MERGERS & ACQUISITIONS ACTIVITY: TECHNOLOGY SECTOR 2023

Meridian Capital Research | Year-End Summary

SYNTHETIC DOCUMENT — FOR DEMONSTRATION PURPOSES

OVERVIEW

Technology sector M&A in 2023 was defined by two dominant themes: the completion of mega-deals announced during the 2021–2022 bull market, and a sharp contraction in new deal activity driven by elevated financing costs, regulatory scrutiny, and buyer caution amid macroeconomic uncertainty. Total disclosed deal value in technology M&A reached approximately $230 billion in 2023, down from $480 billion in 2022 and $780 billion in 2021.

SECTION 1: COMPLETED MEGA-DEALS

1.1 Microsoft — Activision Blizzard ($68.7 billion)

Transaction closed: October 13, 2023
Buyer: Microsoft Corporation
Target: Activision Blizzard, Inc.
Deal value: $68.7 billion (all-cash, $95 per share)
Advisors: Goldman Sachs, Allen & Company (Microsoft); LionTree, Morgan Stanley (Activision Blizzard)

Background: Microsoft announced its intention to acquire Activision Blizzard in January 2022, in what would become the largest acquisition in gaming history. The deal faced opposition from regulators in the United States (FTC), European Union, and United Kingdom (CMA) over concerns that Microsoft would withhold Call of Duty and other Activision titles from competing platforms — particularly Sony's PlayStation.

Resolution: Microsoft agreed to a 10-year licensing agreement with Sony to keep Call of Duty on PlayStation. The European Commission approved the deal after Microsoft agreed to license cloud-streaming rights to rival cloud gaming services. The UK's Competition and Markets Authority initially blocked the deal in April 2023, but reversed course in October 2023 following a restructured remedy focused on cloud gaming rights.

Strategic rationale: Activision Blizzard's portfolio — including Call of Duty, World of Warcraft, Candy Crush (King), and Overwatch — added approximately 400 million monthly active users and $9 billion in annual revenue. Microsoft Game Studios combined with Activision creates one of the world's three largest gaming companies by revenue alongside Sony and Tencent. The deal also strengthened Microsoft's Game Pass subscription service, a strategic priority for recurring revenue growth in gaming.

Key entities: Microsoft, Activision Blizzard, Sony, Tencent, FTC, CMA, Goldman Sachs, LionTree, King (subsidiary), Blizzard Entertainment (subsidiary).

1.2 Broadcom — VMware ($61 billion)

Transaction closed: November 22, 2023
Buyer: Broadcom Inc.
Target: VMware, Inc.
Deal value: $61 billion (cash and stock)
Advisors: Barclays, Citigroup (Broadcom); Goldman Sachs, JP Morgan (VMware)

Background: Broadcom, primarily a semiconductor company, announced its acquisition of VMware — a leading enterprise virtualization and cloud software company — in May 2022. The deal represented Broadcom's largest acquisition and a strategic pivot toward enterprise software.

Resolution: Received EU approval in July 2023 after Broadcom committed to interoperability remedies. US DOJ cleared the deal in August 2023. China's market regulator (SAMR) cleared the deal with conditions in October 2023 — a rare instance of Chinese regulatory approval adding meaningful delay to a Western technology deal.

Strategic rationale: VMware's virtualization software underpins the data center infrastructure of most large enterprises. Combined with Broadcom's existing software portfolio (CA Technologies, Symantec Enterprise Security), the deal creates a diversified enterprise technology company with significant recurring revenue. Broadcom immediately restructured VMware's go-to-market model toward subscription licensing, increasing short-term revenue predictability at the cost of customer friction.

Key entities: Broadcom, VMware, EU Commission, US DOJ, SAMR (China), Barclays, Citigroup, Goldman Sachs, JP Morgan, CA Technologies (Broadcom subsidiary).

SECTION 2: NOTABLE MID-MARKET TRANSACTIONS

2.1 Cisco — Splunk ($28 billion)

Announced: September 2023 | Expected close: 2024
Buyer: Cisco Systems
Target: Splunk Inc.
Deal value: $28 billion ($157 per share, all-cash)

Rationale: Splunk is a leading provider of security information and event management (SIEM) and observability software. The acquisition significantly accelerates Cisco's transition from hardware-centric networking to software-defined security and analytics. Combined, Cisco and Splunk would create one of the largest cybersecurity companies globally, competing directly with Palo Alto Networks, CrowdStrike, and Microsoft Security.

Key entities: Cisco, Splunk, Palo Alto Networks, CrowdStrike, Microsoft Security.

2.2 Amazon — iRobot (terminated)

Announced: August 2022 | Terminated: January 2024
Buyer: Amazon
Target: iRobot Corporation
Deal value: $1.7 billion

Rationale: Amazon sought to acquire iRobot — maker of the Roomba vacuum robot — to expand its smart home ecosystem. The acquisition would have complemented Amazon's Alexa platform and Ring security products.

