Technology
Capital Confidence Barometer

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EY
Building a better working world

Can political uncertainty and record M&A coexist?

Deals driven by disruption, both political and technological

The better the question. The better the answer. The better the world works.

Technology highlights

M&A outlook

57%

expect to **actively pursue acquisitions** in the next 12 months

90%

expect their **pipeline to increase or remain stable** in the next 12 months

23%

expect an increase in **cross-border dealmaking**

Macroeconomic environment

63%

see the **global economy improving**

99%

expect **corporate earnings** to either **improve or remain stable**

67%

cite a broad range of **geopolitical or emerging policy concerns as greatest risks** to growth

Growth and portfolio strategy

76%

have increased the frequency of their **portfolio review process**

49%

have begun actively **reorganizing geographic operations** due to potential changes in trade policies

54%

cite **digital innovation, the search for growth and sector convergence** as the most prominent topics on their boardroom agenda

Deals driven by disruption, both political and technological

The fundamental message technology executives have delivered in this 16th edition of EY's *Technology Capital Confidence Barometer* is that tech M&A is still going strong, following record dealmaking in 2015 and 2016. More than half of the executives surveyed say they expect to pursue more acquisitions in the coming year, even as their optimism about organic growth and corporate earnings has been buoyed by surging confidence in the global economy. All of which is more than enough justification for that green light on the cover of this report.

But there are some warning lights flashing, as well. Technology executives tell us they are not only sensing political risks, but also acting on them.

Let's first note that cross-border deals accounted for more than half of the value of technology M&As worldwide in the first quarter of 2017, according to EY analysis. And this barometer provides some of the backstory. Almost half of the executives say they have begun actively reorganizing geographic operations in response to the uncertainty surrounding today's trade policy. About a quarter see a trend toward securing supply chains and market access through cross-border dealmaking.

Political risk is actually driving some deals — but certainly not all. We're also told in this *Barometer* that nearly a third of the deals that fell through recently were terminated — at least in part — because of economic and political instability.

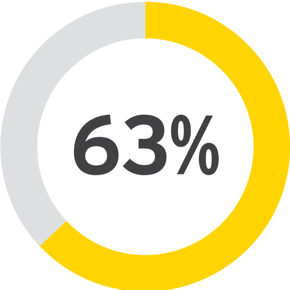
When it comes to dealmaking, there is always risk in making a play — and risk in leaving it on the table. This is particularly true when it comes to the main deal driver executives have cited in every recent *Barometer*: technology-enabled disruption. The stakes are high, they say: innovation, competition and customers.

Disruption — whether technological or political — is not going away any time soon. Many dealmakers see that as a call to action.

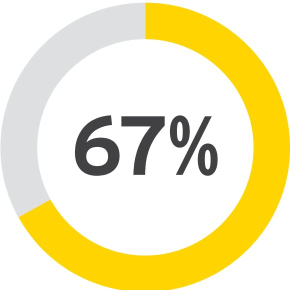
Ken Welter
EY Global Technology Sector Leader
Transaction Advisory Services

Technology executives are bullish on the economy, despite risks

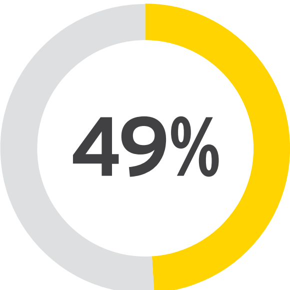
Confidence has surged in global economic growth. But there are concerns about a broad range of policy risks — so much so, that nearly half of the executives surveyed have begun geographic reorganizations and almost a third of executives whose deals didn't close blamed economic and political instability.



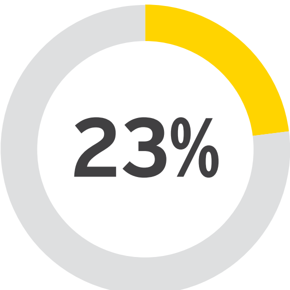
of tech executives see the **global economy improving**, up from 17% six months ago



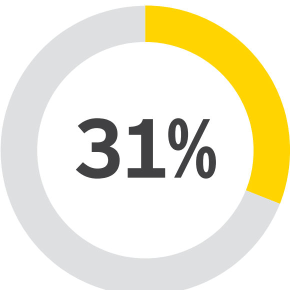
cite a broad range of **geopolitical** or **emerging policy concerns** as the greatest risks to growth



have begun actively **reorganizing geographic operations** in response to potential changes in trade policies



say a main theme of M&A in the coming year will be **cross-border dealmaking** to secure supply chains and market access

