

TMT sector game changers

A biannual report on emerging accounting and reporting trends affecting the technology, media and telecommunications (TMT)

TMT sector game changers is a biannual report highlighting accounting and reporting trends affecting the technology, media and telecommunications (TMT) industries, some of the most dynamic and competitive segments of today's economy. The report is designed to help you stay informed and ahead of the curve in an ever-changing marketplace.

In this edition, we spotlight the recent boom in special purpose acquisition company (SPAC) transactions and highlight emerging themes relative to stakeholder demands for Environmental, Social and Corporate Governance (ESG) reporting. This issue also includes considerations relative to the new convertible debt accounting standard (ASU 2020-06), observations from the AICPA Conference on Current SEC and PCAOB Developments, TMT sector trends in M&A and capital markets, and SEC comment letter trends.



TMT deals, debt offerings and IPOs

Debt market conditions continue to improve as tailwinds created by accommodative monetary and fiscal policy, as well as ongoing progress toward a COVID-19 vaccine, have provided companies an opportunity to bolster balance sheets, refinance outstanding debt, and raise capital for acquisitions and dividends at attractive levels. TMT credits in particular have outperformed as investors gravitated to defensive business models and more COVID-19-resilient sectors. Additionally, private equity has shown a strong willingness to put capital to work in the space, with technology and telecom leveraged buyouts (LBOs) accounting for two of the three largest sectors by volume over the first nine months of 2020.

Investment grade (IG) bond issuance returned to relatively normal levels following a flood of activity to shore up capital and ease liquidity concerns during the early days of the pandemic. Q3 2020 saw issuers price 404 bond tranches for \$319 billion in proceeds, slightly behind last year's total of 444 issuances that raised \$331 billion. The popularity of TMT IG issuance was apparent as the \$112 billion raised in Q2 2020 was 38% higher than all TMT IG volume raised in 2019. TMT credit yields improved in line with the overall market as healthy investor demand and reduced volatility drove spreads tighter, with the average Q3 2020 TMT IG yield of 2.01%.

The high yield (HY) bond market continued its strong run in H2 2020 with total volume YTD surpassing 2012's record and yields tightening to pre-COVID-19 levels. In line with the overall market, the TMT sector outperformed its 2019 level, with \$16 billion of proceeds raised in Q3 2020, an approximately 50% increase over its Q3 2019 levels. With many issuers having pushed out near-term maturities, a rebounding leveraged loan market providing an attractive alternative capital source, and the traditional lull around Thanksgiving and the holidays, high-yield bond issuance may taper slightly relative to the robust period investors saw earlier this year.

As COVID-19 continues to impact the economy, IPO issuers and investors continue to view many industry sectors within the TMT sector as highly attractive. Investor demand for TMT equities coupled with companies directly benefiting from the ongoing crisis, supported the Nasdaq Composite run-up to its recent all-time highs. US IPO activity rebounded sharply from the early spring 2020 lull and hit historic highs in the second half of 2020. This would mark the most active third quarter in the last 20 years by proceeds and the second-highest second half of the year by number of IPOs.

The second half of 2020 saw 32 IPOs raise \$17.9 billion in the TMT sector of which all were software companies, compared to 20 TMT IPOs that raised \$5.2 billion in the same period in 2019. H2 2020 also saw a flurry of Unicorn IPOs, of which four were from the TMT sector. The largest-ever software IPO raised over \$3 billion and closed 112% higher on its first day of trading. Indices continue to contain a high concentration in top tech names and the broader tech sector, which accounted for nearly 40% of the S&P 500's market cap.

We expect the market to finish 2020 on a strong note, as interest rates remain low and the economy potentially embarks on a path to recovery in the months ahead.

Source: *PwC US Capital Markets Watch, Refinitiv and Dealogic as of November 13, 2020.*

For more information, please check out our [*2021 Deals Industry Insights*](#).

Additionally, you may contact [*Mike Bellin*](#), Deals Partner, or [*Daniel Klausner*](#), Capital Markets Advisory Leader, to learn more.



Spotlight on SPACs

Special purpose acquisition companies ([SPAC](#)) continue to attract media and investor attention in the second half of 2020. There were 82 SPAC IPOs in the third quarter, which was more than the total number in 2019 or any prior year. The number of SPAC mergers has also increased with private companies beginning to view SPACs as a viable path to liquidity and a public listing. Why are companies joining the SPAC boom?

