M&A surge shows no sign of stopping any time soon
Key global M&A findings for all sectors

- 56% of companies expect to pursue acquisitions in the next 12 months
- 73% of M&A activity will be innovative investment
- 50% increase in intent to pursue upper-middle-market deals
- 47% of companies intend to complete more deals than in the prior year
- 45% are proactively guarding against cyber breaches in their M&A process
A note about cross-sector trends from our Global Transaction Advisory Services Vice Chair

Innovation, complexity and disruption define the new M&A market

Our 12th Global Capital Confidence Barometer finds the global M&A market maintaining the positive momentum that developed during 2014. For the first time in five years, more than half our respondents are planning acquisitions in the next 12 months, as deal pipelines continue to expand.

Executives express increasing optimism in the global economy, with much broader consistency across geographies than in 2014. This economic optimism, combined with steady confidence in corporate earnings and other leading market indicators, is fostering an environment where companies are preparing bolder moves, including M&A, to generate future value.

Our survey reveals three key reasons for the sharp increase in dealmaking intentions. First is the arrival of new entrants – both start-ups and companies returning to the market after staying on the sidelines for several years. Second, divergent economic conditions are accelerating cross-border M&A, as existing momentum in many developed markets is further fueled by falling oil prices and currency fluctuation. And third, disruptive innovation is driving dealmaking at every level of the enterprise.

Of course, challenges remain prominent on the boardroom agenda. Greater volatility in commodity and currency markets, geographic divergence in economic conditions and monetary policies, and lingering geopolitical concerns all present complexity. As well, rapid technological change is creating new risks such as cybersecurity, which has emerged as a core business issue that must be managed as part of the dealmaking process.

Notwithstanding these risks, the overall view in this Barometer is of a global M&A market on an upswing after years of crisis. Companies are learning to create opportunity and drive growth amid a more competitive economic and geopolitical landscape. After a half decade of stagnation, we are seeing the bold beginnings of a new kind of M&A market – one marked by innovation, complexity and disruptive change.

Pip McCrostie
Global Vice Chair
Transaction Advisory Services
EY
Key technology sector findings

Technology sector

- 97% of survey respondents see the global economy as improving or stable
- 60% of executives see the M&A market growing over the next 12 months
- 57% of companies intend to complete more deals than in the prior year
- 54% of respondents are proactively guarding against cyber breaches in their M&A process

Global, cross-sector

- 97% of survey respondents see the global economy as improving or stable
- 49% of executives see the M&A market growing over the next 12 months
- 47% of companies intend to complete more deals than in the prior year
- 45% of respondents are proactively guarding against cyber breaches in their M&A process
Technology M&A surge shows no sign of stopping any time soon

As the overall M&A market becomes increasingly robust, the technology sector is already off and running – registering post-dotcom-bubble records in the number of deals done for the past five consecutive quarters. In this Barometer, we see that a growing sense of confidence amid global digital transformation should continue to drive technology M&A through 2015. Confidence is evident in technology executives’ expectations for continued growth in the global economy, corporate earnings and technology M&A. At the same time, dealmakers are confronting two of the biggest challenges yet to arise from exploding mobile, cloud and data technologies: innovative disruption and cybersecurity.

Specifically, many technology companies that are in the crosshairs of potentially disruptive market entrants are doing deals to remain competitive by “self-disrupting” their existing businesses. The percentage of technology executives expecting to pursue acquisitions has more than doubled in a year, to 58%. Over three quarters of those doing deals are targeting innovative investment – acquisitions that would actually shift the scope of their business. In the first quarter of this year, this trend has translated into deals that have blurred the boundaries between tech and other industries as they pursue such disruptive innovations as health care IT, the internet of things, big data analytics and mobile payments. Cybersecurity was another of the biggest deal drivers in 1Q15, and our Barometer also shows that the actual M&A process is now being shored up against security breaches, in recognition that transactions are a prime target for cyber attacks (see page 16).

Overall, technology executives have 26% more deals in their pipelines now than in April 2014, though pipelines have narrowed from a spike six months ago as companies zero in on fewer targets. More than half of technology executives (57%) expect to complete more acquisitions this year than last. That is no small feat, considering the 3,500 disclosed-value technology deals in 2014 and the 981 in 1Q15 – both post-dotcom-bubble records reported in EY’s Global technology M&A updates.

