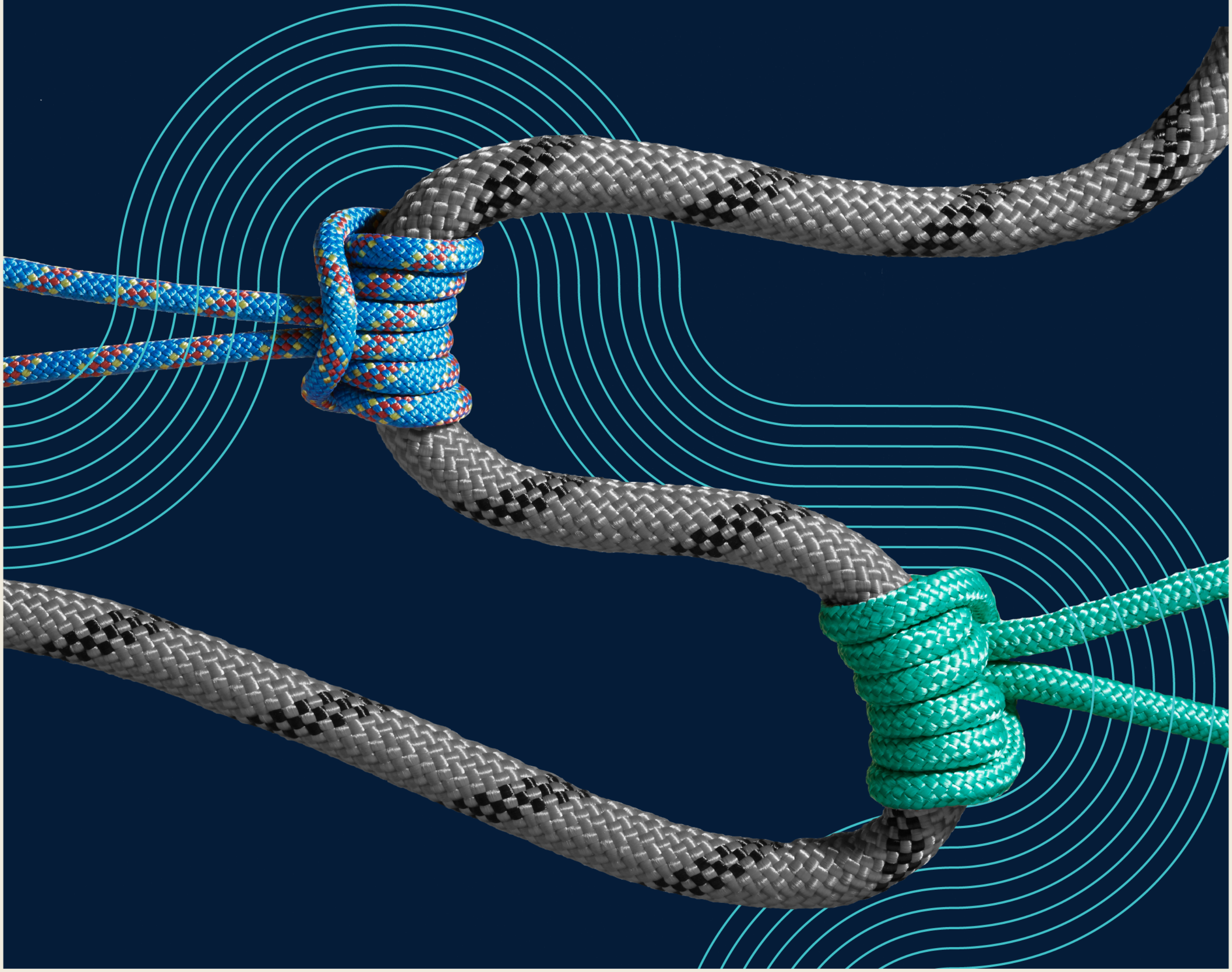
PitchBook

2023
ANNUAL

GLOBAL

M&A Report



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Contents

Methodology change disclosure

PitchBook continuously examines how we can provide the best estimates on aggregate deal value, which is comprised of deals with both known and unknown values (non-disclosed deals). As part of that process, we attempt to ascribe value to non-disclosed deals using a variety of known datapoints pertaining to a transaction. Our model for non-disclosed deals has demonstrated a high correlation when back tested on fully disclosed deals, where we compare predicted deal values with actual values. We have been able to further improve that correlation by incorporating expanded datasets that PitchBook has collected over the years on private companies, including employee count. This revised calculation methodology will go into effect with this report and be applied to aggregate deal values in previous years. Since aggregate deal values have been driven primarily by actual values on fully disclosed deals and, to a lesser extent, imputed values on non-disclosed deals, previously reported directional trends and rates of decrease/increase remain largely unaffected by this change.

Additionally, we have enhanced our methodology for recording normalized EBITDA values for deal multiple purposes, as further described in the Addendum. Please note that these methodology changes apply only to PE deals and M&A deals and not to venture-related deals.

PitchBook Data, Inc.

John Gabbert Founder, CEO

Nizar Tarhuni Vice President, Institutional Research and Editorial

Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Tim Clarke
Lead Analyst, Private Equity
tim.clarke@pitchbook.com

Garrett Hinds
Senior Analyst, Private Equity
garrett.hinds@pitchbook.com

Jinny Choi
Senior Analyst, Private Equity
jinny.choi@pitchbook.com

Kyle Walters
Associate Analyst, Private Equity
kyle.walters@pitchbook.com

Rebecca Springer, Ph.D
Lead Analyst, Healthcare
rebecca.springer@pitchbook.com

Nicolas Moura, CFA
Analyst, EMEA Private Capital
nicolas.moura@pitchbook.com

Data

TJ Mei
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Jenna O'Malley** and **Megan Woodard**

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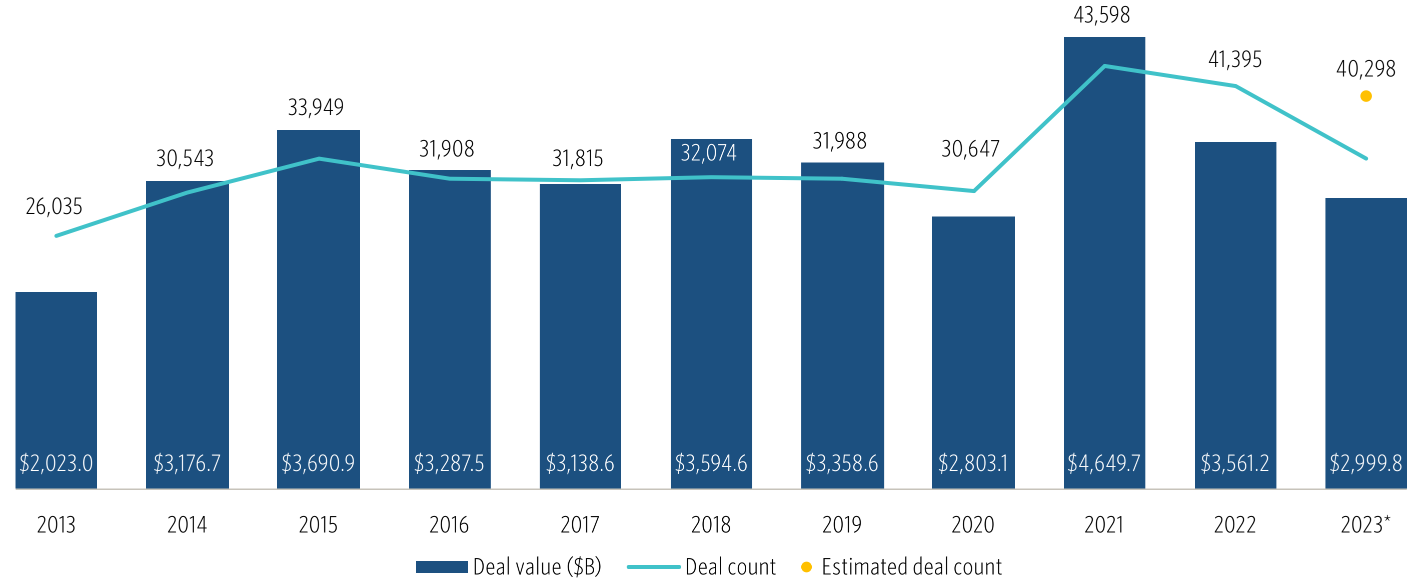
Click here for PitchBook's report methodologies.

Overview

M&A activity



Source: PitchBook • Geography: Global • *As of December 31, 2023

Tim Clarke
Lead Analyst, Private Equity

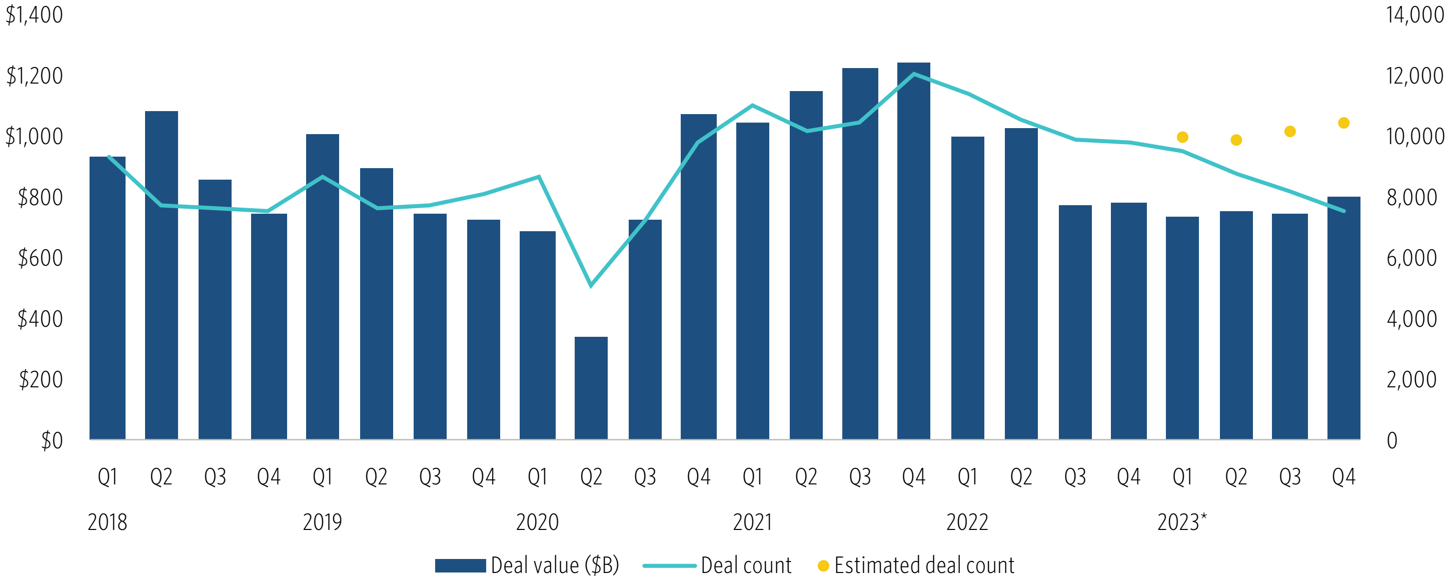
At the two-year anniversary of an all-time peak reached in 2021, the global M&A market turned in its second weakest year in exactly a decade. The total value of deals closed or announced in 2023 came in right at the $3 trillion mark, a 15.8% decrease from 2022. The good news is that the rate of decline seems to be slowing. Last year's decline was much steeper, down 23.4%, and the most recent quarter sported the best volumes since Q2 2022—approximately 6.5% above Q3 2023—suggesting that the worst may be behind us.

Still, if one were to exclude the global lockdown of 2020, not since 2013 have dollar volumes been this weak. Deal count stacks up much better. When the dust finally settles, we estimate that more than 40,200 M&A deals were announced or completed in 2023, which would rank as the third highest total on record. PitchBook is one of the few firms that attempts to estimate late reporting deals that fall into prior periods as well as the value of nondisclosed deals. In both cases, we maintain proprietary models that are continually back-tested based on known data.

Peak to trough, global M&A value is now down 35.5% from 2021's all-time high. The guessing game among M&A professionals and firms at this point is whether the current down cycle will extend another year. Not since the downturn of 2007 during the global financial crisis has the M&A market gone down for three straight years. For historical reference, that decline measured 60.0% in deal value before bottoming in 2009, concurrent with a 29.3% contraction in deal count.

We do not anticipate that. Rather, we see the latest quarter as the most recent sign that the deal market is slowly on the mend. We think another milestone coming up will reinforce the recovery—that being the two-year anniversary of the Federal Reserve's (the Fed) historic rate hike cycle. If all goes as expected, March 2024 will mark the beginning of a new cycle of Fed easing. This would bring welcome relief to the scores of financial acquirers straining under the yoke of 12% or higher borrowing costs, and it will get the $1.6 trillion of PE dry powder in motion again. Of course, not everything goes as expected and should the global economy land hard and not soft, M&A will likely track lower with the economy, just as it did in 2009 while central banks were cutting rates aggressively.

