PitchBook

M&A Report

2017 Annual

PitchBook

Contents

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Key takeaways from the analyst

M&A activity in North America and Europe totaled $2.93 trillion across 19,510 deals in 2017—the fourth consecutive year of at least $2.9 trillion in value. Dealmaking continues to receive tailwinds from high cash reserves on corporate balance sheets, ample private equity dry powder, and a sanguine global economic outlook. Technology M&A was a full two percentage points higher than the prior year. The resiliency of IT was driven by non-tech acquirers, as incumbents from a range of industries leverage technology to adapt to changing distribution channels and consumer preferences. Meanwhile, despite growing isolationist rhetoric in some western nations, international dealmakers continue to express interest in both North America and Europe.

$2.93T
M&A value in 2017, 4th consecutive year exceeding $2.9T

17.8%
of all M&A was within technology, an all-time high

12.3%
of European M&A volume was cross-border

Dylan E. Cox, Analyst II

Introduction

We recently introduced several enhancements to the methodology used with some datasets in this report. The most notable change is that the aggregate M&A capital invested figure now includes deal amounts that were not collected by PitchBook but have been extrapolated using a multidimensional estimation matrix. Please see the methodology page behind the M&A Report on PitchBook's online methodologies page for details: click here. In addition, please also note that all data within this report covers only M&A activity within Europe and North America.

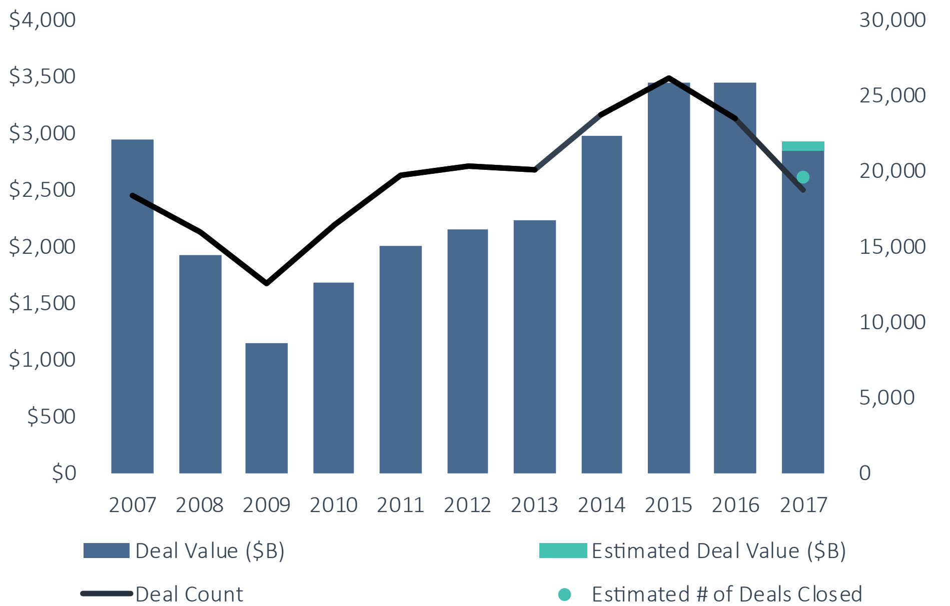
We hope this report is useful in your practice. Please email reports@pitchbook.com with any questions or comments.

Overview

Corporate cash reserves & ballooning PE fund sizes boost sustained deal value

M&A activity in North America and Europe totaled $2.93 trillion across 19,510 deals in 2017—the fourth consecutive year of at least $2.9 trillion in value. While M&A activity has remained strong on a historical basis, the number of completed transactions decreased by 16.8% year-over-year. Continually high cash on corporate balance sheets and ballooning PE fund sizes, combined with relatively easy access to affordable financing, has allowed buyers of all types to pursue larger deals, with the median deal size climbing by a third to $40 million in 2017. Increasing competition, especially from PE buyers, has driven valuations upward.

