Down but not out

M&A trends in technology, media, and telecom

Q3'22

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Introduction

Further weakening

The decline in the deal market in the technology, media, and telecom (TMT) sector accelerated in Q3'22. Compared to the previous quarter, deal volume fell 20.7 percent and deal value dropped 71.8 percent. Year-over-year comparisons in deal count looked even worse, with volume decreasing 33.3 percent. However, it should be noted that the sizzling-hot TMT deal market in 2021 was an outlier, and this year's levels are reverting to pre-pandemic trends.

The weaker deal making in Q3'22 was a direct reflection of darkening clouds over the economy. Inflation remained too high for policy makers' comfort and kept the Federal Reserve firmly on a path of sharp interest rate hikes to reduce it. But the Fed's moves have raised expectations of a recession, depressing stock and bond markets and curbing merger and acquisition (M&A) activity.

The top TMT deal of the quarter was Adobe's planned $20 billion takeover of Figma, a cloud-based design collaboration platform—the biggest acquisition of a private software maker to date. Another notable deal was Vista Equity Partners' plan to delist and take private Avalara, a provider of tax compliance software, for $8.4 billion. Indeed, in a growing trend, many private-equity (PE) firms are targeting companies with falling valuations or in need of a business turnaround for take-private transactions. The idea is to relist them for a profit when the stock market turns bullish again (see "Buying the dip" on page 8).

We expect M&A trends in TMT to follow economic developments—with activity likely to remain subdued until investors see signs of accelerating growth. KPMG Economics expects the Fed to raise rates two more times this year at its November and December monetary policy meetings. Our economists believe this will further slow economic activity and make it highly likely that the U.S. economy will slide into a recession in Q4'22. As higher interest rates push up financing costs of deals, they will weigh on TMT transactions. Yet, the deal market is still not fully adjusted to the new reality—although gaps between sellers' perception of valuations they can command and buyers' willingness to pay are closing. That means both deal volume and deal value could drop in Q4'22.

But forward-looking TMT players and deal makers will be keeping an eye out for attractive assets that could give companies a leg up going into an eventual economic rebound. They will look to not only scoop up targets at lower valuations but also pursue strategic M&A that can lead to stronger competitive positioning in the long term. Attractive assets may also become available as enterprises reevaluate their portfolios and divest non-strategic parts of their businesses. As for PE firms—many of which are sitting on plenty of dry powder—a cooler M&A market reduces the pressure to rush into deals and increases the chance of finding targets that better fit their investment thesis or are more willing to accommodate the buyer's demands.

The search for growth opportunities through M&A will go on even in a downturn.

Chad Seiler
Partner
Deal Advisory & Strategy
TMT Leader

Key statistics

-21% decrease in TMT volume from 1,778 in Q2'22 to 1,410 in Q3'22

-72% decrease in total TMT deal value from $275.4 billion in Q2'22 to $77.6 billion in Q3'22

31% PE share of TMT deals in Q3'22. PE buyers accounted for 36.6 percent of total value ($77.6 billion)

Phil Wong on data-driven diligence

With higher macroeconomic uncertainty and cost of capital, investors may want to seek a more rigorous and data-driven approach to due diligence and a stronger focus on post-deal value creation.

By the numbers

Losing momentum

With economic headwinds getting stronger, TMT deal making continued to decelerate in Q3’22. There were 1,410 deals worth $77.6 billion, compared with 1,778 deals worth $275.4 billion in the previous quarter. Only one transaction topped $10 billion, and the dearth of large deals contributed to a steep 71.8 percent plunge in deal value (deal volume fell a relatively moderate 20.7 percent).

Adobe’s announcement in September to take over Figma for $20 billion was the biggest deal of the quarter. The second one was Vista Equity Partners’ planned take-private transaction of Avalara, but at $8.4 billion, it was less than half the size of Adobe’s acquisition.

There were fewer deals across all three TMT subsectors. Technology transactions slid 18.6 percent by volume and 65.6 percent by value from Q2’22. Media deals decreased 23.3 percent by volume and 95.9 percent by value. However, telecom deals broke this double-negative trend: although volume tumbled 34.8 percent, value rose 19.8 percent.

