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CONCENTRATION OF CAPITAL: DETERMINANTS WITHIN THE ECONOMY DIGITALIZATION

Capital concentration as a tool for increasing efficiency, profitability and creating a greater impact of business on the market where it operates is important for national, regional, as well as global economy. Accordingly, the study of processes of capital concentration, identification of factors that influence it, including analysis of current changes in technologies and the macroeconomic situation, are important both for making investment decisions by businesses and for state regulation to achieve the goals of economic development, increasing labor productivity and growth of well-being. In the post-2019 COVID-19 pandemic time, the world has been affected by factors that were either relatively inconspicuous or absent in recent decades, such as the post-pandemic recovery and associated macroeconomic instability, changing geopolitical situation, and continuation and deepening of digitization processes, partly reasoned by trends which were observed during the pandemic. The study proves the validity of the hypothesis about the decisive influence of the macroeconomic situation in developed countries, digitalization and changes in the geopolitical situation on the dynamics of investment flows and capital concentration in 2021–2023. Concludes on continuation of such influence in the future, which must be taken into account for the purposes of developing and implementing regulatory measures regarding the concentration of capital in Ukraine.

Keywords: capital concentration, digitalization, mergers and acquisitions, investments.

JEL Classification: E44, F21, G15, G32.

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КОНЦЕНТРАЦІЯ КАПІТАЛУ: ДЕТЕРМІНАНТИ В УМОВАХ ЦИФРОВІЗАЦІЇ ЕКОНОМІКИ

Концентрація капіталу як інструмент підвищення ефективності, прибутковості та створення більшого впливу бізнесу на ринку, де він оперує, має важливе значення для економіки як окремих країн та регіонів, так і світу загалом. Відтак вивчення процесів концентрації капіталу, виявлення факторів, що впливають на нього, зокрема й з урахуванням поточних змін у технологіях і макроекономічній ситуації, є значущим як для прийняття інвестиційних рішень бізнесом, так і для державного регулювання з метою досягнення цілей економічного розвитку, підвищення продуктивності праці та зростання добробуту населення. Після пандемії COVID-19 світ зазнав впливу чинників, що або були відносно малопомітними, або взагалі відсутніми в останні десятиліття, тобто постпандемічне відновлення та пов'язана з ним макроекономічна нестабільність, зміна геополітичної ситуації та продовження і поглиблення процесів цифровізації, частково обумовлених тенденціями, що спостерігалися під час пандемії. Доведено справедливості гіпотези про вирішальний вплив макроекономічної ситуації у розвинених країнах, цифровізації та зміни геополітичної обстановки на динаміку інвестиційних потоків і концентрації капіталу у 2021–2023 рр. Зроблено висновок про продовження такого впливу в майбутньому, що необхідно враховувати для цілей розроблення та впровадження регуляторних заходів щодо концентрації капіталу в Україні.

Ключові слова: концентрація капіталу, цифровізація, злиття та поглинання, інвестиції.



Introduction

Capital concentration as a process of accumulation of controllable resources through the investment of retained earnings, as well as obtaining access to the resources of other economic entities through mergers and acquisitions for the purpose of using such resources to obtain additional advantages in the competitive struggle is one of the basics of the modern market economy. In the first case, investing the profits of past periods ensures organic growth of the business, which makes it possible to reveal the company's own potential. In the other case, the concentration of capital through the merger of several enterprises' resources helps to obtain previously unavailable opportunities thanks to the use of the potential of other businesses, as well as achieving the effect of scale. So, in a narrower sense, the creation of additional advantages and business opportunities with the concentration of capital through inorganic growth anticipates the formation of strategic alliances or corporate mergers and acquisitions (Gerasimenko, 2005). For the purposes of this study, capital concentration is interpreted in this narrower sense of gaining control over the resources of multiple enterprises. Since this analysis is focusing on trends in the world economy in the context of digitalization in general, and not only in the industries where strategic alliances are most common (for example, in the oil and gas sector, hotel and tourism, or air transport business), the data on the global market of corporate mergers and acquisitions make the basis of this research.

A broad range of research in Ukrainian and foreign scientific literature is devoted to the problems of the fundamental determinants of capital concentration, its impact on the economy and economic development in modern conditions, in particular, factors related to the development and introduction of new technologies, regulation of capital concentration. In particular, in a recently published work on the study of market dominance in the digital era (Emery, 2023), capital concentration is considered as a factor in the growth of labor productivity and social welfare. However, this does not necessarily lead to super-profitability, which is clearly a new phenomenon in the question of using market power exclusively for the enrichment of investors, as it is traditionally believed. Wang et al. (2009) prove the importance of capital concentration in the form of investments in new projects as a factor in the economic development of the country, but only under the condition of sufficient development of human resources, i.e. sufficiency of available labor force and its level of qualification, and, therefore, to create an opportunity to reveal the technological potential of such investments.

Y. Umantsiv analyzes the role of high-tech corporations in capital concentration processes. The researcher substantiates that the companies massively utilizing information and communication technologies have leading positions in the global rankings of market capitalization (primarily Apple,

Microsoft, Amazon, Alphabet, Meta), leaving behind manufacturing, oil production, transportation and trading companies (Umantsiv, 2021, p. 42–44).

A. Gerasymenko notes the insufficient functionality of the financial and credit infrastructure in Ukraine is a limiting factor for the concentration of capital through the stock market, indirectly emphasizing the importance of direct investments (primarily through corporate mergers and acquisitions), which obviously are and will be decisive for the processes of capital concentration in Ukraine both during the current war and in the post-war period. The researcher notes that "the redistribution of ownership of national assets, which occurs through the stock market, ensures the transparency of relevant concentration agreements, increasing the effectiveness of control over the concentration of business entities as a means of preventing the monopolization of domestic product markets and the economy as a whole. Currently, the vast majority of concentration agreements take place outside the stock exchanges of Ukraine" (Gerasymenko, 2014, p. 404–405).