Termination: The European Commission opened an in-depth investigation in November 2023, expressing concerns that Amazon could use iRobot's home mapping data to strengthen its advertising and product recommendation capabilities, creating privacy-related competitive advantages. Facing lengthy delays and uncertain approval, Amazon and iRobot mutually agreed to terminate the deal in January 2024. iRobot subsequently announced significant layoffs.

Key entities: Amazon, iRobot, European Commission, Alexa (Amazon product), Ring (Amazon subsidiary).

2.3 Adobe — Figma (terminated)

Announced: September 2022 | Terminated: December 2023
Buyer: Adobe Inc.
Target: Figma, Inc.
Deal value: $20 billion (cash and stock)

Background: Adobe announced its acquisition of Figma — the dominant collaborative design platform — for $20 billion, representing approximately 50x Figma's annual recurring revenue. The deal was immediately controversial given the magnitude of the premium and Figma's dominant market position in design tooling.

Termination: The UK's Competition and Markets Authority and the European Commission both indicated they were likely to block the deal on competition grounds, concluding that the combination of Adobe's creative software suite (Photoshop, Illustrator, XD) with Figma would eliminate a significant competitive threat to Adobe and reduce innovation in the design tools market. Adobe and Figma terminated the deal in December 2023; Adobe paid a $1 billion breakup fee to Figma.

Key entities: Adobe, Figma, CMA (UK), European Commission, Photoshop (Adobe product), Illustrator (Adobe product).

SECTION 3: AI-RELATED INVESTMENTS AND PARTNERSHIPS (STRATEGIC EQUIVALENTS)

The most consequential "M&A-adjacent" activity in 2023 was not traditional acquisition but strategic investment with deep operational integration — effectively capturing acquisition-level influence without triggering full regulatory review.

3.1 Microsoft — OpenAI ($10 billion commitment)

Microsoft's multi-year $10 billion investment commitment in OpenAI (building on prior investments of $1 billion in 2019 and $2 billion in 2021) gave Microsoft exclusive rights to commercialize OpenAI's models via Azure. In exchange, OpenAI gained access to Microsoft's cloud infrastructure, distribution network, and enterprise sales force.

The relationship is structured such that Microsoft receives a revenue share from OpenAI's commercial API until Microsoft recoups its investment plus a return, after which equity stakes adjust. This unusual structure has been described as a "capped profit" investment aligned with OpenAI's stated mission as a "capped profit" company.

Key entities: Microsoft, OpenAI, Sam Altman (OpenAI CEO), Azure (Microsoft product).

3.2 Amazon — Anthropic ($4 billion commitment)

Amazon announced a $1.25 billion initial investment in Anthropic in September 2023, with a commitment to invest up to $4 billion total. The deal made AWS the primary cloud provider for Anthropic's model training and deployment. Anthropic's Claude models became available through Amazon Bedrock.

Key entities: Amazon, Anthropic, Dario Amodei (Anthropic CEO), AWS (Amazon subsidiary), Amazon Bedrock (Amazon product).

3.3 Google — Anthropic ($300 million)

Google made a separate $300 million investment in Anthropic in early 2023, predating Amazon's larger commitment. Google Cloud became an additional cloud provider for Anthropic. This investment created an unusual situation where Anthropic has both Google and Amazon as significant investors and cloud partners — and where Google and Amazon are direct competitors in cloud infrastructure.

Key entities: Google, Anthropic, Google Cloud (Google product).

SECTION 4: REGULATORY ENVIRONMENT

The elevated deal termination rate in 2023 (Adobe-Figma, Amazon-iRobot) and the prolonged approval process for Microsoft-Activision and Broadcom-VMware reflect a structurally more challenging regulatory environment for technology M&A globally.

Key regulatory bodies active in technology M&A:
- US Federal Trade Commission (FTC): Took an aggressive posture under Chair Lina Khan, challenging deals including Meta-Within (VR fitness app, blocked) and attempting to block Microsoft-Activision (ultimately unsuccessful).
- European Commission (DG COMP): Increasingly active in digital markets, leveraging the Digital Markets Act as a new framework alongside traditional merger control.
- UK Competition and Markets Authority (CMA): Post-Brexit independence has made the CMA a significant independent voice, blocking Adobe-Figma and initially blocking Microsoft-Activision before reversing.
- China SAMR: Approval of Broadcom-VMware demonstrated China's continued willingness to condition, but ultimately approve, major Western technology deals — a dynamic that could shift given escalating US-China technology tensions.

SECTION 5: OUTLOOK FOR 2024

Several factors suggest a moderate recovery in technology M&A in 2024:

- Federal Reserve rate cuts (expected 2–3 in 2024) will reduce the cost of debt financing for leveraged transactions
- Compressed public market valuations in software (P/S multiples 40–50% below 2021 peaks) improve acquisition economics
- Strategic necessity of AI capability acquisition will drive acqui-hires and technology deals
- Regulatory uncertainty remains an overhang, particularly for deals involving the largest platforms

Expected deal activity: $250–300 billion in disclosed deal value, weighted toward mid-market ($1–10 billion) transactions given regulatory risk at the mega-deal tier.

END OF SUMMARY