PitchBook

M&A Report

2017
3Q

PitchBook

Contents

The PitchBook Platform

The data in this report comes from the PitchBook Platform–our data software for VC, PE and M&A. Contact sales@pitchbook.com to request a free trial.

M&A REPORT

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A record for institutional backers—16.9% of all M&A YTD

Introduction

Key Takeaways

- After a record-setting 2016, M&A activity in North America and Europe has totaled $1.4 trillion across 13,972 deals through 3Q 2017, declines of 19% and 23% from the same period last year.
- The proportion of target companies that have institutional backing (i.e. private equity or venture capital) at the time of acquisition has risen to an all-time high of 16.9% of M&A. The trend reflects the growing institutionalization of private markets, particularly in the developed markets of North America and Europe.
- Amidst declining activity, M&A today increasingly involves larger acquisition targets. The median transaction size has risen from $31.6 million in 2016 to $52.7 million through 3Q 2017, a 66% increase. Rising valuations, platform roll-ups, and large cash reserves on corporate balance sheets are all driving the increase in deal sizes.

Beginning last quarter, we revised our methodology for estimating total deal flow. Through this and other recent methodology changes, we aim to provide an even more accurate picture of the private markets. Please see the methodology page for this report for more details.

We hope this report is useful in your practice. As always, feel free to send any questions or comments to reports@pitchbook.com.

DYLAN E. COX

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The M&A cycle subsides

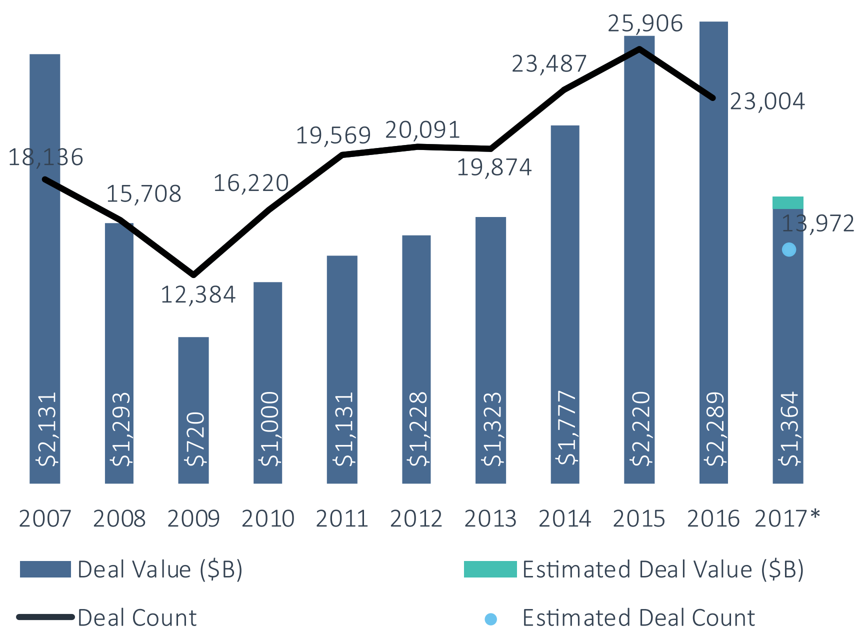
Overview

After a record-setting year in 2016, M&A activity in North America and Europe has totaled $1.4 trillion across 13,972 deals through 3Q 2017, declines of 19% and 23% from the same period last year. Through 3Q, M&A activity resembles dealmaking during 2011 to 2013 more than it does the recent boom from 2014 to 2016. Amid declining volume, M&A today increasingly involves larger acquisition targets. The median transaction size has risen from $31.6 million in 2016 to $52.7 million through 3Q 2017, a 66% increase. Rising valuations, large cash reserves on corporate balance sheets, and platform rollups resulting from PE add-ons are all driving the increase in deal sizes. No company seems too large to be considered a target.

Cross-Atlantic deal flow continues to be a more prominent feature of today's M&A landscape. Through 3Q 2017, 6.6% of North American deals involved European acquirers and 9.4% of European deals involved North American acquirers, compared to 5.8% and 7.2%, respectively, in 2007. Two key drivers of this trend include the increasingly global nature of trade and the broadening reach of PE firms, many of which have now established offices across the pond from where they're headquartered.

