PitchBook

Q1 2022

GLOBAL M&A Report

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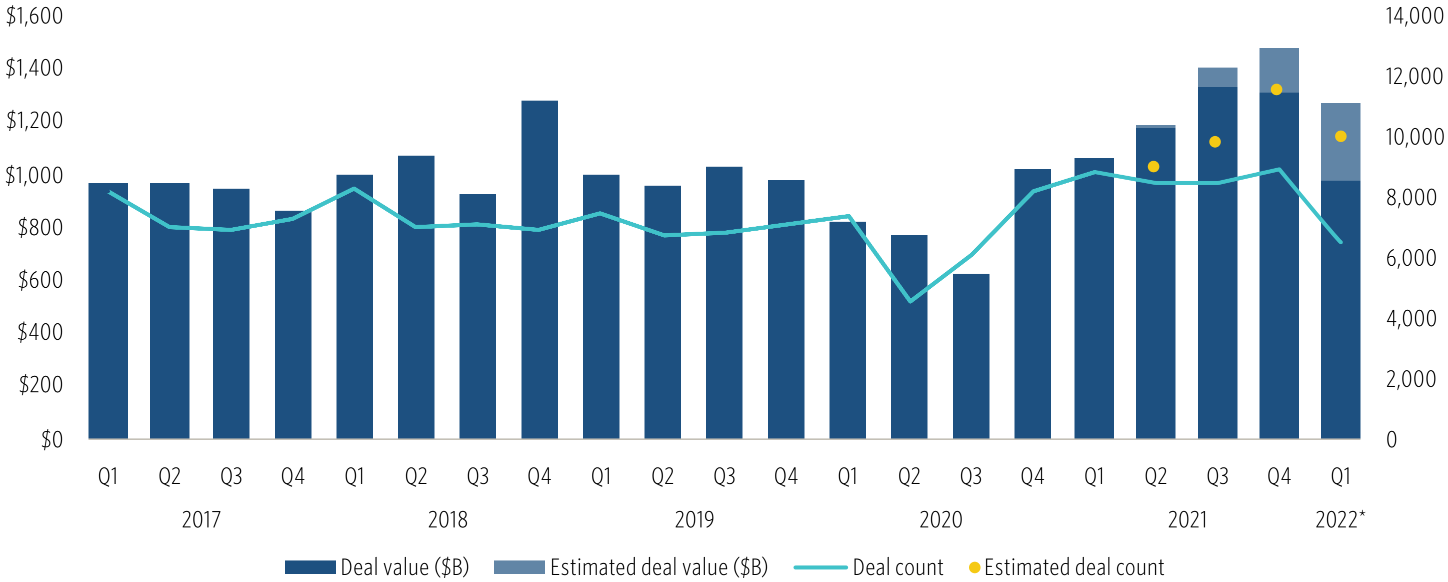
Global M&A

Quarterly M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Wylie Fernyhough, CFA
Senior Analyst, Private Equity Lead

Global M&A activity bifurcated for much of Q1 2022, with previously negotiated deals closing on time while announced activity diminished due to the uncertainty created by Russia's invasion of Ukraine. Final deal counts for the quarter fell compared to the fervent activity seen in the back half of 2021 but were healthy compared to the past five years. The impact of a several weeks' pause in dealmaking as investors grapple with the fallout from geopolitical conflict is likely to show up in the data throughout the coming quarters.

As much of the globe pushes beyond the worst effects of the COVID-19 pandemic, consumer spending has been dampened as housing and transportation costs lift.[1] Boosting consumer spending is critical to keep economies moving forward as governments and central banks pull back their stimuli. The debate around central bank stimulus and the proper level for interest rates still rages. Inflationary pressures continue to mount across the globe; the US Consumer Price Index came in at 8.5% for the 12 months ending in March 2022, and Euro area annual inflation was expected to be 7.5% in March 2022.[2] The price of nearly everything appears to be rising, including labor, energy, technology, consumer goods, rent, and more.

To combat higher prices, central banks are tapering their stimuli—some are even beginning to shrink their balance sheets—and pushing interest rates higher. This has led to a swift rerating across assets. As rates go up, future cash flows are discounted at higher rates and become less valuable, which has had a particularly deleterious effect on longer duration cash flows (such as equity in speculative technology or healthcare companies that are not yet profitable). Because of this, global equity markets whipsawed during the first quarter of 2022. Higher growth companies have lagged as have tech-heavy indexes, including NASDAQ. Going forward, deal professionals will be walking a tight rope. Reports suggest the next Federal Reserve rate hike could be by 50 basis points, which would further boost discount rates and borrowing costs. The European Central Bank (ECB) is expected to end its bond buying later this year before lifting rates as well. Central banks are in a precarious position with inflation raging but have limited tools in their kit to

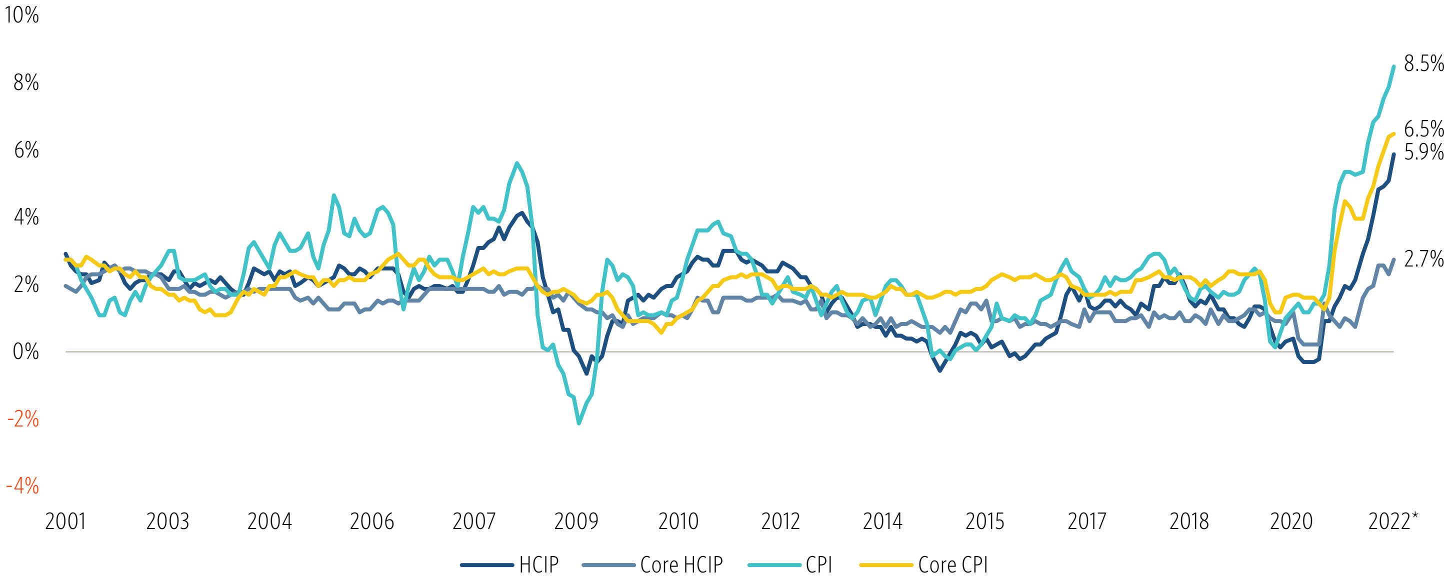
1: "U.S. Consumer Spending Cools as Goods Outlays Decline; Labor Market Tightening," Reuters, Lucia Mutikani, March 31, 2022.
2: "Euro Area Annual Inflation Up to 7.5%," Eurostat, April 1, 2022.

address the root of the problems. Boosting rates will dampen aggregate demand, but much of the inflationary pressures are stemming from supply chain-related issues. A flattening yield curve also may mean less growth is being priced in. Additionally, for a couple days in early April, the two-year Treasury yielded more than the 10-year Treasury—meaning the yield curve briefly inverted—but this does not always precede a slowdown. With the war in Ukraine showing no signs of abating, the geopolitical backdrop has severe downside risks.

