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#1 Global M&A
by deal count
(for the last 13 years)
(*Mergermarket, 2010–2022*)

Global M&A Intelligence Report

The state of play: Technology M&A in 2023

It's been a challenging year for M&A in the technology sector. While the fundamental trends driving dealmaking (most notably: digital transformation; ESG impact; energy transition; decarbonisation; and cybersecurity) haven't disappeared, businesses continue to face a much more challenging macro-economic and parochial geopolitical environment. Global M&A activity is being subdued by the effects of monetary tightening in public and private equity and debt markets, stubborn cost inflation, subdued economic growth, geopolitical upheaval and supply-chain disruption. The result: dealmaking in the technology sector is down to around a third of the level a year ago.

This article highlights five trends identified in our Global M&A Intelligence Report that, in the context of such macro themes, continue to play the most prominent roles in the technology M&A market in 2023.

1. The valuation dynamic – *caveat emptor!*

A paradigm shift has occurred in the valuation of technology companies since the record-breaking global tech M&A activity in 2021. The long bull run is no more; macroeconomic headwinds have driven down valuations. The abrupt nature of this shift has drained market confidence, with many sellers slowing deals down in the hopes of a soft-landing on recessionary pressures.

Where deals are going ahead, acquirers are being more cautious and placing greater emphasis on thorough due diligence (driven in part by the FTX/Sam Bankman Fried and Theranos/Elizabeth Holmes scandals). Whilst open source restrictive licence copy left issues are increasingly seen as manageable risks, worker status and IP ownership will remain diligence stalwarts in tech deals. Sophisticated buyers are insisting on specialist data and AI diligence given the existential risks these areas can pose for business models and the potential for massive, corporate veil piercing, de facto strict liability fines in the event of breach.

We will see earn-outs being used frequently to bridge gaps between parties pricing expectations (caused in part by lenders being more cautious about the amount of acquisition and leverage finance they are prepared to advance).

Despite these challenging conditions, the technology sector did show signs of a fight back in the first half of 2023, especially in certain subsectors such as AI. Market participants had mooted that Q4 2023 would see an increase in deal appetite. It remains to be seen whether this will play out. There is a massive amount of PE dry powder but PE funds may be more cautious about deploying the committed capital that they have as LPs start to flex their muscles for the first time in a decade.

2. Bootstrapping is back

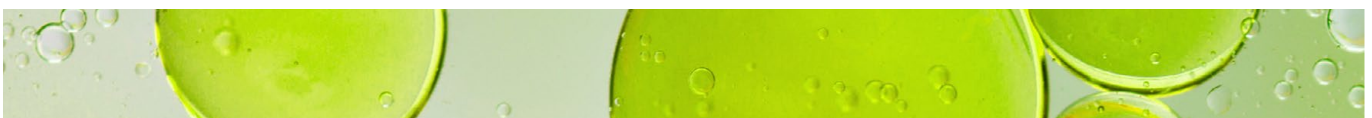
Many technology businesses are caught in an unenviable vice when it comes to financing.

On one side, inflationary wage, interest, energy, and other supply and service cost increases continue to dampen the progress of early-stage and high growth technology companies, which in turn has led to higher burn rates and greater demands for cash.

On the other side, the fundraising scene is locked in a permafrost. In the year-to-date, we've witnessed a pronounced slump in private fundraising rounds and a relatively barren equity capital markets landscape (with global IPO proceeds down by around two-thirds). The debt markets and other types of non-dilutive debt financing have become significantly more expensive and out of reach for many high-growth companies, although an upswing of venture debt deals is noted.

The result? Companies are struggling to raise funds at anywhere near the levels seen in 2021 and even relatively mature tech businesses are being encouraged by investors to bootstrap. We tentatively predict 2023 will be the "year of the (quiet) downround," characterised by a prevalence of fundraisings occurring at discounts to the company's previous post-money valuations. Alternatively, technology companies (especially early-stage seed and Series A) may prefer to extend their runways by issuing convertible securities, and defer (and potentially avoid) significant equity dilution.

Ultimately, many companies will be unable to secure the financing they need, and some founders may be forced to sell. Conversely – companies with significant cash balances, and/or with new money raised at flat or slightly uplifted valuations, will be the heroes of the market.

