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ACG Association for Corporate Growth

# North American M&A Report

2019 Annual

PitchBook

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# Contents



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# Introduction

**North American M&A activity surpassed $2.0 trillion across 11,304 transactions in 2019, YoY declines of 12.3% and 14.4%, respectively.** Though 2019 figures fell behind 2018's record levels, they still remained aloft in accordance with the last several years. Large deals buoyed activity from select sectors in the face of macroeconomic headwinds. The healthcare sector saw heavy deal activity from strategics and financial sponsors within distinct areas of the space. The media industry also saw prominent dealmaking as the streaming wars heat up and companies in the sector continue to consolidate. A bevy of notable deals announced in 2019 give 2020 M&A a positive outlook.

**Chinese investment in US companies continued its decline, aided by the trade war and evolving perceptions of security risks.** 2019 saw a slump in cross-border investor participation overall, though not nearly to the same extent as with Chinese investors, which have been actively decreasing investments in the US in an attempt to cut debt and reduce their level of economic reliance on the US.

**Companies staying private for longer has led to increased acquisitions of VC-backed companies and a simultaneous decrease in acquisitions of public companies.** Corporates found it easier to acquire new technologies from the private market than to build capabilities in-house. EV/EBITDA multiples also ticked up in 2019 due to larger deal sizes, stock market gains and low interest rates, among other factors.

**Stephen-George Davis**
Analyst, PE

PitchBook

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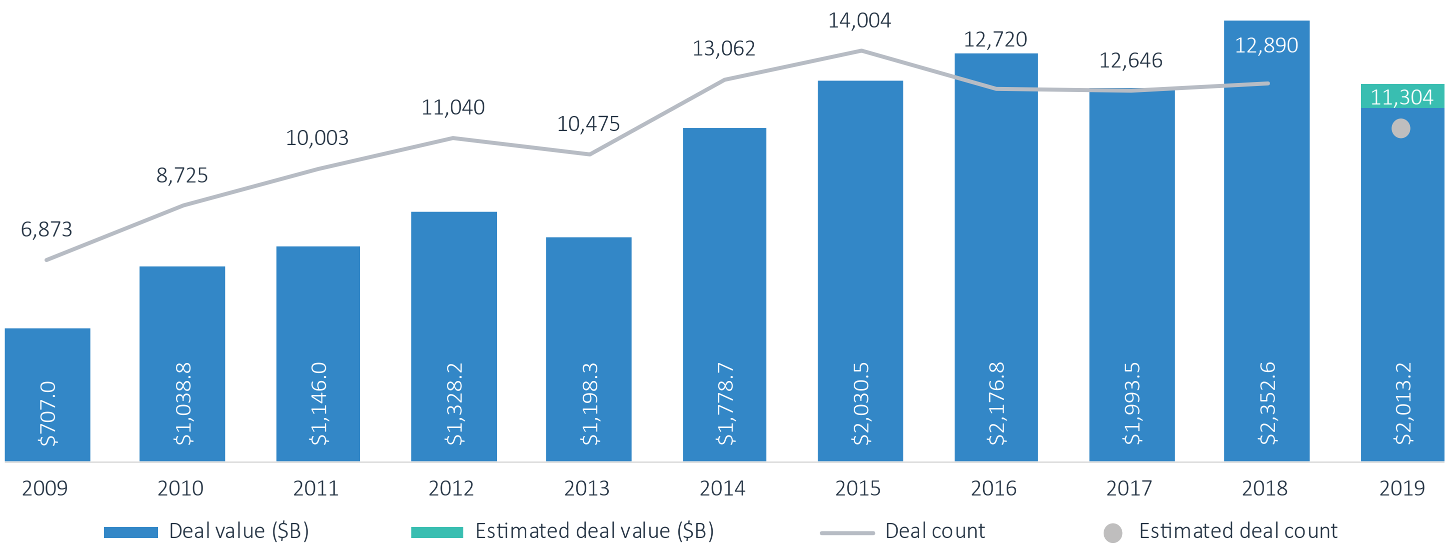
# Overview

## M&A activity




**Source:** PitchBook | **Geography:** North America

North American M&A in 2019 kept pace with the elevated levels of the last few years, notching 11,304 deals valued over $2 trillion, YoY declines of 12.3% and 14.4%, respectively. These declines are tempered by the fact that 2018 was a record year for M&A. Despite geopolitical uncertainties and the specter of an economic slowdown, low interest rates, robust public markets and the lingering impact of corporate tax cuts in the US likely kept North American M&A at healthy levels.

Similar to recent years, much of 2019's activity can be attributed to a few large deals, including two valued at over $70 billion. In fact, M&A above $5 billion comprised slightly less than a third (32.6%) of all deal value in 2019, compared to 33.2% in 2018.

One of the largest deals of 2019 was Disney's (NYSE: DIS) $71.3 billion acquisition of the entertainment assets of 21st Century Fox, solidifying Disney's position as a top media conglomerate just as media companies are seeking to scale up in order to remain competitive. In fact, Disney beat out media rival Comcast (NAS: CMCSA) for Fox's assets, illustrating the stiff competition for content ownership in the space. Companies have pivoted toward streaming subscriptions, realizing the power in content ownership and the disruption potential in traditional distribution channels. The Fox deal also led to Disney gaining majority ownership (they already owned a minority stake) and full control of streaming platform Hulu, in addition to the sports-focused streaming platform Disney already owns in ESPN+. The acquisition allowed Disney to add programming from Fox's catalog in order to bolster the content on the Disney+ streaming service. While Disney is well-positioned to be a major player in the streaming wars given its capital advantage, existing library and content-creation capabilities, it is still uncertain whether the company can leverage these resources to create a valuable subscriber base. We will likely see more large deals in this sector going forward as an elite group of players vie for the top spot among streaming content providers during an ongoing evolution in the media industry.