M&A activity by quarter



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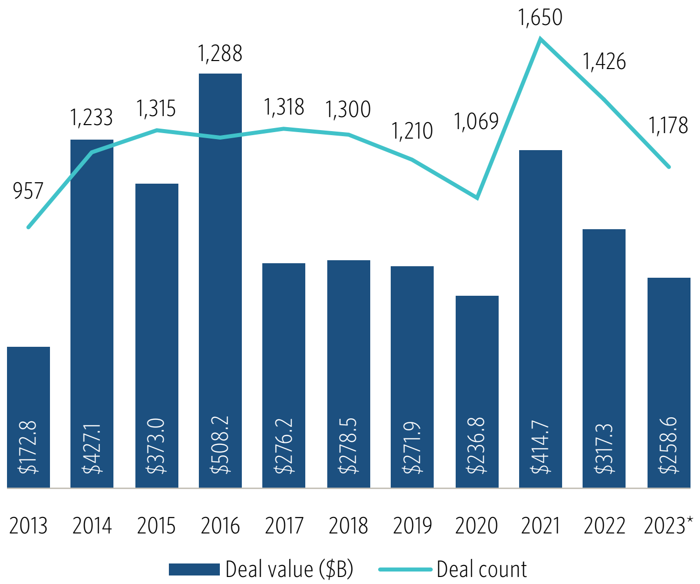
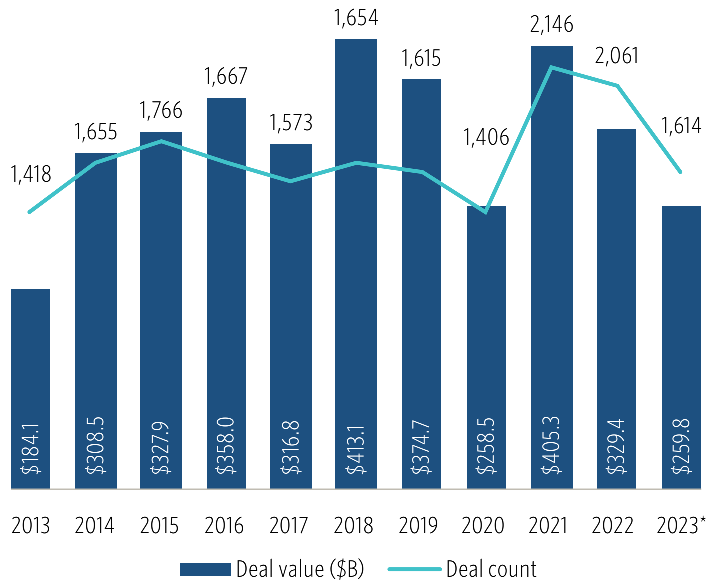
North American M&A deal activity with non-North American acquirer



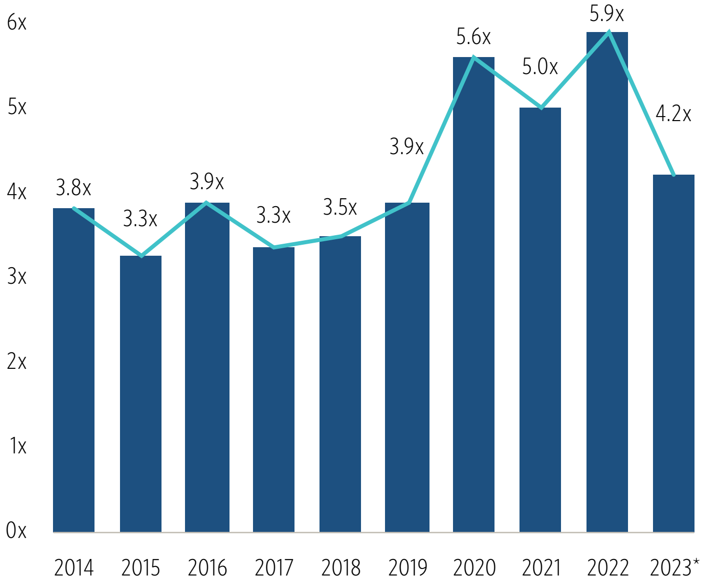
Source: PitchBook • Geography: North America • *As of December 31, 2023

European M&A deal activity with non-European acquirer



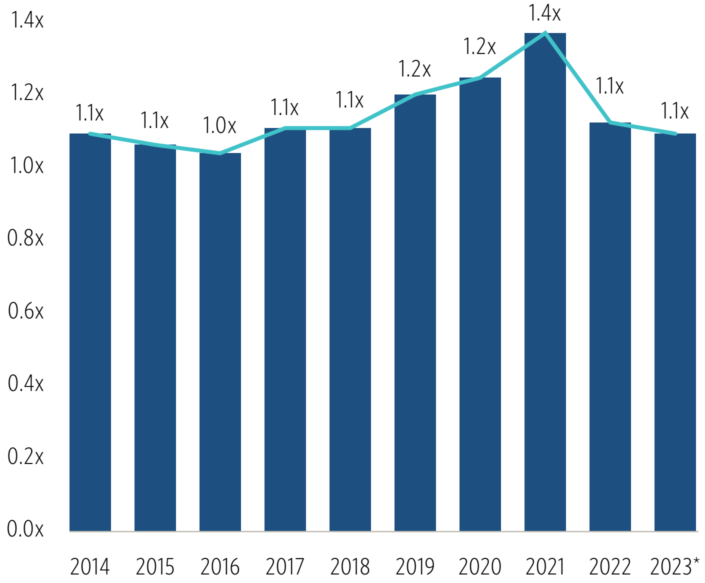
Source: PitchBook • Geography: Europe • *As of December 31, 2023

M&A megadeal enterprise value (EV)/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023
Note: Megadeals are deals that are $5 billion or larger.

M&A EV/revenue multiples on deals below $100M



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

2023 was the seventh straight year that cross-border M&A deal flow between North America and Europe favored the latter. It was not as pronounced as 2022 when the net inflow to Europe reached $103.3 billion, which is the largest so far. Still, at $24.3 billion net and $211.6 billion gross, it was a sizable component of European M&A that totaled $856 billion for the year. Typically, the net M&A flows between these two major M&A markets reverse course every three years. The current cycle has been more extended, most likely due to a strong dollar, which bottomed at 1.23 EUR:USD in early 2018, and consistently cheaper valuations on European targets during that span. Using the broader EV/revenue multiples yardstick, the median multiple M&A completed or announced in Europe was 1.5x in 2023, a 19.7% discount to the median North American multiple of 1.9x. That is slightly greater than the 14.8% average discount that has persisted since 2017.

Valuations

North America and Europe transaction multiples are showing signs of stabilization heading into 2024. The median EV/EBITDA multiple for M&A transactions announced or closed in 2023 was 9.3x, a modest improvement from the 8.9x recorded in 2022. While this is 15.5% removed from the all-time peak of 11.0x in 2021 and below the 10.0x average multiple that prevailed during the three years heading into the COVID-19 "bump," we are encouraged by the firming trend. The recovery was a bit more pronounced in Europe, which improved from a median EV/revenue multiple of 1.4x in 2022 to 1.5x in 2023. While stable, the median multiple on North America M&A in 2023 was unchanged at 1.9x.

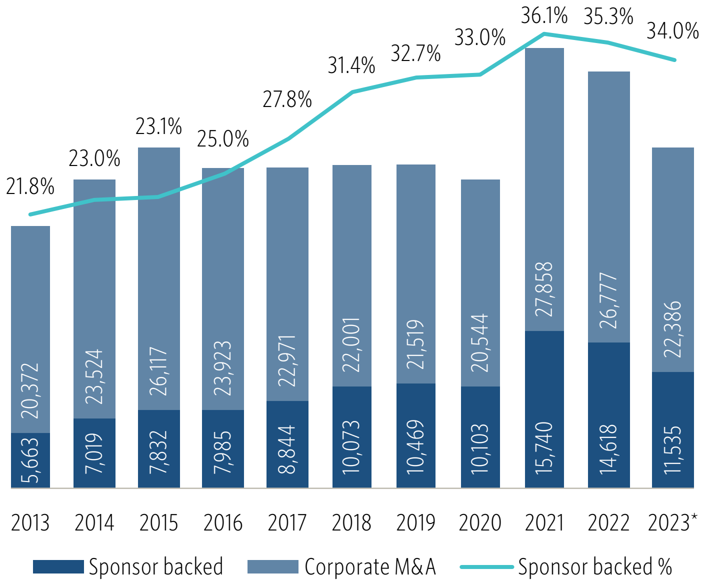
EV/revenue multiples reflect similar trends. The median EV/revenue multiple was in freefall in 2022, making a lockstep change from 2.1x to 1.6x as deal math re-calibrated to reflect a "higher for longer" interest rate environment. More recently, revenue multiples have stopped going down and have firmed, similar to EBITDA multiples. Here again, European multiples are a touch cheaper at a median of 9.3x in 2023 versus 9.7x in North America. Both regions saw an improving trend of approximately 3% to 5% during the year.

At the same time that deal multiples have slightly improved, trading multiples on public companies have sprinted ahead. The EV/revenue multiple on the S&P 500 index now stands at 4.3x based on a weighted average and 3.7x unweighted.

History shows that before long, a bull-whip effect kicks in to propel M&A multiples higher. Additionally, a wide gap between public and private markets can help pry open a tight IPO window. That would be good for exits and carry over to M&A. Public markets sentiment often leads M&A, as it sets the tone for would-be sellers, and that is what's missing from the M&A market: willing sellers and price certainty.

Deal metrics

M&A count by acquirer type



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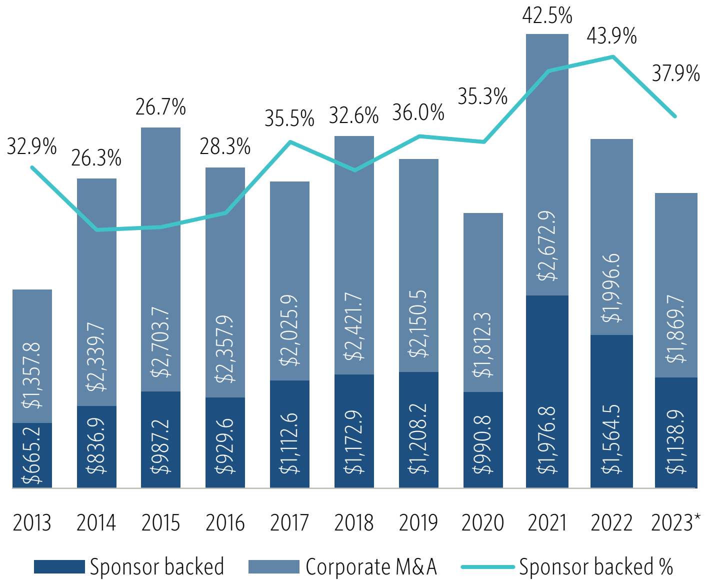
M&A value ($B) by acquirer type



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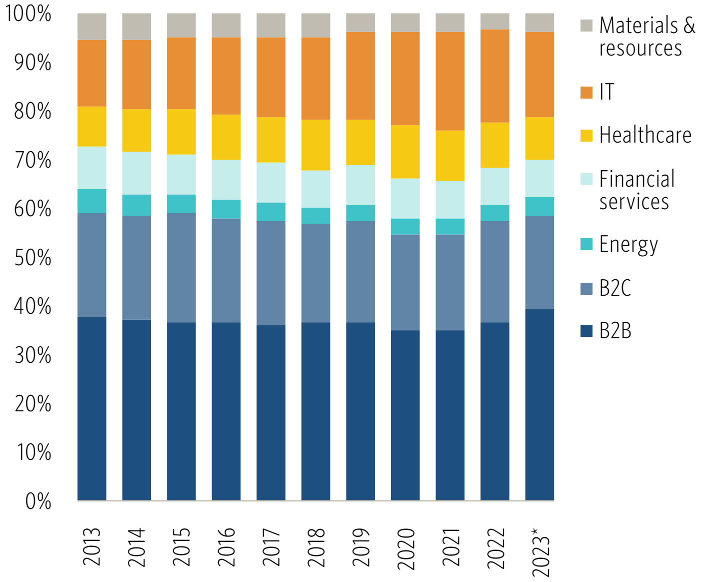
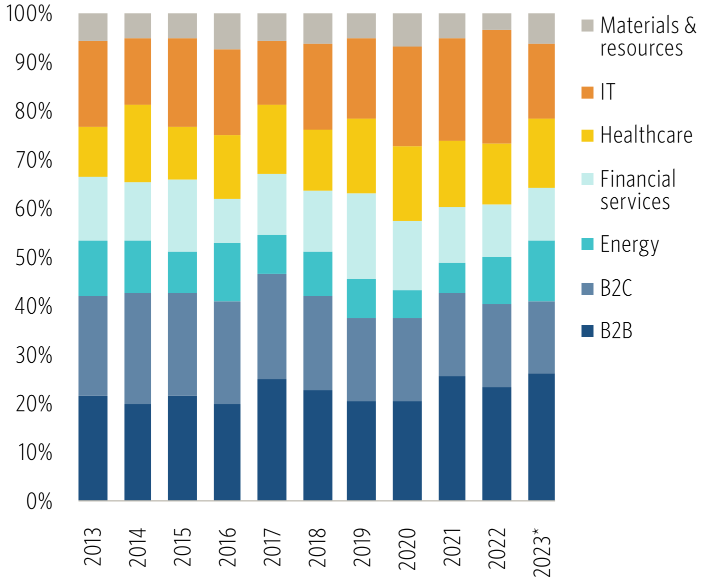
Share of M&A count by sector



Source: PitchBook • Geography: Global • *As of December 31, 2023

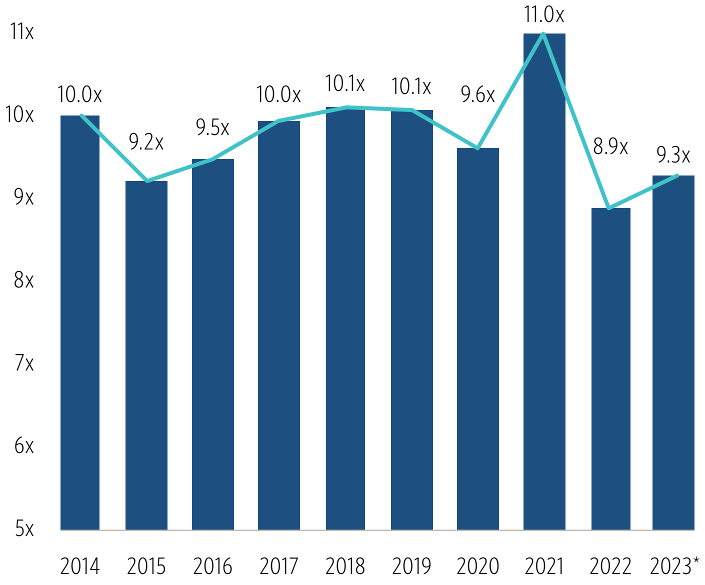
Share of M&A value by sector



Source: PitchBook • Geography: Global • *As of December 31, 2023

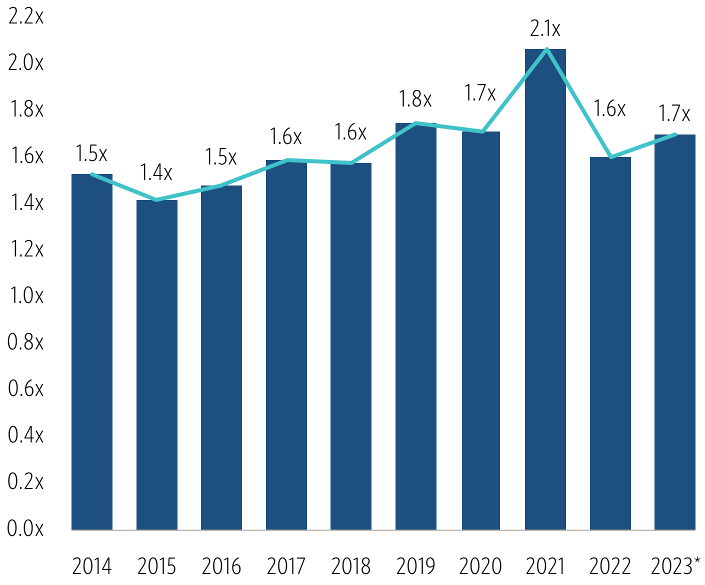
Valuation metrics

Median M&A EV/EBITDA multiples



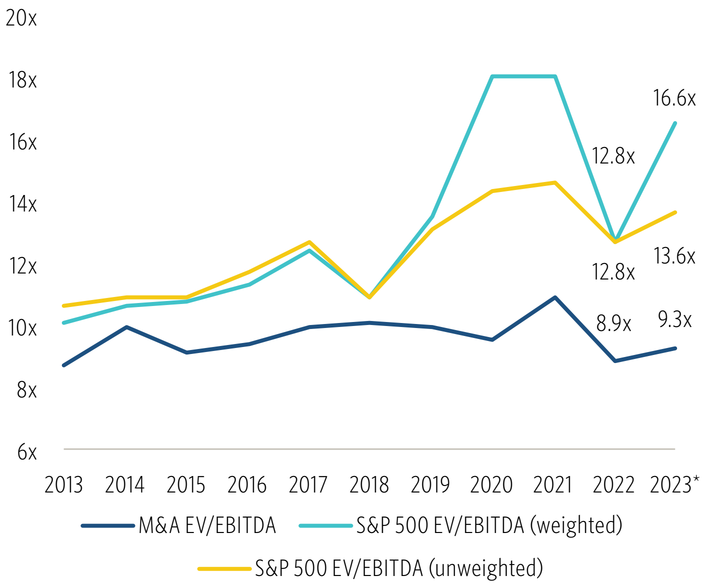
Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Median M&A EV/revenue multiples



