EXECUTIVE OVERVIEW

MARKET FORECAST

M&A Outlook 2017

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MULTI-TENANT DATACENTER, HOSTING AND MANAGED SERVICES

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Even after a recent record tech M&A run, dealmakers still had ambitious shopping plans in 2016. Across the globe, tech acquirers announced $500bn worth of transactions in the just-completed year, ranking 2016 as the second-highest annual total since the internet bubble burst. More than any other year, 2016 saw an expansion of buyers beyond the 'usual suspects,' as old-line companies got caught up in transforming their businesses through M&A.

The following is one of eight sector-specific reports that comprise 451 Research's full, 80-page M&A Outlook 2017. Each report highlights key drivers for M&A in the coming year in that particular market, and maps specific companies to those broader strategies.

For the full report, visit https://451research.com/2017-tech-mergers-acquisitions-outlook

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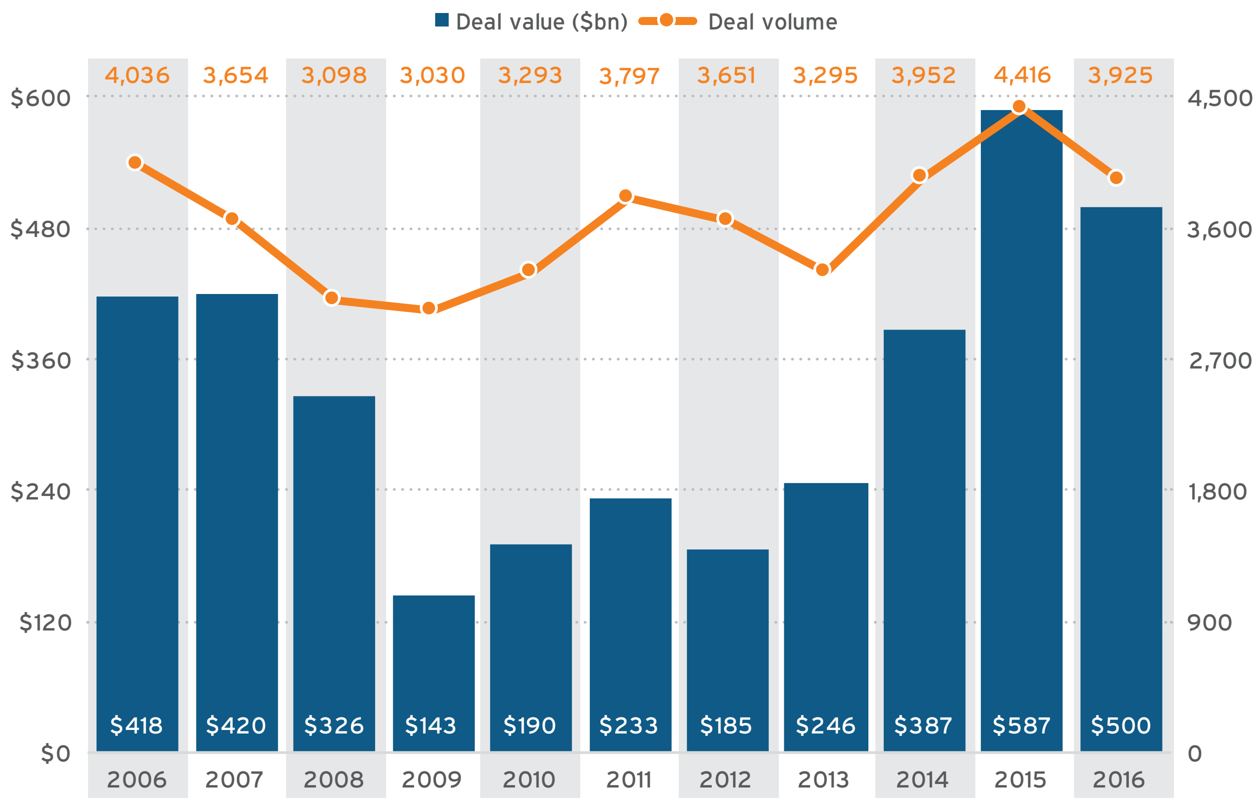
1. Introduction

Even after a recent record tech M&A run, dealmakers still had ambitious shopping plans in 2016. Across the globe, tech acquirers announced $500bn worth of transactions in the just-completed year, ranking 2016 as the second-highest annual total since the internet bubble burst in 2000, according to *451 Research's M&A KnowledgeBase*. The unexpectedly strong spending last year came as the number of deals valued at more than $1bn soared to a new record, thanks in no small part to buyers willing to pay up for the targets they wanted and unconventional acquirers ready to write big checks.

