Challenging times

M&A trends in technology, media, and telecom

Q1’23

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Introduction

Steep fall

The technology, media, and telecom (TMT) deal market got off to a feeble start in 2023, reflecting the persistent uncertainty clouding the broad economic picture. The slowdown in deal making that began in mid-2022 became more pronounced in Q1’23, with deal volume down by 23 percent and deal value sinking by 60 percent from the previous quarter. Compared to the same period a year ago, the drop-off in Q1’23 was even more dramatic: deal count nearly halved, and value fell by some $219 billion.

Transactions were also much smaller than those completed during the post-pandemic mergers and acquisitions (M&A) boom. Mega deals all but vanished. The largest TMT transaction was the $12.5 billion joint acquisition of customer-relations software maker Qualtrics by private-equity firm Silver Lake and Canada Pension Plan Investment Board in March.

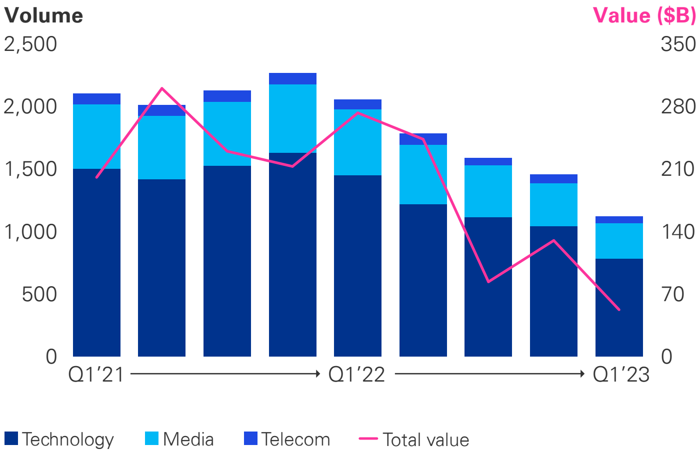
The Federal Reserve’s hawkish stance on interest rates to combat stubbornly high inflation was a major factor that fueled negative sentiment among deal makers. Rising rates have increased the cost of financing deals while depressing asset valuations. These trends have kept many buyers and sellers apart, but are unlikely to reverse until inflation decelerates closer to the Fed’s 2 percent target and rates come off their business cycle peak.

Kevin Bogle
Principal
Deal Advisory & Strategy
TMT Leader

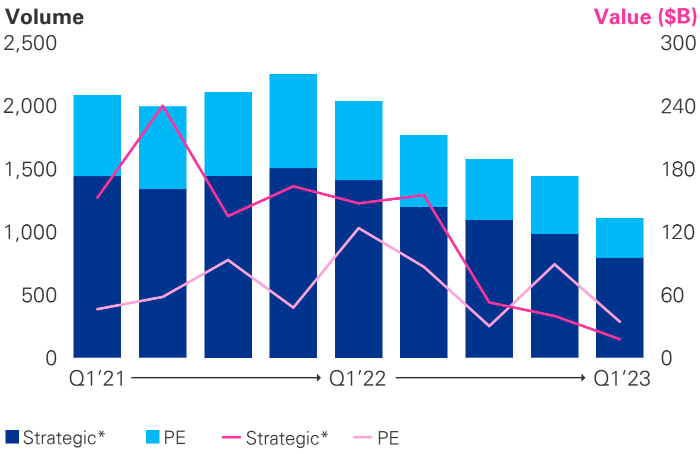
Q1’23 highlights

1,115 Deals ▼ **23%** Decrease QoQ | **$52** Billion deal value ▼ **60%** Decrease QoQ

