Global Capital Confidence Barometer

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Technology, Media & Entertainment and Telecommunications

How can you reshape your future before it reshapes you?

Companies look to safeguard growth by reinventing their M&A strategy beyond tomorrow.

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Building a better working world

TMT M&A set to continue as deal environment becomes more favorable

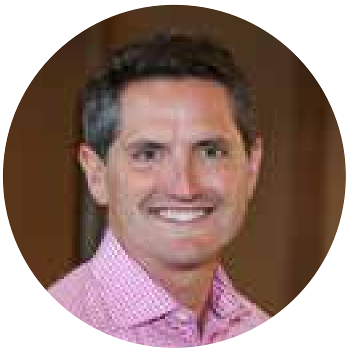
TMT executives' confidence has returned, suggesting the concerns regarding regulatory headwinds and strong competition from six months ago have waned.

According to the latest EY ***Global Capital Confidence Barometer***, the lively deal market witnessed in recent months is expected to continue as 58% of TMT executives plan to actively pursue M&A in the next 12 months — up from 42% in October 2018. Further, 73% expect the number of deal completions compared with the past 12 months to increase, up from 51% six months ago. These transactions are increasingly likely to be international, as two-thirds of executives say their main acquisition focus is cross-border in the next 12 months, compared with 26% six months ago.

Part of this dealmaking activity is driven by activist shareholders who are compelling 85% of executives to act — for 36% that action relates to making acquisitions and for 29% the action is for assets to be divested. The main rationale for TMT acquisitions is acquiring technology, talent, new production capabilities or innovative start-ups (23%), followed by sector convergence and growth into adjacent business activity (22%).

Favorable conditions foster deals

The strong dealmaking intentions are underpinned by confidence in economic conditions, with 94% of TMT executives expecting global economic growth to improve, and the majority also expecting corporate earnings, credit availability and equity valuations to improve (87%, 87% and 76%, respectively). This leads just over half of executives (53%) to cite expected revenue growth rates of between 11% and 25% in the coming year, although 33% say the greatest external risk to the growth of their business is slowing economic activity.



Technology

Ken Welter
EY Global Technology
Sector Leader
Transaction Advisory Services

Media & Entertainment

Will Fisher
EY Global Media & Entertainment
Sector Leader
Transaction Advisory Services

Telecommunications

Axel Majert
EY Global Telecommunications
Sector Leader
Transaction Advisory Services

Technology investments are in demand

All TMT executives are planning significant investment in technology this year, as they look to create new services and products, reduce risks, improve the customer experience, improve financial data access and improve internal efficiencies – all in equal measure. They are also looking to address one of the most significant challenges to their company's growth plans – disruption from more technologically advanced competitors.

Disruption drives portfolio reshaping

In the midst of active dealmaking, the shift toward continual portfolio reviews continues, as 77% of executives are now reviewing their portfolio at least every six months – up from 65% in October 2018. Activists, and increasingly boards, are driving large TMT incumbents to perform frequent portfolio reviews. These reviews are identifying underperforming, or at risk of disruption, assets, driving product divestitures or areas where M&A can drive growth.

Executives are ensuring capital is allocated appropriately across the portfolio and, with 85% of TMT executives expecting increasing competition for assets in the next 12 months, the need to be organized is more important than ever.

For more insights on the Technology, Media & Entertainment and Telecommunications results, please visit our individual sector web pages:

- Technology
- Media & Entertainment
- Telecommunications

58%

plan to actively pursue M&A in the next 12 months.

77%

are now reviewing their portfolio at least every six months.

Technology

Technology dealmaking intentions remain strong as tech M&A continues to surface as the new growth engine for both developing and maturing companies

The appetite for technology M&A in EY's 20th *Technology Capital Confidence Barometer* (CCB) showed a stark reversal from waning interest in our prior CCB in October 2018. Sixty-one percent of technology executives now expect to actively pursue M&A in the next 12 months — up from 40% in October 2018, and two points above the average for all sectors. We believe the renewed optimism for technology M&A is partly due to macroeconomic factors, including the Federal Reserve's decision to not increase interest rates in 2019, coupled with the general perception that geopolitical tensions have eased from where they were at the end of 2018.

An increased confidence in the global dealmaking environment is highlighted in the most recent CCB as over 80% of technology respondents said corporate earnings, short-term market stability and credit availability were all improving. Further, 65% of respondents say they intend to pursue cross-border technology acquisitions, up from 26% in our prior CCB in October 2018.

