MORRISON FOERSTER

Mergermarket

Powering Up: Sentiment, Stocks, and Security Drive the Tech Deal Revival

Contents

Methodology

In Q2 2024, Mergermarket surveyed 300 dealmakers from around the world to gain insights into the future of technology-related M&A. Respondents were equally distributed among corporates with a minimum of $250 million in annual revenue and private equity (PE) firms with a minimum of $500 million in assets under management. In respect of geography, 30% of respondents were based in North America, 30% in Europe, 30% in the Asia-Pacific region, and 10% in Latin America. All responses are anonymous, and results are presented in the aggregate.

Executive Summary

Tech M&A has made a phoenix-like resurgence, marking a decisive shift from last year's retreat. This revival is being propelled by a confluence of improved buyer sentiment and a steep rally in key tech stocks supported by the promise of artificial intelligence (AI). After posting an exceptional 42% return in 2023, the Nasdaq Composite Index continued to deliver in the first half of 2024, rising by a further 18.1%.

Despite persistent challenges posed by high interest rates, this laid the foundations for M&A in the technology space to make a solid recovery. Transaction value in the first nine months of the year was up 39% compared to the same period last year, while deal volume rose by only three (6,497 transactions in Q1-Q3 2023, compared with 6,500 in Q1-Q3 2024).

Additionally, technology M&A value has been relatively consistent across the three quarters, suggesting further growth could be in the cards. Market sentiment supports this view—more than half of survey respondents expect an increase in tech M&A volumes over the coming 12 months, while nearly a third see average tech M&A valuations significantly increasing, a threefold gain on last year's survey results.

Asia-Pacific buyers share the most bullish outlook on deal valuations, likely reflecting the catch-up effect that awaits the region. Valuations for China's key tech stocks have significantly lagged behind their U.S. counterparts so there is room to grow, which should also filter through to private companies based on market comparables.

Chuan Sun, Managing Partner of Morrison Foerster's Shanghai office, says, "It's not surprising that Asia-Pacific buyers are the most bullish on deal valuations. As we are coming out of a period of slower deal flow, optimism for the coming year reflects Asia's enthusiasm for PE-backed companies, China's economic stimulus and the huge equities rally in Hong Kong and China. While market uncertainty may still lie ahead, we are also poised to see value convergence and more cross-border deals."

However, challenges remain. Geopolitical tensions, a higher-for-longer interest rate environment, intensifying regulatory scrutiny, and wide valuation gaps pose significant hurdles. The upcoming U.S. presidential election and its potential impact on antitrust policies, tax rates, and stock market performance are also major concerns for North American acquirers.

Regardless, there is room for optimism, particularly on the trajectory of interest rates. Initial cuts from the European Central Bank (ECB) and the People's Bank of China (PBOC) in June and July, as well as a 0.5 percentage-point slice from the Federal Reserve in the middle of September, have brought fresh hope.

While Japanese interest rates have recently moved in the opposite direction (increasing interest rates by 0.25%, the largest rise since 2007), the rates remain extremely low compared to other countries and therefore continue to give an uplift to M&A in the country. According to Mergermarket figures, as of October 8, 2024, inbound transactions for Japanese targets rose to a record a $75.8 billion in Q1-3 2024, compared to $40.8 billion for all of 2023.

Assuming that economic growth does not materially deteriorate from here, the prospect of progressively looser financing conditions, Japan notwithstanding, should stoke further dealmaking. Lower interest rates will also increase the present value of future earnings by reducing the discount rate, further spurring tech multiples.

Key Findings

Tech M&A Bounce Back

The technology sector witnessed a resurgence in M&A activity during the first nine months of 2024. Volume remained steady at 6,500 deals, while aggregate deal value surged by an impressive 39%, reaching $483 billion.

PE Returns to the Table

Private equity firms are displaying a particularly bullish outlook, with 57% anticipating an uplift in tech deals compared to 51% of corporates. The volume and value of global private equity-backed deals worth $5 billion and above jumped in 2024, and the totals are on pace to challenge the 22-year record set in 2021, according to S&P Global Market Intelligence. Targets in the sector have an enduring appeal for financial sponsors because of their highly scalable business models that can generate substantial returns on investment.

A Brighter Outlook

Investor sentiment is warming towards tech M&A, with 54% of respondents expecting deal volumes to increase over the next 12 months, up from 48% in our previous survey. This optimism is being fueled by the potential easing of interest rates, the promise of AI, and the ongoing digital transformation across industries.

The “Goldilocks” Zone

A clear preference for young growth companies is emerging, with 43% of respondents favoring these targets over start-ups (29%) or mature companies (28%). This strategy seeks to balance the potential for high growth with profitability, identifying companies that have proven their business model and product market fit, but still offer significant opportunity to scale. This trend aligns with recent observations in the European market, where PE firms have shown increasing interest in venture-backed tech companies that have shifted towards sustainable growth.

> We're seeing a renewed appetite for big-ticket tech M&A, driven by improved buyer sentiment and a rally in key tech stocks. The tech M&A market is reawakening, marked by a trend towards fewer but heftier transactions. This energy is a decisive shift from last year's retreat, laying the foundations for a recovery in 2025."

Brandon Parris, co-chair of Morrison Foerster's global M&A practice

Cybersecurity and AI

For the second consecutive year, cybersecurity tops the list of sub-sectors presenting the best opportunities for dealmaking, albeit by a relatively slim margin. Just over half of respondents (53%) have their eyes on the segment, which is harnessing generative AI through advanced threat detection and response capabilities. Meanwhile, 47% of respondents believe that AI/machine learning targets offer the greatest deal opportunities right now.

Mind the Valuation Gap

Wide valuation gaps emerge as the greatest challenge to tech M&A in the opinion of both North American (41%) and European (43%) buyers. This disparity between seller and buyer expectations could potentially stall deal negotiations, though creative deferred payments such as earnouts are helping to bridge the bid-ask gap.

Barriers to Adoption

While AI is widely recognized as a transformative force, its adoption faces hurdles. We find that 45% of respondents cite increasingly strict regulation as a primary obstacle, while 41% point to the absence of shared protocols. These concerns reflect broader societal and ethical debates surrounding the use of AI. However, the technology's potential is evident across various sectors, with respondents identifying pharmaceuticals, medical, and biotech (51%) and energy, mining, and utilities (49%) as areas with the most potential for new or improved AI integration.

Sustainable Practices Gain Ground

In spite of political pushback in the U.S., environmental, social, and governance (ESG) considerations continue to gain prominence. Currently scoring 8.1 out of 10 in importance for recent tech deals, according to our survey, ESG factors are expected to reach 8.7 for future transactions. Notably, developing markets are showing the greatest positive shift in their priorities. This overall trend reflects a growing recognition that long-term value creation is intrinsically linked to sustainable and responsible business practices, with investors increasingly willing to pay premiums for ESG-mature targets.

SECTION 1:

Market Overview

AI, growth-hungry tech companies, and the perpetual motion of digital innovation have revived the M&A market, with both sponsors and strategics returning to the deal table.

Tech dealmaking is awakening from hibernation. The first nine months of this year witnessed M&A in the technology sector kick up a gear as sentiment warms up and interest rates begin to cool. While the total number of technology deals remained almost exactly static (a difference of three deals between 2023 and 2024), aggregate value surged by 39% reaching $483 billion.

Germany's tech sector exemplified the industry's broader performance in Europe in Q1-Q3. Overall, through the first nine months of 2024, 268 transactions were announced targeting German software, computer hardware, and semiconductor companies, representing an 11% decline in volume terms compared to the same period in the year prior. But the aggregate value of those transactions was $9.7 billion, more than the total deal value for the full year 2023 ($8.7 billion), according to Mergermarket data.

Dirk Besse, Managing Partner of Morrison Foerster's German office, says, "Tech M&A in Germany is gathering momentum and reflects the broader trend towards larger deals with the aggregate deal value more than doubling the same period last year. Investors are seeking high growth companies in hardware, software and semiconductors that are capitalizing on the latest AI technologies."

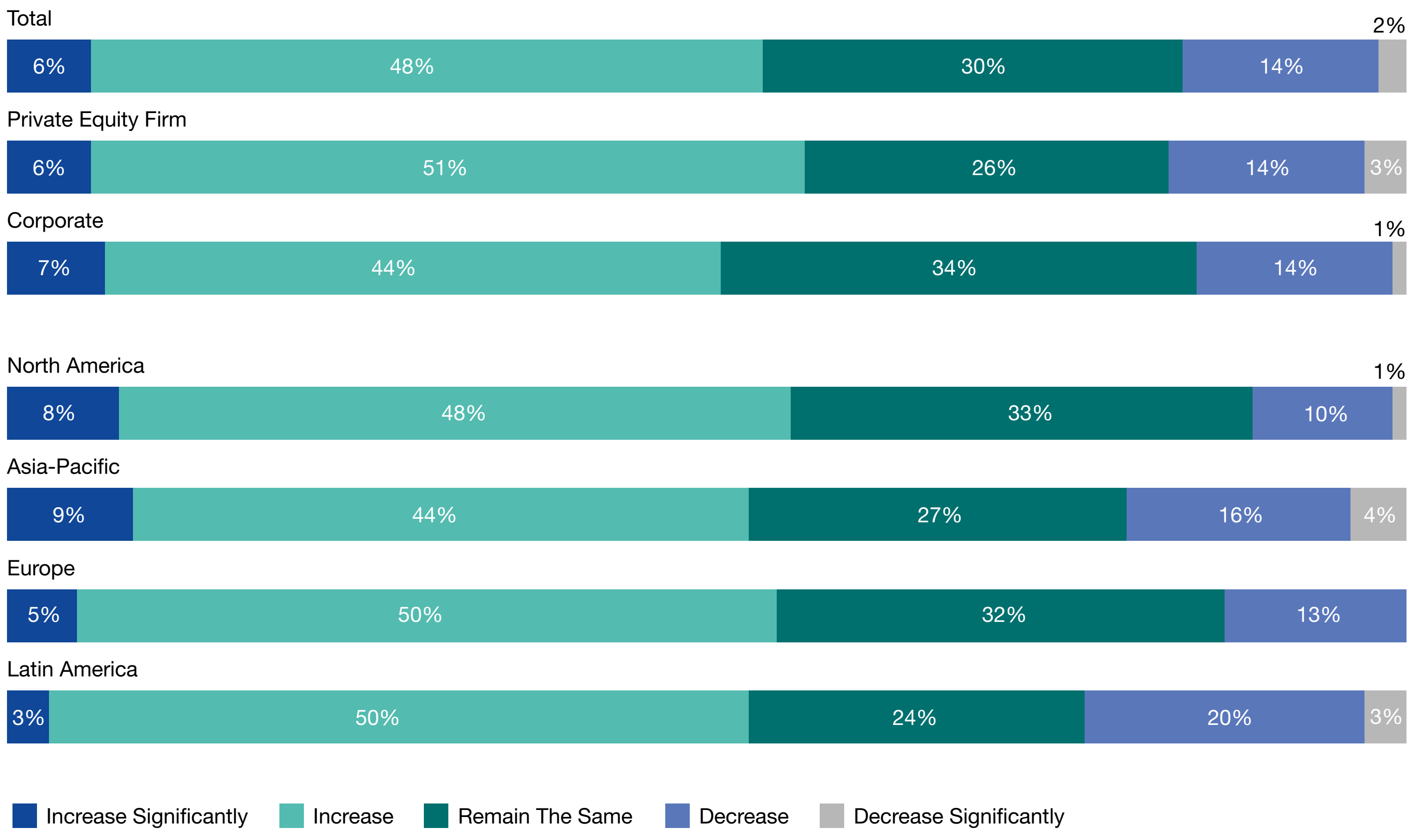
The UK's tech sector enjoyed an even more resounding three quarters, recording $29.8 billion worth of deals—buoyed by Thoma Bravo's $5.3 billion all-cash bid for cybersecurity firm Darktrace—with that total already well above full-year 2023's figure of $22.6 billion. In volume terms, the number of UK tech-related transactions rose year on year, from 526 in the first nine months of 2023 to 536 deal announcements in Q1-Q3 2024.

Gary Brown, co-chair of the firm's global M&A Group and based in London, says, "There has been a resurgence in interest in UK-based tech companies, primarily driven by the AI boom, particularly corporate venture capital in growth stage companies, or acquisitions primarily driven by corporates. We are also seeing significant activity in the ecosystem that supports AI, including semiconductor and data centers/logistics."

The trend towards larger deals reflects a more optimistic market outlook in which investors are willing to commit larger sums to potentially game-changing technologies and market-leading companies. A notable uptick in deal values from year on year further hints at growing market confidence, helped in part by the Federal Reserve's rate cut in September, with more cuts expected to follow.

Meanwhile, the largest tech firms have been on a tear since early 2023, despite sharply cooling off during the summer. Tech-related stocks were given a new lease on life by the promise of AI unlocking a new phase of economic growth. That's far from a reality at present, but it's been enough for a palpable mood change.

How Do You Expect Aggregate Tech M&A Deal Volumes to Change over the Next 12 Months Compared to the Last 12 Months? (Select One)



On balance, investors believe there's enough gas left in the tank to see the bullish tech M&A trend through for at least another year. Just over half of respondents (54%) expect aggregate tech M&A deal volumes to increase over this time versus the previous 12 months. This is an improvement in sentiment from last year's survey, when 48% were expecting such a rise. Private equity firms itching to deploy their vast dry powder reserves are more upbeat than their corporate counterparts, with 57% anticipating an uplift in tech deals (compared to 51% of strategic buyers).

In regional terms, well over half of respondents from each group expect deal volumes to increase, with 56% of North American, 55% of European, and 53% of Asia-Pacific and Latin American dealmakers, respectively, anticipating an uplift in tech M&A over the next 12 months.

Asia-Pacific to Drive Valuation Surge

There's growing optimism that the recent shift towards larger tech deals will continue. In fact, three out of 10 respondents expect average tech M&A values to increase significantly over the year ahead compared to the previous 12 months. This is a notable increase from our previous survey, in which only one in 10 respondents indicated significant increases in deal value. A further four out of 10 respondents expect valuations to increase slightly to moderately, an identical outcome to last year, meaning that investors are now in broad agreement on rising valuations.

