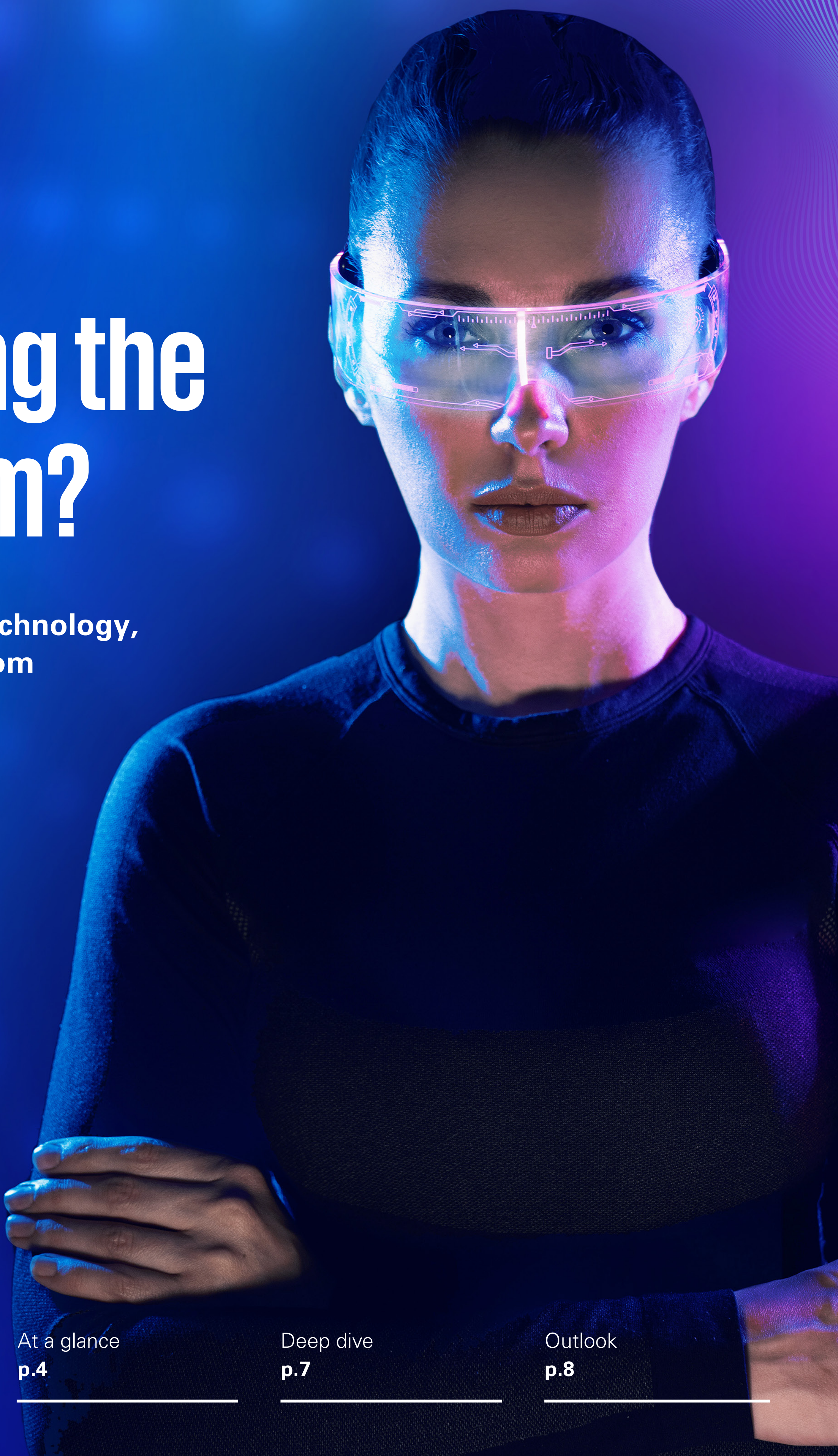
KPMG

Nearing the bottom?

