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RBC Capital Markets

PitchBook

Global M&A Report

Q3 2021

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PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial
Dylan Cox Head of Private Markets Research

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

Charlie Farber Data Analyst
pbinstitutionalresearch@pitchbook.com

Publishing

Designed by **Drew Sanders**

Published on October 28, 2021

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Executive summary

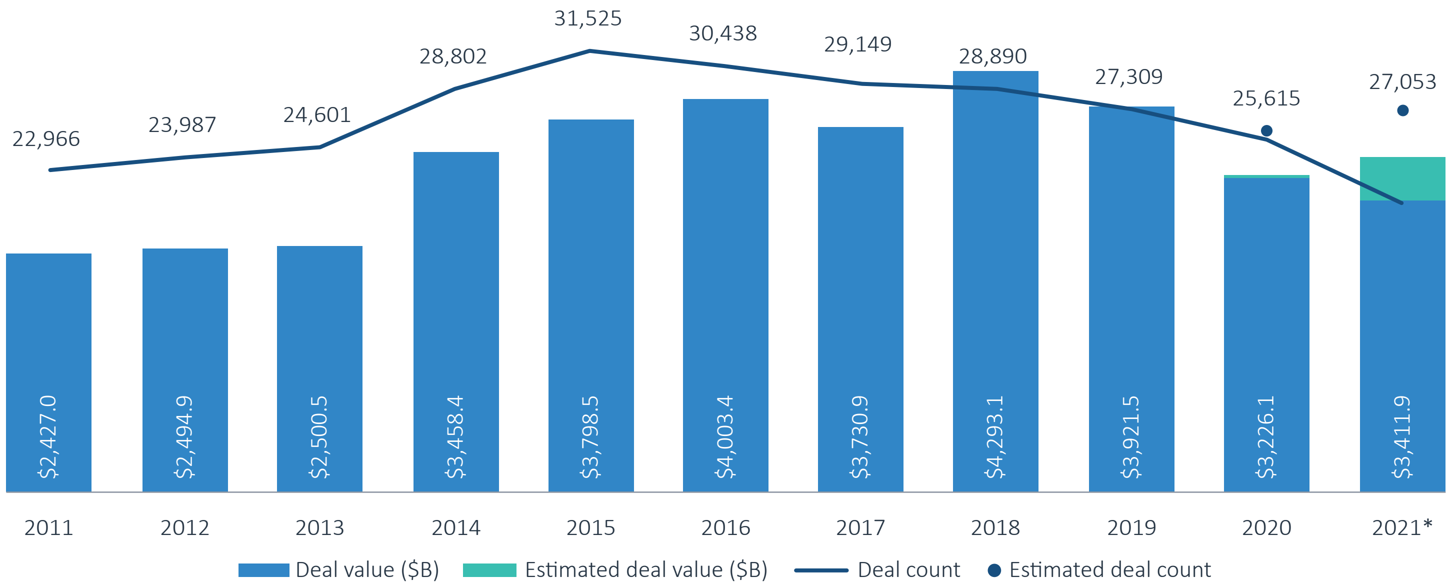
Global M&A continued its record-setting pace in Q3, fueled by global economic recovery. Strong stock prices, ample cash on corporate balance sheets, and cheap financing will likely sustain this momentum in the coming quarters. A wave of IPOs is creating more potential acquirers with buying power, and record levels of private equity (PE) dry powder will provide a floor under M&A activity as firms look to deploy cash quickly. However, there are also headwinds. China's lockdowns and changes to government oversight should continue to shake up the global M&A landscape. Labor shortages, supply chain woes, and elevated energy prices are driving inflation, although it is not yet clear whether these effects will endure.

Europe and North America are witnessing economic resurgence. In Europe, dealmakers are rushing to take advantage of a once-in-a-lifetime market created by robust capital markets, rapid vaccine deployment, and rising consumer spending. We expect aggressive consolidation and growth plays to continue as European GDP approaches pre-pandemic levels. The story is similar in North America, where economic recovery is forging ahead despite inflationary pressures. In the future, Federal Reserve interest rate hikes, a strong dollar, and more aggressive antitrust enforcement may somewhat dampen deal activity, but for now, corporates and PE sponsors are moving ambitiously ahead.

Dealmaking across multiple sectors is being driven by digitization, the evolution of consumer preferences and supply chains, and the need to achieve scale or integrate vertically amid fierce competition. Information technology (IT) continues to see runaway activity despite growing antitrust scrutiny. Unmet demand in emerging markets and increased prioritization of data-enabled care coordination have also propelled M&A in healthcare, while the financial services industry continues to embrace the emergence of cryptocurrency. Energy and materials & resources companies are pursuing production growth cautiously, even as commodity prices soar, and are instead turning to M&A to achieve environmental, social, and governance (ESG) transformation.

Overview

M&A activity



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

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

Global M&A activity continued its record-setting pace, with just over 27,000 deals completed for a combined $3.4 trillion through the first three quarters of 2021. The economic recovery coming out of the COVID-19 pandemic is fueling unprecedented M&A activity. Business travel is beginning to reemerge and many of the largest economies are adapting to the new normal brought on by the pandemic. Additionally, the key drivers of all this M&A remain intact, meaning the current trend is likely to persist for several additional quarters, barring a new coronavirus variant shutting down global economies.

In general, stocks are going up, more companies are going public, and financing remains inexpensive. Additionally, PE dry powder is near record highs, as is cash on corporate balance sheets, and economic uncertainty continues to diminish—resulting in executives feeling more confident with future predictions and willing to pursue more sizable M&A deals than a year ago. Most major indices in the US and Europe are up around 30% over the past 12 months. Not only does that embolden company executives, but high stock prices also provide additional financing firepower for M&A. We have seen this reflected in the data, with nearly half of all deals being paid for by either stock alone or a combination of shares and cash, compared with around 40% in 2020. Interestingly, the M&A value for share or combination deals has not changed materially since 2020, meaning more small and medium-sized deals are now using stock to finance at least part of a transaction.

An abundance of cash and cheap financing is also lifting global dealmaking. Global nonfinancial companies are now sitting on nearly $7 trillion in cash, according to *CNN Business*' data sourced from S&P Global, and PE firms around the world have close to $1.5 trillion in dry powder looking to be deployed.[1] To that end, while large strategic buyers still account for the bulk of M&A activity, PE firms have continued to make inroads. Financial sponsors now account for nearly 40% of all M&A on both a count and value basis. With ever-increasing fund sizes, the largest PE firms are also accounting for a larger share of the deals valued at $1 billion or more. Firms including Blackstone and Thoma Bravo have been particularly active in targeting mammoth deals. The rise of financial sponsors is likely to put a floor under M&A activity as these firms are pressured to deploy cash and buy companies, unlike large corporates.

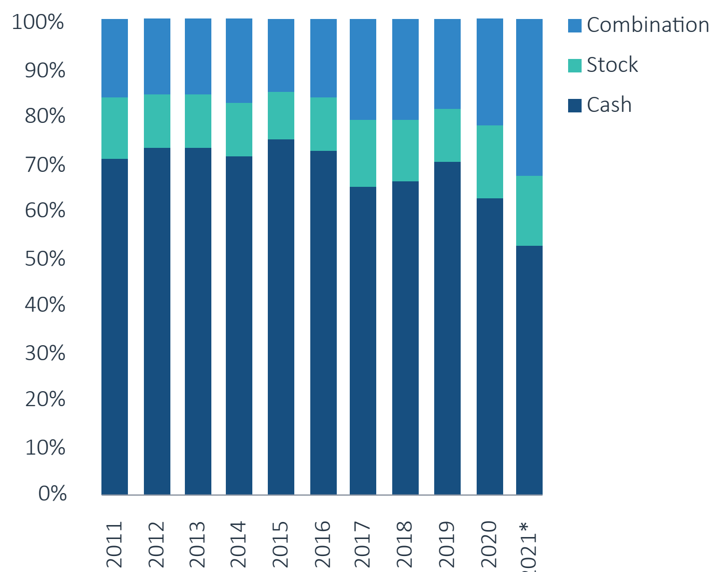
1: "Companies Are Hoarding Cash as the Delta Variant Takes Over the Globe," *CNN Business*, Paul R. La Monica, August 17, 2021.

Yields on select asset classes

Source: PitchBook, FRED, Robert Shiller | Geography: US
*As of July 31, 2021
Note: PE EBITDA yield is the inverse of the trailing 12-month EV/EBITDA multiple in buyout transactions. S&P 500 earnings yield is the inverse of the trailing 12-month price-to-earnings multiple.

Despite these positive tailwinds, differing COVID-19 vaccination rates, government responses to the pandemic, and supply chain issues are leading to variable recovery rates across regions. The US has already recovered its pre-pandemic GDP level, while Europe has posted the faster GDP growth rate over the summer. By contrast, although many Asia Pacific countries successfully slowed the virus early in the pandemic with strict lockdowns, more transmissible variants and delays in vaccination are impacting the region's economies. Now, it is the European and North American countries that have rolled out vaccines and learned to live with the disease, to some extent, that are witnessing stronger growth. However, as vaccination rates pick up in Asia and many emerging markets, those economies are likely to take a more open approach, boosting economic growth. Europe in particular is seeing resilient growth as its vaccination rate has surpassed the US and the EU's GDP growth has surged following many countries easing lockdown restrictions.

