KPMG

Light at the end of the tunnel

M&A trends in technology, media, and telecom

Q3'23

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Introduction

Encouraging tail winds

In Q3'23, the foreboding clouds hanging over the mergers-and-acquisitions (M&A) market in the technology, media, and telecom (TMT) sector at last began clearing. With fears of more interest rate hikes and a recession dissipating, deal makers became more hopeful. Overall deal value shot up 35 percent from Q2'23 on the back of Cisco's $28 billion bid for cybersecurity firm Splunk, even as deal volume fell 17 percent. We believe the return of such a megadeal may signal the start of a sustained upturn in deal making. At $63 billion, Q3'23 deal value has also surpassed the $56 billion tallied in Q1'23; however, this was less than the $83 billion reached in Q3'22.

Deal size is an encouraging trend. Compared to Q2'23, when more than half of transactions were smaller than $25 million each, in Q3'23 deals worth more than $100 million accounted for 40 percent with 30 percent in the $100 million-$499 million range. The mix between strategic and private equity (PE) deals, however, remained roughly the same as the previous quarter: in Q3'23, the breakdowns for both deal volume and value were 70 percent strategic and 30 percent PE. By subsector, only technology transactions rose in total value, while telecom was the sole riser in volume. But there was good media news when Hollywood writers ended their five-month strike.

Despite many positive signs, uncertainty still hangs over the TMT deal market. The cost of capital will likely stay elevated into 2024, which may discourage PE deals that are often financed by debt. Then there is the pressure from antitrust regulators who are scrutinizing in particular acquisitions by large technology companies. On September 26, the Federal Trade Commission and 17 states sued Amazon to force it to stop alleged monopoly practices on its online marketplace.[1] Although this was unrelated to M&A, the government's ongoing tough stance on Big Tech is likely to weigh on deal makers' sentiment. For example, Microsoft's $68.7 billion takeover of video game giant Activision Blizzard, first announced in January 2022, only cleared its final regulatory hurdle this month.[2]

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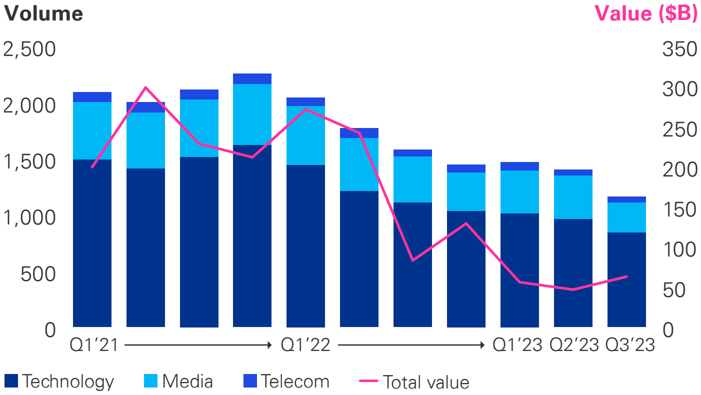
Principal
Deal Advisory & Strategy
TMT Leader

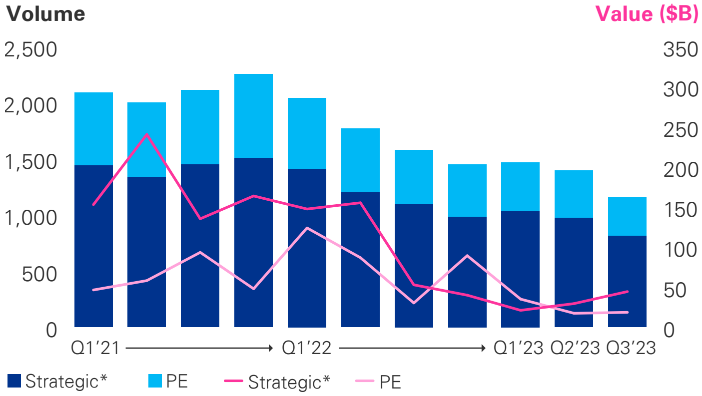
Q3'23 highlights

1,163 deals ▼ **-17%** decrease QoQ | **$62.9** billion deal value ▲ **35%** increase QoQ

