Global technology M&A

As equity market volatility surged, corporate technology dealmakers backed away from big-ticket deals in 4Q14; but there was also continuing evidence of an underlying strength in global technology M&A that is helping to drive technology transformation across industries.

While big-ticket deals declined dramatically in 4Q14, full-year 2014 nonetheless set M&A volume and value records surpassed only in 2000, at the height of the dotcom bubble. Mid-size deals (from $100 million up to $1 billion) remained strong in 4Q14. And deal volume set another new post-dotcom-bubble record. So if equity market volatility calms, we could see a rapid return of big transformative deals.

Highlights

- 4Q14 aggregate value of disclosed-value deals was $44.9 billion, down 39% from a record-setting third quarter. But the 2014 annual total was $237.6 billion, higher than any year on record except 2000.
- Advertising and marketing, security and internet of things (IoT) aggregate deal values jumped; in fact, the 4Q14 totals for the first two were more than their year-to-date (YTD) totals through 3Q14.
- Private equity (PE) and non-technology buyers both also increased aggregate value; together, they accounted for 48% of total 4Q14 value (compared with 22% YTD through 3Q14). PE buyers appeared to target companies struggling with mobile-social-cloud transitions (companies we call “in the crosshairs”).
- Cross-border (CB) aggregate deal value declined 38% from a record-setting 3Q14 but remained strong, with a 45% share of total quarterly value.

Note: all dollar amounts are US dollars.
Technologies that are transforming entire industries – or have the potential to do so – continue to drive technology M&A.

Average values for disclosed-value deals soared in advertising and marketing and in security in 4Q14 on the strength of one top 10 deal each. But IoT average value topped the list. IoT had two top 10 deals, both of which targeted semiconductor companies supplying devices to feed this network-and-sensor-oriented trend. Across all drivers in the chart, many of the corporate deals we saw in 4Q14 appeared to be motivated by the acquirers’ desire to deliver more comprehensive customer solutions, as opposed to merely a given portion of the technology “stack.” We call this trend “stack to solution.”

“Globally, technology corporate development teams took a breather in 4Q14. But I don’t doubt for a minute they’ll be back with transformative deals soon, because every day megatrend-related innovation is creating more need for true solutions-oriented selling, revealing valuable ‘hidden gems’ inside large organizations, placing more companies in the crosshairs of innovative upstarts and increasing everyone’s need for comprehensive security solutions.”

Jeff Liu
Global Technology Industry
Transaction Advisory Services Leader
EY

Although 2014 ended on its weakest quarter in value terms, PE and non-technology buyers both significantly increased aggregate disclosed dealmaking value.

Despite a blockbuster 2014 — with deal volume and value higher than at any time since 2000 — aggregate and average deal values declined in 4Q14. Corporate buyers were behind the falloff, declining 50% sequentially. PE buyers, meanwhile, jumped to $12.2 billion in aggregate value, 34% above their average for the first three quarters, to capture a 27% share of the 4Q14 total. Non-technology buyers also increased: they rose to $9.3 billion, 93% above their average for the first three quarters. Together, PE and non-technology buyers accounted for 48% ($21.6 billion) of the 4Q14 aggregate value of $44.9 billion, and 27% ($63.4 billion) of the full-year 2014 total. Mid-size deals ($100 million to $1 billion) were strong in 4Q14: they increased 3% YOY to $21.4 billion, compared with a 14% YOY decline to $19.4 billion for deals above $1 billion. For 2014, mid-size deals grew 36% to $75 billion, while big-ticket deals increased 21% to $148.8 billion.

Cross-border dealmaking slows in 4Q14 but remains robust.

CB deal value flow returned to normal in 4Q14, following a 3Q14 during which many buyers in other regions targeted US technology companies as part of a search for growth in an uncertain global economy. Five CB deals surpassed $1 billion, including the largest deal of the quarter. The 4Q14 CB total value of $20.2 billion was up 1% YOY but down 38% from a post-dotcom-bubble record of $32.7 billion in 3Q14. For the year, CB aggregate value was $80.7 billion, up 49% from 2013, for a 34% share of 2014 total value.

Outlook | Robust dealmaking ahead

2014 was a blockbuster year for technology M&A. But unlike 2000, it was no bubble. Despite the occasional “moonshot” from a handful of deep-pocketed buyers, the vast majority of deals were measured in reality-based multiples of good-old-fashioned revenue, profit or cash flow. So while 2015 may not hit the same lofty highs as 2014, we fully expect another robust year of technology M&A in response to the transformations sweeping technology and rippling through all industries of the global economy. Consequently, technology executives would be wise to ask themselves:

- Are we positioned to offer customers true solutions, or even “answers,” as opposed to just a point offering in the overall technology stack?
- Has disruptive technology placed our organization “in the crosshairs” of some upstart companies, or of activist investors?
- Is there a “hidden gem” among our business units and other departments with the potential to drive greater value?
- Are we doing all we can to provide comprehensive security in our offerings?
This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.