M&A activity in Europe & North America



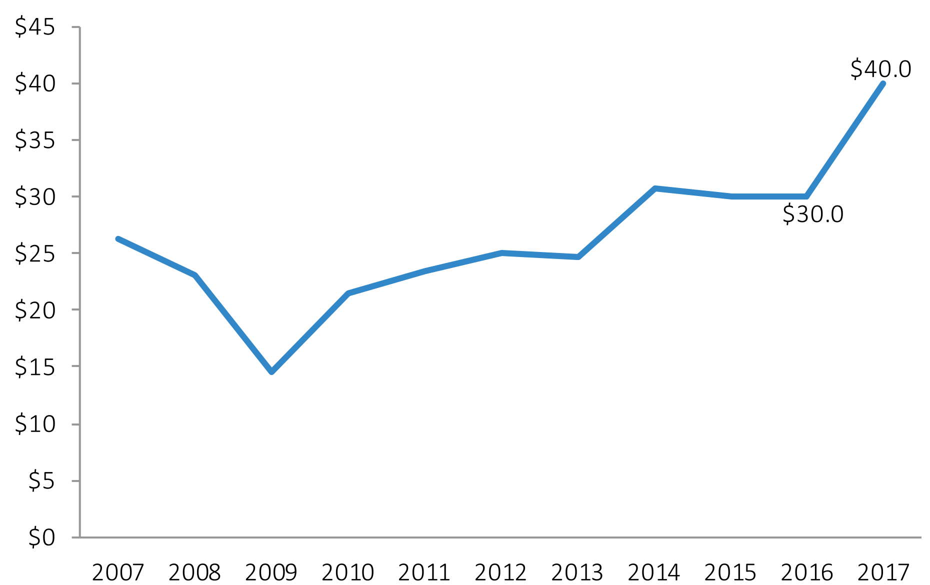
Source: PitchBook

Macroeconomic factors contribute to M&A

Meanwhile, prolonged QE in Europe combined with only moderate tightening by the Fed in the US should keep financing costs low and allow dealmakers to continue enjoying issuer-friendly terms on new debt issuances for some time.

While investors maintain a sanguine global economic outlook, the pace of growth remains sluggish compared to other recoveries. With organic growth difficult to come by, acquisitions are still seen as an easier way to boost revenue and earnings, especially given the easy access to financing in today's market. But some buyers, especially strategics, are tapping the brakes as they incorporate recent acquisitions into existing operations.

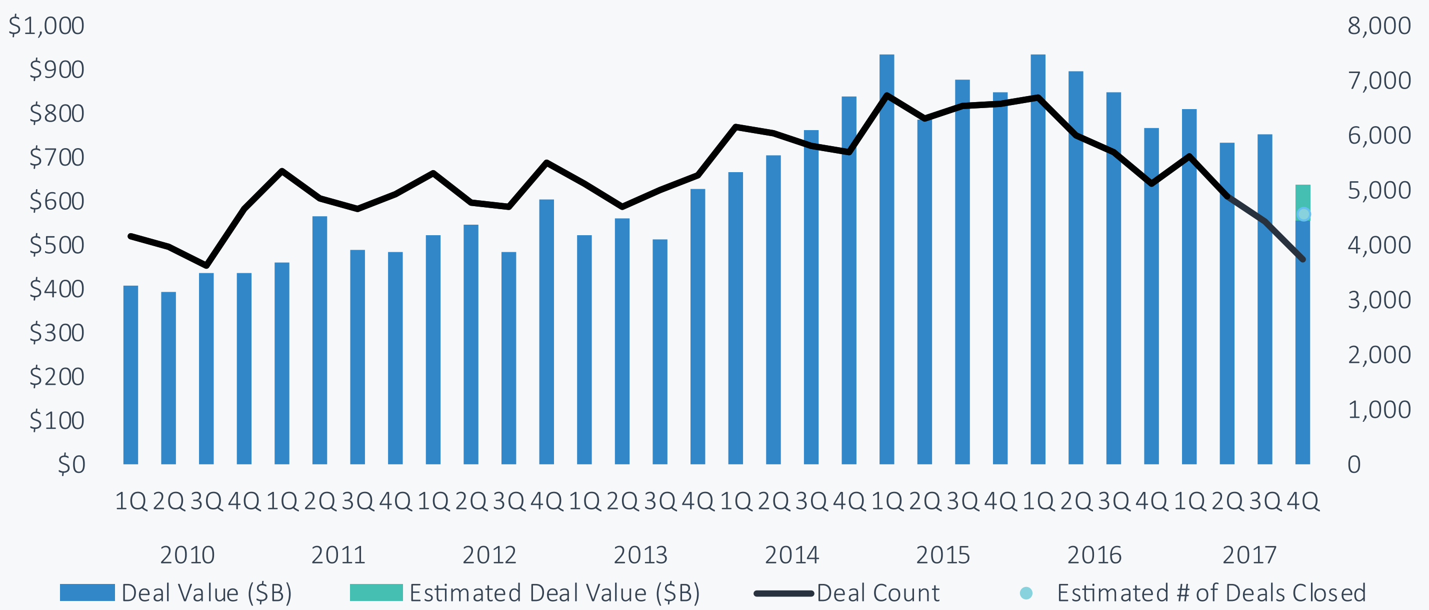
Median M&A deal size ($M)