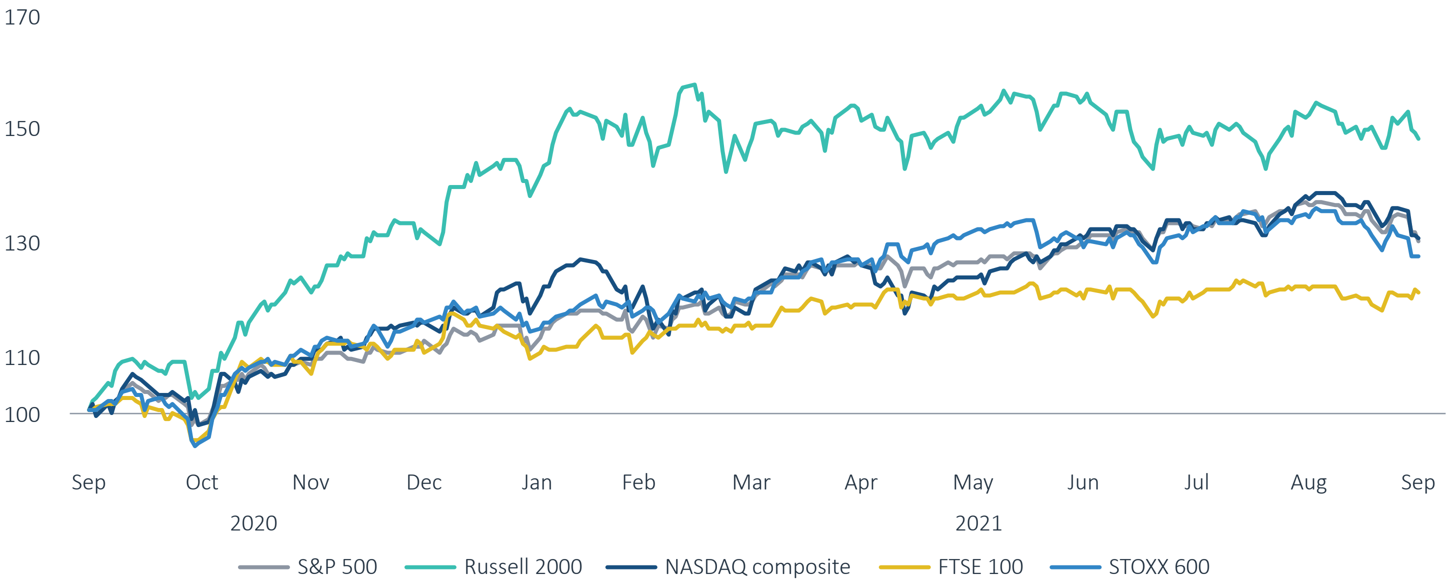
M&A deal count by payment type



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

China's lockdowns and changes to government oversight promise to continue shaking up the global M&A landscape. Recent policy shifts, from cracking down on public companies to banning outright for-profit tutoring, suggest a willingness to keep a tight grip on the economy, though perhaps not a total shift in the approach as some have suggested. The seemingly more hands-on approach appears to have dissuaded some M&A and may have long-term ripple effects that drive business elsewhere. Additionally, China is beginning to re-emerge from Delta variant-induced lockdowns as vaccination rates in the country rise. The lockdowns disrupted global supply chains and caused extended timelines and higher costs for many Western countries that are deeply integrated with China.

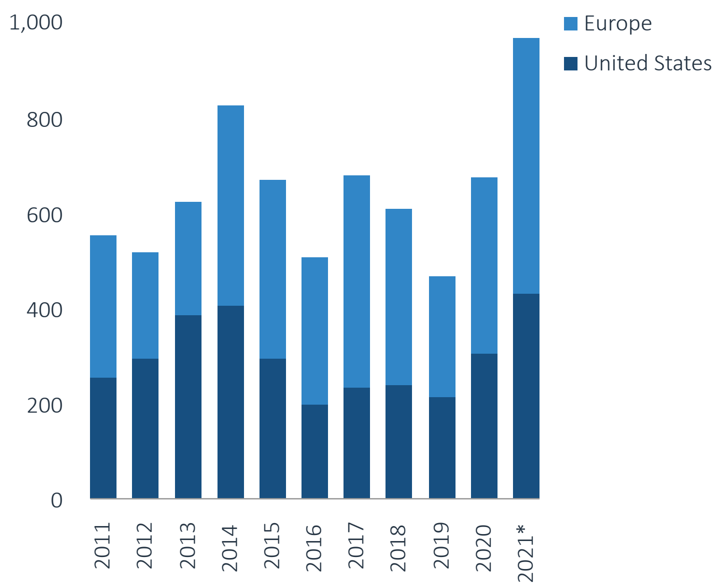
Select stock indices rebased to 100 on October 1, 2020*



Source: Morningstar | Geography: Global
*As of September 30, 2021
Note: All indices are total return and shown in local currency.

Not only have complications in the global supply chain propelled input costs higher for many raw materials and finished goods, but labor shortages are also having a multiplicative effect. For the first time on record, the National Federation of Independent Business (NFIB) monthly employment survey found that most small businesses in the US had open positions that they could not fill.[2] A full two thirds of respondents either hired or tried to hire in September. The demand for talent is pushing pay far above standard rates and leading to higher prices. Energy prices—and corresponding production cost increases in energy-intensive manufacturing sectors—are also contributing to inflation. From consumer products in the grocery store and housing to crude oil and natural gas, prices are up across the board. However, we still do not know if this rise in inflation is transitory or not because a one-time jump in prices is different than an enduring inflationary environment in which prices rise year after year. In the longer term, the global shift toward renewables, led by Europe, and corresponding diminishing cost per kilowatt-hour (kWh) will shape M&A in the energy sector and beyond for years to come.

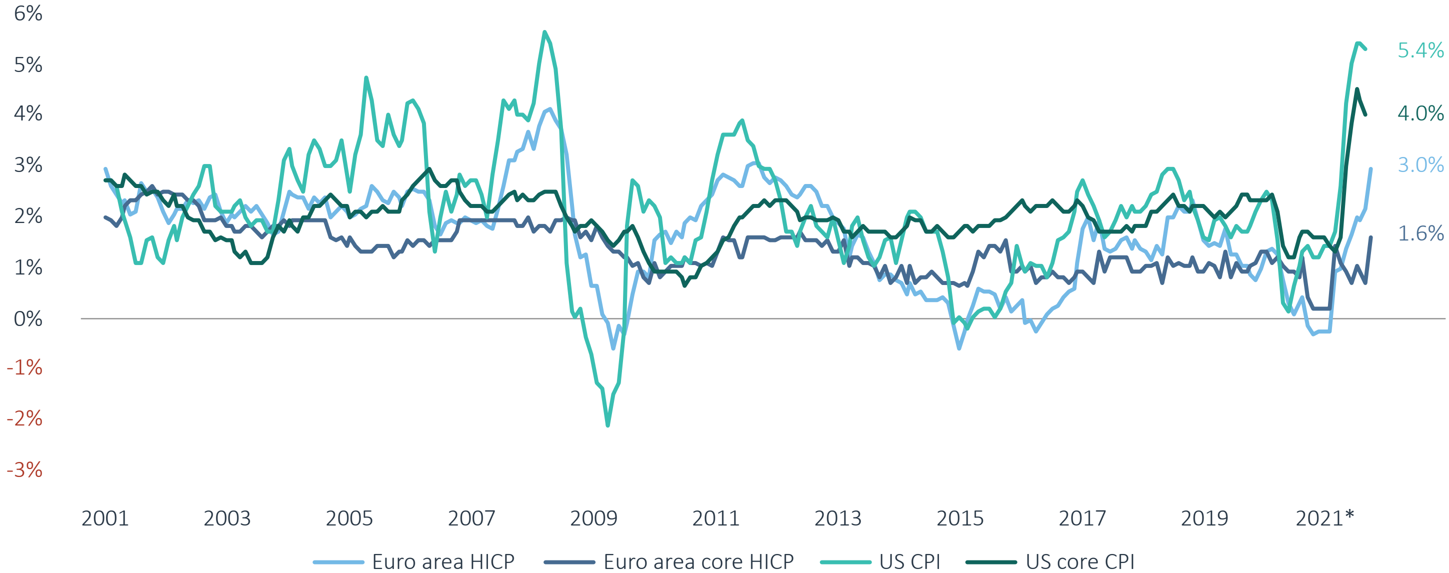
Public listings count by region



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

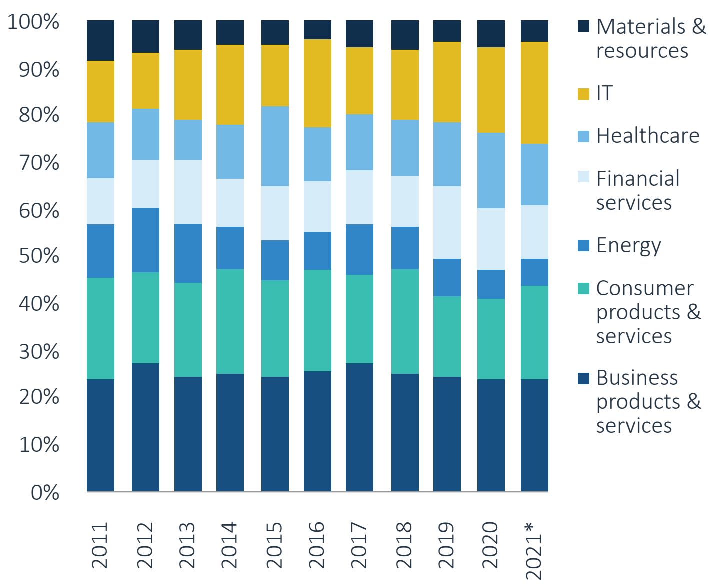
2: "Labor Market Challenges Impacting More Small Businesses," NFIB, September 30, 2021.

