MORRISON FOERSTER

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FAST FORWARD
How Technology M&A Is Reshaping Industry

CONTENTS

METHODOLOGY

In Q2 2021, 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 $250m in annual revenue and PE firms with a minimum of $500m in assets under management. In respect of geography, 30% of respondents were based in North America, 30% in Europe, 30% in Asia-Pacific, and 10% in Latin America. All responses are anonymous, and results are presented in aggregate.

EXECUTIVE SUMMARY

OVERVIEW

The world faced major challenges in the first half of 2021 related to the COVID-19 pandemic, and yet the disruption has also created opportunities in the marketplace, evidenced by increased corporate and private equity (PE) appetite for M&A during that same period. Nowhere is this truer than in the technology sector, which has been by far and away the most active area for investment by corporates and PE firms.

The rate of technology innovation and adoption since early 2020 has been nothing short of astonishing. Consumers are responding to pandemic changes by enthusiastically embracing technology in all forms. As a result, companies in the technology, media and telecoms (TMT) sector have benefited and are propelling the M&A deal pipeline. There is clearly no going back – digital tools are meeting consumers' pandemic demands for convenience and safety, as well as increasing operational efficiency and resilience and improving decision-making for companies, enabling them to reach more customers with new products and services.

Over Q2 2021, Mergermarket surveyed 300 dealmakers from around the world to gain insights into the future of technology-related M&A. The study has been conducted against the backdrop of an exceptionally high level of activity after just a brief pause in the early phases of the pandemic. From Q4 2020 onwards, the world has witnessed record M&A deal values, with Q2 2021 surpassing all previous quarters to reach $1.5tn worth of transactions.

2021 carried forward the unprecedented number and value of TMT deals from 2020, with 4,223 deals worth $936bn in aggregate. Q2 2021 was especially active, with a $511bn total far outstripping pre-pandemic highs. For comparison, the highest value recorded before the arrival of COVID-19 was in Q4 2016, when TMT deals worth $294bn were announced.

INSIGHTS

It is evident that increased investment in technology offers answers to many of the challenges brought by the pandemic. This survey clearly reflects the urgency for companies to grow and scale, which is reflected in this tech M&A boom, the scale of which few would have predicted just a couple of years ago.

Dealmakers have been highly active this year, and the survey shows they plan to continue investing in technologies that will transform industries through digitalization and the effective harnessing of data. They also have an eye to the future, hunting for deals that will help them scale up to increase competitiveness and keep pace with technological advancements.

But despite strong activity to date, hurdles remain. A key concern is the trend toward increased regulatory scrutiny in the sector and issues around protectionism of technology assets in major markets. Many dealmakers have already faced some regulatory and geopolitical headwinds, and more are likely to emerge over the next few years. Yet the pace of technological transformation now has a momentum that is unlikely to slow.

This survey finds strong evidence of optimism for future dealmaking by utilizing more efficient business processes that have been normalized during the pandemic, like forgoing business travel in favor of video conferences. There is also positive sentiment around additional structures to facilitate M&A, such as special purpose acquisition companies (SPACs) and joint ventures.

The booming M&A pipeline has encouraged both new players and incumbents to shake up industries through innovation. Our survey shows that dealmakers are looking to increase their tech M&A investments. As with their response to the pandemic, tech M&A looks set to be a part of all dealmakers' future strategies.

Currently, TMT M&A is focused on proven and conventional technologies with clear use cases, such as cloud and business analytics. Since these technologies serve as the foundations for further innovation, they are expected to spur additional cutting-edge developments in areas such as artificial intelligence, machine learning and robotic process automation (RPA).

The next 12 months are set to be an exciting time for tech M&A. Corporates and PE firms are increasing their TMT investments, with the need to scale up and keep pace with technology advancement continuing to drive dealmaking. And this survey suggests that, in the coming years, industry consolidation and the rise of disruptors will bring about structural change.

"We have already seen notable tech M&A deal activity in 2021," adds Morrison & Foerster's Global M&A Co-Chair Brandon Parris, "Based on this survey's findings, we are looking forward to an active period ahead."

We hope you find our report an insightful, engaging and thought-provoking glimpse into the current and future plans of global dealmakers in the tech M&A space.

KEY FINDINGS

Cloud technology

is cited as the first-choice subsector by 19% of respondents for the best near-term opportunities for dealmaking. By comparison, artificial intelligence/machine learning attracts only 3% of first-choice votes.

The key driver

of respondents' tech M&A strategy between May 2021 and May 2022 will be scaling up to increase competitiveness, with 22% identifying this as the most important factor for their organization.

25% of respondents

believe the greatest challenge facing tech M&A between May 2021 and May 2022 will be a stricter regulatory and foreign direct investment (FDI) environment, while 19% cite the damaging effects of tech protectionism.

78%

and 57% of respondents, respectively, expect aggregate tech M&A deal volumes and average values to increase between May 2021 and May 2022.

42%

of respondents abandoned or postponed a tech M&A deal between May 2020 and May 2021 owing to the COVID-19 pandemic.

SECTION 1:
MARKET OVERVIEW

Despite reaching unprecedented levels in 2020 and continuing even more strongly through H1 2021, the tech M&A scene looks set to be busier still over the coming year.

Many businesses, and even entire sectors, have changed forever: companies are looking to technology more than ever before to enhance organizational efficiency and meet growing customer demand for online services. Many dealmakers, therefore, view tech M&A as essential to transforming existing offerings, back-filling capabilities, and expanding into new markets.

Nearly four-fifths (78%) of survey respondents expect aggregate tech M&A deal volumes to increase over the next 12 months, including 43% who expect them to increase significantly. However, there are some big variations by region, with some parts of the world notably more bullish than others.

Perhaps unsurprisingly, given the region's expertise and standing in technology, North American respondents are most optimistic about the sector's M&A prospects. Almost all respondents in the region (94%) predict an increase in tech M&A, including more than half (58%) anticipating a significant rise in activity. This also reflects the high levels of dealmaking seen in North America over the past year. US bidders accounted for 41.5% of global volume in the sector in 2020 and targets made up 36%, both by far the largest proportions, according to Mergermarket.

The vast majority of respondents (86%) in Asia-Pacific, another region with strong technology credentials, are also expecting higher deal volumes, with half of those respondents predicting a significant jump. In 2020, China, Japan and South Korea accounted for 11.2% of global bidding activity in the sector, while Chinese and Indian target volumes made up 8.5%, Mergermarket figures show. By contrast, Latin American respondents are less upbeat on tech M&A prospects, with 46% anticipating an increase, and 37% expecting a decrease in volume.

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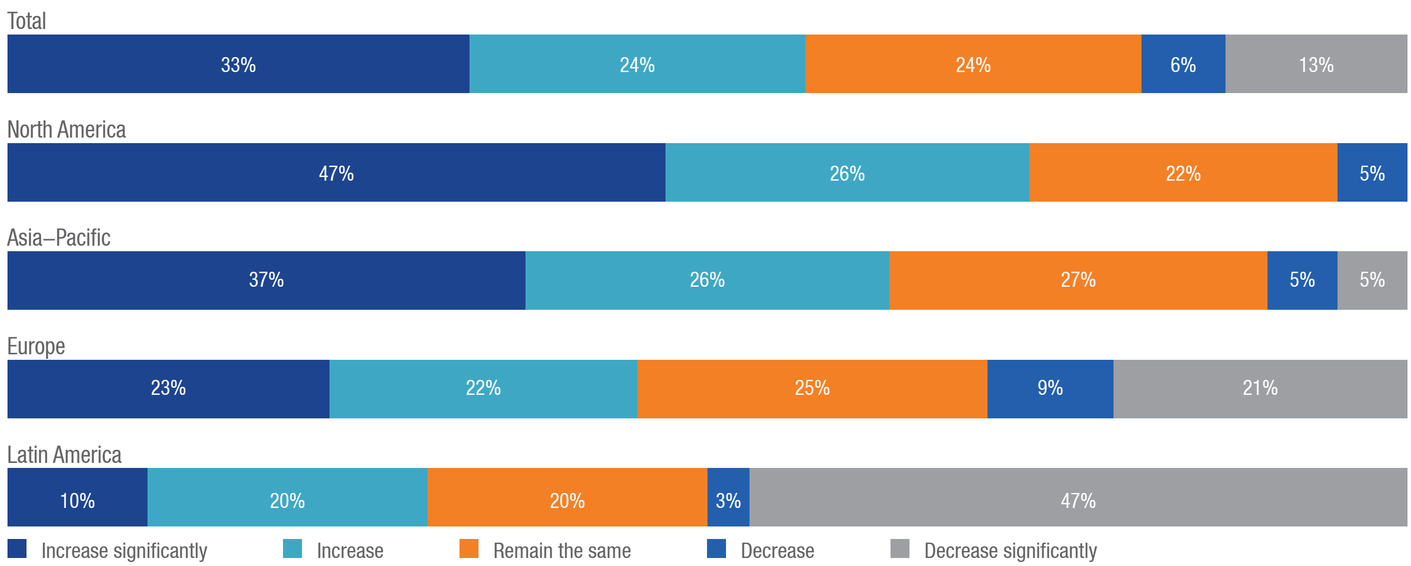
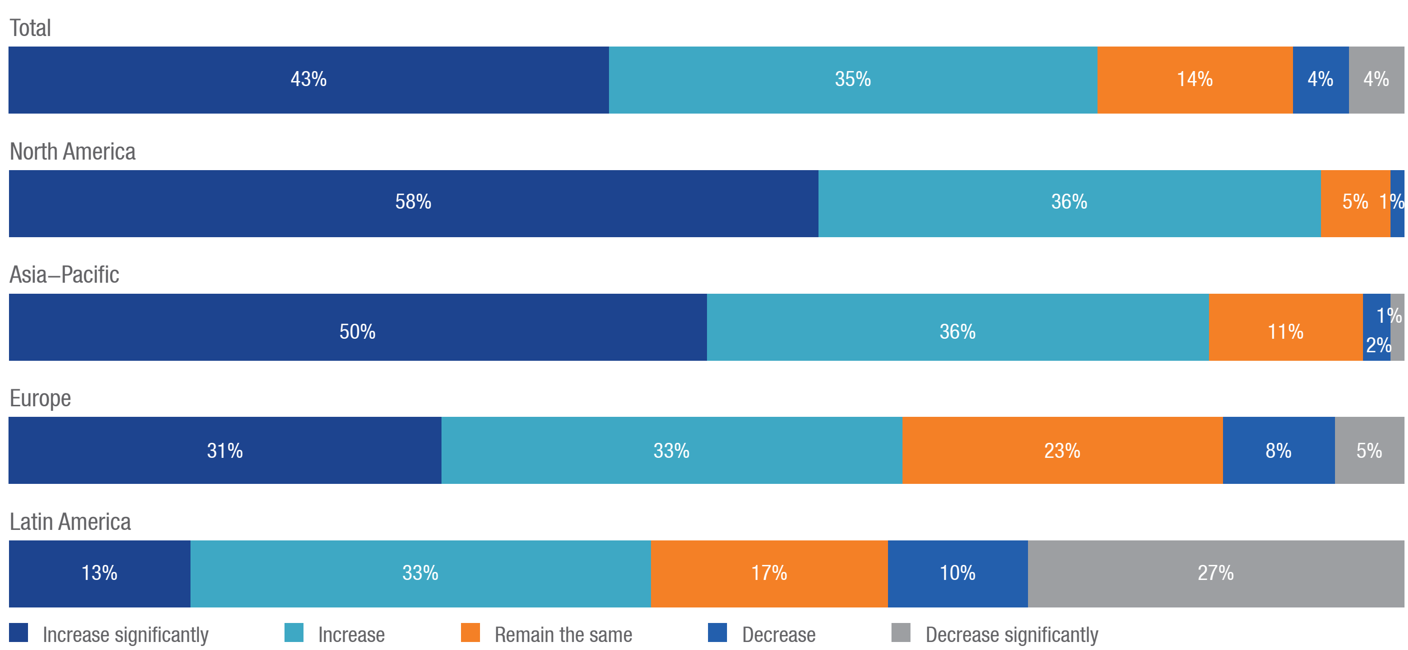
> **SCALING THE BUSINESS IS VITAL, AND TECHNOLOGY CAN PROVIDE US WITH THE NECESSARY MOMENTUM.**
>
> PARTNER OF A EUROPE–BASED PE FIRM

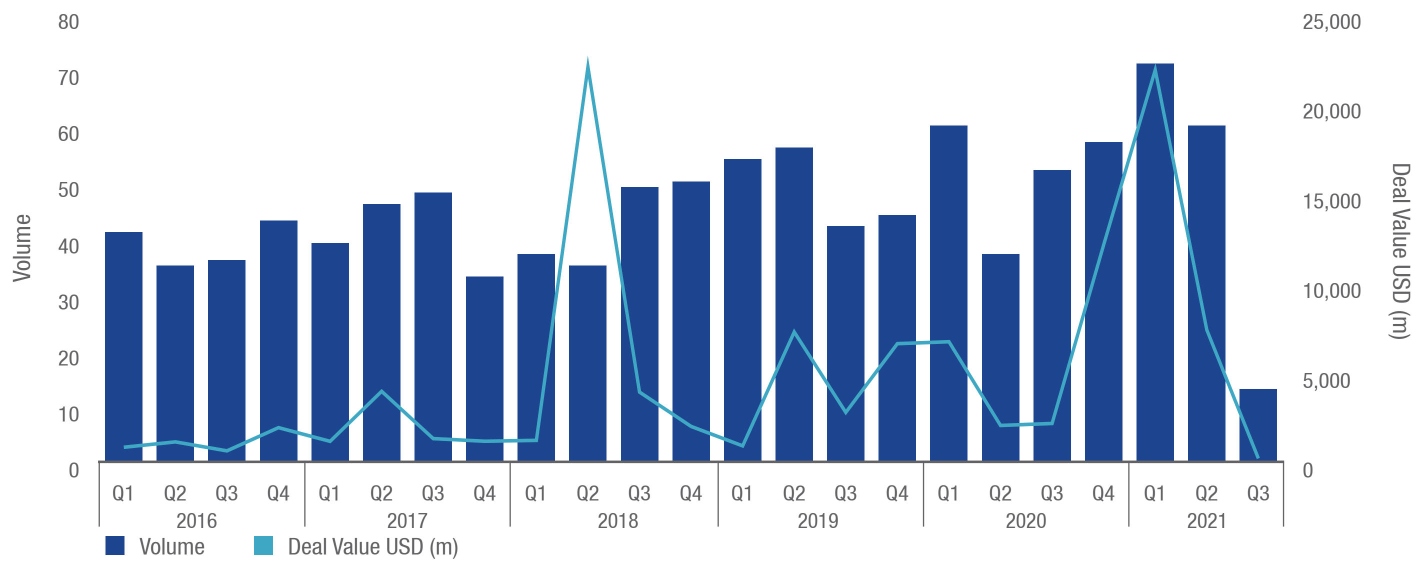
How do you expect average tech M&A deal values to change over the next 12 months compared to the last 12 months?



