AN END OF YEAR OVERVIEW OF TECHNOLOGY-RELATED DEALS

INTERNATIONAL TECHtalk

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BDO

INTRODUCTION

BDO's latest TechTalk report provides the most comprehensive analysis to date of the health of global technology sector in the wake of the September's Alibaba flotation.

Immediately following the flotation the IPO market cooled as companies delayed their listings for fear of interest being detracted by the megadeal, and also to see how the market would react. This has meant IPOs currently being down 25% year-on-year, although we predict the year end figure to only show a 14% slide with a number of IPOs in the pipeline ahead of Christmas.

We should see a brighter 2015 and are noting increased interest in particular geographies.

Spain continues to be attractive for companies who are looking to snap up cheap assets, but Israel is the stand out hotbed of opportunity this month: IP-intensive technology products are virtually immune to the geopolitical troubles of the nation, and IPO values are soaring as a consequence.

M&A/IPO activity in the country is set to pass its previous bumper year of 1994. Israel continues to have the highest number of engineers and scientists per capita of any country in the world which is reflected in the plethora of high output and innovative firms throughout the country: companies which are ripe for flotation and ripe for acquisition.

JULIAN FROST
Leader of Global Technology team

Whilst companies are starting to spend again on M&A, significant cash remains on balance sheets and indeed, the number of tech M&As are down in 2014 year on year. However, it is these warchests, together with a generally improving economic environment and a thirst for inorganic growth, which we hope will see 2015 be the busiest year for tech corporate activity since pre-recession levels.

IPO ACTIVITY

OVERALL TECHNOLOGY IPO MARKET

Looking at the overall global market, the first two quarters saw the highest number of IPOs since 2000, with technology being the largest category in Q2 and the second largest category in Q1, according to Renaissance Capital, an exchange-traded fund that tracks newly public companies. During the third quarter, global IPOs (not just technology-related) raised $66.8 billion—the most during this period ever, according to a Bloomberg article. The record-setting IPO of Chinese e-Commerce giant Alibaba accounted for a full third of this figure.

For technology-related IPOs, the second quarter of 2014 was the most robust quarter to date, according to Pitchbook. Following a somewhat shaky end to Q1, when fears of a bubble prompted a selloff of technology stocks, IPO activity seems to have recovered. Although those fears have not completely gone away—some industry watchers are warning that a correction is overdue—an IPO remains an attractive option for companies.

> SOME OF THE METRICS USED TO JUSTIFY RECENT TECHNOLOGY VALUATIONS ARE BASED ON UNSUSTAINABLE FACTORS
>
> **DAVID MITCHELL**
> **PARTNER, VALUATION TEAM UK**

The second quarter saw 29 new listings, compared to 14 in Q1.

The third quarter saw 19 IPOs, and would have likely been busier, if it wasn't for the so-called "Alibaba effect."

Alibaba raised a record-breaking $21.8 billion ($25 billion with additional follow-on shares) with its September 19 listing on the New York Stock Exchange. Many technology firms held off from going public until after it had gone through, for fears that their offerings would fail to attract adequate investor and media attention. According to the San Jose Mercury News, there was not a single Bay Area technology company IPO between July and October this year, as firms waited to see how the Alibaba IPO would perform.

Firms and their backers were also aware that an unsuccessful Alibaba IPO could have a cooling effect on investors' appetites for new technology stocks, as was the case after the glitch-ridden IPO of Facebook in 2012. Had Alibaba's launch been unsuccessful, or the stock value fallen significantly below its initial asking price of $70 a share, companies would have likely remained on the sidelines until more favorable conditions returned.

The IPO went off without a hitch, however, and the few Q3 IPOs that followed in its oversized wake were able to attract significant investor funds. However, the Alibaba bounce hasn't fully materialised. Looking at 2014 as a whole, IPOs are likely to be down around 14% year on year.

> TECH COMPANIES MAY HAVE HELD OFF GOING PUBLIC OVER THE SUMMER BUT THERE IS OPTIMISM IN THE MARKET
>
> **AFTAB JAMIL**
> **PARTNER AND TECHNOLOGY AND LIFE SCIENCES PRACTICE LEADER USA**

IPO ACTIVITY

REGIONAL ACTIVITY

North America led the field with 15 technology-related IPOs in Q2 and eight in Q3. The Europe, Middle East and Africa (EMEA) region saw 10 new listings in Q2 and eight in Q3, while Asia saw four and three companies go public in Q2 and Q3 respectively.