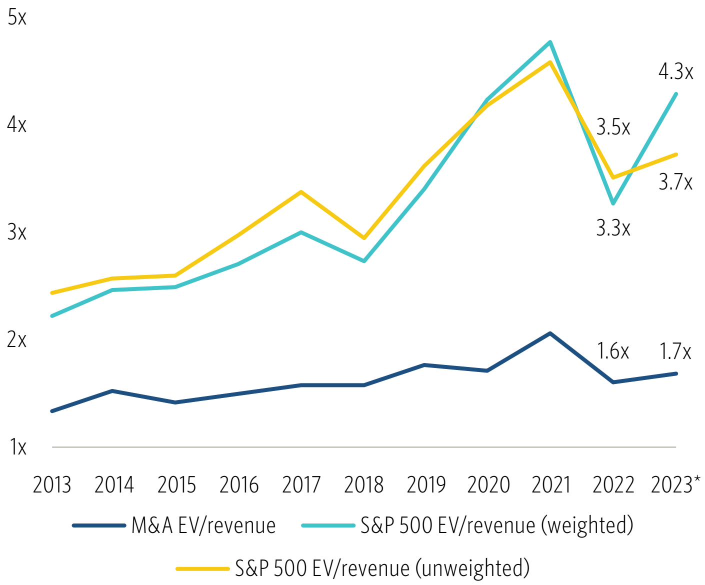
Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Public company trading multiples versus M&A multiples (EV/EBITDA)



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Public company trading multiples versus M&A multiples (EV/revenue)



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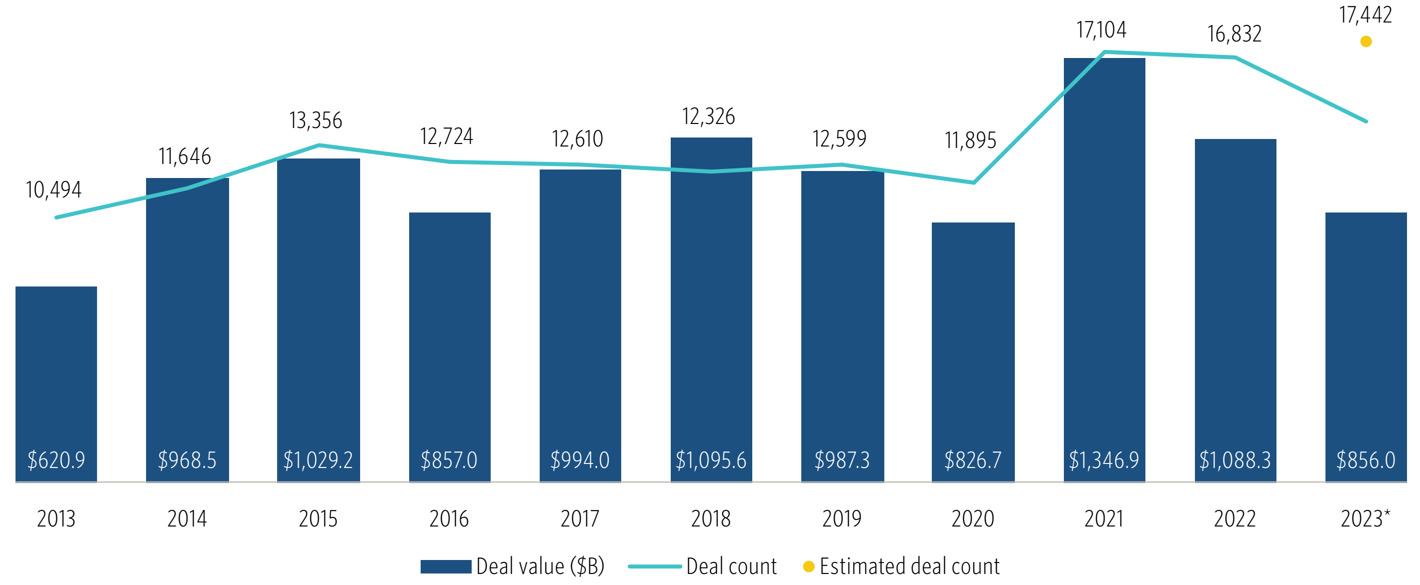
European M&A

M&A activity



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Nicolas Moura, CFA
Analyst, EMEA Private Capital

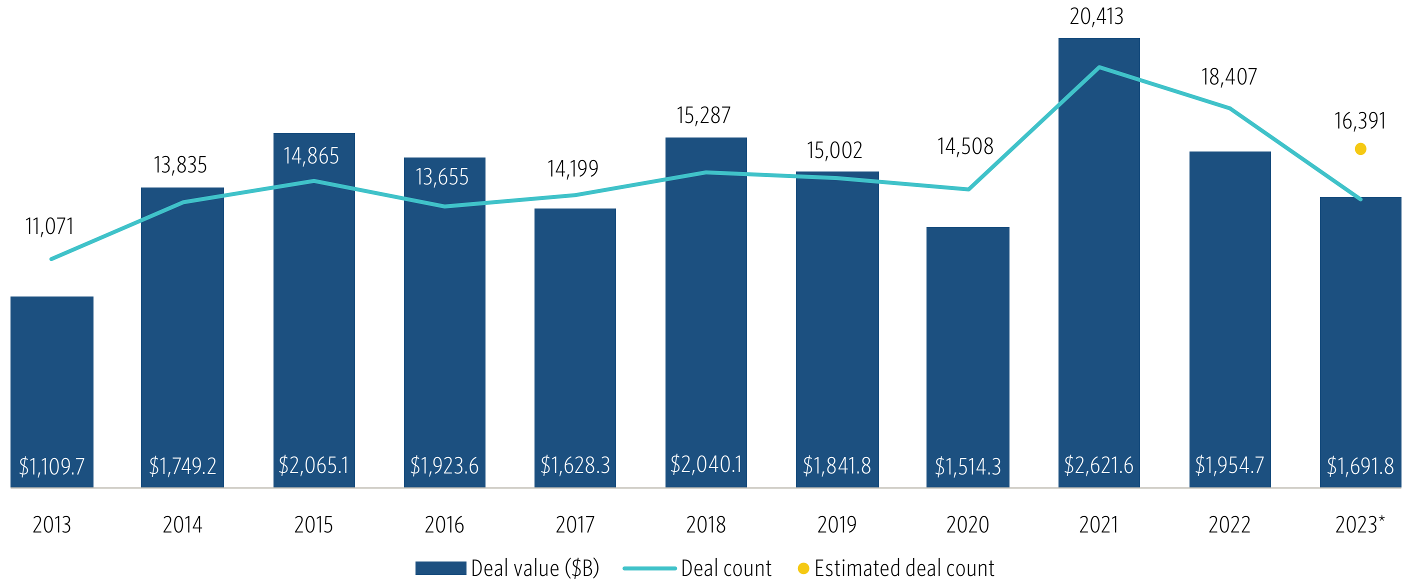
European M&A continued to slow down for a second consecutive year with deal value 21.3% lower than in 2022 and 36.4% lower from record 2021 levels. The lower appetite for dealmaking is a direct result of tightening monetary policy that saw the deposit facility rate from the European Central Bank essentially double over the course of 2023. Higher rates have impacted the information technology (IT) sector the most, resulting in corrected valuations over the past two years as the higher discount factor leads to lower valuations all else being equal. European IT M&A was down 33.0% YoY and went from representing 18.6% of M&A deal value in 2022 to 15.9% in 2023. We saw sponsors hold on to their assets for longer due to a price dislocation in the market, which shifted from a seller's to a buyer's market. M&A deals also got smaller in 2023 as appetite for megadeals dried up, with the average European M&A deal dropping from $64.7 million in 2022 to $53.5 million in 2023. This was a consequence of the higher borrowing costs resulting in less debt being used in M&A deals.

It was not all doom and gloom for M&A, however, considering 2023 deal count levels were still 20% to 30% higher than pre-2021 levels. Essentially, we saw resilience in deals, but more so in the lower size brackets as indicated by deal value dropping proportionally more than deal count. In Europe, we saw an increase in M&A deal value from financial services, which increased 20.2% YoY. Indeed, we witnessed a consolidation in the financial sector in Europe as higher rates exposed certain banks, such as Credit Suisse and Metro Bank, while putting pressure on asset managers trying to grow their AUMs and thus leading to M&A, including Degroof Petercam and Crux Asset Management.

Looking into 2024, we expect M&A dealmaking appetite to revert back to growth as the latest monetary tightening cycle comes to an end with markets expecting rates cuts in 2024. This will fuel M&A and boost economies across the continent. Another factor in play is the drought in public listings in 2023, with sponsors exiting instead through M&A to either corporates or private equity buyout funds. We do not expect a significant recovery in public listings in Europe in 2024 despite the higher prospects for growth. Hence, M&A will continue as the main means to monetize that growth. Risks to M&A growing in 2024, however, include persistent inflation, fears of recessions, and ongoing geopolitical risks.

North American M&A

M&A activity



Source: PitchBook • Geography: North America • *As of December 31, 2023

Garrett Hinds
Senior Analyst, Private Equity

In the fourth quarter of 2023, North America's M&A landscape presented a mixed picture amid persistent macroeconomic challenges. The region, however, witnessed a notable uptick in value, primarily by the energy sector. The total M&A value for Q4 totaled $497.1 billion, marking a robust increase of 17.8% YoY and an even more substantial 35.9% QoQ. When we shift our focus, though, to the volume of deals, a contrasting trend emerges. The quarter recorded 4,043 deals, reflecting a decrease of 6.6% YoY and a slight dip of 0.9% QoQ. With the prospects for lower rates in 2024, assuming a recession is avoided, we are optimistic about the prospects for better deal activity in the coming quarters.

The top 10 North American deals in Q4 totaled $215.7 billion, a surge of 160.5% QoQ as the two mega energy deals bolstered figures. Early in October, Pioneer Natural Resources—an independent oil & gas exploration and production company focusing on the Permian Basin in Texas—agreed to an acquisition by Exxon Mobil for EV of $64.5 billion. The deal bolsters Exxon Mobil's upstream portfolio by doubling its footprint in the Permian Basin. Shortly after that deal was announced, Hess, an independent oil & gas producer with key assets in the Bakken Shale, Guyana, the Gulf of Mexico, and Southeast Asia, agreed to be acquired by Chevron for EV of $60.0 billion. Chevron expects the deal to increase its estimated five-year production and free cash flow growth rates, extending this growth into the next decade.

The materials sector also saw blockbuster activity. In mid-December, US Steel reached an agreement to be acquired by Nippon Steel Corporation (NSC) for $14.9 billion. Please find additional color in the Antitrust and Materials & resources sections.

For the full year of 2023, the M&A scene was somewhat subdued. The total deal value reached $1,691.8 billion, down 13.4% YoY, indicative of a challenging year overall. In terms of the number of transactions, there were 16,391 deals, marking a significant decline of 11.0% YoY. This downturn, observed for the second consecutive year, can be attributed to a confluence of factors: the tightening of monetary policies leading to higher interest rates, a widening gap in valuation expectations between buyers and sellers, and heightened geopolitical tensions—all of which have collectively impeded the pace of dealmaking. Still, these headwinds appear to be moderating somewhat as inflation is fading and interest rates are now expected to fall in 2024. Geopolitical tensions remain a wildcard, and the risk of a recession lingers, but the worse could be behind us.

PitchBook

Antitrust update

Jinny Choi
Senior Analyst, Private Equity

Government agencies across the globe have been strengthening their respective competition policies.[1] Competition laws have developed rapidly, with more than 125 jurisdictions with competition-law regimes now compared with just 12 in the 1970s. In the past few years, antitrust sentiments have gained steam and resulted in new guidelines that aim to better promote competition in current market dynamics.

In the US, the Federal Trade Commission and Department of Justice's (DOJ) Antitrust Division released a draft of merger guidelines this past July with 13 points for the agencies to use when evaluating mergers. Perhaps most notably, the new guidelines lower thresholds at which mergers would be deemed presumptively anticompetitive. The guidelines also cast attention on PE deals, specifying that agencies will examine roll-up acquisitions, which have largely flown under the antitrust radar. Regulators intend to examine deals as part of its series of acquisitions in aggregate.

In Europe, the EU and individual countries are introducing new reforms for more merger control. Antitrust agencies in the region expanded the jurisdictional reach of antitrust laws, and the European Commission (EC) issued guidance for member state agencies to report potentially anticompetitive transactions that could escape national review. Most recently, the EU Foreign Subsidies Regulation created additional regulatory red tape for M&A activity, allowing the EC to investigate deals involving companies that are receiving subsidies from foreign governments for any distortions of competition by foreign actors.

Deals to watch

Alaska Air and Hawaiian Airlines/JetBlue and Spirit Airlines: In January 2024, the proposed $3.8 billion merger between JetBlue and Spirit Airlines was blocked by a federal judge. The deal had been sued by the DOJ in March 2023 because of concerns that the deal would harm competition and increase prices for consumers. This is the DOJ's latest win in the US government agencies' aggressive stance against M&A deals they consider anti-competitive.

The ruling puts additional pressure on Alaska Air's $1.9 billion acquisition of Hawaiian Airlines, which was announced in December 2023 and is now more likely to face antitrust opposition. The ruling is another blow to the airline industry after JetBlue and American Airlines' regional partnership was ordered to end May 2023 after the DOJ sued to undo the alliance on an anti-competitive basis. Alaska Air stated that it will keep the airlines separate and that the two airlines' routes have limited overlap.

