KPMG

# The long wait for the recovery

## M&A trends in technology, media, and telecom

Q1'24

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# Still sluggish

This year began with high hopes that a resilient economy and strong stock market would at last spark a resurgence of dealmaking. But in Q1’24, it was more of the same for the mergers-and-acquisitions (M&A) market in the technology, media, and telecom (TMT) sector. Deal trends were flat both in volume and value from the previous quarter. Total deal count fell 2.4 percent in Q1’24 while deal value retreated 2.9 percent. A big reason why the data didn’t look worse was thanks to a single $35 billion transaction in January: Synopsys, a provider of semiconductor testing tools, announced that it would acquire Ansys, an engineering software maker.

This also made technology by far the most robust subsector, with an 80.8 percent quarter-over-quarter surge in deal value even though deal count slid 1.4 percent. Media and telecom M&A paled in comparison as deal value for both tumbled. Overall, deal size trended down in Q1’24: 87.6 percent of transactions were worth less than $500 million compared to 83.4 percent in the previous quarter. Private equity (PE) transactions were also noticeably weaker in Q1’24, with deal value dropping 69.6 percent from Q4’23 while deal volume decreased 17.6 percent. By contrast, the number of strategic transactions rose 4.9 percent while their combined value soared 85.8 percent on the back of the Synopsys-Ansys deal.

Many TMT dealmakers still seem unsure about when to jump back into M&A. The default view has been that dealmaking will pick up when the Federal Reserve is done with hiking interest rates and set to reverse the policy. But the persistent strengths of inflation and the economy have raised doubts about how soon and how much the cost of capital will fall. Another factor injecting uncertainty into the deal market is the outcome of the US presidential election in November and the future direction of government policy—especially antitrust actions on Big Tech mergers, which the Biden administration has pursued vigorously. Be that as it may, corporates and PE firms are sitting on plenty of cash. If the current fog of uncertainty starts to lift, it could be unleashed rapidly. But until then, we expect caution and sluggish dealmaking to continue.

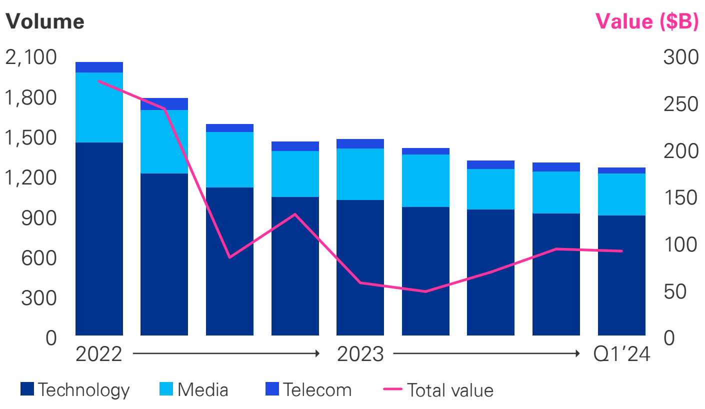
**Kevin Bogle**
*Principal*
*Deal Advisory & Strategy*
*TMT Leader*

## Q1’24 highlights

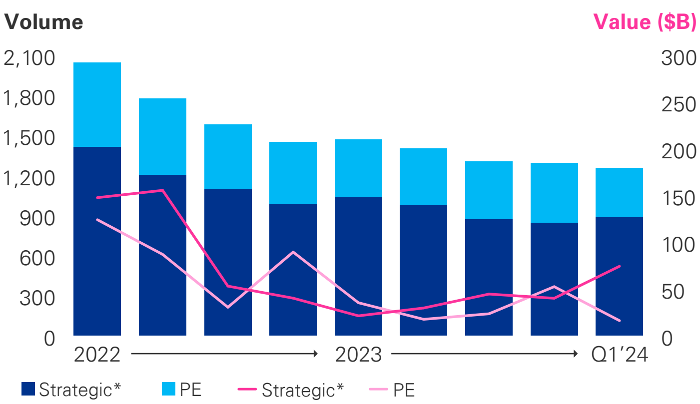
**1,254** deals ▼ **3%** decrease QoQ

**$89.9** billion deal value ▼ **2%** decrease QoQ

## TMT deal activity by sector




## TMT deal activity by type

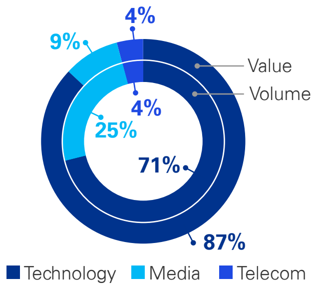



*Includes special-purpose acquisition company (SPAC) deal activity

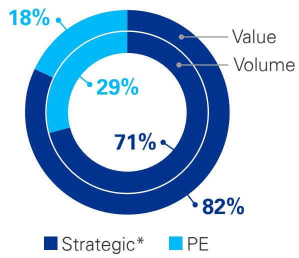
## Q1'24 deal mix

Outer ring represents value. Inner ring represents volume.