Further propelling M&A activity is the mounting investor pressure on maturing companies to combat slowing organic growth. We see most companies respond to growth concerns by looking internally at portfolio optimization and divestitures (see *EY Technology Global Divestment Study*) as well as externally in the market at M&A to unlock growth. As M&A becomes the new growth engine, more companies are buying assets to scale existing technology to not only survive in the market, but to win.

Megadeals on the rise

The first quarter of 2019 saw a 5% decrease in the number of announced technology deals, but a 4% increase in total deal value over the prior quarter. Looking back to the first quarter of 2018, deal volumes and values are up 2% and 39%, respectively, in the first quarter of 2019, further highlighting that larger technology deals are on the rise. Notably, there were 11 technology deals with a purchase price of US$3b or greater compared with 9 such deals in the fourth quarter of 2018. An active deal market not only signifies confidence in the global economy, but underscores the reality facing both growing and maturing companies of all sectors: transformational technology deals are needed to evolve their businesses to not only win in the market, but to survive.

Looking forward at the next 12 months, roughly two-thirds of executives expect deal pipelines to grow in the coming year, buoyed by growing confidence in the technology sector. Only 51% of respondents in our prior CCB believed the technology sector was improving from a holistic standpoint. Our latest poll shows supreme confidence in the sector, with 92% of respondents indicating the technology sector is moving in the right direction.

The strong dealmaking intentions cited in this latest CCB have naturally paved the way for deal competition. In line with our prior CCB, 86% of respondents expect more competition in the M&A market, primarily from private equity firms. The increasing competition for assets is resulting in rising technology deal multiples, which many believed had reached a zenith in late 2018. Of the 30 largest transactions in the first quarter of 2019, acquirers paid 6.7x trailing 12 months sales, up from the 5.1x multiple paid in the fourth quarter of 2018.

Maximizing value

The bidding war for technology assets has resulted in more pressure for buyers to integrate effectively to realize the buyer's required return. Integration risk and the concern of overpaying for assets remains top of mind for technology acquirers, with almost a third of respondents citing integration as a top M&A challenge. 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. Rather, 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).

It is vital for buyers to undergo detailed commercial diligence pre-sign to validate the market attractiveness, the buyer's competitive positioning and key integration risks. It is also critically important for buyers to map synergy targets to specific integration actions during the initial diligence process and identify risk mitigation strategies early. Ultimately, achieving success for any type of acquisition requires a purposeful and outcome-oriented approach to integration, which is becoming increasingly important as buyer competition increases.

92%

believe the technology sector is moving in the right direction.

86%

expect more competition in the M&A market.

Macroeconomic environment and risks to growth

92%

expect the global economy to continue improving, up from 78% in the April 2018 CCB.

92%

expect the global tech sector economy to continue improving, up from 53% in the April 2018 CCB.

90%

expect tech sector corporate earnings to improve, up from 50% in the April 2018 CCB.

Corporate strategy and portfolio reshaping

43%

are expecting revenue growth of 11%–15%.

34%

say access to capital and more technologically advanced competitors are challenges to growth plans.

32%

review their portfolios every six months, up from 25% in the April 2018 CCB.

M&A outlook and major themes

61%

intend to pursue acquisitions in the next 12 months, up from 52% in the April 2018 CCB, and above the 45% average since 2010.

65%

intend to pursue cross-border transactions in the next 12 months, up from 26% in the April 2018 CCB.

45%

say acquiring technology, talent, new production capabilities, innovative start-ups and sector convergence is driving deals.

Media & Entertainment

M&A is powering the evolution of the media and entertainment industry

85%

expect the M&A market to improve in the next 12 months.

49%

are reviewing their portfolio every quarter.

Strong confidence in the M&A environment is leading media and entertainment companies to pursue transactions that will reshape, reimagine and reinvent their positioning within the strategic landscape.

The latest EY *Media & Entertainment Capital Confidence Barometer* reveals that media and entertainment executives are bullish about the benefits of transaction activity, with 85% expecting the M&A market to improve in the next 12 months (compared with just 64% in October 2018). More than half of respondents (53%) now expect to actively pursue deals in the year ahead – up from the 10-year CCB average of 46% – reflecting the intensifying need for media and entertainment companies to reposition business portfolios to capture future growth opportunities and respond to rapidly changing market realities.

Increased confidence in the global dealmaking backdrop is driven by the favorable performance of the capital markets; a significant majority (over 80%) of industry executives believe corporate earnings, equity valuations and credit availability will further improve over the next 12 months, even in the face of negative headlines speculating about potential macroeconomic softness and geopolitical instability.

This positive perspective is translating into a strong outlook by media and entertainment executives for growth – 95% say the economy is improving (up from 48% in October 2018), a sharp counterpoint to worries raised by many economic and business commentators.

