

US technology deals insights Q2 2015 update

September 2015

A publication from
PwC's Deals practice

At a glance

The first half of 2015 was off to a healthy start, albeit lower than 2014's record results.

Software and IT services sectors drove deal volumes, while Hardware drove deal values.

Large deals increased, contributing to growth in overall deal values.

Modest slowing barely noticeable amid an active technology deal market. Signs point toward a steady level of deal activity.

Introduction

Welcome to the Q2 2015 issue of *PwC's US technology deals insights*. The second quarter continued the momentum of an active deals market, while volumes continued to demonstrate a slight decline from what was a blockbuster 2014. Despite the middle-market concentration in the first quarter, deals shifted more toward the low and high end in the second quarter. Volumes were lower, while billion-dollar deals increased and contributed to growth in overall closed deal value for the quarter.

8%

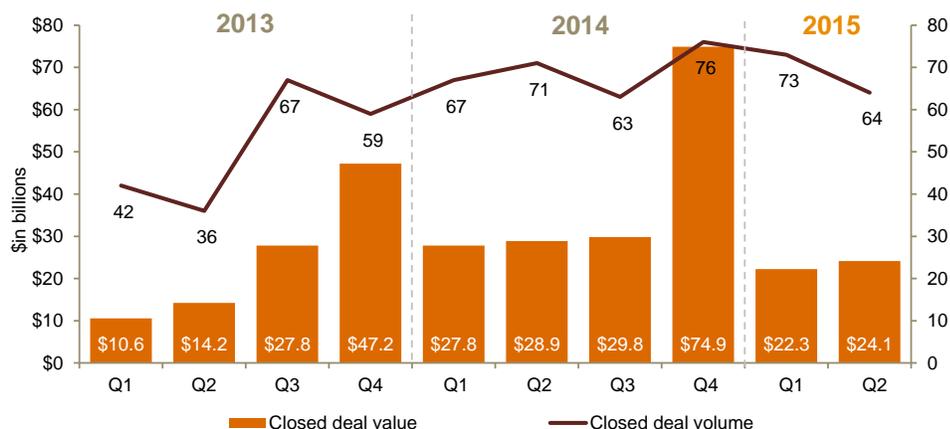
increase in deal values amid a 12% decrease in deal volumes

Equity markets remained at near-record highs, venture capital investment increased to exceed \$17.5 billion, and IPO markets stayed active, but trailing noticeably behind 2014, the most active year in a decade.

Highlights this quarter

- 64 technology deals closed for \$24.1 billion in deal value.
- Deal values increased 8% while deal volumes declined 12%. The increase in the number of billion-dollar deals contributed to growth.
- Average deal value of \$377 million in Q2 2015 and \$339 million during year-to-date 2015 remained noticeably below the average over the past several years.
- Median deal values of \$74 million during Q2 2015 remained below that of \$107 million and \$133 million in 2013 and 2014, respectively.
- There were 8 billion-dollar deals closed in Q2 2015, and 9 additional announcements.
- Software deals continued to be the most active, while Hardware drove deal values.
- IT Services continued to be one of the most active sectors despite activity over the past several years.
- Private Equity buyout activity made up 27% of deal values, driven by several new large portfolio additions, such as Riverbed Technology and Blue Coat Systems.
- Divestitures increased in terms of both volume and value.
- Technology IPOs more than doubled in the second quarter, raising \$2.0 billion in new proceeds, followed by an average 1-day return of 17%.
- Transaction multiples decreased across the technology sector with the exception of Software, which exhibited a noticeable increase in Q2 2015 with Application Software leading the way.

Technology Deal Volume & Values



Conclusion

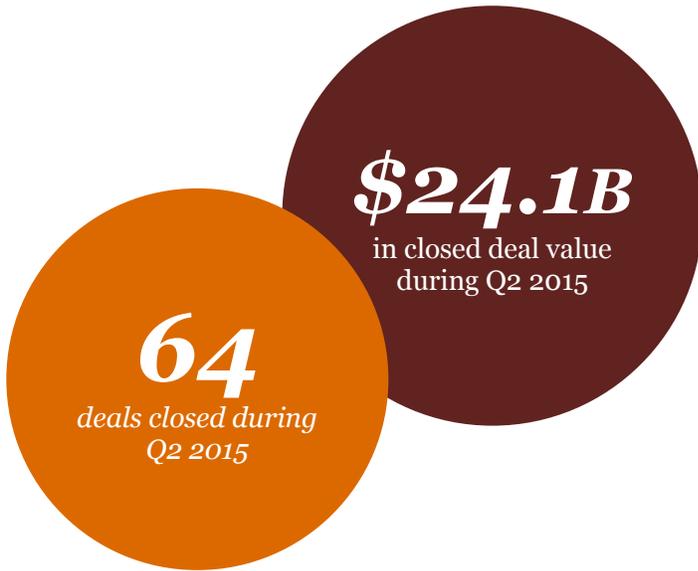
Despite a modest decline in deal volume during Q2 2015, the combination of new deal announcements, solid fundamental performance, and financial positioning

amongst leading corporate technology titans and private equity point toward a similar level of deal activity throughout the remainder of 2015.

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Market overview



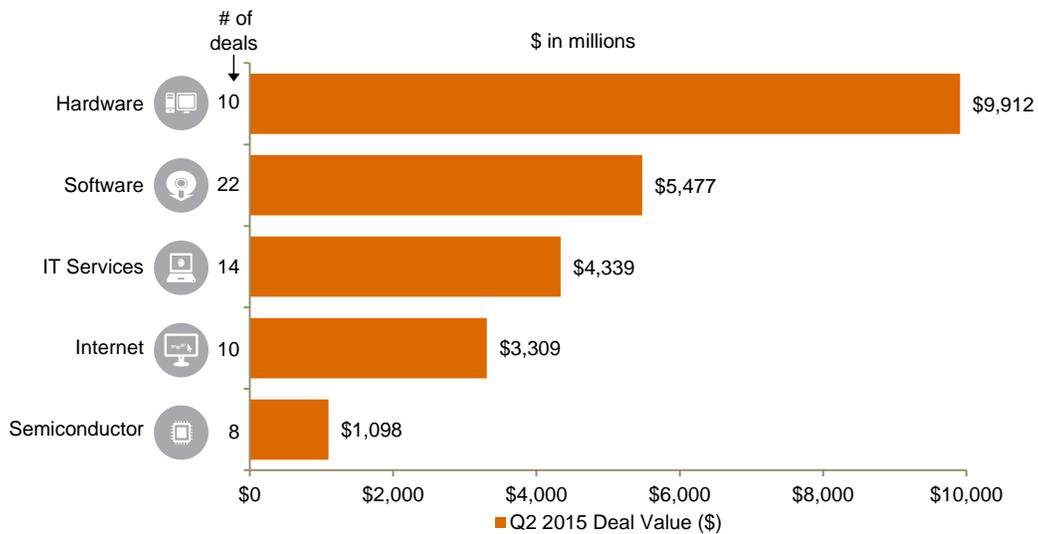
Strong momentum in 2014 continued into the first half of 2015 amid record megadeal announcements.