How do you expect aggregate tech M&A deal volumes to change over the next 12 months compared to the last 12 months?



M&A Trends - TMT Sector - Germany 2016 to 2021 YTD



Europe, meanwhile, remains modestly optimistic, with 64% of respondents expecting an increase in tech M&A volumes, while 13% predict a decrease. As one PE firm partner from the region remarks, "We've decided to invest more in Germany and Austria because of the scope of new technology developments in these regions. Scaling the business is vital, and technology can provide us with the necessary momentum."

The enduring appeal of German tech assets is reflected in recent TMT M&A figures posted in the country over the last few quarters. In Q4 2020, TMT dealmakers returned to the market with gusto after the fallow, peak-pandemic periods in Q2 and Q3 – 57 deals worth $12.1bn in aggregate were announced in the last three months of 2020, up 30% and 84%, respectively, from the same period the year before.

AVERAGE VALUES TO RISE

Record-breaking tech M&A values in 2020 were partly driven by a significant uptick in activity and competition, but also by higher tech company valuations. The Nasdaq Composite index, composed mainly of technology stocks, was up 43% from the beginning to the end of 2020, while the S&P 500 Information Technology index rose just over 41% over the same period.[1]

This rise in tech company valuations is inevitably leading many respondents to expect average tech M&A values to increase over the next 12 months. Overall, more than half of respondents (57%) expect an increase in value, including a third who anticipate a significant rise.

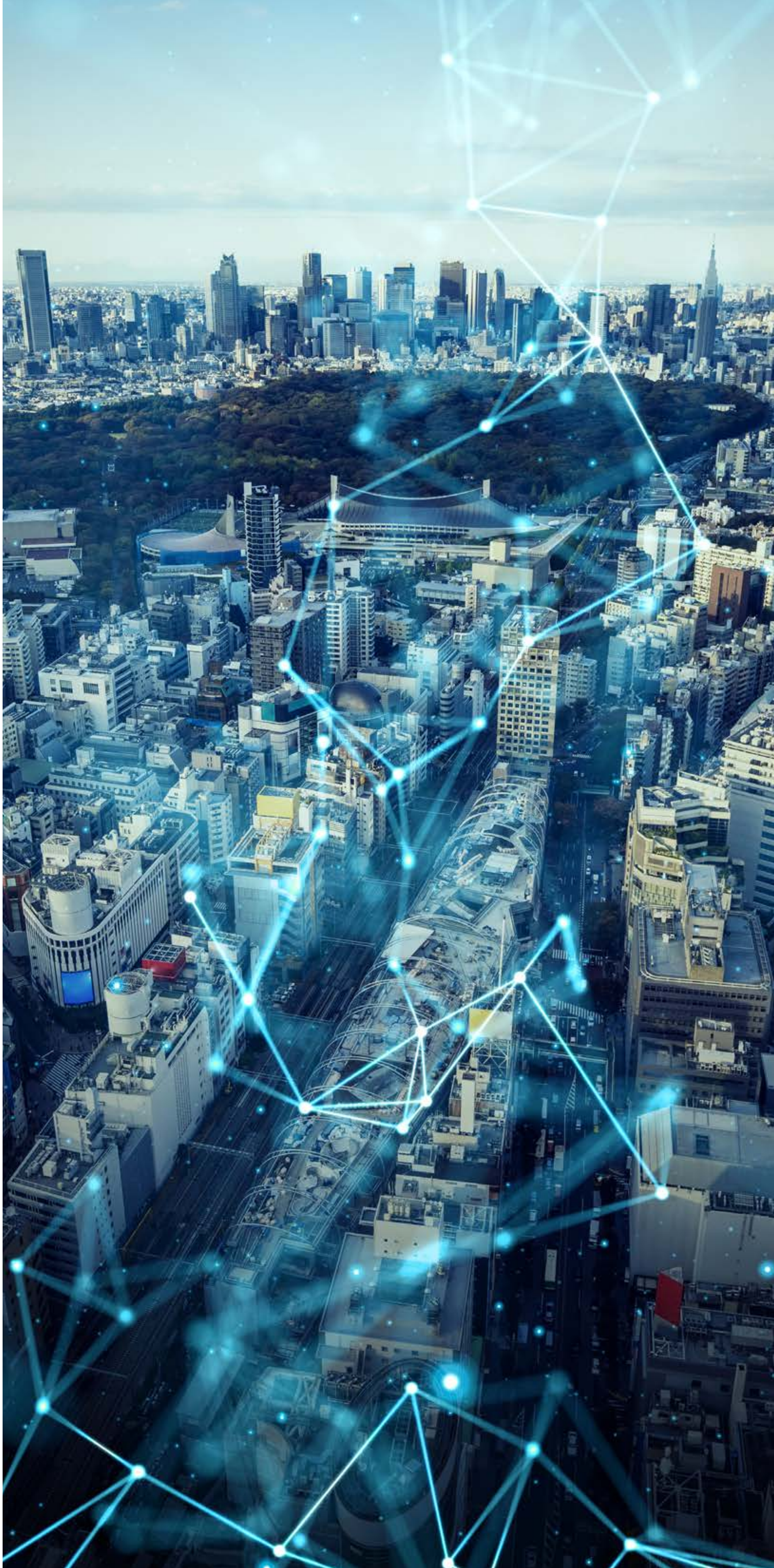
By region, respondents' outlook on average tech M&A values largely mirror that for expected volumes. Nearly three-quarters of North

1 https://www.nasdaq.com/articles/nasdaq-outperforms-major-indices-in-2020%3A-etfs-to-gain-2020-12-30

American respondents (73%), for example, predict average tech deal values to increase, including 47% who expect a significant upsurge. In Asia-Pacific, respondents are almost as bullish, with 63% anticipating an increase, including 37% expecting a significant jump. Europeans are also encouraged: 55% expect higher average tech M&A values, including 23% predicting a large uptick.

"It's an exciting time for the German technology sector," reports Dirk Besse, Managing Partner of Morrison & Foerster's Berlin office and Head of its European Corporate and M&A groups. "The government recently announced an investment of €10bn to bolster the burgeoning local tech start-up ecosystem, which has already seen numerous companies reach 'unicorn' status in 2021, and German acquirers and investors have remained active both at home and internationally."

Meanwhile, half of Latin American respondents believe average values will fall. This is despite a surge of activity in earlier-stage venture capital (VC) investments in the region, most of which are technology-related, and which would ultimately provide deal flow for corporates and larger PE firms. In both 2019 and 2020, Latin American VC investment exceeded $4bn, double the amount reached in



2018, according to figures published by the Association for Private Capital Investment in Latin America.[2]

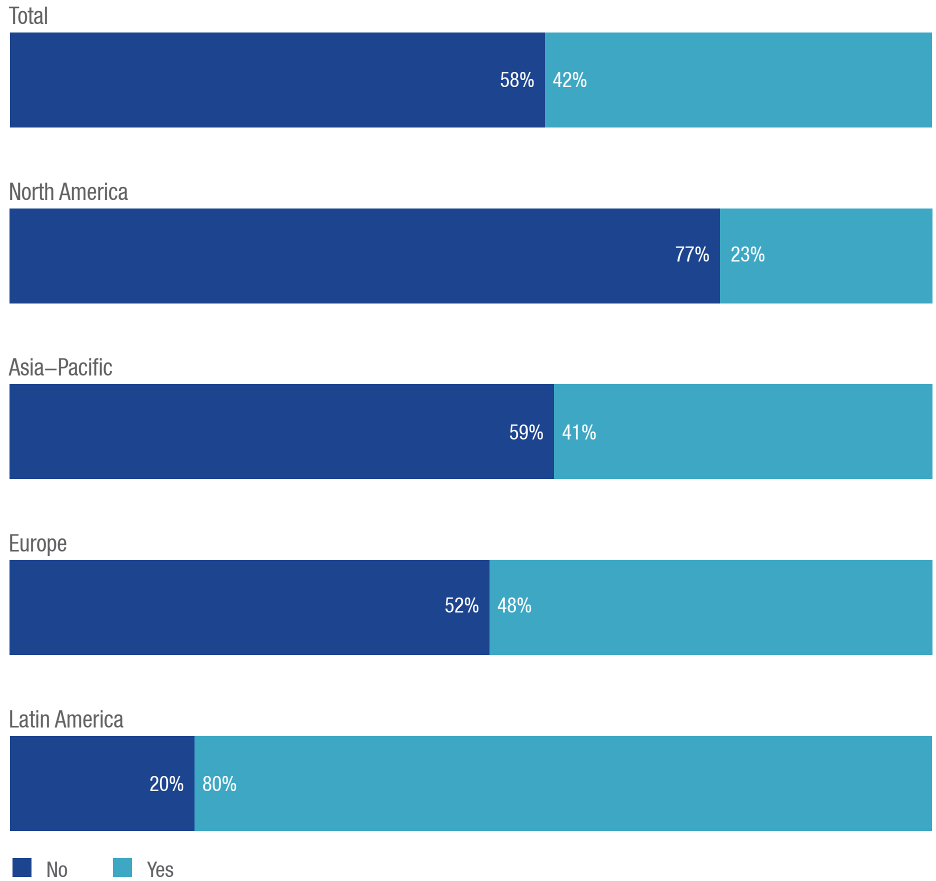
According to Randy Bullard, Co-Chair of Morrison & Foerster's Latin America practice: "Latin American market participants generally tend to be cautious when making predictions for the future. The Latin American market has been trending up for several years now, despite the economic and political upheaval due to COVID-19. We have been seeing a steady stream of marquee transactions in the region, especially in the technology sector. My sense is that these numbers simply reflect caution, as trends in the Latin American markets tend to be more difficult to forecast."

Overall, corporates and PE firms are sanguine about the prospects for tech M&A over the coming year, with the majority of respondents to our survey, as we'll see in the next section, expecting at least to try their hand in the market themselves.