Still, technology executives are keenly focused on balancing ambitions for growth with their top-level priority for efficiency (54%). Recent challenges to managing costs have emerged, however, in the form of fluctuating currencies (especially the strong dollar) and commodities (especially oil).

A large majority of dealmakers are focusing on cross-border acquisitions – in part to benefit from divergent economic performance. Their focus is predominantly on the developed markets that have shown better growth prospects in recent months.

Whatever the drivers – wherever the opportunities – the technology sector produced more deals than any other sector in 2014, by our calculations. In this Barometer, it shows no sign of stopping any time soon.

Jeff Liu
Global Technology Industry Leader
Transaction Advisory Services
EY
Macroeconomic environment

A robust outlook for the global economy, corporate earnings and other leading market indicators, including credit availability, should combine to support a healthy M&A environment over the next 12 months.

79% of technology executives view the global economy as improving
Technology executives see momentum in broader global economy

A large majority of technology executives (79%) now see the global economy as improving, putting behind them a trend toward more moderate expectations over the previous 18 months. In 2015, multiple engines are powering the global economy: a relatively stronger US economy, China moderating but still growing, and a Eurozone economy moving past austerity in its stronger economies and managing risk elsewhere. While significant downside risks remain, executives are increasingly focused on capturing the potential upsides of global economic growth.

Corporate earnings outlook and other leading market indicators remain positive

Even though technology executives' corporate earnings sentiment has faded from a high in October 2014, over two-thirds of them (67%) still expect an improvement. In fact, all corporate indicators in the technology sector are up over a year ago. The credit landscape is also complicated but favorable overall. While US quantitative easing (QE) ends, the introduction of QE in Europe and its continuation in Japan should support the availability of credit worldwide.

Technology companies look to retain talent following hiring surge

Ninety-five percent of technology executives are planning to maintain or grow their workforce. A surge in hiring plans six months ago has receded, perhaps due to a focus on the strategic rebalancing of skills. Now, two-thirds are looking to maintain their current workforce size. Meanwhile, the percentage of respondents anticipating workforce reduction is in the single digits (5%) – and only a fraction of what it was a year ago.

Geopolitical concerns moderate, while commodity and currency risks rise

Geopolitical matters remain a top issue, but concern is down sharply (9 points) from six months ago. However, fluctuating commodity prices and currencies are seen as rising risks to business. Past concern over slower emerging market growth has meanwhile receded to 11%, from 27% a year ago.
Corporate strategy

Technology executives increasingly emphasize new markets and products over less innovative growth strategies.

72% of technology companies are focused on innovative organic growth strategies.
Cost scrutiny intensifies
The technology sector is looking to balance growth and efficiency in its ongoing wave of strategic M&A and post-merger integration. With both the global financial crisis and dot-com bust in the rearview mirror, technology companies have embedded lean operations in their corporate culture. The current focus on cost (54%) is sharpened in the short term by greater volatility in currencies and commodity pricing.

Technology executives look to exploit innovation for organic growth
Continuous innovation and disruption in the technology sector is reflected in executives’ clear preference for new markets and products over less ambitious organic growth strategies, such as those limited to existing products and new sales channels. More than twice as many technology executives favor innovative growth over conventional growth strategies (72% versus 28%) – a marked change from a year ago.

The technology sector is looking to balance growth and efficiency in its ongoing wave of strategic M&A and post-merger integration.
Fundamental global changes reshaping corporate strategies

Q: Which of the following will impact your core business and your acquisition strategy most in the next 12 months?

**Global marketplace – Economic power shifts east and south, driving patterns of trade and investment**

- Core business: 21%
- Acquisition strategy: 29%

Faster growth rates and favorable demographics in key emerging markets are expected to feature prominently over the next decade, as the gap between developed and emerging countries continues to shrink and a new tier of emerging nations is driven by its own nascent middle classes. Increasingly, innovation is taking place in emerging markets, with China as a major hub. At the same time, the battle for talent will be increasingly fierce, driving greater workforce diversity to secure competitive advantage.

