Global Capital Confidence Barometer

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Technology, Media & Entertainment and Telecommunications

M&A – response or resilience?

The prolonged upward trend for dealmaking is set to continue despite geopolitical and economic concerns

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Spotlight

TMT executives remain focused on M&A, appearing undeterred by geopolitical and regulatory concerns

The prolonged upward M&A trend for the TMT sector is set to continue, as dealmaking proves to be a critical strategic tool to find growth and acquire key skills and capabilities

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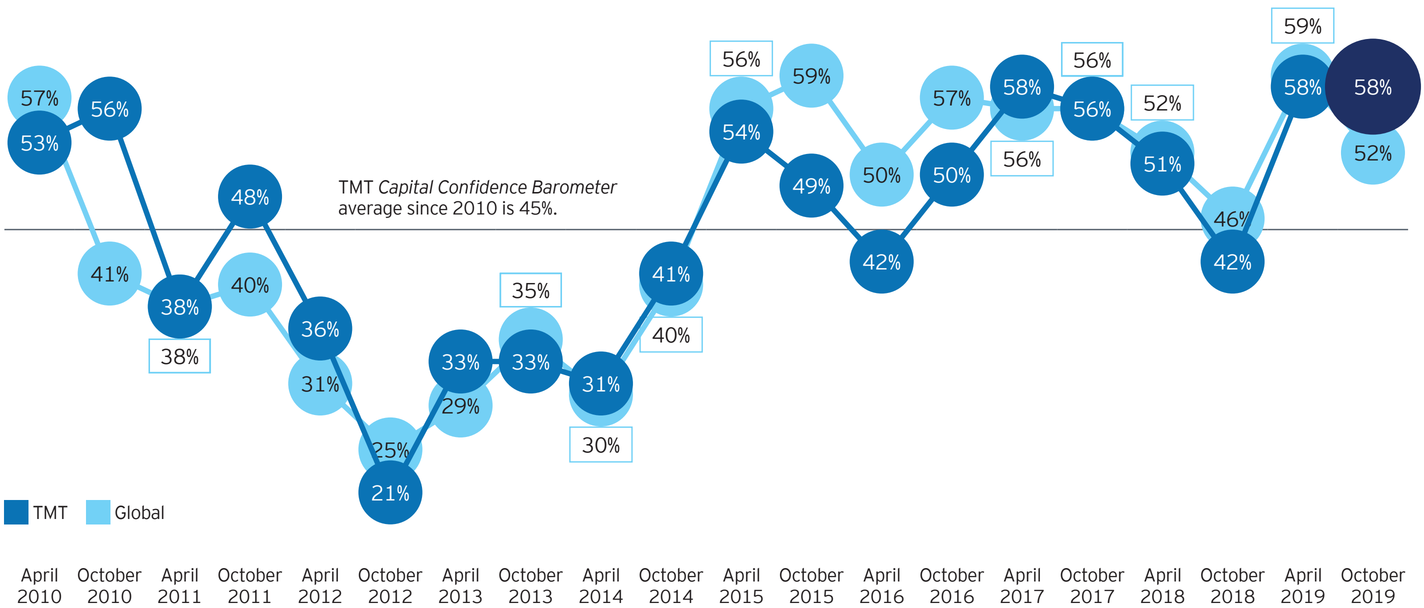
- Technology
- Media & Entertainment
- Telecommunications

According to the EY ***Global Capital Confidence Barometer***, the TMT sector will continue to see an active deal market, as 58% of TMT executives expect to actively pursue M&A in the next 12 months, on par with the result from 6 months ago and considerably higher than the 42% cited 12 months ago. This deal activity is not expected to purely be small to mid scale, as 63% of executives expect to see more megadeals (US$10b+) in the next 12 months.

M&A unswayed by geopolitical and regulatory affairs

With geopolitical risks, the recasting of trade and tariff rules, and revolving regulatory policies dominating headlines, it is not surprising that regulatory uncertainty and geopolitical uncertainty are cited as the greatest external risks to growth by TMT executives. These external headwinds will likely temper some executives' enthusiasm. While dealmaking intentions remain high, technology executives are indicating a slightly less active approach to M&A compared with six months ago (59% versus 61%), while the overall proportion of TMT executives intending to pursue deals is unchanged from six months ago.

Pipeline and closure intentions support a healthy outlook for TMT M&A, as executives look to utilize deals to navigate current and potential barriers to



Technology

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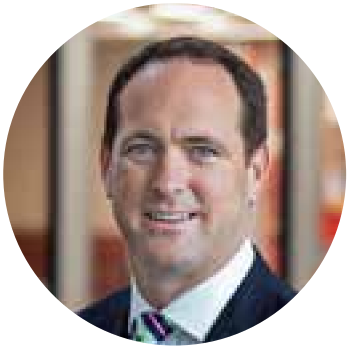

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growth. The top strategic reasons for M&A include acquiring technology, new production capabilities or innovative startups, breaking into new markets or growing into an adjacent business activity.

