KPMG

Will this year be different?

After two years of decline in technology, media, and telecom M&A, the economic uncertainty that held back deals is fading

M&A trends in technology, media, and telecom

2023

kpmg.com

A down year ends with renewed hope

After the sharp falloff in deal activity in 2022, deal makers hoped for a rebound in 2023. But it turned out to be a year of continuing decline in deal volume across technology, media, and telecom. Deal value declined steeply in both technology and media and only rose in telecom on the strength of a massive KKR-led deal for Telecom Italia wireline assets. Not counting that deal, U.S. telecom deal value was down about one-third from 2022 (see By the Numbers, page 4). Deal volume declined by about the same amount for both strategic and private equity buyers, but deal value dropped far more for strategics, reflecting the relative lack of large technology and media transactions vs. 2022.

A year of steep decline

	Value	Volume
Technology	-63.5%	-22.4%
Media	-83.0	-22.8%
Telecom	+41.9*	-16.7%
TMT total	-64.9	-22.3%

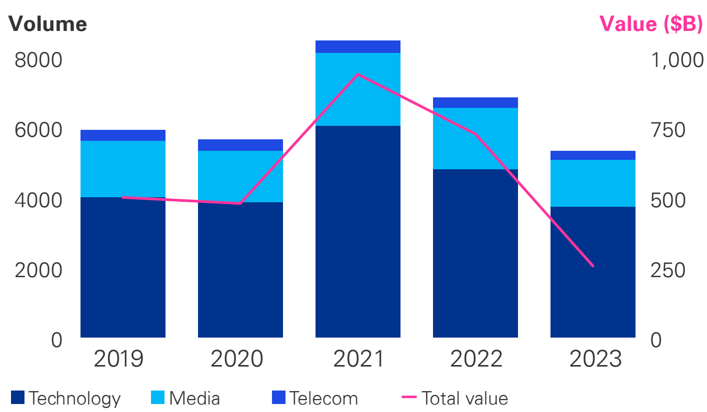
As in 2022, uncertainty about the economy held back deal making. Economists predicted that persistent inflation and the Fed's rate hikes to halt the price spiral would lead to recession in the second half. In a yearend KPMG survey, deal makers across industries cited the high cost of capital as the No.1 factor holding back deals. The persistent gap between buyer and seller expectations about valuations was a close second: sellers were holding out for the multiples of 2021 and buyers were waiting for valuations to come down.

But the year ended on a high note as the causes of uncertainty faded. The long-anticipated recession never appeared. Inflation dropped from an annual rate of 6.5 percent in December 2022 to 3.4 percent in December 2023. The Fed stopped hiking rates and started talking about rate cuts—and major stock indices racked up new record highs. As 2024 gets underway there are more reasons to believe that deal making will revive—and reasons to be cautiously optimistic, too (See Outlook, page 10).

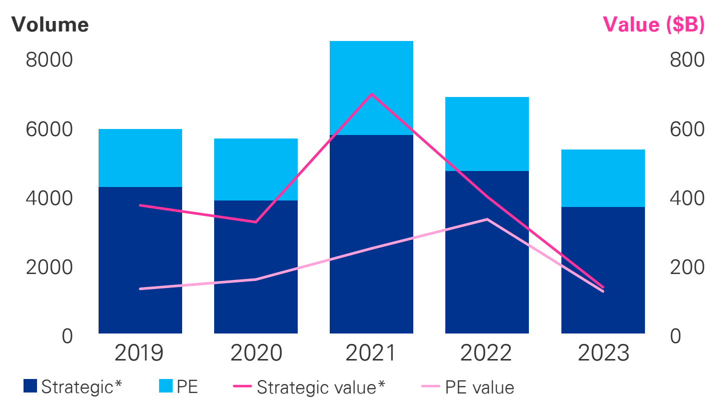
2023 highlights (all TMT deals)

5,318 deals ▼ **-22%** decrease YoY | **$254.7** billion deal value ▼ **-65%** decrease YoY

TMT deal activity by subsector



Strategic vs. private equity



*Includes SPAC deal activity

The year in review

For those deals that did take place, five trends drove most of the sector's M&A activity:

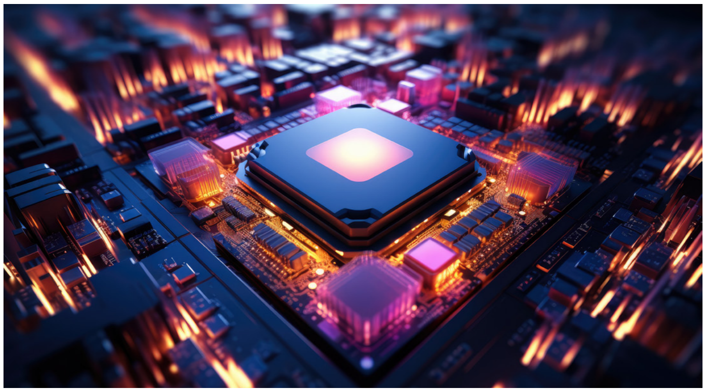
Technology

The AI boom
The release of Chat GPT in late 2022 set off a scramble for corporations to build generative AI capabilities. Software companies redoubled their AI efforts. Adobe, for example, has reportedly acquired Rephrase Technology, an AI video technology startup, to bolster its suite of AI-upgraded Creative Cloud products.[1]

AI chips
The AI boom also extended to the semiconductor business, as companies such as AMD, Apple, Intel, Qualcomm, and Samsung ramped up the design and production of specialized AI products. AMD signed an agreement to acquire Nod.ai (terms not disclosed) to expand its AI software capabilities make it simpler to use AMD hardware for AI. The deal also accelerated the company's advance in open-source compiler technology and AI solutions.

Application modernization and hybrid cloud
Customers are focusing on application modernization and hybrid cloud computing, driven by technological advancements in containerization and Kubernetes. Rocket Software, for instance, announced the acquisition of OpenText's Application Modernization and Connectivity Business for $2.3 billion. The deal will create a more diverse modernization portfolio that aligns with customer demands, hosted on-premises or through a hybrid cloud solution.

Cyber software and services
Cybersecurity continues to be a top priority for both strategic and private-equity player. The biggest deal of the year in technology was Cisco's $28 billion for Splunk, a maker network monitoring and security software. Other deals include Palo Alto Networks' $625 million deal for Talon Cyber Security. The deal will enhance the Prisma SASE platform and enable secure access to business applications using Talon's Enterprise Browser.



Media

Blockbuster content deals were out—and ad platforms were in.

Digital advertising
Consumer brands recognize the potential to monetize shopper data through targeted advertising and promotional services to brands. Omnicom's acquisition of Flywheel Digital for $835 million was a prime example. The deal helps Omnicom enhance its foothold in both the digital commerce and retail media industries.

OTT platforms
Despite weaknesses in the streaming media business in 2023, deal making continued in over-the-top services with more platform consolidation. In November, Disney agreed to purchase NBC Universal's one-third interest in Hulu for$8.6 billion, giving Disney 100 percent ownership of the streaming channel

Telecom

Telecom deal volume dropped 16.7 percent from 2022 year. But overall deal value grew by 41.9 percent in our count because of the $23.6 billion KKR-led deal for Telecom Italia assets. Other highlights included Brookfield Infrastructure Partners and Ontario Teachers' Pension Plan's $5.5 billion bid for Compass. Bain Capital's acquisition of the Chindata Group, a hyperscale data center company, for $3.2 billion was another notable transaction.

Infrastructure spending to keep up with demand for bandwidth and cloud capacity drove deal activity throughout 2023:

Even more fiber
Cloud, streaming, and the Internet of Things (IoT) continue to drive demand for bandwidth, which translates into demand for fiber and more fiber deals. Shenandoah Telecommunications, for example, agreed to acquire Horizon Telcom for $385 million for its Glo Fiber segment, with plans to connect 150,000 more homes by the end of 2026.

Even more data center demand
In the U.S. market alone, we expect demand to reach 35 gigawatts by 2030, up from 17 gigawatts in 2022 and to double by 2030. This is driving partnerships and collaborations to deliver standardized, more easily manufactured data centers, as well as M&A. Lumentum Holdings, for example recently completed a $750 million acquisition of Cloud Light Technology, which could double Lumentum's cloud data center revenue and position it as a leader in the photonics to cloud operators.