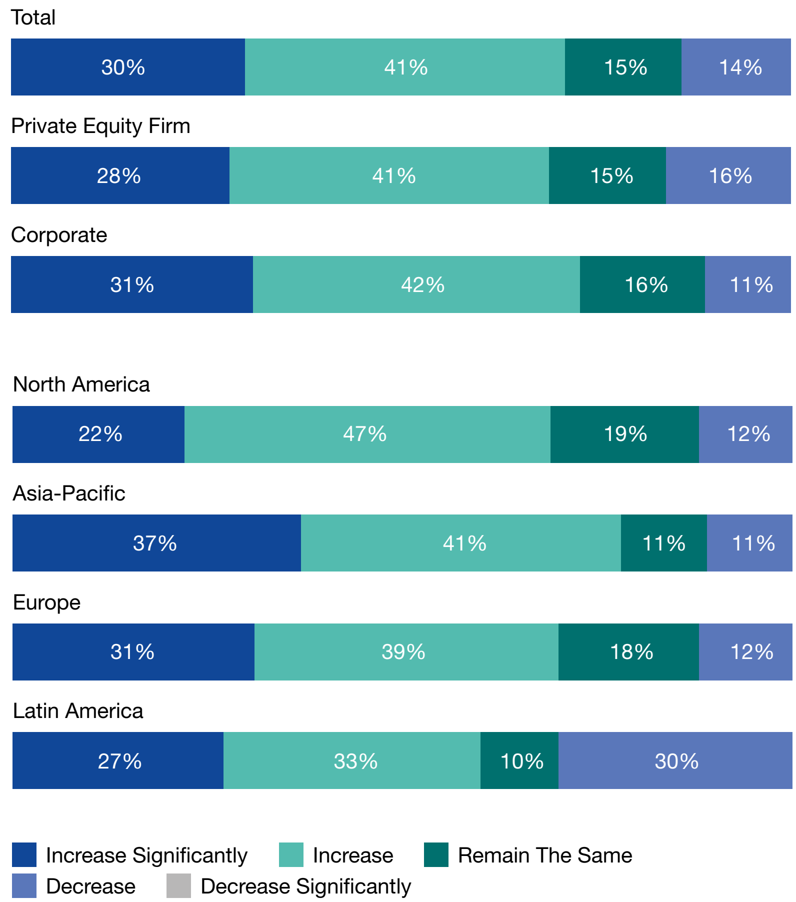
Regionally, Asia-Pacific respondents are the most likely to expect a significant increase in valuations, with 37% stating this expectation compared with 22% of their North American peers. This stands to reason since the "Magnificent Seven"-heavy S&P 500 and Nasdaq Composite Index were up 20% and 21%, respectively, through the first nine months of this year. Compare that to the Hang Seng Tech Index, which tracks the 30 largest technology companies listed in Hong Kong and was down 4.7% over the same period. While this was true earlier this year, in recent months this position has reversed with the Hang Seng now up by around 24% in 2024 to date in response to substantial stimulus measures announced by PBOC in September, meaning that valuations could increase if this trend continues.

In other words, while North American equity market tech valuations have seen significant increases, potentially leading to more cautious expectations for further upside, Asia-Pacific investors are anticipating a value convergence. This could offer potential for arbitrage opportunities. As Asia-Pacific tech valuations catch up, cross-border deals may become increasingly attractive, potentially driving international tech M&A activity in the region.

Recent M&A data from Singapore typify this trend in the Asia-Pacific region. In Q1-Q3 2024, dealmakers announced 63 transactions targeting tech companies in the city state. Though that total is down by 13% from Q1-Q3 2023's 72 deal announcements, the aggregate value of those transactions remained stable year-on-year, from $3.1 billion to $3.0 billion in the first nine months of 2024, according to Mergermarket reporting.

Meanwhile, both European and Latin American respondents are more optimistic about valuation rises than their North American peers, with 31% and 27%, respectively, expecting significant increases in the next 12 months.

How Do You Expect Average Tech M&A Deal Values to Change over the Next 12 Months Compared to the Last 12 Months? (Select One)



Tech Deals Tip the Scales

Tech M&A continues to be a cornerstone of strategic growth and innovation in the rapidly evolving digital landscape. As companies across industries grapple with digital transformation, acquiring cutting-edge technologies, talent, and intellectual property is increasingly critical.

Tech M&A can offer a fast track to enhancing capabilities, expanding market reach, and staying competitive in an environment where technological advancement can quickly render business models obsolete. The ability to swiftly integrate new technologies and expertise through strategic acquisitions can be the difference between leading the market and falling behind. This urgency is particularly acute in areas such as AI, cybersecurity, and cloud computing, where organic growth alone may not be sufficient to keep pace with market demands and competitor innovations. Emerging technologies such as quantum computing and advanced robotics are also becoming focal points for dealmakers. These cutting-edge fields represent the next frontier of digital innovation, and major tech companies have been keen to secure early-mover advantages through strategic acquisitions and early-stage funding.

Financial sponsors, meanwhile, have a strong affinity for tech, attracted by the sector's growth and transformative impact. The scalability of many tech business models, and the potential for rapid value creation by capitalizing on digital transformation trends across industries, promise outsized returns. Add into the mix record sums of dry powder, which reached $2.62 trillion in July, combined with a more favorable interest rate outlook, and it's easy to see why PE firms' appetites are so strong.

However, given the tough M&A environment over the past 12 months, there was a notable decrease in high-volume dealmaking. Only 11% of respondents reported completing four or more deals, a significant drop from 42% in the previous survey.

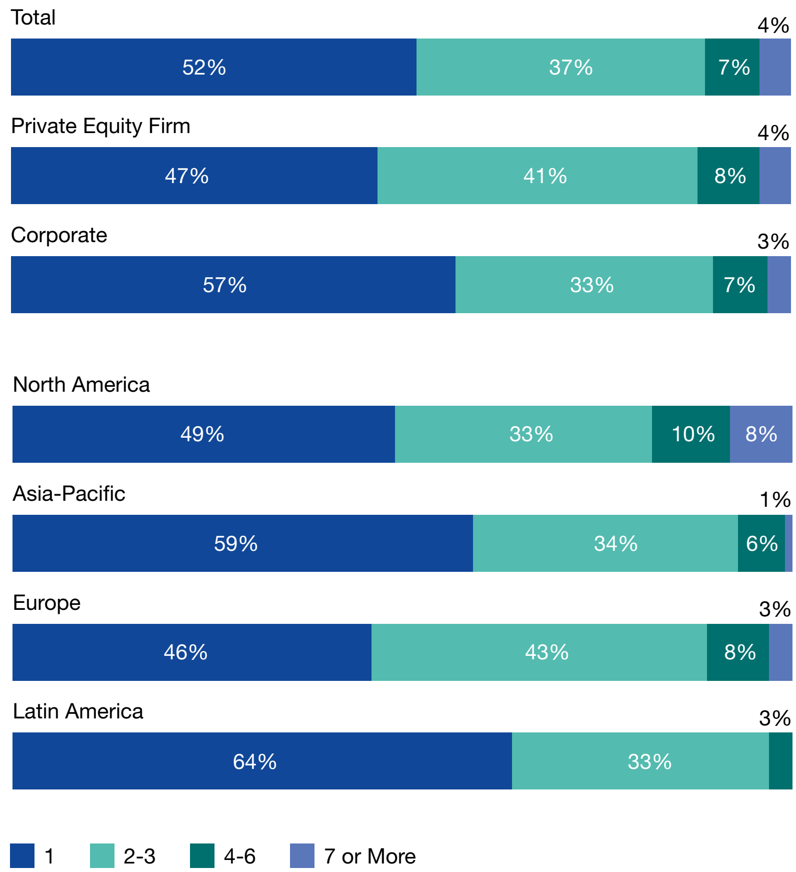
The divergence between private equity firms and corporates is particularly striking. PE firms show a more balanced distribution of deal activity, with 47% completing one deal and 41% engaging in two to three deals. In contrast, corporates display a higher concentration in single-deal territory, with 57% completing just one transaction. Rather than being a trend specific to tech, we believe this reflects the fact that financial sponsors, as serial acquirers, have been actively deploying their capital over the past year.

Corporates Become More Choosy

Corporate buyers are, for the most part, inherently more selective. They are motivated to make highly selective bets that align with their overall business strategy and compound their core competencies. These acquisitions are often aimed at filling specific technological gaps, entering new markets, or defending against disruptive competitors. The lower frequency of deals among corporates suggests a more cautious, deliberate approach to M&A, likely influenced by factors such as integration challenges, regulatory scrutiny, market uncertainties, and the need to demonstrate clear synergies to shareholders.

Nevertheless, the increasing pace of technological change may drive corporates to adopt more frequent, albeit still strategic, M&A activity in the future. As the half-life of technological advantages shortens, even traditionally cautious corporate buyers may find themselves needing to engage in more regular tech acquisitions to gain an edge over their competitors.

How Many Tech M&A Deals Did Your Organization Complete over the Last 12 Months? (Select One)



> Private equity firms are particularly bullish as they see opportunities in tech M&A going into 2025. Annual returns by public equities have generated strong returns, but vast reserves of dry powder and a more favorable interest rate outlook are driving deal flow in alternative and private market asset classes."

Patrick Huard, co-chair of Morrison Foerster's global Private Equity Group

SECTION 2:

Deal Dynamics

The tech M&A market is likely to be characterized by larger, domestic deals involving acquisitions of younger companies (operating between two and five years) in the coming year. Although AI is gaining momentum, cybersecurity is the sub-sector of choice.

The outlook for dealmaking in the technology arena is bright. In the next 12 months, 61% of respondents plan to complete at least two deals, an increase on past activity, given that 48% of dealmakers closed two or more transactions over the preceding period. In Europe and North America, the outlook is even more bullish, with 21% and 22% of dealmakers, respectively, anticipating completion of four or more deals in the coming year.

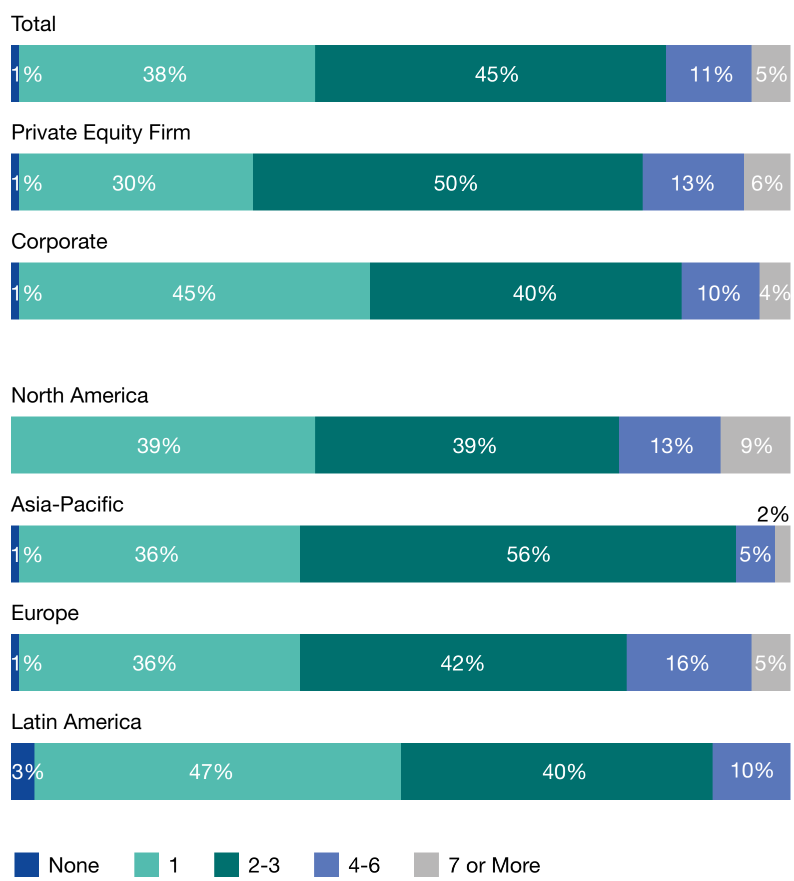
Meanwhile, 63% and 50% of Asia-Pacific- and Latin America-based respondents, respectively, expect to complete at least two deals in the next 12 months.

This projected increase suggests renewed confidence amid more favorable market conditions and the prospect of further monetary policy easing in the months ahead. Despite a 0.25% interest rate increase from the Bank of Japan in July, other central banks have moved in the opposite direction. The ECB made its first 25 bps rate cut in June, with a surprise cut from China's PBOC in July. The Federal Reserve followed suit in September, cutting the U.S. federal funds interest rate by 0.5 percentage points.

Creative Deal Strategies Abound

Buyers may be planning to increase their tech dealmaking over the next year, but they are treading carefully. There is an emphasis on deal structures that provide flexibility, shared risk, and performance

Roughly How Many Tech M&A Deals Does Your Organization Expect to Complete over the Next 12 Months? (Select One)



guarantees. Both private equity firms and corporate buyers demonstrate a preference for approaches that allow them to capitalize on the potential of tech assets while hedging against market uncertainties and potential future regulations.

For example, PE firms have a strong preference for minority investments, with 80% of these respondents planning to pursue this strategy in the coming year. This approach allows fund managers to diversify their risk across promising tech companies while limiting downside risks. The ability to influence strategy through board seats or advisory roles, all while maintaining viable exit options, is another advantage.

Marcia Ellis, co-chair of Morrison Foerster's global Private Equity Group, says, "Financial sponsors are attracted by the sector's growth and transformative impact, making tech M&A a cornerstone of strategic growth and innovation for investors and strategics alike. Private equity's preference for minority tech investments reflects the relatively early stage of growth of some of the most exciting and innovative companies in this sector."

A managing director of a Canadian PE firm explained its minority investment strategy, saying, "This is our preferred approach mainly due to the risk threshold we've set for investments over the next 12 months. There are many challenges in identifying the true potential of target organizations, so minority investments would be favorable for now."

Similarly, club deals are also a significant consideration for PE firms, with 57% eyeing this collaborative approach. By joining forces, PE firms can target larger, more established tech companies, not only capping risk exposure in the same vein as minority investments but also leveraging complementary sector expertise and expanded networks. This has the potential to add greater strategic and operational value to portfolio companies than going it alone.

Corporate acquirers, meanwhile, are focusing on joint ventures, with 64% expressing interest in this deal structure. One such recent example saw Morrison Foerster advising U.S.-based electric vehicle (EV) manufacturer Rivian Automotive on joint venture negotiations with Volkswagen intended to accelerate the development of software for both companies' EV models.

"

Private equity's preference for minority tech investments reflects the relatively early stage of growth of some of the most exciting and innovative companies in this sector."

