Encouraging signs

M&A trends in technology, media, and telecom

Q2’24

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Holding steady

In Q2’24, deal volume in the technology, media, and telecom (TMT) sector kept pace with Q1’24. Also, the top five investment banks all reported stronger investment banking fees compared with their prior quarter (although some of that was driven by debt refinancing) and noted a more positive sentiment for mergers and acquisitions (M&A). The general feeling in the deal market is that cautious optimism is returning.

There was some decrease in TMT deal value—15 percent from Q1’24. The largest transaction was Silver Lake taking private Endeavor, a sports and entertainment company, for $13 billion—but this was much smaller than the previous quarter’s top deal, the $35 billion strategic tie-up of Synopsys and Ansys. The second biggest deal was another private equity (PE) transaction, the $6.9 billion takeover of website builder Squarespace by Permira.

Partly due to the Silver Lake-Endeavor deal, media was the most dynamic subsector in Q2’24 with deal value soaring 141 percent from the previous quarter even as deal count slid 4 percent. For the same reason, PE deals outperformed strategic ones: for PE, deal value rose 118 percent on 8 percent fewer transactions but for strategic, it fell 59 percent on 4 percent more transactions. Meanwhile, both telecom and technology deal volume dropped by double digits, though deal count for the latter inched up 2 percent. For the TMT sector as a whole, 86 percent of deals were worth less than $500 million, compared with 88 percent in Q1’24.

“Steady as she goes” seems to be the operating philosophy of TMT dealmakers. Evidence of cooling inflation has led many to believe the Federal Reserve will make two or more rate cuts in 2024. While interest rates are higher, they are in line with longer historical standards of the past 20–30 years, and there is relative stability at the current levels, which allows for better planning and predictability. Sellers and buyers may still disagree on pricing, but the gap has been narrowing and a rising stock market has also helped to support closer views on valuation.

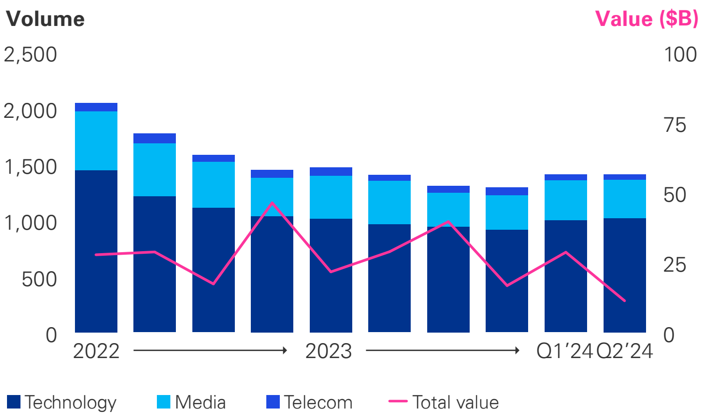
Anuj Bahal
Principal
Deal Advisory & Strategy
TMT Leader