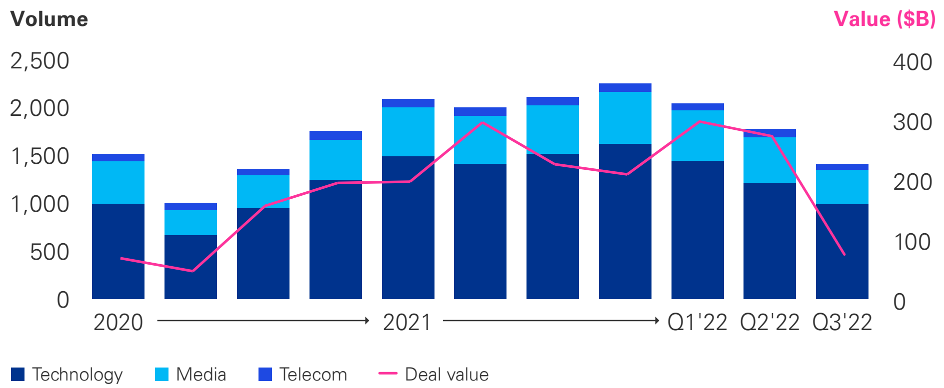
Strategic deals, which accounted for more than two-thirds of all transactions, declined 18.8 percent by volume and 74.2 percent by value. PE deals fell 24.3 percent and 67.3 percent, respectively. Meanwhile, transactions in special-purpose acquisition companies (SPACs) continued to dry up, with only 12 deals worth $2.7 billion, compared with 17 deals worth $8.5 billion in Q2’22.

As usual, domestic transactions (898) outnumbered cross-border deals (512). Outbound transactions (U.S. buyers of foreign assets) dropped 23.4 percent from the previous quarter, and inbound deals fell 13.4 percent.

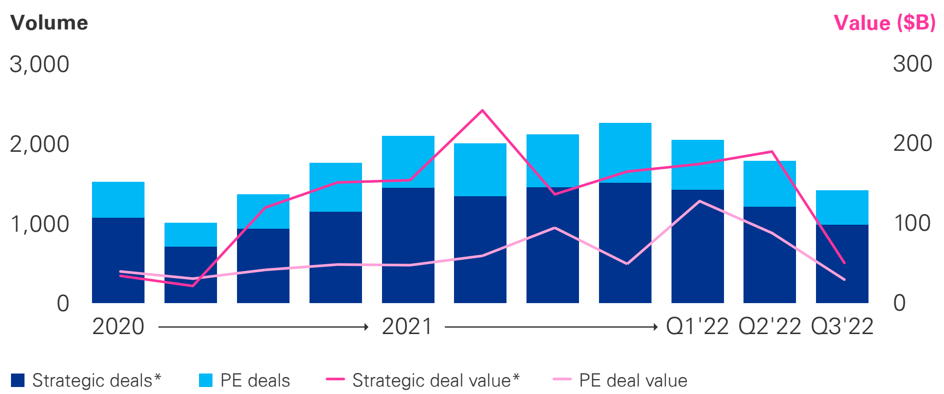
Top TMT deals Q3’22

Acquirer	Target	Value (billions)
Adobe	Figma	$20.0
Vista Equity Partners	Avalara	$8.4
Cegid (backed by Silver Lake, KKR, and AltaOne Capital)	Grupo Primavera	$6.9
Unity Software	ironSource	$4.4

U.S. TMT activity by sector



Strategic and PE TMT deals



*Includes SPAC deal volume and value

About the data: Data was sourced from CapitalIQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced during each quarter. Previously published statistics may be restated to incorporate new data and/or changes in deal outcomes.

By the numbers

Technology M&A trends

Fewer deals and a lot less value

Technology remained the strongest of the TMT subsectors during the third quarter, but deal count fell to 987 from 1,213 in Q2'22 and pulled down deal value to $72.6 billion from $211.3 billion.