Euro area and US CPI (YoY% change)



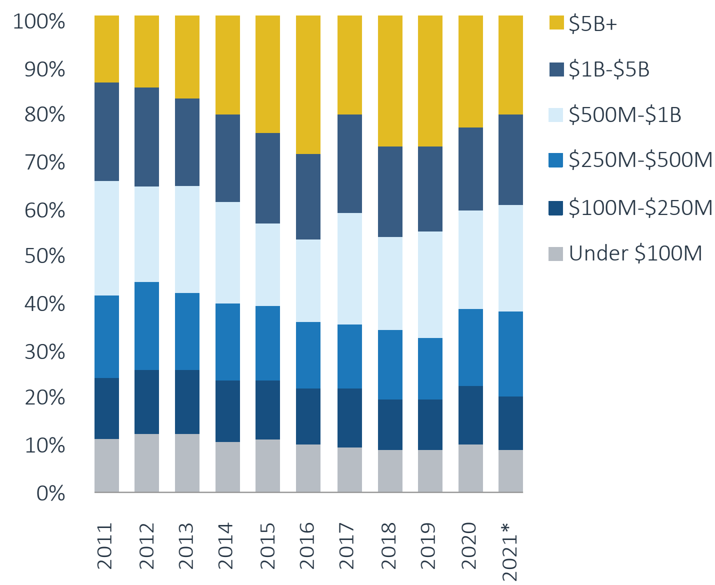
Source: Eurostat, Bureau of Labor Statistics | **Geography**: Europe, US
*As of August 1, 2021

Share of M&A deal value by sector



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

Share of M&A deal value by deal size



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

Liberty GTS: Emerging trends

Differences between claim causes across industries

Simon Radcliffe
Head of Liberty GTS Claims
Liberty GTS

Simon joined Liberty GTS in February 2019 as a dedicated M&A Claims Counsel and now oversees the GTS claims practice.

The Liberty GTS Claims Briefing for 2021 has recently been published. The study analyses the trends for M&A claims and provides clear markers on high-risk areas within M&A deals. In this article, we examine which industries pose the highest risk, and why.

Two sectors dominate when it comes to claims. Industrials is the biggest, and within this, the manufacturing subsector. This year, there has been a cluster of claims in aerospace and defence, mostly relating to customer contracts. These types of businesses are often dependent on a small number of contracts. If a contract issue slips through the net during a deal, there is clearly the potential for a large claim.

In second place, healthcare businesses have been generating an increasing number of claims in the last few years, largely in the Americas—many of these are large claims. We believe healthcare transactions must be examined under a heightened risk standard.

Many claims relate to billing or coding issues that have been triggered by audits or a whistle-blower report. These can result in large claims and can prompt a government investigation. Other more recent healthcare claims have involved cyber-related issues. The sharp increase in the number of such attacks reported means that in the future, deal teams will need to ensure that the underlying business has adequate cyber cover in place as part of their due diligence.

By contrast, businesses operating in the pharmaceutical, biotechnology, and medical devices spaces are generating production-related claims; these notifications have accounted for some of our largest claims in this sector. Interestingly, we have seen very few claims involving IP issues, which are usually one of the most significant areas of focus during the due diligence process.

IT deal pricing pushes up claims

2020 has seen a noticeable uptick in claims involving companies in the IT sector, reflecting the increasing number of deals in the space. This has shone a spotlight on high valuation multiples for deals involving young, fast-growing tech businesses. A high valuation multiple can result in a large claim where the loss is calculated on a "multiple-of-EBITDA" basis, even when the underlying issue is not particularly significant.

As a result, we predict that the market may increasingly look to cap the size of the multiple, or even exclude the use of a transaction multiple altogether.

Education, real estate, and food & beverage

Over the last year, one unexpected area of increased risk has been education (private universities and schools). A range of issues are involved, including the lack of appropriate permits, unpaid taxes, noncompliance with health & safety, and irregular enrolment practices. This suggests that this subsector may involve more risk than traditionally thought.

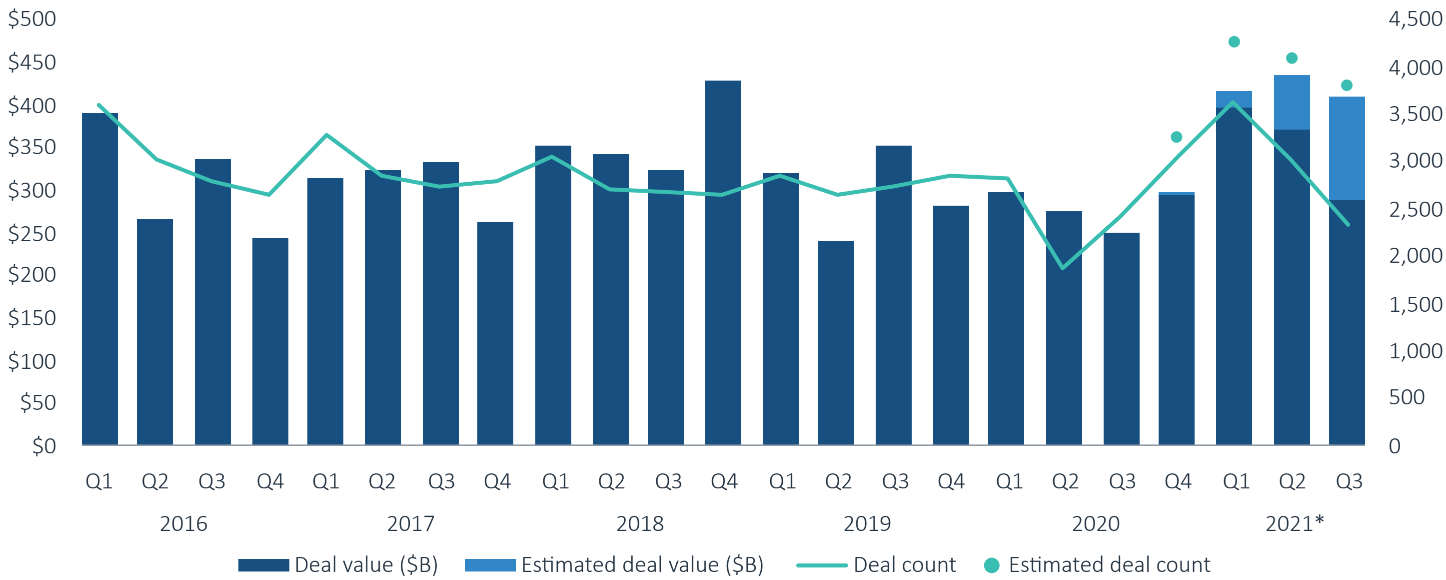
Elsewhere, the big issues are different. In real estate, many claims are tax related, though we also see a high number of claims for lease and tenancy-related issues, meaning that deals involving retail sites generate more claims than deals involving office buildings. Other common issues include unpaid utility bills and disputes between landlords and tenants around fit-out costs. We are also seeing an increasing number of claims relating to health & safety issues, including noncompliance with fire regulations. Finally, food & beverage claims have been a notable climber in 2020 to 2021, particularly in Asia. This is partly because the industry has complicated supply-and-distribution agreements and is susceptible to problems with obsolescence and spoilage. We have also seen wage-related disputes, reflecting the reality of a low-cost, shift-based workforce. Increasingly, consumers are taking actions against food & beverage companies based on allegations of deceptive advertising.

So, while we see two sectors that need careful monitoring—healthcare and IT—there is no room for complacency in other industries that each have their own post-deal issues to watch out for.

Regional spotlights

European M&A

European M&A activity



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

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

European M&A continues to operate at an unrelenting pace, putting 2021 on course to easily hit new annual records. In Q3 2021, 3,815 deals closed worth approximately $411.2 billion, marking YoY increases of 58.0% and 63.5%, respectively. The three largest quarters ever for M&A deal volume occurred in 2021, and the YTD figure now stands at 12,182 closed deals—only marginally behind the previous record of 12,527 deals set in 2015, despite the remaining three months in 2021. Similarly, the value side saw $1.3 trillion worth of deals close through Q3—again only slightly behind the previous annual record of $1.4 trillion set in 2018.

Dealmakers recognize European M&A is operating in a once-in-a-lifetime market, and their relentless pursuit of strategic advantage is powering the M&A landscape. A perfect storm of strong capital markets, easing of pandemic-related restrictions, persistent accommodative policy, rapid vaccine deployment, and rising consumer spending are the major factors driving the M&A boom. Despite Europe not yet hitting pre-pandemic GDP levels—and concerns around rising COVID-19 cases, higher long-term inflation, supply chain bottlenecks, energy shortages, and tightening policy lingering—executives are increasingly confident of a strong European economic recovery, as key macroeconomic indicators such as GDP rates and the labor markets promise future growth, which encourages M&A.