Increasingly, companies across all sectors are considering mergers with SPACs rather than pursuing a traditional IPO, and we expect this trend will likely continue as a growing number of major private equity (PE) firms, venture funds and operators form more SPACs created solely to raise capital through an IPO in order to merge with private companies. In 2019, the number of SPACs as a share of IPOs rose to 30% from 4% in 2013 as more high-profile entrepreneurs were attracted to SPACs.

Private companies have been able to benefit from SPAC mergers in the following ways:

- **Access to liquidity**

By merging with a SPAC sponsor, existing companies can retain a stake in their businesses and gain access to liquidity that would otherwise be unavailable to them to fund development or make acquisitions to continue growing by allowing existing companies to retain a stake in their business.

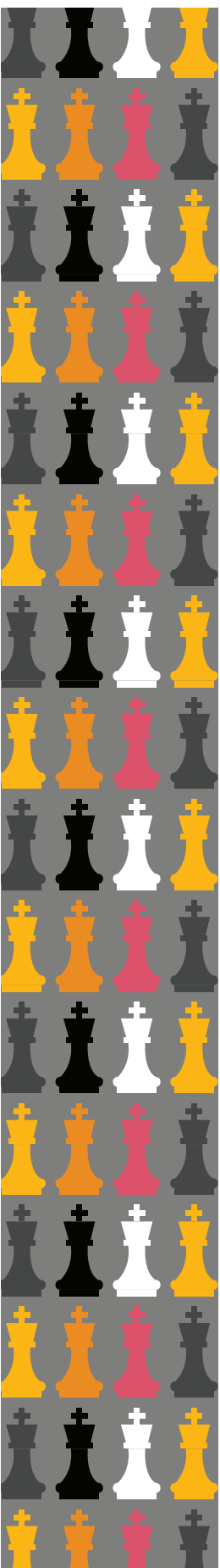
- **Greater market certainty**

With SPAC mergers, less market uncertainty than with traditional IPOs where companies are challenged to find the best window in a volatile market. Target companies can negotiate the price of their stock with the SPAC sponsor as part of their merger agreement and lock in a price, shielding its value from market uncertainty.

- **Flexible deal terms**

In addition to negotiating valuation, companies have increased flexibility to negotiate other terms of the deal that work in their favor. For example, a company may have more flexibility to bring in additional capital through a private investment in public equity (PIPE) and may have increased negotiating power relative to the target's board of directors.

