

Midlands Business Journal

NOVEMBER 30, 2018

THE WEEKLY BUSINESS PAPER OF GREATER OMAHA, LINCOLN AND COUNCIL BLUFFS

VOL. 44 NO. 47

Technology acquisition a major driver of M&As

by Sara Janak

Many companies that are merging with or acquiring other companies have their sights set on technology assets.

“Technology is clearly a main factor in M&A today, in the Midwest and nationally. We are seeing transactions where technology is a major factor because it’s more efficient for the buyer to purchase usable technology than to build it,” said Gary Gotsdiner, attorney at McGill, Gotsdiner, Workman & Lepp. “And it usually brings experienced tech talent.”

A 2018 M&A trend report by Deloitte — in which the firm surveyed more than 1,000 executives at private and public companies as well as private equity firms — found that technology acquisition is the top reason for pursuing M&A deals.

Acquiring technology assets ranks ahead of expanding customer bases in existing markets and adding to product offerings or services as a strategic driver of M&As, according to Deloitte’s report. Twenty percent of survey respondents cited the acquisition of technology assets as the principal reason for making deals, which is up from 6 percent in spring 2016.

“Given the need for companies to remain competitive in today’s environment, technology is critical because it drives productivity and efficiency, thereby allowing for lower cost to the consumer,” Gotsdiner said.

Acquiring technology through an M&A deal is often-



Josh Dickinson, partner at Spencer Fane.

times the most prudent route.

“I believe that this technology trend is driven by the concept that it is often times cheaper to acquire technology through the acquisition/merger of a company than to develop such technology organically,” said Josh Dickinson, partner at Spencer Fane. “Research and development of technology is an expensive process for most companies.”

Additionally, many companies are merging to acquire technology “that is not in their direct business line,” Dickinson said. “Meaning, organic development of the sought-after technology is sometimes not practical. In such circumstances, many companies face the choice of buying the technology at a tremendous price, or simply acquiring the owner of the technology.”

With technology advancing at breakneck speed, companies

are trying to do everything they can to keep up. Favorable interest rates, combined with this desire to rapidly expand technology capabilities, have also been propelling M&A activity.

“Technology is changing so fast that it is easier to purchase what you need instead of developing it yourself,” said Thomas Malicki of Abrahams Kaslow & Cassman. “Companies seem to have large amounts of capital to spend and interest rates have been low, which makes the cost of an acquisition more affordable.”

Technology is also transforming the actual deal-making process. Companies are making use of tools designed to facilitate a smoother process and better outcomes.

“In the process of

acquiring companies, technology has made a major difference resulting in substantial efficiency gains,” Gotsdiner said.

“For example, technology plays a major role in areas such as the timeliness and accuracy provided in the [acquirer’s] due diligence, the development of financial models and valuation, closing procedures, and communication among the transaction participants such as the buyer, seller, financial advisers, capital partners and lenders.”

Experts expect strong M&A activity to continue, as long as potential hindrances remain in check.

“There are conflicting forces, which will likely drive M&A activity in the near future,” Gotsdiner said. “On the one hand, the volume and size of transactions is likely to increase due to substantial cash on hand by strategic and financial buyers, a strong credit environment, pricing pressures which operate to force efficiencies, which can come through scale and acquired technology, and a strong and active private equity industry.”

“On the other hand, concerns regarding interest rates, an economic slowdown, political uncertainty and tariffs are restraining factors. On balance, its reasonable to expect M&A activity to remain quite active.”

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