Source: PitchBook

Buyers are tapping the brakes as they incorporate recent acquisitions into existing operations

M&A activity in Europe & North America



Source: PitchBook

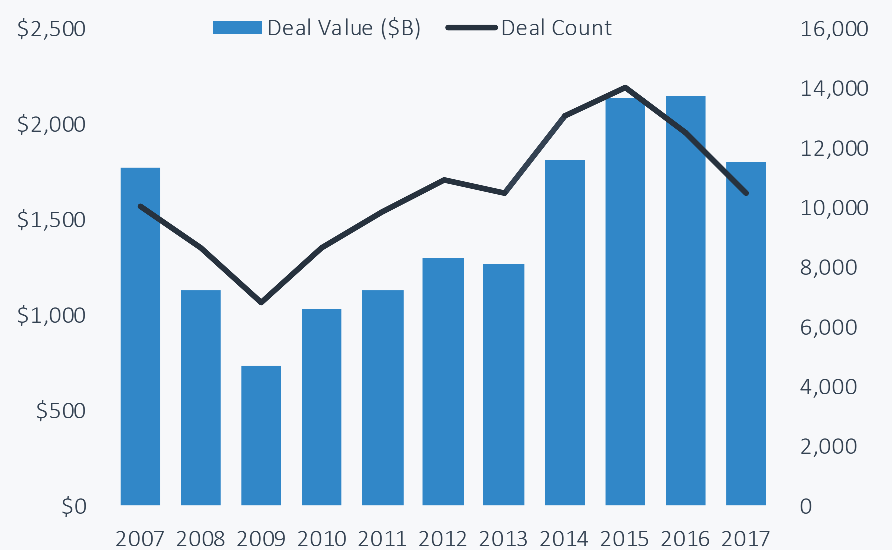
Recent tax reform likely to bolster 2018 M&A activity in North America

M&A activity in North America totaled $1.8 trillion across 10,465 deals in 2017—trailing 2016 by 16.0% and 16.1%, respectively. The slowdown comes despite sound economic indicators in the US, including sustained growth in manufacturing, strong corporate earnings growth and record-high CEO sentiment. While corporations in general are already operating from a position of strength, recent tax legislation and repatriation of foreign earnings are expected to further bolster balance sheets and give a boost to M&A in 2018. US firms are expected to bring back $300 to $400 billion in cash, according to GBH Insights, which is expected to be used on a combination of dividends, stock buybacks, capital expenditures and acquisitions.

An increase in M&A activity will likely put further upward pressure on price multiples, which have already risen to all-time highs due to ample PE dry powder reserves and readily available debt financing. The median valuation/EBITDA multiple for North American M&A transactions reached 10.3x in 2017, up slightly from the 10.2x recorded in 2016.

