

# The Deal

## Healthcare, tech drive a big year for mergers

BY DAVID MARCUS

The numbers are unequivocal, if not entirely comforting. The U.S. M&A market had its biggest year ever in terms of dollar value last year, with \$1.9 trillion worth of U.S. acquisitions of domestic companies of \$100 million or more, according to Dealogic. That's up 57% from last year, though the 1,027 such deals were down slightly from 2014 and on par with 2000, 2006 and 2007, all years in which there was more than \$1 trillion in domestic deal volume—and years that proved to be M&A peaks. The second half of the last year was even better than the first, with \$1.1 trillion in dollar volume on 557 deals. (All figures in this article are for transactions of \$100 million or more.)

Two sectors were responsible for most of the deal volume increase. Healthcare accounted for a quarter of 2015's M&A activity, and technology, 18%. Combined, they drove 73% of the increase in U.S. M&A last year. Buoyed by large buyouts in tech and real estate, private equity did well in 2015, and real estate enjoyed its best year since 2006. That's another ominous comparison, because deal activity in the sector collapsed in the summer of 2007. Only in 2013 did real estate M&A return to its previous health.

Even though M&A is cyclical, and the market reached new heights last year, neither the 2000 technology crash nor the 2008 financial crisis seems an apt model for the end of the current wave of activity. The tech crash followed a stunning rise in the equity markets that even at the time seemed unsustainable. In contrast, the S&P 500 fell slightly last year, while Nasdaq rose only 5%. If an equity bubble exists, it's inflating Silicon Valley's unicorns, companies such as **Uber Technologies Inc.** and **AirBNB Inc.** that are privately held but whose valuations

### TOP DELAWARE LAW FIRMS

Rank	Firm	Target / seller	Acquirer / bidder	Total deals
1	Richards, Layton & Finger PA	44	31	75
2	Morris, Nichols, Arsht & Tunnell LLP	41	33	74
3	Potter Anderson & Corroon LLP	12	15	27
4	Young Conaway Stargatt & Taylor LLP	1	1	2

### TOP PROXY SOLICITORS/INFORMATION AGENTS

Rank	Firm	Target / seller	Acquirer / bidder	Total deals
1	Innisfree M&A Inc.	44	27	71
2	Georgeson Inc.	27	31	58
3	MacKenzie Partners Inc.	38	17	55
4	D.F. King & Co.	26	20	46

### TOP PUBLIC RELATIONS FIRMS

Rank	Firm	Target / seller	Acquirer / bidder	Total deals
1	Joele Frank, Wilkinson Brimmer Katcher	66	62	128
2	Sard Verbinen & Co.	35	40	75
3	Kekst and Co.	39	28	67
4	Abernathy MacGregor Group Inc.	13	13	26

Source: The Deal LLC

have risen dramatically. But those companies aren't driving M&A in the way that the hot Internet start-ups of the 1990s did, and while the private equity dealmaking frenzy of the mid-2000s ended when debt markets dried up in the summer of 2007, PE has been conspicuously absent from this boom. The end will be different this time, and likely related to factors in healthcare and tech.

Healthcare has driven the U.S. M&A market for a decade; in every year but one since 2005, it's accounted for at least \$100 billion in deal value, and in all but one of those years at least 99 deals have been made in the sector. That's in line with the size of the industry, which accounts for close to 20% of the U.S. economy, as well as its byzantine complexity and the demands of an aging first-world population that consumes increasing amounts of pharmaceuticals and medical devices. Until there's a day of reck-

oning for a system that seems to resist all attempts at cost control, healthcare deal professionals will stay busy, though perhaps not as busy as they were last year.