TMT deal activity by sector



TMT deal activity by type



*Includes SPAC deal activity

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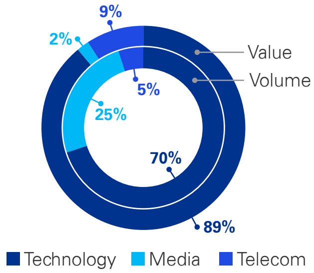
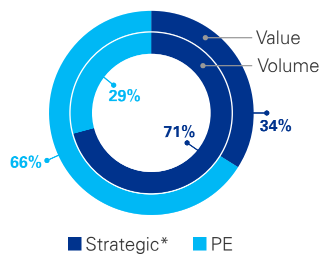
Q1'23 deal mix

Outer ring represents value, inner ring represents volume

Sector mix



PE/strategic mix



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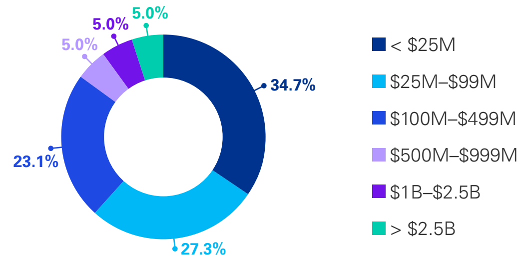
Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
WPF Holdings	Vezbi	$4.8
Nuvei	Paya	$1.3
Waters Corporation	Wyatt Technology	$1.4
T-Mobile	Ka'ena	$1.4
Lessen Inc.	SMS ASSIST	$1.0

Top PE deals

Acquirer	Target	Value (billions)
CPP Investments, Silver Lake	Qualtrics	$12.5
Blackstone	Cvent	$4.6
Clearlake Capital	Blackbaud	$3.8
EQT Active Core Infrastructure, PSP Investments	Radius Global Infrastructure	$3.0
Vista Equity Partners	Duck Creek Technologies	$2.6

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. 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 changes in deal volumes.

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At a glance

Technology
A cloudy picture

Technology deals represented more than two-thirds of all TMT transactions in Q1’23, but lost significant momentum. Deal count slid to 778 from 1,034 in Q4’22, while deal value dropped to $46.6 billion from $84.7 billion.

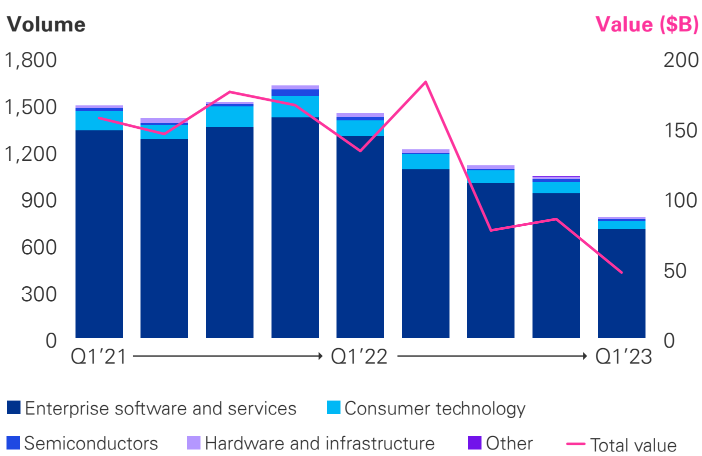
There were 543 total number of strategic transactions (down 18 percent from Q4’22), which were worth $15.4 billion (down 46 percent). There were 235 private-equity (PE) deals (down 37 percent). But their combined value ($31.2 billion) was twice the value of combined strategic transactions, although the value of PE deals was still down 45 percent from the previous quarter.

Deals in enterprise software and services continued to dominate the subsector. The largest transaction was the acquisition of Qualtrics by PE firm Silver Lake and Canada Pension Plan Investment Board for $12.5 billion. But the exploding investor interest in generative artificial intelligence (AI) technology such as OpenAI’s ChatGPT could open up a new frontier of technology M&A in the coming months. Although the generative AI market remains relatively small, tech titans like Microsoft and Alphabet have invested hundreds of millions of dollars in generative AI companies in Q1’23.

