

PEerspective in TECHNOLOGY – HARDWARE

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE HARDWARE INDUSTRY.

Technology is leading worldwide M&A activity for the second consecutive year—and the second time ever in recorded history.



While overall global M&A value through the first half of 2016 was down 18 percent, the technology sector surpassed 2015's highs. There were 4,158 technology-related deals worth \$267.6 billion in the first half of this year, up 7 percent from the same period in 2015, according to *Dealogic*. This is the second-highest first-half performance since 2000, and comes on the heels

of a record year for technology dealmaking in 2015. The U.S. is leading global tech M&A with \$125.8 billion so far this year—47 percent of global deal volume.

A number of high-profile strategic deals are driving up tech M&A volumes. The most notable deal in the hardware space is the \$67 billion merger between Dell and EMC, which closed in early September—the largest take-private buyout in history. Other significant deals include Microsoft's \$26.2 billion acquisition of LinkedIn, Symantec's \$4.65 billion takeover of Blue Coat and Salesforce's \$2.8 billion purchase of Demandware. With demand for hardware stagnating, traditional hardware companies are looking to strategic M&A opportunities to drive growth and expand their market reach.

Still, PE firms remain active in the technology sector. According to *Bloomberg*, tech companies accounted for 19 percent of all U.S. buyouts this year. Headlines from both *Bloomberg* and *The Wall Street Journal* suggest that private equity has had a surprising "crush" on technology this year, with many funds bulking their standard model and buying out healthier tech companies.

Venture capital investments in technology have also rebounded after a slow start to the year, and hardware startups are a primary beneficiary. In the first half of 2016, venture capital funds invested \$1.7 billion in hardware startups across 120 deals. While deal volume dipped slightly from the first half of 2015, which saw 123 deals, the accumulated dollar value is record-breaking. In fact, the VC investment in H1 2016 is the highest amount raised in a six-month period for the past 10 years, according to *TechCrunch*.

Much has been written about the rise of private fundraising as an alternative to IPOs in the technology sector. Taking a company private enables them to focus more on innovation (of particular relevance to the hardware industry), complete add-on acquisitions and test emerging strategies out of the public eye. It's also an appealing option for PE firms with high levels of accumulated dry powder, as *PitchBook* reports. So far this year, 12 U.S. tech companies have announced or completed a PE-backed take-private transaction—equaling the number for the full year in 2015.

In terms of tech exits globally, the hardware sector accounted for 13 percent of exits in Q1 and 8 percent of exits in Q2, according to *CB Insights*. Consistent with historical data, the majority of exits in the tech space in the past year were tied to internet companies. The United Kingdom and Germany led in hardware exits, accounting for 18 percent and 13 percent of hardware exits, respectively. The U.S. was not far behind, securing 11 percent of the total hardware exits worldwide.

Sources: *Bloomberg*, *CB Insights*, *Dealogic*, *Digi-Capital*, *PitchBook*, *Wall Street Journal*

FUTURE PERSPECTIVES: WHAT'S UP NEXT FOR HARDWARE INVESTORS?

"Gotta catch 'em all!" Innovations such as augmented reality, virtual reality and the Internet of Things (IoT) are driving acquisitions by hardware firms and PE backers as they seek to gain a foothold in these emerging segments.

Cisco paid \$1.4 billion in February for Jasper Technologies, which enables devices to connect to the Internet. Since Facebook's high-profile \$2 billion purchase of Oculus VR in 2014, tech giants like Apple, Google, HP and Twitter have been snapping up AR/VR startups, according to *CB Insights*. VC firms are also jumping into the sector. According to *Digi-Capital*, the 12 months leading up to July 2016 saw a record \$2 billion investment in AR/VR startups, despite the market being in its early stages.

Following Nintendo's successful release of Pokémon Go earlier this year, competing firms such as Sony are aggressively pushing into online gaming, and we can expect robust M&A to continue as strategic and financial investors race to catch all the best deals.



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