Rob Fisher
US Technology Deals Leader

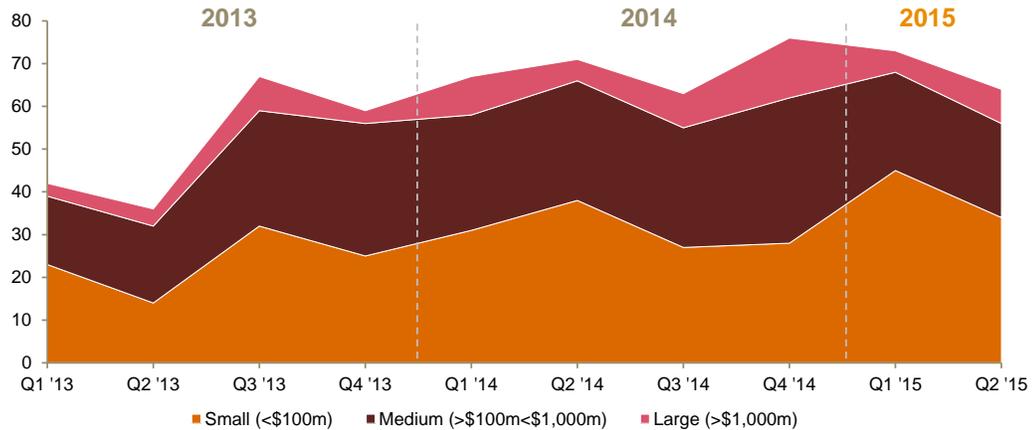
Highlights this quarter

- The Software sector continued to lead the technology deals market in terms of deal volume, typically characterized by smaller deal values.
- The Hardware sector led deal values for the technology sector overall as the largest transactions were all hardware deals, including the acquisitions of Riverbed Technology, Aruba Networks, and Blue Coat Systems for \$8.9 billion in aggregate.
- Despite a slight decline in Q2 2015, IT Services deal volumes and values have notably increased over the level of activity seen over the past few years in the sector, as companies expand their service offerings to specialized solutions serving many industries.

Closed deal values by sector



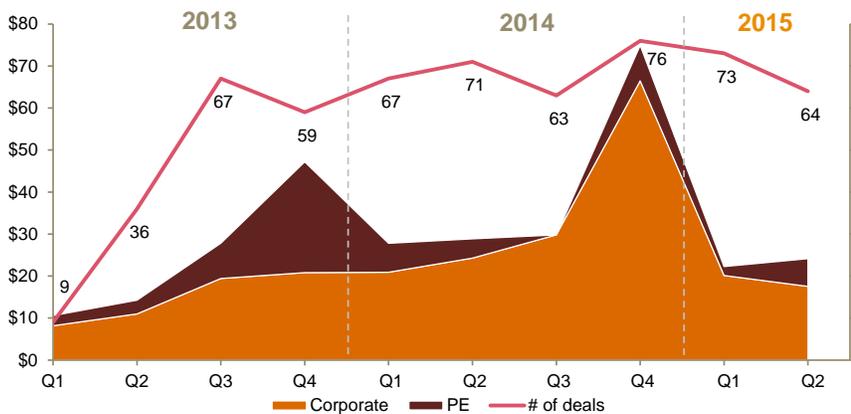
Closed deal volume by tranche



Closed deal volumes

- A higher proportion of deal volumes in Q2 2015 continued to be smaller sized (less than \$100M in value) – albeit less than the first quarter – while the number of billion-dollar deals exceeded the 3-year average.
- Software deals, historically smaller in size, accounted for nearly half of all small deals in Q2 2015.
- Sector dispersion amongst mid-size transactions (\$100M – \$1,000M) was widely spread, with Internet deals leading the way by a small margin, despite less representation amongst both small and large deals.
- Large transactions (billion-dollar deals) comprised all sectors except for semiconductor, a sector in which the size of transactions has demonstrated volatility over the past several years.

Corporate vs. private equity



Corporate vs. private equity

- New portfolio acquisitions by buyout firms decreased during the second quarter, comprising 7% of total deal volume.
- As compared to 7% of deal volumes, new portfolio acquisitions for buyout firms increased during Q2 2015 – contributing to 27% of deal values – largely driven by ThomaBravo's \$3.5 billion take-private of Riverbed Technology.

Divestiture volume and values



Divestiture highlights

- While technology divestiture activity increased during the second quarter, the level of divestitures relative to total deals is trailing behind that exhibited over the past two years.
- Despite the slight decline in 2015, we expect continued portfolio pruning to contribute to a healthy level of divestitures throughout 2015.

IPO volume and values



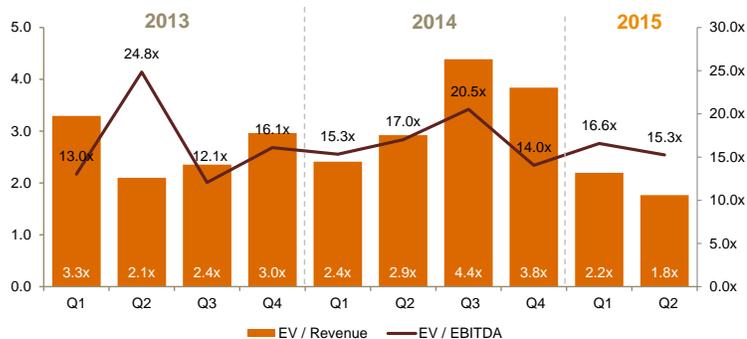
*13 IPOs
for \$2.0B*
Down from the 2014 peak, tech IPOs return to a "normal" level.

Source: PwC's IPO Watch

Transaction Multiples

- Overall median revenue and EBITDA multiple declined in Q2 2015.
- Average transaction multiples in certain sectors – such as Semiconductors – were pushed higher due to consolidation within the industry.

