

AN ALERT FROM THE BDO TECHNOLOGY PRACTICE

# BDO KNOWS: TECHNOLOGY

## M&A UPDATE: THE TECHNOLOGY MARKET HEATS UP

After 2015 turned out to be the **biggest year** for merger and acquisition (M&A) activity, it's hard to imagine 2016 could surpass that point. Amid economic uncertainty and pushback from regulators, some companies in certain industry sectors have become more cautious, which has caused the overall volume for M&A to decrease by **18 percent** so far this year. But the burst of technology M&A deals in the first half of the year paints a hopeful picture, at least for the performance of M&A activities in the tech industry.

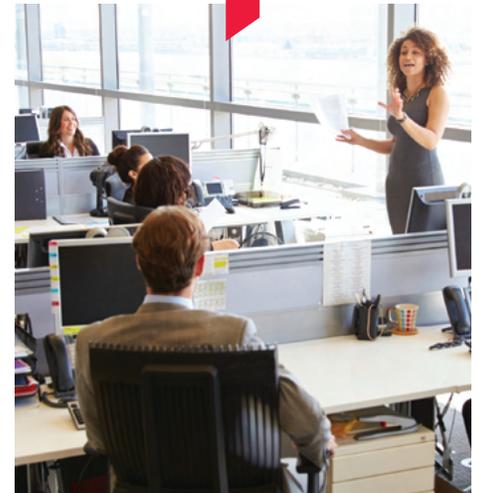
### WHAT DEALS ARE MAKING WAVES?

Technology has proven to be the busiest sector for M&A this year to date, as it was in 2015. In the first half of 2016, about **\$267.6 billion** of technology deals occurred globally, which is the second-fastest pace for technology deals in the period after 2000. **Analysts** predict that the pace will continue, and it's possible that recent high profile deals could pave the way for more tech companies to do the same. The biggest deals of the year (so far) include:

- **Microsoft-LinkedIn:** Microsoft Corp. is buying LinkedIn Corp. for \$26.2 billion—the largest acquisition in the tech giant's history. By **integrating** Microsoft Office with LinkedIn, Microsoft CEO Satya Nadella is betting the social network can spruce up its software offerings. The

deal also gives Microsoft 433 million LinkedIn followers, which should bolster the company's power in the mass-market, consumer internet sector and diversify its business by boosting its cloud offerings.

- **Symantec-Blue Coat:** Symantec Corp. agreed to buy Blue Coat Systems Inc. in a \$4.65 billion deal. The deal is set to grant Symantec with Blue Coat's current Chief Executive Officer, along with Blue Coat's suite of cloud-based security services. Blue Coat, which was sold last year to Bain Capital for **\$2.4 billion**, filed for an IPO earlier this year until the offering from Symantec came through.
- **Salesforce-Demandware:** With Salesforce set to buy Demandware for \$2.8 billion, the company will spearhead a new initiative, The Salesforce Commerce Cloud, which will essentially allow users to take advantage of the Demandware platform to complete sales transactions. In its largest acquisition to date, Salesforce is integrating Demandware's cloud-based e-commerce services with its portfolio of sales and marketing services.
- **Verizon-Yahoo:** After a sale process that lasted months, Verizon agreed to pay \$4.83 billion for Yahoo and its more than one billion active monthly users. The telecom company, well known for its phone and internet services, has historically not seen much strength in the business of cultivating and producing digital content. But Verizon has made strides in this realm in recent years with



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its purchases of AOL and the Huffington Post, and the Yahoo acquisition will bolster its credibility and extend its reach even further.

- ▶ **Dell-EMC:** Originally announced in October of 2015, Dell's bid to buy EMC for \$67 billion is the largest technology acquisition in history. On July 19, EMC shareholders approved the Dell merger with [98 percent](#) of the votes, surpassing a key hurdle in finalizing the mega deal. On track to close before 2017, the deal will provide Dell with EMC's enterprise storage products, and VMware's virtualization software to expand Dell's portfolio and influence.

## BDO INSIGHTS

The recent spate of mega deals highlights a key strategic growth trend: It's all about smart services. Notably, Apple now makes more revenue from its services than its PC business. As demand for hardware stalls, technology organizations—especially traditional software players—are looking to diversify their businesses and capture recurring revenue through internet-based services. Billion-dollar acquisitions—such as those by Microsoft, Symantec, Salesforce and Verizon—are as much about acquiring a broader customer base as they are about diversifying and expanding product and services portfolios.

To say tech organizations are embracing the cloud is oversimplifying a trend that has persisted for several years. Now, companies are focusing on making *smart* cloud investments to fill the software and service gaps introduced by emerging technologies such as the Internet of Things and virtual reality. And, as they face increasing competition for a limited number of smart buys, the checks are getting larger.

In fact, the potential impact of M&A as a growth strategy is so top-of-mind for technology companies that 98 percent of them identify the effective management of current and future M&A and divestitures as a key risk to their businesses, according to the [2016 BDO Technology RiskFactor Report](#). This is the highest percentage among all industry groups the RiskFactor Reports analyzed, including consumer business, life sciences, manufacturing, oil & gas and REITs.

In today's M&A environment, businesses involved in deals must navigate significant domestic and international regulatory hurdles to successfully close any resulting M&A transactions. Despite the collapse of several high-profile flops over the last few years, the pace of deal-making and mega mergers underlines business leaders' confidence in growth prospects and the ability to generate value for their shareholders.

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