Even taking all of that into account, 2015 was an extraordinary year for M&A in the sector—perhaps the best year for M&A in any industry sector since the rise of large-scale dealmaking in the 1980s. Last year, there was \$584 billion in healthcare activity on 166 deals, an 83% jump over 2014, which itself was a record-breaking year. The action was especially intense at the top end of the market, as seven of the 20 largest deals or bids announced last year came in healthcare. Fittingly, the largest transaction of 2015, **Pfizer Inc.**'s (PFE) \$160 billion agreement to buy **Allergan plc**, came in pharma, as did the first megadeal of 2016, **Shire plc**'s \$32 billion agreement to buy **Baxalta Inc.** (BXLT), the resolution of a bid launched

last summer.

Some of the M&A has come from consolidation among insurers, pharmacy benefit managers and hospitals driven by the Affordable Care Act, which the U.S. Supreme Court blessed last June in *King v. Burwell*. **Aetna Inc.**'s (AET) agreement to buy **Humana Inc.** (HUM) for \$37 billion; **Anthem Inc.**'s (ANTM) \$54 billion deal to buy **Cigna Inc.** (CI); and **Walgreens Boots Alliance Inc.**'s deal to buy **Rite Aid Corp.** (RAD) (RAD) for \$17.2 billion are all examples, as are a host of smaller deals among nursing homes, hospitals and surgery centers. The latter activity will probably continue, but the insurance sector may not be able to consolidate further.

Then there's the symbiotic relationship between large pharmaceutical companies

CONTINUED >

## < PREVIOUS

and biotechnology startups that has persisted for a generation and shows no sign of abating. Big pharma needs product to sell but has been incapable of developing it of late and thus buys a steady stream of biotech companies that are funded by venture capitalists. Successful exits mean VCs can raise more money to launch more companies that big pharma will eventually buy. Not all of those startups are based here; because U.S. pharma companies tend to have large amounts of cash overseas that they cannot repatriate in a tax-efficient way, biotech VCs have set up companies in Ireland, the U.K. and Europe. Developments such as CRISPR technology, which allows for the editing of genetic sequences and can in theory cure genetic diseases if applied to tissue, and the plummeting cost of sequencing a gene, which has fallen from \$47,000 in 2010 to less than \$1,400, promise further advances in therapeutics.

The story is much simpler in tech M&A, where there were 231 deals worth a total of \$430 billion last year, the most ever by dollar volume and the most by deal volume since 2000. That comes after a 2014 that was itself the best year in tech M&A since 2000. But the character of activity in each of the last two years has been very different. In 2014, companies such as **Facebook Inc.** (FB), **Google Inc.** (GOOG), **Apple Inc.** (AAPL), **Cisco Systems Inc.** (CSCO) and **Oracle Corp.** (ORCL) snapped up exciting new technologies; Facebook's \$19 billion purchase of instant messaging smartphone application WhatsApp Inc. was emblematic.

Last year's activity stemmed from the falling price of semiconductors, which sell for about a third of what they did in 2010. Over that period, the indexes of semiconductor stocks have done quite well thanks to rising demand for smartphones. But demand is flattening as market penetration has increased and semiconductors have become commoditized. Four of the five largest tech deals in 2015 were in the chip sector: **Avago Technologies Ltd.**'s (AVGO) \$37 billion agreement to buy **Broadcom Corp.** (BRCM); **Western Digital Corp.**'s (WDC) \$19 billion purchase of **SanDisk Corp.** (SNDK); **Intel Corp.**'s (INTC) \$16.7 billion purchase of **Altera Corp.** (ALTR); and **NXP Semiconductors NV**'s (NXPI) \$12 billion purchase of **Freescale Semiconductor Inc.** (FSL). The need for further consolidation and China's desire to be a presence in semiconductors could drive further consolidation this year.