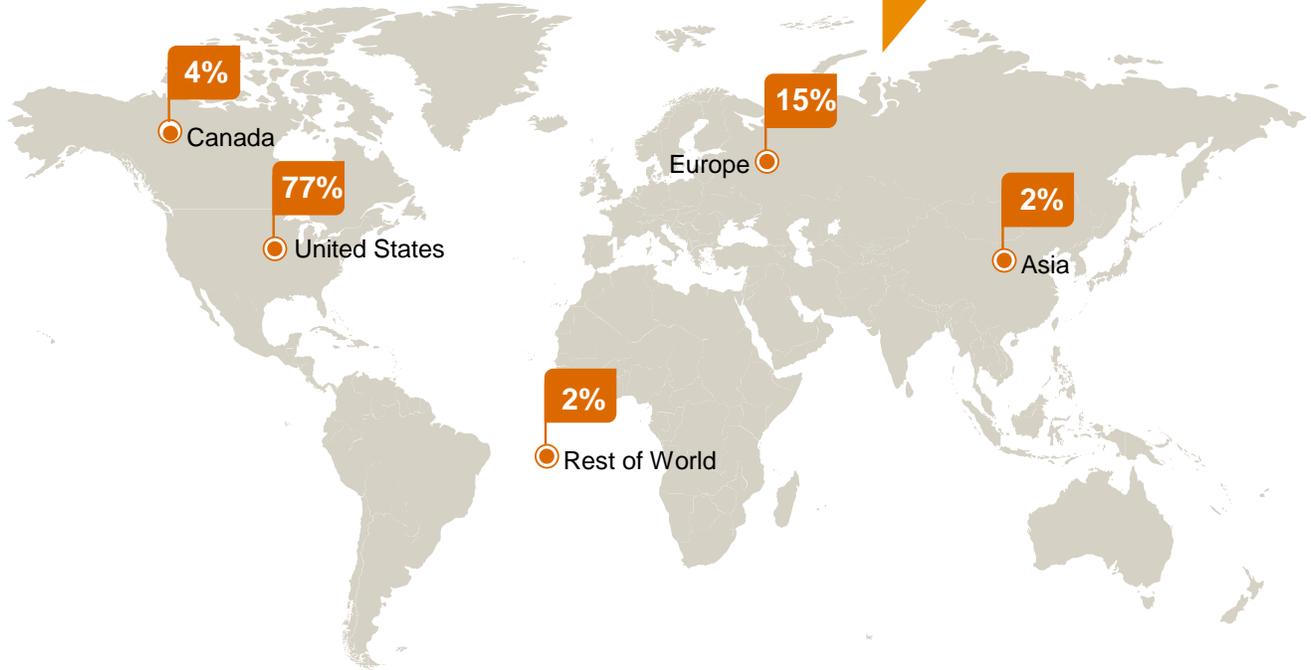
Technology sector transaction multiples



Cross border deals

Europe continues to remain the focal point of US investment abroad, while foreign deal-makers outpaced US technology companies in terms of cross-border investment.

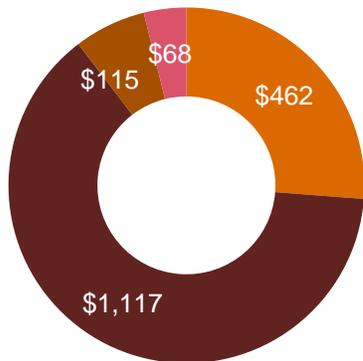
Deal concentration by geography for US acquirers



Highlights this quarter

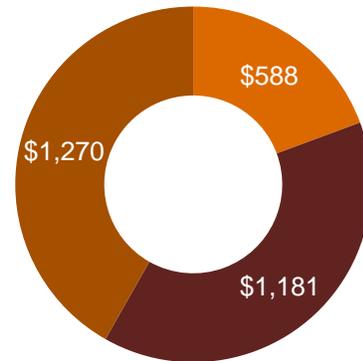
- Cross-border transactions comprised 36% of technology deals in Q2 2015, inclusive of US acquisition targets.
- European targets continued to be the focus of US investment abroad as the Eurozone improved and exchange rates remained favorable.
- Foreign acquirers outpaced US technology companies in the second quarter. US acquirers closed 12 deals for an aggregate deal value of \$1.8 billion, while foreign deal makers acquired 11 US companies, totaling \$3.0 billion.

US investment abroad (value in \$M)



■ Asia ■ Europe ■ Canada ■ Rest of World

Foreign investment in the US (value in \$M)



■ Asia ■ Europe ■ Canada

Market movers and sectors

Large transactions focused on security software & hardware

Billion-dollar deals increased in Q2 2015

65%
of deal value derived from billion-dollar deals in Q2 2015

Key closed transactions

During the quarter, 8 deals in excess of a billion dollars closed. The largest closed transactions include:

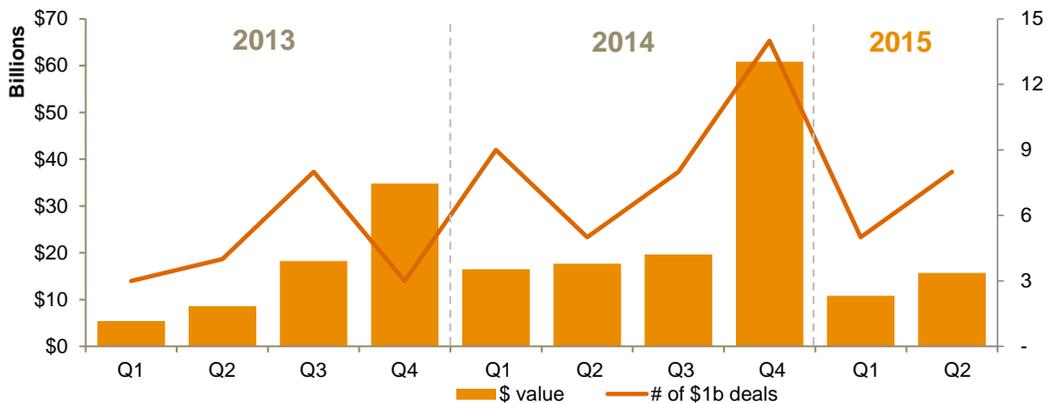
- ThomaBravo’s \$3.5 billion acquisition of Riverbed Technology, provider of application performance infrastructure.
- Hewlett Packard’s \$3.0 billion acquisition of Aruba Networks, a wireless network access solution provider.
- Bain Capital’s \$2.4 billion acquisition of Blue Coat Systems, an enterprise security company.
- Raytheon’s \$1.9 billion acquisition of Websense, a security solutions provider.
- LinkedIn’s \$1.5 billion acquisition of Lynda.com, an online learning services company.

