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Q2 2022

GLOBAL M&A Report

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John Gabbert Founder, CEO

Nizar Tarhuni Senior Director, Institutional Research & Editorial

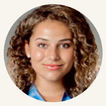
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis

Hilary Wiek
Lead Analyst, Fund Strategies & Sustainable Investing
hilary.wiek@pitchbook.com

Jinny Choi
Analyst, Private Equity
jinny.choi@pitchbook.com



Anikka Villegas
Analyst, Fund Strategies & Sustainable Investing
anikka.villegas@pitchbook.com

Kyle Walters
Associate Analyst, Private Equity
kyle.walters@pitchbook.com

Dominick Mondesir
Senior Analyst, EMEA Private Capital

Data

TJ Mei
Data Analyst

pbinstitutionalresearch@pitchbook.com

Publishing

Report designed by **Megan Woodard** and **Jenna O'Malley**

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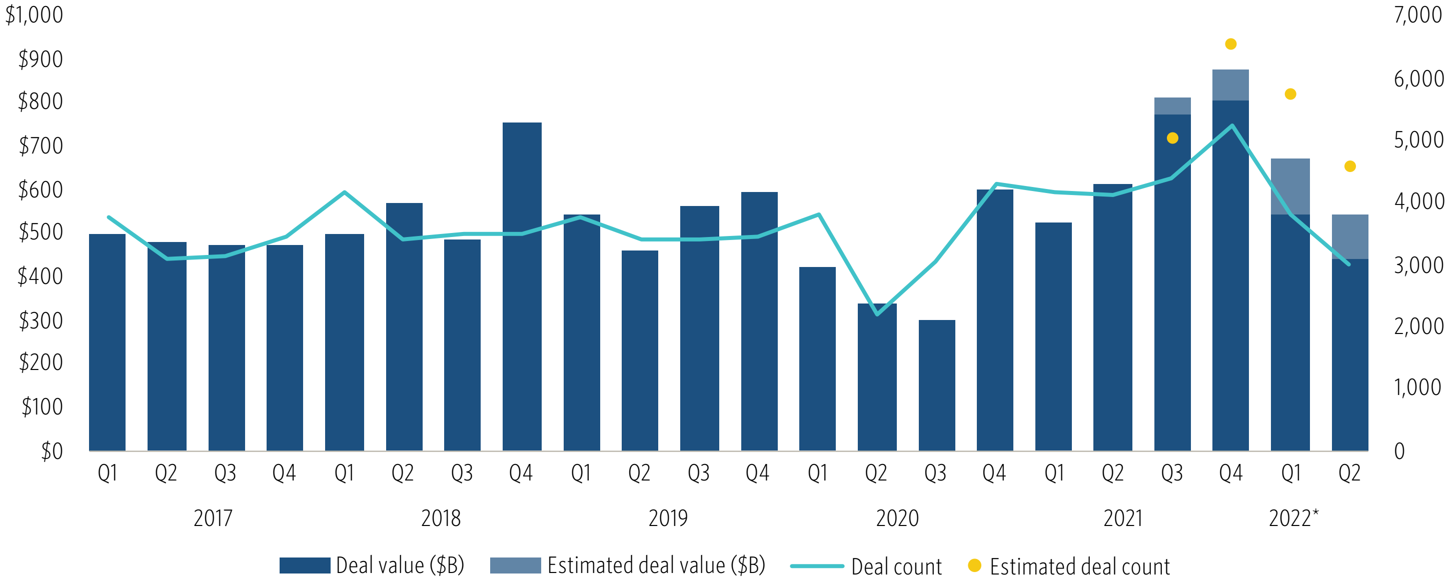
North American M&A

Quarterly North American M&A activity



Source: PitchBook | **Geography:** North America
*As of June 30, 2022

Jinny Choi
Analyst, Private Equity

During Q2 2022, North American M&A continued its modest decline in deal value and volume. Approximately 4,571 deals closed, for a combined value of $547.7 billion, demonstrating a decline of 30.2% and 37.6%, respectively, from Q4 2021. Major headwinds from a mix of geopolitical tension, inflation, and pandemic-related supply chain issues led to this stumble in M&A activity. In the US, the S&P 500 suffered its worst first half of a year since 1970, with a loss of more than 16% in the first six months of 2022.[1] For the first time this year, US consumer spending fell in May, thus suggesting weaker consumer confidence brought forth by continued interest rate hikes and surging inflation. The Consumer Price Index (CPI) jumped 9.1% in June—the largest increase in 40 years and above the 8.8% Dow Jones estimate.[2] Widespread pricing pressures could push the Federal Reserve into an even more aggressive position to allow demand to better match supply conditions.

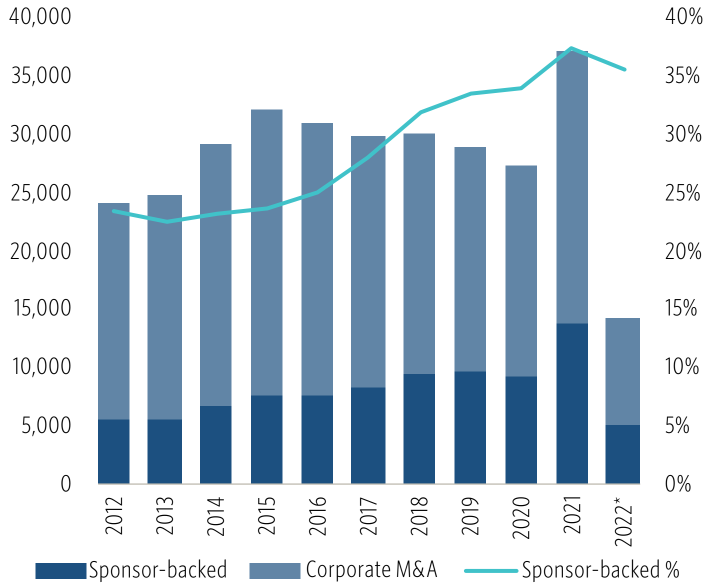
Inflation continued to dampen M&A activity during the quarter. Canada's annual inflation rate jumped to 7.7% in May,[3] the highest in four decades, which prompted a more aggressive response by the country's central bank to combat rampant inflation. In July, the Bank of Canada announced a supersized interest rate hike of a full percentage point, leaving many to wonder if the US Federal Reserve will follow a similar course after the 75-basis-point increase it enacted in June. Higher rates can create a dampening effect on the markets, as the subsequent increase in the discount rate can lower company valuations. With governments prioritizing price stability, significant interest rate hikes could push the market into a mild recession and further stifle M&A activity going forward.

Despite widespread uncertainty, M&A continued apace as strategic buyers and private equity (PE) firms sought to take advantage of market volatility to find attractive growth prospects from companies that are cyclically—but not secularly—under pressure. 16 mega-deals ($5 billion+)

1: "US Stocks Fall as S&P 500 Concludes Worst H1 Since 1970," Agence France Presse, June 30, 2022.
2: "Inflation Rose 9.1% in June, Even More than Expected, as Consumer Pressures Intensify," *CNBC*, Jeff Cox, July 13, 2022.
3: "Inflation Surges to 7.7% in Canada, Fastest Pace Since 1983," *Bloomberg*, Theophilos Argitis, June 22, 2022.

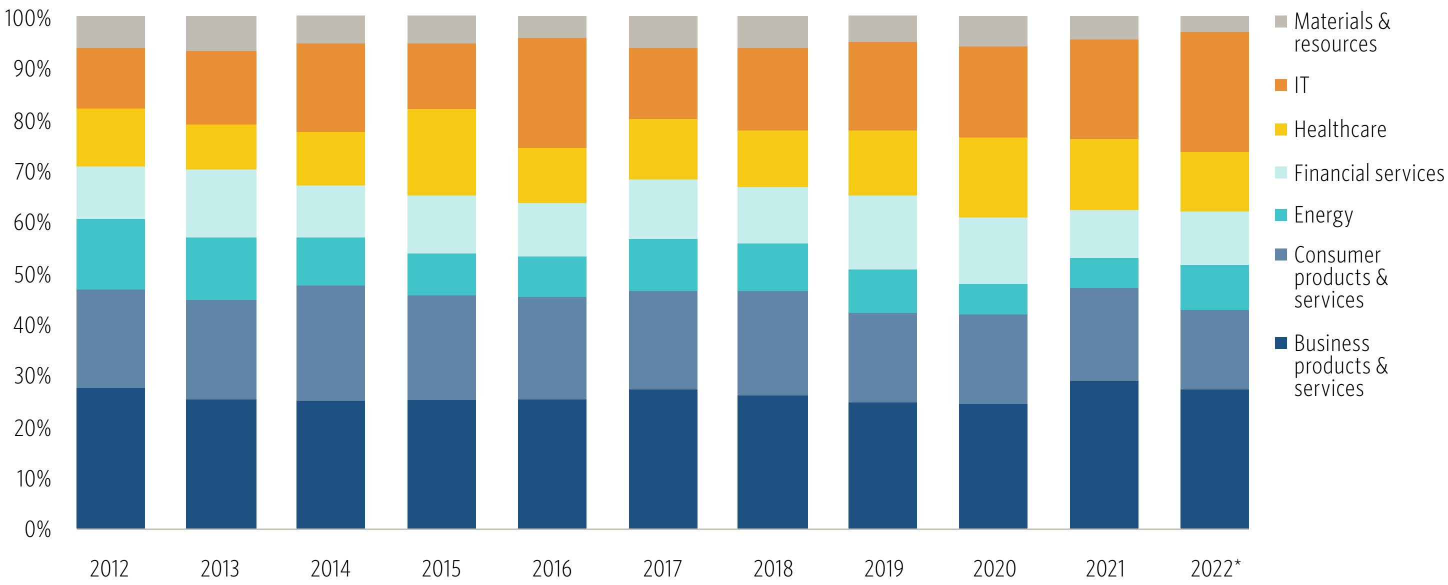
closed in Q2, with $207.3 billion of aggregate deal value. Many of these deals, including the $6.2 billion acquisition of cybersecurity firm Datto, were in information technology (IT). Tech continues to be fertile ground for dealmaking and has delivered this year's two largest North American deals: Advanced Micro Devices' (NASDAQ: AMD) $35.0 billion purchase of semiconductor company Xilinx and Microsoft's (NASDAQ: MSFT) $20.0 billion acquisition of artificial intelligence (AI) company Nuance Communications. Going into H2, large, strategic acquisitions are likely to come down as company boards prepare for a possible recession and strengthen their balance sheets.