### Sector mix

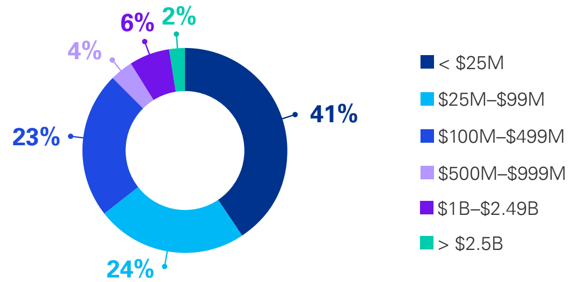



### PE/strategic mix




*Includes SPAC deal activity

### Value size mix




## Top strategic deals

| Acquirer | Target | Value (billions) |
|---|---|---|
| Synopsys | Ansys | $35 |
| HPE | Juniper Networks | $14 |
| Renesas Electronics | Altium | $5.9 |
| Roper Technologies | Procare Solutions | $1.8 |
| David Rubenstein-led investors | Baltimore Orioles | $1.7 |

## Top PE deals

| Acquirer | Target | Value (billions) |
|---|---|---|
| KKR | VMware's end-user computing division | $4.0 |
| Thoma Bravo | Everbridge | $1.5 |
| RedBird IMI | All3Media | $1.5 |
| Francisco Partners | Jama Software | $1.2 |
| CVC Capital, Haveli Investments | Jagex | $1.2 |

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. Q1 2024 covers all US deals announced from 1/1/2024 to 3/31/2024. 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.

Technology

# A weak market punctuated by big deals

Once again, technology was the brightest subsector in Q1'24 in what was a lackluster TMT M&A market overall. Deal volume declined from 910 in the previous quarter to 897, but deal value jumped from $43.4 billion to $78.4 billion. This was mostly due to a couple of megadeals: the $35 billion merger of Synopsys and Ansys; and Hewlett Packard Enterprise's $14 billion takeover of Juniper Networks, which makes networking gear, in a bid to diversify its business to networking operations powered by artificial intelligence (AI).

The two transactions contributed to a tripling of strategic deal value from $20.7 billion in Q4'23 to $68.2 billion in Q1'24 even though deal volume rose only 6 percent from 571 to 605. PE dealmaking was much weaker. PE deal value dropped 54.6 percent from $22.6 billion to $10.3 billion, and deal count fell 13.9 percent from 339 to 292. Transactions in enterprise software and services dominated all segments, with deal value rising 59.3 percent from $39.2 billion to $62.4 billion while deal volume essentially remained flat from Q4'23 to Q1'24 (803 versus 801).

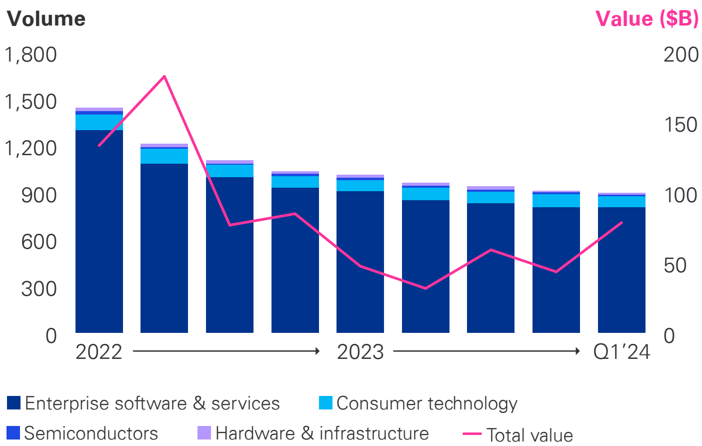
The third largest deal was Japanese chip maker Renesas Electronics' planned acquisition of Australia-listed and San Diego–based engineering software firm Altium for $5.9 billion. Renesas, which supplies chips to automakers, including Toyota and Nissan, is aiming to become a bigger global player in the semiconductor industry.