Capital intensive industries—including energy and industrials—appear poised for prolonged growth, despite the higher raw materials costs. The pandemic-induced supply chain shocks have disrupted economies around the globe, highlighting how vulnerable countries are in international trade and revealing certain bottlenecks for advanced technologies. The war in Ukraine further illuminated these threats to the status quo in the supply of oil & gas, wheat, and several critical metals. The high price of oil and the long-term bullish outlook have begun to attract serious capital to the energy sector for the first time in several years. Investment in manufacturing is also slated to balloon with the reshoring of supply chains, as North America and Europe seek to become less reliant on Asia for semiconductor and drug manufacturing, for example. Moreover, global decarbonizing efforts will require construction of new power grids, solar and wind plants, and more.

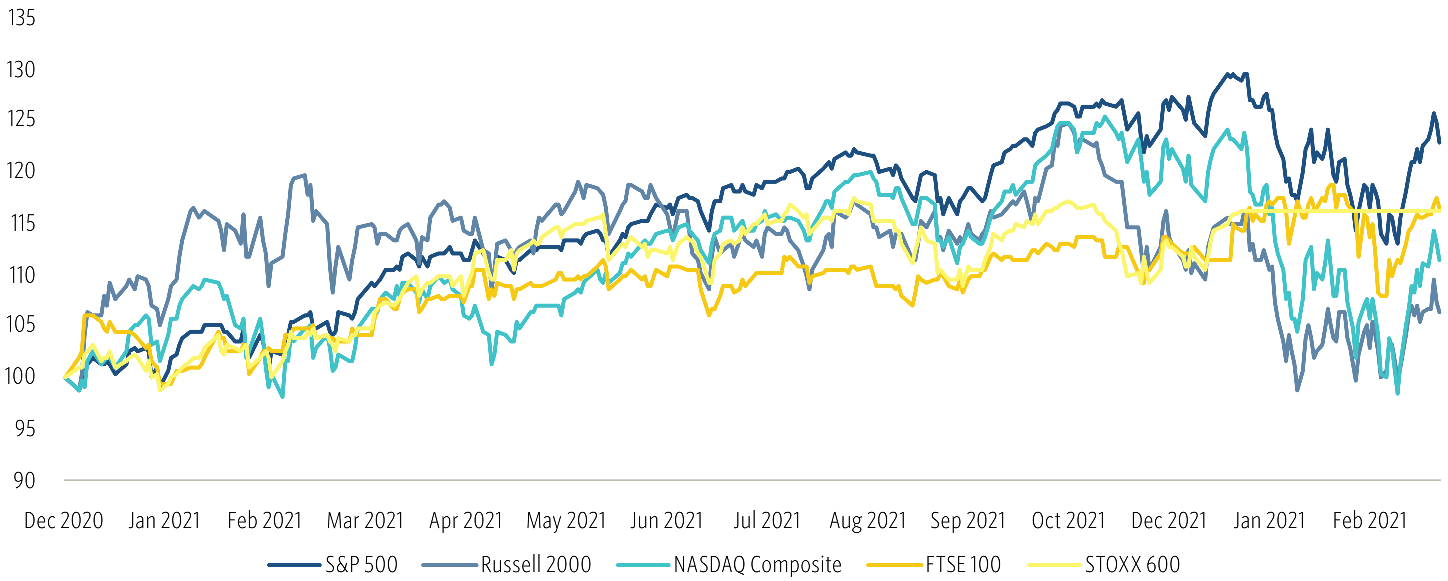
The financial services sector also played a pivotal role in Q1 M&A activity on several fronts. PE continues to account for a swelling proportion of deal activity, including a significant percentage of the largest deals. Eight of the 20 largest deals to close in the quarter were bought by financial sponsors. In addition, fallout from the Ukraine invasion froze financial markets, forcing banks to hold tens of billions in loans used to finance leveraged buyouts (LBOs). This caused PE firms to turn to private debt providers to finance deals, further taking market share from the big banks.

Rate of inflation by select indexes



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

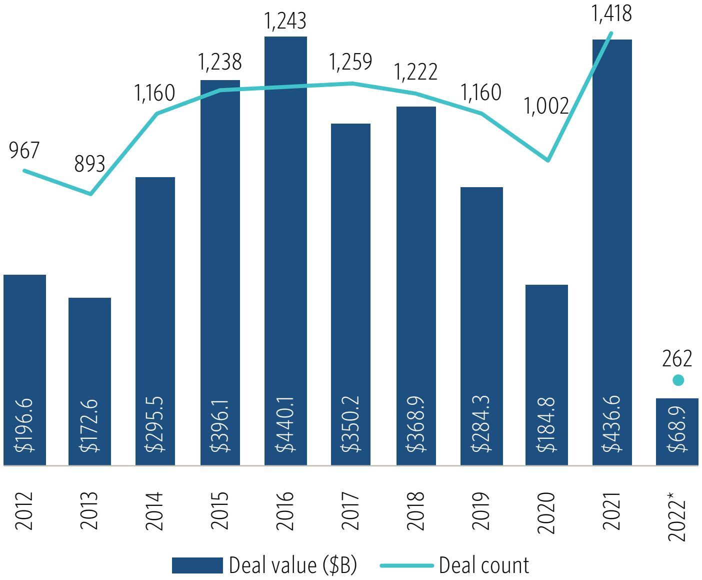
Select stock indexes rebased to 100 in December 2020



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

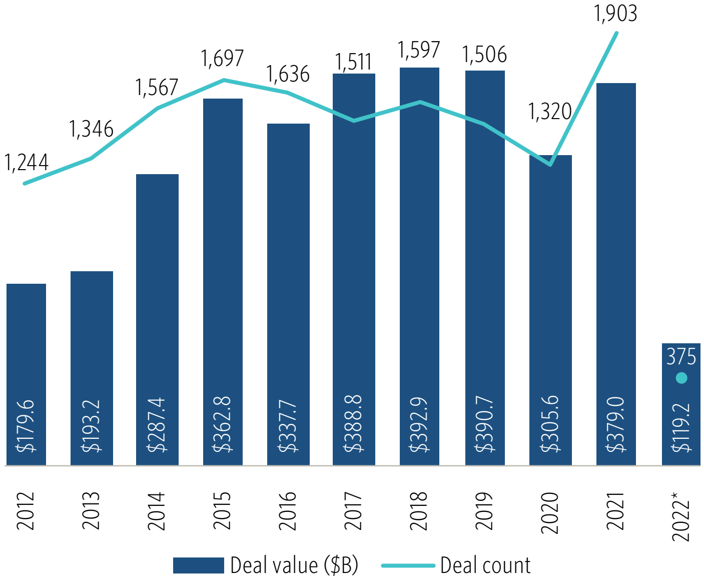
The PE industry was represented in the actual deal flow as well. Athene and Apollo completed their merger during the quarter, bringing the insurance giant under the roof of the gargantuan alternatives manager. Additionally, EQT agreed to buy Baring PE Asia for $7.5 billion during the quarter, combining two household names and cementing EQT's global ambitions. AllianceBernstein announced a $750.0 million deal to acquire alternative credit manager CarVal the next day. Several other deals, including Carlyle's acquisition of life sciences specialist investor Abingworth, also followed. The purchase of minority stakes—also called GP stakes—was active during the quarter as well. Firms including MBK Partners and Iron Park Capital sold stakes.

