Mastering complex deals and integration

2024 Technology M&A Integration and Value Creation Study

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Introduction

The challenging M&A environment of the past two years has brought renewed focus on generating deal value. Fewer deals are being made by technology, media, and telecom companies, but many of those that are occurring tend to be complex. There are fewer simple bolt-ons or scale deals and more deals that involve new business models and technologies. Deals may combine organizations with different corporate cultures, processes, go-to-market models, and expertise. Success may rely heavily on revenue synergies as well as cost synergies, making thoughtful integration planning and execution essential for value capture. The integration must be rapid to capture value, but not disruptive. At the same time, deal makers say they want to carefully manage integration budgets.

These are some of the major findings in our 2024 TMT M&A Integration and Value Creation Study. This study explores several tech M&A complexities and highlights the approaches deal makers use to navigate complexity. Insights in this paper to help technology companies succeed in M&A over the next 18 months come from our survey data (see Methodology) as well as lessons from recent deals.

Methodology

In October 2023, we surveyed 150 executives and deal professionals from highly acquisitive U.S.-based companies who influence corporate decisions for M&A. We uncovered M&A highlights and lowlights surrounding over 400 deals since January 2020. Respondents also shared their perspectives about plans for M&A activity and expected success factors in the next 18 months. The survey covered technology, telecommunications, media, private equity, and venture capital businesses with $50 million to over $5 billion in annual revenue. For some charts, we also use findings from a November 2023 survey of 150 M&A leaders from across industry sectors.

What technology deal makers are thinking about deal market opportunities and challenges

1 The deal environment

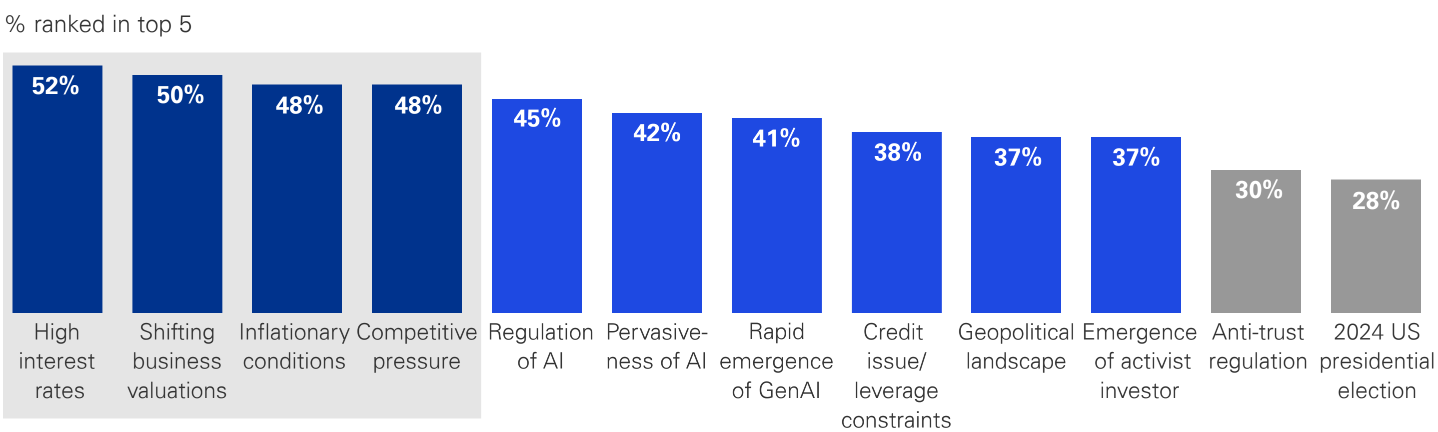
Factors holding back technology deal making

Two-thirds of dealmakers surveyed expressed optimism for 2024. This comes after two years of steep declines in both deal volume and value, driven by uncertainty about the economy, inflation, and rising interest rates. The biggest drag on deal making has been high interest rates: 52 percent of deal makers ranked "rising interest rates" as the top factor impacting their desire to buy and sell companies. Other factors included "shifting business valuations" (50 percent) and "inflationary conditions" (48 percent).

Some of these forces may be fading (recent data shows a slowdown in the rate of inflation and the Federal Reserve has signaled possible rate cuts in 2024), but there are still gaps in valuation expectations between buyers and sellers and concern about global economic growth. We believe there will still be intense pressure on managing risk, performing due diligence that finds specific sources of value, and integrating with a clear plan for value capture.