Three Israeli companies went public in Q3—security software company CyberArk Software, digital marketing company Matomy Media Group, and collision avoidance technology company MobilEye Vision Technologies.

Israel has become a hotbed of technology innovation in recent years. With favorable government programs encouraging entrepreneurship, and a relatively high proportion of its population qualified in science, technology, engineering and mathematical fields, Israel has the highest density of tech startups in the world, and is second only to Silicon Valley in producing new technology companies, according to Entrepreneur magazine.

ISRAEL HAS A VERY SUPPORTIVE ENVIRONMENT FOR TECH START–UPS DUE TO A WELL ESTABLISHED ECO-SYSTEM AND INVITING AND WARM COMMUNITY

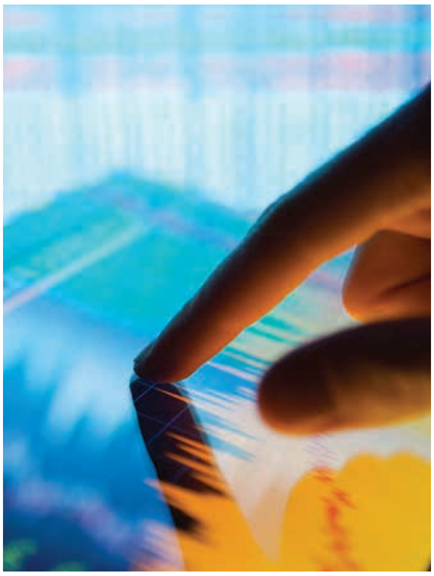
YANIV COHEN
PARTNER, HEAD OF TECHNOLOGY CLUSTER, ISRAEL

Israeli companies have not been without challenges in the global capital markets in 2014. In a controversial move in February—against the backdrop of the war in Gaza, which was very unpopular in Europe—Dutch pension fund PFZW pulled investments from five Israeli banks in protest over their involvement in financing Israeli settlements.

Such moves remain highly unusual, but serve as a reminder that geopolitical factors can play a role in investors' decision making processes.

It is worth noting that all the above-mentioned firms chose to list shares in overseas markets—and they were not alone. Cross-border IPOs are an increasingly common phenomenon as companies look to tap deeper pools of capital and gain access to more sophisticated investor bases than their domestic markets offer.

In the first half of 2014, cross-border IPOs doubled in volume and amount of capital raised over the same period the previous year, according to an article in the Financial Times. In the third quarter, 14 percent of IPOs globally (not just technology-related) were cross-border, compared to just seven percent the year before, according to Bloomberg. This trend is expected to continue through the remainder of the year due to a steady stream of Chinese companies listing on the NYSE and Nasdaq.



BDO COMMENTARY

The strength of Israeli tech companies is testament to the work ethic of the population. The Chief Executive of Israel's largest bank, Bank Leumi, recently noted that young start-ups have as many as 25% of their workforce on reserve duty at any one time.

However, the IP-intensive products and services of Israeli companies are less prone to physical disruption by the conflict and investors have become wise to this – with Israeli IPO values soaring as a consequence. Mobileye floated at the start of August – and arguably at the height of the current troubles – yet was the biggest ever Israeli IPO the US has ever seen. Three other large tech IPOs happened in the same week.

Overall, confidence has definitely returned to the IPO market which is partly testament to the improving economic conditions – but the markets are also breathing a sigh of relief following the success of the "make or break" Alibaba flotation.

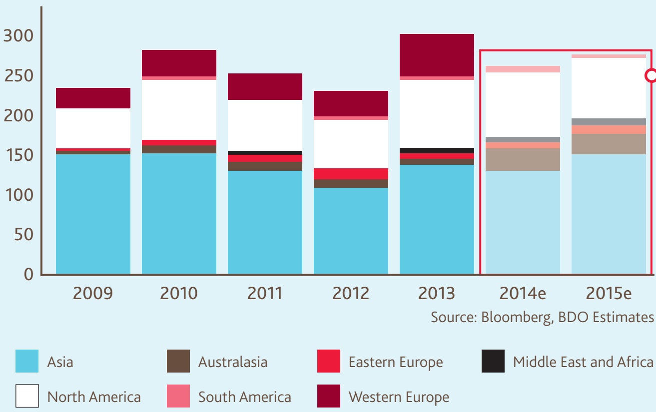
A notable trend in the global IPO market is the increase in IPOs on North American exchanges. Q3 2014 saw 15 flotations compared to just eight in the previous quarter.