DEALMAKING DURING THE PANDEMIC

The high levels of activity seen in tech M&A over the past 18 months can conceal the fact that COVID-19 presented dealmakers with several challenges. In the early stages of the

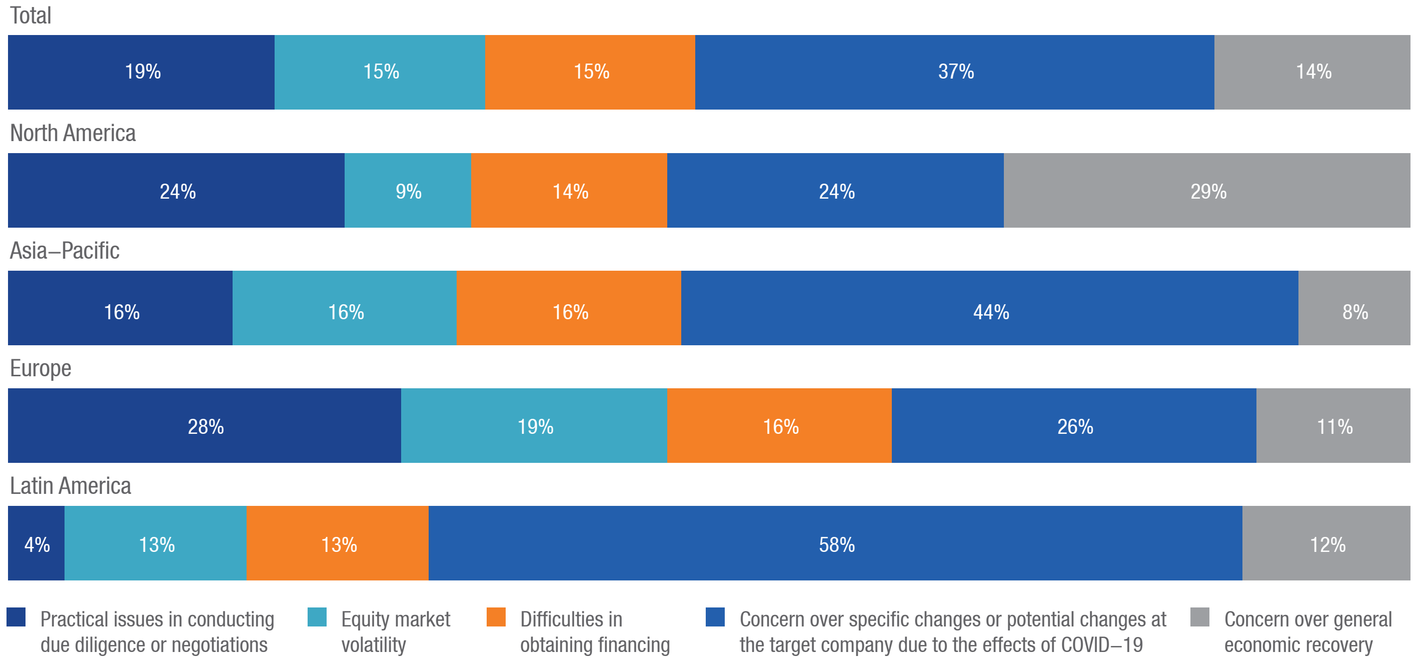
Did you abandon or postpone any tech M&A deals over the last 12 months because of the COVID-19 crisis?



> THOSE DETERMINED TO COMPLETE M&A DEALS HAVE HAD TO COMPLETELY RETHINK THE PROCESS.

2 https://lavca.org/industry-data/lavcas-2021-review-of-tech-investment-in-latin-america/

If ‘Yes’ to the previous question, what was the primary reason why you abandoned or postponed dealmaking?



pandemic, uncertainty around the economy and company performance made financial projections almost impossible, while stay-at-home orders and travel bans prevented onsite due diligence and in-person negotiations.

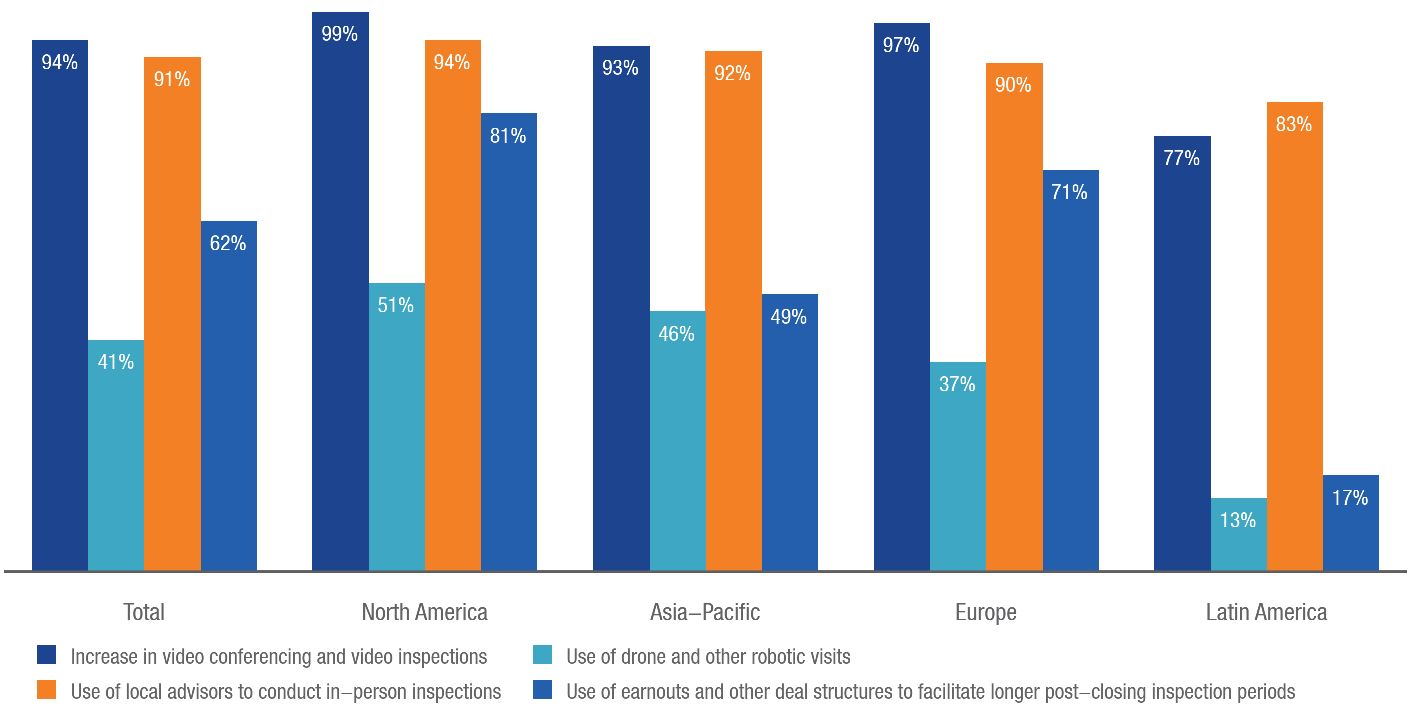
This situation led to a significant decline in dealmaking in the first few months of the crisis. Global M&A value in H1 2020 halved to $966.3bn compared with the $1.9tn recorded in same period in 2019, according to Mergermarket. Instead of striking deals, companies focused on managing their businesses in the face of health threats related to COVID. Those determined to complete M&A deals have, in a great many instances, had to completely rethink the process if they are to get transactions over the line.

It is hardly surprising, therefore, that nearly half of respondents (42%) report that they abandoned or postponed a tech M&A deal over the past 12 months. Least affected have been North American respondents, of whom fewer than a quarter (23%) say they had to abandon a transaction. In Europe and Asia-Pacific, 48% and 41% of respondents, respectively, were compelled to walk away or delay, while Latin American dealmakers are the most affected of all – 80% had to abandon or at least postpone a tech M&A transaction. This may help to explain the more pessimistic sentiment around tech dealmaking for the next 12 months among Latin American respondents.

UNCLEAR FORECASTS

The unprecedented measures taken to stem the spread of the coronavirus and a lack of visibility around how companies will fare through the crisis has led to a cautious approach among

What practices have you adopted and expect to maintain in response to the decrease in in-person meetings as a result of COVID-19 protocols? (Select all that apply)



many respondents. The biggest reason overall to impel respondents to walk away from a deal was concern over specific changes or potential changes at the target company as a result of COVID-19, cited by 37%. This is particularly the case for Asia-Pacific respondents (44% say this) and those in Latin America (58%). A Brazil-based PE partner explains: "Obtaining reliable projections is tough on the due diligence teams at the moment. The practical restrictions have made it quite challenging to compare the data received with the actual conditions."

North American respondents, however, have been more concerned about the general economic recovery. Nearly a third (29%) cite this as a reason for abandoning or postponing a tech M&A deal in the past 12 months (versus just 14% overall), while only 24% say the cause was more to do with specific company issues caused by COVID-19. This is perhaps surprising, given their otherwise bullish responses and the relatively strong performance of the US market – the International Monetary Fund (IMF) recently

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> **IN ADDITION TO VIDEO CONFERENCING, MORE THAN 90% OF RESPONDENTS NAVIGATED TRAVEL BANS DURING THE PANDEMIC BY EMPLOYING LOCAL ADVISORS TO CARRY OUT IN-PERSON INSPECTIONS.**

revised US GDP growth forecasts for 2021 upwards to around 7%.[3]

The second biggest reason overall is of a more practical nature and stems mainly from travel bans. Nearly one-fifth (19%) say they had to abandon a tech M&A deal because of issues around conducting due diligence or negotiations, with European respondents most concerned about this (28%), followed by their North American peers (24%).

USING THE TOOLS AT HAND

With face-to-face meetings and onsite visits made mostly impossible at certain points over the past year, dealmakers have had to turn to technology to conduct proceedings. Nearly all (94%) have increased their use of video conferencing and video inspections. "A wider range of communications solutions are available now. In the wake of COVID-19, these became highly valuable, and teams could not collaborate effectively without them," says an India-based head of M&A of a corporate respondent. Almost as many (91%) have navigated travel bans by employing local advisors to carry out in-person inspections.

While there was a lot of hype in the early stages of the pandemic about the potential use of drones and other robotic technologies, these have not been employed as much as anticipated. Overall, 41% of respondents have deployed this type of technology in deal processes, although there is quite a divergence by region. North American respondents have been the keenest adopters, with 51% using drones and other robotics, closely followed by Asia-Pacific with 46%. In Europe, the proportion is just over a third (37%), while Latin American respondents are slower to adopt such technology (13%).

Given the difficulty of assessing businesses remotely, deal structuring can provide a helpful way of mitigating uncertainty and a lack of information. Overall, most respondents (62%) have used earnouts and other creative deal structures to address volatile valuations through longer post-closing periods given the impact of the pandemic. However, the use of creative deal structures is concentrated in the US and Europe, where 81% and 71% of respondents, respectively, say they adopted creative deal structuring, while in Asia just shy of half (49%) and in Latin America only 17% have opted for this.

HYBRID PROCESSES TO LAST

The pandemic will have long-term consequences for the practicalities of dealmaking. Some parts may change for good: video conferencing will likely remain for at least some, if not most, discussions, although travel will still be considered for relationship-building, key parts of the negotiation process, and for in-depth due diligence.

For those that have closed a tech M&A deal, some integration issues may arise if travel bans stay in place or stay-at-home orders are reimposed. The pandemic has also engendered an increase in geopolitical risk in some regions, which may hamper deals. As an Argentina-based CSO of a corporate says: "In terms of long-term challenges, the COVID-19 restrictions and their implications for due diligence and integration processes need to be given adequate thought. The geopolitical environment globally has been quite strained after the pandemic."

Yet despite this, some respondents foresee an increase in cross-border transactions as a result of pent-up demand. "Cross-border deals will be much higher in the coming years compared to the previous couple," says a US-based head of M&A of a corporate respondent. "During the pandemic, dealmakers would have hesitated to conduct these deals because of travel restrictions."

3 https://www.imf.org/en/News/Articles/2021/07/01/mcs070121-united-states-of-america-concluding-statement-of-the-2021-article-iv-mission

SECTION 2:
THE WAY FORWARD

Respondents are expecting to play a pronounced part in the tech M&A space over the next year, with high–growth companies and North American opportunities a key focus.

In line with global trends, respondents have remained active in tech M&A over the past year, despite some of the challenges outlined in the previous section. Two-thirds of corporates say they have completed one tech M&A deal in the last 12 months, while 33% report having completed two or three such transactions.

PE respondents, as is their nature, have been busier still. Just under a third (31%) say they did one tech deal, while 65% report completing two or three, and a further 4% managed four to six such deals. This reflects the increased appetite for tech investments among PE firms seen in particular since the summer of 2020. While many buy-out houses had been upping their exposure to the increasingly mature tech sector for a number of years, the pandemic has really lit a fire under PE's investment in the space: tech company investments accounted for around 40% of PE's total deal value in H2 2020, up from around a quarter over recent years, according to EY.[4]

Morrison & Foerster PE partner Patrick Huard comments: "As these numbers underscore, the pandemic, and the increase in the number of tech-focused businesses that have come to market since the start of the pandemic, have accelerated private equity's growing focus on tech and tech-enabled businesses, including many funds that have not traditionally invested in the tech sector."

By region, North American and Asia-Pacific respondents were the most active over the last 12 months, with 57% and 60%, respectively, saying they completed two or three tech deals. Just 17% of respondents from Latin America and 41% from Europe report the same. These results reflect respondents' predictions generally for tech M&A outlined earlier in this report, where the US and Asia are the most bullish, followed by Europe, with Latin American respondents taking a more cautious approach.

SERIAL ACQUISITIONS ON THE AGENDA

These overall patterns look set to continue over the coming 12 months. While 16% of corporates do not expect to complete a tech M&A deal in the next year, just under a third (30%) expect to do one and 45% are anticipating doing two or three. A further 9% expect to be even more active, saying they are looking to complete at least four tech M&A deals. PE respondents will also remain very keen on the sector – nearly half (49%) expect to do two or three tech deals and almost a third (30%) will be seeking to do four or more in the next year.