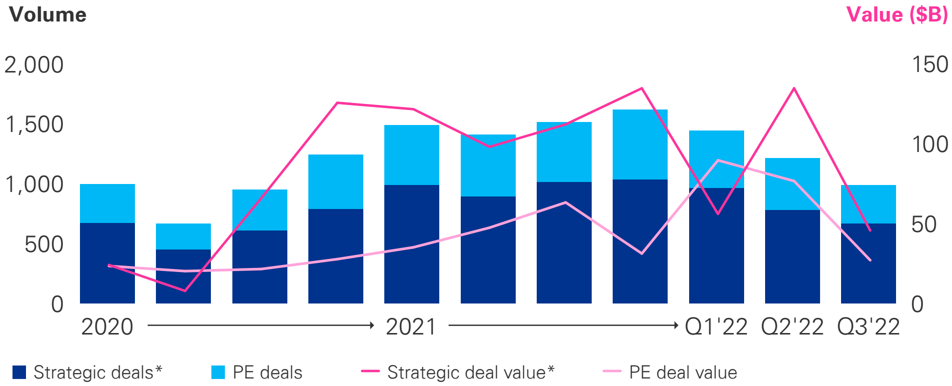
There were 656 strategic deals (down -14.3 percent from Q2'22) worth $45.6 billion (-66.1 percent), and 321 PE deals (-26.4 percent) worth $27 billion (-64.8 percent).

The largest strategic transaction was Adobe's move to acquire Figma for $20 billion, while for PE, it was Vista Equity Partners' $8.4 billion take-private bid for Avalara.

Technology deal value and volume

Q3'22

987 deals	$72.6 billion
-18.6%	-65.6%



*Includes SPAC deal volume and value

Top technology deals Q3'22

Acquirer	Target	Value (billions)
Adobe	Figma	$20.0
Vista Equity Partners	Avalara	$8.4
Cegid (backed by Silver Lake, KKR, and AltaOne Capital)	Grupo Primavera	$6.9
Unity Software	ironSource	$4.4

Ken Allen on market bifurcation

Although we are likely in for a bumpy road over the next 6–12 months, A and A+ companies will still find an active market for M&A and capital formation at attractive valuations. Lower-grade companies should be prepared for valuation compression and a slowdown in strategic activity.

By the numbers

Media M&A trends

Shrinking deal size

Deal activity in media for the quarter was even weaker than in technology. Transactions declined to 365 from 476 in Q2’22, while their overall deal value sank to $2.5 billion from $62.1 billion.

Strategic deal volume decreased 26.3 percent to 274 from 372 while deal value dropped 97.2 percent to $1.5 billion from $53.7 billion. As for PE deals, transactions fell only 12.5 percent to 91 from 104, but their combined value tumbled 87.4 percent to $1.1 billion from $8.4 billion.

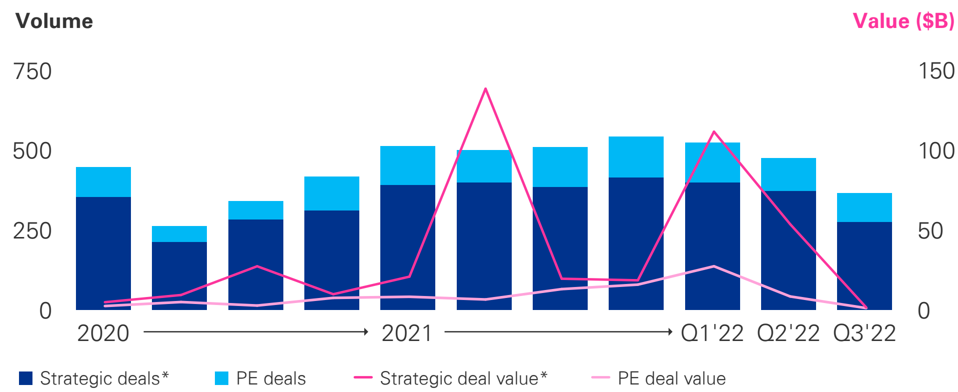
None of the media deals topped $1 billion. The largest transaction was Thoma Bravo’s planned acquisition of Nearmap Australia, a provider of high-resolution aerial imagery, for $729 million, followed by Informa’s announced takeover of Industry Dive, a B2B business journalism outlet, for $525 million.

