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Global M&A Report

Q2 2021

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PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial

Institutional Research Group

Analysis

Wylie Fernyhough Senior Analyst, PE Lead
wylie.fernyhough@pitchbook.com

Dominick Mondesir Senior Analyst, EMEA Private Capital
dominick.mondesir@pitchbook.com

Rebecca Springer, Ph.D. Analyst, PE
rebecca.springer@pitchbook.com

Jinny Choi Analyst, PE
jinny.choi@pitchbook.com

Data

Andrew Akers, CFA Quantitative Research Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Kelilah King**

Published on July 27, 2021

Click here for PitchBook's report methodologies.

Executive summary

Global M&A activity saw a strong recovery in H1 2021, with both deal count and value on pace to approach or surpass record highs. Healthy stock market returns, optimistic executives, and cheap financing encouraged the rush of deals. Moreover, the torrid pace of IPOs and SPAC reverse mergers bodes well for global M&A activity. On the other hand, tight labor markets have begun to pressure industries where labor is a major cost center.

In Europe, deal activity accelerated even further to reach a new quarterly deal value record for the second time in a row. The quarter saw considerable mega-deal and cross-border activity as investors outside of Europe looked toward the region to find attractively priced companies as healthy debt and equity markets magnified the available deal financing options. Robust M&A activity continued in North America as well. However, several regulatory and tax policy changes under the new Biden Administration—including a new executive order that ratchets up antitrust scrutiny in financial services, healthcare, transportation, and other industries—may negatively affect M&A activity.

The macroeconomic whiplash of pandemic-induced supply reductions, followed by faster-than-expected demand rebounds, have prevented some industries from taking full advantage of the economic recovery. Backlogs in global supply chains, high commodity prices, and labor shortages moderated M&A activity in the B2B sector and left some materials & resources firms facing prolonged uncertainty. Other energy and materials & resources companies have benefited from the recovery of oil & gas and other commodity prices. Going forward, environmental, social, and governance (ESG) factors will continue to shape M&A in these sectors.

Consolidation was rampant in financial M&A activity, with scale acquisitions and banking consolidation driving dealmaking in Q2. In technology, China pushed back against its tech giants, casting a cloud over the sector even as it continues to play a growing role in global M&A. Finally, the healthcare and B2C sectors both saw moderate deal activity as post-pandemic consumer demand patterns gradually came into focus.

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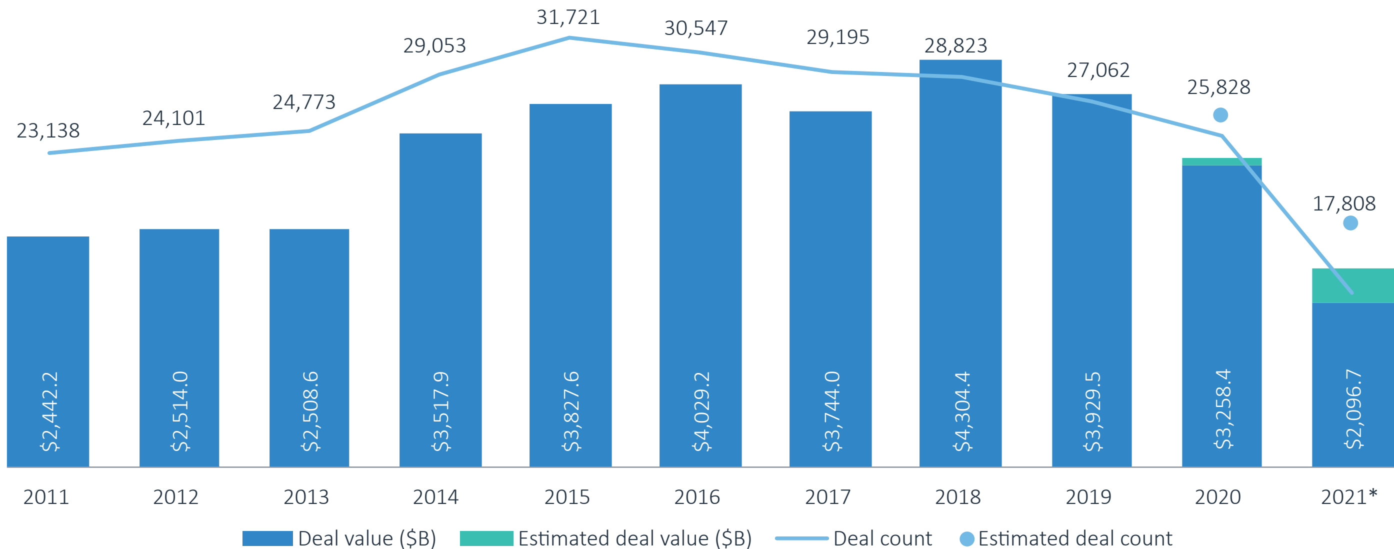
Overview

M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2021

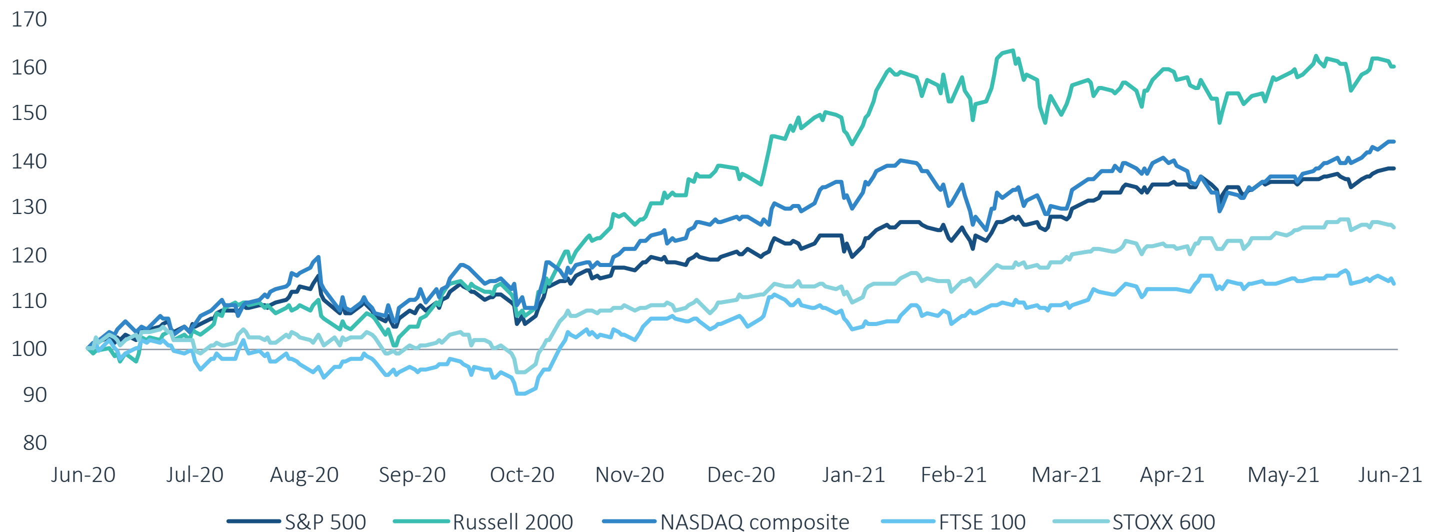
Wylie Fernyhough Senior Analyst, PE Lead
wylie.fernyhough@pitchbook.com

Through the first half of 2021, dealmaking count and value are on pace to approximate or surpass record highs. In total, more than 17,000 deals closed with a combined value exceeding $2 trillion. The bounce back from the pandemic-induced lows in 2020 is continuing to pick up steam, although the recovery has not been evenly felt thus far.