Again, the most active regions will be North America and Asia-Pacific. Over

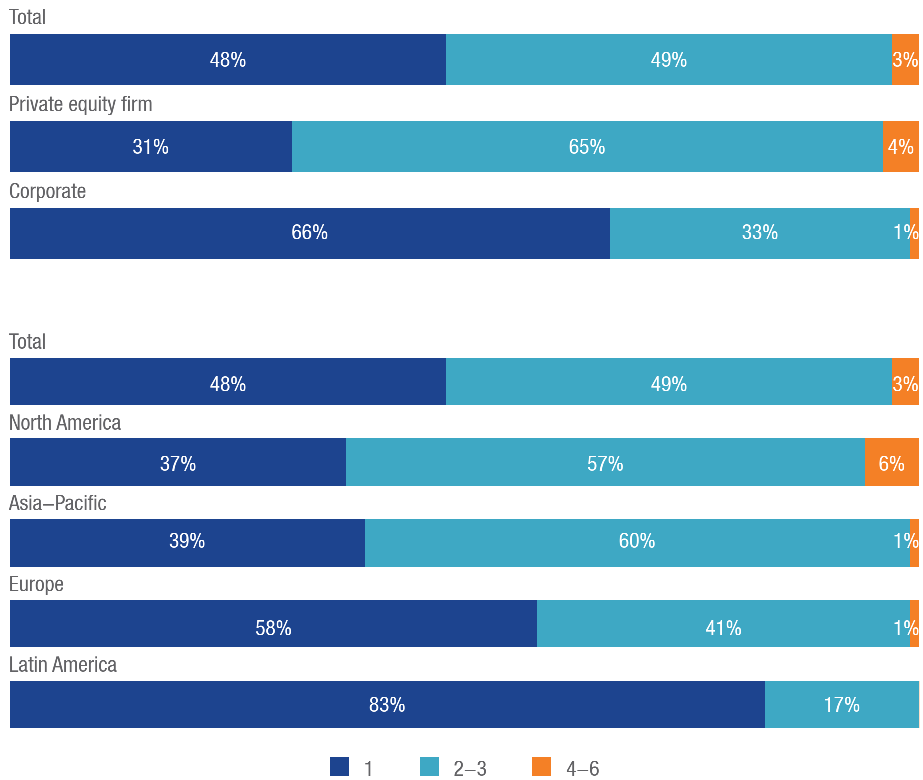
4 https://www.ey.com/en_us/private-equity/how-2021-is-unfolding-for-private-equity

half of respondents from these regions (55% and 60%, respectively) expect to complete two or three tech M&A deals, with 26% of North American and 17% of Asia-Pacific respondents anticipating doing four or more. Latin American respondents are the least likely to be seeking out tech deals – over a third (37%) say they do not expect to consummate a tech M&A transaction in the coming year.

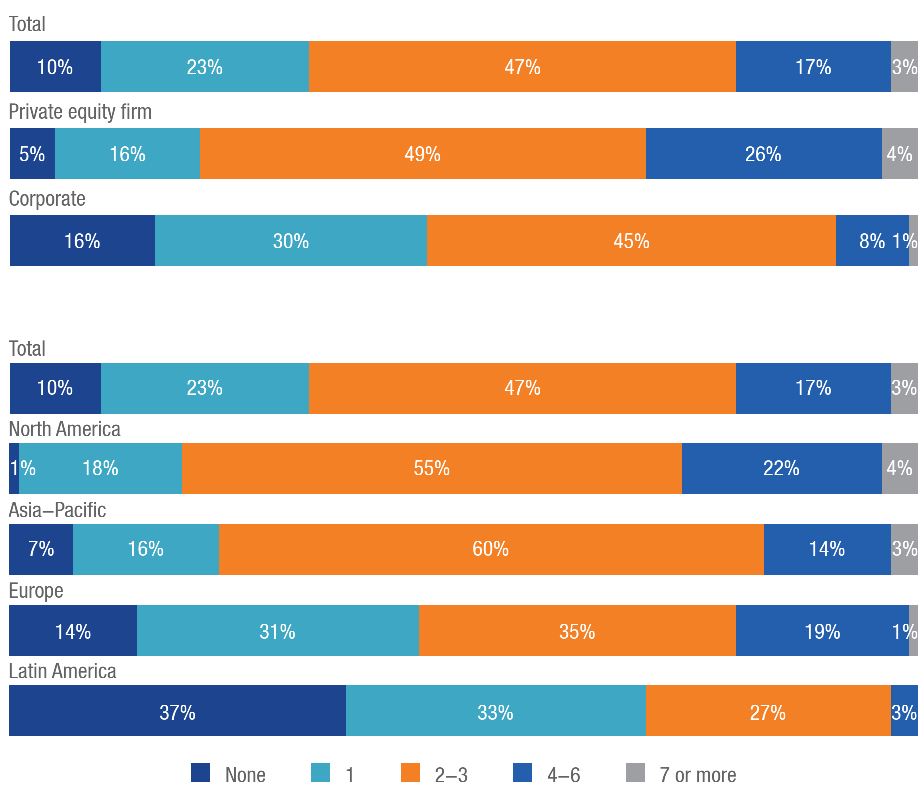
In Europe, about as many respondents (19%) as in Asia-Pacific and North America say they will complete between four and six tech deals, but a much smaller share, in comparison to their peers in those parts of the world, say they will complete two or three (35%).

In a sign of the competitive nature of the tech M&A space, corporates and PE firms expect their own respondent group to be most active over the next 12 months: 83% of corporate respondents believe corporates will make the most technology acquisitions, while a similar

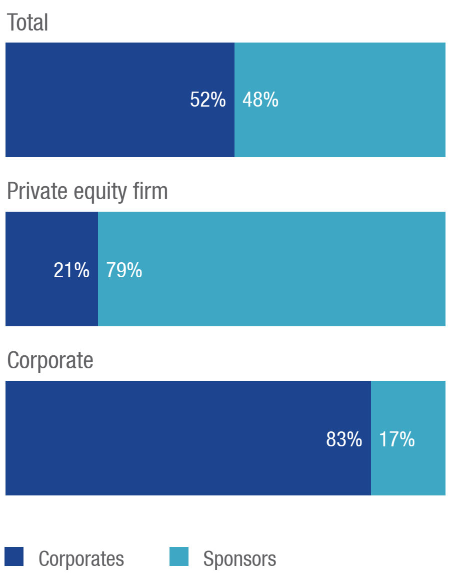
How many tech M&A deals did your organization complete over the last 12 months?



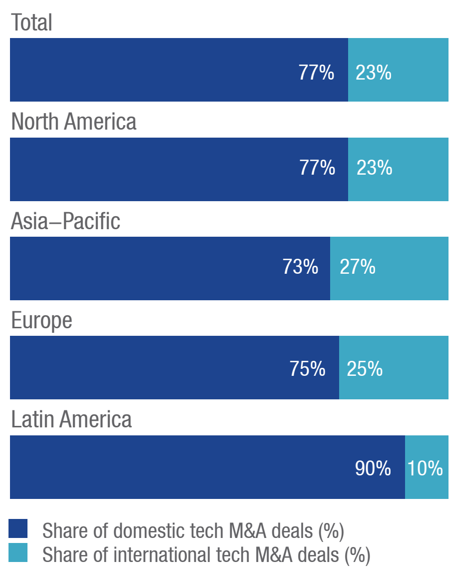
Roughly how many tech M&A deals does your organization expect to complete over the next 12 months?



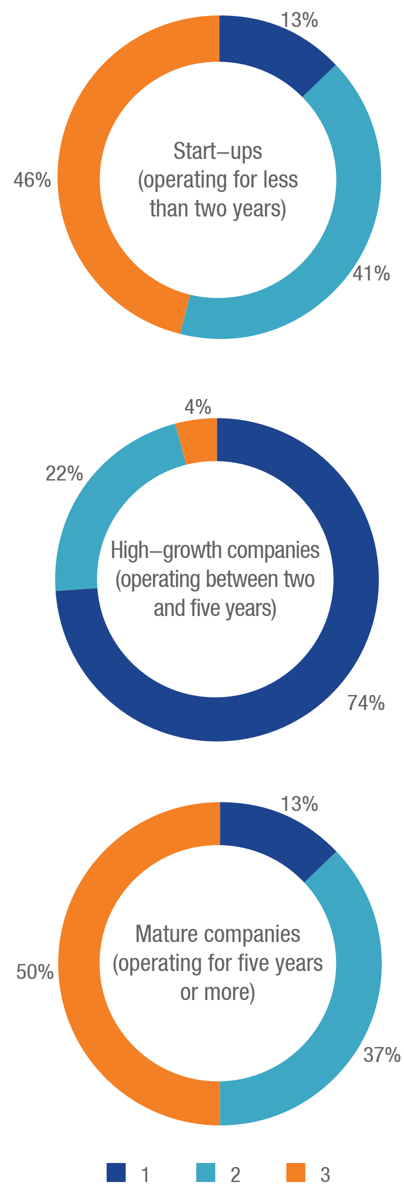
Which do you expect to make the most technology acquisitions/buyouts in the next 12 months?



Approximately what proportion of your expected tech M&A activity will be domestic (i.e. occurring in your home market) versus international?



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) (PE respondents)



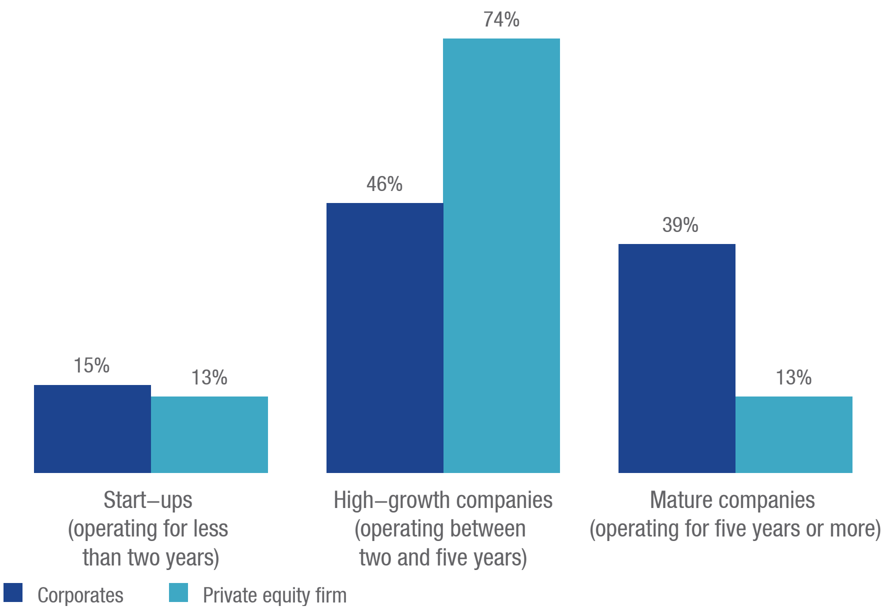
proportion (79%) of PE respondents say the same about their peers. And perhaps unsurprisingly, given the continued uncertainty around travel during the pandemic, most deals in both camps are expected to be close to home. For more than three-quarters (77%) of respondents, tech M&A will be domestic, leaving just 23% for international activity.

BRIGHT YOUNG THINGS

When it comes to companies in different stages of development, high-growth tech businesses are the most attractive target, according to the majority of respondents.

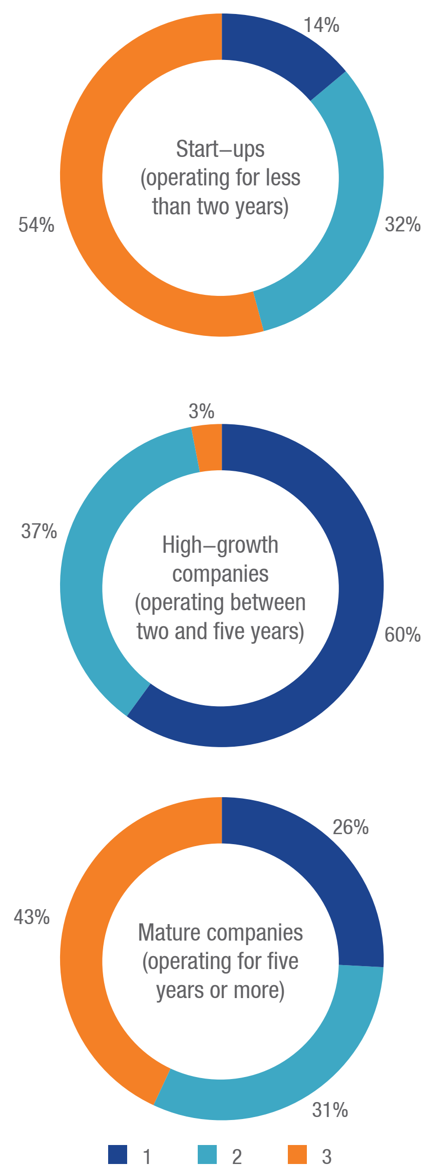
Nearly two-thirds (60%) say they most frequently look to acquire companies that have been running for between two and five years – enough time to prove concept and business model and to generate revenues. Mature companies (operating for five years or more) are the second most popular stage of development, with 26%, while start-ups are the primary target for only 14% of respondents. An Australia-based director of M&A at a corporate sees further activity for buyers targeting this relatively early stage: “Many leading companies are acquiring start-ups and this trend in

At which stage of development does your organization typically target tech companies for acquisitions?



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) (All respondents)



M&A will be seen in the next three years as well. The development of these leading companies has been due to acquisitions at this stage."

PE firms are most likely – by some margin – to acquire high-growth businesses. Nearly three-quarters of these respondents (74%) prefer businesses between two and five years old. These are often at a stage in their development where they require support to institutionalize their operations and where they may be more easily integrated into platform companies in buy-and-build strategies than start-ups or more mature targets.