M&A declines by 16% YoY

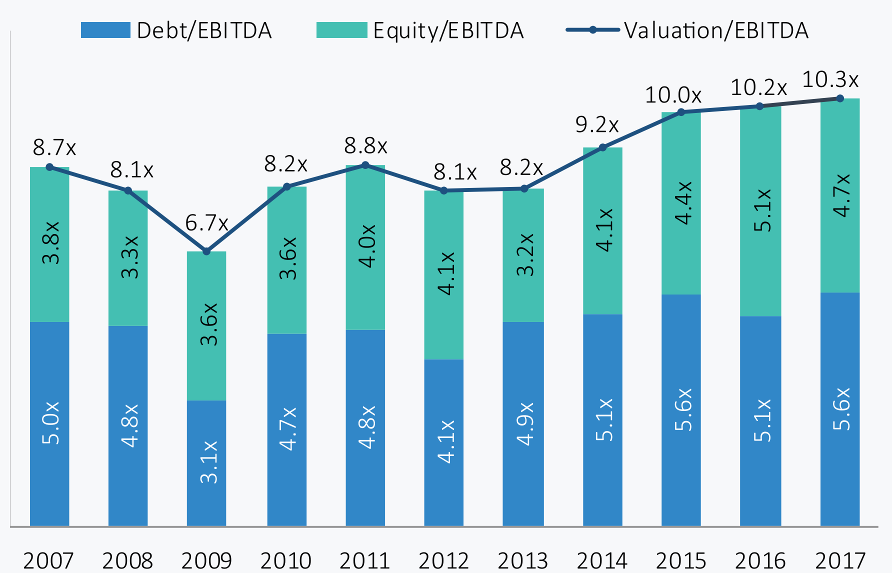
North American M&A activity



Source: PitchBook

M&A multiples crept above 2016's tally, albeit slightly

North American M&A multiples



Source: PitchBook

OVERVIEW

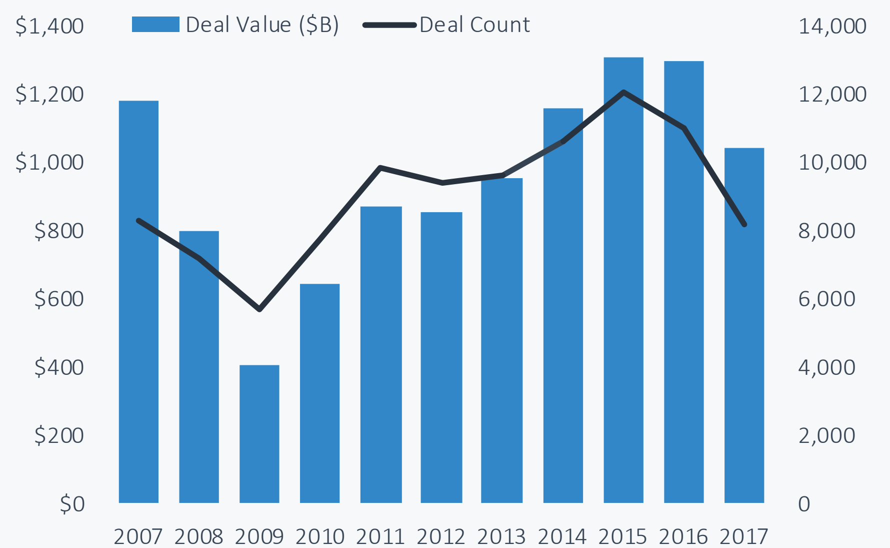
Will sustained easy monetary policies fuel M&A on the debt financing side?

M&A activity in Europe totaled $1.04 trillion across 8,188 deals in 2017—19.4% and 25.4% decreases from the prior year, respectively. Activity slid further than it did across the Atlantic, despite an improving economic outlook in Europe. In 2017, European GDP is expected to have grown at its fastest rate in a decade, according to the European Commission. What's more, the ECB has been reluctant to tighten monetary policy, resulting in financing that should continue to be cheap for some time. The France/Benelux region saw a particularly steep fall in both deal value and deal count, by 30.8% and 37.2%, respectively; however, we expect activity to rebound in the region as the dust settles from contentious elections held in France and the Netherlands in early 2017.