M&A trends in technology, media, and telecom



Q2’23

kpmg.com

Introduction

Muted market

After a lackluster start to the year, deal making in the technology, media, and telecom (TMT) sector further weakened in Q2’23, weighed down by persistent macroeconomic uncertainty. The TMT mergers and acquisitions (M&A) market faltered again during the second quarter, with deal value falling 32 percent from Q1’23 on a 15 percent decline in deal volume. Total deal value of $38.2 billion was the lowest since Q2’20 at the height of the pandemic, when it reached $49.8 billion.

Given that deal volume fell significantly less than deal value, this meant small transactions drove TMT deal making. Only six transactions topped $1 billion. The largest deal was Nasdaq’s agreement to purchase Adenza, a software firm focusing on financial risk management, for $10.5 billion.

TMT deal makers struggled against the headwinds from high interest rates, a crisis in regional banks, and fears that the US economy may slide into recession. Corporate and private-equity (PE) buyers opted to conserve cash, while sellers remained reluctant to part with assets amid falling valuations. However, lower inflation is giving hope that the end of the Federal Reserve’s rate hike cycle is in sight. This could—with the pursuit of generative artificial intelligence (AI) and strength in TMT companies’ Q2’23 earnings—help lift the clouds hanging over the M&A market across industries and boost confidence of TMT deal makers in the coming months.

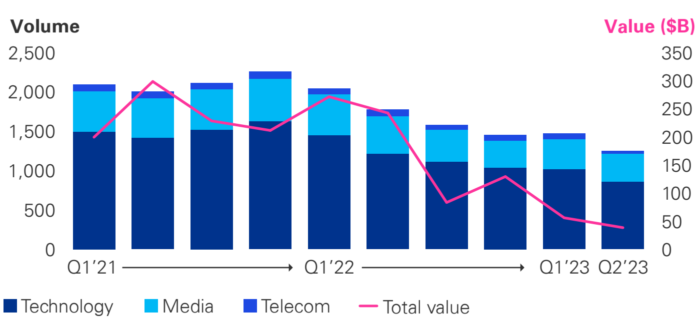
Kevin Bogle
Principal
Deal Advisory & Strategy
TMT Leader

Q2’23 highlights

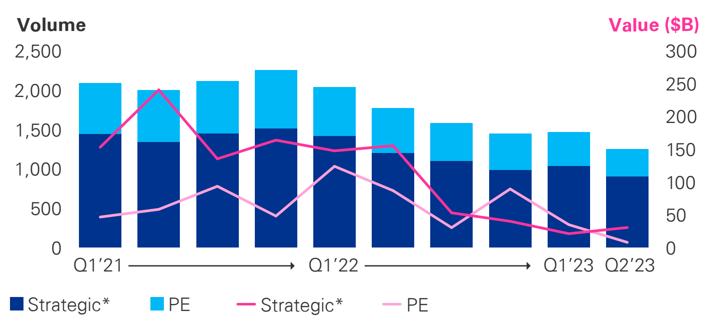
1,252 deals ▼ **15%** decrease QoQ

$38.2 billion deal value ▼ **32%** decrease QoQ

TMT deal activity by sector



TMT deal activity by type

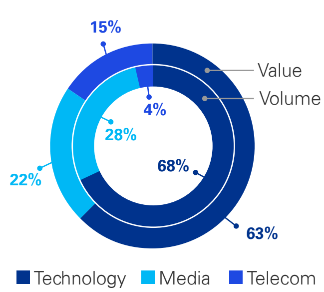


*Includes SPAC deal activity

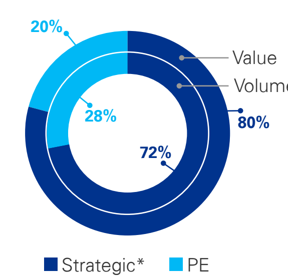
Q2’23 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

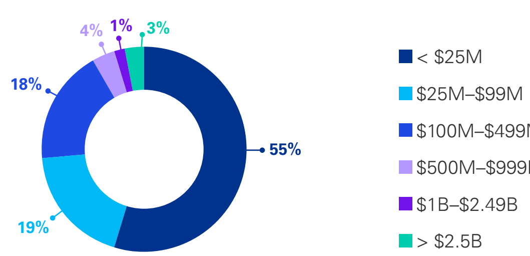


PE/strategic mix



*Includes SPAC deal activity

Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Nasdaq	Adenza	$10.5
Savvy Games Group	Scopely	$4.9
IBM	Apptio	$4.6