As a result, PE firms are less interested in mature companies (just 13% target these) and in start-ups (again with 13%). The latter category is much more suited to the risk-return strategies of VC firms: start-up companies don't usually have the cash flow and risk profiles that PE firms require to generate the kind of steady returns they usually seek.

High-growth companies are also the most attractive to corporates, with 46% targeting organizations at this stage of development, but mature companies are not far behind: 39% of corporates most frequently target companies that have been operating for five years or more.

The remaining 15% of corporate respondents target mainly start-ups, where they can provide commercial support and market access and help shape strategy.

CONTINUED INTEREST IN NORTH AMERICA

The North American technology market continues to attract significant attention for M&A among respondents. The growth of many large US tech companies over recent years – and in particular since the onset of the pandemic – is likely to have played into this trend.

Nearly two-thirds of respondents (61%) rank North America as the number-one location offering the best opportunities for tech M&A over the next 12 months. A US-based PE firm managing director outlines the attractions of the market: "It is important to focus on buy-out deals in the US. There are many opportunities in the technology sector, some of which have become available due to the economic slowdown and resulting financial distress."

Deal supply in this region will come in part from sellers taking a long, hard look at their portfolio in a bid to rebalance toward opportunities for expansion. "Emphasis on growth in North America is important," comments a Canada-based PE partner. "We'll increase the value of our portfolio by divesting non-performing companies, and we'll thoroughly evaluate the synergy potential of acquisitions."

Europe and Greater China tied for second, garnering 14% apiece for first-choice votes. While China's tech sector has grown rapidly – its digital economy accounted for 38.6% of its GDP in 2020, up 2.4 percentage points from 2019, according to the China Academy of Information and Communication Technology[5] – obstacles to investment remain. For instance, after this research was conducted, Chinese regulators began to intervene in some red-hot industries, especially internet companies. In response, PE firms are turning their attention toward other profitable sectors, including renewables and semiconductors.

In 2020 China bounced back faster than others from the worst effects of the pandemic, so its M&A market did not suffer the same heady convulsions witnessed in other large economies the world over.

That being said, Q4 2020 in China was, like elsewhere, a markedly busy time for TMT dealmakers. In that three-month period, 84 TMT deals were announced (the highest quarterly total since Q3 2018) worth $28.7bn in aggregate (the highest such figure of the last five years). Some heat came out of the market in H1 2021, though discerning investors can still find worthwhile deals.

Meanwhile, on the other side of the world, the appeal of European tech businesses seems to be the possibility of obtaining more troubled companies as government stimulus measures begin to wind down.

"There are distressed opportunities in European and Asia-Pacific markets," says an Italy-based group CEO of a corporate. "It would be the right time to invest in these markets... The value of a company can be improved upon post-integration."

A UK-based PE firm's technology partner echoes this sentiment: "We will be sourcing targets in Europe over the next 12 months. Distressed opportunities in the tech market will be present. We can derive more profits by investing in these companies."

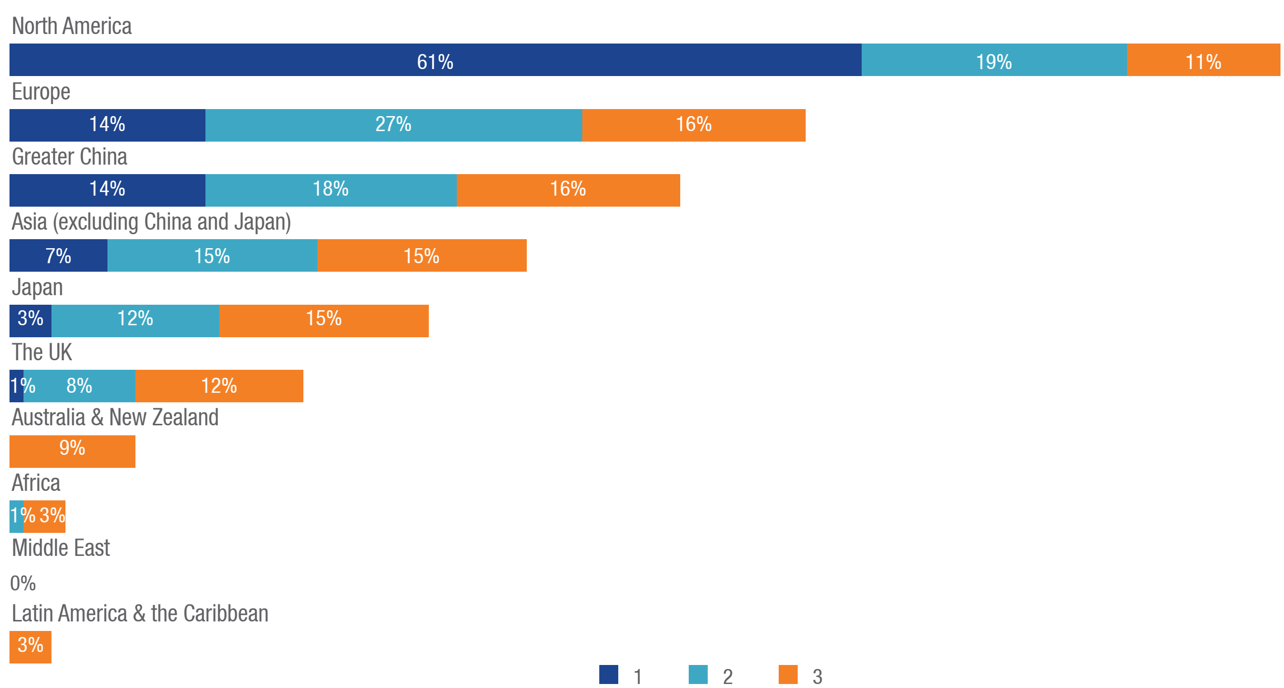
Asia-based acquirers are also increasingly looking to Europe for tech M&A targets, as increased regulations in the US impact tech M&A activity.

5 https://www.scmp.com/tech/policy/article/3131286/chinas-digital-economy-surges-2020-amid-pandemic-making-nearly-40-cent

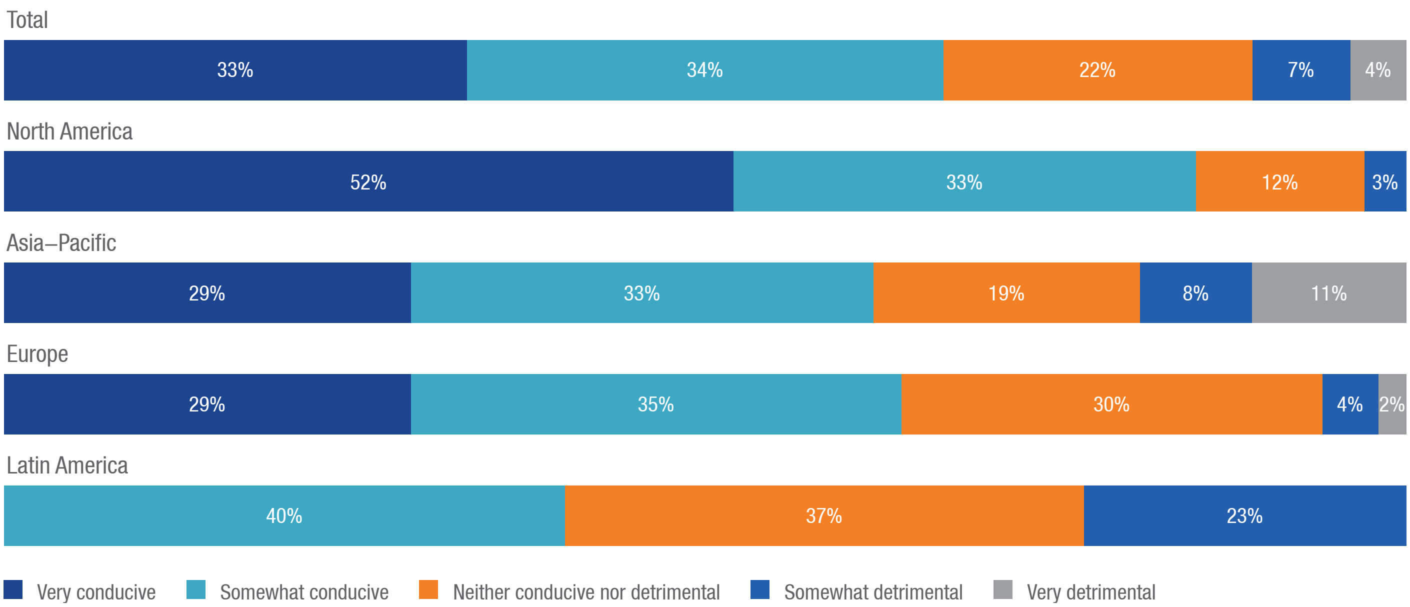
M&A Trends - TMT Sector - China 2016 to 2021 YTD

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)



How conducive or detrimental do you believe President Biden's administration will be for tech M&A activity in the US?



NEW PRESIDENT, NEW TACK

With President Joe Biden's administration now firmly bedded in Washington, it is becoming more apparent how favorable – or otherwise – the US environment will be for M&A in general and tech dealmaking in particular.

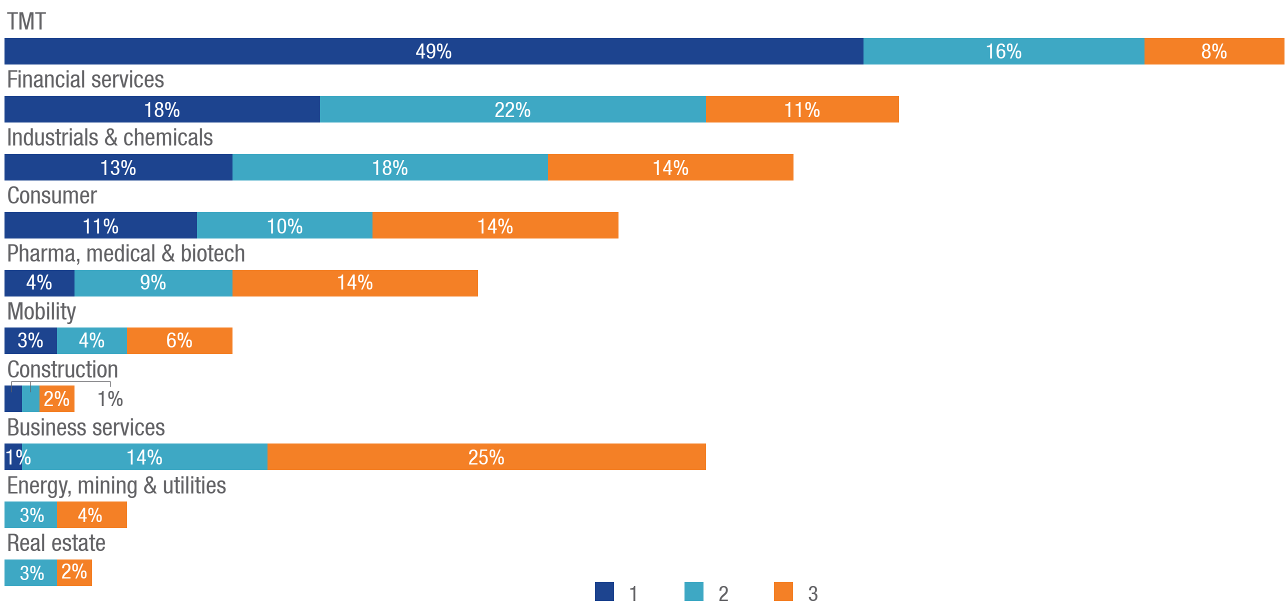
The president can hardly be said to have hidden his views on the dominance of large technology companies with the appointments of Tim Wu as an advisor on technology and competition policy and Lina Khan as chair of the Federal Trade Commission – both are critics of "Big Tech." This stance may well result in more deal opportunities for those outside the tech giant tent, although it may also bring about more stringent regulation of the sector. It is also believed that President Biden will bring an element of stability and predictability to the US government, which may provide some visibility and a greater degree of certainty for dealmakers targeting the US.

Among the respondents to our survey, two-thirds (67%) believe President Biden's administration will be either very or somewhat conducive for tech M&A in the US. Respondents from North America are especially optimistic, with more than half (52%) of survey participants from the region confident that the administration will be very conducive for US tech deals.

However, there is some disquiet among Asia-Pacific respondents: 11% of respondents in the region say the administration will be very detrimental for US tech M&A. The region has the largest share of respondents saying this, which may reflect tensions between the US and China. These have led to increased restrictions on US investments in some Chinese companies and an increased focus on sanctions.

"We can see how the disputes between countries are affecting the business landscape," hints an India-

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)



based head of M&A. "This limits the access to new companies. Even targets with high potential cannot be sourced if there are geopolitical risks in the relevant market."

As the sectors adopting technologies broadens, tech dealmakers have an increasing choice of end-user segments to target through their M&A strategies. Yet the industry that holds the most interest for respondents is undeniably TMT.

This sector garnered almost half (49%) of top-ranked industries and 16% of second-choice votes. Next up is financial services, a number-one target for 18% of respondents and a secondary choice for 22%. Interestingly, business services attracted few top-choice responses (just 1%), yet was a clear winner in third-place replies, where 25% identified the industry as a target.