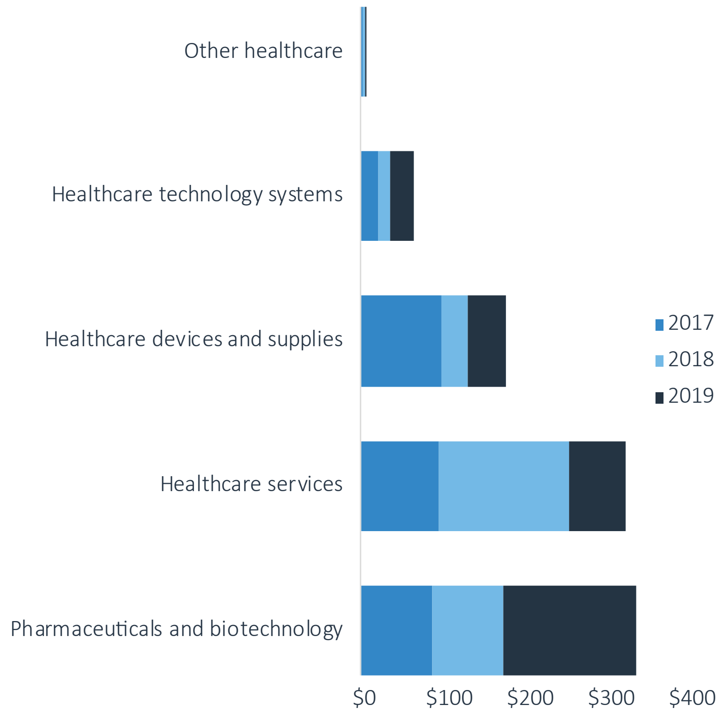
Looking forward, 2020 will likely continue 2019's momentum as several high-profile M&A transactions were announced in 2019 and are set to close in 2020. Announced deals such as Charles Schwab's (NYSE: SCHW) $26 billion acquisition of TD Ameritrade, Eldorado Resorts' (NASDAQ: ERI) $17.3 billion acquisition of Caesars Entertainment and LVMH's (PAR: MC) acquisition of Tiffany (NYSE: TIF) for $16.3 billion indicate that North American M&A in 2020 is off to a good start. In fact, $60 billion worth of deals were announced on one day in November. Should these deals close in the near future, 2020 M&A will be quick off the blocks.

In the largest deal of the year, US pharmaceutical giant Bristol-Myers Squibb (NYSE: BMY) acquired fellow drug-maker Celgene in a stock-and-cash transaction worth $74 billion. The acquisition pushed Bristol-Myers Squibb deeper into the specialty pharmaceutical segment of the market, as Celgene's pipeline is largely comprised of cancer drugs. This pipeline is expected to help Bristol-Myers' efforts to maintain its pricing abilities as cancer drugs generally have strong pricing power. This should be valuable to Bristol-Myers in a time where pharmaceutical companies face headwinds from government pushback against drug costs.

The Celgene acquisition was just the icing on the cake to an already exciting year for healthcare M&A. After three consecutive years of declines, healthcare M&A value increased in 2019, commanding a respectable 15.6% of all North American M&A value. This figure was boosted by Q4 2019, in which healthcare comprised 28.5% of the quarter's M&A value, driven by the Celgene deal. In general, 2019 M&A activity in the sector was heavily driven by biotechnology M&A, specifically in oncology, an M&A hotspot we covered in early 2019. In fact, biotech deals comprised 35.6% of healthcare M&A value in 2019, compared to 15.9% in 2018. The question many are asking now is whether this level of M&A activity is sustainable. According to Capital One's annual 2019 survey, only about 30% of healthcare executives expect M&A activity to increase in 2020, down from 42% in 2018's survey.