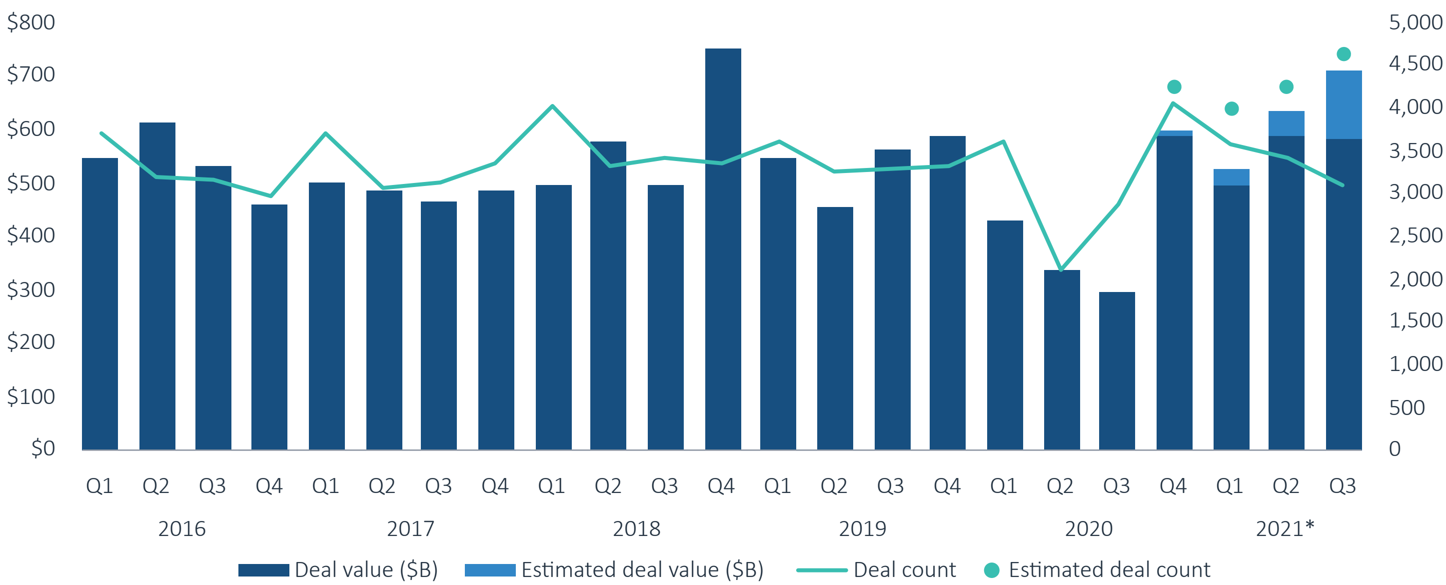
Corporates, SPACs, and PE sponsors have a clear vision that M&A in the current environment is the main lever to digitize businesses, gain scale and/or capabilities, and accelerate growth through revenue and cost synergies. For example, in one of the largest deals of the year, Nexi (MIL: NEXI) acquired Denmark-based Nets in Q3 for €7.7 billion. The merger creates Europe's biggest payments company, quadruples Nexi's European footprint, and will reportedly generate around €170.0 million of synergies per year.[3] In addition, this merger follows Nexi's acquisition of Milan-based SIA, another company in the payments space, and further highlights the appetite for growth via M&A and consolidation activity in the sector.

3: "Nexi To Buy Nets in a $9.2 Billion Deal To Create Payment Giant," *Bloomberg*, Sonia Sirletti and Jan-Henrick Foerster, November 16, 2020.

Regional spotlights

North America

North American M&A activity



Source: PitchBook | **Geography**: North America
*As of September 30, 2021

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

M&A activity in North America continued its bull run in Q3. 4,609 deals closed for a combined $708.3 billion in the quarter, setting both deal count and value on track to easily exceed the previous annual record. Continued economic recovery, strong stock prices, and ample capital availability gave dealmakers the confidence to forge ahead despite escalating labor shortages and other inflationary pressures in both the US and Canada.

One potential headwind on the horizon for North American companies is the rapid appreciation of both the US and Canadian dollars against most major world currencies since the beginning of the year. The anticipation of Federal Reserve interest rate hikes in 2022 or 2023, combined with North American economic strength and the slower pace of recovery in the developing world, may prolong this trend. While a stronger dollar would energize North American acquirers looking for targets abroad, it could also discourage would-be foreign acquirers of North American companies and depress export revenues.

US antitrust policy is also ratcheting up. One priority area for the agencies is increased scrutiny of M&A activity by "digital platforms" such as Amazon, Google, and Facebook. Additionally, in September, the Federal Trade Commission (FTC) announced it will broaden the scope of its antitrust review to include effects of transactions on labor markets, cross-market effects, and potential post-transaction effects of PE or venture capital (VC) ownership. This means that deals may come under scrutiny even if they will not result in market concentration.[4] At the same time, the year's unprecedented M&A volume, coupled with a commitment to greater scrutiny, has overwhelmed regulators, extending review timelines.

The effects of these changes on North American M&A have yet to play out. In the long term, they may stymie the largest combinations and result in increased carveout activity to appease regulators, especially in tech. In the short term, some companies are pushing deals through even without regulators' approval. In a rare move, Illumina (NASDAQ: ILMN), a DNA sequencing company, closed its $8.0 billion vertical acquisition of Grail, a cancer detection startup, even though an FTC lawsuit and EU Commission investigation are still pending.

4: "Antitrust Update: Recent FTC Announcements," Lexology, Fenwick & West LLP - Steve Albertson, October 4, 2021.

Q&A: RBC Capital Markets

Vito Sperduto

Co-Head, Global M&A

vito.sperduto@rbccm.com

Larry Grafstein

Deputy Chairman, Global Investment Banking

larry.grafstein@rbccm.com

John Cokinos

Co-Head, Leveraged Finance and Capital Markets

john.cokinos@rbc.com

How would you describe the current state of play in PE and M&A?

Vito Sperduto: These are historic times. Volume across the entire M&A landscape has already reached record levels for the entire year, largely driven by the PE community. A tremendous amount of private capital that was sitting on the sidelines is being put to work—the volume of leveraged buyouts (LBOs) is at an all-time high, the highest level of exit volume in history.

John Cokinos: A few catalysts are driving all of that activity. We're in a very accommodating ultra-low rate and low default environment. And, from an economic perspective, we're seeing a much quicker than expected recovery. We're seeing sponsors with huge amounts of PE taking advantage of today's markets.

Have PE firms that were involved in SPAC transactions started to revert to more traditional deal structures?

Sperduto: Certainly. The SPAC activity—which peaked in the first quarter of 2021—collected a lot of headlines and will be a tool going forward. But, to put it into perspective, if you look at the volume of SPACs seeking transactions, you're looking at roughly $200 billion of total capital. If you compare that to the total capital in PE funds, you're looking at a number that's 10 times the number for traditional LBOs. I think we're going to see even bigger funds, deals, and LBOs coming to market. We're already starting to see significant volumes in our pipeline.

Larry Grafstein: Another interesting phenomenon is how PE firms have expanded into investment structures that have a lower targeted rate of return but offer a more stable method of putting money to work. Some of the biggest sponsors in the market are adopting a new kind of multistrategy investment approach with quite a different philosophy for segregating asset classes.

Cokinos: The PE community is starting to transition from pure investors to asset managers, deploying a variety of strategies in the market at staggering intervals to capitalize on growth sectors. I think PE is deploying capital in a much more tailored, specific, and tactical way.

Sperduto: We're also seeing highly specialized funds raise more pools of capital than ever before. For example, Thoma Bravo's latest technology-focused fund raised almost $23 billion. Relative to where they were a decade ago, they're multiplying at an accelerated rate and finding significant opportunities. That's causing a lot of the larger, more-established multisector funds to think about how they can increase their presence in more-specialized sectors with more sector-focused funds.

What role has the pandemic played in creating today's market conditions?

Sperduto: The unprecedented level of government support that's funding both the markets and consumers today has created an environment that we've never seen before. At the beginning of the pandemic, when we were unsure how long it would take to recover, everyone indexed back to the financial crisis in 2008/2009, which took years to recover from. The COVID-19 recovery was completed in months. So, our clients' recovery plans have accelerated, and we're addressing that from both a market and a financing/M&A perspective.

Grafstein: It's been a V-shaped snapback. It's not perfect and we might see speed bumps, but it has removed a lot of uncertainty, which has increased activity.

Have deal structures become more complex in today's environment?

Cokinos: Yahoo was an interesting transaction for Apollo. It's one of the more complex transactions I've worked on in my career. Verizon was looking to exit their social media holdings, including Yahoo, and Apollo came in with a unique angle on the sum of the parts and how to monetize it. We were able to come up with a structure that allowed Apollo to go to market without the financials you would need to do a public offering. We had to bypass the high-yield market due to the complexity of the business carveout and instead went directly to the loan market. We structured the financing with both loan and high-yield attributes, such as call protection and amortization, to be attractive to both collateralized loan obligations (CLO) buyers and high-yield investors, despite the complexity. The bifurcated structure coupled with a strong credit story allowed us to complete a successful financing for Apollo by creatively raising capital.

