

Trends driving sector M&A

TMT



UK TMT M&A LANDSCAPE REMAINS RESILIENT

M&A in the UK TMT market has shown positive momentum, despite the shaky global geopolitical environment and, in particular, the uncertainty caused by Brexit.

Recent reports indicate that the UK now ranks in the top five most investable countries for TMT acquirers, ahead of the US, France and Germany. Recent trends suggest that despite acquirers being cautious, Brexit is not deterring them from completing deals and strategic acquisitions are still achieving premium valuations. Our research shows that the volume of inbound TMT deals in Q1 2019 exceeded those that completed in Q1 2018.

Software driving digital disruption

We recorded over 400 TMT deals completed within the UK TMT sector for H1 2019. The software and data sub-sector was the most active with 191 transactions completed (46% of total). A key driver of this trend was an increase in inbound deals, with over 50% of buyers from the US as tech companies continue to look for opportunities to expand out of Silicon Valley. Within the software market, enterprise and cloud-based software businesses have the highest level of deal activity as strategic buyers are increasingly using acquisitions to bolster in-house capability. SAP's \$8m acquisition of Qualtrics International, a provider of experience management platforms, is one such example. During this era of digital disruption, it is clear the ongoing race amongst large tech corporates to enhance digital capabilities continues to ramp-up through the execution of acquisition strategies.

The transformation of financial services

Fintech deals remain prevalent in the UK due to continued transformation of the financial services sector, through Artificial Intelligence (AI) and machine learning. Venture capital is

driving this trend as funds continue to look to deploy significant capital into the sector. Fintech businesses are highly attractive to both strategic and private equity acquirers as the insurance and payments industries are experiencing significant disruption from AI and machine learning. This was recently demonstrated by the Canadian payments firm, Nuvei's purchase of SafeCharge International, the global payments technology company that allows businesses to manage omnichannel payments. The all-cash £700m deal will enable Nuvei's expansion into the fast-growing electronic payments industry, while providing access to SafeCharge's technology platform and European footprint.

5G contributes to the telecoms trend

The ICT Services sector generated 29% of all TMT transactions in H1 (c.120 transactions). The telecommunications (telecoms) sub-sector accounted for nearly 40% of all ICT Services deals. This is no surprise given the recent trend in consolidation of ICT Services companies as small to mid-size enterprises look to obtain all communication, connectivity, mobile and IT needs from one sole provider. Activity here is expected to continue as digital infrastructure investment follows and there is a similar upward trend worldwide. 5G commercial launches have already commenced in markets across the globe and telecoms businesses are also expected to drive increased investment in the Internet of Things (IoT) sub-sector. However, the IoT space currently only represents a small fraction of telecoms revenue and transition from the initial development stages to a full scale IoT network is an on-going challenge.



The TMT sector is seeing very high levels of M&A activity as all other sectors become increasingly reliant on tech, and as the appetite from private equity investors continue to grow at pace. During this continued period of digital disruption, businesses across the market are continually seeking to enhance core capabilities, and expand geographically, thereby remaining competitive – and in doing so are pursuing active acquisition strategies, often with equity and debt investor support.

JAMES CHAPMAN-ANDREWS
PARTNER AND UK HEAD OF TMT

Security surge

Infrastructure Services ranks just behind telecoms with regards to deal volume within the ICT Services sector, with 41 deals recorded for H1. Network and security specialists are driving these deals as companies continue to increase spend on cybersecurity and data protection. Orange closed two sizeable cybersecurity deals during the first half of the year. The telecoms giant bought Belgium-based security services business, SecureLink, for €515m and announced the £120m acquisition of SecureData, the largest independent cybersecurity services provider in the UK, earlier in the year. Orange is establishing itself as a leading player in the European cybersecurity market.

Automotive innovation

It is likely that deal activity will increase in the IoT sector on account of automotive innovation such as driverless cars and connected car technology. Moving towards 2020, the big auto manufacturers are likely to invest in smaller technology companies offering innovation and cutting-edge technology, which can be difficult to nurture in large incumbent car manufacturers.

German carmakers are already showing a particular interest in connectivity and autonomous driving capabilities. For example, in February, BMW announced a €1bn joint venture to create a single mobility services portfolio including self-driving cars and car share schemes enabling it to compete against disruptive challenges from the likes of Uber and Google.

Recently, BMW announced that it will be teaming up with China Unicom to test autonomous cars using 5G networks. It is predicted that 5G technology will have the capability to have an overwhelming impact on the auto industry, which is in the middle of a transformation towards digitalisation.

Summary

Technology is integrated into all aspects of our daily lives and M&A activity is set to continue with vast numbers of innovative products emerging across all industries, combined with tech giants having surplus cash reserves to spend. The upward trend in tech M&A will continue as we move towards the next decade.

UK TMT SENIOR TEAM



James Chapman-Andrews
Partner and UK Head of TMT

james.chapman-andrews@alantra.com
+44 (0) 20 7246 0544



Richard Sanders
Partner

richard.sanders@alantra.com
+44 (0) 121 654 5002



Emmet Keating
Director

emmet.keating@alantra.com
+44 (0) 121 654 5021



Paul Vanstone
Director

paul.vanstone@alantra.com
+44 (0) 20 7246 0510



Simon Devonshire
TMT Industry Advisor

simon.devonshire@alantra.com
+44 (0) 20 7246 0500

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