Q2’24 highlights

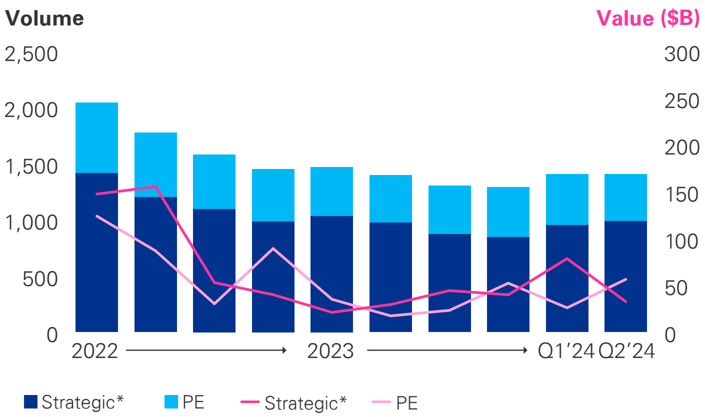
1,407 deals ▲ **0.1%** increase QoQ

$88.8 billion deal value ▼ **14.8%** decrease QoQ

TMT deal activity by sector



TMT deal activity by type

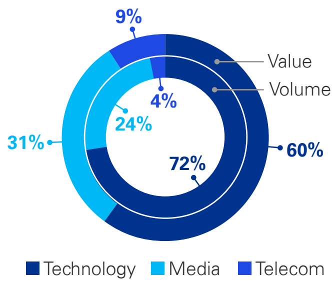


*Includes special-purpose acquisition company (SPAC) deal activity

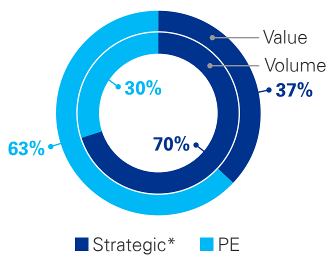
Q2’24 deal mix

Outer ring represents value. Inner ring represents volume.

Sector mix

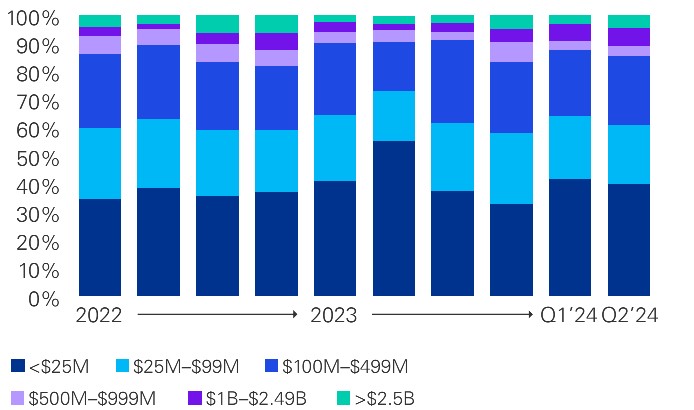


PE/strategic mix



*Includes SPAC deal activity

Q2’24 deal mix



Top strategic deals

Acquirer	Target	Value (billions)
International Business Machines (IBM)	HashiCorp.	$6.4
T-Mobile US.	Wireless operations and select spectrum assets of United States Cellular Corp.	$4.4
Nokia	Infinera	$2.3
CoStar Group	Matterport	$1.6
CyberArk Software	Venafi	$1.5
Cognizant Domestic Holdings	Belcan	$1.3

Top PE deals

Acquirer	Target	Value (billions)
Silver Lake	Endeavor	$13.0
Permira	Squarespace	$6.9
Bain Capital	PowerSchool Group	$5.6
Thoma Bravo	Darktrace	$5.3
Caisse de dépôt et placement du Québec, TPG	Aareon (Aareal Bank’s software unit)	$4.2

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis. The values and volumes data cited are for US deals announced between 4/1/2024 and 6/30/2024. 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 any change.

Technology

Outcome with an asterisk

Technology deals had mixed results in Q2'24. Although the number of transactions rose slightly from 996 to 1,015, their combined value dropped from $79 billion to $53.6 billion. The quarterly trend in deal value, however, should carry an asterisk because the Q1'24 tally benefited from the merger of Synopsys and Ansys, a $35 billion megadeal. The biggest transaction in Q2'24 was IBM's $6.4 billion takeover of HashiCorp, a cloud service provider. The next two top deals were PE-led transactions: the $5.6 billion acquisition of PowerSchool, an education software platform, by Bain Capital; and the $5.3 billion purchase of cybersecurity firm Darktrace by Thoma Bravo.