## Q1'24 highlights

**897** deals ▼ **1%** decrease QoQ

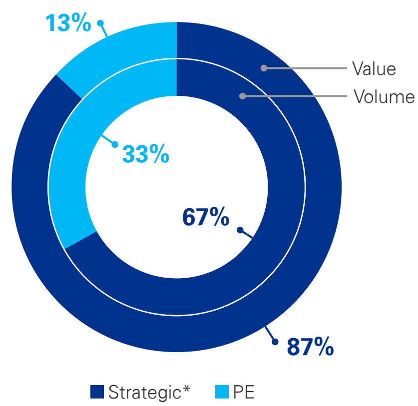
**$78.4** billion deal value ▲ **81%** increase QoQ

## Technology deal activity by subsector




## Q1'24 technology PE/strategic mix

Outer ring represents value. Inner ring represents volume.




*Includes SPAC deal activity

## Top technology deals Q1'24

| Acquirer | Target | Rationale | Value (billions) |
|---|---|---|---|
| Synopsys | Ansys | Bringing together chip testing tools and software | $35 |
| HPE | Juniper Networks | Scaling up networking gear growth for AI | $14 |
| Renesas Electronics | Altium | Expanding outside of Japan | $5.9 |
| KKR | VMware's end-user computing division | Becoming a stand-alone company to focus on customer relationships | $4.0 |
| Roper Technologies | Procare Solutions | Expanding software products | $1.8 |

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Media

# Not many home runs

The number of media transactions in Q1'24 remained steady at 311, the same as in the previous quarter. But this belied a 61.8 percent plunge in deal value from $20.5 billion to $7.8 billion. The subsector is rife for consolidation and reconfiguration amid a secular shift of viewers away from network and cable TV to streaming services, but M&A activity has been sluggish partly because few dealmakers seem to have settled on the best strategy forward.

Strategic transactions sank 82 percent in value from $17.7 billion in Q4'23 to $3.2 billion in Q1'24 but increased in volume 6.4 percent from 236 to 251. For PE, the trends were reversed: while deal value leaped 68.5 percent from $2.8 billion to $4.6 billion, deal count decreased 20 percent from 75 to 60. By far, the highest number of transactions was in advertising (136), followed by interactive media and services (58) and movies and entertainment (57).

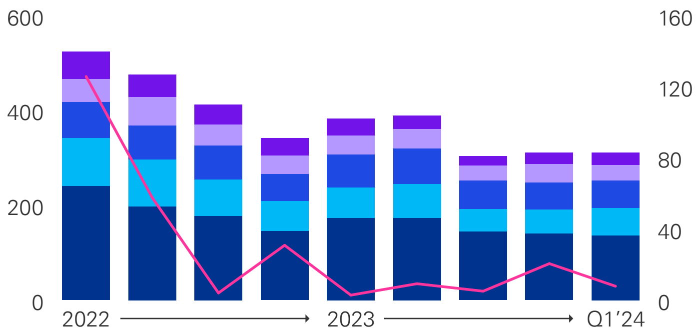
The biggest media deal of the quarter was the $1.73 billion purchase of baseball's Baltimore Orioles by a group of investors led by Carlyle Group cofounder David Rubenstein.

## Q1'24 highlights

**311** deals ▲ **0%** increase QoQ

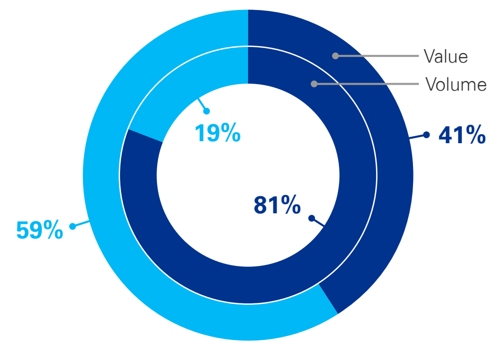
**$7.8** billion deal value ▼ **62%** decrease QoQ

## Media deal activity by subsector




## Q1'24 media PE/strategic mix

Outer ring represents value. Inner ring represents volume.




