New Report Assesses Immediate Impact Of The Alibaba Effect On Global Technology Sector

- Q4 2014 predicted to be busiest quarter for tech IPOs since 2010
- Application software in biggest confidence boost – BDO predicts 22% YoY growth in record breaking year
- M&A deals on the rise, but growth held back by Alibaba – software M&As down 28% quarter on quarter

Johannesburg, South Africa- November 19, 2014 – BDO's latest TechTalk report, released today, provides the most comprehensive analysis to date of the health of global technology sector in the wake of the September's Alibaba floatation. Quarter 3 2014 saw 19 tech IPOs but the Alibaba floatation cooled the market as companies delayed their listings for fear of interest being detracted by the megadeal, and also to see how the market would react.

However, given Alibaba's success, BDO predicts a resurgence of tech IPOs in Q4, with 120 expected to take place in the quarter – making it the busiest period for tech IPOs since Q4 2010, when 124 took place. We are on the way to reaching this with 37 already taken place in October alone.

The Alibaba boost is already having a ripple effect across tech sub-sectors. The area which has seen the biggest increase in IPOs is application software, with BDO predicting 2014 will see the highest number of applications software IPOs on record. BDO anticipates there will be 61 IPOs in this subsector over the course of the year – an increase of 22% year on year and a 28% compound annual growth rate since 2009.

Alibaba is one of a number of companies involved in a Chinese charge to float North American exchanges. Regulatory hurdles and a low appetite for risk from Chinese investors have led the likes of CyberArk Software and Weibo Corp to undertake recently IPOs in the US.

M&A activity continues to boom. Q3 was the busiest of the year so far with 333 tech deals in total, compared to 308 in Q2 and 211 in Q1. Most notably, North American transactions saw a 17% increase (215 in Q2 vs 251 in Q3), compared with a 16% decline in EMEA (85 in Q2 vs 71 in Q3).

But the software subsector, so crucial in driving M&A deals, was the worst performer in Q3. The quarter saw 175 M&A

transactions compared to 244 in the previous quarter – a 28% drop, which can be attributed to the Alibaba Effect. With investors' eyes on how Alibaba would perform, Chinese venture capital fundraising plummeted to $403million in Q3, a fraction of the $3.78billion raised in Q2.

Julian Frost, leader of BDO's Global Technology team, commented: "Technology companies looking to raise capital have plenty of options. Following the Alibaba launch, conditions are ripe for IPOs. But a successful floatation isn't as easy as saying 'open sesame'. A stock market bubble and a correction may come at some point and we've seen the likes of two major German tech firms, Zalando and Roxket Internet, float and flop immediately after the Alibaba deal. This means, firms may prefer to look for an acquirer or secure new backing to remain private. So while the overall outlook is good, firms shouldn't be carried away on the crest of Alibaba's wave. Careful consideration is as important as ever."

Aside from Alibaba, a busy Q3 also saw announcements that Hewlett Packard would split in two and PayPal would spin off from eBay. Oracle and Cisco Systems were among 32 companies listed as providing M&A opportunities at the end of Q3 - this could put them and other similar technology legacy companies in a prime position for spin offs or private equity investments. As the market recovers, BDO predicts even more companies will be offering M&A opportunities by the end of Q1 2014.