Exhibit 1. Top market conditions impacting the desire to buy or sell businesses

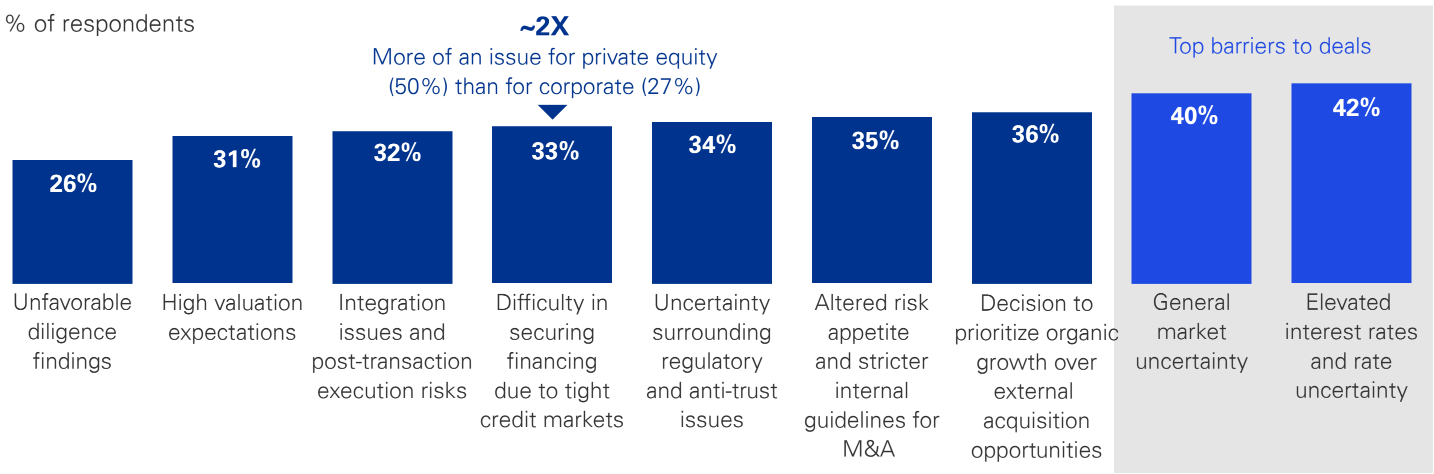
What do you think are the market conditions impacting your current desire to buy and sell businesses? (single select)



Heightened regulatory scrutiny is another significant factor for deal makers. The Federal Trade Commission in the U.S., Britain's Competition and Markets Authority, and the European Commission have all increased scrutiny of tech deals. In 2023, the Microsoft-Acitivision deal closed after nearly two years of regulatory review.[1] Two months later, the Competition and Markets Authority launched a probe into Microsoft's investment in OpenAI, which may also be reviewed by the European Commission.[2]

Exhibit 2. Elevated interest rates and general market uncertainty are often top barriers to moving ahead with potential M&A deals

What has prevented you and your team from moving forward on potential deal candidates? (single select)



[1] Dina Bass and Cecilia D'Anastasio, "Microsoft Completes $69 Billion Activision Blizzard Purchase," Bloomberg Law October 13, 2023