The largest tech deal of 2015 was **Dell Inc.**'s \$67 billion agreement to buy **EMC Corp.** (EMC), which would expand Michael Dell's private equity-backed empire into data storage. The deal vindicated **Elliott Management Corp.**, which had been pressing EMC to spin off its **VMware Inc.** (VMW) or look at other M&A

TOP LAW FIRMS REPRESENTING INVESTMENT ADVISERS			
Rank	Law firm	Client	Total deals
1	White & Case LLP		<b>63</b>
		Citigroup Inc.	<b>13</b>
		Allen & Co. LLC	<b>10</b>
		Jefferies LLC	<b>10</b>
2	Sullivan & Cromwell LLP		<b>43</b>
		Goldman, Sachs & Co.	<b>18</b>
		Bank of America Merrill Lynch	<b>8</b>
		Rothschild	<b>4</b>
3	Skadden, Arps, Slate, Meagher & Flom LLP		<b>26</b>
		Goldman, Sachs & Co.	<b>8</b>
		JPMorgan Chase & Co.	<b>4</b>
		Credit Suisse Group	<b>3</b>
4	Davis Polk & Wardwell LLP		<b>24</b>
		Morgan Stanley	<b>8</b>
		JPMorgan Chase & Co.	<b>4</b>

Source: The Deal LLC

transactions since October 2014, and was yet another illustration of the growing power of activists even at large companies. Further proof came two months later when **Dow Chemicals Co.** (DOW) agreed to merge with **DuPont** (DD) which in May won a proxy fight launched by Nelson Peltz's **Triun Fund Management** but could not withstand the activist's continued attacks.

Dell's ability to get commitments for the \$40 billion it will need to finance the EMC deal shows the vitality of the lending markets, and while that didn't lead to a flood of big buyouts, there was a healthy amount of PE activity last year. Several of the largest deals came in tech, including two buyouts of public companies, a deal form that virtually disappeared in 2014. **Carlyle Group** and **GIC Private Ltd.** bought **Symantec Corp.** from **Veritas Technologies Corp.** for \$8 billion; **Vista Equity Partners** agreed to buy automobile insurance software maker **Solera Holdings Inc.** (SLH) for \$6.5 billion; and **Pernira** and the **Canada Pension Plan Investment Board** won an auction for data integration software company **Informatica Corp.** for \$5.3 billion, a deal that Elliott also helped foment.

PE firms—especially **Blackstone Group LP** (BX)—were also active in real estate. Blackstone teamed with **Wells Fargo & Co.** (WFC) to pay \$23 billion for most of **GE Capital**'s real estate and financial services assets and joined forces with **Ivanhoe Cambridge Inc.** and **Caisse de depot et placement du Quebec** to pay \$5.3 billion for Stuyvesant Town and Peter Cooper Village in New York City. Blackstone also paid \$8 billion for **Biomed Realty Trust Inc.** (BMR). That activity was part of a very good year more broadly for real estate M&A, which saw 186 deals worth \$144 billion in 2015, a level of deal activity exceeded only in 2013 and dollar activity bettered only in 2006. It all adds up to a rosy picture for 2016. Powerful factors are driving M&A in tech and healthcare. Interest rates remain low, and buyout activity, while not frenetic, is healthy. Activists continue to push companies to explore transactions. CEOs are doing deals despite a sluggish stock market.

But as every M&A professional knows, the market can turn within days. Slumping equity markets could make CEOs more conservative. The financial misadventures of a small country like Greece may not be enough to end the current M&A boom, but a continued recession in China could. The U.S. presidential election has thus far proven utterly unpredictable, and CEOs hate unpredictability. Or perhaps pharma and semiconductor M&A will lose momentum as quickly as they gained it, with deal activity slowing while buyers digest large acquisitions and ponder their next move. But for now, it's full speed ahead. ■

