PitchBook

In partnership with

KPMG

Liberty Global Transaction Solutions

ACG

European M&A Report

Q2 2020

In partnership with

Contents

Credits & contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Adley Bowden Vice President, Market Development & Analysis

Content

Dominick Mondesir Analyst, EMEA Private Capital
Nalin Patel Analyst, EMEA Private Capital
Masaun Nelson Data Analyst II

Design

Julia Midkiff Junior Graphic Designer

Contact PitchBook

Research
reports@pitchbook.com

Click here for PitchBook's report methodologies.

Introduction

European M&A negotiated the first half of 2020 impressively despite severe economic disruption triggered by the COVID-19 pandemic. We believe strong deal value in Q2 could be a result of pre-pandemic deals now closing and boosting figures. Nonetheless, the large quantity of completed mega-deals (€5.0 billion+) demonstrates that enthusiasm perseveres as economic uncertainty lingers. Although the threat of a second COVID-19 wave is ever-present, there is optimism for greater M&A activity as businesses re-open doors and ramp up to meet demand created by the lifting of movement restrictions. To protect from the effects of COVID-19, shareholders and management teams may seek carveouts or sponsor backing to raise capital. In particular, we believe the pandemic's impacts on the energy and automotive sectors have been extensive and could create opportunities for dealmaking.

European M&A deal value in the healthcare sector recorded the best first-half performance in over a decade. Investor enthusiasm for the somewhat recession-resilient sector has considerably heightened due to COVID-19. Nearly 80% of the sector's deal value came from the UK & Ireland region, while cross-border volume proportions are on pace to hit a new zenith in 2020. We anticipate financial sponsors' appetite for healthcare assets, in particular life science companies due to the pandemic, will only increase in the coming quarters. Additionally, there was a noticeable uptick in the volume of VC-backed healthcare companies acquired, which potentially signals more targets coming from entities without institutional backing.

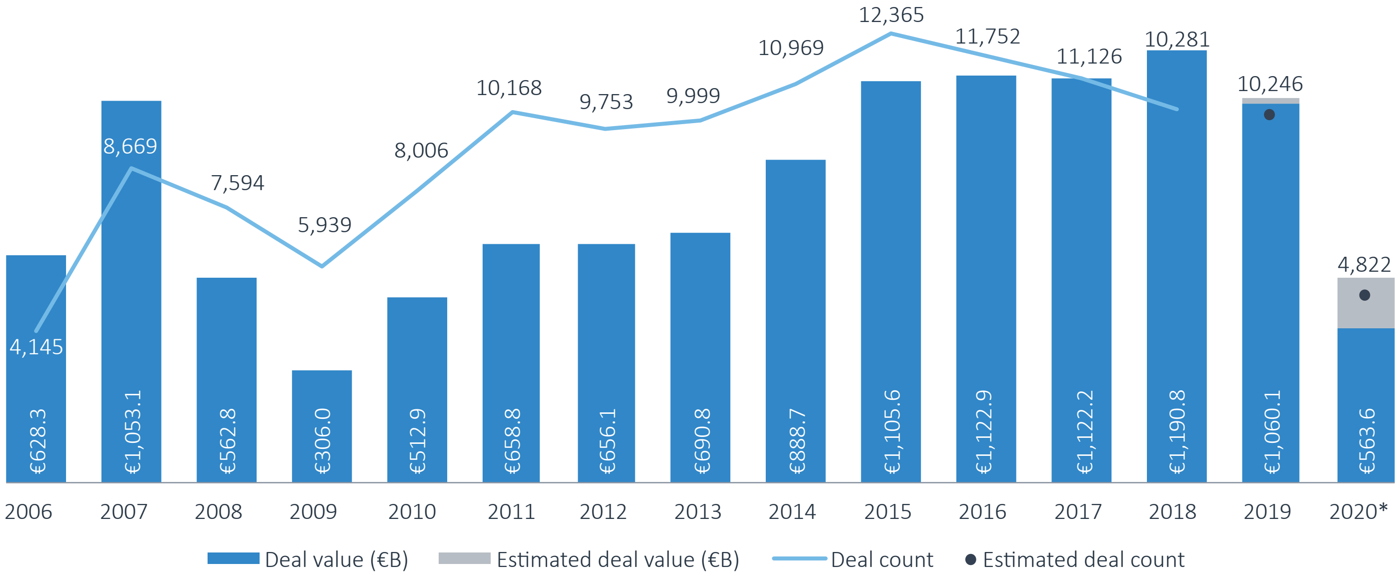
M&A deal value and volume in the B2B space showed heightened resilience in H1 2020. Dealmaking for mission-critical B2B products and services in the search for cost efficiencies and margin protection could see the sector outperform. Prices are likely to sustain, if not increase, for B2B assets that are deemed COVID-19 proof, which has pushed the median deal size towards a new high in 2020. Additionally, M&A activity in the B2B enterprise software space registered its second-best first-half deal value and count totals in over a decade, an incredible achievement amid the economic disruption caused by COVID-19. The secular trend of investing in the cloud, cashless payments, cybersecurity, collaboration, and e-commerce subsectors, coupled with B2B enterprise software entities' ability to adapt and pivot quickly during downturns have been significant factors in driving M&A activity.

Dominick Mondesir
EMEA, Private Capital Analyst

Nalin Patel
Analyst, EMEA Private Capital

Overview

M&A activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

European M&A totalled an impressive €563.6 billion in H1 2020, keeping pace with 2019 figures despite economic troubles caused by the coronavirus pandemic. Deal value has been resilient, given major European economies were in lockdown for the majority of Q2 2020, resulting in sectors either working from home, operating at limited capacity, or being closed completely. Given the strength in deal value under the circumstances in the first half of 2020, there is cause for optimism heading into Q3 now that businesses can ramp up again and return to some form of normality. However, we believe long-term challenges in the M&A dealmaking environment will persist for the rest of 2020 as Q2 earnings are reported, recessions bite, and announced job cuts are completed.

Due to their size, M&A deals are subject to increased due diligence and regulatory scrutiny in comparison to smaller private capital deals. Deals can take several months to close, and we could still be seeing the effects of pre-pandemic deals filtering through and boosting deal value figures. Numerous mega-deals that closed in Q2 2020 were announced months before COVID-19 struck Europe; therefore, we expect M&A statistics to show the true effects of the pandemic later this year. Nevertheless, completed deals demonstrate a desire to conclude transactions even as uncertainty mounts. Pent-up demand and backlogs created by lockdowns could evoke greater hunger from regulators, shareholders, and companies to get deals over the line and kick start economies again. However, long delays caused by a continual backlog and the threat of deals falling through as a result of companies' shifting financial circumstances could also hamper future deal flow.