M&A count by acquirer type



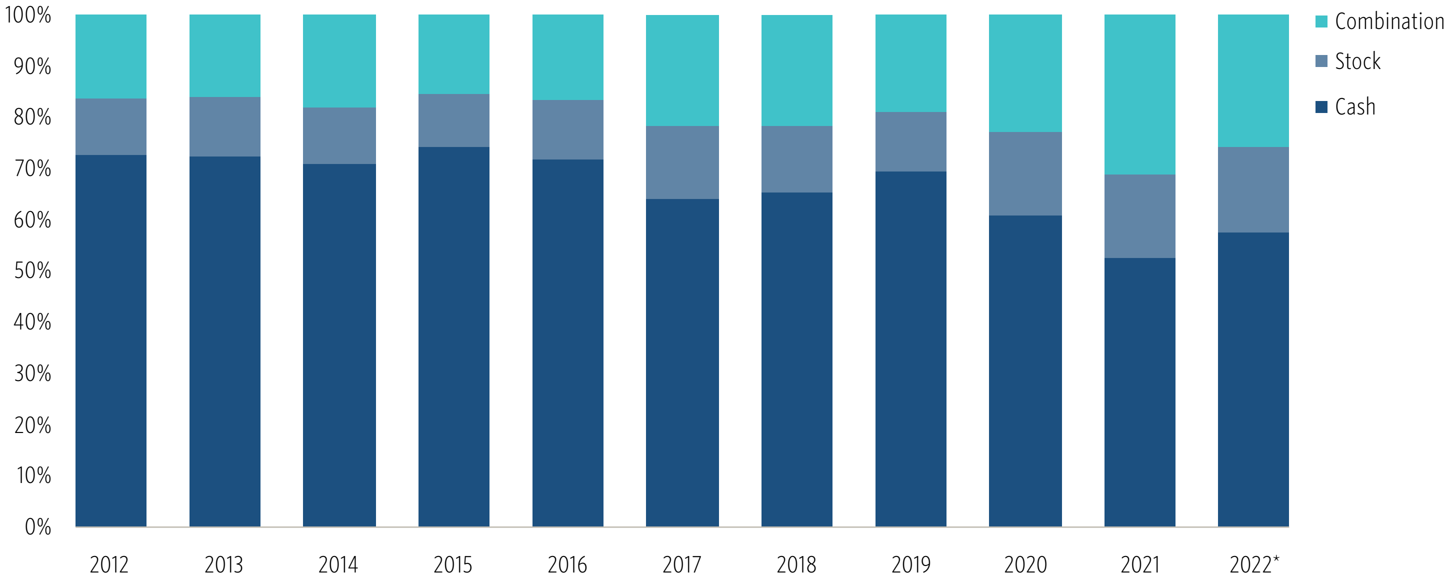
Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Share of M&A value by sector



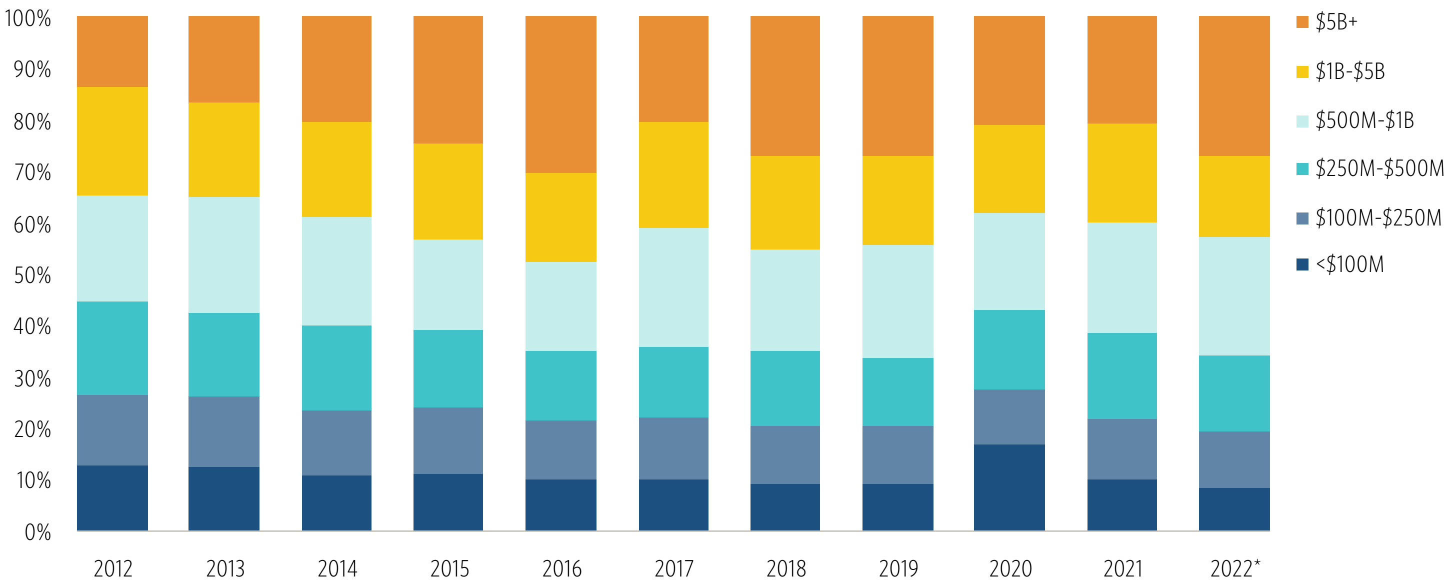
Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Share of M&A value by payment type



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Share of M&A value by size bucket



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

A WORD FROM LIBERTY GTS

Latin American M&A set to boom despite political uncertainty

The geopolitical environment in Latin America has been relatively volatile for many years, and those thinking about investing in the market need to be mindful of the challenges that it can present. The general M&A market in Latin America has always been very dependent on the political risk environment, as changes in government, legislation and regulations, and public policy will all have impacts on investors' appetite for doing deals.

While the COVID-19 pandemic hindered the social and economic progress of many countries in the region, there has been a relatively steady recovery, with many countries returning quite rapidly to grow. Set against that background, upcoming elections in both Brazil and Colombia are likely to have an economic impact that will feed into the M&A market.

Deal activity in Colombia has been reasonably strong, but there is some nervousness among investors as to how the economic landscape might shift now that Gustavo Petro has been elected president. To quell the fears of the foreign investment market he has said he would not expropriate private property if were to be elected. However, as he is Colombia's first far-left president, concerns do remain for international investors, who have been spooked by Latin America's history of radical governments and wealth redistribution policies.

In Brazil, the upcoming elections will without a doubt have an impact on the M&A market, but the country is experiencing a significant volume of transactions, and in fact, its momentum is pushing up levels of deal activity across the region.

However, there will be investors who will look at Peru and Chile as examples of how quickly the political risk landscape can shift the dealmaking environment. Chile is in the throes of finalizing a new draft constitution to replace the current one, which was written in 1980 during the Augusto Pinochet dictatorship. As markets do not like uncertainty, there has been a light drop-off in the number of M&A deals.

Peru, a country with strong fundamentals and a consistent M&A track record, has now fallen out of favor with the investment community. The recent election of a far-left-wing government has made some investors wary about the shift in the regulatory and legal landscape, which in the long-term may impact the economic environment.

Fernando Villaseñor

Head of Southern Zone

Liberty GTS

Fernando has extensive experience working on complex projects and legal matters with respect to Mexico and Latin America. Fernando has advised a wide variety of companies in both domestic and international transactions involving the oil and gas sector, M&A, general corporate, aviation, cross-border transactions, antitrust, energy, real estate, and transactions with industrial, commercial, residential, and hospitality properties in Mexico and Latin America/Caribbean. Prior to joining Liberty GTS, Fernando was a corporate associate at Haynes and Boone LLP (Dallas) and previously practiced at different law firms in Mexico City. Fernando received his master of laws degree from Northwestern University School of Law and his juris doctor from the Universidad Iberoamericana in Mexico. Fernando also completed a Specialization in commercial law at the Universidad Panamericana in Mexico City. Fernando is licensed to practice law in Mexico and Texas.