Key announced transactions

During the quarter, 9 deals in excess of a billion dollars were announced but had not yet closed, including:

- Avago’s \$37.8 billion announcement to acquire Broadcom.
- Intel’s \$16.7 billion acquisition of Altera, a PLD semiconductor design, marketing, and manufacturing company.
- The Permira-led \$5.2 billion acquisition of Informatica, provider of enterprise data integration software and services.
- Cox Automotive’s \$3.6 billion acquisition of DealerTrack Technologies, a provider of dealer management software.
- The \$3.5 billion acquisition of Equinix by Telecity Group, a UK-based provider of data center services.

Billion-dollar deals



Software

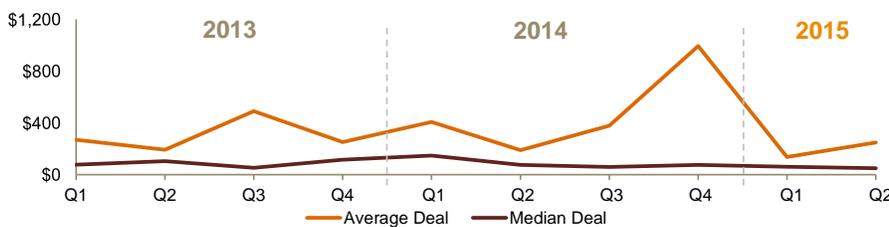
Closed deal values (\$) / volumes trended over 3 years:



Software trends:

- Software deal volumes declined marginally over the prior quarter, but remained well above the trailing 3-year average.
- Largely driven by two billion-dollar deals, average deal values increased in Q2 2015 to \$249 million, as compared to \$190 million and \$136 million in Q2 2014 and Q1 2015, respectively.
- Both average and median deal values in 2015 trailed behind their comparables over the past several years, while median deal values hit a 3-year low of \$50 million.

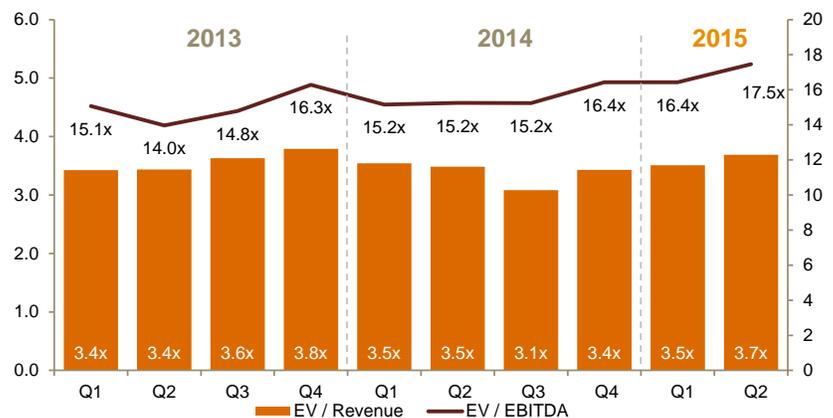
Average and median values (\$M) / volumes trended over 3 years:



Public takeaways:

- Median revenue and EBITDA multiples have trended up over the last 3 quarters with multiples at their highest point in the last 18 months.
- Median Systems Software revenue multiples exceeded Application Software multiples for the last 2 years due to higher growth expectations.
- Size continues to matter as sub-\$1.0 billion market cap companies traded at a 2.8x lower average revenue multiple than >\$1.0 billion companies.

Software public company multiples (median)



Source: Capital IQ

Internet



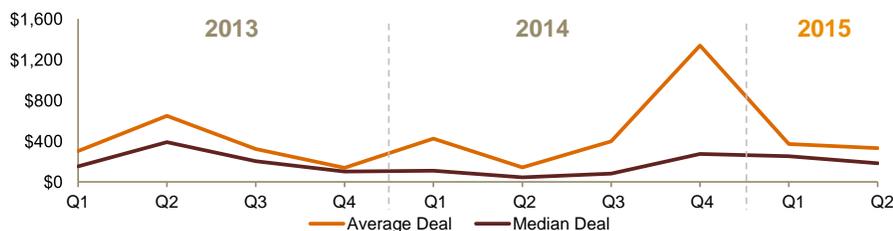
Closed deal values (\$) / volumes trended over 3 years:



Internet trends:

- Internet deal volumes have been volatile over the past several years, demonstrating a marginal decline in Q2 2015. While low compared to that of last year, 2014 was characterized as the most active deal market since the dot com era.
- While average deal values in 2015 trailed behind that of 2014 – due to the lack of a \$22.0 billion deal like WhatsApp – median values have demonstrated a 61% increase over the 2014 median of \$115 million.

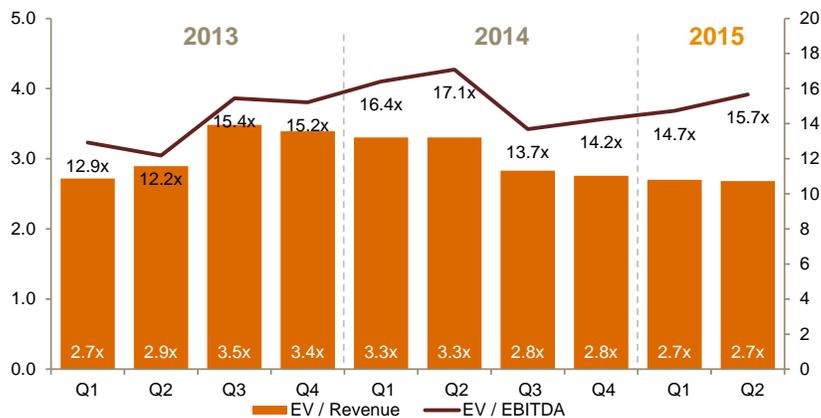
Average and median values (\$M) / volumes trended over 3 years:



Public takeaways:

- The median revenue multiple stayed flat while EBITDA multiple increased from the prior quarter.
- While 99% of companies with market cap less than \$1.0 billion traded at less than 5x revenue, 70% of the companies with >\$ 1.0 billion market cap traded at more than 5x revenue.