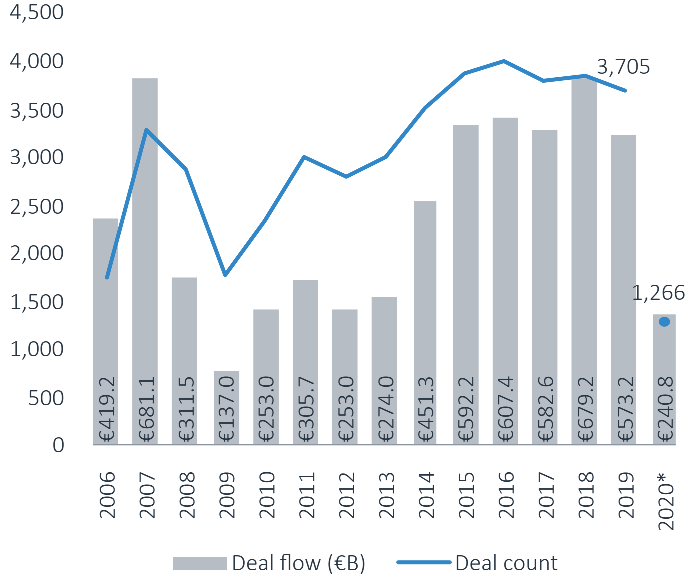
The standout deal to close in the quarter was AbbVie's (NYSE: ABBV) €54.1 billion acquisition of Ireland-domiciled Allergan, which propelled overall deal value above €300 billion in Q2 2020. The announced pharma mega-deal took nearly a year to close because it required regulatory approval both in the US and Ireland. The Federal Trade Commission's anti-competitive concerns were related to AbbVie and Allergan being responsible for over 95% of the market for drugs to treat exocrine pancreatic insufficiency. The deal was approved once it was agreed that certain assets were to be divested to Nestlé (SWX: NESN) and AstraZeneca (LON: AZN). We believe deals of this magnitude will improve overall business sentiment in the current climate despite the common feeling that new opportunities may dry up as spending tightens. Similar deals could also spur enhanced focus on existing investigations in order to provide swift resolutions that would allow companies to more quickly channel resources to manage complications introduced by COVID-19.

Cross-border M&A activity remained healthy at €240.8 billion in H1 2020. Although travel may have concluded prior to lockdowns, a strong pipeline of cross-border deals closed in Q2 despite cross-country travel restrictions. Furthermore, globalisation and subsequent cross-border deals may have been expected to reduce, given growing political, economic, and healthcare protectionism spurred by COVID-19 as well as broader geopolitical tensions heading into 2020. European governments have also recently increased measures to protect companies from foreign takeovers that pose risks to national security. We could see increased domestic M&A moving forward as delays lengthen due to intricacies of investigations surrounding large-scale cross-border deals. For example, it took France-based IT service consultancy Capgemini (PAR: CAP) about a year to close on its €3.6 billion acquisition of smaller rival Altran Technologies (PAR: ALT). The deal, which closed in Q2 2020, was announced in June 2019. Data and technology are at the forefront of the international debate regarding public safety, and we feel the sector could see heightened attention from regulators in the future as dealmaking continues to be strong.

Six mega-deals closed in Q2 2020, the largest quantity in a single quarter since Q3 2017, further emphasising defiance and appetite to close deals despite uncertainty across regions and sectors. One mega-deal to close involved retail bank Sberbank of Russia (MISX: SBERP), with the Central Bank of Russia selling its 50% stake in Sberbank to Russia's Finance Ministry for €25.4 billion. The deal had been deliberated for a number of months, but it was pushed through to move cash from the national welfare fund into the budget to help offset the severe economic damage caused by COVID-19 and a sharp decline in oil prices. The capital will boost spending to improve living standards and infrastructure. We expect deals that release or redistribute locked-away capital to areas of immediate concern could continue to be rushed through. The impact on sectors has been evident—if varying—and as widening gaps in financial performance emerge, we believe long-term capital resources may be liquidated to bridge inequalities, which could promote dealmaking in the near term.

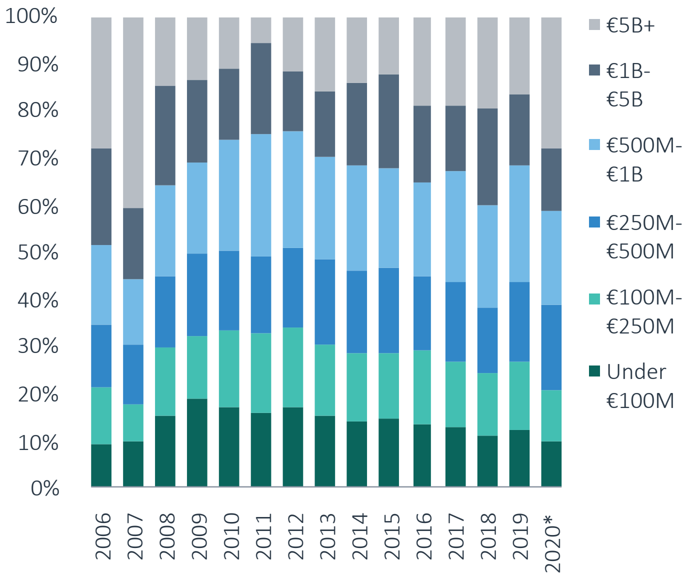
As a means to generate capital from existing assets to offset weaker revenue streams, companies have opted to conduct carveouts or divestitures in recent years. However, since peaking in 2015, deal value generated from carveouts has steadily fallen and only reached €50.4 billion in H1 2020. Although overall deal value has been strong in H1, we believe it may take a few quarters to realise the long-lasting effects of COVID-19, and carveouts could contribute a greater proportion of overall deal value as companies slip into financial trouble. As shareholders, boards, and management teams confront diminished returns brought on by COVID-19-related reductions in revenues, dividends, and share prices, carveouts could become attractive. Companies and shareholders may also view streamlining to focus on core businesses with a wide moat in a region they dominate to be essential to survive the downturn and recover strongly.

