



In a sharp reversal

M&A trends in technology,
media, and telecom

2022

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Introduction

Tougher year for deals

Amid constant economic uncertainty and market volatility, deal making in the technology, media, and telecom (TMT) sector took a hit in 2022. After a record performance in 2021, deal volume fell 22 percent year over year, while deal value declined 26 percent. However, despite the pullback, the TMT deal market remained well above pre-pandemic levels, with digital transformation and the enabling services and software applications continuing to be key areas of focus for acquirers.

Megadeals worth \$20 billion or more were few and far between. The largest deal of the year—Microsoft’s \$68.7 billion bid for video game giant Activision Blizzard—even ran into regulatory opposition.¹ Besides Microsoft-Activision, just three other transactions reached the \$20 billion threshold: Broadcom’s planned takeover of cloud computing firm VMware for \$61 billion; Elon Musk’s acquisition of Twitter for \$44 billion; and Adobe’s announced deal for Figma, a cloud-based design collaboration platform, for \$20 billion. In the private-equity (PE) space, the two biggest deals were the acquisitions of Citrix Systems for \$16.5 billion and The Nielsen Company for \$16 billion, both involving consortiums led by Evergreen Coast Capital.

Here are the main M&A trends in the TMT sector we observed in 2022:

- Sentiment turned cautious:** From mid-2022, with inflation near a multidecade high and the Federal Reserve aggressively raising interest rates, M&A in large-cap and public-market companies noticeably began to slow.
- More middle-market deals:** Primarily driven by the vertical software and digital-marketing segments, M&A activity in the mid-to-lower market remained relatively strong, with less of a pullback than the upper tier of the market. For financial-sponsored buyouts, the incremental higher borrowing costs were still outweighed by equity sponsors’ strong need to deploy capital and bid competitively for high-quality assets.
- End of the SPAC boom:** After roaring in 2021, mergers with special-purpose acquisition companies (SPACs) lost steam in 2022. A volatile equity market, lackluster post-merger performances, and increased regulatory scrutiny resulted in a 33 percent drop in deal volume and an 81 percent plunge in deal value.

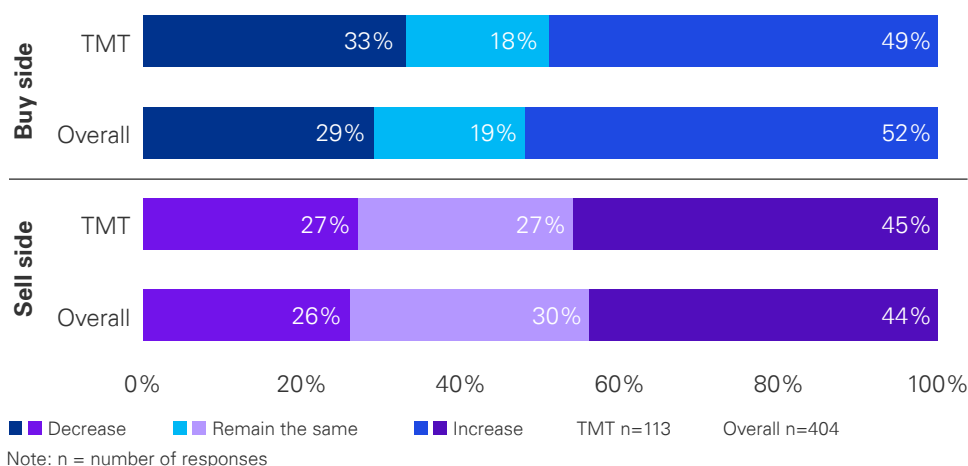
Key statistics

-22% decrease in TMT volume from 8,460 in 2021 to 6,601 in 2022.

-26% decrease in total TMT deal value from \$937.9 billion in 2021 to \$698.0 billion in 2022.

46% PE buyers accounted for 45.8 percent of TMT deal value in 2022 at \$319.4 billion, compared to \$245.7 billion in 2021.

