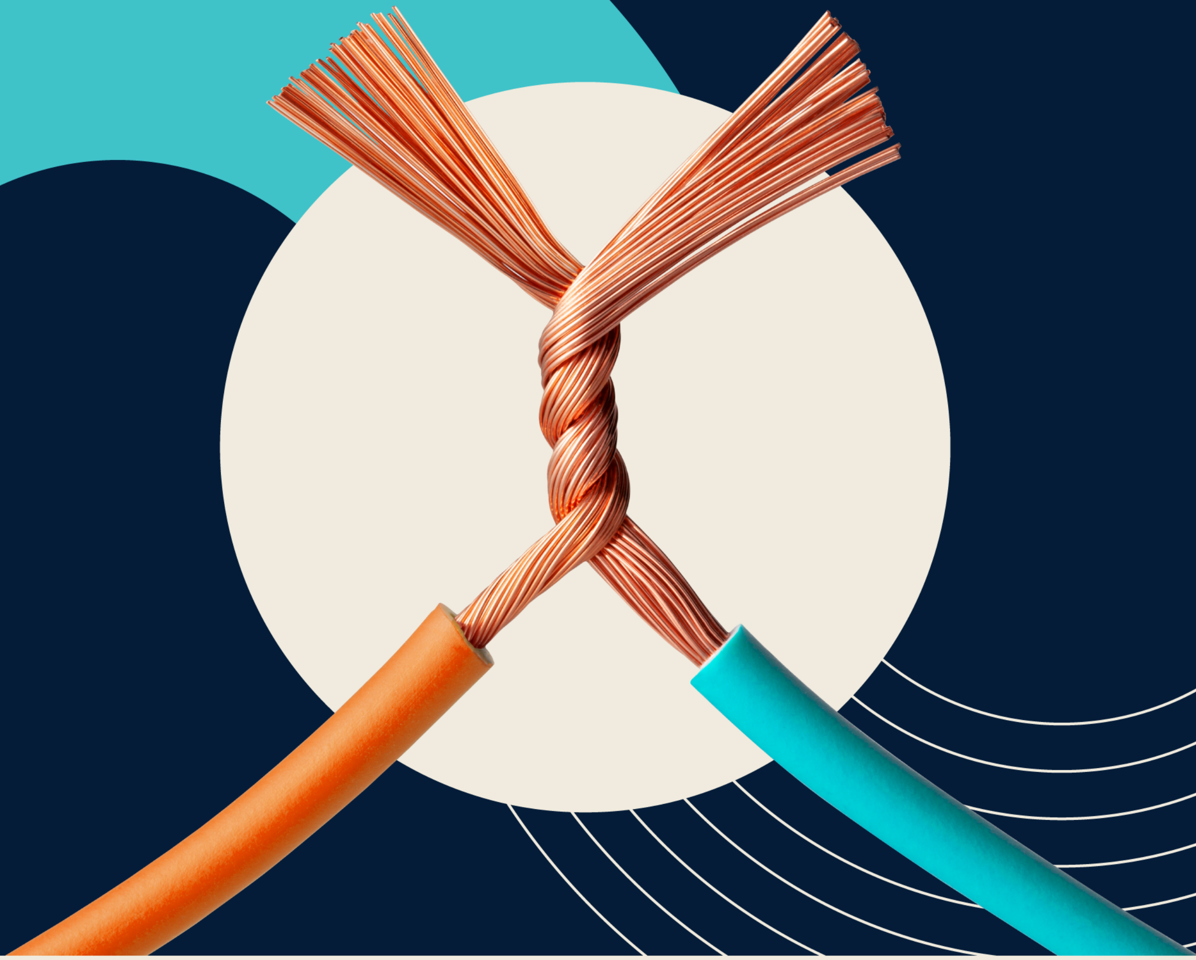
PitchBook

Q1 2024

GLOBAL M&A Report



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Published on April 23, 2024

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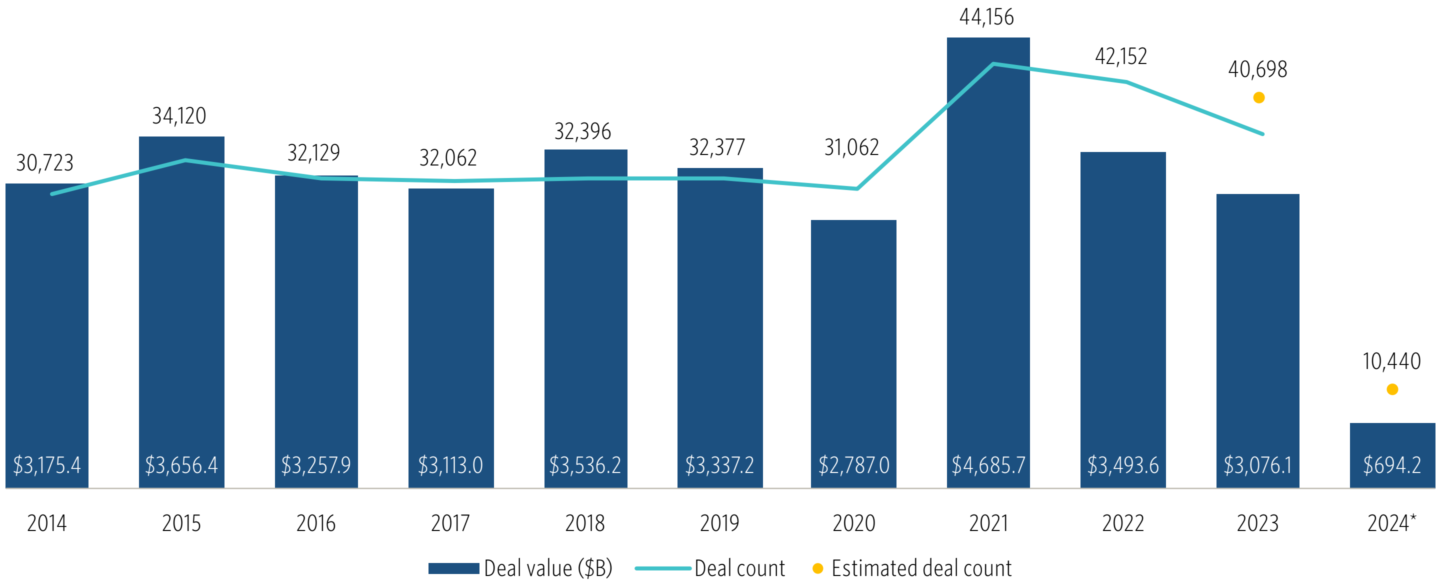
Overview

M&A activity



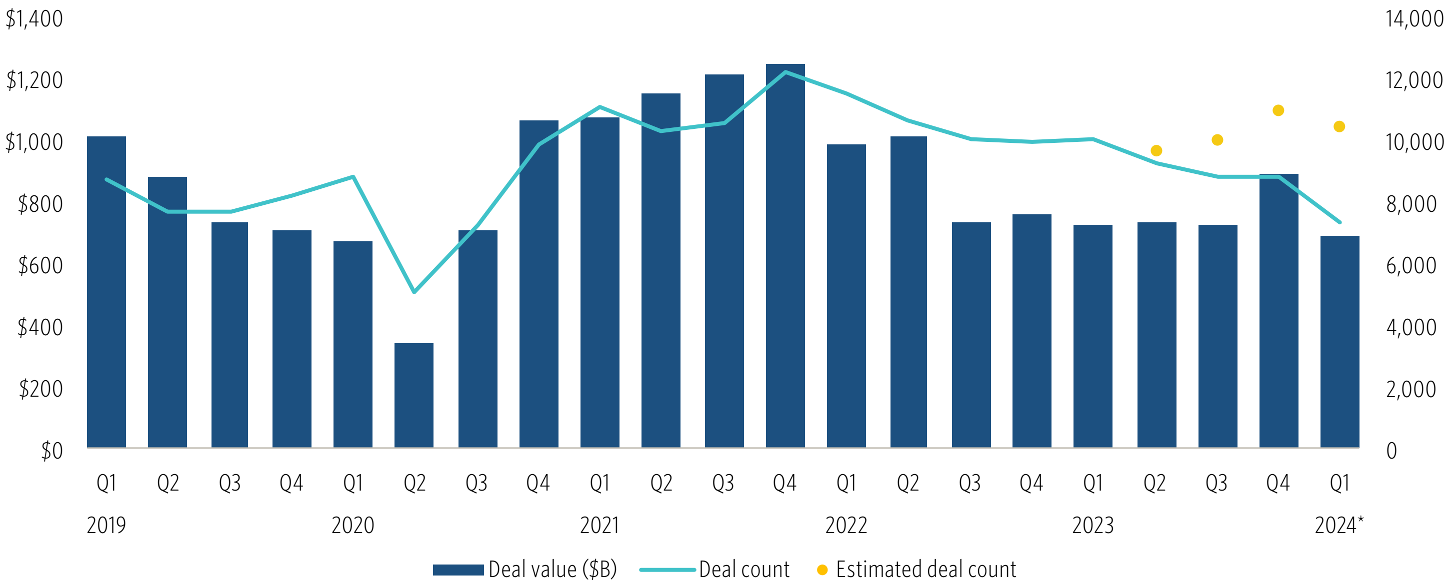
Source: PitchBook • Geography: Global • *As of March 31, 2024

Tim Clarke
Lead Analyst, Private Equity

Closing out 2023, global M&A had declined for two years straight. M&A has almost always bounded back from consecutive annual declines, and we do not think this year will be any exception. The prior two episodes of 2007-2008 and 2001-2002 registered total peak-to-trough declines of approximately 60% to 70%, whereas the present decline has measured 34.4% from 2021's peak. We think we will look back on Q3 2023 as the trough in the current cycle, and Q1 2024 provided some support to that outlook. Against a relatively easy comparison a year ago, global M&A activity has risen by approximately 5% to 10% versus Q1 2023. This was not gangbuster volume by any means—and a deceleration from Q4 2023—but an improvement nonetheless.

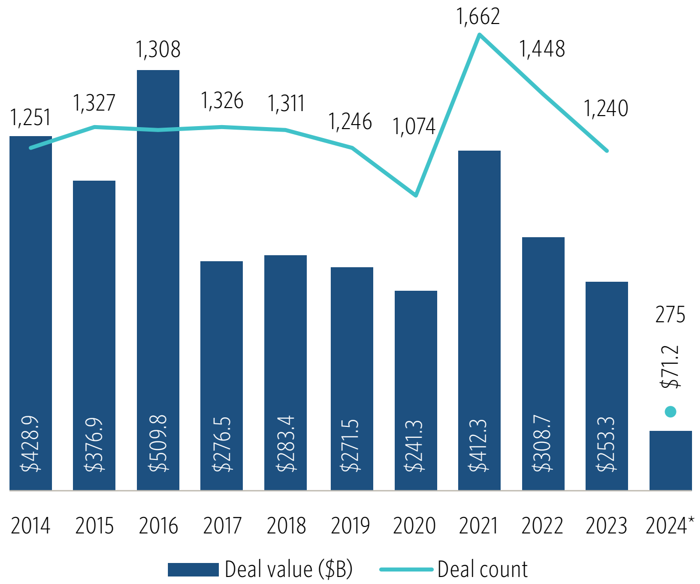
We see the better tone of the last two quarters as a sign that M&A dealmaking is slowly on the mend. It would be faster if not for lagging activity among PE buyers. Large LBO dealmaking has been stunted by high borrowing costs. Banks are lending again, but mostly to refinance old PE loans as opposed to new loans backing new PE deals. In fact, during Q1 2024, refinancing volume in the US broadly syndicated loan (BSL) market was twice that of M&A-related loan volume to PE-backed issuers. Historically, the reverse has been true, with sponsor-backed M&A volume exceeding refinance volume by a factor of 4-to-1. This can all be easily solved, of course, by the long-awaited arrival of rate cuts by central bankers. However, a new rate cut cycle is proving to be elusive. We believe lower base rates are still in the cards for 2024, but the delay has turned a V-shaped M&A recovery into a more shallow one, with financial sponsors lagging. While higher borrowing costs also dull the appetite among corporate acquirers, they are equally sensitive to signs of a sharp downturn in the economy, and with that risk quickly receding, we expect that they will continue to lead the way in an M&A recovery.

M&A activity by quarter



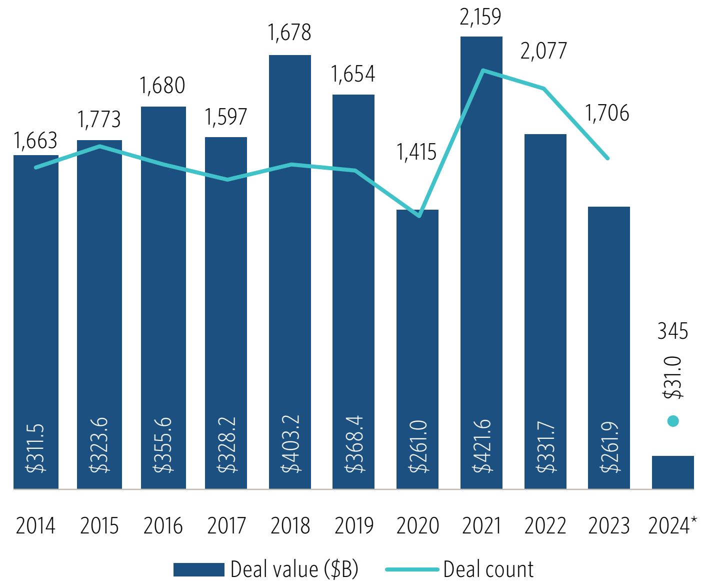
Source: PitchBook • Geography: Global • *As of March 31, 2024

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



Source: PitchBook • Geography: North America • *As of March 31, 2024

European M&A deal activity with non-European acquirer



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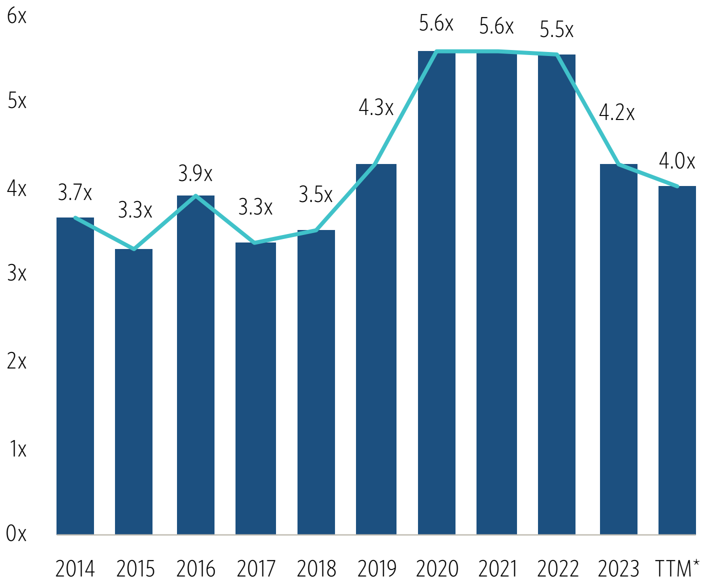
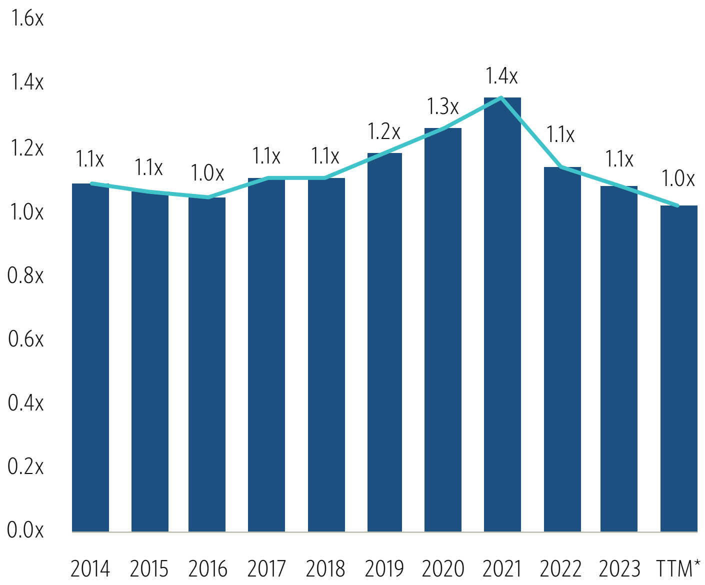
M&A megadeal EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024
Note: Megadeals are deals that are $5 billion or larger.

