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2016

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SEMI-ANNUAL LEADERS SURVEY

M&A Leaders Survey

Morrison & Foerster / 451 Research

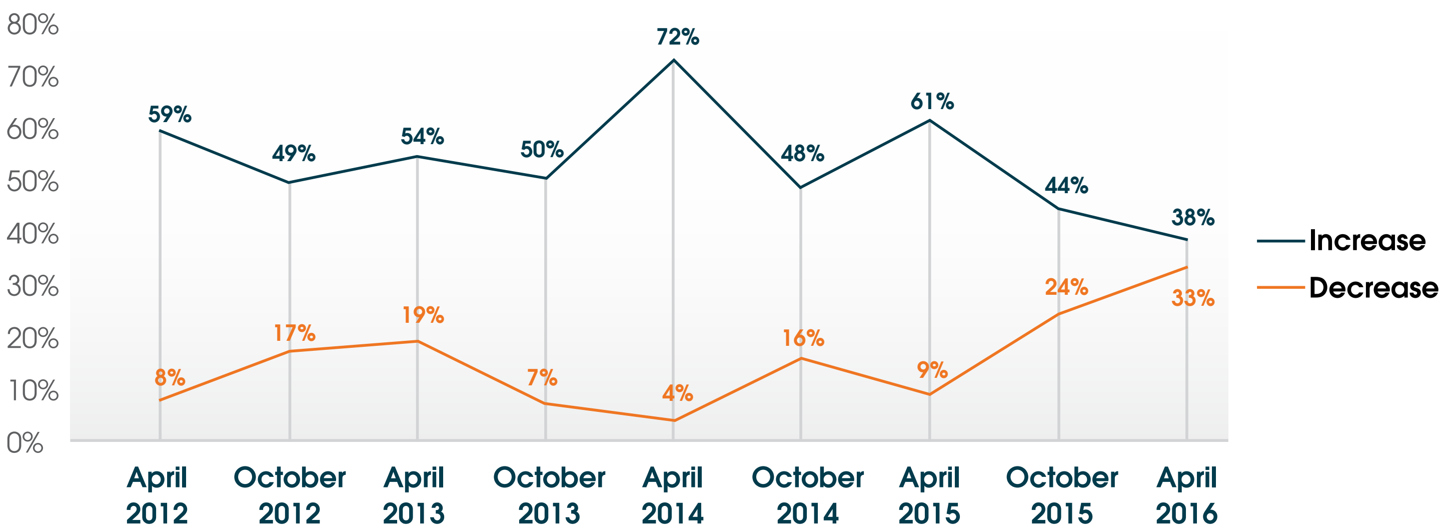
Survey: After years of big plans and big buys, tech acquirers signal a slowdown

After pushing M&A spending to a 15-year high last year, a record number of tech acquirers have indicated that they will be stepping out of the market in 2016. For the first time in the four-year history of the M&A Leaders' Survey from 451 Research and Morrison & Foerster, the number of respondents forecasting an uptick in acquisition activity only slightly exceeded the number saying they would be cutting back on their shopping. That's a significant deterioration in M&A sentiment compared with past surveys, which, on average, have seen more than four times as many respondents project an increase than a decrease.

Tech M&A activity outlook

Forecast change in M&A activity

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



In our late-April survey, fully one-third (33%) of respondents said they would be slowing their acquisition activity over the next six months, compared with just 38% who reported that they would be accelerating their M&A program. Taken together, the responses mark the most bearish tone ever from our respondents, who represent many of the most well-known buyers in the tech industry as well as their advisers. In our previous surveys, the average forecast has been overwhelming bullish, with more than half of respondents (55%) anticipating an acceleration in activity and only 13% saying the opposite.