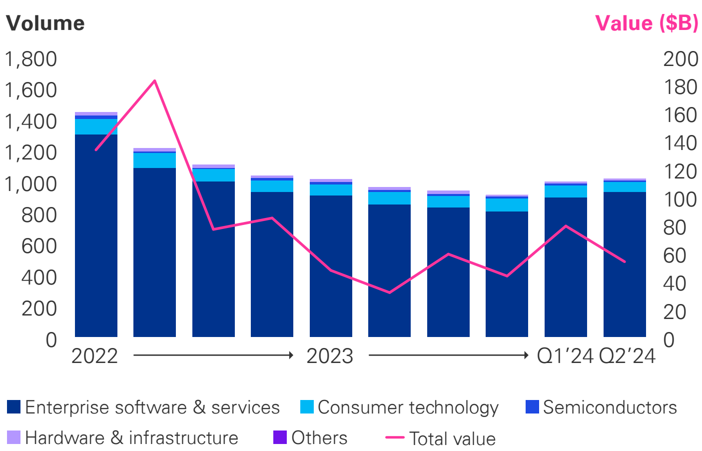
Those two deals contributed to a 202.5 percent surge in PE deal value from $10.5 billion in Q1'24 to $31.7 billion in Q2'24 even as deal volume retreated from 358 to 335. Meanwhile, lacking another megadeal like Synopsys-Ansys, strategic deal value plunged 68.2 percent from $68.5 billion to $21.8 billion, though deal volume improved from 638 to 680. Transactions in the enterprise software and services segment comprised more than 90 percent of all technology deals—928 out of 1,015 for volume and $51.9 billion out of $53.6 billion for value.

Q2'24 highlights

1,015 deals ▲ **1.9%** increase QoQ

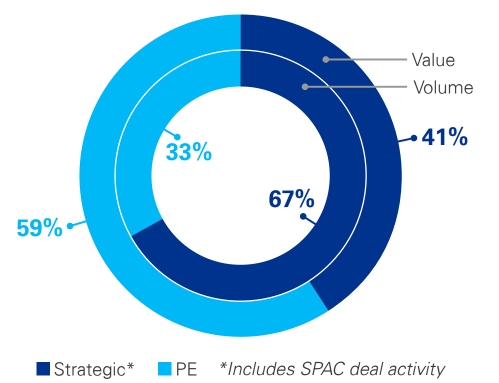
$53.6 billion deal value ▼ **32.2%** decrease QoQ

Technology deal activity by subsector



Q2'24 technology PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top technology deals

Acquirer	Target	Rationale	Value (billions)
International Business Machines (IBM)	HashiCorp	Expand IBM's hybrid cloud and AI portfolio and address challenges posed by cloud workloads and GenAI deployment	$6.4
Bain Capital	PowerSchool Group	Increase financial resources for growing its SaaS technology for K-12 education with specialized focus on its GenAI platform	$5.6
Thoma Bravo	Darktrace	Strengthen Darktrace's position in the cybersecurity space	$5.3
Caisse de dépôt et placement du Québec, TPG	Aareon (Aareal Bank's software unit)	Enhance connectivity and streamline operations in real estate management and tap into Aareon expertise and drive further growth and innovation in the industry	$4.2
EQT	Perficient	Support Perficient's growth in digital consultancy space and increase shareholder value	$3.2

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Media

More big deals to come?

Media M&A had the best quarter in more than a year, thanks to the $13 billion Silver Lake-Endeavor and $6.9 billion Permira-Squarespace mergers. Deal value more than doubled from $11.3 billion in Q1'24 to $27.2 billion in Q2'24—this was the highest tally since Q4'22 when deal value reached $30.8 billion. At 341, deal volume stayed within the 2023 range of 304–389; in Q1'24, the count was 355.