TMT deal activity by sector



TMT deal activity by type



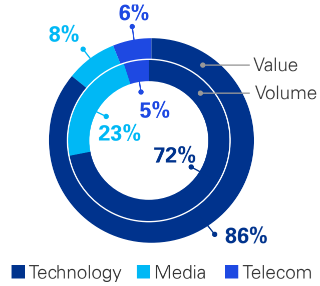
*Includes SPAC deal activity

[1] Dave Michaels and Dana Mattioli, "FTC Sues Amazon, Alleging Illegal Online-Marketplace Monopoly," Wall Street Journal, September 26, 2023
[2] Arjun Kharpal, "Microsoft's $69 billion Activision Blizzard takeover approved by UK, clearing way for deal to close," CNBC.com, October 13, 2023

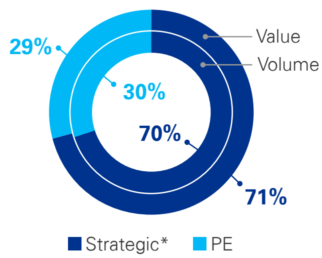
Q3’23 deal mix

Outer ring represents value, inner ring represents volume.

Sector mix



PE/strategic mix



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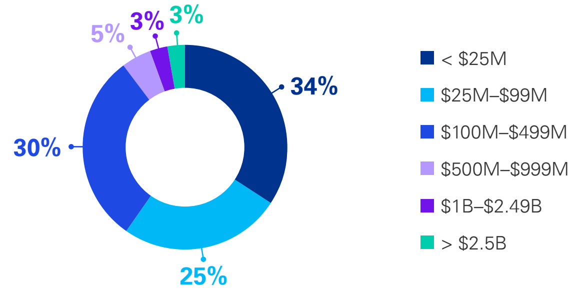
Value size mix



Top strategic deals

Acquirer	Target	Value (billions)
Cisco Systems	Splunk	$28.0
Thales	Imperva	$3.6
Strata Decision Technology	Syntellis Performance Solutions	$1.3
Barça Media	Mountain & Co. I Acquisition Corp.	$1.0
Perseus Operating Group	Optimal Blue Business Division of Black Knight	$0.7

Top PE deals

Acquirer	Target	Value (billions)
Francisco Partners, TPG	New Relic	$6.5
Bain Capital	ChinData Group	$3.2
General Atlantic, Goldman Sachs Asset Management, KIRKBI Invest	Kahoot!	$1.7
Kohlberg Kravis Roberts	Simon & Schuster	$1.6
STG Partners	Avid Technology	$1.4

About the data: Data was sourced from CapitalQ, Refinitiv, Pitchbook, and KPMG analysis. The Q3’23 values and volumes data cited are for U.S. deals announced between 7/1/2023 and 9/30/2023. 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 outcomes.

At a glance

Technology

Megadeal has mega impact

M&A in technology took a promising turn in Q3'23. While deal volume continued a year-long slide, dropping from 960 in the previous quarter to 839, deal value leaped from $31.6 billion to $54.4 billion in the first uptick since Q4'22. This was primarily attributable to a single transaction—the $28 billion Cisco-Splunk deal. One deal doesn't make a trend, but Cisco's willingness to spend big on bolstering its cybersecurity business through M&A was certainly a welcome development for deal makers who were looking for any positive sign.