Marcia Ellis, co-chair of Morrison Foerster's Global Private Equity Group

This middle-ground approach between full acquisition and internal development appears to align well with companies looking to strategically expand their tech capabilities. The head of strategy at a Japanese corporate says, "We can enter new markets with a joint venture strategy, and also stay within our risk threshold." He explains, "External threats in the market are known to partners, making it easier to finalize decisions."

That said, joint ventures are complex and can be difficult to structure. It has been noted by various analysts that as many as 60% of JVs fail outright or do not meet their intended goals. That failure rate, which stems from, among other things, misaligned objectives, poor governance structures, cultural clashes between partners, and difficulties in integrating operations, can vary based on factors such as industry, location, and the management of the JV in question.

Earning One's Keep

Both PE firms and corporates show significant interest in earnouts or contingent consideration, with 60% of PE respondents and a substantial 78% of corporate buyers thinking about incorporating these structures in their deals. This high level of interest underscores a cautious yet committed approach to tech M&A, reflecting ongoing market uncertainties and the need for risk mitigation.

Earnouts are effective in bridging valuation gaps and aligning interests with sellers, ensuring continued performance post-acquisition. This provides a critical safety net against overpaying for assets in a sector where determining fair price can be challenging as tech valuations have seesawed due to the pandemic.

Naturally, these are buyer-friendly deal terms and not always welcomed by target companies. Buyers therefore need to be mindful that in the pursuit of protecting their interests, competing bids for in-demand assets may win out if acquirers push too hard on terms. “Bridging valuation gaps will be more challenging than expected. Sellers might not prefer earnouts if they want a full exit, especially if they see good or acceptable bids by other buyers,” according to the managing partner of a PE firm in the U.S. Moreover, in the larger public company segment, earnouts are harder to implement and less likely to be compelling to target boards and shareholders.

Size On the Rise

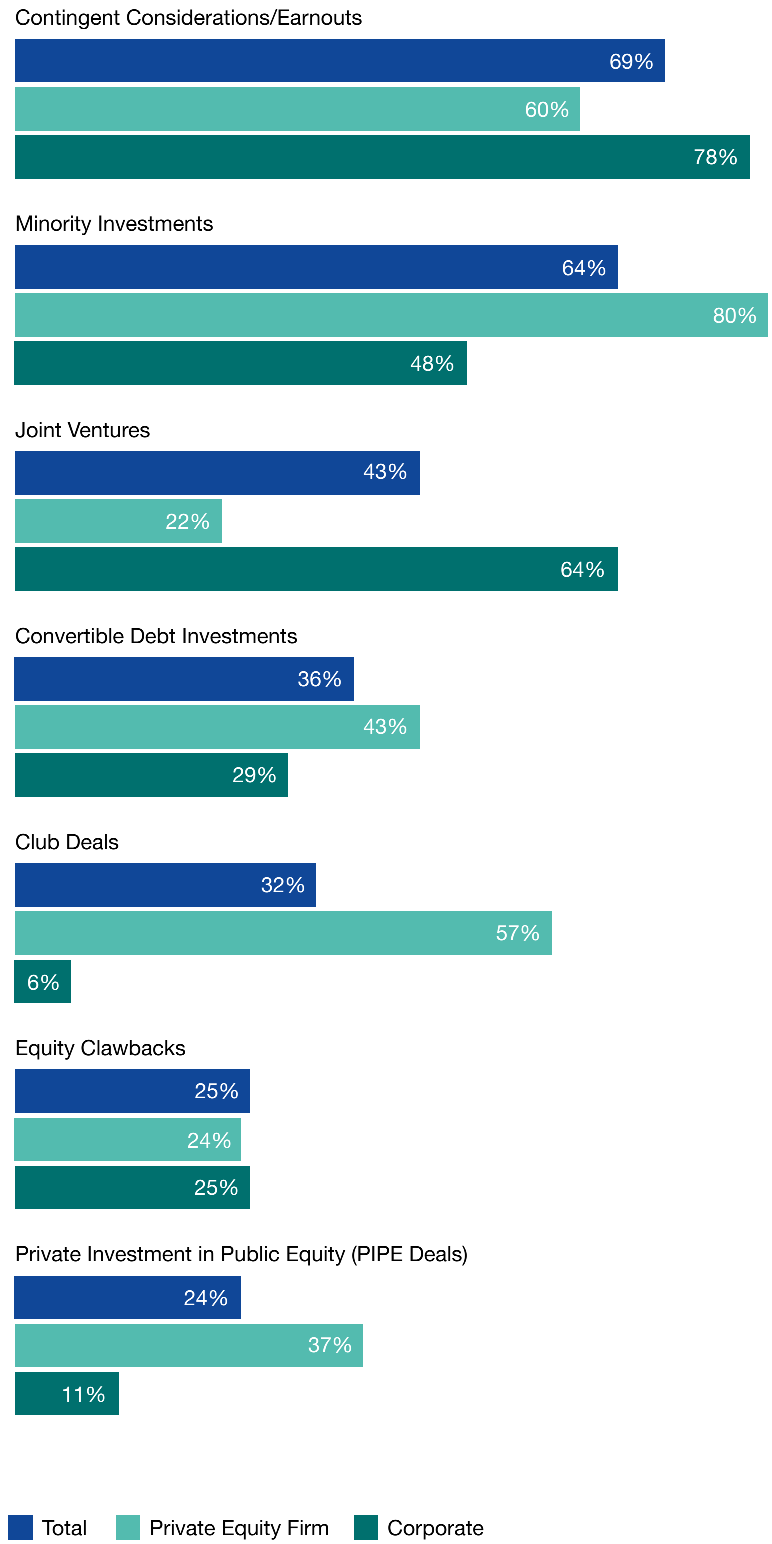
The tech M&A market is showing a subtle but notable shift in deal size preferences, with a slight tilt towards larger transactions. While 36% of acquirers are maintaining their current deal size focus, 36% are also eyeing bigger targets. This includes an 11% minority that intend to make much larger deals.

Interestingly, this trend isn’t uniform across regions. The Asia-Pacific region stands out as the most bullish, with 45% of respondents expecting to engage in larger M&A. In contrast, European and North American markets show a more modest inclination towards moving upmarket, with 32% of respondents in both regions expecting an increase in deal size.

Most striking of all, 18% of Asia-Pacific respondents anticipate pursuing much larger tech deals over the next year. The pullback from larger tech deals was more pronounced in the Asia-Pacific region compared to Europe and North America, in large part as a consequence of sweeping regulatory changes in China, with Beijing taking a far stricter approach to its technology sector.

Between 2020 and 2023, Chinese authorities implemented a series of regulatory measures aimed at curbing the power of tech giants within the country. This policy change, driven by concerns over monopolistic practices, data security, and the “disorderly expansion of capital,” resulted in record fines, forced restructurings, and increased government oversight. The impact was profound, wiping out trillions in market value and dramatically altering the landscape of China’s tech industry. However, analysts have noted that this period of regulatory stringency, which threatened to hinder China’s pursuit of technological

Are You Considering Employing Any of the Following Deal Structures in Your Tech M&A Plans in the Next 12 Months? (Select All That Apply)



self-sufficiency and global tech leadership, may now be at an end as the country pursues a course of what it calls "normalized management" for the industry.

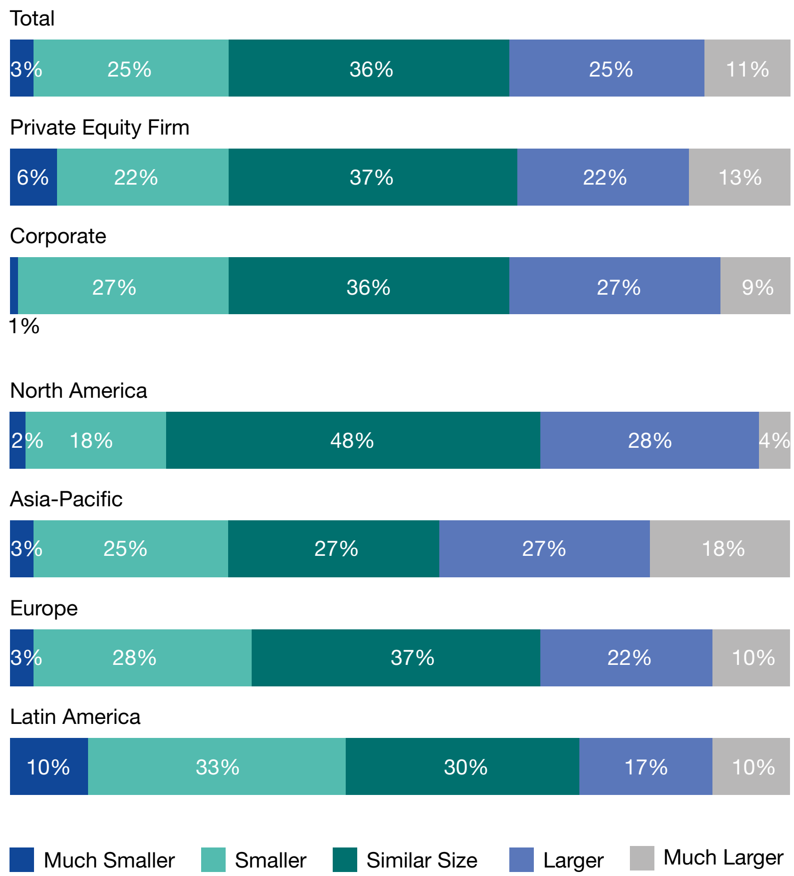
Marcia Ellis, co-chair of the global Private Equity Group, says, "Our clients in Asia are looking to get deals done as deal flow slowed over the past year in many jurisdictions in Asia. Although tech M&A related to China will continue to be impacted by U.S.-China tensions and regulations emanating from both sides of the Pacific, there is some hope that China's very recently announced stimulus packages will help to jumpstart the economy and stock exchanges in China and Hong Kong and indirectly stimulate tech M&A."

Private Company Valuations Anticipated to Close the Gap On Public Companies

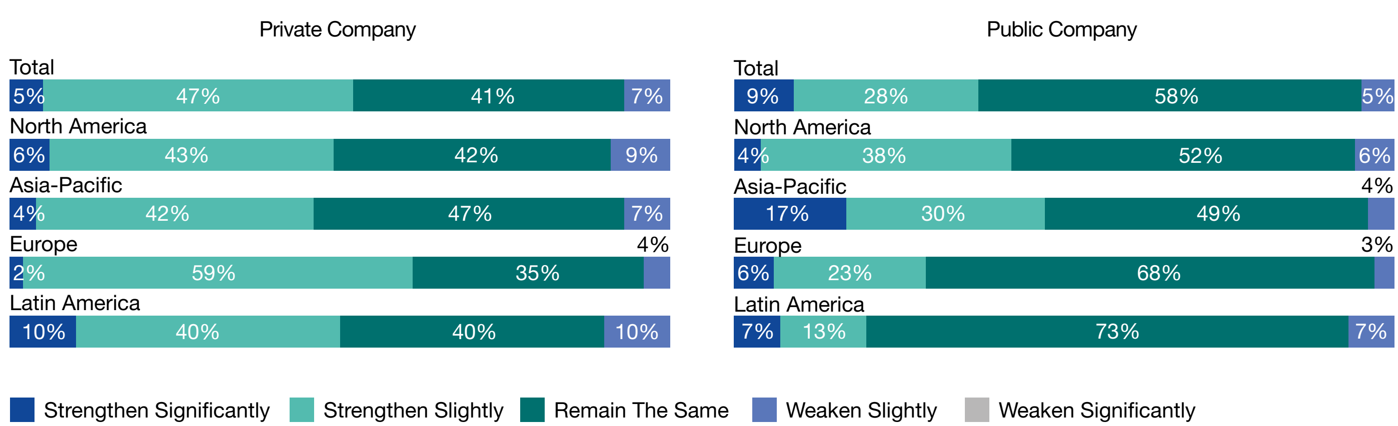
Public market valuations have defied gravity over the past year, driven by large-cap tech stocks and companies with the promise of AI innovations.

Outside of the very largest global tech firms, the median revenue multiple for public software-as-a-service (SaaS) companies, as of March 2024, stood at 6.8 times the current run-rate for annualized revenue, according to SaaS Capital. Private market multiples have shown a median 4.1x (as of April 2024), representing a roughly 40% discount compared to their public counterparts. This gap is partly due to the differing risk profiles, liquidity, and transparency between private and public markets. Private valuations have been more conservative, with investors demanding clear paths to profitability amid economic uncertainties.

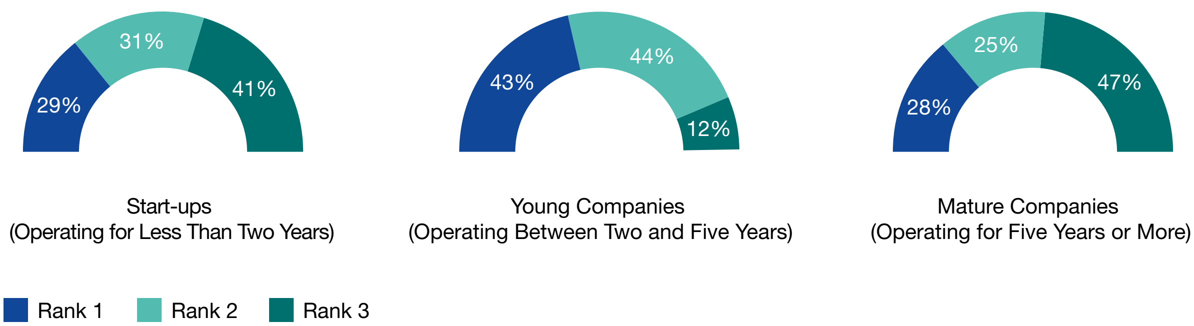
Generally, are you planning to target smaller or larger tech businesses over the next 12 months compared to the previous 12 months?



Do you think valuations for the following company types are likely to strengthen or weaken over the next 12 months?



At Which Stage of Development Does Your Organization Typically Target Tech Companies for Acquisitions?
(Rank 1-2-3, with 1 Being the Stage of Development That Your Organization Targets Most Frequently)



Some of that delta may be closed over the coming months. Across all regions, our survey shows that 58% of respondents expect public market tech valuations to remain largely stable over the next 12 months. Private company valuations show more optimistic projections. A significant 47% of respondents expect private company valuations to strengthen slightly, with an additional 5% foreseeing significant strengthening. This contrasts with only 37% expecting positive movements for public companies. The anticipated stability in public market multiples, coupled with the expected uplift in private valuations, could see the valuation gap narrow somewhat in the near term.