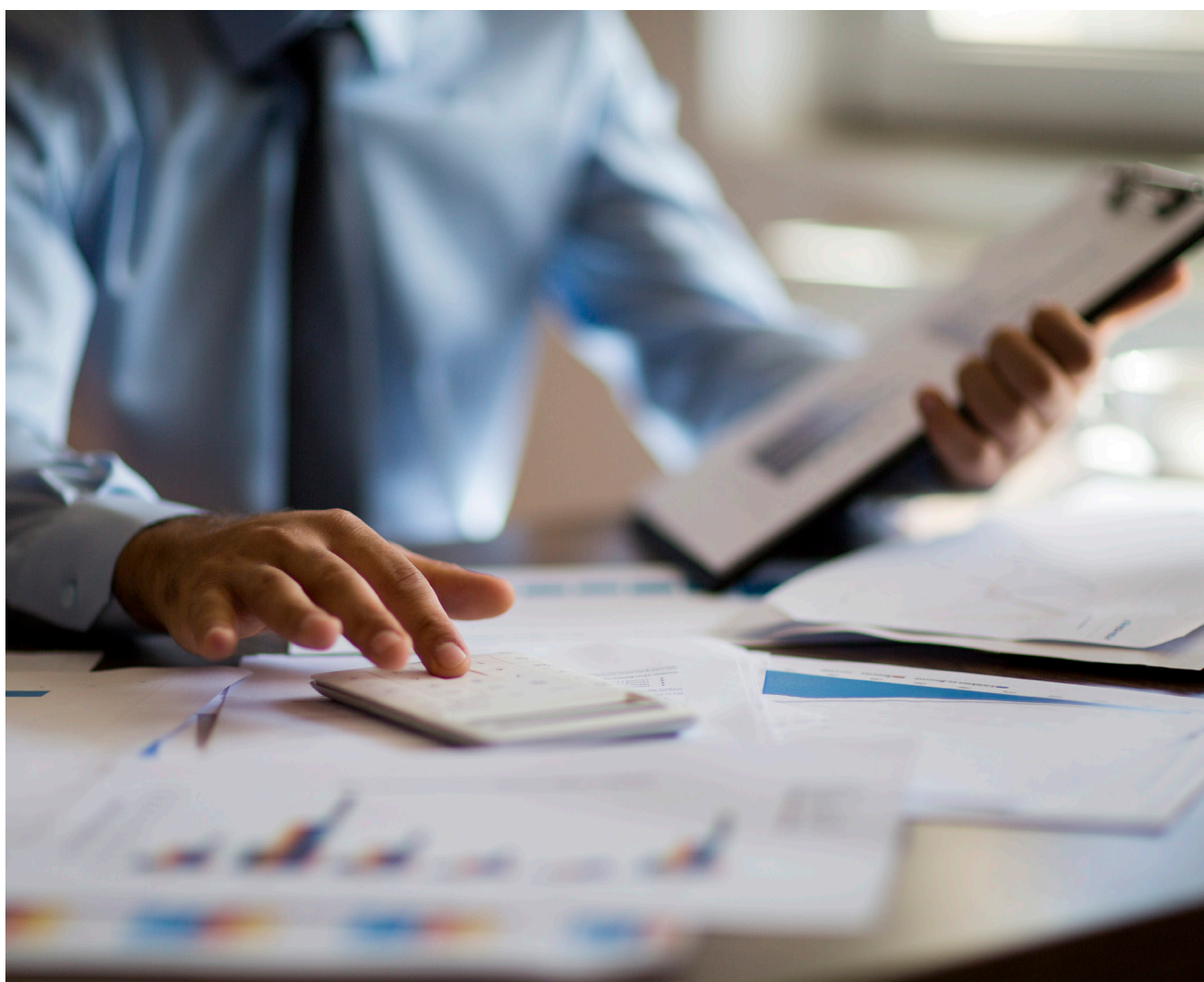
By merging with a SPAC, companies benefit from having wider access to capital, liquidity and experienced managers, as well as greater market certainty and flexibility to structure deals in their favor. However any company looking to go public via a SPAC should be prepared – just as they would if they were considering a traditional IPO. This includes audit and reporting uplifts, internal controls assessments and measures to ensure the organization has processes in place to meet public company reporting timelines.



Companies who are considering going public via a SPAC should carefully consider the financial reporting requirements when merging into a SPAC that has already filed its first Form 10-K. Companies that would typically be afforded relief under the JOBS Act as an emerging growth company (EGC) may still need to file three years of audited financial statements in a 1934 Act filing with a SPAC that has already filed its first Form 10-K, rather than two years of audited financial statements as an EGC in a traditional IPO 1933 Act filing. Merging into a SPAC that has already filed its first Form 10-K may also require companies to be Sarbanes-Oxley compliant earlier.

Companies will need to make sure they meet regulatory requirements set by the SEC which will review the SPAC merger SEC filings with the same level of scrutiny as it would a traditional IPO.

For more information, please read our publication *[How special purpose acquisition companies \(SPACs\) work](#)* and listen to our podcast *[Special purpose acquisition company \(SPAC\) Mergers: Why are companies looking to them when going public?](#)*



Environmental. Social. Governance. ESG

Being responsive to stakeholders goes by many names. But one thing is clear—it's becoming less and less optional.

Now more than ever, companies are creating value among a broad group of stakeholders, including investors, employees, customers and suppliers, while managing their broader obligations to society. Stakeholder groups are calling on companies to not only do more on key sustainability topics, but also to be more transparent about their efforts. In many instances, traditional financial metrics tell only part of a company's story. A company's ability to demonstrate how environmental, social and other trends impact its strategy, operations and long-term prospects is important to meeting the needs of its shareholders and other stakeholders.

In the TMT sector, the acceleration of cloud services and increased digitization by consumers, the broad impact that social media platforms have had on public discourse and the recent social unrest have amplified the focus that ESG has on company operations. Key ESG pillars such as data privacy and security, NetZero/ renewable energy commitments, content moderation and human capital management are taking on greater focus for companies in this sector. Companies in the TMT sector have a greater opportunity to tell their ESG story and in some cases are being singled out by regulators and other stakeholders to do more on their ESG reporting.

What are other stakeholders saying on ESG?

Other stakeholders have issued statements holding public companies more accountable and surveys of millennials and consumers have shown that two-thirds factor a company's corporate social responsibility into their decisions on whether to buy from or work for those companies. For TMT companies, broader stakeholder sentiment on ESG is becoming a core business issue, particularly given the impact that many of these companies have on how we work, live and communicate and as they seek to recruit more millennials into their ranks.