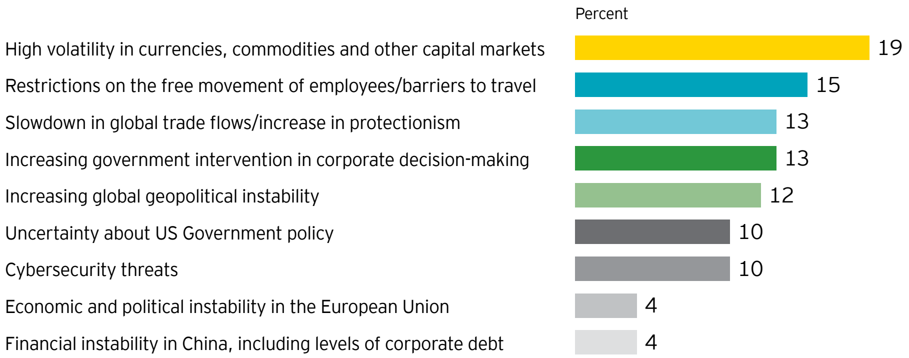


of **deals that failed or were abandoned** recently were terminated in part because of economic and political instability

Policy risks are seen multiplying

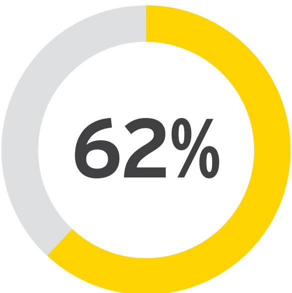
While volatility is the single biggest risk cited by technology executives, a wide diversity of concerns have combined into an overall preoccupation with government policy. Among the 67% who demonstrated this preoccupation, the issues ranged from travel barriers to protectionism, government intervention to geopolitical instability and US to European Union policy.

Q: What do you believe to be the greatest economic risk(s) to your core business over the next 6–12 months?

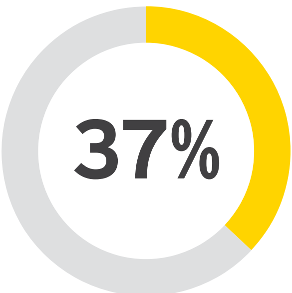


Corporate earnings expected to rise

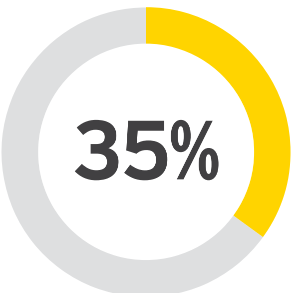
In addition to a positive economic outlook, corporate earnings represent another source of growing confidence in the tech sector. And in the financial markets, more than half (56%) see improving short-term market stability, although fewer see credit availability or equity valuations improving.



project **earnings growth**, up from 37% one year ago



see **credit availability** improving, down from 48% a year ago

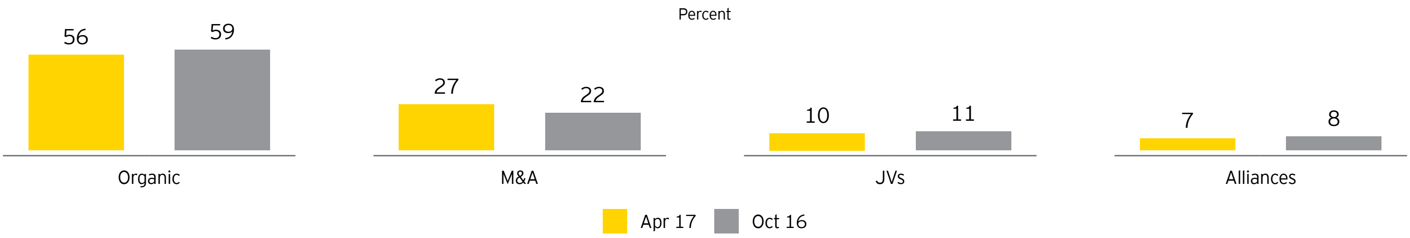


see **equity valuations** improving, down from 42% a year ago

Shift seen toward more M&A for growth

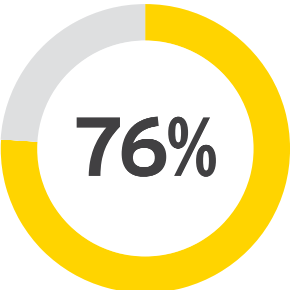
While the improving global economy will provide a boost to organic growth in the next 12 months, tech executives are also ratcheting up their emphasis on M&A for growth. And 44% expect growth to come from various types of deals, including joint ventures and alliances, as well as M&A.