Conversely, while investors are cautious with President Lopez-Obrador's government, there has been a huge amount of interest from large private equity (PE) players and other international firms who are interested in Mexican targets and companies.

M&A market in Latin America

After a slowdown in the first half of 2020, the Latin American M&A market has seen a resurgence in the number of deals and is now close to pre-pandemic levels. This year we have seen a growing number of deals, which has led to an increased number of submissions for deals requesting representations & warranties (R&W) insurance coverage.

Deal activity has picked up across the region but has primarily been led by its largest economies, including Brazil, Mexico, Colombia, Chile, and Peru.

While the war in Europe continues, and the economy is further challenged by increasing inflation and the ongoing energy crises, investors are looking to hedge their risks and invest in markets with strong growth trajectories.

The focus of deals has mostly been around energy, oil & gas, renewable energy, and infrastructure sectors. This has been led by the drive for economic development across the region and the war in Ukraine. The latter has created huge movement in the sector, and we are now seeing significant investment into Latin America from global PE houses, who see the region as a hedge against faltering economies in Europe. The shift away from natural gas, driven by the war in Ukraine, is leading PE money to invest even more heavily in renewable energy sources including solar, wind, and geothermal energy, and they are particularly interested in those types of investments in this region.

The use of the R&W product in Latin America

As the M&A market in the region matures, we are seeing significant growth in the use of R&W insurance. While it is starting from a low base, the number of submissions this year suggests that there is more confidence about the product and how it can improve the efficacy of deals.

Naturally, uncertainty and volatility, both globally and within the context of the changeable Latin American political scene, concern investors, and this is also helping to drive the take-up of R&W insurance. International investors, particularly, are keen to protect themselves against uncertainty when they do deals in the region and look for cover as part of their deal planning.

The M&A process in Latin America differs from that in the US and Europe. The deal tends to move at a slower pace, and there is a much lengthier process from engagement to sign off. The recent surge in US-based Spanish-speaking brokers focused on the Latin American market has allowed further understanding of the market and M&A activity within it.

Up until a few years ago, the R&W product was very much unknown in the Latin American M&A market. Buyers and sellers need to cover risks through standard indemnity policies or put aside funds in escrow accounts for any cover that they required. However, the use and understanding of the product has grown significantly for a couple reasons:

First, we are seeing several PE houses entering the Latin American market in the renewables space, and these are driving considerable growth in R&W use. For them, buying cover means they do not have to price in the risk up front on a deal or place a portion of sale proceeds into escrow, as they would traditionally have had to do in this region. Culturally, they prefer to work with R&W insurance rather than escrow options.

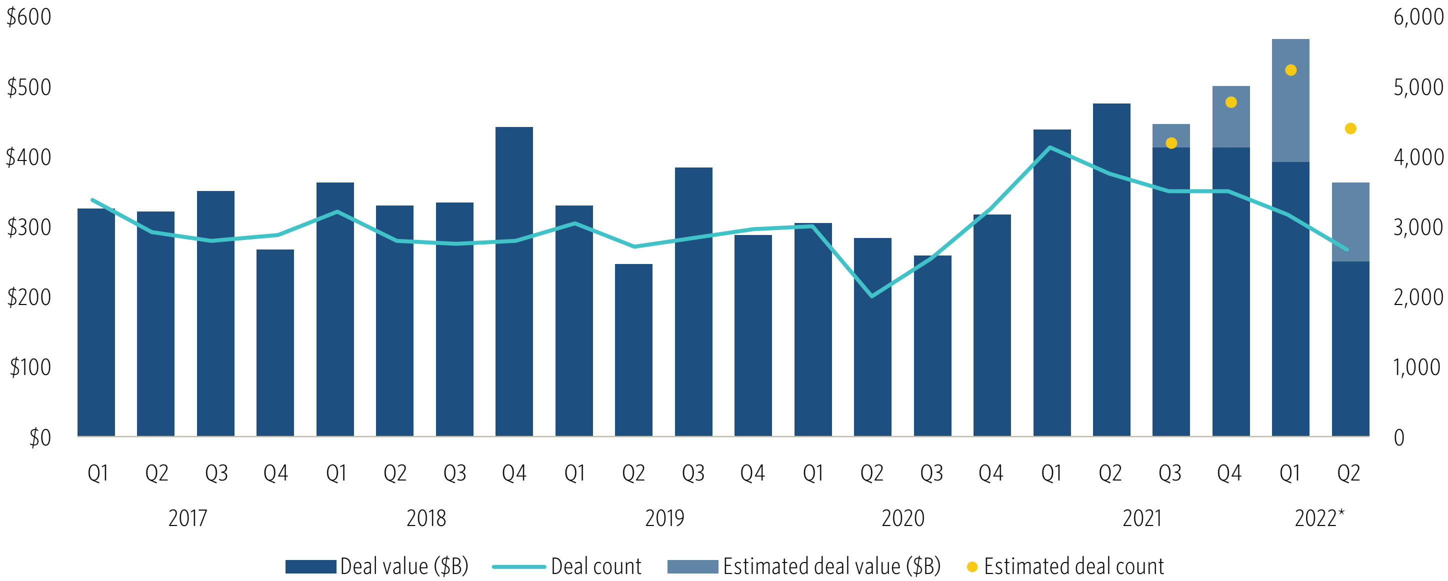
Second, the structure is also changing. As insurance companies continue to recruit native speakers, more insurance business is being conducted in local languages, with due diligence, agreements, financial statements, and underwriting calls all written in Spanish or Portuguese. Previously, almost all cover was written out of London in English, with a small proportion coming from Spain, but very little done locally. The arrival of local expertise has helped to bridge the cultural gap with lawyers and corporate finance advisers who are now starting to understand the R&W product and where it can fit within their legal and due diligence requirements. Their confidence around the product has grown, and they now feel encouraged to recommend it to their clients.

As a result of all these changes, we should very likely see a continued boom in the M&A market in Latin America, and with that a growth in the number of submissions for deals requesting R&W insurance coverage. It is worth bearing in mind that while there has been a considerable uptick in the use of the cover, the R&W market in Latin America still lags US and European markets. However, we expect that use will grow exponentially over the coming years simply because the desire for M&A transactions with a greater level of certainty and lower risk to the parties involved are appealing to those looking to invest in the region.

Liberty GTS is well placed to support our clients, as we have people and are licensed in most Latin American markets. We have one of the biggest line sizes in the region and have the ability to write on both Lloyds and local paper, which gives us a market-leading position for those considering deals in this fascinating and fast-moving region.

European M&A

Quarterly European M&A activity



Source: PitchBook | **Geography:** Europe
*As of June 30, 2022

Dominick Mondesir

European M&A activity was resilient in H1, though deal activity is expected to slow in H2, given the palpable macroeconomic headwinds. During H1, uncertainty intensified: The European Central Bank (ECB) is expected to start its interest rate hiking cycle in July; stress is seen in the noninvestment-grade debt markets; and Eurozone inflation hit a record of 8.1% in May.[4] Furthermore, the UK economy shrank by 0.3% in April,[5] and the STOXX Europe 600 index has dropped around 17% YTD.[6] In the short term, corporates, which account for the bulk of M&A activity, will prioritize supply chain resilience, labor challenges, stabilizing stock prices, and inflation—as opposed to M&A—which will bring down activity.

PE continues to grow its market share of European M&A. During H1, more than one in three deals was closed by a sponsor, up from 27.0% five years ago. Three primary elements drive the deals environment: sponsors with billions of euros in dry powder, the rise of private credit funds, and PE's lower regulatory scrutiny than corporate M&A. Sponsors have been cautiously doubling down on their investment sweet spots, as deals executed during downturns typically result in higher returns from taking advantage of softer multiples through a mix of buyouts and take-privates. For instance, in the largest PE deal of H1, Blackstone (NYSE: BX) recapitalized Netherlands-headquartered Mileway. Last-mile logistics businesses has been Blackstone's strongest conviction trade globally over the past decade, and it's not slowing down. In addition, Blackstone and the Benetton family recently bid to take private Italy-headquartered Atlantia for around €54 billion,[7] which would be Europe's largest-ever take-private.