The economic recovery is apparent in global stock prices as well, with US and European indices broadly higher. The combination of cheap financing, high stock prices, and highly confident executives is a recipe for dealmaking. And that is exactly what we have seen. While the closed deals are on a torrid pace, announced deal activity is even hotter. Deals are being pursued in the faster-growing sectors such as technology, healthcare, and financial services as well as in some areas battered by a yearlong lockdown. Paying for deals partially or entirely with stock is especially prevalent, particularly for the larger deals. For example, London Stock Exchange bought data provider Refinitiv from Blackstone for $14.8 billion plus the assumption of $12.2 billion in debt, all paid for with stock. Financing with shares is also expected to play a major role in railroad company Canadian National Railway's (NYSE: CNI) acquisition of Kansas City Southern (NYSE: KSU) at a $33.6 billion enterprise value. The deal offers KSU shareholders $200 per share plus 1.129 shares of CNI, equating to just under 40% equity financing.

The steepness of the yield curve—and low rates more generally—also serve as predictors of elevated future dealmaking. Some inflationary pressures that could have led to higher rates also appear to be subsiding. Commodities from lumber to oil look to have topped, at least for now. The labor market, on the other hand, is showing even more signs of tightening, which could cause inflation to remain a concern going forward. This environment may disincentivize dealmaking in industries where labor constitutes a major cost center.

Select stock indices rebased to 100 in June 2020



Source: Morningstar
*As of June 30, 2021
Note: All indices are price return and shown in USD.

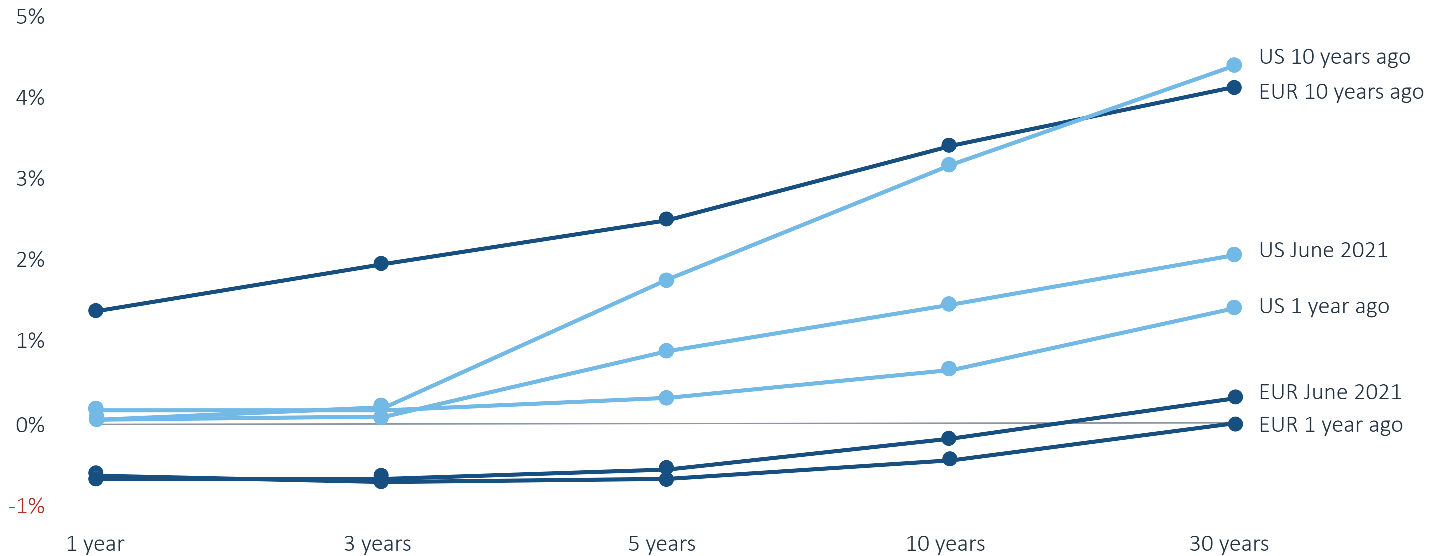
It may also taper the valuations of smaller companies, which are less able to absorb higher input costs. To that end, deals under $100 million have accounted for the lowest percentage of deal count and value in more than a decade. Interestingly, deals above $1 billion have also played a diminished role. However, we believe this is likely to change by the end of 2021 as more than a dozen $10 billion+ deals are expected to close by year's end. Some of the largest include S&P Global's $44.0 billion acquisition of IHS Markit, Discovery Communications' $43.0 billion deal to buy WarnerMedia assets, and Nvidia's $40.0 billion purchase of ARM.

Potential tax changes are driving a one-time bump to M&A activity in the US. The rumored increase in the marginal capital gains tax rate from 20.0% to 39.6% is spurring many family-owned businesses to consider selling one to three years ahead of schedule to prevent paying higher taxes on a sale. Perhaps the largest beneficiary here has been the middle-market buyout industry, which is on pace for record-setting deal activity. We've heard that bankers in the space are worried about staff shortages as deals pour in. However, some large family-backed companies are selling as well. Privately held Medline, a US-based healthcare products manufacturing and distributing company, agreed to sell a majority stake to a consortium of PE firms at a $34.0 billion enterprise value. Additionally, the two families that hold a majority stake in Carrix are said to be contemplating a sale that could bring in $2.5 billion. While the tax increase's impact on M&A will be short-lived, the PE industry continues to account for a growing proportion of dealmaking.

More broadly, many global governments are playing a more active role in business, especially M&A. The US has continued to see important regulatory developments. A recent executive order mandates a variety of rule changes aimed at curbing corporate power in M&A, labor, and pricing, with specific attention to the healthcare, transportation, agriculture, telecoms, and technology sectors.[1] Corporate development teams may respond by rushing deals through before the rules take effect, which would dampen M&A activity.[2] Additionally, antitrust hawkishness toward Big Tech has a firm foothold in Washington DC with the appointment of Lina Khan as FTC Chair. In April 2021, US Senator Josh Hawley introduced a proposal that would ban companies with a market value of more than $100 billion from conducting M&A, effectively targeting large tech companies.[3] While this crude measure is unlikely to become law, it does illustrate that a broader pushback against the largest companies has some amount of bipartisan support.

1: "FACT SHEET: Executive Order on Promoting Competition in the American Economy," The White House, July 9, 2021.
2: "Analysis: Dealmakers See M&A Rush, Then Chills, in Biden's Antitrust Crackdown," David French and Sierra Jackson, Reuters, July 12, 2021.
3: "U.S. Senator Wants to Ban Big Tech from Buying Anything Ever Again," Reuters, Diane Bartz, April 12, 2021.