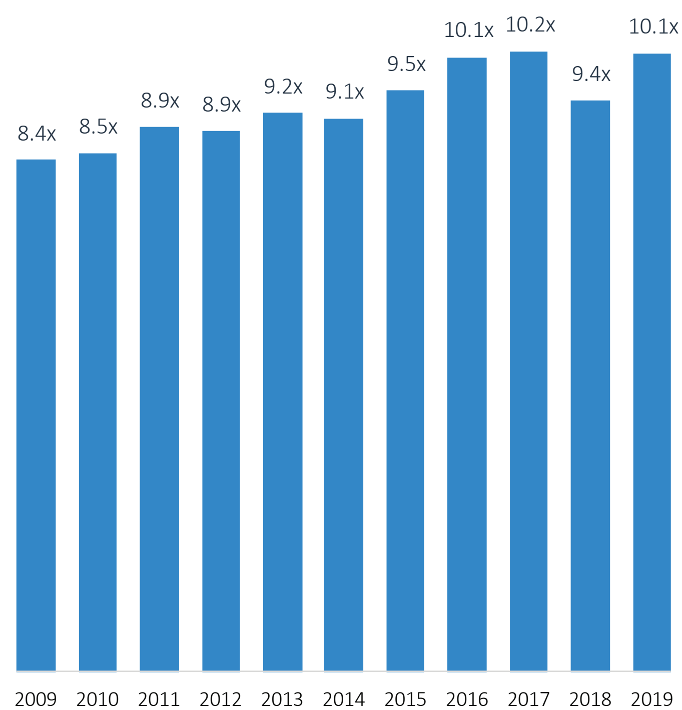
PE investors have also become more active in the healthcare space, which has benefitted from demographic shifts and a trend of recession-resistant spending among PE firms. However, we noticed a divergence between the types of healthcare deals in which financial sponsors and corporates invest. Corporates are more likely to be involved in biotech deals, such as Pfizer's (NYSE: PFE) $11.4 billion acquisition of Array BioPharma or Eli Lilly's (NYSE: LLY) $8.0 billion acquisition of Loxo Oncology—both cancer drug producers. In contrast, PE firms have increasingly targeted smaller roll-ups of healthcare clinics and outpatient services. Generally, PE firms look to invest in more stable companies with predictable cash flows and thus have not entered the biotech space en masse. However, financial sponsors that were traditionally focused on LBOs, credit and real estate are beginning to move into the biotech subsector. For example, in 2018, Blackstone gained a foothold in the subsector by purchasing life sciences specialist Clarus Ventures (now known as Blackstone Life Sciences). Beyond healthcare, buyout shops have an accumulation of dry powder ready to be put to work and are facing a high multiple environment, increased competition for select assets and a trend toward ESG investment, which may lead GPs to search for returns in atypical subsectors.

## Healthcare M&A ($B) by industry




**Source:** PitchBook | **Geography:** North America

## Median M&A EV/EBITDA multiples



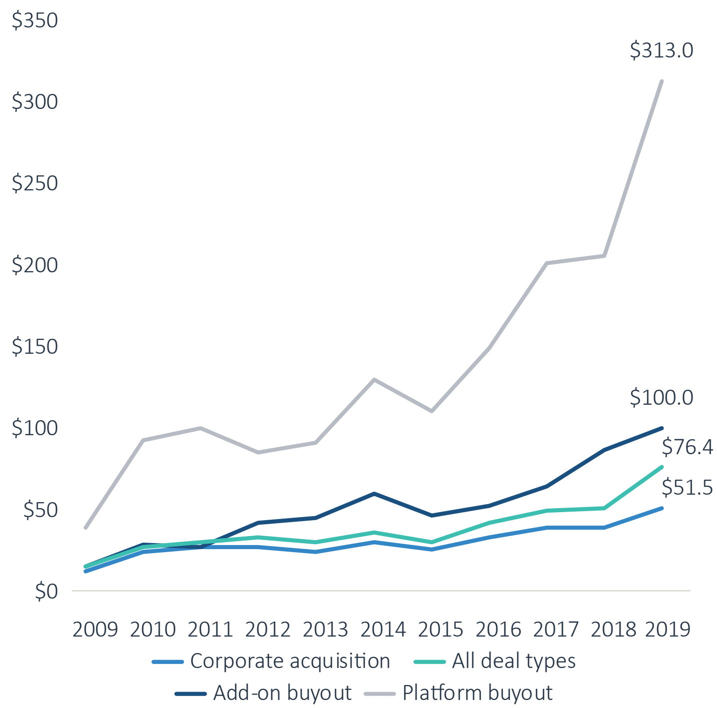

**Source:** PitchBook | **Geography:** North America

Corporates and PE firms are also increasingly competing in the IT sector, though more directly here than in healthcare. In 2019, IT comprised 19.9% of total M&A value, the second-highest percentage on record for the sector. Software is specifically where the competition appears to be heating up. Four of the top 10 software deals in 2019 were take-privates by financial sponsors. Most of these software deals were club deals, necessary for acquirers to afford the multibillion-dollar price tags. The largest of these deals was for human-capital-management SaaS company Ultimate Software Group. The Florida-based software developer was taken private for $11.0 billion by a consortium including Blackstone, CPPIB, Hellman & Friedman and GIC. Another large software acquisition in 2019 was Salesforce's (NYSE: CRM) $15.7 billion acquisition of Seattle-based Tableau Software, which provides data-visualization tools. Given the recent proliferation of tech-focused PE funds, we expect to see more take-privates of software companies in the next few years, though perhaps less so in 2020 due to the large divergence in multiples.

In the energy sector, both deal count and value declined in 2019, even including one of the largest deals of the year. After a public bidding war against Chevron (NYSE: CVX), Occidental Petroleum (NYSE: OXY) came out victorious in their quest for Texas-based Anadarko Petroleum. The $57.0 billion price tag made the mixed cash-and-stock purchase the third-largest acquisition of 2019. The acquisition means that Occidental is now the most dominant exploration and production player in the West Texas Permian Basin and one of the top producers in the Gulf of Mexico. However, the Anadarko acquisition, the largest oil & gas deal of the decade, was expected to bring forth a wave of M&A into the energy sector. This did not occur. Still, energy deals saw an uptick in December 2019, met with positive investor sentiment, an indication that 2020 may see an increase in M&A within the sector.

