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Tech M&A Boom Likely To Keep Soaring In 2016, Beyond

By **Fola Akinnibi**

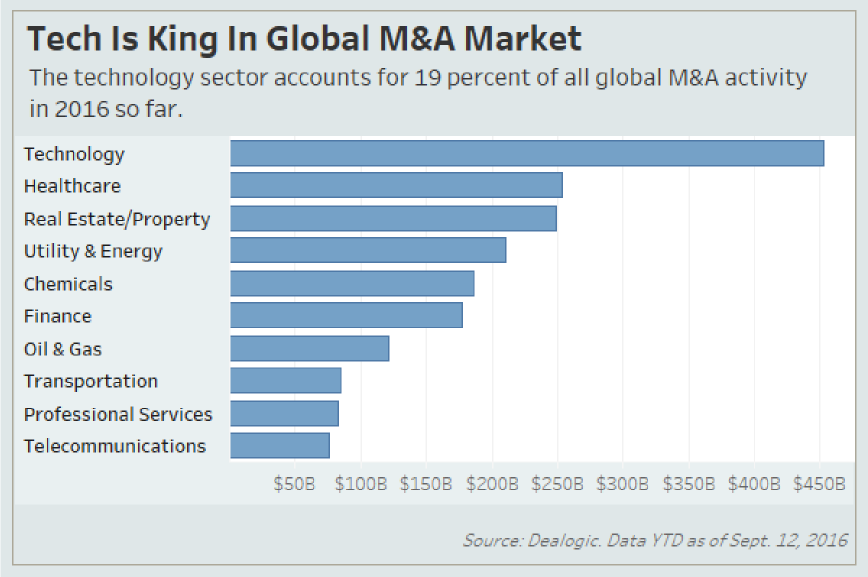
Law360, New York (September 20, 2016, 12:40 PM EDT) -- The technology sector leads all 2016 M&A activity through Sept. 12 with more than $450 billion in deal value, and experts say that trend should continue through the end of the year and beyond, as a more connected world leads to demand for tech products and companies.

Last year, with more than $705 billion in deal value, the sector was far and away the leader in M&A activity for the first time in at least 20 years, according to Dealogic, which tracks the enterprise value of announced transactions.

That trend is poised to continue, according to Rick Lane, a senior vice president on Moody's Analytics Inc.'s technology team, as technology intertwines itself with economic growth.

"The tech sector has become more tied to [gross domestic product]," Lane said. "Since you sell various types of technology gear and services to a broader swath of the world economy, you're going to be tied, more so, to economic growth."

And there's no sign of a drop-off for the home stretch of 2016, especially with deals involving North American and Asian companies, says Michael Dorf, aShearman & Sterling LLP partner.



In fact, merger activity should stay steady or even increase as companies look to lock in deals before the year ends. Barring a significant event or market correction, there's no indication that the trend won't continue through 2016, says Nina Flax, a Mayer Brown LLP partner.

Flax says that the high levels of activity can be traced back to the money that has been sunk into technology businesses and startups over the past few years.

As those businesses mature, they become attractive acquisition targets, she continued.

"I think it takes time to generate businesses that are ripe for acquisition. The fact that it hit last year and it's hitting again this year doesn't surprise me," Flax said. "I think that there are companies that are ripe for the next stage in their cycle."

There will be no shortage of technology companies going forward either, thanks to the sector's low barrier to entry and its continued growth, meaning it will continue to be a leading sector even beyond this year, Flax says.

"Everybody wants to be the next big thing and when they're thinking about what company they can start, it's tech," Flax said. "It's not as if you need to have a warehouse and land and employees. [A] startup that I represented had three employees and that's all they needed to build a product and exit successfully."

This level of tech merger activity hasn't been seen since the height of the dotcom bubble in 2000, when there was more than $512 billion in deal value, according to Dealogic data, second only to the telecommunications sector.

But this time around, there is a major difference in the type of activity, according to Lloyd Rothenberg, the deputy chair of Loeb & Loeb LLP's capital markets and corporate practices.

The companies being snapped up now have proven themselves and are much more mature than the dotcom boom companies, he says.

"I don't think it's a bubble," Rothenberg said. "If you want to compare it to the level of activity in the first internet bubble there are significant differences, because there are much more mature companies, there are companies that have real revenue and have sustainable business models."

Rothenberg said that he'd expect to see more consolidation going forward, adding that there is significant activity in the technology sector by venture capital firms, private equity firms and strategic buyers.

"We're going to see more consolidation because they want to bring these services together and make themselves work more efficiently as opposed to trying to divest themselves," Rothenberg said.

However, two of the largest deals in the sector this month, done by Hewlett Packard Enterprise Co. and Intel Corp., saw companies getting smaller in a bid to focus, rather than expanding their offerings.

On Sept. 7, HPE spun off its noncore software assets as part of an $8.8 billion merger with British software and information technology company Micro Focus International PLC. The deal, which allowed

HPE to double down and focus on its core technology infrastructure offerings, saw HPE send its noncore software assets to Micro Focus in exchange for $2.5 billion in cash and a 50.1 percent stake in the new, combined business for its shareholders.

In a similarly structured but smaller deal the same day, Intel spun off Intel Security and sold a controlling interest to private equity shop TPG Capital, valuing the cybersecurity unit at $4.2 billion, including debt.

Under that deal's terms, TPG will make a $1.1 billion equity investment in the spun off unit. Once closed, TPG will pay Intel $3.1 billion in cash and take on a 51 percent stake in the new company, which will be named McAfee, while Intel will hold the remaining 49 percent stake.

It's unlikely that spinoffs will be the prevailing deal type going forward, according to Lane. Instead, companies will be looking to consolidate, bring in new technologies for existing portfolios or build up new capabilities, he said.

"HPE stands apart a little bit. It's slimming down and getting a bit more focused on the core business," Lane said. "Time will tell — we'll see which strategies and which management teams can execute well on those strategies and see which one is the better approach to addressing the needs of customers and addressing how technology has been shifting."

--Editing by Rebecca Flanagan.