A return to pre-2014 levels

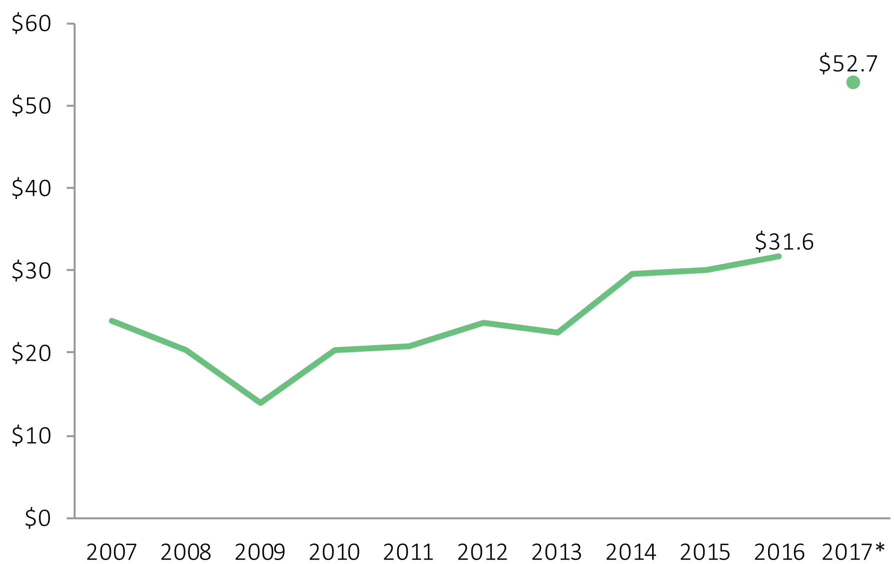
M&A activity in North America & Europe



Source: PitchBook
*As of 9/30/2017

The median M&A transaction jumps 66% in size

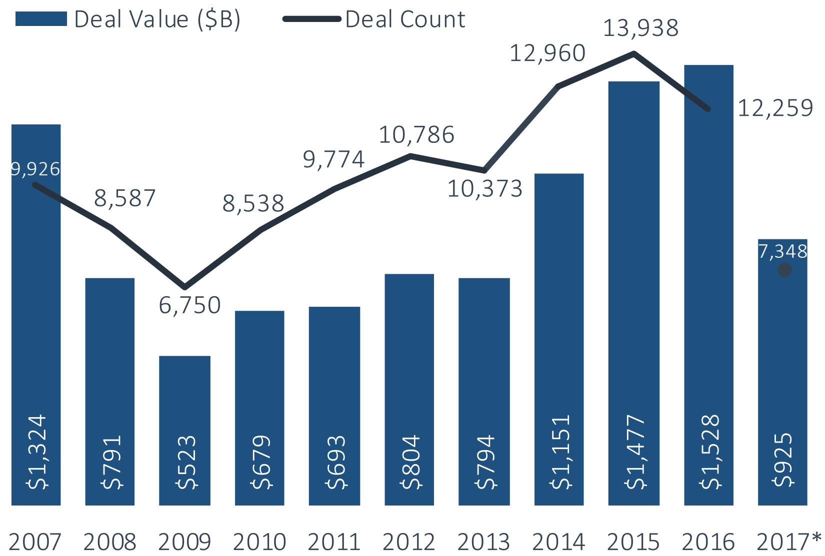
Median M&A deal size ($M)