D. Zatonatskyi concluded that the concentration of capital using foreign investments plays a decisive role in accelerating the digital development of the economy. According to the researcher, it was digitalization that started the deep transformation of international investment operations of multinational corporations (Zatonatskyi, 2022). T. Lunyova analyzes processes of capital concentration by industry. The researcher draws attention to the significant increase in the volume of deals in software and data processing (Lunyova, 2022). At the same time, obstacles to the formation of Ukraine's investment attractiveness are pointed out. T. Brennan analyzes the role of state law enforcement institutions in regulating capital concentration processes using Coase theorem (Brennan, 2020).

A group of scientists from Hungary (Ko et al., 2022) reveals the role of digital flexibility and digital competitiveness in the processes of stimulating the development of entrepreneurship. Scientists analyze the importance and role of the innovative component in stimulating the development of small entrepreneurship during digitalization. V. Glass analyzes specific cases of capital concentration (Glass, 2021). Using the example of the merger of AT&T and Time Warner, which is significant in many ways, the scientist reveals the role of institutional, cultural, mental, intra-corporate and a number of other factors in the effectiveness of the companies after their merger.

In the business environment, there is a prevailing opinion about the key role of capital concentration for business development, in particular in response to the challenges of digitalization and especially in the period after the *COVID-19* pandemic (Deloitte, 2020).

Thus, on the example of even such a brief overview of research, the breadth of issues related to the role and meaning of capital concentration, as well as ways of its implementation in modern conditions, in particular with

regard to digitalization, is obvious. The study of these problems makes it possible to develop both the necessary methodology and tools for decision-making by market players regarding the implementation of capital concentration, as well as to offer effective means of its regulation to achieve the greatest positive return for the economic development of the state.

Considering the importance of capital concentration as an element of the world economy, it would be fair to hypothesize that given the new challenges that have arisen in recent years due to negative macroeconomic influences, overcoming the consequences of the *COVID-19* pandemic, as well as a radical change in the geopolitical situation, the focus of global processes of capital concentration will also change, responding to such challenges, and increasingly shift to investments in high-tech industries, which have, on the one hand, a high development potential, and on the other hand, a high level of resistance to the specified challenges.

A separate aspect in this process is the study of investments in the Ukrainian economy in wartime conditions, when the attractiveness and security of investments in technology companies, whose target market is mostly global, and not only and not so much the Ukrainian economy, remains.

The purpose of the article is to test this hypothesis by examining the key indicators of the development of capital concentration processes in the last few years globally and their reflection in the Ukrainian economy, in particular. The study is structured as an analysis of statistical data, as well as a review of the drivers of the most significant capital concentration agreements in recent years globally, on the largest regional markets (Europe and North America), in key industries, as well as an overview of the impact of full-scale aggression against Ukraine in 2022.

The aim of the article, from the practical application of the research results stand point, is to identify the determinants of capital concentration in the conditions of the digital economy in the last few years, which can be used by market players to achieve the optimal structure of their investment portfolios or determine investment directions to obtain the maximum effect of capital concentration in order to achievement of strategic business goals. From the point of view of state regulation of capital concentration, the results of the study can be used to prioritize the means of stimulating investment in certain industries while preserving the competitive environment in such industries.

1. Market dynamics in 2021–2023

1.1. Global trends

After 2021, a period of rapid post-pandemic recovery of capital concentration through mergers and acquisitions, in 2022 a correction of this market took place. In part, this process had technical reasons, because a number of deals, which for different reasons were not completed because

of the pandemic in 2020, were closed a year later, i.e. there was a certain artificial overstatement of the volumes in the later period, while such an effect did not observed in 2022. However, new influences that developed in 2022 caused a change in market dynamics.

To understand the nature of respective drivers, we will consider the statistics of the global market of capital concentration through mergers and acquisitions and determine its drivers in the last two years. *Figure 1* shows the count and value of deals since 2011, according to Pitchbook’s Global M&A Report. As we can see, in 2021 the global market broke the volume record: deal activity recovered after the downturn caused by *COVID-19* and developed in the conditions of the so-called "bullish" confidence of investors, including rapid growth of fundamental indicators, availability of financing and high multipliers.

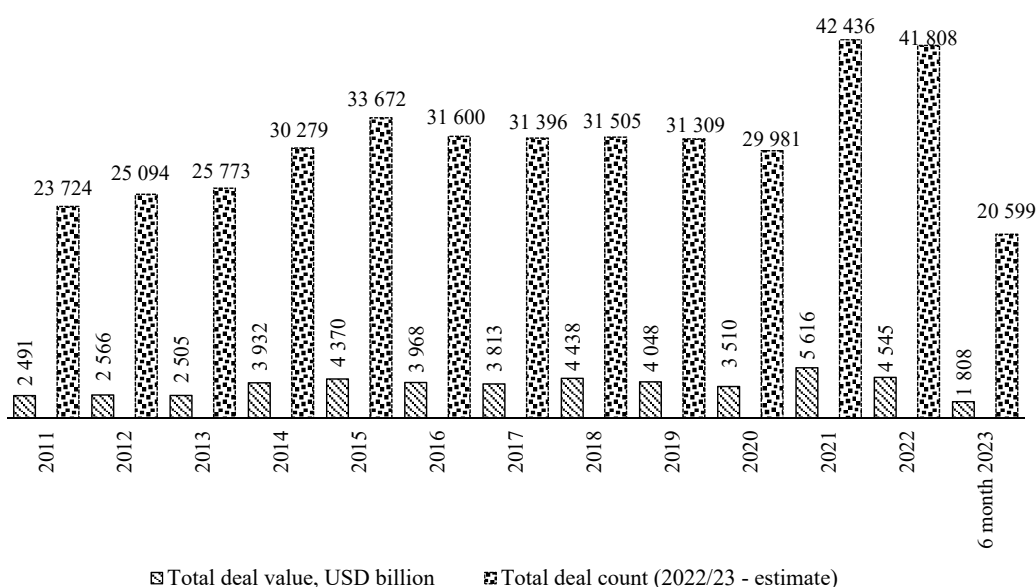


Figure 1. Global mergers and acquisitions volume in 2011 – six months 2023, USD billions

Source: PitchBook, 2023.

