“When it comes to Indian buyers of TMT companies in the USA, the ongoing trade battle between the USA and China should open up acquisition opportunities.”

REED PHILLIPS, PRESIDENT, OAKLINS

TMT still a star attraction

Despite a decline in overall deal value and volume this year, strong demand in the technology, media and telecom (TMT) sector continues, particularly for companies involved in data collection and analysis.

Following a record year in 2018 for M&A overall, and for middle-market transactions in particular, the decrease in deal activity this year is less an indication of a market slowdown and more a reaction to geopolitical tension and trade uncertainty. Buyers are being more cautious, but that doesn't mean they aren't buying.

In fact, middle-market deal activity in India this year has held up better than in most other regions around the world. According to financial data provider Refinitiv, during the first half of 2019 only six of 20 countries posted either a year-over-year dollar or volume increase compared to 2018. While India wasn't one of those countries, its 4% decline in dollar amount and 13% decrease in deal volume were among the lowest of the 14 other countries. In another report about mid-market deal activity this year, global consultancy BDO wrote that "there were marked declines in North America, China and Europe: only the Middle East, India, Africa and Japan held up."

Part of the reason for that, says Oaklins' President Reed Phillips, is because of continued strong demand in the TMT sector. "Companies in India are still very interested in acquiring technology and marketing capabilities from the United States to deploy throughout the country as a way to grow revenue," says Reed.

Technology ranked as the third-biggest sector for M&A deals in India during the first half of 2019, holding a 12.7% market share — an increase from 2018 and trailing only financials and energy & power in market share.

However, not all TMT companies — and, by extension, deals — are created equal. Given India's more than 1.3 billion people, Reed says companies involved in data collection and insights are especially hot targets, as acquirers are interested in ways to gather, access, deploy and analyze data from the population to optimize the delivery of products and services. Those kinds of companies, along with digital marketing and specialized information services (i.e. financial, legal and healthcare information providers) are still commanding deal multiples of between 10 and 15 times EBITDA.

At the opposite end of the spectrum are companies considered of lower value, which is to say traditional and digital media companies. "Media companies are generally not attractive to buyers in India because most media doesn't travel well. Buyers can't use content developed in the USA in India and vice versa, which depresses interest," says Reed, noting that media deals that are being negotiated are typically for just four to six times EBITDA.

While the USA still accounts for the majority of cross-border deals with Indian companies, coming in at 26.3% of all inbound deals in the first half of this year according to Refinitiv, Phillips says that in recent months he has been seeing more activity between Indian and European companies. That may be because of proximity, or more investments already in place between companies in the regions.

"Chinese buyers were aggressive bidders when they wanted to buy, but a lot of companies in China and the USA won't buy each other because of the trade war," says Reed. With Chinese targets off the radar and Chinese buyers sidelined for at least the near-term, US and Indian companies looking to grow, or in need of putting capital to work, could find opportunities at attractive prices.

Indeed, corporate balance sheets are flush with cash, and there are more private-equity funds with more capital in reserve than ever before. At the same time, as BDO notes, TMT remains one of the dominant industry sectors for mid-market M&A, not just for strategic buyers but also for acquirers of all types.

"TMT in India is in a hyper-growth phase. Indian companies are leveraging artificial intelligence (AI), analytics and robotics to drive the next phase of growth in Indian industry. Disruptions in business models are driving the need for M&A to acquire technology, platforms and new age applications. A young, highly aspirational and upwardly mobile demographic will continue to drive growth in content consumption. Affordable broadband and the high penetration of smart devices will further spur this growth in the coming years."

VIKAS DAWRA, JOINT MD & CEO
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