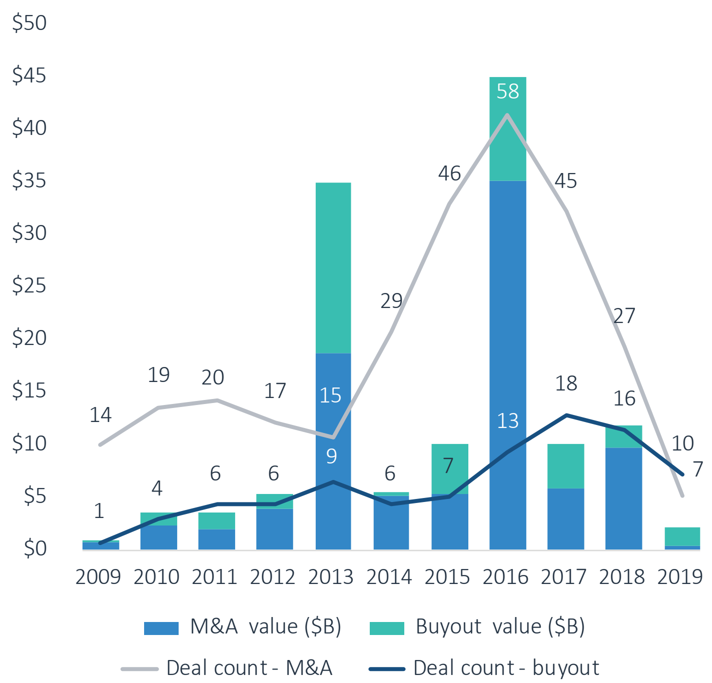
Another notable decline in M&A came from a decrease in Chinese acquisitions of North American companies in 2019. These acquisitions experienced YoY declines of 60.4% and 81.6% in count and value, respectively, much steeper than the declines from other global acquirers outside of North America over the same time period. Though this decline has been ongoing since 2016, the US-China trade war has most certainly affected dealmaking activity in the near term. Even so, the biggest reason for this multi-year decline can be traced to a shift in sentiment regarding the West's view of the national security risks from foreign investment, especially regarding critical technology and infrastructure. This has manifested in a higher level of scrutiny from the CFIUS Committee on Foreign Investment in the United States (CFIUS) when reviewing Chinese acquisitions of US-

## Median M&A size ($B) by type




**Source:** PitchBook | **Geography:** North America

## M&A activity with Chinese acquirer participation



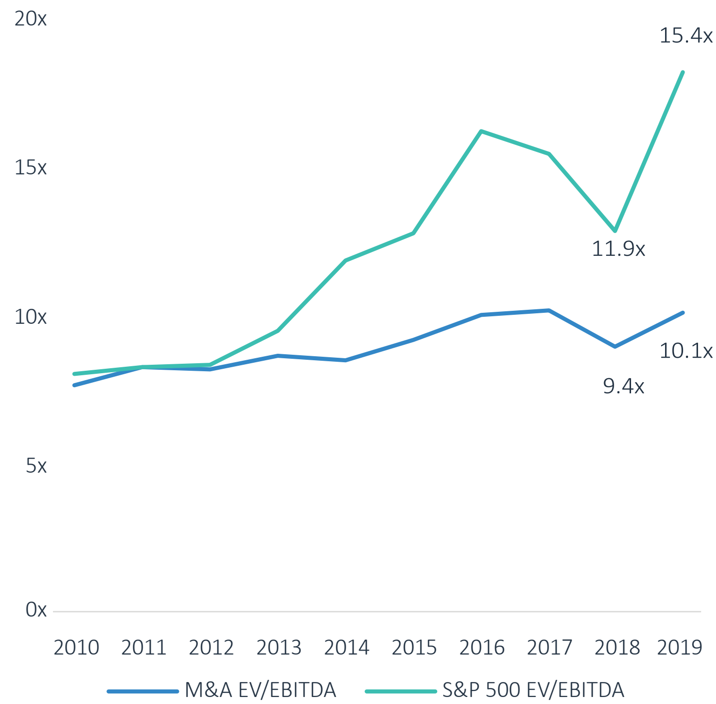

**Source:** PitchBook | **Geography:** North America

based assets. In April, the CFIUS forced Chinese investor ICarbon to divest from company PatientsLikeMe due to security concerns surrounding the collection of sensitive patient data. Between 2005 and 2007, less than 5% of all deals reported to CFIUS led to an investigation, whereas this figure jumped to 42% between 2014 and 2016.[1,2] In addition, in February 2019, the European Parliament approved legislation to monitor foreign direct investment. The legislation is also largely due to potential security risks from Chinese investment, emphasizing that the US is not alone in its thinking. For its part, China has been actively reducing its economic reliance on the US and pivoting toward closer markets such as Europe and Asia, as well as applying pressure on businesses to divest overleveraged US assets and repatriate the proceeds. We will be keeping a close eye on the trade war and changes in how countries view national security as it pertains to foreign tech investment going forward.

International squabbles notwithstanding, median EV/EBITDA multiples for North American M&A increased to 10.1x, a gain in line with the elevated levels of 2016 and 2017. This boost was due largely to elevated deal sizes, cheap financing from Federal Reserve rate cuts, increased competition for deals and the strength of the public markets. Interestingly, earnings growth for the S&P 500 in 2019 was negative despite the stock market achieving booming returns. This has led to a discrepancy in EV/EBIDTA multiples between the public and private markets which may be an arbitrage opportunity for investors (i.e. buying in private markets and selling in public markets).