North American M&A deal activity with non-North American acquirer



Source: PitchBook | **Geography:** North America
*As of March 31, 2022

European M&A activity with non-European acquirer

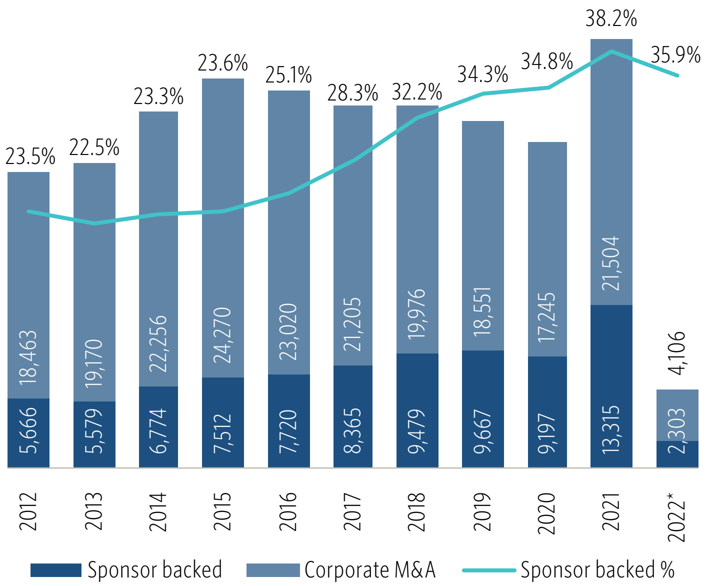


Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Tech was a dominant force during the quarter, continuing a decade-long trend. Sectors from semiconductor hardware to cybersecurity witnessed notable deals close in the quarter. The semiconductor space will be one to watch going forward. Nvidia's blockbuster $40.0 billion acquisition of SoftBank-owned Arm was terminated in February due to antitrust scrutiny and likely precludes any further consolidation in the space. More of the future deals are likely to be smaller add-ons. However, Western lawmakers may be more willing to let some massive deals go through as they attempt to reduce their countries' reliance on Taiwan. The independent semiconductor fabrication (fabs) companies are likely to be targeted for acquisitions. Elsewhere, Intel agreed to acquire Israel-based specialty chip manufacturer Tower Semiconductor for $5.4 billion during the quarter.

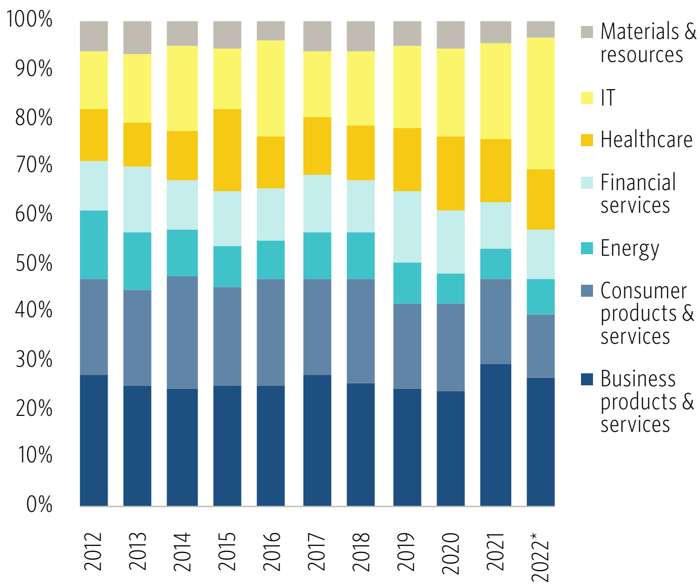
With the prolonged inflationary pressures, natural resources prices have steadily risen and show no signs of falling. Naturally, a more lucrative pricing environment has begun to attract capital to the space, despite the volatility and poor returns many investors have experienced over the past decade. While a significant amount of capital has flown to traditional energy spaces, the renewable energy space continues to grow as well. Investment into the green energy sector also benefits a plethora of natural resources businesses. Coupled with the desire to reduce reliance on Russia and China, this area is expected to be a hotbed for deal activity. However, with long lead times—mines can take five-years or more to come online—and few scale players in the sector, it will take a concerted effort to alter the competitive landscape.

M&A deal activity by acquirer type



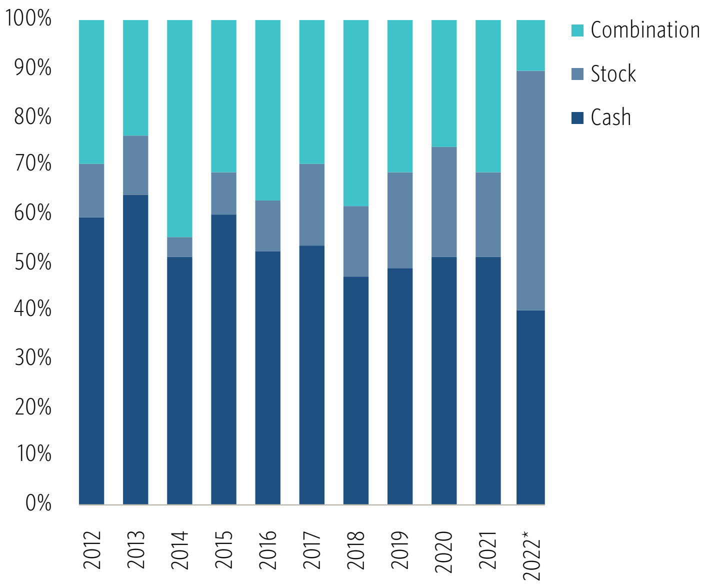
Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Share of M&A deal value by sector



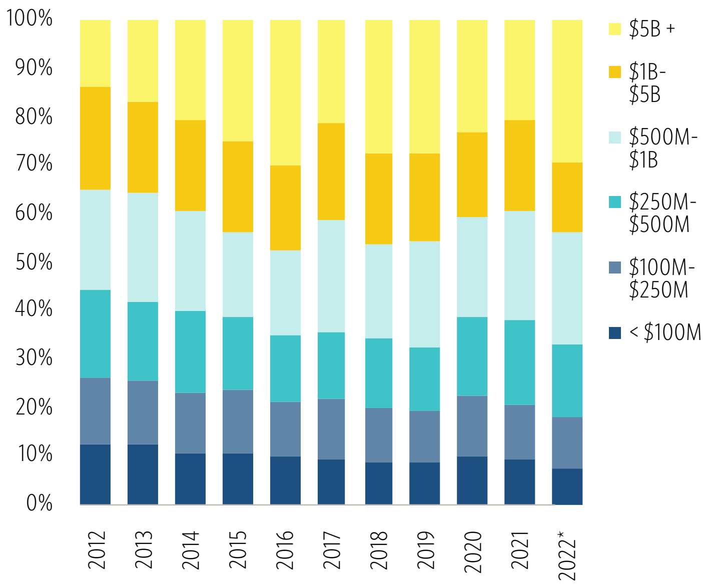
Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Share of M&A deal value by payment type



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Share of M&A deal value by deal size



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

A WORD FROM LIBERTY GTS

Judgment preservation insurance: Lock in positive trial outcomes and eliminate appeal risk

Lawyers are always looking for ways to finalize positive outcomes in litigation, where even after winning a trial court judgment, lawsuits can drag on for long periods of time—often two to three years or longer.

For companies, protracted litigation can become a reporting and fiscal challenge, and not just because of the ongoing legal fees incurred in litigating the case. Consider the situation of a company that takes a case to court as a plaintiff. It could be a case of any type, such as breach of contract, patent infringement, or fraud, but let's assume that they subsequently have success in their suit and are awarded a sizeable award at trial.