The US antitrust authorities could be aggressively scrutinizing these deals in an attempt to avoid the consolidation of the airline industry created by previous mergers. Currently, around 80% of the US domestic air traffic is dominated by just four airlines thanks to a string of mergers a decade ago.[2] Disagreeing with the ruling, JetBlue stated its proposed merger actually increases competition by creating a company large enough to challenge that market share.[3]

Still, a wave of consolidation is sweeping through the airline industry. Outside of the US, Korean Air is awaiting EC approval to acquire Asiana Airlines, and Lufthansa is expected to face antitrust investigation for its stake purchase in ITA Airways.

Terminated deal

Adobe and Figma: Adobe and Figma announced the termination of their merger agreement in December, citing that they no longer see a path toward regulatory approval. The proposed $20 billion deal was first announced in September 2022 but has faced opposition from antitrust regulators in the EU and UK. Given Adobe's dominance in the design software space, regulators were concerned about the impact on competition and future innovation. Adobe had rejected concessions suggested by the UK's Competition and Markets Authority earlier in the same month, and the two companies will now be moving forward independently.

1: For additional analysis, please refer to PitchBook's Q3 2023 analyst note, Increased Antitrust Scrutiny and Complexity for M&A.
2: "Alaska Airlines is Buying Hawaiian Airlines. Will the Biden Administration Let the Merger Fly?" Spectrum News, Associated Press, December 4, 2023.
3: "Judge Blocks JetBlue-Spirit Merger After DOJ's Antitrust Challenge," CNBC, Leslie Josephs, January 16, 2024.

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Sector metrics

Tim Clarke
Lead Analyst, Private Equity

Jinny Choi
Senior Analyst, Private Equity

Introducing our sector scoring system for deal and valuation momentum

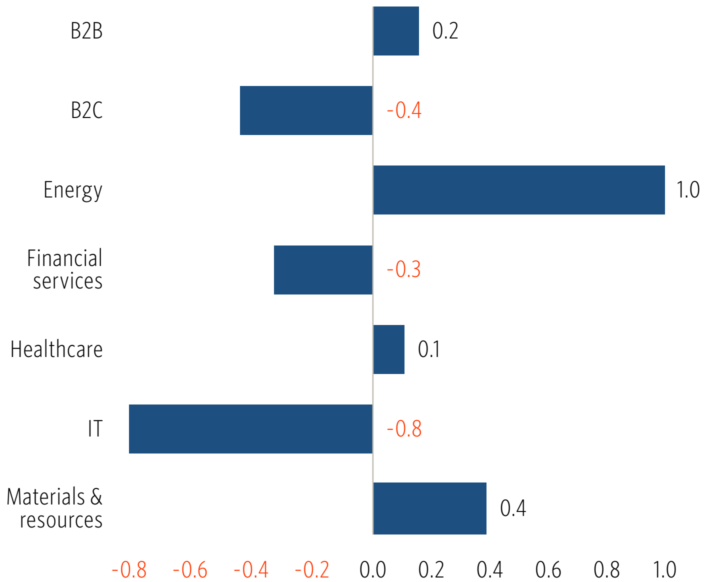
We are introducing cross-sector momentum scores to provide insight into how changes in M&A deal activity and median valuations compare across sectors. The scores range from -2.0 to 2.0 and establish a relative evaluation for each sector. The basis of these scores are the percentage changes over the prior quarter and trailing 12-months (TTM), which are equally weighted. The deal momentum scores encompass both deal count and volume, which are also equally weighted. Prior to calculating deal volume growth rates, the data is winsorized–meaning it is clipped—at the 98th percentile to mitigate the impact of outliers. To establish the final sector momentum scores, we employ Z-score calculations using the mean and standard deviation of the cross-sector growth rates.

Sector overview

Our deal momentum scores represent the relative strength of each sector compared to overall M&A. Deal momentum represents the average Z-scores of the QoQ and TTM YoY rates of change in deal flow (number of deals and value). Energy was the strongest sector, scoring 0.96. The energy sector's outperformance was mostly driven by the slew of deal activity in both traditional oil & gas companies and in the clean energy space. Because our deal momentum scores adjust for outlier deal sizes, such as the two blockbuster deals in Q4 that combined for $124.5 billion, the energy sector's outperformance is even more impressive and indicative of its relative strength in holding up deal activity against other sectors. IT fared the worst out of the group with a deal momentum score of -0.81. Almost half of the sectors had negative deal momentum scores, reflecting the challenged deal market seen in 2023.

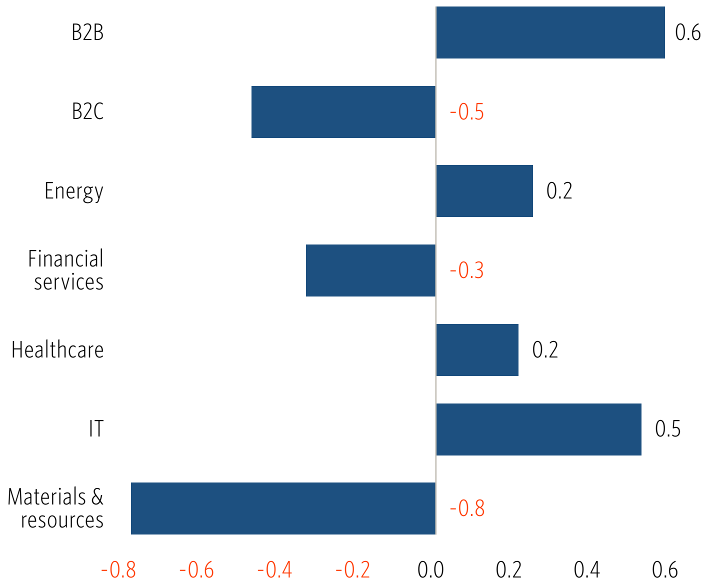
Valuation momentum represents the change in median deal multiples (EV to EBITDA and EV to revenue). B2B and IT fared the best, seeing multiple expansions with scores at 0.58 and 0.52, respectively. Conversely, the materials & resources saw multiples contract, with a score of -0.76. More than half of the sectors saw positive expansion in deal multiples as valuations continue to recover, albeit slowly. Taken together, the deal and valuation momentum scores tell a consistent story of acquirers ramping their deal activity in sectors where multiples are coming down, such as materials, and braking their activity where valuations are moving up, such as IT. This relationship will likely change as the M&A market gains strength, but currently, the trends show a value-oriented buyer rather than a growth-at-all-cost strategy.

Deal momentum score



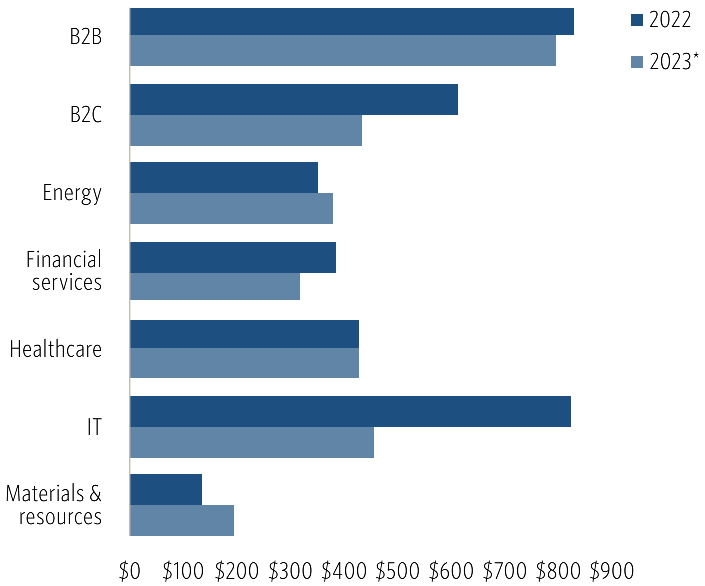
Source: PitchBook • Geography: Global
*As of December 31, 2023

Valuation momentum score



Source: PitchBook • Geography: Europe and North America
*As of December 31, 2023

Sector stack by deal value ($B)



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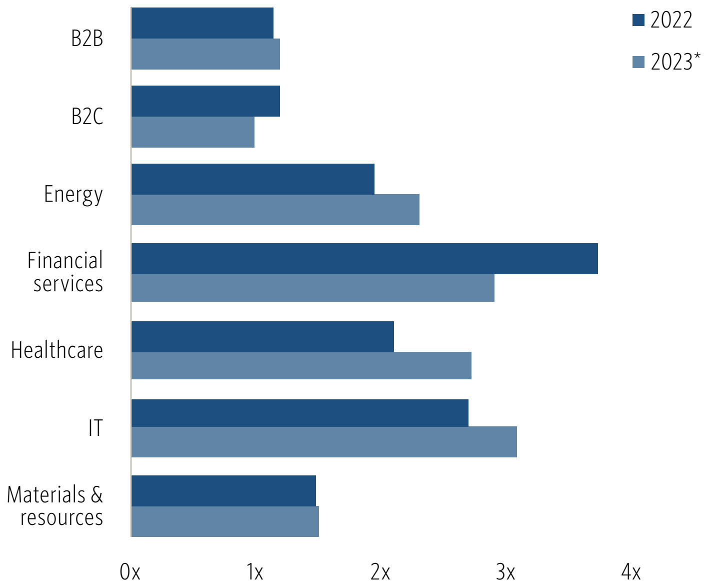
Sector stack by deal multiples (EV/revenue)



Source: PitchBook • Geography: Europe and North America
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A WORD FROM LIBERTY GTS

Bright spots on the horizon for M&A in 2024

Rowan Bamford

President, Liberty GTS

Rowan is President of the Liberty Global Transactions Solutions (GTS) M&A insurance team, a position he has held since 2015. This global M&A insurance unit of Liberty Mutual offers transactional risk insurance products, such as representations and warranties insurance, tax liability insurance, and contingent legal risk insurance. Under Rowan's leadership, the book of business has increased an average of 67% year-on-year in gross written premium, and he now oversees a team of more than 90 specialists spread across 14 countries.

Prior to joining GTS (where he originally worked for Liberty's subsidiary Ironshore), Rowan managed AIG's EMEA M&A book. He also spent three years as a senior underwriter at Ironshore. Before joining the insurance market, Rowan spent eight years in the corporate department at the international law firm Dentons. Rowan specialized in private M&A work in the financial services sector and spent time on secondment to an investment bank and a Lloyd's syndicate.

2023 was clearly a challenging year for anyone whose living is based on the volume of M&A transactions. High interest rates in most global economies have reduced the viability of many PE plays, and this has impacted the number of deals and transactions everywhere.

While this environment was the status quo from long before the beginning of 2023, what was not understood was how long these conditions would linger. The recovery in M&A that all sides had thought we might see by Q4 2023 failed to transpire, and M&A transaction volumes remain flat. Further, these market conditions look set to continue for at least the first half of this year, a situation that is particularly unattractive to the ears of well-staffed M&A insurance teams, buoyed up by years of high deal volumes and growth in this particular insurance sector.

The news is still worse for the many small managing general agents who have launched into the M&A sector. Those without deep pockets and diversified lines of business will be suffering lean times, and we may, quite possibly, see some contraction in capacity as a result. Make no mistake, these are tough times for many M&A insurance specialists.

However, the situation does have some upside for those who can offer specialist products other than reps & warranties/warranty & indemnity insurance to company owners who wish to release capital or return cash to shareholders. When disposals or organic growth through acquisition are not viable ways to do this, companies and their advisors turn to more creative (and legitimate) solutions to clean up and improve their balance sheet performance.

The year of the creative

As a result, the story of 2023 has been the growth of the niche product. Contingent legal risks insurance as well as tax insurance have both grown much more rapidly than expected. Brokers have focused on new ways to support boards and investors. These have included neutralizing or replacing tax liabilities through specific insurance solutions. They have also included buying insurances that collateralize court judgments and crystallize them within a protective insurance cover that indemnifies the business and allows them to free up cash or borrow more to grow prior to final adjudication and settlement of the judgment.

Ultimately, many businesses are looking toward the growth phase of the economic cycle and are hungry to invest in order to generate cash and deliver back to their shareholders. Insurance that allows them to do this is attractive if they find themselves trapped without access to any kind of restructuring deal.

So, the picture of the year has been mixed. Certain parts of our niche market have boomed, with growth in products that are uncorrelated to the market cycle. However, for "vanilla" reps & warranties products, this has been a contracting year, and we have seen reduced premium across the market.

I like to call 2023 the "creative" year. The malaise in M&A has led to inventive investment bankers thinking outside the box. They have had to use new tools to deliver value, and they have increasingly done so. In the long term, this is good news. Once investment banking and specialist broking teams use these products, they will retain them in their toolkits. Even when M&A volumes return, we are unlikely to see contraction in these new products, simply because the more they are used, the more users realize how useful they are.

With this in mind, at Liberty GTS we are confident that these products are here to stay, and we are looking to invest and expand the team globally. We have just hired our first dedicated team member in Asia on the contingent side and have hired a second tax underwriter in Singapore, giving us the largest underwriting team in Asia. Although it has been a mixed year, there are still pockets of creativity and optimism while we wait for the green shoots of recovery in global M&A volumes.

New specialist insurances will support business restructuring after insolvency

One positive that will benefit insurers who have the right underwriting teams and products is continued high demand by management teams for specialist contingent and tax insurance products, particularly within insolvency situations. We have seen a rise in insolvencies following the COVID-19 pandemic, and subsequently as the cost of borrowing has risen. Insolvency practitioners and restructuring experts are increasingly making use of insurances to protect themselves and enable earlier distribution of insolvent company funds.

Meanwhile, there are also specialist policies being sold to provide warranty protections for situations where management wants to relaunch parts of a failed business. Buying an insurance policy can free them up to do this without having to worry about the liabilities that may emerge from the prior business structure—the insurance they buy will cover this. Some brokers have recently been making headway with the proposal that the cost of insurance is part of the price dynamic in this situation. As demand for this grows, I think that may fuel some growth in reps & warranties coverage in 2024.

M&A deal prices will be lower

The M&A deals that do get done next year will see deal multiples that are considerably lower than in 2022. Given the extreme change in most business' trading environments, insurers will pay close attention to pricing dynamics and valuation of assets, particularly intangible assets. Not only may valuations of assets change rapidly in a tricky market, there is also a heightened risk of fraud, one that we are already seeing play out in our claims basket for 2023. In the worst cases, there is a risk that the management can be fraudulent; but in the medium case willful blindness can also be a real problem for insurers and buyers alike.