Internet public company multiples (median)

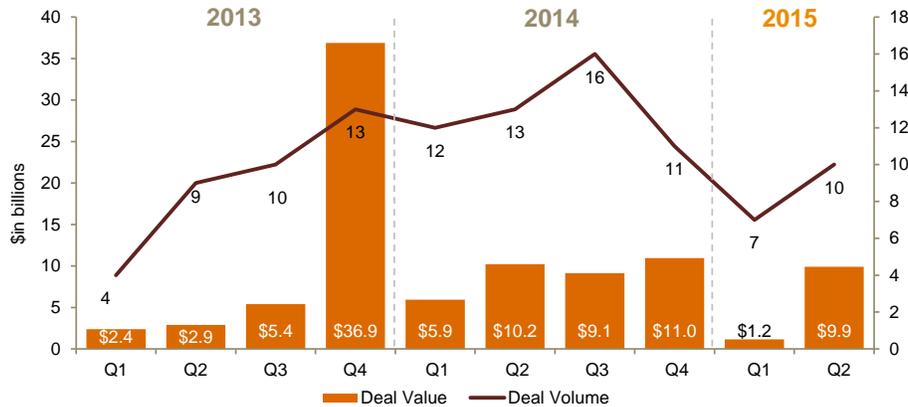


Source: Capital IQ

Hardware



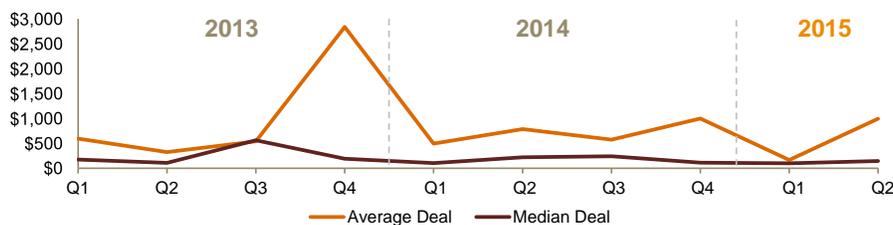
Closed deal values (\$) / volumes trended over 3 years:



Hardware trends:

- Hardware deal volumes and values increased in Q2 2015 after a temporary decline in the prior quarter.
- There were three billion-dollar deals in Q2 2015 that realigned the sector with a historical norm of regularly having several large transactions.
- Characterized by large and small deals in Q2, average deal values of \$991 million were one of the highest over the past three years, while median deal values trailed below that of 2013 and 2014.
- New deal announcements point toward an active third quarter for hardware.

Average and median values (\$M) / volumes trended over 3 years:



Public takeaways:

- Median revenue and EBITDA multiple stayed relatively flat in Q2 2015.
- Within the Hardware sub-sector, Manufacturing Services companies traded at a low median revenue and EBITDA multiple of 0.6x and 8.5x respectively, compared to a high of 2.2x and 11.1x for Electronic Component companies.

Hardware public company multiples (median)



Source: Capital IQ

IT services



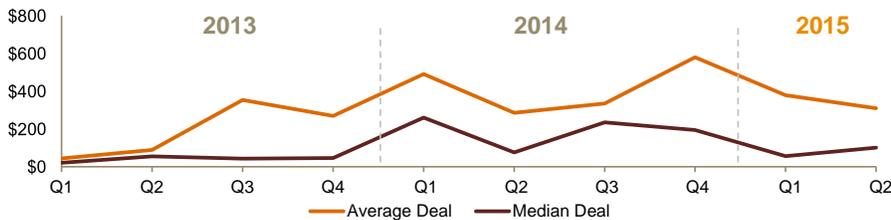
Closed deal values (\$) / volumes trended over 3 years:



IT Services trends:

- Deal volumes declined in Q2 2015 as compared to the prior quarter, but remained 50% more active than the average quarter over the preceding two years.
- Average deal values have consistently exceeded median deal values by \$200 – \$300 million over the past two years.
- Deal values shifted more toward the middle market in Q2 2015, while the sector has historically leaned toward small and large deals.

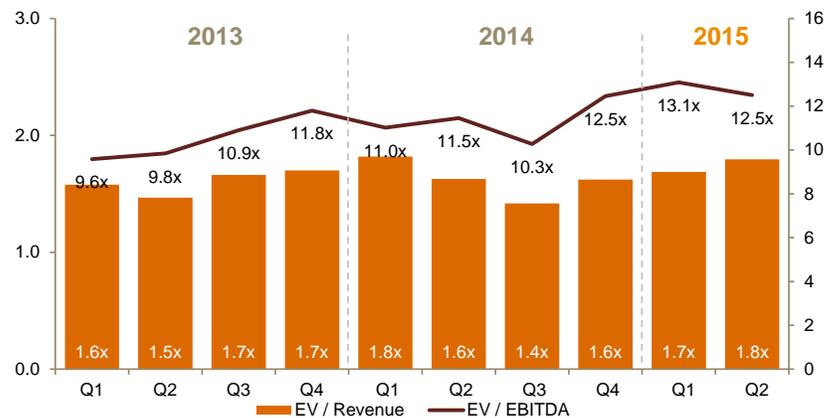
Average and median values (\$M) / volumes trended over 3 years:



Public takeaways:

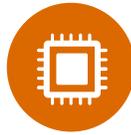
- Revenue and EBITDA multiples have remained flat over the last year.
- Consistent with the broader tech sector, median multiples for companies >\$1.0 billion market cap were higher than sub-\$1.0 billion size companies.
- Median revenue multiples for IT Consulting companies were significantly lower at 1.0x, compared to 2.3x for Data Processing and Outsourced Services companies, given lower growth and margin characteristics.

IT Services public company multiples (median)

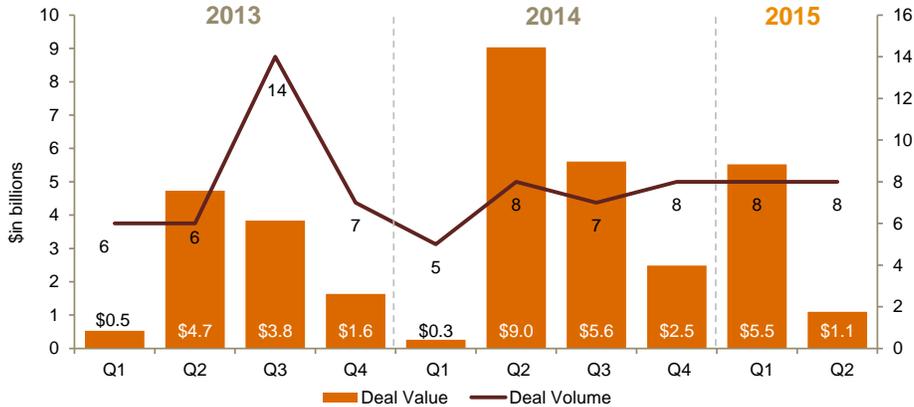


Source: Capital IQ

Semiconductor



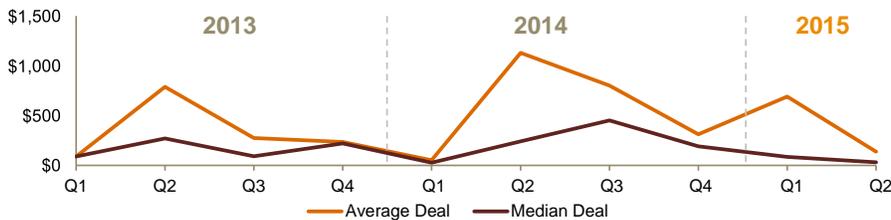
Closed deal values (\$) / volumes trended over 3 years:



Semiconductor trends:

- While deal volumes have remained relatively flat for almost two years, values in the sector are volatile in any given quarter. Lacking large consolidation deals during Q2 2015, semiconductor deal values notably declined.
- Variances between average and median deal values in semiconductors tend to be more significantly swayed by large transactions as compared to other sectors, demonstrated by the volatility thus far in 2015.

Average and median values (\$M) / volumes trended over 3 years:



Public takeaways:

- While the median revenue multiple stayed flat in Q2 2015, EBITDA multiple declined by approximately 1.0x.
- Average revenue multiple for Semi- equipment continued to be significantly lower at 1.8x, compared to 3.5x for the rest of Semi, given lower fab growth.
- Scale continues to matter as sub-\$1.0 billion market cap companies traded at a 1.1x lower average revenue multiple than the >\$1.0 billion companies.

Semiconductor public company multiples (median)



Source: Capital IQ

Focus article

Let's Megadeal

"Let's Megadeal" by Rob Fisher, Gregg Nahass, and J. Neely, reprinted with permission from Summer 2015 issue of *strategy+business*.

To the outside world, deal making in the technology sector can often appear irrational, exuberant, and even insane. In what other industry would a five-year-old startup with reported revenues of US \$10 million and fewer than 100 employees garner a \$22.0 billion price tag? That's how much Facebook paid in February 2014 for WhatsApp, a messaging service that allows users to exchange text messages without paying for SMS.

It's easy to disparage the extravagance of such a megadeal. Indeed, the tenor of the discussion within the business community and in the media at the time of the announcement veered from disbelief to dismay about tech valuation bubbles. "Facebook Buying WhatsApp Is a Desperate Move," screamed a headline at Fox Business News.

But for established technology firms, the only thing worse than paying too much for a promising tech startup is failing to pay enough to acquire it. Generations of innovation gurus and consultants have lambasted IBM for missing the significance of the personal computer operating system and thereby enabling Microsoft to grow from a junior partner into a titan. Analysts have also criticized Microsoft for failing to purchase Yahoo, dinged Yahoo for missing the opportunity to acquire Google in the late 1990s, and chastised Google for not pursuing Facebook. To be sure, not every technology deal is like WhatsApp. But in technology, an industry unlike any other, a handful of people working in a garage can transform a market in the blink of an eye.

A new megadeal taxonomy

The unusual nature of deal making in the technology sector particularly deals involving headline-grabbing transactions such as Facebook's WhatsApp purchase and Microsoft's \$8.5 billion acquisition of Skype in 2011 demands a closer look. How should company leaders consider the value creation potential inherent in such deals? And how can they manage integration to ensure success and avoid destroying value? To get a handle on the megadeal universe, we examined 131 technology deals of at least \$1.0 billion in size made over the past five years, with a collective value of \$388.0 billion. The deals fell into four discrete categories.

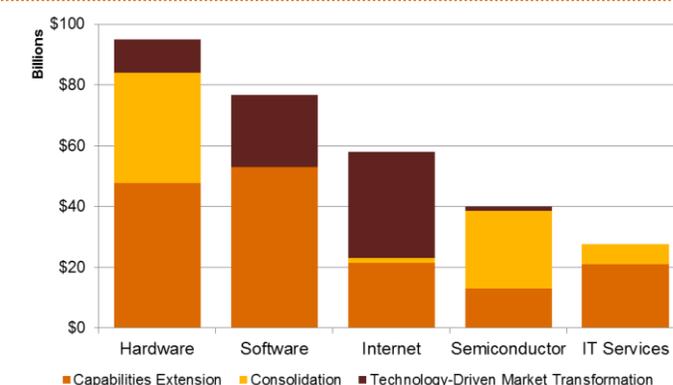
Consolidation

These deals involve competitors, value chain participants, or companies with closely adjacent products and overlapping customers. The motivation in these transactions is focused less on growth and more on unlocking tremendous value by cutting costs and improving efficiencies. These deals tend to be highly successful because the companies know each other well and the synergy potential is significant and obvious.

According to our analysis, more than 60% (or just over \$25.0 billion) of the value of megadeals in the semiconductor subsector were related to consolidation (see Exhibit 1). Notable examples include Texas Instruments' \$6.5 billion acquisition of National Semiconductor in 2011 and Avago Technologies' \$6.6 billion purchase of LSI in 2013. Google's 2012 acquisition of the patent portfolio of Motorola Mobility stands as an example of value chain consolidation. Google held on to the patent assets after divesting the set-top box and mobile device assets it received as part of the \$12.4 billion deal.

Exhibit 1: Coming Together

(megadeals by sector and type, 2010 – 2014, in US\$ billions)

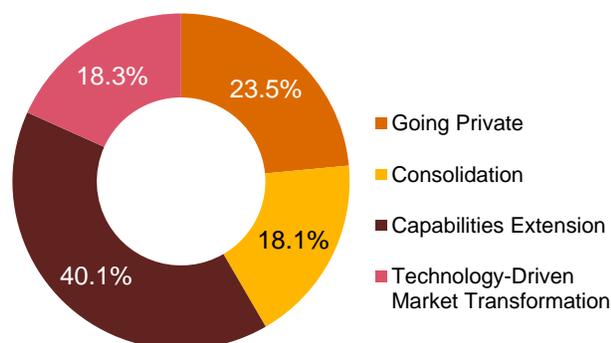


Source: PwC analysis

Capabilities extension

Deals that fall into this category — the biggest of the four by value — typically involve two large, mature companies. In general, the buyer is seeking new products, new talent, or new customers in a large, tangential market where it doesn't already possess the capabilities to compete. Capabilities extension transactions accounted for 40% of the total value of tech megadeals over the last five years (see Exhibit 2). Examples include SAP's \$8.3 billion acquisition of travel-expense specialist Concur Technologies in 2014, Oracle's \$7.5 billion purchase of Sun Microsystems in 2010, and Microsoft's \$7.2 billion acquisition of Nokia's device and services business in 2014.