European valuation multiples also increased to their highest level on record—7.5x EBITDA in 2017. The expansion was driven by an increase in debt usage, which reached a median of 4.0x EBITDA in 2017—the highest in three years. European dealmaking relies more heavily on traditional money centers for financing than their U.S. counterparts, but the growth of private debt funds in the region has provided another source of capital, helping fuel the expansion in recent years.

2017 M&A value fell by 19%

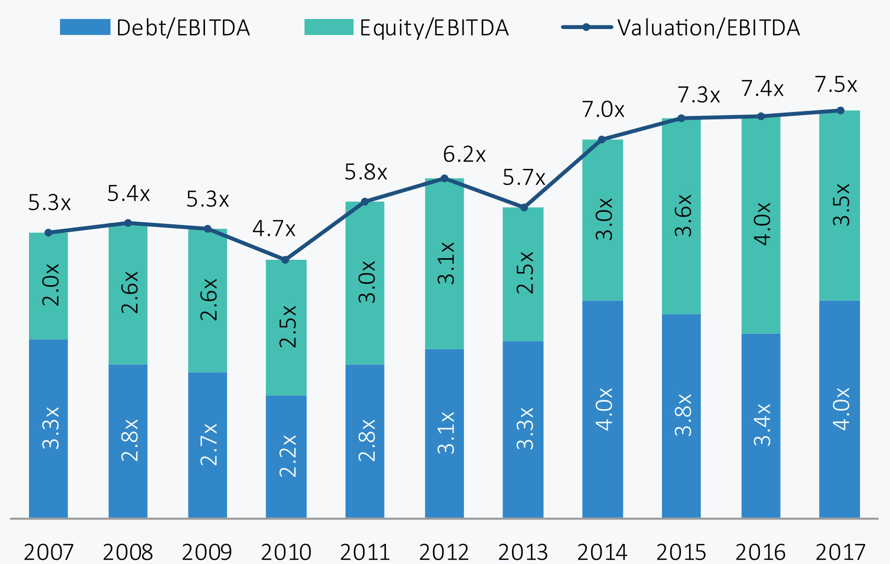
European M&A activity



Source: PitchBook

2017 multiple expansion driven by debt usage

European M&A multiples



Source: PitchBook

M&A by Sector & Size

Technology acquisitions made across sectors

Acquisitions of technology companies accounted for a record 17.8% of all M&A deals in 2017—a full two percentage points higher than the prior year. However, the value of these transactions as a proportion of deal flow decreased in 2017, despite the median transaction size rising, as dollar figures are often reliant on the presence (or lack of) megadeals.

In absolute terms, the number of IT acquisitions decreased by 10.3% in 2017—the smallest decrease of any sector. The relative resiliency of the tech sector can be attributed to a variety of factors. Chief among them is that non-tech incumbents use these transactions to adapt to changing distribution channels and consumer preferences. Take, for example, PetSmart's $3.35 billion acquisition of internet-native competitor chewy.com, which has seen two consecutive years of 100%+ revenue growth. Also in line with this trend is Ikea's September 2017 acquisition of TaskRabbit, an online marketplace for outsourcing tasks (like assembling 100-piece bookshelves). Both targets were VC-backed at the time of acquisition, part of a broader trend of increased acquisition activity of companies with PE or VC backers. To that end, PE buyouts accounted for 19% of VC-backed exits in 2017.

