Hogan Lovells
Deal Dynamics
Insights on cross-border M&A
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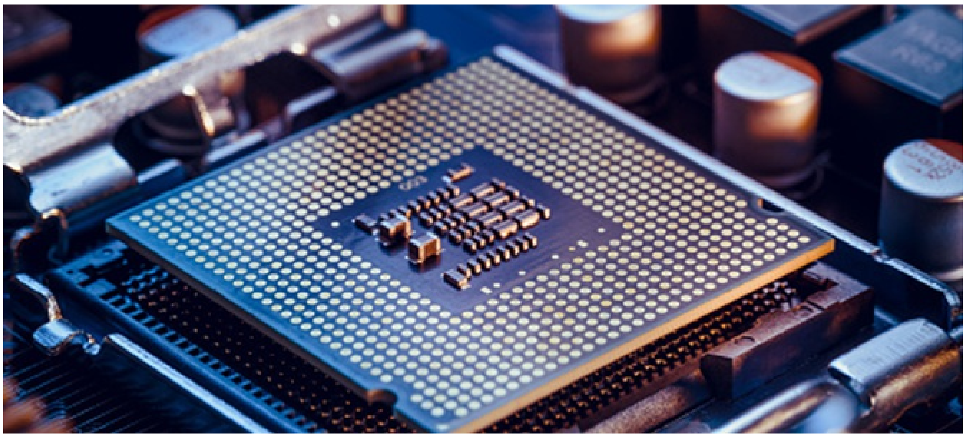
TMT sees volume and value of deals rise above quarterly averages, as tech M&A leads the way

- A total of 272 deals were announced over the quarter
- Deal volume up 1% compared with the quarterly average since 2010
- Deal value up 3% compared with the quarterly deal value average since 2010



Over the past five years, cross-border M&A in the technology, media and telecommunications (TMT) sector has been driven by four complementary factors – consolidation, convergence, innovation, and expansion.

And while companies within the sector are incredibly diverse, with very different M&A strategies, those drivers have been behind the major deals in Q3 2018.

There were 272 cross-border deals in the sector over the three-month period. This is the second highest quarterly deal volume recorded for any sector in the quarter (after diversified industrials). A total of US$49 billion-worth of cross-border deals were announced in Q3.

The thrill of the new

Innovation and disruption are watchwords across the entire sector. Major corporates and investors realize that if they are not changing in our ever-changing world, then they are likely to become the next targets themselves.

This quarter has seen several deals driven by the desire to digitalize or to bring on board innovative offerings.

For example, technology giant Siemens acquired United States-based Mendix, an

Industrial Internet of Things (IIoT) app developer, for US$730 million – underscoring big players' ambition to acquire IIoT technologies to augment their offerings on the digital factory floor.

The acquisition is aimed to fill a gap in Siemens' offerings in the digital space that will augment its market-leading presence in physical infrastructure. Siemens' MindSphere open cloud platform and IIoT operating system is expected to benefit from Mendix's specialist expertise in this area, bridging the physical and digital arenas.

Consolidation and content

The largest deals of the quarter have been based on consolidation plays. In the telecommunications sub-sector, Hong Kong-based conglomerate CK Hutchison bought out the 50% stake in Italy's Wind Tre held by Amsterdam-based telecom operator Veon. The deal, announced on 3 July and valuing the stake at €2.45 billion, terminates Hutchinson and Veon's previous joint ownership.

Hutchison now holds 100% of the Italian venture, which was formed through the US$11.9 billion merger in 2015 of VimpelCom's Wind Telecommunication and CK Hutchison's 3 Italia.

In a statement at the time of the deal, CK Hutchinson said: "This is a key step in consolidating an important part of our telecom assets, which are being built into a globally relevant platform for the delivery of next generation products and services."

And, despite being first announced in April, US communications and media giant Comcast was declared the winner in the battle to acquire Sky; the publicly listed UK broadcaster in which 21st Century Fox was previously the largest minority shareholder.

On the surface, the deal can be seen as a traditional global consolidation play; but is also a response to the challenges of new forms of scale as Netflix and others increasingly create truly global outlets for content "over the top".

This was followed by another major transaction in the quarter which saw French IT services company Atos buy fellow IT services provider, US-based Syntel, for US$3.6 billion. A key aim behind the acquisition was to gain access to Syntel's top three customers – blue chips American Express, State Street Bank and FedEx – which accounted for 45% of its revenue last year.

Marking new territory

The ever-expanding reach of technology means that convergence between sectors continues to drive the TMT M&A market. The industry has seen a wide variety of cross-sector deals over the past year, including Wal-Mart's US$16 billion blockbuster offer for Indian e-retailers Flipkart in May and Japanese auto giant Toyota's US$1 billion investment in Singapore's Grab Holdings, Southeast Asia's largest car-hailing service, in June.

This quarter, the largest convergence deal saw Sweden's Telia pay US$2.6 billion for GET and TDC Norway. As a result, Telia will see its position in the Nordic and Baltic markets strengthened, besides embellishing its status as a challenger across mobile networks, broadband and TV.

Potential obstacles

There are hurdles that could thwart dealmakers' best-laid intentions. Protectionism is a major challenge for TMT – deals can be highly politically sensitive. For example, China's alleged intense interest in technology is viewed with particular suspicion by the Trump administration. Many will be casting a watchful eye at any deal that might contain a potential Chinese element, mindful that the Department of the Treasury's Interagency Committee on Foreign Investment in the United States (CFIUS) – which reviews transactions for their national security implications – is scrutinizing such deals ever more closely. And, regulators in Europe are increasingly asking the same questions.

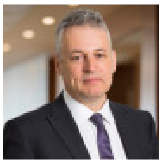
One of the biggest proposed TMT tie-ups of recent years, the US$44 billion takeover by US chipmaker Qualcomm of Dutch counterpart NXP, collapsed in late July after China refused to grant it approval. This was seen as the fallout of heightened trade tensions between China and the United States, driven by President Trump's implementation of a broader range to trade tariffs targeting Beijing. The Qualcomm/TMT deal failure showed that regulatory and political obstacles can catch out even the biggest operators in the TMT space.

Those caveats aside, the TMT sector is primed for continued activity as the four underlying drivers continue to mean that inactivity is not an option.

Achieving global scale and aggregation is increasingly important. Investment capital continues to chase the "next big tech winner". Innovators continue to seek the platform to take their business models to the next level. Trade buyers continue to seek out new components for their business models of the future.

The disruptive impact of the tech revolution makes an increasingly compelling case for continued dealmaking.

Key contacts



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