Cross-border M&A activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

M&A (€) by size



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

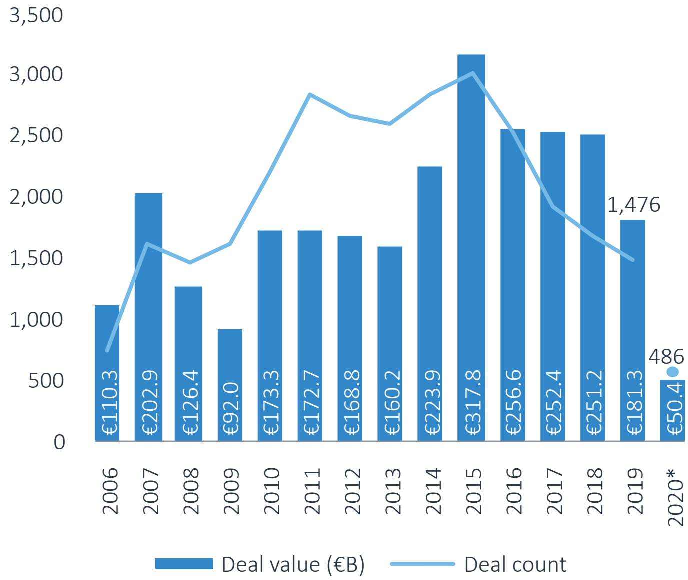
We believe activists could play a huge role in upcoming recessions as this is traditionally when high-risk investment strategies employed by financial institutions such as hedge funds take advantage of mispriced and volatile market conditions. As companies fall into trouble, we expect opportunities for those seeking carveouts, restructurings, or distressed assets to rise. Online classifieds group Scout24 (FRA: G24) completed the carveout of its car trading platform, AutoScout24, to Hellman and Friedman for €2.9 billion in Q2 2020. The deal was initiated in 2019 after pressure from notorious US-based activist shareholder Elliot Management. Elliott insisted ImmoScout24, Scout24's property listings platform, had few synergies with its car trading arm. AutoScout24 reportedly lagged eBay's (EBAY.O) mobile.de platform in its domestic market, and the deal will enable Scout24 to fully focus on ImmoScout24, which is the group's largest business and the largest property-listing platform in Germany.

Huge listed corporates, fortified with hefty balance sheets, and sponsors armed with piles of dry powder have both contributed to the shrinking number of publicly traded companies in the US and Europe, which, in turn, has caused European M&A take-private deal value to fall every year since 2016. At the current pace through H1 2020, take-private deal value could achieve its lowest figure since 2014. As we enter a new economic cycle, we believe take-privates could offer a capital solution for companies struggling with extreme volatility in public markets. Take-privates could also provide the perfect opportunity for investors to swiftly capitalise on heightened attention surrounding niche sectors. For example, Clayton, Dubilier & Rice conducted a €656.7 million take-private of Huntsworth, a provider of PR and marketing services to pharma & biotech companies—an area that has long been disjointed and populated with small boutiques but has now been thrust into the limelight by COVID-19. The timely deal could enable Huntsworth to concentrate on longer-term initiatives targeting growth via acquisitions and consolidation rather than toil with a struggling share price in public markets.

Intense competition between sponsors pursuing growth from M&A targets has marked European dealmaking in recent years. During the downturn we believe PE managers will proactively eye assets that have demonstrated recent growth but that may also reflect dislocated and lower valuations due to overall waning of market confidence. Moreover, cash-rich sponsors may now feel it is the right time to invest heavily to further consolidate positions in sectors in which they have experience. PE managers have historically been active in the luxury brand space with investments by Permira in Hugo Boss (ETR: BOSS) and Carlyle in Moncler (MIL: MONC) being prime examples. This trend was sustained in Q2 2020 as The Carlyle Group (NASDAQ: CG) sold its majority stake in luxury shoemaker Golden Goose to Permira for €1.3 billion. The deal attracted attention from PE rival Advent, demonstrating that fierce competition remains despite gloomy economic forecasts. Luxury high-street fashion has been upended in recent months, and we anticipate current circumstances may entice PE managers to double down on efforts to buy well-established brands encountering financial issues.

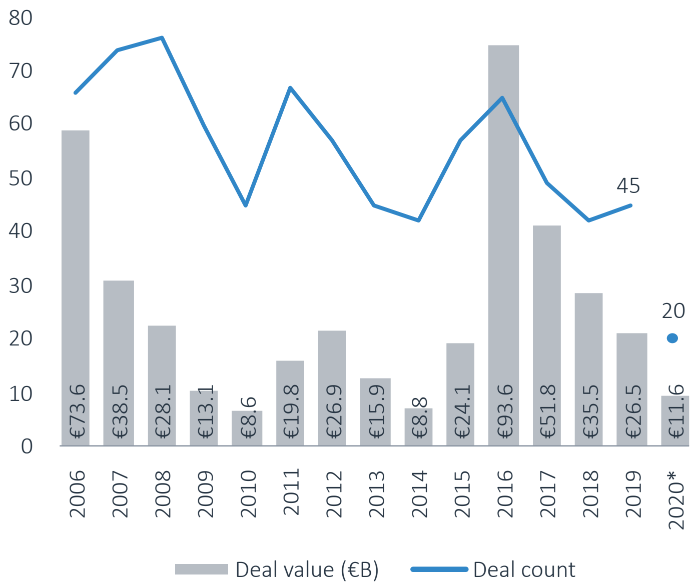
In Europe, the annual proportion of sponsor-backed M&A taking place has been growing since 2012. However, 31.9% of all deals in H1 2020 were sponsor-

Carveout and divestiture activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

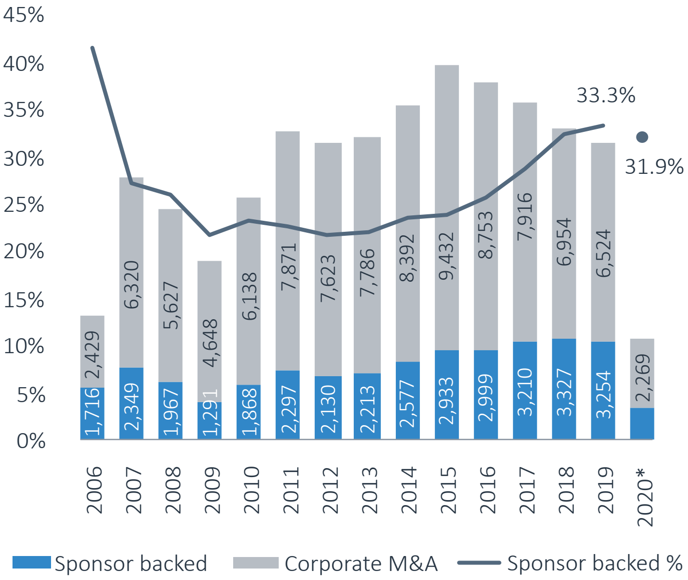
Take-private activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

