

Morrison & Foerster's Robert Townsend

By Patience Haggin

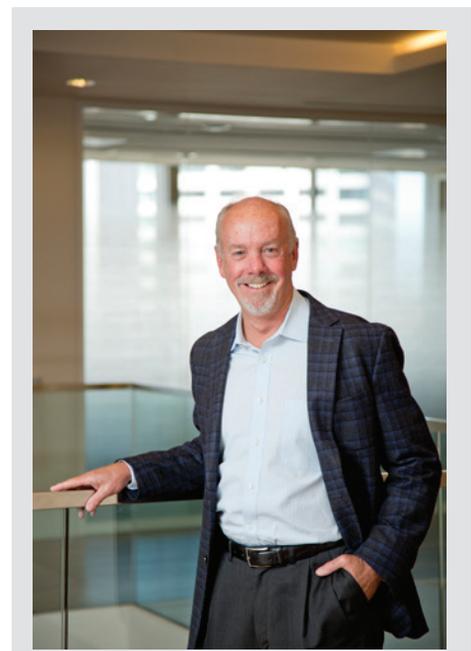
The wave of deals in Silicon Valley has been a boon to mergers and acquisitions practices with a tech focus. Morrison & Foerster partner Robert Townsend, who led the team advising Japan-based SoftBank in its massive 2013 deal with Spring Nextel, shared his predictions for how enforcement trends, sky-high valuations and geopolitics will affect the M&A market.

What are your predictions for the M&A market? Obviously, the overall M&A market remains very robust. That is because there are a number of positive factors that are finally coming into confluence and supporting a lot of M&A activity. That includes high degrees of confidence among a lot of CEOs and boards of companies. It includes the fact that both strategic and private equity buyers have a great deal of cash. The stock market over the last year has been rewarding buyers for buying other companies, by which I mean the stock price tends to go up for the company that's acquiring when

the deal is announced, which is not usually the case historically. And then there's been a lot of pressure from activist shareholders that have driven transactions as well.

There's also some negatives out there that we're starting to see. Obviously valuations can be quite high. That's given some buyers pause. And second, we are seeing [government institutions such as the SEC and antitrust authorities] have been fairly aggressive in choosing to take on transactions—most recently Comcast with the Time Warner deal. That is a negative factor that will give some people pause, and I think we might see some other developments with respect to antitrust enforcement in the near future that would give people further pause based on some of the things we're working on now.

And then, in terms of the tech sector in particular, we still have some very large public companies in the Bay Area that have seen relatively slow growth and are highly motivated to use M&A as a tool to grow more rapidly and also an indirect hiring effort



Robert Townsend, Morrison & Foerster partner

Jason Doy / The Recorder

through these smaller acqui-hire deals that we're seeing. I expect that to continue. There's certain sectors like mobile and cybersecurity, I think, that will be very active in the M&A sector. With respect to media and telecom, I think we'll continue to see a set of deals that will try to achieve convergence between those companies that own the pipes and those companies that provide the content to be delivered to those pipes.

Many are predicting an influx of M&A deals from Asian tech and telecom companies. But with the strengthening dollar and rising interest rates, is this actually the case? If you look at Japan first of all, you could say that the Japanese continue to look at acquisitions, not just in tech, but in pharmaceutical, as well as in other areas: in consumer products. I think there will be some pause by virtue of the fact that the yen has decreased in value by 20 percent against the U.S. dollar. So acquisitions here are increasingly expensive. But the Japanese companies themselves need growth and they need access to U.S. technology and U.S. markets. Japanese buyers have remained resilient in good times and bad, so I expect that to continue.

With Chinese buyers, we're starting to see more activity than ever. It's one of those few trends that it's just hard to forecast how strong that will be over time, in part because there's just so much more time involved in approving large transactions than there would be in the U.S. that part of it is political and depends on governmental priorities. It's hard to know the extent to which the Chinese government will directly or indirectly open the spigots so the Chinese market can become very active in the U.S. market, particularly in technology. Particularly as there are sectors of the tech industry that the Chinese

government has targeted for having indigenous, strong Chinese competitors—semiconductors being one example—and they will do what they can to foster the development of Chinese champion companies in those tech sectors. ... Chinese buyers are more active than they have been, but it's difficult to forecast over time because it's not just driven by economics. It's driven by politics, it's driven by the priorities of the Chinese government, it's driven by the confidence of Chinese buyers and their ability to successfully acquire companies internationally. And so all those things are more difficult to forecast because they depend on factors that are not transparent.

Do you think the activity by Chinese buyers has reached it saturation point? I think China has other priorities. I think they're really focused on their own domestic economy and the need for growth there that I think the government really has its eye and attention focused on that.

How is the increased focus on cybersecurity affecting your practice? It has a variety of effects. First of all, cybersecurity and the security of a company's IT system is increasingly important in the due diligence review that we do with target companies. Second, it is an area both of consolidation and growth, so there are acquisition

opportunities and new transactions in the cybersecurity field. A lot of companies that aren't traditionally thought of as cybersecurity companies but have related technologies like large-scale data analytics are now going to be getting involved in the cybersecurity field because those tools that they have are very helpful in terms of trying to detect patterns, for example.

Morrison & Foerster has kept the center of its tech industry practice in San Francisco, rather than Silicon Valley. How has that worked out for you?

For us it's a validation of our having stayed home in San Francisco. A lot of other firms did send attorneys down to Palo Alto to the extent that they kept offices here was largely just for recruiting purposes to support lawyers down in Silicon Valley. Now what's happened is with companies like Salesforce, Twitter and others, we've seen the model that you can have great success as a tech company in San Francisco itself. That has led to and helped vet a real wave of tech companies that are now being established in San Francisco, that are growing in San Francisco, that are hiring in San Francisco. And for us it's fabulous to have all these growing companies right in our backyard, where we sit.