Q: From where do you see growth within your company over the next 12 months?



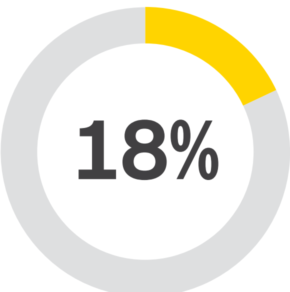
Disruption sets the pace and prominence of dealmaking

And while tech sector executives acknowledge the political risks ahead, they are even more keenly aware of the opportunities and risks from disruptive innovation and competition.



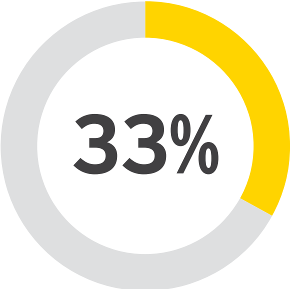
have increased the frequency of their **portfolio review** process to capitalize on disruptive forces

pursue **alliances and JVs** for faster access to innovation

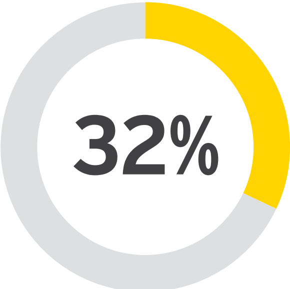


say **dealmaking** will be most prominent in their boardrooms over the next 6 months (second only to the impact of digital innovation, at 21%)

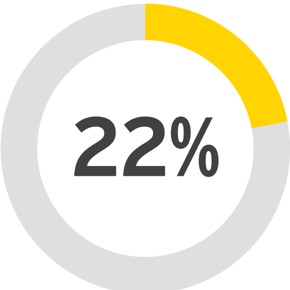
Companies need skills to futureproof their businesses amid digital transformation



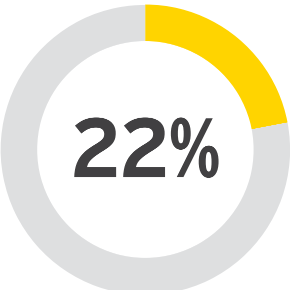
say the most important question business leaders need to answer is how to attract, train and retain the **people and skills** required for future challenges



say the question is how to **futureproof** their business amid constant change and disruption