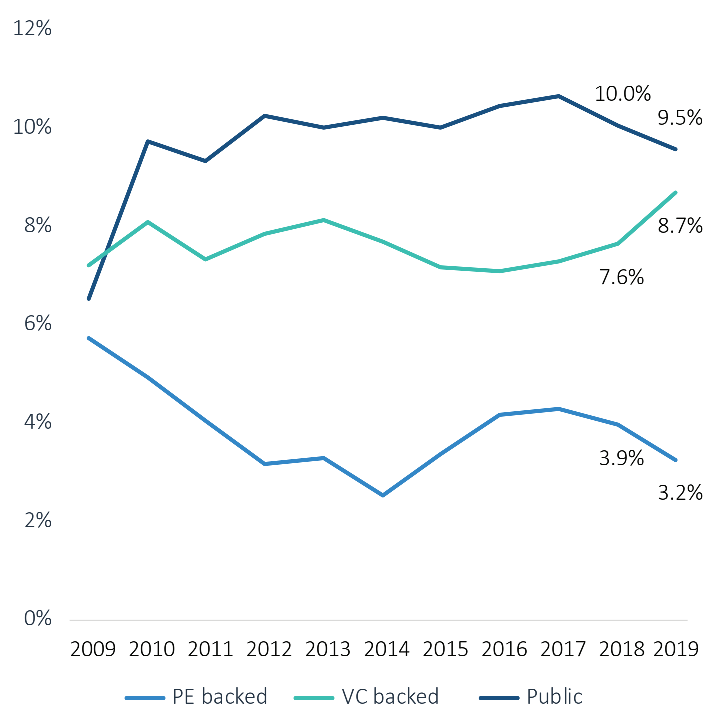
Higher prices are one factor that has led to an increase in the median deal size across all deal types, though PE platform acquisitions had the largest YoY increase. We believe this rise in deal size is partly due to PE firms increasingly paying up for the most attractive assets and then blending down the multiple via add-on acquisitions. The private markets have also had a noticeable impact upon M&A as corporates continue to acquire VC-backed companies. As companies stay private longer, VC-backed companies have become more mature and attractive to strategics. Corporates have largely found the process of buying VC-backed companies and their technologies to be easier and more cost-effective than trying to build those capabilities internally for organic growth. In 2019, VC-backed deals accounted for 8.7% of all deals, up from 7.6% in 2018. We expect the trend of companies staying private longer to continue and we also believe that corporates will remain focused on the private markets in order to acquire new technological capabilities.

## M&A EV/EBITDA multiples compared to S&P 500 EV/EBITDA multiples




**Source:** PitchBook | **Geography:** North America

## Proportion of M&A (#) by backing status




**Source:** PitchBook | **Geography:** North America

1: Committee on Foreign Investment in the United States Annual Report to Congress, December 2008.
2: Committee on Foreign Investment in the United States Annual Report to Congress, 2017.
3: "How Escalating Tension Between the US and China Impacts the Deal Market," EY, December 2, 2019.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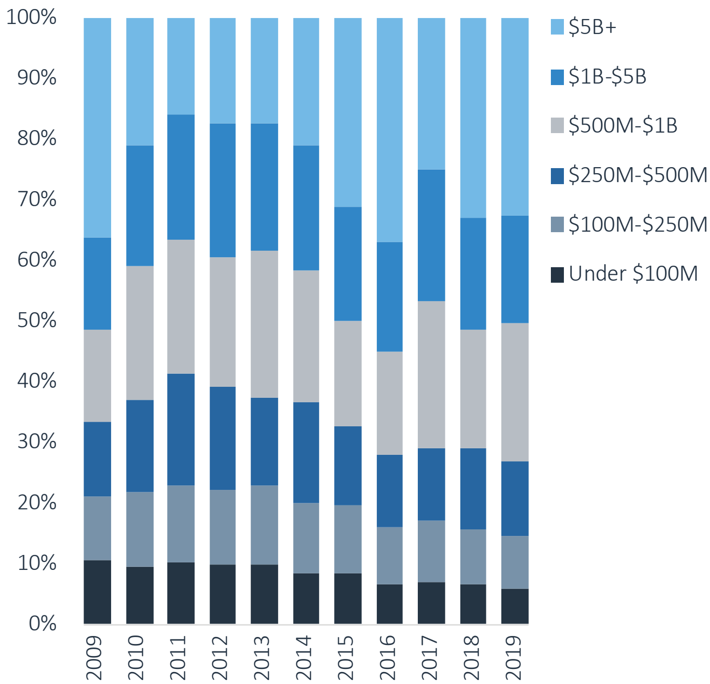
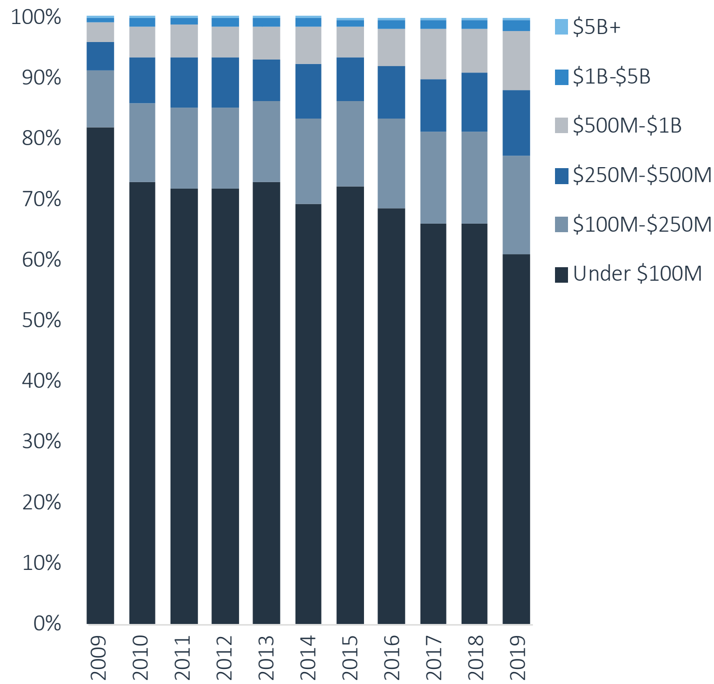
# Deals by size and sector