M&A EV/revenue multiples on deals below $100M



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

After seven straight years of cross-border M&A activity in favor of Europe, net flows have finally turned positive for North America. We could see the momentum fading throughout 2023, following a record 2022 when cross-border acquirers accounted for 26.7% of all M&A in Europe, or $281.6 billion gross and $106.6 billion net after offsetting flows to North America. That record share was reached as the dollar gained 20% to 30% against the euro and pound sterling, providing US acquirers with more buying power. Adding fuel to the fire, European targets were consistently priced lower at an average discount of 14.8% during the same span. However, the dollar rally fizzled in late 2022, and net flows to Europe have diminished ever since. More recently, prospects for the US economy have brightened relative to other regions. The combination of better growth at home and less purchasing power abroad has stemmed the tide of US M&A capital to European shores, at least for the time being.

Valuations

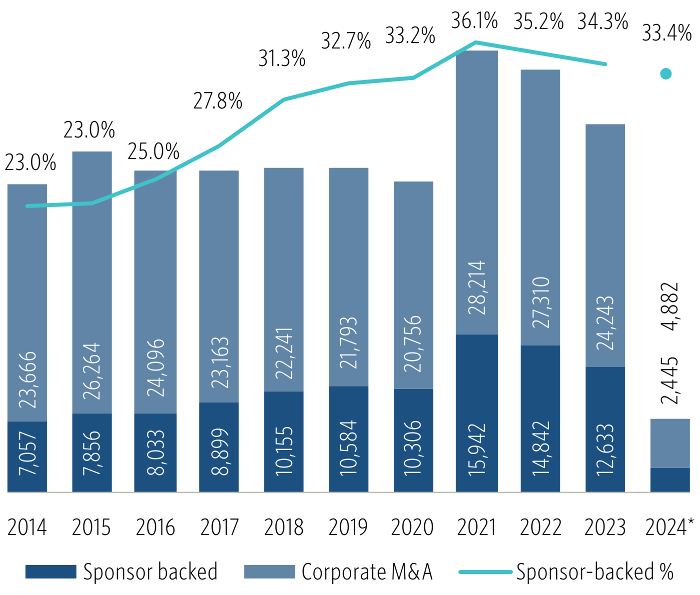
North America and Europe transaction multiples moved sideways in Q1 2024, extending the stable trend that characterized most of 2023. The median EV/EBITDA multiple for M&A transactions announced or closed in Q1 2024 was relatively unchanged at 9.4x versus 9.5x in 2023. EV/revenue multiples were also unchanged at a median of 1.6x in Q1 2024, which was identical to 2023's median.

While multiples are still 15% to 20% removed from 2021's all-time peak of 11.0x of EBITDA and 2.1x of revenue, the extended firming trend indicates that a valuation reset may now be complete. Present multiples have come to rest slightly below the pre-COVID-19 average from 2017 to 2019, which goes to reason given that interest rates are currently much higher. Both North America and Europe fell by similar degrees, with the latter bottoming at slightly lower multiples but also from a lower high. The median EV/revenue multiple in Europe currently stands at a trailing 12-month (TTM) median of 1.5x revenue, or roughly 20% below the North American multiple of 1.9x revenue. The gap in EV/EBITDA multiples is tighter at 9.4x for Europe and 9.7x for North America.

At the same time that M&A multiples have moved sideways, public trading multiples continue to rise. As measured by S&P 500 companies, trading multiples surged by nearly 10% in 2023 and roughly 5% in Q1 2024 to a median of 15.4x EBITDA and 4.0x revenue. Meanwhile, M&A deal multiples, albeit on mostly much smaller private companies, have remained relatively flat at a TTM median of 9.5x EBITDA and 1.7x revenue. Historically, a bull-whip effect has taken hold of M&A multiples, propelling them higher and narrowing the gap with public multiples. We expect that the widening gap between public and private markets will eventually pry open a tight IPO window. Better sentiment in public markets often ushers in or reinforces an M&A recovery, as it sets the tone for would-be sellers.

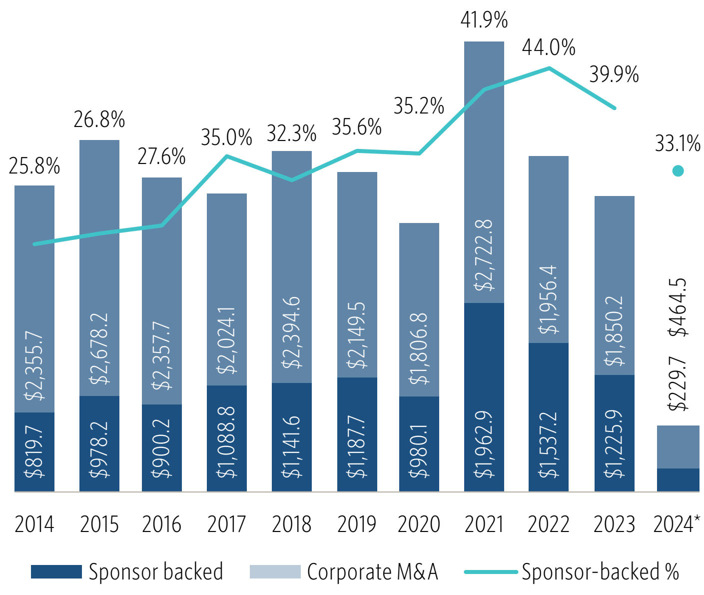
Deal metrics

M&A count by acquirer type



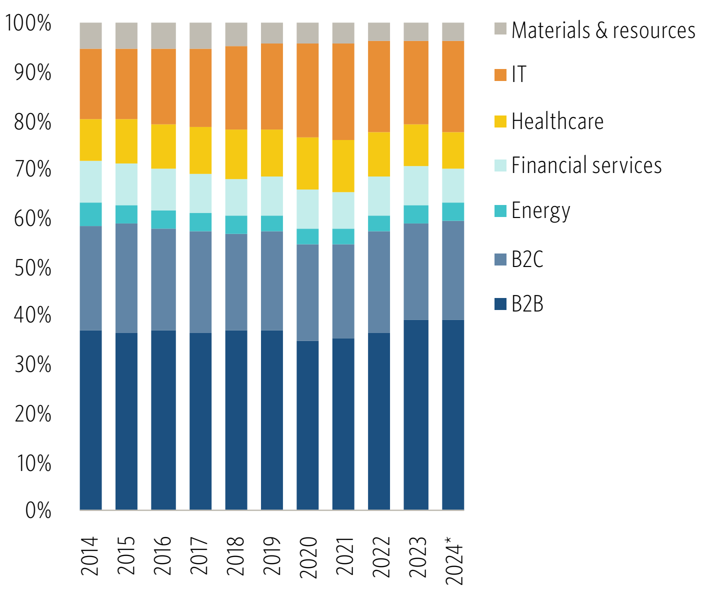
Source: PitchBook • Geography: Global • *As of March 31, 2024

M&A value ($B) by acquirer type



Source: PitchBook • Geography: Global • *As of March 31, 2024

Share of M&A count by sector



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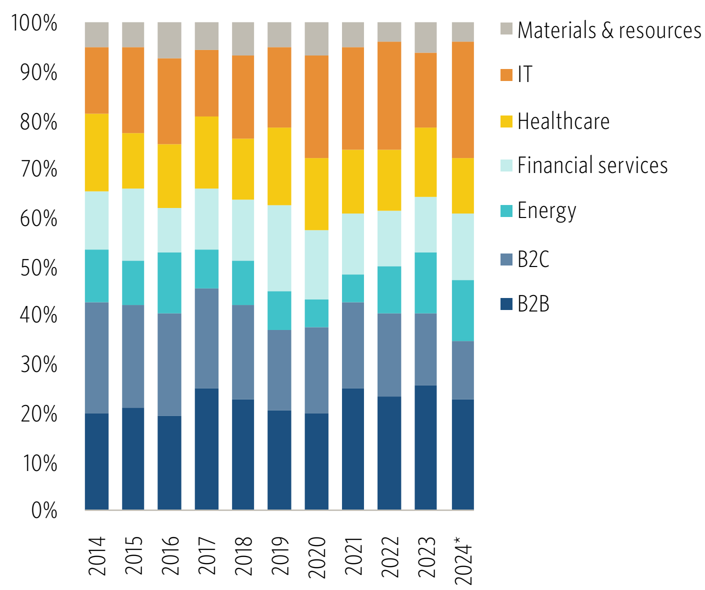
Share of M&A value by sector



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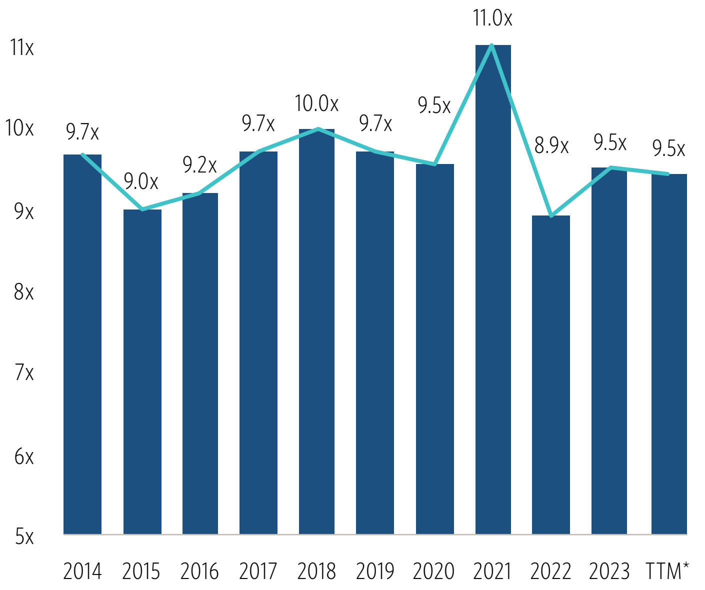
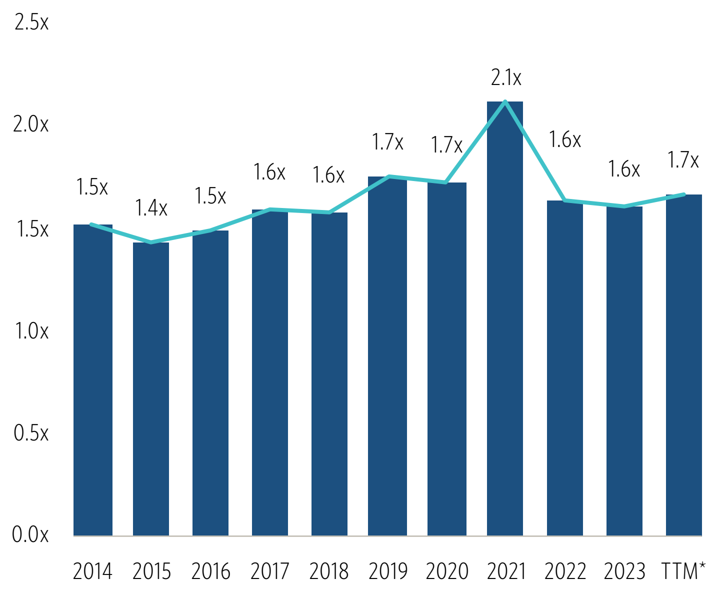
Valuation metrics

Median M&A EV/EBITDA multiples



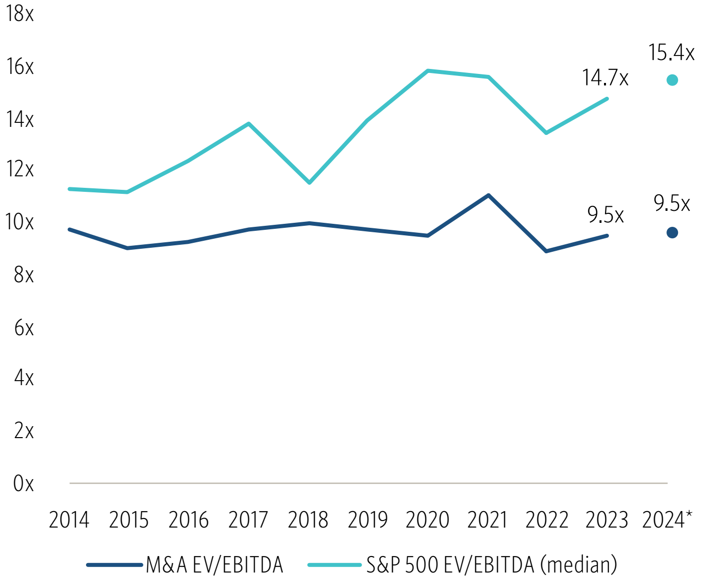
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Median M&A EV/revenue multiples



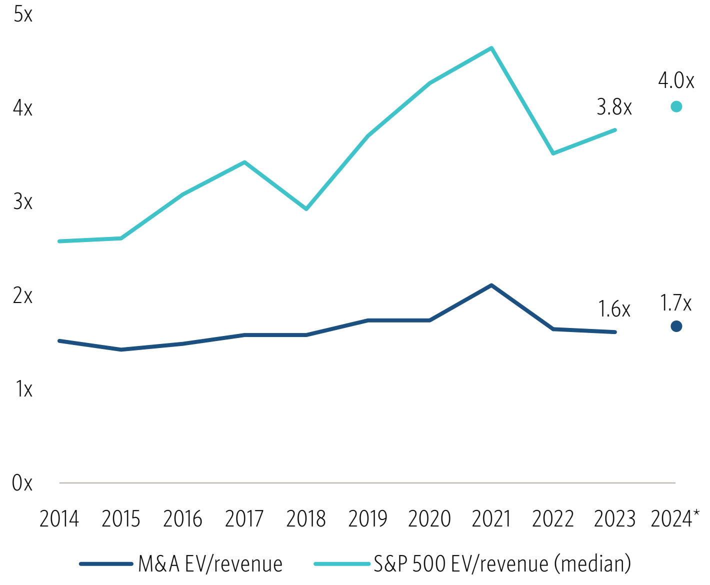
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Public company trading multiples versus M&A multiples (EV/EBITDA)