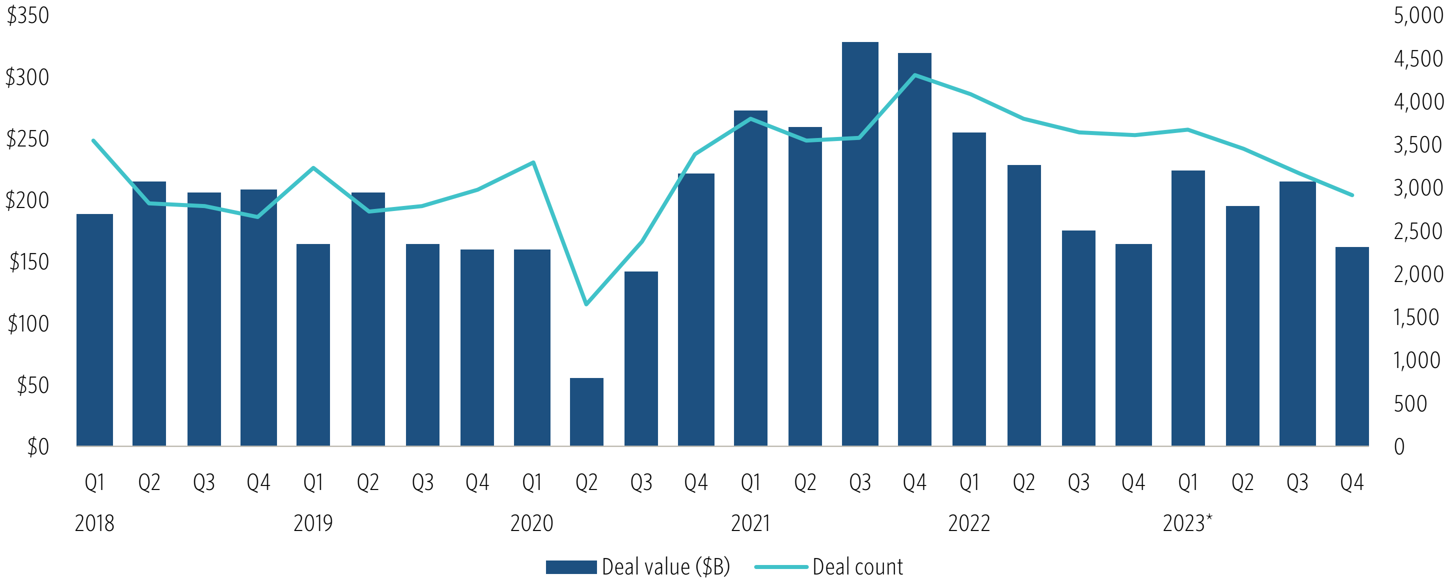
Smart underwriting teams must navigate global trends

The market overall for M&A insurance is likely to be tepid for much of 2024. However, there are some possible bright patches. Asia has been something of a hot spot for M&A recently, and insurers have flocked there to take advantage of it. For me, this will be a market to watch in 2024, and it could go either way. I question whether there is enough activity in the market to nourish all the new entrants. My bet is that there could be a rather rapid contraction of the Asian M&A market, leaving only the really experienced in control.

Overall, 2024 will be a tough year, but creative thinking and smart underwriting management will see a raft of survivors—and perhaps more than a few losers—as the year plays out.

B2B

B2B M&A activity by quarter

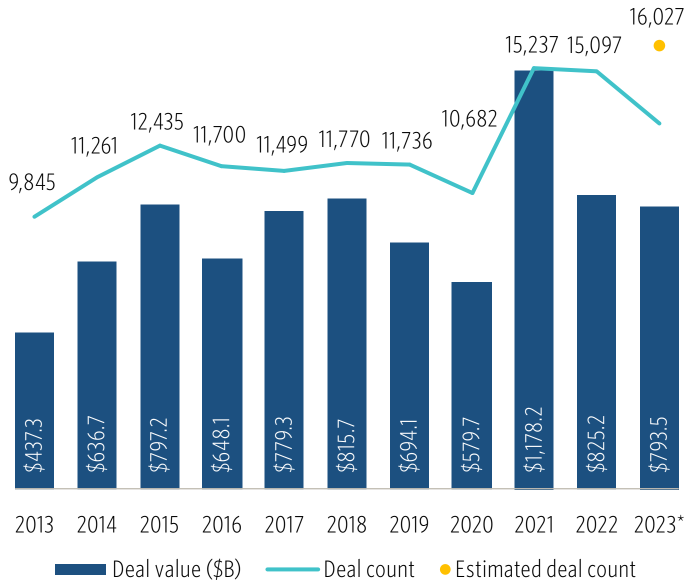


Source: PitchBook • Geography: Global • *As of December 31, 2023

Jinny Choi
Senior Analyst, Private Equity

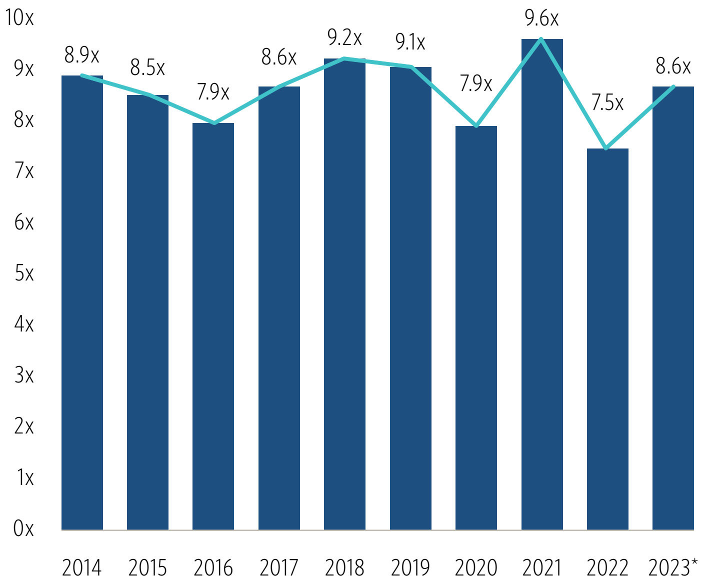
M&A activity remains resilient: The B2B sector increased roughly 2% to 3% as a portion of global M&A in both deal value and count, demonstrating its relative strength against other sectors. For 2023, there were an estimated 16,027 B2B deals closed or announced for an aggregate value of $793.5 billion. B2B M&A activity was one of the most stable YoY, with an increase of 6.2% for deal count and a decrease of 3.8% for deal value from 2022 levels. B2B multiples recovered from last year as buyers continued to look for opportunities while the macroeconomic backdrop stabilized somewhat. M&A opportunities in the sector were varied, ranging from strategic acquisitions to take-privates and corporate divestitures.

B2B M&A activity



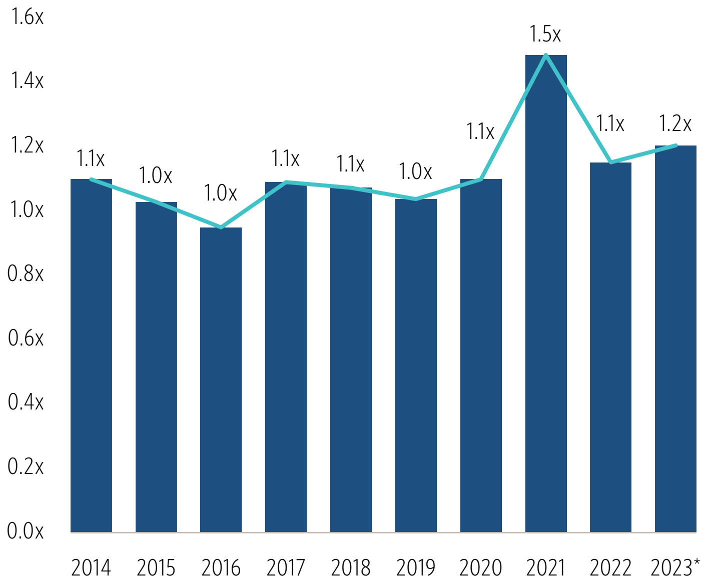
Source: PitchBook • Geography: Global • *As of December 31, 2023

B2B M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

B2B M&A EV/revenue multiples



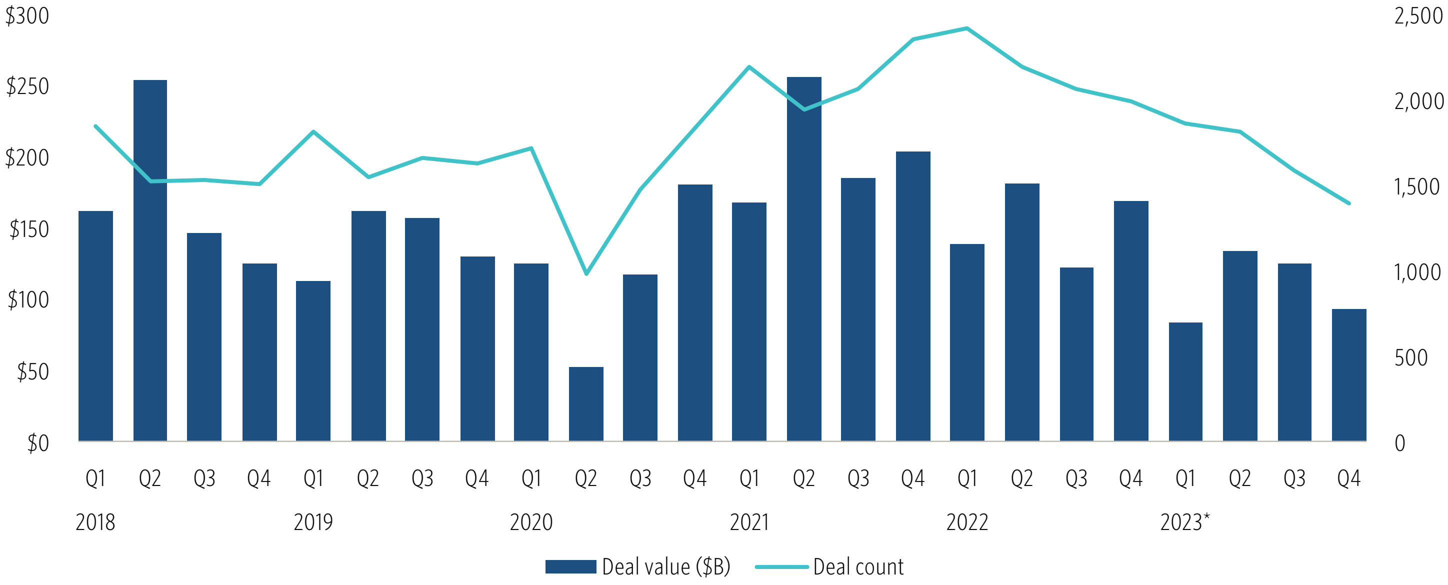
Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

PE firms look to public companies: Of the top 20 B2B deals for 2023, four involved a public company taken private by a PE buyer. The largest was Apollo's $8.1 billion take-private of specialty chemicals distributor Univar Solutions in March, and Apollo also took private aluminum parts supplier Arconic for $5.2 billion with Irenic Capital Management a few months later. PE firms scouted for opportunities across industries. In February, Clayton, Dubilier & Rice and Stone Point Capital acquired Focus Financial Partners, a consultant to wealth management firms, for $7.0 billion. Stone Point Capital expressed that Focus increased financial and operating flexibility as a private company and will be able to take advantage of the growth and consolidation in its industry.

Buyers pick up corporate divestitures: Corporations attempted to shed noncore assets as macroeconomic headwinds led to business restructuring to strengthen efficiency and reduce costs. Corporate strategics readily acquired most of the divested assets compared to PE buyers. The largest carveout deal was Carrier Global's $13.1 billion acquisition of German manufacturer Viessmann Climate Solutions from the Viesmann Group in April. The acquisition transforms Carrier Global's HVAC portfolio to be a leader in climate and energy solutions and allows the firm to capitalize on Europe's energy transition.

B2C

B2C M&A activity by quarter

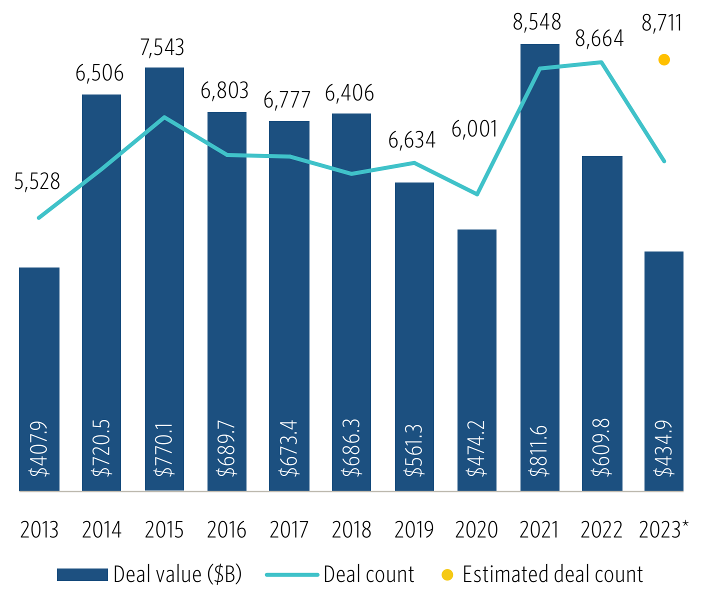


Source: PitchBook • Geography: Global • *As of December 31, 2023

Jinny Choi
Senior Analyst, Private Equity

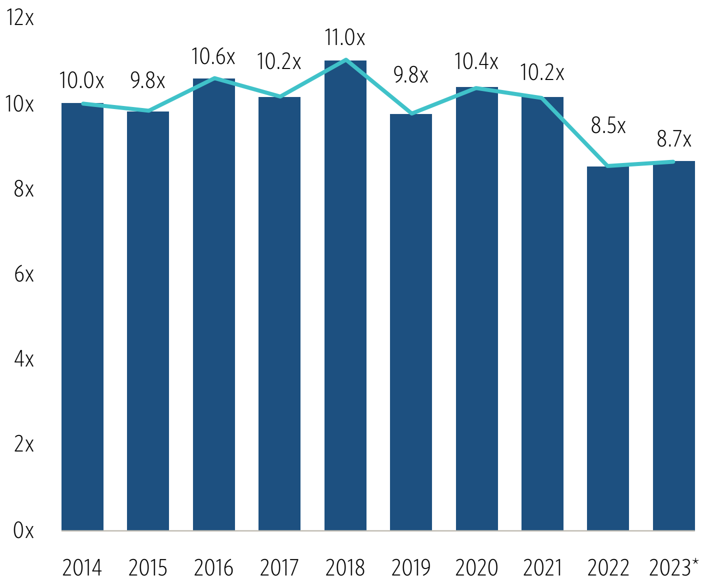
Deal value dips below historical trends: An estimated 8,711 B2C M&A deals closed or were announced for an aggregate value of $434.9 billion in 2023. YoY, deal value declined 28.7%, while deal count rose 0.5%. Similarly, when compared with pre-pandemic averages (2017 to 2019), deal value dropped 32.1%, while deal count has increased by 31.9%. These trends reflect the lower valuations and difficulties securing funds for large acquisitions that have persisted throughout the year. In the same vein, median B2C deal size declined for the second year in a row and hit a new low of $16.4 million. B2C experienced dampened investor confidence as an uncertain macroeconomic outlook and high inflation led to weak and volatile consumer sentiment. As a result, B2C as a share of global M&A value declined by roughly 3% in 2023. Going into 2024, deal activity is expected to start slowly as buyers wait to see how interest rates will move. At the same time,

