silicon Valley firms acquired twelve firms in the GWR while GWR firms only acquired one firm in the Silicon Valley.

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Aerospace & Defense	1	0	0.0%	0
Air Freight & Logistics	11	5	45.5%	0
Airlines	5	0	0.0%	0
Auto Components	11	1	9.1%	0
Automobiles	1	1	100.0%	0
Biotechnology	1	0	0.0%	0
Building Products	1	0	0.0%	0
Commercial Services & Supplies	9	0	0.0%	0
Computers & Peripherals	1	0	0.0%	0
Construction & Engineering	21	4	19.0%	0
Distributors	1	0	0.0%	0
Electrical Equipment	1	0	0.0%	0
Electronic Equipment, Instruments & Components	17	5	29.4%	1
Healthcare Equipment & Supplies	1	0	0.0%	0
Household Durables	1	0	0.0%	0
Independent Power Producers & Energy Traders	1	0	0.0%	0
Internet Software & Services	5	2	40.0%	0
Leisure Equipment & Products	1	0	0.0%	0
Life Sciences Tools & Services	2	0	0.0%	0
Machinery	11	2	18.2%	0
Professional Services	3	0	0.0%	0
Road and Rail	3	2	66.7%	0
Semiconductors & Semiconductor Equipment	18	13	72.2%	0
Software	4	1	25.0%	0
Trading Companies & Distributors	4	2	50.0%	0
Transportation Infrastructure	2	0	0.0%	0
Grand Total	137	38	27.7%	1

Table 9: Industrials in Silicon Valley – Segment Analysis

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Aerospace & Defense	24	12	50.0%	2
Air Freight & Logistics	13	2	15.4%	2
Airlines	6	2	33.3%	0
Auto Components	9	0	0.0%	0
Building Products	1	0	0.0%	1
Commercial Services & Supplies	22	4	18.2%	1
Communications Equipment	2	1	50.0%	0
Computers & Peripherals	1	0	0.0%	1
Construction & Engineering	31	9	29.0%	2
Distributors	2	0	0.0%	0
Electric Utilities	1	1	100.0%	0
Electrical Equipment	3	1	33.3%	1
Electronic Equipment, Instruments & Components	20	5	25.0%	0
Household Durables	8	6	75.0%	0
Independent Power Producers & Energy Traders	1	0	0.0%	0
Internet Software & Services	2	0	0.0%	1
IT Services	5	3	60.0%	0
Leisure Equipment & Products	1	0	0.0%	0
Machinery	19	4	21.1%	0
Metals & Mining	4	1	25.0%	0
Oil, Gas & Consumable Fuels	5	0	0.0%	1
Paper & Forest Products	2	1	50.0%	0
Professional Services	9	3	33.3%	0
Real Estate Management & Development	1	1	100.0%	0
Road and Rail	13	3	23.1%	0
Semiconductors & Semiconductor Equipment	1	0	0.0%	0
Software	2	2	100.0%	0
Textiles, Apparel & Luxury Goods	1	0	0.0%	0
Trading Companies & Distributors	6	0	0.0%	0
Transportation Infrastructure	2	1	50.0%	0
Grand Total	217	62	28.6%	12

Table 10: Industrials in GWR – Segment Analysis

The GWR has more acquisitions in a majority of the foregoing industry segments and also a higher percentage of in market transactions.

Media and Entertainment

This industry sector includes companies that provide products and services including public relations consulting, traditional print media and publishing, television, radio broadcasting, film entertainment, hotels, and advertising. It also includes manufacturers of the technology that the industry depends on.