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

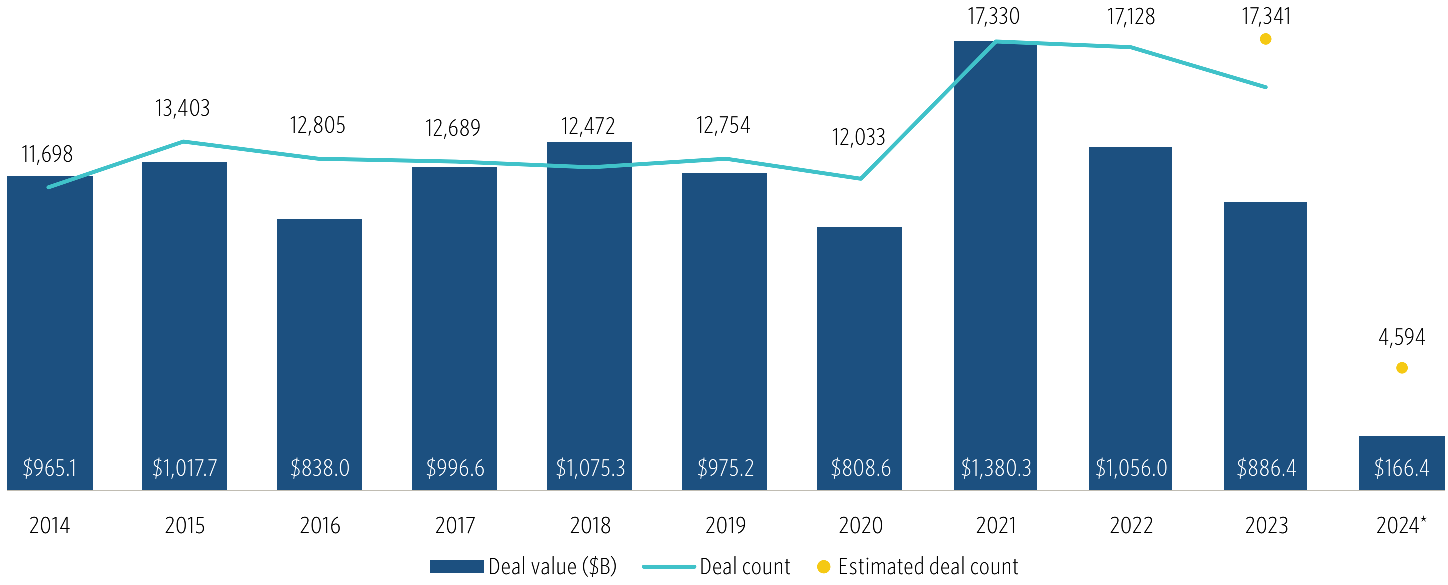
Public company trading multiples versus M&A multiples (EV/revenue)



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

European M&A

M&A activity



Source: PitchBook • Geography: Europe • *As of March 31, 2024

Nicolas Moura, CFA
Analyst, EMEA Private Capital

Q1 2024 marked Europe's weakest quarter of M&A deal value since the COVID-19 lockdowns of Q2 2020. Deal value in Q1 was down 12.1% YoY and 26.2% QoQ as M&A appetite declined further. This is somewhat surprising as we expect a rebound in 2024 to materialize as monetary policy starts easing. The weak start of the year may well prove to be the trough in M&A deal value as the year progresses. Q1 saw a lack of megadeals compared to previous quarters, with only two megadeals above €5 billion. The first was the acquisition of Vodafone Italia by Swisscom for $8.7 billion. The European telecom sector has seen a wave of consolidation lately with MásMóvil merging with Orange's Spanish business as well as Vodafone selling its Spanish unit to Zegona Communications. The second megadeal saw Russian tech company Yandex, which is incorporated in the Netherlands, sold in a controversial manner to a Russian consortium for a heavily discounted $5.3 billion. Under current Kremlin rules, foreign assets must be sold at a discount of at least 50% of fair value. Yandex had been valued at $30 billion just before the Russia-Ukraine war.[1]

Elsewhere, we continue to see a consolidation in financial services play out, stemming from the higher-interest-rate regime that is slowly unmasking firms that were less financially sound. Particularly in the UK, we saw Nationwide Building Society buy Virgin Money UK and Barclays buy Tesco Bank, while wealth manager Mattioli Woods was snapped up by PE.

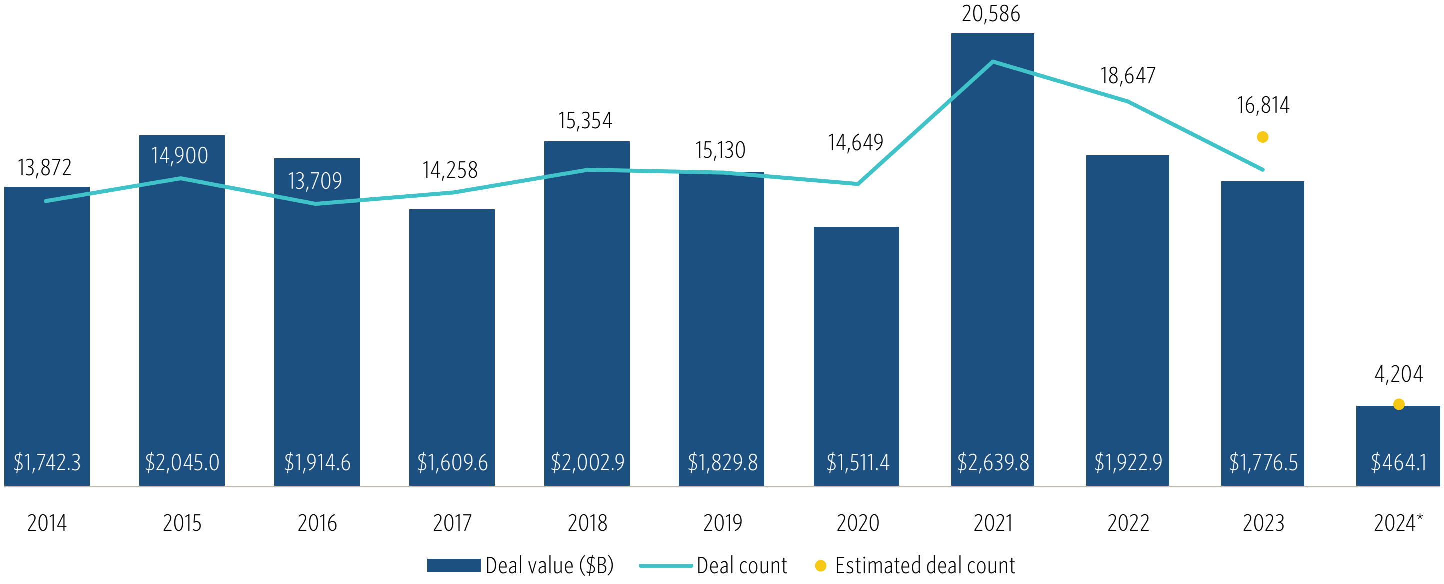
The IT sector was the only sector with sequential growth in Q1 in Europe, with deal value up 73.7% YoY and 24.3% QoQ. We have often talked about how tech valuations fell the most out of any sector in the previous two years as interest rates increased, but we have now pivoted and are seeing increased M&A activity in the sector, especially as we enter a new cycle of innovation spearheaded by AI.

M&A is currently being affected by a push-and-pull effect. On the one hand, higher borrowing costs make it more costly to finance large acquisitions, pulling M&A appetite down. On the other hand, the lack of public listings and a correction in valuations play in favor of M&A. Nonetheless, we expect the pipeline of deals to grow in anticipation of lower rates, which will give a boost to M&A activity in future quarters.

1: "Yandex Owner to Exit Russia in $5.2 Billion Deal," Reuters, Alexander Marrow, Darya Korsunskaya, and Polina Devitt, February 5, 2024.

North American M&A

M&A activity



Source: PitchBook • Geography: North America • *As of March 31, 2024

Garrett Hinds
Senior Analyst, Private Equity

In the first quarter of 2024, North America's M&A landscape held despite the persistently challenging dealmaking conditions. The total M&A value for Q1 totaled $464.1 billion, marking a robust increase of 9.7% YoY, yet this was a decline sequentially of 18.4% QoQ, partially due to seasonal factors. When we shift our focus to the volume of deals, we identify modest softness—the quarter recorded 4,204 deals, reflecting a decline of 2.0% YoY and a 4.0% QoQ. Looking ahead, the potential for lower rates later in 2024, contingent on moderating inflation data, instills optimism for a potential rebound in deal activity in the second half of the year.

The top 10 North American deals in Q1 totaled $189.6 billion, showing a significant increase of 54.6% YoY yet a decline of 11.8% QoQ. Notably, two historic energy deals contributed $124.5 billion to the Q4 2023's value figures, creating a tough comparison. Sectors prominently represented in the top deals were financial services and IT, each with three transactions, followed by energy with two deals, and one deal each in healthcare and business services. Additionally, two PE sponsor-backed deals made it into the top 10, marking an increase from none in the prior quarter.

The largest transactions in Q1 spanned the financial, IT, and energy sectors. Capital One's acquisition of Discover for $35.3 billion in an all-stock deal is poised to establish a global payments platform serving over 100 million customers and 70 million merchant acceptance points across 200 countries and territories.[2] In the technology sector, Synopsys' acquisition of Ansys for approximately $35 billion in cash and stock aims to create an integrated software platform facilitating the design of complex systems from semiconductors to complete products. Lastly, in energy, Diamondback Energy's merger with Endeavor Energy Resources, valued at approximately $26 billion in stock and cash, is set to form a scaled, independent Permian Basin oil & gas producer, with management anticipating $550 million of run-rate synergies.

2: "Capital One to Acquire Discover," Capital One, February 19, 2024.

Sector metrics

Tim Clarke
Lead Analyst, Private Equity

Jinny Choi
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Momentum score methodologies

Our cross-sector momentum scores provide insight into how changes in M&A deal activity and median valuations compare across sectors. The scores range from -2.0 to 2.0 and establish a relative evaluation for each sector. The basis of these scores is the percentage change over the prior quarter and TTM period, which are equally weighted. In the case of the valuation score, just the TTM change is considered versus the prior calendar year, using both EV/EBITDA and EV/revenue multiples. The deal momentum scores encompass both deal count and volume, which are also equally weighted. Prior to calculating deal volume growth rates, the data is winsorized—meaning it is clipped—at the 98th percentile to mitigate the impact of outliers. To establish the final sector momentum scores, we employ Z-score calculations using the mean and standard deviation of the cross-sector growth rates.

Sector overview

As detailed above, our deal momentum scores reflect each sector's relative strength to overall M&A deal flow using three-month and 12-month rates of change (in deal count and deal value).

Energy repeated as the strongest sector in Q1 2024, scoring 0.49. The energy sector's outperformance was mostly driven by the slew of deal activity both in traditional oil & gas and energy-transition companies. Also of note is IT. Short-term deal activity in the tech sector was relatively strong, and it improved from having the weakest score in Q4 2023 to marginally positive this quarter. Financial services and healthcare registered the worst deal momentum scores of -0.54 and -0.30. This is despite the fact that these two sectors racked up the largest deals of the quarter, including Discover, Truist Insurance, and Catalent, which combined for more than $65 billion in value. However, because these scores remove outlier deals, they indicate that deal momentum in these two sectors is weak and getting weaker below the surface.

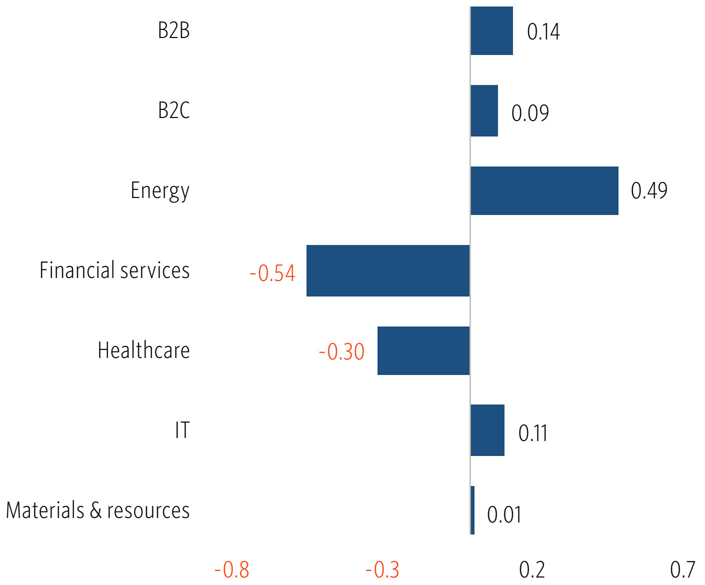
Our valuation momentum scores reflect each sector's relative strength to overall M&A multiple trends using TTM rates of change to the prior year (EV/EBITDA and EV/revenue).

Energy and IT fared best on the back of slightly expanding multiples and registered valuation momentum scores of 1.02 and 0.72, respectively. Conversely, the materials & resources sector saw a continued slide in multiples and registered a score of -0.97. More than half of the sectors achieved positive momentum scores as valuations continue to improve, albeit slowly.

Taken together, deal and valuation momentum scores point to a transition in market dynamics. In Q4 2023, there was better deal activity in sectors where multiples were still falling. This quarter provided evidence of buyers chasing multiples higher or attempting to steer clear of value traps. Materials & resources is an example of the latter. Deal momentum was solidly positive in Q4 2023 but turned slightly negative in Q1 2024. In financial services, deal momentum has deteriorated even as multiples have also headed lower.[3] Meanwhile, tech, which had the worst deal momentum in Q4 2023, saw its score become slightly positive despite stubbornly high valuations. In energy, also one of the cheapest sectors but one where multiples have been expanding for some time, deal momentum accelerated even as valuations continue to rise. We take this as another sign of an M&A market that is on the mend with an acquirer mindset that is accepting more risk and higher prices.