The total value of deals in 2022 decreased by 19.1 % to USD 4.6 trillion, but remained high compared to historical indicators and became the second best year by deal value, despite tough macroeconomic obstacles, primarily inflationary pressure and, as a result, raising interest rates in the leading countries, which generally made it difficult to finance deals (*PitchBook*, 2023). At the beginning of 2023, this trend continued – the total volume of transactions for the first six months of the year did not reach half of the value for 2022, although the seasonality factor also plays a role here.

1.2. European market

The volume of capital concentration in Europe through mergers and acquisitions remained relatively stable in 2021–2022, with the number of deals increasing to a record 16.862 in 2022, which is 1.5 % more than the previous record year (*Figure 2*). On the other hand, the total value of transactions decreased by 14.7 % compared to the previous year, i.e. their average deal value decreased.

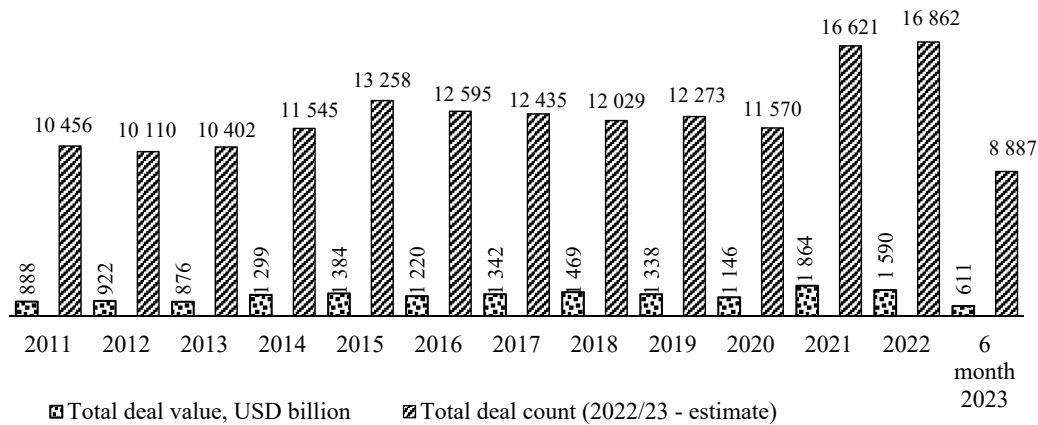


Figure 2. Europe mergers and acquisitions volume in 2011 – six months 2023, USD billions

Source: PitchBook, 2023.

The start of hostilities throughout the territory of Ukraine in February 2022, imposed economic sanctions and a sharp deterioration in relations between the EU countries and the aggressor country, as a result of the rise in prices for raw materials, became the reason for the biggest deal of the year in Europe: the German government nationalized Uniper, the largest importer of gas in the country, for USD 33.7 billion (*Reuters*, 2022), as well as the SEFE company, which previously belonged to Gazprom Germania (*Reuters*, 2022). The French government fully nationalized EDF in a deal worth USD 10 billions. The company controls nuclear power plants in France, which are key to diversifying energy supply from sources alternative to Russian gas (*Reuters*, 2022). These deals were one of the main reasons for the relatively small decline in total deal value and the increase in deal value in the European energy sector in 2022 (*PitchBook*, 2023).

Cross-border deals remained a fairly significant component of the market in Europe, in particular, every tenth deal involved a North American buyer – European properties continued to interest North American private companies and investment funds that seek to diversify their portfolios by investing in safe assets not only in North America, and take advantage of the strong dollar against the euro and the British pound (*PitchBook*, 2023). For example, the Italian infrastructure company Atlantia was acquired by a consortium involving Blackstone for USD 20.9 billion (*Reuters*, 2022),

Deutsche Telekom sold a share in its telecommunications business to a consortium involving DigitalBridge Group for USD 9.3 billion (*DigitalBridge, 2022*). A landmark deal was also the sale of the Chelsea football club to Clearlake Capital Group and Todd Boehly for USD 3.2 billion (*Clearlake Capital Group, 2022*), which, as in the case of transactions in the energy market, was a consequence of Russian aggression against Ukraine.

Thus, we conclude that the main drivers of the market in Europe in 2022 were more geopolitical events and macroeconomic circumstances both on the continent and globally than the development of technologies and digitalization.

1.3. North American market

The situation in North America was somewhat different compared to Europe. The market shrank slightly in 2022 compared to the record 2021 (*Figure 3*). Deal value fell 22% compared to 2021, when the stabilization of the *COVID-19* pandemics gave a raise to investment valuations in anticipation of economic recovery after the global lockdown, high stock prices and low interest rates (*PitchBook, 2023*).

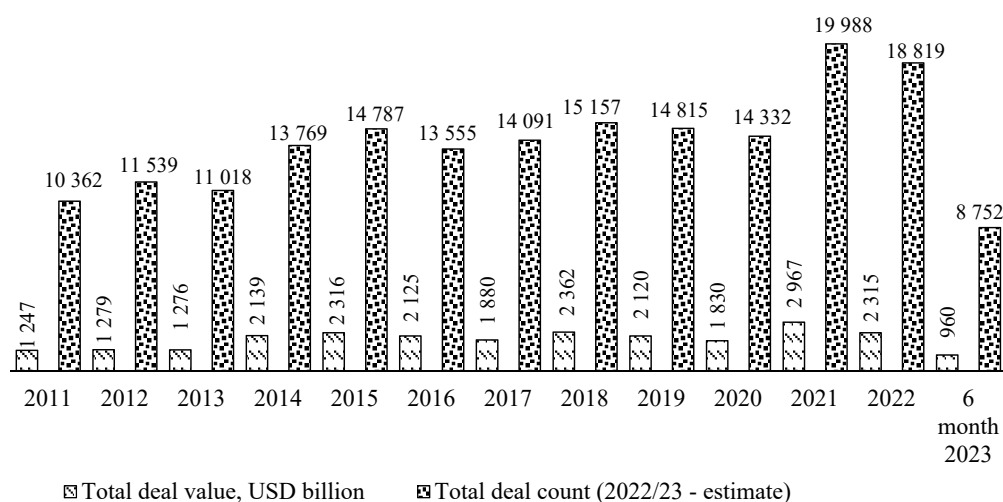


Figure 3. North America mergers and acquisitions volume in 2011 – six months 2023, USD billions

Source: *PitchBook, 2023*.