How can companies in the TMT sector achieve "investment-grade" ESG reporting?

Balancing sometimes-conflicting needs of stakeholders requires management and the board to work together to determine a company's purpose and how to measure success. With investors seeking ESG-savvy companies now more than ever, a company should start by setting a long-term vision and ambition level suited to the organization. Additional considerations include:

- **Establish the ESG topics material to the company's strategy**

Identify the ESG topics and metrics that are material to the company's core strategy and long-term value creation to help prioritize and channel efforts. Leverage established frameworks and standards, and engage with stakeholders to get their input.

- **Ensure ESG is a team effort**

Once the responsibility of a single department, sustainability now touches every part of the business.

- **Expand current disclosure processes, systems and controls to include ESG**

ESG information needs to be accurate, reliable and consistent, which will support comparison across companies and over time. This can be achieved by instituting policies, controls and governance similar to those supporting other elective metrics (e.g., non-GAAP).

- **Consider independent assurance**

Assurance can enhance reliability and confidence in the quality of the metrics and disclosures.

- **Enhance initiatives and reporting over time**

This is a journey. Monitor and measure against established goals and milestones. Make enhancements over time in response to company changes and evolving investor interest. Many TMT companies have data insights and data analysis in their DNA.

For more information please check out our [*ESG Pulse*](#) app that provides rapid insight on areas for improvement for the reporting process to tell your ESG story to the capital markets with confidence. Also listen to our [*ESG industry insights: Technology podcast*](#).



Additionally, you may contact [*Deepak Bhandarkar*](#), Technology & Life Sciences Partner, or [*Liz Logan*](#), Sustainability & ESG Services Partner, to learn more.

Convertible instruments—Highlights on newly issued accounting standard

On August 5, 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity.

The following are a few key considerations related to the FASB’s issuance of ASU No. 2020-06:

Simplification of the Accounting Framework

One of the more significant changes resulting from ASU 2020-06 is the simplification of the convertible instruments accounting framework through the elimination of two of the current models used to account for convertible debt and convertible preferred stock. The ASU eliminates the cash conversion and the beneficial conversion feature models. It retains the other models and the ability to elect the fair value option for instruments eligible under ASC 825. With the elimination of the cash conversion and beneficial conversion feature models, more instruments will be eligible to elect the fair value option. As a result of these changes, more convertible instruments will be reported as a single unit of account on the balance sheet. The elimination of the cash conversion and beneficial conversion feature models will result in fewer instruments for which proceeds need to be allocated between liability and equity accounting units, thereby resulting in fewer liabilities recorded at a discount, which will result in less interest expense through accretion.

Earnings per share

One of the more significant changes made in ASU 2020-06 is that entities will be required to assume share settlement when an instrument can be settled in cash or shares at the entity’s option. In many cases, this will result in a reduction of reported diluted EPS compared to current guidance in which an entity’s past practice or substantive stated policy may have permitted a rebuttal of the presumption of share settlement. This applies both to convertible instruments and freestanding arrangements that could result in cash or share settlement.

ASU 2020-06 also stipulates that an average market price for the period should be used in the computation of the diluted EPS denominator in cases when the exercise price of an instrument may change based on an entity’s share price or changes in the entity’s share price may affect the number of shares that would be used to settle a financial instrument.

Effective Dates and Transition

The ASU requires adoption using either the modified retrospective method or the retrospective method. ASU 2020-06 is effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The one-time determination of whether an entity is eligible to be a smaller reporting company is based on an entity's most recent determination as of August 5, 2020, in accordance with SEC regulations. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. An entity is not permitted to adopt the guidance in an interim period; an entity must adopt the new guidance as of the beginning of the first quarter of its fiscal year.

For more information, please read our In Depth Publication *[Accounting for convertible instruments and own equity contracts](#)* and listen to PwC's Accounting *[Podcast: The New Convertible Debt Standard](#)*.



AICPA conference on SEC and PCAOB developments

The 2020 AICPA National Conference on Current SEC and PCAOB Developments took place December 7-9, 2020. The conference featured representatives from regulatory and standard-setting bodies, along with auditors, preparers, securities counsel and industry experts.