Grafstein: That type of complexity is the future for PE because the "cookie-cutter" deals aren't really there. To find proprietary opportunities that can drive returns, you need to have a superior structure. In a year of elevated activity, the Apollo deal is an excellent example of the type of transaction PE firms need to execute to drive returns for their LPs.

Do any particular sectors stand out right now?

Cokinos: More capital is being deployed in the technology sector than ever before, particularly around the convergence of healthcare and technology. Those two sectors are finding ways to contain costs, innovate, and expand services to be more efficient, so we're seeing a lot of growth there, especially in the leveraged finance markets.

Grafstein: Industrials is another huge sector. The multiples tend to not be as elevated as they are in other sectors, but there are interesting themes in the sector, including businesses being shed from larger organizations that are trying to either improve their own return on invested capital or rationalize a portfolio of assets that don't necessarily fit together. That's the type of opportunity that PE really likes. It feels as if there's going to be a lot more of that activity in the future.

How sustainable is the current environment for larger transactions?

Sperduto: If you think about the overall M&A market, divestitures from corporate portfolios have led the market over the past two years. Roughly 45% of those transactions were $5 billion or more, but looking back at the prior peaks of 2015 and 2017, almost two thirds of transactions were driven by large-cap divestitures. So, we're seeing larger deals fall off, possibly because a lot of corporates are assessing if they want to look at larger deals today, given the increased scrutiny from a regulatory perspective.

Grafstein: The Biden administration has put out directives to scrutinize strategic mergers more closely and perhaps slow consolidation in certain sectors. As a result, PE is carrying the momentum in the M&A market. They can generally avoid antitrust issues around those larger deals, so they have a bit of an advantage, as well as the resources, when making those larger investments.

Do you anticipate the same levels of activity to continue through 2022?

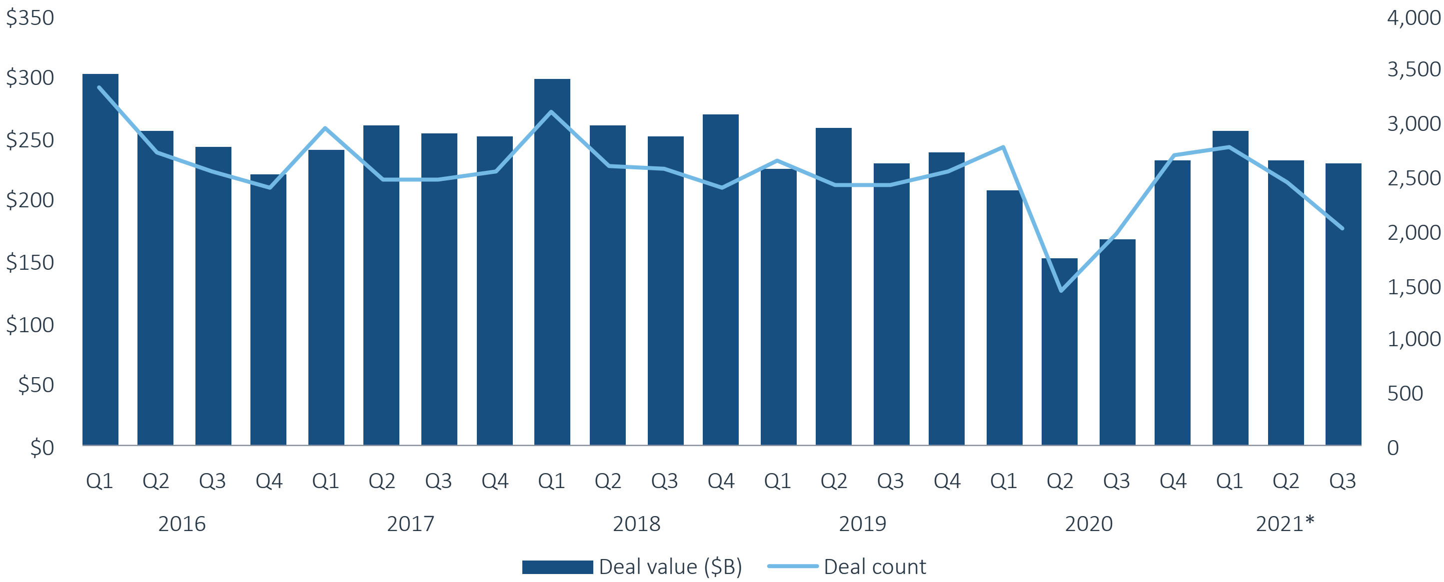
Sperduto: I think the level of activity, in terms of new entries and exits, will continue to be significant. The conditions are all still there. A substantial number of portfolio companies in PE funds are valued at significantly higher levels than was anticipated when they purchased them a few years ago. So, they're thinking about the best way to monetize that.

Cokinos: Absolutely. We're very optimistic about dealmaking opportunities going into 2022. We have strong tailwinds in the economy and a lot of uninvested PE capital that wants to be deployed.

Sector spotlights

Business products & services

Business products & services M&A activity



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

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

Business products & services sees steady M&A activity: 2,044 deals closed in Q3 2021 for an aggregate deal value of $231.6 billion. Despite severe supply chain disruption and labor shortages still plaguing business products & services, the sector's median deal size crept up this year, growing over 7% from the previous high in 2018. New trends such as demand for energy transition and digitalization of services underlie many deals in the space. Dealmaking in the sector seems to have normalized since 2020 and is likely to end the year close to 2019's deal count and value.

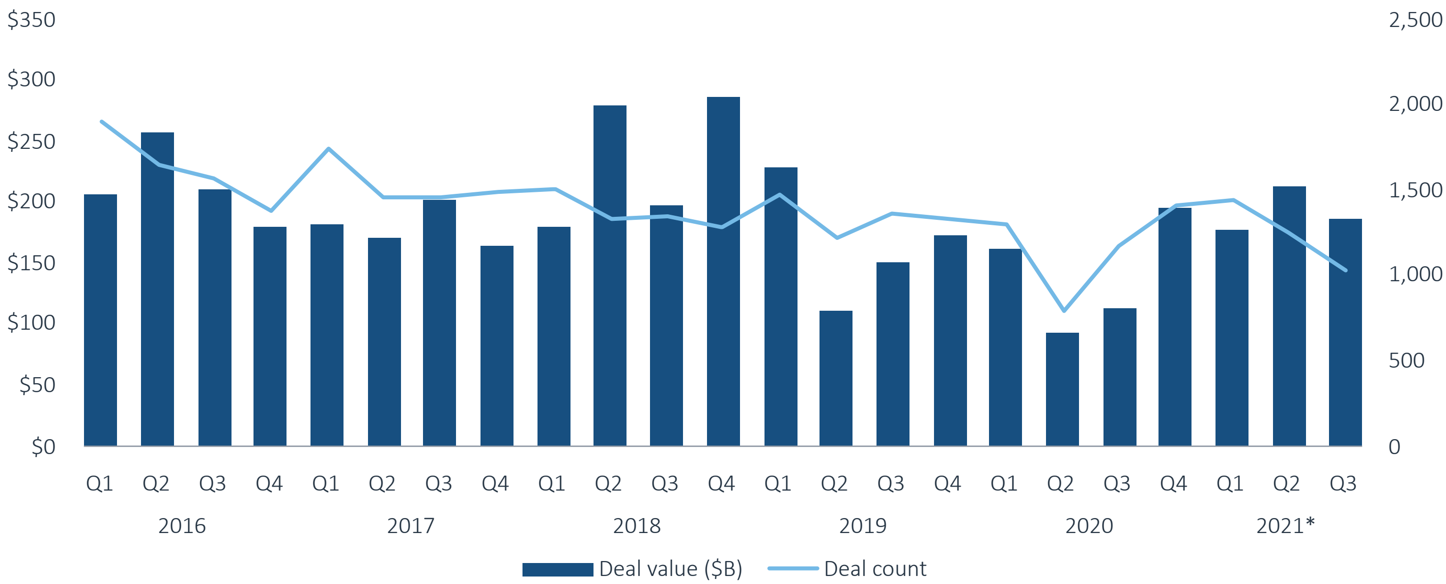
Strategic M&A sparks hope for the automotive industry: While pandemic-induced shutdowns and microchip shortages continue to plague the global supply chain, the automotive industry is seeing some strategic M&A due to the megatrends of electric vehicles (EV) and autonomous driving. In July, Skyworks Solutions (NASDAQ: SWKS) acquired the infrastructure and automotive business of Silicon Labs (NASDAQ: SLAB) for $2.75 billion to expand into electric and hybrid vehicles, and Mercedes Benz acquired electric motor manufacturer Yasa to supply the company's electric-only platform. The disruptive changes in the auto industry will increasingly drive capital into the space, and even more so once the supply chain drag lets up.