It would be easy to write these IPOs off as Silicon Valley success stories and for some, this will be the case. However, most Chinese tech giants have been forced to list on American exchanges due to regulatory hurdles and the low appetite for risk of Chinese investors.

IPO ACTIVITY

Alibaba had wanted to list on the Hong Kong exchange, but was forced to list on the NYSE due to the Hong Kong exchange not allowing dual-class structures – something which was vital for Alibaba's flotation. The latest news suggests that the East Asian exchanges are reviewing their practices and, if changes are swiftly made, we will see an increase in listings on these exchanges and will allow local Chinese investors to buy into their native fast-growth tech companies – something which they are currently denied the chance of doing.

TECH IPOS BY GEOGRAPHY: 2009-2015E



Source: Bloomberg, BDO Estimates

Whilst there will be a slight decline in Asian IPOs in 2014, a potential change in Asian exchange listings in 2015 could see Asian listings outpace the US.

However, the recent Hong Kong/Shanghai bourse venture delay will be a blow to those hoping for reform within Asian exchanges.

SOFTWARE

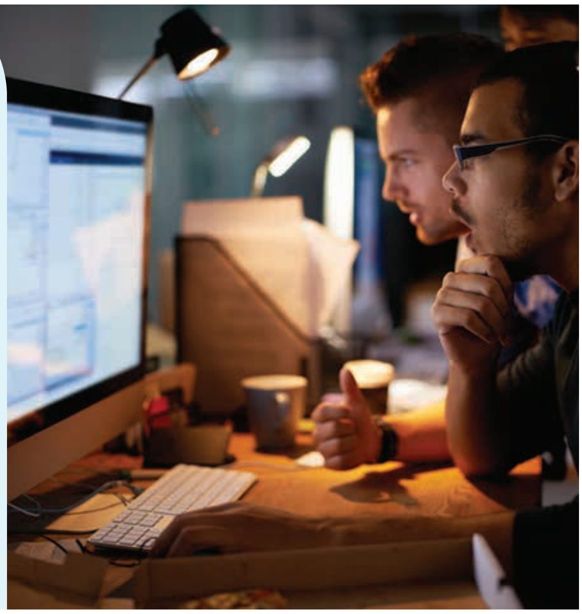
Some 18 software companies went public in Q2, 12 of which were US-based firms. Ten software firms launched IPOs in Q3, including CyberArk Software.

Undeterred by the Alibaba effect, CyberArk launched its IPO on the Nasdaq stock exchange just three days after the Chinese firm went public, raising $86 million and enjoying a first-day spike of 87 percent. As more and more software companies file for IPOs and become visible to public scrutiny, cyber security concerns may become an important issue to address. In fact, according to the 2014 BDO Technology RiskFactor Report, 91 percent of technology companies cited concerns over breaches of data security or privacy. Particularly, companies will have to be mindful of recent high-profile data breaches affecting banks, e-Commerce firms and governmental organizations across the globe—making sure they have crisis response plans in place.

BDO COMMENTARY

We are encouraged by the growth in software IPOs over recent months, particularly given the muting of the market due to the "Alibaba effect".

There have been 56 IPOs in the subsector over the course of the year to date. Given there were 61 in total in 2013, we expect this amount to be surpassed in the closing weeks of 2014.



IPO ACTIVITY

MANAGED SERVICES

A total of eight managed services companies went public in Q2 2014, which was slightly lower than the number of companies that filed for an IPO in Q3.