Caught in a cycle

Of course, the recent survey follows a year that saw not only an all-time record for the number of tech deals announced, but also the highest level of spending since 2000. According to 451 Research's M&A KnowledgeBase, the total value of tech, media and telecom (TMT) deals in 2015 topped an astonishing $600bn – almost as much as the amount in the two previous years, combined. (See our full report on 2015's record run.) Given the blistering activity last year, some slowdown in 2016 would have been expected, if just to allow buyers to integrate many of the large purchases they made. (The M&A KnowledgeBase tallied a record 83 separate transactions valued at $1bn or more in 2015.) Indeed, spending in the first three months of 2016 was just half the average quarterly tally last year. (See our full report on Q1 M&A activity.)

Recent quarterly deal flow

Period	Deal volume	Deal value
Q1 2016	1,029	$73bn
Q4 2015	1,052	$184bn
Q3 2015	1,162	$85bn
Q2 2015	1,074	$208bn
Q1 2015	1,040	$121bn
Q4 2014	1,028	$65bn
Q3 2014	1,049	$102bn
Q2 2014	1,005	$141bn

Source: 451 Research's M&A KnowledgeBase

But the latest survey results suggest that the pace could slow further as 2016 rolls along. The reason? At least in part, it's due to cyclicality. That came through clearly when we asked about the current condition in the M&A market. Five times as many respondents said the market is in the waning days of the cycle as said it was just getting started. (Specifically, 45% said the cycle is at or near the end, while just 9% said it was at or near the start.) The percentage indicating that we are in the twilight period ticked four percentage points higher from when we asked the same question in our previous survey last October.

Location in the current M&A cycle

Survey date	At/near the beginning	In the middle	At/near the end
April 2016	9%	46%	45%
October 2015	8%	51%	41%

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

About the survey: The M&A Leaders' Survey from 451 Research and Morrison & Foerster drew 121 responses, primarily from corporate or M&A executives (47% of respondents) and investment bankers (34%), with the remaining responses coming from lawyers, VCs, PE professionals and others in the M&A community. Roughly nine out of 10 responses came from dealmakers and advisers based in the US; Silicon Valley represented the largest single location, accounting for 40% of the total.