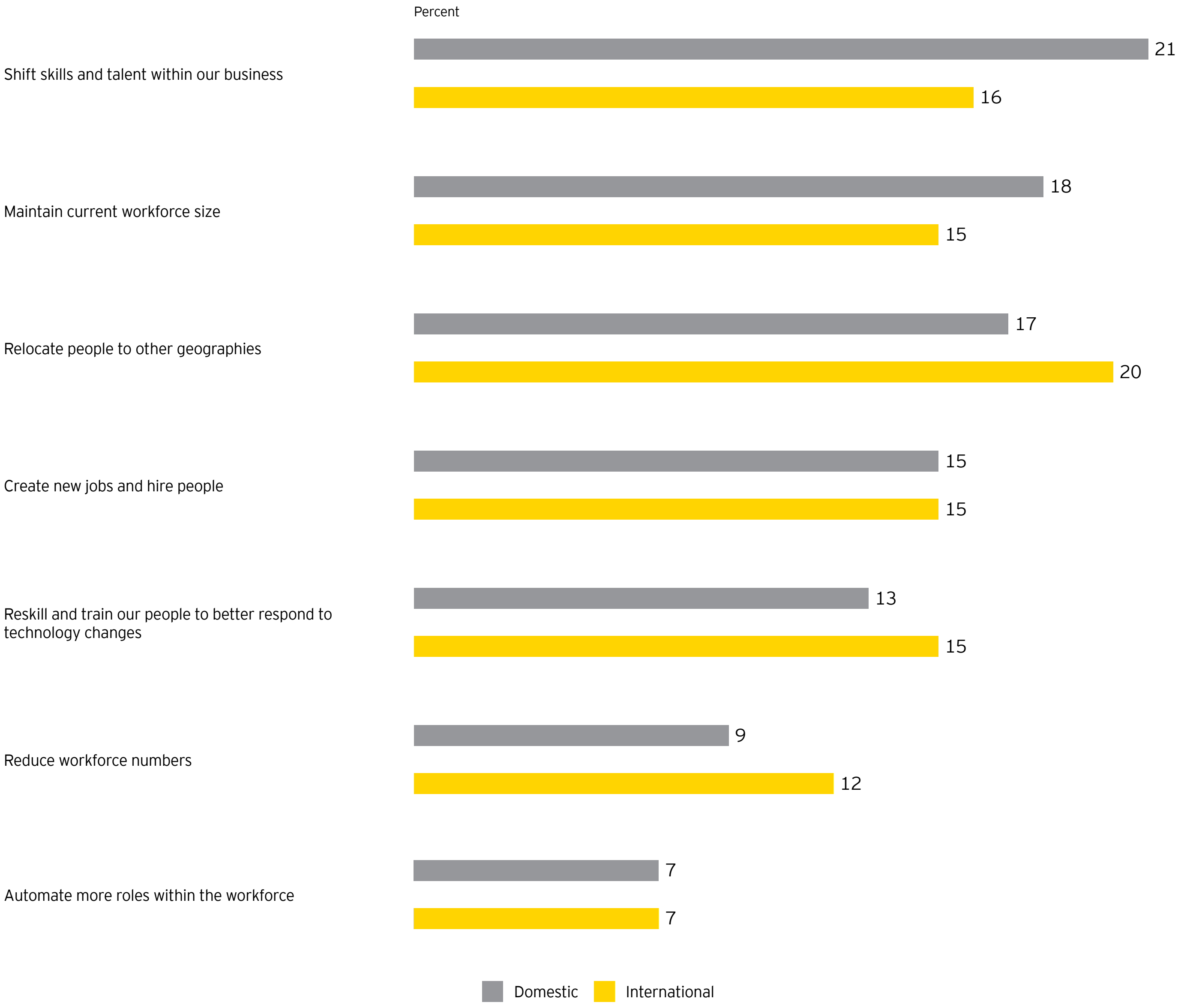
say the most difficult part of digital transformation is implementing a **digital innovation culture** through change management



say the biggest difficulty in digital transformation is maintaining a **competitive position** as competitors adopt new technologies

Multifaceted employment strategies are being deployed

Q: With regard to employment, which of the following does your organization expect to do in the next 12 months?