However, the economic recovery has not been as significant as expected, especially in China, the state of affairs in which has a great impact on the North American market as well. This partly led to the continuation of supply chain constrains that began during the pandemic. Soaring inflation in response to more than a decade of quantitative easing, which was imposed to tackle the 2008 financial crisis and was reinforced by government support measures during the pandemic, led central banks to respond aggressively by raising interest rates.

Armed aggression against Ukraine and related sanctions against the aggressor country created additional negative conditions for the growth of the world economy. All this combined reasoned worsening of investor sentiment, while higher interest rates had a direct impact on the ability to finance capital concentration through mergers and acquisitions. As a result, the US stock market experienced sharp losses, which led to the outflow of potential investors from the market. The three major indexes suffered their biggest annual declines since 2008: the S&P 500 ended the year down 19.4 %, losing about USD 8 trillion in market capitalization, while the Dow Jones Industrial Average fell 8.8 % and the Nasdaq Composite fell 33.1 % (*PitchBook*, 2023).

At the end of 2022, the inflationary pressure in the USA weakened (the consumer price index in annual terms was 6.5%, against 9.1 % in June, which became a 40-year high). However, the FRS continued the policy of raising the interest rate, which led to the continuation of relatively unfavorable conditions for the investment market in 2023 (*PitchBook*, 2023). Despite market volatility, the number and value of deals in North America in 2022 remained higher than the three-year pre-pandemic average (2017–2019), indicating stable volumes over the medium to long term timeframe.

1.4. Significance of USA hi-tech mergers and acquisitions

In contrast to Europe, the North American market (mainly the USA) was characterized by a much greater importance of technology deals. For example, at the beginning of 2022, an agreement was announced by Microsoft to acquire Activision Blizzard, a video game developer, for almost USD 69 billion, but the deal was closed only in October 2023 due to the resistance of regulators from various countries (*The New York Times*, 2023). A similar situation arose with Broadcom's acquisition of VMware, a cloud computing and virtualization company, for USD 61 billion – the deal was announced in the first half of 2022 and, due to resistance from regulators, is not yet completed as of early October 2023 (*Broadcom*, 2023).

In early 2022, AMD completed a USD 49 billion deal to acquire semiconductor competitor Xilinx (*AMD*, 2022). In mid-2022, Oracle finalized a USD 28 billion deal to acquire medical software developer Cerner (*Oracle*, 2021). These four deals are not only among the largest in the technology sector, but also among the largest announced or completed in 2022 in the US and the world in general. Another landmark deal announced in late 2022 and completed in July 2023 is a reflection of several of the current drivers of capital concentration: the acquisition by one of the world leaders of the arms market L3Harris Technologies of the manufacturer of missiles and related equipment Aerojet Rocketdyne for USD 4.7 billions (*L3Harris Technologies*, 2023).

The acquired company formed a new line of business for L3Harris, which previously worked in related sectors, such as avionics, software for

military purposes, etc., but did not have missile weapons production. At the same time, in early 2022, an offer for almost the same amount (USD 4.4 billion) by Lockheed Martin was canceled due to the resistance of the regulator due to fears of excessive concentration in the market, since Lockheed was a direct competitor of Aerojet Rocketdyne (Lockheed Martin, 2022).

Several current trends are reflected in this agreement, including: the impact of technology and digitalization on concentration in the technology sector; the stimulus to the development of the arms market of NATO countries as a response to geopolitical threats from the aggressor country; the significance of the role and actions of the regulator in response to excessive concentration in the US defense-industrial complex (Shved, 2022).

The first two of the specified drivers were also observed on the European market, namely: Rheinmetall announced in November 2022 and in August 2023 completed a EUR 1.2 billion deal to acquire the Spanish manufacturer of explosives Expal Systems SAU (Rheinmetall, 2023), BAE Systems announced in August 2023 an agreement for USD 5.6 billion to acquire the American manufacturer of equipment for space and defense systems Ball Aerospace (*BAE Systems*, 2023).

2. Capital concentration by sector

2.1. Market by sector composition

Global industry trends in capital concentration through mergers and acquisitions by industry are shown in *Figure 4*. We note the dominance of three main sectors throughout the observation period: B2B (Business to Business, services and supplies from business to business), B2C (Business to Consumer, consumer markets), information technologies, as well as a rather insignificant share of raw materials markets and energy.

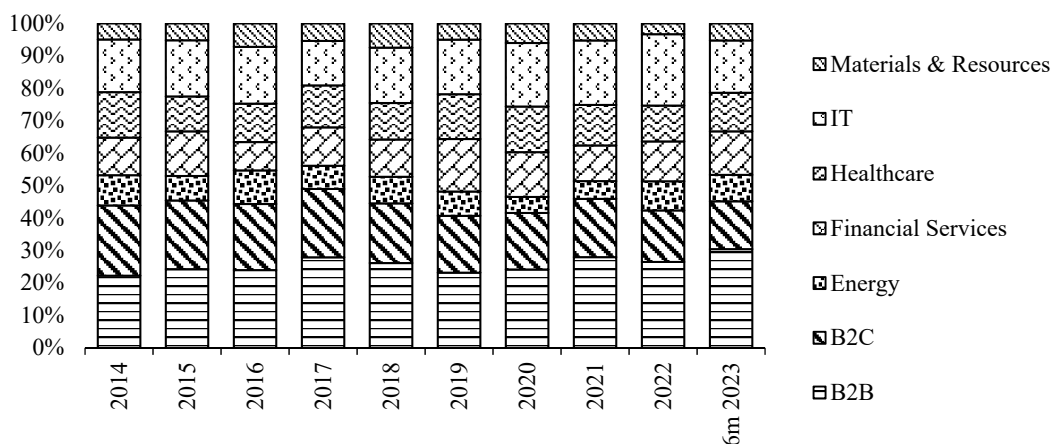


Figure 4. Capital concentration through mergers and acquisitions by sector in 2011p. – six months 2023, % of total deal value

Source: *PitchBook*, 2023.