"Goldilocks Effect" In Action As Young Companies Targeted

Young companies are the most popular targets for respondents, with 43% selecting such companies as their top choice. This sustains the trend observed in last year's edition of this research, when survey participants were also most likely to identify young companies as their favored targets (46% of top-rank votes). Meanwhile, the difference in perceived appeal of start-ups and mature companies has narrowed year over year. In our 2023 study, 40% of respondents identified start-ups as their preferred target, whereas just 14% said the same of mature companies—this year, the equivalent percentages have almost converged, with 29% of respondents indicating their preference for start-ups and 28% highlighting mature companies.

The appeal of young companies lies in their balanced risk-reward profile. They offer reduced risk compared to start-ups, having already proven their business model and market fit to some extent, while still offering the potential for significant upside as they continue to scale. This sweet spot allows investors to capitalize on growth potential without assuming the high risks associated with early-stage start-ups.

This trend aligns with recent observations in the European market, where private equity firms have shown increased interest in young, venture-backed tech companies. In the first half of 2024, PE firms significantly increased their spending on such targets, with deal values increasing for two consecutive quarters and reaching $2.3 billion in Q2, according to PitchBook data. Both trends have not been seen for two years. This bump is partly driven by earlier stage companies' shift towards profitability and more sustainable growth in response to recent economic headwinds.

As VC-backed companies tighten their belts and focus on profitability, they become more viable PE buyout targets, especially amid a scarcity of IPO exits. However, it's important to note that while deal values have increased, deal count has decreased, suggesting PE firms are being selective and focusing on higher value, more established targets rather than seed and Series A-stage start-ups.

Location, Location, Location

Regarding investment location, a barbell trend is emerging. A majority of respondents in the tech M&A sector expect to keep their future deals either entirely domestic or entirely cross-border. Specifically, 57% of private equity respondents and 48% of corporates plan to keep 100% of their deals domestic, while 15% of private equity respondents and 24% of corporates anticipate that all their deals will be cross-border.

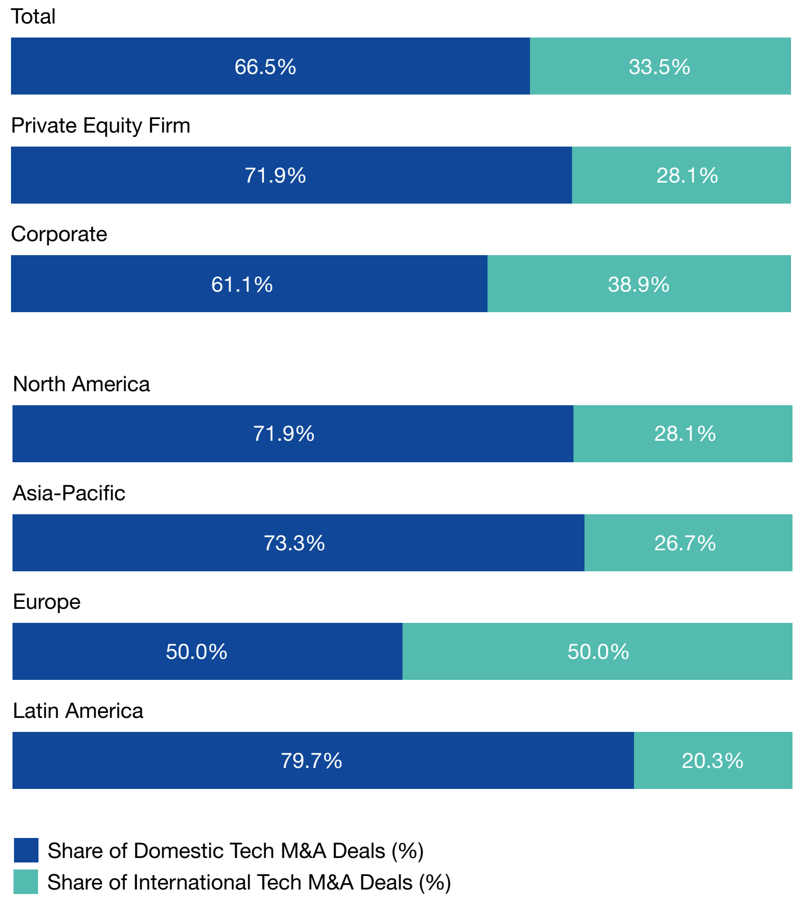
European investors are showing a strong inclination towards international deals, with 47% of these respondents expecting their future tech deal activity to be predominantly cross-border. This likely reflects two realities: one is that Europe has the lowest growth of any region in the world, creating an incentive to invest in other parts of the world; it's also the case that Europe lags somewhat in tech innovation, potentially making other markets more attractive for sourcing deal flow.

Funding challenges are a major hurdle, particularly in the early and growth stages of tech start-ups. It has been shown that the median Series A round in Europe is around 40% lower in value than in the U.S., and that overall funding in early-stage VC is an order of magnitude higher in the latter. European buyers may therefore be pursuing greener pastures, though this is by no means exclusive to this geography.

"Cross-border deals have started increasing, and these trends will further impact tech M&A in the next three years. There will be cross-border deals to improve collaboration and take advantage of tech talent in various regions," explains the director of M&A at a Canadian corporate. "Many countries are emerging as tech leaders with innovative solutions that are attractive to buyers."

However, these transactions are becoming increasingly challenging as investors factor in polarizing geopolitical dynamics. This year has been, and will be, marked by numerous contentious elections globally, including the highly anticipated U.S. presidential election in November. These political events contribute to uncertainty in international relations and economic policies, making some investors wary of cross-border deals, while others see opportunities in diversifying their geographical risk.

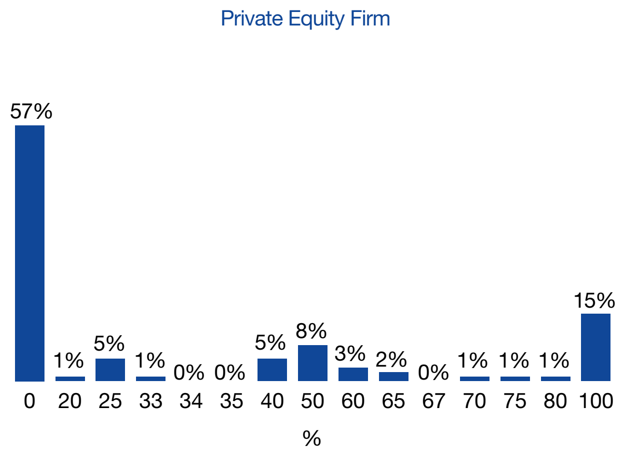
Approximately What Proportion of Your Expected Tech M&A Activity Will Be Domestic (i.e., Occurring in Your Home Market) Versus International? (Please Give Two Percentage Figures, One for Expected Domestic Activity and Another for Cross-border Activity)*

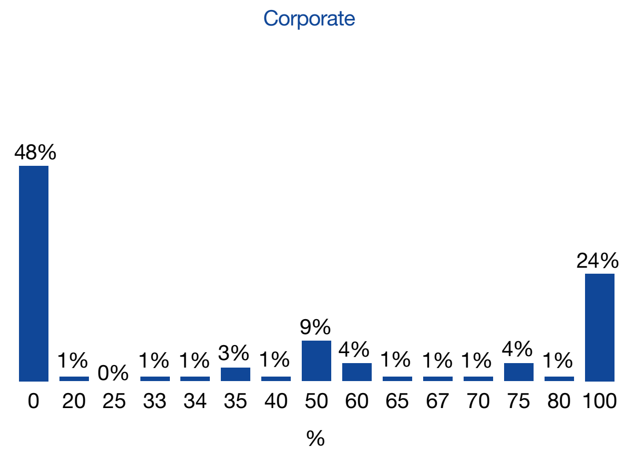


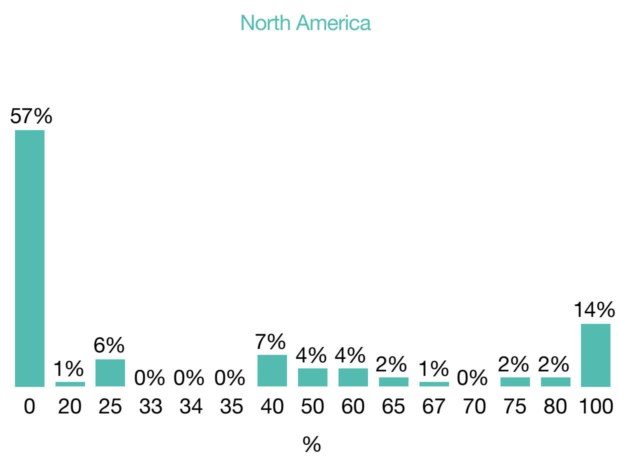
*Average percentages shown

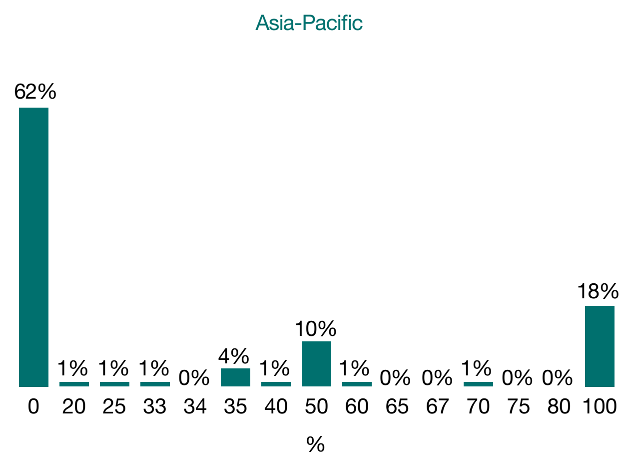
Ongoing issues such as the U.S.-China trade tension, conflict in Ukraine and the Middle East, and escalating issues in the South China Sea create a complex environment for cross-border transactions. A growing trend of economic nationalism, with countries prioritizing domestic businesses and imposing stricter regulations on foreign acquisitions, is another complication. All of this can variously drive companies to either focus solely on their home markets or to selectively engage in cross-border deals to mitigate domestic market risks.

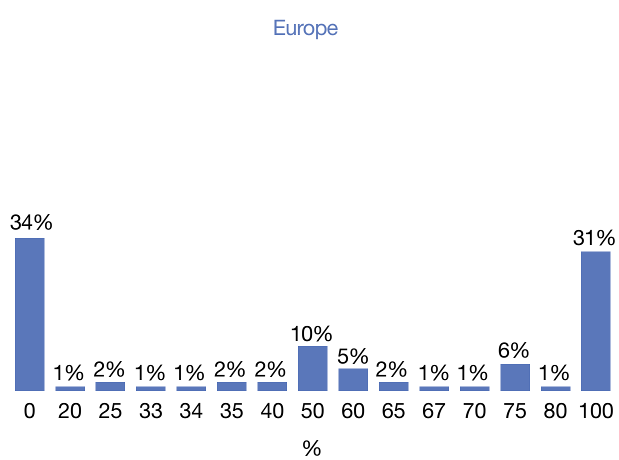
Approximately What Proportion of Your Expected Tech M&A Activity Will Be International? (State a Percentage)

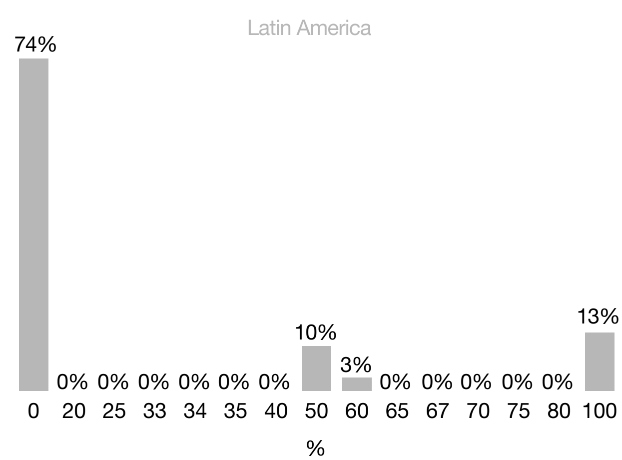












Developed Markets Offer Best Opportunities

The U.S. tech market is mature and diverse, with established companies continuously seeking to acquire start-ups and mature companies to bolster their innovation capabilities and market position. This creates a dynamic M&A environment where both large and small deals are common. The country leads in many emerging technologies such as AI, cloud computing, and quantum computing and consistently ranks high in R&D spending, which fuels innovation. Major technology companies invest heavily to maintain their competitive edge through strategic acquisitions and developing new technologies.

Leading tech hubs such as Silicon Valley, New York's Silicon Alley, and Kendall Square near the Massachusetts Institute of Technology attract top talent, investment, and innovation, further driving the development of cutting-edge technologies across various sectors including AI, biotech, fintech, and cybersecurity. The U.S.'s mature legal system and corporate governance further reduce risk for investors.

There's little surprise then that North America is most commonly cited as the region expected to offer the best opportunities for tech M&A over the next 12 months, selected by 64% of respondents. That said, this is closely followed by Europe (61%) and Asia (51%).

