



TMT divestitures make a comeback: 2023 deal values in tech, media, and telecom may bounce back strongly

Many TMT companies are aiming to become smaller and more focused. Bottom-line pressure and high interest from private equity and venture capital firms can make it easier in 2023.

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DUE TO MACROECONOMIC headwinds, business disruptions, and a weak IPO market, TMT divestitures took a nosedive in 2022 from 2021's record-setting values: Through the first half of 2022, total divestiture deal value fell 64% from the first half of 2021, while volume went down by only 21%. However, divestitures are now poised to bounce back to near-record highs.

Deloitte Global predicts that the total value of TMT

divestitures in 2023 could expand by 25–50% year over year to range from US\$250–300 billion, well above the US\$244 billion average for the period 2016–2020. The increase in total value will likely come from a rise in both deal values and volumes (figure 1) as the business and investment environment improves and deal volume returns to historic levels.¹

ABOUT THE PREDICTION METHODOLOGY

The US\$250–300 billion total deal value we’re predicting for 2023 is based on our expectation that deal volume will revert to historic levels, while deal value will rebound sharply following the drop in 2022.

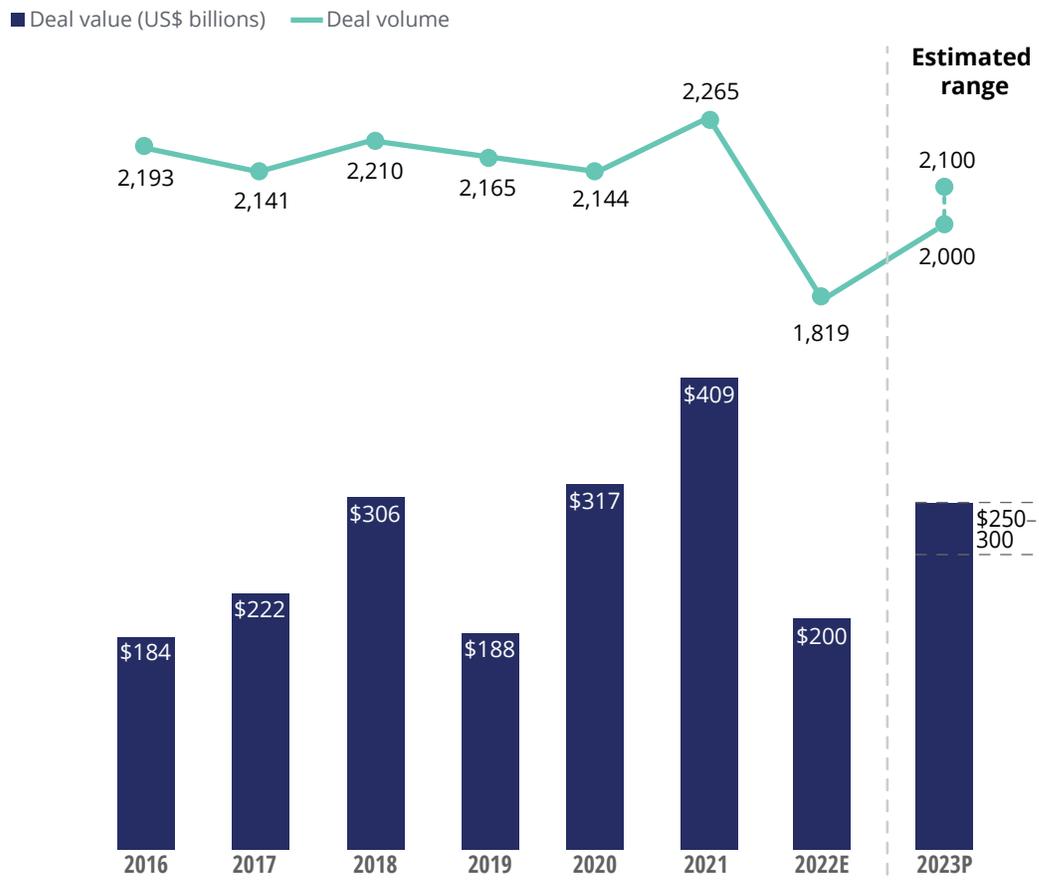
Although 2022 was a dramatic outlier, deal volume over the six preceding years was remarkably stable, showing just 3% variability (2,200 ± 60 deals per year). We anticipate that the growth drivers discussed in this chapter will lead deal volume to bounce back to about 2,000–2,100 deals—just shy of the long-term average—in 2023.

In sharp contrast, total annual deal value fluctuated substantially from 2016 to 2021, showing about 37% variability (roughly US\$300 billion ± US\$110 billion per year). Top reasons for robust divestiture activity in certain years include mega-divestments (2018), a rush in deals during the year’s second half (2020), and broad-based activity consistent with wider M&A trends (2021). The specific estimate for 2023 values is based on our expectation for a spurt in PE-led and corporate deals coupled with the confluence of growth drivers we discuss here.