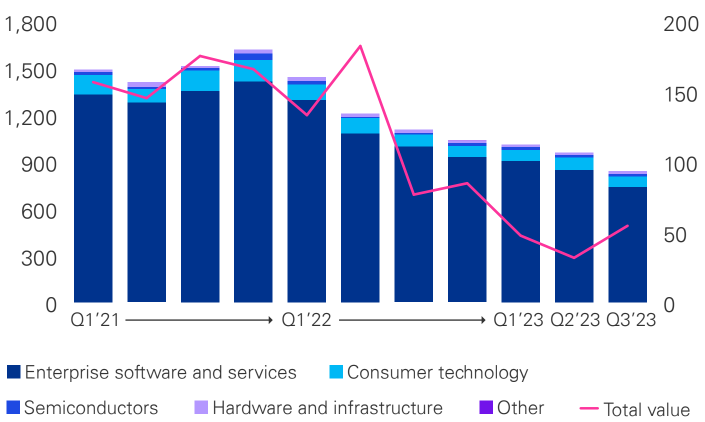
However, much of the Q3'23 data still painted a weak picture for the technology M&A market. PE deal volume fell 16.3 percent from 326 in Q2'22 to 273, although deal value was up 18.1 percent from $10.5 billion to $12.4 billion. Strategic deal value was up 99.1 percent from $21.1 billion to $42 billion (reflecting the Cisco-Splunk announcement), but deal volume dropped 10.7 percent from 634 to 566. Enterprise software and services remained the segment with the most number of transactions (737), but the total was 12.9 percent fewer than in Q2'23.

After Cisco-Splunk, the next biggest transactions were the $6.5 billion deal to take private New Relic, a cloud-based software vendor, by a PE consortium of Francisco Partners and TPG, and the $3.6 billion agreement to purchase cybersecurity firm Imperva by French defense giant Thales from Thoma Bravo, a PE firm.

Q3'23 highlights

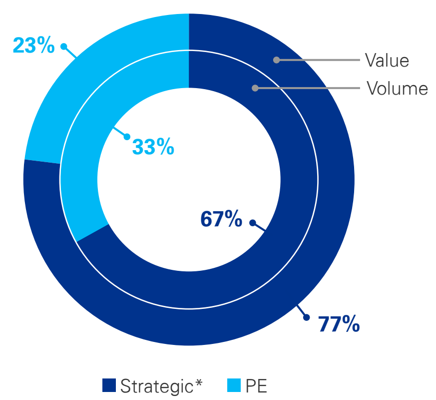
839 deals ▼ **-13%** decrease QoQ | **$54.4** billion deal value ▲ **72%** increase QoQ

Technology deal activity by subsector



Q3'23 technology PE/strategic mix

Outer ring represents value, inner ring represents volume.



*Includes SPAC deal activity

Top technology deals

Acquirer	Target	Rationale	Value (billions)
Cisco Systems	Splunk	Accelerate AI-driven cybersecurity	$28.0
Francisco Partners, TPG	New Relic	Grow customer relationships and enhance products	$6.5
Thales	Imperva	Expand cybersecurity business	$3.6
General Atlantic, Goldman Sachs Asset Management, KIRKBI Invest	Kahoot!	Increase global footprint in education tech	$1.7
STG Partners	Avid Technology	Accelerate growth and innovation	$1.4

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At a glance

Media

Not much tinsel

With the dual Hollywood strikes by writers and actors setting a sullen tone over the media landscape, deal making retrenched significantly in Q3'23. Transactions fell 31.1 percent from 389 in Q2'23 to 268, while deal value dropped 45.6 percent from $9.2 billion to $5 billion. These trends mirrored Hollywood studios' reduced spending on content creation and portfolio restructuring due to suspended production and the uncertain outlook.

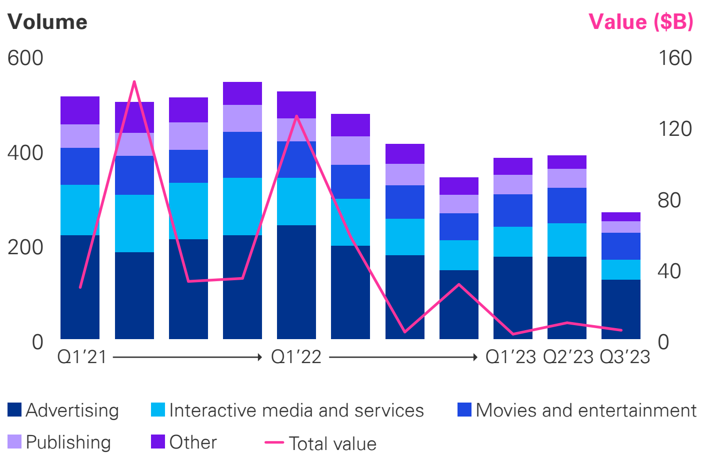
Strategic deals, at 214 compared to 306 in Q2'23, accounted for 80 percent of transactions, but their combined value sank to $2.1 billion from $7.9 billion. PE deal performance was relatively much better. In the largest media deal of the quarter, KKR agreed to acquire book publishing giant Simon & Schuster for $1.6 billion from Paramount, which wanted to divest a noncore asset. The transaction more than doubled total PE deal value to $2.9 billion from $1.3 billion, although deal count was down 34.9 percent to 54 from 83. Another bright spot was the launch of TKO, a merger of UFC and WWE which began trading in September. This and the end of the writer's strike on October 9 may add momentum for more deal activity.