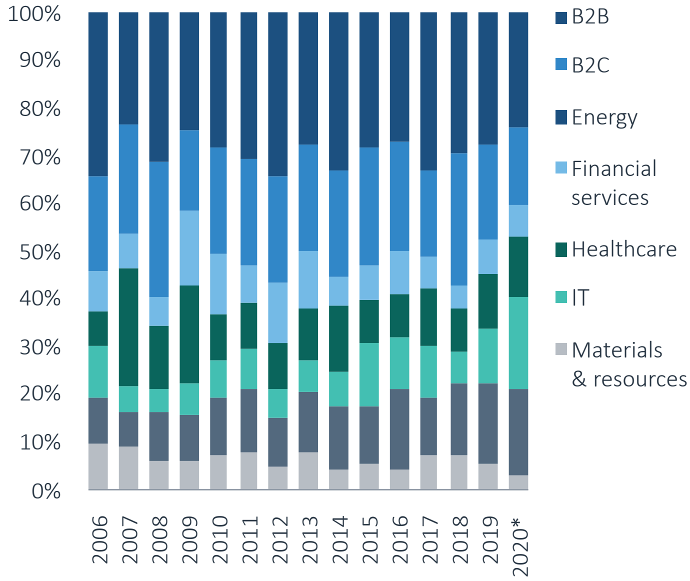
backed, pacing slightly lower than 2019, which may signal sponsors are becoming more selective of M&A deals. Nonetheless, it is not a substantial drop, and we believe PE managers with ample capital and diverse portfolios will be more bullish than corporates relying on weaker demand in hard-hit sectors. After being announced in February 2020, the €5.3 billion acquisition of property leasing and management group iQ Student Accommodation by The Blackstone Group (NYSE: BX) was completed in Q2 2020. Universities have encountered considerable disruption in recent months as campuses have shut, accommodations have emptied, and classes have shifted online. We believe pressing

Sponsor- and corporate-backed M&A (#)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

M&A (€) by sector



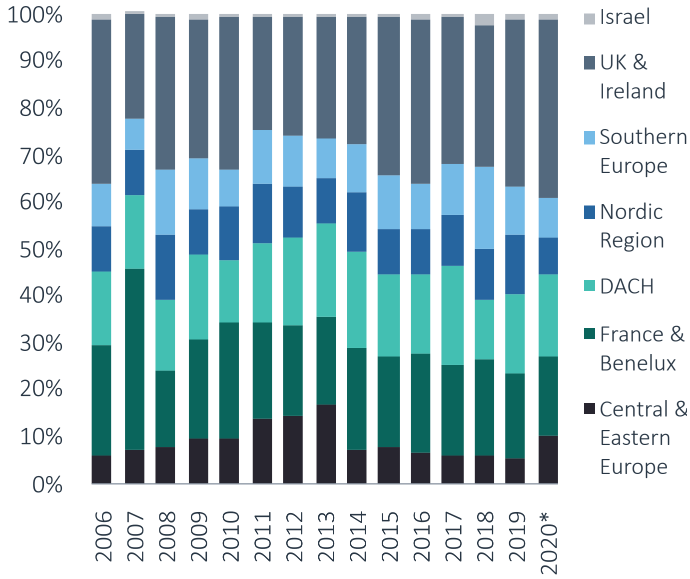
Source: PitchBook | **Geography:** Europe
*As of June 30 2020

ahead to close, rather than postponing, symbolises confidence in long-term growth in demand for student housing even though the sector faces major near-term complications stemming from COVID-19.

Impacts on sectors have characterised the COVID-19 crisis and none more so than energy, which has had to contend with oil demand collapses due to the pandemic. Oversupply issues and retaliatory measures between nations have caused geopolitical tension, leading to logistical storage headaches and further price volatility. In the short-term, these factors could give rise to dealmaking as geographical assets trade hands between rival stakeholders confronting evolving challenges. Renewable energy is the future for global players, and deals in cleantech could accelerate to mitigate short-term volatility and long-term decreases in utilisation of traditional fossil fuels during the COVID-19 pandemic. One of the larger deals in Q2 was Finland-based Fortum's (HEL: FORTUM) acquisition of Uniper (FRA: UN01) for €2.6 billion. Uniper focuses on fossil fuels, while Fortum's specialty is in hydroelectric and nuclear power. The concluded deal could benefit both parties and manage their respective challenges, as renewable energy providers have faced questions regarding storage, cost, and intermittency of sources.

Through H1 2020, the UK & Ireland region provided 38.0% of deal value, largely as a consequence of Allergan's mega-deal. The next best regions were France & Benelux with 17.0% and the DACH nations with 17.2%. The biggest deal in the DACH region was the €6.8 billion acquisition of Switzerland-based vehicle technology provider Wabco by Germany-based automotive supplier ZF

