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Global Capital Confidence Barometer

Technology, Media & Entertainment and Telecommunications

In an age of M&A complexity, do you pause or proceed?

Regulation, trade and tariffs foster a deal hiatus for some, while many others move forward with acquisition plans.

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Robust M&A outlook continues, but some companies pause dealmaking plans

Transformative deals continue, but executives moderate near-term dealmaking expectations amid regulatory headwinds and rising competition from PE buyers.

Though technology, media & entertainment and telecommunications (TMT) executives expect the robust M&A market to continue, many have moderated their near-term dealmaking plans, according to the latest EY ***Capital Confidence Barometer***. After the high levels of activity seen in recent quarters, fewer TMT companies (42%) now plan to actively pursue M&A in the next 12 months — down from 51% in April and slightly below the 44% long-term average across all sectors. Dealmaking intentions trended lower within the technology and telecommunications sectors, and stayed roughly flat in media and entertainment.

Still, transformative deals continue — in fact, many serial acquirers have returned to the markets in the last few quarters. Notably, near-term dealmaking plans are much higher among companies with revenues over $1 billion (65%), which typically can allocate more resources to ongoing M&A activity, than for companies with revenues below $1 billion (23%). Fast-changing regulatory and political headwinds are causing some companies to pause their dealmaking, assess the potential impact and redouble lobbying efforts.

Market optimism remains high

Overall, TMT executives remain extremely positive about the M&A outlook, with 99% expecting the market to improve or remain stable over the next 12 months. That confidence is bolstered by strong economic indicators; the vast majority of executives believe that economic growth, corporate earnings and equity valuations will improve or remain stable. The rationale for M&A is as compelling as ever: executives view dealmaking as the most effective way to quickly expand into new markets, adjust to changing customer behavior and acquire key talent in a tight labor market.

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Shifting geopolitical and regulatory landscape becomes the biggest cause of deal failure

Executives are demonstrating the discipline to walk away from deals when challenging conditions mean they don't make sense, with 96% saying they canceled or failed to complete a deal during the past 12 months – up from 76% in our last survey. Government or regulatory interventions have become the biggest cause of failed deals (cited by 49% of executives), overtaking issues related to buyer competition and price (19%). Price competition remains a big concern for the future: 64% of executives predict rising competition for assets over the coming year, and nearly half of those respondents (48%) expect the biggest competitors will be powder-rich private equity (PE) funds.

Deal integration continues to present challenges

Executives continue to face challenges achieving their synergy targets, with more than half (52%) realizing lower-than-expected synergies from their most recent deal. Most are responding by starting the integration process earlier (52%) or setting more aggressive synergy targets (25%). TMT executives are also accelerating portfolio reviews as they respond to the disruptive forces reshaping the competitive landscape. Almost two-thirds (65%) now conduct reviews at least every six months; nearly three quarters of recent reviews (73%) identified assets that are underperforming or at risk of disruption for potential divestment.

99%

of TMT executives expect the sector M&A market to improve or remain stable over the next 12 months.

29%

of executives believe regulatory, geopolitical and policy uncertainty presents the greatest near-term risk to business growth.

Technology

Technology executives moderate their M&A expectations, but transformative deals continue

Tech sector 2018 Q3 M&A volume is down 2% year-to-date compared to 2017 and is up 2% year-over-year. Aggregate deal value has substantially increased – up 42% year-to-date compared to 2017 and up 8% year-over-year.

Dealmaking intentions trend lower amid growing geopolitical and regulatory concerns and rising competition for assets.

Though the rationale for tech sector M&A remains compelling, executives are moderating their near-term dealmaking expectations, according to the EY Technology *Capital Confidence Barometer*. Forty percent of tech executives expect to actively pursue M&A in the next 12 months – down from 52% in April, and six points below the average for all sectors. One factor is that many executives believe the sector's extraordinary growth will slow, after outpacing other industries during most of 2018. Executives are more bullish about the global economy than their own sector – 87% believe global economic growth is improving, while only 51% see further improvement in the technology sector. In addition, the tech sector's strength has driven up valuations; combined with geopolitical and regulatory headwinds and increased competition for assets, this is making it harder to complete acquisitions.

Still, irresistible disruptive forces and pent-up demand continue to drive big transformative deals. Many large tech companies view M&A as a pivotal tool to update legacy portfolios, seize new opportunities and avoid being disrupted themselves. Tech firms' high stock prices may help to fund more acquisitions. Buyers from outside the sector are also playing significant roles in tech M&A: PE firms have become prominent acquirers, and non-tech companies continue to snap up technology assets as they seek to increase their competitiveness through digital transformation.