Exhibit 2: Motivating Factors
(Megadeals value share by type, 2010 – 2014)



Source: PwC analysis

Technology-driven market transformation

Facebook’s aggressive move to buy WhatsApp typifies this category. Although these transactions constitute only 18% of tech megadeals, they tend to garner significant headlines. Why? Because they involve a new technology that is driving customer behavior in ways that could rapidly threaten established business models and transform existing markets, or that represent the potential for the convergence of existing markets. These deals tend to involve larger companies dishing out huge sums to buy small upstarts, whose technology has great disruptive potential. Not surprisingly, these deals are most prevalent in the Internet subsector, in which they accounted for more than half of the total deal value from 2010 to 2014 (see Exhibit 1). Other examples include Google’s 2014 purchase of smart home products maker Nest Labs (\$3.2 billion), Facebook’s swoop for virtual reality company Oculus (\$2.0 billion), and Intel’s 2011 acquisition of security software firm McAfee for \$7.6 billion.

Going private

The fourth technology deal category consists of transactions in which private equity firms take companies private. In our analysis, these deals accounted for 23.5% of the total technology megadeals, and included the single biggest transaction: the 2013 deal that took Dell private for \$24.3 billion. Such deals can occur for a variety of reasons. Because this article is addressing the unique considerations for strategic acquirers evaluating megadeals, we will discuss only the first three categories.

Avoiding the megadeal pitfalls

Corporate leaders experienced in mergers and acquisitions are well aware of the risks that come with transactions of all sizes. Many have honed deal-related processes and playbooks that serve them well when executing relatively small-to-

mid-sized deals. However, we have observed that megadeals in the technology sector pose a unique set of challenges. They thus create barriers to success that are often unfamiliar even to executives with significant acquisition and integration experience.

Indeed, many of the large spin-offs and divestitures occurring in the technology sector today are the consequence of past megadeals that either did not pan out or no longer fit strategically. From the outset, these deals faced challenges in capturing expected synergies and moving the parties seamlessly toward becoming a single company. Today —faced with the need to focus on core capabilities or invest in new technologies, such as cloud computing, social media, and mobile technologies — many leaders are shedding prior investments.

Not all megadeals fail, of course. Indeed, when executed correctly, these transactions can propel purchasers ahead of their competition by creating formidable capability platforms, realizing significant operational efficiencies, and opening up new avenues for growth. To succeed, experienced leaders need to make adjustments and address certain challenges.

We’ve identified seven critical challenges to megadeals, and have developed strategies to cope with them. All seven apply to the three technology deal types under consideration — consolidation, capabilities extension, and technology-driven market transformation — although the degree of the challenge varies by deal type.

1) Assigning accountability

In a best-case acquisition scenario, a business unit (BU) leader is charged with driving the transaction because the acquired operations fall within his or her current scope. The BU leader evaluates the technology, the customers, the marketplace, and core business functions. What’s more, the BU leader may take ownership of the integration and the combined performance plan. Consolidation-oriented deals tend to naturally include strong BU accountability because of the high degree of operational overlap.

However, in capabilities extension megadeals, almost by definition, BU accountability doesn’t exist. In this vacuum, the chief executive officer often becomes solely accountable for the deal’s business success. And that presents significant challenges to evaluating the business logic and post-close execution.

We have seen CEOs take a number of approaches to these deals and have generally observed that the more effective deals tend to involve a combination of the following:

- *Imposing enhanced functional accountability.* C-suite leaders in technology, sales and marketing, manufacturing and distribution, and corporate functions are empowered with acquisition ownership.

And it is made clear that they are accountable for the quantification, execution, and delivery of synergies.

- **Increasing board governance.** Risks arise in transactions that are championed or led directly by the CEO. That warrants greater involvement by the board. Either a board member assumes a co-leadership role or the board more actively participates throughout the acquisition process. This may also require a greater use of external experts during the evaluation and execution phase.

In general, each of these approaches distributes focus and accountability, augments capabilities, or provides for greater objectivity and transparency to guard against deal biases.

2) Relying on acquired management

This is particularly important for technology-driven market transformation deals in which knowledge about the new technology is held by a small group of creative or technology leaders. It's also important for capabilities extension deals in which the company is buying large operating units and needs experienced managers in place from Day One to ensure that these operating units continue to run smoothly.

This reliance on acquired management poses a dilemma because most of the senior team from an acquired company can afford to leave after the deal closes and will have other opportunities. They may also simply dislike the idea of running a business unit in the new company after having run the acquired company.

Given this reality, the acquiring company needs to assess how much it will rely on these senior managers and for how long. Retaining people contractually is often just a short-term solution; it's important to be mindful that retention does not always correlate with performance. Leaders need to judge whether newly acquired talent will keep their heads in the game, and put a succession plan in place for when they do leave. This process will involve significant relationship building, particularly with deputies and other sub-line leaders at the acquired company who might be able to step in and run the business unit over a longer term.

3) Valuing cost and revenue synergies

A strong conclusion that emerges from our study is that cost synergies are much more achievable than revenue synergies. So when evaluating targets, it is essential to assign more weight to cost opportunities and less weight to revenue opportunities. This is particularly true for consolidation plays, in which two mature companies come together and the cost synergies are apparent, quantifiable, and attainable. For example, when NXP Semiconductors announced in March 2015 its acquisition of Freescale Semiconductor, industry consolidation was the rationale. NXP CEO Rick Clemmer stated that the company anticipated \$200 million in cost synergies in the first year, and \$500 million to follow.

It is particularly difficult to achieve revenue synergies tied to a big new strategic vision, or to long-term assumptions that require integrating technology or changing customer behavior over many months or years. Such assumptions, which many times are baked into capabilities extension deals, don't often materialize, materialize more slowly than expected, or materialize on a smaller scale than was envisioned. If the acquisition thesis is dependent on revenue, leaders must push for truly granular detail during due diligence, design a separate process within the integration to carefully manage revenue goals, and focus intently on driving revenue synergies as quickly as possible.

That said, revenue synergies cannot be completely discounted, especially when it comes to technology-driven market transformation deals. In 2006, when Google paid \$1.7 billion in stock for YouTube, the price seemed high. However, YouTube has delivered tremendous growth. It posted revenues of about \$4.0 billion in 2014, up from \$3.0 billion in 2013. Buyers of today's hottest startups, such as Instagram, must take revenue synergies into account or they can never arrive at a competitive valuation. We have observed companies failing to get the most from capabilities extension transactions because they are reluctant to prioritize revenue synergies. And that can prevent the product or solution transformation needed to address converging technologies or shifting customer propositions.