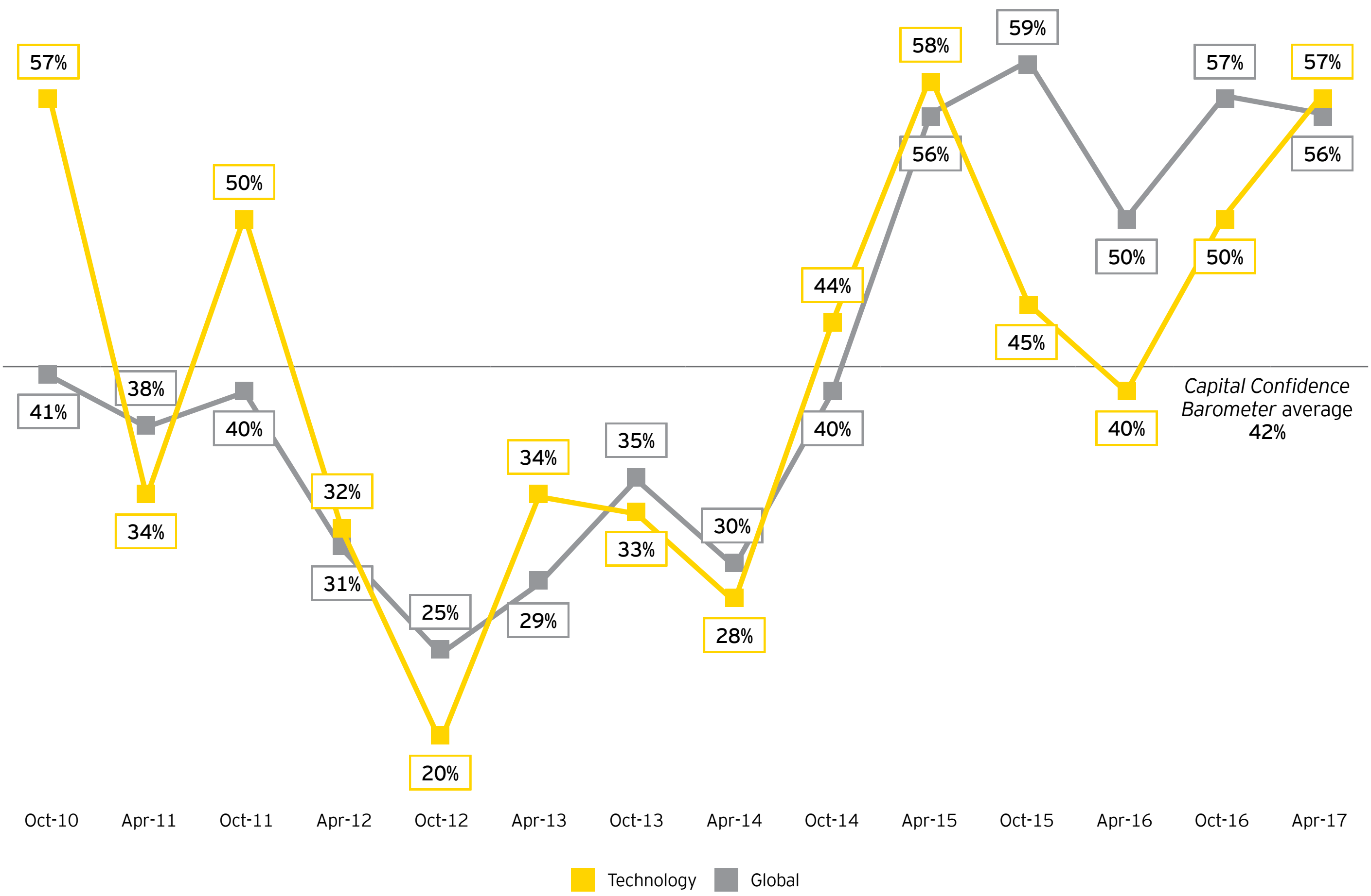


Resurgence in appetite for M&A should continue to drive dealmaking

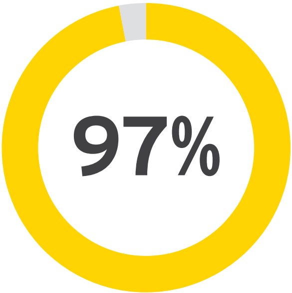
The first quarter posted as strong a start for dealmaking in 2017 as 1Q16 did for 2016 — a year that went on to set a record for disclosed technology M&A value, according to EY's *Global technology M&A update*. The number of tech M&A deals dropped 9% in 1Q17 from 1Q16, to 909, but increased 8% sequentially (halting a two-quarter slide), while 1Q17 aggregate deal value was essentially flat with 1Q16 (less than 1% down, at US$66.1 billion). The appetite for further dealmaking is up sharply in this *Barometer*, to 57% from 40% a year ago.

Q: Do you expect your company to actively pursue M&A in the next 12 months?

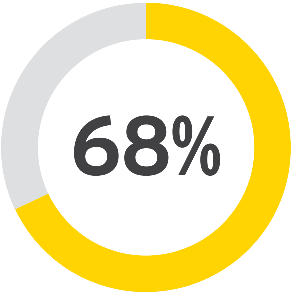
Expectations to pursue an acquisition



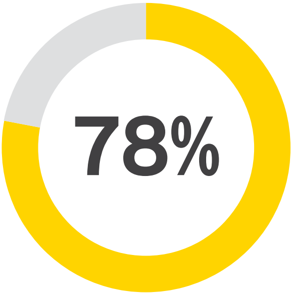
Deal fundamentals remain supportive of M&A