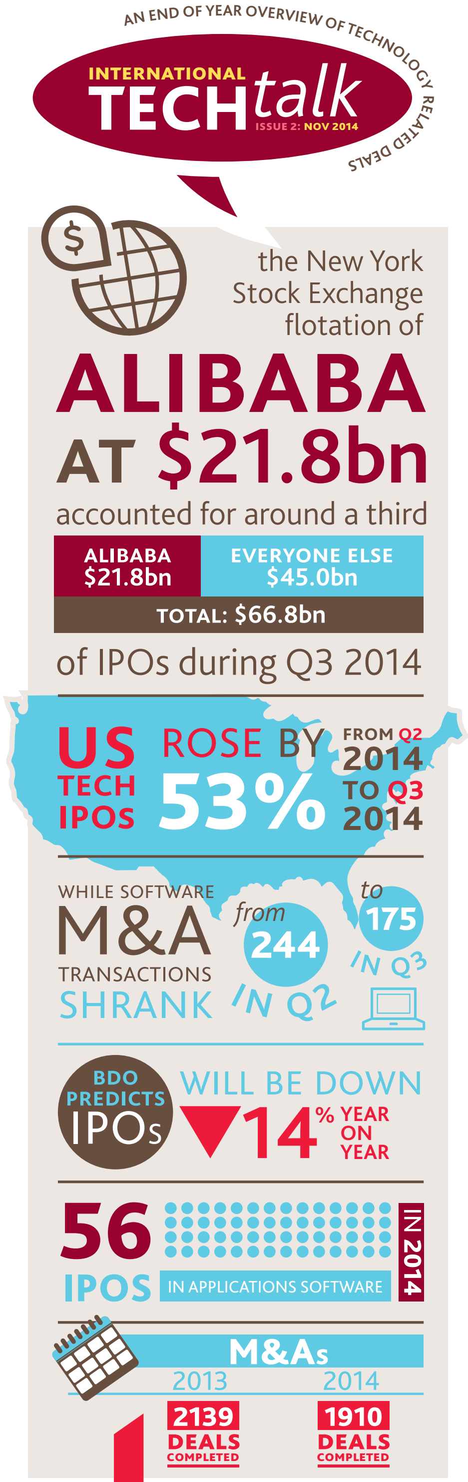
DIGITAL MEDIA

The third quarter IPOs included Israeli digital marketing firm Matomy Media Group. VC-backed Matomy Media succeeded in its second run at flotation in July after insufficient investor demand stymied its original IPO on the London Stock Exchange three months earlier. The Tel-Aviv-based firm raised GBP 41 million ($65 million) in its flotation on the High Growth Segment of the London Stock Exchange—a special section with lower free-float requirements than the main market.

BDO COMMENTARY

Managed services companies may be the apple of analysts' eyes when it comes to M&A activity, but IPO activity has been relatively stale over recent weeks.

The much anticipated flotation of infrastructure services Zayo Group in the third week of October proved to be an outstanding success: despite market volatility rose from $19 per share to $22 per share within the first week of trading – and has stayed there since flotation. The high profile success may provide other managed services companies with reassurance for their own flotation plans.



HARDWARE

Four hardware companies went public in both Q2 and Q3. The third quarter saw the initial offering of Jerusalem-based MobilEye Vision Technologies. MobilEye opened up 44 percent in its August debut on the New York Stock Exchange to raise $890 million, a record for an Israeli company going public in the U.S. By October, the company was trading more than two times above its $25 offering price. This IPO helped highlight investor appetite for Israeli technology companies, paving the way for the successful CyberArk launch in September.

Note: Some companies fall under more than one category—for example, CyberArk and Alibaba are considered both software and managed services firms—which has led to them being accounted for twice in the breakdown of subsectors.

BDO COMMENTARY

Israel has once again stolen the show when it comes to hardware IPOs; the MobilEye IPO grabbing the majority of headlines within the space. The next most anticipated hardware IPO is likely to be that of streaming-media player manufacturer Roku. According to the Wall Street Journal, the Californian-based company has already raised more than $150m in private capital from investors including Fidelity Investments, Menlo Ventures and News Corp and analysts are confident of the success of the flotation given the current positive sentiment towards consumer electronics companies.

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M&A ACTIVITY

OVERALL GLOBAL TECHNOLOGY M&A MARKET

A combination of macroeconomic uncertainty and Alibaba-induced caution has meant that 2014 has been a poor year for numbers of tech M&As. With investors' eyes on how Alibaba would perform, Chinese venture capital fundraising plummeted to $403million in Q3, a fraction of the $3.78billion raised in Q2.

As of mid-December, 1910 deals had been completed this year, compared to 2139 in 2013. Although numbers of deals are down, the value of the M&As hit $2.66bn for the first three quarters of 2014 – a 60% increase on the same period in 2013.

The first half of 2014 saw the highest half-year value for M&A deals in the technology, media and telecommunications (TMT) sector since at least 2001, according to research firm Mergermarket's H1 2014 trend report for the global TMT sector.

The first half of the year saw deals worth $383.4 billion, a year-on-year increase of 122 percent. TMT deals during Q2 2014 totaled $200.9 billion, three times the value of deals in Q2 2013, and up more than 10 percent from the previous quarter.