And even on commodity markets, the impact of the mentioned trend of technology dominance as the "engine" of deals is noted. As an example, notable are trends of capital concentration in such a new sector as precision agriculture (or AgTech). The vast majority of such projects, which combine such a traditional industry as agriculture and breakthrough digitalization technologies, are still quite often at the start-up stage, and quite a few of them make their way into the list of the largest deals. However, according to some data, in 2022, 797 AgTech startups around the world attracted funding in the amount of USD 10.7 billion, which is 13 % less than in 2021, but 26 % more in the number of deals (*Global Agtech Initiative, 2022*).

In another traditional sector, energy, the agreement to acquire ECM, one of the world leaders in the production of solutions (including digital ones) for electric networks, which ensure their greater safety and reliability, by nVent Electric for USD 1.1 billion was quite indicative (*nVent, 2023*). In general, the energy sector saw a trend towards an increase in the total value of deals, which began in 2021 with the first signs of the end of the pandemic and, therefore, the optimism about the demand for energy carriers, and intensified in 2022 with the increase in the cost of oil as other commodities, as well as due to geopolitical risks caused by aggressive actions against Ukraine (the price of a barrel of Brent oil rose from approximately USD 70 in December 2021 to more than USD 110 in June 2022, although at the end of the year it decreased to the level of December 2021, and during the three quarters of 2023 continued to remain close to that). Accordingly, the value of assets rose and led to an increase in the value of deals to a level not seen since 2016 (more than USD 400 billions). At the same time, the number of deals decreased (1 076 in 2022 vs. 1 254 in 2021) (*PitchBook, 2023*). This indicates the increase in the value of assets, and not the increase in the interest of investors in the sector.

2.2. Sector trends: B2B

The following industries are included in the B2B sector: commercial goods (aviation and other mechanical engineering, defense industry, construction materials, as well as distribution of such goods), commercial services (logistics, legal, consulting, educational, managerial, marketing, security, information, etc. services), commercial transportation by all types of transport.

In the B2B segment, the impact of digitalization on capital concentration has naturally been more visible than in the resource sectors. A fairly notable deal in this sector in 2022 was the acquisition of UserTesting, which provides online testing services on various business-critical matters, for USD 1.3 billion by Thoma Bravo and Sunstone Partners (*PE Hub, 2023*). It is important to note that the acquired company went public only a year before the sale. In other words, the company transitioned from the stage of attracting capital for development (in this case through the stock exchange)

to acquisition by a large investment fund before the next step of sale to a strategic investor or the formation of a separate platform business, in a relatively insignificant period, which is a characteristic feature of deals with businesses that offer unique digital solutions.

The share of investments of private equity investments in this sector is significant: of the 20 largest deals of the IV quarter of 2022, 11 were completed by PE investors. This indicates a significant level of interest from financial investors to this market segment (*PitchBook, 2023*), and strong case for the development of this segment.

Thanks to the high level of digitalization and the importance of digital technologies in the sector, even despite the decrease in the total value of transactions in 2022, the noted large number of transactions for "young" private businesses explains the lower average value of transactions (*Figure 5*). The mentioned agreements in the defense sector also attributed to the capital concentration in B2B segment.

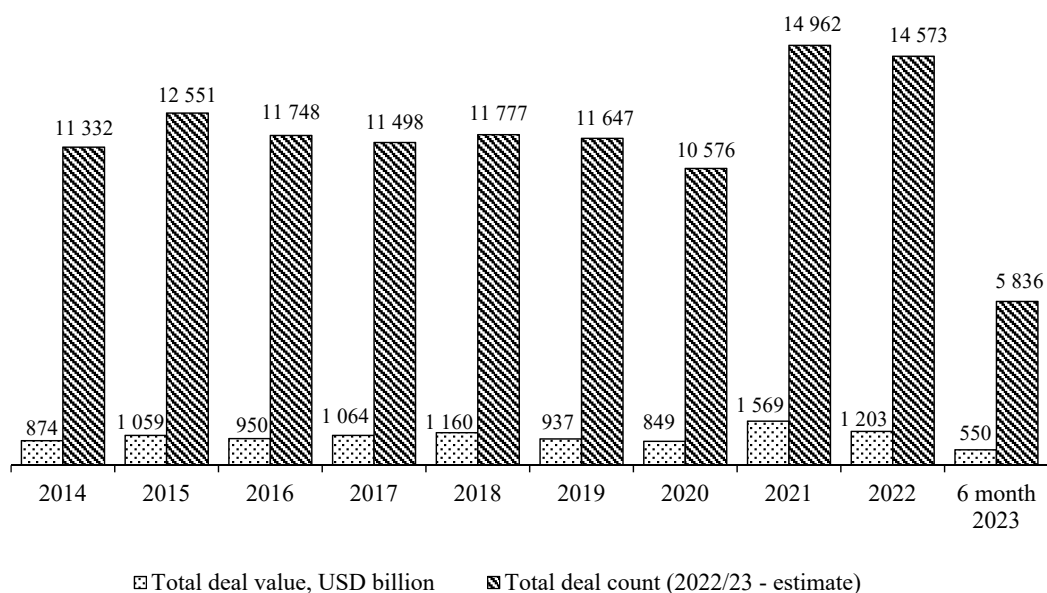


Figure 5. B2B mergers and acquisitions volume in 2011 – six months 2023, USD billions

Source: *PitchBook, 2023*.