B2C M&A activity



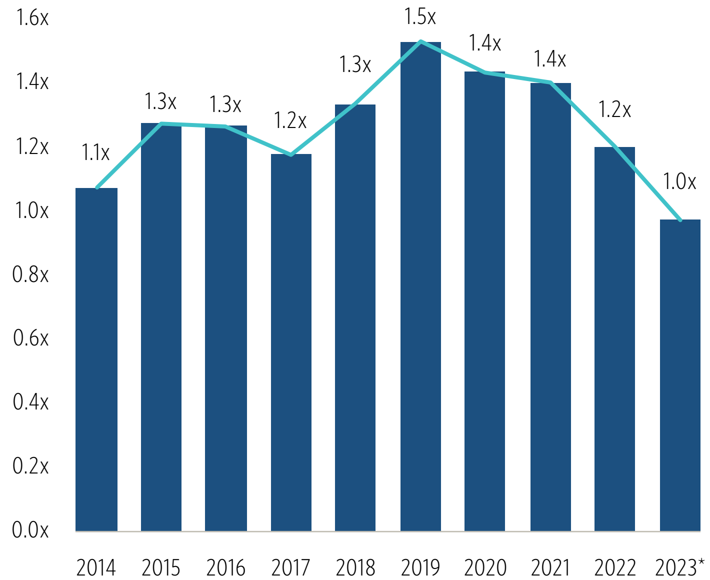
Source: PitchBook • Geography: Global • *As of December 31, 2023

B2C M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

B2C M&A EV/revenue multiples



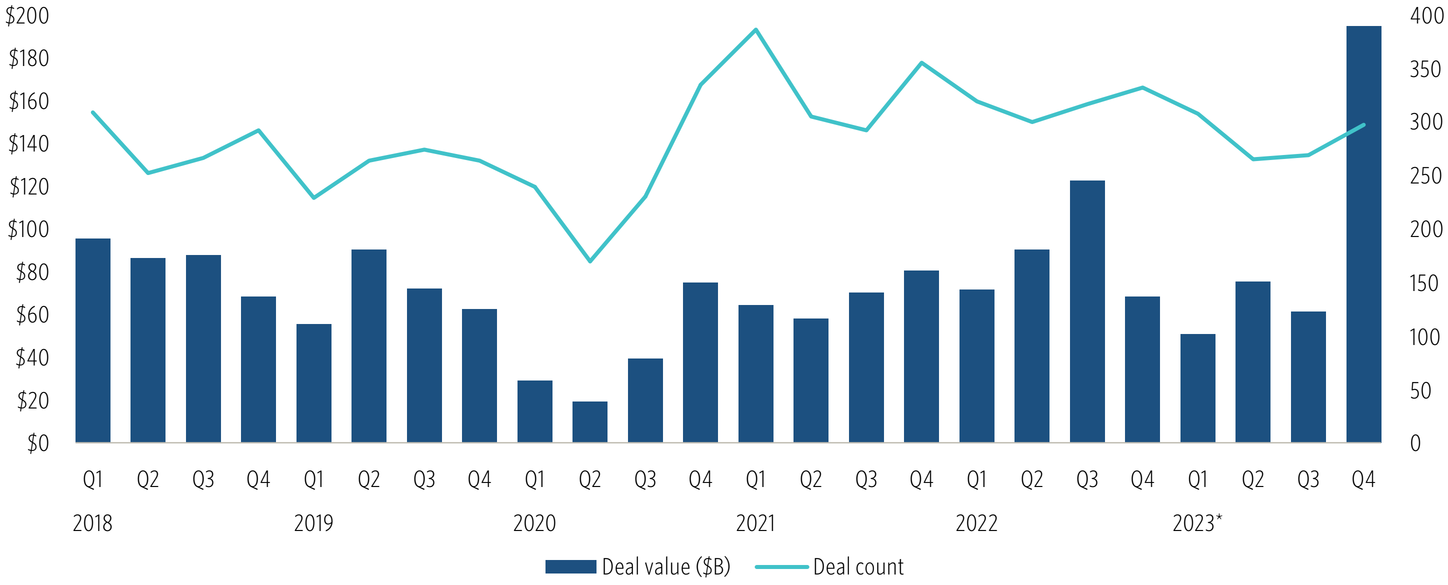
Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

cash-rich PE firms and corporations are expected to pursue deals to accelerate growth and strengthen their positions against other market participants during periods of market uncertainty and shifting consumer trends.

Buyers pursue megadeals in automotive companies for transformational opportunities: Despite headwinds from high interest rates and increased input costs, automotive deals made up a notable portion of the top B2C deals as buyers sought capability-building M&A to position themselves for long-term growth. Bolt's $6.0 billion acquisition of Mazda Motor in April was the largest transportation deal in 2023, and the Estonian transportation platform stated the merged company will develop a new electric bio-car by 2030. The plan aligns Bolt's goals to transition all of its fleets into zero-commission vehicles by the same year and Mazda's long-term plan to be carbon neutral. In December, Suvanto Trucks was acquired by Finnish car dealership business Wetteri Group for $4.5 billion. Suvanto Trucks is a Finnish automotive dealership focused on commercial vehicles and trucks, and its acquisition will propel Wetteri to be the only Finnish operator building a national network in used heavy vehicles. The acquisition was described as positioning Wetteri for larger operations and innovations in a changing automotive industry.

Energy

Energy M&A activity by quarter

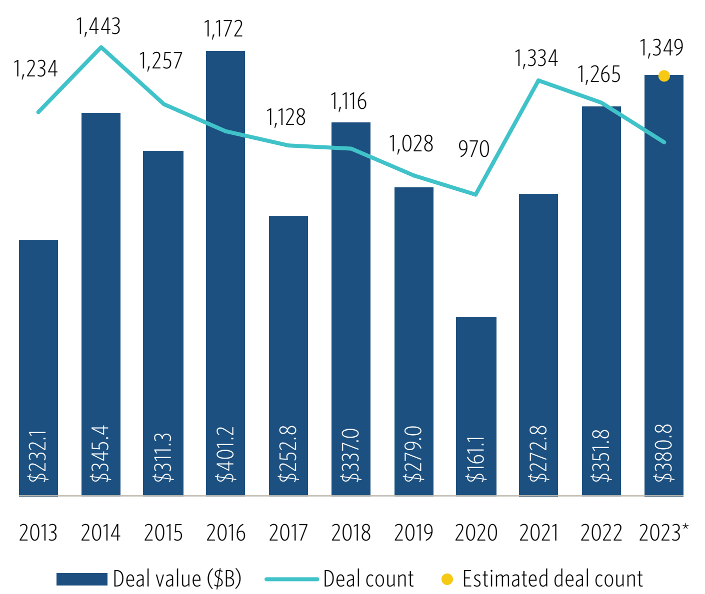


Source: PitchBook • Geography: Global • *As of December 31, 2023

Kyle Walters
Associate Analyst, Private Equity

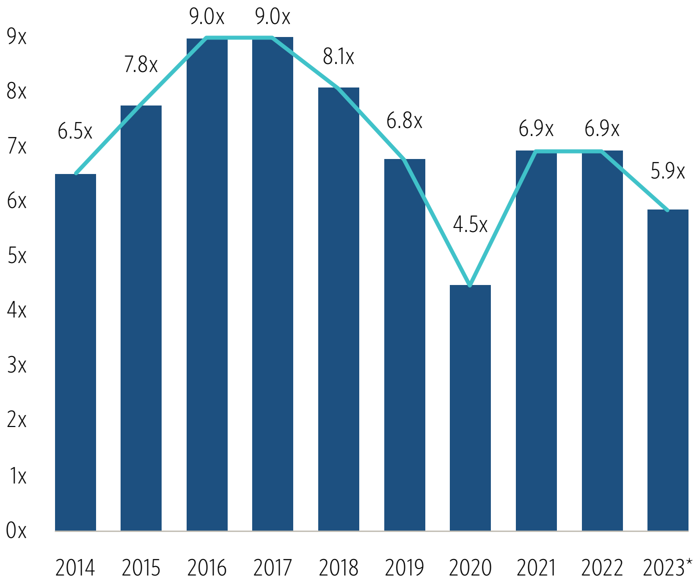
Energy M&A finished 2023 with its strongest year since 2016: Although the sector appeared to be heading toward a relatively stagnant year in the first half, the second half—particularly Q4—propelled it forward. The fourth quarter alone witnessed four out of the sector's five largest deals for the year, and the $194.2 billion in Q4 total deal value is a quarterly record, surpassing the $186.6 billion in aggregate deal value from the first three quarters of the year. Ultimately, the sector finished the year with 1,135 deals totaling $380.8 billion. The median deal size in the energy sector has reached a high of $109.0 million, up 11.8% from $97.5 million in 2022 and up 39.7% from $78.0 million in 2021.

Energy M&A activity



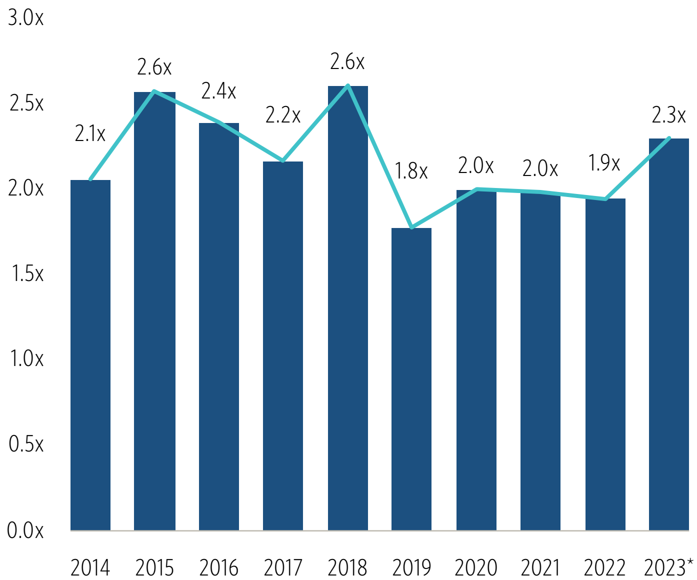
Source: PitchBook • Geography: Global • *As of December 31, 2023

Energy M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Energy M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

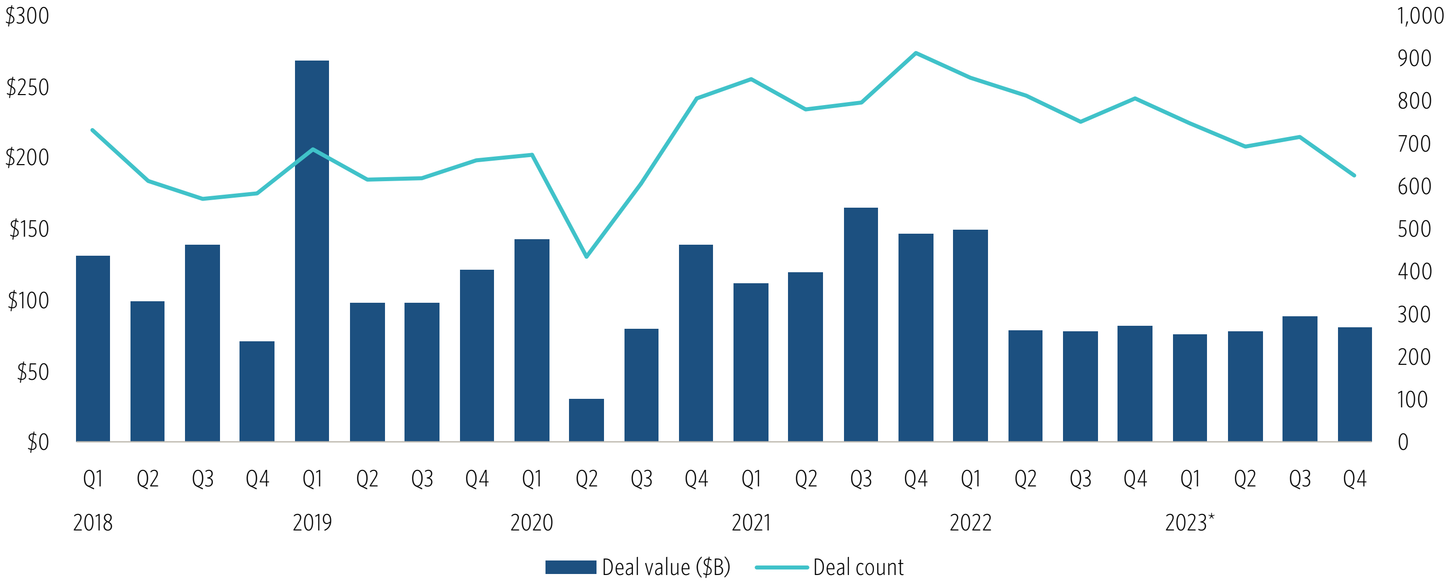
Consolidation in oil & gas boosts the sector: This was driven by the two largest M&A deals of the year, both taking place in Q4 and totaling over $120 billion in deal value. They also represented the largest mergers of US oil & gas producers since Exxon Mobil's $81.0 billion acquisition of Mobil in 1998.[4] In October, Exxon Mobil announced it would acquire Pioneer Natural Resources for $64.5 billion, the second-largest deal in its history. The deal will transform Exxon Mobil's upstream portfolio, more than doubling the company's Permian footprint. Shortly after, Chevron followed suit by agreeing to acquire Hess Corporation for $60.0 billion, its largest acquisition to date. This strategic move enhances and diversifies Chevron's portfolio, with Hess Bakken's assets complementing Chevron's DJ and Permian Basin operations while further bolstering domestic energy security.[5]

Energy transition continues to drive deals: The clean tech industry continues to deliver strong deal flow as investors remain optimistic about the clean energy transition and the growth opportunities it presents. In December, KKR announced it would acquire British energy infrastructure company Smart Metering Systems (SMS) in a $1.6 billion take-private transaction. KKR will look to accelerate SMS' growth and continued transition from a metering company and grid-scale battery storage operator to a fully integrated, end-to-end energy infrastructure company.[6] In November, Norwegian energy company Statkraft agreed to acquire Spanish renewable energy company Enerfin for $1.9 billion. The acquisition reinforces Statkraft's position as a renewable energy player and significantly strengthens its position in Spain and Brazil.