The technology and telecommunications subsectors saw 77.9 percent and 288.7 percent increases in H1 deal value compared with the first half of 2013, cites a Mergermarket report.

According to an article in Reuters' PE Hub, overall acquisition volumes (not just technology-related) were up in Q3 based on both deal number and disclosed size. Of the 119 VC-backed M&A deals in Q3, 32 disclosed prices totaling $7.9 billion—more than double the disclosed value in Q2 which saw 110 deals with 37 disclosing prices.

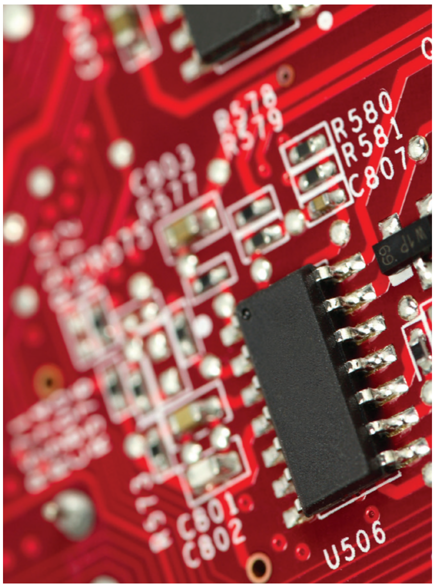
The largest PE-backed transaction in Q3 2014 was Vista Equity Partners' acquisition of TIBCO Software for $4.3 billion, according to data from The Deal.

Acquisitions of game companies are another big driver of M&A growth as the market for online and mobile gaming continues to expand.

Acquisitions topped $12.2 billion in the first three quarters of the year, more than double the total for 2013, according to games-focused investment bank Digi-Capital. Microsoft, Facebook, Giant Interactive, Amazon and Zhongji all acquired gaming companies for between $960 million and $2.5 billion, boosting overall figures. Digi-Capital expects game software revenue to grow from $70 billion in 2014 to $100 billion in 2017, according to a VentureBeat article.

There is a growing trend for VC-backed firms targeting other VC-backed firms. Through the first half of the year, M&A involving VC-backed buyers and sellers was at the highest rate in at least a decade, according to data from Dow Jones VentureSource. VC-backed acquisitions of other VC-backed firms accounted for 21.1 percent of total VC-backed M&A, a pace not seen since 2004. One example is online storage company Dropbox, which bought five companies in the second quarter of the year.

After raising $325 million in Series B funding in February, the firm tabled plans for a potential IPO, with the CEO telling reporters in May the company had a "full tank."



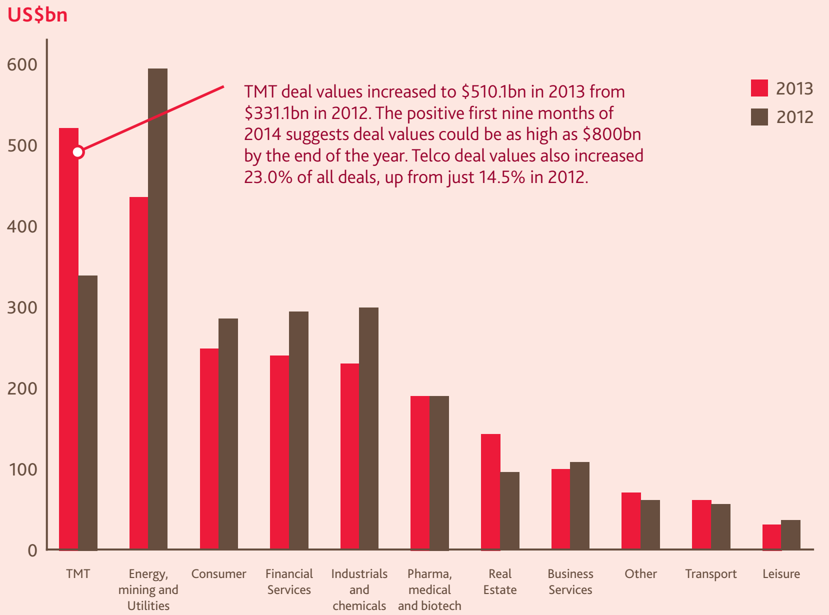
M&A ACTIVITY

BDO COMMENTARY

The upturn in M&A activity by value is encouraging to read, and is a clear demonstration that companies which had previously kept their financial warchests tightly closed due to economic concerns have now reopened them in the quest for inorganic growth. Data from Thomson Reuters has revealed that M&A activity in the first nine months of 2014 has surpassed levels seen in any of the five years previously with the value of deals hitting $2.66tn which equates to a 60% increase on the same period in 2013. With interest rates remaining at historically low levels, continued favourable credit markets and stockpiles of cash still remaining on company balance sheets, we are confident of M&A volumes continuing to increase into 2015.