Between 2006 and 2011, there were approximately 454 M&A acquisitions within the Media and Entertainment sector. About 54% (244) took place in the GWR. On a percentage basis, both regions were relatively equal in their in-market acquisitions (close to 40% for each). Additionally, more firms in the GWR were acquired by Silicon Valley based firms than vice-versa. It should also be noted that there were transactions that occurred in each region that did not occur in the other. In the GWR, there were no transactions in Internet Catalog and Retail, while there were no Real Estate Investment Trust transactions in Silicon Valley.²

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Commercial Services & Supplies	6	2	33.3%	0
Distributors	1	0	0.0%	0
Diversified Telecommunication Services	1	0	0.0%	0
Hotels, Restaurants & Leisure	43	12	27.9%	8
Internet & Catalog Retail	5	4	80.0%	0
Internet Software & Services	60	30	50.0%	0
IT Services	1	1	100.0%	0
Media	73	27	37.0%	1
Professional Services	8	3	37.5%	0
Software	11	3	27.3%	0
Wireless Telecommunication Services	1	0	0.0%	1
Grand Total	210	82	39.0%	10

Table 11: Media and Entertainment in Silicon Valley – Segment Analysis

² Washington REIT sold off the industrial asset portfolio which consisted of several buildings which fell under the Media and Entertainment sector

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Commercial Services & Supplies	7	3	42.9%	1
Distributors	1	0	0.0%	0
Diversified Telecommunication Services	2	1	50.0%	0
Hotels, Restaurants & Leisure	79	32	40.5%	2
Internet Software & Services	15	3	20.0%	4
IT Services	1	1	100.0%	0
Media	120	49	40.8%	9
Professional Services	12	4	33.3%	0
Real Estate Investment Trusts	3	0	0.0%	0
Software	3	0	0.0%	0
Wireless Telecommunication Services	1	1	100.0%	0
Grand Total	244	94	38.5%	16

Table 12: Media and Entertainment in GWR – Segment Analysis

With the exception of Internet Software and Services, the GWR had more acquisitions in a majority of the foregoing industry segments and is equally, if not more, engaged than Silicon Valley when it comes to buying in-market.

Telecommunications

This industry sector includes companies that operate in radio, television, voice communications, and broadband services for both commercial and private use and manufacturers of the technology that the telecommunications sector depends on.

Between 2006 and 2011, there were approximately 240 M&A acquisitions within the Telecommunications industry sector. About 53% (128) took place in the GWR. Tables 13 and 14 show that the GWR, despite having more total acquisitions, had fewer in-market acquisitions on a percentage basis than did Silicon Valley. Additionally, more firms in the GWR were acquired by Silicon Valley based firms (10 compared to 2). The GWR had no transactions in the following industry segments whereas there was activity in Silicon Valley: Consumer Finance, Healthcare Technology, Life Sciences Tools and Services, Media and Semiconductors and Semiconductor Equipment. Conversely, the following industry acquisitions occurred in the GWR but not in Silicon Valley: Commercial Services and Supplies, Construction and Engineering and Information Technology.

Silicon Valley	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by GWR
Aerospace & Defense	2	1	50.0%	0
Communications Equipment	52	23	44.2%	0
Consumer Finance	3	0	0.0%	0
Diversified Services	14	6	42.9%	0
Electronic Equipment, Instruments & Components	6	3	50.0%	0
Healthcare Technology	1	0	0.0%	0
Household Durables	1	0	0.0%	0
Life Sciences Tools & Services Industry	1	1	100.0%	0
Media	2	1	50.0%	0
Semiconductors & Semiconductor Equipment	4	3	75.0%	0
Software & Services	22	7	31.8%	1
Wireless Telecommunications Services	4	2	50.0%	1
Grand Total	112	47	42.0%	2

Table 13: Telecommunications Silicon Valley – Segment Analysis

Greater Washington Region	Total Acq.	Total Acquired Locally	% Acquired Locally	Total Acquired by SV
Aerospace & Defense	10	4	40.0%	1
Commercial Services & Supplies	3	0	0.0%	0
Communications Equipment	14	0	0.0%	1
Construction & Engineering	5	1	20.0%	0
Diversified Services	51	13	25.5%	3
Electronic Equipment, Instruments & Components	6	3	50.0%	1
Household Durables	1	0	0.0%	0
Information Technology	7	2	28.6%	1
Software & Services	5	0	0.0%	2
Wireless Telecommunications Services	26	9	34.6%	1
Grand Total	128	32	25.0%	10

Table 14: Telecommunications GWR – Segment Analysis

With the exception of Communications Equipment and Software, the M&A activity between the two regions was equal or the GWR had significantly more acquisitions than Silicon Valley, particularly in Aerospace and Defense, Diversified Services and Wireless Telecommunications Services.