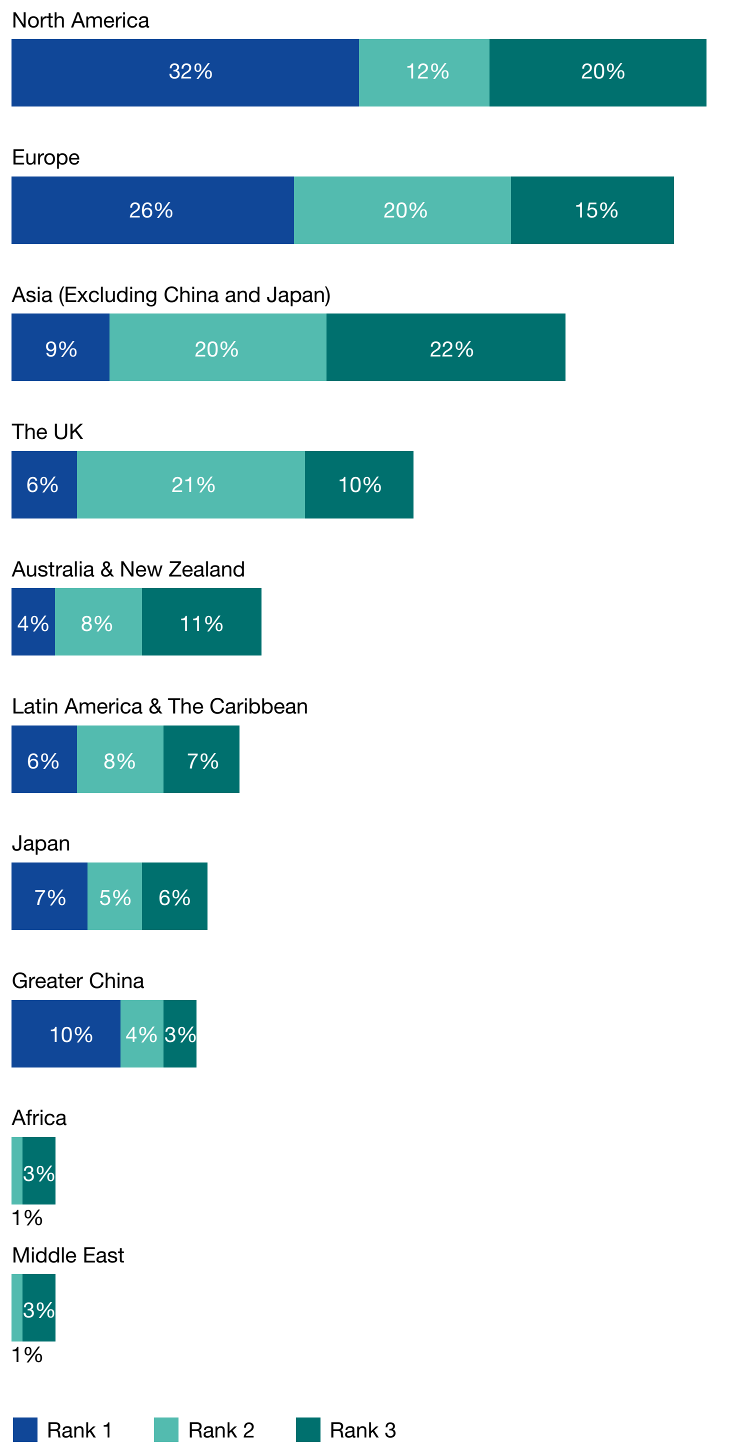
"The U.S. will be the top market to invest in when it comes to tech targets," according to the managing partner of a U.S. PE firm. "The performance of these companies has been consistent and reliable and dealmakers benefit from a deeper target pool."

Technology Seen As the Key End-user Industry

Tech's tentacles have reached into every industry in some way, transforming traditional business models and creating entirely new sectors. From agriculture to healthcare, finance to entertainment, the digital revolution has left no sector untouched. With generative AI having gained traction over the past 18 months, companies are now attempting to unlock potential productivity gains and commercial value from a new generation of tools.

For corporates, strategic acquisitions can help them better serve existing end-users and horizontally branch out into adjacent sub-sectors. Financial sponsors, on

Which of the Following Regions Do You Expect to Offer the Best Opportunities for Tech M&A over the Next 12 Months?
(Select Top Three and Rank 1-2-3, with 1 Being the Region Offering the Best Opportunities)



the other hand, are less bound by strategy, with many PE funds being less sector exclusive and looking to identify and capitalize on assets with high growth potential in a wider array of industries.

By a comfortable margin, the end-user sectors that hold the most appeal for respondents in relation to their tech acquisitions are technology, media, and telecommunications and business services, cited by 69% and 63%, respectively. However, within these broad categories, there is nuance that speaks to present-day challenges and chokepoints.

Hotspots include the application of AI to customer engagement in the services industry, as well as logistics to better optimize supply chains. For example, the managing director of a U.S. PE firm says, “AI in customer service will enhance user experience and support, with chatbots and virtual assistants reducing operational costs and leading service businesses to improve their profit margins.”

Bringing Supply Chains Home

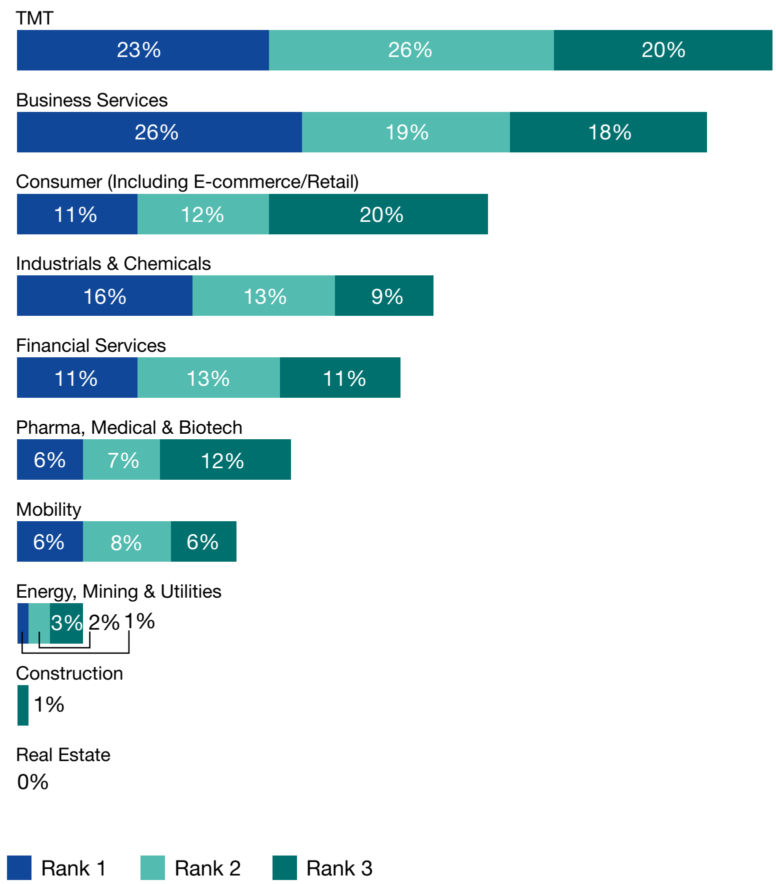
The trend towards onshoring and nearshoring, accelerated by the pandemic, has driven home the urgent need for supply chain resilience. As companies look to mitigate risks associated with global disruptions, AI is increasingly sought after as a key enabler. The technology holds huge potential for real-time capacity planning and demand forecasting, as well as anomaly detection and improving efficiency in routing for transportation and logistics purposes. The head of investment for a PE firm in China explains, “AI in logistics will improve the efficiency and reliability of industrial supply chains and advanced algorithms will optimize transportation and inventory management.”

Rich Pickings in Cybersecurity

For the second year in a row, cybersecurity is the top response when respondents are asked which tech sub-sector they expect to present the best opportunities for dealmaking over the next 12 months, selected by 53%. This is closely followed by enterprise/logistics software (48%) and AI/machine learning (47%). Two years ago, cybersecurity ranked seventh when respondents were asked this question and was considered to be presenting some of the best opportunities by only 28%.

Melissa Crespo, partner in Morrison Foerster’s Privacy + Data Security Group, says, “In an era where digital threats loom larger than ever, the popularity

When Acquiring a Tech Company, Which End-User Industries Hold the Most Interest For Your Organization? (Select Top Three and Rank 1-2-3, with 1 Being the Industry in Which You Are Most Interested)



> Dealmakers are watching the AI industry closely and don’t want to miss out on investing in this transformative technology.”

Tessa Schwartz, co-chair of Morrison Foerster’s Transactions Department and founder and co-chair of its Artificial Intelligence Group

of cybersecurity mergers and acquisitions reflects a strategic imperative. Companies recognize that in order to safeguard their assets and maintain competitive advantage, acquiring or merging with firms that offer advanced cybersecurity capabilities is essential to strengthening existing offerings or gaining a foothold in a rapidly growing market."

Cybersecurity's luster has lost some ground in the public domain amid the current generative AI focus. However, there has been no shortage of recent incidents that serve as a reminder that robust cyber defense measures are vital to businesses.

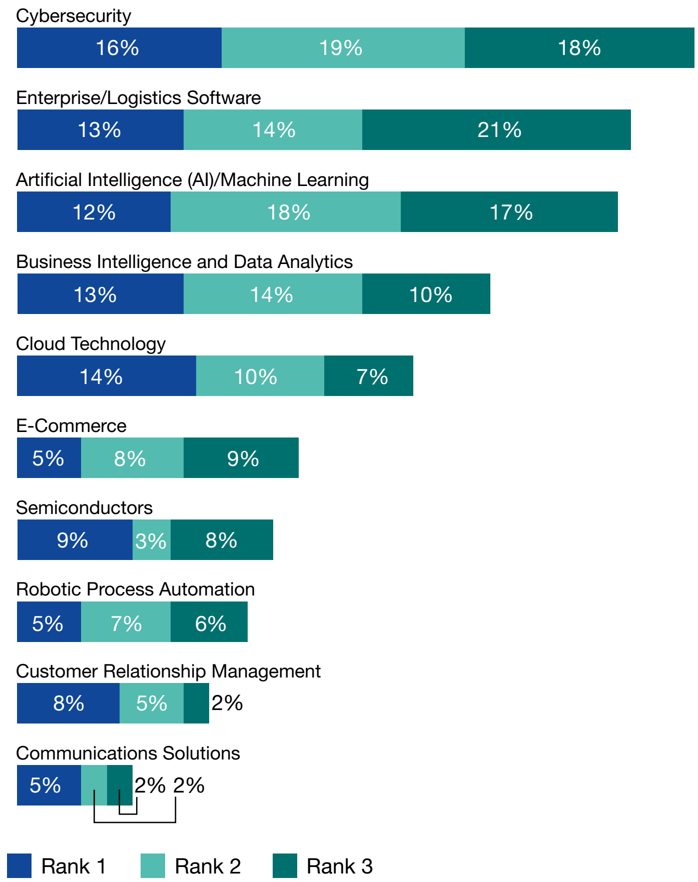
For example, a large-scale DDoS attack targeted several French state services in March, disrupting over 300 web domains and impacting 177,000 IP addresses associated with government websites. The hacker group Anonymous Sudan claimed responsibility, and the attack was noted for its unprecedented intensity. That same month, ransomware gang 8Base breached the UN Development Programme, stealing and threatening to publish sensitive data including personal details, certificates, and financial records.

Acknowledging the increasing sophistication of attacks, as well as the advanced threat detection and response capabilities made possible by AI, the managing partner of a Danish PE firm says, "There are niche security threats cropping up that are compelling firms to acquire specialized cybersecurity companies. AI is obviously a great opportunity right now too and there's considerable overlap between the two, with machine learning algorithms being applied to cybersecurity."

While AI ranks a close third, it's crucial to recognize that, for the most part, it is not a standalone technology. Instead, it is typically embedded within larger applications and systems to make specific tasks even more effective and powerful. From cybersecurity leveraging machine learning for threat detection, to enterprise software incorporating autonomous algorithms for process automation, investors are increasingly seeking to not just acquire pure-play AI firms, but to acquire AI technology through licensing or other minority investments to integrate AI into their core services.

Tessa Schwartz, co-chair of Morrison Foerster's Transactions Department and founder and co-chair of its Artificial Intelligence Group, says, "We have seen household technology companies and tech start-ups embed and innovate generative AI technologies as quickly as they can. Dealmakers are watching the AI industry closely and don't want to miss out on investing in this transformative technology. We are still in the early stages of AI transforming business and the survey bears this out by highlighting disparate sectors like pharmaceuticals and semiconductors with the most potential upside from improved AI integration."

Which of the Following Tech Sub-sectors Do You Expect to Present the Best Opportunities for Dealmaking over the Next 12 Months?
(Select Top Three and Rank 1-2-3, with 1 Being the Sub-sector Presenting the Best Opportunities)



The Power and Potential of AI

Once the preserve of science fiction, AI is now here to stay. While opportunities abound, challenges need to be overcome if AI is to become truly mainstream.

AI's transformative potential is matched only by the challenges it presents. Exuberance is running high, though dissenting voices have begun to emerge recently. Critics have pointed out that generative AI in particular is seeing vast amounts of spending with little in the way of visible economic benefits. The bank lists further challenges including the exorbitant cost of GPUs and the massive power consumption required for AI data centers.

Investors are aware of the attendant hurdles standing in the way of adoption. Increasingly strict regulation (45%) and the absence of shared protocols (41%) emerge as the primary obstacles to greater AI growth and uptake. These concerns reflect the broader societal and ethical debates surrounding AI, including issues of privacy, bias, and accountability. The lack of standardized frameworks for AI development and deployment creates uncertainty, potentially slowing investment and integration efforts.

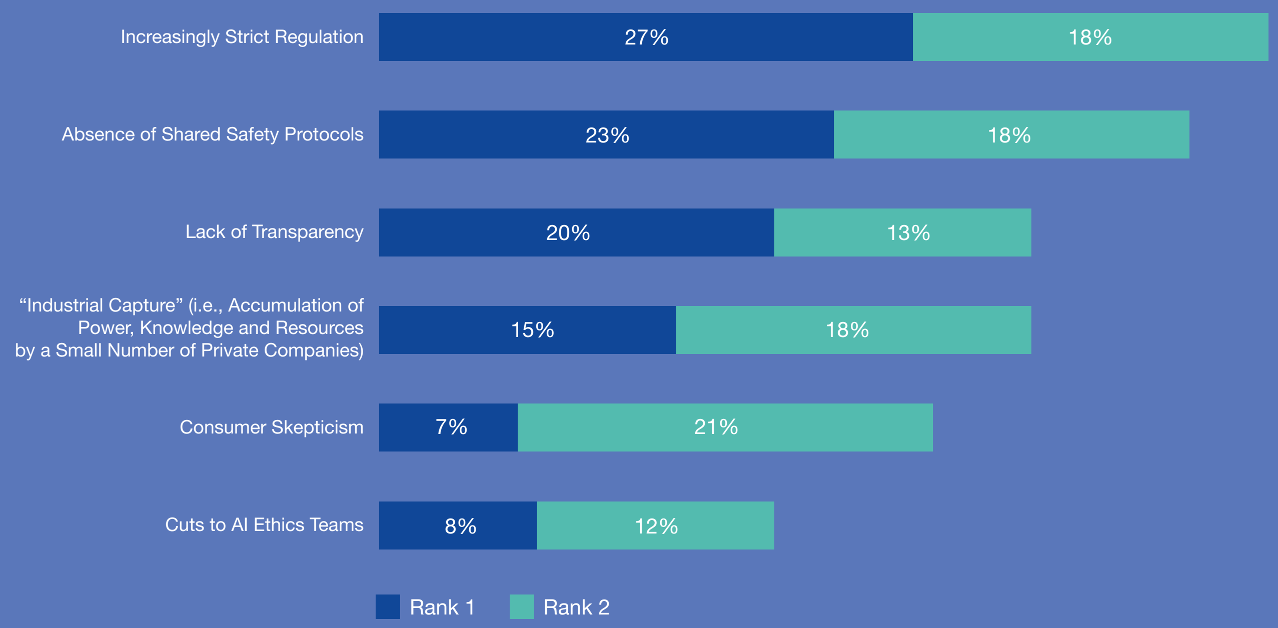
Applying AI

Our research also provides a nuanced picture of AI's current impact and future prospects. Business services (59%), technology (55%), retail (42%), and industrials and chemicals (39%) are cited as the sectors currently leading in AI integration and utilization. These industries have been quick to adopt AI for tasks ranging from data analysis and customer service to process optimization and predictive maintenance, demonstrating AI's versatility and immediate value across diverse business operations.