Q1’23 highlights

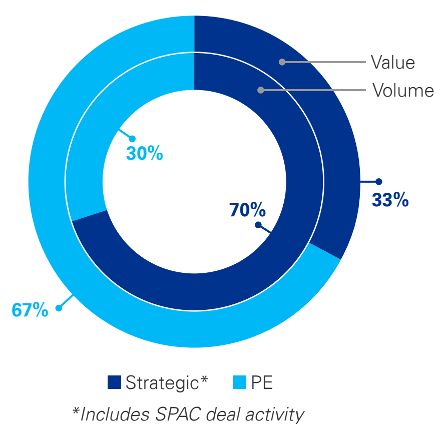
778 Deals ▼ **25%** Decrease QoQ | **$46.6** Billion deal value ▼ **45%** Decrease QoQ

Technology deal activity by subsector



Technology PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top technology deals

Acquirer	Target	Rationale	Value (billions)
CPP Investments, Silver Lake	Qualtrics	Drive and scale innovation and efficient growth	$12.5
WPF Holdings	Vezbi	Advance technology and grow market share	$4.8
Blackstone	Cvent	Drive growth and innovation	$4.6
Clearlake Capital	Blackbaud	Not disclosed	$3.8
Vista Equity Partners	Duck Creek Technologies	Cloud capabilities for the insurance industry	$2.6

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. 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 changes in deal volumes.

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At a glance

Media
Smaller bets

Media deal making was tepid in Q1'23. Although the volume of transactions only decreased modestly (from 341 in Q4'22 to 279), deal value plunged to $900 million from $30.8 billion.

There were 216 strategic transactions, 23 percent fewer than in Q4'22, but their combined deal value of $800 million was down 84 percent from the previous quarter. There were 63 PE deals, one more than in Q4'22, but deal value dropped 99 percent to $100 million.

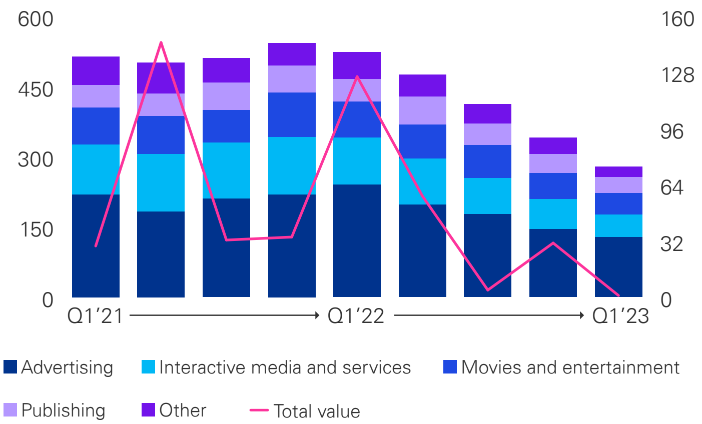
Online gaming operator Golden Matrix's $300 million purchase of MeridianBet, a Europe-based sports-betting firm, was the largest media deal of the quarter. But, as usual, advertising transactions dominated deal activity in the subsector.

Q1'23 highlights

279 Deals ▼ **18%** Decrease QoQ

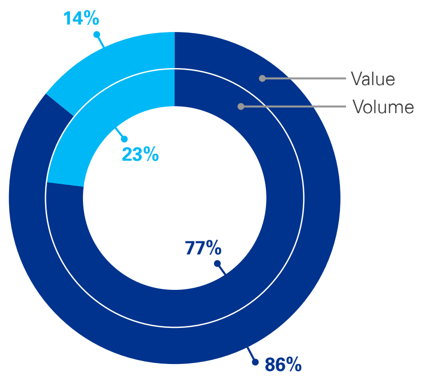
$0.9 Billion deal value ▼ **97%** Decrease QoQ