But the subsector received a jolt at the start of Q4’22 when Elon Musk said he would go ahead with his unsolicited bid to take Twitter private for $44 billion. Since his original announcement in April, Musk and Twitter had been mired in litigation as the billionaire sought to back out of the deal, citing his concerns about an alleged profusion of fake accounts on the social media platform.

Media deal value and volume

Q3’22

365 deals -23.3%	**$2.5 billion** -95.9%



*Includes SPAC deal volume and value

Top media deals Q3’22

Acquirer	Target	Value (billions)
Thoma Bravo	Nearmap Australia	$0.7
Informa	Industry Dive	$0.5
Hudson Pacific Properties	Quixote Studios	$0.4
The Chernin Group (TCG)	Red Arrow Studios	$0.2

By the numbers

Telecom M&A trends

Mixed picture

The telecom deal landscape in Q3'22 portrayed a mixed picture. While deal count dwindled to 58 from 89, deal value climbed to $2.4 billion from $2 billion.

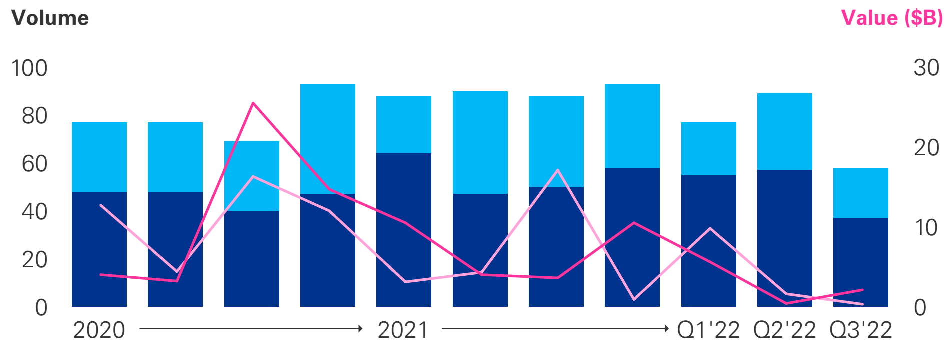
This juxtaposition was a reflection of the fact that telecom deals have involved relatively modest sums since Q1'22. Therefore, any outlier transaction can have an outsized impact on the total deal value. In Q3'22, such an outlier was Semtech's planned takeover of Sierra Wireless for $1.2 billion, equivalent to half of the subsector's overall deal value.

The Semtech-Sierra deal also lifted the value of strategic transactions 429.1 percent to $2.1 billion from $399 million, even though deal volume fell 35.1 percent to 37 from 57. Meanwhile, PE deal value plunged 81.2 percent to $303 million from $1.6 billion, as deal volume retreated 34.4 percent to 21 from 32.

Telecom deal value and volume

Q3'22

58 deals	$2.4 billion
-34.8%	19.8%



*Includes SPAC deal volume and value

Top Telecom deals Q3'22

Acquirer	Target	Value (billions)
Semtech	Sierra Wireless	$1.2
Cellco Partnership	Consolidated Communications Holdings' interest in five wireless partnerships	$0.5