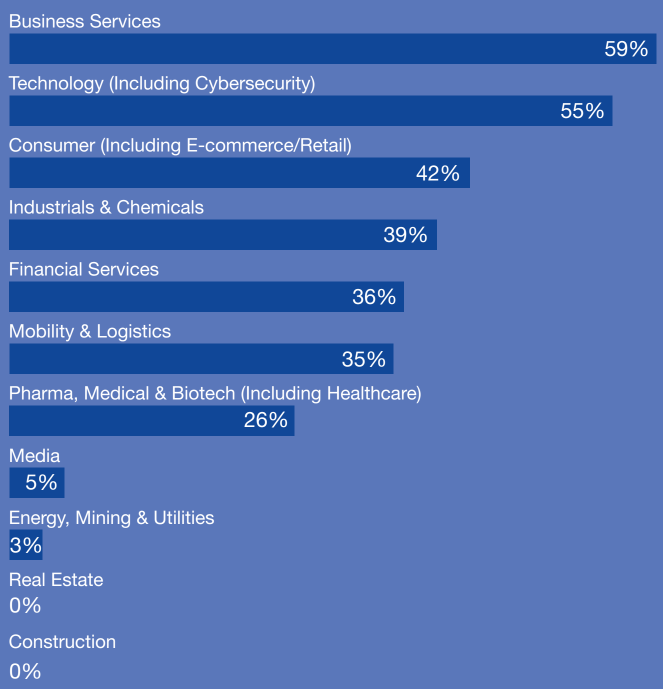
However, the future of AI may also lie in more unexpected quarters. Respondents overwhelmingly identify pharmaceuticals, medical and biotech (51%), along with energy, mining and utilities (49%), as the sectors with the most potential for new or improved AI integration. This shift suggests a growing recognition of generative AI's capacity to tackle complex, data-intensive challenges in these fields, from drug discovery and personalized medicine to energy grid optimization and resource exploration.

"There is potential for new applications in drug development. Machine learning algorithms and AI-driven diagnostic technologies will grow significantly as more pharma companies hone their R&D," according to a partner of a Swiss PE firm. "The healthcare industry can also improve their management of records using technology and analyze trends that help their business."

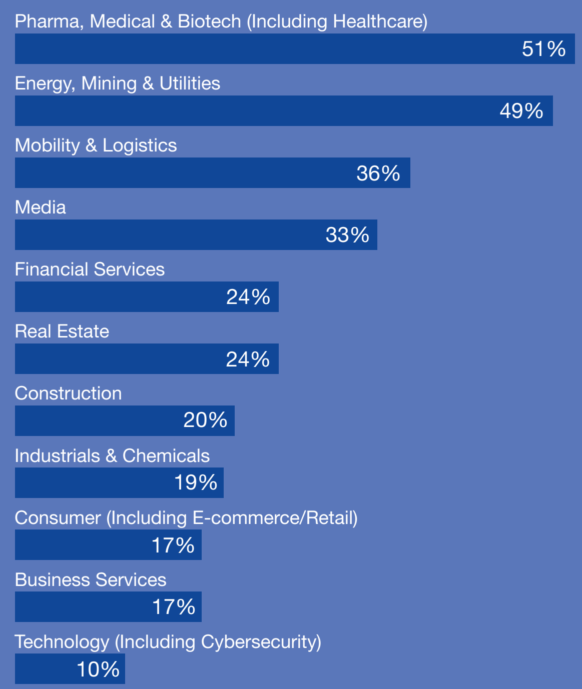
What Are the Greatest Obstacles to the Continued Growth and Uptake of AI Technologies?
(Select Top Two and Rank 1-2, With 1 Being the Greatest Obstacle)



Which Industries do You Believe Are Currently Integrating and Harnessing the Power of AI Most Effectively?
(Select Top Three)



Which Industries do You Believe Hold the Most Potential for New and/or Improved AI Integration?
(Select Top Three)



SECTION 3:

Drivers and Deterrents

Technological innovation and market competition will drive the market but dealmakers are wary of the growing valuation gap and the uncertainty of interest rates.

In the face of growing enthusiasm, doubt has been cast on the benefits of generative AI. Critics, including MIT economist Daron Acemoglu and Goldman Sachs' Jim Covello, have voiced skepticism that AI's high costs and current limitations in solving complex problems curtail the scope of its potential. They believe its initial impact will primarily be on automating specific tasks rather than creating new products or services. They also highlight challenges such as chip shortages and inadequate power infrastructure, which could further limit AI's promised economic benefits in the near term.

However, there's little doubt that businesses are placing their chips on AI. Big Tech in particular is pouring vast CapEx resources into AI development on the premise that sitting on the sidelines is not an option in the rapidly changing marketplace where the biggest players in AI are already household names.

The speed of development of AI tools—since launching two years ago, ChatGPT is already on version five—demonstrates the opportunity risk for companies that do not invest in AI capabilities, as AI is widely embraced by programmers for streamlining existing tasks and by founders for launching new AI start-ups.

With the breakneck speed of tech development and deployment in the marketplace, keeping pace with this advancement continues to be among the three top drivers of tech M&A over the coming 12 months, cited by 50% of all respondents. However, when considering the single most important motivation for their forthcoming tech-related dealmaking, scaling up to increase competitiveness is most frequently cited, with 21% of respondents highlighting this as their primary reason.

"Scaling up is crucial, especially given the intense competition in markets. Funding individual technology projects within portfolio companies is not always a favorable option, which is why we'll be pursuing inorganic growth objectives," explains the director of investment of an Australian PE firm.

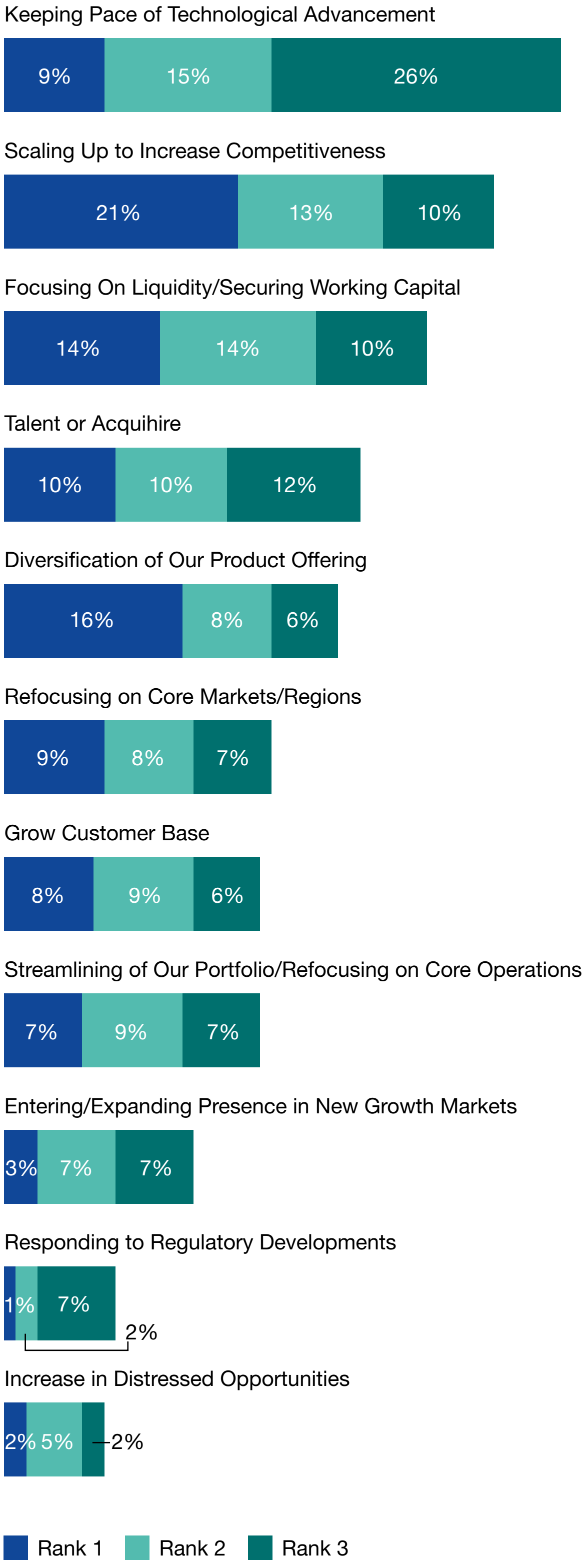
Despite the ongoing debate about generative AI's immediate benefits, the focus on achieving scale through tech acquisitions reflects a recognition that organic growth and internal development alone will not be sufficient in today's fast-moving environment. In buying rather than building, tech M&A is a shortcut to maintaining competitiveness and achieving scale in a world where innovation cycles are becoming shorter and shorter.

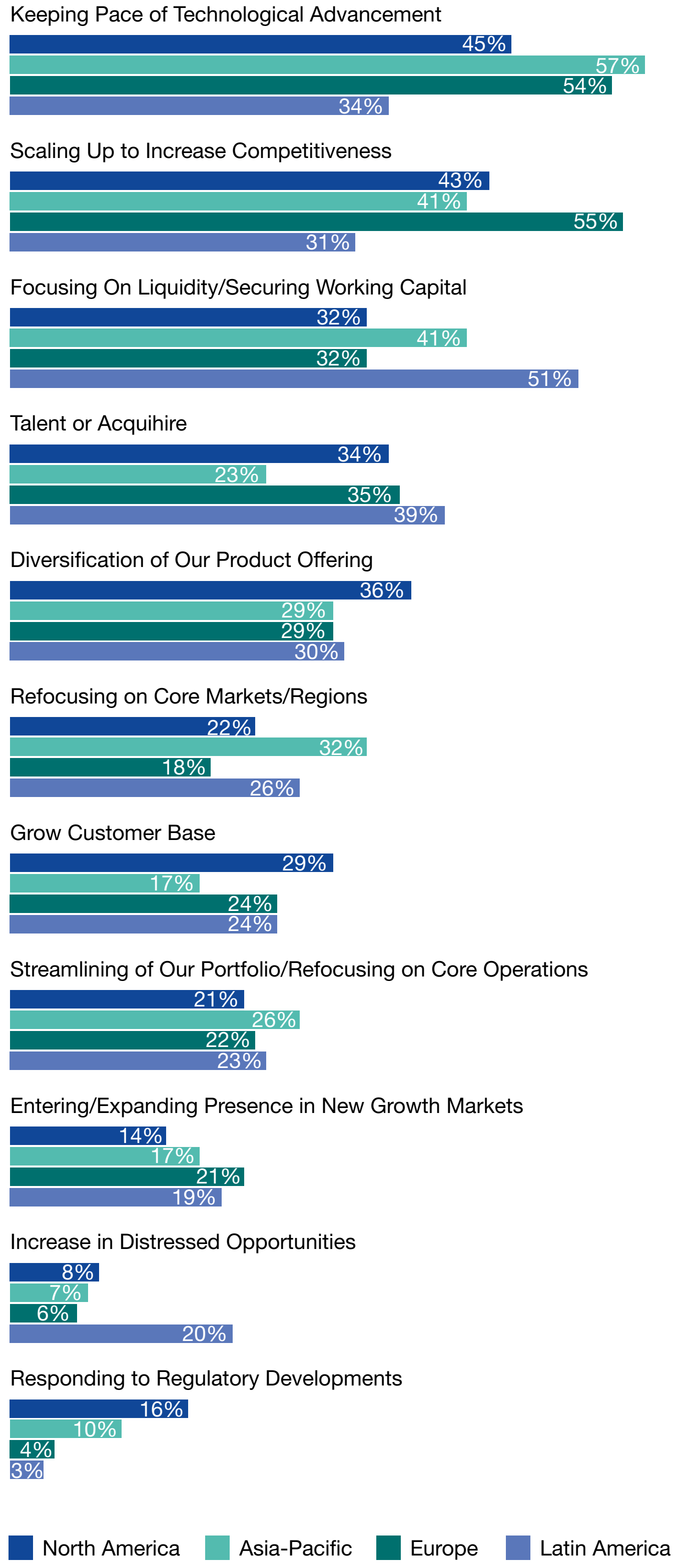
Cross-section of Challenges

Despite the undoubted appeal of tech as a target sector, buyers still face a complex array of challenges and uncertainties as we move through 2024. Several political, economic, and market factors are giving dealmakers across various regions pause for thought.

In North America, uncertainty surrounding the U.S. presidential election stands out as a major concern

What Will Be the Key Drivers of Your Tech M&A Dealmaking over the Next 12 Months?
(Select Top Three and Rank 1-2-3, with 1 Being the Most Important Driver)





for 36% of respondents. Elections bring significant uncertainty regarding future policies and regulatory environments. This can lead to a “wait and see” approach from companies, as they prefer to delay major decisions, including M&A plans, until there is more clarity post-election. A Democratic victory would also likely mean a continuation of the stricter antitrust enforcement that has been directed at the U.S. tech sector over the past four years.