Kevin Bogle
Principal
Deal Advisory & Strategy
TMT Leader

By the numbers

Declines across the board

The total number of TMT deals fell by 22.3 percent from 2022 (from 6,842 to 5,318). That's about 10 percent below the 2019 pre-pandemic level. Total TMT deal value skidded by 64.9 percent from more than $725 billion in 2022 to $254.7 billion in 2023. The biggest transaction announced in 2023 was Cisco's $28 billion bid for Splunk. In 2022, the largest transaction was Microsoft's $68.7 billion bid for Activision Blizzard. The second-largest strategic deal was Nasdaq's $10.5 billion acquisition of financial software maker Adenza'.

Overall, the number of strategic deals fell by 22 percent (from 4,692 to 3,658). Value fell 68 percent from $395.3 to $133.4. PE deals fell by 22.7 percent, from 2,150 to 1,660, while the total value of PE deals fell by 63 percent from $329.9 billion in 2022 to $121.3 billion in 2023.

The largest PE deal in TMT announced in 2023 was the $23.6 billion acquisition of Telecom Italia, led by KKR. The next-largest PD deal was the $12 billion acquisition of Qualtrics, a maker of "experience management" software, by Silverlake and the Canada Pension Plan Investment Board. In 2022, the largest private deal was Elon Musk's $44 billion bid for Twitter.

Top strategic deals in 2023

Acquirer	Target	Rationale	Value (billions)
Cisco Systems	Splunk Inc.	To provide security analytics across different devices and environments	$28.0
Nasdaq, Inc	Adenza Group, Inc.	To add advanced risk management, regulatory, and capital markets software and technology solutions	$10.5
Walt Disney Co.	Hulu	To gain 100 percent platform ownership, merge streaming operations on a single app, and generate advertising	$8.6
Savvy Games Group	Scopely, Inc	To enhance Savvy's capability for game development and expand Scopely's portfolio	$4.9
Concentrix Corporation	Webhelp SAS	To strengthen its end-to-end CX value proposition	$4.8

Top private equity deals in 2023

Acquirer	Target	Rationale	Value (billions)
KKR (lead investor)	Telecom Italia network	Divestiture of land-line network to KKR-led consortium	$23.6
CPP Investments, Silver Lake	Qualtrics	To drive category-defining innovation and efficient growth at scale to become the next great enterprise cloud software platform	$12.5
Francisco Partners, TPG	New Relic	To gain access to New Relic's technology and intellectual property and work with management to continue investing in research and development	$6.5
Brookfield Infrastructure Partners	Compass Datacenters	To enhance their fiber expansion strategy and provide substantial value for shareholders	$5.5
Blackstone, Vista Equity Partners, Abu Dhabi Investment Authority,	Cvent	Blackstone-led group acquires leading event-management software supplier, adding to Blackstone investments in events and travel	$4.6

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and majorly excludes asset purchases/minority purchases. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 12/31/2023. 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 changes.

By the numbers

Technology

Still holding back

Both deal volume and value in technology deals fell again in 2023—and more sharply than in 2022. Announced deals fell by 22.4 percent from 4,791 to 3,717. The value of tech deals announced in 2023 was $174.2 billion, down by 63.5 percent from $476.8 billion in 2022.

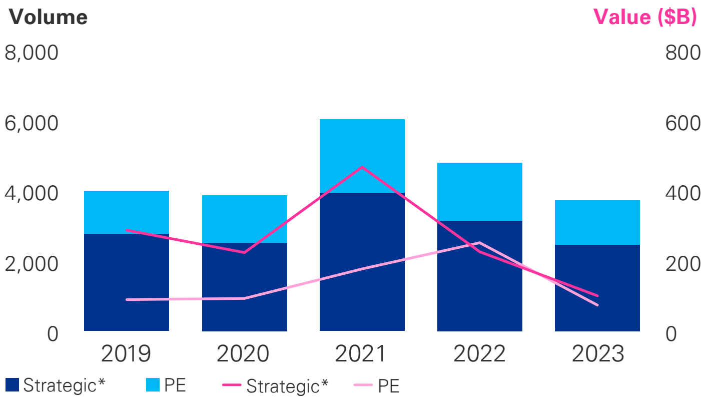
In the technology sector, strategic deal volume comprised 66 percent of the M&A mix, with PE deals representing the remaining third, similar to the split in 2022. About 58 percent of the overall transaction value was strategic investments, with the remaining 42 percent in PE.

