CEO Imperative Series

M&A plans strengthen as companies seek out new technology, revenues and talent

EY 2022 CEO Outlook Survey
Technology edition | **ey.com/ceosurvey**

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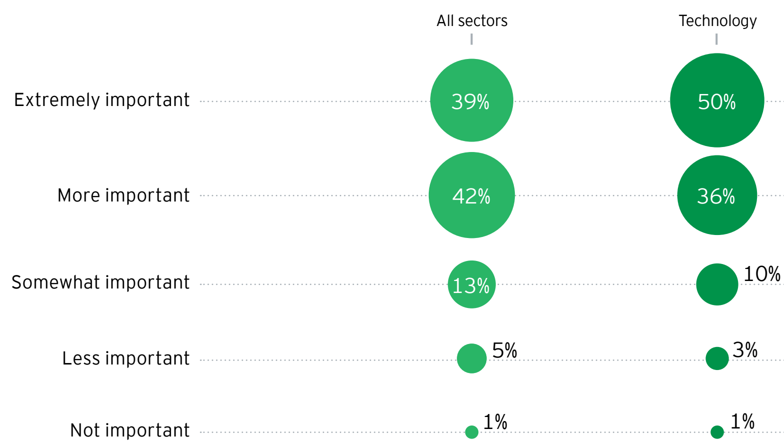
Technology leaders continue to see mergers and acquisitions as a strategic tool for growth, with an unusually high number of deals planned for the coming year.

Revenue growth, talent acquisition and technological innovation are among are the key factors driving increased deal volumes, according to the ***the EY 2022 CEO Outlook*** which included more than 300 senior technology executives.

Record-high valuations may be receding, potentially giving acquirers with the financial wherewithal a wider range of potential targets that meet their strategic needs. This may also alleviate one of the factors that has recently stymied deals: of survey respondents who said they canceled a deal during the past year, excluding pandemic issues, almost half cited valuation disagreements, and another third cited regulatory or antitrust.

Revenue growth remains the top value driver for tech companies that can be a catalyst in driving more acquisitions.

Q What is the relative importance your company is placing on the revenue growth value driver over the next few years?



M&A landscape

Tech companies have been optimistic about their merger and acquisition (M&A) pursuits. Overall, 72% of technology chief executive officers expect to pursue M&A in the next 12 months, compared with 59% of the 2,000 CEOs surveyed across industries.

Large technology companies are even more aggressive with their acquisition plans. Ninety-five percent of technology companies with US$5 billion-plus revenues are planning an acquisition in next 12 months, indicating that more transformative megadeals are likely in 2022.

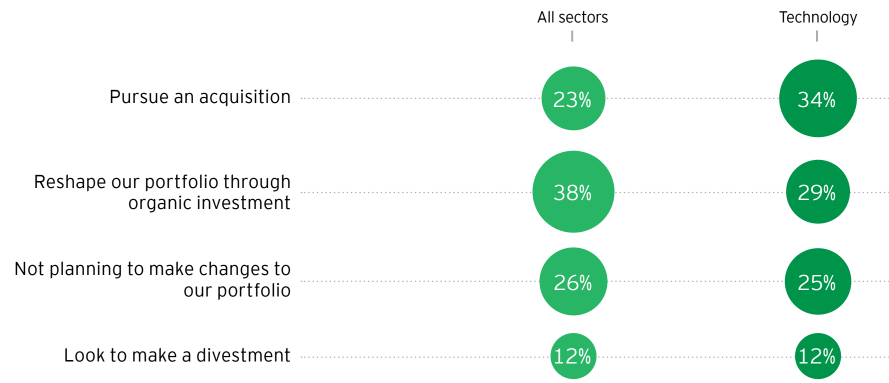
What's driving M&A?

Fifty percent of tech CEOs surveyed acknowledged that revenue growth is the paramount reason they wish to purse M&A in the next few years. The results are not surprising given the gap that has existed between actual revenues and current valuations of tech companies.

Thirty-four percent of tech CEOs cite portfolio optimization as a prime driver of M&A, compared with 23% of all CEOs who plan to pursue inorganic growth.

Tech companies prefer to use M&A as a strategic tool to optimize their portfolios.

Q How do you plan to optimize your portfolio in the next 12 months?



Other drivers include the need to attain innovative technology, talent and other capabilities.

Environmental, social and governance (ESG) emerged as an increasingly important aspect influencing deal decisions, with 46% of tech CEOs recognizing it as an extremely important value driver for the next few years.