M&A revs up in Europe's business services sectors as firms pursue expansion: Tax, accounting, and law firms are experiencing an M&A frenzy for technology, talent, and strategic acquisitions. In financial services, Talenom (HEL: TNOM), a Finnish accounting services company, acquired Barcelona-based financial services firm AvaLanding for $2.26 million to expand into the Spanish market as part of its growth strategy. Financial and legal firms in the UK have been especially active in Q3 to increase service coverage within the country. In September, Welsh law firm Redkite Solicitors acquired David & Snape, another Welsh solicitors firm, to strengthen its footprint, and law firm Ridley & Hall acquired Newman & Bond, a residential and commercial property advisor, to expand its law services across Yorkshire. Additionally, new waves of industry specialization within business services for expertise in areas such as technology could drive additional capital to further expand products and services in the relatively low-risk and recession-proof field.

Sector spotlights

Consumer products & services

Consumer products and services M&A activity



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

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

Consumer products & services M&A value aggressively shoots upward: In Q3 2021, $185.9 billion worth of deals closed, marking a YoY increase of 63.1%. In a sign of robust M&A activity, the third quarter's deal value figure has now surpassed pre-pandemic quarterly figures of 2019. With heightened visibility into companies' future earnings and rigorous consumer spending, the appetite for M&A has increased. Divestitures, consolidation, supply chain strength, and direct-to-consumer-led acquisitions have been prominent deal drivers. In addition, cheap debt and excess liquidity have allowed companies to pursue larger acquisitions, which drove deal value. For instance, in one of the biggest deals of Q3, frame and optical lens manufacturer Essilor (PAR: EL) acquired Netherlands-based eyewear retailer GrandVision (AMS: GVNV) for $6.6 billion. The vertical merger will create a powerhouse in the eyewear sector as Essilor will benefit from GrandVision's large store real estate footprint.

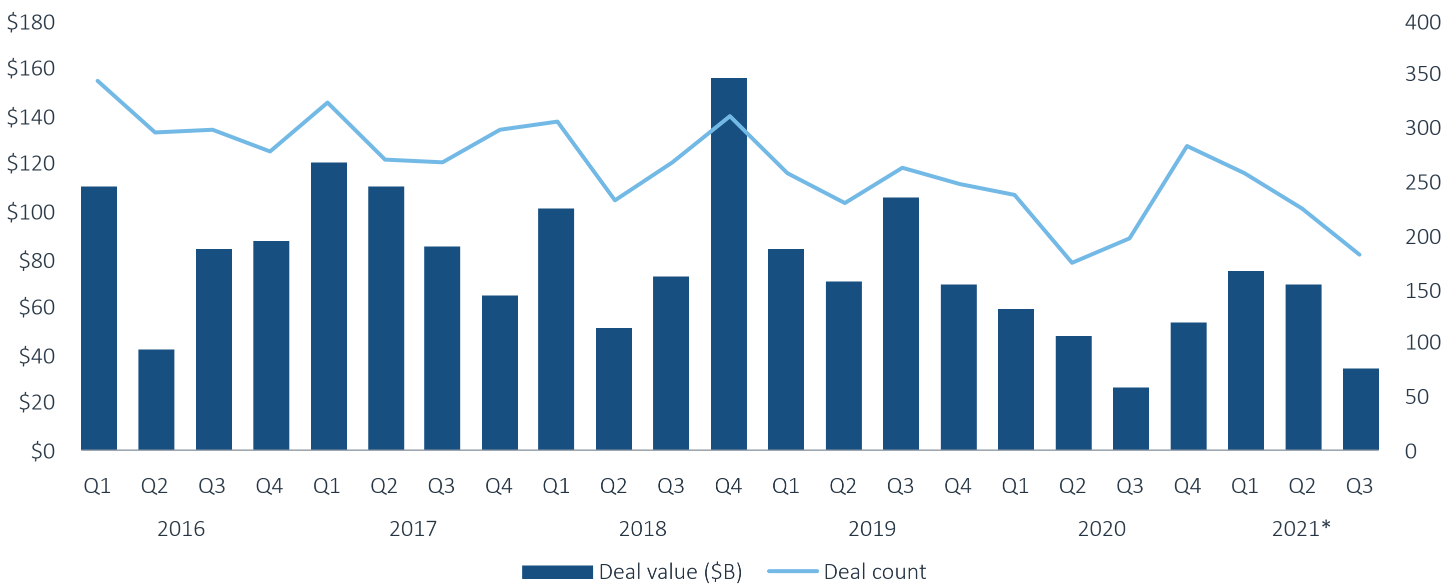
Portfolio reshaping and capability enlargement drive M&A: As a result of the pandemic, consumer companies were forced to review portfolios to gauge what assets were no longer a good fit for their new business priorities, as consumer behaviors and navigating supply chains changed materially. For instance, Tyson Foods (NYSE: TSN) divested its pet treat business to General Mills (NYSE: GIS), while Philips sold its domestic appliances unit to Hillhouse Capital as the company completed its transition to healthcare equipment. We also saw capability enlargement become a significant driver of M&A. For example, Nomad Foods Limited (NYSE: NOMD) acquired Europe-based Fortenova Frozen Food business, which expanded the company's footprint into Central and Eastern Europe and the ice cream category.

PE targets carveouts and subsectors benefiting from the pandemic: Buyout groups tend to invest thematically, and as a result have targeted carveouts in consumer subsectors benefiting from the pandemic—including at-home appliances, food and health companies, and automotive entities. For example, in Q3, Bain Capital carved out Switzerland-based sanitizer manufacturer Lonza Specialty Ingredients, and TDR Capital carved out Netherlands-based online used car marketplace CarNext. These subsectors benefited from supply chain bottlenecks, which spurred consumers to acquire more used cars because of chip shortages, and pandemic-induced health trends, which increased sanitizer usage. As more companies in the consumer space undergo portfolio revamps and exit noncore assets, GPs will be willing buyers.

Sector spotlights

Energy

Energy M&A activity



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

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

Energy M&A activity remains quiet even as oil and gas prices soar: Just 184 deals closed for $34.7 billion in Q3, and YTD deal flow for the sector still lags the trend from recent years. In 2020, energy M&A deals focused on defensive consolidation as prices plummeted, forcing producers to shed unprofitable upstream assets and maneuver toward lower-cost production in the Permian Basin. Since then, the pricing outlook has changed drastically as the economic recovery outpaces supply: Brent Crude topped $80 per barrel for the first time since 2014. But producers are still moving cautiously, repairing their balance sheets while focusing strategic attention on pivoting to renewables. A prime example is Royal Dutch Shell's (NYSE: RDS.A) announced $7.0 billion deal to offload its Permian Basin assets to ConocoPhillips (NYSE: COP). Shell determined that expansion in the Permian Basin had grown too expensive; the company is also under acute pressure to reduce its carbon emissions.

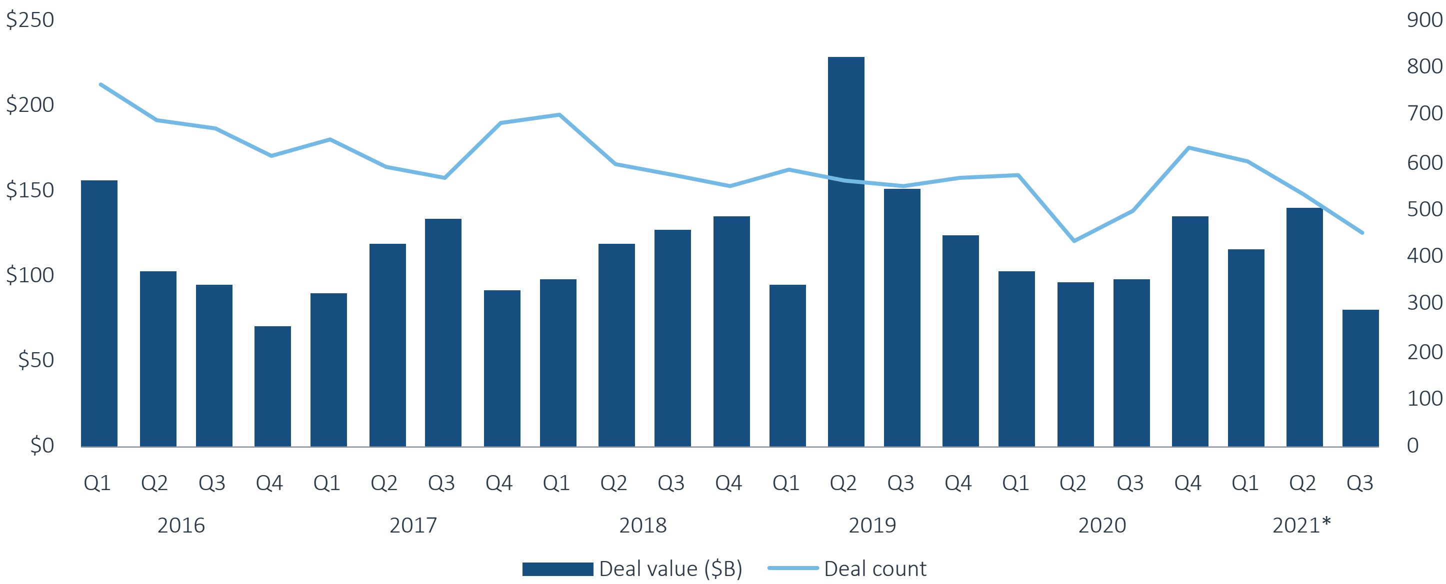
Europe's natural gas crisis sends ripple effects worldwide: Natural gas producers in Russia and Norway idled pumps in 2020, only to see demand skyrocket in 2021. As a result, prices in Europe have increased by roughly five times this year, with the high-demand winter months fast approaching. The acute shortage threatens to elevate prices globally for products including steel, manufactured goods, and food (due to fertilizer supply restrictions). In the medium term, this crisis could augment the already intense pressure in Europe to transition fully to renewables, spurring more M&A for clean energy producers. Meanwhile, several large natural gas-related deals were announced this quarter in the US, where prices are also rising.