Geopolitical and regulatory challenges are top of mind

Trade tensions and regulatory scrutiny now represent some of the biggest risks to corporate growth as well as dealmaking, according to respondents. Executives listed regulatory and government interventions, protectionism and trade policy issues as the top causes of failed deals in the past year. And they don't expect those challenges to disappear any time soon: 30% identified regulatory and political uncertainty as the biggest risk to business growth over the coming year, and 44% believed it would be the biggest risk to dealmaking. Some subsectors, such as semiconductors, are more vulnerable to government intervention than others. A clear understanding of new trade and regulatory policies will be required to succeed in this atmosphere of heightened uncertainty.

Planning post-deal integration is key to success when asset valuations are high

Facing high asset valuations and competition from other buyers, executives need robust M&A playbooks to achieve their corporate goals. Post-deal integration should be a pre-deal consideration, since a majority of executives (56%) achieved lower-than-expected synergies in their most recent deal. To more effectively capture synergies, 54% of companies are starting integrations earlier. Successfully quantifying and planning synergies – in areas including cost, revenue, taxation and technology capabilities – allows buyers to bid with confidence in a competitive deal environment.

Macroeconomic and external environment

87%

of technology executives see the global economy as improving, a nine point increase from CCB18.

51%

of technology executives are bullish on sector growth, stable relative to CCB18.

58%

of technology executives expect sector corporate earnings to improve, an eight point increase from CCB18.

Major M&A themes

40%

of technology executives intend to pursue acquisitions in the next 12 months, a decrease of 12 points from CCB18 and below the 44% average since 2010.

44%

of technology executives cite regulation and policy uncertainty as the biggest potential risk to dealmaking.

60%

of technology executives expect increasing competition for assets – mainly from private equity funds.

Deal integration a competitive advantage

54%

of technology executives are starting integrations earlier in order to increase the likelihood of capturing the synergies required to justify the cost of the transactions.

56%

of technology executives say they achieved lower synergies than anticipated in their most recent deal.

57%

of technology executives rely primarily on third-party benchmarks, consultants or banker inputs, potentially missing unique synergy opportunities.

Media & Entertainment

Strong confidence in M&A environment continues, although policy concerns and buyer competition deter some deals

The latest EY Media & Entertainment *Capital Confidence Barometer* reveals that M&E executives remain strongly positive about the dealmaking environment, with 100% expecting the already buoyant M&A market to improve or remain stable in the next 12 months. Underpinning this enthusiasm is confidence in the performance of the capital markets: an overwhelming majority (over 95%) of executives believe corporate earnings, credit availability and equity valuations will improve or remain stable in the year ahead.

Deal discipline rules the day

Despite their confidence, executives are maintaining deal discipline. Among M&E executives, 42% expect to actively pursue M&A in the next 12 months, a drop from 50% a year ago and below the 46% long-term average (since 2010). This moderation is understandable, given the recent significant level of deals, both in terms of volume and value. The M&A appetite remains much higher among mid-sized and large players, which are better equipped to execute transactions on a continuing basis: 69% of those companies plan to pursue deals, up from 55% six months ago. This appetite reflects the need to build scale, acquire critical content and capabilities, and rapidly innovate as disruptive forces transform the sector.

> The M&A appetite remains much higher among midsized and large players, which are better equipped to execute transactions on a continuing basis: 69% of those companies plan to pursue deals, up from 55% six months ago.

Regulatory and policy headwinds threaten some deals

At the same time, policy headwinds and deal competition are causing executives to walk away from some transactions. Almost all respondents (94%) canceled or failed to complete a deal in the past 12 months — up from 75% six months ago. In almost half of those cases (48%), concerns about regulatory, policy and antitrust interventions were the primary factor. The next-biggest cause of deal failures was competition from other buyers or disagreement on price. Over the next year, 83% of respondents expect that private capital will increasingly drive competition for acquisitions.

Synergy challenges create obstacles to unlocking deal value

After the significant increase in M&A activity of the last few years, many companies are focusing in the near term on integrating and capturing value from their recent acquisitions. Some continue to face challenges. Nearly half (46%) of companies failed to meet synergy targets for their most recent deal — a high potential cost when those synergies represent 21%–30% of total deal value in a majority (53%) of cases. Executives said their biggest challenge is onboarding and retaining talent, which is a key part of the rationale for entertainment deals. M&E companies are also accelerating their portfolio review process in response to ongoing sector disruption and policy uncertainty. Nearly a quarter (23%) of companies now review their portfolios quarterly, and 100% conduct reviews at least once a year. In 71% of cases, those reviews identified potential divestments: assets that were underperforming or threatened by disruption.

