This report was previously provided to participants in the Morrison & Foerster /451 Research Tech M&A Leaders Survey courtesy of 451 Research.

Big deals keep getting bigger as Q2 shatters M&A spending record

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Blockbuster transactions in the cable, semiconductor and networking equipment industries helped push Q2 spending on tech, media and telecom (TMT) acquisitions to its highest quarterly level in 15 years. In the just-completed quarter, the value of TMT deals across the globe hit an astounding $196bn. That shattered the previous quarterly record and is actually higher than three of the six full-year totals we've recorded in 451 Research's M&A KnowledgeBase since the recent recession ended.

Recent quarterly deal flow

Period	Deal Volume	Deal Value
Q2 2015	1,022	$196bn
Q1 2015	1,027	$120bn
Q4 2014	1,028	$65bn
Q3 2014	1,049	$102bn
Q2 2014	1,005	$141bn
Q1 2014	854	$82bn
Q4 2013	787	$64bn
Q3 2013	859	$73bn
Q2 2013	760	$48bn
Q1 2013	798	$65bn
Q4 2012	824	$65bn
Q3 2012	880	$39bn
Q2 2012	878	$44bn
Q1 2012	920	$35bn

Source: 451 Research's M&A KnowledgeBase

The record Q2 spending rate, which accelerated from an already strong Q1, was boosted by the largest-ever tech deal (Avago's $37bn purchase of Broadcom) as well as the second-largest telecom transaction since 2002 (Charter Communications' $57bn rebound reach for Time Warner Cable). On their own, either of those deals would have been considered a reasonable amount of spending for a full quarter in recent years. Instead, those transactions simply led an unprecedented parade of big-ticket deals announced from April to June. The 22 prints in Q2 valued at $1bn or more included eight transactions worth at least $4bn and four worth more than $15bn. All four of the largest deals announced so far in 2015 have come since April.

Record acceleration

After 2014 finished with a post-recession TMT record of $390bn in M&A spending, activity this year started at an even brisker pace. Spending on deals in the first three months of 2015 surged to $120bn – the third-highest quarterly total since 2002. And yet, dealmakers were just getting started. In the just-completed quarter, they spent a staggering $196bn, 60% more than the first three months of 2015.

Taken together, M&A spending in the first two quarters of 2015 hit a high-water mark of $316bn. Although it's highly unlikely that deal flow will continue linearly at its current record rate, it's worth noting that spending on TMT for the full year is on pace for an almost unimaginable $630bn. For a bit of perspective, that would be a full $200bn more than the highest annual total since the Internet bubble burst in 2000.

Billion-dollar transactions

Period	Number of deals worth $1bn+
Q1-Q2 2015	41
2014	70
2013	48
2012	42
2011	51
2010	43
2009	32
2008	33
2007	79
2006	74
2005	70
2004	28

Source: 451 Research's M&A KnowledgeBase

The record pace of spending comes as many of the top dealmakers, who are collectively holding hundreds of billions of dollars, indicate that they are exceedingly confident about the tech M&A market. In April, slightly more than six out of 10 respondents to the M&A Leaders' Survey from 451 Research and Morrison & Foerster said they expected their pace of acquisitions to accelerate through October. (See our full report.) That was the second-most-bullish response in the seven editions of the M&A Leaders' Survey. And that sentiment has certainly come through in actual activity.

Voluminous volume

Even as corporate and financial acquirers announced an unprecedented number of 10-digit (and even 11-digit) transactions, it's not just big deals that are getting done. Deal volume in Q2 once again topped 1,000 transactions, the fifth consecutive quarter it has exceeded that threshold. The recent rate of more than 1,000 deals each quarter is about 15% higher than the average quarterly level since the recession ended.

2015 monthly deal flow

Period	Deal Volume	Deal Value
January 2015	355	$11bn
February 2015	335	$48bn
March 2015	337	$61bn
April 2015	364	$46bn
May 2015	299	$122bn
June 2015	358	$27bn

Source: 451 Research's M&A KnowledgeBase

And yet, participation hasn't been universal. Microsoft announced three acquisitions in Q2, bringing its total for the year to eight transactions. That's about as many as it has averaged for a full year over the past half-decade. For its part, Google has printed five deals since April. Even IBM has inked as many acquisitions so far in 2015 (five) as it did in all of 2014. On the other hand, there are some well-known shoppers that have yet to ring up a purchase in 2015: Juniper, SAP and Oracle have all been shut out so far this year.