Euro Area AAA and US Treasury yield curves

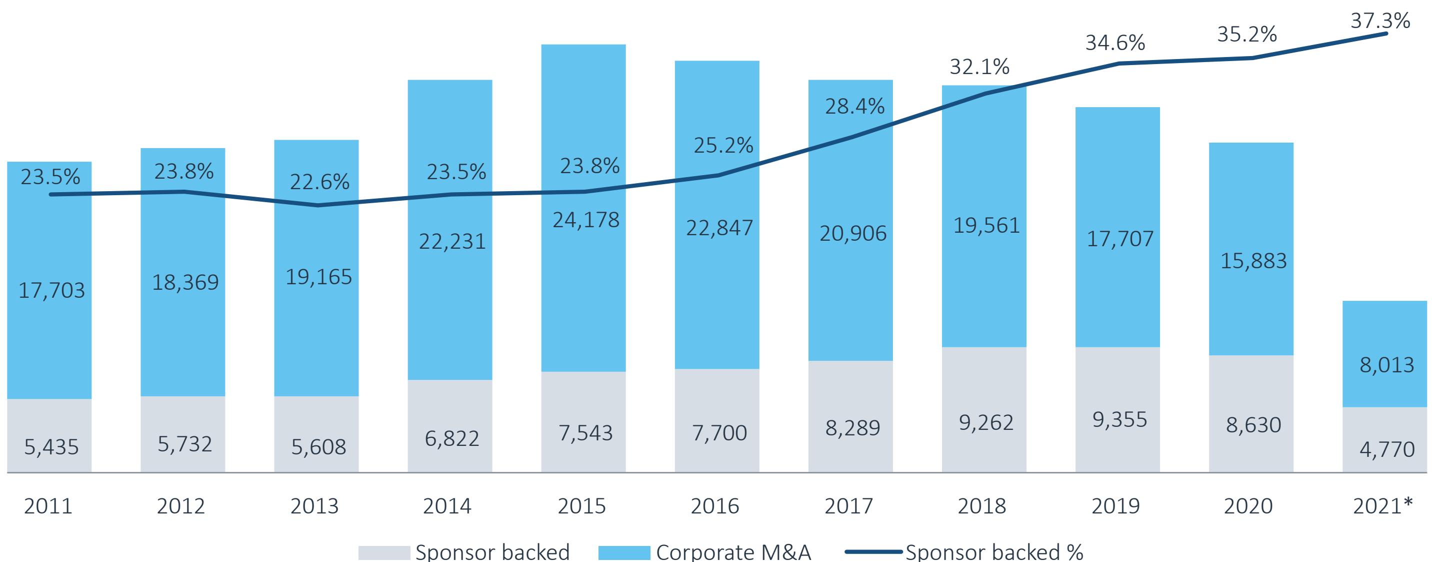


Source: European Central Bank, Federal Reserve of St. Louis
*As of June 30, 2021

The Communist Party of China has also taken a harsher stance on the largest companies, especially in technology. The party blocked a proposed $5.3 billion merger of game streaming companies DouYu (NASDAQ: DOYU) and Huya (NYSE: HUYA) in July 2021. This, paired with the crackdown on DiDi Global (NYSE: DIDI) just after its IPO, has put the brakes on M&A expectations in the region. M&A across the globe, especially in the tech sector, may face headwinds going forward.

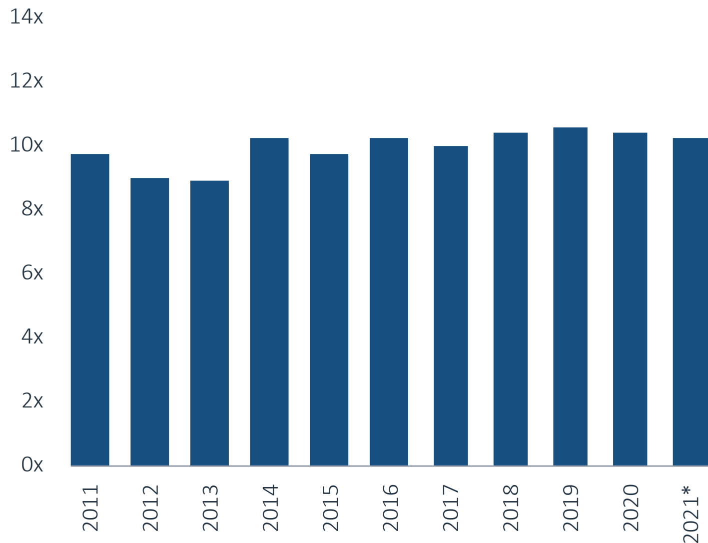
Combating these pressures, company activity flowing to the public markets has been robust to date. Everything from reverse mergers with SPACs to PE or VC-backed companies completing an IPO is on a record-setting pace. This bodes well for the future of M&A: Public companies tend to be far more acquisitive than their privately held counterparts. Because technology and healthcare have dominated public listing activity, M&A in these sectors will likely remain busy for years to come—to the extent that regulators allow.

M&A deal count by backing status



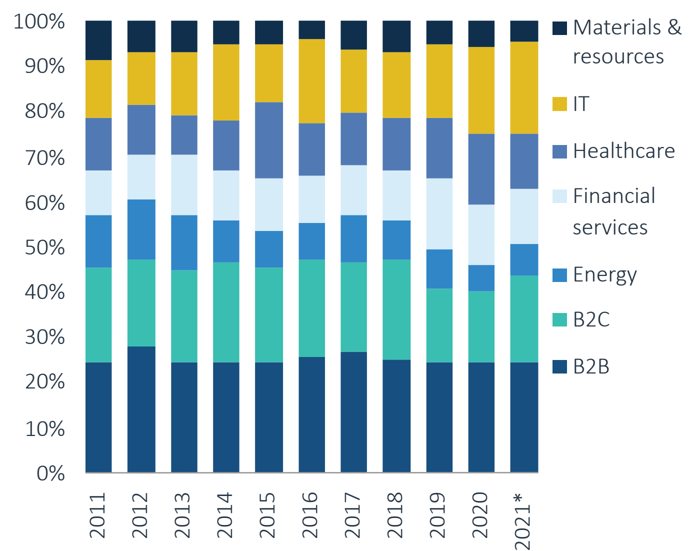
Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Median M&A EV/EBITDA multiples



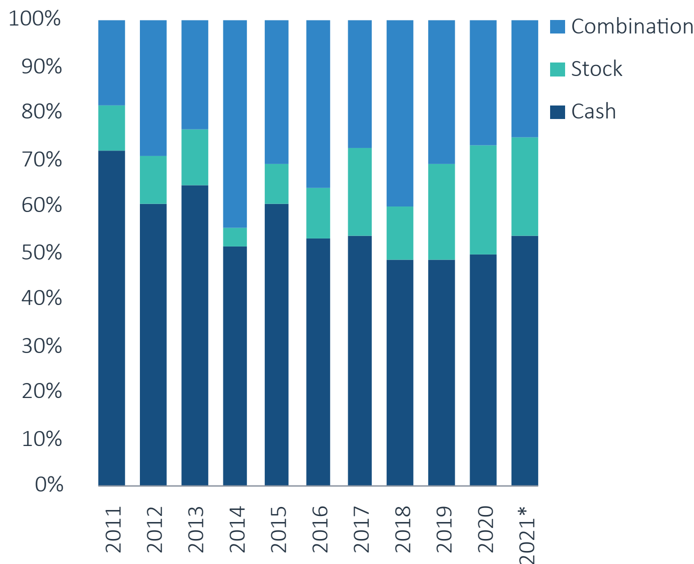
Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Share of M&A deal value by sector



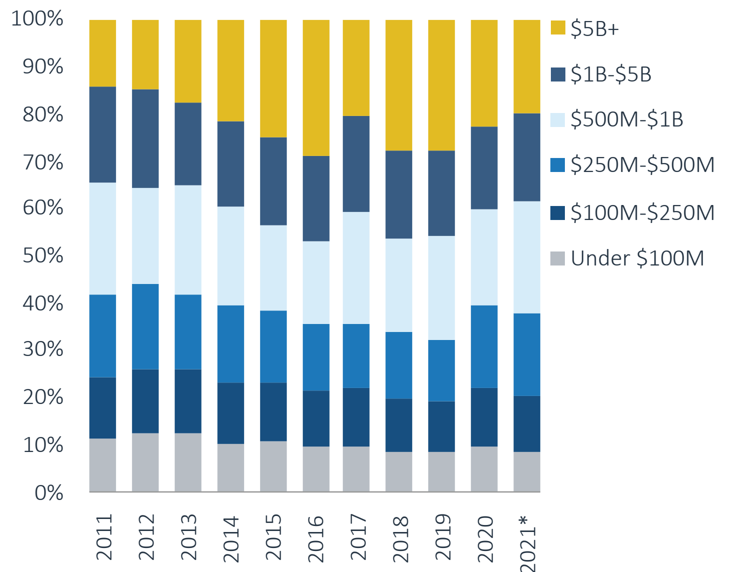
Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Share of M&A deal value by form of payment



Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Share of M&A deal value by deal size



Source: PitchBook | **Geography:** Global
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Q&A: The growing use of tax liability insurance

Cross-border transactions lead the list of reasons for increased prominence of this type of cover

Michael Saitta

Senior Underwriting Counsel
Tax Liability Insurance

Prior to focusing on the Tax Liability product, Michael was an underwriter on the Liberty GTS Representations & Warranties team. Before joining Liberty GTS, Michael worked at PwC, where he oversaw tax due diligence and provided tax structuring advice for PE and corporate clients on variety of M&A and internal transactions.

Five years ago, almost no standard deals would have incorporated a standalone tax liability policy into the cover for the deal. Now, at least 10% of transactions will consider tax liability cover. Awareness of what tax liability insurance can provide has been growing for many years, expanding the use of the product in M&A and internal reorganizations or restructurings.