# M&A LEAGUE TABLES - FULL YEAR 2015

## TOP LAW FIRMS

Rank	Firm	Target / seller	Acquirer / bidder	Special	Total deals
1	Kirkland & Ellis LLP	60	46	1	107
	Skadden, Arps, Slate, Meagher & Flom LLP	42	58	7	107
2	Latham & Watkins LLP	43	44	1	88
3	Wachtell, Lipton, Rosen & Katz	36	32	0	68
4	Jones Day	28	26	10	64
5	Simpson Thacher & Bartlett LLP	24	35	0	59
6	Sullivan & Cromwell LLP	24	25	0	49
7	Weil, Gotshal & Manges LLP	18	20	9	47
8	Sidley Austin LLP	20	21	2	43
	Davis Polk & Wardwell LLP	15	26	1	42
10	Cravath, Swaine & Moore LLP	22	17	0	39
	Gibson, Dunn & Crutcher LLP	11	28	0	39
11	Morgan, Lewis & Bockius LLP	27	10	2	39
	Cleary Gottlieb Steen & Hamilton LLP	9	21	3	33
12	Wilson Sonsini Goodrich & Rosati PC	23	10	0	33
	Cooley LLP	22	9	0	31
13	Paul, Weiss, Rifkind, Wharton & Garrison LLP	14	16	0	30
14	Debevoise & Plimpton LLP	16	12	1	29
	Shearman & Sterling LLP	15	14	0	29
15	Fried, Frank, Harris, Shriver & Jacobson LLP	14	11	1	26
16	Ropes & Gray LLP	7	17	0	24
17	Goodwin Procter LLP	13	10	0	23
18	Stikeman Elliott LLP	11	9	0	20
	Willkie Farr & Gallagher LLP	9	10	1	20
19	Hogan Lovells	7	9	2	18
	Morrison & Foerster LLP	6	12	0	18
20	Vinson & Elkins LLP	9	8	0	17
	Andrews Kurth LLP	8	8	0	16
21	Covington & Burling LLP	4	11	1	16
	Dechert LLP	8	5	3	16
	DLA Piper	8	8	0	16
22	Baker Botts LLP	4	11	0	15
	Mayer Brown LLP	9	5	0	14
23	Paul Hastings LLP	8	6	0	14
	White & Case LLP	1	8	5	14
	Akin Gump Strauss Hauer & Feld LLP	7	5	1	13
	Clifford Chance LLP	2	11	0	13
24	Fenwick & West LLP	10	3	0	13
	Greenberg Traurig LLP	5	8	0	13
	O'Melveny & Myers LLP	7	6	0	13
25	Allen & Overy LLP	6	6	0	12
	Davies Ward Phillips & Vineberg LLP	2	10	0	12
	Slaughter and May	3	9	0	12

Source: The Deal LLC

## TOP INVESTMENT ADVISERS

Rank	Firm	Target / seller	Acquirer / bidder	Total deals
1	Goldman, Sachs & Co.	78	58	136
2	JPMorgan Chase & Co.	67	53	120
3	Morgan Stanley	52	60	112
4	Bank of America Merrill Lynch	40	56	96
5	Barclays Capital	41	49	90
6	Citigroup Inc.	35	43	78
7	Credit Suisse Group	34	38	72
8	Evercore Partners Inc.	35	22	57
9	Deutsche Bank AG	18	34	52
10	Jefferies LLC	29	18	47
11	Lazard Ltd.	24	21	45
12	Moelis & Co. LLC	21	20	41
13	RBC Capital Markets	12	23	35
14	UBS Investment Bank	14	16	30
15	Centerview Partners LLC	18	10	28
16	Wells Fargo Securities LLC	13	13	26
17	Sandler O'Neill & Partners LP	21	4	25
18	Rothschild	17	7	24
19	Greenhill & Co.	8	12	20
20	Guggenheim Partners LLC	10	8	18
21	Qatalyst Partners	14	1	15
22	Piper Jaffray & Co.	10	4	14
23	Keefe, Bruyette & Woods Inc.	6	7	13
24	Houlihan Lokey Inc.	8	4	12
	Robert W. Baird & Co.	9	3	12
25	Allen & Co. LLC	6	5	11
	BMO Capital Markets Corp.	3	8	11
	Raymond James & Associates Inc.	8	3	11
	William Blair & Co. LLC	7	4	11

Source: The Deal LLC