2.3. Sector trends: consumer markets (B2C)

The B2C segment, i.e. consumer markets, also showed a decline in both volume and number of transactions in 2022 (*Figure 6*). The B2C sector includes manufacturing and distribution of clothing, home electronics, food and beverages, entertainment services and goods (except digital media), retail, personal consulting and educational services, passenger transportation, and non-commercial transportation.

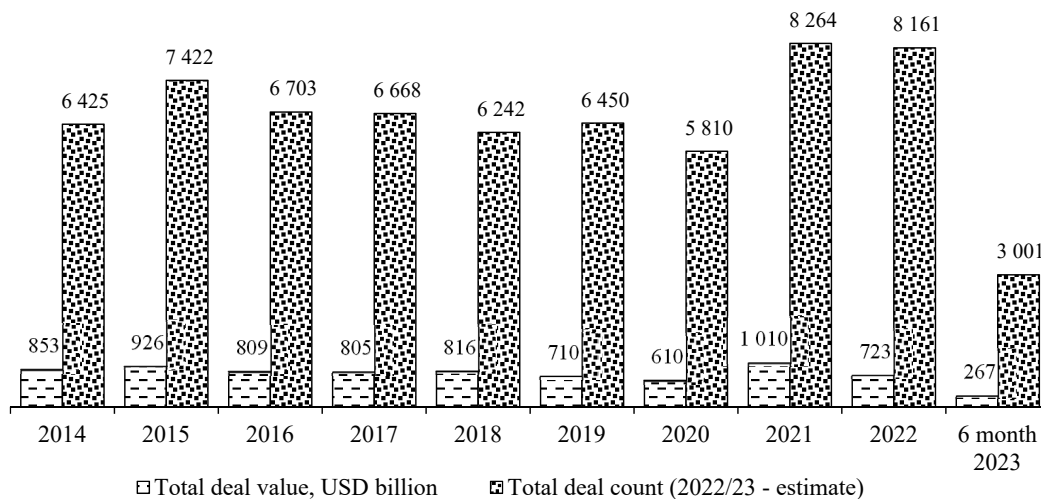


Figure 6. Consumer markets (B2C) mergers and acquisitions volume in 2014 – six months 2023, USD billions

Source: PitchBook, 2023.

In 2022, 8161 deals were completed or announced in consumer markets with a total value of USD 723 billions, which is 1 % and 28 % less than the previous year, respectively. After soaring to record value and number of deals in 2021, market activity returned to moderate levels in 2022 as consumers faced a number of headwinds that dampened demand for the sector, including inflationary pressures and the risks of a recession in 2022, while in 2021, there was an increase in consumer spending on goods and services in such areas as leisure, retail trade and the hotel and restaurant business, partly due to excess liquidity provided by state support measures during the pandemic.

One of the recent examples of digitalization impact on the concentration of capital in consumer markets is acquisition of Points, one of the North America operators of loyalty programs, by Plusgrade, which operates in the adjacent market of managing add-on services for customers of airlines, hotel chains, railways, etc. using loyalty points. The amount of the deal was USD 749 million (*Just Drinks*, 2023). Unlike Ukraine, where, as a rule, the loyalty programs segment is decentralized, in North America this line of business is consolidated by a few larger operators operators (e.g. financial companies).

And although the direct impact of digitalization on this agreement may not be obvious, the entire system of managing loyalty programs requires the availability of the necessary software and effective work with huge volumes of customer data, i.e. it is simply impossible without digitalization.

An example of another agreement with the same main driver, i.e. access to a large volume of client data, is the acquisition of the Goat Solutions marketing platform by one of the world leaders in the field of advertising, WPP, for USD 425 million (*WPP*, 2023).

Therefore, the concentration of capital in the consumer market, which by its very nature is very often dependent on the ability to manage a large amount of customer data, involves investing in new digital solutions.

2.4. Sector trends: hi-tech

Finally, let us discuss the industries in which the impact of digitalization on capital concentration is best known – financial services (fintech), health care (medtech), and information technology itself. In 2022, 3.122 financial services deals totaling USD 558 billion were announced or completed (*Figure 7*).

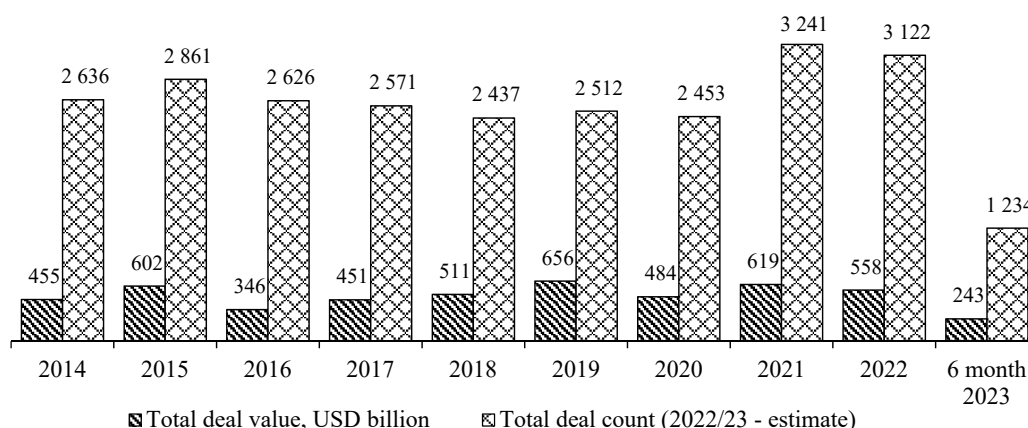


Figure 7. Financial institutions mergers and acquisitions volume in 2014 – six months 2023, USD billions

Source: *PitchBook*, 2023.

Capital concentration in the financial sector did not experience as rapid a rise as other industries in 2021, and therefore its decline in 2022 was less significant (*PitchBook*, 2023). The largest deals in the industry in 2022 involved large banking institutions, in particular the sale of HSBC’s Canadian business to the country’s largest bank RBC for USD 10 billion (*HSBC*, 2022). Major deals were also reported in insurance, for example Aegon sold its pension and life insurance division in the Netherlands to direct competitor ASR Nederland for USD 4.9 billions (*Aegon*, 2023).