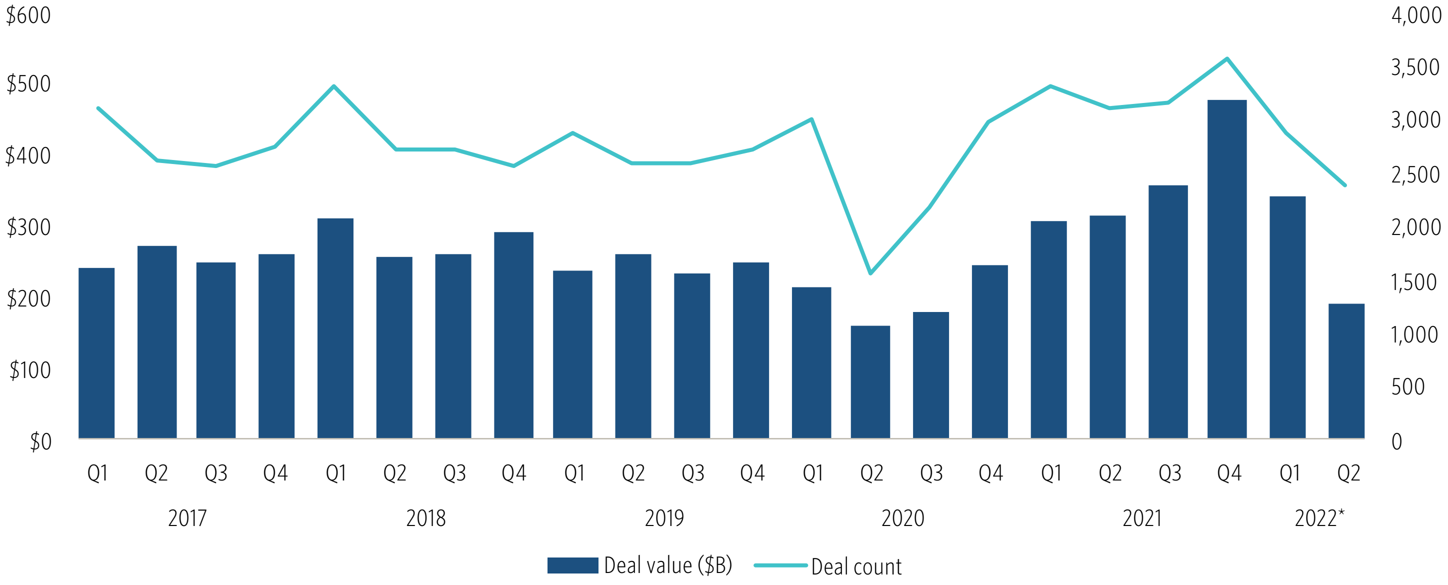
European IT M&A remains popular among dealmakers to acquire new capabilities and/or drive scale through digitalization. For example, Nexi (MIL: NEXI) acquired SIA (Milan) in a transformative scale play in the payments space, while Frequentis merged with Regola to increase its capabilities within the public safety software market.

Overall, against this volatile macroeconomic backdrop, M&A deals will still close. Sponsors are flush with cash, and corporates will redefine core competencies via carveouts and M&A to de-leverage, optimize supply chains, better position for higher long-term inflation, and acquire digital capabilities.

4: "Eurozone Inflation Hits Record 8.1%," *Financial Times*, Martin Arnold, May 31, 2022.
5: "UK GDP Falls for Second Month Running; Stocks and Pound Slump Amid Recession Fears—as it Happened," *The Guardian*, Graeme Wearden, June 13, 2022.
6: "STOXX Europe 600," Google, n.d., accessed July 20, 2022.
7: "Blackstone and Benetton Family Bid to Take Italy's Atlantia Private in €54bn Deal," *Financial Times*, Kaye Wiggins and Eva Szalay, April 14, 2022.

Business products & services

Quarterly business products & services M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Hilary Wiek, CFA, CAIA
Lead Analyst, Fund Strategies & Sustainable Investing

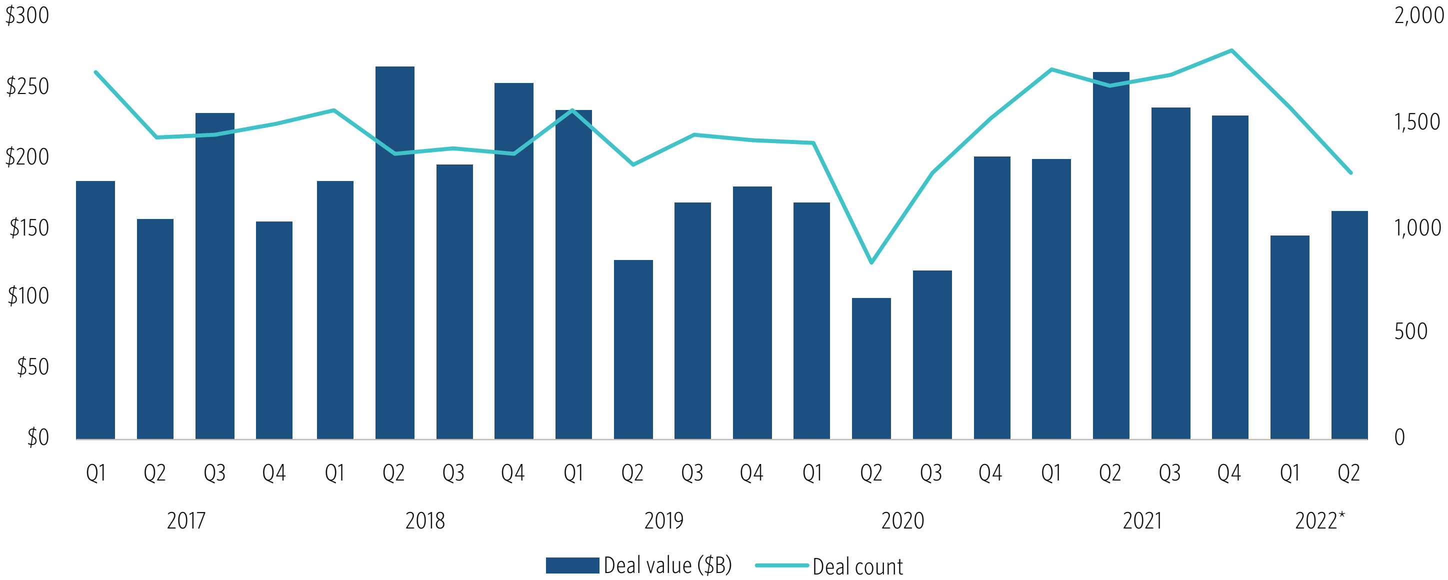
Supply chain is a key theme in business products & services M&A in Q2: Given that one of the leading causes of this year's inflation has been disruptions in the global supply chain, it is unsurprising that several logistics firms were among the top deals closed in Q2 2022. In May alone, PE sponsor A.P. Moller-Maersk (CSE: MAERSK B) purchased Pilot, a provider of global transportation and logistics services, and GXO Logistics (NYSE: GXO) acquired Clipper Logistics out of the UK, thereby removing another public company from the rolls. With supply chain disruptions highlighting the need for operational improvements, supply chain solutions businesses are increasingly becoming a source of investment opportunity.

Public-to-private transactions are happening at a good clip: Three additional large business products & services deals in Q2 were public companies acquired by PE investors to become private companies once again. DCP Capital and Ocean Link Partners acquired 51job, a human resource service operating in China, for $5.7 billion via a leveraged buyout (LBO) in May. In June, Clearlake Capital Group acquired Intertape Polymer Group, a Canada-based provider of packaging products, for $2.6 billion. PE firm SSW Partners purchased Veoneer, which makes safety electronics for the global automotive industry, for $4.6 billion in a take-private LBO—but was a corporate spinout in 2018 when it went public via IPO as a new company.

Corporate divestitures have been a nice source of deal flow for PE: As an economic cycle turns over, it is not uncommon for companies to look for ways to streamline and focus on core activities, presenting opportunities for both strategic and PE buyers to scoop up unwanted assets. Quite a few examples of corporate divestitures closed in Q2 2022. Oldcastle BuildingEnvelope, a manufacturer and fabricator of architectural hardware, glass, and glazing systems serving residential and commercial end markets, spun out of CHR (LON: CRH), becoming an LBO holding of KPS Capital Partners, a New York-based PE firm. ADESA, an Indiana-based provider of vehicle auction and redistribution services, was spun out of KAR Global, but was a strategic acquisition by Carvana (NYSE: CVNA). AZZ (NYSE: AZZ) purchased Precoat Metals for $1.3 billion from Sequa in May, thus expanding its metal coatings service offerings.

Consumer products & services

Quarterly consumer products & services M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Kyle Walters
Associate Analyst, Private Equity

Consumer products & services M&A continued to slow in Q2 2022, despite an uptick in deal value: Rising inflation has continued to put pressure on households and diminish consumer spending power. This has put downward pressure on consumer M&A, and it is expected to continue in the coming months. During Q2, dealmakers closed 1,262 transactions worth an aggregate of $161.6 billion—marking YoY decreases of 24.6% and 37.9%, respectively. The uptick in deal value from Q1 to Q2 2022 can be attributed to mega-deals: Mega-deals totaled over $50.8 billion in deal value during Q2, a jump from no mega-deals closing in the previous quarter. Corporate M&A dominated in H1, with PE funds slightly decreasing their share of M&A volume, accounting for 30.8% of deal volume, which is down from their 32.3% share in Q2 2021.