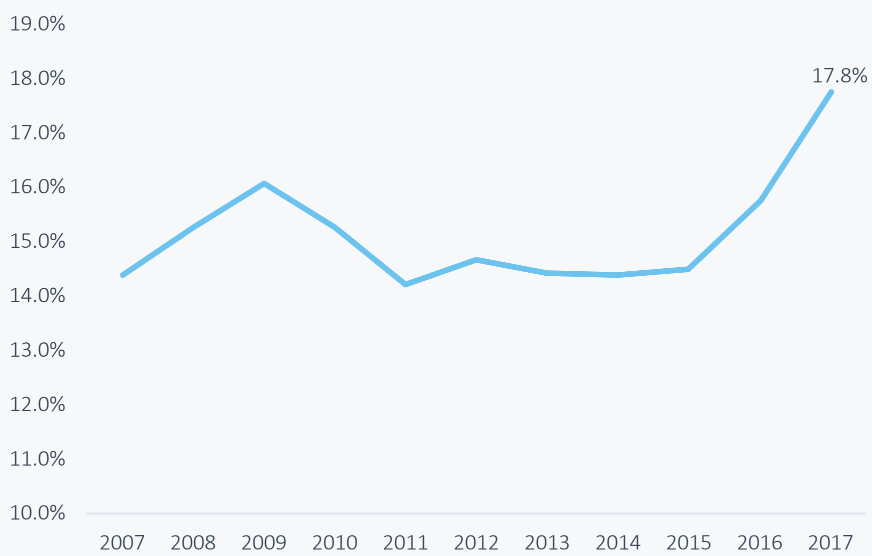
Technology M&A is staying more resilient than any other

17.8%

of all 2017 M&A volume was within the technology sector

Multiple factors are driving IT's relative popularity

IT % of M&A volume by count



Source: PitchBook

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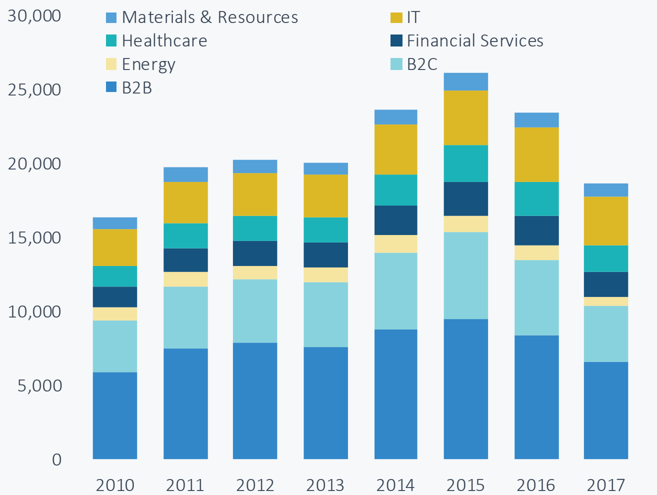
M&A BY SECTOR & SIZE

