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Global M&A Report

Q1 2021

PitchBook

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Introduction

European M&A activity has had an enthusiastic start to the year, with deal count reaching a quarterly peak. A wave of domestic and broader consolidation is underway in Europe as companies seek to become regional champions. Activity levels are buoyed by European authorities lending support to domestic and intra-European consolidation and shunning takeovers from entities headquartered outside of Europe.

With a quick vaccine rollout in the US, uncertainty is continuing to subside. Recent fiscal stimulus and a potential infrastructure plan could further spur confidence in the economy. Many CEOs are feeling more confident, and consumer spending activity appears poised to rebound sharply. Combined, announced and recently completed deal counts are near record levels. Some investment banks are even feeling the need to hire additional analysts to tackle the surge in dealmaking.

Stock financing has been critical for many large transactions to date in 2021. Shale companies have used equity in many scale combinations as they try to eke out margin improvements. Several tech companies have also used shares to fund larger deals, choosing to spare debt capacity for smaller, add-on acquisitions. As the number of newly public tech companies climb, we may see additional M&A activity financed with equity or a combination of stock and cash.

Healthcare and technology deal activity continued to be a bright spot in the M&A landscape. Both sectors proved mostly resilient during the COVID-19 lockdowns and saw public company valuations rerate higher. New technology and biotechnology companies continue to attract an outsized proportion of VC activity, indicating these sectors may keep lifting their share of global equity markets, and, in turn, their share of global M&A activity. A newfound hawkishness toward Big Tech may prevent a few select buyers from doing large deals, but this may allow smaller rivals to blossom and pick up the slack.

Though M&A in the financial services sector had a sluggish opening to the year, consolidation among domestic European banks continued its momentum from H2 2020. Activity remained buoyant in the space given the pressure of the protracted low-net-interest margin environment on banks' cash flow profiles, the pandemic, and regulatory measures. Furthermore, M&A dealmakers were particularly keen on the insurance subsector during Q1 2021, which accounted for six of the top 10 largest financial services deals.

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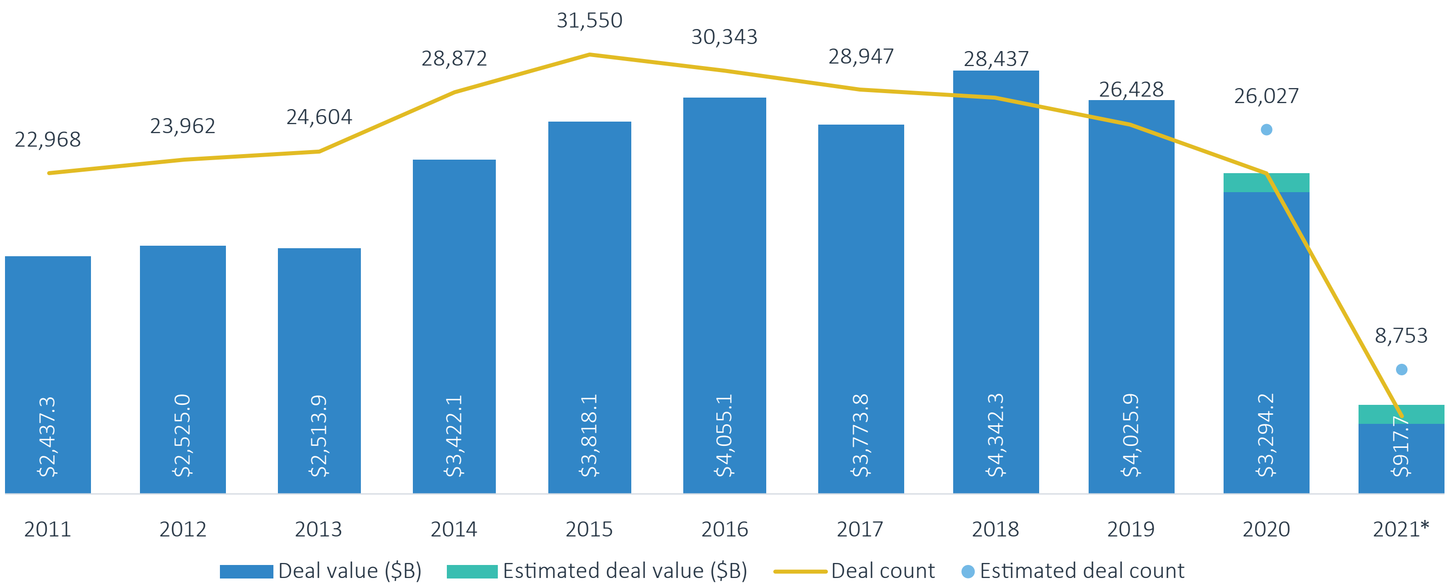
Overview

M&A activity



Source: PitchBook | **Geography**: Global
*As of March 31, 2021

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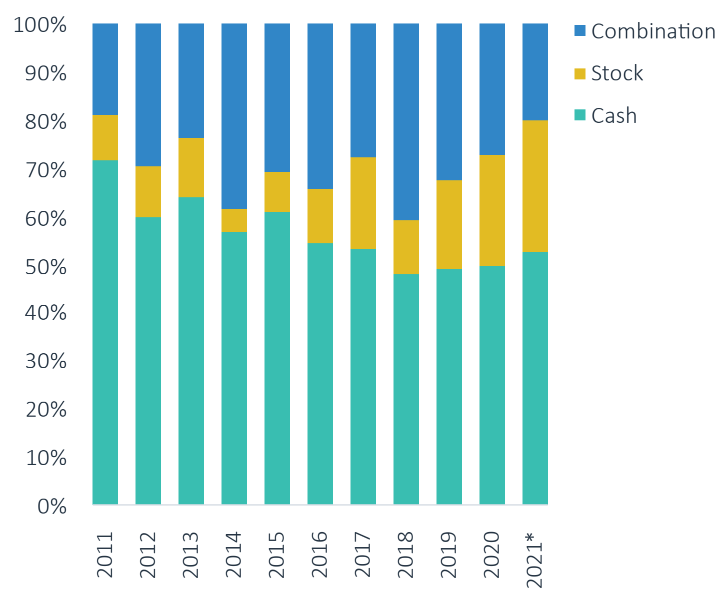
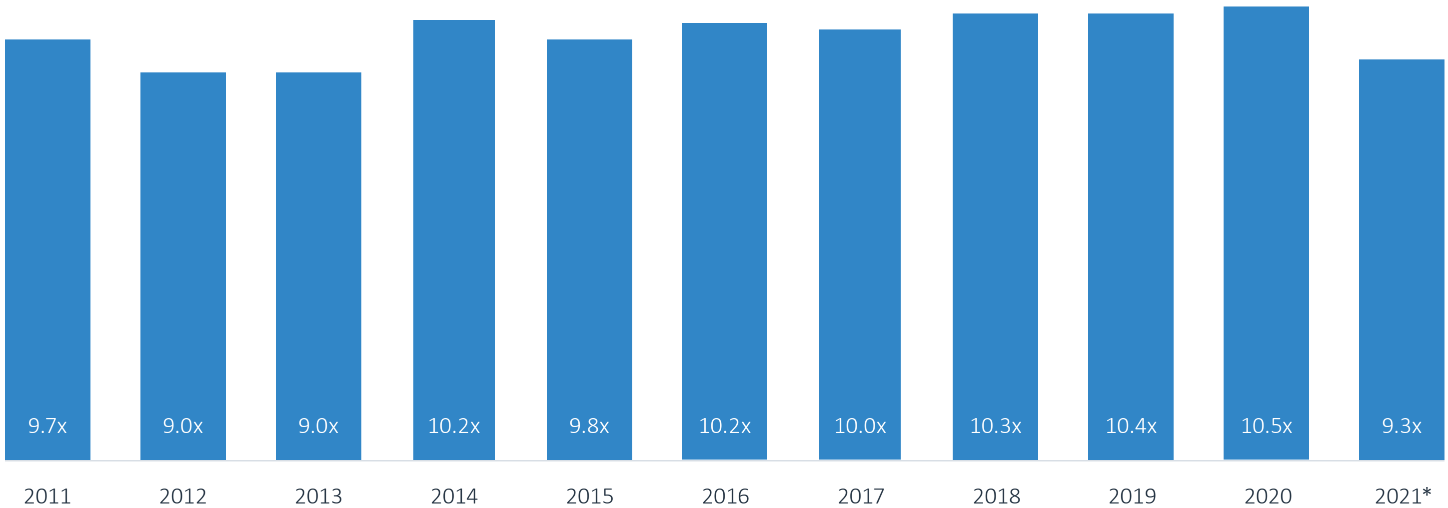
As the global economy continued to rebound in Q1 2021 after COVID-19 induced shutdowns across the world, so too did global M&A activity. 8,753 deals closed in the quarter for a total of $917.7 billion. Many gargantuan deals closed, including those targeting Refinitiv and Tiffany, which were negotiated in mid-2020. The outlook for the coming quarters may be even brighter. A surge of announced deals, including GE's $30 billion+ proposed combination between the company's aircraft leasing unit and AerCap, will buoy results and embolden other boards and dealmakers. The US in particular has been home to several significant announced deals. As the quick vaccine rollout in the US has reassured companies and PE firms based in the country, we expect this trend to continue, though Europe will be right behind by a quarter or two.

M&A value by form of payment



Source: PitchBook | **Geography**: Global
*As of March 31, 2021

Median M&A EV/EBITDA multiples



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

With ebullient public equity indices, just under half of the deals to close in Q1 2021 were financed with a mixture of stock and cash, or just shares, representing the highest share in over a decade. Whether it is growth-rich, cash-poor technology companies seeking to fold in a strategic acquisition, or an upstream oil-producing company highly leveraged to the price of oil, stock financing was paramount to a number of multibillion-dollar deals. On the other side of the leger, cash-rich PE firms accounted for 36.9% of global M&A count in Q1 2020. While this figure marks a reduction from the nearly 41% seen in Q4 2020, it speaks to the longer-term trend of PE firms gaining share of M&A volume. By comparison, PE-backed deals constituted 23.6% of global M&A count in 2014. Despite elevated dry powder and corporate cash levels, early indications point to EV/EBITDA multiples falling by around one turn in 2021 for corporate and strategic deals. If the recovery continues apace, the median multiple may climb back to 10x or higher by year-end as it has every year since 2014, save for 2015, which clocked in at 9.8x.

Several bullish indicators suggest M&A activity may hit record highs in 2021. First, CEO confidence has been sharply climbing in recent months. As CEOs and boards feel more confident, they are likely to be more assertive with expansionary plans, and this can often include M&A. Going into March 2021, CEO confidence—measuring their expectations for the business environment 12 months out—is the highest in several years, including the months before the pandemic shuttered the global economy.[1] Concurrently, cash on corporate balance sheets is at an all-time high. Nonfinancial US corporate balance sheets are sitting on over $1.6 trillion. Record-low interest rates in several of the largest lending markets mean financing options are bountiful to any corporate pursuing M&A activity. All this cash, in addition to equity financing available and the nearly unending amount of borrowing that companies can utilize, means M&A opportunities have never been more affordable.

Although we forecast robust activity, M&A may not be evenly spread across sectors and geographies. North America, and the US in particular, appear poised for a massive amount of activity 2021. In the US, where over 100 million people have received at least one vaccine at time of writing, life is normalizing, even in states that had experienced tighter lockdowns. This compares favorably to Europe, where the vaccine rollout is slower and some countries are contemplating another lockdown. On top of this, a pair of public equity market indicators in the US are looking bullish. Stock market returns have been healthy, especially compared to other major markets such as Europe. Since January 2020, the S&P 500 has returned 18.8% as of March 31,

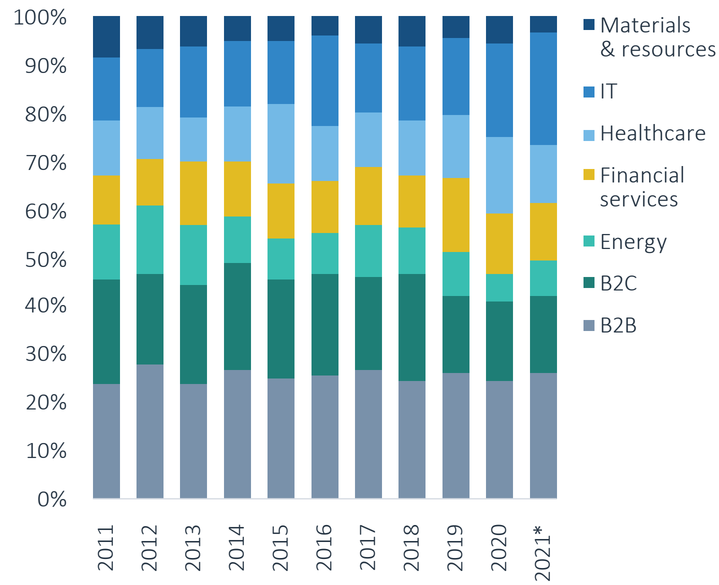
1: "CEO Optimism Again Climbs In April Amid Soaring Vaccination Rate," Chief Executive, Isabella Mourgelas, April 12, 2021.

2021, while the FTSE 100 has posted a 12.1% loss and the DAX 30 was up 3.4%. Positive stock price momentum helps companies feel more confident pursuing M&A, and a high share price affords more financing options. Moreover, the US market has seen an unprecedented level of IPO activity, including traditional IPOs and special purpose acquisition company (SPAC) launches, which has reversed the longer-term trend of public companies shrinking in number. After listing, companies may become more likely to pursue M&A given the abundance of financing options. An example is enterprise authentication software company Okta. The company completed just one acquisition before its IPO in 2017. Since then, the company has completed three more and announced the massive $6.5 billion all-stock acquisition of Auth0 in March 2021. As the herd of US unicorns join the public markets, they too will likely undertake noticeably more M&A.

Dealmaking activity may differ substantially by sector. The uneven global vaccination rollout may hinder the restaurant, travel, and hospitality sectors even more, which could lead to distressed opportunities in select markets. Additionally, the broad move to the online purchase of goods and groceries is applying upward pressure on rent for warehouse and cold storage space and could lead to M&A activity in those channels as well as more traditional retail channels. M&A will likely continue to surge in sectors such as tech and healthcare. Both proved resilient in the downturn, and companies in these sectors have record-setting war chests of cash. Manufacturing is a sector to watch as fallout from the pandemic reshapes the competitive balance in the coming years. Policy changes and risk-mitigating moves are already leading to reshoring in Europe and North America. Companies and politicians witnessed how dangerous basing certain aspects of a nation's supply chain in one country or region can be. As companies look to localize complex manufacturing, including of semiconductors, drugs, and more, M&A activity could shape and drive the landscape.

Government financing programs may also have an impact on M&A. Programs such as the Payment Protection Program (PPP) helped millions of people in the US get by and kept small businesses afloat. Europe also provided a lifeline to individuals and companies, preventing a wave of bankruptcies. In economies where governments provided less or no assistance, distressed dealmaking is more likely.

M&A value by sector



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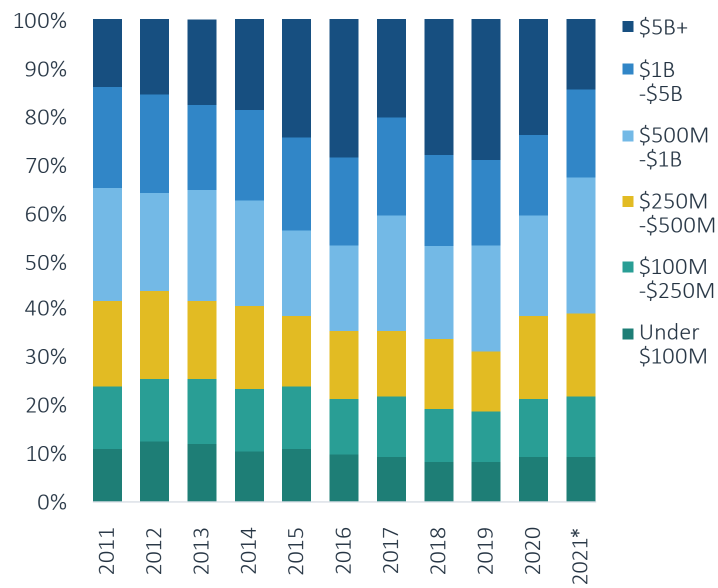
M&A value by size



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Transatlantic investment

Placing square pegs in round holes

Henry Pearson
Senior Underwriter
Liberty GTS

Henry is a Senior Underwriter, based in Liberty GTS's London office and works in the London and Emerging Markets team, with a particular focus on UK and Irish deals. Since joining the market in 2015, Henry has gained a broad spectrum of experience, underwriting numerous high-profile, complex domestic and cross-border transactions across EMEA, involving a diverse range of target sectors, from real estate to oil & gas. He has developed reputation as a pragmatic and responsive underwriter within the W&I community. Prior to joining Liberty GTS, Henry worked at Ambridge Europe Limited, Linklaters (London) and Allens Linklaters (Sydney). He read Law at the University of Bristol and completed his LPC at the College of Law, London.

PE buyers are currently seeing opportunities around the world, particularly in the UK and across broader Europe. In the last six months, a rush of capital has entered these markets as buyers seek to catch up on capital deployment programs following the calming of stock market volatility, the rollout of vaccines, and correlated general market optimism.

Supporting US buyers handling UK transaction documents

International M&A activity has been a bright spot for business in the last year, with a notable increase in the number of deals taking place, including a material rise in the average deal size. With a surge in cross-border transactions, trying to bridge the gap between counterparties' expectations has become more complex. US buyers and UK sellers may have different expectations from their transaction documents, and such expectations can cause deal processes to halt if care is not taken early to resolve any potential issues.

A key differentiator for US and UK transactions is the disclosure regime contained in the underlying documentation. An English-law, European-style W&I product would look to include (as a default position) disclosure via 1) the disclosure letter; 2) the data room; and 3) any supportive due diligence reports prepared by the buyer. For a US transaction (and a R&W insurance product), disclosure would generally include only the disclosure schedules, which can run to hundreds of pages and include very detailed disclosures in comparison to an English-law disclosure letter. These varying norms can lead to difficulty when placing W&I/R&W insurance.

In our experience, when dealing with US buyers using English-law transaction documents, to provide the coverage and "US style" of policy desired, we have found it is important to be clear from the beginning of the process that this remains contingent on a robust disclosure letter. If this is not handled sensitively, the seller can feel that it is too onerous an obligation on them given a typical English-law transaction would include a general disclosure of the data room's contents in support of the disclosure letter. Without setting these expectations at the start, this can have an impact on how smooth the process is in placing a W&I insurance policy.

Our teams at Liberty GTS have become skilled at working with all stakeholders in a transaction to ensure the process works for everyone. It is critical the seller understands what the buyer needs from the disclosure letter to place their W&I policy with the "US style cover" they want. Furthermore, having an experienced and flexible underwriter who has an understanding of every stakeholder's motivation will assist in the process.

Supporting US deals with UK and European target operations

Simultaneously, there are US governed transactions being entered into in respect of UK and European businesses. US transaction documents differ in style, and it is essential to engage experienced underwriters who are adept at handling such documents.

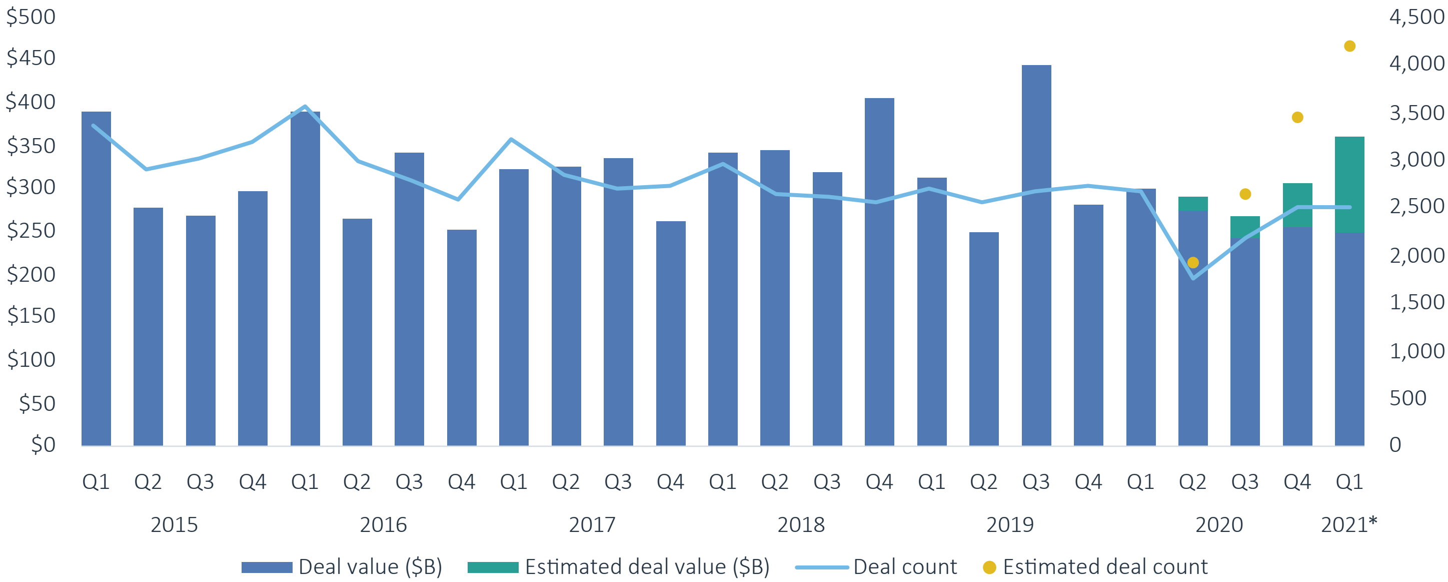
In this case, the right solution is ensuring experienced people review documentation in formats to which they are accustomed. Liberty GTS has already engaged with some of the major US law firms and come to an agreement over a "precedent policy form." This removes friction in the process because the differing aspects of US-style transactions are already mitigated.

Using an insurer with a global presence enables underwriters to respond to these challenges effectively. Not only does this provide a smoother process, but it also improves the quality of cover. Greater local knowledge and experience bring an improved ability to make commercial and reasonable decisions, rather than excluding risks as a result of limited jurisdictional experience.

Regional spotlights

Europe

European M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Dominick Mondesir
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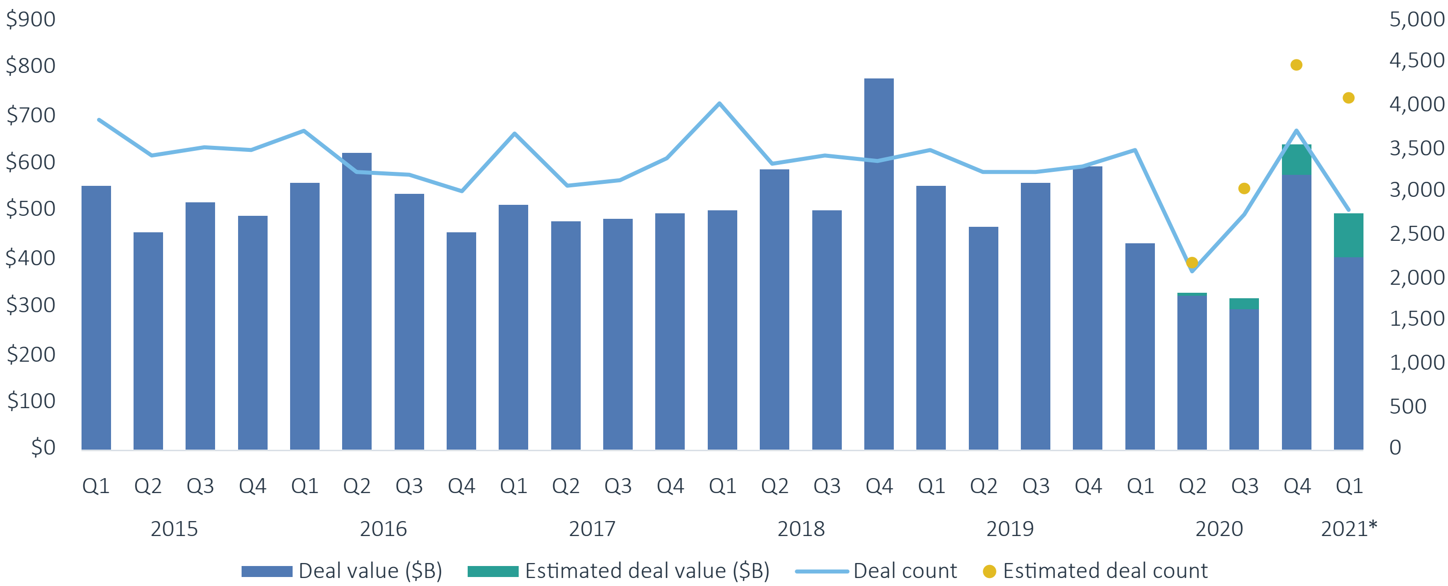
European M&A activity has had an enthusiastic start to the year, especially in terms of overall deal count, which reached a quarterly peak. In Q1 2021, 4,189 M&A deals closed for a total of $359.1 billion, representing YoY increases of 57.2% and 20.1%, respectively. A wave of domestic and broader consolidation is underway in Europe as companies seek to become regional champions, including the $16.8 billion mega-merger between Bankia SAU and CaixaBank in Spain, INEOS Groups $4.9 billion acquisition of the global petrochemical business of BP in the UK, and the announced all-share takeover of Denmark-based Nets by Italy-headquartered Nexi in the payments sector. This can be partly attributed to heightened confidence in the c-suite and broad availability of both debt and equity financing due to strong capital markets.

Another development encouraging M&A activity is European authorities lending support to domestic and intra-European consolidation, as seen from the General Court of the European Union ruling against the European Commission's decision in 2016 to block the merger of O2 and Three UK. This decision has in part led to the UK's Competition and Markets Authority (CMA) provisionally clearing the mega-merger between O2 and Virgin Media in the UK, creating a European telecoms giant. On the other hand, European governments have recently expanded powers to scrutinize and intervene in takeovers by entities headquartered outside of Europe. For instance, the UK government recently introduced its new National Security and Investment Bill, introducing mandatory pre-screening and extending its powers to block cross-border takeovers of UK-based companies in 17 sensitive industries including engineering, biology, data infrastructure, and defense, among others. As a result, the UK's CMA has recently announced an investigation, based on national security grounds, into US-based Nvidia Corp's proposed $40 billion merger with UK-based semiconductor designer Arm Ltd. Germany's government also approved new powers to veto non-EU bids for domestic healthcare companies. As the velocity of European M&A intensifies, due to companies seeing M&A as an integral part of their growth story, closely monitoring the latest regulatory developments in domestic and target markets will be critical in a deal's success.

Regional spotlights

North America

North American M&A activity



Source: PitchBook | **Geography**: Global
*As of March 31, 2021

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North American M&A activity in Q1 trended toward an improvement over 2020's numbers, with 4,078 deals closing for a collective $493.4 billion. Despite snags such as the temporary freeze of Johnson & Johnson's (NYSE: JNJ) COVID-19 vaccine for further safety review, vaccine distribution in the US has exceeded expectations, removing a significant source of uncertainty for both buyers and sellers. As reopening proceeds and the effects of an unprecedented $1.9 trillion stimulus package work their way through the economy, the flood of pent-up consumer demand will further boost confidence.

As the Biden administration and Democratic-controlled US Congress round out their first 100 days, the effects of significant legislative and administrative actions on US M&A are only beginning to materialize. If passed, a proposed $2.3 trillion in infrastructure spending over 15 years would be mostly paid for by corporate tax hikes, which could spur parties to push deals across the line in 2021. Although many specifics of the plan remain unknown—and are liable to change as the plan is negotiated—significant spending in clean energy, transportation, manufacturing, and broadband access could propel activity in these industries for years.

Dealmakers are also closely watching the Biden administration's appointments to key antitrust positions in the Department of Justice and Federal Trade Commission. Several appointments so far have skewed hawkish, especially on Big Tech, which may dampen US M&A activity. However, one potential side effect is an uptick in corporate divestitures as dealmakers strive to pass regulatory muster. It is also possible that the Biden administration will fill remaining seats with more business-friendly voices as it continues to balance appeasing progressives with President Biden's own moderate inclinations.

Finally, the SPAC craze headlined US and, to a lesser extent, Canadian public markets in Q1. SPAC mergers will continue to account for a significant portion of US M&A activity in the coming quarters, while competition for desirable companies is also driving up valuation multiples for strategic and PE buyers of companies that ultimately do not merge with a SPAC. Although new SPAC IPOs have slowed to a trickle amid dwindling availability of PIPE funding and heightened regulatory scrutiny (not to mention sheer administrative backlog) at the SEC, the current class of SPACs will continue to play a role in North American M&A for at least the remainder of the year.

Q&A: Mercer

Jeff Black

Partner, Global M&A Advisory Services Leader
Mercer

With 25 years of experience as a trusted advisor to business leaders, Jeff advises strategic and financial buyers and sellers on global people risks through the full lifecycle of a transaction. A recognized expert in deals, he is a frequent keynote speaker and been widely published and quoted in numerous industry journals and media outlets.

Kristin Murphy

Global M&A Strategy & Operations Leader
Mercer

She has more than 10 years of experience in human capital consulting and currently advises clients on capturing value and achieving synergies through addressing people risks. Kristin has expertise in business strategy and driving enterprise-wide transformation, workforce strategy, operating model and organization design, change management, and process improvement.

Will deal value remain elusive?

Jeff Black: The appetite for dealmaking is strong—and on the upswing. There is a great degree of optimism surrounding dealmaking in 2021. Executives are looking to grow as they experience increasing competition, surging technology demand, and rapidly evolving consumer preferences. In fact, 57% of the executives that we surveyed indicated an increasing appetite for deals in the next 12-24 months. However, they remain marginally cautious with regard to overall costs, which creates significant pressure on realizing the calculated synergies post-transaction.

Kristin Murphy: People issues remain the silent killer of value creation. People are the most important asset a company has. In deals, the stakes are high. Investors and companies close deals to create value. Yet one of the most significant levers of value—the people—is often overlooked. Our research indicates that 47% of deals that fail do so primarily due to a lack of strategic planning and execution rigor related to people risks.

If value creation is the goal, why do so many deals fail to deliver value?

Jeff Black: Everyone tends to agree that value creation in a deal should be a priority. But how does it play out across all other issues that dealmakers must prioritize? Traditionally, people are considered an expense, and therefore the value they bring to deals is on the cost-synergy side of the equation. The fact that people are the vehicle for revenue synergy is often missed. The right leadership team, the right skill sets, and the right understanding of organizational goals drive deal value. Yet we frequently see these issues excluded from the deal thesis and even viewed as something to be "figured out" or handled following Day 1.

Kristin Murphy: In the mechanics of a deal, operational stability and customer and client retention are prioritized immediately, while operating model and workforce strategy plans are considered less important. However, one of the most significant variables in any given company's operations—its talent—requires immediate attention to keep the business running smoothly, while undergoing not only the close of a deal but longer-term integration. Customer and client retention are often the result of such operational stability, but at the core of retention is the relationship between key players across teams. This is a factor that speaks to the importance of retaining critical talent, as they will be the essential lever of customer relationships during any period of transition.

In addition, nearly 44% of executives indicated that workforce risks were not quantified and built into financial models. It is far too common to see people issues deprioritized, not incorporated into due diligence, and often simply left unaddressed until post-close. Many leaders still believe that people issues cannot be quantified or actioned due to their unique nature; this view ironically heightens overall deal risk. Not only did we find that a significant portion of M&A materially failed to meet financial targets due to inadequate planning and management of workforce issues, but integration completion suffered, becoming protracted.

How does one construct a successful people strategy and incorporate it into pre-deal strategy?

Kristin Murphy: First and foremost, priorities must be set. In any given deal, due diligence is the ideal phase in which to incorporate workforce risks. Some executives have indicated that they opted to talk through such issues during negotiations. Similar to commercial, tax, or regulatory issues, people considerations should be prioritized from the very start. There are three focus areas that drive or hamper value creation:

1. Alignment of leadership
2. Organizational culture alignment
3. Retention of key employees

Jeff Black: Let me start with leadership. Nearly 21% of our clients indicated that the leadership team was responsible for failing to meet financial targets outlined in transaction modeling. Organizational culture and lack of change management strategy were close behind. However, when compared to the factors that are most important for long-term value, leadership alignment and culture are what truly determine ultimate realization of deal goals and longer-term business results.

In many ways, leaders are the culture of an organization. What they do and how they act send signals to everyone else. These actions are powerful. Companies must retain both formal and informal leaders—the aforementioned key employees—to actually implement the changes required following the close of a transaction to achieve projected synergies and strategic objectives.

Kristin Murphy: It is sobering to note that even at just 18 to 24 months following the conclusion of a deal, companies retained only 60% of critical talent. There is a plethora of mechanisms to help retain key talent. Our findings show that companies are more likely to succeed following a deal close if they can correlate compensation and other similar incentives to specific milestones across the integration roadmap.

Jeff Black: Furthermore, organizations with a keen eye on culture have captured more value in the long term. Clear accountability and governance are the best tools to empower leadership and maintain organizational culture within a merged entity. However, all these tactics must be built into the deal process from the start. A deal has a greater chance of succeeding if companies establish a comprehensive strategy that addresses the gamut of people issues holistically from the earliest stages of a transaction—whether that strategy involves a plan to preserve or reinvigorate culture or clarifies procedures for retention of and alignment with leadership.

Kristin Murphy: Our newest report, *Delivering the Deal: The Unrealized Potential of People in Deal Value Creation*, with insights from over 750 global executives and dealmakers, addresses all this and more. How have people risks in deals evolved throughout the pandemic era? How are they set to change over the next few years? What are the best practices for identifying the talent needed to deliver after a deal is closed? How do you nurture your teams to seize the opportunities presented by a successful merger? This conversation was edited and condensed for clarity, and is related to our newest report, which seeks to offer guidance for managing and mitigating any such risks and capitalizing on opportunities in deals to increase the chances of success. We hope you enjoy our analysis, insights, and perspectives from our partnerships with clients as they transform for the better and move toward a brighter future.

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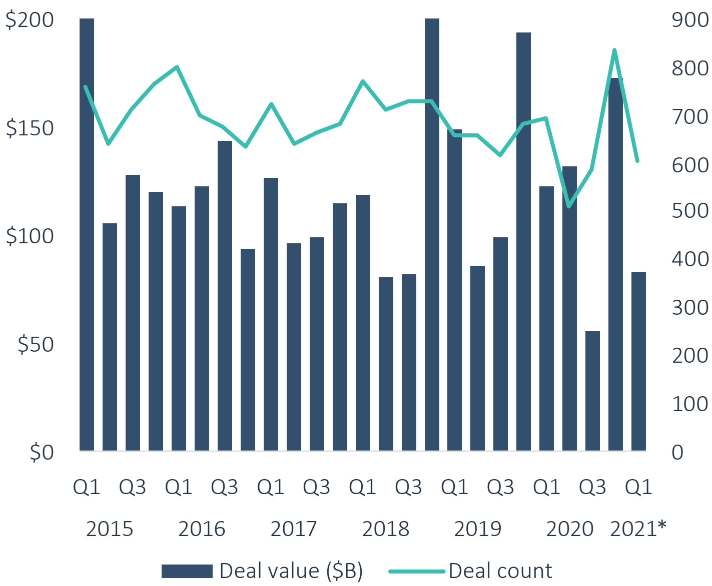
A business of Marsh McLennan

Sector spotlights

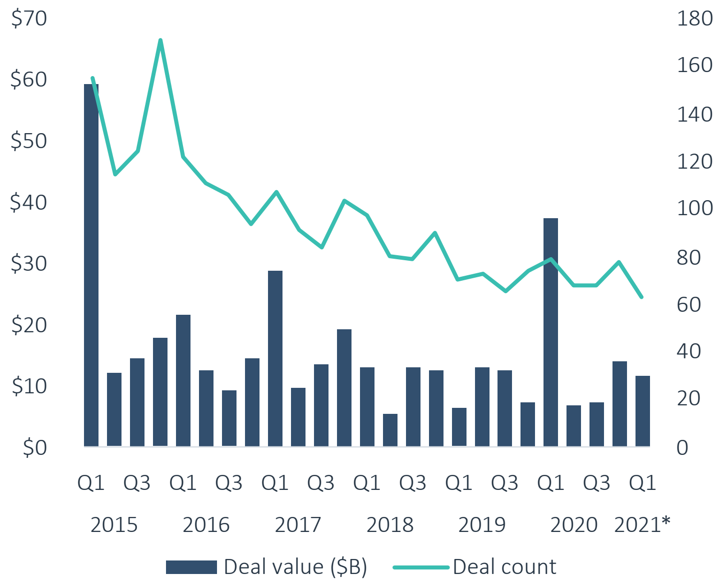
Healthcare

Healthcare M&A activity



Source: PitchBook | **Geography**: Global
*As of March 31, 2021

Healthcare carveout activity



Source: PitchBook | **Geography**: Global
*As of March 31, 2021

Dominick Mondesir Analyst, EMEA Private Capital

Sluggish beginning to the year for global healthcare M&A: Dealmaking in Q1 2021 reached 605 deals worth $82.4 billion, marking YoY decreases of 12.7% and 32.8%, respectively. The slow start to the year is not surprising considering the pandemic's damaging impact on patient volumes and provider margins, which caused significant uncertainty around and disruption to many healthcare businesses. Demand primarily focused on COVID-19 treatment, whereas other forms of healthcare services experienced considerable slowdowns as non-COVID-19 procedures paused, traditional clinical trial processes delayed, and supply chains became disrupted. These dynamics reduced deal appetite for both buyers and sellers.

Healthcare services remains dominant, while healthcare technology systems activity picks up: Healthcare services is consistently the most active healthcare subsector in terms of M&A and contributed over half of the quarter's global M&A volume. In addition, we did see healthcare technology systems account for a robust uptick in its share of M&A volume from last year, as companies seek to heighten their data interoperability.

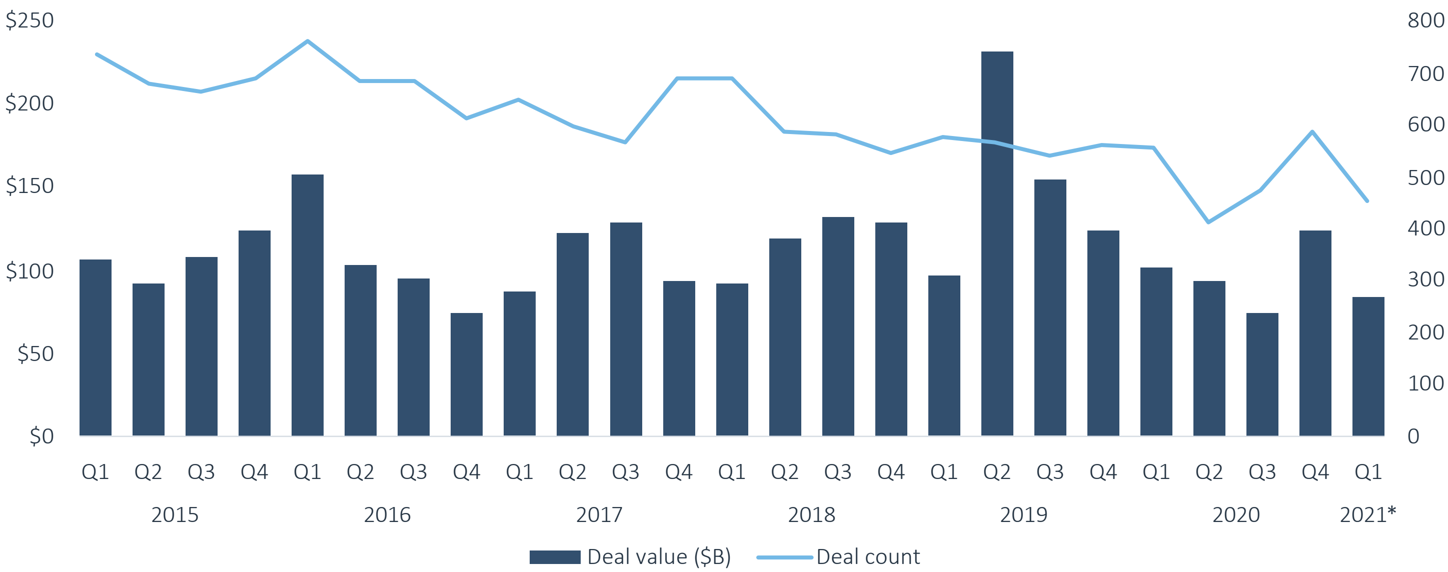
Rising healthcare divestitures expected: We anticipate a considerable uptick in divestitures of noncore business units from large healthcare companies in 2021, as bigger companies focus on high-growth specialty sectors, deleverage, and increase balance sheet strength. For instance, in the largest healthcare transaction of Q1 2021, Danaher (NYSE: DHR) carved out US-based Cytiva (BioPharma business of GE Healthcare) for $20.7 billion. The acquisition will enable GE to reduce leverage and strengthen its balance sheet.

Heightened healthcare M&A activity projected in 2021: Looking ahead, despite some regulatory risks that may cause headwinds to the healthcare sector, there are many strong secular tailwinds that suggest dealmaking should pick up substantially through the remainder of 2021. Accelerating innovation in healthcare technology (such as telemedicine), rising income levels, heightened focus on public health concerns by authorities, and ageing populations will contribute. Furthermore, deal appetite should increase as a result of governments bolstering pandemic preparedness divisions, modernization of clinical trials, growing incidence of chronic illness, and our gradual progress toward global immunity from COVID-19.

Sector spotlights

Financial services

Financial services M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Dominick Mondesir Analyst, EMEA Private Capital

Slow opening to the year for global financial services M&A: Financial services activity in Q1 2021 reached 451 deals worth $82.9 billion, representing YoY decreases of 18.6% and 17.9%, respectively.

European banking consolidation continues: Maintaining the momentum from H2 2020, consolidation among domestic European banks remains active given the pressure of the protracted low-net-interest margin environment on banks' cash flow profiles, the pandemic, and regulatory measures. For example, in Q1 2021, CaixaBank acquired Spain-based Bankia for $16.8 billion, and Spar Nord Bank (CSE: SPNO) acquired Denmark-based BankNordik, indicating focus on dominating domestic markets through scale plays.

Pan-European banking champions and rising carveouts: The next question is when European banks will move to become pan-European champions. Furthermore, we anticipate banks will be extremely active in divesting noncore assets through the remainder of the year, as they reevaluate business models in the wake of the pandemic, strengthen balance sheets and capital ratios, and raise further liquidity to seek out opportunistic M&A, especially for tech-enabled financial service assets.

Fintech assets sees accelerating demand: Fintech assets are experiencing heightened demand from both strategics and sponsors, as Big Data, AI, data analytics, and automation, among others, aggressively disrupt the sector. For instance, the rise in bank branch closures has created considerable opportunity for digital lenders, driven in part by consumers' willingness to adopt alternative platforms.

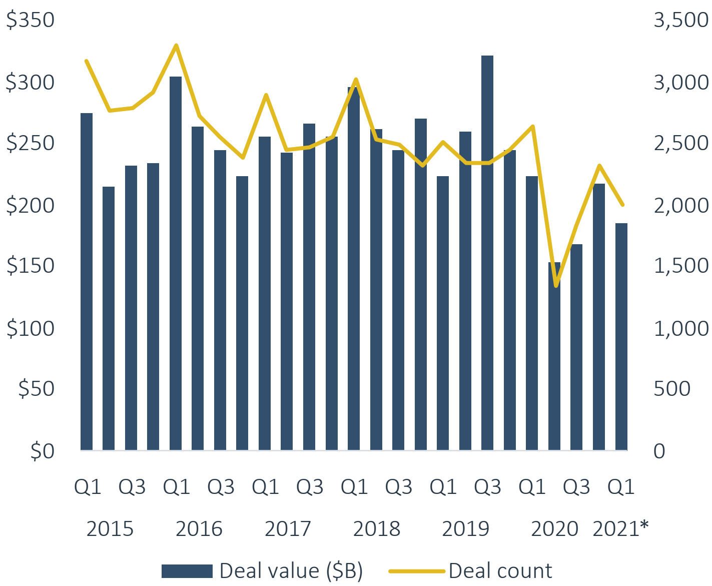
Dealmakers eye insurance companies: The insurance subsector was particularly active during Q1 2021, accounting for six of the top 10 largest financial services deals. The pandemic has had a negative impact on some areas of insurance, which is driving consolidation in the fragmented industry. Insurance companies are aggressively seeking yield in this low-interest rate environment through M&A to diversify business models, defend and extend market share, and achieve scale synergies.

Sponsors weigh into financial services assets: The first quarter of the year saw outsized sponsor-backed M&A volume, increasing almost 10% from the same quarter last year and hitting its highest quarterly share of financial services M&A count in a decade. GPs are attracted to the space due to substantial opportunities to drive digitization, back fast-growing financial service disruptors, and revamp business plans of incumbents through a series of tech-enabled add-ons across portfolios.

Sector spotlights

Business to business (B2B)

B2B M&A activity



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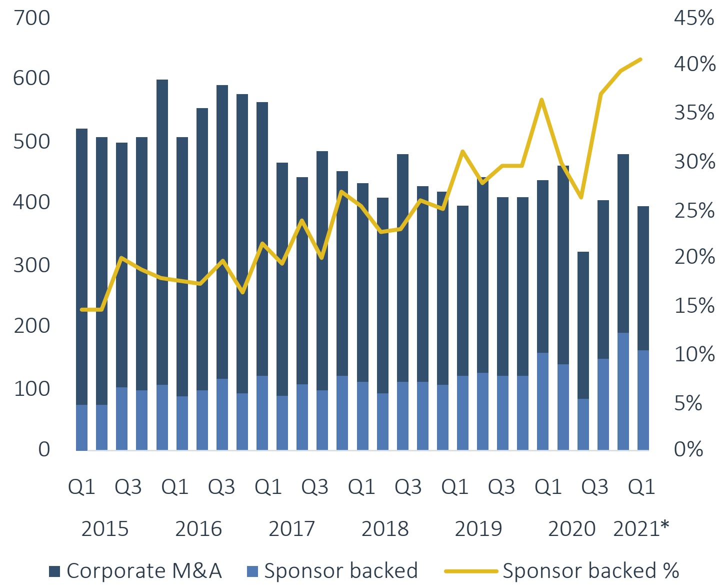
*As of March 31, 2021

Media & information services M&A count by acquirer type



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Dominick Mondesir Analyst, EMEA Private Capital

Tepid first quarter for global B2B M&A activity, but Europe's share rises: In Q1 2021 B2B M&A activity totaled 2,003 deals worth $185.6 billion, marking YoY decreases of 23.8% and 16.9%, respectively. The bulk of B2B M&A volume in the first quarter occurred in Europe, accounting for a 48.3% share, a decent rise from 41.2% in Q1 2020 and surpassing North America's share of M&A in this space.

Strong tailwinds for the media & information subsector: The media & information subsector will continue to be an attractive segment for both strategics and sponsors, as the pandemic has permanently shifted the way consumers and businesses consume and manage content, which often happens after most economic cycles. The ubiquitous stay-at-home orders have exponentially benefited a contingent of companies in the content creation, video gaming, and streaming services spaces.

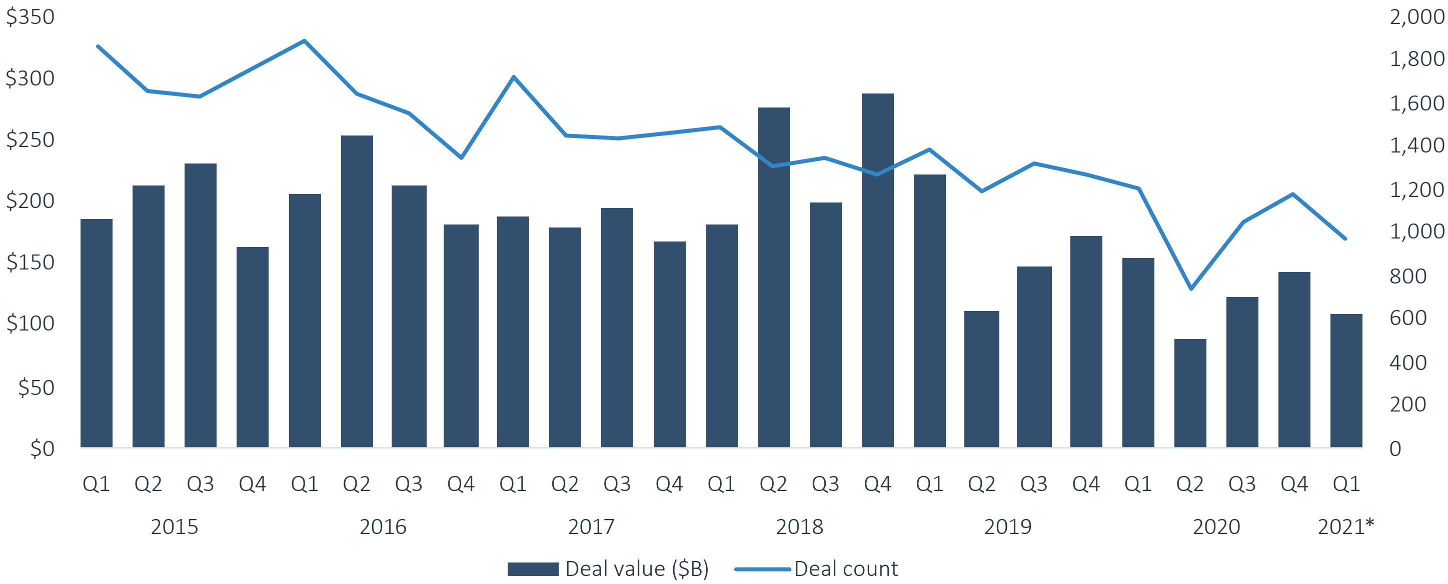
Data and analytics to drive company growth: Streaming companies, as well as businesses in other sectors, are heavily relying on consumer data and analytics to drive scale, insights, and profitability. For example, in Q1 2021, US-based data and analytics company Dun & Bradstreet acquired Sweden-based Bisnode, a provider of digital business intelligence and data services for $818.0 million. The combination is expected to bolster Dun & Bradstreet's international growth strategy.

Heightened M&A flow anticipated in the media & information space in 2021: We expect to see continued M&A flow in the media & information B2B space, as media companies seek to widen their offerings of sticky and unique content through leading a niche or subgenre, driving scale through content libraries, expanding access and distribution to consumers through differentiated over-the-top or direct-to-consumer strategies, and finding innovative ways to store, manage, and monetize consumer data to drive company growth.

Sector spotlights

Consumer products and services (B2C)

B2C M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Rebecca Springer, Ph.D. Analyst, PE

B2C M&A struggles: M&A in the consumer products and services (B2C) sector continued to falter in Q1 2021, falling to an all-time low of 17.2% as a proportion of global deal count. The sector was already seeing a decline in activity in the year prior to COVID-19 due to geopolitical trade uncertainties, shifts in consumer demand, and channel disruptions. The pandemic further upended many B2C industries.

Mega-deal disrupted by the pandemic closes: The largest deal of the quarter, LVMH's (PAR: MC) $15.8 billion acquisition of Tiffany (NYSE: TIF), is an exception that proves the rule. Announced in 2019, the deal was completed only after a protracted legal battle through which LVMH attempted to significantly lower the purchase price due to the pandemic's effect on the jeweler's revenues.

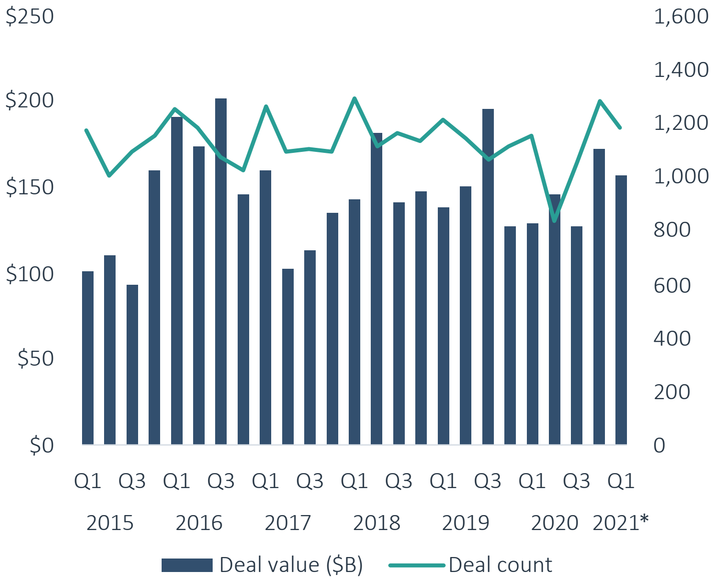
E-commerce drives M&A activity: COVID-19 accelerated the long-heralded shift to e-commerce. This trend is one of the key drivers of retail M&A for several reasons. First, it has become common for distressed retail brands to sell their IP and/or e-commerce assets to PE or strategic buyers. Second, retailers looking to double down on e-commerce have found themselves in a highly competitive landscape. Inorganic growth can allow them to acquire footholds quickly in new geographies and build the scale necessary to improve technological and distribution capabilities.

Strength for grocery delivery dealmaking: Grocery delivery was one of the most active verticals for global B2C M&A this quarter. India-based unicorn BigBasket sold itself to Tata Group for $1.9 billion; Alhold Delhaize (AMS: AD), the parent company of Stop & Shop, bought FreshDirect for $300 million; and alcohol delivery app Drizly agreed to be acquired by Uber (NYSE: UBER) for $1.1 billion. We expect that many consumers who shifted to online grocery shopping during the pandemic will continue this behavior.

Sector spotlights

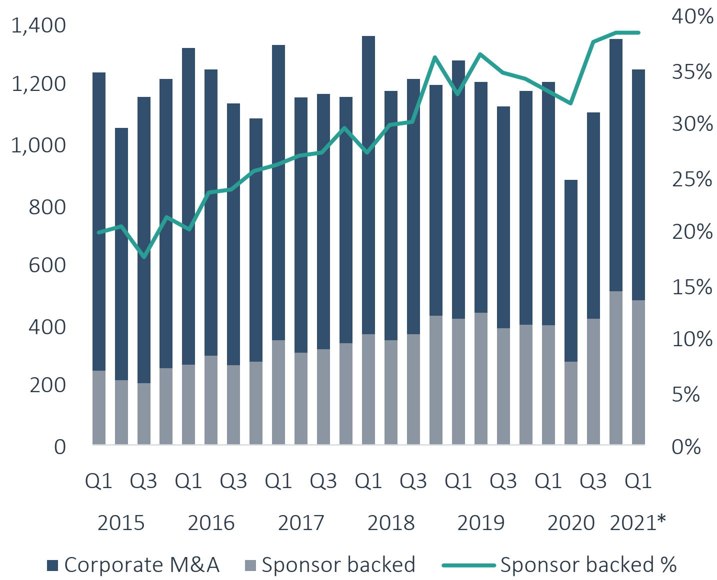
Information technology

IT M&A activity



Source: PitchBook | Geography: Global
*As of March 31, 2021

IT M&A count by acquirer type



Source: PitchBook | Geography: Global
*As of March 31, 2021

Rebecca Springer, Ph.D. Analyst, PE

Continued strength for tech: The IT sector continues to play a growing role in global M&A, accounting for 22.0% of deal count in Q1 2021, up from 14.0% in 2011. Whereas most sectors saw a temporary spike in activity in Q4 as deals that were delayed during the pandemic closed, the feverish pace of tech M&A in Q1 outstripped even the red-hot previous quarter. This development underlines not only how mild the pandemic's effects were on IT relative to other sectors, but how robust demand and easy access to capital continue to propel tech M&A activity.

Semiconductors steal headlines: Continuing a trend that developed in 2020, the semiconductor industry is undergoing a wave of consolidation. Semiconductor-related deals completed or announced this quarter include Qualcomm's (NAS: QCOM) purchase of two-year-old startup Nuvia for $1.4 billion, II-VI's (NAS: IIVI) $7 billion acquisition of Coherent (NAS: COHR), the $4.5 billion acquisition of Acacia Communications by Cisco (NAS: CSCO), and the public listing of Achronix Data Acceleration via SPAC merger at a $2.1 billion valuation. Three additional $20 billion+ chipmaker acquisitions are in process. Demand for semiconductors is reaching new heights as the internet of things (IoT) develops, and the pandemic underscored the geopolitical importance of controlling the semiconductor manufacturing chain. For these reasons, the Biden administration has included $50 billion to support US semiconductor manufacturing in its 15-year infrastructure proposal while the Chinese government also props up its own semiconductor industry.

PE doubles down on tech: Private backing continues to play an outsized role in technology M&A. Deals involving PE accounted for around one-third of global tech acquisitions in Q1, a record high. Additionally, three of the five largest tech deals of the quarter—the acquisitions of Refinitv, ZeniMax Media, and Northrop Grumman's federal IT arm—involved PE on either the buy or sell side. PE firms have been doubling down on growth-oriented investments of late, with both specialist and generalist firms posting blockbuster fundraising numbers for tech-focused funds.

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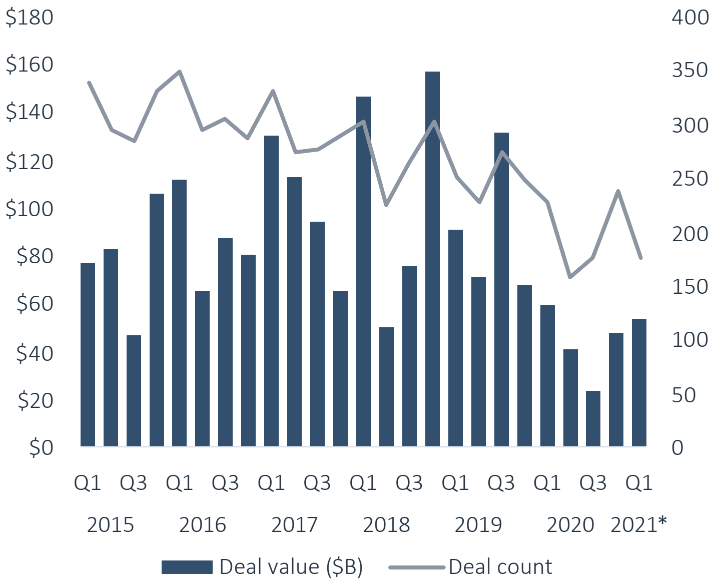
Sector spotlights

Energy

Energy M&A activity



Source: PitchBook | **Geography:** Global
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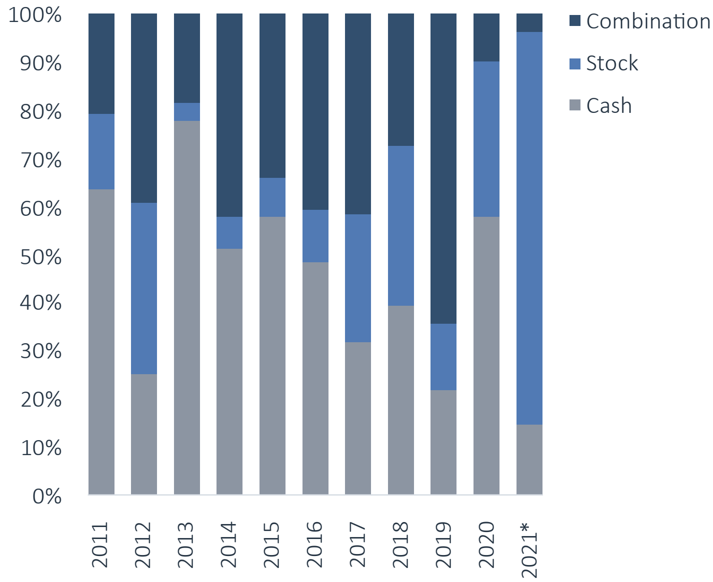
Energy M&A value by form of payment



Source: PitchBook | **Geography:** Global
*As of March 31, 2021

Wylie Fernyhough Senior Analyst, PE Lead

Energy M&A count in Q1 neared five-year average following a drop-off in 2020: During the quarter, 177 deals closed for a combined $53.5 billion. Although the rebound in overall deal activity lagged other sectors, several industry tailwinds may ensure this pickup remains intact through the remainder of 2021. The heavily debt-reliant industry may see deleterious effects from rising interest rates, forcing more M&A financed by only stock.

The resurgence in oil prices may endure longer than expected: Since the price of oil cratered from its $90-plus per barrel plateau in 2014, the price has spent much of its time in $40-$70 per barrel range. This new price point exerted immense pressure on oil producers to reduce capital spending. Oil majors have perpetually underinvested in production for years as prices have remained depressed. ExxonMobil has lowered annual operating expenses by $8 billion,[2] while Chevron is looking to cut an additional $6 billion.[3] Similar to the pharmaceutical sector, upstream oil companies may be moving some of their R&D budget to M&A instead. Much of the activity in Q1 was centered around acquiring assets in the Texas- and New Mexico-based Permian Basin in the US. In January 2021, ConocoPhillips closed on its acquisition of Concho Resources for $9.7 billion, and Pioneer Natural Resources closed on its $7.6 billion Parsley Energy deal. Devon Energy and Cenovus Energy also closed multibillion-dollar deals in January.

Pressures from ESG and renewables indicate that energy M&A could be short-lived: Energy companies must begin thinking about portfolio composition and a shift away from hydrocarbons before the cost of capital rises too much and asset values diminish. BP announced its plan to sell $25 billion in assets between 2020 and 2025 as the company seeks to boost investments in renewable energy sources.[4] The company closed its $5.0 billion divestiture of its global petrochemicals business to INEOS in January 2021. This wave of divestment may lead to a short burst of M&A activity as major Western public companies diversify away from traditional energy assets.

2: "ExxonMobil Reports Results for Fourth Quarter 2020 and Provides Perspective on Forward Plans," ExxonMobil, February 2, 2021.
3: "Chevron Announces Fourth Quarter 2020 Results," Chevron, January 29, 2021.
4: "From International Oil Company to Integrated Energy Company: BP Sets Out Strategy for Decade of Delivery Towards Net Zero Ambition," BP, August 4, 2020.

Sector spotlights

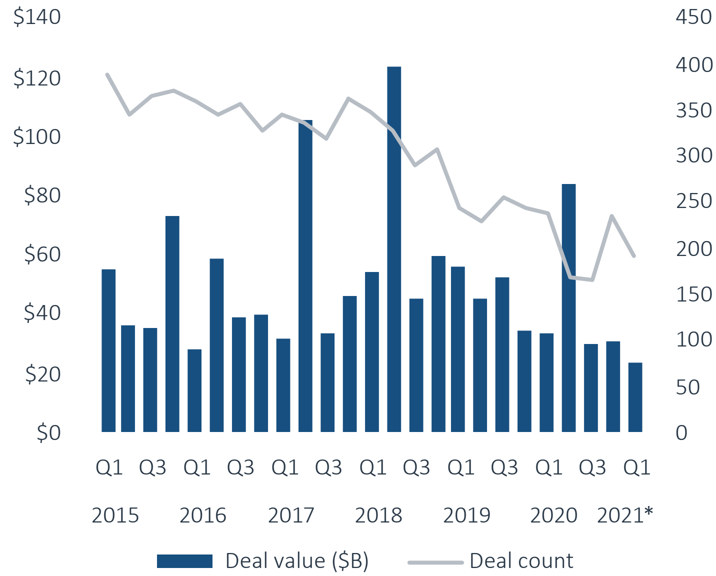
Materials & resources

Wylie Fernyhough Senior Analyst, PE Lead

Materials & resources M&A was tepid as much of the world was in disarray: Manufacturing in cars, heavy machinery, and more ceased for the first few months of the lockdown. This drop-off meant the metals industry saw a massive reduction in demand that lasted for several quarters as production timelines and supply chains resumed their schedule. To be sure, we are quarters, if not years, away from global normalcy resuming. However, the improved outlook and vaccine rollouts mean capital markets and M&A will likely lead economic activity, though the sector saw just 193 deals close for a combined $24.1 billion. Going forward, the metals, construction products, and chemicals subsectors may see a boost in demand from proposed legislature to address aging infrastructure—especially in the US—as well as Western economies reshoring supply chains, which could increase their M&A prospects. Even if broader infrastructure bills do not pass—and there is reason to doubt they will—building out local manufacturing abilities in Western countries could provide a multiyear boost to demand.

Battery demand surges amid rapid growth in electric vehicles and grid energy storage solutions: This surge has led to a flurry of M&A activity over the years in companies that specialize in the critical materials needed, including copper, cobalt, lithium, and more. Lithium-focused companies in particular have been hot commodities. In April, Australian lithium-mining company Orocobre announced a deal to acquire Galaxy Resources, another Australia-based lithium miner, in stock for AUD$1.78 billion. Elsewhere, Brazil's IG4 Capital offered $916 million to become one of the largest shareholders in the second-largest lithium producer, Chile-based SQM.[5] As other global economies try to reduce their dependence on China, the largest player in electric vehicle battery production and lithium processing, we expect an uptick in M&A activity.

Materials & resources M&A activity



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ESG pressures may force companies to divest and alter their operations: Mining companies may be particularly hard hit as mining operations and their downstream uses often consume high amounts of energy. In addition, investors and regulators are paying more attention to their impact on local communities—in Africa and Asia in particular. Glencore has announced plans to go carbon-neutral by 2050,[7] and others may follow. According to White & Case, this is most likely to lead to consolidation in precious metals, followed by base metals.[6] Endeavour Mining's (TSE: EDV) $1.86 billion acquisition of Teranga Gold exemplifies this trend.

5: "Brazil's IG4 Bids $916 Mln to Become a Top Shareholder in Chilean Miner SQM," Reuters, Dave Sherwood and Tatiana Bautzer, April 16, 2021.
6: "Mining & Metals 2021: ESG Momentum Reaching a Crescendo in a Resilient Market," White & Case, Rebecca Campbell, John Tivey, and Oliver Wright, January 13, 2021.
7: "Climate Report 2020: Pathway to Net Zero," Glencore, December 4, 2020.

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