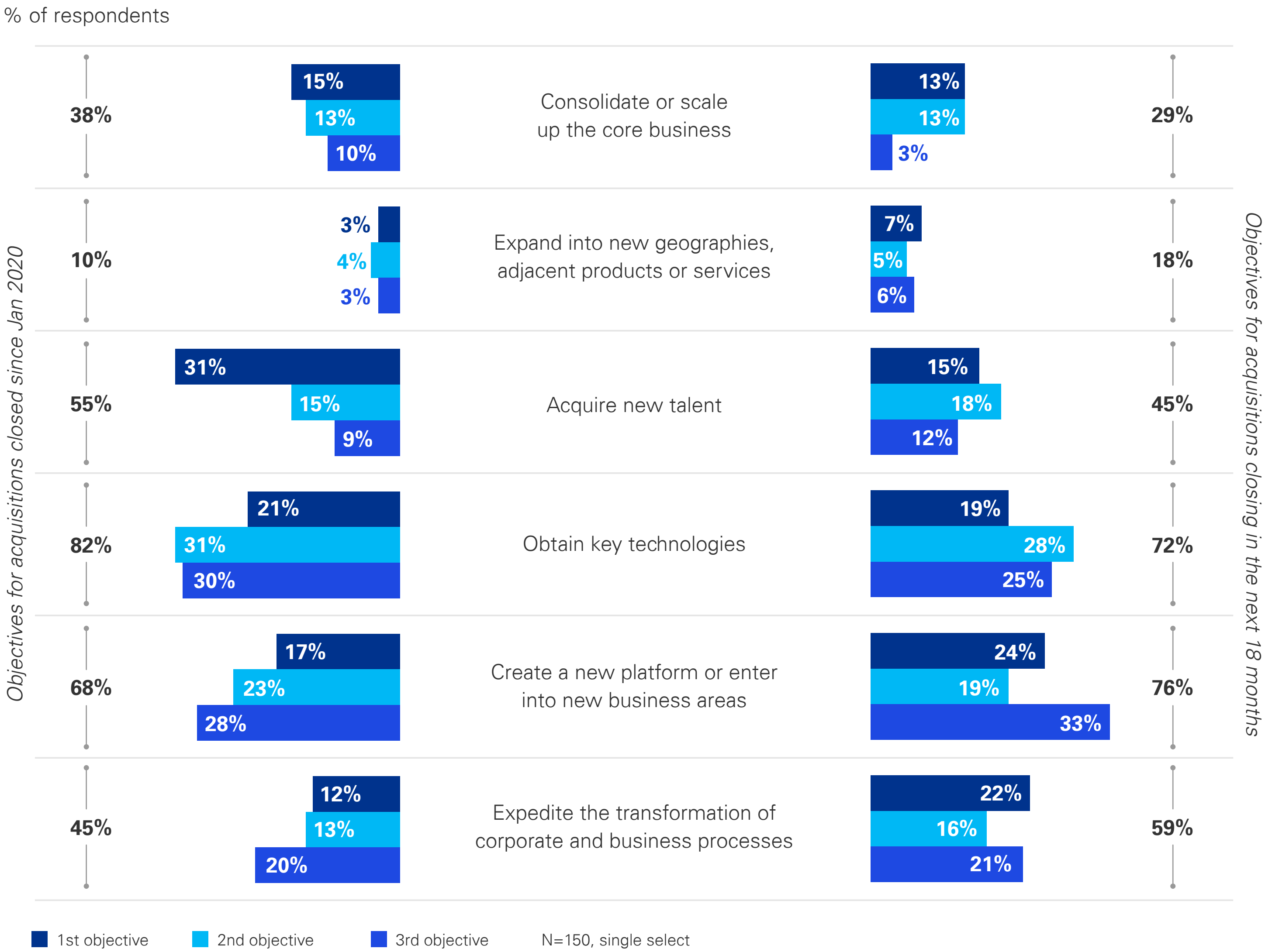
[2] Mauro Orru, "Microsoft's OpenAI Investment Cold Face EU Probe, "The Wall Street Journal," January 9, 2024

Deal objectives in 2024

Our survey indicated that obtaining key technologies was an important objective for 82 percent of the respondents since 2020, followed by 68 percent citing corporate expansion. In the next 18 months, larger deals will likely shift to diversify product lines, add services, or enter new business areas.