4: "Biggest Oil and Gas Sector Deals Since 2000," Reuters, Seher Dareen, Sourasis Bose and Roshia Sabu, October 11, 2023.
5: "Chevron Announces Agreement to Acquire Hess," Chevron, October 23, 2023.
6: "UK's Smart Metering Systems Set for London Delisting After $1.63 Bln KKR Takeover," Reuters, Aby Jose Koilparambil, December 7, 2023.

Financial services

Financial services M&A activity by quarter

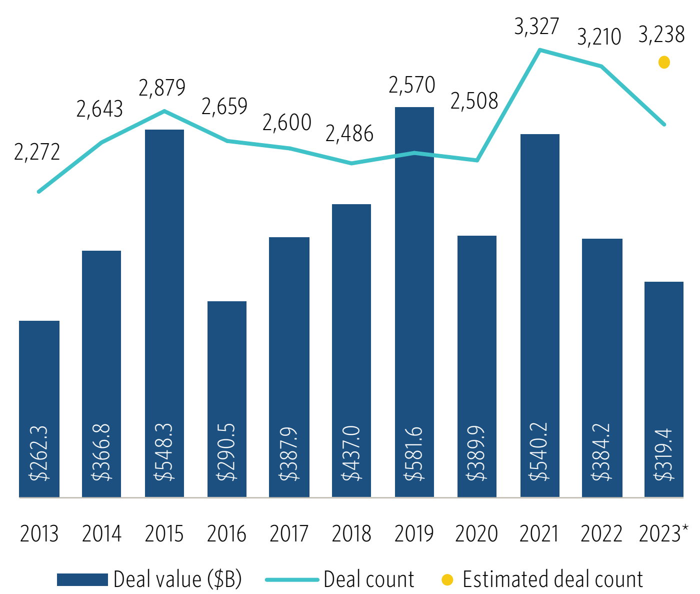


Source: PitchBook • Geography: Global • *As of December 31, 2023

Kyle Walters
Associate Analyst, Private Equity

Financial services deal value declines for the second year in a row: The industry experienced a less active year of M&A due to factors like the challenging macroeconomic outlook and the banking sector's mini-crisis earlier in 2023. Throughout the year, deal value for the financial services sector remained at a lower level, ranging between $75 billion and $85 billion on a quarterly basis. This recent stagnation in deal value is below the pre-pandemic quarterly average of $117.2 billion and represents a 51.4% decrease from the peak in Q3 2021. On an annual basis, there were a total of 2,771 financial services deals announced or completed, with a combined value of $319.4 billion. The median deal size for financial services in 2023 was $47.4 million, which is slightly lower than the pre-pandemic median of $50.0 million.

Financial services M&A activity



Source: PitchBook • Geography: Global • *As of December 31, 2023

PitchBook

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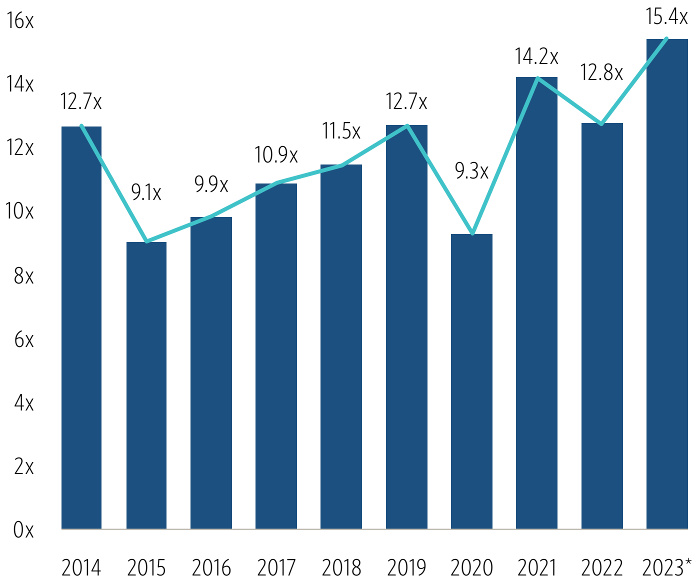
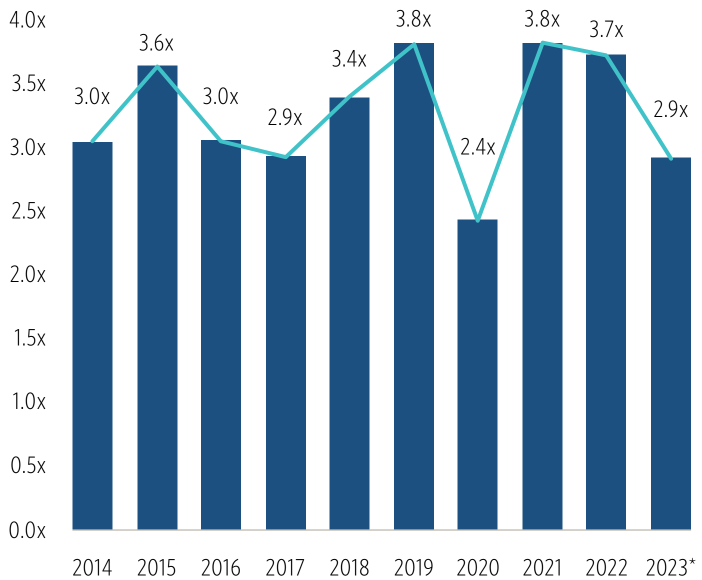
Financial services M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Financial services M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Acquirers take advantage of opportunities in insurance: The insurance sector continues to utilize acquisitions as a catalyst for growth across insurance platforms. In December, Aon reached an agreement to acquire NFP—a middle-market broker specializing in property and casualty, benefits consulting, wealth management, and retirement plan advisory—for $13.4 billion. This strategic move will expand Aon's presence in the rapidly growing middle-market segment, offering comprehensive services in risk management, benefits, wealth management, and retirement plan advisory. Additionally, it presents an opportunity to enhance distribution through its Aon Business Services platform, delivering even greater value to clients.[7] Similarly, Prosperity Life Group has agreed to acquire National Western Life Insurance Company in a $1.9 billion take-private transaction. The inclusion of National Western will complement Prosperity's existing value proposition to policyholders and the overall company.[8]

Real estate investment trusts (REITs) change hands in the fourth quarter: REITs comprised two of the largest financial services deals in the final quarter of 2023. In October, Realty Income Corporation announced it would acquire Spirit Realty Capital for $9.5 billion. Upon completion of the merger, the combined company will have an EV of approximately $63 billion, allowing Realty Income to strengthen its position with increased size, scale, and diversification.[9] In a similar vein, Healthpeak Properties announced it would acquire Physicians Realty Trust for $2.6 billion, resulting in the establishment of a healthcare properties operator valued at $21 billion. This operator will oversee clinics, hospitals, and surgery centers, primarily situated in high-growth markets including Dallas, Houston, Nashville, Phoenix, and Denver. The merger is expected to expand the entity's presence in strategically important markets and unlock further growth opportunities in the healthcare discovery and delivery sectors.[10]

7: "Aon to Acquire NFP as Independent, Connected Platform," NFP, December 20, 2023.
8: "National Western and Prosperity Life Group Announce $1.9 Billion Cash Merger," PR Newswire, National Western Life Group, October 9, 2023.
9: "Realty Income to Acquire Spirit Realty Capital in $9.3 Billion Transaction," Realty Income, October 30, 2023.
10: "Healthpeak Properties and Physicians Realty Trust to Combine in an All-Stock Merger of Equals to Create the Pre-Eminent Owner, Operator and Developer of Real Estate for Healthcare Discovery and Delivery, An Attractive and Growing Market," Healthpeak, October 30, 2023.

Healthcare

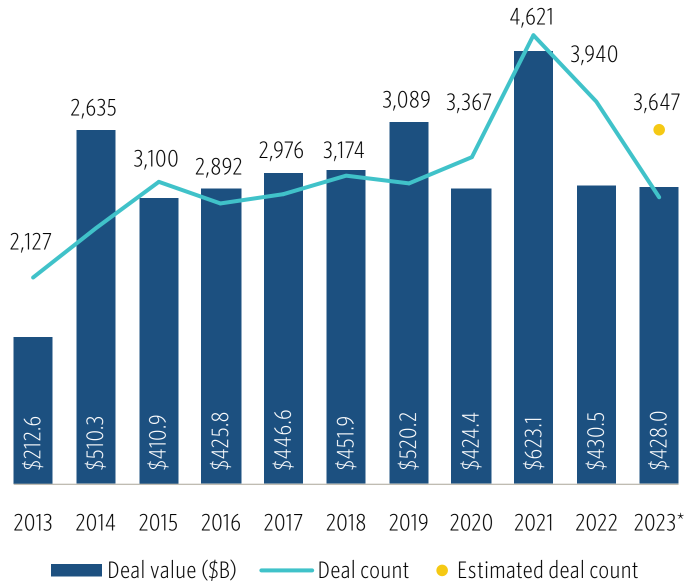
Healthcare M&A activity by quarter

Source: PitchBook • Geography: Global • *As of December 31, 2023

Rebecca Springer, Ph.D.
Lead Analyst, Healthcare

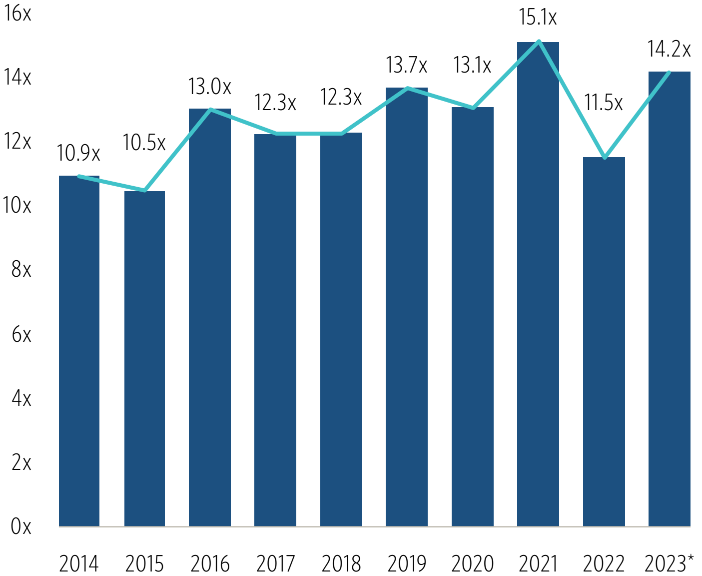
Global healthcare M&A activity came in just shy of 2022's figure: 2,956 deals were announced or closed for a combined $428.0 billion. Healthcare delivery systems globally continued to feel significant pressure from staffing costs and population-level health changes following the COVID-19 pandemic. In 2023, much of the hype around virtual care delivery subsided. By the end of 2023, many healthcare organizations that had unsustainable business models in the post-pandemic-peak period had already rationalized or undergone distressed transactions, and we anticipate that 2024 will be dominated by strategic moves as industry participants seek to position themselves on the right side of sea changes in AI, weight loss, value-based care, and healthcare consumerization.

Healthcare M&A activity



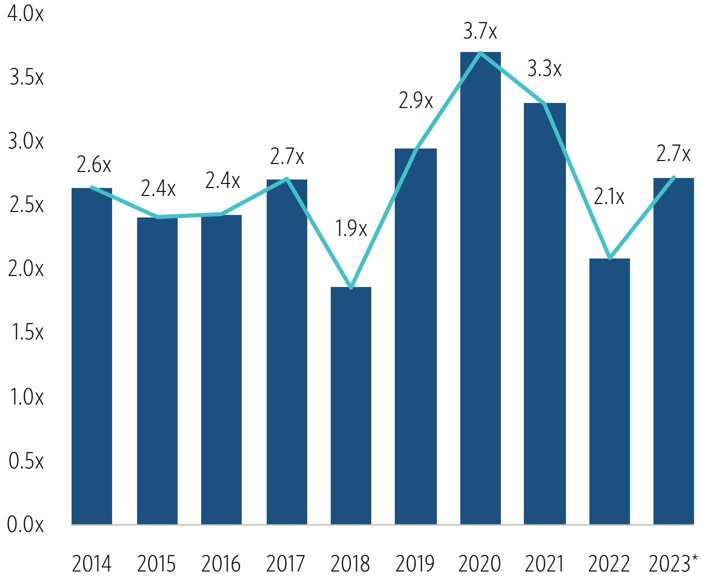
Source: PitchBook • Geography: Global • *As of December 31, 2023

Healthcare M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Healthcare M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

The pharmaceuticals industry dominated healthcare M&A activity in 2023: Big Pharma is in the midst of yet another strategic shift, reallocating resources that they had built to manufacture and distribute vaccines and jockeying for leadership in the booming weight loss drugs category. Roche acquired Carmot Therapeutics, while Eli Lilly acquired Versanis to add to its already strong pipeline. Looking ahead, 2024 biotech and pharmaceuticals deal activity got off to a strong start with a flurry of M&A deals around the J.P. Morgan Healthcare conference. In the future, winners in the weight loss drugs race may also use their cash reserves to shore up the rest of their drug portfolios with large deals, similar to the acquisition spree Pfizer embarked on in 2022 using its COVID-19 vaccine earnings. The last and largest of these deals, Pfizer's $43 billion Seagen buy that was announced in March 2023 was successfully closed in December.

Also boosting deal figures for 2023 were several major care delivery acquisitions by retailers: This includes CVS' acquisition of Oak Street Health and Signify, Amazon's acquisition of One Medical, and Walgreens-Village MD's acquisition of Summit Medical Group. We anticipate retailer-driven M&A in healthcare services to quiet in 2024 relative to the pace set in 2022 and early 2023, as several of the key players are now occupied with integration and unrelated financial challenges. Nevertheless, there are a few retailers waiting in the wings, including Walmart, that may look to scoop up provider assets in the future. Payers also remain active acquirers of healthcare services assets as they pursue greater vertical integration.

Finally, we are also seeing strategic shifts in PE healthcare deal activity: Some of which may persist even after interest rates fall and PE deal activity recovers. Specifically, we expect to see a greater emphasis on both healthcare IT and pharma services going forward, and a reduced appetite—especially among larger firms—for US-based specialty physician roll-ups.