Finally, there was also a small – but highly visible – impact on M&A activity due to regulatory review. During Q2, regulators knocked down a pair of gargantuan transactions, effectively erasing $55bn worth of aggregate deal value. (Comcast abandoned its planned $45bn stock swap with Time Warner Cable after the FCC and Department of Justice decided that the combination was not in the best interests of consumers, while Applied Materials pulled its 18-month-old bid for fellow semiconductor equipment maker Tokyo Electron due to antitrust objections.) Antitrust officials have been looking more critically at many proposed pairings just as consolidation – both inside and outside the tech industry – has swung back into favor among dealmakers.

Noteworthy transactions

- In the largest tech deal of the past 15 years, Avago is paying $37bn in cash and stock for Broadcom. The consolidation helped push spending on chip acquisitions during the quarter to $59bn – roughly the same amount that has been spent on M&A in the chip industry in the past 10 quarters combined.

- Intel announced the largest transaction in its history, handing over $16.7bn in cash for Altera to help protect its server business. The defensive deal comes at a high price: Intel is paying 8.3 times trailing sales for Altera, compared with the median valuation of the 15-largest chip deals since 2002 of just 3x trailing sales.

- Piling integration on top of integration, Nokia plans to acquire Alcatel-Lucent for $16.5bn in stock. The transaction brings together former rivals in a combined entity that would essentially match the size of Ericsson, the world's largest supplier of telecom networking and IP licensing.

- At an equity value of $5.3bn, Informatica is the largest company to be erased from a US exchange by a private equity (PE) firm since BMC went private two years ago. The consortium led by Permira Funds is paying $1bn more than PE buyers shelled out for similarly sized rival TIBCO in its leveraged buyout last fall.

- Looking to grow beyond its core communication services offerings, Verizon plans to spend $4.4bn for AOL. However, the deal, which is Verizon's largest non-telecom acquisition, brings a mixed bag of businesses. AOL's advertising technology is undoubtedly the main draw for the carrier, but that business only generates about one-third of AOL's total revenue.

- EMC will hand over $1.2bn in cash for cloud services and software startup Virtustream. The transaction is particularly noteworthy because Virtustream is the first VC-backed company in 2015 to sell for more than $1bn. At this point last year, we'd already seen six venture capital exits worth more than a $1bn.

Woe to the IPO

If M&A is a boom market right now, the IPO activity is a bit of a bust. The second quarter saw just three enterprise companies make their way to the public market, with all three offerings getting discounted to some degree. We would contrast the difficulties faced by vendors looking to raise money on Wall Street with the relatively free-flowing VC dollars for private companies. Somewhat paradoxically, valuations for startups have shot ahead of valuations for their public brethren, even though private companies are far more speculative investments because of less rigorous accounting standards and, often, less seasoned businesses plans and performance.

Consider this: Only one enterprise tech IPO rose to 'unicorn' status on the public market (Sophos), and that was 30 years in the making and only came as the company nosed up toward a half-billion dollars in revenue. Meanwhile, the number of privately held startups – some still measuring their revenue in the tens of millions of dollars – valued at more than $1bn continues to climb.

For the other two offerings in the past quarter, the IPO hardly seems worth the trouble. Following a long, tedious process to come public, Apigee and Xactly created a combined market value of not much more than $500m (or, if you prefer, half a unicorn). Neither has found Wall Street to be a particularly welcoming place. Back in April, Apigee did manage to price in the middle of its expected range, but shares are now trading at half their opening-day high. More disappointingly, sales compensation management software maker Xactly made it public only by accepting a dramatically lower payday. Instead of selling seven million shares at the expected (or even conservative) range of $10-12, it trimmed the price to just $8. The discount dropped the amount raised by $20m, compared with the midpoint of the expected range, leaving the company with just $56m from its offering.

Forecast	Survey Response
Increase	41%
Stay the same	32%
Decrease	27%

Source: M&A Leaders' Survey from 451 Research / Morrison & Foerster, April 2015

IPO market activity, 2015 vs. 2014

There are dozens of still-private companies that have raised more funding in a single round than either Apigee or Xactly did in their IPOs, and that money came without all of the additional legal and financial paperwork that the SEC requires to go public. In our Tech M&A Leaders' Survey in April, nearly two-thirds (64%) of respondents indicated that the availability of big money from late-stage backers is reducing the number of companies coming public. We don't anticipate any changes in that coming soon. As long as late-stage investors continue to write big checks to tech startups, IPO will more likely than not stand for 'initial private offering.'

ABOUT THE SURVEY

Now in its seventh edition, the Tech M&A Leaders' Survey from 451 Research and Morrison & Foerster drew 175 responses, primarily from corporate M&A executives (46% of respondents) and investment bankers (31% of respondents), with the remaining quarter coming from lawyers, VCs, PE professionals and others from the M&A community. Nine out of 10 responses came from dealmakers and advisers based in the US; Silicon Valley represented the largest single location, accounting for 46% of the total. The survey was conducted in the back half of April 2015.

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