M&A trends steadily larger, while IT's rise is the primary standout sector shift

IT has bolstered overall volume

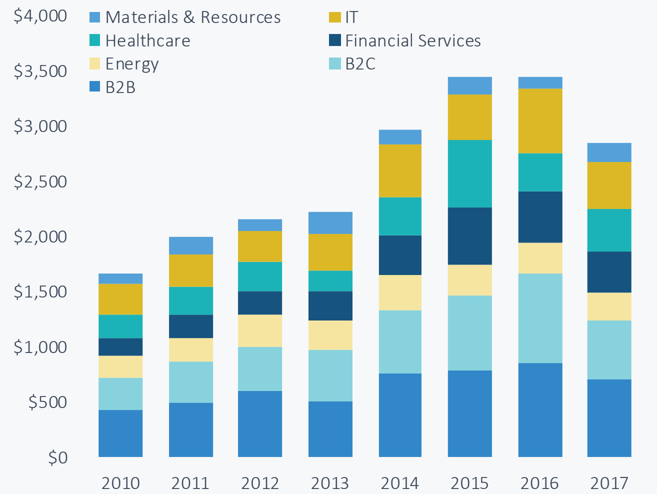
M&A (#) by sector



Source: PitchBook

B2B still predominates deal value

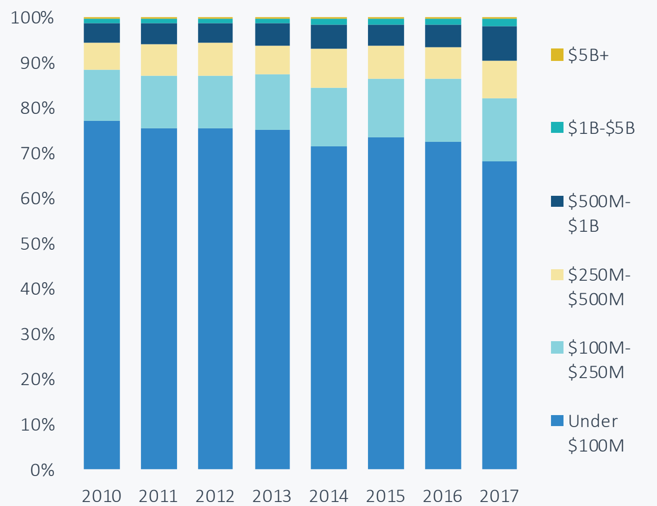
M&A ($) by sector



Source: PitchBook

Deal size inflation is more evident

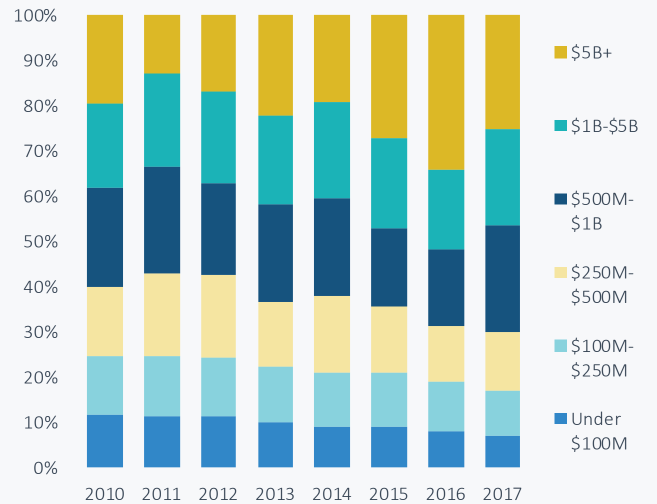
M&A (#) by size



Source: PitchBook

Lower middle market accounts for smaller portion of deal value

M&A ($) by size



Source: PitchBook

Cross-border Activity

International dealmaking is on the rise

Despite the recent isolationist sentiment displayed in some western nations, global dealmaking continues to rise in both North America and Europe. The percentage of North American deals completed by acquirers headquartered outside of North America, as well as the percentage of European deals completed by acquirers outside of Europe, rose to the highest levels on record—8.9% and 12.3%, respectively.

There are a multitude of reasons for the uptick in cross-border deal flow in recent years. Primarily, acquisitions are an efficient way for companies to expand their global footprint, which is more commonplace and necessary in today's economy. This is particularly true of expansion into emerging markets, which can provide a much-needed source of growth for legacy firms that historically operated in developed economies.

In a year that saw overall deal flow decline, German investors acquired 100 North American companies in 2017, the highest on record. German interest in North American companies, of which the US makes up the lion's share, could be aided by a mix of strong fundamentals and relatively higher yields in the US. US GDP growth exceeded 3% in both 2Q and 3Q 2017, while 10-year US treasuries are yielding 2.6%. Meanwhile, Germany's economy is the star of Europe, but the 10-year German bund is yielding a paltry 0.5%.

