

Growth in tech

Transcript

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DAN O'SHEA:

Grant Thornton's International Business Report, or IBR, is the world's leading survey of mid-market companies. Launched in 1992, the IBR now provides insight into the views and expectations of around 10,000 businesses across 28 economies. The research takes place twice a year and involves interviews with chief executive officers, managing directors, chairpersons, or other senior executives from all industry sectors. Today, we're talking with Nick Watson, global head of the technology program for Grant Thornton International, about how the tech sector is feeling about the economy and their immediate business prospects.

Nick, what's the mood among technology companies?

NICK WATSON:

Well, as our survey showed, and the IBR data showed, the tech community has remained optimistic at 70 to 80% since H1'21 and it hasn't really moved below that. Now, that's ahead of most sectors. I think one of the things you can say about this group of C-Suite individuals, is: They're an optimistic group, and that's not surprising to me. The nature of the tech industry is: It tends to be future-focused. It's focused on new technology and disrupting the markets, creating new products, and has to be constantly focused on what's around the corner — so potentially less concerned by external events.

Notwithstanding that, I still would've anticipated more of a decline in optimism. Let's not forget, in that period, funding which many of the tech companies are heavily dependent on tightened up considerably and costs went up a lot. As we know, M&A has been very low in the last — certainly through the whole of '23 — to date, and started to tighten towards the end of '22. I would've expected to see more of a decline.

The other factor in the global data is: US optimism is substantially higher than the rest of the world. You must be doing something right over there, but that might be a factor of how the US very much does dominate the tech industry. In terms of optimism, as we look forward, I anticipate this will continue to increase if it feels like interest rates have almost

peaked. That's what we are hearing out in the markets. The costs are flattening out, so the inflationary pressure is lowering.

Certainly I think, in the tech industry, the deal flow is waiting for one big event to trigger the animal spirits and get confidence up. As you all know, there's an Anglo-American big deal, IPO deal, in the pipeline, and we'll see how that takes off in the next couple of weeks on the public markets. Something like that could trigger a stronger deal flow going forward, which due to the nature of tech businesses, that always inspires confidence in the industry.

DAN O'SHEA:

Looking internationally, how do you see US companies — given that optimism seems to be higher in the US — how do you see US companies pursuing opportunities overseas, or do you see US companies pursuing opportunities overseas?

NICK WATSON:

The US has a long history of acquiring or building their businesses internationally in the tech industry, either through often headquartering themselves in the UK or in Ireland to give themselves access into Europe in particular. I believe that will continue. Certainly, I think in '23 to date there were more trade sales and trade M&A activity than the private equity — certainly in the UK market — than we've seen previously. With PE quieter, that provides the opportunity for trades to build their businesses.

The other trend we'll see — and continue to see as you know — is: Many companies in the tech industry continue to look at the US markets and particularly Nasdaq as the place to be listed. Once the public markets open up properly again, there'll be European companies transforming themselves into effectively US companies, which will provide more opportunities for US companies to trade.

The final factor is most European companies, even if they're not looking to list on the US markets, without doubt, the majority in the tech industry look to the US marketplace as the first place to expand their business from a sales perspective. As they do

that more and more, the US businesses will see them in their competitive environment, which obviously will provide both a threat and an opportunity to them. Whilst for some of them it might be a threat, that business may be a potential partner to another US business, or indeed a customer.

DAN O'SHEA:

Any final thoughts?

NICK WATSON:

Tech is, will be, and always has been a globally focused industry. The barriers to tech expanding overseas are often less than other industries, particularly software where there's little distribution challenge. It's more about overcoming potential regulatory challenge in the markets that are being entered into. I think regulatory challenge will be the headwind for the tech industry as it moves forward. Regulation can vary according to the whim of the individual government.



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