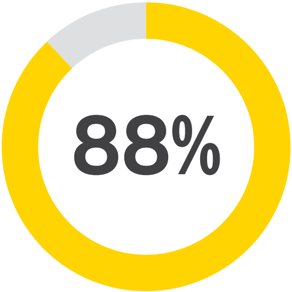
of technology executives see the **M&A market** continuing at current or elevated levels



see the number of **acquisition opportunities** as stable or improving



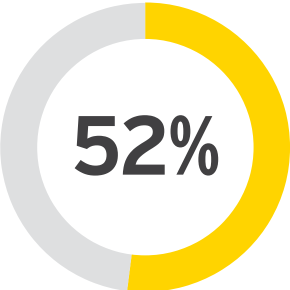
rate the **quality of targets** on par or higher than the level seen six months ago



see the **likelihood of closing** acquisitions as the same or higher than six months ago

Tech deal prices are expected to increase

Nearly twice as many technology executives expect the valuation of assets to increase in the coming year (41% in this *Barometer* compared with 21% six months ago). Almost two-thirds are planning deals valued at less than US$250 million.



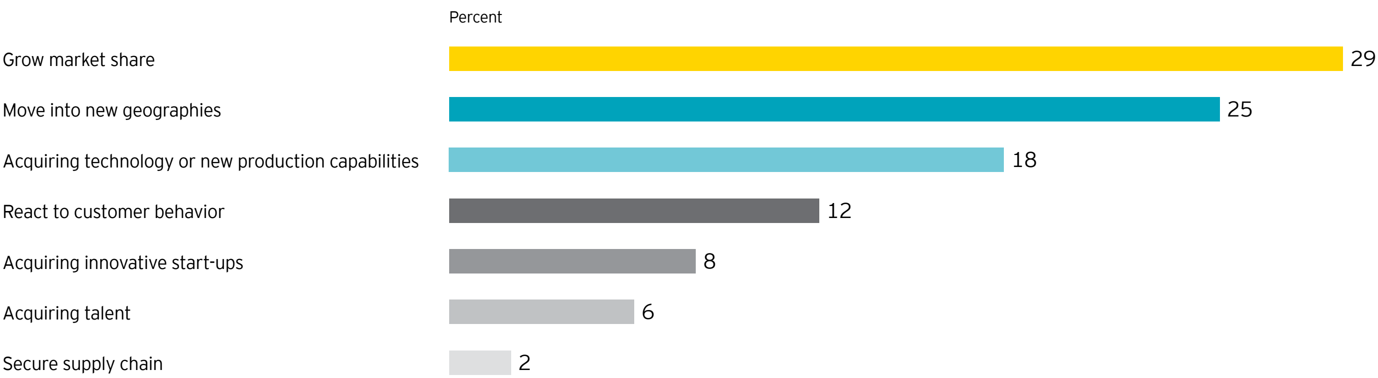
of tech companies have just **a single deal in the pipeline**, and 71% expect to complete only one deal in the next 12 months

have **five or more deals** in the pipeline

expect their pipeline to grow in the coming year, almost double the number only six months ago

Disruption sets the pace and prominence of dealmaking

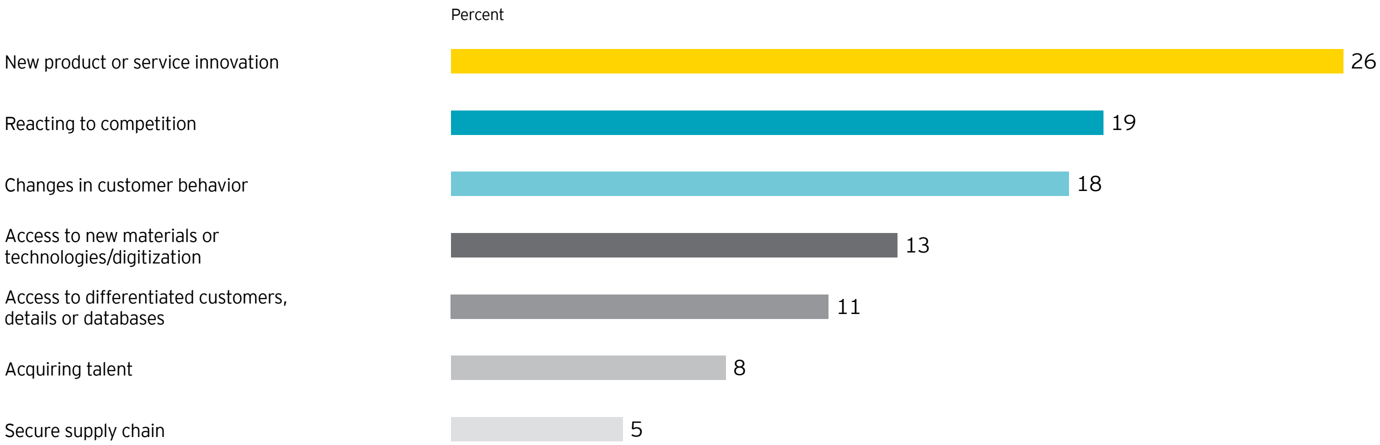
Q: What are the main strategic drivers for pursuing acquisitions?