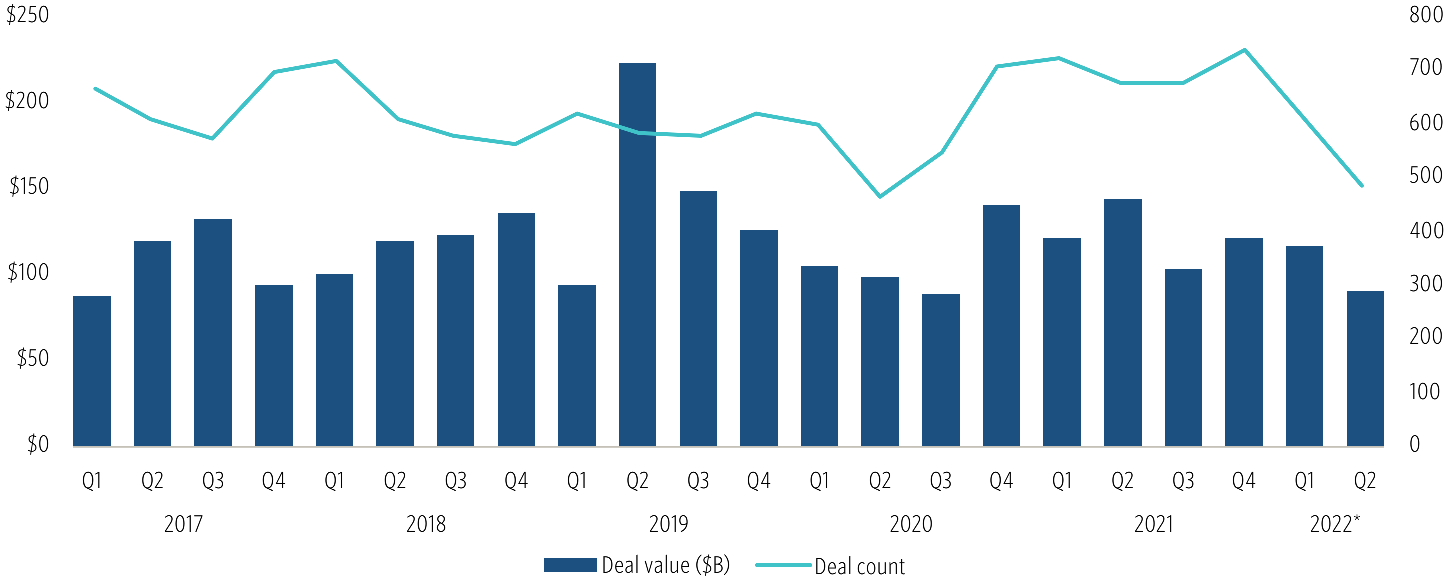
Hospitality M&A activity increased in H1 as economic headwinds persisted: COVID-19 cases have broadly lowered across North America in 2022, and as many countries continue to open, travel has resumed, leading to increasing M&A activity in the hospitality space. However, hospitality, just out of its COVID-19 doldrums, could see another dip in consumer spending as high travel costs from airfare and gas are keeping some travelers at home. Additionally, while consumer sentiment took a hit during the COVID-19 pandemic, it is now being dragged down by high inflation and rising interest rates in 2022. US consumer sentiment plunged in June to the lowest figure on record, as rising inflation affected household finances.[8] Indicators such as the US Index of Consumer Sentiment support the likelihood that hospitality M&A will slow, despite pent-up demand for travel.

Portfolio reshaping and corporate divestitures are playing an important role with the current economic environment: With current market conditions, companies are looking for ways to increase efficiency and cut costs, which will often take the form of corporate divestitures. In Q2, AT&T (NYSE: T) spun off WarnerMedia to acquirer Discovery, Inc., forming Warner Bros. Discovery (NASDAQ: WBD), as AT&T shifts its focus away from media to broadband through 5G and fiber. With record dry powder levels, even companies not seeking to spin out divisions will likely be approached by PE with proposals to acquire noncore assets.

8: "U.S. Consumer Sentiment Fell in June to Its Lowest Level Ever -- University of Michigan," MarketWatch, Xavier Fontdegloria, June 10, 2022.

Financial services

Quarterly financial services M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Kyle Walters
Associate Analyst, Private Equity

Financial services M&A activity reflects the current economic environment: In Q2 2022, 485 deals closed for a combined deal value of $90.5 billion—marking YoY decreases of 27.9% and 36.7%, respectively. While M&A activity has slowed, average deal value continues to rise, showing the impact of record PE dry powder competing for financial service assets, with investors keeping their eye on digital transformation, scale, and restructuring. In a highly competitive industry like financial services, finding strategic advantages remains dealmakers' foremost priority.

Asset management and insurance prove to be drivers of financial services M&A: While overall sector deal count lowered in Q2, asset management and insurance saw strong deal activity, accounting for majority of M&A in financial services. Asset management saw an uptick at the end of 2020 and has continued to climb since. It offers recurring fee-based revenue, high client retention, and potential to grow through acquisitions,[9] which are viewed positively by investors. The largest insurance deal of Q2 was Brookfield Asset Management Reinsurance Partners' (NYSE: BAMR) acquisition of American National Group for $5.1 billion, with the goal of growing its platform. With macroeconomic headwinds lowering valuations, M&A opportunities will continue to present themselves—though deals may still be a few quarters away.

Financial services M&A activity keeps its focus on digital transformation, scale, and restructuring: Financial services has lagged other industries in undergoing technological advancements. With changing consumer preferences and more competition than ever, the financial services industry is looking for ways to evolve through scale, digital transformation, and restructuring. Digital transformation has included the incorporation of financial technology (fintech) into the traditional financial world. In Q2, abrdn (LON: ABDN) acquired Interactive Investor for $1.9 billion in a move to accelerate abrdn's scalable digital transformation. During the quarter, financial services M&A activity slowed as a whole, but fintech continued to see strong activity.

9: "Wealth Managers Want To Pass the Baton. PE Firms Are Ready," PitchBook, Madeline Shi, July 6, 2022.

A WORD FROM BDO

Q&A: BDO on recession risk and strategy

BDO's US deal advisory team explores how firms are getting creative—or simplifying—as a recession looms

Anthony Alfonso

Global Valuation Leader; Valuation & Capital Market Analysis National Managing Principal

aalfonso@bdo.com

Bob Snape

President of BDO Capital Advisors, LLC, a middle-market investment bank and wholly owned affiliate of BDO USA

bsnape@bdocap.com

Ryan Guthrie

Partner; Transaction Advisory Services National Practice Leader and National Leader of Private Equity, Advisory Services

rguthrie@bdo.com

John Krupar

Principal; Leads US teams focused on providing business advisory services in both distressed and healthy situations

jkrupar@bdo-ba.com

Seven months ago, we were coming off a record year in private equity M&A. Fund managers were looking to ride the fundraising wave of 2021 into 2022 and were starting new—and bigger—funds. In the crosshairs were more deals and more profitable exits.

Fast-forward to the present, and the focus has flipped to recession risks and concerns.

What's different about today's economic climate, and what does it mean for private equity?

Alfonso: If we do dip into a recession, its composite parts—higher gas prices, inflation, and increased borrowing costs—resemble more those of the recession of the late 1970s/early 1980s than of the Great Recession. What's different today is the abundance of private equity capital that's in play.

We're seeing firms venture into nontraditional verticals as they seek to put dry powder to work and generate returns for LPs. There's still a tremendous amount of competition, and as they look to insulate themselves from investments subject to cyclicality or volatility—think consumer-dependent sectors and tech, which has been hit hard—that competition only grows. For example, professional services firms looking to scale are encountering competition from PE firms looking to outright acquire them or provide funding to be able to roll up smaller firms into a super-regional presence. Firms are chasing yield into traditionally less attractive industries. To me, that underscores the trend that there are too few targets and too many players; but at the same time, it's forcing the industry to get creative.

Capital providers seem to be increasingly nervous. How will capital raising strategies have to adapt?

Snape: Economic volatility has made some lenders a bit more jittery and noncommittal. Where syndicated loans previously could come together and be finalized well in advance of deal close, these lenders have been pushing back on terms until they know the interest rates. This is anathema in an environment in which the ability to get to deal closed quickly has determined a fund's success of winning a bid.

We're seeing fund managers turn more and more to private credit firms and direct lenders. Even though these lenders are more expensive than bank debt, they generally have longer-term liquidity and funding and aren't as susceptible to short-term interest rate increases. Competition for deals combined with market volatility create an opportunity for direct and private lending to become more mainstream. Confidentiality, speed to execution, and lower underwriting standards make private lenders an attractive funding source.

As far as fundraising, we expect to see firms tap more nontraditional investors—retail investors, high-net-worth individuals—as well as sources of capital in South American, Asian, and Middle Eastern markets.

In this context, how may post-M&A integration challenges evolve?

Guthrie: While value creation has always been core to deal strategy, the sudden intensified focus fund managers are placing on postdeal performance improvement strategies today is unprecedented. Anecdotally, I can tell you that in the fall, our clients were most interested in the exit planning findings of our Fall 2021 Private Capital Pulse Survey data. Last month, we released our Spring 2022 Private Capital Pulse Survey, and they have been most interested in the value creation findings.

In the last two years, value creation strategies have evolved. A firm paying 15x EBITDA with 8x leverage, for example, has to be on its game to service that much debt and generate the desired return on equity. Whereas before, managers may have identified and focused on a few components of the major pillars of value creation—such as sales growth, overhead reduction, gross margin improvement—today, their strategies are more targeted, interrelated, transformative, and synergistic. For example, they are looking at optimizing their products, services, and geographic segmentation strategies, as well as transforming their business processes in areas such as finance, customer service, procurement, inventory management, and payroll. These kinds of strategies require experience and a deep understanding of an acquisition's sector and unique attributes. The performance improvement and value creation that private equity is going to need to employ in their portfolios is going to be critical to achieve the rates of return LPs have come to expect.