Key considerations: With valuations still at lofty, if no longer unprecedented, levels and the chances of a deal getting canceled high, tech CEOs need to be careful in planning future deals. They need to avoid the temptation to rush into a deal to fill a revenue gap, but rather make focused decisions to help generate deal success.

59%

of tech CEOs note that geopolitical challenges are forcing adjustments in strategic investment decisions.

Geopolitical and supply chain disruptions

Geopolitical tensions and supply chain issues have posed a major disruption in the technology industry. More than half (59%) of tech CEOs note that geopolitical challenges are forcing adjustments in strategic investment decisions, while 72% have adjusted or planned to adjust their supply chains or operations.

Hardware-oriented subsectors have been at the forefront of supply chain disruptions. A total of 88% semiconductor CEOs say they have adjusted their supply chains, with the current chip supply crunch one of the catalysts. In conjunction with this, the communication and networking equipment subsector witnessed a significant impact, with 85% of CEOs saying they have adjusted their supply chains.

Amid the rise of geopolitical uncertainties, data risks have taken center stage in the M&A process. Stakeholders are now considering data privacy, security and ransomware issues during deal negotiations, especially in cross-border deals where they need to give M&A targets additional scrutiny.

Geopolitical issues have hit cross-border transactions hard. In fact, 31% of tech CEOs say they had to stop a planned cross-border investment in the past 12 months due to geopolitical disruptions.

Key considerations: While tech CEOs recognize the impact of geopolitical factors on their businesses, it is imperative that they incorporate them into a broader risk management strategy. As technology companies are forced to adjust their supply chains and rethink business decisions, the need for companies to reimagine, reshape and reinvent their business fundamentals for the future should be on top of the agenda.

46%

of CEOs across sectors say they are using technology, automation and digital transformation to improve profit margins for their businesses.

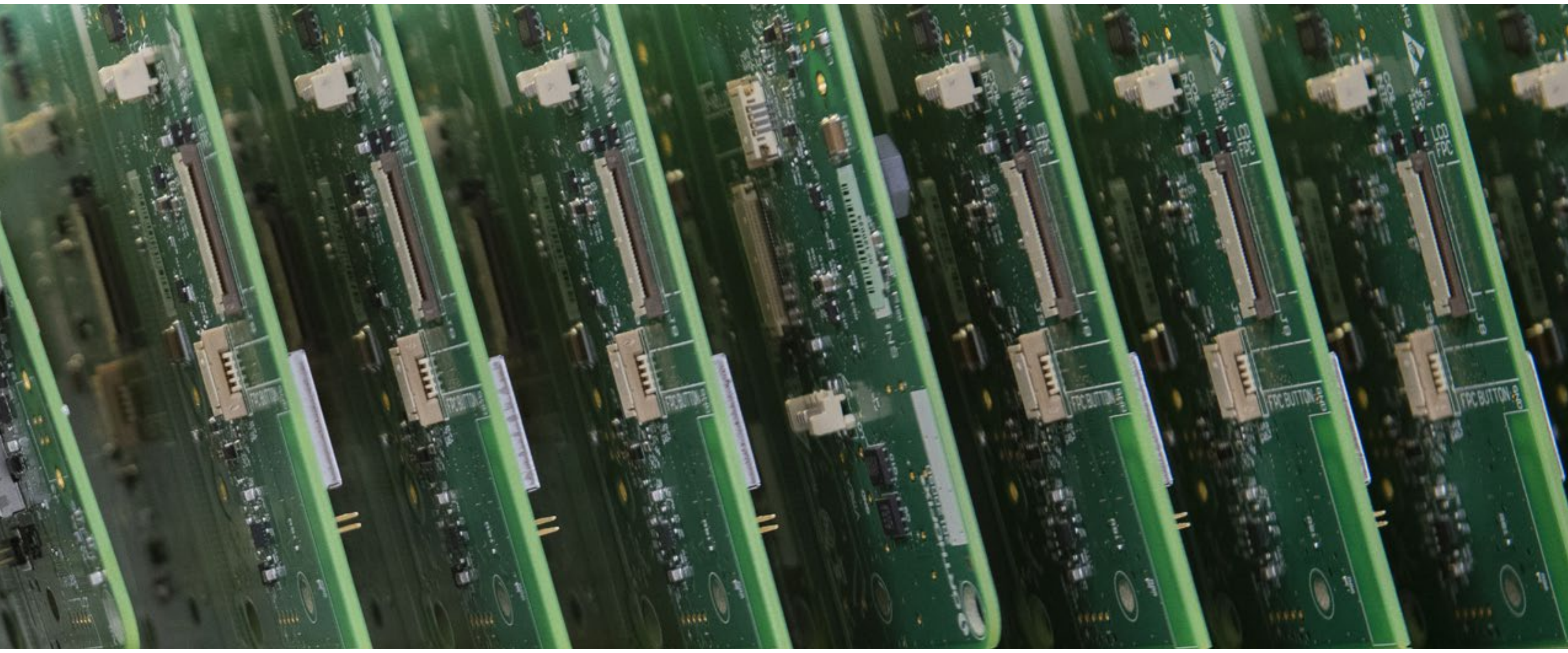
Digital transformation opportunities and challenges

