The path to thrive | M&A strategies for a brave new world

Observations
Technology, Media & Telecom (TMT) was the most active sector with $877.8 billion worth of deals in 2022.

North America was the most active region for TMT deals, with $558.8 billion worth of deals in 2022. Europe was at a distant second, with deals worth $366.6 billion.

Among the subsectors, Technology ($710.8 billion; 11,405 deals) accounted for 81% by value and 80% by volume of the overall deals within the sector.

Private equity investors were highly active in the Technology subsector with deals worth $263.8 billion, the highest among all the subsectors.

After many years of peak valuations, 2022 saw a significant reset in valuations, and as a result, many sought-after companies in segments like software-as-a-service (SaaS) could become attractive acquisition targets for corporates and private equity alike.

Across TMT sectors, divestitures are likely to make a comeback. Many TMT companies are aiming to become smaller and more focused. Bottom-line pressure and high interest from private equity firms can make it easier to divest in 2023.

However, the year is also likely to witness continued scrutiny of M&A deals on competition grounds, increased regulations, and political interventions.

Technology

Data sharing creates value but raises security concerns
• Cloud and digital transformation have led to data sharing within and across companies.
• Increased concern around data privacy and security creates a headwind for new business models.

Flexible working is forcing companies to innovate
• ERP, HR, and other specialist software are becoming more strategic and less administrative.
• Businesses will need to innovate on functionalities and protection as remote working becomes more prevalent.

Semiconductor chip shortage likely to last through 2023
• Digital transformation is driving demand for chip designs with innovative technologies.
• This increased demand, coupled with the pandemic, has resulted in a supply shortage likely to last until 2024.

Green technology
• The ICT sector is under pressure to reduce emissions and make its products more sustainable. This is likely to spur greater investments in green data centers, fresh product design, and other sustainability areas.

Short-term responses
1. Consolidation across the cloud value chain
Technology companies need to improve their competitive positioning through holistic platform solutions as opposed to point-based solutions. This could drive M&A consolidation across the cloud value chain and supplier base.

2. Specialist software vendors
Scaled HR and other ERP specialist technology companies may look to expand their offerings to adjacencies such as ESG, mental health, and well-being.

Medium-term responses
1. Proliferation of alliances
Technology is driving innovation across all sectors, and technology companies could explore alliances and JV models as an alternative pathway to access opportunities arising from technology-enabled convergence across sectors.

2. Frontier investing
The technology sector is likely to drive innovation through investments in green data centers, material science, spatial computing to drive augmented reality/virtual reality (AR/VR), AI, quantum computing, and many others.

Technology, Media & Telecom

Deal value (in billions of US dollars)
1. Technology $709.7
2. Telecom $94
3. Media & Entertainment $72.8

Deal volume (in trillions of US dollars)
1. Technology 11,405
2. Telecom 61
3. Media & Entertainment 2,181

Technology, Media & Telecom deal value and volume (in billions of US dollars)


Cross-environment integration and use of AI are driving investments
• Leading technology companies are investing heavily in creating interoperability across cloud and on-prem IT environments.
• AI is being used in IT operations (AIOps) to orchestrate workloads and automate issue detection and resolution.

CEO priorities
**Media & Entertainment**

**Forces shaping “new normal” conditions**

**Proliferation of streaming platforms**
- Streaming providers are likely to push further into international markets.

**Generational divide regarding alternative types of entertainment**
- Gen Zs have higher preference for video gaming and user-generated content over traditional TV and movies.
- Increased preference for user-generated content changes consumption patterns and gives rise to new platforms.

**Data integration should create value**
- DTC content creates the ability for companies to gather additional customer information.
- Data integrations across different offerings will enable a unified view of the customer that will drive content recognition and increase ad value.

**Socially conscious media**
- The media sector is directly exposed to shifts in social trends, and there is heightened customer pressure for the sector to become, as well as to produce content that is, socially aware, equitable, and diverse.

**Metaverse to drive convergence in content**
- Media and entertainment companies will be central to the metaverse, which will result in a convergence in traditional video content, video games, technology, and advertising.
- Immersive franchises with owned intellectual property will be able to create deep engagement and new monetization mechanisms.

**Competition in D2C could drive spending on exclusive content creation**
- Proliferation of streaming platforms is resulting in increased churn, forcing providers to tailor content and pricing models.
- Saturation in the US market is driving streaming providers to push further into international markets.

**Subscriber growth and smartphone adoption likely to be sustained at elevated levels**
- Underpenetrated demographics (under age 13, 50 years or older) are likely to gain new net subscribers and increase use of smartphones to facilitate remote learning and video calling.
- Government subsidies are providing for connectivity needs.

**Metaverse growth and cloud migration to drive traffic volume increase**
- Telecommunications infrastructure and service providers are likely to benefit from greater traffic (20x by 2032) across networks, driven by metaverse applications; however, ability to monetize increased traffic remains challenging.

**CEO priorities**

**Short-term responses**
1. Customer retention
   - Companies can use M&A activities to secure premium content, acquire and retain customers, and bolster technological capabilities.
2. Investment in new capabilities
   - To capitalize on the disaggregation of traditional distribution networks resulting from migration to D2C media, M&E companies should acquire new capabilities to allow them to capitalize on their new relationship with the customer.

**Medium-term responses**
3. Alliances and partnerships
   - Emerging areas such as the metaverse are increasingly dependent on multiparty marketplaces and ecosystems that span content creators, platforms, and consumers. The need for scale across customers, platforms, franchises/content, and technology is likely to drive landmark partnerships in the future.

**Long-term responses**
4. Future portfolio
   - Advances in technologies, such as AI and machine recognition, are rapidly changing the media production and consumption landscape and are likely to spur greater investments in these areas.

**Telecom**

**Forces shaping “new normal” conditions**

**Global carriers are expected to show strong resilience**
- Both financial and strategic buyers are likely to benefit from the global carrier sector’s strong resilience.

**Customer retention**
- Improved performance will result in increased demand for 5G-enabled devices and service.

**China Telecom**
- 5G gaining traction
  - Global carriers are expected to show distinct 5G performance improvements in the coming months.
  - Improved performance will result in increased demand for 5G-enabled devices and service.

**CEO priorities**

**Short-term responses**
1. Competition for telecommunications infrastructure assets
   - Both financial and strategic buyers are competing for infrastructure assets; carriers will likely divest nonpriority assets, potentially including large-scale data centers, to fund other initiatives (e.g., 5G, IoT).
2. Telecom companies will continue to divest media assets
   - Following a run on acquisitions of media companies, telecom companies are refocusing on core capabilities.

**Medium-term responses**
3. Adoption of 5G and cloud
   - Greater adoption of 5G should drive new products and services and, in turn, could spur telcos to acquire new capabilities, such as ones to make cloud migration more feasible, and accelerate adoption of multi-cloud environments.
4. Partnerships
   - Telecom companies may increasingly partner with their peers as an alternative to M&A to drive operational efficiency and increase investment in areas like fiber to the home (FTTH). In addition, they should also explore cross-sector partnerships with the health and financial sectors to drive new consumer opportunities.