Tax liability insurance is one of the newer tools in the M&A advisor's toolbox. We see increased interest for cross-border deals, where both buyers and sellers are subject to separate home taxation regimes and where there may be tax consequences or effects in other international jurisdictions where one of the operating companies involved is located and taxed.

While many might consider that tax liability cover is applicable only in inherently risky opportunities, it can also be used when there are multiple ways to structure a deal, giving rise to two or more possible tax outcomes. One or more of the counterparties in the transaction may prefer one tax structure, even if it comes with more uncertainty. In this scenario, tax liability insurance transfers all or a portion of that risk or uncertainty away from the deal, helping all parties get comfortable without increasing the likelihood of a taxation event. In this context, the tax liability cover can function like a representations and warranties policy, helping take the sting out of a potential standoff and offering an amicable resolution on a reasonably quick timeline.

There may also be situations in which a remote, but material, tax risk is identified within a transaction. Here, the cover can help to prevent "buyer/seller fear" from halting progress. In addition, the involvement of PE investors can sometimes result in novel transaction structures, and such parties also tend to be more innovative with tax planning than a founder-owned business for example.

Alongside the increased use of standalone tax liability insurances, we have seen a parallel increase in the use of hybrid representations & warranties (R&W) and tax policies for certain entities or business types. These are common to structures that may have inherent tax compliance "headaches" despite other advantages and, in some cases, a standard R&W policy might not cover the full suite of potential tax issues.

One of the most common uses of tax liability policies are certain types of tax credits—particularly energy tax credits, locking the value of these into a deal even where the credit has not yet been issued.

Real estate investment trusts (REITs) also have a favorable tax treatment built into their structure. However, these come with increased compliance considerations and, in the case of a REIT being sold, the new owner may have concerns about inheriting liability for retrospective taxation being levied on preclosing tax periods. In this situation, the transacting parties have traditionally used R&W products, even though the cover given may be incomplete for certain tax liabilities. R&W insurance is also not designed to cover tax issues that arise from the deal itself. These examples highlight how tax liability insurance, in some instances married to a R&W policy, can solve some of these concerns.

For all sides, tax liability insurance is an increasingly useful tool, and it can help smooth the path of certain types of deals in a way that a standard R&W policy cannot do alone, in addition to many of its standalone benefits outside of a deal setting.

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Regional spotlights

Europe

European M&A activity

Source: PitchBook | **Geography**: Europe
*As of June 30, 2021

Dominick Mondesir Senior Analyst, EMEA Private Capital
dominick.mondesir@pitchbook.com

European M&A activity accelerated its substantial momentum from Q1 2021 to reach a new quarterly deal value high in the second quarter of the year. In Q2 2021, 4,065 deals closed worth approximately $428.3 billion, marking YoY increases of 56.3% and 122.8%, respectively.

A cocktail of factors, including continued accommodative fiscal-monetary policy, a faster-than-expected recovery from the pandemic, and exceptionally strong capital markets, has propelled M&A to new heights. The EU unleashing its fiscal power through the new €750.0 billion NextgenerationEU pandemic recovery fund is also providing an unprecedented supportive policy backdrop for M&A. Accelerating vaccination rates across Europe have also contributed, spurring the ECB to raise its baseline growth forecasts for the bloc to 4.6% in 2021.[4] And booming European debt and equity markets, which have seen the Euro STOXX 50 index return 16.3% through H1 2021 to power ahead of the NASDAQ 100 and S&P 500, have enhanced the availability of debt and equity financing to pursue M&A. These factors all point to considerable confidence across the C-suite and sponsors, which are the bedrock of any M&A cycle.

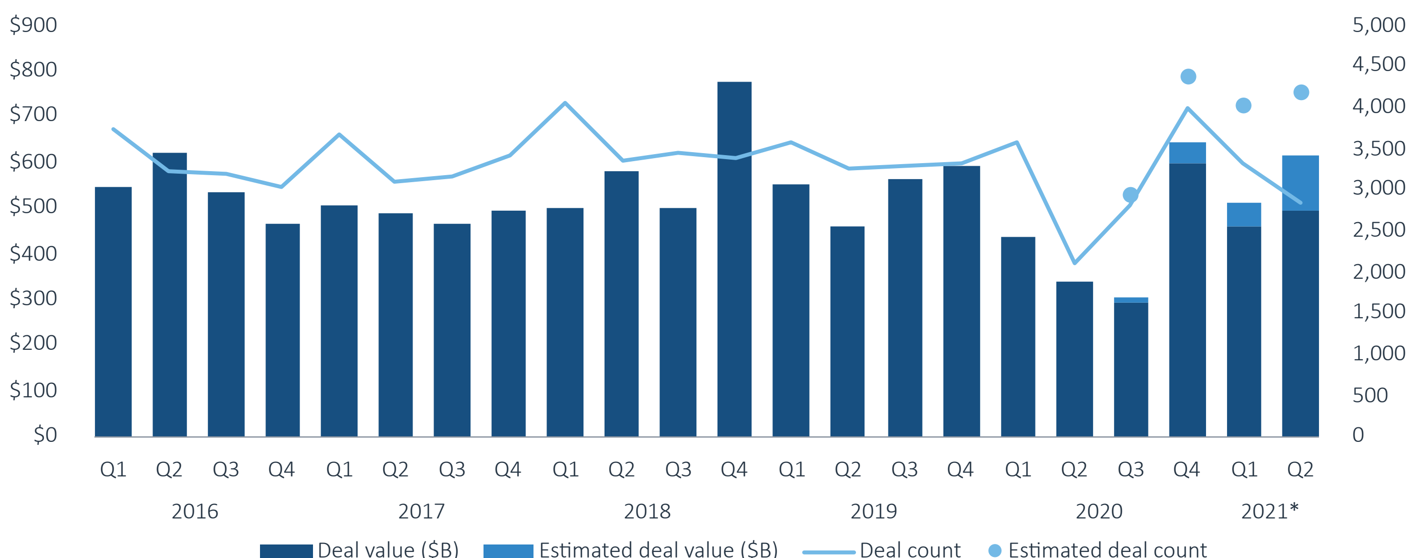
Another contributor to the second quarter's lofty numbers was the sizable pick-up in mega-deal and cross-border activity, especially targeting UK-based assets. In Q2 2021, eight mega-deals closed in Europe, doubling the total from the same quarter last year, while European M&A deal volume with a North American acquirer strides toward its highest annual total in five years. For example, the second quarter saw Canada-headquartered Intact Financial (TSE: IFC) acquire UK-based RSA Insurance Group for $10.1 billion, US-based AmerisourceBergen (NYS: ABC) acquire UK-headquartered Alliance Healthcare for $9.2 billion, and US-based Allied Universal merge with UK-headquartered G4S (UK) for $5.3 billion. Both corporates and sponsors based outside of Europe are targeting European assets like never before, thanks to deeper and more diversified overseas capital pools, the growing potential for European companies to develop into global champions, and greater political stability in the bloc. Also contributing are the many fundamentally strong but undervalued companies in the region, which raise the possibility of attaining more value from European assets. For instance, US-based buyout group KKR is expanding its operations to target more M&A in the UK exclusively. This comes on the back of the US-headquartered buyout shops CD&R, Apollo, and Fortress vying for UK-based supermarket Wm Morrison.

4: "ECB Lifts Euro Zone Growth and Inflation Projections," RTE, June 10, 2021.

Regional spotlights

North America

North American M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Rebecca Springer, Ph.D. Analyst, PE
rebecca.springer@pitchbook.com

North American M&A activity remained elevated in Q2 2021, with 2021's annual figures trending toward a possible record-breaking year. Continued stock market health has not only equipped public companies with ample equity buying power but has also provided liquidity for the burgeoning crop of companies entering public markets via IPO and SPAC reverse merger. At the same time, low interest rates across investment-grade and high-yield debt have facilitated borrowing to support M&A transactions.