Era of active portfolio reshaping

The imperative to build agility and resilience into the enterprise is resulting in an increased frequency of detailed portfolio reviews. Almost half of media and entertainment companies (49%) are evaluating their business mix on a quarterly basis, up from 23% in October 2018. M&A is serving as a catalyst to create meaningful operational change in an accelerated manner. Executives report that these reviews resulted in targeted investments – including inorganic investment via acquisitions – in high-potential business units.

Additionally, the analysis often leads to the identification of underperforming assets or assets at risk of disruption, which opens a path to potential divestment activity. The divestiture of a business deemed non-core allows media and entertainment companies to recycle capital into more promising growth areas.

Critical to manage the opportunities and risks of M&A

The need to satisfy investor demands for above-trend returns, combined with ongoing disruption and competition, means that media and entertainment companies are continually looking to acquire the building blocks of growth. Executives indicate the primary strategic drivers for pursuing acquisitions include the addition of key technology, talent and new capabilities (23% of respondents); responding to changing customer behavior (22%); and convergence-driven expansion into adjacent markets (21%).

But the most attractive opportunities often draw a crowded field. A majority (84%) of executives expect increasing competition for assets over the next year (compared with 68% in October 2018). Takeover battles for acquisitions are not uncommon, especially in situations where the target represents a compelling, truly unique asset. To prevail, media and entertainment executives must carefully assess the value creation opportunity available through integration, and the risks associated with achieving the estimated synergies. Of all the challenges associated with M&A, 27% of media and entertainment executives see integration as the greatest risk to a successful outcome.

Transacting to transform

Positioning for the future within the dynamic media and entertainment industry requires a bold approach and a willingness to embrace change and innovation. Disciplined dealmaking, smart capital allocation and a relentless focus on operational excellence – while balancing the risks and rewards of transformation – will power the evolution of the enterprise and enable a better tomorrow.

Macroeconomic environment and risks to growth

95%
see the media and entertainment sector economy as improving.

93%
see corporate earnings in the media and entertainment sector improving.

32%
believe that slowing economic activity is the biggest external risk to the growth of their business.

Corporate strategy and portfolio reshaping

99%
are planning to invest significantly in technology this year.

85%
say they are compelled by activist pressure to continually assess and reshape their portfolios.

49%
expect to review their portfolio on a quarterly basis.

M&A outlook and major themes

85%
believe the M&A market will improve over the next 12 months.

84%
see an increasing competition for their assets in the next 12 months — 57% of it to come from private capital buyers.

53%
expect to actively pursue acquisitions in the next year.

Telecommunications

M&A in the driver's seat as the telco sector transforms

55%

expect to actively pursue acquisitions in the next 12 months.

82%

say that activism is compelling them to take specific actions to reshape their portfolios.

Positive M&A drivers are in place as operators reshape their organizations to take advantage of a new growth agenda

The latest EY *Telecommunications Capital Confidence Barometer* underlines the critical role M&A is playing as companies realign their technology portfolios and human capital to pave the way toward growth. Fifty-eight percent of executives see their M&A pipelines growing and deal completions rising over the next 12 months. Access to new talent and technology, coupled with convergence opportunities, are the leading rationales for acquisitions, although integration and regulatory risks continue to loom large.

Telco M&A indicators are improving year-on-year

Executives' bullish stance toward M&A is apparent in improving sector indicators. Eighty-two percent see the telco M&A market improving in the next 12 months, up from 65% in April 2018. Meanwhile, 58% see their organizations' M&A pipelines expanding in the year ahead, with the remainder forecasting no change.

Deal completions are also the scene of rising confidence: 66% expect a year-on-year increase with none predicting a downtick. All told, 55% of executives expect to actively pursue acquisitions in the next 12 months, above the long-term average for the sector of 45%.

There is also a strong sense among executives that adjacent market deals and top-line synergies will require the most focus as value creation imperatives going forward, cited by more than a quarter of respondents. While in-market consolidation remains an important theme, optimizing more diverse service portfolios is now critical. Upselling and business model overhaul are thus front and center of inorganic growth plans.

The underlying transformation imperative is clear

Digital infrastructure investment is trending up worldwide. 5G commercial launches are nearing in many markets, while growth opportunities from pay TV to the internet of things offer telcos a range of convergence plays. Accordingly, expansion into adjacent sectors ranks highest as a strategic growth priority for telcos, cited by 27% of respondents.

Yet capitalizing on these new growth opportunities requires more than repositioning products and services to cater to new addressable markets. People and processes require fundamental overhaul, a reality that makes itself felt in executives' key strategic drivers for pursuing acquisitions. Twenty-five percent cite access to technology, talent and innovative start-ups — the leading answer — underlining the importance of boosting organizational agility and efficiency while securing access to fresh thinking and new capabilities.

