TECH M&A IN 2021: MOVING FROM STRENGTH TO GREATER STRENGTH?

Technology was among the saving graces of 2020, whether the sector's performance in equities or M&A. This year could see even more of the same, at least in regard to tech company acquisitions.

In late January, *The M&A Lawyer* spoke to **Eric McCrath**, a partner in the San Francisco office of Morrison & Foerster LLP and co-chair of Morrison & Foerster's Global Corporate Department, about his firm's most recent Tech M&A Leaders' Survey. Its findings suggest a substantial tech M&A boom could occur in 2021, building on last year's already-strong performance.

The Survey, conducted in December 2020 and whose 89 respondents were primarily U.S.-based investment bankers (39%) or C-level/M&A executives (39%), found that its participants greatly expect a wave of tech M&A deals. Two-thirds of respondents (66%) anticipate a rise in tech acquisition activity, the largest percentage to predict that since the firm's April 2014 survey. Only about 6% said they believed tech M&A activity would decrease in 2021.

"We should continue to see a lot of consolidation in the semiconductor space, in the fintech space," McCrath said. "There's a large crop of private companies in the AI and security space that I believe will also be part of ongoing M&A activity. I think we'll continue to see a lot of cross-border activity—there are hints of more of that as we go forward this year."

A tech M&A boom this year will be owed in great part to 2020, when the sector proved invaluable during the COVID-19 crisis. For example, someone who had never heard of Zoom in 2019 was using it as a lifeline for work a year later. "There was a real tech resilience in the face of the pandemic," McCrath said. Where retail, for example, was hard hit, "there was a lot of strength in tech that was focused on security measures, around home offices, having employees deploy remotely."

A solid majority (61%) of respondents said

they believed that private equity spending on tech targets would increase in 2021, nearly double the number who said that in the 2019 survey (as Morrison & Foerster noted, PE spending on tech targets rose to $108 billion last year, a performance boosted by $27 billion reported in December 2020 alone).

And roughly 66% of respondents said tech purchases by special purpose acquisition companies (aka "blank check companies") would also increase. As in other sectors, SPACs emerged from seemingly out of nowhere last year to become a significant buyer, with 35 acquisitions of tech targets reported. By contrast, there were only six SPAC tech purchases in 2018.

"The numbers say it all," McCrath said. Earlier in the previous decade, SPACs "had been a flavor, but not necessarily the focus of a lot of attention." That changed dramatically in 2020. A selling company's bankers and lawyers were now almost required to consider SPACs as one option, due to the huge uptick in volume. That trend is likely to continue, in the short-to-medium-term at least. "Momentum builds on momentum. [SPACs] will likely be bigger this year because of their greater exposure and the greater sense of them being something to look at."

More Deals, Lesser Valuations?

The survey found that the outlook for deal valuations, however, is less bullish than for deal activity. Only about 35% of respondents said they anticipated an increase in valuations for sales of privately-held tech companies in 2021.

In particular, survey respondents were divided on whether PE firms would pay higher or lower multiples for tech companies in 2021. Roughly 39% expect them to pay more, while 28% predict less. As Morrison & Foerster noted, "the vaguely optimistic outlook comes on the back of a tough year for selling assets to sponsors. Leveraged buyout firms paid a median 2.9x trailing revenue for their tech acquisitions in 2020, the lowest since 2016."

There was consensus, however, that competition would push up pricing on PE acquisitions. About 63% of respondents expect contested deals among PE firms to increase M&A prices, and 61% said the drive to beat other strategic acquirers could propel multiples in 2021.

And many (69%) respondents said there would be a favorable exit environment for PE assets in the next three years. About 64% of respondents said they expected strategic acquirers to deliver such exits this year, along with bankruptcies (61%) and secondary sales (54%) also expanding.

The survey also assessed how the pandemic had affected tech dealmaking over the past year. Asked which impacts of COVID they had encountered in at least one M&A deal they had worked on, roughly 53% of respondents said due diligence had been delayed, 39% said the buyer postponed negotiations, 27% said that a buyer ended or suspended negotiations and had yet to resume them, and 26% said that a buyer renegotiated the deal price. Only 9%, however, said the buyer terminated its acquisition agreement.

McCrath said that "there was a little bit of a learning curve in the first couple of months [of the pandemic], as people figured out how to set up their specific comfort zones." In terms of due diligence, "there was a greater focus, I believe, on bringing in legal specialists who could assess and help do penetration tests on target companies in M&A diligence. That was naturally increasing in

any event, but in this past year there's been a lot of focus on that, in terms of better assessing risks associated with target companies."