Near-record Q3 tech M&A spending turns billions into trillions

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Introduction

The post-pandemic 'new normal' in tech M&A is anything but normal. In fact, it's an order of magnitude higher than it was. Acquisition spending that used to be measured in the measly hundreds of billions of dollars is now tipping into the trillions.

Since the world started its drawn-out recovery from COVID-19, dealmakers of every type have been throwing money around at roughly twice the rate they were before the outbreak. All five of the highest quarterly spending levels in the 20-year history of 451 Research's M&A KnowledgeBase have come during the current rebound.

Recent Quarterly Tech M&A Activity

Source: 451 Research's M&A KnowledgeBase
The July-September quarter very much extended the historic spree, with the value of tech transactions soaring to the second-highest quarterly total in the M&A KnowledgeBase. (The just-completed quarter came within a print or two of topping the record set in the opening quarter of this year before Zoom Video Communications pulled its $15bn bid for Five9 on the last day of the quarter.) Our data shows that acquirers in Q3 announced an astronomical $341bn worth of tech purchases – significantly more than they spent in an entire year a decade ago.

**A deal or two away from $1 trillion**

Fittingly, this summer’s unreserved extravagance pushed the M&A market to within striking distance of a landmark event as Q3 ended: The value of tech transactions in 2021 (briefly) topped $1 trillion. (Even erasing $15bn in spending from the aborted Zoom-Five9 pairing won’t slow the market for long. At its current rate, acquisition spending will climb back into the 13 digits by mid-October.)

Boosted by Q3 activity, spending on deals through the first three quarters of 2021 soared to $988bn – roughly 50% higher than any full-year total in the M&A KnowledgeBase. Several trends have come together in a once-in-a-generation combination in the tech M&A market to hit those previously unimaginable heights.

**Tech M&A Activity By Buyer Type, Q1-Q3 2021**

- **SPACs:** Undeniably, the free-spending ways of blank-check companies, which are paying an average of 20x trailing sales in their announced tech transactions, are contributing to this year’s record run. Even though Wall Street is a lot more bearish on SPACs right now, the number of tech vendors picked up by SPACs in Q3 doubled from Q3 2020, which marked the unofficial start of the current blank-check mania.
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**PE and Public Company M&A, Since 2012**

- **Strategic acquirers:** Tech companies announced $182bn worth of deals in Q3, the second-largest quarterly spending and roughly twice what they doled out in pre-pandemic quarters. (To be clear, that tally excludes SPACs, which are non-operating companies.) The recent near-record activity has been headlined by massive bets by rich vendors that either hadn’t previously spent much on acquisitions, such as Square’s $29bn reach for Afterpay, or buyers that stretched their M&A budgets, such as Intuit doling out $12bn for Mailchimp.

**Recent Quarterly Tech M&A Activity By PE Firms**

- **Private equity:** The pressure to put their record amounts of capital to work, combined with one of the most receptive loan markets in history, has spurred buyout activity in tech to record heights. Our data indicates that Q3 tallied the most PE deals in history, including an unprecedented number of them measured in the billions of dollars. More than a dozen buyout shops have printed $1bn+
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transactions since July, putting 2021 on track for as many billion-dollar deals as the two previous years combined.

Slipping the surly bonds of gravity

After months and months of seemingly never ticking lower, valuations could no longer escape gravity’s pull by September. The downward trajectory came from a series of events that undermined the world’s economic growth: The Delta variant and a resurgent pandemic, rising inflation along with suddenly hawkish responses by central banks, and even the implosion of an overleveraged firm in China that looked like something we might have seen in 2008’s financial meltdown.

S&P 500 Index Performance And Tech M&A Spending, Since 2010

There was plenty to be bearish about as Q3 wound down. Shares of tech vendors, which have had it so good for so long on Wall Street, got hit the hardest as sentiment shifted. Consider this multibillion-dollar reversal in Q3: Through the first two months of the quarter, the already record-high S&P 500 Information Technology Index climbed another 8%, according to S&P Capital IQ. It gave back all of that gain in a blood-red September.

The abrupt late-summer declines in what tech companies were worth carried over into what they (and others) thought the targets they were buying were worth. In September, tech acquirers – both strategic and financial – paid ‘just’ 5.4x trailing sales in their deals, according to the M&A KnowledgeBase. Last month’s multiple represented the lowest level since the start of the year and less than half the broad-market valuations from earlier in the summer.
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Median Price/Sales Multiple in the Tech M&A Market, Since 2010

Of course, it’s still a pricey market considering that even September’s 'discount rate' of 5.4x sales is twice the full-year valuation in any year over the past decade in the M&A KnowledgeBase. A quick skim of some of the prints in Q3 shows that bargains are pretty hard to find right now:

- NortonLifeLock paid 9x sales – almost 50% higher than its own trading valuation – when it consolidated fellow infosec veteran Avast Software in August.
- In its first significant deal since its spinoff, Qualtrics paid 11x trailing sales for Clarabridge, a money-losing business that was barely growing at 20%, according to our understanding.
- Clearlake Capital paid 6x revenue for HR software provider CornerStone OnDemand in August, the highest take-private valuation the buyout shop has ever paid.

A change of seasons – and something more?

In many regards, Q3 looked like a ‘close but no cigar’ quarter compared with the historic post-pandemic spree: Its runner-up status in spending left the market agonizingly close – but ultimately below – the $1 trillion threshold. Other shifts in September appeared to mark more than just the changing of the seasons. Whether it was valuations dropping or the largest-ever software transaction breaking apart, the carefree dealmaking days of summer seemed like a long time ago as we moved into the final months of the year.
And yet, even as activity slowed and prices came down, tech M&A has moved inexorably higher. Record resources for acquisitions and a disposition to get deals done have created a 'can't stop, won't stop' market. Spending will blow through $1 trillion shortly and pile on a couple of hundred billion dollars more before year-end. (Our data indicates that buyers are posting an average of one transaction valued in the billions of dollars every single day so far in 2021.) By the time this year is in the books, 2021 will likely have doubled the previous record for annual spending in the M&A KnowledgeBase.