Compared to the last 12 months, do you expect deal activity in your industry to increase or decrease over the next 12 months?



¹ “FTC Seeks to Block Microsoft Corp.’s Acquisition of Activision Blizzard, Inc.,” Federal Trade Commission, December 8, 2022

In 2023, the macroeconomic landscape is likely to be more challenging. Despite inflation starting to fall from 40-year highs, the Fed has indicated that it may keep raising interest rates until price pressures cool much more. This policy stance could trigger “a shallow recession,” according to KPMG Chief Economist Diane Swonk.² Deal makers’ sentiment will largely depend on how investors and financial markets will react to Fed actions.

As the new year begins amid recession fears, market volatility, and other uncertainties, we expect the slowdown in deal making to continue. But if

macroeconomic conditions improve, activity should pick up in H2’23. In a December 2022 survey of 370 U.S. M&A executives³ across industries, almost half (49 percent) of buy-side TMT respondents said their deal activity will increase in 2023 compared to last year, while 33 percent expected a decrease. Among sell-side TMT respondents, 45 percent agreed that there will be more deals, while 27 percent expected fewer deals.

After a long-running “seller’s market,” there is no question that we are shifting to a “buyer’s market” and expect valuations to reflect this change. In this era of digital

transformation, the M&A market can be pivotal to accelerate transformation. For high-quality assets, we believe it can be a good time to explore M&A.



Kevin Bogle

*Principal
Deal Advisory & Strategy
TMT Leader*



Roddy Moon

*Managing Director
Deal Advisory & Strategy*



² Diane Swonk, “[New Year: Old Challenges – Dealing with the Generation Gap](#),” KPMG LLP, January 2023

³ All were involved either directly or indirectly with deal making. A majority (60 percent) of corporate respondents work at public companies, and 41 percent are at enterprises whose annual revenue exceeds \$10 billion. Of the 370 survey participants, 56 were TMT industry respondents and 50 were PE respondents with multiple industry portfolios, including TMT.

By the numbers

Downward shift

In 2022, the TMT deal market failed to sustain the previous year's exuberance in the face of growing economic headwinds. Deal volume dwindled from 8,460 in 2021 to 6,601 last year, while deal value slipped from \$937.9 billion to \$698 billion.

The downward shift occurred across all three TMT subsectors. Technology deals dropped 23.5 percent by volume and 28 percent by value, media deals declined 17.9 percent by volume and 10.6 percent by value, and telecom deals decreased 19.2 percent by volume and 63.3 percent by value.

However, high-profile technology players—including Microsoft, Broadcom, Adobe, and Elon Musk—continued to make a splash by pursuing blockbuster deals (see “Top TMT deals 2022”).

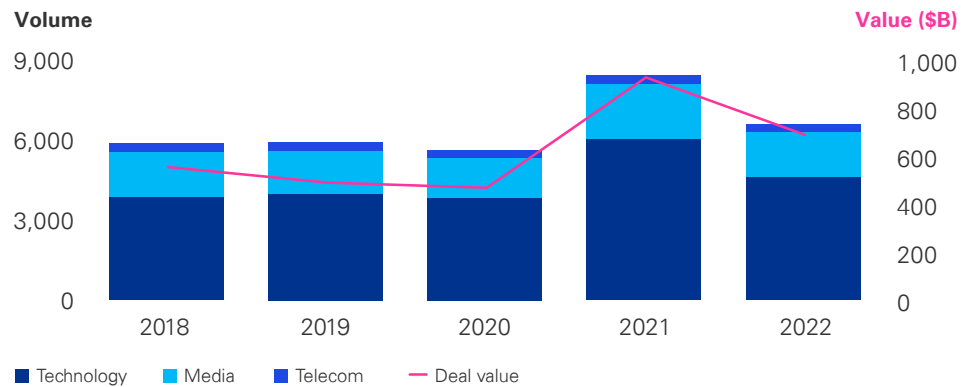
Strategic transactions accounted for 67.9 percent of all deals, worth \$363.1 billion, and PE deals made up 31.4 percent of the total, worth \$319.4 billion—or 45.8 percent of all TMT deal value. Meanwhile, there were just 49 SPAC transactions, worth \$15.5 billion.