The operating model refinement is also apparent when it comes to capital allocation issues, with traditional investment in existing operations and new technology demanding the most attention from executives. Going forward, a delicate balance is needed as telcos look to both acquire new talent and reskill their existing workforce.

More frequent portfolio reviews are the order of the day

Frequency of portfolio reviews is increasing. Forty-one percent of telcos now undertake a review every quarter, compared with 24% in October 2018. This more regular cadence is creating transformation opportunities of its own. Thirty-one percent of telcos reshaped capital allocation across the whole portfolio as a result of their most recent portfolio review, while 26% differentially invested capital in a particular business unit. This comes at a time when activist shareholders are exerting more pressure than ever before. Eighty-two percent of executives say that activism is compelling them to take specific actions to reshape their portfolios.

Integration, regulation and competition: three pain points that won't go away

Despite the growth opportunities at hand, there is palpable anxiety surrounding tactical and strategic pain points. The integration of operations and people is the leading risk when executing a transaction, cited by 26% of respondents. Meanwhile,72% of executives say that the regulatory environment is fundamental or very influential as an external factor informing deal strategy – while regulatory approval ranks second as a transaction risk. Finally, rising competition is an ongoing concern. New market entrants rank second as a challenge to growth plans after access to new talent, while slowing demand is also seen as a threat to growth plans.

Macroeconomic environment and risks to growth

92%

see the telecoms industry as improving.

89%

believe corporate earnings in the telecoms sector are improving.

33%

see slowing economic activity as the greatest external risk to growth.

Corporate strategy and portfolio reshaping

99%

are planning significant technology investments this year, primarily to drive internal efficiencies and create new services.

82%

are subject to activist investor pressure to reconfigure their portfolios.

41%

are reviewing their portfolios on a quarterly basis, with an additional 5% engaged in continual review.

M&A outlook and major themes

82%

see the telco M&A market improving in the next 12 months.

84%

expect competition for assets to increase in the next 12 months.

55%

expect to actively pursue acquisitions in the next 12 months.

Contacts

For a conversation about your capital strategy, please contact us:

Technology

Ken Welter
EY Global Technology Sector Leader
Transaction Advisory Services
kenneth.welter@ey.com

Max Cohen
Manager
Transaction Advisory Services
max.cohen@ey.com

Media & Entertainment

Will Fisher
EY Global Media & Entertainment Sector Leader
Transaction Advisory Services
wfisher@uk.ey.com

Leanne Terry
EY Global M&E Resident
lterry1@uk.ey.com

Telecommunications

Axel Majert
EY Global Telecommunications Sector Leader
Transaction Advisory Services
axel.majert@es.ey.com

Adrian Baschnonga
EY Global Telecommunications Lead Analyst
abaschnonga@uk.ey.com

Global contacts

Global

Steve Krouskos
EY Global Vice Chair
Transaction Advisory Services
EY Global Limited
steve.krouskos@uk.ey.com
+44 20 7980 0346
Follow me on Twitter:
@SteveKrouskos

Julie Hood
EY Global Deputy Vice Chair
Transaction Advisory Services
EY Global Limited
julie.hood@uk.ey.com
+44 20 7980 0327
Follow me on Twitter:
@JulieHood

Barry Perkins
EY Global Lead Analyst
Transaction Advisory Services
EY Global Limited
bperkins@uk.ey.com
+44 20 7951 4528

Americas

William M. Casey
EY Americas Vice Chair
Transaction Advisory Services
william.casey@ey.com
+1 212 773 0058

Asia-Pacific

Harsha Basnayake
EY Asia-Pacific Leader
Transaction Advisory Services
harsha.basnayake@sg.ey.com
+65 6309 6741

Europe, Middle East, India and Africa (EMEIA)

Andrea Guerzoni
EY EMEIA Leader
Transaction Advisory Services
andrea.guerzoni@it.ey.com
+39 028 066 3707

Japan

Vince Smith
EY Japan Leader
Transaction Advisory Services
vince.smith@jp.ey.com
+81 3 4582 6523

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. Our panel comprises select global EY clients and contacts and regular Thought Leadership Consulting contributors.

- In February and March, we surveyed a panel of more than 2,900 executives in 47 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 (24%); US$1b–US$2.9b (21%); US$3b–US$4.9b (9%); and greater than US$5b (21%).
- Global company ownership was as follows: publicly listed (54%), privately owned (40%), family owned (4%) and government or state owned (2%).

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