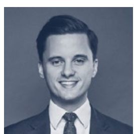


3. Strategic and opportunistic acquisitions

Where companies fail to achieve the required fundraising, strategic buyers, large corporates and private equity lie in wait. Despite the receding availability of traditional external financing (such as bank debt, which is now significantly more expensive than it was a year ago), these types of acquirers are in an excellent position to deploy capital swiftly.

We expect plenty of buying opportunities to arise. North American corporates have been particularly well-placed to exploit the advantages of favourable global exchange rates and underperforming equity capital markets to acquire tech businesses. Bolt-on acquisitions remain attractive ways to access talent and new IP. They may also deliver an immediate boost to company valuations although prevailing economic conditions have narrowed the scope for on deal multiple arbitrage.

Expect to see cash-rich dealmakers exploit this environment to make significant strategic acquisitions in the technology sector in the fourth quarter of 2023 with that continuing into Q1 2024.



"While the fundamental trends driving dealmaking haven't disappeared, businesses continue to float adrift in the choppy waters of 2022."

Freddie De Boise
Senior Associate, United Kingdom

4. Acquisition structuring

For deals that do proceed, we expect to see a greater range of acquisition structures emerging as both purchasers and sellers look at ways to reduce their exposure to risk. Intermediaries are already trialling narrow based auction processes (to help mitigate the downside risk of a failed auction process tainting what may otherwise be a viable target) and we are seeing fewer dual-track processes given the sharp reduction in new listings and depressed equity markets. Alternatively, dealmakers may replace outright acquisitions with strategic joint ventures, mergers or minority investments.

Other notable trends we expect to see affect transaction structures include:

- an increased appetite for corporates to adopt defensive M&A strategies (including those which seek to achieve operational resilience over growth), which may also manifest in the divesture of non-core businesses or shedding low-performing divisions;
- the reduction in appetite for SPAC transactions; and
- a spate of opportunistic take private transactions.

More than ever, counsel retained to advise companies will need to "think out of the box" to present solutions to navigate these complex challenges.

5. Not all fines are equal

Global regulatory frameworks will continue to play an important role in technology M&A, due to the role curbing anti-competitive practices and assuaging national security concerns. The introduction of new or enhanced foreign direct investment regimes in jurisdictions around the world, especially in the UK, North America and Europe, is already impacting on a surprisingly broad swathe of technology deals, particularly in sensitive sectors such as AI, data infrastructure and biotech. Cross-border deals will become more challenging and complex – and this will present execution risks that impact the timing or deliverability of transactions, or even discourage potential acquisitions entirely. As a result, we expect sellers to increasingly demand break fees or hell-or-high-water clauses where would-be buyers are at risk of walking away from deals due to intractable regulatory issues.

"Despite these challenging conditions, the technology sector has shown signs of a fight back in the first half of 2023, especially in certain subsectors such as AI."

Ed Griffiths
Partner, United Kingdom

Deal highlights:

- **YouGov**, the international online research data and analytics technology group, on the EUR315 million acquisition of **GfK CP**, the European Consumer Panel business of **GfK**
- The management team of **Analysys Mason** on the GBP210 million primary buyout of the group by **Bridgepoint** from **Datatec**
- **Aspen Technology** on its proposed AUD900 million acquisition of the Australian-headquartered mining software business **Micromine Group** from **Potentia Capital** and others
- **Stratasys Limited**, shareholder of **Makerbot Industries**, on the USD187 million merger of **Ultimaker** and **Makerbot Industries**
- **Leidos** on its acquisition of the entire issued share capital of **Cobham Aviation Services Australia**
- ASX-listed tech company **Nearmap** on its AUD1.05 billion acquisition by US private equity firm **Thoma Bravo** by way of a scheme of arrangement
- **Sciforma**, a French IT group and provider of Project and Portfolio Management software on the acquisition of the US group **KeyedIn Solutions**
- **Cloudreach Europe** on its sale to **Atos**
- **TOM Group** as shareholders on the equity injection in **Ule Holdings Limited** by **China Post**
- **Lionheart** on its USD360 million de-SPAC merger with ASX-listed brand protection, supply chain integrity and blockchain technology company **Security Matters** to take it public on NASDAQ