Domestic deals (63.8 percent of total volume) far outpaced cross-border transactions. Outbound transactions (U.S. buyers of foreign assets) accounted for 24 percent of all deals, while inbound ones, just 12.2 percent.

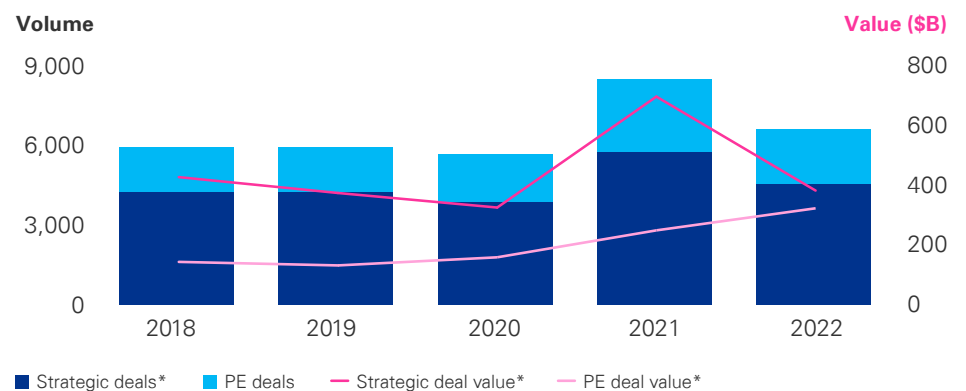
Top TMT deals 2022

Acquirer	Target	Value (billions)
Microsoft	Activision Blizzard	\$68.7
Broadcom	VMware	\$61.0
Elon Musk	Twitter	\$44.0
Adobe	Figma	\$20.0

U.S. TMT activity by sector



Strategic and PE TMT deals



*Includes SPAC deal volume and value

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2022 and 12/10/2022. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or changes in deal outcomes.

By the numbers



Technology M&A trends

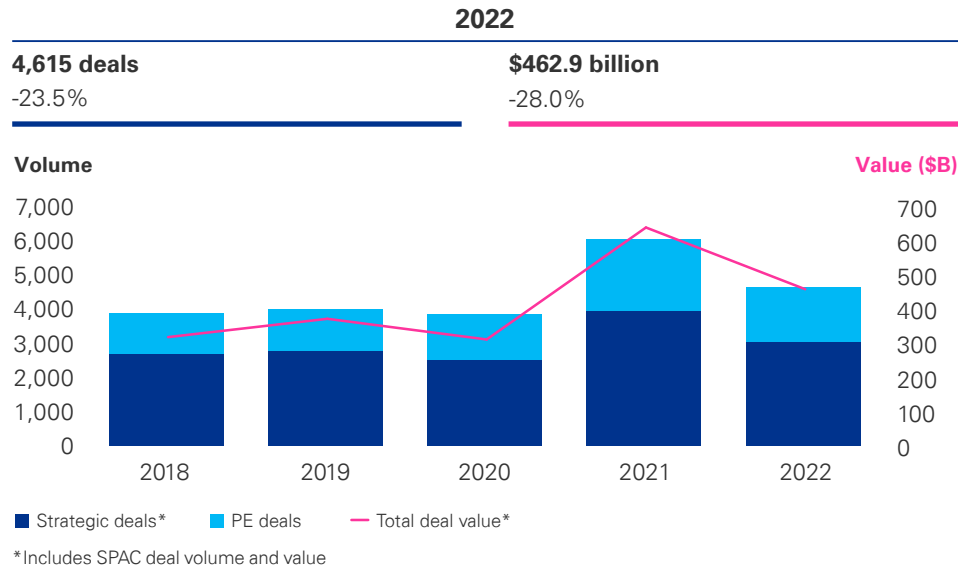
Silver lining in the cloud

Technology deal making weakened noticeably in 2022. Deal volume fell from 6,034 in 2021 to 4,615 last year, and deal value dropped from \$643.2 billion to \$462.9 billion.