Media deal activity by subsector



Media PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top media deals

Acquirer	Target	Rationale	Value (billions)
Golden Matrix	MeridianBet	Decrease barriers to entry in large sports-betting markets (e.g., Brazil, U.S.)	$0.3
Providence Equity Partners	The Music Republic	Not disclosed	$0.1
DATA Communications Management	RR Donnelley & Sons	Add new capabilities and accelerate speed to market	$0.1

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At a glance

Telecom

Going big on infrastructure

With the tighter credit market and capex-heavy industry dynamic, the smallest of the TMT deal market became even smaller in Q1’23. Telecom transactions decreased from 73 in Q4’22 down to 58 (a drop of 21 percent), and deal value sank 67 percent from $13.6 billion to $4.5 billion.

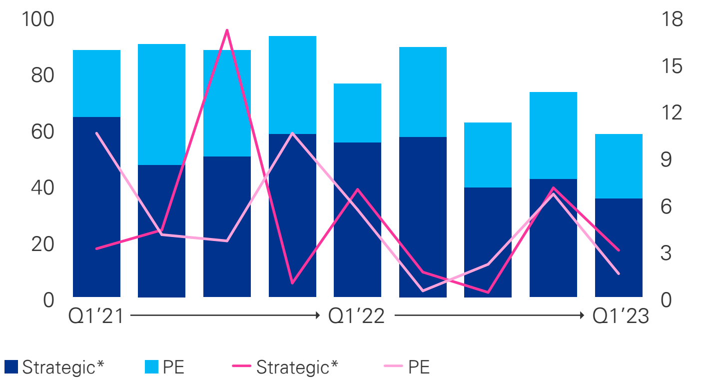
Strategic transactions dropped 35 from the previous quarter (down 17 percent), while their value slumped 77 percent to $1.5 billion. There were 23 PE deals (26 percent fewer than last quarter), which were worth just $3.0 billion (down 57 percent).

In the subsector’s biggest deal, Swedish PE firm EQT and Canada’s Public Sector Pension Investment Board jointly acquired Philadelphia-based Radius Global Infrastructure—which owns digital infrastructure across North and South America, Europe, and Australia—for $3 billion.

Q1’23 highlights

58 Deals ▼ **21%** Decrease QoQ | **$4.5** Billion deal value ▼ **67%** Decrease QoQ

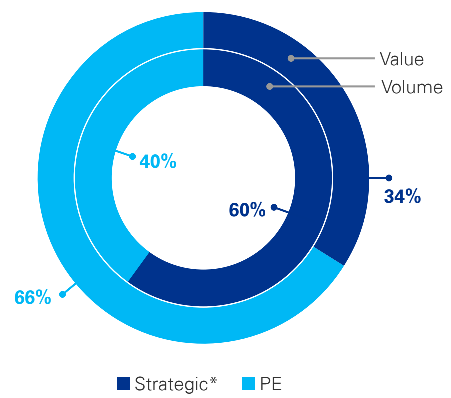
Telecom deal activity by type



*Includes SPAC deal activity

Telecom PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top telecom deals

Acquirer	Target	Rationale	Value (billions)
EQT Active Core Infrastructure, PSP Investment Board	Radius Global Infrastructure	Expand to new markets and diversify portfolio	$3.0
T-Mobile	Ka’ena	Scale inventory and expand to new customer segments and geographies	$1.4

Data was sourced from Capital IQ, Refinitiv, Pitchbook, and KPMG analysis. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 3/10/2023. 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 changes in deal volumes.

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Deep dive

Streamlining the streaming industry

After years of growth, streaming service companies are headed for a bumpier stretch. The market is saturated, which makes the industry ripe for consolidation. Inflation-pinched consumers are cutting back on the number of streaming subscriptions, while streaming companies are pivoting from chasing subscribers to chasing profits. As these trends converge, both intra- and inter-company M&A of streaming providers is likely to increase.