Tech executives are looking outside their sector for innovation

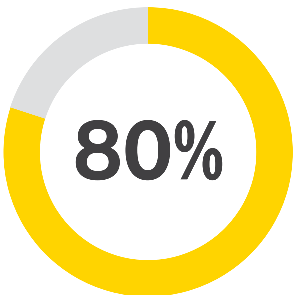
Tech buyers spent US$42.6 billion on non-tech acquisitions in 1Q17, a fraction more than the US$42.5 billion in 1Q16, according to EY's *Global technology M&A update* report. Looking ahead, their main drivers are innovation, competition and changes in customer behavior.

Q: What are your main strategic drivers for pursuing an acquisition, JV or alliance outside your own sector?

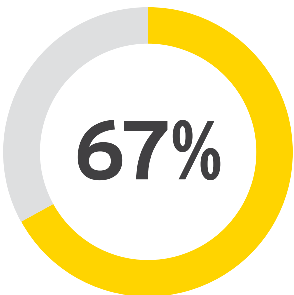


Divestitures are also a product of digital transformation

Technology divestitures rose to roughly 130 deals in 1Q17, following a two-quarter slide to about 105 deals in 4Q16, according to EY's *Global technology M&A update* report. The disclosed value of divestitures rose slightly, to US$11.1 billion from US$10.7 billion in 4Q16, but remained less than the 2016 quarterly average of about US$20.9 billion.



of tech executives say **digital transformation** is influencing divestment plans, according to EY's *Technology Divestment Study 2017*



cite underlying industry trends, such as **cloud and software as a service**, as driving factors

Technology top investment destinations

Cross-border acquisitions totaling US$35.5 billion represented more than half (54%) of the disclosed deal value in 1Q17, according to EY's *Global technology M&A update* report. That's well above the 45% share tallied by cross-border deals for all of 2016. Looking ahead, the US, China and India top the list of cross-border deal destinations.

Top five investment destinations

1	US
2	China
3	India
4	Canada
5	UK

The reading on US international policy changes is mixed

Q: Are recent policy announcements by the new US administration creating more or fewer M&A opportunities?

Percent

Q: Are you factoring the possibility of trapped cash repatriation and the potential revising of the US corporate tax code into your M&A strategy?

Percent

Contacts

For a conversation about your capital strategy, please contact us.

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About this survey

The *Global Capital Confidence Barometer* gauges corporate confidence in the economic outlook and identifies boardroom trends and practices in the way companies manage their Capital Agendas — the EY framework for strategically managing capital. It is a regular survey of senior executives from large companies around the world, conducted by Euromoney Institutional Investor Thought Leadership (EIITL). Our panel comprises select global EY clients and contacts and regular EIITL contributors.

- In March and April, we surveyed a panel of more than 2,300 executives in 45 countries; nearly 50% were CEOs, CFOs and other C-level executives; 419 executives were surveyed from the US.
- Respondents represented 14 sectors, including financial services, consumer products and retail, technology, life sciences, automotive and transportation, oil and gas, power and utilities, mining and metals, diversified industrial products, and construction and real estate.
- In this survey, 308 respondents were from technology companies, of which 54% were CEOs, CFOs and other C-level executives.
- Technology companies' annual global revenues were as follows: less than US$500m (24%); US$500m–US$999.9m (31%); US$1b–US$2.9b (12%); US$3b–US$4.9b (9%); and US$5b or greater (24%).
- Global technology company ownership was as follows: publicly listed (66%), privately owned (31%), family-owned (2%), and government- or state-owned (1%).

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