*Includes SPAC deal activity

## Top media deals Q1'24

| Acquirer | Target | Rationale | Value (billions) |
|---|---|---|---|
| David Rubenstein-led investors | Baltimore Orioles | Death of previous owner | $1.7 |
| RedBird IMI | All3Media | Global content expansion | $1.5 |
| CVC Capital, Haveli Investments | Jagex | Supporting continued subscriber and revenue growth | $1.2 |
| Take-Two | The Gearbox Entertainment Company | Expanding Gearbox's gaming franchises | $0.5 |
| Two Circles, Charterhouse Capital | Let It Fly Media | Enhancing global marketing capabilities | $0.3 |

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Telecom

# Reversion to the mean

After a brief surge in Q4'23 driven by KKR's $23.6 billion acquisition of Telecom Italia's wireline assets, the M&A tally in the subsector went into reverse in Q1'24. Telecom deal value dove 87.2 percent from $28.2 billion to $3.6 billion, while deal volume dropped 35.2 percent from 71 to 46. Given that companies in the subsector must make significant capital spending on infrastructure to compete, high interest rates were clearly a deterrent to more M&A.

Volume for both strategic and PE deals fell—21.6 percent to 29 and by half to 17, respectively. Value-wise, strategic deals almost doubled from $1.4 billion to $2.7 billion while for PE deals, it fell 96.5 percent from $26.8 billion to $1 billion without a comparable transaction like the KKR-Telecom Italia deal.

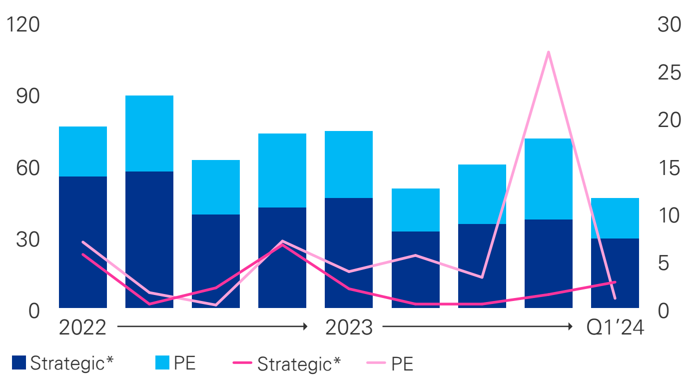
Keysight Technologies' $1.5 billion takeover of UK-based Spirent Communications was the largest transaction of the quarter. The combination would lead to a bigger and cross-border telecom network testing firm.

## Q1'24 highlights

**46** deals ▼ **35%** decrease QoQ

**$3.6** billion deal value ▼ **87%** decrease QoQ

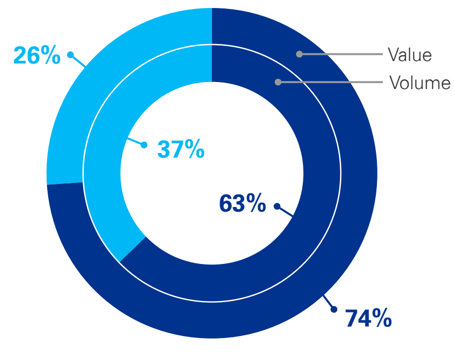
## Telecom deal activity by type




*Includes SPAC deal activity

## Q1'24 telecom PE/strategic mix

Outer ring represents value. Inner ring represents volume.




*Includes SPAC deal activity

## Top telecom deals Q1'24

| Acquirer | Target | Rationale | Value (billions) |
|---|---|---|---|
| Keysight Technologies | Spirent Communications | Cross-border expansion | $1.5 |
| Phoenix Tower International | Cellnex's Ireland business | Expansion of mobile business in Ireland | $1.1 |
| CityFibre, Antin Infrastructure | Lit Fibre | Expansion of fiber network in the UK | $0.1 |

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# A growth story for dealmakers

TMT dealmaking has been stubbornly stuck in low gear for over two years. Despite repeated predictions of an imminent recovery, M&A players still seem spooked by questions surrounding, among other things, the timing of the Fed's anticipated interest rate cuts and the impact of the US presidential election on the deal market. In such a cautious atmosphere, many dealmakers are extra focused on post-transaction cost-cutting opportunities to ensure that the deal pays off.

But they might want to also take a closer look at the potential for revenue growth. Commercial and operational due diligence often doesn't go deep into go-to-market (GTM) capabilities or revolves almost exclusively around near-term cost issues to quickly develop the deal thesis. By contrast, considering medium- and longer-term revenue opportunities may be seen as too all-encompassing or too fuzzy.

We believe diligence focused on revenue growth is as important, if not more, than vetting costs. Especially at a time of macroeconomic uncertainty, dealmakers will want to doubly make sure front-office and sales prospects are robust enough to help justify the multiples they're paying.