Source: PitchBook
*As of 9/30/2017

Dealmakers adopt a wait-and-see approach

North American M&A activity

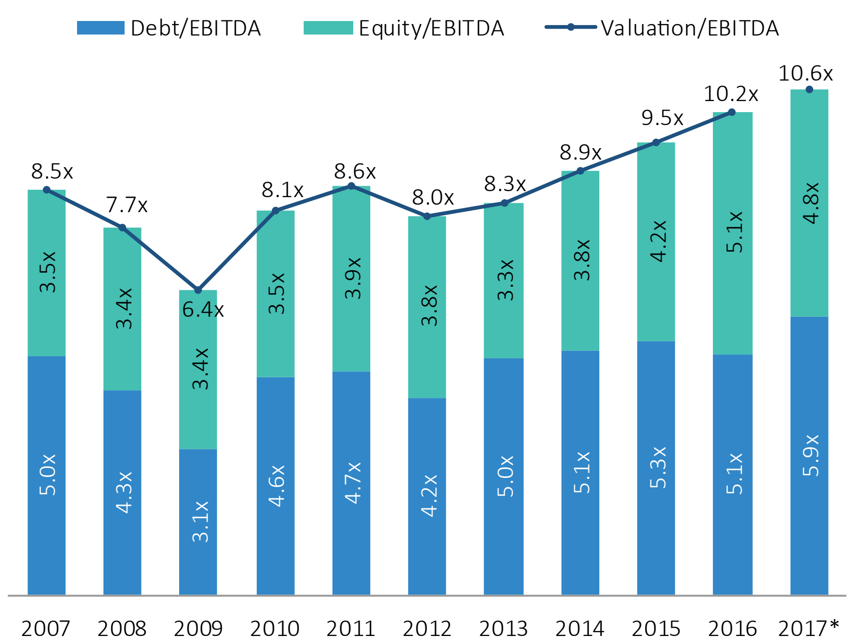


Source: PitchBook

*As of 9/30/2017. Deal counts are not estimated, as opposed to overall deal volume.

Multiples remain highest tracked in North America

Median North American EV/EBITDA multiples



Source: PitchBook

*As of 9/30/2017

A slowdown despite some positive signs

M&A activity in North America totaled $925.3 billion across 7,348 transactions through 3Q 2017, 24.3% and 22.6% behind the first three quarters of 2016. The slowdown comes despite an increase in CEO confidence—a historical bellwether for M&A activity—and a 14.2% increase in the value of the S&P 500 (using total return) in the first three quarters of 2017. Facing the possibility of major tax and healthcare reform this year, some investors in the US have taken a wait-and-see approach to M&A. If dealmakers get more clarity regarding potential changes to either system, they will be more likely to pursue deals.

While activity slowed in North America, prices continued to rise. The median EV/EBITDA multiple for transactions completed through 3Q 2017 edged up to 10.6x—the highest we've ever tracked. Easy credit continues to fuel price increases, with the median debt usage jumping to 5.9x EBITDA through 3Q 2017, comfortably higher than any other year in our dataset. Higher debt multiples reflect the currently voracious appetite for leveraged loans, with new issuance volume on track to surpass pre-financial crisis levels, according to S&P LCD. Though equity contributions have inched downward to 4.8x EBITDA this year, they also remain elevated on a historical basis due to the elevated pricing environment.

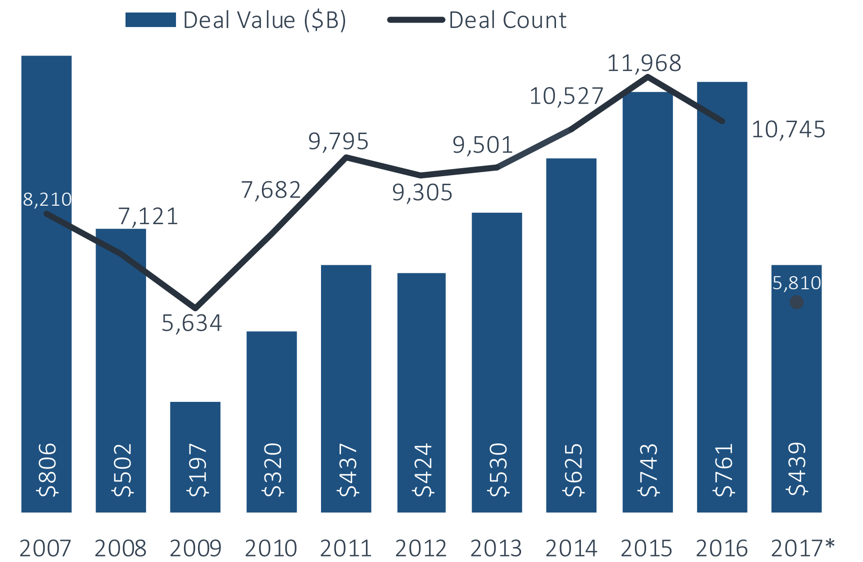
Europe resembles North America in some respects

Similar to their North American counterparts, European investors have slowed their pace of dealmaking this year. European M&A activity totaled $438.95 billion across 5,810 transactions through 3Q 2017, 19.8% and 32.2% behind the same period last year. Following the UK's vote last year to leave the EU, would-be acquirers feared that further political disintegration was likely if anti-establishment parties had won elections in the Netherlands, France, or Germany. While some of these fears have abated, the political situation in Europe remains tenuous. At the same time, the ECB faces the daunting task of ending QE without impeding growth. Recently, it indicated it would slowly taper its bond-buying program into 2018, assuaging any fears of a sharp rise in interest rates in the near term and increasing the likelihood of strong deal flow into next year.