The world's economies are expected to remain highly interdependent – via trade, investment and financial systems – driving the need for stronger policy coordination among nations and resilient supply chains for companies operating in this environment. At the same time, domestic interests will continue to compete with the forces of global integration. These trends will affect companies' core business and acquisition strategies regardless of location, but executives nonetheless must consider not only what they do, but where they operate.

**Entrepreneurship rising – Growth in global entrepreneur class will require more supportive ecosystems**

- Core business: 41%
- Acquisition strategy: 13%

Entrepreneurs are the lifeblood of economic growth worldwide, both as employers and as producers of innovative products and services. They drive upstream and downstream value-chain activities. The growth and prosperity of all economies – developed and emerging – rely on robust entrepreneurial activity.

While some entrepreneurial activity is still motivated by necessity, "high-impact" entrepreneurship, once largely confined to mature markets, now drives emerging market expansion. Indeed, many emerging-market entrepreneurs are building scalable enterprises that capitalize on local needs and serve as business role models.

The rise of this entrepreneurial spirit is accelerating the introduction of new entrants to sectors, such as technology, that rely on intellectual property. This means both challenges for existing players and opportunities as innovative start-ups attract M&A activity.

**Digital future – Technology is disrupting all areas of enterprise, driving opportunities and challenges**

- Core business: 28%
- Acquisition strategy: 12%

Fueled by the convergence of social, mobile, cloud and big data, and the growing demand for anytime, anywhere access, technology is disrupting all areas of the enterprise – across industries and geographies.

The evolution of the digital enterprise also presents significant challenges: new competition, changing customer engagement and business models, unprecedented transparency, privacy concerns and cybersecurity threats. Companies that seize the opportunities offered by digital advances stand to gain; those that cannot may lose everything. Relationships between companies are becoming more fluid, as partners in one channel become competitors in another.

In sum, all of these technology-driven changes make long-term corporate strategy and acquisition plans far more complex and yet require expedient decision-making.
Technology boards focus on efficiency

Which of the following has been elevated on your boardroom agenda?

- **Acquisition**: 31%
- **Reducing costs/ Improving margins**: 34%
- **Strategic divestment (spin-off/IPO)**: 22%
- **Returning cash to shareholders**: 8%
- **Shareholder activism**: 3%

While costs and efficiencies are always a primary boardroom topic, the recent fluctuations of currencies and commodities have further elevated the prominence of cost reduction in the short term. Cost reduction is also at the heart of the shareholder activist agenda. In this Barometer, activist influence has not been elevated relative to other issues, because it was already at a very high level. Acquisitions are a growing focus of the technology boardroom agenda, up six points over six months ago.

Comparing responses on the boardroom agenda (above) with our survey results (below) on the Capital Agenda – EY’s framework for companies’ strategic decisions – we see a strong correlation. Optimization is the overwhelming capital priority, topping the agenda for well over half of executives. This reinforces that even as the global economic outlook improves, companies see a rigorously efficient portfolio as essential to remain competitive and protect corporate positions.

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**Raising**: Do we have the right capital structure to meet our strategic priorities?

With healthy balance sheets, companies are well positioned to fund deals – 32% of executives expect to focus on raising capital.

**Investing**: What is the best way for our company to grow – and is it aligned to our core business?

Companies are currently more focused on rigorous cost management and operational efficiencies – only 12% of companies are devoting their primary attention and resources to investing.

**Preserving**: How can we improve the performance of our assets?

As companies are out of survival mode, executives are no longer focused on preserving capital and are now turning to other Capital Agenda areas.

**Optimizing**: Which steps can we take to maximize our portfolio’s performance?

This is the leading Capital Agenda focus – 56% of executives are planning to optimize capital and are retaining rigor and discipline in their operations.
M&A outlook

Most technology executives see the M&A market surge continuing – even in the wake of record-breaking technology M&A last year and into the first quarter of this year.

58% of technology companies expect to pursue acquisitions in the next 12 months.
Most see another year of technology M&A

Sixty percent of technology executives see M&A continuing to grow in the sector in 2015 – even in the wake of record-breaking technology M&A last year and into the first quarter of this year. Specifically, in 1Q15, $77.1 billion in disclosed-value deals topped any quarter since 2000, and 981 deals marked a fifth consecutive post-dotcom-bubble record, according to EY’s Global technology M&A update. The Barometer shows technology M&A cutting across deal sizes and industry sub-segments, with nearly a quarter of technology executives (24%) expecting their deal sizes to grow.

