Year in Review

Capital markets activity in the technology sector in 2015 and what to expect in 2016.

By Alan N. Wink

Technology today is moving forward at a blazing pace. New technologies and new companies are being formed in record numbers in social media,robotics,biotech, mobile, analytics and most recently in the Internet of Things. More people are choosing the entrepreneurial path than ever before. The US startup ecosystem is exceedingly robust. In fact, New York is rated as the second largest technology ecosystem, right behind Silicon Valley. These newly formed technology companies are certainly being positively impacted in terms of funding by a relatively low interest rate environment and high levels of available capital from angel investors, venture capital firms and corporate venture teams. Current economic conditions have also had a positive impact on the technology sector. Since the last recession ended in the middle of 2009, the US has seen a long economic expansion highlighted by low interest rates, low inflation and only a modest dependence on leverage.

2015 As the Year of the Deal

2015 is on track to be the biggest year on record for mergers and acquisitions activity. The market is on pace to achieve $4.7 trillion of merger activity worldwide and includes over $2 trillion in the US. In fact the two top sectors for mergers and acquisitions activity were technology and healthcare. The biggest deal announced in 2015 was in the healthcare space and was Pfizer's $160 billion merger with Allergan. Also, occurring in 2015 was the largest technology deal in history, Dell's $67 billion acquisition of EMC. Strategic buyers continue to be the dominant player in mergers and acquisitions, far outpacing the role of financial buyers. In 2015, financial buyers accounted for only 14% of US mergers and acquisitions activity and this was the smallest amount since 2009.

Venture capital investments continue at historic levels. The first 9 months of 2015 saw $98 billion invested globally into venture capital backed companies , which is 11% greater than all of 2014. Not only are you seeing traditional venture capital funding at record levels, but you are also seeing highly valued startups taking large amounts of later stage growth funding from corporate investors sitting on large amounts of cash.

Startup valuations continue to grow. 2015 also saw an increasingly crowded unicorn club or those venture backed companies with valuations in excess of $1 billion. The number of unicorn companies now number approximately 145, with 60 new members of the club added in 2015.

Angel Investors As Providers of Capital

Over the past 10 years, significant numbers of millionaires have been created through the IPO's and sales of technology companies. Many of these technology company millionaires have become angel investors. The number of angel investors in the US continues to grow and in the last two years about 300,000 have made angel investments. In 2014, more than 73,000 ventures received angel funding totaling over $24 billion. With the growth in the angel investor community, growth in the number of accelerators and the emergence of kickstarter and other crowdfunding startups, available seed stage capital has increased and so have valuations.

Venture Capital

Over the last decade, venture firms have raised larger and larger funds from their limited partners. Venture funds are now investing at later stages, since they realize that they must write larger checks, due to the size of their funds. As a result, some successful seed/early stage companies are forgoing Series A rounds and raising large rounds at was previously Series B valuations. For the first three quarters of 2015, venture capital firms invested globally over $98 billion in more than 5,600 deals. US venture capital funding amounted to $58 billion in 2,455 deals.

Companies Are Staying Private Longer

As we all know, venture capital is a risky business. Even though venture capitalists would like every exit to be an IPO, this is rarely the case. Even with a fairly robust IPO market, private equity backed companies are making the conscious decision to stay private longer. For example, Microsoft and Amazon had market caps of $500 million and $440 million respectively, when they went public. On the other hand, Facebook went public eight years after it was created at a valuation of $100 billion. A matter of fact, the average time from initial venture capital financing to IPO for a venture backed company has increased by a factor of more than two times over the past 15 years, from 3.1 years to 7.4 years.

What to Expect in 2016?

The new year brings much uncertainty surrounding the technology markets as well as the funding markets. Even though some may consider the venture capital market to be overheated, the desire to invest in growing startups remains strong. We are continuing to see the trend of investors putting their capital into companies where technology is changing the competitive landscape in non-technology industries. You do not have to look beyond how Uber is disrupting the transportation space or Airbnb in the hospitality space. We enter 2016 with continued economic uncertainty around the globe, relatively low interest rates and much dry powder sitting on the sidelines. Will the frothy markets continue or are we about to see a correction? The IPO market may be an indicator of what to expect in the future. More than 40% of the 2015 US based IPO's priced shares at or below the valuation of their most recent private round. ■

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