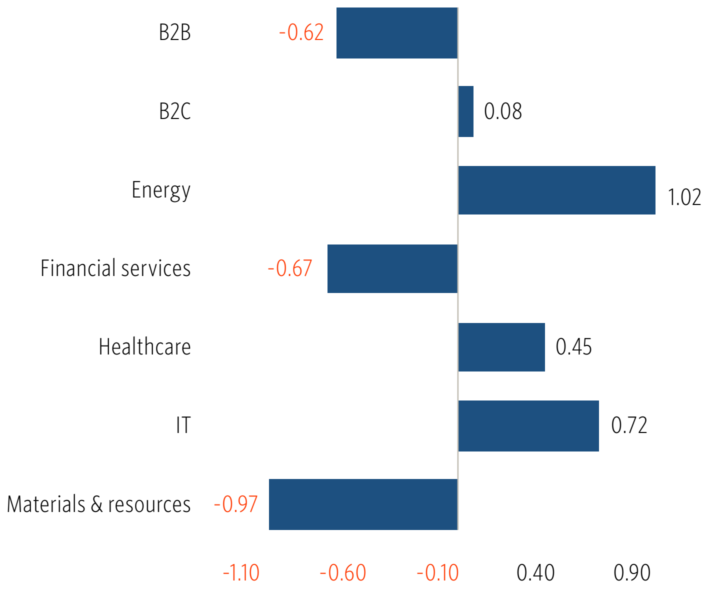
3: This figure excludes banks due to the irrelevance of EV/EBITDA multiples.

Deal momentum score*



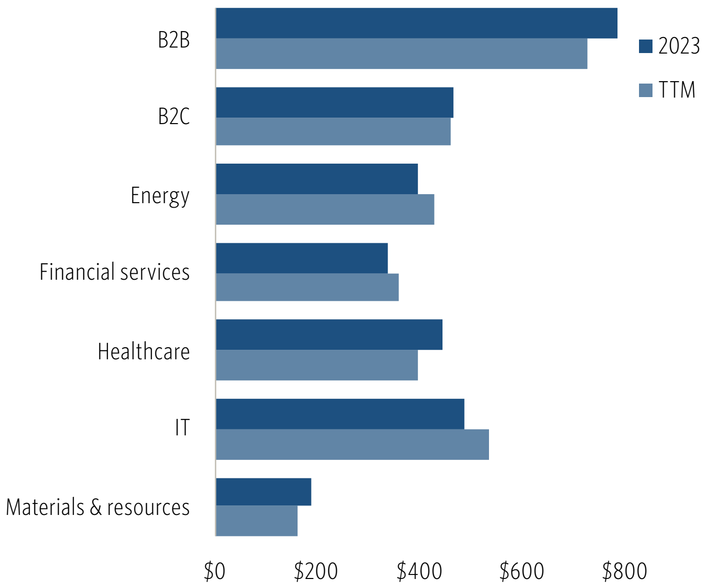
Source: PitchBook • Geography: Europe and North America
*As of March 31, 2024

Valuation momentum score*



Source: PitchBook • Geography: Europe and North America
*As of March 31, 2024

Sector stack by deal value ($B)*



Source: PitchBook • Geography: Europe and North America
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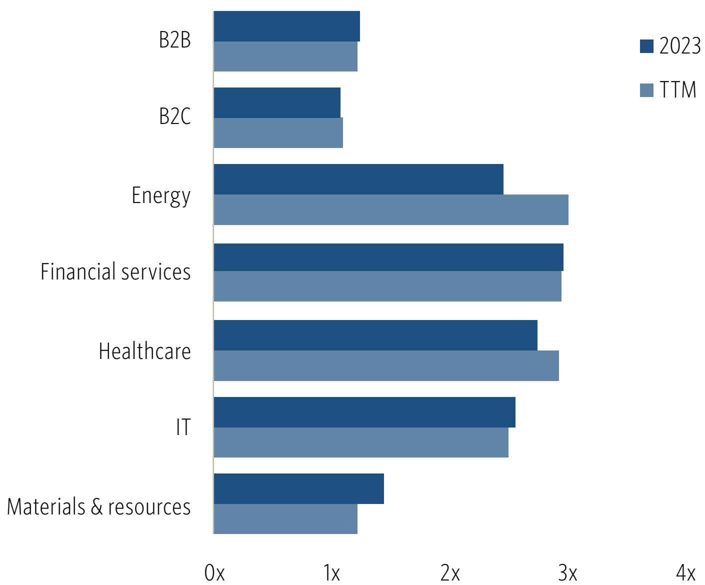
Sector stack by deal multiples (EV/revenue)*



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*As of March 31, 2024

A WORD FROM LIBERTY GTS

Explore the surge in third-party R&W claims

Explore the surge in third-party representations & warranties claims

Jared Evans, Claims Counsel, Liberty GTS

Jared Evans
Claims Counsel, Liberty GTS

Jared is a Claims Counsel at Liberty GTS, where he focuses on handling transactional liability claims in the Americas region.

Over the past year, there has been a noticeable increase in notifications involving third-party claims made under representations & warranties (R&W) policies, highlighting a growing trend with significant implications for insurers and dealmakers alike. This article explores the drivers behind the surge in third-party claims and offers insights into navigating the challenges they pose.

In the context of R&W policies, a third-party claim arises when someone outside of the M&A transaction asserts allegations against the target company, which, if true, would constitute a breach of a covered representation. In our recent Claims Briefing, we reported that, in 2023, over half—56%—of non-tax-related notifications involved third-party claims, up from 49% in the previous year. This trend is particularly noticeable in the Americas where class action lawsuits are commonplace. Alongside the increase in frequency, we have also seen an increase in the size of these claims, primarily due to soaring defense costs. Indeed, one of our largest payments to date relates to a third-party claim wherein we paid out nearly $30 million, some $20 million of which was purely for defense costs.

This upward trend in defense costs is exacerbated by the macroeconomic climate and inflationary pressures, prompting law firms to increase their hourly rates. The law firms used to defend third-party claims are oftentimes preapproved in R&W policies—with their rates deemed reasonable—but it is not always the case that the preapproved firm will be the most suitable or cost-effective choice.

The result is that it is becoming more common for defense costs to materially erode or exhaust retentions—a trend that is likely to be exacerbated by the pressure that retentions have come under recently—coupled with the fact that third-party claims frequently arise after the retention drop-down date, when the retention is generally halved one year after closing.

Intellectual property and wage & hour disputes on the rise

We are witnessing a notable uptick in two categories of third-party claims: intellectual property (IP) disputes and wage & hour class action lawsuits. IP disputes, in particular, are aggressively pursued, with plaintiffs protective of their IP rights due to the competitive advantage they confer and the substantial resources invested in their development. These claims entail substantial litigation costs given the high counsel fees coupled with the fact that these matters are not easily disposed of by early motion practice. Indeed, we have handled several IP claims where the target company is likely to incur more than $5 million in defense costs and achieving a sensible settlement is proving to be difficult given the entrenched position of the plaintiff.

Another factor fueling the increase in IP claims, particularly in the Americas, is the rise of "patent trolls," who exploit patent litigation for settlements based on (often) frivolous claims. We find patent trolling to be less prevalent in Europe, the Middle East, and Africa, likely due to the loser-pays-costs regime.

The story is similar with wage & hour suits. Frequently venued in California, where the laws and courts are believed to be largely employee-friendly, these cases are also not easily resolved via dispositive motions, and with plaintiffs' lawyers commonly working on contingency-fee arrangements, nuisance-value settlement offers are generally rejected. There is also a legal system abuse risk associated with these claims, raising the possibility for outsized jury awards. Finally, we often find that the target's business-as-usual insurance program seldom provides coverage, as it generally excludes wage & hour claims (save for the occasional minimal sublimit for defense costs).

We are also keeping a watchful eye on other areas in which we believe the volume and severity of third-party claims may increase in the future, particularly contractual disputes between the target company and its customers and suppliers as well as government investigations into past business practices. The latter cases, to date, are most frequently seen in the healthcare sector in the United States, where Stark law violations—prohibiting physician self-referrals—are the basis for a number of claims.

Navigating the challenges

As exposure to third-party claims becomes more frequent, we anticipate that R&W insurance carriers will apply more scrutiny at the underwriting stage around litigation risk in general. They will also start to take increasingly robust positions in respect of any potential exposures that are identified during due diligence, even if it is classified as being a low-risk item. This may mean that insureds may have to look at alternative ways of managing these risks, such as via a bespoke contingent legal risk insurance policy (a product which is designed to derisk one-off identified low-risk issues).

R&W policies typically sit excess to any other valid, applicable, and collectible insurance coverage. Hence, insureds should avoid relying on R&W insurance in the first instance to address claims typically covered by other available insurance.

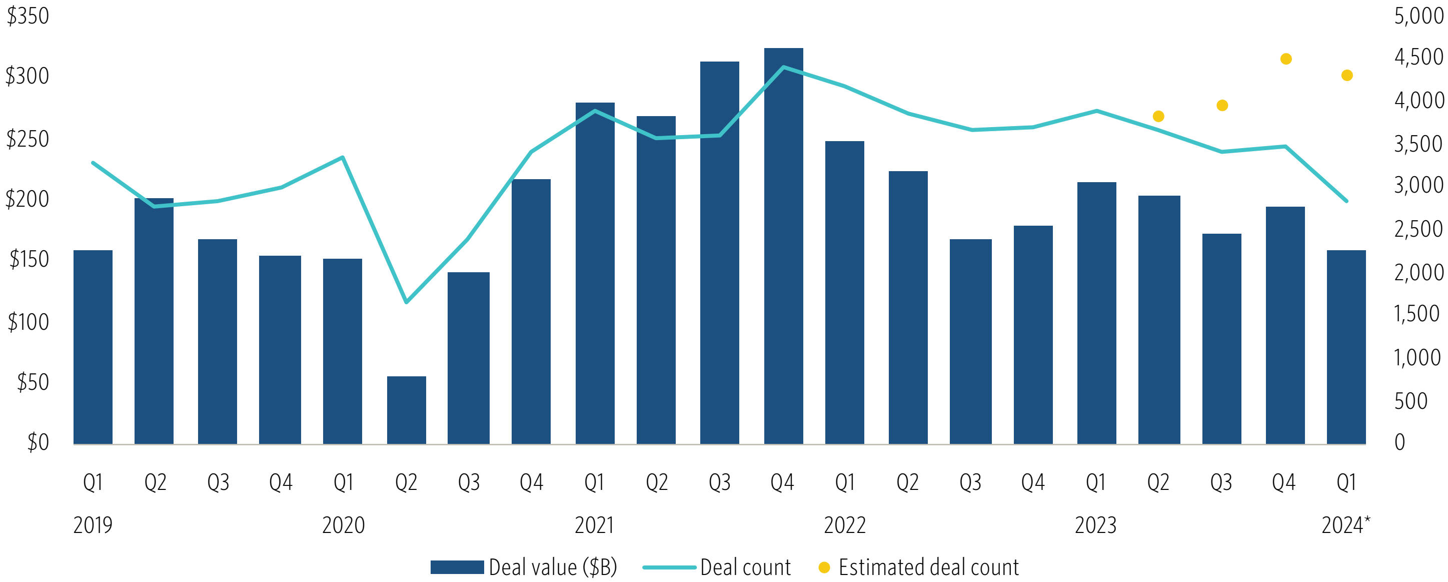
Moreover, during their risk and insurance due diligence on a target company, insureds must comprehensively understand the existing insurance program's scope and limitations, ensuring it adequately addresses key risks.

As a final note, we emphasize the critical importance of an insurer receiving prompt notice of a third-party claim and having the ability to closely associate in the defense. Our experience underscores that by maintaining an active dialogue regarding a claim's status and any key developments, an insurer is able to expeditiously reach a coverage determination—frequently aligning the interests of both the carrier and the insured in contesting the third-party claim—and assess the reasonableness of any key strategic decisions or settlement proposals. While rare, we have encountered instances where third-party claims were noticed after the dispute had already been settled. Delayed notification complicates the claims process, especially if key decisions have already been made.

We foresee third-party claims—given the wide range of underlying circumstances—continuing to make-up a substantial portion of R&W notifications in the years ahead. With a comprehensive understanding of the evolving landscape of third-party claims, Liberty GTS is well positioned to help our insureds navigate the various complexities and challenges that arise from these disputes.

B2B

B2B M&A activity by quarter

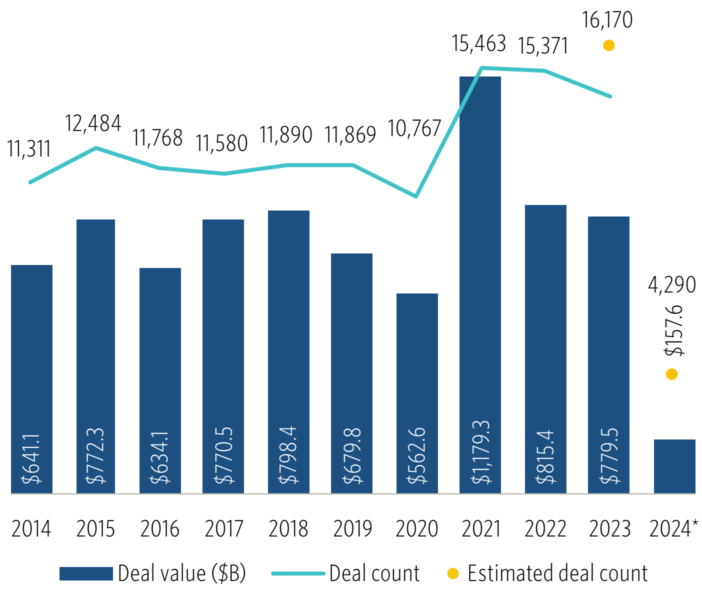


Source: PitchBook • Geography: Global • *As of March 31, 2024

Jinny Choi
Senior Analyst, Private Equity

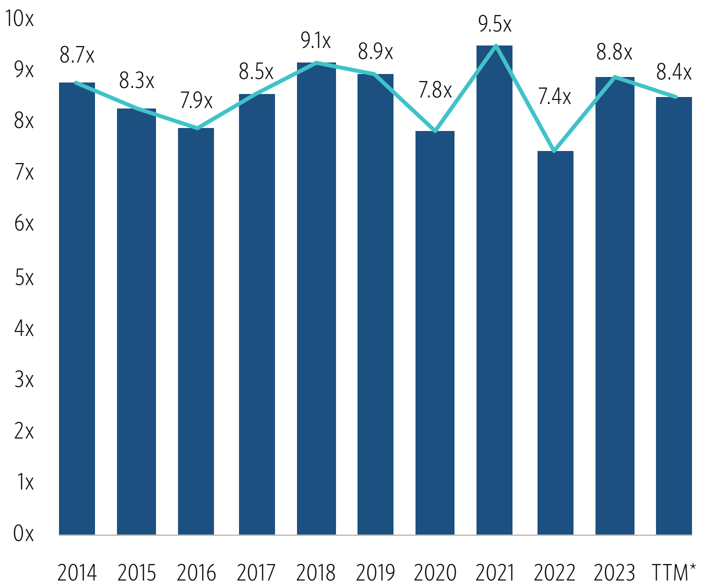
B2B is off to a steady start: The B2B sector fared slightly better than the broader global M&A market, which experienced a quarterly decline of 4.9% in estimated deal count and a decline of 22.0% in deal value. In comparison, there were an estimated 4,290 B2B deals for an aggregate of $157.6 billion in Q1 2024, which were 4.6% and 18.2% less, respectively, than the sector's activity in Q4 2023. B2B remains the largest portion of global M&A activity, accounting for an average of 24.5% of the quarterly global M&A value and an average of 37.0% of M&A count since the start of 2021. Despite the market volatility of the past couple of years, B2B had the third-lowest variability in its share of quarterly M&A value, demonstrating the sector's stability against other sectors. B2B was one of the three sectors that showed positive deal momentum two quarters in a row.