The company cannot include the money within their P&L, they cannot account for it within planned income, and they cannot even gain access to it while the defendant appeals—which, of course, in the case of a sizeable award, is inevitable. In other words, the judgment is uncertain and illiquid for years.

This leaves the company stuck, resting alongside their lawyers in limbo. The issues are such that they can prevent companies from taking on litigation in the first place or lead companies to settle for pennies on the dollar in order to take appeal risks off the table.

In recent years, however, judgment preservation insurance has become an increasingly well-received alternative to this challenging situation. Let's imagine a situation in which Company A has felt itself harmed, has gone to trial, and has won an award of $100 million from a competitor over a contract dispute. The competitor launches an appeal, and the award is frozen for two to three years or more. However, Company A wishes to "lock in" the award, remove the inherent risks of an appeal, and have the benefit of immediate access to the $100 million.

The company decides to ask its broker to arrange judgment preservation insurance with the aim of securing its capital. It pays Insurer B $10 million for a judgment preservation policy preserving its $100 million judgment.

Dominic Spinelli
Senior Underwriter, Contingent Legal Risk Insurance
Liberty GTS

Dom is the first underwriter in our Americas team to be focused exclusively on Contingent Legal Risk Insurance deals. Dom is a former litigator, having litigated a wide range of complex commercial disputes across the country. In addition to his litigation experience, Dom has represented insurers outside of the courtroom with respect to hundreds of complex insurance claims, including analyzing potential exposures and coverage issues presented by a number of high-profile litigation risks. Dom was previously a representations and warranties underwriter for Liberty GTS, so he also has experience analyzing transactional risks and is intimately familiar with the M&A insurance industry. Dom is admitted to practice in Massachusetts, Connecticut, Illinois, and the Southern and Eastern District Court of New York.

Here are some possible outcomes for Company A: In the event that the appellate court rules in its favor, its award will remain at a gross amount of $100 million, but the net recovery will drop to $90 million because of the cost of buying the insurance. However, if the award drops to $20 million, Company A will receive $20 million from the defendant and $80 million in the form of a payout by Insurer B. After accounting for the insurance premium, it will still end up with a net recovery of $90 million. In other words, no matter how the appeal plays out, Company A will walk away with a net recovery of $90 million.

In most cases like this, it makes sense for the company to swallow a small reduction in its overall award in order to guarantee the ultimate amount it will receive. This allows the company to book the money into P&L and to borrow against it if needed. It may be that it needs the money to fight "on the ground" against the competitor that has breached the contract, or to fund expansion that would otherwise have had to wait. Almost inevitably, however, the results are beneficial to the company. As a result of judgment preservation insurance, that uncertain and illiquid judgment is now certain and liquid.

Increasingly, there are also occasions wherein the buyer of the insurance is a law firm acting on risk. In one example in the US, we were part of an insurance program wherein a law firm obtained a significant attorney fee award after successfully litigating a case to judgment. Certain members of the class objected to the attorney fee award, which meant a lengthy appeal process would follow. Rather than wait years for the appeal to be resolved, the law firm purchased an insurance policy to respond in the event that the attorney fee award was reduced below a certain amount on appeal. While there was a remote risk of the fee award being reduced on appeal, the law firm wanted to immediately disburse the fee award to its existing partnership. Given the turnover among the firm partnership, it would have been a headache if the firm had to repay a portion of fee award one to two years down the line. As a result, the law firm purchased a form of a judgment preservation insurance policy, which guaranteed more than 90% of the fee award—no matter the outcome of the fee dispute on appeal. This allowed the firm to immediately distribute the fee award to its partnership, rather than holding the money back for a potentially long time.

There are also instances wherein a defendant purchases a judgment preservation insurance policy, which is often overlooked in the marketplace. In one example, a company was in the process of developing a commercial property. A claimant, a former owner of the property, filed suit against the company, alleging that it retained an interest in the property. The dispute went to trial, and the company won a defense-side judgment in which the court held that the claimant had no interest in the property. The claimant filed an appeal. The company was in the process of obtaining financing for development of the property. There was a low probability but high severity of risk that the judgment would be reversed, thus causing delays in the construction and potentially triggering an event of default under the construction loan. A defense-side judgment preservation policy can be used in this situation to protect a defendant from the loss flowing from judgment reversal.

Judgment preservation policies make sense for both the insurer and the insureds. From our perspective as the insurer, the facts of the case are established, the record is finite, and the legal issues have been extensively vetted in the trial court. It is worth noting that very often on appeal, certain issues are subject to a deferential standard of review, meaning that the court places a thumb on the scale in favor of affirming the original judgment.

Meanwhile, from the insured's perspective, the prospect of living through an appeal with "all to play for" is unattractive and unnecessarily risky. A judgment preservation policy takes that unnecessary risk off the table, as insurers are better suited to spread the risk across a portfolio of cases. It can also allow the company to move forward if it wants to "lock in" a portion of the award. Brokers now work with a variety of hedge funds and capital providers that are willing to provide financing to companies that have a judgment preservation policy in place.

This is a truly specialist sort of insurance policy, and only a handful are written each year. There are few insurance brokers and insurers that specialize in judgment preservation insurance, with Liberty GTS being one of those insurers. Liberty GTS has one of the largest teams of dedicated underwriters focused on underwriting judgment preservation insurance risks, with experience in both common law and civil law systems across a broad range of disputes, which helps us to connect with the legal teams working on the cases we insure.

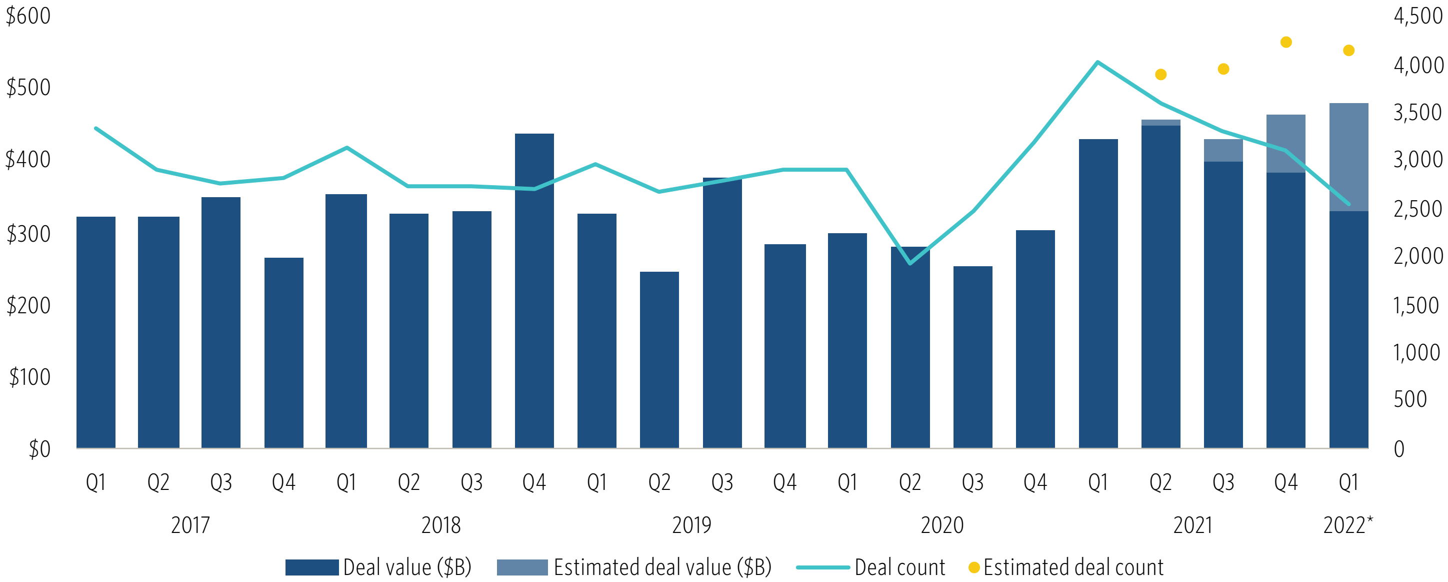
It is important to realize that this sort of bespoke policy is often extremely high in value and can help a company realize significant sums. On multiple risks in 2021, judgment preservation policies were purchased on judgments exceeding $1 billion. Through judgment preservation insurance, insureds were able to monetize over $700 million on each of these risks.