Digital transformation continues to represent a strong revenue opportunity for technology companies, but the capabilities needed have become centered around newer technologies such as artificial intelligence and blockchain. Almost half (46%) of CEOs across sectors prefer using technology, automation and digital transformation to improve profit margins for their businesses, indicating the demand for digital transformation services that tech companies can provide.

Digital is also increasingly becoming part of mainstream offerings for technology companies, and the focus on digital transformation is likely to help technology companies create new revenue streams and future growth opportunities.

At the same time, the accelerating pace of digital transformation is leading to mounting volumes of data, posing data privacy and cybersecurity challenges. While data security continues to represent a strong revenue growth area, technology companies need to be cautious in their data-driven ventures as they face increased scrutiny from the regulators on privacy intervention and surveillance capitalism.

Key considerations: With digital transformation picking up pace, tech companies can take center stage to drive their clients' digital journeys. Tech companies need to assess their positioning and see where they can play a role in helping others through their digital transformation journey. At the same time, tech CEOs may need to take bold steps, such as acquiring startups to gain access to specific technology that is not directly linked to their core portfolio.



54%

of semiconductor companies recognize ESG to be an important consideration.

ESG

Sustainability is another important theme for many tech companies. Not surprisingly, 54% of semiconductor companies — which are highly exposed to material sourcing, manufacturing and labor condition risks — recognize ESG to be an important consideration.

Thirty-four percent of tech CEOs agree that becoming a leader in sustainability will offer their company a competitive advantage.

Among the areas of concern for tech companies are power consumption, waste recycling and mining of rare-earth metals, requiring a closer examination of what ESG initiatives a target company has already undertaken and where a buyer could add value with its own ESG efforts.

ESG has ramifications beyond environmental sustainability, though. As stakeholders gravitate toward socially responsible businesses, ethical handling of consumer data has catapulted to the forefront and become a crucial factor in each of the core ESG pillars.

Key considerations: Companies with a proactive strategy to mitigate ESG risks will be far better prepared for future regulations. To be future ready, tech companies should consider adopting a transparent sustainability strategy, find areas of impact and evaluate them frequently.

Summary

Tech CEOs have a keen eye for M&A, but the risk profile of a target needs to be considered now more than ever. A plan for geopolitical uncertainty and supply chain disruption and an understanding of how an acquisition could affect the buyer's ESG profile are essential considerations.

About the survey

The *EY 2022 CEO Outlook Survey* is the benchmark of CEO sentiment on global challenges, growth and sustainability strategy, portfolio optimization and M&A. It aims to provide valuable insights on the main trends and developments impacting the world's leading companies as well as business leaders' expectations for future growth and long-term value creation. It is a regular survey of senior executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company. The panel comprises select EY clients across the globe and contacts and regular Thought Leadership Consulting contributors.

Between November and December 2021, Thought Leadership Consulting surveyed on behalf of the global EY organization a panel of more than 2,000 CEOs in 53 countries and across 14 sectors. Respondents represented the following sectors: financial services, telecoms, consumer products and retail, technology, media and entertainment, life sciences, hospital and health care providers, automotive and transportation, oil and gas, power and utilities, mining and metals, advanced manufacturing, and real estate, hospitality and construction.

- Surveyed companies' annual global revenues were as follows: less than US$500m (20%), US$500m–US$999.9m (22%), US$1b–US$4.9b (31%) and greater than US$5b (28%).
- Organization's global headcounts were as follows: less than 999 (9%), 1,000–4,999 (39%), 5,000–9,999 (15%), more than 10,000 (37%).
- The CEO Imperative Series provides critical answers and actions to help CEOs reframe their organization's future. For more insights in this series, visit ey.com/en_gl/ceo.

Contacts

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

Karl Cheng
Americas Technology, Media and Entertainment, and Telecommunications Sector Leader
EY-Parthenon
Ernst & Young LLP

karl.cheng@parthenon.ey.com

Akhilesh Kulkarni, Rahul Agrawal and Akashdeep Grover also contributed to this report.

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