B2B M&A activity



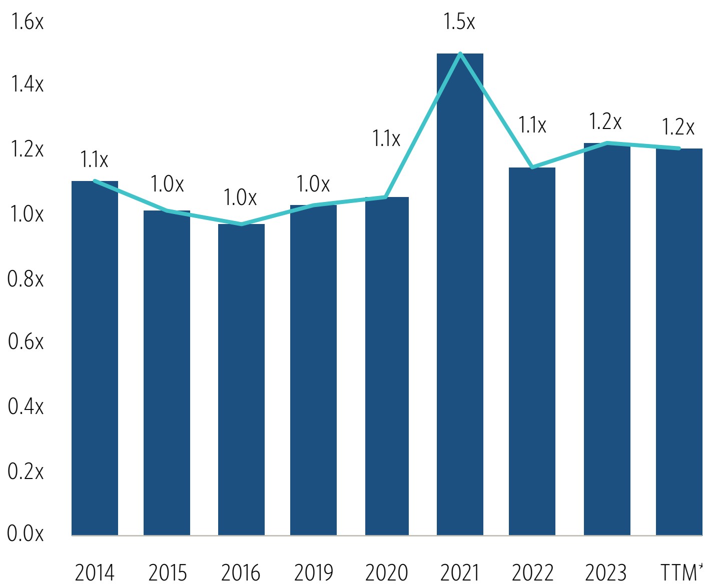
Source: PitchBook • Geography: Global • *As of March 31, 2024

B2B M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

B2B M&A EV/revenue multiples



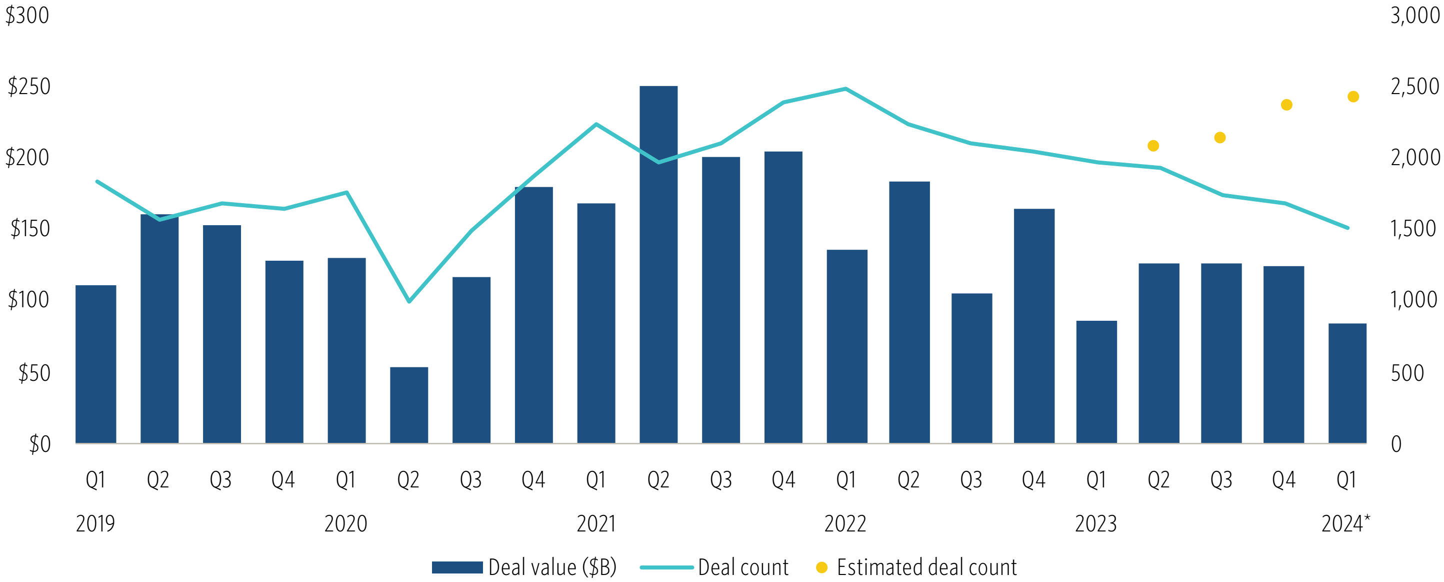
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Corporate acquirers push into building products and construction megadeals: The top four deals during the quarter were all acquisitions in residential and commercial building service industries by corporations, accounting for a whopping $30.9 billion in aggregate. More than half of that was The Home Depot's acquisition of SRS Distribution for $18.3 billion, which was announced in the last week of March. The deal will expand The Home Depot's service offerings in specialty trade distribution and increase the company's total addressable market by $50 billion to approximately $1 trillion. The deal also represented the fourth largest PE exit ever and a huge windfall for seller Leonard Green & Partners, which acquired the company in 2018 for $3 billion.

The second largest deal was Japanese residential construction firm Sekisui House's acquisition of US homebuilder MDC Holdings for $4.9 billion. The other two large deals were Owens Corning's $3.9 billion acquisition of door systems provider Masonite to strengthen its position in building and construction materials and WillScot Mobile Mini's $3.8 billion acquisition of McGrath RentCorp, a B2B rental company. Amid economic uncertainty, market leaders are making strategic acquisitions to bolster their capabilities and gain higher-growth businesses. The deals enable acquirers to expand into high-revenue business areas, expand into new geographies, and increase their market positions.

B2C

B2C M&A activity by quarter

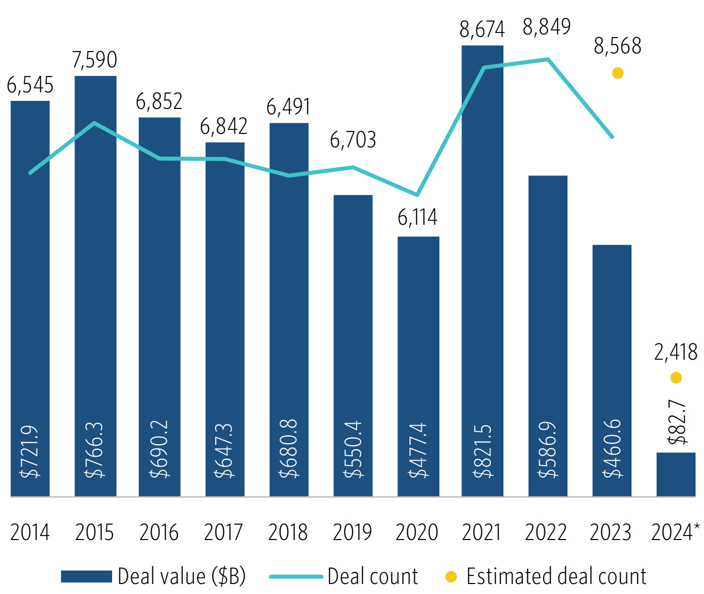


Source: PitchBook • Geography: Global • *As of March 31, 2024

Jinny Choi
Senior Analyst, Private Equity

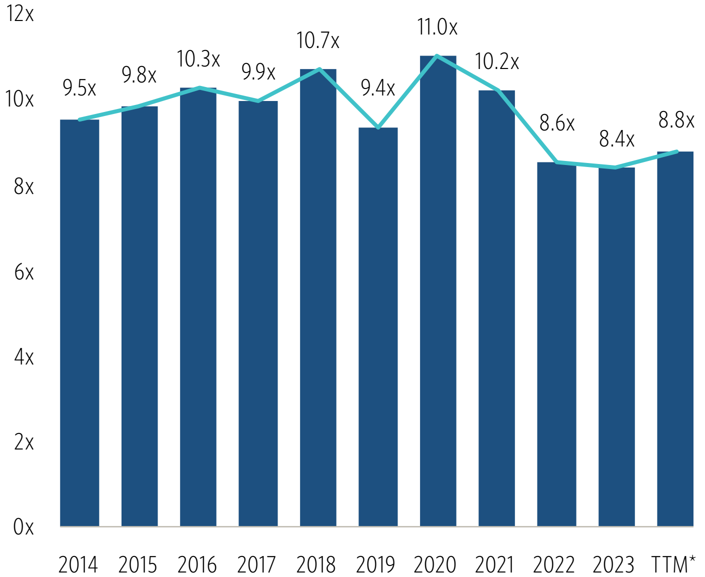
Smaller deals trend in the face of prolonged macroeconomic headwinds: B2C M&A value faltered in Q1 2024, hitting a new low since the height of the COVID-19 pandemic. There were an estimated 2,418 deals for an aggregate of $82.7 billion during the quarter, which was a QoQ decrease of 32.9% for deal value despite a 2.2% uptick in deal count. With financing costs still high, buyers continued to turn toward smaller acquisitions, driving down B2C deal value for the second consecutive quarter. Although this is just for the first three months of the year, both the median and average deal sizes dropped to record lows of $12.6 million and $172.5 million, respectively. High inflation and interest rates also dampened B2C M&A activity by weakening consumer sentiment and spending, which impact profitability and growth prospects for B2C companies. Market participants remain hopeful the macro conditions will improve and lift M&A activity in 2024.

B2C M&A activity



Source: PitchBook • Geography: Global • *As of March 31, 2024

B2C M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
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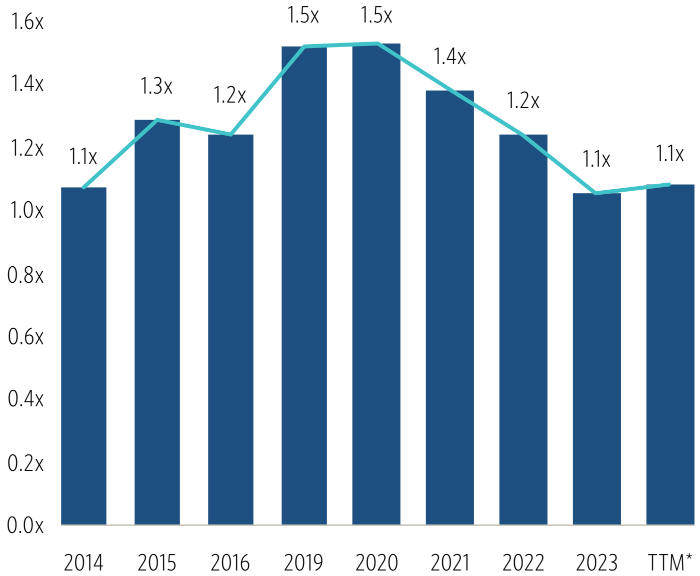
B2C M&A EV/revenue multiples



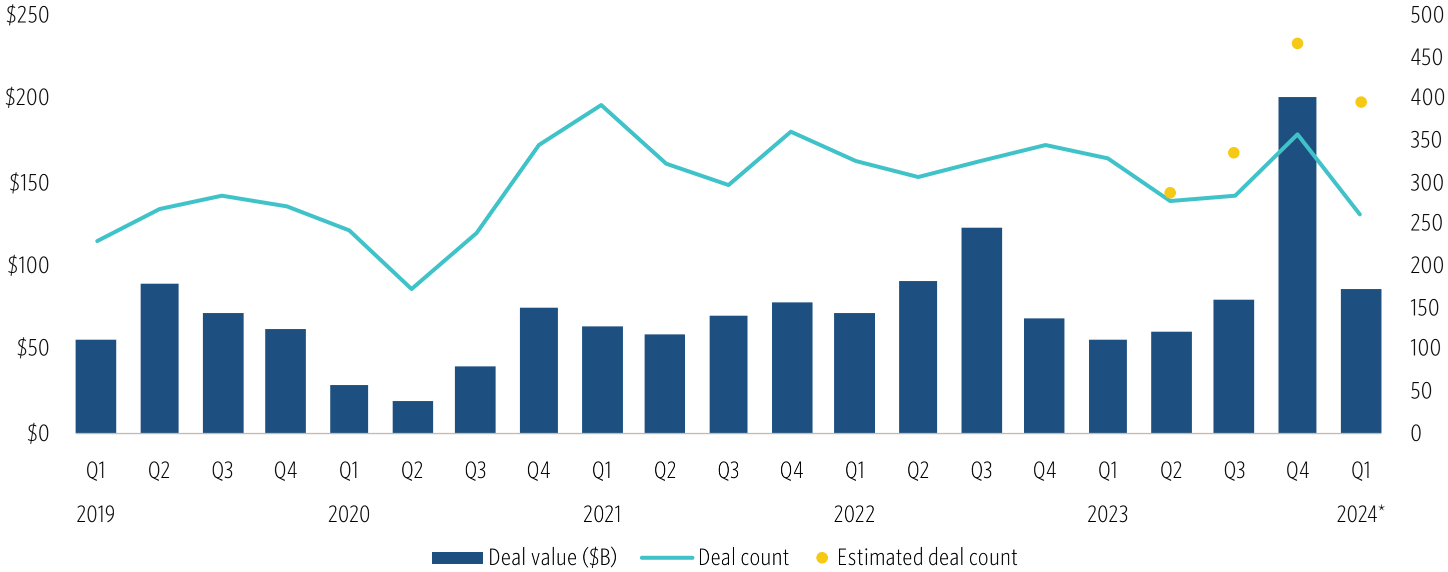
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

A decline in traditional media drives M&A activity in pursuit of growth: There were several sizable media deals as companies utilized divestitures and M&A to better position themselves in an evolving industry. The largest B2C deal in Q1 was Viacom18 Media's $3.9 billion purchase of 60% of The Walt Disney Company's Indian streaming and TV business. The deal allows Disney to keep a foothold in a market segment it struggled in after losing the Indian Premier League digital rights to Viacom18 back in 2022. In February, RedBird IMI announced its acquisition of the UK's largest TV producer All3Media for $1.5 billion from Warner Bros. Discovery and Liberty Global. The deal provides RedBird IMI with over 50 production banners across numerous countries as demand for global content grows.

Leisure deals continue thanks to travel demand: A handful of hotel and resort deals occurred in Q1 as consumers maintained an appetite for travel in the current economic market. In the UK, London-based PE real estate manager Henderson Park acquired the luxury Arizona Biltmore hotel for $705.0 million, and another London-based real estate firm, Lifestyle Hospitality Capital Group, acquired a majority stake in Irish hotel group Dean Hotel Group for $382.5 million. In the US, Hilton Worldwide Holdings announced its acquisition of Graduate Hotels for $210.0 million. Hilton will be in charge of brand development and franchising of Graduate Hotels, which provides exposure to locations near university towns in the US and the UK.