Q4'23 highlights

3,717 deals ▼ **-22.4%** decrease YoY

$174.2 billion deal value ▼ **-63.5%** decrease YoY

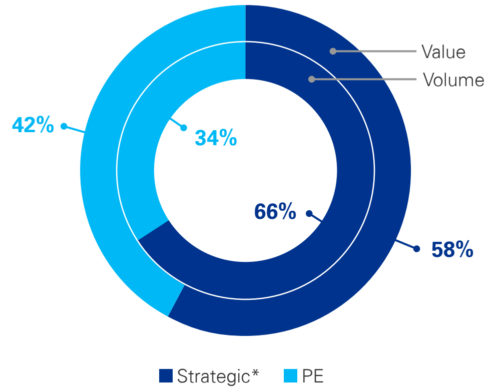
Strategic and PE technology deals



*Includes SPAC deal activity

Technology PE/strategic mix - 2023

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top technology deals

Acquirer	Target	Rationale	Value (billions)
Cisco Systems	Splunk Inc.	To provide security analytics across different devices and environments	$28.0
CPP Investments, Silver Lake	Qualtrics	Expanding enterprise cloud software platform	$12.5
Nasdaq, Inc	Adenza Group, Inc.	To add risk management, regulatory, and capital markets software and technology	$10.5
Francisco Partners, TPG	New Relic	To gain access to New Relic's technology and intellectual property and work with management to continue investing in research and development	$6.5
Concentrix Corporation	Webhelp SAS	To strengthen its end-to-end CX value proposition	$4.85

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By the numbers

Media

No big deals

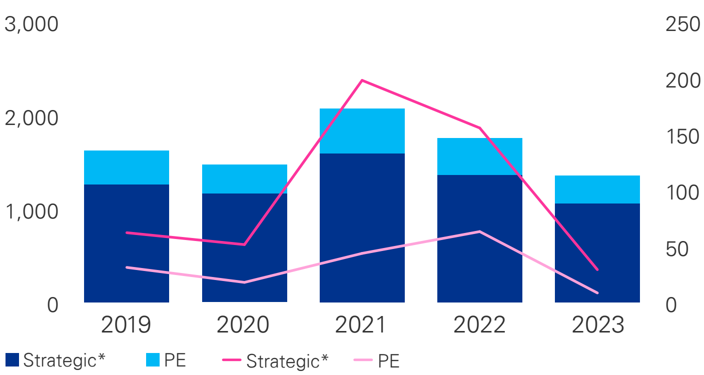
In 2022, massive media deals were announced: Microsoft's $68.7 billion Activision bid and Elon Musk's $44 billion deal to purchase Twitter. and numerous other double-digit billion-dollar deals. In 2023 there were no deals exceeding $10 billion. The largest media deal was Disney's buyout of NBC Universal's Hulu shares for $8.6 billion. In 2023, total media deal value dropped 83 percent from 2022. Deal volume dropped by 22.8 percent, from 1,751 to 1,351 announced transactions. This was the lowest level in five years. Of the transactions, 77.9 percent of the volume and 77.8 percent of the value came from strategic investments. The other 22.1 percent of volume and 22.2 percent value came from PE investments.

2023 highlights

1,351 deals ▼ **-22.8%** decrease YoY

$37.1 billion deal value ▼ **83.0%** decrease YoY

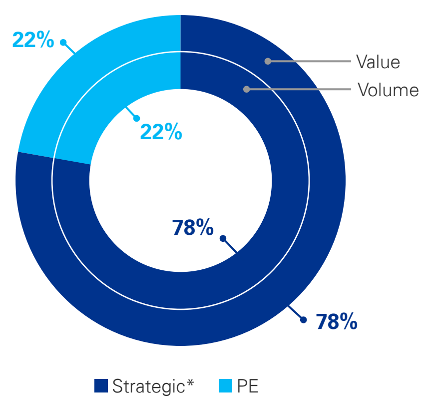
Strategic and PE media deals



*Includes SPAC deal activity

Media PE/strategic mix - 2023

Outer ring represents value. Inner ring represents volume



*Includes SPAC deal activity

Top media deals

Acquirer	Target	Rationale	Value (billions)
Disney	Hulu	Disney attains ownership of the streaming channel buy purchasing NBC Universal's share	$8.6
Savvy Games Group	Scopely, Inc	To enhance Savvy's capability for game development and expand Scopely's portfolio	$4.9
Miriam Adelson and Family	Dallas Basketball Limited	To acquire majority ownership and the right to serve as governor of the Dallas Mavericks	$3.5
Screaming Eagle Acquistion Corp.	Lionsgate Studios	To create a standalone studio and capitalize on Lionsgate's existing content and expertise	$2.6
New Mountain Capital	Broadcast Music	To use the proceeds for corporate purposes, which may include the repayment of debt	$1.7