Q3'23 highlights

267 ▼ **-31%**
deals | decrease QoQ

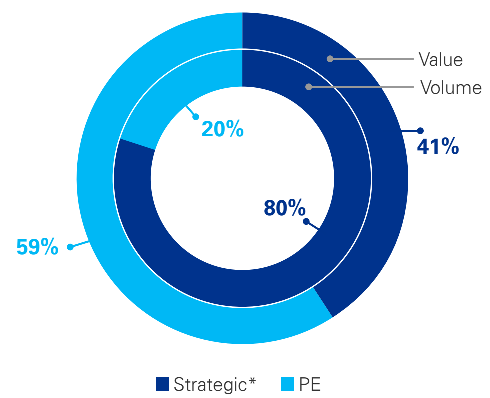
$5 ▼ **-46%**
billion deal value | decrease QoQ

Media deal activity by subsector



Q3'23 media PE/strategic mix

Outer ring represents value, inner ring represents volume.



*Includes SPAC deal activity

Top media deals

Acquirer	Target	Rationale	Value (billions)
Kohlberg Kravis Roberts	Simon & Schuster	Expand distribution	$1.6
Barça Media	Mountain & Co. I Acquisition Corp.	Raise FC Barcelona soccer team's U.S. profile	$1.0
Francisco Partners	Macrobond Financial	Improve growth in financial data market	$0.8
Lions Gate Entertainment	Entertainment One	Strengthen content library	$0.5
Formula One Group	Quintevents	Explore growth opportunities in live events	$0.3

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At a glance

Telecom
Still subdued

Telecom deal making in Q3’23 retreated further compared to the previous quarter. Deal count rose by six transactions from 50 to 56, but deal value fell from $5.9 billion to $3.5 billion. Tight credit conditions continued to weigh on deal makers’ sentiment and deterred M&A in the subsector where investment costs can be substantial.

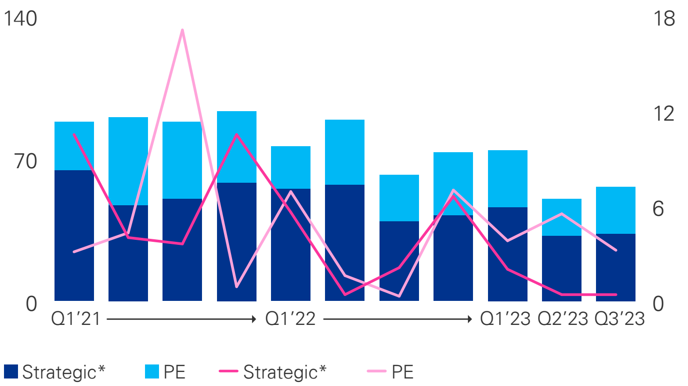
Strategic transactions increased by just one from 32 in Q2’23 to 33 in Q3’23, with total deal value remaining flat at $400 million. PE deal volume increased from 18 to 23, but deal value slid from $5.5 billion to $3.2 billion.

The largest transaction in Q3’23 was a $3.2 billion take-private deal for Chindata by Bain Capital. Bain already owned 42 percent of the China-based data center operator, which had been listed on the Nasdaq where its share price had been falling.