The most sophisticated buyers in this market are scenario planning further into the future to make sure that the deals they complete today still look good three, five, maybe even 10 years from now.

What silver linings could exist should a recession occur?

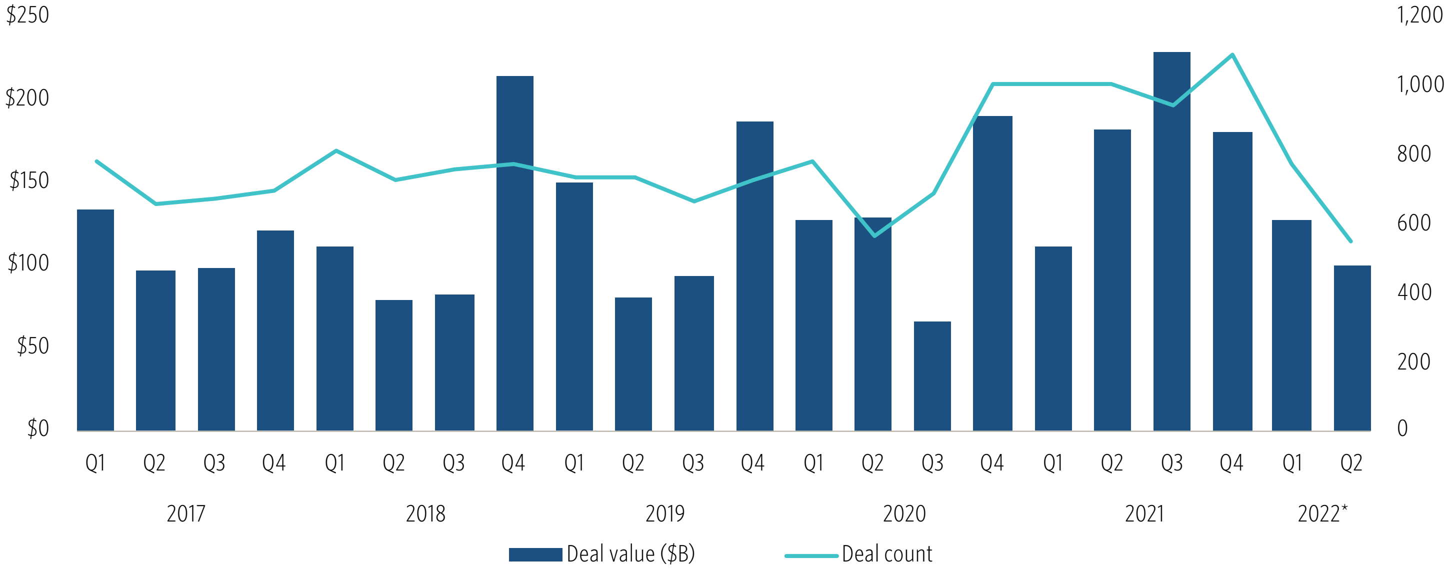
Krupar: Private equity is one of the most adaptive and creative asset classes in the market today, and a recession could make for a very interesting marketplace. When public markets sway, investors turn to the stability of alternative assets, and private equity has trillions of dollars in dry powder to deploy, in good times or bad.

In a recessionary environment, EBITDA and multiples typically come down, and leveraged loan and high-yield bond defaults are likely to rise. I suspect a lot of assets will shake loose. We'll see a shift in the types of deals that have been done; more reasonable valuation terms should motivate private equity and hedge funds to deploy capital en masse. Plans for distressed investing, which saw a spike at the beginning of the pandemic and have been steadily declining since (according to our aforementioned surveys), should see a resurgence of interest.

Wherever the economy ends up a year from now—recovering, stagnant, or in full-on recession—private equity usually positions itself to make the most of evolving market opportunities.

Healthcare

Quarterly healthcare M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

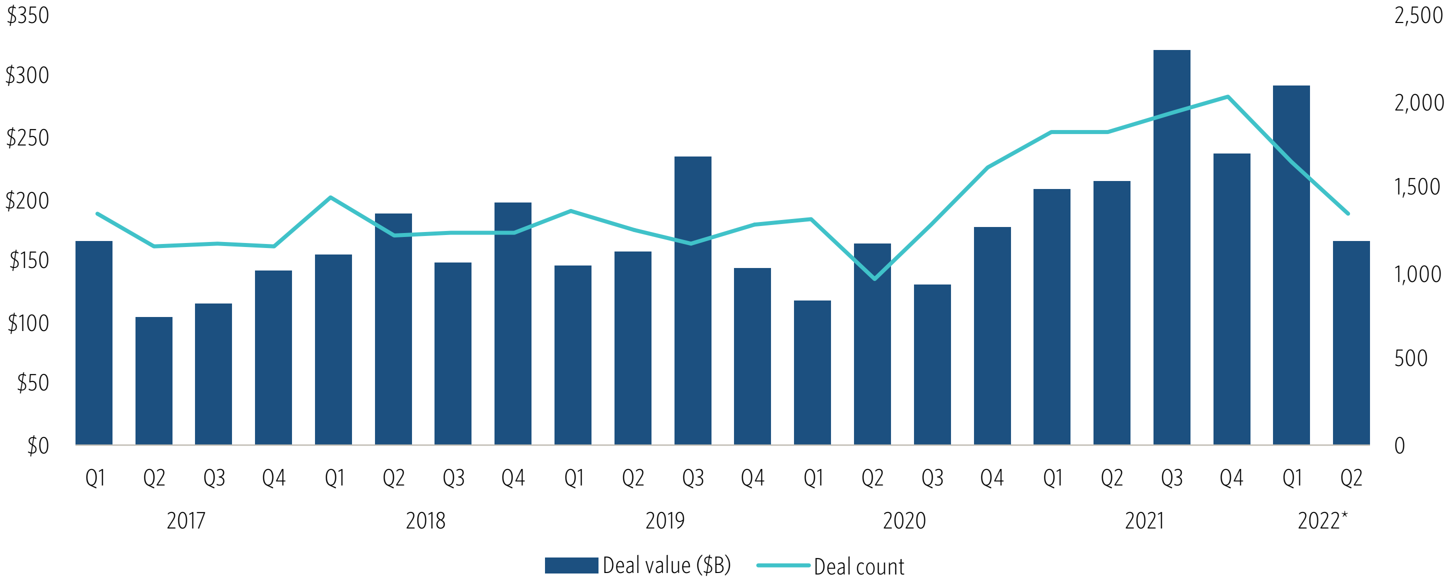
Hilary Wiek, CFA, CAIA
Lead Analyst, Fund Strategies & Sustainable Investing

The economic slowdown is now visible in healthcare M&A data: Q2 healthcare deal flow fell to the lowest level since the start of the pandemic, with its third straight decline. As inflation and interest rates have risen, deals have dropped off as market participants pause to determine what assets may be worth in this new environment. Healthcare deals have declined as a share of overall M&A activity, as only 11.5% of the overall deal volume in H1 2022 was in this sector, down from 13.8% in 2021 and 15.4% in 2020. Given that, until recently, the biggest economic story was a health crisis, it is unsurprising that there was elevated deal activity in the healthcare space in the past two years. The recent decline brings deal activity down to more normal levels.

Healthcare M&A is contributing to the decline in the number of publicly traded companies: Of the top five healthcare companies to be purchased in 2022 through June, each had previously been public. Cerner had been public since 1986, but rolled into Oracle (NYSE: ORCL) in June. Thus, not only did the number of public companies decline by one, the number of healthcare companies also shrank as the tech company extended into electronic health records. M&A activity steadily decreased the number of public healthcare companies in 2022: First, Hapvida Participacoes (BVMF: HAPV3) picked off Grupo NotreDame Intermédica, a Brazil-based medical provider, from the B3 stock exchange in February 2022. In March, Pfizer (NYSE: PFE) purchased Arena Pharmaceuticals, public since 2000, in a $6.7 billion deal. Ortho-Clinical Diagnostics was another combination of two public companies, merging into QuidelOrtho (NASDAQ: QDEL) in May. Ortho-Clinical Diagnostics had been public since only January 2021. And while Athenahealth was purchased from PE firms Veritas Capital and Evergreen Coast Capital by Bain Capital and Hellman & Friedman earlier this year, it was publicly traded from 2007 to 2019.

Information technology

Quarterly information technology M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Jinny Choi
Analyst, Private Equity

Tech remains healthy despite dip from 2021's record: Q2 IT dealmaking slowed as it faced intense market volatility, completing 1,349 deals at a cumulative value of $167.0 billion. Interest rate hikes have been dragging down the high valuations enjoyed by tech stocks, and deal value dropped more meaningfully than the number of deals as tech valuations have declined. However, plenty of capital still flowed into the sector as dealmakers continued to turn to tech acquisitions for efficiency solutions and to help decrease labor costs in a tight job market. IT accounted for 23.4% of global M&A value during H1 2022, a jump from a 16.9% average in the prior five years. This suggests that tech companies were able to take the current market volatility in stride compared with other industries, as buyers continued to look for growth amid adjusting valuations.