Section IV: Conclusion

The GWR has both the structural and cultural characteristics to successfully grow and exit technology related businesses. The dominance of High Technology in Silicon Valley M&A patterns and the general focus on this sector as the primary determinant of startup success obscures favorable underlying M&A trends in the GWR. Additionally, the positive relationship between the success of specific sectors and in-market acquisitions reinforces the argument that startups will be more successful if they are in lines of business already important to and thriving in a region. This raises an interesting question for GWR entrepreneurs: does it make sense to build a company where the likely acquirer is not local? It could also raise another question: in light of the large number of well-established companies in the GWR that utilize technology or are technology companies themselves, would it make more sense to build companies that they might want to buy? When the GWR community asks how to accelerate its technology startup community, perhaps Silicon Valley is the right model, but not for the reasons most often cited. By building technology startups that are desirable to the GWR's local companies, the GWR could rapidly find itself being rewarded for the one market behavior that really drives Silicon Valley: making companies that the community around them want to own.

Appendix A: Methodology

Data Evaluation

The data in this report was obtained from various data bases and press releases, which provided aggregate transaction data. In formulating this report, the following information was collected:

1. Announcement Date of Deal
2. Target Name (company being acquired)
3. Target City and State
4. Acquirer Name
5. Acquirer State and Country

The transactions were divided into sectors based upon overall market data and clustering used in business and transaction reporting services.

This dataset allowed us to identify the following:

1. Total Number of Deals
2. Total Number of Deals within Silicon Valley
 - a. Total Number of Deals by Sector
3. Total Number of Deals within the Greater Washington Region
 - a. Total Number of Deals by Sector
4. Total Number of Deals where the Acquiring Firm was Based in the Silicon Valley or the Greater Washington Region
 - a. Example: Firm X is based in Washington, DC and is acquired by a firm in McLean, Virginia
5. Total Number of Deals in which the Silicon Valley Purchased a Company within the Greater Washington region and vice versa

The sector data was then further segmented into industry segments, which are presented in the tables below.

Sector: Financials	
Aerospace and Defense	Airlines
Capital Markets	Commercial Banking
Consumer Finance	Diversified Telecommunications Services
Financial Services	Healthcare Providers and Services
Hotels, Restaurants and Leisure	Information Technology
Insurance	Machinery
Media	Metals and Mining
Personal Products	Semiconductors and Semiconductor Equipment
Software	Specialty Retail
Thrifts and Mortgage Finance	

Sector: Healthcare	
Biotechnology	Healthcare Equipment and Supplies
Healthcare Providers and Services	Healthcare Technology
Life Sciences Tools and Services	Personal Products
Pharmaceuticals	Professional Services

Sector: High Technology	
Aerospace and Defense	Biotechnology
Capital Markets	Commercial Services and Supplies
Communications Equipment	Computers and Peripherals
Construction and Engineering	Distributors
Diversified Consumer Services	Diversified Telecommunications Services
Electronic Equipment, Instruments and Components	Healthcare Technology
Household Durables	Insurance
Internet Software and Services	IT Services
Life Sciences Tools and Services	Machinery
Media	Metals and Mining
Semiconductors and Semiconductor Equipment	Professional Services
Software	Telecommunications Services

Sector: Industrials	
Aerospace and Defense	Air, Freight and Logistics
Airlines	Auto Components
Automobiles	Biotechnology
Building Products	Chemicals
Commercial Services and Supplies	Communications Equipment
Computers and Peripherals	Construction and Engineering
Distributors	Electric Utilities
Electrical Equipment	Electronic Equipment, Instruments and Components
Healthcare Equipment and Supplies	Household Durables
Internet Software and Services	Independent Power Producers and Energy Traders
IT Services	Life Sciences Tools and Services
Leisure Equipment and Products	Machinery
Metals and Mining	Oil, Gas and Consumable Fuels
Paper and Forest Products	Professional Services
Real Estate Management and Development	Road and Rail
Software	Semiconductors and Semiconductor Equipment
Textiles, Apparel and Luxury Goods	Trading Companies and Distributors
Transportation Infrastructure	