Exhibit 3. Primary objectives for deals

Objectives for acquisitions closed since Jan 2020



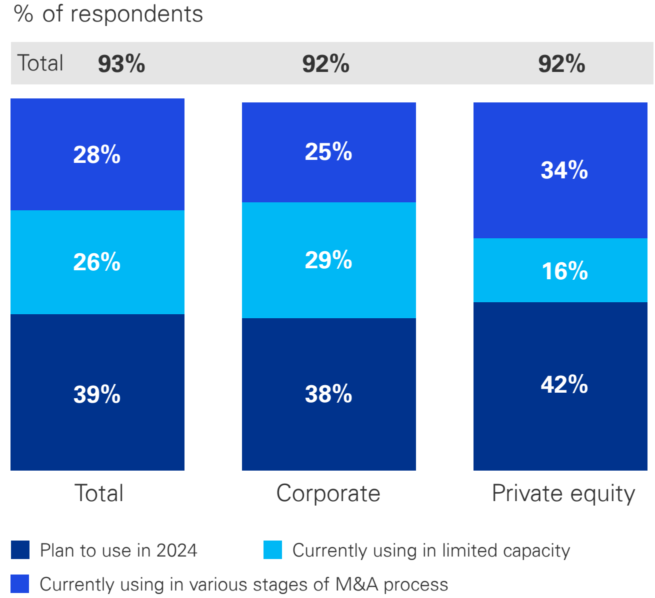
Source: TMT M&A Integration survey

Buying into generative AI

Seventy-two percent of acquirers in our poll see the potential for generative AI to enhance services and other offerings for their customers. However, it is not clear whether companies will use acquisitions, rather than partnerships or in-house alternatives to build generative AI capabilities. Among those surveyed, 30 percent seek tools to increase employee productivity and corporate processes, including software development. Fifty-four percent of respondents consider generative AI more efficient for internal analytics, business intelligence, decision-making, and reporting processes.

Exhibit 4. Almost all companies are currently using generative AI or plan to do so in 2024

Are you actively deploying Generative AI in your M&A process?



Source: KPMG 2024 M&A Outlook survey

Generative AI in deal making processes

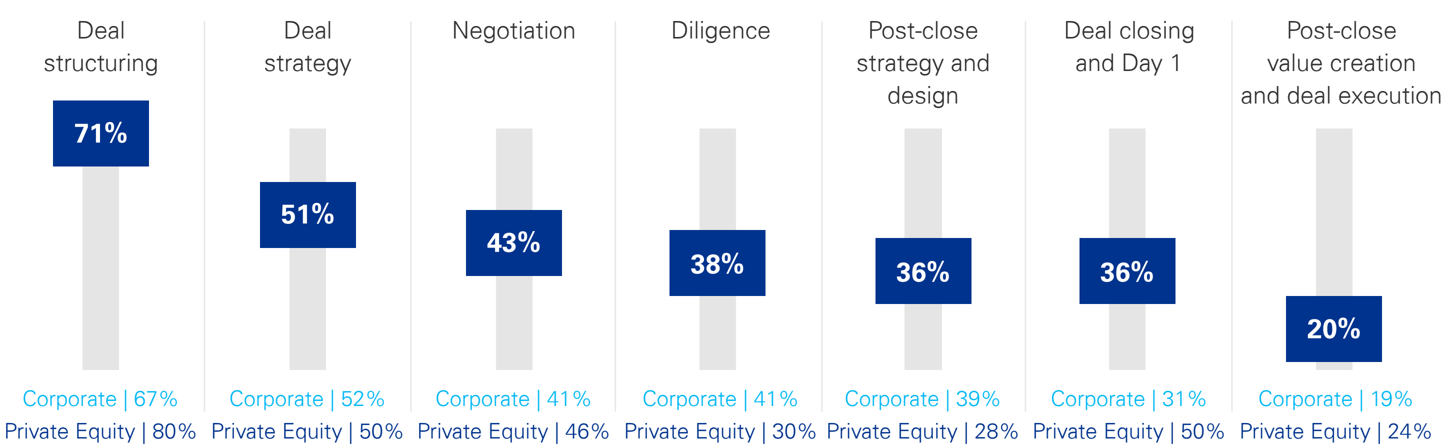
Generative AI also helps many organizations during the M&A process, most often for structuring and strategy.

Less than 20 percent see opportunities to use Generative AI for post-close value creation and deal execution.

Exhibit 5. Generative AI use in various stages of the M&A process

Asked of those using or planning to use GenAI

What stages in the deal process do you plan to prioritize the use of Gen AI? (Asked of those using or planning to use generative AI)