In Q3'22, there were more than 32 million cancellations across 10 premium streaming providers tracked by streaming researcher Antenna.[1] In a KPMG survey from June 2022, 20 percent of respondents said they had dropped at least one streaming service because of inflation.[2] Many consumers are having trouble keeping up with all the services they signed up for and are realizing that the bills are getting bigger as streaming companies raise prices. As a result, subscriber growth is slowing, which has triggered a mindset shift across the streaming space.

On one hand, further subscription fee hikes in a general inflationary environment will force more consumers to tighten belts; we believe prices of most popular services could potentially double. On the other, streaming companies are realizing that higher prices alone are not enough to generate the profits Wall Street demands from cable TV providers; to match the economics of cable TV, we estimate that most streaming services would need to charge about $25 a month.

One path to profitability is through M&A. When streaming providers combine similar services, they can bulk up on content—everyone's top prize—and also generate sizeable top-to-bottom cost synergies from marketing to technology. Cost cutting, in turn, will help cushion subscriber churn, which is around 3 to 7 percent per month for streaming services (for some cellphone services, it's as low as 1.2 percent a month[3]).

Consolidation is already underway. The $43 billion Discovery-WarnerMedia megadeal, which was completed in April 2022, was the most eye-catching—it brought together such iconic names as HBO, CNN, and HGTV under a single company. At the time of the announcement, Discovery estimated that the merger would create at least $3 billion in cost synergies.[4] Other examples of consolidation include Paramount+, which united Showtime, Paramount, and CBS content, and Amazon's purchase of MGM for $8.5 billion in 2022.

There have been some 200 streaming launches since 2017 (some have since shut down). Such a torrid pace is simply unsustainable, and a wave of consolidation now looks inevitable.

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Principal
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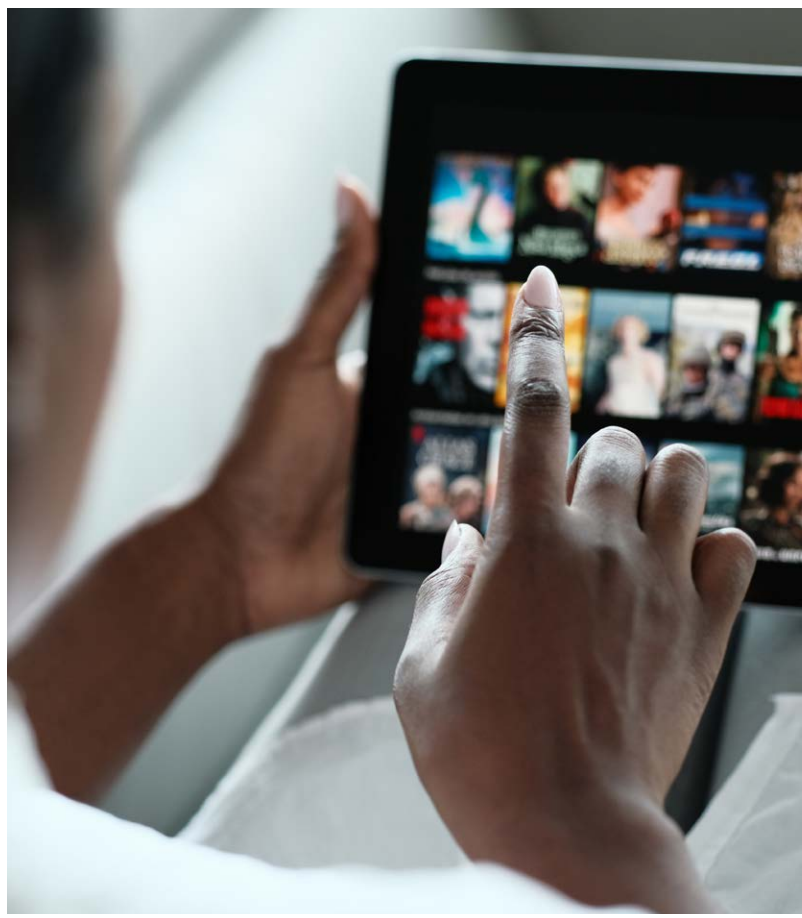

