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Survey: No slowdown seen in tech M&A's record run

Analyst: Brenon Daly 23 Oct, 2014

Even as tech M&A spending sprints along at a record clip in 2014, half of the respondents to the just-completed M&A Leaders' Survey from 451 Research and Morrison & Foerster expect the pace to accelerate through the next six months. The 48% of survey respondents who say the tech M&A market is likely to be busier from now through next April is three times higher than the percentage forecasting a decline in activity.

M&A spending outlook for the next six months

Survey date	Increase	Stay the same	Decrease
October 2014	48%	36%	16%
April 2014	72%	24%	4%
October 2013	50%	43%	7%
April 2013	54%	27%	19%
October 2012	49%	34%	17%
April 2012	59%	33%	8%

Source: M&A Leaders' Survey from 451 Research / Morrison & Foerster

Although the bullish projection in our mid-October survey dropped from the high-water mark of 72% in our April 2014 survey, it essentially matches the level from surveys over the previous two years. For context, however, it's also important to note that this outlook – with five out of six respondents indicating that dealmaking will either hold steady or pick up – is coming at a record time for tech M&A.

Global tech M&A activity, Q1-Q3

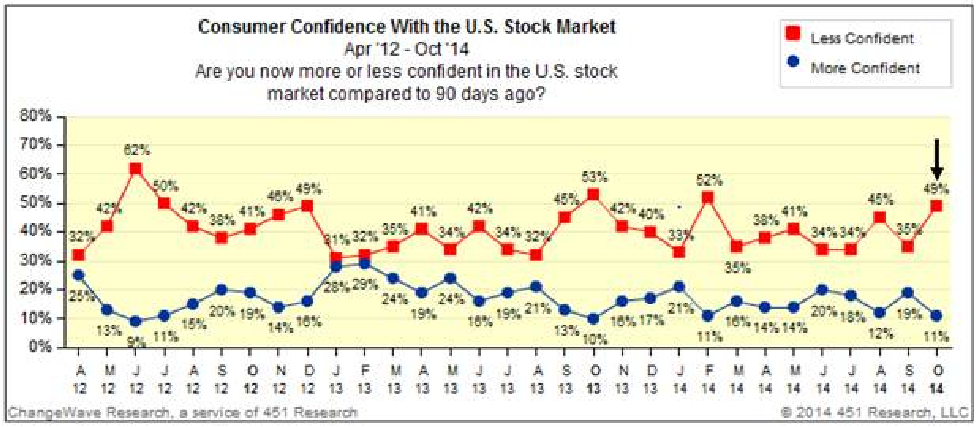
Period	Deal volume	Deal value
Q1-Q3 2014	2,864	$376bn
Q1-Q3 2013	2,445	$194bn
Q1-Q3 2012	2,777	$119bn
Q1-Q3 2011	2,883	$187bn
Q1-Q3 2010	2,488	$149bn
Q1-Q3 2009	2,202	$89bn
Q1-Q3 2008	2,303	$222bn

Source: The 451 M&A KnowledgeBase

Spending on tech deals around the globe so far in 2014 is higher than the spending during the same period of 2012 and 2013 *combined*, according to The 451 M&A KnowledgeBase. Through the first three quarters of 2014, dealmakers have spent $376bn on tech transactions, putting the full year on track for an astonishing half-trillion dollars worth of tech M&A spending in 2014. (451 Research subscribers: See our full report on Q3 M&A and IPO activity.)

Uncertain outlook

It's also important to note that the economic outlook, particularly in Europe, has deteriorated since last spring's M&A Leaders' Survey from 451 Research and Morrison & Foerster. (While we were in-market with the current survey, for instance, both the S&P 500 and the Dow Jones Industrial Average dropped briefly below where they were in our previous survey period in April.) Further, uncertainty, which is corrosive to closing deals, has surged. As one indicator of that, consider the fact that in mid-October, the CBOE Volatility Index essentially doubled from where it was a year earlier, reaching its highest level since mid-2012.



Survey respondents also indicated that the imminent end of the US Federal Reserve's bond-buying program is likely to slow M&A in the future. (The interventionist policy kept interest rates artificially low, effectively making debt less expensive and more widely available.) Some four out of 10 respondents said the end of so-called 'tapering' would slow M&A, compared with just one out of 10 who said the opposite. We would also note that the most recent result is 10 percentage points higher than those who forecasted a slowdown in M&A due to higher interest rates in our survey a year ago.