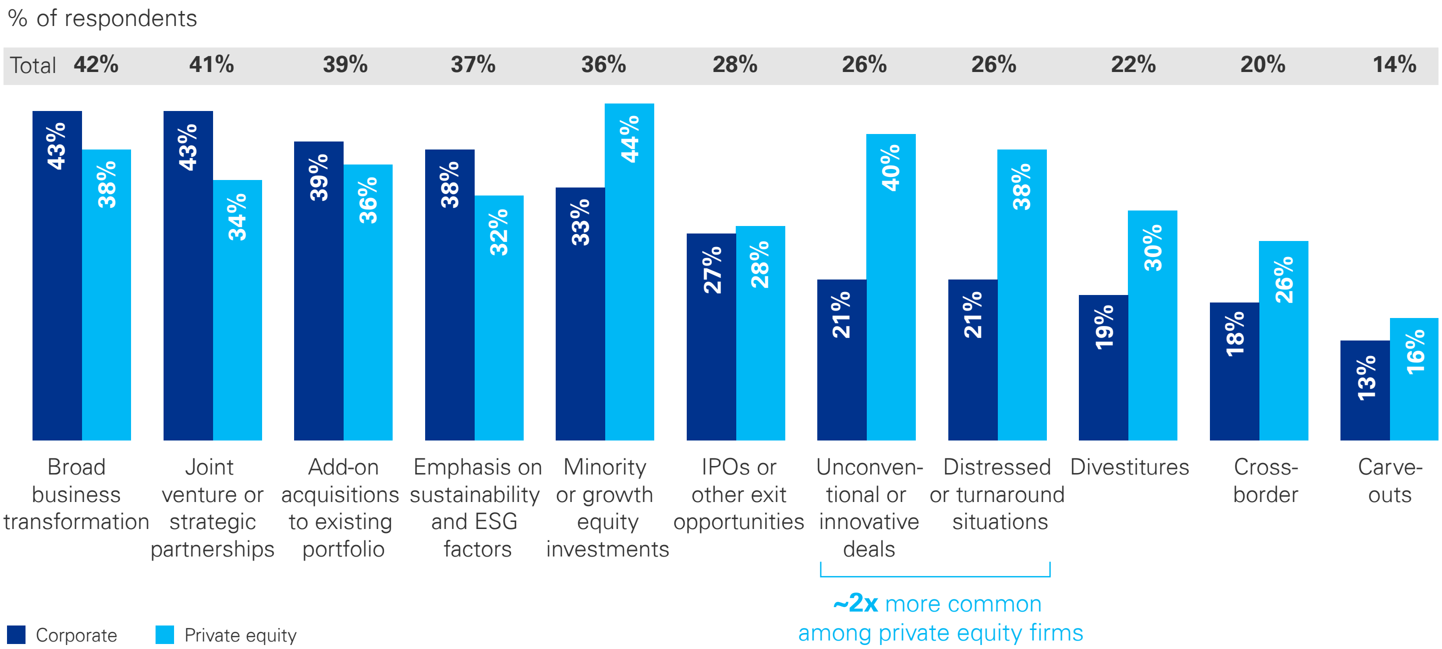
Source: KPMG 2024 M&A Outlook survey

Corporate vs. PE buyers in 2024

Corporate buyers seek deals that provide long-term value and growth, help build resilience to recession, and accelerate transformation. Private equity firms (68 percent) seek 2024 opportunities to turn around distressed assets and expand into new markets and customer segments through reverse mergers, divestitures, and minority investment deals. Two-thirds of those polled want to make deals before the presidential election due to potential tax policy changes.

Exhibit 6. Strategic buyers and PE buyers have different motivations

What types of M&A deals to you anticipate pursuing in 2024?



Source: KPMG 2024 M&A Outlook survey

2 Integration challenges

When deal making volume returns, the focus for deal makers may shift to integration—how to bring in a new organization, its assets, and people in ways that protect and create value. As deals become more complex—taking acquirers into new markets and product categories, building new business models, and requiring significant revenue synergies—successful integration becomes both more important and more challenging. KPMG recently surveyed 150 technology M&A leaders to learn what their integration challenges and aspirations are. We also asked about how they evaluate integration success—and the causes of integration failure. Here are some of the findings.

What are the top integration concerns?

No surprise: achieving projected cost and revenue synergies is the most important challenge and integration priority. The next most important issues are retaining talent and integrating technology systems, followed by regulatory concerns. When asked where they anticipate the most difficulty in integrating functions, customer success/support topped the list, followed by corporate IT and cybersecurity, sales & marketing, research and development, and product engineering. Finance and human resources are seen as the least difficult to integrate.

Employee retention

The risk of talent loss has always been a top concern in integration, particularly in technology, where key employees with unique skills and knowledge are essential to the target's value. The tight labor market in the U.S. and competition for talent in fast-growth areas such as AI increases the potential risk of talent loss.