M&A (€) by region



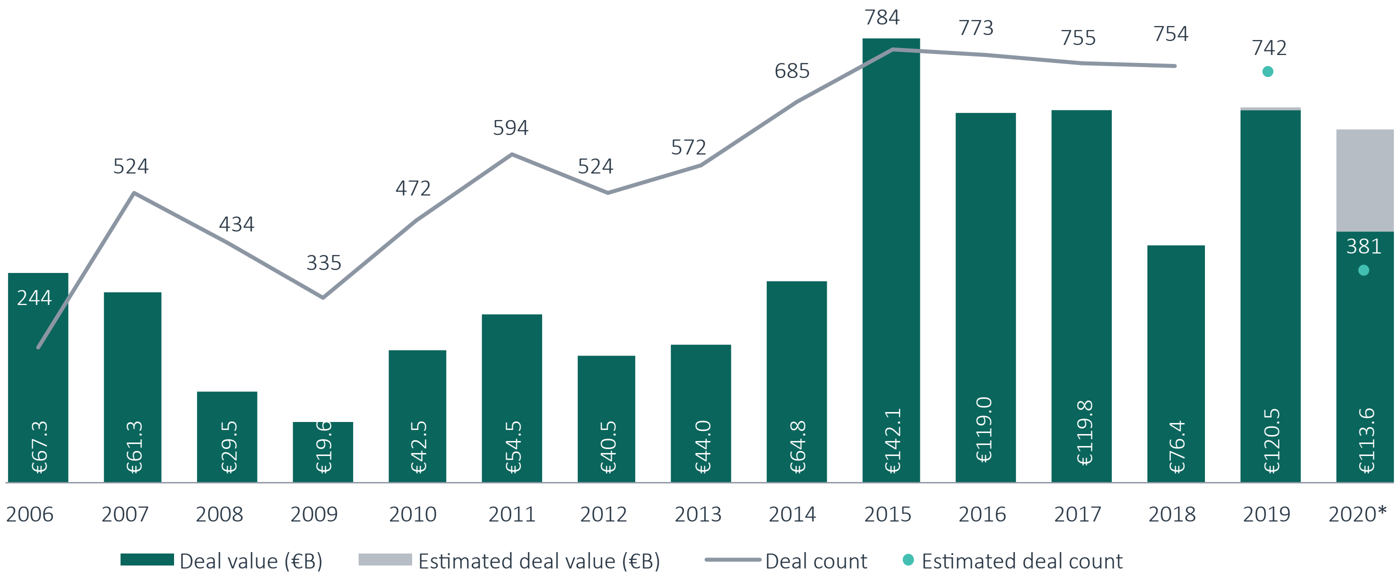
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Friedrichshafen (ZF). Germany possesses some of the most recognized automotive brands in the world and could be hit hardest from the slowdown. We believe the short-term outlook for the automotive sector is bleak and facing extraordinary challenges in the wake of COVID-19. It has been reported that ZF will cut 15,000 jobs in five years due to a freeze in consumer demand. However, car manufacturers in all regions are facing problems. For example, French-based Renault (PAR: RNO) announced 15,000 job cuts globally, and luxury UK-based producers Bentley, Aston Martin (LON: AML), and McLaren have announced nearly 5,000 job cuts between them.


ACG®
Association for Corporate Growth
COMMUNITY
WORTH
CONNECTING.
VIRTUALLY.
Our exclusive ACG Member Summit connected 2,100 members virtually, who requested 12,000 one-on-one meetings, and 1,900 attended seven live programs.
Be a part of the ACG community—where members have more benefits.
BECOME A MEMBER TODAY
© 2020 Association for Corporate Growth. All Rights Reserved.

Spotlight: Healthcare

Healthcare M&A activity

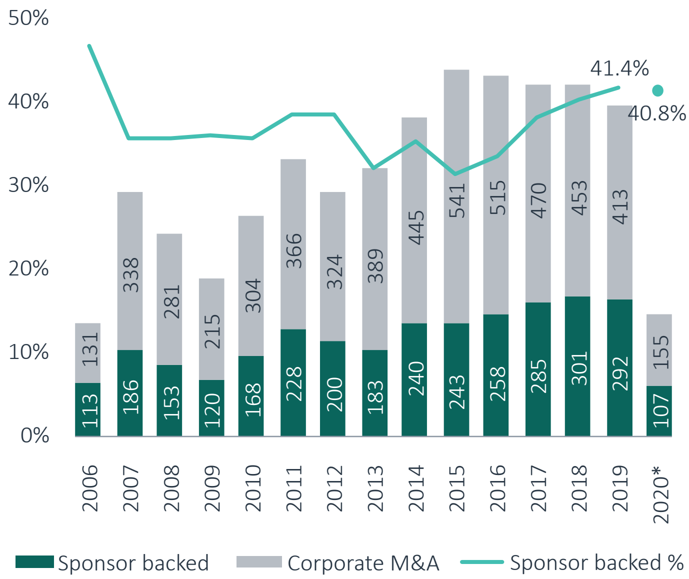


Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

European M&A deal value across the healthcare sector recorded the best first-half performance in over a decade and is on pace for a record year, contributing close to one fifth of overall European M&A value. Through H1 2020, €113.6 billion worth of deals closed—a year-over-year uptick of 44.6%. The spike in deal value was largely buoyed by three mega-mergers, which boosted the median deal size to €57.7 million, setting it on course to reach a new annual peak. Investors' enthusiasm for the somewhat recession-resilient healthcare sector has considerably heightened due to COVID-19. Weak healthcare systems have been exposed, the proliferation of pandemic preparedness divisions has started, and the race for a vaccine and/or COVID-19 treatment has intensified. In addition, trends we were seeing pre-pandemic across the industry have only accelerated. For example, implementing technological enhancements to improve medical procedures and telemedicine; reducing healthcare sector complexity in areas such as payment processing; using AI and large data sets to drive actionable insights into drug discovery; and an overall push to heighten scale, efficiency, and effectiveness in delivering universal healthcare at reduced costs have significantly encouraged new sources of capital.

The largest deal to close in the first half of 2020 was AbbVie's (NYSE: ABBV) transformative €54.1 billion acquisition of Ireland-based pharmaceutical manufacturer Allergan. The combination gives AbbVie immediate scale and profitability to its growth

Sponsor-backed proportion of M&A activity (#)



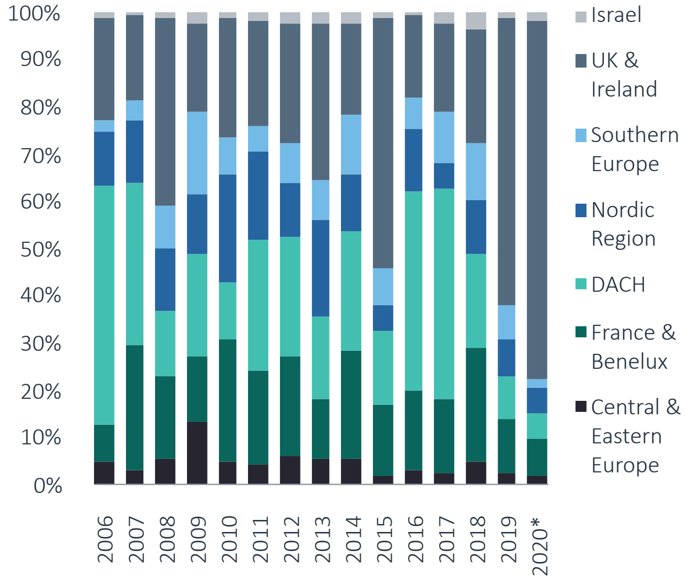
Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

platform (ex-Humira), as well as a stronger foothold in the key therapeutic areas of immunology, hematologic oncology, neuroscience, and Allergen Aesthetics, driving further efficiency and reducing sector complexity in meeting unmet patient-medical needs. Moreover, AbbVie will use its enhanced operating cash flows to pay down debt as it seeks to deleverage amid the macroeconomic uncertainty.