The growing size of judgments, especially in the intellectual property space, as well as the growing familiarity with the product, have driven increased use. Yet many in-house attorneys and litigators at the biggest law firms in the US still are not familiar with the product.

So, as an underwriter, my message for companies, law firms, private equity firms, and investors is therefore straightforward. Start to understand and consider how to use new tools such as judgment preservation insurance and other contingent legal risk insurance offerings. Think outside the box as markets such as Liberty GTS are interested in exploring creative solutions to deal with known but uncertain legal risks. The opportunities are nearly limitless. Connect with a broker that can package these risks. Insurance tools such as judgment preservation insurance are here to stay, and all litigators and their clients can greatly benefit from understanding and using these tools.

European M&A

Quarterly European M&A activity



Source: PitchBook | **Geography:** Europe
*As of March 31, 2022

Dominick Mondesir
Senior Analyst, EMEA Private Capital

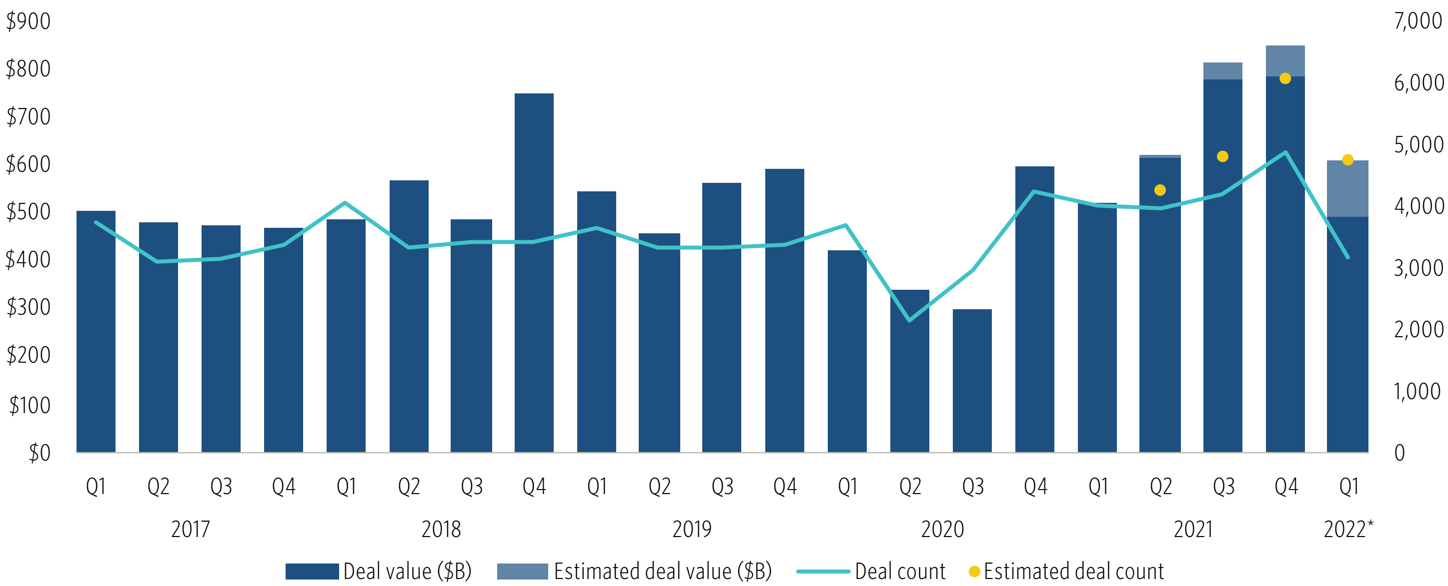
European M&A activity was resilient in Q1, notching a new quarterly deal value record. In Q1 2022, 4,138 deals closed worth in aggregate $479.0 billion—marking YoY increases of 2.6% and 10.7%, respectively. The mammoth $44.0 billion merger between S&P Global (NYSE: SPGI) and UK-based IHS Markit certainly buoyed deal value. Many trends that propelled 2021 to its record M&A year—including abundant and predictable liquidity—largely remained in place when Q1 deals were negotiated months ago.

Robust economic growth and booming stock markets in 2021 helped drive confidence across executive teams and pushed more corporates to pursue transformative M&A to accelerate scale, add digital capabilities, and break into new markets. In the second largest deal of the quarter, Aker BP (OSL: AKRBP) acquired Sweden-based Lundin Energy to add additional scale to its oil and gas exploration activities in the Nordic region. Similarly, US-based APi Group's (NYSE: API) acquisition of UK-headquartered Chubb Fire & Security for $3.1 billion will help APi gain a stronger position in European markets. Sitting on billions of dry powder, sponsors were aggressive in dealmaking, as European PE deal activity hit new peaks in Q1. And finally, low borrowing costs and strong debt markets persisted to contribute to another standout quarter.

Looking ahead, we do expect European M&A activity to slow from its record-setting pace in the coming quarters. The macroeconomic picture has dramatically shifted, and the risk of a European recession is real. Factors including the move from quantitative easing to quantitative tightening, quickly rising interest rates, soaring cost inflation, corporates' short-term focus on supply chains, and labor issues will work to slow M&A activity. The invasion of Ukraine, slowing economic growth rates, declining stock markets, and greater regulatory scrutiny will also contribute. For example, the European Commission recently forced S&P Global (NYSE: SPGI) to divest its Leveraged Commentary and Data (LCD) and CUSIP Global Services businesses to close on its IHS Markit (NYSE: INFO) purchase. Nonetheless, forces such as lofty dry powder on the PE side mean M&A activity should still come in historically strong in 2022 despite tighter financing conditions. PE firms will close on assets with strong pricing power as well as companies that are insulated from labor issues, the war in Ukraine, and supply disruptions.

North American M&A

Quarterly North American M&A activity



Source: PitchBook | **Geography:** North America
*As of March 31, 2022

Jinny Choi
Analyst, Private Equity

North American M&A experienced a slight dip in value and volume in Q1 2022. Approximately 4,739 deals closed for a combined value of $611.3 billion, which was roughly a 20% decrease in both deal count and value from Q4 2021. However, M&A activity was in line with that of the last five years, demonstrating that dealmakers are still finding growth opportunities despite market volatility and valuation adjustments. Additionally, some investors viewed the market turbulence as an opportunity to secure more reasonable valuations; we could see an increase in smaller M&A deals spilling over to Q2.

Higher interest rates dampened M&A activity during the quarter. Inflation soared, with Canada's annual inflation rate rising to 5.7% in February and the US CPI posting 8.5% YoY gains for the period ending in March, the fastest inflation rate since 1981. High-growth stocks tumbled throughout Q1 as fear of higher interest rates, which would increase the discount rate, dragged down the lofty valuations enjoyed by the market the last few years. Although the equities market seemed to be stabilizing by the end of the quarter, lower valuations and higher borrowing costs could further stifle M&A activity going forward. The Fed plans for six more interest rate hikes after its first one in March, and the Bank of Canada is expected to announce its first oversized interest rate hike in more than two decades in April.