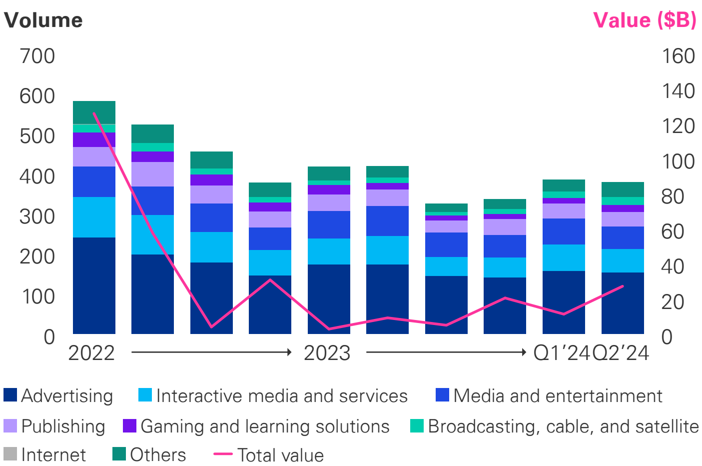
The third and fourth largest deals were also PE transactions (see "Top media deals Q2'24"). They contributed to a 428.7 percent quarter-over-quarter jump in PE deal value from $4.6 billion to $24.5 billion even as deal volume declined 9.5 percent from 74 to 67. Strategic deal value, in contrast, dropped 60.1 percent from $6.6 billion in Q1'24 to $2.7 billion in Q2'24 while deal volume only slid 2.5 percent from 281 to 274. Advertising deals were most numerous (153) in Q2'24, followed by interactive media and services (59), and movies and entertainment (56).

Q2'24 highlights

341 deals ▼ **3.9%** decrease QoQ

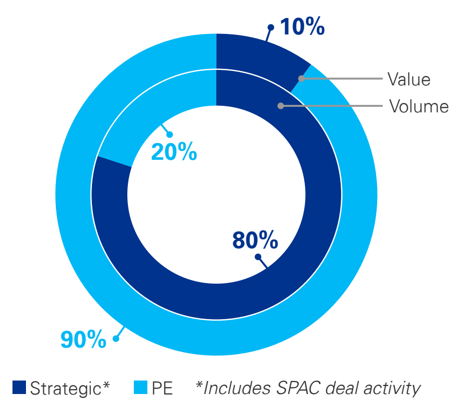
$27.2 billion deal value ▲ **140.8%** increase QoQ

Media deal activity by subsector



Q2'24 media PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top media deals

Acquirer	Target	Rationale	Value (billions)
Silver Lake	Endeavor	Enhance shareholder value and take the company private	$13.0
Permira	Squarespace	Enhance brand building capabilities and take the company private	$6.9
Blackstone	Infocom	Sale of majority stake to Blackstone, followed by complete acquisition of the company in a simultaneous deal	$1.7
Kohlberg Kravis Roberts	Superstruct Entertainment	Enhance growth opportunities for the company and also gain more access to opportunities in the European media industry	$1.4
Smith Entertainment Group	Utah Hockey Club	Expand SEG's sports portfolio, secure broadcasting rights, and enhance SEG's brand visibility in the sports industry	$1.2

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Telecom

Support from strategic deals

Telecom dealmaking weakened across the board in Q2’24. The number of transactions decreased 5.6 percent from 54 in Q1’24 to 51 while their total value slumped 42 percent from $13.9 billion to $8.1 billion. Private equity M&A was especially lackluster with deal value sinking to less than $1 billion in Q2’24 from $10.7 billion in the previous quarter while deal volume fell to 18 from 22. By contrast, strategic transactions soared 153.4 percent in deal value to $8.1 billion from $3.2 billion, although deal count remained virtually flat at 32 compared to 33 in Q1’24.

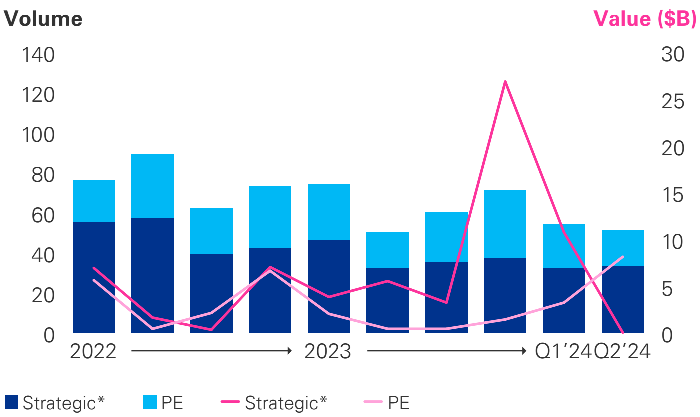
The largest deal was T-Mobile’s $4.4 billion acquisition of the wireless operations of United States Cellular Corp. to expand its 5G network, especially in rural areas. To expand its 5G internet service, T-Mobile together with Swedish investment firm EQT also paid $1 billion to acquire Lumos Telephone’s fiber-to-home platform in the third biggest transaction of the quarter. The second largest deal was Nokia’s $2.3 billion purchase of Infinera to expand its optical networks in North America.