Energy

Energy M&A activity by quarter

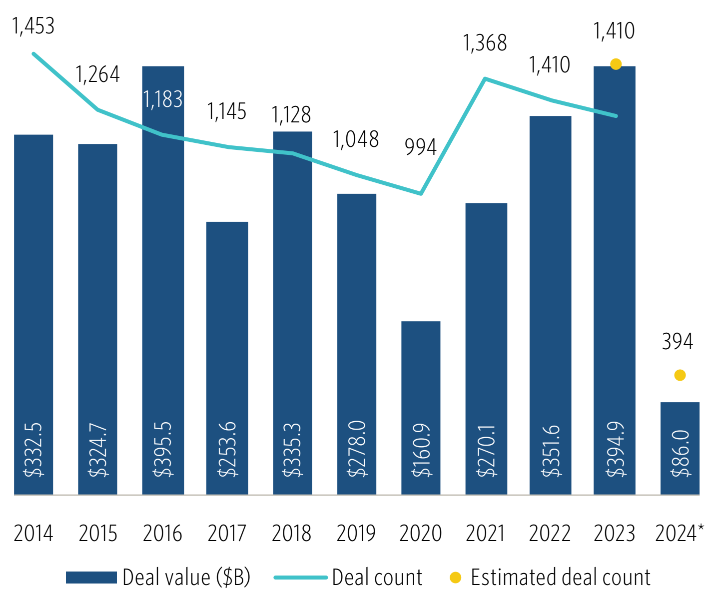


Source: PitchBook • Geography: Global • *As of March 31, 2024

Kyle Walters
Associate Analyst, Private Equity

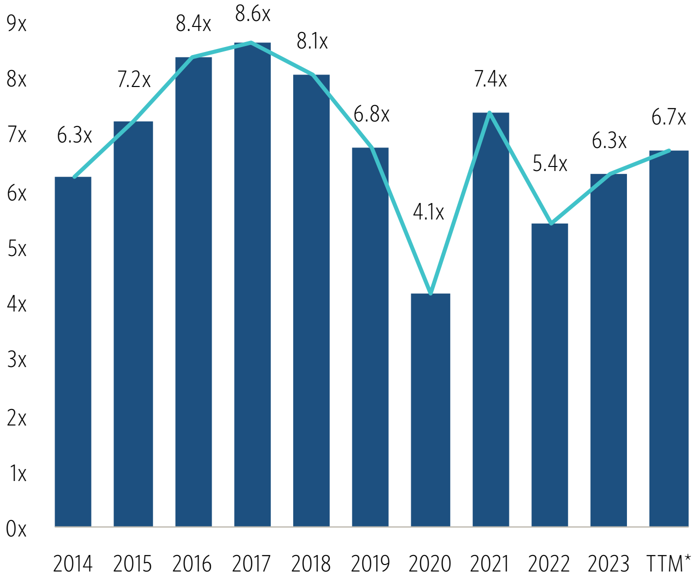
Energy M&A comes back down to reality: The energy sector is coming off of its best-ever recorded quarter in Q4 2023, when it posted $201.0 billion in deal value. While Q1 deal value has fallen below the record-setting fourth quarter of 2023, it remains well above the four quarters recorded from Q4 2022 to Q3 2023. The first quarter wrapped with 394 deals announced or closed, adding to a total value of $86.0 billion. Median deal size within the energy sector has reached a new peak, increasing to $99.4 million in the first quarter of the year.

Energy M&A activity



Source: PitchBook • Geography: Global • *As of March 31, 2024

Energy M&A EV/EBITDA multiples



Source: PitchBook • Geography: North America and Europe
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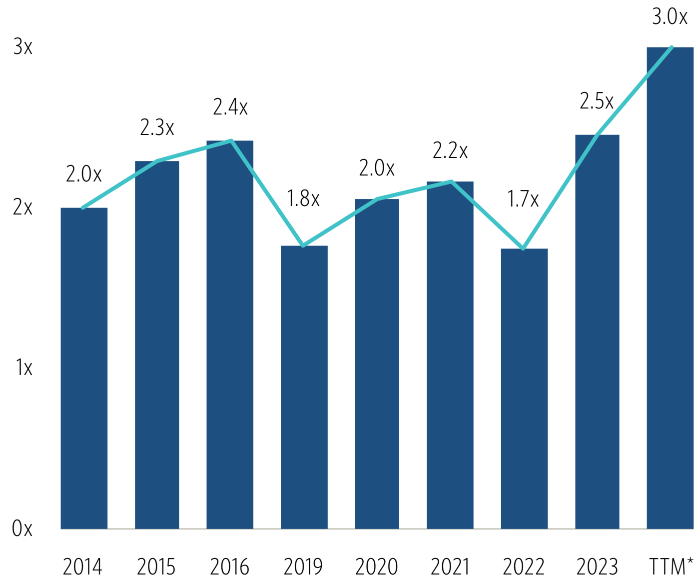
Energy M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Consolidation in oil & gas continues to boost deal activity: In February, Diamondback Energy agreed to acquire Endeavor Energy Resources for $26.0 billion. The combination will create a premier Permian-independent operator valued at more than $50 billion. The deal would see the combined company pumping up to 816,000 barrels of oil equivalent per day and annual synergies of $550.0 million, coming up to more than $3 billion in net value over the next decade.[4] In January, Chesapeake Energy agreed to acquire Southwestern Energy for $7.4 billion. The combined company will have the production capacity of about 7.9 billion cubic feet equivalent and become the largest independent US natural gas producer. The deal will lead to annual operational and overhead synergies of approximately $400 million through improved capital efficiencies and operating margins driven by longer laterals; lower drilling and completion costs; general and administrative cost reductions; and the utilization of shared operational infrastructure.[5]

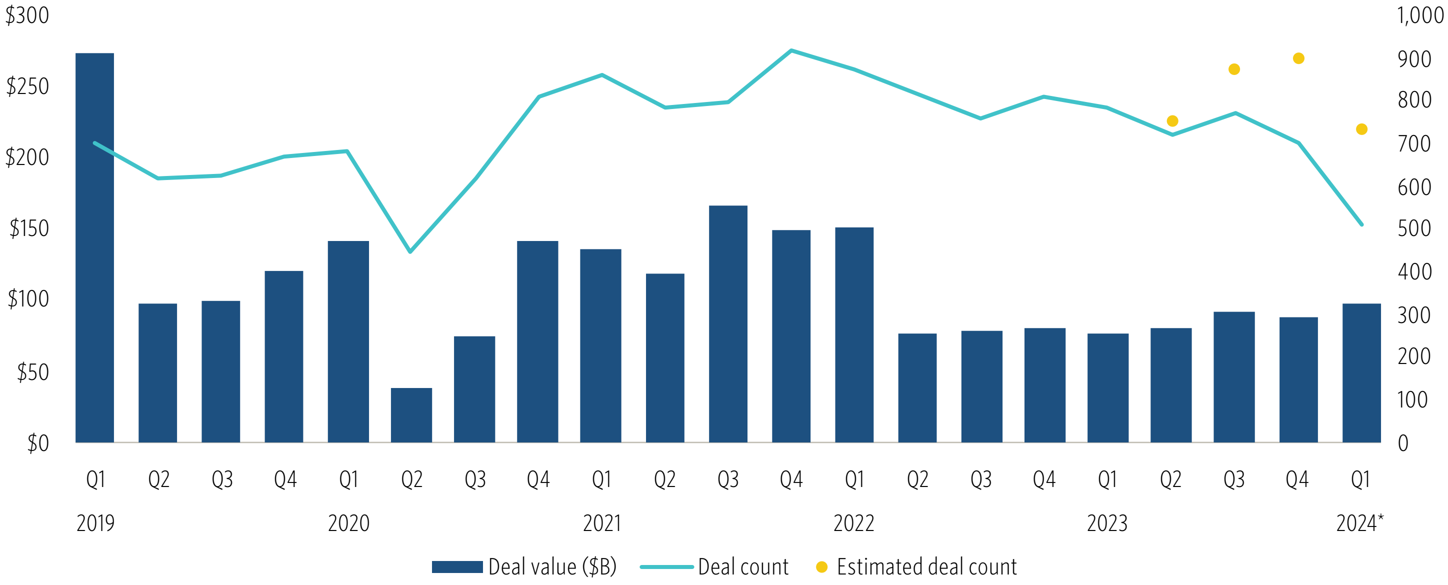
The wind-farm industry headlined renewable energy M&A activity in Q1: Renewable energy M&A has accounted for a growing portion of all energy deals in recent years. In March, KKR agreed to take German electricity and energy producer Encavis private for $3.0 billion. Encavis operates 40 onshore wind farms and 190 solar farms across Europe, providing over 2.2 million households with renewable energy. Through the takeover, KKR will increase Encavis' contribution to the green energy transition in Europe. Similarly, Stonepeak agreed to acquire a 50% stake in Dominion Energy's Coastal Virginia Offshore Wind (CVOW) project for $3.0 billion. The project is expected to be the largest offshore wind farm in the US and one of the largest offshore wind farms globally upon completion. When fully constructed, each year, CVOW will avoid carbon emissions equivalent to removing 1 million cars from the road.[6]

4: "Diamondback Sets $26 Billion Deal for Shale Oil Rival Endeavor Energy," Reuters, Seher Dareen and Arunima Kumar, February 12, 2024.
5: "Chesapeake Energy Corporation and Southwestern Energy to Combine to Accelerate America's Energy Reach," Chesapeake Energy, January 11, 2024.
6: "Stonepeak to Acquire 50% Interest in Dominion Energy's Coastal Virginia Offshore Wind Project," Stonepeak, February 22, 2024.

PitchBook

Financial services

Financial services M&A activity by quarter



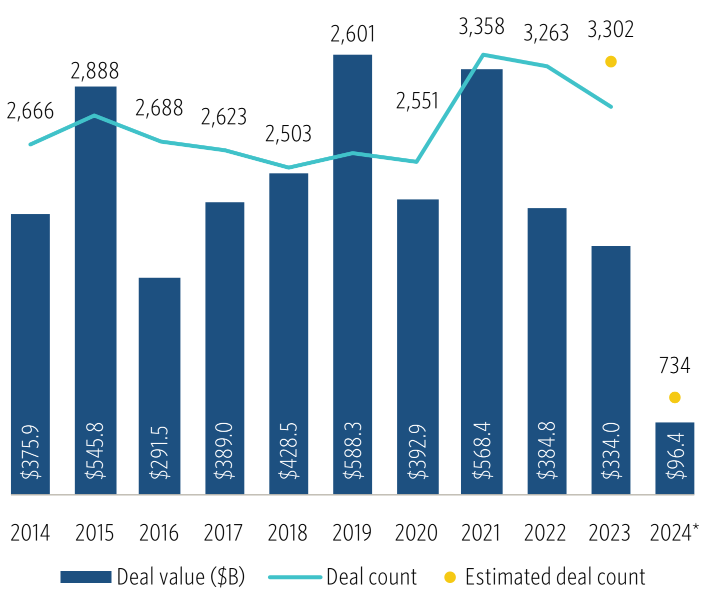
Source: PitchBook • Geography: Global • *As of March 31, 2024

Kyle Walters
Associate Analyst, Private Equity

Financial services quarterly deal activity sees an uptick: For nearly two years, financial services M&A deal value remained relatively flat, averaging $81.2 billion in quarterly deal value over the past seven quarters. The sector broke out of that rut in the first three months of 2024, posting an estimated 734 deals worth $96.4 billion. The increase in deal value was supported by three megadeals, each exceeding the $10 billion mark.

Fintech captures the sector's largest deal since 2019: Financial services was home to the largest deal of the quarter, belonging to Capital One's $35.3 billion acquisition of Discover. The acquisition allows Capital One to leverage Discover's robust payments network and compete with the largest payment networks and payment companies in the US. Some companies act as card issuers and others as payment processing networks—Discover can do both. Presently, Capital One relies on Visa and Mastercard networks for payment processing, but it plans to move all of its debit cards and some of its credit cards to Discover's network starting in Q2 of 2025.[7]

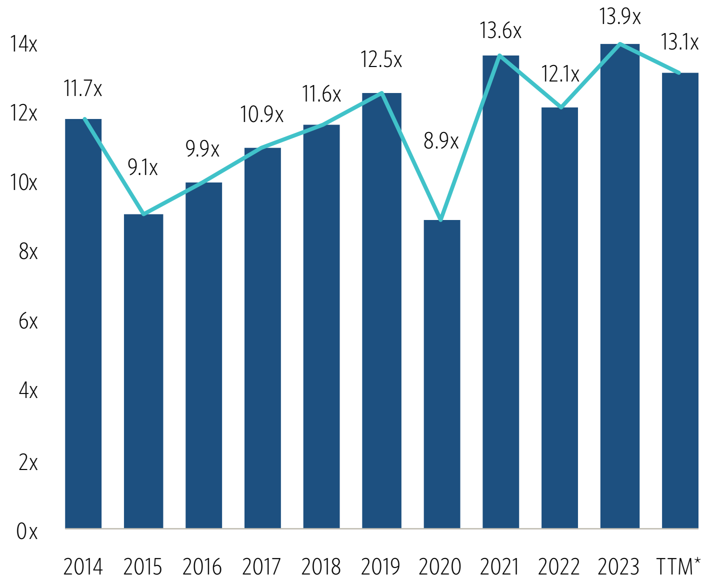
Financial services M&A activity



Source: PitchBook • Geography: Global • *As of March 31, 2024

7: "Investor Presentation," Capital One, February 20, 2024.