These top-line growth opportunities differ depending on the "shape" of the deal—whether it's a full-on transformation, consolidation, bolt-on, or tuck-in. A transformation, which creates what will be a new business and structure for both parties, would likely lead to opportunities in brand-new markets and to-be-developed products or services. A consolidation or tuck-in, where the existing entities keep their same objectives with add-on opportunities created by integration, would see more significant cross-sell and upsell opportunities with value created from amalgamations of products or solutions. Based on a quantifiable assessment of what will generate the anticipated growth, dealmakers should adjust the integration plan and priorities.

You can think of the GTM decisions to reach these goals as "what you sell," "how you sell," and "how you operate" while taking into account how they relate to each other. For example, adjustments to product packaging or pricing will have a direct impact on how it is sold and how satisfied the customers are. Levers to apply may vary and include product strategy/roadmap, potential partners, packaging/pricing, demand generation and lead quality, sales model, incentives, etc.

A growth-focused integration effort must clearly address how these different levers will be adjusted. To formulate a plan, it is essential to assess the current GTM performance and connect it to the current tactics. Then, develop a GTM roadmap to chart the effort and risk, as well as the dependencies between these planned changes. This process consists of:

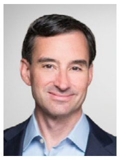
Baselining performance of the current GTM model, including shape of revenue, sales and specialist roles, direct and partner sales motions, etc. Among other things, look at:

- Product strategy and offer, pricing structure, and discounting alignment to needs-based buyers
- Sales and marketing performance and the return on investment

Evaluating and validating root causes of performance issues resulting from a disconnected GTM process

Identifying levers for improvement and quantifying their high-level impact

Armed with such analytical insights into fueling revenue growth, we believe dealmakers can be more confident that the transactions they are pursuing will ultimately pay off—even in a less confident M&A market.



**Perry Ziff**
*Managing Director*
*Deal Advisory & Strategy*

# Gathering momentum?

The US economy continues to perform well. Real GDP grew 3.4 percent in Q4'23 and 2.5 percent for all of 2023. In 2024, KPMG Economics expects similar growth to last year with no recession on the horizon. Consumer spending will continue to drive the economy but will slow slightly over the course of the year due to the high cost of borrowing. GDP growth in Q1'24 was 1.6 percent in Q1'24, but this masked the underlying strength of the consumer. Growth in Q2'24 is expected to be higher at 2.1 percent while avoiding a significant rise in unemployment.

The labor market remains robust, even as job openings have come down from a peak of 12.2 million in March 2022 to 8.5 million at the end of March 2024. The persistent strength of the job market and the economy, however, could give monetary policymakers pause on when to start lowering interest rates and by how much. At the start of the year, some market players expected the Fed to cut rates as many as seven times, but inflation has been stickier than many had hoped. This is forcing everyone to recalibrate their forecasts, with some expecting even no cut this year.[1] KPMG economists' baseline projection is one cut in December 2024.

For dealmakers, the high cost of capital is a hurdle they can't ignore. Many PE transactions, in particular, are debt-financed. That means dealmakers have little incentive to proceed with M&A today if they think rates will be lower just a few months later. As a result, we are seeing more potential buyers showing interest but few who are actually buying. Likewise, for some strategic TMT buyers, the upcoming US presidential election and the future direction of the next administration's antitrust policy may be reason enough to hold off on dealmaking for now.

All this means the long slump in TMT dealmaking is likely to stretch on for a couple more quarters. Other risks such as conflicts in the Middle East, global shipping disruptions, and rising oil prices could also mar the relatively benign macroeconomic picture in the US. But barring a sudden spike in such risks, we believe the momentum for an M&A recovery could gather steam in late 2024 and 2025.

## Key considerations as we look ahead

With layers of uncertainty still casting a long shadow, TMT dealmakers above all need to prioritize the new normal of higher interest rates for longer and how that impacts financial models. This has many potential ramifications for M&A decision-making, including:

1. Challenges of increased diligence and longer transaction cycles
2. Pressure to sharpen the focus on performance and increasing cash flows (for both internal portfolio management and when looking at potential targets)
3. A greater need for efficiency and using technology to support dealmaking, integration, and driving performance

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[1] Source: Eric Wallerstein, "Doubts Creep In About a Fed Rate Cut This Year," *Wall Street Journal*, April 8, 2024

# 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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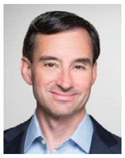

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