Topics discussed at the conference included a variety of perspectives related to financial reporting during the COVID-19 pandemic which was a recurring theme across many of the presentations and panels. The SEC's chief accountant, Sagar Teotia, shared the SEC's current perspectives on specific financial reporting considerations during COVID-19 and discussed that the SEC will be releasing new guidance for registrants to consider relative to year-end disclosures, including the impact of COVID-19. The conference also included panel discussions related to forecasting and impairment during times of uncertainty and current accounting challenges driven by the COVID-19 environment. A panel discussion from the Enforcement Division of the SEC discussed observations from recent cases including insight into their process related to comparison of disclosures of registrants within the same industry; particularly as it related to disclosures related to the impact of COVID-19.

In addition to topics related to COVID-19, there was a presentation by the Office of the Chief Accountant on the SEC rule amendments for acquired and disposed businesses that are effective for calendar-year-end companies on January 1, 2021. Additionally, the presentation included a focus on recent Regulation S-K amendments to modernize, simplify, and enhance Management's Discussion and Analysis (MD&A), streamline supplementary financial information, and eliminate the requirement to provide certain selected financial data. These amendments reflect a principles-based, registrant-specific approach to disclosure, intended to facilitate an understanding of the company from management's perspective. The changes are a result of the SEC's disclosure effectiveness initiative. The changes will become effective 30 days after they are published in the Federal Register.

A panel discussion on the future of financial reporting from the perspective of investors included a view beyond the financial statements with discussion on Management's Discussion and Analysis (MD&A), Non-GAAP financial measures, key performance indicators, long-term value and ESG reporting. Other various technical topics were covered by SEC professional accounting fellows included: identification of performance obligations and principal vs. agent assessments in revenue recognition, accounting for payments made to vendors, equity method investments and determining significant influence, and right-of-use asset abandonments.

Additionally, there was discussion about the FASB's project on subsequent accounting of goodwill for which it had previously issued an invitation to comment that closed on October 7, 2019. Hillary Salo, Technical Director of the FASB, indicated that the FASB is currently favoring a hybrid model for subsequent accounting of goodwill, with a period accounted for under an impairment model and a period accounted for under an amortization model. Although there is not a current FASB proposal, the FASB staff is expected to meet with the Board in December 2020 to discuss alternatives.

Listen to our podcast *[What you missed at the 2020 AICPA Conference](#)* for highlights and PwC's insights on the 2020 AICPA Conference on Current SEC and PCAOB Developments.



SEC comment letter trends—TMT

The SEC Division of Corporate Finance’s filing review process is a key function used by the SEC staff to monitor critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequency of topical areas addressed by the SEC staff and how their focus areas have changed over time. Read more on SEC comment letter trends for TMT companies, in which we provide insights on the nature of the SEC staff comments, sample text from the comments, and links to where you can learn more about the accounting and disclosure requirements addressed in each topical area. The topics receiving the most attention in the 12 months ended September 30, 2020 are largely consistent with the prior period (the 12 months ended March 31, 2020).

Current Period 10/1/2019 – 9/30/2020)*	Relative change in number of letters compared to the Prior Period*
Non-GAAP measures	↑
Revenue recognition	↓
Management’s discussion and analysis	↑
Segment reporting	↑
Goodwill and other intangibles	↔
Income taxes	↔
Fair value measurement	↔
Debt, quasi-debt, warrants and equity	↔
Accounting changes and error corrections	↔
Disclosure controls and ICFR	↔

*This analysis was performed based on topical areas assigned by research firm Audit Analytics for comment letters publicly issued in the 12 months ended September 30, 2020 (“Current Period”) and the 12 months ended September 30, 2019 (“Prior Period”) in relation to Form 10-K and Form 10-Q filings. Total comment letters evaluated during the Current Period and Prior Period were approximately 240 and 250, respectively.

Observations from comment letters

Non-GAAP financial measures result in frequent comments regarding compliance with Item 10(e) of Regulation S-K, sometimes resulting in requests to remove or substantially modify non-GAAP metrics. Focus areas include presentation of a non-GAAP measure with great prominence than a GAAP measure or failure to reconcile the non-GAAP measure to the most directly comparable GAAP measure; appropriateness of adjustments to eliminate or smooth items identified as non-recurring, infrequent or unusual; use of individually tailored accounting principles; and disclosure of why management believes the non-GAAP presentation provides useful information to investors.

Revenue recognition topics most frequently addressed in the SEC staff's comments include the nature of performance obligations, why goods or services are distinct, and how a company estimates variable consideration, the timing of when control of a performance obligation transfers, gross versus net presentation judgments and disaggregated revenue disclosures.