Financial services M&A EV/EBITDA multiples



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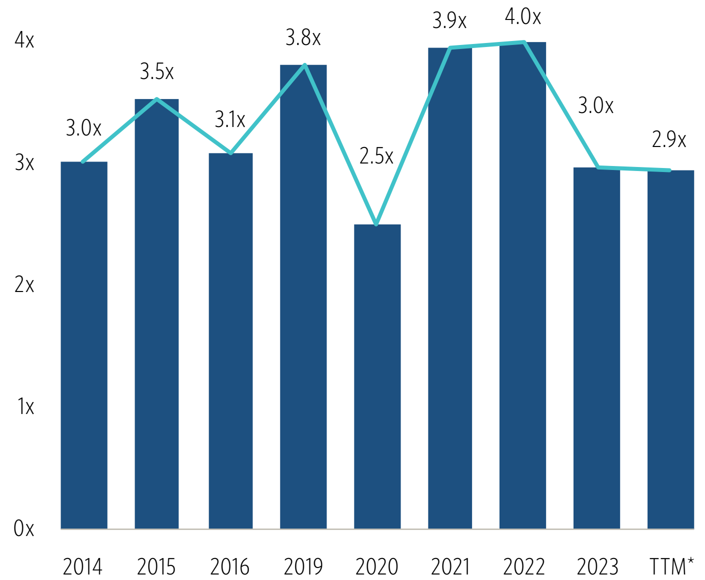
Financial services M&A EV/revenue multiples



Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

The insurance industry was active in Q1: In the first quarter of the year, the insurance industry accounted for 37.8% of all financial services deals. Leading the charge was the sale of Truist Insurance Holdings (TIH) to Clayton, Dubilier & Rice and Stone Point Capital for $15.5 billion in enterprise value ($12.4 billion in deal value). The sale allows TIH to strengthen its balance sheet and provides the firm significant flexibility to invest in its core banking franchises. Stone Point and Clayton, Dubilier & Rice offer deep industry and operational expertise, putting TIH in a position to grow in the evolving insurance brokerage market through investments in cutting-edge technology and the development of new products and services, offering even greater value to clients.[8]

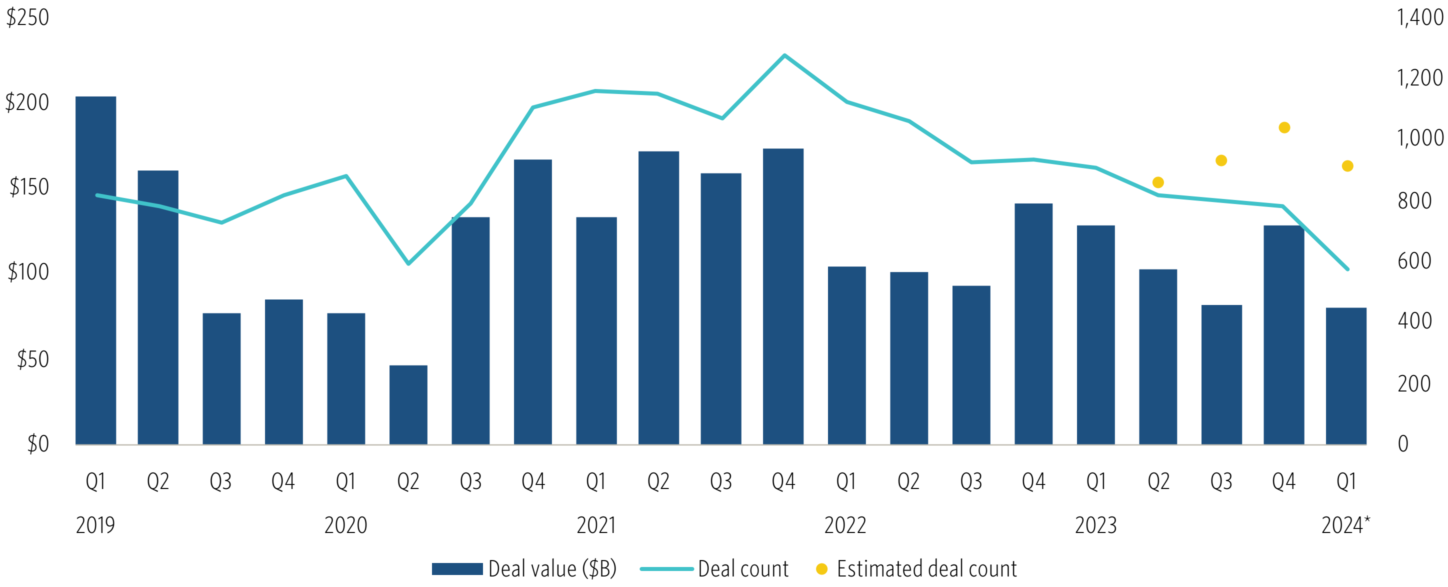
Expansion into alternative asset classes drives deal flow: The third deal over $10 billion belongs to BlackRock's $12.5 billion acquisition of Global Infrastructure Partners. This represents the largest deal ever in the alternatives space and is BlackRock's largest since 2009 when it consolidated its position in the exchange-traded fund (ETF) business in a $13.5 billion deal with Barclays Global Investors. This marks BlackRock's fourth acquisition in the infrastructure space—the others involved smaller managers—and now it has a combined $150 billion in private infrastructure AUM markets to go with the $10 trillion it has in primarily public-market and ETF AUM.

8: "CD&R and Stone Point Capital Acquire Truist Insurance Holdings," Clayton, Dubilier & Rice, February 20, 2024.

PitchBook

Healthcare

Healthcare M&A activity by quarter

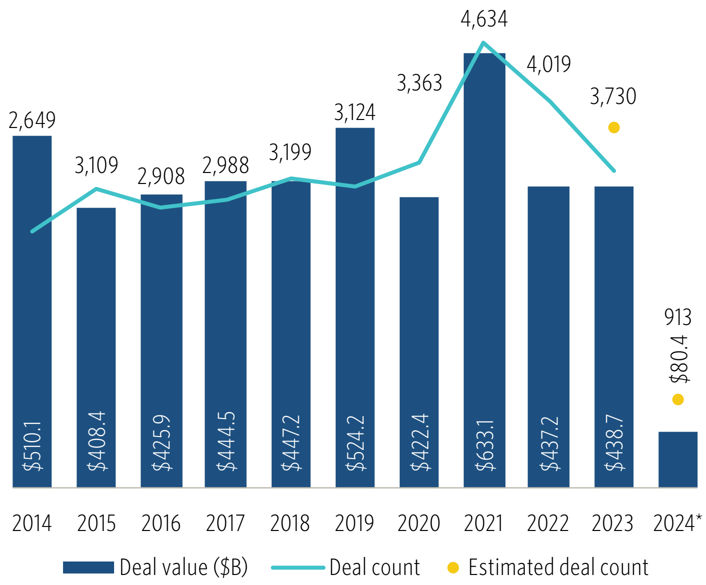


Source: PitchBook • Geography: Global • *As of March 31, 2024

Aaron DeGagne, CFA
Senior Analyst, Healthcare

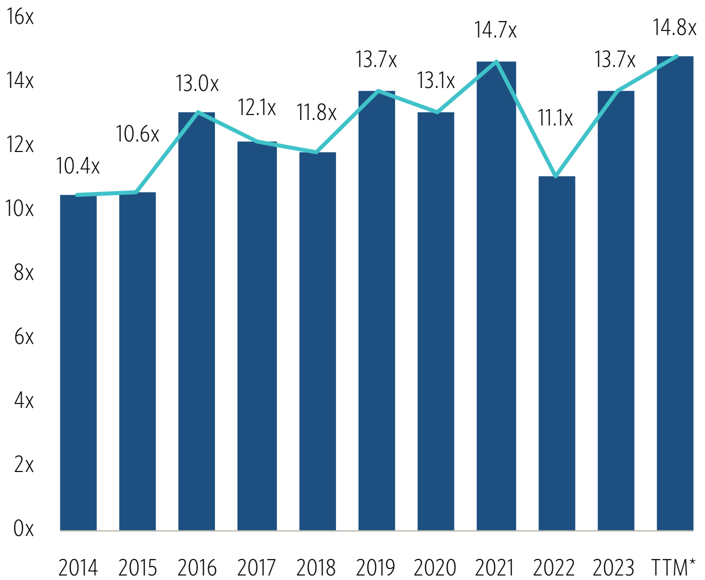
Strong start for healthcare M&A: Over the TTM period, 2,961 healthcare deals were announced or closed for a combined value of $391.2 million. Over the past three years, healthcare deals accounted for, on average, 9.4% of global M&A deal flow, and 13.5% of deal value. As such, healthcare tends to have higher deal values compared with other sectors, and Q1 was no exception, with large deals at the top of the funnel led by Novo Nordisk's headline-grabbing purchase of CDMO Catalent and Gilead Sciences' acquisition of CymaBay Therapeutics. Looking ahead, continued growth in demand for GLP-1 drugs could fuel further deals in the weight loss space as newer startups seek to challenge Big Pharma. We also see ophthalmic medical devices and pharmaceuticals as another area to watch for M&A deal flow as incumbents look to maintain advantages and pivot to capital deployment following a period of margin growth focus.

Healthcare M&A activity



Source: PitchBook • Geography: Global • *As of March 31, 2024

Healthcare M&A EV/EBITDA multiples



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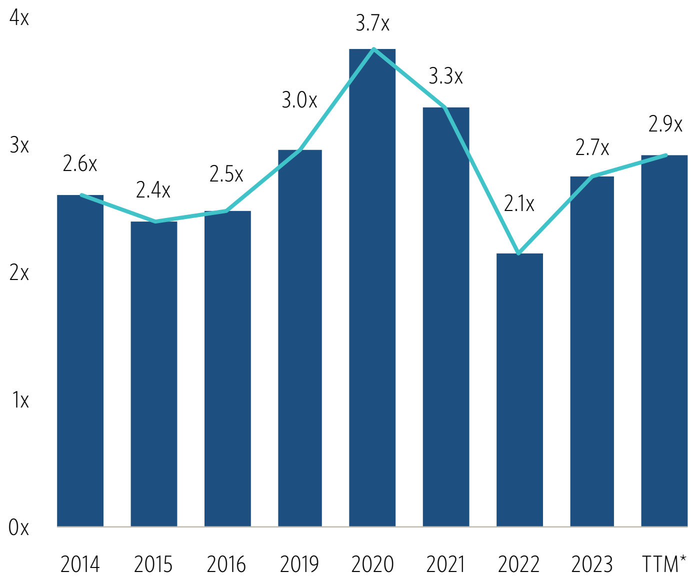
Healthcare M&A EV/revenue multiples



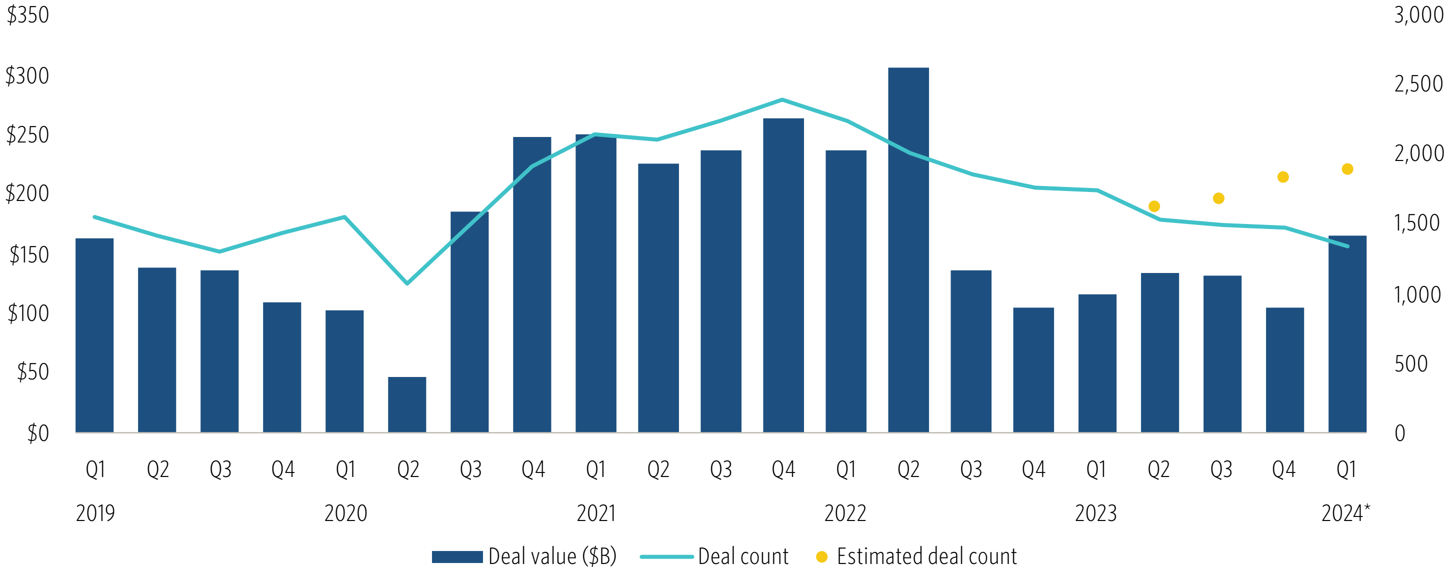
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Big Pharma continues pivot to post-COVID-19 opportunities: In 2023, pharmaceuticals and biotech contributed an outsized portion of total healthcare deal activity, and this continued in Q1 with biopharma accounting for 14 of the top 20 healthcare sector deals in the quarter. Following Johnson & Johnson's completion of the spin-off of its consumer health unit, Kenvue, we had anticipated the remaining company to double down on acquisitions in biopharma as a key method to leverage its strong balance sheet to maintain an innovation edge. This has started to play out, and during the most recent quarter, Johnson & Johnson acquired oncology biotech firm Ambrx, and followed this up with a deal in early April for cardiovascular device maker Shockwave Medical. Along with most other Big Pharma firms, Johnson & Johnson built up a significant cash war chest during the COVID-19 pandemic, and capital is beginning to be spent as valuations become more reasonable.

Medtech navigates antitrust headwinds: Boston Scientific's announced $3.7 billion acquisition of neuromodulation maker Axonics was the standout deal in Q1, though otherwise medtech M&A has been relatively muted in recent quarters. This deal is set to be a benchmark test of medtech regulatory scrutiny as Boston Scientific has a competing product for urinary incontinence, and, on April 3, 2024, the Federal Trade Commission (FTC) asked the company for second-request information. Over the past year, regulatory pushback has scuttled deals including CooperCompanies' purchase of Cook Medical, and Illumina's high-profile acquisition of liquid biopsy maker Grail. If the FTC ultimately grants approval for the Boston-Axonics deal, we anticipate this could be a green light for medtech acquirers to pursue other deals, though in any case, large deals have a decently high chance of scrutiny given the current presidential administration's aggressive approach to antitrust. Regulators have also recently been scrutinizing PE roll-ups in healthcare services, and since 2024 is a presidential election year, acquirers may choose to wait until 2025 to attempt to close major deals.

IT

IT M&A activity by quarter



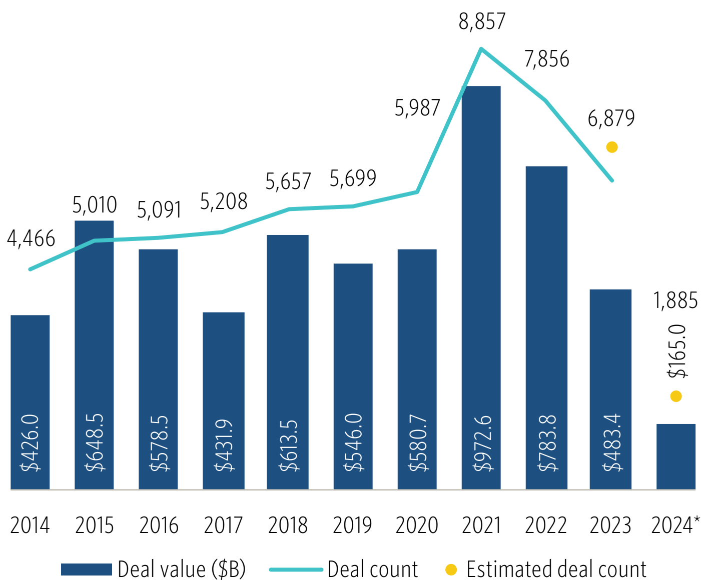
Source: PitchBook • Geography: Global • *As of March 31, 2024

Garrett Hinds
Senior Analyst, Private Equity

An IT deal value increase indicates improving trends: IT deal value stepped up in Q1, with deal value totaling $165.0 billion, an increase of 57.9% QoQ and 42.8% YoY. Several large megadeals involving stock consideration supported the strength. On a volume basis, PitchBook estimates a total of 1,885 deals in the quarter, up 2.9% QoQ and 7.9% YoY.