By the numbers

PE M&A trends

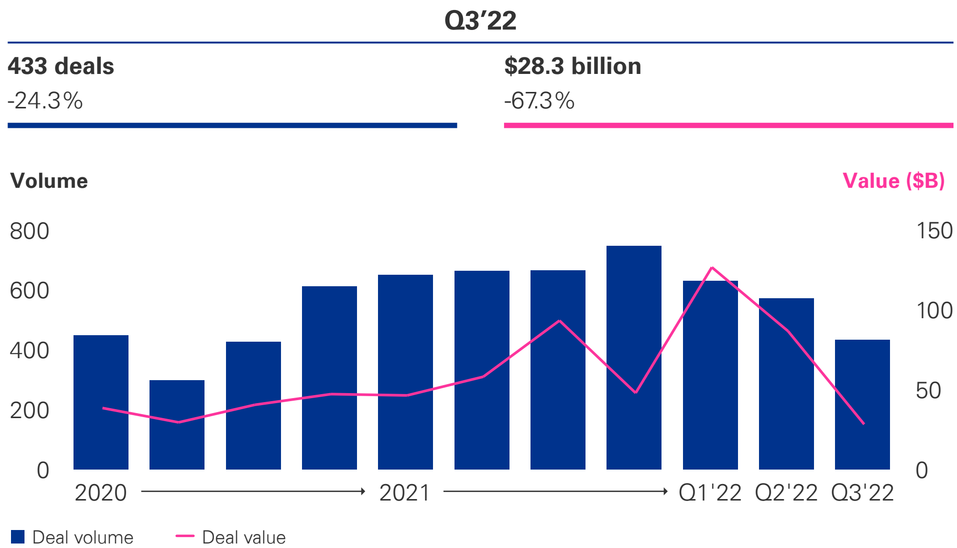
Getting cooler

PE deal activity continued to cool off in Q3’22. The number of transactions fell to 433 from 572, and their total value dived to $28.3 billion from $86.7 billion.

There were 321 deals in technology, worth $27 billion, 91 in media worth $1.1 billion, and 21 in telecom worth $303 million.

Six transactions topped $1 billion. The biggest was the planned $8.4 billion take-private deal for Avalara by Vista Equity Partners.

PE deal value and volume



Top TMT PE deals Q3’22

Acquirer	Target	Value (billions)
Vista Equity Partners	Avalara	$8.4
Cegid (backed by Silver Lake, KKR, and AltaOne Capital)	Grupo Primavera	$6.9
Bain Capital	Evident (Tokyo)	$3.1
Thoma Bravo	Ping Identity	$2.8

Deep dive

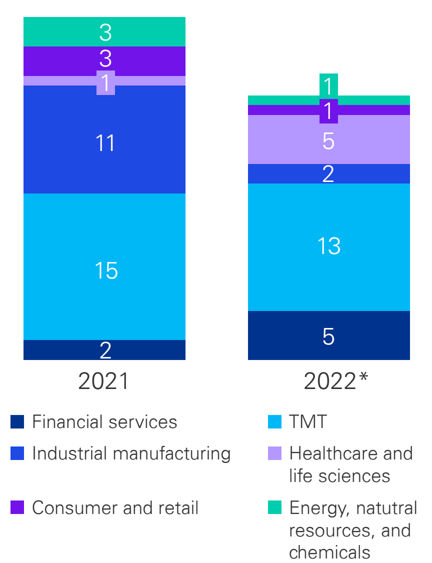
Take-private deals

Buying the dip

For companies with falling valuations in the current market environment, solutions to the problems weighing on them may seem elusive or out of reach. However, companies that can deliver attractive revenues but have struggled to navigate their own turnaround can take a different route. Namely, they can engage with investors who have an interest in taking that company private.

These investors, typically PE firms, usually target public companies with $5 billion to $10 billion in revenues, and have a relatively simple acquisition strategy: hold on and, if possible, improve the acquired businesses until the stock market turns bullish again, then relist it at a profit. Meanwhile, the delisting companies hopes to focus on its business priorities without the distractions of Wall Street's earnings pressures and regulators' reporting requirements.

U.S. take-private deals by sector



*Through end of Q3
Source: Pitchbook

Through the end of Q3'22, there were 27 "take-private" deals—valued at $89.6 billion—in the U.S., according to Pitchbook. By comparison, throughout all of 2022 there were 35 deals at a cumulative value of $105.6 billion.

Many of the public companies targeted for these deals are TMT companies, especially software firms. These are not necessarily distressed or recently listed companies, but they tend to have low valuation multiples. They are willing to play along, as they shift their focus from revenue growth to free cash flow amid rising interest rates and tightening liquidity conditions. Going private provides these companies with relief from public company regulations, allows business changes and growth moves to occur more discreetly, and offers leadership an opportunity to work with a smaller set of more focused investors.

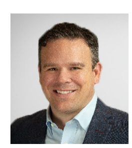
Some notable deals recently announced include:

- Vista Equity Partners' $8.4 billion deal to take private Avalara, a provider of tax compliance software, in August
- Clayton, Dubilier & Rice and TPG's $4 billion acquisition of Covetrus, an animal health services company, in May
- Blackstone's $12.8 billion purchase of American Campus Communities, which runs university housing properties, in April
- Apollo Global Management's $7.1 billion takeover of Tenneco, an auto-parts maker, in February

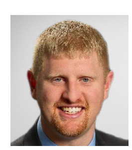
With interest rates expected to continue rising and recession worries weighing on stock prices, we expect many more take-private deals into Q4'22 and 2023 as companies seek alternatives to public markets to raise capital and improve businesses to generate cash flow.