Q2’24 highlights

51 deals ▼ **5.6%** decrease QoQ

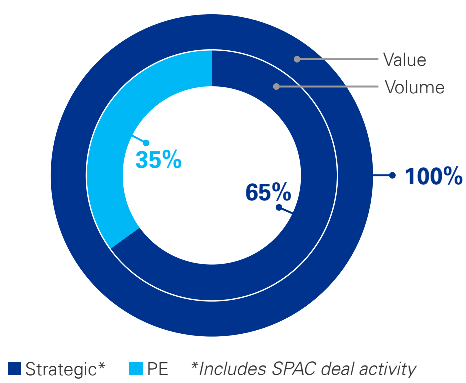
$8.1 billion deal value ▼ **42.0%** decrease QoQ

Telecom deal activity by subsector



Q2’24 telecom PE/strategic mix

Outer ring represents value. Inner ring represents volume.



Top telecom deals

Acquirer	Target	Rationale	Value (billions)
T-Mobile US	Wireless operations and select spectrum assets of United States Cellular Corp.	Enhance T-Mobile’s 5G network in rural areas and offer nationwide access	$4.4
Nokia	Infinera	Enhance Nokia's optical technology, increase exposure to webscale customers, and drive profitability in the optical networking business by diversifying their market and growing into AI	$2.3
T-Mobile US	Lumos Telephone	Acquire fiber-to-home platform services to enhance T-Mobile’s 5G services	$1.0
Belden	Precision Optical Transceivers	Enhance Belden's existing enterprise solution and fiber products portfolio	$0.3

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Better days ahead for PE

Amid the prolonged downturn in TMT M&A activity, PE firms have been focused on improving the operations of their existing portfolio companies and executing on bolt-on acquisition to add capability and scale, while being selective in new platform transactions. They are also navigating the need to deploy billions of dollars of capital raised in recent years, while facing pressure to monetize their existing assets and return capital with appropriate gains to investors. We see several signs pointing to more optimism and a recovery in the PE deal market in the coming months, building on momentum in the second quarter.

Like most industries, asset valuations across TMT have faced pressure from the combination of higher interest rates and lower growth. This one-two punch has an outsized impact on high-growth software businesses, particularly those that have historically been growth focused and recently reached or are close to reaching profitability. In short, rule of 40 companies that prioritized growth over profitability in a strong market has been uniquely challenged as software spending has declined. Many TMT-focused PE funds have faced continued pressure to achieve strong returns in the face of lower deal activity and exits, refinancing needs, and a gap between the marked and fair market value of assets. Private equity owners have reacted to this pressure with an increased focus on cost containment and operational improvements to drive more profitable growth.

Macroeconomic conditions are becoming more favorable to dealmakers. Inflation has been falling in recent months, and labor market weakness has increased the probability of a Fed rate cut as early as September. Meanwhile, capital is still flowing into PE. The refinancing market is also strong and is allowing some PE assets to restructure their debt and push out maturities, while others have moved assets into continuity vehicles or long-lived funds in order to preserve options on exit timing. Notwithstanding that, there is a significant volume of borrowing facilities facing maturity in the back half of 2024 and 2025, which we see as a tailwind for secondary M&A activity. Clarity in the regulatory environment following the upcoming US election cycle should also help boost activity at the upper end of the market, regardless of the political outcomes. At the same time, the market for initial public offerings is somewhat more positive and is likely to provide more exit opportunities for PE assets.