FIGURE 1

TMT divestitures are expected to bounce back strongly in 2023

TMT divestitures, 2016–2023



Note: E indicates estimated value and P denotes predicted value. See endnote 1 for methodology.

Source: Deloitte analysis based on data extracted from Refinitiv database in July 2022.

Divesting now could appeal to sellers and buyers alike

The decrease in divestiture activity in the first half of 2022 had many drivers: recession worries, tighter credit markets, spiraling supply chain issues, and concerns about bottom-line impact. In addition, companies were most likely still taking stock of their asset portfolios following 2021's robust M&A and divestiture season. But many TMT companies still see divestitures as a path to becoming more agile in dealing with future uncertainties, and as conditions improve, they will likely once more begin to act. In fact, Deloitte's *2022 Global Divestiture Survey* found that corporate leaders expect to step up divestiture activity going forward.²

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We expect the recovery in TMT divestiture transactions will probably begin sometime in mid-2023, driven by several converging factors. Macroeconomic uncertainties and business disruptions may prompt companies to reassess their strategic business assets—including which ones it makes sense to hold onto.³ Additionally, activist investors are likely to press for divestitures soon, as a variety of challenges have led to disappointing earnings and falling share prices.⁴ Private equity investors (PEs) and select venture capital firms (VCs)⁵ may become more aggressive buyers by

mid-2023 as they see more stable fund flows and highly attractive valuations compared to late 2021.

TMT executives are looking to divestitures to accomplish a variety of goals. Some are aiming to sharpen one or both entities' focus on their core business;⁶ others want to unlock value from specific investments and assets;⁷ and some are doing both as part of their portfolio recalibration efforts. All of these goals will likely involve offloading noncore business divisions, suggesting that the growth in 2023's deal activity will begin with an increase in the number of such niche, small-size transactions, with deal value following. Additionally, companies planning mega-mergers need to comply with regulations that mandate divesting certain assets before the mergers are approved.

As exit options, we expect corporate IPOs and especially SPAC-led deals to further weaken over the next 12–18 months due to higher valuations and rising interest rates. Given the muted IPO scene, we expect PE buyers to be more active in acquiring divested assets than strategic corporate buyers. PE firms are flush with record amounts of dry powder, and they will use it to chase select assets that they believe will yield higher ROI.⁸ Sellers should prime the assets that they intend to sell off, as the market is less likely to simply “take over” assets available for sale.

In the technology sector, noncore assets, specialized software businesses that have the potential to scale, and financially struggling divisions with proven business models will be attractive candidates for both sellers and buyers.⁹ Large, diversified semiconductor and electronics companies will likely continue to spin off select fab operations and facilities to focus on the core and preserve margins.¹⁰ From the buyers' standpoint, PE investors can take advantage of the public funding announced by several governments, and could consider co-investing with interested chip companies to acquire fab operations that get spun off. Deal activity may be further accelerated by

regulators potentially forcing some larger tech companies to divest for anti-trust concerns.

Meanwhile, the media-telecom convergence trend seems to be slowing down, with some major telcos starting to look at prospective buyers for their media assets—especially, film and TV businesses—which could prompt de-mergers. But a more prominent driver behind many media and entertainment divestitures is digitization and consumer behavior. Consumers continue to change how they consume content as well as their spending on telecom, media, and entertainment services. Ongoing streaming wars and personal financial constraints are leading consumers to reduce their number of subscriptions: Deloitte’s 2022 *Digital Media Trends* study found that almost 50% of US consumers felt that they pay too much for streaming video services, driving one in three to plan to cut back.¹¹ Further, they are making very specific choices about what content and

services they want to spend their money on.¹² For media and entertainment majors and conglomerates offering content, broadcasting, connectivity, and entertainment, these consumer trends may prompt them to shed parts of their operations, not only to focus on their core business, but also to strengthen their financial position.

Deloitte’s 2022 *Charting New Horizons M&A report* suggests that telecom companies may deploy a range of defensive M&A strategies to safeguard their core businesses. For instance, they could continue to sell off select nonstrategic assets as part of a defensive strategy.¹³ Telecom tower and infrastructure companies as well as mobile broadband service providers may seek to sell noncore assets such as media services and large data centers to invest more in high-growth areas and initiatives such as 5G, fixed wireless access, or edge computing.

THE BOTTOM LINE

TMT executives considering divestitures face a number of issues, including funding, rising borrowing costs, supply chain uncertainties, and a murky global macroeconomic outlook. Against this backdrop, leaders may need to consider several actions to ready themselves for successful deals:

Prepare for increased regulatory scrutiny: Geopolitical tensions have reached fever pitch over the past two to three years. Moreover, digitization and tech advancements are blurring boundaries and borders, data privacy concerns are intensifying, and several major countries are pushing forward with localization to gain economic strength. These factors are driving numerous regulatory changes¹⁴ that present complexities for divestitures, especially for cross-border deals.¹⁵ Further complicating things is that for divestitures involving targets operating in multiple regions, regulatory authorities from all of those regions will scrutinize the transactions. Whether as a buyer or a seller, companies should be highly cognizant of the specific regulations in the countries and regions where they play.