The fintech sector is mostly characterized by small deals, but there are also real giants, companies with more mature technologies and a wide client base. Among these, in 2022, there were agreements to acquire Alavara, one of the leaders in the tax reporting automation market, for more than USD 8 billion, by Vista Equity Partners investment fund, as well as a USD 4 billion deal in the payment technology market – Global Payments acquired a competitor, EVO (*FinTech Global*, 2023).

Earlier we mentioned the acquisition of Cerner by Oracle. These were other big deals in the medtech segment reported too, e.g. the acquisition of Johnson & Johnson by Abiomed, a manufacturer of medical equipment using

modern digital technologies. The estimated value of the target company was USD 16.6 billion (*Johnson & Johnson, 2022*). In general, the number and value of deals in the health care sector decreased in 2022, which was partly a consequence of the end of the pandemic (*Figure 8*). However, with the example of these large deals, it is clear that digitalization plays a significant role in the concentration of capital in this industry.

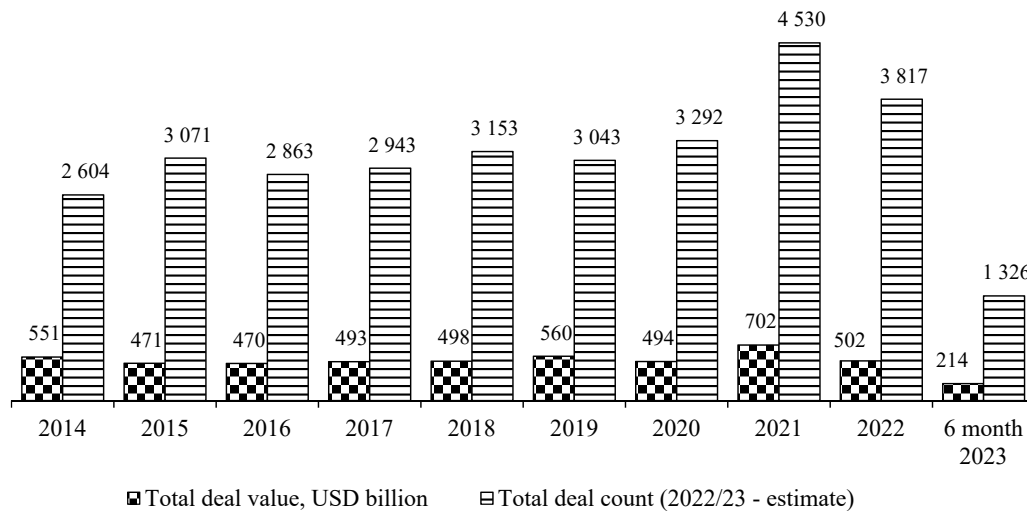


Figure 8. Healthcare mergers and acquisitions volume in 2014 – six months 2023, USD billions

Source: *PitchBook, 2023*.

In the most relevant sector for digitalization, information technology (*Figure 9*), 7.375 deals with a total value of USD 1 trillion were reported in 2022 (compared to USD 1.1 trillion in 2021). While market volume in the IT sector remained strong in the first half of 2022, the number of deals declined in the second half of the year as buyers and sellers grappled with the industry's operational restructuring tendencies (including massive layoffs by major market players that began right at the end of the year).

The number of mega deals (USD 1 billion or more) decreased at the end of the year, with 10 mega deals announced in the fourth quarter totaling less than USD 30 billions, compared to 19 deals worth more than USD 184 billions in the second quarter. The number of mega-deals is expected to continue to decline as rising interest rates and difficulties in financing deter investors from larger acquisitions. At the same time, a significant layer in the number of transactions in the sector is made up of technology sector companies at a relatively early stage of operations, i.e. the growth in the value of transactions and an increase in the role of digitalization will continue when such companies grow, improve their technological solutions, expand their solutions' functionality, integrate into new platforms, and increase their value accordingly (*PitchBook, 2023*).

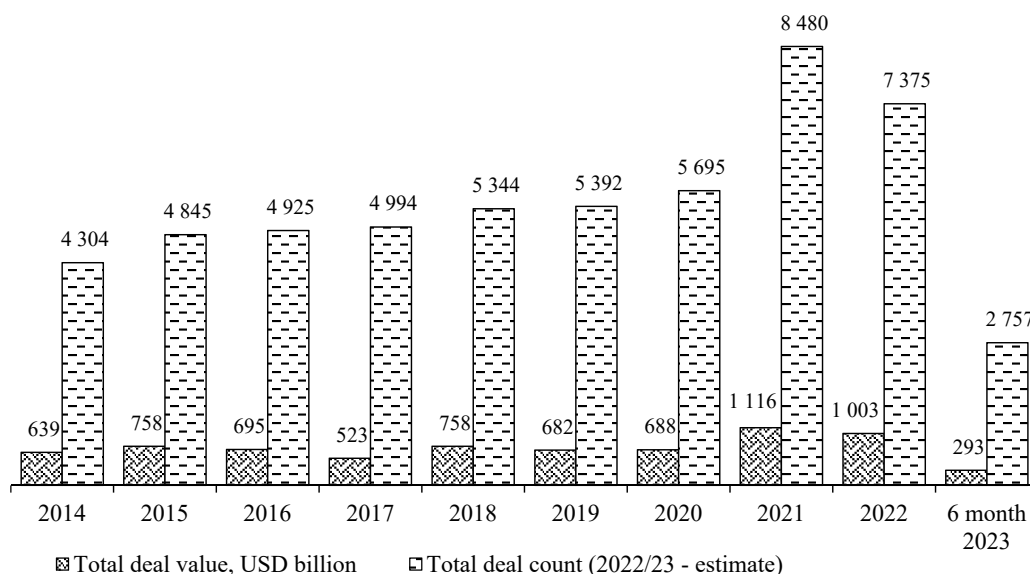


Figure 9. IT mergers and acquisitions volume in 2014 – six months 2023, USD billions

Source: PitchBook, 2023.