To take advantage of this improving backdrop, TMT PE investors can continue to double down on:

- Optimizing go-to-market capabilities to drive renewed growth
- Exploring liquidity enhancements through more aggressive working capital management
- Enhancing productivity of knowledge workers through tactical deployment of artificial intelligence

The TMT sector remains strong and viable for PE investments, many of which continue to outpace other asset classes over the long term. Historically, downturns like we've seen in the past 18 months are followed by a robust return to growth and strong-performing fund vintages. Indeed, looking back a few years from now, the current lull in deal activity may come to be seen as a mere bump in the road.

Joshua Potter
Partner
Deal Advisory & Strategy

Reasons for optimism

Economic growth in the US is slowing. However, this hardly means a slump ahead. KPMG economists expect annual GDP growth to decline from 2.5 percent in 2023 to 2.4 percent in 2024 and 1.5 percent in 2025. The main culprit for the slowdown will be consumer spending, which is feeling the pinch from higher rates, making consumers more discerning in their purchases. Elevated rates are also hindering home purchases—a main driver of consumption growth. Still, the economy remains resilient, and both consumption and investment should slowly rebound in 2025 as the Fed's rate cycle is poised to reverse.

Inflation is falling but remains sticky, especially in services. Wage growth is moderating, but there are still more job openings than job seekers in some sectors. Goods inflation, meanwhile, has returned to pre-pandemic levels. Retailers have responded to the consumer pullback with discounts.

The Fed is widely expected to cut rates in the coming months. KPMG Economics is forecasting it to cut 50 basis points (bps) in September, 25 bps in November, and 25 bps in December, which will bring the fed funds rate to 4.25–4.50 percent. In 2025, we are forecasting six 25-bps rate cuts, barring inflationary policy decisions by the next administration.

Reinflation, however, is an economic risk for H2'24, along with the US presidential contest. A resurgence of inflation could follow if market players push down interest rates sooner in anticipation of a Fed move. If this scenario plays out—as happened earlier this year—it will only delay the Fed's own action. And that will have a knock-on effect on M&A, which usually suffers when high borrowing costs curtail funding for deals. As for the November elections, the uncertain outcome is keeping some TMT dealmakers on the fence. Whether future US regulatory, tax, environmental, and trade policies will be favorable for M&A won't become clear until the country learns who's in the White House.

But the uncertainty will eventually dissipate, and we believe dealmaking will gather steam. A key M&A theme in the TMT sector will revolve around business transformation with new technologies, including artificial intelligence (AI). Since the unveiling of ChatGPT less than two years ago, companies everywhere have been seeking to harness the power of generative AI to make their operations more modern, efficient, and resilient. They are spending billions on software, data centers, and cybersecurity to strengthen their AI capabilities. It's a matter of time before M&A in this space picks up. At the same time, online streaming and gaming platforms will continue to consolidate and realign to meet consumer demands. At the start of Q3'24, an investor consortium led by Skydance, a diversified entertainment company run by the son of Oracle founder Larry Ellison, committed more than $8 billion to buy the storied Hollywood studio Paramount Global and its streaming service. Expect more similar media tie-ups.

Key considerations as we look ahead

In Q3'24 and beyond, TMT dealmakers will continue to face fluid conditions even as the overall macroeconomic picture comes into sharper focus. As they prepare for new deals, they will need to keep a close eye on, among other things:

1 Interest rates

Watch every statement and move of the Fed, which is trying to achieve lower inflation without triggering higher unemployment—or a soft landing.

2 US election

The presidential and congressional control contests are tight, with taxation, tariffs, trade, and many other issues to be affected by the outcomes in November and the matrix of officeholders in the new year.

3 Geopolitics

Dealmakers may be used to living with ongoing conflicts, including Gaza and Ukraine, and tensions between other US trading partners, but any of them could escalate anytime into a major market-moving event.

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TMT Leader

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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