Strategic deals led the retreat with their combined value falling by more than half to \$199.2 billion on 2,988 transactions. PE deal value, however, rose 41 percent to \$249.2 billion even though the 1,585 in total transactions were 522 fewer than the previous year's tally.

The biggest deal in the subsector was Broadcom's \$61 billion bid for VMware, followed by Adobe's planned acquisition of Figma for \$20 billion. The two bids share the common investment theme of established technology players extending their reach in the burgeoning world of cloud computing. But both deals are currently facing scrutiny from European antitrust regulators.

Technology deal value and volume



Top technology deals 2022

Acquirer	Target	Value (billions)
Broadcom	VMware	\$61.0
Adobe	Figma	\$20.0
Vista Equity Partners, Evergreen Coast Capital	Citrix Systems	\$16.5
Intercontinental Exchange	Black Knight	\$13.1

By the numbers



Media M&A trends

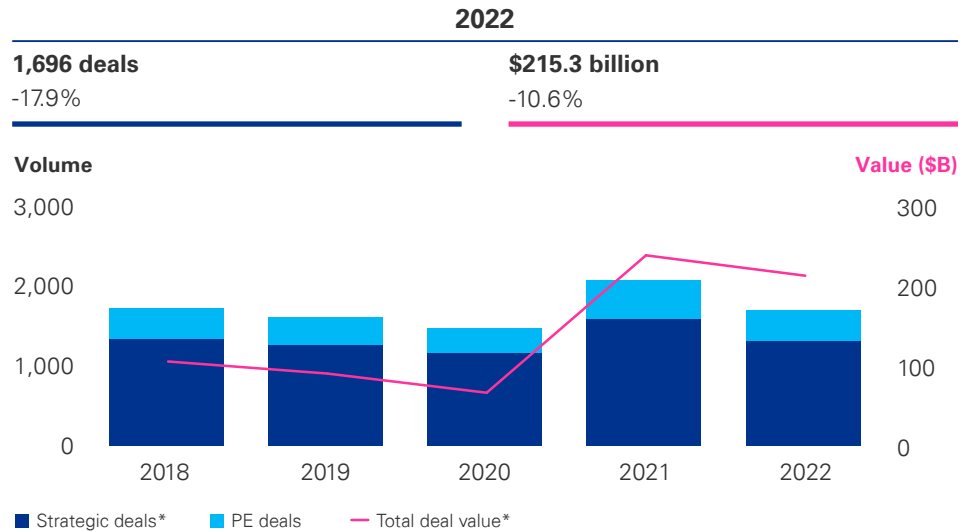
Two giants in action

Although deal volume and value both decreased last year, media transactions declined relatively less than the other two subsectors (in percentage terms). There were 1,696 deals worth \$215.3 billion in 2022 compared with 2,067 deals worth \$240.8 billion the previous year.

Strategic deal value fell 15.8 percent to \$153.6 billion, but PE deal value climbed 39.9 percent to \$60.7 billion despite 20 percent fewer transactions.

Two megadeals dominated the headlines: Microsoft's move to acquire Activision Blizzard for \$68.7 billion and Elon Musk's \$44 billion takeover of Twitter. Together, they represented more than half of total media deal value. Video gaming also continued its hot streak. In addition to the Microsoft-Activision deal, Take-Two acquired Zynga for \$12.7 billion in the fourth-largest transaction of the year.