In the US, two separate tax policies that bear on financial markets are on the table: a proposed hike in the top marginal capital gains rate from 20% to 39.6% and a corporate tax rate increase from 21% to 28% (which will likely be revised down to 25%).[5] The cap gains hike, which is much more likely to be enacted into law, is spurring many family business owners to instigate sales processes in hopes of closing before the new rate applies. By contrast, the proposed corporate tax increase has virtually no Republican support and will be abandoned if the midterm elections yield a divided Congress. This is despite the administration's diplomatic victory in gaining Organisation for Economic Co-operation and Development (OECD) and G20 agreement to enact a global minimum corporate tax rate of at least 15% in order to reduce tax avoidance. If the US fails to legally enact its own version of the policy, it is questionable whether other OECD members will muster the political willpower to do so. If it were implemented, a more aggressive corporate tax regime could dent US company valuations across the board and possibly taper M&A activity.

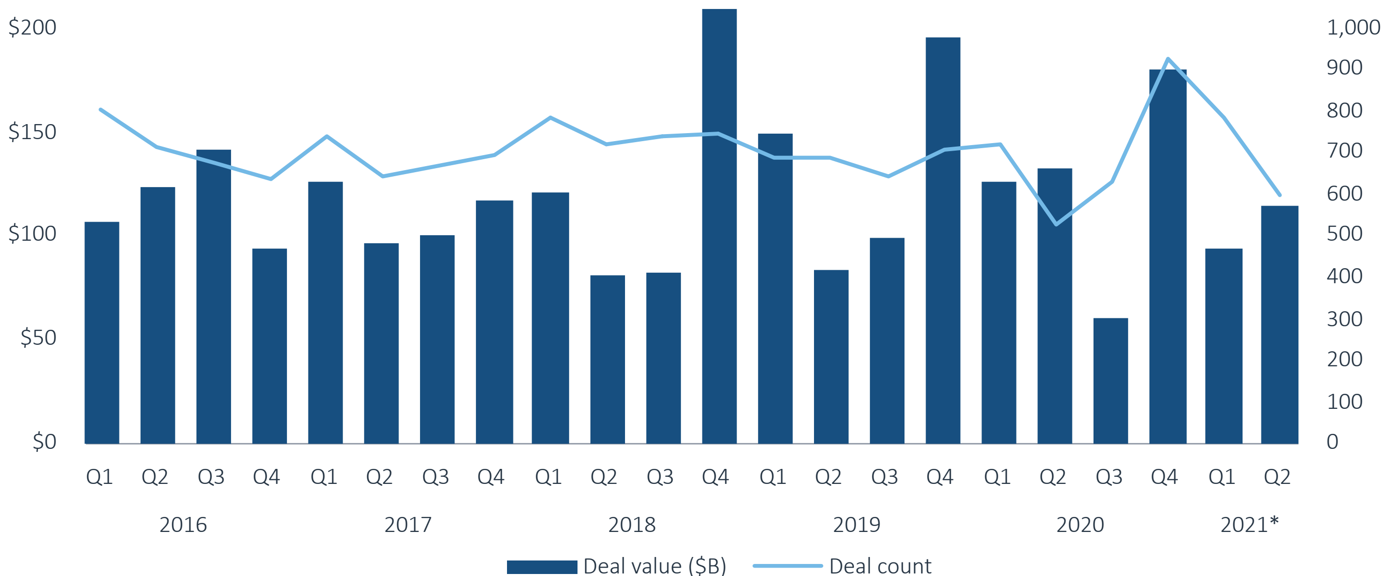
In Canada, commodity price improvement and robust demand projections in the natural resources and energy sectors have boosted confidence and led to more aggressive M&A strategies by Canadian companies. Because the US government under President Biden has largely abandoned the protectionist trade pretenses of the previous administration, North American cross-border dealmaking has come back with a vengeance. The $33.6 billion proposed acquisition of Kansas City Southern (NYSE: KSU) by Canadian National Railway (TSE: CNR) exemplifies the current optimism. The deal is notable for several reasons. If the deal achieves regulatory clearance, it will connect Canada, the US, and Mexico via a single freight rail network for the first time. It would also be the last major North American railroad acquisition because the remaining combination possibilities would struggle to gain regulatory approval.

5: "Democrats Focus on Turning Tax Talk into Action," The Wall Street Journal, Richard Rubin and Andrew Duehren, June 27, 2021.

Sector spotlights

Healthcare

Healthcare M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Rebecca Springer, PhD Analyst, PE

Topline healthcare deal numbers obscure mixed subsector dynamics: Healthcare M&A posted $113.2 billion across 593 deals in Q2 2021. Mega-deals were concentrated in the pharma & biotech industry, which has not only benefited from increased demand due to the global COVID-19 vaccine effort but is undergoing significant transformation driven by the push to reshore supply chains and speed the drug discovery process through data interoperability and AI capabilities. By contrast, although telehealth companies attracted enormous attention in 2020, data from the US shows telehealth utilization on the decline.[6]

Home health care models a growing focus area: The challenges faced by nursing homes and other long-term care facilities during the pandemic accelerated growth in this fragmented industry, which already benefited from demographic trends. In the US, downward reimbursement pressure due to the newly implemented PDGM (patient-driven groupings model) framework will likely shape dealmaking going forward.

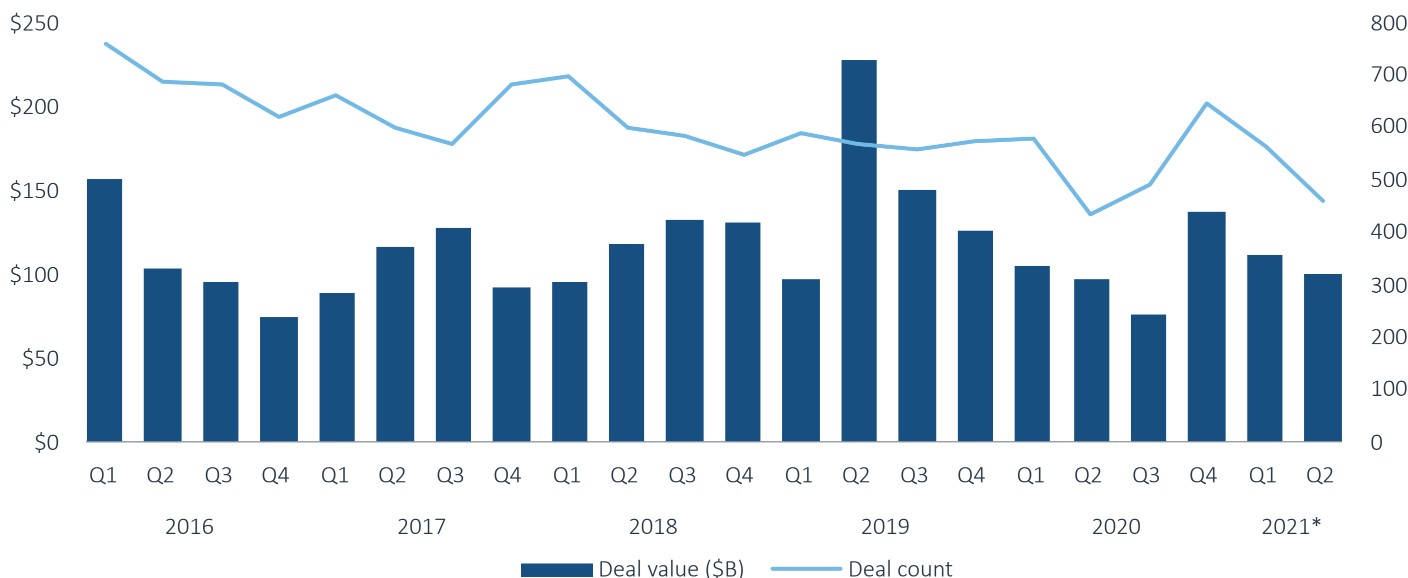
Contract research organization (CRO) M&A red hot: The role of CROs in drug development has expanded in recent years, especially as clinical trials become larger, more international, and in some cases decentralized (siteless). The top 10 CROs worldwide hold more than half of the market share in this otherwise fragmented market,[7] so mega-mergers—whether for scale or vertical integration—send ripple effects throughout the industry. Thermo Fisher Scientific (NYSE: TMO) agreed to buy Pharmaceutical Product Development (NASDAQ: PPD) for $17.4 billion, while Icon (NASDAQ: ICLR) bought PRA Health Sciences for $12.0 billion. PE has also been active: EQT and Goldman Sachs' Merchant Banking Division agreed to buy Parexel from Pamplona Capital for $8.5 billion.