The capital required for these acquisitions is being unlocked through divestments, with 57% stating they plan to outsource or divest current operations.

Confidence in the economy underpins intentions

The willingness of TMT executives to engage in dealmaking is underpinned by confidence in the economy and capital markets.

Seventy-seven percent of TMT executives expect global economic growth, and 58% do not expect an economic slowdown in the near to mid term. Further, at least 70% of respondents are confident in the performance of corporate earnings, market stability, credit availability and equity valuations. Any significant changes in these expectations in the short term may temper M&A appetite.

Competition for assets is widespread and robust

An active deal market signals intense competition, with 77% of TMT executives expecting to see increasing competition for assets in the next 12 months. This competition is expected to be powered by private capital (57% versus 47% for corporate buyers).

TMT executives are also expecting competition from other sectors, driven by the strategic need to accelerate investment in technology and digitalization, with 80% expecting an increase in cross-sector M&A. Further, 73% expect an increase in cross-border dealmaking, suggesting competitive threats from further afield.

Digital strategy high on the agenda

TMT respondents are feeling the impact digital is having on their industry. They are investing in technology to improve the customer experience, create new services or products, and reduce risk. Artificial intelligence (AI) and machine learning is seen as the technology that will have the most impact on their businesses in the next two years by 32% of respondents, compared with 13% for 5G and 18% for analytics.

Sixty-two percent of TMT respondents are dedicating 25% to 49% of their total investment capital on technology. The majority of the investment is focused on in-house development and R&D (24%), followed by direct acquisitions (21%) and JVs or alliances (19%).

56%

of TMT executives expect the number of deal completions to increase compared with the past 12 months.

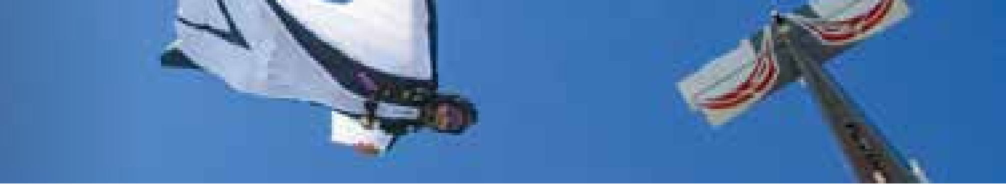
77%

of TMT executives expect to see increasing competition for assets in the next 12 months.

84%

agree that their CEO has a clear vision of how acquisitions and divestments can help accelerate their digital transformation.

Technology



Technology executives continue to see M&A as a strategic tool to drive growth, acquire talent and capabilities, and address geopolitical uncertainty

83%

of technology respondents anticipate growth in the technology sector.

79%

of technology respondents expect more competition for assets, mainly from PEs.

Despite increasing uncertainty, technology executives remain optimistic about the economy

The latest EY *Global Capital Confidence Barometer* (CCB) shows that technology executives continue to have high confidence in the global and sector economy, with four of five expecting the global economy and sector economy to grow in the next 12 months. Tech executives also have a positive view of the capital markets — more than three-quarters of respondents see corporate earnings, short-term market stability and credit availability improving.

Yet, although technology executives remain optimistic about the economy, capital markets and M&A, a number of external factors are affecting their optimism, which is down from the peak seen in the last edition of the CCB in April 2019. Ongoing trade and tariff issues, the persistent specter of Brexit, geopolitical uncertainty and underwhelming performance of high-profile tech IPOs has tech executives tempering their enthusiasm somewhat.

Further, while we have seen a slowdown in tech M&A activity in the second half of 2019, technology executives continue to have a healthy appetite for dealmaking. This is a stark contrast to the waning interest we saw a year ago. Fifty-nine percent of tech executives expect to pursue M&A in the next 12 months, two percentage points below the record-high dealmaking intentions (61%) reached in the previous CCB, but seven percentage points higher than the average for all sectors.

The higher dealmaking appetite underscores the importance of M&A as a critical strategic tool for technology companies to drive growth, gain or retain competitive advantage by quickly acquiring talent and capabilities, and deal with ongoing trade and tariff uncertainties.

Private equity (PE) continues to have a healthy appetite for tech assets, driving competition and valuation

Expressing a strong appetite for dealmaking, 79% of tech executives expect an increase in competition for assets in the next 12 months, mainly from PEs but also from strategic buyers. Eighty percent of respondents expect PE firms to be a significant acquirer of assets in the tech sector. Tech executives expect this increase in competition to test valuations, although the transaction multiples have softened in 2019.