Media deal value and volume



*Includes SPAC deal volume and value

Top media deals 2022

Acquirer	Target	Value (billions)
Microsoft	Activision Blizzard	\$68.7
Elon Musk	Twitter	\$44.0
Brookfield Business Partners, Evergreen Coast Capital	The Nielsen Company	\$16.0
Take-Two Interactive Software	Zynga	\$12.7

By the numbers



Telecom M&A trends

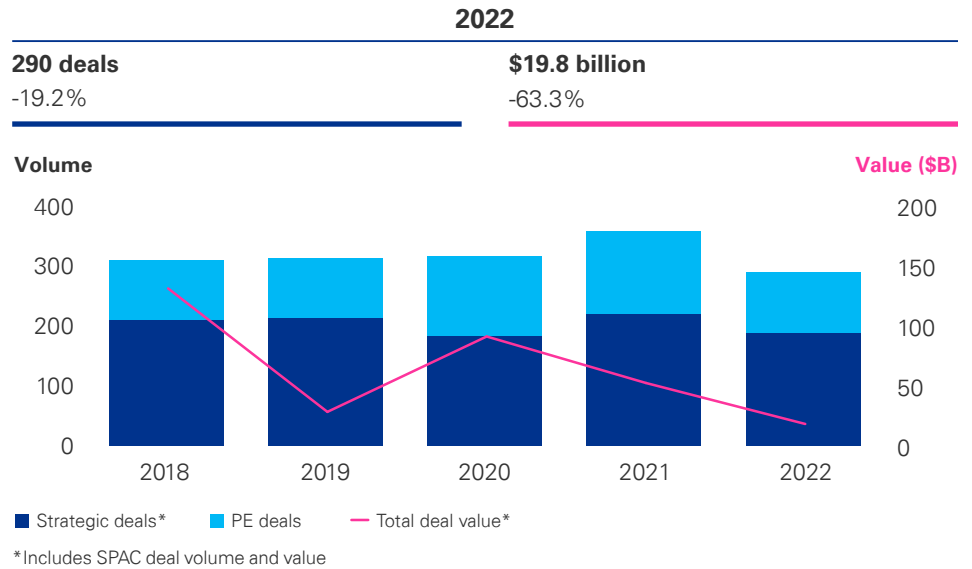
Muted results

Once again, the telecom deal market remained by far the smallest TMT subsector in 2022. Deal volume went down from 359 in 2021 to 290 last year, and deal value plunged from \$54 billion to \$19.8 billion.

Strategic transactions made up 63.8 percent of deal volume, but their combined value (\$10.3 billion) was similar to that of PE transactions (\$9.4 billion), which accounted for 35.5 percent of all deals.

There were just three transactions worth more than \$1 billion. The biggest was HP's \$3.3 billion acquisition of Poly, a provider of video-conferencing solutions, cameras, headsets, voice, and software. The deal was a direct response to the post-pandemic shift toward hybrid work arrangements.

Telecom deal value and volume



Top telecom deals 2022

Acquirer	Target	Value (billions)
HP	Poly	\$3.3
L3Harris Technologies	Link 16 Tactical Data Links Business of Viasat	\$2.0
Semtech	Sierra Wireless	\$1.2
DigitalBridge Group	TowerCo	\$0.8