Focus on and prioritize core capabilities: A TMT company may have niche capabilities in one or more high-growth areas, such as health and well-being apps, smart home tech, advanced materials, augmented or virtual reality, or machine learning/deep learning, to name just a few. However, it may sometimes make sense to divest specific business units containing even those “attractive” opportunities if they are not contributing to the larger business vision and objectives. These types of spin-offs can allow companies to direct capital and resources towards other areas that better serve them and their customers.¹⁶

Gear up to transform while transacting: A deliberate and a well-planned post-deal strategy can help TMT companies increase the benefits they gain from divestitures.¹⁷ Even as they execute the transactions, TMT executives should place equal emphasis on optimizing the end state.¹⁸

Demonstrate progress and positive outcomes in ESG: ESG is no longer a nice-to-have, but a vital factor driving asset managers' and PEs' investment decisions.¹⁹ It has become imperative for TMT companies—especially in the tech industry—to demonstrate tangible ESG outcomes to be attractive to potential buyers.²⁰ Some companies may want to spin off assets with poor ESG characteristics to distance themselves from the parent company.

All in all, TMT companies should find it easier to shed parts of their business in 2023 than they did the year before. With PEs under investor pressure to deploy their financial firepower and willing to consider riskier deals than in the recent past, perhaps the time is ripe for TMT executives to take a close look at what should be retained and what can be let go.

Endnotes

1. This chapter uses “divestiture” to refer to transactions in which the parent company is losing a majority interest in the target company, or the target is disposing of some of its assets – where the target is a TMT company. The data in figure 1 reflects divestiture transactions across all global regions.
2. Deloitte, *2022 Global Divestiture Survey: Realizing value in a fast-paced market, 2022*.
3. Paul Silverglate, *2022 Technology Industry Outlook*, Deloitte, January 2022.
4. Deloitte's *2022 Global Deloitte Divestiture Survey* found that shareholder activism is once more emerging as a driver for sellers to consider divestitures.
5. Though VCs rarely invest in classic divested assets from companies, they are now evaluating technology management buyout spin-offs, in which the VC invests in small tech companies and funds their promising business ideas in niche areas.
6. For instance, VMware spun off from Dell in 2021 to further strengthen its cloud infrastructure and virtualization software presence, while enabling Dell to focus more on its core enterprise data center and PC markets.
7. For example, the Chinese manufacturing conglomerate BYD Co Ltd has filed for an IPO for its semiconductor business, BYD Semiconductor, to support BYD's expansion into power semiconductors and optoelectronics.
8. The global PE industry's dry powder was pegged at US\$1.78 trillion in February 2022, based on an article that cited Preqin's estimates. See: Maera Tezuka and Madeleine Farman, “Another PE dry powder record set; VC rounds in US fintech surged in 2021,” S&P Global Market Intelligence, February 11, 2022.
9. As such, software company valuations dropped more steeply than their broader tech peers during H1 2022. Based on Deloitte's analysis of publicly available sources, one US tech-software sector ETF was down nearly 34% year over year (YoY) as of August 31, 2022, compared with a 21% fall in the NASDAQ-100 Index (which represents the broader technology industry) and a 13% fall in the S&P 500 during the same period.
10. For instance, in 2020, one large tech company diversified its microchip manufacturing unit to focus more on its core chip R&D business instead of manufacturing. In another example, a PE firm acquired a major US-based semiconductor player's fab production facility in the United States.

11. Kevin Westcott et al., *2022 Deloitte digital media trends, 16th edition: Towards the metaverse*, Deloitte Insights, March 28, 2022.
12. Deloitte's 2022 Digital Media Trends survey (16th edition) revealed that 41% of US consumers cited price and 30% noted a lack of interesting content as key reasons for canceling their subscriptions.
13. Iain Macmillan, Mark Puowitz, and Sriram Prakash, *Charting new horizons: M&A and the path to thrive*, Deloitte, 2022.
14. Louise Nash et al., "Ukraine crisis: Changing M&A transactions for technology companies," Inside Tech Media, May 23, 2022.
15. Deloitte's *2022 Global Divestiture Survey* found that, of the surveyed sellers (across all industries) that took more time than expected to complete their most recent divestiture, 48% cited regulatory approvals as an important reason, up from 40% in both the 2020 and 2017 surveys.
16. For example, in H1 2022, companies in the high-tech semiconductor and electronics space have divested niche business units in areas such as discrete components (diodes, connectors, video/audio devices), assemblies, and packaging/test equipment because these did not align with their strategic focus areas.
17. Deloitte, *2022 Global Divestiture Survey: Realizing value in a fast-paced market*.
18. Deloitte, "Driving divestiture value: Transacting and transforming on parallel tracks," October 4, 2020.
19. Deloitte, "Incorporating ESG across investment portfolios may open access to capital," 2020.
20. Besides reducing emissions and energy consumption in their own facilities, they are under growing pressure to monitor their suppliers' ESG progress. See: Deloitte, "ESG in Technology, Media & Telecommunications: Driving value through sustainability," accessed October 10, 2022.

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