4) Tailoring the playbook

Most acquisitive technology companies have developed extensive M&A playbooks and invested in internal capabilities to execute and integrate smaller "tuck-in" deals. But these playbooks may not be useful for megadeals. In particular, technology-driven market transformation deals, with their huge valuations, narrow focus, tiny revenues, and entrepreneurial management, may force an acquirer to toss out its playbook. Nothing in its recent corporate history would have prepared Facebook to pencil out a \$22.0 billion purchase of an app. Not every deal will require such a leap of faith, but some will; it's the nature of the technology industry.

For consolidation and technology-driven market transformation deals, companies need to put their standard M&A playbook on steroids. Given the size and complexity of these deals, their unpredictability, and the higher volume of requirements across the enterprise necessary to execute them successfully, leaders need to step back, start with a clean sheet of paper, and tailor the integration approach to the specifics of the deal at hand. They must ensure that sufficient resources have been devoted to the undertaking.

5) Doing more diligence

Despite the size and complexity of megadeals, companies sometimes feel pressure to skimp on due diligence. An attitude often prevails that big public companies, with their sophisticated institutional investors, legions of regulators, and audited books, have less to hide than small companies and thus require less due diligence. Or senior leaders worry

about losing momentum by digging too deeply. Confidentiality issues are also cited as a reason to curtail due diligence, and leaders can be uncertain about the depth of due diligence that is legally permitted.

The net result is that companies involved in megadeals may know surprisingly little about each other. A lack of due diligence may not matter too much in the case of a technology-driven market transformation deal because the target company is small and the potential for due diligence is limited. But a lack of due diligence can be quite damaging for capabilities extension deals if cost and revenue assumptions are not properly vetted.

Indeed, many of the megadeals completed over the past several years are unraveling today for the simple reason that the original due diligence did not uncover the barriers to success it should have. As a result, the hoped-for synergies never materialized. Before signing on the dotted line, CEOs and their teams should always consider what they didn't validate, and be sure they can live with the risk.

The adequacy of pre-acquisition due diligence should naturally be a critical focus area for the board. In other surveys and board seminars, we have noted a number of leading practices for boards approving large transactions, such as approving diligence priorities and “non-negotiables,” reviewing detailed (versus highly summarized) diligence findings, interacting with third-party due diligence advisors on topics including scope, access, and key findings, and reviewing pre-announcement integration plans and budgets.

6) Communicating effectively

Good communication is critical for all categories of tech deals from the moment a deal is announced. Investors, employees, and customers must all understand the goals, the integration activities necessary to achieve those goals, the metrics used to measure whether those goals are being met, and who is responsible for delivering on those goals.

However, the emphasis of that communication may vary by type of deal. For example, consolidation deals tend to create a lot of anxiety and dysfunction among employees worried that cost synergies translates into lost jobs. Since they're not entirely wrong, the senior executives need to have laid out the integration strategy for themselves in a detailed way so they can communicate confidently to employees — especially key employees whose jobs are secure. An inability to clearly communicate intentions inevitably creates uncertainty. Instead of focusing on deal execution, people begin to focus on personal survival.

By comparison, employees in technology-driven market transformation deals are often less concerned about job security; after all, they hold the critical intellectual capital the acquiring company needs to retain. In these deals, a greater emphasis may be placed on communicating with investors and Wall Street, which may be confused and upset by a very high price tag. Facebook CEO Mark Zuckerberg used a

statement to explain the WhatsApp deal to investors. “WhatsApp is a simple, fast, and reliable mobile messaging service that is used by over 450 million people on every major mobile platform,” he noted. “More than 1 million people sign up for WhatsApp every day and it is on its way to connecting 1 billion people. More and more people rely on WhatsApp to communicate with all of their contacts every day.”

7) Managing the transaction as a business process

The larger the transaction, the more challenging the integration and the greater the need for a well-defined business process to focus resources and capital on the right activities at the right times and to capture cost and revenue synergies as quickly as possible. This is especially true for both consolidation and capabilities extension deals wherein two big companies are coming together with a large number of employees and customers.

It's helpful to remember that the deal process has an inherent flaw that a fit-for-purpose business process can mitigate. The original valuation is by necessity based on many assumptions. After the deal is announced, those assumptions cannot be automatically accepted as fact. Once the company gains access to people and additional information at the target company, the acquirer must put a tailored business process in place with the requisite accountability and transparency to get data and test assumptions with fact-based analyses before making further decisions.

The business process for these types of deals must include a clear set of guiding principles and goals connected to sustaining everyday operations and capturing synergies, and relentlessly focus on quantifying, reporting, and executing on value capture opportunities. What's more, the process must empower leaders to keep the integration on track by giving them latitude to make quick decisions regarding organization, people, customers, and priorities — and hold these leaders responsible for communicating those decisions to customers, employees, shareholders, and partners.

However, in the case of a technology-driven market transformation deal, the integration should be handled more like a relationship and less like a business process. That's because the smaller, more entrepreneurial team from the target company usually needs a more personal touch to stay engaged post-close.

Conclusion

The challenges associated with technology megadeals are significant and vary with the type of deal. Even so, we believe that megadeals are worth doing as long as the acquirer acknowledges these challenges and tackles them head-on. When executed correctly, these transactions can boost efficiencies, increase revenues, and propel a company ahead of competitors. They can even reshape an industry.

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Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

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About the data

We define M&A activity as mergers and acquisitions where targets are US-based companies acquired by either US or foreign acquirers or foreign targets acquired by US technology companies. We define divestitures as the sale of a portion of a company (not a whole entity) by a US-based seller.

We have based our findings on data provided by industry-recognized sources. Specifically, values and volumes used throughout this report are based on completion date data for transactions with a disclosed deal value greater than \$15 million, as provided by Thomson Reuters as of June 30, 2015, and supplemented by additional independent research. Information related to previous periods is updated periodically based on new data collected by Thomson Reuters for deals closed during previous periods but not reflected in previous data sets. Unless otherwise noted, all data and charts included in this report are sourced from Thomson Reuters.

Because many technology companies overlap multiple sectors, we believe that the trends within the sectors discussed herein are applicable to other sectors as well. Technology sectors used in this report were developed using NAIC codes, with the semiconductor sector being extracted from semiconductor and other electronic component manufacturing codes by reference to SIC codes. In certain cases, we have reclassified deals regardless of their NAIC or SIC codes to better reflect the nature of the related transaction.

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