Hospital and health system M&A under scrutiny: In the US, hospital and health system M&A was robust before the pandemic decimated hospital finances, and profits have not yet recovered in many cases. Hospitals typically look to consolidation for economies of scale; regionally dominant players also enjoy significant pricing power. However, a recent US executive order mandates increased scrutiny of hospital consolidation and may dampen M&A activity. This may in turn create opportunities for PE, which competes with hospitals and health systems for healthcare practice acquisitions. In the UK and Europe, private hospitals may consolidate as they maneuver to take advantage of the backlog of elective procedures in national health systems.

6: "Monthly Telehealth Regional Tracker," Fair Health, April 2021.
7: "CRO Sector M&A Drivers and Market Trends," Results Healthcare, Kunal Kaidiwar and Tim Sturgeon, July 4, 2019.

Financial services

Financial services M&A activity



Source: PitchBook | **Geography**: Global
*As of June 30, 2021

Dominick Mondesir Senior Analyst, EMEA Private Capital

Financial services M&A picked up slightly YoY: In Q2 2021, 458 deals closed worth $100.9 billion, marking YoY increases of 3.9% and 5.5%, respectively, buoyed by mega-deal volume, which increased 4x from Q2 2020.

Scale deals drive M&A within financial services: The five largest financial services deals of Q2 could all be considered scale acquisitions, including US-based PNC Financial Services Group's (NYSE: PNC) $11.6 billion acquisition of BBVA USA Bancshares Inc, creating the fifth-largest US commercial banking organization. In addition, we saw US-based Huntington National Bank (NAS: HBAN) acquire TCF Financial Corporation for $6.0 billion, and Canada-headquartered insurance company Intact Financial (TSE: IFC) merge with UK-based insurance company RSA Insurance group for $10.1 billion.

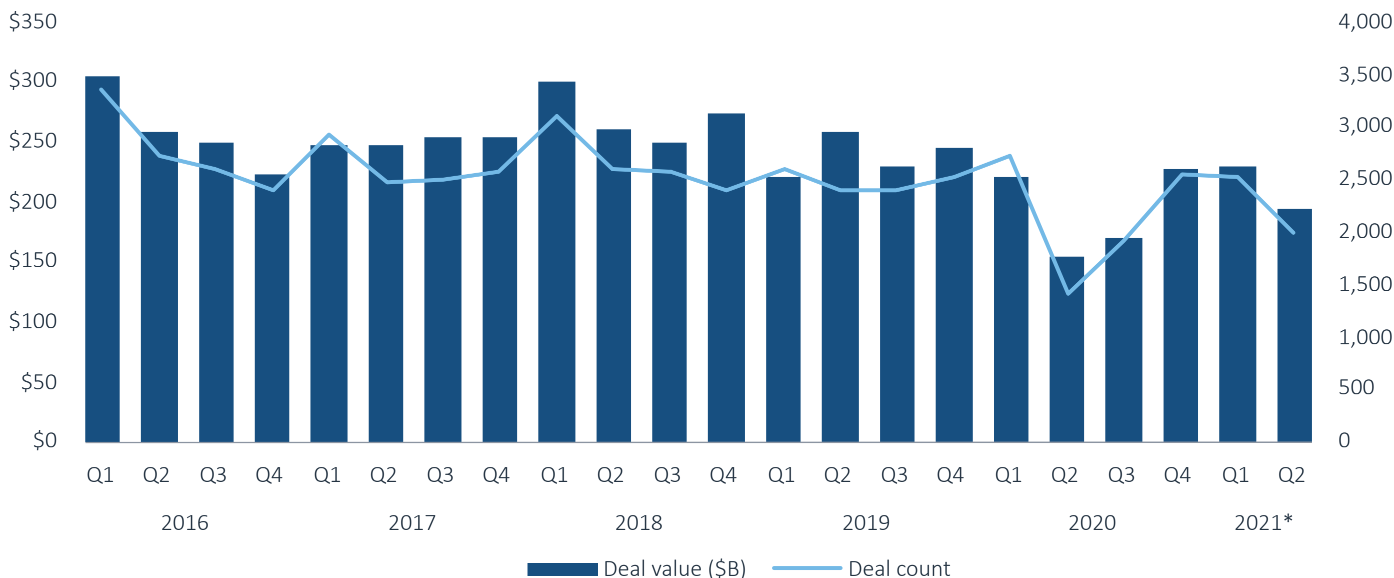
Banking consolidation continues, especially among US regional banks: In Q2, regional banks accounted for more than half of all banking M&A, including the mergers between US-based Standard Bank and Dollar Bank, FNS Bancshares and Bancorp South, and First Bank of Linden and Alabama One Credit Union. The conditions for banking consolidation are ripe because US interest rates are near zero, which squeezes banks' interest-margin, meaning scale via M&A is one of a few viable paths to growth. As many regional banks emerge from the pandemic with solid cash reserves and the KBW regional banking index outperforms the NASDAQ YTD, bank shares are becoming an attractive currency for dealmaking and are therefore encouraging more M&A.

Sponsors target add-ons and insurance assets, especially insurance brokers: In Q2, the bulk of sponsor activity within financial services occurred in the insurance broker space, which comprised over 70% of all insurance M&A. PE's interest in insurance brokers stems from the subsector's intense fragmentation, light capital intensiveness, lack of regulation, and relatively stable free cash flows. The sector has seen low rates of organic growth and has thousands of smaller players, meaning growth via scale is critical, as illustrated with the proposed AON (NYSE: AON) and Willis Towers Watson (NASDAQ: WLTW) mega-merger. Sponsors are happy to execute roll-up strategies via acquiring smaller players at low multiples and selling the larger platform for a substantially higher multiple, exhibiting multiple arbitrage.

Sector spotlights

Business to business (B2B)

B2B M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2021

Rebecca Springer, PhD Analyst, PE

B2B sector posts moderate M&A activity: 1,981 deals closed for a combined $194.6 billion in the B2B sector in Q2 2021. The sector has accounted for a decreasing proportion of global deal flow over the past decade as investors have prioritized growth over value and corporations have allocated more of their budgets to digital products and services, which generally fall under our technology sector category. Following a year characterized by disruption to global trade and calls to reshore supply chains, the quarter's two largest B2B deals—the $12.2 billion acquisition of Nippon Paint (TKS: 4612) by Wuthelam Holdings and Alstom's (PAR: ALO) $8.2 billion purchase of Bombardier Transportation—both aim to significantly broaden the acquirers' international footprints.

Supply chain, commodity prices, and labor effects: Macroeconomic factors are precluding many B2B companies from taking full advantage of the post-pandemic economic recovery. Global supply chains remain backlogged: For example, Ford (NYSE: F) cut its vehicle production by half in Q2 due to ongoing semiconductor shortages despite strong consumer demand. Commodities prices are also a concern. In the US, the core producer price index was up 5.5% in June YoY, the highest reading in a decade, squeezing the profit margins of manufacturing and construction businesses. Finally, the number of nonfarm job openings at US companies reached an all-time high in May, with labor markets in Canada and Europe exhibiting similar directional trends. In this environment, B2B companies are using M&A to embark on cost-cutting measures, including through building economies of scale and investing in the automation of low-skilled work. The challenges of hiring in new local markets will likely prompt growing companies to buy rather than build in order to acquire talent more efficiently.

Aerospace and defense consolidation: The aerospace and defense industry, one of the hardest hit by COVID-19, saw a handful of mega-deals closed or announced this quarter. AerCap's $30 billion+ announced purchase of GE's leasing business may portend further consolidation to come as companies regroup in the wake of the pandemic. The deal represents a discount to the carveout's book value and aims to unlock bargaining power in purchasing aircraft by combining the sector's two largest players.