More technology companies expect to pursue deals

More than half of technology executives (58%) expect their companies to pursue an acquisition in the next 12 months. This more than doubles expectations cited one year ago. That said, the number of acquisition opportunities is rising faster than the perceived quality or likelihood of closing deals.

Q: Has your M&A strategy changed as a result of the increased deal activity in 2014?

Q: What is your expectation for the M&A market in the next 12 months?

Q: Do you expect your company to actively pursue acquisitions in the next 12 months?
Technology pipelines continue to flow

Deal pipelines vary following last year’s surge

Technology pipeline sizes vary, but most (53%) are focused on a single deal, following last year’s surge in pipeline size. This could reflect companies digesting deals already in the works. At the same time, nearly a third of technology executives (32%) still see room for growth in their pipelines. Nearly a third of technology companies with larger pipelines (30%) see themselves likely to maintain or grow them. Survey respondents reported that they had 289 deals in their pipelines, in aggregate, up 26% from April 2014 but down more than half from a spike in October 2014.

Technology dealmakers expect to complete more acquisitions than last year

Positive M&A volumes in 2014 are encouraging the confidence to transact. Of those executives pursuing deals, nearly two-thirds (65%) expect to close at least one in the next 12 months – and over half (57%) expect to complete more acquisitions this year than last. This comes on top of the 3,500 disclosed-value technology deals (a post-dot-com record), reported in EY’s Global technology M&A year in review 2014.

Of those executives pursuing deals, 65% expect to close at least one in the next 12 months.
Valuations support continued dealmaking

Most gaps between buyers and sellers seen at 0% to 25%

Most technology executives say valuation gaps between buyers and sellers are small or only somewhat higher. Notably, however, 60% saw the gaps as small in our October 2014 Barometer, compared with 34% today. Still, an overall view of stability also supports ongoing dealmaking, with more than three-fourths (76%) of technology respondents expecting valuation gaps to remain the same and 81% expecting stable asset pricing over the next 12 months.

Overwhelming majorities expect both the valuation gap and the price of assets to remain stable in the next 12 months, creating conditions conducive to dealmaking.
Cyber attacks a growing risk in technology M&A market

Implications of a cyber attack

Potential business risks of a cyber attack include theft of R&D and intellectual property, financial fraud and reputational damage. The disruption caused by an attack may extend beyond the company itself to the industry and the broader market.

In the case of M&A specifically, companies’ systems can be hacked or compromised during the deal process, with the intent to gain insider information. One obvious risk is manipulation of the stock price and the deal process. A less obvious but equally significant risk is the potential to gain strategic information that could be used to disrupt the company’s core business and competitive position.

Identifying the risk is the key step in managing it

The M&A process centralizes an organization’s strategy and information on all of its functions in one repository. This presents a unique cyber risk situation that must be managed.

One of the most important ways to manage cyber risk during the M&A process is to proactively determine who may be targeting the organization – and which information they might want to steal. While identifying these threats, companies should consider not only potential attackers from outside the organization but also entities with authorized access, such as supply- and distribution-chain vendors as well as other business partners. Even the target company in an M&A transaction could pose a threat, because any weakness in its security program could be exploited. Once these risks are identified, preventive steps can be taken to alleviate them.
Dealmakers pointed toward innovation

Technology companies look to make bold investments

Companies are making bolder moves to shift the scope of their business. This can be particularly relevant to companies “in the crosshairs” — that is, facing proliferating challenges from upstarts. Accordingly, over three-quarters (78%) of executives who are considering deals are eyeing innovative investments — looking to disrupt their own existing business lines before competitors do so. Bolt-on acquisitions nevertheless remain significant to dealmakers, especially for technology companies moving from “stack-to-solution” (from selling all or part of a technology stack to providing complete, cloud-integrated solutions).

Upper-middle-market M&A to accelerate

The majority of technology investments are expected in the lower middle market, continuing a trend seen in 2H14. Still, a growing minority of technology buyers is targeting the upper middle market (16% now versus 10% in October 2014).