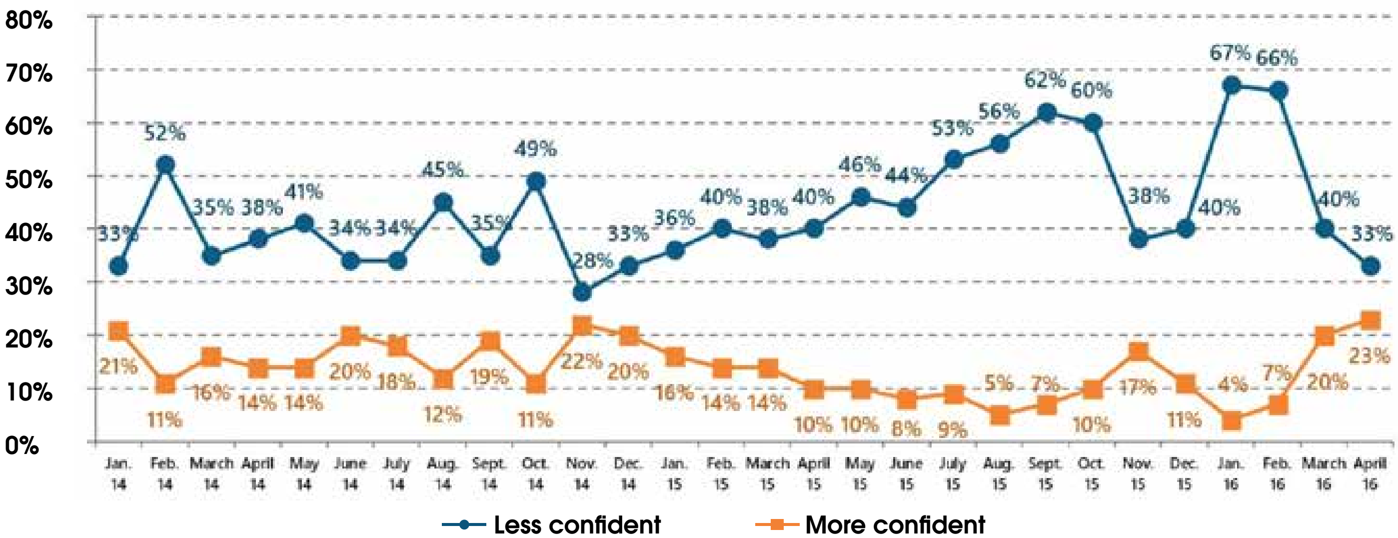
Wall Street as shaky ground

While respondents to the M&A Leaders' Survey from 451 Research and Morrison & Foerster overwhelmingly viewed cyclicality as a reason for pulling back their M&A expectations, they were almost evenly split regarding the impact on dealmaking for the rest of 2016 from the unnerving volatility that swept through the equity market at the start the year: 37% said whipsawing stock prices would dampen acquisition activity for the remainder of the year, while 32% said it would accelerate dealmaking.

Equity market outlook

Are you now more or less confident in the U.S. stock market compared to 90 days ago?

Source: ChangeWave Research, a Service of 451 Research



That ambivalence about the impact of stock market uncertainty is understandable, given the fact that by the time we were surveying dealmakers in late April, the bears were no longer mauling the market. Many of the equity market indexes – if not all the composite companies – have clawed their way to more or less breakeven. Further, an April survey of individual investors by ChangeWave (a service of 451 Research) showed that Wall Street was no longer viewed as shaky ground. Only one-third of investors said they were ‘less confident’ in the stock market than they were three months ago. That was the just half the level at the start of 2016, and the lowest reading in more than a year. On the other hand, almost one-quarter of respondents indicated that they are feeling ‘more confident’ in Wall Street, which was the most bullish reading ChangeWave has recorded in three years.

Selling for less

Shifting from the forecast for M&A activity to valuations, respondents to the survey were even more bearish, at least when it came to sales of startups. Nearly two-thirds of the dealmakers (64%) said private companies were likely to get sold for less during the remaining months of 2016 than they would have in the same period last year. That’s the highest forecast for declining valuations ever given by respondents, and significantly above the four-year average of roughly one in four respondents predicting that startups would get discounted in the next half-year or so.

Private company M&A valuation outlook for next six months

Survey date	Increase	Stay the same	Decrease
April 2016 forecast	19%	17%	64%
October 2015 forecast	18%	30%	52%
April 2015 forecast	50%	32%	18%
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

As to whether the valuation compression predicted for startups over the next six months has already played out during the previous six months, our survey revealed that the answer depended on what role you play in the M&A negotiation. Three-quarters of respondents (76%) said valuations that acquirers have been willing to pay in the past half-year have come down, while only half (52%) said target companies have lowered their valuation expectations. Further underscoring the gulf between the two sides, 20% of respondents said target companies have bumped up their asking price, which is twice the percentage that saw a similar upward revision by acquirers.

To be clear, the question focused specifically on private company valuations. However, in the public market, which is often considered a leading indicator for the private market, we have already noticed discounted deals. So far in 2016, according to the M&A KnowledgeBase, listed vendors such as Textura, Lexmark, Atmel and Cvent have all agreed to acquisition offers that valued them lower than they had traded last year – without the takeout premium.

IPO: not now, maybe later

Although we closed our survey just as SecureWorks was coming to market as the first tech IPO in four months, survey respondents don't anticipate many more new offerings for the rest of the year. (In terms of the SecureWorks IPO, there wasn't much encouragement to take out of it. The managed security service provider had to cut both the number of shares and the price of them to make it public in its delayed offering, which is currently underwater.) In our survey, nearly six out of 10 (58%) respondents said the number of tech IPOs in 2016 will trail activity in 2015, which was already the lowest since the recent recession. That was almost three times the 21% that expected this year to top last year.

IPO market outlook

Survey date	Forecast increase	Stay the same	Forecast decline
April 2016	21%	21%	58%
October 2015	29%	28%	43%
April 2015	41%	32%	27%

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

Respondents did predict an eventual uptick in the IPO market. Half of them (49%) said the market for new offerings would improve over the next five years, compared with the previous five years. On the other side, just one-third (33%) said it would deteriorate during the coming half-decade.

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