Tech amasses a growing share of deal value: IT accounts for 23.8% of global M&A deal value, solidly above the five-year average of 19.2%. The IT sector's deal momentum score has significantly improved, now standing at 0.1, which places it in the middle of the pack. This is a notable improvement from Q4 2023 when it was in last place with a score of -0.8. When we run an analysis of multiple expansion trends, we find that the IT sector's score has decreased to 0.1 from 0.5 in the previous quarter, indicating a reduction in valuation momentum.

IT M&A activity



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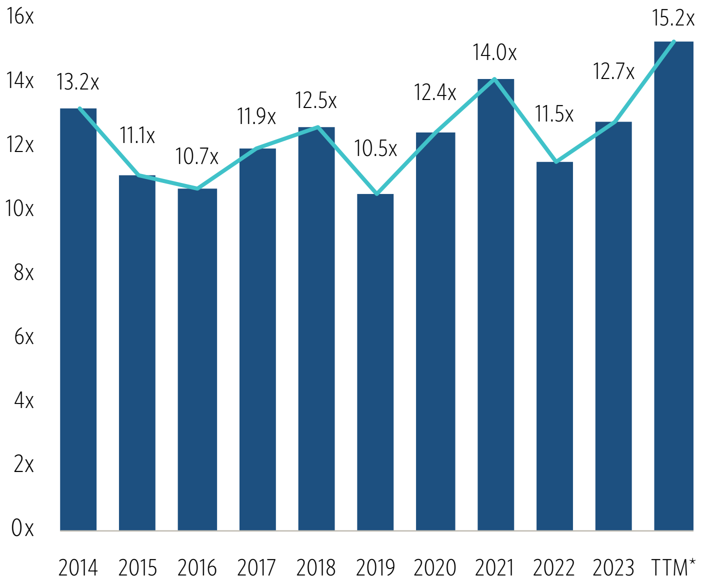
IT M&A EV/EBITDA multiples



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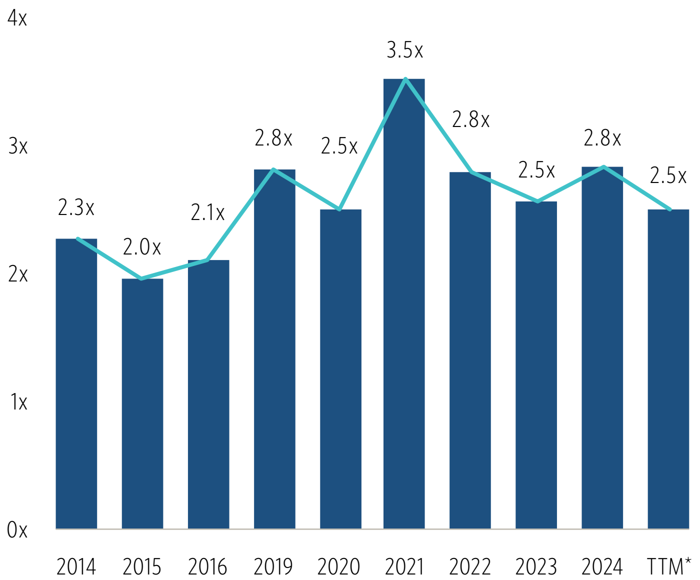
IT M&A EV/revenue multiples



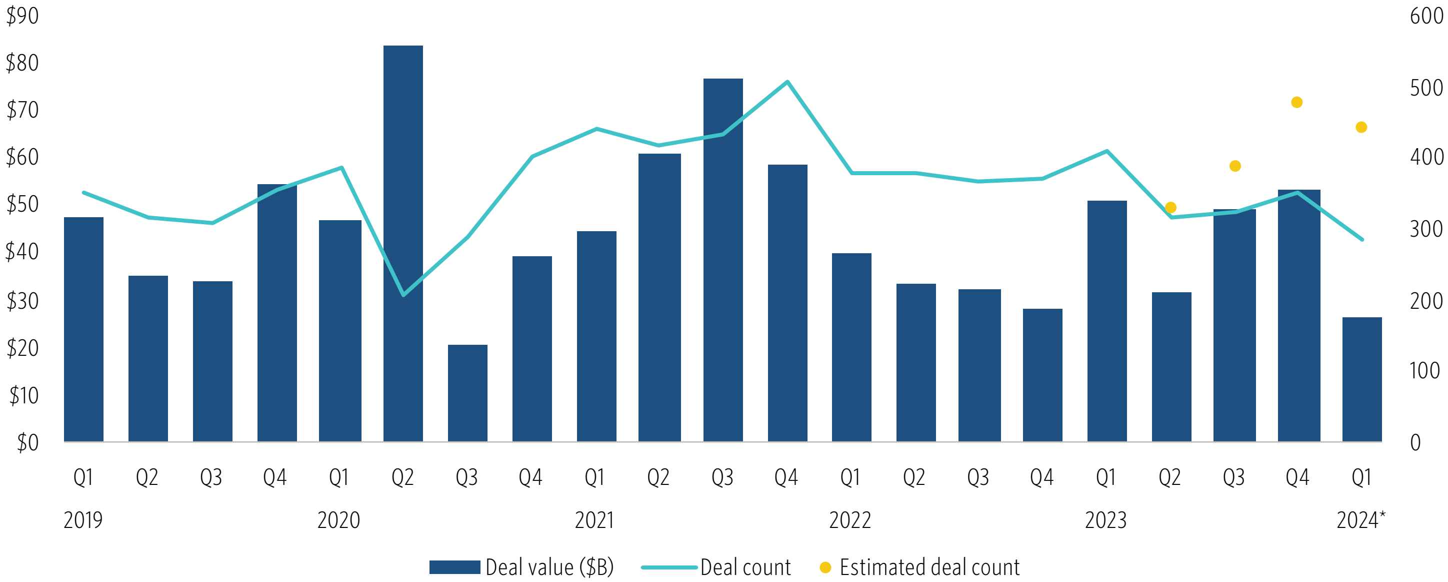
Source: PitchBook • Geography: North America and Europe
*As of March 31, 2024

Strategic buyers go big: The five largest IT sector acquisitions in the quarter all involved strategic buyers. Still, two PE buyers made it into the top 10. The largest deal was in software, with Synopsys agreeing to acquire Ansys—a provider of engineering simulation software that streamlines complex design programs—for a total of $35.0 billion paid in cash and stock. The deal comes on the heels of a seven-year product partnership and will align complementary product lines to expand Synopsys' total addressable market by 1.5x, according to management. Hewlett Packard Enterprise (HPE) agreed to acquire Juniper Networks—provider of high-performance networking hardware, software, and services—for equity value of approximately $14 billion. The transaction will increase HPE's sustainable growth trajectory and double its networking business to bolster its competitive positioning. The combination is expected to deliver annual synergies of $450 million within three years, according to management.[9] Additionally, Renesas Electronics will acquire Altium—a provider of printed-circuit-board design software—for an equity value of $5.9 billion in cash, drawing from cash on hand and new bank loans. Going forward, the combined company will create an integrated electronics design and lifecycle management platform to shorten development cycles.[10] Management expects the deal to be immediately accretive to earnings.

9: "HPE to Acquire Juniper Networks to Accelerate AI-Driven Innovation," Hewlett Packard Enterprise, January 9, 2024.
10: "Renesas to Acquire PCB Design Software Leader Altium to Make Electronics Design Accessible to Broader Market and Accelerate Innovation," Renesas, February 15, 2024.

Materials & resources

Materials & resources M&A activity by quarter

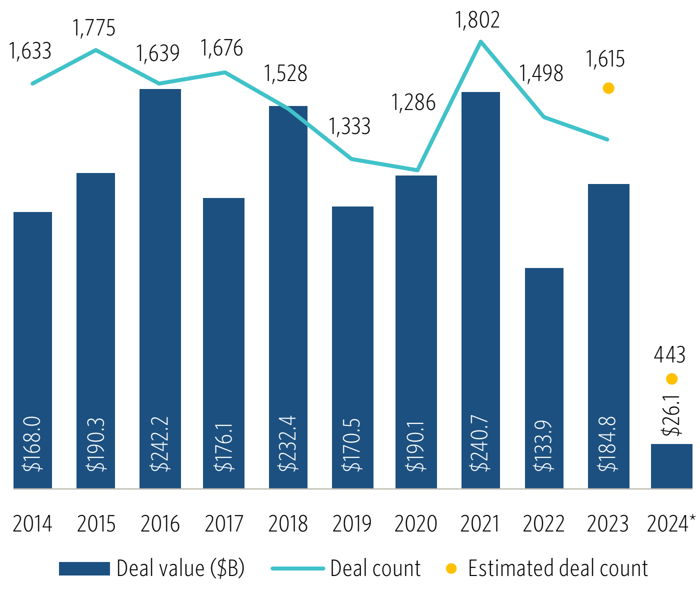


Source: PitchBook • Geography: Global • *As of March 31, 2024

Kyle Walters
Associate Analyst, Private Equity

Materials & resources starts the year at a slower pace: The materials & resources sector continues to show its cyclicality with an estimated 443 deals for an aggregate deal value of $26.1 billion—a deal value figure that comes in below totals from each of the previous four quarters, as the sector remains out of favor with investors. Given its cyclical nature, investors often shift their focus away from materials & resources, opting instead for more defensive sectors in times of market uncertainty. Despite the slow start, there are bright spots in the sector.

Materials & resources M&A activity



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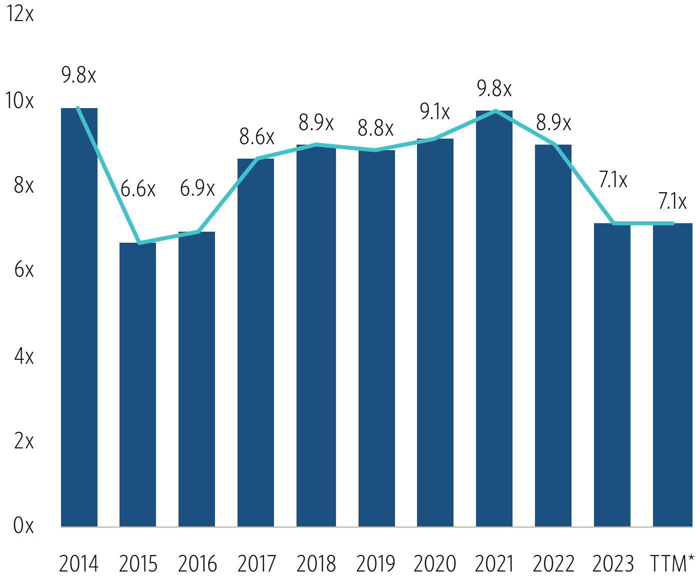
Materials & resources M&A EV/EBITDA multiples



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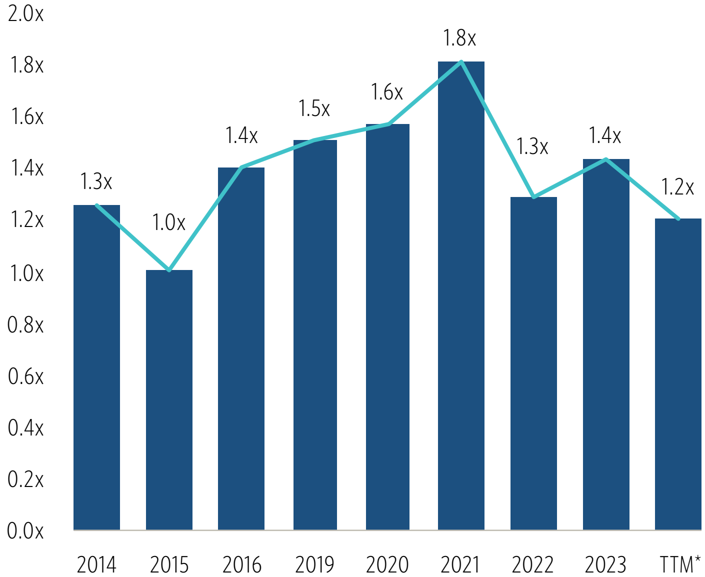
Materials & resources M&A EV/revenue multiples



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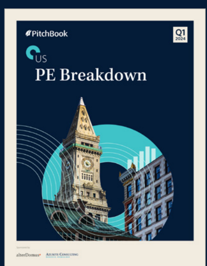
Metals, minerals, and mining continue to support materials & resources M&A activity: In February, precious metals producer and the second largest gold producer in Kazakhstan, Polymetal International, agreed to sell its Russian assets to Siberian gold miner Mangazeya Mining for $3.7 billion. Polymetal's Russian assets were placed under US sanctions in 2023 in response to Russia's invasion of Ukraine in February 2022. The completion of the divestment will allow the group to de-risk the company's business, deliver stable cash flows, and pursue new investment opportunities.[11] In other metals, Alcoa cemented its position as one of the world's largest producers of bauxite and alumina (a semiprocessed form of aluminum) by acquiring Australia's Alumina, its joint venture partner in a global mining operation, for $2.2 billion. The acquisition allows Alcoa to bet on the importance of metals that will play a key role in the energy transition, such as aluminum, which is used in large quantities to manufacture electric vehicles and renewable-power infrastructure.

The construction industry boosted deal activity with multiple multibillion-dollar deals: In February, France's Saint-Gobain agreed to acquire Australian building-materials maker CSR for $2.8 billion. The deal will help Saint-Gobain establish a presence in the high-growth Australian construction market and strengthen its position in the fast-growing markets of the Asia-Pacific. In the US, Martin Marietta Materials agreed to acquire 20 active aggregate operations in Alabama, South Carolina, South Florida, Tennessee, and Virginia from Blue Water Industries for $2.1 billion. The transactions not only improve the company's product mix, margin profile, and durability through cycles but also provide balance sheet flexibility for future acquisitive and organic growth. The acquisition will also complement Martin Marietta's existing geographic footprint in the southeast region of the US and allow it to expand into new growth platforms in target markets, including Miami and Nashville, Tennessee.[12]

11: "Polymetal International to Sell Russian Business for $3.69 Bln," The Wall Street Journal, Elena Vardon, February 19, 2024.
12: "Martin Marietta Announces Acquisition of Aggregates Operations From Affiliates of Blue Water Industries LLC; Company Also Completes South Texas Cement and Concrete Divestiture," Martin Marietta, February 12, 2024.

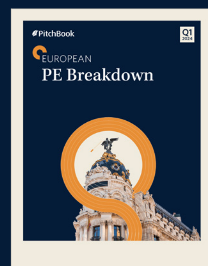
Additional research

Private markets



Q1 2024 US PE Breakdown

Download the report here



Q1 2024 European PE Breakdown

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Q2 2024 PitchBook Analyst Note: PE Rediscovers Divestitures as a Value Creation Strategy

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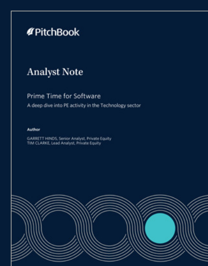

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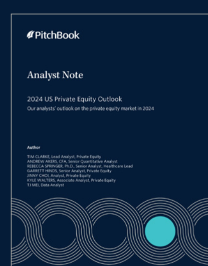

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