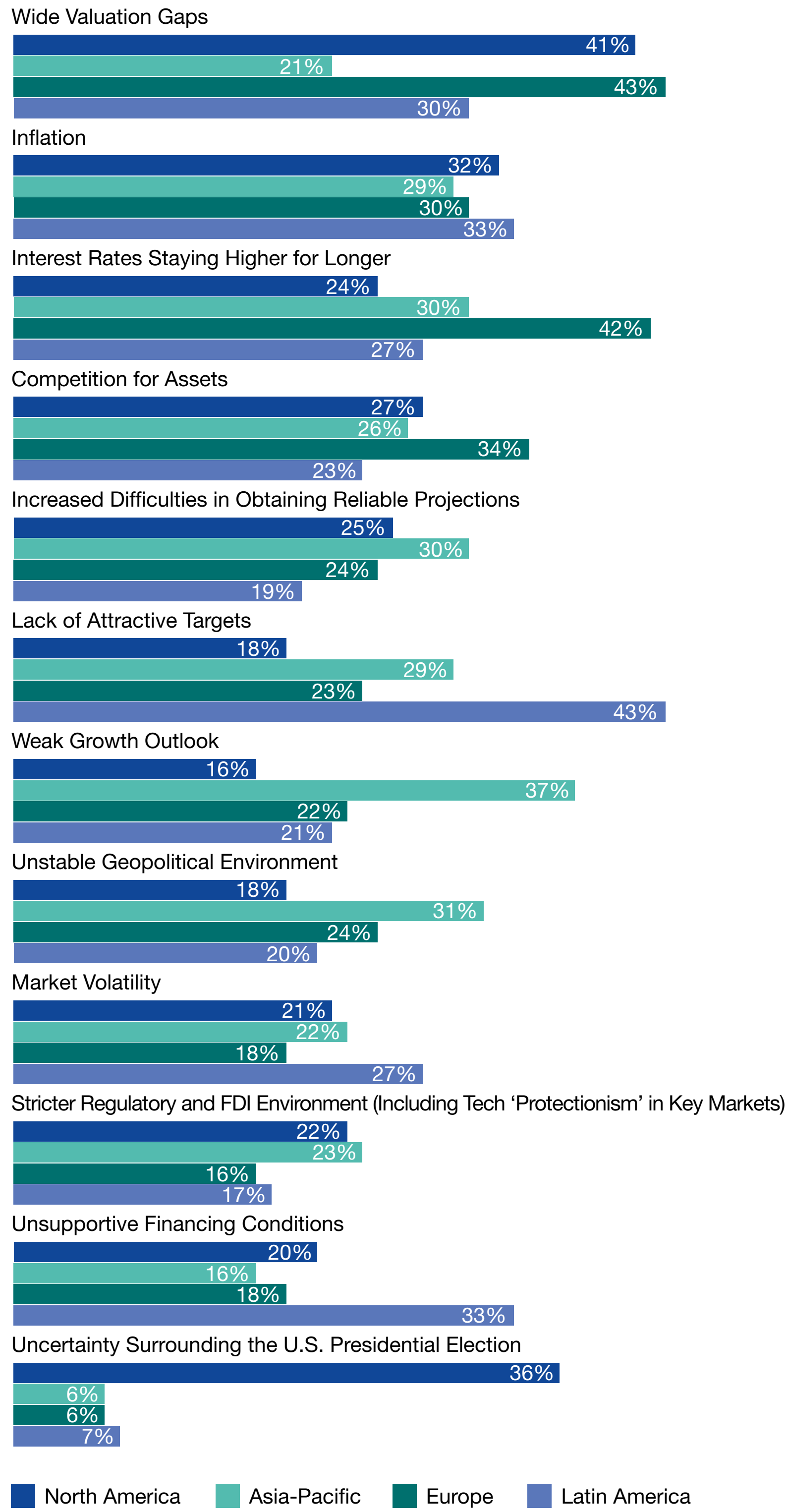
“A lot of deals are in limbo until after the U.S. elections to understand how policies and regulations may affect the M&A market. Companies are being more cautious and retaining their liquidity,” according to the managing director of a U.S. PE firm.

North America-based respondents share their concerns with European buyers over wide valuation gaps, cited by 41% and 43%, respectively, helping to make it the top concern overall across all regions. Public equity markets have run hard, with comparable stocks often significantly above private deal valuations. This disparity makes it challenging for sellers to accept lower offers in transactions when public markets suggest their assets might be worth more, causing them to bide their time. This is why the use of earnouts has become prevalent, allowing part of the purchase price to be deferred and contingent on the target company achieving certain financial milestones post-acquisition.

Ranking second is the risk that inflation poses to dealmaking, cited by between 29% and 33% of respondents across the various regions in our survey sample. Further, 42% of European acquirers are particularly concerned about the associated risk of interest rates possibly staying higher for longer. This runs counter to inflation, now falling closer in line with central banks’ targets.

For 43% of Latin American acquirers, meanwhile, their biggest concern is a lack of attractive targets. Investment in research and development in the region is relatively low, averaging about 0.6% of GDP, less than a quarter of the OECD average. This underinvestment hinders these countries’ ability to innovate and expand their tech sectors at a pace comparable to more developed economies. The region also lags behind in terms of infrastructure and internet connectivity, which are crucial for sustaining long-term growth in the tech sector.

What Will Be the Greatest Challenges to Tech M&A over the Next 12 Months? (Select Top Three and Rank 1-2-3, with 1 Being the Greatest Impediment)



Despite these challenges, Latin America is home to a growing stable of rising tech start-up stars, particularly in fintech and E-Commerce. The pandemic accelerated this trend, as consumers shifted towards digital services. Several unicorns have been produced, laying the foundations for disruptive young companies to follow in their footsteps.

Randy Bullard, co-chair of Morrison Foerster's Latin American practice, says, "Cross-border dealmaking is on the rise, promising to influence tech M&A significantly over the next three years. While these transactions in Latin America present complexities due to polarizing geopolitical dynamics, populist influences and an evolving regulatory landscape, they also offer unique opportunities for investors to navigate and capitalize on these evolving market conditions."

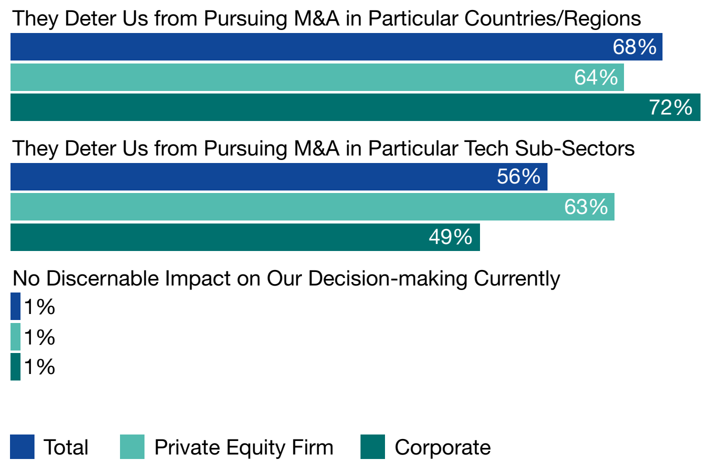
National Security and Regulation Deter Dealmakers

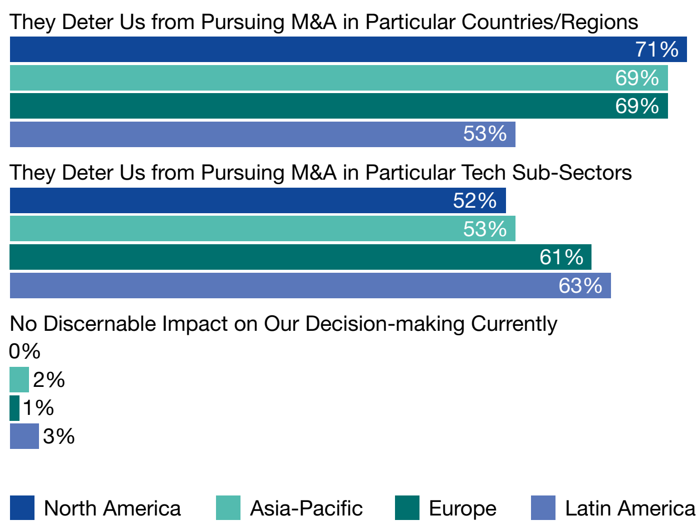
National security-related issues have introduced significant challenges and delays to M&A, with an overwhelming majority of respondents indicating that these concerns impact their willingness to pursue deals. More than two thirds (68%) are deterred from M&A in regions with high geopolitical tensions, such as China, Russia, and parts of the Middle East. Additionally, 56% are cautious about particular tech sub-sectors, notably those involving advanced technologies like AI, cybersecurity, and telecommunications, due to their strategic importance and the heightened scrutiny they attract from national security regulators.

The same is true of more developed markets. Despite a huge appetite from sponsors and strategics alike to invest in technology companies across regions such as the U.S. and Europe, regulators have implemented more stringent rules which have had a dampening effect on dealmaking. It is worth noting that, across Europe, given the multiplicity of jurisdictions, the severity of the impact has differed. For example, to date, France has imposed stricter conditions on deals while Germany has been relatively relaxed compared to its neighbor.

In the U.S., the Treasury Department's Committee on Foreign Investment in the United States (CFIUS) has increased scrutiny on inbound Chinese deals in recent years, citing security concerns. This has led to Chinese M&A activity in the U.S. dropping to its lowest level since 2006, according to Dealogic data.

To What Extent Do National Security-Related Issues and Legislation Impact Your Organization's Decision-Making Process When Choosing Potential Tech M&A Targets? (Select All That Apply)





> Companies are still completing transactions, but with an emphasis on national security assessments as part of the due diligence process."
>
> **John Smith, co-head of Morrison Foerster's National Security practice**

The U.S. Treasury Department also issued draft "reverse CFIUS" rules in June following President Biden's executive order in August 2023 outlining a new mechanism banning certain outbound investments. The regulation is designed to restrict U.S. capital from being directed towards critical technologies—such as semiconductors, AI, and quantum computing—in countries of concern like China and potentially enhancing adversarial military capabilities.

Meanwhile, taking its cue from the U.S., the EU's Foreign Direct Investment (FDI) Screening Regulation established a framework for member states to screen foreign investments for potential security risks. This regulation, implemented in 2020, has led to a large number of amendments to national FDI laws, or to entirely new FDI regimes across the 27 member states where the actual FDI screening takes place. The EU and its member states are aware of changes needed to address emerging challenges and ensure a coordinated approach, and the EU has initiated a reform of the EU FDI framework regulation to serve that purpose; however, it will take time to reach an agreement and adopt the changes.

The FDI Screening Regulation followed a similar strengthening of investment review processes in the U.S., which expanded the scope and powers of CFIUS through the Foreign Investment Risk Review Modernization Act (FIRRMA) in 2018. This legislation particularly focused on investments in critical technologies and infrastructure.

Similarly, Australia significantly tightened its foreign investment rules with reforms that came into effect in January 2021. These changes include stricter scrutiny of investments in sensitive sectors and enhanced powers for the government to review and block foreign investments that pose national security risks.

This heightened focus on national security in recent years, which accelerated during the pandemic, is reshaping M&A strategies. Companies are now incorporating rigorous national security assessments into their due diligence processes and showing a preference for less sensitive sectors to avoid the complexities of stringent reviews by authorities.

John Smith, former Director of the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) and current co-head of Morrison Foerster's National Security practice, says, "We are seeing a re-evaluation of M&A strategies in response to the global tightening of regulations. Companies are still completing transactions, but with an emphasis on national security assessments as part of the due diligence process. It remains important for companies to monitor any changes in global regulation and work with their legal counsel on M&A strategies that mitigate risk."

ESG Moves Up the Scale

Environmental, social, and governance (ESG) factors now play a central role in M&A, fundamentally altering how companies approach dealmaking and assess long-term value. The rules of the game have already changed. ESG considerations score a hefty 8.1 out of 10 in importance for respondents' selection of their most recent tech deal. That figure is expected to climb to 8.7 for future transactions, with increases across all regions.

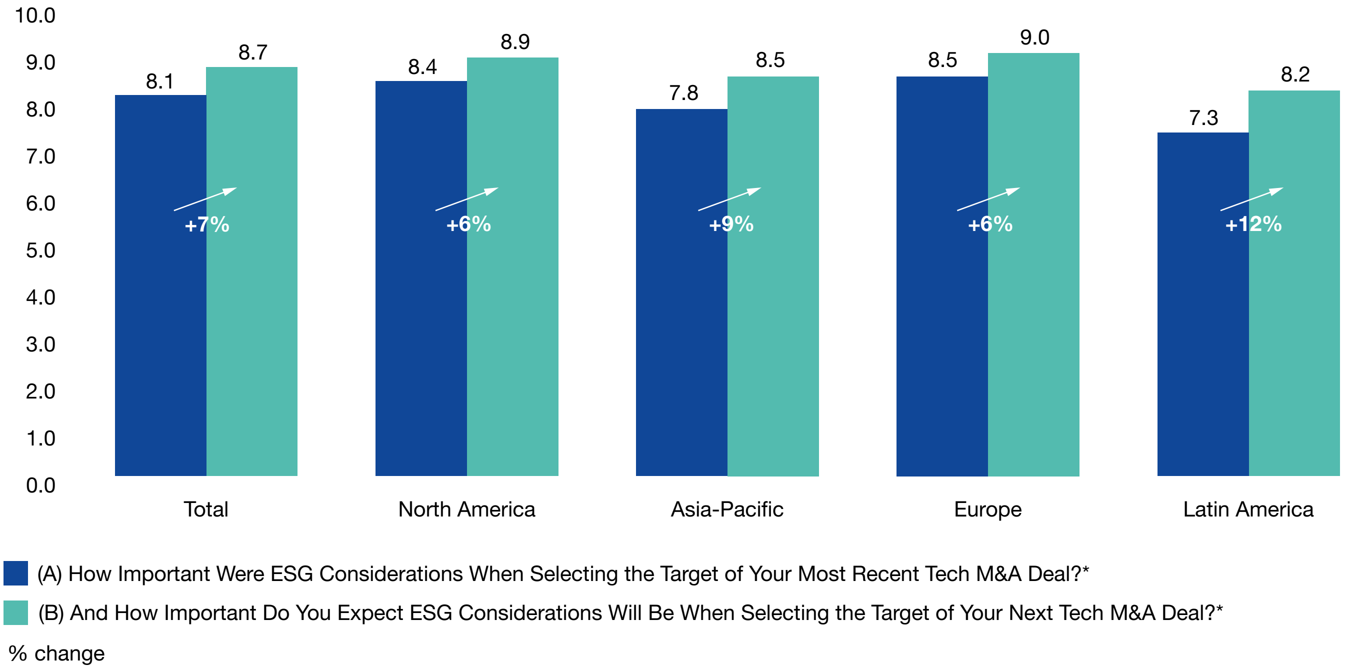
Notably, while developing markets slightly lag behind the global average, they are showing the most significant rise. Latin America respondents give the importance of ESG considerations in their next tech deals 8.2, up 12%, while Asia-Pacific respondents score 8.5, a 9% increase, signaling a closing of the gap in ESG priorities.