Top PE deals

Acquirer	Target	Value (billions)
Brookfield Infrastructure Partners, Ontario Teachers' Pension Plan	Compass Datacenters	$5.5
Crosspoint Capital Partners	Absolute Software	$0.9
TPG	Thomson Reuters	$0.5

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2'23 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

At a glance

Technology

Big retrenchment

Data from Q2’23 erased any doubt that the once-sizzling technology M&A market had gone cold. Deal making in the subsector suffered another pullback, with deal volume decreasing to 854 from 1,011 in Q1’23 while deal value dropped to $23.9 billion from $47.4 billion. These tallies paled in comparison to the subsector’s Q4’21 performance when deal value peaked at $165.9 billion on 1,619 transactions.

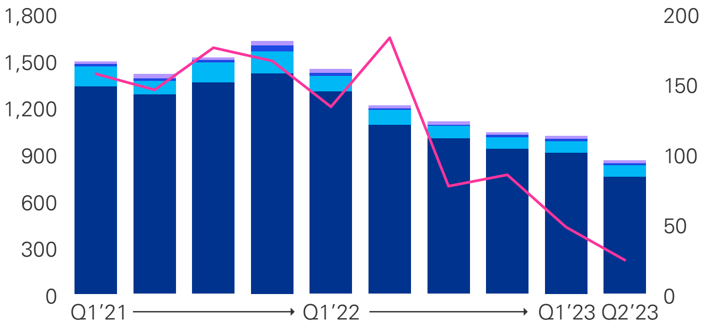
The retreat was led by PE deals, whose combined value plunged 94 percent to $1.9 billion in Q2’23 from $29.8 billion in Q1’23 on a 19 percent decline in deal count to 262 from 322. However, deal value of strategic transactions rose 25.4 percent to $22.1 billion from $17.6 billion, while deal volume decreased 14.1 percent to 592 from 689.

As usual, M&A in enterprise software and services registered most transactions. The biggest deal was Nasdaq’s $10.5 billion bid for Adenza in June. The exchange operator hopes the acquisition will boost its anti-financial-crime technology.

Q2’23 highlights

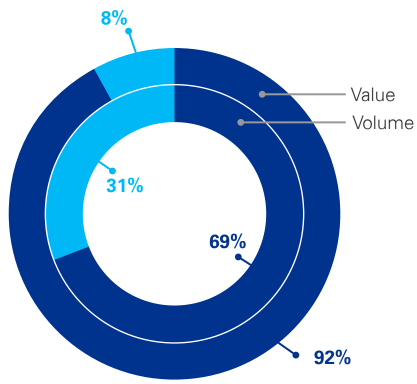
854 deals ▼ **16%** decrease QoQ | **$23.9** billion deal value ▼ **50%** decrease QoQ

Technology deal activity by subsector



Q2’23 technology PE/strategic mix

Outer ring represents value. Inner ring represents volume.



**Includes SPAC deal activity*

Top technology deals

Acquirer	Target	Rationale	Value (billions)
Nasdaq	Adenza	Additional software and technology solutions	$10.5
IBM	Apptio	Accelerate automation capabilities	$4.6
Databricks	Mosaic ML	Combine AI technology with a language-model platform	$1.3

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2’23 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

At a glance

Media

Bucking the trend

The media subsector was an outlier in TMT deal making during Q2'23. Even though deal volume declined to 354 from 382 in Q1'23, deal value more than tripled to $8.4 billion from $2.6 billion. This was mainly due to the second biggest TMT deal for the quarter—Savvy Games' $4.9 billion bid for mobile game maker Scopely. The companies said the merger will boost Savvy's global position while accelerating Scopely's growth.

Strategic transactions accounted for the bulk of media deals in Q2'23, with 281 (down 5.7 percent from the previous quarter) compared to 73 PE deals (down 13.1 percent). The picture was even more lopsided value-wise: strategic deals were worth $7.9 billion (up 491.3 percent), while PE ones collectively amounted to just $400 million (down 64.5 percent).