Antitrust scrutiny in the US continued to loom over M&A activity, although with mixed results. In January, the Federal Trade Commission (FTC) made a breakthrough in its efforts to rein in Big Tech, as its refiled antitrust lawsuit against Meta (NASDAQ: FB) was allowed to proceed to court. FTC Chairperson Lina Khan also successfully blocked Lockheed Martin's (NYSE: LMT) $4.4 billion agreement to buy Aerojet Rocketdyne (NYSE: AJRD) shortly after Nvidia (NASDAQ: NVDA) scrapped its merger with Arm. At the same time, Microsoft (NASDAQ: MSFT) completed its $20.0 billion acquisition of Nuance Communications after clearing all regulatory hurdles in March, almost a year after its intent to buy. However, Microsoft is facing pushback regarding its $75.0 billion acquisition of Activision Blizzard (NASDAQ: ATVI), its largest acquisition to date. Although there is a sentiment among transaction lawyers that the Biden Administration's aggressive pursuit of antitrust law enforcement will remain largely ineffective, with further negotiations to come in 2022, the uncertainty over impending regulations and potential delays in deals could discourage larger M&A going forward.

Business products & services

Quarterly business products & services M&A activity

Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Jinny Choi
Analyst, Private Equity

Business products & services posts moderate M&A activity: 2,306 deals closed in Q1 2022 for a combined deal value of $256.0 billion. Median deal size decreased during the new year as market volatility, severe supply chain disruptions, and labor shortages plagued business products & services. Despite such headwinds, investors were motivated to find opportunities to consolidate and scale businesses. For example, French automotive supplier Faurecia (PAR:EO) acquired a controlling stake in German lighting and electronics specialist Hella for $6.0 billion. The acquisition enables Faurecia to increase its presence in the electric vehicle and self-driving technology market and will make the combined entity the seventh-largest automotive supplier worldwide.

Strategic investors engage in M&A to strengthen supply chains: The growth of e-commerce and ongoing supply chain disruptions are prompting investors to make acquisitions up and down the value chain. Logistics has become a key differentiator for companies seeking to provide reliable deliveries and better control over their operations. For example, Mahindra Logistics (NSE: MAHLOG) acquired a 60% majority stake in ZipZap Logistics, an intracity logistics services company for the e-commerce industry, for approximately $9.6 billion in February. The acquisition enables Mahindra Logistics to better service smaller towns and cities in its last-mile delivery business. Similarly, J.B. Hunt Transport Services (NASDAQ: JBHT) acquired Zenith Freight Lines, a freight transportation and delivery solutions company, for $87.0 million in March. The acquisition strengthens J.B. Hunt's furniture delivery capabilities by expanding their end-to-end supply chain solution for their customers.

Capital flows back into travel: Business products & services deals picked up momentum in the travel sector, with investors betting on the resumption of travel after two years since the start of the pandemic. In March, a $14.5 billion takeover of the Sydney Airport by a consortium of infrastructure investors closed, which is Australia's largest-ever buyout. Additionally, Flight Centre Travel Group (ASX: FLT) acquired TPConnects Technologies, a SaaS-based travel technology solutions provider for airlines and travel agencies, in March for an undisclosed amount. Recovery in both leisure and business travel will increasingly drive capital into the space, although recent geopolitical tensions and labor squeezes can drag down the uplift in deals.

Consumer products & services

Quarterly consumer products & services M&A activity

Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Dominick Mondesir
Senior Analyst, EMEA Private Capital

Consumer products and services M&A slowed in Q1 2022: Dealmakers closed 1,221 transactions worth an aggregate $128.3 billion—marking YoY decreases of 27.8% and 32.8%, respectively. No mega-deals closed in the quarter, which was a big contributor to the annual drop in deal value. The same quarter last year saw mega-deals account for more than $15 billion in deal value. Although corporate M&A dominated in Q1, PE funds slightly increased their share of M&A volume, accounting for 32.4% of deal volume, marginally up from their 30.4% share in Q1 2021. Despite strong vaccination rates and limited restrictions across the continent, soaring inflation put material squeezes on household incomes and reduced consumer spending power. This has likely put downward pressure on consumer M&A, as changes in consumer preferences act as a significant catalyst in M&A activity.

Casual wear and hospitality companies to see more M&A: One of the hottest fashion segments is casual wear, including athleisure, driven by more hybrid working models and a general shift to more leisure activities as restrictions subside. Employees are generally opting for comfort wear over traditional business attire when working from home, so we anticipate more interest from dealmakers. For instance, in Q1 we saw Crocs acquire US-based Hey Dude for $2.5 billion. Hey Dude specializes in manufacturing smart casual comfort footwear, which aligns with long-term consumer fashion trends. On the hospitality side, casinos, hotels, and staycation facilities were badly hit during lockdowns. However, they are showing signs of recovery as restrictions ease and vaccination rates move upwards. This has fostered more deals in the space including Q1 acquisitions of boutique hotel L'Oscar London, Amsterdam-based casino BonusFinder, and the proposed acquisition of UK-based Park Holidays as investors bet demand will continue.

Divestitures will keep M&A active: Due to the broader trend of portfolio revamps from corporates and governments, we expect to see several carveouts in 2022, with sponsors being willing acquirers of such companies. In Q1, we saw Adidas carve out Reebok to Authentic Brands Group (NYSE: AUTH)—a portfolio company of CVC Capital Partners and HPS Investment Partners—as Reebok struggled to become the go-to brand for athletes or athleisure. In addition, the government of India sold Air India to Tata group after years of loss making from the national carrier.

Financial Services

Quarterly financial services M&A activity

Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Dominick Mondesir
Senior Analyst, EMEA Private Capital

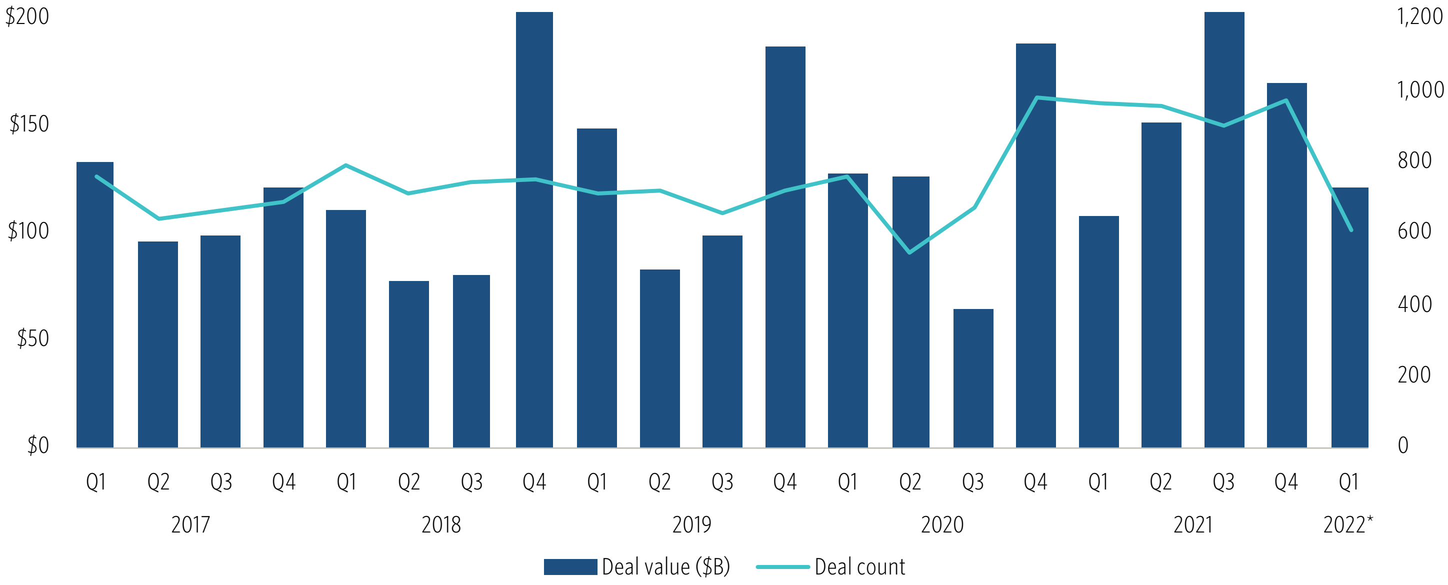
Financial services sector primed for transformation: In Q1 2022, 501 deals closed worth in aggregate $102.8 billion—marking YoY decreases of 27.2% and 13.6%, respectively. Acquiring new capabilities, accelerating digital transformations, driving scale, and performing restructurings is at the heart of financial services (FS) M&A, as asset managers, banks, and insurers seek to boost top lines, heighten efficiency, grow margins, and optimize cost structures. Mounting pressure from disruptors including several fintech platforms, a tighter regulatory environment, and the need to support the green transition means the FS sector is primed for rapid transformation. In addition, quickening digitalization, a more hawkish policy environment, and the growing trend toward embedded finance in areas such as buy-now-pay-later will contribute to the sector's fast changes.