This is not merely window dressing or "greenwashing." Factoring ESG into deal sourcing reflects a growing awareness that long-term value creation is intrinsically linked to sustainable and responsible business practices. Investors are increasingly willing to pay premiums for ESG-mature targets, recognizing that sustainability credentials can be as valuable as a compelling growth story or cost-synergy potential.

In addition, regulation is playing a big role in motivating companies to take action, particularly in Europe. The EU's Corporate Sustainability Reporting Directive (CSRD) is significantly expanding the scope and rigor of sustainability reporting. From 2026, these requirements will apply to a swathe of private companies that meet two of three criteria: more than 250 employees, €40 million in net turnover, or €20 million in assets.

Suz Mac Cormac, co-chair of Morrison Foerster's ESG + Sustainability and Social Enterprise + Impact Investing practices, says, "Investors are increasingly

On a Scale of 0 to 10...



*Average scores shown

willing to pay premiums for ESG-mature targets—the market's recognition that ESG materiality assessments translate into real value creation. In this year's survey, ESG factors reached 8.7 out of 10 in importance for future transactions, its highest result since we started asking this question. ESG's continued high regard from dealmakers is proof that ESG is here to stay."

Obtaining accurate ESG data remains a significant challenge for dealmakers. Many struggle to acquire relevant information and documentation on a target's ESG practices, hindering thorough assessment of critical areas. However, this situation is expected to improve as new regulations mandate more standardized and transparent sustainability reporting across industries.

Even when acquirers overcome the data acquisition hurdle and define a clear scope for ESG due diligence, quantifying findings and assessing their financial impact on a deal often prove difficult. This challenge largely stems from a lack of readily available, industry-specific benchmarking data. As public reporting on ESG metrics becomes more prevalent, comparative data will become more accessible, enabling more precise valuation of ESG factors in M&A transactions.

Activism Abounds

Shareholder activism is on the ascent. There has been a significant rise globally, with 2023 and 2024 being two of the most active periods on record. This trend encompasses not only a growing number of campaigns but also a diversification in the types of demands and the profile of activists.

The year 2023 saw a record number of shareholder activist campaigns, with a 7% year-over-year increase, marking the busiest year since 2018, according to asset management firm Lazard. Notably, Europe and the Asia-Pacific region experienced the highest levels of new campaigns, surpassing their five-year averages by 26% and 55%, respectively. In contrast, North America saw a slight pullback in activity compared to 2022.

A notable development is the proliferation of first-time activists. In 2023, a record 77 first-time activists launched campaigns, a significant increase from 55 in 2022. This surge was especially prominent in

Europe, where new activists focused on challenging announced M&A transactions or advocating for divestitures to unlock value.

Campaigns continue to come thick and fast. In the first half of 2024, there was a 29% increase in campaign activity compared to the historical five-year average. This made H1 2024 the busiest half-year on record. The Asia-Pacific region in particular set new records, with 43 campaigns, with spikes in activity seen in previously less divisive regions such as Japan, South Korea, and Singapore. This activism has been motivated by the cheaper valuations available among publicly listed companies in Asia and the greater headroom for governance improvements.

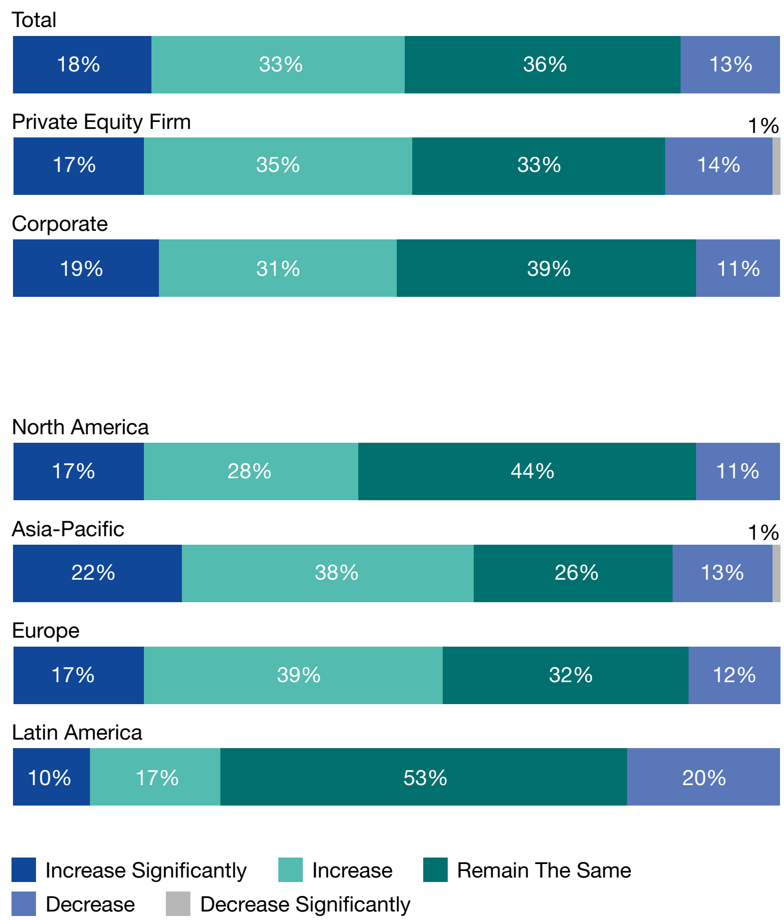
Jeremy White, co-chair of Morrison Foerster's global M&A Group, says, "Asia Pacific buyers share the most bullish outlook on deal valuations, likely reflecting the catch-up effect that awaits the region. This optimism is expected to filter through to private companies based on market comps, making APAC a hotbed for potential value convergence and cross-border deals."

Our research supports this trend, with 51% of respondents believing that activist campaigns will increase, including 18% who expect a significant rise. This is by far most pronounced among Asia-Pacific respondents, of which 60% anticipate a rise and 22% see such activity increasing significantly.

The introduction of the universal proxy card in the U.S. in 2023 has significantly influenced the landscape of shareholder activism. This tool allows shareholders to vote for their preferred mix of board candidates from both the company's and the activist's slates, rather than being limited to one slate. This change has lowered barriers for non-traditional activists, such as ESG-focused (and conversely, anti-ESG) groups, to initiate campaigns and to win minority representation.

In November 2023, the trade union coalition SOC used the universal proxy card to launch a campaign at Starbucks, seeking board seats to address what it described as severe human capital mismanagement. This was the first ESG campaign by a union coalition using the universal proxy card since it was introduced by the U.S. Securities and Exchange Commission in September 2022, marking a notable expansion in the cast of players pushing for influence over corporate governance.

Do You Expect Shareholder Activism Connected with Tech M&A to Increase or Decrease over the Next Three Years? (Select One)



Spencer Klein, co-chair of Morrison Foerster's global M&A Group, says, "Shareholder activism is on the ascent, with 51% of respondents noting that activist campaigns will increase, including 18% who expect a significant rise. The introduction of the universal proxy card in the U.S. has lowered barriers for non-traditional activists to initiate campaigns and increased the likelihood that activists will win minority representation. We've also seen a resulting trend toward quicker settlement of activist campaigns involving the activist gaining one of more board seats without much effort. Companies should be cognizant that forcing M&A activity, or opposing an announced deal, remain important strategies for activist investors."

SECTION 4:

Conclusion

The tech industry is in a constant state of reinvention, with the next big thing never more than a few months away. And over the next three years, dealmakers believe a combination of convergence, consolidation, and disruption will characterize a sector that never sleeps.

Three years is a long time in the tech space. Innovation cycles are becoming shorter and shorter, increasing the impetus for buyers to take action. Over this forward-looking period, industry consolidation is expected to be a key trend in tech M&A, cited by 52% of our respondents.

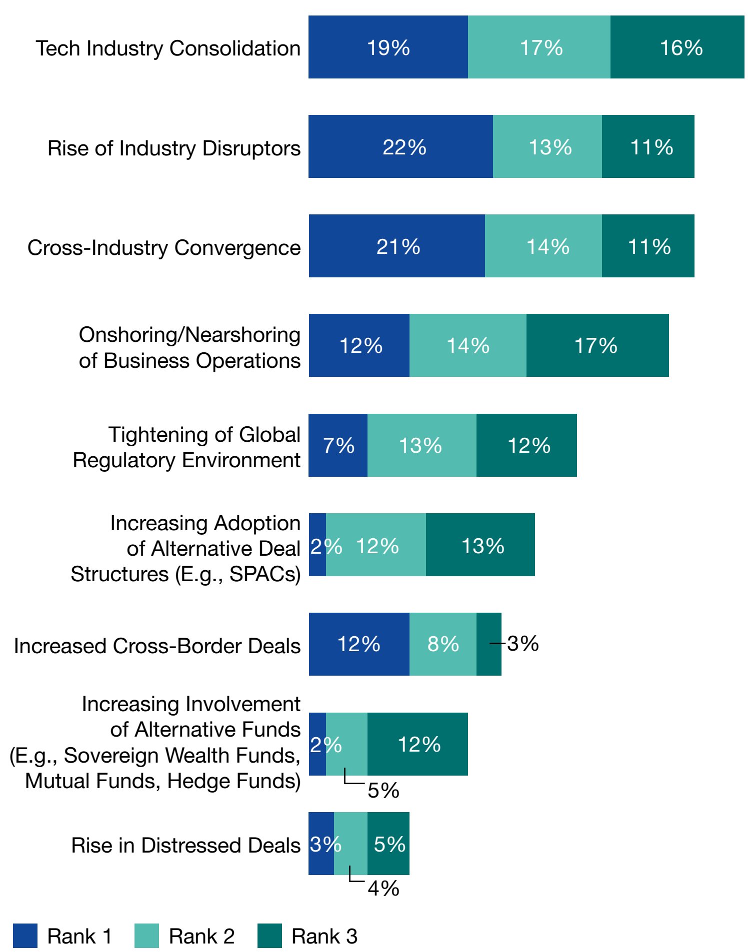
More specifically, product synergy has become a core catalyst for this consolidation. Several recent large deals have been predicated on the sum of the companies' capabilities being greater than their individual parts, with the combination of products aiming to increase market share and deliver a more holistic approach for customers.

However, the path forward is not solely about bigger players absorbing smaller ones and building out more comprehensive, integrated product portfolios. The biggest forces shaping tech M&A over the next three years are expected to be the continued rise of disruptors and cross-industry convergence, cited by 22% and 21%, respectively, as the number one trends.

"The rise in industry disruptors, mainly in AI and other thriving sub-sectors, will be seen in the next three years," explains the chief finance and strategy officer of a corporate based in Thailand. "Tech has always been one of the most disruptive of industries due to new market players and new innovations. And that will remain so."

A case in point: some believe products based on large language models could pose a threat to large tech firms' long-held dominance in internet

What Will Be the Key Trends in Tech M&A over the Next Three Years? (Select Top Three and Rank 1-2-3, with 1 Being the Most Important Trend)



search engines. Users can ask questions in natural language and receive direct answers, which can be more convenient than sifting through a list of links. However, the current dominant search engines are not resting on their laurels and are actively integrating AI technologies into their own search engines, using both internal development and acquiring these resources via deals.

Meanwhile, the blurring of traditional industry lines is happening everywhere in the pursuit of innovation. Companies across all sectors are increasingly positioning themselves as tech-enabled entities, if not pure-play technology companies. As AI becomes increasingly central to business operations, we can expect to see this cross-pollination focused on acquiring these critical capabilities.

SECTION 5:

Key Takeaways

1

Competition Heats Up

As tech M&A rebounds, competition for the hottest young companies is set to intensify. Private equity firms and corporates are both aggressively targeting these firms due to their proven business models and significant growth potential. This dynamic is driving up valuations, making acquisitions more competitive. With substantial PE dry powder reserves and a heightened strategic focus among corporates on integrating cutting-edge technologies, investors are poised to engage in fierce bidding wars to secure valuable assets.

2

Geopolitical and Political Risks Abound

Domestic political risks and geopolitical tensions will influence tech M&A in their own ways, and over different time horizons. The U.S. presidential election is pivotal since it could have a huge bearing on antitrust enforcement. Depending on the outcome and post-election pronouncements by the victor, it could deter or encourage large-scale M&A by tech giants. The ongoing chip war between the U.S. and China has its own implications, with asset managers like Apollo Global Management and Brookfield teaming up with semiconductor manufacturer Intel on joint ventures to secure production. U.S. restrictions and reciprocal actions from China will complicate cross-border M&A and make it more difficult for acquirers to navigate geopolitical waters.

3
Gapping Up

Although enterprise value-to-EBITDA multiples in the tech sector have compressed since their record highs in 2021, many believe that valuation gaps remain a stumbling block standing in the way of M&A. Target companies are still coming to terms with the new reality and it is unclear whether the bid-ask spread will close. Looser financing conditions stoke growth stocks, which derive a significant portion of their value from future earnings and have disproportionately lower discount rates. With interest rates gradually coming down, it's possible that earnouts will play an even greater role in crossing the chasm between buyers and sellers.

4
The Intersection of AI and Everything

AI convergence is poised to be a major catalyst for M&A in the coming years. As this emerging technology becomes more deeply embedded across the spectrum of industries and applications, companies will pursue acquisitions to rapidly gain capabilities and talent. This will further blur traditional sector boundaries, with non-tech companies acquiring AI start-ups to enhance their core operations. Expect to see deals that combine AI with cybersecurity, healthcare, finance, and manufacturing, among others.

5
The Rising Chorus of Shareholder Activism

The gap between AI leaders and laggards presents opportunities for activists to drive change. These shareholders may push lagging companies to adopt technology to improve operational efficiency and boost shareholder returns, in turn potentially setting off more acquisitions of AI start-ups and tech firms by traditional companies seeking to quickly advance their capabilities. Naturally, not all investors will share the same view. The involvement of trade unions in the activist arena also has the potential to push the brakes on AI adoption and, by extension, strategic deals in a tug-of-war of vested interests.

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