ALL EYES ON B2B TECH

When asked about the types of technology that offer the best opportunities for dealmaking over the next 12 months, respondents clearly prefer proven, conventional technologies that can be applied immediately over more cutting-edge innovations. The top response is cloud technology, with 19% putting it in first place, 15% in second and 10% in third.

Cloud services are often the foundation on which companies can build further, more advanced technology solutions, so it is not surprising that many companies are starting with the basics. The attractions of this subsector are its flexibility, low usage costs and capacity to enable remote working and increase operational efficiency – all benefits that the pandemic has brought into sharp focus. "Cloud technology has allowed more opportunities for businesses to scale their operations and think about expansion plans with more confidence," says a US-based PE firm managing director. "Cloud technology companies have a

M&A Trends - TMT Sector - UK 2016 to 2021 YTD

profound effect on the workings of many organizations."

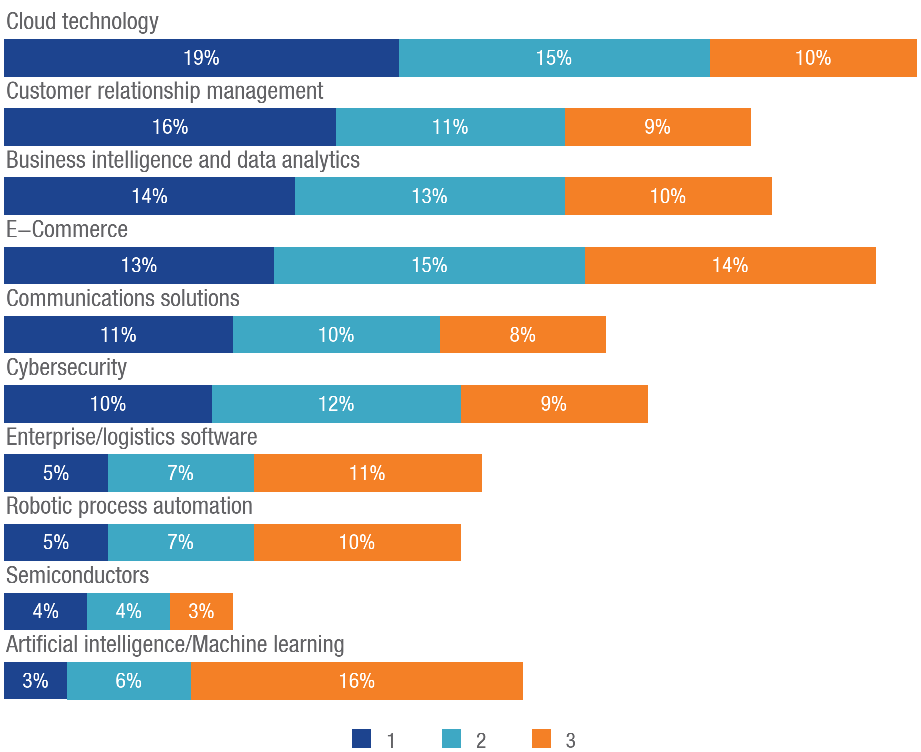
Some believe that deal activity in this subsector is likely to rise in the near-term. "The pace of acquisitions of cloud technology companies will increase in the next 12 months," remarks a US-based PE firm managing partner. "Given the way that cloud technology increases the efficiency of working conditions overall, it has been in high demand during the pandemic."

As Morrison & Foerster Corporate Partner Dan Coppel explains from his position in London: "We continue to see a great deal of international interest in acquiring UK technology assets. There is a perception that UK pricing is currently relatively attractive. As this survey indicates, cloud technology is a focal point for many acquirers, and we are also seeing continued activity around e-Commerce, cybersecurity, and storage solutions."

The appetite for UK TMT assets was patently clear in Q4 2020 and in Q1 of this year as the British economy began to rebound. Aggregate deal value in the former reached almost $71bn, the highest figure recorded in any quarter for the last several years, on 122 transactions. During the latter, 146 UK TMT deals were announced, a new high, albeit that their aggregate value fell from the preceding quarter by more than half to $32.2bn (still a tremendously strong figure by historical standards). More signs of normalizations materialized in Q2 (125 deals announced were $21.3bn), though again these figures are remarkably robust when compared to second quarters of years past.

After cloud, customer relationship management (CRM) and business intelligence are the next top-choice responses among our survey participants, garnering 16% and 14% of first-place votes, respectively. Again, these are more mature technologies, and all

Which of the following tech subsectors 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 subsector presenting the best opportunities)



three fall under the business-to-business banner and feed naturally into respondents' fourth most popular choice, e-Commerce. Their popularity indicates that respondents believe companies will be looking to upgrade their capabilities here as more transactions and customer communications shift to digital, and as data analytics plays an ever more important role in business decision-making. "The best opportunities will fall in the CRM space, as this technology is crucial to providing customers with a seamless experience," comments a UK-based VP of corporate development.

A France-based corporate director of finance adds: "I think that business intelligence and analytics is becoming a part of everyday business processes, and decision-making is crucial here. The opportunities for growth are quite clear."

The appeal of e-Commerce, which received the second most responses across first-, second- and third-place votes combined, with 42% in total, is a clear reflection of the move to online purchasing that the pandemic has accelerated. And, cognizant of the security risks of increased digitalization, respondents also see cybersecurity as offering attractive M&A opportunities over the next 12 months. Overall, nearly a third (31%) mention this subsector. One Malaysia-based PE firm partner says: "Cybersecurity has the best opportunities. There has been quite an increase in cybercrime and sophisticated attacks, calling for more cybersecurity tools to be developed over the years."

ONE STEP AT A TIME

More advanced technologies are relatively less attractive at the present moment. Just 5% of respondents see RPA as offering the best M&A opportunities, while 3% say the same of artificial intelligence/machine learning. It is quite likely that many dealmakers see the potential in these technology groups, yet believe it will take some time and further development before they can be widely and reliably applied. However, some are looking to get in early. "RPA is the next big thing in the technology market," says a Canada-based PE firm managing director. "There will be more opportunities to invest on the ground floor in that space."

SPACS AND CREATIVE DEAL STRUCTURES

Since the start of the pandemic, there has been a marked increase in the use of SPACs, special purpose acquisition companies, by high-growth companies in the US seeking quicker access to the public markets. In 2019, there were 59 initial public offerings (IPO) of SPACs in the US, but this leapt to 248 in 2020, according to SPAC Analytics. The trend has continued this year with more than 360 SPAC IPOs through July, a high proportion of which occurred in Q1.[6]

SPACs, which raise capital through an IPO to acquire a private company, are seen as an appealing alternative to the more arduous IPO process during this period of record capital investment in private companies and value creation in the public markets. They are attractive to SPAC sponsors because they receive 20% of the IPO proceeds for a nominal sum and there is a relatively short, defined investment timeframe, typically 24 months or less. They are also attractive to companies looking to list because they provide more certainty as to execution, valuation and liquidity. SPACs targeting high-growth tech companies have been particularly popular.

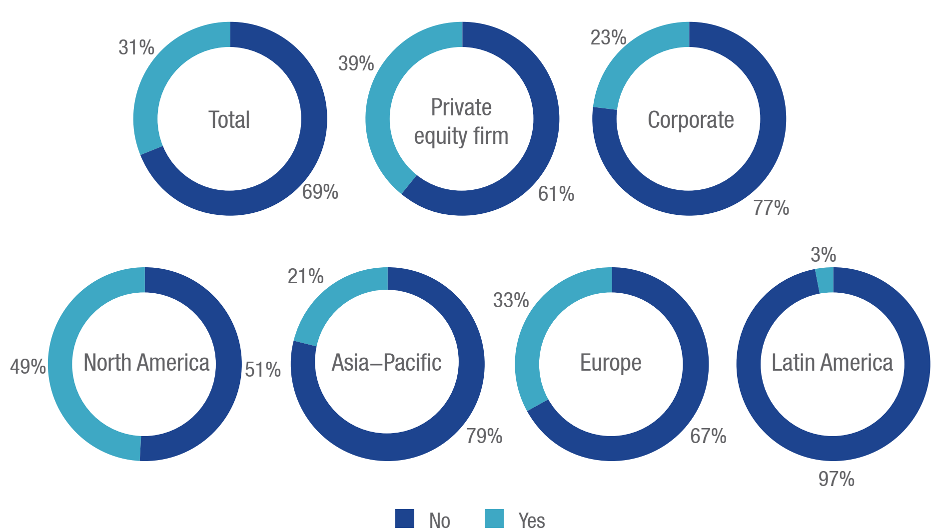
Overall, just under a third (31%) of respondents participated in a tech M&A deal in the past 12 months that involved a SPAC. PE respondents (39%) are more likely than corporates (23%) to have engaged with this model. By region, these models have been more popular in North America, where nearly half (49%) have completed a tech M&A deal involving a SPAC, followed by Europe with 33%. SPACs have so far been less used by Asia-Pacific respondents for tech deals – just 21% have employed one in the past 12 months.

SPACS APPEAL

Despite increased regulatory scrutiny coming down the line in markets like the US, SPACs look set to remain an attractive option for many sell-side dealmakers. As noted by Mitchell Presser, Morrison & Foerster's Global Corporate Department Co-Chair, "The certainty factor of a SPAC remains a major appeal."

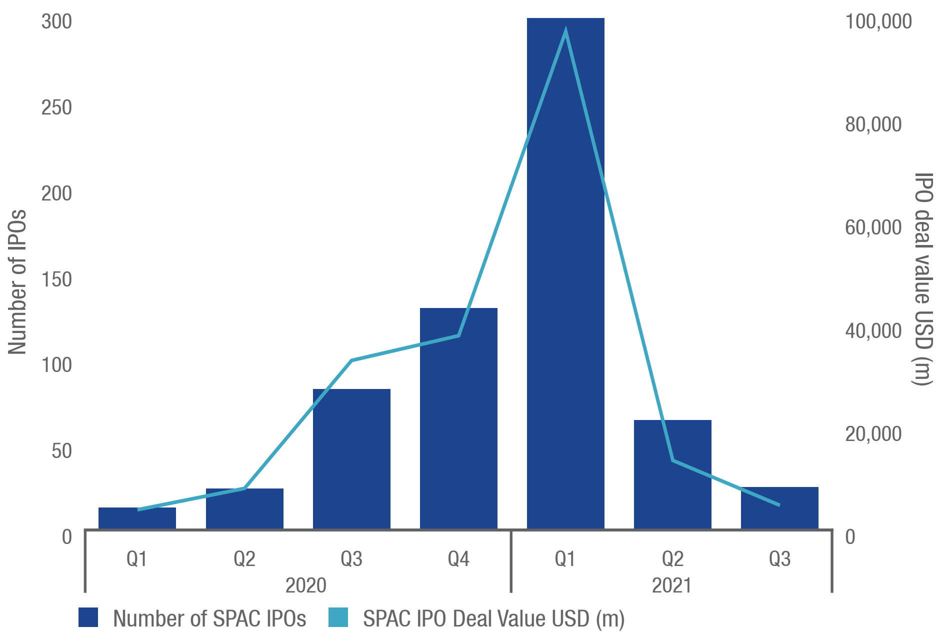
In the US, SPAC listings have normalized in Q2 2021 after an exceptionally active Q1 that saw 298 SPAC IPOs with $96.8bn raised. While sponsors from anywhere in the world can list in the US, we may see another increase in SPAC IPO activity as other markets embrace the trend. The UK, for example, is considering loosening rules around

Did any of your tech M&A deals over the last 12 months involve a special purpose acquisition company (SPAC)?



6 https://www.spacanalytics.com/

US-Listed SPACs 2020-21 YTD



SPACs to encourage more listings in London. Regulators in Hong Kong and Singapore are considering similar moves.

That being said, the US is the indisputable nerve center of this activity, albeit that US-based SPACs are increasingly looking at targets overseas. With competition rising (and regulation threatening to tighten) in their domestic market, SPACs are beginning to pursue assets in other parts of the world at more appealing price points. Their target markets are varied, ranging from tech-titan Israel to hard-hit Turkey, as well as rapidly developing Southeast Asian economies.

There is certainly appetite among our respondents for SPACs. Just under half (49%) say they are considering employing a SPAC in a tech M&A deal in the next 12 months, with PE firms particularly keen: 57% say they will use a SPAC (compared with 41% of corporates). As a Sweden-based PE firm partner says: “Alternative deal structures will become common over the next three years. The SPAC model reduces the challenges for the buyer company to some extent.”

By region, North American respondents remain the keenest on these structures. More than two-thirds (68%) are considering a tech SPAC in the next 12 months, followed by European respondents, of whom 56% say they may look to do the same. Our survey also suggests an increase in interest levels among Asia-Pacific respondents: over a third (39%) are considering a tech SPAC, almost double the proportion of those who say they participated in one in the past 12 months.

