



2018

GLOBAL TRANSACTIONS FORECAST

Technology and Telecommunications

A BAKER MCKENZIE SECTOR REPORT

Tech and telecom sector to thrive in 2018 as transactions reach peak levels

Deal activity in the technology and telecommunications sector is likely to accelerate in 2018, driven by a more positive global economic outlook, the expansion of technology across industries, investment from emerging markets, and strong corporate balance sheets.

As a result, our Global Transactions Forecast, developed in association with **Oxford Economics**, forecasts global M&A values to rise to US\$468 billion, up 60% from US\$295 billion in 2017, and global IPO values to double to US\$45.5 billion, up from US\$22 billion last year.

"Many companies are sitting on significant cash piles," says Charles Whitefoord, an M&A partner at Baker McKenzie based in London. "Technology companies are coming under pressure to either deploy that money or return it to shareholders."

Although global deal activity slowed across all sectors in 2017, we anticipate a notable rise in the coming year amid easing policy concerns in the US and EU, reasonable GDP growth across regions, and accommodative fiscal policy.

Several trends of embedding new technology across sectors, plus activist investment in technology firms by emerging markets such as China and Saudi Arabia, suggest strong deal activity in 2018. In fact, the technology and telecommunications industry is expected to drive the global rebound in IPO activity in 2018, aided by the Chinese government's efforts to spur technology firms to go public.

“As long as the brakes are not put any further on global free trade, we expect an uplift in both M&A and IPO activity as dealmakers and investors gain greater confidence in the business prospects of acquisition targets and newly-listed businesses,” says Paul Rawlinson, Baker McKenzie’s global chair.

GLOBAL TECHNOLOGY AND TELECOMMUNICATIONS M&A (US\$B)						
2014	2015	2016	2017	2018	2019	2020
344	654	502	295	468	394	328

GLOBAL TECHNOLOGY AND TELECOMMUNICATIONS IPOS (US\$B)						
2014	2015	2016	2017	2018	2019	2020
50.4	29.3	9	21.6	45.5	40.5	24.3

Source: Oxford Economics

Tech M&A in 2018: Key drivers

In 2018 we forecast M&A activity in the tech and telecom sector to rise significantly across all regions. North America will top the list with transactions totaling US\$243 billion, followed by Asia Pacific with US\$108.3 billion, Europe with US\$106 billion, Africa and the Middle East with US\$5.9 billion, and Latin America with US\$4.9 billion.

“The rapid growth of innovation in artificial intelligence, cloud computing, cybersecurity, and big data is driving anticipated deal activity.”

MATTHEW GEMELLO

M&A Partner

In both Europe and North America, deal values in the sector are forecast to increase by more than US\$60 billion over 2017 totals. Asia Pacific is forecast to receive an additional US\$30 billion in activity compared to 2017, while tech and telecom M&A activity in both Africa and the Middle East and Latin America will more than quadruple in 2018.

“The rapid growth of innovation in artificial intelligence, cloud computing, cybersecurity, and big data is driving anticipated deal activity,” says Matthew Gemello, an M&A partner at Baker McKenzie based in Palo Alto.

The expansion of emerging technologies across industries, including foodtech, fintech, and autotech, will also drive M&A activity as we expect to see more cross-sector deals involving technology in the next few years.

“Hybrid sectors represent the growing convergence of traditional industries and technology as companies battle to remain competitive,” says Anne-Marie Allgrove, global chair of Baker McKenzie’s Global TMT Industry Group based in Sydney. “When you couple the rapid pace of innovation and continued push for vertical integration, it creates a recipe for increased M&A activity.”

One of the clearest market dynamics driving transactions is that businesses focused on the use of customer data need to increase the scope of their customer reach, and are seeking to achieve this by buying competitors and new technologies that will attract more customer engagement.

“Top talent continues to be an important driver in technology acquisitions,” Gemello says. “We are seeing fewer pure ‘acqui-hires’ as compared to prior periods in the last 10 years, but the overarching need remains paramount from a competitive perspective.”

GLOBAL TECHNOLOGY AND TELECOMMUNICATIONS M&A BY REGION (US\$B)				
	2017	2018	2019	2020
North America	176	243	179.6	150.6
Europe	41.2	106	84.4	73.3
Asia Pacific	75.2	108.3	117.8	96.4
Latin America	1.2	4.9	6.5	3.7
Africa & Middle East	1.2	5.9	5.9	3.9

Source: Oxford Economics

Tech IPOs in 2018: Key drivers

A number of factors are driving our forecast for a surge in tech and telecom IPO activity in 2018, as the levers all point in the right direction for continued expansion and capital formation. The stock market is providing good valuations, the price of debt is rising, and economies are growing.

“In the US, companies may be persuaded to reconsider the debt and equity markets as the Fed has stated its intention to increase interest rates which would cause debt to become more expensive,” says Tom Rice, a capital markets partner at Baker McKenzie based in New York. “Not only that, but older PE funds have aging tech investments that need to be sold or spun off. Many are discussing dual tracks with M&A and IPO.”

Beyond 2018

Following a peak in deal activity in 2018, we forecast that tech and telecom M&A and IPO transactions will decline in 2019 in line with a larger, worldwide trend of cooling deal activity in developed markets. As interest rates rise, global trade and investment growth slows, and equity prices correct, we forecast tech and telecom M&A to drop to US\$394 billion in 2019, and further to US\$328 billion in 2020.

After reaching its highest level since 2014 at US\$45.5 billion in 2018, we forecast that IPOs in the sector will decrease to US\$40.5 in 2019 before dropping to US\$24.3 in 2020.

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