## M&A ($) by size




**Source:** PitchBook | **Geography:** North America

## M&A (#) by size

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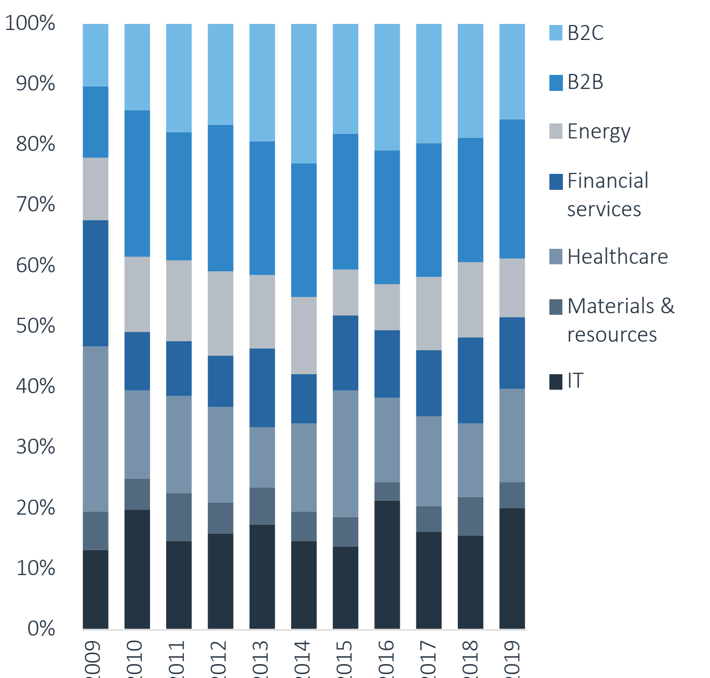
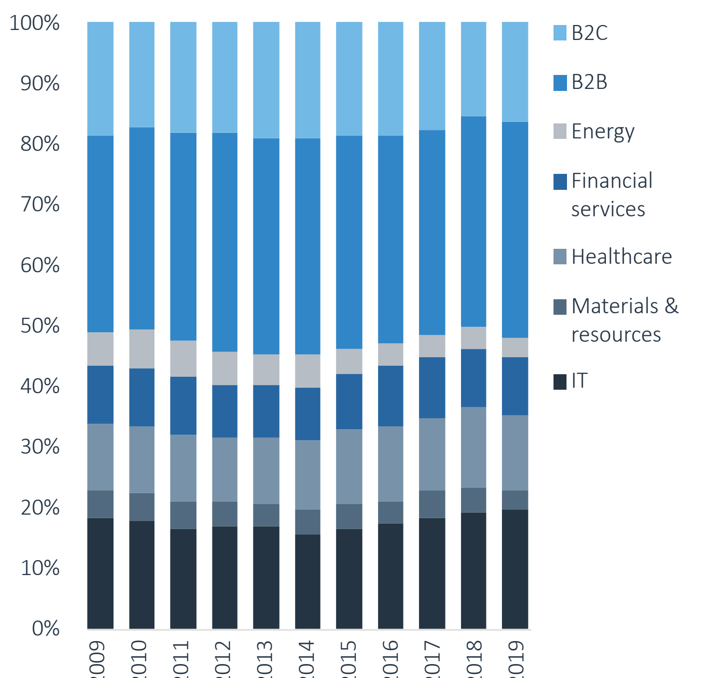
## M&A ($) by sector




**Source:** PitchBook | **Geography:** North America

## M&A (#) by sector




**Source:** PitchBook | **Geography:** North America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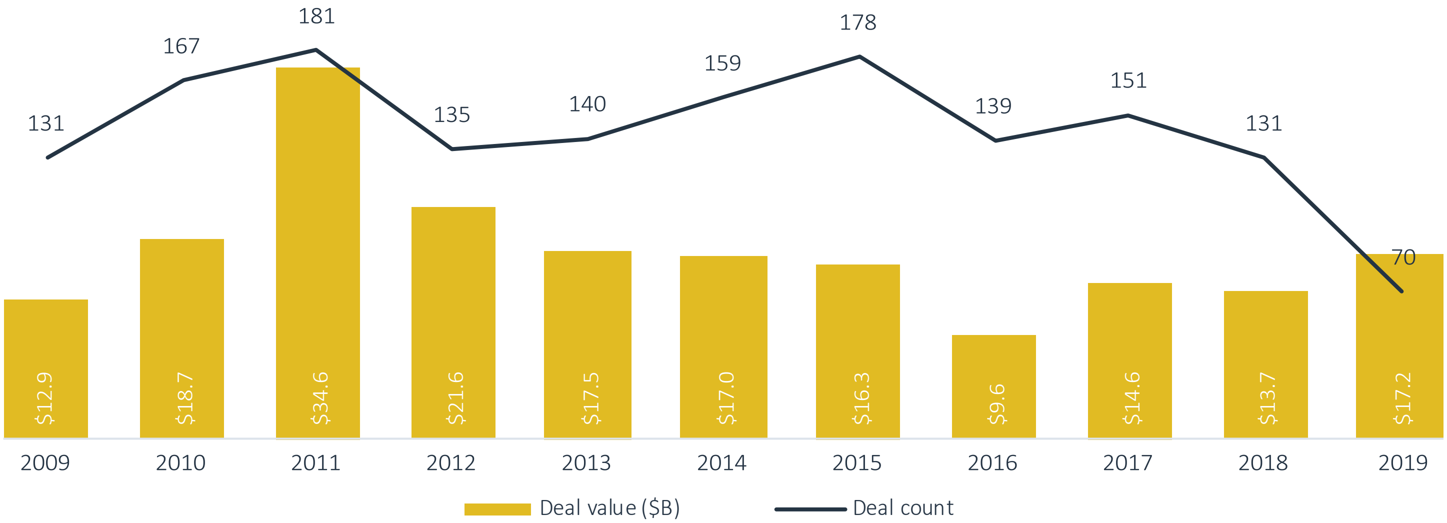
# Spotlight: Gold mining