PE finds opportunities for take-private transactions: Multiple large take-private deals closed in Q2 as falling valuations in IT were widely viewed as a buying opportunity for PE funds to secure tech companies that they previously saw as overvalued. We anticipate take-private deals to continue in H2 2022 as PE firms look to pick up now-less-expensive assets. Additionally, sponsors are still equipped with plenty of dry powder, and take-privates offer great opportunities to deploy large sums of capital. For example, Thoma Bravo took two companies private during the quarter: business planning software company Anaplan for $10.7 billion and fintech company Bottomline Technologies for $2.6 billion. The take-private trend was not confined to North America, as Permina took UK-based cybersecurity firm Mimecast private for $5.8 billion in May.

Entertainment software sees significant M&A activity: The largest IT deal in Q2 was Take-Two Interactive Software's (NASDAQ: TTWC) $12.7 billion acquisition of mobile games giant Zynga in May. Take-Two, which is largely known for console and PC games, is now able to push further into the mobile gaming space and bring its existing franchises to mobile platforms with help from Zynga. In e-sports, Saudi Arabia-backed Savvy Gaming Group acquired online gaming portal company ESL Gaming for $1.5 billion in April. Savvy Gaming Group will merge ESL with tournament platform FACEit to create an end-to-end solution for players, game developers, publishers, and partners.[10]

10 "Saudi-Backed Savvy Gaming Buys ESL and FACEIT for US$1.5bn," SportsPro Media, Ed Dixon, January 25, 2022.

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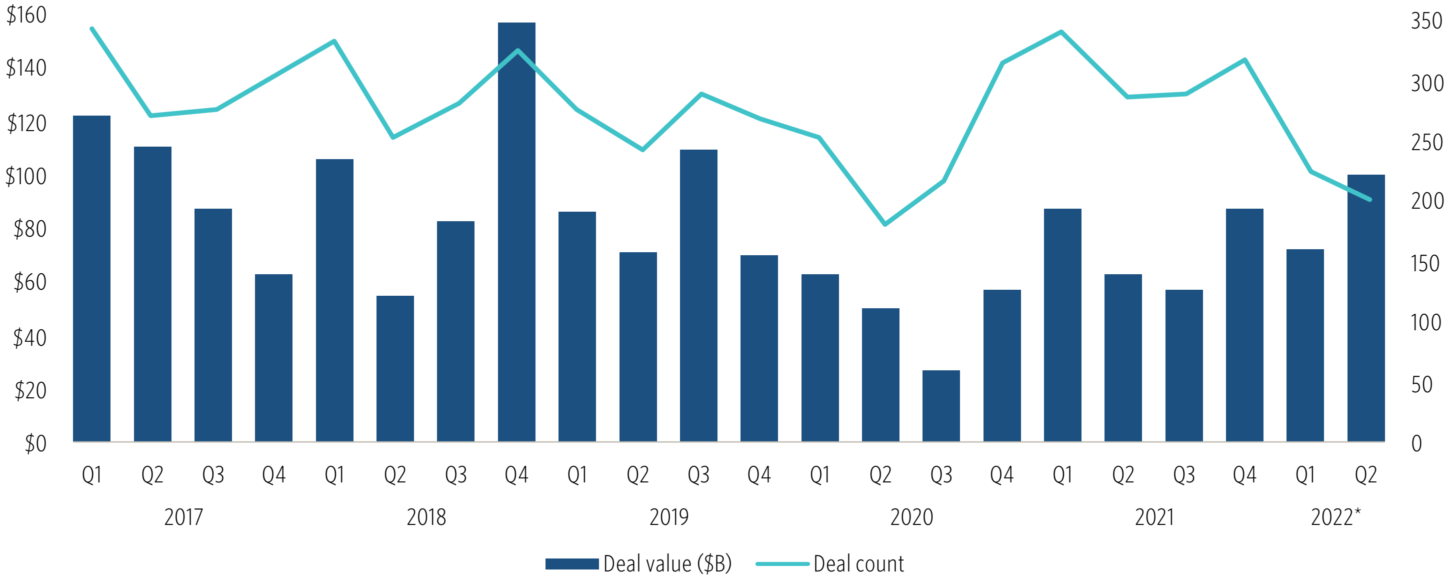
Energy

Quarterly energy M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Anikka Villegas
Analyst, Fund Strategies & Sustainable Investing

Europe's energy needs, amplified by geopolitical tensions, stir up deal activity in the sector: Given that, as of 2020, imports from Russia supplied 29% of crude oil, 43% of natural gas, and 54% of solid fossil fuel to the EU, the recent trade sanctions imposed upon Russia by the EU have been felt acutely in parts of Europe and are likely to intensify as the wind-down period for existing contracts comes to a close.[11,12] Given this dynamic, the EU has been working to replace current and anticipated lost supply, both through green energy and other sources of oil, coal, and gas. This has stimulated deal activity in the space despite the headwinds of an uncertain geopolitical landscape. While overall energy deal count was lower than historical norms, at 201 in Q2, deal value was up, at $100.3 billion.

Difficulty relying on renewables to address a rapid decline in fossil fuels has not deterred EU dealmaking in the space: Most of the big energy deals coming out of the EU in Q2 2022 were related to renewables, particularly solar. Among them were the $467.6 million purchase of Grupo Gransolar, a Spain-based international player in the design and construction of solar energy plants and solutions, by Trilantic Europe; and the $374.2 million acquisition of photovoltaic systems from Germany-based company Enerparc by IKEA's holding company. Increased pressure to decarbonize and the following growth prospects in the space continue to set the stage for healthy M&A activity in renewables.

Oil & gas prices have renewed investor interest, but sentiment around the long-term prospects of the industry remains divided: With commodity prices sky-high and expected to keep some altitude, oil & gas M&A activity was strong in Q2, especially in the US. For example, Centennial Resource Development (NASDAQ: CDEV) acquired Colgate Energy for $3.9 billion in May. Yet, apprehension around the future of the space remains, with some companies, such as Chevron (NYSE: CVX), buying up green energy businesses such as Renewable Energy Group (NASDAQ: REGI) in an effort to hedge against long-term sustainability risks.

11: "From Where Do We Import Energy?" Eurostat, n.d., accessed June 28, 2022.
12: "EU Sanctions Against Russia Explained," European Council, June 28, 2022.

A WORD FROM iDEALS

Q&A: Prominent drivers sustain M&A resiliency

Given the broader macroeconomic and market environment, how have you seen M&A processes and usage of your platform change?

Michael: M&A activity has certainly slowed from the record levels seen in 2021. In contrast, iDeals is capturing a larger market share as dealmakers actively seek modern technology to respond to new opportunities.

Overall, 2022 still compares favorably with 2019. The growth in corporate acquisitions and portfolio expansions continues, while different deal models proliferate.

Sebastian: I agree that our platform has seen huge demand. In Europe, this was especially remarkable in the renewable energy and technology sectors.

Robust data protection management is critical as more companies go digital. Consequently, clients are keeping their data rooms after the deal is complete, using the platform to improve efficiency and security during audits and compliance processes and absorbing our virtual data room (VDR) into their information management structure.

Ashley: In the US, the market is showing greater volatility, exacerbated by the war in Ukraine and continuing supply chain disruptions. With the economy contracting, valuations are going down, and we expect to see new opportunities for players that were previously priced out.

Divestitures are also increasing as dealmakers free up capital for new acquisitions. Companies are keen to transform their operations and are thus embracing technology and data protection. Because of this shift, they are also more frequently taking the offensive.

What are the primary concerns your clients are bringing to you now and how have they changed if at all from the start of the year?

Ashley: Our clients continue to use M&A as a corporate growth strategy. However, with inflation and hard-to-predict valuation changes, the stakes are higher. Consequently, companies are wary, and several deals have been put on hold while they reevaluate.

Ashley Melidosian

Sales and Operations Manager USA

iDeals

ashley.melidosian@idealscorp.com

Ashley is the Sales and Operations Manager for iDeals VDR. She has worked with hundreds of investment and M&A professionals in the role of sales consultant. Besides, Ashley is currently responsible for developing M&A Community in North America, connecting thousands of M&A specialists in the region. She has earned her MBA from the University of Florida.

Sebastian Montoya

Business Development Manager Iberia

iDeals

sebastian.montoya@idealscorp.com

Sebastian has been working close to a decade within the financial services industry both in the UK and Spanish markets. Since 2016, he has been leading the expansion of different VDRs into the Iberian region and has been involved in more than 500 M&A Projects, 100 Fundraisings, and close to 50 IPOs.

Michael Kannacher

Sales Manager EMEA

iDeals

michael.kannacher@idealscorp.com

Michael is the Sales Manager for iDeals VDR in the EMEA region. For the past ten years, he has been involved in hundreds of transactions and different projects. Michael is responsible for supporting dealmakers throughout the region, specially focusing in the German startup community.

Michael: Dealmakers are seeking flexibility to freeze and unfreeze projects on demand. With many uncertainties around Q4 2022, June and July brought a massive increase in transactions, with some clients wanting to restart their due diligence before September.

Sebastian: This year, the main worries are rising energy and production costs. With many countries experiencing their highest inflation rates in decades, executives are struggling to predict the implications for market share, price elasticity, supplier relationships, and even employee remuneration and retention.

From a technical standpoint, what are the biggest hurdles you face in navigating workflows with your clients, whether from a security perspective or any other?

