PitchBook

# European M&A Report

3Q 2019

# Contents



*A note on methodology: In previous reports, our data has only included estimates from the current quarter. Beginning in this edition, we will include estimates for value and count going back four quarters to include a full-year's worth of estimates.*

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# Introduction

**Three quarters through 2019, annual European M&A value and volume are apace to be the lowest readings since 2014 and 2010, respectively.** That said, deal value spiked 23.0% QoQ, largely driven by two outlier mega-deals. EQT's acquisition of Nestlé Skin Health and E.ON's acquisition of Innogy for a combined €32.6 billion helped drive the largest quarterly M&A deal value reading of the year. An expanded and diverse set of acquirers are aggressively pursuing a small pool of "A-grade" assets, which has kept valuations historically high, in spite of multiples softening from 2018's peak. The only sectors not to see YoY declines in M&A deal value were healthcare and energy. Financial sponsor volume and value proportions of corporate carveouts are at decade highs, while the UK & Ireland region shows increased M&A volume resilience in the face of palpable geopolitical and macroeconomic headwinds.

**Despite economic confidence languishing across the continent, German M&A in 2019 has been solid.** Not surprisingly, considerable automotive and industrial deals have been conducted via carveouts and divestures. IT deals are growing in prominence in the country and may be on track for a record year as emerging sectors seek growth in well-equipped regions. Germany is providing a rising proportion of European cross-border activity despite declining value and volume of such deals in the country.

**With one quarter remaining in 2019, healthcare deal value has already topped 2018's total and could potentially reach an all-time high.** 2019's lofty level was largely driven by an outlier deal in 1Q, but the shifting outlook for healthcare will create opportunities for future sizable deals. Corporate backing remains a popular strategy for companies in this sector that are seeking development. International consolidation appears to be rampant among many US, European and Asian healthcare market leaders as they exchange assets for substantial sums.

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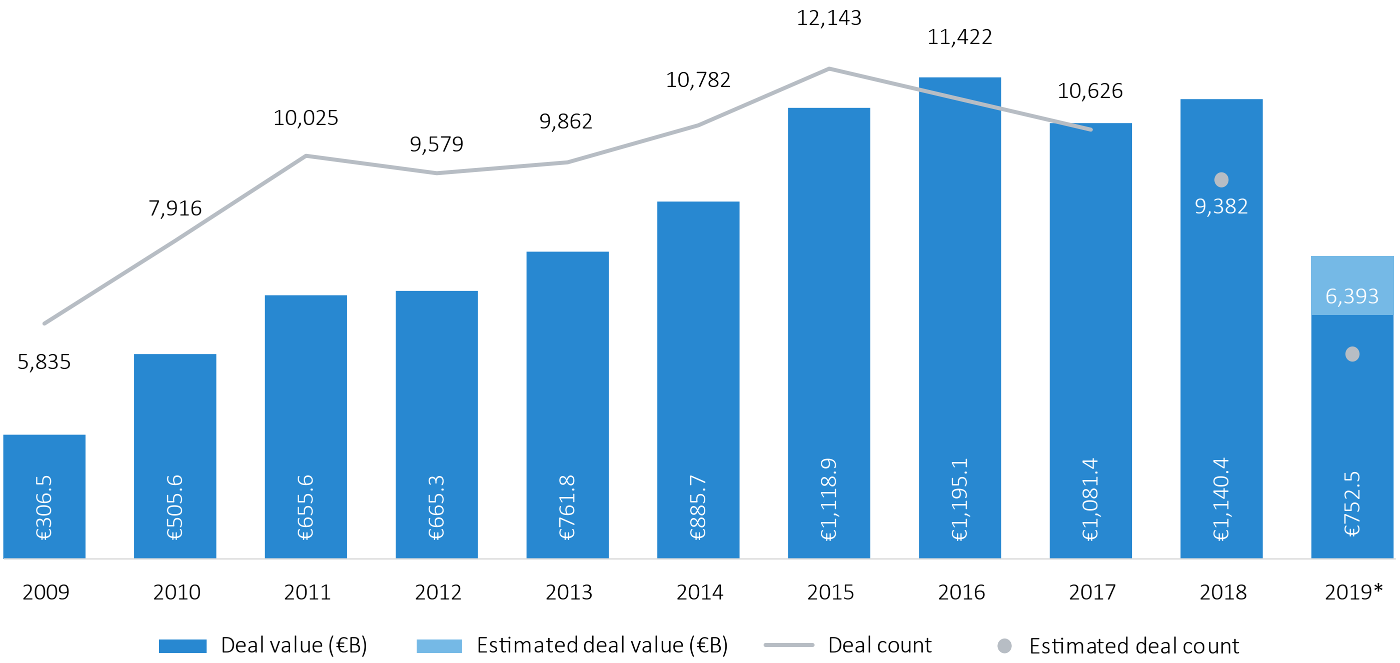
# Overview

## M&A activity




**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2019

European M&A activity picked up in 3Q with 2,215 deals amounting to €271.3 billion, representing a 2.8% and 23.0% QoQ uptick, respectively. The rise in deal value was largely driven by two mega-acquisitions worth a combined €32.6 billion: E.ON's purchase of Innogy and EQT's purchase of Nestlé Skin Health. This substantial increase in QoQ M&A value should not deflect from the broader decline in European M&A activity. 6,393 transactions worth €752.5 billion closed across the continent YTD, reflecting 11.5% and 6.5% YoY decreases, respectively. We're also seeing M&A volume decline at almost double the rate of value.

Current M&A dynamics suggest dealmakers are opting for fewer but larger transactions, paying substantial premiums for businesses with built-in cycle resilience. Amid intense financial and political uncertainty, an expanding and diverse set of acquirers—including financial sponsors, strategics, permanent capital funds, family offices and public and private pension funds, among others—are aggressively pursuing a small pool of "A-grade" assets with significant amounts of capital. This, in turn, has kept multiples high. M&A value remains lofty as both corporates and financial sponsors continue to seek opportunities for enhanced growth or to secure future survival, but volume has waned in the face of weak European economic indicators, growing protectionism and the uncertainty surrounding Brexit. In a recent survey by CMS, only 27% of respondents expect M&A activity in Europe to increase over the next 12 months, compared to 65% last year.[1]

Dealmakers are evidently cautious, opting for a wait-and-see approach. We've observed longer M&A deal processes as deal teams focus on down-cycle modelling to insulate from the fluid regulatory, political and economic risks the region poses. For example, UK-based Cobham's (LON: COB) recent take-private by US-based buyout shop Advent went into regulatory review in 3Q 2019. This was shortly after UK's competition regulator stepped into review the proposed €5.3 billion buyout of satellite operator Inmarsat (LON: ISAT) by a consortium led by Apax Partners.

Additionally, we are seeing some firms walk away from deals due to heightened cultural and fit challenges, as well as shareholder disapproval. A recent example of this was Sunrise Communications Group's (SWX: SRCG) attempted €5.8 billion acquisition of Liberty Global's (NASDAQ: LBTYA) swiss cable business UPC, which was scrapped in 4Q 2019 due to shareholder unrest. Furthermore, there has been an uptick in earn-outs, joint ventures and acquirers taking out warranty indemnity insurance within M&A to largely protect against buyer downside risk.

1: "CMS European M&A Outlook 2018," CMS, September 5, 2019

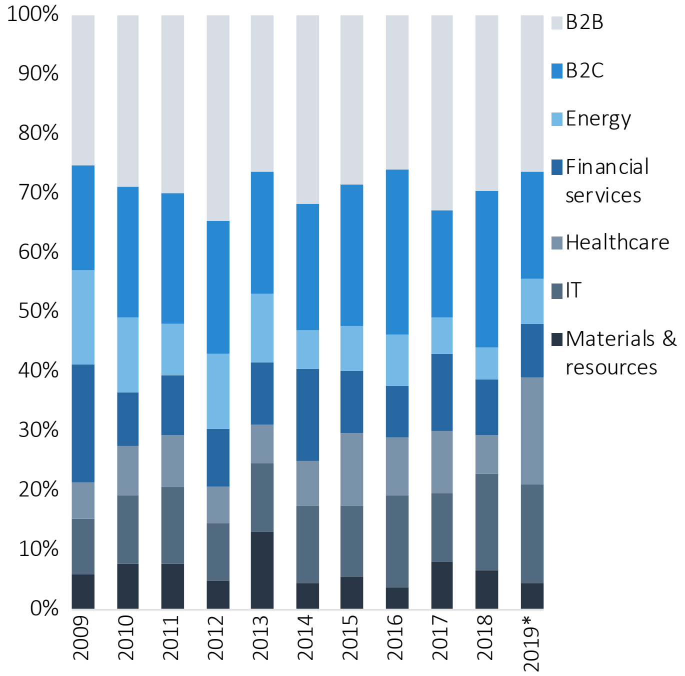
This medley of factors has contributed to the complex, cautionary and waning European M&A environment. That said, we think deals will still be executed due to a long list of drivers underpinning the market. These include persistently loose and cheap financing conditions, heightened dry powder levels, central bank continued stimulus and corporates' robust cash reserves, among others.

Breaking down M&A by sector, deal value through 3Q 2019 across all sectors experienced declines in excess of 30% YoY, apart from the healthcare and energy sectors. Healthcare M&A deal value actually spiked 108.3% YoY, with pharma & biotech comprising 71.0% of that value and accounting for seven of the top 10 deals in the sector. M&A has dominated this subsector due to low R&D returns and sluggishness in mature products, which has forced entities to explore M&A to fuel growth and bolster pipelines. In 3Q 2019, Boston Scientific (NYSE: BSX) completed its largest transaction since 2005 with the €4.7 billion strategic acquisition of BTG. This deal will give the company new products for the treatment of cancer and harmful blood clots. Other large corporates are moving in the same direction. Swiss-based Novartis acquired Shire's eye care business for €4.7 billion, allowing the company to move into the dry-eye disease business, with Xiidra as the main product in the deal. Xiidra had approximately €360.0 million in sales last year.

3Q 2019 saw the largest overhaul in Germany's energy sector in nearly a decade, illustrating corporates' desire to focus on their core competencies and divest non-core units. E.ON's outsized €22 billion acquisition of Innogy marked not only the largest deal of 3Q 2019 but an audacious transformation of Europe's energy industry. E.ON assumed RWE's entire 76.8% equity stake in Innogy for €22 billion, while RWE received virtually all of E.ON's and Innogy's renewable energy businesses, plus a 16.7% stake in the new E.ON entity, for €1.5 billion in cash. The deal will make RWE the third-largest renewable energy provider in Europe, while E.ON will be transformed into one of the continent's largest providers of European energy networks and customer-focused energy services. The transaction is a win-win for all, as both companies are able to grow and scale in their focused areas without stepping on each other's toes.

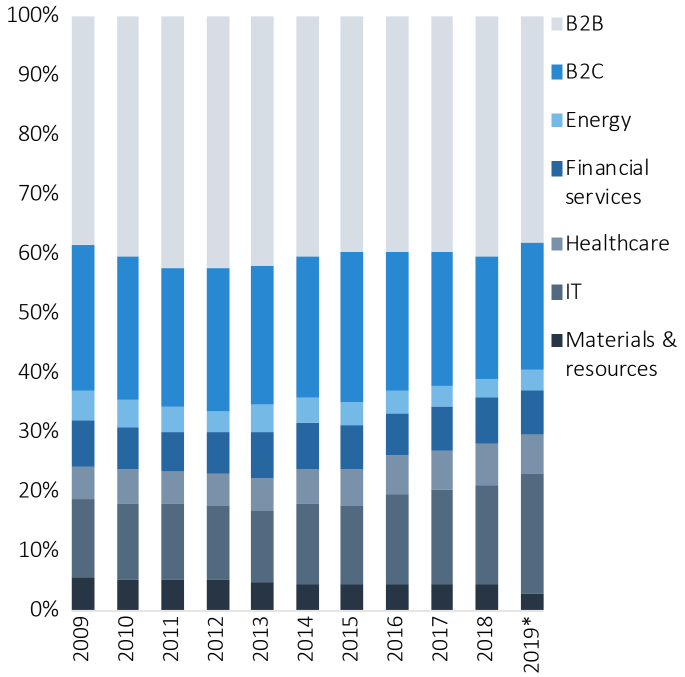
While corporate carveouts as a proportion of overall M&A activity has been on a downward trend for over a decade, financial sponsors have increasingly turned to this deal type as a means of driving outperformance. Half of the top 10 largest M&A deals in 3Q were divestitures to financial sponsors. The volume and value of deals backed by financial sponsors as a proportion of divestitures are at decade highs YTD, accounting for 31.5% and 50.2%, respectively, compared to 14.5% and 13.1% in 2009. A multitude of factors have come together to help propel this staggering growth: Mounting inflows of capital into

## M&A (€) by sector




**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2019

## M&A (#) by sector




**Source:** PitchBook | **Geography:** Europe
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financial sponsor coffers have made them competitive in divestitures; private market multiples have converged and even eclipsed public market multiples; and finally, the quarterly market pressures of the public markets as well as rising shareholder activism have forced corporates to streamline business operations and divest non-core units.

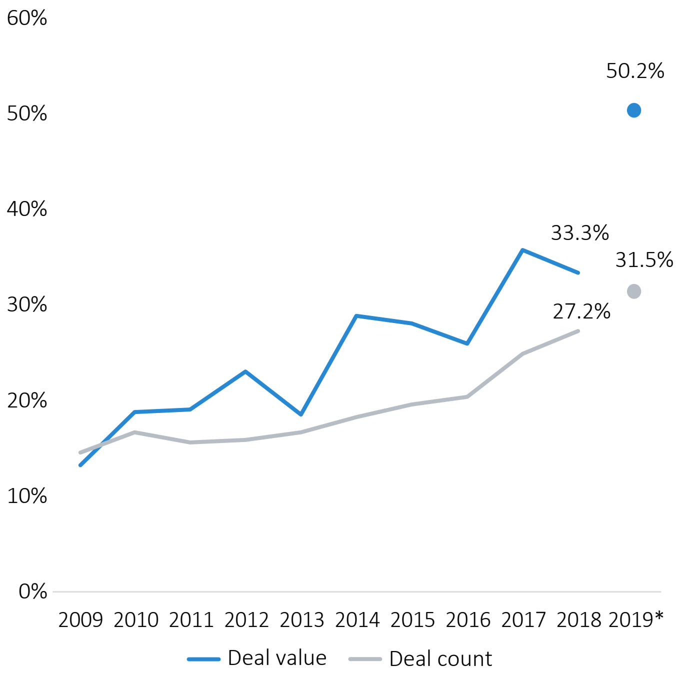
The second-largest M&A deal to close in 3Q was the €10.6 billion corporate carveout of the Nestlé Skin Health unit to a consortium of investors led by financial sponsor EQT. This also marks the second-largest European buyout since the global financial crisis (GFC) at what was reportedly a near 20x EBITDA multiple. EQT fended off stiff competition to win the deal. Conjointly, Nestlé's activist shareholder, Third Point Management, pushed hard to close it.

Across all European regions, M&A volume is down near 30% YoY. This reflects the broader trend of diminishing political and European M&A confidence, which has hampered activity across the continent. Most European M&A deals continue to close in the UK & Ireland; 1,754 transactions closed in the region YTD, comprising 34.4% of overall M&A count. Interestingly, if we compare regional M&A volumes through the first three quarters of 2015 (pre-Brexit) to the same point in 2019, we find the UK & Ireland region has had the smallest decline of all European regions at 39.2%. With a quarter left to go, UK & Ireland transactions as a proportion of overall European M&A volume and value are currently the highest they've been in our datasets. This points to continued faith in UK-based companies, many of which have strong management teams, proprietary products and room for organic and inorganic growth.

There is no doubt Brexit has hampered the number of M&A transactions going to market in the UK & Ireland; however, multiples for quality assets in growth-oriented sectors have not been substantially affected. Three quarters through the year, the median UK & Ireland M&A EV/EBITDA multiple has decreased from 2018's 11.2x peak to 8.7x in 3Q 2019. We believe acquirers are taking a long-term view on the region and see strong growth prospects decades down the line. The best management teams prepare organizations for the long term, with geopolitical issues often providing a short-term setback for companies, which should not alter the long-term vision. BC Partners acquired 50% of UK-based Advanced for €2.2 billion, reportedly fetching a near 20x EBITDA multiple. This further exemplifies acquirers' appetite for "A-plus" assets in the region, notwithstanding the heightened regulatory scrutiny of transactions and mounting political uncertainty.