Therefore, although the capital concentration in the sector slowed down in late 2022 – early 2023, the achievement of the trillion value of the total value of deals in the IT sector, which is the second result in the entire history of observations, as well as the dominance of the sector in terms of the amount of the largest deals both in 2022 and early 2023 illustrates the importance of digitization for capital concentration trends both in this sector and in the global economy in general.

3. Capital concentration trends in Ukraine in 2021–2023

In 2021, the Ukrainian market was characterized by the same capital concentration trends that dominated the world. For example, according to data at the end of the year (Forbes, 2021), a sharp increase in the number and value of mergers and acquisitions was noted compared to previous years, the market volume exceeded USD 1.2 billion already in 11 months of the year, and Ukrainian startups attracted more than USD 1.6 billion of investments, which is three times higher than in the entire previous year.

Also, while traditional sectors still demonstrated higher deal value (for example, the value of the acquisition of Ivano-Frankivsk Cement and the Dnipro Metallurgical Combine exceeded USD 0.3 billion), high-tech companies from Ukraine or with Ukrainian founders led in terms of the total number of deals (for example, the acquisition of the company Depositphotos for USD 85 million, Game Labs – USD 32.5 million, Vega – USD 15 million), supported by companies involved in the production of components and raw materials for high-tech products (for example, the sale of lithium producer Petro-

Consulting for USD 15 million). Even after the start of hostilities throughout the country, at the beginning of 2022, the largest Ukrainian private investment fund Horizon Capital completed a landmark investment agreement for USD 200 million in the large Ukrainian software developer Miratech Group (*EY*, 2022).

The attraction later in 2022 of USD 30 million financing from the International Finance Corporation by Horizon Capital specifically for further investments in high-tech sectors was also indicative (*IFC*, 2022). In the middle of 2023, Horizon Capital announced the closing of the financing of its fund for more than USD 250 million for investments in Ukrainian companies (*Ukrainian World Congress*, 2023). As another example, Vesna Capital venture fund, founded by well-known Ukrainian entrepreneurs Andriy Fedoriv, Vyacheslav Klymov and Volodymyr Popereshnyuk, continues to invest in Ukrainian high-tech startups. The Turkish drone manufacturer Baykar announced at the end of 2022 its intention to build a plant in Ukraine (*Baykar*, 2022), apparently seeing the possibility of scaling its business through manufacturing in Ukraine.

These examples reveal the influence of the above mentioned world trends in capital concentration even in the conditions of military operations in Ukraine – the role of investments in high-tech businesses, being a response to geopolitical challenges in particular, is increasing.

Conclusions

We can conclude on the validity of the hypothesis regarding the decisive influence of the macroeconomic and geopolitical situation in the world and digitalization on the processes of capital concentration in 2021–2023. The main factors of the change in market dynamics were the slower-than-expected post-pandemic recovery, government measures to overcome inflationary pressure, and geopolitical trends. At the same time, since the pandemic, companies whose work is based on the use of digital technologies have become the leaders in terms of capital concentration opportunities. And, if during the pandemic this trend was primarily attributable to online communications or streaming services sectors, starting 2021, the same is applicable to the businesses involved in a wide range of digital technologies, from customer data management to high-precision weapons technologies.

At the time of the completion of this study, another armed confrontation between Israel and Hamas has begun. The number of human losses already exceeds Israel's record losses during the Yom Kippur War over 50 years ago. US interest rates are at record highs not seen in the previous 40 years (as is inflation). In other words, we note the processes that are significantly different from those that were characteristic of the world economy in a shorter-term perspective, in particular from the beginning of the 90s of the XX century, since the end of the Cold War, when international economic ties and the movement of capital, in particular, developed intensively.

The superimposition of these trends, i.e. the aggravation of geopolitical confrontation, macroeconomic instability and digitalization, and therefore the provision of mass access to information and the use of high-tech means in various aspects of life, from education and medicine to military affairs, create a new situation in the world, the global economy, interstate relations, and, accordingly, in the processes that affect investment flows and capital concentration worldwide. Instead of the word "globalization", which dominated the context of the world economy and relevant scientific research in recent decades, the word "decoupling" is being increasingly used – mainly, it is mentioned in the context of relations between the United States and China, however, by and large, we can observe the same in the mass exit of investors from developed countries from Russia after the start of full-scale military operations on the territory of Ukraine.

Therefore, digitization and geopolitics, which significantly influenced global investments and capital concentration in recent years, will be decisive factors in the socio-political development of the world, in particular international trade, financial and investment flows, and therefore, capital concentration. At the very least, this impact will manifest itself in regulatory restrictions on investment flows, changes in approaches to assessing the investment attractiveness of a particular business, and changes in the sectoral and regional priorities of investors.

From the point of view of the practice of investment activity and capital concentration, the trend of growth in the volume of investments in high-tech sectors will continue. Moreover, investments in products and solutions that allow utilizing new growth points and increasing competitiveness with the use of digital technologies as opposed to more traditional methods of economic activity in a wide range of industries, and not only in IT or, for example, the financial sector, are becoming more and more attractive. Accordingly, regulatory measures to stimulate investment activity and manage the processes of capital concentration not only in Ukraine, but also in other countries must be adjusted to stimulate the development of such technologies, for example, through the minimization of administrative and legal requirements, provided that the expected synergy of high-tech deals is proven, as well as the application of the mechanism of public-private partnership in those cases where the share of such synergy depends on the availability of state guarantees, simplified licensing or financial support at the early stages of development. In the case of Ukraine, the latter can be critical for the restructuring of the domestic defense industry with the involvement of foreign arms manufacturers.

A promising direction of further research into the determinants of capital concentration globally will be the consideration of the mentioned factors to explain these processes, as well as the development of effective means of regulatory influence to ensure the competitiveness of Ukraine and Ukrainian business on the global capital market both during the current war and in the period of post-war reconstruction.

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