The M&A leaders in our survey appear confident that they have a good handle on retention. Nearly two-thirds (63 percent) said their employee retention efforts during integration have been successful; 37 percent rated themselves highly successful.

What constitutes a successful retention program? The overwhelming answer, according to the survey, is having a robust and comprehensive employee engagement strategy that includes tangible incentives, especially career opportunities, and two-way communication to understand (and address) the concerns of new employees, while making clear how the transaction benefits them.

Exhibit 7. Synergies, employee engagement, and IT are top integration challenges

What are the typical challenges within the first 100 days? (Single select)

Source: TMT M&A Integration survey

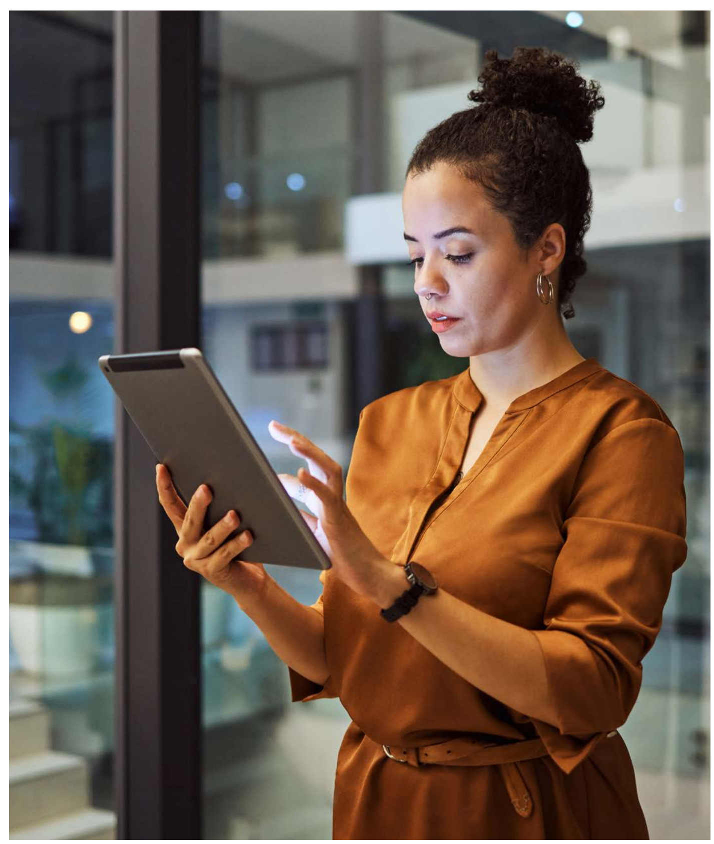
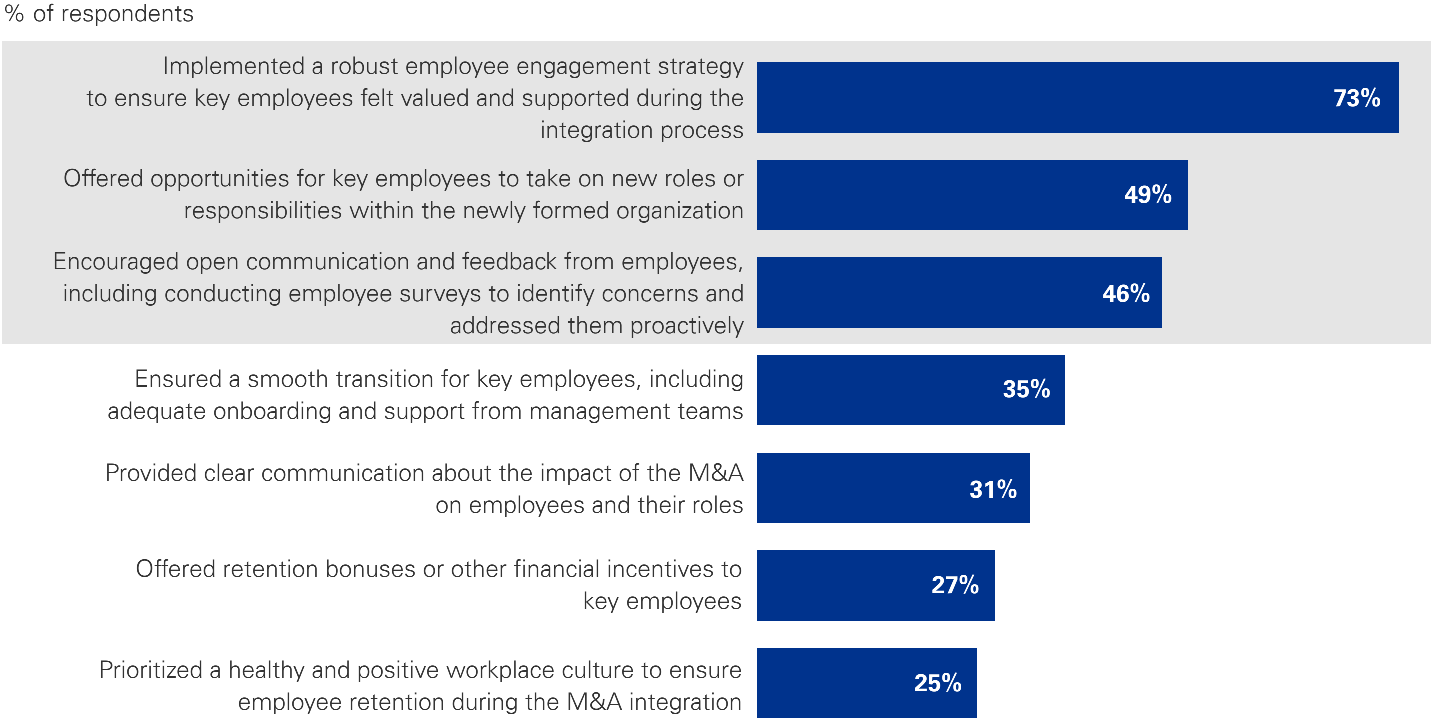