By the numbers



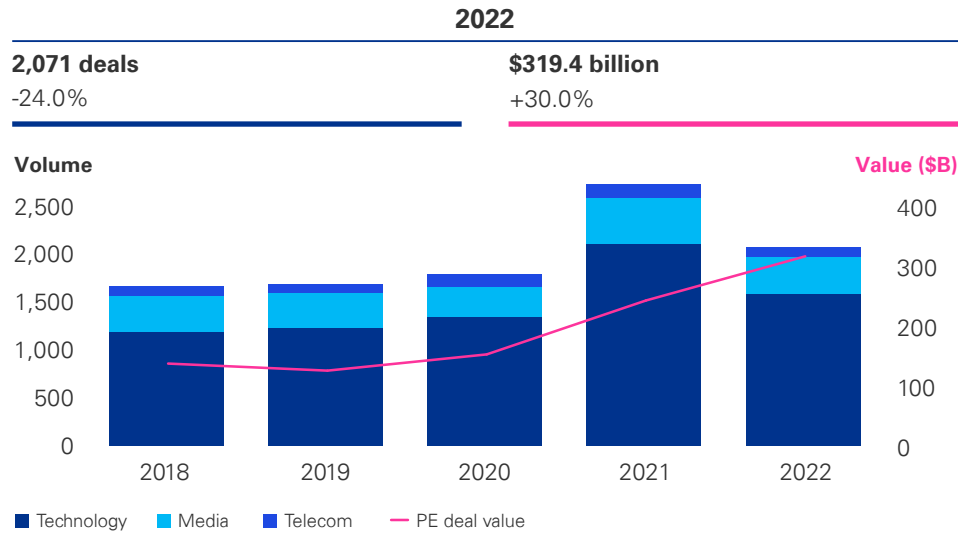
PE M&A trends

The outlier




TMT deals by PE firms last year managed to boost total value with fewer transactions. While deal volume decreased to 2,071 from 2,726 in 2021, deal value increased to \$319.4 billion from \$245.7 billion.

More than three-quarters (76.5 percent) was technology transactions worth \$249.2 billion, followed by media with 18.5 percent worth \$60.7 billion. The top deals were the \$16.5 billion offer for Citrix Systems, a cloud software company, by a consortium led by Vista Equity Partners, and the \$16 billion takeover of The Nielsen Company, a television ratings firm, by a consortium led by Brookfield Business Partners. Activist hedge fund Elliott Management was a participant in both deals.

PE deal value and volume



Top PE deals 2022

 Acquirer	 Target	 Value (billions)
Vista Equity Partners, Evergreen Coast Capital	Citrix Systems	\$16.5
Brookfield Business Partners, Evergreen Coast Capital	The Nielsen Company	\$16.0
Digital Bridge Group, IFM Investors	Switch	\$11.0
Thoma Bravo	Anaplan	\$10.4



Time to build resiliency

No one knows how long or deep the current downturn will be, but TMT companies are wasting no time trying to manage significant downside risks from a much weaker U.S. and global economy. Starting in Q3'22, many pulled back on hiring or initiated layoffs, reduced discretionary spending, and delayed large capital outlays. Indeed, a recession compels companies to build resiliency to get through leaner times. However, leading organizations also use this opportunity to rethink and upgrade their businesses to better position themselves for an eventual economic recovery.

Focusing on building resiliency now could increase the flexibility TMT companies have when pursuing an M&A strategy down the road. For strategic buyers and PE platform companies looking to acquire, greater resiliency allows them to withstand a longer period of uncertainty, preserve capital, and reap the benefit of more assets becoming available at more attractive valuations. Similarly, for companies seeking new investment or looking to sell, greater resiliency enables them to weather the downturn longer and wait for valuations to bounce back to secure more attractive bids.

KPMG has been working with our clients to improve their resiliency by going beyond the obvious. These are some of the lessons we learned that are most relevant for TMT companies:

- **Identify customer segments under potential stress.** Look for concentration risks to your revenue. Running high-level analytics by

sector and subsector within your customer base could inform a different perspective on how to view your customer, revenue, and accounts receivable risk in a downturn.

- **Be invaluable to your most valuable customers.** Understanding true customer contribution through detailed cost-to-serve analysis is an important part of knowing where your earnings come from. For customers that provide most of your cash flows, invest in closer partnership to increase stickiness and make your offering (not just technology, but also your people) invaluable.
- **Revisit contracting and contract renewal processes.** Attempt to lock in customers for a longer period to ride out any short-term economic volatility. Segment your product lines and get aggressive where most of your cost is depreciation and your variable incremental expense to deliver is low. Give a little on price to get a little revenue certainty.
- **Take advantage of a strong dollar.** For U.S.-dollar-denominated businesses, pushing work outside the U.S. (even to Canada or Western Europe temporarily) where you already have a footprint can be a very attractive form of arbitrage to lower overall labor costs.
- **Cost control “what if” scenario planning.** Plan cost controls in a forward-looking fashion in potentially two or three tranches. Go through

the exercise of “what goes first” and is discretionary and expendable if revenue were to decline 10, 20, or even 30 percent. Do the work to fully understand what “keep the lights on” mode might look like, and ensure that your management team and board are fully aligned with the decisions to be made should this scenario come to pass.

