

2020 Outlook: Four Trends to Watch in the Tech Sector

2019 was a year of robust activity in the tech sector, and another record year for Lincoln International's TMT team. Several notable Lincoln deals include the acquisition of Livermore Software Technology Corporation and the cross-border sale of CoreMedia AG in Germany to OpenGate Capital in the U.S.

As we enter 2020, investors are curious as to where M&A activity will head in the first year of the new decade. Their curiosity is fueled by several factors including global political uncertainties, from Brexit to a U.S. presidential election, a potential economic slowdown and record levels of dry powder.

Technology was the most active sector in M&A in 2019, in both the number of deals and deal amount. Software deals drove most activity and will continue to do so in the new year. In fact, a recent Lincoln International survey of 160 private equity investors found that application software is one of the hottest subsectors in tech, along with data and analytics management and education technology.

At Lincoln International, we believe 2020 will continue to present tech investors with opportunities for success.

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Looking forward, four trends we expect to see in the new year include:

Increased activity in the first half of the year

Activity will continue through the first half of the year for two reasons. First, there is a current backlog of deals that need to be completed. Second, activity will increase in the first half of the year before slowing down ahead of the U.S. presidential election. Investors are avoiding that time of year because processes may take longer than expected and the uncertainty surrounding election results may generate volatility.

PE firms will focus on deploying capital

At the end of 2019, PE firms were sitting on record levels of dry powder. It comes as no surprise that their number one priority in 2020 is deploying capital. In fact, our survey found that 8 in 10 (79%) PE firms are prioritizing the deployment of capital in the new year. The large amount of capital chasing deals likely means that any downturn, should there be one, would likely be relatively short and shallow.

Investors seek data from last recession

Valuations have been high for tech companies over the past several years. High valuations cause investors to be more selective, and while good assets will do fine, marginal assets will be under more scrutiny. For those companies, investors are paying particular attention to how they performed during the last recession. Having data to justify how your company performed, and thus will perform in a potential downturn, will make a company more attractive to prospective buyers.

Need for diversification

If there is an economic downturn there is concern that tech companies will drag each other down. As such, many investors are looking for technology companies with a client base that is either highly diversified or not concentrated within the tech sector.

Stay tuned for more True Perspectives from Lincoln throughout 2020, including infographics exploring individual TMT opportunity areas throughout the year.

The Lincoln International Technology, Media & Telecom team is available to speak with individuals that wish to learn more about investment opportunities in the sector, discuss our insights and see how we can support you in 2020 and beyond.

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