The gaming M&A is an interesting twist in tech corporate activity and shows how non-traditional gaming companies are seeing online gaming as a growth opportunity. In previous years, larger gaming companies and media businesses would snap up the assets of smaller developers to increase their product portfolios. Now it is online gaming which is driving the gaming market: Microsoft's Minecraft acquisition will allow it to develop a hugely successful game into a more interactive format by exploiting its investments in cloud and mobile technologies, whilst Amazon's acquisition of Twitch will allow it to enter the online videogaming market. As tech companies continue on their drive to compete as media conglomerates, we expect further acquisitions of this type in 2015.

DEAL VOLUMES BY SECTOR



MANAGED SERVICES

Some 95 M&A transactions in Q2 involved companies in the managed services space. Of these, 48 were VC-backed and 11 were PE-backed. In Q3, 100 M&A deals took place; of these, 58 were VC-backed and 16 received PE financing.

Global telecoms giant Vodafone Group completed a €7.2 billion ($9 billion USD) acquisition of Spanish cable operator Grupo Corporativo Ono in July, adding to Vodafone's fixed line and broadband services in Spain and putting to rest expectations of an Ono IPO. Ono is backed by two PE firms: Thomas H Lee Partners and Quadrangle Capital Partners, which together have a 54 percent stake in the company.

REGIONAL ACTIVITY

North America saw by far the most activity in both quarters, with 215 transactions in Q2 and 251 in Q3. There were 85 deals in the EMEA region in Q2—five in France and four in the UK—and 71 in Q3. Asia saw most of its activity in the third quarter, with eight transactions in Q2 and 11 in Q3.

The most valuable VC-backed deal in Q3 was network processor vendor Tilera's acquisition by its competitor EZChip for $146.23 million in July. Voice-over-wifi provider Kineto Wireless' September acquisition by its long-term partner Taqua raised $139.47 million in the second largest deal of the quarter. The August acquisition of Silicon Valley-based video distribution startup Ooyala by Australian telecommunications firm Telstra raised $121.97 million, in the third largest deal.

BDO COMMENTARY

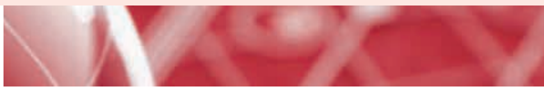
The 17% increase in North American transactions backs up Factset data which points to Technology Services being the most active sector for M&A over the previous quarter. A rather unorthodox trend which is helping to drive M&A is that of unadvised deals: technology giants are shunning investment banks when it comes to deal making and carrying out their own target identification, due diligence and term negotiation believing that they know their business better than the banks. 10 years ago, 27% of technology deals worth >$100m were done without an investment bank advising. Today, the figure is 69%. The "cutting out of the middle man" is helping to make dealmaking quicker, more fluid – and cheaper.

THIS IS A GOOD TIME FOR PE FIRMS TO BE INVESTING IN SPANISH TECH COMPANIES.

JUSTO LOPEZ
DIRECTOR, SPAIN

In contrast, EMEA saw a 16% decline between Q2 and Q3 from 85 to 71 transactions. However, whilst this headline decline may seem significant, the technology sector has been one of the most active over the past year, with technology transactions contributing to 15% of the EMEA total. France is a particular M&A hotspot owing to a new Government initiative to allow foreign companies to buy stakes in highly prized national assets. Meanwhile, the Iberian peninsula has remained an attractive destination for M&A owing to the relatively cheap assets following the financial turmoil.

We expect to see a continuing upturn across all geographies, with European M&A catching up with the positive trend seen within North America.



AUCTIONS ACTIVITY

There were a total of 26 auctions in Q2 and 42 in Q3, according to The Deal. By the end of the second quarter there were 12 companies listed as M&A opportunities, including 11 companies in the U.S., and Israeli hardware company Orbotech. Orbotech completed its $371 million acquisition of SPTS Technologies in August with a combination of approximately $90 million in cash and the proceeds of a $300 million secured term loan facility.