Meticulous planning is the key to successful take-private transactions. Among other things, it should address:

- **Vision:** Before entering into a deal, ensure that the two sides are aligned on the ultimate desired outcome.
- **Publicity:** Be aware that the buyer must make a regulatory disclosure once it exceeds 5 percent of the target's public equity, which may alert rival bidders. Take-private transactions also have a history of litigation when things go wrong.
- **Transition**: Be mindful that the transformation from a public company back to being a private one can pose challenges, including the attraction and retention of talent, and how much effort is needed to reduce or modify rigorous public company processes that may need to be reinstated upon relisting.



Tim Lashua
Partner
TMT Advisory



Jared Theis
Managing Director
TMT Advisory

Outlook

Time to think long term

As we approach year-end, the macroeconomic landscape looks likely to stay challenging for TMT deal makers to navigate. Unless inflation falls substantially, the Fed is expected to continue raising interest rates. KPMG Economics anticipates two more hikes in 2022, bringing the Fed's benchmark rate to 4.25–4.5 percent by the end of December. This will further tighten credit conditions and cause a pullback in financing—usually bad news for economic activity and deal making. The Fed, nevertheless, seems intent on tilting the economy into what it hopes will be a mild recession to tame surging inflation, which stubbornly remains at a four-decade high.

By being too aggressive in fighting inflation, there is a risk that the Fed will unwittingly trigger a hard landing, or a severe recession, but our economists believe this isn't likely. In particular, the job market remains strong, and even if the Fed keeps raising interest rates at the current clip, it isn't likely to trigger double-digit unemployment rates as the Global Financial Crisis did in 2007–2009 or during the pandemic. We estimate that if unemployment hits 6 percent, possibly in 2024, then it could be enough to bring inflation back down to the Fed's 2 percent target.

Such a scenario, however, means M&A activity will probably stay subdued in the short term. A falling stock market and valuations will discourage sellers. Even with ample dry powder, many PE firms will also find it difficult to line up financing for bigger deals. Deal makers will become more cautious and conservative in their choice of targets and partners—and they will attach even more importance to capturing value creation and profitability.

Still, there will be timely opportunities for deal making. A downturn is a good time for TMT companies to review their portfolio of businesses, which are more exposed to cutting-edge innovations and fast-changing trends than in other industries. And they can use M&A offensively to find new sources of growth or defensively to divest noncore assets. Companies should be asking themselves:

- What capabilities truly differentiate us in the market?
- For businesses with disparate growth, margin, and capital profiles, is there a valid reason to keep them all, or can incremental value be unlocked?
- How should we invest more in our "keepers?"

Finding the right answers to such questions will help TMT companies strengthen their competitive edge in the long run.

Key considerations as we look ahead

In pursuing M&A in an economic downturn, TMT deal makers will need to recalibrate their focus to ensure success:

1. **Be patient with targets**: Deal making in the current, volatile environment can be even more complex when target companies must also juggle inflation impacting margins, talent retention/optimization, ongoing supply-chain challenges, etc.
2. **Be creative with alternative financing**: Utilize creative structures to finance transactions—such as equity lines of credit, earnouts based on key performance indicators, stock-based award features, and varying convertible debt/equity structures—and optimize net working capital.
3. **Be ready to monetize non-core assets**: Have the discipline to divest non-core assets, drive monetization of all intellectual property, and hold yourself accountable to achieving the desired synergy value with cost optimization.

Kevin Bogle on divesting assets today

Historical trends show that there are compelling cases for divestitures in a period of lower valuations. Companies can focus on their core business and increase cash to support future growth.

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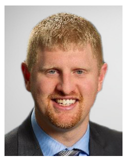

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How we can help you

KPMG helps its clients overcome deal obstacles by taking a truly integrated approach to delivering value, leveraging its depth in the TMT industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle.

With a TMT specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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