## Metals, minerals and mining deal activity

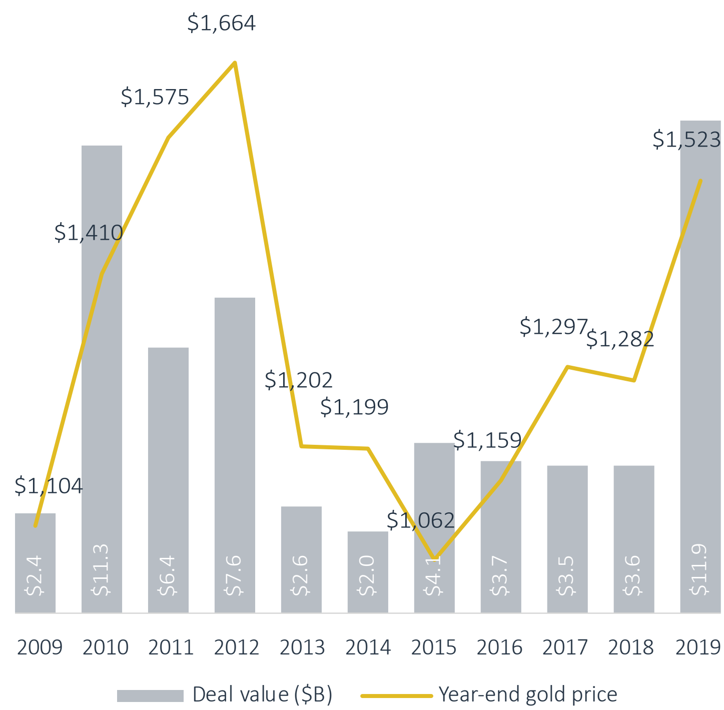



**Source:** PitchBook | **Geography:** North America

2019 saw an increase in metals, minerals and mining deal value largely due to gold mining M&A activity. This activity has been driven by senior producers consolidating due to diminishing gold reserves and in order to court investors who left the space after a period of dismal returns. While not included in North American deal flow, Barrick Gold's (TSE: ABX) $6 billion acquisition of UK-based Randgold Resources in January 2019 made it the largest gold mining company in the world. Then, in April 2019, Colorado-based Newmont Mining and Vancouver, Canada-based Goldcorp merged to become Newmont Goldcorp (NYSE: NEM) and recaptured the crown as the largest gold producer. The Newmont-Goldcorp merger led the metals, minerals and mining subsector to post M&A value of $17.2 billion in 2019, a 25.5% YoY gain.

Despite the increase in M&A value, gold dealmaking did not reach the levels anticipated by analysts after the Barrick and Newmont acquisitions for a few key reasons. First, investors are unhappy with gold mining companies. During the boom of 2011, when gold hit more than $1,900 per ounce in August, a wave of acquisitions followed.[4] However, acquirers overpaid during this time (40% to 50% premiums in some cases)[5] and were ill-equipped to deal with lower gold prices in the following years. The gold mining ETF GDX is down more than 50% from 2011 highs compared to the S&P 500, which has doubled over the same time period. This in turn left a bad taste in investors' mouths and made executives more cautious in terms of