Sector: Media and Entertainment	
Commercial Services and Supplies	Distributors
Diversified Telecommunications Services	Hotels, Restaurants and Leisure
Internet and Catalog Retail	Internet Software and Services
IT Services	Media
Professional Services	Real Estate Investment Trusts
Software	Wireless Telecommunication Services

Sector: Telecommunications	
Aerospace and Defense	Commercial Services and Supplies
Communications Equipment	Construction and Engineering
Consumer Finance	Diversified Services
Electronic Equipment, Instruments and Components	Healthcare Technology
Household Durables	Information Technology
Life Sciences Tools and Services	Media
Semiconductors and Semiconductor Equipment	Software and Services
Wireless Telecommunications Services	

Data Arrangement Process

After identifying the industry segments within each sector, it was possible to calculate the total acquisitions within each (industry segment) as well as the total number of acquisitions that were made by local firms.

Table A1 below is an example of how the data was arranged and sorted throughout the process. In this case, the first column indicates two of the industry segments within the Financial Services Sector for the GWR. The percentage of firms acquired locally (column D) is calculated by dividing the number of firms which were acquired locally in that industry (column C) by the total number of acquisitions of firms in the GWR (column B).

A	B	C	D	E
Greater Washington Region	Total Acq	Total Acquired Locally	% Acquired Locally	# Acquired by SV
Capital Markets	29	5	17.2%	1
Commercial Banking	5	2	40.0%	0

Table A1: Example of Data Display

About the Author



Jonathan Aberman is the founder and Managing Director of Amplifier Ventures (www.amplifierventures.com), a seed and early stage venture capital fund based in Mclean, VA. Amplifier Ventures focuses on commercializing federally-funded technology. He is also the founder and President of FounderCorps (www.founder corps.org), a Virginia not for profit that provides experienced mentors to partners throughout the Greater Washington Region, including George Mason University, George Washington University, University of Maryland, Fosterly and others.

Jonathan also is very involved in intellectual property commercialization from universities and government labs. He is currently the founder and Managing Director of TandemNSI (www.tandemnsi.com), a program funded by the Commonwealth of Virginia and supported by Arlington County EDA to bring entrepreneurs, universities and national security agencies together to accelerate economic development and national security entrepreneurship in the Greater Washington Region. Over the last two years he has assisted both the Office of Governor McDonnell and the Obama Administration in formulating policies to promote start up formation. He has also worked with the Department of Defense Lab directorate, DARPA, DHS, AFOSR, the Army and other national security agencies on various consulting engagements addressing entrepreneurship and technology creation.

Jonathan is also an educator, and he teaches subjects relating to nontraditional performer businesses, including corporate finance, business planning, organizational development and new venture creation. He is currently a Lecturer at the University of Maryland's Robert H. Smith School of Business. He is also a regular speaker on topics related to business formation and expansion for groups such as the National Academies of Science, the National Science Foundation, the Northern Virginia Technology Council and others. Jonathan is the co-host of LeftJab Radio (www.leftjabradio.com), a weekly radio show on business, politics and current events broadcast on SiriusXM. He is frequently interviewed and quoted on business topics by national and local news organizations, including Washington Business Report, Huffington Post, the Deal, Potomac TechWire, the Washington Post, and the Washington Business Journal.

Prior to becoming a venture investor, Jonathan had a career in London and New York as an investment banker and law firm partner, working for international investment banks (Goldman Sachs, Donaldson Lufkin and Daiwa Securities) and national law firms specializing in technology law (Pillsbury Winthrop Shaw Pittman, Fenwick & West and Fish and Richardson).

Jonathan holds a BA (with honors) in Political Science and Economics from George Washington University, where he was a Phi Beta Kappa. He received an MSc in International Economics with Distinction from the London School of Economics. He also holds two law degrees, an MA from Downing College, Cambridge University and an LLM from the New York University School of Law.

Jonathan can be reached at: jaberman@amplifierventures.com