Michael: More than 60% of deals still use nonprofessional VDRs, with confidential data being shared over emails, free services, and even USBs. This increases not only complexity but also data breach risks for buyers, sellers, and advisers.

Ashley: However, this year, we have seen an increase in both security consciousness and corporate clients bringing their IT directors into the software decision making process. We are also noticing an increased demand for single sign-on (SSO) and full integration of company systems.

Sebastian: Deal structures are becoming more complex and involving more stakeholders in different geographical locations. Adopting a VDR early in the process helps ease delays in reaching the confirmatory due diligence phase for larger deals, as well as increasing productivity and decreasing the risks of postdeal litigation.

Which regulatory trends are you keeping an eye on, and why? What about broader industry trends—for example, in terms of cutting-edge innovation?

Ashley: We continue to keep an eye on environmental, social, and governance (ESG) factors and especially the new Securities and Exchange Commission (SEC) requirements on reporting climate change, these factors will play a larger role in valuation and risk management in future.

Michael: There is a widespread tightening of regulatory environments, especially in areas of antitrust or those with national security implications. This should provoke more deal activity in the short term as companies rush to beat implementation dates. One example is the prospect of legislation requiring companies to consider climate change in their ESG strategies.

Sebastian: Another factor is the growing sanctions against Russia and the knock-on impacts of those on businesses worldwide.

Central banks and governments can always alter regulatory and fiscal policy. One good example is the amount of scrutiny foreign investors have to undergo when acquiring domestic assets in telecom infrastructure.

Across phases of a deal, such as due diligence, where have you seen the most change thus far this year in terms of investment of resources and/or pains taken given the current dealmaking climate? Why do you think that is?

Ashley: There are more deals stuck in the preparation phase or changing direction mid-deal before due diligence. Investors are taking a more cautious approach to deals in the face of prospective economic downturns.

Michael: Almost two thirds of our clients are taking a broader view of their due diligence obligations and vetting other aspects of deals—for instance, the culture and values of the sales team or the seller's market image.

Sebastian: Clients want a detailed assessment of how the eventual deal might affect their reputation. Digital assets, technology synergies, and integration costs continue to be on dealmakers' radar.

Looking ahead, what are the key trends you are monitoring that you think are underdiscussed across the broader dealmaking ecosystem?

Sebastian: There has been a spike in secondary deals for venture capitalists (VCs) and a move from raising equity to raising debt in many industries. We expect restructuring, nonperforming loans/real estate owned (NPL/REO), and technology deals to increase dramatically. And all our regions report increased private equity (PE) and venture capital (VC) presence with a greater emphasis on ESG.

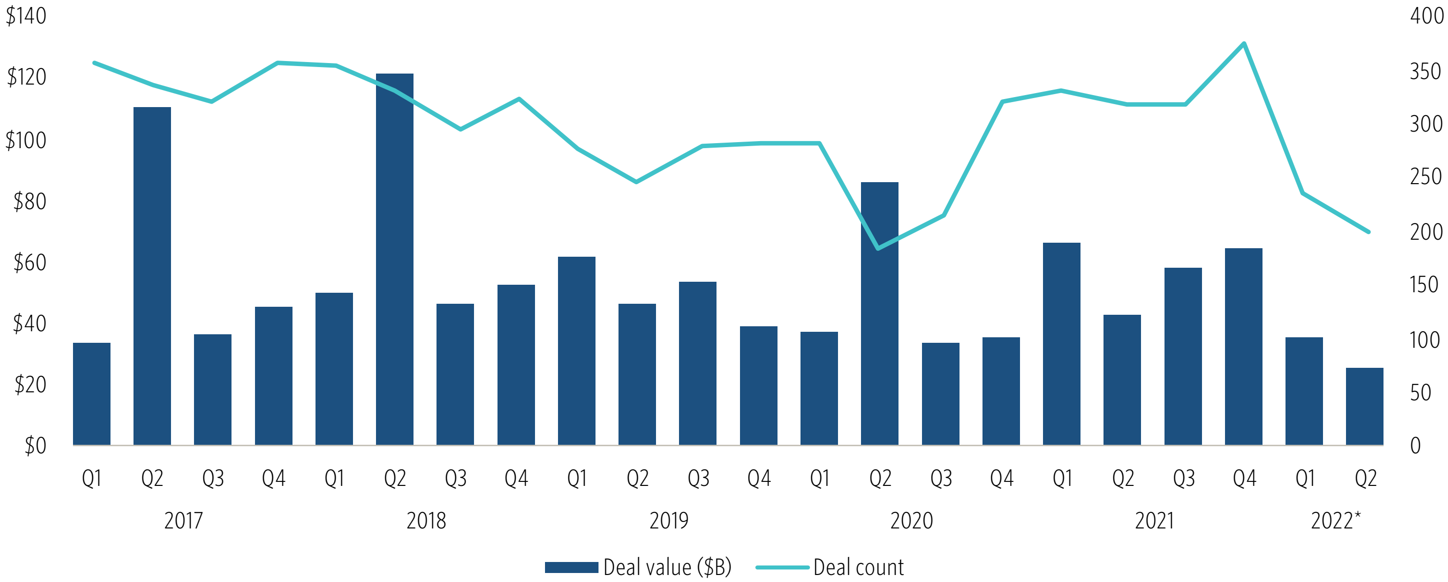
Michael: Many factors that drove the surging M&A market at the end of 2021 and into this year are still affecting dealmaking activity, including supply chain resilience, portfolio optimization, ESG, and the ongoing digital revolution.

Ashley: I think it is also crucial to watch consumer preferences over the next year. Although we are in a period of economic retraction, the digital shift continues to create opportunities, and we are not entirely sure how consumers' habits will react.

From the corporate perspective, the need for speed and agility to cope with economic uncertainties will ensure that M&A remains a strategic priority for those wanting to succeed in this complex landscape.

Materials & resources

Quarterly materials & resources M&A activity



Source: PitchBook | **Geography:** Global
*As of June 30, 2022

Anikka Villegas
Analyst, Fund Strategies & Sustainable Investing

In a gold boom, companies balance replenishing depleted reserves with avoiding overpaying in M&A transactions: After Q1's small swell of gold mining company consolidation, M&A in Q2 was more modest. While Q1 saw deals ranging from approximately $450 million to $2.7 billion, Q2's largest gold deal was the $154.0 million acquisition of Canadian Orca Gold by Perseus Mining (ASX: PRU). Gold prices per ounce dropped 6.9% from March 1 to June 1 but remained high, at $1,817.50, 2.8 times the long-term log- and inflation-adjusted historical average of $615.29.[13] As the reserves of mining companies continued to decline and investor interest was fueled by inflation and continued geopolitical unrest, this less robust M&A activity was somewhat surprising. It may be due to lessons learned during the last gold boom, when high prices were paid for assets that subsequently dropped in value.[14]

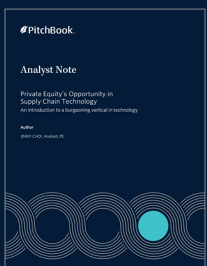
The quarter's largest mining deals target expansion in lower-risk jurisdictions: The minerals, metals, and mining industry has faced heightened scrutiny in recent years over operations in high-risk jurisdictions for employee and contractor exposure to human rights abuses and third-party armed conflict and violence. Some companies domiciled in countries with laxer standards are benefiting from the ability to mine locations considered high-risk, while others are expanding in lower-risk jurisdictions using M&A.[15] Two companies with mining operations focused in Australia were acquired: Stanmore Resources (ASX: SMR) acquired BHP Mitsui Coal for $1.3 billion, and Independence Group (ASX: IGO) purchased Western Areas for $778.8 million. Noront Resources, acquired by Wyloo Metals for $488.9 million, mines in Canada.

Supply chain disruptions present both challenges and opportunities for chemicals companies: Re-shoring or supply chain consolidation can disrupt the chemicals space and open up some opportunities for companies ready to seize them. A few large US-based chemicals deals took place in Q2, including the $2.1 billion acquisition of Ferro by American Securities as an add-on to its holding, Prince, and the $1.0 billion acquisition of the adhesive technologies business unit of Eastman Chemical Company (NYSE: EMN) by Synthomer (LON: SYNT).

13: "Gold Prices - 100 Year Historical Chart," Macrotrends, June 30, 2022.
14: "Gold Industry M&A: Riding the New Wave Buoyed by Lessons from the Past," McKinsey and Co., Greg Callaway, Siddharth Periwal, and Oliver Ramsbottom, February 26, 2021.
15: "Mining Risk Heat Map 2022," Sprott, n.d., accessed June 25, 2022.

Additional research

Private markets



PitchBook Analyst Note: Private Equity's Opportunity in Supply Chain Technology

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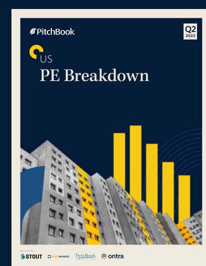

Q2 2022 US PE Breakdown

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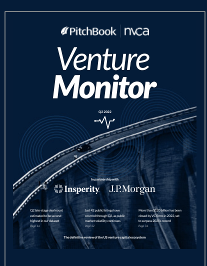

Q2 2022 PitchBook-NVCA Venture Monitor

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