Q3’23 highlights

56 deals ▲ **12%** increase QoQ | **$3.5** billion deal value ▼ **-40%** decrease QoQ

Telecom deal activity by type



*Includes SPAC deal activity

Top telecom deals

Acquirer	Target	Rationale	Value (billions)
Bain Capital	Chindata Group	Consolidate data center operations in Asia-Pacific	$3.2
PowerSchool Holdings	SchoolMessenger	Improve school communication capabilities	$0.3
Kontron Europe	Telit Cinterion’s Cellular Automotive Module Unit	Meet increasing demand for advanced 4G/5G solutions	$0.027

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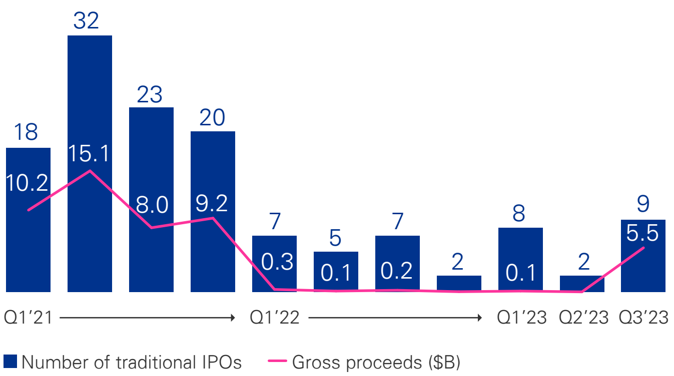
Deciphering the signals from the IPO market

After a long slumber, a couple of high-profile listings in Q3'23 have jolted awake the market for TMT initial public offerings (IPOs). On September 14, U.K. chip designer Arm Holdings went public on the Nasdaq and soared to more than $65 billion in valuation, making it the biggest U.S. IPO in almost two years.[3] The following week, the app-enabled grocery delivery company Instacart debuted on the Nasdaq with a valuation of over $11 billion,[4] while marketing software vendor Klaviyo was valued at $9.2 billion after the first day of trading on the New York Stock Exchange.[5] Many market commentators saw the high investor demand for the three stocks as a promising sign of an IPO market recovery.

The TMT IPO market has been muted for a year and half



But will these encouraging developments in the IPO market also help perk up M&A in the TMT sector? We are guardedly optimistic that this could strengthen views on the stability of the market, which in turn can help deal flow. While a direct correlation between IPO and M&A trends is hard to pin down, the recent doldrums in both markets owed much to the glum sentiment over the high inflation and interest rate environment, and the uncertain direction of the economy with the presidential election looming in 2024. But if investor interest in new listings is increasing, it could presage a longer-term turnaround in sentiment that could spread to deal making. Case in point: after Arm's successful flotation, SoftBank, its largest shareholder, is reportedly looking to spend some $5 billion in proceeds for deals in the artificial intelligence field.[6]

Even if market sentiment is improving, many TMT deal makers remain in wait-and-see mode for surer signs that better days are ahead. The recent IPO successes also need to be seen in a larger context. Arm and Instacart are both relatively well-established companies that enjoyed heavy media coverage, while the latter's first-day public valuation was much lower than the $39 billion it reached during startup funding in 2021.[7] Plenty of market players are still averse to risk-taking.

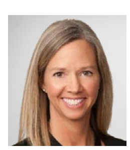
Under these circumstances, private companies may look to dual path a strategic sale or an IPO. As a result, they will want to take all necessary preparations to make their business as attractive as possible to potential buyers and investors.[8] Management needs to support its value proposition with a compelling story and information transparency. Key steps to achieve this include:

Establishing robust project governance: Pre-transaction preparation will create significant demand on the company's resources, so close oversight by a steering committee and early involvement of a supportive board are a must.

Ensuring a credible due diligence process: Prepare forecast models early to allow for inputs for stress testing and results simulation. This will help gauge limits of business performance and make prompt adjustments to due diligence findings.

Performing a "bottom line" analysis to identify low-profit/loss-generating subsidiaries: Noncore or orphan assets take away from business attractiveness and could erode your transaction price. Consider divestitures or closure options.