IT

IT M&A activity by quarter

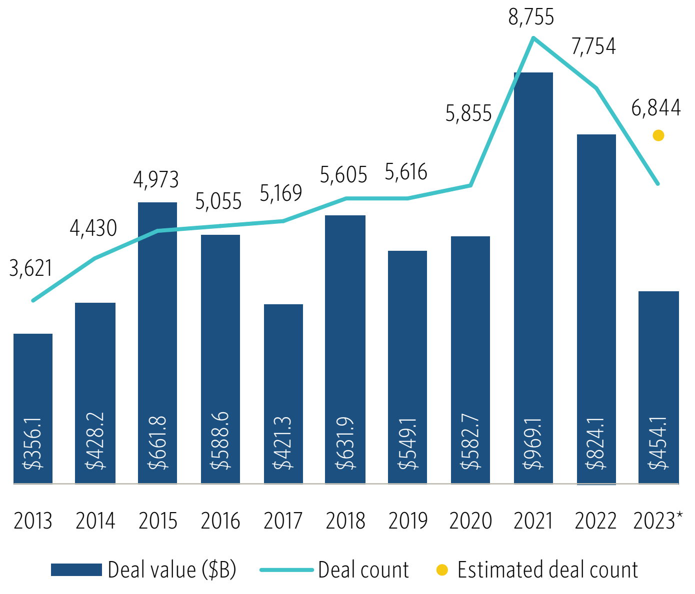
Source: PitchBook • Geography: Global • *As of December 31, 2023

Garrett Hinds
Senior Analyst, Private Equity

IT deal value flounders: IT deal value stepped down in Q4, with deal value declining a steep 28.0% QoQ and 29.6% YoY. The QoQ decline was largely due to a lack of a Q4 megadeal exceeding $10 billion, like we saw last quarter with Splunk-Cisco. Deal count increased modestly by 3.3% QoQ and 1.1% YoY. Looking at the full year 2023, trends similarly reflect the numerous headwinds to dealmaking relative to 2022, with deal value down 44.9% YoY and deal count down 24.1%. Still, recognizing that 2021 to H1 2022 were years of abnormally strong fiscal and monetary stimulus, we offer an alternative comparison of 2023 against the pre-pandemic period of 2017 to 2019 and find IT deal value is down 12.1% and deal count is up 7.7%.

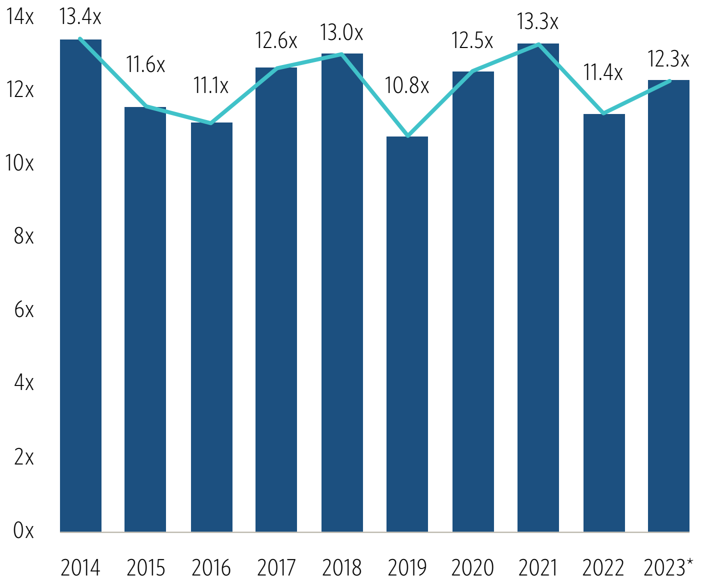
In 2023, IT accounted for 15.1% of global M&A deal value, a sizable decrease of 800 basis points relative to levels seen in 2022, but only 64 basis points below the 2017 to 2019 average. In analyzing deal momentum across sectors, we find that IT has faltered and now has the lowest deal momentum score. Yet, when running a similar analysis on multiple expansion,

IT M&A activity



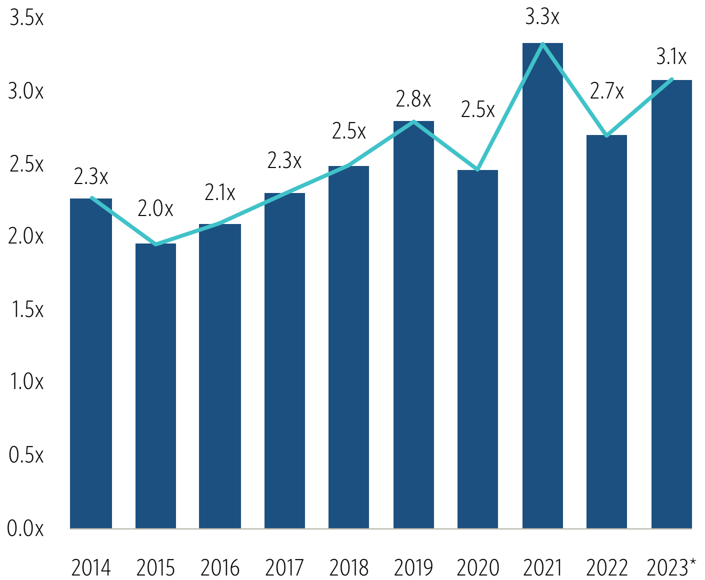
Source: PitchBook • Geography: Global • *As of December 31, 2023

IT M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

IT M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

we find IT has the second highest score. We attribute these dynamics to the current state of private markets, where firms are selling their high-quality assets that can achieve strong valuations and holding onto assets when buyers are not reaching the seller's price expectations. For a deeper look at PE activity in the IT sector and the potential for a rebound, see our recent analyst note, Prime Time for Software.

Valuations draw back PE buyers: All of the top five IT deals in Q4 involved private equity buyers. The largest IT deal of the quarter was the $5.3 billion acquisition of Vodafone España by PE firm Zegona Communications,[11] which was announced in October. This is a corporate carveout transaction, as Vodafone is right-sizing its portfolio to focus on markets with sustainable structures and sufficient local scale. Zegona will license the Vodafone brand for use in Spain for up to 10 years post close in addition to partnering on services including procurement, Internet of Things, roaming, and carrier services. The second-largest deal was analytics software vendor Alteryx agreeing to be acquired by Clearlake Capital Group and Insight Partners for $4.4 billion, including debt.[12] This equates to an EV/sales multiple of 4.4x. Company shareholders will receive $48.25 per share, a substantial 58.8% premium to the unaffected stock price on September 5, 2023, when media reports discussed a possible sale transaction. Alteryx management touted a favorable outcome for shareholders and noted the transaction will provide increased working capital and industry expertise, along with greater flexibility as a private company.

11: "Sale of Vodafone Spain," Vodafone, October 30, 2023.
12: "Alteryx Enters into Definitive Agreement to Be Acquired by Clearlake Capital Group and Insight Partners for $4.4 Billion," Alteryx, December 18, 2023.

Materials & resources

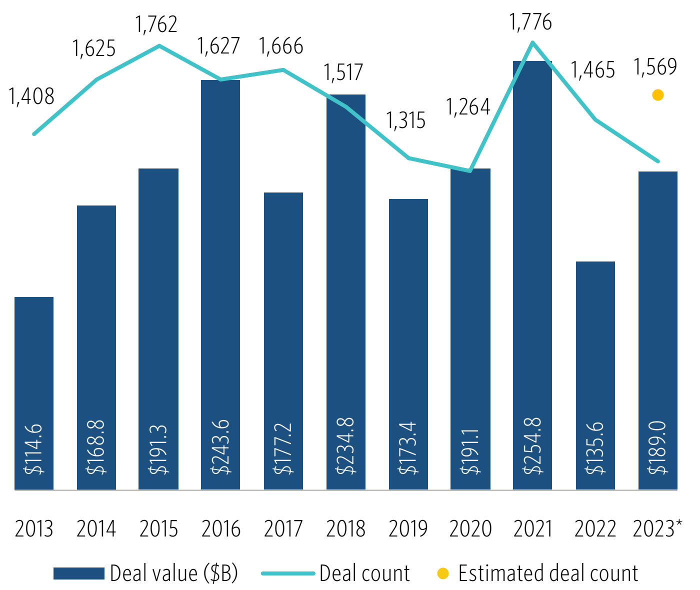
Materials & resources M&A activity by quarter

Source: PitchBook • Geography: Global • *As of December 31, 2023

Kyle Walters
Associate Analyst, Private Equity

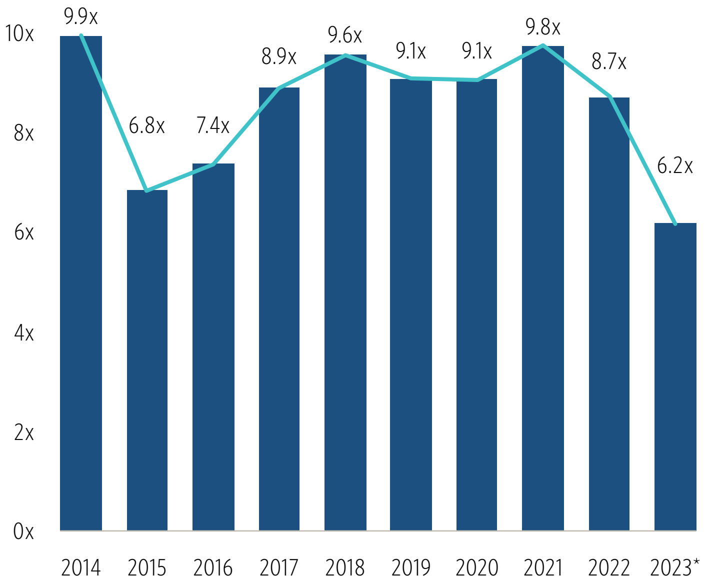
Materials & resources bounced back in 2023: Materials & resources posted its best year for deal value since 2018. In 2023, the sector saw 1,303 deals announced or completed, summing to $189.0 billion and representing a 39.4% increase in deal value YoY. The sector, known for its cyclical nature—particularly during times of economic uncertainty—saw the resurgence of larger-scale deals in 2023, which significantly contributed to the overall deal value. In 2023, five deals surpassed the $5 billion mark with a combined value of $63.0 billion, while 2022 witnessed only one such deal, amounting to $11.0 billion in total deal value.

Materials & resources M&A activity



Source: PitchBook • Geography: Global • *As of December 31, 2023

Materials & resources M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

Materials & resources M&A EV/revenue multiples

Source: PitchBook • Geography: North America and Europe
*As of December 31, 2023

The metals, minerals, and mining industry helps the sector end on a high note: Japan's largest steelmaker and one of the world's leading steel manufacturers, NSC, was involved in two of the largest deals, one as a majority stakeholder and the other as a minority stakeholder. In December, NSC agreed to acquire US Steel for $14.9 billion. This strategic move by NSC will not only enhance its manufacturing and technology capabilities but also diversify its global presence by significantly expanding production in the US, in addition to its existing footprint in Japan, Association of Southwest Asian Nations, and India.[13] In NSC's other notable transaction, Teck Resources agreed to sell its entire interest in its steelmaking coal business Elk Valley Resources through a majority stake sale to Glencore for an implied EV of $9.0 billion, with a minority stake being sold to NSC. This acquisition will complement Glencore's existing thermal and steelmaking coal production located in Australia, Colombia, and South Africa.[14]

Opportunities are unlocked through corporate divestitures: During Q4 2023, the sector witnessed several large corporate divestitures, as acquirers sought to capitalize on assets that were deemed noncore. One notable transaction was the sale of Iowa Fertilizer Company by OCI Group to Koch Ag & Energy, a part of Koch Industries, for $3.6 billion. This deal will greatly reduce OCI's debt while enabling Koch to further invest in its fertilizer business and enhance its existing operations. In the construction industry, Martin Marietta Materials agreed to sell its South Texas cement business to CRH Americas Materials for $2.1 billion. This strategic move allows Martin Marietta to concentrate on its growth objectives, while CRH strengthens its position in Texas and increases exposure to attractive, high-growth markets.

13: "Nippon Steel Corporation (NSC) to Acquire U. S. Steel, Moving Forward Together as the 'Best Steelmaker with World-Leading Capabilities'," United States Steel, December 18, 2023.
14: "Acquisition of a 77% Interest in Teck's Steelmaking Coal Business for US$6.93 Bn," Glencore, November 14, 2023.

Addendum

Normalized EBITDA Metrics

All EBITDA metrics referenced in this report rely on Morningstar's methodology for determining normalized EBITDA. Normalized EBITDA values are part of a broader dataset that Morningstar maintains known as Normalized Profitability Metrics (NPM). These same metrics can be found in the company financials displayed on the PitchBook platform where such financials are available.

The objective of the NPM dataset is to normalize company earnings by adjusting for irregular income and/or expenses and one-off items that are unusual in nature, so that financials reflect the usual course of business for a company.

The starting point for normalized EBITDA is to first determine unadjusted EBITDA using the standard formula:

EBITDA = Net Income + Interest + Taxes + Depreciation + Amortization

From there, adjustments are made for irregular and unusual items. These items include:

- Disposal of businesses
- Merger and acquisition income/expense
- Restructuring and reorganization expense
- Stock-based compensation (non-GAAP companies only)
- Financial instruments and investments - gains/losses
- Derivatives - unrealized gains/losses
- Financial assets - unrealized gains/losses
- Gain/loss on asset disposals
- Foreign currency exchange - unrealized gains/losses
- Gain/loss on extinguishment of debt
- Debt restructuring
- Impairment/write off/write down of capital assets
- Write off/write down of other assets
- Goodwill impairment/write off
- Litigation income/expense
- Other irregular income/expenses

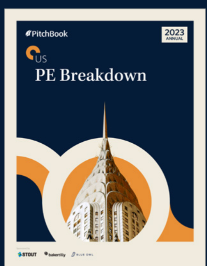
Morningstar maintains NPM metrics on approximately 54,000 companies of which 24,500 receive an enhanced level of review by Morningstar analysts (Analyst Normalized EBITDA).

When any of these companies are acquired in a corporate M&A or PE buyout transaction, PitchBook will use Analyst Normalized or Normalized EBITDA where available for computing EV to EBITDA multiples. This process helps the investing community to understand the purchase price paid in relation to a company's true earnings power prior to items that may vary based on the capital structure applied, such as interest, taxes, depreciation, and amortization.

Additional information on Morningstar's NPM methodology can be found here.

Additional research

Private markets



2023 Annual US PE Breakdown

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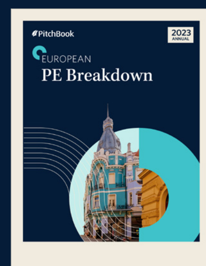

2023 Annual European PE Breakdown

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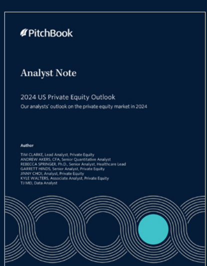

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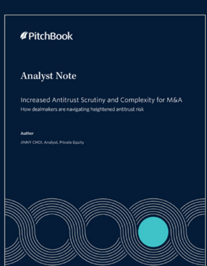

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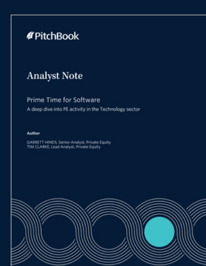

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