Figure 1: Global Tech M&A

Source: 451 Research's M&A KnowledgeBase



More than any other year, 2016 marked the year that tech M&A expanded beyond the 'usual suspects,' as old-line companies got serious in their efforts to transform their businesses through M&A. Sure, well-known corporate buyers put up their prints last year. Salesforce doubled its recent annual rate of acquisitions, averaging a deal every month. Microsoft also put up a double-digit number of prints in 2016, including its massive $26bn reach for LinkedIn. IBM sprinted out of the gate, announcing nine transactions in just the first quarter. And Oracle got busy again, picking up almost as many companies in 2016 as it had in the two previous years combined.

But with the broader tech industry continuing to hunt for new areas growth, the urge to merge spread to acquirers that have typically either looked internally or inked much smaller purchases. For instance, would anyone have picked sleepy British consolidator Micro Focus to make the largest infrastructure software deal of 2016? Or what about Samsung Electronics, which hadn't ever spent more than $350m on a tech vendor, betting $8bn on connected-car technology provider HARMAN? (Incidentally, that transaction was just one of 16 valued at $1bn or more by Asian-based tech companies last year, an unprecedented number for the traditionally conservative shoppers.) Or who would have imagined GE Digital stepping into the M&A market in such a big way, announcing four acquisitions since it was created in December 2015 by the 125-year-old industrial giant? And on a larger scale, how about consumer products giant Unilever, which traces its roots back to the 1890s, paying $1bn for four-year-old online retail site Dollar Shave Club?

Figure 2: Top Vote-Getter for 'Most Significant Tech Transaction'

Source: 451 Research Tech Corporate Development Outlook Survey

YEAR	DEAL
2016	Microsoft's acquisition of LinkedIn
2015	Dell's acquisition of EMC
2014	Facebook's acquisition of WhatsApp
2013	IBM's acquisition of SoftLayer
2012	VMware's acquisition of Nicira
2011	Google's acquisition of Motorola Mobility
2010	Intel's acquisition of McAfee
2009	Oracle's acquisition of Sun Microsystems
2008	Hewlett-Packard's acquisition of EDS
2007	Citrix's acquisition of XenSource

And that's just last year's activity by corporate acquirers. Their financial rivals, including many newly hatched funds, were even more active. Private equity (PE) firms announced an unprecedented number of transactions in 2016, topping the previous record by 25%. The increased activity by buyout shops stands in contrast to the 11% decline in the overall number of tech deals last year, according to the M&A KnowledgeBase. Buyout firms shopped more expansively and aggressively in 2016 than ever before, in some cases outbidding corporate acquirers that, historically, have paid more. (We look at the record-setting performance by PE shops more fully later is this report.)

Part of the reason for the emergence of this new class of buyers in the ever-maturing tech industry is that several of the reliable acquirers have pretty much stopped shopping. For instance, the two companies that make up the historic Hewlett-Packard (Hewlett Packard Enterprise and HP Inc) were, collectively, net sellers rather than net buyers in 2016. Meanwhile, Dell and EMC have sold off five separate businesses since they announced their blockbuster pairing in October 2015. Companies working through excess M&A rarely look to add news deals.

However, the slowdown isn't only being seen at first-generation tech providers. Even Twitter – a 'new media' company that's already looking a little aged – isn't shopping like it once did. According to the M&A KnowledgeBase, Twitter has done 21 acquisitions since its IPO in November 2013. However, just three of those transactions have come in the past year, as the company has struggled with attracting new users and selling more ads. (Twitter likely grew revenue only about 15% in 2016, just one-quarter the level it did in 2015.) Highly valued Dropbox (once a so-called 'decacorn' for its $10bn funding valuation) did not purchase a single company last year, after snagging four in 2015 and 10 in 2014.