Oil majors begin to snap up carbon offset assets as ESG pressures mount: Facing growing scrutiny from investors and governments, 12 oil majors pledged in September to work toward net-zero emissions. Some producers are also selling "carbon-neutral" fossil fuel products, bundling oil or gas with carbon offsets. As a result, we will likely see increased M&A activity for companies that manage carbon offset projects in the coming months. In August, Shell announced it would acquire Select Carbon, an Australian company that manages carbon-capture farming projects.

Sector spotlights

Financial services

Financial services M&A activity



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

Financial services M&A slowed in Q3 2021 after two stand-out quarters: In Q3, 449 deals closed worth $80.3 billion, marking YoY decreases of 9.1% and 17.4%, respectively. The outlier $8.4 billion merger of Oman-based Alizz Islamic Bank in Q3 2020 was the main reason behind the YoY decrease in 2021 deal value, which pushed both deal value and volume below their five-year quarterly averages.

PE groups target insurance assets to drive AUM: A key theme across PE has been sponsors' appetite to acquire insurance companies at the firm level to boost permanent capital and significantly grow AUM. Over the past 18 months, we have seen KKR (NYSE: KKR) acquire Global Atlantic Financial Group, Carlyle (NASDAQ: CG) buy Fortitude, and Apollo (NYSE: APO) acquire Athene. These types of insurance acquisitions allow GPs to focus more on investing activities and demonstrably increase fee-related earnings (FRE), which tends to have positive effects on stock prices. While this trend has primarily been concentrated among publicly traded firms, in Q3 we saw it extend to private firms: Sixth Street Partners acquired US-based life insurance and annuity services company Talcott Resolution Life for $2.0 billion. The current rush to insurance companies will likely continue in the low-rate environment as more insurers divest of noncore units with margins under pressure.

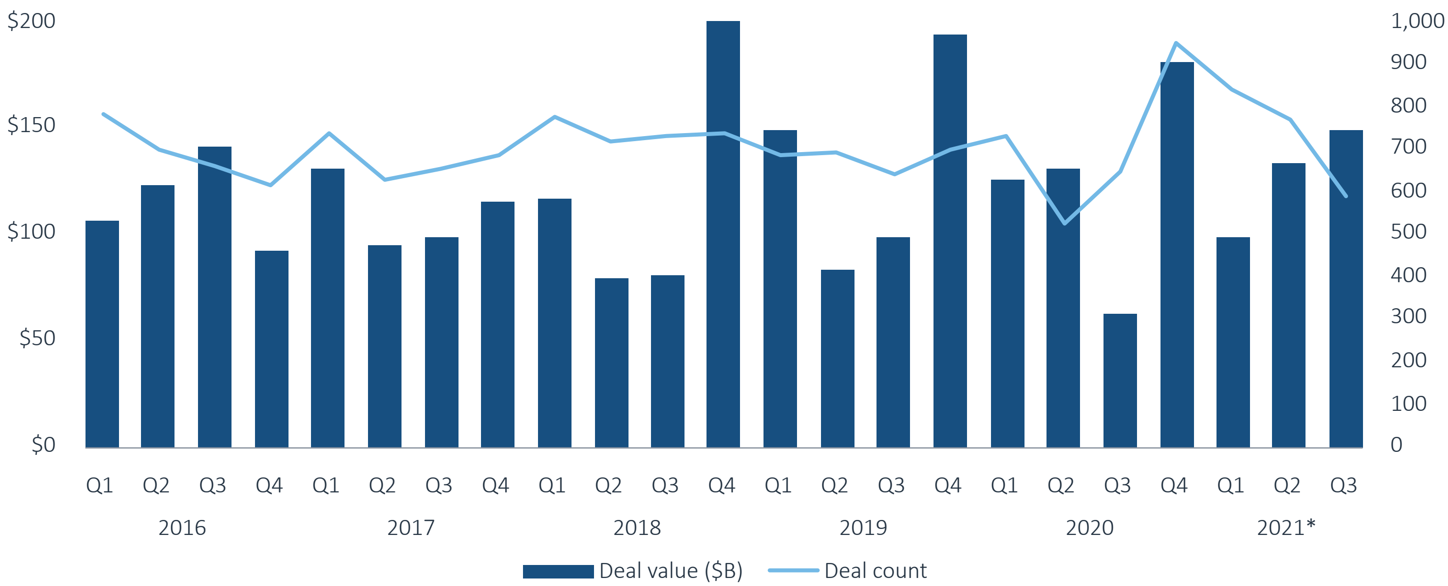
Crypto assets see growing interest from a range of buyers: Throughout the pandemic, the gravitation toward crypto trading has catapulted the global crypto market cap to around $2.0 trillion, which is driving M&A activity. Well-known sponsors such as Thoma Bravo have explicitly stated they will become big players on the buy side of the crypto market, while the first US Bitcoin ETF recently launched on the New York Stock Exchange.[5] As the industry develops, further consolidation is expected, with larger players anticipated to acquire smaller firms that offer ancillary services including crypto compliance, research, and trading. For example, DHS group Equity Partners acquired UK-based crypto trading firm Allentro for $575.0 million in Q3. We anticipate more regulatory intervention in the industry as we have already seen the UK ban sales of crypto derivatives to retail investors and China ban all crypto transactions and mining.

5: "First Bitcoin Futures ETF To Make Its Debut Tuesday on the NYSE, ProShares Says," *CNBC*, Tanaya Macheel, October 18, 2021.

Sector spotlights

Healthcare

Healthcare M&A activity



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

Robust healthcare dealmaking reflects continued transformation in the industry: 588 deals closed for $148.5 billion in the quarter. Healthcare IT companies are taking advantage of elevated demand to build multifunctional digital platforms through M&A as providers try to keep pace with advances in care coordination and electronic health record (EHR) interoperability. Mental health providers, from addiction recovery facilities to autism therapy centers, are commanding high multiples as patients, clinicians, and payers increasingly recognize the importance of holistic care. And many hospitals are still staggering under the financial strain of COVID-19, leading to ongoing defensive consolidation.

Mega-deal activity continues in pharmaceuticals and biotechnology as drugmakers look to outmaneuver pricing trends: The largest deals are offensive plays aimed at diversifying product lines and planning for future revenue streams before the exclusivity periods of current offerings expire. AstraZeneca's mammoth $39.0 billion acquisition of Alexion allows AstraZeneca, whose drug portfolio is concentrated in oncology, to significantly expand its presence in rare disease treatments. Pharmaceutical companies are increasingly focusing on rare diseases because payers are willing to stomach high prices for drugs that only a few of their members will use.

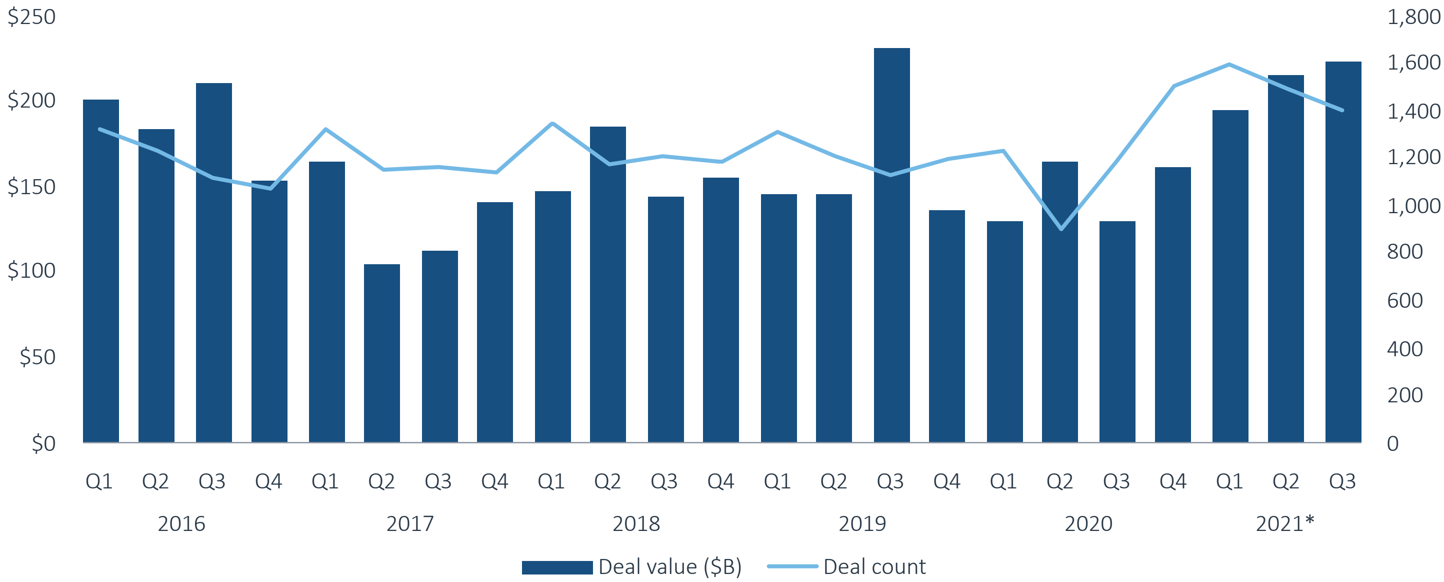
Hospitals in emerging markets see consolidation and international investment: In these regions, hospitals provide not only acute care but a preponderance of specialist services because there are fewer specialist providers. PE firms are driving hospital deal flow in India, China, and Malaysia, attracted by vast unmet demand as populations grow and become wealthier. In Brazil, an aging population and overwhelmed public health sector have sparked a consolidation boom in the private sector, with some private hospital chains trading at as much as 30x EBITDA. Hapvida Participacoes (BVMF: HAPV3), an insurer and hospital system, has announced three acquisitions this year, including one for around $9 billion.