## Gold mining deal activity

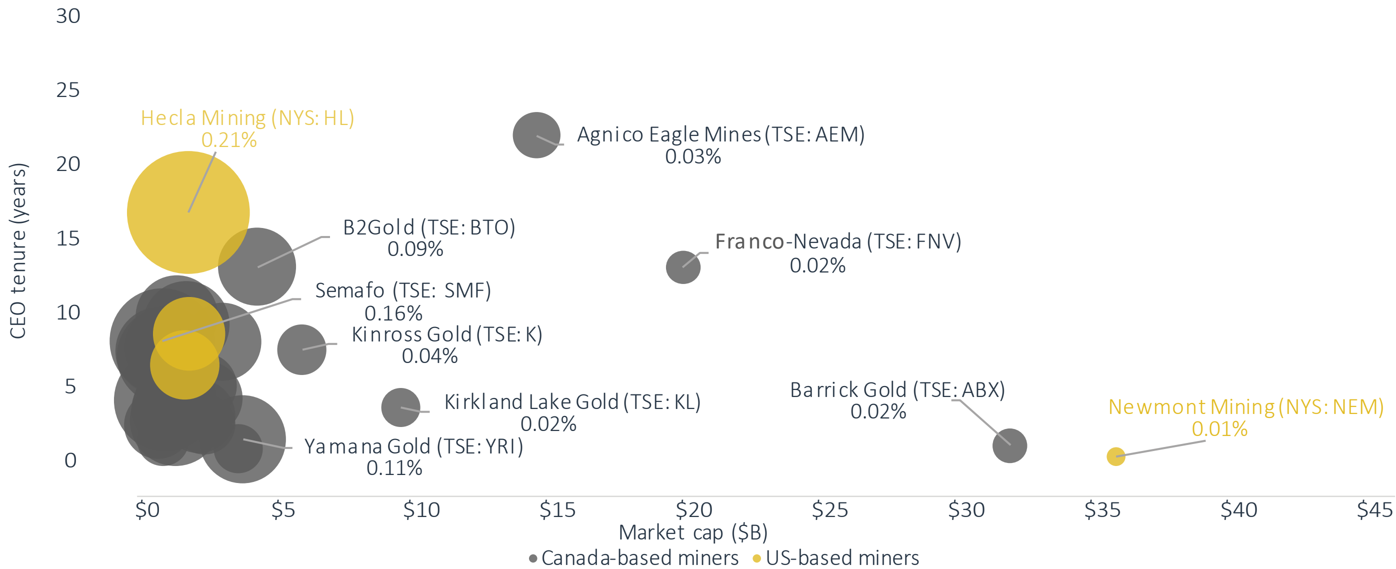



**Source:** PitchBook and FRED for gold price | **Geography:** North America

4: Gold price then ended the year at $1,575 per ounce.
5: In contrast to the Goldcorp acquisition, which had a 17% premium, and the Randgold acquisition, which had no premium.

Spotlight: Gold mining

## Publicly traded gold mining CEO compensation* relative to market cap and tenure

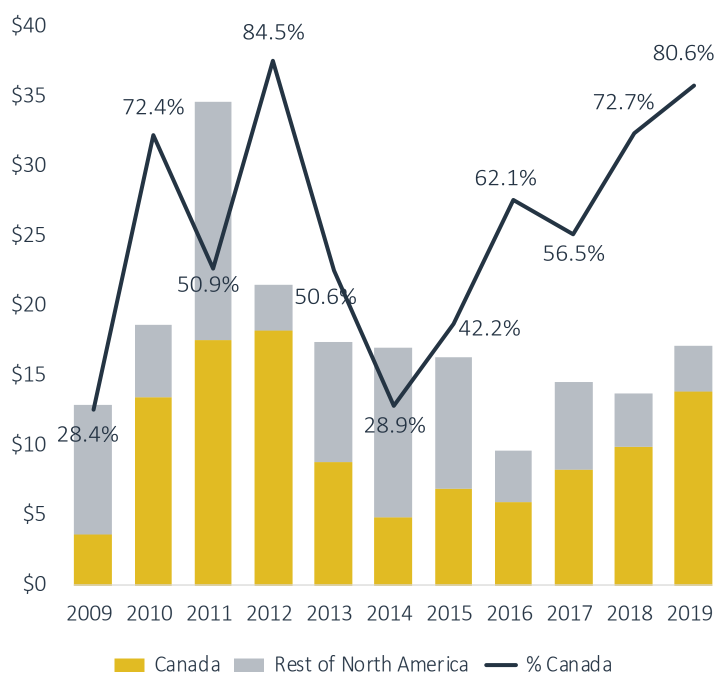



**Source:** PitchBook, Yahoo Finance and company disclosures | **Geography:** North America
*CEO compensation as of 2018
*Note: Bubble size (%) equals CEO compensation as percentage of current market cap*

dealmaking. Furthermore, M&A may not be in the best interest for mining executives in Canada (where about 40% of North American deal count and the majority of deal value in the metals, minerals and mining subsector takes place in any given year). A survey from recruitment consultant Hays found that chief executives and presidents of mining companies receive the highest compensation among all sectors surveyed in Canada, despite mediocre returns from the subsector.[6] For instance, the CEO of Semafo (TSE: SMF) receives a generous compensation package despite his company's stock price declining over 75% since he took the reins in 2012. Selling or agreeing to mergers may put these executives out of a job in a country where lavish golden parachutes are not the norm.[7] Lastly, the poor performance of the subsector has likely prevented even more M&A because potential sellers wanted to hold out for better valuations and buyers don't want to use undervalued shares for purchases. However, beginning with a rise in gold price in the back half of 2019, we anticipate healthy M&A activity in 2020.

In September 2019, gold prices rose to a six-year high, when the precious metal was trading for more than $1,500 per ounce (ending the year at $1,523 per ounce). The increase in gold prices will likely lead senior producers to acquire smaller companies in order to strengthen their portfolios of mining operations, processing facilities and related infrastructure. With gold reserves depleting (and few new discoveries to replace them) and gold exploration costs rising, miners are likely to find M&A cheaper than procuring new reserves.

## Proportion of Canada metals, minerals and mining M&A ($B) compared to North America




**Source:** PitchBook | **Geography:** North America

6: "Investors Are Still Waiting for a Gold-Mining Merger Wave," The Wall Street Journal, Alistair MacDonald and Ben Dummett, March 13, 2019.
7: A severance multiplier of two times base salary and bonus is considered a best practice in Canada.