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By the numbers

Telecom

Investors focus on infrastructure and telecom network assets

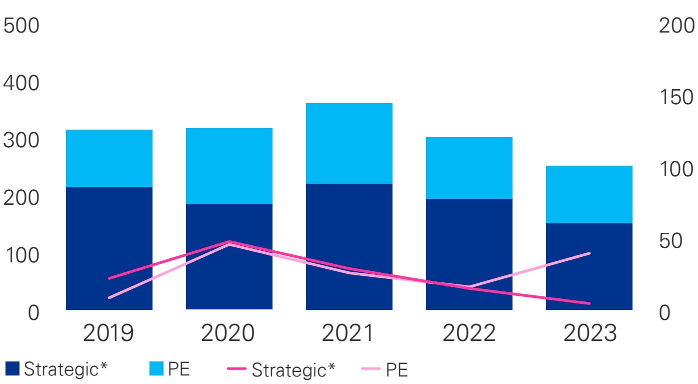
In the first half of 2023, the telecom companies prioritized infrastructure spending over M&A investments. This inward focus, combined with a tighter credit market, limited overall M&A activity in 2023, as in other sectors. However, while the deal count fell, deal value fell by far less than in other TMT subsectors due to the $23.6 billion acquisition of Telecom Italia wireline assets led by KKR. We count transborder deals involving a U.S.-based acquirer or target; in the past few years the value of outbound telecom deals has matched or exceeded that of purely domestic transactions.

2023 highlights

249 deals ▼ **-17%** decrease YoY

$19.8 billion deal value ▼ **-35.3%** decrease YoY

Strategic and PE telecom deals



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Telecom PE/strategic mix - 2023

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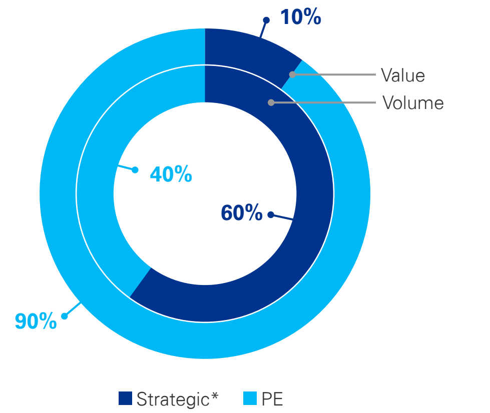

*Includes SPAC deal activity

Top telecom deals

Acquirer	Target	Rationale	Value (billions)
KKR	Telecom Italia network	Divestiture of land-line network to KKR-led consortium	$23.6
Brookfield Infrastructure Partners	Compass Datacenters	To transfer its last-mile network linking street cabinets to individual homes	$5.5
Bain Capital	Chindata Group	To use its optical transceiver products	$3.2
British Columbia Investment Management, Searchlight Capital Partners	Consolidated Communications	To expand its commercial fiber and Glo Fiber business	$3.1
EQT, Public Sector Pension Investment Board	Radius Global Infrastructure	To increase origination activity and expand globally	$3.0

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Deep dive

Integration priorities for technology deal makers

When dealmaking volume returns, the focus for deal makers may shift to integration—how to bring in a new organization, its assets, and people in ways that protect and create value. Successful integration becomes more critical and challenging as deals become more complex—taking acquirers into new markets and product categories, building new business models, and requiring significant revenue synergies. KPMG recently surveyed 150 TMT M&A leaders to understand their integration challenges and aspirations. We also asked about how they evaluate integration success—and the causes of integration failure. Here are some of the findings.

What are the top integration concerns?