A tailored approach for each deal that aligns a deal's strategic rationale and execution or post-deal integration can maximize value for the acquirer

Recent M&A trends show that growth deals (deals intended to drive revenues through acquisition of new capabilities) are outpacing consolidation deals (deals intended to strengthen market share and achieve cost synergies), suggesting more executives believe that acquiring technologies is significantly faster and less risky than in-house development, and in many instances is the only viable option in the dynamic technology sector.

The latest edition of the CCB highlights diverse reasons for pursuing M&A, e.g., acquisition of technology, capabilities, talent, sector convergence, entering new markets, expansion into adjacent space and dealing with trade and tariff uncertainties. CCB also highlights diverse preferences for doing bolt-on acquisitions, acquisition of transitional capabilities or transformative deals.

In light of various strategic drivers for pursuing M&A and preferences for the deal types, it's imperative that acquirers take a nuanced approach for each deal that aligns the deal's strategic rationale to the deal's execution and post-deal integration to derive maximum value from their deals. This is critical in an environment where the competition for assets is expected to go up, and acquirers may end up paying more for quality assets.

For example, buyers hunting for transformational deals need to understand that short-term cost synergies may be more challenging to realize when compared with a consolidation play or tuck-in acquisition. Instead, transformational deals require more attention and focus on validating long-term top-line synergy estimates (e.g., cross-selling existing products, new customer relationships, new products). As another example, dealmakers pursuing M&A to acquire talent or an innovative startup should have a clear plan for maintaining the innovative culture and retaining talent.

Irrespective of the deal type, it's vital for buyers to have a mechanism in place before the transaction close to track post-close progress on various strategic parameters and make certain that the deal objectives are met. A detailed commercial diligence pre-sign can validate the market attractiveness and inform appropriate strategies.

83%

expect growth in the tech sector, a marked improvement over 2018 but off the peak (92%) seen six months ago.

76%

anticipate improvements in their corporate earnings.

71%

do not expect an economic downturn in the next 12 months.

59%

expect to make a deal in the next 12 months, seven percentage points above the average for all sectors.

79%

expect more competition for assets, mainly from PEs.

64%

anticipate an increase in megadeals (US$10b+), nine percentage points higher than the average for all sectors.

45%

have considered or are considering an acquisition because of ongoing trade and tariff uncertainties.

41%

say acquiring talent, technology and capabilities is the key driver for the deals.

81%

expect their next M&A to be acquisition of transitional capabilities or bolt-on acquisitions.

Media & Entertainment

Megadeals and increased appetite for M&A are on the agenda for media and entertainment companies

59%

now expect to actively pursue M&A in the next 12 months, up from 42% in October 2018.

77%

expect increasing competition for assets in the next 12 months.

Media and entertainment companies are looking to M&A as the fastest route to acquire the capabilities that will augment and accelerate their growth agendas and digital strategies

According to the EY *Global Capital Confidence Barometer*, the prolonged dealmaking upcycle is expected to continue for media and entertainment executives, as 59% now expect to actively pursue M&A in the next 12 months — up from 42% in October 2018 and the long-term average of 47%. Deal value is expected to remain high, with 60% of executives expecting more megadeal (US$10b+) M&A activity in the next 12 months. The speed with which companies need to transform their portfolios is, in many cases, difficult to accomplish without engaging in bold M&A.

Dealmaking remains at the heart of corporate transformation plans

Companies are looking to M&A to navigate barriers to growth, as 60% of executives expect their M&A pipeline to increase in the next 12 months, up from 40% in October 2018. For an industry driven by talent, 63% of media and entertainment companies report having difficulty hiring staff – particularly technology specialists and those with specific skillsets. This may explain why acquiring talent is cited as the main strategic driver for pursuing acquisitions.

Dealmaking is often the fastest route to build the optionality that companies need to proactively respond to evolving challenges. To unlock the capital required, 65% of executives are planning to outsource or divest some of their current operations.

Regulatory uncertainty and competition weigh heavily on the C-suite

A number of external risks continue to impact boardroom strategies, with regulatory, geopolitical and local political uncertainty cited as prominent external risks by one in three executives.

Equally pressing is the increasing competition from innovative startups, with 24% of executives stating the biggest impact of digital transformation on the industry is new players entering the market. Executives are acutely aware that a new business model or route to market can quickly undermine their competitive strengths and positioning. Proactively scanning an evolving industry landscape and continually reassessing their operating models are a necessity for today's companies.

Slowing economic growth does not infer a recession

Global economic activity has slowed in some of the major economies in 2019, but respondents still expect growth. Only 27% of executives expect a slowdown in the next 12 months, although this rises to 50% when asked about a slowdown in 2021. Today, more than three-quarters of executives (79%) see the media and entertainment sector economy as improving, up from 48% in October 2018. Further, 92% expect the M&A market to improve or remain stable in the next 12 months.