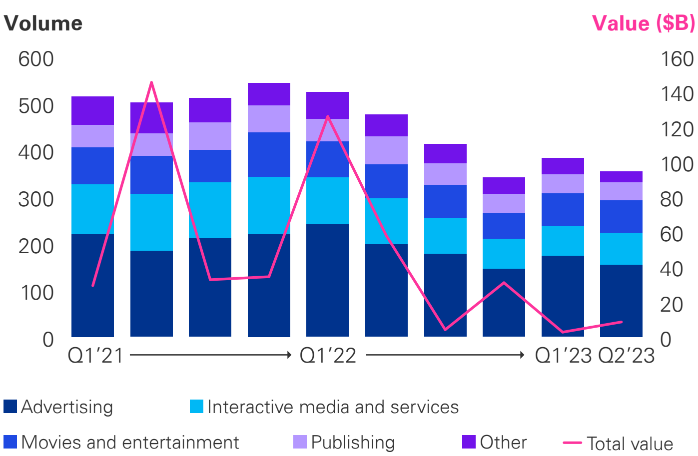
In the subsector's second-largest transaction, Austin Russell, the billionaire founder and CEO of automotive lidar and software technology firm Luminar Technologies, said he would take an 82 percent stake in business news publisher Forbes Global Media Holdings for $800 million. The 28-year-old Russell is expected to serve mainly as a brand ambassador rather than run Forbes' day-to-day editorial operations.[1]

Q2'23 highlights

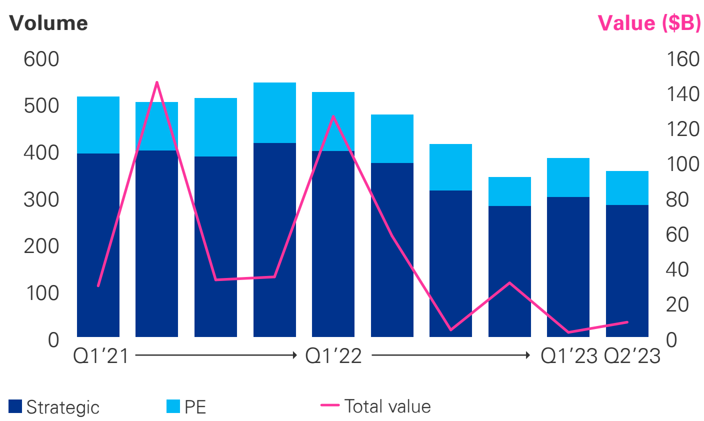
354 deals ▼ **7%** decrease QoQ

$8.4 billion deal value ▲ **224%** increase QoQ

Media deal activity by subsector



Media deal activity by type



Top media deals

Acquirer	Target	Rationale	Value (billions)
Savvy Games	Scopely	Strengthen global position, accelerate growth	$4.9
Austin Russell	Forbes Global Media	New visionary for the brand	$0.8
Neptune Retail Solutions	Quotient Technology	Deepen relationships with and value for customers	$0.4

[1] "Luminar Tech CEO Russell to acquire majority stake in Forbes," Reuters, May 12, 2023.

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2'23 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

At a glance

Telecom

Few and far between

The high cost of capital and telecom companies' reliance on debt to fund infrastructure meant there was little appetite for M&A in the subsector in Q2'23. Deal makers continued to be cautious in the face of instability in consumer and enterprise spending. As a result, the number of transactions fell 41 percent to 44 from 74 in Q1'23. However, combined deal value rose 2 percent to $5.9 billion on the back of a single transaction: the $5.5 billion bid for Compass Datacenters by Brookfield Infrastructure Partners and Ontario Teachers' Pension Plan.