Unsurprisingly, achieving projected cost and revenue synergies is the most important challenge and integration priority. Other important issues include retaining talent and integrating technology systems, followed by regulatory concerns. When asked where they anticipate the most difficulty integrating functions, customer success/support topped the list, followed by corporate IT and cybersecurity, sales & marketing, research and development, and product engineering. Finance and human resources are seen as the least difficult to integrate.

What are the typical challenges your company faces when integrating an acquired company within the first 100 days of transaction close?

Employee retention

The risk of talent loss has always been a top concern in integration, particularly in technology, where key employees with unique skills and knowledge are essential to the target's value. The tight labor market in the US and competition for talent in fast-growth areas such as AI increases the potential risk of talent loss.

The M&A leaders in our survey appear confident that they have a good handle on retention. Nearly two-thirds (63 percent) said their employee retention efforts during integration have been successful; 37 percent rated themselves highly successful.

What constitutes a successful retention program? According to the survey, the overwhelming answer is a robust and comprehensive employee engagement strategy that includes tangible incentives, especially career opportunities, and two-way communication to understand (and address) new employees' concerns and clarify to them what the benefits of the transaction are for them.

What measures did you take to successfully retain key employees during M&A integration? (top 3 responses)

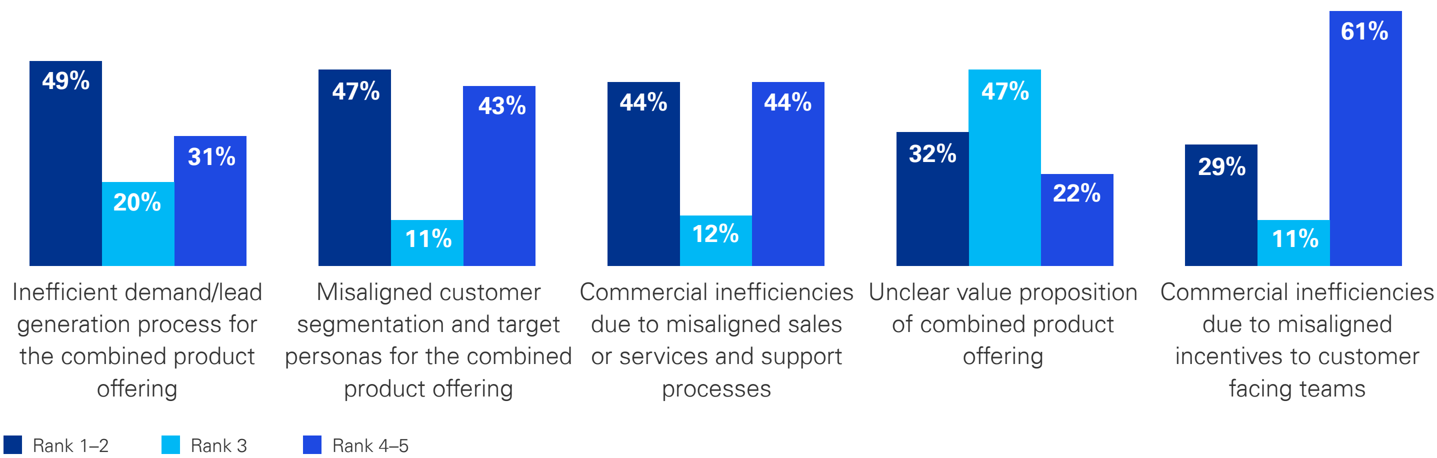
Customer experience and sales & marketing

Integrating customer-facing activities is critical to the smooth operation of the combined companies and continued growth. Improving the technology customer experience is one of the most complex integration challenges companies face, yet it creates significant value. The omni and digital customer experience was rated as highly complex by 44 percent of respondents, second only to rationalizing hosting and cloud services costs. Improving omni and digital customer experience was cited as a highly effective way to capture value by 43 percent of respondents, second only to the optimization of physical assets and hardware footprints.

Sales and marketing are the most challenging functions to integrate—89 percent of respondents say it is complex. According to our survey, the two biggest obstacles to successful integration are efficient demand or lead generation processes for the combined product offering, followed by unaligned customer segmentation and target personas.

The lack of consolidated pipelines creates complexity in the integration process. It results in limited visibility, communication issues, and misaligned targeting, which may cause duplication of efforts and intramural competition between the newly combined sales forces due to misaligned customer segmentation.