Exhibit 8. A robust employee engagement strategy is essential

What measures did you take to successfully retain key employees during M&A integration? (multi-select)



Source: TMT M&A Integration survey

Customer experience and sales & marketing

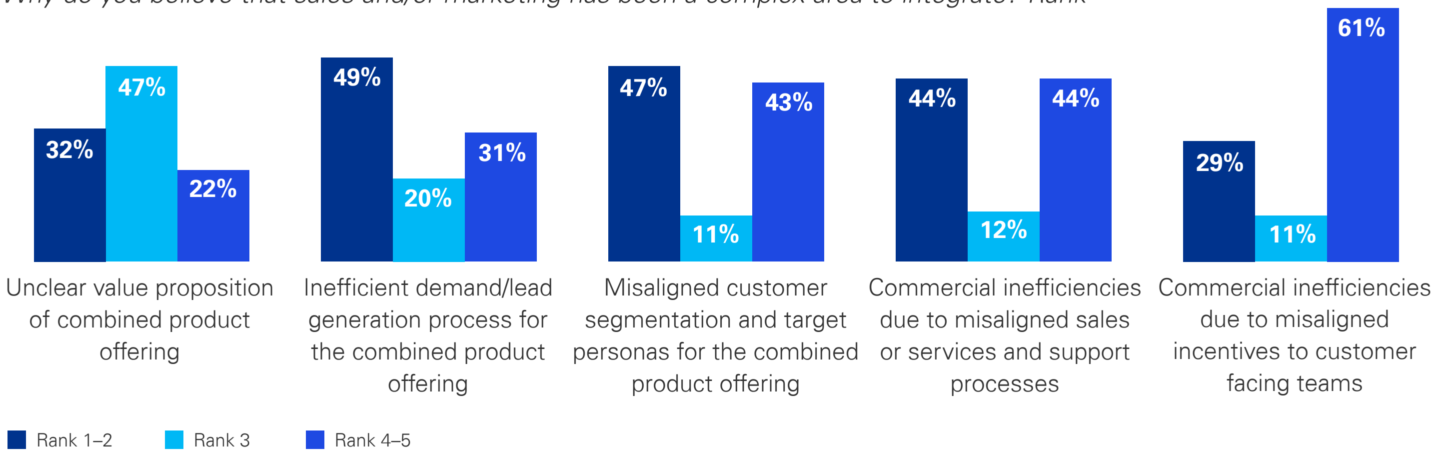
Integrating customer-facing activities is critical to the smooth operation of the combined companies and continued growth. The technology customer experience is viewed as one of the most complex integration challenges that companies face, but it is also seen as the source of the greatest potential value. The omni and digital customer experience was rated as highly complex by 44 percent of respondents, second only to rationalizing hosting and cloud services costs. Improving omni-channel and digital customer experience was cited as an extremely effective to capture value by 43 percent of respondents, second only to optimization of physical assets and hardware footprints.

