

## Technology M&A Activity Increasing Rapidly

**Tech Deals Come Alive. Despite a flat revenue outlook for 2010, pent-up demand unleashes an M&A flurry in the sector.**

Deal activity in the technology sector surged in the closing weeks of 2009, reversing two years of deepening drought. The flurry follows a long period during which share prices collapsed and the next quarter's revenues were often hard to forecast.

For the full year, the number of deals fell to 107, from 195 in 2008, while closed-deal values dropped 53% to about \$36 billion, according to a new report by PricewaterhouseCoopers. However, almost half of that dollar value was attributable to transactions that closed in the year's final two months.

The momentum is continuing into 2010, says Todson Page, a partner in PwC's technology transaction services practice. Given the stock markets' recovery and the increased demand some technology vendors are seeing, the pace is expected to accelerate. Still, activity may be restrained by a continuing gap between companies' true underlying value and what potential buyers are willing to pay for them, Page says.

Driving the mini-boom will be the return of middle-market deals, which PwC defines as between \$50 million and \$500 million. As in other industries, many midsize firms stayed on the sidelines in 2009, looking for credit and waiting for the economy to stabilize. But PwC forecasts that the middle market this year will regain its historical level of accounting for 90% of technology deals. "We're expecting not only that mid-market companies will be targets of larger companies, but also that they will be buying each other as they try to position themselves for some type of 'new normal' in the technology industry," says Page.

Further feeding the middle market, planned divestitures that had been put on hold due to valuation uncertainty are expected to make their way into the pipeline. As larger deals are announced, PwC expects to see an increase in regulatory reviews that will result in mandated divestments of business units.

Also likely is a rash of initial public offerings over the next few months, based on a large number of registrations filed in the second half of 2009. And early indications for 2010 suggest increased cross-border M&A activity, especially inbound to the United States from Asia. PwC says there also will be outbound activity from the United States to European markets with weaker currencies.

But while share prices are looking healthier and deals are picking up, the best that can be expected for the technology industry's revenue outlook for 2010 is a tiny uptick. Some high-profile companies, like Cisco Systems, recently reported big gains and, according to Gartner, worldwide spending on information technology is expected to grow by 4.6% as measured in U.S. dollars. But stripping out expectations for a weaker dollar this year, in constant-currency terms the forecast is for just a 1.5% increase.

Spending by U.S. companies likely will grow even less, if at all. Some of the best-performing IT products, like smart phones, are more consumer-driven, and overall growth rates are expected to be highest in emerging markets. "In the mature economies in the U.S. and Western Europe, flat budgets seem to be the consensus," says Gartner analyst Richard Gordon.

Still, says IDC analyst Stephen Minton, the technology industry remains in pretty good shape — far better than its condition in 2001, when its own problems spurred its collapse. Now it just needs the economy to

improve, though that is a work in progress. "It's a long way from being a banner year for technology companies," Minton says. "It's a slow recovery by any standards."

David McCann - CFO.com