- **Revisit overall strategic business portfolio.** Building on the actions above, institute and reinforce the discipline and process of constantly and proactively assessing your business portfolio—the customer segments you serve, the product categories you provide, and the business model you have—to weather the uncertainty and set yourself up for growth as the clouds clear.



Phil Wong

*Principal
Deal Advisory & Strategy*



Art Djavairian

*Managing Director
Deal Advisory & Strategy*

Outlook

Lingering uncertainty

As M&A overall tends to rise and fall with the trajectory of the economy and with middle-market transactions often lagging behind large-cap fluctuations, TMT deal makers will be closely monitoring market trends and financial conditions. The first half, however, could still be tough as macroeconomic uncertainty lingers and the Fed maintains its hawkish stance on interest rates. In general, rate hikes will lead to a higher cost of capital, which impacts both valuations and buyers' ability to secure financing.

KPMG Economics expects the U.S. economy to slip into a mild recession in 2023. This is partially due to the Fed's determination to continue with interest rate hikes until it feels comfortable that the threat of elevated inflation has been put to rest. After its latest rate hike in December 2022, Fed Chairman Jerome Powell said the Fed would "stay the course, until the job is done."⁴ That could take a while, and this is why KPMG economists project real GDP growth on a Q4-to-Q4 basis to contract by 0.2

percent this year. However, they expect a relatively swifter rebound in growth than happened after the 2008-2009 downturn because "Fed-induced recessions are easier to recover from than balance sheet recessions."⁵

The recessionary impact will be mixed across the TMT subsectors. There could be a slowdown or delay in businesses' technology spending, which would hurt non-mission-critical B2B technologies. Likewise, a retreat in consumer spending will impact consumer-focused technology and media companies. If macro uncertainty and recessionary pressure persist, there may also be companies with highly leveraged balance sheets that are forced to use the M&A route to recapitalize. Telecom infrastructure and semiconductor firms, however, may do better given the expected capital spending earmarked by the government.

In the coming months, TMT deal makers will be looking for positive signals for M&A: improving corporate earnings;

a rising stock market; and higher valuations. But even when the overall picture brightens, the gap in valuation expectations between sellers and acquirers is likely to continue to pose challenges in consummating deals. We expect the momentum for M&A to pick up as the economic picture brightens in the second half of the year. TMT deal making, however, will likely take more effort and energy than in the recent past.



Key considerations as we look ahead

In navigating a more challenging M&A landscape, TMT deal makers will need to sharpen their focus across the deal cycle:

1

Investment theses and business plans

Expect investment committees and lenders to bring a higher degree of scrutiny.

2

Due diligence

Seek a diligence partner who can harness the data from the target and external sources to uncover deeper insights and risks.

3

Deal execution

The speed of transactions will be critical in a volatile market environment.

⁴ Federal Reserve, "Transcript of Chair Powell's Press Conference," December 14, 2022

⁵ Swonk

Authors



Kevin Bogle

Principal
Deal Advisory & Strategy
TMT Leader
212-872-5766
kevinbogle@kpmg.com



Phil Wong

Principal
Deal Advisory & Strategy
TMT Advisory
617-899-8999
philipswong@kpmg.com



Roddy Moon

Managing Director
Deal Advisory & Strategy
TMT Advisory
917-270-2828
roderickmoon@kpmg.com



Art Djavairian

Managing Director
Deal Advisory & Strategy
TMT Advisory
248-227-5731
adjavairian@kpmg.com

With special thanks to:

Divya Aggarwal, Ranajit Dey, Michael Gelfand, Radhika Goel Amanda Kendall, Geoff Lewis, Amanda Kendall, Ralph Park, and Montana Sannes.



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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