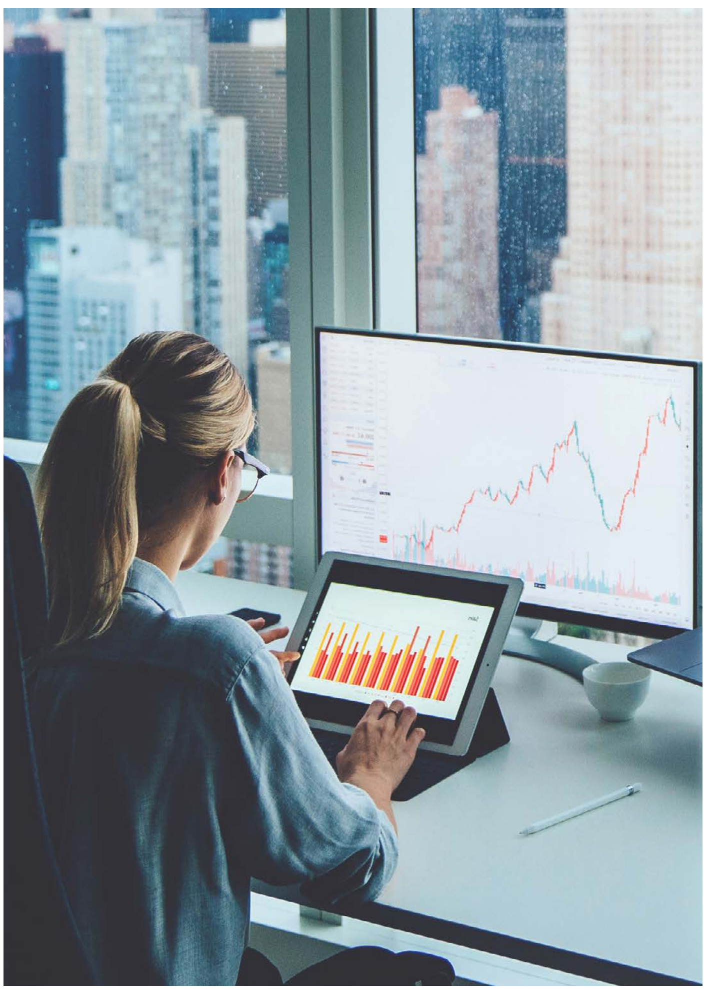
Sales and marketing are the most challenging functions to integrate—89 percent of respondents say it is complex. The two biggest obstacles to successful integration, according to our survey, are efficient demand or lead generation processes for the combined product offering followed by unaligned customer segmentation and target personas for the combined product offering.

The lack of consolidated pipelines creates complexity in the integration process because it results in limited visibility, miscommunication, and misaligned targeting. In turn, this may cause duplication of efforts and intramural competition between the newly combined sales forces due to misaligned customer segmentation.

Exhibit 9. Misaligned incentives and customer segmentation are top reasons for complexity in the integration of sales and marketing

Why do you believe that sales and/or marketing has been a complex area to integrate? Rank





What integration success looks like—and doesn't

Cost synergies still top the list of motivations for technology deals, according to our survey. But when it comes to measuring success, deal makers put revenue synergies ahead: 96 percent say that the difference between realized revenue synergies and base-case estimates is the metric for success (second only to integration cost vs. plan). Cost synergies and effectiveness of process and systems improvement were tied at 91 percent.

What do tech deal makers think are the most common causes of integration failure? Most often, respondents say, it is the result of inadequate pre-deal analysis and evaluation—followed by ineffective integration planning and deal structuring and negotiation that "misses the mark."

How KPMG can help

KPMG advises corporate and PE clients in every stage of the M&A lifecycle, providing an execution-focused approach to maximize and accelerate the value creation process. We bring domain expertise, industry depth, and an integrated transformation approach to meet the specific challenges of technology companies, private equity, and venture capital investors.

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