Six companies were off the block at the end of Q2, and eight were still on the block, including Singapore-based hardware company Stats ChipPAC, which was approached by two potential bidders— Chinese firms Jiangsu Changjiang Electronics Technology and Tianshui Huatian Technology.

Technology giants Oracle and Cisco Systems were among 32 companies listed as providing M&A opportunities at the end of Q3. These and other large "cash-hoarding" legacy technology companies could be pushed by activist investors to break up, in order to free assets that might do better on their own or with a PE firm, according to industry sources quoted by The Deal.

Indeed, in early October, Hewlett Packard announced it would split in two, separating its data storage, software and services enterprise arm from its hardware business selling PCs and printers. A week earlier, online auction site eBay said it would spin off its fast-growing payments business PayPal.

New York financial technology (FinTech) firm GFI Group was one of ten companies still on the block at the end of the third quarter, after it became the target of a bidding war between exchange firm CME Group and rival inter-dealer broker BGC Partners.

Broken down into sub-sectors, auctions in Q2 included six hardware firms, five software firms, 11 managed services firms and three FinTech companies. Q3 saw auctions for 16 hardware firms, 28 software firms, 11 managed services firms and one FinTech company.

M&A ACTIVITY

SOFTWARE

There were 244 M&A deals involving software firms in Q2. Of these, 167 were VC-backed and 33 were PE-backed.

Tel Aviv-based pay-TV service startup Tvinci was acquired in May by open source video platform Kaltura for an undisclosed sum. Tvinci's platform allows paid-TV service providers to offer over-the-top (OTT) services—streaming premium content across a variety of devices. Pay OTT TV services are expected to provide huge growth potential as internet-connected devices become even more ubiquitous and the popularity of streaming services continues to rise.

Spanish daily deal aggregator Yunait was acquired by direct competitor Bownty in June for an undisclosed sum. Bownty aggregates offers from over 100 daily deal sites such as Groupon and Living Social. Mobile is a key component with apps available for iOs and Android. The acquisition gives the combined firm a total of around two million users in Europe and South America.

Spanish telecoms company Telefonica purchased Barcelona-based cloud desktop provider EyeOS in April for an undisclosed amount. The deal enables Telefonica to offer its customers an open-source platform virtualization service that works on both desktop and mobile devices and is accessible through a web browser without the need to download any software.

In the third quarter, 175 M&A transactions took place; of these, 103 were VC-backed and 33 received PE financing.

FINTECH

There was a total of 12 M&A transactions in Q2 involving financial technology companies, including five with VC financing and two with PE backing. Sixteen deals in Q3 involved FinTech firms, with five receiving VC backing and four receiving PE fund backing.

Private equity firm Welsh, Carson, Anderson & Stowe entered exclusive negotiations in July to sell its Netherlands-based online payments service company GlobalCollect to French peer Ingenico Group for an enterprise value of €820 million ($1.12 billion USD), according to The Deal.

BDO COMMENTARY

Software has been the worst performer in the previous quarter, although analysts are largely putting this down to the Alibaba effect which has stagnated the M&A market as well as the IPO market.

Software was the biggest casualty of the VC-funded deals with the Alibaba deal continuing to have a negative effect on the market.

Chinese venture capital fundraising plummeted to $403m in the July to September period; a fraction of the $3.78bn raised in the second quarter. The average deal size dropped to around $8m from $16m in the previous quarter which has impacted on global VC volumes.

The second most active sector, managed services, has seen the largest quarter-on-quarter increase in terms of deal volume, with 110 deals in Q3 2014 compared to 95 in the previous quarter. VC-backed and PE-backed deals took the lion's share of the transactions, accounting for 58 and 16 of the 110 deals respectively. Managed services firms with a focus on cloud computing continue to attract significant interest from VC and PE investors due to their perceived secure recurring revenue model and longer term contracts. We expect the software market to reignite as the economy improves, particularly within the mobile application market. As 4G becomes more widespread, consumers will be demanding more from their mobile devices – and the easiest way for large corporates to embrace mobile is to acquire companies with readymade expertise in the sector. Managed services will continue to remain an attractive choice for acquisition due to its secure revenue models and lack of "hype".