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Sector spotlights

Consumer products and services (B2C)

B2C M&A activity

Source: PitchBook | **Geography**: Global
*As of June 30, 2021

Dominick Mondesir Senior Analyst, EMEA Private Capital

B2C M&A continues its rise: In Q2 2021, 1,001 deals closed worth $178.3 billion, marking YoY increases of 101.7% and 27.4%, respectively. While large pockets of subsectors, such as retail, hospitality, and leisure, were adversely affected by the pandemic, unprecedented fiscal stimulus, accelerating vaccination rates, and re-openings shielded many businesses from the pandemic's impact and have aided B2C M&A recovery. COVID-19's long-term effects on consumer behavior are becoming clearer, helping to support more and larger B2C M&A activity, as dealmakers have heightened visibility into companies' expected future cash flows.

Volume almost identical in North America and Europe, but value powers ahead in North America: In North America, mega-deals dominated the B2C M&A landscape in Q2, triggered by portfolio reviews involving large retailers and food delivery players looking to consolidate market share. In Europe, dealmakers targeted large casino gaming and sports betting companies, including three $1 billion+ acquisitions. Consumer gaming activity materially increased through lockdowns and work-from-home orders and is likely to prove resilient even as economies re-open and we return to pre-pandemic working habits.

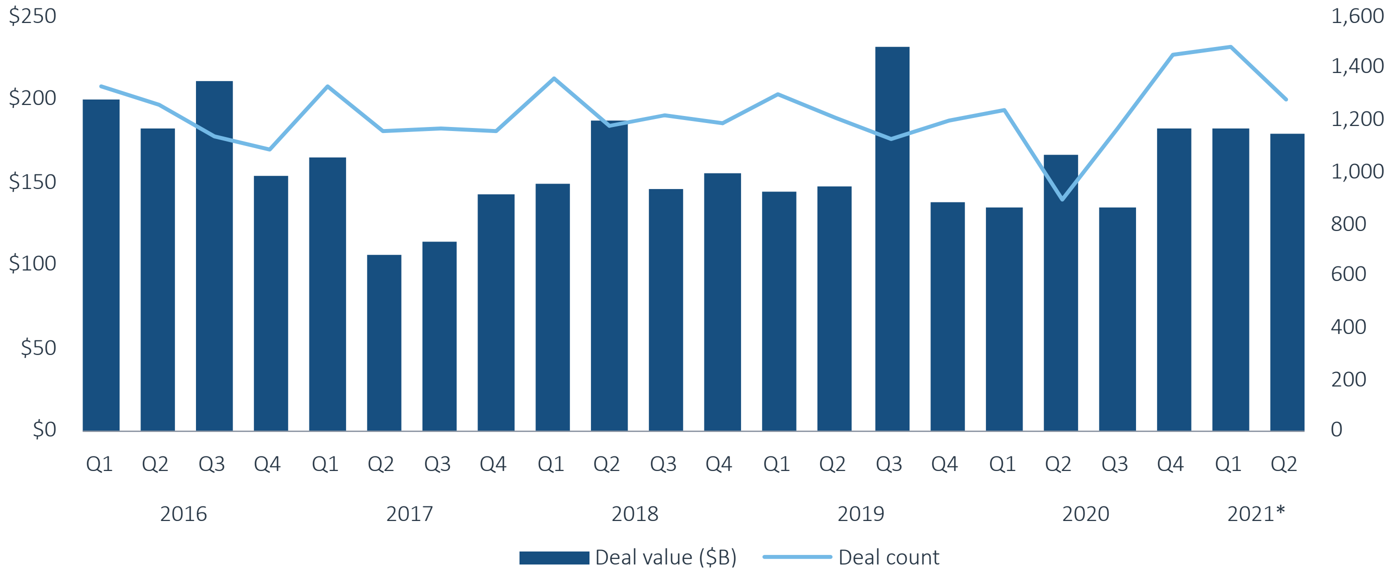
Health & wellness M&A may gain significant traction: With the acceleration of pandemic-fueled ethical consumerism, we expect outsized interest in clean, healthy, and sustainable brands that articulate a purpose beyond profit. For instance, in Q2 Hershey (NYSE: HSY) acquired Lily Sweets for $425.0 million. Lily Sweets produces all-natural chocolate treats that use plant-based sweeteners and are gluten-free, nonGMO, and virtually calorie free. Hershey is focused on developing its "better-for-you" confection portfolio, as it expects material disruption coming from the fast-growing low-sugar and health-conscious subsector.

Carveouts will rise as consumer businesses shift strategic focus: As consumer-facing entities emerge from the pandemic, we foresee companies accelerating divestitures of noncore assets as they redefine their core strategic focus to align with new consumer behaviors and changes in supply chain operations. In Q2, half of the 10 largest B2C deals were carveouts.

Sector spotlights

Information technology

IT M&A activity



Source: PitchBook | **Geography**: Global
*As of June 30, 2021

Jinny Choi Analyst, PE

Continued strength for tech: The IT sector continues to play a large role in global M&A, accounting for 20.8% of deal count in Q2 2021, marking a significant rise from 12.9% in 2011. The sector is on track to meet or outpace the steadfast deal activity of the last few years, showing that demand for tech continues to be robust.

Impending changes in European market: Europe and North America closed a similar number of deals in Q2, although the latter closed on double the deal value, driven by the established tech landscape in the US. EU member states are currently discussing the Digital Markets Act proposal, which seeks to impose stricter rules and fines on tech giants to address the perceived lack of control over Big Tech buying up European startups. With potential regulation by mid-2022, US acquisitions of European tech companies could come under scrutiny and diminish in the region.

China's antitrust regulators block gaming merger: China's market regulators blocked the proposed $5.3 billion merger of Huya and DouYu, the country's top two videogame streaming sites, on antitrust grounds in July. The companies are backed by Tencent, which already holds over 40% of China's online game operations. Regulators stated that Huya and DouYu's combined market share in the game livestreaming industry would be over 70% and would further strengthen Tencent's dominance.[8] The deal termination comes amid ongoing crackdowns on Chinese tech giants, with proposed updates to anti-monopoly law regarding large internet platforms.

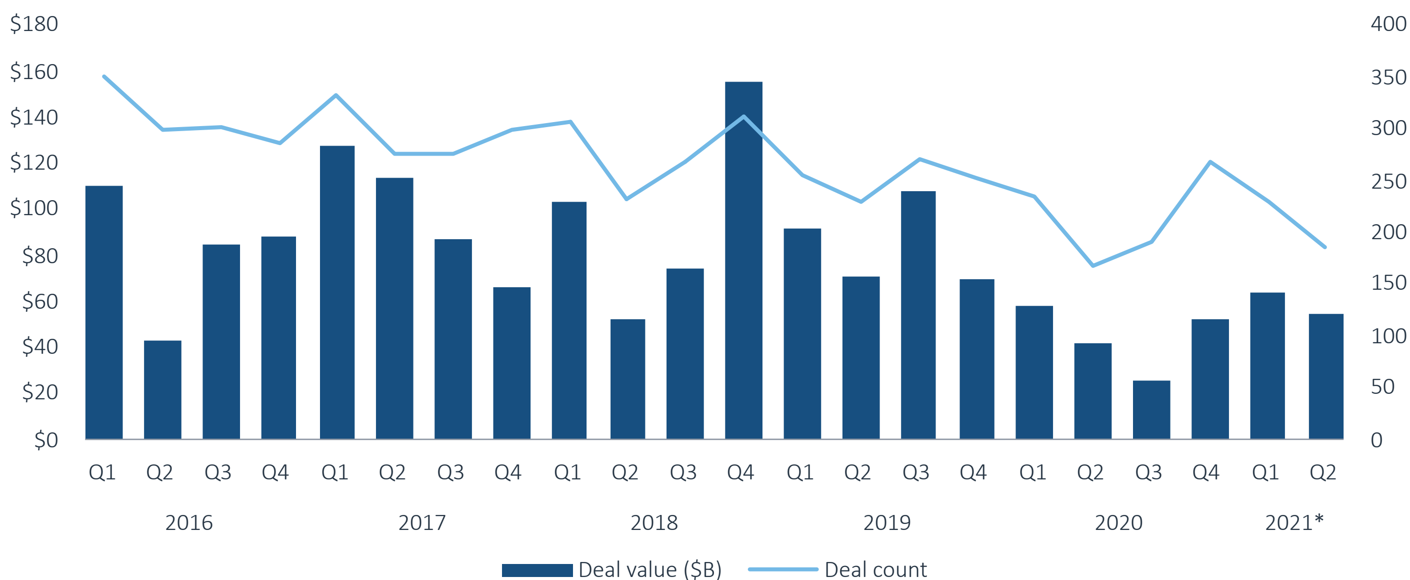
Enterprise software focuses on observability: Observability, which provides deep system monitoring, is driving new standards and capital into workforce digitalization. Large enterprise vendors are picking off smaller companies in the space, strengthening their applications suite with modern features. In May, ServiceNow announced its acquisition of Lightstep, a performance monitoring startup, to add to its software solutions. IBM (NYSE: IBM) purchased Turbonomic in June to automate IT operations after previously acquiring observability software Instana. The ability to monitor increasingly complex systems is becoming an attractive edge in enterprise software.