Through the first half of 2020, 41% of healthcare deal count was sponsor backed, while sponsors' share of M&A volume across the broader European M&A market stood at around 32.0%. We anticipate sponsors' appetite for healthcare assets, particularly life science companies, will only increase as the secular trend towards investing in the space steps up and as GPs further leverage operating partners with deep sector expertise in driving reformed value creation plans in light of the pandemic. The industry is extremely fragmented, operationally inefficient, and riddled with unmet patient needs, due in part to changing demographics and ageing populations living with chronic- or lifestyle-related diseases.
The abundant levels of financial-sponsor dry power propelled by the healthy fundraising environment for PE life sciences vehicles—exemplified by Blackstone's Life Sciences V €4.1 billion fund close—the ample opportunity for consolidation, as well as the potential for outsized returns in the sector will attract more private capital to the industry. A notable sponsor-led transaction to close in the first half of 2020 was UK-based healthcare company Circle Health's €2.1 billion buyout of BMI Healthcare, the UK's largest private hospital chain. This transaction further consolidates the private hospital space and is one of the most transformative events in the European healthcare sector, as the combination will create a UK private-hospital behemoth that owns and operates around 57 hospitals, with annual revenues of close to €1.1 billion.[1]

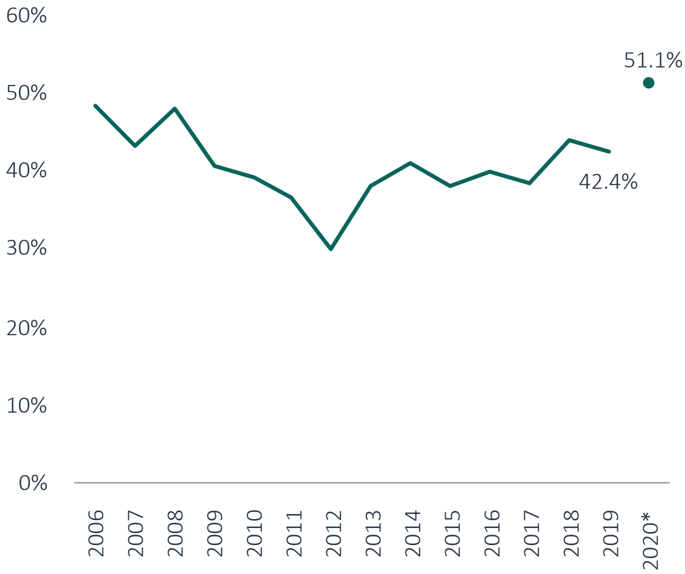
The UK & Ireland region continues to grow its share of European healthcare activity. Through H1 2020, the UK & Ireland contributed the bulk of healthcare deal value and volume, accounting for 75.9% and 27.1%, respectively—year-over-year increases of over 300 basis points for both measures. The largest two healthcare transactions through the first half (Allergan and BMI healthcare deals) occurred in the region, contributing €56.2 billion in deal value. Another notable transaction to close in the geography was Recipharm's (STO: RECI B) €597.2 million acquisition of UK-based pharmaceutical company Consort Medical. The combination highlights further consolidation among drug development and manufacturing organisations and provides Recipharm with technology complimentary to its existing business in inhaled therapies. The transaction also marks dealmakers' confidence in UK-based pharma assets, as the deal follows a period of front-footed acquisitions by Recipharm, who last year acquired Sanofi's UK-based inhalation business and AstraZeneca's drug manufacturing plant in 2007.

M&A activity by region (€)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Cross-border M&A (#) as a proportion of total M&A



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

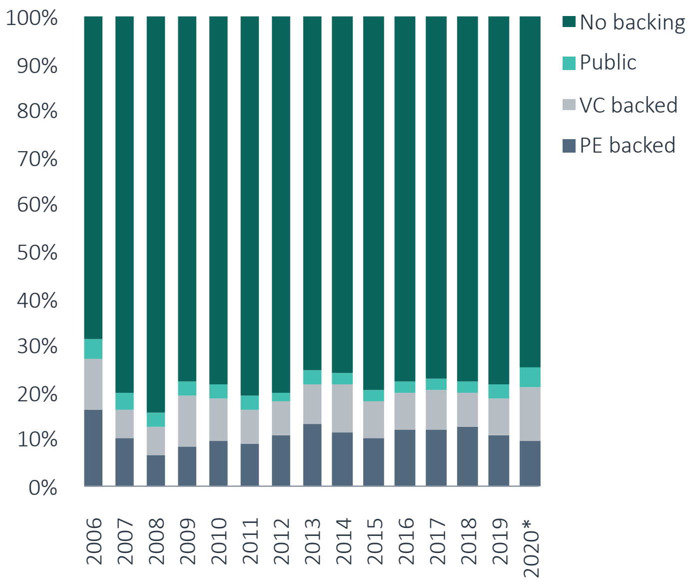
Cross-border M&A volume proportions are on pace to hit a new high in 2020. Through H1 2020, 51.1% of M&A healthcare transactions and nine of the top 10 deals involved a cross-border investor. Despite the travel implications caused by COVID-19, we expect cross-border activity to sustain as global dealmakers search for scarce assets in areas such as biopharma that have seen demand remain robust or even increase

1: "UK's Largest Private Hospital Chain to be Sold to Smaller Rival," The Financial Times, Gill Plimmer, November 29, 2019.

due to the pandemic. One such deal involved US investor Apollo Global Management (NYSE: APO) acquiring Netherlands-based therapeutic service provider COVIS Pharmaceuticals. The combination is anticipated to help COVIS move into new international markets, as well as develop new therapeutic solutions for patients with life-threatening conditions and chronic illnesses. North American investors' participation in European healthcare activity spiked through the first half, contributing 21.0% of deal volume. We expect US investors' interest in overseas assets to continue in the coming quarters, as they begin to draw on the ample capital they have raised for dedicated life sciences vehicles.