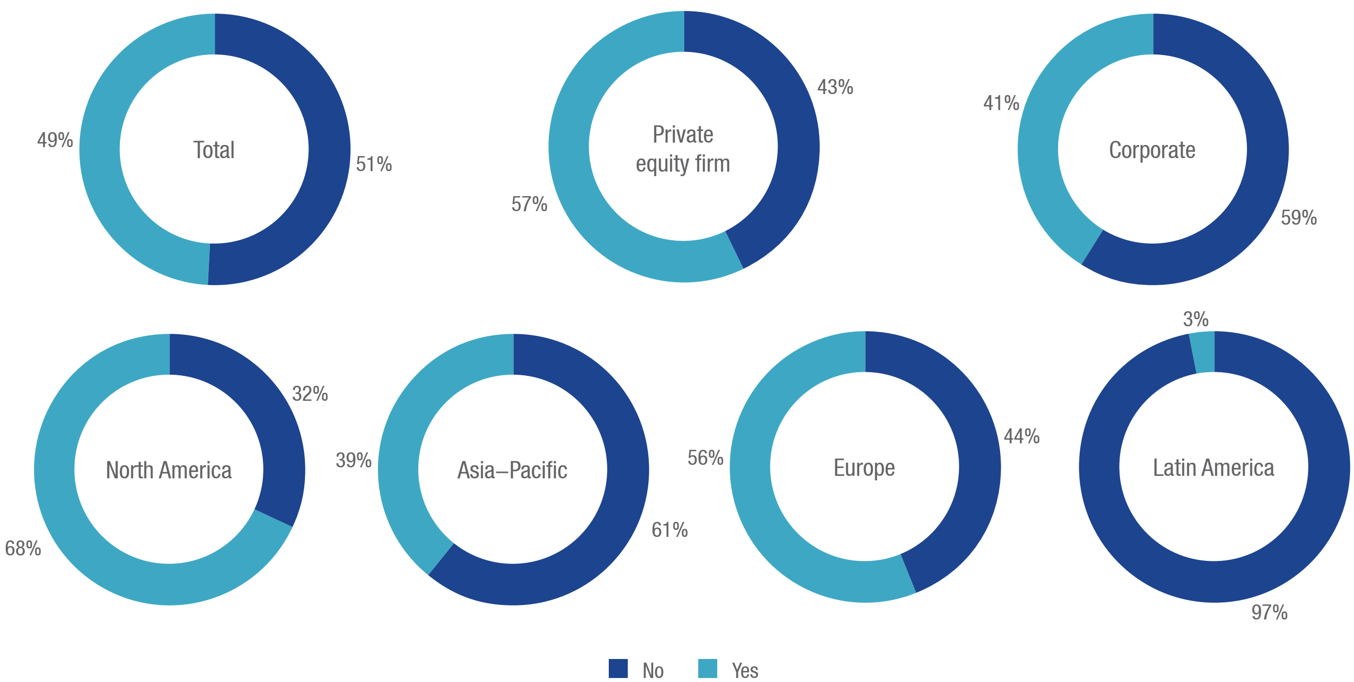
But that optimism could be impacted by future regulations. As noted by Morrison & Foerster Global PE Chair Marcia Ellis: “Tech de-SPACs related to Chinese targets could slow down in the next few months as the market digests expected Chinese regulations requiring additional approvals for listing outside of China and China-based tech companies and regulators determine whether those regulations apply to listings by de-SPAC.”

Latin American respondents, by contrast, continue to run cool on SPACs, with their plans unchanged on the previous 12 months.

OTHER STRUCTURES AVAILABLE

While SPACs have attracted a great deal of limelight over the past 18 months, other deal structures are clearly on the table as well. Dealmakers are using these to navigate a competitive market in which valuations are high and

Are you considering employing a SPAC in any of your tech M&A deals over the next 12 months?



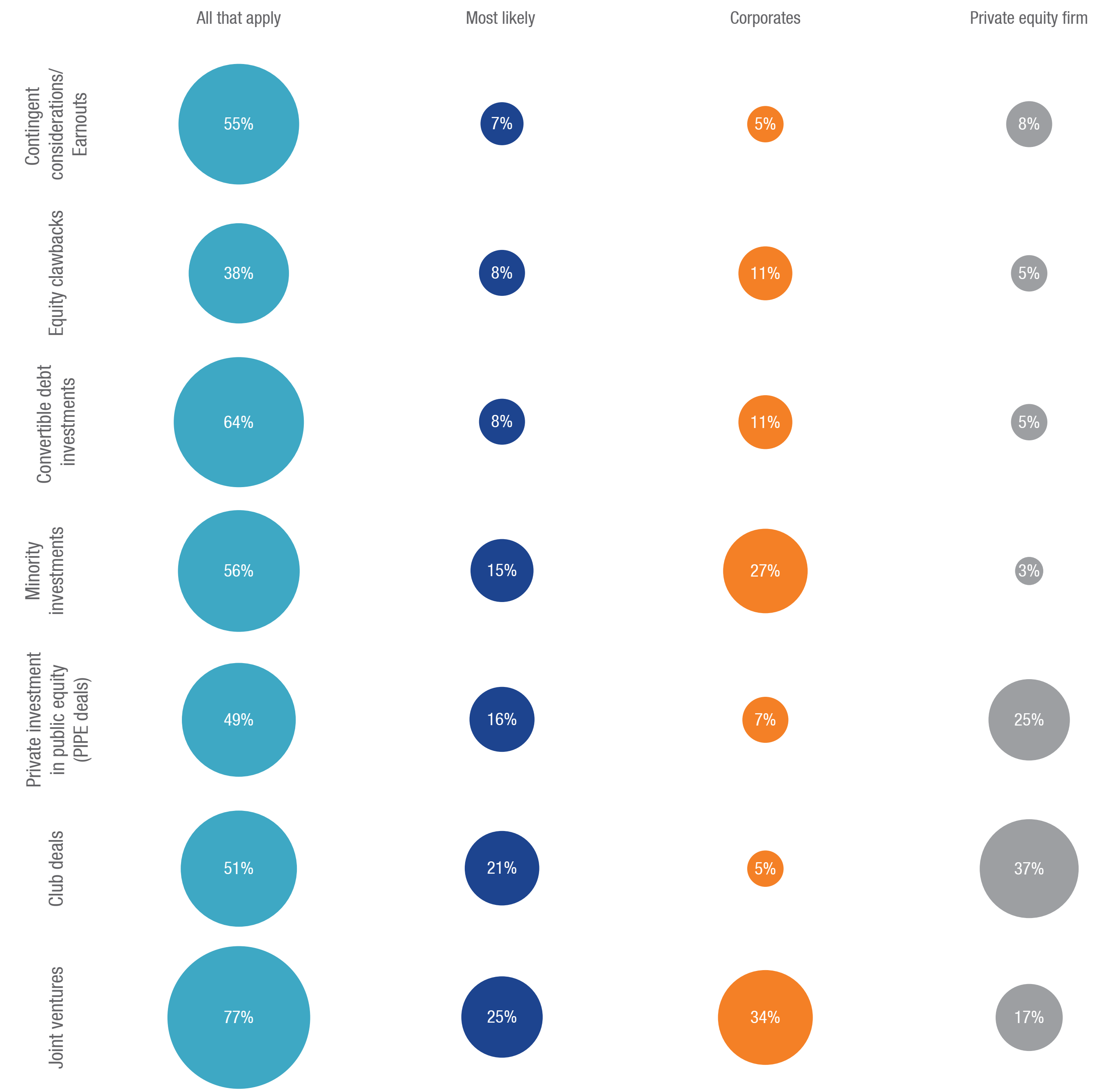
visibility around future performance limited, given the difficulty of predicting outcomes during the pandemic and the challenges associated with due diligence.

Most respondents are considering a range of deal structures for their tech M&A over the coming year, including joint ventures, convertible debt instruments, contingent considerations or earnouts, and minority investments. Clearly, some structures are more suited to either PE or corporates, and our results reflect this. Many PE respondents will be looking to manage their exposure to individual tech investments at a time of high valuations through club deals, with 37% reporting this.

Some are also planning to make private investments in public equity (PIPE) deals, with 25% saying this. Corporates, meanwhile, will be looking more toward joint ventures (34%) and minority investments (27%) as their most likely deal structures, both of which can mitigate high pricing and uncertainty.

> "GIVEN THE WAY THAT CLOUD TECHNOLOGY INCREASES THE EFFICIENCY OF WORKING CONDITIONS OVERALL, IT HAS BEEN IN HIGH DEMAND DURING THE PANDEMIC.
>
> MANAGING PARTNER OF A US–BASED PE FIRM

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 and most likely)



SECTION 3:

OUTLOOK

Achieving scale and a fear of being left behind in terms of new technological innovations will drive M&A over the coming year, even as regulatory scrutiny tightens.

As tech M&A looks set to ramp up further, respondents are looking to the market mainly to help them achieve growth strategies. By far the biggest driver of respondents' tech M&A strategies is scaling up to bolster their competitiveness. Nearly a quarter (22%) mention this as the most important factor, with a further 16% ranking it as second most important and 9% as third.

"We are pursuing tech M&A to scale up to increase competitiveness in the market," says a Japan-based PE firm's managing partner. As Nozomi Oda, partner in Morrison & Foerster's Tokyo office, elaborates, "There is momentum among international PE funds. We are seeing a surge of later-stage venture capital investments in Japanese assets by international players. I would expect a strong finish to 2021, especially when it comes to acquisitions of Japanese tech assets."

This desire to scale up arises even in spite of some concerns around the nascent economic recovery and increased regulation (as we explore later in this section). A US-based senior director of corporate development and strategy at a corporate explains: "We are considering new technology investments to increase competitiveness. It is a challenging time to think about new investments, with the regulatory and economic pressures. But we cannot put off the decision to invest for long."

Respondents are also keen to keep pace with technological innovation, perhaps unsurprisingly, given the rapid adoption of digital tools and other technologies over the past 18 months. This is the top driver for 14% of respondents and is mentioned in the top three by 41%. "There is a need to keep up with technological advancements," says a Colombia-based corporate CFO. "We have to make sure that we do not fall behind in our sector. Tech M&A will also help us respond to changes in regulatory requirements."

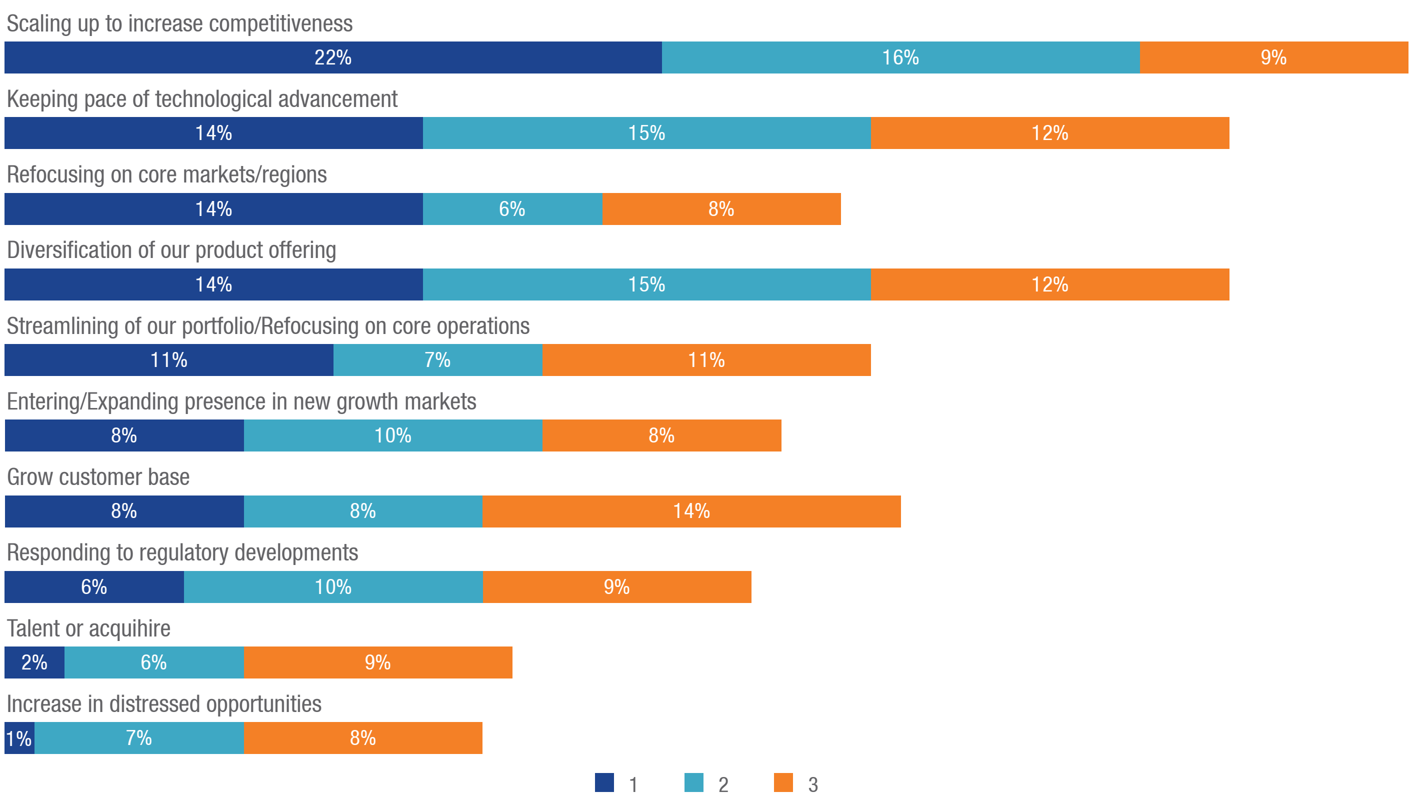
"We cannot be left behind when it comes to using updated technology," adds a UK-based PE firm partner. "If we cannot speed up adoption of technology, we might lose clients and ways of generating better returns."