After tapering off slightly in the first two quarters of the year, the median European EV/EBITDA multiple rebounded to 10.8x in for transactions completed in 3Q 2017, bringing the European YTD median to 10.0x, the highest in our dataset. The rise in valuations can be partially attributed to the booming leveraged loan market, as well as increased competition for a limited number of acquisition targets resulting from the eruption in M&A activity during 2015 and 2016.

The M&A environment remains marked by caution

European M&A activity

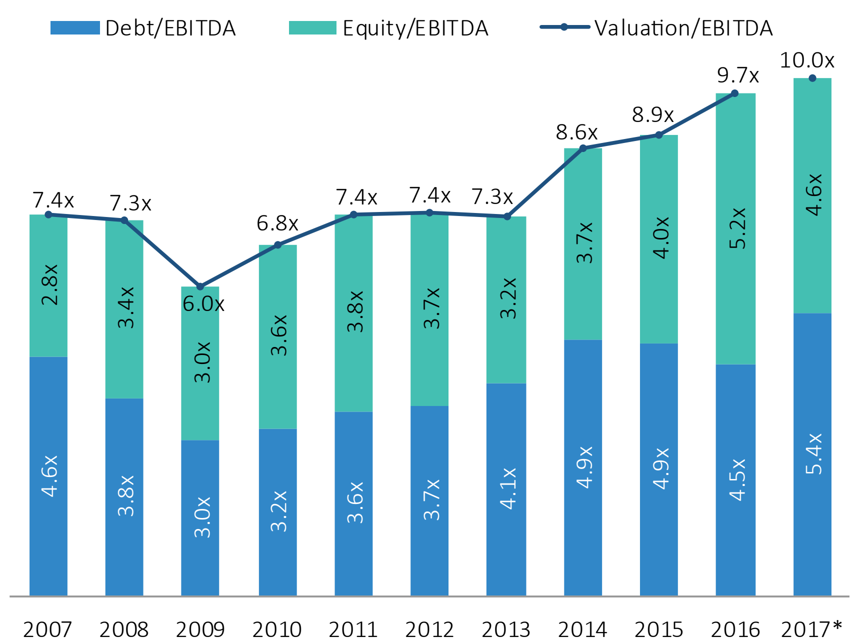


Source: PitchBook

*As of 9/30/2017. Deal counts are not estimated, as opposed to overall deal volume.

Pricing pressures remain unabated

Median European EV/EBITDA multiples



Source: PitchBook

*As of 9/30/2017. Note: Since the penultimate edition of the M&A Report, a significant update to the PitchBook Platform occurred, resulting in the addition of many financial data points to our European figures. Hence, there will be significant changes between these figures and those in prior editions of the M&A Report.

M&A targets are increasingly sophisticated

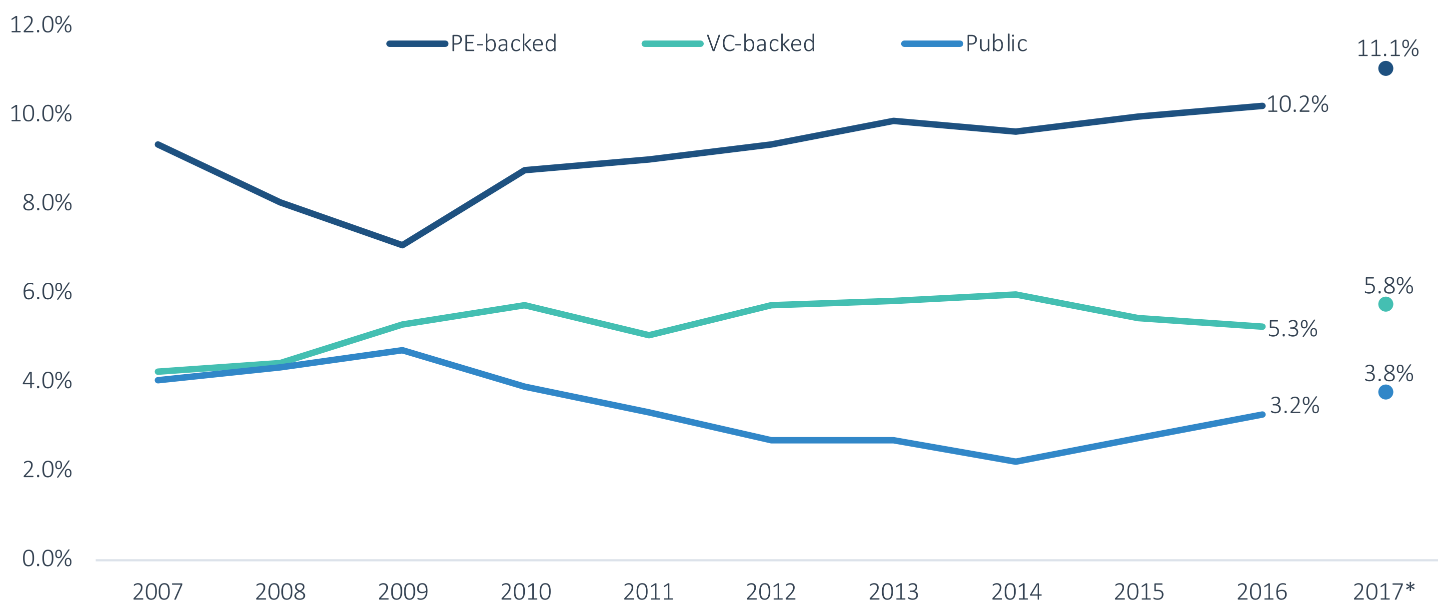
Spotlight: Target company characteristics