[1] Jonathan Carson, "Antenna Q3 2022 SVOD Growth Report: As the World Churns," Antenna, November 29, 2022

[2] "KPMG 2022 Media Consumer Survey: Metaverse rising, as streaming skips a beat," KPMG LLP, June 2022

[3] Petroc Taylor, "Average monthly churn rate for wireless carriers in the United States from 1st quarter 2013 to 3rd quarter 2018," Statista, January 18, 2023

[4] "AT&T's WarnerMedia And Discovery, Inc. Creating Standalone Company By Combining Operations To Form New Global Leader In Entertainment," PRNewswire, May 17, 2021

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Outlook

Waiting for brighter days

Macroeconomic uncertainty will continue to weigh on the TMT deal market in the coming months. The Federal Reserve remains committed to bringing down inflation to its 2 percent target. With inflation still above target, the Fed is expected to keep policy tight until the target is met. This means most deal makers will maintain a cautious stance. Attitudes (and activity) are unlikely to turn more positive until signs of lower inflation begin to stick and the Fed takes its foot off the brakes—which is necessary to ease the cost of financing deals.

KPMG Economics now forecasts the Fed's target rate to reach a high of 5.25 percent by mid-year. There is high uncertainty about how much more credit conditions will tighten over the next few quarters. No rate cuts are expected until 2024, unless a financial crisis occurs; this is not in the baseline forecast, but is a downside risk.

The strength in the labor market has helped sustain inflationary pressures, and the Fed has had to respond by raising rates. The tightening of credit conditions is expected to cool demand by businesses and consumers, and slow growth this year. As a result, KPMG Economics foresees a mild recession in the second half of 2023.

One silver lining to a slower M&A market is a narrowing valuation gap between the seller and the buyer. Sellers are coming to terms with possibly lower market multiples for their assets, and this is likely to generate interest from more potential acquirers. As the economic picture becomes clearer in 2024, we believe deal activity will start to rebound. Indeed, this may be a good time for high-quality companies to launch a sale process ahead of a market pick-up. At the moment, we believe there is more competition for fewer high-quality deals, which favors the seller. Furthermore, PE buyers are actively looking for deals as they continue to sit on large amounts of capital that need to be deployed.

Meanwhile, TMT deal makers must take into consideration some notable non-macroeconomic developments in the near term. Chief among them is a stress in the banking system. Another potential hurdle is the ongoing antitrust scrutiny from regulators, especially for large deals that bring together major companies under the same ownership. The rising geopolitical tension between the U.S. and China could also hurt cross-border investment and delay or limit technology M&A (in addition, any further escalation of the Russia-Ukraine war would negatively impact the economy and deal market).

Lastly, despite a wave of layoffs in the sector, the supply of software engineers, data analysts, and AI developers remains tight. We believe acquisition of key technology talent will remain an important objective in many future TMT deals.

Key considerations as we look ahead

With uncertainty over the M&A market unlikely to lift anytime soon, TMT deal makers will want to focus on being ready to seize opportunities when brighter days return:

1 Plan ahead

Forget about carpe diem. Instead, think about where you want your business to be in 12 months and how an M&A strategy might get you there.

2 Expect competition

If you are on the buy-side, the number of high-quality assets initially coming to the market may be limited, making potential deals highly competitive. To win, you will need to build greater confidence in your thesis and use speed as a differentiator.

3 Execute on value creation

For sellers, it is critical to "keep your eye on the ball," execute, and deliver results. Now is the time to invest in building sustainable value creation stories for your assets that will maximize sales opportunities as the deal market heats up again.

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How we can help you

KPMG helps its 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 lifecycle.

With a TMT specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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