Macroeconomic and external environment

81%

of media and entertainment executives see the global economy as improving.

83%

of media and entertainment executives expect improving corporate earnings globally.

46%

of media and entertainment executives see regulation and political uncertainty as a key risk to dealmaking.

M&A outlook

100%

of media and entertainment executives expect the M&A market for the sector to remain stable or improve in the next 12 months.

69%

of media and entertainment companies with revenues above $1b expect to actively pursue acquisitions in the next year.

94%

of media and entertainment executives have completed a deal or have walked away from one in the past 12 months.

Deal dynamics

71%

of media and entertainment executives are conducting portfolio reviews more frequently than once a year.

71%

of media and entertainment executives identified an at-risk or underperforming asset to divest during their most recent portfolio review.

46%

of media and entertainment executives achieved lower synergies than they identified on their most recent deal.

Telecommunications

Telecom M&A outlook remains positive, but regulatory issues and deal competition loom large

> Though executives' near-term dealmaking intentions have dipped below recent record highs, 62% of larger telecom companies (with annual revenues over $3 billion) plan to actively pursue acquisitions in the next 12 months.

Telecom executives maintain confidence in the sector's M&A prospects, but grapple with political and regulatory challenges as well as post-deal integration.

Telecom executives remain confident about the sector's M&A fundamentals, according to the EY Telecommunications *Capital Confidence Barometer*. More than three-quarters (76%) of executives believe the telecom M&A market will improve over the next 12 months, and 62% expect improvement in the sector's economy — a significant increase from 45% in our April survey.

Though executives' near-term dealmaking intentions have dipped below recent record highs, 62% of larger telecom companies (with annual revenues over $3 billion) plan to actively pursue acquisitions in the next 12 months. Convergence and consolidation continue to drive the M&A agenda for many telecom companies, as underlined by several recent megadeals.

Executives' positive sector view is supported by their confidence in the global economy — 75% expect the global economy to improve, while only 1% predict a decline. However, Brexit remains a key source of global anxiety: more than half of respondents believe Brexit will negatively impact their investment and acquisition activity, not only within the UK, but also across the EU and in other regions.

Disruption and regulatory risks pose the biggest threats

Telecom executives continue to view disruption as the biggest threat to their core business — but regulatory and political risks now rank a close second. Regulatory and government issues were also the biggest cause of failed deals over the past year and are seen as the top threat to future dealmaking, cited by 47% of executives. Overall, 94% of telecom companies failed to complete an acquisition during the last 12 months, up from 73% in April. In addition, sector executives face rising competition for acquisition targets, driven primarily by private equity and corporate investment funds and their appetite for infrastructure assets.

More-frequent portfolio reviews accelerate the response to disruptive forces

How are telecom executives responding to the increasingly complex M&A environment? Many are reviewing portfolios more frequently to sharpen their focus on core activities and shed non-core assets; 75% of companies now conduct reviews at least every six months, and those reviews most commonly result in divesting assets that are underperforming or facing disruption risks.

Executives also continue to face challenges capturing synergies from their acquisitions, with 50% achieving lower-than-expected synergies from their most recent deal. Many are starting integration earlier as they seek to increase synergy capture. The integration challenges are headed by talent onboarding and retention, which are often exacerbated by reskilling initiatives already underway at the acquiring company.

Macroeconomic and M&A outlook

75%

of telecommunications executives view the global economy as improving.

76%

of telecommunications executives see the sector market improving.

47%

of telecommunications executives view regulation and political uncertainty as the biggest risk to dealmaking in the next 12 months.

Demanding deal dynamics

94%

of telecommunications executives have failed to complete or canceled a planned acquisition in the past 12 months.

74%

of telecommunications executives see rising competition for assets in the next 12 months, driven principally by private equity and corporate investment funds.

50%

of telecommunications executives achieved synergies lower than originally identified on their most recent deal.

Transformation of processes, portfolios and people

75%

of telecommunications executives review their portfolios at least once every six months.

73%

of telecommunications executives identified an at-risk or underperforming asset to divest during their most recent portfolio review.

43%

of telecommunications executives view motivating, rewarding and retaining existing employees as their most significant workforce challenge.

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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 Euromoney Institutional Investor Thought Leadership (EIITL). Our panel comprises select global EY clients and contacts and regular EIITL contributors.

- In August and September, we surveyed a panel of over 2,600 executives in 45 countries; 68% 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 (23%); US$1b–US$2.9b (21%); US$3b–US$4.9b (9%); and greater than US$5b (22%).
- Global company ownership was as follows: publicly listed (56%), privately owned (39%), family owned (2%) and government or state owned (3%).

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