PE continues its push into insurance: Sponsors, especially publicly traded groups, are acquiring blocks of businesses, partnering or merging with insurance companies to act as a source of permanent capital, specifically in the life insurance and annuity sectors. For example, deal values in Q1 were increased by a couple of mega-deals, including the $7.2 billion merger of Athene Holding by Apollo Global Management (NYSE: APO). In addition, an investor group including Centerbridge Partners launched a new life and annuity reinsurance company, Martello Re, in Q1. As sponsors' dry powder grows, and insurers look to exit non-core assets, we expect activity to continue. Furthermore, we saw no slowing in the insurance broker roll-up strategy from sponsors with several closed deals in Q1, including the add-ons of Ireland-based Keystone Insurance and UK-based Brockwell Capital.

Banking and capital markets M&A prioritize restructurings, digital capabilities, and scale: In addressing market positioning, changing customer needs, and heightened competition, banks are adding digital capabilities to modernize, improve distribution channels, and become more consumer-centric. For instance, in Q1 Itau Unibanco acquired digital broker Ideal CTVM, in a move to accelerate Itau's scalable digital transformation. At the regional level, banks continue to consolidate to drive scale, loan growth, and margins. For example, in the largest deal of the quarter, Webster Financial (NYSE: WBS) acquired US-based Sterling National Bank for $10.3 billion, creating one of the largest banks in the Northeast. In addition, more banks will likely restructure in 2022 by exiting non-core assets to strengthen digital engagement and adjust cost structures.

Healthcare

Quarterly healthcare M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Rebecca Springer, Ph.D.
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Healthcare M&A cools from its frenetic 2021 pace in Q1 2022: Dealmakers closed 610 deals for a combined $121.5 billion, including the massive Athenahealth acquisition, but no new $10 billion+ deals were announced in the quarter for the first time since mid-2020. (Our data measures closed, not announced, deals.) Hospital operating margins continued to falter under COVID-19, while drugmakers have begun to see the effects of elevated input costs on their bottom lines. The expanding antitrust regime in the US, exemplified by the Department of Justice's (DOJ) lawsuit blocking UnitedHealth Group's (NSYE: UHG) acquisition of Change Healthcare (NASDAQ: CHG), may also have contributed to a quieter quarter. Many healthcare players are instead focusing on addressing labor issues, growing existing business lines organically, and striking strategic partnerships.

Optum goes on a buying spree: UnitedHealth subsidiary Optum has stood out in an otherwise sleepy quarter, announcing or confirming three $1 billion+ acquisitions since March 2021. The payer-provider giant is using M&A to aggressively stake out turf in arguably the three hottest growth areas for US healthcare—value-based care, home healthcare, and behavioral health—even as the company's payer business posted impressive enrollment growth for its Medicare Advantage (MA) plans, outpacing next-largest rivals Anthem and Humana. It will be interesting to see whether these and similar moves by the largest insurance companies—which take advantage of vertical integration synergies while also growing market share in the lucrative MA business—attract antitrust attention in the coming years. Meanwhile, PE firms are being priced out of many MA deals, with exits accounting for most of the quarter's PE activity in the space.

Consumer and generics spinoffs in the pipeline: Although pharmaceutical M&A slowed this quarter, several generics and consumer healthcare spinoffs that may spur strategic combinations or massive club buyouts are in the works. Johnson & Johnson (NYSE: J&J) is spinning off its consumer arm into a separate public company, while GlaxoSmithKline (LON: GSK) is under activist investor pressure to follow suit. Additionally, EQT and the Struengmann family are reportedly circling Novartis' (SWX: NOVN) generics arm Sandoz at a $21.6 billion valuation. Spinning off consumer and generics businesses has been a trend in big pharma for several years as drugmakers focus on developing increasingly sophisticated treatments amid accelerating biomedical innovation.

Information technology

Quarterly IT M&A activity

Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Jinny Choi
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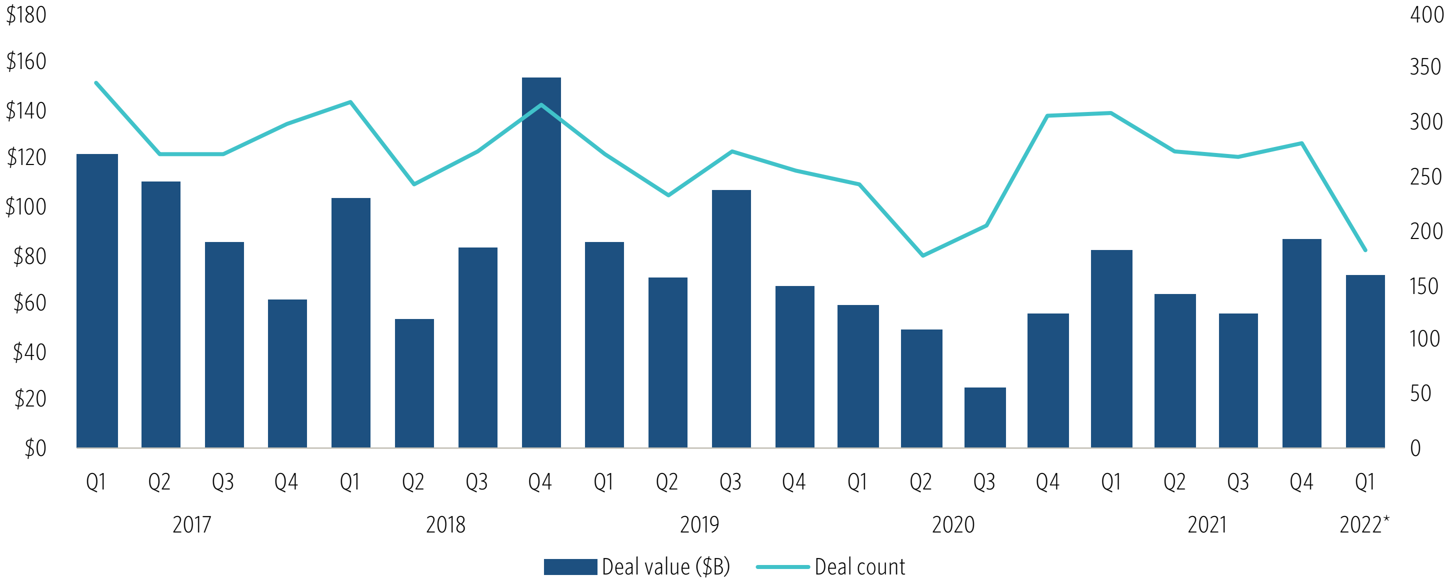
Tech continues to show its strength: Q1 IT dealmaking closely resembled the phenomenal M&A activity seen throughout 2021, completing 1,406 deals at a cumulative value of $261.5 billion. Coming into 2022, the outlook for tech M&A was positive, supported by strong corporate balance sheets and record PE dry powder. However, tech stocks tumbled throughout the first few months of 2022 as fears about interest rate hikes put downward pressure on the high valuations tech stocks enjoyed, and additional regulatory headwinds are expected to further complicate M&A processes. Despite intense market volatility in tech, plenty of capital still flowed into the sector as dealmakers continued to look for growth amid adjusting valuations. As buyers continue to rely on tech acquisitions to expand and strengthen their businesses, IT M&A activity is expected to remain robust, although subsequent quarters could reveal delayed fallout from the challenges seen in Q1.