The proportion of target companies that have institutional backing (i.e. PE or VC) at the time of acquisition has risen to an all-time high of 16.9%. Another 3.8% of targets were publicly traded when the deal was struck, the highest recorded since 2009, leaving just 79.1% of acquired companies that were neither publicly traded nor had any sort of private backing—the lowest on record. If this trend continues through the fourth quarter, it will mark the first time the figure has dropped below 80% for a full year. In any case, the trend reflects the growing institutionalization of private markets worldwide. Particularly in the developed markets of North America and Europe, companies are increasingly traded not between individuals and families, but rather sophisticated investors.

Despite the recent appreciation in price-to-earnings ratios and continued de-listings in public equities markets, publicly traded firms have regained popularity as acquisition targets in recent years. As mentioned above, 3.8% of M&A transactions this year have targeted publicly traded firms, up from 3.2% in 2016 and a low of 2.2% in 2014 (including both public and private acquirers). The figure includes divestitures from publicly traded firms, which are a popular target for PE firms. That publicly listed companies are being acquired at a faster pace despite higher prices illustrates that acquirers are willing to pay top dollar when there are fewer quality targets available in the market.

Target companies are increasingly institutionalized

M&A activity (#) by target company financing status



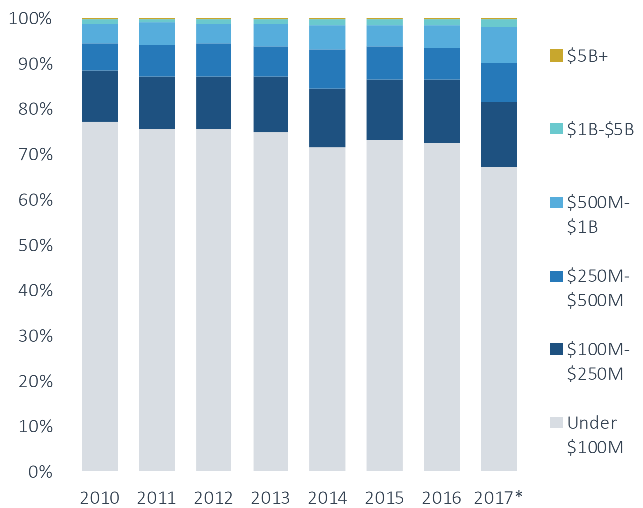
Source: PitchBook
*As of 9/30/2017

High multiples evident in larger deals

M&A by sector & size

A new high for the middle of the market

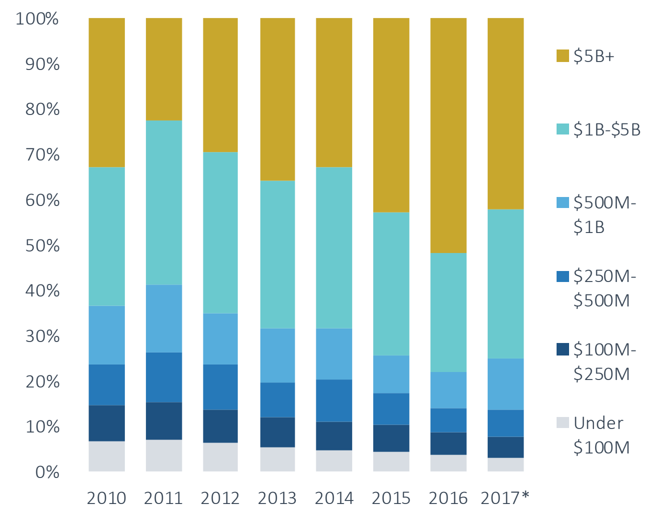
M&A activity (#) by deal size



Source: PitchBook
*As of 9/30/2017

Sub-$500M activity dwindles

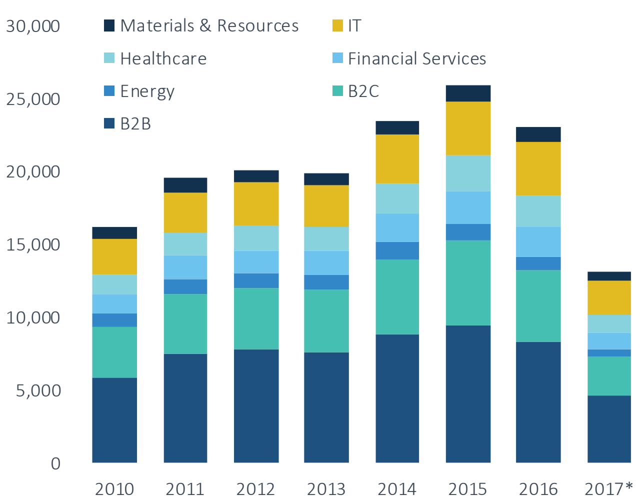
M&A activity ($) by deal size



Source: PitchBook
*As of 9/30/2017

IT remains markedly resilient

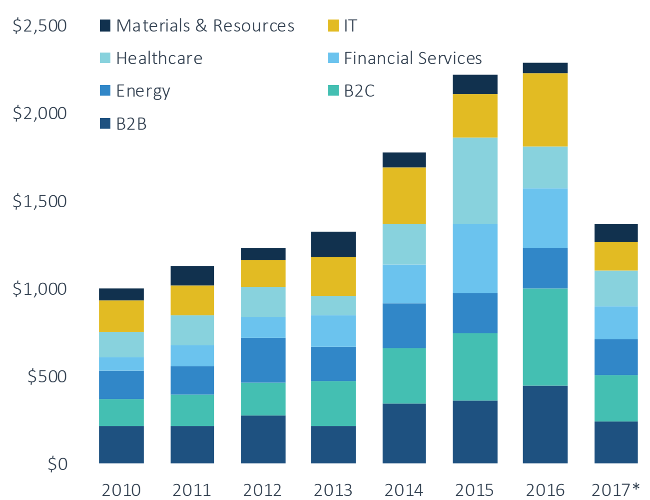
M&A activity (#) by sector



Source: PitchBook
*As of 9/30/2017

Materials & resources boosted by one deal

M&A activity ($) by sector



Source: PitchBook
*As of 9/30/2017

Benefiting from mega-deals struck this year

Spotlight: Energy, materials & resources

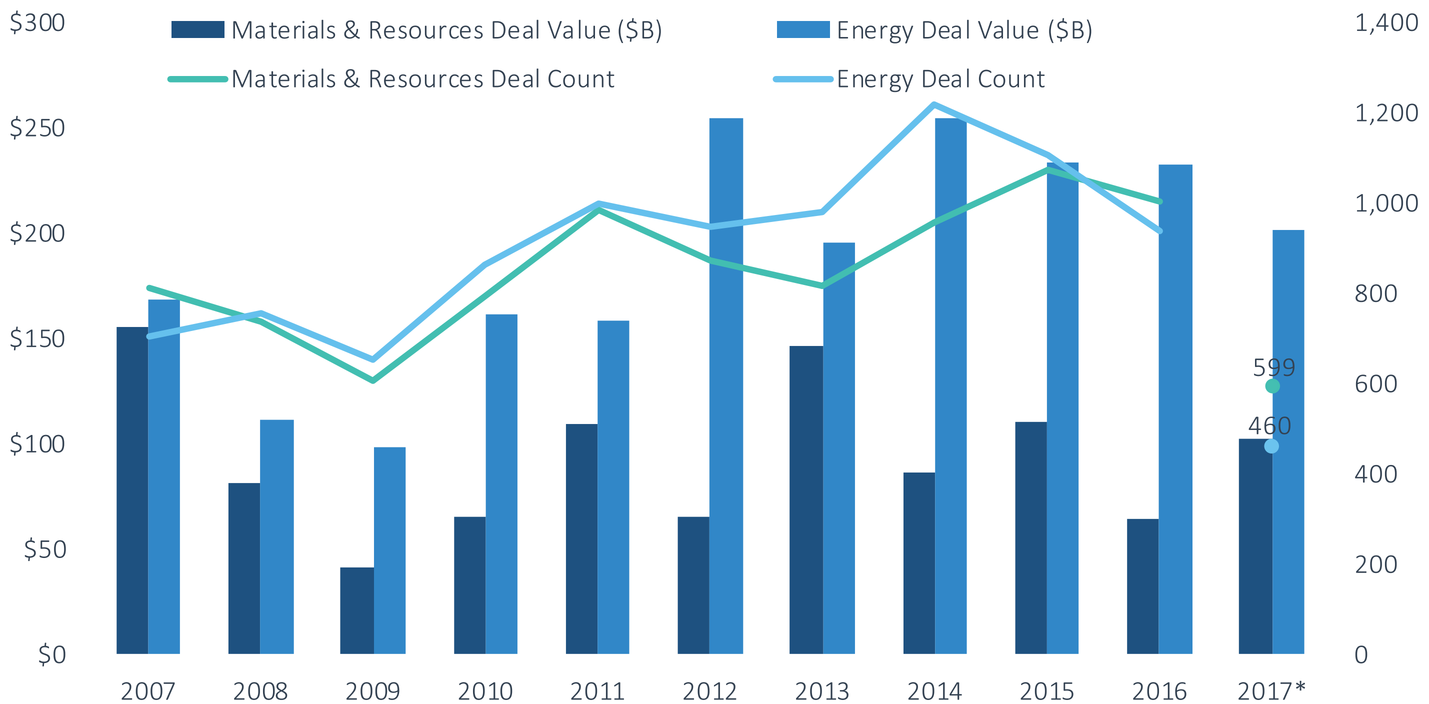
Though overall M&A value has decreased substantially through the first three quarters of the year, the energy and materials & resources sectors have shown substantial year-over-year (YoY) growth. Deal value in the two sectors has increased 14.7% and 121.6%, respectively, over the same period last year.