Management's Discussion and Analysis (MD&A) comments have emphasized the requirements in Item 303 of Regulation S-K and the related disclosure objectives. Most frequent topics include discussion and analysis of results of operations, including the description and quantification of unusual or infrequent events or any significant economic changes including the impacts of COVID-19; metrics used by management in assessing performance, including how they are calculated and period-over-period comparisons; critical accounting estimates, including the judgments made in the application of significant accounting policies and the likelihood of materially different reported results if different assumptions or conditions were to prevail; and liquidity and capital resources, including a clear discussion of drivers of cash flows, along with the trends and uncertainties related to meeting known or reasonably likely future cash requirements.

Are you responding to a comment letter? Read our best practices on [*The Comment Letter Process*](#). Also, read more observations related to [*SEC comment letter trends for technology, media and telecommunications companies*](#).



New regulation S-K human capital disclosure rules

The SEC recently introduced new disclosure requirements designed to provide stakeholders insight into human capital — from the operating model, to talent planning, learning and innovation, employee experience and work environment. The disclosures may help stakeholders evaluate whether a business has the right workforce to meet immediate and emerging business challenges and the nature and magnitude of the related investments. These disclosure requirements became effective on November 9, 2020. Form 10-Ks for 2020 filed on or after this date will need to include the new disclosures. Under the new disclosure requirements, a public company will be required to disclose:

- The number of employees and a description of its human capital resources, if material to the business as a whole, and if material to a particular segment, that segment should be identified
- Any human capital measures or objectives, if material, that the registrant focuses on in managing its business, such as those related to the development, attraction, safety, engagement and retention of employees

Companies will need to periodically assess whether the human capital measures disclosed continue to be the most relevant for managing the business, update them when needed, and maintain the appropriate controls and processes. Effective and transparent disclosure of human capital initiatives can provide stakeholders with a new window into how a company manages its workforce.

For more information, read our *In the Loop* publication [New human capital disclosure rules: Getting your company ready.](#)



Effective dates of upcoming accounting standards

Calendar year-end	PBEs	Nonpublic companies
2020	Cloud computing Collaborative arrangements Consolidation: VIE related party Credit losses (a) Defined benefit plan disclosure requirements Definition of collections Episodic television series Fair value measurement disclosure requirements Goodwill impairment (a) Reference rate reform Share-based consideration to a customer	Definition of collections Down round features Fair value measurement disclosure requirements Nonemployee share-based payments Not-for-profit entities: accounting for contributions Premium amortization on callable debt securities Reference rate reform Revenue from contracts with customers (c) Share-based consideration to a customer
2021	Equity securities, equity method, and derivatives Simplifying accounting for income taxes	Cloud computing Collaborative arrangements Consolidation: VIE related party guidance Defined benefit plan disclosure requirements Episodic television series Hedging
2022	Insurance: long-duration contracts (b, e) Convertible debt and contracts in own equity (b)	Equity securities, equity method, and derivatives Leases (d) Simplifying accounting for income taxes
2023		Credit losses (a) Goodwill impairment (a)
2024		Insurance: long-duration contracts (b, e) Convertible debt and contracts in own equity (b)

a) Effective in 2020 for SEC filers other than SRCs; effective in 2023 for all other companies, including SRCs.

b) Effective in 2022 for SEC filers other than SRCs; effective in 2024 for all other companies, including SRCs.

c) Effective in 2020 for nonpublic entities that had not yet issued financial statements or made financial statements available for issuance reflecting the adoption of ASC 606 as of June 3, 2020.

d) Effective in 2022 for “all other” entities that have not yet issued financial statements or made financial statements available for issuance reflecting the adoption of ASC 842 as of June 3, 2020.

d) The FASB has proposed an additional one-year deferral of the insurance: long-duration contracts standards for all entities. Comments on the proposed ASU were due August 2020 and a final ASU deferring the standard is expected to be issued in the fourth quarter of 2020.

For further information on the new accounting guidance for public and nonpublic companies, including available PwC resources, refer to the [Effective dates for new FASB guidance](#) page on CFOdirect and see our *In dept*, [How to apply the FASB’s deferral of effective dates](#).





About PwC's TMT industry practice

TMT practice strives to help business leaders in the Technology, Media and Telecommunications industries manage their complex businesses and capitalize on new windows of opportunity. At PwC, our purpose is to build trust in society and solve important problems. PwC is a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services.

Let talk

For a deeper discussion on the content included in this edition of TMT Sector Game Changers or other challenges, please reach out to any of our TMT leaders to discuss. We're here to help.

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