

Technology

Global Capital Confidence Barometer



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A note from Ken Welter, EY Global Technology Sector Leader

Our latest mergers and acquisitions report continues to show a healthy M&A outlook as both transformative deals and competition for assets are on the rise.

Maintaining the optimism from late 2017, this edition of the *Capital Confidence Barometer* (CCB) shows that tech sector executives are still projecting a strong M&A outlook for 2018. Overall, 52% of tech executives said they expect to pursue acquisitions within the next 12 months, compared with 57% a year ago. While slightly moderated, dealmaking intentions remained well above the 44% average since 2010, as executives expressed a general sense of confidence about the economy and the sector.

Ongoing M&A

1Q18 saw an 8% increase in the number of announced tech deals and a 74% increase in the average deal value over the prior quarter. While deal value also increased substantially over 1Q17, volume was down 12% year over year.

Large deals are on the rise, as companies pursue bolder transformations and look to pivot to new capabilities. Over two-thirds of execs expect deal pipelines to grow in the coming year, but 85% of them also see M&A market competition heating up, with private equity expected to be the biggest competitor.

Underpinning ongoing dealmaking activity and optimism is continued confidence in the macroeconomic environment, which is seen by 78% of tech execs to be improving. Fifty-three percent of executives see sector growth improving, while 67% see corporate earnings improving.

Developing headwinds

Although deal volume levels have increased quarter over quarter, they are still lower compared year-over-year. A number of issues may have caused the tempered expectations for today's tech sector:

- ▶ Valuations continue to be rich as competition for quality assets has increased and is not expected to subside.
- ▶ The prospects of import tariffs, trade wars and closer government scrutiny of proposed deals have muddled strategies for global growth and profitability – as evidenced by international semiconductor megamergers currently hanging in the balance.
- ▶ The social media sector has become enmeshed in privacy issues and regulatory remedies.

The latest CCB captures many of these developments, with regulation and government intervention identified as the biggest risk to dealmaking (42%), while political uncertainty and geopolitical tensions were named as the biggest risk to growth (43%).

Portfolio strategy

Portfolio strategy continues to be top of mind as executives are also looking to future-proof their businesses by divesting non-core assets and those at risk of disruption. EY analysis shows that the number of global tech divestments valued over US\$100m grew 20% from 2016 to 2017, following 37% growth a year earlier. In EY's [Technology Global Corporate Divestment Study](#), 74% of tech executives say they're planning to divest within the coming year.

With the speed of innovation accelerating and activist shareholders' focus on divestments (47% of tech executives noted disposal of assets as an expected focus area), M&A will continue to be a tool utilized by many in the sector as they continue to regularly review their portfolios to determine how they need to be structured to compete in today's digital world.

Technology highlights

M&A outlook

M&A intentions abide in a growing and increasingly competitive market for tech assets.

52%

intend to **pursue acquisitions** in the next 12 months.

68%

expect their **M&A pipeline** to increase.

85%

expect **increasing competition for assets** – mainly from private equity funds.

Macro environment

While confidence remains high in the global economy and tech sector, tech executives' views have leveled out in the last six months.

78%

expect the **global economy** to continue improving.

53%

are bullish on **tech sector growth**.

61%

see tech sector **short-term market stability and availability of credit** increasing.

Portfolio strategy

Portfolio transformations are being driven at the board level – and most often, they trigger rapid divestments of underperformers and assets considered at risk.

78%

say **portfolio review** leads to decisions to divest non-performing and “at risk” assets.

47%

see **divestment** as the focus of shareholder activists.

72%

still **review their portfolios** only annually.

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