Energy M&A has been bolstered by a few large deals: Enbridge's $43.0 billion acquisition of pipeline operator Spectra Energy and GE's $32.4 billion acquisition of oilfield services firm Baker Hughes, both of which are based in Houston. 2016 saw a decrease in the number of completed oil & gas deals following the crude oil price crash in mid-2014, but decreasing break-even prices and OPEC productions cuts could spur a renewed appetite for deals.

By far the largest deal to close in the materials & resources sector this year has been ChemChina's $44 billion acquisition of agribusiness giant Syngenta. The deal is thought to provide additional food security to China's growing middle class, and comes just after the announcement of two other agribusiness mega-deals: Bayer's acquisition of Monsanto and the merger of industry giants DuPont and Dow Chemical.

Deal counts fall while value rises

M&A activity in energy, materials & resources



Source: PitchBook
*As of 9/30/2017

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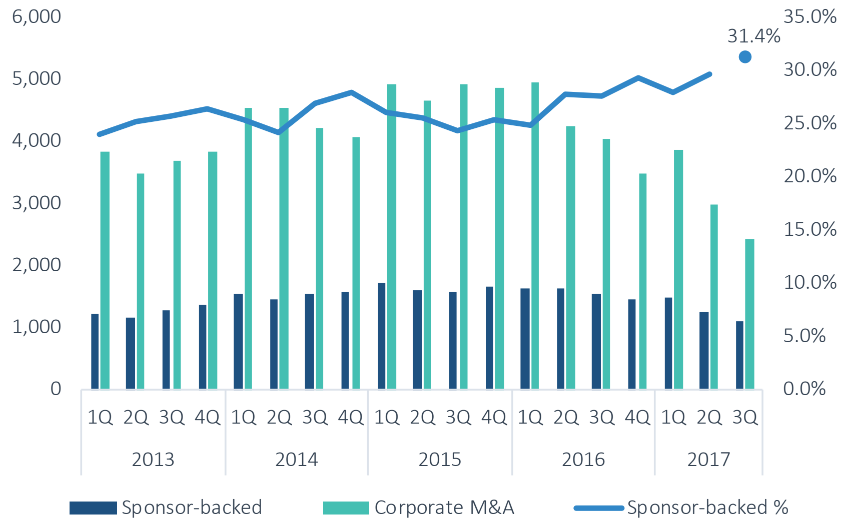
Financial sponsors increasingly contribute to overall M&A