Despite some level of uncertainty about market direction, most media and entertainment respondents are positive in their outlook for the next 12 months, and expect that corporate earnings, short-term market stability, credit availability and equity valuations will further improve in the year ahead.

79%

see the media and entertainment sector economy improving.

80%

see corporate earnings in the media and entertainment sector improving.

58%

do not expect an economic slowdown in the near to mid term.

82%

are allocating more than a quarter of their investment capital to their digital future.

59%

are actively planning to respond to ongoing geopolitical, trade and tariff concerns.

65%

are planning to outsource or divest some of their current operations.

92%

are expecting the M&A market to improve or remain stable in the next 12 months.

77%

expect increasing competition for assets in the next 12 months – 55% of it to come from private capital buyers.

94%

expect the number of deal completions to increase compared with the past 12 months.

Telecommunications

Digitization is driving the deal agenda for telecoms

55%

of executives are planning to outsource or divest some of their current operations.

71%

of operators believe that competition for assets will rise in the year ahead.

Telecoms companies are looking to M&A to help drive their transformation road maps as they combat rising competition.

According to the EY *Global Capital Confidence Barometer*, positive dealmaking intentions remain intact among telecoms companies: 50% are preparing to actively pursue acquisitions in the next 12 months, above the long-term average of 46%. The need to transform portfolios is pressing — 31% of telecoms executives see competition from existing competitors and new market entrants as the most significant challenge to their company's growth prospects.

Digital principles inform the telecom M&A mindset

Fifty-one percent of telecoms are utilizing M&A to navigate digital transformation and help future-proof their businesses, and 88% of respondents believe their CEO has a clear vision of how acquisitions and divestments can accelerate their transformation plans. Looking ahead to planned M&A, the acquisition of transitional capabilities — including digital — and bolt-on acquisitions rank ahead of transformative megadeals.

Unlocking the value of non-core assets is also top of mind, with 55% of executives planning to outsource or divest some of their current operations. This reflects ongoing interest in tower carve-outs and data center disposals, alongside network sharing and outsourcing initiatives.

New technologies are in focus as digital strategies evolve

New technologies are a critical focus for operators as they look to take advantage of digital growth scenarios. AI, 5G and the Internet of Things (IoT) are all seen as important catalysts, cited by 23%, 22% and 20% of respondents, respectively, as having the biggest impact on their business in the next 12 months. Using new technologies to improve customer experience and to create new services is seen as unlocking the most opportunities for value creation.

These attitudes are reflected in deal rationales, with access to new technology leading as a strategic driver for pursuing acquisitions and adjacent market entry ranking second. However, the importance of digital skills as a complement to changing technology needs is also apparent, with 29% of executives highlighting appropriate expertise as the key element of a successful digital strategy, which was the leading answer.

Sector confidence intact but external challenges persist

Telecoms are confident about sector growth prospects, with 55% of respondents highlighting that their view has improved over the last six months compared with just 4% citing a worsening outlook. This contrasts with 14% who see global economic prospects in decline.

Nevertheless, concerns around external pressures are never far from the surface. Thirty-one percent of respondents see competition from existing competitors and new market entrants as the most significant challenge to their companies' growth plans, while 21% view regulatory uncertainty as the greatest external risk facing their business, which was the leading answer.

Meanwhile, 71% of operators believe that competition for assets will rise in the year ahead. Private equity acquirers have accounted for three of the five largest deals in telecoms in 2019 so far, and 80% of telecoms executives expect them to be a major acquirer of assets in the next 12 months.

75%

see the telecoms sector economy improving.

31%

see existing competitors and new market entrants as the most significant challenge to their growth plans.

21%

see regulatory uncertainty as the greatest external risk to their business.

87%

believe digital transformation is an opportunity to reposition overall business strategy.

88%

believe their CEO has a clear vision of how acquisitions and divestments can help accelerate their digital transformation.

75%

of planned acquisitions involve transitional or bolt-on capabilities.

92%

are expecting the M&A market to improve or remain stable in the next 12 months.

71%

expect increasing competition for assets in the next 12 months — 58% of it to come from private capital buyers.

76%

expect an increase in cross-sector M&A driven by technology and digitalization.

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About the survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook, and identifies boardroom trends and practices in the way companies manage their Capital Agendas — EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select global EY clients and contacts and regular Thought Leadership Consulting contributors.

- In August and September, Thought Leadership Consulting surveyed on behalf of EY a panel of more than 2,900 executives in 45 countries; 70% were CEOs, CFOs and other C-level executives.
- Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.
- Surveyed companies' annual global revenues were as follows: less than US$500m (25%); US$500m–US$999.9m (25%); US$1b–US$2.9b (18%); US$3b–US$4.9b (10%); and greater than US$5b (22%).
- Global company ownership was as follows: publicly listed (57%), privately owned (31%), family owned (9%) and private equity portfolio company (3%).

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