Pricing pressure

Perhaps the most dramatic shift in sentiment came in the outlook for private company M&A valuations, which has never been more bearish. A record 34% of respondents predicted that sale prices for startups would head lower from now through next April, three times the percentage that said that in our survey just a half-year ago. On the other side, only 26% saw startup prices ticking higher, half of the previous forecast. That's the biggest downturn in sentiment toward private company pricing that we've registered in the six surveys we've done.

Private company M&A valuation outlook for the next six months

Survey date	Increase	Stay the same	Decrease
October 2014 forecast	26%	40%	34%
April 2014 forecast	48%	41%	11%
October 2013 forecast	36%	43%	21%
April 2013 forecast	53%	33%	14%
October 2012 forecast	25%	47%	28%
April 2012 forecast	43%	47%	10%

Source: M&A Leaders' Survey from 451 Research / Morrison & Foerster

We would attribute at least part of the deterioration to the fact that there were certainly bigger – and much higher-profile – sales of startups in the early part of 2014. The hit parade is obviously led by February's sale of WhatsApp to Facebook for $19bn, which stands as the largest-ever price paid for a VC-backed company. The messaging service, which is free to use for a year, had only begun to generate revenue. Overall, according to The 451 M&A KnowledgeBase, the first half of 2014 saw eight of the 10 largest deals announced so far this year.

'Crossover' constriction

The equity market volatility combined with the projected decline in startup valuations is also expected to hit the IPO market, according to the survey. Respondents didn't necessarily see the momentum from Alibaba's record $25bn raise in late Q3 carrying through for new offerings in the final quarter of this year. Four out of 10 (40%) projected that Q4 activity would be lower than the first three quarters of 2014, compared with 33% who said the pace would hold steady and 27% who thought it would increase.

IPO market activity, Q4 2014 vs. Q1-Q3 2014

Forecast	Survey response
Increase	27%
Stay the same	33%
Decrease	40%

Source: M&A Leaders' Survey from 451 Research / Morrison & Foerster

More broadly, for the first time in our surveys, we tried to quantify the impact that so-called 'crossover' investors are having on the exit environment for private tech companies. These cash-heavy late-stage investors have been writing checks that, in many cases, match the funding amounts and valuations that a company might receive in an IPO. The finding? Crossover investors are noticeably crimping deal flow for tech IPOs as well as M&A, according to our survey.

Seven out of 10 respondents (69%) said the billions of dollars of growth capital available to private companies is slowing the number of offerings. That was more than twice the combined percentage of those who said the flood of money was having no impact on IPOs (16%) and those who said it was accelerating the offerings (15%). On its own, that's not particularly surprising. After all, if a private company can raise the same amount of money – but with less disclosure and regulation – from deep pools of private capital rather than public markets, why go through all the rigmarole with the SEC?

But it was somewhat surprising to see that, in the view of our survey respondents, late-stage investors are also changing the environment for the other (more common) exit, M&A. Survey respondents were almost half again more likely to say the availability of late-stage capital is slowing dealmaking than accelerating it. Specifically, 44% anticipated a slowdown in M&A because of crossover investments, with 30% expecting a pickup.

Rules and regulations

Given the massive media and telecom consolidation that has either already closed or is still being considered, we asked about the overall antitrust and regulatory environment for tech M&A. The majority view holds that although reviews have toughened, they aren't overly onerous right now.

Slightly more than half (53%) of survey respondents said antitrust and regulatory reviews are more of a concern now than they were five years ago, nearly five times the percentage (11%) that said the opposite. In response to a follow-up question, however, half (51%) described the current environment as 'just about right,' with one-third (34%) saying it was 'too tough' and 15% saying it was 'too lenient.'

About the survey: The Tech M&A Leaders' Survey from 451 Research and Morrison & Foerster drew 138 responses, primarily from investment bankers (41% of respondents), corporate/business development executives (21%) and C-level executives (17%). Nine out of 10 responses came from dealmakers and advisers based in the US; Silicon Valley represented the largest single location, accounting for 44% of total responses.

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