Private equity

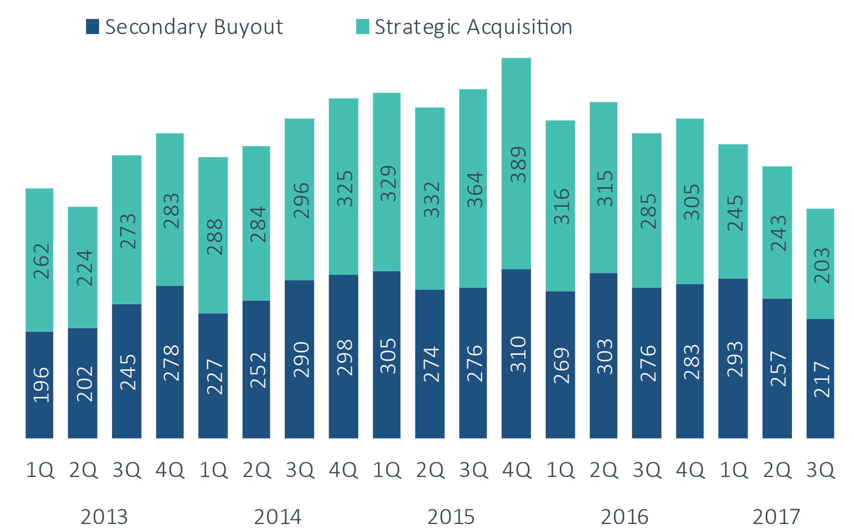
Closing in on a third of all M&A activity

M&A (#) by acquirer type



Source: PitchBook

PE-backed exit activity (#) by type



Source: PitchBook

As we've noted for the last couple quarters, PE deals now represent a larger portion of the M&A landscape. Financial sponsors accounted for 31.4% of all transactions in 3Q 2017, the highest proportion in our dataset. The increase is attributable to both the waning activity from strategic acquirers in recent quarters, as well as the relative resilience of PE deal flow following years of strong fundraising. Strategics, as previously mentioned, have slowed their pace of acquisition as they integrate new acquisitions into existing operations following two years of record-setting M&A. PE firms, on the other hand, must return capital to limited partners (LPs) within a set timeframe, which creates incentivizes to deploy capital no matter the economic environment.

However, a limited timeframe is not the only factor driving PE's influence in M&A. Returns for PE funds have outpaced most other asset classes in recent years, and LPs increasingly see the private markets as a way to make up for returns shortfalls in other asset classes and diversify their equity holdings. As more capital has been allocated to the asset class, the count of companies backed by PE (aka "company inventory") has ballooned in recent years, as has AUM. As a result, secondary buyouts have become a more common way for PE firms to exit their investments. They accounted for 52.6% of M&A transactions stemming from the sale of a PE-backed company through 3Q 2017, the highest proportion on record.

Methodology

Deal Flow Estimation

Due to the nature of private market data, information often does not become available until well after a transaction takes place. To provide the most accurate data possible, we estimate how much of this new information will become available in the next quarter by calculating the average percentage change in deal flow from the first to second reporting cycle over the trailing 24 months. We then add this estimate to the reported figure for the most recent quarter. Both the original reported figure and the estimated figure are provided for your reference.

Note: Corporate asset purchases were not considered an eligible transaction type until the 2Q 2017 edition of this report. As such, some historical deal flow figures will have shifted beginning at this time.

M&A is defined as the substantive transfer of control or ownership. We track only completed control transactions. Eligible transaction types include control acquisitions, leveraged buyouts (including asset acquisitions), corporate divestitures, corporate asset purchases, reverse mergers, spin-offs, and asset divestitures.

- Debt restructuring or any other liquidity, self-tenders (in which a company undertakes an offer for a typically limited number of its own shares to ward off a hostile takeover) or internal reorganizations are not included
- The target company (the entity being acquired) must be headquartered in either North America or Europe
- Announced, rumored or canceled deals are not included
- Aggregate transaction value is not extrapolated using known deal values, unless otherwise noted as estimated