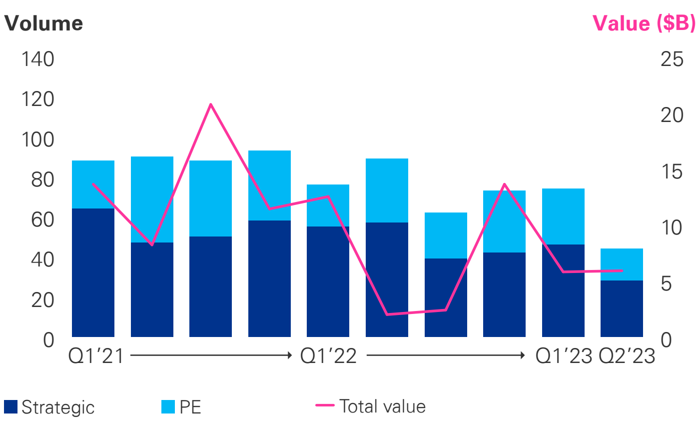
There were 28 strategic deals, a 39.1 percent decrease from Q1'23, with total value of $400 million, a 79.7 percent drop. Meanwhile, PE deal count fell 42.9 percent to 16, but deal value rose 46.4 percent to $5.5 billion.

In the biggest deal of Q2'23, Compass Datacenter secured strong operational and financial support from its new owners to meet growing demand for large data centers and campuses as AI and cloud computing continue to transform businesses.

Q2'23 highlights

44 deals ▼ **41%** decrease QoQ | **$5.9** billion deal value ▲ **2%** increase QoQ

Telecom deal activity by type



Top telecom deals

Acquirer	Target	Rationale	Value (billions)
Brookfield Infrastructure Partners, Ontario Teachers' Pension Plan	Compass Datacenters	Data storage capability	$5.5
Flo Networks	ATC Holding Fibra México	Integrate and scale operations	$0.3
Belden	Berthold Sichert	Expand fiber portfolio in key growth markets	$0.1

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q2'23 covers all US deals announced from April 1, 2023 to June 30, 2023. Deal values are presented based on publicly available deal data and might not be exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

What you need to know about generative AI and M&A

Generative AI (GenAI) has set the business world abuzz, and the M&A market is no exception. We believe it's only a matter of time before deal makers will routinely use this powerful technology to turbo-charge M&A transactions. However, we are early in the hype cycle. While GenAI is showing promise, it is not clear yet how it will ultimately change the way deal making is done and what untapped potential it may bring. As many M&A professionals, including at KPMG, start to experiment with GenAI, we discuss some possibilities.

For starters, GenAI could make the deal process more efficient for buyers and sellers. Its most immediate advantages may lie in helping deal teams quickly survey and process vast amounts of structured and unstructured, public and proprietary financial, market, and legal data. With GenAI, there could be less chance of omitting a critical piece of information than with a human analyst.

This could, in turn, allow deal teams and advisers to focus on more value-added activities requiring human judgment, experience, and discretion. GenAI is expected to amplify productivity for many deal professionals. By freeing up time for knowledge workers, scarce talent could be redeployed—for example, to potentially evaluate more targets, find more synergies, and make bids faster and more confidently.

GenAI could also impact the value of assets, both positively and negatively. For example, for PE firms' portfolio companies (PortCos), GenAI can help unlock and accelerate value creation during their hold period by reducing costs, boosting sales, and improving productivity and profitability. On the flip side, GenAI could disrupt the market, creating new competition and greatly reducing the value of existing products and services.

Deal makers, however, will need to manage the risks of using GenAI. Just like humans, it can sound confident but sometimes produces false, incomplete, or biased results. Current GenAI models are also not transparent about how they reach their conclusions. Risks of relying too soon on still-evolving GenAI technology in M&A include[2]:

- **Erroneous analysis/inaccurate results**: GenAI models can "hallucinate" and confidently present made-up data as facts, requiring methodical validation by humans to address the garbage-in/garbage-out problem.
- **Data confidentiality/privacy**: Relying on information readily available on the internet could run afoul of privacy regulations or copyrights, even triggering lawsuits.
- **Deliberate abuse**: Cyber terrorists or errant employees could manipulate the technology to sabotage your company's data or harm its reputation.

Despite the risks and limitations, deal makers cannot afford to ignore GenAI. It is here to stay and will change how deals will be done. But keep realistic expectations, take pragmatic steps, and don't underestimate the organizational challenges of getting humans and AI to work together. Here are some practical steps to consider:

- Set up a cross-functional **GenAI tiger team** to explore the use of GenAI.
- **Evaluate the impact of GenAI** based on value, readiness, and risk/potential of disruption across business units/PortCos.
- Experiment; launch **proof-of-concepts;** enable **crowdsourcing with appropriate guard rails;** and roll out **minimum viable product** use cases quickly and expand those that gain traction.
- Begin to consider what it takes to **scale GenAI**—tech stack, data requirements, safeguards for responsible AI, and reconfiguring the work and behavior-change management.