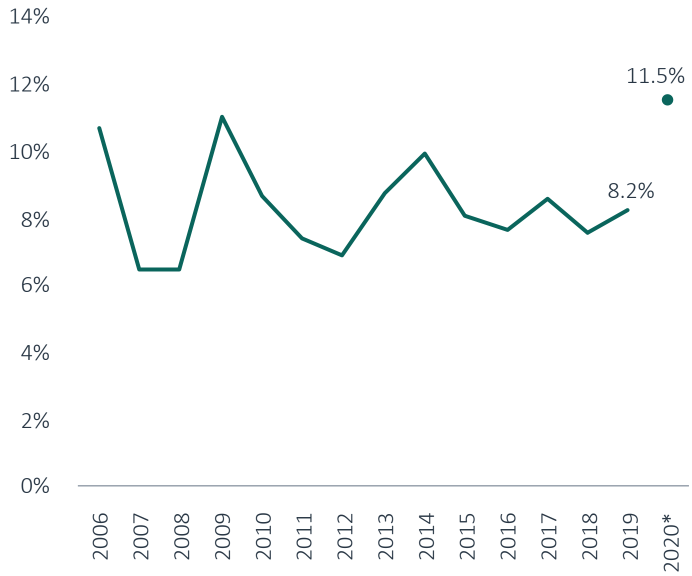
During the first half of 2020, there was a noticeable uptick in the volume of VC-backed healthcare entities acquired, which comprised an 11.5% share of total M&A activity. If this pace keeps up in the second half of the year, it will be the first time that purchases of VC-backed companies exceed those of PE-backed assets. The growth of the VC ecosystem, but most notably in the number of VC-backed companies in the pharmaceutical & biotechnology space has contributed to this phenomenon. In addition, early/late stage VC-backed entities without institutional backing are more likely to be receptive to a sale during the pandemic, as favourable valuations are expected for some, while others seek liquidity options due to tightening cash-flow profiles. The largest VC-backed acquisition of H1 2020 saw Quest Diagnostics (NYSE: DGX) acquire Finland-based gene testing company Blueprint Genetics for €111.0 million. We may start to see more corporates and sponsors increase their appetite for late-stage VC-backed healthcare entities, due in part to the potential of outsized returns and more compelling risk rewards in this no-interest-rate environment. The deal will allow Quest to further expand its insights into genetic and rare diseases, as well as improve patient care for unmet medical needs. In addition, the deal will extend Quest's capabilities in the United States and Canada.

M&A activity (#) by backing status



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

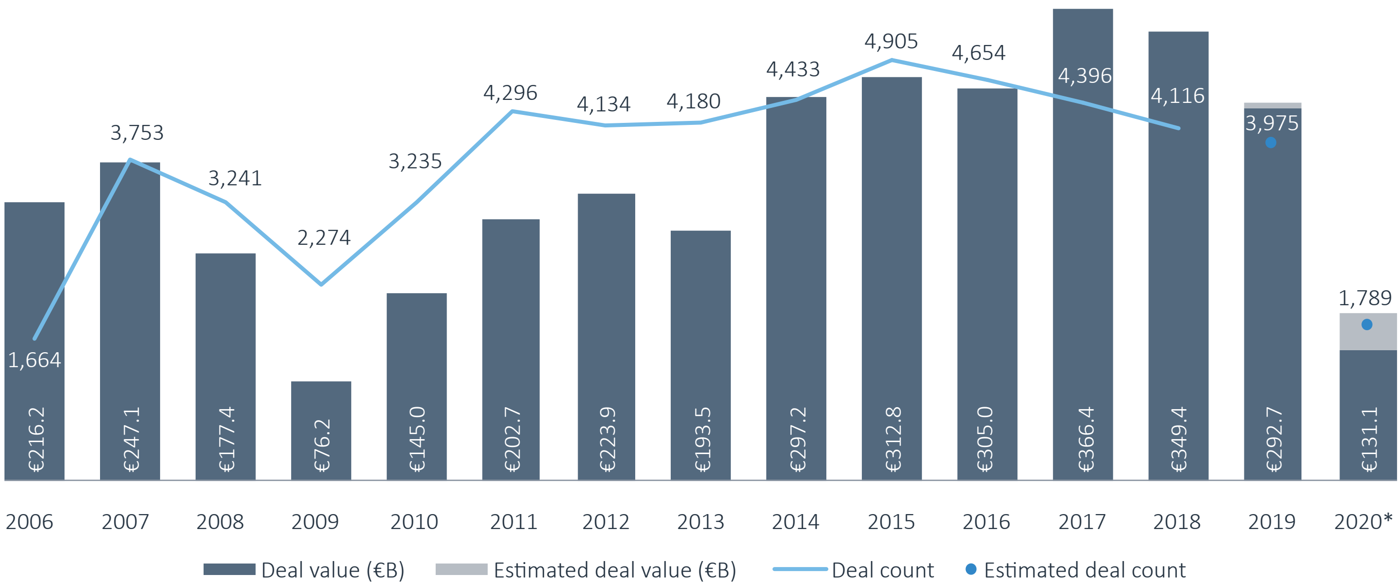
Proportions of M&A activity (#) by VC-backing status