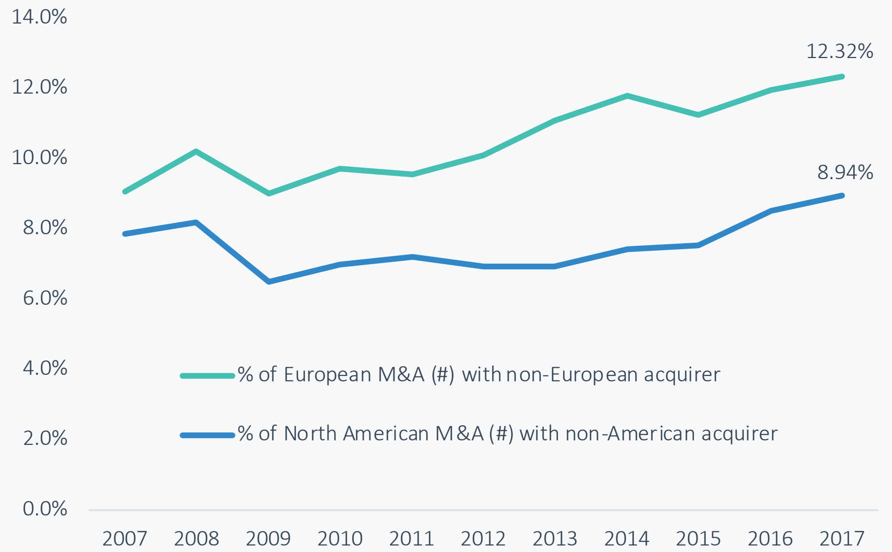
European companies are luring more foreign buyers than ever before

12.3%

of all 2017 European M&A volume was due to acquirers not headquartered on the continent

Cross-border M&A is in vogue as of late, particularly in Europe

Cross-border activity (#) by foreign participation



Source: PitchBook

Spotlight: Institutionalization of M&A

A growing level of sophistication from sellers

One of the most striking trends in M&A in the last year has been the growing proportion of target companies (those being acquired) with institutional backing. 20.9% of all M&A targets in 2017 were either publicly traded or had PE or VC backing at the time of acquisition, leaving just 79.1% of targets with no institutional backing—the lowest in at least a decade.

The changing landscape is driven in part by the growing PE-backed company inventory, which reached 12,320 companies globally at year-end 2017, compared to just 4,657 in 2008. In addition, growing fund sizes for financial sponsors and cash reserves for strategic acquirers have pushed more activity into the upper-middle-market, evident in the growth in median deal size last year. A similar phenomenon has taken shape in VC, where an abundance of capital for later-stage companies is extending VC-backed company age at acquisition.

With a larger portion of the total available targets already owned by professional investors, sellers are likely to be more concerned with the sticker price of deals rather than maintaining control of the business, as individuals or families who bootstrapped their companies may be inclined. What's more, many of today's sellers likely paid already-elevated prices in the last few years, further contributing to lofty expectations.

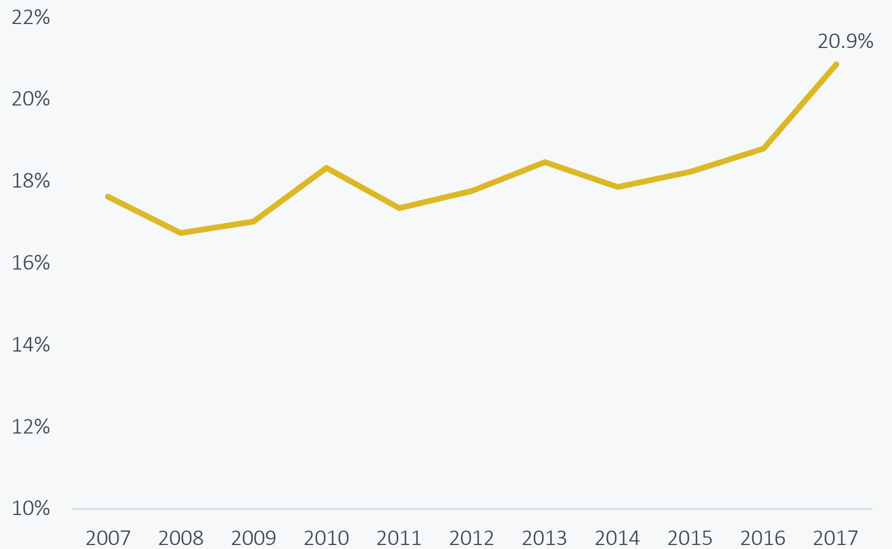
Growing PE inventory is contributing to growing institutionalization

12,320

companies worldwide were backed by PE firms at year-end 2017

More than one-fifth of M&A targets have institutional backing

M&A targets (#) with institutional backing



Source: PitchBook

On the cover:
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