In the US, momentum is building behind the shift to value-based care (VBC): Several adjustments to Centers for Medicare & Medicaid Services (CMS) regulations and reimbursement policies this year signal the federal government's commitment to forge ahead on VBC. The larger Medicare Advantage providers are snapping up regional provider networks, while companies offering care coordination and data analytics capabilities that support VBC are attractive targets for health systems, insurers, and PE firms.

Sector spotlights

Information technology

IT M&A Activity



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Jinny Choi Analyst PE
jinny.choi@pitchbook.com

Tech climbs onwards: IT continued its uptick in Q3 2021, capturing record portions of global M&A deal value and count for the sector at over 23%. The median and average deal sizes grew from 2019's values, showing robust demand for large deals despite increased scrutiny regarding antitrust, data, and privacy.

Big Tech faces crackdown amid consolidation plays: Increased consolidation in tech has been fueling gigantic M&A deals, prompting increased regulatory scrutiny. Salesforce's merger with Slack, the second largest deal in Q3 at $27.7 billion, closed in July after an antitrust probe was dropped by the US Department of Justice (DOJ). Currently, public interest groups are urging the FTC to block the Amazon-MGM Studios merger, slamming the proposed $8.45 billion deal for escalating Amazon's control over businesses and consumers. In July, President Biden signed a new executive order to tackle anticompetitive practices, calling for increased scrutiny of tech mergers and consumer data collection. The government's intervention in Big Tech could be further incited by the Facebook whistleblower, who called on Congress in October to act against the tech giant for pushing harmful content in exchange for profit.

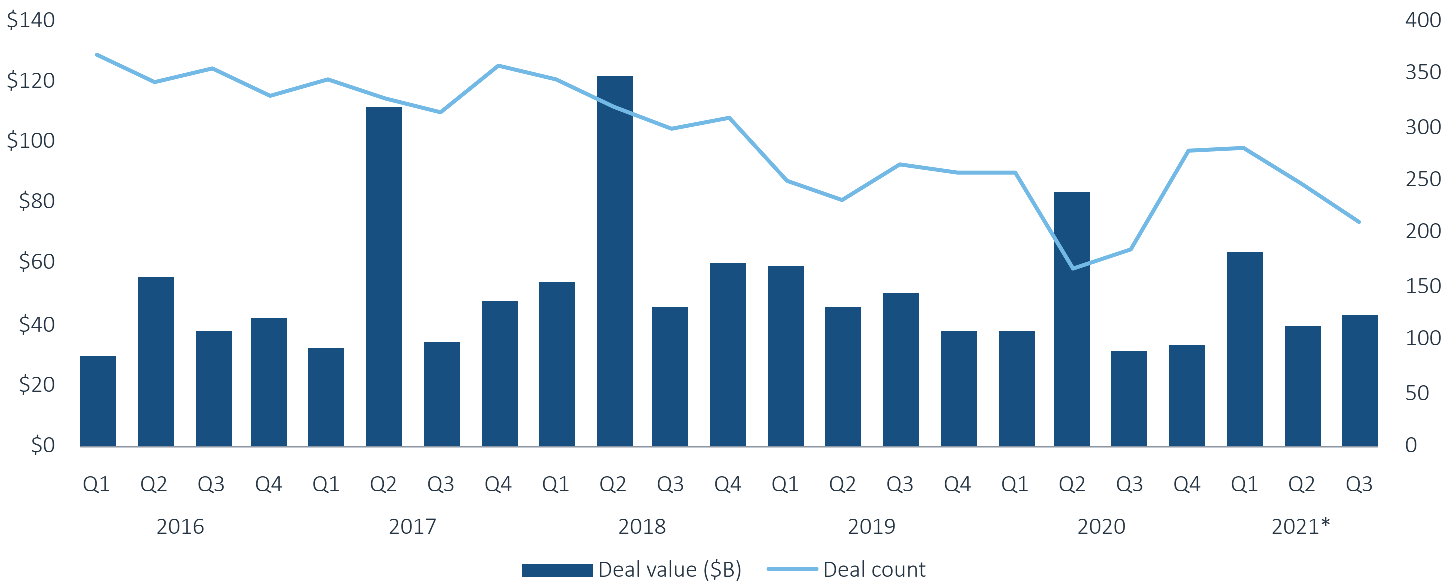
Chinese restrictions disrupt education technology: In July, the Chinese government banned education and tutoring companies from making a profit, raising capital, or going public. Several US-listed Chinese education companies lost half of their share values in one day after the sudden announcements. With education technology (edtech) having been one of the hottest markets in China recently, the abrupt change will force foreign investors that invested in China to rush exits and disclose underperformance. It will also shift capital to other markets such as India, which experienced a boom in online education during the pandemic. Byju, India's edtech company recently valued at $18.0 billion, completed nine acquisitions in 2021 alone to gear up for rapid growth.

Select mega-deals close in semiconductors amid ongoing global chip shortages: M&A activity in semiconductors has primarily been for the purpose of gaining new technologies to enhance product portfolios. In Q3, Analog Devices (NASDAQ: ADI) completed its acquisition of Maxim Integrated Products for $23.0 billion and shortly thereafter announced two new devices. Renesas Electronics also completed its acquisition of Dialog Semiconductor, a supplier to Apple (NASDAQ: AAPL), for $5.9 billion to collaborate on car computing platforms.

Sector spotlights

Materials & resources

Materials & resources M&A activity



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As demand surges, an acceleration of materials & resources M&A may be on the horizon: So far in 2021, materials & resources dealmaking has remained at comparable levels with the past few years, with 211 deals closing for a combined $43.1 in Q3. But elevated prices for many commodities may begin to change that trend in the coming quarters, albeit gradually. The mining industry has become wary of embarking on new development projects too quickly after previous boom cycle investments went awry, while timber companies are constrained by regulation and long production horizons. Labor and shipping capacity shortages and high energy prices are also holding back a full recovery.

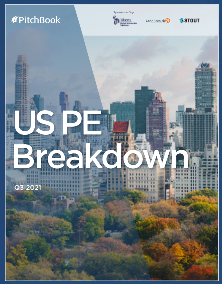
Chemical producers see both headwinds and tailwinds: The chemicals industry has benefited from elevated consumer demand and broad economic recovery, allowing chemical manufacturers to raise prices. But elevated energy, raw materials, and supply chain costs remain. With this backdrop, we have seen significant chemicals M&A this quarter as producers maneuver to diversify into products and end markets where they can pass these increased production costs downstream.

Gold mining M&A accelerates: Much of the gold price recovery we saw in 2020 has sustained through 2021 and reinvigorated dealmaking in the gold mining industry, which had underperformed over the last decade. Longstanding underinvestment in exploration has made consolidation necessary to replace diminished reserves; as pricing improved and mining companies strengthened their balance sheets, this became more feasible. As a result, we are seeing large mining corporations acquire a steady stream of midsized regional players, as well as several acquisitions of companies that produce sodium cyanide, a compound used in gold mining.

Copper producers face an ESG paradox: The price of copper has risen alongside the growing vehicle electrification trend, as copper is an important component of EVs. However, copper producers also face scrutiny over the environmental impacts of mining the precious metal. In Latin America, many copper mines are high in arsenic, and their significant water usage appears increasingly unsustainable amid widespread droughts. This combination of factors should drive elevated copper industry M&A in the coming quarters, as mining companies deploy their growing cash reserves to increase production and acquire technologies that can help mitigate deleterious effects and adhere to tightening local regulations.

Additional research

Global Markets and PE



Q3 US 2021 PE Breakdown

Download the report here

Q3 2021 European PE Breakdown

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2021 France & Benelux Private Capital Breakdown

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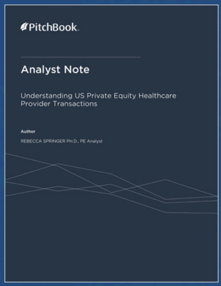

Analyst Note: Understanding US PE Healthcare Provider Transactions

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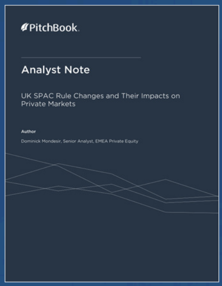

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