8: "Chinese Antitrust Regulator Blocks Tencent's $5.3 Bln Video Games Merger," Reuters, Kane Wu, Josh Horwitz, and Cheng Leng, July 10, 2021.

Sector spotlights

Energy

Energy M&A activity



Source: PitchBook | **Geography**: Global
*As of June 30, 2021

Rebecca Springer, PhD Analyst, PE

Balance sheet health shaping oil & gas M&A as prices recover: After a rock-bottom 2020, energy M&A is showing signs of renewed vigor. In Q2 2021, 186 deals closed for a combined $55.1 billion as crude oil prices moved above $70 per barrel. The modest uptick in activity may sustain in coming quarters provided that the current OPEC+ negotiations do not collapse into a price war. In a traditionally debt-laden industry, acquirers are putting a premium on targets with healthier balance sheets relative to their peers as higher oil and gas prices provide some financial breathing room and defensive consolidation slows.

Utilities take center stage: Many energy companies are focused on acquiring assets that offer steady returns with lower risk, such as regulated utilities (including retail energy providers) and midstream infrastructure. There is a growing consensus that clean energy transition will require grid modernization, intelligent energy storage, inter-regional transmission, and—as digitization increases—improved cybersecurity defenses. This, combined with lenders' eagerness to finance sustainability-related projects, has in turn led to record levels of capital expenditure for energy utilities in 2020 in the US,[9] with Europe following similar trends. Although the additional investment may temporarily eat into free cash flow, the promise of higher future earnings is helping to attract acquirers.

ESG pivots continue to shape the industry: BP's (LON: BP) sale of its petrochemicals business to INEOS Group continues the company's strategy of undertaking carveouts to pay down its debt burden. The oil majors are under heavy regulatory and investor pressure to increase their sustainable energy footprints, which puts secondary business lines in need of investment on the chopping block. This creates opportunities within the shrinking pool of private capital that is willing to buy pure-play oil & gas production assets.

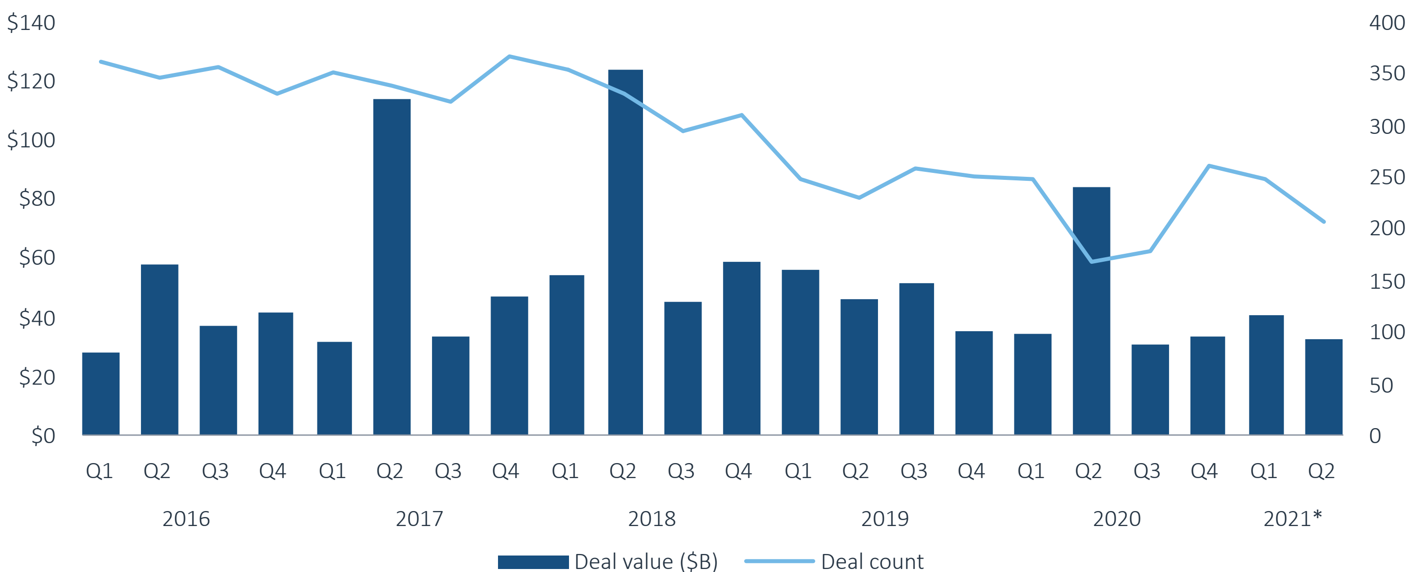
Latin America hosts opportunistic acquirers: Latin America has seen a wave of energy dealmaking since the second half of 2020. China-based companies play an outsized role in Latin American energy M&A, in part because North American and European governments have increasingly curtailed investment from China in their own infrastructure-related assets due to national security concerns. At the same time, weak local currencies and a substantial supply of distressed assets have spurred PE energy investment into the region.

9: "US Energy Utility Capex Undeterred By Coronavirus To Date, Slated To Reach $141B," Charlotte Cox and Jason Lehmann, S&P Global, June 8, 2020.

Sector spotlights

Materials & resources

Materials & resources M&A activity



Source: PitchBook | **Geography**: Global
*As of June 30, 2021

Rebecca Springer, PhD Analyst, PE

Materials & resources M&A still awaiting its post-pandemic rebound: Plagued by volatile commodity prices, the sector was already exhibiting declining dealmaking levels prior to COVID-19. Significant global supply chain disruption, factory labor shortages, and rising energy prices continue to buffet the sector, which saw 208 deals close for a combined $33.3 billion in Q2. However, strong consumer demand, government infrastructure spending in both North America and Europe, and the potential for an inflation-induced rotation toward value stocks and commodities may contribute to trend reversal in the medium term.

Commodity prices reinvigorate sleepy markets: Although materials & resources M&A activity remains depressed worldwide, elevated prices and ballooning demand for many commodities may spur fresh consolidation waves. Steel M&A was stagnant coming into 2020: Years of price volatility had led to low capacity utilization, high debt levels, and low capital expenditure investment—especially in decarbonization and digitalization—by many steel manufacturers. However, the whiplash effect of stalled production followed by soaring demand due to COVID-19 has sent prices soaring, reigniting M&A in the industry. The quarter has similarly seen elevated timber-related activity in North America. Although sky-high lumber prices have largely subsided, continued elevated housing and paper packaging demand in the US and supply restrictions in Canada have enabled a buying spree.

Sustainability-driven deals proliferate: ESG credentials of materials & resources companies significantly affect their pricing and attractiveness as acquisition targets, especially (but not exclusively) in Europe. PE firms are also buying packaging companies with operational plans to improve the carbon efficiency of processes and shift product mixes to use more recycled goods. In chemicals, International Flavors & Fragrances' (NYSE: IFF) massive $26.2 billion purchase of DuPont's (NYSE: DD) food products turns largely on the latter's portfolio of plant-based meat substitute ingredients.

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