Deals under US$250m continue to dominate executives’ plans. But interest is growing in upper-middle-market deals — those between US$250m and US$1b.
Dealmakers looking across borders

Technology companies’ domestic M&A intentions are unusually low (8%) as companies seek divergent economic performance from cross-border dealmaking. Most (62%) are focusing their M&A strategies on cross-border transactions in their immediate region, with almost one-third (30%) planning to acquire farther afield.

Strategic technologies and growth through geographic expansion launched cross-border dealmaking in 1Q15 to a strong start, according to EY’s 1Q15 Global technology M&A update. Unexpectedly, given the strength of the US dollar, the US was a net seller.

The top three areas cited for their potential impact on M&A are legislative/regulatory changes, tax structures and entry into new geographical markets.
Acquisition capital targeted primarily to developed markets

Technology acquisition capital is largely being directed toward developed markets. Almost three-quarters of executives (72%) report they are investing less than 10% in emerging markets. The US, UK and Germany are set to lead developed market growth through 2015. China remains an emerging market of choice for many technology executives, driven by relatively strong growth and massive market potential. Australia’s favorable trading policies and positioning as a gateway to the Asia-Pacific region make it a top technology investment destination.

What percentage of your acquisition capital are you going to allocate to emerging markets in the next 12 months?

- Above 50%: 1%
- 25%-50%: 0%
- 10%-25%: 23%
- Less than 10%: 72%
- None: 4%
Technology deals set global pace

As the M&A market becomes increasingly robust across industry sectors, the technology sector is already off and running – registering a post-dotcom-bubble record for the number of deals done in 2014, as well as records for both aggregate value and volume in 1Q15. The Barometer shows 98% of technology executives expect this market either to improve (60%) or remain stable (38%).

Overall, technology executives have 26% more deals in their pipelines now than in April 2014, though pipelines have narrowed from a spike six months ago as companies zero in on fewer targets. More than half of technology executives (57%) expect to complete more acquisitions this year than last. A large majority of dealmakers are focusing on cross-border acquisitions – in part to benefit from divergent economic performance.

Their focus is predominantly on the developed markets that have shown better growth prospects in recent months. By our calculations, the technology sector produced more deals than any other sector in 2014 and it shows no sign of stopping any time soon.

Last 12 months to January 2015
Technology M&A records just keep on coming

That’s the finding of EY’s 1Q15 Global technology M&A update, which is being published in tandem with this Barometer. 2014 was a blockbuster year for global technology M&A – but based on 1Q15 performance, 2015 could be even bigger. Technology-enabled digital transformations disrupting multiple industries propelled 1Q15 to the second-largest quarterly aggregate disclosed-value in technology M&A history. Such deals drove 1Q15 strategic dealmaking by corporate technology and non-technology buyers alike, further blurring boundaries between technology and other industries.

Among the report’s key findings:

- 1Q15 aggregate value of disclosed-value deals hit $77.1 billion, up 16% year-over-year (YOY) and 72% sequentially. Only 1Q00 was higher – due to one megadeal.
- Quarterly deal volume climbed to 981 deals. That’s up 29% YOY, 2% sequentially and a fifth consecutive post-dotcom-bubble quarterly record.
- Big-ticket corporate deals returned after a one-quarter “breather,” and non-technology buyers’ value jumped again, after a strong 4Q14, to $19.5 billion (25% of aggregate value). But private equity volume and value declined. In all, there were 15 deals above $1 billion.
- Cross-border aggregate deal value more than doubled YOY and jumped 59% sequentially; it captured a 42% share of total quarterly value.

EY’s 1Q15 Global technology M&A update is available at ey.com/technology.
The Global Capital Confidence Barometer gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas – EY’s framework for strategically managing capital.

It is a regular survey of senior executives from large companies around the world, conducted by the Economist Intelligence Unit (EIU). Our panel comprises select global EY clients and contacts and regular EIU contributors.

- In February and March, we surveyed a panel of more than 1,600 executives in 54 countries; more than 850 were CEOs, CFOs and other C-level executives.
- Respondents represented 18 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, diversified industrial products, construction and real estate.
- Global companies’ annual global revenues ranged from: less than US$500m (16%); US$500m-US$999.9m (24%); US$1b-US$2.9b (26%); US$3b-US$4.9b (15%); to greater than US$5b (19%).
- Global company ownership was publicly listed (67%), privately owned (28%), family-owned (3%) and government/state-owned (2%).
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