Being thoroughly market-ready now will allow private companies to quickly monetize their business—whenever TMT deal making takes off again.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[3] Nicholas Megaw, Tim Bradshaw, and Tabby Kinder, "Arm shares jump by 25% on first day of trading," Financial Times, September 14, 2023
[4] Jaewon Kang and Corrie Driebusch, "Instacart Shares Climb 12% in Stock Market Debut," Wall Street Journal, September 19, 2023
[5] Ari Levy, "Klaviyo rises 9% in muted NYSE debut after software vendor priced IPO at $30 a share," CNBC.com, September 20, 2023
[6] Madhumita Murgia, Kana Inagaki, Leo Lewis, and Tabby Kinder, "SoftBank seeks OpenAI tie-up as Son plans deal spree after Arm IPO," Financial Times, September 16, 2023
[7] Kang and Driebusch
[8] For more on this, see "How private companies can plan for an exit in a downturn," KPMG LLP, 2023

Outlook

Deals are likely to rebound, slowly

The overall U.S. economy remains resilient but shows signs of weakening. Although real GDP growth in the first three quarters of the year was better than many expected, KPMG Economics forecasts a slowdown in Q4’23 and into 2024. The economy faces headwinds from uncertain oil prices, labor strikes affecting multiple industries, tight credit conditions and, with the holiday season approaching, mounting consumer anxiety from lower savings and a resumption in student loan repayments. Even considering those factors, we do not expect a recession and believe the Federal Reserve can engineer a “soft landing”—that is, lowering inflation without triggering a spike in unemployment. The job market remains strong, with nonfarm payroll employment rising by a stronger-than-expected 336,000 positions in September.

The Fed is still walking a tightrope on reversing elevated inflation with higher interest rates. While it refrained from another rate hike in September, it didn’t rule out one in November if core inflation, which excludes the prices of food and energy, remains high; the Fed’s benchmark rate currently stands at 5.25 to 5.5 percent. KPMG Economics, however, forecasts no more rate hikes in this cycle. High bond yields are doing some of the monetary tightening the Fed would usually undertake. We believe the Fed won’t start lowering rates until the core personal consumption expenditures (PCE) price index falls to 3 percent, or not before July 2024. The renewed Israel-Hamas conflict may also force the Fed to wait and see before making any decisions.

This likely means business investment in the TMT sector and deal-making trends will broadly track slowly recovering investor sentiment. Couple this with still-rich valuations of potential targets, high borrowing costs, and an unfavorable regulatory environment, and the nascent rebound in the TMT M&A market will probably build up in a restrained manner.

One area of TMT that is bucking the low-key market expectations is artificial intelligence (AI). The generative AI phenomenon continues to snowball: on September 25, Amazon announced that it will invest up to $4 billion for a minority stake in Anthropic, a startup that touts a safe deployment of generative AI.[9] Customers of AWS, Amazon’s cloud service, will gain access to Anthropic’s generative AI models, while Anthropic will run the bulk of its work on AWS and use AWS-developed chips. The deal positions Amazon to compete better with Microsoft and Google in the AI revolution. We expect this race will only speed up in Q4’23 and beyond, which we believe will benefit the TMT sector.

Key considerations as we look ahead

As TMT deal makers seek out M&A opportunities in a more hopeful environment, they should pay particular attention to the following:

1 Stay ahead on value creation

While the market may be starting to improve, the number of high-quality assets is still be limited—and those will be highly sought after. To win, investors will need a strong conviction in their ability to drive value after the acquisition. This means pursuing revenue and commercial growth, deeper transformation, and innovation through generative AI.

2 Stay in front of trends

As generative AI continues to snowball, understand what it means and doesn’t for your business. Same for what’s coming next, like artificial general intelligence, to make sure your business models are not disrupted and/or you can react in a timely manner.

3 Be ready

Ensure that you have a robust M&A playbook to be able to react quickly as needed to market opportunities.

[9] Jeffrey Dastin, “Amazon steps up AI race with up to $4 billion deal to invest in Anthropic,” Reuters, September 26, 2023

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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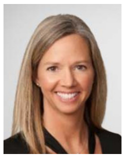

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