Through 3Q 2019, the median European M&A EV/EBITDA multiple stands at 8.9x, slightly softening from 2018's decade-high 9.4x, but still marking the second-highest figure in a decade. The median M&A deal size clocked in at €24.4 million, a marginal decline from 2018's decade high of

## Buyouts/LBOs as proportion of overall carveouts/divestitures

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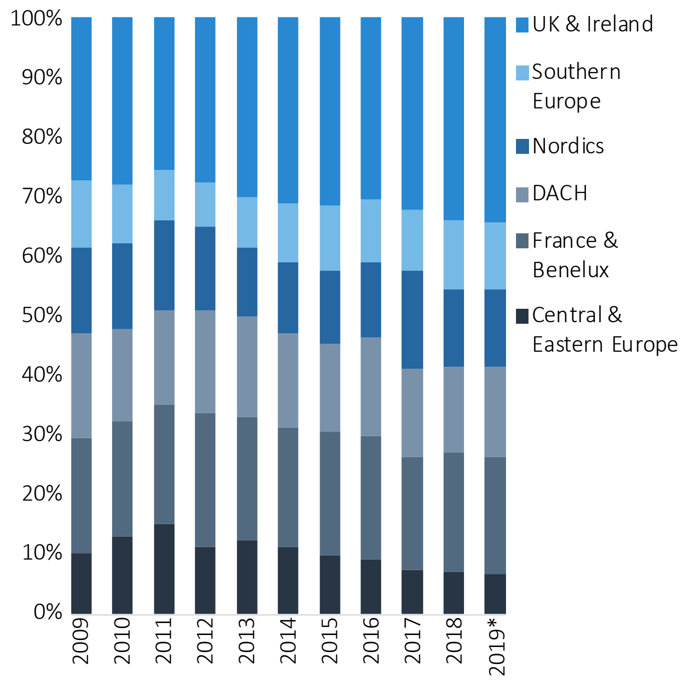
## M&A (#) by region

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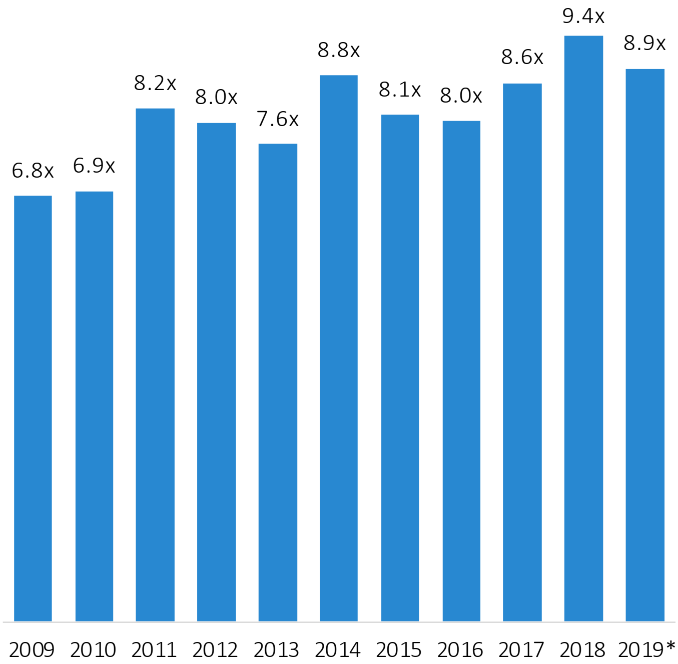
€26.8 million. A contributor to the slightly softer multiples in Europe is that buyers are potentially seeing value in entities that need more work, have an element of cyclicality and that offer seller-friendly deal structures (minority investments and equity rollovers). These assets tend to be cheaper to acquire and have less competition.

Financial sponsors have been growing their share of European M&A activity. In 2009, 23.0% of M&A volume came from financial sponsors, while corporates accounted for 77.0%. Fast forward to 2019, and we see sponsors accounting for 33.1% of M&A volume, while corporates have attributed 66.9%. Yield-starved LPs are pouring record amounts of capital into private markets due to the industry's outperformance, highlighted by 2019's sponsor fundraising levels, which are apace to hit the third-highest annual reading in over a decade. The number of public companies has halved in the last two decades as businesses eschew public listings in favour of staying private longer. Over the same time period, the number of private companies has doubled, in part driven by financial sponsors seeking to create long-term value for portfolio companies via pursuit of the popular buy-and-build strategy. Historically, corporates were able to outbid most sponsors, as they had deeper pockets and were able to find ways to lower the blended cost of acquisition via benefiting from strategic economies of scale. Now, sponsors have the capacity to effectively compete with corporates in M&A transactions given the uptick in fund sizes and the median cheque size deployed.

Although we see some sponsor transactions leading to complete revamps of company management teams, we do see a better alignment of interests with sponsor business models and company management teams as opposed to corporates. Finally, the removal of quarterly pressures allows sponsors to execute long term outperforming strategies with significant speed, focus and efficiency. The aforementioned factors have all contributed to the convergence between sponsor and corporate-backed M&A activity in Europe.

## Median M&A EV/EBITDA multiples

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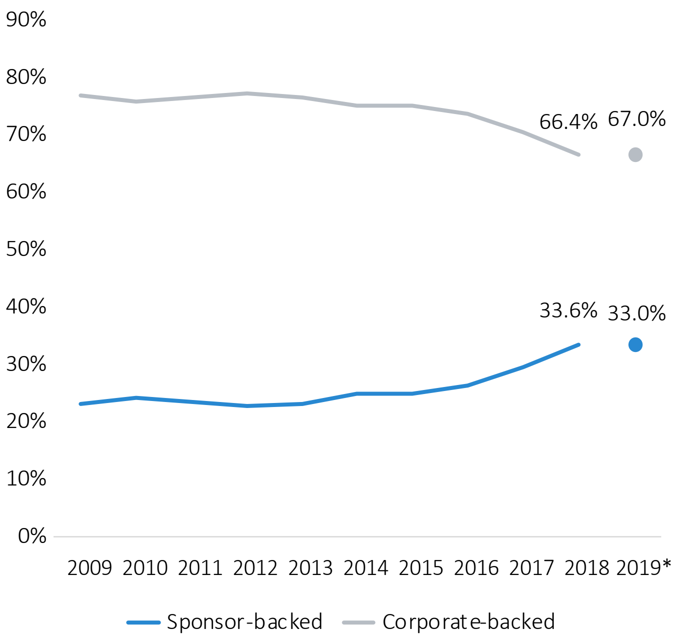
## Sponsor- and corporate-backed M&A (#) as proportion of overall M&A

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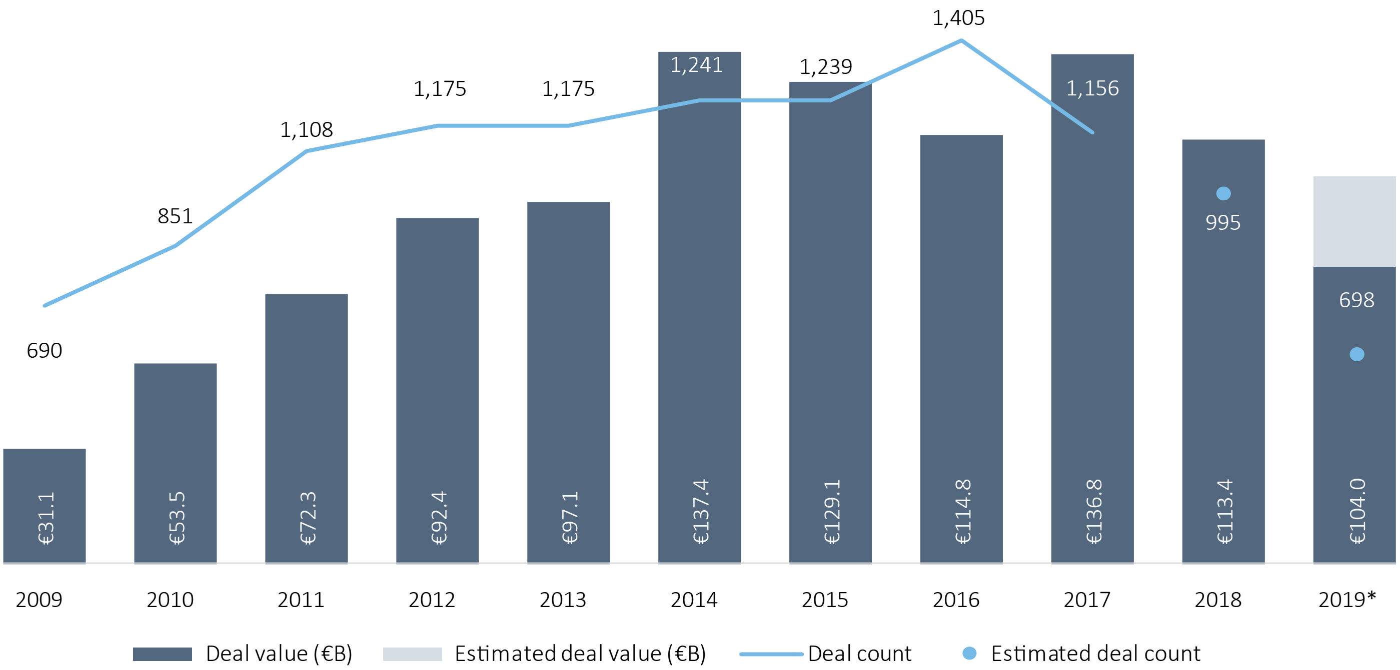
# Spotlight: Germany

## M&A activity

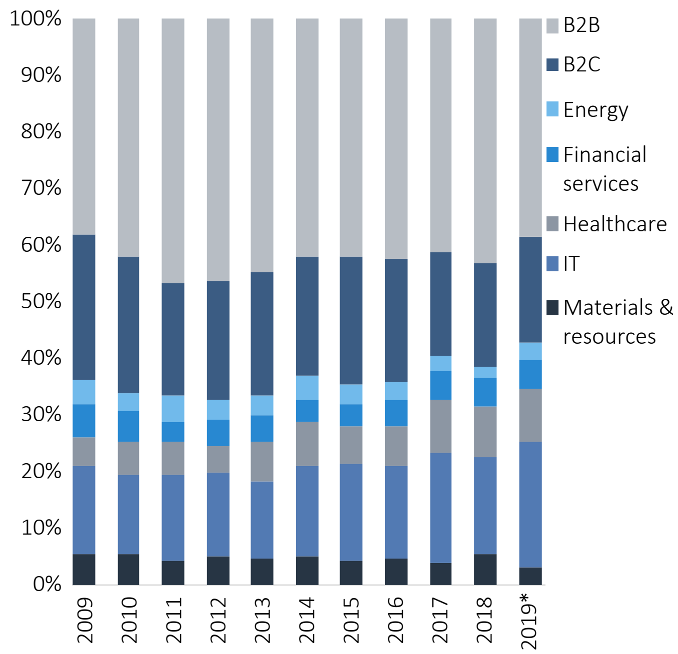



**Source:** PitchBook | **Geography:** Germany
*As of September 30, 2019

German M&A value has reached €104.0 billion through 3Q 2019 as it contends with a sluggish economy. Even though Europe's largest economy has decelerated, numerous M&A deals have closed in the country this year. German manufacturing PMIs are at their lowest since the aftershock of the GFC, with the knock-on effect of external demand slowing and a decline in business investment across Europe.

The largest 3Q deal to close in Germany was the aforementioned €22.0 billion acquisition of Innogy by E.ON, which will have a major impact on the entire German energy market. Another noteworthy deal was Advent's €3.0 billion carveout of Röhm, Evonik Industries' (ETR: EVK) methyl methacrylate and polymethyl methacrylate business, which possesses 18 production sites and 3,900 employees internationally. Evonik reportedly decided to offload the business line and streamline operations by narrowing its attention to less cyclical specialty chemicals. Advent itself could be considered a chemical specialist as the PE giant has invested in dozens of companies in the sector over the past 30 years. Evonik will use the proceeds from the corporate divestiture to strengthen its balance sheet and shift focus onto the delayed acquisition of US-based PeroxyChem. Earlier this year, the Federal Trade Commission (FTC) announced it would file a lawsuit blocking the proposed deal, citing the fact that it could lead to higher prices.

## M&A (#) by sector



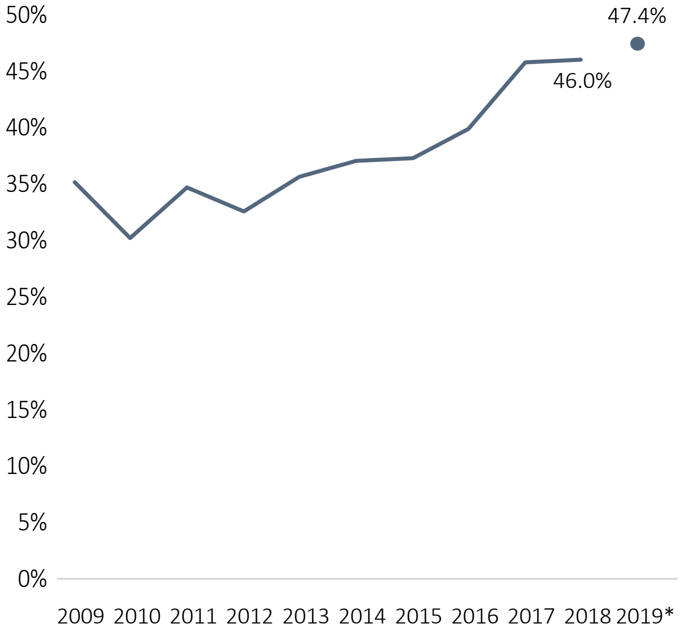

**Source:** PitchBook | **Geography:** Germany
*As of September 30, 2019

The woes of Germany's automotive industry have been heavily publicised this year. The sector is experiencing difficulties through a lack of demand, rising costs and heightened competition from international carmakers. Electric and autonomous vehicle advancements and environmental targets are also forcing traditional manufacturers to adjust their priorities in the face of changing consumer preferences and emissions targets. Nonetheless, substantial deals in Germany's automotive sector are still closing. Erwin Hymer Group (EHG) was acquired for €2.1 billion by Thor Industries (NYSE: THO) earlier this year, creating the largest recreational vehicle (RV) manufacturer globally. The entity will consolidate leading positions in the European and North American RV markets. EHG employs around 7,300 people and has 1,200 retail dealerships across the globe, giving Thor a foothold in the European market for the first time. However, the deal does not include EHG's North American unit, resulting in a €170 million purchase price reduction and a €180 million obligation reduction.

IT deals as a proportion of German M&A volume may log its highest figure on record, comprising 22.1% of the total. While the sector may not be the highest contributor in count or value, €11.0 billion in 2019 is a healthy total with another quarter to go. M&A dealmakers want to extract value from emerging sectors in well-established regions that possess strong management experience, exposure to international markets and robust infrastructure. Germany's biggest IT deal in 2019 was Suse's €2.2 billion acquisition by EQT and Ardian. Micro Focus sold the open-source, software-defined infrastructure provider, having acquired it only five years ago. Interestingly, Suse has switched hands several times. It was acquired by Novell in 2004, which was in turn acquired by The Attachmate Group in 2011, only for Micro Focus International (LON: MCRO) to acquire Attachmate in 2014. Despite the changes in ownership, the company has managed to remain a market leader, having been one of the first companies ever to provide an enterprise-grade, open-source Linux operating system.

Despite cross-border M&A value and count cooling in Germany in recent years, the country is providing a growing proportion of the total number of cross-border deals in Europe. German foreign policy has been largely conducive to cross-border activity in comparison to escalated trade tensions within Europe and more notably between China and the US. One of the more significant deals in 3Q involved Germany-based RF 360 Holdings, a provider of wireless components for mobile devices that was formed in

## German cross-border M&A (#) as proportion of overall German M&A




**Source:** PitchBook | **Geography:** Germany
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2016 as a joint venture between US-based Qualcomm (NASDAQ: QCOM) and Japan's TDK (TKS: 6762). Qualcomm, a mobile chip designer, bought out TDK's 49% stake in the company for €987.1 million in 3Q to help boost its 5G product suite. Historically, TDK is world renowned for producing cassette tapes and commercialising the use of ferrite. It has undertaken numerous buy-side deals in the last three years to ensure it stays abreast with advancements in the sector. Most notable was its 2017 €1.2 billion purchase of InvenSense, a developer of micro-electro-mechanical systems (MEMS) sensor platforms to track user motion.

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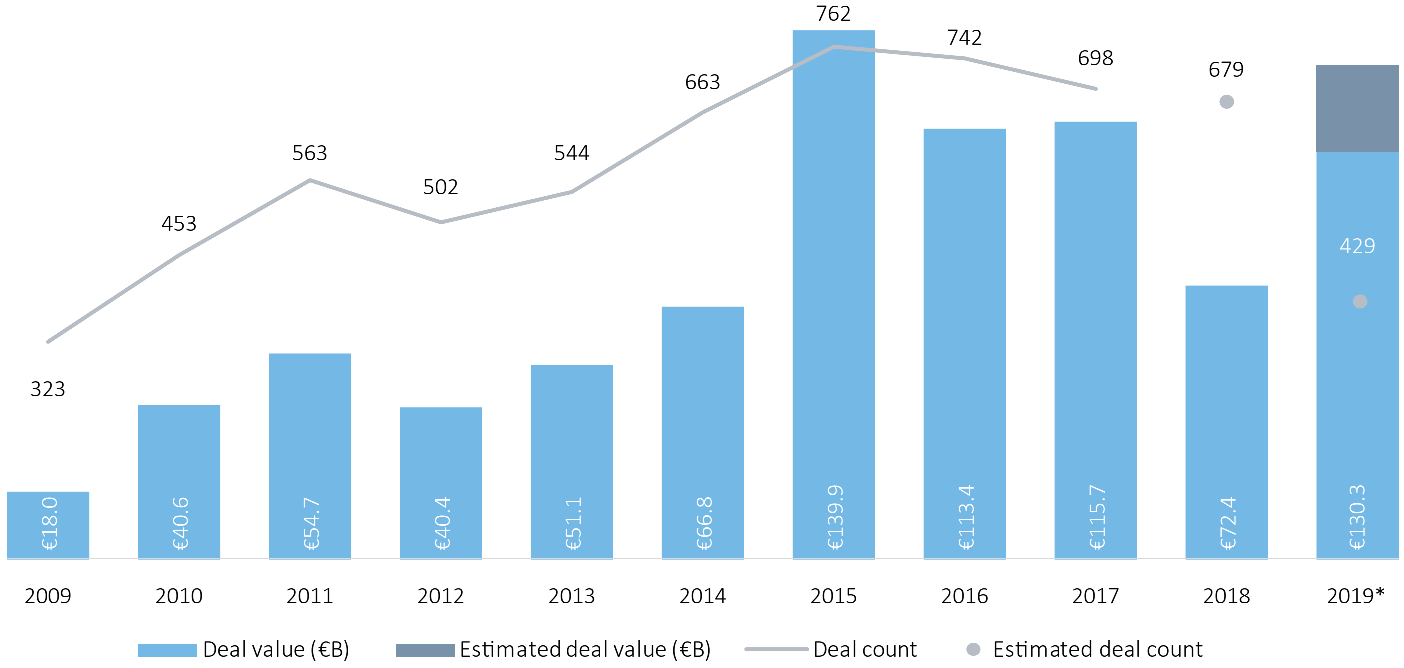
# Spotlight: Healthcare

## Healthcare M&A activity

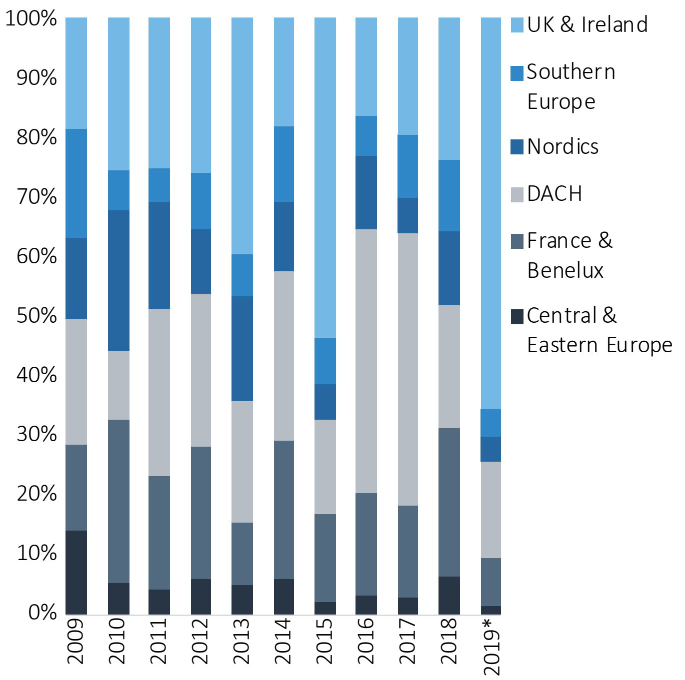



**Source:** PitchBook | **Geography:** Europe
*As of September 30, 2019

Healthcare M&A deals, while significantly dropping in count in 2019, have still garnered considerable attention throughout the year. Healthcare M&A value remained lofty into 3Q despite lower volume thanks in large part to Takeda Pharmaceutical Company's (TKS: 4502) outsized €54.7 billion acquisition of Shire in 1Q; the deal alone accounts for 42.0% of overall healthcare M&A value for the year and pushed the sector's total share of overall M&A value in 2019 to 17.8%. The deal should allow Takeda to break into the top 10 pharmaceutical companies globally in terms of revenue. Companies are moving toward consolidation to survive soaring drug prices, sterner regulations and fast-approaching patent expirations. Moreover, evolving demographics, improved life expectancy, population growth and increased health consciousness will all play a part in creating opportunities and challenges in the sector in the coming years.

In 3Q, the largest healthcare deal was Nestlé's (SWX: NESN) aforementioned sale of its skin health unit for €10.6 billion to a consortium led by EQT. The business unit will be rebranded as Galderma and purely focus on dermatology. The Swiss conglomerate's sale pushed M&A value in the DACH region to €17.3 billion through the first three quarters of 2019. The next-largest deal at €716.9 million to close in the DACH region in 3Q was Pfizer's (NYSE: PFE) acquisition of Therachon, a formerly VC-backed clinical-stage biotech company

## Healthcare M&A (€) by region




**Source:** PitchBook | **Geography:** Europe
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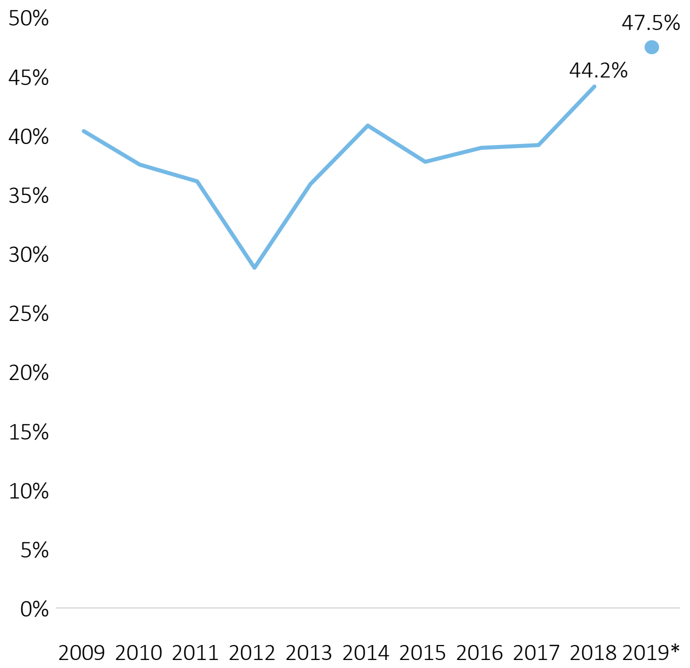
founded in 2014. Approximately €420 million of that total is contingent on the development and commercialisation of a treatment for achondroplasia, of which there are no known approved remedies. The deal highlights the growing influence giant healthcare companies are having on VC-backed startups, as discussed in our 2Q 2019 European Venture Report. Industry expertise blended with existing R&D, commercial and logistical capabilities are becoming invaluable commodities in a sector that is notoriously difficult to penetrate internationally.

Over the last decade, corporate-backed healthcare M&A value has exceeded that of deals backed by financial sponsors, but many companies are opting to remain under PE ownership. Some healthcare companies have resisted the urge to seek corporate backing with tried and tested formulas building out products in certain jurisdictions. One such company is Milan-headquartered Doc Generici, a manufacturer and wholesaler of generic pharmaceutical products. Originally formed as a joint corporate venture, Doc Generici was sold to Intermediate Capital Group (LON: ICP) and Mérieux Développement in 2Q 2019 for €1.1 billion. The deal marked Doc Generici's third PE owner in six years. The company's valuation doubled in its 2016 buyout by CVC Capital Partners, only three years after Charterhouse Capital Partners bought it out for €330 million.

The UK & Ireland region has provided 65.9% of total healthcare deal value in Europe so far in 2019. After Shire's massive acquisition in 1Q, the largest deal to close in the region YTD was BTG's €4.8 billion buyout. Boston Scientific (NYSE: BSX) purchased the company with plans to extend its research capabilities via reduced costs and revenue synergies. The FTC had to approve this acquisition after perceiving it originally as a potential violation of federal antitrust laws. As deal counts have fallen since 2015, global consolidation in the healthcare sector has been widespread, and regulators are taking a keen eye on proceedings to ensure competition and consumers are not hindered. Furthermore, the trend of US-based healthcare companies seeking M&A targets in the UK has continued in 2019, exemplified by Nightstar Therapeutics' €783.3 million purchase by Biogen (NASDAQ: BIIB) in 2Q. Like Therachon, Nightstar was formerly VC-backed and founded in 2014, but the company opted to exit via IPO in 2017, only to be acquired by another large corporate two years later.

## Cross-border healthcare M&A (#) as proportion of overall healthcare M&A

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In 2019, cross-border transactions as a proportion of overall European healthcare M&A are pacing to return to pre-crisis levels, currently comprising 47.5% of the year's total count. Japan's foreign direct investment (FDI) into the EU has gained prominence in the last five years as a major contributor toward cross-border activity. Initiatives such as the EU-Japan partnership on sustainable connectivity signed in 2019 will no doubt aid dealmaking going forward. One deal of note in 2019 was the €1.4 billion sale of France-based UPSA to Taisho Pharmaceuticals (TKS: 4581), which has strengthened the presence of Japan-based pharmaceutical companies in Europe. UPSA, an over-the-counter (OTC) drug maker, itself represents the globalised nature of the healthcare sector. Its products are present in 60 countries, and 48% of the company's revenue is generated outside its home base of France. The divestiture is part of US-based Bristol-Myers Squibb's (NYSE: BMY) portfolio realignment strategy, as European OTC medicines are positioned outside the biopharmaceutical company's core focus.