THE REGULATORY NET IS TIGHTENING

But respondents do see some clouds on the horizon. When asked about challenges to tech M&A, the top answer was a stricter regulatory and foreign direct investment (FDI) environment (25% say this is the biggest impediment), closely followed by tech 'protectionism' in key markets, seen by 19% of respondents as the top challenge in the context of the strained geopolitical relations between some of the world's largest economies.

"As the level of tech protectionism increases, dealmakers will have to look hard at whether to enter new markets," says a Germany-based corporate CFO. "We cannot focus on markets that have protectionist tariffs and information-sharing constraints."

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)

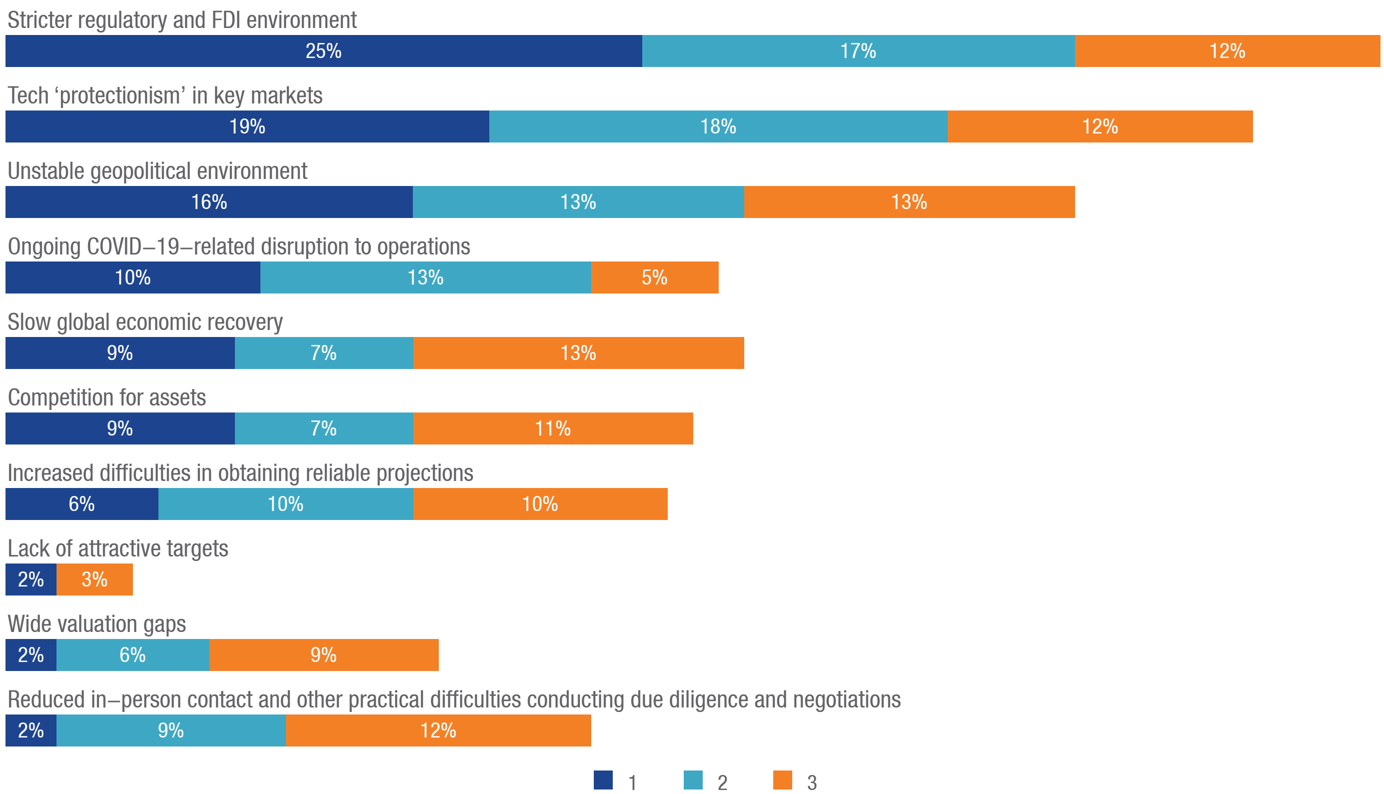


These responses reflect the greater levels of scrutiny from governments and regulators around a number of issues in the tech industry, including antitrust concerns, information-sharing and use of data, employment practices, security, and the use and development of newer technologies, such as artificial intelligence. The European Commission, for example, published proposals in December 2020 that could lead to a Digital Services Act and Digital Markets Act. These could hold technology companies accountable for data practices, increase disclosures, and tighten up competition rules in the sector.

There have also been moves in a number of markets to tighten FDI rules around strategic sectors, including technology. In the UK, for example, the National Security and Investment Act, which allows the government to intervene in M&A deals in a number of tech-related industries, was passed in April 2021. New foreign direct investment regulations in the European Union also increase government powers to screen M&A deals.

Meanwhile, regulations in some markets are quickly evolving. As noted by Morrison & Foerster partner Paul McKenzie: “Future cross-border dealmaking could be impacted by China’s growing restrictions on cross-border transfers of data. A new Data Security Law came into effect in

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)



September this year that requires a cybersecurity review process before vaguely-defined categories of Chinese data with importance to state or economic interests can be provided to foreign parties. Among other things, these rules may complicate public market exits on stock exchanges outside China."

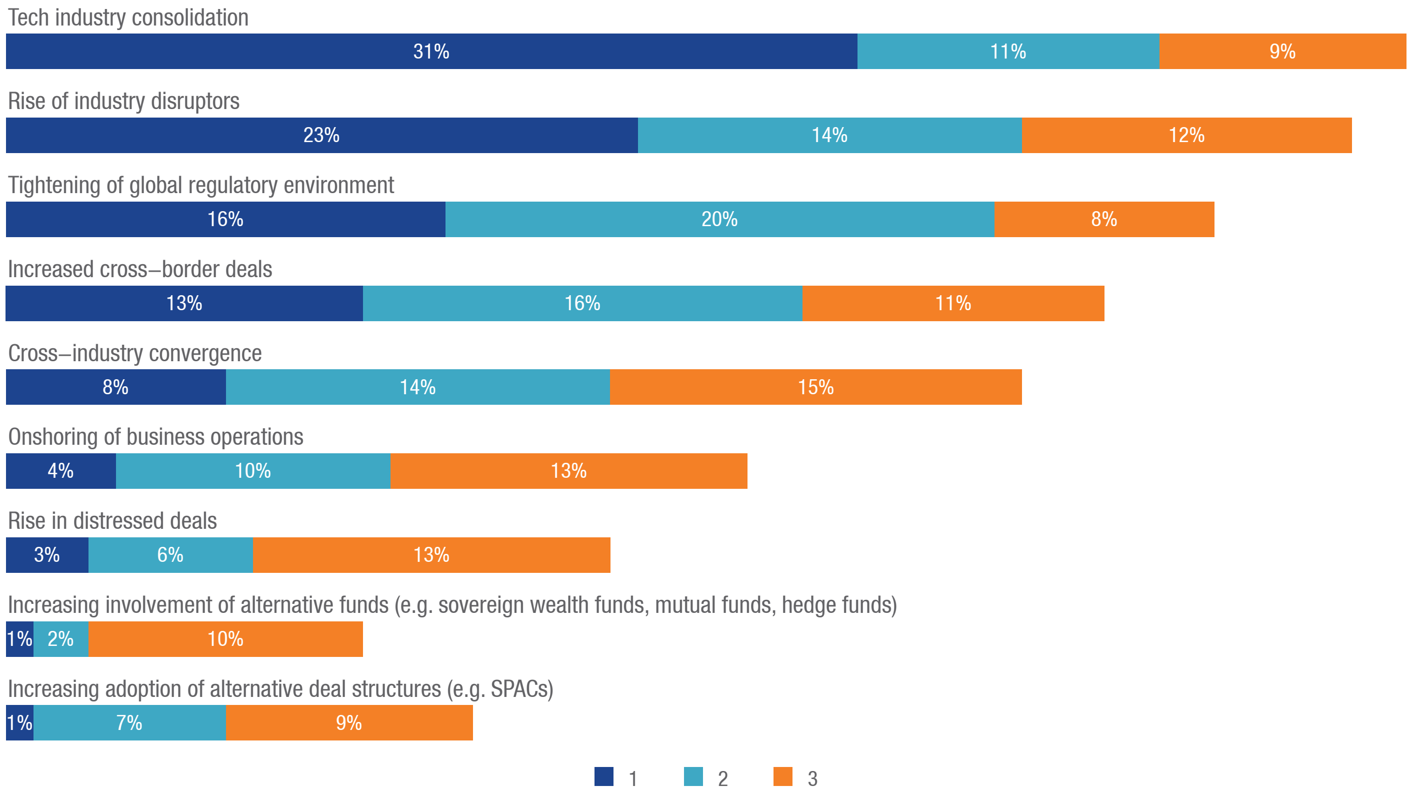
Notably, the greatest challenges identified by our respondents – stricter regulation and protectionism – are not related to COVID-19, suggesting that most dealmakers have adjusted to the post-pandemic world and anticipate a return to more normal conditions. COVID-19-related disruption does get a mention, although only by 28% of respondents overall, marking it out as more of a peripheral concern now for respondents.

TECH TRENDS

Looking ahead, respondents see big changes in tech M&A in the medium term, with the prevailing issue for the next three years expected to be technology sector consolidation. Just under a third (31%) of respondents cite this as the number one trend.

This has been a key driver for some time, reflecting the rate at which tech titans have acquired other companies, but is also reflected in our survey responses earlier around motivations for future tech M&A, where scaling up to increase competitiveness came out top, and concerns around increasing regulations in the technology industry. As a Japan-based head of

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)



strategy at a corporate comments: "Tech industry consolidation is unavoidable. Start-ups and small companies find it challenging to innovate and launch products beyond a certain extent. Also, the regulatory pressures can potentially stall many of their ideas for scaling the business."

The second biggest forecast trend reflects the pace of change we are seeing across all sectors – 23% of respondents believe the rise of disruptors will be the number-one trend over the next three years.

The rapid digitalization seen over the past 18 months is only likely to fuel disruption further. And while, in some instances, disruption may come from new, smaller players, respondents view the acquisition power of larger incumbents as the biggest driver of change. "Disruptors are present in domestic and global markets. It is mostly the companies who fall in the larger revenue bracket," says a corporate head of finance based in Switzerland. "They have the cash available to buy out smaller companies and use the talent for new software development."

In third place, again reflecting previous responses around barriers to dealmaking, is the tightening of global regulation – 16% of those who participated in this study say stricter regulation will be the biggest trend over the next three years for tech M&A dealmakers.

“

AS COMPANIES BUILD ON THEIR NEW-FOUND CAPABILITIES, FURTHER INNOVATION – AND BY EXTENSION MORE TECH M&A – WILL SURELY FOLLOW.

CONCLUSION

Even in the face of stricter regulation and global winds, rampant innovation and the need to digitalize will propel tech M&A, and reform entire industries in the process.

The pandemic will leave an indelible mark on corporate and PE tech investment strategies. It has clearly led to a significant acceleration in the trend toward digitalization and, as our survey clearly demonstrates, this is driving record-breaking tech M&A activity. As companies build on their new-found capabilities, further innovation – and by extension more tech M&A – will surely follow.

Reflecting on the findings of our survey and with an eye to the future, we hope the following key takeaways will be of some assistance to readers:

1 With many companies and financial investors planning serial acquisitions, it is likely that tech M&A will reshape entire industries. Many respondents clearly feel compelled to keep up with technological developments, while companies in markets like Latin America – which has seen a surge of activity in VC investments – are approaching the next deal cycle with caution.

2 Stricter regulation, tech protectionism and potential geopolitical issues may create significant headaches for dealmakers. Corporates and PE investors will need to scrutinize new deals closely for emerging risks in these areas and build in mitigation strategies to ensure they achieve full value from their acquisitions, especially cross-border transactions.

3 SPACs have become a serious path for raising capital and accessing public markets. Mitchell Presser, Corporate Department Co-Chair at Morrison & Foerster, notes: "SPACs offer certainty that traditional IPOs currently do not. But they are not a one-size-fits-all solution. The choppiness in the SPAC IPO and private investment in public equity (PIPE) markets has resulted in a move to quality and more conservative valuations. We are still seeing 30-40 de-SPACs per month, and we believe it is a product that will continue to evolve."

4 The dealmaking process has changed forever. Even as pandemic-related restrictions are lifted and face-to-face functions resume, the efficiency of running hybrid processes in which site and office visits are combined with video calling and, in some cases, drone or camera information-gathering, has become clear over the last few months. The new way of doing deals is likely to involve face-to-face initial relationship-building meetings, site visits and key parts of the negotiations combined with some remote due diligence and discussions.

5 After a difficult period, our survey shows that many respondents are looking to technology to help them scale up, add new products and services, enter new growth markets and attract new customers. Corporates and PE firms are clearly positioning their businesses and portfolio companies for growth – and tech M&A strategies are underpinning much of this.

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