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

Spotlight: B2B

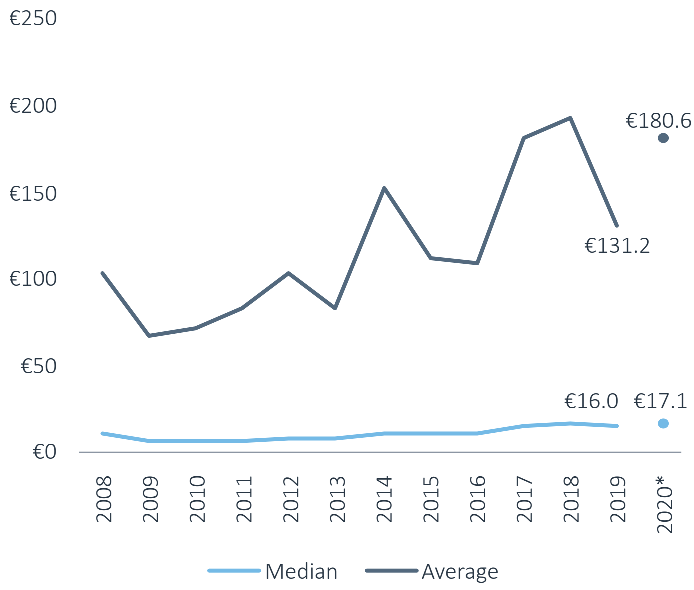
B2B M&A deal activity



Source: PitchBook | **Geography:** Europe
*As of June 30 2020

While B2B M&A deal value and count have been falling since 2017, we expect the space to show heightened M&A resilience in the second half of the year, despite companies prioritizing conserving cash and protecting revenues amid the recession. In H1 2020, 1,789 deals closed worth €131.1 billion, leading to modest year-over-year declines of 3.7% and 3.2%, respectively, which is impressive considering the disruption COVID-19 has caused. Although 2020's end-of-year totals may not exceed 2019's results, dealmaking for B2B products and services that are deemed mission-critical allows companies to increase flexibility as they expand into new markets, improve R&D capabilities in the search for cost-efficiencies, and protect margins. Flourishing B2B businesses have inherently lower risk profiles due to less dependency on single brands and territories. With the uncertain macroeconomic environment, B2B acquisitions are likely to appeal to buyers who are looking to increase business stability, as highlighted by bolt-on volume proportions hiking close to 60% in H1 2020 due to sponsors boosting platform resilience. In the only mega-merger of the first half of 2020, ZF Friedrichshafen acquired Switzerland-based Wabco for €6.8 billion. The deal will allow ZF to include commercial-vehicle braking solutions for the first time, as well as Wabco's emerging semi-autonomous technology for commercial trucks. ZF plans to invest around €12 billion[2] over the next five years on electric and autonomous vehicle technology.

Median & average B2B M&A deal size (€)



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

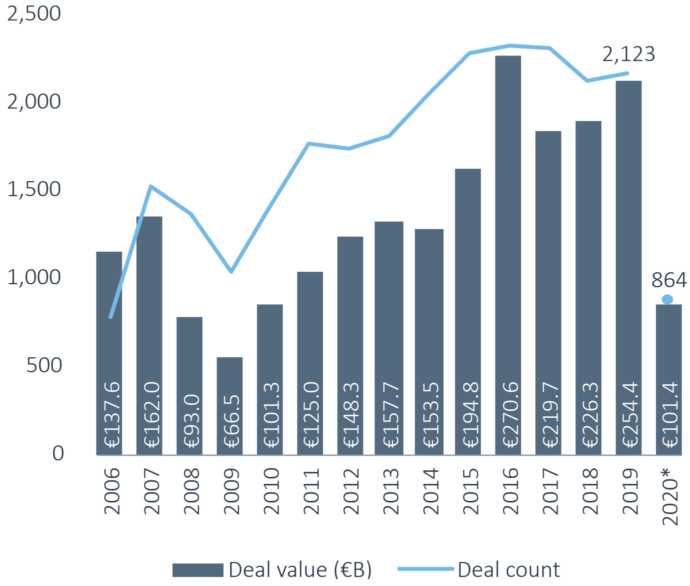
The median B2B M&A deal size increased through H1 2020 to €17.1 million, and we expect this upward trajectory to be sustained in the coming quarters. If this pace is kept up through the second half of the year, the median deal size will hit a new high. Prices are likely to sustain, if not increase, for B2B assets that are deemed COVID-19 proof, therefore helping to maintain

2: "ZF Enters Car-Parts Elite With $7 Billion Deal to Buy Wabco," Bloomberg News, Aaron Kirchfeld current deal sizes. The upper-middle market deal size segment of €500 million-€1 billion was the main driver of deal value in the sector, contributing a 25.6% share, while nearly 80% of deal count came from deals sized under €100 million. The second largest deal to close in H1 2020, which significantly assisted driving both the average and median deal sizes up, was Advent Internationals €4.7 billion take-private of UK-based Cobham. Cobham is a British defence contractor who supplies technology services and products for the defence and aviation industries, including systems that allow planes to refuel mid-air. It is likely Cobham will not be immune from the substantial reduction in air travel; however, its mission-critical products and services provided to national military groups is expected to help the company manage through this uncertain period.

M&A activity in the B2B enterprise software space registered its second-best first-half deal value and count totals in over a decade, an incredible achievement amid the economic disruption caused by COVID-19. In H1 2020 1,255 deals closed, worth €131.3 billion—year-over-year increases of 15.9% and 17.2% respectively. It should be noted the bulk of B2B software deal flow will be captured under the IT sector; however, we thought it would be appropriate to discuss recent developments. The secular trend of investing in the cloud, cashless payments, cybersecurity, collaboration and e-commerce subsectors, coupled with enterprise software entities' ability to adapt and pivot quickly during downturns, have been significant factors in driving M&A activity. Some companies in the enterprise software subsector have actually seen revenues increase during the downturn, as the world turns remote everything, and their products and services are now deemed mission-critical in the evolving new normal, which propelled the average deal size to €369.0 million. In addition, the subsector's asset-light nature, subscription-based revenue model, and low leverage levels have made it particularly attractive for investors. The bulk of the subsector's targets are coming from the UK & Ireland region, with 50% of the top ten deals closing in the geography. Moreover, nearly 15% of targets had VC-backing in the first half, doubling the subsector's annual proportions from a decade ago and potentially signalling more compelling risk-rewards emerging from the VC ecosystem.

However, the industry has not come without its challenges during the 'Great Lockdown' crisis. In May 2020, a survey by Bain & Company indicated nearly three-quarters of enterprise software customers said they were being asked to reduce spend, and 55% said they cut IT budgets. Additionally, software vendors stated, one in three customers has already asked for

B2B enterprise software M&A activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2020

and received relief payments.[3] As a consequence, the risk of churn among customers has become more apparent, meaning greater focus has been placed on renewals and retention rates, as opposed to new business opportunities. Retention-risk indicators such as product usage and support-ticket patterns have been closely watched, as has the economic health of customers' respective industries. Applying the right strategy to each account has become more complex and nuanced in this environment. For example, software vendors have had to become increasingly more flexible with payment terms to retain high-value accounts at risk of defection. On the other hand, opportunities for software vendors to cross and upsell high-value, low-risk accounts have also increased as customers seek to improve their digital footprint despite the reduced IT spend. Further, low-value, high-risk accounts have likely been given some payment relief to retain their business. Vendors have become increasingly creative in retaining accounts and attracting new business amid the downturn, as they try to keep customers productive and connected, while guarding their own margins.

Despite the challenges and opportunities facing the B2B enterprise software industry, we did see substantial acquisitions close in the first half of 2020. For example, Insight Partners acquired Switzerland-based software data management company Veeam for €4.6 billion. Veeam offers mission-critical disaster recovery and backup services for enterprises. Veeam's strong growth, high customer-retention rates, and ability to expand and pivot services into new markets were the big attractions for Insight Partners.[4]

3: "In Enterprise Software, Renewals and Retention Have Never Been More Important," Bain & Company, Simon Heap, May 15, 2020.
4: "Insight Partners to Buy Cloud Data Firm Veeam in $5 Billion Deal," Reuters, January 9, 2020.