Cybersecurity remains top of mind: The cybersecurity industry expanded in the last couple years as the use of and reliance on digital systems increased and rising cybercrimes heightened the acute need for greater online protection. Deals flourished, and McAfee's $14.0 billion sale to an investor group led by Advent International and Permira marked the largest cybersecurity deal in the quarter. As the sector gains more momentum, we expect to see more M&A deals with companies looking to strengthen their business and add new services to remain competitive. For example, in March, Cengage Learning (OTC: CNGO), an education tech company, acquired InfoSec (US), a cybercrime education platform for $191.0 million. The acquisition will help Cengage expand into the cybersecurity professional training market and be better positioned to deliver online learning related to growing fields.

Select semiconductor deals close amid ongoing chip shortages: M&A activity in semiconductors to enhance product portfolios has seen mixed results due to regulatory hurdles. In February, Advanced Micro Devices (NASDAQ: AMD) acquired Xilinx for $35.0 billion, the largest tech M&A deal to close in the quarter. The acquisition brings together complimentary businesses and strengthens AMD's position in the data center chip market. The deal was approved a week after Nvidia (NASDAQ: NVDA) abandoned its planned merger with Arm Holdings due to antitrust scrutiny.

Energy

Quarterly energy M&A activity



Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Wylie Fernyhough, CFA
Senior Analyst, Private Equity Lead

Russia's invasion of Ukraine is having a massive effect on energy M&A activity. Western sanctions and public backlash have pushed many multinationals to divest their Russian holdings. Companies including Shell (NYSE: SHEL), ExxonMobil (NYSE:XOM), BP (NYSE: BP), and others are abandoning their Russian assets and cutting ties with the country altogether. BP announced plans to exit its roughly 20% holding in state-owned Rosneft, and Shell is expected to take a $5.0 billion write down pulling out.[3] Additional corporate actions and government sanctions may still come. Even if further escalations are avoided, the actions so far have the potential to disintegrate a smooth global supply chain that freely and efficiently moves oil and gas. The current environment may further integrate China and Russia and could spark Europe to import more energy from Middle East producers. Overall, this is a major shock to the system that will have far-reaching and long-lasting effects on the M&A front. The outlook for higher energy prices is likely to entice consolidation in American producers and may pull in investment capital, which has broadly avoided the sector for years.

Green energy will drive much of the future deal activity in the energy space. Europe's dependence on Russian gas illustrates the importance of securing energy production for many countries. To meet the challenging figures laid out in the Paris Agreement, countries around the world are building out green energy capacity. The $3.9 billion acquisition of 60% of Falck Renewables by IIF illustrates this point. The firm helps develop, construct, finance, and manage renewables plants and should operate with a tailwind for the foreseeable future. Traditional energy companies are also buying green energy companies. Petroleum producer ENEOS Holdings' (Tokyo: 5020) acquisition of Japan Renewable Energy exemplifies this trend.

Oil & gas assets continue to change hands amid ESG pressures and a pricing surge. Exploration and production deal activity was fervent in both announced and closed deals, with the outlook for steady and elevated oil prices looking more certain. Aker BP's (OSL: AKRBP) $10.0 billion acquisition of Lundin Energy is indicative of broader trends. Not only is the deal a scale combination of energy production companies, but the Norway focus is particularly critical with the current geopolitical backdrop. There will be political will to boost production of European energy so consumers can curtail Russian imports. Expect other European producers to seek consolidation plays as well.

3: "Oil Giant Shell to Take £3.8bn Hit by Leaving Russia," BBC, April 7, 2022.

Materials & resources

Quarterly materials & resources M&A activity

Source: PitchBook | **Geography:** Global
*As of March 31, 2022

Wylie Fernyhough, CFA
Senior Analyst, Private Equity Lead

The war in Ukraine is expected to play a major role in materials & resources M&A. Russia and Ukraine are major producers of several key materials and resources, including cobalt, nickel, iron ore, phosphate, and more. Cobalt and nickel are critical elements to the broader energy transition because of their use in batteries. The expansion of electric vehicles and the decarbonization of global economies is expected to require mammoth amounts of these metals, in addition to aluminum and copper. Any further sanctions on Russian metals could have an inflationary effect on the broader metal pricing environment, which Western governments are loath to inflict upon their citizens as inflation roars.

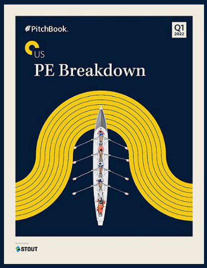
Mining companies of all types are likely to see prolonged demand, buoying valuations. Mining companies tend to be extremely capital-intensive businesses with extraordinarily long lead times required to bring new mining operations online. This means not much can quickly be done to meet the swelling demand for lightweight materials, namely aluminum, or for copper, which is needed for modernizing electric grids. Experts believe we will require a step function increase in global copper production if demand pencils out as expected.

Precious metals producers drove marginal gains for M&A activity. Gold's rally since the stock market turmoil and inflationary pressures in late 2021 and early 2022 has brought it back into many investors' minds. Interest in combining gold companies is also of interest to some as the industry continues to consolidate. During Q1 2022, Newcrest Mining (ASX: NCM) completed its $2.75 billion (CAD 3.5 billion) acquisition of Pretium Resources. Kinross Gold's (TSE: K) nearly $1.35 billion purchase of Great Bear Resources also closed during the quarter.

Specialty chemicals, coatings, and other materials companies may also see M&A activity perk up. Many Western economies have been hampered by supply chain breakdowns and complications during the prior two years because of COVID-related difficulties. In addition, geopolitical tensions with Russia and China have pushed many countries to consider choke points and think about reshoring supply chains, especially for critical components. The massive construction boom needed to complete these actions is a boon to materials companies and should lift valuations, giving public companies added firepower to complete acquisitions. The construction efforts needed to help alleviate America's housing shortage could also provide further inflows to select companies in the space.

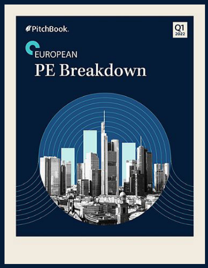
Additional research

Global Private Capital



Q1 2022 US PE Breakdown

Download the report here



Q1 2022 European PE Breakdown

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March 2022 Global Markets Snapshot

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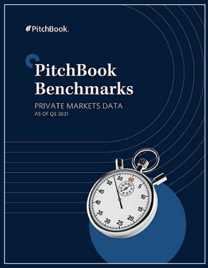

2022 PitchBook Benchmarks (as of March 2022)

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