We expect to see further acquisitions along the lines of the Amazon/Twitch deal, with Yahoo one of those companies we expect to make a move after narrowly missing out on the Twitch acquisition to Amazon. The continued drive to by corporates to evolve from a consumer technology company to an all-encompassing entertainment and technology conglomerate will see further acquisition and consolidation activity throughout 2015.

BANKRUPTCY MARKET

Some 110 companies saw bankruptcy proceedings in Q2—15 filed for bankruptcy and 95 were issued warnings by their auditors or accounting firms. In Q3, there were 42 bankruptcy actions, with 18 filings and 24 warnings.

REGIONAL ACTIVITY

Bankruptcy activity was concentrated in North America. The region saw the most activity in Q2, with 101 proceedings, including 14 filings and 87 warnings. In Q3, there was a total of 34 bankruptcy actions in North America, including 14 filings and 20 warnings.

In Asia, Seoul-based maker of modems and wireless routers C-Motech Co. filed for bankruptcy in Q2, while five firms received warnings. In Q3, Chinese solar energy products maker Zhejiang Topoint Photovoltaic Co filed for bankruptcy, and four firms received warnings.

In EMEA, three firms had warnings status in Q2: London-based TagLikeMe, Hungarian telecommunications services firm iGlue and Dutch equity crowd funding platform Symbid Corp. Q3 saw three filings in EMEA: German daily deal website Couch Commerce, French components manufacturer 3S Photonics (a portfolio company of private equity firm Eurazeo) and Spanish wi-fi supplier Let's Gowex. Let's Gowex filed for voluntary bankruptcy after a scathing report by Gotham City Research prompted surprise accounting revelations from its founder and former CEO.

SOFTWARE

In Q2, 11 software firms filed for bankruptcy and 64 were issued warnings. Q3 saw 16 filings—including smart-grid technology provider Ambient, which was subsequently acquired by Swedish telecommunications giant Ericsson in a $7.5 million deal—and 19 warnings in the software space.

HARDWARE

Eight hardware firms filed for bankruptcy in Q2, while 32 received warnings. There was a total of eight filings and eight warnings involving hardware firms in Q3.

MANAGED SERVICES

The managed services space saw five companies filing for bankruptcy in Q2 and 32 companies were issued warnings. Four managed services companies filed in Q3 and six received warnings.

FINTECH

Two FinTech firms received warnings in Q2: Canadian trading technology provider APT Systems and Symbid, as mentioned above. In Q3, U.S. processor of credit card and electronic check transactions Phoenix Payment Systems filed for bankruptcy, before being acquired by stalking horse bidder American Bancard. Two more firms were issued warnings: Canadian firm PreAxia Health Care Payment Systems and Chinese mobile banking and payment service provider Telupay International.

BDO COMMENTARY

As would be expected by the improving economic situation, bankruptcies are falling out of favour. Software companies make up the bulk of bankruptcies, accounting for 81% of volume in Q3 and 68% of volume in Q2. The need to continually develop software to meet customer demand is vital and, as we move more to cloud-based subscription software, companies which fail to innovate their offerings risk financial difficulty.

'COMPANIES WHICH FAIL TO INNOVATE ARE AT RISK FROM FAILURE'.

HANS DE ROOIJ
GLOBAL HEAD OF TMT

CONCLUSION

As we reach the end of the year, the Alibaba Effect hasn't been as positive as many hoped in sparking new tech deals. Many factors come into play here but it's clear there's been a lag in the wake of the mega-flotation as some firms have either held back their deals or preferred to secure new backing to remain private.

We are hopeful for a more positive 2015, but while the overall outlook remains unclear, careful consideration is as important as ever.

Both large companies looking to add new revenue streams and firms looking to grow their customer base are turning to technology startups and developed companies as attractive M&A targets.

The good news for companies looking to acquire is that capital is plentiful to back such deals.

Funds looking for M&A opportunities might do well to watch for the breakup of large legacy companies, which may be pushed by investors to divest their assets.

With a number of successful IPOs this year, Israel is becoming a hotbed of innovation in the technology market, proving that more and more investors are attracted to Israeli technology stocks.

As the Spanish economy recovers and firms look to consolidate to increase their market share or find PE acquirers, Spain is another country enjoying increased M&A activity. Specifically, PE firms are drawn to the relatively low-priced assets in the Iberian Peninsula.

Whether a company is seeking to engage in a strategic transaction or raise capital, working with trusted partners to conduct thorough due diligence and study of financials, liabilities, operations and controls are essential to ensure those business decisions are successful.

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