Why do you believe that sales and/or marketing has been a complex area to integrate?



Note: Bars may not add to 100 percent

What integration success looks like—and doesn’t

According to our survey, cost synergies still top the list of motivations for technology deals. But when it comes to measuring success, deal makers put revenue synergies ahead: 96 percent say that the difference between realized revenue synergies and base-case estimates is the metric for success (second only to integration cost vs. plan). Cost synergies and effectiveness of process and systems improvement tied at 91 percent.

What do technology deal makers think are the most common causes of integration failure? Respondents often say it is due to inadequate pre-deal analysis and evaluation. Other factors include ineffective integration planning, deal structuring, and negotiation that “misses the mark.”

Rafael Barreto
Director
Deal Advisory & Strategy

Outlook

More reasons to believe

As we noted at the start of this paper, the forces that depressed M&A activity in 2022 and 2023 seem to be receding. The Federal Reserve has stopped raising rates and is widely expected to start cutting again by mid-2024. Unemployment remains below 4 percent and consumption is holding up in the U.S. Rising equity markets gives corporate buyers more purchasing power and point to a possible revival of IPOs.

These developments offer a stronger case for an M&A revival in TMT in 2024. Acquirers and sellers are also motivated. PE firms that have been sitting on the sidelines need to deploy cash or sell off assets and corporate buyers need to find assets that will advance their business strategies. According to a December KPMG survey, PE buyers—and to a lesser extent strategic buyers—are only waiting for the start of interest-rate cuts to get started.

At the same time, there are still headwinds to consider. The inflation data are mixed: producer prices are falling but consumer prices are still rising at more than 3 percent—well above the Fed's target rate. Even if the Fed pulls off a soft landing, it's still a landing: KPMG economists predict that U.S. GDP growth will drop to 1.6 percent in 2024, from 2.4 percent in 2023, and global growth to fall to 2.2 percent.[1] The outlook on recession is mixed: Many U.S. economists still predict at least a mild recession in 2024.

Tighter regulatory oversight is also a concern, particularly in technology, where agencies in the U.S., the EU, and the UK are scrutinizing deals for potential effects on competition and innovation. In December 2024, citing "no clear path" to completing its $20 billion deal for Figma after more than a year of negotiating with U.S., EU, and UK regulators.[2] Microsoft's $69 billion purchase of Activision Blizzard finally closed in 2023, but the effort required lengthy review and accommodations to regulator demands, such as promising to continue to support Activision games on non-Microsoft devices. Now regulators in Europe are looking into Microsoft's investment in OpenAI and U.S. regulators are reportedly considering investigations as well.[3]

Finally, 2024 is a presidential election year, which increases uncertainty and can hold back investment decisions. So, on balance, we are cautiously optimistic and we know our clients are, too. In our M&A survey, 38 percent of respondents expected to make one or two deals in 2024, and 32 percent anticipated three to five. Among survey respondents, 54 percent plan to proceed with their next deal in the year's first half. Some PE firms target their next M&A deal in the second half of the year. These indicators set the stage for advanced TMT M&A volume and value throughout 2024.

Key considerations as we look ahead

As TMT deal makers seek out M&A opportunities in a more hopeful environment, they should pay particular attention to the following:

1 Stay ahead on value creation

While the market may be starting to improve, the number of high-quality assets may still be limited—and those will be highly sought after. To win, investors will need a strong conviction in their ability to drive value after the acquisition. This means pursuing revenue and commercial growth, deeper transformation, and innovation through generative AI.

2 Stay in front of trends

As generative AI continues to snowball, understand what it means and doesn't for your business. Same for what's coming next, like artificial general intelligence, to make sure your business models are not disrupted and/or you can react in a timely manner.

3 Be ready

Ensure that you have a robust M&A playbook to be able to react quickly as needed to market opportunities.

[1] See "KPMG Global Economic Outlook," KPMG 2023

[2] Akash Sriram and Chavi Mehta, "Adobe, Figma to terminate $20 bln deal over regulatory hurdles," Reuters, December 18, 2023

[3] Josh Sisco, "Both of these agencies want a piece of Microsoft's Open AI partnership," Politico, January 19, 2024

How KPMG can help you

We help our 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 life cycle. With a TMT specialization, our teams bring transactional and operational experience, delivering rapid results and value creation.

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