Phil Wong
Principal
Deal Advisory & Strategy

[2] See also, "The flip side of generative AI: Challenges and risks around responsible use," KPMG LLP, February 2023

Outlook

Signs of a thaw

The US economy has avoided the much-anticipated high-inflation, high-interest-rate-driven recession—so far. In H2'23, KPMG Economics forecasts a slowdown. The Federal Reserve may not be done with rate hikes, banks are tightening lending standards, and both consumers and businesses are slowing spending. However, we believe that if a recession materializes, then it will be a shallow one, and growth could resume in 2024 albeit more slowly than after the pandemic.

In Q1'23, the economy grew 2 percent compared to the previous quarter's 2.6 percent, and the slowdown continued into Q2'23. Our economists believe the US is headed for a "slowcession"—that is, the economy will slowly stall and unemployment will rise. The bulk of the weakness stemming from the Fed's previous rate hikes is expected to hit in H2'23. Real GDP growth will fall to less than 1 percent and remain weak.

For M&A, this murky environment will still generate a lot of headwinds for deal making. Sellers aren't back in the market in earnest, and many strategic corporate buyers remain cautious—especially following the collapse of several regional banks earlier this year. For many, any deals requiring debt financing carry too high of a risk premium. More visibility on interest rates and the end to the Fed's rate-hike cycle will be key to reversing deal makers' guarded stance.

At the same time, we see early signs of a turnaround in sentiment for M&A. TMT (especially technology) is an industry with more volatile valuations, which are subject to greater scrutiny than other sectors. Even at lower valuations than desired, companies in need of cash are now looking at potential carve-out sales. As sellers become more active, this could generate more interest on the buy side as well—building momentum toward a new upswing in deal making.

All parties may be coming to terms with the reality of the current state of the M&A market, and increased conversations can be a precursor of a rebound in deals in Q3'23 and Q4'23. If the overall M&A market starts to recover, then the TMT sector could lead the way as it has done in the past. For instance, investor interest in generative AI is soaring and could eventually spark M&A for companies along its value chain (e.g., data centers, application developers). Still, given the host of macroeconomic uncertainties, we hold modest expectations for TMT deal making in the coming months.

Key considerations

In pursuing M&A in a down market, TMT deal makers should consider the following:

1 Showcase the best of your business

If you're a seller, support the story of your business with the right information and in the right way to withstand an intense due diligence process.

2 Look beyond the short term

If you're a buyer, focus on the target's key performance indicators and how they translate into clear future value creation and business success, not just immediate synergies.

3 Think smaller

For both sellers and buyers, consider striking smaller opportunistic deals to gain incremental but accelerated revenue growth, better cost synergies, and improved market positioning. For corporates, this could mean funding with existing lines while for PE, it may mean all-equity deals with refinancing once the debt markets recover.

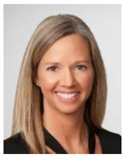
How we can help you

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.

Authors

Kevin Bogle
Principal
Deal Advisory & Strategy
212-872-5766
kevinbogle@kpmg.com



Shari Mager
Partner
Deal Advisory & Strategy
408-367-7661
smager@kpmg.com

Tyronne Singh
Partner
Deal Advisory & Strategy
212-872-6267
tsingh@kpmg.com

Scott Purdy
Principal
Deal Advisory & Strategy
212-954-4207
slpurdy@kpmg.com

Phil Wong
Principal
Deal Advisory & Strategy
617-988-6332
philipswong@kpmg.com

Roddy Moon
Managing Director
Corporate Finance
212-954-5834
roderickmoon@kpmg.com

With special thanks to:

Divya Aggarwal, Ranajit Dey, Garvita Garg, Michael Gelfand, Mannat Gupta, Charles Lee, Mary Leonard, Ralph Park, Vidhya R, Heather Vo

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia